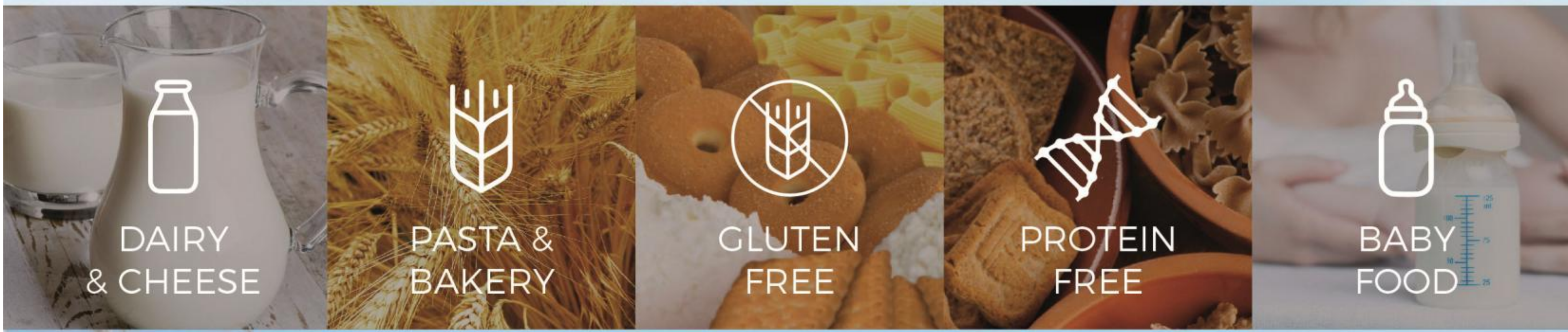
Annual Report as at December 31, 2019

Newlat FOOD SpA



Newlat Food S.p.A.
CF e P. Iva 00183410653
REA di RE n°277595.
Ufficio del Registro: Camera di Commercio
Industria Artigianato e Agricoltura di Reggio Emilia.
Cap. Soc. € 40.780.482,00 i.v.

CONTENTS

DIRECTORS' REPORT

Newlat FOOD SpA

LETTER TO THE SHAREHOLDERS

2019 was a year of fundamental importance for our Group and marks the starting point in the creation of a unique platform in the *food* sector, which promises to be hugely exciting for those who want to join this ambitious project.

In addition to successfully completing the institutional placement on the STAR segment of the Mercato Telematico Azionario exchange managed by Borsa Italiana S.p.A. in October, and delivering exceptional results in Italy and Germany, last year saw the foundations for future growth being laid.

Encouraged by its results, the Group has committed to future acquisitions that – in the short to medium term – will further strengthen the *business* in the years to come.

The Group currently has an organic growth of around 1-2% and an annual turnover – up sharply compared with the previous year, mainly due to the acquisition of Delverde Industrie Alimentari S.p.A. in April 2019 - of approximately €321 million, of which 53% was generated by the Italian market and 29% by the German market.

EBIT was €14.1 million, an increase of 44% on the previous year, and the EBITDA *margin* was 8.8%, versus 7.9% in 2018.

The pasta and milk businesses accounted for 63% of the Group's total turnover, while the bakery, dairy and special products segments delivered an EBITDA margin of over 10%, which is also an improvement on the previous year's figure.

These excellent operating results allowed the Company to achieve a pre-tax profit of €12.7 million

and generated cash flows that made it possible to record a positive net financial position of €66 million at 31 December 2019, excluding the effect of lease liabilities, which improved compared with situation at the half-year.

Finally, there was also a positive contribution from the mergers by incorporation of Centrale del Latte di Salerno S.p.A. and Delverde Industrie Alimentari S.p.A., which reduced fixed overheads and made the structure of the Group and the Company more streamlined and more flexible with a view to facilitating future acquisitions

INTRODUCTION TO THE REPORT ON OPERATIONS

During 2019, Newlat Food SpA (hereinafter also the "Company" or "Newlat" or, together with the subsidiaries, the "Group" or the "Newlat Group") successfully concluded the operation to list its own shares on the STAR segment of the Mercato Telematico Azionario ("MTA") organised and managed by Borsa Italiana. Financial disclosure to the public was provided during the aforementioned listing process considering Newlat Food as 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 this Report on Operations, it was necessary to include aggregated financial information.

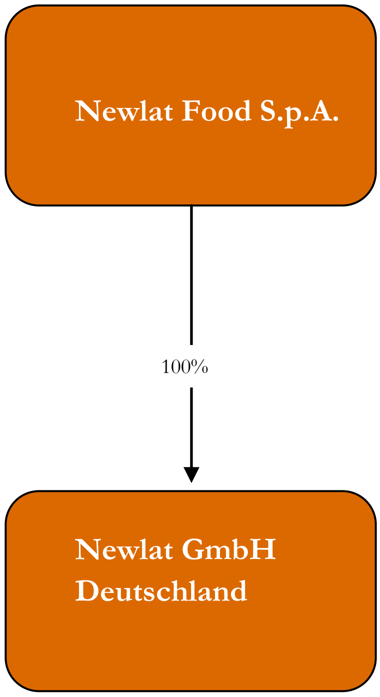
In this document, in order to provide a link with the aggregated accounting data for 2016, 2017 and 2018 and for the first half of 2019 reported in the Registration Document, the aggregated consolidated data (reflecting 12 months of operations of the German subsidiary Newlat GmbH, acquired on 29 October 2019 and therefore consolidated only for the last two months in the consolidated income statement at 31 December 2019) and the proforma data (reflecting 12 months of operations of the subsidiary Delverde Industrie Alimentari S.p.A., acquired on 9 April 2019 and therefore consolidated only for the last nine months in the income statements of the separate and consolidated financial statements at 31 December 2019) have also been prepared and attached to the Report on Operations. The Combined Consolidated Financial Statements therefore derive from:

(i) the consolidated financial statements, prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union, of Newlat Food S.p.A. for the years ended 31 December 2019 and 2018, audited by PricewaterhouseCoopers S.p.A. ;

(ii) the Newlat GmbH (hereinafter "Newlat GmbH Deutschland") accounting data prepared according to IFRSs for the years ending 31 December 2019 and 2018 and audited by PricewaterhouseCoopers GmbH for the year ending 31 December 2019 and by PKF GmbH for the year ending 31 December 2018.

CORPORATE STRUCTURE AT 31 DECEMBER 2019

Below is a graphical representation of the companies belonging to the Newlat Group at 31 December 2019:



The structure of the Group at 31 December 2019 differs from that at 31 December 2018 due to the mergers that took place during the year of the wholly owned subsidiaries Centrale del Latte di Salerno S.p.A. (hereinafter also referred to as "Centrale del Latte") and Delverde Industrie Alimentari S.p.A. (hereinafter also referred to as "Delverde") and due to the purchase of 100% of the stake in Newlat GmbH, previously held by Newlat Group SA, on 29 October 2019 following the admission to trading on the MTA STAR segment, as described in more detail under "Significant events of the year". In particular, on 6 September 2019, the administrative bodies of Newlat Food, Delverde and Centrale del Latte approved, respectively, the proposed merger by incorporation of Delverde and Centrale del Latte into Newlat Food S.p.A. pursuant to Article 2505 (*merger of a wholly owned subsidiary)* of the Italian Civil Code (the "**Mergers**"). Extraordinary meetings of shareholders of Delverde, Centrale del Latte and Newlat Food S.p.A. were held on 17 September 2019, approving the aforementioned Mergers.

The primary reasons for these Mergers were to reduce overheads and make the structure of the Group and the Company more streamlined and more flexible with a view to facilitating future acquisitions. The accounting and tax effects of the merger by incorporation of Centrale del Latte start from 1 January 2019, while those of Delverde start from 9 April 2019.

In addition, the Group's structure at 31 December 2019 differs from that contained in the Registration Document only because of the merger operations described above.

The table below shows the main information regarding the Subsidiaries of Newlat:

Name	Registered Office	Currency	Share capital at 31 December 2019	Control percentage At December 31	
				2019	2018
Newlat Food S.p.A.	Italy - Via J.F. Kennedy 16, Reggio Emilia	EUR	40,780,482	Parent company	Parent company
Newlat Deutschland Gmbh	Germany - Franzosenstrabe 9, Mannheim	EUR	1,025,000	100%	0%
Centrale del Latte di Salerno S.p.A.	Italy - Via Fuorni di Sotto 86, Salerno	EUR	4,165,915	Merged company	100%
Delverde Industrie Alimentari S.p.A. (*)	Italy - Zona Industriale SN, Fara San Martino (CH)	EUR	4,931,308	Merged company	0%

(*) the purchase of Delverde Industrie Alimentari S.p.A. took place on 9 April 2019. See the Notes to the Financial Statements for more details.

A table summarising the carrying amount of each subsidiary recorded in the Company's separate financial statements at 31 December 2019 and the equity and profit/loss data for each subsidiary is also provided below:

Name	Carrying amount of equity investment (€ thousands)	Equity (€ thousands)	Profit (loss) for the year (€ thousands)
	31/12/2019	31/12/2019	31/12/2019
Newlat GmbH Deutschland	68,324	25,576	2,835

The subsidiary's financial statements and those of the merged companies have been audited.

Below is a brief description of the activity carried out by the Parent Company's subsidiary and by the merged companies:

- Centrale del Latte di Salerno S.p.A.: a company specialising in the production and sale of fresh and UHT milk, fresh and UHT cream, yoghurt and different types of butter and cheese.

- Delverde Industrie Alimentari S.p.A.: a company active in the production and sale of pasta, including organic pasta, wholemeal pasta, long and short pasta, pasta nests and premium lasagne.

- Newlat GmbH Deutschland: a company active in the production and sale in Germany of traditional forms of German pasta such as *spätzle* and flavoured pasta, instant cups and sauces.

COMPANY BODIES

Pursuant to article 12 of the new articles of association, Newlat Food S.p.A. is managed by a Board of Directors with no fewer than 3 members and no more than 15. The Shareholders' Meeting shall determine the number of Board members from time to time, before their appointment. The directors remain in office for the period set by the shareholders' appointment resolution, up to a maximum of three financial years, and are eligible for re-election. Their term shall expire on the date of the Shareholders' Meeting called to approve the financial statements for the last financial year of their term, unless there are grounds for termination and forfeiture as provided for by law and by the new articles of association.

On 8 July 2019, the Ordinary Shareholders' Meeting resolved:

(i) to appoint a Board of Directors consisting of:

  a. four members in office with immediate effect; and

  b. three members, who fulfil the independence requirements, in office from the trading start date (29 October 2019).

The following table displays the composition of the Board of Directors:

Name and surname	**Position**	**Place and date of birth**
Angelo Mastrolia	Executive Chairman of the Board of Directors and Director (**)	Campagna (SA), 5 December 1964
Giuseppe Mastrolia	Chief Executive Officer and Director (**)	Battipaglia (SA), 11 February 1989
Stefano Cometto	Chief Executive Officer and Director (**)	Monza, 25 September 1972
Benedetta Mastrolia	Director (***)	Rome, 18 October 1995
Emanuela Paola Banfi	Director (*) (***)	Milan, 20 January 1969
Valentina Montanari	Director (*) (***)	Milan, 20 March 1967
Eric Sandrin	Director (*) (***)	Saint-Amand-Montrond, 13 August 1964

(*) Independent director pursuant to article 148 of the Consolidated Law on Finance (TUF) and article 3 of the Corporate Governance Code, who took office when the Company's shares began to trade on the STAR segment of the MTA, i.e. 29 October 2019.

(**) Executive Director.

(***) Non-executive director.

The members of the Board of Statutory Auditors are as follows:

Name and surname	Position	Place and date of birth	Date first appointed
Massimo Carlomagno	Chairman	Agnone (IS), 22 September 1965	28.02.2005
Ester Sammartino	Standing Auditor	Agnone (IS), 23 May 1966	28.02.2005
Antonio Mucci	Standing Auditor	Montelongo (CB), 24 March 1946	30.07.2009
Giovanni Carlozzi	Alternate Auditor	Matrice (CB), 23 May 1942	28.06.2011
Giorgio de Franciscis	Alternate Auditor	Pesaro, 24 July 1941	28.06.2011

Control and Risks Committee

Name and surname	Position	Place and date of birth	Date first appointed
Valentina Montanari	Chairman	Milan, 20 March 1967	29.10.2019
Emanuela Paola Banfi	Member	Milan, 20 January 1969	29.10.2019
Eric Sandrin	Member	Saint-Amand-Montrond, 13 August 1964	29.10.2019

Remuneration and Appointments Committee

Name and surname	Position	Place and date of birth	Date first appointed
Eric Sandrin	Chairman	Saint-Amand-Montrond, 13 August 1964	29.10.2019
Emanuela Paola Banfi	Member	Milan, 20 January 1969	29.10.2019
Valentina Montanari	Member	Milan, 20 March 1967	29.10.2019

Related Party Transactions Committee

Name and surname	Position	Place and date of birth	Date first appointed
Emanuela Paola Banfi	Chairman	Milan, 20 January 1969	29.10.2019
Valentina Montanari	Member	Milan, 20 March 1967	29.10.2019
Eric Sandrin	Member	Saint-Amand-Montrond, 13 August 1964	29.10.2019

Supervisory Board pursuant to Legislative Decree 231/01

Name and surname	Position	Place and date of birth	Date first appointed
Massimo Carlomagno	Chairman	Agnone (IS), 22 September 1965	27.12.2016
Ester Sammartino	Member	Agnone (IS), 23 May 1966	27.12.2016

Rocco Sergi is the Financial Reporting Officer.

PricewaterhouseCoopers S.p.A. is the independent auditor appointed for the years 2019-2027.

CORPORATE GOVERNANCE

Corporate governance is the set of rules, systems and mechanisms designed to effectively implement the organisation's decision-making processes in the interest of all Group stakeholders. The parent company Newlat Food S.p.A. complies with the Corporate Governance Code for Listed Companies, which was last updated in July 2018. A traditional governance system is in place which includes three structures: the Shareholders' Meeting, the Board of Directors and the Board of Statutory Auditors.

Board of Directors

The Board of Directors is the body charged with administering the company using the powers allocated to it by law and by the Articles of Association. It is structured and operates to ensure that its functions are performed efficiently and effectively. Directors act and make decisions to create value for shareholders, and they report on operations during the Shareholders' Meeting. With regard to appointing and replacing the entire Board of Directors and/or some of its members, the Company's Articles of Association require board members to be elected on the basis of candidate lists in accordance with the methods outlined in more detail in the Report on Corporate Governance and Ownership Structure (attached to this document) and in compliance with existing legislation on gender representation. On 8 July 2019, the Shareholders' Meeting appointed a four-person Board of Directors, increased to seven when the Company's shares began trading on the MTA, which will remain in office until the 2021 financial statements are approved.

Board of Directors committees

The Board of Directors has no internal committees other than those required by the Corporate Governance Code, with the exception of the Related Party Transactions Committee, in order to comply with the provisions of the Related Parties Regulation.
The Company has not set up any committees that carry out the functions of two or more of the committees set out in the Corporate Governance Code, nor has it reserved these functions for the entire Board of Directors, under the coordination of the Chairman, or divided them differently to the way set out in the Corporate Governance Code.
The Board of Directors' internal committees are as follows:

- The Control and Risks Committee helps the Board of Directors to assess and make decisions regarding the Internal Control and Risk Management System, the approval of annual and half-year financial statements and relations between the Company and the independent auditor, where support is provided in the form of an adequate investigative phase. For this purpose, the Committee has three members with sufficient financial and accounting experience: Valentina Montanari, as Chairman, Emanuela Paola Banfi and Eric Sandrin, all of whom are non-executive and independent directors.

- The Remuneration and Appointments Committee plays an advisory and recommendatory role, with investigative functions, in the assessments and decisions relating to the composition of the Board of Directors and to the remuneration of directors and managers with strategic responsibilities, overseeing their application and making general recommendations on the matter. The Remuneration Committee is composed of three members, all of whom are non-executive and independent directors. All members have suitable financial and accounting experience and knowledge. With regard to determining remuneration for board members, the Shareholders' Meeting allots a salary for the duration of the mandate which may consist of a fixed portion and a variable portion commensurate with the achievement of certain targets and/or with the Company's financial results. To be able to list on the STAR segment, exchange regulations require the Remuneration Committee to ensure that a significant share of the pay for executive directors and senior managers be incentive-linked.
Please see the report on remuneration published in accordance with article 123-ter of the Consolidated Law on Finance (TUF) for information on the general remuneration policy and the remuneration of executive directors, managers with strategic responsibilities and non-executive directors. For this purpose, the Committee has three members with sufficient financial and accounting experience: Eric Sandrin, as Chairman, Emanuela Paola Banfi and Valentina Montanari, all of whom are non-executive and independent directors.

• The Related Party Transactions Committee (hereinafter also the "RPT Committee") is responsible for ensuring the integrity of transactions with related parties by giving an opinion on the Company's interest in completing a specific transaction, as well as on the suitability and fairness of the corresponding conditions. This Committee is composed of the three non-executive and independent Directors: Emanuela Paola Banfi, as Chairman, Valentina Montanari and Eric Sandrin.

Board of Statutory Auditors

Members of the Board of Auditors are selected on the basis of their ability to meet requirements of professionalism, independence and integrity in accordance with legislation and regulations. The Company's Board of Statutory Auditors was appointed during the Shareholders' Meeting on 8 July 2019 and will remain in office until the approval of the 2021 financial statements.

Internal Control and Risk Management System

The Internal Control and Risk Management System (ICRMS) is the set of rules, procedures and organisational structures designed to enable the Company to conduct its business correctly and in line with set objectives, using a suitable process for identifying, measuring, managing and monitoring the main risks. The Board of Directors identified the nature and level of risk compatible with the Company's strategic objectives when it drew up its strategic, industrial and financial plans. This assessment included all and any risks that may become significant in terms of sustaining the Company's activities in the medium to long term. In support of the ICRMS and the Control and Risks Committee, on 8 July 2019 the Board of Directors appointed Angelo Mastrolia as the director responsible for the ICRMS who will perform the functions listed in point 7.C.4. of the Corporate Governance Code. With the help of the Control and Risks Committee, the Board of Directors has also drawn up guidelines for the ICRMS, identifying the system itself as a cross-sectional process integral to all business activities and based on the international principles of Enterprise Risk Management (ERM).

The purpose of the ICRMS is to help the Group achieve its performance and profit objectives, obtain reliable economic and financial information and ensure compliance with existing laws and regulations, while shielding the Company from reputational damage and financial loss. In this process, particular importance is given to identifying corporate objectives and classifying and controlling related risks by implementing specific containment actions.

There are various types of potential business risks - strategic, operational (related to the effectiveness and efficiency of business operations), reporting (related to the reliability of economic/financial information), compliance (related to compliance with existing legislation and regulations to avoid damage to the company's reputation and/or financial losses). In view of this, the Internal Audit Department verifies the suitability of the ICRMS through an audit schedule that is approved by the Board of Directors and makes provision for regular reports containing sufficient information on the performance of its activities, as well as timely reports on events of particular importance.

The Board of Directors annually assesses the effectiveness of the ICRMS and its suitability in view of the characteristics of the business based on information and evidence received with the support of the investigative activities performed by the Control and Risks Committee, the Head of Internal Audit and the Supervisory Board pursuant to Legislative Decree 231/2001.

Model 231, Code of Ethics and Anti-Corruption

The Newlat Food S.p.A. Board of Directors approved its "Organisation, Management and Control Model" pursuant to Legislative Decree 231/2001 (hereinafter also "Model 231") on 30 March 2016, updating it most recently on 9 August 2019. The Model was drawn up on the basis of guidelines issued by Confindustria (the Italian industry confederation) in accordance with the relevant legislation, and sets out standards for behaviour, procedures and control activities, in addition to powers and mandates designed to prevent the offences outlined in Legislative Decree 231/2001.
The Model 231 was published and communicated to all personnel, third-party contractors, customers, suppliers and partners.
No reports of non-compliant behaviour or violations of the Code of Ethics were received during the year.
In order to ensure that the Model is correctly implemented, a Supervisory Board (SB) has been established, currently comprising Massimo Carlomagno, as Chairman, and Ester Sammartino.
The SB sends the Board of Directors a written report every six months on how the Model 231 is being implemented and disseminated within each Company department. The implementation of adequate regular and/or sporadic information flows to the SB is another important tool helping it to fulfil its legal monitoring responsibilities and ensuring that the Model serves its purpose of preventing liability.
No breaches of the Model or irregularities have emerged after examining the information received from managers of the various areas of the Company, and no acts or conduct have come to light that constitute an infringement of the provisions of Legislative Decree 231/2001.

SIGNIFICANT EVENTS DURING THE YEAR

Significant events during the year under review are illustrated below:

- 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 and sell shares representing the entire share capital of Delverde Industrie Alimentari S.p.A.;

- On 27 June 2019, the Shareholders' Meeting of Newlat Food SpA resolved to approve the separate financial statements, to examine the 2018 consolidated financial statements and to allocate the €3,113,716 profit for the year to the Statutory Reserve (5%) and to the Extraordinary Reserve (95%);

- On 6 September 2019, the administrative bodies of Newlat Food, Delverde and Centrale del Latte approved, respectively, the proposed merger by incorporation of Delverde and

Centrale del Latte into Newlat Food S.p.A. pursuant to article 2505 (*merger of a wholly owned subsidiary)* of the Italian Civil Code (the "**Mergers**");

- Extraordinary meetings of shareholders of Delverde, Centrale del Latte and Newlat Food S.p.A. were held on 17 September 2019, approving the aforementioned Mergers;

- On 25 October 2019, Borsa Italiana confirmed that the Shares were sufficiently distributed and arranged that they commence trading on the STAR segment of the MTA on Tuesday, 29 October 2019;

- The Company successfully completed the institutional placement of 12,700,000 shares on 28 October 2019 and was admitted to trading on the STAR segment of the MTA on 29 October;

- On 29 October 2019, the transfer of shares in Newlat GmbH Deutschland from the parent company Newlat Group SA to Newlat Food S.p.A. was completed. The provisional fee was €55,000 thousand. The price adjustment was fixed within 50 days of the date of admission to trading on the STAR segment of the MTA;

- On 28 November 2019, the so-called "greenshoe option" for 1,080,482 newly subscribed shares was partially exercised by shareholders;

- On 2 December 2019, in application and under the terms of the contractual agreements, the parties established the additional price for the transfer of Newlat GmbH shares at €13,324 thousand.

SHAREHOLDERS AND FINANCIAL MARKETS

The Newlat Group maintains a constant dialogue with its shareholders through responsible and transparent communication carried out by the *Investor Relations* department, with the aim of facilitating an understanding of the Company's situation, outlook, Group strategies and the prospects for the reference market. This department is also tasked with organising presentations, events and roadshows that enable a direct relationship to be established between the financial community and the Group's senior management. For further information, and to consult the economic and financial data, corporate presentations, periodic publications, official press releases and updates on the share price, visit the Investor Relations section of www.newlat.com.

The following is a graphical representation of the performance of Newlat Food stock over the period 29 October 2019 – 31 December 2019:

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During the period in question, the official Newlat Food share price increased by 4.13% from €5.80 to €6.04.

The market capitalisation at 31 December 2019 was €246,314,111.

All shares issued were fully paid up.

REPORT ON OPERATIONS

The Newlat Group is an important player in the Italian and European agri-food sector. In particular, the Group has a strong position in its domestic market and a significant presence in the German market.

The Newlat Group is mainly active in the pasta, dairy and baked goods sectors, as well in special products such as health & wellness, gluten free and baby food. The Newlat Group's product range is divided into the following business units:

- Pasta;
- Milk Products;
- Dairy Products;
- Bakery Products;
- Special Products; and
- Other Products

The Milk Products and Dairy Products market

The previous year's decline in the consumption of milk and milk-based products continued in 2019, particularly in the more traditional segments of pasteurised and UHT milk. The butter market recovered from the previous period, mainly due to the gradual change in consumer habits. The mascarpone market also suffered a slight decline.

The Pasta and Bakery Products market

Against a background of increasing global consumption of pasta, the pasta market in Italy showed a moderate decrease during the period under review, in relation to both dry pasta and fresh pasta. The bakery market also declined slightly, particularly rusks.
The already strong German market grew in 2018 by 1.8% in sales volumes and 2.0% in value.

Commodity prices

Manufacturing the Group's products requires a large number and variety of raw and semi-finished materials including, but not limited to, milk, durum wheat semolina, common wheat flour, eggs and packaging materials.

The raw materials costs for milk and cream varied over the course of the year, with an overall decrease compared with the previous year.

The price of common wheat and durum wheat was broadly stable, as in recent years, registering a negligible increase.

Costs for purchases of raw materials and finished products decreased by €422 thousand from €154,626 thousand for the year ended 31 December 2018 to €154,204 thousand for the year ended 31 December 2019, despite the contribution of the acquired company Delverde. Costs for purchases of raw materials and finished products amounted to 48.1% and 50.6% of revenues respectively for the years ended 31 December 2019 and 2018, contributing in part to the greater margin recorded in 2019 than in the previous year. The following table contains the income statement of the Group's combined consolidated financial statements:

(In € thousands and as a percentage of revenue from contracts with customers)	**Year ended 31 December**					
	2019	**%**	**2018**	**%**	**2019 vs 2018**	**%**
Revenue from contracts with customers	320,902	100.0%	305,830	100.0%	15,072	4.9%
Cost of sales	(262,212)	-81.7%	(256,060)	(83.7%)	(6,152)	2.4%
Gross operating profit/(loss)	**58,690**	**18.3%**	**49,770**	**16.3%**	**8,920**	**17.9%**
Sales and distribution costs	(31,717)	-9.9%	(27,864)	(9.1%)	(3,853)	13.8%
Administrative costs	(13,417)	-4.2%	(12,663)	(4.1%)	(754)	6.0%
Net write-downs of financial assets	(674)	-0.2%	(937)	(0.3%)	263	(28.1%)
Other revenues and income	5,141	1.6%	4,577	1.5%	564	12.3%
Other operating costs	(3,464)	-1.1%	(3,153)	(1.0%)	(311)	9.9%
Operating profit/(loss) (EBIT)	**14,559**	**4.5%**	**9,730**	**3.2%**	**4,829**	**49.6%**
Financial income	582	0.2%	1,327	0.4%	(745)	(56.1%)
Financial expenses	(1,946)	-0.6%	(2,077)	(0.7%)	131	(6.3%)
Profit (loss) before taxes	**13,196**	**4.1%**	**8,980**	**2.9%**	**4,216**	**46.9%**
Income taxes	(2,884)	-0.9%	(3,028)	(1.0%)	144	(4.7%)
Net profit/(loss)	**10,311**	**3.2%**	**5,952**	**1.9%**	**4,359**	**73.2%**

The following is a brief commentary on the most significant changes to the main income statement items that occurred in the years under review.

Revenue from contracts with customers

Revenue from contracts with customers contains the contractual fees to which the Group is entitled in exchange for the transfer of the promised goods or services to customers. The contractual fees may include fixed or variable amounts or both and are recognised net of rebates, discounts and promotions, such as contributions to the mass distribution channel. In particular, in the context of existing contractual relations with mass distribution operators, Newlat is expected to recognise contributions as year-end bonuses linked to the achievement of certain turnover volumes or amounts related to the positioning of products.

SEGMENT REPORTING

The following table provides a breakdown of revenue from contracts with customers by business unit as monitored by management.

(In € thousand and percentage)	**Year ended 31 December**				**Changes**	
	2019	**%**	**2018**	**%**	**2019 vs 2018**	**%**
Pasta	133,268	41.5%	122,689	40.1%	10,579	8.6%
Milk Products	70,216	21.9%	71,050	23.2%	(834)	(1.2%)
Bakery Products	35,670	11.1%	35,352	11.6%	318	0.9%
Dairy Products	33,271	10.4%	30,190	9.9%	3,081	10.2%
Special Products	30,547	9.5%	28,448	9.3%	2,099	7.4%
Other assets	17,931	5.6%	18,101	5.9%	(170)	(0.9%)
Revenue from contracts with customers	**320,902**	**100.0%**	**305,830**	**100.0%**	**15,072**	**4.9%**

Revenues relating to the Pasta segment increased in the periods under review due to the contribution of Delverde, net of which they would have broadly the same as the previous year.

Revenues relating to the Milk Products segment declined as a result of a decrease in the average sales price thanks to an improved procurement policy.

Revenues relating to the Bakery Products segment were broadly unchanged during the periods under review.

Revenues from the Dairy Products segment increased as a result of a rise in sales volumes.

Revenues related to the Special Products segment increased mainly due to the renegotiation of price lists with Kraft-Heinz, as well as to the acquisition of new customers.

Revenues relating to the Other Products segment were broadly unchanged during the periods under review.

The following table provides a breakdown of revenue from contracts with customers by distribution channels as monitored by management.

(In € thousand and percentage)	**Year ended 31 December**				**Changes**	
	2019	**%**	**2018**	**%**	**2019 vs 2018**	**%**
Mass Distribution	201,935	62.9%	191,021	62.5%	10,914	5.7%
B2B partners	40,081	12.5%	38,770	12.7%	1,311	3.4%
Normal trade	37,443	11.7%	35,208	11.5%	2,235	6.3%
Private labels	33,235	10.4%	32,627	10.7%	608	1.9%
Food services	8,208	2.6%	8,204	2.6%	4	0.1%
Total revenue from contracts with customers	**320,902**	**100.0%**	**305,830**	**100.0%**	**15,072**	**4.9%**

Revenues related to the Mass Distribution channel increased in the periods under review due to the contribution of Delverde, net of which they would have broadly the same as the previous year.

Revenues related to the B2B partners channel increased due to the combined effect of lower Pasta segment sales and higher Special Products segment sales. The B2B partners channel's contribution to revenues remains substantially unchanged.

Revenues related to the Normal trade channel increased mainly due to the contribution of Delverde.

Revenues related to the Private label channel increased as a result of higher sales volumes.

Revenues related to the Food services channel increased as a result of Delverde's contribution.

The following table provides a breakdown of revenue from contracts with customers by geographical area as monitored by management.

(In € thousand and percentage)	Year ended 31 December				Changes	
	2019	%	2018	%	2019 vs 2018	%
Italy	173,643	54.1%	163,581	53.5%	10,062	6.2%
Germany	93,294	29.1%	89,865	29.4%	3,429	3.8%
Other countries	53,966	16.8%	52,384	17.1%	1,582	3.0%
Total revenue from contracts with customers	**320,902**	**100.0%**	**305,830**	**100.0%**	**15,072**	**4.9%**

Revenues from Italy have increased mainly due to Delverde's contribution.

Revenues from Germany increased as a result of higher volumes in the Dairy sector.

Revenues from other countries were broadly in line during the periods under review, with the increase in absolute values due to Delverde's contribution.

Gross operating result and operating result

The increase in gross operating profit in the periods under review was attributable to higher revenues from contracts with customers that would have occurred at constant structure, although the effect of lower raw materials costs was greater.

The increase in ROS (return on sales) was attributable to an increase in operating profit, due mainly to an improvement in the procurement process.

The following table provides a reconciliation of the ROS for the periods under review:

(In € thousand and percentage)	Year ended 31 December	
	2019	2018
Operating profit/(loss) (EBIT)	14,559	9,730
Revenue from contracts with customers	320,902	305,830
ROS *	**4.5%**	**3.2%**

(*) ROS (return on sales) is an alternative performance indicator not identified as an accounting measure under IFRS and, therefore, should not be considered an alternative measure to those provided by the Group's financial statements when assessing the Group's results.

ROI (return on investment) increased mainly (i) as a result of a substantial improvement in operating profit (EBIT) and (ii) as a result of a lower net working capital due to the collection in 2019 of €10,000 thousand of receivables from the associate New Property.

The following table provides a reconciliation of the ROI for the periods under review.

(In € thousand and percentage)	Year ended 31 December	
	2019	**2018**
Operating profit/(loss) (EBIT)	14,559	9,730
Net invested capital (*)	42,921	49,888
ROI (*)	**33.9%**	**19.5%**

(*) Net invested capital and ROI (return on investment) are alternative performance indicators not identified as an accounting measure under IFRS and, therefore, should not be considered alternative measures to those provided by the Group's financial statements when assessing the Group's results.

EBITDA

The following table provides a reconciliation of EBITDA, the EBITDA margin and cash conversion at 31 December 2019 and 2018:

(In € thousand and percentage)	Year ended 31 December	
	2019	**2018**
Operating profit/(loss) (EBIT)	14,559	9,730
Amortisation, depreciation and write-downs	13,092	13,561
Net write-downs of financial assets	674	937
EBITDA (*) (A)	**28,325**	**24,228**
Revenue from contracts with customers	320,902	305,830
EBITDA margin (*)	**8.8%**	**7.9%**
investments (B)	4,659	5,793
Cash conversion [(A) - (B)]/(A)	**83.6%**	**76.1%**

(*) Operating profit/(loss) (EBIT), EBITDA, the EBITDA margin and the cash conversion are alternative performance indicators not identified as an accounting measure under IFRS and, therefore, should not be considered alternative measures to those provided by the Group's financial statements when assessing the Group's results.

To assess performance, the Company's management monitors, among other things, EBITDA by business unit as shown in the following table:

(In € thousands and as a percentage of revenue from contracts with customers)	Year ended 31 December				Changes	
	2019	**%**	**2018**	**%**	**2019 vs 2018**	**%**
Pasta	9,001	6.8%	8,621	7.0%	380	4.4%
Milk Products	5,453	7.8%	4,132	5.8%	1,321	32.0%
Bakery Products	5,815	16.3%	4,882	13.8%	933	19.1%
Dairy Products	4,030	12.1%	3,296	10.9%	734	22.3%
Special Products	3,408	11.2%	2,628	9.2%	780	29.7%
Other assets	619	3.5%	669	3.7%	(50)	(7.5%)
EBITDA	**28,325**	**8.8%**	**24,228**	**7.9%**	**4,097**	**16.9%**

EBITDA from the Pasta segment was broadly in line with the previous year.

EBITDA from the Milk Products segment increased mainly as a result of a marked improvement in the supply chain.

EBITDA from the Bakery Products segment increased mainly due to the combination of (i) the increase in sales volumes with higher margins and (ii) the reduction in the cost of purchasing raw materials.

EBITDA from the Dairy Products segment increased mainly due to the increase in sales volumes with higher margins, particularly mascarpone.

EBITDA from the Special Products segment increased mainly due to the increase in sales volumes and the renegotiation of some existing contracts.

EBITDA from the Other Products segment was broadly in line with the previous year.

Standardised EBITDA

The Group's management monitors performance through, among other things, the Standardised EBITDA, defined as the EBITDA of the period adjusted for income and expenses that, by their nature, are reasonably expected not to recur in future periods. In this regard, it should be noted that the Standardised EBITDA has not been adjusted for prior-year releases of a previous risk provision relating to the Ozzano Taro plant.

(In € thousand and percentage)	**Year ended 31 December**	
	2019	**2018**
EBITDA *	**28,325**	**24,228**
Non-recurring expense (income)	367	632
Standardised EBITDA (*)	**28,692**	**24,860**
Revenue from contracts with customers	320,902	305,830
Standardised EBITDA margin (*)	**8.9%**	**8.1%**

(*) EBITDA, Standardised EBITDA and the Standardised EBITDA margin are alternative performance indicators not identified as an accounting measure under IFRS and, therefore, should not be considered alternative measures to those provided by the Group's financial statements when assessing the Group's results.

The Group's Standardised EBITDA increased by €3,832 thousand (+15.4%). This change is attributable, in addition to the EBITDA trend, to the €265,000 decrease in non-recurring charges.

The following table provides standardised EBITDA by business unit at 31 December 2019 and 2018:

(In € thousands and as a percentage of revenue from contracts with customers)	Year ended 31 December				Changes	
	2019	**%**	**2018**	**%**	**2019 vs 2018**	**%**
Pasta	9,624	6.8%	8,621	7.0%	1,003	11.6%
Milk Products	5,032	7.2%	4,494	6.3%	538	12.0%
Bakery Products	5,815	16.3%	4,882	13.8%	933	19.1%
Dairy Products	4,030	13.3%	3,296	10.9%	734	22.3%
Special Products	3,408	11.2%	2,696	9.5%	712	26.4%
Other assets	784	4.4%	871	4.8%	(87)	(10.0%)
Standardised EBITDA	**28,692**	**8.9%**	**24,860**	**8.1%**	**3,832**	**15.4%**

Net profit/loss

The table below provides a reconciliation of the ROE at 31 December 2019 and 2018.

The significant increase in ROE related mainly to the increase in net profit (+73.2%).

(In € thousand and percentage)	Year ended 31 December	
	2019	**2018**
Net profit/loss	10,311	5,952
Shareholders' equity	91,546	63,540
ROE (*)	**11.3%**	**9.4%**

Report on the performance and results of the Group's activities

To assess the Group's performance, management monitors, among other things, the alternative performance indicators pertaining to assets and liabilities, results and cash flows, which are summarised in the following tables and explained further in the paragraphs below.:

(In € thousand and percentage)	Year ended 31 December	
	2019	**2018**
Net non-current assets	63,792	61,676
Net operating working capital	(10,437)	(13,101)
Net working capital	(20,871)	(11,788)
Net invested capital	42,921	49,888
Net financial debt	(48,624)	(13,652)
Net financial debt / Equity	(0.5)	(0.2)
Net financial debt / EBITDA	1.7	0.56
Borrowings	42,922	49,888
Investments	4,659	5,793
Investments as a share of revenues	1.5%	1.9%

Average days in inventory	37	36
Turnover rate of inventories	9.8	9.9
Average days for collection of trade receivables	52	61
Trade receivables turnover rate	6.9	5.9
Average days for payment of trade payables	130	128
Turnover rate of trade payables	2.8	2.8
Revenue from contracts with customers	320,902	305,830
EBITDA	28,825	24,228
Operating profit/(loss) (EBIT)	14,559	9,730
Operating profit/(loss) (EBIT) margin	4.5%	3.2%
Adjusted EBIT	14,926	10,362
Adjusted EBIT margin	4.7%	3.4%
ROS	4.5%	3.2%
ROI	33.9%	19.5%
Adjusted ROI	34.8%	20.8%
Net profit/loss	10,311	5,952
Adjusted net profit/(loss)	10,678	6,584
ROE	16.2%	8.8%
Adjusted ROE	16.8%	9.8%

(*) The alternative performance indicators set out in this table are not identified as accounting measures under IFRSs and should therefore not be considered as alternative measures to those provided by the Group's financial statements when assessing the Group's financial position and results.

The following table shows the reclassified statement for "Sources and uses" of the combined consolidated statement of financial position and statement of cash flows at 31 December 2019 and 2018:

(in € thousands)	**At December 31**	
	2019	**2018**
Uses		
Net non-current assets (*)	63,128	61,676
Net working capital (*)	(20,207)	(11,788)
Net invested capital (*)	**42,922**	**49,888**
Sources		
Shareholders' equity	91,546	63,540
Net financial debt (*)	(48,624)	(13,652)
Total borrowings	**42,922**	**49,888**

(*) Net non-current assets, net working capital, net invested capital and net financial debt are alternative performance indicators not identified as accounting measures under IFRSs and should therefore not be considered as alternative measures to those provided by the Group's financial statements when assessing the Group's financial position.

The decrease in the Group's net invested capital recorded at 31 December 2019 compared with 31 December 2018, amounting to €6,967 thousand, was attributable to a combination of greater net non-current assets (€1,452 thousand), deriving mainly from the consolidation of Delverde following the acquisition, which was more than offset by a €8,419 thousand reduction in net working capital, mainly attributable to the collection of a €10,000 thousand receivable from New Property S.p.A. as an adjustment resulting from the real estate spin-off operation in 2017.

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 1 January 2019 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 of the shares net of the costs of listing and the related tax benefit for a total amount of €76,265 thousand;

- the recognition of the total net profit for the period, in the amount of €10,311 thousand;

- other minor changes in the amount of €249 thousand.

Net financial debt

The following is a detailed statement of the Group's net financial debt at 31 December 2019 and 31 December 2018 determined in accordance with CONSOB Communication DEM/6064293 of 28 July 2006 and in compliance with Recommendations ESMA/2013/319:

(in € thousands)	**At December 31**	
Net financial debt	**2019**	**2018**
A. Cash	39	357
B. Cash equivalents	100,845	61,429
C. Securities held for trading	4	4
D. Cash and cash equivalents (A)+(B)+(C)	**100,888**	**61,790**
E. Current financial receivables	**-**	**-**
F. Current bank payables	(17,575)	(24,324)
G. Current portion of non-current debt	(4,779)	(2,701)
H. Other current financial debt	(4,878)	(5,225)
I. Current financial debt (F)+(G)+(H)	**(27,232)**	**(32,250)**
- of which guaranteed	*(12,265)*	*(25,968)*
- of which not guaranteed	*(14,967)*	*(6,282)*
J. Net current financial debt (I)+ (E)+ (D)	**73,656**	**29,540**
K. Non-current bank payables	(12,000)	(1,778)
L. Bonds issued	-	-
M. Other non-current financial debt	(13,032)	(14,110)
N. Non-current financial debt (K)+(L)+(M)	**(25,032)**	**(15,888)**
- of which guaranteed		*(1,691)*
- of which not guaranteed	*(25,032)*	*(14,197)*
O. O. Net financial debt (J)+ (N)	**48,624**	**13,652**

The change in net financial debt at 31 December 2019 compared with 31 December 2018, totalling €34,972 thousand, is mainly due to: (i) the reduction of €58,324 thousand in the Group's liquidity, caused by the payment of the remaining portion of the fee due to Newlat Group for the acquisition of Newlat Deutschland GmbH, (ii) the acquisition of Delverde for €3,775 thousand, (iii) the increase in liquidity caused by the institutional placement operation for a total of €74,494, and (iv) the generation of cash from operating activities.

At 31 December 2019, without considering lease liabilities, net financial debt was as follows:

(in € thousands)	At December 31	
	2019	**2018**
Net financial debt	**48,624**	**13,652**
Current lease liabilities	4,776	5,087
Non-current lease liabilities	13,032	14,110
Net financial position	**66,432**	**32,849**

The following table shows some of the Group's solvency indicators at 31 December 2019 and 2018:

(in € thousands)	At December 31	
	2019	**2018**
Net financial debt / Equity	0.53	0.21
Net financial debt / EBITDA	1.72	0.56
EBITDA / financial expenses	14.56	11.66

INVESTMENTS

The following table provides a breakdown of the Group's investments in property, plant and equipment and intangible assets in the years ending 31 December 2019 and 2018:

(In € thousand and percentage)	Year ended 31 December			
	2019	%	**2018**	%
Land and buildings	80	1.7%	154	2.7%
Plant and machinery	2,789	59.9%	4,562	78.5%
Industrial and commercial equipment	118	2.5%	212	3.7%
Other assets	182	3.9%	52	0.9%
Leasehold improvements	139	3.0%	154	2.7%
Assets under construction and payments on account	1,074	23.1%	451	7.8%
Investments in property, plant and equipment	**4,382**	**94.1%**	**5,585**	**96.3%**
Patents and intellectual property rights	247	5.3%	90	1.6%
Concessions, licences, trademarks and similar rights	23	0.5%	39	0.7%
Other assets	7	0.2%	79	1.4%
Assets under development			-	0.0%
Investments in intangible assets	**277**	**6.0%**	**208**	**3.7%**
Total investments	**4,659**	**100.0%**	**5,793**	**100.0%**

During the reporting period, the Group made investments totalling €4,659 thousand.

The Group's investment policy is aimed at innovation and diversification in terms of product supply. In particular, the Group attaches importance to the development of new products, with the aim of continuously improving customer satisfaction.

Investments in property, plant and equipment relate mainly to purchases of plant and machinery, mostly in connection with projects for updating and renovating production and packaging lines.

Investments in intangible assets relate mainly to the purchase and updating of software.

The following table provides a breakdown by business unit of the Group's investments in property, plant and equipment and intangible assets at 31 December 2019 and 2018.:

(In € thousand and percentage)	**Year ended 31 December**			
	2019	%	**2018**	%
Special Products	229	4.9%	2,405	41.5%
Pasta	2,335	50.1%	1,214	21.0%
Bakery Products	1,042	22.4%	1,079	18.6%
Milk Products	644	13.8%	646	11.2%
Dairy Products	122	2.6%	77	1.3%
Other assets	287	6.2%	372	6.4%
Total investments	**4,659**	**100.0%**	**5,793**	**100.0%**

Investments in the Milk Products business unit mainly relate to the efficiency of production facilities at the Reggio Emilia plant.

Investments in the Special Products business unit relate mainly to new software and packaging systems.

Investments in the Pasta business unit relate mainly to the new packaging facility for pasta products, located at the Sansepolcro (AR) plant.

Investments in the Bakery Products business unit mainly relate to the new packaging facility for baked products, located at the Sansepolcro (AR) plant.

OTHER INFORMATION

Policy for analysing and managing risks connected with the activities of the Group

This section provides information on exposure to risks connected with the activities of the Group as well as the objectives, policies and processes for managing such risks and the methods used to asses and to mitigate them. The guidelines for the Group’s ICRMS, defined by the Board of Directors, identify the internal control system as a cross-sectional process integral to all business activities. The purpose of the ICRMS is to help the Group achieve its performance and profit objectives, obtain reliable economic and financial information and ensure compliance with existing laws and regulations, while shielding the Company from reputational damage and financial loss. In this process, particular importance is given to identifying corporate objectives, classifying (based on combined assessments regarding the probability and the potential impact) and controlling related risks by implementing specific containment actions. There are various types of potential business risks: strategic, operational (related to the effectiveness and efficiency of business operations), reporting (related to the reliability of economic-financial information), compliance (related to the observance of the laws and regulations in force, to avoid the company suffering damage to its image or and/or economic losses) and, lastly, financial. Those in charge of the various company departments identify and assess the risks within their jurisdiction, whether these originate within or outside the Group, and identify actions to limit and reduce them (so-called "first-line control").

On top of this come the activities of the Financial Reporting Officer and their staff (so-called "second-level control") and of the Head of Internal Audit (so-called "third-level control"), who continually monitors the efficiency and effectiveness of the ICRMS through risk assessment, audit and follow-up activities.

The results of the risk identification procedures are reported and discussed to and discussed by the Group's senior management so that they can be covered and insured and the residual risk can be evaluated.

The following paragraphs describe the risks considered to be significant and connected with the activities of the Group (the order in which they are listed does not imply any classification, in terms of either probability of occurrence or possible impact):

STRATEGIC RISKS

Risks relating to the macroeconomic and sector situation.

The activity of the Group is influenced by the general conditions of the economy in the various markets where it operates. A period of economic crisis, with a consequent slow-down in consumption, can have a negative impact on the sales trends of the Group. The current macroeconomic context causes significant uncertainty regarding forecasts, with the resulting risk that reduced performance could impact margins in the short term. The Group pursues its aim of increasing its industrial efficiency and improving its production capacity while reducing overheads.

Risks connected with the external growth strategy

The Group has so far based its growth strategy on acquisitions of other companies, businesses or business units, and the plan is to continue this external growth strategy. The Group is therefore exposed to the risk of not being able to identify suitable companies or businesses in the future in order to feed its external growth strategy, or of not having the financial resources necessary to acquire the identified entities. The Group is also exposed to the risk that its past or future acquisitions will bring about unexpected costs and/or liabilities that prevent it from achieving its objectives.

OPERATING RISKS

Risks related to the high level of competitiveness of the sector

The food & beverage market in which the Group operates is characterised by a particularly significant level of competition, competitiveness and dynamism. This market is characterised in particular by (i) increasing competitiveness of companies that produce so-called private label products with prices lower than those charged by the Group; (ii) increasing prevalence of online sales (where the Group is starting to have a presence) resulting in a decrease in product prices, especially in the mass distribution channel, through which the Group generates a significant percentage of its revenues, namely 62.5% on an aggregate basis at 31 December 2019; (iii) frequent promotional campaigns over time and with significant discounts; (iv) consolidation of existing operators (through M&As), especially in the mass distribution channel. The Group pursues its aim of increasing its industrial efficiency and improving its production capacity while reducing overheads and being competitive in its reference markets. Moreover, thanks to the presence of some "unique" products, the Group is able to face any level of competition.

FINANCIAL RISKS

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.

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)	**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

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 predominantly 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 following table provides a breakdown of trade receivables (from consolidated financial statements) at 31 December 2019 and 2018 grouped by maturity, net of the provision for bad debts:

(in € thousands)	**Expiring**	**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	8,101	2,721	1,290	**49,274**
Gross trade receivables at 31 December 2018	36,574	12,964	983	15,550	**66,071**
Provision for bad debts	-	(118)	(41)	(14,540)	**(14,699)**
Net trade receivables at 31 December 2018	36,574	12,846	942	1,010	**51,372**

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.

The table below provides a breakdown of the Group's financial requirements by contractual maturity:

(in € thousands)	**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**

Positions or transactions deriving from atypical and/or unusual transactions

Pursuant to CONSOB Communication no. 6064293 of 28 July 2006, it is hereby disclosed that, during 2019, no atypical and/or unusual transactions occurred outside the Company's normal business that could give rise to doubts regarding the accuracy and completeness of the information in the financial statements, conflicts of interest, protection of assets and the safeguarding of minority shareholders. The accounting and financial effects of extraordinary transactions occurring in 2019 have been illustrated above.

Treasury shares and shares of parent companies

In compliance with the provisions of article 2428 of the Italian Civil Code, it is confirmed that during 2019 the Parent Company did not trade in any treasury shares or shares of parent companies and does not, at 31 December 2019 and at present, hold any treasury shares or shares of parent companies. The subsidiaries do not hold any shares of the Parent Company.

Sub-offices

No sub-offices were established.

Corporate governance

Information on corporate governance is provided in a separate report that is an integral part of the financial statements, annexed to this Report.

TRANSACTIONS WITH RELATED PARTIES

The transactions entered into by the Group with Related Parties (hereinafter the **"Related Party Transactions"**), identified on the basis of criteria defined by IAS 24 – "Related Party Disclosures", are primarily of a commercial and financial nature and are carried out at arm's length conditions. On 6 September 2019, the Board of Directors approved the text of and resolved to adopt the Procedure for Transactions with Related Parties with effect from the trading start date and subject to the favourable opinion of the Related Party Transactions Committee, also taking into account the guidelines provided by the Related Party Regulations. The RPT Committee expressed this favourable opinion at its meeting of 13 November 2019.

The explanatory notes to the consolidated and separate financial statements report on the income statement and statement of financial position items pertaining to related party transactions at 31 December 2019 and 2018. This information has been extracted from the consolidated and separate financial statements and from calculations carried out by the Company based on the outcome of general and operational accounting work.

The Group did not carry out Related Party Transactions that were unusual in terms of characteristics, or significant in terms of amount, other than those of an ongoing nature or which have already been illustrated.

For information on the remuneration of members of corporate bodies and senior managers, see the explanatory notes to the separate and consolidated financial statements.

The Group deals with the following related parties:

- direct or indirect parent company (**"Parent Company"**);
- subsidiaries of the direct parent company or indirect parent companies other than its own subsidiaries and associates (**"Companies controlled by the parent companies"**);

SIGNIFICANT EVENTS AFTER THE END OF THE YEAR AND OPERATIONAL OUTLOOK

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 potential 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 (19 March 2020), 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 Company - at the date of preparation of these financial statements - cannot predict the extent to which the aforementioned events may have significant repercussions on the prospects of the Company and the Newlat Group in 2020. Finally, with reference to the accounting principles and estimates used to prepare the consolidated and separate financial statements, and based on the information available at the date of preparation of the following financial statements, the Directors believe they reasonably exclude impacts attributable to COVID-19.

After careful monitoring of events, the Company's management has promptly implemented the strategic decisions and appropriate actions in this situation and highlights the following important characteristics of its business structure, which are supported by the exceptional data on revenues from sales made in the first two and a half months of 2020:

- **full production capacity**: all the establishments of the Company and 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 supply chain. Similarly, there are no problems in the logistics services used;

- **distribution channels**: Newlat Food generates 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 in March 2020 by the large decrease in footfall, both from tourists and locals, are less than 5% of the total revenues of the Company.

- ***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. 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.

