ANNUAL FINANCIAL REPORT

31st December 2020

Pharmanutra S.p.A.	
Sede	Pisa, Via delle Lenze 216/B
REA	146259
Capitale sociale	€ 1.123.097,70 i.v.
C.F. / P.Iva / Reg. Impr. di Pisa	01679440501

PHARMANUTRA

The group has achieved very positive economic results, as the financial statement figures show, and commercial ones thanks to constantly increasing sales figures; and lastly, from a scientific point of view. Even though the global situation is still complicated due to the pandemic, we are closing another growth year, consistent with Group tradition, upholding the main growth drivers declared: continuing international expansion thanks to new foreign distribution agreements, and recognition of new patents in new geographical areas that are a strategic asset for the Group's commercial and scientific success globally.

ANDREA LACORTE
Chairman

These results combined with an increase in liquidity generated by operations, confirm the capacity of PharmaNutra to develop business maintaining a high cash generation level. Thanks to a solid financial structure and its current market position, PharmaNutra can concentrate its attention and reactivity on the future, to maximise further results as soon as the COVID-19 situations ends.

ROBERTO LACORTE
Vice Chairman

Our history

The PharmaNutra Group is a group of Italian companies based in Pisa, specialising in the pharmaceutical and nutraceutical sector. The companies PharmaNutra S.p.A., Junia Pharma S.r.l. and Alesco S.r.l. form part of the Group.

Thanks to continuous investments in R&D activities that have led to the development of innovative technologies, in less than 20 years the PharmaNutra Group has become one of the market leaders in the production of iron-based nutritional supplements under the SiderAL® brand, where it boasts a number of important patents on Sucrosomial® technology and, and it is also considered to be one of the emerging top players in the sector of medical devices for the recovery of joint capacity thanks to the Cetilar® branded products.

The PharmaNutra Group has about 60 employees in Italy and a network of over 150 Sales Representatives who are the real driving force of the company in the country. The Group's business model was built to respond to the peculiarities of the national market but has been able to adapt quickly and efficiently to international requirements.

PharmaNutra is present since 2013 on foreign markets with a flexible and innovative business model, based on a consolidated network of top-class partners: growing yet well-structured companies that focus their own business on innovative, high-quality products, sound scientific research and a sales structure that is as close as possible to the values of PharmaNutra. Currently, the Group's products are distributed in more than 50 countries in Europe, Asia, Africa and America, through a network of 39 carefully selected sales partners.

PHARMANUTRA OWNS 100% OF JUNIA PHARMA AND ALESCO

PharmaNutra
Founded and managed by the Lacorte brothers, PharmaNutra S.p.A. was born in 2003 with the aim of developing nutritional supplements and innovative medical devices, overseeing the whole production process, from the development of proprietary raw materials to the distribution of the finished product.

Junia Pharma
In 2010 PharmaNutra's top management decided to invest in the creation of a new company, aiming to respond to the increasing health needs of children. This led to the establishment of Junia Pharma S.r.l., the company specialised in the development and distribution of paediatric medicines, medical devices, OTC products and nutritional supplements.

Alesco
Alesco S.r.l. was established in 2000 to stand out on the nutraceutical market for the high scientific value of the raw materials distributed. Thanks to ongoing R&D investments, Alesco active principles are now considered the most effective on the market and are used in the pharmaceutical, food and cosmetic sectors.

Premise

PharmaNutra S.p.A., whose shares are traded on the STAR Segment of the Mercato Telematico Azionario (“MTA”), organised and managed by Borsa Italiana starting from 15 December 2020, operates in the nutraceutical and pharmaceutical sector with the aim of improving the well-being of people. Strengthened by continuous research and development, it has introduced new nutritional concepts and active substances to the market. It manufactures products with innovative technologies, paying particular attention to the protection of intellectual property.

This Report is presented in a single document for the purposes of the Consolidated Financial Statements of the PharmaNutra Group (hereinafter the “Group”) and the Statutory Financial Statements of the Parent Company PharmaNutra S.p.A. The Board of Directors of PharmaNutra S.p.A. resolved to prepare the Consolidated and Parent Company Statutory Financial Statements in accordance with the IAS/IFRS (International Accounting Standards and International Financial Reporting Standards) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union.

Amounts in the schedules, tables and explanatory notes, unless otherwise indicated, are expressed in thousands of EUR.

Corporate Bodies

Board of Directors

Andrea Lacorte (Chairman)

Roberto Lacorte (Vice Chairman)

Carlo Volpi (Executive Director)

Germano Tarantino (Executive Director)

Alessandro Calzolari (Independent Director)

Marida Zaffaroni (Independent Director)

Giovanna Zanotti (Independent Director)

Board of Statutory Auditors

Michele Lorenzini (Chairman of the Board of Statutory Auditors)

Guido Carugi (Statutory Auditor)

Andrea Circi (Statutory Auditor)

Fabio Ulivieri (Alternate Auditor)

Giacomo Boni (Alternate Auditor)

Audit Firm

BDO Italia S.p.A.

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MANAGEMENT REPORT

Dear Shareholders,

the consolidated financial statements for the year ended 31/12/2020 show a net result of Euro 14.1 million compared to the net result of Euro 8.5 million of the previous year.

This result benefited from Euro 3.4 million of lower taxes relating to previous years, which were accounted for following the formalisation, in June, of the agreement relating to the Patent Box with the Italian Inland Revenue (Agenzia delle Entrate). Current taxes for the year amount to Euro 2.7 million (net of deferred tax assets). Pre-tax result amounts to Euro 13.3 million (Euro 12.2 million in 2019). Pre-tax result, in turn, was determined by allocating Euro 2.3 million (about Euro 1 million in 2019) to the provision for amortisation, depreciation and write-downs.

On 15 December 2020, Pharmanutra's ordinary shares were admitted to trading on Mercato Telematico Azionario (MTA) organised and managed by Borsa Italiana - STAR segment - with the simultaneous exclusion from trading on AIM Italia. This step took place following the approval on 11 December 2020 by Consob of the Prospectus prepared by the Company and then the authorisation by Borsa Italiana. For further details on this transaction, please refer to the following pages.

Pharmanutra Group (hereinafter also the "Group") consists of Pharmanutra S.p.A. (“Pharmanutra” or the “Company”) and its subsidiaries Junia Pharma S.r.l. (“Junia Pharma”) and Alesco S.r.l. (“Alesco”).

Pharmanutra, a nutraceutical company located in Pisa, is specialised in the development of nutritional supplements and medical devices. In particular, it deals with the research, design, development and marketing of proprietary and innovative products. Among these, the most relevant are the ones based on Sucrosomial Iron®, namely the products of Sideral® line, and the products for the restoration of joint and movement capacity in osteo-articular diseases, consisting of Cetilar® line.

It complies with strict quality standards while focusing on the unique and exclusive raw materials used throughout the country.

It designs and produces formulations with an important scientific background.

Since 2005, it has been developing and marketing directly and independently a line of products under its own brand, being managed through a structure of sales representatives/scientific informants who present the products directly to the medical class. Pharmanutra now has the know-how to manage all stages from design, formulation and registration of a new product, to marketing and sales, up to sales representatives/scientific informants training. The business model developed has been pointed out by key health marketing experts as an example of innovation and efficiency in the entire pharmaceutical scenario.

The company has also boosted its research and development activities in order to further strengthen its results in its industry.

Junia Pharma is active in the production and marketing of pharmaceuticals, medical devices, OTC and nutraceuticals for the paediatric sector.

Alesco produces and distributes raw materials and active ingredients for the food, pharmaceutical and food supplement industries.

Operating conditions and business development

An analysis of the Group's financial position, performance and operating result is provided in the following paragraphs, which specifically deal with the market scenario and the products and services offered, the investments and the main indicators of economic performance and the evolution of the financial position.

Operating performance and result

The consolidated financial statements of Pharmanutra Group as at 31/12/2020 are as follows:

Amounts in millioin Euro	**2020**	**%**	**2019**	**%**	**CHANGE**
ECONOMIC DATA					
REVENUES	58,7	100,0%	54,2	100,0%	+8%
REVENUES FROM SALES	56,4	96,2%	53,6	98,9%	+5%
EBITDA	15,6	26,5%	13,2	24,3%	+18%
*EBITDA - ADJUSTED **	16,0	27,3%	13,2	24,3%	*+22%*
NET RESULT	14,1	24,0%	8,5	15,6%	+66%
*NET RESULT EXCL. NON RECURRING ITEMS ***	11,6	*20,5%*	*8,5*	*15,6%*	+37%
EPS - NET EARNINGS PER SHARE (Units of Euro)	1,45		0,87		+66%
EPS - NET EARNINGS PER SHARE EXCL. NON RECURRING ITEMS (Units of Euro)	*1,20*		*0,87*		*+37%*

Amounts in million Euro	2020	2019	CHANGE
BALANCE SHEET DATA			
NET INVESTED CAPITAL	18.4	14.6	3.8
NET FINANCIAL POSITION	(19.4)	(13.6)	(5.8)
SHAREHOLDERS' EQUITY	37.7	28.1	9.6

* Adjusted EBITDA 2020 is net of non-recurring income of Euro 1 million, relating to contractual indemnification, and non-recurring costs totalling Euro 1.5 million, of which Euro 610 thousand relating to the finalisation of the agreement with the Italian Inland Revenue (Agenzia delle Entrate) for access to the tax relief represented by the Patent Box, and Euro 904 thousand of costs incurred for the group's transition to listing on the MTA - Star segment.

** The net result excluding non-recurring items for 2020 does not include the tax benefit deriving from the finalisation of the agreement for the tax relief relating to the exclusion from taxable income for each year of part of the income deriving from the use of the so-called "intellectual property" *(Patent Box)* relating to the financial years from 2016 to 2019 for a total amount of Euro 3.4 million, the cancellation of the taxes relating to the first IRAP advance provided for by the so-called *Decreto Rilancio* of Euro 254 thousand, and the costs net of non-recurring revenues of Euro 1.5 million.

Revenues from sales

In 2020, consolidated revenues amounted to Euro 56.4 million, with an increase of 5% compared to the previous year.

In an extremely challenging year, the Group demonstrated agility and a strong ability to execute in the three business areas, by recording an increase in turnover of around 3% in the Italian market and around 13% in foreign markets.

In terms of volumes, the sales of finished products as at 31 December 2020 reached 8,044 thousand units, an increase of approximately 12% compared to 7,162 thousand units in the previous year.

Italy

Revenues from sales in the Italian markets increased by 3% to Euro 40.0 million (Euro 39.0 million in the previous year), thus proving the Group's strong resilience during an exceptionally difficult period for the entire industry.

This was possible also thanks to targeted investments in innovative digital remote working and interactive tools such as augmented reality with which, during the first lockdown, the sales network was able to maintain a constant dialogue with doctors and pharmacists.

This innovative "e-detailing" system will become an integral part of the traditional sales model, by opening up new scenarios and contributing to a considerable amplification of the commercial message.

To confirm and reinforce its strategic and long-term investments, in November Pharmanutra launched Cetilar® Tape with menthol, a product of Cetilar® line.

Foreign market

The revenues from foreign sales increased by about 13% to Euro 16.5 million (Euro 14.6 million in the previous year) and accounted for about 29% of total turnover compared to about 27% in the previous year.

The foreign market with the highest incidence is Europe, which accounts for 54% of the total at 31 December 2020 and is represented almost exclusively by sales of products in SiderAL® line, which account for approximately 92% of the total.

The solid performance on foreign markets in 2020, even despite the restrictive measures implemented by the Authorities, was marked by the finalisation of new agreements in Bulgaria, the Czech Republic and Slovakia. To these were added the renewal of the distribution contract in Romania and the extension of the existing distribution contract with Medintorg to the Ukrainian market, a territory not yet covered by the group. Finally, there was also the extension of the existing agreement for the distribution in Greece and Cyprus of Cetilar® branded products in addition to SiderAL® branded products.

The Group also confirmed and strengthened its presence in non-European territories with the finalisation of important distribution agreements in Mexico with Marzam S.A., the formalisation of the distribution agreement with Drogueria Inti - Bolivia - for the distribution of SiderAL®, and the extension of the existing agreement for the distribution of new Sucrosomial® Iron-based products in Brazil.

Pharmanutra Group's **EBITDA** was approximately Euro 15.6 million as at 31 December 2020 (Euro 13.2 million in 2019), equal to a 26.5% margin on total revenues, with an 18% increase compared to the previous year.

The increase compared to the previous year derives not only from the higher turnover achieved, but also from a lower growth in operating costs due to the restrictions imposed by the ongoing Covid-19 epidemic, with particular reference to travel expenses, costs relating to the external network (due to the lower growth on the Italian market compared to previous years), and lower marketing costs than expected, due to the cancellation and/or downsizing of numerous events.

The **Adjusted EBITDA**, obtained excluding: (i) the contractual non-recurring indemnity for about Euro 1 million, (ii) the non-recurring costs related to the formalisation of the "Patent Box" tax relief and the costs incurred for the start-up of the project to transfer the group listing to the MTA - Star segment, totalling Euro 1,514 thousand - amounts to Euro 16.0 million (27.3% margin on total revenues), i.e. an increase of about 22% compared to the previous year.

The **Net result for the period** amounted to Euro 14.1 million (Euro 8.5 million as at 31 December 2019). Excluding the net effect of the non-recurring items mentioned above, to which was added the tax benefit related to the finalisation of the agreement concerning the Patent Box for the years 2016-2019, equal to Euro 3.4 million, and the cancellation of the first IRAP advance on the basis of the provisions of the so-called *Decreto Rilancio*, amounting to Euro 254 thousand, the Net result for the period would amount to Euro 11.6 million, with an increase of 37% compared to the previous year.

The **Net Financial Position** in 2020 shows a positive trend compared to 31 December 2019, going from a positive balance of Euro 13.6 million to a positive balance of Euro 19.4 million.

The cash flow from operations amounts to Euro 11.8 million, thus confirming the Group's great cash generation capacity.

The results obtained come from continuous research and development and clinical activities on the products themselves, which generate a greater awareness of the effectiveness of the products among the medical class and a growing perception of quality on the part of consumers.

In light of the results obtained, there are no issues relating to the going concern, liquidity risk and the recoverability of goodwill as well as tangible and intangible assets recognised in the financial statements at 31 December 2020. The impairment test performed on the recoverability of goodwill, which amounted to Euro 2,750 thousand at 31 December 2020, of which Euro 960 thousand related to the subsidiary Alesco and Euro 1,790 thousand to the subsidiary Junia Pharma, which was unchanged compared to the previous year, showed an excess of the recoverable amount of 28.8 times for the amount related to the subsidiary Alesco and 12.3 times for the subsidiary Junia Pharma. For further details, see the relevant section of the Explanatory Notes to the Consolidated Financial Statements.

Information about Covid-19

During 2020, the Group had to comply with the restrictive measures adopted by national governments to deal with the COVID-19 pandemic (so-called "Coronavirus"), including the adoption by all Group companies of contagion control protocols in line with the requirements set forth by the Authorities. The COVID-19 outbreak has resulted in a slowdown in the growth process of volumes sold and of the turnover in Italian markets compared to 2019. Should the COVID-19 pandemic continue or worsen, resulting in the adoption of more restrictive measures by the competent national authorities where the Group operates, the Group could be exposed to the risk of a decrease the sales of its products.

The activities of the Group companies are among those defined as essential in the actions taken by the government and therefore continued normally with the exception of medical and scientific information activities which, due to the restrictions imposed by the competent authorities, were limited. The activities of suppliers related to production and logistics, as well as customers' ones continued normally. Raw material procurement activities were not negatively impacted.

The Group has immediately taken all necessary measures to protect the health of its employees by using remote working or smart working for all employees. Following the reopening, contagion control protocols were adopted by all Group companies, in line with the requirements of the Authorities and the use of smart working is still continuing. Health insurance policies were taken out to protect all employees from any consequences in case of infection.

The Group did not use any type of social safety net among those provided by the Authorities in the Covid-19 emergency.

In the first months of the pandemic, SiderAL® H (a nutritional supplement based on Sucrosomial® Iron) and ApportAL® (a nutritional supplement based on Sucrosomial® Minerals, Amino Acids and Vitamins that favour the function of the immune system) were supplied free of charge to the intensive care units of all the hospitals that requested them with the aim of contributing, albeit in a small way, to improving the situation that our Health System had to face. In addition, a donation of Euro 25 thousand was made in support of *Protezione Civile*, the Civil Defence body.

In the light of the evolution of the COVID-19 epidemic underway, it cannot be excluded that the Authorities may take even stricter measures than those currently in place (including the possible use of a total and prolonged lockdown) or the occurrence of contagion phenomena in production plants, in the sales network and among employees, which could have a negative impact on the regularity of production and on sales trends.

Significant Events of 2020

The most significant events of the financial year 2020 are described below.

In March, new patents were granted in India and the United States, respectively, which represent two new strategic assets for the Group international expansion. As regards India, the granting of the patent concerns "Ferro

Solido" (number 328725) and will expire in 2033; the US patent (number US10,597,608, granted on 24-3-202 concerns Cetilar® and will expire in 2036.

In April, an important commercial and scientific agreement was entered into with Pfizer Consumer Healthcare Italy S.r.l. concerning the use of Sucrosomial® Magnesium as one of the ingredients of a new product that Pfizer launched on the Italian market.

In May, the parent company obtained the "Play Sure Doping Free" certification for the products of Cetilar® line and for the food supplement Apportal®.

In June, the agreement with the Italian Revenue Agency for adhesion to the tax relief granted by the Patent Box referred to above was formalised.

At the beginning of September, Alesco obtained exclusive distribution for the Italian market of Atura branded vegetable proteins. Alesco thus enriches its portfolio with new, high quality raw materials of natural origin, expanding its presence in rapidly growing niche markets.

On 23 September 2020, the shareholders and Managing Directors of the parent company completed the sale of 80,000 shares of the Company each (representing a total of approximately 2.48% of the Company's share capital) as part of the process for creating the conditions, including the free float required by applicable regulations, for the Company to be admitted to trading on the STAR segment of Mercato Telematico Azionario (MTA).

On 25 September 2020, the Board of Directors of the parent company appointed as new members of the Board of Directors, Marida Zaffaroni and Giovanna Zanotti, pursuant to article 2386 of the Italian Civil Code, to replace Directors Giovanni Bucarelli and Simone Strocchi, who resigned as part of the process of being listed on the MTA Star and in order to facilitate the recruitment of Directors who meet the independence requirements and gender quotas established by the regulations applicable to publicly traded companies.

On 13 October 2020, Pharmanutra's Annual General Meeting of Shareholders: (i) approved the project for admission to trading on the MTA, (ii) appointed the independent auditor for the financial years 2020 - 2027 and (iii) appointed two members of the Board of Directors following co-optation. On the same occasion, the Extraordinary Shareholders' Meeting approved, effective as of the date of commencement of trading on the MTA, the new text of the Articles of Association.

On 23 October 2020, the Board of Directors of Pharmanutra, as part of the process of transition to the MTA, passed a series of resolutions on governance which concerned (i) the establishment of the internal committees required by the regulations, (ii) the adoption of new internal procedures in line with the requirements of the MTA marke STAR segment, (iii) the appointment of the Director in charge of the internal control and risk management system, the appointment of the head of Internal Audit and the appointment of the Lead Independent Director.

On 27 October 2020, again as part of the transition to the MTA market - STAR segment, the existing shareholders' agreement (signed on 12 July 2017 for the admission to AIM Italia) was amended, providing: (i) the termination of the effects of the agreement with respect to parties other than the reference shareholders and managing directors of the Company (jointly referred to as "Reference Shareholders") Andrea Lacorte, Roberto Lacorte and Carlo Volpi (through the company Beda S.r.l.); and (ii) the amendments to the agreement, which will be in force among the Reference Shareholders as from the date of commencement of trading of the Company's shares on the MTA. The agreement between Reference Shareholders thus amended, concerning shares representing 64.99% of the Company's share capital, will have a duration of 36 months from the date of commencement of trading on the MTA of the Company's shares and sets forth provisions regarding the Issuer's governance, with particular reference to the methods of appointment of the Board of Directors and the Board of Statutory Auditors, as well as a lock up commitment assumed by the Reference Shareholders towards the Company for 36 months following the date of commencement of trading on the MTA, subject to some exceptions specifically provided for therein.

At the beginning of November, Pharmanutra launched on the market a new product of Cetilar® line, Cetilar Tape with menthol. It is an innovative inelastic adhesive strip, being versatile and easy to apply anywhere on the body, with menthol and cetylated fatty acids (CFA) of vegetable origin, which guarantees a prolonged benefit for joints, muscles and tendons thanks to its particular slow-release action.

On 15 December 2020, the Company's ordinary shares were admitted to trading on Mercato Telematico Azionario (MTA) organised and managed by Borsa Italiana - STAR segment - with the simultaneous exclusion from trading on AIM Italia. This step took place following first the approval on 11 December 2020 by Consob of the Prospectus prepared by the Company and then the authorisation on the same date by Borsa Italiana.

On 22 December 2020, two important certifications were obtained, respectively from the Notified Body of Istituto Superiore di Sanità (ISS) and from the U.S. Food and Drug Administration (FDA). The Company received from ISS the EC Certification for the classification as Class 2A Medical Devices of the products Cetilar® Patch and Cetilar® Tape, which together with Cetilar® Cream - already certified as Class 2A - form a line of medical devices based on cetylated esters (CFA) for the well-being of muscles and joints.

The certification of Cetilar® Patch and Cetilar® Tape as Class 2A Medical Devices represents not only a furth qualitative confirmation for the products of Cetilar® line, but also a fundamental step forward from the distribution point of view, since it allows the Company both to market at European level without the need of further certifications issued by the authorities of individual countries, and to obtain the certificate of free sale required by non-EU countries.

The Company has also obtained GRAS (an acronym for Generally Recognized As Safe) recognition for its patented Cetylated Esters (CFA). Such a recognition was obtained, as required by the FDA, through the eligibility process by a panel of qualified experts, based on scientific data regarding the safety of CFA.

Operating Performance

Pharmanutra Group's Business Lines

The Pharmanutra Group's distribution and sales model consists of two main Business Lines:

- **Direct Business Line (LB1):** it is characterised by direct presence in the reference markets in which the Group operates; the logic that governs this model is to ensure complete control of the territory through an organisational structure of sales representatives who, through sales and scientific information activities, ensure full control of all the players in the distribution chain: hospital doctors, outpatient doctors, pharmacies and hospital pharmacies.

  This model, adopted in the Italian market, characterises Pharmanutra and Junia Pharma.

  Alesco's commercial activity in Italy is directed both outside the Group, to companies in the food, pharmaceutical and nutraceutical industries as well as to nutraceutical production workshops that produce on behalf of third parties and, within the Group, supplying and selling products and raw materials to Pharmanutra and Junia Pharma.

Sales made through the commercial network of sales representatives/scientific informants, known as "Direct Business Line", account for 71% of the turnover, while the remaining 29% is guaranteed by sales made abroad or to distributor customers, hereinafter referred to as "Indirect Business Line".

- **Indirect Business Line (LB2):** the business model is common to all three companies and is mainly used in foreign markets. It is characterised by the marketing of finished products (Pharmanutra and Junia Pharma) and raw materials (Alesco) through local partners which, under long-term exclusive distribution contrac distribute and sell the products in their own markets.

The consolidated sales as at 31 December 2020 (amounting to Euro 56.4 million) increased by approximately 5% compared to 31 December 2019 (Euro 53.6 million).

Turnover by area k€	2020	2019	Δ%	Incidence 2020	Incidence 2019
LB1	38,593	37,427	3.1%	68.4%	69.8%
LB2	15,511	14,141	9.7%	27.5%	26.4%
Total Finished Products	***54,104***	***51,568***	***4.9%***	***95.8%***	***96.2%***
Alesco Outgroup - Italy	1,400	1,589	*-11.9%*	*2.5%*	*3.0%*
Alesco Outgroup - Foreign	946	467	*102.6%*	*1.7%*	*0.9%*
Alesco Outgroup	***2,345***	***2,056***	**14.0%**	**4.2%**	**3.8%**
Total	**56,449**	**53,624**	**5.3%**	**100.0%**	**100.0%**

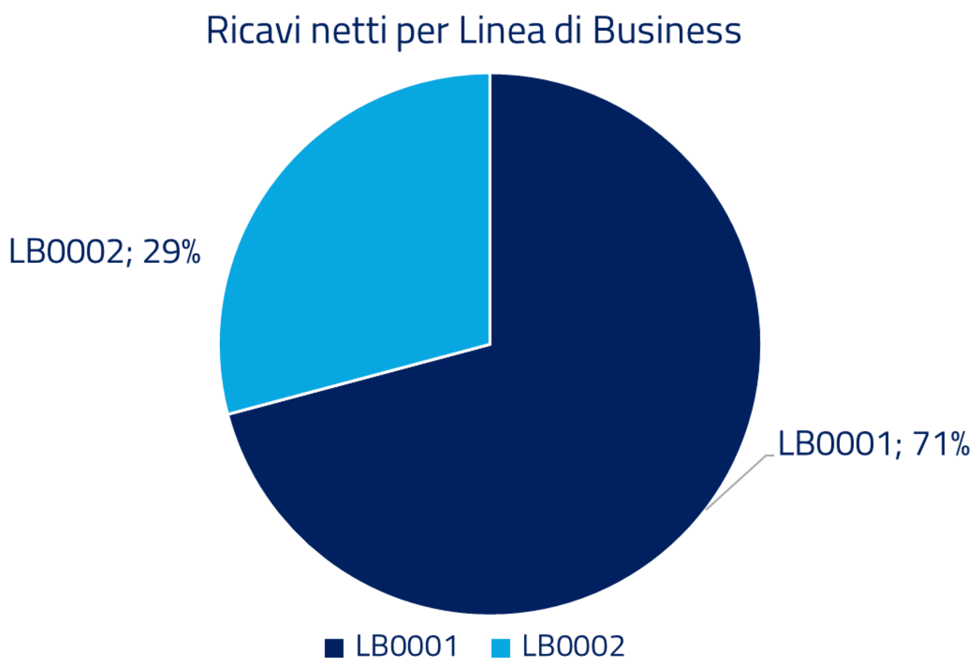
The breakdown of sales in the Group's three business areas shows that despite the Covid-19 epidemic, compared with the previous year, the sales of finished products increased by 3% and 10% on the Italian market (LB1) and on foreign markets (LB2), respectively.

The turnover from the sales of proprietary and non-proprietary raw materials to companies in the food, pharmaceutical and nutraceutical industry, as well as to nutraceutical production plants that produce on behalf of third parties (Alesco outgroup), managed by the subsidiary Alesco, also reported an increase of 14%, from Euro 2.1 million in 2019 to Euro 2.3 million.

The following table shows the breakdown of the turnover into the two business lines described above.

Turnover by Business Line k€	2020	2019	Δ%	Incidence 2020	Incidence 2019
Total LB1	39,992	39,016	2.5%	70.8%	72.8%
Total LB2	16,457	14,608	12.7%	29.2%	27.2%
F.P. Total	**56,449**	**53,624**	**5.3%**	**100.0%**	**100.0%**

Overall, the revenues from foreign sales increased by about 13% to Euro 16.5 million (Euro 14.6 million in the previous year), and accounted for about 29% of total turnover compared to about 27% in the previous year.



Turnover by geographical area				Incidence	
k€	2020	2019	Δ%	2020	2019
Europe	8,897	6,868	29.5%	54.1%	47.0%
Middle East	6,199	6,285	-1.4%	37.7%	43.0%
Far East	892	1,074	-16.9%	5.4%	7.4%
Other	469	381	23.0%	2.9%	2.6%
Total	**16,457**	**14,608**	**12.7%**	**100.0%**	**100.0%**

The increase in 2020 turnover on foreign markets compared to the previous year arises from the progressive increase in volumes due to contracts stipulated in previous years. The foreign market with the highest incidence is Europe, which accounts for 54% of the total as at 31 December 2020. Sales on foreign markets are almost exclusively represented by sales of products from Sideral® line, which account for about 92% of the total.

In terms of volumes, the sales of finished products as at 31 December 2020 reached 8,044 thousand units, an increase of approximately 12% compared to 7,162 thousand units in the previous year.

F.P. Volumes				Incidence	
Units/1,000	2020	2019	Δ%	2020	2019
LB1	2,951	2,938	0.5%	36.7%	41.0%
LB2	5,093	4,225	20.5%	63.3%	59.0%
Total	**8,044**	**7,162**	**12.3%**	**100.0%**	**100.0%**

The volumes of finished products invoiced by LB1 business line increased by 0.5% compared to the previous year, while the volumes of sales on foreign markets increased by 20%, accounting for 63% of the total volumes of finished products sold compared to 59% in the previous year.

The analysis of turnover by product line (Trademark) shown in the table below, reflects the consequences of the measures taken for combating the Covid-19 epidemic. Sideral® line, with an increase in turnover reaching Euro 43.6 million as at 31 December 2020 (+7.8% compared to 2019) and an incidence on the total finished product turnover of 80.6% (78.5% in 2019), confirms its leadership in the reference market as shown in the market analysis in the following pages.

Cetilar® line was more affected by the restrictions imposed on the performance of sports activities (+2.3% compared to 2019), with the impact on overall sales remaining in line with the previous year. Apportal® shows a significant increase (+24% compared to the previous year) thanks to its features of tonic-energetic and restorative supplement. The reduction in the item Other is mainly attributable to: (i) the marketing cessation of a product due to the non-renewal upon expiration of the distribution contract against which compensation is payable by the manufacturer, and (ii) the reduction in sales of products intended for the paediatric market caused by the restrictions imposed by the Covid-19 outbreak.

F.P. Turnover by Product Line				Incidence	
k€	2020	2019	Δ%	2020	2019
Sideral	43,603	40,463	7.8%	80.6%	78.5%
Cetilar	5,512	5,389	2.3%	10.2%	10.4%
Apportal	2,391	1,927	24.1%	4.4%	3.7%
Ultramag	558	869	-35.8%	1.0%	1.7%
Other	2,041	2,920	-30.1%	3.8%	5.7%
Total	**54,104**	**51,568**	**4.9%**	**100.0%**	**100.0%**

The income statement for the financial year 2020 also benefits from lower costs related to marketing a commercial activities, which had a more limited impact than the objectives due to the cancellation of some sports and commercial events as a result of the Covid-19 epidemic.

In February, following the termination of a distribution contract at the initiative of the supplier, an invoice was issued for the compensation owed to the subsidiary Junia Pharma in the amount of about Euro 1 million, in accordance with contractual stipulations. In view of the assessments made of the debtor's financial situation, and in compliance with the procedure for assessing receivables, which provides for the full write-down of receivables overdue by more than 360 days, the administrative body decided to write down the above receivable in full.

Pharmanutra Group Results

The adjusted reclassified income statement and balance sheet of the last 3 financial years are shown below.

The income statement for the year 2020 is characterised by non-recurring items such as a contractual indemnity, costs incurred in relation to the formalisation of the Patent Box and costs incurred for the translisting process on the MTA market - STAR segment as well as the tax benefit arising from the Patent Box formalisation.

The adjusted income statement for 2020 is shown below:

INCOME STATEMENT (€/1000)	2020	Management Adjustments	2020 ADJUSTED	2019
A) REVENUES	**58.680**	**(1.049)**	**57.631**	**54.214**
Net Revenues	56.449		56.449	53.624
Other revenues	2.231	(1.049)	1.182	590
of which non recurring Other revenues	*1.049*	*(1.049)*	-	-
B) OPERATING EXPENSES	**43.126**	**(1.514)**	**41.612**	**41.036**
Purchases of raw material, consumables and other	2.477		2.477	2.560
Change in inventories	240		240	296
Costs for services	35.285	(1.514)	33.771	34.262
of which non recurring Costs of services	*1.514*	*(1.514)*	-	
Personnel expenses	3.712		3.712	3.264
Other operating expenses	1.412		1.412	654
(A-B) EBITDA	**15.554**	**465**	**16.019**	**13.178**
C) Amortization, depreciation and write off	2.338	(1.049)	1.289	974
of which non recurring write off	1.049	(1.049)	-	-
(A-B-C) EBIT	**13.216**	**1.514**	**14.730**	**12.204**
D) FINANCIAL INCOME /(EXPENSES)	**86**		**86**	**(7)**
Financial Income	146		146	71
Financial Expenses	(60)		(60)	(78)
E) NON RECURRING INCOME/(EXPENSES)	**-**	**(1.514)**	**(1.514)**	**-**
Non recurring Income/(expenses)		(1.514)	(1.514)	-
PRE TAX RESULT (A-B-C+D)	**13.302**	**-**	**13.302**	**12.197**
Current income taxes	(2.661)		(2.661)	(3.743)
Previous year income taxes	3.431		3.431	
NET RESULT	**14.072**	**-**	**14.072**	**8.454**

Management Adjustments are broken down as follows: the item Other non-recurring income refers to the indemnity accrued following the non-renewal of a distribution contract which was fully written down. Costs for non-recurring services include Euro 904 thousand for expenses relating to the translisting to the MTA market and the remainder for costs connected with the formalisation of the ruling to determine the tax benefit represented by the Patent Box.

The reconciliation of the Net Result and the Net Result excluding non-recurring items is shown below:

Net result excl. non-recurring items (k€)	2020	2019
Profit /(Loss) for the year	**14,072**	**8,454**
Non-recurring charges (net of tax effect)	1,211	-
Taxes for previous years	(3,431)	-
Cancellation of the first IRAP advance payment	(254)	-
Net result excl. Non-recurring items	**11,598**	**8,454**

Pharmanutra Group, in order to allow for a better evaluation of the management performance, uses a number of alternative performance indicators that are not identified as accounting measures under IFRS.

Therefore, the determination criterion applied by the Group may not be consistent with that adopted by other groups and the balance obtained may not be comparable with the one determined by the latter.

These alternative performance indicators, determined in accordance with the Guidelines on Alternative Performance Indicators issued by ESMA/2015/1415 and adopted by CONSOB with communication no. 92543 of 3 December 2015, only relate to the performance of the accounting period covered by this Financial Report and the years being compared and not to the Group's expected performance.

Below is a definition of the alternative performance indicators used in this Financial Report:

- EBITDA: it is represented by the Earnings before interest, taxes, depreciation and amortisation.

- Restated EBITDA: it is represented by the Earnings before interest, taxes, depreciation and amortisation net of non-recurring items

- EBIT: it is represented by the Earnings before interest, taxes, depreciation and amortisation net of depreciation, amortisation and write-downs.

- Net Working Capital: it is calculated as the sum of inventories and trade receivables net of trade payables and all other balance sheet items classified as Other receivables or Other payables.

- Operating Working Capital: it is calculated as the sum of inventories and trade receivables, net of trade payables.

- Net Invested Capital: it is the sum of Net Working Capital, Total Fixed Assets net of Provisions and other medium/long-term liabilities, excluding items of a financial nature which are included in the Net Financial Position balance.

- Net Financial Position (NFP): it is calculated as the sum of current and non-current bank loans and borrowings, current and non-current liabilities for rights of use, net of cash and cash equivalents, and current and non-current financial assets.

- Total Sources: it is represented by the sum of Shareholders' Equity and NFP.

MANAGEMENT CONSOLIDATED INCOME STATEMENT

Amounts in €/000	*Adjusted* 2020	%	2019	%	*Adjusted* 2018	%	*Δ 20/19*	*Δ 19/18*
REVENUES	**57.631**	**100%**	**54.214**	**100%**	**47.298**	**100%**	***6,3%***	***14,6%***
Net revenues	56.449	97,9%	53.624	98,9%	46.673	98,7%	*5,3%*	*14,9%*
Other revenues	1.182	2,1%	590	1,1%	626	1,3%	*100,3%*	*-5,7%*
OPERATING COSTS	**41.612**	**72,2%**	**41.036**	**75,7%**	**35.459**	**75,0%**	***1,4%***	***15,7%***
Purchases of raw materials, consumables and supplies	2.477	4,3%	2.560	4,7%	2.743	7,5%	*-3,2%*	*-6,7%*
Change in inventories	240	0,4%	296	0,5%	(271)	0,8%	*-18,9%*	*n.s.*
Costs for services	33.771	58,6%	34.262	63,2%	29.665	62,6%	*-1,4%*	*15,5%*
Personnel costs	3.712	6,4%	3.264	6,0%	2.801	6,0%	*13,7%*	*16,5%*
Other operating costs	1.412	2,5%	654	1,2%	521	1,6%	*n.s.*	*25,5%*
EBITDA	**16.019**	**27,8%**	**13.178**	**24,3%**	**11.839**	**25,0%**	***21,6%***	***11,3%***
Amortisation, depreciation and write-downs	1.289	2,2%	974	1,8%	662	2,9%	*32,3%*	*47,1%*
EBIT	**14.730**	**25,6%**	**12.204**	**22,5%**	**11.177**	**23,6%**	***20,7%***	***9,2%***
FINANCIAL INCOME (EXPENSE) BALANCE	**86**	**0,1%**	**(7)**	**0,0%**	**(62)**	**-0,1%**	***n.s.***	***n.s.***
NON-RECURRING INCOME /(CHARGES)	**(1.514)**	**-2,6%**	**-**	**0,0%**	**738**	**1,6%**	***n.s.***	***n.s.***
PRE-TAX RESULT	**13.302**	**23,1%**	**12.197**	**22,5%**	**11.853**	**25,1%**	***9,1%***	***2,9%***
Taxes	(2.661)	-4,6%	(3.743)	-6,9%	(3.296)	-6,7%	*-28,9%*	*13,6%*
Taxes for previous years	3.431	6,0%	-	-	-	-	***n.s.***	***n.s.***
Group profit/(loss) for the year	**14.072**	**24,4%**	**8.454**	**15,6%**	**8.557**	**18,1%**	***66,5%***	***-1,2%***

The FY 2020 restated income statement is impacted by the effects of the Covid-19 pandemic in terms of: (i) lower growth in turnover compared to previous years (+5.3% compared to approximately +15% in 2019 compared to 2018) and (ii) lower growth in operating costs (+0.7% compared to an increase of 15.7% in 2019 compared to 2018), with particular reference to travel expenses, costs related to the external network (due to the lower growth in the Italian market compared to previous years), lower marketing costs than expected, due to the cancellation and/or downsizing of numerous events.

The increase in Other operating costs is mainly due to the failure of a customer to collect an order, against which the advance payments received were retained by the company. The goods were subsequently repackaged and resold to other customers.

Taxes for the year are net of the tax benefit of the Patent Box referring to 2020.

The item Taxes for previous years represents the tax benefit relating to the years 2016-2019 recognised following the formalisation of the Patent Box.

RECLASSIFIED CONSOLIDATED BALANCE SHEET

Amounts in €/000	31/12/2020	31/12/2019	31/12/2018
Trade receivables	15,053	15,028	12,977
Inventories	1,894	1,853	2,149
Trade payables	(7,175)	(8,165)	(6,666)
Operating Working Capital	**9,772**	**8,716**	**8,461**
Other receivables	2,646	1,517	3,197
Other payables	(2,859)	(3,248)	(2,792)
Net Working Capital	**9,559**	**6,985**	**8,866**
Intangible Fixed Assets	5,181	4,728	4,729
Tangible fixed assets	4,799	4,857	966
Financial Fixed Assets	1,105	918	743
Total Fixed Assets	**11,085**	**10,503**	**6,438**
Provisions and other M/L-term liabilities	(2,273)	(2,914)	(2,232)
TOTAL NET INVESTED CAPITAL	**18,371**	**14,574**	**13,072**
Shareholders' equity	**37,730**	**28,134**	**24,442**
Non-current financial liabilities	562	1,543	1,831
Current financial liabilities	1,101	4,860	3,511
Non-current financial assets	(218)	(1,136)	(879)
Current financial assets	(4,349)	(5,076)	(865)
Liquid funds	(16,455)	(13,751)	(14,968)
Net Financial Position	**(19,359)**	**(13,560)**	**(11,370)**
TOTAL SOURCES	**18,371**	**14,574**	**13,072**

The change in the Operating Working Capital compared to 31 December 2019 is attributable to dynamics related to the turnover growth in the last part of the year and to lower operating expenses for the year. The increase in the item Other receivables is mainly due to the recognition of tax credits relating to the Patent Box referring to the financial years 2016 and 2017, which will be usable from the 2021 financial year, while the reduction in the item Other payables is mainly due to the reduction in taxes for the year as a result of the benefit relating to the Patent Box pertaining to 2020.

The increase in the item Intangible fixed assets comes from the capitalised costs relating to patents and trademarks deriving from research activities, while Financial fixed assets increase as a result of the recognition of deferred tax assets.

The reduction in the item Provisions and other M/L-term liabilities is due to the liquidation of the Directors' termination indemnity provision set aside in the previous years following the expiry of the Board of Directors' term of office, upon approval of the financial statements as at 31 December 2019.

The Net Financial Position improves from a positive balance of Euro 13.6 million at 31/12/2019 to a positi balance of Euro 19.4 million as at 31 December 2020. The item Current financial assets refers to a temporary use of part of the Group's liquid funds with the subscription of financial instruments as part of the individual management mandate granted to Azimut Capital Management.

Below are the Alternative Performance Indicators (APIs) considered to be the most significant by the Group, calculated using adjusted income statement figures, thus excluding the non-recurring items, already described above, which characterised the FY 2020.

	2020	2019	2018
	Restated		*Restated*
EBITDA adjusted	27,8%	24,3%	25,0%
EBIT adjusted	25,6%	22,5%	23,6%
R.O.S. (Ebitda adjusted/net Revenues)	28,4%	23,0%	26,0%
R.O.I. (Ebitda adjusted /Net invested capital)	87,2%	84,0%	85,0%
R.O.E (Net profit of teh year/Net equity)	37,3%	30,0%	32,0%
PFN/Equity	(0,51)	(0,48)	(0,47)
PFN/EBITDA Adjusted	(1,21)	(1,03)	(0,96)

The analysis shows an improvement in all the APIs compared to previous years thanks to the lower incidence of operating costs as a result of Covid-19.

Consolidated net financial position

Amounts in k€	31/12/2020	31/12/2019	31/12/2018
Cash	(22)	(16)	(23)
Liquid funds	(16,433)	(13,736)	(14,945)
Total cash and cash equivalents	**(16,455)**	**(13,752)**	**(14,968)**
Current financial assets	(4,349)	(5,075)	(865)
Current financial liabilities: due to banks	124	3,828	2,358
Current portion of non-current debt	758	756	1,154
Current financial payables for rights of use	219	276	-
Net current financial indebtedness for financial assets	**(3,248)**	**(215)**	**2,647**
Net current financial (assets)/indebtedness	**(19,703)**	**(13,967)**	**(12,321)**
Non-current financial assets	-	(918)	(671)
Deposits paid	(218)	(218)	(208)
Non-current bank payables	305	1,063	1,818
Derivative financial instruments	4	8	12
Non-current financial payables for rights of use	253	472	-
Non-current financial indebtedness	**344**	**407**	**951**
Net financial position	**(19,359)**	**(13,560)**	**(11,370)**

The decrease in short-term bank loans and borrowings compared to 31 December 2019 resulted from a temporary utilisation of advances on presentation of bills subject to collection that was outstanding at the end of the previous year.

Income Statement and Balance Sheet of the Parent Company

As at 31 December 2020, Pharmanutra results are as follows:

- NET RESULT FOR THE PERIOD: €/000 12,636
- NET FINANCIAL POSITION: €/000 (16,126)

Below is a summary of the Parent Company's balance sheet and income statement of the last 3 financial years.

Pharmanutra S.p.A. income statement

Amounts in €/000	Restated 2020	2019	Restated 2018
Revenues	**49,025**	**45,213**	**38,578**
Operating Costs	36,724	35,967	29,691
- of which, Services	30,732	31,031	25,456
- of which, Personnel	2,661	2,363	1,886
- of which, Other costs	3,331	2,573	2,349
EBITDA	**12,301**	**9,246**	**8,887**
EBIT	**11,278**	**8,481**	**8,357**
Financial income (expense)	1,538	1,042	827
Non-recurring income/(charges)	(1,424)	-	698
Pre-Tax Result	**11,392**	**9,523**	**9,882**
Taxes	(1,826)	(2,654)	(2,505)
Taxes for previous years	3,070	-	-
Net result	**12,636**	**6,869**	**7,377**

The FY 2020 restated income statement is impacted by the effects of the Covid-19 pandemic in terms of: (i) lower growth in turnover compared to previous years and (ii) lower growth in costs, with particular reference to travel expenses, costs related to the external network (due to the lower growth in the Italian market compared to previous years), lower marketing costs than expected due to the cancellation and/or downsizing of numerous events.

The increase in Personnel costs reflects the hiring of new staff to adapt the structure to the higher business volume.

The increase in Other operating costs is mainly due to the failure of a customer to collect an order, against which the advance payments received were retained by the company. The goods were subsequently repackaged and resold to other customers.

The financial income balance improved as a result of higher dividends distributed by the subsidiaries Junia Pharma and Alesco following the improvement in their respective operating results.

Non-recurring costs refer to the expenses incurred for the translisting to the MTA market - STAR segment and the formalisation of the agreement relating to the Patent Box mentioned above.

Taxes for the year are net of the tax benefit of the Patent Box referring to 2020.

The item Taxes for previous years represents the tax benefit relating to the years 2016-2019 recognised following the formalisation of the Patent Box.

Pharmanutra S.p.A. balance sheet

Amounts in €/000	2020	2019	2018
Inventories	1,502	1,624	1,142
Trade receivables	13,325	12,583	11,187
Trade payables	(6,444)	(8,314)	(6,284)
Other current assets	2,269	1,263	2,878
Other current liabilities	(2,192)	(2,405)	(2,259)
Working Capital	**8,460**	**4,751**	**6,664**
Tangible and intangible fixed assets	5,616	5,391	1,853
Financial fixed assets	3,419	3,415	3,327
Fixed Assets	**9,035**	**8,806**	**5,180**
Provisions	(1,822)	(2,521)	(1,955)
TOTAL USES	**15,673**	**11,036**	**9,889**
Shareholders' Equity:	**31,799**	**23,640**	**21,495**
Liquid funds	(12,708)	(11,549)	(13,982)
Current financial assets	(4,349)	(5,075)	(864)
Non-current financial assets	(178)	(1,095)	(840)
Current financial liabilities	781	4,016	2,711
Non-current financial liabilities	328	1,099	1,369
NET FINANCIAL POSITION	**(16,126)**	**(12,604)**	**(11,606)**
TOTAL SOURCES	**15,673**	**11,036**	**9,889**

The change in Net Working Capital compared to 31 December 2019 is a result of the trade dynamics related to receivables, lower operating costs for the year, which lead to a reduction in trade payables, and the recognition of the tax credit related to the Patent Box of the years 2016 and 2017, which will be available from the year 2021.

