



Interim Management Report

as at 31 March 2020



**Servizi
Italia**

SERVIZI ITALIA S.P.A.
via San Pietro, 59/B - 43019 Castellina di Soragna (PR) - ITALY
Share Capital: Euro 31,809,451 fully paid-up
Tax Code and Register of Companies No.: 08531760158
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TABLE OF CONTENTS

| | | |
|-----|--|----|
| 1 | Company officers and corporate information..... | 3 |
| 2 | Group Structure | 4 |
| 3 | Interim Report | 5 |
| 4 | Accounting schedules | 14 |
| 5 | Explanatory Notes..... | 16 |
| 5.1 | Introduction | 16 |
| 5.2 | Performance by business segment and geographical area..... | 16 |
| 5.3 | Notes on the main changes in the statement of financial position | 18 |
| 5.4 | Notes on the main changes in the income statement | 24 |
| 5.5 | Consolidated net financial position..... | 26 |

1 COMPANY OFFICERS AND CORPORATE INFORMATION

Board of Directors (in office until approval of the Separate Financial Statements as at 31 December 2020)

| Name and Surname | Position |
|------------------------------|----------------------|
| Roberto Olivi (*) | President |
| Ilaria Eugeniani (*) | Vice President |
| Michele Magagna (*) | Director |
| Umberto Zuliani | Director |
| Antonio Paglialonga | Director |
| Lino Zanichelli | Director |
| Antonio Aristide Mastrangelo | Independent Director |
| Paola Schwizer (^) (1)(2)(3) | Independent Director |
| Romina Guglielmetti(1)(2) | Independent Director |
| Chiara Mio(1)(2) | Independent Director |

(1) Member of the Nomination and Remuneration Committee; (2) Member of the Control and Risks Committee; (3) Lead Independent Director

(*) Members of the Executive Committee

(^) Resigned with effect from 30 April 2020

Board of Statutory Auditors (in office until approval of the Separate Financial Statements as at 31 December 2022)

| Name and Surname | Position |
|---------------------|-------------------|
| Roberto Cassader | President |
| Gianfranco Milanese | Statutory auditor |
| Benedetta Pinna | Statutory auditor |
| Elena Iotti | Alternate auditor |
| Davide Barbieri | Alternate auditor |

Supervisory Body (in office until 2 February 2022)

| Name and Surname | Position |
|--------------------|-----------|
| Veronica Camellini | President |
| Laura Verzellesi | Member |
| Francesco Magrini | Member |

Independent Auditors (in office until approval of the Separate Financial Statements as at 31 December 2023)

Deloitte & Touche S.p.A. - Via Tortona, 25 - 20144 Milan

Registered office and company information

Servizi Italia S.p.A. Via S. Pietro, 59/b - 43019 Castellina di Soragna (PR) - Italy

Tel. +390524598511, Fax +390524598232, website: www.servizitaliagroup.com;

Share Capital: Euro 31,809,451 fully paid-up

Tax Code and Parma Register of Companies no.: 08531760158; Certified Email: si-servizitalia@postacert.cedacri.it

Founded: 1986

Stock market listing: Borsa Italiana S.p.A MTA, electronic stock market, STAR segment

Ordinary Share ISIN: IT0003814537, BLOOMBERG: SRI IM, REUTERS: SRI.MI

LEI Code: 815600C8F6D5ACBA9F86

Investor Relations

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2 GROUP STRUCTURE

Servizi Italia S.p.A., whose registered office is in Castellina di Soragna (Parma, Italy), is listed in the STAR segment of the Borsa Italiana S.p.A. MTA stock exchange and is the leading Italian operator in the supply of integrated services of washing, hiring and sterilization of textile materials and surgical instruments for hospital facilities. With a technologically advanced production platform broken down into laundering facilities, linen sterilisation centres, surgical instrument sterilisation centres and numerous linen storage facilities, the Company and its Italian and overseas subsidiaries forming the Servizi Italia Group, mainly provide their broad and diversified range of services for public and private healthcare facilities in central and northern Italy, in the state of São Paulo in Brazil, in Turkey, India, Albania and Morocco.

As at 31 March 2020, the Servizi Italia Group included the following Companies:

| Company Name Parent Company and Subsidiaries | Registered Office | Share Capital | Interest of equity investments |
|--|--|-----------------|--------------------------------|
| Servizi Italia S.p.A. | Castellina di Soragna (Parma) - Italy | EUR 31,809,451 | Parent |
| SRI Empreendimentos e Participações L.t.d.a. | City of São Paulo, State of São Paulo - Brazil | BRL 187,906,582 | 100% |
| Steritek S.p.A. | Malagnino (CR) - Italy | EUR 134,500 | 70% |
| San Martino 2000 S.c.r.l. | Genoa - Italy | EUR 10,000 | 60% |
| Lavsim Higienização Têxtil S.A. | São Roque, State of São Paulo - Brazil | BRL 9,280,000 | 100% ^(*) |
| Maxlav Lavanderia Especializada S.A. | Jaguariúna, State of São Paulo - Brazil | BRL 2,825,060 | 65.1% ^(*) |
| Vida Lavanderias Especializada S.A. | Santana de Parnaíba, State of São Paulo - Brazil | BRL 3,600,000 | 65.1% ^(*) |
| Aqualav Serviços De Higienização Ltda | Vila Idalina, Poá, State of São Paulo - Brazil | BRL 15,400,000 | 100% ^(*) |
| Ankateks Turizm İnşaat Tekstil Temizleme Sanayi ve Ticaret Ltd Şirketi | Ankara - Turkey | TRY 20,000,000 | 55% |
| Ergülteks Temizlik Tekstil Ltd. Sti. | Smirne - Turkey | TRY 1,700,000 | 57.5% ^(**) |
| Wash Service S.r.l. | Castellina di Soragna (Parma) - Italy | EUR 10,000 | 90% |
| Ekolav S.r.l. | Lastra a Signa (FI) - Italy | EUR 100,000 | 100% |

(*) Held through SRI Empreendimentos e Participações Ltda

(**) Held through Ankateks Turizm İnşaat Tekstil Temizleme Sanayi ve Ticaret Ltd Şirketi

| Company Name Associates and Jointly Controlled Companies | Registered Office | Share capital | Interest of equity investments |
|---|-----------------------|-----------------|--------------------------------|
| Arezzo Servizi S.c.r.l. | Arezzo - Italy | EUR 10,000 | 50% |
| PSIS S.r.l. | Padova - Italy | EUR 10,000,000 | 50% |
| Steril Piemonte S.c.r.l. | Torino - Italy | EUR 4,000,000 | 50% |
| AMG S.r.l. | Busca (CN) - Italy | EUR 100,000 | 50% |
| Iniziativa Produttive Piemontesi S.r.l. | Torino - Italy | EUR 2,500,000 | 37.63% |
| Piemonte Servizi Sanitari S.c.r.l. | Torino - Italy | EUR 10,000 | 30% ^(*) |
| CO.SE.S S.c.r.l. in liquidazione | Perugia - Italy | EUR 10,000 | 25% |
| SAS Sterilizasyon Servisleri A.Ş. | Istanbul - Turkey | TRY 10,342,000 | 51% |
| Shubhram Hospital Solutions Private Ltd. | Nuova Delhi - India | INR 305,171,720 | 51% |
| Finanza & Progetti S.p.A. | Vicenza - Italy | EUR 550,000 | 50% |
| Brixia S.r.l. | Milano - Italy | EUR 10,000 | 23% |
| Saniservice Sh.p.k. | Tirana - Albania | LEK 2,745,600 | 30% |
| Sanitary cleaning Sh.p.k. | Tirana - Albania | LEK 2,798,800 | 40% |
| Servizi Sanitari Integrati Marocco S.a.r.l. | Casablanca - Morocco | MAD 122,000 | 51% |
| Idsmed Servizi Pte. Limited | Singapore - Singapore | SGD 1,000,000 | 30% |
| StirApp S.r.l. | Modena - Italy | EUR 208,124 | 25% |

^(*) Indirect shareholding of 15.05% through Iniziativa Produttive Piemontesi S.r.l.

