Alkemy S.p.A.

Annual Financial Report
at 31 December 2019

Alkemy Group
Parent Company: Alkemy S.p.A.
Registered office in Milan, at Via San Gregorio 34
Share Capital Euro 587,589
VAT no.: 05619950966
Milan Companies House no. 1835268

Contents

Introduction

Alkemy S.p.A., whose shares have been traded on the STAR segment of the telematic stock exchange ("MTA"), organised and managed by Borsa Italiana, since 17 December 2019, strives to improve the market position and competitiveness of large and medium enterprises - innovating them and transforming their business model to keep pace with the evolution of technology and new consumer conduct. The company integrates into its offer, competences in the areas of strategy, e-commerce, communication, performance and technology, developing complete digital transformation projects that cover the whole of the value chain, from strategy to implementation.

This Report has been presented as a single document, accompanying both the Consolidated Financial Statements of the Alkemy Group (hereinafter the "Group") and the Financial Statements of the Parent Company, Alkemy S.p.A.

The administrative body of Alkemy S.p.A. has resolved to prepare the Consolidated Financial Statements and the Financial Statements of the Parent Company according to the IAS (International Accounting Standards) and IFRS (International Financial Reporting Standards) issued by the International Accounting Standards Board (IASB) and approved by the European Union.

The amounts given in the schemes, tables and notes are all stated in thousands of euros.

Corporate bodies of Alkemy S.p.A.

Board of Directors

Alessandro Mattiacci	Chairman
Vittorio Massone	Deputy Chairman
Duccio Vitali	Chief Executive Officer
Francesco Beraldo	Director
Riccardo Lorenzini	Director
Giorgia Abeltino	Independent Director
Giulia Bianchi Frangipane	Independent Director
Andrea di Camillo	Independent Director
Serenella Sala	Independent Director

Board of Auditors

Mauro Bontempelli	Chairman
Gabriele Gualeni	Regular Auditor
Daniela Bruno	Regular Auditor
Marco Garrone	Alternate Auditor
Mara Sartori	Alternate Auditor

Independent Auditing Firm

KPMG S.p.A.

Letter from the Chief Executive Officer

Shareholders,

After 7 years of uninterrupted development that saw Alkemy grow at an average annual rate of 42%, up to more than 600 people and almost € 85 million in revenues, in 2019 we focussed on designing a new growth cycle for Alkemy.

In addition to having reached an important dimension in all the business areas in which we work, 2019 saw us become, as per the target we had originally set ourselves, a company with a strong international presence; development in Spain, Mexico and the Balkans continued and export now accounts, in all, for more than 30% of total turnover, with our offices in Belgrade, Madrid and Mexico City numbering more than 150 people.

If Alkemy's turnover has shown further growth this year, going from € 71.6M in 2018 to € 84.2M in 2019, up 18%, EBITDA has declined, going from € 6.2M in 2018 to € 5.0M in 2019 as a result of the partial reduction and time shift in the budgets of two important customers, with which, moreover, we are continuing to work to our mutual satisfaction.

2019 was an important year for investments in the transformation of our operative model, making the move from "boutique" to "industry"; we have rethought our organisation, making it more efficient and scalable, redesigned the go-to-market by customer, rather than by area of competence, and strengthened our marketing and people development structures, as well as having identified and made the most of a series of operative efficiencies.

In July 2019, Alkemy then joined the capital of Design Group Italia, a company with more than 50 years of experience and offices in Milan, Reykjavik and New York, boasting a team of 75 professionals of 16 different nationalities and customers included on Fortune 500. Design Group Italia meets the needs of customers with an extended design thinking method, designing products, services and spaces and exploring the new balances between the physical and digital worlds.

Over these seven years together with our customers, we have understood that digital is not a destination, but rather a new point of departure. We changed digital when digital was the great novelty and now we have evolved, within and beyond digital.

Indeed, thanks to this year's acquisition of Design Group Italia and that of Nunatac (data & analytics) in 2018, which completed our already consolidated competences in strategy, technology and creativity, during the year we were able to redefine our positioning and transform our mission: starting today, we enable the business evolution of our customers, beyond what is digital, integrating the physical touchpoints and channels of our customers and helping them improve the competitiveness of their business in a continually-evolving context.

Starting 17 December 2019, 24 months after listing on AIM Italia, and following on from the translisting commitment made at that time, Alkemy's shares have been listed on the Star Segment of Borsa Italiana's MTA.

This moment is, for us, a point of departure for the new Alkemy season. A new season in which we wish to continue to enable the business evolution of our customers and, in doing so, on the strength of our independence, help speed up the development of our country in this new post-digital scenario.

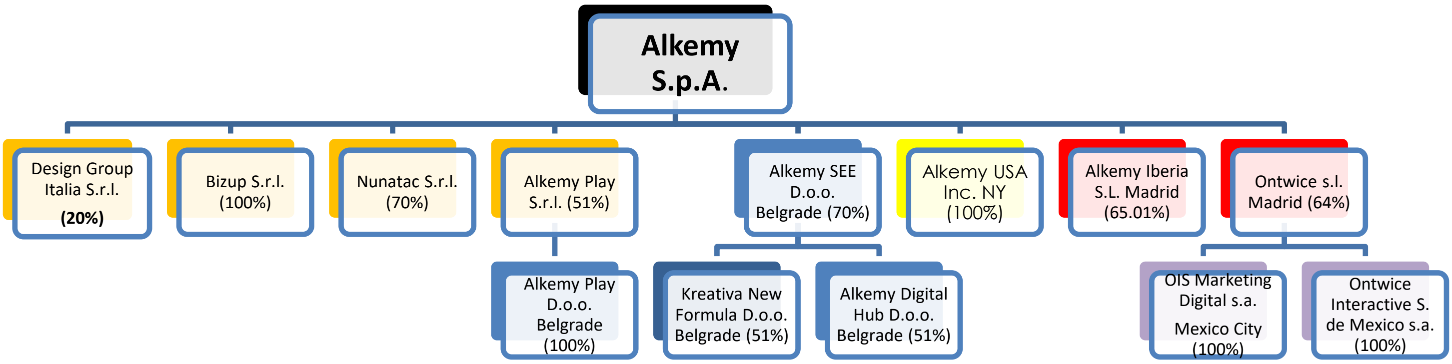
Duccio Vitali,

Chief Executive Officer of Alkemy SpA

Report on Operations

Group Profile

As at 31 December 2019, the Alkemy Group structure is as follows:



Bizup S.r.l.: company acquired in 2016 for 100% of the share capital (38% of the capital is held by the three founding members), operating in performance marketing.

Alkemy Play S.r.l.: company established in 2017, operating in digital communication services for SMEs.

Alkemy Play D.o.o.: company based in Belgrade, established in 2017, operating in the development of IT and technological services.

Alkemy SEE D.o.o.: company based in Belgrade, established in 2016 with capital held 30% by the Chief Executive Officer, a local entrepreneur; it operates in strategic consultancy and digital advisory services.

Alkemy Digital Hub D.o.o.: company based in Belgrade, established in H1 2018, whose share capital is held 51% by Alkemy SEE D.o.o. and 49% by the Nelt Group (amongst the leaders in the Balkans in the distribution, logistics and marketing sectors). During the last quarter of 2019, Alkemy Digital Hub D.o.o sold the whole capital of **Tako Lako Shop D.o.o.**, a company offering medium-large brands on-line market placement and e-commerce services.

Alkemy Iberia S.L.: company based in Madrid, established in 2017 with capital held 24.9% by the Chief Executive Officer and 10% by local entrepreneurs; it operates in strategic consultancy and digital advisory services.

Nunatac S.r.l.: company acquired during H1 2018, held 70% (30% by two of the founding members), specialised in data analysis for businesses, big data and predictive modelling.

Ontwice Interactive Service S.l.: company based in Madrid, acquired in July 2018, of which Alkemy Spa holds 64% of the capital (with completion of the remaining 36% of the share capital through put&call options to be exercised partially each year through to October 2021); it is one of the leading digital agencies in Spain and holds the entire capital of the two Mexican companies based in Mexico City, **Ontwice Interactive Services de Mexico s.a**. and **Ois Marketing Digital s.a.**, both operating on local markets in digital services, communication and media.

Alkemy USA Inc.: company based in New York, acquired in 2013, not operative.

Design Group Italia s.r.l.: company operating in "innovation & design", described below, in which we hold 20% of the share capital.

Below is the key data on operations of the Alkemy Group in FY 2019:

	Figures in thousands of euros	
	31 Dec. 2019	**31 Dec. 2018**
Net revenues	84,520	71,629
Adjusted EBITDA (*)[1]	5,030	6,200
Amortisation, depreciation and impairment	2,074	1,366
EBIT	2,956	4,834
Financial income (expense)	1,194	560
Non-recurring expense (income)	1,549	-
Tax	486	879
Period result	(240)	3,395
Net invested capital	51,106	45,623
Net financial position	(19,209)	(10,716)
Shareholders' equity	31,897	34,907
Average number of employees	512	511

The Alkemy Group first started operating and made its market début in May 2012, on the initiative of a group of entrepreneurs with significant previous experience in the world of business consultancy and technological innovation, accrued with leading international companies. Its aim was to assist medium-large Italian and foreign businesses with the processes of transforming their business model and the management of internal activities and those for customers, that had become necessary due to the constant, progressive increase in the digitisation of the range of services and communication techniques.

The Alkemy Group manages extensive technological and digital transformation projects adopting an end-to-end logical approach. These project consist of the supply of a series of services, from the definition of the strategy to be pursued through to its implementation and subsequent management.

The Group has set itself the aim of becoming the national point of reference, but also for the Spanish markets and the Balkans area, for all matters relating to digital and innovation, aggregating within the very best know-how and latest, most up-to-date competences. Alkemy operates through the synergic union of six different areas of competence (referred to as "focus teams"): Strategy, eCommerce, Media and Performance, Communication, Technology and Data

[1] (*) Adjusted EBITDA: net revenues less operating costs, excluding non-recurring income and expense.

Analysis

- **Strategy**, i.e. the set of activities that allow companies to understand and measure the impact of digital on their business and, therefore, to construct strategic development plans hinged on digital.
- **eCommerce**, i.e. all activities aimed at helping companies define multi-channel sales strategies, integrate sales channels and maximise sales opportunities on digital.
- **Communication**, i.e. all activities aimed at helping companies communicate with the consumer through all touchpoints and to construct creative campaigns and ideas that go beyond the on-line/off-line boundaries.
- **Performance**, i.e. all activities aimed at helping companies maximise the effectiveness of the on-line channel in order to acquire new customers and increase retention of the current customer base.
- **Technology**, i.e. all activities of consultancy, programming and IT research and development, necessary to develop the digital transformation systems and projects.
- **Data analysis**i.e. all activities involving the management and analysis of business data, big data and predictive modelling.

The Group operates on the B2B digital services market, which, in Italy and abroad, where it is present, it remains in any case still extremely fragmented; today, Alkemy is the leading independent national operator and one of the main ones in Spain and in the Balkans, thanks to the widespread recognition of its skills, experience, performance, completeness of offer and dimension.

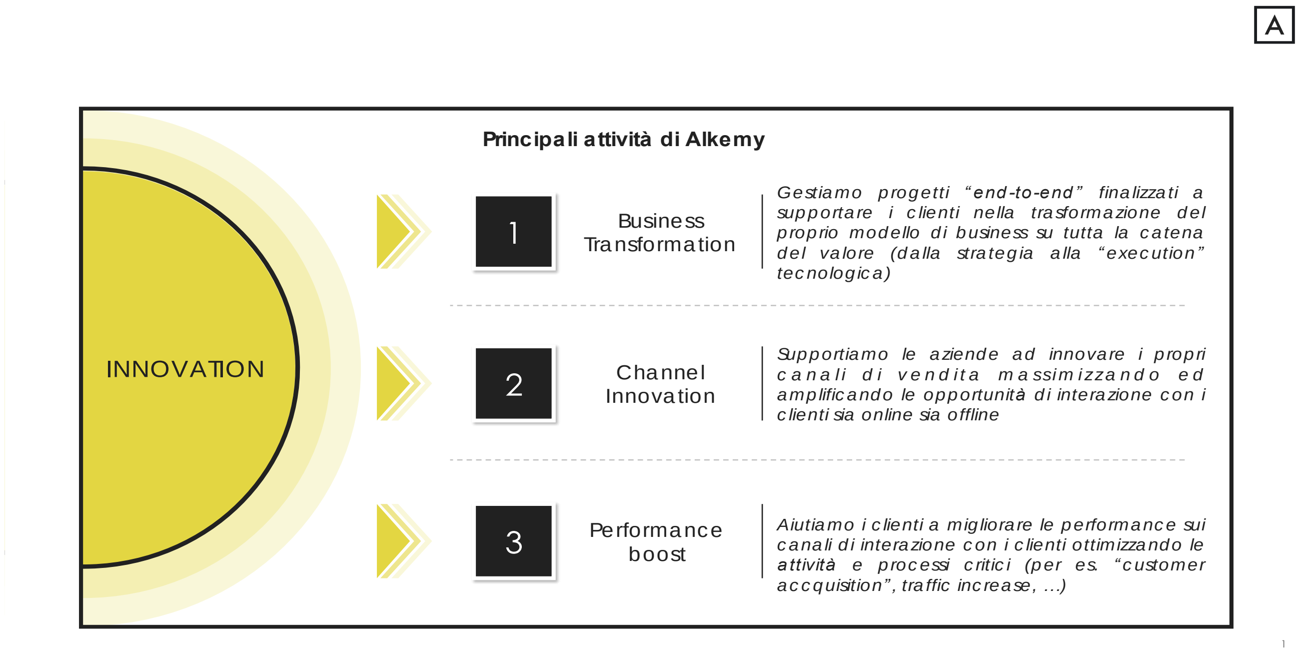
The digital and technological evolution has changed the way companies interact with their customers. This is why Alkemy believes that companies must, in particular if leading their sector and aiming to improve their competitive positioning, prepare innovative strategies that can create tools that, once integrated into reality and pre-existing company departments, make it possible to intercept the needs of new customer segments, with positive impacts on the effectiveness of traditional models.

Therefore, Alkemy handles extensive projects for the transformation of its customers in an end-to-end logic, i.e. supplying assistance from the definition of the strategy to be adopted through to its implementation and subsequent management in the favour of medium/large Italian and foreign companies operating in all main industries.

In line with industry practices and commercial customs in the sector in which it operates, the Group implements services offered on the basis of specific orders, in the context of agreements or contracts, including spanning multiple years, where the project requires prolonged phases of assessment and implementation, stipulated at what are considered standard conditions functional to the provision of the services requested.

These agreements, depending on the project duration, can envisage fixed remuneration, to be paid at pre-established frequencies, for ordinary operations, but also mechanisms for quantifying a price linked to the successful completion of the project, i.e. at conclusion of the relevant implementation phase (“success fees”), to the results that the customer business achieves thanks to the intervention and support offered by the Alkemy Group (“performance fees”).

The Group’s business is structured into three main project types: Business Transformation, Channel Innovation and Performance Boost.



Significant events during the year

In FY 2019, the Group continued to grow and progress, further increasing the commitment made both to developing the core business and launching discontinuities that can lead to further dimensional and income growth in the years to come.

In regard to FY 2019, please note the following corporate events:

- on 09 July 2019, the parent company purchased 38% of the subsidiaries: BizUp S.r.l. from its founding members, following the exercise of the put&call options envisaged by the investment contract stipulated on 06 April 2016. In thus doing, Alkemy S.p.A. now holds the whole of the subsidiary's capital. The price paid to purchase 38% of the capital, mainly determined on the basis of average EBITDA for 2017-2018, was 5,860 thousand euros, of which 5,585 thousand euros recognised at the time of the transaction and 275 thousand euros to be paid in multiple tranches, by 10 January 2020. Upon completion of the transaction, the total price paid by Alkemy S.p.A. to purchase 100% of the capital of BizUp S.r.l. is 8,162 thousand euros, which corresponds to a multiple of approximately 4.3 times the average EBITDA for 2017-2018 of the company acquired.
- on 16 July 2019, the parent company stipulated an investment contract with the three shareholders of Design Group Italia S.r.l. (hereinafter also referred to as "DGI"), an "innovation & design consultancy company" with 50 years of experience and more than 60% of revenues realised abroad, with major multinational groups. This transaction is extremely strategic in nature and is part of Alkemy S.p.A.'s plan to activate processes of innovation and change in customer businesses, through all physical and digital interaction channels and through all elements of the offer, whether products or services. On 23 July 2019, by virtue of the agreement stipulated, Alkemy S.p.A. acquired 20% of the capital of DGI from two shareholders, paying a price of approximately 1 million euros, with the possibility of acquiring the whole of the company's capital over 4 years, in two stages: 31% in 2021, measured on the basis of the average results booked for 2019 and 2020, and the remaining 49% in 2023, measured on the basis of the average results booked for 2021 and

2022. In order to implement exercise of the above options and pursue the transaction with DGI, on 28 June 2019, Alkemy S.p.A. obtained a medium-term loan from Mediocredito S.p.A., for 7,000 thousand euros, with a term of 60 months, with constant six-monthly instalments and a pre-amortisation period of 12 months. For more details, please see the next few pages or the Notes.

- on 24 July 2019, the capital of Alkemy S.p.A. increased from 573,861 euros to 587,589 euros, following the exercise by 15 employees and directors of Group companies of the 2016-2019 Stock Option Plan. In exchange for payment into the company's coffers of 968 thousand euros, a total of 137,280 new shares were issued; total shares existing in the company now number 5,609,610, with a dilution of 2.45% (post-money).
- on 31 July 2019, in support of non-recurring costs correlated to the translisting process that the Group will need to incur during the year, Alkemy S.p.A. obtained a medium-term loan of 1,000 thousand euros from Banca IntesaSanPaolo with a term of 60 months, with six-monthly instalments and a pre-amortisation period of 12 months.
- On 26 September 2019, the Serbian company Alkemy Digital Hub d.o.o. (controlled by Alkemy S.E.E. d.o.o., of which Alkemy spa holds 70% of the share capital), sold, for the same price paid for purchase in 2018, the entire share held in the company Tako Lako d.o.o., operating in e-commerce and on-line market placement services; this decision was made following the results booked, which fell far below forecasts and the reduced expectations for future growth.
- On 30 September 2019, in support of the research and development carried out by the Group and mainly by the parent company, Alkemy spa obtained an additional loan of 1,000 thousand euros, again from Banca IntesaSanPaolo, with a term of 30 months, with repayment in five constant six-monthly instalments, the first falling due on 31/03/2020.
- On 09 October 2019, as envisaged by contract, the Company exercised its call option over 13% of the share capital of Ontwice S.l. (Madrid), in exchange for payment of 2,025 thousand euros, entirely paid for cash as at the date of purchase - with consequent increase in the equity investment of Alkemy, from 51% to 64%.
- On 07 November 2019, in order to facilitate the Group's financial management, Alkemy spa stipulated a further medium-term loan of 1,000 thousand euros with Banco BPM, with a term of 42 months, in addition to 9 months of pre-amortisation, with repayment through quarterly instalments, ending on 29 December 2023.
- On 17 December 2019, the ordinary shares in the of the company Alkemy spa were admitted for trading in the STAR segment on the telematic stock market (MTA) organised and managed by Borsa Italiana, with the simultaneous exclusion from trading on AIM Italia; this change took place following first the approval on 12 December 2019 by Consob of the Information Prospectus prepared by the Company and then the authorisation on 13 December by Borsa Italiana. More details are given on this transaction over the next few pages.

Evolution of demand and performance of the markets on which the Group operates

In Italy, where most of the Group's operations take place, the digital market is still immature as compared with the rest of Europe and, in particular, as compared with France, the Anglo-Saxon countries and, more generally, as compared with Northern Europe.

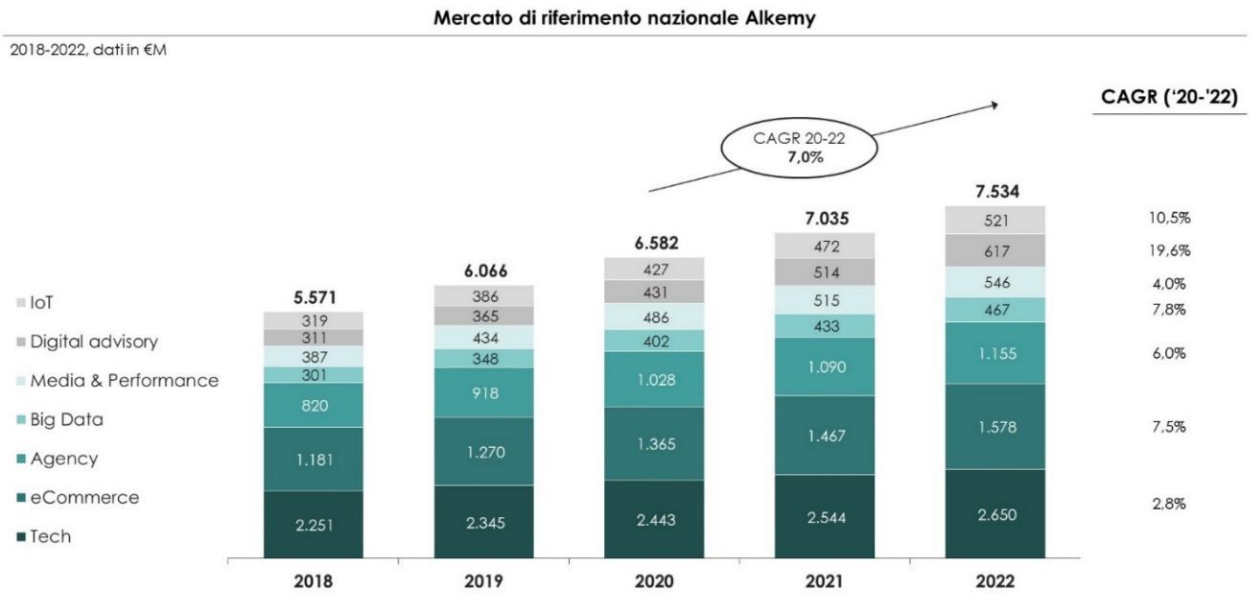
Only 70% of Italians make regular use of the internet, as compared with a European average of 76%; only 60% of Italians purchase on-line, as compared, for example, with 94% of the UK population[2].

The growth rate characterising Italy over the next few years, may prove to be significant and this will allow, on the one hand, for an at least partial recovery of the gap with respect to other European countries and, on the other, for the extension of the potential business area associated with Alkemy.

Faced with a reference domestic market for Alkemy that in 2018 was worth approximately 5.6 billion euros and was expected to exceed 6 billion euros in 2019, the next three years look to further growth, reaching and exceeding 7.5 billion euros at end 2022, with a forecast compound annual growth rate (CAGR) of 7.0% from 2020 to 2022, as shown in the graph below, neglecting to include the effects deriving from the current social-economic condition, the impact of which on the group's reference market cannot yet be properly forecast.

Instead, as concerns the export markets, which represent indicatively possible Alkemy development targets, the dimension estimated in 2019 is as follows[3]:

- the Balkans (Slovenia, Croatia, Bosnia-Herzegovina, Serbia, Montenegro, Albania, Macedonia) and Greece: 1.8 billion euros
- France: 7.7 billion euros
- Iberian peninsula: 5.3 billion euros
- Main countries of Latin America (Argentina, Brazil, Colombia and Mexico): 10.8 billion euros.



Conduct by the competition

In terms of the B2B digital services offer, the Italian market is extremely fragmented with a limited number of large players in terms of turnover and a great many small enterprises, focussed on

[2] Sources: Alkemy analysis on European digital Agenda, Politecnico, Assointernet, Nielsen, FCP. PrimaComunicazione,Euromonitor, Netcomm, World Bank

[3] cfr. note 2

specific market niches (such as, for example, social, performance, agency) and none with a comparable, truly extensive spectrum of competences.

Some important foreign consultancy companies have approached the Italian market, operating through the acquisition of certain minor digital agencies and the hiring of specific professionals; they are therefore the operators that are closest to offering the extensive range of services boasted by Alkemy.

Abroad, some markets are very fragmented with a low level of digital maturity, very similar to Italy (the Balkans, the Iberian peninsula, South America), whilst elsewhere, essentially in countries of Anglo-Saxon matrix, digital is already well consolidated and properly mature.

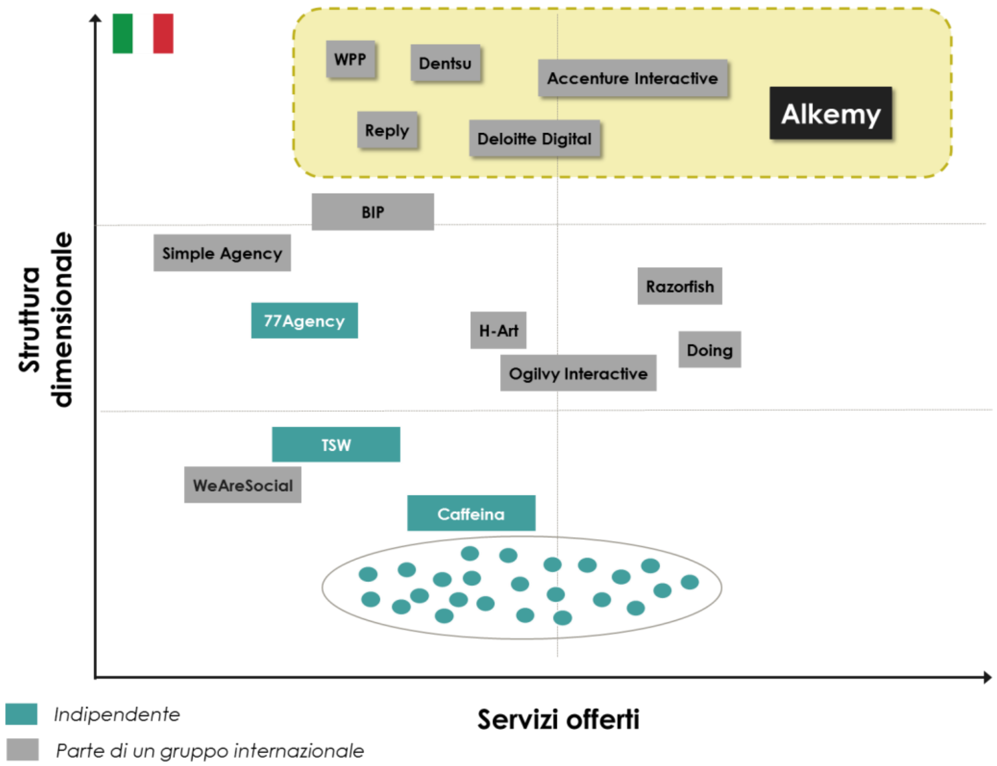
More specifically, on the more advanced, digitally more evolved markets, the lead players have consolidated their market positions, aggregating small independent players and thereby anticipating the same process implemented by Alkemy.

The Issuer believes that the competitive scenario in Italy is basically overseen by three types of players:

- "digital" structures of major multinational enterprises: these players have a primarily technological background and a large offer portfolio, in addition to significant capacity to implement strategies and operative processes thanks to their size; they are also enriching their creative and communication skills through the acquisition of communication agencies. These operators include, in particular, Accenture Interactive, Deloitte Digital and the Reply division assigned to this activity;
- medium-sized digital players: generally part of large communication groups whose dimension in Italy is currently smaller than the large technological players. These operators include, for example, BIP, Razorfish, H-Art, Simple Agency, Ogilvy Interactive or WeAreSocial;
- independent Italian digital agencies: these have a more limited offer portfolio and a lesser capacity to implement strategies and operative processes linked to their clearly smaller scale than that of the other players. These operators include, by way of example, 77Agency, Doing, TWS or Caffeina.

Alkemy enters this context as an independent Italian business with a complete offer portfolio and a similar dimensional structure to those of the digital specialisation structures of the above-specific major multinational enterprises, which, therefore, Alkemy's management believes, are the operators most similar to the Issuer and its main competitors.

Due to the large number of integrated services offered, it is the opinion of the Issuer's management that the Alkemy Group holds a unique competitive position in Italy in terms of the completeness of its digital services offered coupled with a size comparable with the Italian monitoring by large multinational enterprises, as shown in the graph below.



Alkemy on the stock market

Alkemy S.p.A.'s shares were listed on the AIM Italia (Alternative Investment Market) from 05 December 2017 to 16 December 2019. As from 17 December 2019, Alkemy's shares have been listed in the STAR segment of the telematic stock market (MTA) of Borsa Italiana.

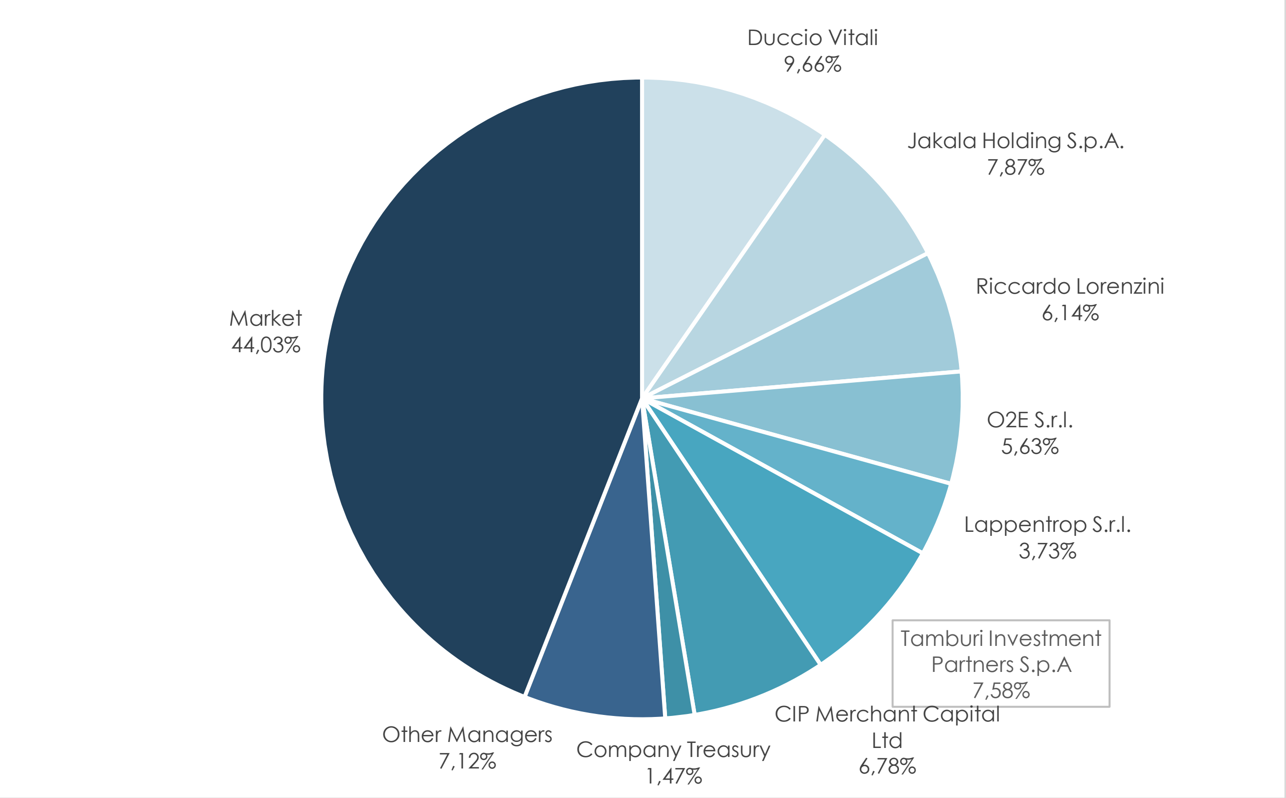
The STAR segment of Borsa Italiana is dedicated to medium enterprises with capitalisation of between 40 million and 1 billion euros, which undertake to respect requirements of excellence in terms of:

- considerable transparency and solid communicative vocation
- high levels of liquidity (at least 35% float)
- Corporate Governance (the set of rules governing company management) in line with international standards.

The Company's share capital is represented by 5,609,610 ordinary shares, conferring, as at 01 March 2020, a total of 7,198,120 voting rights and, specifically:

(i) 4,021,100 ordinary shares, without increased votes, conferring 4,021,100 voting rights (ii) 1,588,510 ordinary shares, with increased votes, conferring 3,177,020 voting rights.

Ownership structure (significant shareholdings) as at 31.12.2019



** O2E Srl is related to Francesco Beraldi, board member of Alkemy S.p.A.*

***Lappentrop Srl is related to Alessandro Mattiacci, Chairman of Alkemy S.p.A.*

Alkemy share

Alphanumerical code: ALK
ISIN stock market code: IT0005314635
REUTERS ALK.MI code
BLOOMBERG ALK.IM code

Specialist: Intermonte Securities SIM

Admission price: €11.75
Price at 31.12.2019: €8.80
Capitalisation at the date of admission: €63,489,127.5
Capitalisation at 31.12.2019: €49,364,568

Alkemy share performance

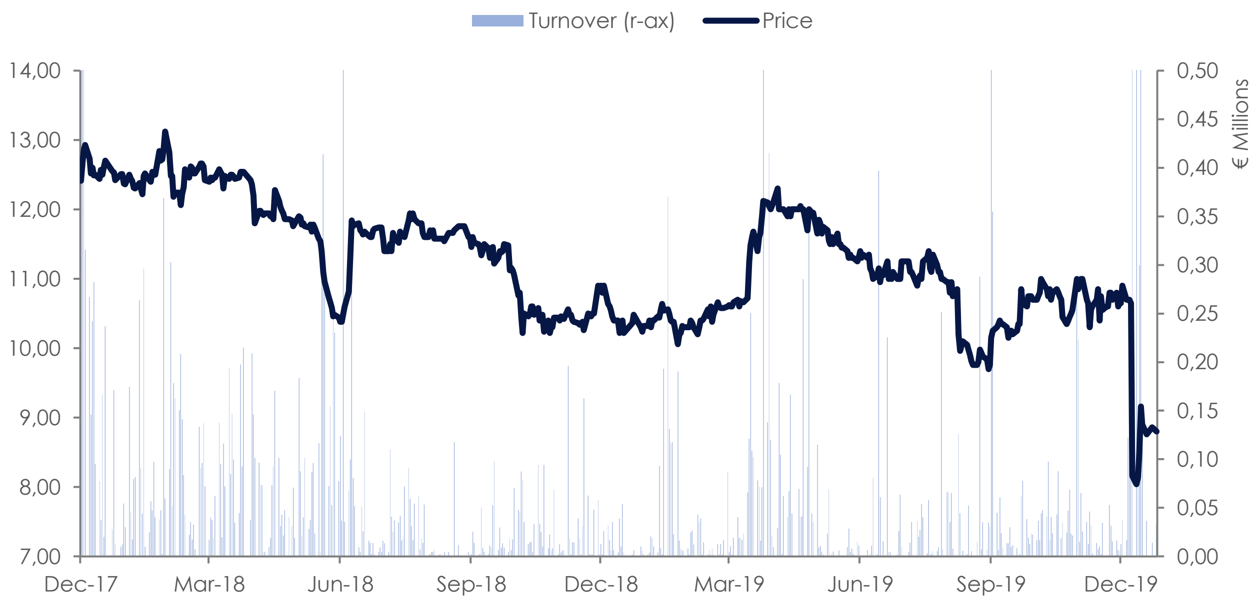
In 2019, the Alkemy share presented a high level of fluctuation. After a positive start to the year, during which a price increase was recorded up to the year peak of 12.30 euros per share on 8 April, the security then dropped progressively down to a relative minimum of 9.70 euros at the start of September, before settling between 10 and 11 euros per share.

Following the market communication on 12 December 2019, when it was reported that 2019 revenues would have fallen below the pro forma value as at 31 December 2018, the Alkemy share dropped to the year's low of 8.04 euros on 16 December 2019, closing year end at 8.80 euros per share.

The graph below compares the performance of the Alkemy security with the FTSE AIM Italia index and the FTSE Italia STAR index from the date of listing to 31 December 2019.

A total of 1.412 million Alkemy shares were traded in 2019, an increase on the 1.287 million shares exchanged in 2018. The volume of exchanges booked in 2019 came to 14.748 million euros, down on the previous year's 14.939 million euros.

The graph below shows the performance of the Alkemy security and the turnover of exchanges from the date of listing until 31 December 2019.



<u>Analyst Coverage</u>

- Intermonte, IPO Report November 2017 (Joint Global Coordinator & Specialist)
  Research Analyst: Gianluca Bertuzzo
  INITIATIAL COVERAGE: 01 February 2018

- Banca Imi, IPO Report November 2017 (Joint Global Coordinator)
  Research Analyst: Gabriele Berti
  INITIATIAL COVERAGE: 06 February 2018

Valuation and consensus

- Intermonte: bases the valuation of the Alkemy share on the DCF model and peer analysis
  The target price went from 13.50 euros, with a BUY recommendation dating back to September 2019, to 10.30 euros with an OUTPERFORM recommendation in December 2019.

- Banca Imi: bases the valuation of the Alkemy share on the DCF model and peer analysis
  The target price went from 14.80 euros, with a BUY recommendation dating back to September 2019, to 12.30 euros with a BUY recommendation in December 2019.

Main economic figures

The Group's FY 2019 reclassified income statement is as follows:

	Figures in thousands of euros	
	31 Dec. 2019	**31 Dec. 2018**
Net revenues	**84,520**	**71,629**
Costs for services , goods and other operating costs	50,212	42,859
Payroll costs	29,278	22,570
Adjusted EBITDA (*)	**5,030**	**6,200**
Amortisation, depreciation and impairment	2,074	1,366
EBIT	**2,956**	**4,834**
Expense on (income from) equity investments	(33)	-
Financial income (expense)	1,194	560
Non-recurring expense (income)	1,549	-
Pre-tax result	**246**	**4,274**
Income taxes	486	879
Period result	**(240)**	**3,395**
Other components recorded as shareholders' equity	(124)	3
Comprehensive period result	**(364)**	**3,398**
Shareholders' equity pertaining to minorities	(101)	147
Group net result	(263)	3,251

The Group's consolidated economic position for FY 2019 shows total net revenues of 84,520 thousand euros, up 12,891 thousand euros (+18%) on last year. It should be noted that this change is mainly due to the companies acquired in 2018, whose greater revenues partially offset the decline seen in sales with reference to other Group companies and, in particular, the parent company. In 2018, the companies acquired during the year had contributed towards the Group's consolidated revenues for sales and services in the amount of 16,172 thousand euros, while in 2019, they realised revenues for sales and services for 32,416 thousand euros, an amount that was basically in line with the pro forma revenues[4] of 2018.

Revenues realised in Italy came to 57,139 thousand euros, accounting for 67.6% of the total (58,819 euros in 2018, equal to 82.12%), while that recorded abroad came to 27,407 thousand euros, or

(*) Adjusted EBITDA: net revenues less operating costs, excluding non-recurring income and expense.

[4] The term "pro forma revenues" is used to mean those booked throughout 2018 by said companies acquired, thereby also including the revenues realised prior to the date on which control was acquired by Alkemy spa and, therefore, excluded from the year's consolidated revenues.

32.43% (13,116 thousand euros in 2018, or 18.31%).

The increase in export revenues is mainly due to their 2019 consolidation for 12 months, while in 2018, the acquisitions of the relevant companies took place during the year and, therefore, with only partial inclusion of the relevant results.