The reduction in the item Provisions is due to the liquidation of the Directors' termination indemnity provision (TFM provision) following the expiry of the Board of Directors' term of office, with the approval of the financial statements as at 31 December 2019.

The reduction in non-current financial assets compared to the previous year derives from the settlement of the insurance policy taken out to cover the liquidation of TFM provision.

The decrease in current financial liabilities is related to the temporary utilisation at 31 December 2019 of advances on the presentation of bills that did not recur at year-end.

Pharmanutra S.p.A. net financial position

Amounts in k€	31/12/2020	31/12/2019	31/12/2018
Cash	(19)	(13)	(22)
Liquid funds	(12.689)	(11.536)	(13.960)
Total cash and cash equivalents	**(12.708)**	**(11.549)**	**(13.982)**
Current financial assets	(4.349)	(5.075)	(864)
Current financial liabilities: due to banks	14	3.208	1.738
Current portion of non-current debt	604	602	973
Current financial payables for rights of use	163	206	-
Net current financial indebtedness for financial assets	**(3.568)**	**(1.059)**	**1.847**
Net current financial (assets)/indebtedness	**(16.276)**	**(12.608)**	**(12.135)**
Non-current financial assets	-	(917)	(672)
Deposits paid	(178)	(178)	(168)
Non-current bank payables	151	755	1.357
Derivative financial instruments	4	8	12
Non-current financial payables for rights of use	173	336	-
Non-current financial indebtedness	**150**	**4**	**529**
Net financial position	**(16.126)**	**(12.604)**	**(11.606)**

The decrease in short-term bank loans and borrowings compared to 31 December 2019 resulted from a temporary utilisation of advances on presentation of bills subject to collection that was outstanding at the end of the previous year.

The reconciliation between shareholders' equity and the result of the Parent Company and the corresponding consolidated figures is as follows:

	Result for the year	Shareholders' equity
Shareholders' equity and result for the year from the Parent company's financial statements	**12,636**	**31,799**
Effects of the derecognition of the book value of consolidated equity investments:		
- Book value of investments	0	(2,801)
- Shareholders' equity (including the results for the year of consolidated companies)	2,798	6,387
- Goodwill	0	2,750
Derecognition of the effects of transactions between Group companies:		
- Write-off of intercompany dividends	(1,422)	0
- Derecognition of capital gains or losses on internal disposals	60	(405)
Shareholders' equity and result for the year of the Group	**14,072**	**37,730**
Shareholders' equity and result for the year of minority interest		
Shareholders' equity and result for the year of the Consolidated Financial Statements	**14,072**	**37,730**

Reference markets in which the Group operates

The Pharmanutra Group, specialised in the development of nutraceutical products and medical devices, is one of the main players in the Italian market with a growing presence abroad.

Below is an overview of the general performance of the food supplements market and an in-depth analysis of the main reference markets in Italy for the product lines being more relevant in terms of turnover.

Food supplements market[1]

In the last rolling twelve months, the food supplements market has exceeded the value of Euro 3.7 billion for a total of 278 million packs sold. The changes recorded are as follows: +3% in value and +1.6% in terms of units sold.

The role of the local pharmacy as the main distribution channel is confirmed with a value share of 79%, followed by the parapharmacy and the large-scale retail trade both with shares of 8% and e-commerce with 5%, respectively.

Considering only outlets in the territory, the Italian pharmacy declined by 1.9% in the last rolling year. In such a framework, food supplements report a trend of +1.5%, standing out in the context of OTC products that are rather stable overall (-0.4%)[1].

Looking at the volume trend in the last rolling twelve months, pharmacy volumes were essentially stable (-0.1%), while parapharmacy consumption fell by 3.1%.

With reference to prices in offline channels, there was a 1.6% increase in pharmacies and a 3% increase in parapharmacies.

Valori, volumi (in milioni) ed evoluzione del totale mercato e dei canali

	Valori - MAT DIC 2020	Evoluzione % MAT DIC 2020 vs 2019	Quota	Volumi - MAT DIC 2020	Quota	Evoluzione % MAT DIC 2020 vs 2019
Totale mercato	**3.785**	**3,0**	**100%**	**278**	**100%**	**1,6**
Farmacia	3.003	1,5	79%	186	67%	-0,1
Parafarmacia	289	-0,2	8%	19	7%	-3,1
Super/Iper No Corner	190	2,4	5%	44	16%	3,6
Super/Iper Corner	132	3	3%	17	6%	-3,0
E-commerce di farmacie e parafarmacie	171	51,3	5%	12	4%	59,6

Figure 1: The role and trend of the channels in terms of value generated and sales volumes

[1] Source: IQVIA Solutions Italy data processing - rolling year ending December 2020

By grouping the main classes of food supplements into functional areas, in terms of value generated, the main positioning of the products that pertain to intestinal and digestive apparatuses well-being is confirmed. This is followed by vitamins and minerals, the area of circulatory wellness products, urinary system products and the area of tonics (Figure 2).

These areas respond to health and well-being needs that are of particular concern to consumers. Such areas have seen a significant increase in consumption in terms of units sold (Figure 3 on next page), thus contributing to the increase in value of the total market over the last year. Of particular note was the negative contribution to the value trend of products for intestinal and digestive wellness (-0.5%), tonics (-0.5%), throat and respiratory wellness products (-0.6%) and weight control products (-0.5%).

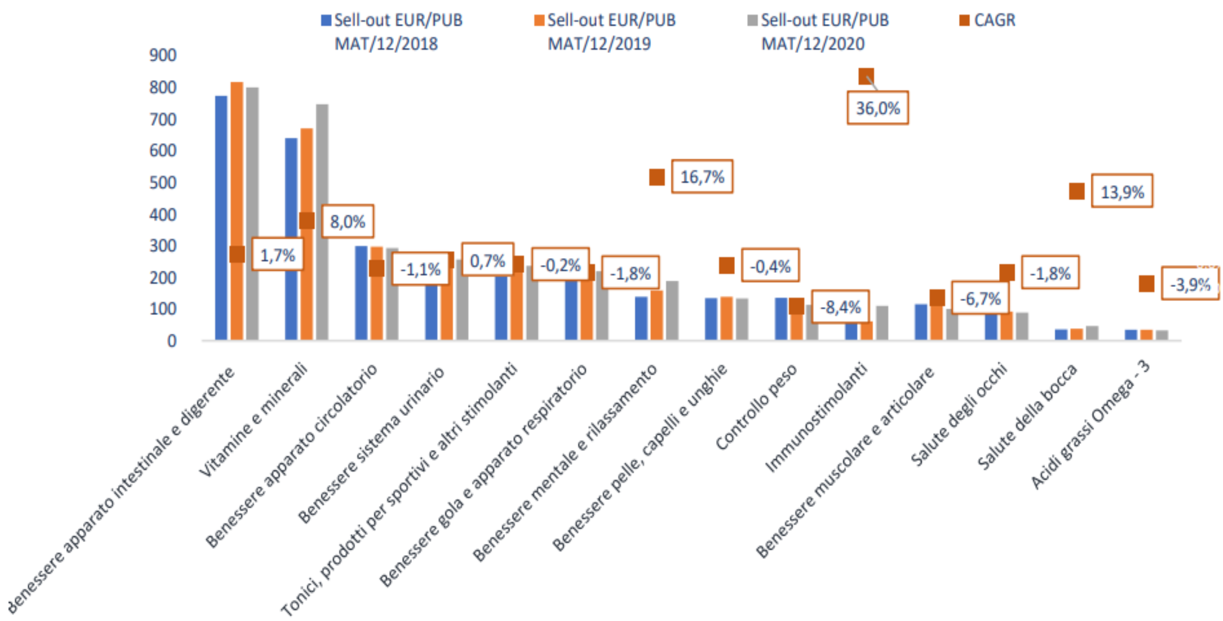


Figure 2: Main areas of wellness and health in pharmacies, parapharmacies and large-scale retail trade

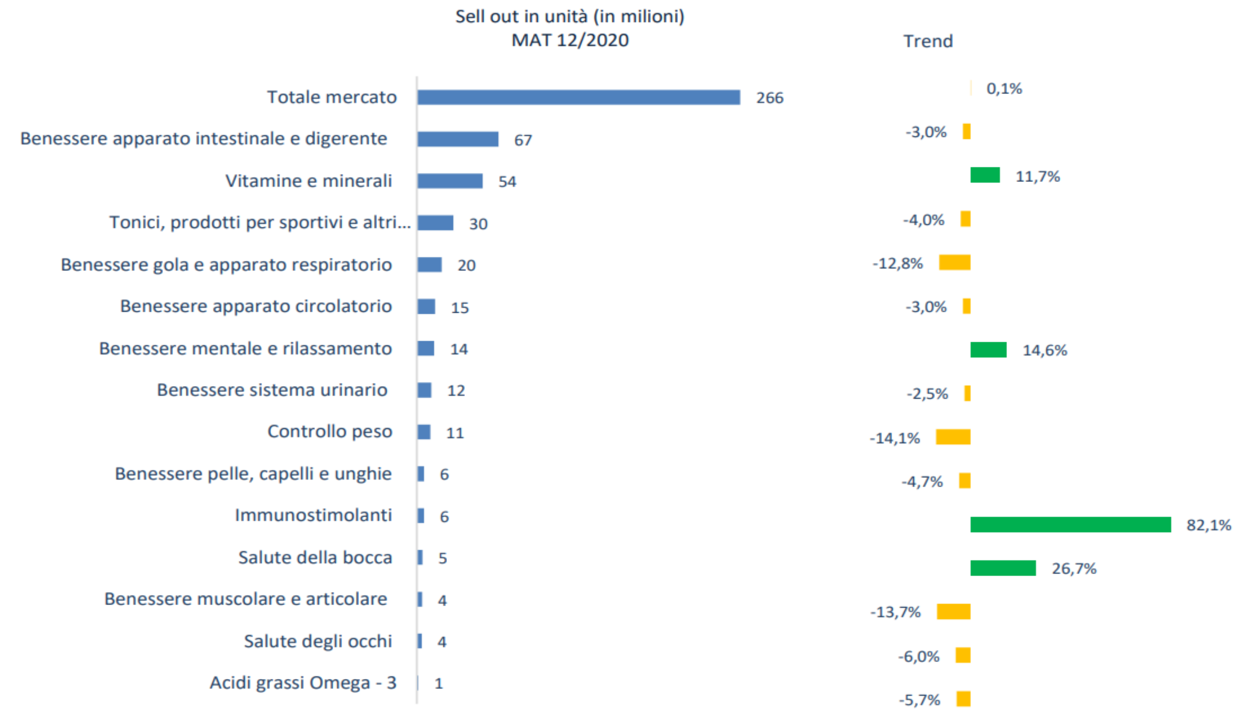
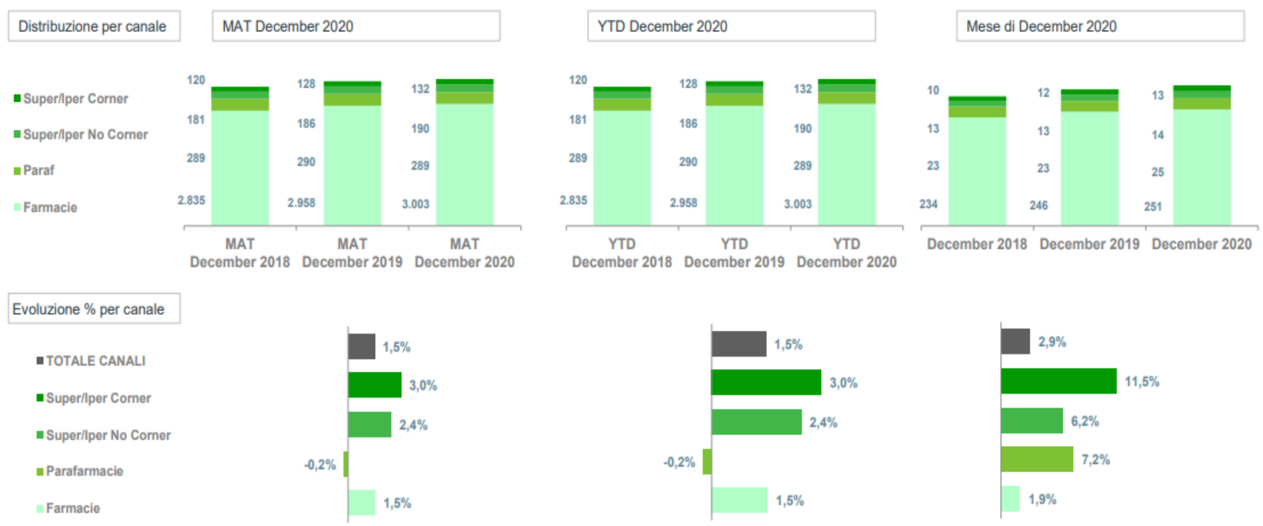


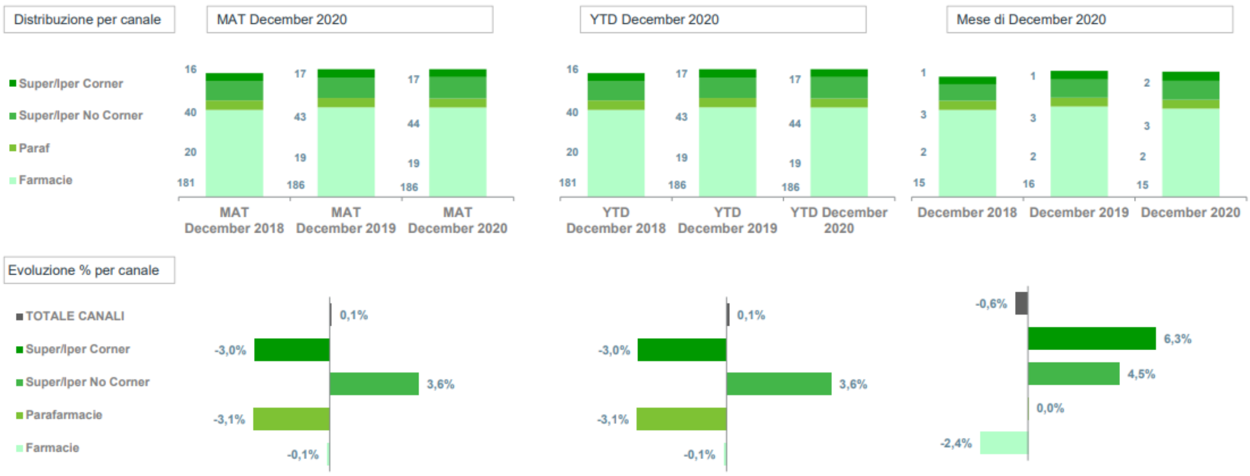
Figure 3: Main areas of wellness and health in pharmacies: consumption trends in terms of units sold over the last year

The market for Food Supplements – sell-out[2] at retail price values in MAT[3], YTD[4] and month

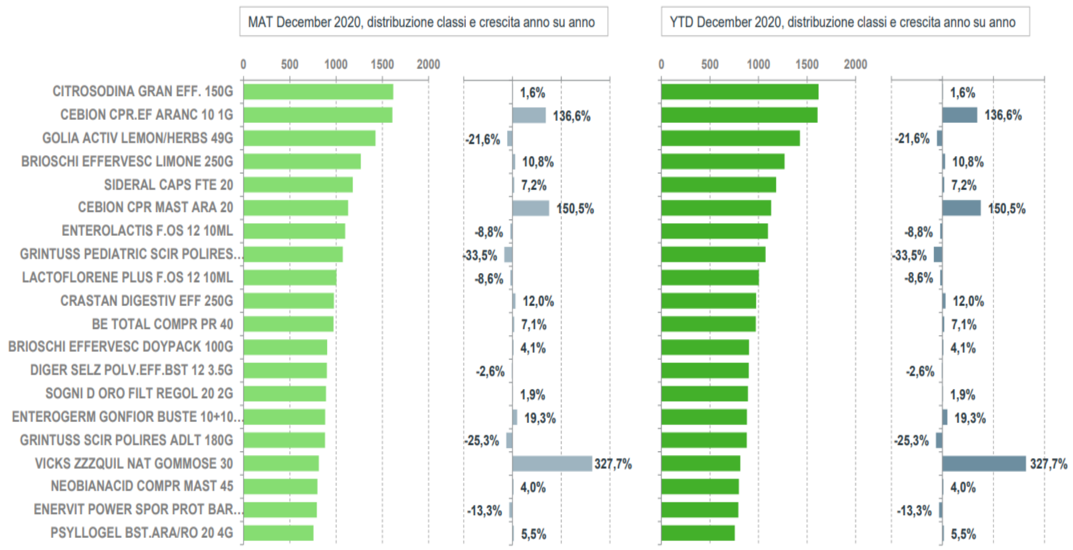


The market for Food Supplements – sell-out in volume in MAT, YTD and month

[2] Sell-out: sales to the public expressed in units (sell-out in volume) or valued at the retail price (sell-out in value).
[3] MAT: Moving Annual Total.
[4] YTD: first months of the current year (Year to Date).



The market for Food Supplements – Top 20 product codes (sell-out in volume MAT and YTD)

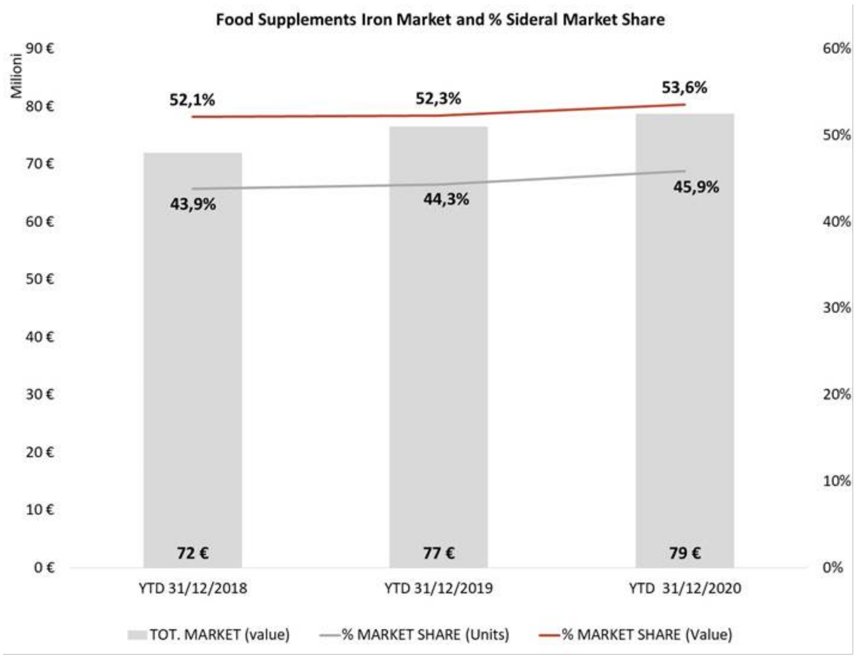


Sideral® Forte is confirmed as one of the best-selling products on the food supplements market, occupying the fifth place among the top 20 product codes in terms of sell-out in volume.

Iron market

Pharmanutra Group operates in the iron-based supplements market (Food Supplements and Drugs) with Sideral© product line, in which it confirmed its leadership for 2020 with a market share in value of 53.6% in the Food Supplements segment and 39% in the overall market[5].

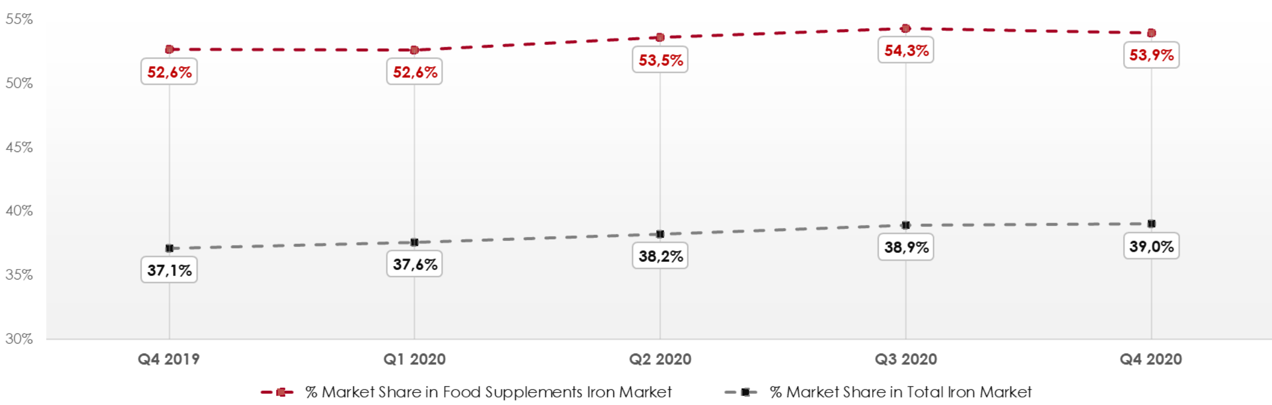
[5] Source: IQVIA data



The chart above shows that, despite the pandemic, the market for iron-based food supplements grew compared to the previous year, albeit more moderately, with Sideral increasing its share in both value and quantity.

The charts below show the quarterly trends in the market share of Sideral© (expressed in value) in relation to the market for iron supplements only (Food Supplements) and the overall market consisting of both Food Supplements and Drugs[6].

SIDERAL % MARKET SHARE - FOOD SUPPLEMENTS & DRUGS (VAL)

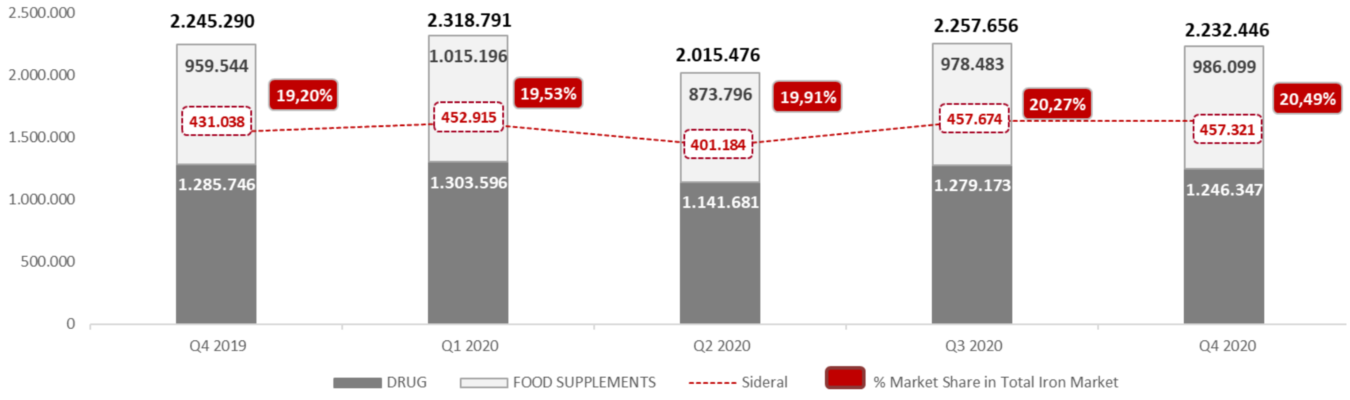


It should be noted that the Sideral© product line also has a significant market share in the entire panorama of the overall market, whose growth is driven by the food supplements segment at the expense of the drugs one.

[6] Source: IQVIA data

The performance of Sideral® in terms of units in the iron-based food supplements market and the overall iron market is shown in the table below.

SIDERAL TREND & TOTAL IRON MARKET (UN)



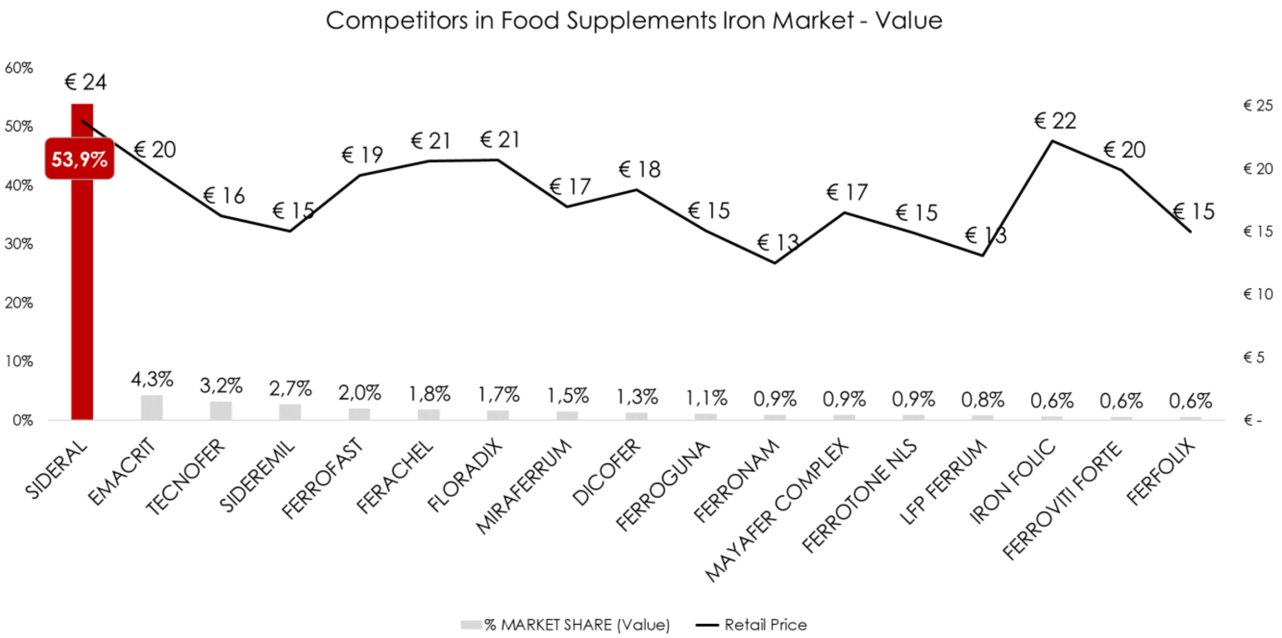
In the last quarter of 2020, the trend of Sideral© products per unit is stable compared to the previous quarter (-0.1%). However, there is a slight growth in the Total Market share from 20.27% in Q4 of 2019 to 20.49% in the last quarter of the year.

The table below shows that the effects of Covid-19 impacted Sideral® to a lesser extent than both the iron-based food supplements market and the overall iron market.

Units	Q4 19	Q1 20	Δ	Q2 20	Δ	Q3 20	Δ	Q4 20	Δ	Δ Q4 20/19
Drug	1.285.746	1.303.596	1,4%	1.141.681	-12,4%	1.279.173	12,0%	1.246.347	-2,6%	-3,1%
Food	959.544	1.015.196	**5,8%**	873.796	**-13,9%**	978.483	**12,0%**	986.099	**0,8%**	2,8%
Tot. market	2.245.290	2.318.792	**3,3%**	2.015.477	**-13,1%**	2.257.656	**12,0%**	2.232.446	**-1,1%**	-0,6%
Sideral®	431.038	452.915	**5,1%**	401.184	**-11,4%**	457.674	**14,1%**	456.321	**-0,3%**	5,9%
% Sideral on Tot. market	19,2%	19,5%	0,3%	19,9%	0,4%	20,3%	0,4%	20,4%	0,2%	6,5%
% Sideral on Food market	44,9%	44,6%	-0,3%	45,9%	1,3%	46,8%	0,9%	46,3%	-0,5%	3,0%

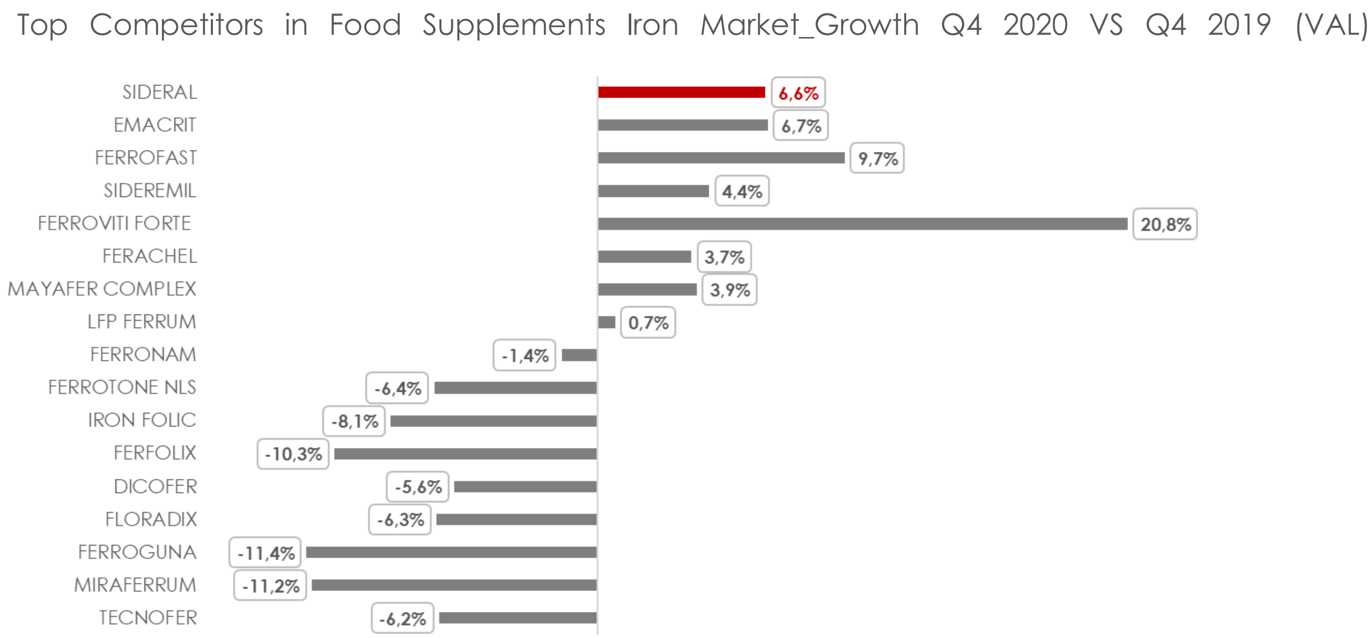
In the second and fourth quarters of 2020, there was a change in the volume sold of Sideral® that is better than the trend of the overall market and the food supplements market with the market share held increasing.

Going into detail, the different players operating in the iron supplements segment in terms of market shares and average price, the direct competitors of Sideral© have much smaller market shares (the second competitor has a market share almost 13 times lower than Sideral©) and, on average, lower market prices. This shows how the Sideral© product line is able to gain significant recognition in the market in terms of premium retail price, achieved thanks to significant investments in research and development and marketing.

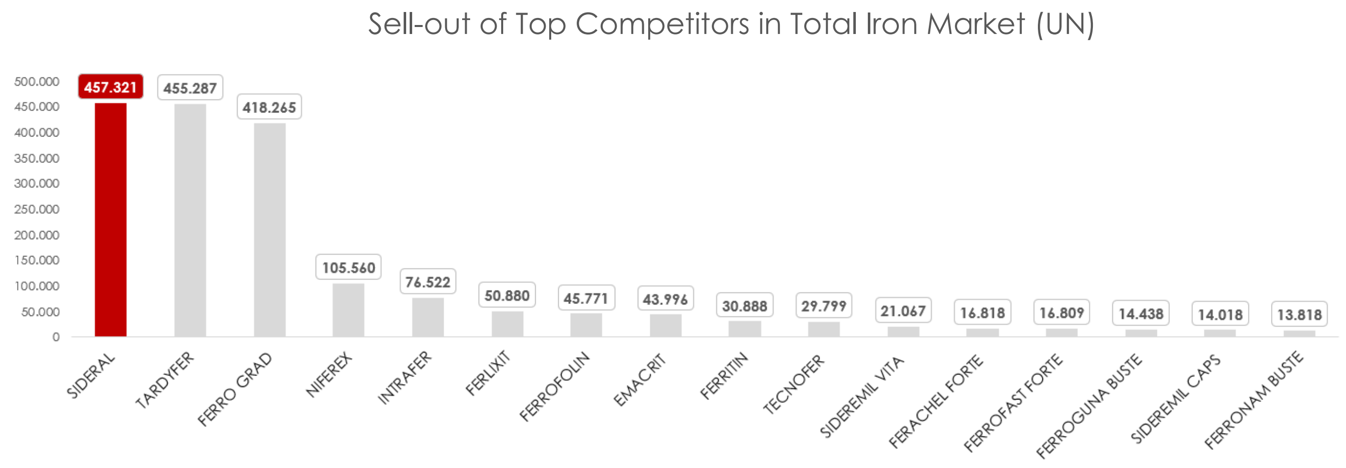


In particular, an analysis of the Top Competitors of Sideral branded products shows a decline in terms of values and units, with the exception of some that maintain a positive growth trend.

In the chart below, we show the growth over the same quarter of 2019 of the top competitors, in terms of change in revenue.

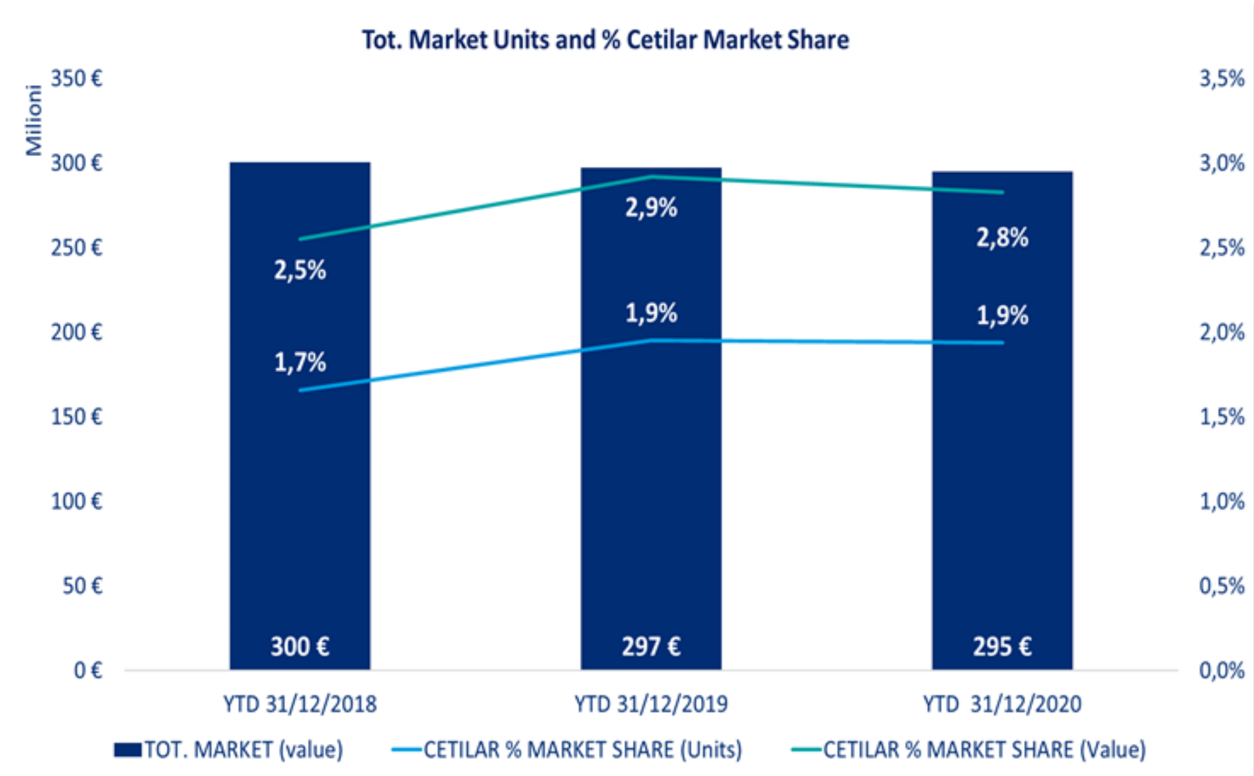


The sell-out figures in units for the last quarter of the year show the leadership of Sideral branded products, ev compared with the two main products in the Drug market.



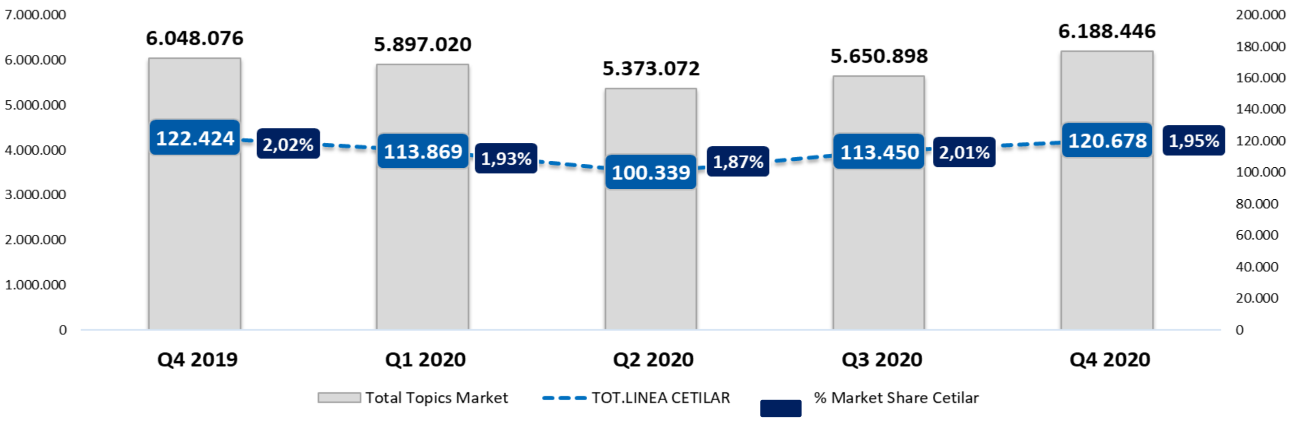
Market for topical painkillers

As at 31 December 2020, the topical painkiller market showed a reduction of Euro 2 million compared to the previous year with Cetilar® maintaining its value market share of 1.9% with a decrease in volume market share.



In the last quarter of 2020, Cetilar® line recorded a slight growth in terms of units, compared with the previous quarter, with good development prospects being however influenced by the evolution of the current pandemic situation.

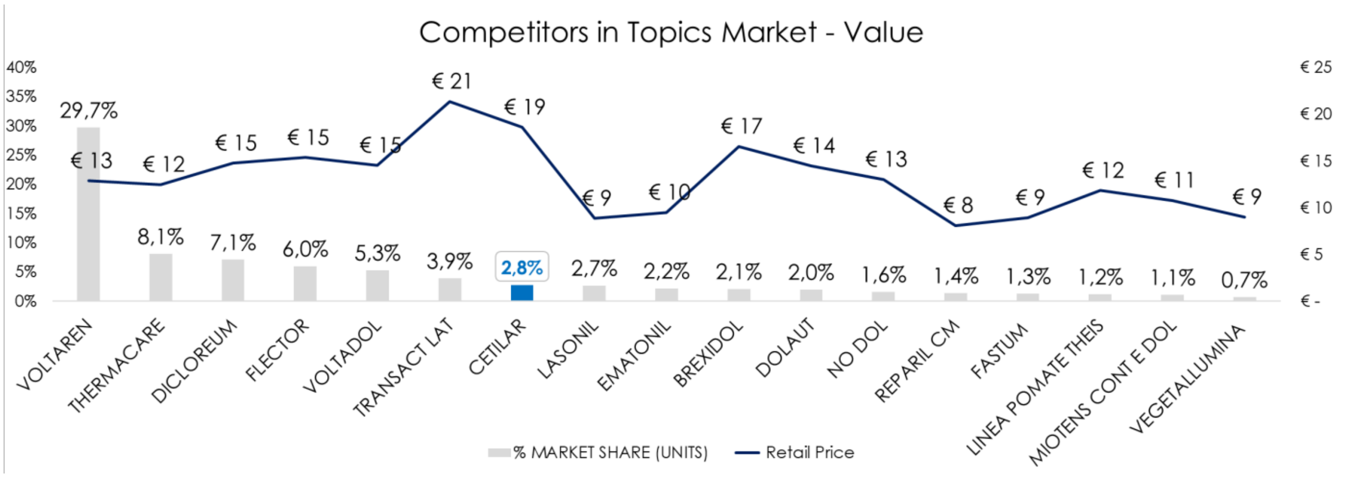
TOPICAL PRODUCTS MARKET TREND (UN)

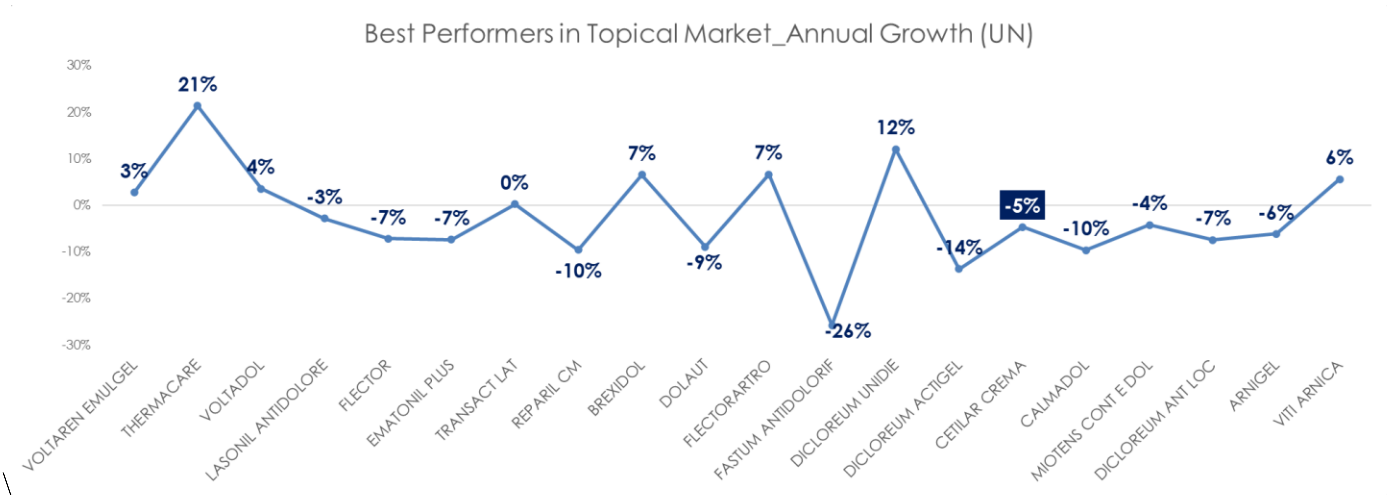


The table below shows how the effects of the measures adopted to combat the Covid-19 epidemic impacted Cetilar® to a greater extent than the overall market in Q1 and Q2 of 2020, while Q3 saw higher growth than the market.

Units	Q4 19	Q1 20	Δ	Q2 20	Δ	Q3 20	Δ	Q4 20	Δ	Δ Q4 20/19
Topical products market	6.048.076	5.897.020	**-2,5%**	5.373.072	**-8,9%**	5.650.898	**5,2%**	6.188.446	**9,5%**	2,3%
Cetilar	122.424	113.869	**-7,0%**	100.339	**-11,9%**	113.450	**13,1%**	120.678	**6,4%**	-1,4%
% Cetilar on topical products market	2,02%	1,93%	-0,09%	1,87%	-0,06%	2,01%	0,14%	1,95%	-0,06%	-0,1%

Two charts are provided below: the first shows the market shares of the top competitors in the fourth quarter of 2020 in terms of value, while the second shows the trend in units of the best performers compared with the same period of the previous year.





Capital Expenditures

During 2020, the Group made capital expenditures in intangible fixed assets totalling Euro 692 thousand, of which:

- Euro 437 thousand for the registration of patents;
- Euro 168 thousand for the registration of trademarks;
- Euro 87 thousand relating to projects in progress not yet completed and software.

The investments in tangible fixed assets amount to Euro 942 thousand, of which:

- Euro 304 thousand for costs of geological surveys, authorisations and design of the complex where the new Group headquarters, production plant and research centre will be built;
- Euro 484 thousand for the purchase of vehicles used by the management and the sales force;
- Euro 154 thousand for the purchase of equipment, furniture and electronic devices.

Research and Development activities

Pharmanutra Group's Research and Development (R&D) has always been one of the main pillars on which the Group's growth is based.

The R&D work first starts from a continuous study and a deep knowledge of both the biology, human physiology and biochemistry aspects of nutrition, medicine and pharmacology. It is fully driven by the will to meet the needs of the market as well as the ones of consumers and doctors, to provide them with new opportunities and to address unresolved issues.

The Group's R&D objectives are to find new formulations, new applications, new scientific evidence, so as to always guarantee the effectiveness and innovation of its products.

Design and development activities and scientific research are constantly increasing.

Basic research, through pre-clinical experiments *(in-vitro, ex-vivo and in-vivo*) has borne fruit with important international publications that are paramount tools available to the business and represent solid pillars, thus ensuring a significant competitive advantage. In addition to this, important new projects have started, being directly followed by the researchers who are part of the Group, the first being the start-up of a proprietary research laboratory, currently dedicated to the development of new prototypes and formulations, and which in the future will also be dedicated to experimental research in the field of cell biology.

At the same time, clinical studies are followed, whose practical implementation is instead carried out through formal collaborative relationships with Italian and foreign clinics, hospitals, research centres, depending on the necessary skills and know-how. During 2020, the continuation of clinical studies inevitably slowed down, particularly for the studies carried out at hospital centres, due to the pandemic situation brought about by SARS-CoV-2.