ANNEX A - COMBINED CONSOLIDATED FINANCIAL STATEMENTS

Combined consolidated statement of financial position

(in € thousands)	At December 31	
	2019	**2018**
Non-current assets		
Property, plant and equipment	31,799	30,669
Right-of-use assets	17,326	18,577
of which transactions with related parties	*9,467*	*12,227*
Intangible assets	25,217	25,713
Non-current financial assets measured at fair value through profit or loss	42	32
Financial assets valued at amortised cost	866	858
of which transactions with related parties	*735*	*735*
Prepaid tax assets	5,034	4,844
Total non-current assets	**80,284**	**80,693**
Current assets		
Inventories	25,880	25,251
Trade receivables	49,274	53,869
of which transactions with related parties	*19*	*19*
Current tax assets	716	775
Other receivables and current assets	4,701	14,440
of which transactions with related parties	-	*10,000*
Current financial assets measured at fair value through profit or loss	4	4
Cash and cash equivalents	100,884	61,786
of which transactions with related parties	*45,338*	*61,429*
Total current assets	**181,460**	**156,125**
TOTAL ASSETS	**261,744**	**236,818**
Shareholders' equity		
Share capital	40,780	27,000
Reserves	40,454	30,588
Net profit/loss	10,311	5,952
Total net equity	**91,546**	**63,540**
Non-current liabilities		
Provisions for employee benefits	10,646	11,038
Provisions for risks and charges	1,396	1,008
Deferred tax liabilities	3,850	3,850
Non-current financial liabilities	12,000	1,778
Non-current lease liabilities	13,032	14,110
of which transactions with related parties	*6,989*	*9,700*
Other non-current liabilities	600	3,121
Total non-current liabilities	**41,524**	**34,905**
Current liabilities		
Trade payables	85,592	92,221
of which transactions with related parties	*149*	*195*
Current financial liabilities	22,456	27,163
Current lease liabilities	4,776	5,087
of which transactions with related parties	*2,341*	*2,676*
Current tax liabilities	471	410

Other current liabilities	15,379	13,492
Total current liabilities	**128,674**	**138,373**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**261,744**	**236,818**

Combined consolidated income statement

(in € thousands)	Year ended 31 December	
	2019	**2018**
Revenue from contracts with customers	320,902	305,830
Cost of sales	(262,212)	(256,060)
of which transactions with related parties	*(3,357)*	*(2,874)*
Gross operating profit/(loss)	**58,690**	**49,770**
Sales and distribution costs	(31,717)	(27,864)
Administrative costs	(13,417)	(12,663)
of which transactions with related parties	*(453)*	*(990)*
Net write-downs of financial assets	(674)	(937)
Other revenues and income	5,141	4,577
Other operating costs	(3,464)	(3,153)
Operating profit/(loss)	**14,559**	**9,730**
Financial income	582	1,327
of which transactions with related parties	*408*	*1,232*
Financial expenses	(1,946)	(2,077)
of which transactions with related parties	*(135)*	*(470)*
Profit (loss) before taxes	**13,196**	**8,980**
Gross income taxes	(2,884)	(3,028)
Net profit/loss	**10,311**	**5,952**
Basic net profit/(loss) per share	0.35	0.22
Diluted net profit/(loss) per share	0.35	0.22

Combined statement of other comprehensive income

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

Combined statement of changes in shareholders' equity

(in € thousands)	Share capital	Reserves	Net profit/loss	Total shareholders' equity
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	**-**	**(52,372)**	**(5,952)**	**(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**	**40,454**	**10,311**	**91,546**

Combined statement of cash flows

(in € thousands)	At December 31	
	2019	**2018**
Profit (loss) before taxes	13,196	8,980
- Adjustments for:		
Amortisation, depreciation and write-downs	13,692	13,561
Capital losses/(gains) on disposal	84	(71)
Financial expense/(income)	1,368	750
of which transactions with related parties	*273*	*762*
Other non-monetary changes	652	(6,627)
Cash flow generated /(absorbed) by operating activities before changes in net working capital	**28,991**	**16,593**
Increase (decrease) in inventory	1,184	484
Increase (decrease) in trade receivables	6,384	(375)
Increase (decrease) in trade payables	(10,821)	1,469
Change in other assets and liabilities	10,250	7,616
Use of provisions for risks and charges and for employee benefits	(1,084)	(294)
Taxes paid	(1,171)	(2,200)
Net cash flow generated /(absorbed) by operating activities	**33,732**	**23,293**
Investments in property, plant and equipment	(4,460)	(5,585)
Investments in intangible assets	(499)	(208)
Disposal of property, plant and equipment	-	73
Divestment of financial assets	-	276
Deferred fee for acquisitions	(2,521)	(1,998)
Newlat Deutschland combination	(58,324)	(10,000)
Delverde combination	(2,795)	
Net cash flow generated /(absorbed) by investment activities	**(68,599)**	**(17,442)**
New long-term financial debt	15,000	-
Repayments of long-term financial debt	(9,866)	(11,624)
Change in current financial debt		1,379
Repayments of lease liabilities	(6,345)	(5,275)
of which transactions with related parties	*(2,940)*	*(2,940)*
IPO fee	76,544	-
Net interest expense	(1,368)	(605)
Net cash flow generated/(absorbed) by financing activities	**73,965**	**(16,125)**
Total changes in cash and cash equivalents	**39,098**	**(10,274)**
Cash and cash equivalents at start of year	**61,786**	**72,060**
of which transactions with related parties	*61,429*	*71,621*
Total changes in cash and cash equivalents	39,098	(10,274)
Cash and cash equivalents at end of year	**100,884**	**61,786**
of which transactions with related parties	*45,338*	*61,429*

ANNEX B - PROFORMA FINANCIAL INFORMATION

The Proforma Consolidated Statements have been prepared in order to represent the main effects on the Group's combined statement of financial position at 31 December 2019 of the acquisitions that took place during 2019, in line with the financial information provided during the aforementioned listing process. In particular, the proforma statements include the acquisition of Delverde from 1 January 2019 (instead of 9 April 2019, i.e. the date of actual purchase by Newlat Food S.p.A.).

The proforma consolidated statement of financial position and income statement at 31 December 2019 are shown below:

Proforma consolidated statement of financial position at 31 December 2019 and 2018

(in € thousands)	**Proforma statement of financial position of the Group at 31 December 2019**	**Proforma statement of financial position of the Group at 31 December 2018**
Non-current assets		
Property, plant and equipment	31,799	33,272
Right-of-use assets	17,326	23,316
Intangible assets	25,217	25,941
Non-current financial assets measured at fair value through profit or loss	42	42
Financial assets valued at amortised cost	866	866
Prepaid tax assets	5,034	4,844
Total non-current assets	**80,284**	**88,281**
Current assets		
Inventories	25,880	27,859
Trade receivables	49,274	58,137
Current tax assets	716	817
Other receivables and current assets	4,701	15,377
Current financial assets measured at fair value through profit or loss	4	4
Cash and cash equivalents	100,884	15,268
Total current assets	**181,460**	**117,462**
TOTAL ASSETS	**261,744**	**205,743**
Shareholders' equity	**91,546**	**18,232**
Non-current liabilities		
Provisions for employee benefits	10,646	11,158
Provisions for risks and contingencies	1,396	1,202
Deferred tax liabilities	3,850	3,853
Non-current financial liabilities	12,000	2,681
Non-current lease liabilities	13,032	17,995
Other non-current liabilities	600	3,121
Total non-current liabilities	**41,524**	**40,010**
Current liabilities		

Trade payables	85,592	97,602
Current financial liabilities	22,456	28,271
Current lease liabilities	4,776	5,510
Current tax liabilities	471	411
Other current liabilities	15,379	15,707
Total current liabilities	**128,674**	**147,501**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**261,744**	**205,743**

Proforma consolidated income statement for the year ended 31 December 2019 and 2018

(in € thousands)	**Proforma consolidated income statement of the Group for the year ended 31 December 2019**	**Proforma consolidated income statement of the Group for the year ended 31 December 2018**
Revenue from contracts with customers	325,801	325,629
Cost of sales	(266,317)	(271,928)
Gross operating profit/(loss)	**59,484**	**53,701**
Sales and distribution costs	(32,344)	(31,423)
Administrative costs	(14,197)	(13,207)
Net write-downs of financial assets	(697)	(1,027)
Other revenue and income	5,275	6,140
Other operating costs	(3,588)	(3,362)
Operating profit/(loss)	**13,933**	**10,822**
Financial income	618	207
Financial expenses	(2,050)	(2,452)
Profit (loss) before taxes	**12,502**	**8,577**
Income taxes	(2,903)	(3,080)
Net profit/loss	**9,598**	**5,497**

Below is some financial information from the proforma consolidated statements. In particular: proforma revenue from contracts with customers broken down by business unit, distribution channel and geographical area; and some alternative performance indicators identified by the Directors in order to facilitate an understanding of the Group's assets and liabilities, results and cash flows, calculated on the basis of proforma financial information.

Proforma revenue from contracts with customers

The following table displays proforma revenue from contracts with customers broken down by business unit, distribution channel and geographical area, compared with the previous year:

(In € thousand and percentage)	**Year ended 31 December 2019**				**Year ended 31 December 2018**			
	Proforma	**%**	***Aggregate***	**%**	***Proforma***	**%**	***Aggregate***	**%**
Pasta	138,166	42.4%	133,268	41.5%	142,488	43.8%	122,689	40.1%
Milk Products	70,216	21.6%	70,216	21.9%	71,050	21.8%	71,050	23.2%
Bakery Products	35,670	10.9%	35,670	11.1%	35,352	10.9%	35,352	11.6%
Dairy Products	33,271	10.2%	33,271	10.4%	30,190	9.3%	30,190	9.9%
Special Products	30,547	9.4%	30,547	9.5%	28,448	8.7%	28,448	9.3%
Other assets	17,931	5.5%	17,931	5.6%	18,101	5.5%	18,101	5.9%
Revenue from contracts with customers	**325,801**	**100.0%**	**320,902**	**100.0%**	**325,629**	**100.0%**	**305,830**	**100.0%**

(In € thousand and percentage)	**Year ended 31 December 2019**				**Year ended 31 December 2018**			
	Proforma	**%**	***Aggregate***	**%**	***Proforma***	**%**	***Aggregate***	**%**
Mass Distribution	205,854	63.2%	201,935	62.9%	206,860	63.5%	191,021	62.5%
B2B partners	40,081	12.3%	40,081	12.5%	38,770	11.9%	38,770	12.7%
Normal trade	37,443	11.5%	37,443	11.7%	35,208	10.8%	35,208	11.5%
Private labels	33,235	10.2%	33,235	10.4%	32,627	10.0%	32,627	10.7%
Food services	9,188	2.8%	8,208	2.6%	12,164	3.8%	8,204	2.6%
Revenue from contracts with customers	**325,801**	**100.0%**	**320,902**	**100.0%**	**325,629**	**100.0%**	**305,830**	**100.0%**

(In € thousand and percentage)	**Year ended 31 December 2019**				**Year ended 31 December 2018**			
	Proforma	**%**	***Aggregate***	**%**	***Proforma***	**%**	***Aggregate***	**%**
Italy	175,602	53.9%	173,643	54.1%	169,697	52.1%	163,581	53.5%
Germany	93,294	28.7%	93,294	29.1%	89,950	27.6%	89,865	29.4%
Other countries	56,904	17.5%	53,966	16.8%	65,982	20.3%	52,384	17.1%
Revenue from contracts with customers	**325,801**	**100.1%**	**320,902**	**100.0%**	**325,629**	**100.0%**	**305,830**	**100.0%**

Alternative performance indicators related to proforma data

The table below shows the proforma income statement alternative performance indicators:

(In € thousand and percentage)	**Year ended 31 December 2019**	**Year ended 31 December 2018**
Proforma EBITDA (*)	28,033	26,726
Proforma standardised EBITDA (*)	28,518	26,917
Proforma EBITDA margin (*)	8.8%	8.2%
Proforma standardised EBITDA margin (*)	8.6%	8.3%

COSOLIDATED NON-FINANCIAL STATEMENT

Consolidated Non-Financial Statement

at 31 December 2018

pursuant to Legislative Decree 254/2016

A multibrand company

CONTENTS

I. Introduction

1.1 *Methodological note*

[GRI 102-50]; [GRI 102-52]; [GRI 102-53]; [GRI 102-56]

This document is intended as the first consolidated non-financial statement (hereinafter also "NFS" or "Statement") of Newlat Group (hereinafter also "Group") in compliance with the provisions of Legislative Decree no. 254 of 30 December 2016, as amended.

Following the successfully completed listing procedure in October 2019, 2019 is the first year in which Newlat Group meets the minimum mandatory requirements imposed by Legislative Decree 254/16. As this is the first year of preparation of the NFS, the indicators reported refer to the reporting year that runs from 1 January to 31 December 2019. Where possible and for the best comparison, the data and information for the 2018 financial year have also been reported.

With reference to the changes to the Group structure during this two-year period, it is noted that as of 31.12.2018 the company Newlat Food Spa uses the full consolidation method only for the company Centrale del Latte di Salerno Spa. In 2019, Newlat Food Spa acquired Delverde Industrie Alimentari Spa, then merged by incorporation together with Centrale del Latte di Salerno Spa into the parent company Newlat Food Spa. Starting from 2019, the group also includes Newlat GmbH Deutschland.

The scope of reporting of non-financial information at 31.12.2019 is therefore Newlat Food Spa (hereinafter also "Newlat") and the subsidiary Newlat GmbH Deutschland, consolidated according to the full method in the Consolidated Financial Statements at 31 December 2019.

The following table shows the plants that fall within the scope of reporting at 31.12.2019 and 31.12.2018.

Company (pre-merger)	Company (post-merger)	Plants/Warehouses (identified by geographical location)	31.12.2019	31.12.2018
Newlat Food Spa	Newlat Food Spa	**Reggio Emilia**	✔	✔
		Lodi	✔	✔
		Corte dei Frati (CR)	✔	✔
		Bologna	✔	✔
		Ozzano Taro (PR)	✔	✔
		San Sepolcro (AR)	✔	✔
		Eboli (SA)	✔	✔

		Rome	✔	✔
CLS		**Salerno**	✔	✔
		Pozzuoli (NA)	✔	✔
		Lecce	✔	✔
Delverde		**Fara San Martino (CH)**	✔	
Newlat GmbH	Newlat GmbH	**Mannheim (Germany)**	✔	

Table 1 - Scope of Consolidation

This consolidated non-financial statement takes as reference the "Sustainability Reporting Standards" published in October 2016 by the GRI (Global Reporting Initiative) and uses the "GRI-Referenced" approach. Note that, with reference to GRI 303-3 and 403-9, the GRI standards published in June 2018 were considered. The following GRI reporting principles required for the definition of the content and quality of the document were taken into consideration for the preparation of the Statement: *Stakeholder Inclusiveness, Sustainability Context, Materiality, Completeness, Balance, Comparability, Accuracy, Timeliness, Clarity and Reliability*, as reported in GRI Standard 101: Foundation 2018.

For greater clarity, references to the GRI Standards are given within the text highlighted with the symbol [GRI No.].

This Statement reports the non-financial information related to the topics considered material for the Group, the stakeholder analysis and business model, which were defined and worked on by an internal Working Group coordinated by the *Administration, Finance and Management Control* Department and the key representatives of the various business functions involved who manage relations with the main stakeholders.

In order to provide an accurate representation of the sustainability performance achieved, the inclusion of dimensions that are directly measurable was prioritised, avoiding where possible reference to estimates, which, where required, are based on the best possible methods available or on sample surveys, and their use is indicated within the individual indicators.

Please note that the data provided for the 2018 financial year have not been audited by an external firm.

In relation to the collection of data and information to be reported, the Group prepared data collection forms that were sent to the relevant contact persons involved in the various areas, both of the parent company (Newlat Food SpA) and of the subsidiary company.

The Statement was approved by the Newlat Food SpA Board of Directors on 19/03/2020.

The independent audit of the non-financial statement was entrusted to PricewaterhouseCoopers S.p.A. and was completed with the issue of the "Independent auditor's report on the consolidated non-financial statement pursuant to art. 3 (10), Legislative Decree no. 254/2016 and art. 5 of the CONSOB regulation adopted with resolution no. 20267 of January 2018". The Report is available on page 112 of this document.

1.2 *Business Model*

[GRI 102-2]; [GRI 102-50]; [GRI 102-6]

Newlat Group was founded in 2004 in Reggio Emilia, where its registered office is still located today. The sectors of the agri-food market in which the Group operates are mainly those related to food and beverages, where, in part due to growth based on targeted acquisitions of some historical brands, Newlat Food has become a major player.

Specifically, the Group is mainly present on the Italian market, where it has a certain importance, and on the European market through its subsidiary located in Germany.

The Group has pursued and is pursuing continuous growth, thanks also to the implementation of a policy focused on the acquisition of both nationally and internationally recognized companies and brands.

The history of Newlat Group begins with the first acquisition of the Guacci brand in 2004, then continues the following year with the acquisition first of the Pezzullo brand and then of the entire plant located in Eboli (now owned by Nestlé).

In the following years (from 2008), the Group expanded its product portfolio by acquiring Giglio, again from Nestlé, a company specialising in the milk and dairy sector.

There were more acquisitions in 2008, first, with the purchase of one of the plants belonging to Buitoni and subsequently the obtaining of the license to use the related brand.

Below is a list of the Trademarks and Companies involved in the acquisitions, reporting the year in which the transaction was concluded.

COMPANY/TRADEMARK	YEAR OF ACQUISITION
Guacci	2004
Pezzullo	2005
Corticella	2005
Matese	2006
Giglio	2008
San Sepolcro plant (Buitoni license)	2008
Polenghi Lombardo	2009
Optimus	2009
3 Glöcken	2013
Birkel	2013

Centrale del Latte di Salerno	2014
Ozzano Taro plant (Plasmon co-packing)	2015
Delverde	2019

Table 2 - Summary of Main Acquisitions

On 29.10.2019, the company reached its goal of listing on the Star segment of the Italian Stock Exchange (Borsa Italiana), and this has contributed to improving its reputation on the market.

As can be seen in the table above reporting the scope of the reporting, the Group operates through eleven production plants, ten of which are in Italy and one in Germany, divided as follows, by business area (World):

- 4 pasta and bakery plants;
- 4 milk processing plants;
- 2 mills;
- 1 plant for gluten-free, protein-free and baby food products.

The Group employs more than 1,000 people, mainly employed at the production sites in Italy.

1.3 *Corporate Governance Model and Sustainability Management*

[GRI 102-18]

Newlat Food has structured a Corporate Governance Model based on the recommendations of the Borsa Italiana Corporate Governance Code, including those introduced in July 2018, which are being implemented by top management in the Newlat Food Code of Conduct, through which the interests of all its stakeholders can be met effectively.

The Group is focusing on the adaptation of its corporate structure to international best practices, on the updating of its relevant Codes, and on the implementation of both its operational and sustainability risk management processes.

Newlat Food S.p.A. has adopted a traditional form of administration and control. Therefore, corporate management is assigned to the Board of Directors, the supervisory functions to the Board of Statutory Auditors, and the statutory audit, as well as the financial audit, to the Independent Auditors appointed by the Shareholders' Meeting.

BOARDS AND OFFICERS

Board of Directors

Angelo Mastrolia	Executive Chairman of the Board of Directors and Director (Executive Director)
Giuseppe Mastrolia	Co-Chief Executive Officer and Director (Executive Director)
Stefano Cometto	Co-Chief Executive Officer and Director (Executive Director)
Benedetta Mastrolia	Director (Non-Executive Director)
Emanuela Paola Banfi	Director ([1])
Valentina Montanari	Director ([1])
Eric Sandrin	Director ([1]) - Lead Independent Director

Board of Statutory Auditors

Massimo Carlomagno	Chairman
Ester Sammartino	Standing Auditor
Antonio Mucci	Standing Auditor
Giovanni Carlozzi	Alternate Auditor
Giorgio de Franciscis	Alternate Auditor

Remuneration and Appointments Committee

Eric Sandrin	Chairman
Emanuela Banfi	Member
Valentina Montanari	Member

[1] Independent director pursuant to article 148 of the Consolidated Law on Finance (TUF) and article 3 of the Corporate Governance Code, entered into office from the Trading Start Date. Member of the *Control and Risk Committee,* member of the *Remuneration and Appointments Committee,* and member of the *Related Party Transactions Committee*

Control and Risks Committee

Valentina Montanari	Chairperson
Emanuela Banfi	Member
Eric Sandrin	Member

Related Party Transactions Committee

Emanuela Banfi	Chairperson
Valentina Montanari	Member
Eric Sandrin	Member

Officer in charge

Rocco Sergi

Independent Auditing Firm

PricewaterhouseCoopers S.p.A.

Shareholders' Meeting.

This is the Body in which the company interests are expressed which are then implemented by the Board of Directors. It comprises the Newlat shareholders, who meet periodically to discuss in the manner and on the matters defined by the provisions of the Law and the Company Articles of Association. Among the most important tasks of the Shareholders' Meeting are the selection of the members of the Board of Directors and the Board of Statutory Auditors, as well as the approval of the Financial Statements.

Board of Directors (BoD).

This is the Administrative Body that guides the Group and is responsible for the management of the Company, without prejudice to the functions performed by the Shareholders' Meeting. The BoD is responsible for the Company and Group strategic and organisational policies, verification of the adequacy of the organisational structure, as well as the adequacy of the controls required to monitor Company and Group performance.

The Board of Directors is required, among other activities in accordance with statutory laws and reference legislation, to ensure sustainable growth in the medium to long term through an adequate risk control and management system, including for those risks that have an impact on sustainability, and to ensure maximum transparency with regard to the market and investors, paying particular attention to significant changes in business prospects as well as the risk situations to which the Company is exposed.

The Remuneration Policy, in line with company values and consistent with the standards and expectations of stakeholders, is defined in such a way as to design a remuneration system that is based on the principles of ethics, quality, proactiveness, belonging and optimisation.

The current Board of Directors, appointed during the Shareholders' Meeting of 8 July 2019, consists of 7 members and will remain in office for the period 2019-2021.

The Chairman, appointed by the Shareholders' Meeting, is vested with the powers conferred by the Articles of Association and the legal representation of the Company.

The Board has set up three committees with advisory and recommendation functions in relation to the Board itself: the Control and Risk Committee, the Related Party Transactions Committee and the Remuneration and Appointments Committee.

It should be noted that with specific reference to sustainability issues, the parent company has not yet appointed a Sustainability Committee, assigning the roles, powers and responsibilities related to this area directly to the Board of Directors which, among other activities, identifies the risks and policies related to the areas indicated by the decree and in any case considered significant for the reference stakeholders.

Furthermore, at the moment, the Group has not drawn up a Sustainability Plan, which will be taken into consideration by the Company in the coming years.

Board of Statutory Auditors

This is the independent Body responsible for supervising compliance with the law and the Articles of Association, compliance with the principles of correct administration, and the adequacy of the organisational, administrative and accounting structure adopted by the Company.

II. Stakeholder Engagement

[GRI 102-13]; [GRI 102-40]; [GRI 102-42]; [GRI 102-43]

Newlat Group, actively operating in the reference context, constantly interacts with different types of subjects, which generate interests and expectations in relation to the Group. These subjects can therefore be defined as stakeholders and can refer to subjects either within the Group structure, such as Partners and Shareholders as well as employees, or outside the Group, as is the case with suppliers, customers, certification bodies or local communities.

Each type of stakeholder corresponds to a different and specific type of relationship. This diversity is a direct consequence of the substantial difference between their interests and expectations.

It follows that the Group, in its desire to pay increasing attention to the dialogue with these subjects, will have to address them differently, through a carefully and precisely targeted dialogue.

Indeed, the importance of this dialogue is mainly due to the fact that it allows the Group to achieve the objectives of improving and enhancing the knowledge of its network, enabling, on the one hand, an increase in the positive impacts generated and, on the other, to mitigate the negative impacts of business activities on the environment and society. The dialogue allows the Group to gather important information on the context in which it operates and thus to receive constant feedback on its work.

In order to achieve this objective, the Group is aware that, over the next three years, it will have to pay increasing attention to the needs expressed both directly and indirectly by the relevant stakeholders, so as to intercept all the necessary information in a timely manner for the sustainable development of its business and the reference context.

For these reasons, the identification of the main stakeholders and the subsequent definition of their expectations are aspects of crucial importance for the Group.

The Newlat Group stakeholders mentioned in the previous point are represented in schematic form in Figure 1, which shows, among other things, that the Group wants to give its stakeholders equal, albeit specific, importance.

In addition, a brief description of each stakeholder and the relevant aspects is given below:

- Identification of stakeholders;
- Identification of specific interests for each stakeholder;
- Type of relationship and dialogue objectives;
- Importance and attention given by the Group, including with reference to the significant areas.

Figure 1 - Newlat Stakeholders

2.1 *Partners and shareholders*

It should be remembered that as of 29.10.2019, the Company that drafts the Newlat Group Consolidated Statements, Newlat Food S.p.A., had completed its listing process on the Star segment of the Mercato Telematico Azionario (MTA) of Borsa Italiana S.p.A.

As of 31.12.2019, the share capital subscribed and paid-up was EUR 40,780,482.00 divided into 40,780,482 shares.

In light of the results of the "Shareholder Register", the share structure updated at 31 December 2019 is presented in Figure 2.

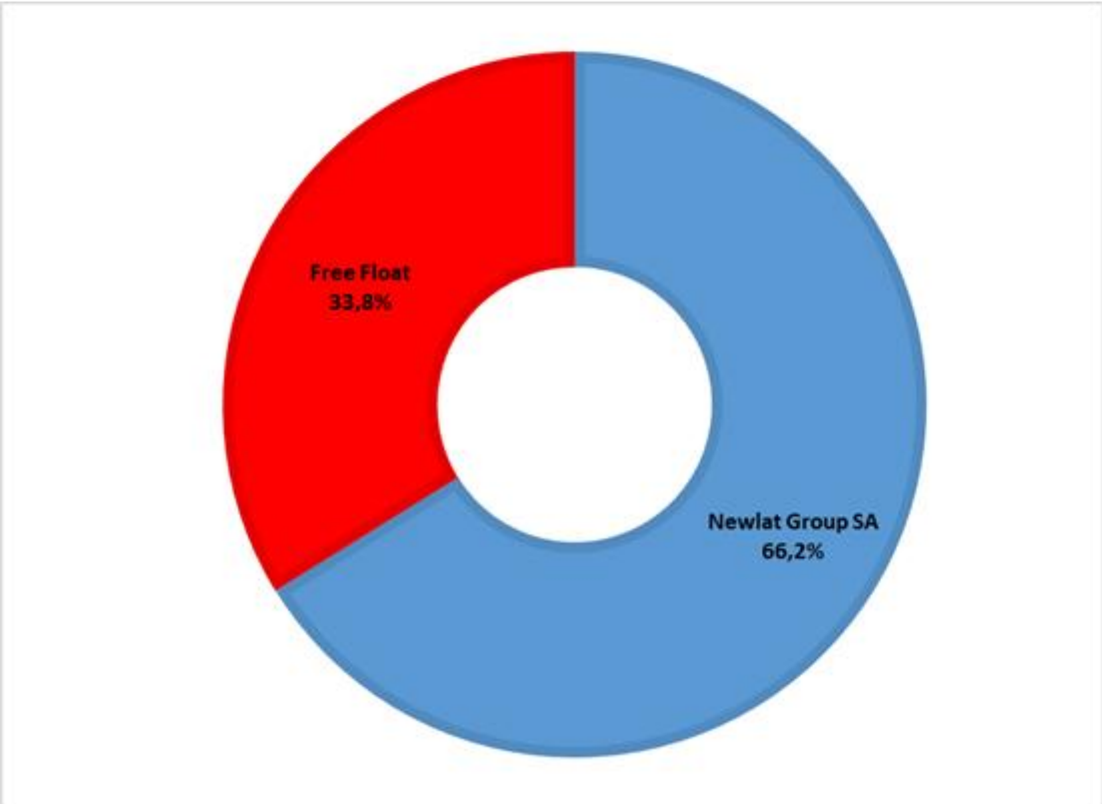


Figure 2 - Distribution of Newlat Food SpA Shares

In addition to the standard forms of communication of a binding nature, Newlat Food wants to focus on partners and shareholders, through this document and through an internal report that is truthful, usable and prompt.

In order to ensure commitment to this objective, the Group has established specific figures, such as Investor Relators (for communications to partners and shareholders) and the Reporting Officer, as well as the usual internal and external control bodies (to ensure that the data reported to management is true).

2.2 *Employees*

Newlat Food has always considered its staff as one of its most important assets and therefore one of the areas where the Group wants to invest in order to achieve some of the main goals it has set, including:

- protection of the working environment and health & safety;
- professional growth;
- personnel engagement.

Newlat Food "people" are valued and placed at the centre of the organisation to ensure the competitive advantage that has guaranteed the Group its current success and growth.

Newlat Food employees are guaranteed a safe and sustainable work environment, the provision of training courses, internal company communications, and the distribution of regulations, procedures and protocols, aimed at sharing the company's values and mission.

2.3 *Suppliers*

In order to make its products, Newlat Food uses suppliers that guarantee the achievement of the business and sustainable development objectives outlined in this document. In particular, more closely linked to the production chain, the Group wants high quality standards to be guaranteed for its products, minimising the cost of raw materials, in order to maintain a competitive advantage at the level of sales prices applied.

For this reason too, Newlat Food aims to develop long-term partnerships and collaborations. In this way, the Group wants to establish virtuous supply circles, oriented towards trust and future growth.

2.4 *Customers*

The Group's sales network consists mainly of agents with whom Newlat Food has established solid collaborative relationships over time, in order to efficiently and effectively reach its customers.

Although most Newlat Food customers belong to the large-scale retailing segment, the Group has always kept the smallest distribution channels open, trying to reach the end consumer more directly.

Another significant aspect for the Group is the diversification of the business lines in which it operates, also referred to as "Worlds". Indeed, thanks to the continuous expansion that has allowed it to obtain a significant brand portfolio, Newlat Group can subdivide its business into the following macro-areas:

- Milk;
- Pasta;
- Special Products;
- Bakery Products;
- Dairy products.

The Group believes that the key success factors can be summarised as follows:

- Wide range of offers;
- Diversification of its reference markets;
- Development and creation of a platform to acquire important brands in the sector;
- Development of brand licensing and acquisition.

Finally, the Group carries out promotional and marketing activities in order to establish a direct dialogue with its customers. However, there is an awareness that the strongest tool for dialogue is Newlat's focus on the level of quality and food safety of its products.
For this reason, the Group, wanted to implement a system of specific safeguards throughout all phases of the production cycle, including through obtaining various certifications.

2.5 *Local community*

The Group aims to establish a clear and well-defined presence within the context in which it operates. In this regard, the context is understood as the geographical area in which the Group operates, but also as the set of elements that make up these areas. Among these elements, we would like to refer in particular to the local community and to the initiatives that Newlat Food plans and implements in terms of local community support, so far realised through several charitable initiatives and sponsorships. For the next three years, the Group intends to study and promote new support projects to be provided mainly to local community institutions.

It is also worth mentioning the contribution to the local supply chain that Newlat Food, as a successfully operating business on the market, provides across a large part of the country. For this purpose, reference is made both to the employment that Newlat Food guarantees its workers and to the data relating to the supply chain, reported in subsequent sections.

2.6 *Certifying bodies*

As mentioned above, the Group wanted to implement a production management system over time that would enable full compliance with current regulations, as well as compliance with industry best practices.

In order to adapt sufficiently to these aspects, the Group has invested in some of the most important certifications related to the sector, focusing on ensuring high quality in its products and standards applied to production processes.

It should be said that one of the causes of the fragmented acquisition of the various brands and plants by the Group, as mentioned above, is that it has not been able to guarantee, from the outset, the full applicability of the certifications obtained to all plants. However, this has not, in any case, stopped the same management model being respected in all plants, where this model has been suitably designed to comply with the reference certifications.

In addition, the Group is considering implementing a further adjustment plan in order to pursue an objective of integration and unification of the management methods applied. An objective that was declared through the recently concluded merger process.

The certifications obtained by the Group are shown below in Table 3 in order to clearly outline their application, as well as clearly showing the areas of interest of the Group itself.

NAME	TYPE	BODY
ISO 9001:2015	Quality Management System Certification	• SGS • CSQA
BRC	Food Safety Certification recognised by GFSI	• SGS
IFS	Food Safety Certification recognised by GFSI	• SGS
FSSC 22000	Food Safety Certification recognised by GFSI	• SGS
ISO 22000	Food Safety Certification	• SGS
ORGANIC	Organic Product Certification	• CCPB • ICEA (following merger into NEWLAT, required transition to CCPB) • IBD CERTIFICACOES (BRAZIL)
SMETA	Certification of adherence to the SMETA Protocol (Labour, Health and Safety, Environment and Business Ethics)	• SGS
Kosher	Product certification according to Kosher religious principles	• Star – K • 1K and SK Kosher - Rabbi Menahem Hadad - Kashrut Administrator
Halal	Product certification according to Halal religious principles	• Halal
Plant export authorisation - China	Export authorisation	• CNCA
Plant export authorisation - Custom Union	Export authorisation	• Rosselkhoznadzor

Plant export authorisation - South Korea	Export authorisation	• Ministry of Food and Drug Safety (MFDS)
Plant export authorisation - Panama	Export authorisation	• AUPSA
Plant export authorisation - Brazil	Export authorisation	• Ministério da Agricultura, Pecuária e Abastecimento – MAPA • Secretaria de Defesa Agropecuária – SDA • Departamento de Inspeção de Produtos de Origem Animal – DIPOA • Serviço de Inspeção Federal - SIF
U.S. FDA Registration	US Export Authorization	• USA Food and Drug Administration through Registrar Corp's US Agent Service
HACCP (UNI 10854: 2009)	HACCP System Certification	• SGS
ISO 22005:2008	Agri-food Traceability Certification	• SGS
Vegan	Product certification (compliance with Vegan requirements)	• CSQA
NON-GMO (US products only)	Product certification (compliance with Non-GMO requirements)	• SGS • NSF International (replacing SGS)
UNI CEI EN ISO/IEC 17025:2018	Group laboratory accreditation certification	• ACCREDIA
ISO/UNI EN ISO 14001:2015	Environmental certification	• SGS

Table 3 - Certifications Obtained

In order to obtain details on the applicability of the certifications by plant, please refer to Annex 1 at the end of this document.

The following table shows the main tools through which Newlat Food Group involves its stakeholders as well as their expectations.

Stakeholder	Engagement tools	Expectations
Partners and shareholders	• Meetings • Periodic Reporting • Website and social media • Investor Meetings	• Transparent and responsible management • Consolidation and strengthening of the Group's knowledge and of its business model • Value creation (return on investment, business sustainability) • Timeliness and willingness to engage in dialogue • Adequate risk management, including socio-environmental risks
Employees	• Meetings and trade union meetings • Daily reports • Corporate Communications and Document Circulation	• Sharing of the Group's results • Responsible business management • Training and professional development • Information on strategies • Stimulating and safe work environment • Equal opportunities • Involvement in business life • Promotion of well-being, health and safety • Sharing of Company Regulations, Organisational Models, Corporate Mission and Vision, and Code of Ethics.
Suppliers	• Partnerships • Daily reports • Periodic Audits	• Partnership continuity • Compliance with contractual conditions • Involvement in the definition of standards related to supply, including socio-environmental criteria, and timeliness in the communication of new quality requirements • Collaboration and support in the management of any production issues • Sharing of the results of audits carried out to verify compliance with the required quality requirements
Customers	• Periodic customer satisfaction surveys • Net Promoter Score • Gifts, Promotions and Advertising	• Product quality and safety • Products made with respect for the environment, humans and animals • Truthfulness and transparency about the quality of the product and the origin of the ingredients used
Local community	• Partnerships with local communities • Sponsorships • Charitable donations to	• Support or financing of initiatives • Support for social development activities

	associations	
Certifying bodies	• Certification Process • Regular audits • Research and Development	• Compliance with certification requirements • Participation in the search for new elements to bring to the attention of the relevant bodies and communities

Table 4 - Stakeholders: Engagement and Expectations

III. Material topics

[GRI 102-47]

The identification of material topics is the result of the process of identifying, evaluating and classifying, in order of priority, the sustainability aspects relevant to Newlat Group.

The concept of "significance" is also closely related, among other aspects, to the ability of these topics to affect the Group's capacity to create value not just in the short term, but also in the medium and long term.

Newlat Group has therefore assessed the potential material topics with the aim of identifying those relevant to the organisation in the non-financial field, which could help stakeholders decide whether or not to invest in the company, thus creating value for the latter.

It should also be noted that the determination of material topics is the result of an assessment carried out internally without the involvement of external stakeholders.

The process has therefore required the involvement of internal figures considered key to the reporting of this NFS. Therefore, these subjects correspond to the figures identified as owners of the policies adopted by the Group.

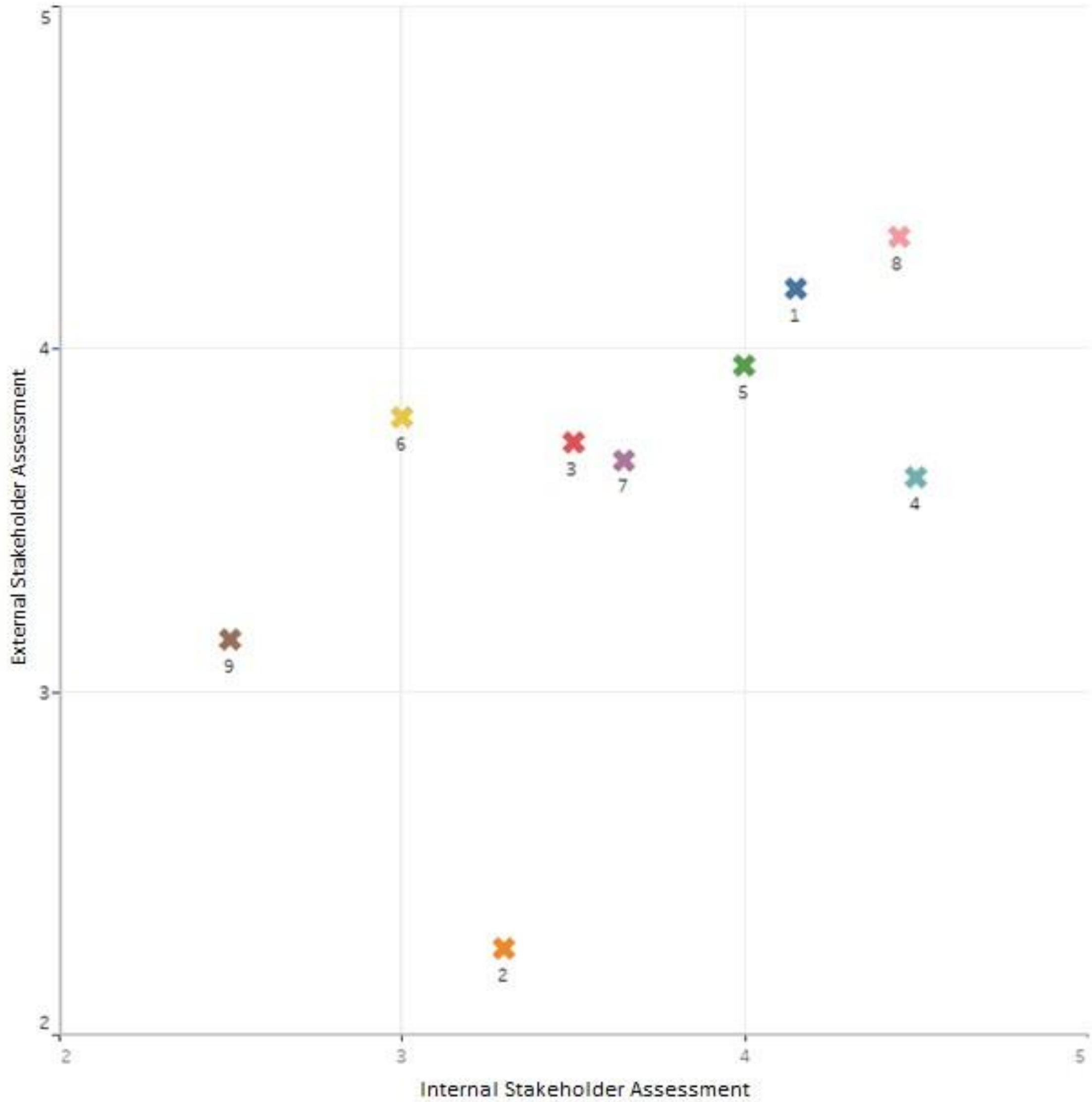
Each owner has therefore carried out, for each area of Legislative Decree 254/2016 within his or her area of responsibility, an analysis of the topics relevant to the Group and for each of them has expressed an evaluation, by assigning a score from 0 to 5.

In order to represent all the subjects involved, the score was assigned by the owners by adopting two different guidelines:

- **internal** Group guidance, which refers to the attention paid by Newlat to the material topics;
- **external** guidance, which evaluates, on the other hand, the attention paid by the stakeholders identified in the previous sections to the material topics.

The result of the materiality assessment process described above consists, therefore, of a list of topics considered material and approved by the Board of Directors.

The results of the analysis are shown in Figures 3.



Key:

- 1. Environmental impact
- 2. Energy efficiency
- 3. Respect for Human Rights
- 4. Ethics and Anti-Corruption
- 5. Human Resources Development
- 6. Health and safety of personnel and contractors
- 7. Supply chain manager
- 8. Product quality and consumer safety
- 9. Social Development

Figure 3 - Materiality Assessment Chart

The table below also shows the relationship between the issues required by Legislative Decree 254/16 and the material aspects identified by the Group, which will be specifically reported later.

Areas indicated by Legislative Decree 254/16	Material topic for Newlat	Description of the material topic
Environmental aspects	**Energy Efficiency**	Energy efficiency aims to reduce direct and indirect energy consumption, including through the implementation and management of specific energy policies. The Group invests in energy efficiency with a special focus on innovation and the adoption of best available technologies.
	Environmental impacts	The reduction of environmental impacts involves containing the negative effects caused by the industrial site, especially on the surrounding environment and on the local ecosystems in which the Group is located.
Social aspects	**Responsibilities in the supply chain**	Newlat acts according to the principles of fairness and integrity in all phases of the business relationship with suppliers. Collaboration within the supply chain is aimed at generating stable and lasting partnerships.
	Product quality and consumer safety	The Group manufactures and markets products that meet the main industry standards to maximize their safety in all their ingredients, and the offer to customers of products with high quality standards ensures the best nutritional intake, in line with the market segment to which they are aimed.
	Social development	The Group is aware of the role it plays in the development of the local supply chain, in the business contexts in which it operates, through its contribution to the creation of infrastructure, employment, training and development of the business fabric.
Personnel aspects	**Human Resources Development**	Newlat's focus on personnel development is maximized through the implementation of skills management programs aimed at continuous training.
	Occupational health and safety	Newlat promotes working conditions that ensure full respect for the health and safety and protection of the physical well-being of workers through management systems that help prevent accidents at work and occupational diseases. The Group promotes the health and ergonomics of working environments.
Respect for human rights	**Respect for human rights**	Equal opportunities are guaranteed without any discrimination on grounds of gender, ethnicity, nationality, religion, political opinions, sexual orientation, or personal and social conditions.

Fighting active and passive corruption	**<u>Ethics and anti-corruption</u>**	The management of whistleblowing and the adoption of safeguards against retaliation takes place in an effective and timely manner. In fact, internal and external mechanisms are provided for the reporting of unethical behaviour through which it is possible to report illegal and dangerous conduct encountered at work.

Table 5 - Relationship between Significant Areas and Material Topics for Newlat

IV. Policies and risks

Newlat Group has identified the risks to which it believes it is exposed in all its areas of activity and reclassified them in relation to the areas indicated by Legislative Decree 254/2016. This is represented in the table below.

In particular, it should be noted that within the table, the management methods adopted by the Group have also been identified, as well as the policies implemented by the Group, in order to monitor and mitigate, albeit partially, the risks identified, and, therefore, in order to ensure business continuity on the one hand and the achievement of the company's objectives on the other.

<table>
<tr><th colspan="2">Area indicated by Legislative Decree 254/16:
Environmental aspects</th></tr>
<tr><th>Identified risks</th><th>Management procedures and policies</th></tr>
<tr><td>In its active role, the Group is exposed to specific environmental risks generated by and related to the following aspects:

- Energy consumption;
- Use of potentially hazardous substances (technical gases, oils, paints, fuels, solvents...);
- Waste production (particularly packaging);
- Processing waste;
- Fuel gas leakage due to plant breakdown;
- Noise pollution from production processes;
- Air pollution;
- Spillage of liquids on the ground.
These aspects, at worst, could cause and therefore be part of a greatest risk of environmental disaster.

The Group is also exposed to the possibility of an inadequately defined environmental risk plan that does not ensure the correct assessment of the environmental impact generated and the consequent implementation of inadequate response measures.

In addition, the risk of not providing plans for the remediation and/or reclamation of industrial areas that have been abandoned or no longer used is also recognised.</td><td>With reference to environmental risks, Newlat operates in compliance with the regulations in force (including, with regard to Italy, the drafting, for example, of the Risk Assessment document (DVR) or obtaining the relevant environmental authorisations) and adopts certain control measures that are also defined within the Organisational Model pursuant to Legislative Decree 231/01, also aimed at achieving the following objectives:
- Optimising the use of renewable energy sources;
- Minimising negative environmental impacts and maximising positive ones;
- Achieving the gradual improvement of environmental performance.
The Group, and in particular the plant indicated in Table 3 and Annex 1, has adopted an ISO 14001 environmental management system and reference policies.
The Group has defined procedures and practices in order to define an Environmental Management System.
Staff is provided with a high level of continuous training.
The SMETA Ethics certification also includes environmental issues that respond to the need to also adopt ethical behaviour with regard to limiting environmental impact and noise pollution).
The Group has focused part of its R&D activities on the development of
products and processes aimed at:
- reducing environmental impact, searching for</td></tr>
</table>

With reference to the risks incurred, the greatest risk is related to any environmental disasters generated by other contributors to the economic environment in which the Group operates. Any natural disasters could pose an additional risk.	biomaterials that can be used in packaging; - improving the efficiency of production lines to reduce waste materials and developing recycling. This aspect is covered by a procedure issued internally and called "Design and development".

Area indicated by Legislative Decree 254/16: Social aspects	
Identified risks	**Management procedures and policies**

With regard to this area, the following risks have been defined:
- Risk of failing to respect the balance of the environmental and animal resources underlying the supply chain of all Group products;
- Risk of not defining an adequate supplier evaluation system that reflects the true quality of the suppliers with regard to the respect of social issues;
- Risk of the incorrect implementation of competition and the free market;
- Risk of failing to support the generation of socio-economic development of the local community and that related to the supply chain.
- Risk of supplying products that do not comply with the regulatory and legal requirements in force regarding Food Quality and Safety. These include:
  - legislation relating to milk and dairy products: Pasteurized fresh milk: Law 03/05/1989, no. 169, High Quality Pasteurised Fresh Milk: Ministerial Decree 09/05/1991 no. 185; Reg. EU 609/2013 (definition of infant milk); Del. Reg. EU 127/2015 (specific requirements for infant formula); Ministerial Decree no. 82 of 09/04/2009 (various standards for infant milk).
  - Legislation relating to dried pasta and baked goods, Presidential Decree 187/2001, L 580/1967.
With regard to the risks incurred:
- Risk of incorrect implementation of
	The group has not formalised a policy on this issue.
	
	The practices adopted by Newlat with reference to social aspects mainly concern compliance with the reference regulations, the dissemination of the Organisational Model 231/01, the Code of Ethics and the Code of Conduct, also applied to relationships with all suppliers.
	
	With reference to the risks related to product quality, it should be noted that the Group has set up a quality management system in accordance with UNI EN ISO 9001, through which it is possible to meet customer expectations as well as the safety and performance standards of the products marketed by the Group.
	
	Both the Italian and German production sites have also been subject to the certifications set out in Table 3 and Annex 1.
	
	As mentioned in the next point relating to the Protection of Human Rights, the company also guarantees periodic audits in order to verify compliance with the requirements of the SMETA certification throughout the supply chain.
	
	Finally, the Group is committed to the implementation of programmes that can contribute to supporting the development of the local supply chain through the recruitment and training of personnel in all the contexts in which it operates.
	
	The Group has specific supply specifications that facilitate compliance with agreed contractual conditions.
	
	In order to guarantee product safety, the following are

competition and the free market by the supply chain which the Group relies on, with the resulting risk that they will apply monopolistic policies due to the limited availability of raw materials; - Risk of suppliers not complying with sustainability issues considered relevant by Newlat, including respect for human rights, environmental protection, safeguarding health and safety in the workplace and combating corruption, the quality of raw materials and products supplied and respect for their healthiness; - Risk of stagnation of the socio-economic development of the local community and that related to the supply chain.	carried out: statistical data analysis (analytical results, controls, etc.), review according to the HACCP protocol, periodic reviews relating to the monthly Quality Management Review, implementation of corrective/preventive actions, investigation of the cause of each complaint through sample analysis where possible, plant modifications, maintenance, cleaning and training of personnel. The following are carried out: internal audits and external audits carried out by customers, certification bodies, control bodies, and internal and external laboratories, control plans, monitoring plans, QMS, staff training, and complaints management. The monitoring of consumer reactions also takes place with reference to the internal procedure "Management of complaints and customer satisfaction".

Area indicated by Legislative Decree 254/16: Personnel Aspects	
Identified risks	**Management procedures and policies**
With regard to personnel management, the following risks have been defined for the Group: - risk of unattractiveness of the company and/or the risk related to the inability of the Group to retain staff; - risk of not finding valuable personnel or who best meet the needs of the specific reference business; - risk of lack of training and refresher training for personnel; - risk of failing to identify issues related to the status of human resources, resulting in the Group's inability to establish an adequate social dialogue. Added to these are the typical risks with an impact on the Health and Safety of workers, including the risk of accidents and/or permanent disability following accidents at the workplace and the risk of occupational diseases, including due to exposure to materials at high temperatures	The group has not formalised a policy on the subject, except for the policies included in the Occupational Health and Safety Management System. The Group aims to comply with the reference legislation for adequate financial compensation, which occurs through the rigorous application of the provisions of Collective Bargaining Agreements. Attention is also paid to mandatory and non-mandatory training, thanks to which the Group would like to increase and strengthen the knowledge assets and skills held by each employee. In addition, the Group employs companies specialised in recruitment in order to mitigate the risk of not finding valuable personnel or who best meet the needs of the specific reference business. Through the development of the local supply chain mentioned above, the Group wants to generate a virtuous circle of knowledge creation and technical skills.

and the use of forklifts. The health and safety of workers should be considered not only on a physical level, but also on a psychological level, drawing attention to the risk of implementing certain practices that undermine the psychological health of workers (e.g. mobbing, harassment, threats, etc.). With regard to the risks incurred, there is the risk associated with the limited availability and quality of direct and indirect labour.In addition, it should be specified that the aforementioned risk related to the Health and Safety of workers should be understood as a risk suffered if the cause of the accident derives from the worker's default or neglect.Another risk suffered is the potential disinterest of personnel in being willing to interact with the Group. In particular, there is a risk of loss of interest in company life resulting in production discontinuity due to conflict and reduction in the efficiency and effectiveness of the services rendered.	For the management of Occupational Health and Safety, the Group undertakes to strictly comply with the relevant regulations (i.e. drafting of the Risk Assessment document). In addition, despite not having BS OHSAS 18001 certification, nor the most recent ISO 45001 certification, the Company has taken steps to obtain a risk identification and management system related to Occupational Health and Safety issues through the following channels: - adoption by the Italian plants of Organisational Model 231/01, the Code of Conduct (also containing the principles and conduct to be adopted, including in relation to OHS issues) and the Code of Ethics; - SMETA-certified Management System; - IFS/BRC certifications; - Adoption of an internal management system and reference policies aligned with the requirements of OHSAS 18001 certification, but not certified; - Preventive approach to OHS risk assessment, including through training activities and promotion of a culture of health, safety and ergonomics in all workplaces. - Research into new load handling systems characterized by greater efficiency, reliability and safety.

Area indicated by Legislative Decree 254/16: Respect for Human Rights	
Identified risks	**Management procedures and policies**
With reference to respect for human rights, the Group is mainly exposed to the risks generated by: - exploitation of child labour; - use of forced labour (or off the books); - violation of the rights of workers and individuals in general (the main one being discrimination). This aspect also refers to the risk that the company directly or indirectly finances organisations operating in non-compliance with this aspect. The following risks have been identified: - risk of being financed directly or indirectly by organisations that do not operate in accordance with legal requirements; - risk of being subject to the	The group has not formalised a policy on this issue. Both the Italian and German plants of the Group operate in a context in which human rights are protected by current legislation. Furthermore, with regard to the Italian plants, as indicated in the previous points, an Organisational Model pursuant to Legislative Decree no. 231/01 has been defined. In order to protect human rights and develop an activity focused on a respect for ethics and corporate values, the Company has obtained SMETA (Sedex Member Ethical Trade Audit) certification – which involves an auditing and reporting methodology created according to a best practice model in ethical business auditing techniques. The objective is to adhere to a central and common protocol for verification of the organisation in order to demonstrate commitment to social issues and ethical and environmental standards in its supply chain. Newlat therefore has a tool it can use to optimise the practices adopted in its ethical and responsible business activities. SMETA bases its assessment criteria on the ETI (Ethical

management and control of persons/entities that are not concerned about the respect of human rights.	Trade Initiative) code, supplementing them with applicable national and local laws. It includes four modules: - health and safety - labour standards - environment - corporate ethics Audit process A SMETA audit involves the following: - the supplier completes the self-assessment questionnaire, identifying and correcting any anomalies in its process; - the customer reviews the supplier self-assessment questionnaire and verifies the priority areas to focus effort and prioritise the continuation of collaboration with the supplier - the auditor, i.e. the certification body, reviews the supplier's self-assessment questionnaire to define the offer, plan the audit and verify the areas of interest.

Area indicated by Legislative Decree 254/16: Fighting active and passive corruption	
Identified risks	**Management procedures and policies**
Newlat operates in countries with medium/high risk of corruption, such as Italy, or medium risk, such as Germany.This risk mainly concerns corruption between private parties, although there is a potential risk of corruption arising from transactions with public companies. The main risks identified are: - Risk of corruption related to ordinary business activities in relationships with suppliers, customers and third parties of all kinds; - Risk of corruption related to transactions with PAs - Tax Returns, Social Security or other statements, Public Authority Inspections, Works on public land or permits for activities and changes, Authorisations, and Audits/Inspections due to market complaints. With reference to the risks suffered, the same applies as mentioned with reference to the risks generated, with the difference that Newlat, in this case would be a passive party.	The group has not formalised a policy on this issue. In order to mitigate this risk, Newlat has tools such as: - the Organisation, Management and Control Model (pursuant to Legislative Decree 231/2001), which guarantees transparent and ethical behaviour by employees and promotes a Group prevention policy; - the Code of Conduct that incorporates rules of behaviour to be adopted, including in reference to the promotion of anti-corruption issues, approved and issued to employees in conjunction with the aforementioned Model 231/01; The risk of corruption is also monitored thanks to specific audit activities to verify compliance with the safeguards defined within the Organisational Model pursuant to Legislative Decree 231/01 and those in compliance with Law 262/05. With a view to ensuring greater transparency, the Group also wanted to comply with the requirements relating to legality ratings.

