2019 Annual Report Coesia Group

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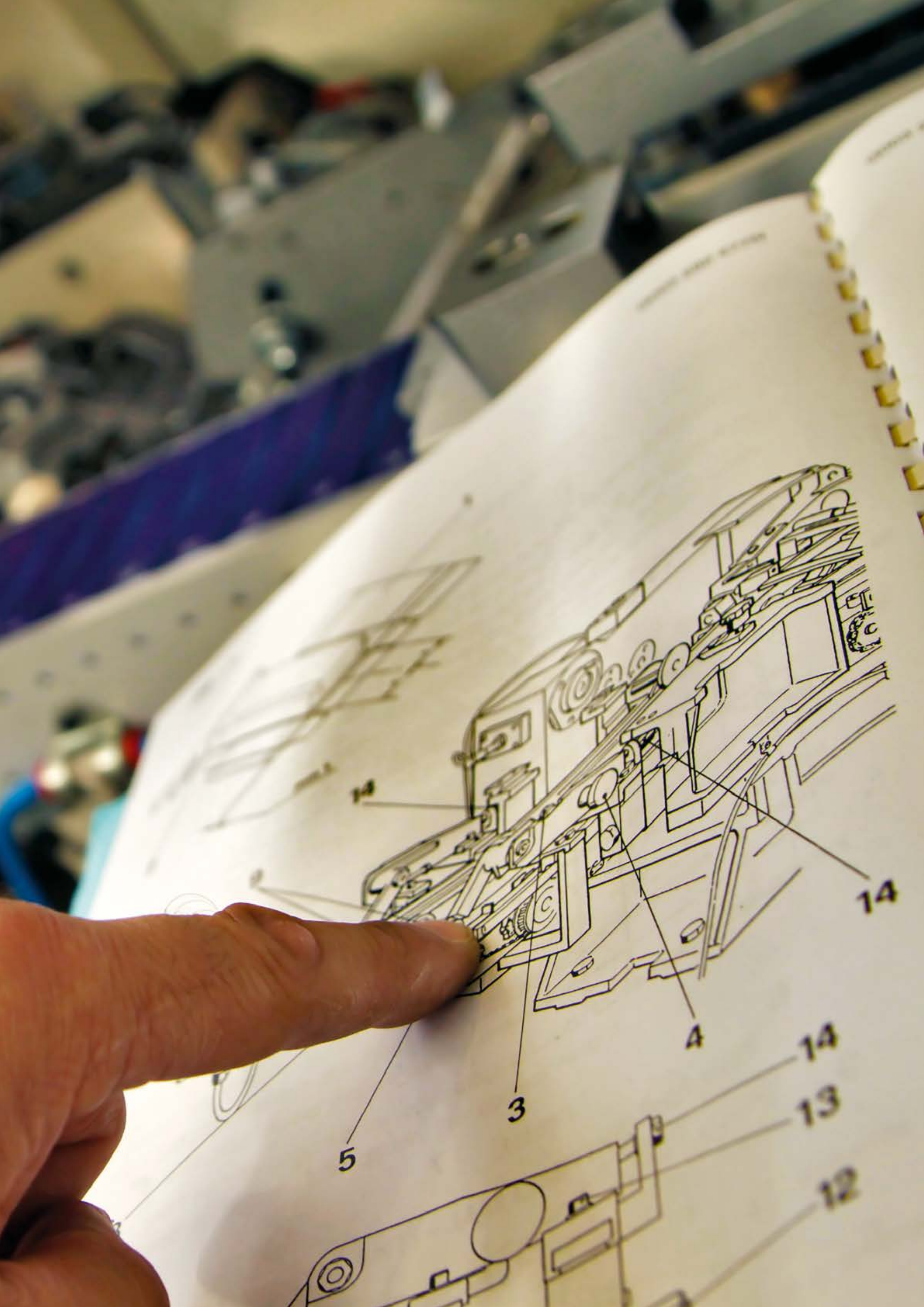
COESIA S.P.A. - with registered office in Bologna - Via Battindarno 91
Tax code 02221441203 - Bologna Company Registrar
Fully paid-up share capital € 125,000,000

2019
Annual Report
Coesia Group

(Translation from the Italian original which remains the definitive version)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ACTIVITIES OF THE GROUP COMPANIES

COESIA S.p.A. is the holding company of an industrial group. Its subsidiaries' core business relates to the design, construction and sale of (i) automated production, packing and packaging machinery for the tobacco, food, cosmetics, pharmaceutical, single-use hygiene products and consumer goods segments, tobacco processing and fume quality control and chemical test plant, instruments and machinery, aseptic filler machines, package opening and closing systems and multi-layer packaging material using a combination of polyethylene, paper and aluminium sheets, premium and luxury goods packaging machinery, and plant and machinery for ceramics, with innovative processes for decorating, packaging, logistics and quality control (Advanced Automated Machinery & Materials), (ii) manufacturing logistics, production automation and in-line printing solutions (Industrial Process Solutions) and (iii) gears on behalf of third parties (Precision Gears, "Other").

On 14 January 2019, the acquisition of 60% of System S.p.A.'s ceramics business was finalised. It was transferred to a newco called System Ceramics S.r.l. (subsequently transformed into System Ceramics S.p.A.), of which COESIA S.p.A. acquired 60% of the shares.

With turnover of €227 million in 2019 and approximately 1,200 employees, System Ceramics S.p.A. is an international leader in creating, selling and providing assistance with processing and packaging systems for the high-end ceramics industry. The company's registered office is in Fiorano Modenese (Modena) and it has production units in Italy and China, in addition to an international network of approximately 20 branches.

Reciprocal options for acquiring and selling the remaining 40% of the company's shares were agreed between the heads of System and Coesia and included in the acquisition agreement. They can be exercised over the coming years, according to agreed timeframes starting from 2020.

This transaction is an important strategic step for the Coesia Group, to which System Ceramics offers the chance to enter into the segment of machinery for ceramics, a particularly dynamic and technologically advanced segment where System is an undisputed leader in innovation.

Thanks to its global infrastructure and portfolio of technologies, the Coesia Group will be able to support the growth and technological leadership of System Ceramics, strengthening its competitive edge and geographical presence in new markets. System Ceramics S.p.A.'s ceramics business, on the other hand, is characterised by advanced electronics, software and digital skills, which may be a very valuable addition to the Coesia Group's business.

The transaction further reconfirms the trust and commitment of the Coesia Group in the industrial districts of Bologna and Modena, recognised as global centres of excellence in precision mechanics and industrial automation.

In 2019, the subsidiary G.D S.p.A. also acquired 30% of Pro SGM S.r.l. and Finotti S.r.l.'s quotas, with their registered offices in Valsamoggia (Bo) and Bentivoglio (Bo), respectively. These companies operate in the sectors of machinery design, automation, assembly and precision mechanical processing.

Starting from 31 December 2019, the position of CEO, formerly held by Mr. Angelos Papadimitriou, was assigned to the Chairman of the Board of Directors.

COESIA S.p.A. is the direct parent of the following companies operating in the various group businesses and belonging to the following operating segments, i.e.:

<u>ADVANCED AUTOMATED MACHINERY & MATERIALS (AAM&M)</u>

- G.D S.p.A., with its registered office in Bologna, is mainly active in the field of automated production, packing and packaging machinery for cigarettes and the tobacco industry in general. G.D S.p.A. controls a network of companies (in the USA, Brazil, Germany, United Kingdom, China, Japan, Singapore, Hong Kong, Indonesia, Russia, South Africa, South Korea, Turkey, Poland and the United Arab Emirates) that serve as its distribution and after-sales centres, as well as, in some cases, genuine production centres (in the USA, Brazil, Germany, Turkey and Indonesia); moreover, G.D S.p.A. wholly owns: (i) Sasib S.p.A., with its registered office in Castel Maggiore (Bologna), which produces automated machinery for the tobacco industry with a large range of maker and packer lines installed in several markets throughout the world and which completes and integrates, also in the low speed segment, the line of products that G.D S.p.A. offers to its customers; (ii) GF S.p.A., with its registered office in Solignano (Parma), a company that provides quality control systems and automated machinery for liquid filling, mainly for the pharmaceutical industry and (iii) MPRD Ltd, with its registered office in Milton Keynes (UK), active worldwide in the instrumentation and tobacco machinery segments, respectively under the Cerulean (supply of fume quality control and chemical test instruments and machinery) and Molins (design, development and production of automated machinery for the tobacco industry) brands. MPRD Ltd's wholly-owned subsidiaries in China and Singapore carry out distribution and after-sales activities, while its Czech subsidiary carries out production activities; (iv) Comas S.p.A., (70% owned by G.D S.p.A.), with its registered office in Silea (Treviso), active in the design, development and production of machinery and assembly lines for the processing of tobacco in the primary segment, with reference to both traditional and new generation products. Comas S.p.A. also owns a company that carries out production and sales activities in Brazil;

- ACMA S.p.A., with its registered office in Bologna, manufactures automated machinery for the packing of consumer goods, with particular references to the food (chocolate, candies, tea, coffee) and personal care (soap, detergents) segments;
- GDM S.p.A., with registered office in Offanengo (CR), is active in the field of automated single-use hygiene product production and packing machinery;
- VOLPAK S.A., with its registered office in Barcelona (Spain), is active in the automated packaging machinery segment;
- NORDEN AB, with its registered office in Kalmar (Sweden), manufactures packaging and tube filling machines and related packing lines for the cosmetics and pharmaceutical industry;
- CITUS KALIX SAS, with its registered office in Courcouronnes (France), is part of the Norden Group and operates in the tube and lipstick packaging and filling machines for the cosmetics industry, in addition to packing lines;
- R.A. JONES & CO. INC., based in Covington (Kentucky) in the United States, produces automated packing machinery for the food segment and for consumer goods manufacturing in general. It directly controls MGS Machine Corporation, based in Minneapolis (Minnesota), which produces automated cardboard packaging machinery and industrial automation solutions for the pharmaceutical, cosmetic, food and personal care segments;

- IPI S.r.l., with its registered office in Perugia, produces aseptic filler machines, package opening and closing systems and multi-layer packaging material using a combination of polyethylene, paper and aluminium sheets. IPI has two production sites in the Perugia area;
- EMMECI S.p.A., with its registered office in Cerreto Guidi (Florence), designs, produces and distributes automated machinery for the production of premium and luxury goods packaging. The company has been included in the Advanced Automated Machinery & Materials (AAM&M) sector since 2019; it was previously included in the IPS segment;
- SYSTEM CERAMICS S.p.A., with its registered office in Fiorano Modenese (MO), is an international leader in the development of production processes for the ceramics industry, which guarantees high industrial standards with regards to pressing, decorating, selection lines and quality control, in addition to providing advanced packing, palletising and handling solutions.

INDUSTRIAL PROCESS SOLUTIONS (IPS)

- FLEXLINK AB, a Swedish group with its registered office in Gothenburg (Sweden), operates in the design, construction and sale of logistics and high-end production automation solutions. FlexLink controls ADMV SA, based in Crémieu (France), which produces industrial automation solutions including transformers, elevators, depalletisers and palletisers;
- HAPA AG, with its registered office in Zurich (Switzerland), is active in supplying in-line printing solutions for the pharmaceutical industry;
- AZ COESIA GmbH (ATLANTIC ZEISER GmbH since January 2019) is active in the digital printing business, via the design, production and distribution of technological equipment and solutions and, through its subsidiary TRITRON GmbH, the production and distribution of special inks.

OTHER

- CIMA S.p.A., with its registered office in Bologna, designs and manufactures high performance precision gears, gearboxes and suppressors for the racing, aerospace, automotive and automated machinery segments.

THE MACROECONOMIC SITUATION

2019 saw a slight slowdown in global growth in the emerging, developing and advanced economies.

Based on the figures shared by the International Monetary Fund, in 2019, US GDP rose 2.3% (+2.9% in 2018) and Eurozone GDP rose 1.2% (+1.9% in 2018). In Germany, it grew 0.6% (+1.5% in 2018), whereas in Japan, it increased 0.7% (+0.3% in 2018). In the main emerging and developing economies, economic growth rates remained positive in China and India. China's GDP grew 6.1%, compared to 6.6% in 2018, while India's GDP increased 4.2%, compared to 6.8% in 2018.

According to the International Monetary Fund's estimates from April 2020, which reflect the expected impact of the Coronavirus pandemic (COVID-19), the global economy is projected to contract sharply by 3.0% in 2020, after which the global economy is expected to grow by 5.8% in 2021. Growth rates in the Eurozone are expected to contract by 7.5%, in the US by 5.9% and in Japan by 5.2%, followed by growth in 2021 of 4.7% in the Eurozone and the US and of 3.0% in Japan.

Emerging and developing economies are expected to contract by 1.0% in 2020, returning to growth of 6.6% in 2021, although China and India are expected to grow by 1.2% and 1.9%, respectively, in 2020, increasing to 9.2% and 7.4%, respectively, in 2021.

These estimates assume that: (i) the pandemic will fade in the second half of 2020, (ii) containment measures can be gradually unwound and (iii) economic activity will normalise, helped by active support policies from governments and institutions. The main uncertainties regard the effective development of the pandemic, the intensity and effectiveness of current and future containment efforts and the consequent impact on economic activities of the more severe global financial market conditions, raw materials price volatility, confidence levels, changes in consumer habits and global behaviour, in addition to the stability of global political and social scenarios, also related to national and international institutions' ability to adequately respond to the effects of the pandemic.

GROUP PERFORMANCE

Markets

The results achieved by the group companies in their respective markets in 2019 were better overall than in 2018 in terms of turnover and profit, despite the slowdown of global economic growth rates and the increased uncertainty of the macroeconomic situation.

Advanced Automated Machinery & Materials (AAM&M)

Volumes increased in 2019, thanks to the acquisitions of the System and Comas groups (the latter was only consolidated for the last quarter in 2018), while operating results decreased compared to the previous year due to complex market conditions.

With regard to the tobacco industry, the market shows strong changes related in particular to the considerable fluctuations in New Generation Products (NGP). The growth of these products on the global market slowed throughout 2019 and resulted in a very significant decline in investments in machinery for this product type. Multinationals are continuing to support active research into new solutions, such as the development and evolution of existing NGPs, albeit without having defined a clear strategy yet. This uncertainty is mainly due to the pending regulation of NGPs by the US Food and Drug Administration (FDA) and by many other countries, such as China, the leading global cigarette manufacturer. This uncertainty is also compounded by the geopolitical crisis in the Middle East, which is affecting investments in large parts of the area.

Meanwhile, the production streamlining process continues, particularly by the multinationals, by redistributing production assets and concentrating conventional cigarette production in a smaller number of factories. In this context, multinationals are focusing particularly on cost cutting policies.

There may be opportunities for the supply of machinery especially in South East Asia and in the Middle East, in addition to the supply of improvements to the current machinery, as well as for the transformation of existing machinery to make it compliant with the increasingly stringent anti-smoking regulations.

The Consumer Goods Machinery and Materials (CGM&M) business performed slightly worse than the previous year. The sector is witnessing a transformation in market trends, increasingly directed towards an eco-friendly economy, which outlines a need for technological transformation, meaning that customers evaluate new investments based on this criteria.