3 INTERIM REPORT

This interim report as at 31 March 2020 includes the condensed consolidated financial statements as at 31 March 2020 drafted in compliance with the International Accounting Standard applicable to interim financial reporting, IAS 34, as allowed by Consob Communication No. DEM/5073567 of 4 November 2005 and must be read together with the information provided in the Consolidated Financial Statement as at 31 December 2019. Moreover, in order to allow a better evaluation of the economic and financial performance, the following summary tables show some “Alternative performance indicators”, not provided by the IFRS International Accounting Standards. The footnotes of said tables indicate the calculation method used and the composition of these ratios, in line with the guidelines of the European Securities and Market Authority (ESMA).

Main consolidated income statement figures

The table below presents a comparison of the main consolidated income statement figures as at 31 March 2020 with the results as at 31 March 2019 (in thousands of Euros):

| (thousands of Euros) | 31 March 2020 | 31 March 2019 | Change | Change % |
|--------------------------|---------------|---------------|---------|----------|
| Revenues | 62,856 | 65,119 | (2,263) | -3.5% |
| Ebitda (a) | 15,447 | 16,890 | (1,443) | |
| Ebitda % | 24.6% | 25.9% | | -1.4% |
| Operating Profit (Ebit) | 1,914 | 3,216 | (1,302) | |
| Operating Profit (Ebit)% | 3.0% | 4.9% | | -1.9% |
| Net profit | 158 | 2,730 | (2,572) | |
| Net profit % | 0.3% | 4.2% | | -3.9% |

(a) The company management has defined EBITDA as the difference between the value of sales and services and operating costs before depreciation, amortization, impairment and provisions.

Main consolidated statement of financial position figures

The table below presents a comparison of the main consolidated statement of financial position figures as at 31 March 2020 with the figures as at 31 December 2019 (in thousands of Euro):

| (thousands of Euros) | 31 March 2020 | 31 December 2019 | Change | Change % |
|---|----------------|------------------|----------------|---------------|
| Net operating working capital (a) | 2,175 | 6,644 | (4,469) | -67.3% |
| Other current assets/liabilities (b) | (11,944) | (18,852) | 6,908 | -36.6% |
| Net working capital | (9,769) | (12,208) | 2,439 | -20.0% |
| Non-current assets – Medium/Long term provisions | 272,597 | 277,873 | (5,276) | -1.9% |
| <i>of which right of use for IFRS 16</i> | 34,079 | 35,783 | (1,704) | -4.8% |
| Net Invested capital | 262,828 | 265,665 | (2,837) | -1.1% |
| Shareholders' equity (B) | 127,719 | 138,257 | (10,538) | -7.6% |
| Net financial debt (d) (A) | 135,109 | 127,408 | 7,701 | 6.0% |
| <i>of which financial liabilities for IFRS 16</i> | 34,498 | 36,258 | (1,760) | -4.9% |
| Invested capital (c) | 262,828 | 265,665 | (2,837) | -1.1% |
| Gearing [A/(A+B)] | 51.4% | 48.0% | | |
| Debt/Equity (A/B) | 105.8% | 92.2% | | |

(a) Net operating working capital is not an accounting measurement under the IFRSs endorsed by the European Union. The Company management has defined net operating working capital as the algebraic sum of inventories, trade receivables and trade payables.

(b) Other current assets/liabilities are calculated as the difference between other current assets, current tax receivables, current tax payables and other current liabilities.

(c) The Company management has defined invested capital as the sum of Shareholders' equity and net financial debt.

(d) The management has defined net financial debt as the sum of amounts Due to banks and other lenders net of Cash and cash equivalents and Current financial receivables.

Company information and business performance

Concerning the business performance, during the first quarter of 2020, the Servizi Italia Group recorded a consolidated turnover equal to Euro 62,856 thousand, down by 3.5% (-1.5% at constant exchange rates) compared to the financial statements as at 31 March 2019.

Concerning the performance of revenues from sales and services and the comparison between the first quarter 2020 and the first quarter 2019, the following should be noted:

- Revenues from **wash-hire services** (which in absolute terms represent 75.8% of the Group's revenues) pass from Euro 47,913 thousand in the first quarter of 2019 to Euro 47,565 thousand in 2020, supported by the acquisitions made in 2019 and by the excellent growth registered in Brazil and Turkey; however, these were offset by a negative exchange rate variation of 2.7%, leading to an overall decrease of 0.5%. In Italy there was a drop in revenues due to lower volumes recorded by the Parent Company in Lazio, the launch of new contracts in Lombardy and Emilia-Romagna with average prices lower than in the past, as well as a drop in turnover in the hotel and catering sector from March 2020, due to the current epidemiological emergency situation. Revenues in the Brazilian area are characterized by an organic growth in local currency of 7.1%, but they are offset by a negative exchange rate effect of 13.9% (depreciation of the Brazilian Real against the Euro) which leads to a negative change for the period of 6.8%. Revenues from Turkish area recorded an excellent organic growth for the period (+39.4%) as well and they were only partially offset by a negative exchange rate effect of 13.2% (depreciation of the Turkish lira against the Euro) which leads to a net positive change in turnover of 26.2%.
- Revenues from **linen sterilization services** (steril B) (which in absolute terms represents 7.1% of the Group's revenues) decreased from Euro 5,387 in the first quarter of 2019 to Euro 4,432 thousand in the first quarter of 2020, down by 17.6%. This division is affected by the effects of the current epidemiological situation, in addition to the termination of some contracts relating to the Friuli Venezia Giulia and Lombardy areas together with the contraction of some supplies to foreign countries.
- Revenues from **surgical instruments sterilization services** (steril C) (17.1% of Group's revenues) pass from Euro 11,828 thousand in the first quarter of 2019 to Euro 10,768 thousand in 2020, down by 9.0%. In particular, it should be noted that the Steril C segment recorded a decrease from March 2020, mainly due to the decrease in surgery activities related to the Coronavirus emergency.

Consolidated **EBITDA** passed from Euro 16,891 thousand in the first quarter of 2019 to Euro 15,447 thousand in the first quarter 2020, with a margin on revenues of 24.6% (25.1% at the same exchange rates and consolidation scope). It should be noted that the contraction in the margin is attributable to the decrease in turnover in Italy, as already explained. There was a higher incidence of raw material costs compared to turnover (+0.5%) mainly due to the purchase of disposable devices, PPE and detergent products, together with a higher incidence of costs for services (+1.2%) due to greater outsourcing of core services. Personnel costs decreased in relative terms with respect to turnover (-0.4%), due to a reduction of temporary agency work and a greater use, facing the Covid-19

emergency, of holidays and days of leave. In the first quarter 2020, the excellent results of operating margins at international level were confirmed both in Brazil (EBITDA margin 35.4%) and Turkey (EBITDA margin 37.2%), which recorded a significant increase compared to the first quarter 2019.

The operating result (**EBIT**) went from Euro 3,216 thousand in the first quarter of 2019 (4.9% compared to turnover for the period) to Euro 1,914 thousand in the same period of 2020 (3.0% compared to turnover for the period or 3.2% at the same exchange rates and consolidation scope), mainly due to the dynamics already described in the commentary on the change in turnover and EBITDA.

Financial management shew an increase in financial charges compared to the same period of the previous year mainly due to exchange losses (Euro 365 thousand) relating to the depreciation of Real and Turkish Lira against the Euro. It should also be noted that the results for the quarter were adversely affected by the valuation of some jointly controlled companies, whose results recorded high exchange losses due to the depreciation of the reference currencies (especially Lek and Rupee) against the Euro.

Taxes for the period are positive (Euro 364 thousand), deriving mainly from the recognition in the income statement of deferred tax assets on the tax loss generated by Servizi Italia S.p.A. due to the cumulative effect of tax benefits deriving, in the Italian area, from the deduction from corporate income of the so-called "super and hyper amortization" on investments as provided by 2017 Budget Law (Law n.232/2016).

Therefore, the interim consolidated financial statements as at 31 March 2020 closed with a **net profit** of Euro 158 thousand compared to Euro 2,730 thousand in the same period of the year.

Significant Events and Transactions

On 7 January 2020, the Company announced the resignation of its CEO Mr. Enea Righi from every office, function and role covered in the Company and in any other company of the Servizi Italia Group. The Board of Directors, upon consultation with the Nomination and Remuneration Committee, activated the succession planning policy and assigned the management powers to an Executive Committee consisting of Roberto Olivi (Chairman of the Board of Directors), Ilaria Eugeniani (Director, appointed Vice-Chairman of the Board of Directors) and Michele Magagna (Director), assisted by the Chief Operating Officer Andrea Gozzi. For additional information, please refer to the press release.