Table 6 - Identified risks, management procedures and policies

V. Results obtained

The following is a breakdown of the results obtained by the Group during the 2019 financial year, following the implementation of the practices adopted in relation to the risks identified in the previous point.

5.1 *Environmental Aspects*

In relation to the risks identified in Table 6 above and specifically related to environmental aspects, the Group has made environmental protection one of its objectives.

Awareness that any production may have an impact on the local area makes it necessary to pursue strategies to protect and safeguard, or in some cases, to reduce environmental impacts. Production activities are, in fact, those that can have the highest environmental impact.

In order to ensure a better representation of the Group's data, it is necessary to consolidate the information originating from the plants mentioned in Table 1 above, differentiating between the individual entities to which the different production plants and/or warehouses belong.

In order to achieve the objective of environmental protection, the main areas of analysis of the Group's environmental impact concern:

- Consumption of materials for production and packaging;
- Monitoring of energy consumption and emissions;
- Monitoring of water and waste consumption and discharges.

All consumption and emissions are systematically monitored, both to ensure a high level of effectiveness of the actions and to determine their status. In this way, the Group intends to verify the continuous compliance with the law in order to prevent potential environmental risks.

5.1.1 Energy Efficiency

5.1.1.1 Energy consumed within the organization

[302-1]

The main energy sources used by the Group are both renewable and non-renewable. In particular, they consist of natural gas, diesel and electricity and, with reference to the reported sources, are mainly used for:

- feeding production plants,
- lighting and air-conditioning in workspaces (i.e. offices, warehouses, stores, plants, data centre, etc.).

The Group also uses diesel in the production plants to provide continuous power to the refrigeration cells in case of emergency, by means of generators.

For the purposes of reporting actual consumption, only properties owned by the Group or that are in any case under the direct control of the latter have been taken into account.

Energy consumption from renewable and non-renewable sources has also been reported separately. This makes it possible to assess the environmental impact in more detail.

Another aspect to consider is the system implemented by the Group designed to ensure the self-production of energy, intended in part for internal consumption and the remaining part for sale to authorised third parties.

In order to ensure comparability of the data and to use a uniform assessment measure, the value has been converted to *Gigajoules*.

It should be noted that part of the changes between 2018 and 2019 is attributable to the change to the scope of consolidation as explained earlier.

Energy consumed within the organisation, divided into renewable and non-renewable sources

Sources	UoM	Newlat Group 2019	Newlat Group 2018
Natural gas	m3	19,148,692	17,900,851
Diesel for generators	l	23,975	16,575
Steam[2]	MWh	20,390	-
Electricity purchased	MWh	70,246	64,092
of which from non-renewable sources	MWh	42,055	37,923
of which from renewable sources	MWh	28,191	26,169
Self-produced electricity	MWh	17,525	14,336
Self-produced electricity sold	MWh	(231)	(5)

[2] Value regarding Steam generated at 16 bar and 200°C by the district heating system.

Sources	UoM	Newlat Group 2019	Newlat Group 2018
Natural gas	GJ	675,049	631,059
Diesel for generators	GJ	858	593
Steam	GJ	73,404	-
Electricity purchased[3]	GJ	252,885	230,731
of which from non-renewable sources	GJ	151,398	136,524
of which from renewable sources	GJ	101,486	94,208
Self-produced electricity	GJ	63,089	51,609
Self-produced electricity sold	GJ	(832)	(18)
Total energy consumed	GJ	1,064,452	913,974

The monitoring of consumption, which the Group has always paid particular attention to, is conducted through continuous meter reading.

The increase in volumes of natural gas and energy consumed can be directly linked to the change in the scope of consolidation and an increase in production activity at some of the Group's production sites and in particular the Lodi and Sansepolcro sites for the part dedicated to bakery products.

5.1.1.2 Energy intensity

[GRI 302-3]

Newlat Group considered the number of workers as a representative unit of the energy intensity consumed, resulting in an average energy consumption ratio per employee. The figure is expressed in GJ per person.

This indicator has long been used by the Group to monitor the energy consumption at each plant.

For reporting purposes, only the energy consumption reported above has been considered, and therefore only the consumption generated within the organisation is considered, i.e. the Group.

[3] Data on purchased energy from renewable sources is calculated using the national energy mix of Italy (source: GSE) and Germany (AG Energiebilanzen) for the relevant years.

Formula	Absolute values		FY 2019
FY 2019			
Total energy consumed (GJ)	1,064,452	=	971
No. Employees	1,096		
FY 2018			
Total energy consumed (GJ)	913,974	=	1,027
No. Employees	890		

Again, it should be noted that part of the changes between 2018 and 2019 is attributable to the change to the scope of consolidation as explained earlier.

Net of the aforementioned change in scope of consolidation, there were no significant changes.

5.1.2 Environmental impacts

5.1.2.1 Materials used by weight and volume

[GRI 301-1]

Following the various acquisitions made at a Group level, Newlat has been able to expand the portfolio of finished products offered on the market. The indirect consequence relates to the diversification and expansion of the raw materials and materials used by the Group in the production process.

In relation to what is required by the reference GRI, the data considered relevant for the company and having a significant impact are those relating to raw materials and packaging materials. However, it should be noted that the data reported for this indicator relate only to materials used for the packaging of finished products and therefore raw material data are not represented. The decision for this exclusion is mainly that the raw materials used refer mostly to the agri-food area (i.e. semolina, milk and derivatives, and flour), which therefore have the characteristic of being renewable.

The materials reported have been classified as renewable and non-renewable.

The data reported are those extracted from the information systems used by the company to indicate the purchase of materials.

In the next three years, however, it is intended to launch a process to ensure the highest level of control and transparency over the consumption of materials used for production.

Consumption of materials divided by renewable and non-renewable sources

Material – Tonnes	2019		2018	
	Total Non-Renewable	Total Renewable	Total Non-Renewable	Total Renewable
Plastic	1,669.75	1,617	678	1,663
Cartons	1,400.00	7,286	631	6,566
CKB cardboard	-	708	0	652
Laminated Paper and Polythene	52.53	1,074	68	972
Glass	-	188	-	-
Laminated Paper and Aluminium	400.61	17	449	5
Aluminium	12.92	9	5	3
Glues and Adhesives	-	11	0	12
Miscellaneous materials [4]	-	21	0	101
Packaging containers	286,602.98	3	348,399	-
Total	290,138.80	10,934	**350,243**	**9,982**

Some of the variations between the values for materials between 2018 and 2019 can also be explained by the change to the scope of consolidation. In particular, the scope of consolidation of the Italian company changed in 2018. Following the acquisition by Newlat Food Spa of Delverde Industrie Alimentari SpA and Newlat GmbH, the Group took ownership of the Fara San Martino and Mannheim plants, respectively.

Net of the aforementioned change to the scope of consolidation, there were no significant changes in production waste.

[4] Consumables such as labels and toners for industrial printers.

5.1.2.2 Direct and indirect GHG emissions

[GRI 305-1; GRI 305-2]

With this indicator, the Group intends to report the performance achieved so far in terms of emissions of highly harmful agents into the atmosphere which have a high negative environmental impact.

The data below illustrate the amount of ozone-depleting emissions produced by the Group, both directly and indirectly, in the course of carrying out its production activities, but considering them net of any emissions trading with third parties or purchases of certificates.

Emissions into the atmosphere produced by the Group are closely linked to electricity consumption, the consumption of natural gas and the use of fossil fuels.

Emissions - tCO2e[5]	2019	2018
Direct emissions - Scope 1	37,821	35,341
Indirect emissions - Scope 2	30,092	23,009
Total Emissions	**67,925**	**58,359**

In addition to information regarding the change to the scope of consolidation in 2019, it is to be noticed that total emissions are in line with the general production figure.

5.1.2.3 Water management

[GRI 303-3]

Given the nature of its products (i.e. dairy products, dried pasta and derivatives), the production process requires the use of large amounts of water.

Aware of this and with the intention of limiting waste as much as possible and managing its production system to optimise water usage, Newlat Group has put in place a monitoring system for the responsible management of this resource.

[5] The conversion factors used to calculate the value of CO2e for Italian sites are those listed in the "Table of national standard parameters for GHG monitoring and declaration pursuant to Decree Law 30/2013" provided by ISPRA (Italian Institute for Environmental Protection and Research) as updated in 2018. The estimate of CO2 emissions released into the atmosphere by the electricity suppliers of the Group's plants, both in Italy and Germany, was based on the Terna Group's international comparison table. The conversion parameters of the DEFRA's "Environmental reporting guidelines" were used to calculate the district heating emissions for the German plant in Mannheim.

The Group pays careful attention to the disposal of wastewater to avoid, in particular, the occurrence of runoff and damage to the environment caused by the incorrect performance of this activity.

The main sources used by Newlat Group are listed in the following table, with an indication of annual consumption in m^3. The table shows that, although water withdrawal is mainly from groundwater, the Group also uses resources from public waterworks or water supplied by water companies.

With reference to water supplied by public waterworks, this is used to ensure the proper functioning of toilets and for cleaning, as well as for some of the more delicate production processes, such as the washing of certain dairy products to ensure maximum safety for the consumer.

Water sources - m^3	2019		2018	
	< 1000 mg/L	> 1000 mg/L	< 1000 mg/L	> 1000 mg/L
Surface water	0	41,265	39,780.00	0
Groundwater	3,231,120	0	0	2,980,087
Public waterworks or water supplied by water companies	36,361	2,185	1,932	54,538
Total water consumed	3,267,481	43,450	41,712	3,034,625

As mentioned, part of the changes between 2018 and 2019 is attributable to the change to the scope of consolidation as explained earlier.

In 2019, thanks to the Group's careful management of water resources and wells used in its production processes, no sanctions were received as a result of environmental damage in areas adjacent to the production plants, such as due to runoff or pollution of aquifers.

Net of the change to the scope of consolidation, it should be noted that 2019 marked a production growth for the Group, with the consequent need to use more water.

Although Newlat Group plants are connected to the public sewerage system, most of the wastewater resulting from the production process is discharged in ways other than discharge into the sewerage system.

The difference in treatment is due in particular to the different management of the various plants and to the difference in the processing activities performed at each of them.

The plants make use of the integrated water service provided in the area they operate in. In addition, some plants have access to special treatment systems, which perform initial water treatment prior to discharge into the public sewer. Only a small part is subject to evaporation.

With reference to the division of water withdrawal between fresh water (≤1,000 mg/l of total dissolved solids) and other types of water (>1,000 mg/l of total dissolved solids), the Group monitors and analyses water from both surface water and groundwater sources, carried out by third party analytical laboratories.

The Group, in compliance with national regulatory standards for the food industry, uses fresh potable water. Therefore, the withdrawals shown in the table refer only to water with ≤1,000 mg/l of total dissolved solids.

Withdrawals from areas with water stress are not available. The Group will endeavour to report these data over the next two years.

5.1.2.4 Waste by type and disposal method

[GRI 306-2]

Newlat Group's commitment is aimed in two directions: on the one hand, to reduce the amount of waste produced and, on the other hand, to increase waste recycling. The aim is to optimise the recovery of waste produced.

Specifically, waste derives mainly from production activities or from those relating to administrative or office areas. Waste management is based on specific procedures, developed through experience, in accordance with legal provisions.

In addition, transport and end disposal are strictly controlled and monitored by specialist companies with the necessary authorisations. In fact, the waste produced by the Group is handled by companies who, according to current regulations, are authorised to carry out collection and disposal activities.

Over time, the Group has implemented a system of continuous and timely monitoring through the use of internal reports.

Waste - Tonnes	2019			2018		
	Hazardous	Non-Hazardous	Total	Hazardous	Non-Hazardous	Total
Incinerator	-	61,940	**61,940**	-	22	**22**
Landfill	146	39,397	**39,543**	42	160	**202**
Recycling	180	104,832	**105,012**	12	30,293	**30,305**
Treatment plant	-	1,087	**1,087**	-	1,127	**1,127**
Wet and Dry		710	**710**			**0**
Total	**326**	**207,966**	**208,292**	**54**	**31,602**	**31,656**

In 2018, 31,656 tonnes of waste were produced, mostly non-hazardous waste (31,602 tonnes). In 2019, 208,292 tonnes of waste were produced, including 207,966 tonnes of non-hazardous waste.

The 2019 figure can be explained by the increase in production and the introduction of the Fara San Martino plant into the scope of consolidation, which in 2019 produced 62,126 tonnes of waste, of which 22,641 tonnes were waste subject to recycling.

As mentioned, part of the changes between 2018 and 2019 is attributable to the change to the scope of consolidation as explained earlier.

5.2 *Social aspects*

Newlat Group aims to ensure both a high quality level of its products and the containment of related costs within certain levels of competitiveness.

For this reason, the Group itself has defined specific procedures and controls that involve the entire supply chain: from the supply of raw materials to the distribution of finished products.

To this end, the Group undertakes to require its suppliers and external contractors to comply with the principles of conduct adopted by the Group itself. For this reason, each supplier, business partner or external contractor is notified of the existence of the Code of Ethics, the Organisational Model pursuant to Legislative Decree 231/01, the Code of Conduct and the regulatory principles adopted by Newlat Group.

In selecting its suppliers, the Group takes into account certain elements, including:

- professionalism and experience;
- value for money that can meet the high standards that the Group undertakes to maintain;
- project capabilities and resources.

The Group has achieved an adequate awareness of both direct and indirect risks related to serious damage which its activities (together with that of the various players involved) may entail.

The Group, aware of these risks, which are reported in the "Policies and Risks" section, strives to mitigate them through monitoring procedures, some mandatory according to the reference standards, others implemented by the management systems as a result of the certifications that the Group has obtained over time.

5.2.1 Responsibilities in the supply chain

5.2.1.1 Supply chain

[GRI 102-9]

The Group has always wanted to be synonymous with quality and food safety, characteristics guaranteed by the selection of the most appropriate raw materials and by the checks carried out on the product during all phases of the production cycle.

To maintain this line of action, the Group is committed to certifying the quality and provenance of its products. For this reason, together with the reasons required by the specific nature of the business, it is established practice to use suppliers operating in Italy or in any case in the European context.

For reporting purposes, not all types of supply have been specified, but only those strictly related to production. As such, the data refer to the following categories:

- Raw materials
- Finished products

- Packaging
- Utilities
- Maintenance and spare parts
- Transport

Suppliers	2019		2018	
Geographical Area	**Number**	**%**	**Number**	**%**
Italy	1,240	81%	1,186	90%
Rest of Europe	283	19%	128	10%
Total	**1,523**	100%	**1,313**	100%

The following table shows the nature of the Group's production. In fact, most of the costs derive from the supply of goods rather than services.

Suppliers - expenditure (million)	2019		2018	
Type of Supply	**€**	**%**	**€**	**%**
Goods	160	79%	132	82%
Services	44	21%	30	18%
Total	204	100%	162	100%

The increase in the number of suppliers is directly linked to the change to the scope of consolidation. Net of this change, there are no significant changes in the supply chain of goods and services in the periods under analysis.

5.2.1.2 Proportion of spending on local suppliers

[GRI 204-1]

As mentioned, due to the nature of the business and practices, the Group prefers purchasing from suppliers operating in Italy or in any case in the European context. The high quality standards that the Group wants to guarantee to its customers are achieved by sourcing more than 80% from Italian suppliers. In addition, considering the high rate of deterioration of some raw materials, the Group needs to implement its production processes close to suppliers. For this reason, most suppliers of raw materials operate at a national level.

The first table reports the share of the total Group purchases made in Italy by Newlat Food Spa and in Germany by Newlat GMBH, respectively. The subsequent tables represent the share of purchases made by the two group companies in their respective countries of operation.

Suppliers - expenditure (million)	2019		2018	
	€	%	€	%
Group purchases of goods and services [6]	204	100%	162	100%
of which purchase of goods and services from ITALY	135	66%	136	84%
of which purchase of goods and services from GERMANY	37	18%	-	-

Suppliers - expenditure (million)	2019		2018	
	€	%	€	%
Purchase of goods and services [7] by Newlat Food SpA	161	100%	162	100%
of which purchase of goods and services from ITALY	135	84%	136	84%

[6] The data refer only to the categories of suppliers indicated in the previous section (5.2.1 – Responsibilities in the supply chain)

[7] *Ibid.*

Suppliers - expenditure (million)	2019	
	€	%
Purchase of goods and services by Newlat GmbH	43	100%
of which purchase of goods and services from GERMANY ***GERMANY***	37	86%

Local suppliers for Germany were assessed on the basis of origin, and therefore all suppliers with their headquarters in Germany were considered to be local suppliers.

Likewise, all those based in Italy are considered local suppliers for Italy.

5.2.2 Product quality and consumer safety

5.2.2.1 Incidents of non-compliance concerning the health and safety impacts of products and services

[GRI 416-2]

The Group has always been very vigilant regarding incidents involving the non-compliance with regulations and self-regulation codes concerning the health and safety impacts of products and services. This can be seen from the low number of incidents that occurred in 2019.

In fact, for the entire Group, during this period, only five incidents were recorded of non-compliance concerning the health and safety impacts on the product categories offered: two at the Salerno plant and three at the German plant. Specifically, these refer to incidents of non-compliance with regulations involving a recall. However, these have not yet resulted in sanctions.

In 2018, however, there were no cases of non-compliance.

The Group is constantly committed to the adaptation and improvement of all tools and protocols to always ensure high standards and compliance with current regulations. Appropriate measures have been taken as a result of the incidents to prevent similar situations from occurring in the future.

The data were reported on the basis of the findings indicated in the Register of Non-Conformities, kept at the plants, as recommended by the ISO 9001:2015 standard.

5.2.3 Social development

5.2.3.1 Operations with local community engagement, impact assessments, and development programs

[GRI 413-1]

The Group is committed to the development of the areas it operates in and all the areas surrounding its plants, especially with regard to Italy. The commitment to social development has been divided into numerous activities in different areas of action. In particular, charitable activities have been carried out at charity and sporting events, and other activities have been carried out with a view to safeguarding the areas in which the Group carries out its production activities.

A number of initiatives have been promoted to stimulate the growth of the local area and economic development, both directly and indirectly, and plants try to recruit new staff from local communities.

5.2.3.2 New suppliers that were screened using environmental and social criteria

[GRI 308-1] [GRI 414-1]

Newlat Food SpA has not yet implemented a structured supplier selection process and, for now, the choice is mainly based on:

- possession of certain technical criteria,
- compliance with food requirements,
- financial-logistical reasons.

In 2019, as in 2018, there were no Newlat suppliers selected according to social and environmental criteria. Sometimes, the Group's decision to rely mainly on local suppliers results in a reduced distance from Newlat's plants, with the resulting benefits of the reduced environmental impact in terms of transportation.

Over the next three years, the Group will consider investing time in structuring and standardising a formalised process for the selection of suppliers that, in addition to the above parameters, also takes into account social and environmental criteria.

5.3 *Personnel aspects*

Newlat Group is aware that its strengths include Human Capital, made up of all Group employees and collaborators. Aware of the strategic importance of people, the Group is therefore committed to stimulating the development of its employees, including engaging them in the "corporate spirit".

Care, protection and development are parameters underlying the growth of Newlat Group. In the Code of Ethics, the Group recognizes the central role of human resources, considering the professional contribution of people, offered within a framework of loyalty and mutual trust, an important success factor.

For these reasons, the Group pays particular attention from the initial stages of recruitment and, subsequently, in the career development phases of its staff. In particular, the Group focuses on finding the best match between the profiles required by the position and the candidates proposed during recruitment.

Furthermore, in the course of career development, especially for managers, considerations are made on the basis of the work carried out by existing personnel, although communication of these assessments does not always take place in a direct and formalized way, there not being a structured process in this area.

As a further aspect, the Group is committed to ensuring the growth of its staff, organising the training courses considered necessary for this purpose and encouraging staff at all levels to participate.

Attention is also paid to safeguarding and protecting the health and safety of its staff in the workplace. For this reason, the continuous monitoring and updating of the controls for these issues is carried out for each plant. The purpose is to ensure, among other aspects, full compliance with the law, the certifications obtained by the Group and the regulatory principles adopted by the latter.

Based on the data below, it can be seen that the Group seeks to provide fair treatment to workers, without gender discrimination, aimed at promoting the professional growth of employees, based on the specific skills of the individual, professional profile, technical skills and aptitudes.

The Group aims to comply with legal standards and provisions on rights and the protection of diversity, and industrial relations and trade union relations are based on compliance with the provisions of laws and contracts.

5.3.1 In-depth look at COVID-19

Following the situation that emerged at the start of 2020 and the impact that the spread of SARS-CoV-2 has had and is still having on a global scale, the Group, on a voluntary basis, considered it appropriate to report on the measures taken with specific reference to the management of its employees in this area.

In particular, the measures implemented by the parties responsible for ensuring the health and safety of workers include the following aspects:

- Timely updating of the Risk Assessment document in order to add the assessment of the risks associated with the evolution of the Covid-19 pandemic.
- Initial limitation of travel to the "Red" zones (Lodi and Corte dei Frati) and subsequent prohibition following the issue of subsequent decrees.
- Communication to all personnel of good hygiene practices and the guidelines to be followed in the case of contact with people infected by SARS-CoV-2.
- Implementation of protocols for interaction with external parties (e.g. carriers, couriers, etc.) authorised to access the Group's facilities, to ensure business continuity.
- Restriction of access in order to maintain safety distances in enclosed spaces and shared areas such as toilets and canteens;
- Activation of organisational protocols such as access to smart working, where possible, and alternating holidays.

It should be noted, however, that the abovementioned measures are currently those considered to be the minimum and principal measures. They are, however, constantly being updated. The executive bodies responsible for employee health and safety are aimed at the continuous monitoring of the evolution of events, in order to implement the responses considered most appropriate to the management of this crisis situation.

5.3.2 Human Resources Development

5.3.2.1 Information on employees and other workers

[GRI 102-8]

The Group's workforce did not vary significantly in the two-year period 2018-2019. Specifically, there is an increase in fixed-term contracts from 39 to 71. Likewise, there was a decrease in permanent workers from 922 units in 2018 to 896 in 2019.

Employees	2019			2018		
Contract type	Men	Women	Total	Men	Women	Total
Permanent	767	254	1,021	628	224	852
Fixed-term	66	9	75	37	1	38
Total	833	263	1,096	665	225	890

Employees	2019			2018		
Type of Contract – FT/PT	Men	Women	Total	Men	Women	Total
Full-time	812	226	1,038	642	196	838
Part-time	21	37	58	23	29	52
Total	833	263	1,096	665	225	890

Employees	2019			2018		
Geographical Area	Men	Women	Total	Men	Women	Total
Italy	729	233	962	665	225	890
Germany	104	30	134	–	–	–
Total	833	263	1,096	665	225	890

The Group's activities are growing year on year, and likewise, full-time contracts have also increased from 838 units to 1,038, while part-time contracts remain more or less stable.

Some of the variations between the figures for personnel between 2018 and 2019 can also be explained by the change to the scope of consolidation. In particular, the scope of consolidation of the Italian company changed in 2018. Following the acquisition by Newlat Food Spa of Delverde and Newlat GmbH, the Group took ownership of the Fara San Martino and Mannheim plants, respectively.

5.3.2.2 **Collective Bargaining Agreements**

[GRI 102-41]

The Group pays attention to the protection of its employees and is committed to strictly complying with the regulations in force.

As can be seen from the data contained in the table below and referring to Newlat Food SpA, 100% of employees in the two-year period 2018-2019 are covered by contracts regulated by collective agreements (hereinafter also referred to as "CBA").

As regards Newlat GmbH Deutschland, however, it is clear that not all employees are covered by such agreements.

Furthermore, the distinction indicated in the table between "Food Industry" CBA and "Industry Executives" CBA applies only to Italy.

Staff are contractually divided between those covered by contracts referring to national collective bargaining agreements for the food industry and those covered by the contract for industry executives.

Employees - Newlat Food SpA	2019			2018		
% CBA	Food Industry CBA	Industry Executives CBA	Total	Food Industry CBA	Industry Executives CBA	Total
Number of employees	954	8	962	882	8	890
No. of Emp. covered by CBA	954	8	962	882	8	890
% Emp. covered by CBA	100%	100%	100%	100%	100%	100%

Employees – Newlat GmbH	2019
Number of employees	134
No. Emp. covered by CBA	119
% Emp. covered by CBA	89%

5.3.2.3 New employee hires and employee turnover

[GRI 401-1]

The tables below show the data regarding resignations and recruitment during 2018 and 2019.

The relationship between new hires and turnover is stable, demonstrating that there have been no major changes to the workforce, above all net of the considerations to be made with specific reference to the change to the scope of consolidation.

In particular, it can be seen that the turnover and recruitment process is decreasing the average age of the workforce. In fact, for almost every employee over 50 who resigned, a young person under 30 was hired. The staff renewal process is one of the pillars for growth and the maintenance of competitive advantage. This process is ongoing and an attempt is being made to maintain the right balance between experience and innovation, thus ensuring that new resources can join the workforce.

Employees - Group	2019			2018		
New hires	Men	Women	Total	Men	Women	Total
<30	40	11	**51**	21	4	**25**
30-50	22	7	**29**	6	1	**7**
>50	5	-	**5**	1	-	**1**
Total	**67**	**18**	**85**	**28**	**5**	**33**

Employees - Group	2019			2018		
Employee turnover	Men	Women	Total	Men	Women	Total
<30	12	3	**15**	5	4	**9**
30-50	9	6	**15**	8	5	**13**
>50	47	7	**54**	13	2	**15**
Total	**68**	**16**	**84**	**26**	**11**	**37**

5.3.2.4 Average hours of training per year per employee

[GRI 404-1]

The Group also places importance on the training of its employees, guaranteeing a continuous training process starting from recruitment.

The hours of training provided relate to both occupational health and safety courses and technical training, aimed at maintaining as well as expanding the know-how gained over time by the Group, thus guaranteeing the desired professional growth standards.

Employees - Group	2019			2018		
Hours of training	Men	Women	Total	Men	Women	Total
Executives	33	24	**57**	31	6	**37**
Managers+Office personnel	863.5	492.75	1356.25	1294.5	377.5	1672.5
Manual workers+Technical managers	15,480	1,386	**16,865**	11,302	1,401	**12,702**
Total	**16,376**	**1,879**	**18,255**	**12,627**	**1,784**	**14,411**

During the two-year period, there was an increase in the hours spent on staff training, mainly concentrated among manual workers, in particular linked to the new hires in 2019.

The effect is always to be considered net of changes to the scope of consolidation.

5.3.2.5 Percentage of employees receiving regular performance and career development reviews

[GRI 404-3]

To date, the Group has not adopted a structured staff appraisal process for the Italian business. However, appropriate career development and professional growth programmes are guaranteed to staff. These aspects are achieved through the recognition of the skills and abilities of staff.

The data relating to Newlat GmbH Deutschland only are reported below.

Employees - Group[8]	2019	
% of employees who were included in the performance appraisal programme	Men	Women
Executives	100%	100%
Managers+Office personnel	42%	-
Manual workers+Technical managers	1%	-

5.3.2.6 Diversity of governance bodies and employees

[GRI 405-1]

The Group considers the Board of Directors as its governance body, the composition of which is shown in the table below.

Group 2019	< 30		30 - 50		> 50		Total
Diversity of Governance Bodies - BoD	Men	Women	Men	Women	Men	Women	
Members of Governance Bodies	-	1	2	1	2	1	7
% of Members of Governance Bodies by age group	-	100%	67%	33%	67%	33%	100%
% Members of Governance Bodies of the Total	-	13%	25%	13%	25%	13%	100%

Group 2018	< 30		30 - 50		> 50		Total
Diversity of Governance Bodies - BoD	Men	Women	Men	Women	Men	Women	
Members of Governance Bodies	1	1	1	-	2	-	5
% Members of Governance Bodies by age group	50%	50%	100%	-	100%	-	100%
% Members of Governance Bodies of the Total	20%	20%	20%	-	40%	-	100%

The composition of employees shows that there is a process of generational turnaround between workers who are now close to retirement and younger workers. As previously indicated, this process is of particular interest for the future growth of the Group.

Group Employees 2019	< 30		30 - 50		> 50		Total	Tot.
Employee diversity	Men	Women	Men	Women	Men	Women	no.	%
Executives	-	-	5	1	7	2	15	1%
Managers+Office personnel	2	10	54	45	93	40	244	22%
Manual workers+Technical managers	56	9	363	113	253	43	837	77%
Total	58	19	422	159	353	85	1,096	100%

% by age group	75%	25%	73%	27%	81%	19%		
% of Total	5%	2%	39%	15%	32%	8%		

Group Employees 2018	< 30		30 – 50		> 50		Total	Total
Employee diversity	Men	Women	Men	Women	Men	Women	no.	%
Executives	1	-	2	-	4	1	8	1%
Managers+Office personnel	-	-	45	34	66	-	173	19%
Manual workers+Technical managers	40	-	335	117	171	46	709	80%
Total	41	3	382	151	241	72	890	100%
% by age group	93%	7%	72%	28%	77%	23%		
% of Total	4%	0%	37%	15%	23%	7%		

Newlat Food SpA Employees 2019	< 30		30 – 50		> 50		Total	Tot.
Employee diversity	Men	Women	Men	Women	Men	Women	no.	%
Executives	0	0	3	0	4	1	8	1%
Managers+Office personnel	0	7	48	34	79	33	201	21%
Manual workers+Technical managers	56	9	337	109	202	40	753	78%
Total	56	16	388	143	285	74	962	100%
% by age group	78%	22%	73%	27%	79%	21%		
% of Total	6%	2%	40%	15%	30%	8%		

Newlat Food SpA Employees 2018	< 30		30 - 50		> 50		Total	Total
Employee diversity	Men	Women	Men	Women	Men	Women	no.	%
Executives	1	-	2	-	4	1	8	1%
Managers+Office personnel	0	3	45	34	66	25	173	19%
Manual workers+Technical managers	40	-	335	117	171	46	709	80%
Total	41	3	382	151	241	72	890	100%
% by age group	93%	7%	72%	28%	77%	23%		
% of Total	4%	0%	37%	15%	23%	7%		

Newlat GmbH DE Employees - 2019[9]	< 30		30 - 50		> 50		Total	Total
Employee diversity	Men	Women	Men	no.	€	Women	no.	%
Executives	-	-	2	1	3	1	7	5%
Managers	2	3	6	11	14	7	43	32%
Manual workers+Technical managers	-	-	26	4	51	3	84	63%
Total	2	3	34	16	68	11	134	100%
% by age group	40%	60%	68%	32%	86%	14%		
% of Total	0.2%	0.3%	3%	2%	7%	1%		

5.3.2.7 Women to men ratio of basic salary and remuneration

[GRI 405-2]

For comparison purposes, the figure was considered in percentage terms and not in absolute terms.

As can be seen from the trend, there has been a gradual adjustment between the remuneration paid to both genders, especially with regard to manual workers who, in 2019, reached a ratio of 1 to 1.

In any case, the pay gap is narrowing, including with reference to managers and office personnel in 2019.

Women's Basic Salary/Men's Basic Salary – Newlat Food SpA	2019	2018
Executives	84%	88%
Managers+Office personnel	85%	94%
Manual workers+Technical managers	100%	98%

Women's Remuneration/Men's Remuneration – Newlat GmbH DE	2019
Executives	77%
Managers+Office personnel	80%
Manual workers+Technical managers	72%

9 The decimal places in the percentages have been reported for presentation purposes only, so as not to have a given percentage equal to zero.

5.3.3 Occupational health and safety

5.3.3.1 Work-related injuries

[GRI 403-9]

Health and safety in the workplace is a subject treated with particular care, sensitivity and attention by the Group, which aims to ensure a safe workplace for all employees or third parties who have to operate within the Group's premises.

The Group regularly monitors all accidents occurring in the workplace or while commuting between work and home. The personnel office, together with the HSO and the persons specifically delegated to deal with health and safety issues, continuously work to ensure the compliance of the plants with current regulations and the standards required by the certifications obtained.

In this context, it should be remembered that the Group places particular importance on SMETA certification.

Employees	2019	2018
Number of deaths as a result of work-related injuries	-	-
Number of serious work-related injuries	-	-
Number of work-related injuries	37	17
Number of hours worked	1,404,134.50	890,871.50
Death rate as a result of work-related injuries	-	-
Rate of high-consequence work-related injuries	-	-
Rate of recordable work-related injuries	7.49%	3.82%

With reference to non-employees of the Group but still under the control of the organisation, a system for monitoring hours has not yet been established. Such workers mainly correspond to: cleaning, porterage and concierge staff or any workers belonging to external companies. There are also some agency workers in some of the plants.

The data derive from the extraction of the final data from the information system used for payroll processing.

The calculation of the rates took place considering a base of 200,000 hours worked.

At the moment, there are no data available regarding any accidents related to persons under the control of the organisation, but who are not directly employed. The Group will endeavour to report this information over the next two years.

5.4 *Respect for human rights*

5.4.1 Respect for human rights

5.4.1.1 Incidents of discrimination and corrective actions taken

[GRI 406-1]

In order to identify any cases of discrimination, the Group has appointed the task of carrying out specific audits to the control bodies involved in ensuring compliance with the adaptation of its model to specific reference regulations for these areas (i.e. Organisational Model as per Italian Legislative Decree 231/01, and Law 262/05) .

In relation to the Organisational Model pursuant to Italian Legislative Decree 231/01, mechanisms have been adopted for reporting to the control bodies (Supervisory Board), which then takes charge of any complaints.

Following the activities carried out by the Supervisory Board for 2019 and following the investigations carried out by the company departments involved, it was found that there were no incidents.

Since there were no incidents of discrimination during the reference period, no corrective actions were necessary.

5.4.1.2 Operations that have been subject to human rights reviews or impact assessments

[GRI 412-1]

The Group does not carry out operations that have been subject to human rights reviews or impact assessments that its activities generate in respect for and protection of human rights.

However, the commitment to observe the principles contained in the following documents remains:

- Universal Declaration of Human Rights;
- National and International Reference Laws;
- Group Code of Ethics.

With regard to the activities and operations carried out by its suppliers, at the time of signing any agreements or contracts, the Group communicates and circulates its Organisational Model pursuant to Legislative Decree no. 231/01 and its Code of Ethics to them.

As mentioned in these documents, they contain the principles and regulations that the Group intends to apply to the protection of human rights. The contracts that the Group enters into with its suppliers also require compliance with the principle of fairness and good faith imposed by law.

5.5 *Fighting active and passive corruption*

5.5.1 Ethics and Anti-Corruption

The Group agrees to maintain ethical behaviour towards its stakeholders through the dissemination of its Code of Ethics.

The Code of Ethics includes, among other things, the Mission, ethical principles and rules of conduct, which, with specific reference to the fight against corruption, call for correct and transparent conduct, which includes aspects such as acting in the interest of the Group, always bringing the existence of potential conflicts of interest to the attention of management figures, and avoiding potential corruption. For this purpose, it is specified that corruption means, for example, promising, receiving or accepting money, gifts or other kinds of compensation in a personal capacity from third parties.

The Group is also committed to ensuring maximum transparency and traceability of all transactions and activities.

Each employee must act with the aim of protecting the Group's value (meaning the set of reference stakeholders) and contribute to the performance of the internal control system, in compliance with the law and company regulations.

Each employee of the Group must ensure that decisions taken during the course of their activities are taken in the interests of the Group, in order to avoid potentially dangerous situations concerning anti-corruption issues, such as acts of business courtesy – gifts – or unjustified forms of hospitality, and that occur in breach of internal company regulations and procedures.

All these measures are contained in the Code of Ethics and the Organisational Model pursuant to Legislative Decree 231/01, which was updated during the 2019 reporting year.

The Group constantly seeks to improve its transparency in order to improve the effectiveness of the fight against corruption, including through compliance with the regulations and procedures required for issuers listed on the STAR segment of the Italian Stock Exchange. By adopting this Code on a voluntary basis, the Group is working towards improving its Corporate Governance mechanisms for greater transparency. Likewise, in 2020 the Group appointed an Officer in Charge as required by Law 262/2005 to further strengthen its systems to protect the interests of the Group and all its Stakeholders.

5.5.1.1 Communication and training about anti-corruption policies and procedures *[GRI 205-2]*

The Code of Ethics and governance models are currently being updated, mainly due to the succession of acquisitions and extraordinary transactions that occurred in 2019. These changes have meant that members of the governance bodies have been provided with a communication of the anti-corruption procedures and policies adopted, but that no real training has yet been provided in this area. Following its listing on the STAR segment of the Italian Stock Exchange, the Group has established adequate control bodies and verification mechanisms for anti-corruption issues. In 2020, the Group will adopt an updated Organisational Model pursuant to Legislative Decree 231/01.

In addition, someone has already been appointed to cover the position of Officer in Charge, as required by Law 262/2005.

Employees have been informed of the anti-corruption procedures and policies implemented by the Group, however specific training designed to disseminate knowledge of this aspect has not yet been provided.

5.5.1.2 **Confirmed incidents of corruption and actions taken**

[GRI 205-3]

For reporting purposes, this aspect is accompanied by what is indicated for discrimination incidents. Therefore, for further details, please refer to what is indicated in the specific section mentioned above (5.4.1.1).

However, it should be noted that, following the verifications and investigations carried out by the bodies designated to monitor compliance with the law as well as internal company procedures, it is concluded that there were no confirmed corruption incidents during the reference period. Again, therefore, no corrective actions were taken.

VI. Table of Correlation to Legislative Decree 254/16

Legislative Decree 254/2016 topic	*Material topic*	*Reference Chapter*	*Standard-Specific Topic GRI STANDARD 2016*		*Reporting Scope 2019*	*Notes*
Environmental	**Energy Efficiency**	*Chapter 4 – Implemented Policies, Risks and Management Methods Par. 5.1.1 Energy efficiency*	**302-1**	Energy consumption within the organization	All Newlat Group companies consolidated in full, as indicated in the Methodological Note.	Raw material data are not uniformly available for all plants, as the Group has not a specific tool for reporting such information, in particular regarding waste data. The Group will work towards calculating the figure uniformly starting from NFS 2021.
			302-3	Energy intensity	All Newlat Group companies consolidated in full, as indicated in the Methodological Note.	
	Reduction of environmental impacts	*Chapter 4 – Implemented Policies, Risks and Management Methods Par. 5.1.2 Environmental impacts*	**301-1**	Materials used by weight or volume	All Newlat Group companies consolidated in full, as indicated in the Methodological Note.	Raw materials have not been reported as the estimate is difficult due to the quantification of agri-food waste. All materials used for packaging have been reported.
			303-3 (2018)	Water withdrawal by source	All Newlat Group companies consolidated in full, as indicated in the Methodological Note.	The report does not report water withdrawals divided by areas with water stress as the Group does not report this information.

			305-1	Direct GHG emissions (Scope 1)	The scope identified in section 1.1 "Methodological Note" was used.	
			305-2	Indirect GHG emissions from energy consumption (Scope 2)	All Newlat Group companies consolidated in full, as indicated in the Methodological Note.	
			306-2	Waste by type and disposal method	All Newlat Group companies consolidated in full, as indicated in the Methodological Note.	
Social	**Responsibilities in the supply chain**	*Chapter 4 – Implemented Policies, Risks and Management Methods* *Par. 5.2.1 Responsibilities in the supply chain*	**102-9**	Supply chain	All Newlat Group companies consolidated in full, as indicated in the Methodological Note. For the plants/warehouses in Salerno, Lecce and Pozzuoli, data relating to Transport and Finished Products are excluded.	Categories of supply considered: - Raw materials - Packaging - Finished products - Transport - Maintenance - Utilities As they are considered more significant and directly related to the Group's core activities.
			204-1	Proportion of spending on local suppliers	All Newlat Group companies consolidated in full, as indicated in the Methodological Note. For the plants/warehouses in Salerno, Lecce and Pozzuoli, data relating to Transport and finished products are excluded as they are considered not significant.	Categories of supply considered: - Raw materials - Packaging - Finished products - Transport - Maintenance - Utilities As they are considered more

						significant and directly related to the supply chain. The final value of the supplies is shown, as it is considered more representative.
			308-1	New suppliers that were screened using environmental criteria	All Newlat Group companies consolidated in full, as indicated in the Methodological Note.	
			414-1	New suppliers that were screened using social criteria	All Newlat Group companies consolidated in full, as indicated in the Methodological Note.	
	Product quality and consumer safety	*Chapter 4 – Implemented Policies, Risks and Management Methods Par. 5.2.2 Product quality and consumer safety*	**416-2**	Incidents of non-compliance concerning the health and safety impacts of products and services	All Newlat Group companies consolidated in full, as indicated in the Methodological Note.	
	Social development	*Chapter 4 – Implemented Policies, Risks and Management Methods Par. 5.2.3 Social development*	**413-1**	Operations with local community engagement, impact assessments, and development programs	All Newlat Group companies consolidated in full, as indicated in the Methodological Note.	
Personnel	**Human Resources Development**	*Chapter 4 – Implemented Policies, Risks and Management Methods Par. 5.3.2 Human Resources Development*	**102-8**	Information on employees and other workers	All Newlat Group companies consolidated in full, as indicated in the Methodological Note.	
			102-41	Collective bargaining agreements	All Newlat Group companies consolidated in full, as indicated in the Methodological Note.	

			401-1	New employee hires and employee turnover	All Newlat Group companies consolidated in full, as indicated in the Methodological Note.	Turnover data is reported merely as an absolute value.
			404-1	Average hours of training per year per employee	All Newlat Group companies consolidated in full, as indicated in the Methodological Note.	
			404-3	Percentage of employees receiving regular performance and career development reviews	All Newlat Group companies consolidated in full, as indicated in the Methodological Note.	
			405-1	Diversity of governance bodies and employees	All Newlat Group companies consolidated in full, as indicated in the Methodological Note.	
			405-2	Women to men ratio of basic salary and remuneration	All Newlat Group companies consolidated in full, as indicated in the Methodological Note.	Since the Group does not have the tools to calculate remuneration and basic salary separately, the report was calculated using: - for the Italian company: the basic salary; - for the German company: remuneration. The Group will work towards calculating the figure uniformly from NFS 2021.

	Occupational health and safety	*Chapter 4 – Implemented Policies, Risks and Management Methods Par. 5.3.3 Occupational health and safety*	**403-9 (2018)**	Type and rates of accidents, occupational diseases, days lost, absentee rate and number of fatal accidents at work	All Newlat Group companies consolidated in full, as indicated in the Methodological Note.	
Respect for human rights	**Respect for human rights**	*Chapter 4 – Implemented Policies, Risks and Management Methods Par. 5.4.1 Respect for human rights*	**406-1**	Incidents of discrimination and corrective actions taken	All Newlat Group companies consolidated in full, as indicated in the Methodological Note.	
			412-1	Operations that have been subject to human rights reviews or impact assessments	All Newlat Group companies consolidated in full, as indicated in the Methodological Note.	
Anti-Corruption	**Ethics and anti-corruption**	*Chapter 4 – Implemented Policies, Risks and Management Methods Par. 5.5.1 Ethics and Anti-Corruption*	**205-2**	Communication and training about anti-corruption policies and procedures	All Newlat Group companies consolidated in full, as indicated in the Methodological Note.	
			205-3	Confirmed incidents of corruption and actions taken	All Newlat Group companies consolidated in full, as indicated in the Methodological Note.	

VII. Annexes

Certifications held by the company

	PLANTS									WAREHOUSES		
Certification	Reggio Emilia	Lodi	Cremona	Ozzano Taro	San Sepolcro	Eboli	Bologna	Fara San Martino	Salerno	Pozzuoli	Rome	Lecce
Plant export authorisation - South Korea		X										
Plant export authorisation - Custom Union		X										
Plant export authorisation - Panama		X										
Plant export authorisation - Brazil	X											
Plant export authorisation - South Korea	X											
Plant export authorisation - China		X										
ORGANIC (BIO)				X								

ORGANIC		X	X		X	X			X	X	X	X
ORGANIC 834								X				
ORGANIC IBD								X				
ORGANIC JAS								X				
BRC		X		X		X		X				
BRC (not published)			X		X							
FDA				X	X	X		X				
FSSC 22000								X				
HACCP (UNI 10854: 2009)								X				
Halal	X	X										
IFS		X		X		X		X				
IFS (not published)			X		X							
ISO/UNI EN ISO 14001:2015				X								
ISO 22000					X							
ISO 22005:2008								X				
ISO 9001:2015								X	X			
ISO 9001:2015 - Group	X	X	X	X	X	X						
Kosher		X						X				
KOSHER (Pasta factory)					X							
NON-GMO (US products only)								X				
U.S. FDA Registration		X										

SMETA	X	X	X	X	X	X						
UNI CEI EN ISO/IEC 17025:2018				X								
UNI CEI EN ISO/IEC 17025:2018									X			
Vegan								X				
WOOLWORTHS (Certificate held by "La Molisana")					X							

VIII. Independent Auditing Firm's Report

[GRI 102-56: External Assurance]

pwc

Independent auditor's report on the consolidated non-financial statement

pursuant to article 3, paragraph 10 of Legislative Decree no. 254/2016 and article 5 of CONSOB Regulation no. 20267 of January 2018

To the Board of Directors of Newlat Food SpA

Pursuant to article 3, paragraph 10 of Legislative Decree no. 254 of 30 December 2016 (hereinafter, the "Decree") and article 5 of CONSOB Regulation no. 20267/2018, we have performed a limited assurance engagement on the consolidated non-financial statement of Newlat Food SpA (hereinafter also the "Company") and its subsidiary (hereinafter the "Newlat Group" or the "Group") for the year ended 31 December 2019, prepared in accordance with article 4 of the Decree, presented in a specific section of the report on operations and approved by the Board of Directors of the Company on 19 March 2020 (hereinafter, the "NFS").

Responsibility of the Directors and of those charged with governance ("Collegio sindacale") for the NFS

The Directors of Newlat Food SpA are responsible for the preparation of the NFS in accordance with articles 3 and 4 of the Decree and with the "GRI-Sustainability Reporting Standards" defined in 2016 and subsequent versions (hereinafter, the "GRI Standards"), with reference to a selection of GRI Standards, as described in the paragraph "Methodological note" of the NFS, identified by them as the reporting standards.

The Directors are responsible, in accordance with the law, for the implementation of internal controls necessary to ensure that the NFS is free from material misstatement, whether due to fraud or unintentional errors.

Moreover, the Directors are responsible for identifying the content of the NFS, within the matters mentioned in article 3, paragraph 1 of the Decree, considering the activities and characteristics of the Newlat Group and to the extent necessary to ensure an understanding of the Group's activities, its performance, its results and related impacts.

Finally, the Directors are responsible for defining the business and organizational model of the Group and, with reference to the matters identified and reported in the NFS, for the policies adopted by the Group and for the identification and management of risks generated and/or faced by the Group.

Those charged with governance *("Collegio sindacale")* of Newlat Food SpA are responsible for overseeing, in the terms prescribed by law, compliance with the Decree.

Auditor's independence and quality control

We are independent in accordance with the principles of ethics and independence set out in the Code of Ethics for Professional Accountants published by the International Ethics Standards Board for Accountants, which are based on the fundamental principles of integrity, objectivity, competence and professional diligence, confidentiality and professional behavior. Our audit firm adopts International Standard on Quality Control 1 ("ISQC Italy 1") and, accordingly, maintains an overall quality control system which includes processes and procedures for compliance with ethical and professional principles and with applicable laws and regulations.

Auditor's responsibilities

We are responsible for expressing a conclusion, on the basis of the work performed, regarding the compliance of the NFS with the Decree and with the GRI Standards, with reference to a selection of GRI Standards. We conducted our engagement in accordance with "International Standard on Assurance Engagements ISAE 3000 (Revised) – Assurance engagements other than audits or reviews of historical financial information" (hereinafter, "ISAE 3000 Revised"), issued by the International Auditing and Assurance Standards Board ("IAASB") for limited assurance engagements. The standard requires that we plan and apply procedures in order to obtain limited assurance that the NFS is free of material misstatement. The procedures performed in a limited assurance engagement are less in scope than those performed in a reasonable assurance engagement in accordance with ISAE 3000 Revised ("reasonable assurance engagement") and, therefore, do not provide us with a sufficient level of assurance that we have become aware of all significant facts and circumstances that might be identified in a reasonable assurance engagement.

The procedures performed on the NFS were based on our professional judgement and consisted in interviews, primarily with Company personnel responsible for the preparation of the information presented in the NFS, analysis of documents, recalculations and other procedures designed to obtain evidence considered useful.

In particular, we performed the following procedures:

1. analysis of the relevant matters reported in the NFS relating to the activities and characteristics of the Group, in order to assess the reasonableness of the selection process used, in accordance with article 3 of the Decree and with the reporting standards adopted;
2. analysis and assessment of the criteria used to identify the consolidation area, in order to assess their compliance with the Decree;
3. understanding of the following matters:
   - business and organizational model of the Group, with reference to the management of the matters specified by article 3 of the Decree;
   - policies adopted by the Group with reference to the matters specified in article 3 of the Decree, actual results and related key performance indicators;
   - main risks, generated and/or faced by the Group, with reference to the matters specified in article 3 of the Decree.

   With reference to those matters, we compared the information obtained with the information presented in the NFS and carried out the procedures described under point 4 a) below;

4. understanding of the processes underlying the preparation, collection and management of the significant qualitative and quantitative information included in the NFS. In particular, we held meetings and interviews with management of Newlat Food SpA and we performed limited

analysis of documentary evidence, to gather information about the processes and procedures for the collection, consolidation, processing and submission of the non-financial information to the function responsible for the preparation of the NFS.

Moreover, for material information, considering the activities and characteristics of the Group:

- at Group level
  a) with reference to the qualitative information included in the NFS, and in particular with reference to the business model, the policies adopted and the main risks, we carried out interviews and acquired supporting documentation to verify their consistency with available evidence;
  b) with reference to quantitative information, we performed analytical procedures as well as limited tests of details, in order to assess, on a sample basis, the accuracy of the information;
- for the Company Newlat Food SpA, in particular, for the plants located in Reggio Emilia and Ozzano Taro (Parma), which were selected on the basis of their activities and contribution to the performance indicators at a consolidated level, we carried out site visits during which we met local management and gathered supporting documentation regarding the correct application of the procedures and calculation methods used for the key performance indicators.

Conclusions

Based on the work performed, nothing has come to our attention that causes us to believe that the NFS of Newlat Group as of 31 December 2019 has not been prepared, in all material respects, in compliance with articles 3 and 4 of the Decree and with the GRI Standards, with reference to a selection of GRI Standards, as described in the paragraph "Methodological note" of the NFS.

Other aspects

Newlat Group issues the NFS for the first time and the report contains comparative information in relation to the financial year ended 31 December 2018. Such information has not been subject to any assurance procedures.

Bologna, 27 March 2020

PricewaterhouseCoopers SpA

signed by	*signed by*
Gianni Bendandi (Partner)	Paolo Bersani (Authorised signatory)

"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. We have not performed any controls on the NFS 2019 translation."

REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE

REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE

in accordance with article 123-bis of the TUF
(traditional administration and control model)

Issuer: Newlat Food S.p.A.

Website: www.newlat.it

Year to which the Report refers: 2019

Date of approval of the report: 19 March 2020

GLOSSARY

Borsa Italiana: Borsa Italiana SpA

Code/Corporate Governance Code: the Code of Corporate Governance for Listed Companies approved in July 2018 by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A., ABI, Ania, Assogestioni, Assonime and Confindustria, accessible to the public on the Corporate Governance Committee's website at http://www.borsaitaliana.it/comitato-corporate-governance/codice/codice.htm.

Civil Code: the Italian Civil Code.

Board: the Issuer's Board of Directors.

Board of Statutory Auditors: the Issuer's Board of Statutory Auditors.

Issuer/Newlat/Company: the issuer of transferable securities to which the Report refers.

Year: the financial year to which the Report refers, i.e. the year ended 31 December 2019.

Newlat Group or **Group**: jointly the Issuer and the companies directly and/or indirectly controlled by it pursuant to article 2359 of the Civil Code and article 93 of the TUF.

Instructions to the Stock Exchange Regulation: the instructions to the Italian Stock Exchange Regulation.

Consob Issuers Regulation: the Regulation issued by Consob with Resolution no. 11971 of 1999 (as subsequently amended) on issuers.

Consob Markets Regulation: the Regulation issued by Consob with Resolution no. 20249 of 2017 on markets.

Consob Related Parties Regulation: the Regulation issued by Consob with Resolution no.17221 of 12 March 2010 (as subsequently amended) on related party transactions.

Report: the report on corporate governance and ownership structure that companies are required to draw up pursuant to article 123-bis of the Consolidated Law on Finance.

Consolidated Law on Finance/TUF: Legislative Decree no. 58 of 24 February 1998 (Consolidated Law on Finance), as subsequently amended.

ISSUER PROFILE

Issuer's corporate mission

The Issuer is at the head of the Newlat Group, an important player in the Italian and European agri-food sector, with a strong position in its domestic market and a significant presence in the German market. The Newlat Group is mainly active in the pasta, dairy and baked goods sectors, as well in special products such as health & wellness, gluten free and baby food. The Group's products are marketed through numerous trademarks, many of which are known nationally and internationally.