Research is mainly carried out on the group's flagship products, Sideral®, Cetilar® and its proprietary raw materials. Numerous studies (both clinical and pre-clinical) are underway also on all the other products. Some of these studies are very innovative and will allow to open new markets, others will be useful to strengthen current evidence and market positioning. In particular, following the pandemic situation, two studies have been started with the product Apportal®, with the aim of studying the effects on the reduction of fatigue and asthenia in subjects affected by Covid-19. The first data available shows a significant effectiveness, thus identifying a new area of use in these types of subjects and, more generally, in all those who are physically debilitated as a result of infections of various origins. During 2020, 7 important pre-clinical and clinical studies were published, for a total of 122 publications, plus numerous international publications in which Sideral is cited as one of the most innovative iron-based products. There are several ongoing trials (clinical and pre-clinical studies) conducted in Italy or abroad plus other clinical trials followed by international partners.

The Group is constantly disseminating its results, which it considers useful to publish and make available to the scientific community on the one hand and to the commercial network on the other. Therefore, the Group's R&D staff participates in national and international congresses as speakers, or in hospital meetings and focus groups with doctors, where they show the evidence and results obtained on their products.

In particular, in 2020 this activity was carried out through online events, since all scientific congresses and hospital meetings were held in virtual mode only. The events in which the Group's R&D has participated have been of various types and medical targets, including some in the paediatric field.

In 2020, numerous training events on all products were also held for sales representatives/scientific informants in order to transfer the characteristics and competitive advantages of the Group's products. Among these, a special focus has been given to the products with a positive effect in supporting the immune system, precisely to meet the consumer needs in relation to the SARS-Cov-2 pandemic.

In close collaboration with the Group's Quality Control department, it constantly guarantees the maximum quality and stability of the products marketed and works on the production of new finished products.

Pursuant to Article 2428, paragraph 2, no. 1) of the Italian Civil Code, the following information is provided:

a) the capitalised costs incurred for development activities in previous years are fully amortised;

b) the total costs incurred to carry out research and development activities charged to the income statement amounts to Euro 630 thousand to which should be added personnel costs for research and development activities;

c) The reasons underlying the capitalisation of development costs refer to the future estimated usefulness of development activities.

During 2020, 7 applications for the registration of new patents and 1 application for the registration of a new trademark were filed. To date, the Group owns 17 patents, 31 trademarks, and has 17 proprietary raw materials.

In view of this dynamism, and in perfect harmony with the strategic guidelines for intervention put in place in the field of government tax incentives to support the transformation process of Italian companies, Pharmanutra and Alesco have decided to start, with the exercise of the appropriate option from the tax year 2015, the path of adherence to the preferential taxation regime referred to in article1, paragraphs 37 to 45 of Italian Law no.190/2014 as subsequently amended and integrated (so-called "Patent box") for income deriving from the exploitation of certain intangible fixed assets falling within the scope of application of such regulation. The agreement relating to the Patent Box (so-called 'ruling') was formalised with the Italian Inland Revenue in June 2020 and grants an exclusion from the taxable income for each financial year of a part of the income deriving from the use of the so-called "intellectual property" (trademarks, industrial patents, processes, formulas and information relating to experience acquired in the industrial, commercial or scientific field that are legally protectable (know-how), designs and models, software protected by copyright). This reduction is 40% for 2016, 50% for the four-year period 2017-2020 and refers to corporate income taxes (IRES and IRAP). The tax benefit for the Group relating to the 2016-2019 period amounts to Euro 3.4 million and that relating to 2020 amounts to Euro 1.4 million.

All the above represents the crowning achievement of years of scientific studies and research carried out by Pharmanutra Group as an excellence in the Italian nutraceutical sector. The role played by research and development activities within the Group's overall objectives and the results it aims to achieve is to maintain the highest level of quality and innovation of the products it offers to its customers. Only through constant research and development of the products to be offered will it be possible to provide customers with new solutions featuring high scientific content and at the same time maintain a high competitive advantage over the competition.

Furthermore, the benefit represented by the specific tax credit referred to in Article 3 of Italian Decree-Law no. 145/2013 is fully enjoyable within the terms and in the manner set out in Italian Ministerial Decree 27/05/2015 and subsequent amendments, with respect to the research and development activities carried out by Pharmanutra and Alesco, which qualify as eligible for the calculation of the facility in question. The tax credit relating to research and development activities for the year 2020 amounts to Euro 200 thousand.

As already mentioned, two patents were granted in March, respectively in India and in the United States, which are markets with significant potential given their size.

As far as India is concerned, the patent grant concerns "Ferro Solido" (Solid Iron - no. 328725) and will expire in 2033. The patent concerns the SideraL® branded line, created thanks to the innovative Sucrosomial® Technology which has enabled the Group's leading products to overcome the limitations and problems associated with the oral administration of iron, a mineral characterised by reduced absorption and poor gastrointestinal tolerability. This unique and patented mechanism of action has allowed the group's food supplements to establish themselves as the most effective and innovative in the industry, so much so that according to the latest market data processed by IQVIA and made official by FederSalus, Sideral® Forte 20 capsules is the most sold nutritional supplement in Italy.

The second patent concerns Cetilar®, the line of products designed to reduce the pain of joints and muscles due to trauma, which has thus found official recognition also on the U.S. market. The granting of the new Cetilar® patent (no. US10,597,608, granted on 24/03/2020) in the USA will last until 2036 and represents a fundamental step for the diffusion abroad of a brand that in Italy - also thanks to a series of high-level sports partnerships - has gained a solid reputation.

In November, the USPTO (United States Patent and Trademark Office), the administrative body in charge of issuing patents and trademarks filed in the United States of America, made official the registration of the figurative and word trademarks Cetilar® and Sideral®.

In December, two important certifications were obtained from the Notified Body of Istituto Superiore di Sanità (ISS) and the U.S. Food and Drug Administration (FDA), respectively.

The Company received from ISS the EC Certification for the classification as Class 2A Medical Devices of the products Cetilar® Patch and Cetilar® Tape, which together with Cetilar® Cream - already certified as Class 2A - form a line of medical devices based on cetylated esters (CFA). The certification of Cetilar® Patch and Cetilar® Tape as Class 2A Medical Devices represents not only a further qualitative confirmation for the products of Cetilar® line, but also a fundamental step forward from the distribution point of view, both for the Italian and the international markets, since it allows the Company to market at European level without further certifications issued by the authorities of individual countries and to obtain the certificate of free sale required by non-EU countries.

The Company has also obtained GRAS (an acronym for Generally Recognised As Safe) recognition for its patented Cetylated Esters (CFA). Such a recognition was obtained, as required by the FDA, through the eligibility process by a panel of qualified experts, based on scientific data regarding the safety of CFA. This GRAS certification will allow Pharmanutra to market new oral formulations based on CFA in the United States, with the possibility of significantly expanding the market for Cetilar® products, until now developed only for topical use.

Marketing activities

During 2020, the Group carried out a restyling of its brands and the corporate identity of its three companies, Pharmanutra, Junia Pharma and Alesco. On the occasion of the transition to the MTA market - STAR segment, the new Pharmanutra logo, the new website and the Company profile were presented.

With regard to product communication, investments were concentrated on digital activities for the promotion Sideral®, Cetilar® and Apportal® brands, with the aim of increasing brand awareness, supporting the sales network and encouraging both store traffic in pharmacies and online purchases on selected market places. Especially for Apportal®, the planning allowed a wide target coverage, through a media mix articulated on the following channels: National TV and radios, web search and display activities and a targeted selection of press advertising. Cetilar® products have also been the subject of a multi-channel promotional campaign, which has been combined with sponsorships of top-level sports clubs in numerous sectors.

During the year, Pharmanutra developed new communication systems (e-detailing) to support its commercial activities, in order to allow doctors and pharmacists to carry out information activities remotely. Such digital solutions, which proved to be strategic during the lockdown period, have enabled the Company to continue its business and represent a communication and sales tool that will continue to complement traditional information methods even in the future.

Main partnerships

Pharmanutra, with Cetilar® brand, is the main sponsor of Parma Calcio 1913 and Pisa Sporting Club, which participate in the Italian football championships of Serie A and Serie B, respectively.

Due to the pandemic, all the running events scheduled for 2020, including the Cetilar Marathon in Pisa and Cetilar Run - Parma in which the company is the main sponsor with Cetilar® brand, have been cancelled.

In the Motor Sport sector, the strong presence and visibility in the Endurance sector is confirmed as the main brand of Cetilar Racing team with the participation in the Italian ELMS stage, in the historic 24H of Le Mans and in the World Endurance Championship.

In sailing, Cetilar® brand is present as main sponsor of the 151 Miglia Trofeo Cetilar event (2020 event was cancelled due to Covid-19) and is successfully exhibited by Team Vitamina in the M32 and Swan 50 classes.

Corporate Governance Information

Pursuant to article 123-*bis* of the Italian Consolidated Law on Finance, the Company is required to prepare an annual report on corporate governance and ownership structure, which contains a general description of the corporate governance system adopted by Pharmanutra Group and information on the ownership structure, including the main governance practices applied and the characteristics of the risk management and internal control system in relation to the financial reporting process.

The said Report, approved by the Board of Directors on 22 March 2021, is available on the Company's websi

www.pharmanutra.it in the Corporate Governance section.

Remuneration Report

The Remuneration Report, prepared in accordance with article 123-*ter* of the Consolidated Finance Act, is available on the Pharmanutra website at www.Pharmanutra.com in the Corporate Governance section.

Pharmanutra on the Stock Exchange

The shares of Pharmanutra S.p.A. were listed on the AIM Italia (Mercato Alternativo del

Capitale) from 18 July 2017 to 14 December 2020. As of 15 December 2020, the shares of Pharmanutra S.p.A. are listed on Mercato Telematico Azionario (MTA) of Borsa Italiana, STAR segment.

ISIN	IT0005274094
Alphanumeric Code	PHN
Bloomberg Code	PHN IM
Reuters code	PHNU.MI
Specialist	Mediobanca
No. of ordinary shares	9,680,977
Price of admission *	10.00
Price at 31/12/2020	37.60
Capitalisation at the date of admission	96,809,770
Capitalisation at 31/12/2020	364,004,735

*= value on the date of admission to AIM

The share capital of the Company is represented by 9,680,977 ordinary shares, without nominal value, which confer the same number of voting rights.

According to the results of the shareholders' register as well as on the basis of other information available to Pharmanutra S.p.A., the following table shows the shareholders who hold a significant stake in the share capital at 31 December 2020.

Direct shareholder		Number of shares		% of S.C. with voting rights
Andrea Lacorte		3.038.334	1)	31,39%
Roberto Lacorte		2.238.833	2)	23,13%
Beda S.r.l.	3)	1.014.993		10,48%
Market		3.388.817		35,00%
Total		**9.680.977**		**100,00%**

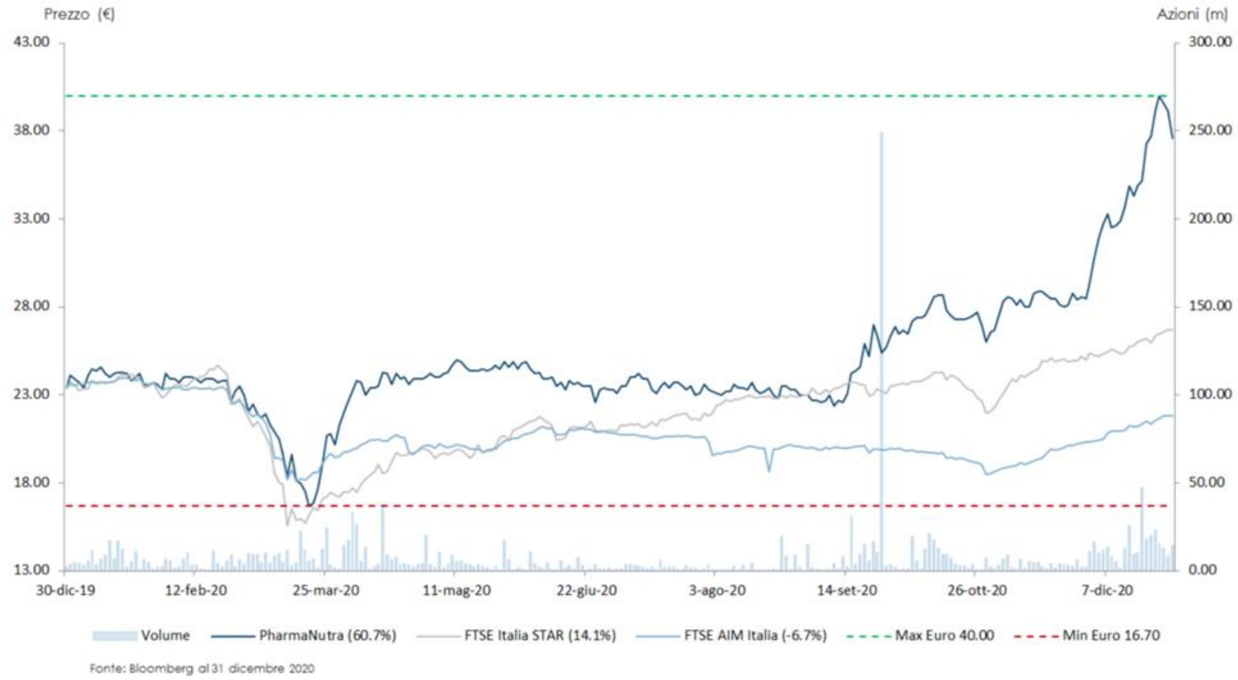
1) Including 953,334 PHN ordinary shares through the trust company COFIRCONT Compagnia Fiduciaria S.r.l. under a specific fiduciary mandate.

2) Including 953,334 PHN ordinary shares through the trust company COFIRCONT Compagnia Fiduciaria S.r.l. under a specific fiduciary mandate.

3) It should be noted that Carlo Volpi is the sole shareholder and sole director of Beda S.r.l.

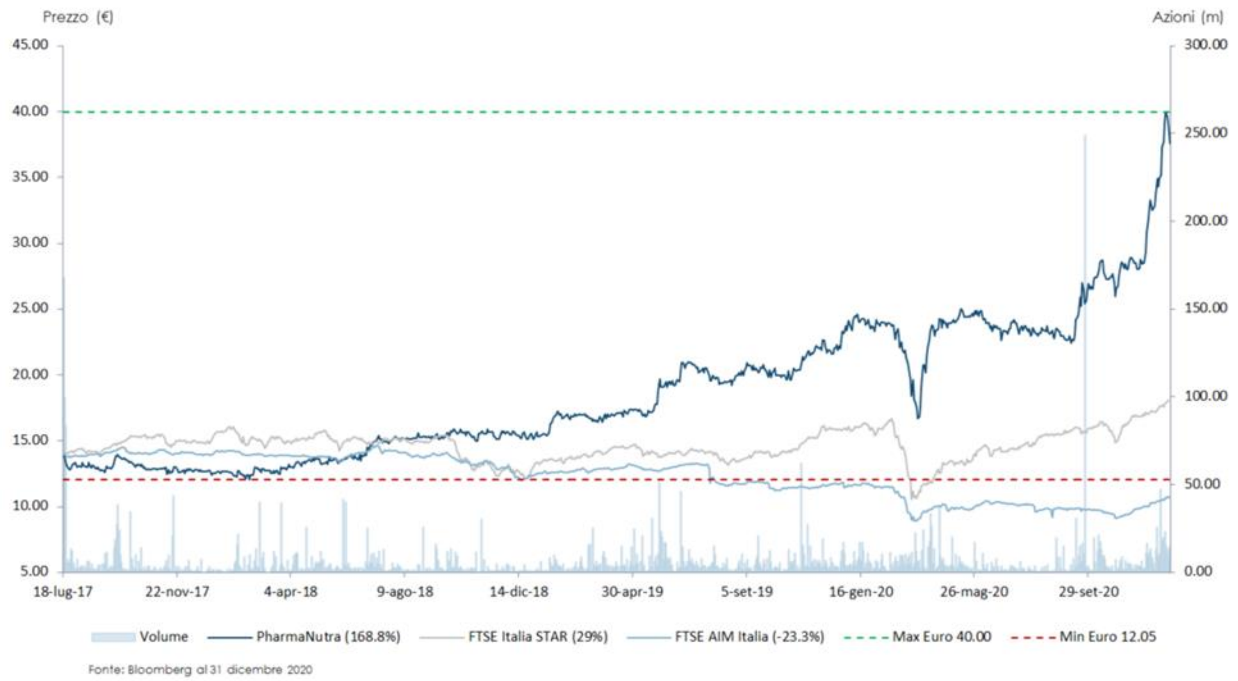
From the date of commencement of trading on AIM Italia (18 July 2017) until 31 December 2020, the Company's shares had an average price of Euro 18.59, a maximum price of Euro 40.00 (at 23 December 2020) and a minimum price of Euro 12.05 (at 14 February 2018). In the same period, the average daily trading volumes on AIM Italia and MTA (the changeover to the STAR segment of Borsa Italiana occurred on 15 December 2020) amounted to approximately 5,878 shares. From the date of commencement of trading on AIM Italia to 31 December 2020, the market value of the Company's shares increased by approximately 168.8%. The security performance was therefore better than the FTSE AIM Italia index, which fell by around -23.3% in the same period, and the FTSE Italia STAR index, which rose by around 29.0%.

The graph below sets out the performance of the prices and traded volumes of the Company's Shares, the performance of the FTSE AIM Italia Index and the performance of the FTSE Italia STAR Index from the commencement of trading on AIM Italia (18 July 2017) to 31 December 2020, respectively.



From the beginning of the year (2 January 2020) until 31 December 2020, the Company's shares had an average price of Euro 25.06, a maximum price of Euro 40.00 (at 23 December 2020) and a minimum price of Euro 16.70 (at 19 March 2020). In the same period, the average daily trading volumes on AIM Italia and MTA were approximately 7,014 shares. From the beginning of the year to 31 December 2020, the market value of the Company's shares increased by approximately 60.7%. The security performance was therefore better than the FTSE AIM Italia index, which fell by around -6.7% in the same period, and the FTSE Italia STAR index, which rose by around 14.1%.

The graph below sets out the performance of the prices and traded volumes of the Company's Shares and the performance of the FTSE AIM Italia Index and the performance of the FTSE Italia STAR Index from the beginning of the year (2 January 2020) until 31 December 2020, respectively.



ANALYST COVERAGE

	ALANTRA	MEDIOBANCA	MIDCAP PARTNERS
Initiation of coverage	04/02/2019	19/12/2019	15/12/2020
Update	11/11/2020	02/02/2021	05/02/2021
Target price	33,0	39,8	42,0

Transactions with related parties

All transactions with related parties are carried out at market conditions, form part of the Group's ordinary operations and are undertaken solely in the interests of the Group.

Pursuant to Consob Resolution no. 17221 of 12 March 2010, it is hereby acknowledged that during 2020 the Group did not enter into any significant transactions with related parties or transactions which had a material impact on the Group's financial position or results.

Transactions with related parties are as follows:

- Transactions carried out by Pharmanutra with its subsidiaries and transactions between subsidiaries: these relate to the sale of goods and services that are part of the ordinary operations of the Group. The related costs and revenues, receivables and payables have been eliminated in the preparation of the consolidated financial statements. The transactions between companies of the Group concern the supply by Alesco of the main active ingredients, the payment by Pharmanutra and Junia Pharma to Alesco of royalties for the exploitation of the patent relating to Sucrosomial® Iron technology, and the charge-back of personnel costs between companies of the Group.

- Transactions carried out with related parties other than Group companies, mainly consisting of commercial transactions involving the rental of property, advertising consultancy services, the provision of services for sponsored events and agency agreements.

In general, the transactions with related parties are governed by the procedure for transactions with related parties that Pharmanutra has adopted from time to time, aimed at ensuring effective correctness and transparency, both substantive and procedural, in this area and to encourage - where necessary - full co-responsibility of the Board of Directors in the related decisions.

Details of the amounts relating to transactions with related parties are provided in Note 14 of the Explanatory Notes to the Consolidated Financial Statements.

Treasury shares and shares held by subsidiaries

The Ordinary Shareholders' Meeting of Pharmanutra held on 27 April 2020 authorised the purchase and disposal of treasury shares pursuant to articles 2357 and 2357-*ter* of the Italian Civil Code, as well as article 132 of Italian Legislative Decree 58/1998, for a period of 18 months and for a maximum amount of Euro 3 million, so as to allow the company to take advantage of the opportunity to make an advantageous investment, in cases where the market price of Pharmanutra shares, also due to factors external to the Company, is not able to adequately express its value. During 2020, the above conditions did not occur and therefore the treasury share buyback programme was not activated.

As at 31 December 2020, the Company did not hold any of its own ordinary shares and its subsidiaries did not hold any Pharmanutra shares.

Financial risk management objectives and policies

The treasury management policy adopted by the Group provides for a periodic monitoring of the financial situation (trends in cash inflows and outflows and balances relating to the main financial items, including current accounts) so as to have a complete picture of the Group's liquid funds.

In the context of financial policy decisions, the Group separately assesses the need for working capital, which responds to a short-term time horizon, compared to investment needs, which respond to medium/long-term requirements.

In the context of short-term management, also thanks to the management of working capital, the Group generates sufficient cash for its financial requirements while, in the context of medium/long-term financial management policies, investments are adequately covered by medium/long-term loans.

Cash and cash equivalents are free from constraints or restrictions on their use and can be destined to cover financial requirements linked to the dynamics of operating working capital, the distribution of dividends, as well as the realisation of the investment in the new Group’s headquarters.

During the financial year 2020, as in the previous year, the return on the Group's cash and cash equivalents, given the level of market interest rates, was close to zero.

Cash and cash equivalents as at 31 December 2020 and 2019 are held in checking accounts opened at vario credit institutions. The credit risk associated with cash and cash equivalents is considered to be low as these are fractionated bank deposits with high standing institutions.

As indicated in the next paragraph, in 2018 the Issuer granted Azimut Capital Management S.g.r. a mandate to manage a portion of the company's liquidity for a maximum amount of Euro 5 million.

k€	31/12/2020	31/12/2019
Liquid funds	12,708	11,549
Current financial assets	4,349	5,075
Total	**17,057**	**16,624**

Current financial assets

This item represents a temporary investment of part of the Company's liquidity made through an individual asset management mandate granted to Azimut Capital Management S.g.r. By virtue of this mandate, bonds and units in investment funds of adequately rated issuers have been subscribed.

As at 31/12/2020, a comparison with the market value of the bonds held shows a net capital loss of Euro 42 thousand which was recorded in a shareholders' equity reserve, based on the valuation criteria adopted by the Group in accordance with IFRS9. A gain of Euro 4 thousand was recorded in the income statement for the year on the fund units. During the third quarter of 2020, there was a decrease in current financial assets due to a repayment at maturity.

Considering the liquid funds available and the regular continuation of activities, the Group does not foresee the need to resort to the early disposal of the financial instruments in question.

A breakdown of "Current financial assets" is provided below:

k€	31/12/2020	31/12/2019	Change
Mutual fund units	1,836	1,832	4
Bonds	2,513	3,244	-731
Total current fin. assets	**4,349**	**5,076**	**-727**

As at 31 December 2020, the Current financial assets consisted for 57.8% of bonds and for 42.2% of units of open-ended mutual funds with fast disinvestment.

Due to the nature of the investments made, the entire value of the investment should be considered of possible immediate disinvestment. Progressive bond maturities will result in reinvestments of the management mandate unless there are changes in the Company's needs not being foreseeable at this time.

The following table shows the breakdown of the bond portfolio between fixed-rate and variable-rate bonds:

k€	31/12/2020	31/12/2019	Change
Fixed-rate bonds	2,083	2,815	-732
Variable rate bonds	430	429	1
Total Bonds	**2,513**	**3,244**	**-731**

For the bond component of Financial assets, which coincide with those covered by the individual management mandate granted to Azimut Capital Management S.g.r., the Group is exposed to the risk of changes in capital in the portfolio as a result of changes in interest rates. The simulation carried out with data from Bloomberg based on the "Option Adjusted Duration" (OAD) model, which is the most widely used on the market and also adopted by ISMA (International Securities Market Association) indicates that the sensitivity to interest rates, i.e. the percentage of change in the value of the overall portfolio for every 1% of change in rates, is 1.93%. Qualitatively, this portfolio has a low sensitivity to interest rates and a medium/low sensitivity to spreads thanks to a very limited average maturity.

Financial debt - Loans and financing

The following table provides a summary of loans from banks taken out by Group's companies, broken down into current and non-current portion outstanding at 31 December 2020 and 31 December 2019.

k€	Balance at 31/12/20	Due within 12 months	Due after 12 months	Balance at 31/12/19	Due within 12 months	Due after months
- Loans and borrowings						
Pharmanutra S.p.A.	773	618	155	4.573	3.810	763
Junia Pharma S.p.A.	310	156	154	561	253	308
Alesco S.p.A.	108	108	0	521	521	0
Total	1.191	882	309	5.655	4.584	1.071
- Rights of use:						
Pharmanutra S.p.A.	336	163	173	542	206	336
Junia Pharma S.p.A.	68	28	40	103	35	68
Alesco S.p.A.	68	28	40	103	35	68
Total	472	219	253	748	276	472
Total	**1.663**	**1.101**	**562**	**6.403**	**4.860**	**1.543**

There are no mortgages and/or pledges on shares or quotas of subsidiaries to guarantee medium/long-term debt.

With reference to the clauses in the loan agreements, it should be noted that: (i) these clauses have never been activated; (ii) the Group has always fulfilled its commitments and obligations; (iii) the Group has regularly paid each bank intermediary the instalments due on the basis of the relevant amortisation schedules; (iv) with reference to the conditions of compulsory early repayment or other conditions of termination, withdrawal or forfeiture of the benefit of the term, there are no circumstances, including admission to listing, that could give rise to the occurrence of such conditions; (v) the existing bank loans have not been renegotiated.

The companies of the Group have floating-rate loan agreements in place and are therefore exposed to the risk of changes in interest rates, which is considered to be low. This risk has been partly mitigated through the use of derivative financial instruments to hedge interest rate risk (IRS - Interest Rate Swap).

The Group has policies in place to hedge against interest rate fluctuation risk for an amount equal to 50% and 75% of the total medium to long-term floating rate loans as at 31 December 2020 and 31 December 2019, respectively.

Information pursuant to Article 2428, paragraph 2, point 6-bis, of the Italian Civil Code

Pursuant to Article 2428, paragraph 2, no. 6-bis) of the Italian Civil Code, information is provided on the use of financial instruments, as they are relevant for the purposes of assessing the financial position.

More specifically, the management objectives, policies and criteria used to measure, monitor and control financial risks are as follows:

Credit risk

With regard to credit risk, reference should be made to the specific paragraph in the explanatory notes to the financial statements.

Liquidity risk

With regard to liquidity risk, reference should be made to the specific paragraph in the explanatory notes to the financial statements.

Interest rate risk

With regard to interest rate risk, reference should be made to the specific paragraph in the explanatory notes to the financial statements.

Risk of changes in cash flows

With regard to the risk of changes in cash flows, reference should be made to the specific paragraph in the explanatory notes to the financial statements.

Exchange rate risk

The Group carries out transactions in currencies other than the Euro in a very limited way and therefore we consider this risk to be low.

Risk related to litigation

With regard to the risk related to litigation, reference should be made to the specific paragraph in the explanatory notes to the financial statements.

Secondary Offices

Pursuant to Article 2428 of the Italian Civil Code, it is communicated that the activity of the three companies is carried out at the registered office in Via delle Lenze 216/B, Pisa (PI) - Italy, where all offices are located.

Pharmanutra does not have any secondary offices. The Parent Company and the subsidiary Alesco have an operating unit in Montacchiello (Pisa), Italy.

Relationships with the personnel

One of the Group's primary objectives, as a determining factor for the efficient and lasting development of its activities, remains the growth, in terms of training and professional enrichment of its human resources. The level of skills and knowledge acquired, the daily search for excellence in one's work are a heritage that we intend to preserve and increase.

It is acknowledged that in this financial year, as in the past, there were no deaths at work of registered personnel, nor were there any serious accidents or registered charges for occupational diseases to employees or former employees and mobbing cases.

At 31/12/2020, the Group had 58 employees (54 in the previous year).

Environmental impact

Commitment to social and territorial responsibility has long been an integral part of the principles and conduct of companies of the Group oriented towards maintaining high levels of safety, environmental protection and energy efficiency, as well as training, awareness and involvement of personnel on social responsibility issues. It is acknowledged that in this financial year, as in the past, there was no damage caused to the environment for which the companies of the Group have been finally declared liable.

Quality Management System

The companies of the Group have the following quality certifications:

- Pharmanutra and Junia Pharma: Social Accountability 8000:2014 granted by SGS Italia;

- UNI ISO 9001:2015 granted by SGS Italia.

Significant events occurring after the end of the financial year

At the date of preparation of this Consolidated Financial Report, no significant events occurred after 31 December 2020.

Foreseeable Business Outlook

In line with the evolution of healthcare situation in Italy and in the markets where the Group is present, during 2021 Pharmanutra's strategy will be essentially oriented towards strengthening its leadership in the market of iron for oral use, where it already holds a market share of about 52% thanks to Sideral® brand products, and further increasing its market share with regard to Cetilar® brand products.

Particular attention will be paid to international development, with specific reference to the European, Asian and US markets. It is planned to expand the range of products sold in the countries where the Group is already present and to open new markets, possibly resorting to corporate partnerships if deemed to be strategically important.

It is believed that the strategic actions implemented during 2020 will allow the Group to manage the current moment in the best possible way and put it in a position to quickly take advantage of the market recovery upon return to normality with a positive outlook for 2021.

We thank you for your trust.

Pisa, 22/03/2021

For the Board of Directors

The Chairman

(Andrea Lacorte)

PHARMANUTRA GROUP FINANCIAL STATEMENTS AS AT DECEMBER 31, 2020

Consolidated Balance Sheet

BALANCE SHEET (€/1000)	Notes	31/12/2020	31/12/2019
NON-CURRENT ASSETS		**11.303**	**11.639**
Tangible assets	9.1.1	4.799	4.857
Intangible assets	9.1.2	5.181	4.728
Investments	9.1.3	254	254
Non-current financial assets	9.1.4	218	218
Other non-current financial assets	9.1.5	-	918
Deferred tax assets	9.1.6	851	664
CURRENT ASSETS		**40.406**	**37.225**
Inventories	9.2.1	1.894	1.853
Cash and cash equivalents	9.2.2	16.455	13.751
Current financial assets	9.2.3	4.349	5.076
Trade receivables	9.2.4	15.053	15.028
Other current assets	9.2.5	1.031	922
Tax assets	9.2.6	1.624	595
TOTAL ASSETS		**51.709**	**48.864**
LIABILITIES AND EQUITY	**Notes**	**31/12/2020**	**31/12/2019**
EQUITY:	9.3.1	**37.730**	**28.134**
Share capital		1.123	1.123
Legal reserve		225	225
Other reserves		22.363	18.352
Reserve IAS 19		(50)	(59)
Financial Instruments Reserve (FVOCI)		67	109
FTA reserve		(70)	(70)
Profit (loss) for the period		14.072	8.454
Capital and reserve attributable to non-controlling interests			-
Profit (loss) attributable to non-controlling interests			-
NON-CURRENT LIABILITIES		**2.835**	**4.457**
Non-current financial liabilities	9.4.1	562	1.543
Provisions for liabilities and charges	9.4.2	1.018	686
Post-employment benefits	9.4.3	1.255	2.228
CURRENT LIABILITIES		**11.144**	**16.273**
Current financial liabilities	9.5.1	1.101	4.860
Trade payables	9.5.2	7.175	8.165
Other current liabilities	9.5.3	2.348	2.137
Taxes payable	9.5.4	520	1.111
TOTAL LIABILITIES AND EQUITY		**51.709**	**48.864**

Pursuant to CONSOB Resolution no. 15519 of 27 July 2006, the effects of transactions with related parties on the Consolidated Balance Sheet are reported in the specific Consolidated Balance Sheet table included in Note 14.

Consolidated Income Statement

INCOME STATEMENT (€/000)	Notes	2020	2019
A) REVENUE		**58.680**	**54.214**
Net revenue	9.6.1	56.449	53.624
Other revenue	9.6.2	2.231	590
of which other non-recurring revenue		*1.049*	-
B) OPERATING COSTS		**43.126**	**41.036**
Purchases of raw and ancillary materials and consumables	9.7.1	2.477	2.560
Changes in inventories	9.7.2	240	296
Service costs	9.7.3	35.285	34.262
of which costs for non-recurring services		*1.514*	-
Personnel expenses	9.7.4	3.712	3.264
Other operating costs	9.7.5	1.412	654
(A-B) EBITDA		**15.554**	**13.178**
C) Amortisation, depreciation and impairments	9.8	2.338	974
of which non-recurring impairments		*1.049*	-
(A-B-C) EBIT		**13.216**	**12.204**
D) FINANCIAL INCOME [EXPENSE]		**86**	**(7)**
Financial income	9.9.1	146	71
Financial expense	9.9.2	(60)	(78)
PRE-TAX PROFIT (A-B-C+D)		**13.302**	**12.197**
Taxes for the year	9.10	(2.661)	(3.743)
Taxes for previous years	9.10	3.431	-
(Profit)/loss attributable to non-controlling interests		**-**	**-**
Profit/(loss) attributable to the parent company's shareholders		**14.072**	**8.454**
Earnings per share (in Euro)	9.11	**1,45**	**0,87**

Consolidated Statement of Comprehensive Income

COMPREHENSIVE INCOME STATEMENT (€/1000)		2020	2019
PROFIT (LOSS) FOR THE PERIOD		14.072	8.454
Profits (losses) from IAS application that will flow into I/S		-	-
Profits (losses) from IAS application that will not flow into I/S	9.3.1	(23)	78
Comprehensive Income/(Loss) for the year		**14.049**	**8.532**

Pursuant to CONSOB Resolution no. 15519 of 27 July 2006, the effects of transactions with related parties on the Consolidated Income Statement are reported in the specific Consolidated Income Statement table included in Note 14.

Changes in Consolidated Shareholders' Equity

€/000	Notes	Share capital	Legal reserve	Other reserves	Actuarial reserve IAS 19	Financial Instruments Reserve (FVOCI)	FTA reserve	Profit (loss) for the period	Balance
Group Equity as at 31/12/2018		**1.123**	**225**	**14.638**	**(8)**	**(23)**	**(70)**	**8.557**	**24.442**
Allocation of results		-		8.557	-	-	-	(8.557)	-
Dividend distribution		-	-	(4.840)	-	-	-	-	(4.840)
Other changes		-	-	(3)	(51)	132	-	-	78
Profit (loss) for the period		-	-	-	-	-	-	8.454	8.454
Group Equity as at 31/12/2019	**9.3.1**	**1.123**	**225**	**18.352**	**(59)**	**109**	**(70)**	**8.454**	**28.134**
Allocation of results	9.3.1	-	-	8.454	-	-	-	(8.454)	-
Dividend distribution	9.3.1	-	-	(4.453)	-	-	-	-	(4.453)
Other changes		-	-	10	9	(42)	-		(23)
Profit (loss) for the period		-	-	-	-	-	-	14.072	14.072
Group Equity as at 31/12/2020		**1.123**	**225**	**22.363**	**(50)**	**67**	**(70)**	**14.072**	**37.730**

Consolidated Cash Flow Statement

CASH FLOW STATEMENT (€/000) - Indirecy method	Notes	31/12/2020	31/12/2019
Net profit including attributable to non-controlling interests		14.072	8.454
NON-MONETARY COSTS/REVENUE			
Amortisation, depreciation and impairments	9.8	2.338	973
Provisions to post-employment benefits		203	172
CHANGES IN OPERATING ASSETS AND LIABILITIES			
Changes in provisions for liabilities and charges		178	148
Changes in post-employment benefits		(1.176)	361
Changes in inventories	9.2.1	(41)	297
Changes in trade receivables		(1.275)	(2.051)
Changes in other current assets	9.2.4	(109)	746
Changes in tax assets	9.2.6	(1.029)	930
Changes in other current liabilities	9.5.3	211	349
Changes in trade payables	9.5.2	(990)	1.498
Changes in taxes payable	9.5.4	(591)	106
CASH FLOWS FROM (FOR) OPERATING ACTIVITIES		**11.791**	**11.983**
Net investment in tangible and intangible assets		(1.329)	(4.863)
(Increase)/decrease in other non-current assets		731	(421)
CASH FLOWS FROM (FOR) INVESTING ACTIVITIES		**(598)**	**(5.284)**
Increase/(decrease) in equity	9.3.1	(23)	85
Cash flow for dividend distribution	9.3.1	(4.453)	(4.840)
Increase/(decrease) in non-current financial liabilities	9.4.1	(981)	(287)
(Increase)/decrease in current financial assets	9.2.3	727	(4.212)
(Increase)/decrease in non-current financial assets		0	(10)
CASH FLOWS FROM (FOR) FINANCING ACTIVITIES		**(4.730)**	**(9.264)**
TOTAL CHANGE IN CASH AND CASH EQUIVALENTS		**6.463**	**(2.565)**
Opening cash and cash equivalents less current financial liabilities		**8.891**	**11.456**
Closing cash and cash equivalents less current financial liabilities		**15.354**	**8.891**
Total cash and cash equivalents	9.2.2	16.455	13.751
Total current financial liabilities	9.5.1	(1.101)	(4.860)
Closing cash and cash equivalents less current financial liabilities		**15.354**	**8.891**

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF PHARMANUTRA GROUP

1. LAYOUT AND CONTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements as at 31 December 2020 have been prepared in accordance with the valuation and measurement criteria established by the *International Financial Reporting Standards* (IFRS) issued by the *International Accounting Standards Board* (IASB) and adopted by the European Commission.

The reference date of the consolidated financial statements coincides with the closing date of the financial statements of the Parent Company and its subsidiaries.

The following classifications have been used:

- Balance sheet by current/non-current items;
- Income statement by nature;
- Cash flow statement - indirect method.

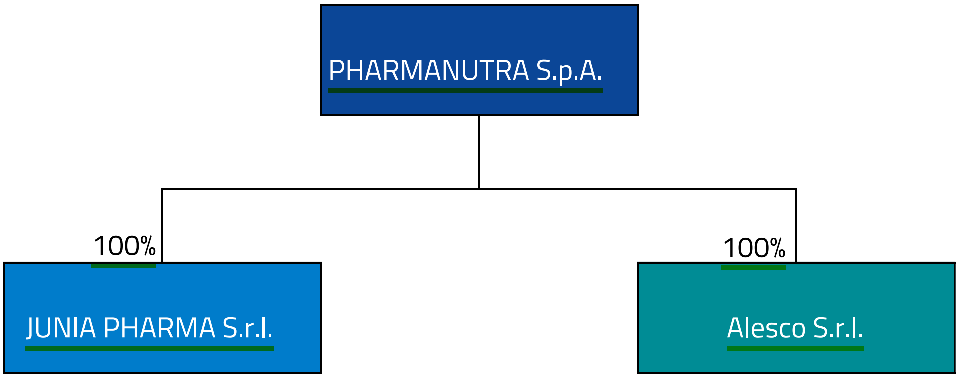
It is believed that these classifications provide information that is better suited to represent the financial position, results of operations and cash flows of the company.

The functional currency of the Parent Company and the presentation currency of the consolidated financial statements is the Euro (EUR). The schedules and tables contained in these explanatory notes are in thousands of Euro.

These consolidated financial statements have been prepared using the accounting policies and criteria illustrated below.

2. CONSOLIDATION AREA

Pharmanutra S.p.A. (hereinafter also referred to as "Pharmanutra" or the "Parent Company") is a company with registered office in Italy, Via delle Lenze 216/B, Pisa, which holds controlling interests in all the companies (the "Group" or also "Pharmanutra Group") shown in the following table:



Subsidiaries are companies in which Pharmanutra has the power to determine administrative and management decisions. Generally, control exists when the Group holds more than half of the voting rights, or exercises a dominant influence in the corporate and operating decisions.

Associated companies are those in which Pharmanutra exercises significant influence even though it does not have control. This generally occurs when it holds between 20% and 49% of the voting rights.

The companies included in the consolidation area are as follows:

COMPANY	REGISTERED OFFICE	Dir. Stake	Indir. Stake	TOTAL
Pharmanutra S.p.A.	Pisa, Via Delle Lenze 216/b	PARENT COMPANY		
Junia Pharma S.r.l.	Pisa, Via Delle Lenze 216/b	100%	0%	100%
Alesco S.rl.	Pisa, Via Delle Lenze 216/b	100%	0%	100%

The consolidation area has not changed compared to the previous year.

3. CONSOLIDATION CRITERIA AND TECHNIQUES

Consolidation is carried out using the line-by-line method, which consists in including all assets and liabilities in their entirety. The main consolidation criteria adopted for the application of this method are as follows:

- subsidiaries are consolidated from the date on which control is actually transferred to the Group and are no longer consolidated on the date on which control is transferred outside the Group;
- where necessary, adjustments are made to the financial statements of subsidiaries to align the accounting policies used with those adopted by the Group;

- the assets and liabilities, expenses and income of companies consolidated on a line-by-line basis are fully included in the consolidated financial statements; the carrying amount of investments is written off against the corresponding portion of shareholders' equity of the investee companies, measuring the individual items of the balance sheet assets and liabilities at their current value at the date control is acquired. Any residual difference is recorded under the asset item "Goodwill", if positive or in the income statement, if negative;
- The balances of receivables and payables, as well as the economic effects of intra-group economic transactions and dividends approved by the consolidated companies have been eliminated in full. The consolidated financial statements do not include any profits or losses not yet made by the Group as a whole as they result from intra-group transactions. The portions of shareholders' equity and the results for the period of minority shareholders are shown separately in the consolidated shareholders' equity and income statement.

4. ACCOUNTING STANDARDS AND VALUATION CRITERIA

The consolidated financial statements of Pharmanutra Group as at 31 December 2020 have been prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standard Board ("IASB") and endorsed by the European Union. IFRS also includes all revised International Accounting Standards ("IAS"), all interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), previously known as the Standing Interpretations Committee ("SIC").

The consolidated financial statements are prepared on a going concern basis. In view of what has already been mentioned in the Management Report, to which reference should be made for more details, the Directors believe that there are no problems that could affect the Company's ability to continue as a going concern since the Covid-19 epidemic.

The draft consolidated financial statements for the year ended 31 December 2020 were approved by the Board of Directors on 22 March 2021, which also authorised their publication.

Below is a description of the most significant accounting standards adopted for the preparation of the consolidated financial statements of Pharmanutra as at 31 December 2020, which are unchanged from those used in the previous year.

TANGIBLE FIXED ASSETS

Tangible fixed assets are recorded at purchase price or production cost, including directly attributable ancillary costs being necessary to make the assets available for use.

Tangible fixed assets are systematically depreciated on a straight-line basis over their useful life, which is an estimate of the period over which the asset will be used by the company. When the tangible fixed asset is made up of several significant components having different useful lives, depreciation is applied to each component. The value to be amortised is represented by the book value reduced by the presumed net transfer value at the end of its useful life, if significant and reasonably determinable. Land (items with an indefinite useful life), even if purchased together with a building, is not depreciated, as are tangible fixed assets held for sale, which are valued at the lower of their book value and their fair value, net of disposal charges.

Costs for improvements, modernisation and transformation that increase tangible fixed assets are charged to assets. All other repair and maintenance costs are recognised in the income statement when incurred.

The recoverability of the book value of tangible fixed assets is verified by adopting the criteria indicated under "Impairment of assets".

The depreciation reflects the asset economic and technical deterioration and begins when the asset becomes available for use and is calculated according to the linear model of the estimated useful life of the asset.

The rates applied are as follows:

- Equipment 25%
- Plant and machinery 20%
- Furniture and fittings 20%
- Electronic office machines 20%
- Vehicles 25%

The residual carrying amount, useful life and depreciation criteria are reviewed at the end of each financial year and adjusted prospectively if necessary.

An asset is derecognised at the time of sale or when there are no expected future economic benefits from its use or disposal. Any losses or gains (calculated as the difference between the net proceeds from sale and the carrying amount) are included in the income statement at the time of derecognition.

LEASED ASSETS

The assets acquired through leasing contracts, through which the risks and rewards of ownership are substantially transferred to the Group, are recognised as assets of the Group at their current value at the date of signing the contract or, if lower, at the current value of the minimum payments due for the lease, including any amount to be paid for exercising the purchase option. The corresponding liability to the lessor is shown under financial payables.

INTANGIBLE FIXED ASSETS

Intangible fixed assets refer to assets without identifiable physical substance, controlled by the company and capable of producing future economic benefits, as well as goodwill when acquired for consideration.

Identifiability is defined by reference to the possibility of distinguishing the intangible fixed asset acquired from goodwill. This requirement is normally met when:

- the intangible fixed asset is attributable to a legal or contractual right, or
- the asset is separable, i.e. it can be sold, transferred, rented or exchanged independently or as part of other assets. Control of the company consists of the power to enjoy the future economic benefits deriving from the asset and the possibility of limiting access to others.

Intangible fixed assets are recorded at cost determined according to the criteria indicated for tangible fixed assets.

Intangible fixed assets with a finite useful life are systematically amortised over their useful life, being understood as the estimate of the period in which the assets will be used by the company. The recoverability of their book value is verified by adopting the criteria indicated under "Impairment of assets".

Goodwill and other intangible fixed assets, where present, with an indefinite useful life are not subject to amortisation. The recoverability of their book value is verified at least annually and in any case when events occur that indicate a reduction in value. With regard to goodwill, such verification is carried out at the level of the smallest aggregate on the basis of which management assesses, whether directly or indirectly, the return on investment that includes the goodwill itself *(cash generating unit)*. Write-downs are not subject to impairment reversal.

Other intangible fixed assets have been amortised at 20%, estimating a useful life of 5 years, with the exception of patents, trademarks and licenses, which are amortised over a useful life of 18 years.

The amortisation period and criteria for intangible fixed assets with a finite useful life are reviewed at least at the end of each financial year and adjusted prospectively if necessary.