Operating costs (79,490 thousand euros) grew this year by 14,061 thousand euros, showing +21.49 % on the previous year; this was more than proportional to the growth of revenues seen, increasing their impact on revenues by 2.70%.

More specifically, costs for services, for services for 50,202 thousand euros in 2019 (42.859 thousand euros in 2018) rose by 17.16% on last year, therefore at a slightly lower rate than the growth seen in revenues during the year.

Instead, the increase in the cost of labour was significant, going from 22,570 thousand euros in 2018 to 29,278 thousand euros in 2019 (+29.72%); this is not due to the change in the average number of employees, which in fact remained unchanged (512 in 2019 vs 511 in 2018), but rather, is the consequence, for 3,144 thousand euros, of the inclusion for 12 months of the staff of the companies acquired in 2018 (therefore consolidated only for part of that year). For the remainder, the increase is due to both the salary increases recognised to staff during the year and the full cost booked in 2019 for the more than 50 new resources included in 2018.

Adjusted EBITDA (*), i.e. profit gross of amortisation, depreciation and impairment, financial income and expense and non-recurring costs (staff and translisting costs), came to 5.030 thousand euros, as compared with 6,200 thousand euros in 2018 (-18.87%). This significant reduction, including in absolute value, is mainly due to the Italy segment and, in particular, to the parent company, which was the only one to suffer the negative effects of the considerable reduction, as compared with 2018, in revenues relative to the two mentioned top customers.

The 2019 Adjusted EBITDA Margin [5] came to 5.95%, down 2.70 percentage points on 2018 (8.66%). As the turnover relative to the companies acquired on the Spanish and Mexican markets has an important media component (purchase and sale of digital media spaces with very reduced margins), it may be useful to present a NET adjusted EBITDA margin [6], which in 2019 comes to 7.44%, down 2.23% on the previous year, therefore, showing the effective impact on margins. (9.67% in 2018).

EBIT, gross of financial income and expense and non-recurring income and expense, comes to 2,956 thousand euros, to be compared with 4,834 thousand euros booked in 2018, down 1,878 thousand euros on the previous year (-38.85%), on the one hand suffering the increase in absolute value of amortisation/depreciation (+962 thousand euros), due mainly to the application of IFRS 16 and, on the other, the reduction of provisions and impairment (-254 thousand euros), the impact of which in respect of revenues has dropped to 0.40% (0.82% in 2018).

Period financial income and expense grows to 1,194 thousand euros, as compared with 560 thousand euros in 2018, as a consequence mainly of both the application of IFRS 16 (interest for 105 thousand euros not present in 2018) and the greater financial expense connected with the loans stipulated during the year (97 thousand euros as compared with 30 in 2018), as well as the capital loss on equity investments (127 thousand euros) and interest on payables for put options (766 thousand euros, as compared with 515 thousand euros in 2018).

[5] The adjusted EBITDA Margin is calculated by comparing the adjusted EBITDA to total revenues and income.

[6] The net adjusted EBITDA margin is calculated by comparing the adjusted EBITDA to total revenues and income, less the media costs of the companies acquired on the Spanish and Mexican markets

Non-recurring income and expense, mainly attributable to the parent company, come to 1,549 thousand euros and relate to costs incurred for listing the Company's shares on the STAR segment of the telematic stock exchange (1,192 thousand euros) and extraordinary staff costs (357 thousand euros).

The period pre-tax result is 246 thousand euros, significantly down (-94.24%) on the excellent positive result booked for 2018 of 4,274 thousand euros.

The period result is negative for 240 thousand euros as compared with the positive result of 3,395 thousand euros in 2018, amongst other due to the different tax charge applied.

Main balance sheet figures

Below is the Group's equity structure as at 31 December 2019, reclassified according to the financial criterion:

	Figures in thousands of euros	
	31 Dec. 2019	**31 Dec. 2018**
Fixed assets	**41,611**	**36,717**
Short-term period assets	40,783	39,699
Short-term period liabilities	(26,871)	(27,122)
Net working capital	**13,912**	**12,577**
Severance indemnity	(4,356)	(3,647)
Provision for risks, charges and deferred tax	(61)	(25)
Net invested capital	**51,106**	**45,623**
Shareholders' equity	**31,897**	**34,907**
Medium/long-term financial debt	23,044	11,644
Short-term debt (available funds)	(3,835)	(928)
Net financial position	**19,209**	**10,716**
Total sources of finance	**51,106**	**45,623**

As regards the equity and financial data, as at 31 December 2019, the net invested capital showed strong growth as compared with the previous year, following both the increase in consolidated revenues achieved and the greater fixed assets. Invested capital comes to 51,106 thousand euros (45,623 thousand euros as at 31 December 2018) and, in short, comprises:

- 13,912 thousand euros, net working capital (12,557 thousand euros in 2018);
- 41,611 thousand euros, fixed assets (36,717 thousand euros as at 31 December 2018) of which 31,752 thousand euros for goodwill and 3,907 thousand euros for rights of use, consequent to the application of IFRS 16 (leasing), which was not applicable the previous year;
- 4,356 thousand euros, severance indemnity (3,647 thousand euros in 2018).

Shareholders' equity (31,897 thousand euros), records a decrease of 3,010 in 2019 on 2018 (-8.67%) mainly due to the comprehensive net result of the year (-240 thousand euros), the posting of reserves for the purchase of treasury shares (-581 thousand euros), the change in payables from options (-2,414 thousand euros) and dividends resolved in the favour of minority shareholders (-1,002 thousand euros), partially offset by the release of the stock option reserve following its exercise.

The net financial position (negative) has gone from 10,716 thousand euros in 2018 to 19,209 thousand euros in 2019, with changes mainly consequent to the new bank loans obtained in the year, but also to the booking of financial payables for leases recorded in application of IFRS 16, partly offset by lesser payables in relation to contractual put options, reimbursed following their exercise.

Main financial data

The table below details the net financial position as at 31 December 2019:

	Figures in thousands of euros	
	31 Dec. 2019	**31 Dec. 2018**
Bank deposits	9,572	10,087
Cash on hand	9	11
Liquid funds	**9,581**	**10,098**
Payables due to banks	(8,866)	(970)
Put liability payables	(10,973)	(10,558)
Payables due to other lenders	(102)	(116)
Financial payables from application of IFRS 16	(3,103)	-
Medium/long-term financial payables	**(23,044)**	**(11,644)**
Payables due to banks	(2,497)	(1,447)
Put liability payables	(2,369)	(7,394)
Payables due to other lenders	(36)	(329)
Financial payables from application of IFRS 16	(844)	-
Short-term financial payables	**(5,746)**	**(9,170)**
Net financial position	**(19,209)**	**(10,716)**

The Group’s net financial position as at 31 December 2019 is negative for 19,209 thousand euros (negative for 10,716 thousand euros at 31 December 2018), with a period reduction of 8,493 thousand euros. This negative change, detailed and explained in the Statement of Cash Flows given over the next few pages, is mainly due to:

- 8,946 thousand euros, the increase in medium-term bank loans stipulated during the year, as mentioned previously;
- 3,947 thousand euros, the recording of financial payables for current lease contracts, determined following application of IFRS 16, in force starting 01 January 2019;
- 515 thousand euros, the lesser liquid funds in bank deposits;
- 4,610 thousand euros, lesser payables for put options, which have reduced during the year in view of the exercise of those accrued, with consequent payments made for 7,794 thousand euros, but increased both for the booking of new options on Alkemy Iberia shares (1,944 thousand euros) and the update of the related valuations of options maturing in future years (1,240 thousand euros).

Financial management

The Alkemy Group's financial management is characterised by procedures aimed at regulating the collection and payment duties, controlling and avoiding any critical liquidity positions.

During the year, the Group met its current financial needs mainly through use of Own Funds and only in extraordinary cases through short-term benefits granted by banks (overdrafts, invoice advances and factoring). Indeed, the Group has short-term bank loans to manage peaks in current demands, which in 2019 were only used to a minimal extent, despite the overall increase in turnover.

It is also recalled that in order to pay for the significant research and development expenses incurred during the year, as was already the case in 2017, on 30 July 2019 Alkemy spa stipulated a specific loan for 1.000 thousand euros with IntesaSanPaolo, as mentioned on the previous pages.

In 2019, the Group was financially exposed towards the banking system for ordinary operations only to a residual extent, for limited amounts and reduced periods of time. In any case, suitable financial flexibility is assured by the bank overdrafts agreed (1.9 million euros in Italy alone), granted by leading banks.

As regards extraordinary operations, the Group's policy adopted to date was to make priority use of Own Funds, if such should be surplus to current requirements and, only secondarily, of medium-term bank debt (with 12/18 months of pre-amortisation) for the remainder. The reasoning behind this choice is, on the one hand, the desire not to have extraordinary operations interfere with the Group's ordinary operations, and, on the other, to maintain a suitable period of time for the consolidation and growth of investments made and, therefore, to be able to reimburse the debt contracted with future income and cash flows generated.

In accordance with Art. 2428, point 6-bis of the Italian Civil Code, it is acknowledged that the Group does not use financial instruments (derivatives and others) except for the mentioned put options, and the parent company has subscribed a single cap option (at a fixed price that has already been paid) for a medium-term loan for an initial 2 million euros, stipulated in 2016 with Banca Intesa Sanpaolo S.p.A. (see details in the notes) to protect against the risk of a rise in interest rates throughout their duration. For medium-term loans stipulated in 2019, no hedges have yet been stipulated to protect against the risk of a rise in rates, insofar as the matter is still under consideration.

Please note that the Group is also marginally exposed to the foreign exchange risk on receivables expressed in a currency other than the euro, mainly relating to the two companies in Serbia and two companies in Mexico.

Finally, the very nature of the services provides means that the Group is subject to moderate credit risk, insofar as debtors are large, highly-solvent private companies.

Investments

In 2019, the Group invested in tangible and intangible assets for a total amount of 588 thousand euros (1,066 thousand euros in 2018), as follows:

- tangible fixed assets, for 258 thousand euros (439 thousand euros in 2018), mainly relating to hardware purchases for internal use and, to a residual extent, office furniture and furnishings;
- intangible fixed assets, for 331 thousand euros (627 thousand euros in 2018), mainly relating to the development of proprietary platforms of the parent company (151 thousand euros) and the purchase of software relating to control and the consolidated financial statements (153 thousand euros).

As regards this latter item, please note that these investments in software updates and developments are an essential part both in order to ensure compliance with the regulatory requirements laid down for companies listed on the MTA and for the Group's technological update and innovation process, which represents a key element of the business model adopted, consistently with the positioning chosen (“enabling evolution”).

Results of the Parent Company Alkemy S.p.A.

Below is the key data on the Parent Company’s operations in FY 2019:

	Figures in thousands of euros	
	31 Dec. 2019	**31 Dec. 2018**
Net revenues	39,536	44,944
Adjusted EBITDA (*)	(905)	2,535
Amortisation, depreciation and impairment	1,419	1,013
EBIT	(2,324)	1,522
Non-recurring expense (income)	1,415	-
Financial income (expense) and from options	(3,023)	219
Period result	124	1,973
Net invested capital	45,294	30,486
Net financial position	(9,608)	4,430
Shareholders’ equity	35,686	34,916
Average number of employees	238	239

Main economic figures

The reclassified income statement of the Parent Company has undergone the following changes with respect to that of the previous year:

	Figures in thousands of euros	
	31 Dec. 2019	**31 Dec. 2018**
Net revenues	39,536	44,944
Costs for services , goods and other operating costs	24,612	27,821
Payroll costs	15,831	14,588
Adjusted EBITDA (*)	**(907)**	**2,535**
Amortisation, depreciation and impairment	1,419	1,013
EBIT	**(2,326)**	**1,522**
Income from (expense on) equity investments	1,470	353
Income from (expense on) options	1,742	(113)
Other financial income	28	79
Other financial expense	(217)	(100)
Non-recurring expense (income)	(1,414)	-
Pre-tax profit (loss)	**(717)**	**1,742**
Income taxes	841	231
Profit (loss) for the year	**124**	**1,973**
Other components recorded as shareholders' equity	(123)	15
Comprehensive period result	**1**	**1,988**

2019 revenues came to 39,536 thousand euros, down 5,408 thousand euros on the previous year. This is mainly due to the renegotiation of contracts with two of the main national customers during the second half of the year, with an impact of just under 5 million euros during the year; it is specified that Alkemy is in any case continuing to collaborate with these customers in 2020.

Operating costs, represented by costs for services, goods and other costs and for labour (net of non-recurring expenses) total 40,441 thousand euros, down 1,968 thousand euros on the previous year (-4.64%), less than proportional to revenues. More specifically, the cost of labour in 2019 came to 15,831 thousand euros, up 1,243 thousand euros on the previous year (+8.5%) due mainly to salary increases recognised to staff and the inclusion, during the year, in lieu of some workers that had left, of figures with greater competences, held to be necessary to carry out activities both for customers and for research and development: the company has in fact dedicated to this latter activity, staff for an equivalent value in the period of 2,634 thousand euros (1,884 thousand euros in 2018), equal to almost 83% of total R&D spending, or 3,180 thousand euros. More details and information are given at the next specific point and in the explanatory notes.

Adjusted EBITDA was negative for 905 thousand euros (positive for 2,534 thousand euros in 2018), down 3,440 thousand euros, mainly due to the loss of margins following the reduction in period turnover.

Amortisation, depreciation and impairment came to 1,419 thousand euros, up 406 thousand euros on 2018 (+40.07%). This item includes:

- amortisation and depreciation of tangible (237 thousand euros) and intangible (259 thousand euros) fixed assets with a finite useful life, for a period total of 496 thousand euros (-2.22% on 2018);
- amortisation for rights of use (pursuant to IFRS 16) for offices, cars and hardware, totalling

672 thousand euros;
- the provision made for the impairment of inventories in the amount of 112 thousand euros and for doubtful debt for 139 thousand euros, allocated mainly in view of potential future losses connected with specific disputed loans as at the reporting date.

Income from equity investments total 1,547 thousand euros (353 thousand euros in 2018) and include dividends resolved in 2019 in relation to FY 2018, by three subsidiaries, as detailed below, net of the impairment of the equity investment in Alkemy USA ins. for 78 thousand euros.

- Bizup S.r.l., 800 thousand euros
- Nunatac S.r.l., 388 thousand euros
- Ontwice s.l. Madrid, 360 thousand euros

Income for options booked during the year came to 1,742 thousand euros (-113 thousand euros in 2018), reflecting the change in fair value that took place in the exercise of derivatives representing the rights for the acquisition from minority shareholders of the subsidiaries of the residual shares in such, as envisaged in the related investment contracts. This positive change in the fair value of the options derives from the better results achieved by said subsidiaries in the year and, consequently, the related future forecasts.

Non-recurring expenses booked during the year come to 1,414 thousand euros and relate to costs incurred for listing the Company's shares on the STAR segment of the telematic stock exchange (1,192 thousand euros) and extraordinary staff costs.

The Company therefore recorded a pre-tax result negative for 717 thousand euros (positive for 1,742 thousand euros in 2018), which net of tax (positive for 841 thousand euros) gave rise to comprehensive net profit of 124 thousand euros , as compared with 1,973 thousand euros for last year. A more detailed analysis of the items is given in the information provided in the notes.

Main balance sheet figures

The reclassified Balance Sheet of the Company at 31 December 2019, compared with that of the previous year is as follows:

	Figures in thousands of euros	
	31 Dec. 2019	**31 Dec. 2018**
Fixed assets	**35,391**	**21,297**
Short-term period assets	28,279	26,400
Short-term period liabilities	(16,059)	(15,326)
Net working capital	**12,220**	**32,371**
Severance indemnity	(2,170)	(1,809)
Provisions for risks and charges	(147)	(76)
Net invested capital	**45,294**	**30,486**
Shareholders' equity	**35,686**	**34,916**
Medium/long-term net financial debt	8,020	92
Short-term debt (available funds)	1,588	(4,522)
Net financial position	**9,608**	**(4,430)**
Total sources of finance	**45,294**	**30,486**

Fixed assets have gone to 35,391 thousand euros from 21,297 thousand euros, up 14,094 thousand euros on 2018. This change is mainly due to:

- the 9,001 thousand euros increase in the value of the equity investments held, which went from 13,627 thousand euros in 2018 to 22,627 thousand euros, following:

  - o the purchase of additional shares in the subsidiaries following exercise of the contractual put&call options (7,885 thousand euros) and, specifically: Bizup srl, whose capital is now held in full by the company, and 13% of the capital of Ontwice s.l. Madrid
  - o the July 2019 purchase of 20% of the capital in Design Group Italia srl (1,038 thousand euros)

- the entry of rights of use in application of IFRS 16 (3,109 thousand euros)
- the entry amongst non-current financial assets of the amount of the change in fair value made during the exercise of derivatives relative to said put options (1,742 thousand euros).

Net working capital grows from 12,220 thousand euros in 2018 to 12,220 thousand euros in 2019, following the changes made to short-term assets and liabilities, as explained hereto.

Short-term period assets, of 28,279 thousand euros (26,400 thousand euros in 2018) rose by 7.12%, for 1,879 thousand euros mainly due to the entry of receivables for dividends to be collected (1,160 thousand euros) and the increase in accrued income and deferred expenses (695 thousand euros).

Short-term period liabilities went from 15,326 thousand euros in 2018 to 16,059 thousand euros in 2019, up 733 thousand euros, mainly due to the increase in tax payables (376 thousand euros) and accrued liabilities and deferred income (471 thousand euros).

Positive changes impacting shareholders' equity (770 thousand euros) are mainly due to:

- the share capital increase subscribed in July 2019 following the exercise of the 2016-2019 stock option plan in the favour of employees and directors of group companies, with the payment of 969 thousand euros and the release of the related reserve of 1,281 thousand euros.
- the entry of reserves relative to the 2019-2021 stock option plan assigned during the year (382 thousand euros)
- the period result achieved (124 thousand euros)
- the entry of reserves relating to the treasury shares purchased during the year (582 thousand euros).

The net financial position went from a positive 4,430 thousand euros in 2018 to a negative -9,608 thousand euros, mainly due to the entry of payables for rights of use (3,134 thousand euros) and investments made during the year, as better specified in the paragraph below and in the statement of cash flows.

Main financial data

The Company's net financial position as at 31 December 2019 is negative for -9,608 thousand euros and includes:

- the balance of liquid funds for 3,928 thousand euros;
- receivables for infra-group loans in place, granted to the subsidiaries for 801 thousand euros
- medium/long-term payables for the loan for a total of 11,203 thousand euros, stipulated with banks mainly during the year and detailed above, of which 8,821 thousand euros non-current and 2,382 thousand euros current.
- Payables for rights of use for a total of 3,34 thousand euros, of which 2,553 thousand euros non-current and 581 thousand euros current.

The reduction in liquid funds applied during the year (-1,901 thousand euros), net of changes deriving from current operations, are mainly due to cash outflows relative to purchases of equity investments made (-9,001 thousand euros), treasury shares purchased (-581 thousand euros), repayments of medium/long-term bank loans (-1,067 thousand euros), offset by loans stipulated (10,221 thousand euros) and the share capital increase paid in for the subscription of said stock option plan (966 thousand euros).

The table below details the net financial position as at 31/12/2019 compared with that of the previous year.

	Figures in thousands of euros	
	31 Dec. 2019	**31 Dec. 2018**
Bank deposits	3,922	5,827
Cash on hand	6	2
Liquid funds	**3,928**	**5,829**
Financial receivables	801	877
Financial receivables	**801**	**877**
Payables due to banks	(8,821)	(969)
Financial payables from application of IFRS 16	(2,553)	-
Medium/long-term financial payables	**(11,374)**	**(969)**
Payables due to banks	(2,382)	(1,067)
Payables due to other lenders	-	(240)
Financial payables from application of IFRS 16	(581)	-
Short-term financial payables	**(2,963)**	**(1,307)**
Net financial position	**(9,608)**	**4,430**

Reconciliation of the results and shareholders' equity of the Parent Company and the Group

The statement below reconciles the net result and shareholders' equity of the Parent Company with the respective values resulting from the Consolidated Financial Statements:

Figures in thousands of euros

	2019 profit (loss)	Shareholders' equity 31 Dec. 2019
Alkemy S.p.A. (Parent Company)	**124**	**35,686**
Contribution made by consolidated equity investments	3,543	6,694
Derecognition of carrying value of equity investments	-	(8,148)
Derecognition of dividends distributed to the parent company	(1,548)	-
Elimination of derivatives and options on capital pertaining to minorities	(2,472)	(2,570)
Reversal of impairment on financial receivables and equity investment of Alkemy USA	78	198
Accounted for using the equity method	35	35
Minorities' shareholders' equity and profits	(173)	(174)
Consolidated Financial Statements of the Alkemy Group	**(413)**	**31,722**

Corporate governance

The Corporate Governance system adopted by Alkemy is compliant with the indications contained in the Borsa Italiana S.p.A. "Corporate Governance Code of Italian listed companies".

In compliance with regulatory obligations, the Report on the corporate governance system is prepared every year, offering a general description of the system adopted by the Group and gives details on the ownership structures and adhesion to the Corporate Governance Code, including the main governance practices applied and the characteristics of the internal control and risk management system.

(This Report is available for consultation on the website www.Alkemy.com, in the Corporate Governance section, while the Corporate Governance Code is available for consultation on the website of Borsa Italiana S.p.A. www.borsaitaliana.it).

Remuneration Report

The Remuneration Report, which was prepared pursuant to Art. 123-ter of the Consolidated Finance Law, is available on the Company's website at www.Alkemy.com, in the Corporate Governance section.

Related party transactions

For information on related party transactions, refer to Note 39 of the consolidated financial statements and Note 38 of the 2019 separate financial statements.

Research and development

During the year, the Group launched various initiatives in research and development (R&D), some new and others by way of the pursuit of projects that started in previous years, with a total allocation of resources, in terms of payroll costs and external consultancy, of 4,286 thousand euros (2,492 thousand euros in 2018), up 1,794 thousand euros on the previous year. In addition to the parent company, in 2019 R&D projects were also carried out by another three national subsidiaries, allocating resources for a total of 1,106 thousand euros.

More specifically, Alkemy spa incurred total R&D costs of 3,180 thousand euros, of which 2,634 thousand euros for dedicated staff and 534 thousand euros for external consultancy costs; part of these projects are supported by Subsidised Finance tenders, with the entry of income for financing in the amount of 1,471 thousand euros (1,964 thousand euros in 2018), as well as obtaining long-term loans correlated to such projects, at subsidised rates and conditions, for 288 thousand euros.

Treasury shares

Following the expiry of the validity of the Shareholders' Meeting resolution passed on 16 November 2017 relating to the purchase of treasury shares, the Shareholders' Meeting of Alkemy S.p.A. held on 07 May 2019 resolved to confer a similar mandate on the administrative body to proceed with the purchase of treasury shares for a further 18 months (i.e. until 06 October 2020), with the same general terms and conditions, namely:

- for a total number of shares held of up to 15% of the share capital;
- with a maximum price for the individual purchase that shall not exceed 250 thousand euros;
- with a unit price of the individual treasury share purchased ranging between +/-20% of the unit price recorded during the previous day’s contracting;
- with a daily volume limit of shares purchased not exceeding 25% of the volume of daily trading on the reference date.

During the first half of 2019, in response to the second Buyback Plan resolved during the first half of 2018 by the Board of Directors, Alkemy S.p.A. purchased 33,000 treasury shares.

During the second half of the year, in response to the resolution passed by said shareholders' meeting on 15 May 2019, a third Buyback Plan was implemented, with the same terms and conditions, resulting in the purchase of a total of 19,536 treasury shares.

The buyback of treasury shares was interrupted in November 2019, in the run-up to the change in the listing of the Company’s shares to the STAR segment of the MTA, and to date, this has not been resumed.

As at 31 December 2019, the company held 82,536 treasury shares, for an equivalent value of 912 thousand euros, deriving from said buyback plans.

The company’s shareholders' equity includes a specific restricted reserve for equal amount.

Significant subsequent events

After the closure of FY 2019, the following significant events took place, worthy of mention, in the first quarter of 2020.

In February, in response to the continuous evolutions of the market on which the Company operates and to anticipate the needs of its customers, having laid the basis, in 2019, Alkemy modified its mission from "digital enabling" to "enabling evolution". In other words, the Company is now focussed in enabling the evolution of its customers' business, with a new offer for a post-digital scenario, designed to stimulate the relevant progress and update, innovation, growth and profitability. This different positioning entailed, on an organisational level, on the one hand, a different breakdown of operating activities with the identification of four business units, respectively termed "consulting & performance", "brand experience", "tech" and "data & analytics"; on the other, four new departments have been defined: "M&A, IR & corporate development", "corporate communication", "people & culture" and "marketing & sales operations". This latter department, in particular, is dedicated to both the continuous update of the commercial range offered and the coordination of the business on top clients, on which the Group has decided to focus its activities.

As a consequence of the foregoing, in regard to the e-commerce area, the decision has been made to concentrate the commercial offer on consultancy, services and operative support, which offer higher added value, instead progressively abandoning the management of on-line shops on behalf of customers and the related physical management of products; this is set to end during the first half of 2020. Following the foregoing, it is also pointed out that Alkemy USA Inc., an inactive legal entity with no employees, which had offered its support to the e-commerce business overseas only starting from the last four months of 2019, was liquidated early January 2020.

It is recalled that on 15 November 2019, in view of the favourable opinion given by the Remuneration Committee, the Related Party Transactions Committee and the Board of Auditors, the Company's Board of Directors approved a plan for the free assignment of ordinary shares in Alkemy spa (the "2020-2023 Long-Term Incentive Plan", hereinafter the "Plan"), in the favour of the 3 strategic managers and the Company's chairman and chief executive officer, in accordance with the terms and conditions set out in the specific regulation. Last 8 January, the Company's Board of Directors acknowledged the success of the listing process of Alkemy spa Shares on the STAR segment of the telematic stock market (MTA) and ordered that the Chairman or the Chief Executive Officer would execute the Plan, sending the beneficiaries the relevant letters of assignment and determining the basic number of shares in the favour of each. The choice of activating this Plan, which comes as part of the company's remuneration policy, aims to gain the long-term loyalty of its key persons, rewarding them on the basis of the results achieved in line with the growth and development process envisaged by the company's directors. For details and a more in-depth analysis of the Plan, see page 213 of the MTA STAR Information Prospectus and the Annual Report on Remuneration, both of which are available on the company's website www.Alkemy,com, in the Corporate Governance section.

As regards the emergency caused by the spread of Covid-19, now known about since January 2020, the national and international scenario has been impacted by the spread of the virus and the related restrictive measured aimed at limiting it, implemented by the government authorities of the countries concerned. Additionally, starting from the second half of February 2020, the spread of the virus has struck and continues to strike significantly, due to the speed at which it is spreading and the number of cases reported, Italy and in particular the region of Lombardy, where much of the Group's business is carried out. In line with the containment measures adopted and being adopted by the Italian government, the Group promptly took all appropriate measures to limit the risks and protect the health of its staff, through the progressive implementation of smart working - now fully operative in all Italian, European and non-European offices, despite continuing to fully go about their duties and supply the services to its customers.

The current medical emergency is also having direct and indirect repercussions on the general performance of the national and international economy, on consumer trends and investments, which are not yet entirely able to be forecast. The Group is constantly monitoring the evolution of the situation in order to minimise the risk and impacts, both in terms of health and safety at work and in economic-financial terms, taking timely corrective action (like, for example, that described above), which have allowed, and continue to allow, for relations to be kept on track constantly with customers.

Outlook

Alkemy intends to pursue its strategy of focussing on major customers, relying on the new organisation defined during the year, which will support the whole structure, helping it take a more targeted approach towards the development of major projects on the 50 priority customers identified.

In addition to this, Alkemy will continue to ensure the evolution of its offer, integrating the new competences acquired with the 2018 entrance into the Group of Nunatac (data and analytics) and the 2019 joining of Design Group Italia (design of products and spaces). This will allow us to continue to pursue a strategy aimed at supplying current customers, and indeed new ones, with services offering greater added value and innovation, able to improve corporate economic performance, confirming the image of solid, constant collaboration with customers.

In addition to this, Alkemy wishes to continue its growth abroad, strengthening its presence in the offices of Madrid, Belgrade and Mexico City, which already numbers more than 150 people and account for approximately a third of all the Group's business.

At present, the effective negative impacts on the Group's business, consequent to the Covid-19 epidemic (i.e. reduction of new appointments, reduction, cancellation or postponement of current contracts) do not appear to be relevant in the short-term (first quarter 2020) and there is no immediate evidence for the coming quarters. Therefore, for lack of quantifiable elements, definite findings or consistent data, which would allow us to prepare different prospective assessments, the assumptions given on the budget and future annual plans approved by the company's administrative body, remain unchanged.

The management is paying extremely close attention to the evolution of the current emergency, with the continuous monitoring of positions with its customers and network, prudently slowing or suspending new investments and discretionary expenses, whilst awaiting greater visibility on the market dynamics and its business, the results of which will be closely correlated to the evolution of the Covid-19 epidemic.

Stock Option Plans

The Group has always taken a positive view of the opportunity of adopting stock option plans, holding them to be an appropriate manner by which to foster and encourage the relationship between the Company and the employees, offering a valid incentive for a lasting, professional relationship.

In continuing on from the choices made in previous years (2014, 2015, 2016, 2017 and 2018), again in 2019 it has adopted a stock option plan, thereby confirming its appreciation of this instrument, which is believed to strengthen the bond between the company and its employees.

Below is an explanation, in chronological order, of the various resolutions passed over the years, starting 2014, in relation to the different assignments of stock option plans:

- on 30 April 2014, the shareholders' meeting of Alkemy S.p.A. had approved the 2014-2017 Stock Option Plan reserved to certain employees of the Company, resolving, amongst others, the attribution to the Board of Directors, for a period of 5 years, in accordance with Art. 2443 of the Italian Civil Code, of the faculty to increase, in exchange for payment and with the exclusion of option rights pursuant to Art. 2441 of the Italian Civil Code, the share capital for a maximum nominal figure of 33,938 euros, by means of the issue of up to 33,938 ordinary shares, each worth a nominal 1 euro, with a minimum premium of 38.60 euros, to be used for an additional stock option plan in the favour of the Company's employees. We note that in July 2017, some Company employees so entitled exercised all stock options relating to said 2014 assignment, with the consequent issue of 8,485 shares (prior to the splitting of 1 existing share into 10 new shares resolved by the extraordinary shareholders' meeting of 16 November 2017);
- In response to this resolution, on 18 February 2015, the Board of Directors had increased the capital for the purpose of the new stock option plan (2015-2018) in favour of employees of Alkemy S.p.A., for a further nominal 12,150 euros, for the issue of an equal number of options to be exercised to subscribe 12,150 new shares at the price of 55 euros each. Please note that in July 2018, some Company employees so entitled exercised 69,000 of the 121,500 stock options assigned in relation to the above-specified 2015 assignment, with the consequent issue of the same number of new shares;
- On 09 March 2016, the company's Shareholders' Meeting revoked the first resolution of 30 April 2014 for the part of the share capital increase for the stock option plans that had not yet been used, and instead voted for a new share capital increase of Alkemy S.p.A. for the stock option plans, extending it to include employees and directors of all Group companies, also conferring a delegation in this respect on the Company's directors. More specifically, on that date, the following was resolved:
    - a share capital increase for the purpose of a stock option plan for employees and directors of Alkemy Tech S.r.l., for the issue of 7,258 new shares, worth a nominal 1 euro each, plus a premium of 54.00 euros;
    - a share capital increase for the purpose of a stock option plan for employees and directors of Alkemy S.p.A. and Seolab S.r.l., for the issue of 11,770 new shares, worth a nominal 1 euro each, plus a premium of 87.00 euros;
    - to confer the delegation on the directors of the Parent Company to increase the capital within 5 years, for a further nominal 15,000 euros for the issue of an equal number of shares, each worth a nominal 1 euro, plus a minimum premium of 88 euros for stock option plans in the favour of directors and employees of all Group companies.

  The characteristics and terms of these two 2016 plans are similar to those issued during the previous two years and, therefore, with a term of 36 months and options to be exercised from 1 May to 31 July 2019. Please note that on 16 July 2019, some employees and directors of the Company so entitled, exercised 137,280 of the 190,280 stock options assigned in relation to the 2 above-specified 2016 assignments, with the consequent issue of the same number of new shares;

- on 09 March 2017, the Parent Company's Board of Directors resolved a further Stock Option Plan, increasing the capital by 8,500 euros for the issue of an equal number of shares to be subscribed at the price of 100 euros each, in the favour of managers and employees of all Group companies;
- on 16 November 2017, the Shareholders' Meeting resolved a further share capital increase for the purpose of future stock option plans, for a total of 222,200 new shares, to be exercised within 5 years, with strike price set at the listing price, whose first partial assignment is envisaged for 2018 and the subsequent ones starting 2019, applicable to the results achieved by each beneficiary during the previous year.
- on 12 June 2018, in response to the shareholders' meeting resolution passed on 16 November 2017, the Board of Directors of Alkemy S.p.A. decided to assign a new stock option plan (2018-2021) aimed at offering incentive to certain employees of the Parent Company and certain directors of BizUp S.r.l. More specifically, in view of a share capital increase for a nominal 7,663.72 euros (plus premium), up to 74,700 options have been assigned (for the subscription of an equal number of new ordinary shares in the Company for the price of 11.75 euros each), maturing each year in equal quantities, on the basis of the performance achieved during the year by the individual beneficiary, with their exercise, on a single occasion, at the end of the plan, after 36 months, during the second half of 2021;
- on 10 July 2019, in response to the shareholders' meeting resolution passed on 16 November 2017, the Board of Directors of Alkemy S.p.A., in view of a share capital increase for a nominal 15,133.78 euros (plus premium), up to 147,500 options were assigned (for the subscription of an equal number of new ordinary shares in the Company for a price of 11.75 euros each), decided to assign two new stock option plans:
  - the first (2019-2021) for a total of 96,500 options, aimed at offering incentive to certain employees of the Parent Company, of the subsidiaries Nunatac S.r.l. and Alkemy Iberia S.L. and of the investee DGI. More specifically, these options will mature each year in equal amounts, on the basis of the period performance achieved by the individual beneficiary, with exercise on a single occasion, at the end of the plan, after 24 months, during the second half of 2021.
  - the second (2019-2022) for a total of 51,000 options, aimed at offering incentive to three managers with strategic roles in the Parent Company; more specifically, these options will mature every year in equal amounts, on the basis of the period performance achieved partly by the Group and partly by the individual beneficiary, with exercise on a single occasion, at the end of the plan, after 36 months, during the second half of 2022.

Allocation of period result

We believe we have thus provided you with suitable information on the Company's performance and would therefore propose allocating the FY 2019 result of Alkemy S.p.A. of 123,806 euros entirely to the reserve for profits carried forward.

Acknowledgements

We would like to offer our sincerest thanks to the staff and all those who have helped pursue the corporate business and the listing process. We would now, therefore, ask you to kindly approve these Separate and Group Consolidated Financial Statements as at 31 December 2019.

Milan, 24 March 2020

for the Board of Directors

Chief Executive Officer

Duccio Vitali

Alkemy S.p.A.

Consolidated financial statements

at 31 December 2019

Financial statements

Consolidated income statement (*)

			Figures in thousands of euros
	Notes	**31 Dec. 2019 (**)**	**31 Dec. 2018**
Revenues from sales and services	1	81,284	67,035
Other revenue and income	2	3,236	4,594
Total operating revenue and income		**84,520**	**71,629**
Costs for services , goods and other operating costs	3	(51,404)	(42,859)
- of which non-recurring		(1,192)	0
Payroll costs	4	(29,635)	(22,570)
- of which non-recurring		(357)	0
Total costs and other operating expenses		**(81,039)**	**(65,429)**
Gross operating profit		**3,481**	**6,200**
Amortisation/depreciation	5	(1,738)	(776)
Provisions and impairment	6	(336)	(590)
EBIT		**1,407**	**4,834**
Income from (expense on) equity investments	7	33	0
Financial income	8	380	236
Financial expense	9	(1,574)	(796)
Pre-tax profit (loss)		**246**	**4,274**
Income taxes	10	(486)	(879)
Profit (loss) for the year		**(240)**	**3,395**
Attributable to:			
- Group		(139)	3,248
- Minorities		(101)	147
Earnings (loss) per share	11		
Base		(0.03)	0.60
Diluted		(0.03)	0.59

(*) In accordance with CONSOB Resolution no. 15519 of 27 July 2006, the effects of related party transactions on the Consolidated Income Statement are highlighted in the specific table of the Consolidated Income Statement given in annex 2 and are also described in Note 39.

(**) the effects deriving from the application of standard IFRS 16 are explained in the paragraph "IFRS 16 Leases" - impacts deriving from first-time adoption".

Consolidated statement of comprehensive income

		Figures in thousands of euros	
	Notes	**31 Dec. 2019**	**31 Dec. 2018**
Profit/(loss) for the financial year		**(240)**	**3,395**
Components that will be reversed to the income statement:			
Gain/(loss) from the conversion of financial statements expressed in a foreign currency		33	(21)
Total components that will be reversed to the income statement	26	**33**	**(21)**
Components that will not be reversed to the income statement:			
Actuarial gains/(losses) on defined benefits pension plans		(206)	37
Relative tax effect		49	(13)
Components that will not be reversed to the income statement	26	**(157)**	**24**
Total other profit/(loss) net of the tax effect		**(124)**	**3**
Total comprehensive profit/(loss)		**(364)**	**3,398**
Attributable to:			
- Group		(263)	3,251
- Minorities		(101)	147

Consolidated statement of financial position (*)

			Figures in thousands of euros
Assets	**Notes**	**31 Dec. 2019**	**31 Dec. 2018**
Non-current assets			
Tangible fixed assets	12	980	1,064
Right of use	13	3,907	0
Goodwill	14	31,752	31,748
Intangible assets with finite useful life	15	971	1,444
Equity investments	16	1,078	7
Non-current financial assets	17	1,555	1,328
Prepaid tax assets	18	1,203	977
Other non-current receivables and assets	19	165	149
Total non-current assets		**41,611**	**36,717**
Current assets			
Inventories	20	61	251
Trade receivables	21	31,791	32,632
Current financial assets	22	115	82
Tax credits	23	3,663	2,431
Other current assets	24	5,153	4,304
Liquid funds	25	9,581	10,098
Total current assets		**50,364**	**49,798**
Total assets		**91,975**	**86,515**

(*) In accordance with CONSOB Resolution no. 15519 of 27 July 2006, the effects of related party transactions on the Consolidated Statement of financial position are highlighted in the specific table of the Consolidated Statement of financial position given in annex 2 and are also described in Note 39.

Consolidated statement of financial position (*)

		Figures in thousands of euros	
Liabilities and Shareholders' Equity	**Notes**	**31 Dec. 2019**	**31 Dec. 2018**
Shareholders' equity	26		
Share capital		588	574
Reserves		31,274	30,811
Profit (loss) for the year		(139)	3,248
Group shareholders' equity		**31,723**	**34,633**
Shareholders' equity pertaining to minorities	27	174	**274**
Total net equity		**31,897**	**34,907**
Non-current liabilities			
Financial liabilities	28	8,968	1,085
Financial liabilities from right of use	30	3,103	0
Payables from put options	31	10,973	10,558
Employee benefits	32	4,356	3,647
Provisions for risks and charges	33	44	25
Deferred tax liabilities	34	17	0
Total non-current liabilities		**27,461**	**15,315**
Current liabilities			
Financial liabilities	28	2,533	1,776
Financial liabilities from right of use	30	844	0
Payables from put options	31	2,369	7,394
Trade payables	35	17,142	18,303
Tax payables	36	1,617	1,268
Other liabilities	37	8,112	7,552
Total current liabilities		**32,617**	**36,293**
Total liabilities		**60,078**	**51,608**
Total liabilities and shareholders' equity		**91,975**	**86,515**

(*) In accordance with CONSOB Resolution no. 15519 of 27 July 2006, the effects of related party transactions on the Consolidated Statement of financial position are highlighted in the specific table of the Consolidated Statement of financial position given in annex 2 and are also described in Note 39.