The Newlat Group has grown over the years thanks to the implementation of organic growth policies, but, above all, thanks to external growth, having perfected over the last 10 years multiple acquisitions from leading national and international counterparties in the agri-food sector.

The Newlat Group uses 11 production plants, of which 10 are located in Italy and one in Germany.

The Newlat Group's product range is divided into the following business units: (i) Pasta; (ii) *Milk Products*; (iii) *Dairy Products*; (iv) *Bakery Products*; (v) *Special Products* (gluten-free products, low-protein products and products for infants and children up to three years); and (vi) Other Products (such as sauces, instant cups, salads and cured meats). In addition to products marketed under its own brands, Newlat produces for third parties and for the private label market.
The Newlat Group's *mission* is to pursue the well-being of the consumer by producing healthy, high-quality products at affordable prices, promoting the best of Italian tradition and leveraging an international production and trade platform.

The Newlat Group's vision is to purvey "*Made in Italy*" brands that are representative of healthy food and that we have worldwide distribution, and to act as a consolidating *player* in the agri-food sector. The activity of the Newlat Group also relies on the following reference values: healthy foods and solid business.

On 29 October 2019 (the "**Trading Start Date**"), the Issuer was admitted to trading on the STAR segment of the MTA with the ticker NWL.

Adopted corporate governance system

The Issuer's corporate governance system reflects the bylaws approved on 8 July 2019 by the Company's Extraordinary Shareholders' Meeting (the "**New Bylaws**") in order to adapt the Issuer's corporate governance system downstream of the shares starting to be traded on the STAR segment of the MTA.

The Company's corporate governance system, downstream of the listing, is in line with the principles contained in the Corporate Governance Code and with the applicable legal and regulatory provisions.

The Company is organised according to the traditional model featuring the Shareholders' Meeting, Board of Directors and Board of Statutory Auditors. The characteristics of these bodies are provided below in the dedicated parts of the Report.

On 8 July 2019, the Issuer's Ordinary Shareholders' Meeting awarded the audit firm PricewaterhouseCoopers S.p.A. ("**PwC**"), the assignment of independently auditing (including checking that books are being properly kept and operating events are being properly entered into accounting ledgers) the Issuer's financial statements and the consolidated financial statements of the Newlat Group for the years 2019-2027. Also by resolution of 8 July 2019, the Issuer's Ordinary Shareholders' Meeting appointed PwC to carry out a limited audit of the Newlat Group's condensed consolidated half-year financial statements for the six-month periods ending on 30 June 2020 - 2027.

As defined in article 2497 et seq. of the Civil Code, the Issuer is subject to the management and control of Newlat Group S.A. For more information on this management and control activity, please refer to paragraph 2 (l) of the Report.

Nature of SMEs

According to article 1, paragraph 1, letter w-quater 1) of the TUF, "**SMEs**" are taken to mean: *"without prejudice to what is contemplated by other provisions of law, listed small and medium enterprises, whose sales also prior to the admission of their own shares for trading, have a sales volume of less than Euro 300 million, or which have a market capitalisation of below Euro 500 million. Issuers of listed shares which have exceeded both the aforesaid limits for three consecutive years are not considered SMEs."*
In view of its capitalisation values and aggregate turnover[10], the Issuer believes that from the Trading Start Date it can be qualified as an "SME".

[10] The aggregate turnover at 31 December 2019 was €321 million, and the capitalisation was €246 million.

INFORMATION ON PROPRIETARY ASSETS (pursuant to article 123-bis, paragraph 1 of the TUF) as at 19 March 2020

Structure of share capital

At the date of the Report, the share capital was subscribed and paid in for €40,780,482.00 (forty million seven hundred and eighty thousand four hundred and eighty-two/00), divided into 40,780,482 ordinary shares, without par value.

It should be noted that on 8 July 2019, the Issuer's Extraordinary Shareholders' Meeting approved a paid capital increase entailing a share split, excluding the option rights, pursuant to and for the purposes of article 2441, paragraph five, of the Civil Code, to be executed in one or more tranches, before 31 December 2020, for a maximum amount of €200,000,000, including any premium, by issuing a maximum number of 23,000,000 ordinary shares without par value, a maximum number set by the Board of Directors according to their issue price, to be offered as part of the private placement of the shares deriving from this capital increase, reserved for institutional investors[11], essential to the Listing.

The capital increase described above was carried out in the amount of €13,780,482 by issuance of 13,780,482 shares, as per the declarations pursuant to article 2444 of the Civil Code, filed with the Reggio Emilia Register of Companies on 29 October 2019 and 29 November 2019 respectively.

Restrictions on the transfer of securities (pursuant to article *123- bis*, paragraph 1, letter b) of the TUF)

There is no restriction on the free transfer of the Issuer's shares nor any limitation on their possession, nor are there any approval clauses for access to Newlat's ownership structure, pursuant to the law or the New Bylaws.

Within the framework of the agreements entered into for the Institutional Placement and, in particular, with the signing of the Institutional Contract on 24 October 2019, lock-up commitments were made to the Offer Coordinators (such as Equita SIM, HSBC France and Société Générale), starting from the date of signing the aforementioned contract until 180 days from the start of trading by the Company (the "**Company Lock-Up Agreement**"), and until 360 days from the start of trading by the shareholder Newlat Group S.A. ("**Newlat Group**"), directly and indirectly (the "**Newlat Group Lock-Up Agreement**").

These agreements provide that the Company and Newlat Group, for the respective periods of time referred to above, subject to the prior written consent of the Offer Coordinators: (i) will not carry out sales transactions, disposals and/or any transactions that have as their object and/or effect the allocation and/or transfer to third parties, for any reason and in any form, directly or indirectly, of

[11] Qualified investors as defined in article 34-ter, paragraph 1, letter b) of the Issuers Regulation and foreign institutional investors within the meaning of *Regulation S* of the *United States Securities Act* of 1933, as subsequently amended, with the exception of investors in the United States of America, Australia, Canada, Japan and any other country in which the offer of financial instruments is not permitted without authorisation by the competent authorities.

the Issuer's shares, including transactions as a result of which option rights or collateral on the same shares are created and/or transferred; (ii) will not approve and/or carry out derivative transactions which have the same effects, even if only on results, as the transactions referred to above; and (iii) will not publicly announce that they intend to carry out any of the acts referred to in letters (i) and (ii) above.

Significant shareholdings (pursuant to article 123-*bis*, paragraph 1, letter c) of the TUF

On the basis of the information available at the date of this Report, shareholders that hold stakes equal to or greater than 5% of the voting capital, directly and/or indirectly, including through intermediaries, trustees and subsidiaries, are shown in the following table:

Declarant	Direct shareholder	% share of ordinary capital	% share of voting capital
Angelo Mastrolia	Newlat Group SA	66.208%	79.281%

Securities conferring special rights (pursuant to article 123-bis, paragraph 1, letter d) of the TUF)

At the date of the Report there are no securities conferring special rights of control.

Under article 6 of the New Bylaws, by way of derogation from the rule that each share entitles its holder to one vote, a shareholder is entitled to a double vote per share (and therefore to two votes per share) if both the following conditions are met: (a) the voting right resides with said shareholder by virtue of a legitimating real right (full ownership with voting rights, bare ownership with voting rights or usufruct with voting rights) (the "**Legitimating Real Right**") for a continuous period of at least 36 months from a date coinciding with or after the Trading Start Date and also taking into account, if applicable, the period prior to the Trading Start Date; (b) the conditions under (a) are verified: (i) by continuous registration, for a period of at least 36 months, in the special list created and regulated by article 6 of the New Bylaws (the"**Special List**"), and by special notice attesting to the ownership of the shares on the date of expiry of the continuous period, issued by the intermediary with which the shares are deposited in accordance with current legislation. The conditions for the allocation of the increased vote are assessed by the Board of Directors in the person of the Chairman or of directors delegated for this purpose, assisted where necessary by specially appointed colleagues.

The Company shall register and update the List on a quarterly basis or whenever dictated by sector regulations and, in any case, by the record date for the Shareholders' Meeting, provided that the allotment conditions of the previous paragraph have occurred before said record date.

The increase of voting rights is also calculated for the purposes of determining constituent and deliberative quorums that refer to portions of share capital, but it does not affect the non-voting rights due by virtue of the possession of certain portions of share capital.

Employee ownership: mechanism for exercising voting rights (pursuant to article *123-bis*, paragraph 1, letter e) of the TUF)

The New Bylaws make no special provision for the exercise of employees' voting rights.

Restrictions on voting rights (pursuant to article *123-bis,* paragraph 1, letter f) of the TUF)

There are no special provisions in the New Bylaws that restrict or limit voting rights or separate the financial rights attached to securities from their ownership.

Shareholder agreements (pursuant to article 123-bis, paragraph 1, letter g) of the TUF)

At the date of the Report, the Issuer is not aware of any shareholder agreements pertaining to the Shares within the meaning of article 122 of the TUF.

Change of control clauses (pursuant to article 123-*bis*, paragraph 1, letter h) of the TUF) and Bylaws provisions on takeover bids (pursuant to articles 104, paragraph 1-ter and 104-bis, paragraph 1)

On 5 October 2015, Heinz Italia S.p.A., as a customer, the Issuer, as a supplier, and Newlat Group S.A., as guarantor, entered into a production and supply contract, subsequently amended on 4 November 2015, 27 January 2016, 28 April 2016, 24 October 2016, 4 April 2017 and 27 November 2017 (the "***Co-Packing* Agreement**"), governing the terms and conditions of the production, packaging and supply by the Company of certain products (including, but not limited to, biscuits, pasta, powdered milk, liquid milk, lyophilisates, cereals, flour, etc.) to Heinz Italia S.p.A.

Under the Co-Packing Agreement, Heinz Italia S.p.A. has the right to terminate the contract, subject to prior written notice of between 60 and 90 days, in certain cases, including a change of control of the Company12.

The New Bylaws do not derogate from the passivity rule provisions referred to in article 104, paragraph 1 and 1-bis of the TUF, nor do they make provision for application of the neutralisation rules referred to in article 104-bis, paragraphs 2 and 3, of the TUF.

Powers to increase the share capital and authorisations to purchase treasury shares (pursuant to article *123-bis*, paragraph 1, letter m) of the TUF)

Pursuant to the New Bylaws, the Shareholders' Meeting, by means of a special resolution adopted in an extraordinary session, may grant the Board of Directors the power, pursuant to article 2443 of the Civil Code, to increase the capital on one or more occasions up to a specified amount and for a

[12] Under *the Co-Packing* Agreement, "change of control" means where control of the Company, defined as the power to direct the management and policies of an entity, be it through the possession of voting rights, a contract or some other basis, is obtained, directly or indirectly, by a person other than the one who controls the Company at the date of *the Co-Packing* Agreement.

maximum period of five years from the date of the resolution, also excluding the option right. The capital increase resolution adopted by the Board of Directors in execution of this delegation of power must be recorded in the minutes drawn up by the Notary.

Without prejudice to the other cases of exclusion or limitation of the option right provided for by applicable laws and regulations, in paid capital increase resolutions, the option right may be excluded up to a maximum of 10% (ten per cent) of the existing share capital, provided that the issue price corresponds to the market value of the shares and this is confirmed in a special report by an independent auditor or an external audit firm pursuant to article 2441, paragraph 4 of the Civil Code.

The New Bylaws provide that the Company may issue equity instruments, in compliance with the provisions of law.

At the date of the Report, the Board of Directors was delegated neither to increase the share capital pursuant to article 2443 of the Civil Code nor to issue equity instruments.

At the date of the Report, the Shareholders' Meeting had not authorised the purchase of treasury shares pursuant to articles 2357 et seq. of the Civil Code.

Management and control activities (pursuant to articles 2497 et seq. of the Civil Code)

The Issuer is subject to management and control activities by Newlat Group S.A. pursuant to article 2497 et seq. of the Civil Code.

* * *

It should also be noted that the information required by article 123-bis, paragraph 1, letter l) of the TUF ("the rules applicable to the appointment and replacement of directors, as well as to the amendment of the articles of association, if different from laws and regulations applicable in a supplementary manner") is illustrated in the section of this Report dedicated to the Board of Directors (Section 4.1).

COMPLIANCE

The Issuer intends to adhere to the main recommendations of the Code of Corporate Governance for Listed Companies promoted by Borsa Italiana S.p.A., as last amended in July 2018 (hereinafter the "**Corporate Governance Code**") and accessible to the public on the Borsa Italiana website (https://www.borsaitaliana.it/comitato-corporate-governance/codice/codice.htm).

In accordance with the "*comply or explain*" principle underlying the Corporate Governance Code and in line with Recommendation (EU) No 208/2014, this Report acknowledges the recommendations that the Company has not, at present, decided to adapt (whether partially or in full).

Neither the Issuer nor its subsidiaries are subject to non-Italian legal provisions that influence the Issuer's corporate governance structure.

BOARD OF DIRECTORS

APPOINTMENTS AND REPLACEMENTS (pursuant to article 123-bis, paragraph 1, letter l) of the TUF)

Appointments

The New Bylaws, in compliance with the provisions of article 147-ter of the TUF, provide for the list voting mechanism to be used for appointing directors.

The Company is administered by a Board of Directors with no fewer than 3 (three) members and no more than 15 (fifteen).

The appointment of the Board of Directors is resolved by the Ordinary Shareholders' Meeting on the basis of lists submitted by shareholders, in accordance with the procedure described below, without prejudice to other mandatory laws and regulations.

Shareholders who, at the time, hold – either individually or together with other submitting shareholders – a stake at least equal to the share determined by Consob pursuant to the applicable laws and regulations, are entitled to submit the lists. Ownership of the minimum stake is determined in relation to shares that are registered to the shareholder on the day when the list is submitted to the Company, it being understood that the relevant certification may be produced between submission and the deadline for publication of the list.

Each shareholder, the shareholders adhering to a shareholders' agreement pursuant to article 122 of the TUF, the parent company, subsidiaries, joint ventures and the other entities between which there is a direct or indirect link, pursuant to applicable laws and regulations, may submit - or contribute to the submission, even through an intermediary or trust company - and vote for only one list.

Each candidate may appear on only one list under penalty of ineligibility.

Each list shall bear the names, marked with a sequential number, of no more than 15 (fifteen) candidates.

Each list must include at least some candidates - in accordance with the provisions of applicable legislation - who meet the independence requirements prescribed by applicable laws or regulations (including the market regulations of Borsa Italiana S.p.A.), indicating them separately and placing one of them at the top of the list.

For the period of application of applicable laws and regulations on gender balance, each list that presents a number of candidates equal to or greater than 3 (three) must include candidates of both genders, at least in the minimum proportion required by applicable laws and regulations, as specified in the notice of convocation of the Shareholders' Meeting.

The following must be filed when the lists are submitted:

a) information on the shareholders who have submitted the list, including their stake;

b) a declaration by shareholders other than those who hold, even jointly, a controlling interest or a relative majority, certifying the absence of any direct or indirect link, within the meaning of applicable laws and regulations, with the latter;

c) the *curriculum vitae* of the candidates and a statement in which each candidate declares, under his or her own responsibility, that there are no grounds for ineligibility and incompatibility and that he or she fulfils the conditions for appointment;

d) information on candidates and indication of any eligibility to qualify as an independent director in accordance with applicable legislation and with the codes of conduct on corporate governance adopted by the Company;

e) a declaration from each candidate accepting their candidacy;

f) any other additional or different declaration, information and/or document required by applicable laws and regulations.

The lists are filed with the Company within the deadlines set out in applicable laws and regulations, as indicated in the notice of convocation at the Company's registered office or also communicated remotely, and made available to the public under the terms and conditions set out in applicable laws and regulations.

Any list that fails to comply with the above provisions shall be deemed not to have been submitted.

Each person entitled to vote may vote for only one list. Each shareholder votes for a particular list and therefore all the candidates indicated therein, without the possibility of variations or exclusions.

Candidates will be appointed from the lists that have obtained the highest number of votes according to the following criteria:

a) the list that obtained the highest number of votes ("**Majority List**") provides all but one of the directors to be elected, drawn in the sequential order in which they were listed;

b) the list that obtained the second highest number of votes and which is not connected even indirectly with the shareholders who have submitted or voted for the Majority List ("**Minority List**") provides one director, that being the candidate who appears first on said list.

If votes are tied between lists, the Shareholders' Meeting, using the majorities specified in law, will vote again solely on the tied lists, with the list obtaining the highest number of votes during this second vote prevailing.

If the above methods fail to produce a Board of Directors that complies with provisions on independence requirements, the following procedure is followed: the candidate who does not meet the independent director requirements established by applicable laws and regulations and was elected last sequentially from the Majority List will be replaced by the first candidate sequentially from the same list who does meet said requirements. If this procedure should also fail to ensure the necessary number of directors who meet the independence requirements established by applicable laws and regulations, candidates who do meet said requirements will be presented and the Shareholders' Meeting shall choose replacements using the majorities specified in law.

If the above methods fail to produce a Board of Directors that complies with provisions on gender balance, the candidates of the most represented gender elected last sequentially from the Majority List are replaced with the first unelected candidates of the other gender who appear on the same list; where this is not possible, in order to ensure compliance with the aforementioned provisions on gender balance, the Shareholders' Meeting shall appoint the missing directors using the methods and majorities specified by law, without application of the list vote.

In any case, lists that have not obtained a percentage of votes equal to at least half of that required for their submission will not be taken into account.

If only one list has been submitted, the Shareholders' Meeting will vote on it and if it obtains a relative majority, the candidates listed will be elected as directors in sequential order, up to the number set by the Shareholders' Meeting, without prejudice to the obligation to appoint a number of directors who are independent pursuant to article 147-ter of the TUF equal to the minimum number established by the New Bylaws and by applicable laws and regulations, and to comply with the rules on gender balance, where applicable. If the minimum number of independent and least-represented-gender directors established by the New Bylaws and by current laws and regulations is not elected, the Shareholders' Meeting will replace the directors with the lowest sequential number who do not fulfil the relevant requirements with the subsequent candidates from the same list who do. If applying this process fails to identify suitable replacements, the Shareholders' Meeting will hold another vote using the majorities specified by law. In this case, replacements will be made starting with the candidates with the lowest sequential number.

If the number of candidates in the Majority List and the Minority List is lower than the number of directors to be elected, the remaining directors shall be elected by the Shareholders' Meeting with the majorities provided for by law, without prejudice to the obligation of the Shareholders' Meeting to appoint a number of independent and least-represented gender directors that is not less than the minimum established by the New Bylaws and by applicable laws and regulations. All directors will be appointed using the same methods and majorities even if no list is submitted.

Replacement

Pursuant to article 15 of the New Bylaws, should the legal or regulatory requirements for the office of a director, including the requirement for independence, no longer be met, this shall entail the forfeiture of the office.

In addition, should the office of one more directors be terminated for any reason, they are replaced freely in accordance with the provisions of article 2386 of the Civil Code, choosing where possible from the candidates originally presented on the same list as the outgoing director who have re-affirmed their candidacy, without prejudice to the obligation to maintain the minimum number of independent directors pursuant to article 147-ter of the TUF established by the New Bylaws and by law, and to the obligation to maintain gender balance according to applicable laws and regulations.

It should be noted that the provisions of law, the TUF, the New Bylaws and the Code are the only rules on the composition of the Board of Directors with which the Issuer need comply.

Succession plans

At the date of this Report, partly due to the recent listing, no plan for the succession of executive directors was adopted.

However, the Board of Directors will initiate an analysis exercise to assess the appropriateness, partly in view of the current governance structure, of defining measures to ensure the continuity of future management, including through the evaluation of a succession plan.

COMPOSITION (pursuant to article 123-bis, paragraph 2, letters d) and d-bis) of the TUF)

Pursuant to article 12 of the New Bylaws, the Company is administered by a Board of Directors with no fewer than 3 (three) members, and no more than 15 (fifteen), with adequate competence and professionalism. The directors remain in office for the period set by the shareholders' appointment resolution, up to a maximum of 3 (three) financial years, and are eligible for re-election. Their term shall expire on the date of the Shareholders' Meeting called to approve the financial statements for the last financial year of their term, unless there are grounds for termination and forfeiture as provided for by law and by the New Bylaws.

The Issuer's Board of Directors in office on the date of this Report comprises seven members, as resolved by the Issuer's Ordinary Shareholders' Meeting on 8 July 2019.

The Board of Directors will remain in office for a period of three years, until approval of the financial statements for the year ending 31 December 2021.

The table below displays the composition of the Issuer's Board of Directors as of the Trading Start Date.

Name and surname	Position	Place and date of birth
Angelo Mastrolia	Chairman of the Board of Directors and Director (**)	Campagna (SA), 5 December 1964
Giuseppe Mastrolia	Chief Executive Officer and Director (**)	Battipaglia (SA), 11 February 1989
Stefano Cometto	Chief Executive Officer and Director (**)	Monza, 25 September 1972
Benedetta Mastrolia	Director (***)	Rome, 18 October 1995
Emanuela Paola Banfi	Director (*) (***)	Milan, 20 January 1969
Valentina Montanari	Director (*) (***)	Milan, 20 March 1967
Eric Sandrin	Director (*) (***)	Saint-Amand-Montrond, 13 August 1964

(*) Independent director pursuant to article 148 of the Consolidated Law on Finance (TUF) and article 3 of the Corporate Governance Code, who took office when the Company's shares began to trade on the STAR segment of the MTA, i.e. 29 October 2019.

(**) Executive Director.

(***) Non-executive director.

Below is a summary of the personal and professional characteristics of the members of the Board of Directors.

Angelo Mastrolia - born in Campagna (SA) on 5 December 1964, he obtained his diploma in surveying in 1982 and attended the Faculty of Law at the University of Salerno. His entrepreneurial activity began in the 1980s in the milk and milk-based products sector, taking on the role of manager in the family company Piana del Sele Latteria S.p.A. After a stint in the leasing and real estate and industrial investments sectors, and in the supply of furnishings for luxury boats, in 2004, through the company TMT Finance SA (now Newlat Group), he began a series of acquisitions in the food & beverage sector, including the acquisition of Industrie Alimentari Molisane S.r.l., a producer of Pezzullo, Corticella and Guacci pasta, and in 2008 the acquisition of Newlat S.p.A. by Parmalat S.p.A., following approval from the antitrust authority. Following the acquisition of Newlat, Angelo Mastrolia continued, in his role as controlling shareholder and Executive Chairman, to ensure that the Newlat Group consolidated and grew in the domestic and international food & beverage sector, including through the acquisitions of the Birkel and Drei Glocken brands, the production plant at Ozzano Taro and, finally, Delverde in 2019.

Giuseppe Mastrolia – born in Battipaglia (SA) on 11 February 1989, he obtained his diploma in accounting in 2007 from the Kennedy Institute of Battipaglia (SA), and since 2008 he has been a member of the Issuer's Board of Directors and held the positions of Chief Commercial Officer and Chief Executive Officer (with responsibility for Sales & Marketing).

Stefano Cometto – born in Monza on 25 September 1972, he received his Law degree from the University of Bologna in 1998 and obtained his Doctorate in Law from Nebrija University in Madrid in 2013. From 1998 to 1999 he was Lieutenant in the Finance Police. From 1999 to 2000 he was an internal lawyer in the credit department of San Paolo IMI S.p.A., and from 2000 to 2001 he was an employment lawyer for Unicredit S.p.A. (at the time, Rolo Banca 1473). From 2001 to 2007 he worked at Confindustria as an official in charge of industrial and trade union relations, as well as a legal adviser for trade unions. In 2008 he joined the Newlat Group, where he is the Issuer's Chief Executive Officer and Chief Operating Officer.

Benedetta Mastrolia – born in Rome on 18 October 1995, she earned a BA in Economics and Business from the University of London in 2017 and an MA in Corporate Finance from City, University of London's Cass Business School in 2018. In 2014 she joined the Issuer's Board of Directors.

Emanuela Paola Banfi – born in Milan on 20 January 1969, obtained her degree in Business Economics from the Luigi Bocconi Commercial University in 1993. Since 1999 she has been included in the Register of Independent Auditors. From 1994 to 1997 she served as *Senior Consultant* at Arthur Andersen Corporate Finance. From 1998 to 2000 she held the position of investment manager at private equity firm FIDIA, from 2000 to 2005 she was Executive Director at Lehman Brothers' Equity and Debt Capital Markets division in London, and then from 2005 to 2013 she held the position of Managing Director in Société Générale's Coverage division in Milan. Between 2013 and 2014 she was an advisor at Phinance Partner, from 2014 to 2019 she was Senior Relationship Banker Natixis SA in Milan, and she was due to take on the position of Director at Deutsche Bank in Milan from the beginning of 2020.

Valentina Montanari – born in Milan on 20 March 1967, she obtained her degree in Economics and Business from the State University of Pavia in 1999. Since 1995 she has been enrolled in the Register of the Order of Chartered Accountants of Milan and worked as an auditor at the Register of the Ministry of Justice. In 1996 she obtained a Master's Degree in Management and Financial Policy and in 1997 she obtained a Master's Degree in Corporate Finance, both from SDA Bocconi. She has built up significant experience as chief financial officer of listed Italian groups and as an independent director. From 2003 to 2013 she worked at RCS MediaGroup S.p.A., working as, among other things, director of several companies belonging to the group, group director of administration and taxation and group CFO. From 2012 to 2013 she was group CFO at Gefran S.p.A. and from 2013 to 2016 she held the same position at Il Sole 24 Ore S.p.A. From 2017 to 2018 she served as Group CFO of AC Milan and since April 2019 she has held the same position, along with that of financial reporting officer, at FNM Group S.p.A.

Eric Sandrin – born in Saint-Amand-Montrond on 13 August 1964, he obtained a degree in Political Science from the *Institut d'études politiques* in Paris in 1985, a Master's degree (DEA) in private law from Paris XII University (*Paris-Est Créteil*) in 1990 and a Master's degree from Cornell Law School in 1994. In 1990 he began his career as a lawyer at the Cleary Gottlieb law firm in New York. From 2000 to 2008 he was general counsel art General Electric, before performing the same role at Atos Origin from 2008 to 2011. In 2011 he joined the SCOR Group, holding the position of general counsel until 2014. Since 2014 he has been general counsel at the Kering Group.

Please refer to Table 2 in the appendix for more details on the composition of the Board of Directors.

Diversity policies

Although the Board of Directors has not adopted a specific policy, it considers that the business can be managed effectively only if the Board comprises members with different managerial and professional skills, as well as a balance of gender, age and seniority.

In order to achieve this, the Board shall from time to time, when it is up for re-election, express to the shareholders its leanings as regards the managerial and professional profiles it believes should sit on the Board, taking gender balance into account.

Maximum number of positions held in other companies

The Board of Directors has not yet defined general criteria regarding the maximum number of management and control positions in other companies that can be considered compatible with effectively performing the role of director at the Issuer.

However, it is the Board's intention to carry out such an assessment from time to time, taking into account the opinion of the Remuneration and Appointments Committee (in compliance with the provisions of article 5, implementation criterion **5.C.1.)** and mainly using as evaluation criteria: *(i)* the role of the director within the Company (executive, non-executive, independent); *(ii)* the nature and size of the entity in which the positions are held and the role of the director with respect to such entities (including, among other things, the corporate purpose of the entity, the governance structure, the tasks assigned and the powers awarded); and *(iii)* whether these entities belong to the same group as the Issuer. Each director also has a duty to assess the compatibility of the director and statutory auditor posts they hold in other companies listed on regulated markets, in financial, banking and insurance firms or in other companies of significant size, with being able to properly fulfil their tasks as director of the Issuer.

The table in Annex A shows the main positions held by members of the Board of Directors.

Induction Programme

In view of the company's recent listing, there is currently no provision for a specific induction programme. However, during the meetings of the Board of Directors, the Chairman ensured that the directors were provided with adequate knowledge of the business sector in which the Company operates, the company dynamics and their evolution, the principles of proper risk management and the applicable regulatory and self-regulatory framework.

ROLE OF THE BOARD OF DIRECTORS (pursuant to article 123-bis, paragraph 2, letter d) of the TUF)

In compliance with article 1, principle 1.P.2. of the Corporate Governance Code, the Board of Directors pursues the main objective of creating value for shareholders over a medium-/long-term horizon.

The Board of Directors, in particular, plays a central role in the company organisation and is responsible for determining and pursuing the Company's strategic, industrial and financial objectives, as well as checking that the necessary controls are in place to monitor the Company's performance.

Pursuant to article 16 of the New Bylaws, the Board of Directors is vested with all powers for the ordinary and extraordinary management of the Company.

The Board of Directors is responsible, without prejudice to the limits of the law and without the power of delegation, for decisions relating to: a) mergers and demergers, in the cases referred to in articles 2505 and 2505-bis of the Civil Code, also as referred to in article 2506-ter of the Civil Code; b) the establishment and closure of branches; c) which directors can formally represent the company; d) possible capital reductions should one or more shareholders withdraw; e) bringing the Bylaws into line with legal and regulatory provisions; f) the transfer of the registered office within Italy; g) the issuance of bonds within the limits provided for by applicable laws and regulations.

The Board of Directors:

- reviews and approves the strategic, industrial and financial plans of the Company and the Group, regularly monitoring their implementation
- defines the Issuer's corporate governance system and the Group's structure;
- defines the nature and level of risk compatible with the Company's strategic objectives, including in its assessments all risks that may become significant in terms of sustainability in the medium to long term;

- assesses the overall operational performance, taking into account, in particular, the information received from the delegated bodies, as well as periodically comparing the results achieved with targets;
- assesses the adequacy of the organisational, administrative and accounting structure of the Issuer as well as that of strategically important subsidiaries, with particular reference to the Internal Control and Risk Management System (ICRMS);
- establishes the frequency, in any case not exceeding every quarter, with which the delegated bodies must report to the Board on the activity carried out when exercising the powers conferred on them;
- decides on the operations of the Issuer and its subsidiaries, where such operations are strategic or of significant importance to the Issuer's results, assets and liabilities and cash flows.
- carries out, at least once a year, an evaluation of the functioning of the Board and its committees and of their size and composition, taking into account, inter alia, elements such as the professional characteristics and experience (managerial or otherwise) of the members, as well as their gender and seniority with an eye on diversity criteria;
- adopts, in order to ensure proper management of corporate information and as recommended by the Chief Executive Officer or the Chairman of the Board of Directors, a procedure for the internal management and external disclosure of documents and information concerning the Issuer, with particular reference to inside information.

In compliance with the provisions of article 2381 of the Civil Code and with implementation criterion 1.C.1., letter c) of the Corporate Governance Code, during the current year, the Board assessed, on 19 March 2020, the adequacy of the Issuer's organisational, administrative and general accounting structure, with particular reference to the ICRMS.

At the same time, the Board evaluated the general operating performance, taking into account the information received from the CEO, and periodically comparing the results achieved with targets.

Even in the absence of a formal policy thereon, usually in the week preceding a meeting of the Board of Directors, comprehensive documentation is provided regarding the various items on the agenda, so that the directors are able to deliberate with knowledge of the facts. Also in order to ensure proper and in-depth knowledge of the individual items on the agenda, from time to time, depending on the topics discussed, the Company's senior managers are invited to attend the meetings of the Board of Directors.

Pursuant to article 17 of the New Bylaws, the Board of Directors is validly constituted with the presence of a majority of its serving members and validly resolves by absolute majority of the directors present. In the event of a tie, the vote of whoever is chairing the meeting shall prevail.

Pursuant to article 19 of the New Bylaws, the Board of Directors may delegate, within the limits provided for by current laws and regulations, some of its responsibilities to an executive committee composed of some of its members or to one or more of its members, and determine their powers and, after consulting the Board of Statutory Auditors, their remuneration. The Board of Directors may also set up internal committees with advisory and recommendatory functions, and determine their powers partly in order to ensure that the corporate governance system conforms to codes of conduct adopted by the Company.

The Board of Directors may also appoint General Managers and special attorneys for certain acts or categories of acts, and assign their respective powers.

The Board of Directors appoints a Financial Reporting Officer, subject to the mandatory but non-binding opinion of the Board of Statutory Auditors, and can remove said officer if necessary. The Board of Directors, pursuant to article 154-bis, paragraph 4 of the TUF, ensures that the Financial Reporting Officer has adequate means and powers to carry out the tasks assigned to them by law, and that there is compliance with administrative and accounting procedures.

Pursuant to article 17 of the New Bylaws, the Chairman of the Board of Directors convenes and chairs the Board of Directors, sets the agenda and coordinates its work.

Convocation takes place using any and all suitable means in consideration of notice times, sent as a rule at least 5 (five) calendar days before the meeting to each member of the Board and the Board of Statutory Auditors; in case of urgency, this time frame may be reduced to 24 (twenty-four) hours before the meeting. In any case, meetings of the Board of Directors will be deemed validly constituted, even in the absence of a formal convocation, if all the serving directors and the majority of the serving statutory auditors are present, and all eligible parties have been previously informed of the meeting and have not opposed the discussion of what is on the agenda. The Board of Directors may also be convened by the Board of Statutory Auditors or even by each individual statutory auditor, pursuant to article 151 of the TUF.

Meetings of the Board of Directors are also held by video or teleconference provided that each of the participants can be identified by all the others and that each is able to intervene in real time during the discussion of the agenda items, as well as to receive, transmit and view documents. Provided these circumstances are in place, the meeting shall be deemed to have been held at the place where the Chairman is present.

The Board – also from time to time – appoints the Secretary of the Board, either from within or outside its own members.

The deliberations of the Board shall be recorded in minutes that are signed by the Chairman and the Secretary.

In accordance with article 18 of the New Bylaws, the remuneration payable to directors is determined by the Shareholders' Meeting. Directors are entitled to be reimbursed for expenses incurred in the performance of their duties. The remuneration of directors with special responsibilities, as defined in the New Bylaws, shall be determined by the Board of Directors after consulting the Board of Statutory Auditors.

Pursuant to article 27 of the New Bylaws, the Board of Directors may, during the year and when it deems it appropriate, distribute interim dividends for the same year, in compliance with applicable laws and regulations.

Dividends not collected within five years from the date on which they become due are retained by the Company.

In accordance with the provisions of implementation criterion 6.C.4 of the Corporate Governance Code, only a non-significant portion of the remuneration of non-executive directors is linked to the Issuer’s results. Non-executive directors shall not receive share-based remuneration plans unless determined in a reasoned decision by the Shareholders' Meeting.

In 2019, the Board of Directors held 11 meetings of an average duration of 1 hour and with the regular participation of members of the Board of Directors and Board of Statutory Auditors.

Six meetings of the Board of Directors have been scheduled for the current year, of which three have already been held at the date of this Report, namely on 15 January 2020, 19 February 2020 and 19 March 2020, the latter being called to approve this Report.

Owing to the topics discussed during the most recent meetings – namely those on 15 November 2019, 15 January 2020, 19 February 2020 and 19 March 2020 – the CFO and Financial Reporting Officer, Rocco Sergi, was in attendance, while the General Manager, Simone Aiuti, took part in the 15 January 2020 meeting.

Self-assessment of the Board of Directors

The Board of Directors intends to adhere to the recommendations of the Corporate Governance Code in terms of self-assessment of the administrative body and its committees. As such, at the meeting of the Board of Directors on 19 March 2020, it carried out the periodic verification that its members still fulfilled all their relevant requirements, which they did.

DELEGATED BODIES

Chief Executive Officers

Pursuant to article 19 of the New Bylaws, the Board of Directors may delegate, within the limits provided for by current laws and regulations, some of its responsibilities to one or more of its members, and determine their powers and, after consulting the Board of Statutory Auditors, their remuneration.

By resolution of 8 July 2019, the Board of Directors, without prejudice to the responsibilities, powers and entitlements reserved by law and by the Bylaws for the Board of Directors, the Chairman and other corporate functions, delegated the following powers to the CEOs Giuseppe Mastrolia and Stefano Cometto:

Giuseppe Mastrolia:

All powers of ordinary and extraordinary administration:

- with no amount limit in all intra-group transactions,
- up to €300,000 (three hundred thousand euros) in relation to third parties independently and with sole signing authority,
- without any amount limit with the joint signature with another member of the Board of Directors, except for matters and activities relating to the environment, occupational safety and product health, which are the exclusive competence of the CEO(s) or managers who have assumed the specific managerial responsibilities and powers, or for those matters that the law or the bylaws dictate are the exclusive competence of the Board of Directors and the Shareholders' Meeting

Stefano Cometto:

All powers relating to the function of employer, for all divisions, business units, plants and local units/warehouses belonging to the Company, including activities aimed at implementing and complying with the rules on workplace safety and hygiene, protection of workers' health and protection of the environment, with the power of delegation, as well as all tasks resulting from and/or related to the powers specified herein.

In particular, in his capacity as an employer and in addition to the Company's signature and power of representation, Stefano Cometto is awarded powers in the following areas, among others:

1) <u>employment contracts</u>

2) <u>production organisation</u>

3) <u>food hygiene, safety and safety</u>

4) <u>environmental protection</u>

5) <u>management and control powers</u>

6) <u>leases, real rights</u>

7) <u>purchase and sale of goods and services; with the following amount limits:</u>

- movable property up to €100,000 for each transaction when signed individually and up to €300,000 when signed jointly with any other member of the Board of Directors;

- motor vehicles of all kinds, aircraft and boats up to €100,000 for each transaction when signed individually and up to €300,000 when signed jointly with any other member of the Board of Directors;

- supplies and provisions for any type of use that must have an initial maximum duration of one year, subject to renewal, and up to an annual amount of €100,000;

- works contracts, tenders, consultancies and freelance arrangements, including on an ongoing basis, drawing up the related contracts up to an annual amount of €100,000.

8) <u>collections, disposals and receipts</u>

9) <u>banking and financial transactions, with the following amount limits:</u>

- €100,000 for: withdrawals from the Company's bank accounts and payments to its creditors; drawing or accepting bills of exchange; requesting cashier's checks; collecting cheque books to be issued on the Company's current accounts and signing the related request; issuing statements of indemnity,

- €80,000 for: opening, modifying or closing post office current accounts; carrying out any operation permitted on such accounts including withdrawals and the issuance of postal orders; collecting; issuing receipt and discharge in due form for sums or anything else due to the company from private individuals, firms, entities, institutions, companies of any kind, insurers, banks and pension funds.

10) <u>insurance</u>

11) <u>contracts, tenders and licences</u>

12) <u>judicial proceedings</u>

13) <u>transactions and arbitration</u>

14) <u>tax compliance and obligations</u>

Chairman of the Board of Directors

The Chairman of the Board of Directors exercises the functions provided for by applicable laws and regulations. In particular: *(i)* he/she has powers of representation; *(ii)* chairs the Shareholders' Meeting; *(iii)* convenes and chairs the Board of Directors, sets its meeting agendas, coordinates its work and ensures that adequate information on the agenda items is provided to all directors.

By resolution of 8 July 2019, the Board of Directors delegated to its Chairman all the powers of ordinary and extraordinary administration, except for matters and activities relating to the environment, occupational safety and product health, which are the exclusive competence of the CEO(s) or managers who have assumed the specific managerial responsibilities and powers.

The Chairman is not granted powers in relation to any matters that, under the law or the Bylaws, are the exclusive competence of the Board or the Shareholders' Meeting.

Independent Directors

At year-end, the Issuer's Board of Directors included 3 (three) directors who met the independence requirements set out in article 147-ter of the TUF and the recommendations of the Corporate Governance Code. The independent directors of the Issuer are indicated below:

a) Emanuela Paola Banfi

b) Valentina Montanari

c) Eric Sandrin

These directors meet the requirements to be qualified as independent according to article 3, implementation criteria **3.C.1**. and **3.C.2**., of the Corporate Governance Code and to the criteria set out in article 147-ter, paragraph 4 of the TUF, which recalls the criteria referred to in article 148 of the TUF.

In compliance with article 3, implementation criterion **3.C.3.** of the Corporate Governance Code, the Issuer believes the number of independent directors appointed to be appropriate for the size of the Board of Directors and the activity carried out by the Issuer, as well as suitable to allow internal governance committees to be set up within the Board in accordance with the recommendations of the Corporate Governance Code.

On 8 July 2019 and subsequently on 19 March 2020, the Board of Directors verified that its members met the independence requirements. In compliance with the provisions of article 3, principle **3.P.2**, the Board of Directors will perform such a check once a year.

The Board of Statutory Auditors noted that the verification criteria and procedures used by the Board to assess the independence of its members on 19 March 2020 were correctly applied.

LEAD INDEPENDENT DIRECTOR

By resolution of the Board of Directors on 9 August 2019, the Company appointed independent director Eric Sandrin as lead independent director pursuant to article 2.C.4 of the Corporate Governance Code, with effect from the Trading Start Date.

PROCESSING OF COMPANY INFORMATION

At its meeting on 6 September 2019, the Company's Board of Directors resolved to approve the ***Regulations for the processing of material/inside information, the establishment and maintenance of the RIL and the Insider List and Internal Dealing*** (the "**Regulations**"), aimed at regulating, in addition to the obligations of confidentiality and reporting, the process of managing documents and information concerning Newlat and the companies belonging to its group, with particular reference to Confidential Information and Inside Information, as well as the establishment, maintenance and updating of the registers of persons who have access to the aforementioned information and the internal dealing obligations.

These Regulations, which entered into force on the date when the application for the Issuer's shares to be admitted for trading was deposited with the Italian Stock Exchange, are published on the Issuer's website at www.newlat.it.

The purpose of the Regulations is to ensure compliance with the applicable laws and regulations and to ensure that the Company timely, completely and adequately discloses the Group's inside information to the market, while guaranteeing maximum privacy and confidentiality until it is disclosed to the public.

Relevant and Inside Information is managed according to a process that breaks down into the following stages:

a) the Relevant or Inside Information is identified and reported by the competent IICOF (i.e. each "Inside Information Competent Organisational Function", identified within the Group, that becomes aware of Relevant or Inside Information due to its own activities) to the IIMF (i.e. the "Inside Information Management Function", in this case, the Chairman of the Board of Directors);

b) the IIMF identifies and records the Relevant or Inside Information;

c) Relevant Information is monitored based on the different stages of its evolution towards Inside Information, and the additional IICOFs involved in the process are recorded;

d) where applicable, the Relevant Information becomes Inside Information.

The IIMF is the corporate figure responsible for deciding whether the information qualifies as inside information. If it does, the IIMF acts to ensure that the Inside Information directly pertaining to the Issuer is communicated to the public as soon as possible, in accordance with the Regulations and with applicable laws and regulations, unless there are grounds to activate the delay procedure referred to in article 3.4 of the Regulations.

The Issuer has established, in accordance with applicable laws and regulations, an electronic register of persons who have access to Inside Information ("Insider List") and an electronic register of persons who have access to Relevant Information ("RIL"). The registers are kept by the IIMF, with the Legal and Corporate Affairs Department helping with entry and maintenance.

In order to update the Insider List promptly, the IIMF mainly relies on the information contained in the RIL. When a piece of information becomes Inside Information, people are deleted from the RIL and added to the Insider List.

Section II of the Regulations, on internal dealing, governs the reporting obligations, restrictions and control measures in relation to transactions carried out by relevant persons and persons closely associated with them of the Issuer and the Subsidiaries (as defined in the Regulations).

In particular, Relevant Managers are absolutely forbidden to carry out transactions on their own behalf or on behalf of third parties, directly or indirectly, in the 30 days before publication of the annual, half-year or quarterly results that the Issuer is required, or has decided, to make public ("Black-Out Period"), except for the provisions of article 8 of the Regulations.

The Issuer's Board of Directors, by means of a special resolution, may establish additional periods during which there is a ban/limitation on the completion of Newlat securities transactions in conjunction with particular events. It is understood that both Relevant Managers and all Recipients in possession of Inside Information must refrain from carrying out or recommending to third parties any operation on the securities, from inducing third parties to carry out operations on the securities or from communicating the Inside Information to third parties, unless such communication takes place in the normal performance of their role.

INTERNAL BOARD COMMITTEES (pursuant to article 123-bis, paragraph 2, letter d) of the TUF)

On 9 August 2019, the Company's Board of Directors, in accordance with the recommendations contained in the Corporate Governance Code, resolved to establish the following Committees, effective from the Trading Start Date, and approved their relevant regulations:

- a control, risk and sustainability committee, pursuant to article 7 of the Corporate Governance Code (the **"Internal Control and Risks Committee"**);
- an appointments and remuneration committee pursuant to articles 5 and 6 of the Corporate Governance Code (the **"Remuneration and Appointments Committee"**); and

- a committee for transactions with related parties, pursuant to article 4 of the Corporate Governance Code and following the provisions of the Related Party Regulations (the "**RPT Committee**").

A brief description of the tasks and internal functioning of the newly established committees is given below.

Remuneration and Appointments Committee

On 9 August 2019, the Company's Board of Directors appointed the directors Emanuela Paola Banfi, Valentina Montanari and Eric Sandrin, all of whom meet the independence requirements set out in the TUF and the Corporate Governance Code, as members of the Remuneration and Appointments Committee, with Mr Sandrin appointed Chairman. The Issuer believes that this appointment is in line with the provisions of the Corporate Governance Code due to the specific knowledge possessed by the appointed parties; in particular, they all have sufficient knowledge and experience of financial matters or remuneration policies.

In view of the organisational needs of the Company, the way it operates and the size of its Board of Directors, the Company has set up a single committee for appointments and remuneration, in accordance with the recommendations of articles 4, 5 and 6 of the Corporate Governance Code.

The Remuneration and Appointments Committee plays an advisory and recommendatory role and has the task of assisting the Board of Directors at a preliminary stage with the assessments and decisions relating to the composition of the Board of Directors and to the remuneration of directors and managers with strategic responsibilities.

In particular, the Remuneration and Appointments Committee is entrusted with the following tasks:

- formulating opinions to the Board of Directors on i) the size and composition of the Board and making recommendations on the professional profiles it believes should sit on the Board; ii) the maximum number of management and control positions in other listed companies, supervised companies or companies of significant size, that can be considered compatible with the position of director of the Company, taking into account participation in Committees and on the identification of general criteria differentiated by reason of the commitment related to each role, including pertaining to the nature and size of the companies (including those of the Group) in which the positions are held, within the scope of article 1.C.3 of the Corporate Governance Code; iii) the possible assessment of relevant positions pursuant to article 2390 of the Civil Code within the scope of article 1.C.4 of the Corporate Governance Code; and
- recommending candidates to the Board of Directors in cases of co-option, where it is necessary to replace independent directors;
- carrying out the groundwork on preparing the plan for the succession of executive directors, where the Board of Directors has considered adopting such a plan.

In addition, the Committee makes proposals and recommendations to the Board of Directors on the remuneration of directors and managers with strategic responsibilities. In particular, the Committee is entrusted with the following recommendatory and advisory tasks:

- making proposals to the Board of Directors regarding the adoption of a policy for the remuneration of directors and managers with strategic responsibilities;
- periodically assessing the adequacy, overall consistency and practical application of the policy for the remuneration of directors and managers with strategic responsibilities adopted by the Company, if necessary making proposals to the Board of Directors;
- examining Annual Report on Remuneration prior to it being made publicly available for the annual shareholders' meeting to approve the financial statements;
- submitting proposals or expressing opinions to the Board of Directors on the remuneration of executive directors and other directors holding particular positions, and on the setting of performance targets related to the variable component of such remuneration;
- monitoring the implementation of the decisions taken by the Board by verifying, in particular, that the performance targets referred to in point c) above have been met; and
- making proposals to the Board of Directors regarding the adoption of remuneration policies and/or incentive systems also applicable to directors, managers and employees within the Group.

The Committee also has the task of formulating non-binding opinions and proposals regarding any stock option and share allocation plans or other incentive systems based on shares, and suggesting the objectives related to the granting of these benefits and the criteria for assessing the achievement of these objectives, as well as monitoring the evolution and implementation over time of any plans approved by the Shareholders' Meeting based on a proposal from the Board of Directors.

The Remuneration and Appointments Committee has the right to access information and corporate functions and structures, ensuring that it has the appropriate functional and operational links with them for the performance of its tasks. It may use external consultants, at the expense of the Company, and in any case within the limits established by the Board of Directors.

In line with the recommendations of article 6.C.6 of the Corporate Governance Code, no director takes part in the meetings of the Remuneration and Appointments Committee at which proposals are made to the Board of Directors regarding their remuneration.

The meetings of the Remuneration and Appointments Committee shall be chaired by the Chairman or, in the event of his/her absence or impediment, by the oldest member. A majority of serving members are required to be present for the Remuneration and Appointments Committee meetings to be valid. The decisions of the Committee shall be taken by an absolute majority of those present.

From the Trading Start Date to 31 December 2019, the Remuneration and Appointments Committee met once and all members participated. The meeting lasted 1 hour.

In 2020, at the date of writing of this Report, there has been 1 meeting of the Remuneration and Appointments Committee, in which all the members participated and which lasted for half an hour.

Minutes are duly taken at meetings of the Remuneration and Appointments Committee, and the Chairman of the Committee reports these to the next meeting of the Board of Directors.

The Committee has regularly carried out the functions assigned to it by the Regulations, giving prior opinions on all areas of competence, in particular on the remuneration policy and the Report on remuneration policy and fees, referred to in article 123-ter of the TUF.

REMUNERATION OF DIRECTORS

For information on this section, please refer to the "Remuneration Report" available at www.newlat.it – *Corporate Governance* Section - *Governance* Documents.

INTERNAL CONTROL AND RISKS COMMITTEE

On 9 August 2019, the Company's Board of Directors appointed the directors Emanuela Paola Banfi, Valentina Montanari and Eric Sandrin, all of whom meet the independence requirements set out in the TUF and the Corporate Governance Code, as members of the Internal Control and Risks Committee, with Ms Montanari appointed Chairman. The Issuer believes that this appointment is in line with the provisions of the Corporate Governance Code due to the specific knowledge possessed by the appointed parties; in particular, they all have sufficient knowledge and experience of financial matters or risk management.

The Internal Control and Risks Committee, in assisting the Board of Directors, in accordance with the provisions of implementation criterion 7.C.2 of the Corporate Governance Code, has the function of:

- assessing, together with the Financial Reporting Officer and after consulting the independent auditor and the Board of Statutory Auditors, the correct use of the accounting standards and, in the case of groups, their consistency for the purposes of preparing the consolidated financial statements;
- expressing opinions on specific aspects related to the identification of the main company risks;
- examining the periodic reports assessing the ICRMS, and those of particular relevance prepared by *the internal audit* function;
- monitoring the autonomy, adequacy, effectiveness and efficiency of *the internal audit* function;
- asking *the internal audit* function to carry out audits on specific operational areas, giving simultaneous notice to the Chairman of the Board of Statutory Auditors;

- reporting to the Board, at least every six months, on the occasions of the approval of the annual and half-year financial report, on the activities carried out and on the adequacy of the internal control and risk management system; and
- providing adequate preliminary support for the Board of Directors' assessments and decisions on the management of risks arising from harmful events of which the Board has become aware.

The Internal Control and Risks Committee, in accordance with implementation criterion 7.C.1 of the Corporate Governance Code, also issues its prior opinion to the Board of Directors:

- on the guidelines for the internal audit and risk management system, so that the main risks relating to the Issuer and its subsidiaries are correctly identified, adequately measured, managed and monitored, determining how compatible the risks are with Company's management in line with the strategic objectives identified;
- on the adequacy of the internal control and risk management system with respect to the characteristics of the Issuer and the risk profile assumed, as well as its effectiveness;
- on the work plan prepared by the head of *the internal audit* department;
- on the description, in the corporate governance report, of the main features of the internal control and risk management system and of the methods of coordination between the parties involved, including the assessment of the adequacy of the system;
- on the results set out by the independent auditor in the letter of suggestions, if any, and in the report on key issues arising from the external audit; and
- on the proposal relating to the appointment, revocation and remuneration of the *Head of Internal Audit*, as well as on the adequacy of the resources allocated to said person for the performance of their functions.

The Internal Control and Risks Committee has the right to access the information and corporate functions necessary for the performance of its tasks and may avail itself, within the limits established by the Board of Directors, of external consultants.

The Chairman of the Board of Directors and the *Head of Internal Audit* are permanently invited to the meetings of the Internal Control and Risks Committee.

The Internal Control and Risks Committee also has the right to invite to its meetings the executive director responsible for *internal audit* and the other members of the Board of Directors, the independent auditor or the representatives of the auditing firm and the members of the Board of Statutory Auditors with reference to all or some of the items on the agenda, except when issues that concern them are being discussed.

The Financial Reporting Officer referred to in article 154-bis of Legislative Decree no. 58 of 24 February 1998, as subsequently amended and supplemented (the "FRO"), may also be invited to Committee meetings, along with any other person whose presence is deemed to be conducive to the best possible performance of the Committee functions with regard to all or some of the items on the agenda. At the date of this Report, the Head of Internal Audit is Pierangelo Verna who, as of 21 April 2020, will be replaced by Stefano Ferro.

From the Trading Start Date to 31 December 2019, the Internal Control and Risks Committee met once and all members participated. The meeting lasted half an hour.

In 2020, at the date on which this Report was drafted, 2 meetings of the Control and Risks Committee had been held and all the members and the entire Board of Statutory Auditors participated.

Specifically, at the meeting of 19 February 2020, the executive director responsible for *internal audit*, the FRO, the Board of Statutory Auditors and the Independent Auditors also participated, while at the meeting of 17 March 2020, the FRO also participated.

Minutes are duly taken at meetings of the Internal Control and Risks Committee, and the Chairman of the Committee reports these to the next meeting of the Board of Directors.