On 5 March 2020, the Board of Directors appointed Roberto Olivi as Director responsible for the internal control and risk management system ad interim. This role had been previously held by the outgoing CEO.

The main characteristics of the awarded contracts in Italy, which have an annual contract value of more than Euro 50 thousand, are provided below:

| Customer | Description of service provided | Duration years | Contract value per year (thousands of Euros) |
|--|--|----------------|--|
| Azienda ULSS 8 Berica* | Integrated management of anti-RX personal protective equipment | 15 months | 53 |
| Rete Ferroviaria Italiana (Ferrovie dello Stato Group)** | PPE washing services | 2 | 111 |
| A4 Autostrada S.p.A.** | Wash-hire and maintenance of high-visibility PPE | 3 | 68 |
| ARPAE Emilia Romagna* | Wash-hire service for staff clothes | 3 | 130 |
| ASST Spedali Civili di Brescia* (awarded as part of a temporary joint consortium) | Extension of sterilization service: construction of a sub-CSSD in Gardone Val Trompia and outsourcing of new specialties | 4 | 654 |
| Regione Sardegna – Lotto 1: ATS Sardegna** (awarded as part of a temporary joint consortium) | Wash-hire services | 5 | 278 |
| Regione Sardegna – Lotto 2: AO Brotzu e AOU Cagliari** (awarded as part of a temporary joint consortium) | Wash-hire services | 5 | 91 |
| Regione Sardegna – Lotto 3: AOU Sassari** (awarded as part of a temporary joint consortium) | Wash-hire services | 5 | 80 |
| ASST Milano Nord** | Wash-hire services | 2,5 | 609 |
| ASM Impianti e servizi ambientali S.p.A.** | Rental, washing, maintenance, logistics and management of uniforms and high visibility PPE | 3 | 58 |

* re-awarded

**new customer

The contracts that ended during the reference period are outlined below:

| Customer | Service provided | Contract value per year (thousands of Euros) |
|------------------------|--------------------|--|
| ASST SS. Paolo e Carlo | Wash-hire services | 2,321 |
| Fondazione Maugeri | Wash-hire services | 720 |

Information about Covid-19

During the first quarter of 2020, the Group's activities, which operate in strict compliance with the relevant regulations, were affected by the viral pandemic SARS-Cov-2 or Covid-19 (also known as Coronavirus), which had its first displays in Italy from February 2020 and in other countries where the Group operates from the beginning of March 2020.

The Group has promptly started to monitor the effects of the pandemic on its results and the related analyses are still ongoing. In the first quarter of 2020, there were different impacts on Group's results, depending on the sector of reference and relative geographical area.

For what concerns the Group's activities in **Italy**, the following should be particularly noted:

- since the beginning of Coronavirus emergency, the wash-hire sector in healthcare has seen an increase in the reconditioning activities of certain categories of hospital textiles, with particular regard to the reconditioning of uniforms of healthcare workers, as well as a greater demand for equipment. These higher volumes compensated the lower demand for bed linen, since hospitals,

in their strategy to contain the virus, reduced hospital accesses and interrupted outpatient services, thus causing a reduction in bed linen consumption. It is believed that from the month of May 2020 there will be a gradual recovery in ordinary healthcare services and therefore hospitalisation;

- surgical instrument sterilization services have recorded an activity contraction, which is considered temporary. In fact, in this emergency, hospitals have generally adopted a strategy to reduce the number of scheduled surgical operations in operating theatres, confirming only emergency services. These lower volumes are to be considered as temporary and, at least partially, recoverable throughout the year, since at the moment the gradual and ordinary resumption of healthcare services and therefore hospitalisation is promoted;
- wash-hire services for homecare and nursing homes have recorded a reduction in production volumes, connected to the number of deaths of elderly guests of residential facilities and a temporary slowdown in access to the residential facilities. It is believed that the effect on business is temporary, since the service is considered defensive, essential and of public utility. It is therefore estimated that over the next few months there will be a gradual recovery in health and social services to fragile adults, who are partially or totally non-autonomous, in favour of day and night hospitality, personal care, surveillance, but also medical care, rehabilitation services and socialising activities;
- the wash-hire services for hotel and catering sector have recorded a contraction in sales volumes and, to date, Government's actions to incentive/sustain domestic and foreign tourism and therefore the recovery in the short term of the activities are not foreseeable. In this regard, it should be noted that the hotel and catering services represent a minority share of Servizi Italia's business;
- Government's provisions for the lockdown of production activities of industrial companies have led to a temporary contraction in the volume of laundry services for community and industry (Workwear). The effect on business is temporary since, at the present time, the gradual resumption of activities is being promoted, in compliance with the provisions of the law. In this regard, it should be noted that workwear laundry services represent a minority share of Servizi Italia's business.

The current health emergency represents an extraordinary and unforeseeable event which, by altering the synallagma of some essential contracts, puts the Group in a position to initiate discussions with customer administrations in order to define the conditions for recovering any excess costs incurred.

In addition to Italy, the activities consolidated on a line-by-line basis by the Group concern laundry services for healthcare in **Brazil** and **Turkey**. In these countries, the Coronavirus emergency started to have effects some weeks later than in Italy. On the basis of the preliminary analysis carried out, it is estimated that the effects of the emergency on business volumes in these areas follow the same trend for hospital laundry services as in Italy.

The mix of factors highlighted here above, in relation to how Coronavirus emergency impacted service demand trends, had a direct impact on productive and business support activities. In particular:

- The operations within laundries working with the healthcare sector increased, with changes in shifts, transfers of production activities among Group's operating sites having available production capacity, recourse to the outsourcing to qualified third parties of washing services;
- Changes in the provision and delivery of services at hospitals;
- Reduction of operations in CSSDs and laundries dedicated to activities other than healthcare, with a consequent need for targeted personnel management;
- Remote working for both employees and management, also using holidays and days of leave, if possible;
- Increase in the procurement of goods and services to avoid the spread of contagion and protect the health and safety of personnel, with a substantial increase in costs for the purchase of personal protective equipment that will also impact the coming months, as well as the environment and business continuity. In addition, measures have been taken to review contracts for the supply of goods and services in order to guarantee emergency services and contain costs and/or investments in response to the contraction in demand for services and production volumes.

In view of the fact that the services provided by the Group are considered essential, crucial and of public utility and therefore defensive with respect to the current epidemiological situation, the Group has implemented risk & project management and project control activities in order to (i) avoid the spread of contagion and protect the health and safety of its personnel and the environment, (ii) ensure business continuity, (iii) mitigate any possible negative impact on economic results coming from a drop in demand for certain types of services; (iv) have an updated mapping of risks, related impacts and mitigation actions in the various areas of Company organization, in line with the requirements of Risk Management and Internal Audit processes.

It should also be noted that the effects mentioned above, in relation to the impact of the recession caused by Covid-19 virus, have shown their first economic effects starting from March 2020 and, compared with management's estimates currently available, will mainly affect the second quarter results.

Significant events after the end of the quarter

On 28 April 2020, the Ordinary Shareholders' Meeting:

- approved the Parent Company's financial statements as at 31 December 2019 and the distribution of a gross unit dividend of Euro 0.14 per share, treasury shares in portfolio excluded; (ii) renewed the authorization to purchase and dispose treasury shares, according to what proposed by the Board of Directors, subject to revocation of the previous authorization (dated 20 April 2018) for anything not used;
- renewed the authorization to purchase and dispose treasury shares, as proposed by the Board of Directors. The resolution authorizes to purchase a maximum of 6,361,890 ordinary shares with a par value of Euro 1.00 each, corresponding to the fifth part of Company's share capital (taking into account the shares already held by the Company from time to time) for a period of 18 months from today's date, while the duration of the authorization relating to the disposal of treasury shares has no time limit;
- approved the remuneration policy of Servizi Italia S.p.A.;

- appointed the members of the Board of Statutory Auditors, who will remain in office until the Shareholders' Meeting called to approve the financial statements as at 31 December 2022, also determining their remuneration;
- resolved to integrate the Board of Directors by appointing the candidate proposed by the majority Shareholder Aurum S.p.A., Giovanni Manti, manager with strategic responsibilities. He will remain in office until the expiry of the current Board of Directors and, therefore, until the Shareholders' Meeting called to approve the financial statements as at 31 December 2020.