For the Coesia Group and, in particular, the CGM&M business, 2019 was characterised by the "*SFI", Sustainable Forestry Initiative*® contract acquired by ACMA S.p.A., but which also involves other Coesia group companies. The project offers the chance to get established in the coffee market and become a key supplier for a market leader. The contract provides for the supply of full production lines to set up a new fully-automatic factory for the customer, therefore entailing the highest technological innovation, which, in 2019, resulted in important investments by ACMA S.p.A. in research and development with the support of the Coesia Engineering Center (CEC). For years, the Coesia Engineering Center has been the heart of the group's top-range research and development, and it is still the key to continuing to work closely with customers, understanding their current and future needs and supporting an ongoing development in sales.

Europe remains a stable market, albeit with emerging challenges deriving especially from increasing investments in the 4.0 industry aimed at boosting the production efficiency of facilities. The growth trend in consumer goods is also seen in emerging and developing countries due to their demographic growth and increased purchasing power.

Lastly, the ceramics business, which became part of the group in January 2019, contributed significantly to the results of the year, in terms of both volumes and results. This transaction, carried out through an acquisition, was an important strategic step, offering Coesia the chance to enter into the segment of machinery for ceramics, a particularly dynamic and technologically advanced segment where System Ceramics is an undisputed leader in innovation.

Industrial Process Solutions (IPS)

The IPS business recorded a slight rise in sales volumes and operating results in 2019 (considering the transfer of the Emmeci Group to the AAM&M segment following the reorganisation aimed at improving the synergies within the group).

This increase was achieved thanks to the new solutions which expand the range offered as part of the digital printing market. In this segment, the two new acquisitions from 2018, Atlantic Zeiser

GmbH and Titron GmbH were integrated into the pre-existing business in order to leverage the synergies and create an offer structure capable of proposing solutions to the market that cater for customers' different industries. In this context, investment opportunities are being implemented to bolster the products offered in the consumer goods sector.

The geographical areas that made the greatest contribution in terms of boosting sales for the IPS segment in emerging markets were South East Asia and the African market. The traditional reference markets recorded great results in North America, while the performance in Europe remained stable. A slowdown was seen in Latin America which had benefited from strong investments by customers in the previous year.

Income statement

The following main captions of the reclassified income statement are equivalent to the corresponding captions of the income statement shown in the 2019 consolidated financial statements, except for the EBITDA caption which is EBIT plus amortisation and depreciation for the year and EBIT BEFORE NON-RECURRING INCOME / EXPENSE and EBITDA BEFORE NON-RECURRING INCOME / EXPENSE which are EBIT and EBITDA gross of non-recurring income/expense.

€/000	2019	2018
REVENUE	1,958,170	1,791,756
GROSS OPERATING PROFIT	611,792	590,073
EBIT (OPERATING PROFIT) BEFORE NET NON-RECURRING EXPENSE	224,498	272,502
NET NON-RECURRING EXPENSE	(14,790)	(13,500)
EBIT (OPERATING PROFIT)	209,708	259,002
EBITDA BEFORE NET NON-RECURRING EXPENSE	335,924	341,240
NET NON-RECURRING EXPENSE	(14,790)	(13,500)
EBITDA	321,134	327,740
PROFIT FOR THE YEAR	182,543	165,905

Non-recurring income/expense may be analysed as follows:

€/000	2019	2018
M&A TRANSACTIONS*	(6,332)	(5,936)
95th ANNIVERSARY OF G.D EXPENSE	-	(3,747)
DONATIONS	(2,623)	(2,294)
RESTRUCTURING COSTS	(5,835)	(1,523)
TOTAL NET NON-RECURRING EXPENSE	**(14,790)**	**(13,500)**

* In 2018, balance includes the overall net expense of €757 thousand relating to the adjustment of the consideration paid for the acquisition of G.F S.p.A. and Laetus.

Revenue by business segment

€/000	2019	%	2018	%
ADVANCED AUTOMATED MACHINERY AND MATERIALS	1,613,092	82%	1,413,143	79%
INDUSTRIAL PROCESS SOLUTIONS	317,003	16%	349,915	19%
OTHER	28,075	2%	28,698	2%
Total	**1,958,170**	**100%**	**1,791,756**	**100%**

Consolidated revenue was €1,958 million for 2019, up 9.3% on the previous year.

With regard to revenue trends by segment, see the comments thereon in the “Operating segment analysis” section.

Revenue by geographical segment

€/000	2019	%	2018	%	Variation %
EUROPEAN UNION	521,857	26%	623,163	35%	(16%)
NORTH AMERICA	427,161	22%	355,286	20%	20%
ASIA	470,185	24%	411,947	23%	14%
OTHER	406,394	21%	325,777	18%	25%
Total revenue outside Italy	**1,825,597**	**93%**	**1,716,173**	**96%**	**6%**
ITALY	132,573	7%	75,583	4%	75%
Total revenue	**1,958,170**	**100%**	**1,791,756**	**100%**	**9%**

93% of 2019 revenue was earned outside Italy (96% in 2018), specifically in North America and Asia. Sales rose again across the board, except for the slight decrease in the EU, following the acceleration recognised in the previous year. The increase in revenue in Italy is mainly due to the acquisition of the System Group, which recognised approximately 24% of its revenue in Italy in 2019, while “Other” was positively influenced by the rise in sales in the Middle East and Africa.

The Advanced Automated Machinery & Materials (AAM&M) segment showed an increase in sales in all non-EU geographical segments, the Industrial Process Solutions (IPS) segment highlighted a growth in sales in Asia and North America, while “Other” was positively influenced by the rise in sales in Africa.

Gross operating profit

Gross operating profit was equal to 31% of revenue, basically in line with the previous years.

Research and development expenditure

The group views research and development activities as a driver of differentiation and long-term sustainable performance. The research and development expenditure incurred during the year amounted to €109.7 million, up on the previous year (€107.8 million incurred in 2018). It accounts for approximately 5.6% of 2019 revenue (6.3% in 2018).

Adding the engineering costs incurred for the various projects, the group’s total research, development and engineering costs came to 9.0% of revenue in 2019 (compared to 10.1% in 2018).

Development expenditure which met capitalisation requirements under IAS 38 amounted to €75.4 million in 2019 (€76.8 million in 2018). The amortisation of expenditure capitalised during 2019 and previous years amounted to €41.3 million (€35.1 million in 2018). Capitalised expenditure is amortised over five years starting from when the products are available for sale.

Therefore, research and development expenditure recognised in profit or loss in 2019 amounted to €75.6 million (€66.1 million in 2018).

In 2019, many investments in the tobacco sector were focused on developing new solutions to manufacture new generation products, in addition to the study and development of new flexible lines for conventional products and digital technologies (the 4.0 industry).

R&D activities for the consumer goods machinery and aseptic filling machinery & materials businesses centred on projects deemed strategic in relation to the prospects of developing, diversifying and innovating the end products of group customers.

In the Industrial Process Solutions business, R&D investments continued to increase, in line with the previous year. The most significant projects are those related to the application of new digital technologies, the development of digital printing in the consumer goods market and the introduction of new products to the industrial automation field.

Operating profit (EBIT)

Operating profit of €209.7 million included net non-recurring expense of €14.8 million as described earlier.

Operating profit gross of net non-recurring expense was €224.5 million or 11.5% as a percentage of revenue, down compared to 2018, mainly as a result of the production under-absorption related to delays in orders and costs for the completion of new platforms for the tobacco and certain consumer goods machinery segments.

Profitability indicators

The main profitability indicators for 2019 and 2018 were as follows:

Indicators		2019	2018
Return on sales (ROS)	EBIT (OPERATING PROFIT) BEFORE NON-RECURRING INCOME / EXPENSE / Revenue	11.46%	15.21%
Return on investment (ROI)	EBIT (OPERATING PROFIT) BEFORE NON-RECURRING INCOME / EXPENSE / Average net invested capital	14.13%	23.74%
Return on equity (ROE)	Profit for the year / Average equity	17.60%	18.28%

ROI fell compared to the previous year as a result of the decrease in operating profit and the increase in net invested capital, the trends of which are examined below, while ROE is in line with the previous year as a result of the increase in profit for the year compared to 2018, mainly due to the so-called “Patent Box” tax incentive obtained by the subsidiary G.D S.p.A. in 2019, as detailed in the “Significant events” paragraph below.

Statement of financial position

The following main captions of the statement of financial position are equivalent to the corresponding captions of the statement of financial position shown in the 2019 consolidated financial statements. The group's invested capital is presented in the following table, in which "Other, net" comprises non-current financial assets not included in the group's net financial debt (mainly guarantee deposits on leases and equity-accounted investments), current tax assets, other current assets, provisions for risks and charges, current tax liabilities and other current liabilities. "Pensions, post-employment benefits and other" includes the liability for employee benefits and deferred tax assets and liabilities.

€/000	31/12/2019	31/12/2018
Trade receivables	369,952	290,538
Inventories	687,682	592,217
Trade payables	(376,586)	(334,809)
Other, net	(368,964)	(346,989)
Net working capital	**312,084**	**200,957**
Property, plant and equipment and investment property	300,131	269,851
Right-of-use assets	114,839	0
Intangible assets	1,276,269	844,626
Non-current assets	**1,691,239**	**1,114,477**
Pensions, post-employment benefits and other	(93,781)	(54,605)
Net invested capital	**1,909,542**	**1,260,829**
Non-current assets held for sale and liabilities associated with assets held for sale	7,481	-
Total net invested capital	**1,917,023**	**1,260,829**
Financed by:		
Net financial debt	**809,956**	**293,208**
Equity attributable to non-controlling interests	5,413	4,216
Equity attributable to the owners of the parent	**1,101,654**	**963,405**
Total sources of financing	**1,917,023**	**1,260,829**

The increase in total net invested capital compared to the previous year is mainly due to the acquisition of System Ceramics and the recognition of operating leases in accordance with IFRS 16 which entailed the recognition of a right-of-use asset of €102.6 million at the end of 2019.

The Net working capital, net of the €129.6 million increase resulting from the acquisition of System Ceramics, is down compared to the previous year, highlighting the further consolidation of the actions taken to improve working capital in previous years.

€/000	31/12/2019	31/12/2018
Cash and cash equivalents	(656,579)	(355,552)
Investments in securities	(39,627)	(39,075)
Liquidity	**(696,206)**	**(394,627)**
Current loan assets	(11,119)	(7,576)
Bonds	746	748
Current bank loans and borrowings	50,946	2,641
Current lease liabilities	21,956	-
Other current loans and borrowings	12,398	8,369
Current financial debt	**74,927**	**4,182**
Current net financial position (A)	**(621,279)**	**(390,445)**
Non-current bank loans and borrowings	876,239	429,193
Bonds	99,720	99,568
Non-current lease liabilities	91,540	-
Financial investments	(10,084)	(4,137)
Other non-current loan assets	-	(1,456)
Other non-current loans and borrowings	27,663	27,171
Non-current financial debt (B)	**1,085,078**	**550,339**
Net financial debt prior to options on the acquisition of investments (A) + (B)	**463,799**	**159,894**
Non-current liabilities for options on the acquisition of investments (C)	**346,157**	**133,314**
Total net financial debt (A) + (B) + (C)	**809,956**	**293,208**

The net financial debt at 31 December 2019 included the negative fair value of currency and interest rate hedges (€15,936 thousand) and other transactions (€2,261 thousand). Total cash flows from operating activities, gross of non-recurring transactions and dividends distributed, amount to approximately €186.9 million, as shown in the table below.

€/000	31/12/2019	31/12/2018
Changes in total net financial debt	(516,748)	(106,138)
Non-recurring transactions:		
Financial effect of non-recurring income/expense and acquisition/sale of businesses/companies*	545,516	256,781
Effect of debt recognition as per IFRS 16	108,109	0
Dividends distribution	50,000	50,000
Change in net financial debt, net of non-recurring transactions and dividends distributed	**186,877**	**200,643**

* Includes the consideration paid for acquisitions, including the value of options for the acquisition of investments, and the net financial debt assumed

The slight decrease compared to the previous year is mainly due to lower EBIT, partially offset by the actions taken to improve operating working capital, as described earlier, the trend of the capital expenditures and the effect of the Patent Box incentive, which resulted in a decrease in tax payments.

Human resources

The workforce at 31 December 2019 numbered 8,519 (7,555 at 31 December 2018). The main increase on the previous year end is linked to the above-mentioned acquisition of System Ceramics (roughly 1,198 employees). Italian group personnel at 31 December 2019 came to 4,573.

Operating segment analysis

Reference should be made to the notes to the consolidated financial statements.

1.1 OTHER INFORMATION

Main risks and uncertainties

In relation to the requirements of article 2428 of the Italian Civil Code for disclosures about the main "risks and uncertainties" and the "environment and personnel", no significant events took place.

The group companies are exposed to the normal risks and uncertainties of industrial businesses engaged in designing, producing and selling consumer goods with a high technological content on international markets.

Furthermore, market risks for the subsidiary G.D S.p.A. related to the new stricter laws being introduced by the FDA in the US, with the possible introduction of limitations, such as on the use of flavourings, as well as in the European Union and non-EU countries, that may have an additional negative impact on cigarette consumption and the demand for machinery.

These risks are compounded by those related to the increased focus on cost cutting and productive consolidation resulting in a drop in the demand for conventional machinery and growing price pressure with an effect on the company's profitability.

Though present, credit, liquidity, currency and interest rate risks do not have significant potential impacts on the group's current financial position and that of individual group companies. In any case, they are suitably monitored and managed, as commented on in the notes to the consolidated financial statements. Specifically, the policy of COESIA and its subsidiaries is to mitigate currency and interest rate risks via specific hedges.

Investments in foreign operations are not hedged, except for the programmed distribution of dividends, as foreign currency positions are considered to be of a long-term nature.

As noted, COESIA's and its subsidiaries' market is characterised by demand for highly technological and innovative solutions and, accordingly, the group invests around 9.0% of its revenue in research, development and engineering. In this context, employees' expertise is of strategic importance, especially in technical areas. The group invests heavily and constantly in training, retaining its employees and in the work place. It carefully monitors and applies the relevant labour legislation, especially that covering occupational health and safety. In 2019, the parent and the main Italian group companies completed a project to update the organisational, management and control model as per Legislative decree no. 231/01, with the inclusion of environmental crimes and safeguarding intellectual property. Furthermore, again in 2019, some of the recently-acquired Italian group companies complied with Legislative decree no. 231/2001 aimed at adopting the organisational, management and control model covering the above-mentioned crimes, in addition to occupational safety, private-to-private corruption and undue inducement to give or promise benefits.

Number and nominal value of treasury shares

The group does not hold nor did it hold treasury shares or shares of its parent during the year.

Significant events

During the year, the subsidiary G.D S.p.A. entered into a preliminary ruling procedure with the Tax Authorities, which allowed it to avail itself of the so-called Patent Box incentive for the 2015-2019 five-year period. Accordingly, the Patent Box incentive for 2015-2018 was recognised in the income statement in 2019. The incentive generated income of €54.3 million, recognised under "Taxes" caption.

Starting from 31 December 2019, the position of CEO, formerly held by Mr. Angelos Papadimitriou, was assigned to the Chairman of the Board of Directors.