The Committee has duly carried out the functions assigned to it by the Regulations, giving prior opinions on all areas of competence concerning the management of business risks and the system of controls, as well as on the work plan drawn up by the *Head of Internal Audit*.

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

In compliance with Principle 7 of the Corporate Governance Code, the Issuer has adopted an internal control and risk management system (hereinafter also "**ICRMS**") suitable for identifying, measuring, managing and monitoring the main risks and in line with national and international *best practice*.

The corporate and supervisory bodies within the ICRMS are:

- the Board of Directors;

- the Internal Control and Risks Committee;

- the executive director responsible for internal audit;

- the Head of Internal Audit;

- the Supervisory Board (pursuant to Legislative Decree 231/01;

- the Financial Reporting Officer;

- the Board of Statutory Auditors;

- the Independent Auditing Firm.

The Company's ICRMS is based on three levels of control:

Level I Control – the operating teams are primarily responsible for the ICRMS process. These teams – as part of their daily activities – are called upon to identify, measure, evaluate, monitor, mitigate and report the risks deriving from ordinary business activities in accordance with the ICRMS and the applicable internal procedures.

Level II Control – corporate risks are monitored, guidelines on the related control systems are proposed and their adequacy is verified to ensure the efficiency and effectiveness of operations, as well as adequate risk control, prudent conduct of *business*, reliability of information, and compliance with laws, regulations and internal procedures.

Level III Control – the Head of Internal Audit verifies and ensures the adequacy and effective operation of the Level I and II Controls and – in general – of the ICRMS, evaluating its completeness, functionality and reliability in terms of efficiency and effectiveness, as well as identifying any violations of applicable procedures and standards.

The central role in the Internal Control and Risk Management System is played by the Board of Directors, which defines the nature and level of risk compatible with the Company's objectives.

When working effectively, the Company's ICRMS guarantees, with reasonable certainty, the achievement of operational, disclosure and compliance objectives. Specifically:

- the operational objective of the internal control system concerns the effectiveness and efficiency of the Company in using resources, protecting itself from losses, and safeguarding the Company's assets. This system is also aimed at ensuring that staff work towards the pursuit of company objectives, without putting other interests before Newlat's;
- the objective of disclosure translates into the preparation of timely and reliable reports for the decision-making process within and outside the company organisation;
- the compliance objective ensures, on the other hand, that all operations and actions are conducted in compliance with laws and regulations, prudential requirements and internal company procedures.

The ICRMS involves every sector of the activity carried out by the Company, distinguishing between operational and control tasks and reasonably reducing any possible conflict of interest.

In particular, the internal control system is based on the following elements:

- formalised and clear organisational system in the allocation of responsibilities;

- authorisation and signature powers assigned consistent with the responsibilities;
- system of procedures to govern all business processes;
- IT systems geared towards segregation of duties;
- management control and *reporting* system;
- functions responsible in a structured manner for external communication;
- periodic *audit*s of the main company processes.

The Company's ICRMS is based on the following principles:

- every operation, transaction and action must be true, verifiable, coherent and documented;
- no one can manage an entire process independently (so-called segregation of duties);
- the internal control system documents the performance of controls, including supervision.

Responsibility for the proper functioning of the internal control system is vested in each business function for all processes for which it is responsible.

The type of corporate control structure existing in the Company includes:

- line controls, carried out by individual operating units on the processes for which they have operational responsibility, aimed at ensuring the correct conduct of operations;
- monitoring activities, carried out by the managers of each process and aimed at verifying the correct performance of the underlying activities, on the basis of hierarchical controls;
- activities for the detection, evaluation and monitoring of the internal control system over the administrative and accounting systems and processes that are relevant to the financial statements.

Lastly, with regard to the ICRMS, it should be noted that in the exercise of its functions, during the Board meeting of 19 March 2020, the Board of Directors:

- approved *the internal audit* plan, after consulting the Board of Statutory Auditors and the executive director responsible for *internal audit*;
- assessed the adequacy of the system, in relation to the characteristics of the company and the risk profile assumed, as well as its effectiveness.

DIRECTOR RESPONSIBLE FOR THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

In support of the Issuer's internal control and risk management system, in addition to the Control and Risks Committee, on 9 August 2019 the Company's Board of Directors appointed Angelo Mastrolia, with immediate effect, to the position of executive director responsible for the internal control and risk management system, performing the functions listed in implementation criterion **7.C.4** of the Corporate Governance Code. The Issuer believes that the appointment of the Chairman of the Board of Directors as the person responsible for the internal control and risk management system is in line with the provisions of the Corporate Governance Code, which highlights the positive aspects related to a choice of this type, including the specific knowledge possessed by the appointed party.

In accordance with article 7 of implementation criterion **7.C.4** of the Corporate Governance Code, the executive director responsible for overseeing the functionality of the internal control system:

- ensures the identification of the main business risks, taking into account the characteristics of the activities carried out by the issuer and its subsidiaries, and will periodically submit them to the Board of Directors for examination;
- implements the guidelines defined by the Board of Directors, taking care of the design, creation and management of the internal control and risk management system and continually verifying its adequacy and effectiveness;
- deals with the adaptation of this system to the dynamics of operating conditions and the legislative and regulatory landscape;
- may ask the *Head of Internal Audit* to carry out audits on specific operational areas and on compliance with internal rules and procedures in execution of company operations, giving simultaneous notice to the Chairman of the Board of Directors, the Chairman of the Control and Risks Committee and the Chairman of the Board of Statutory Auditors;
- promptly reports to the Control and Risks Committee (or to the Board of Directors) on problems and critical issues that may arise in the course of its activities or of which it has been informed, so that the Committee (or the Board) can take the appropriate initiatives.

Due to the recent listing of the Company's shares on the MTA, the aforementioned activities and tasks assigned to the executive director responsible for *internal audit* will be carried out in essence starting from the beginning of this financial year.

HEAD OF INTERNAL AUDIT

Also in support of the Issuer's internal control and risk management system, on 9 August 2019 the Company appointed Pierangelo Verna, who – as of 21 April 2020 – will be replaced by Stefano Ferro, as approved by the Board of Directors on 19 March 2020, as Head of Internal Audit and therefore the person to whom, among other things, the tasks referred to in article 7 of implementation criterion 7.C.5. of the Corporate Governance Code have been assigned.

Stefano Ferro is not responsible for any operational activities. He carries out support activities in the context of M&A operations and reports to the Board of Directors.

Because of the recent quotation, no activities were carried out by the Head of Internal Audit in 2019; this role will become active in the current year, with its holder having access to all useful information.

ORGANISATIONAL MODEL (pursuant to Legislative Decree 231/2001)

The Company has adopted an organisation, management and control model pursuant to and for the purposes of Legislative Decree no. 231/2001 (the "Model 231").

The Model 231 consists of: (a) a general part, relating to issues concerning, among other things, the validity and application of Legislative Decree no. 231/2001, the composition and functioning of the supervisory body, and the penalty code to be applied in case of violations of the rules of conduct of Model 231; and (b) the special parts, containing the general principles of conduct and control protocols for each of the offences deemed to be a risk to the Company.

The functions of the Supervisory Body are assigned to the Board of Statutory Auditors, exercising the option provided for by applicable legislation. In this way, the Supervisory Body meets the applicable requirements of autonomy, independence, professionalism and continuity of action.

The Model 231 is published on the website www.newlat.it - *Corporate Governance* Section, where the updated composition of the Supervisory Body and the Code of Ethics are also available.

INDEPENDENT AUDITING FIRM

At the date of the Report, the company responsible for independently auditing the Issuer's accounts was PricewaterhouseCoopers S.p.A., with its registered office at Via Monte Rosa no. 91, Milan, no. 119644 in the Register of Independent Auditors held by the Ministry of Economy and Finance.

On 8 July 2015, the Issuer had entrusted the Independent Auditors with the external audit assignment pursuant to article 14 of Legislative Decree no. 39 of 2010 and articles 2409-bis et seq.

of the Civil Code, with reference to the Issuer's financial statements for the three-year period 2014 - 2016. Once the Issuer needed to prepare consolidated financial statements starting from 2015, the aforementioned assignment was supplemented on 8 July 2016 to include the external audit of the consolidated financial statements of the Issuer for the years ended 31 December 2015 and 2016.

In view of the interpretative orientation last taken by Consob in its Communication no. 0098233 of 23 December 2014 regarding the awarding of the external audit assignment upon becoming a public interest entity pursuant to article 16 of Legislative Decree no. 39 of 2010, the Issuer's Ordinary Shareholders' Meeting of 8 July 2019 conferred on the Independent Auditors, effective from the Trading Start Date, a new external audit assignment (including checking that books are being properly kept and operating events are being properly entered into accounting ledgers) pursuant to articles 13 and 17 of Legislative Decree no. 39 of 2010 for the 2019-2027 financial years, in relation to the Issuer's separate financial statements and the consolidated financial statements of the Newlat Group, replacing PwC's existing assignment awarded on 28 June 2017. Also by resolution of 8 July 2019, and also effective as of the Trading Start Date, the Issuer's Ordinary Shareholders' Meeting awarded the independent auditors the assignment to carry out a limited audit of the Newlat Group's condensed consolidated half-year financial statements for the six-month periods ending on 30 June 2020 - 2027.

FINANCIAL REPORTING OFFICER AND OTHER CORPORATE ROLES AND FUNCTIONS

On 9 August 2019, the Issuer's Board of Directors, in compliance with the provisions of article 154-bis of the Consolidated Law on Finance and with the relevant appointment procedures laid down in article 19 of the New Bylaws, decided to appoint, with effect from the Company's shares starting to trade on the MTA, Rocco Sergi as the Financial Reporting Officer.

Article 19 of the Issuer's New Bylaws provides that the FRO shall be appointed by the Board of Directors, subject to the mandatory but non-binding opinion of the Board of Statutory Auditors, in accordance with the provisions of Article 154-bis of the Consolidated Law on Finance. The Bylaws also require the FRO to have at least three years' experience in administration, finance and control and to meet the integrity requirements for directors. If these requirements are no longer being met, the office shall be forfeited and this must be declared by the Board of Directors within 30 (thirty) days of becoming aware of the failing.

In this regard, it should be noted that the Board of Directors, after obtaining the opinion of the Board of Statutory Auditors, issued on 9 August 2019, recognised Rocco Sergi as a suitable person to perform this function, also in view of the above requirements.

Pursuant to article 154-bis of the Consolidated Law on Finance, the FRO shall:

- draw up written statements accompanying the Company's documents and communications disseminated to the market and relating to accounting information, including interim accounting information;
- prepare appropriate administrative and accounting procedures for preparing the separate financial statements and, where applicable, the consolidated financial statements and any other financial communications;
- certify with a special report on the separate financial statements, the condensed half-year financial statements and the consolidated financial statements (i) the adequacy and effective application of the administrative and accounting procedures for the preparation of the financial statements; (ii) that the documents are prepared in compliance with the applicable international accounting standards recognised in the European Union pursuant to Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002; (iii) that the documents correspond to the ledgers and accounting records; (iv) the suitability of the documents to provide a true and fair picture of the results, assets and liabilities and cash flows of the Issuer and of the companies included in the consolidation; (v) for the separate and consolidated financial statements, that the report on operations includes a reliable analysis of the operating performance and result, as well as the situation of the Issuer and of the companies included in the consolidation, together with a description of the main risks and uncertainties to which they are exposed; (vi) for the condensed half-year financial statements, that the interim report on operations contains a reliable analysis of the information referred to in article 154-ter, paragraph 4 of the TUF.

INTERESTS OF DIRECTORS AND TRANSACTIONS WITH RELATED PARTIES

On 6 September 2019, the Issuer's Board of Directors resolved to adopt a procedure that governs, among other things, the methods for instructing and approving transactions with related parties defined as being of greater importance on the basis of the criteria indicated by the regulations adopted by Consob with Resolution no. 17221 on 12 March 2010 (the "**Related Parties Regulation**") and transactions with related parties defined as being of lesser importance, meaning those other than the most significant transactions and transactions of a small amount (the latter are those with related parties whose value does not exceed €200,000 whether they are a natural person or a legal person) (hereinafter the "**Related Parties Procedure**").

The Related Parties Procedure defines transactions of greater importance as those in which at least one of the significance indicators mentioned in Annex 3 of the Related Parties Regulations exceeds the 5% threshold and entrusts a specific corporate structure, consisting of the FRO supported by the competent functions, with the task of ascertaining how the procedure should be applied to a given transaction, including whether a transaction is classified as being of greater or lesser importance.

In accordance with the Related Parties Regulation, the procedure for transactions of lesser importance requires that, before approving a transaction with related parties, the Related Parties Committee, composed exclusively of independent (pursuant to the TUF and the Corporate Governance Code) and unrelated directors, expresses a non-binding reasoned opinion on the Company's interest in completing it, as well as on the suitability and substantial fairness of the conditions envisaged. In this regard, it is noted that the Issuer has identified the RPT Committee as the competent body in relation to transactions with related parties.

The procedure provides that, without prejudice to the disclosure requirements of article 5 of the Related Parties Regulation, the Issuer will avail itself of the derogation granted by article 10 of the Related Parties Regulation as a newly listed company and, therefore, the approval of the related party transactions of greater importance will take place according to the procedure provided for the approval of related party transactions of lesser importance. This simplified regime will therefore apply from the trading start date until the date of approval of the financial statements for the year ending on 31 December 2021.

After this transitional period, the procedure provides that - for transactions of greater importance – the RPT Committee, or one or more members delegated by it, be involved in the negotiation phase and the investigation phase and, at the end of the latter, express its reasoned opinion on the Company's interest in completing the transaction and on the suitability and substantial fairness of the relevant conditions. The RPT Committee shall make its own assessments and, in the event of a negative opinion or one subject to the acceptance of certain findings:

(a) in the case of a transaction of greater importance that is not the responsibility of the Shareholders' Meeting or does not have to be authorised by it, the Board of Directors may: (i) approve the transaction, provided that the approval resolution fully incorporates the findings made by the RPT Committee; or (ii) approve the transaction despite the contrary opinion or in any case without taking into account the findings of the Committee, provided that the completion of the transaction is authorised by the Shareholders' Meeting, pursuant to article 2364, paragraph 1, no. 5) of the Civil Code and in accordance with the provisions of paragraph (b) below; or (iii) decide not to proceed with the transaction;

(b) in the case of a transaction of greater importance falling within the competence of the Shareholders' Meeting or which must be authorised by it, without prejudice to the provisions of articles 2368, 2369 and 2373 of the Civil Code, the transaction may not be carried out if the majority of unrelated shareholders (meaning persons entitled to vote other than the counterparty to a given transaction and related parties both to the counterparty to a given transaction and to the Company) who vote do so against the transaction, provided that the unrelated shareholders present at the Shareholders' Meeting represent at least 10% of the share capital.

The rules laid down in the procedure do not apply in the following cases:

(a) shareholders' resolutions on the remuneration payable to members of the Board of Directors pursuant to article 2389, paragraph 1 of the Civil Code, as well as resolutions on the remuneration of directors with special responsibilities included in the total amount for the remuneration of all directors previously determined by the Shareholders' Meeting pursuant to article 2389, paragraph 3 of the Civil Code;

(b) resolutions, other than those indicated under (a), on the remuneration of directors with special responsibilities and other managers with strategic responsibilities, provided that:

   i) the Company has adopted a remuneration policy that the Remuneration and Appointments Committee was involved in drafting;

   ii) a report explaining the remuneration policy has been submitted for the approval or advisory vote of the Shareholders' Meeting; and

   iii) the remuneration awarded is consistent with this policy;

(c) transactions of a small amount;

(d) compensation plans based on financial instruments approved by the Shareholders' Meeting pursuant to article *114-bis*of the Consolidated Law on Finance and related executive operations;

(e) transactions that are part of ordinary business and the related financial activity of the Company or of the subsidiary that performs the transaction, carried out at conditions similar to those usually practised with unrelated parties for transactions of a corresponding nature, scale and risk, or based on regulated rates or prices imposed on or practised with subjects with whom the Company is legally obliged to enter into a contract at a certain amount;

(f) transactions carried out by the Company with its subsidiaries or transactions carried out between such subsidiaries, as well as those with associates, if there are no significant interests of other related parties of the Company in the subsidiaries or associates;

(g) shareholders' resolutions on the fees payable to members of the Board of Statutory Auditors pursuant to article 2402 of the Civil Code;

(h) transactions to be carried out on the basis of instructions for stability purposes given by Supervisory Authorities, or on the basis of provisions issued by the parent company for the execution of instructions given by Supervisory Authorities in the interest of the stability of the Group.

The procedure allows the adoption of framework resolutions relating to series of homogeneous operations to be carried out by the Company, directly or through subsidiaries, with certain categories of related parties.

Please note that any decisions regarding the renewal – even if tacit or automatic - of contracts and relationships that the Issuer enters into with related parties in the period prior to the formal adoption of the Related Parties Procedure described above will be taken in accordance with this procedure.

Committee for transactions with related parties

On 9 August 2019, the Company's Board of Directors appointed the directors Emanuela Paola Banfi, Valentina Montanari and Eric Sandrin, all of whom meet the independence requirements set out in the TUF and the Corporate Governance Code, as members of the RPT Committee, with Ms Banfi appointed Chairman.

In particular, the RPT Committee:

- formulates prior opinions on the procedures governing the identification and management of related party transactions carried out by the Issuer and/or Group companies, as well as on the related amendments;
- formulates prior and reasoned opinions, in the cases expressly provided for, on the Issuer's interest in completing the transaction with related parties, as well as on the suitability and substantial fairness of the related conditions; and
- in the case of related party transactions of greater importance, the RPT Committee is involved in the negotiation phase and the investigation phase through the receipt of a complete and timely information flow, with the right to request information and to make comments to the parties responsible for conducting the negotiations or the investigation.

From the Trading Start Date to 31 December 2019, the Related Party Transaction Committee met once and all members participated. The meeting lasted half an hour.

APPOINTMENT OF STATUTORY AUDITORS

By virtue of its New Bylaws (pursuant to articles 21, 22 and 23), the Issuer has adopted a transparent procedure for the appointment of statutory auditors which guarantees, among other things, adequate and timely information on the personal and professional characteristics of candidates for the office.

The Board of Statutory Auditors is elected by the Ordinary Shareholders' Meeting on the basis of lists submitted by shareholders as per the provisions below, ensuring gender balance in accordance with the provisions of applicable laws and regulations.

The presentation of lists is governed by applicable laws and regulations and by the New Bylaws.

Lists can be submitted by shareholders who, alone or together with others, represent, at the time of submission, at least the stake required to submit lists of candidates for the office of director.

The lists are filed with the Company within the deadlines set out in applicable laws, as indicated in the notice of convocation at the Company's registered office or also communicated remotely, and made available to the public under the terms and conditions set out in applicable laws and regulations. Each shareholder, the shareholders adhering to a shareholders' agreement pursuant to article 122 of the TUF, the parent company, subsidiaries, joint ventures and the other entities between which there is a direct or indirect link, pursuant to applicable laws and regulations, may submit - or contribute to the submission, even through an intermediary or trust company - and vote for only one list. Each candidate may appear on only one list under penalty of ineligibility.

Each list shall contain a sequential number of candidates not exceeding the number of members to be elected.

The lists are divided into two sections: one for candidates for the office of standing auditor, the other for candidates for the office of alternate auditor. The first of the candidates in each section must appear in the register of auditors and must have carried out auditing activities for a period of not less than 3 (three) years.

Each list that – considering both sections – presents a number of candidates equal to or greater than 3 (three) must also include candidates of both genders, so that at least one third (rounded up) of the candidates for the office of standing auditor and at least one candidate for the office of alternate auditor (where applicable) belong to the least represented gender.

The following must be filed when the lists are submitted: a) information on the shareholders who have submitted the list, including their stake; b) a declaration by shareholders other than those who hold, even jointly, a controlling interest or a relative majority, certifying the absence of any direct or indirect link, within the meaning of applicable laws and regulations, with the latter; c) the curriculum vitae of the candidates and a statement in which each candidate declares, under his or her own responsibility, that there are no grounds for ineligibility and incompatibility and that he or she fulfils the conditions for appointment; d) information relating to the candidates with an indication of the administration and control positions held in other companies, as well as a statement by the same candidates attesting to the fulfilment of the requirements, including those of integrity, professionalism, independence and related to the accumulation of positions, provided for by current laws and regulations and by the Bylaws and their acceptance of the candidacy and office, if elected; e) a declaration from each candidate accepting their candidacy; f) any other additional or different declaration, information and/or document required by applicable laws and regulations.

Any list that fails to comply with the above provisions shall be deemed not to have been submitted.

Members of the Board of Auditors must meet the requirements of integrity, professionalism, independence and the limit of accumulation of positions provided for by applicable laws and regulations, as well as by the Corporate Governance Code. Matters relating to commercial law, company law, financial market law, tax law, business economics, corporate finance, disciplines having a similar or comparable object, and matters and sectors relating to the business sector of the Company are considered strictly relevant to the scope of the Company's activities.

The Board of Statutory Auditors shall be elected in accordance with the following provisions: a) from the list which obtained the highest number of votes ("majority list"), two standing auditors and one alternate auditor shall be drawn in the sequential order in which they appear on the list; b) from the list which obtained the second highest number of votes in the Shareholders' Meeting ("minority list"), the remaining standing auditor, who shall also be appointed Chairman of the Board of Statutory Auditors, and the other alternate auditor shall be drawn in the sequential order in which they appear on the list. If more than one list has obtained the same number of votes, a new vote shall be taken on said lists by all those who can vote and are present at the Shareholders' Meeting, with the candidates from the list that secures a relative majority being elected.

If gender balance is not ensured in accordance with the provisions of applicable laws and regulations, considering the statutory auditors and alternate auditors separately, the elected candidate belonging to the most represented gender who was last in the sequential order in each section of the majority list, will be replaced by the unelected candidate from the least represented gender taken from the same section of the same list in the sequential order of presentation. If the number of candidates elected on the basis of the lists submitted is lower than the number of statutory auditors to be elected, the remainder will be elected by the Shareholders' Meeting, which decides by relative majority and in such a way that the gender balance required by applicable laws and regulations is respected.

In the case of submission of a single list, the Board of Statutory Auditors is drawn entirely from it in compliance with applicable laws and regulations. If, on the other hand, no list is submitted, the Shareholders' Meeting decides by relative majority in accordance with the provisions of law. In such cases, the Chairman of the Board of Statutory Auditors shall be appointed by relative majority of the votes present at the Shareholders' Meeting.

The Chairman of the Board of Statutory Auditors shall be the statutory auditor elected from the minority list unless only one list is voted on or no list is presented; in such cases, the Chairman of the Board of Statutory Auditors shall be appointed by the Shareholders' Meeting by relative majority of the votes present.

COMPOSITION AND OPERATION OF THE BOARD OF STATUTORY AUDITORS (pursuant to article 123-bis, paragraph 2, letters d) and d-bis) of the TUF)

Pursuant to article 21 of the New Bylaws, the Board of Statutory Auditors shall consist of three standing auditors and two alternate auditors who shall hold office for three financial years, expiring on the date of approval of the financial statements for the third financial year of their office, and shall be eligible for re-election.

The Issuer's Board of Statutory Auditors in office on the Report Date consists of 3 standing auditors and 2 alternate auditors. This Board of Statutory Auditors was appointed by the Issuer’s Ordinary Shareholders' Meeting for a period of 3 years, until approval of the financial statements for the year ending 31 December 2021.

In particular, the Issuer's Board of Statutory Auditors in office consists of:

The members of the Board of Statutory Auditors are as follows:

Name and surname	**Position**	**Place and date of birth**
Massimo Carlomagno	Chairman	Agnone (IS), 22 September 1965
Ester Sammartino	Standing Auditor	Agnone (IS), 23 May 1966
Antonio Mucci	Standing Auditor	Montelongo (CB), 24 March 1946
Giovanni Carlozzi	Alternate Auditor	Matrice (CB), 23 May 1942
Giorgio de Franciscis	Alternate Auditor	Pesaro, 24 July 1941

The New Bylaws provide that the Board of Statutory Auditors is to be appointed on the basis of lists. In this regard, it should be noted that the Issuer's Board of Statutory Auditors was appointed before the entry into force of the New Bylaws and that, therefore, the provisions on list voting will apply from the first renewal following the listing of the Issuer's shares.
Below is a summary of the personal and professional characteristics of the members of the Statutory Board of Auditors.

Massimo Carlomagno - born in Agnone (IS) on 22 September 1965, he obtained a degree in Economics and Business from the University of Salerno in 1990 and has been enrolled in the Register of Chartered Accountants since 1996. From 1999 to 2005 he held the position of Chairman of the Board of Directors of Finanziaria Regionale del Molise S.p.A. Since 2005 he has held the position of Chairman of the Issuer's Board of Statutory Auditors.

Ester Sammartino - born in Agnone (IS) on 23 May 1966, she obtained a degree in Economics and Business from the University of Chieti in 1992 and has been enrolled in the Register of Chartered Accountants since 2002. From 1990 to 2005 she served as a director at Lamel Legno S.r.l. Since 2005 she has held the position of standing auditor on the Issuer's Board of Statutory Auditors.

Antonio Mucci – born in Montelongo (CB) on 24 March 1946, he obtained a degree in Economics and Business from the University of Bari in 1972 and has been enrolled in the Register of Chartered Accountants since 1990 and is also enrolled in the Register of Auditors. From 1991 to 2018 he held the position of auditor in various public bodies, such as the province of Campobasso and the municipalities of Termoli, Larino, Trivento, Riccia, Santa Croce di Magliano, Rotello, Bonefro, Matrice, Montagano, Macchia Valfortore, Morrone del Sannio and Ururi. From 1996 to 2005 he served as Chairman of the Board of Auditors of the Consorzio di Bonifica di Larino. From 1996 to 1999 he served as Chairman of the Board of Statutory Auditors of the cooperative B&G. He was a member of the Board of Statutory Auditors of Piana del Sele S.r.l. from 2007 to 2013. He served first as a member of the board of statutory auditors (from 2011 to 2013) and then as Chairman (from 2014 to 2016) of Finmolise S.p.A. Since 2014 he has held the position of standing auditor on the Issuer's Board of Statutory Auditors.

Giovanni Carlozzi– born in Matrice (CB) on 23 May 1942, he obtained a degree in Economics and Business from the University of Naples in 1968 and has been enrolled in the Register of Auditors since 12 April 1995. Since 9 September 1994 he has held the office of statutory auditor and sole auditor of Molise verso il 2000 Società Cooperativa r.l. Since 2009 he has held the position of alternate auditor for the Issuer.

Giorgio de Franciscis - born in Pesaro on 24 July 1941, he obtained a degree in Economic and Maritime Sciences from the Naples Naval Institute in 1969 and has been enrolled in the Register of Auditors since 1995. Since 1986 he has been a tax professional and auditor and from 1987 to 1993 he was Chairman of the Board of Auditors of the Istituto Autonomo Case Popolari di Campobasso, as well as a director and censor of the Bank of Italy (Campobasso branch) from 1990 to 2001. Since 2013 he has held the position of Chairman of the Board of Statutory Auditors at the Neuromed Foundation. He also holds certain positions in public bodies. Specifically, since 2014 he has been Chairman of the Board of Auditors of the Molise Region and since 2016 he has been Chairman of the Board of Auditors of the Municipality of Isernia. Since 2011 he has held the position of alternate auditor for the Issuer.

During the financial year ended 31 December 2019, the Board of Statutory Auditors met 5 times: on two occasions all members participated, while in 3 meetings Rocco Sergi and Roberto Bonacini were also present. The average duration was half an hour.

Five are scheduled for the current year in addition to the one already held on 19 February 2020, which had a duration of about half an hour, and at which all the Statutory Auditors, plus Rocco Sergi and Roberto Bonacini, were present.

During its meeting of 8 July 2019, the Board of Statutory Auditors verified that all its members met the independence requirements of article 148, paragraph 3 of the Consolidated Law on Finance and the combined provisions of articles 3 and 8 of the Corporate Governance Code, and that none of them finds themselves in the situations provided for in article 148, paragraph 3 of the TUF and the combined provisions of articles 3 and 8 of the Corporate Governance Code, and informed the Board of Directors of this. In particular, the members of the Board of Statutory Auditors have not had, during the last three years, any financial or professional relationships, directly or indirectly through third-party companies or professional firms, with the Issuer.

On the same date, the Board of Statutory Auditors also verified that all its members, as indicated in their *respective curricula vitae* and in the additional information contained in this point, met the requirements of integrity and professionalism required by article 148 of the Consolidated Law on

Finance and the implementing regulations adopted by way of Ministry of Justice Decree no. 162/2000. All statutory auditors have stated that they fulfil the integrity requirements.

It should be noted that the rules dictating that there must be a gender balance among the members elect of the Board of Statutory Auditors, in accordance with the provisions of article 148, paragraph *1- bis* of the Consolidated Law on Finance, have been transposed into the New Bylaws. The composition of the Board of Statutory Auditors at the date of the Report complies with these provisions on gender balance.

None of the members of the Board of Statutory Auditors has any of the family relations referred to in Book I, Title V of the Civil Code with the other members of the Board of Statutory Auditors, members of the Board of Directors or senior management of the Company.
The remuneration of the statutory auditors, resolved by the Shareholders' Meeting on 8 July 2019, is commensurate with the commitment required and the importance of the role played by each member, as well as the size and sectoral characteristics of the Company.

Any statutory auditor who, on their own behalf or on behalf of third parties, has an interest in a particular transaction of the Company is required to promptly and exhaustively inform the other members of the Board of Statutory Auditors, as well as the Chairman of the Board of Directors, about the nature, terms, origin and scope of the interest.

The Board of Statutory Auditors, in the performance of its activities, coordinated and exchanged information with: (i) the Internal Control and Risks Committee, at whose meetings the Board of Statutory Auditors also participates and (ii) the FRO, who took part in all the meetings of the Board of Statutory Auditors.

SHAREHOLDER RELATIONS

In accordance with the provisions of article 9, principle 9.P.1. of the Corporate Governance Code, the Issuer's Board of Directors believes that it is in its own specific interest - as well as a duty towards the market – to establish an ongoing dialogue from the moment of the Listing, based on a mutual understanding of roles, with all shareholders as well as with institutional investors.

It has been decided that this dialogue can be facilitated by setting up dedicated teams within the Company.

In this regard, the Company - in compliance with article 9 of implementation criterion 9.C.1. of the Corporate Governance Code – has appointed Benedetta Mastrolia as Head of Relations with Institutional Investors and Other Shareholders (Head of *Investor Relations*) in order to ensure correct, continuous and complete communication, it being understood that, in the context of such relations, the communication of information documents concerning the Company must take place in compliance with the aforementioned internal procedure.

The Company has created an *Investor Relations* section on its website www.newlat.it, which is easily identifiable and accessible and which contains information about the issuer that is relevant to shareholders, in order to allow them to exercise their rights in an informed manner.

SHAREHOLDERS' MEETINGS (pursuant to article 123-bis, paragraph 2, letter c) of the TUF)

Pursuant to the provisions of applicable laws, an ordinary session of the Shareholders' Meeting is able to approve the financial statements, to appoint and dismiss the directors, statutory auditors and the Chairman of the Board of Statutory Auditors and to determine the remuneration of the directors and statutory auditors, and decides on anything else within its competence under the law. An extraordinary session of the Shareholders' Meeting will deliberate on amendments to the Bylaws, as well as on everything reserved to its competence by law.

The references contained in article 9, principles 9.P.1. and 9.P.2. of the Corporate Governance Code aimed at (i) promoting initiatives aimed at encouraging the widest possible participation of shareholders in meetings and facilitating the exercise of shareholders' rights and (ii) establishing an ongoing dialogue with shareholders based on an understanding of each other's roles (Board of Directors and Shareholders' Meeting), are fully shared by the Company, which considers it appropriate – in addition to ensuring that its directors participate regularly in the shareholders' meetings - to adopt specific measures aimed at getting the most out of the Shareholders' Meeting.

The Shareholders' Meeting resolves on all matters for which it is competent under law and under the Bylaws; moreover, it is expressly invested with the power to dismiss the directors of the Company, even in the absence of just cause, if the relationship of trust between them and the Company has ceased to exist for any reason.

Convocations

Pursuant to article 9 of the New Bylaws, the Shareholders' Meeting is convened, in accordance with the law, at the registered office of the Company or at any place chosen by the Board of Directors, provided that it is in Italy, another EU country or Switzerland. The notice of convocation, containing the information required by applicable laws and regulations, is published on the Company's website and in the other ways provided for by applicable laws and regulations.

The Ordinary Shareholders' Meeting must be convened at least once a year to approve the separate financial statements within 120 (one hundred and twenty) days from the end of the financial year or within 180 (one hundred and eighty) days in the cases provided for by law.

Speaking and voting in the Shareholders' Meeting

Each share gives the right to one vote.

Those entitled to vote may speak at the Shareholders’ Meeting.

Pursuant to article 83-sexies of the Consolidated Law on Finance, eligibility to speak at the Shareholders' Meeting and to exercise the right to vote is attested by a notice given to the Company by the intermediary in favour of the person entitled to vote, on the basis of the evidence relating to the end of the accounting day of the seventh open market day prior to the date set for the Shareholders' Meeting at first call. Such notice from the intermediary must reach the Company by the end of the third open market day prior to the date set for the Shareholders' Meeting at first call or within a different period provided for by applicable laws and regulations. Eligibility to speak and vote remains if the notice has been received by the Company after the deadlines indicated above but before the start of the single-call Shareholders' Meeting.

Those who have the right to speak at the Shareholders’ Meeting may be represented by proxy by another person in the manner prescribed by law. Shareholders have the option to notify the Company of the proxy for participation in the Shareholders' Meeting by sending it to the certified email address or any other method indicated in the notice of convocation.

For each Shareholders’ Meeting, the Company may designate one or more persons to whom the holders of voting rights in the Shareholders' Meeting may confer a proxy with instructions on how to vote on all or some of the items on the agenda.

Execution of the Shareholders' Meeting

The Shareholders' Meeting is duly constituted and deliberates with the majorities required by law.

The Shareholders' Meeting is chaired by the Chairman of the Board of Directors. Should the Chairman be absent or indisposed, the Meeting will be chaired by the person elected with the vote of a majority of those present.

The Shareholders' Meeting may be held with speakers located in several places using telecommunications technology in accordance with the procedures set out in the New Bylaws.

The Chairman of the Meeting, or those he/she has delegated, checks that the Meeting has been duly constituted, ascertains the identity and eligibility of the participants and governs the Meeting, establishing methods of discussion and voting (not in secret ballots) and then verifying the results of votes.

The Chairman shall be assisted by a secretary, who may or may not be a shareholder and is appointed by the Shareholders' Meeting, except as provided for in the second paragraph of article 2371 of the Civil Code.

CHANGES SINCE THE REPORTING DATE

The Board of Directors, during its meeting of 15 January 2020, and therefore after the end of the year, appointed Simone Aiuti as General Manager of *the Milk and Dairy* sector, granting him all the powers necessary for the management of the Dairy Division, such as:

1) company signature
2) powers of attorney
3) employment contracts
4) production organisation
5) food hygiene and safety, by virtue of the delegation from Stefano Cometto
6) environmental protection, by virtue of the delegation from Stefano Cometto
7) management and control powers
8) leases, real rights
9) purchase and sale of goods and services; with the following amount limits:

- movable property up to €50,000 for each transaction when signed individually and up to €200,000 when signed jointly with any other member of the Board of Directors;
- motor vehicles of all kinds, aircraft and boats up to €50,000 for each transaction when signed individually and up to €200,000 when signed jointly with any other member of the Board of Directors;
- supplies and provisions for any type of use that must have an initial maximum duration of one year, subject to renewal, and up to an annual amount of €50,000;
- works contracts, tenders, consultancies and freelance arrangements, including on an ongoing basis, drawing up the related contracts up to an annual amount of €50,000.

10) collections, disposals and receipts
11) banking and financial transactions, with the following amount limits:

- €50,000 for: withdrawals from the Company's bank accounts and payments to its creditors; drawing or accepting bills of exchange; requesting cashier's checks; collecting cheque books to be issued on the Company's current accounts and signing the related request; issuing statements of indemnity,
- €50,000 for: opening, modifying or closing post office current accounts; carrying out any operation permitted on such accounts including withdrawals and the issuance of postal orders; collecting; issuing receipt and discharge in due form for sums or anything else due to

the company from private individuals, firms, entities, institutions, companies of any kind, insurers, banks and pension funds.

12) insurance

13) contracts, tenders and licences

14) judicial proceedings

15) transactions and arbitration

16) tax compliance and obligations

COMMENTS ON THE LETTER OF 19 DECEMBER 2019 FROM THE CHAIRMAN OF THE CORPORATE GOVERNANCE COMMITTEE

The Chairman – at the meeting of 19 March 2020 – brought the Chairman of *the Corporate Governance* Committee's letter of 19 December 2019 to the attention of the Board of Directors, as well as the Control and Risks Committee, the Remuneration and Appointments Committee and the Board of Statutory Auditors.

TABLE 1: OWNERSHIP STRUCTURE INFORMATION

STRUCTURE OF SHARE CAPITAL				
	No. of shares	% of share capital	Listed (show market) /unlisted	Rights and obligations
Ordinary shares	40,780,482.00	100%	Listed on the MTA - STAR segment	Increased vote pursuant to art. 6, paragraph 9 of the Bylaws[13]
Multiple-vote shares	0	0	-	-
Shares with limited right to vote	0	0	-	-
Shares without voting rights	0	0	-	-
Other	-	-	-	-

OTHER FINANCIAL INSTRUMENTS (conferring the right to subscribe newly issued shares)				
	Listed (show market) /unlisted	No. of instruments issued	Category of shares in service of the conversion/exercise	No. of shares in service of the conversion/exercise
Convertible bonds	-	-	-	-
Warrants	-	-	-	-

SIGNIFICANT EQUITY INVESTMENTS			
Declarant	Direct shareholder	Holding % of the ordinary capital	Holding % of the voting capital

[13] See par. 2 (d) of this Report.

TABLE 2: STRUCTURE OF THE BOARD OF DIRECTORS AND COMMITTEES

	Board of Directors												Control and Risks Committee		Remuneration and Appointments Committee	
Position	**Members**	**Year of birth**	**Date of first appointment ***	**Start of term**	**End of term**	**List ****	**Exec.**	**Non exec.**	**Ind. CC**	**Ind. TUF**	**No. of other posts *****	(*)	(*)	(**)	(*)	(**)
Chairman •	Angelo Mastrolia	1964	30/11/06	8/07/19	Shareholders' Meeting to approve the 2021 financial statements	N/A	**x**				10	11/11				
Chief Executive Officer	Stefano Cometto	1972	30/01/13	08/07/19	Shareholders' Meeting to approve the 2021 financial statements	N/A	**x**				3	11/11				
Chief Executive Officer	Giuseppe Mastrolia	1989	29/06/11	08/07/19	Shareholders' Meeting to approve the 2021 financial statements	N/A	**x**				2	10/11				
Director	Benedetta Mastrolia	1995	05/06/14	08/07/19	Shareholders' Meeting to approve the 2021 financial statements	N/A		**x**			1	10/11				
Director	Emanuela Paola Banfi	1969	29/10/19	29/10/19	Shareholders' Meeting to approve the 2021 financial statements	N/A		**x**	**x**	**x**	1	1/1	1/1	**M**	1/1	**M**
Director	Valentina Montanari	1967	29/10/19	29/10/19	Shareholders' Meeting to approve the 2021 financial statements	N/A		**x**	**x**	**x**	4	1/1	1/1	**C**	1/1	**M**
Director ○	Eric Sandrin	1964	29/10/19	29/10/19	Shareholders' Meeting to approve the 2021 financial statements	N/A		**x**	**x**	**x**	19	1/1	1/1	**M**	1/1	**C**
	---------------------------------DIRECTORS REMOVED DURING THE YEAR IN QUESTION -----------------------------------															
		Surname Name	N/A													
	No. of meetings held during the Reference Period: 11						Control and Risks Committee: 1			Remuneration and Appointments Committee: **1**				Executive Committee: **N/A**		
	Indicate *the quorum* required for the submission of lists by minorities for the election of one or more members (pursuant to article 147-ter of the TUF): 2.5%															

NOTES

The following symbols must be inserted in the "Position" column:

• This symbol indicates the director responsible for the internal control and risk management system.

◊ This symbol indicates the Issuer's senior manager (*Chief Executive Officer* or CEO).

○ This symbol indicates *the Lead Independent Director* (LID), where applicable.

* The date of first appointment of each director is the date on which the director was appointed for the very first time to the Issuer's Board of Directors.

** This column shows the list from which each director was drawn ("M": majority list; "m": minority list; "BoD": list submitted by the BoD).

*** This column shows the number of directorial or statutory auditor positions held by the person concerned in other companies listed on regulated markets, including abroad, in financial, banking, insurance or other companies of significant size. The *Corporate Governance* Report provides more details on these positions.

(*). This column shows the participation of directors in the meetings of the Board of Directors and committees respectively.

(**). This column shows the status of the director within the Committee: "C": chairman; "M": member.

TABLE 3: STRUCTURE OF THE BOARD OF STATUTORY AUDITORS

Position	Members	Year of birth	Date of first appointment *	Start of term	End of term	List **	Ind. CC	Attendance at Board of Statutory Auditors meetings ***	No. of other posts ****
Chairman	Massimo Carlomagno	1965	28.02.2005	08.07.2019	Shareholders' Meeting to approve the 2021 financial statements	N/A	■	5/5	3
Standing Auditor	Ester Sammartino	1966	28.02.2005	08.07.2019	Shareholders' Meeting to approve the 2021 financial statements	N/A	■	5/5	1
Standing Auditor	Antonio Mucci	1946	12.06.2009	08.07.2019	Shareholders' Meeting to approve the 2021 financial statements	N/A	■	2/5	2
Alternate Auditor	Giovanni Carlozzi	1942	29.06.2011	N/A	Shareholders' Meeting to approve the 2021 financial statements	N/A	N/A	N/A	N/A
Alternate Auditor	Giovanni Carlozzi	1941	29.06.2011	N/A	Shareholders' Meeting to approve the 2021 financial statements	N/A	N/A	N/A	N/A
--------------------STATUTORY AUDITORS REMOVED DURING THE YEAR IN QUESTION -------------------									
	Surname Name	N/A							
Number of meetings held during the Reference *Period:* 5									
Indicate *the quorum* required for the submission of lists by minorities for the election of one or more members (pursuant to article 148 of the TUF): 2.5%									

NOTES

* The date of first appointment of each statutory auditor is the date on which they were appointed for the very first time to the Issuer's Board of Statutory Auditors.

** This column shows the list from which each statutory auditor was drawn ("M": majority list; "m": minority list).

*** This column shows the participation of statutory auditors in the meetings of the board of Statutory Auditors.

****This column shows the number of director or statutory auditor positions held by the person in question pursuant to article *148-bis* of the Consolidated Law on Finance and the related implementing provisions contained in the Consob Issuers' Regulation. The full list of positions is published by Consob on its website in accordance with article 144-quinquiedecies of the Consob Issuers' Regulation.

Annex A - List of the main positions held by the Directors

List of the main positions held, at the date of this Report, by each Director in other companies listed on regulated markets, including abroad, in financial, banking, insurance or other companies of significant size.

Name and surname	Company	Position	*Status*
Angelo Mastrolia	TMT Property S.r.l.	Chairman of the Board of Directors.	In office
	Newservice S.r.l.	Chairman of the Board of Directors	In office
	New Property S.p.A.	Chairman of the Board of Directors	In office
	Newlat Group SA	Sole Director	In office
	Latterie Riunite Piana del Sele S.r.l. in liquidation	Liquidator	In office
	Biochemia System S.r.l.	Sole Director	In office
	ABGM Group S.A.	Sole Director	In office
	CFR Hypermarché S.A.	Sole Director	In office
	La Standa – Grandi Magazzini Sagl	Manager	In office
	TMT Group S.A.	Sole Director	In office
Giuseppe Mastrolia	New Property S.p.A.	Chief Executive Officer	In office
	TMT Property S.r.l.	Director	In office
Stefano Cometto	Newservice S.r.l.	Vice-Chairman and Chief Executive Officer	In office
	RA Creations S.r.l.s in liquidation	Liquidator	In office
	Gopura Consulting Srl.s	Sole Director	In office

Benedetta Mastrolia	New Property S.p.A.	Director	In office
Emanuela Paola Banfi	Interspac S.r.l.	Director	In office
Valentina Montanari	Cerved Group S.p.A.	Director	In office
		Member of Remuneration and Appointments Committee	In office
		Member of Control and Risks Committee	In office
	Mediolanum Fund Management SGR p.A.	Director	In office
	DB Cargo Italia S.r.l.	Director	In office
Eric Sandrin	Kering Luxembourg SA	Director	In office
	Kering Studio	General Manager (*Directeur Général*)	In office
	Boucheron Uk Limited	Director	In office
	Bottega Veneta International Sarl	Director	In office
	Autumnpaper Limited	Director	In office
	Birdswan Solutions Limited	Director	In office
	Alexander Mcqueen Trading Limited	Director	In office
	Balenciaga Uk LTD	Director	In office
	Balenciaga Japan LTD	Director	In office
	Boucheron Holding SAS	Member of the Strategic Committee *(comité stratégique)*	In office
	Kering Eyewear Apac Limited	Director	In office

	Stella Mccartney Limited	Director	In office
	Kering Holland NV	Director	In office
	Balenciaga SA	Director	In office
	GG France 14	Chairman	In office
	Boucheron Joaillerie (USA), INC	Director	In office
	Kering (China) Enterprise Management Limited	Director	In office
	Lgi (Shanghai) Enterprise Management LTD	Supervisor	In office
	GG France 13	Chairman	In office

Annex B - List of the main positions held by the Statutory Auditors

List of the main positions held, at the date of this Report, by each Statutory Auditor in other companies listed on regulated markets, including abroad, in financial, banking, insurance or other companies of significant size.

Name and surname	**Company**	**Position**	***Status***
Massimo Carlomagno	New Property S.p.A.	Chairman of the Board of Statutory Auditors	In office
	Korg Italy S.p.A.	Standing Auditor	In office
	Bakoo S.p.A.	Standing Auditor	In office
Ester Sammartino	New Property S.p.A.	Standing Auditor	In office
Antonio Mucci	New Property S.p.A.	Standing Auditor	In office
	Finmolise S.p.A.	Standing Auditor	In office

NEWLAT FOOD

Consolidated Financial Statements as at December 31, 2019

Newlat FOOD SpA

CONSOLIDATED FINANCIAL STATEMENTS AT 31 December 2019

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in € thousands)	**Notes**	**At December 31**	
		2019	**2018**
Non-current assets			
Property, plant and equipment	8.1	31,799	25,414
Right-of-use assets	8.2	17,326	18,429
of which transactions with related parties		*9,467*	*12,227*
Intangible assets	8.3	25,217	6,715
Non-current financial assets measured at fair value through profit or loss	8.4	42	31
Financial assets valued at amortised cost	8.5	866	858
of which transactions with related parties		*735*	*735*
Prepaid tax assets	8.6	5,034	4,842
Total non-current assets		**80,284**	**56,288**
Current assets			
Inventories	8.7	25,880	21,797
Trade receivables	8.8	49,274	51,372
of which transactions with related parties		*19*	*1,124*
Current tax assets	8.9	716	797
Other receivables and current assets	8.10	4,701	22,957
of which transactions with related parties			*20,000*
Current financial assets measured at fair value through profit or loss	8.11	4	4
Cash and cash equivalents	8.12	100,884	37,683
of which transactions with related parties		*45,338*	*37,345*
Total current assets		**181,459**	**134,610**
TOTAL ASSETS		**261,743**	**190,898**
Shareholders' equity			
Share capital		40,780	27,000
Reserves		43,593	20,359
Net profit/loss		7,173	3,361
Total net equity	8.13	**91,546**	**50,720**
Non-current liabilities			
Provisions for employee benefits	8.14	10,646	10,569
Provisions for risks and contingencies	8.15	1,396	1,008
Deferred tax liabilities	8.6	3,850	-
Non-current financial liabilities	8.16	12,000	1,691
Non-current lease liabilities	8.3	13,032	14,052
of which transactions with related parties		*6,989*	*9,700*
Other non-current liabilities	8.17	600	-
Total non-current liabilities		**41,524**	**27,320**
Current liabilities			
Trade payables	8.18	85,592	70,485
of which transactions with related parties		*149*	*195*

Current financial liabilities	8.16	22,456	26,106
Current lease liabilities	8.3	4,776	4,988
of which transactions with related parties		*2,341*	*2,676*
Current tax liabilities	8.9	471	410
Other current liabilities	8.19	15,379	10,869
Total current liabilities		**128,674**	**112,858**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**261,743**	**190,898**

CONSOLIDATED INCOME STATEMENT

(in € thousands)	Notes	Year ended 31 December	
		2019	**2018**
Revenue from contracts with customers	9.1	270,752	251,583
of which transactions with related parties		-	*26,442*
Cost of sales	9.2	(224,355)	(215,432)
of which transactions with related parties		*(3,357)*	*(2,874)*
Gross operating profit/(loss)		**46,397**	**36,151**
Sales and distribution costs	9.2	(25,108)	(21,023)
Administrative costs	9.2	(11,511)	(10,309)
of which transactions with related parties		*(417)*	*(810)*
Net write-downs of financial assets	9.3	(674)	(937)
Other revenue and income	9.4	4,642	4,630
Other operating costs	9.5	(2,954)	(2,458)
Operating profit/(loss)		**10,792**	**6,055**
Financial income	9.6	438	1,121
of which transactions with related parties		*408*	*1,026*
Financial expenses	9.6	(1,852)	(1,942)
of which transactions with related parties		*(135)*	*(470)*
Profit (loss) before taxes		**9,377**	**5,233**
Income taxes	9.7	(2,204)	(1,873)
Net profit/loss		**7,173**	**3,361**
Basic net profit/(loss) per share	9.8	0.25	0.12
Diluted net profit/(loss) per share	9.8	0.25	0.12

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in € thousands)	Notes	Year ended 31 December	
		2019	**2018**
Net profit/(loss) (A)		**7,173**	**3,361**
a) Other components of comprehensive income that will not be subsequently reclassified to the income statement:			
Actuarial gains/(losses)	8.13	(343)	209
Tax effect on actuarial gains/(losses)	8.13	94	(67)
Total other components of comprehensive income that will not be subsequently reclassified to the income statement		**(249)**	**142**
Total other components of comprehensive income, net of tax effect (B)		**(249)**	**142**
Total comprehensive net profit/(loss) (A)+(B)		**6,924**	**3,503**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in € thousands)	**Share capital**	**Reserves**	**Net profit/loss**	**Total net equity**
At 31 December 2018	**27,000**	**20,362**	**3,361**	**50,720**
Allocation of net profit/(loss) for the previous year		3,361	(3,361)	**-**
				-
Newlat Deutschland combination	-	(42,367)	-	**(42,367)**
Total transactions with shareholders	**-**	**(42,367)**	**-**	**(42,367)**
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**	**-**	**76,267**
Net profit/loss			7,173	**7,173**
Actuarial gains/(losses) net of the related tax effect		(249)		**(249)**
Total comprehensive net profit/(loss) for the year	**-**	**(249)**	**7,173**	**6,924**
At 31 December 2019	**40,780**	**43,591**	**7,173**	**91,546**

CONSOLIDATED CASH FLOW STATEMENT

(in € thousands)	Notes	At December 31	
		2019	**2018**
Profit (loss) before taxes		9,377	5,233
- Adjustments for:			
Amortisation, depreciation and write-downs	8.1-8.2-8.3	9,989	11,291
Capital losses/(gains) on disposal	8.23-8.24	84	(3)
Financial expense/(income)	8.25	1,367	821
of which transactions with related parties		*273*	*556*
Other non-monetary changes	8.7-8.8-8.15-8.16	2,025	(6,704)
Cash flow generated /(absorbed) by operating activities before changes in net working capital		**22,842**	**10,639**
Increase (decrease) in inventory	8.7	982	403
Increase (decrease) in trade receivables	8.8	409	232
Increase (decrease) in trade payables	8.18	(4,981)	1,570
Change in other assets and liabilities	8.5-8.10-8.17-8.19	12,733	(1,972)
of which transactions with related parties		*10,000*	
Use of provisions for risks and charges and for employee benefits	8.14-8.15	(1,421)	(153)
Taxes paid	8.9	(399)	32
Net cash flow generated /(absorbed) by operating activities		**30,165**	**10,751**
Investments in property, plant and equipment	8.1-8.2	(3,462)	(4,178)
Investments in intangible assets	8.3	(760)	(132)
Disposal of property, plant and equipment	8.1-8.2		9
Divestment of financial assets	8.5-8.11		277
Deferred fee for acquisitions	8.17-8.19	(2,512)	
Acquisition of Delverde Industrie Alimentari S.p.A.	8.13	(2,795)	
Acquisition of Newlat Deutschland	8.13	(27,625)	
Net cash flow generated /(absorbed) by investment activities		**(37,154)**	**(4,024)**
New long-term financial debt	8.16	15,000	-
Repayments of long-term financial debt	8.16	(15,811)	(9,221)
Repayments of lease liabilities	8.3	(4,176)	(4,862)
of which transactions with related parties		*(3,046)*	*(2,940)*
Net interest expense	9.6	(1,368)	(701)
IPO fee	8.13	76,545	
Net cash flow generated/(absorbed) by financing activities		**70,190**	**(14,784)**
Total changes in cash and cash equivalents		**63,201**	**(8,056)**
Cash and cash equivalents at start of year		**37,683**	**45,740**
of which transactions with related parties		*37,345*	*45,323*
Total changes in cash and cash equivalents		63,201	(8,056)
Cash and cash equivalents at end of year		**100,884**	**37,683**
of which transactions with related parties		*45,338*	*37,345*

Reconciliation statement at 31 December 2019 with the values of the Parent Company's separate financial statements

(In € thousands)	Equity	of which Net profit for the period
Balances resulting from the Parent Company's separate financial statements	134,293	7,475
Effect of full consolidation: -		
- Difference between the book value of the consolidated subsidiary Newlat GmbH and the relative share of equity	(42,748)	
- Pro-rata results achieved by the investee in the period 1-11/31-12-2019		(302)
Shareholders' equity and profit/loss for the period from the Group's consolidated financial statements	91,545	7,173

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31 December 2019

1.1 General information and significant transactions carried out in 2019

Newlat Food S.p.A. (hereinafter "**Newlat**", the "**Company**" or the "**Parent Company**" and, together with the company it controls, the "**Newlat Group**" or the "**Group**") is incorporated in Italy in the form of a public limited company, which operates under Italian law. 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 control by the parent company Newlat Group S.A. (hereinafter "**Newlat Group**"), a company that directly owns 66.2% of the share capital, while the remaining part (33.8%) was placed and subscribed by institutional investors.