On 15 April 2020, the minority shareholders of the Brazilian companies Maxlav Lavanderia Especializada S.A. and Vida Lavanderia Especializada S.A., which were already indirectly controlled by Servizi Italia through a 65.1% stake, exercised the put option to sell their 34.9% stake in the share capital of the two companies for a total consideration of Real 19,994 thousand (Euro 3,501 thousand at the exchange rate of 15 April 2020). Servizi Italia therefore, through SRI Empreendimentos and Participacoes LTDA., will hold 100% of the share capital of both companies.

On 30 April 2020, Servizi Italia received the resignation with immediate effect of Director Paola Schwizer, who resigned as director of the Company due to the add up of professional commitments. It should be noted that the resigning director is not entitled to indemnities or other benefits resulting from the termination of the office and that at the date of resignation she holds no share in Servizi Italia S.p.A.

As at 11 May 2020, the Company acquired a total of 1,240,941 treasury shares on the market regulated and managed by Borsa Italiana, equal to 3.90% of the share capital.

Business outlook

The Group's activities are influenced by the general economic conditions and the epidemiological situation of the countries in which it operates. In addition to what has been described above regarding the effects of the SARS-Cov-2 viral epidemic, it should be noted that the Italian market for industrial laundries is experiencing a structural contraction related to certain critical issues specific to the healthcare services sector, such as the phenomenon of the awarding of contracts with downward economic offers, the effects of which have affected the Parent Company, with the failure to reconfirm contracts in portfolio and the awarding of contracts already in portfolio at lower prices than in the past. While maintaining forecasts of an overall positive operating margin in the foreseeable future, management will be affected in the medium term by a reduction in turnover in the domestic wash-hire sector and a reduction in operating margins which, in part, can be offset by the further development of the sectors with higher margins and by the following targets:

- modification of both commercial and operational strategy, according to the market context of the countries in which the Group operates;
- improvement of operating margins and profitability, with revision of technical and economic guidance, re-engineering and reorganization of the organizational model, thanks to the support of technologies and digitization of processes that allow the efficiency of operational activities and business support, and finally the use of institutes and legal instruments for personnel management (e.g. CIGO, Italian acronym for Ordinary Wages Guarantee Fund);

- o implementation of appropriate measures to ensure business continuity, managing the epidemiological risk to ensure health, safety and working activities of employees, in compliance with the regulatory requirements of governments in the countries where the Group operates, protocols on safety in the workplace and internal operating procedures.

Moreover, the Group as a whole will be able to benefit from the effects of the internationalization strategy by consolidating the positive results achieved in the countries where it operates, particularly in Brazil and Turkey.

The Group has a solid financial position, good creditworthiness with banks and remains confident that it can efficiently manage the effects of the current epidemiological crisis. As a confirmation of this, the Shareholders' Meeting of 28 April 2020 approved the distribution of dividends to shareholders.

Servizi Italia and financial markets

The Company shares have been traded on the STAR segment of the Borsa Italiana S.p.A. electronic stock market since 22 June 2009. The main share and stock exchange data as at 31 March 2020 are reported below along with share volume and price trends (in Euros):

| Share and stock exchange data | 31 March 2020 |
|---|---------------|
| No. of shares making up the share capital | 31,809,451 |
| Price at IPO: 4 april 2007 | 8.50 |
| Price as at 31 March 2020 | 2.32 |
| Maximum price during the period | 3.22 |
| Minimum price during the period | 1.95 |
| Average price during the period | 2.63 |
| Volumes traded during the period | 9,205,915 |
| Average volumes during the period | 146,126 |

Share volumes and prices from up to 31 March 2020



During the period, the investor relations team held several individual and group meetings with analysts and investors and organized guided tours of CSSDs and industrial laundries for shareholders and potential investors who asked for.

The Group, in addition to the research study carried out by Specialist Intermonte SIM, also appointed Midcap Partners (Appointed rep by Louis Capital Markets UK, LLP).

Other information

The Directors acknowledge that the company took the necessary measures to ensuring the company's compliance with the provisions of Regulation EU 2016/679 ("GDPR") and the applicable national legislation governing personal data protection. In particular, given the company does not fall under the cases of mandatory appointment of a DPO indicated by GDPR, in order to guarantee proof of its accountability, Servizi Italia S.p.A. appointed a Chief Privacy Officer who, with the appropriate organizational model, will have the task of monitoring and providing support and consultancy to all company functions regarding the application and observance of the GDPR and the applicable legislation governing personal data protection.

Servizi Italia S.p.A, pursuant to article 3 of the Consob Resolution no. 18079 of 20 January 2012, decided to join the out-put regime set forth in article 70, paragraph 8, and 71, paragraph 1 bis, of the Consob Regulations n. 11971/99 (as amended), availing itself of the right to derogate from the obligation to publish the information documents as set forth in annex 3B of the above mentioned Consob Regulations when carrying out significant merging, demerging, share capital increases through contributions in kind, acquisitions and transfer operations.

With reference to the changes made in 2016 to the regulatory framework, Servizi Italia S.p.A. will publish the additional periodical information notwithstanding the obligations set forth for the issuers listed in the STAR segment, as specified in article 2.2.3, par. 3, of the Regulations of the Markets organized and managed by Borsa Italiana S.p.A. and in the notice no. 7578 issued by Borsa Italiana on 21 April 2016.

The Chairman of the Board of Directors

(Roberto Olivi)

4 ACCOUNTING SCHEDULES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| <i>(thousands of Euros)</i> | 31 March 2020 | 31 December 2019 |
|--|----------------|------------------|
| ASSETS | | |
| Non-current assets | | |
| Property, plant and equipment | 172,548 | 175,575 |
| Intangible assets | 6,128 | 5,901 |
| Goodwill | 68,390 | 71,025 |
| Equity-accounted investments | 24,510 | 25,372 |
| Equity investments in other companies | 3,717 | 3,677 |
| Financial receivables | 6,896 | 6,577 |
| Deferred tax assets | 5,510 | 4,960 |
| Other assets | 4,625 | 5,821 |
| Total non-current assets | 292,324 | 298,908 |
| Current assets | | |
| Inventories | 7,000 | 6,882 |
| Trade receivables | 75,108 | 72,126 |
| Current tax receivables | 2,065 | 2,085 |
| Financial receivables | 8,047 | 8,310 |
| Other assets | 13,512 | 9,604 |
| Cash and cash equivalents | 9,034 | 7,141 |
| Total current assets | 114,766 | 106,148 |
| TOTAL ASSETS | 407,090 | 405,056 |
| SHAREHOLDERS' EQUITY AND LIABILITIES | | |
| Group shareholders' equity | | |
| Share capital | 30,633 | 30,935 |
| Other reserves and retained earnings | 93,966 | 94,728 |
| Profit (Loss) for the period | (39) | 8,990 |
| Total shareholders' equity attributable to shareholders of the parent | 124,560 | 134,653 |
| Total shareholders' equity attributable to non-controlling interests | 3,159 | 3,604 |
| TOTAL SHAREHOLDERS' EQUITY | 127,719 | 138,257 |
| LIABILITIES | | |
| Non-current liabilities | | |
| Due to banks and other lenders | 62,344 | 68,558 |
| Deferred taxes liabilities | 2,407 | 2,408 |
| Employee benefits | 9,799 | 10,321 |
| Provisions for risks and charges | 4,134 | 4,429 |
| Other financial liabilities | 3,387 | 3,877 |
| Total non-current liabilities | 82,071 | 89,593 |
| Current liabilities | | |
| Due to banks and other lenders | 89,846 | 74,301 |
| Trade payables | 79,933 | 72,364 |
| Current tax payables | 154 | 191 |
| Other financial liabilities | 7,544 | 9,269 |
| Provisions for risks and charges | 1,387 | 1,453 |
| Other payables | 18,436 | 19,628 |
| Total current liabilities | 197,300 | 177,206 |
| TOTAL LIABILITIES | 279,371 | 266,799 |
| TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES | 407,090 | 405,056 |