Goodwill

Business combinations are accounted for using the acquisition method (IFRS 3). The cost of an acquisition is measured as the sum of the consideration transferred measured at fair value at the acquisition date and the amount of any minority interest in the acquiree. For each business combination, any minority interest in the acquiree shall be measured either at fair value or at the minority interest's proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed and classified under administrative expenses. If the business combination is achieved in stages, the fair value of the investment previously held is recalculated at fair value at the acquisition date, by recording any resulting gain or loss in the income statement. Goodwill is initially measured at the cost that emerges as the excess of the sum of the consideration paid and the amount recognised for minority interests over the identifiable net assets acquired and liabilities assumed. If the consideration is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the income statement. After initial recognition, goodwill is measured at cost, net of accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination must, at the acquisition date, be allocated to each of the Group's cash generating units that are expected to benefit from the synergies of the combination, regardless of whether other assets or liabilities of the acquired entity are assigned to those units. If goodwill has been allocated to a cash-generating unit and the entity disposes of part of the assets of that unit, the goodwill associated with the asset disposed of shall be included in the carrying amount of the asset when determining the gain or loss on disposal. The goodwill associated with the asset disposed of must be determined on the basis of the relative values of such asset and the portion of the cash-generating unit retained.

Investments in other companies are initially recorded at their fair value and subsequently, where it is not possible to determine a reliable fair value, they are maintained at cost, written down in the event of permanent impairment. The original value will not be restored in subsequent years, even if the reasons for the write-down no longer apply.

Inventories

Inventories are recorded at the lower of purchase or production cost and estimated realisable value based on market trends.

The method used for the valuation of inventories is the weighted average cost.

The value determined as indicated above is adjusted to take into account the obsolescence of inventories, by writing down inventories due within 6 months of the reporting date.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash, bank current accounts, deposits repayable on demand and other highly liquid short-term financial investments, which are readily convertible into cash and are subject to a non-significant risk of change in value.

RECEIVABLES AND OTHER SHORT-TERM ASSETS

Trade receivables and other short-term assets are initially recognised at their fair value and subsequently measured at amortised cost, net of any write-downs. At the time of recognition, the receivable nominal value is representative of its fair value at that date. IFRS 9 defines a new model for impairment/devaluation of these assets, with the aim of providing useful information to users of the financial statements on the related expected losses. According to this model, the Group measures receivables using an expected loss approach, replacing the IAS 39 framework, which is typically based on the measurement of incurred losses. The Group adopts a simplified approach for the measurement of trade receivables, which does not require the recognition of periodic changes in credit risk, but rather the recognition of an Expected Credit Loss ("ECL") calculated over the entire life of the receivable (so-called lifetime ECL). In particular, the policy implemented by the Group provides for the stratification of trade receivables into categories on the basis of days past due, by defining the allocation based on the historical experience of losses on receivables, adjusted to take account of specific forecast factors relating to creditors and the economic environment.

Trade receivables are fully written down if there is no reasonable expectation of recovery or in the presence of inactive trade counterparties.

The asset carrying amount is reduced through the use of an impairment provision and the amount of the loss is recognised in the income statement.

With regard to financial assets, the Group adopts the accounting standard IFRS 9 Financial Instruments, Recognition and Measurement for the classification, measurement and accounting of financial instruments.

The accounting standard provides rules for the classification of financial assets in the following categories:

Amortised Cost;

Fair Value with change in equity (Fair Value Other Comprehensive Income or FVOCI);

Fair Value with changes in the income statement.

The determination of the category is made based on 2 factors:

- The Business Model, i.e. the way in which the Group manages its financial assets or intends to achie cash flows from financial assets.

The possible Business Models envisaged by the accounting standard are:

Hold to collect (HTC): it provides for the achievement of cash flows as contractually foreseen. This Business Model is attributable to financial assets that will presumably be held until their natural maturity;

Hold to Collect and Sell (HTC&S): this Business Model provides for the achievement of cash flows as contractually foreseen or through the sale of financial assets. This Business Model is therefore attributable to financial assets that may be held to maturity or even sold;

Sell: it provides for the achievement of cash flows through the sale of the instrument. This Business Model is attributable to activities in which cash flows will be achieved through sale (the so-called trading).

- Contractual cash flow characteristics of the instrument

The standard refers to the so-called SPPI (Solely Payments of Principal and Interest) test, which aims to define whether an instrument has the contractual characteristics allowing only the principal and interest to be paid.

If the SPPI test is not passed, regardless of the reference business model, the financial instrument must be classified and measured at Fair Value with changes in the income statement.

The classification of an instrument is defined at initial recognition and is no longer subject to change, except in cases that the standard expects to be rare.

With reference to the financial instruments, consisting of bonds issued by leading issuers, the management has carried out an analysis of its intentions in managing the instruments and has carried out the SPPI test for all the instruments in the portfolio, thus concluding that the most relevant business model to its management method is the HTC&S one and that the SPPI test has been passed.

The accounting rules that IFRS 9 defines for debt financial instruments classified to FVTOCI are as follows:

- Interest income is recognised in the income statement using the effective interest rate method, in the same way as for instruments at amortised cost;
- Impairment losses (and any write-backs) are recognised in the income statement in accordance with the rules set forth in IFRS 9;
- The differences between the amortised cost and the fair value of the instrument are recognised in equity in the other items of the comprehensive income statement;

- The cumulative reserve recognised in equity and relating to the debt instrument is reversed to the income statement only when the asset is derecognised.

With regard to the investments made in units of investment funds, the accounting rules provided for by IFRS 9 are as follows:

- The measurement criterion is fair value at the reporting date;
- Changes in fair value are recognised in the income statement.

DERECOGNITION OF FINANCIAL ASSETS

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is derecognised from the financial statements when:

- the rights to receive cash flows from the asset are extinguished;
- the right to receive cash flows from the asset is retained but a contractual obligation has been taken to pay them in full and without delay to a third party;
- the company of the Group has transferred the right to receive cash flows from the asset and (a) has substantially transferred all the risks and rewards of ownership of the financial asset or (b) has neither transferred nor retained substantially all the risks and benefits of the asset, but has transferred control of it.

In cases where the company of the Group has transferred the rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and benefits or has not lost control over it, the asset is recognised in the company's financial statements to the extent of its residual involvement in the asset.

IMPAIRMENT OF FINANCIAL ASSETS

The companies of the Group verify at each reporting date whether a financial asset or group of financial assets has suffered an impairment loss. A financial asset or group of financial assets is to be considered subject to impairment loss if, based on historical experience and on the forecast outcome of its recoverability, after the occurrence of one or more events since its initial recognition, this loss event can be reliably expected on the estimated future cash flows of the financial asset or group of financial assets.

Evidence of impairment loss may be represented by indicators such as financial difficulties, inability to me obligations, insolvency in interest payments or major payments, which debtors, or a group of debtors, are going through. The probability that it will fail or is subject to another form of financial reorganisation, and where observable data indicates that there is a measurable decrease in estimated future cash flows, such as changes in the context or economic conditions related to the obligations.

The management also evaluates elements such as the performance of the counterparty's sector and financial activity as well as the general economic performance and also makes forward looking considerations.

If there is objective evidence of impairment loss, the amount of the loss is measured as the difference between the asset's carrying amount and the current value of estimated future cash flows (excluding expected future credit losses that have not yet occurred). The asset carrying amount is reduced through the use of an impairment provision and the amount of the loss is recognised in the income statement. If, in a subsequent period, the amount of the estimated write-down increases or decreases as a result of an event occurring after the write-down was recognised, the previously recognised write-down shall be increased or decreased by adjusting the provision to the income statement.

IMPAIRMENT OF NON-FINANCIAL ASSETS

At each reporting date, the companies of the Group assess the possible existence of indicators of impairment loss of non-financial assets. When events occur that suggest a reduction in the value of an asset or when an annual impairment test is required, its recoverability is verified by comparing its book value with its recoverable amount, represented by the higher of fair value, net of disposal costs, and value in use.

In the absence of a binding sale agreement, fair value is estimated on the basis of values expressed by an active market, recent transactions or the best information available to reflect the amount that the company could obtain from selling the asset. The value in use is determined by discounting the expected cash flows deriving from the use of the asset and, if significant and reasonably determinable, from its disposal at the end of its useful life. Cash flows are determined on the basis of reasonable and provable assumptions that are representative of the best estimate of future economic conditions that will occur over the remaining useful life of the asset, giving greater importance to indications from outside. Discounting is carried out at a rate that takes into account the risk inherent in the business sector.

The valuation is carried out for each individual asset or for the smallest identifiable set of assets that generat autonomous cash inflows from ongoing use (the so-called cash generating units). When the reasons for the write-downs made cease to exist, the assets, except for goodwill, are revalued and the adjustment is charged to the income statement as a revaluation (reversal of impairment). The revaluation is carried out at the lower of the recoverable value and the book value gross of the write-downs previously made and reduced by the depreciation that would have been allocated if no write-down had been made.

FINANCIAL LIABILITIES

Financial liabilities falling within the scope of IFRS 9 are classified as financial liabilities at amortised cost or fair value recognised in the balance sheet, as financial payables, or as derivatives designated as hedging instruments, as appropriate. The financial liabilities of the companies of the Group include trade and other payables, loans and derivative financial instruments. The companies of the Group determine the classification of their financial liabilities on initial recognition.

Financial liabilities are initially measured at their fair value equal to the consideration received on the settlement date plus, in the case of financial payables, directly attributable transaction costs.

Subsequently, non-derivative financial liabilities are measured at amortised cost using the effective interest rate method.

Amortised cost is calculated by recording any discount or premium on the acquisition and fees or costs that are an integral part of the effective interest rate. Amortisation at the effective interest rate is included under financial charges in the income statement.

Gains and losses are recognised in the income statement when the liability is settled, as well as through the amortisation process.

Financial liabilities are derecognised when the obligation underlying the liability is extinguished, cancelled or fulfilled.

EMPLOYEE BENEFITS

Employee severance indemnities fall within the scope of what IAS 19 defines as benefit plans forming post-employment benefits. The accounting treatment envisaged for these forms of remuneration requires an actuarial calculation that makes it possible to project into the future the amount of the Employee Severance Indemnity already accrued and to discount it for taking into account the time that will elapse before actual payment.

The actuarial valuation of the Employee Severance Indemnity was carried out on a closed group basis, i.e. no new hires were considered during the reference time horizon (such period equals the one envisaged for all employees leaving the Company).

With reference to the aforesaid international accounting standards, actuarial simulations were carried out using the Projected Unit Credit Method and determining:

- the cost of the service already provided by the worker (Past Service Liability);
- the cost of the service provided by the worker during the year (Service Cost);
- the cost relating to interest expense arising from the actuarial liability (Interest Cost);
- the actuarial gains/losses relating to the valuation period between one valuation and the next (Actuarial (gain)/loss).

The unit credit criterion provides that the costs to be incurred in the year for establishing the Employee Severance Indemnity are determined on the basis of the portion of the benefits accrued in the same year. Under the vested benefits method, the obligation to the employee is determined on the basis of the work already performed at the valuation date and on the basis of the salary achieved at the date of employment termination (only for companies with an average number of employees being less than 50 in 2006).

In particular:

- the Past Service Liability is the current value calculated in a demographic-financial sense of the benefits due to the employee (severance indemnity payments) deriving from seniority;
- the Current Concern Provision is the value of the provision for employee severance indemnities in accordance with Italian statutory accounting principles at the valuation date;
- the Service Cost is the current value calculated in a demographic-financial sense of the benefits accrued by the employee in the year ending;
- the Interest Cost represents the cost of the liability due to the lapse of time and is proportional to the interest rate adopted in the valuations and the amount of the liability in the previous year;
- the Actuarial (Gains)/Losses measure the liability change occurring in the period considered and being generated by:
    - deviation between the assumptions used in the calculation models and the actual dynamics of the verified quantities;
    - changes in the assumptions during the period under review.

Moreover, in view of the evolutionary nature of the fundamental economic variables, actuarial valuations ha been carried out under "dynamic" economic conditions. Such an approach requires the formulation of economic-financial hypotheses capable of summing up in the medium to long term:

- the average annual changes in inflation in line with expectations regarding the general macroeconomic environment;
- the development of expected interest rates in the financial market.

PROVISIONS FOR RISKS AND CHARGES

Provisions for risks and charges relate to costs and charges of a specific nature and whose existence is certain or probable, their amount or date of occurrence being uncertain at the end of the financial year. Allowances to provisions are recognised when:

- the existence of a current, legal or implied obligation, arising from a past event is probable;
- it is likely that the settlement of the obligation will be onerous;
- the amount of the obligation can be reliably estimated.

Allowance to provisions are recorded at the value representing the best estimate of the amount that the company would rationally pay to settle the obligation or transfer it to third parties at the end of the period.

TRADE PAYABLES

Trade payables are recorded at nominal value.

REVENUE RECOGNITION

Revenues are booked on an accrual basis regardless of the date of collection, net of returns, discounts, allowances and premiums.

Revenues for the sale of the products are recognised at the time of control transfer of the goods given to the buyer, which coincides with the shipment or delivery of the same.

Revenues from the provision of services are recorded in the financial statements when the service is actually rendered.

Revenues of a financial nature are recognised on an accrual basis. For all financial instruments measured at amortised cost, interest income is recognised using the Effective Interest Rate (EIR), which is the rate that exactly discounts future payments and receipts, estimated over the expected life of the financial instrument.

Cost recognition

Costs are recognised when they relate to goods and services purchased and/or received during the period.

Service charges are recognised on an accrual basis.

For all financial instruments measured at amortised cost, interest expense is recognised using the Effective Interest Rate (EIR), which is the rate that exactly discounts future payments and receipts, estimated over the expected life of the financial instrument.

Income taxes

Taxes for the year represent the sum of current, prepaid and deferred taxes.

Current taxes are calculated on the basis of the estimated taxable income for the year. Taxable income differs from the result reported in the income statement because it excludes positive and negative components that will be taxable or deductible in other years and also excludes items that will never be taxable or deductible.

The liability for current taxes is calculated using the rates in force or actually in force at the reporting date.

Deferred tax assets and liabilities are determined on the basis of all temporary differences arising between the carrying values of assets and liabilities in the financial statements and the corresponding values recognised for tax purposes.

Deferred tax assets on tax losses and temporary differences are recognised to the extent that it is probable that future taxable income will be available against which they can be recovered.

Deferred tax assets and liabilities are determined at the tax rates being expected to apply in the years in which the temporary differences will be achieved or settled.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of these assets to be recovered.

Deferred taxes are directly charged to the income statement, except for those relating to items being directly recognised in equity, in which case the related deferred taxes are also charged to equity.

Deferred tax assets and liabilities are offset when there is a legal right to offset current tax assets and liabilities, when they relate to taxes due to the same tax authority and the company intends to settle current tax assets and liabilities on a net basis.

CRITERIA FOR THE TRANSLATION OF ITEMS IN FOREIGN CURRENCY

Foreign currency transactions are initially recognised in the functional currency, by applying the spot exchange rate at the transaction date. Monetary assets and liabilities denominated in foreign currency are translated into the functional currency at the exchange rate at the reporting date.

Exchange differences are recorded in the income statement, including those achieved upon collection of receivables and payment of payables in foreign currency.

The gain or loss arising from the translation of non-monetary items is treated in line with the recognition of gains and losses relating to the change in the fair value of these items (translation differences on items whose change in fair value is recognised in the statement of comprehensive income or the income statement are recognised in the statement of comprehensive income or the income statement, respectively).

EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the Group's results of operations by the weighted average number of shares outstanding during the year, excluding any treasury shares.

5. IFRS Accounting standards, amendments and interpretations endorsed or applicable/applied from 1 January 2020

5.1.1 Accounting standards and interpretations endorsed and effective from 1 January 2020

- Amendments to references to the conceptual framework in IFRS Standards, issued by the IASB on 29 March 2018;

the aim of the amendment is to update existing references in various standards and interpretations that are now outdated.

The main changes concern:

- a new chapter about valuation;

- better definitions and guidance, in particular with regard to the definition of liabilities;

- clarification of important concepts, such as stewardship, prudence and uncertainty in valuations;

- clarification of definitions and criteria for the recognition of assets and liabilities.

The amendments above are applicable from 1 January 2020 and had no significant impact on the financial statements or the disclosures.

- Amendments to IAS 1 and IAS 8 - Definition of material, issued by the IASB on 31 October 2018

The aim of the amendment is to clarify the definition of "material" to help companies assess whether or not information is to be included in their financial statements. A piece of information is considered to be material if its omission, misstatement or obscuration could influence the decisions of the readers of the financial statements.

The amendments above are applicable from 1 January 2020 and had no significant impact on the financial statements or the disclosures.

- Amendments to IFRS 9, IAS 39 and IFRS 7 in relation to "Interest Rate Benchmark Reform" (issued on 26 September 2019)

The IASB has issued amendments to IFRS 9, IAS 39 and IFRS 7. These changes provide temporary relief to allow for the continued use of hedge accounting during the period of uncertainty preceding the reform to replace the current interest rate benchmark with a risk-free alternative interest rate.

The amendments above are applicable from 1 January 2020 and had no significant impact on the financial statements or the disclosures.

- Amendments to IFRS 3 - "Business Combinations". On 22 October 2018, the IASB has published this amendment to help determine whether a transaction is an acquisition of a business or group of assets that does not meet the definition of a business under IFRS 3.

  The amendments above are applicable from 1 January 2020 and had no significant impact on the financial statements or the disclosures.

- Amendments to IFRS 16 Leases - Covid-19-related fee reductions

  These amendments introduce an optional accounting treatment for lessees in the event of reductions in permanent (rent holidays) or temporary rent linked to Covid-19. Lessees may choose to account for rent reductions as variable lease payments recognised directly in the income statement for the period in which the reduction applies, or treat them as a modification of the lease agreement with the resulting obligation to remeasure the lease liability on the basis of the revised consideration, using a revised discount rate. The amendment, effective from 1 June 2020, was endorsed by the European Union on 9 October 2020 and published in the European OJ on 12 October 2020.

The amendments above are applicable from 1 January 2020 and had no impact on the financial statements or the disclosures.

5.1.2 International reporting standards and/or interpretations issued but not yet effective and/or not yet endorsed

- Amendments to IAS 1 - Presentation of the Financial Statements - Classification of Liabilities as Current or Non-current.

  The amendments clarify the principles that must be applied for the classification of liabilities as current or non-current. These amendments, which will enter into force on 1 January 2023, have not yet been endorsed by the European Union.

- Amendments to IAS 16 - Property, plant and equipment - Proceeds before intended use.

  These amendments prohibit the deduction from the cost of property, plant and equipment of amounts received from the sale of products while the asset is being prepared for its intended use. The proceeds from the sale of the products and the related cost of production must be recognised in the income statement. These amendments, which will enter into force on 1 January 2022, have not yet been endorsed by the European Union.

- Amendments to IAS 37 - Provisions, contingent liabilities and contingent assets - Onerous contracts — Cost of fulfilling a contract

  These amendments specify the costs to be taken into account when measuring onerous contracts. These amendments, which will enter into force on 1 January 2022, have not yet been endorsed by the European Union.

- Annual Improvements (cycle 2018 - 2020) issued in May 2020

  These are amendments to certain standards (IFRS 1 First-time Adoption of IFRSs, IFRS 9 Financial Instruments, IAS 41 Agriculture and illustrative examples of IFRS 16 Leases) that clarify their wording or correct omissions or conflicts between the requirements of IFRS. These amendments, which will enter into force on 1 January 2022, have not yet been endorsed by the European Union.

- IFRS 17 - "Insurance Contract" (issued on 18 May 2017) with first application expected on 1 January 2023. This standard is not applicable to the Group.

None of these Standards and Interpretations have been early adopted by the Group. The Group is in the process of assessing the impact of these Standards and Interpretations.

After 31 December 2020, the IASB has issued the following documents:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 "Interest Rate Benchmark Reform" - Phase 2 (issued on 27 August 2020): it represents the second part of the project related to the reform concerning the replacement of the current interest rate benchmark undertaken by the Board; these amendments will become effective on 1 January 2021.

- Amendments to IFRS 4 "Insurance Contracts" - deferral of application of IFRS9 (issued on 25 June 2020); these amendments will become effective on 1 January 2021.

6. MAIN ESTIMATES ADOPTED BY THE MANAGEMENT

The application of generally accepted accounting principles for the preparation of financial statements implies that management makes accounting estimates based on complex and/or subjective judgements, based on past experience and assumptions considered reasonable and realistic on the basis of information known at the time of the estimate.

Estimates are used to measure intangible assets subject to impairment testing (see § Impairment losses), as well as to recognise provisions for bad debts, inventory obsolescence, amortisation and depreciation, asset write-downs, employee benefits, taxes, other provisions and reserves. Estimates and assumptions are reviewed periodically and the effects of any changes are immediately reflected in the income statement.

The use of these accounting estimates affects the carrying amount of assets and liabilities and the disclosure of contingent assets and liabilities at the reporting date, as well as the amount of revenues and costs in the reporting period. Actual results may differ from estimated results due to the uncertainty that characterises the assumptions and conditions on which the estimates are based.

The following are the accounting estimates that are critical to the preparation of the financial statements because they involve a high degree of recourse to subjective judgements, assumptions and estimates relating to issues that are by their nature uncertain. Changes in the conditions underlying the judgements, assumptions and estimates adopted can have a significant impact on subsequent results.

- *Recoverable amount of non-current assets*

Non-current assets include Property, plant and equipment, Goodwill and Other intangible fixed assets, Equity investments and Other financial assets. The Group periodically reviews the carrying amount of non-current assets held and used and assets to be disposed of, when facts and circumstances require such a review. For Goodwill, this analysis is carried out at least once a year and whenever facts and circumstances require it.

The analysis of the recoverability of Goodwill carrying amount is generally performed using estimates of t expected cash flows from the use or sale of the asset and appropriate discount rates to calculate the present value.

When the carrying amount of a non-current asset is impaired, the Group recognises an impairment loss equal to the excess of the carrying amount of the asset over its recoverable amount through use or sale.

- *Recoverability of deferred tax assets*

The Group has deferred tax assets on deductible temporary differences. In determining the estimate of the recoverable amount, the Group took into consideration the results of the business plan.

- *Provision for doubtful accounts*

The allowance for doubtful accounts reflects the management's estimate of the expected losses associated with the portfolio of receivables. The

Group applies the simplified approach envisaged by IFRS 9 and records expected losses on all trade receivables on the basis of their residual duration, by defining the provision based on historical experience of credit losses, adjusted to take account of specific forecast factors relating to creditors and the economic environment (the Expected Credit Loss - ECL concept).

- *Contingent liabilities*

The Group recognises a liability for ongoing litigation and lawsuits when it believes it is probable that a financial outlay will be made and when the amount of resulting losses can be reasonably estimated. If a financial outlay becomes possible but the amount cannot be determined, this fact is disclosed in the notes to the financial statements.

- *Estimates adopted in the actuarial calculation for the purpose of determining defined benefit plans in the context of post-employment benefits*

The liability for employees leaving entitlement was measured by an independent actuary on the basis of the following assumptions:

Demographic assumptions

- The probability of death was derived from the Italian population, broken down by age and gender, as measured by ISTAT in 2000 and reduced by 25%;
- the probability of elimination due to absolute and permanent disability of the worker to become disabled and leave the company community is inferred from the disability tables currently used in reinsurance practice, broken down by gender and age;

- the probability of leaving the company due to resignations and dismissals was estimated, on the basis company data, over the observation period from 2015 to 2020 and amounts to 6.33% per year;
- the probability of requesting an advance was set at 1% per year, with a 50% rate remaining;
- for the period of retirement for the generic workforce, it was assumed that the earliest of the retirement requirements valid for the General Compulsory Insurance would be reached.

Economic and financial assumptions

The macroeconomic scenario used for the measurements is described in the table below:

Parameters	Assumptions for 2019
Rate of salary increase	5.08%
Inflation rate	2.00%
Discount rate of employees leaving entitlement	0.01%

With regard to the discount rate, reference was made to the structure by maturity of the interest rates calculated via a bootstrap method from the swap rate curve recorded on 31/12/2020 (Source: *Il Sole 24 ore*) and fixed with respect to payment commitments with an average residual duration of 23 years.

- *Estimates adopted in the actuarial calculation for the purpose of determining the provision for agents' termination indemnity*

The liability for agents' termination indemnity was measured by an independent actuary on the basis of the following assumptions:

Demographic assumptions

- The probability of death was derived from the Italian population, broken down by age and gender, as measured by ISTAT in 2000 and reduced by 25%;
- for the probabilities of leaving the company due to voluntary resignations or dismissals, the annual frequencies over the observation period from 2015 to 2020 has been estimated, based on company data, respectively at 4.15% and 6.45% per year;

Economic and financial assumptions

With regard to the discount rate, reference was made to the structure by maturity of the interest rates calculated via a bootstrap method from the swap rate curve recorded on the assessment date (Source: *Il Sole 24 ore*). For the measurement as at 31/12/2020, a flat rate of 0.004% was adopted on the section of the curve corresponding to 26 years of average residual duration.

- *Estimates adopted in the determination of deferred taxes*

A discretionary assessment is required of the Directors to determine the amount of deferred tax assets that can be recognised. They must estimate the probable occurrence in time and the amount of future taxable profits.

- *Depreciation*

Fixed assets cost is depreciated on a straight-line basis over their estimated useful lives, which for rights of use coincides with the assumed duration of the contract. The useful economic life of the Group's fixed assets is determined by the Directors at the time of purchase. It is based on the historical experience gained over their business years and on the knowledge of any technological innovations that could make the fixed asset obsolete or no longer economical.

The Group periodically evaluates technological and industry changes to update the remaining useful life. This periodic updating could lead to a change in the depreciation period and therefore also in the depreciation charge for future years.

7. RISK AND UNCERTAINTY MANAGEMENT

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

7.1 EXTERNAL RISKS

7.1.1 RISKS ASSOCIATED WITH COVID-19 (SO-CALLED "CORONAVIRUS")

During 2020, the Group had to comply with the restrictive measures adopted by national governments to deal with the COVID-19 pandemic (so-called "Coronavirus"), including the adoption by all Group companies of contagion control protocols in line with the requirements set forth by the Authorities. The COVID-19 outbreak has resulted in a slowdown in the growth process of volumes sold and of the turnover with sales increasing less than in previous years. In the light of the evolution of the COVID-19 epidemic underway it cannot be excluded that the Authorities may take even stricter measures than those currently in place (including the possible use of a total and prolonged lockdown) or the occurrence of contagion phenomena in production plants, in the sales network and among employees, which could have a negative impact on the regularity of production and on sales trends.

7.1.2 RISKS ASSOCIATED WITH PRODUCTION ENTRUSTED TO THIRD PARTY SUPPLIERS

The Group is exposed to the risk that production activities entrusted to third party suppliers may not be carried out properly according to the quality standards required by the Group, leading to delays in the supply of products or even the need to replace the third party in charge. In addition, the production facilities of third party suppliers are subject to operational risks such as, for example, interruptions or delays in production due to faulty or failed machinery, malfunctions, breakdowns, delays in the supply of raw materials, natural disasters, or the revocation of permits and authorisations or even regulatory or environmental interventions. The possible occurrence of such circumstances could have negative effects on the Group's business.

7.1.3 Risks associated with the regulatory framework and the situation in the countries in which the Group operates

As a result of its international presence, the Group is exposed to a number of risk factors, particularly in developing countries where the regulatory framework is not permanently defined and clear. This could force the Group to change its business practices, increase costs or expose it to unforeseen civil and criminal liability.

Moreover, the Group cannot be sure that its products can be successfully marketed in these developing markets, given the less stable economic, political or social conditions than in Western European countries and which may result in the possibility of facing political, social, economic and market risks.

7.1.4 Risks associated with the high degree of competitiveness of the reference market

In view of the fact that the market segments in which the Group is active are characterised by a high level of competition in terms of quality, price and brand awareness and by the presence of a large number of operators, the possible difficulty for the Group in facing competition could have a negative impact on its market position, with consequent negative effects on the Group’s business.

The production activities of the Group are characterised by technology that cannot be replicated and is protected by patents, and this is considered an important competitive advantage, which - together with proprietary raw materials, the strategy of protecting intellectual property rights (trademarks and patents) and continuous investment in research and development - makes it possible to obtain products with characteristics that cannot be replicated by competitors.

7.2 MARKET RISKS

7.2.1 Risks associated with dependence on certain key products

The Group's ability to generate operating profits and cash flows largely depends on maintaining the profitability of a number of key products; among these, the most significant are those based on Sucrosomial® Iron, consisting of the products of the Sideral line, which represent approximately 81% of the Group's revenues at 31 December 2020. A contraction in sales of these key products could have negative effects on the Group's business and prospects.

7.2.2 Risks associated with the iron-related therapy market in which the Group operates

The Group is exposed to the risk of any changes in the regulatory framework in relation to the way iron is taken, the identification of new therapeutic protocols relating to these consumption ways (of which the Group is unable to predict the timing and methods) and/or the need to reduce the selling prices of products. The Group's iron-based products are currently all classified as food supplements. In the case of iron, as well as many other nutrients, regulations concern the amount of daily intake beyond which the product cannot be marketed as a supplement because it would fall into the pharmaceutical category. A possible regulatory change could have more of an impact on the maximum (or minimum) level of intake which would then lead to a simple formula adjustment.

7.3 FINANCIAL RISKS

7.3.1 CREDIT RISK

Credit risk represents the exposure to potential losses deriving from the non-fulfilment of the obligations undertaken by both commercial and financial counterparties.

The Group's credit risk is essentially attributable to the amount of trade receivables for the sale of finished products and, to a very limited extent, raw materials.

The Group does not have a significant concentration of credit risk and is subject to moderate credit risks.

The exposure to credit risk as at 31 December 2020 and 31 December 2019 is shown below:

k€	31/12/2020	31/12/2019
Non-current financial assets	218	218
Other non-current assets	-	918
Deferred tax assets	849	664
Current financial assets	4.349	5.076
Trade receivables	16.908	15.757
Other current assets	1.031	922
Total Exposure	**23.355**	**23.555**
Provision for doubtful accounts	(1.855)	(729)
Total exposure net of Allowance for doubtful accounts (*)	**21.500**	**22.826**

(*) = equity investments and tax receivables are not included

Below is a breakdown of receivables as at 31 December 2020 and 31 December 2019 grouped by category and due date. Please note that equity investments and tax receivables are not included:

k€	Carrying amount at 31/12/2020	To expire	Expired			
			0-90	90-180	180-360	> 360
Non-current financial assets	218	218				
Other non-current assets	-					
Deferred tax assets	849	849				
Current financial assets	4,349	4,349				
Trade receivables	16,908	14,211	623	189	1,215	670
Other current assets	1,031	1,031				
Total financial assets	**23,355**	**20,658**	**623**	**189**	**1,215**	**670**

k€	Carrying amount at 31/12/2019	To expire	Expired			
			0-90	90-180	180-360	> 360
Non-current financial assets	218	218				
Other non-current assets	918	918				
Deferred tax assets	664	664				
Current financial assets	5,076	5,076				
Trade receivables	15,757	14,119	764	89	91	695
Other current assets	922	922				
Total financial assets	**23,555**	**21,917**	**764**	**89**	**91**	**695**

7.3.2 Liquidity risk

The liquidity risk relates to the Group's ability to meet its commitments arising from its financial liabilities.

During the period, the Group met its financial needs through the use of its own resources without recourse to new credit lines from the banking system. Despite having available short-term bank credit lines, aimed at managing the peaks in working capital, the management did not deem it necessary to use these instruments during the year thanks to the positive generation of liquidity from current operations.

In any case, the liquidity risk originating from normal operations is kept at a low level by managing an adequate level of cash and cash equivalents and controlling the availability of funds obtainable through credit lines.

Financial liabilities as at 31 December 2020 and 31 December 2019, as reflected in the balance sheet, broken down by contractual maturity bands are reported below:

k€	Balance at 31/12/20	Current share	1 to 2 years	2 to 5 years	Over 5 years
Bank loans and borrowings	1,187	882	305		
Financial liabilities for rights of use	472	219		253	
Other lenders	4		4		
Total financial liabilities	**1,663**	**1,101**	**309**	**253**	**0**

k€	Balance at 31/12/19	Current share	1 to 2 years	2 to 5 years	Over 5 years
Bank loans and borrowings	5,647	4,584	758	305	
Financial liabilities for rights of use	748	276		472	
Other lenders	8		8		
Total financial liabilities	**6,403**	**4,860**	**766**	**777**	**0**

Trade payables and other liabilities are all due within 12 months.

7.3.3 Interest rate risk

The companies of the Group have floating-rate loan agreements in place and are therefore exposed to the risk of changes in interest rates, which is considered to be low. This risk has been partly mitigated through the use of derivative financial instruments to hedge interest rate risk (IRS - Interest Rate Swap). Current and non-current variable rate debt as a percentage of total medium/long-term borrowings was 100% as at 31 December 2020 and 31 December 2019.

The Group has policies in place to hedge against interest rate fluctuation risk for an amount equal to 71% and 75% of the total medium to long-term floating rate loans as at 31 December 2020 and 31 December 2019, respectively.

In consideration of the low amount of interest expected until the expiry of the medium/long-term loan agreements still in place at 31 December 2020, and of the fact that the same will expire in the near future, as well as the small portion of medium/long-term loans at variable interest rates not covered by derivative instruments, the Group does not carry out sensitivity analyses to assess the impact of changes in interest rates on the future results of operations and financial position.

The Group is also exposed to the risk of changes in interest rates on financial assets held in portfolio. This risk is considered to be low since these are mainly fixed-rate financial instruments.

Financial assets and liabilities measured at fair value

As required by IFRS 13 - Fair Value Measurement, the following information is provided.

The fair value of trade assets and liabilities and other financial receivables and payables approximates the nominal value recorded in the financial statements.

The fair value of receivables and payables due from and to banks and related companies does not differ from the values recorded in the financial statements, as the credit spread has been kept constant.

In relation to financial instruments recognised in the Balance Sheet at fair value, IFRS 7 requires these values to be classified on the basis of a hierarchy of levels that reflects the significance of the inputs used in determining the fair value. The following levels are distinguished:

Level 1 - quotations recorded on an active market, for assets or liabilities subject to valuation;

Level 2 - inputs other than quoted prices, as referred to in the previous paragraph, that are observable directly (prices) or indirectly (derived from prices) on the market;

Level 3 - inputs that are not based on observable market data.

With respect to the values as at 31 December 2020 and 31 December 2019, the following table shows the fair value hierarchy for the Group's assets that are measured at fair value:

k€	31/12/2020				31/12/2019			
		Level				Level		
Current financial assets	1	2	3	Total	1	2	3	Total
Bonds	2,310		203	2,513	2,026		1,218	3,244
Investment Funds	1836			1,836	1,832			1,832
Total	**4,146**	**-**	**203**	**4,349**	**3,858**	**-**	**1,218**	**5,076**

For the only asset that falls within level 3, the valuation model applied is that of nominal value since the underlying of the issue is a securitisation of reinsured trade receivables.

7.3.4 Risk of changes in cash flows

The Group has historically highlighted a substantial and constant increase in the cash flows generated by operations compared to the previous year.

There is no particular need for access to bank credit, except for current commercial activities, given the willingness of banks to extend, when necessary, existing credit lines for the companies of the Group.

In view of the above, for the companies of the Group, the risk associated with a decrease in cash flows is considered to be low.

7.3.5 Risks related to litigation

The Parent Company and the subsidiary Junia Pharma are part of a series of single-brand agency and procurement agreements for the promotion of their products. The activity carried out by agents for the Group also plays an important role in providing scientific information to the medical class. During the year 2020, there were a number of cases in which agents and/or brokers initiated disputes aimed at ascertaining the existence of an employment relationship and claimed for compensation. Given the risks highlighted, specific provisions have been set aside to cover the estimated liabilities.

There are uncertainties of interpretation regarding the qualification for direct tax purposes of the indemnity received by the Company in 2019 from the pre-listing shareholders on the basis of the reps and warranties given by them in the admission document section one, chapter 16, paragraph 16.1. The risk cannot be excluded that, if the position taken by Pharmanutra is not considered correct by the Italian Inland Revenue, the latter may ascertain the existence of taxes to be paid in relation to the indemnity amount (up to a maximum of approximately Euro 220 thousand) plus penalties and interest.

8.Information by operating segments

The Group has identified operating segments on the basis of two geographical areas that represent the organisational components according to which the business is managed and monitored, i.e., as required by IFRS 8, "... *a component whose operating results are periodically reviewed at the entity's highest operational decision-making level for the purposes of making decisions about resources to be allocated to the segment and performance assessment*".

The segments identified are Italy (LB1) and abroad (LB2), which represent the Group's business model.

INCOME STATEMENT (€/000)	2020	LB1	LB2	2019	LB1	LB2
A) REVENUES	**58,525**	**41,648**	**16,878**	**54,206**	**39,322**	**14,884**
Net revenues	56,449	39,992	16,457	53,624	39,015	14,609
Other revenues	2,076	1,656	421	582	307	275
B) OPERATING COSTS	**42,971**	**30,825**	**12,146**	**41,025**	**30,220**	**10,805**
Costs for services, goods and operating costs	33,766	24,303	9,463	32,706	24,169	8,537
Costs for personnel and corporate bodies	9,205	6,521	2,684	8,319	6,051	2,268
(A-B) EBITDA	**15,554**	**10,823**	**4,731**	**13,181**	**9,102**	**4,079**
EBITDA (% on revenues)	***26.6%***	***26.0%***	***28.0%***	***24.3%***	***23.1%***	***27.4%***
C) Amortisation, depreciation and write-downs	2,338			977		
(A-B-C) EBIT	**13,216**			**12,204**		
D) FINANCIAL INCOME (COSTS)	**86**			**(7)**		
Financial income	146			71		
Financial costs	(60)			(78)		
PRE-TAX RESULT (A-B-C+D)	**13,302**			**12,197**		
Taxes	(770)			3,743		
Profit /(Loss) for the year	**14,072**			**8,454**		

The performance of the two business lines in 2020 compared to the previous year reflects what has already been reported above in relation to the Group's performance. The growth in sales on the Italian market (+3%) was slowed down by the consequences of Covid-19, while on foreign markets sales increased by 13% thanks to the gradual increase in contracts concluded in previous years.

The item Other revenues of LB1 segment includes the contractual indemnity of approximately Euro 1 million, already mentioned.

Operating costs attributable to the Italian market, amounting to Euro 30,825 thousand, increased by 2% compared to the previous year due to the lower costs incurred as a result of the restrictions linked to the current epidemic, which mainly concerned marketing costs (cancellation of events) and commercial costs (travel expenses and lower costs of the sales network). Operating costs attributable to foreign markets, which amounted to Euro 12,146 thousand in 2020, compared to Euro 10,805 thousand in 2019 show an increase of 12% due to higher business volumes.

As a result of the above, the EBITDA of LB1 segment in 2020 amounted to Euro 10,823 thousand (Euro 9,102 thousand in 2019), an increase of 19% compared to 2019, while the EBITDA of LB2 segment increased by 16% from Euro 4,089 thousand in 2019 to Euro 4,731 thousand in 2020.

9.COMMENTS ON THE MAIN ITEMS

9.1 Non-current assets

The tables below show the changes in tangible fixed assets for each item

9.1.1. Tangible fixed assets

Net tangible fixed assets (k€)	Balance as at 31/12/2019	Increases	Decreases	Other	Balance as at 31/12/2020
Land and buildings	200	0	-6	-99	95
Plant and machinery	68	90	-27		131
Equipment	1	0	0		1
Furniture and office machines	319	64	-97		286
Vehicles	552	484	-494		542
Rights of use	746	0	-277		469
Fixed assets under construction	2.971	304	0		3.275
TOTAL	**4.857**	**942**	**-901**	**-99**	**4.799**

Tangible Fixed Assets - Historical Cost (k€)	Balance as at 31/12/2019	Increases	Decreases	Other	Balance as at 31/12/2020
Land and buildings - Historical cost	642				642
Plant and machinery - Historical cost	115	90			205
Equipment - Historical cost	18				18
Furniture and office machines - Historical cost	814	64			879
Vehicles - Historical cost	891	484	-346		1,029
Rights of use - Historical cost	1,011				1,011
Fixed assets under construction - Historical cost	2,971	304			3,275
TOTAL	**6,462**	**942**	**-346**	**0**	**7,059**

Tangible fixed assets - Depreciation provision (k€)	Balance as at 31/12/2019	Deprec./amort.	Uses	Other	Balance as at 31/12/2020
Land and buildings - Acc. deprec./amort.	-442	-6		-99	-547
Plant and machinery - Acc. deprec./amort.	-47	-27			-74
Equipment - Acc. deprec./amort.	-17				-18
Furniture and office machines - Acc. deprec./amort.	-495	-97			-592
Vehicles - Acc. deprec./amort.	-339	-197	49		-487
Amortisation of rights of use	-265	-277			-542
TOTAL	**-1,605**	**-604**	**49**	**-99**	**-2,260**

The amount of the increases for the financial year includes Euro 484 thousand for the purchase of vehicles for the management and sales force managers, Euro 304 thousand for costs incurred for planning, carrying out analyses and obtaining authorisations in anticipation of the restructuring of the industrial complex intended to house the Group's new headquarters, and the remainder for the purchase of laboratory instruments and IT equipment.

9.1.2 Intangible fixed assets

The following table shows historical costs net of previous amortisation and depreciation, movements during t period and final balances for each item.

Intangible fixed assets (k€)	Balance as at 31/12/2019	Increases	Decreases	Deprec./amort.	Other	Balance as at 31/12/2020
Start-up and expansion costs						
Research and development costs	1					0
Industrial patent rights	456	437		-109		784
Concessions, licenses and trademarks	1.342	168		-115		1.395
Goodwill	2.750					2.750
Other intangible assets	14			-105	99	8
Fixed assets under construction and payments on accoun	165	87	-8			244
TOTAL	**4.728**	**692**	**-8**	**-329**	**99**	**5.181**

The increases in intangible fixed assets refer to patent and trademark management activities for approximately Euro 605 thousand. The increase in fixed assets under construction refers to costs capitalised on research contracts in progress and software being implemented.

Testing for impairment of goodwill and intangible fixed assets with indefinite useful life (Impairment Test)

As indicated in the section on valuation criteria, intangible fixed assets with an indefinite useful life are not amortised but are tested for impairment annually, or more frequently if specific events or changes in the circumstances indicate that they may have suffered an impairment loss, in accordance with IAS 36 Impairment of Assets (impairment test). The recoverability of the values recorded is verified by comparing the net carrying amount of the individual cash generating unit with the recoverable value (value in use). Such recoverable value is represented by the current value of future cash flows that are estimated to derive from the continuous use of the assets related to Cash Generating Unit (CGU).

The cash flows used to determine the value in use derive from the most recent estimates made by the management, and in particular the 2021 budget approved on 16 December 2020 and the business plan approved on 5 October 2020. Two CGUs have been identified: Junia Pharma and Alesco.

The recoverable value of the two CGUs identified every goodwill refers to and amounting to a total of Euro 2,750 thousand, of which Euro 960 thousand refer to Alesco and Euro 1,790 thousand refer to Junia Pharma, was verified through the value in use, determined by applying the discounted cash flow method. If the recoverable amount is higher than the net carrying amount of the CGU, no impairment loss is recognised; otherwise, the difference between the net carrying amount and the recoverable amount, as a result of the impairment test, determines the amount of the adjustment to be recognised.

The main assumptions used for the calculation of value in use concern the discount rate (WACC post-tax) of cash flows and the growth rate "g" used for the calculation of the perpetual annuity. With particular reference to the valuations relating to 31 December 2020, the Group used a discount rate of 6.36% for Alesco CGU and 5.85% for Junia Pharma CGU, with a growth rate "g" of 1% for both CGUs.

The compound annual growth rate ("CAGR") of the revenues of the two CGUs is lower than the Company's historical trend and challenging compared to market growth forecasts in the sector to which it belongs. The effects of COVID-19 outbreak entailed a lower growth rate in FY 2020 compared to the historical trend. However, in view of the large surplus resulting from the sensitivity analysis, it is believed that the effects of the health emergency on the compound annual growth rate do not have an impact on the measurement of Goodwill. Therefore, there are no specific and significant risks.

From the results of the impairment test, it emerged for each CGU that the recoverable value exceeds the carrying value and therefore no write-down was made.

Sensitivity

The sensitivity analysis carried out considering a change of +/- 1% in the WACC and g-rate used to perform the test did not show any impairment of goodwill.

9.1.3 Investments

k€	31/12/2020	31/12/2019	Change
Investments in other companies	254	254	0
Total investments	**254**	**254**	**0**

The item includes the amount of Euro 250 thousand representing the subscription value of the equity interest in Red Lions S.p.A., of which Pharmanutra S.p.A. holds 217,391 shares, which equal to 15.15% of the capital. The equity value of the investee company, based on an appraisal drawn up on 27 February 2020 as part of a contribution transaction (which involved third parties and not the Group), shows no need for adjustments. The shares of the company Red Lions S.p.A. are held by companies of significant importance in the industrial context of Pisa area, all sensitive to innovation and development activities. The Group, which shares this sensitivity, could obtain interesting contacts and exchanges of experience from its equity investment in Red Lions S.p.A., both with the other shareholder companies (and their subsidiaries) and with the "target companies" of Red Lions S.p.A.'s business.

9.1.4 Non-current financial assets

k€	31/12/2020	31/12/2019	Change
Guarantee deposits	123	123	0
Advances	95	95	0
Non-current financial assets	**218**	**218**	**0**

The item "Guarantee deposits", amounting to Euro 123 thousand , mainly refers to the amounts paid at the signing of the lease contracts stipulated with the related company Solida S.r.l. (Euro 105 thousand as guarantee deposits); in addition, Pharmanutra paid Solida an advance of Euro 85 thousand.

9.1.5 Other non-current assets

k€	31/12/2020	31/12/2019	Change
Insurance for Directors' termination indemnity	0	918	-918
Other non-current assets	**0**	**918**	**-918**

The change is determined by the liquidation of the policy taken out for the Directors' termination indemnity provision following the expiry of the term of office of the Board of Directors, upon approval of the financial statements as at 31 December 2019.