Acquisition of Newlat Deutschland GmbH

On 20 June 2019, the Company entered into a contract with Newlat Group, the parent company of Newlat Food, for the purchase of Newlat Group's 100% stake in Newlat GmbH Deutschland (hereinafter "**Newlat Deutschland**") (the "**Newlat Deutschland Acquisition Agreement**").

The transfer of ownership of the shares in Newlat Deutschland took place at the same time as the Company's shares began trading on the MTA stock market, on 29 October 2019. This newly controlled company was therefore included in the scope of consolidation as of 1 November 2019.

The fee for the acquisition of all the shares in Newlat Deutschland, as a preliminary estimate of the final fee, was €55 million. The final fee was determined on the basis of the following contractual 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, i.e. on 29 October 2019. The methods of calculating the net financial position and EBITDA that were useful for determining the final consideration had been defined in the contract.

The provisional fee, equal to €55 million, was paid by Newlat Food 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.

The price adjustment, amounting to €13.3 million, was settled between the parties on 2 December 2019 and subsequently paid by the end of 2019.

Following this extraordinary transaction, values of the statement of financial position and the income statement in the consolidated financial statements at 31 December 2019 are not fully comparable with those of the previous financial year. Consequently, these Explanatory Notes mention below, where significant, the effects on the financial statement items deriving from the purchase of the stake in Newlat GmbH.

Being an acquisition between related parties under common control, the difference emerging when offsetting the value of the equity investment against the corresponding amount of equity of the acquired company was recorded as a reduction of consolidated shareholders' equity. This difference is expressed, in the approximate amount of €42 million, in the changes in consolidated shareholders' equity for the 2019 financial year, and in the reconciliation statement between the shareholders' equity from the separate financial statements (in which the value of the investment in Newlat GmbH was booked at the actual purchase price) and the shareholders' equity from the consolidated financial statements.

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. (the "Acquisition of Delverde"). 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 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 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 recognised according to the provisions included in IFRS 3 - "*Business Combinations*", as it is 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.

Following this extraordinary transaction, values of the statement of financial position and the income statement in the consolidated and separate financial statements of Newlat Food at 31 December 2019 are not fully comparable with those of the previous financial year. Consequently, these Explanatory Notes mention below, where significant, the effects on the financial statement items deriving from the purchase of the assets and liabilities of the subsidiary Delverde Industrie Alimentari S.p.A. 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:

(in € thousands)	*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 revenue 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)	*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 valued 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 contingencies	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 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, being consistent with the values with the Consolidated Financial Statements at 31 December 2018.

With regard to this extraordinary transaction, values of the statement of financial position and the income statement in the consolidated financial statements at 31 December 2019 are fully comparable with those of the previous financial year.

Business combinations

Business combinations, by virtue of which control of *a business* is acquired, are recognised in accordance with IFRS 3 "*Business combinations*", applying the so-called *acquisition method*. In particular, the identifiable assets acquired and the liabilities and contingent liabilities assumed are recognised at their current value on the date of acquisition, i.e. the date on which control is acquired (the "Acquisition Date"), with the exception of deferred tax assets and liabilities, employee benefit assets and liabilities and assets held for sale, which are recognised in accordance with the relevant accounting principles. If positive, the difference between the cost of acquisition and the current value of the assets and liabilities is recorded in intangible assets as goodwill; if negative, after having checked that the current values of the assets and liabilities acquired and the cost of acquisition have been properly measured, it is recorded directly in the statement of other comprehensive income, as revenue.

Minority interests on the date of acquisition can be measured at *fair value* or at the pro-rata of the value of the net assets recognised for the acquired company. The valuation method is chosen on a transaction-by-transaction basis.
When the assets and liabilities of the acquired business are calculated on a provisional basis, this must be completed within twelve months of the date of acquisition, taking into account only information relating to facts and circumstances existing at the Acquisition Date. In the year in which the aforementioned calculation is concluded, the provisionally recognised values are adjusted with retrospective effect. The ancillary expenses of the transaction are recognised in the statement of other comprehensive income at the moment at which they are incurred.
The cost of acquisition is represented by *the fair value* on the Acquisition Date of the assets transferred, the liabilities assumed and the equity instruments issued for the purpose of the acquisition, and also includes the contingent consideration, i.e. the part of the fee whose amount and disbursement are dependent on future events. The contingent consideration is recognised on the basis of its *fair value* at the Acquisition Date, and subsequent changes in *fair value* are recognised in the statement of other comprehensive if the contingent consideration is a financial asset or liability, while contingent considerations classified as equity are not restated and the subsequent elimination occurs directly in equity.
Where control is acquired in subsequent phases, the acquisition cost is determined by adding the *fair value* of the investment previously held in the acquiree and the amount paid for the additional portion. Any difference between *the fair value* of the investment previously held and its carrying value is charged to the statement of other comprehensive income. When control is acquired, any amounts previously recognised as other components of comprehensive income are recognised in the statement of other comprehensive income or, if such reclassification is not envisaged, in another shareholders' equity item.

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 and sell shares representing the entire share capital of Delverde.

The following table provides the book values of the net assets acquired as part of the Delverde Acquisition:

(in € thousands)	
Contingent consideration (A)	**3,775**
Property, plant and equipment	2,542
Right-of-use assets	4,739
Intangible assets	208
Non-current financial assets measured at fair value through profit or loss	10
Financial assets valued at amortised cost	8
Total non-current assets	**7,507**
Inventories	2,794
Trade receivables	2,145
Current tax assets	46
Other receivables and current assets	1,044
Cash and cash equivalents	2,168
Total current assets	8,197

TOTAL ASSETS	**15,704**

Provisions for employee benefits	118
Provisions for risks and contingencies	361
Deferred tax liabilities	4
Non-current lease liabilities	3,885
Total non-current liabilities	**4,359**
Trade payables	4,266
Current financial liabilities	603
Current lease liabilities	423
Current tax liabilities	55
Other current liabilities	2,232
Total current liabilities	**7,579**
TOTAL LIABILITIES	**11,938**
Net assets acquired (B)	**3,775**
Difference between contingent consideration and net assets acquired (C=A-B)	**-**

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

On 29 October 2019, Newlat Food SpA successfully concluded operation to list its own shares on the STAR segment of the Mercato Telematico Azionario ("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, the IPO listing, 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 €76,267 thousand.

The aforementioned extraordinary transactions carried out by the Newlat Group in the year ended 31 December 2019 affect the comparability of the consolidated financial statements at 31 December 2019 with the consolidated accounting data for the previous year ended 31 December 2018.

2 ADOPTED ACCOUNTING STANDARDS

The accounting standards and measurement criteria adopted in the preparation and drafting of the annual report at 31 December 2019 are set out below.

The annual report at 31 December 2019 has been drafted in accordance with International Financial Reporting Standards ("IFRS") issued by the *International Accounting Standards Board* ("IASB") and endorsed by the European Union. "IFRS" should also be taken to include *the International Accounting Standards* ("IAS") still in force, as well as all interpretative documents issued by *the IFRS Interpretations Committee*, formerly the *International Financial Reporting Interpretations Committee* ("IFRIC") and even earlier *the Standing Interpretations Committee* ("SIC").

The preparation of financial statements in accordance with IFRS requires judgements, estimates and assumptions that have an effect on the assets, liabilities, costs and revenues. The final results may be different to those obtained through these estimates. The financial statement items that most require greater subjectivity on the part of the directors when producing the estimates and for which a change in the conditions underlying the assumptions used could have a significant impact on the financial statements are: goodwill, depreciation and amortisation of non-current assets, deferred taxes, the provision for doubtful receivables and the provision for inventory write-downs, the provisions for risks, the defined benefit plans for employees and the payables for the purchase of equity investments contained in the other liabilities.

In particular, discretionary measurements and significant accounting estimates relate to the determination of the recoverable amount of non-financial assets calculated as the greater of fair value less costs to sell and value in use. Value in use is calculated based on a discounted cash flow model. The recoverable value depends significantly on the discount rate used in the discounted cash flow model, as well as on expected future cash flows and the growth rate used. The key assumptions used to determine the recoverable value for the two cash-generating units, including a sensitivity analysis, are described in note 8.3 of the Consolidated Financial Statements at 31 December 2019.

The use of significant accounting estimates and assumptions also relates to the determination of the fair value of assets and liabilities acquired as part of business combinations. In fact, at the date of acquisition, the Group must separately recognise, at their fair value, assets, liabilities and contingent liabilities identifiable and acquired or assumed as part of the business combination, and determine the present value of the strike price of any call options on minority shares. This process requires the preparation of estimates, based on valuation techniques, which require judgement in the forecasting of future cash flows as well as the development of other assumptions such as long-term growth rates and discount rates for valuation models developed also with the use of experts outside the management team. The accounting impacts of the determination of the fair value of the assets acquired and liabilities assumed, as well as of the call options of minority interests for the business combinations that occurred during the year, are provided in the previous paragraph of this Note.

2.1 Basis of preparation

The Consolidated Financial Statements consists 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 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 Consolidated Financial Statements have been prepared in thousands of euro, 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 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 consolidated financial statements

The consolidated financial statements were prepared in order to represent the assets, liabilities, revenues and costs directly and indirectly attributable to the Newlat Group.

In relation to the criteria for aggregating financial information, it should be noted that the acquisition of Newlat Deutschland is a business combination *under common control* and, as such, is 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.

2.2 Consolidation criteria and methodology

The Consolidated Financial Statements include the results, assets and liabilities and cash flows of Newlat Food 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.

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

The following table summarises, with reference to the companies included in the scope of the Consolidated Financial Statements, the information relating to the company name, registered office, functional currency and 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 Consolidated Financial Statements, all the companies included within the scope were consolidated using the line-by-line method and no minority interests were recognised.
In preparing the Consolidated Financial Statements, all balances and transactions carried out between the companies included in the scope have been eliminated and therefore the Consolidated Financial Statements do not include any of the transactions in question.
During the year under review, the changes in the scope of consolidation concern the acquisitions of Delverde Industrie Alimentari S.p.A. and Newlat Deutschland.

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. Exchange rate differences that may arise are reflected in the income statement under the item "Net gains/(losses) on foreign exchange".

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.

2.3 Accounting standards and measurement criteria

Adopted accounting standards

The consolidated financial statements have been prepared in accordance with current IFRS issued by the *International Accounting Standards Board* ("**IASB**") and endorsed by the European Union at the end of each of the reporting periods.

The Group exercised the right for early adoption, from 1 January 2018, of IFRS 16 "*Leases*", in force from 1 January 2019, adopting the "*modified retrospective approach*". IFRS 16 replaces the accounting standard IAS 17 "*Leases*" and the interpretations IFRIC 4 "*Determining whether an Arrangement contains a Lease*", SIC 15 "*Operating Leases - Incentives*" and SIC 27 "*Evaluating the Substance of Transactions Involving the Legal Form of a Lease*".

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 company 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 accounted for at cost, as previously described. It is then measured at least once a year to identify any impairment (see in this regard the paragraph below "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 is available for use and is systematically distributed in relation to the residual possibility of use of said asset, i.e. on the basis of the estimated useful life; for the value to be amortised and the recoverability of the carrying amount, the criteria indicated, respectively, in the paragraphs "Property, plant and equipment" and "Impairment of goodwill, property, plant and equipment, intangible assets and right-of-use assets" apply.

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 (IFRS 16)

The Group has exercised its right for early adoption, from 1 January 2018, of the new accounting standard IFRS 16 "*Leases*", which replaces IAS 17 "Leases" and the 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.

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 largely independent cash flows, the recoverable value is determined in relation to the *cash generating unit* ("CGU") to which that 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 at amortised cost

a) Financial assets at amortised cost – 31 December 2019 (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.

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

This category includes financial assets other than those classified under "Financial assets at *fair value* through other comprehensive income" and "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.

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 relating to the year ended 31 December 2019 (IFRS 9 from 1 January 2018).

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 - year ended 31 December 2019 (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.

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.

2.4 Recently issued accounting standards

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

At the date of approval of these Consolidated 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 Group

At the date of approval of these Consolidated 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 Group:

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 amendments 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

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) Inventories: 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) *Lease* liabilities: 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)	**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

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 and 2018 grouped by maturity, net of the provision for bad debts:

(in € thousands)	**Expiring**	**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	8,101	2,721	1,290	**49,274**
Gross trade receivables at 31 December 2018	36,574	12,964	983	15,550	**66,071**
Provision for bad debts	-	(118)	(41)	(14,540)	**(14,699)**
Net trade receivables at 31 December 2018	36,574	12,846	942	1,010	**51,372**

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.

The following table shows, by contractual maturity bands, the Group's financial requirements at 31 December 2019 and 2018, 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 company will pay until the maturity of the debt at the reporting date.

(in € thousands)	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**
Financial liabilities	22,456	3,000	9,000		32,962	**34,456**
Other non-current liabilities	-	-	-	600	600	**600**
Lease liabilities	4,412	4,055	6,762	1,976	17,205	**17,809**
Trade payables	85,592	-	-	-	85,592	**85,592**
Other current liabilities	15,379	-	-	-	15,379	**15,379**

(in € thousands)	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**
Financial liabilities	27,251	1,805	-	-	29,056	**27,797**
Other non-current liabilities	-	-	-	-	-	**-**
Lease liabilities	5,481	4,458	9,549	711	20,199	**19,040**
Trade payables	70,485	-	-	-	70,485	**70,485**
Other current liabilities	10,869	-	-	-	10,869	**10,869**

At 31 December 2019, 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 and 2018:

(in € thousands)	**Book value at 31 December**	
	2019	**2018**
FINANCIAL ASSETS:		
Financial assets at amortised cost:		
Financial assets at amortised cost	866	858
Trade receivables	49,274	51,372
Other receivables and current assets	3,770	12,150
Cash and cash equivalents	100,884	37,683
	154,795	**102,062**
Financial assets valued at fair value through profit or loss:		
Non-current financial assets measured at fair value through profit or loss	42	31
Current financial assets measured at fair value through profit or loss	4	4
	46	**35**
TOTAL FINANCIAL ASSETS	**154,341**	**102,097**

(in € thousands)	**Book value at 31 December**	
	2019	**2018**
FINANCIAL LIABILITIES:		
Financial liabilities at amortised cost:		
Non-current financial liabilities	12,000	1,691
Non-current lease liabilities	13,032	14,052
Other non-current liabilities	600	-
Trade payables	85,592	70,485
Current financial liabilities	22,456	26,106
Current lease liabilities	4,776	4,988
Other current liabilities	15,379	10,869
TOTAL FINANCIAL LIABILITIES	**153,836**	**128,190**

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 and 2018:

(in € thousands)	**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)	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**

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 Consolidated Financial Statements:

(In € thousands)	At and for the year ended 31 December 2019						
	Pasta	*Milk Products*	*Bakery Products*	*Dairy Products*	*Special Products*	Other activities	**Consolidated Financial Statements total**
Revenue from contracts with customers (third parties)	83,118	70,216	35,670	33,271	30,547	17,931	**270,752**
EBITDA (*)	3,314	5,453	5,815	4,030	3,408	619	**22,638**
EBITDA margin (*)	4.0%	8%	16%	12%	11%	3%	**8%**
Amortisation, depreciation and write-downs	3,733	3,381	1,011	466	2,110	472	**11,172**
Net write-downs of financial assets	-	-	-	-	-	674	**674**
Operating profit/(loss)	**(419)**	**2,073**	**4,804**	**3,564**	**1,298**	**(527)**	**10,792**
Financial income	-	-	-	-	-	438	**438**
Financial expenses	-	-	-	-	-	(1,852)	**(1,852)**
Profit (loss) before taxes	**(419)**	**2,073**	**4,804**	**3,564**	**1,298**	**(1,941)**	**9,378**

Income taxes	-	-	-	-	-	(2,204)	**(2,204)**
Net profit/loss	**(419)**	**2,073**	**4,804**	**3,564**	**1,298**	**(4,145)**	**7,173**
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	**170,197**
Investments	2,335	644	1,042	122	229	287	**4,659**
Employees (number)	393	166	132	62	148	52	**953**

(*) 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 Consolidated Financial Statements:

(In € thousands)	**At and for the year ended 31 December 2018**						
	Pasta	*Milk Products*	*Bakery Products*	*Dairy Products*	*Special Products*	Other assets	**Consolidated Financial Statements total**
Revenue from contracts with customers (third parties)	68,442	71,050	35,352	30,190	28,448	18,101	**251,583**
EBITDA (*)	2,675	4,132	4,882	3,296	2,628	669	**18,282**
EBITDA margin (*)	4%	6%	14%	11%	9%	4%	**7%**
Amortisation, depreciation and write-downs	3,106	3,738	1,246	674	2,135	391	**11,290**
Net write-downs of financial assets	-	-	-	-	-	937	**937**
Operating profit/(loss)	**(431)**	**394**	**3,636**	**2,622**	**493**	**(659)**	**6,055**
Financial income	-	-	-	-	-	1,121	**1,121**
Financial expenses	-	-	-	-	-	(1,942)	**(1,942)**
Profit (loss) before taxes	**(431)**	**394**	**3,636**	**2,622**	**493**	**(1,480)**	**5,234**
Income taxes	-	-	-	-	-	(1,873)	**(1,873)**
Net profit/loss	**(431)**	**394**	**3,636**	**2,622**	**493**	**(3,353)**	**3,361**
Total assets	44,843	39,519	13,029	9,529	20,522	63,456	**190,898**
Total liabilities	26,318	39,204	9,361	13,287	11,932	40,076	**140,178**
Investments	1,214	646	1,079	77	2,405	372	**5,793**
Employees (number)	322	130	132	60	145	34	**823**

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

Revenue from contracts with customers deriving from the "Pasta" and "*Milk Products*" sectors amounted jointly to €153,333 thousand and €139,492 thousand for the years ended 31 December 2019 and 2018, equal respectively to 56.6% and 55.4% of revenue from contracts with customers. EBITDA for the "Pasta" and "*Milk Products*" sectors amounted to €8,767 thousand and €6,807 thousand for the years ended 31 December 2019 and 2018, equal to 38.7% and 37.2% respectively.

The "*Bakery Products" and "Dairy Products"* segments have the highest EBITDA *margins* in the two years under review.

In particular, revenues from the "Pasta" sector increased by €14,676 thousand from €68,442 thousand to €83,118 thousand in the year ended 31 December 2019. The increase is mainly due to the acquisition of Delverde Industrie Alimentari S.p.A. EBITDA from the "Pasta" segment is increasing, and in line with revenue trends. The relative EBITDA *margin* was essentially unchanged, from 3.9% at 31 December 2018 to 4.0% at 31 December 2019.

Revenues from the "*Milk Products*" sector decreased by €834 thousand from €71,050 thousand in the year ending 31 December 2018 to €70,216 thousand in the year ending 31 December 2019. This decrease is mainly attributable to a reduction in average sales prices, as a result of an improvement in the purchasing process during 2019. As a result, EBITDA from the "*Milk Products*" sector increased by €1,321 thousand from €4,132 thousand in the year ending 31 December 2018 to €5,453 thousand in the year ending 31 December 2019. Consequently, the related EBITDA *margin* increased by 2 percentage points, from 6% in the year ended 31 December 2018 to 8% in the year ended 31 December 2019.

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 and 2018:

(in € thousands)	**Year ended 31 December**	
	2019	**2018**
Italy	171,684	109,334
Germany	46,359	89,865
Other countries	52,709	52,384
Total revenue from contracts with customers	**270,752**	**251,583**

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

(in € thousands)	**Year ended 31 December**	
	2019	**2018**
Italy	50,545	50,557
Germany	23,797	
Total non-current assets	**74,342**	**50,557**

Finally, in accordance with IFRS 8, paragraph 34, for the years ended 31 December 2019 and 2018, the Group did not have any customers generating more than 10% of its revenues.

8 NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

8.1 Property, plant and equipment

The following table shows the breakdown of and changes in "Property, plant and equipment" for the years ending 31 December 2109 and 2018:

(in € thousands)	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 31 December 2018	**10,375**	**114,835**	**4,382**	**4,664**	**374**	**85**	**134,715**
Investments	80	2,789	118	182	139	1,074	**4,382**
Disposals	-	(16)	(1)	(123)	-	-	**(140)**
Reclassifications	-	157	-	-	-	(157)	**-**
Change to the consolidation scope	4,362	7,267	653	129	1,008	637	**14,056**
Historical cost at 31 December 2019	**14,817**	**125,032**	**5,152**	**4,852**	**1,521**	**1,639**	**153,013**
Provision for depreciation at 31 December 2018	**(5,606)**	**(95,066)**	**(4,148)**	**(4,465)**	**(17)**	**-**	**(109,302)**
Depreciation	(738)	(4,519)	(159)	(148)	(132)	-	(5,696)
Disposals	-	16	-	119	-	-	135
Write-downs	-	-	-	(93)	-	-	(93)
Change to the consolidation scope	(490)	(5,193)	(575)	-	-	-	(6,258)
Provision for depreciation at 31 December 2019	**(6,834)**	**(104,762)**	**(4,882)**	**(4,587)**	**(149)**	**-**	**(121,214)**
Net carrying amount at 31 December 2018	**4,769**	**19,769**	**234**	**199**	**357**	**85**	**25,414**
Net carrying amount at 31 December 2019	**7,983**	**20,270**	**270**	**265**	**1,372**	**1,639**	**31,799**

Investments in property, plant and equipment for the year ended 31 December 2019 totalled €4,382 thousand and were attributable mainly to the renovation of production lines. For more information on investments, please see the "Investments" chapter.

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

At 31 December 2019, the net value of capital contributions classified as a reduction of core plant and equipment amounted to €561 thousand. The related income for the year ended 31 December 2019 amounted to €654 thousand and was classified as a reduction in the depreciation of the aforementioned plant and equipment.

In 2019, the Group recorded property, plant and equipment write-downs of €93 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.

As at 31 December 2019, there are 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 following table shows the changes in the item "Right-of-use assets" for the year ended 31 December 2019:

(in € thousands)	**Right-of-use assets**
Historical cost at 31 December 2018	**23,059**
Increases	909
Decreases	(245)
Change to the consolidation scope	5,667
Historical cost at 31 December 2019	**29,390**
Provision for depreciation at 31 December 2018	**(4,630)**
Depreciation	(5,626)
Disposals	(1,806)
Provision for depreciation at 31 December 2019	**(12,062)**
Net carrying amount at 31 December 2018	**18,429**
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 following table displays the non-discounted contractual values of the Group's *lease* liabilities at 31 December 2019, following the application of IFRS 16 as of 1 January 2018:

(in € thousands)	**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	4,412	4,055	6,762	1,976	**17,205**	**17,809**

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)	**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)	1,748
Total net book value of right-of-use assets	**17,327**
Current lease liabilities	4,776
Non-current lease liabilities	13,032
Total lease liabilities	**17,809**
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 the associate New Property S.p.A., as well as to the plants in Bologna and Corte de' Frati (CR), rented out by the associate Corticella Molini e Pastificio S.p.A. 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 and 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 specific section of these consolidated financial statements.

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

8.3 Intangible assets

The following table shows the breakdown of and changes in "Intangible assets" for the year ended 31 December 2019.

(in € thousands)	**Goodwill**	**Patents and intellectual property rights**	**Concessions, licences, trademarks and similar rights**	**Other assets**	**Assets under development**	**Total**
Historical cost at 31 December 2018	**3,863**	**3,817**	**51,849**	**2,736**	**-**	**62,265**
Investments	-	247	23	7	108	385
Disposals	-	-	-	-	-	-
Acquisition of Newlat Gmbh	-	-	18,844	327	-	19,171
Change to the consolidation scope	-	147	185	-	-	332
Historical cost at 31 December 2019	**3,863**	**4,211**	**70,901**	**3,070**	**108**	**82,153**
Provision for depreciation at 31 December 2018	**-**	**(3,581)**	**(49,250)**	**(2,720)**	**-**	**(55,551)**
Depreciation	-	(122)	(904)	(34)	-	**(1,060)**
Acquisition of Newlat Gmbh	-	-	-	(293)	-	**(293)**
Disposals	-	-	-	-	-	**-**
Change to the consolidation scope	-	(9)	(23)	-	-	**(32)**
Provision for depreciation at 31 December 2019	**-**	**(3,712)**	**(50,177)**	**(3,047)**	**-**	**(56,936)**
Net carrying amount at 31 December 2018	**3,863**	**236**	**2,599**	**16**	**-**	**6,715**
Net carrying amount at 31 December 2019	**3,863**	**499**	**20,724**	**23**	**108**	**25,217**

Investments in intangible assets for the year ended 31 December 2019 amounted to €385 thousand and were mainly attributable to the purchase of *software*. For more information on investments, please see the "Investments" chapter.

There were no indicators of long-term impairment for intangible assets for the year ended 31 December 2019.

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., which represents *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 *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 *cash generating unit* (CGU).

The recoverable value is the value in use, determined by discounting the forecast data of the CGU ("*DCF Method*") for the 3-year period following 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 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*.

<u>*Industrial patents and rights to use intellectual property*</u>

This item consists almost exclusively of *software* costs.

Concessions, licences, trademarks and similar rights

The following table provides a detailed breakdown of the item "Concessions, licences, trademarks and similar rights" at 31 December 2019 and 2018:

(in € thousands)	**At December 31**	
	2019	**2018**
Trademarks with an indefinite useful life	18,844	
Trademarks with a finite useful life	1,880	2,599
Total net book value	**20,724**	2,599

a) Trademarks with an indefinite useful life

This item refers exclusively to the brands "Drei Glocken" and "Birkel" registered by Newlat Deutschland during 2014 in the context of the acquisition of the operating 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 impairment test* at 31 December 2019 used the 2019-2022 Economic and Financial Plan drawn up at the end of the listing process, presented on the Italian Stock Exchange and approved by the Board of Directors on 22 July 2019. The flows used for the purpose of preparing the impairment test differ from the flows present in the above-mentioned Economic and Financial Plan in that the Company has, prudentially, considered a growth in turnover of 1% for the next 3 years, contrary to Plan forecasts. The Board of Directors approved this *impairment 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 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. However, an average annual increase (CAGR) of revenues of 1% was assumed for 2020 and 2021, which is cautious given both the prospects of the pasta sector in the German market (average annual increase in revenues of 2% for the dry pasta segment 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**
WACC	5.4%	5.1%
Long-term growth rate (inflation rate expected in the long term)	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 relative CGU.

The results of the impairment tests carried out at 31 December 2019 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%

b) Trademarks with a finite useful life

This item includes brands owned by Newlat Food S.p.A., 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 and 2018, non-current financial assets valued at *fair value* through profit or loss amounted to €42 thousand and €31 thousand respectively. These balances, which are not material, relate to smaller corporate capital instruments.

8.5 Financial assets at amortised cost

At 31 December 2109 and 2018, financial assets at amortised cost amounted to €866 thousand and €858 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 provides a detailed breakdown of the item "Prepaid tax assets" at 31 December 2019 and 2018.

(in € thousands)	**At December 31**	
	2019	**2018**
Provisions	2,420	2,546
Tax losses carried forward	394	394
Leases	-	-
Amortisation	930	1,085
Miscellaneous	1,290	819

Gross prepaid tax assets	**5,034**	**4,842**
Offsetting with deferred-tax liabilities	-	-
Total prepaid tax assets	**5,034**	**4,842**

Prepaid tax assets are recognised on the financial statements 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 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 provides a detailed breakdown of "Deferred tax liabilities" at 31 December 2019 and 2018:

(in € thousands)	**At December 31**	
	2019	**2018**
Intangible assets	3,850	
Tangible assets	-	-
Other		-
Gross deferred tax liabilities	**3,850**	**-**
Offsetting with prepaid tax assets	-	-
Total deferred tax liabilities	**3,850**	**-**

Deferred tax liabilities arising from intangible assets at 31 December 2019 are attributable to the "Drei Glocken" and "Birkel" brands registered with Newlat Deutschland.

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

(in € thousands)	**Provis ions**	**Tax losses carried forward**	**Leases**	**Amortisation**	**Other**	**Total prepaid tax assets**
Balance at 31 December 2018	**2,546**	**394**	**-**	**1,085**	**817**	**4,842**
Provisions (releases) to income statement	(126)		-	(155)	(66)	(347)
Provisions (releases) to statement of other comprehensive income	-	-	-	-	539	539
Balance at 31 December 2019	**2,420**	**394**	**-**	**930**	**1,290**	**5,034**

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 displays a detailed breakdown of the item "Inventories" at 31 December 2019 and 2018:

(in € thousands)	At December 31	
	2019	**2018**
Raw materials, supplies, consumables and spare parts	14,735	14,038
Finished products and goods	12,048	7,761
Semi-finished products	-	-
Payments on account	41	34
Total gross inventories	**26,824**	**21,833**
Inventory write-down reserve	(944)	(35)
Total inventories	**25,880**	**21,797**

Inventories are recorded net of the obsolescence reserve, which amounted to €944 thousand at 31 December 2019 and related mainly to spare parts for slow-moving equipment. Changes in the inventories write-down reserve during 2019 are shown below:

(in € thousands)	**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 displays a detailed breakdown of the item "Trade receivables" at 31 December 2019 and 2018:

(in € thousands)	At December 31	
	2019	**2018**
Trade receivables from customers	64,675	64,947
Trade receivables from related parties	19	1,124
Trade receivables (gross)	64,694	66,071
Provision for doubtful trade receivables	**(15,420)**	**(14,699)**
Total trade receivables	**49,274**	**51,372**

The following table displays the changes in the provision for doubtful trade receivable for the year ended 31 December 2019:

(in € thousands)	**Provision for doubtful trade receivables**
Balance at 31 December 2018	**14,699**
Provisions	500
Uses	(8)
Releases	-
Change to the consolidation scope	229
Balance at 31 December 2019	**15,420**

The net value of overdue trade receivables at 31 December 2019 amounted to €12,112 thousand, a considerable decrease compared with the previous year.

Analysis of the credit risk, including evidence of the coverage of the individual maturity bands of the provision for bad debts, is reported in the previous section "Management of financial risks".

Analysis of trade receivables with related parties is reported in the below section "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 at 31 December 2019 and €797 thousand at 31 December 2018.

Current tax liabilities totalled €471 thousand at 31 December 2019 and €410 thousand at 31 December 2018.

The changes in the net balances of the assets and liabilities under review for the year ended 31 December 2019 mainly concern the setting aside of current income taxes, amounting to €344 thousand, and payments amounting to €738 thousand.

8.10 Other receivables and current assets

The following table provides a breakdown of the item "Other receivables and current assets" at 31 December 2019 and 2018:

(in € thousands)	**At December 31**	
	2019	**2,018**
Receivables from Newlat Group	-	10,000
Tax assets	2,144	1,336
Receivables from social security institutions	699	768

Accrued income and prepayments	530	265
Payments on account	401	542
Other receivables	927	46
Receivables from New Property SpA	-	10,000
Total other receivables and current assets	**4,701**	**22,957**

Receivables from New Property S.p.A. at 31 December 2018 related to the residual receivable from the adjustment arising from the demerger in favour of the associate New Property S.p.A. in 2017. This receivable was collected in full in the first half of 2019.

Receivables from social security institutions at 31 December 2019 and 2018 mainly refer to receivables from INAIL, amounting to €699 thousand and €768 thousand respectively.

Payments on account at 31 December 2019 and 2018 mainly refer to down payments for supplies.

Tax credits at 31 December 2019 mainly include VAT credits of €454 thousand, research and development credits of €495 thousand and INAIL credits of €556 thousand.

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

The following table shows the breakdown of the item "Current financial assets measured at *fair value* through profit or loss" as at 31 December 2019 and 2018:

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

This item includes bonds held for sale.

8.12 Cash and cash equivalents

The following table displays a detailed breakdown of the item "Cash and cash equivalents" at 31 December 2019 and 2018:

(in € thousands)	**At December 31**	
	2019	**2018**
Bank and postal deposits	100,846	37,644
Cash at hand	38	39
Total cash and cash equivalents	**100,884**	**37,683**

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

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

Part of the aforementioned cash and cash equivalents, amounting to €37,345 thousand and €45,338 thousand respectively at 31 December 2018 and 2019, is attributable to the centralised treasury relationships of Newlat Food and Centrale del Latte di Salerno with the parent company Newlat Group S.A.

At the date of preparation of these 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*.

See the statement of cash flows for changes in the item "Cash and cash equivalents" during the years under review.

8.13 Shareholders' equity

At 31 December 2019, the item "Shareholders' equity" amounted to €91,546 thousand.

As reported in the statement of changes in consolidated equity, such changes in the year ended 31 December 2019 related to:

- the reduction of shareholders' equity in favour of the shareholder Newlat Group S.A., resulting from the payment of the fee of €68,324 thousand for the acquisition of Newlat Deutschland, recognised, against the consolidation of the new subsidiary company from 31 October 2019, as part of the preparation of the consolidated financial statements, consistent with the accounting treatment of transactions between related companies *under common control*;
- the institutional placement 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;
- 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 total net profit for the year, in the amount of €7,173 thousand.
- Actuarial losses of €249 thousand, relating to the discounting of the employee severance indemnity provision.

Share capital

As at 31 December 2019, the Company's fully subscribed and paid-up share capital totalled €40,780,482, divided into 40,780,482 ordinary shares that were dematerialised as a result of the IPO operation.

Legal reserve

At 31 December 2019, the legal reserve totalled €2,123 thousand.

8.14 Provisions for employee benefits

The following table shows the breakdown of and changes in the item "Provisions for employee benefits" for the years ending 31 December 2019 and 2018:

(in € thousands)	**Employee severance indemnity (Italian companies)**	**Newlat Deutschland Pension Plan**	**Employee benefits**
Balance at 31 December 2018	**10,569**		**10,569**
Current service cost	58		58
Financial expenses	159	-	159
Actuarial losses/(gains)	324	-	324
Benefits paid	(1,152)	-	(1,152)
Change to the consolidation scope	125	563	688
Balance at 31 December 2019	**10,083**	**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 liability 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 and 2018, in accordance with the provisions of IAS 19:

	At December 31	
	2019	**2018**
Financial assumptions		
Discount rate	0.77%	1.30%
Inflation rate	1.00%	1.50%
Annual rate of salary increase	1.00%	1.50%
Demographic assumptions		
Death	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

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

	At December 31	
	2019	**2018**
Annual turnover rate and TFR Advances	**Newlat Food**	**Newlat Food**
Frequency of advances	3.50%	3.00%
Frequency of turnover	0.40%	3.80%

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 and 2018:

(in € thousands)	**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)

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 and 2018:

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

8.15 Provisions for risks and charges

The following table shows the breakdown of and changes in the item "Provisions for risks and charges" for the years ending 31 December 2019 and 2018:

(in € thousands)	**Provision for agents' indemnities**	**Provision for legal risks**	**Other provisions for risks and charges**	**Total provisions for risks and charges**
Balance at 31 December 2018	**939**	**69**	**-**	**1,008**
Provisions	128	-	-	128
Uses	-	-	-	-
Releases	(34)	-	-	(34)
Change to the consolidation scope	138	155	-	293
Balance at 31 December 2019	**1,171**	**224**	**-**	**1,395**

The provision for agents' indemnities, amounting to €1,171 thousand at 31 December 2019, represents a reasonable forecast of the charges that would be borne by the Group in the event of future interruption of agency relationships.

8.16 Current and non-current financial liabilities

The following table provides a detailed breakdown of the item "Financial liabilities" (current and non-current) at 31 December 2019 and 2018:

(in € thousands)	At 31 December 2019		At 31 December 2018	
	Current portion	Non-current portion	Current portion	Non-current portion
Payables to Newlat Group SA for cash pooling	-	-	-	-
Total financial debt to Newlat Group	**-**	**-**	**-**	**-**
Unicredit loan agreement (Newlat Food SpA)	1,690		1,644	1,691
Unicredit loan agreement (Newlat Deutschland)	89	-		
Deutsche Bank loan agreement	3,000	12,000		
Trade credit facilities	10,575	-	24,324	-
Other lines of credit	7,000	-	-	-
Current account overdrafts	102	-	138	-
Total financial debt to banks	**22,456**	**12,000**	**26,106**	**1,691**
Total financial liabilities	**22,456**	**12,000**	**26,106**	**1,691**

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

(in € thousands)	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**

The following table shows the net financial position, in the format as per the Consob Communication:

(in € thousands) **Net financial debt**	**At December 31**	
	2019	**2018**
A. Cash	100,884	37,683
B. Cash equivalents	-	-
C. Securities held for trading	4	4
D. Cash and cash equivalents (A)+(B)+(C)	**100,888**	**37,687**
E. Current financial receivables	**-**	**-**
F. Current bank payables	(17,575)	(24,324)
G. Current portion of non-current debt	(4,779)	(1,644)
H. Other current financial debt	(4,878)	(5,126)
I. Current financial debt (F)+(G)+(H)	**(27,232)**	**(31,094)**
- of which guaranteed	*(12,265)*	*(25,968)*
- of which not guaranteed	*(14,967)*	*(5,126)*
J. Net current financial debt (I)+ (E)+ (D)	**73,656**	**6,593**
K. Non-current bank payables	(12,000)	(1,691)
L. Bonds issued	-	-
M. Other non-current financial debt	(13,032)	(14,052)
N. Non-current financial debt (K)+(L)+(M)	**(25,032)**	**(15,743)**
- of which guaranteed	-	*(1,691)*
- of which not guaranteed	*(25,032)*	*(14,052)*
O. O. Net financial debt (J)+ (N)	**48,623**	**(9,150)**

Without considering the effects of IFRS 16, the net financial position would be determined as follows:

(in € thousands)	**At December 31**	
	2019	**2018**
Net financial debt	**48,623**	**(9,150)**
Current lease liabilities	4,776	4,988
Non-current lease liabilities	13,032	14,052
Net Financial Position	**66,432**	**9,890**

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

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 a total 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 2016 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*.

d) Payables for advances on invoices

This item refers 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)	At 31 December 2018	Change in consolidation scope	New loans	Repayments	Reclassifications	At 31 December 2019
Non-current financial liabilities	1,691	-	-	-	10,309	12,000
Current financial liabilities	26,106	7,451	15,000	(15,792)	(10,309)	22,456
Total financial liabilities	**27,797**	**7,451**	**15,000**	**(15,792)**	**-**	**34,456**

8.17 Other non-current liabilities

The following table provides a detailed breakdown of the item "Other non-current liabilities" at 31 December 2019 and 2018:

(in € thousands)	At December 31	
	2019	**2018**
Payables for acquisition of business units	600	-
Total other non-current liabilities	**600**	**-**

Payables for acquisitions of business units in the periods under review refer to the non-current portion of the Newlat Deutschland debt for the prior-year acquisition from Ebro Foods S.A. of the business unit that includes the brands "Drei Glocken" and "Birkel".

8.18 Trade payables

The following table provides a detailed breakdown of the item "Trade payables" at 31 December 2019 and 2018:

(in € thousands)	At December 31	
	2019	**2018**
Trade payables to suppliers	85,443	70,290
Trade payables to related parties	149	195
Total trade payables	**85,592**	**70,485**

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

Analysis of trade payables with related parties is reported in the "Transactions with related parties" section of the Consolidated Financial Statements.

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

8.19 Other current liabilities

The following table provides a breakdown of the item "Other current liabilities" at 31 December 2019 and 2018:

(in € thousands)	At December 31	
	2019	**2018**
Payables to employees	6,862	5,440
Payables to social security institutions	2,603	2,642
Payables for acquisitions of business units	1,973	-
Taxes payable	1,935	1,485
Accrued liabilities and deferred income	1,068	699
Payables for building releases	-	-
Miscellaneous payables	938	603
Total other current liabilities	**15,379**	**10,869**

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 social security institutions for the payment of contributions.

Payables for acquisitions of business units in the periods under review refer to the current portion of the Newlat Deutschland debt for the aforementioned acquisition of the Ebro Foods S.A. business unit that includes the brands "Drei Glocken" and "Birkel".

Tax payables at 31 December 2019 mainly include payables to the Treasury for withholding taxes, amounting to €1,849 thousand.

9 NOTES TO THE CONSOLIDATED INCOME STATEMENT

9.1 Revenue from contracts with customers

The following table provides a breakdown of the item "Revenue from contracts with customers" by operating segment:

(in € thousands)	Year ended 31 December	
	2019	**2018**
Pasta	83,118	68,439
Milk Products	70,216	71,050
Bakery Products	35,670	35,353
Dairy Products	33,271	30,190
Special Products	30,547	28,449
Other assets	17,931	18,101
Total revenue from contracts with customers	**270,752**	**251,583**

The following table provides a breakdown of the item "Revenue from contracts with customers" by distribution channel:

(in € thousands)	Year ended 31 December	
	2019	**2018**
Mass Distribution	150,805	136,774
B2B partners	40,081	38,770
Normal trade	37,443	35,208
Private labels	33,235	32,627
Food services	9,188	8,204
Total revenue from contracts with customers	**270,752**	**251,583**

The following table provides a breakdown of the item "Revenue from contracts with customers" by geographical area:

(in € thousands)	Year ended 31 December	
	2019	**2018**
Italy	171,684	109,334
Germany	46,359	89,865
Other countries	52,709	52,384
Total revenue from contracts with customers	**270,752**	**251,583**

Revenue from contracts with customers for the year ended 31 December 2019 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.

9.2 Operating costs

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

(in € thousands)	Year ended 31 December	
	2019	**2018**
Cost of sales	224,355	215,432
Sales and distribution costs	25,108	21,023
Administrative costs	11,511	10,309
Total operating costs	**260,974**	**246,763**

The table below shows details of the same operating costs broken down according to their nature:

(in € thousands)	Year ended 31 December	
	2019	2018
Purchase and consumption of raw materials and finished goods	132,577	133,252
Personnel costs	46,296	41,131
Packaging	19,967	20,897
Transport	15,616	15,456
Utilities	12,308	11,360
Amortisation, depreciation and write-downs	11,172	11,290
Sales commissions	4,923	4,903
Porterage and logistics	3,120	2,350
Surveillance and cleaning	3,922	3,011
Maintenance and repair	2,434	2,160
Royalties payable	1,694	1,713
Cost for use of third-party assets	1,929	1,054
Advertising and promotions	593	624
Consultancy and professional services	698	514
Insurance	696	581
Laboratory analysis and testing	962	741
Production plant services	388	414
Remuneration to the Chairman and Directors	36	114
Remuneration to independent auditors	248	105
Remuneration to Statutory Auditors	90	33
Release of provision for Ozzano Taro risks	-	(7,795)
Other minor costs	1,305	2,855
Total operating costs	**260,974**	**246,763**

Operating costs increased by €14,211 thousand, from €246,763 thousand in the year ended 31 December 2018 to €260,973 thousand in the year ended 31 December 2019, mainly as a result of the acquisitions of Delverde Industrie Alimentari S.p.A. (from 9 April 2019) and Newlat Deutschland (from 1 November 2019).

9.3 Net write-downs of financial assets

The item "Net write-downs of financial assets", amounting to €674 thousand for the year ending 31 December 2019, refers to the write-down of doubtful trade receivables. A detailed breakdown of changes in the provision for bad debts for the years ending 31 December 2019 and 2018 is set out in note 8.8 - "Trade receivables" to the Consolidated Financial Statements.

9.4 Other revenues and income

The following table provides a breakdown of the item "Other revenues and income":

(in € thousands)	Year ended 31 December	
	2019	2018
Repayments and compensation	2,022	1,587
Advertising revenues and promotional contributions	68	54

Tax credit for research and development activities	200	295
Leases receivable	203	242
Other revenues of the Ozzano Taro plant	282	454
Capital gains from disposal of assets	84	74
Other minor elements of revenue and income	1,783	841
Total other revenue and income	**4,642**	**4,630**

9.5 Other operating costs

The table below shows a detailed breakdown of the item "Other operating costs":

(in € thousands)	**Year ended 31 December**	
	2019	**2018**
Stamps, duties and local taxes	628	764
Corporate canteen	237	221
Repayments and compensation	367	139
Benefits and membership fees	48	131
Losses	-	3
Other minor operating costs	1,674	1,200
Total other operating costs	**2,954**	**2,458**

9.6 Financial income and expenses

The table below shows a detailed breakdown of the item "Financial income":

(in € thousands)	**Year ended 31 December**	
	2019	**2018**
Interest income from *cash pooling*	408	1,026
Net foreign exchange gains	-	81
Other financial income	29	14
Total financial income	**438**	**1,121**

Interest income from cash pooling refers to bank deposits outstanding at 31 December 2019.

The table below shows a breakdown of the item "Financial expenses":

(in € thousands)	**Year ended 31 December**	
	2109	**2018**
Interest expense on bank loans and advances on invoices	833	688
Interest expense on lease liabilities	422	479
Interest expense and charges to Newlat Group	135	470
Fees and commissions	261	146
Net foreign exchange losses	16	-
Net interest expense on provisions for employee benefits	168	145
Other financial expenses	16	14
Total financial expenses	**1,852**	**1,942**

9.7 Income taxes

The table below shows a detailed breakdown of the item "Income taxes":

(in € thousands)	Year ended 31 December	
	2019	**2018**
Current taxes	592	586
Prior-year taxes	-	(190)
Tax benefit to shareholders' equity (accounting effect only)	1,416	
Total current taxes	**2,008**	**396**
Decrease (increase) in prepaid taxes	197	1,476
Increase (decrease) in deferred taxes	(2)	-
Total deferred taxes	**195**	**1,476**
Total income taxes	**2,204**	**1,872**

The following table displays a reconciliation of the theoretical tax rate with the effective impact on the pre-tax result:

(in € thousands)	Year ended 31 December	
	2019	**2018**
Profit (loss) before taxes	**9,377**	**5,233**
Theoretical rate	27.9%	27.9%
Theoretical tax charge	**2,616**	**1,460**
Adjustments		
Difference between theoretical and local rates	42	
Prior-year taxes	-	(190)
Miscellaneous	(454)	603
Income taxes	**2,204**	**1,873**

At *the tax rate* calculated as above, the tax benefit recorded among the reserves of Shareholders' Equity relating to the costs of listing, totalling €1,416 thousand (fully deductible for tax purposes in 2019), must be considered.

The Company was audited by the Finance Police for the years 2016 and 2017. The audit did not reveal significant findings that should be reflected in the statement of financial position, income statement and statement of cash flows of the Company and the Group at 31 December 2019.

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**
Profit for the year attributable to the Group in € thousands	7,173	3,361
Weighted average number of shares in circulation	29,206,707	27,000,000
Earnings per share (€)	**0.25**	**0.12**

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 were made comparable with the 2019 data.

TRANSACTIONS WITH RELATED PARTIES

The transactions entered into by the Group with related parties, identified on the basis of criteria defined by IAS 24 – "Related Party Disclosures", are primarily of a commercial and financial nature and are carried out at arm's length 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
- subsidiaries of the direct parent company or indirect parent companies other than its own subsidiaries and associates ("**Companies controlled by the parent companies**").

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 and 2018:

(in € thousands)	Parent company	Companies controlled by the parent companies			Total	Total statement of financial position items	% of statement of financial position item
	Newlat Group	**Corticella**	**New Property**	**Other companies controlled by the parent companies**			
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	18,429	66.3%
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%
Trade receivables							
At 31 December 2019	-	-	-	19	19	48,774	0.0%
At 31 December 2018	-	-	-	1,124	1,124	51,372	2.2%
Other receivables and current assets							

At 31 December 2019	-	-	-	-	-	4,701	0.0%
At 31 December 2018	10,000	-	10,000	-	20,000	22,957	87.1%
Cash and cash equivalents							
At 31 December 2019	45,338	-	-	-	45,338	100,884	44.9%
At 31 December 2018	37,345	-	-	-	37,345	37,683	99.1%
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	14,052	69.0%
Trade payables							
At 31 December 2019	48	-	57	44	149	85,592	0.2%
At 31 December 2018	130	-	58	7	195	70,485	0.3%
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	4,988	53.6%

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 and 2018:

	Parent company	**Companies controlled by the parent companies**					
(in € thousands)	**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**
Revenue from contracts with customers							
Year ended 31 December 2019				26,442	26,442	**251,583**	10.5%
Year ended 31 December 2018							
Cost of sales							
Year ended 31 December 2019	-	500	2,743	114	3,357	- 224,355	-1.5%
Year ended 31 December 2018	-	469	2,291	114	2,874	215,432	1.3%
Administrative costs							
Year ended 31 December 2019	417	-	-	-	417	11,511	3.6%
Year ended 31 December 2018	810	-	-	-	810	10,309	7.9%
Financial income							
Year ended 31 December 2019	408	-	-	-	408	438	93.2%
Year ended 31 December 2018	1,026	-	-	-	1,026	1,121	91.5%
Financial expenses							
Year ended 31 December 2019	135			-	135	1,852	7.3%
Year ended 31 December 2018	470			-	470	1,942	24.2%

Transactions with parent company Newlat Group

Cash and cash equivalents, amounting to €37,345 thousand and €45,338 thousand respectively at 31 December 2018 and 2019, are attributable to the cash pooling relationships of Newlat Food and Centrale del Latte di Salerno S.p.A. (company merged at 31 December 2019) with the parent company. Of the administrative expenses at 31 December 2019, €288 thousand are attributable to operating expenses incurred by Newlat, Centrale del Latte di Salerno S.p.A. and Newlat Deutschland in relation to service contracts and €417 thousand to fees incurred in relation to the cash pooling agreements signed by Newlat, Centrale del Latte di Salerno S.p.A. and Newlat Deutschland.

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 Molini e Pastifici S.p.A., a real estate company to which lease royalties are paid;
- New Property S.p.A., a real estate company to which lease royalties are paid;
- 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 Latteria Sociale S.p.A.

Corticella Molini e Pastifici S.p.A. (merged into New Property S.p.A.)

At 31 December 2019, €1,641 thousand of right-of-use assets and €460 thousand and €1,222 thousand respectively of current *and non-current lease* liabilities relate to real estate owned by Corticella Molini e Pastifici S.p.A. 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, recorded in the cost of sales, of €469 thousand, and financial charges of €46 thousand. Non-current financial assets at amortised cost at 31 December 2019 refer to security deposits paid to Corticella Molini e Pastifici S.p.A. in relation to this contract.

New Property S.p.A.

At 31 December 2018, €7,826 thousand of right-of-use assets and €1,881 thousand and €8,018 thousand respectively of current *and non-current lease* liabilities relate to the real estate spun off to New Property S.p.A. and subsequently leased to Newlat. The recognition of these contracts according to IFRS 16 led to the recognition of depreciation, recorded in the cost of sales, of €2,291 thousand, and financial charges of €218 thousand for the year ended 31 December 2019.

Of the other receivables and current assets at 31 December 2018, €10,000 thousand referred to the adjustment deriving from the differences between the book values of the assets and liabilities spun off to New Property S.p.A., between 31 December 2016 and the effective date of the spin-off, namely 1 June 2017. This receivable was collected in full by Newlat in the first half of 2019.

10 COMMITMENTS AND GUARANTEES

The following table shows the lease commitments in relation to operating *leases* at 31 December 2019 and 2018; the amount of these commitments, discounted, is reflected in *the lease* liabilities under IFRS 16:

(in € thousands)	At December 31	
	2019	**2018**
Commitments for operating *leases*		
- less than 1 year	1,931	1,931
- between 1 and 5 years	18,075	18,075
- over 5 years	4,881	4,881
Total commitments for operating *leases*	**24,887**	**24,887**

The guarantees given to the Group by Newlat Group S.A. amounted to €47,900 thousand at 31 December 2019 and refer, in the amount of €32,400 thousand, to *a surety* provided in relation to payables to banks for available lines of credit. The remaining amount, totalling €15,500 thousand at 31 December 2019, refers to letters *of sponsorship* in favour of Newlat Deutschland in relation to transactions with UniCredit.

11 OTHER INFORMATION

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

The fees payable to Directors and Statutory Auditors amounted to €106 thousand and €26 thousand respectively in the year ended 31 December 2019.

The total remuneration of managers with strategic responsibilities came to €221 thousand in the year ended 31 December 2019. No loans or advances were granted to Directors in 2019.

11.2 Independent Auditors' fees

The independent auditors' fees for activities carried out in 2019 totalled €206 thousand.

11.3 Research and development activities

Research and development ("R&D"), carried out within the Group, is based on the ability to develop innovative products, sometimes evocative of local tradition, while respecting the target markets.