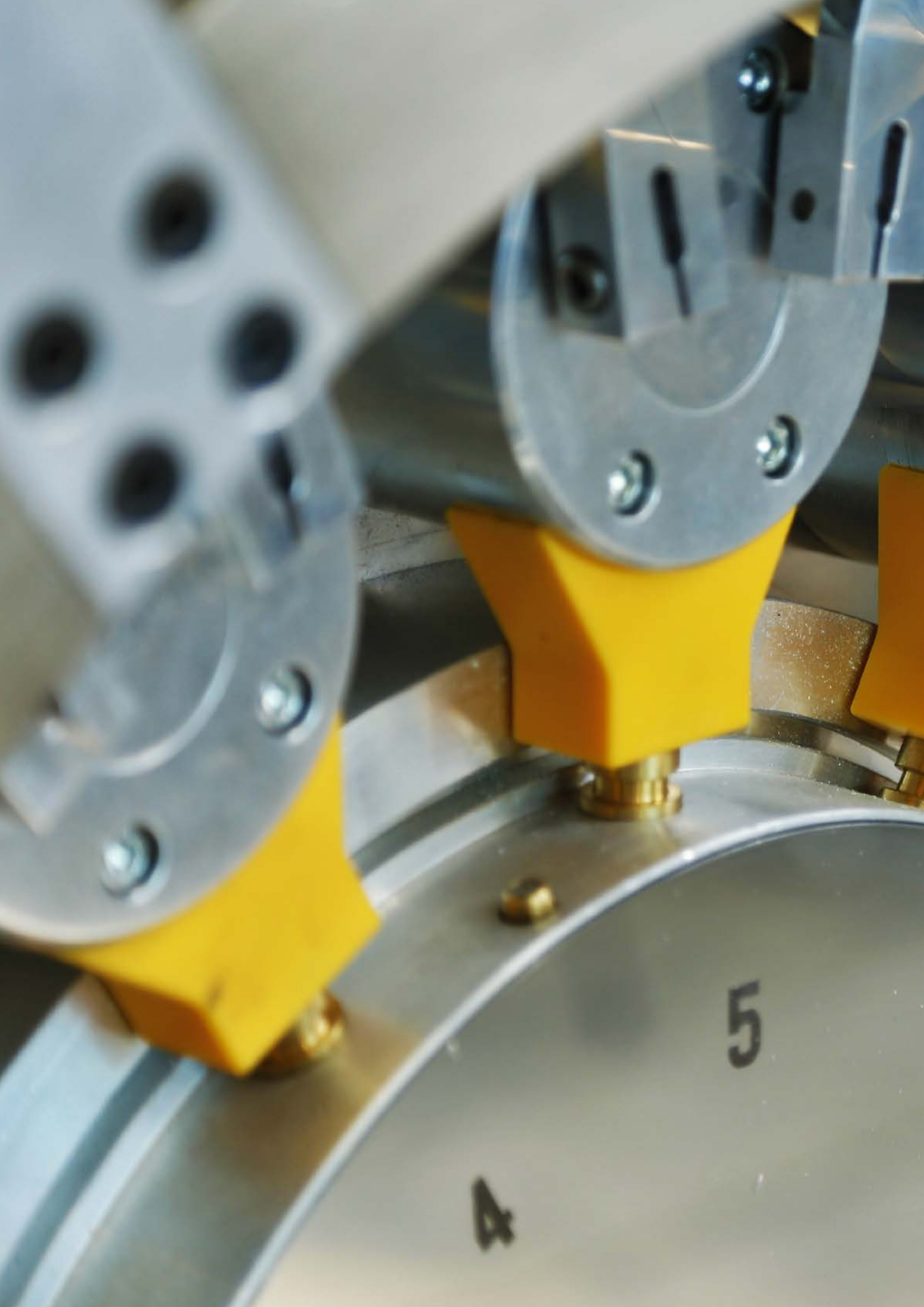
Events after the reporting date

The beginning of 2020 has been marked by the appearance of the so-called Coronavirus (COVID-19) epidemic, which started in China at the end of 2019 and quickly spread around the world. The phenomenon is impacting the global economy, with severe repercussions for the lives of the population, in addition to work, consumption, business activities, financial markets and economic growth. The Coesia group companies have followed the instructions issued by the governments of the respective countries, with the goal of protecting the health of employees, while keeping the business going. Many group companies have introduced smart working and, where required by law, production activities have been temporarily suspended. There have been no significant problems in the supply chain and IT systems are adequately supporting smart working. At present, it is hard to predict the impacts of the Coronavirus; however, there are currently no significant risks related to: i) the continuity of business and the group companies, ii) the need to make significant adjustments in 2020 to assets shown in the 2019 financial statements and iii) accruing significant liabilities for risks and charges. The group's non-revocable credit lines are considered substantial enough to confront any significant delays in cash flows.

Outlook

Positive forecasts should be confirmed for the Coesia Group in 2020 considering the trends in negotiations underway with customers, incoming orders expected during the year and the contribution of new acquisitions, even though the spread of the Coronavirus could lead to worse results than expected in the budget due to the postponement of orders and deliveries to the following year and costs related to production and logistical inefficiencies. Budget expectations for the Advanced Automated Machinery & Materials operating segment show an increase in the main financial results, maintaining profitability thanks to the product mix, the expansion of the sales coverage and efficiency programmes for processes with risks deriving from the normal volatile nature of the business against an uncertain macroeconomic backdrop.

Based on budget, the Industrial Process Solutions business is expected to improve compared to 2019, particularly with regard to logistics and industrial production solutions. The very positive outlook of this segment on the American market, together with the effort to focus on the production units confirms the forecast improvement in terms of volumes and profitability. With regard to digital printing, the projects aimed at increasing the profitability of the new machinery which already had a positive impact in 2019 are expected to continue.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2. CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2019

2. CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2019

Statement of financial position

€/000	Note	31 December 2019	31 December 2018
Property, plant and equipment	3.3.1	299,608	269,337
Investment property	3.3.1	523	514
Right-of-use assets	3.3.2	114,839	-
Goodwill and other intangible assets with an indefinite life	3.3.3	1,008,017	677,324
Intangible assets with a finite life	3.3.4	268,252	167,302
Equity-accounted investments	3.3.5	2,556	2,397
Non-current financial assets	3.3.6	12,830	7,122
Deferred tax assets	3.3.7	104,574	90,944
Total non-current assets		**1,811,199**	**1,214,940**
Inventories	3.3.8	543,790	527,156
Contract work in progress	3.3.9	143,892	65,061
Trade receivables	3.3.10	369,952	290,538
Current financial assets	3.3.11	50,746	46,651
Current tax assets	3.3.12	48,671	11,975
Other current assets	3.3.13	69,353	72,204
Cash and cash equivalents	3.3.14	656,579	355,552
Non-current assets held for sale	3.3.15	7,481	-
Total current assets		**1,890,464**	**1,369,137**
Total assets		**3,701,663**	**2,584,077**
Share capital	3.3.16	125,000	125,000
Reserves	3.3.16	96,212	96,840
Retained earnings	3.3.16	697,899	575,660
Profit attributable to the owners of the parent	3.3.16	182,543	165,905
Equity attributable to the owners of the parent		**1,101,654**	**963,405**
Equity attributable to non-controlling interests	3.3.16	**5,413**	**4,216**
Total equity		**1,107,067**	**967,621**
Non-current financial liabilities	3.3.17	1,349,779	689,246
Non-current lease liabilities	3.3.2	91,540	-
Employee benefits	3.3.18	79,121	68,351
Provisions for risks and charges	3.3.19	14,238	7,926
Deferred tax liabilities	3.3.7	119,234	77,198
Other non-current liabilities		8	121
Total non-current liabilities		**1,653,920**	**842,842**
Current financial liabilities	3.3.17	64,090	11,758
Current lease liabilities	3.3.2	21,956	-
Current portion of provisions for risks and charges	3.3.19	49,248	52,765
Trade payables	3.3.20	376,586	334,809
Current tax liabilities	3.3.12	25,045	22,093
Other current liabilities	3.3.21	403,751	352,189
Total current liabilities		**940,676**	**773,614**
Total liabilities		**2,594,596**	**1,616,456**
Total equity and liabilities		**3,701,663**	**2,584,077**

Income statement

€/000	Note	2019	2018
Revenue	3.4.1	1,958,170	1,791,756
Cost of sales	3.4.2	(1,346,378)	(1,201,683)
Gross operating profit		**611,792**	**590,073**
Commercial and distribution costs	3.4.3	(150,070)	(133,886)
General and administrative expenses	3.4.4	(162,221)	(117,156)
Research and development expenditure	3.4.5	(75,625)	(66,127)
Other income	3.4.6	1,208	738
Other costs	3.4.6	(15,376)	(14,640)
Operating profit		**209,708**	**259,002**
Financial income	3.4.7	41,050	32,184
Financial expense	3.4.8	(65,878)	(57,681)
Losses on equity-accounted investees	3.4.9	(3,682)	(477)
Pre-tax profit		**181,198**	**233,028**
Income tax expense	3.4.10	2,219	(66,756)
Profit for the year		**183,417**	**166,272**
Profit for the year attributable to non-controlling interests		**874**	**367**
Profit for the year attributable to the owners of the parent		**182,543**	**165,905**

Statement of comprehensive income

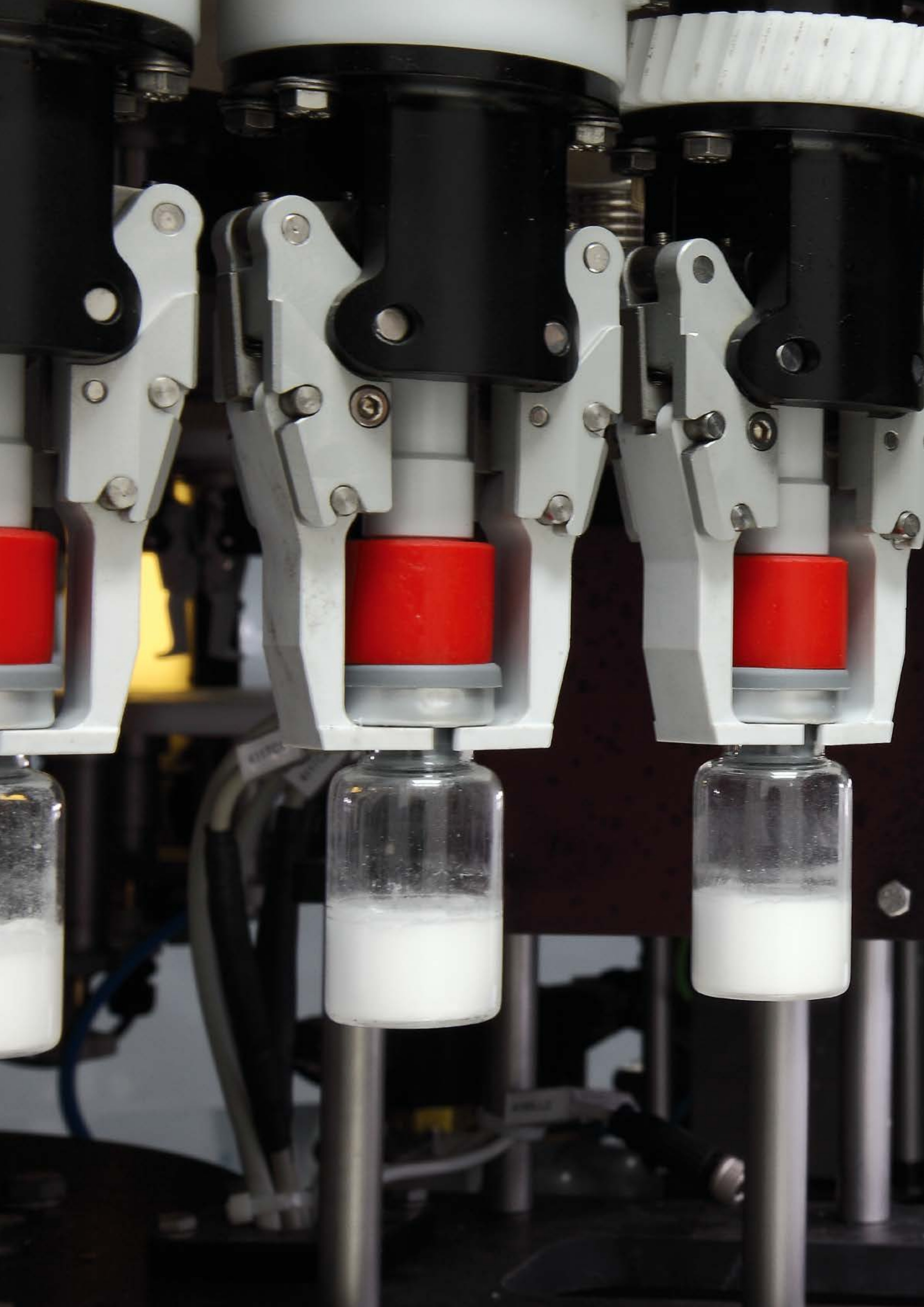
€/000	2019	2018
Profit for the year	**183,417**	**166,272**
Net actuarial gains (losses) on defined benefit plans	(5,452)	141
Total items that will not be reclassified to profit or loss	**(5,452)**	**141**
Exchange differences on translating financial statements of foreign operations	6,022	5,479
Losses on cash flow hedges	(4,658)	(5,579)
Total items that may be reclassified subsequently to profit or loss	**1,364**	**(100)**
Other comprehensive income (expense) attributable to the owners of the parent	**(4,088)**	**41**
Other comprehensive income attributable to non-controlling interests	**16**	**23**
Other comprehensive income (expense)	**(4,072)**	**64**
Comprehensive income	**179,345**	**166,336**
Comprehensive income attributable to non-controlling interests	**890**	**390**
Comprehensive income attributable to non-controlling interests	**178,455**	**165,946**

Statement of changes in equity Note 3.3.16

€/000	Share capital	Revaluation reserves	Legal reserve	Hedging reserve	Actuarial reserve	Translation reserve	Total reserves	Retained earnings	Profit attributable to the owners of the parent	Equity attributable to the owners of the parent	Equity attributable to non-controlling interests	Total equity
Opening balance at 1 January 2017	125,000	86,135	10,447	(2,465)	(16,801)	52,994	130,310	416,121	128,681	800,112	494	800,606
IAS 8 reserve for first time adoption of IFRS 15								(4,095)		(4,095)		(4,095)
Other comprehensive expense				503	3,412	(42,240)				(38,325)	(10)	(38,335)
Profit for the year									139,756	139,756	70	139,826
Comprehensive income	-	-	-	503	3,412	(42,240)	-	(4,095)	139,756	97,336	60	97,396
Dividends								(50,000)		(50,000)		(50,000)
Allocation of profit for the prior year			2,586					126,095	(128,681)	-		-
Other				(12)	681	(669)				-	-	-
Total effects deriving from owner transactions	-	-	2,586	(12)	681	(669)	-	76,095	(128,681)	(50,000)	-	(50,000)
Total variations in equity investments								11		11	(257)	(246)
Closing balance at 31 December 2017	125,000	86,135	13,033	(1,974)	(12,708)	10,085	94,571	488,132	139,756	847,459	297	847,756
Other comprehensive income (expense)				(5,579)	141	5,479				41	23	64
Profit for the year									165,905	165,905	367	166,272
Comprehensive income (expense)	-	-	-	(5,579)	141	5,479	-	-	165,905	165,946	390	166,336
Dividends								(50,000)		(50,000)		(50,000)
Allocation of profit for the prior year			2,653					137,103	(139,756)	-		-
Other					(542)	117		425		-	-	-
Total effects deriving from owner transactions	-	-	2,653	-	(542)	117	-	87,528	(139,756)	(50,000)	-	(50,000)
Total variations in equity investments								-		-	3,529	3,529
Closing balance at 31 December 2018	125,000	86,135	15,686	(7,553)	(13,109)	15,681	96,840	575,660	165,905	963,405	4,216	967,621
Reserve for first time adoption of IFRS 16								(3,378)		(3,378)		(3,378)
Measurement of options for acquisition of investments								13,172		13,172		13,172
Other comprehensive income (expense)				(4,658)	(5,452)	6,022				(4,088)	16	(4,072)
Profit for the year									182,543	182,543	874	183,417
Comprehensive income (expense)	-	-	-	(4,658)	(5,452)	6,022	-	9,794	182,543	178,455	890	179,345
Dividends								(50,000)		(50,000)	(540)	(50,540)
Allocation of profit for the prior year			3,460					162,445	(165,905)	-		-
Other										-	85	85
Total effects deriving from owner transactions	-	-	3,460	-	-	-	-	112,445	(165,905)	(50,000)	(455)	(50,455)
Total variations in equity investments								-		-	762	762
Closing balance at 31 December 2019	125,000	86,135	19,146	(12,211)	(18,561)	21,703	96,212	697,899	182,543	1,101,654	5,413	1,107,067