9.1.6 Deferred tax assets

k€	Balance at 31/12/19	Incr.	Decr.	Balance at 31/12/20
Allowance to provision for doubtful accounts - not for tax purposes	121	272	(29)	364
Allowance to provision for risks related to legal disputes	1	44	0	45
On Consolidation effects	147	0	(19)	129
Provision for employees leaving entitlement	58	12	0	70
Indemnity for termination of the agency contracts	(19)	(2)	0	(21)
Accumulated depreciation/amortisation	(64)	(21)	0	(85)
Allowance to provision for inventory write-downs	97	21	(79)	39
Directors' fees	322	311	(322)	311
TOTAL	**664**	**637**	**(449)**	**851**

Deferred tax assets have been calculated taking into account the cumulative amount of all the temporary differences, on the basis of the expected rates in force when the temporary differences will reverse. Deferred tax assets have been recognised because there is reasonable certainty that taxable income will not be less than the amount of the differences to be reversed, in the years in which the deductible temporary differences against which deferred tax assets have been recognised will reverse.

Deferred tax assets relating to the application to the Employee Severance Indemnity Provision and the Indemnity for termination of agency contracts of the IAS/IFRS valuation of these items are the result of all adjustments made from the FTA until the closing of the financial statements in question.

Deferred tax assets relating to the remuneration of corporate bodies concern the non-deductibility of the variable remuneration as it was not paid by 12 January 2021.

9.2 Current assets

9.2.1 Inventories

k€	31/12/2020	31/12/2019	Change
Raw materials, consumables and supplies	226	277	-51
Finished products and goods	1,820	1,938	-118
Provision for inventory write-downs	-152	-362	210
Total Inventories	**1,894**	**1,853**	**41**

The value of finished product inventories is net of the sum of Euro 152 thousand (Euro 362 thousand as at 31/12/2019) set aside as a write-down of finished product inventory.

9.2.2 Liquid funds

k€	31/12/2020	31/12/2019	Change
Bank and postal accounts	16,433	13,736	2,697
Cheques on hand	17	10	7
Cash-in-hand and cash equivalents	5	5	0
Total liquid funds	**16,455**	**13,751**	**2,704**

The balance represents the liquid funds and the existence of cash and securities at the end of the period. For the evolution of cash and cash equivalents, reference should be made to the cash flow statement for the year and to what is indicated in the Management Report.

9.2.3 Current financial assets

k€	31/12/2020	31/12/2019	Change
Mutual fund units	1,836	1,832	4
Bonds	2,513	3,244	-731
Total current fin. assets	**4,349**	**5,076**	**-727**

This item represents a temporary investment of part of the company's liquidity made through an individual asset management mandate granted to Azimut Capital Management S.g.r. In accordance with this mandate, bonds and units in investment funds of adequately rated issuers have been subscribed. As at 31/12/2020, a comparison with the market value of the bonds held shows a net capital loss of Euro 42 thousand which was recorded in a shareholders' equity reserve, based on the valuation criteria adopted by the Group in accordance with IFRS9. A gain of Euro 4 thousand was recorded in the income statement for the year on the fund units.

Considering the liquid funds available and the regular continuation of activities given what is described above, the Group does not foresee the need to resort to the early disposal of the financial instruments in question, believing that the latent loss will be absorbed by the end of the epidemic.

9.2.4 TRADE RECEIVABLES

k€	31/12/2020	31/12/2019	Change
Trade receivables - Italian customers	10,570	7,353	3,217
Trade receivables - Other countries	2,828	3,505	-677
Other receivables (subject to collection)	3,477	4,903	-1,426
Invoices to be issued	33	-4	37
Provision for doubtful accounts	-1,855	-729	-1,126
Total trade receivables	**15,053**	**15,028**	**25**

The amounts shown in the financial statements are net of provisions made in the Provision for doubtful accounts, estimated by the Group's management on the basis of the seniority of the receivables, the assessment of their collectability and also taking into account historical experience and forecasts of future bad debts also for the part of receivables that is collectable at the reporting date.

The breakdown of trade receivables by geographical area is shown below:

k€	31/12/2020	31/12/2019	Change
Italy	12,225	11,620	605
Asia	2,192	2,584	-392
Europe	616	772	-157
Africa	16	52	-36
America	5	0	5
Total trade receivables	**15,053**	**15,028**	**25**

Changes in the Provision for doubtful accounts during 2020 were as follows:

k€	Provision for doubtful accounts
Initial balance	729
Allowances	1,196
Uses	-70
Final balance	**1,855**

The item Provisions includes the full write-down of a receivable related to an invoice for compensation due to the subsidiary Junia Pharma for an amount of approximately Euro 1 million, following the termination of a product distribution contract based on the agreements provided for in the contract, which was terminated at the initiative of the supplier.

The debtor, not agreeing with the contractual interpretation put forward by Junia Pharma, filed a writ of summons with the Civil Court of Pisa on 20 May 2020 asking it to issue a ruling: (i) on the alleged invalidity of the contractual clause providing for the indemnification of Junia Pharma following the termination of the contract and, should the Court recognise the validity of the same (ii) the reduction of the amount of the indemnification due. In consideration of the assessments made on the debtor's financial situation, the administrative body decided to write down this amount in full.

9.2.5 Other current assets

A breakdown of “Other current assets” is provided in the table below:

k€	31/12/2020	31/12/2019	Change
Receivables from employees	44	40	4
Advances	790	415	375
Prepayments and accrued income	197	137	60
Other receivables	0	330	-330
Total other current assets	**1,031**	**922**	**109**

The item "Advances" includes receivables from agents for advances of Euro 308 thousand (Euro 301 thousand in the previous year), relating to sums advanced by Group companies when signing agency contracts, and advanc[es] to suppliers of Euro 482 thousand (Euro 114 thousand as at 31/12/2019). The advances paid to agents shall be returned on termination of the relationship with each agent.

The reduction in "Other receivables" is due to the consensual termination of the preliminary agreement for the purchase of land in Montacchiello (PI) on the basis of which the confirmatory deposit paid was fully collected.

9.2.6 TAX RECEIVABLES

"Tax receivables" can be broken down as follows:

k€	31/12/2020	31/12/2019	Change
Value added tax	309	237	72
Receivables for R&D expense tax bonus	199	359	-160
Receivables for Patent Box tax bonus	1,112	0	1,112
Other tax receivables	4	-1	5
Total tax receivables	**1,624**	**595**	**1,029**

The balance of the item Receivables for the Patent Box tax bonus represents the tax benefit related to the years 2016 and 2017 that can be used in 2021.

With reference to the item Receivables for tax bonuses on R&D expenses and for the Patent Box tax bonus, reference should be made to the Management Report.

9.3 Shareholders' Equity

9.3.1 SHAREHOLDERS' EQUITY

The changes in the items of shareholders' equity of the Group and of minority interests are shown below:

Pharmanutra Group - Statement of changes in Consolidated shareholders' equity

Amounts in k€	Notes	Share capital	Legal reserve	Other reserves	Actuarial reserve under IAS 19	Financial instruments reserve (FVOCI)	FTA reserve	Profit (loss) for the year	Balance
Group shareholders' equity as at 31/12/2019	**7.3.1**	**1,123**	**225**	**18,352**	**(59)**	**109**	**(70)**	**8,454**	**28,134**
Allocation of result	7.3.1	-	-	8,454	-	-	-	(8,454)	-
Distribution of dividends	7.3.1	-	-	(4,453)	-	-	-	-	(4,453)
Other changes		-	-	10	9	(42)	-		(23)
Profit (loss) for the year		-	-	-	-	-	-	14,072	14,072
Group shareholders' equity as at 31/12/2020	**7.3.1**	**1,123**	**225**	**22,363**	**(50)**	**67**	**(70)**	**14,072**	**37,730**

The Share capital, fully subscribed and paid up, amounts to Euro 1,123 thousand and consists of 9,680,9

ordinary shares, with no par value, of the Parent Company.

In 2019 a coupon of Euro 0.46 was distributed for each ordinary share, with a payout ratio of approximately 52.6% of consolidated net income in 2019, in line with the consolidated dividend distribution policy and taking into account the Group's confirmed earnings capacity, for a total dividend of Euro 4,453 thousand.

9.4 Non-current liabilities

9.4.1 Non-current financial liabilities

k€	31/12/2020	31/12/2019	Change
Payables for derivative fin. instruments	4	8	-4
Payables for BPER bank loans	154	308	-154
Payables for CRFI bank loans	151	755	-604
Non-current fin. payables for rights of use	253	472	-219
Non-current financial liabilities	**562**	**1,543**	**-981**

Bank loans and borrowings consist of the portion of loans payable by Group companies due beyond 12 months.

Non-current payables for rights of use represent the discounted amount due beyond one year of the lease contracts in force as at 31/12/2020 in accordance with IFRS 16.

The following table shows the breakdown of bank indebtedness by company and due date as at 31/12/2020. It is important to stress that payables due within one year are classified as “Current financial liabilities” (see paragraph 7.5.1).

k€	Balance at 31/12/20	Due within 12 months	Due after 12 months
- Loans and borrowings from banks and other financial backers			
Pharmanutra S.p.A.	773	618	155
Junia Pharma S.p.A.	310	156	154
Alesco S.p.A.	108	108	0
Total	1,191	882	309
- Rights of use:			
Pharmanutra S.p.A.	336	163	173
Junia Pharma S.p.A.	68	28	40
Alesco S.p.A.	68	28	40
Total	472	219	253
Total	**1,663**	**1,101**	**562**

In accordance with the requirements of the CONSOB communication of 28 July 2006 and in compliance with ESMA update with reference to the "Recommendations for the consistent implementation of the European Commission's Regulation on Prospectuses", we report that the Group's Net Financial Position as at 31 December 2020 is as follows:

	Amounts in k€	31/12/2020	31/12/2019
A	Cash	22	16
B	Liquid funds	20,782	19,729
C	Held-for-trading securities	-	-
D	**Liquidity (A+B+C)**	**20,804**	**19,745**
E	Current financial receivables	-	-
F	Current bank payables	124	3,828
G	Current portion of non-current debt	758	756
H	Other current financial payables	219	276
I	**Current financial indebtedness (F+G+H)**	**1,101**	**4,860**
	of which guaranteed	257	668
	of which not guaranteed	844	4,192
J	**Net current financial indebtedness (I-E-D)**	**(19,703)**	**(14,885)**
K	Non-current bank payables	309	1,071
L	Bonds issued	-	-
M	Other non-current financial payables	35	254
N	**Non-current financial indebtedness (K+L+M)**	**344**	**1,325**
	of which guaranteed	154	155
	of which not guaranteed	190	1,170
O	**Net financial indebtedness (J+N)**	**(19,359)**	**(13,560)**

9.4.2 Provisions for risks and charges

k€	31/12/2020	31/12/2019	Change
Provision for termination indemnity of agen	743	684	59
Provision for sundry risks and legal disputes	275	2	273
Provisions for risks and charges	**1,018**	**686**	**332**

Provisions for risks and charges include:

- Provision for risks to cover the risk of legal disputes in progress, measured at Euro 275 thousand to cover outstanding disputes with agents following the termination of the agency agreement;
- Provision for indemnity for termination of agency contracts, set up under article 1751 of the Italian Civil Code and the current collective economic agreement of 20 March 2002, which provide that, upon termination of the agency relationship, the agent is entitled to an indemnity for employment termination. The indemnity for termination of agency contracts is calculated by applying to the fees and other considerations accrued by the agent during the course of the employment relationship, a rate that can vary from 3 to 4%, depending on the duration of the agency contract. The resulting amount was measured in accordance with IAS/IFRS International Accounting Standards (IAS 37). The Group has therefore set aside an amount of Euro 200 thousand in the Provision for indemnity for termination of agency contracts, based on legal provisions and in relation to the positions at the end of the year, bringing the same to a total of Euro 743 thousand.

9.4.3 Provisions for benefits

k€	31/12/2020	31/12/2019	Change
Provision for employee severance indemnit	889	816	73
Directors' termination indemnity provision	366	1,412	-1,046
Provisions for benefits	**1,255**	**2,228**	**-973**

Provisions for benefits refer to:

- Directors' termination indemnity provision. The amount set aside as at 31 December 2019 was paid to the directors upon expiry of their term of office, with the approval of the financial statements as at 31 December 2019. The amount set aside of Euro 366 thousand was calculated on the basis of the provisions of the Ordinary Shareholders' Meeting held on 27 April 2020 and corresponds to the Company's actual commitment to the

Directors at the reporting date.

– Employees leaving entitlement amounts set aside by companies included in the consolidated financial statements. The liability for employees leaving entitlement has been calculated in compliance with the current provisions governing the employment relationship for employees and corresponds to the actual commitment of the companies towards individual employees at the reporting date. The amount set aside refers to employees who, following the entry into force of the new supplementary pension system, have expressly allocated their leaving entitlement accruing from 1 January 2007 to the company. The amount relating to the provision for employees leaving entitlement is therefore net of the amounts paid out during the year and allocated to pension funds. The resulting amount was measured in accordance with IAS/IFRS (IAS 19).

9.5 Current liabilities

9.5.1 Current financial liabilities

k€	31/12/2020	31/12/2019	Change
Bank loans and borrowings for loans	758	756	2
Bank loans and borrowings for current accounts	124	3,827	-3,703
Current fin. payables for rights of use	219	277	-58
Total current fin. liabilities	**1,101**	**4,860**	**-3,759**

The item "Bank loans and borrowings for current accounts" amounting to Euro 124 thousand mainly consists of advances received on bills subject to collection (Euro 3,702 thousand as at 31/12/2019).

The item "Bank loans and borrowings for loans" represents the portion of debt relating to loans and instalments of loans to be repaid within the next financial year (see the table in paragraph 7.4.1 for details).

9.5.2 Trade payables

Trade payables are broken down in the table below:

k€	31/12/2020	31/12/2019	Change
Trade payables - suppliers in Italy	6,270	7,372	-1,102
Trade payables - suppliers in Other countries	108	364	-256
Payments on account	797	429	368
Total trade payables	**7,175**	**8,165**	**-990**

The decrease in the item Trade payables - suppliers in Italy is due to lower operating costs incurred during the year as a result of the Covid-19 epidemic.

The following table shows the breakdown of trade payables by geographical area:

k€	31/12/2020	31/12/2019	Change
ITALY	6,233	7,361	-1,128
ASIA	526	308	217
EUROPE	373	395	-22
AMERICA	28	24	4
OTHER	15	77	-62
Total trade payables	**7,175**	**8,165**	**-990**

9.5.3 OTHER CURRENT LIABILITIES

A breakdown of "Other current liabilities" is provided in the table below:

k€	31/12/2020	31/12/2019	Change
Payables for wages and salaries	430	377	53
Payables to social security institutions	366	310	56
Payables to directors and statutory auditors	1,423	1,320	103
Accrued expenses and deferred income	9	14	-5
Leaving entitlement provision for agents and representatives	120	116	4
Total other current liabilities	**2,348**	**2,137**	**211**

The item Payables to directors and statutory auditors refers to the amount of variable remuneration accrued by executive directors on the results for the year 2020.

9.5.4 TAX PAYABLES

k€	31/12/2020	31/12/2019	Change
Income taxes	48	511	-463
Payables for withholdings	472	505	-33
Value added tax	0	95	-95
Total tax payables	**520**	**1,111**	**-591**

The change in the item Income taxes compared to the previous year is due to the recognition of the tax benefit related to the Patent Box for the year 2020 and the cancellation of the first advance payment of IRAP for 2020 as provided for by art. 24 of the "Decreto Rilancio".

9.6 Revenues

9.6.1 NET REVENUES

k€	2020	2019	Change
LB1 REVENUES	39,992	39,015	977
LB2 REVENUES	16,457	14,609	1,848
TOTAL SALES	**56,449**	**53,624**	**2,825**

The table below provides a breakdown of net revenues by business segment and geographical market:

k€	2020	2019	Change	Δ%	Incidence 2020	Incidence 2019
Italy	38.592	37.428	1.164			
Total LB1	***38.592***	***37.428***	***1.164***	**3%**	**68%**	**70%**
Europe	8.564	6.659	1.905	29%		
Middle East	6.161	6.212	(51)	-1%		
Far East	427	951	(524)	-55%		
Other countries	359	318	41	13%		
Total LB2	***15.510***	***14.140***	***1.371***	**10%**	**27%**	**26%**
Alesco Outgroup - Italy	1.400	1.589	(189)	-12%	**2%**	**3%**
Alesco Outgroup - Foreign	947	467	480	103%	**2%**	**1%**
Total net revenues	**56.449**	**53.624**	**2.825**	**5%**	**100%**	**100%**

As described above, the Group's activities are divided into two business lines, sale of finished products (Pharmanutra and Junia Pharma) and sale of raw materials (Alesco):

Direct business line: it is characterised by the direct control of the distribution channels in the reference markets and the relevant marketing activities by the companies of the Pharmanutra group.

In 2020 the direct business line accounted for about 70% (about 73% in 2019) of total turnover.

The distribution channels for the companies Pharmanutra and Junia Pharma can be broken down into:

- Direct deriving from the activity carried out by the network of scientific informants who are entrusted with marketing products throughout the national territory. 95% of direct orders are orders directly from pharmacies and parapharmacies.
- Wholesalers who directly supply the pharmacies and parapharmacies with the products.

The activity carried out by sales representatives/scientific informants directly addressing the medical class in order to make known the clinical efficacy and uniqueness of the products is paramount for both distribution channels.

- Tenders for supply contracts with public facilities.
-

Alesco's commercial activity in Italy outside the group is aimed at companies in the food, pharmaceutical a nutraceutical industries as well as at nutraceutical production plants that produce on behalf of third parties.

- **Indirect Business Line:** the business model is common to all three companies and is mainly used in foreign markets. It is characterised by the marketing of finished products (Pharmanutra and Junia Pharma) and raw materials (Alesco) through local partners who, under long-term distribution contracts, distribute and sell the products in their own markets.

In 2019 the Indirect business line accounted for about 29% of the turnover (about 27% in the previous year).

9.6.2 OTHER REVENUES AND INCOME

k€	2020	2019	Change
Research and Development Tax Credit	200	361	-161
Contractual indemnities	1,371	8	1,363
Refunds and recovery of expenses	28	44	-16
Contingent assets	312	132	180
Other revenues and income	320	45	275
Total Other revenues and income	**2,231**	**590**	**1,641**

The item Tax credit on Research & Development expenses includes the amount of the benefit calculated on the basis of Italian Decree-Law 145/2013 and subsequent amendments for research and development expenses incurred by the Group in 2020.

The item Contractual indemnities includes the receivable from a supplier for the indemnity contractually due following termination of the contract for the amount of Euro 1 million and indemnities invoiced to agents for notice of termination.

Other revenues and income consist of the utilisation of the Provision for inventory write-downs.

9.7 OPERATING COSTS

9.7.1 PURCHASES OF RAW MATERIALS, CONSUMABLES AND SUPPLIES

Purchases are broken down in the following table:

k€	2020	2019	Change
Costs for raw materials and semi-fin. goods	920	473	447
Costs for consumables	349	522	-173
Costs for the purchase of fin. goods	1,208	1,565	-357
Total purchases of raw materials, consumables and supplies	**2,477**	**2,560**	**-83**

9.7.2 CHANGE IN INVENTORIES

k€	2020	2019	Change
Change in raw materials	51	-9	60
Change in finished product inventories	118	261	-143
Allowance to Provision for inventory write-downs	71	44	27
Change in inventories	**240**	**296**	**-56**

9.7.3 COSTS FOR SERVICES

k€	2020	2019	Change
Marketing and advertising costs	6,226	6,205	21
Production and logistics	8,823	8,879	-46
General service costs	3,892	2,752	781
Research and development costs	637	649	-19
Costs for IT services	308	384	-76
Commercial costs and commercial network costs	8,335	8,945	-610
Corporate bodies	6,870	6,255	606
Rental and leasing costs	8	14	-6
Financial costs	186	179	7
Total costs for services	**35,285**	**34,262**	**658**

The increase in the item "Costs for general services" is determined by non-recurring costs related to (i) the formalisation of the ruling with the Italian Inland Revenue of the Patent Box for the period 2016-2020 and (ii) costs connected with the transition to Mercato Telematico Azionario (MTA) - STAR segment for a total of Euro 1.5 million. The reduction in the item "Commercial costs and sales network costs" is attributable to the limited activities that were possible due to the ongoing pandemic. Covid-19 also entailed the cancellation or downsizing of several originally planned marketing projects.

9.7.4 PERSONNEL COSTS

The breakdown of personnel costs is shown in the table below:

k€	2020	2019	Change
Wages and salaries	2,675	2,355	320
Social security charges	821	714	107
Severance Indemnity	203	173	30
Other personnel costs	13	22	-9
Total personnel costs	**3,712**	**3,264**	**448**

The item includes all expenses for employees, including accrued holidays and additional months' pay as well as related social security charges, in addition to the provision for severance indemnities and other contractual costs. The increase compared to the previous year is due to the hiring of new employees.

The breakdown of the average number of employees by category is shown in the following table:

Units	2020	2019	Change
Executives	2	2	0
White collars	54	48	6
Blue collars	1	1	0
Total	**57**	**51**	**6**

7.7.5 OTHER OPERATING COSTS

k€	2020	2019	Change
Capital losses	68	27	41
Sundry tax charges	68	65	3
Membership fees	57	53	4
Charitable donations and social security charges	190	32	158
Other costs	1,029	477	552
Total other operating costs	**1,412**	**654**	**758**

The change in the item "Other costs" mainly refers to the failure of a foreign customer to collect an order for finished products, against which the advance payments received were retained. The Group regained possession of the goods, which were subsequently repackaged and resold to other customers.

9.8 AMORTISATION, DEPRECIATION AND PROVISIONS

k€	2020	2019	Change
Amortisation of intangible fixed assets	609	577	32
Depreciation of tangible fixed assets	325	256	69
Provisions for doubtful accounts	1,250	141	1,109
Allowance to provisions for risks	154	0	154
Total provisions	**2,338**	**974**	**1,364**

The allowance to Provision for doubtful accounts includes Euro 1,050 in write-downs of the receivable f

indemnity from a supplier, as referred to above.

For details on the allowances to Provisions for risks and charges, see paragraph 7.4.2.

9.9 FINANCIAL REVENUES AND EXPENSES

9.9.1 FINANCIAL REVENUES

k€	2020	2019	Change
Interest income	88	67	21
Exchange gains	2	0	2
Other financial income	56	4	52
Total financial revenues	**146**	**71**	**75**

9.9.2 FINANCIAL EXPENSES

k€	2020	2019	Change
Other financial charges	(32)	(38)	6
Interest expense	(27)	(39)	12
Realised exchange losses	(1)	(1)	0
Total financial costs	**(60)**	**(78)**	**18**

9.10 INCOME TAXES

k€	2020	2019	Change
Direct taxes on business income	2,848	3,917	(1,069)
Deferred tax assets	(187)	(174)	(13)
Taxes for the previous year	(3,431)	0	(3,431)
Total taxes	**(770)**	**3,743**	**(4,513)**

Taxes are recognised on an accruals basis and have been determined in accordance with current rates and regulations.

The item Taxes for the previous year represents the tax benefit relating to the years 2016-2019 recognised following the formalisation of the ruling for the Patent Box benefit. The benefit relating to the financial year 2020, amounting to Euro 1.4 million, was deducted from taxes for the year.

9.11 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the Group's results of operations by the weighted average number of shares outstanding during the year.

The calculation of basic earnings per share is shown in the following table:

Euro	2020	2019
Group profit for the year	14,070,709	8,454,335
Average number of shares outstanding	9,680,977	9,680,977
Basic earnings per share	**1.45**	**0.87**

10. OTHER INFORMATION

In accordance with the law, the total compensation due to the Directors, the members of the Board of Statutory Auditors and the independent auditors, if any, is shown below:

- Directors: Euro 5,639 thousand
- Board of Statutory Auditors: Euro 74 thousand
- Independent auditors: Euro 361 thousand.

Information pursuant to Article 149-*duodecies* of the CONSOB Issuers' Regulation

The following table, prepared in accordance with Article 149-*duodecies* of the CONSOB Issuers' Regulations, shows the fees accrued in the year 2019 for audit and non-audit services rendered by the Independent auditors and by entities belonging and not belonging to its network.

Values expressed in thousands of Euro

Service provider	Recipient	Notes	Fees accrued in the FY 2020
Auditing and certification services			
BDO ITALIA S.p.A.	Parent Company - Pharmanutra S.p.A.	[1]	60
BDO ITALIA S.p.A.	Subsidiaries	[1]	30
Other services			
BDO ITALIA S.p.A.	Parent Company - Pharmanutra S.p.A.	[2]	198
BDO ITALIA S.p.A.	Parent Company - Pharmanutra S.p.A.	[3]	74
Total			**361**

[1] This includes the signing of income, IRAP, 770 and tax credit certification forms

[2] This includes non-recurring costs for translisting on the MTA - STAR segment

[3] Methodological support for the purposes of adaptation to the rules laid down by 262/2005

11. EVENTS SUBSEQUENT TO THE CLOSING DATE OF 31 DECEMBER 2020

As for the events after the closing date of 31 December 2020, reference should be made to the Directors' Report on Operations.

12. COMMITMENTS

The Parent Company has issued the following guarantees in favour of its subsidiaries:

- To Junia Pharma, a guarantee for Euro 1 million;
- To Alesco, a guarantee for credit limit subject to collection for Euro 210 thousand;
- To Alesco, a guarantee for credit facility on current account for Euro 52 thousand.

13. CONTINGENT LIABILITIES AND MAIN OUTSTANDING DISPUTES

The Group does not have any significant contingent liabilities of which information has not already been provided in this report and which are not covered by adequate provisions.

It should be noted that after 31 December 2020, following the termination of the agency contract with 7 ISC agents, Pharmanutra was notified of 7 direct appeals to the labour judge of the Court of Pisa. In particular, the above-mentioned appeals focus on the annulment of the dismissal and the recognition of a subordinate employment relationship, as well as the request for payment of the fees relating to the agency contract. All 7 former ISC agents are represented by the same attorney. The hearings are scheduled for 6 July and 29 September 2021.

Until 31 December 2020, all previous disputes of a similar nature have been resolved through settlements and there has never been a case of recognition of the existence of an employee relationship.

As at 31 December 2020, the provision for risks to hedge potential liabilities estimated to be incurred by the Company in connection with the above claims amounted to Euro 275 thousand (Euro 2 thousand at 31 December 2019).

It is noted that in February 2020 an invoice was issued for the indemnity due to the subsidiary Junia Pharma in the amount of approximately Euro 1 million, following the termination of a product distribution contract based on the agreements provided for in the contract which was terminated at the initiative of the supplier. The debtor, not agreeing with the contractual interpretation put forward by Junia Pharma, filed a writ of summons with the Civil Court of Pisa on 20 May 2020 asking it to issue a ruling: (i) on the alleged invalidity of the contractual clause providing for the indemnification of Junia Pharma following the termination of the contract and, should the Court recognise the validity of the same, (ii) the reduction of the amount of the indemnification due. In view of the assessments made of the debtor's financial situation, and in compliance with the procedure for assessing receivables, which provides for the full write-down of receivables overdue by more than 360 days, the administrative body decided to write off this amount in full by setting aside an allowance to Provision for doubtful accounts.

14. TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties are identified according to the extended definition provided by IAS 24, i.e. including relations with administrative and control bodies as well as with senior managers.

The financial impact at 31 December 2020 and the economic impact for 2020 is shown in the table below:

Amounts in k€	**Consolidated income statement item at 31/12/2020**				**Consolidated balance sheet item at 31/12/2020**					
Subject Related Party	**Costs for services**	**Financial charges**	**Personnel costs**	**Amort. rights of use**	**Non-current financial assets:**	**Other current liabilities:**	**Provisions for employee benefits:**	**Trade payables**	**ROU non-current financial liabilities:**	**ROU current financial liabilities:**
Members of Pharmanutra S.p.A. BoD	5,639	18				1,372	415			
Members of subsidiaries BoD	1,106					191				
Board of Statutory Auditors	74					0		7		
Senior management compensation			378			14	76			
Solida S.r.l.				229	190				196	187
Calabughi S.r.l.	458							4		
Ouse S.r.l.	443							88		
Studio Bucarelli, Lacorte, Cognetti	73							16		
Other related parties	25	5						0		
TOTAL	**7,818**	**23**	**378**	**229**	**190**	**1,577**	**490**	**115**	**196**	**187**

It should be noted that as part of the procedure for admission to listing on AIM Italia, on 21 June 2017 Pharmanutra adopted the RPT Procedure, effective as of the date of commencement of trading on the AIM Italia market. The RPT Procedure was amended by Pharmanutra's Board of Directors meeting on 23 October 2020 (subject to the favourable opinion of the independent directors in office), in order to bring it in line with the regulatory framework applicable to companies with shares listed on a regulated market (the RPT Procedure as amended by the Board of

Directors on 23 October 2020, the "New RPT Procedure"). This procedure, which is effective as of the trading starting date, is available on the website www.pharmanutra.it, in "Investor Relations" section. It should also be noted that the company, as (i) a smaller company, as well as (ii) a newly listed company pursuant to art. 3 of the RPT Regulations, will apply to the related party transactions governed by the New RPT Procedure, including those of greater importance (as identified pursuant to Annex 3 of the RPT Regulations), a procedure which takes into account the principles and rules set out in art. 7 of the RPT Regulations, as an exception to art. 8 of the RPT Regulations.

The members of the Board of Directors of the Parent Company receive a compensation consisting of a fixed part, and for executive directors only, also a variable part and a part by way of severance indemnity.

Financial charges refer to interest expense recognised on the termination indemnity due upon its payment in the first half of 2020.

The members of the Board of Directors of the subsidiaries receive a compensation consisting of a fixed and a variable part.

The remuneration of senior management consists of a fixed component and a variable incentive calculated on the basis of sales volumes and parameters relating to the financial statements.

The companies of the Group have established their registered office and operational headquarters in properties owned by Solida S.r.l., which is owned by some of the shareholders of the Parent Company; the Group companies pay a rent and have paid amounts to Solida S.r.l. as a security deposit and advance.

The Parent Company has outsourced its communication and marketing activities, by strategic choice. These activities are entrusted to Calabughi S.r.l., a company in which the wife of the Vice President, Roberto Lacorte, holds 47% of the capital and is Chair of the Board of Directors. The contract between Pharmanutra and Calabughi S.r.l. has annual duration with tacit renewal unless terminated by one of the parties three months prior to the expiry of the contract. For an annual fee of Euro 150 thousand, it consists in the provision of communication services. These services include the management of the Company web sites and media channels, the design, development and implementation of advertising campaigns to support the products and corporate image, the graphic design of product packaging, promotional material and scientific information documents, as well as the organisation and management of corporate conventions. Moreover, the Parent Company entered into a contract with the same firm, Calabughi, for the sponsorship as "Title Sponsor" of the 151 Miglia regatta and a contract for the management of all the communication, event planning, merchandising activities related to the participation of Cetilar Racing - the team sponsored by the Parent Company - in the endurance world championship races of which the most famous is the 24 Hours of Le Mans.

Each company of the Group has an agency agreement in place with Ouse S.r.l., a company in which the wife of the Chairman, Andrea Lacorte, holds 60% of the share capital and serves as Sole Director, effective from 1 June 2020 and for an indefinite period. The agency agreements provide for the granting to Ouse S.r.l. of an exclusive agency mandate without representation with the aim to promote and develop the sales of each company in the assigned territories. The compensation is composed of a fixed annual fee and a variable fee determined by applying a percentage to the turnover achieved for amounts between the minimum and maximum thresholds, as defined annually.

Group companies have entered into consulting agreements with Studio Bucarelli, Lacorte, Cognetti. The contracts, which are valid for one year and renewable from year to year by tacit consent, cover general tax advice, the drafting and sending of tax returns, general advice on labour law and the processing of monthly pay slips.

In accordance with Consob Resolution no. 15519 of 27 July 2006 and Consob Communication DEM/6064293 of 28 July 2006, the consolidated balance sheet and the income statement, showing transactions with related parties separately, are provided below.

BALANCE SHEET (€/000)	31/12/2020	Of which with related parties	31/12/2019	Of which with related parties
NON-CURRENT ASSETS	11,303	190	11,639	190
Tangible fixed assets	4,799		4,857	
Intangible fixed assets	5,181		4,728	
Investments	254		254	
Non-current financial assets	218	190	218	190
Other non-current assets	-		918	
Deferred tax assets	851		664	
CURRENT ASSETS	40,406	-	37,225	-
Inventories	1,894		1,853	
Liquid funds	16,455		13,751	
Current financial assets	4,349		5,076	
Trade receivables	15,053		15,028	
Other current assets	1,031		922	
Tax receivables	1,624		595	
TOTAL ASSETS	51,709	190	48,864	190

BALANCE SHEET	31/12/2020	Of which with related parties	31/12/2019	Of which with related parties
SHAREHOLDERS' EQUITY:	**37,730**	**-**	**28,134**	**-**
Share capital	1,123		1,123	
Legal reserve	225		225	
Other reserves	22,363		18,352	
IAS 19 reserve	(50)		(59)	
Financial instruments reserve (FVOCI)	67		109	
FTA reserve	(70)		(70)	
Profit (loss) for the year	14,072		8,454	
Minority interest in capital and reserves	-		-	
Minority interest in profit (loss)	-		-	
NON-CURRENT LIABILITIES	**2,835**	**686**	**4,457**	**1,700**
Non-current financial liabilities	562	196	1,543	224
Provisions for risks and charges	1,018		686	
Provisions for benefits	1,255	490	2,228	1,476
CURRENT LIABILITIES	**11,144**	**1,880**	**16,273**	**1,828**
Current financial liabilities	1,101	187	4,860	384
Trade payables	7,175	115	8,165	103
Other current liabilities	2,348	1,577	2,137	1,341
Tax payables	520		1,111	
TOTAL LIABILITIES	**51,709**	**2,566**	**48,864**	**3,528**

INCOME STATEMENT (€/000)	2020	Of which with related parties	2019	Of which with related parties
A) REVENUES	**58,680**	**-**	**54,214**	**-**
Net revenues	56,449		53,624	
Other revenues	2,231		590	
of which, non-recurring revenues	*1,049*		-	
B) OPERATING COSTS	**43,126**	**8,195**	**41,036**	**7,669**
Purchases of raw materials, consumables and su	2,477		2,560	
Change in inventories	240		296	
Costs for services	35,285	7,818	34,262	7,402
of which Costs for non-recurring services	*1,514*		-	
Personnel costs	3,712	378	3,264	267
Other operating costs	1,412		654	
(A-B) EBITDA	**15,554**	**(8,195)**	**13,178**	**(7,669)**
C) Amortisation, depreciation and write-downs	2,338	229	974	229
of which non-recurring write-downs	1,049		-	
(A-B-C) EBIT	**13,216**	**(8,425)**	**12,204**	**(7,898)**
D) FINANCIAL INCOME [COSTS]	**86**	**23**	**(7)**	**-**
Financial income	146		71	
Financial costs	(60)	23	(78)	
PRE-TAX RESULT (A-B-C+D)	**13,302**	**(8,401)**	**12,197**	**(7,898)**
Taxes	(2,661)		(3,743)	
Taxes for previous years	3,431			
Profit /Loss for the year	**14,072**	**(8,401)**	**8,454**	**(7,898)**

Pisa, 22/03/2021

For the Board of Directors

The Chairman

(Andrea Lacorte)

E-MARKET SDIR CERTIFIED

ATTESTATION ON THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ARTICLE 154-BIS, PARAGRAPH 5, OF ITALIAN LEGISLATIVE DECREE NO. 58 OF 24 FEBRUARY 1998

1. The undersigned Roberto Lacorte, Managing Director, and Francesco Sarti, Manager responsible for the preparation of Pharmanutra S.p.A.'s financial reports, taking into account the provisions of article 154-*bis*, paragraphs 3 and 4, of Italian Legislative Decree No. 58 of 24 February 1998, certify:

a) the adequacy in relation to the characteristics of the undertaking; and

b) the effective application of administrative and accounting procedures for the preparation of the consolidated financial statements during the year 2020.

2. It is also certified that:

the consolidated financial statements for the year ended 31 December 2020:

- have been prepared in accordance with the applicable international accounting standards recognised by the European Community pursuant to Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
- correspond to the results of the accounting books and records;
- are capable of providing a true and fair view of the equity, economic and financial position of the issuer as well as of all the companies included in the consolidation;
- the Management Report includes a reliable analysis of the progress and results of operations, as well as the issuer's situation and the one of the undertakings included in the consolidation taken as a whole, together with a description of the main risks and uncertainties to which they are exposed.

Pisa, 22/03/2021

Pharmanutra S.p.A.

Managing Director

Pharmanutra S.p.A.

Manager in charge for preparing the accounting documents

E-MARKET SDIR CERTIFIED

Pharmanutra S.p.A.

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated January 27, 2010 and article 10 of EU Regulation n. 537/2014

Consolidated financial statements at December 31, 2020

This report has been translated into English from the original, which was prepared in Italian and represents the only authentic copy, solely for the convenience of international readers.

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E-MARKET SDIR CERTIFIED

Independent auditor's Report

pursuant to article 14 of Legislative Decree n. 39, dated January 27, 2010 and article 10 of EU Regulation n. 537/2014

To the Shareholders of
Pharmanutra S.p.A.

Report on the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Pharmanutra Group (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2020, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in shareholders' equity, the consolidated statement of cash flow for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as the regulation issued to implement art. 9 of Legislative Decree n. 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 *Auditor's Responsibilities for the Audit of the consolidated financial statements* section of our report. We are independent of the company Pharmanutra S.p.A. (the "Company") in accordance with the ethical and independence requirements applicable in Italy to the audit 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 judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Bari, Bergamo, Bologna, Brescia, Cagliari, Firenze, Genova, Milano, Napoli, Padova, Palermo, Roma, Torino, Verona

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Codice Fiscale, Partita IVA e Registro Imprese di Milano n. 07722780967 - R.E.A. Milano 1977842
Iscritta al Registro dei Revisori Legali al n. 167911 con D.M. del 15/03/2013 G.U. n. 26 del 02/04/2013
BDO Italia S.p.A., società per azioni italiana, è membro di BDO International Limited, società di diritto inglese (company limited by guarantee), e fa parte della rete internazionale BDO, network di società indipendenti.

Key audit matter	Audit response
IMPAIRMENT OF THE GOODWILL *NOTE 9.1.2. "INTANGIBLE ASSETS"* Intangible assets, accounted for in the consolidated financial statements for a total amount of euro 5.181 thousand, include goodwill for an amount of euro 2.750 thousands, referred to two cash generating unit ("CGU") identified in the wholly controlled companies Junia Pharma S.r.l., for euro 1.790 thousand, and Alesco S.r.l., for euro 960 thousand. The recoverability of the amounts accounted for is tested comparing the carrying amount of each CGU to the recoverable amount (value in use); value in use has been estimated applying the Discounted Cash Flow ("DCF") method The recoverability of goodwill is considered a key audit matter for the audit of the consolidated financial statements, due to the subjectivity of the selection of parameters used to estimate the value in use.	Our main audit procedures performed are the following: ▪ also being supported by BDO experts: – we verified the reasonableness of key assumptions underlying the plans of the management; – we verified the adequacy of the impairment model prepared by the Group and its compliance to the accounting principles; – we assessed the key underlying assumptions for the impairment model, in particular the ones related to cash flow projections, future growth rates and discount rates and determination of "terminal value"; – we verified the clerical accuracy of the impairment model; ▪ we verified the disclosures provided in the accompanying notes.

Responsibilities of Management and Those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, as well as the regulation issued to implement art. 9 of Legislative Decree n. 38/05 and, within the terms prescribed by the law, for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, Management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Parent Company Pharmanutra S.p.A. or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor’s Responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 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 exercised professional judgment and maintain professional skepticism throughout the audit. We also have:

- identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control;
- evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management;
- concluded on the appropriateness of Management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the 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 auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluated 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;
- obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We have communicated with Those charged with governance, as properly identified in accordance with ISA Italia, 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 have also provided Those charged with governance with a statement that we have complied with relevant ethical and independence requirements applicable in Italy, and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Those charged with governance, we determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described those matters in our auditor’s report.

Other information communicated pursuant to article 10 of Regulation (EU) 537/2014

We were initially engaged by the Shareholders meeting of Pharmanutra S.p.A. on October 13, 2020 to perform the audits of the Company's and the consolidated financial statements of each fiscal year starting from December 31, 2020 to December 31, 2027.

We declare that we did not provide prohibited non-audit services, referred to article 5, paragraph 1, of Regulation (EU) 537/2014, and that we remained independent of the Company in conducting the audit.

We confirm that the opinion on the consolidated financial statements of Pharmanutra S.p.A. included in this audit report is consistent with the content of the additional report prepared in accordance with article 11 of the EU Regulation n.537/2014, submitted to Those charged with governance.

Report on other legal and regulatory requirements

The Directors of Pharmanutra S.p.A. are responsible for the preparation of the report on operations and of the corporate governance report of Pharmanutra S.p.A. as at December 31, 2020, including their consistency with the consolidated financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and of specific information of the corporate governance report as provided by article 123-bis, paragraph. 4, of Legislative Decree n. 58/98, with the consolidated financial statements of Pharmanutra Group as at December 31, 2020 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the report on operations and the above mentioned specific information of the corporate governance report are consistent with the consolidated financial statements of Pharmanutra Group as at December 31, 2020 and are compliant with applicable laws and regulations.

With reference to the assessment pursuant to article 14, paragraph. 2, letter e), of Legislative Decree n. 39/10 based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Milan, March 30, 2021

BDO Italia S.p.A.
Signed by Vincenzo Capaccio
Partner

PHARMANUTRA S.p.a FINANCIAL STATEMENTS AS AT DECEMBER 31, 2020

Pharmanutra S.p.A. Balance Sheet

BALANCE SHEET	Notes	31/12/2020	31/12/2019	01/01/2019
NON-CURRENT ASSETS		**9.210.838**	**9.903.609**	**6.044.036**
Tangible fixed assets	6.1.1	4.518.460	4.550.371	848.417
Intangible fixed assets	6.1.2	1.095.708	840.265	1.004.823
Investments	6.1.3	3.051.045	3.051.045	3.051.045
Non-current financial assets	6.1.4	178.072	178.064	188.888
Other non-current assets	6.1.5	-	918.233	671.213
Deferred tax assets	6.1.6	367.553	365.631	279.650
CURRENT ASSETS		**34.164.227**	**32.095.942**	**30.032.922**
Inventories	6.2.1	1.502.235	1.623.911	1.141.686
Liquid funds	6.2.2	12.707.709	11.549.444	13.981.148
Current financial assets	6.2.3	4.347.852	5.074.883	864.601
Trade receivables	6.2.4	13.326.297	12.584.396	11.167.616
Other current assets	6.2.5	939.665	858.648	1.596.846
Tax receivables	6.2.6	1.340.469	404.660	1.281.025
TOTAL ASSETS		**43.375.065**	**41.999.551**	**36.076.958**
BALANCE SHEET	**Notes**	**31/12/2020**	**31/12/2019**	**01/01/2019**
SHAREHOLDERS' EQUITY:	**6.3.1**	**31.798.187**	**23.644.714**	**21.499.720**
Share capital		1.123.098	1.123.098	1.123.098
Legal reserve		224.620	224.620	224.620
Other reserves		17.651.519	15.232.202	12.779.848
IAS 19 reserve		(10.325)	(19.088)	-
Financial instruments reserve (FVOCI)		66.914	109.387	(23.050)
FTA reserve		106.474	106.474	106.474
Profit (loss) for the year		12.635.887	6.868.021	7.288.730
Minority interest in capital and reserves			-	-
Minority interest in profit (loss)			-	-
NON-CURRENT LIABILITIES		**2.150.054**	**3.620.383**	**3.323.938**
Non-current financial liabilities	6.4.1	328.290	1.099.630	1.369.204
Provisions for risks and charges	6.4.2	903.651	597.969	483.809
Provisions for benefits	6.4.3	918.113	1.922.784	1.470.925
CURRENT LIABILITIES		**9.426.824**	**14.734.454**	**11.253.300**
Current financial liabilities	6.5.1	780.706	4.015.928	2.711.584
Trade payables	6.5.2	6.443.129	8.313.849	6.283.231
Other current liabilities	6.5.3	1.898.902	1.733.401	1.408.570
Tax payables	6.5.4	304.087	671.276	849.915
TOTAL LIABILITIES		**43.375.065**	**41.999.551**	**36.076.958**

Pursuant to CONSOB Resolution no. 15519 of 27 July 2006, the effects of transactions with related parties on the Balance Sheet are reported in the specific Balance Sheet table included in Note 11.

Pharmanutra S.p.A. Income Statement

INCOME STATEMENT	Notes	2020	2019
A) REVENUES		**49.025.731**	**45.213.409**
Net revenues	6.6.1	48.011.552	44.673.628
Other revenues	6.6.2	1.014.179	539.781
B) OPERATING COSTS		**38.149.002**	**35.967.314**
Purchases of raw materials, consumables and supplies	6.7.1	1.983.282	2.520.161
Change in inventories	6.7.2	222.930	(482.083)
Costs for services	6.7.3	32.154.402	31.031.296
of which Costs for non-recurring services		*1.454.724*	-
Personnel costs	6.7.4	2.661.737	2.362.984
Other operating costs	6.7.5	1.126.651	534.956
(A-B) EBITDA		**10.876.729**	**9.246.095**
C) Amortisation, depreciation and write-downs	6.8.1	1.022.349	766.424
(A-B-C) EBIT		**9.854.380**	**8.479.671**
D) FINANCIAL INCOME [COSTS]		**1.537.888**	**1.042.098**
Financial income	6.9.1	1.569.016	1.080.229
Financial costs	6.9.2	(31.128)	(38.131)
PRE-TAX RESULT (A-B-C+D)		**11.392.268**	**9.521.769**
Taxes for the year	6.10.1	(1.826.624)	(2.653.748)
Taxes for previous years		3.070.243	-
Minority interest in profit/loss for the year		**-**	**-**
Group interest in profit/loss for the year		**12.635.887**	**6.868.021**
Net earnings per share (in units of Euro)	**6.11**	**1,31**	**0,71**

Pharmanutra S.p.A. Comprehensive Income Statement

COMPREHENSIVE INCOME STATEMENT		2020	2019
PROFIT (LOSS) FOR THE YEAR		12.635.887	6.868.021
Gains (losses) from IAS application that will be recognised in the income statement		-	-
Gains (losses) from IAS application that will not be recognised in the income statement		(29.165)	117.462
COMPREHENSIVE INCOME (LOSS) FOR THE YEAR		**12.606.722**	**6.985.483**

Pursuant to CONSOB Resolution no. 15519 of 27 July 2006, the effects of transactions with related parties on the Income Statement are shown in the specific Income Statement table included in Note 11.