Consolidated statement of cash flows

		Figures in thousands of euros	
	Notes	**31 Dec. 2019**	**31 Dec. 2018**
Operating activities			
Profit (loss) for the year		(240)	3,395
Financial income	8	(380)	(236)
Income from (expense on) equity investments	7	(33)	0
Financial expense	9	1,574	796
Income taxes	9	486	879
Amortisation/depreciation	6	1,738	776
Provisions and impairment	6	337	590
Cost for share-based payments	4	382	545
Other non-monetary items		0	(271)
Decrease (increase) in inventories		79	23
Decrease (increase) in trade receivables		592	(7,508)
Increase (decrease) in trade payables		(1,161)	850
Decrease (increase) in other assets		(2,199)	(1,414)
Increase (decrease) in other liabilities		1,548	1,264
Financial expenses paid		(232)	(10)
Income tax paid		(841)	(1,603)
Net cash flow from (used in) operating activities		**1,650**	**(1,924)**
Investments			
(Investments) divestments of tangible and intangible assets		(580)	(1,031)
Decrease (increase) in financial assets		(227)	(36)
(Investments in) divestments of equity investments in related parties	16	(1,038)	0
Acquisition (disposal) of equity investments, net of liquid funds acquired		(63)	(8,613)
Net cash flow generated/(absorbed) by investments		**(1,908)**	**(9,680)**
Financing			
Change in financial liabilities		8,934	(1,678)
Change in financial liabilities pursuant to IFRS 16		(1,119)	0
Change in treasury shares		(581)	(334)
Payments by minorities		0	108
Dividends paid to minorities		(668)	(216)
Other changes in shareholders' equity		955	(9)
Share capital increases		14	380
Exercise of put options		(7,794)	0
Cash flow generated/(absorbed) by financing		**(259)**	**(1,749)**
Period increase/(decrease) in net liquid funds		**(517)**	**(13,353)**
Opening net liquid funds		**10,098**	**23,451**
Closing net liquid funds		**9,581**	**10,098**

Please note that the statement of cash flows was stated according to the indirect method.

Changes in shareholders' equity

Figures in thousands of euros

	Share capital	Treasury shares	Legal reserve	Other reserves	Profits carried forward	Profit (loss) for the year	Group shareholders' equity	Shareholders' equity pertaining to minorities	Total net equity
Balance as at 31 December 2017	**567**	**-**	**67**	**27,785**	**1,210**	**1,379**	**31,008**	**7**	**31,015**
Allocation of result	-	-	37	-	1,343	(1,380)	-	-	-
Purchase of treasury shares	-	(1,212)	-	-	-	-	(1,212)	-	(1,212)
Sale of treasury shares	-	881	-	(4)	-	-	877	-	877
Stock options	-	-	-	545	-	-	545	-	545
Stock options - exercise	7	-	-	373	-	-	380	-	380
Other movements	-	-	-	12	(228)	-	(216)	120	(96)
Other comprehensive profit (loss)	-	-	-	3	-	-	3	-	3
Profit for the year	-	-	-	-	-	3,248	3,248	147	3,395
Balance as at 31 December 2018	**574**	**(331)**	**104**	**28,714**	**2,325**	**3,247**	**34,633**	**274**	**34,907**

Figures in thousands of euros

	Share capital	Treasury shares	Legal reserve	Other reserves	Profits carried forward	Profit (loss) for the year	Group shareholders' equity	Shareholders' equity pertaining to minorities	Total net equity
Balance as at 31 December 2018	**574**	**(331)**	**104**	**28,714**	**2,325**	**3,247**	**34,633**	**274**	**34,907**
Allocation of result	-	-	99	-	3,148	(3,247)	-	-	- -
Purchase of treasury shares	-	(581)	-	-	-	-	(581)	-	(581)
Sale of treasury shares	-	-	-	-	-	-	-	-	-
Stock options	-	-	-	382	-	-	382	-	382
Stock options - exercise	14	-	-	955	-	-	969	-	969
Change in payables from options	-	-	-	-	(2,414)	-	(2,414)	-	(2,414)
Dividends resolved to minority shareholders	-	-	-	-	(1,002)	-	(1,002)	-	(1,002)
Other movements	-	-	-	-	-	-	-	-	-
Other comprehensive profit (loss)	-	-	-	(124)	-	-	(124)	-	(124)
Profit for the year	-	-	-	-	-	(139)	(139)	(101)	(240)
Balance as at 31 December 2019	**588**	**(912)**	**203**	**29,927**	**2,057**	**(139)**	**31,724**	**174**	**31,897**

Notes to the consolidated financial statements

General information

The Alkemy Group (hereinafter the “Group”) works to improve the market position and competitiveness of large and medium enterprises, innovating and transforming the business model to keep pace with the evolution of technology and new consumer conduct. The Group integrates into its offer, competences in the areas of strategy, e-commerce, communication, performance, technology and data management, developing complete digital transformation projects that cover the whole of the value chain, from strategy to implementation.

The parent company, Alkemy S.p.A. has its registered and administrative office at Via San Gregorio 34, Milan, Italy and is registered with Milan Companies House under Economic and Administrative Index (REA) no. 1835268.

The shares of Alkemy S.p.A. (hereinafter the “Company”, “Alkemy” or the “Parent Company”) are listed on the STAR segment of the telematic stock market (“MTA”) organised and managed by Borsa Italiana, starting 17 December 2019.

These consolidated financial statements are prepared in euros, which is the currency of the economy in which the Parent Company operates. The Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Equity and figures given in the Notes, are all expressed in thousands of euros.

As parent company, Alkemy S.p.A. has prepared the consolidated financial statements of the Alkemy Group as at 31 December 2019.

The draft consolidated financial statements for the year ended as at 31 December 2019 were approved by the Board of Directors on 24 March 2020, which also authorised their publication.

Accounting standards

Basis of presentation

The consolidated financial statements as at 31 December 2019 have been prepared in compliance with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and approved by the European Union. The term “IFRS” is used to also refer to all the international accounting standards reviewed (“IAS”) and all the interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”), previously known as the Standing Interpretations Committee (“SIC”).

The consolidated financial statements were also prepared in compliance with the provisions adopted by CONSOB for financial statements in application of article 9 of Legislative Decree 38/2005 and other rules and provisions issued by CONSOB regarding financial statements.

The financial statements are prepared on the basis that the business shall continue to operate as a going concern and on the basis of the historic cost principle, with the exception of the valuation of certain financial instruments, for which the far value criterion applies.

Form and contents of the accounting schedules

The accounting schedules included in these financial statements have the following characteristics:

- the income statement classifies revenues and costs by nature;
- the statement of financial position is prepared and separately presents both current and non-current assets and current and non-current liabilities.
- The statement of cash flows is drawn up in accordance with the indirect method.

The schemes used, as described above, are those considered best able to represent the elements that determined the Group's equity and financial structure and economic result. These schemes are the same used for the presentation of the separate financial statements of Alkemy S.p.A.

Please also note that in order to fulfil the requirements set out in CONSOB Resolution 15519 of 27 July 2006 on the tables of the financial statements, specific income statement and statement of financial position tables have been prepared to show any significant related party transactions, and any transactions that can be classified as recurring, atypical and/or unusual, are indicated on the tables and then highlighted in the notes.

Consolidation standards

The Consolidated Financial Statements have been prepared consolidating the financial statements of the Parent Company and those of all companies in which the company directly or indirectly holds the majority of voting rights on a line-by-line basis.

The consolidated financial statements refer to the same closing date as the Parent Company.

The economic results of the subsidiaries acquired or sold during the year are included in the consolidated income statement as from the date of acquisition and until the effective date of disposal. Where necessary, adjustments are made to the financial statements of subsidiaries in order to bring the accounting criteria used into line with those adopted by the Group.

On 26 September 2019, the Serbian company Alkemy Digital Hub d.o.o. (a subsidiary of Alkemy S.E.E. d.o.o., of which Alkemy spa holds 70% of the share capital), sold, for the same price paid for purchase in 2018, the entire share held in the company Tako Lako d.o.o.

At 31 December 2019, the scope of consolidation was as follows:

Company name	% held	Registered office
Direct subsidiaries:		
Bizup S.r.l.	100%	Rome
Alkemy Play S.r.l.	51%	Milan
Alkemy USA Inc.	100%	USA - New York
Alkemy SEE D.o.o.	70%	Serbia – Belgrade
Alkemy Iberia S.L.	65%	Spain - Madrid
Nunatac S.r.l.	70%	Milan
Ontwice Interactive Service S.L.	64%	Spain - Madrid
Indirect subsidiaries:		
Alkemy Play D.o.o.	51%	Serbia – Belgrade
Alkemy Digital Hub D.o.o.	36%	Serbia – Belgrade
Kreativa New Formula D.o.o.	36%	Serbia – Belgrade
Ontwice Interactive Service S.A. Mexico City	64%	Mexico - Mexico City
Ontwice Interactive Service Digital S.A. Mexico City	64%	Mexico - Mexico City

Measurement criteria and accounting policies

Non-current assets

Tangible fixed assets

The property, plant and equipment used to manufacture or supply goods and services or for administrative purposes, are booked at purchase or production cost, net of accumulated depreciation and any impairment losses.

Costs incurred after purchase are capitalised only if they increase the future economic benefits applying to the asset to which they refer. They are depreciated in connection with the residual useful life of the asset to which they refer. All the other costs are recorded in the income statement when incurred.

Ordinary maintenance charges are charged in full to the income statement. Maintenance costs increasing the value of the assets are allocated to the asset to which they refer and depreciated using the applicable rates.

In accordance with and pursuant to Art. 10 of Italian Law no. 72 of 19 March 1983, as also recalled by the subsequent monetary adjustment laws, it is noted that no monetary adjustment has been made for the fixed assets still held.

Improvement to third party assets are classified under tangible fixed assets according to the nature of the cost incurred and are depreciated over the shorter period of time between that of the future usefulness of the expenses incurred and the residual term of the lease, taking into account any renewal period, if such depends on the lessee.

Depreciation is noted from when the fixed asset is available for use and is calculated on a straight-line basis throughout the estimated useful life of the asset, as follows:

Buildings 3%
Plant and equipment 20% - 25%
Telephone systems 20%
Equipment 20%
Electronic machines 20%
Hardware 15% - 20%
Furniture and furnishings 12%
Other fixed assets 10% - 25%

Land is not depreciated, as it has an indefinite useful life.

Tangible fixed assets are impairment tested once a year or whenever specific events suggest that there may have been a permanent loss in value. The test carried out is described on the paragraph on “Impairment of assets”.

Leased assets

Assets acquired through lease contracts, through which the risks and benefits associated with ownership are substantively transferred to the Group, are recognised as Group assets at their current value at the date on which the contract is stipulated or, if less, at the present value of the minimum payments due for the leasing, including any amount to be paid to exercise the purchase option. The corresponding liability toward the lessor is booked as financial payables.

Intangible assets

Goodwill

In accordance with IFRS 3 (Business combinations), goodwill is noted on the consolidated financial statements at the date of acquisition of businesses or business units; it is determined as the difference between the price paid for the purchase and the fair value of the identifiable assets acquired, net of identifiable liabilities accepted. Goodwill is classified on the statement of financial position as an "intangible asset with an indefinite useful life".

After its initial recognition, goodwill is measured at cost net of accumulated impairment.

Goodwill is not amortised insofar as it has an indefinite useful life; rather, it is impairment tested once a year or more frequently if any specific events suggest that it may have suffered a permanent loss in value. The test carried out is described on the paragraph on "Impairment of assets". Goodwill cannot be written back, not even in application of specific laws and any value thus deducted through impairment, will consequently not be restored.

Intangible fixed assets with a finite useful life

Other intangible assets purchased or produced internally are recognised as assets in accordance with IAS 38 - *Intangible Assets*, when it is likely that their use will generate future economic benefits and when their cost can be reliably determined.

These assets are measured at purchase or production cost and amortised on a straight-line basis throughout their useful life, thereby meaning the estimated period during which the assets will be used by the company.

More specifically, trademarks are amortised over a period of 10 years, whilst "Industrial patent rights and use of intellectual property" and other intangible fixed assets are amortised over five financial years.

Intangible fixed assets with a finite useful life are impairment tested if specific events suggest that there may have been a permanent loss in value. The test carried out is described on the paragraph on "Impairment of assets".

Equity investments in other companies

Equity investments in other companies are measured at fair value, if able to be determined. When equity investments are not listed and their fair value cannot be determined reliably, they are measured at cost and adjusted for impairment losses.

Impairment of assets

At least once a year, the Group tests for impairment losses (i.e. potential recovery of book value) on tangible and intangible assets and equity investments in subsidiaries and associates, in order to determine whether or not such assets may have suffered a permanent loss in value. If any such evidence is found, the carrying amount of the asset is reduced to the relevant recoverable amount, allocating any write-down of the value entered on the income statement.

The "recoverable value" of an asset is the greater out of its fair value, net of the costs of sale, and its value in use. The value in use is defined on the basis of the discounting of cash flow forecast from use of the asset or aggregation of assets (cash generating unit) and the value expected from its disposal at the end of its useful life. Cash generating units have been identified, consistently with the Group's business and organisational structure, as homogeneous groupings that generate autonomous incoming cash flows deriving from the continuous use of the assets assigned to them.

When the impairment loss of an asset is successively removed or reduced, the book value of the asset is increased to the new estimated recoverable value but cannot exceed the value that would have been determined if no impairment loss had been reported. Any reversal of impairment is entered on the income statement in the year in which it is noted.

Financial instruments

The financial instruments held by the Group are included in the financial statement items described below:

- Non-current assets: Equity investments, Financial assets, Other non-current assets;
- Current assets: Trade receivables; Current financial receivables; Other current receivables; Cash and cash equivalents;
- Non-current liabilities: Non-current financial payables, Other non-current liabilities;
- Current liabilities: Trade payables; Current financial payables (including payables for advances on the sale of receivables), Other payables.

Derivatives

Derivatives are initially booked at fair value and, after purchase, measured differently depending on whether or not they are defined as "hedges" in accordance with IAS 39.

In line with that established by IAS 39, derivatives can be booked according to the methods established for hedge accounting only when, upon taking out a hedge, there is the formal designation and documentation of its hedging relationship, where it is expected that the hedge will be highly effective during the various accounting periods for which it is designated.

If derivatives are stipulated as hedges, but not formally designated in hedge accounting, gains or losses deriving from the fair value measurement of the derivative are entered immediately on the income statement.

Financial assets

Financial assets represented by debt securities are classified in the financial statements and measured both on the basis of the Group's business model adopted for their management and the cash flows associated with each of said assets.

The business models for financial assets (other than trade receivables due from customers) have been defined on the basis of the logics for the use of liquid funds and financial instrument management techniques; the aim is to assure a suitable level of financial flexibility and the best possible management - in terms of risk/return - of immediately-available financial resources, as per the strategic guidelines.

As envisaged by IFRS 9, the following business models are adopted:

- Hold to Collect: financial instruments used to absorb temporary cash surpluses; they are low risk and are held mainly to maturity; they are measured at amortised cost;
- Hold to Collect and Sell: monetary instruments or bonds used to absorb short/medium-term cash surpluses; they are low risk and held, as a rule, to maturity or alternatively sold to cover specific needs for liquid funds; they are measured at fair value through other comprehensive income;
- all other financial assets that do not meet the criteria for classification amongst instruments measured at amortised cost or FVOCI (fair value through other comprehensive income) are measured at fair value through profit or loss (FVTPL).

Financial assets are checked for their recoverable value by applying an impairment model based on expected credit losses (ECL).

Inventories

Inventories are recognised at the lesser of their purchase or production cost, including accessory charges, and their presumed realisable value based on market trends. The purchase cost is determined according to the FIFO criterion.

Impairment provisions have also been made for warehouse inventories considered obsolete or slow-moving, in view of their expected future use and presumed realisable value.

Liquid funds

Cash and equivalents are booked, depending on their nature, at nominal value or amortised cost.

Other cash and cash equivalents consist of highly-liquid, short-term financial commitments that are readily convertible into cash, known and with a negligible risk of change to their value; their original maturity, at the time of purchase, is not more than 3 months.

Treasury shares

Treasury shares are booked for an amount that corresponds to their purchase cost, in a negative equity reserve at the same time the shares are purchased. The negative reserve is reversed, following a resolution by the shareholders' meeting to cancel treasury shares, and the share capital is simultaneously reduced for the nominal value of the shares cancelled. Any difference between the book value of the reserve and the nominal value of the shares cancelled is assigned to increase or decrease shareholders' equity. In the event of the disposal of treasury shares, any difference between the book value of the negative reserve and the realisable value of the shares disposed of, is allocated to increase or decrease another item of equity.

Stock Option Plans (SOPs)

Stock option plans, with the assignment of options whose exercise entails the delivery of shares, are measured at fair value determined as at the date of plan concession. This fair value is allocated to the income statement in the period of accrual envisaged by the plan, with the corresponding increase of shareholders' equity.

Financial liabilities

Financial liabilities include financial payables, including payables for advances on the transfers of receivables, and other financial liabilities, including derivatives and liabilities booked again assets entered under lease contracts.

In accordance with IFRS 9, they also include trade and miscellaneous payables.

Financial liabilities other than derivatives are initially booked at fair value; thereafter they are measured at amortised cost.

Financial liabilities hedged by derivatives intended to cover the risk of a change in liability value (fair value hedges), are measured at fair value, as established by IAS 39 for hedge accounting: gains and losses deriving from subsequent adjustments to fair value, limited to the component hedged, are booked as profit and loss and offset by the effective portion of the loss or gain deriving from the corresponding measurements at fair value of the hedge.

Financial liabilities hedged by derivatives aiming to cover the risk of changes in cash flows (cash flow hedges) remain measured at amortised cost, in the manner established by IAS 39 for hedge accounting.

Employee benefits

The severance indemnity provision is considered a "defined benefits" plan.

The company's obligations are determined separately for each plan, estimating the current value of future benefits accrued by the employees during the current and previous years. This calculation is carried out using the projected unit credit method.

The components of the defined benefits are recorded as follows:

- the components for remeasuring the liabilities, which include actuarial gains and losses, are noted immediately under "Other comprehensive profit (loss)";
- costs relating to service provisions are booked as profit and loss;
- net financial expense on defined benefit liabilities are booked as profit and loss amongst financial expense.

The remeasurement components recognised under "Other comprehensive profit (loss)" are never reclassified to the income statement in subsequent periods.

Provisions for risks and charges

The Group records provision for risks and charges when it has a legal or implicit obligation, in regard to a past event, and it is likely that resources will be necessary to fulfil the obligation, which can be reliably estimated.

The changes in the estimate are reflected in the income statement of the period in which the change took place.

Revenue recognition

Revenues are booked as profit and loss when the criteria are met as envisaged by IFRS 15 and to the extent to which it is likely that the company will obtain the economic benefits and their amount can be reliably determined. Revenues are shown net of any adjustments.

Public financing

Public financing is noted when there is reasonable certainty that all conditions envisaged for their assignment are met and they will therefore be disbursed.

Public financing on "operating account" is booked as profit and loss, with a systematic criterion during the years in which the Group notes as costs the related expenses that the financing is intended to compensate.

Financing on "capital account" that refers to tangible fixed assets is recorded as deferred income and accredited to the income statement through the time frame corresponding to the useful life of the reference asset.

Tax

Income tax is determined using a realistic estimate of the tax expense to be paid in application of current tax legislation. Prepaid and deferred tax is determined on the temporary differences between the values of the assets and liabilities and the corresponding tax-relevant values.

The tax expense for the year includes current and deferred tax relating to the period profit/(loss), with the exception of those relating to business combinations or items noted directly as equity or other components of the statement of comprehensive income.

The Group has determined that interest and penalties relating to income tax, including the accounting treatments to be applied to income tax of uncertain nature, are booked in compliance with IAS 37 Provisions, Potential liabilities and potential assets, insofar as they do not come under the definition of income tax.

More specifically, prepaid tax is entered only if there is reasonable certainty that it will be recovered in the future. Deferred tax liabilities, on the other hand, are not entered if it is unlikely that the related payable will effectively arise.

Translation of foreign currencies

Revenues and costs relating to transactions in foreign currencies are entered at the exchange rate in force as at the date of the transaction.

Receivables and payables denominated in foreign currencies are converted at the exchange rate in force as at the financial year end date. Exchange gains and losses are classified as financial components.

Consolidation of foreign operations

All the assets and liabilities of foreign companies held in currencies other than the euro, which come under the scope of the consolidation area, are converted using the exchange rates in force as at the financial statement reference date. Income and costs are converted at the average exchange rate of the period. Exchange differences resulting from the application of this method are classified as items of equity.

Below are the exchange rates used for the conversion into euros of the financial statements of companies carried in foreign currencies:

Currency	Average exchange rate 2019	Exchange rate at 31 December 2019
Mexican peso	21.56	21.22
Serbian dinar	117.82	117.83
USD	1.12	1.12

Earnings per share

Basic earnings per share are calculated by dividing the Group's economic result by the weighted average of outstanding shares during the financial year, excluding any treasury shares held in the portfolio.

The diluted earning per share is obtained by means of the adjustment of the weighted average of outstanding shares, so as to take into account all the potential ordinary shares with a diluting effect.

The Group’s net result is also corrected to consider the effects, net of tax, of the conversion.

Use of estimates

The preparation of the consolidated financial statements and related notes in accordance with the IFRS requires company management to make estimates and assumptions that impact the value of the assets and liabilities of the financial statements and the disclosure of potential assets and liabilities at the reporting date as well as the amount of revenues and costs in the reference year.

The results ultimately booked may differ, even significantly, from these estimates following possible changes to the factors considered in their determination.

In particular, the estimates are used to measure goodwill, to recognise lease payables, payables for put&call options and determine provisions made for risks on receivables, for obsolete inventories, amortisation/depreciation and impairment of assets, employee benefits, tax, provisions for risks and charges and other provisions made.

The estimates and assumptions are reviewed periodically, and any changes are immediately reflected in the income statement.

New accounting standards, amendments and interpretations applicable from the year starting on or after 1 January 2019

IFRS 16 "Leases": impacts of first-time adoption

In January 2016, the IASB published the standard IFRS 16 Leases. The new standard, approved by the European Commission in October 2017, establishes a single model for the recognition and measurement of lease contracts for the lessee, without drawing any distinction between operating leases and financial leases. More specifically, it envisages the booking of the right of use of the underlying asset in the balance sheet assets, offset by a financial payable. The standard offers the possibility of not recognising as leases any contracts regarding low value assets (i.e. lease contracts regarding assets worth less than 5 thousand dollars, defined as "low value contracts") and leases with a contract term of no more than 12 months (also defined as "short term contracts"). By contrast, the standard does not include significant changes for the lessors. The standard introduces a criterion based on the control of the use of an asset to distinguish between lease contracts and service contracts, identifying the following as discriminating factors:

- the identification of the asset granted for use (i.e. without a right of replacement of such by the lessor);
- the right to substantively obtain all economic benefits deriving from the use of the asset;
- the right to establish how and for what purpose the asset should be used.

The Group started applying the standard on 1 January 2019, availing itself of the faculty to exclude low value contracts from the application of the recognition and measurement provisions. Low value contracts mainly refer to printers, computers and other electronic devices. For these contracts, the introduction of IFRS 16 did not entail the recognition of the financial liability of the lease and related right of use, but rather lease charges are instead booked as profit and loss for the term of the respective contracts. The main contract types impacted by the new standard are property rental contracts, long-term vehicle rental contracts and printer rental contracts. The Group has adopted the modified retrospective approach to the transition. Therefore, the data from the comparative period has not been restated and some simplifications and practical expedients have been applied, as permitted by the reference standard. The adoption of IFRS 16 has had no effect on the opening shareholders' equity as at 1 January 2019.

The impact deriving from the application as at 01 January 2019 of the new standard has increased non-current assets due to the entry of "right of use of leased assets" for 4,750 thousand euros and, offsetting this are greater financial payables in the same amount, with no impact on shareholders' equity.

On the income statement, the cost of "use of third party property" has been replaced with the amortisation of the "right of use asset leased" and "interest expense".

More specifically, in regard to lease contracts previously classed as "operative", the main impacts on the Group's financial statements were as follows:

			Figures in thousands of euros
Economic data	Pre IFRS 16	Post IFRS 16	Impact
Costs for services , goods and other operating costs	52,390	51,404	(986)
Gross operating profit	**2,495**	**3,481**	**986**
Amortisation/depreciation	808	1,738	930
EBIT	**1,351**	**1,407**	**56**
Financial expense	1,470	1,574	104
Pre-tax profit (loss)	**294**	**246**	**(48)**

			Figures in thousands of euros
Financial data	Pre IFRS 16	Post IFRS 16	Impact
Right of use	-	3,907	3,907
Financial liabilities from right of use	-	3,947	3,947

The discount rate applied to the lease liabilities noted as at the date of first application ranges between 1.6% and 3%.

Other accounting standards, amendments and interpretations in force starting 1 January 2019

Below is a list of the amendments, interpretations and improvements in force starting 1 January 2019, for which there has been no significant impact on the Group's 2019 Annual Financial Report.

Amendment to IFRS 9 - Financial Instruments: Prepayment Features with Negative Compensation.

In October 2017, the IASB published the amendments to IFRS 9 "Prepayment Features with Negative Compensation", approved by the European Commission in March 2018.

IFRIC 23 - Uncertainty over Income Tax Treatments

In June 2017, the IASB published the interpretation IFRIC 23 - Uncertainty over Income Tax Treatments.

Amendment to IAS 28 - Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures

In October 2017 the IASB published amendments to IAS 28 Long-term Interests in Associates and Joint Ventures.

The IASB has also published an example that shows how the provisions of IFRS 9 and IAS 28 apply to long-term receivables in an associate or joint venture.

Improvements to the IFRSs: 2015-2017 cycle

In December 2017, the IASB published the document "Improvements to the IFRSs: 2015-2017 cycle", which incorporated some amendments to IAS 12 - Income tax., IAS 23 - Borrowing costs, IFRS 3 - Business combinations and IFRS 11 - Joint arrangements.

Amendment to IAS 19 - Plan Amendment, Curtailment or Settlement

In February 2018, the IASB published the amendments to IAS 19 "Plan Amendment, Curtailment or Settlement".

Accounting standards, amendments and interpretations applicable from financial years starting on or after 1 January 2019

Below is a list, with indication of start date, of amendments that have not been adopted early by the Group and for which the relevant impact assessments are in progress:

- Amendment to IAS 1 and IAS 8 - Definition of Material: the amendments will apply starting 1 January 2020.
- Amendment to IFRS 9, IAS 39 and IFRS 7 - Interest Rate Benchmark Reform: the amendments will apply starting 1 January 2020.

Accounting standards, amendments and interpretations not yet approved by the EU, applicable from financial years starting on or after 1 January 2019

Below is a list, with indication of start date, of amendments that have not yet been approved and have not been adopted early by the Group and for which the relevant impact assessments are in progress:

- Amendment to IFRS 3 - Definition of a Business: the amendments will apply to acquisitions made after 1 January 2020.

Financial risk management

Under the scope of its operations, the Group is exposed to financial risks connected with:

- credit risk;
- liquidity risk;
- market risk and, specifically, interest rate and foreign exchange risks.

Below is information about the Group's exposure to each of the above risks; reference is made to the more extensive description given in the Report on Operations for a description of how financial risks are monitored in order to prevent any potential negative effects thereof, and, consequently, take corrective action.

Credit risk

Credit risk is the exposure to potential losses deriving from the failure by commercial or financial counterparties to fulfil the commitments made.

The Group's credit risk essentially relates to the amount of trade receivables due for the provision of services.

The very nature of the services provides means that the Group has no significant concentration of the credit risk and is subject to moderate credit risk, insofar as debtors are large, highly-solvent private companies.

Exposure to credit risk as at 31 December 2019 and 31 December 2018 is as follows:

Figures in thousands of euros		
	31 Dec. 2019	**31 Dec. 2018**
Non-current financial assets	1,555	1,328
Other non-current receivables and assets	165	149
Trade receivables	33,077	34,112
Current financial assets	115	82
Other current assets	5,153	4,304
Total exposure	**40,065**	**39,975**
Provision for impairment	(1,286)	(1,481)
Total exposure net of the provision for impairment	**38,779**	**38,494**

(*) the table does not include tax receivables and equity investments

Below is a breakdown of receivables as at 31 December 2019 and 31 December 2018, grouped by category and due date:

Figures in thousands of euros									
			Past due						
	Book value 31 Dec. 2019	Maturing	0 - 30	30 - 90	90 - 180	180-365	more than 365	Total past due	Provision for impairment
Non-current financial assets	1,555	1,555	-	-	-	-	-	-	-
Other non-current receivables and assets	165	165	-	-	-	-	-	-	-
Trade receivables	31,791	26,403	2,114	2,043	649	388	1,480	6,674	(1,286)
Current financial assets	115	115	-	-	-	-	-	-	-
Other current assets	5,153	5,153	-	-	-	-	-	-	-
Total financial assets (*)	**38,779**	**33,394**	**2,114**	**2,043**	**649**	**388**	**1,480**	**6,674**	**(1,286)**

(*) the table does not include tax payables and equity investments

Figures in thousands of euros									
			Past due						
	Book value 31 Dec. 2018	Maturing	0 - 30	30 - 90	90 - 180	180-365	more than 365	Total past due	Provision for impairment
Non-current financial assets	1,328	1,328	-	-	-	-	-	-	-
Other non-current receivables and assets	149	149	-	-	-	-	-	-	-
Trade receivables	32,631	24,811	3,876	2,522	924	817	1,162	9,301	(1,481)
Current financial assets	82	82	-	-	-	-	-	-	-
Other current assets	4,304	4,304	-	-	-	-	-	-	-
Total financial assets (*)	**38,494**	**30,674**	**3,876**	**2,522**	**924**	**817**	**1,162**	**9,301**	**(1,481)**

(*) the table does not include tax payables and equity investments

Liquidity risk

The Group's financial management is characterised by procedures aimed at regulating the collection and payment duties, controlling and avoiding any critical liquidity positions.

During the period, the Group met its financial requirements using own funds, without applying for new facilities from the banking system. Indeed, although the management has short-term bank facilities in place, aimed at managing peaks in current requirements, it saw no need to use such instruments during the year, thanks to the positive generation of liquidity from current operations.

Financial liabilities as at 31 December 2019 and 31 December 2018, including interest payable, divided up by contractual due date, are as follows:

Figures in thousands of euros

	Book value 31 Dec. 2019	Contractual financial flows	Current portion	from 1 to 2 years	from 2 to 5 years	More than 5 years
Payables due to banks	11,363	11,711	2,610	2,998	5,962	141
Financial liabilities from right of use	3,947	4,149	919	798	1,816	616
Put liability payables	13,342	14,287	2,899	8,731	2,657	-
Payables due to other lenders	138	138	35	16	50	37
Total financial liabilities	**28,790**	**30,285**	**6,463**	**12,543**	**10,485**	**794**

Figures in thousands of euros

	Book value 31 Dec. 2018	Contractual financial flows	Current portion	from 1 to 2 years	from 2 to 5 years	More than 5 years
Payables due to banks	2,416	2,449	1,470	853	125	-
Put liability payables	17,952	19,419	7,986	2,850	8,583	-
Payables due to other lenders	445	445	329	-	-	116
Total financial liabilities	**20,813**	**22,313**	**9,785**	**3,703**	**8,709**	**116**

As regards trade payables and other liabilities, please note that the cash flows expected from the related contracts are within 12 months.

Financial liabilities as at 31 December 2019 and 31 December 2018, as resulting from the statement of financial position, divided up by contractual due date, are as follows:

Figures in thousands of euros

	Book value 31 Dec. 2019	Current portion	from 1 to 2 years	from 2 to 5 years	More than 5 years
Payables due to banks	11,363	2,499	2,884	5,839	141
Financial liabilities from right of use	3,947	844	748	1,747	608
Put liability payables	13,342	2,369	8,393	2,580	-
Payables due to other lenders	138	35	16	50	37
Total financial liabilities	**28,790**	**5,747**	**12,041**	**10,216**	**786**

					Figures in thousands of euros
	Book value 31 Dec. 2018	Current portion	from 1 to 2 years	from 2 to 5 years	More than 5 years
Payables due to banks	2,416	1,447	847	122	-
Put liability payables	17,952	7,505	2,563	7,885	-
Payables due to other lenders	445	329	-	-	116
Total financial liabilities	**20,813**	**9,281**	**3,410**	**8,007**	**116**

Market risk

The market risk to which the Group is exposed consists of the risk of changes to interest rates and the foreign exchange risk.

Interest rate risk

The Group is exposed to the risk of changes in interest rates applied to medium- and long-term loans payable, index-linked to a variable rate and, therefore, specifically only to the loan with Intesa, given that all other loans are fixed rate. It should in any case be recalled that the Parent Company has subscribed a cap derivative to hedge possible increases in the interest rate applied to the Intesa loan (see Note 16 of the separate financial statements of Alkemy S.p.A.).

Financial payables of 28,790 thousand euros as at 31 December 2019 and 20,813 thousand euros as at 31 December 2018 respectively include 10,857 thousand euros and 1,122 thousand euros of variable rate loans.

The financial instruments exposed to the interest rate risk have been subjected to sensitivity analysis, which shows the effects on the period result that would have been recorded in terms of changes to financial expenses in the event of an increase and decrease of 50 basis points in the Euribor interest rates applied to the financial payables. The effects are shown in the table below:

		Figures in thousands of euros
	+ 50 basis points	**- 50 basis points**
Greater (lesser) interest payable for variable rate payables	30	(30)
Total	**30**	**(30)**

Foreign exchange risk

The Group's assets are subject to the foreign exchange conversion risk.

The Group is therefore exposed to the foreign exchange "conversion" risk, i.e. the risk that changes in the exchange rates of certain currencies with respect to the consolidation currency impact both the Alkemy Group results and the consolidated net financial debt and consolidated shareholders' equity.

The Group is also exposed to a limited foreign exchange "conversion" risk generated by commercial and financial transactions implemented by the individual companies in currencies other than the functional currency of the company performing the transaction.

This exposure is monitored, but as at the date of the Annual Financial Report, the Alkemy Group policy is not to hedge said foreign exchange risk insofar as there are no significant value transactions implemented in currencies other than the euro between Group companies, except for the annual payment of dividends resolved by the Mexican companies. A significant fluctuation of Mexican pesos or the other currencies in which the Group operates may in any case negatively impact the Group's economic and equity position, proportionally to the incidence of the business carried out by said companies, with respect to the comprehensive business pursued by the Group as a whole.

Other information

Public disbursements

As envisaged by Article 1, paragraphs 125-129 of Italian Law no. 124/2017 (the "2017 Competition Law"), subsequently supplemented by the "Security" Decree Law (no. 113/2018) and the "Simplification" Decree Law (no. 135/2018), under the scope of transparency obligations in connection with financing and economic benefits of any type received from the public administrations and similar or equivalent subjects, these amounts are published and it is specified that in FY 2019, the Parent Company received financing of 1,207 thousand euros. The table below gives details of data relating to the disbursing subjects and t he amount of cash disbursements:

		Figures in thousands of euros
Disbursing subject	**2019 financing collected**	**Reason**
Ministry of Education, University and Research	27	TETRIS project
Regional Authority of Calabria	175	Cybersecurity project
Ministry of Economic Development	254	Nextshop project
Ministry of Economic Development	626	D-ALL project
Regional Authority of Sardinia	125	Culture 4.0
	1,207	

Financing on the above projects refer entirely to research and development carried out by the Company.

A complete disclosure on revenues for public financing is given in Note 2.

Segment reporting

The Group has identified the operating segments on the basis of two geographic areas, which represent the organisational components according to which the business is managed and monitored, namely, as envisaged by IFRS 8, "*a component... whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance*".

Said segments are "Italy" and "Export".

Below is the economic data of FRY 2019 and FY 2018, broken down by segment as required by IFRS 8, indicating any inter-segment adjustments.

Figures in thousands of euros				
Financial year ended at 31 December 2019	**Italy**	**Export**	**Inter-segment adjustments**	**Total**
Revenues from sales and services	53,981	27,328	(25)	**81,284**
Other revenue and income	3,158	79	(1)	**3,236**
Total revenue and income	**57,139**	**27,407**	**(26)**	**84,520**
Costs for services , goods and other operating costs	(31,997)	(19,432)	25	**(51,404)**
- of which non-recurring	(1,192)	-	-	**(1,192)**
Payroll costs	(24,086)	(5,550)	-	**(29,635)**
- of which non-recurring	(357)	-	-	**(357)**
Total costs and other operating expenses	**(56,083)**	**(24,982)**	**25**	**(81,039)**
Gross operating profit	**1,056**	**2,425**	**(1)**	**3,481**
Amortisation/depreciation	(1,514)	(224)	-	**(1,738)**
Impairment and provisions	(321)	(16)	-	**(336)**
EBIT	**(779)**	**2,185**	**(1)**	**1,407**
Financial income	410	368	(365)	**413**
Financial expense	(983)	(597)	6	**(1,574)**
Pre-tax profit/(loss)	**(1,352)**	**1,956**	**(360)**	**246**
Income taxes	47	(532)	-	**(486)**
Profit/(loss) for the year	**(1,305)**	**1,424**	**(360)**	**(240)**
Attributable to:				
- Group	(1,304)	1,525	(360)	**(139)**
- Minorities	-	(101)	-	**(101)**

				Figures in thousands of euros
Financial year ended at 31 December 2018	**Italy**	**Export**	**Inter-segment adjustments**	**Total**
Revenues from sales and services	54,880	12,596	(441)	**67,035**
Other revenue and income	3,939	520	135	**4,594**
Total revenue and income	**58,819**	**13,116**	**(306)**	**71,629**
Costs for services , goods and other operating costs	(33,792)	(9,361)	294	**(42,859)**
Payroll costs	(20,141)	(2,429)	-	**(22,570)**
Total costs and other operating expenses	**(53,933)**	**(11,790)**	**294**	**(65,429)**
Gross operating profit	**4,886**	**1,326**	**(12)**	**6,200**
Amortisation/depreciation	(749)	(27)	-	**(776)**
Impairment and provisions	(529)	(61)	-	**(590)**
EBIT	**3,608**	**1,238**	**(12)**	**4,834**
Financial income	67	174	(5)	**236**
Financial expense	(636)	(165)	5	**(796)**
Pre-tax profit/(loss)	**3,039**	**1,247**	**(12)**	**4,274**
Income taxes	(611)	(268)	-	**(879)**
Profit/(loss) for the year	**2,428**	**979**	**(12)**	**3,395**
Attributable to:				
- Group	2,428	832	(12)	**3,248**
- Minorities	-	147	-	**147**

Italy segment

The Italy segment includes the following companies: Alkemy Spa, Nunatac srl, Bizup srl and Alkemy Play srl.