Statement of cash flows

Statement of cash flows (indirect method)		
€/000	2019	2018
Cash flows from operating activities		
Profit for the year	182,543	165,905
Adjustments for:		
Depreciation of property, plant, equipment and right of use	54,833	24,463
Amortisation	56,593	44,275
Net variation in loss allowance	(990)	2,816
Net financial expense	25,168	17,327
Share of profit of equity-accounted investees	3,682	477
Gain/Losses on sale of property, plant and equipment and financial assets	0	945
Change in deferred taxes, provisions and employee benefits	2,593	1,720
Taxes	(11,225)	56,626
Non-controlling interests	420	390
Effect of other reserves	(3,378)	-
Hedging reserve	470	(5,579)
Exchange differences	(5,161)	(3,987)
Cash flows from operating activities gross of working capital	305,548	305,378
Variations in:		
– inventories and contract work in progress	(2,193)	32,414
– trade receivables and other assets	59,667	130,754
– trade payables and other liabilities	(5,401)	(100,746)
Net interest paid	(26,783)	(18,566)
Income taxes paid	(22,851)	(52,300)
A) Net cash flows from operating activities	**307,987**	**296,934**
Cash flows from investing activities		
Sales of property, plant and equipment	4,576	1,563
Investments in property, plant and equipment	(41,809)	(29,508)
Sales of intangible assets	371	-
Net investments in intangible assets	(80,412)	(80,442)
Acquisition of proportionately consolidated equity investments	(1,881)	(698)
Investments in assets held for sale	(6,241)	-
Net increase in right-of-use assets	(80,910)	-
Sales of equity investments	-	2,403
Acquisition of equity investments, including net cash acquired	(307,201)	(113,641)
Investments in financial assets	(7,872)	(9,426)
B) Net cash flows used in investing activities	**(521,379)**	**(229,749)**
Cash flows from financing activities		
Dividends distributed	(50,000)	(50,000)
Net increase in debt pursuant to IFRS 16	67,166	-
New loans	500,294	108,615
Loans repaid	(3,041)	(106,745)
C) Net cash flows from (used in) financing activities	**514,419**	**(48,130)**
Net increase in cash and cash equivalents (A+B+C)	**301,027**	**19,055**
Opening cash and cash equivalents	**355,552**	**336,497**
Closing cash and cash equivalents	**656,579**	**355,552**



3. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2019

3. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2019

3.1 General information and basis of preparation

The COESIA Group operates in the design, construction and sale of (i) automated production, packing and *packaging* machinery for the tobacco, food, cosmetics, pharmaceutical, single-use hygiene products and consumer goods segments, tobacco processing and fume quality control and chemical test plant, instruments and machinery, aseptic filler machines, package opening and closing systems and multi-layer packaging material using a combination of polyethylene, paper and aluminium sheets, premium and luxury goods packaging machinery, and plant and machinery for ceramics, with innovative processes for decorating, packaging, logistics and quality control (Advanced Automated Machinery & Materials), (ii) manufacturing logistics, production automation and in-line printing solutions (Industrial Process Solutions) and (iii) gears on behalf of third parties (Precision Gears, “Other”).

The main COESIA group companies and their activities are discussed in the directors’ report.

Statement of compliance with IFRS

These consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission using the procedure provided for by article 6 of Regulation (EC) no. 1606/2002 of the European Parliament and Council of 19 July 2002 and pursuant to article 9 of Legislative decree no. 38/05.

“IFRS” specifically refers to all the International Financial Reporting Standards and the International Accounting Standards (IAS), integrated by the interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

Basis of presentation

The consolidated financial statements as at and for the year ended 31 December 2019 are comprised of a statement of financial position, an income statement, a statement of comprehensive income, a statement of changes in equity and a statement of cash flows, as well as these notes.

The financial statements structure chosen by the group is as follows:

- the statement of financial position prepared presenting assets and liabilities as current or non-current based on the group's ordinary operating cycle;
- the income statement classified by function, as this is deemed to correctly present the group's business;
- the statement of comprehensive income with captions comprising the profit for the year and gains and losses recognised directly in equity for non-owner transactions. The captions are presented net of tax effects;
- the statement of changes in equity showing the comprehensive income, presenting separately total amounts pertaining to the owners of the parent and those pertaining to non-controlling interests;
- the statement of cash flows showing cash flows using the "indirect method", as provided for by IAS 7.

Reference should be made to the directors' report for information on the group's performance for the year.

The consolidated financial statements as at and for the year ended 31 December 2019 were approved by the board of directors on 26 June 2020 for presentation to the shareholders.

Basis of consolidation

The consolidation policies adopted are as follows.

Subsidiaries are companies controlled by COESIA S.p.A., as it has the power to directly or indirectly govern their financial and operating policies and obtain benefits from their operations. In general, subsidiaries are companies in which COESIA S.p.A. holds over 50% of the voting rights, also considering potential voting rights that are currently exercisable.

Business combinations are recognised using the acquisition method. The consideration transferred in a business combination is determined when control is taken and is equal to the fair value of the assets transferred and liabilities incurred or assumed, in addition to any equity instruments issued by the acquirer. Costs directly related to the transaction are taken to profit or loss when incurred.

At the date control is acquired, the equity of the investees is calculated by measuring the individual assets and liabilities at the fair value at the date control is acquired. Any residual positive difference compared to the acquisition cost is recognised under the asset caption "Goodwill", while any negative difference is taken to profit or loss.

The anticipated acquisition method provided for by IFRS 3 was applied to recognise the acquisition of System Ceramics S.p.A. and its subsidiaries in light of the group's call option and the non-controlling investors' put option, with the agreed expiry dates, for the acquisition of the non-controlling interests. Accordingly, the group recognised a liability equal to the amount the option is expected to be exercised for and it did not recognise System Ceramics S.p.A.'s equity and profit for the year attributable to non-controlling interests. The goodwill related to the acquisition of the System Group was calculated by comparing the acquisition price comprising the option amount with the entire fair value of the transferred assets. This methodology was adopted for the acquisition of the Comas Group in the previous year.

The allocation of the excess acquisition cost for the System Group compared to the group's share of the acquiree's equity, calculated by measuring the individual assets and liabilities at the acquisition-date fair value (on 1 January 2019) is shown below:

	Amount
Trademarks with an indefinite life	58,126
Know how	10,211
Customer list	61,753
Tax effect related to above captions	(36,295)
Goodwill	264,305
Total excess acquisition cost allocated	**358,100**

In accordance with the ruling IFRS, the group opted to recognise the differences emerging from the different measurement of the call/put options for the non-controlling interests in the Comas Group and the System Group, compared to the amount recognised at the acquisition date, directly in an equity reserve, without going through the income statement.

Receivables, payables, costs and revenue items between group companies are eliminated, along with intragroup profit and losses related to amounts included under assets.

The presence of captions related to assets, liabilities and interest income and expense with subsidiaries and the ultimate parent in the statement of financial position and income statement related to transactions with companies not included in the consolidation scope.

Investments in associates are measured using the equity method. Generally, a portion of the share capital or voting rights equal to or higher than 20% but lower than 50% is held in these investees.

Investments in other companies are initially recognised at cost and adjusted to fair value with the difference taken to profit or loss. Generally, a portion of the share capital or voting rights lower than 20% is held in these investees. Should it not be possible to reliably determine the fair value, such investments are measured at cost, adjusted for any impairment losses. The related dividends are recognised under financial income when the right thereto is determined, which generally coincides with the shareholders' resolution.

With the exception of Coesia India Pvt, Ltd, Comas Machinery India Private Limited and System Ceramics (India) Pvt. Ltd which close their financial years at 31 March as required by local regulations, all other group companies close the year at 31 December.

Such companies prepare a reporting package for consolidation purposes at 31 December.

Translating foreign currency financial statements

Under IAS 21, the financial statements of companies operating in non-Eurozone areas are translated into Euro - the group's functional currency - by applying the closing spot exchange rates to asset and liability captions, historical exchange rates to equity captions and average rates for the year to income statement captions.

The translation differences arising on financial statements of companies operating in non-Eurozone areas deriving from the application of different exchange rates for assets and liabilities, equity and income statement captions are recognised under the equity caption "Exchange differences on translating foreign currency financial statements". The translation reserve is taken to profit or loss when the entire investment is sold, i.e., when the investee no longer qualifies as a subsidiary. If the group only sells part of its investment, without losing control, the portion of the exchange rate gain or loss related to the portion of the investment sold is allocated to equity pertaining to non-controlling interests.

The exchange rates applied are as follows:

Currency	Closing rate at 31/12/2019	Closing rate at 31/12/2018
United Arab Emirates dirham	4.1257	4.2050
Argentinian peso	67.2749	43.1593
Brazilian real	4.5157	4.4440
Swiss franc	1.0854	1.1269
Renminbi (Chinese yuan)	7.8205	7.8751
Colombian peso	3,688.6600	3,721.8100
Czech koruna	25.4080	25.7240
Egyptian pound	18.0192	20.5108
Pound sterling	0.8508	0.8945
Hong Kong dollar	8.7473	8.9675
Indonesian rupiah	15,595.6000	16,500.0000
Indian rupee	80.1870	79.7298
Japanese yen	121.9400	125.8500
Mexican peso	21.2202	22.4921
Malaysian ringgit	4.5953	4.7317
Polish zloty	4.2568	4.3014
Russian ruble	69.9563	79.7153
Saudi riyal	4.2128	4.2938
Swedish krona	10.4468	10.2548
Singapore dollar	1.5111	1.5591
Thai baht	33.4150	37.0520
Turkish lira	6.6843	6.0588
Ukrainian hryvnia	26.7195	31.7362
US dollar	1.1234	1.1450
Vietnamese dong	26,033.0000	26,547.0000
South Korean won	1,296.2800	1,277.9300
South African rand	15.7773	16.4594

Currency	2019 average rate	2018 average rate
United Arab Emirates dirham	4.1107	4.3368
Argentinian peso	53.8430	32.8931
Brazilian real	4.4135	4.3085
Swiss franc	1.1124	1.1550
Renminbi (Chinese yuan)	7.7355	7.8081
Colombian peso	3,673.8618	n/a
Czech koruna	25.6704	25.6470
Egyptian pound	18.8380	n/a
Pound sterling	0.8778	0.8847
Hong Kong dollar	8.7715	9.2559
Indonesian rupiah	15,835.4007	16,803.2224
Indian rupee	78.8365	80.7332
Japanese yen	122.0073	130.3959
Mexican peso	21.5568	22.7054
Malaysian ringgit	4.6374	4.7634
Polish zloty	4.2976	4.2615
Russian ruble	72.4561	74.0416
Saudi riyal	4.1975	n/a
Swedish krona	10.5891	10.2583
Singapore dollar	1.5273	1.5926
Thai baht	34.7571	38.1644
Turkish lira	6.3573	5.7077
Ukrainian hryvnia	28.9183	32.1093
US dollar	1.1195	1.1810
Vietnamese dong	25,999.7843	n/a
South Korean won	1,305.3200	1,299.0700
South African rand	16.1762	15.6186

Consolidation scope

The consolidated financial statements at 31 December 2019 are the result of the consolidation at such date of the financial statements of all companies directly and indirectly controlled by COESIA S.p.A. (the Parent), except for the subsidiaries Lesina Autonoleggio S.r.l. and Comas Machinery India Private Limited. The historical cost of equity investments measured at cost in the consolidated financial statements is not significantly different to the amount of such investments calculated using the equity method at 31 December 2019.

The following companies were included in the consolidation scope for the first time this year:

- System Ceramics S.p.A., Tosilab S.p.A., Studio 1 Automazioni Industriali S.r.l., System Espana S.a., System Brasil Ltda, System (China) Technology Co. Ltd., System South East Pte Ltd, System Norte America S.a., PT System Indonesia, System Bohemia Sro, System Seramik Ltds, System Poland Polaska ZOO, System Russia Ltd, Siam System Technology Ltd, Siam System Service Ltd, System Argentina S.A., System Vietnam Co. Ltd, System Colombia Ltd, System Ceramics (India) Pvt. Ltd, System Egypt LLC, System Saudi Arabia Ltd, Gesticer S.a., System EAU FZE and System Ceramics Inc, which were all acquired during the year through the acquisition of the System Group's ceramics business, as detailed in the directors' report;
- NAM Shared Service LLC, which was inactive in previous years.

The associates ProSgm S.r.l. and Finotti S.r.l. were also consolidated using the equity method, as the group acquired a non-controlling interest therein (30%) during 2019 through the subsidiary G.D S.p.A., as described in the directors' report.

Control is defined as per IFRS 10, i.e., the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities, as specified in greater detail above.

A list of investees included in the consolidation scope is annexed to these notes.

Accounting policies

The consolidated financial statements are prepared on the basis of historical cost, with the exception of derivative instruments which are measured at fair value.

The consolidated financial statements are prepared on a going concern basis and the same accounting policies are applied at all group companies and consistently in both years.

The comments present the corresponding amounts at 31 December 2018 and restated figures where different.

The consolidated financial statements are audited by KPMG S.p.A..

The carrying amounts of financial statements captions and relevant notes, given their size, are expressed in thousands of Euros.

Estimates

Drafting the consolidated financial statements, prepared on a going concern basis, required the formulation of assumptions and estimates which impact the carrying amounts of revenue, costs, assets and liabilities and the related disclosure, in addition to contingent assets and liabilities at the reporting date.

All estimates and related assumptions are based on past experience and assumptions deemed reasonable and realistic when the consolidated financial statements were being prepared. The closing balances of captions may differ from such estimates following possible changes in factors considered at the basis of their determination. The estimates and assumptions are regularly revised and, should the actual amounts differ from the initial estimates, the effects that cannot currently be estimated or foreseen are taken to profit or loss when such estimate is modified. If the modification of the estimate relates to both current and future periods, the effects of the estimation variation are taken to profit or loss in the relevant periods.

The main captions for which estimates are used as the following:

Loss allowance

The loss allowance reflects management estimates of expected losses from the portfolio of receivables with end customers, determined on the basis of past experience with similar types of receivables, current and past overdue amounts, losses and collections, careful monitoring of credit quality and forecasts of economic and market conditions.