Pharmanutra S.p.A. Statement of Changes to Shareholders' Equity

	Notes	Share capital	Legal reserve	Other reserves	Actuarial reserve under IAS 19	Financial instruments reserve (FVOCI)	FTA reserve	Profit (loss) for the year	Balance
Shareholders' equity at 1/1/2019		**1.123.098**	**224.620**	**12.779.848**	**0**	**(23.050)**	**106.474**	**7.288.730**	**21.499.720**
Allocation of result		-		7.288.730	-	-	-	(7.288.730)	-
Distribution of dividends		-	-	(4.840.489)	-	-	-	-	(4.840.489)
Other changes		-	-	4.113	(19.088)	132.437		-	117.462
Profit (loss) for the year		-	-	-	-	-	-	6.868.021	6.868.021
Shareholders' equity at 31/12/2019	6.3.1	**1.123.098**	**224.620**	**15.232.202**	**(19.088)**	**109.387**	**106.474**	**6.868.021**	**23.644.714**
Allocation of result	6.3.1	-	-	6.868.021	-	-	-	(6.868.021)	-
Distribution of dividends	6.3.1	-	-	(4.453.249)	-	-	-	-	(4.453.249)
Other changes		-	-	4.545	8.763	(42.473)	-	-	(29.165)
Profit (loss) for the year		-	-	-	-	-	-	12.635.887	12.635.887
Shareholders' equity at 31/12/2020		**1.123.098**	**224.620**	**17.651.519**	**(10.325)**	**66.914**	**106.474**	**12.635.887**	**31.798.187**

Pharmanutra S.p.A. Cash Flow Statement

CASH FLOW STATEMENT	Notes	31/12/2020	31/12/2019
Net result before minority interests		12.635.887	6.868.021
NON-MONETARY COSTS/REVENUES			
Amortisation, depreciation and write-downs	6.8	1.022.349	766.424
Allowance to provisions for employee benefits		138.439	117.238
CHANGES IN OPERATING ASSETS AND LIABILITIES			
Change in provisions for risks and charges		151.373	114.160
Change in provisions for employee benefits		(1.143.110)	334.621
Change in inventories	6.2.1	121.676	(482.225)
Change in trade receivables		(893.316)	(1.535.666)
Change in other current assets	6.2.4	(81.017)	738.198
Change in tax receivables	6.2.6	(935.809)	876.365
Change in other current liabilities	6.5.3	165.501	324.831
Change in trade payables	6.5.2	(1.870.720)	2.030.618
Change in tax payables	6.5.4	(367.189)	(178.639)
CASH FLOW FROM OPERATIONS		**8.944.064**	**9.973.946**
Net investments in tangible and intangible fixed assets		(940.157)	(4.184.934)
(Increase)/decrease in other non-current assets		916.311	(333.001)
CASH FLOW FROM INVESTMENTS		**(23.846)**	**(4.517.935)**
Increase/(decrease) in assets	6.3.1	(29.164)	117.450
Cash flow from dividend distribution	6.3.1	(4.453.249)	(4.840.489)
Increase/(decrease) in non-current financial liabilities	6.4.1	(771.340)	(269.574)
(Increase)/decrease in current financial assets	9.2.3	727.031	(4.210.282)
(Increase)/decrease in non-current financial assets		(8)	10.824
CASH FLOW FROM FINANCING		**(4.526.730)**	**(9.192.071)**
TOTAL CHANGE IN CASH		**4.393.488**	**(3.736.060)**
Liquid funds net of current financial liabilities at the beginning of the year		**7.533.516**	**11.269.564**
Liquid funds net of current financial liabilities at the end of the year		**11.927.003**	**7.533.516**
Total liquid funds		12.707.709	11.549.444
Total current financial liabilities		(780.706)	(4.015.928)
Liquid funds net of current financial liabilities at the end of the year		**11.927.003**	**7.533.516**

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS OF PHARMANUTRA S.p.A.

1. EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS

The Company's financial statements for the year 2020 are the first financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). The Company has adopted these standards in accordance with the provisions of Italian Legislative Decree no. 38/2005, as indicated below in the criteria for the preparation of the financial statements, and as described in detail in the section "Transition to IAS/IFRS international accounting standards".

The financial statements as at 31 December 2020 have been prepared in accordance with the valuation and measurement criteria established by the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Commission.

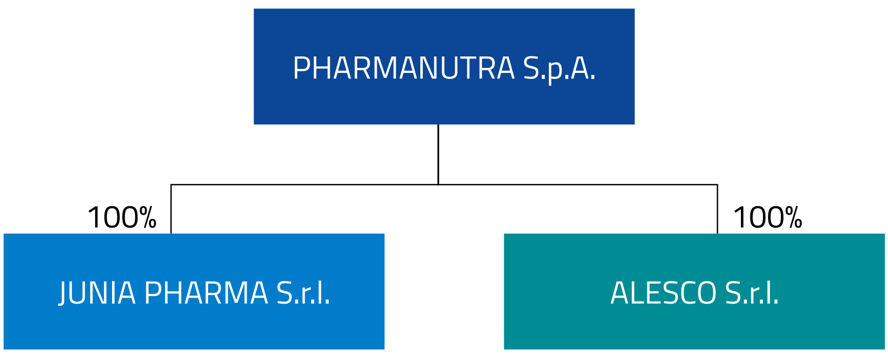
The following classifications have been used:

- Balance sheet by current/non-current items;
- Income statement by nature;
- Cash flow statement - indirect method.

It is believed that these classifications provide information that is better suited to represent the financial position, results of operations and cash flows of the Company.

The functional currency of the Company and the presentation currency of the financial statements is the Euro (EUR). The schedules and tables contained in these explanatory notes are in thousands of Euro.

Pharmanutra S.p.A. (hereinafter also referred to as "Pharmanutra" or the "Company") is a company with registered office in Italy, Via delle Lenze 216/B, Pisa, which holds controlling interests in all the companies (the "Group" or also "Pharmanutra Group") shown in the following table:



2. ACCOUNTING STANDARDS AND VALUATION CRITERIA

The statutory financial statements (or "separate" as defined by the reference accounting standards) of Pharmanutra Group as at 31 December 2020 have been prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standard Board ("IASB") and endorsed by the European Union. The IFRS also include all revised International Accounting Standards ("IAS"), all interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), previously known as the Standing Interpretations Committee ("SIC").

In this context, it should be noted that the accounting standards applied are consistent with those adopted for the preparation under IFRS of the opening Balance Sheet as at 1 January 2019, as well as for the Income Statement 2019 and the Balance Sheet as at 31 December 2019, as restated under IFRS and presented in the section "Transition to International Financial Reporting Standards (IAS/IFRS)" in these explanatory notes. This Appendix shows the reconciliations between the result for the year and the Shareholders' equity according to the previous standards (Italian accounting standards) and the result for the year and the Shareholders' equity according to IFRS for the previous years presented for comparative purposes, as well as the relative explanatory notes (as required by IFRS 1 - First-Time Adoption of IFRS).

The financial statements are prepared on a going concern basis. In view of what has already been mentioned in the Management Report, to which reference should be made for more details, the Directors believe that there are no problems that could affect the Company's ability to continue as a going concern since the Covid-19 epidemic.

Pharmanutra S.p.A., in its capacity as Parent Company, has prepared the consolidated financial statements of Pharmanutra Group as at 31

December 2020. Pharmanutra's draft financial statements for the year ended 31 December 2020, were approved by the Board of Directors on 22 March 2021, which also authorised their publication.

Below is a description of the most significant accounting standards adopted for the preparation of the financial statements of Pharmanutra as at 31 December 2020, which are unchanged from those used in the previous year.

TANGIBLE FIXED ASSETS

Tangible fixed assets are recorded at purchase price or production cost, including directly attributable ancillary costs being necessary to make the assets available for use.

Tangible fixed assets are systematically depreciated on a straight-line basis over their useful life, which is an estimate of the period over which the asset will be used by the company. When the tangible fixed asset is made up of several significant components having different useful lives, depreciation is applied to each component. T value to be amortised is represented by the book value reduced by the presumed net transfer value at the end of its useful life, if significant and reasonably determinable. Land (items with an indefinite useful life), even if purchased together with a building, is not depreciated, as are tangible fixed assets held for sale, which are valued at the lower of their book value and their fair value, net of disposal charges.

Costs for improvements, modernisation and transformation that increase tangible fixed assets are charged to assets. All other repair and maintenance costs are recognised in the income statement when incurred.

The recoverability of the book value of tangible fixed assets is verified by adopting the criteria indicated under "Impairment of assets".

The depreciation reflects the asset economic and technical deterioration and begins when the asset becomes available for use and is calculated according to the linear model of the estimated useful life of the asset.

The rates applied are as follows:

- Equipment 25%
- Plant and machinery 20%
- Furniture and fittings 20%
- Electronic office machines 20%
- Vehicles 25%

The residual carrying amount, useful life and depreciation criteria are reviewed at the end of each financial year and adjusted prospectively if necessary.

An asset is derecognised at the time of sale or when there are no expected future economic benefits from its use or disposal. Any losses or gains (calculated as the difference between the net proceeds from sale and the carrying amount) are included in the income statement at the time of derecognition.

LEASED ASSETS

The assets acquired through leasing contracts, through which the risks and rewards of ownership are substantially transferred to the Company, are recognised as assets of the Company at their current value at the date of signing the contract or, if lower, at the present value of the minimum payments due for the lease, including any amount to be paid for exercising the purchase option. The corresponding liability to the lessor is shown under financial payables.

INTANGIBLE FIXED ASSETS

Intangible fixed assets refer to assets without identifiable physical substance, controlled by the company and capable of producing future economic benefits, as well as goodwill when acquired for consideration.

Identifiability is defined by reference to the possibility of distinguishing the intangible fixed asset acquired from goodwill. This requirement is normally met when:

- the intangible fixed asset is attributable to a legal or contractual right, or
- the asset is separable, i.e. it can be sold, transferred, rented or exchanged independently or as part of other assets. Control of the company consists of the power to enjoy the future economic benefits deriving from the asset and the possibility of limiting access to others.

Intangible fixed assets are recorded at cost determined according to the criteria indicated for tangible fixed assets.

Intangible fixed assets with a finite useful life are systematically amortised over their useful life, being understood as the estimate of the period in which the assets will be used by the company. The recoverability of their book value is verified by adopting the criteria indicated under "Impairment of assets".

Goodwill and other intangible fixed assets, where present, with an indefinite useful life are not subject to amortisation. The recoverability of their book value is verified at least annually and in any case when events occur that indicate a reduction in value. With regard to goodwill, such verification is carried out at the level of the smallest aggregate on the basis of which management assesses, whether directly or indirectly, the return on investment that includes the goodwill itself *(cash generating unit*). Write-downs are not subject to impairment reversal.

Other intangible fixed assets have been amortised at 20%, estimating a useful life of 5 years, with the exception of patents, trademarks and licenses, which are amortised over a useful life of 18 years.

The amortisation period and criteria for intangible fixed assets with a finite useful life are reviewed at least at the end of each financial year and adjusted prospectively if necessary.

INVESTMENTS

The investments in subsidiaries and associated companies are carried at cost, adjusted for impairment losses in accordance with IAS 36. The positive difference, arising at the time of purchase, between the acquisition cost and the Company's share of the investee company's shareholders' equity at current values, is included in the book value of the investment. The investments in subsidiaries are tested for impairment annually, or more frequently, if necessary. If there is evidence that these investments have suffered an impairment loss, this is recognised in the income statement as a write-down. If any Company's share of the subsidiary's losses exceeds the book value of the investment, the investment amount is written off and the share of further losses is recognised as a provision among liabilities, to the extent that the investor is committed to fulfilling legal or constructive obligations towards the investee company, or in any case to covering its losses. If the impairment loss subsequently ceases to exist or is reduced, a reversal of the impairment loss is recognised in the Income Statement within the limits of its original cost.

Investments in other companies are initially recorded at their fair value and subsequently, where it is not possible to determine a reliable fair value, they are maintained at cost, written down in the event of permanent impairment. The original value will not be restored in subsequent years, even if the reasons for the write-down no longer apply.

Impairment of assets

At least once a year, the Company reviews the recoverability of the carrying amount of tangible and intangible assets as well as investments in subsidiaries and associates to determine whether those assets may have suffered an impairment loss. If there is such evidence, the book value of the asset is reduced to the relative recoverable value, thus recording any write-down compared to the relative book value in the income statement.

The recoverable amount of an asset is the higher between its fair value, net of sale costs, and its value in use. The value in use is defined on the basis of discounting expected cash flows from the use of the asset or a combination of assets (Cash Generating Unit), as well as the value expected from its disposal at the end of its useful life. The Cash Generating Units were identified to be tested for impairment, consistently with the Company's organisational and business structure, by identifying in the subsidiaries (Junia Pharma and Alesco) the lowest possible level of homogeneous combinations that generate independent cash inflows from the continuous use of the assets attributable to them.

When, subsequently, the loss in value of an asset no longer exists or is reduced, the carrying amount of the asset is increased up to the new estimate of the recoverable value and may not exceed the value that would have been determined if no impairment loss had been recorded. The reversal of an impairment loss is recognised in the income statement in the year in which it is recorded.

INVENTORIES

Inventories are recorded at the lower of purchase or production cost and estimated realisable value based on market trends.

The method used for the valuation of inventories is the weighted average cost.

The value determined as indicated above is adjusted to take into account the obsolescence of inventories, writing down inventories due within 6 months of the reporting date.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash, bank current accounts, deposits repayable on demand and other highly liquid short-term financial investments, which are readily convertible into cash and are subject to a non-significant risk of change in value.

RECEIVABLES AND OTHER SHORT-TERM ASSETS

Trade receivables and other short-term assets are initially recognised at their fair value and subsequently measured at amortised cost, net of any write-downs. At the time of recognition, the receivable nominal value is representative of its fair value at that date. IFRS 9 defines a new model for impairment/devaluation of these assets, with the aim of providing useful information to users of the financial statements on the related expected losses. According to this model, the Company measures receivables using an expected loss approach, replacing the IAS 39 framework, which is typically based on the measurement of incurred losses. The Company adopts a simplified approach for the measurement of trade receivables, which does not require the recognition of periodic changes in credit risk, but rather the recognition of an Expected Credit Loss ("ECL") calculated over the entire life of the receivable (so-called lifetime ECL). In particular, the policy implemented by the Company provides for the stratification of trade receivables into categories on the basis of days past due, by defining the allocation based on the historical experience of losses on receivables, adjusted to take account of specific forecast factors relating to creditors and the economic environment.

Trade receivables are fully written down if there is no reasonable expectation of recovery or in the presence of inactive trade counterparties.

The asset carrying amount is reduced through the use of an impairment provision and the amount of the loss is recognised in the income statement.

With regard to financial assets, the Company adopts the accounting standard IFRS 9 Financial Instruments, Recognition and Measurement with regard to the classification, measurement and accounting of financial instruments.

The accounting standard provides rules for the classification of financial assets in the following categories:

Amortised Cost;

Fair Value with change in equity (Fair Value Other Comprehensive Income or FVOCI);

Fair Value with changes in the income statement.

The determination of the category is made based on 2 factors:

- The Business Model, i.e. the way in which the Company manages its financial assets or intends to achieve cash flows from financial assets.

The possible Business Models envisaged by the accounting standard are:

Hold to collect (HTC): it provides for the achievement of cash flows as contractually foreseen. This Business Model is attributable to financial assets that will presumably be held until their natural maturity;

Hold to Collect and Sell (HTC&S): this Business Model provides for the achievement of cash flows as contractually foreseen or through the sale of financial assets. This Business Model is therefore attributable to financial assets that may be held to maturity or even sold;

Sell: it provides for the achievement of cash flows through the sale of the instrument. This Business Model is attributable to activities in which cash flows will be achieved through sale (the so-called trading).

- Contractual cash flow characteristics of the instrument

The standard refers to the so-called SPPI (Solely Payments of Principal and Interest) test, which aims to define whether an instrument has the contractual characteristics allowing only the principal and interest to be paid.

If the SPPI test is not passed, regardless of the reference business model, the financial instrument must be classified and measured at Fair Value with changes in the income statement.

The classification of an instrument is defined at initial recognition and is no longer subject to change, except in cases that the standard expects to be rare.

With reference to the financial instruments, consisting of bonds issued by leading issuers and investment fund units, the management has carried out an analysis of its intentions in managing the instruments and has carried out the SPPI test for all the instruments in the portfolio, thus concluding that the most relevant business model to its management method is the HTC&S one and that the SPPI test has been passed.

The accounting rules that IFRS 9 defines for debt financial instruments classified to FVTOCI are as follows:

- Interest income is recognised in the income statement using the effective interest rate method, in the same way as for instruments at amortised cost;
- Impairment losses (and any write-backs) are recognised in the income statement in accordance with the rules set forth in IFRS 9;
- The differences between the amortised cost and the fair value of the instrument are recognised in equity;

- The cumulative reserve recognised in equity and relating to the debt instrument is reversed to the income statement only when the asset is derecognised.

With regard to the investments made in units of investment funds, the accounting rules provided for by IFRS 9 are as follows:

- The measurement criterion is fair value at the reporting date;
- Changes in fair value are recognised in the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is derecognised from the financial statements when:

- the rights to receive cash flows from the asset are extinguished;
- the right to receive cash flows from the asset is retained but a contractual obligation has been taken to pay them in full and without delay to a third party;
- the Company has transferred the right to receive cash flows from the asset and (a) has substantially transferred all the risks and rewards of ownership of the financial asset or (b) has neither transferred nor retained substantially all the risks and benefits of the asset, but has transferred control of it.

In cases where the Company has transferred the rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and benefits or has not lost control over it, the asset is recognised in the Company's financial statements to the extent of its residual involvement in the asset.

Impairment of financial assets

The Company verifies at each reporting date whether a financial asset or group of financial assets has suffered an impairment loss. A financial asset or group of financial assets is to be considered subject to impairment loss if, based on historical experience and on the forecast outcome of its recoverability, after the occurrence of one or more events since its initial recognition, this loss event can be reliably expected on the estimated future cash flows of the financial asset or group of financial assets.

Evidence of impairment loss may be represented by indicators such as financial difficulties, inability to meet obligations, insolvency in interest payments or major payments, which debtors, or a group of debtors, are going through. The probability that it will fail or is subject to another form of financial reorganisation, and where observable data indicates that there is a measurable decrease in estimated future cash flows, such as changes in the context or economic conditions related to the obligations.

The management also evaluates elements such as the performance of the counterparty's sector and financ activity as well as the general economic performance and also makes forward looking considerations.

If there is objective evidence of impairment loss, the amount of the loss is measured as the difference between the asset's carrying amount and the current value of estimated future cash flows (excluding expected future credit losses that have not yet occurred). The asset carrying amount is reduced through the use of an impairment provision and the amount of the loss is recognised in the income statement. If, in a subsequent period, the amount of the estimated write-down increases or decreases as a result of an event occurring after the write-down was recognised, the previously recognised write-down shall be increased or decreased by adjusting the provision to the income statement.

IMPAIRMENT OF NON-FINANCIAL ASSETS

At each reporting date, the Company assesses the possible existence of indicators of impairment loss of non-financial assets. When events occur that suggest a reduction in the value of an asset or when an annual impairment test is required, its recoverability is verified by comparing its book value with its recoverable amount, represented by the higher of fair value, net of disposal costs, and value in use.

In the absence of a binding sale agreement, fair value is estimated on the basis of values expressed by an active market, recent transactions or the best information available to reflect the amount that the company could obtain from selling the asset. The value in use is determined by discounting the expected cash flows deriving from the use of the asset and, if significant and reasonably determinable, from its disposal at the end of its useful life. Cash flows are determined on the basis of reasonable and provable assumptions that are representative of the best estimate of future economic conditions that will occur over the remaining useful life of the asset, giving greater importance to indications from outside. Discounting is carried out at a rate that takes into account the risk inherent in the business sector.

The valuation is carried out for each individual asset or for the smallest identifiable set of assets that generates autonomous cash inflows from ongoing use (the so-called cash generating units). When the reasons for the write-downs made cease to exist, the assets, except for goodwill, if any, are revalued and the adjustment is charged to the income statement as a revaluation (reversal of impairment). The revaluation is carried out at the lower of the recoverable value and the book value gross of the write-downs previously made and reduced by the depreciation that would have been allocated if no write-down had been made.

FINANCIAL LIABILITIES

Financial liabilities falling within the scope of IFRS 9 are classified as financial liabilities at amortised cost or fair value recognised in the balance sheet, as financial payables, or as derivatives designated as hedging instruments, as appropriate. The financial liabilities of the Company include trade and other payables, loans and derivative financial instruments. The Company determines the classification of its financial liabilities on initial recognition.

Financial liabilities are initially measured at their fair value equal to the consideration received on the settlement date plus, in the case of financial payables, directly attributable transaction costs.

Subsequently, non-derivative financial liabilities are measured at amortised cost using the effective interest rate method.

Amortised cost is calculated by recording any discount or premium on the acquisition and fees or costs that are an integral part of the effective interest rate. Amortisation at the effective interest rate is included under financial charges in the income statement.

Gains and losses are recognised in the income statement when the liability is settled, as well as through the amortisation process.

Financial liabilities are derecognised when the obligation underlying the liability is extinguished, cancelled or fulfilled.

EMPLOYEE BENEFITS

Employee severance indemnities fall within the scope of what IAS 19 defines as benefit plans forming post-employment benefits. The accounting treatment envisaged for these forms of remuneration requires an actuarial calculation that makes it possible to project into the future the amount of the Employee Severance Indemnity already accrued and to discount it for taking into account the time that will elapse before actual payment.

The actuarial valuation of the Employee Severance Indemnity was carried out on a closed group basis, i.e. no new hires were considered during the reference time horizon (such period equals the one envisaged for all employees leaving the Company).

With reference to the aforesaid international accounting standards, actuarial simulations were carried out using the Projected Unit Credit Method and determining:

- the cost of the service already provided by the worker (Past Service Liability);
- the cost of the service provided by the worker during the year (Service Cost);

- the cost relating to interest expense arising from the actuarial liability (Interest Cost);
- the actuarial gains/losses relating to the valuation period between one valuation and the next (Actuarial (gain)/loss).

The unit credit criterion provides that the costs to be incurred in the year for establishing the Employee Severance Indemnity are determined on the basis of the portion of the benefits accrued in the same year. Under the vested benefits method, the obligation to the employee is determined on the basis of the work already performed at the valuation date and on the basis of the salary achieved at the date of employment termination (only for companies with an average number of employees being less than 50 in 2006).

In particular:

- the Past Service Liability is the current value calculated in a demographic-financial sense of the benefits due to the employee (severance indemnity payments) deriving from seniority;
- the Current Concern Provision is the value of the provision for employee severance indemnities in accordance with Italian statutory accounting principles at the valuation date;
- the Service Cost is the current value calculated in a demographic-financial sense of the benefits accrued by the employee in the year ending;
- the Interest Cost represents the cost of the liability due to the lapse of time and is proportional to the interest rate adopted in the valuations and the amount of the liability in the previous year;
- the Actuarial (Gains)/Losses measure the liability change occurring in the period considered and being generated by:
    - deviation between the assumptions used in the calculation models and the actual dynamics of the verified quantities;
    - changes in the assumptions during the period under review.

Moreover, in view of the evolutionary nature of the fundamental economic variables, actuarial valuations have been carried out under "dynamic" economic conditions. Such an approach requires the formulation of economic-financial hypotheses capable of summing up in the medium to long term:

- the average annual changes in inflation in line with expectations regarding the general macroeconomic environment;
- the development of expected interest rates in the financial market.

Provisions for risks and charges

Provisions for risks and charges relate to costs and charges of a specific nature and whose existence is certain or probable, their amount or date of occurrence being uncertain at the end of the financial year. Allowances to provisions are recognised when:

- the existence of a current, legal or implied obligation, arising from a past event is probable;
- it is likely that the settlement of the obligation will be onerous;
- the amount of the obligation can be reliably estimated.

Allowance to provisions are recorded at the value representing the best estimate of the amount that the company would rationally pay to settle the obligation or transfer it to third parties at the end of the period.

Trade payables

Trade payables are recorded at nominal value.

Revenue recognition

Revenues are booked on an accrual basis regardless of the date of collection, net of returns, discounts, allowances and premiums.

Revenues for the sale of the products are recognised at the time of control transfer of the goods given to the buyer, which coincides with the shipment or delivery of the same.

Revenues from the provision of services are recorded in the financial statements when the service is actually rendered.

Revenues of a financial nature are recognised on an accrual basis. For all financial instruments measured at amortised cost, interest income is recognised using the Effective Interest Rate (EIR), which is the rate that exactly discounts future payments and receipts, estimated over the expected life of the financial instrument.

Cost recognition

Costs are recognised when they relate to goods and services purchased and/or received during the period.

Service charges are recognised on an accrual basis.

For all financial instruments measured at amortised cost, interest expense is recognised using the Effective Interest Rate (EIR), which is the rate that exactly discounts future payments and receipts, estimated over the expected life of the financial instrument.

FINANCIAL INCOME AND CHARGES

Financial income and charges are recognised in the income statement in the year in which they are accrued.

DIVIDENDS RECEIVED

Dividends received from subsidiaries are recognised in the income statement when the right to receive such payment is established.

INCOME TAXES

Taxes for the year represent the sum of current, prepaid and deferred taxes.

Current taxes are calculated on the basis of the estimated taxable income for the year. Taxable income differs from the result reported in the income statement because it excludes positive and negative components that will be taxable or deductible in other years and also excludes items that will never be taxable or deductible.

The liability for current taxes is calculated using the rates in force or actually in force at the reporting date.

Deferred tax assets and liabilities are determined on the basis of all temporary differences arising between the carrying values of assets and liabilities in the financial statements and the corresponding values recognised for tax purposes.

Deferred tax assets on tax losses and temporary differences are recognised to the extent that it is probable that future taxable income will be available against which they can be recovered.

Deferred tax assets and liabilities are determined at the tax rates being expected to apply in the years in which the temporary differences will be achieved or settled.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of these assets to be recovered.

Deferred taxes are directly charged to the income statement, except for those relating to items being directly recognised in equity, in which case the related deferred taxes are also charged to equity.

Deferred tax assets and liabilities are offset when there is a legal right to offset current tax assets and liabilities, when they relate to taxes due to the same tax authority and the company intends to settle current tax assets and liabilities on a net basis.

CRITERIA FOR THE TRANSLATION OF ITEMS IN FOREIGN CURRENCY

Foreign currency transactions are initially recognised in the functional currency, by applying the spot exchange rate at the transaction date. Monetary assets and liabilities denominated in foreign currency are translated into t functional currency at the exchange rate at the reporting date.

Exchange differences are recorded in the income statement, including those achieved upon collection of receivables and payment of payables in foreign currency.

The gain or loss arising from the translation of non-monetary items is treated in line with the recognition of gains and losses relating to the change in the fair value of these items (translation differences on items whose change in fair value is recognised in the statement of comprehensive income or the income statement are recognised in the statement of comprehensive income or the income statement, respectively).

EARNINGS PER SHARE

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

3. IFRS ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS

3.1.1 Accounting standards and interpretations endorsed and effective from 1 January 2020

▪ Amendments to references to the conceptual framework in IFRS Standards, issued by the IASB on 29 March 2018;

the aim of the amendment is to update existing references in various standards and interpretations that are now outdated.

The main changes concern:

- a new chapter about valuation;

- better definitions and guidance, in particular with regard to the definition of liabilities;

- clarification of important concepts, such as stewardship, prudence and uncertainty in valuations;

- clarification of definitions and criteria for the recognition of assets and liabilities.

The amendments above are applicable from 1 January 2020 and had no significant impact on the financial statements or the disclosures.

- Amendments to IAS 1 and IAS 8 - Definition of material, issued by the IASB on 31 October 2018

The aim of the amendment is to clarify the definition of "material" to help companies assess whether or not information is to be included in their financial statements. A piece of information is considered to be material if omission, misstatement or obscuration could influence the decisions of the readers of the financial statements.

The amendments above are applicable from 1 January 2020 and had no significant impact on the financial statements or the disclosures.

- Amendments to IFRS 9, IAS 39 and IFRS 7 in relation to "Interest Rate Benchmark Reform" (issued on 26 September 2019)

The IASB has issued amendments to IFRS 9, IAS 39 and IFRS 7. These changes provide temporary relief to allow for the continued use of hedge accounting during the period of uncertainty preceding the reform to replace the current interest rate benchmark with a risk-free alternative interest rate.

The amendments above are applicable from 1 January 2020 and had no significant impact on the financial statements or the disclosures.

- Amendments to IFRS 3 - "Business Combinations". On 22 October 2018, the IASB has published this amendment to help determine whether a transaction is an acquisition of a business or group of assets that does not meet the definition of a business under IFRS 3.

  The amendments above are applicable from 1 January 2020 and had no significant impact on the financial statements or the disclosures.

- Amendments to IFRS 16 Leases - Covid-19-related fee reductions

  These amendments introduce an optional accounting treatment for lessees in the event of reductions in permanent (rent holidays) or temporary rent linked to Covid-19. Lessees may choose to account for rent reductions as variable lease payments recognised directly in the income statement for the period in which the reduction applies, or treat them as a modification of the lease agreement with the resulting obligation to remeasure the lease liability on the basis of the revised consideration, using a revised discount rate. The amendment, effective from 1 June 2020, was endorsed by the European Union on 9 October 2020 and published in the European OJ on 12 October 2020.

The amendments above are applicable from 1 January 2020 and had no impact on the financial statements or the disclosures.

3.1.2 International reporting standards and/or interpretations issued but not yet effective and/or not yet endorsed

- Amendments to IAS 1 - Presentation of the Financial Statements - Classification of Liabilities as Current or Non-current.

  The amendments clarify the principles that must be applied for the classification of liabilities as current or non-current. These amendments, which will enter into force on 1 January 2023, have not yet been endorsed by the European Union.

- Amendments to IAS 16 - Property, plant and equipment - Proceeds before intended use.

  These amendments prohibit the deduction from the cost of property, plant and equipment of amounts received from the sale of products while the asset is being prepared for its intended use. The proceeds from the sale of the products and the related cost of production must be recognised in the income statement. These amendments, which will enter into force on 1 January 2022, have not yet been endorsed by the European Union.

- Amendments to IAS 37 - Provisions, contingent liabilities and contingent assets - Onerous contracts — Cost of fulfilling a contract

  These amendments specify the costs to be taken into account when measuring onerous contracts. These amendments, which will enter into force on 1 January 2022, have not yet been endorsed by the European Union.

- Annual Improvements (cycle 2018 - 2020) issued in May 2020

  These are amendments to certain standards (IFRS 1 First-time Adoption of IFRSs, IFRS 9 Financial Instruments, IAS 41 Agriculture and illustrative examples of IFRS 16 Leases) that clarify their wording or correct omissions or conflicts between the requirements of IFRS. These amendments, which will enter into force on 1 January 2022, have not yet been endorsed by the European Union.

- IFRS 17 - "Insurance Contract" (issued on 18 May 2017) with first application expected on 1 January 2023.

  This standard is not applicable to the Company.

None of these Standards and Interpretations have been early adopted by the Company. The impact of these Standards and Interpretations is currently being assessed.

After 31 December 2020, the IASB has endorsed the following documents:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 "Interest Rate Benchmark Reform" - Phase 2 (issued on 27 August 2020): it represents the second part of the project related to the reform concerning the replacement of the current interest rate benchmark undertaken by the Board; these amendments will become effective on 1 January 2021.

- Amendments to IFRS 4 "Insurance Contracts" - deferral of application of IFRS9 (issued on 25 June 2020): these amendments will become effective on 1 January 2021.

4. MAIN ESTIMATES ADOPTED BY THE MANAGEMENT

The application of generally accepted accounting principles for the preparation of financial statements implies that management makes accounting estimates based on complex and/or subjective judgements, based on past experience and assumptions considered reasonable and realistic on the basis of information known at the time of the estimate.

Estimates are used to measure intangible assets subject to impairment testing (see § Impairment losses), as well as to recognise provisions for bad debts, inventory obsolescence, amortisation and depreciation, asset write-downs, employee benefits, taxes, other provisions and reserves. Estimates and assumptions are reviewed periodically and the effects of any changes are immediately reflected in the income statement.

The use of these accounting estimates affects the carrying amount of assets and liabilities and the disclosure of contingent assets and liabilities at the reporting date, as well as the amount of revenues and costs in the reporting period. Actual results may differ from estimated results due to the uncertainty that characterises the assumptions and conditions on which the estimates are based.

The following are the accounting estimates that are critical to the preparation of the financial statements because they involve a high degree of recourse to subjective judgements, assumptions and estimates relating to issues that are by their nature uncertain. Changes in the conditions underlying the judgements, assumptions and estimates adopted can have a significant impact on subsequent results.

- *Recoverable amount of non-current assets*

Non-current assets include Property, plant and equipment, Other intangible assets, Equity investments and Other financial assets.

The Company periodically reviews the carrying amount of non-current assets held and used and assets to be disposed of, when facts and circumstances require such a review. When the carrying amount of a non-current asset is impaired, the Company recognises an impairment loss equal to the excess of the carrying amount of the asset over its recoverable amount through use or sale.

- *Recoverability of deferred tax assets*

The Company has deferred tax assets on deductible temporary differences. The results of the business plan were taken into account in determining the estimated recoverable amount.

- *Provision for doubtful accounts*

The allowance for doubtful accounts reflects the management's estimate of the expected losses associated with the portfolio of receivables. The Company applies the simplified approach envisaged by IFRS 9 and records expected losses on all trade receivables on the basis of their residual duration, by defining the provision based on historical experience of credit losses, adjusted to take account of specific forecast factors relating to creditors and the economic environment (the Expected Credit Loss - ECL concept).

- *Contingent liabilities*

The Company recognises a liability for ongoing litigation and lawsuits when it believes it is probable that a financial outlay will be made and when the amount of resulting losses can be reasonably estimated. If a financial outlay becomes possible but the amount cannot be determined, this fact is disclosed in the notes to the financial statements.

- *Estimates adopted in the actuarial calculation for the purpose of determining defined benefit plans in the context of post-employment benefits*

The liability for employees leaving entitlement was measured by an independent actuary on the basis of the following assumptions:

Demographic assumptions

- The probability of death was derived from the Italian population, broken down by age and gender, as measured by ISTAT in 2000 and reduced by 25%;
- the probability of elimination due to absolute and permanent disability of the worker to become disabled and leave the company community is inferred from the disability tables currently used in reinsurance practice, broken down by gender and age;
- the probability of leaving the company due to resignations and dismissals was estimated, on the basis of company data, over the observation period from 2015 to 2020 and amounts to 6.33% per year;
- the probability of requesting an advance was set at 1% per year, with a 50% rate remaining;
- for the period of retirement for the generic workforce, it was assumed that the earliest of the retirement requirements valid for the General Compulsory Insurance would be reached.

Economic and financial assumptions

The macroeconomic scenario used for the measurements is described in the table below:

Parameters	Assumptions for 2019
Rate of salary increase	5.08%
Inflation rate	2.00%
Discount rate of employees leaving entitlement	0.01%

With regard to the discount rate, reference was made to the structure by maturity of the interest rates calculated via a bootstrap method from the swap rate curve recorded on 31/12/2020 (Source: *Il Sole 24 ore*) and fixed with respect to payment commitments with an average residual duration of 23 years.

- *Estimates adopted in the actuarial calculation for the purpose of determining the provision for agents' termination indemnity*

The liability for agents' termination indemnity was measured by an independent actuary on the basis of the following assumptions:

<u>Demographic assumptions</u>

- The probability of death was derived from the Italian population, broken down by age and gender, as measured by ISTAT in 2000 and reduced by 25%;
- for the probabilities of leaving the company due to voluntary resignations or dismissals, the annual frequencies over the observation period from 2015 to 2020 has been estimated, based on company data, respectively at 4.15% and 6.45% per year;

<u>Economic and financial assumptions</u>

With regard to the discount rate, reference was made to the structure by maturity of the interest rates calculated via a bootstrap method from the swap rate curve recorded on the assessment date (Source: *Il Sole 24 ore*). For the measurement as at 31/12/2020, a flat rate of 0.004% was adopted on the section of the curve corresponding to 26 years of average residual duration.

- *Estimates adopted in the determination of deferred taxes*

A discretionary assessment is required of the Directors to determine the amount of deferred tax assets that can be recognised. They must estimate the probable occurrence in time and the amount of future taxable profits.

- *Depreciation*

Fixed assets cost is depreciated on a straight-line basis over their estimated useful lives, which for rights of use coincides with the assumed duration of the contract. The useful economic life of the Company's fixed assets is determined by the Directors at the time of purchase. It is based on the historical experience gained over their business years and on the knowledge of any technological innovations that could make the fixed asset obsolete or no longer economical.

The Company periodically evaluates technological and industry changes to update the remaining useful life. This periodic updating could lead to a change in the depreciation period and therefore also in the depreciation charge for future years.

5. RISK AND UNCERTAINTY MANAGEMENT

The main risks identified, monitored and actively managed by Pharmanutra are as follows:

5.1 EXTERNAL RISKS

5.1.1 RISKS ASSOCIATED WITH COVID-19 (SO-CALLED "CORONAVIRUS")

During 2020, the Company had to comply with the restrictive measures adopted by national governments to deal with the COVID-19 pandemic (so-called "Coronavirus"), including the adoption of contagion control protocols in line with the requirements set forth by the Authorities. The COVID-19 outbreak has resulted in a slowdown in the growth process of volumes sold and of the turnover with sales increasing less than in previous years.

In the light of the evolution of the COVID-19 epidemic underway, it cannot be excluded that the Authorities may take even stricter measures than those currently in place (including the possible use of a total and prolonged lockdown) or the occurrence of contagion phenomena in production plants, in the sales network and among employees, which could have a negative impact on the regularity of production and on sales trends.

5.1.2 RISKS ASSOCIATED WITH PRODUCTION ENTRUSTED TO THIRD PARTY SUPPLIERS

The Company is exposed to the risk that production activities entrusted to third party suppliers may not be carried out properly according to the quality standards required by the Group, leading to delays in the supply of products or even the need to replace the third party in charge. In addition, the production facilities of third party suppliers are subject to operational risks such as, for example, interruptions or delays in production due to faulty or failed machinery, malfunctions, breakdowns, delays in the supply of raw materials, natural disasters, or the revocation of permits and authorisations or even regulatory or environmental interventions. The possible occurrence of such circumstances could have negative effects on the Company's business.

5.1.3 Risks associated with the regulatory framework and the situation in the countries in which the Company operates

As a result of its international presence, Pharmanutra is exposed to a number of risk factors, particularly in developing countries where the regulatory framework is not permanently defined and clear. This could force the Company to change its business practices, increase costs or expose it to unforeseen civil and criminal liability.

Moreover, the Company cannot be sure that its products can be successfully marketed in these developing markets, given the less stable economic, political or social conditions than in Western European countries and which may result in the possibility of facing political, social, economic and market risks.

5.1.4 Risks associated with the high degree of competitiveness of the reference market

In view of the fact that the market segments in which Pharmanutra is active are characterised by a high level of competition in terms of quality, price and brand awareness and by the presence of a large number of operators, the possible difficulty for the Company in facing competition could have a negative impact on its market position, with consequent negative effects on its business.

The production activities of the Company are characterised by technology that cannot be replicated and is protected by patents, and this is considered an important competitive advantage, which - together with proprietary raw materials, the strategy of protecting intellectual property rights (trademarks and patents) and continuous investment in research and development - makes it possible to obtain products with characteristics that cannot be replicated by competitors.

5.2 MARKET RISKS

5.2.1 Risks associated with dependence on certain key products

The Company's ability to generate operating profits and cash flows largely depends on maintaining the profitability of a number of key products; among these, the most significant are those based on Sucrosomial® Iron, consisting of the products of Sideral line, which represent approximately 81% of the revenues at 31 December 2020. A contraction in sales of these key products could have negative effects on the Company's business and prospects.

5.2.2 Risks associated with the iron-related therapy market in which the Company operates

Pharmanutra is exposed to the risk of any changes in the regulatory framework in relation to the way iron is taken, the identification of new therapeutic protocols relating to these consumption ways (of which it is unable to predict the timing and methods) and/or the need to reduce the selling prices of products. The Company's iron-based products are currently all classified as food supplements. In the case of iron, as well as many other nutrients, regulations concern the amount of daily intake beyond which the product cannot be marketed as a supplement because it would fall into the pharmaceutical category. A possible regulatory change could have more of an impact on the maximum (or minimum) level of intake which would then lead to a simple formula adjustment.

5.3 FINANCIAL RISKS

5.3.1 Credit risk

Credit risk represents the exposure to potential losses deriving from the non-fulfilment of the obligations undertaken by both commercial and financial counterparties.

Credit risk is essentially attributable to the amount of trade receivables for the sale of finished products.

The Company does not have a significant concentration of credit risk and is subject to moderate credit risks.

The exposure to credit risk as at 31 December 2020 and 31 December 2019 is shown below:

k€	31/12/2020	31/12/2019
Non-current financial assets	178	178
Other non-current assets	-	918
Deferred tax assets	368	366
Current financial assets	4,349	5,076
Trade receivables	13,939	13,169
Other current assets	938	857
Total Exposure	**19,772**	**20,564**
Provision for doubtful accounts	(614)	(585)
Total exposure net of Allowance for doubtful accounts (*)	**19,158**	**19,979**

(*) = equity investments and tax receivables are not included

Below is a breakdown of receivables as at 31 December 2020 and 31 December 2019 grouped by category and due date. Please note that equity investments and tax receivables are not included:

k€	Carrying amount at 31/12/2020	To expire	Expired			
			0-90	90-180	180-360	> 360
Non-current financial assets	178	178				
Other non-current assets	-					
Deferred tax assets	368	368				
Current financial assets	4,349	4,349				
Trade receivables	13,939	12,536	576	178	118	531
Other current assets	938	938				
Total financial assets	**19,772**	**18,369**	**576**	**178**	**118**	**531**

k€	Carrying amount at 31/12/2019	To expire	Expired			
			0-90	90-180	180-360	> 360
Non-current financial assets	178	178				
Other non-current assets	918	918				
Deferred tax assets	366	366				
Current financial assets	5,076	5,076				
Trade receivables	13,169	12,066	382	85	73	563
Other current assets	857	857				
Total financial assets	**20,564**	**19,461**	**382**	**85**	**73**	**563**

5.3.2 Liquidity risk

The liquidity risk relates to the Company's ability to meet its commitments arising from its financial liabilities.

During the period, Pharmanutra met its financial needs through the use of its own resources without recourse to new credit lines from the banking system. Despite having available short-term bank credit lines, aimed at managing the peaks in working capital, the management did not deem it necessary to use these instruments during the year thanks to the positive generation of liquidity from current operations.

In any case, the liquidity risk originating from normal operations is kept at a low level by managing an adequate level of cash and cash equivalents and controlling the availability of funds obtainable through credit lines.

Financial liabilities as at 31 December 2020 and 31 December 2019, as reflected in the balance sheet, broken down by contractual maturity bands are reported below:

k€	Balance at 31/12/20	Current share	1 to 2 years	2 to 5 years	Over 5 years
Bank loans and borrowings	769	618	151		
Financial liabilities for rights of use	336	163		173	
Other lenders	4		4		
Total financial liabilities	**1,109**	**781**	**155**	**173**	**0**

k€	Balance at 31/12/19	Current share	1 to 2 years	2 to 5 years	Over 5 years
Bank loans and borrowings	4,565	3,810	604	151	
Financial liabilities for rights of use	542	206		336	
Other lenders	8		8		
Total financial liabilities	**5,115**	**4,016**	**612**	**487**	**0**

Trade payables and other liabilities are all due within 12 months.

5.3.3 Interest rate risk

The Company has floating-rate loan agreements in place and is therefore exposed to the risk of changes in interest rates, which is considered to be low. This risk has been partly mitigated through the use of derivative financial instruments to hedge interest rate risk (IRS - Interest Rate Swap). Current and non-current variable rate debt as a percentage of total medium/long-term borrowings was 100% as at 31 December 2020 and 31 December 2019.

The Company has policies in place to hedge against interest rate fluctuation risk for an amount equal to 100% of the total medium to long-term floating rate loans as at 31 December 2020 and 31 December 2019, respectively.

In consideration of the low amount of interest expected until the expiry of the medium/long-term loan agreement still in place at 31 December 2020, and of the fact that the same will expire in the near future, the Company does not carry out sensitivity analyses to assess the impact of changes in interest rates on the future results of operations and financial position.

Pharmanutra is also exposed to the risk of changes in interest rates on financial assets held in portfolio. This ri is considered to be low since these are mainly fixed-rate financial instruments.

Financial assets and liabilities measured at fair value

As required by IFRS 13 - Fair Value Measurement, the following information is provided.

The fair value of trade assets and liabilities and other financial receivables and payables approximates the nominal value recorded in the financial statements.

The fair value of receivables and payables due from and to banks and related companies does not differ from the values recorded in the financial statements, as the credit spread has been kept constant.

In relation to financial instruments recognised in the Balance Sheet at fair value, IFRS 7 requires these values to be classified on the basis of a hierarchy of levels that reflects the significance of the inputs used in determining the fair value. The following levels are distinguished:

Level 1 - quotations recorded on an active market, for assets or liabilities subject to valuation;

Level 2 - inputs other than quoted prices, as referred to in the previous paragraph, that are observable

directly (prices) or indirectly (derived from prices) on the market;

Level 3 - inputs that are not based on observable market data.