2019 Italy segment revenues came to 57,139 thousand euros, down 1,680 thousand euros on last year, mainly due to recognition of contracts with two of the main national customers during the second half of the year, partly offset by greater revenues realised by Nunatac, insofar as the acquisition was made in April 2018.

Revenues consist of 53,981 thousand euros for sales of goods and services (54,880 thousand euros in 2018) and 3,158 thousand euros for other revenues and income (3,939 thousand euros in 2018); details are given in the notes.

Operating costs, represented by costs for services, goods and other items and for labour, total 56,083 thousand euros, up 2,150 thousand euros (+4%) on last year. More specifically, in 2019, the cost of labour came to 24,086 thousand euros, up 20% on the previous year (20,141 thousand euros). This increase is due to the additional cost of resources deriving from the subsidiary Nunatac acquired in 2018, the full cost of which was booked in 2019 for the new resources included in 2018 and, partly, due to the salary increases recognised to staff during the year.

It is specified that both cost items for payroll and purchases of services, goods and other operating costs, also include all costs incurred for the Group's research and development activities; more details and information are given in Note 2.

EBITDA came to 1,056 thousand euros (4,886 thousand euros in 2018), down 3,830 thousand euros and is mainly attributable to the Parent Company, which has exclusively suffered the negative effects of the considerable reduction, as compared with 2018, of revenues relating to two top customers, as well as having incurred non-recurring costs during the year for 1.192 thousand euros for making the switch to the STAR segment of the telematic stock market.

Amortisation, depreciation and impairment came to 1,835 thousand euros, up 557 thousand euros on 2018 (+44%). This item includes:

- amortisation/depreciation for tangible and intangible fixed assets with a finite useful life for a period total of 1,514 thousand euros (749 thousand euros in 2018);
- the provision made for doubtful debt in the amount of 321 thousand euros, allocated mainly in view of potential future losses connected with specific disputed loans as at the reporting date.

The Italy segment therefore recorded a negative pre-tax result of 1,352 thousand euros (positive for 3,039 thousand euros in 2018), which, less tax, gave rise to a net loss of 1,305 thousand euros, as compared with a positive result of 2,428 thousand euros for last year.

Export segment

The Export segment regards all the export markets on which the Group operates, namely Spain, Mexico, Serbia and the USA.

The following companies are included: Ontwice s.l. (Spain), OIS Digital s.l. (Mexico), OIS Service s.l. (Mexico), Alkemy Iberia S.L. (Spain), Kreativa New Formula D.o.o. (Serbia), Alkemy Play D.o.o. (Serbia), Alkemy SEE D.o.o. (Serbia), Alkemy Digital Hub D.o.o., Tako Lako D.o.o., Alkemy USA Inc (USA).

2019 Export segment revenues came to 27,407 thousand euros as compared with 13,116 thousand euros in 2018. The increase in revenues is mainly due to the inorganic growth obtained through period acquisitions made of the Ontwice Group and Kreativa New Formula D.o.o. Turnover of the new acquisitions respectively applies for five months of the year for Ontwice and Kreativa, insofar as the acquisitions were completed in July.

Operating costs for staff go from 11,790 thousand euros to 24,982 thousand euros, up during the current year as a result of said acquisitions.

EBITDA therefore comes to 2,425 thousand euros, as compared with 1,326 thousand euros.

EBIT comes to 2,185 thousand euros, as compared with last year's 1,238 thousand euros. I

The period net result therefore totals 1,424 thousand euros, as compared with 979 thousand euros in 2018.

Additionally, in order to assure a complete disclosure, below are the trade receivables as at 31

December 2019 and as at 31 December 2018, divided up by segment:

				Figures in thousands of euros
Financial year ended at 31 December 2019	**Italy**	**Export**	**Inter-segment adjustments**	**Total**
Trade receivables	26,372	5,510	(91)	**31,791**

				Figures in thousands of euros
Financial year ended at 31 December 2018	**Italy**	**Export**	**Inter-segment adjustments**	**Total**
Trade receivables	26,618	6,278	(265)	**32,632**

Comments on the accounting schedules

Consolidated income statement

1. Revenues from sales and services

Revenues from sales and services come to 81,284 thousand euros (67,035 thousand euros as at 31 December 2018) and can be broken down as follows:

	Figures in thousands of euros	
	31 Dec. 2019	**31 Dec. 2018**
Sales of services	80,793	66,656
Sales of products	491	379
Total revenues from sales and services	**81,284**	**67,035**

Turnover booked for FY 2019 is up 14,249 thousand euros on the previous year.
This increase in revenues as compared with the previous year is mainly due to the companies acquired in 2018, whose greater revenues partially offset the decline seen in sales with reference to other Group companies and, in particular, the parent company. In 2018, companies purchased during the year had contributed 16,172 thousand euros to the Group's consolidated revenues; in 2019, they realised comprehensive revenues of 32,416 thousand euros.

2. Other revenue and income

Other revenue and income totals 3,236 thousand euros (4,594 thousand euros as at 31 December 2018), as follows:

	Figures in thousands of euros	
	31 Dec. 2019	**31 Dec. 2018**
Public financing	1,482	2,015
Tax credit pursuant to Decree Law no. 145/2013	1,624	1,543
Other revenues	130	1,036
Total other revenue and income	**3,236**	**4,594**

Revenues for public financing of 1,482 thousand euros (2,015 thousand euros as at 31 December 2018), are detailed as follows:

- 428 thousand euros (766 thousand euros as at 31 December 2018) refer to the portion of the financing on operating account, relative to the subsidised finance project "D-All";
- 403 thousand euros (zero thousand euros as at 31 December 2018) refer to the portion of the financing on operating account, relative to the subsidised finance project "SecureOpenNets";
- 334 thousand euros (569 thousand euros as at 31 December 2018) refer to the portion of the financing on operating account, relative to the subsidised finance project "Next Shop";
- 171 thousand euros (216 thousand euros as at 31 December 2018) refer to the portion of the

financing on operating account, relative to the subsidised finance project "ProtectID";

- 90 thousand euros (117 thousand euros as at 31 December 2018) refer to the portion of the financing on operating account, relative to the subsidised finance project "Culture 4.0";
- 27 thousand euros (15 thousand euros as at 31 December 2018) refer to the portion of the financing on operating account, relative to the subsidised finance project "Tetris";
- 19 thousand euros (40 thousand euros as at 31 December 2018) refer to the portion of the financing on operating account, relative to the subsidised finance project "Smart";
- 10 thousand euros relates to the Fondir financing.

Last year, revenues for public financing also included 242 thousand euros referring to the portion of the operating account financing relative to the subsidised finance project "DEEP", as well as 50 thousand euros relative to the For.te contribution.

Public financing refers for 1,472 thousand euros to contributions relating to research and development activities carried out by the Parent Company, which entailed investments made during the year for a total of 3,180 thousand euros, divided up between payroll costs for 2,634 thousand euros and 546 thousand euros in consultancy, on projects that obtained an approval decree and financing on operating account.

On a Group level, total allocation of resources, in terms of payroll costs and external consultancy, came to 4,286 thousand euros (3,066 thousand euros in 2018), up 1,220 thousand euros on last year. In addition to the parent company, in 2019 R&D projects were also carried out by another three national subsidiaries, allocating resources for a total of 1,106 thousand euros.

The tax credit accrued on investments made in research and development pursuant to Italian Decree Law no. 145/2013, comes to 1,624 thousand euros (1,543 thousand euros as at 31 December 2018).

Other revenues came to 130 thousand euros (1,036 thousand euros as at 31 December 2018).
Last year, the item included, amongst others, 271 thousand euros for the gain from a bargain purchase made in 2018 of a group subsidiary in Serbia, 240 thousand euros relative to increases in fixed assets for internal work relating to the web platforms developed by Alkemy Play and Bizup, in addition to revenues from previous years and capital gains.

3. Costs for services , goods and other operating costs

Costs for services, goods and other operating components comes to 51,404 thousand euros (42,859 thousand euros as at 31 December 2018), as detailed hereto:

		Figures in thousands of euros
	31 Dec. 2019	**31 Dec. 2018**
Costs for services	50,419	41,061
Costs for the purchase of raw materials	367	495
Change in inventories	33	32
Lease costs	156	934

Other operating costs	429	337
Total	**51,404**	**42,859**

Costs for services

Costs for services come to 50,419 thousand euros (41,061 thousand euros as at 31 December 2018) and are detailed below:

		Figures in thousands of euros
	31 Dec. 2019	**31 Dec. 2018**
Services for customers	44,767	36,758
Non-recurring translisting costs	1,192	0
Travel and transfer expenses	780	782
Consultancy and legal expenses	528	627
Logistics services	447	428
Restaurant vouchers	401	340
Other consultancy	358	390
Maintenance services	332	204
Administrative services	212	140
Insurance	180	145
Marketing services	174	134
Payslip processing	167	124
Postal, telephone and data transmission services	146	135
Independent auditing firm fees	135	103
Commercial services	113	208
Remuneration of collaborators	96	141
Cleaning expenses	93	73
Condominium and supervisory expenses	92	57
Banking services	91	87
Utilities	83	101
Board of Auditors' emoluments	77	36
Other services	29	48
Total costs for services	**50,419**	**41,061**

Costs for services mainly include commercial costs incurred for activities provided to customers, media space, costs for third party services, distribution costs and costs for collaborators. The period increase is mainly connected with the strong dimensional growth enjoyed by the Group and its business, primarily due to the companies that joined the consolidation scope last year.

Costs for the purchase of goods

Costs for the purchase of goods total 367 thousand euros (495 thousand euros as at 31 December 2018) and mainly regard the purchase of goods for resale to B2C customers of the eCommerce BU and the purchase of licences for resale.

Operating lease costs

Operating lease costs come to 156 thousand euros (934 thousand euros as at 31 December 2018).

The reduction is due to the impact of the application of the new standard IFRS 16, which required a reprocessing of costs in the amount of 986 thousand euros. More details are given in the paragraph "IFRS 16 "Leases": impacts of first-time adoption".

In the comparative period, the item mainly referred to the lease charges of the various corporate offices for 497 thousand euros, plus vehicle rental (210 thousand euros) and rental of hardware instruments (227 thousand euros).

Other operating costs

Other operating costs come to 429 thousand euros (337 thousand euros as at 31 December 2018) and mainly regard costs from previous years, as well as, to a lesser extent, entertainment costs, sanctions, stamp duty and association rates and fees.

4. Payroll costs

Payroll costs come to 29,635 thousand euros (22,570 thousand euros at 31 December 2018) and consist of the following:

		Figures in thousands of euros
	31 Dec. 2019	**31 Dec. 2018**
Wages and salaries	20,697	15,413
Directors' remuneration	1,686	1,750
Social security expenses	5,549	3,873
Costs for defined benefit plans	1,141	942
Cost for share-based payments	380	545
Other payroll expenses	182	47
Total payroll expenses	**29,635**	**22,570**

This item includes all costs incurred during the year, directly or indirectly relating to employees and collaborators, as well as the cost of directors for 1,686 thousand euros.
The average number of employees on the workforce during the year was 512 (511 in 2018).

5. Amortisation/depreciation

Amortisation/depreciation recorded on the income statement comes to 1,738 thousand euros (776 thousand euros as at 31 December 2018) and consists of:

- 930 thousand euros for the application of the new standard IFRS 16; more details are given in the paragraph "IFRS 16 "Leases": impacts of first-time adoption";
- 327 thousand euros (271 thousand euros as at 31 December 2018) for the depreciation of tangible fixed assets;
- 481 thousand euros (505 thousand euros as at 31 December 2018) for the amortisation of intangible fixed assets.

6. Provisions and impairment

Provisions made on the income statement come to 336 thousand euros (590 thousand euros as at 31 December 2018) and are detailed as follows:

- 193 thousand euros (565 thousand euros as at 31 December 2018) refer to the impairment of trade receivables;
- 112 thousand euros (29 thousand euros as at 31 December 2018) refer to the impairment of closing warehouse inventories;
- 31 thousand euros (25 thousand euros as at 31 December 2018) to the provision made for risks.

7. Income from (expense on) equity investments

Income from (expense on) equity investments post a positive value of 33 thousand euros (zero thousand euros as at 31 December 2018) and refer to the equity measurement of the associate Design Group Italia. This company was acquired by the Parent Company in July 2019, as extensively explained in the Report on Operations, to which you are referred for more details.

8. Financial income

Financial income comes to 380 thousand euros (236 thousand euros as at 31 December 2018) and mainly refers to the effects of exchange gains for 368 thousand euros as well as to interest on bank current accounts.

9. Financial expense

Financial expense comes to 1,574 thousand euros (796 thousand euros as at 31 December 2018) and is detailed below:

		Figures in thousands of euros
	31 Dec. 2019	**31 Dec. 2018**
Interest from payables for put options	766	515
Exchange losses	392	166
Capital loss from the sale of equity investments	127	-
Interest on leases	105	-
Interest expense on employee benefits (IAS 19)	50	34
Interest expense on loans	97	30
Interest expense on current accounts	1	5
Other financial expense	36	46
Total financial expense in regard to third parties	**1,574**	**796**

Interest on leases comes to 105 thousand euros due to the application of the new standard IFRS 16. More details are given in the paragraph "IFRS 16 "Leases": impacts of first-time adoption".

Capital loss from the sale of equity investments refers to the sale of the entire share held in the company Tako Lako, sold off for the same price paid for purchase in 2018, as already described in the Report on Operations.

10. Income taxes

Tax has been calculated in compliance with current tax legislation and is detailed hereto:

	Figures in thousands of euros	
	31 Dec. 2019	**31 Dec. 2018**
Current income tax	485	587
Current IRAP tax	222	265
Previous years' tax	(28)	-
Prepaid tax	(230)	(185)
Deferred tax	37	212
Total taxes	**486**	**879**

11. Earnings (loss) per share

Basic earnings per share are calculated by dividing the Group's economic result by the weighted average of outstanding shares during the financial year, excluding any treasury shares held in the portfolio.

In calculating diluted earnings per share, the weighted average of the outstanding shares takes into account the conversion of all instruments having a dilatory effect and, therefore, the options assigned to stock option plan beneficiaries.

The calculation of earnings (loss) per share is shown in the table below:

	Figures expressed in units of euros	
	31 Dec. 2019	**31 Dec. 2018**
Profit		
Group profit (loss) for the year	(139,000)	3,248,000
Group profit (loss) for the period, attributable to ordinary shares	(139,000)	3,248,000
Number of shares		
Average number of outstanding ordinary shares	5,470,867	5,415,572
Adjusted average number of ordinary shares	5,478,488	5,467,072
Basic earnings per share	(0.03)	0.60
Diluted earnings per share	(0.03)	0.59

Consolidated statement of financial position

Assets

Non-current assets

12. Tangible fixed assets

The item totals 980 thousand euros (1,064 thousand euros as at 31 December 2018); changes are shown below:

Figures in thousands of euros				
	Land and buildings	Plant and equipment	Others	Total
Balance as at 31 December 2017	**86**	**59**	**612**	**757**
Increase from merger	-	-	155	155
Investments	-	1	438	439
Decreases	-	-	(46)	(46)
Amortisation/depreciation	(4)	(16)	(251)	(271)
Reduction in provision for disposals	-	-	30	30
Balance as at 31 December 2018	**82**	**44**	**939**	**1,064**
Change in the scope of consolidation	-	-	(12)	(12)
Investments	-	-	258	258
Decreases	-	-	(3)	(3)
Amortisation/depreciation	(4)	(15)	(308)	(327)
Balance as at 31 December 2019	**78**	**29**	**874**	**980**

Land and buildings includes a property owned in Rende (CZ).

Other assets mainly includes computers and IT equipment purchased for Group employees, as well as furniture and furnishings of the company office and secondary offices.
Period increases are mainly due to the purchase of computers and It equipments, as well as to the change in the scope of consolidation that reflects the sale of Tako Lako Shop D.o.o.

13. Right of use

The adoption of the new standard IFRS 16 has entailed the entry of the item "right of use" for a total of 3,907 thousand euros, as shown in the table below, which provides greater detail:

Figures in thousands of euros			
	Land and buildings	Others	Total
Balance as at 31 December 2018	**-**	**-**	**-**
Adoption of IFRS 16	4,275	475	4,750
Increases (decreases)	-	87	87
Amortisation/depreciation	(724)	(206)	(930)
Balance as at 31 December 2019	**3,551**	**356**	**3,907**

More details are given in the paragraph "IFRS 16 "Leases": impacts of first-time adoption".

14. Goodwill

Goodwill comes to 31,752 thousand euros (31,748 thousand euros as at 31 December 2018), as detailed hereto:

	Figures in thousands of euros	
	31 Dec. 2019	**31 Dec. 2018**
Goodwill for the Ontwice Group	12,673	12,673
Goodwill for Bizup	6,883	6,883
Goodwill for Nunatac	6,603	6,603
Goodwill for Kreativa	976	972
Goodwill for Alkemy Tech	2,898	2,898
Goodwill for Seolab	1,167	1,167
Goodwill for Between	552	552
Total goodwill	**31,752**	**31,748**

The increase is due to the exchange differences for goodwill relating to Kreativa New Formula D.o.o.

The Group expects to obtain a positive contribution to cash flow from these assets, for an indefinite period of time.

As mentioned in the section on accounting standards, goodwill is not amortised, but only impairment tested. The Group verifies the potential recovery of goodwill and other fixed assets with an undefined useful life once a year, testing each identified cash generating unit (or "CGU").

Goodwill has been allocated to the three CGUs corresponding to the three geographic areas in which the Group operates, as summarised below:

- CGU - Italy;
- CGU - Spain/Mexico;
- CGU - the Balkans.

The recoverable amount of the three identified CGUs, to which the individual goodwill entries refer, has been verified through the value in use, determined by applying the discounted cash flow method. If the recoverable amount exceeds the net book value recorded for the CGU, no impairment is applied; if not, the difference between the net book value and the recoverable amount, as resulting from the impairment testing, determines the amount of the adjustment to be made.

The main hypotheses on which the recoverable amount is calculated regard the discounting rate, the use of the latest budgets and medium-term forecasts and the expected growth rate at the end of the explicit forecasting period.
Discounting regarded forecast cash flow as resulting from the 2020-2022 three-year plan approved by the Board of Directors on 13 February 2020.
The terminal value was calculated as the average of the "perpetual income" method (determined

by the normalised cash flow forecast relative to the first year after the explicit forecasting period, with the hypothesis of a growth rate of 1.50%) and the "exit multiple" method (using an average multiple of 7.57x the EBITDA).

In discounting cash flows, the Group adopted a discounting rate that expresses the weighted average cost of capital (WACC) comprising a weighted average of the cost of capital and the cost of debt. The rates were differentiated for each CGU, taking into account the specific risk level of the countries in which the subsidiaries are based.

More specifically, with reference to the valuations as at 31 December 2019, the Group applied a discounting rate of 8.63% for the CGU - Italy, 13.91% for the CGU - Spain/Mexico and 11.73% for the CGU - the Balkans.

The impairment test results revealed for each CGU that the recoverable amount exceeded the book value, accordingly no impairment losses were booked.

As at 31 December 2019, Alkemy's capitalisation is 49,364,568 euros and therefore falls below the Group valuation using the DCF methods based on officially approved plans (recoverable value of the CGUs); the directors consider that this value, expressed by the financial market, is not an indicator of potential losses to the assets held by the Group, insofar as it suffers outlooks factors precisely due to the stock market dynamics that penalised the security during the listing process, determining a value that is not representative of its intrinsic value, which settled at around 60 million euros just before its launch on the main market.

Please note that sensitivity analyses were also carried out, hypothesising changes in: (i) the discounting rate (up/down 1.5 percentage points); (ii) the parameters used to determine the terminal value in relation to: change in the exit multiple (up/down 0.5) and in the growth rate (up/down 0.5 percentage points). These analyses also failed to reveal any loss in value of goodwill.

15. Intangible fixed assets with a finite useful life

Intangible fixed assets amount to 971 thousand euros (1,444 thousand euros as at 31 December 2018). Below are details on changes seen to intangible fixed assets:

				Figures in thousands of euros
	Industrial patent rights and intellectual property rights	Concessions, licences, trademarks and similar rights	Other intangible fixed assets	Total
Balance as at 31 December 2017	**107**	**23**	**878**	**1,008**
Change in the scope of consolidation	331	-	-	331
Investments	141	17	469	627
Decreases	-	-	(89)	(89)
Amortisation/depreciation	(109)	(7)	(389)	(505)
Reduction in provision for disposals	-	-	73	73

Balance as at 31 December 2018	**469**	**33**	**942**	**1,444**
Change in the scope of consolidation	(316)	-	-	(316)
Investments	169	-	162	331
Decreases	(16)	-	-	(16)
Amortisation/depreciation	(105)	(6)	(370)	(481)
Reduction in provision for disposals	9	-	-	9
Balance as at 31 December 2019	**210**	**27**	**734**	**971**

Industrial patent rights and intellectual property rights

This item mainly includes the costs incurred for the purchase of company management software. The reduction is mainly due to the change in the scope of consolidation and, in particular, the subsidiary Tako Lako Shop D.o.o.

The increase is mainly due to the purchase of software for the consolidated financial statements and management control, the first came into operation with the closure of the 2019 interim position and the second during the first half of 2020.

Concessions, licences, trademarks and similar rights

This item mainly includes costs incurred by the Parent Company to register trademarks.

Other intangible fixed assets

This item capitalises long-term costs that, due to their different nature, do not fit under any of the other items of this category. More specifically, the item includes:

- costs incurred by the Parent Company for the design, programming and development of software dedicated to the management of the eCommerce platform, with the aim of providing a complete tool by which to manage the on-line sales channel. Investments made in 2019 total Euro 151 thousand;
- costs incurred by the subsidiary Alkemy Play S.r.l., including through the subsidiary Alkemy Play D.o.o., in relation to the programming and development of a web platform dedicated to the supply of digital services for small and medium enterprises;
- costs incurred by the subsidiary BizUp S.r.l. in relation to the development of a platform dedicated to services for the development of branded content of customer companies.

16. Equity investments

Equity investments amount to 1,078 thousand euros (7 thousand euros as at 31 December 2018).

The item refers to:

- 1,038 thousand euros to the equity investment in the associate Design Group Italia S.r.l., acquired by the Parent Company in July 2019, as extensively described in the Report on Operations, to which you are referred for more detail;
- 5 thousand euros to the equity investment in the consortium company ICT SUD S.C.r.l., held

by the Parent Company.

17. Non-current financial assets

Non-current financial assets come to 1,555 thousand euros (1,328 thousand euros as at 31 December 2018) and are detailed below:

		Figures in thousands of euros
	31 Dec. 2019	**31 Dec. 2018**
Amount receivable from insurance	1,427	1,177
Amounts receivable from employees	128	151
Total non-current financial assets	**1,555**	**1,328**

Amounts receivable from insurance refer to receivables due on insurance policies stipulated to cover directors' and employees' severance indemnity in reference to the subsidiary Nunatac S.r.l.

To assure complete information, please note that the Group also has a derivative stipulated by the Parent Company to hedge the 2016 loan contract agreed with Banca Intesa Sanpaolo. The Company has decided to hedge the interest rate risk. The fair value of the instrument as at 31 December 2019 was zero thousand euros, as compared with a positive 0.1 thousand euros as at 31 December 2018.

18. Prepaid tax assets

Prepaid tax assets amount to 1,203 thousand euros (977 thousand euros as of 31 December 2018).

Prepaid tax is determined on the temporary differences between the values of the assets and liabilities taken in order to prepare the financial statements and the respective tax-relevant values, as well as on tax losses that can be carried forward without limitation.

Prepaid tax is entered when it is considered, on the basis of forecasts for future results, that it is reasonably certain of being recovered in future years.

19. Other non-current receivables and assets

Other non-current receivables and assets come to 165 thousand euros (149 thousand euros as at 31 December 2018) and mainly relate to security deposits for rented offices.

20. Inventories

Inventories amount to 61 thousand euros (251 thousand euros as at 31 December 2018) and are made up as follows:

- 198 thousand in finished products held for sale;
- 137 thousand euros the warehouse obsolescence provision (25 thousand euros as at 31 December 2018).

Valuation was carried out applying the FIFO criterion.

21. Trade receivables

Trade receivables come to 31,791 thousand euros (32,632 thousand euros as at 31 December 2018), as detailed herewith:

Figures in thousands of euros		
	31 Dec. 2019	**31 Dec. 2018**
Receivables due from Italy	24,101	25,565
Receivables due from the EU	4,934	4,859
Non-EU receivables	2,756	2,208
Total trade receivables	**31,791**	**32,632**

There are no receivables maturing in more than 12 months.

trade receivables are stated net of the impairment provision of 1,286 thousand euros (1,481 thousand euros as at 31 December 2018). The provision for doubtful debt has been calculated on the basis of the estimated expected loss throughout the life of the receivable, from when it is first booked and during subsequent valuations. The estimate is mainly prepared by determining the average expected inability to collect, based on historic indicators. For some categories of receivables, characterised by specific risk elements, specific valuations are instead prepared on the individual positions.

Below are period changes to the provision for doubtful debt:

	Figures in thousands of euros
Balance as at 31 December 2018	**1,481**
Provisions made	194
Uses	(389)
Balance as at 31 December 2019	**1,286**

22. Current financial assets

Current financial assets amount to 115 thousand euros (82 thousand euros as at 31 December 2018).

23. Tax credits

Tax credits come to 3,663 thousand euros (2,431 thousand as at 31 December 2018) and are detailed as follows:

	Figures in thousands of euros	
	31 Dec. 2019	**31 Dec. 2018**
Tax credit pursuant to DL.145/2013	1,624	1,252
VAT credit	591	14
Withholdings on account	19	76
Current tax credits	1,295	1,081
Other tax credits	134	8
Total tax credits	**3,663**	**2,431**

The tax credit for 1,624 thousand euros is for the receivable accrued in connection with subsidised finance projects for investments made in 2019 in research and development, pursuant to Decree Law no. 145/2013.

24. Other current assets

Other current assets of 5,153 thousand euros (4,304 thousand euros as at 31 December 2018) are detailed as follows:

	Figures in thousands of euros	
	31 Dec. 2019	**31 Dec. 2018**
Public financing	4,019	3,690
Deferred expenses	941	463
Other receivables	193	151
TOTAL	**5,153**	**4,304**

25. Liquid funds

The balance of liquid funds of 9,581 thousand euros (10,098 thousand euros as at 31 December 2018) is detailed hereto:

Figures in thousands of euros		
	31 Dec. 2019	**31 Dec. 2018**
Bank deposits	9,572	10,087
Cash and equivalents	9	11
TOTAL	**9,581**	**10,098**

Generation and use of liquid funds for the year is analysed in the statement of cash flows.

Liabilities and shareholders' equity

Non-current liabilities

26. Shareholders' equity

Changes in and a breakdown of shareholders' equity for FYs 2018 and 2019 are given in the changes to the shareholders' equity accounts, to which you are referred.

Share capital

The Parent Company's share capital comes to 588 thousand euros (574 thousand euros as at 31 December 2018) and is fully paid-up.
The increase of 14 thousand euros relates to the exercise of the stock options pertaining to the 2016-2019 plan, by some employees and directors of Group companies.
The share capital as at 31 December 2019 is therefore represented by 5,609,610 shares, as compared with the 5,472,330 shares as at 31 December 2018. Please note that on 16 November 2017, the shareholders' meeting had resolved to split existing shares, in the amount of ten new shares for each pre-existing share, and to eliminate the shares' nominal value.

Treasury shares

The negative treasury share reserve totalled 912 thousand euros (331 thousand euros at 31 December 2018). The period change is due to the period purchase of treasury shares for 581 thousand euros, equal to 52,536 treasury shares.
As at 31 December 2019, the Company portfolio held 82,536 treasury shares, accounting for 1.47 % of the share capital.

Legal reserve

The legal reserve comes to 203 thousand euros (104 thousand euros as at 31 December 2018); it was increased in accordance with the shareholders' meeting resolution passed on 07 May 2019.

Other reserves

Other reserves come to 29,927 thousand euros (28,714 thousand euros as at 31 December 2018), as follows:

- share premium reserve for 30,966 thousand euros (28,731 thousand euros as at 31 December 2018);
- stock option reserve of 429 thousand euros (986 thousand euros as at 31 December 2018);
- negative FTA reserve for 147 thousand euros (196 thousand euros as at 31 December 2018);
- other negative reserves for 1,164 thousand euros (negative for 1,175 thousand euros as at 31 December 2018) in relation to the put option payable of the companies established in 2017;
- profit (loss) entered as equity for a negative value of 161 thousand euros (negative for 24 thousand euros as at 31 December 2018); the item relates to the reserve for discounting

severance indemnity, envisaged by the application of IAS 19.

The change in the share premium reserve is mainly due to the exercise of the stock options pertaining to the 2016-2019 plan, by some employees and directors of Group companies.

In view of the exercise of this stock option plan, the Group has issued 137,280 shares, with an impact on shareholders' equity in the amount of 969 thousand euros, of which 14 thousand euros intended to increase share capital and 955 thousand euros allocated to the share premium reserve. The stock option reserve has also been reduced by 938 thousand euros and the FTA reserve by 342 thousand euros, with a consequent increase of 1,280 thousand euros in the share premium reserve.

The change in the stock option reserve therefore incorporates this decrease of 938 thousand euros and the increase of 382 thousand euros, equal to the cost of the 2019 exercise of stock option plans in place.

Profits carried forward

Profits carried forward comes to 2,057 thousand euros (2,325 thousand euros as at 31 December 2018); the period change is due to:

- 3,148 thousand euros, the increase relative to the allocation of profits from the previous year, in accordance with the resolution passed by the shareholders' meeting of the Parent Company on 07 May 2019;
- 1,002 thousand euros, the reduction relating to the dividends resolved in the favour of minority shareholders;
- 2,414 thousand euros, the reduction in relation to the change in fair value of the payables from put options.

27. Shareholders' equity pertaining to minorities

Shareholders' equity pertaining to minorities comes to 174 thousand euros (274 thousand euros as at 31 December 2018) and mainly refers to the portion pertaining to minority shareholders of the subsidiaries in the Balkans area.

28. Financial liabilities

Current and non-current financial liabilities come to 11,501 thousand euros (2,861 thousand euros as at 31 December 2018) and are broken down below according to due dates:

- 8,968 thousand euros (1,085 thousand euros as at 31 December 2018) refer to non-current financial liabilities;
- 2,533 thousand euros (1,776 thousand euros as at 31 December 2018) refer to current financial liabilities.

Please note that there are financial liabilities due beyond 5 years, for the amount of 141 thousand euros.

The period increase relates to new loans disbursed during the year and, in particular:

- the medium/long-term loan stipulated on 28 June 2019 with Mediocredito Italiano for an amount of 7,000 thousand euros. Repayment is on a straight-line basis once every six months, starting 31 December 2020 with each instalment being for 875 thousand euros. The interest rate applied is the Euribor six months, increased by a spread of 1.5 points. At disbursement, an up-front fee was withheld of 35 thousand euros. The contract envisages respect of two financial covenants, specifically: (i) leverage ratio, i.e. net financial position/EBITDA, to be calculated annually starting 31 December 2020; and (ii) the ratio of net financial position and shareholder's equity, to be calculated annually starting 31 December 2019; as at 31 December 2019, this parameter was respected;

- the loan obtained from Banca IntesaSanPaolo on 30 September 2019, in support of research and development activities for 1,000 thousand euros;
- an additional loan obtained, again from Banca IntesaSanPaolo, for an amount of 1,000 thousand euros with a term of 30 months, with repayment in five six-monthly instalments of equal amount, the first falling due on 31/03/2020;
- the medium-term loan stipulated with Banco BPM to facilitate the Group's financial management, for an amount of 1,000 thousand euros and with a term of 42 months, plus 9 months pre-amortisation, with repayment in quarterly instalments ending on 29 December 2023;
- three long-term loans correlated to subsidised finance projects, obtained from Mediocredito Centrale at special rates and conditions.

Financial liabilities are illustrated below:

- 6,954 thousand euros relative to the medium/long-term bank loan with Mediocredito Italiano, as described above;
- 1,001 thousand euros refer to the Intesa loan for research and development;
- 996 thousand euros refer to the additional Intesa loan;
- 995 thousand euros refer to the above-specified BPM loan;
- 624 thousand euros (1,122 thousand euros as at 31 December 2018) refer to the medium/long-term bank loan with Banca Intesa Sanpaolo S.p.A., stipulated by the Parent Company in 2016 to purchase the subsidiary Bizup S.r.l. Repayment is on a straight-line basis once a quarter, starting 30 June 2017 with each instalment being for 125 thousand euros. The interest rate applied is the Euribor three months, increased by a spread of 1.5 points;
- 235 thousand euros (635 thousand euros as at 31 December 2018) refer to the medium/long-term bank loan stipulated in July 2017 with Credito Emiliano S.p.A. and deriving from the merger by incorporation of Alkemy Tech S.r.l. The 36-month loan has a fixed interest rate of 0.7% and repayment in equal monthly instalments starting February 2018;
- 112 thousand euros (279 thousand euros as at 31 December 2018) refer to the medium/long-term bank loan with Credito Emiliano S.p.A., stipulated by the Company in August 2017. The 36-month loan has a fixed interest rate of 0.7% and repayment in equal monthly instalments starting September 2017;
- 288 thousand euros refer to the three loans from Mediocredito Centrale correlated to subsidised finance projects;

- 119 thousand euros refer to the medium/long-term bank loan issued to the Spanish Ontwice Group by Banca Santander;
- 112 thousand euros (116 thousand euros as at 31 December 2018) refer to payables due to other lenders in the medium/long-term, issued to the Spanish Ontwice Group by the Ministry for the Economy;
- 41 thousand euros refer to the short-term bank loans given to Alkemy SEE;
- 25 thousand euros refer to payables to other lenders; more specifically, they are shareholder loans and refer to the subsidiary Alkemy SEE for 3 thousand euros, to Kreativa for 17 thousand euros and to Digital Hub for 5 thousand euros.

At 31 December 2018, the item also included 240 thousand euros for the advance on receivables transferred to the factoring company Credem Factor S.p.A. to cover temporary working capital needs.

29. Net financial position

In accordance with the requirements laid down by CONSOB communication of 28 July 2006 and in compliance with the ESMA update in regard to the "Recommendations for the standardised implementation of the European Commission Regulation on information prospectuses", below is the Group's Net financial position as at 31 December 2019:

			Figures in thousands of euros
		As at 31 December 2019	As at 31 December 2018
A	Cash	9	11
B	Other liquid funds	9,572	10,087
C	Securities held for trading	-	-
D	Liquid funds (A+B+C)	9,581	10,098
E	Current financial receivables	82	82
F	Current bank payables	41	380
G	Current portion of non-current debt	2,458	1,067
H	Other current financial payables	3,248	7,723
I	**Current financial debt (F+G+H)**	**5,747**	**9,170**
	Of which secured	-	-
	Of which unsecured	5,747	9,170
J	**Net current financial debt (I-E-D)**	**(3,916)**	**(1,010)**
K	Non-current bank payables	8,864	970
L	Bonds issued	-	-
M	Other non-current financial payables	14,179	10,674
N	**Non-current financial debt (K+L+M)**	**23,043**	**11,644**
	Of which secured	-	-
	Of which unsecured	23,043	11,644
O	**Net Financial Debt (J+N)**	**19,127**	**10,634**

30. Financial liabilities from right of use

The adoption of the new standard IFRS 16 entailed the booking of current and non-current financial liabilities from right of use for 3,947 thousand euros, below divided up according to due date:

- 3,103 thousand euros refers to non-current financial liabilities;
- 844 thousand euros refers to current financial liabilities.

Please note that there are financial liabilities due beyond 5 years, for the amount of 608 thousand euros.

31. Put option payables

The payables entered as due to minority shareholders in the short and medium-term total 13,342 thousand euros (17,952 thousand euros as at 31 December 2018) and refer to the commitment relating to the acquisition of the residual portion of the equity investment in the subsidiaries Nunatac, Ontwice, Alkemy Play, Alkemy Iberia and Kreativa New Formula, comprising a contractual structure of put and call options between the Company and the minority shareholders. As is frequently the case in purchases of controlling packages, the contractual agreements in fact include a put option in the favour of the remaining minorities and a call option in the favour of Alkemy. Payables due to minority shareholders have been booked with an equivalent entry in goodwill in the case of companies acquired, whereas for companies established with the minority shareholders, the payable from the put option has been noted as a reduction of shareholders' equity. In accordance with the provisions of IAS 32, the assignment of a put option in fact requires the initial booking of a liability corresponding to the estimated redemption value, expected when the option is exercised, discounted at a factor calculated on the basis of the risk-free rate and credit spread of Alkemy and for which the fair value as at 31 December 2019 was determined in consideration of the new redemption values expected at the time the option is exercised.

The put options whose exercise is contractually envisaged by 31 December 2020, are classified as current financial liabilities; in particular, they refer 20% to the capital of Ontwice Interactive Service S.L., exercise of which is envisaged for September 2020, and the last tranche of Bizup of 90 thousand euros, payment of which was made in January 2020.

The remaining payables from put options are contractually able to be exercised after 31 December 2020.

The decrease of 4,610 thousand euros is due to:

- 7,794 thousand euros, the exercise of the put&call options of Bizup (5,769 thousand euros) and Ontwice (2,025 thousand euros), as extensively described in the Report on Operations, which provides greater detail;
- 2,417 thousand euros, the change in fair value brought about by the entry of a new put&call option over Alkemy Iberia shares for 1,944 thousand euros, as well as the spot redetermination of the strike price of all put options, on the basis of the company's new EBITDA values; this change was noted as a reduction of shareholders' equity;
- and 766 thousand euros, interest on the simple passing of time (unwinding of the discounting of the strike price).

32. Employee benefits

Employee benefits come to 4,356 thousand euros (3,647 thousand euros as at 31 December 2018) and refer to severance indemnity to employees on the workforce and severance indemnity for directors of the subsidiary Nunatac.

The change during the financial year was instead as follows:

	Figures in thousands of euros
Balance as at 31 December 2018	**3,647**
Provisions made	1,141
Actuarial (gains)/losses	206
Period uses	(639)
Balance as at 31 December 2019	**4,356**

In accordance with IAS 19, this provision is booked as a defined benefits plan and valued using the projected unit credit method, in accordance with the following actuarial hypotheses:

Actuarial hypotheses	**31 Dec. 2019**	**31 Dec. 2018**
Discounting rate	0.77%	1.57%
Salary increase rate	2.00%	2.50%
Increase in the cost of living	1.00%	1.50%

As part of the measurement of severance indemnity in compliance with IAS 19 criteria, in regard to the discounting rate, reference was made to the iBoxx Eurozone Corporates AA 10+ index, as at the measurement date.

33. Provisions for risks and charges

The provision for risks and charges comes to 44 thousand euros (25 thousand euros at 31 December 2018).

34. Deferred tax liabilities

Deferred tax liabilities come to 17 thousand euros (zero as at 31 December 2018).

Current liabilities

35. Trade payables

Trade payables come to 17,142 thousand euros (18,303 thousand euros as at 31 December 2018).