Allowance for inventory write-down

The allowance for inventory write-down reflects management estimates on expected losses on the group's inventories, determined on the basis of past experience and the past and expected performance of the market.

Recoverable amount of non-current assets

Non-current assets include net property, plant and equipment and investment property, intangible assets (including goodwill and trademarks) and other financial assets. Management reviews the carrying amounts of non-current assets held and utilised and assets held for sale when required by events and circumstances and at least annually for intangible assets with an indefinite life. The test is performed by using estimates of cash flows expected from the use or sale of the asset, adjusted by suitable discount rates. When a non-current asset is impaired, the group writes it down by the difference between its carrying amount and its recoverable amount through the utilisation or sale of the asset, determined on the basis of the most recent group plans.

Provisions for risks and charges

Provisions for risks and charges are accrued to cover present, legal or constructive obligations as a result of a past event where a reliable estimate can be made of the amount of the obligation at the reporting date. The accruals reflect the best possible estimate on the basis of available elements.

Provisions for product warranties and installations

The provisions for product warranties and installations mainly reflect charges for work carried out under warranty and installation to be incurred after the reporting date but relating to machinery sold before that date.

Contingent liabilities

The group is subject to the risk of having to fulfil obligations deriving from litigation or disputes for which it is not possible to predict the relevant cost with certainty. This is mainly due to the multiple, complex and uncertain nature of interpretations and the variety of jurisdictions and applicable laws, in addition to the different degree of unpredictability that characterises the events and circumstances inherent to all disputes. Management consults its legal and tax experts to suitably deal with and assess such liabilities. Should such assessments reveal the probability of an outflow of resources embodying economic benefits and the amount can be reasonably estimated, the group makes an accrual to the provisions for risks and charges. If the outflow is deemed possible or, in extremely rare cases, probable, but the amount cannot be determined, disclosure is provided in the notes to the consolidated financial statements.

Realisation of deferred tax assets

The group recognises deferred tax assets to the extent that their recovery is probable. In determining the captions, the budget results and forecasts for subsequent years were used in line with those applied in the impairment test related to the recoverable amount of non-current assets.

Defined benefit plans

The group has defined benefit plans in place for employees. Through experts and actuaries, the group uses different statistical assumptions and assessment factors to calculate the costs, liabilities and assets related to such plans. The demographic and economic assumptions relate to discount rates, the expected return on the plan assets, if any, the rates of salary increase, the demographic trend, the inflation rate, any advances requested and mortality and resignation rates.

Foreign currency transactions

Foreign currency transactions are translated into the functional currency of each group company at the exchange rate ruling at the transaction date. Monetary items in foreign currency at the reporting date are retranslated into Euro - the group's functional currency - using the closing exchange rate.

Fair value measurement

Several IFRS and disclosure requirements require the group to measure the fair value of financial and non-financial assets and liabilities.

In relation to the fair value measurement of the various asset or liability categories included in Level 3 (described below), the group has a control structure in place which avails of a team of appraisers who report to the group CFO.

The team of appraisers periodically re-examines the unobservable inputs and valuations. When third-party information, such as broker quotations or pricing services, is used in determining the fair value, the team of appraisers assesses and documents the evidence obtained from the third parties to support the fact that such valuations meet the requirements of IFRS, including the fair value hierarchy level applicable to the related measurement.

In measuring the fair value of an asset or a liability, the group uses observable market data where possible. The fair values are divided up into various hierarchy levels on the basis of inputs used in the valuation techniques, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than the quoted prices referred to in level 1 that may be observed for the asset or liability either directly (prices) or indirectly (price derivatives);
- Level 3: inputs related to the asset or liability that are not based on observable market data.

If the inputs used to measure the fair value of an asset or a liability are categorised within different levels, the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The group recognises transfers between the various fair value hierarchy levels at the end of the reporting period in which the transfer occurred.

Accounting policies

Property, plant and equipment

Property, plant and equipment are measured at purchase or production cost, net of accumulated depreciation and any impairment losses. Cost includes accessory costs and direct and indirect charges at the amount reasonably attributable to the asset.

If a property, plant and equipment item is comprised of various components with different useful lives, they are recognised separately, if material.

Property, plant and equipment are depreciated on a straight-line basis using the following rates, which have been calculated based on the assets' residual useful lives:

- Civil property and buildings 3%
- Plant and machinery 10%-15.5%
- Furniture 12%
- Electronic accounting machines 18%-20%
- Equipment and models 25%
- Vehicles 20%-25%
- Leasehold improvements future income-generating potential

Land is not depreciated.

Property, plant and equipment purchased during the year are depreciated at half the above rates, since on average they are only used in production for half the year and this approach allows an approximation of their shorter period of use.

The depreciation methods, useful lives and residual amounts are checked at the reporting date and adjusted, if necessary.

Assets are decreased for impairment, regardless of the depreciation already charged. If the reason for the impairment no longer exists in subsequent years, the asset is reinstated to its original value.

Subsequent costs (improvement and maintenance expenses) are only capitalised when it is probable that the related future economic benefits will flow to the group.

Investment property

This caption contains property held for rentals or for capital appreciation or both.

Investment property is recognised using the cost model, as allowed by IAS 40 (an alternative to the fair value method).

Property for which a terminal recoverable amount lower than the carrying amount (or with a nil balance) is depreciated each year on a straight-line basis in relation to the recoverable amount and the assumed useful life estimated at 33 years. If the property's recoverable amount is estimated to be higher than the carrying amount, it is not depreciated.

Subsequent costs (improvement and maintenance expenses) are only capitalised when it is probable that the related future economic benefits will flow to the group.

Property showing impairment losses is written down as necessary. The fair value is determined, at least once a year, via specific appraisals.

Intangible assets

Intangible assets acquired or developed internally are recognised under assets, in accordance with IAS 38 Intangible assets, if they are identifiable, when it is probable that their use will generate future economic benefits and when the cost of the asset can be reliably determined. Such assets are initially recognised at acquisition or internal production cost, including all directly related charges.

Goodwill and other intangible assets with an indefinite life

Goodwill

Goodwill is an intangible asset with an indefinite life that arises from business combinations measured with the acquisition method and is recognised as the positive difference between the acquisition cost and the group's interest after recognising all the other identifiable assets, liabilities and contingent liabilities at their fair value, pertaining to both the owners of the parent and non-controlling interests (full fair value method) at the acquisition date.

As per IAS 36, goodwill is not amortised, instead it is tested for impairment annually or every time specific events or certain circumstances that reveal a possible impairment loss arise.

Impairment losses are immediately taken to profit or loss and cannot be reversed.

For goodwill impairment testing purposes, the group identifies cash-generating units (CGUs) that benefit from the synergies of the acquisition. The cash flows are discounted at the cost of capital in relation to the specific risks of the unit. An impairment loss is recognised if it arises from checking the discounted cash flows that the recoverable amount of the CGU is lower than the carrying amount. The impairment loss is firstly used to reduce the carrying amount of goodwill.

If a subsidiary or joint venture is sold, the related residual goodwill is included in calculating the gain or loss on sale.

At its first-time adoption of IFRS, the group chose not to apply IFRS 3 Business combinations retrospectively. Accordingly, goodwill arising on acquisitions carried out prior to transition to IFRS are maintained at the amounts resulting from the application of Italian GAAP at such date and allocated to cash-generating units in order to test them for impairment.

Trademarks with an indefinite life

Trademarks deriving from acquisitions, which qualify as intangible assets with an indefinite life, are not amortised. The recoverability of their carrying amount is checked on a yearly basis and, in any case, anytime events occur that reveal possible impairment losses.

Intangible assets with a finite life

These are stated at purchase cost, including related charges, and are amortised on a straight-line basis in line with their future income-generating potential, as follows:

- patents and intellectual property rights 3-6 years
- software licences 3-5 years
- trademarks 10 years
- participation in the creation of moulds 3 years
- application software 3 years
- development expenditure 5 years
- *customer relationships* 20 years

These costs are amortised over their future income-generating potential.

Research and development expenditure

Research expenditure incurred for the purposes of achieving new knowledge and discoveries, either scientific or technical, is recognised as an expense when incurred.

Development expenditure related to specific projects for developing new products or improving existing products or developing or improving production processes is capitalised if the innovations introduced lead to processes that are technically feasible and/or products that can be sold commercially, if the company can demonstrate its intention to complete the development project, the availability of the resources to complete the development and that the future economic costs and benefits can be measured reliably.

Capitalised expenditure includes costs for materials used and direct labour. Such expenditure is amortised over the duration of the related economic benefits, generally set at five years and adjusted for any impairment losses that arise subsequent to initial recognition.

Impairment losses on property, plant and equipment, investment property and intangible assets

The group performs impairment tests on the carrying amounts of intangible assets with an indefinite life and goodwill, in addition to assets under development using the methods described in the relevant paragraphs. On the other hand, other assets, with the exception of inventories and deferred tax assets and in addition to that already set out in the paragraph on property, plant and equipment, are tested for impairment when events arise that indicate a possible impairment loss.

If the test detects that the assets, or a cash-generating unit, have undergone impairment, the recoverable amount is estimated and any difference between it and the carrying amount is recognised in profit or loss.

The recoverable amount of the cash generating units (CGUs), to which goodwill and intangible assets with an indefinite life are attributed, is checked by calculating their value in use, i.e., the present value of forecast cash flows, using a rate that reflects the specific risks of individual cash-generating units at the measurement date. In applying such method, management uses many assumptions, including the estimate of future increases in sales, gross profit, operating costs, the growth rate of terminal values, investments, changes in working capital and the weighted average cost of capital (discount rate), considering the risks specific to the asset or CGU. Future cash flows arise on the basis of a group medium-term plan that is updated annually and approved by the parent's board of directors.

The recoverable amount of receivables recognised at amortised cost is the present value of future cash flows, discounted at the effective interest rate calculated at initial recognition.

The recoverable amount of other assets is the higher of the sale price and the value in use determined by discounting forecast future cash flows on the basis of a rate that reflects market valuations.

If there is no binding sale agreement, the fair value is estimated by reference to the quoted prices of an active market, recent transactions or best available information that reflects the amount that can be obtained from the sale of the asset.

Any impairment losses on held-to-maturity investments and receivables measured at amortised cost are reversed if the subsequent increase in the recoverable amount can be determined objectively.

When it is not possible to determine the impairment loss on an individual asset, the group calculates the impairment loss on the CGU it belongs to.

The impairment loss on a CGU is initially recognised under goodwill, if present, and subsequently proportionately allocated to the other assets comprising the CGU.

An impairment loss is recognised if an asset's recoverable amount is lower than the carrying amount.

Equity-accounted investments

Investments in non-consolidated subsidiaries and associates are accounted for using the equity method, as indicated in the related notes, or at cost when equity accounting is not necessary to give a true and fair view in the consolidated financial statements.

Investments in other companies are stated at acquisition or subscription cost. They are decreased for impairment if the investees have incurred losses and there are no profits large enough to absorb those losses forecast for the immediate future. If the reasons for the impairment no longer exist, the original value is reinstated in subsequent years.

The equity method entails the recognition of an amount equal to the corresponding portion of equity as per the most recent approved financial statements, less dividends and after adjustments required by the reporting standards adopted for the consolidated financial statements.

Employee benefits

Pension funds

Group companies have both defined contribution plans and defined benefit plans in place.

A defined contribution plan is a plan under which the group pays fixed contributions to a third party fund and has no legal or other obligation to pay future contributions if the fund does not hold sufficient assets to fulfil the obligations to the beneficiaries of the plan. With defined benefit plans, the group pays voluntary or contractually-set contributions to public and private pension funds. The contributions are recognised as personnel expense on an accruals basis.

The liability recognised for defined benefit plans corresponds to the present value of the obligation at the reporting date, net of the fair value of the plan assets, where applicable. The obligations for defined benefit plans are determined annually by an independent actuary using the projected unit credit method to determine the present value of the relevant obligations. The present value of the defined benefit plan is determined by discounting future cash flows at an interest rate equal to the rate on high-quality corporate bonds issued in the currency in which the liability will be settled and that takes into consideration the term of the related pension plan. The changes in actuarial gains/losses ("revaluations") are recognised under other comprehensive income/expense.

Service costs, in addition to interest expense related to the time value component in actuarial calculations (the latter being classified among financial expense), are taken to profit or loss.

Termination benefits

Termination benefits are paid when employees terminate their employment before the normal retirement date or when they accept to dissolve the contract. The group recognises termination benefits when it is proven that the termination of the employment is in line with a formal plan that defines the termination of the employment or when the payment of the benefits is the result of a leaving incentive process.

Pursuant to IAS 19, the post-employment benefits (TFR) of Italian companies vested up to 31 December 2006 are considered a defined benefit plan. Post-employment benefits as from 1 January 2007 are considered a defined contribution plan.

Receivables and financial assets

Trade receivables and debt securities issued are initially recognised when they are originated.

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Upon initial recognition, a financial asset is classified on the basis of its measurement: amortised cost; fair value through other comprehensive income (FVOCI) - debt securities; FVOCI - equity securities; or fair value through profit or loss (FVTPL). Financial assets are not reclassified subsequently to their initial recognition unless the group changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

“Loans assets” are recognised at amortised cost, taking interest to profit or loss, calculating it at the effective interest rate or by applying a rate that nullifies the sum of the present values of net cash flows generated by the financial instrument. The losses are taken to profit or loss when the impairment occurs or the loans and receivables are derecognised. The loans assets are subject to impairment and thus recognised at their estimated realisable value (fair value) by accruing a specific loss allowance directly deducted from the carrying amount of the asset. The loan assets are impaired when there is objective evidence that they will probably not be collected and based on past experience and statistics (expected losses). Should the reasons for the impairment cease to exist in future years, the asset’s carrying amount is reinstated to the amount that would have derived from the application of amortised cost had the impairment not been made.

“Other non-current equity instruments” are initially recognised at cost (fair value of the initial fee paid) plus any directly-attributable transaction costs. Changes in fair value and any gains or losses on the sale of the investment are taken to comprehensive income and never pass through the income statement. As such option is irrevocable and can be exercised investment by investment, any exceptions during initial recognition shall be disclosed in the relevant note. All investments in equity instruments shall be measured at fair value. In the case of securities traded on active markets, the fair value is determined with reference to the price at the close of trading at the reporting date.

In cases of investments where there is no active market, the fair value is determined on the basis of the price of recent transactions between independent parties for similar financial instruments or by using other measurement techniques, such as income-based assessments or based on discounted cash flow analysis. Limited to a few circumstances, cost can be an appropriate estimate of fair value if, for example, the most recent information available to measure the fair value is insufficient, or if there is a broad range of possible measurements of fair value. Cost is never the best estimate of fair value for investments in listed equity instruments. "Financial assets which the group designates at fair value through profit or loss upon initial recognition" are measured using the fair value at the relevant reporting date. In cases of unlisted instruments, the fair value is determined using generally-accepted financial measurement techniques based on market data. The gains and losses deriving from measurement at fair value of the assets classified in this category are taken to profit or loss.

Cash and cash equivalents

Cash and cash equivalents include cash balances, call deposits with banks and other short-term investments that are highly liquid (that can be transformed into cash within ninety days). They are stated at their nominal amount.

In order to classify financial instruments in accordance with the criteria set out in IFRS 9 as required by IFRS 7, cash and cash equivalents are classified under "Financial assets at amortised cost" for the purposes of credit risk.