With respect to the values as at 31 December 2020 and 31 December 2019, the following table shows the fair value hierarchy for the Company's assets that are measured at fair value:

k€	**31/12/2020**				**31/12/2019**			
	Level				Level			
Current financial assets	1	2	3	Total	1	2	3	Total
Bonds	2,310		203	2,513	2,026		1,218	3,244
Investment Funds	1836			1,836	1,832			1,832
Total	**4,146**	**-**	**203**	**4,349**	**3,858**	**-**	**1,218**	**5,076**

For the only asset that falls within level 3, the valuation model applied is that of nominal value since the underlying of the issue is a securitisation of reinsured trade receivables.

5.3.4 Risk of changes in cash flows

The Company has historically highlighted a substantial and constant increase in the cash flows generated by operations compared to the previous year.

There is no particular need for access to bank credit, except for current commercial activities, given the willingness of banks to extend, when necessary, the existing credit lines.

In view of the above, the risk associated with a decrease in cash flows is considered to be low.

5.3.5 Risks related to litigation

The Company is part of a series of single-brand agency and procurement agreements for the promotion of its products. The activity carried out by its agents also plays an important role in providing scientific information to the medical class. During the year 2020, there were a number of cases in which agents and/or brokers initiated disputes aimed at ascertaining the existence of an employment relationship and claimed for compensation. Given the risks highlighted, specific provisions have been set aside to cover the estimated liabilities.

There are uncertainties of interpretation regarding the qualification for direct tax purposes of the indemnity received by the Company in 2019 from the pre-listing shareholders on the basis of the reps and warranties given by them in the admission document section one, chapter 16, paragraph 16.1. The risk cannot be excluded that, if the position taken by Pharmanutra is not considered correct by the Italian Inland Revenue, the latter may ascertain the existence of taxes to be paid in relation to the indemnity amount (up to a maximum of approximately Euro 220 thousand) plus penalties and interest.

6. COMMENTS ON THE MAIN ITEMS OF THE FINANCIAL STATEMENTS

6.1 Non-current assets

The tables below show the changes in tangible fixed assets for each item

6.1.1. Tangible fixed assets

Net tangible fixed assets (k€)	Balance as at 31/12/2019	Increases	Decreases	Other	Balance as at 31/12/2020
Land and buildings	199	-6		-99	**94**
Plant and machinery	46	-6			**40**
Equipment	1	-1			**0**
Furniture and office machines	298	-29			**269**
Vehicles	497	309	-298	0	**508**
Rights of use	540	-207			**333**
Fixed assets under construction	2.971	304	0	0	**3.275**
TOTAL	**4.552**	**364**	**-298**	**-99**	**4.519**

Tangible Fixed Assets - Historical Cost (k€)	Balance as at 31/12/2019	Increases	Decreases	Other	Balance as at 31/12/2020
Land and buildings - Historical cost	639				**639**
Plant and machinery - Historical cost	91	8			**99**
Equipment - Historical cost	18				**18**
Furniture and office machines - Historical cost	724	60			**784**
Vehicles - Historical cost	803	484	-347		**940**
Rights of use - Historical cost	735				**735**
Fixed assets under construction - Historical cost	2.971	304			**3.275**
TOTAL	**5.981**	**856**	**-347**	**0**	**6.490**

Tangible fixed assets - Depreciation provision (k€)	Balance as at 31/12/2019	Deprec./a mort.	Uses	Other	Balance as at 31/12/2020
Land and buildings - Acc. deprec./amort.	-440	-6		-99	**-545**
Plant and machinery - Acc. deprec./amort.	-45	-14			**-59**
Equipment - Acc. deprec./amort.	-17	-1			**-18**
Furniture and office machines - Acc. deprec./amort.	-426	-89			**-515**
Vehicles - Acc. deprec./amort.	-306	-175	49		**-432**
Amortisation of rights of use	-195	-207			**-402**
TOTAL	**-1,429**	**-492**	**49**	**-99**	**-1,971**

The amount of the increases for the financial year includes Euro 484 thousand for the purchase of vehicles for the management and sales force managers, Euro 304 thousand for costs incurred for planning, carrying out analyses and obtaining authorisations in anticipation of the restructuring of the industrial complex intended to house the Group's new headquarters, and the remainder for the purchase of laboratory instruments and IT equipment.

6.1.2 INTANGIBLE FIXED ASSETS

The following table shows historical costs net of previous amortisation and depreciation, movements during the period and final balances for each item.

Intangible fixed assets (k€)	Balance as at 31/12/2019	Increases	Decreases	Deprec./a mort.	Other transaction	Balance as a 31/12/2020
Industrial patent rights	244	243		-78		**409**
Concessions, licenses and trademarks	483	106		-42		**547**
Other intangible assets	14			-105	99	**8**
Fixed assets under construction and payments on acc	98	42	-8			**132**
TOTAL	**839**	**391**	**-8**	**-225**	**99**	**1,096**

The increases in intangible fixed assets refer to patent and trademark management activities for approximately Euro 391 thousand. The increase in fixed assets under construction refers to costs capitalised on research contracts in progress and software being implemented.

6.1.3 INVESTMENTS

k€	31/12/2020	31/12/2019	Change
Investments in subsidiaries	2,801	2,801	0
Investments in other companies	250	250	0
Total investments	**3,051**	**3,051**	**0**

Testing for impairment of investments in subsidiaries (Impairment test)

As indicated in the section on valuation criteria, the investments in subsidiaries are tested for impairment annually, or more frequently if specific events or changes in the circumstances indicate that they may have suffered an impairment loss, in accordance with IAS 36 Impairment of Assets (impairment test). The recoverability of the values recorded is verified by comparing the net carrying amount of the individual cash generating unit with the recoverable value (value in use). Such recoverable value is represented by the current value of future cash flows that are estimated to derive from the continuous use of the assets related to Cash Generating Unit (CGU).

The cash flows used to determine the value in use derive from the most recent estimates made by the management, and in particular the 2021 budget approved on 16 December 2020 and the business plan approved on 5 October 2020. Two CGUs have been identified: Junia Pharma and Alesco.

The recoverable value of the two CGUs identified, amounting to a total of Euro 2,801 thousand, of which Euro 1 million refers to Alesco and Euro 1,801 thousand refer to Junia Pharma, was verified through the value in use

determined by applying the discounted cash flow method. If the recoverable amount is higher than the net carrying amount of the CGU, no impairment loss is recognised; otherwise, the difference between the net carrying amount and the recoverable amount, as a result of the impairment test, determines the amount of the adjustment to be recognised.

The main assumptions used for the calculation of value in use concern the discount rate (WACC post-tax) of cash flows and the growth rate "g" used for the calculation of the perpetual annuity. With particular reference to the valuations relating to 31 December 2020, the Company used a discount rate of 6.36% for Alesco CGU and 5.85% for Junia Pharma CGU, with a growth rate "g" of 1% for both CGUs.

The compound annual growth rate ("CAGR") of the revenues of the two CGUs is lower than the Company's historical trend and challenging compared to market growth forecasts in the sector to which it belongs. The effects of COVID-19 outbreak entailed a lower growth rate in FY 2020 compared to the historical trend. However, in view of the large surplus resulting from the sensitivity analysis, it is believed that the effects of the health emergency on the compound annual growth rate do not have an impact on the measurement of Goodwill. Therefore, there are no specific and significant risks.

From the results of the impairment test, it emerged for each CGU that the recoverable value exceeds the carrying value and therefore no write-down was made.

Sensitivity

The sensitivity analysis carried out considering a change of +/- 1% in the WACC and g-rate used to perform the test did not show any impairment of goodwill.

Investments in other companies

The item amounts to Euro 250 thousand and is unchanged compared to the previous year. It represents the subscription value of the investment in Red Lions S.p.A., of which Pharmanutra S.p.A. holds 217,391 shares, which are equal to 15.15% of the capital. The equity value of the investee company, based on an appraisal drawn up on 27 February 2020 as part of a contribution transaction (which involved third parties and not the Group), shows no need for adjustments. The shares of the company Red Lions S.p.A. are held by companies of significant importance in the industrial context of Pisa area, all sensitive to innovation and development activities.

6.1.4 Non-current financial assets

€/1000	31.12.20	31.12.19	Change
Guarantee Deposits	178	178	0
Financial non current assets	**178**	**178**	**0**

The item amounts to Euro 178 thousand, includes Euro 65 thousand of guarantee deposits and Euro 85 thousand of advances paid to the related company Solida S.r.l., at the signing of the lease contracts stipulated with the same.

6.1.5 Other non-current assets

k€	31/12/2020	31/12/2019	Change
Insurance for Directors' termination indem	0	918	-918
Other non-current assets	**0**	**918**	**-918**

The change is determined by the liquidation of the policy taken out for the Directors' termination indemnity following the expiry of the term of office of the Board of Directors, upon approval of the financial statements as at 31 December 2019.

6.1.6 Deferred tax assets

k€	Balance at 31/12/19	Incr.	Decr.	Balance at 31/12/20
Allowance to provision for doubtful accounts - not for tax purposes	94	13	(29)	78
Allowance to provision for risks related to legal disputes	1	44	0	45
Provision for employees leaving entitlement	38	7	0	45
Indemnity for termination of the agency contracts	(21)	(5)	0	(26)
Accumulated depreciation/amortisation	(64)	(21)	0	(85)
Allowance to provision for inventory write-downs	26	1	(27)	0
Directors' fees	292	311	(292)	311
TOTAL	**366**	**350**	**(348)**	**368**

Deferred tax assets have been calculated taking into account the cumulative amount of all the temporary differences, on the basis of the expected rates in force when the temporary differences will reverse. Deferred tax assets have been recognised because there is reasonable certainty that taxable income will not be less than the amount of the differences to be reversed, in the years in which the deductible temporary differences against which deferred tax assets have been recognised will reverse.

Deferred tax assets relating to the application to the Employee Severance Indemnity Provision and the Indemnity for termination of agency contracts of the IAS/IFRS valuation of these items are the result of all adjustments made from the FTA until the closing of the financial statements in question.

Deferred tax assets relating to the remuneration of corporate bodies concern the non-deductibility of the variable remuneration as it was not paid by 12 January 2021.

6.2 Current Assets

6.2.1 Inventories

k€	31/12/2020	31/12/2019	Change
Raw materials, consumables and supplies	342	429	-87
Finished products and goods	1,162	1,296	-134
Provision for inventory write-downs	-2	-101	99
Total Inventories	**1,502**	**1,624**	**-122**

The provision for inventory write-downs was almost entirely used during the year for the destruction of expired products that can no longer be sold.

6.2.2 Liquid funds

k€	31/12/2020	31/12/2019	Change
Bank and postal accounts	12,689	11,536	1,153
Cheques on hand	15	10	5
Cash-in-hand and cash equivalents	4	3	1
Total liquid funds	**12,708**	**11,549**	**1,159**

The balance represents the liquid funds and the existence of cash and securities at the end of the period. For the evolution of cash and cash equivalents, reference should be made to the cash flow statement for the year and to what is indicated in the Management Report.

6.2.3 Current financial assets

k€	31/12/2020	31/12/2019	Change
Mutual fund units	1,836	1,832	4
Bonds	2,513	3,244	-731
Total current fin. assets	**4,349**	**5,076**	**-727**

This item represents a temporary investment of part of the company's liquidity made through an individual asset management mandate granted to Azimut Capital Management S.g.r. In accordance with this mandate, bonds and units in investment funds of adequately rated issuers have been subscribed. As at 31/12/2020, a comparison with the market value of the bonds held shows a net capital loss of Euro 42 thousand which was recorded in a shareholders' equity reserve, based on the valuation criteria adopted in accordance with IFRS9. A gain of Euro 4 thousand was recorded in the income statement for the year on the fund units.

Considering the liquid funds available and the regular continuation of activities given what is described above, t

Company does not foresee the need to resort to the early disposal of the financial instruments in question, believing that the latent loss will be absorbed by the end of the epidemic.

6.2.4 TRADE RECEIVABLES

k€	31/12/2020	31/12/2019	Change
Trade receivables - Italian customers	9,027	6,931	2,096
Trade receivables - Other countries	1,908	2,276	-368
Bills subject to collection	2,675	3,803	-1,128
Invoices to be issued	329	158	171
Provision for doubtful accounts	-614	-585	-29
Total trade receivables	**13,325**	**12,583**	**742**

The amounts shown in the financial statements are net of the provisions made in the allowance for doubtful accounts, estimated by the management on the basis of the seniority of the receivables, the assessment of their collectability and also taking into account the historical experience and forecasts of future bad debts also for the part of receivables that is collectable at the reporting date.

The breakdown of trade receivables by geographical area is shown below:

k€	31/12/2020	31/12/2019	Change
Italy	11,417	10,288	1,129
Asia	1,374	1,828	-454
Europe	534	324	210
Africa	0	119	-119
America	0	25	-25
Total trade receivables	**13,325**	**12,584**	**742**

Changes in the Provision for doubtful accounts during 2020 were as follows:

k€	Provision for doubtful accounts
Balance at 01/01/20	585
Allowances	152
Uses	-123
Balance at 31/12/2020	**614**

6.2.5 OTHER CURRENT ASSETS

A breakdown of "Other current assets" is provided in the table below:

k€	31/12/2020	31/12/2019	Change
Receivables from employees	40	36	4
Advances	728	360	368
Prepayments and accrued income	170	131	39
Other receivables	0	330	-330
Total other current assets	**938**	**857**	**81**

The item "Advances" includes receivables from agents for advances of Euro 246 thousand, unchanged compared to the previous year, relating to sums advanced when signing agency contracts, and advances to suppliers of Euro 482 thousand (Euro 114 thousand as at 31/12/2019). The advances paid to agents shall be returned on termination of the relationship with each agent.

The reduction in "Other receivables" is due to the consensual termination of the preliminary agreement for the purchase of land in Montacchiello (PI) on the basis of which the confirmatory deposit paid was fully collected.

6.2.6 TAX RECEIVABLES

"Tax receivables" can be broken down as follows:

k€	31/12/2020	31/12/2019	Change
Value added tax	187	175	12
Receivables for R&D expense tax bonus	139	230	-91
Receivables for Patent Box tax bonus	1,011	0	1,011
Other tax receivables	3	-1	4
Total tax receivables	**1,340**	**404**	**936**

The balance of the item Receivables for the Patent Box tax bonus represents the tax benefit related to the years 2016 and 2017 that can be used in 2021.

With reference to the item "Receivables for tax bonuses for R&D expenses", please refer to the paragraph Research and Development activities in the Management Report.

6.3 SHAREHOLDERS' EQUITY

6.3.1 SHAREHOLDERS' EQUITY

The changes in the items of shareholders' equity are shown below:

Amounts in k€	Share capital	Legal reserve	Other reserves	Actuarial reserve under IAS 19	Financial instruments reserve (FVOCI)	FTA reserve	Profit (loss) for the year	Balance
Shareholders' equity at 31/12/2019	**1,123**	**225**	**15,233**	**(19)**	**109**	**106**	**6,868**	**23,645**
Allocation of result	-	-	6,868	-	-	-	(6,868)	-
Distribution of dividends	-	-	(4,453)	-	-	-	-	(4,453)
Other changes	-	-	4	9	(42)	-	-	(29)
Profit (loss) for the year	-	-	-	-	-	-	12,636	12,636
Shareholders' equity at 31/12/2020	**1,123**	**225**	**17,652**	**(10)**	**67**	**106**	**12,636**	**31,799**

The Share capital, fully subscribed and paid up, amounts to Euro 1,123 thousand and consists of 9,680,977 ordinary shares, with no par value.

In 2019 a coupon of Euro 0.46 was distributed for each ordinary share, with a payout ratio of approximately 52.6% of consolidated net income in 2019, in line with the consolidated dividend distribution policy and taking into account the Group's confirmed earnings capacity, for a total dividend of Euro 4,453 thousand.

The table below shows the classification of reserves according to their availability:

k€	Amount	Possible uses	Available share	Summary of uses made in the three previous years	
				to hedge losses	for other reasons
Capital reserves:					
Share capital	1,123				
Share premium reserve	7,205	A,B,C	7,205		
Earnings reserves:					
Legal reserve	225	B	225		
Extraordinary reserve	10,402	A,B,C	10,402		
Other reserves:					
Expected cash flow hedging reserve	-4				
Result of the previous years	49				
OCI Fair Value Reserve	67				
FTA reserve	106				
IAS 19 reserve	-10				
Total	**19,163**		**17,832**	**0**	**0**
Non-distributable share			**225**		
Distributable share			**17,607**		

A: Capital increase, B: Losses coverage, C: Shareholders didtribution

6.4 Non-current liabilities

6.4.1 Non-current financial liabilities

k€	31/12/2020	31/12/2019	Change
Payables for derivative fin. instruments	4	8	-4
Payables for CRFI bank loans	151	755	-604
Non-current fin. payables for rights of use	173	336	-163
Non-current financial liabilities	**328**	**1,099**	**-771**

Bank loans and borrowings consist of the portion of outstanding loans due beyond 12 months.

Non-current financial liabilities for non-current rights of use represent the discounted amount due beyond one year of the lease contracts in force as at 31/12/2020 in accordance with IFRS 16.

In accordance with the requirements of the CONSOB communication of 28 July 2006 and in compliance with ESMA update with reference to the "Recommendations for the consistent implementation of the European

Commission's Regulation on Prospectuses", we report that the Company's Net Financial Position as at 31 December 2020 is as follows:

	Amounts in k€	31/12/2020	31/12/2019
A	Cash	19	13
B	Liquid funds	17.038	17.528
C	Held-for-trading securities	-	-
D	**Liquidity (A+B+C)**	**17.057**	**17.541**
E	Current financial receivables	-	-
F	Current bank payables	14	3.208
G	Current portion of non-current debt	604	602
H	Other current financial payables	163	206
I	**Current financial indebtedness (F+G+H)**	**781**	**4.016**
	of which guaranteed	-	-
	of which not guaranteed	781	4.016
J	**Net current financial indebtedness (I-E-D)**	**(16.276)**	**(13.525)**
K	Non-current bank payables	155	763
L	Bonds issued	-	-
M	Other non-current financial payables	(5)	158
N	**Non-current financial indebtedness (K+L+M)**	**150**	**921**
	of which guaranteed	-	-
	of which not guaranteed	150	921
O	**Net financial indebtedness (J+N)**	**(16.126)**	**(12.604)**

6.4.2 PROVISIONS FOR RISKS AND CHARGES

k€	31/12/2020	31/12/2019	Change
Provision for termination indemnity of agency contracts	627	515	112
Provision for sundry risks and legal disputes	275	2	273
Provision for indemnity for termination of agency contracts	0	80	-80
Provisions for risks and charges	**902**	**597**	**305**

Provisions for risks and charges include:

- Provision for risks to cover the risk of legal disputes in progress, measured at Euro 275 thousand to cover outstanding disputes with agents following the termination of the agency agreement;

- Provision for indemnity for termination of agency contracts, set up under article 1751 of the Italian Civil Code and the current collective economic agreement of 20 March 2002, which provide that, upon termination of the agency relationship, the agent is entitled to an indemnity for employment termination. The indemnity for termination of agency contracts is calculated by applying to the fees and other considerations accrued by the agent during the course of the employment relationship, a rate that can vary from 3 to 4%, depending on the duration of the agency contract. The resulting amount was measured in accordance with IAS/IFRS International Accounting Standards (IAS 37). The Company has therefore set aside an amount of Euro 159 thousand in the Provision for indemnity for termination of agency contracts, based on legal provisions and in relation to the positions at the end of the year, bringing the same to a total of Euro 627 thousand.

6.4.3 Provisions for benefits

k€	31/12/2020	31/12/2019	Change
Provision for employee severance indemnity	554	512	42
Directors' termination indemnity provision	366	1,412	-1,046
Provisions for benefits	**920**	**1,924**	**-1,004**

Provisions for benefits refer to:

- Directors' termination indemnity provision. The amount set aside as at 31 December 2019 was paid to the directors upon expiry of their term of office, with the approval of the financial statements as at 31 December 2019. The amount set aside of Euro 366 thousand was calculated on the basis of the provisions of the Ordinary Shareholders' Meeting held on 27 April 2020 and corresponds to the Company's actual commitment to the Directors at the reporting date.

- Employee severance indemnity. The liability for employee severance indemnity has been calculated in compliance with the current provisions governing the employment relationship for employees and corresponds to the actual commitment of the Company towards individual employees at the reporting date. The amount set aside refers to employees who, following the entry into force of the new supplementary pension system, have expressly allocated their leaving entitlement accruing from 1 January 2007 to the company. The amount relating to the provision for employees leaving entitlement is therefore net of the amounts paid out during the year and allocated to pension funds. The resulting amount was measured in accordance with IAS/IFRS (IAS 19).

6.5 CURRENT LIABILITIES

6.5.1 CURRENT FINANCIAL LIABILITIES

k€	31/12/2020	31/12/2019	Change
Bank loans and borrowings for loans	604	602	2
Bank loans and borrowings for current accounts	14	3,208	-3,194
Current fin. payables for rights of use	163	206	-43
Total current fin. liabilities	**781**	**4,016**	**-3,235**

The decrease in "Bank loans and borrowings for current accounts" resulted from the transitional utilisation at 31 December 2019 of advances on bills presented subject to collection.

The item "Bank loans and borrowings for loans" represents the portion of debt relating to loans and instalments of loans to be repaid within the next financial year.

6.5.2 TRADE PAYABLES

Trade payables are broken down in the table below:

k€	31/12/2020	31/12/2019	Change
Trade payables - suppliers in Italy	5,859	7,633	-1,774
Trade payables - suppliers in Other countries	27	281	-254
Payments on account	558	401	157
Total trade payables	**6,444**	**8,315**	**-1,871**

The change in payables occurs as a result of the commercial dynamics associated with purchases. The item Trade payables - suppliers in Italy as at 31 December 2020 and 2019 includes Euro 759 thousand and Euro 1,860 thousand of payables to subsidiaries, respectively.

The breakdown of trade payables by geographical area is shown below:

k€	31/12/2020	31/12/2019	Change
ITALY	5,823	7,624	-1,801
EUROPE	122	334	-212
ASIA	457	263	194
SOUTH AFRICA	0	62	-62
OTHER	42	32	10
Total trade payables	**6,444**	**8,315**	**-1,871**

6.5.3 Other current liabilities

A breakdown of "Other current liabilities" is provided in the table below:

k€	31/12/2020	31/12/2019	Change
Payables for wages and salaries	275	241	34
Payables to social security institutions	266	222	44
Payables to directors and statutory auditors	1.252	1.158	94
Accrued expenses and deferred income	3	10	-7
Leaving entitlement provision for agents	103	102	1
Total other current liabilities	**1.899**	**1.733**	**166**

The item Payables to directors and statutory auditors refers to the amount of variable remuneration accrued by executive directors on the results for the year 2020.

6.5.4 Current tax payables

€/1000	31.12.20	31.12.19	Change
Income taxes	-51	170	-221
Withholding taxes	356	411	-55
Value Added Tax	0	91	-91
Total current tax liabilities	**305**	**672**	**-367**

6.6 Revenues

6.6.1 Net revenues

k€	2020	2019	Change
LB1 REVENUES	35,540	33,443	2,097
LB2 REVENUES	12,471	11,230	1,241
TOTAL SALES	**48,011**	**44,673**	**3,338**

The table below provides a breakdown of net revenues by geographical market:

k€	2020	2019	Change	Δ%	Incidence 2020	Incidence 2019
Italy	35,540	33,443	2,097			
Total LB1	**35,540**	**33,443**	**2,097**	**6.3%**	**74.0%**	**74.9%**
Europe	7,984	6,095	1,888	31.0%	16.6%	13.6%
Middle East	3,808	4,039	-231	-5.7%	7.9%	9.0%
Far East	354	777	-423	-54.4%	0.7%	1.7%
Other countries	325	319	6	1.8%	0.7%	0.7%
Total LB2	**12,471**	**11,230**	**1,241**	**11.0%**	**26.0%**	**25.1%**
Total net revenues	**48,011**	**44,673**	**3,338**	**7.5%**	**100.0%**	**100.0%**

The Covid-19 outbreak that characterised the financial year 2020 led to a slowdown in growth on the Italian market which, however, showed an increase of 6.3% compared to the previous year with revenues amounting to Euro 35,540 thousand compared to Euro 33,443 thousand in 2019.

Revenues earned on foreign markets show an increase of 11% from Euro 11,230 thousand in 2019 to Euro 12,471 thousand in 2020, thanks to the progressive increase in the operations of distribution contracts stipulated in previous years. The declines in the Middle East are attributable to distributor sourcing policies, while the decline in sales in the Far East is attributable not only to distributor sourcing policies but also to a customer's failure to pick up an order. The contract was then terminated, the Company retained the advances that had been paid by the distributor, and the goods were resold to other customers after repackaging.

The Company's activity is divided into the following business lines:

Direct business line (LB1): it is characterised by the direct control of the distribution channels in the reference markets and the relevant marketing activities.

In 2020 the direct business line accounted for 74% (about 75% in 2019) of total turnover.

The distribution channels for the Company can be broken down into:

- Direct deriving from the activity carried out by the network of scientific informants who are entrusted with marketing products throughout the national territory. 95% of direct orders are orders directly from pharmacies and parapharmacies.
- Wholesalers who directly supply the pharmacies and parapharmacies with the products.

The activity carried out by sales representatives/scientific informants directly addressing the medical class in order to make known the clinical efficacy and uniqueness of the products is paramount for both distribution channels.

- **Indirect business line (LB2):** the business model is mainly used in foreign markets. It is characterised by the marketing of finished products through local partners which, under long-term exclusive distribution contracts, distribute and sell the products in their own markets.

In 2020 the Indirect business line accounted for about 26% of the turnover (about 25.1% in the previous year).

6.6.2 OTHER REVENUES AND INCOME

k€	2020	2019	Change
Research and Development Tax Credit	140	232	-92
Contractual indemnities	244	7	237
Refunds and recovery of expenses	16	10	6
Contingent assets	217	91	126
Other revenues and income	397	200	197
Total Other revenues and income	**1,014**	**540**	**474**

The item Tax credit on Research & Development expenses includes the amount of the benefit calculated on the basis of Italian Decree-Law no. 145/2013 and subsequent amendments for research and development expenses incurred in 2020.

Contractual indemnities refer to indemnities invoiced to agents for notice of termination

Other revenues and income mainly consist of the utilisation of the provision for inventory write-downs.

6.7 OPERATING COSTS

6.7.1 PURCHASES OF RAW MATERIALS, CONSUMABLES AND SUPPLIES

Purchases are broken down in the following table:

k€	2020	2019	Change
Costs for raw materials and semi-fin. goods	1,648	1,852	-204
Costs for consumables	332	472	-140
Costs for the purchase of fin. goods	4	197	-193
Total purchases of raw materials, consumables and supplies	**1,984**	**2,521**	**-537**

Raw materials and semi-finished goods costs include Euro 1,518 thousand (Euro 1,839 thousand in 2019) of purchases from subsidiaries.

6.7.2 CHANGE IN INVENTORIES

k€	2020	2019	Change
Change in raw materials	87	-23	110
Change in finished product inventories	134	-461	595
Allowance to Provision for inventory write-downs	2	2	0
Change in inventories	**223**	**-482**	**705**

6.7.3 COSTS FOR SERVICES

k€	2020	2019	Change
Marketing and advertising costs	6.144	6.152	-8
Production and logistics	7.240	7.058	182
General service costs	4.935	3.715	1.220
Research and development costs	581	539	42
Costs for IT services	308	384	-76
Commercial costs and commercial network costs	7.162	7.825	-663
Corporate bodies	5.643	5.212	431
Rental and leasing costs	8	14	-6
Financial costs	133	132	1
Total costs for services	**32.154**	**31.031**	**1.123**

The increase in the item "Costs for general services" is determined by non-recurring costs related to (i) the formalisation of the ruling with the Italian Inland Revenue of the Patent Box for the period 2016-2020 and (ii) costs connected with the transition to Mercato Telematico Azionario (MTA) - STAR segment for a total of Euro 1.5 million. The reduction in the item "Commercial costs and sales network costs" is attributable to the limited activities that were possible due to the ongoing pandemic. Covid-19 also entailed the cancellation or downsizing of several originally planned marketing projects.

Costs for services include Euro 7,566 thousand (Euro 7,291 thousand in the previous year) of costs relating to transactions with related parties, details of which can be found in note 11.

6.7.4 PERSONNEL COSTS

The breakdown of personnel costs is shown in the table below:

k€	2020	2019	Change
Wages and salaries	1,920	1,706	214
Social security charges	594	524	70
Severance Indemnity	138	118	20
Other personnel costs	9	16	-7
Total personnel costs	**2,661**	**2,364**	**297**

The item includes all expenses for employees, including accrued holidays and additional months' pay as well as related social security charges, in addition to the provision for severance indemnities and other contractual costs. The increase compared to the previous year is due to the hiring of new employees.

The breakdown of the average number of employees by category is shown in the following table:

Units	2020	2019	Change
Executives	2	2	0
White collars	35	31	5
Blue collars	0	0	0
Total	**37**	**33**	**5**

6.7.5 Other operating costs

k€	2020	2019	Change
Capital losses	68	26	42
Sundry tax charges	64	61	3
Loss on receivables			0
Membership fees	50	45	5
Charitable donations and social security charges	181	30	151
Other costs	764	373	391
Total other operating costs	**1.127**	**535**	**592**

The change in the item "Other costs" mainly refers to the failure of a foreign customer to collect an order for finished products, against which the advance payments received were retained. The Company regained possession of the goods, which were subsequently repackaged and resold to other customers.

6.8 AMORTISATION, DEPRECIATION AND PROVISIONS

6.8.1 Amortisation, depreciation and provisions

k€	2020	2019	Change
Amortisation of intangible fixed assets	433	425	8
Depreciation of tangible fixed assets	283	222	61
Allowance to provision for doubtful accounts	152	119	33
Allowance to provisions for risks	154	0	154
Total provisions	**1.022**	**766**	**256**

For details on the allowances to Provisions for risks and charges, see paragraph 5.3.5.

6.9 FINANCIAL INCOME (EXPENSE)

6.9.1 Financial revenues

k€	2020	2019	Change
Interest income	88	67	21
Dividends from subsidiaries	1.422	1.011	411
Exchange gains	2	0	2
Other financial income	57	2	55
Total financial income	**1.569**	**1.080**	**489**

6.9.2 Financial costs

k€	2020	2019	Change
Other financial charges	-26	-30	4
Interest expense	-5	-7	2
Realised exchange losses	0	-1	1
Total financial charges	**-31**	**-38**	**7**

6.10 INCOME TAXES

k€	2020	2019	Change
Direct taxes on business income	1,828	2,740	-912
Deferred tax assets	-2	-86	84
Taxes for the previous year	-3,070		-3,070
Total Income taxes	**-1,244**	**2,654**	**-3,898**

Taxes are recognised on an accruals basis and have been determined in accordance with current rates and regulations.

The item Taxes for the previous year represents the tax benefit relating to the years 2016-2019 recognised following the formalisation of the ruling for the Patent Box benefit. The benefit relating to the year 202 amounting to Euro 1,253 thousand, was deducted from the taxes for the year.

6.11 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the results of operations for the year by the weighted average number of shares outstanding during the year.

The calculation of basic earnings per share is shown in the following table:

Euro	2020	2019
Profit for the year	12,635,887	6,868,021
Average number of shares outstanding	9,680,977	9,680,977
Basic earnings per share	**1.31**	**0.71**

7. OTHER INFORMATION

In accordance with the law, the total compensation due to the Directors, the members of the Board of Statutory Auditors and the independent auditors, if any, is shown below:

Directors: Euro 5,639 thousand

Board of Statutory Auditors: Euro 74 thousand

Independent auditors: Euro 331 thousand

Information pursuant to Article 149-duodecies of the CONSOB Issuers' Regulation

The following table, prepared in accordance with Article 149-duodecies of the CONSOB Issuers' Regulations, shows the fees accrued in the year 2019 for audit and non-audit services rendered by the Independent auditors and by entities belonging and not belonging to its network.

Service provider	Notes	Fees accrued in the FY 2020 (k€)
Auditing and certification services		
BDO ITALIA S.p.A.	**[1]**	60
Other services		
BDO ITALIA S.p.A.	**[2]**	198
BDO ITALIA S.p.A.	**[3]**	74
Total		**331**

[1] This includes the signing of income, IRAP, 770 and tax credit certification forms

[2] This includes non-recurring costs for translisting on the MTA - STAR segment

[3] Methodological support for the purposes of adaptation to the rules laid down by 262/05

8. EVENTS SUBSEQUENT TO THE CLOSING DATE OF 31 DECEMBER 2020

As for the events after the closing date of 31 December 2020, reference should be made to the Directors' Report on Operations.

9. COMMITMENTS

The Company has issued the following guarantees in favour of its subsidiaries:

- To Junia Pharma, a guarantee for Euro 1 million;
- To Alesco, a guarantee for credit limit subject to collection for Euro 210 thousand;
- To Alesco, a guarantee for credit facility on current account for Euro 52 thousand.

10. CONTINGENT LIABILITIES AND MAIN OUTSTANDING DISPUTES

The Company does not have any significant contingent liabilities of which information has not already been provided in this report and which are not covered by adequate provisions.

It should be noted that after 31 December 2020, following the termination of the agency contract with 7 ISC agents, Pharmanutra was notified of 7 direct appeals to the labour judge of the Court of Pisa. In particular, the above-mentioned appeals focus on the annulment of the dismissal and the recognition of a subordinate employment relationship, as well as the request for payment of the fees relating to the agency contract. All 7

former ISC agents are represented by the same attorney. The hearings are scheduled for 6 July and 29 Septemb
2021.

Until 31 December 2020, all previous disputes of a similar nature have been resolved through settlements and there has never been a case of recognition of the existence of an employee relationship.

As at 31 December 2020, the provision for risks to hedge potential liabilities estimated to be incurred by the Company in connection with the above claims amounted to Euro 275 thousand (Euro 2 thousand at 31 December 2019).

11. TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties are identified according to the extended definition provided by IAS 24, i.e. including relations with administrative and control bodies as well as with managers with strategic responsibilities and transactions with subsidiaries.

The tables below show the amounts of commercial and financial transactions entered into in 2019 between the Parent Company and its subsidiaries and other related parties.

Transactions with subsidiaries

Amounts in k€	Income statement item at 31/12/2020					Balance sheet item at 31/12/2020	
Subject Related Party	Other Revenues	Purchases of raw materials, consum. and supplies	Costs for services	Personnel costs	Dividends	Trade receivables	Trade payables
Junia Pharma S.r.l.	152	2		161	642	103	73
Alesco S.r.l.	114	1,516	1,119	163	780	194	687
TOTAL	**266**	**1,518**	**1,119**	**324**	**1,422**	**297**	**760**

The transactions between companies of the Group, all concluded at standard market conditions, concern the supply by Alesco of the main active ingredients to Pharmanutra and Junia Pharma, the payment by the latter to Alesco of royalties for the exploitation of the patent relating to Sucrosomial® Iron technology, and the charge-back of personnel costs between companies of the Group.

Transactions with other related parties

The financial impact as at 31 December 2020 and the economic impact for 2020 of the transactions with other related parties is shown in the table below:

Amounts in k€	Consolidated income statement item at 31/12/2020				Consolidated balance sheet item at 31/12/2020					
Subject Related Party	**Costs for services**	**Financial charges**	**Personnel costs**	**Amort. rights of use**	**Non-current financial assets:**	**Other current liabilities:**	**Provisions for employee benefits:**	**Trade payables**	**ROU non-current financial liabilities:**	**ROU current financial liabilities:**
Members of Pharmanutra S.p.A. BoD	5,639	18				1,366	415			
Board of Statutory Auditors	74					0		7		
Senior management compensation			378			14	76			
Solida S.r.l.				229	150				116	132
Calabughi S.r.l.	408							4		
Ouse S.r.l.	264							33		
Studio Bucarelli, Lacorte, Cognetti	37							8		
Other related parties	25	5						0		
TOTAL	**6,447**	**23**	**378**	**229**	**150**	**1,380**	**490**	**52**	**116**	**132**

It should be noted that as part of the procedure for admission to listing on AIM Italia, on 21 June 2017 Pharmanutra adopted the Related Party Transactions Procedure ("RPT Procedure"), effective as of the date of commencement of trading on the AIM Italia market. The RPT Procedure was amended by Pharmanutra's Board of Directors meeting on 23 October 2020 (subject to the favourable opinion of the Independent Directors in office), in order to bring it in line with the regulatory framework applicable to companies with shares listed on a regulated market (the RPT Procedure as amended by the Board of Directors on 23 October 2020, the "New RPT Procedure"). This procedure, which is effective as of the Trading Starting Date, is available on the website www.pharmanutra.it, in "Investor Relations" section. It should also be noted that the Company, as (i) a smaller company, as well as (ii) a newly listed company pursuant to art. 3 of the RPT Regulations, will apply to the related party transactions governed by the New RPT Procedure, including those of greater importance (as identified pursuant to Annex 3 of the RPT Regulations), a procedure which takes into account the principles and rules set out in art. 7 of the RPT Regulations, as an exception to art. 8 of the RPT Regulations.

The members of the Board of Directors of the Company receive a compensation consisting of a fixed part, a variable part and a part by way of termination indemnity.

Financial charges refer to interest expense recognised on the termination indemnity due upon its payment in the first half of 2020.

The remuneration of senior management consists of a fixed component and a variable incentive calculated on the basis of sales volumes and parameters relating to the financial statements.

Pharmanutra has established its registered office and operational headquarters in properties owned by Solida S.r.l., which is owned by some of the shareholders of the Company. Pharmanutra pays a rent and has paid amounts to Solida S.r.l. as a security deposit and advance.

Pharmanutra has outsourced its communication and marketing activities, by strategic choice. Such activities are entrusted to Calabughi S.r.l. The contract between Pharmanutra and Calabughi S.r.l. has annual duration with tacit renewal unless terminated by one of the parties three months prior to the expiry of the contract, was entered into in 2018 and, for an annual fee of Euro 150 thousand, consists in the provision of communication services. These services include the management of the Company web sites and media channels, the design, development and implementation of advertising campaigns to support the products and corporate image, the graphic design of product packaging, promotional material and scientific information documents, as well as the organisation and management of corporate conventions. Moreover, the Parent Company entered into a contract with the same firm, Calabughi, for the sponsorship as "Title Sponsor" of the 151 Miglia regatta and a contract for the management of all the communication, event planning, merchandising activities related to the participation of Cetilar Racing - the team sponsored by the Parent Company - in the endurance world championship races of which the most famous is the 24 Hours of Le Mans.

In addition, Pharmanutra has an agency agreement in place with Ouse S.r.l. (the "Agreement"), a company in which the wife of the Chairman, Andrea Lacorte, holds 60% of the share capital and serves as Sole Director, effective from 1 June 2020 for an indefinite period. The Agreement provides for the granting to Ouse S.r.l. of an exclusive agency mandate without representation with the aim to promote and develop the sales of each company in the assigned territories. The compensation is composed of a fixed annual fee and a variable fee determined by applying a percentage to the turnover achieved for amounts between the minimum and maximum thresholds, as defined annually.

Finally, the Company has entered into a consulting agreement with Studio Bucarelli, Lacorte, Cognetti. The contract, being valid for one year and renewable from year to year by tacit consent, covers general tax advice, the drafting and sending of tax returns, general advice on labour law and the processing of monthly pay slips.

In accordance with Consob Resolution no. 15519 of 27 July 2006 and Consob Communication DEM/6064293 28 July 2006, the balance sheet and the income statement, showing transactions with related parties separately, is provided below.

BALANCE SHEET ASSETS (k€)	31/12/2020	Of which with related parties	31/12/2019	Of which with related parties
NON-CURRENT ASSETS	**9,213**	**150**	**9,904**	**150**
Tangible fixed assets	4,520		4,552	
Intangible fixed assets	1,096		839	
Investments	3,051		3,051	
Non-current financial assets	178	150	178	150
Other non-current assets	-		918	
Deferred tax assets	368		366	
CURRENT ASSETS	**34,162**	**297**	**32,093**	**162**
Inventories	1,502		1,624	
Liquid funds	12,708		11,549	
Current financial assets	4,349		5,076	
Trade receivables	13,325	297	12,583	162
Other current assets	938		857	
Tax receivables	1,340		404	
TOTAL ASSETS	**43,375**	**447**	**41,997**	**312**

BALANCE SHEET LIABILITIES (k€)	31/12/2020	Of which with related parties	31/12/2019	Of which with related parties
SHAREHOLDERS' EQUITY:	**31,799**	**-**	**23,645**	**-**
Share capital	1,123		1,123	
Legal reserve	225		225	
Other reserves	17,652		15,233	
IAS 19 reserve	(10)		(19)	
Financial instruments reserve (FVOCI)	67		109	
FTA reserve	106		106	
Profit (loss) for the year	12,636		6,868	
Minority interest in capital and reserves	-		-	
Minority interest in profit (loss)	-		-	
NON-CURRENT LIABILITIES	**2,150**	**606**	**3,620**	**1,725**
Non-current financial liabilities	328	116	1,099	249
Provisions for risks and charges	902		597	
Provisions for benefits	920	490	1,924	1,476
CURRENT LIABILITIES	**9,426**	**2,324**	**14,732**	**3,260**
Current financial liabilities	781	132	4,016	152
Trade payables	6,444	812	8,315	1,925
Other current liabilities	1,896	1,380	1,729	1,183
Tax payables	305		672	
TOTAL LIABILITIES	**43,375**	**2,930**	**41,997**	**4,985**

INCOME STATEMENT (€/000)	2020	Of which with related parties	2019	Of which with related parties
A) REVENUES	**49,025**	**266**	**45,213**	**173**
Net revenues	48,011		44,673	
Other revenues	1,014	266	540	173
B) OPERATING COSTS	**38,148**	**9,786**	**35,964**	**9,679**
Purchases of raw materials, consumables and su	1,984	1,518	2,521	1,842
Change in inventories	223		(482)	
Costs for services	32,156	7,566	31,029	7,291
of which Costs for non-recurring services	*1,455*			
Personnel costs	2,661	702	2,364	546
Other operating costs	1,124		532	
(A-B) EBITDA	**10,877**	**(9,520)**	**9,249**	**(9,506)**
C) Amortisation, depreciation and write-downs	1,023	229	768	157
(A-B-C) EBIT	**9,854**	**(9,749)**	**8,481**	**(9,663)**
D) FINANCIAL INCOME [COSTS]	**1,538**	**1,399**	**1,041**	**1,011**
Financial income	1,568	1,422	1,080	1,011
Financial costs	(30)	(23)	(39)	
PRE-TAX RESULT (A-B-C+D)	**11,392**	**(8,350)**	**9,522**	**(8,652)**
Taxes	(1,826)		(2,654)	
Taxes for previous years	3,070		-	
Profit /Loss for the year	**12,636**	**(8,350)**	**6,868**	**(8,652)**

12. ALLOCATION OF THE RESULT FOR THE YEAR

It is proposed to the Shareholders' Meeting that the result for the year, equal to Euro 12,635,887, be allocated as follows:

	Euro
Profit for the year as at 31 December 2020	**12,635,887**
- 5% to the legal reserve (pursuant to art. 2430 of the Italian Civ. Code)	0
- to the Extraordinary Reserve	6,149,632
- to Dividend (Euro 0.67 per share)	6,486,255

13. TRANSITION TO IAS/IFRS INTERNATIONAL ACCOUNTING STANDARDS RECONCILIATION STATEMENTS BETWEEN ITALIAN AND INTERNATIONAL ACCOUNTING STANDARDS

On 15 December 2020, trading in the shares of Pharmanutra S.p.A. began on the MTA market of Borsa Italiana - STAR segment.

Following its entry into a regulated market, the Company is required to adopt the International Financial Reporting Standards ("IFRS") in accordance with the provisions of article 2 of Italian Legislative Decree 38/2005.

This appendix has therefore been drawn up in order to provide correct information on the process of conversion to the International Financial Reporting Standards ("IFRS"), aimed at preparing the Company's financial statements as at 31 December 2020 in accordance with the IFRS adopted by the European Union.

As required by IFRS 1, the reconciliations between the values previously expressed in accordance with Italian National Accounting Standards and those restated in accordance with IAS/IFRS are provided, accompanied by the relevant notes on the adjustments. These statements have been prepared as of the transition date (1 January 2019) and as at 31 December 2019.

In particular, the statements and related explanatory notes required by IFRS 1 - First-Time Adoption of IFRS - are provided:

- for the balance sheet balances at the date of transition to IFRS (1 January 2019), which corresponds to the beginning of the first period compared with the first year of adoption of IAS/IFRS;
- for balance sheet balances as at 31 December 2019 and income statement data for the year then ended.

Reconciliations required by IFRS 1

The financial data restated in accordance with IAS/IFRS have been obtained by making the appropriate IAS/IFRS adjustments and reclassifications to the final data, prepared on the basis of the accounting principles and policies set out in article 2423 *et seq.* of the Italian Civil Code, in line with those prepared under Italian National Accounting Standards (as updated by the Italian Accounting Board (OIC) and, where lacking, those of the International Accounting Standards Board (IASB)) to reflect the changes in presentation, recognition and measurement criteria required by IFRS.

As required by IFRS 1, at the date of transition to the new standards (1 January 2019), a balance sheet was prepared in which:

- only those assets and liabilities that can be recognised on the basis of the new principles were recorded;
- assets and liabilities were measured at the values that would have been determined had the new standards been applied retrospectively;
- where necessary, the items previously indicated in the financial statements in a manner other than that required by IAS/IFRS have been reclassified.

The effect of the adjustment of the opening balances of assets and liabilities to the new standards, net of any related tax effects, has been recognised directly in opening shareholders' equity at the date of first-time adoption of IFRS (1 January 2019) in a specific reserve (First Time Adoption - FTA reserve).

The Company has decided to adopt the following formats for the preparation of its financial statements:

- the "current/non-current" criterion was adopted for the Balance Sheet table:
  - current assets are represented by cash or cash equivalents, assets that are expected to be realised, sold or consumed in the normal course of the company's operating cycle, assets held for trading or assets that are expected to be realised within 12 months after the reporting date. All other assets are classified as non-current;
  - current liabilities are those liabilities that are expected to be settled in the normal course of business or within 12 months after the reporting date, or those that do not have an unconditional right to defer their settlement beyond 12 months. All other liabilities are classified as non-current.
- for the Comprehensive Income Statement table, a format with costs classified by nature has been adopted.