Below is a breakdown of trade payables by geographic area

		Figures in thousands of euros
	31 Dec. 2019	**31 Dec. 2018**
Payables to Italy	10,497	9,874
Payables to the EU	3,652	5,338
Non-EU payables	2,993	3,091
Total trade payables	**17,142**	**18,303**

36. Tax payables

Tax payables come to 1,617 thousand euros (1,268 thousand euros as at 31 December 2018).
It includes liabilities for tax that is both certain and quantified, in relation to VAT, income tax and payables in connection with withholdings applied at source, as tax substitute; the breakdown is as follows:

		Figures in thousands of euros
	31 Dec. 2019	**31 Dec. 2018**
Current tax payables	27	25
Withholding payables	625	535
VAT payables	719	621
Other tax payables	246	87
Total tax payables	**1,617**	**1,268**

Please note that together with the subsidiaries Bizup S.r.l., Nunatac S.r.l. and Alkemy Play S.r.l., the Company has opted for the national tax consolidation scheme.

37. Other liabilities

Other current liabilities come to 8,112 thousand euros (7,552 thousand euros as at 31 December 2018), detailed as follows:

		Figures in thousands of euros
	31 Dec. 2019	**31 Dec. 2018**
Payables due to welfare and social security institutions	1,531	1,396
Payables due to staff	3,555	3,161
Accrued liabilities and deferred income	2,587	2,168
Other payables	439	827
Total non-current financial liabilities	**8,112**	**7,552**

Payables due to staff include those due to employees, directors and collaborators; the item includes salaries for the month of December and accruals for FY 2019 not yet paid, in relation to bonuses, holidays, permits and 14th month salaries.

Accrued liabilities and deferred income represent the connecting items for the period reckoned on an accruals basis. As at 31 December 2019, there were no accruals or deferrals with a residual term of more than five years.

38. Guarantees given and other commitments

Guarantees given

The following guarantees were in place as at 31 December 2019:

- two sureties that the Parent Company has granted in regard to Intesa Sanpaolo S.p.A. to guarantee the obligations of Bizup s.r.l. in regard to said bank: 286 thousand euros to guarantee all types of bank transactions and 100 thousand euros to guarantee short-term facilities;
- three insurance bonds of the Parent Company issued in the favour of two customers, to guarantee the correct fulfilment, by the Company, of its contractual obligations for 400 thousand euros.

39. Related party transactions

Related party transactions are part of the company’s routine business and were settled at arm’s length. No atypical or unusual transactions were noted.

The related economic and equity effects have been derecognised during the consolidation process.

Please, therefore, refer to Note 38 of the Separate financial statements for details of the commercial and financial transactions implemented by and between the Parent Company and its subsidiaries during FY 2019.

As permitted by Articles 117 to 128 of the Consolidated Law on Income Tax, the Parent Company has opted for the national tax consolidation regimen with the subsidiaries Bizup S.r.l., Nunatac S.r.l. and Alkemy Play S.r.l.

As regards related party transactions, please note that the Parent Company owes the related company Design Group Italia 522 thousand euros in trade relations and has a cost in its regard for 428 thousand euros.

Finally, starting 19 December 2018, more than 20% of the capital of the supplier Codermine S.r.l. is held by one of the directors of the Parent Company; there is an IT consultancy contract stipulated between the two companies, which, in 2019, gave rise to costs for 596 thousand euros (892 thousand euros), with a trade payable as at 31 December 2019 of 181 thousand euros (457 thousand euros at 31 December 2018).

Below are details of related party transactions:

				Figures in thousands of euros
	Receivables	**Payables**	**Revenues**	**Costs**
Design Group Italia S.r.l.	-	(522)	-	(428)
Codermine S.r.l.	-	(181)	-	(596)
O2E S.r.l.	-	(40)	6	(220)
Jakala Holding S.p.A.	12	(26)	20	-
Totals	**12**	**(769)**	**26**	**(1,244)**

Fees paid to directors, auditors and key management personnel

The fees recognised in 2019 to the Parent Company's Board of Directors totalled 1,045 thousand euros (1,326 thousand euros in 2018), whilst those due to the Board of Auditors came to 77 thousand euros (36 thousand euros in 2018). The amount of fees due to the Board of Directors also includes the remuneration due to the Chief Executive Officer for holding the role of key manager.

The fees due to the other four key managers in force as at 31 December 2019 came, in 2019, to 676 thousand euros (970 thousand euros including contributions) as compared with 469 thousand euros in 2018 (693 thousand euros including contributions).

Finally, please note that in 2019, two key managers ceased office, whose corporate cost was 408 thousand euros, including non-recurring additional expenses of 108 thousand euros.

40. Potential liabilities and main disputes

The Group does not have any significant potential liabilities for which information has not been given in this report and which are not covered by suitable provisions.

In 2014, the Parent Company was served an amicable notice by the Revenue Agency relative to the 2011 tax period, on the offsetting of a receivable for investment in research and development for 21 thousand euros. The Parent Company has broken the amount demanded down into instalments and is duly making payment thereof. At the same time, Alkemy S.p.A. has submitted a supplementary declaration for the tax period under review, along with a request for the refund of the amount paid to date, as it believes that the receivable in question is, indeed, due.

In 2018, the Parent Company was notified a writ of summons by a customer, with a demand for compensation for damages. Following the first hearing held on 09 May 2019, the Court asked the parties to seek an amicable settlement to the dispute; the opposing party refused this, however, and has pursued proceedings. On 30 October 2019, the Court rejected the opposing party's additional demands, scheduling the hearing for the conclusions for this coming 11 November. The Company's lawyers believe that the risk of losing these proceedings is remote.

41. Subsequent events

After the closure of FY 2019, the following significant events took place, worthy of mention, in the first quarter of 2020.

In February, in response to the continuous evolutions of the market on which the Company operates and to anticipate the needs of its customers, having laid the basis, in 2019, Alkemy modified its mission from "digital enabling" to "enabling evolution". In other words, the Company is now focussed in enabling the evolution of its customers' business, with a new offer for a post-digital scenario, designed to stimulate the relevant progress and update, innovation, growth and profitability. This different positioning entailed, on an organisational level, on the one hand, a different breakdown of operating activities with the identification of four business units, respectively termed "consulting & performance", "brand experience", "tech" and "data & analytics"; on the other, four new departments have been defined: "M&A, IR & corporate development", "corporate communication", "people & culture" and "marketing & sales operations". This latter department, in particular, is dedicated to both the continuous update of the commercial range offered and the coordination of the business on top clients, on which the Group has decided to focus its activities.

As a consequence of the foregoing, in regard to the e-commerce area, the decision has been made to concentrate the commercial offer on consultancy, services and operative support, which offer higher added value, instead progressively abandoning the management of on-line shops on behalf of customers and the related physical management of products; this is set to end during the first half of 2020. Following the foregoing, it is also pointed out that Alkemy USA Inc., an inactive legal entity with no employees, which had offered its support to the e-commerce business overseas only starting from the last four months of 2019, was liquidated early January 2020.

It is recalled that on 15 November 2019, in view of the favourable opinion given by the Remuneration Committee, the Related Party Transactions Committee and the Board of Auditors, the Company's Board of Directors approved a plan for the free assignment of ordinary shares in Alkemy spa (the "2020-2023 Long-Term Incentive Plan", hereinafter the "Plan"), in the favour of the 3 strategic managers and the Company's chairman and chief executive officer, in accordance with the terms and conditions set out in the specific regulation. Last 8 January, the Company's Board of Directors acknowledged the success of the listing process of Alkemy spa Shares on the STAR segment of the telematic stock market (MTA) and ordered that the Chairman or the Chief Executive Officer would execute the Plan, sending the beneficiaries the relevant letters of assignment and determining the basic number of shares in the favour of each. The choice of activating this Plan, which comes as part of the company's remuneration policy, aims to gain the long-term loyalty of its key persons, rewarding them on the basis of the results achieved in line with the growth and development process envisaged by the company's directors. For details and a more in-depth analysis of the Plan, see page 213 of the MTA STAR Information Prospectus and the Annual Report on Remuneration, both of which are available on the company's website www.Alkemy,com, in the Corporate Governance section.

As regards the emergency caused by the spread of Covid-19, now known about since January 2020, the national and international scenario has been impacted by the spread of the virus and the related restrictive measured aimed at limiting it, implemented by the government authorities of the countries concerned. Additionally, starting from the second half of February 2020, the spread of the virus has struck and continues to strike significantly, due to the speed at which it is spreading and the number of cases reported, Italy and in particular the region of Lombardy, where much of the Group's business is carried out. In line with the containment measures adopted and being adopted by the Italian government, the Group promptly took all appropriate measures to limit the risks and protect the health of its staff, through the progressive implementation of smart working - now fully operative in all Italian, European and non-European offices, despite continuing to fully go about their duties and supply the services to its customers.

The current medical emergency is also having direct and indirect repercussions on the general performance of the national and international economy, on consumer trends and investments, which are not yet entirely able to be forecast. The Group is constantly monitoring the evolution of the situation in order to minimise the risk and impacts, both in terms of health and safety at work and in economic-financial terms, taking timely corrective action (like, for example, that described above), which have allowed, and continue to allow, for relations to be kept on track constantly with customers.

Milan, 24 March 2020

for the Board of Directors

Chief Executive Officer

Duccio Vitali

Alkemy Group

Information in accordance with Art. 149-duodecies of the CONSOB Issuers' Regulation

The table below, prepared in accordance with Art. 149-*duodecies* of the CONSOB Issuers' Regulation, shows the fees for FY 2019 for auditing and other non-auditing services provided by the independent auditing firm appointed or by entities belonging and not belonging to its network.

Figures in thousands of euros

Service provider	Beneficiary	Notes	Fees for FY 2019
Auditing and certification services			
KPMG S.p.A.	Parent company - Alkemy spa	**[1] - [2]**	75
KPMG S.p.A.	Subsidiaries		60
Deloitte & Touche S.p.A.	Parent company - Alkemy spa	**[1] - [3]**	42
Other services			
KPMG S.p.A.	Parent company - Alkemy spa	**[1] - [4]**	385
Deloitte & Touche S.p.A.	Parent company - Alkemy spa	**[1] - [5]**	37
Total			**599**

[1] See prospectus attached to the financial statements of Alkemy Spa

[2] Includes the signing of Income, IRAP and 770 forms and certification of tax credit.

[3] Refers to the auditing of the non-financial statement prepared in accordance with Italian Legislative Decree no. 254/16

[4] Includes non-recurring costs incurred for translisting to the STAR segment of the MTA

[5] Methodological support for adjustment to the regulations laid down by 262/2005

Annex 1

THE ALKEMY GROUP COMPANIES AS AT 31 DECEMBER 2019

Below is a list of companies and significant equity investments of the Group with the indications required by Consob communication no. 6064293 of 28 July 2006.

The list indicates the companies divided up by type of control and consolidation method.

For each company, moreover, the following information is given: business name, registered office and share capital. The percentage share held by Alkemy or by other subsidiaries is also shown.

Figures expressed in thousands

Business name	Registered office	Currency	Share capital (in local currency)	Held by	Percentage of control
Parent company					
Alkemy Spa	Milan	Euro	588		
Subsidiaries consolidated on a line-by-line basis:					
Nunatac S.r.l.	Milan	Euro	50	Alkemy Spa	70
Bizup S.r.l.	Rome	Euro	85	Alkemy Spa	100
Alkemy Play S.r.l.	Milan	Euro	10	Alkemy Spa	51
Ontwice Interactive Service S.L.	Madrid	Euro	9	Alkemy Spa	64
Alkemy Iberia S.L.	Madrid	Euro	10	Alkemy Spa	65
Alkemy SEE D.o.o.	Belgrade	Serbian dinar	48,402	Alkemy Spa	70
Alkemy USA Inc.	New York	USD	520	Alkemy Spa	100
Ontwice Interactive Service S.A. Mexico City	Mexico City	Mexican peso	100	Ontwice Interactive Service S.L.	100
Ontwice Interactive Service Digital S.A. Mexico City	Mexico City	Mexican peso	50	Ontwice Interactive Service S.L.	100
Alkemy Digital Hub D.o.o.	Belgrade	Serbian dinar	120	Alkemy SEE D.o.o.	36
Kreativa New Formula D.o.o.	Belgrade	Serbian dinar	601	Alkemy SEE D.o.o.	36
Alkemy Play D.o.o.	Belgrade	Serbian dinar	-	Alkemy SEE D.o.o.	51
Related companies measured using the equity method					
Design Group Italia srl	Milan	Euro	119	Alkemy Spa	20

Annex 2

CONSOLIDATED INCOME STATEMENT PREPARED IN ACCORDANCE WITH
CONSOB RESOLUTION NO. 15519 OF 27 JULY 2006

In compliance with the provisions pursuant to Consob resolution 15519 of 27 July 2006 and Consob communication no. DEM/6064293 of 28 July 2006, below is the Consolidated Income Statement with separate indication of related party transactions.

Figures in thousands of euros

	31 Dec. 2019	**of which with related parties**	**31 Dec. 2018**	**of which with related parties**
Revenues from sales and services	81,284	20	67,035	
Other revenue and income	3,236		4,594	
Total operating revenue and income	**84,520**	**20**	**71,629**	**-**
Costs for services , goods and other operating costs	(51,404)	(1,024)	(42,859)	(892)
- of which non-recurring	(1,192)	0	0	
Payroll costs	(29,635)	(2,423)	(22,570)	(2,350)
- of which non-recurring	(357)	(108)	0	
Total costs and other operating expenses	**(81,039)**	**(3,447)**	**(65,429)**	**(3,242)**
Gross operating profit	**3,481**	**(3,427)**	**6,200**	**(3,242)**
Amortisation/depreciation	(1,738)		(776)	
Provisions and impairment	(336)		(590)	
EBIT	**1,407**	**(3,427)**	**4,834**	**(3,242)**
Income from (expense on) equity investments	33		0	
Financial income	380		236	
Financial expense	(1,574)		(796)	
Pre-tax profit (loss)	**246**	**(3,427)**	**4,274**	**(3,242)**
Income taxes	(486)		(879)	
Profit (loss) for the year	**(240)**	**(3,427)**	**3,395**	**(3,242)**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION PREPARED IN ACCORDANCE WITH

CONSOB RESOLUTION NO. 15519 OF 27 JULY 2006

In compliance with the provisions pursuant to Consob resolution 15519 of 27 July 2006 and Consob communication no. DEM/6064293 of 28 July 2006, below is the Consolidated Statement of Financial Position with separate indication of related party transactions.

Figures in thousands of euros

Assets	**31 Dec. 2019**	**of which with related parties**	**31 Dec. 2018**	**of which with related parties**
Non-current assets				
Tangible fixed assets	980		1,064	
Right of use	3,907		0	
Goodwill	31,752		31,748	
Intangible assets with finite useful life	971		1,444	
Equity investments	1,078		7	
Non-current financial assets	1,555		1,328	
Prepaid tax assets	1,203		977	
Other non-current receivables and assets	165		149	
Total non-current assets	**41,611**	**-**	**36,717**	**-**
Current assets				
Inventories	61		251	
Trade receivables	31,791	12	32,632	
Current financial assets	115		82	
Tax credits	3,663		2,431	
Other current assets	5,153		4,304	
Liquid funds	9,581		10,098	
Total current assets	**50,364**	**12**	**49,798**	**-**
Total assets	**91,975**	**12**	**86,515**	**-**

Figures in thousands of euros

Liabilities and Shareholders' Equity	31 Dec. 2019	of which with related parties	31 Dec. 2018	of which with related parties
Shareholders' equity				
Share capital	588		574	
Reserves	31,274		30,811	
Profit (loss) for the year	(139)		3,248	
Group shareholders' equity	**31,723**	**-**	**34,633**	**-**
Shareholders' equity pertaining to minorities	174		**274**	
Total net equity	**31,897**	**-**	**34,907**	**-**
Non-current liabilities				
Financial liabilities	8,968		1,085	
Financial liabilities from right of use	3,103		0	
Payables from put options	10,973		10,558	
Employee benefits	4,356		3,647	
Provisions for risks and charges	44		25	
Deferred tax liabilities	17		0	
Total non-current liabilities	**27,461**	**-**	**15,315**	**-**
Current liabilities				
Financial liabilities	2,533		1,776	
Financial liabilities from right of use	844		0	
Payables from put options	2,369		7,394	
Trade payables	17,142	769	18,303	457
Tax payables	1,617		1,268	
Other liabilities	8,112		7,552	
Total current liabilities	**32,617**	**769**	**36,293**	**457**
Total liabilities	**60,078**	**769**	**51,608**	**457**
Total liabilities and shareholders' equity	**91,975**	**769**	**86,515**	**457**

ATTESTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS IN ACCORDANCE WITH ART. 81-*TER* OF THE CONSOB REGULATION 11971 OF 14 MAY 1999 AS SUBSEQUENTLY AMENDED AND INTEGRATED

1. We the undersigned, Duccio Vitali, Chief Executive Officer and Claudio Benasso, the manager appointed to prepare the company's accounting documents of Alkemy S.p.A., having also taken into account the provisions of Art. 154-bis, paragraphs 3 and 4, of the Italian Legislative Decree no. 58 dated 24 February 1998, hereby certify:
    - the adequacy, considering the company's characteristics, and
    - the effective application

    of the administrative and accounting procedures for the preparation of the consolidated financial statements, during FY 2019.

2. It is also attested that the consolidated financial statements:
    - are consistent with the underlying books and accounting records;
    - have been prepared in accordance with the Accounting Standards recognised by the European Community pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and the Council of 19 July 2002;
    - provide a true and correct representation of the financial position of the issuer and the group of companies included in the scope of consolidation.

3. Finally, it is certified that the Report on Operations contains a reliable analysis of the business outlook and management result, the financial position of the Company and group of companies included in the scope of consolidation and a description of the main risks and uncertainties to which they are exposed.

Milan, 24 March 2020

Chief Executive Officer

Manager appointed to prepare the company's accounting documents

Duccio Vitali

Claudio Benasso

KPMG S.p.A.
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(Translation from the Italian original which remains the definitive version)

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537 of 16 April 2014

To the shareholders of
Alkemy S.p.A.

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of the Alkemy Group (the "group"), which comprise the statement of financial position as at 31 December 2019, the income statement and the statements of comprehensive income, cash flows and changes in equity for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Alkemy Group as at 31 December 2019 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "*Auditors' responsibilities for the audit of the consolidated financial statements*" section of our report. We are independent of Alkemy S.p.A. (the "parent") in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. 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 judgement, were of most significance in the audit of the consolidated financial statements of the current year. 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.

Recoverability of the carrying amount of goodwill

Notes to the consolidated financial statements: note "Accounting policies - Intangible assets - Goodwill", "Accounting policies - Intangible assets - Impairment" and note 14 "Goodwill"

Key audit matter	**Audit procedures addressing the key audit matter**
The consolidated financial statements at 31 December 2019 include goodwill of €31,752 thousand. The parent's directors allocated goodwill to the cash-generating units ("CGUs") that they identified, namely, the Italy, Spain/Mexico and the Balkans CGUs. As in previous years, the parent's directors tested the reporting-date CGUs' carrying amount for impairment by comparing it to their recoverable amount. The directors estimated the recoverable amount based on value in use calculated using the discounted cash flow model. The model is very complex and entails the use of estimates which, by their very nature, are uncertain and subjective, about: — the expected cash flows, calculated by taking into account the general economic performance and that of the group's sector, the actual cash flows for recent years and the projected growth rates; — the financial parameters used to calculate the discount rate. For the above reasons, we believe that the recoverability of goodwill is a key audit matter.	Our audit procedures included: — updating our understanding of the process adopted to prepare the impairment test approved by the parent's board of directors; — understanding the process adopted to prepare the forecasts from which the expected cash flows used for impairment testing have been derived; — analysing the reasonableness of the key assumptions used by the parent's directors to prepare the forecasts; — checking any discrepancies between the previous year business plans' forecast and actual figures, in order to check the accuracy of the estimation process adopted; — comparing the expected cash flows used for impairment testing to the forecasts and analysing the reasonableness of any discrepancies; — involving experts of the KPMG network in the assessment of the reasonableness of the impairment test and related assumptions, including by means of a comparison with external data and information; — checking the sensitivity analysis presented in the notes in relation to the key assumptions used for impairment testing; — assessing the appropriateness of the disclosures provided in the notes about goodwill and related impairment tests.

Measurement of put option liabilities

Notes to the consolidated financial statements: note "Accounting policies - Financial instruments", "Accounting policies - Financial liabilities" and note 31 "Put option liabilities"

Key audit matter	Audit procedures addressing the key audit matter
The consolidated financial statements at 31 December 2019 include put option liabilities of €13,342 thousand, relating to contractual arrangements entitling the non-controlling investors in a number of investees to sell their equity investments to the group in the next few years. The put options' fair value is remeasured at each reporting date. The parent's directors measured the fair value by discounting each investee's expected cash flows. The model is very complex and entails the use of estimates which, by their very nature, are uncertain and subjective, about: — the investees' expected cash flows, calculated by taking into account the general economic performance and that of their sector, the actual cash flows for recent years and the projected growth rates; — the financial parameters used to calculate the discount rate; — other variables governed by the individual purchase agreements. For the above reasons, we believe that the measurement of the put options is a key audit matter.	Our audit procedures included: — updating our understanding of the process adopted to measure the put options' fair value; — analysing the purchase agreements signed with the non-controlling investors; — analysing the reasonableness of the assumptions used by the parent's directors to prepare the acquired businesses' forecasts; — checking any discrepancies between the investees' previous year business plans' forecast and actual figures, in order to check the accuracy of the estimation process adopted; — comparing the expected cash flows used for measuring fair value to the forecasts and analysing the reasonableness of any discrepancies; — involving experts of the KPMG network in the assessment of the reasonableness of the fair value measurement model and related assumptions, including by means of a comparison with external data and information; — assessing the appropriateness of the disclosures provided in the notes about the measurement of put options.

Responsibilities of the parent's directors and board of statutory auditors ("Collegio Sindacale") for the consolidated financial statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and, within the terms established by the Italian 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 for the appropriate use of the going concern basis in the preparation of the consolidated financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the parent or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, the group's financial reporting process.

Auditors' 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 auditors' 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 ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain 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;
- obtain 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;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude 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 auditors' report to the related disclosures in the consolidated 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 auditors' report. However, future events or conditions may cause the group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

— obtain 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.

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

We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate 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 determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are, therefore, the key audit matters. We describe these matters in our auditors' report.

Other information required by article 10 of Regulation (EU) no. 537/14

On 25 June 2019, the parent's shareholders appointed us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ending from 31 December 2019 to 31 December 2027.

We declare that we did not provide the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 and that we remained independent of the parent in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed herein is consistent with the additional report to the _Collegio Sindacale_, in its capacity as audit committee, prepared in accordance with article 11 of the Regulation mentioned above.

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10 and article 123-bis.4 of Legislative decree no. 58/98

The parent's directors are responsible for the preparation of the group's report on operation and report on corporate governance and ownership structure at 31 December 2019 and for the consistency of such reports with the related consolidated financial statements and their compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the report on operations and the specific information presented in the report on corporate governance and ownership structure indicated by article 123-bis.4 of Legislative decree no. 58/98 with the group's consolidated financial statements at 31 December 2019 and their compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the report on operations and the specific information presented in the report on corporate governance and ownership structure referred to above are consistent with the group's consolidated financial statements at 31 December 2019 and have been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Statement pursuant to article 4 of the Consob regulation implementing Legislative decree no. 254/16

The directors of Alkemy S.p.A. are responsible for the preparation of a consolidated non-financial statement pursuant to Legislative decree no. 254/16. We have checked that the directors had approved such consolidated non-financial statement. In accordance with article 3.10 of Legislative decree no. 254/16, other auditors attested the compliance of the non-financial statement separately.

Milan, 30 March 2020

KPMG S.p.A.

(signed on the original)

Luigi Garavaglia
Director of Audit

Alkemy S.p.A.

Financial statements

at 31 December 2019

Financial statements

Income statement (*)

	Notes	31 Dec. 2019 (**)	31 Dec. 2018
		Figures expressed in euros	
Revenues from sales and services	1	36,728,689	41,124,967
Other revenue and income	2	2,807,272	3,819,365
Total operating revenue and income		**39,535,961**	**44,944,332**
Costs for services , goods and other operating costs	3	(25,802,313)	(27,820,826)
- of which non-recurring		(1,192,349)	0
Payroll costs	4	(16,054,337)	(14,588,215)
- of which non-recurring		(222,283)	0
Total costs and other operating expenses		**(41,856,650)**	**(42,409,041)**
Gross operating profit		**(2,320,689)**	**2,535,291**
Amortisation/depreciation	5	(1,167,525)	(506,323)
Provisions and impairment	6	(251,286)	(506,739)
EBIT		**(3,739,500)**	**1,522,229**
Income from (expense on) equity investments	7	1,469,632	353,400
Income from (expense on) options	8	1,742,424	(112,773)
Other financial income	9	27,740	78,818
Other financial expense	10	(217,239)	(100,072)
Pre-tax profit (loss)		**(716,943)**	**1,741,602**
Income taxes	11	840,749	231,066
Profit (loss) for the year		**123,806**	**1,972,668**
Earnings (loss) per share	12		
Base		0.02	0.36
Diluted		0.02	0.36

(*) In accordance with CONSOB Resolution no. 15519 of 27 July 2006, the effects of related party transactions on the Income Statement are highlighted in the specific table of the Income Statement given in annex 1 and are also described in Note 38.

(**) the effects deriving from the application of standard IFRS 16 are explained in the paragraph "IFRS 16 Leases" - impacts deriving from first-time adoption".

Comprehensive income statement

			Figures expressed in euros
	Notes	**31 Dec. 2019**	**31 Dec. 2018**
Profit/(loss) for the financial year		**123,806**	**1,972,668**
Components that will not be reversed to the income statement:			
Actuarial gains/(losses) on defined benefits pension plans		(161,260)	19,782
Relative tax effect		38,702	(4,631)
Components that will not be reversed to the income statement	27	**(122,558)**	**15,151**
Total other profit/(loss) net of the tax effect		**(122,558)**	**15,151**
Total comprehensive profit/(loss)		**1,248**	**1,987,819**

Statement of financial position (*)

			Figures expressed in euros
	Notes	**31 Dec. 2019**	**31 Dec. 2018**
Assets			
Non-current assets			
Tangible fixed assets	13	715,100	805,705
Right of use	14	3,109,452	0
Goodwill	15	4,616,639	4,616,639
Intangible assets with finite useful life	16	538,503	492,800
Equity investments	17	22,627,294	13,626,675
Non-current financial assets	18	3,550,760	1,904,706
Prepaid tax assets	19	919,752	639,626
Other non-current receivables and assets	20	114,416	88,348
Total non-current assets		**36,191,916**	**22,174,499**
Current assets			
Inventories	21	57,611	201,719
Trade receivables	22	20,087,995	20,131,949
Current financial assets	23	0	4,197
Tax credits	24	2,232,107	2,165,503
Other current assets	25	5,901,738	3,896,911
Liquid funds	26	3,928,215	5,828,589
Total current assets		**32,207,666**	**32,228,868**
Total assets		**68,399,582**	**54,403,367**

(*) In accordance with CONSOB Resolution no. 15519 of 27 July 2006, the effects of related party transactions on the Statement of financial position are highlighted in the specific table of the Statement of financial position given in annex 1 and are also described in Note 38.

Statement of financial position (*)

			Figures expressed in euros
Liabilities and Shareholders' Equity	**Notes**	**31 Dec. 2019**	**31 Dec. 2018**
Shareholders' equity	27		
Share capital		587,589	573,861
Reserves		34,975,086	32,369,776
Profit (loss) for the year		123,806	1,972,668
Total net equity		**35,686,481**	**34,916,305**
Non-current liabilities			
Financial liabilities	28	8,821,481	968,878
Financial liabilities from right of use	30	2,552,751	0
Employee benefits	31	2,169,541	1,808,861
Provisions for risks and charges	32	80,353	25,000
Deferred tax liabilities	33	66,695	51,143
Total non-current liabilities		**13,690,821**	**2,853,882**
Current liabilities			
Financial liabilities	28	2,382,413	1,307,118
Financial liabilities from right of use	30	581,333	0
Trade payables	34	11,283,838	11,343,950
Tax payables	35	808,057	431,939
Other liabilities	36	3,966,639	3,550,173
Total current liabilities		**19,022,280**	**16,633,180**
Total liabilities and shareholders' equity		**68,399,582**	**54,403,367**

(*) In accordance with CONSOB Resolution no. 15519 of 27 July 2006, the effects of related party transactions on the Statement of financial position are highlighted in the specific table of the Statement of financial position given in annex 1 and are also described in Note 38.

Statement of Cash Flows

		Figures expressed in euros	
	Notes	**31 Dec. 2019**	**31 Dec. 2018**
Operating activities			
Profit (loss) for the year		123,806	1,972,668
Dividends and other income from (expense on) equity investments	7	(1,469,632)	(353,400)
Expense on (income from) options	8	(1,742,424)	112,773
Other financial income	9	(27,740)	(78,818)
Other financial expense	10	217,239	100,071
Income taxes	11	(840,749)	(231,066)
Amortisation/depreciation	5	1,167,525	506,323
Provisions and impairment	6	251,286	506,739
Cost for share-based payments	4	367,427	540,768
Decrease (increase) in inventories		32,502	32,466
Decrease (increase) in trade receivables		(95,726)	(2,297,740)
Increase (decrease) in trade payables		(60,112)	(1,117,454)
Decrease (increase) in other assets		(286,787)	(2,496,993)
Increase (decrease) in other liabilities		860,187	1,414,273
Net financial expenses		(145,736)	(18,555)
Income tax paid		(31,549)	(1,115,632)
Net cash flow from (used in) operating activities		**(1,680,483)**	**(2,523,576)**
Investments			
(Investments) divestments of tangible and intangible assets		(451,097)	(622,574)
(Investments in) divestments of equity investments		(8,830,570)	(11,213,862)
Decrease (increase) in financial assets		20,369	(593,644)
Dividends collected		387,544	353,400
Net cash flow generated/(absorbed) by investments		**(8,873,754)**	**(12,076,680)**
Financing			
Changes in liabilities towards financial institutes		8,913,567	(1,946,050)
Change in financial liabilities pursuant to IFRS 16		(646,894)	0
Change in treasury shares		(581,360)	(334,289)
Share capital increases		13,728	0
Other changes in shareholders' equity		954,822	379,500
Cash flow generated/(absorbed) by financing		**8. 653,863**	**(1,900,839)**
Period increase/(decrease) in net liquid funds		**(1,900,374)**	**(16,501,095)**
Opening net liquid funds		**5,828,589**	**19,857,080**
Net liquid funds acquired through mergers		**0**	**2,472,605**
Closing net liquid funds		**3,928,215**	**5,828,589**

Please note that the statement of cash flows was stated according to the indirect method.

Changes in shareholders' equity

							Figures expressed in euros
	Share capital	Treasury shares	Legal reserve	Other reserves	Profits carried forward	Profit (loss) for the year	Total
Balance as at 31 December 2017	**566,961**	**-**	**67,688**	**29,431,788**	**765,256**	**705,350**	**31,537,043**
Allocation of result	-	-	36,168	-	669,182	(705,350)	-
Purchase of treasury shares	-	(1,211,915)	-	-	-	-	(1,211,915)
Sale of treasury shares	-	881,268	-	(3,643)	-	-	877,625
Stock options	-	-	-	544,799	-	-	544,799
Stock options - exercise	6,900	-	-	372,600	-	-	379,500
Other movements	-	-	-	-	801,434	-	801,434
Other comprehensive profit (loss)	-	-	-	15,151	-	-	15,151
Profit for the year	-	-	-	-	-	1,972,668	1,972,668
Balance as at 31 December 2018	**573,861**	**(330,647)**	**103,856**	**30,360,695**	**2,235,872**	**1,972,668**	**34,916,305**

							Figures expressed in euros
	Share capital	Treasury shares	Legal reserve	Other reserves	Profits carried forward	Profit (loss) for the year	Total
Balance as at 31 December 2018	**573,861**	**(330,647)**	**103,856**	**30,360,695**	**2,235,872**	**1,972,668**	**34,916,305**
Allocation of result	-	-	98,633		1,874,035	(1,972,668)	-
Purchase of treasury shares	-	(581,360)	-	-	-	-	(581,360)
Stock options	-	-	-	381,738	-	-	381,738
Stock options - exercise	13,728	-	-	954,822	-	-	968,550
Other movements	-	-	-	-	-	-	0
Other comprehensive profit (loss)	-	-	-	(122,558)	-	-	(122,558)
Profit for the year	-	-	-	-	-	123,806	123,806
Balance as at 31 December 2019	**587,589**	**(912,007)**	**202,489**	**31,574,697**	**4,109,907**	**123,806**	**35,686,481**

Notes to the financial statements

General information

Alkemy S.p.A. (hereinafter the "Company", the "Parent Company" or "Alkemy") works to improve the market position and competitiveness of large and medium enterprises, innovating and transforming the business model to keep pace with the evolution of technology and new consumer conduct. The company integrates into its offer, competences in the areas of strategy, e-commerce, communication, performance, technology and data management, developing complete digital transformation projects that cover the whole of the value chain, from strategy to implementation.

The Company has its registered and administrative office at Via San Gregorio 34, Milan, Italy and is registered with Milan Companies House under Economic and Administrative Index (REA) no. 1835268.

The shares of Alkemy S.p.A. (hereinafter the "Company", "Alkemy" or the "Parent Company") are listed on the STAR segment of the telematic stock market ("MTA") organised and managed by Borsa Italiana, starting 17 December 2019.

These financial statements are prepared in euros, which is the currency of the economy in which the company operates. The Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows and the Statement of Changes in Equity are presented in units of euros, while the figures given in the Notes, are all expressed in thousands of euros.

As parent company, Alkemy has prepared the consolidated financial statements of the Alkemy Group as at 31 December 2019.

Alkemy's draft financial statements for the year ended as at 31 December 2019 were approved by the Board of Directors on 24 March 2020, which also authorised their publication.

Accounting standards

Basis of presentation

The financial statements (or "separate" financial statements, as defined by the reference accounting statements" of Alkemy S.p.A. as at 31 December 2019, were prepared in compliance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and approved by the European Union. The IFRS are understood to also be all the international accounting standards reviewed ("IAS"), all the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), previously known as the Standing Interpretations Committee ("SIC").

The first financial statements prepared in accordance with the International Financial Reporting Standards ("IFRS") were the 2018 financial statements, when the Company voluntarily adopted these standards in accordance with Italian Legislative Decree no. 38/2005.

The financial statements are prepared on the basis that the business shall continue to operate as a going concern and on the basis of the historic cost principle, with the exception of the valuation of certain financial instruments, for which the far value criterion applies.

Form and contents of the accounting schedules

The accounting schedules included in these financial statements have the following characteristics:

- the income statement classifies revenues and costs by nature;
- the statement of financial position is prepared and separately presents both current and non-current assets and current and non-current liabilities.
- The statement of cash flows is drawn up in accordance with the indirect method.

The schemes used, as described above, are those considered best able to represent the elements that determined the equity and financial structure and economic result. These schemes are the same used for the presentation of the consolidated financial statements of the Alkemy Spa Group.

Please also note that in order to fulfil the requirements set out in CONSOB Resolution 15519 of 27 July 2006 on the tables of the financial statements, specific income statement and statement of financial position tables have been prepared to show any significant related party transactions, and any transactions that can be classified as recurring, atypical and/or unusual, are indicated on the tables and then highlighted in the notes.

Measurement criteria and accounting policies

Non-current assets

Tangible fixed assets

The property, plant and equipment used to manufacture or supply goods and services or for administrative purposes, are booked at purchase or production cost, net of accumulated depreciation and any impairment losses.

Costs incurred after purchase are capitalised only if they increase the future economic benefits applying to the asset to which they refer. They are depreciated in connection with the residual useful life of the asset to which they refer. All the other costs are recorded in the income statement when incurred.

Ordinary maintenance charges are charged in full to the income statement. Maintenance costs increasing the value of the assets are allocated to the asset to which they refer and depreciated using the applicable rates.

In accordance with and pursuant to Art. 10 of Italian Law no. 72 of 19 March 1983, as also recalled by the subsequent monetary adjustment laws, it is noted that no monetary adjustment has been made for the fixed assets still held.

Improvement to third party assets are classified under tangible fixed assets according to the nature of the cost incurred and are depreciated over the shorter period of time between that of the future usefulness of the expenses incurred and the residual term of the lease, taking into account any renewal period, if such depends on the lessee.

Depreciation is noted from when the fixed asset is available for use and is calculated on a straight-line basis throughout the estimated useful life of the asset, as follows:

Buildings 3%
Plant and equipment 20% - 25%

Telephone systems 20%
Equipment 20%
Electronic machines 20%
Hardware 15% - 20%
Furniture and furnishings 12%
Other fixed assets 10% - 25%

Land is not depreciated, as it has an indefinite useful life.

Tangible fixed assets are impairment tested once a year or whenever specific events suggest that there may have been a permanent loss in value. The test carried out is described on the paragraph on "Impairment of assets".

Leased assets

Assets acquired through lease contracts, through which the risks and benefits associated with ownership are substantively transferred to the company, are recognised as company assets at their current value at the date on which the contract is stipulated or, if less, at the present value of the minimum payments due for the leasing, including any amount to be paid to exercise the purchase option. The corresponding liability toward the lessor is booked as financial payables.

Intangible assets

Goodwill

In accordance with IFRS 3 (Business combinations), goodwill is noted on the separate financial statements at the date of acquisition (also carried out through merger or conferral) of businesses or business units; it is determined as the difference between the price paid for the purchase and the fair value of the identifiable assets acquired, net of identifiable liabilities accepted. Goodwill is classified on the statement of financial position as an "intangible asset with an indefinite useful life".

After its initial recognition, goodwill is measured at cost net of accumulated impairment.

Goodwill is not amortised insofar as it has an indefinite useful life; rather, it is impairment tested once a year or more frequently if any specific events suggest that it may have suffered a permanent loss in value. The test carried out is described on the paragraph on "Impairment of assets". Goodwill cannot be written back, not even in application of specific laws and any value thus deducted through impairment, will consequently not be restored.

Intangible fixed assets with a finite useful life

Other intangible assets purchased or produced internally are recognised as assets in accordance with IAS 38 - *Intangible Assets*, when it is likely that their use will generate future economic benefits and when their cost can be reliably determined.

These assets are measured at purchase or production cost and amortised on a straight-line basis throughout their useful life, thereby meaning the estimated period during which the assets will be used by the company.

More specifically, trademarks are amortised over a period of 10 years, whilst "Industrial patent rights and use of intellectual property" and other intangible fixed assets are amortised over five financial years.

Intangible fixed assets with a finite useful life are impairment tested if specific events suggest that there may have been a permanent loss in value. The test carried out is described on the paragraph on "Impairment of assets".

Equity investments in subsidiaries, associates and other companies

Equity investments in subsidiaries and associates are entered at cost, adjusted for impairment losses in compliance with the provisions of IAS 36.

The positive difference, emerging at the time of purchase, between the cost of purchase and the portion of shareholders' equity at current values of the investee pertaining to the Company, is included in the carrying amount of the equity Investment.

Equity investments in subsidiaries are impairment tested each year or, if necessary, more frequently. When there is evidence that these equity investments have become impaired, it is recognised in the income statement as a write down. If the potential share pertaining to the Company of the losses of the subsidiary should exceed the book value of the equity investment, the value of said equity investment is zeroed and the portion of any additional losses is noted under liabilities, as a provision, to the extent to which the investing company is committed to fulfil the legal or implicit obligations in regard to the investee or in any case to cover its losses. If the impairment is subsequently found not to exist or has been reduced, the relative amount is written back to the income statement.

Equity investments in other companies are measured at fair value, if able to be determined. When equity investments are not listed and their fair value cannot be determined reliably, they are measured at cost and adjusted for impairment losses.