The current account overdraft is classified under "Current financial liabilities".

Financial liabilities

Financial liabilities are initially recognised at fair value, which substantially matches the amount collected, net of transaction costs. Management classifies financial liabilities in accordance with the criteria set out in IFRS 9 and referred to in IFRS 7 upon initial recognition.

Subsequent to initial recognition, such liabilities are measured at amortised cost in accordance with IFRS 9.

"Financial liabilities measured at amortised cost" are recognised at amortised cost, taking interest to profit or loss, calculating it at the effective interest rate or by applying a rate that nullifies the sum of the present values of net cash flows generated by the financial instrument. Instruments due within one year are stated at their nominal amount as being close to the amortised cost.

Financial instruments

Financial instruments are initially recognised at fair value and, subsequent to initial recognition, they are measured in relation to their classification, as per IFRS 9.

IFRS 9 classifies financial assets into three main categories: amortised cost; fair value through other comprehensive income (FVOCI); and fair value through profit or loss (FVTPL). Under IFRS 9, the classification is generally based on the entity's business model for managing financial assets and the characteristics of the contractual cash flows of the financial asset. The categories provided for under IAS 39, i.e., held to maturity, loans and receivables and available for sale, are eliminated. Under IFRS 9, embedded derivatives in contracts where the main element is a financial asset that falls under the scope of the standard shall not be separated. Hybrid instruments are examined as a whole for the purposes of their classification.

IFRS 9 substantially maintains the provisions of IAS 39 for the classification and measurement of financial liabilities. Adopting IFRS 9 did not have significant effects on the accounting policies applied by the group to financial liabilities and derivatives.

Derivatives

Derivatives are classified under "Hedging derivatives" is they meet hedge accounting requirements, otherwise they are recognised as "Non-hedging derivatives" even if they are used with the intention of managing risk exposure.

In accordance with IFRS 9, the Coesia Group availed itself of the option to continue applying the hedge accounting methods and requirements set out in the previously ruling IAS 39 and thus define the effectiveness of the hedge in relation to the derivative. Specifically, financial instruments are recognised in accordance with the methods adopted by the group for hedge accounting, only when the relationship between the derivative and the hedged item is formally documented and the effectiveness of the hedge is high (test of effectiveness).

The effectiveness of the hedging transactions is documented at the beginning of the transaction and periodically (at least at every annual and interim reporting date).

When derivatives hedge the risk of changes in the fair value of the hedged instruments (fair value hedges), the derivatives are recognised at fair value through profit or loss.

When derivatives hedge the risk of changes in the cash flows of the hedged instruments (cash flow hedges), the effective portion of the changes in the fair value of the derivatives is recognised in other comprehensive income and presented in the hedging reserve, while the ineffective portion is recognised immediately in profit or loss.

Inventories

Inventories are measured at the lower of cost, calculated using the weighted average cost method, and related market value.

Obsolete and slow-moving items are written down based on forecast use or sale, through accruals to the allowance for inventory write-down. Work in progress and semi-finished products are stated based on the completed contract method, under which contract revenue and outcome are only recognised when the contract is completed, thus when the work is finalised and delivered.

Provisions for risks and charges

Provisions for risks and charges are accrued to cover present, legal or constructive obligations as a result of a past event where a reliable estimate can be made of the amount of the obligation at the reporting date. The accruals reflect the best possible estimate on the basis of available elements.

If a liability is considered contingent, no accrual is made to the provision for risks and adequate disclosure is provided in the notes to the consolidated financial statements.

When the effect of the time value of money is material and the obligation settlement dates can be reliably estimated, the provision is discounted. The increase in the provision due to the passage of time is taken to profit or loss under financial income and expense.

Provisions are periodically updated to reflect variations in estimates of costs, completion times and the discount rate. Revised estimates of provisions are recognised in the same profit or loss caption as the previous accrual or, where the liability refers to property, plant and equipment (e.g., decommissioning and restoration), as a balancing entry to the related asset.

Fair value

Under IFRS 13, there are three fair value hierarchy levels used to measure financial instruments recognised in the statement of financial position:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities which the entity can access at the measurement date;
- Level 2: inputs other than the quoted prices referred to in level 1 that may be observed for the asset or liability either directly or indirectly;
- Level 3: unobservable inputs for the asset or liability.

Revenue recognition

IFRS 15 introduces a single general model to establish whether, when and to what extent to recognise revenue. It replaces IAS 18 Revenue, IAS 11 Construction contracts and relevant interpretations.

Specifically, IFRS 15 establishes a new revenue recognition model which applies to all contracts with customers, except for lease contracts, insurance contracts and financial instruments that fall within the scope of other IFRS.

Under the new model, an entity recognises revenue by applying the following steps:

- identify the contract with a customer;
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract;
- recognise revenue when (or as) the entity satisfies a performance obligation.

Dividends

Dividends are recognised when the legal right to receive payment is established which occurs following the shareholders' resolution approving the financial statements.

Purchase and service costs

Purchase and service costs are measured at the fair value of the fee paid or agreed. Generally, purchase and service costs comprise cash and cash equivalents paid or to be paid in the future within the normal payment terms. Accordingly, purchase and service costs are recognised on the basis of the purchase cost of the goods and services as per the invoice, net of premiums, discounts and allowances.

Purchase and service costs are adjusted to account for any decisions to apply additional discounts further to those contractually agreed and any delays in payment exceeding twelve months such to be considered a loan from the group's supplier. In the latter case, the present value of purchase and service costs is represented by the future cash flows capitalised at a market interest rate.

Financial income and expense

Financial income and expense are recognised on an accruals basis.

These include interest expense accrued on every loan, discounts for early collection with respect to sales terms agreed with customers, financial income on cash and cash equivalents and similar securities, in addition to the economic effects deriving from the fair value measurement of derivative instruments (for any non-effective part of the hedge).

Income taxes

Current taxes are recognised on the basis of taxable profit, in accordance with current regulations, considering any exemptions and the related applicable tax rates.

Furthermore, deferred tax assets and liabilities are recognised on the temporary differences between the carrying amounts of assets and liabilities and their tax bases for each company. Similarly, deferred taxes are considered on the consolidation adjustments. In particular, deferred tax assets are recognised when it is reasonably certain that there will be future taxable profits against which the deferred tax assets may be used. Deferred tax assets and liabilities are calculated on the basis of the expected rates applicable in the period when the related temporary differences reverse. Deferred tax liabilities are not accrued to reflect the tax charge, where applicable, on available reserves and profits of foreign subsidiaries that do not plan to make any distribution.

Current and deferred tax assets and liabilities are offset where due to/from the same tax authority, if the reversal period is the same and if there is a legal right to offset.

Grants

Public grants related to assets are recognised in the statement of financial position, recognising the grant as an adjustment entry of the asset's carrying amount.

The grant is taken to profit or loss over the useful life of the depreciable asset as a reduction of amortised cost.

Grants related to income are taken to profit or loss as an income item when the recognition conditions are met, i.e., where their recognition is certain against costs for which the grants are given.

Foreign currency transactions

All transactions are accounted for in Euros. Foreign currency transactions are translated into the functional currency of each group company at the exchange rate ruling at the transaction date.

Assets and liabilities arising on transactions in foreign currency are translated at the exchange rates ruling on the date when those transactions were performed. Exchange rate differences are taken to profit or loss when realised.

At year end, assets and liabilities in foreign currency are retranslated at the exchange rates ruling at the reporting date. Any resulting exchange rate gains and losses are taken to profit or loss.

Standards, amendments and interpretations endorsed by the EU and applicable as of 1 January 2019

Adoption of IFRS 16 - *Leases*

IFRS 16, issued by the IASB in January 2016 and endorsed by the European Commission in October 2017, replaces IAS 17, proposing substantial changes to the accounting treatment of leases in the financial statements of lessees. The latter shall recognise lease assets and liabilities without distinguishing between operating and finance leases. This standard provides a new definition of a lease and introduces a criterion based on control (right of use) of an asset to differentiate leases from service contracts based on the identification of the asset, the right to substitute the asset, the right to obtain substantially all the economic benefits from the use of the asset and the right to direct the use of the asset. IFRS 16 introduces a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases, unless the underlying asset has a low value (low-value assets) or the lease term is 12 months of less (short-term leases). The standard does not provide for significant changes for lessors. Upon first application, IFRS 16 provides lessees with a choice between two approaches, the full retrospective approach (with restatement of comparative information) or the modified retrospective approach (where the cumulative effect of initially applying IFRS 16 is recognised as an adjustment to the opening balances at 1 January 2019 without restatement of the comparative information).

The group adopted IFRS 16 from 1 January 2019, applying the modified retrospective approach, due to which the cumulative effect of the initial application is recognised under retained earnings at 1 January 2019. Therefore, 2018 data have not been restated and are presented in accordance with IAS 17 and the relevant interpretations.

Specifically, with regard to the leases formerly classified as operating leases, the group will recognise:

- a financial liability equal to the present amount of future payments at the transaction date, discounted using the incremental borrowing rate applicable at the transaction date based on the expiry and payment currency;
- a right-of-use asset equal to the carrying amount that it would have had if the standard had been applied at the inception of the lease, using the discount rate defined at the transition date.

The right-of-use assets and lease liabilities are presented in specific statement of financial position captions and detailed in the specific notes thereto in paragraph 3.3.2..

The following table details the estimated impacts of the adoption of IFRS 16 at the transition date:

€/000	Impacts at transition date 1 January 2019
Right-of-use assets	106,710
Deferred tax assets	1,434
Non-current assets	**108,144**
Other current assets	(589)
Current assets	**(589)**
Total assets	**107,555**
Non-current lease liabilities	91,658
Provisions for risks and charges	552
Non-current liabilities	**92,210**
Current financial liabilities	18,798
Other current liabilities	(75)
Current liabilities	**18,723**
Total liabilities	**110,933**
Reserve for retained earnings	(3,378)
Total equity	**(3,378)**

The assessment involved different phases, including the complete mapping of contracts that potentially contain a lease and the analysis thereof for the purposes of understanding the main clauses relevant for the purposes of IFRS 16. The first-time adoption process required the implementation of specific IT applications for the accounting management of the standard and controls to protect critical areas affected by the standard.

In adopting IFRS 16, the group used the exemption provided by IFRS 16.5(a) in relation to leases with a term of less than 12 months, specifically for certain contracts for the lease of vehicles and equipment, in addition to the exemption provided by IFRS 16.5(b) with regard to leases for which the underlying asset is of a low value (i.e., worth less than USD5,000 when new). The leases to which this exemption has been applied mainly fall within the categories of electronic devices and furniture and fittings. For such leases, the introduction of IFRS 16 did not require the recognition of a financial liability and the related right-of-use asset, but the lease payments were recognised in profit or loss on a straight-line basis over the lease term. The amount of the lease payments for such contracts is immaterial at the reporting date. Furthermore, with reference to the transition rules, the group elected to use the following practical expedients:

- leases with a term of 12 months or less at the transition date are recognised as short-term leases;
- initial direct costs are excluded from the measurement of the right-of-use asset at 1 January 2019.

The leases signed by the group that fall under the new accounting method mainly relate to leases of buildings, plant and company vehicles. Where present and identifiable, the group has excluded non-lease components of contracts, while in considering the term of each contract, it has included extension periods covered by the renewal option when it is reasonably certain that such option will be exercised based on past experience and future business needs.

In order to provide a better understanding of the impacts of the first-time application of the standard, the following table provides a reconciliation of the future commitments related to the leases and the subsequent impact of the adoption of IFRS 16 at 1 January 2019:

€/000	01/01/2019
Commitments for operating leases at 31 December 2018	**60,718**
Lease instalments for short-term leases or leases due within 12 months of the transition date	(356)
Other changes (*)	17,367
Change in consolidation scope (**)	49,068
Undiscounted lease liabilities at 1 January 2019	**126,797**
Discounting effect	(16,341)
Additional lease liabilities at 1 January 2019	**110,456**
non-current portion	91,658
current portion	18,798

(*) "Other changes" mainly refer to other considerations pertaining to the term/renewal of contracts in place at the transition date, in addition to the integration of contracts previously not recognised as leases under IAS 17 and IFRIC 4.

(**) "Change in consolidation scope" includes commitments for leases under IFRS 16 at 1 January 2019 of System Ceramics S.p.A. and its subsidiaries, following the acquisition on 1 January 2019. Such commitments mainly refer to production facilities in Fiorano Modenese (MO) and other facilities of foreign subsidiaries.

Amendment to IFRS 9 Financial instruments *Prepayment features with negative compensation*

In October 2017, the IASB published the amendment to IFRS 9, Prepayment features with negative compensation. The amendment provides that financial instruments with prepayment which could lead to negative compensation can be measured at amortised cost or fair value through other comprehensive income, depending on the company's business model.

IFRIC 23 Uncertainty over income tax treatments

In June 2017, the IASB published IFRIC 23 Uncertainty over income tax treatments. This interpretation clarifies the application of the recognition and measurement requirements set out in IAS 12 Income taxes when there is uncertainty over tax treatments.

Amendment to IAS 28 Investments in associates and joint ventures *Long-term interests in associates and joint ventures*

This amendment clarifies that IFRS 9 applies to long-term interests in associates and joint ventures which substantially form part of the net investment in the associate or joint venture. Furthermore, under the amendment, IFRS 9 applies to such interests before application of IAS 28 so that the entity does not take into account any adjustments to long-term interests deriving from application of such standard.

Amendment to IAS 19 *Plan amendment, curtailment or settlement*

The amendment, published in February 2018, clarifies how current service costs and net interest are calculated when there is a change in the defined benefit plan.

Annual improvements to IFRS (2015-2017 cycle)

In December 2017, the IASB published the document "Annual improvements to IFRS (2015-2017 cycle)", the main amendments regard:

- IFRS 3 *Business combinations* and IFRS 11 *Joint arrangements* - the amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, the entity remeasures its previously held interest in the joint operation at fair value. The amendments to IFRS 11 clarify that when acquiring an interest in a joint operation, the entity does not remeasure its previously held interest in the joint operation;
- IAS 12 *Income tax consequences of payments on financial instruments classified as equity* - the proposed amendments clarify how any entity must recognise any income tax consequences of dividends;
- IAS 23 *Borrowing costs eligible for capitalisation* - these amendments clarify that if the borrowing costs that are directly attributable to the acquisition and/or construction of an asset remain outstanding after the related asset is ready for its intended use or sale, they become part of the funds that an entity borrows generally in order to determine the amount of borrowing costs eligible for capitalisation.

Amendment to IAS 1 and IAS 8 Definition of material

This amendment, published in October 2018, aims to clarify the definition of "material" to help companies decide whether information should be included in their financial statements. The changes are effective from 1 January 2020, but early adoption is permitted.

The revised Conceptual Framework for Financial Reporting

In October 2018, the IASB published the revised Conceptual Framework for Financial Reporting.

The main amendments compared to the 2010 version regard:

- a new chapter about measurement;
- revised definitions and new guidance, particularly with reference to liabilities;
- clarifications of important concepts, such as stewardship, prudence and uncertainty in assessments.

The amendment updates certain references included in the IFRS to the previous Conceptual Framework in IFRS Standards, the accompanying documents and the IFRS Practice Statements.

The amendments are applicable for annual periods beginning on or after 1 January 2019. Early adoption is permitted.