CONSOLIDATED INCOME STATEMENT

| <i>(thousands of Euros)</i> | 31 March 2020 | 31 March 2019 |
|--|---------------|---------------|
| Sales revenues | 62,856 | 65,119 |
| Other income | 926 | 895 |
| Raw materials and consumables | (6,938) | (6,839) |
| Costs for services | (19,506) | (19,418) |
| Personnel expense | (21,445) | (22,497) |
| Other costs | (446) | (370) |
| Depreciation, amortization, write-downs, impairment and provisions | (13,533) | (13,674) |
| Operating profit | 1,914 | 3,216 |
| Financial income | 404 | 546 |
| Financial expenses | (1,647) | (1,246) |
| Income/(Expense) from equity investments in other companies | - | - |
| Revaluation/Impairment of equity-accounted investments | (877) | 370 |
| Profit before tax | (206) | 2,886 |
| Current and deferred taxes | 364 | (156) |
| Profit (Loss) of the period | 158 | 2,730 |
| of which: Attributable to shareholders of the parent | (39) | 2,657 |
| Attributable to non-controlling interests | 197 | 73 |

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| <i>(thousands of Euros)</i> | 31 March 2020 | 31 March 2019 |
|---|------------------|------------------|
| Profit (Loss) of the period | 158 | 2,730 |
| <i>Other comprehensive income that will not be reclassified to the Income Statement</i> | | |
| Actuarial gains (losses) on defined benefit plans | - | - |
| Income taxes on other comprehensive income | - | - |
| <i>Other comprehensive income that may be reclassified to the Income Statement</i> | | |
| Gains (losses) from translation of foreign financial statements | (9,377) | (333) |
| Portion of comprehensive income of the investments measured using the equity method | (140) | (360) |
| Income taxes on other comprehensive income | - | - |
| Total other comprehensive income after taxes | (9,517) | (693) |
| Total comprehensive income for the period | (9,359) | 2,037 |
| of which: Attributable to shareholders of the parent | (9,308) | 2,005 |
| Attributable to non-controlling interests | (51) | 32 |

CONSOLIDATED NET FINANCIAL POSITION

| <i>(thousands of Euros)</i> | 31 March 2020 | 31 December 2019 | 31 March 2019 |
|--|------------------|---------------------|------------------|
| Cash and cash equivalents in hand | 29 | 44 | 53 |
| Cash at bank | 9,005 | 7,097 | 13,658 |
| Cash and cash equivalents | 9,034 | 7,141 | 13,711 |
| Current financial liabilities | 8,047 | 8,310 | 8,588 |
| <i>of which financial liabilities for IFRS 16</i> | (89,846) | (74,301) | (81,281) |
| Current liabilities to banks and other lenders | (3,467) | (3,707) | (2,885) |
| Current net financial debt | (81,799) | (65,991) | (72,693) |
| Non-current liabilities to banks and other lenders | (62,344) | (68,558) | (73,077) |
| <i>of which financial liabilities for IFRS 16</i> | (31,031) | (32,552) | (31,013) |
| Non-current net financial debt | (62,344) | (68,558) | (73,077) |
| Net financial debt | (135,109) | (127,408) | (132,059) |

5 EXPLANATORY NOTES

5.1 Introduction

The Interim Report as at 31 March 2020 has been drafted in compliance with Art. 154-ter of the Consolidated Law on Finance.

The accounting principles and criteria adopted to prepare this Interim Report as at 31 March 2020, which has not been audited, are the same as those used to prepare the annual financial statements as at 31 December 2019. It is underlined that, as required by Consob Communication No. DEM/5073567 of 4 November 2005, the Group has exercised the option to provide less details than required under IAS 34 (Interim Financial Reporting).

The subsidiaries San Martino 2000 S.c.r.l, Steritek S.p.A, Wash Service S.r.l., Ekolav S.r.l., SRI Empreendimentos e Participações Ltda (parent company of Lavsim Higienização Têxtil S.A., Maxlav Lavanderia Especializada S.A., Vida Lavanderias Especializada S.A., Aqualav Serviços De Higienização Ltda) are all consolidated line-by-line, as well as Ankateks Turizm İnşaat Tekstil Temizleme Sanayi ve Ticaret Ltd Şirketi (parent company of Ergülteks Temizlik Tekstil Ltd. Sti).

On 25 March 2020, the Junta Comercial do Estado Do Amazonas approved the process of extinction, with retroactive effect from 20 February 2020, of the company SIA Lavanderia S.A. in liquidation, initially approved by Company's shareholders' meeting. Therefore, from the above date, the company is extinguished and consequently excluded from the Group's scope of consolidation.

The estimation criteria used to prepare the Interim Report are basically the same as those applied in the Annual Financial Statements.

This Interim Report is approved by the Board of Directors on 13 May 2020.

5.2 Performance by business segment and geographical area

Revenues from sales and services of Servizi Italia Group are shown below divided by business line for periods ending on 31 March 2020 and 31 March 2019.

| (thousands of Euros) | 31 March 2020 | % | 31 March 2019 | % | Change % | Organic change % | Translation change % |
|--|------------------|---------------|------------------|---------------|--------------|---------------------|-------------------------|
| Wash-hire | 47,656 | 75.8% | 47,913 | 73.6% | -0.5% | -2.4% | -2.7% |
| Linen Sterilization (STERIL B) | 4,432 | 7.1% | 5,378 | 8.3% | -17.6% | -17.6% | - |
| Surgical instrument sterilization (STERIL C) | 10,768 | 17.1% | 11,828 | 18.2% | -9.0% | -9.0% | - |
| Sales revenue | 62,856 | 100.0% | 65,119 | 100.0% | -3.5% | -1.5% | -2.0% |

- Revenues from wash-hire services (which in absolute terms represent 75.8% of Group's revenues) pass from Euro 47,913 thousand in the first quarter of 2019 to Euro 47,656 thousand in 2020, supported by the acquisitions made in 2019 and by the excellent growth in Brazil and Turkey, however offset by a negative exchange rate variation equal to 2.7% and by a drop in volumes in the Italian area, which leads to an overall decrease of 0.5%;

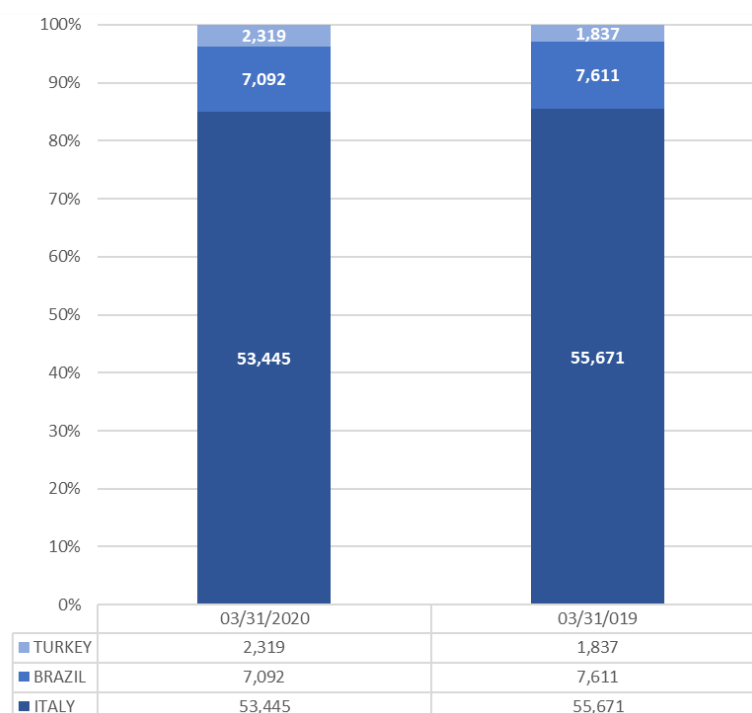
- Revenues from linen sterilization services (steril B) (which in absolute terms represent 7.1% of Group's revenues) pass from Euro 5,378 thousand in the first quarter of 2019 to Euro 4,432 thousand, down by 17.6% due to the termination of some contracts relating to the Friuli Venezia Giulia and Lombardy areas together with the contraction in supplies to foreign countries;
- Revenues from surgical instruments sterilization services (steril C) (equal to 17.1% of Group's revenues) pass from Euro 11,828 thousand in the first quarter of 2019 to Euro 10,768 thousand in 2020, down by 9.0% mainly due a decrease of surgical operations connected to Coronavirus emergency.