Impairment of assets

At least once a year, the company tests for impairment losses (i.e. potential recovery of book value) on tangible and intangible assets and equity investments in subsidiaries and associates, in order to determine whether or not such assets may have suffered a permanent loss in value. If any such evidence is found, the carrying amount of the asset is reduced to the relevant recoverable amount, allocating any write-down of the value entered on the income statement.

The "recoverable value" of an asset is the greater out of its fair value, net of the costs of sale, and its value in use. The value in use is defined on the basis of the discounting of cash flow forecast from use of the asset or aggregation of assets (cash generating unit) and the value expected from its disposal at the end of its useful life. Cash generating units have been identified according to three geographic areas, consistently with the Company's business and organisational structure, as homogeneous groupings that generate autonomous incoming cash flows deriving from the continuous use of the assets assigned to them.

When the impairment loss of an asset is successively removed or reduced, the book value of the asset is increased to the new estimated recoverable value but cannot exceed the value that would have been determined if no impairment loss had been reported. Any reversal of impairment is entered on the income statement in the year in which it is noted.

Financial instruments

The financial instruments held by the company are included in the financial statement items described below:

- non-current assets: Equity investments, Financial assets, Other non-current assets;
- current assets: Trade receivables; Current financial receivables; Other current receivables; Cash and cash equivalents;
- non-current liabilities: Non-current financial payables, Other non-current liabilities;
- current liabilities: Trade payables; Current financial payables (including payables for advances on the sale of receivables), Other payables.

Derivatives

Derivatives are initially booked at fair value and, after purchase, measured differently depending on whether or not they are defined as "hedges" in accordance with IAS 39.

In line with that established by IAS 39, derivatives can be booked according to the methods established for hedge accounting only when, upon taking out a hedge, there is the formal designation and documentation of its hedging relationship, where it is expected that the hedge will be highly effective during the various accounting periods for which it is designated.

If derivatives are stipulated as hedges, but not formally designated in hedge accounting, gains or losses deriving from the fair value measurement of the derivative are entered immediately on the income statement.

Financial assets

Financial assets represented by debt securities are classified in the financial statements and measured both on the basis of the Company's business model adopted for their management and the cash flows associated with each of said assets.

The business models for financial assets (other than trade receivables due from customers) have been defined on the basis of the logics for the use of liquid funds and financial instrument management techniques; the aim is to assure a suitable level of financial flexibility and the best possible management - in terms of risk/return - of immediately-available financial resources, as per the strategic guidelines.

As envisaged by IFRS 9, the following business models are adopted:

- Hold to Collect: financial instruments used to absorb temporary cash surpluses; they are low risk and are held mainly to maturity; they are measured at amortised cost;
- Hold to Collect and Sell: monetary instruments or bonds used to absorb short/medium-term cash surpluses; they are low risk and held, as a rule, to maturity or alternatively sold to cover specific needs for liquid funds; they are measured at fair value through other comprehensive income;
- all other financial assets that do not meet the criteria for classification amongst instruments measured at amortised cost or FVOCI (fair value through other comprehensive income) are measured at fair value through profit or loss (FVTPL).

Financial assets are checked for their recoverable value by applying an impairment model based on expected credit losses (ECL).

Inventories

Inventories are recognised at the lesser of their purchase or production cost, including accessory charges, and their presumed realisable value based on market trends. The purchase cost is determined according to the FIFO criterion.

Impairment provisions have also been made for warehouse inventories considered obsolete or slow-moving, in view of their expected future use and presumed realisable value.

Liquid funds

Cash and equivalents are booked, depending on their nature, at nominal value or amortised cost.

Other cash and cash equivalents consist of highly-liquid, short-term financial commitments that are readily convertible into cash, known and with a negligible risk of change to their value; their original maturity, at the time of purchase, is not more than 3 months.

Treasury shares

Treasury shares are booked for an amount that corresponds to their purchase cost, in a negative equity reserve at the same time the shares are purchased. The negative reserve is reversed, following a resolution by the shareholders' meeting to cancel treasury shares, and the share capital is simultaneously reduced for the nominal value of the shares cancelled. Any difference between the book value of the reserve and the nominal value of the shares cancelled is assigned to increase or decrease shareholders' equity. In the event of the disposal of treasury shares, any difference between the book value of the negative reserve and the realisable value of the shares disposed of, is allocated to increase or decrease another item of equity.

Stock Option Plans (SOPs)

Stock option plans, with the assignment of options whose exercise entails the delivery of shares, are measured at fair value determined as at the date of plan concession. This fair value is allocated to the income statement in the period of accrual envisaged by the plan, with the corresponding increase of shareholders' equity.

The remuneration component deriving from stock option plans with underlying Alkemy S.p.A. shares, but relative to employees of other Group companies, is noted as a contribution on capital account in favour of the subsidiaries of which the beneficiaries of the stock option plans are employees and consequently recorded as an increase in the related value of the equity investments, with a counter-entry made directly in shareholders' equity.

Financial liabilities

Financial liabilities include financial payables, including payables for advances on the transfers of receivables, and other financial liabilities, including derivatives and liabilities booked again assets entered under lease contracts.

In accordance with IFRS 9, they also include trade and miscellaneous payables.

Financial liabilities other than derivatives are initially booked at fair value; thereafter they are measured at amortised cost.

Financial liabilities hedged by derivatives intended to cover the risk of a change in liability value (fair value hedges), are measured at fair value, as established by IAS 39 for hedge accounting: gains and losses deriving from subsequent adjustments to fair value, limited to the component hedged, are booked as profit and loss and offset by the effective portion of the loss or gain deriving from the corresponding measurements at fair value of the hedge.

Financial liabilities hedged by derivatives aiming to cover the risk of changes in cash flows (cash flow hedges) remain measured at amortised cost, in the manner established by IAS 39 for hedge accounting.

Employee benefits

The severance indemnity provision is considered a "defined benefits" plan.

The company's obligations are determined separately for each plan, estimating the current value of future benefits accrued by the employees during the current and previous years. This calculation is carried out using the projected unit credit method.

The components of the defined benefits are recorded as follows:

- the components for remeasuring the liabilities, which include actuarial gains and losses, are noted immediately under "Other comprehensive profit (loss)";
- costs relating to service provisions are booked as profit and loss;
- net financial expense on defined benefit liabilities are booked as profit and loss amongst financial expense.

The remeasurement components recognised under "Other comprehensive profit (loss)" are never reclassified to the income statement in subsequent periods.

Provisions for risks and charges

The company records provision for risks and charges when it has a legal or implicit obligation, in regard to a past event, and it is likely that resources will be necessary to fulfil the obligation, which can be reliably estimated.

The changes in the estimate are reflected in the income statement of the period in which the change took place.

Revenue recognition

Revenues are booked as profit and loss when the criteria are met as envisaged by IFRS 15 and to the extent to which it is likely that the company will obtain the economic benefits and their amount can be reliably determined. Revenues are shown net of any adjustments.

Public financing

Public financing is noted when there is reasonable certainty that all conditions envisaged for their assignment are met and they will therefore be disbursed.

Public financing on “operating account” is booked as profit and loss, with a systematic criterion during the years in which the Company notes as costs the related expenses that the financing is intended to compensate.

Financing on “capital account” that refers to tangible fixed assets is recorded as deferred income and accredited to the income statement through the time frame corresponding to the useful life of the reference asset.

Financial income and expense

Financial income and expense are booked as profit and loss during the year in which they accrued.

Dividends received

Dividends received from investees are noted on the income statement when the right to receive the relevant payment is established.

Tax

Income tax is determined using a realistic estimate of the tax expense to be paid in application of current tax legislation. Prepaid and deferred tax is determined on the temporary differences between the values of the assets and liabilities and the corresponding tax-relevant values.

The tax expense for the year includes current and deferred tax relating to the period profit/(loss), with the exception of those relating to business combinations or items noted directly as equity or other components of the statement of comprehensive income.

The Company has determined that interest and penalties relating to income tax, including the accounting treatments to be applied to income tax of uncertain nature, are booked in compliance with IAS 37 Provisions, Potential liabilities and potential assets, insofar as they do not come under the definition of income tax.

More specifically, prepaid tax is entered only if there is reasonable certainty that it will be recovered in the future. Deferred tax liabilities, on the other hand, are not entered if it is unlikely that the related payable will effectively arise.

Earnings per share

Basic earnings per share are calculated by dividing the Company's economic result by the weighted average of outstanding shares during the financial year, excluding any treasury shares held in the portfolio.

The diluted earning per share is obtained by means of the adjustment of the weighted average of outstanding shares, so as to take into account all the potential ordinary shares with a diluting effect.

The Company’s net result is also corrected to consider the effects, net of tax, of the conversion.

Translation of foreign currencies

Revenues and costs relating to transactions in foreign currencies are entered at the exchange rate in force as at the date of the transaction.

Receivables and payables denominated in foreign currencies are converted at the exchange rate in force as at the financial year end date. Exchange gains and losses are classified as financial components.

Use of estimates

The preparation of the separate financial statements and related notes in accordance with the IFRS requires company management to make estimates and assumptions that impact the value of the assets and liabilities of the financial statements and the disclosure of potential assets and liabilities at the reporting date as well as the amount of revenues and costs in the reference year.

The results ultimately booked may differ, even significantly, from these estimates following possible changes to the factors considered in their determination.

In particular, the estimates are used to measure goodwill, to recognise lease payables, put&call options and determine provisions made for risks on receivables, for obsolete inventories, amortisation/depreciation and impairment of assets, employee benefits, tax, provisions for risks and charges and other provisions made.

The estimates and assumptions are reviewed periodically, and any changes are immediately reflected in the income statement.

New accounting standards, amendments and interpretations applicable from the year starting on or after 1 January 2019

IFRS 16 "Leases": impacts of first-time adoption

In January 2016, the IASB published the standard IFRS 16 Leases. The new standard, approved by the European Commission in October 2017, establishes a single model for the recognition and measurement of lease contracts for the lessee, without drawing any distinction between operating leases and financial leases. More specifically, it envisages the booking of the right of use of the underlying asset in the balance sheet assets, offset by a financial payable. The standard offers the possibility of not recognising as leases any contracts regarding low value assets (i.e. lease contracts regarding assets worth less than 5 thousand dollars, defined as "low value contracts") and leases with a contract term of no more than 12 months (also defined as "short term contracts"). By contrast, the standard does not include significant changes for the lessors. The standard introduces a criterion based on the control of the use of an asset to distinguish between lease contracts and service contracts, identifying the following as discriminating factors:

- the identification of the asset granted for use (i.e. without a right of replacement of such by the lessor);
- the right to substantively obtain all economic benefits deriving from the use of the asset;
- the right to establish how and for what purpose the asset should be used.

The Company started applying the standard on 1 January 2019, availing itself of the faculty to exclude low value contracts from the application of the recognition and measurement provisions.

Low value contracts mainly refer to printers, computers and other electronic devices. For these contracts, the introduction of IFRS 16 did not entail the recognition of the financial liability of the lease and related right of use, but rather lease charges are instead booked as profit and loss for the term of the respective contracts. The main contract types impacted by the new standard are property rental contracts, long-term vehicle rental contracts and printer rental contracts. The Company has adopted the modified retrospective approach to the transition. Therefore, the data from the comparative period has not been restated and some simplifications and practical expedients have been applied, as permitted by the reference standard. The adoption of IFRS 16 has had no effect on the opening shareholders' equity as at 1 January 2019.

The impact deriving from the application as at 01 January 2019 of the new standard has increased non-current assets due to the entry of "right of use of leased assets" for 3,695 thousand euros and, offsetting this are greater financial payables in the same amount, with no impact on shareholders' equity.

On the income statement, the cost of "use of third party property" has been replaced with the amortisation of the "right of use asset leased" and "interest expense".

The impact on alternative performance indicators, such as EBITDA, net invested capital and net financial debt is described in the Report on Operations.

More specifically, in regard to lease contracts previously classed as "operative", the main impacts on the Company's financial statements were as follows:

			Figures in thousands of euros
Economic data	Pre IFRS 16	Post IFRS 16	Impact
Costs for services , goods and other operating costs	26,500	25,802	(698)
Gross operating profit	**(3,019)**	**(2,321)**	**698**
Amortisation/depreciation	496	1,168	672
EBIT	**(3,766)**	**(3,740)**	**(26)**
Financial expense	159	217	58
Pre-tax profit (loss)	**(685)**	**(717)**	**(32)**

			Figures in thousands of euros
Financial data	Pre IFRS 16	Post IFRS 16	Impact
Right of use	-	3,109	3,109
Financial liabilities from right of use	-	3,134	3,134

The discount rate applied to the lease liabilities noted as at the date of first application ranges between 1.6% and 3%.

Other accounting standards, amendments and interpretations in force starting 1 January 2019

Below is a list of the amendments, interpretations and improvements in force starting 1 January 2019, for which there has been no significant impact on the Company's 2019 Annual Financial Report.

Amendment to IFRS 9 - Financial Instruments: Prepayment Features with Negative Compensation.

In October 2017, the IASB published the amendments to IFRS 9 “Prepayment Features with Negative Compensation”, approved by the European Commission in March 2018.

IFRIC 23 - Uncertainty over Income Tax Treatments

In June 2017, the IASB published the interpretation IFRIC 23 - Uncertainty over Income Tax Treatments.

Amendment to IAS 28 - Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures

In October 2017 the IASB published amendments to IAS 28 Long-term Interests in Associates and Joint Ventures.

The IASB has also published an example that shows how the provisions of IFRS 9 and IAS 28 apply to long-term receivables in an associate or joint venture.

Improvements to the IFRSs: 2015-2017 cycle

In December 2017, the IASB published the document "Improvements to the IFRSs: 2015-2017 cycle”, which incorporated some amendments to IAS 12 - Income tax., IAS 23 - Borrowing costs, IFRS 3 - Business combinations and IFRS 11 - Joint arrangements.

Amendment to IAS 19 - Plan Amendment, Curtailment or Settlement

In February 2018, the IASB published the amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”.

Accounting standards, amendments and interpretations applicable from financial years starting on or after 1 January 2019

Below is a list, with indication of start date, of amendments that have not been adopted early by the Company and for which the relevant impact assessments are in progress:

- Amendment to IAS 1 and IAS 8 - Definition of Material: the amendments will apply starting 1 January 2020.
- Amendment to IFRS 9, IAS 39 and IFRS 7 - Interest Rate Benchmark Reform: the amendments will apply starting 1 January 2020.

Accounting standards, amendments and interpretations not yet approved by the EU, applicable from financial years starting on or after 1 January 2019

Below is a list, with indication of start date, of amendments that have not yet been approved and have not been adopted early by the Company and for which the relevant impact assessments are in progress:

- Amendment to IFRS 3 - Definition of a Business: the amendments will apply to acquisitions made after 1 January 2020.

Financial risk management

Under the scope of its operations, the Company is exposed to financial risks connected with:

- credit risk;
- liquidity risk;
- market risk and, specifically, interest rate and foreign exchange risks.

Below is information about the Company's exposure to each of the above risks; reference is made to the more extensive description given in the Report on Operations for a description of how financial risks are monitored in order to prevent any potential negative effects thereof, and take corrective action.

Credit risk

Credit risk is the exposure to potential losses deriving from the failure by commercial or financial counterparties to fulfil the commitments made.

The Company's credit risk essentially relates to the amount of trade receivables due for the provision of services.

The very nature of the services provides means that the Company has no significant concentration of the credit risk and is subject to moderate credit risk, insofar as debtors are large, highly-solvent private companies.

Exposure to credit risk as at 31 December 2019 and 31 December 2018 is as follows:

		Figures in thousands of euros
	31 Dec. 2019	**31 Dec. 2018**
Non-current financial assets	3,648	2,002
Other non-current receivables and assets	114	88
Trade receivables	21,045	21,377
Current financial assets	0	4
Other current assets	5,902	3,897
Total exposure	**30,709**	**27,328**
Provision for impairment	(1,054)	(1,302)
Total exposure net of the provision for impairment	**29,655**	**26,026**

(*) the table does not include tax receivables and equity investments

Below is a breakdown of receivables as at 31 December 2019 and 31 December 2018, grouped by category and due date:

									Figures in thousands of euros
			Past due						
	Book value 31 Dec. 2019	Maturing	0 - 30	30 - 90	90 - 180	180-365	more than 365	Total past due	Provision for impairment
Non-current financial assets	3,551	3,648	-	-	-	-	-	-	(97)
Other non-current receivables and assets	114	114	-	-	-	-	-	-	-
Trade receivables	20,088	17,116	1,407	421	499	347	1,255	3,929	(957)
Other current assets	5,902	5,902	-	-	-	-	-	-	-
Total financial assets (*)	**29,655**	**26,780**	**1,407**	**421**	**499**	**347**	**1,255**	**3,929**	**(1,054)**

(*) the table does not include tax payables and equity investments

			Past due						
Figures in thousands of euros	Book value 31 Dec. 2018	Maturin g	0 - 30	30 - 90	90 - 180	180- 365	more than 365	Total past due	Provision for impairment
Non-current financial assets	1,905	2,002	-	-	-	-	-	-	(97)
Other non-current receivables and assets	88	88	-	-	-	-	-	-	-
Trade receivables	20,132	16,623	1,731	768	175	710	1,330	4,714	(1,205)
Current financial assets	4	4	-	-	-	-	-	-	-
Other current assets	3,897	3,897	-	-	-	-	-	-	-
Total financial assets (*)	**26,026**	**22,614**	**1,731**	**768**	**175**	**710**	**1,330**	**4,714**	**(1,302)**

(*) the table does not include tax payables and equity investments

Liquidity risk

The Company's financial management is characterised by procedures aimed at regulating the collection and payment duties, controlling and avoiding any critical liquidity positions.

During the year, the Company met its financial requirements using own funds, without applying for new facilities from the banking system. Indeed, although the management has short-term bank facilities in place, aimed at managing peaks in current requirements, it saw no need to use such instruments, thanks to the positive generation of liquidity from current operations.

Financial liabilities as at 31 December 2019 and 31 December 2018, including interest payable, divided up by contractual due date, are as follows:

Figures in thousands of euros	Book value 31 Dec. 2019	Contractual financial flows	Current portion	from 1 to 2 years	from 2 to 5 years	More than 5 years
Payables due to banks	11,203	11,591	2,534	2,953	5,963	141
Financial liabilities from right of use	3,134	3,288	630	604	1,497	557
Total financial liabilities	**14,337**	**14,879**	**3,164**	**3,557**	**7,460**	**698**

Figures in thousands of euros	Book value 31 Dec. 2018	Contractual financial flows	Current portion	from 1 to 2 years	from 2 to 5 years	More than 5 years
Payables due to banks	2,036	2,409	1,086	854	709	-
Payables due to other lenders	240	240	240	-	-	-
Total financial liabilities	**2,276**	**2,649**	**1,326**	**854**	**709**	**-**

As regards trade payables and other liabilities, please note that the cash flows expected from the related contracts are within 12 months.

Financial liabilities as at 31 December 2019 and 31 December 2018, as resulting from the statement of financial position, divided up by contractual due date, are as follows:

Figures in thousands of euros	Book value 31 Dec. 2019	Current portion	from 1 to 2 years	from 2 to 5 years	More than 5 years
Payables due to banks	11,203	2,384	2,840	5,896	140

Financial liabilities from right of use	3,134	582	566	1,438	548
Total financial liabilities	**14,337**	**2,966**	**3,406**	**7,334**	**688**

					Figures in thousands of euros
	Book value 31 Dec. 2018	Current portion	from 1 to 2 years	from 2 to 5 years	More than 5 years
Payables due to banks	2,036	1,067	847	704	-
Payables due to other lenders	240	240	-	-	-
Total financial liabilities	**2,276**	**1,307**	**847**	**704**	**-**

Market risk

The market risk to which the Company is exposed consists of the risk of changes to interest rates and the foreign exchange risk.

Interest rate risk

The Company is exposed to the risk of changes in interest rates applied to medium- and long-term loans payable, index-linked to a variable rate and, therefore, specifically to the loan with Intesa, given that all other loans are fixed rate. It should in any case be recalled that the Company has subscribed a cap derivative to hedge possible increases in the interest rate applied to the Intesa loan (see Note 18).

Financial liabilities of 14,337 thousand euros as at 31 December 2019 and 2,276 thousand euros as at 31 December 2018 respectively include 10,857 thousand euros and 1,122 thousand euros of variable rate loans.

The financial instruments exposed to the interest rate risk have been subjected to sensitivity analysis, which shows the effects on the period result that would have been recorded in terms of changes to financial expenses in the event of an increase and decrease of 50 basis points in the Euribor interest rates applied to the financial payables. The effects are shown in the table below:

		Figures in thousands of euros
	+ 50 basis points	**- 50 basis points**
Greater (lesser) interest payable for variable rate payables	30	(30)
Total	**30**	**(30)**

Please note that the Company is also, to a marginal extent, exposed to the foreign exchange risk on receivables carried in currencies other than the euro.

Financial assets and liabilities measured at fair value

Based on the requirements of IFRS 13 “Fair value measurement”, the following disclosure is provided.

The fair value of trade assets and liabilities and other financial receivables and payables is approximately the nominal value booked.

The fair value of receivables and payables due to and from banks, as well as to and from related parties does not differ from the values booked, insofar as the credit spread has been kept constant.

In relation to the financial instruments reported on the equity-financial situation at fair value, IFRS 7 requires these values to be classified on the basis of a level hierarchy that reflects the meaning of the input used in determining the fair value. The following levels can be distinguished:

Level 1 – prices observed on the active market for assets and liabilities subject to evaluation;

Level 2 – inputs other than the listed prices above, which can be observed directly (prices) or indirectly (derived from prices) on the market;

Level 3 – inputs that are based on observable market figures.

With reference to the values presented as at 31 December 2019 and 31 December 2018, the tables below show the fair value hierarchy for the company's assets and liabilities measured at fair value:

			Figures in thousands of euros
Assets measured at fair value	**Level 1**	**Level 2**	**Level 3**
Put and call options		2,622	
Balance as at 31 December 2019	**0**	**2,622**	**0**

			Figures in thousands of euros
Assets measured at fair value	**Level 1**	**Level 2**	**Level 3**
Put and call options	0	879	0
Balance as at 31 December 2018	**0**	**879**	**0**

Other information

Public disbursements

As envisaged by Article 1, paragraphs 125-129 of Italian Law no. 124/2017 (the "2017 Competition Law"), subsequently supplemented by the "Security" Decree Law (no. 113/2018) and the "Simplification" Decree Law (no. 135/2018), under the scope of transparency obligations in connection with financing and economic benefits of any type received from the public administrations and similar or equivalent subjects, these amounts are published and it is specified that in FY 2019, the Company received financing of 1,207 thousand euros. The table below gives details of data relating to the disbursing subjects and the amount of cash disbursements:

		Figures in thousands of euros
Disbursing subject	**2019 financing collected**	**Reason**
Ministry of Education, University and Research	27	TETRIS project
Regional Authority of Calabria	175	Cybersecurity project
Ministry of Economic Development	254	Nextshop project
Ministry of Economic Development	626	D-ALL project
Regional Authority of Sardinia	125	Culture 4.0
	1,207	

Financing on the above projects refer entirely to research and development carried out by the Company.

A complete disclosure on revenues for public financing is given in Note 2.

Comments on the accounting schedules

Income statement

1. Revenues from sales and services

Revenues from sales and services come to 36,729 thousand euros (41,125 thousand euros as at 31 December 2018) and can be broken down as follows:

	Figures in thousands of euros	
	31 Dec. 2019	**31 Dec. 2018**
Sales of services	35,752	40,326
Sales of services to related parties	713	687
Sales of products	264	112
Total revenues from sales and services	**36,729**	**41,125**

Turnove r booked for FY 2019 is down 4,396 thousand euros on the previous year.
This reduction in revenues is mainly due to the renegotiation of contracts with two of the main national customers during the second half of the year, with an impact of just under 5 million euros during the year; it is specified that Alkemy is in any case continuing to collaborate with these customers in 2020.
The breakdown of revenues by geographical area is not significant insofar as almost all come from national customers.

2. Other revenue and income

Other revenue and income totals 2,807 thousand euros (3,819 thousand euros as at 31 December 2018), as follows:

	Figures in thousands of euros	
	31 Dec. 2019	**31 Dec. 2018**
Public financing	1,482	2,015
Tax credit pursuant to Decree Law no. 145/2013	1,282	1,543
Other revenues	43	261
Total other revenue and income	**2,807**	**3,819**

Revenues for public financing of 1,482 thousand euros (2,015 thousand euros as at 31 December 2018), are detailed as follows:

- 428 thousand euros (766 thousand euros as at 31 December 2018) refer to the portion of the financing on operating account, relative to the subsidised finance project "D-All";
- 403 thousand euros (zero thousand euros as at 31 December 2018) refer to the portion of the financing on operating account, relative to the subsidised finance project "SecureOpenNets";
- 334 thousand euros (569 thousand euros as at 31 December 2018) refer to the portion of the financing on operating account, relative to the subsidised finance project "Next Shop";
- 171 thousand euros (216 thousand euros as at 31 December 2018) refer to the portion of the financing on operating account, relative to the subsidised finance project "ProtectID";
- 90 thousand euros (117 thousand euros as at 31 December 2018) refer to the portion of the financing on operating account, relative to the subsidised finance project "Culture 4.0";
- 27 thousand euros (15 thousand euros as at 31 December 2018) refer to the portion of the

financing on operating account, relative to the subsidised finance project "Tetris";

- 19 thousand euros (40 thousand euros as at 31 December 2018) refer to the portion of the financing on operating account, relative to the subsidised finance project "Smart";
- 10 thousand euros relates to the Fondir financing.

Last year, revenues for public financing also included 242 thousand euros referring to the portion of the operating account financing relative to the subsidised finance project "DEEP", as well as 50 thousand euros relative to the For.te contribution.

Public financing refers for 1,472 thousand euros to research and development carried out by the Company, which entailed investments made during the year for a total of 3,180 thousand euros, of which payroll costs for 2,634 thousand euros and 546 thousand euros in consultancy, on projects that obtained an approval decree.

The tax credit accrued on expenses incurred in research and development pursuant to Italian Decree Law no. 145/2013, comes to 1,282 thousand euros (1,543 thousand euros as at 31 December 2018).

3. Costs for services, goods and other operating costs

Costs for services, goods and other operating components comes to 25,802 thousand euros (27,821 thousand euros as at 31 December 2018), as detailed hereto:

	Figures in thousands of euros	
	31 Dec. 2019	**31 Dec. 2018**
Costs for services	25,335	26,443
Costs for the purchase of raw materials	263	460
Change in inventories	33	32
Lease costs	87	704
Other operating costs	84	182
Total costs for services , goods and other operating costs	**25,802**	**27,821**

Costs for services

Costs for services come to 25,335 thousand euros (26,443 thousand euros as at 31 December 2018) and are detailed below:

	Figures in thousands of euros	
	31 Dec. 2019	**31 Dec. 2018**
Services for customers	20,880	23,115
Translisting costs (non-recurring)	1,192	0
Travel and transfer expenses	512	641
Consultancy and legal expenses	504	569
Logistics services	447	428
Maintenance services	303	195
Other consultancy	293	294
Restaurant vouchers	240	220
Commercial services	113	240
Payslip processing	109	92
Independent auditing firm fees	75	61
Postal, telephone and data transmission services	92	77
Administrative services	90	67
Insurance	88	91
Board of Auditors' emoluments	77	36
Cleaning expenses	72	61
Marketing services	69	66
Condominium and supervisory expenses	64	42
Banking services	55	64
Utilities	53	46
Remuneration of collaborators	7	23
Other services	0	18
Total costs for services	**25,335**	**26,443**

Costs for services mainly include commercial costs incurred for services provided to customers, media space, costs for third party services, distribution costs and costs for collaborators.
"Services for customers" refers to external costs incurred to execute contracts with customers and mainly includes media space, marketing services, commercial services, IT consultancy and the cost of professionals dedicated to specific orders.

Costs for the purchase of goods

Costs for the purchase of goods total 263 thousand euros (460 thousand euros as at 31 December 2018) and mainly regard the purchase of goods for resale to B2C customers of the eCommerce BU and licences for resale.

Lease costs

Lease costs come to 87 thousand euros, as compared with 704 thousand euros as at 31 December 2018.

The reduction is due to the impact of the application of the new standard IFRS 16, which required a reprocessing of costs in the amount of 698 thousand euros. More details are given in the paragraph "IFRS 16 "Leases": impacts of first-time adoption".

In the comparative period, the item mainly referred to the lease charges of the various corporate offices for 444 thousand euros, plus vehicle rental (192 thousand euros) and rental of hardware instruments (68 thousand euros).

Other operating costs

Other operating costs come to 84 thousand euros (180 thousand euros as at 31 December 2018) and mainly regard costs from previous years, as well as, to a lesser extent, sanctions, stamp duty and association rates and fees.

4. Payroll costs

Payroll costs come to 16,054 thousand euros (14,588 thousand euros at 31 December 2018) and consist of the following:

	Figures in thousands of euros	
	31 Dec. 2019	**31 Dec. 2018**
Wages and salaries	11,131	9,771
' of which non-recurring	222	0
Social security expenses	3,138	2,617
Costs for defined benefit plans	732	646
Directors' remuneration	666	972
Cost for share-based payments	367	541
Other payroll expenses	20	41
Total payroll expenses	**16,054**	**14,588**

This item includes all costs incurred during the year, directly or indirectly relating to employees and directors.
The average number of employees on the workforce during the year was 238 (239 in 2018).
The table below shows the average number of employees in 2019, divided up by category.

	31 Dec. 2019	**31 Dec. 2018**
Managers	14	14
Middle managers	20	17
Office employees	204	207
Total	**238**	**239**

5. Amortisation/depreciation

Amortisation/depreciation recorded on the income statement comes to 1,168 thousand euros (506 thousand euros as at 31 December 2018) and refers to:

- 672 thousand euros for the application of the new standard IFRS 16; more details are given in the paragraph "IFRS 16 "Leases": impacts of first-time adoption";
- 237 thousand euros (221 thousand euros as at 31 December 2018) for the depreciation of tangible fixed assets;
- 259 thousand euros (285 thousand euros as at 31 December 2018) for the amortisation of intangible fixed assets.

6. Provisions and impairment

Provisions recorded on the income statement comes to 251 thousand euros (507 thousand euros as at 31 December 2018) and refer to:

- 139 thousand euros (453 thousand euros as at 31 December 2018) for the impairment of trade receivables;

- 112 thousand euros (29 thousand euros as at 31 December 2018) refer to the impairment of closing warehouse inventories.

Last year, the item included 25 thousand euros for provisions made for risks.

7. Income from (expense on) equity investments

Income from (expense on) equity investments come to 1,470 thousand euros (353 thousand euros as at 31 December 2018) and refer to:

- 1,548 thousand euros (353 thousand euros as at 31 December 2018) dividends resolved in 2019 relative to FY 2018, from the subsidiaries Bizup S.r.l. (800 thousand euros), Nunatac S.r.l. (388 thousand euros) and Ontwice s.l. Madrid (360 thousand euros);
- 78 thousand euros the impairment of the equity investment in Alkemy USA.

Last year, the item included dividends resolved by the subsidiary Bizup S.r.l.

8. Income from (expense on) options

"Income from (expense on) options, which records a positive value of 1,742 thousand euros (negative for 113 thousand euros as at 31 December 2018) reflects the change in the fair value of derivatives representing the rights relating to the acquisition of the residual share in the investment in the subsidiaries, comprising a contractual put and call options structure between the Company and the minority shareholders. The options are more extensively described in Note 18.

9. Other financial income

Other financial income comes to 28 thousand euros (79 thousand euros as at 31 December 2018) and mainly refers to interest regarding subsidiaries for 18 thousand euros and interest on bank current accounts for 4 thousand euros. The item also includes the effects of exchange gains for 2 thousand euros.

10. Other financial expense

Other financial expense comes to 217 thousand euros (100 thousand euros as at 31 December 2018) and is detailed below:

		Figures in thousands of euros
	31 Dec. 2019	**31 Dec. 2018**
Interest expense on loans	94	29
Interest on leases	59	0
Interest expense on employee benefits (IAS 19)	29	20
Exchange losses	19	13
Other financial expense	16	33
Interest expense on current accounts	0	5
Total financial expense	**217**	**100**

Interest on leases comes to 59 thousand euros due to the application of the new standard IFRS 16. More details are given in the paragraph "IFRS 16 "Leases": impacts of first-time adoption".

11. Income taxes

Tax has been calculated in compliance with current tax legislation and is detailed hereto:

	Figures in thousands of euros	
	31 Dec. 2019	**31 Dec. 2018**
Tax consolidation income	(615)	(176)
Current IRAP tax	0	107
Prepaid tax	(241)	(162)
Deferred tax	15	0
Total taxes	**(841)**	**231**

Tax consolidation income totals 615 thousand euros and is a consequence of the remuneration of the tax loss contributed by Alkemy S.p.A. to the national tax consolidation scheme.

Below is a reconciliation of the theoretical and actual tax charge.

	Figures in thousands of euros	
	31 Dec. 2019	**31 Dec. 2018**
Pre-tax result	(717)	1,741
Current tax rate	24%	24%
Theoretical tax expense (income)	(172)	418
Temporary differences deductible in subsequent financial years:	286	116
Temporary differences reversed from previous years	(127)	(211)
Permanent differences	(602)	(499)
Income from tax consolidation	(615)	(176)
Actual rate on the income statement	(86%)	(10%)

12. Earnings (loss) per share

Basic earnings per share are calculated by dividing the Company's economic result by the weighted average of outstanding shares during the financial year, thereby excluding treasury shares held in the portfolio.

In calculating diluted earnings per share, the weighted average of the outstanding shares takes into account the conversion of all instruments having a dilatory effect and, therefore, the options assigned to stock option plan beneficiaries.

The calculation of earnings (loss) per share is shown in the table below:

	Figures expressed in units of euros	
	31 Dec. 2019	**31 Dec. 2018**
Profit		
Profit (loss) for the year	123,806	1,972,668
Group profit (loss) for the period, attributable to ordinary shares	123,806	1,972,668
Number of shares		
Average number of outstanding ordinary shares	5,470,867	5,415,572
Adjusted average number of ordinary shares	5,478,488	5,467,072
Basic earnings per share	0.02	0.36
Diluted earnings per share	0.02	0.36

Statement of financial position

Assets

Non-current assets

13. Tangible fixed assets

The item totals 715 thousand euros (806 thousand euros as at 31 December 2018); changes relating to the last two years are shown below:

				Figures in thousands of euros
	Land and buildings	Plant and equipment	Others	Total
Balance as at 31 December 2017	**0**	**0**	**329**	**329**
Increase from merger	86	58	219	363
Investments	-	1	351	352
Divestments	-	-	(37)	(37)
Amortisation/depreciation	(4)	(16)	(201)	(221)
Reduction of provision for amortisation/depreciation	-	-	20	20
Balance as at 31 December 2018	**82**	**43**	**681**	**806**
Investments	0	0	146	146
Amortisation/depreciation	(4)	(15)	(218)	(237)
Balance as at 31 December 2019	**78**	**28**	**609**	**715**

Land and buildings includes a property owned in Rende (CZ).
Other assets mainly includes computers and IT equipment purchased for Company employees, as well as furniture and furnishings of the company Milan office and secondary offices.
Period increases are mainly due to the purchase of computers and IT equipment.

14. Right of use

The adoption of the new standard IFRS 16 has entailed the entry of the item "right of use" for a total of 3,109 thousand euros, as shown in the table below, which provides greater detail:

			Figures in thousands of euros
	Land and buildings	Others	Total
Balance as at 31 December 2018	**-**	**-**	**-**
Adoption of IFRS 16	3,220	475	3,695
Increases (decreases)	-	86	86
Amortisation/depreciation	(466)	(206)	(672)
Balance as at 31 December 2019	**2,754**	**355**	**3,109**

More details are given in the paragraph "IFRS 16 "Leases": impacts of first-time adoption".

15. Goodwill

Goodwill comes to 4,617 thousand euros (unchanged on 31 December 2018), as detailed hereto:

- 2,898 thousand euros relate to goodwill emerging from the merger by incorporation of the subsidiary Alkemy Tech S.r.l.;
- 1,167 thousand euros relate to goodwill emerging from the merger by incorporation of the subsidiary Seolab S.r.l.;
- 552 thousand euros refer to the goodwill deriving from the 2013 conferral of the "Digital

Area" business unit by the company Between S.p.A.

The Company expects to obtain a positive contribution to cash flow from these assets, for an indefinite period of time.

As goodwill has an indefinite useful life, it is not amortised but rather subjected to impairment testing once a year, or more frequently if events or changes in circumstances suggest a possible loss.

In order to assess a possible loss of value, the recoverability of goodwill has been evaluated on an aggregate level, using its value in use, determined by applying the discounted cash flow method. If the recoverable amount exceeds the net book value recorded for the goodwill, no impairment is applied; if not, the difference between the net book value and the recoverable amount, as resulting from the impairment testing, determines the amount of the adjustment to be made.

The main hypotheses on which the recoverable amount is calculated regard the discounting rate, the use of the latest budgets and medium-term forecasts and the expected growth rate at the end of the explicit forecasting period.

Discounting regarded forecast cash flow as resulting from the 2019-2021 three-year plan approved by the Board of Directors on 13 February 2020.

The terminal value was calculated as the average of the "perpetual income" method (determined by the normalised cash flow forecast relative to the first year after the explicit forecasting period, with the hypothesis of a growth rate of 1.50%) and the "exit multiple" method (using an average multiple of 7.57x the EBITDA).

In discounting cash flows, the Company adopted a discounting rate that expresses the weighted average cost of capital (WACC) comprising a weighted average of the cost of capital and the cost of debt.

More specifically, with reference to the valuations relative to 31 December 2019, the Company used a discounting rate of 8.63%.

The impairment test results revealed that the recoverable amount of goodwill exceeded the book value, accordingly no impairment losses were booked.

Please note that sensitivity analyses were also carried out, hypothesising changes in: (i) the discounting rate (up/down 1.5 percentage points); (ii) the parameters used to determine the terminal value in relation to: change in the exit multiple (up/down 0.5) and in the growth rate (up/down 0.5 percentage points). These analyses also failed to reveal any loss in value of goodwill.

16. Intangible fixed assets with a finite useful life

Intangible fixed assets amount to 539 thousand euros (493 thousand euros as at 31 December 2018). Below are details on changes seen to intangible fixed assets in the last two years:

Figures in thousands of euros

	Industrial patent rights and intellectual property rights	Concessions, licences, trademarks and similar rights	Other intangible fixed assets	Total
Balance as at 31 December 2017	**49**	**21**	**409**	**479**
Increase from merger	4	-	7	11
Investments	70	17	216	303
Divestments	-	-	(89)	(89)
Amortisation/depreciation	(72)	(6)	(206)	(284)
Reduction of provision for	-	-	73	73

amortisation/depreciation				
Balance as at 31 December 2018	**51**	**32**	**410**	**493**
Investments	154	0	151	305
Amortisation/depreciation	(57)	(6)	(196)	(259)
Balance as at 31 December 2019	**148**	**26**	**365**	**539**

Industrial patent rights and intellectual property rights

This item mainly includes the costs incurred for the purchase of company management software. The increase is mainly due to the purchase of software for the consolidated financial statements and management control, the first came into operation with the closure of the interim position and the second during the first half of 2020.

Concessions, licences, trademarks and similar rights

This item mainly includes costs incurred to register trademarks. These costs are amortised over a period of ten years.