Standards, amendments and interpretations not yet endorsed by the EU and applicable as of 1 January 2019

IFRS 17 Insurance contracts

In May 2017, the IASB published IFRS 17 Insurance contracts, which replaces IFRS 4, issued in 2004. IFRS 17 aims to improve investors' understanding of insurers' risk exposure, profitability and financial position, requiring that all insurance contracts are recognised consistently, overcoming comparative problems created by IFRS 4.

The standard is effective from 1 January 2021 but early adoption is permitted.

Amendment to IFRS 3 Definition of a business

This amendment, published in October 2018, aims to help to determine whether an entity has acquired a business or a group of assets, which does not meet the definition of a business under IFRS 3.

The amendments are applicable for annual periods beginning on or after 1 January 2020. Early adoption is permitted.

Amendment to IAS 1 *Presentation of financial statements: Classification of liabilities as current or non-current*

The amendment, published in January 2020, clarifies the classification of liabilities as current or non-current based on the contractual arrangements from which such liabilities arise. The amendments are applicable for annual periods beginning on or after 1 January 2022, but early adoption is permitted.

Amendment to IFRS 10 and IAS 28 Sales or contribution of assets between an investor and its associate or joint venture

This document was published in September 2014 in order to resolve the conflict between IAS 28 and IFRS 10 related to the gain or loss resulting from the sale or contribution to a joint venture or associate of non-monetary assets in exchange for an equity interest in the entity. For the moment, the IASB has suspended the application of this amendment.

Financial risk management

The COESIA Group's operations expose it to the following financial risks:

- liquidity risk;
- market risk;
- credit risk.

The main risks are reported and discussed at group management level in order to provide for their hedging, insurance and assessment of residual risk. In accordance with IFRS 7, qualitative and quantitative disclosure on the impact of such risks on the group is provided below.

Liquidity risk

Liquidity risk can arise from the inability to find the cash flows necessary for the group's operations at economic terms.

The two main factors that determine the group's liquidity situation are the cash flows generated or absorbed by operating and investing activities and the due dates and renewal terms of debt or degree of liquidity of financial assets and market conditions.

The group has adopted a series of policies and processes aimed at optimising cash flow management, reducing liquidity risk:

- maintaining a prudent level of available funds;
- varying tools uses for sourcing cash flows and presence on the capital market;
- obtaining suitable committed credit facilities;
- monitoring forecast liquidity conditions in relation to the group planning process.

From an operating point of view, the group manages liquidity risk by monitoring cash flows and maintaining a suitable level of available funds.

The composition of financial liabilities is detailed in the note to current and non-current financial liabilities.

The following table shows the carrying amount and type of hedging transactions reflected in the current and non-current financial asset and liability captions at 31 December 2019.

€/000	FAIR VALUE GAIN		FAIR VALUE LOSS	
	CURRENT	NON-CURRENT	CURRENT	NON-CURRENT
INTEREST RATE HEDGE	-	-	-	(16,263)
CURRENCY HEDGE	607	-	(280)	0
Total	**607**	**0**	**(280)**	**(16,263)**

Credit risk

Credit risk is the group's exposure to potential losses deriving from non-fulfilment of obligations taken on by counterparties.

The group is equipped with commercial credit control processes which include analyses of customer reliability and checking exposure via ageing reporting and the average collection times through the DSO (days sales outstanding) by customer.

This process involves ongoing controls and monthly checks between the administration and sales departments.

In addition, in order to further reduce credit risk, the group agrees factoring and securitisation contracts without recourse, which transfer the credit risk to the factors.

Investments of liquidity and hedging transactions via derivative instruments are carried out with leading national and international banks.

The carrying amount of financial assets is the group's maximum exposure to credit risk, in addition to the nominal amount of guarantees granted on third-party debts or commitments.

Market risk

Based on the definition provided by IFRS 7, market risk is the probability that the fair value or cash flows of a financial asset or liability will fluctuate due to changes in elements such as:

- exchange rates (currency risk);
- interest rates (interest rate risk);
- commodity prices (price risk).

The objectives of market risk management are to monitor, manage and control the group's exposure to such risks within acceptable levels, along with the resulting impacts on the financial position, financial performance and cash flows.

Currency risk

The group's exposure to currency risk derives from the geographical distribution of its various industrial activities compared to the geographical distribution of the markets where it sells its products. Its exposure to currency risk on sales transactions is hedged via currency swaps, forward contracts and currency options.

The group's investments in foreign subsidiaries are not hedged as they are considered long term.

Interest rate risk

The group's exposure to interest rate risk mainly derives from the need to fund the group's non-organic growth. Fluctuations in market interest rates can have a negative or a positive impact on the group's financial performance, indirectly impacting borrowing costs.

In order to mitigate its exposure to interest rate risk, the group agreed some interest rate swaps which hedge a portion of the group's debt and exchange a differential between a floating and one or more fixed rates applied to a specific notional amount.

The group believes the risk of higher interest rates on the portion of debt not hedged by financial derivatives is not significant.

The group's financial debt at a floating rate amounted to approximately €161 million at the reporting date. The impacts of a hypothetical increase or decrease in 2019 interest rates by 30 basis points, gross of tax effects, would be roughly €0.5 million.

The impact of the same hypothetical fluctuation in interest rates on derivative instruments measured at fair value in place at the reporting date, gross of tax effects, would amount to a gain of €276 thousand should the interest rate increase or a loss of €288 thousand should it decrease.

Price risk

The group is not exposed to price risk on commodities, except on an immaterial level, and the assets available for sale at 31 December 2019 refer to a property under construction, as detailed below, the carrying amount of which does not differ significantly from its fair value.

3.2 Segment reporting

The group's operating segments pursuant to IFRS 8 are the business activities that generate revenue and costs, whose results are periodically revised by the chief operating decision-maker in order to assess performances and decisions about allocating resources, and for which separate financial information is available, including for internal use. The group's significant operating segments are as follows.

Advanced Automated Machinery & Materials

The object of this segment is the design, construction and sale of automated production, packing and packaging machinery for the tobacco, food, cosmetics, pharmaceutical, single-use hygiene products and consumer goods segments, tobacco processing and fume quality control and chemical test plant, instruments and machinery, aseptic filler machines, package opening and closing systems and multi-layer packaging material using a combination of polyethylene, paper and aluminium sheets, *premium* and luxury goods packaging machinery, and plant and machinery for ceramics, with innovative processes for decorating, packaging, logistics and quality control, along with services related to the sale and distribution of such products in addition to assistance related thereto.

The main companies operating in this segment are as follows:

- G.D S.p.A.;
- Sasib S.p.A.;
- MPRD Ltd;
- Comas S.p.A.;
- ACMA S.p.A.;
- Volpak SA;
- R.A Jones & co;
- GDM S.p.A.;
- Norden Machinery AB;
- Citus Kalix Sas;
- IPI S.r.l.;
- G.F. S.p.A.;

- MGS Machine Corporation;
- Emmeci S.p.A.;
- System Ceramics S.p.A..

Industrial Process Solutions

The activities of this segment focus on design, construction, sale and assistance for manufacturing logistics, production and assembly automation and in-line printing solutions. The main companies operating in this segment are as follows:

- Flexlink Group;
- Hapa AG;
- AZ COESIA GmbH (now Atlantic Zeiser GmbH);
- Tritron GmbH.

Operating segment analysis

The following tables, prepared on a consolidated basis, present information on operating segments for 2019 and 2018.

	2019			
€/000	***ADVANCED AUTOMATED MACHINERY AND MATERIALS***	***INDUSTRIAL PROCESS SOLUTIONS***	***OTHER***	**TOTAL**
Revenue	1,613,092	317,003	28,075	**1,958,170**
Operating profit before non-recurring expense	193,929	28,191	2,378	**224,498**
Non-recurring expense	(13,857)	(869)	(64)	**(14,790)**
Operating profit	180,072	27,322	2,314	**209,708**
Net financial expense and exchange rate differences (*)				**(24,828)**
Losses on equity-accounted investees				**(3,682)**
Pre-tax profit				**181,198**
Income tax expense				**2,219**
Profit for the year				**183,417**
Profit for the year attributable to non-controlling interests				**874**
Profit for the year attributable to the owners of the parent				**182,543**
Amortisation, depreciation and impairment losses	(96,177)	(12,807)	(2,442)	**(111,426)**

(*) includes net exchange rate gains of €0.3 million, impairment of loan assets of €4.5 million and interest expense on lease liabilities of €3.3 million

€/000	2018 ADVANCED AUTOMATED MACHINERY AND MATERIALS	INDUSTRIAL PROCESS SOLUTIONS	OTHER	TOTAL
Revenue	1,413,143	349,915	28,698	**1,791,756**
Operating profit before non-recurring expense	233,630	36,145	2,727	**272,502**
Non-recurring expense	(10,836)	(2,664)	-	**(13,500)**
Operating profit	222,794	33,481	2,727	**259,002**
Net financial expense and exchange rate differences (*)				**(25,497)**
Losses on equity-accounted investees				**(477)**
Pre-tax profit				**233,028**
Income tax expense				**(66,756)**
Profit for the year				**166,272**
Profit for the year attributable to non-controlling interests				**367**
Profit for the year attributable to the owners of the parent				**165,905**
Amortisation, depreciation and impairment losses	(58,772)	(8,292)	(1,674)	**(68,738)**

(*) including net exchange rate losses of €8.2 million

Statement of financial position figures at 31 December 2019 are as follows:

€/000	ADVANCED AUTOMATED MACHINERY & MATERIALS	INDUSTRIAL PROCESS SOLUTIONS	OTHER	UNALLOCATED (*)	TOTAL (**)
Property, plant and equipment, investment property and intangible assets	1,494,537	186,460	8,820	1,422	1,691,239
Other assets	1,245,452	182,118	12,983	562,390	2,002,943
Non-current assets held for sale	7,481				7,481
Total assets at 31/12/2019	2,747,470	368,578	21,803	563,812	3,701,663
Total liabilities at 31/12/2019	1,346,784	186,369	9,320	1,052,123	2,594,596

(*) Unallocated amounts refer to the assets and liabilities of the Parent and Coesia Finance S.p.A. , and respectively include cash and cash equivalents of 497,125 thousand and loans and borrowings of 1,027,024 thousand that cannot be directly allocated to the other operating segments.

(**) The difference between total assets and total liabilities (€1,107,067 thousand) represents the consolidated equity at 31 December 2019.

Statement of financial position figures at 31 December 2018 are as follows:

€/000	ADVANCED AUTOMATED MACHINERY & MATERIALS	INDUSTRIAL PROCESS SOLUTIONS	OTHER	UNALLOCATED (*)	TOTAL (**)
Property, plant and equipment, investment property and intangible assets	889,371	216,160	8,738	208	1,114,477
Other assets	1,017,471	198,820	13,999	239,310	1,469,600
Non-current assets held for sale					-
Total assets at 31/12/2018	1,906,842	414,980	22,737	239,518	2,584,077
Total liabilities at 31/12/2018	886,988	167,903	10,166	551,399	1,616,456

(*) Unallocated amounts refer to the assets and liabilities of the parent and Coesia Finance S.p.A. and respectively include cash and cash equivalents of €218,079 thousand and loans and borrowings of €530,416 thousand that cannot be directly allocated to the other operating segments.

(**) The difference between total assets and total liabilities (€967,621 thousand) represents the consolidated equity at 31 December 2018.

The sales volumes of the Advanced Automated Machinery & Materials segment increased significantly on the previous year despite the persisting tough market situation. Sales volumes benefited from the strengthening of the group's local presence, the expansion of its customer portfolio, assistance and customer services and the acquisition of a significant order in the coffee segment. They mainly increased due to the consolidation of System Ceramics S.p.A. and Comas S.p.A. (the latter was only consolidated for the last quarter in 2018). Operating profit as a percentage of revenue decreased compared to the previous year, mainly due to the production under-absorption related to delays in orders and costs for the completion of new platforms for tobacco and certain consumer goods machinery segments. Positive forecasts should be confirmed for the segment in 2020 considering the trends in negotiations underway with customers and incoming orders despite a still very uncertain macroeconomic situation and the effects of the spread of Coronavirus.

The drop in the Industrial Process Solutions (IPS) segment's sales volumes and operating profit is due to the change in business scope compared to 2018 as the Emmeci Group switched from the IPS segment to the Advanced Automated Machinery & Materials segment at the beginning of 2019.

If the scope had remained the same, there would have been an improvement in sales volumes and operating profit in both absolute terms and as a percentage of revenue. Certain businesses show a clear improvement, while others suffered a slowdown due to the postponement of certain significant projects. The operating profit was achieved thanks to projects which led to an improvement in the profitability of digital printing machinery and the streamlining of operating costs. These activities will continue and increase in 2020, including in the factory logistics and automation segment, encouraging an even better future economic performance.

3.3 Notes to the statement of financial position

3.3.1 Property, plant and equipment and investment property

This caption is comprised as follows:

€/000	31/12/2019	31/12/2018
Land	28,161	27,049
Buildings	111,394	117,094
Leasehold improvements	3,127	1,858
Plant and machinery	74,644	57,208
Industrial and commercial equipment	18,621	14,046
Other assets	19,493	15,310
Advances paid for the purchase of property, plant and equipment	1,034	279
Assets under construction	43,134	36,493
Total property, plant and equipment	**299,608**	**269,337**
Investment property	523	514
Total investment property	**523**	**514**

Details and analyses of changes in property, plant and equipment in 2019 are provided in Annex II.

Property, plant and equipment and investment property increased by a total of €38,412 thousand over the previous year due to the change to the consolidation scope. Furthermore, from 1 January 2019, €13,020 thousand was reclassified to "Right-of-use assets" caption. This amount was related to the carrying amount of leased property, plant and equipment measured using the financial method in accordance with IAS 17, which was applicable prior to the introduction of IFRS 16.

Increases at 31 December 2019 mainly relate to investments in plant, machinery and equipment required to extend, renew and modernise the group's production sites and offices.

Assets under construction mainly comprise work in progress on buildings owned by G.D S.p.A. which will be ready to use after 2019 (€34,757 thousand; 31 December 2018: €31,026 thousand).

3.3.2 Right-of-use assets and lease liabilities

As highlighted in the section on the new standards applicable from 1 January 2019, the modified retrospective application of IFRS 16 led to the recognition of non-current right-of-use assets and current and non-current lease liabilities at 1 January 2019:

- right-of-use assets are calculated as the carrying amounts of leased assets, as though the standard had been applied at the inception of the lease, using the discount rate defined at the transition date;
- financial liabilities are calculated as the present amount of future payments at the transaction date, using the incremental borrowing rate applicable at the transaction date based on the expiry and payment currency.

The group holds production buildings and plant under lease which were previously classified as finance leases under IAS 17. For such leases, the carrying amount of the right-of use assets and lease liabilities at 1 January 2019 corresponds with the carrying amount of the leased asset and the lease liability recognised in accordance with IAS 17 immediately before such date.

The following tables show the breakdown of right-of-use assets (net of accumulated depreciation) and lease liabilities at the transition date and the related changes at 31 December 2019.