The following graph shows the details of revenue by business line:



The table below shows revenue from sales and services of the Group broken down by geographical area, for the periods ending on 31 March 2020 and 2019:

| (thousands of Euros) | 31 March 2020 | % | 31 March 2019 | % | Change % | Organic change % | Translation change % |
|----------------------------|---------------|-------------|---------------|---------------|--------------|------------------|----------------------|
| Italy | 53,445 | 85.0% | 55,671 | 85.5% | -4.0% | -8.0% | - |
| Brazil | 7,092 | 11.3% | 7,611 | 11.7% | -6.8% | 7.1% | -13.9% |
| Turkey | 2,319 | 3.7% | 1,837 | 2.8% | 26.2% | 39.4% | -13.2% |
| Revenues from sales | 62,856 | 100% | 65,119 | 100.0% | -3.5% | -1.5% | -2.0% |



5.3 Notes on the main changes in the statement of financial position

Property, plant and equipment

Changes in property, plant and equipment and the associated accumulated depreciation are shown in the table below.

| (thousands of Euros) | Land and buildings | Plant and machinery | Returnable assets | Equipment | Other assets | Assets under construction | Total |
|---------------------------------------|--------------------|---------------------|-------------------|---------------|----------------|---------------------------|----------------|
| Historical cost | 43,234 | 154,548 | 34,648 | 66,743 | 152,812 | 5,713 | 457,698 |
| Accumulated depreciation | (5,773) | (99,713) | (24,270) | (52,262) | (100,105) | - | (282,123) |
| Balance as at 31 December 2019 | 37,461 | 54,835 | 10,378 | 14,481 | 52,707 | 5,713 | 175,575 |
| Translation differences | (512) | (2,901) | (352) | (161) | (1,930) | (206) | (6,062) |
| Change in the consolidation scope | 384 | 1,022 | 43 | 1,706 | 11,454 | 2,128 | 16,737 |
| Increases | (379) | (7) | - | (2) | (70) | (214) | (672) |
| Decreases | (859) | (2,191) | (597) | (1,322) | (8,011) | - | (12,980) |
| Amortization | - | - | - | - | (50) | - | (50) |
| Write-downs (reinstatements) | - | 981 | 34 | 177 | 115 | (1,307) | - |
| Reclassifications | 36,095 | 51,739 | 9,506 | 14,879 | 54,215 | 6,114 | 172,548 |
| Balance as at 31 March 2020 | 42,649 | 152,060 | 34,110 | 68,369 | 159,515 | 6,114 | 462,817 |
| Historical cost | (6,554) | (100,321) | (24,604) | (53,490) | (105,300) | - | (290,269) |
| Accumulated depreciation | 36,095 | 51,739 | 9,506 | 14,879 | 54,215 | 6,114 | 172,548 |
| Balance as at 31 March 2020 | 43,234 | 154,548 | 34,648 | 66,743 | 152,812 | 5,713 | 457,698 |

The item "Translation differences" refers to the exchange rate variation for Brazilian companies (Lavsım Higienizaao Têxtil S.A., Maxlav Lavanderia Especializada S.A., Vida Lavanderias Especializada S.A., SRI Empreendimentos e Participaoes L.t.d.a., Aqualav Servios De Higienizaao Ltda) and Turkish companies (Ankateks Turizm İnřaat Tekstil Temizleme Sanayi ve Ticaret Ltd řirketi and Ergülteks Temizlik Tekstil Ltd. Sti.).

Investments in property, plant and equipment carried out during the first quarter 2020, equal to Euro 16,737 thousand, mainly refer to the purchase of linen in the Italian area (for Euro 9,939 thousand) and in the Brazilian area (for Euro 1,063 thousand) and they are registered as “other assets”.

Investments in equipment mainly refer to the purchase of surgical instruments (Euro 1,159 thousand).

The item “Plant and machinery” registers an increase of Euro 1,022 relating to the supply and upgrading of plants and machineries for washing lines, of which Euro 867 thousand made in Italy.

The increase in item “Assets under construction” is related to works on third party assets still under construction at the end of the quarter 2020 for Euro 2,128 thousand and they are mainly related to the installation of new washing lines, respectively for Euro 1,607 in Italy and Euro 173 thousand in Brazil.

Reclassifications show decreases of Euro 1,307 thousand mainly relating to the commissioning of a new washing plant by the Turkish companies Ankateks Turizm İnşaat Tekstil Temizleme Sanayi ve Ticaret Ltd Şirketi (for Euro 484 thousand) and Ergülteks Temizlik Tekstil Ltd. Sti (for Euro 176 thousand) and the Brazilian company Maxlav Lavanderia Especializada S.A. (for Euro 159 thousand).

Intangible assets

This item changed as follows:

| (thousands of Euros) | Trademarks, Software and Patent and intellectual property rights | Customer contracts portfolio | Other intangible assets | Assets under construction and payments on account | Total |
|---------------------------------------|--|------------------------------|-------------------------|---|--------------|
| Historical cost | 6,817 | 8,368 | 624 | 266 | 16,075 |
| Accumulated depreciation | (5,261) | (4,788) | (125) | - | (10,174) |
| Balance as at 31 December 2019 | 1,556 | 3,580 | 499 | 266 | 5,901 |
| Translation differences | (46) | - | (100) | (2) | (148) |
| Increases | 102 | - | 547 | 109 | 758 |
| Decreases | - | - | - | - | - |
| Depreciation | (164) | (123) | (96) | - | (383) |
| Write-downs (reinstatements) | - | - | - | - | - |
| Reclassifications | 86 | - | - | (86) | - |
| Balance as at 31 March 2020 | 1,534 | 3,457 | 850 | 287 | 6,128 |
| Historical cost | 6,891 | 8,368 | 1,041 | 287 | 16,587 |
| Accumulated depreciation | (5,357) | (4,911) | (191) | - | (10,459) |
| Balance as at 31 March 2020 | 1,534 | 3,457 | 850 | 287 | 6,128 |

The increase in intangible assets mainly concerns the accounting of the non-competition agreement stipulated with the previous CEO for a total of Euro 547 thousand. This amount is amortized using the *pro rata temporis* method based on the duration of the agreement, which is going to expire on 7 January 2022.

Goodwill

Goodwill is allocated to the Servizi Italia Group’s cash generating units identified by geographical area, which reflects the areas of operation of the companies acquired over the years. Goodwill is allocated by geographical area as follows:

| <i>(Thousands of Euros)</i> | as at 31 December 2019 | Increases/ (Decreases) | Translation differences | as at 31 March 2020 |
|-----------------------------|------------------------------|---------------------------|----------------------------|---------------------------|
| CGU Italy | 51,668 | - | - | 51,668 |
| CGU Turkey | 10,248 | - | (742) | 9,506 |
| CGU Brazil | 9,109 | - | (1,893) | 7,216 |
| Total | 71,025 | - | (2,635) | 68,390 |

The change in the period is exclusively attributable to the exchange rate differences on the translation into Euro of goodwill arising from the acquisitions in Brazil and Turkey

At the date of approval of this interim report, no facts or events have taken place that may indicate an impairment loss in the goodwill recognized and tested for impairment at the end of 2019.

Equity-accounted investments

This item changed as follows:

| <i>(Thousands of Euros)</i> | as at 31 March 2020 | as at 31 December 2019 |
|---|---------------------------|------------------------------|
| Initial balance | 24,171 | 23,923 |
| Increases/(decreases) | - | 727 |
| OCI changes | (140) | (882) |
| Revaluations/(write-downs) | (877) | 480 |
| Translation differences | (136) | (77) |
| Final balance | 23,018 | 24,171 |
| of which recognized in provisions for risks and charges | (1,492) | (1,201) |
| of which recorded in equity-accounted investments | 24,510 | 25,372 |

Revaluations and write-downs reflect the portion of profits and losses earned by investee companies in the period.

The negative item in OCI change (Euro 140 thousand) corresponds to the portion attributable to the Servizi Italia Group, within the scope of application of the equity method, of the change in the fair value of the hedging derivatives subscribed by the company Ospedal Grando S.p.A. (controlled by the jointly controlled company Finanza e Progetti S.p.A.).

It should be noted that the negative results recorded in the period by Saniservice Sh.p.k. for Euro 449 thousand and Shubhram Hospital Solutions Private Limited for Euro 315 thousand, are mainly due to the depreciation of Lek and Rupee respectively against the Euro.

With reference to the investment in Shubhram Hospital Solutions Private Limited, in consideration of the commitments undertaken with the local Indian partner, the portion of the losses exceeding the value of the investment has been entered in the item "Provisions for risks and charges".