Other intangible fixed assets

This item includes costs incurred for the design, programming and development of software dedicated to the management of the eCommerce platform, with the aim of providing a complete tool by which to manage the on-line sales channel. Investments made in 2019 totalled 151 thousand euros. These costs are amortised over a period of five years.

17. Equity investments

Equity investments amount to 22,627 thousand euros (13,627 thousand euros as at 31 December 2018); they are detailed as follows:

		Figures in thousands of euros
	31 Dec. 2019	**31 Dec. 2018**
Equity investments in subsidiaries	21,584	13,622
Equity investments in associates	1,038	0
Equity investments in other companies	5	5
Total equity investments	**22,627**	**13,627**

The list of equity investments in related companies and associates with the indication of the related share capital, shareholder's equity and share held is as follows:

						Figures in thousands of euros
Company name	Registered office	Currency	Capital in euros	Shareholders' equity in euros	Profit (loss) in euros	% held
Subsidiaries						
Bizup S.r.l.	Rome - Via del Commercio 36	Euro	85	1,673	798	100%
Alkemy Play S.r.l.	Milan – Via San Gregorio 34	Euro	10	10	(6)	51%
Alkemy USA Inc.	USA – New York (NY) – 444 Madison Avenue	USD	463	(202)	(33)	100%
Alkemy SEE D.o.o.	Serbia – Belgrade - Sime Igumanova 64	Serbian dinar	410	346	(13)	70%
Alkemy Iberia S.l.	Spain – Madrid – calle Magallanes 9	Euro	10	265	152	65%
Nunatac S.r.l.	Milan – Via San Gregorio 34	Euro	50	2,468	1,386	70%

Ontwice Interactive Service Sl	Spain – Madrid – Pintor Juan Gris 4	Euro	9	1,879	1,716	64%
<u>Associates</u>						
Design Group Italia S.r.l.	Milan – Via Aleardo Aleardi 12/14	Euro	119	1,104	231	20%

The change and breakdown relate to the equity investments in subsidiaries, as follows:

				Figures in thousands of euros
	31 Dec. 2018	**Increases**	**Impairment losses**	**31 Dec. 2019**
Bizup S.r.l.	2,347	5,864		8,211
Alkemy Play S.r.l.	97	76		173
Alkemy SEE D.o.o.	357			357
Alkemy Iberia S.l.	7			7
Alkemy USA Inc.	11		(11)	0
Nunatac S.r.l.	5,184	8		5,192
Ontwice	5,619	2,025		7,644
Total	**13,622**	**7,973**	**(11)**	**21,584**

The increases in the carrying amount of the equity investments in subsidiaries come to 7,973 thousand euros, as follows:

- 2,025 thousand euros for the purchase of 13% of the subsidiary Ontwice S.l. (Madrid); on 09 October 2019, as envisaged by contract, the Company exercised its call option over 13% of the share capital of Ontwice S.l. (Madrid), with a consequent increase in the share held by Alkemy from 51% to 64%; for more details, see the Report on Operations;
- 5,860 thousand euros for the purchase of 38% of the subsidiary BizUp S.r.l.; on 09 July 2019, the Company exercised its call option over 38% of the share capital of BizUp S.r.l., consequently increasing Alkemy's stake from 62% to 100%; the price was paid in multiple tranches, almost entirely during the year, whilst 90 thousand euros was paid on 10 January 2020; for more details, see the Report on Operations;
- 76 thousand euros for the waiver of receivables to cover losses of the subsidiary Alkemy Play;
- 12 thousand euros for the portion of the stock option recognised to the subsidiary Nunatac (8 thousand euros) and the subsidiary Bizup (4 thousand euros).

The 2019 exercise of the call options is extensively described in the Report on Operations to which reference is made for more information.

"Equity investments in associates" refers to the equity investment in Design Group Italia, purchased on 23 July 2019. Under the agreement stipulated, the Company has acquired 20% of the capital of DGI from two shareholders, with the possibility of acquiring all the company's capital over approximately 4 years, in two steps: 31% in 2021 and the remaining 49% in 2023. For more details, please see the Report on Operations.

"Equity investments in other companies" refers to the equity investment in the consortium company ICT SUD S.C.r.l.

The impairment of the equity investment Alkemy USA was applied to take into account the loss of value suffered by the equity investment as a consequence of its negative results.

The impairment comes to 78 thousand euros, of which 11 thousand euros reduce the value of the equity investment and 67 thousand euros go to the provision for the write-down of the investment in "Provisions for risks and charges".

For other equity investments entered at a value higher than shareholders' equity, no impairment was applied, as the tests had been successfully passed as at the reporting date, showing that the recoverable value still applied to such equity investments.

The test was carried out comparing the book value of the equity investment with its value in use, determined by discounting net cash flows from business, less the comprehensive net debt of the investees.

The period considered is that relative to the three years 2020 - 2022. The net flows thus determined have been discounted at the weighted average cost of capital (WACC), diversified depending on the company to take into account the various local factors, without prejudice to the general structure of calculation as detailed in Note 15.

This analysis did not reveal any need to write down the book value of the investees. The sensitivity analysis also failed to reveal any loss in value of the equity investments.

18. Non-current financial assets

Non-current financial assets come to 3,551 thousand euros (1,905 thousand euros as at 31 December 2018) and are detailed below:

		Figures in thousands of euros
	31 Dec. 2019	**31 Dec. 2018**
Derivatives	2,622	875
Loans to subsidiaries	801	877
Other financial assets	128	153
Total non-current financial assets	**3,551**	**1,905**

The derivative assets total 2,622 thousand euros (875 thousand euros as at 31 December 2018) and refer to the options relating to the acquisition of the residual portion of the equity investment in the subsidiaries Nunatac, Ontwice, Alkemy Play, Alkemy Iberia and Design Group Italia, comprising a contractual structure of put and call options between the Company and the minority shareholders. As is frequently the case in purchases of controlling packages, the contractual agreements in fact include a put option in the favour of the remaining minorities and a call option in the favour of Alkemy.

Interest-bearing loans to subsidiaries come to 801 thousand euros (877 thousand euros as at 31 December 2018) and are detailed as follows:

- 250 thousand euros (unchanged on 31 December 2018) to the subsidiary Bizup S.r.l.; the loan disbursed in 2016 bears interest at a rate of Euribor 12 months plus a spread of 1.50%;
- 180 thousand euros (unchanged on 31 December 2018) to the subsidiary Alkemy SEE D.o.o.; the loan disbursed in 2018 bears interest at a rate of 2.9%;
- 321 thousand euros (397 thousand euros at 31 December 2018) to the subsidiary Alkemy Play S.r.l.; the loan disbursed in 2017 bears interest at a rate of Euribor 12 months plus a spread of 2%;

- 50 thousand euros (unchanged on 31 December 2018) to the subsidiary Alkemy Iberia sl; the loan disbursed in 2017 bears interest at a rate of Euribor 12 months plus a spread of 2.20%;
- The loan to the subsidiary Alkemy USA for 97 thousand euros has been written off entirely.

To assure complete information, please note that the company also has a derivative stipulated to hedge the 2016 loan contract with Banca Intesa Sanpaolo. The Company has decided to protect itself from the interest rate risk by means of a "CAP" hedge derivative and, therefore, at a predefined price. The fair value of the instrument as at 31 December 2019 was zero thousand euros, as compared with a positive 0.1 thousand euros as at 31 December 2018.

19. Prepaid tax assets

Prepaid tax assets amount to 920 thousand euros (640 thousand euros as of 31 December 2018).
Below is a breakdown of prepaid tax:

Figures in thousands of euros

	Amount of temporary differences as at 31 December 2019	**Tax effect 31 Dec. 2019**	**Amount of temporary differences as at 31 December 2018**	**Tax effect 31 Dec. 2018**
Reversal of intangible fixed assets - from conversion of standards	765	213	1,153	322
Provision for doubtful debt	949	228	986	237
Directors' remuneration	160	38	67	16
Provision for stock obsolescence	137	33	25	6
Severance indemnity	356	85	198	47
ACE	402	96	0	0
Tax losses that can be carried forward	802	192	0	0
Others	135	32	48	12
Total	**3,706**	**920**	**2,477**	**640**

The balance includes prepaid tax determined on the temporary differences between the values of the assets and liabilities taken in order to prepare the financial statements and the respective tax-relevant values.

Prepaid tax is entered when it is considered, on the basis of forecasts for future results, that it is reasonably certain of being recovered in future years.

20. Other non-current receivables and assets

Other non-current receivables and assets come to 114 thousand euros (88 thousand euros as at 31 December 2018) and relate to security deposits.

21. Inventories

Inventories amount to 58 thousand euros (202 thousand euros as at 31 December 2018) and are made up as follows:
- 195 thousand in finished products held for sale;
- 137 thousand euros the warehouse obsolescence provision (25 thousand euros as at 31 December 2018).

Valuation was carried out applying the FIFO criterion.

22. Trade receivables

Trade receivables come to 20,088 thousand euros (20,132 thousand euros as at 31 December 2018), as detailed herewith:

		Figures in thousands of euros
	31 Dec. 2019	**31 Dec. 2018**
Receivables due from third parties	19,468	19,485
Receivables due from related parties	620	647
Total trade receivables	**20,088**	**20,132**

There are no receivables maturing in more than 12 months.

Below is a breakdown of trade receivables by geographic area:

		Figures in thousands of euros
	31 Dec. 2019	**31 Dec. 2018**
Receivables due from Italy	18,639	19,391
Receivables due from the EU	585	510
Non-EU receivables	864	231
Total trade receivables	**20,088**	**20,132**

Trade receivables are stated net of an impairment provision of 957 thousand euros (1,205 thousand euros as at 31 December 2018). The provision for doubtful debt has been calculated on the basis of the estimated expected loss throughout the life of the receivable, from when it is first booked and during subsequent valuations. The estimate is mainly prepared by determining the average expected inability to collect, based on historic indicators. For some categories of receivables, characterised by specific risk elements, specific valuations are instead prepared on the individual positions.

Below are period changes to the provision for doubtful debt:

	Figures in thousands of euros
Balance as at 31 December 2018	**1,205**
Provisions made	139
Uses	(387)
Balance as at 31 December 2019	**957**

23. Current financial assets

This item goes from 4 thousand at 31 December 2018 to zero euros.

Last year, it included part relating to derivatives for the acquisition of the residual share in the subsidiary Bizup, exercised in July 2019.

24. Tax credits

Tax credits come to 2,232 thousand euros (2,166 thousand as at 31 December 2018) and are detailed as follows:

Figures in thousands of euros		
	31 Dec. 2019	**31 Dec. 2018**
Tax credit pursuant to DL.145/2013	1,282	1,252
Receivables due from the tax authority	944	868
Other tax credits	6	46
Total tax credits	**2,232**	**2,166**

The tax credit for 1,282 thousand euros accrued in connection with period costs incurred in research and development activities pursuant to Italian Decree Law no. 145/2013.

25. Other current assets

Other current assets come to 5,902 thousand euros (3,897 thousand euros as at 31 December 2018), detailed as follows:

Figures in thousands of euros		
	31 Dec. 2019	**31 Dec. 2018**
Receivables due from subsidiaries	1,306	0
Accrued income	4,019	3,690
Deferred expenses	569	203
Other receivables	8	4
Total other current assets	**5,902**	**3,897**

Receivables due from the parent company mainly refer to dividends resolved by Ontwice and Bizup and not yet collected during the year. Accrued income refers to financing to be received on subsidised finance projects. The increase is due to the new financing entered this year.

26. Liquid funds

The balance of liquid funds of 3,928 thousand euros (5,829 thousand euros as at 31 December 2018) is detailed hereto:

Figures in thousands of euros		
	31 Dec. 2019	**31 Dec. 2018**
Bank deposits	3,922	5,827
Cash and equivalents	6	2
Total cash and cash equivalents	**3,928**	**5,829**

Generation and use of liquid funds for the year is analysed in the statement of cash flows.

Liabilities and shareholders' equity

Non-current liabilities

27. Shareholders' equity

Changes in and a breakdown of shareholders' equity for FYs 2018 and 2019 are given in the changes to the shareholders' equity accounts, to which you are referred.

Share capital

The Company's share capital comes to 588 thousand euros (574 thousand euros as at 31 December 2018) and is fully paid-up.
The increase of 14 thousand euros relates to the exercise of the stock options pertaining to the 2016-2019 plan, by some employees and directors of Group companies.
The share capital as at 31 December 2019 is therefore represented by 5,609,610 shares, as compared with the 5,472,330 shares as at 31 December 2018. Please note that on 16 November 2017, the shareholders' meeting had resolved to split existing shares, in the amount of ten new shares for each pre-existing share, and to eliminate the shares' nominal value.

Legal reserve

The legal reserve comes to 202 thousand euros (104 thousand euros as at 31 December 2018) and its increase took place in accordance with the resolution passed by the shareholders' meeting on 07 May 2019, resolving to allocate the previous year's profit, for 99 thousand euros, to the legal reserve and for 1,874 thousand euros to profits carried forward.

Treasury shares

The negative treasury share reserve totalled 912 thousand euros (330 thousand euros at 31 December 2018). The period change is due to the purchase of 52,536 treasury shares for a value of 581 thousand euros.
More specifically, during the year, the Board of Directors of Alkemy S.p.A., in compliance with the rulings of the Shareholders' Meeting held on 07 May 2019, authorised the purchase of treasury shares, as already extensively described in the dedicated paragraph of the Report on Operations, to which you are referred.
As at 31 December 2019, the Company portfolio held 82,536 treasury shares, accounting for 1.47% of the share capital.

Other reserves

Other reserves come to 31,575 thousand euros (30,361 thousand euros as at 31 December 2018), as follows:

- share premium reserve for 30,966 thousand euros (28,731 thousand euros as at 31 December 2018);
- stock option reserve of 429 thousand euros (986 thousand euros as at 31 December 2018);
- FTA reserve for 307 thousand euros (649 thousand euros as at 31 December 2018);
- profit (loss) entered as equity for a negative value of 128 thousand euros (negative for 5 thousand euros as at 31 December 2018); the item relates to the reserve for discounting

severance indemnity, envisaged by the application of IAS 19.

The change in the share premium reserve is due to the exercise of the stock options pertaining to the 2016-2019 plan, by some employees and directors of Group companies.

In view of the exercise of this stock option plan, the Company has issued 137,280 shares, with an impact on shareholders' equity in the amount of 969 thousand euros, of which 14 thousand euros intended to increase share capital and 955 thousand euros allocated to the share premium reserve. The stock option reserve has also been reduced by 938 thousand euros and the FTA reserve by 342 thousand euros, with a consequent increase of 1,280 thousand euros in the share premium reserve.

The change in the stock option reserve therefore incorporates this reduction of 938 thousand euros and the increase of 382 thousand euros, equal to the cost for stock options noted, in total, during the year, of which 13 thousand euros posted as a counter-entry to the related equity investments for the part assigned to employees of subsidiaries.

Profits carried forward

Profits carried forward for 4,110 thousand euros (2,236 thousand euros as at 31 December 2018).
The increase in profits carried forward of 1,874 thousand euros is entirely due to the allocation of last year's profit, in accordance with the shareholders' meeting resolution passed on 07 May 2019.

Below is a schedule showing the classification of reserves according to availability:

Figures in thousands of euros

	Amount	**Possible use**	**Available share**	**Summary of uses in the last three years:**	
				to cover losses	**for other reasons**
Share capital	588				
Capital reserves:					
Reserve for treasury shares	(912)	-	-		
Retained earnings:					
Legal reserve	202	B	202		
Share premium reserve	30,966	A, B, C	30,966		
Retained earning (losses carried forward)	4,110	A, B, C	4,110		
Other reserves:					
IAS 19 Reserve	(128)	-	-		
Stock option reserve	429	-	-		
FTA reserve	307	-	-		
Non-distributable portion			284		
Residual distributable share			35,278		
Profit for the year	124				
Total	**35,686**			**-**	**-**

A: capital increase; B: loss coverage; C: shareholder distribution; D: other statutory restrictions

28. Financial liabilities

Current and non-current financial liabilities come to 11,204 thousand euros (2,276 thousand euros as at 31 December 2018) and are broken down below according to due dates:

- 8,821 thousand euros (969 thousand euros as at 31 December 2018) refer to non-current financial liabilities;

- 2,382 thousand euros (1,307 thousand euros as at 31 December 2018) refer to current financial liabilities.

Please note that there are financial liabilities due beyond 5 years, for the amount of 140 thousand euros.

The period increase relates to new loans disbursed during the year and, in particular:

- the medium/long-term loan stipulated on 28 June 2019 with Mediocredito Italiano for an amount of 7,000 thousand euros. Repayment is on a straight-line basis once every six months, starting 31 December 2020 with each instalment being for 875 thousand euros. The interest rate applied is the Euribor six months, increased by a spread of 1.5 points. At disbursement, an up-front fee was withheld of 35 thousand euros. The contract envisages respect for two financial covenants and in particular the first, the ratio of Net Financial Position and Shareholders' Equity, to be calculated once a year starting 31 December 2019, whilst the second, Leverage Ratio, i.e. Net Financial Position/EBITDA, to be calculated once a year starting 31 December 2020:
- the loan obtained from Banca IntesaSanPaolo on 30 September 2019, in support of research and development activities for 1,000 thousand euros;
- an additional loan obtained, again from Banca IntesaSanPaolo, for an amount of 1,000 thousand euros with a term of 30 months, with repayment in five six-monthly instalments of equal amount, the first falling due on 31/03/2020;
- the medium-term loan stipulated with Banco BPM to facilitate the Group's financial management, for an amount of 1,000 thousand euros and with a term of 42 months, plus 9 months pre-amortisation, with repayment in quarterly instalments ending on 29 December 2023;
- three long-term loans correlated to subsidised finance projects, obtained from Mediocredito Centrale at special rates and conditions.

Financial liabilities are illustrated below:

- 6,954 thousand euros relative to the medium/long-term bank loan with Mediocredito Italiano, as described above;
- 1,001 thousand euros (zero thousand euros at 31 December 2018) refer to the Intesa loan for research and development;
- 996 thousand euros (zero thousand euros as at 31 December 2018) refer to the additional Intesa loan;
- 995 thousand euros (zero thousand euros as at 31 December 2018) refer to the BPM loan;
- 624 thousand euros (1,122 thousand euros as at 31 December 2018) refer to the medium/long-term bank loan with Banca Intesa Sanpaolo S.p.A., stipulated by the Parent Company in 2016 to purchase the subsidiary Bizup S.r.l. Repayment is on a straight-line basis once a quarter, starting 30 June 2017 with each instalment being for 125 thousand euros. The interest rate applied is the Euribor three months, increased by a spread of 1.5 points;
- 235 thousand euros (635 thousand euros as at 31 December 2018) refer to the medium/long-term bank loan stipulated in July 2017 with Credito Emiliano S.p.A. and deriving from the merger by incorporation of Alkemy Tech S.r.l. The 36-month loan has a fixed interest rate of 0.7% and repayment in equal monthly instalments starting February 2018;

- 112 thousand euros (279 thousand euros as at 31 December 2018) refer to the medium/long-term bank loan with Credito Emiliano S.p.A., stipulated by the Company in August 2017. The 36-month loan has a fixed interest rate of 0.7% and repayment in equal monthly instalments starting September 2017;
- 288 thousand euros (zero thousand euros as at 31 December 2018) refer to three loans relating to subsidised finance projects from Mediocredito Centrale.

At 31 December 2018, the item also included 240 thousand euros for the advance on receivables transferred to the factoring company Credem Factor S.p.A. to cover temporary working capital needs.

29. Net financial position

As requested by Consob Communication no. DEM/6064293 of 28 July 2006, the table below provides a disclosure on the Net financial position, determined in compliance with the criteria indicated in the CESR (Committee of European Securities Regulators) Recommendation of 10 February 2005 "Recommendations for the consistent implementation of the European Commission's Regulation on Prospectuses" and recalled by Consob.

			Figures in thousands of euros
		31 Dec. 2019	**31 Dec. 2018**
A	Cash	6	2
B	Other liquid funds	3,922	5,827
C	Securities held for trading	-	-
D	Liquid funds (A+B+C)	3,928	5,829
E	Current financial receivables	-	-
F	Current bank payables	-	-
G	Current portion of non-current debt	2,382	1,067
H	Other current financial payables	581	240
I	**Current financial debt (F+G+H)**	**2,963**	**1,307**
	Of which secured	-	-
	Of which unsecured	2,963	1,307
J	**Net current financial debt (I-E-D)**	**(965)**	**(4,762)**
K	Non-current bank payables	8,821	969
L	Bonds issued	-	-
M	Other non-current financial payables	2,553	0
N	Non-current financial debt (K+L+M)	11,374	969
	Of which secured	-	-
	Of which unsecured	11,374	969
O	**Net Financial Debt (J+N)**	**10,409**	**(3,552)**

30. Financial liabilities from right of use

The adoption of the new standard IFRS 16 entailed the booking of current and non-current financial liabilities from right of use for 3,134 thousand euros, below divided up according to due date:

- 2,553 thousand euros refers to non-current financial liabilities;
- 581 thousand euros refers to current financial liabilities.

Please note that there are financial liabilities due beyond 5 years, for the amount of 548 thousand euros.

31. Employee benefits

Employee benefits come to 2,170 thousand euros (1,809 thousand euros as at 31 December 2018) and refer entirely to severance indemnity to employees on the workforce.

The change during the financial year was instead as follows:

	Figures in thousands of euros
Balance as at 31 December 2018	**1,809**
Provisions made	732
Actuarial (gains)/losses	161
Period uses	(532)
Balance as at 31 December 2019	**2,170**

In accordance with IAS 19, this provision is booked as a defined benefits plan and valued using the projected unit credit method, in accordance with the following actuarial hypotheses:

Actuarial hypotheses	**31 Dec. 2019**	**31 Dec. 2018**
Discounting rate	0.77%	1.57%
Salary increase rate	2.00%	2.50%
Increase in the cost of living	1.00%	1.50%

As part of the measurement of severance indemnity in compliance with IAS 19 criteria, in regard to the discounting rate, reference was made to the iBoxx Eurozone Corporates AA 10+ index, as at the measurement date.

32. Provisions for risks and charges

The provision for risks and charges comes to 80 thousand euros (25 thousand euros at 31 December 2018).
The provision increase is due 67 thousand euros to the impairment of the equity investment in Alkemy USA, as described in note 17.

33. Deferred tax liabilities

Deferred tax liabilities come to 67 thousand euros (51 thousand euros as at 31 December 2018) and refer to temporary differences between the values of assets and liabilities taken for the preparation of the financial statements and the respective tax-relevant figures.

Current liabilities

34. Trade payables

Trade payables come to 11,284 thousand euros (11,344 thousand euros as at 31 December 2018).

Below is a breakdown of trade payables by geographic area

	Figures in thousands of euros	
	31 Dec. 2019	**31 Dec. 2018**
Payables to Italy	9,516	9,257
Payables to the EU	1,424	1,897
Non-EU payables	344	190
Total trade payables	**11,284**	**11,344**

35. Tax payables

Tax payables come to 808 thousand euros (432 thousand euros as at 31 December 2018).
It includes liabilities for tax that is both certain and quantified, in relation to VAT and payables in connection with withholdings applied at source, as tax substitute; the breakdown is as follows:

	Figures in thousands of euros	
	31 Dec. 2019	**31 Dec. 2018**
Withholding payables	412	390
VAT payables	396	35
Other tax payables	0	7
Total tax payables	**808**	**432**

Please note that together with the subsidiaries Bizup S.r.l., Nunatac and Alkemy Play S.r.l., the Company has opted for the national tax consolidation scheme.

36. Other liabilities

Other current liabilities come to 3,967 thousand euros (3,550 thousand euros as at 31 December 2018), detailed as follows:

	Figures in thousands of euros	
	31 Dec. 2019	**31 Dec. 2018**
Payables due to welfare and social security institutions	875	828
Payables due to staff	1,808	1,876
Accrued liabilities and deferred income	1,152	681
Other payables	132	165
Total other liabilities	**3,967**	**3,550**

Payables due to staff include those due to employees, directors and collaborators; the item includes salaries for the month of December and accruals for FY 2019 not yet paid, in relation to bonuses, holidays, permits and 14th month salaries.

Accrued liabilities and deferred income represent the connecting items for the period reckoned on an accruals basis. As at 31 December 2019, there were no accruals or deferrals with a residual term of more than five years.

37. Guarantees given and other commitments

Guarantees given

The following guarantees were in place as at 31 December 2019:

- two sureties that the Company has granted in regard to Intesa Sanpaolo S.p.A. to guarantee the obligations of Bizup s.r.l. in regard to said bank: 286 thousand euros to guarantee all types of bank transactions and 100 thousand euros to guarantee short-term facilities;
- three insurance bonds issued in the favour of three customers, to guarantee the correct fulfilment, by the Company, of its contractual obligations for 400 thousand euros.

38. Related party transactions

Related party transactions are part of the company's routine business and were settled at arm's length.
The tables below show the amounts of commercial and financial transactions implemented in FY 2019 by and between the Parent Company and its subsidiaries, associates and other related parties.

As permitted by Articles 117 to 128 of the Consolidated Law on Income Tax, the Parent Company has opted for the national tax consolidation regimen with the subsidiaries Bizup S.r.l., Nunatac S.r.l. and Alkemy Play S.r.l.

Starting 19 December 2018, more than 20% of the capital of the supplier Codermine S.r.l. is held by one of the directors of the Parent Company; there is an IT consultancy contract stipulated between the two companies, which, in 2019, gave rise to costs for 596 thousand euros, with a trade payable as at 31 December 2019 of 181 thousand euros.

Below are details of related party transactions:

				Figures in thousands of euros
	Receivables	**Payables**	**Revenues**	**Costs**
Codermine S.r.l.	-	(181)	-	(596)
O2E S.r.l.	-	(40)	6	(220)
Jakala Holding S.p.A.	12	(26)	20	-
Totals	**12**	**(247)**	**26**	**(816)**

Commercial transactions between the Parent Company and the subsidiaries

The Company has implemented the following related party transactions as indicated below:

Commercial transactions				Figures in thousands of euros
	Receivables	**Payables**	**Revenues**	**Costs**
Bizup Srl	128	(643)	265	(1,251)
Alkemy Play Srl	257	(119)	242	(100)
Alkemy USA Inc.	62	(11)	0	0
Alkemy SEE Doo	89	0	8	(17)
Alkemy Iberia Sl	2	0	0	0
Nunatac Srl	76	(108)	198	(186)
Totals	**614**	**(881)**	**713**	**(1,554)**

Trade receivables due from Alkemy USA have been written off entirely.

Financial transactions between the Parent Company and the subsidiaries

Financial transactions with subsidiaries are interest-bearing, implemented at arm's length and regulated by written agreements stipulated by the parties. The table below shows the financial transactions implemented between the Company and its subsidiaries in FY 2019, indicating interest accrued (income):

Financial transactions			Figures in thousands of euros	
	Receivables	**Payables**	**Revenues**	**Costs**
Bizup Srl	250	-	5	-
Alkemy Play Srl	321	-	7	-
Alkemy SEE Doo	180	-	5	-
Alkemy Iberia Sl	50	-	1	-
Totals	**801**	**-**	**18**	**-**

The Company has a loan in place with Alkemy USA, which has been written off entirely.

Other transactions between the Parent Company and the subsidiaries

Please note that the Parent company has a receivable due from subsidiaries for the tax consolidation, in the amount of 146 thousand euros.

Transactions with related parties

The Parent Company owes related parties 522 thousand euros for commercial relations and has a cost in their regard for 428 thousand euros.

Fees to directors, auditors and key management personnel

The fees recognised in 2019 to the Parent Company's Board of Directors totalled 1,045 thousand euros (1,326 thousand euros in 2018), whilst those due to the Board of Auditors came to 77 thousand euros (36 thousand euros in 2018). The amount of fees due to the Board of Directors also includes the remuneration due to the Chief Executive Officer for holding the role of key manager.

The fees due to the other five key managers in force as at 31 December 2019 came, in 2019, to 661 thousand euros (952 thousand euros including contributions) as compared with 690 thousand euros in 2018 (1,024 thousand euros including contributions).

Finally, please note that in 2019, two key managers ceased office, whose corporate cost was 408 thousand euros, including non-recurring additional expenses of 108 thousand euros.

39. Potential liabilities and main disputes

The Company does not have any significant potential liabilities for which information has not been given in this annual financial report and which are not covered by suitable provisions.

In 2014, the Company was served an amicable notice by the Revenue Agency relative to the 2011 tax period, on the offsetting of a receivable for investment in research and development for 21 thousand euros. The Company has broken the amount demanded down into instalments and is duly making payment thereof. At the same time, Alkemy S.p.A. has submitted a supplementary declaration for the tax period under review, along with a request for the refund of the amount paid to date, as it believes that the receivable in question is, indeed, due.

In 2018, the Parent Company was notified a writ of summons by a customer, with a demand for compensation for damages. Following the first hearing held on 09 May 2019, the Court asked the prties to seek an amicable settlement to the dispute; the opposing party refused this, however, and has pursued proceedings. On 30 October 2019, the Court rejected the opposing party's additional demands, scheduling the hearing for the conclusions for this coming 11 November. The Company's lawyers believe that the risk of losing these proceedings is remote.

40. Subsequent events

After the closure of FY 2019, the following significant events took place, worthy of mention, in the first quarter of 2020.

In February, in response to the continuous evolutions of the market on which the Company operates and to anticipate the needs of its customers, having laid the basis, in 2019, Alkemy modified its mission from "digital enabling" to "enabling evolution". In other words, the Company is now focussed in enabling the evolution of its customers' business, with a new offer for a post-digital scenario, designed to stimulate the relevant progress and update, innovation, growth and profitability. This different positioning entailed, on an organisational level, on the one hand, a different breakdown of operating activities with the identification of four business units, respectively termed "consulting & performance", "brand experience", "tech" and "data & analytics"; on the other, four new departments have been defined: "M&A, IR & corporate development", "corporate communication", "people & culture" and "marketing & sales operations". This latter department, in particular, is dedicated to both the continuous update of the commercial range offered and the coordination of the business on top clients, on which the Company has decided to focus its activities.

As a consequence of the foregoing, in regard to the e-commerce area, the decision has been made to concentrate the commercial offer on consultancy, services and operative support, which offer higher added value, instead progressively abandoning the management of on-line shops on behalf of customers and the related physical management of products; this is set to end during the first half of 2020. Following the foregoing, it is also pointed out that Alkemy USA Inc., an inactive legal entity with no employees, which had offered its support to the e-commerce business overseas only starting from the last four months of 2019, was liquidated early January 2020.

It is recalled that on 15 November 2019, in view of the favourable opinion given by the Remuneration Committee, the Related Party Transactions Committee and the Board of Auditors, the Company's Board of Directors approved a plan for the free assignment of ordinary shares in Alkemy spa (the "2020-2023 Long-Term Incentive Plan", hereinafter the "Plan"), in the favour of the 3 strategic managers and the Company's chairman and chief executive officer, in accordance with the terms and conditions set out in the specific regulation. Last 8 January, the Company's Board of Directors acknowledged the success of the listing process of Alkemy spa Shares on the STAR segment of the telematic stock market (MTA) and ordered that the Chairman or the Chief Executive Officer would execute the Plan, sending the beneficiaries the relevant letters of assignment and determining the basic number of shares in the favour of each. The choice of activating this Plan, which comes as part of the company's remuneration policy, aims to gain the long-term loyalty of its key persons, rewarding them on the basis of the results achieved in line with the growth and development process envisaged by the company's directors. For details and a more in-depth analysis of the Plan, see page 213 of the MTA STAR Information Prospectus and the Annual Report on Remuneration, both of which are available on the company's website www.Alkemy,com, in the Corporate Governance section.

As regards the emergency caused by the spread of Covid-19, now known about since January 2020, the national and international scenario has been impacted by the spread of the virus and the related restrictive measured aimed at limiting it, implemented by the government authorities of the countries concerned. Additionally, starting from the second half of February 2020, the spread of the virus has struck and continues to strike significantly, due to the speed at which it is spreading and the number of cases reported, Italy and in particular the region of Lombardy, where much of the Company's business is carried out. In line with the containment measures adopted and being adopted by the Italian government, the Company promptly took all appropriate measures to limit the risks and protect the health of its staff, through the progressive implementation of smart working - now fully operative in all Italian, European and non-European offices, despite continuing to fully go about their duties and supply the services to its customers.

The current medical emergency is also having direct and indirect repercussions on the general performance of the national and international economy, on consumer trends and investments, which are not yet entirely able to be forecast. The Company is constantly monitoring the evolution of the situation in order to minimise the risk and impacts, both in terms of health and safety at work and in economic-financial terms, taking timely corrective action (like, for example, that described above), which have allowed, and continue to allow, for relations to be kept on track constantly with customers.

41. Allocation of result

We believe we have thus provided you with suitable information on the Company's performance and would therefore propose allocating the FY 2019 result of Alkemy S.p.A. of 123,806 euros entirely to the reserve for profits carried forward.

Milan, 24 March 2020

for the Board of Directors

Chief Executive Officer

Duccio Vitali

Alkemy S.p.a.

Information in accordance with Art. 149-duodecies of the CONSOB Issuers' Regulation

The table below, prepared in accordance with Art. 149-*duodecies* of the CONSOB Issuers' Regulation, shows the fees for FY 2019 for auditing and other non-auditing services provided by the independent auditing firm appointed or by entities belonging and not belonging to its network.

Figures in thousands of euros

Service provider	Notes	Fees for FY 2019
Auditing and certification services		
KPMG S.p.A.	**[1]**	75
Deloitte & Touche S.p.A.	**[2]**	42
Other services		
KPMG S.p.A.	**[3]**	385
Deloitte & Touche S.p.A.	**[4]**	37
Total		**539**

[1] Includes the signing of Income, IRAP and 770 forms and certification of tax credit.

[2] Refers to the auditing of the non-financial statement prepared in accordance with Italian Legislative Decree no. 254/16

[3] Includes non-recurring costs incurred for translisting to the STAR segment of the MTA

[3] Methodological support for adjustment to the regulations laid down by 262/2005

Annex 1

INCOME STATEMENT PREPARED IN ACCORDANCE WITH CONSOB RESOLUTION NO. 15519 OF 27 JULY 2006

In compliance with the provisions pursuant to Consob resolution 15519 of 27 July 2006 and Consob communication no. DEM/6064293 of 28 July 2006, below is the Income Statement with separate indication of related party transactions.

Figures expressed in euros

	31 Dec. 2019	of which with related parties	31 Dec. 2018	of which with related parties
Revenues from sales and services	36,728,689	738,678	41,124,967	686,739
Other revenue and income	2,807,272		3,819,365	
Total operating revenue and income	**39,535,961**	**738,678**	**44,944,332**	**686,739**
Costs for services , goods and other operating costs	(25,802,313)	(2,577,821)	(27,820,826)	(1,405,393)
- of which non-recurring	(1,192,349)	-	-	-
Payroll costs	(16,054,337)	(2,406,000)	(14,588,215)	(2,350,000)
- of which non-recurring	(222,283)	(108,000)	-	-
Total costs and other operating expenses	**(41,856,650)**	**(4,983,821)**	**(42,409,041)**	**(3,755,393)**
Gross operating profit	**(2,320,689)**	**(4,245,143)**	**2,535,291**	**(3,068,654)**
Amortisation/depreciation	(1,167,525)		(506,323)	
Provisions and impairment	(251,286)		(506,739)	
EBIT	**(3,739,500)**	**(4,245,143)**	**1,522,229**	**(3,068,654)**
Income from (expense on) equity investments	1,469,632	1,469,632	353,400	353,400
Income from (expense on) options	1,742,424		(112,773)	
Other financial income	27,740	18,360	78,818	16,505
Other financial expense	(217,239)		(100,072)	
Pre-tax profit (loss)	**(716,943)**	**(2,757,151)**	**1,741,602**	**(2,698,749)**
Income taxes	840,749		231,066	
Profit (loss) for the year	**123,806**	**(2,757,151)**	**1,972,668**	**(2,698,749)**

STATEMENT OF FINANCIAL POSITION PREPARED IN ACCORDANCE WITH CONSOB RESOLUTION NO. 15519 OF 27 JULY 2006

In compliance with the provisions pursuant to Consob resolution 15519 of 27 July 2006 and Consob communication no. DEM/6064293 of 28 July 2006, below is the Statement of Financial Position with separate indication of related party transactions.

Figures expressed in euros

	31 Dec. 2019	of which with related parties	31 Dec. 2018	of which with related parties
Assets				
Non-current assets				
Tangible fixed assets	715,100		805,705	
Right of use	3,109,452		0	
Goodwill	4,616,639		4,616,639	
Intangible assets with finite useful life	538,503		492,800	
Equity investments	22,627,294		13,626,675	
Non-current financial assets	3,550,760	800,614	1,904,706	877,114
Prepaid tax assets	919,752		639,626	
Other non-current receivables and assets	114,416		88,348	
Total non-current assets	**36,191,916**	**800,614**	**22,174,499**	**877,114**
Current assets				
Inventories	57,611		201,719	
Trade receivables	20,087,995	626,038	20,131,949	645,569
Current financial assets	0		4,197	
Tax credits	2,232,107		2,165,503	
Other current assets	5,901,738	1,305,645	3,896,911	
Liquid funds	3,928,215		5,828,589	
Total current assets	**32,207,666**	**1,931,683**	**32,228,868**	**645,569**
Total assets	**68,399,582**	**2,732,297**	**54,403,367**	**1,522,683**

				Figures expressed in euros
Liabilities and Shareholders' Equity	**31 Dec. 2019**	**of which with related parties**	**31 Dec. 2018**	**of which with related parties**
Shareholders' equity				
Share capital	587,589		573,861	
Reserves	34,975,086		32,369,776	
Profit (loss) for the year	123,806		1,972,668	
Total net equity	**35,686,481**	**-**	**34,916,305**	**-**
Non-current liabilities				
Financial liabilities	8,821,481		968,878	
Financial liabilities from right of use	2,552,751		0	
Employee benefits	2,169,541		1,808,861	
Provisions for risks and charges	80,353		25,000	
Deferred tax liabilities	66,695		51,143	
Total non-current liabilities	**13,690,821**	**-**	**2,853,882**	**-**
Current liabilities				
Financial liabilities	2,382,413		1,307,118	
Financial liabilities from right of use	581,333		0	
Trade payables	11,283,838	1,650,159	11,343,950	373,125
Tax payables	808,057		431,939	
Other liabilities	3,966,639		3,550,173	138,392
Total current liabilities	**19,022,280**	**1,650,159**	**16,633,180**	**511,517**
Total liabilities and shareholders' equity	**68,399,582**	**1,650,159**	**54,403,367**	**511,517**

ATTESTATION OF THE FINANCIAL STATEMENTS IN ACCORDANCE WITH ART. 81-*TER* OF THE CONSOB REGULATION 11971 OF 14 MAY 1999 AS SUBSEQUENTLY AMENDED AND INTEGRATED

1. We the undersigned, Duccio Vitali, Chief Executive Officer and Claudio Benasso, the manager appointed to prepare the company's accounting documents of Alkemy S.p.A., having also taken into account the provisions of Art. 154-bis, paragraphs 3 and 4, of the Italian Legislative Decree no. 58 dated 24 February 1998, hereby certify:
   - the adequacy, considering the company's characteristics, and
   - the effective application

of the administrative and accounting procedures for the preparation of the annual financial statements, during FY 2019.