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

Research and development expenses totalled €3,389 thousand for the year ended 31 December 2019, corresponding to 1.25% of revenues from contracts with Group customers, fully expensed in the income statement.

It should be noted that, for 2019, the Company intends to avail itself of the research and development tax credit provided for in article 1, paragraph 35, of Law no. 190 of 23 December 2014, and to use it in the manner specified in the said legislation.

CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ARTICLE 154-BIS OF LEGISLATIVE DECREE 58/98

Taking into consideration article 154-*bis* (3) and (4) of Legislative Decree no. 58 of 24 February 1998, the undersigned, Angelo Mastrolia, as CEO, and Rocco Sergi, as Financial Reporting Officer, of Newlat Food Group, certify:

the adequacy in relation to the company characteristics, and

the effective application

of the administrative and accounting procedures for preparing the consolidated financial statements during the 2019 financial year.

It is furthermore declared that the consolidated financial statements at 31 December 2019:

a) were prepared in compliance with the applicable international accounting standards adopted by the European Community, pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and Council, of 19 July 2002;

b) correspond with the accounting books and records;

c) provide a true and correct representation of the asset, economic and financial situation of the issuer and of the companies included in the consolidation.

The management report includes a reliable analysis of the performance and results of operations, as well as the situation of the issuer and the companies included in the scope of consolidation, together with a description of the key risks and uncertainties they are exposed to.

Reggio Emilia, 19 March 2020

Chief Executive Officer	Financial Reporting Officer
Angelo Mastrolia	Rocco Sergi

AUDITING FIRM'S REPORT

Independent auditor's report

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

To the shareholders of Newlat Food SpA

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Newlat Food SpA (hereinafter also the "Company") and its subsidiary (the "Newlat Group" or the "Group"), which comprise the consolidated statement of financial position as of 31 December 2019, the consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the year then ended and explanatory notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements of Newlat Food SpA 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 then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree no. 38/05.

Basis for opinion

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

Key audit matters

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

PricewaterhouseCoopers SpA

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Key Audit Matters	*Auditing procedures performed in response to key audit matters*
Recoverability of goodwill	
(See notes 2.3 – "Accounting policies" and 8.3 - "Intangible assets – Goodwill" to the consolidated financial statements as of 31 December 2019) As of 31 December 2019, the carrying amount of goodwill in the consolidated financial statements of Newlat Group was approximately Euro 3.9 million. The Company verifies the recoverability of goodwill at least annually. In our statutory audit of the consolidated financial statements, we considered this a key audit matter in consideration of the materiality of the balance relative to the financial position of Newlat Group as of 31 December 2019 and of the elements of estimation intrinsic to the assessment of recoverability made by the Company's Directors. The valuation models applied to determine the recoverable amount (value in use) of the cash generating unit ("CGU") to which goodwill has been allocated are based on complex valuations and estimates made by management, referred to the growth projections reflected in the Business Plan 2019 – 2022, which was approved by the Board of Directors on 22 July 2019. In detail, the valuation models of the recoverable amount of the CGU to which goodwill has been allocated and the assumptions used in those models are influenced by future market conditions with regard to the future cash flows, the perpetual growth rate and the discount rate. In order to assess the recoverability of goodwill, the Directors of Newlat Food SpA, with the support of an external advisor, prepared a specific impairment test.	Our audit approach involved, first of all, understanding and evaluating the method and procedures defined by the Company to determine the recoverable amount of the CGU to which goodwill has been allocated, which were approved by the Board of Directors on 19 March 2020, in accordance with International Financial Reporting Standard IAS 36 as adopted by the European Union. Specifically, we verified the reasonableness of the assumptions made by the Directors of Newlat Food SpA underlying the identification of the CGU. We verified, also involving business valuation experts from the PwC network, that the method used by the Company was consistent with IAS 36 as adopted by the European Union and with prevailing valuation practice. Moreover, the key valuation parameters adopted by the Company were analysed in terms of reasonableness. With specific reference to the method applied to determine the discount rate (average weighted cost of capital, "WACC"), we verified that the latter had been determined in accordance with best practices and using market data. Similarly, we analysed the determination of the medium-/long-term growth rate ("g") against the guidelines given by IFRS as adopted by the European Union. We also verified the consistency of the cash flows used in the valuation models and those included in the Business Plan 2019 – 2022. We analysed the reasonableness of estimated future cash flows by discussion with the Company's management. We also verified the mathematical accuracy of

Key Audit Matters	***Auditing procedures performed in response to key audit matters***
	the valuation models prepared by the Company. Finally, we verified the adequacy and completeness of disclosures provided in the notes to the consolidated financial statements.
Indefinite-lived intangible assets and impairment testing process	
(See notes 2.3 – "Accounting policies" and 8.3 - "Intangible assets – Indefinite-lived trademarks" to the consolidated financial statements as of 31 December 2019) Indefinite-lived intangible assets relating to the "Drei Glocken" and "Birkel" brands of the newly controlled subsidiary Newlat GmbH, recognised in the consolidated financial statements of Newlat Group as of 31 December 2019 for approximately Euro 18.9 million, are tested annually for impairment, as required by IAS 36. Estimating the recoverable amount of assets being tested for impairment, determined using the value in use method, requires the Directors of Newlat Group to develop estimates that by nature contain significant elements of judgement in relation to the following: - the identification of the cash generating units ("CGU") to which an asset and/or asset group is to be allocated; - the definition of the assumptions underlying the estimation of future cash flows from the CGUs identified, discounted to 31 December 2019, for the purpose of determining the recoverable amount of those assets. We considered this a key audit matter in consideration of the importance of those elements and the materiality of the carrying amounts of	The process of identification and measurement of the recoverable amount of indefinite-lived intangible assets, preliminary to the identification of possible impairment losses, requires in-depth knowledge of the relevant markets and specialist skills. In performing our audit procedures on this financial statements area, we also used the support of business valuation experts from the PwC network. We understood the evaluations and criteria used by the Directors to identify the CGUs of Newlat GmbH to which the indefinite-lived intangible assets have been allocated. We verified, on a test basis, the accuracy and reasonableness of the projections used to determine the future cash flows of the CGUs identified. We assessed the reasonableness of the assumptions underlying the calculation of the recoverable amount of indefinite-lived intangible assets recognised in the consolidated financial statements, also through specific sensitivity analyses performed independently on the key parameters used in the impairment test, namely the discounts rate applied to the estimated future cash flows and the perpetual growth rate "g". Finally, we verified the disclosures provided

Key Audit Matters	*Auditing procedures performed in response to key audit matters*
indefinite-lived intangible assets in the consolidated financial statements as of 31 December 2019.	on those assets in the notes to the consolidated financial statements.

Emphasis of matter

We draw your attention to the disclosure provided in explanatory note 1.1 – 'General information and significant transactions carried out in 2019' with regard to the accounting and financial effects of significant transactions carried out by Newlat Food SpA during the year ended 31 December 2019, which affect the comparability of the consolidated financial statements with the accounting figures of the previous year. Our opinion is not qualified for this matter.

Other matters

The Company, as required by law, has included in the explanatory notes to the consolidated financial statements the key figures of the latest financial statements of the entity which directs and coordinates its activities. Our opinion on the consolidated financial statements of Newlat Food SpA does not extend to those figures

Responsibilities of the Directors and those charged with governance ("Collegio Sindacale") for the consolidated financial statements

The Directors of Newlat Food SpA are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree no. 38/2005 and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance *("Collegio Sindacale")* of Newlat Food SpA are responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA 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 consolidated financial statements.

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

We communicated with those charged with governance, identified at an appropriate level as required by ISA 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.

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

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

Additional disclosures required by article 10 of Regulation (EU) no. 537/2014

On 8 July 2019, the shareholders of Newlat Food SpA in general meeting engaged us to perform the statutory audit of the Company's separate and consolidated financial statements for the years ending 31 December 2019 to 31 December 2027.

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

We confirm that the opinion on the separate financial statements expressed in this report is consistent with the additional report to those charged with governance *("Collegio Sindacale")*, in its capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on compliance with other laws and regulations

Opinion in accordance with article 14, paragraph 2, letter e) of Legislative Decree no. 39/2010 and article 123-bis, paragraph 4 of Legislative Decree no. 58/1998

The Directors of Newlat Food SpA are responsible for preparing a report on operations (jointly prepared for both separate and consolidated financial statements) and a report on corporate governance and ownership structure as of 31 December 2019, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italy) no. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4 of Legislative Decree no. 58/1998, with the consolidated financial statements of Newlat Food SpA as of 31 December 2019 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of Newlat Group as of 31 December 2019 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e) of Legislative Decree no. 39/2010, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Bologna, 27 March 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."

NEWLAT FOOD S.p.A.

Financial Statements as at 31 December 2019

SEPARATE FINANCIAL STATEMENTS AT 31 December 2019

SEPARATE STATEMENT OF FINANCIAL POSITION

(in €)	Notes	At December 31	
		2019	**2018**
Non-current assets			
Property, plant and equipment	8.1	26,949,300	20,745,279
Right-of-use assets	8.2	17,207,891	16,798,713
of which transactions with related parties		9,467,000	12,227,000
Intangible assets	8.3	6,387,607	2,176,546
Investments in subsidiaries	8.4	68,323,752	12,701,000
Non-current financial assets measured at fair value through profit or loss	8.5	42,075	30,670
Financial assets valued at amortised cost	8.6	866,210	856,410
of which transactions with related parties		735,000	735,000
Prepaid tax assets	8.7	5,032,160	4,242,644
Total non-current assets		**124,808,995**	**57,551,261**
Current assets			
Inventories	8.8	22,628,658	21,024,223
Trade receivables	8.9	52,335,233	47,897,094
of which transactions with related parties		3,095,703	5,491,983
Current tax assets	8.10	715,636	748,433
Other receivables and current assets	8.11	3,035,100	24,367,328
of which transactions with related parties		-	21,478,000
Current financial assets measured at fair value through profit or loss	8.12	4,240	4,240
Cash and cash equivalents	8.13	70,184,098	31,239,000
of which transactions with related parties		24,159,000	30,940,000
Total current assets		**148,902,965**	**125,280,318**
TOTAL ASSETS		**273,711,959**	**182,831,580**
Shareholders' equity			
Share capital		40,780,482	27,000,000
Reserves		86,037,456	19,768,697
Net profit/loss		7,474,719	3,113,717

Total net equity	8.14	**134,292,657**	**49,882,414**
Non-current liabilities			
Provisions for employee benefits	8.15	10,082,810	9,163,469
Provisions for risks and contingencies	8.16	1,395,683	468,149
Deferred tax liabilities	8.7	-	-
Non-current financial liabilities	8.17	12,000,000	1,690,723
Non-current lease liabilities	8.2	12,969,293	13,032,000
of which transactions with related parties		6,989,000	9,700,000
Total non-current liabilities		**36,447,786**	**24,354,341**
Current liabilities			
Trade payables	8.18	69,576,718	66,964,973
of which transactions with related parties		149,000	195,000
Current financial liabilities	8.17	15,366,853	26,106,147
Current lease liabilities	8.2	4,714,481	4,295,000
of which transactions with related parties		2,341,000	2,676,000
Current tax liabilities	8.10	470,742	398,820
Other current liabilities	8.19	12,842,722	10,829,885
of which transactions with related parties			1,059,000
Total current liabilities		**102,971,516**	**108,594,825**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**273,711,959**	**182,831,580**

SEPARATE INCOME STATEMENT

(in € thousands)	Notes	Year ended 31 December	
		2019	**2018**
Revenue from contracts with customers	8.20	258,046,888	231,397,149
of which transactions with related parties		17,525,000	51,562,827
Cost of sales	8.21	(213,652,693)	(203,056,120)
of which transactions with related parties		(3,357,000)	(2,874,000)
Gross operating profit/(loss)		**44,394,195**	**28,341,029**
Sales and distribution costs	8.21	(24,527,600)	(16,355,186)
Administrative costs	8.21	(11,161,950)	(7,881,519)
of which transactions with related parties		(400,667)	(690,000)
Net write-downs of financial assets	8.22	(673,873)	(783,195)
Other revenues and income	8.23	5,614,145	4,642,468
Other operating costs	8.24	(2,875,731)	(2,286,987)
Operating profit/(loss)		**10,769,186**	**5,676,611**
Financial income	8.25	399,855	1,077,358
of which transactions with related parties		370,762	989,219
Financial expenses	8.25	(1,745,477)	(1,867,300)
of which transactions with related parties		(134,816)	(470,000)
Profit (loss) before taxes		**9,423,564**	**4,886,669**
Income taxes	8.26	(1,948,845)	(1,772,952)
Net profit/loss		**7,474,719**	**3,113,717**
Basic net profit/(loss) per share	8.27	0.26	0.12
Diluted net profit/(loss) per share	8.27	0.26	0.12

SEPARATE STATEMENT OF OTHER COMPREHENSIVE INCOME

(in € thousands)	Notes	Year ended 31 December	
		2019	**2018**
Net profit/(loss) (A)		**7,474,719**	**3,113,717**
a) Other components of comprehensive income that will not be subsequently reclassified to the income statement:			
Actuarial gains/(losses)	8.14	(343,000)	99,184
Tax effect on actuarial gains/(losses)	8.14	94,000	(27,672)
Total other components of comprehensive income that will not be subsequently reclassified to the income statement		**(249,000)**	**71,512**
Total other components of comprehensive income, net of tax effect (B)		**(249,000)**	**71,512**
Total comprehensive net profit/(loss) (A)+(B)		**7,225,719**	**3,185,228**

SEPARATE STATEMENT OF CHANGES IN EQUITY

(in €)	Share capital	Reserves	Net profit/loss	Total net equity
At 31 December 2018	**27,000,000**	**19,768,697**	**3,113,717**	**49,882,413**
Allocation of net profit/(loss) for the previous year		3,113,717	(3,113,717)	**-**
				-
Merger of Centrale del Latte di Salerno S.p.A.	-	916,892	-	**916,892**
Share capital increase via IPO	13,780,482			**13,780,482**
Increase in the share premium reserve		66,146,790		**66,146,790**
IPO costs		(5,076,739)		**(5,076,739)**
Tax benefit on IPO costs		1,416,410		**1,416,410**
IPO total	**13,780,482**	**62,486,461**	**-**	**76,266,943**
Net profit/loss			7,474,719	**7,474,719**
Actuarial gains/(losses) net of the related tax effect		(248,310)		**(248,310)**
Total comprehensive net profit/(loss) for the year	**-**	**(248,310)**	**7,474,719**	**7,226,409**
At 31 December 2019	**40,780,482**	**86,037,456**	**7,474,719**	**134,292,657**

SEPARATE STATEMENT OF CASH FLOWS

(in €)	Notes	At December 31	
		2019	**2018**
Profit (loss) before taxes		9,423,564	4,886,669
- Adjustments for:			
Amortisation, depreciation and write-downs	8.1-8.2-8.3	9,989,444	9,904,970
Capital losses/(gains) on disposal	8.23-8.24	84,000	(3,252)
Financial expense/(income)	8.25	1,367,999	789,941
of which transactions with related parties		*235,946*	*519,219*
Other non-monetary changes	8.8-8.9-8.16-8.17	2,025,000	(6,883,471)
Cash flow generated /(absorbed) by operating activities before changes in net working capital		**22,890,007**	**8,694,857**
Increase (decrease) in inventory	8.9	981,630	347,520
Increase (decrease) in trade receivables	8.10	409,369	856,156
Increase (decrease) in trade payables	8.19	(4,980,955)	1,193,219
Change in other assets and liabilities	8.6-8.11-8.18-8.19	10,164,480	(1,043,542)
of which transactions with related parties		*10,000,000*	
Use of provisions for risks and charges and for employee benefits	8.15-8.16	(1,420,973)	(210,265)
Taxes paid	8.11	(398,820)	(5,265)
Net cash flow generated /(absorbed) by operating activities		**27,644,738**	**9,832,680**
Investments in property, plant and equipment	8.1-8.2	(3,461,609)	(4,975,193)
Investments in intangible assets	8.3	(752,054)	(132,557)
Disposal of property, plant and equipment	8.1-8.2		9,222
Investments in financial assets	8.4-8.5-8.11	(58,323,752)	276,210
Acquisition of Delverde Industrie Alimentari S.p.A.	8.14	(2,795,000)	
Net cash flow generated /(absorbed) by investment activities		**(65,332,415)**	**(4,822,318)**
New long-term financial debt	8.18	15,000,000	-
Repayments of long-term financial debt	8.18	(15,811,017)	(9,220,849)
Repayments of lease liabilities	8.2	(4,176,317)	(3,525,678)
of which transactions with related parties		*(3,046,000)*	*(2,940,000)*
Net interest expense	8.25	(1,368,000)	(669,720)
IPO fee	8.14	76,544,563	
Net cash flow generated/(absorbed) by financing activities		**70,189,229**	**(13,416,247)**
Total changes in cash and cash equivalents		**32,501,552**	**(8,405,885)**
Cash and cash equivalents at start of year		**31,239,000**	**39,644,885**
of which transactions with related parties		*30,940,000*	*39,340,000*
Cash and cash equivalents from the merger of Centrale del Latte di Salerno S.p.A.		6,443,546	
Total changes in cash and cash equivalents		32,501,552	(8,405,885)

Cash and cash equivalents at end of year	**70,184,098**	**31,239,000**
of which transactions with related parties	*24,159,000*	*30,940,000*

EXPLANATORY NOTES TO THE SEPARATE FINANCIAL STATEMENTS

1.1 General information and significant transactions carried out in 2019

Newlat Food S.p.A. (hereinafter "**Newlat**", the "**Company**" or the "**Parent Company**" is incorporated in Italy in the form of a public limited company and operates under Italian law. The Company has its registered office at Via J. F. Kennedy 16, Reggio Emilia.

The Company operates 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 control by the parent company Newlat Group S.A. (hereinafter "**Newlat Group**"), a company that directly owns 66.2% of the share capital, while the remaining 33.8% was placed and subscribed by institutional investors.

Acquisition of Newlat Deutschland GmbH

On 20 June 2019, the Company entered into a contract with the parent company Newlat Group for the purchase of Newlat Group's 100% stake in Newlat GmbH Deutschland (hereinafter "**Newlat Deutschland**") (the "**Newlat Deutschland Acquisition Agreement**").

The transfer of ownership of the shares in Newlat Deutschland took place at the same time as the Issuer's shares began trading on the STAR segment of Borsa Italiana's MTA stock market, on 29 October 2019.

The preliminary fee for the acquisition Newlat Deutschland was €55 million. The final fee was determined on the basis of 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, i.e. on 29 October 2019. The methods of calculating the net financial position and EBITDA that were useful for determining the final consideration were defined by the parties in the contract.

The provisional fee was paid by Newlat Food S.p.A. 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.

The price adjustment, amounting to €13.3 million, was settled on 3 December 2019 and subsequently paid by the end of 2019.

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.

(the "**Acquisition of Delverde**"). 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 on the execution date, of €3,775 thousand, which was 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 because of 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, because of the non-collection of receivables, net of the related provision for bad debts recorded in the financial statements. The positive price adjustment amounted to €146 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 fell 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 as well as a reduction in overall costs. This extraordinary transaction has generated effects on the Company's separate financial statements as at 31 December 2019, due to the consolidation of Delverde as of 9 April 2019, i.e. the date of acquisition of all the shares of said subsidiary, subsequently merged by incorporation.

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 backdated to the date of acquisition, i.e. 9 April 2019.

The transaction was recognised according to the provisions included in IFRS 3"- Business Combinations", as it is an acquisition. No difference emerged when offsetting the value of the equity investment against the corresponding amount of equity of the incorporated company, including the effects of *the purchase price allocation* shown in the separate financial statements.

Following this extraordinary transaction, values of the statement of financial position and the income statement in the separate financial statements of Newlat Food at 31 December 2019 are not fully comparable with those of the previous financial year. Consequently, these Explanatory Notes mention below, where significant, the effects on the financial statement items deriving from the incorporation of the assets and liabilities of the subsidiary Delverde Industrie Alimentari S.p.A. For information on the impact of this subsequently merged subsidiary, the book values, drafted in conformity with IAS/IFRS accounting standards, of the subsidiary Delverde Industrie Alimentari S.p.A from 9 April to 31 December 2019, are given below:

(in € thousands)	*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)	*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 valued 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 contingencies	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 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. DRAFTED BY proposed merger by incorporation of the wholly owned subsidiary Centrale del Latte di Salerno S.p.A. The transaction fell 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 as well as a reduction in overall costs. This extraordinary transaction has generated effects on the separate financial statements at 31 December 2019, due to the consolidation of Centrale del Latte di Salerno as of 1 January 2019, i.e. the accounting backdating date of the merger by incorporation.

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 the merger by incorporation of 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 cost and control relationship, and relative purchase price allocation, deriving from the Company's separate 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 separate 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 subsidiary) and as goodwill in the amount of €3,863, being consistent with the corresponding goodwill recognised in the Consolidated Financial Statements at 31 December 2018.

Following this extraordinary transaction, the results and assets and liabilities on the separate financial statements at 31 December 2019 are not fully comparable with those of the previous financial year, which did not include the accounting data relating to Centrale del Latte di Salerno S.p.A.

For information on the impact of this subsequently merged subsidiary, the book values, drafted in conformity with IAS/IFRS accounting standards, of Centrale del Latte di Salerno, are given below:

(in € thousands)	*IFRS reporting package*
Revenue from contracts with customers	43,369
Cost of sales	-37,713
Gross operating profit/(loss)	**5,656**
Sales and distribution costs	-3,538
Administrative costs	-2,000
Net write-downs of financial assets	-467
Other revenues and income	652
Other operating costs	-174
Operating profit/(loss)	**129**
Financial income	55
Financial expenses	-102
Profit (loss) before taxes	**81**
Income taxes	-5
Net profit/loss	**76**

(in € thousands)	*IFRS reporting package*
Non-current assets	
Property, plant and equipment	4,177
Right-of-use assets	938
Intangible assets	396
Non-current financial assets measured at fair value through profit or loss	0
Financial assets valued at amortised cost	1
Prepaid tax assets	618
Total non-current assets	**6,131**
Current assets	
Inventories	709
Trade receivables	6,763
Current tax assets	34
Other receivables and current assets	740
Current financial assets measured at fair value through profit or loss	0
Cash and cash equivalents	8,046
Total current assets	**16,292**
TOTAL ASSETS	**22,422**
Shareholders' equity	**9,748**
Non-current liabilities	

Provisions for employee benefits	1,068
Provisions for risks and contingencies	592
Deferred tax liabilities	0
Non-current financial liabilities	0
Non-current lease liabilities	637
Other non-current liabilities	0
Total non-current liabilities	**2,297**
Current liabilities	
Trade payables	7,750
Current financial liabilities	0
Current lease liabilities	426
Current tax liabilities	0
Other current liabilities	2,199
Total current liabilities	**10,375**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**22,422**

As reported above, 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 and sell shares representing the entire share capital of Delverde.

The following table provides the book values of the net assets acquired as part of the Delverde Acquisition:

(in € thousands)	
Fee (A)	**3,775**
Property, plant and equipment	2,542
Right-of-use assets	4,739
Intangible assets	208
Non-current financial assets measured at fair value through profit or loss	10
Financial assets valued at amortised cost	8
Total non-current assets	**7,507**
Inventories	2,794
Trade receivables	2,145
Current tax assets	46
Other receivables and current assets	1,044
Cash and cash equivalents	2,168
Total current assets	8,197
TOTAL ASSETS	**15,704**
Provisions for employee benefits	118
Provisions for risks and contingencies	361
Deferred tax liabilities	4
Non-current lease liabilities	3,885
Total non-current liabilities	**4,359**
Trade payables	4,266
Current financial liabilities	603
Current lease liabilities	423
Current tax liabilities	55
Other current liabilities	2,232

Total current liabilities	**7,579**
TOTAL LIABILITIES	**11,938**
Net assets acquired (B)	**3,775**
Difference between fee and net assets acquired (C=A-B)	**-**

In accordance with paragraph 45 of IFRS 3 - "Business combinations", concerning the methods of accounting for business combinations, which provides for a "valuation period" during which the company must carry out a preliminary initial recognition of the acquisition and complete the valuation at a later time and in any case within 12 months from the date of acquisition, the final valuation of the current value of Delverde's net assets acquired by the Company was completed in December 2019. In accordance with the same paragraph, Delverde's assets and liabilities were measured at *fair value* and there was no difference between the fee and the net assets acquired.

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

On 29 October 2019, Newlat Food S.p.A. successfully concluded the operation to list its own shares on the STAR segment of the Mercato Telematico Azionario ("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 shareholders' equity at 31 December 2019 (share capital and share premium reserve). In accordance with the provisions of IAS 32, the IPO listing, 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 shareholders' equity at 31 December 2019 of €76,267 thousand.

The aforementioned extraordinary transactions carried out by Newlat Food S.p.A. in the year ended 31 December 2019 affect the comparability of the separate financial statements at 31 December 2019 with the accounting data for the previous year ended 31 December 2018.

2 ADOPTED ACCOUNTING STANDARDS

The accounting standards and measurement criteria adopted in the drafting of the separate financial statements at 31 December 2019 are set out below.

The separate financial statements at 31 December 2019 have been drafted in accordance with International Financial Reporting Standards ("IFRS") issued by the *International Accounting Standards Board* ("IASB") and endorsed by the European Union. "IFRS" should also be taken to include *the International Accounting Standards* ("IAS") still in force, as well as all interpretative documents issued by *the IFRS Interpretations Committee*, formerly the *International Financial Reporting Interpretations Committee* ("IFRIC") and even earlier *the Standing Interpretations Committee* ("SIC").

The separate financial statements are presented in euros. The financial statements are prepared according to the cost criterion, with the exception of financial instruments that are measured at *fair value.*

The preparation of financial statements in accordance with IFRS requires judgements, estimates and assumptions that have an effect on the assets, liabilities, costs and revenues. The final results may be different to those obtained through these estimates. The financial statement items that most require greater subjectivity on the part of the directors when producing the estimates and for which a change in the conditions underlying the assumptions used could have a significant impact on the financial statements are: goodwill, depreciation and amortisation of non-current assets, deferred taxes, the provision for doubtful receivables and the provision for inventory write-downs, the provisions for risks, the defined benefit plans for employees and the payables for the purchase of equity investments contained in the other liabilities.

In particular, discretionary measurements and significant accounting estimates relate to the determination of the recoverable amount of non-financial assets calculated as the greater of fair value less costs to sell and value in use. Value in use is calculated based on a discounted cash flow model. The recoverable value depends significantly on the discount rate used in the discounted cash flow model, as well as on expected future cash flows and the growth rate used. The key assumptions used to determine the recoverable value for the two cash-generating units, including a sensitivity analysis, are described in note 8.3 of the Separate Financial Statements at 31 December 2019.

The use of significant accounting estimates and assumptions also relates to the determination of the fair value of assets and liabilities acquired as part of business combinations. In fact, at the date of acquisition the Company must separately recognise, at their *fair value*, assets, liabilities and contingent liabilities identifiable and acquired or assumed as part of the business combination, and determine the present value of the strike price of any call options on minority shares. This process requires the preparation of estimates, based on valuation techniques, which require judgement in the forecasting of future cash flows as well as the development of other assumptions such as long-term growth rates and discount rates for valuation models developed also with the use of experts outside the management team. The accounting impacts of the determination of the fair value of the assets acquired and liabilities assumed, as well as of the call options of minority interests for the business combinations that occurred during the year, are provided in the Note "*Business Combinations*".

2.1 Basis of preparation

The Separate 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.

It should be noted that the amendments introduced by IFRS 9, IFRS 15 and IFRS 16 have been adopted since 2018.

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 Separate Financial Statements were drafted in euros, the functional currency of the Company. The statement of financial position, income statement, statement of cash flows, explanatory notes and tables are in units and thousands of euro, unless otherwise indicated.

The separate 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 separate financial statements

The separate financial statements were prepared in order to represent the assets, liabilities, revenues and costs directly and indirectly attributable to Newlat.

In relation to the criteria for aggregating financial information, it should be noted that the acquisition of Newlat Deutschland is a business combination *under common control* and, as such, is 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.

At 31 December 2019, the value of Newlat Gmbh's shareholding in the amount of €68,323,752 was recorded in the separate financial statements.

2.2 Declaration of conformity with international financial reporting standards

The Separate 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)*.

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. Exchange rate differences that may arise are reflected in the income statement under the item "Net gains/(losses) on foreign exchange".

2.3 Accounting standards and measurement criteria

Adopted accounting standards

The separate financial statements have been prepared in accordance with current IFRS issued by the *International Accounting Standards Board* ("**IASB**") and endorsed by the European Union at the end of each of the reporting periods.

The Company exercised the right for early adoption, from 1 January 2018, of IFRS 16 "*Leases*", in force from 1 January 2019, adopting the "*modified retrospective approach*". IFRS 16 replaces the accounting standard IAS 17 "*Leases*" and the interpretations IFRIC 4 "*Determining whether an Arrangement contains a Lease*", SIC 15 "*Operating Leases - Incentives*" and SIC 27 "*Evaluating the Substance of Transactions Involving the Legal Form of a Lease*".

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 Company 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 Company 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 Company for the various categories of intangible assets is shown below:

Category of assets	Useful Life
Goodwill	unlimited
Other brands	18 years
Software licences	5 years
Other assets	5 years

The main intangible assets are commented on below:

Goodwill

Goodwill is classified as an intangible asset with an indefinite useful life and is initially accounted for at cost, as previously described. It is then measured at least once a year to identify any impairment (see in this regard the paragraph below "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.

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 is available for use and is systematically distributed in relation to the residual possibility of use of said asset, i.e. on the basis of the estimated useful life; for the value to be amortised and the recoverability of the carrying amount, the criteria indicated, respectively, in the paragraphs "Property, plant and equipment" and "Impairment of goodwill, property, plant and equipment, intangible assets and right-of-use assets" apply.

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

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

The Company has exercised its right for early adoption, from 1 January 2018, of the new accounting standard IFRS 16 "*Leases*", which replaces IAS 17 "Leases" and the 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 Company 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 Company 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 Company 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.

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 largely independent cash flows, the recoverable value is determined in relation to the *cash generating unit* ("CGU") to which that 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 at amortised cost

b) Financial assets at amortised cost – 31 December 2019 (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 at fair value through other comprehensive income – 31 December 2019(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

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

This category includes financial assets other than those classified under "Financial assets at *fair value* through other comprehensive income" and "Financial assets at amortised cost". This item, in particular, includes only equity instruments held for purposes other than trading for which the Company 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 separate income statement.

<u>*Inventories*</u>

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 relating to the year ended 31 December 2019 (IFRS 9 from 1 January 2018).

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 Company 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 Company 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

b) Revenue from contracts with related customers - year ended 31 December 2019 (IFRS 15)

The Company 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 Company 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 Company 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 Company 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 Company does not create an asset which has an alternative use and the Company has the enforceable right to payment for the service completed until the date considered.

If the performance obligation is not met over time, it is met at a specific moment. In that case, the Company 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 Company 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 Company 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 Company expects them to be recovered. Incremental costs for obtaining the contract are costs that the Company 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.

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 Company 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 Company 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 Company 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.

2.4 Recently issued accounting standards

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

At the date of approval of these Separate 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 approval of these Separate 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 amendments 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

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 Company's results if there were a change in the conditions underlying the assumptions used:

j) Impairment of property, plant and equipment and intangible assets with a finite useful life: property, plant and equipment and intangible assets with a finite useful life are 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*.

k) 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.

l) 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.

m) 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.

n) 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.

o) 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.

p) Inventories: 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.

q) *Lease* liabilities: 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 Company 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 Company operates;
- credit risk, arising from the possibility of counterparty default;
- liquidity risk, arising from a lack of financial resources to meet commitments.

The Company'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 Company to adequately meet its operational, working capital financing and investment needs, as well as to comply with its financial obligations. The Company'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 Company'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 results and equity.

The main exchange rates to which the Company 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 Company does not adopt specific policies to hedge exchange rate fluctuations because management does not believe that this risk can significantly harm the Company'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 Company operates would not have a significant impact on the net result and shareholders' equity of the years under review.

Interest rate risk

The Company 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 separate income statement and separate 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)	**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	(17)	17	(17)	17

4.2 Credit risk

The Company 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 Company's commercial activity, where its counterparties are predominantly 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 Company 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 Company 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 Company 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 Company 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 and 2018 grouped by maturity, net of the provision for bad debts:

(in € thousands)	**Expiring**	**1-90 days overdue**	**91-180 days overdue**	**More than 181 days overdue**	**Total**
Gross trade receivables at 31 December 2019	**39,723,193**	**8,839,000**	**2,943,000**	**16,250,000**	**67,755,193**
Provision for bad debts	-	(237,960)	(222,000)	(14,960,000)	(15,419,960)
Net trade receivables at 31 December 2019	**39,723,193**	**8,601,040**	**2,721,000**	**1,290,000**	**52,335,233**
Gross trade receivables at 31 December 2018	**33,099,094**	**12,964,000**	**983,000**	**15,550,000**	**62,596,094**
Provision for bad debts	-	(118,000)	(41,000)	(14,540,000)	(14,699,000)
Net trade receivables at 31 December 2018	**33,099,094**	**12,846,000**	**942,000**	**1,010,000**	**47,897,094**

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 Company 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 Company 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 Company'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 Company’s liquidity is the resources absorbed by operating activities: the sector in which the Company 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 Company’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 Company's financial equilibrium.

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

The following table shows, by contractual maturity bands, the Company's financial requirements at 31 December 2019 and 2018, 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 company will pay until the maturity of the debt at the reporting date.

(in € thousands)	**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**
Financial liabilities	15,371,632	3,000,000	9,000,000		**27,371,632**	**27,366,853**
Other non-current liabilities	-	-	-	-	**-**	**-**
Lease liabilities	4,350,000	4,008,000	6,747,000	1,976,000	**17,081,000**	**17,683,774**
Trade payables	69,576,718	-	-	-	**69,576,718**	**69,576,718**
Other current liabilities	12,842,722	-	-	-	**12,842,722**	**12,842,722**

(in € thousands)	**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**
Financial liabilities	26,106,147	1,805,000	-	-	**27,911,147**	**27,796,871**
Lease liabilities	4,655,000	3,946,999	9,021,000	636,000	**18,258,999**	**17,327,000**
Trade payables	66,964,973	-	-	-	**66,964,973**	**66,964,973**
Other current liabilities	10,829,885	-	-	-	**10,829,885**	**10,829,885**

At 31 December 2019, 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 Company'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 Company 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 Company 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 and 2018:

(in €)	**Book value at 31 December**	
	2019	**2018**
FINANCIAL ASSETS:		
Financial assets at amortised cost:		
Financial assets at amortised cost	866,210	856,410
Trade receivables	52,335,233	47,897,094
Other receivables and current assets	3,035,100	24,367,328
Cash and cash equivalents	70,184,098	31,239,000
	126,420,640	**104,359,832**
Financial assets valued at fair value through profit or loss:		
Non-current financial assets measured at fair value through profit or loss	42,075	30,670
Current financial assets measured at fair value through profit or loss	4,240	4,240
	46,315	**34,910**
TOTAL FINANCIAL ASSETS	**125,966,955**	**104,394,742**

(in €)	Book value at 31 December	
	2019	**2018**
FINANCIAL LIABILITIES:		
Financial liabilities at amortised cost:		
Non-current financial liabilities	12,000,000	1,690,723
Non-current lease liabilities	12,969,293	13,032,000
Other non-current liabilities	-	-
Trade payables	69,576,718	66,964,973
Current financial liabilities	15,366,853	26,106,147
Current lease liabilities	4,714,481	4,295,000
Other current liabilities	12,842,722	10,829,885
TOTAL FINANCIAL LIABILITIES	**127,470,066**	**122,918,728**

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 and 2018:

(in €)	At 31 December 2019		
	Level 1	**Level 2**	**Level 3**
Non-current financial assets measured at fair value through profit or loss	-	-	42,075
Current financial assets measured at fair value through profit or loss	-	-	4,240
Total financial assets measured at fair value	**-**	**-**	**46,315**

(in €)	At 31 December 2018		
	Level 1	**Level 2**	**Level 3**
Non-current financial assets measured at fair value through profit or loss	-	-	30,670
Current financial assets measured at fair value through profit or loss	-	-	4,240
Total financial assets measured at fair value	**-**	**-**	**34,910**

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 Company'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 Company*'s performance* at 31 December 2019, and the reconciliation of these items with respect to the corresponding amount included in the Separate Financial Statements:

(In € thousands)	At and for the year ended 31 December 2019 Pasta	*Milk Products*	*Bakery Products*	*Dairy Products*	*Special Products*	Other assets	**Separate Financial Statements total**
Revenue from contracts with customers (third parties)	70,413	70,216	33,271	35,670	30,547	17,931	**258,047**
EBITDA (*)	2,920	5,453	4,030	5,815	3,408	619	**22,244**
EBITDA margin (*)	4%	8%	12%	16%	11%	3%	**9%**
Amortisation, depreciation and write-downs	3,381	466	3,386	1,011	2,110	377	**10,730**
Net write-downs of financial assets						745	**745**
Operating profit/(loss)	**2,073**	**3,064**	**34**	**4,804**	**1,298**	**(503)**	**10,769**
Financial income						400	**400**
Financial expenses						(1,745)	**(1,745)**
Profit (loss) before taxes	**2,073**	**3,064**	**34**	**4,804**	**1,298**	**(1,848)**	**9,424**
Income taxes						(1,949)	**(1,949)**
Net profit/loss	**2,073**	**3,064**	**34**	**4,804**	**1,298**	**(3,797)**	**7,475**
Total assets	39,374	9,373	125,724	12,753	18,896	67,017	**273,136**
Total liabilities	28,149	16,477	41,988	14,266	10,518	28,020	**139,419**
Investments	1,473	644	1,042	122	229	287	**3,797**
Employees (number)	393	166	132	62	148	52	**953**

(*) 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 Company'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 Separate Financial Statements

(In € thousands)	At and for the year ended 31 December 2018 Pasta	*Milk Products*	*Bakery Products*	*Dairy Products*	*Special Products*	Other assets	**Separate Financial Statements total**
Revenue from contracts with customers (third parties)	68,921	50,383	30,190	35,353	28,449	18,101	**231,397**
EBITDA (*)	2,675	2,215	3,296	4,882	2,628	669	**16,365**
EBITDA margin (*)	4%	4%	11%	14%	9%	4%	**7%**
Amortisation, depreciation and write-downs	2,353	674	3,106	1,246	2,135	391	**9,905**
Net write-downs of financial assets						783	**783**
Operating profit/(loss)	**(138)**	**2,622**	**(431)**	**3,636**	**493**	**(505)**	**5,677**
Financial income						1,077	**1,077**
Financial expenses						(1,867)	**(1,867)**
Profit (loss) before taxes	**(138)**	**2,622**	**(431)**	**3,636**	**493**	**(1,295)**	**4,887**
Income taxes						(1,773)	**(1,773)**
Net profit/loss	**(138)**	**2,622**	**(431)**	**3,636**	**493**	**(3,068)**	**3,114**

Total assets	19,930	9,529	45,966	13,029	20,527	73,850	**182,831**
Total liabilities	28,971	14,208	33,134	11,681	13,752	31,203	**132,949**
Investments	414	646	1,079	77	2,405	372	**4,993**
Employees (number)	130	60	322	132	145	34	**823**

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

Revenue from contracts with customers deriving from the "Pasta" and "*Milk Products*" sectors amounted jointly to €140,629 thousand and €119,304 thousand for the years ended 31 December 2019 and 2018, equal respectively to 54.5% and 51.6% of revenue from contracts with customers. EBITDA for the "Pasta" and "*Milk Products*" sectors amounted to €8,373 thousand and €4,890 thousand for the years ended 31 December 2019 and 2018, equal to 37.6% and 29.9% respectively.

The "*Bakery Products" and "Dairy Products"* segments have the highest EBITDA *margins* in the two years under review.

In particular, revenues from the "Pasta" sector increased by €1,492 thousand from €68,921 thousand to €70,413 thousand in the year ended 31 December 2019. The increase is mainly due to the contribution of Delverde Industrie Alimentari S.p.A. EBITDA from the "Pasta" sector increased by €245 thousand from €2,675 thousand in the year ending 31 December 2018 to €2,920 thousand in the year ending 31 December 2019. Consequently, the related EBITDA *margin* increased by 1 percentage point, from 4% in the year ended 31 December 2018 to 5% in the year ended 31 December 2019.

Revenues from the "*Milk Products*" sector increased by €19,833 thousand from €50,383 thousand in the year ending 31 December 2018 to €70,216 thousand in the year ending 31 December 2019. This increase is mainly due to the contribution of the incorporated company Centrale del Latte di Salerno S.p.A. Net of this contribution, there was a decrease in revenues in *the milk* sector attributable essentially to a reduction in average sales prices, as a result of an improvement in the purchasing process during 2019. As a result, EBITDA from the "*Milk Products*" sector increased by €3,238 thousand from €2,215 thousand in the year ending 31 December 2018 to €5,453 thousand in the year ending 31 December 2019. Consequently, the related EBITDA *margin* increased by 4 percentage points, from 4% in the year ended 31 December 2018 to 8% in the year ended 31 December 2019.

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 and 2018.

(in €)	Year ended 31 December	
	2019	**2018**
Italy	171,683,308	143,395,909
Germany	33,654,055	40,579,515
Other countries	52,709,525	47,421,725
Total revenue from contracts with customers	**258,046,888**	**231,397,149**

Finally, in accordance with IFRS 8, paragraph 34, for the years ended 31 December 2019 and 2018, the Company did not have any customers generating more than 10% of its revenues.

8 NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

8.1 Property, plant and equipment

The following table shows the breakdown of and changes in "Property, plant and equipment" for the years ending 31 December 2019 and 2018:

(in €)	**Land and buildings**	**Plant and machinery**	**Industrial and commercial equipment**	**Other assets**	**Assets under construction and payments on account**	**Total**
Historical cost at 31 December 2018		**110,060,875**	**3,587,620**	**4,118,516**	**84,742**	**117,851,752**
Investments	-	2,697,000	94,000	182,000	467,000	**3,440,000**
Disposals	-	(16,000)	(1,000)	(123,000)	-	**(140,000)**
Reclassifications	-	157,000	-	-	(157,000)	**-**
Change to the consolidation scope	14,608,800	5,435,260	766,962	932,429	72	**21,743,523**
Historical cost at 31 December 2019	**14,608,800**	**118,334,135**	**4,447,582**	**5,109,945**	**394,814**	**142,895,275**
Provision for depreciation at 31 December 2018		**(89,930,197)**	**(3,518,613)**	**(3,657,663)**	**-**	**(97,106,473)**
Depreciation	(346,000)	(3,778,000)	(120,000)	(90,000)	-	**(4,334,000)**
Disposals	-	16,000	-	119,000	-	**135,000**
Write-downs	-	-	-	(93,000)	-	**(93,000)**
Change to the consolidation scope	(8,951,200)	(4,165,746)	(612,035)	(818,521)	-	**(14,547,502)**
Provision for depreciation at 31 December 2019	**(9,297,200)**	**(97,857,943)**	**(4,250,648)**	**(4,540,184)**	**-**	**(115,945,975)**
Net carrying amount at 31 December 2018	**-**	**20,130,678**	**69,007**	**460,853**	**84,742**	**20,745,280**
Net carrying amount at 31 December 2019	**5,311,600**	**20,476,192**	**196,934**	**569,761**	**394,814**	**26,949,300**

Investments in property, plant and equipment for the year ended 31 December 2019 totalled €4,340 thousand and were attributable mainly to the renovation of production lines. For more information on investments, please see the "Investments" chapter.

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

At 31 December 2019, the net value of capital contributions classified as a reduction in core plants and equipment amounted to €561 thousand; the related income for the year ended 31 December 2019 amounted to €654 thousand and was classified as a reduction in depreciation of the aforementioned plants and equipment.

During the year, the Company recorded property, plant and equipment write-downs of €93 thousand. These write-downs relate mainly to capital goods for which the Company established that the conditions for producing future profits were no longer in place.

As at 31 December 2019, there are 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 following table shows the changes in the item "Right-of-use assets" for the year ended 31 December 2019:

(in €)	**Right-of-use assets**
Historical cost at 31 December 2018	**20,853,000**
Increases	16,000
Decreases	(245,000)
Change to the consolidation scope	6,872,000
Historical cost at 31 December 2019	**27,496,000**
Provision for depreciation at 31 December 2018	**(4,054,287)**
Depreciation	(4,703,000)
Disposals	(953,000)
Change to the consolidation scope	(577,820)
Provision for depreciation at 31 December 2019	**(10,288,107)**
Net carrying amount at 31 December 2018	**16,798,713**
Net carrying amount at 31 December 2019	**17,207,891**

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

The following table displays the non-discounted contractual values of the Company's *lease* liabilities at 31 December 2019, following the application of IFRS 16 as of 1 January 2018:

(in €)	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	4,350,000	4,008,000	6,747,000	1,976,000	**17,081,000**	**17,683,774**

The discount rate was determined on the basis of the marginal borrowing rate of the Company, i.e. the rate that the Company 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 Company 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 Company, which acts mainly as a lessee, is shown in the following table:.

(in €)	**At 31 December 2019**
Net book value of right-of-use assets (real estate)	13,938,891
Net book value of right-of-use assets (machinery)	1,639,000
Net book value of right-of-use assets (motor vehicles)	1,630,000
Total net book value of right-of-use assets	**17,207,891**
Current lease liabilities	4,714,481
Non-current lease liabilities	12,969,293
Total lease liabilities	**17,683,774**
Depreciation of right-of-use assets (real estate)	2,993,000
Depreciation of right-of-use assets (machinery)	1,085,000
Depreciation of right-of-use assets (motor vehicles)	625,000
Total depreciation of right-of-use assets	**4,703,000**
Interest expense on *leases*	**489,000**
	0
Short-term *lease* costs	106,000
Costs to lease low-value assets	794,000
Variable payments not included in *lease* liabilities	0
Total other costs	**900,000**

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 the associate New Property, as well as to the plants in Bologna and Corte de' Frati

(CR), rented out by the associate 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 of the Separate Financial Statements below.

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

8.3 Intangible assets

The following table shows the breakdown of and changes in "Intangible assets" for the year ended 31 December 2019:

(in €)	**Goodwill**	**Patents and intellectual property rights**	**Concessions, licences, trademarks and similar rights**	**Other assets**	**Assets under development**	**Total**
Historical cost at 31 December 2018	**5,512,413**	**3,487,016**	**43,559,690**	**2,628,865**	**-**	**55,187,984**
Investments	-	247,000	23,000	7,000	108,118	**385,118**
Disposals	-	-	-	-	-	**-**
Change within the consolidation scope for mergers	3,863,487	16,098,653	185,000	22,247	-	**20,169,387**
Historical cost at 31 December 2019	**9,375,900**	**19,832,669**	**43,767,690**	**2,658,112**	**108,118**	**75,742,489**
Provision for depreciation at 31 December 2018	**(5,512,413)**	**(3,248,008)**	**(41,662,171)**	**(2,588,846)**	**-**	**(53,011,438)**
Depreciation	-	(122,000)	(904,000)	-	-	**(1,026,000)**
Disposals	-	-	-	-	-	**-**
Change within the consolidation scope for mergers		(15,283,045)	(23,000)	(11,399)	-	**(15,317,444)**
Provision for depreciation at 31 December 2019	**(5,512,413)**	**(18,653,053)**	**(42,589,171)**	**(2,600,245)**	**-**	**(69,354,882)**
Net carrying amount at 31 December 2018	**-**	**239,008**	**1,897,519**	**40,019**	**-**	**2,176,547**
Net carrying amount at 31 December 2019	**3,863,487**	**1,179,616**	**1,178,519**	**57,867**	**108,118**	**6,387,607**

Investments in intangible assets for the year ended 31 December 2019 amounted to €385 thousand and were mainly attributable to the purchase of *software*. For more information on investments, please see the "Investments" chapter.

There were no indicators of long-term impairment for intangible assets for the year ended 31 December 2019.

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

Goodwill

Goodwill refers to the acquisition in December 2014 of Centrale del Latte di Salerno S.p.A. (hereinafter "**Centrale del Latte di Salerno**"), which represents the only *cash generating unit* (CGU) to which it is allocated. This amount reflects the difference between the purchase price and the equity of Centrale del Latte di Salerno on the acquisition date, as shown below and in accordance with continuity of the values appearing in the Consolidated Financial Statements at 31 December 2018:

(in € thousands)	
Purchase cost	12,701
Net equity at 31 December 2014	8,838
GOODWILL	**3,863**

In line with IAS 36, impairment testing was carried out at the individual reporting dates to check for any impairment of goodwill. The *impairment* test, approved by the Board of Directors on 19 March 2020, was prepared by an independent professional, comparing the book value of goodwill with the recoverable value of the related *cash generating unit* (CGU).

The recoverable value is the value in use, determined by discounting the forecast data of the CGU ("*DCF Method*") for the 3-year period following 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**	**At 31 December 2018**
Growth rate	0.5%	0.5%
WACC	8.3%	8.9%

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

(iii) 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. For the goodwill *impairment test* as at 31 December 2019, the 2020/2022 plan was used. 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, 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) external sources: 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 present 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.

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

a) average annual revenue increase of 5% 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 former 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 Company 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 provides a detailed breakdown of the item "Concessions, licences, trademarks and similar rights" at 31 December 2019:

(in € thousands)	At December 31	
	2019	**2018**
Trademarks with a finite useful life	1,880	2,599
Total net book value	**1,880**	2,599

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 Investments in subsidiaries

This item consists entirely of the purchase value of all shares in Newlat GmbH on 29 October 2019 from the parent company Newlat Group S.A. The final fee paid to Newlat Group amounted to €68,324 thousand. For more details on the purchase of this equity investment, please see the previous section "Acquisition of Newlat Deutschland GmbH".

The book value of the equity investment is significantly higher than the shareholders' equity of Newlat Gmbh on the acquisition date of 29 October 2019.

In line with the requirements of international accounting standards*, an impairment* test was carried out to ascertain whether the carrying value of the investment had been impaired. The *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 the equity investment with the recoverable value of the related *cash generating unit* (CGU).

The recoverable value is the value in use, determined by discounting the forecast data of the CGU ("*DCF Method*") in the unlevered version for the 3-year period following 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	6.3%

For the purposes of estimating the value in use of the CGU, the following sources of information were used:

- <u>internal sources</u> the estimate of value in use is based on senior management’s most up-to-date results flows forecasts. For the equity investment *impairment test* as at 31 December 2019, the 2019-2022 plan drafted

  for the listing operation, presented on the Italian Stock Exchange and approved by the Board of Directors on 22 July 2019 was used. 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 €400 thousand were envisaged for the year 2020, €600 thousand for the year 2021 and €900 thousand for the year 2022. For the equity investment *impairment test* as at 31 December 2019, no improvements in operating costs are predicted and therefore a constant margin was considered over the period (EBITDA margin of 8.4%). This means that any EBITDA growth is due to expected growth in turnover.

- <u>external sources:</u> for the *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 present financial structure of Newlat GmbH corresponding to 100% equity and having net liquidity available rather than net financial debts as at 31 December 2019.

- the following main basic assumptions were also used:

a) average annual revenue increase of 1% per annum from 2020 to 2022; and

b) EBITDA *margin* in the forecast years of 8.4%.

However, an average annual increase (CAGR) of revenues of 1% was assumed for 2020 and 2021, which is cautious given both the prospects of the pasta sector in the German market (average annual increase in revenues of 2% for the dry pasta segment 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 results of the impairment tests carried out show that the estimated recoverable value for the CGU exceeds its book value by more than €5.1 million. The value in use was calculated on the basis of a weighted average cost of capital (WACC) equal to 6.3% 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 100 *basis points* and the terminal growth rate would have to be negative and down by more than 200 *basis points*.

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

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

8.6 Financial assets at amortised cost

At 31 December 2109 and 2018, financial assets at amortised cost amounted to €866 thousand and €858 thousand respectively. These balances refer to security deposits paid against existing lease agreements.

8.7 Prepaid tax assets and deferred tax liabilities

The following table provides a detailed breakdown of the item "Prepaid tax assets" at 31 December 2019 and 2018:

(in €)	At December 31	
	2019	**2018**
Provisions	2,420,055	2,546,055
Tax losses carried forward	393,503	393,503
Leases	32,178	32,178
Depreciation	1,244,443	1,085,003
Other items	941,981	185,906
Gross prepaid tax assets	**5,032,160**	**4,242,644**
Offsetting with deferred-tax liabilities	-	-
Total prepaid tax assets	**5,032,160**	**4,242,644**

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

At the acquisition date and at 31 December 2019, the Company did not recognise prepaid tax assets relating to tax losses of the incorporated Delverde Industrie Alimentari S.p.A., 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 unrecognised tax losses is approximately €30.6 million.

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

(in €)	**Provision s**	**Tax losses carried forward**	**Leases**	**Amortisation**	**Other items**	**Total prepaid tax assets**
Balance at 31 December 2018	**2,546,055**	**393,503**	**32,178**	**1,085,003**	**185,906**	**4,242,644**
Provisions (releases) to income statement	(126,000)		-	(155,000)	(66,000)	(347,000)
Miscellaneous					287,003	287,003
Provisions (releases) to statement of other comprehensive income	-	-	-	-	90,000	90,000

Change in consolidation scope				314,440	445,073	759,513
Balance at 30 June 2019	**2,420,055**	**393,503**	**32,178**	**1,244,443**	**941,982**	**5,032,160**

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.