Other non-current assets

The item is broken down as follows:

| <i>(thousands of Euros)</i> | as at 31 March 2020 | as at 31 December 2019 |
|---|---------------------------|------------------------------|
| Substitute Italian tax D.L. 185/2008 subsequent years | 2,642 | 3,354 |
| Receivables for IRES reimbursement request pursuant to Art. 2 par. 1-quater Italian D.L. n. 201 | 175 | 175 |
| Aqualav receivable, in escrow account | 1,407 | 1,776 |
| Other non-current assets | 401 | 516 |
| Total | 4,625 | 5,821 |

The change in this item is mainly due to the release to the income statement of the substitute taxes pursuant to Article 15, paragraph 10-12 of Legislative Decree 185/08, paid in order to obtain tax recognition of the goodwill values that emerged during the business combination. These substitute taxes were recorded as advance payments of current taxes and released to the income statement over the period in which the company will benefit from the tax deductions related to the respective goodwill. The change in the "Aqualav receivable, in escrow account" is attributable to the depreciation of the Real against the Euro.

Trade receivables

Trade receivables amount to Euro 75,108 as at 31 March 2020, up by Euro 2,982 thousand compared to 31 December 2019.

During the first quarter of 2019, the Servizi Italia Group carried out some transactions involving the disposal of receivables, as described below:

- transfer without recourse to Credemfactor S.p.A of Euro 12,842 thousand in trade receivables for consideration of Euro 12,814 thousand;
- transfer without recourse to Unicredit Factoring S.p.A of Euro 10,834 in trade receivables for consideration of Euro 10,5814 thousand.

Other current assets

The item is broken down as follows:

| <i>(thousands of Euros)</i> | as at 31 March 2020 | as at 31 December 2019 |
|-------------------------------|---------------------|------------------------|
| Due from others | 9,994 | 7,921 |
| Prepayments | 3,273 | 1,398 |
| Guarantee deposits receivable | 213 | 227 |
| Accrued income | 32 | 58 |
| Total | 13,512 | 9,604 |

The item "Due from others" is mainly composed of VAT credit requested for reimbursement, for a total of Euro 6,467 thousand (Euro 4,275 as at 31 December 2019) and, for the residue, mainly advances and receivables from social security institutions, all due within the year. The increase in prepayments is mainly due to the portion of rents and insurance premiums recorded at the beginning of the year. The item "guarantee deposits receivable" relates to energy utilities and rental contracts.

Shareholders' equity

As at 31 March 2020, the fully subscribed and paid-up share capital of Servizi Italia S.p.A. is broken down into 31,809,451 ordinary shares with a nominal amount of Euro 1 each. The Parent Company, during the first three months of 2020, purchased 302,730 treasury shares, for a countervalue of Euro 785 thousand, equal to 0.95% of the share capital, at an average book value of Euro 2.59 per share. Following these operations, as at 31 March 2020, the Company held 1,176,941 treasury shares, equal to 3.70% of the share capital. The value of treasury shares held on 31 March 2020, equal to Euro 3,750 thousand, has been classified as a decrease of net equity.

It should be also noted the negative effect of Euro 9,377 thousand on the translation reserves of the assets of the companies preparing the financial statements in foreign currency and mainly following the depreciation of the Brazilian Real and the Turkish Lira.

Non-current liabilities to banks and other lenders

Payables to banks and other non-current lenders decreased from Euro 68,558 thousand as at 31 December 2019 to Euro 62,344 thousand as at 31 March 2020. This variation, equal to Euro 6,214 thousand, is connected to the reclassification in short term of the loan instalments falling due within the following 12 months and to the repayment of the loan instalments falling due during the year.

Other non-current payables

The item is broken down as follows:

| (Thousands of Euro) | as at 31 March 2020 | as at 31 December 2019 |
|--|------------------------|---------------------------|
| Payables to Area S.r.l. | 200 | 200 |
| Payables to Wash Service S.r.l. shareholders | 492 | 989 |
| Put option payables of Steritek S.p.A. | 1,818 | 1,814 |
| Put option payables of Wash Service S.r.l. | 877 | 874 |
| Other payables | - | - |
| Total | 3,387 | 3,877 |

The change in the period relates to the classification under other current financial liabilities of the portion of debt payable within 12 months to minority shareholders of Wash Service S.r.l. for the price instalments of 90% of the shares purchased during 2019.

Current liabilities to banks and other lenders

Payables to banks and other current lenders registered an increase equal to Euro 15,545 thousand, passing from Euro 74,301 thousand as at 31 December 2019 to Euro 89,846 thousand as at 31 March 2020. The increase in the balance has been determined by greater recourse to self-liquidating credit lines.

Trade payables

The item is broken down as follows:

| <i>(thousands of Euros)</i> | as at 31 March 2020 | as at 31 December 2019 |
|---|---------------------|------------------------|
| Deposits | - | 15 |
| Due to suppliers | 71,706 | 65,375 |
| Due to associates | 2,402 | 2,212 |
| Due to parent company | 4,979 | 4,625 |
| Payables to companies under the control of the parent companies | 846 | 137 |
| Total | 79,933 | 72,364 |

Other current payables

The item is broken down as follows:

| <i>(thousands of Euros)</i> | as at 31 December 2019 | as at 31 December 2019 |
|--|------------------------------|------------------------------|
| Payables to Area S.r.l. | - | 300 |
| Payables to Finanza e Progetti S.p.A. | 2,460 | 2,460 |
| Deferred price Aqualav Serviços De Higienização L.t.d.a. | 90 | 191 |
| Put option payables for Maxlav Lavanderia Especializada S.A. and Vida Lavanderias Especializada S.A. | 3,494 | 4,409 |
| Payables to Lavanderia Bolognini M&S S.r.l. | 1,000 | 1,000 |
| Payables to Wash Service S.r.l. shareholders | 500 | 909 |
| Total | 7,544 | 9,269 |

The change in this item is related to the payment of one of the three price tranches (equal to Euro 909 thousand), for the 90% of Wash Service S.r.l., purchased during 2019. The change relating to the payable to the minority shareholders of Maxlav Lavanderia Especializada S.A. and Vida Lavanderias Especializada S.A., who hold a put option enabling them to exercise their right to sell the remaining shares of both companies to the Servizi Italia Group, respectively 34.9%, is mainly attributable to the depreciation of the Real against the Euro. The debt arising from the acquisition from Lavanderia Bolognini M&S S.r.l. of the business unit operating in the washing and industrial washing sector for private facilities remains outstanding.

Other current liabilities

The table below provides a breakdown of other current liabilities:

| <i>(thousands of Euros)</i> | as at 31 March 2020 | as at 31 December 2019 |
|---|---------------------|------------------------|
| Accrued liabilities | 37 | 135 |
| Deferred income | 117 | 55 |
| Social security contributions | 4,225 | 5,647 |
| Due to employees | 10,573 | 10,247 |
| Employee/professional IRPEF (personal income tax) payable | 1,703 | 2,546 |
| Other payables | 1,781 | 998 |
| Total | 18,436 | 19,628 |

5.4 Notes on the main changes in the income statement

Raw materials and consumables

As at 31 March 2020, the consumption of raw materials (equal to Euro 6,938 thousand, up by Euro 99 thousand compared to the same period of the previous year) mainly refers to washing products, chemical products, packaging, consumables and spare parts coming from consolidation of Ekolav S.r.l. and Wash Service S.r.l., as well as disposables and PPE for new customers and purchase of PPE because of Covid-19 emergency.

Costs for services

The item is broken down as follows:

| <i>(thousands of Euros)</i> | From 1 January to 31 March | |
|---|----------------------------|---------------|
| | 2020 | 2019 |
| External laundering and other industrial services | 6,175 | 5,938 |
| Travel and transport | 3,564 | 3,718 |
| Utilities | 3,337 | 3,418 |
| Administrative costs | 725 | 551 |
| Consortium and sales costs | 1,983 | 1,872 |
| Personnel expense | 586 | 773 |
| Maintenance | 1,990 | 1,748 |
| Use of third-party assets | 701 | 882 |
| Other services | 445 | 518 |
| Total | 19,506 | 19,418 |

The item "Costs for services" registers a slight increase compared to the same period of the previous year (Euro 88 thousand), passing from Euro 19,418 in the first quarter 2019 to Euro 19,506 in the first quarter 2020. Costs for external services show an increase of Euro 237 thousand, the item is affected by higher costs linked to new customers in the Emilia Romagna area, as well as external laundry services related to the Covid-19 emergency. The costs for utilities show a decrease of Euro 81 thousand compared to 31 March 2019 connected to the decrease of electricity costs. Personnel costs decreased mainly due to a greater and more pervasive use of smart-working following the Covid-19 emergency. Administrative costs register an increase of Euro 174 thousand, mainly due to higher legal costs incurred by the Parent Company. Moreover, the costs related to maintenance show an increase of Euro 242 thousand due to higher costs related to surgical instruments at some customers in Friuli Venezia Giulia and Emilia Romagna areas.