2. It is further certified that the financial statements:
   - are consistent with the underlying books and accounting records;
   - have been prepared in accordance with the Accounting Standards recognised by the European Community pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and the Council of 19 July 2002;
   - are able to give a true and fair view of the issuer's economic, equity and financial position.

3. Finally, it is certified that the Report on Operations contains a reliable analysis of the business outlook and management result, the financial position of the issuer, together with a description of the main risks and uncertainties to which it is exposed.

Milan, 24 March 2020

Chief Executive Officer	Manager appointed to prepare the company's accounting documents
Duccio Vitali	**Claudio Benasso**

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(Translation from the Italian original which remains the definitive version)

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537 of 16 April 2014

To the shareholders of
Alkemy S.p.A.

Report on the audit of the separate financial statements

Opinion

We have audited the separate financial statements of Alkemy S.p.A. (the "company"), which comprise the statement of financial position as at 31 December 2019, the income statement and the statements of comprehensive income, cash flows and changes in equity for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the separate financial statements give a true and fair view of the financial position of Alkemy S.p.A. as at 31 December 2019 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "*Auditors' responsibilities for the audit of the separate financial statements*" section of our report. We are independent of the company in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. 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 judgement, were of most significance in the audit of the separate financial statements of the current year. 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.

Recoverability of the carrying amount of goodwill

Notes to the separate financial statements: note "Accounting policies - Intangible assets - Goodwill", "Accounting policies - Intangible assets - Impairment" and note 15 "Goodwill"

Key audit matter	Audit procedures addressing the key audit matter
The separate financial statements at 31 December 2019 include goodwill of €4,616 thousand. As in previous years, the directors tested the reporting-date carrying amount for impairment by comparing it to its recoverable amount. The directors estimated the recoverable amount based on value in use calculated using the discounted cash flow model. The model is very complex and entails the use of estimates which, by their very nature, are uncertain and subjective, about: — the expected cash flows, calculated by taking into account the general economic performance and that of the group's sector, the actual cash flows for recent years and the projected growth rates; — the financial parameters used to calculate the discount rate. For the above reasons, we believe that the recoverability of goodwill is a key audit matter.	Our audit procedures included: — updating our understanding of the process adopted to prepare the impairment test approved by the company's board of directors; — understanding the process adopted to prepare the forecasts from which the expected cash flows used for impairment testing have been derived; — analysing the reasonableness of the key assumptions used by the directors to prepare the forecasts; — checking any discrepancies between the previous year business plans' forecast and actual figures, in order to check the accuracy of the estimation process adopted; — comparing the expected cash flows used for impairment testing to the forecasts and analysing the reasonableness of any discrepancies; — involving experts of the KPMG network in the assessment of the reasonableness of the impairment test and related assumptions, including by means of a comparison with external data and information; — checking the sensitivity analysis presented in the notes in relation to the key assumptions used for impairment testing; — assessing the appropriateness of the disclosures provided in the notes about goodwill and related impairment tests.

Recoverability of the carrying amount of equity investments

Notes to the separate financial statements: note "Accounting policies - Intangible assets - Investments in subsidiaries, associates and other companies", "Accounting policies - Intangible assets - Impairment" and note 17 "Equity investments"

Key audit matter	**Audit procedures addressing the key audit matter**
The separate financial statements at 31 December 2019 include equity investments of €22,627 thousand, mainly related to the investments in the subsidiary Bizup S.r.l. (€8,211 thousand), in the Ontwice Group (€7,644 thousand) and in the subsidiary Nunatac S.r.l. (€5,192 thousand). When they identify indicators of impairment, the directors check the recoverability of these equity investments, by comparing their carrying amounts with their value in use calculated using the discounted cash flow model. The model is very complex and entails the use of estimates which, by their very nature, are uncertain and subjective, about: — the expected cash flows, calculated by taking into account the general economic performance and that of the company's sector, the actual cash flows for past years and the projected growth rates; — the financial parameters used to calculate the discount rate. For the above reasons, we believe that the recoverability of the carrying amount of equity investments is a key audit matter.	Our audit procedures included: — updating our understanding of the process adopted to prepare the impairment test; — understanding the process adopted to prepare the forecasts from which the expected cash flows used for impairment testing have been derived; — analysing the reasonableness of the key assumptions used by the directors to prepare the forecasts; — checking any discrepancies between the previous year business plans' forecast and actual figures, in order to check the accuracy of the estimation process adopted; — comparing the expected cash flows used for impairment testing to the forecasts and analysing the reasonableness of any discrepancies; — involving experts of the KPMG network in the assessment of the reasonableness of the impairment test and related assumptions, including by means of a comparison with external data and information; — checking the sensitivity analysis presented in the notes in relation to the key assumptions used for impairment testing; — assessing the appropriateness of the disclosures provided in the notes about the recoverability of the carrying amount of equity investments and the related impairment test.

Responsibilities of the company's directors and board of statutory auditors ("Collegio Sindacale") for the separate financial statements

The directors are responsible for the preparation of separate financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and, within the terms established by the Italian 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 for the appropriate use of the going concern basis in the preparation of the separate financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the company or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, the company's financial reporting process.

Auditors' 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 auditors' 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 ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain 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;
- obtain 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;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude 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 auditors' report

to the related disclosures in the separate 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 auditors' report. However, future events or conditions may cause the company to cease to continue as a going concern;

- evaluate 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 communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate 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 determine those matters that were of most significance in the audit of the separate financial statements of the current year and are, therefore, the key audit matters. We describe these matters in our auditors' report.

Other information required by article 10 of Regulation (EU) no. 537/14

On 25 June 2019, the company's shareholders appointed us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ending from 31 December 2019 to 31 December 2027.

We declare that we did not provide the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 and that we remained independent of the company in conducting the statutory audit.

We confirm that the opinion on the separate financial statements expressed herein is consistent with the additional report to the *Collegio Sindacale*, in its capacity as audit committee, prepared in accordance with article 11 of the Regulation mentioned above.

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10 and article 123-bis.4 of Legislative decree no. 58/98

The company's directors are responsible for the preparation of the a report on operations and a report on corporate governance and ownership structure at 31 December 2019 and for the consistency of such reports with the related separate financial statements and their compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the report on operation and the specific information presented in the report on corporate governance and ownership structure indicated by article 123-bis.4 of Legislative decree no. 58/98 with the company's separate financial statements at 31 December 2019 and their compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the report on operations and the specific information presented in the report on corporate governance and ownership structure referred to above are consistent with the company's separate financial statements at 31 December 2019 and have been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Milan, 30 March 2020

KPMG S.p.A.

(signed on the original)

Luigi Garavaglia
Director of Audit

To the Shareholders of Alkemy S.p.A.

1. Introduction

During the year ended at 31 December 2019, the Board of Auditors of Alkemy S.p.a. (hereinafter also referred to as the "**Company**" or "**Alkemy**") went about its supervisory duties in compliance with the law, observing the standards of conduct of the Board of Auditors as recommended by the Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili (Italian National Board of Registered and Expert Accountants) and the communications given by Consob in relation to corporate control and the work of the Board of Auditors, as well as with the indications given in the Code of Corporate Governance.

The supervisory duties of the Board of Auditors are regulated by Art. 2403 of the Italian Civil Code, by Italian Legislative Decree no. 58/1998 and by Italian Legislative Decree no. 39/2010. The Board has examined the changes made to Italian Legislative Decree no. 39/2010 with Italian Legislative Decree no. 135/2016, in implementation of Directive 2014/56/EU, which amends Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts and European Regulation 537/2014.

As regards financial information, the Board of Auditors has ascertained that the financial statements have been prepared in accordance with the provisions of Art. 4, paragraph 1 of Italian Legislative Decree no. 38 of 28/02/2005, according to the international financial reporting standards (IFRS) issued by the International Accounting Standards Board (IASB) and approved by the European Commission.

The Board of Auditors has also verified compliance with the provisions of Italian Legislative Decree no. 254/2016 on the non-financial statement, monitoring the adequacy of the production, reporting and measurement processes and the representation of results and information.

This Report provides an account of the supervisory activities carried out in FY 2019 to date, as required by Consob Communication no. DEM/1025564 of 06 April 2001, as subsequently amended and supplemented.

The Board of Auditors in office was appointed by the Shareholders' Meeting on 25 June 2019, in compliance with current provisions of the law and regulations and the Articles of Association; its term ends with the Shareholders' Meeting convened to approve the financial statements as at 31 December 2021.

In 2019, the Board of Auditors, in its role as Internal Control and Accounts Auditing Committee, in accordance with Art.19, 2nd paragraph of Italian Legislative Decree no. 39/2010, as amended by

Italian Legislative Decree no. 135/2016, performed the specific duties of information, monitoring, control and audits envisaged therein, fulfilling all duties and tasks indicated by said legislation.

The Board of Auditors offered an opinion each time it was asked to do so by the Board of Directors, also in compliance with provisions that, for some decisions, require the prior consultation of the Board of Auditors.

The Board of Auditors reserves the right to send Consob, by the deadline envisaged - as per Consob Communication no. DEM/1025564 of 6.4.2001 - the “Summary sheet of controls carried out by the board of auditors” in 2019.

The appointment to perform the statutory audit in accordance with Italian Legislative Decree no. 58/1998 and Italian Legislative Decree no. 39/2010 is carried out by KPMG S.p.A. (hereinafter also the “**Independent Auditing Firm**”), as resolved by the Shareholders' Meeting held on 25 June 2019 for the term of nine years (2019-2027).

2. Monitoring of observance of the law and the articles of association

Article 153 of Italian Legislative Decree no. 58 of 24 February 1998 envisages the obligation for the Board of Auditors to report to the Shareholders' Meeting convened to approve the financial statements, on the supervisory activities carried out and on any omissions or reprehensible events noted; it also has the faculty to make proposals on the financial statements, their approval and the matters coming under its purview.

In compliance, therefore, with the provisions of law and regulations and the recommendations envisaged and in accordance with the provisions of Art. 2429, paragraph 2 of the Italian Civil Code, we would hereby report to you as follows on the work carried out and the conclusions we have drawn.

We have monitored compliance with the law, the Articles of Association and the provisions of Consob, in particular through the information collected from our attendance of the meetings of the Board of Directors and the Committees. Insofar as we are aware, the Company would appear to have operated in compliance with said rules and would appear to have respected the information obligations.

The Board of Auditors has ascertained the conformity with the law, the Articles of Association and standards of correct administration in the transactions implemented by the company, making sure that they were not clearly imprudent or risky, or indeed in conflict with the resolutions passed by the Shareholders' Meeting, or such as to risk the integrity of the corporate assets; transactions in which Directors have an interest or with other related parties were subjected to the transparency procedures envisaged by applicable provisions.

The Board of Auditors has acquired the information instrumental to going about the supervisory tasks attributed it, by means of: attending meetings of the Board of Directors and the Board Committees, meeting with the Company's management team, meeting with the independent auditor, analysing information flows acquired from the competent corporate structures and additional control activities.

The Board has gone about its supervisory duties, as described below, meeting from time to time also in order to meet with the Independent Auditing Firm and the various corporate departments of Alkemy S.p.A., and attending meetings of the Board of Directors and Committees.

In 2019, the Board of Auditors met 8 times and attended 11 meetings of the Board of Directors and 2 of the Shareholders' Meetings. In 2019, the Board of Auditors also attended 5 meetings of the "Remuneration Committee" established by resolution passed by the Board of Directors on 15-06-2019.

In its meeting of 02 October 2019, the Board of Directors established the Control, Risks and Sustainability Committee ("**CRSC**"), in accordance with Art. 7 of the Code of Corporate Governance and the Remuneration Committee in accordance with Art. 6 of the Code of Corporate Governance. With effect starting on the first day of listing on the MTA (therefore starting 17 December 2019), the Control, Risks and Sustainability Committee also acts as Related Party Transactions Committee, in lieu of the committee appointed by resolution passed on 25 June 2019. To date, the Board has attended 3 meetings of the CRSC, all held in 2020.

3. Supervision of standards of correct administration and transactions of greatest economic relevance

We have monitored compliance with standards of correct administration and have no particular comments to make in this regard.

We have attended the meetings of the Board of Directors, during which Directors were periodically informed by the Chief Executive Officer on the performance of Alkemy's corporate operations and those of its investees and subsidiaries, also in comparison with the budget economic data, and have received prompt, timely information, including about decisions to be made, with reference to the most significant transactions implemented by the Company and its Subsidiaries.

The Board of Auditors has acknowledged the company's long-term plan, its annual budget, the draft separate financial statements and the consolidated financial statements, noting no atypical or unusual transactions implemented with third parties or related parties, including Group companies.

We believe that the flow of information directed towards the Board has allowed it to properly assess the Company's operating performance and the risks and opportunities of the resolutions resolved.

According to the information made available to us, we can reasonably consider that these transactions are compliant with the law and the Articles of Association, not evidently imprudent or risky or in conflict of interests nor indeed such as to risk the corporate assets.

Information is given on the main intra-group and related party transactions implemented in FY 2019, together with a description of their characteristics and the related economic effects, in the notes commenting on the separate financial statements of Alkemy S.p.a. and the Group's consolidated financial statements.

The Board of Auditors has monitored compliance with the Shareholders' Meeting resolution on the purchase of treasury shares, pointing out that in order to execute the purchase plan, during FY 2019, Alkemy purchased 52,336 treasury shares for an equivalent value of 581,000 euros; the number of treasury shares held as at 31-12-2019 totals 82,536, for an equivalent value of 912,000 euros, booked as an item of shareholders' equity.

In this regard, and insofar as coming under its purview, the Board of Auditors has performed specific analyses aimed at examining the main significant events indicated by the Company in its Report on Operations relative to FY 2019, without noting any critical issues worthy of bringing to the attention of the Shareholders' Meeting.

4. Supervision of the adequacy of the organisational structure

Including through information collected by the company's senior management and meetings with the representatives of the Independent Auditing Firm, during which no critical issues arose, the Board of Auditors monitored the adequacy of the Company's organisational structure for the aspects coming under its purview.

The Board recalls in particular the contents of the analysis carried out during the meetings of the CRSC held on 3.3.2020 and 17.3.2020, during which the Chief Financial Officer explained the organisational, administrative and accounting structure of the Company and the strategic subsidiaries, including through the support of the memorandum approved by the Board of Directors on 29 October 2019; this structure was deemed adequate by Consob during the analyses performed for the translisting process.

On this occasion, the Board explained and assessed:

(i) the main elements of the management control system adopted by the Company;

(ii) the organisational structure assigned to the Finance and Control Administration Department, currently in place in Alkemy and in the group companies, highlighting the accounting systems used.

Particularly as regards the strategic subsidiaries based outside the EU, we note that:

(i) by communication dated 27/09/2019, KPMG confirmed that Alkemy S.p.A.'s subsidiaries, regulated by laws of non-European Union Member States, and which are considered to be of significant relevance in accordance with the provisions of Art. 15, paragraph 2 of the Market Regulation, and notably: (i) Ontwice Interactive Services de Mexico S.A.; and (ii) OIS Marketing Digital S.A. supply (through KPMG Mexico, auditor of said companies), have supplied all the information necessary to audit the annual and interim financial statements as at 30 June, in order to consolidate them into the consolidated financial statements of the Alkemy Group. KPMG Mexico provides KPMG S.p.A., the main auditor of Alkemy S.p.A., with all the information and data required in accordance with Auditing Standard ISA 600, on the basis of specific auditing instructions. These instructions establish that the main auditor shall be sent a report comprising an interoffice report and a highlights completion memorandum, summarising the auditing procedures implemented and the conclusions drawn, with reference to all significant risks identified. The work of KPMG S.p.A. also entails continuous exchanges of information with the secondary auditor, through periodic conference calls and the sending of any supporting documentation. KPMG confirms that to date there has been a regular flow of information from the non-EU subsidiaries. The audit activities relative to the financial statements as at 31.12.2019 are currently in progress. We have nothing material to report in respect of the accounting data.

(ii) on 27/09/2019, the board of auditors certified, in accordance with section IA.1.1, Article 1.05 of the Stock Market Regulation Instructions, that the companies established and regulated by the laws of non European Union Member States, controlled by the Issuer (and which are classed as significant in accordance with the provisions of Article 15, paragraph 2 of the Market Regulation) provide the Issuer's auditor with the information necessary to audit the Issuer's annual and interim accounts and also have an administrative-accounting system that is able to ensure that the Issuer's management and auditor regularly receive the economic, equity and financial data necessary to prepare the consolidated financial statements.

(iii) during the meetings, the auditor KPMG confirmed that it had received no reports of critical issues in regard to the organisational, administrative and accounting structure and the information flows from the non-EU subsidiaries.

5. Supervision of the adequacy of the internal control system

The Board of Directors is responsible for the internal control (and compliance) system and, with the support of the CRSC, it therefore establishes the rules and periodically checks the adequacy and effective function of the system. The Director responsible for the internal control and risk management system is required to design and manage the system.

It is specified that, on the proposal of the Chief Executive Officer Duccio Vitali, as the director responsible for the internal control and risk management system, and upon obtaining the favourable opinion of the CRSC and the board of auditors, by resolution passed by the board of directors on 13 February 2020, the Company appointed an independent third party consultant as the Company's Internal Audit Department Manager (the "**Head of Internal Audit**"). Previously, as explained fully in the information prospectus prepared for the switch from the AIM market to the MTA, the Company had not had an Internal Audit Department Manager. Please also note that the Company has appointed Deloitte & Touche S.p.A. to perform the risk assessment. Therefore, after completion of the analysis performed by said independent auditing firm, the Head of Internal Audit will prepare the Company's Audit Plan for 2020.

In order to have prompt information available on the Internal Control and Risk Management System, reference is made to the FY 2019 Report on Corporate Governance and Ownership Structures.

The Board has then organised autonomous meetings with said subjects and with the Supervisory Body and has monitored the effective and timely exchange of information between the various corporate bodies and committees.

With reference to the control system that oversees the correctness and completeness of the financial disclosure, the Chief Financial Officer has explained the design of the controls of relevant processes and their function, verified with the help of a specialised consultancy firm. As regards to the individual subsidiaries, the auditor KPMG has confirmed the effectiveness of these controls in 2019, performed by local auditors belonging to the KPMG network, liaising closely.

In 2019, the Board of Directors approved the procedure for the management, processing and communication of relevant and inside information of Alkemy S.p.A. prepared on 10-07-2019, following the provisions of Regulation (EU) no. 596/2014 ("MAR"), aimed at establishing a common regulatory framework on the abuse of inside information, the unlawful disclosure of inside information and market manipulation, as well as measures to prevent market abuse.

The company has adopted the "*Organisation, Management and Control Model pursuant to Italian Legislative Decree no. 231/2001*" and the "Code of Ethics and Conduct", over time making the necessary updates in relation to the progressive extension of the scope of application of Italian Legislative Decree no. 231/2001.

As an integral part of this control system, the Supervisory Body oversees the pursuit of the administrative processes necessary to monitor the predicate offences pursuant to Italian Legislative

Decree no. 231/2001, aimed at preventing the possibility of relevant crimes being committed in accordance with the decree and, consequently, the Issuer's administrative liability (the "**Model 231**"). The latest update of the Alkemy Model and the Code of Ethics was approved by the Board of Directors on 25 July 2019 in order to incorporate the latest evolutions of the reference legislation. The Board of Auditors entertains continuous relations with the Supervisory Body, also thanks to the presence of a Board member in the Body, and has received the Report on the SB's work.
According to the periodic reports provided by the board committees, the Supervisory Body and the corporate departments, as the Board of Auditors has noted no critical issues, it believes that the internal control system is adequately monitored and the corporate departments respond promptly to the corrective action identified.

6. Supervision of the adequacy of the administrative-accounting system and the statutory audit of accounts

The Board of Auditors has monitored compliance with standards of correct administration by attending the meetings of the Board of Directors and the board committees, as well as meeting with the Manager appointed to prepare the company's accounting documents.
We have assessed and monitored the adequacy of the administrative-accounting system and its reliability in terms of providing a correct representation of management events, through obtaining information from the Manager appointed to prepare the company's accounting documents and the Independent Auditing Firm and by examining the corporate documents.
During the meeting held on 17 March 2020, the company appointed to audit the financial statements as at 31.12.2019 confirmed that it had received no reports or observations on the Company's administrative-accounting system, apart from as regards the IT system, for which some aspects for improvement had been noted, as described in the Additional Report to the 2019 financial statements, issued by KPMG.
We have monitored the financial disclosure process, making sure that the Board of Directors has approved the 2019 financial statements, the proposed allocation of the FY 2018 result and the related press releases, publishing them in accordance with the terms and conditions laid down by current legislation.
During the year, the Company updated its system of accounting standards and procedures and shared it with its subsidiaries; the accounting standards the Company has declared it uses in preparing the separate and consolidated financial statements appear to be consistent with the rules governing the preparation of such documents.

Together with the Chief Executive Officer, the Chief Financial Officer organised the issue on 24 March 2020 of the Certifications required by Art. 154-bis, paragraphs 3 and 4 of Italian Legislative Decree no. 58 of 24.2.1998, relative to the adequacy - in relation to the business characteristics - and the effective application of the administrative-accounting procedures for preparing the separate and consolidated financial statements in FY 2019.

As prescribed by Italian Law no. 262 of 28.12.2005, the Chief Financial Officer has prepared this opinion on the basis of the activities carried out in support of these certificates and summarised in his specific Report dated 24/03/2020, to the Board of Directors.

The Board of Auditors has analysed the methodological structure adopted by the Independent Auditing Firm and acquired the necessary information during the course of works, interacting constantly with it in respect of the approach taken to the audit of the various significant areas of the financial statements, receiving updates on the progress made on the auditing appointment and the main aspects drawn to the attention of the Independent Auditing Firm.

To this end, the Board of Auditors has met and exchanged information with the representatives of the independent auditing firm appointed to perform the statutory audit of the accounts, so as to gain information useful to its supervision of the reliability and adequacy of the administrative-accounting system, the quarterly accounting audit processes and the organisation of the separate and consolidated financial statements auditing process, as well as the relevant results.

The meetings held did not reveal any significant events and/or circumstances worthy of note.

The Board of Auditors has examined the following reports prepared by the independent auditor KPMG S.p.A., whose activities form the overall framework of the control duties introduced by the rules in relation to the financial reporting process:

- the audit reports, issued on 30 March 2020 pursuant to Art. 14 of Italian Legislative Decree no. 39/2010 and Art. 10 of Regulation (EU) no. 537/2014;
- the additional report, issued on 30 March 2020, in accordance with Art. 11 of said Regulation to the Board of Auditors, as the internal control and audit committee;
- the annual confirmation of independence, given on 30 March 2020, in accordance with Art. 6, paragraph 2), letter a) of the Regulation and in accordance with paragraph 17 of ISA Italia 260.

Said audit reports on the separate and consolidated financial statements show that the annual and consolidated financial statements offer a truthful, correct representation of Alkemy spa and the Group’s equity and financial position as at 31 December 2019 and of the economic result and cash flows for the year ended as at that date, in compliance with the International Financial Reporting

Standards adopted by the European Union and with the provisions issued in implementation of Art. 9 of Italian Legislative Decree no. 38/05.

The audit reports on the separate and consolidated financial statements show the key aspects of the audit, which, according to the professional opinion of the Independent Auditing Firm, were most significant in the audit for the year under review.

More specifically:

- as regards the separate financial statements, the assessment of the recoverability of goodwill and the value of equity investments held in subsidiaries;
- as regards the consolidated financial statements, the assessment of the recoverability of goodwill and the assessment of the payables deriving from put options.

The Independent Auditing Firm does not give a separate opinion on said key aspects, for which the reports explain the related audit procedures implemented, as they were covered by the audit of the accounts and the preparation of the opinion overall. The above key aspects were subject to detailed analysis and update during the periodic meetings held by the Board of Auditors with the Independent Auditing Firm.

The Board of Auditors will inform the Company's administrative body on the results of the statutory audit, to this end sending the additional report pursuant to Art. 11 of European Regulation 537/2014, complete with any observations, in accordance with Art. 19 of Italian Legislative Decree no. 39/2010, as updated by Italian Legislative Decree no. 135/2016, in implementation of Directive 2014/56/EU, which amends Directive 2006/43/EC and European Regulation 537/2014.

The independent auditing firm also believes that the Report on Operations and the information on the Report on Corporate Governance and Ownership Structures, indicated in Art. 123-bis, paragraph 4 of the Consolidated Law on Finance are consistent with the financial statements of Alkemy S.p.a. and the consolidated financial statements of the Alkemy S.p.a. Group as at 31 December 2019.

Finally, in compliance with that recommended by the joint document of the Bank of Italy-Consob-ISVAP no. 4 of 03 March 2010, the impairment test procedure, regulated by IAS 36,

the Board reports that in 2019, the Company had appointed Long Term Partners S.r.l. ("**LTP**"), leading independent consultancy company in Italy, to analyse the valuation of goodwill booked, for the purpose of the documentation necessary for translisting (and, in particular, for the economic and financial data contained in the Information Prospectus to the market).

Consequently, on 21 February 2020, Alkemy appointed LTP to prepare an appraisal report (hereinafter the "**Report**", expressed in the document called "*Alkemy S.p.A. Impairment Test Valuation Report. Draft version dated 24 March 2020* ", giving an opinion on the valuation - for the purpose of impairment testing - of the three cash generating units (or "**CGUs**") of the Group, representing the segments in which the company operates, in order to verify the sustainability of the goodwill values entered on the Consolidated Financial Statements for FY 2019 and aimed at providing Alkemy's Board of Directors with indications as part of the impairment testing to be carried out in accordance with the provisions of said International Accounting Standard IAS no. 36.

Please note that the CGUs of Alkemy identified by the management are as follows:

1. Italy CGU: comprising the companies: i) Bizup s.r.l.; ii) Nunatac s.r.l.; and iii) the parent company Alkemy S.p.A.
2. Spain/Mexico CGU: comprising the: i) Ontwice Group (in turn comprising OIS Digital s.l. and OIS Service s.l.)
3. Serbia CGU: comprising the companies: i) Kreativa New Formula D.o.o; and ii) Alkemy Digital Hub D.o.o (this latter is inoperative).

The Report specifically indicates the methodological criteria adopted, any difficulties in valuation encountered, the results obtained and their analysis and the information considered sufficient to allow Alkemy's Board of Directors to formulate its resolutions on the value of the Alkemy CGUs.

More specifically, the valuations given in the Report:

a. are based on the forecasts contained in the Group's economic-financial plans for the three-year period 2020-2022, as approved by Alkemy's Board of Directors on 13 February 2020 (the "**Plan**"). The Plan shows the impact of the application of accounting standard IFRS 16 in relation to leasing, currently in progress on a consolidated level only, without attributing this value to the individual legal entities. As in order to perform impairment testing, the income statements were used of the individual companies, to incorporate the effect of the application of said accounting standard into each of these, the costs incurred for leasing have been reclassified, removing them from operating costs to include them in amortisation/depreciation;
b. do not consider the potential economic and financial effects deriving from the spread of the pandemic, as it was defined by the World Health Organisation ("WHO") on 11 March 2020, linked to the coronavirus (COVID-19), insofar as these effects - in view of how this phenomenon is evolving in Italy and worldwide - may be material but cannot currently be estimated.

Considering the above, the Report expresses the following valuation:

1. Italy CGU: enterprise value of approximately 38.7 euros/m, compared with a net invested capital value of the CGU of approximately 33.6 euros/m, of which approximately 13.5 euros/m is goodwill;

2. Spain/Mexico CGU: enterprise value of approximately 23.7 euros/m, compared with a net invested capital value of the CGU of approximately 13.6 euros/m, of which approximately 12.7 euros/m is goodwill;
3. Serbia CGU: enterprise value of approximately 1.19 euros/m, compared with a net invested capital value of the CGU of approximately 1 euros/m, of which approximately 0.97 euros/m is goodwill.

In this regard, neither the Control, Risks and Sustainability Committee nor KPMG, on the basis of their respective autonomous analyses carried out, expressed any critical issues or significantly different valuations from those given above.

In light of the foregoing, it is considered that the methodology used for impairment testing was appropriate to providing the Alkemy Board of Directors with the necessary indications in its impairment testing, so as to prepare the financial statements as at 31.12.2019.

During the year, the Board of Auditors met with the managers of the independent auditing firm, in accordance with Art. 150, paragraph 3 of Italian Legislative Decree no. 58/1998, during which appropriate exchanges of information took place and no other facts or situations emerged, worthy of note. The Board of Auditors: (i) has analysed the work carried out by the independent auditing firm and, in particular, the methodological structure, the approach taken to auditing the various significant areas of the financial statements and the planning of the audit itself; and (ii) has shared information with the independent auditing firm on the problems relating to business risks, thereby successfully noting the adequacy of the response planned by the auditor with the structural and risk profiles of the Company and Group.

During FY 2019, in accordance with Art. 19 of Italian Legislative Decree no. 39/2010, the Board of Auditors verified and monitored the independence of the independent auditing firm, in accordance with Articles 10, 10-bis, 10-ter, 10-quater and 17 of said Decree and with Art. 6 of Regulation (EU) 537/2014 of 16 April 2014. This particularly applies in respect of the adequacy of the provision of services other than audit services, to the audited entity.

As it has itself declared, KPMG spa has received, together with the companies belonging to its network, appointments from Alkemy S.p.A. and its subsidiaries, as detailed in the summary given in the Additional Report issued by KPMG.

Taking into account:

a) the declaration on independence pursuant to Art. 6, paragraph 2, letter a) of Regulation (EU) no. 537 of 16 April 2014, issued by KPMG spa and the report on transparency it has produced in accordance with Art. 18, paragraph 1 of Italian Legislative Decree no. 39/2010;

b) the appointments conferred upon it and on the companies belonging to its network by Alkemy S.p.a. and the Group companies;

the Board of Auditors believes that conditions are met to attest to the independence of the independent auditing firm KPMG spa.

The Board of Auditors, in going about its duties as “Internal Control and Accounts Auditing Committee”, as assumed under Art. 19 of Italian Legislative Decree no. 39/2010, in turn as amended by Italian Legislative Decree no. 135/2016, has monitored:

a) the process relating to financial and non-financial information;

b) the effectiveness of internal control, internal audit and risk management systems;

c) the statutory audit of the annual and consolidated accounts;

d) the transparency report and additional report prepared by the independent auditing firm in compliance with the criteria pursuant to Reg. 537/2014, noting that the information acquired does not suggest any critical aspects in connection with the independence of the independent auditing firm;

e) the aspects relating to the independence of the independent auditing firm, with particular reference to the services provided by the latter to the audited entity, other than the auditing of the accounts;

f) the correct application of the provisions of Regulation EU 537/2014 in connection with the provision by the auditor of non-audit services.

It is acknowledged that the Company has prepared the consolidated non-financial statement, in compliance with the provisions of Articles 3 and 4 of the same Decree and that the Company has availed itself of the exoneration from the obligation to draft an individual non-financial statement, as envisaged by Art. 6, paragraph 1 of Italian Legislative Decree no. 254/2016, having prepared the consolidated statement pursuant to Art. 4 of the same Decree, approved by the Board of Directors on 24 March 2020.

The Board has also acknowledged the report issued on 30 March 2020, issuing:

a) the report by the designated Auditor on the conformity of the information supplied with the provisions of said Italian Legislative Decree;

b) the indication by the Auditor appointed to perform the statutory audit of the financial statements, in a specific section of the audit report, of the approval by the administrative body.

On the basis of the information acquired, the Board of Auditors certifies that, during its examination of the Non-Financial Statement, no elements of non-conformities and/or breach of the related regulatory provisions, were drawn to its attention.

During the supervisory activities carried out by the Board of Auditors in the above-described manner, on the basis of the information and data acquired, no events emerged such as to suggest failure to comply with the law and deed of incorporation or to justify any report to the Supervisory Authorities or mention in this Report.

7. Proposals on the financial statements and their approval and on the matters under the purview of the Board of Auditors

On 27 August 2019, the Board of Directors prepared the report relative to the first half of FY 2019, publishing it in accordance with the terms and conditions laid down by current legislation.

On 24 March 2020, the Alkemy S.p.a. Board of Directors approved:

- the draft separate and consolidated financial statements as at 31.12.2019, complete with the Report on Operations;
- the Report on Corporate Governance and Ownership Structures;
- the Remuneration Report.

These documents were delivered to the Board of Auditors by the legal deadline.

The separate financial statements as at 31.12.2019 show a period profit of 123,806 euros and shareholders' equity of 35,686,481 thousand euros.

The consolidated financial statements as at 31.12.2019 show a Group period loss of -240 thousand euros and Group shareholders' equity of 31,897 thousand euros.

Information on the economic operating performance is given in said Company's financial statements.

The Board of Auditors stresses that it received the Reports to the separate and consolidated financial statements of Alkemy S.p.a. prepared by KPMG spa by the legal deadline and the related Certifications by the Chief Financial Officer and Chief Executive Officer dated 24 March 2020.

The Board also acknowledges that the Company has prepared the Non-Financial Statement in implementation of Italian Legislative Decree no. 254/2016 and Consob Regulation of 18 January 2018, which will be deposited at the registered office together with all the other documents specified above, so as to be made available to Shareholders.

Having acknowledged the positive opinion given in the independent auditors' report by KPMG S.p.A., the Board believes that the financial statements of Alkemy S.p.A. as at 31 December 2019 can be approved by yourselves, together with the proposal outlined by the Board of Directors for the allocation of the period profit.

The consolidated financial statements includes not only the financial statements of Alkemy S.p.a. but also those of the Companies it controls, duly rectified and restated to make them homogeneous with the standards adopted by the Parent Company in preparing the financial statements and compliant with the IFRS. The control of the Board of Auditors did not cover these financial statements. Insofar as may be relevant, the determination of the consolidation area, the choice of consolidation standards applied to the equity investments and the procedures adopted, all reflect the provisions of the law. The Report on Operations provides an adequate presentation of the group's economic, equity and financial position as well as its operating performance in 2019 and contains a suitable disclosure on transactions implemented between group companies and on significant events that occurred after the end of the year.

In light of the foregoing, the information supplied by the independent auditing firm and the opinion without findings it has issued in accordance with the law, the Board of Auditors has nothing particular to report in regard to the Consolidated Financial Statements of Alkemy S.p.a. as at 31 December 2019.

8. Procedure for the concrete implementation of the rules of corporate governance

We have monitored the implementation and adjustment to comply with the codes of conduct - the Code of Corporate Governance and the Code of Ethics - to which the Company has declared it adheres.

The Company adheres to the *Code of Corporate Governance*, incorporating the document prepared by the *Corporate Governance Committee of Listed Companies* almost entirely. In this context, the Board of Directors has appointed the Remuneration Committee and the Control, Risks and Sustainability Committee, which performs the duties assigned them. Please note that the CRSC is also assigned the duties of Related Party Transactions Committee.

The Company has begun making adjustments with a view to incorporating, including through the recent suggestions made by the Corporate Governance Committee for Listed Companies, the indications concerning the recognition of a variable component of the comprehensive remuneration of the Company's directors and key management personnel.

In compliance with the instructions given by Borsa Italiana, the Board of Directors has prepared the "Report on Corporate Governance and Ownership Structures" and the "Remuneration Report", respectively in accordance with Articles 123-bis and 123-ter of the Consolidated Law on Finance, both issued with favourable opinion by the Remuneration Committee on 17-03-2020. The Board has verified that these Reports were prepared in compliance with reference standards and that the "Report on Corporate Governance and Ownership Structures" indicates the aspects of the Code of

Corporate Governance - as specified above - which have not been implemented in the Company's Governance System.

Reference is made to this Report for information on the members and duties of the board committees as well as on the Company's corporate governance, with respect to which the Board of Auditors expresses a positive opinion.

Indeed, we acknowledge that at the time of appointment, in taking into account the declarations made by the parties concerned and the information available, the Board of Directors verified the substantive requirement of independence envisaged by application criterion 3.C.1 of the Code of Corporate Governance and by Article 148, paragraph 3 of Italian Legislative Decree no. 58 of 24.02.1998 was met by the Directors who had declared such during the translisting phase.

Given that the Company completed its translisting to the MTA on 17 December 2019, the first board evaluation will be performed before approval of the 2020 interim financial report. It must, moreover, be stressed that during admission to the MTA, the Supervisory Bodies assessed and approved the size, members and operation of the Board and Committees.

The Board of Directors has passed the resolutions on the matters of competence, as prescribed by the Articles of Association and some internal procedures.

9. Supervision of transactions with subsidiaries

Below is a list of the main equity and economic balances of transactions with associates:

Commercial transactions	(Group)		Figures in thousands of euros	
	Receivables	**Payables**	**Revenues**	**Costs**
Bizup Srl	128	(643)	265	(1,251)
Alkemy Play Srl	257	(119)	242	(100)
Alkemy USA Inc.	62	(11)	0	0
Alkemy SEE Doo	89	0	8	(47)
Alkemy Iberia Sl	2	0	0	0
Nunatac Srl	76	(108)	198	(186)
Totals	**614**	**(881)**	**713**	**(1,584)**

Figures in thousands of euros

	Receivables	**Payables**	**Revenues**	**Costs**
Codermine S.r.l.	-	(181)	-	(596)
O2E S.r.l.	-	(40)	6	(220)
Jakala Holding S.p.A.	12	(26)	20	-
Totals	**12**	**(247)**	**26**	**(816)**

The Board of Auditors can declare that, on the basis of the information received, the controls performed and the instructions given by the Company to the subsidiaries in accordance with Art. 114, paragraph 2 of said Italian Legislative Decree no. 58/1998 in relation to financial disclosure obligations and other operating areas, are adequate.

10. Supervision of related party transactions

The Board of Auditors has monitored the compliance with provisions of law and regulations of the Related Party Transactions Procedure, its effective implementation and concrete operation.

In accordance with Art. 2391-bis of the Italian Civil Code, insofar as the Board of Auditors has been able to verify, the related party transactions examined were all implemented on the basis of rules assuring transparency and compliance with the general principles set out by Consob and rules of corporate governance.

On 13.11.2019, the Related Parties Committee expressed a binding opinion on the related party transactions.

The information supplied by the Board of Directors, also with specific reference to intra-group transactions and transactions with other related parties, is considered adequate in respect of reference legislation. More specifically, said transactions are considered relevant to the pursuit of the company object, of a fair amount and in line with the company's interests.

In the specific paragraph at the end of the Notes to the financial statements, the Board of Directors provided full information on transactions implemented with Group companies and related parties, explaining the relevant economic and financial effects, albeit using a different format to that given in CONSOB communication no. DEM/6064293 of 28 July 2006.

11. Omissions and reprehensible events noted. Opinions given and initiatives taken.

To date, the Board of Auditors has not received any reports pursuant to Art. 2408 of the Italian Civil Code nor any complaints by shareholders or third parties.

During its supervision, the Board of Auditors noted no omissions, reprehensible events or irregularities.

The Alkemy S.p.a. Supervisory Body did not describe any reports made, even in anonymous form.

During the course of our supervision, no omissions, reprehensible events or irregularities were noted.

The Board of Auditors has offered an opinion each time it was asked to do so by the Board of Directors, also in compliance with provisions that, for some decisions, require it to be consulted in advance. More specifically, the Board of Auditors gave a positive opinion on the guidelines to the Remuneration Policy.

* * *

This report has been approved unanimously by the Board of Auditors.

Milan, 30 March 2020

The Board of Auditors

Mauro Bontempelli (Chairman)

Daniela Elvira Bruno

Gabriele Gualeni