8.8 Inventories

The following table displays a detailed breakdown of the item "Inventories" at 31 December 2019 and 2018:

(in €)	At December 31	
	2019	**2018**
Raw materials, supplies, consumables and spare parts	14,281,000	13,678,284
Finished products and goods	9,251,000	7,346,534
Semi-finished products	-	-
Payments on account	41,000	34,000
Total gross inventories	**23,573,000**	**21,058,818**
(Inventory write-down reserve)	(944,342)	(34,595)
Total inventories	**22,628,658**	**21,024,222**

Inventories are recorded net of the obsolescence reserve, which amounted to €944 thousand at 31 December 2019 and related mainly to spare parts for slow-moving machinery. Changes in the inventories write-down reserve during 2019 are shown below:

(in €)	**Inventory write-down reserve**
Balance at 31 December 2018	**34,595**
Provisions	699,694
Uses/Releases	(14,947)
Change within the consolidation scope for mergers	225,000
Balance at 31 December 2019	**944,342**

8.9 Trade receivables

The following table displays a detailed breakdown of the item "Trade receivables" at 31 December 2019 and 2018:

(in €)	At December 31	
	2019	**2018**
Trade receivables from customers	64,659,960	56,601,592
Trade receivables from related parties	3,095,233	5,491,719

Trade receivables (gross)	67,755,193	62,093,311
(Provision for doubtful trade receivables)	**(15,419,960)**	**(14,196,217)**
Total trade receivables	**52,335,233**	**47,897,094**

The following table displays the changes in the provision for doubtful trade receivable for the year ended 31 December 2019:

(in €)	**Provision for doubtful trade receivables**
Balance at 31 December 2018	**14,196,217**
Provisions	673,873
Uses	(8,960)
Releases	(173,321)
Change within the consolidation scope for mergers	732,151
Balance at 31 December 2019	**15,419,960**

The net value of overdue trade receivables at 31 December 2019 amounted to €12,112 thousand, a considerable decrease compared with the previous year.

Analysis of the credit risk, including evidence of the coverage of the individual maturity bands of the provision for bad debts, is reported in the previous section "Management of financial risks".

Analysis of trade receivables with related parties is reported in the below section "Transactions with related parties".

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

8.10 Current tax assets and liabilities

Current tax assets totalled €716 thousand at 31 December 2019 and €748 thousand at 31 December 2018.

Current tax liabilities totalled €471 thousand at 31 December 2019 and €399 thousand at 31 December 2018.

The changes in the net balances of the assets and liabilities under review for the year ended 31 December 2019 mainly concern the setting aside of current income taxes, amounting to €344 thousand, and payments amounting to €738 thousand.

8.11 Other receivables and current assets

The following table provides a breakdown of the item "Other receivables and current assets" at 31 December 2019 and 2018:

(in €)	At December 31	
	2019	**2018**
Receivables from Newlat Group	-	10,000,000
Receivables from Centrale del Latte di Salerno di Salerno S.p.A.		1,478,171
Tax assets	1,147,509	965,504
Receivables from social security institutions	699,669	762,000
Accrued income and prepayments	531,383	240,087
Payments on account	402,078	533,000
Other receivables	254,461	388,566
Receivables from New Property SpA	-	10,000,000
Total other receivables and current assets	**3,035,100**	**24,367,328**

Receivables from New Property S.p.A. at 31 December 2018 related to the residual receivable from the adjustment arising from the real estate spin-off to New Property S.p.A. on 1 June 2017. This receivable was collected in full in the first half of 2019.

The receivable from Newlat Group at 31 December 2018 referred to the advance payment for the purchase of the entire share packet of Newlat Deutschland, which was then finalised on 29 October 2019.

Receivables from social security institutions at 31 December 2019 and 2018 mainly refer to receivables from INAIL, amounting to €699 thousand and €768 thousand respectively.

Payments on account at 31 December 2019 and 2018 mainly refer to down payments for supplies.

Tax credits at 31 December 2019 mainly include VAT credits of €454 thousand, research and development credits of €495 thousand and INAIL credits of €556 thousand.

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

The following table shows the breakdown of the item "Current financial assets measured at *fair value* through profit or loss" as at 31 December 2019 and 2018:

(in €)	At December 31	
	2019	**2018**
Fixed rate bonds (BMPS)	-	-
Unlisted shares	4,240	4,240
Total current financial assets measured at fair value through profit or loss	**4,240**	**4,240**

This item includes bonds held for sale.

8.13 Cash and cash equivalents

The following table displays a detailed breakdown of the item "Cash and cash equivalents" at 31 December 2019 and 2018:

(in €)	At December 31	
	2019	**2018**
Bank and postal deposits	70,145,998	31,217,750
Cash at hand	38,100	21,250
Total cash and cash equivalents	**70,184,098**	**31,239,000**

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

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

Part of the aforementioned cash and cash equivalents, amounting to €30,940 thousand and €24,051 thousand respectively at 31 December 2018 and 2019, is attributable to the cash pooling of Newlat Food with the parent company Newlat Group S.A.

At the date of preparation of these separate financial statements, the Company is in the process of finalising the transfer of *cash pooling* from the parent company Newlat Group S.A. to *Newlat Food S.p.A., which will therefore assume the role of pooler.*

See the statement of cash flows for changes in the item "Cash and cash equivalents" during the years under review.

8.14 Shareholders' equity

At 31 December 2019, the item "Shareholders' equity" amounted to €134,293 thousand. The statement of changes in equity is shown in the relevant section.

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

- the institutional placement 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;
- the aforementioned 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 total net profit for the year, in the amount of €7,475 thousand;

- actuarial losses of €249 thousand relating to the discounting of the employee severance indemnity provision.

Share capital

As at 31 December 2019, the Company's fully subscribed and paid-up share capital totalled €40,780,482, divided into 40,780,482 ordinary shares that were dematerialised as a result of the IPO operation.

Legal reserve

At 31 December 2019, the legal reserve totalled €2,123 thousand.

Reserves

Please refer to the statement of changes in equity for a breakdown of and changes in reserves in 2019, of which the possibility of use is shown in this statement, with reference to 31 December 2019:

Nature/ description	Amount	Possible use	Quota available
Share capital	40,782,428	B	
Capital reserves:			
Reserve L.413/91	1,314,285	A, B	1,314,285
FTA reserve	6,937,414	B	6,937,414
IAS reserve	(95,634)	A,B,C	(95,634)
IPO costs	(5,076,739)	A,B,C	(5,076,739)
Tax benefit on IPO costs	1,416,410	A,B,C	1,416,410
Share Premium Reserve	66,146,314	A,B,C	66,146,314
Other non-distributable reserves	123,110	A, B	
Profit reserves			
Legal reserve	2,123,839	B	2,123,839
Extraordinary reserve	12,634,826	A,B,C	12,634,826
Other reserves	511,686	A,B,C	511,686
Total			85,912,401
Non-distributable portion			75,536,863
Residual distributable portion			10,375,538

Notes

A Available for capital increases

B Available to cover any losses

C Distributable to shareholders

8.15 Provisions for employee benefits

The following table shows the breakdown of and changes in the item "Provisions for employee benefits" for the years ending 31 December 2019 and 2018:

(in €)	**Employee benefits**
Balance at 31 December 2017	**9,352,697**
Other changes	511
Financial expenses	120,222
Actuarial losses/(gains)	(99,184)
Benefits paid	(210,777)
Balance at 31 December 2018	**9,163,469**
Current service cost	55,002
Financial expenses	159,000
Actuarial losses/(gains)	324,000
Benefits paid	(1,150,002)
Change within the consolidation scope for mergers	1,530,779
Balance at 31 December 2019	**10,082,248**

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 and 2018, in accordance with the provisions of IAS 19:

	At December 31	
	2019	**2018**
Financial assumptions		
Discount rate	0.77%	1.30%
Inflation rate	1.00%	1.50%

Annual rate of salary increase	1.00%	1.50%
Demographic assumptions		
Death	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

The following table summarises the main assumptions relating to the annual *turnover* rate and requests for severance pay advances adopted for the calculation of Newlat's provisions for employee benefits , in accordance with the provisions of IAS 19:

	At December 31	
	2019	**2018**
Annual turnover rate and TFR Advances	**Newlat Food**	**Newlat Food**
Frequency of advances	3.50%	3.00%
Turnover rate	0.40%	3.80%

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 and 2018:

(in € thousands)	**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)

8.16 Provisions for risks and contingencies

The following table shows the breakdown of and changes in the item "Provisions for risks and charges" for the year ended 31 December 2019:

(in €)	**Provision for agents' indemnities**	**Provision for legal risks**	**Total provisions for risks and charges**
Balance at 31 December 2018	**440,156**	**27,993**	**468,149**
Provisions	128,535	-	128,535
Uses	-	-	-
Releases	(34,000)	-	(34,000)
Change within the consolidation scope for mergers	636,295	196,704	832,999
Balance at 31 December 2019	**1,170,986**	**224,697**	**1,395,683**

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

8.17 Current and non-current financial liabilities

The following table provides a detailed breakdown of the item "Financial liabilities" (current and non-current) at 31 December 2019 and 2018:

(in €)	At 31 December 2019		At 31 December 2018	
	Current portion	**Non-current portion**	**Current portion**	**Non-current portion**
Payables to Newlat Group SA for cash pooling	-	-	-	-
Total financial debt to Newlat Group	**-**	**-**	**-**	**-**
Unicredit loan agreement (Newlat Food SpA)	1,690,723	-	1,644,000	1,690,723
Deutsche Bank loan agreement	3,000,000	12,000,000	-	-
Trade credit facilities	10,574,277	-	24,324,000	-
Other lines of credit		-	-	-
Current account overdrafts	101,853	-	138,147	-
Total financial debt to banks	**15,366,853**	**12,000,000**	**26,106,147**	**1,690,723**
Total financial liabilities	**15,366,853**	**12,000,000**	**26,106,147**	**1,690,723**

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

(in €)	**Carrying amount at 31 December 2019**	Expiry date				
		Year 2020	**Year 2021**	**Year 2022**	**Year 2023**	**Year 2024**
Unicredit loan agreement	1,690,723	1,690,723	-	-	-	-
Deutsche Bank loan agreement	15,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
Payables for invoice payments on account (BMPS)	10,574,277	10,574,277		-	-	-
Use of credit lines and current account overdrafts	101,853	101,853	-	-	-	-
Total financial liabilities	**27,366,853**	**15,366,853**	3,000,000	3,000,000	3,000,000	3,000,000

The following table shows the Net Financial Position, according to the classification scheme indicated in the Consob Communication:

(in €) Net financial debt	At December 31	
	2109	**2018**
A. Cash	46,133,347	298,451
B. Cash equivalents	24,050,751	30,940,549
C. Securities held for trading	4,240	4,240
D. Cash and cash equivalents (A)+(B)+(C)	**70,188,338**	**31,243,240**
E. Current financial receivables	**-**	**-**
F. Current bank payables	(10,574,277)	(24,324,000)
G. Current portion of non-current debt	(4,690,723)	(1,644,000)
H. Other current financial debt	(4,816,334)	(4,433,147)
I. Current financial debt (F)+(G)+(H)	**(20,081,334)**	**(30,401,147)**
- of which guaranteed	*(12,265,000)*	*(25,968,000)*
- of which not guaranteed	*(7,816,334)*	*(4,433,147)*
J. Net current financial debt (I)+ (E)+ (D)	**50,107,004**	**842,093**
K. Non-current bank payables	(12,000,000)	(1,690,723)
L. Bonds issued	-	-
M. Other non-current financial debt	(12,969,293)	(13,032,000)
N. Non-current financial debt (K)+(L)+(M)	**(24,969,293)**	**(14,722,723)**
- of which guaranteed	-	*(1,690,723)*
- of which not guaranteed	*(24,969,293)*	*(13,032,000)*
O. O. Net financial debt (J)+ (N)	**25,137,711**	**(13,880,630)**

Without considering the effects of IFRS 16, the net financial position would be determined as follows:

(in €)	At December 31	
	2019	**2018**
Net financial debt	**25,137,711**	**(13,880,630)**
Current lease liabilities	4,714,481	4,295,000
Non-current lease liabilities	12,969,293	13,032,000
Net Financial Position	**42,821,485**	**3,446,370**

Below is a description of the main items that make up the Company's financial liabilities at 31 December 2019:

a) Loans outstanding at 31 December 2019

UniCredit loan agreement On 29 December 2014, Newlat entered into a loan agreement with Unicredit S.p.A. for €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 2016 to 31 December 2020. The interest rate applicable to the loan agreement 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 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 repayment by way of 20 quarterly instalments starting in 20 February 2020.

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

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

d) 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 €)	**At 31 December 2018**	**Change in consolidation scope**	**New loans**	**Repayments**	**Reclassifications**	**At 31 December 2019**
Non-current financial liabilities	1,690,723	-	-	-	10,309,277	12,000,000
Current financial liabilities	26,106,147	382,000	15,000,000	(15,812,017)	(10,309,277)	15,366,854
Total financial liabilities	**27,796,871**		**15,000,000**	**(15,812,017)**	**-**	**27,366,854**

8.18 Trade payables

The following table provides a detailed breakdown of the item "Trade payables" at 31 December 2019 and 2018:

(in €)	**At December 31**	
	2019	**2018**
Trade payables to suppliers	69,427,835	66,899,622
Trade payables to related parties	148,883	65,351
Total trade payables	**69,576,718**	**66,964,973**

The increase in trade payables is mainly attributable to business combinations in the course of 2019.

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

Analysis of trade payables with related parties is reported in the "Transactions with related parties" section of the Separate Financial Statements below.

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

8.19 Other current liabilities

The following table provides a breakdown of the item "Other current liabilities" at 31 December 2019 and 2018:

(in €)	At December 31	
	2019	**2018**
Payables to employees	6,445,861	5,390,807
Payables to social security institutions	2,603,335	2,347,292
		864,497
Payables for acquisitions of business units	1,973	-
Taxes payable	1,849,467	1,396,462
Accrued liabilities and deferred income	1,068,172	691,637
Miscellaneous payables	873,914	139,190
Total other current liabilities	**12,842,722**	**10,829,885**

The increase in other liabilities is mainly attributable to business combinations in the course of 2019.

Payables to employees relate 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 social security institutions for the payment of contributions.

Tax payables at 31 December 2019 mainly include payables to the Treasury for withholding taxes, amounting to €1,849 thousand.

9 NOTES TO THE SEPARATE INCOME STATEMENT

9.1 Revenue from contracts with customers

The following table provides a breakdown of the item "Revenue from contracts with customers" by operating segment:

(in €)	**Year ended 31 December**	
	2019	**2018**
Pasta	70,412,541	48,046,964
Milk Products	70,215,739	71,256,645
Bakery Products	35,669,508	35,352,894
Dairy Products	33,271,445	30,190,194
Special Products	30,546,721	28,448,970
Other assets	17,930,933	18,101,482
Total revenue from contracts with customers	**258,046,887**	**231,397,149**

The following table provides a breakdown of the item "Revenue from contracts with customers" by distribution channel:

(in €)	**Year ended 31 December**	
	2019	**2018**
Mass Distribution	138,099,667	116,588,149
B2B partners	40,081,000	38,770,000
Normal trade	37,442,989	35,208,000
Private labels	33,235,000	32,627,000
Food services	9,188,232	8,204,000
Total revenue from contracts with customers	**258,046,888**	**231,397,149**

The following table provides a breakdown of the item "Revenue from contracts with customers" by geographical area:

(in €)	**Year ended 31 December**	
	2019	**2018**
Italy	171,683,308	143,395,909
Germany	33,654,055	40,579,515
Other countries	52,709,525	47,421,725
Total revenue from contracts with customers	**258,046,888**	**231,397,149**

Sectoral information is given in Section 7 of the Separate Financial Statements above.

Revenue from contracts with customers for the year ended 31 December 2019 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.

9.2 Operating costs

The table below shows details of the operating costs broken down according to their use:

(in €)	Year ended 31 December	
	2019	**2018**
Cost of sales	213,652,693	203,056,120
Sales and distribution costs	24,527,600	16,355,186
Administrative costs	11,161,950	7,881,519
Total operating costs	**249,342,243**	**227,292,825**

The table below shows details of the same operating costs broken down according to their nature:

(in €)	Year ended 31 December	
	2019	**2018**
Purchase and consumption of raw materials and finished goods	125,321,693	125,516,000
Personnel costs	44,838,000	37,667,000
Packaging	19,222,000	19,882,000
Transport	14,794,000	13,597,255
Utilities	11,891,000	10,615,000
Amortisation, depreciation and write-downs	10,061,000	9,906,000
Sales commissions	4,923,000	2,434,000
Porterage and logistics	2,654,000	2,146,000
Surveillance and cleaning	3,749,000	2,700,000
Maintenance and repair	2,247,000	1,921,000
Royalties payable	1,694,000	1,713,000
Cost for use of third-party assets	1,822,000	982,000
Advertising and promotions	760,000	424,000
Consultancy and professional services	589,000	382,000
Insurance	710,000	516,000
Laboratory analysis and testing	962,000	741,000
Production plant services	388,000	414,000
Remuneration to the Chairman and Directors	36,000	78,000
Independent Auditors' fees	248,000	105,000
Remuneration to Statutory Auditors	90,000	16,000
Release of provision for Ozzano Taro plant risks	-	(6,868,880)
Other minor operating costs	2,342,550	2,406,449
Total operating costs	**249,342,243**	**227,292,825**

Operating costs increased by €22,049 thousand, from €227,292 thousand in the year ended 31 December 2018 to €249,342 thousand in the year ended 31 December 2019, as a result of the combination of Centrale del Latte di Salerno S.p.A. and Delverde Industrie Alimentari S.p.A.

9.3 Net write-downs of financial assets

The item "Net write-downs of financial assets", amounting to €674 thousand for the year ending 31 December 2019, refers to the write-down of trade receivables. A detailed breakdown of changes in the provision for bad debts for the year ending 31 December 2019 is set out in Note 8.8 - "Trade receivables" to the Separate Financial Statements.

9.4 Other revenues and income

The following table provides a breakdown of the item "Other revenues and income":

(in €)	Year ended 31 December	
	2019	**2018**
Repayments and compensation	2,021,986	2,073,069
Advertising revenues and promotional contributions	52,419	-
Tax credit for research and development activities	200,000	-
Leases receivable	203,098	699,732
Other revenues of the Ozzano Taro plant	282,110	453,793
Capital gains from disposal of assets	84,145	31,990
Royalties to Newlat GmbH	1,078,813	1,082,794
Other income	1,691,574	301,090
Total other revenue and income	**5,614,145**	**4,642,468**

9.5 Other operating costs

The table below shows a detailed breakdown of the item "Other operating costs":

(in €)	Year ended 31 December	
	2019	**2018**
Stamps, duties and local taxes	505,110	656,484
Corporate canteen	236,632	221,208
Repayments and compensation	367,492	139,066
Benefits and membership fees	48,386	130,936
Losses	-	3,252
Other costs	1,718,111	1,136,041
Total other operating costs	**2,875,731**	**2,286,987**

9.6 Financial income and expenses

The table below shows a detailed breakdown of the item "Financial income":

(in €)	Year ended 31 December	
	2019	**2018**
Interest income from *cash pooling*	370,761	989,219
Net foreign exchange gains	-	81,040
Other financial income	29,095	7,098
Total financial income	**399,856**	**1,077,358**

The table below shows a breakdown of the item "Financial expenses":

(in €)	Year ended 31 December	
	2019	**2018**
Interest expense on loans and advances on invoices	735,593	688,266
Interest expense on lease liabilities	421,508	443,218
Interest expense and charges to Newlat Group	134,816	469,947
Fees and commissions	260,896	145,596
Net foreign exchange losses	16,465	-
Net interest expense on provisions for employee benefits	158,897	120,237
Other financial expenses	17,302	37
Total financial expenses	**1,745,477**	**1,867,300**

9.7 Income taxes

The table below shows a detailed breakdown of the item "Income taxes":

(in €)	Year ended 31 December	
	2019	**2018**
Current taxes	334,373	398,820
Prior-year taxes	-	11,882
Tax benefit on IPO costs (accounting effect only)	1,416,410	
Total current taxes	**1,750,783**	**410,702**
Decrease (increase) in prepaid taxes	198,061	1,362,250
Increase (decrease) in deferred taxes	-	-
Total deferred taxes	**198,061**	**1,362,250**
Total income taxes	**1,948,845**	**1,772,952**

The Company was audited by the Finance Police for the years 2016 and 2017. The audit did not reveal significant findings that should be reflected in the statement of financial position, income statement and statement of cash flows of the Company at 31 December 2019.

The following table displays a reconciliation of the theoretical tax rate with the effective impact on the pre-tax result:

(in €)	Year ended 31 December	
	2019	**2018**
Profit (loss) before taxes	**9,423,564**	**4,886,669**
Theoretical rate	24.0%	-24.0%
Theoretical tax charge	**2,261,655**	**(1,172,801)**
Adjustments		
Difference between theoretical and local rates	42,000	(850,331)
Prior-year taxes	-	(11,882)
Tax incentives	200,000	295,000
Miscellaneous	(554,810)	(32,938)
Income taxes	**1,948,845**	**(1,772,952)**
Effective rate	**20.68%**	**-36.28%**

The effective *tax rate* in the Company's income tax return is lower than the accounting *tax rate* because the tax benefit relating to the entire tax deductibility in 2019 of the costs related to the IPO process (itself accounted for as a reduction of the increase in shareholders' equity arising from the listing transaction), for a total amount of €1,416 thousand, was recorded as a reduction in shareholders' equity.

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**
Profit for the year attributable to the Group in € thousands	7,474,719	3,113,717
Weighted average number of shares in circulation	29,206,707	27,000,000
Earnings per share (€)	**0.26**	**0.12**

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 were made comparable with the 2019 data.

TRANSACTIONS WITH RELATED PARTIES

The transactions entered into by the Company with related parties, identified on the basis of criteria defined by IAS 24 – "Related Party Disclosures", are primarily of a commercial and financial nature and are carried out at arm's length 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 Company deals with the following related parties:

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

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

	Parent company	**Companies controlled by the parent companies**					
(in €)	**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	-	1,641,000	7,826,000	-	9,467,000	17,207,891	55.0%

2019							
At 31 December 2018	-	2,110,000	10,117,000	-	12,227,000	16,798,713	72.8%
Non-current financial assets at amortised cost							
At 31 December 2019	-	125,000	610,000	-	735,000	866,210	84.9%
At 31 December 2018	-	125,000	610,000	-	735,000	856,410	85.8%
Trade receivables							
At 31 December 2019	-	-	-	3,095,703	3,095,703	51,835,233	6.0%
At 31 December 2018	-	-	-	5,491,983	5,491,983	47,897,094	11.5%
Other receivables and current assets							
At 31 December 2019	-	-	-	-	-	3,035,100	0.0%
At 31 December 2018	10,000,000	-	10,000,000	1,478,000	21,478,000	24,367,328	88.1%
Cash and cash equivalents							
At 31 December 2019	24,159,000	-	-	-	24,159,000	31,901	75731.2%
At 31 December 2018	30,940,549	-	-	-	30,940,549	31,239,000	99.0%
Non-current lease liabilities							
At 31 December 2019	-	1,222,000	5,767,000	-	6,989,000	12,969,293	53.9%
At 31 December 2018	-	1,682,000	8,018,000	-	9,700,000	13,032,000	74.4%
Trade payables							
At 31 December 2019	48,000	-	57,000	44,000	149,000	69,576,718	0.2%
At 31 December 2018	130,000	-	58,000	7,000	195,000	66,964,973	0.3%
Current lease liabilities							
At 31 December 2019							
At 31 December 2018	195,000			864,000	1,059,000	10,829,885	9.8%

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

(in €)	Parent company	Companies controlled by the parent companies			Total	Total statement of financial position items	% of statement of financial position item
	Newlat Group	Corticella	New Property	Other companies controlled by the parent companies			
Revenue from contracts with customers							
Year ended 31 December 2019				17,525,000	17,525,000	258,046,888	6.8%
Year ended 31 December 2018				51,562,827	51,562,827	231,397,149	22.3%
Cost of sales							
Year ended 31 December 2019	-	500,000	2,743,000	114,000	3,357,000	213,652,693	1.6%
Year ended 31 December 2018	-	469,000	2,291,000	114,000	2,874,000	203,056,120	1.4%
Administrative costs							
Year ended 31 December 2019	400,667	-	-	-	400,667	- 11,161,950	-3.6%
Year ended 31 December 2018	690,000	-	-	-	690,000	7,881,519	8.8%
Financial income							
Year ended 31 December 2019	370,762	-	-	-	370,762	399,855	92.7%
Year ended 31 December 2018	989,219	-	-	-	989,219	1,077,358	91.8%
Financial expenses							
Year ended 31 December 2019	134,816			-	134,816	1,745,477	7.7%
Year ended 31 December 2018	470,000			-	470,000	1,867,300	25.2%

Transactions with parent company Newlat Group

Cash and cash equivalents, amounting to €30,940 thousand and €24,159 thousand respectively at 31 December 2018 and 2019, are attributable to the cash pooling relationships of Newlat Food S.p.A. with the parent company. Administrative expenses for the year ending 31 December 2019 are attributable to: operating expenses incurred by Newlat, Centrale del Latte di Salerno S.p.A. and Newlat Deutschland in relation to service contracts (€187 thousand) and fees incurred in relation to the cash pooling agreements signed by Newlat and Centrale del Latte di Salerno S.p.A. (€213 thousand).

Transactions with companies controlled by the parent companies

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

- Corticella Molini e Pastifici S.p.A., a real estate company to which lease royalties are paid;
- New Property S.p.A., a real estate company to which lease royalties are paid;
- 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 Latteria Sociale S.p.A.

Corticella Molini e Pastifici S.p.A. (merged into New Property S.p.A.)

At 31 December 2019, €1,641 thousand of right-of-use assets and €460 thousand and €1,222 thousand respectively of current *and non-current lease* liabilities relate to real estate owned by Corticella Molini e Pastifici S.p.A. 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, recorded in the cost of sales, of €469 thousand, and financial charges of €46 thousand. Non-current financial assets at amortised cost at 31 December 2019 refer to security deposits paid to Corticella Molini e Pastifici S.p.A. in relation to this contract.

New Property S.p.A.

At 31 December 2018, €7,826 thousand of right-of-use assets and €1,881 thousand and €8,018 thousand respectively of current *and non-current lease* liabilities relate to the real estate spun off to New Property S.p.A. on 1 June 2017 and subsequently leased to Newlat. The recognition of these contracts according to IFRS 16 led to the recognition of depreciation, recorded in the cost of sales, of €2,291 thousand, and financial charges of €218 thousand for the year ended 31 December 2019.

Of the other receivables and current assets at 31 December 2018, €10,000 thousand referred to the adjustment deriving from the differences between the book values of the assets and liabilities spun off to New Property S.p.A., between 31 December 2016 and the effective date of the spin-off, namely 1 June 2017. This receivable was collected in full by Newlat in the first half of 2019.

10 COMMITMENTS AND GUARANTEES

The table below shows commitments for lease payments in relation to operating *leases* in accordance with IAS 17. The amount of these commitments, subject to discounting, is reflected in *the lease* liabilities pursuant to IFRS 16:.

(in € thousands)	**At December 31**	
	2019	**2018**
Commitments for operating *leases*		
- less than 1 year	1,931	1,931
- between 1 and 5 years	18,075	18,075
- over 5 years	4,881	4,881
Total commitments for operating *leases*	**24,887**	**24,887**

The guarantees given to the Company by Newlat Group S.A. amounted to €47,900 thousand at 31 December 2019 and refer, in the amount of €32,400 thousand, to *a surety* provided in relation to payables to banks for available lines of credit. The remaining amount, totalling €15,500 thousand at 31 December 2019, refers to letters *of sponsorship* in favour of Newlat Deutschland in relation to transactions with UniCredit.

11 OTHER INFORMATION

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

The fees payable to Directors and Statutory Auditors amounted to €44 thousand and €15 thousand respectively in the year ended 31 December 2019.

The total remuneration of managers with strategic responsibilities came to €221 thousand at 31 December 2019. No loans or advances were granted to Directors in 2019.

11.2 Independent Auditors' fees

The independent auditors' fees for activities carried out in 2019 totalled €130 thousand.

11.3 Research and development activities

The research and development ("R&D") carried out within Newlat Food S.p.A. is based on the ability to develop innovative products, sometimes evocative of local tradition, while respecting the target markets.

Research and development costs incurred during 2019 and 2018 have been instrumental in pursuing the Company's production and commercial strategies, aimed at making product ranges more innovative and strengthening its position in the market.

Research and development expenses totalled €3,389 thousand for the year ended 31 December 2019, fully expensed in the income statement and corresponding to 1.31% of revenues from contracts with the Company's customers for that year.

It should be noted that the Company intends to avail itself of the research and development tax credit provided for in article 1, paragraph 35, of Law no. 190 of 23 December 2014, and to use it in the manner specified in the said legislation.

11.4 Proposal for allocation of the result for the year

Shareholders,

the separate financial statements that we submit for your approval show a profit for the year of €7,474,719, of which we propose to allocate 5% to the legal reserve and 95% to the extraordinary reserve.

RESULTS, ASSETS AND LIABILITIES AND CASH FLOWS OF THE PARENT COMPANY NEWLAT GROUP SA THAT EXERCISES MANAGEMENT AND CONTROL ACTIVITIES.

(in EUR)	SEPARATE FINANCIAL STATEMENTS AT 31.12.2019 STATEMENT OF FINANCIAL POSITION
	ASSETS
Intangible assets	325
Property, plant and equipment	530,366
Equity investments	160,386,833
Other non-current receivables	2,149
Total non-current assets	**160,919,674**
Receivables and other current items	132,815,233
Short-term liquidity and investments	42,407,394
Total current assets	**175,222,627**
Total assets	**336,142,301**
	LIABILITIES
Equity	**252,605,984**
Provisions for risks and charges	1,032,292
Total non-current liabilities	**1,032,292**
Current payables and liabilities	82,504,025
Total current liabilities	**82,504,025**
Total liabilities	**336,142,301**
	INCOME STATEMENT
Other revenues and income	799,927
Other operating costs	1,646,102
Financial (income)/expenses	(23,415)
Capital gains on equity investments	64,049,225
Profit (loss) before taxes	**63,226,466**
Income taxes	122,708
Profit/loss for the year	**63,103,757**

CERTIFICATION OF THE FINANCIAL STATEMENTS PURSUANT TO ARTICLE 154-BIS OF LEGISLATIVE DECREE 58/98

Taking into consideration article 154-*bis* (3) and (4) of Legislative Decree no. 58 of 24 February 1998, the undersigned, Angelo Mastrolia, as CEO, and Rocco Sergi, as Financial Reporting Officer, of Newlat Food Group, certify:

the adequacy in relation to the company characteristics, and

the effective application

of the administrative and accounting procedures for preparing the financial statements during the 2019 financial year.

It is furthermore declared that the financial statements at 31 December 2019:

a) were prepared in compliance with the applicable international accounting standards adopted by the European Community, pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and Council, of 19 July 2002;
b) correspond with the accounting books and records;
c) provide a true and correct representation of the asset, economic and financial situation of the issuer and of the companies included in the consolidation.

The management report includes a reliable analysis of the performance and results of operations as well as the issuer's situation, together with a description of the key risks and uncertainties the issuer is exposed to.

Reggio Emilia, 19 March 2020

Chief Executive Officer

Angelo Mastrolia

Financial Reporting Officer

Rocco Sergi

INDEPENDENT AUDITING FIRM'S REPORT

pwc

Independent auditor's report

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

To the shareholders of Newlat Food SpA

Report on the audit of the separate financial statements

Opinion

We have audited the separate financial statements of Newlat Food SpA (hereinafter also the "Company"), which comprise the statement of financial position as of 31 December 2019, the income statement, statement of other comprehensive income, statement of changes in equity, statement of cash flows for the year then ended and explanatory notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the separate financial statements give a true and fair view of the financial position of Newlat Food SpA as of 31 December 2019 and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree no. 38/2005.

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 separate financial statements" section of this report. We are independent of the Company pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

Key Audit Matters	Auditing procedures performed in response to key audit matters
Recoverability of the investment in the German subsidiary Newlat GmbH	
(See notes 2.3 – "Accounting policies" and 8.4 - "Investments in subsidiaries" to the separate financial statements as of 31 December 2019) As of 31 December 2019, the carrying amount of investments in entities controlled by Newlat Food SpA reported in the separate financial statements was equal to approximately Euro 68.3 million, entirely related to the newly controlled subsidiary Newlat GmbH. Investments in subsidiaries are carried at cost; whenever indicators of possible impairment exist, cost is compared with the recoverable amount, which is the higher of fair value less costs to sell and value in use. At least annually, the Company tests the recoverability of the carrying amounts of equity investments and performs an analysis to identify any indicators of impairment of investments in subsidiaries; if such indicators are present, management of the Company determines the recoverable amount of the investments. In our statutory audit of the separate financial statements, we considered this a key audit matter in consideration of the materiality of the balance relative to the financial position of Newlat Food SpA as of 31 December 2019. The valuation models applied to determine the recoverable amount (value in use) of investments in subsidiaries are based on complex valuations and estimates made by management, referred to the growth projections reflected in the Business Plan 2019 – 2022, which was approved by the Board of Directors on 22 July 2019. In detail, the valuation models of the investments in the Company's only subsidiary and the assumptions used in those models are influenced by future market conditions with regard to the future cash flows, the perpetual growth rate and the discount	Our audit approach involved, first of all, understanding and evaluating the method and procedures defined by the Company to determine the recoverable amount of the investment in Newlat GmbH, which were approved by the Board of Directors on 19 March 2020, in accordance with International Financial Reporting Standard IAS 36 as adopted by the European Union. We verified, also involving business valuation experts from the PwC network, that the method used by the Company was consistent with IAS 36 as adopted by the European Union and with prevailing valuation practice. The key valuation parameters adopted by the Company were analysed in terms of reasonableness. With specific reference to the method of determination of the discount rate (average weighted cost of capital, "WACC"), we verified that the latter had been determined in accordance with best practices and using market data adopted for entities operating in the same segment as Newlat GmbH. Similarly, we analysed the determination of the medium-/long-term growth rate ("g") against the guidelines given by IFRS as adopted by the European Union. We verified the consistency of the cash flows used in the valuation models and those included in the Business Plan 2019 – 2022. We analysed the reasonableness of estimated future cash flows by discussion with the Company's management. We also verified the mathematical accuracy of the valuation models prepared by the Company. Finally, we verified the adequacy and

Key Audit Matters	*Auditing procedures performed in response to key audit matters*
rate. In order to assess the recoverability of the investment in Newlat GmbH as of 31 December 2019, the Directors of Newlat Food SpA, with the support of an external advisor, prepared a specific impairment test.	completeness of disclosures provided in the notes to the separate financial statements.

Recoverability of goodwill

(See notes 2.3 – "Accounting policies" and 8.3 - "Intangible assets – goodwill" to the separate financial statements as of 31 December 2019) As of 31 December 2019, the carrying amount of goodwill in the separate financial statements of Newlat Food SpA was approximately Euro 3.9 million, originating from the recognition of the merger of the wholly-owned subsidiary Centrale del Latte di Salerno SpA, which became effective for legal purposes on 31 December 2019, with retrospective effect for accounting and tax purposes from 1 January 2019. The Company verifies the recoverability of goodwill at least annually. In our statutory audit of the separate financial statements, we considered this a key audit matter in consideration of the materiality of the balance relative to the financial position of Newlat Food SpA as of 31 December 2019 and of the elements of estimation intrinsic to the assessment of recoverability made by the Company's Directors. The valuation models applied to determine the recoverable amount (value in use) of the cash generating unit ("CGU") to which goodwill has been allocated are based on complex valuations and estimates made by management, referred to the growth projections reflected in the Business Plan 2019 – 2022, which was approved by the Board of Directors on 22 July 2019. In detail, the valuation models of the recoverable amount of the CGU to which goodwill has been allocated and the	Our audit approach involved, first of all, understanding and evaluating the method and procedures defined by the Company to determine the recoverable amount of the CGU to which goodwill has been allocated, which were approved by the Board of Directors on 19 March 2020, in accordance with International Financial Reporting Standard IAS 36 as adopted by the European Union. Specifically, we verified the reasonableness of the assumptions made by the Directors of Newlat Food SpA underlying the identification of the CGU. We verified, also involving business valuation experts from the PwC network, that the method used by the Company was consistent with IAS 36 as adopted by the European Union and with prevailing valuation practice. Moreover, the key valuation parameters adopted by the Company were analysed in terms of reasonableness. With specific reference to the method applied to determine the discount rate (average weighted cost of capital, "WACC"), we verified that the latter had been determined in accordance with best practices and using market data. Similarly, we analysed the determination of the medium-/long-term growth rate ("g") against the guidelines given by IFRS as adopted by the European Union. We also verified the consistency of the cash

Key Audit Matters	*Auditing procedures performed in response to key audit matters*
assumptions used in those models are influenced by future market conditions with regard to the future cash flows, the perpetual growth rate and the discount rate. In order to assess the recoverability of goodwill, the Directors of Newlat Food SpA, with the support of an external advisor, prepared a specific impairment test.	flows used in the valuation models and those included in the Business Plan 2019 – 2022. We analysed the reasonableness of estimated future cash flows by discussion with the Company's management. We also verified the mathematical accuracy of the valuation models prepared by the Company. Finally, we verified the adequacy and completeness of disclosures provided in the notes to the separate financial statements.

Emphasis of matter

We draw your attention to the disclosure provided in the explanatory note 1.1 – 'General information and significant transactions carried out in 2019' with regard to the accounting and financial effects of significant transactions carried out by Newlat Food SpA during the year ended 31 December 2019, which affect the comparability of the separate financial statements with the accounting figures of the previous year. Our opinion is not qualified for this matter.

Other matters

The Company, as required by law, has included in the explanatory notes to the separate financial statements the key figures of the latest financial statements of the entity which directs and coordinates its activities. Our opinion on the separate financial statements of Newlat Food SpA does not extend to those figures.

Responsibilities of the Directors and those charged with governance ("Collegio Sindacale") for the separate financial statements

The Directors of Newlat Food SpA are responsible for the preparation of separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree no. 38/2005 and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance *("Collegio Sindacale")* of Newlat Food SpA are responsible for overseeing, in the terms prescribed by law, the Company's financial reporting process.

Auditor's responsibilities for the audit of the separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA 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 separate financial statements.

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

We communicated with those charged with governance, identified at an appropriate level as required by ISA 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.

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

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

Additional disclosures required by article 10 of Regulation (EU) no. 537/2014

On 8 July 2019, the shareholders of Newlat Food SpA in general meeting engaged us to perform the statutory audit of the Company's separate and consolidated financial statements for the years ending 31 December 2019 to 31 December 2027.

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

We confirm that the opinion on the separate financial statements expressed in this report is consistent with the additional report to those charged with governance *("Collegio Sindacale")*, in its capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on compliance with other laws and regulations

Opinion in accordance with article 14, paragraph 2, letter e) of Legislative Decree no. 39/10 and article 123-bis, paragraph 4 of Legislative Decree no. 58/1998

The Directors of Newlat Food SpA are responsible for preparing a report on operations (jointly prepared for both separate and consolidated financial statements) and a report on the Company's corporate governance and ownership structure as of 31 December 2019, including their consistency with the relevant separate financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italy) no. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4 of Legislative Decree no. 58/1998, with the separate financial statements of Newlat Food SpA as of 31 December 2019 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the separate financial statements of Newlat Food SpA as of 31 December 2019 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e) of Legislative Decree no. 39/2010, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Bologna, 27 March 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."

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING

NEWLAT FOOD S.p.A.

Registered Office in Reggio Emilia, Via Kennedy, 16 - 42124
Share capital: € 40,780,482.00, fully paid-in
Reggio Emilia Companies Register, Tax ID and VAT no. 00183410653
Economic Administrative Index no. RE277595

Report of the Board of Statutory Auditors to the Newlat Food S.p.A. Shareholders' Meeting of 29 April pursuant to art. 153 of Legislative Decree 58/98 and art. 2429 of the Italian Civil Code

Dear Shareholders,

1. Introduction: legislative, regulatory and code of conduct sources

This Report was prepared by the Board of Statutory Auditors of **NEWLAT FOOD S.p.A. (hereinafter the "Company" or "NEWLAT FOOD")** appointed by the Shareholders' Meeting on 8 July 2019 and currently in office until the approval of the financial statements for the year ended 31 December 2021.

This Report details the supervision activities and other activities carried out by the Board of Statutory Auditors during the year ended 31 December 2019, prepared pursuant to Legislative Decree no. 58/1998 ("TUF") and subsequent amendments, art. 2429 of the Italian Civil Code, the Rules of Conduct of the Board of Statutory Auditors of listed companies issued by the National Association of Certified Accountants and Accounting Experts, and also in compliance with the guidance contained in the CONSOB Communication DEM/1025564 of 6 April 2001, as amended.

Given that **NEWLAT FOOD** has adopted the traditional Governance model, and that the auditing was appointed to PricewaterhouseCoopers S.p.A. (hereinafter also "PWC") for the financial years 2019 to 2027, the Board of Statutory Auditors coincides with the "Internal Control and Audit Committee", which has additional specific control and monitoring functions on financial reporting and statutory auditing provided for in Article 19 of Legislative Decree of 27 January 2010 no. 39, as amended, which are also discussed in this Report.

With this Report, the Board of Statutory Auditors also reports on the supervision activities carried out with regard to the obligations relating to non-financial information pursuant to Legislative Decree no. 254/2016.

2. Supervision of compliance with laws, regulations and articles of association

During the 2019 financial year, the Board of Statutory Auditors met 8 times. The Board of Statutory Auditors attended all the meetings of the Board of Directors held in 2019, and all those after 31 December 2019 to date. The Remuneration and Appointments Committee met once in 2019 and once in 2020. The Control and Risks Committee met once in 2019 and twice in 2020. The Related Party Transactions Committee met once in 2019 and twice in 2020.

The Board of Statutory Auditors participated, in its entirety, in the Shareholders' Meeting of 27 June 2019. The Board of Statutory Auditors met regularly with the independent auditing firm PWC.

The Board of Statutory Auditors liaised with the Head of the Internal Audit Department and held regular meetings with the heads of some key corporate functions (such as the Chairman and CEO, Deputy CEO, Deputy CEO & CCO, the Financial Reporting Officer and CFO)

The Board of Statutory Auditors continuously acquired useful documentation and information in order to plan its activities, which concerned in particular:

a) Supervision of: (i) Compliance of the resolutions adopted by the corporate bodies with the law and regulatory provisions, as well as with the Articles of Association; (ii) Pursuant to Article 149, paragraph 1, letter c-*bis* of Legislative Decree 58/98, the method of actual implementation of the Corporate Governance Code of listed companies which **NEWLAT FOOD** has adhered to**;** (iii) Compliance with the obligations regarding inside information; (iv) Compliance of the internal procedure concerning related party transactions with the principles specified in the Regulations approved by CONSOB with Resolution no. 17221 of 12 March 2010 and subsequent amendments (hereinafter "RPT Regulation"); (v) The functioning of the corporate information process, verifying compliance with the laws and regulations concerning the preparation and layout of the separate and consolidated financial statements, as well as the accompanying documentation, for this purpose also examining the Annual Report of the Financial Reporting Officer; (vi) The actions taken with reference to the provisions on privacy, for which the Company has appointed a Data Protection Officer; and (vii) Compliance of the non-financial statement (hereinafter also "NFS") with the provisions of Legislative Decree no. 254/2016 and subsequent amendments;

b) Verification of the following: (i) Compliance with the rules on the holding of meetings of corporate bodies and the fulfilment of the periodic reporting obligation by the delegated bodies regarding the exercise of delegated powers; (ii) That none of the Statutory Auditors had an interest, on their own behalf or on behalf of third parties, in a specific transaction during the 2019 financial year and that the conditions of independence are maintained, including through the internal process of continuous self-assessment concerning the recurrence and maintenance of the eligibility requirements of members and the correctness and effectiveness of their operations; (iii) Monitoring the actual methods of implementing corporate governance rules; and (iv) Preparation of the Remuneration Report.

To date, there have been no reports to CONSOB pursuant to Article 149 (3) of the Consolidated Law on Finance (TUF).

3. Most significant economic, financial and equity transactions - related party transactions

The Board of Statutory Auditors reports the significant events during the year under review:

- 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 and sell shares representing the entire share capital of Delverde Industrie Alimentari S.p.A.;

- On 27 June 2019, the Shareholders' Meeting of Newlat Food S.p.A. resolved to approve the separate and consolidated financial statements for 2018 and to allocate the €3,113,716 profit for the year to the Statutory Reserve (5%) and the Extraordinary Reserve (95%);

- On 6 September 2019, the administrative bodies of Newlat Food, Delverde and Centrale del Latte di Salerno approved, respectively, the proposed merger by incorporation of Delverde and Centrale del Latte di Salerno into Newlat Food S.p.A. pursuant to article 2505 (*merger of a wholly owned subsidiary*) of the Italian Civil Code (the "**Mergers**");

- Extraordinary meetings of shareholders of Delverde, Centrale del Latte di Salerno and Newlat Food S.p.A. were held on 17 September 2019, approving the aforementioned Mergers;

- On 25 October 2019, Borsa Italiana confirmed that the Shares were sufficiently distributed and arranged that they commence trading on the STAR segment of the MTA on Tuesday, 29 October 2019;

- The Company successfully completed the institutional placement of 12,700,000 shares on 28 October 2019 and was admitted to trading on the STAR segment of the MTA on 29 October;

- On 29 October 2019, the transfer of shares in Newlat GmbH Deutschland from Newlat Group SA to Newlat Food S.p.A. was completed. The provisional fee was €55,000 thousand. The price adjustment was fixed within 50 days of the date of admission to trading on the STAR segment of the MTA;

- On 28 November 2019, the "greenshoe option" was partially exercised for 1,080,482 shares.

  On 2 December 2019, the price adjustment for the transfer of Newlat GmbH shares was fixed at a total amount of €13,324 thousand.

Taking into account the size and structure of the Company and NEWLAT FOOD Group, the Board of Statutory Auditors considers that the Board of Directors, in its Annual Financial Report for the year ended 31 December 2019, provided an adequate illustration of the transactions with subsidiaries and other related parties, explaining the economic, financial and equity effects. The Board of Statutory Auditors also acknowledges the significant events occurring after the end of the financial year and the management outlook. With reference to the spread of the virus known as SARS-CoV-2 and the related respiratory disease COVID-19, the company has promptly implemented strategic decisions and appropriate actions. Although there is still considerable uncertainty about the future development of the Coronavirus, the Company renews its full confidence with regard to the organic growth forecasts and confirms the option to evaluate external growth options.

4. Supervision of compliance with the principles of good administration

In order to monitor compliance with the principles of good administration, in addition to attendance at all Board of Directors meetings, the Board of Statutory Auditors declares that:

- it has obtained the information during the 2019 financial year about the activities performed and the most significant economic, financial and equity transactions carried out by NEWLAT FOOD and its subsidiaries in the 2019 financial year from the Directors. All this is reported accurately in the documents relating to the consolidated financial statements and the separate financial statements. Based on the information made available to the Board of Statutory Auditors, the latter can reasonably consider that the transactions carried out in 2019 were performed in accordance with the law and the Articles of Association, and that they were not demonstrably irresponsible, reckless or in conflict with the resolutions passed by the Shareholders' Meeting or likely to compromise the integrity of the share capital.

- it did not identify any atypical or unusual transactions with Group companies or with third parties carried out during the 2019 financial year. Reference should be made to the Management Report and the risk analysis contained in the consolidated financial statements and the separate financial statements for the risks and effects of the transactions carried out.

The Board of Directors identified the nature and level of risk compatible with the Company's strategic objectives when drawing up its strategic, industrial and financial plans. This assessment included all and any risks that may become significant in terms of sustaining the Company's activities in the medium to long term. In support of the ICRMS and the Control and Risks Committee, on 8 July 2019 the Board of Directors appointed Angelo Mastrolia as the director responsible for the ICRMS, who will perform the functions listed in the Corporate Governance Code. With the help of the Control and Risks Committee, the Board of Directors also prepared guidelines for the Internal Control and Risk Management System (ICRMS). The ICRMS is capable of identifying, measuring, managing and monitoring major risks and is in line with national and international best practice.

5. Supervision activities on the adequacy of the organisational structure

Within its scope of responsibility, the Board of Statutory Auditors acquired knowledge and monitored the adequacy of the Company's organisational structure and considers that the structure, which was being adjusted with the entry of new figures, is adequate. The Company has a Supervisory Board which currently consists of Massimo Carlomagno, as Chairman, and Ester Sammartino, as a Member. The Board of Directors approved its "Organisation, Management and Control Model" in accordance with Legislative Decree 231/2001 on 30 March 2016, updating it most recently on 9 August 2019. The Model was drawn up on the basis of guidelines issued by Confindustria (the Italian industry confederation) in accordance with the relevant legislation, and sets out standards for conduct, procedures and control activities, in addition to powers and mandates designed to prevent the offences outlined in Legislative Decree 231/2001.

No breaches of the Model or irregularities emerged after examining the information received from managers of the various areas of the Company, and no acts or conduct have come to light that constitute an infringement of the provisions of Legislative Decree 231/2001.

Regarding the self-assessment process of the Board of Directors and its Committees, a largely adequate picture emerges.

6. Supervision of the internal control and risk management system and the administrative and accounting system

The Board of Statutory Auditors examined the assessment expressed by the Board of Directors on the adequacy and effective functioning of the Internal Control and Risk Management System (hereinafter "ICRMS") through: (i) identification of the ICRMS Guidelines, within which the company validated the integrated risk management model; (ii) certification of the Separate Financial Statements and Consolidated Financial Statements by the Chairman of the Board of Directors and the Financial Reporting Officer, who provided the appropriate statements; (iii) regular meetings with the Internal Audit Manager; (iv) examination of company documents and the results of the work carried out by PWC; (v) participation in the work of the Control and Risks Committee. It received information from PWC concerning the new regulations having an impact on auditing activities, as well as confirmation of the independence of PWC and communication of the non-statutory audit services provided; and (vi) with reference to the issues of social responsibility, monitored the data and information related to sustainability, which were presented in the Non-Financial Statement.

7. Audit of the separate financial statements, the consolidated financial statements and the consolidated non-financial report

The Board of Statutory Auditors carried out the checks on compliance with the rules relating to the preparation of the Separate Financial Statements of NEWLAT FOOD and the Group Consolidated Financial Statements for the year ended 31 December 2019, and duly noted the statement of the responsible bodies for which the separate financial statements and the consolidated financial statements were prepared in accordance with IAS/IFRS accounting standards. The notes to the financial statements contain the information required by the international accounting standards regarding the impairment of assets. The procedure adopted by the Company for the impairment test since its listing was updated in March 2020 for both goodwill and the value of trademarks. The Company used external experts for the procedure (impairment tests).

The Board of Statutory Auditors monitored the approval of the Non-Financial Statement. The Board of Statutory Auditors met both the function responsible for its preparation and representatives of PWC, and examined the documentation made available. The Board of Statutory Auditors acknowledges the report of PWC, from which it can be seen that there are no elements, facts or circumstances that suggest that the NFS was not drafted in compliance with the relevant regulations. PricewaterhouseCoopers S.p.A., which was appointed the task of statutory auditing, issued, on 27 March 2020, the reports pursuant to Article 14 of Legislative Decree 39/2010 and art. 10 of Regulation (EU) No. 537/2014 for the Separate Financial Statements and Consolidated Financial Statements of NEWLAT FOOD S.p.A. as of 31 December 2019, reporting that no irregularities were found. In particular, PWC certifies that the separate financial statements and the consolidated financial statements provide a truthful and correct representation of the equity and financial situation of Newlat Food S.p.A. as of 31 December 2019 and of the Newlat Group as of 31 December 2019, respectively, and of the net result and cash flows for the year ended on that date, in accordance with the International Financial Reporting Standards adopted by the European Union, as well as the provisions issued in implementation of Article 9 of Legislative Decree no. 38/2005.

8. Methods of actual implementation of corporate governance rules

The Board of Statutory Auditors reports, based on acquired information, on the adjustment of the corporate governance structure of the Company. At the start of the listing, the Company carried out a self-assessment of the members of the Board of Directors and its Committees. The Board of Statutory Auditors verified that the Annual Corporate Governance Report was prepared in accordance with existing regulations. No complaints or reports were received by the Board of Statutory Auditors pursuant to Article 2408 of the Italian Civil Code.

9. Opinions of the Board of Statutory Auditors

During the previous financial year and since 31 December 2019, the Board of Statutory Auditors has issued the following opinions: (i) Opinion on adequacy pursuant to Article 2441, sixth paragraph, of the Italian Civil Code; (ii) Opinion on the proposal to award a new appointment of statutory auditing to the auditing firm for the years 2019-2027 subject to the start of trading of the Company's shares on the Mercato Telematico Azionario ("MTA"); (iii) Opinion on the Memorandum on the management control system; and (iv) Opinion on the assignment of non-auditing activities to PWC Law 262/2005.

10. Conclusions and proposals regarding the financial statements and their approval

Based on the supervision activities carried out during the financial year, the Board of Statutory Auditors, taking into account the above, does not find any reason to oppose the approval of the NEWLAT FOOD S.p.A. financial statements as of 31 December 2019 and the proposal made by the Board of Directors on 19 March 2020 regarding the allocation of the net result for the financial year.

27 March 2020

On behalf of the Board of Statutory Auditors

Massimo Carlomagno Chairman