Personnel expense

The item is broken down as follows:

| <i>(thousands of Euros)</i> | From 1 January to 31 March | |
|------------------------------|----------------------------|---------------|
| | 2020 | 2019 |
| Costs for directors' fees | 378 | 424 |
| Salaries and wages | 14,667 | 15,499 |
| Temporary work | 350 | 654 |
| Social security charges | 5,081 | 4,953 |
| Employee severance indemnity | 906 | 895 |
| Other costs | 63 | 72 |
| Total | 21,445 | 22,497 |

The item “Personnel expense” pass from Euro 22,497 thousand as at 31 March 2019 to Euro 21,445 thousand as at 31 March 2020, down by Euro 1,052 thousand. The period was affected by the release of termination benefits, reclassified under personnel costs, which had been allocated to the previous Chief Executive Officer and released following his resignation on 7 January 2020, for Euro 500 thousand. In addition, the decrease in costs comes from lower allocations related to the variable remuneration policy for the period, as well as a management of personnel costs aimed at reducing costs during the quarter, especially in March 2020, due to the contingent epidemic emergency situation, mainly through incentives for the use of holidays and days of leave. It should also be noted that there was a decrease of Euro 304 thousand relating to the item “Temporary agency work” which went from Euro 654 thousand as at 31 March 2019 to Euro 350 thousand as at 31 March 2020, mainly relating to Arco di Trento plant.

| | Personnel as at 31 March | |
|--------------------|--------------------------|--------------|
| | 2020 | 2019 |
| Executives | 19 | 18 |
| Middle managers | 47 | 40 |
| White-collar staff | 286 | 279 |
| Blue-collar staff | 3,259 | 3,332 |
| Total | 3,611 | 3,669 |

Depreciation and amortization

The item is broken down as follows:

| (thousands of Euros) | From 1 January to 31 March | |
|---|----------------------------|---------------|
| | 2020 | 2019 |
| Amortization of intangible assets | 383 | 257 |
| Depreciation of property, plant and equipment | 12,980 | 13,221 |
| Write-down of receivables | 170 | 196 |
| Total | 13,533 | 13,674 |

The item “Depreciation and Amortization” registers a decrease of Euro 141 thousand compared to the same period of the previous year, passing from Euro 13,674 thousand in the first quarter 2019 to Euro 13,533 thousand in the first quarter 2020. It should be noted that part of this change is mainly attributable to the revision of the estimated useful life of some kind of laundry within the Parent Company and San Martino 2000 S.c.r.l. (tailored, mattresses and hotel linen) carried out starting from the annual financial statements as at 31 December 2019, to which reference should be made for adequate information.

Financial income

The item is broken down as follows:

| (thousands of Euros) | From 1 January to 31 March | |
|---|----------------------------|------------|
| | 2020 | 2019 |
| Bank interest income | 48 | 110 |
| Default interest | 165 | 156 |
| Interest income on loans to third party companies | 165 | 168 |
| Other financial income | 26 | 112 |
| Total | 404 | 546 |

Financial expenses are composed as follows:

| (thousands of Euros) | From 1 January to 31 March | |
|--|----------------------------|----------------|
| | 2020 | 2019 |
| Interest expense and bank commission | (542) | (567) |
| Interest and expense to other lenders | (90) | (87) |
| Financial expense on employee benefits | (8) | (24) |
| Exchange rate losses | (365) | (17) |
| Other financial expenses | (642) | (551) |
| Total | (1,647) | (1,246) |

The item “Exchange rate losses” is substantially related to the depreciation of both Real and Turkish Lira against Euro, which weighted Euro 302 thousand in the Brazilian area, Euro 40 thousand in Italy and Euro 23 thousand in the Turkish area.

5.5 Consolidated net financial position

| (thousands of Euros) | 31 March | 31 December | 31 March |
|--|------------------|------------------|------------------|
| | 2020 | 2019 | 2019 |
| Cash and cash equivalents in hand | 29 | 44 | 53 |
| Cash at bank | 9,005 | 7,097 | 13,658 |
| Cash and cash equivalents | 9,034 | 7,141 | 13,711 |
| Current financial receivables | 8,047 | 8,310 | 8,588 |
| Current liabilities to banks and other lenders | (89,846) | (74,301) | (81,281) |
| <i>of which financial liabilities for IFRS 16</i> | <i>(3,467)</i> | <i>(3,707)</i> | <i>(2,885)</i> |
| Current net financial debt | (81,799) | (65,991) | (72,693) |
| Non-current liabilities to banks and other lenders | (62,344) | (68,558) | (73,077) |
| <i>of which financial liabilities for IFRS 16</i> | <i>(31,031)</i> | <i>(32,552)</i> | <i>(31,013)</i> |
| Non-current net financial debt | (62,344) | (68,558) | (73,077) |
| Net financial debt | (135,109) | (127,408) | (132,059) |

The increase in availability in bank current accounts (equal to Euro 1, 893 thousand compared to 31 December 2019), is essentially to be related to the increase in cash and cash equivalents in the accounts of the Brazilian subsidiary SRI Empreendimentos and Participacoes LTDA; these resources will be used during the year to finance the Group's growth in Brazil and for paying the price relating to the put option exercised on 15 April 2020 by the minority shareholders of Maxlav Lavanderia Especializada S.A. and Vida Lavanderias Especializada S.A.

It should be noted that current liabilities to banks and other lenders increased by Euro 15,545 thousand compared to 31 December 2019 as a result of a greater use of self-liquidating lines.

Non-current liabilities to banks and other lenders decreased from Euro 68,558 thousand as at 31 December 2019 to Euro 62,344 thousand as at 31 March 2020. This change, equal to Euro 6,214 thousand, is related to the reclassification in short term of the loan instalments falling due within the following 12 months and to the repayment of the loan instalments falling due during the year.

Here follows also the net financial position drafted according to CESR Recommendation of 10 February 2005, now ESMA, which also reports the value of “Other current financial liabilities” in “Other current financial payables” and the value of “Other non-current financial liabilities” in “Other non-current payables”.

| <i>(thousands of Euros)</i> | 31 March 2020 | 31 December 2019 | 31 March 2019 |
|---|------------------|---------------------|------------------|
| A. Cash | 29 | 43 | 53 |
| B. Other cash equivalents | 9,005 | 7,097 | 13,658 |
| C. Securities held for trading | - | - | - |
| D. Cash and cash equivalents (A)+(B)+(C) | 9,034 | 7,140 | 13,711 |
| E. Current financial receivables | 8,047 | 8,310 | 8,588 |
| F. Current bank borrowings | (59,032) | (41,291) | (44,100) |
| G. Current portion of non-current borrowings | (30,814) | (33,010) | (37,181) |
| <i>of which financial liabilities for IFRS 16</i> | <i>(3,467)</i> | <i>(3,707)</i> | <i>(2,885)</i> |
| H. Other current financial payables | (7,544) | (9,269) | (5,828) |
| I. Current financial debt (F)+(G)+(H) | (97,390) | (83,570) | (87,109) |
| J. Current net financial debt (I)-(E)-(D) | (80,309) | (68,120) | (64,810) |
| K. Non-current bank borrowings | (62,344) | (68,558) | (73,077) |
| <i>of which financial liabilities for IFRS 16</i> | <i>(31,031)</i> | <i>(32,552)</i> | <i>(31,013)</i> |
| L. Bonds issued | - | - | - |
| M Other non-current payables | (3,387) | (3,876) | (7,886) |
| N. Non-current financial debt (K)+(L)+(M) | (65,731) | (72,434) | (80,963) |
| O. Net financial debt (J)+(N) | (146,040) | (140,554) | (145,773) |

The Chairman of the Board of Directors

(Roberto Olivi)

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The financial Reporting Manager Angelo Minotta states pursuant to paragraph 2, Article 154 bis of the Consolidated Law on Finance that the accounting information presented in this document corresponds to the documented results, books and accounting entries.

The Financial Reporting Manager

(Angelo Minotta)