First-Time Adoption of IFRS

First financial statements complying with the IFRS

The attached IFRS reconciliation schedules, being prepared only for the purposes of the transition project for the preparation of the company's first financial statements in accordance with the IFRS endorsed by the European Union, do not include the schedules and comparative information, and the related explanatory notes, that would be necessary to give a true and fair view of the company's financial position and results of operations in accordance with IFRS.

On first-time adoption, the restatement of the balance sheet at the date of transition to the new standards required some preliminary choices among the optional exemptions provided by IFRS 1.

It should be noted that the Company has opted to maintain historical cost as the valuation criterion for tangible and intangible fixed assets and has therefore not used the fair value as deemed cost option.

BALANCE SHEET RECONCILIATION BETWEEN NATIONAL G.A.A.P. AND IAS/IFRS AS AT JANUARY 1,2019

Pharmanutra S.p.A.

AMOUNTS IN EURO

	1/1/19 National GAAP	IAS 38 note A	IAS 19 note B	IAS 37 note C	IFRS 9 note D	IFRS 16	IAS 16 note E	**1/1/19 IAS/IFRS**
BALANCE SHEET								
NON CURRENT ASSETS								
Tangible assets	**605.040**						**243.377**	**848.417**
Intangible assets	**1.515.039**	**-266.839**					**-243.377**	**1.004.823**
Investments	**3.051.045**							**3.051.045**
Non current financial assets	**188.888**							**188.888**
Other non current assets	**671.213**							**671.213**
Deferred tax assets	**303.890**	**-42.694**	**33.540**	**-15.086**				**279.650**
TOTAL NON CURRENT ASSETS	**6.335.115**	**-309.533**	**33.540**	**-15.086**	**0**	**0**	**0**	**6.044.036**
CURRENT ASSETS								
Inventories	**1.141.686**							**1.141.686**
Trade receivables	**11.167.616**							**11.167.616**
Other current assets	**1.596.846**							**1.596.846**
Current tax receivables	**1.281.025**							**1.281.025**
Current financial assets	**864.601**							**864.601**
Cash and cash equivalents	**13.981.148**							**13.981.148**
TOTAL CURRENT ASSETS	**30.032.922**	**0**	**0**	**0**	**0**	**0**	**0**	**30.032.922**
TOTAL ASSETS	**36.368.037**	**-309.533**	**33.540**	**-15.086**	**0**	**0**	**0**	**36.076.958**
EQUITY								
Share Capital	**-1.123.098**							**-1.123.098**
Share premium account	-7.650.000	444.733						**-7.205.267**
Legal reserve	-224.620							**-224.620**
Extraordinary reserve	-5.586.881							**-5.586.881**
Reserve for coverage for expected future financial flows	12.300							**12.300**
Income carried forward								**0**
Profit of the year	-7.288.730							**-7.288.730**
Fair Value OCI reserve					23.050			**23.050**
FTA reserve		-135.200	96.096	-44.320	-23.050			**-106.474**
IAS 19 Reserve								**0**
Total reserves	**-20.737.931**	**309.533**	**96.096**	**-44.320**	**0**	**0**	**0**	**-20.376.622**
GROUP'S EQUITY	**-21.861.029**	**309.533**	**96.096**	**-44.320**	**0**	**0**	**0**	**-21.499.720**
TOTAL EQUITY	**-21.861.029**	**309.533**	**96.096**	**-44.320**	**0**	**0**	**0**	**-21.499.720**
NON CURRENT LIABILITIES								
Financial non current liabilities	**-1.369.204**							**-1.369.204**
Provision for liabilities and charges	**-543.215**			**59.406**				**-483.809**
Provision for benefit	**-1.341.289**		**-129.636**					**-1.470.925**
TOAL NON CURRENT LIABILITIES	**-3.253.708**	**0**	**-129.636**	**59.406**	**0**	**0**	**0**	**-3.323.938**
CURRENT LIABILITIES								
Financial current liabilities	**-2.711.584**							**-2.711.584**
Trade payables	**-6.283.231**							**-6.283.231**
Other current liabilities	**-1.408.570**							**-1.408.570**
Current tax payable	**-849.915**							**-849.915**
TOTLA CURRENT LIABILITIES	**-11.253.300**	**0**	**0**	**0**	**0**	**0**	**0**	**-11.253.300**
TOTAL LIABILITIES AND EQUITY	**-36.368.037**	**309.533**	**-33.540**	**15.086**	**0**	**0**	**0**	**-36.076.958**

EQUITY RECONCILIATION AS AT JANUARY 1, 2019		
Pharmanutra S.p.A.		
AMOUNTS IN EURO		
Equity as per Italian G.A.A.P.	**-21.861.029**	**NOTE**
IAS/IFRS ADJUSTEMENTS		
Write off of intangible assets - IAS 38	-135.200	**A**
TFR provision adj. - IAS 19	96.096	**B**
FISC provision adj. - IAS 37	-44.320	**C**
Current financial instr. Adj. - IFRS 9	-23.050	**D**
First Time Adoption total effect (FTA)	**-106.474**	
Change in Share premium account	**444.733**	**A**
Equity as per IAS/IFRS	**-21.522.770**	

Description of reconciling items between Italian National Accounting Standards and IAS/IFRS in the reconciliation statements as at 1 January 2019

A - Intangible assets - IAS 38

IAS 38 does not allow the capitalisation of some types of deferred costs, which are instead allowed in compliance with Italian accounting standards.

The company capitalised, among deferred expenses, those related to the listing on the AIM market which took place in 2017 for an amount of Euro 444,733. The elimination of these capitalised costs from the assets of the balance sheet as at 1 January 2019 resulted in a reduction in the Share Premium Reserve of Euro 444,733 and an increase in the First-Time Adoption (FTA) Reserve of Euro 135,200 as well as a decrease in Deferred Tax Assets of Euro 42,694 on shareholders' equity. As a result, the accumulated depreciation/amortisation fund was reduced by Euro 177,894.

B - Employee benefits - IAS 19

In accordance with Italian National Accounting Standards, post-employment benefits are recognised on an accruals basis over the period of employment of the employees, in accordance with applicable legislation and labour contracts.

Post-employment benefits are separated by IFRS (IAS 19) into "defined contribution" and "defined benefit" plans. During the transition to IFRS, the value of the provision for employee severance indemnities was therefore recalculated on the basis of actuarial assumptions and recorded on an accruals basis in line with the work performed to obtain the benefits. The valuation of the liability was carried out by an independent actuary and resulted in an increase in the provision for severance indemnities of Euro 129,636 and a reduction of Euro 96,096 in shareholders' equity under the Reserve for first-time adoption (FTA). A provision of Euro 33,540 has been made in the item Deferred tax assets.

C - Provisions, Contingent liabilities and Contingent assets - IAS 37

In accordance with the National Accounting Standards and rules, the company has recognised the Provision for indemnity for termination of agency contracts related to agents. In accordance with the international accounting standard, as these are liabilities with a long deferral period, the related amounts must be discounted at a market rate, gross of taxes and taking into account the specific risks associated with the liability.

The valuation of the liability was carried out by an independent actuary and resulted in a reduction in the Provision for indemnity for termination of agency contracts of Euro 59,406 as well as an increase in shareholders' equity of Euro 44,320 in the Reserve for first-time adoption (FTA). This was offset by a reduction in the item Deferred tax assets of Euro 15,086.

D - Financial instruments - IFRS 9

With the adoption of International Accounting Standards, the expected losses of certain financial instruments undergo a different accounting treatment with respect to that provided under Italian National Accounting Standards. In particular, these standards require that the write-down of securities classified as current assets be made by reducing their value in the balance sheet assets, if their market value at the end of the year is lower than their book value. Conversely, International Accounting Standards require that purchase cost be maintained as an asset in the balance sheet and that the write-down be shown in a specific equity reserve as a reduction of equity recognition of securities at year-end Fair Value with recognition of the difference between book and market value in a shareholders' equity reserve, for debt securities classified as Hold To Collect and Sell, or in the income statement, for securities other than debt securities.

The adoption of this standard led to an increase in the First-Time Adoption (FTA) Reserve of Euro 23,050 and a decrease of the same amount in the OCI Fair Value Reserve.

E - Property, plant and equipment - IAS 16

The National Accounting Standard No. 16, on tangible fixed assets, provides for the classification of leaseh improvement costs under tangible fixed assets, although the subsequent National Accounting Standard No. 24, on intangible fixed assets, alternatively provides for their classification under item B I No. 7.

In the past, the company booked these fixed assets under item B I no. 7 and therefore, in order to comply with International Accounting Standards, these capitalised costs were reclassified and included under tangible fixed assets.

This led to a reduction in leasehold improvement costs to be amortised (Intangible fixed assets) of Euro 564,532 and a positive change in the Amortisation provision of Euro 321,155. At the same time, the item Buildings (Tangible fixed assets) was increased by Euro 564,532 and the Building depreciation provision was increased by Euro 321,155.

BALANCE SHEET RECONCILIATION BETWEEN NATIONAL G.A.A.P. AND IAS/IFRS AS AT DECEMBER 31,2019

Pharmanutra S.p.A.

AMOUNTS IN EURO

	31/12/19 National GAAP	IAS 38 note A	IAS 19 note B	IAS 37 note C	IFRS 9 note D	IFRS 16	IAS 16 note E	**31/12/19 IAS/IFRS**
BALANCE SHEET								
NON CURRENT ASSETS								
Tangible assets	**3.855.416**					**540.112**	**154.843**	**4.550.371**
Intangible assets	**1.173.000**	**-177.892**					**-154.843**	**840.265**
Investments	**3.051.045**							**3.051.045**
Non current financial assets	**178.064**							**178.064**
Other non current assets	**918.233**							**918.233**
Deferred tax assets	**413.237**	**-64.041**	**38.190**	**-21.755**				**365.631**
TOTAL NON CURRENT ASSETS	**9.588.995**	**-241.933**	**38.190**	**-21.755**	**0**	**540.112**	**0**	**9.903.609**
CURRENT ASSETS								
Inventories	**1.623.911**							**1.623.911**
Trade receivables	**12.584.396**							**12.584.396**
Other current assets	**899.156**				**-40.508**			**858.648**
Current tax receivables	**238.545**						**166.115**	**404.660**
Current financial assets	**4.924.988**				**149.895**			**5.074.883**
Cash and cash equivalents	**11.549.444**							**11.549.444**
TOTAL CURRENT ASSETS	**31.820.440**	**0**	**0**	**0**	**109.387**	**0**	**166.115**	**32.095.942**
TOTAL ASSETS	**41.409.435**	**-241.933**	**38.190**	**-21.755**	**109.387**	**540.112**	**166.115**	**41.999.551**
EQUITY								
Share Capital	**-1.123.098**							**-1.123.098**
Share premium account	**-7.650.000**	444.733						**-7.205.267**
Legal reserve	**-224.620**							**-224.620**
Extraordinary reserve	**-8.035.123**							**-8.035.123**
Reserve for coverage for expected future financial flows	**8.199**							**8.199**
Income carried forward								**0**
Profit of the year	**-6.819.465**	-67.600	14.727	-21.120	23.050	2.376		**-6.868.032**
Fair Value OCI reserve					-109.387			**-109.387**
FTA reserve		-135.200	96.096	-44.320	-23.050			**-106.474**
IAS 19 Reserve			19.088					**19.088**
Total reserves	**-22.721.009**	**241.933**	**129.911**	**-65.440**	**-109.387**	**2.376**	**0**	**-22.521.616**
GROUP'S EQUITY	**-23.844.107**	**241.933**	**129.911**	**-65.440**	**-109.387**	**2.376**	**0**	**-23.644.714**
TOTAL EQUITY	**-23.844.107**	**241.933**	**129.911**	**-65.440**	**-109.387**	**2.376**	**0**	**-23.644.714**
NON CURRENT LIABILITIES								
Financial non current liabilities	**-1.365.103**					**-336.194**	**601.667**	**-1.099.630**
Provision for liabilities and charges	**-685.164**			**87.195**				**-597.969**
Provision for benefit	**-1.754.683**		**-168.101**					**-1.922.784**
TOAL NON CURRENT LIABILITIES	**-3.804.950**	**0**	**-168.101**	**87.195**	**0**	**-336.194**	**601.667**	**-3.620.383**
CURRENT LIABILITIES								
Financial current liabilities	**-3.207.967**					**-206.294**	**-601.667**	**-4.015.928**
Trade payables	**-8.313.849**							**-8.313.849**
Other current liabilities	**-1.733.401**							**-1.733.401**
Current tax payable	**-505.161**						**-166.115**	**-671.276**
TOTAL CURRENT LIABILITIES	**-13.760.378**	**0**	**0**	**0**	**0**	**-206.294**	**-767.782**	**-14.734.454**
TOTAL LIABILITIES AND EQUITY	**-41.409.435**	**241.933**	**-38.190**	**21.755**	**-109.387**	**-540.112**	**-166.115**	**-41.999.551**

EQUITY AND RESULT OF THE PERIOD RECONCILIATION AS AT DECEMBER 31, 2019				
Pharmanutra S.p.A.				
AMOUNTS IN EURO	*EQUITY*	*RESULT OF THE PERIOD*	*TOTAL EQUITY*	
Equity as per Italian G.A.A.P.	**-17.024.642**	**-6.819.465**	**-23.844.107**	**NOTE**
IAS/IFRS ADJUSTEMENTS				
Write off of intangible assets - IAS 38	-135.200	-67.600	-202.800	**A**
TFR provision adj. - IAS 19	96.096	14.727	110.823	**B**
FISC provision adj. - IAS 37	-44.320	-21.120	-65.440	**C**
Current financial instr. Adj. - IFRS 9	-23.050	23.050	0	**D**
Fair Value OCI Reserve- IFRS 9	-109.387	2.376	-107.011	**D**
IAS 19 reserve	19.088	0	19.088	**B**
TOTAL	**-196.773**	**-48.567**	**-245.340**	
Change in Share premium account	**444.733**	**0**	**444.733**	**A**
Equity as per IAS/IFRS	**-16.776.682**	**-6.868.032**	**-23.644.714**	

INCOME STATEMENT RECONCILIATION BETWEEN NATIONAL G.A.A.P. AND IAS/IFRS AS AT DECEMBER 31,2019								
Pharmanutra S.p.A.								
AMOUNTS IN EURO	**31/12/19 National GAAP**	IAS 38 note A	IAS 19 note B	IAS 37 note C	IFRS 9 note D	IFRS 16	IAS 16 note E	**31/12/19 IAS/IFRS**
INCOME STATEMENT								
Net revenues	**-44.673.628**	**0**						**-44.673.628**
Other revenues	**-539.781**							**-539.781**
TOTAL REVENUES	**-45.213.409**	**0**	**0**	**0**	**0**	**0**	**0**	**-45.213.409**
Subsidiary and raw materials	**2.520.161**							**2.520.161**
Change in inventories	**-482.083**							**-482.083**
Services expenses	**31.257.685**			**-27.789**		**-198.600**		**31.031.296**
Personnel expenses	**2.349.302**		**13.682**					**2.362.984**
Other operating expenses	**534.956**							**534.956**
TOTAL OPERATING EXPENSES	**36.180.021**	**0**	**13.682**	**-27.789**	**0**	**-198.600**	**0**	**35.967.314**
GROSS OPERATING INCOME	**-9.033.388**	**0**	**13.682**	**-27.789**	**0**	**-198.600**	**0**	**-9.246.095**
Depreciation, amort., and write offs	**660.084**	**-88.947**				**195.287**		**766.424**
OPERATING INCOME	**-8.373.304**	**-88.947**	**13.682**	**-27.789**	**0**	**-3.313**	**0**	**-8.479.671**
Financial revenues	**-1.103.279**				**23.050**			**-1.080.229**
Financial expenses	**26.747**		**5.695**			**5.689**		**38.131**
Net financial (revenues)/expenses	**-1.076.532**	**0**	**5.695**	**0**	**23.050**	**5.689**	**0**	**-1.042.098**
INCOME BEFORE TAXES	**-9.449.836**	**-88.947**	**19.377**	**-27.789**	**23.050**	**2.376**	**0**	**-9.521.769**
Taxes	**2.630.382**	**21.347**	**-4.650**	**6.669**				**2.653.748**
Net (income)/loss of the period	**-6.819.454**	**-67.600**	**14.727**	**-21.120**	**23.050**	**2.376**	**0**	**-6.868.021**

Description of reconciling items between Italian National Accounting Standards and IAS/IFRS in the reconciliation statements as at 31 December 2019

A - Intangible assets - IAS 38

IAS 38 does not allow the capitalisation of some types of deferred costs, which are instead allowed in compliance with Italian accounting standards.

The company capitalised, among deferred expenses, those related to the listing on the AIM market which took place in 2017 for an amount of Euro 444,733. The elimination of these capitalised costs from the assets of the balance sheet, with regard to the year ended 31 December 2019, resulted in a positive effect on shareholders' equity under the item result for the year in the amount of Euro 67,600 as well as a decrease in Deferred tax assets in the amount of Euro 21,347. As a result, the accumulated depreciation/amortisation provision was reduced by Euro 88,947.

B - Employee benefits - IAS 19

In accordance with Italian National Accounting Standards, post-employment benefits are recognised on an accruals basis over the period of employment of the employees, in accordance with applicable legislation and labour contracts.

Post-employment benefits are separated by IFRS (IAS 19) into "defined contribution" and "defined benefit" plans. During the transition to IFRS, the value of the provision for employee severance indemnities was therefore recalculated on the basis of actuarial assumptions and recorded on an accruals basis in line with the work performed to obtain the benefits. The valuation of the liability was carried out by an independent actuary and resulted in an increase in the Provision for severance indemnity of Euro 38,465. The change in the provision led to the recognition of an amount of Euro 19,088 in IAS 19 negative reserve and a negative effect of Euro 14,727 on shareholders' equity under the Result for the year. A provision of Euro 4,650 has been made in the item Deferred tax assets.

C - Provisions, Contingent liabilities and Contingent assets - IAS 37

In accordance with the National Accounting Standards and rules, the company has recognised the Provision for indemnity for termination of agency contracts related to agents. In accordance with the international accounting standard, as these are liabilities with a long deferral period, the related amounts must be discounted at a market rate, gross of taxes and taking into account the specific risks associated with the liability.

The valuation of the liability was carried out by an independent actuary and led to a reduction in the Provision indemnity for termination of agency contracts of Euro 27,789 as well as an increase of Euro 21,120 in shareholders' equity under the item Result for the year. This was offset by a reduction in the item Deferred tax assets of Euro 6,669.

D - Financial instruments - IFRS 9

With regard to financial assets, the Company has adopted the accounting standard IFRS 9 Financial Instruments, Recognition and Measurement with regard to the classification, measurement and accounting of financial instruments.

With reference to the financial instruments, consisting of bonds issued by leading issuers, the management has carried out an analysis of its intentions in managing the instruments and has carried out the SPPI test (Solely Payments of Principal and Interest) for all the instruments in the portfolio, thus concluding that the most relevant business model to its management method is the HTC&S one and that the SPPI test has been passed.

The accounting rules that IFRS 9 defines for debt financial instruments classified to FVTOCI are as follows:

- Interest income is recognised in the income statement using the effective interest rate method, in the same way as for instruments at amortised cost;
- Impairment losses (and any write-backs) are recognised in the income statement in accordance with the rules set forth in IFRS 9;
- The differences between the amortised cost and the fair value of the instrument are recognised in equity in the other items of the comprehensive income statement;
- The cumulative reserve recognised in equity and relating to the debt instrument is reversed to the income statement only when the asset is derecognised.

With regard to the investments made in units of investment funds, the accounting rules provided for by IFRS 9 are as follows:

- The measurement criterion is fair value at the reporting date;
- Changes in fair value are recognised in the income statement.

As of 31 December 2019, the application of the standard as described above resulted in an increase in financial assets (Bonds) in the balance sheet assets of Euro 149,895, an increase in the OCI Fair Value reserve of Euro 109,387 and a decrease in the amount of accrued income on bond coupons of Euro 40,508.

E - Leases - IFRS 16

The introduction of the accounting standard IFRS 16 is aimed at providing a more faithful representation of lease contracts by repeating what is already indicated in IAS 17 but without making a distinction between operating and financial contracts.

With reference to property leases, the company has therefore recognised:

- the amount of the right of use on the assets of the balance sheet under tangible fixed assets and the provision for amortisation of rights of use;
- the amount of debt relating to property leases on the liabilities of the balance sheet divided between current and non-current liabilities:
- at the income statement level, the amortisation of the asset for the right of use and, at the same time, the interest expense on the liability towards the lessor were recorded.

The amount of the right of use is Euro 735,399, the one of provision for amortisation of rights of use is Euro 195,287.

The related financial liabilities have been quantified as Euro 336,194 for current and Euro 206,294 for non-current.

The application of IFRS 16 generated a negative effect on shareholders' equity under the item Result for the year of Euro 2,376.

F - Property, plant and equipment - IAS 16

The National Accounting Standard No. 16, on tangible fixed assets, provides for the classification of leasehold improvement costs under tangible fixed assets, although the subsequent National Accounting Standard No. 24, on intangible fixed assets, alternatively provides for their classification under item B I No. 7.

In the past, the company booked these fixed assets under item B I no. 7 and therefore, in order to comply with International Accounting Standards, these capitalised costs were reclassified and included under tangible fixed assets.

This led to a reduction for 2019 in Maintenance expenses to be amortised (Intangible fixed assets) of Euro 10,000 and a positive change in the Amortisation provision for deferred charges of Euro 98,538. At the same time, the item Buildings (Tangible fixed assets) was increased by Euro 10,000 and the Building depreciation provision was increased by Euro 98,538.

Pisa, 22/03/2021

For the Board of Directors

The Chairman

(Andrea Lacorte)

ATTESTATION ON THE FINANCIAL STATEMENTS PURSUANT TO ARTICLE 154-BIS, PARAGRAPH 5, OF ITALIAN LEGISLATIVE DECREE NO. 58 OF 24 FEBRUARY 1998

1. The undersigned Roberto Lacorte, Managing Director, and Francesco Sarti, Manager responsible for the preparation of Pharmanutra S.p.A.'s financial reports, taking into account the provisions of article 154-*bis*, paragraphs 3 and 4, of Italian Legislative Decree No. 58 of 24 February 1998, certify:

a) the adequacy in relation to the characteristics of the undertaking; and

b) the effective application of administrative and accounting procedures for the preparation of financial statements during the year 2020.

2. It is also certified that:

the financial statements for the year ended 31 December 2020:

- have been prepared in accordance with the applicable international accounting standards recognised by the European Community pursuant to Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
- correspond to the results of the accounting books and records;
- are capable of providing a true and fair view of the issuer's equity, economic and financial position;
- the Management Report includes a reliable analysis of the progress and results of operations, as well as the issuer's situation, together with a description of the main risks and uncertainties to which it is exposed.

Pisa, 22/03/2021

Pharmanutra S.p.A.
Managing Director

Pharmanutra S.p.A.
Manager in charge for preparing the accounting documents

Pharmanutra S.p.A.

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated January 27, 2010 and article 10 of EU Regulation n. 537/2014

Financial statements at December 31, 2020

This report has been translated into English from the original, which was prepared in Italian and represents the only authentic copy, solely for the convenience of international readers.

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Independent auditor's Report
pursuant to article 14 of Legislative Decree n. 39, dated January 27, 2010 and article 10 of EU Regulation n. 537/2014

To the shareholders of
Pharmanutra S.p.A.

Report on the financial statements

Opinion

We have audited the financial statements of Pharmanutra S.p.A. (the Company), which comprise the statement of financial position as at December 31, 2020, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the financial statements give a true and fair view of the financial position of the Company as at December 31, 2020 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as the regulation issued to implement art. 9 of Legislative Decree N0. 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 *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical and independence requirements applicable in Italy to the audit 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 judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Bari, Bergamo, Bologna, Brescia, Cagliari, Firenze, Genova, Milano, Napoli, Padova, Palermo, Roma, Torino, Verona

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Key audit matter	Audit response
IMPAIRMENT OF INVESTMENTS IN SUBSIDIARIES NOTE 6.1.3. “INVESTMENTS” Investments in subsidiaries are accounted for in the financial statements for a total amount of euro 3.051 thousand and are mainly referred to the wholly controlled companies Junia Pharma S.r.l. and Alesco S.r.l.. The recoverability of the amounts accounted for is tested comparing the carrying amount to the recoverable amount (value in use) estimated applying the Discounted Cash Flow (“DCF”) method. Impairment of investments in subsidiaries is considered a key audit matter for the audit of the financial statements, due to the subjectivity of the selection of parameters used to estimate the recoverable amount.	Our main audit procedures performed are the following: ▪ we verified the proper classification and related accounting treatment based on reference accounting principles; ▪ we obtained and examined the financial statements as of December 31, 2020 of the subsidiaries, which are audited by us, according to specific audit engagements; ▪ we compared the value of investment in subsidiaries to the equity portion attributable to the parent company; ▪ with reference to the impairment test, also being supported by BDO experts: – we verified the reasonableness of key assumptions underlying the plans of the management; – we verified the adequacy of the impairment model prepared by the Group and its compliance to the accounting principles; – we assessed the key underlying assumptions for the impairment model, in particular the ones related to cash flow projections, future growth rates and discount rates and determination of “terminal value”; – we verified the clerical accuracy of the impairment model; ▪ we verified the disclosures provided in the accompanying notes.

FIRTS TIME ADOPTION OF INTERNATIONAL ACCOUNTING STANDARDS IAS/IFRS

NOTA 13 "TRANSITION TO IAS/IFRS INTERNATIONAL ACCOUNTING STANDARDS - RECONCILIATION STATEMENTS BETWEEN ITALIAN AND INTERNATIONAL ACCOUNTING STANDARDS"

Following the admission to trading of the shares of Pharmanutra S.p.A. on the regulated market MTA – Star Segment, the Company is required to adopt the International Financial Reporting Standards (IAS/IFRS) in the preparation of its financial statements. The transition from local accounting standards to international accounting standards, due to subjectivity included in the accounting policy choices and assumptions of management, the qualitative impact and the requirements of disclosure, has been considered a key audit matter.

Our main audit procedures performed are the following:

- understanding the internal process adopted for the transition to international accounting standards;
- examination of the accounting policies and assumptions used by management in the transition process;
- check of the completeness and correctness of the accounting effects, deriving from the first time adoption of international accounting standards IAS/IFRS on the accounting balances for current and prior years since the date of transition;
- check of the completeness and correctness of the disclosures included in the financial statements referred to the first-time adoption of international accounting standards.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, as well as the regulation issued to implement art. 9 of Legislative Decree N0. 38/05 and, within the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with 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 financial statements.

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

- Identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control;
- evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- concluded on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We have communicated with those charged with governance, as properly identified in accordance with ISA Italia, 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 have also provided those charged with governance with a statement that we have complied with relevant ethical and independence requirements applicable in Italy, and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We described those matters in the auditor’s report.

Other information communicated pursuant to article 10 of Regulation (EU) 537/2014

We were initially engaged by the shareholders meeting of Pharmanutra S.p.A. on October 13, 2020 to perform the audits of the Company's and the consolidated financial statements of each fiscal year starting from December 31, 2020 to December 31, 2027.

We declare that we did not provide prohibited non audit services, referred to article 5, paragraph 1, of Regulation (EU) 537/2014, and that we remained independent of the company in conducting the audit.

We confirm that the opinion on the financial statements included in this audit report is consistent with the content of the additional report prepared in accordance with article 11 of the EU Regulation n.537/2014, submitted to those charged with governance.

Report on other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, letter e), of Legislative Decree n. 39/10 and of article 123-bis of Legislative Decree n. 58/98.

The directors of Pharmanutra S.p.A. are responsible for the preparation of the report on operations and of the corporate governance report of Pharmanutra S.p.A. as at December 31, 2020, including their consistency with the financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and of specific information of the corporate governance report as provided by article 123-bis, paragraph. 4, of Legislative Decree n. 58/98, with the financial statements of Pharmanutra S.p.A. as at December 31, 2020 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the report on operations and the above mentioned specific information of the corporate governance report are consistent with the financial statements of Pharmanutra S.p.A. as at December 31, 2020 and are compliant with applicable laws and regulations.

With reference to the assessment pursuant to article 14, paragraph. 2, letter e), of Legislative Decree n. 39/10 based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Milan, March 30, 2021

BDO Italia S.p.A.
Signed by Vincenzo Capaccio
Partner

Pharmanutra S.p.A.

Registered office Via delle Lenze 216/B
56122 Pisa
Share capital 1,123,098 fully paid up
Company registration number PI 146259
Tax code and VAT number 01679440501

Board of Auditors' Report to the Shareholders' Meeting of "Pharmanutra S.p.A"

In accordance with Article 153 of Legislative Decree no. 58/1998 and with Article 2429, paragraph 2, of the Italian Civil Code

Balance sheet as at December 31, 2020

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To the Shareholders' Meeting of Pharmanutra S.p.A. (hereinafter also "the Company").

Dear Shareholders,

the financial statements as at December 31, 2020 of the Company provide the first annual financial statements drawn up after the transition to the telematics stock market (Mercato Telematico Azionario, "MTA") - STAR Segment - of Borsa Italiana S.p.A., which took place on December 15, 2020.

Firstly, it is important to underline that the undersigned Board of Statutory Auditors was appointed on April 15, 2019 and will remain in office until the date of the Shareholders' Meeting called to approve the financial statements as at December 31, 2021.

The legal audit mandate, on the other hand, is carried out by the Independent Auditors BDO Italia S.p.A., with registered office in Milan, Viale Abruzzi no. 94, enrolled in the special register of auditing firms pursuant to Legislative Decree no. 39/2010, as deliberated by the Shareholders' Meeting of October 13, 2020, for the financial years 2020-2027. This company is responsible for providing its professional opinion in respect of the unconsolidated and consolidated financial statements.

Pursuant to Art. 153 of Legislative Decree no. 58/1998 ("Consolidated Law on Finance") and Art. 2429 of the Italian Civil Code, the Board of Statutory Auditors is required to report to the Shareholders' Meeting on the supervisory activities performed during the financial year and on any omissions and reprehensible facts observed.

The Board of Statutory Auditors is also invited to make observations and proposals concerning the financial statements, their approval and the items on the agenda of the Company's Shareholders' Meeting.

During the financial year ended on December 31, 2020, the Board of Statutory Auditors carried out the supervisory activities required by current legislation, with particular reference to Art. 2403 of the Italian Civil Code and Art. 149 of Legislative Decree no. 58/98, paragraphs 1 and 2 and subsequent amendments or additions, overseeing, for the aspects falling within its remit, compliance with the law and the Articles of Association, compliance with the principles of proper administration, the adequacy of the organizational and company's structure, the adequacy of the internal control system, the principles of proper administration and the administrative and accounting system, the reliability of the latter in correctly representing management events and the methods of implementing the rules of corporate governance.

The Board of Statutory Auditors carried out its institutional activity in compliance with the Italian Civil Code, the Consolidated Law on Finance, Legislative Decree no. 39/2010, the provisions of the Articles of Association and the principles of conduct recommended by the National Council of Chartered Accountants and Accounting Experts and also the indications provided by Consob Communication no. DEM 1025564 of April 6, 2001, and subsequent additions, related to the fact that the Company's shares are quoted on the telematics stock market - STAR segment.

Procedures for conducting and participating in meetings of the Board of Directors and of its committees

The Board of Statutory Auditors has planned its activities in the light of the reference regulatory framework, as well as carrying out the verifications deemed most appropriate with regard to the structural size of the Company and the nature and methods of pursuit of the corporate purpose.

It should be remembered that, in view of the Covid-19 outbreak still underway, in compliance with ministerial provisions, almost all the control activities of the Board of Statutory Auditors were performed remotely and the meetings held by videoconference, without access to the Company's operational offices.

These activities also included:

- periodic meetings with the heads of company departments, organized with a view to acquiring information and data that were useful and appropriate from time to time;

- attendance of Shareholders' Meetings and meetings of the Board of Directors and its sub-committees;
- the periodic exchange of information with the Independent Auditors, also in compliance with the regulations.

More specifically, the Board of Statutory Auditors, during 2020, has:

- attended 12 meetings of the Board of Directors and 2 Shareholders' Meetings, obtaining information on the general performance and outlook, as well as on the most significant economic and financial transactions carried out by the Company and its subsidiaries. On the basis of the information obtained, it has no particular observations to report;
- it carried out the supervisory activity through 15 meetings of the Board of Statutory Auditors. Moreover, it verified that its members had no grounds for disqualification and that they complied with the independence requirements;
- attended 1 meeting of the Related Party Transactions Committee;
- met and exchanged information with the Supervisory Body;
- systematically met and exchanged information with the Independent Auditors BDO.

During the supervisory activity- conducted , on the basis of the information and data acquired, no facts emerged that could give rise to a presumption of non-compliance with the law and the deed of incorporation or such as to justify reporting to the Supervisory Authorities or mention in this report.

1. Supervisory activities of the Board of Statutory Auditors

1.1. Considerations on the most important economic, financial and asset operations carried out by the Company and their compliance with the law and the deed of incorporation

The information acquired on the most significant economic, financial and equity transactions carried out by the Company during FY 2020 allowed the Board of Statutory Auditors to ascertain their compliance with the law and the Articles of Association and their consistency with the company's interests.

In this regard, we believe that these transactions have been exhaustively described in the Annual Report to which reference should be made and, specifically, they concern:

<u>Granting of new patents</u>

In March, the Company was successfully awarded new patents, in India and the United States respectively, which represent two new strategic assets for the Group's international expansion.

Commercial and scientific agreement with Pfizer Consumer Healthcare Italy S.r.l.

In April, the Company signed an important commercial and scientific agreement with Pfizer Consumer Healthcare Italy S.r.l. concerning the use of Magnesio Sucrosomiale®, among the ingredients of a new product that Pfizer has launched on the Italian market.

Obtainment of "Play Sure Doping Free" certification

In May, the parent company obtained the "Play Sure Doping Free" certification for the products of the Cetilar® line and for the food supplement Apportal®.

Patent box

In June, the Company signed an agreement with the tax authorities regarding access to tax benefits under the Patent Box.

Exclusive distribution for the Italian market of Atura brand vegetable proteins

In September, Alesco obtained the exclusive distribution rights for the Italian market for Atura brand vegetable proteins.

Sale of shares

In September 2020, the reference shareholders and Managing Directors of the parent company completed the sale of 80,000 shares in the Company each (representing a total of approximately 2.48% of the Company's share capital) as part of the process of creating the conditions, including the free float required by the applicable regulations, for the purposes of admission to trading on the STAR segment of the telematics stock market (MTA).

Transfer to the STAR Segment of the telematics stock market ("MTA")

On December 15, 2020, the Company's ordinary shares were admitted to trading on the telematics stock market (MTA) organized and managed by Borsa Italiana - STAR segment - with simultaneous exclusion from trading on AIM Italia; this transition took place following first the approval on December 11, 2020 by Consob of the Prospectus prepared by the Company and then the authorization on the same date by Borsa Italiana.

1.2. Atypical and/or unusual transactions

In 2020, the Board of Statutory Auditors did not find any atypical and/or unusual transaction carried out with third parties or related parties (including Group companies).

1.3. Transactions with related parties

The Board of Statutory Auditors acquired specific information on intercompany and related party transactions. These transactions are described in the Annual Report which refers to Note 14 of the Notes to the Consolidated Financial Statements.

As specified in the Annual Report on Operations, the Group has not entered into any major transactions with related parties or any transactions that have had a material impact on the Group's financial position or results for the year.

Transactions with related parties, as defined by IAS 24 and governed by Art. 4 of Consob Regulation no. 17221 of March 12, 2010 (and subsequent amendments), mainly concern commercial transactions for the supply of goods and services.

These transactions are settled by the procedure for transactions with related parties that the Company has adopted each time.

It is acknowledged that they comply with the law and the Articles of Association, that they are in accordance with the corporate interest and that no situations require further considerations or comments.

1.4. Adequacy of the information provided in the Directors' Report on Operations concerning atypical and/or unusual transactions, including those within the Group and with related parties

This case does not exist.

1.5. Observations and proposals concerning the remarks and information provided in the Independent Auditors' Report

The Independent Auditors have reported to the Board of Statutory Auditors on their audit work and on the absence of any uncertainties or limitations in the checks carried out. The Board of Statutory Auditors has examined their report on the statutory and consolidated financial statements as at March 30, 2021 and in this regard we note that it expresses an unqualified opinion and no requests for information.

1.6. Indication of any filing of complaints pursuant to Art. 2408 of the Italian Civil Code, of any initiatives taken and of their outcome

The Board of Statutory Auditors acknowledges that, during FY 2020, no complaints were not submitted in accordance with Art. 2408 of the Italian Civil Code and that, therefore, no action was taken.

1.7. Indication of any filing of complaints, of any initiatives undertaken and of their outcomes

The Board of Statutory Auditors acknowledges that, during FY 2020, no complaints were received from any party and that, therefore, no action was undertaken by the Board of Statutory Auditors.

1.8. Indication of any further appointments to the Independent Auditors and related costs

As shown in the Annual Report, in addition to the costs related to the audit activity, the Company incurred further costs for "Other services" for a total of EUR 272 thousand, mainly related to the support activities for the changeover to the MTA.

1.9. Indication of any assignment to parties related to the Independent Auditors on ongoing relationships and related costs

This case does not exist.

1.10. Indication of the existence of opinions, proposals and remarks issued, pursuant to the law, during the year

The Board of Statutory Auditors acknowledges that, during the year, the opinions required for the appointment of the Head of Internal Audit, the Manager in charge, the termination and renewal of the mandate of the Independent Auditors on the occasion of the transfer to the MTA, the directors' fees and the independence of the new directors were issued.

1.11. Indication of the frequency and number of the meetings of the Board of Directors, the Executive Committee and the Board of Statutory Auditors

As a rule, the Board of Directors meets in compliance with the terms of frequency and when opportunity and necessity require it on issues that are important for corporate management.

During FY 2020, 12 Board meetings were held.

As indicated in the introduction to this Report, the Board of Statutory Auditors met 15 times in 2020. The Board of Statutory Auditors attended, in presence and in some cases by remote connection, all the meetings of the Board of Directors, as well as the following meetings

- no. 1 meeting of the Related Parties Transactions Committee;

- no. 2 meetings of the Shareholders' Meeting.

The Board of Statutory Auditors also took part in meetings with the company's management, the heads of corporate functions and the Independent Auditors.

1.12. Observations on compliance with the principles of proper administration

The Board of Statutory Auditors has acquired knowledge of and supervised, to the extent of its competence, compliance with the fundamental criteria of prudent management of the Company and the more general principle of diligence, all on the basis of its participation in the meetings of the Board of Directors, of the documentation and information directly received from the various management bodies concerning the operations carried out by the Group and with, where appropriate, specific analyses and checks. The information acquired made it possible to verify compliance with the Law and the Articles of Association of the actions decided and implemented and to check that they were not clearly imprudent or risky.

1.13. Observations on the adequacy of the organizational structure

During the year under review, the Board of Statutory Auditors has acquired knowledge of and supervised - to the extent of its responsibility - the adequacy of the Company's organizational structure with regard to the size and nature of the business and its functioning; in this case, it had no specific remarks to report.

Following admission to the MTA, the Board of Statutory Auditors further deepened its assessment of the Company's organizational structure, by means of direct observations, surveys, meetings with corporate representatives and the Independent Auditors and collection of information.

The Board of Statutory Auditors points out that the Board of Directors has set up an internal Remuneration and Appointments Committee, a Control and Risk Committee and a Related Parties Committee, with advisory, proposal and investigation functions.

1.14. Observations on the adequacy of the internal audit system and, in particular, on the activities carried out by the internal audit supervisors

The Board of Statutory Auditors assessed the adequacy of the internal audit system - with regard to its responsibilities - and did not find any particularly weak element. Taking into account the size and characteristics of the activities provided by the Company, the internal audit system is adequate overall.

On October 23, 2020, the Board of Directors of the Company, as part of the process of transition to the MTA, adopted a series of resolutions on governance, which also concerned the appointment of the Director in charge of the internal audit and risk management system, the appointment of the Head of Internal Audit and the appointment of the Lead Independent Director.

1.15. Observations on the adequacy of the administrative/accounting system and its reliability in correctly representing management events

The Board of Statutory Auditors has verified, to the extent of its competence, the adequacy of the administrative and accounting system and its reliability in correctly recording and representing operating events by obtaining information directly from the Directors, the heads of the various departments and the Independent Auditors during the meetings held to examine the work plan carried out by the latter.

The Board of Statutory Auditors has no observations to report on the adequacy of the administrative and accounting system and its reliability in correctly representing management events.

The Board of Statutory Auditors notes that the Manager in charge of preparing the company's financial reports has issued the certification that the financial statements provide a true and correct representation of the equity, economic and financial position of the Company and the investee companies included in the scope of consolidation.

1.16. Observations on the adequacy of the instructions given by the Company to the subsidiaries pursuant to Art. 114, paragraph 2 of the Consolidated Law on Finance

No observations were made.

1.17. Observations on any significant aspects emerged during the meetings held with the Auditors pursuant to Art. 150, paragraph 3 of the Consolidated Law on Finance

The Board of Statutory Auditors held specific meetings with the Independent Auditors during which no significant aspects worthy of comment emerged in this report, other than those already highlighted above and below.

1.18. Indication of whether the Company complies with the Code of Conduct of the Committee for the Corporate Governance of Listed Companies

The Company has adopted the Corporate Governance Code of the Committee for the Corporate Governance of Listed Companies, as indicated in the Report on Corporate Governance and

Ownership Structure. This report was prepared pursuant to and for the purposes of Art. 123-*bis* of the Consolidated Law on Finance, noting that it complies with the regulations in force.

The said report describes in detail the governance system adopted by the Company. This system complies and adopts the rules of the governance model prescribed by the Code of Corporate Governance for Listed Companies.

The Report on Corporate Governance and Ownership Structure for the year 2020 sets out the conclusions reached by the Directors regarding the confirmation of the adequacy and effectiveness of the organizational, administrative and accounting structure of the Company and its main subsidiaries.

1.19. Concluding remarks concerning the supervisory activities carried out, as well as any omissions, reprehensible facts or irregularities found during the same

We acknowledge that the supervisory activity was carried out in the fiscal year 2020 with a normal character, except for what has been indicated above in relation to the Covid-19 pandemic restrictions.

1.20. Indication of any proposal to be submitted to the Shareholders' Meeting pursuant to Art. 153, paragraph 2 of the Consolidated Law on Finance with regard to the issues pertaining to the Board of Statutory Auditors

The Board of Statutory Auditors does not deem it necessary to make any further proposals or remarks.

2. Observations and proposals concerning the financial statements and its approval

The draft Financial Statements, the Consolidated Financial Statements as at December 31, 2020 and the Annual Report were approved during the Board of Directors' meeting held on March 22, 2021.

The Financial Statements, both statutory and consolidated, are prepared in accordance with IAS/IFRS. Not being responsible for the legal audit of the accounts, the Board of Statutory Auditors oversaw the general layout of the separate and consolidated Financial Statements and their compliance with the rules governing their formation and structure.

The formation, layout and format of the Financial Statements for the period comply with the law and regulatory provisions.

The Financial Statements are in accordance with the events and information of which we have been informed as a result of our participation in the meetings of the Corporate Bodies, which have enabled us to acquire information on the most important economic and financial transactions carried out by the Company.

As far as the Board of Statutory Auditors is aware, in drawing up the Financial Statements the Directors have not departed from the provisions of the law pursuant to Article 2423, paragraph four, of the Italian Civil Code.

The Financial Statements have been prepared by the Board of Directors on a going concern basis.

The Board of Statutory Auditors has also checked that they correspond to the facts and information of which it has become aware in the course of its duties. In this regard, the Board of Statutory Auditors has no particular observations to report.

We have taken note of the attestation, pursuant to Article 81-*ter* of CONSOB Regulation no. 11971/1999, by the Managing Director and by the Manager in charge of drawing up the accounting and corporate documents, pursuant to Law no. 262/2005, concerning the adequacy of the administrative and accounting procedures for preparing the separate and consolidated financial statements.

The legal audit is conducted by the Independent Auditors BDO Italia S.p.A.

Recalling that the Board of Statutory Auditors has assumed the role of "Internal Control and Audit Committee" pursuant to Art. 19 of Legislative Decree no. 39/2010, as from the date of admission to the stock exchange listing (December 15, 2020), with reference to the financial year 2020, we acknowledge the following:

- The Board of Statutory Auditors has received from the independent auditors the report on the separate financial statements and the consolidated financial statements, as required by Article 14 of Legislative Decree no. 39/2010, issued on March 30, 2020 without any remarks or requests for information;
- The Board of Statutory Auditors received the "Additional Report" from the Independent Auditors, pursuant to Art. 11 of Regulation (EU) no. 537/2014, which describes, among other things, the "key issues" that emerged during the legal audit and any "significant deficiencies" detected in the internal control system in relation to the financial reporting process. This report did not reveal any critical issues to bring to your attention;

- The Board of Statutory Auditors has received from the Independent Auditors the attestation of the “Annual Confirmation of Independence”, pursuant to Article 6 of Regulation (EU) no. 537/2014.

Conclusions

In consideration of the above and what has been reported to the attention of the Board of Statutory Auditors, we believe that there are no impediments to your approval of the draft financial statements for the year ended December 31, 2020, as well as of the proposal formulated by the Board of Directors to allocate the profit for the year, amounting to EUR 12,635,887, as follows: i) EUR 6,486,255 to the Shareholders in the amount of an ordinary dividend of EUR 0.67 for each of the entitled shares; ii) the remainder to the Extraordinary Reserve.

Pisa, March 31, 2021

The Chairman of the Board of Statutory Auditors

Dr. Michele Lorenzini

E-MARKET SDIR CERTIFIED

PHARMANUTRA

JUNIAPHARMA

ALESCO

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Capitale Sociale Euro € 1.123.097,70 i.v.

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SYSTEM CERTIFICATION ISO 9001 SGS

SYSTEM CERTIFICATION SA 8000 SGS