€/000	31/12/2019	Impacts at transition date 1 January 2019	IAS 17 effect 01.01.2019
Non-current assets			
Right-of-use assets - land and buildings	105,891	99,229	10,625
Right-of-use assets - plant and machinery	2,117	49	2,395
Right-of-use assets - vehicles	6,049	6,342	
Right-of-use assets - other assets	782	1,090	
Total	**114,839**	**106,710**	**13,020**
Non-current liabilities			
Non-current lease liabilities	91,540	91,658	5,359
Current liabilities			
Current lease liabilities	21,956	18,798	961
Total	**113,496**	**110,456**	**6,320**

€/000	Impacts at transition date 1 January 2019	IAS 17 reclassification	Increases for new contracts or contractual amendments	Settlements or contractual amendments	Depreciation and impairment losses for the year	Exchange rate gains	31/12/2019
Right-of-use assets - land and buildings	99,229	10,625	12,432	-	(16,942)	547	**105,891**
Right-of-use assets - plant and machinery	49	2,395	-	-	(327)	-	**2,117**
Right-of-use assets - vehicles	6,341	-	2,978	-	(3,302)	32	**6,049**
Right-of-use assets - other assets	1,091	-	215	-	(525)	1	**782**
Total right-of use assets	**106,710**	**13,020**	**15,625**	**-**	**(21,096)**	**580**	**114,839**

“Right-of-use assets - land and buildings” of €105.9 million comprise right-of-use assets related to land and buildings in Italy of €69.9 million and to buildings located abroad of €36.3 million. Right-of-use assets related to buildings mainly refer to leases of building complexes used as headquarters and offices. The “Increases for new contracts and contractual amendments” column shows leases signed during the year and the amendment of the estimated duration and contractual options. The “IAS 17 reclassification” column includes the carrying amount of leases previously classified as finance leases (pursuant to IAS 17) and recognised under property, plant and equipment by type.

“Right-of-use assets - plant and machinery” and “Right-of-use assets - vehicles” equal to €2.1 million and 6.05 million, respectively, mainly refer to leases signed by group companies for plant used in production and company vehicles, while “Right-of-use assets - other assets” of €0.8 million includes leases of forklifts, trucks, hardware and other minor industrial and commercial equipment.

Lease liabilities changed as follows during the year:

€/000	Impacts at transition date 1 January 2019	IAS 17 reclassification	Increases for new contracts or contractual amendments	Settlements or contractual amendments	Decrease	Exchange rate gains	31/12/2019
Lease liabilities	110,456	6,320	15,600		(19,665)	785	**113,496**
of which							
Non-current portion	91,658	5,359					**91,540**
Current portion	18,798	961					**21,956**
Total lease liabilities	**110,456**	**6,320**	**15,600**	**-**	**(19,665)**	**785**	**113,496**

Lease liabilities mainly include those for the lease of the group’s headquarters and administrative offices. “Increases for new contracts or contractual amendments” mainly include leases signed during the year for building units and the remeasurement of certain leases already in place, resulting from the update of the measurement component of the leases themselves, i.e., the reasonable certainty that contractual renewal options will be exercised. The “Decreases” are due to the repayment of lease instalments expired in 2019. “IAS 17 reclassification” refers to the reclassification of the lease liabilities formerly classified as finance leases (pursuant to IAS 17) and recognised under financial liabilities.

The following table shows a break down of lease liabilities by due date:

Type	Due within one year	Due within five years	Due after five years	31/12/2019
Current lease liabilities	21,956	50,287	41,253	113,496

<u>3.3.3 Goodwill and other intangible assets with an indefinite life</u>

€/000	31/12/2019	31/12/2018
Goodwill (arising on consolidation)	927,267	654,526
Trademarks with an indefinite life	80,750	22,798
Total	**1,008,017**	**677,324**

Details and analyses of changes in this caption during the year are provided in Annex I.

Goodwill, totalling €927.3 million (31 December 2018: €654.5 million), is allocated to the Advanced Automated Machinery & Materials and Industrial Process Solution CGUs for €809.1 million (31 December 2018: €498.7 million) and €118.2 million (31 December 2018: €155.8 million), respectively.

Trademarks with an indefinite life amount to €80.8 million (31 December 2018: €22.8 million) and are fully allocated to the Advanced Automated Machinery & Materials and Industrial Process Solutions CGUs, for €71.4 million and €9.4 million respectively (€22.8 million at 31 December 2018 fully allocated to the Industrial Process Solutions CGU).

The change in goodwill and trademarks for the Industrial Process Solutions CGU compared to the previous year end (by €37.9 million and €13.3 million, respectively) is due to the transfer of the Emmeci Group to the Advanced Automated Machinery & Materials CGU.

Trademarks increased by €58.1 million due to the amount attributed to the System trademark following the allocation of the excess acquisition cost for the System Group compared to the group's share of the acquiree's equity, calculated by measuring the individual assets and liabilities at the acquisition-date fair value (on 1 January 2019) and decreased by €0.1 million due to the translation difference.

Goodwill increased mainly as a result of the acquisition of the System Group for €268.0 million and reflects the allocation of the excess acquisition cost for the System Group compared to the group's share of the acquiree's equity, calculated by measuring the individual assets and liabilities at the acquisition-date fair value (on 1 January 2019). As mentioned earlier, following the application of the anticipated acquisition method, the goodwill was calculated considering the entire fair value of assets and liabilities transferred following the recognition of a liability at the amount at which the option for the remaining 40% interest still owned by non-controlling investors is expected to be exercised.

The other changes for the year refer to the €0.7 million increase in goodwill related to the acquisition of the Atlantic Zeiser Group, following the allocation of the excess amount between the price paid and the fair value of the related assets acquired, and the €4.0 million increase in exchange rate gains, mainly related to trends in the dollar exchange rate.

As indicated in the "Accounting policies" paragraph, goodwill is tested annually for impairment. The main assumptions, methods and parameters used for the purposes of the impairment test are as follows.

The recoverable amount of the CGUs was defined on the basis of the calculation of the value in use meant as the present value of future operating cash flows, using the discounted cash flow method.

The future cash flows of the CGUs were estimated on the basis of a three-year plan approved by the board of directors of Coesia S.p.A. projected over a five-year horizon and also considering a terminal value suitably adjusted to take into consideration conditions of normal group operations on the basis of forecasts developed by management.

Cash flows are discounted using discount rates that reflect current market valuations of the cost of money and considering risks specific to operating segments.

Details on growth assumptions under the forecast plans and discount rates used in impairment procedures are as follows:

- the growth rate "g" was assumed at 2%;
- the 2020-2024 CAGR (compound average growth rate) was assumed at 7.72% for the

Industrial Process Solution segment and 7.24% for the Advanced Automated Machinery and Materials segment;

- the WACC (weighted average cost of capital) was assumed at 5.5%.

A sensitivity analysis was performed to simulate the value of the CGUs following the change of certain basic parameters of the valuation model: WACC, long-term nominal growth rate (g) and profitability of the CGUs.

The results of the impairment test on goodwill and the relevant sensitivity analysis did not show any risks of impairment.

In the same manner, trademarks with an indefinite life are tested annually for impairment and a sensitivity analysis is performed. The results of such impairment test on trademarks with an indefinite life and the relevant sensitivity analysis did not show any risks of impairment.

3.3.4 Other intangible assets with a finite life

This caption is comprised as follows:

€/000	31/12/2019	31/12/2018
Trademarks with a finite life	55	41
Industrial patents and intellectual property rights	17,163	7,094
Software licences	11,997	15,835
Development expenditure	178,257	143,608
Other intangible assets with a finite life	60,340	246
Assets under development and payments on account	440	478
Total	**268,252**	**167,302**

Details and analyses of changes in this caption during the year are provided in Annex I.

Software licences mainly include costs incurred to implement the ERP system.

Capitalised development expenditure for the year amounts to €75,379 thousand, while amortisation for the year amounts to €41,279 thousand. Capitalised development expenditure mainly relates to the subsidiary G.D S.p.A. and refers to the development of the new platforms dedicated to new generation products in the tobacco segment, as detailed in the directors' report, and to the subsidiary ACMA S.p.A. related to the "SFI" *Sustainable Forestry Initiative*®, as detailed in the directors' report.

In addition to the aforementioned research and development expenditure, the increase in the caption is also due to the recognition under "Other intangible assets with a finite life" of customer relationships (€58.7 million, net of amortisation) and under "Industrial patents and intellectual property rights" of know-how (€8.5 million, net of amortisation) related to the allocation of the excess acquisition cost for the System Group. The two intangible assets are amortised over twenty years and six years, respectively.

Intangible assets increased by a total of €6.8 million over the previous year end due to the change in the consolidation scope.

As per IAS 38, such development projects were tested for impairment to examine their ability to generate probable future economic benefits. The development expenditure incurred by the group that does not meet such requirements was taken directly to profit or loss.

3.3.5 Equity-accounted investments

This caption refers to:

- Errelle S.r.l., with its registered office in Sala Bolognese (BO), held at 30% (€675 thousand);
- ProSGM S.r.l., with its registered office in Valsamoggia (BO), held at 30% (€1,550 thousand);
- Finotti S.r.l., with its registered office in Sala Bolognese (BO), held at 30% (€331 thousand).

All of the above broke even in 2019.

At 31 December 2018, this caption included the non-controlling investment (49%) in XPack S.r.l., a company active in the design and production of innovative packaging machinery, equal to €1,722 thousand. In 2019, following the assessment of the forecast profits of the associate, the non-controlling investment and the quotaholder loan paid to the company, recognised under "Non-current financial assets", were fully impaired. Therefore, at 31 December 2019, the carrying amount of the investment in XPack S.r.l. amounts to zero. A provision of €2,000 thousand has been accrued to hedge future losses expected to be incurred in 2020, included in the "Current portion of provisions for risks and charges".

3.3.6 Non-current financial assets

This caption is comprised as follows:

Investments in subsidiaries and associates measured at cost:

€/000	Investor	31/12/2019	31/12/2018
LESINA AUTONOLEGGIO S.r.l. (Italy)	G.D S.p.A. (Italy)	147	62
FARE IMPRESA IN DOZZA	G.D S.p.A. (Italy)	43	43
COMAS MACHINERY INDIA PRIVATE LIMITED	COMAS S.p.A. (Italy)	7	7
Total investments in subsidiaries and associates measured at cost		**197**	**112**

Investments in other companies

This caption is comprised as follows:

€/000	Investor	31/12/2019	31/12/2018
Gudang Garam	G.D S.p.A. (Italy)	111	111
Crit S.r.l.	G.D S.p.A. (Italy)	52	52
Others	Various	198	169
Total investments in other companies measured at cost		**361**	**332**

Other non-current financial assets:

Such caption, totalling €12,272 thousand (31 December 2018: €5,593 thousand), includes €10,084 thousand (31 December 2018: €4,137 thousand) related to the group's units in three closed-end funds investing in companies developing innovative technologies (venture capital companies). Such investments were classified as financial assets measured at fair value through profit or loss in accordance with the provisions of IFRS 9 for measuring assets and liabilities. The group committed to subscribe units for a maximum amount of €5,000 thousand, USD5,000 thousand and USD5,000 thousand, respectively. The increase is partly related to the positive fair value of the units held (€3,020 thousand) while the rest is due to new subscriptions during the year.

The remaining amount of €2,188 thousand (31 December 2018: €1,085 thousand) chiefly refers to guarantee deposits. The increase is due to the consolidation of the System Group.

At 31 December 2018, this caption included a loan to the associate XPack S.r.l. (€1,456 thousand). The loan increased by €3,000 thousand in 2019 and, following the assessment of the forecast profits of the associate, such loan assets were fully impaired at 31 December 2019.

3.3.7 Deferred tax assets and liabilities

Deferred tax assets and deferred tax liabilities reflect taxes on temporary differences between the carrying amounts of assets and liabilities and their tax bases and on consolidation adjustments. The deferred tax assets, mainly related to recognised taxed provisions and unrealised intragroup gains, were recognised as they are reasonably realisable. The deferred tax liabilities are mostly related to the capitalisation of development expenditure and the tax effect on the recognition of leases using the financial method. In calculating deferred taxes, the group used the rate that substantially reflects the forecast tax burden for future years on the basis of ruling legislation (for Italian companies: IRES at 24% and IRAP at 3.9%).

€36,295 thousand of the significant increase in deferred tax liabilities in 2019 refers to the tax effect related to the increase in intangible assets resulting from the allocation of the excess acquisition cost for the System Group.

3.3.8 Inventories

This caption is comprised as follows:

€/000	31/12/2019	31/12/2018
Raw materials, consumables and supplies	174,604	128,528
(LESS) Allowance for inventory write-down - raw materials, consumables and supplies	(38,853)	(26,519)
Total raw materials, consumables and supplies	**135,751**	**102,009**
Work in progress and semi-finished products	421,751	418,910
(LESS) Allowance for inventory write-down - work in progress and semi-finished products	(87,358)	(75,234)
Total work in progress and semi-finished products	**334,393**	**343,676**
Finished goods	112,035	107,249
(LESS) Allowance for inventory write-down - finished goods	(38,389)	(25,778)
Total finished goods	**73,646**	**81,471**
Total inventories	**708,390**	**654,687**
Total allowance for inventory write-down	**(164,600)**	**(127,531)**
Total inventory	**543,790**	**527,156**

The increase in inventories on the previous year end, including translation differences and new acquisitions (€87,733 thousand), amounts to €16,634 thousand, net of the €37,069 thousand increase in the allowance for inventory write-down (of which €11,694 thousand generated by new acquisitions).

The decrease in inventories on the previous year end, net of the change in consolidation scope, is mainly due to the increase in contract work in progress. Accruals to the allowance for inventory write-down are made for obsolete, slow-moving and/or excess materials.

3.3.9 Contract work in progress

€/000	31/12/2019	31/12/2018
Contract work in progress	144,320	65,793
(LESS) Allowance for inventory write-down - contract work in progress	(428)	(732)
Total contract work in progress	**143,892**	**65,061**

The increase in contract work in progress on the previous year end, including translation differences and new acquisitions (equal to €5,047 thousand), amounts to €78,831 thousand, net of the €304 thousand decrease in the allowance for inventory write-down. This increase is due to the different product mix in inventory at 31 December 2019 compared to the previous year end and the aforementioned "SFI" *Sustainable Forestry Initiative®* contract, equal to €51,830 thousand at 31 December 2019.

3.3.10 Trade receivables

The caption is broken down as follows:

€/000	31/12/2019	31/12/2018
Trade receivables	401,122	316,369
(LESS) Loss allowance - trade receivables	(31,170)	(25,831)
Total trade receivables	**369,952**	**290,538**

Trade receivables derive exclusively from the group's industrial activities and are shown net of the loss allowance of €31,170 thousand (31 December 2018: €25,831 thousand, the increase is due to new acquisitions of approximately €6.3 thousand). The caption includes trade receivables due after one year of €5,214 thousand (31 December 2018: €4,559 thousand). The increase on the previous year end of €79,414 thousand is due to the contribution of companies acquired during the year (approximately €129.1 million), net of actions taken to improve operating working capital and the different timing of collections.

Furthermore, such caption includes the following receivables from non-consolidated subsidiaries, associates and related companies:

Receivables from non-consolidated subsidiaries

€/000	31/12/2019	31/12/2018
Lesina Autonoleggio S.r.l.	5	7
Total	**5**	**7**

Receivables from non-consolidated associates

€/000	31/12/2019	31/12/2018
XPack S.r.l.	63	8
Finotti Artigiana S.r.l.	9	0
Errelle S.r.l.	114	101
Total	**186**	**109**

Receivables from related companies

€/000	31/12/2019	31/12/2018
MAST S.r.l.	4,798	4,508
Total	**4,798**	**4,508**

3.3.11 Current financial assets

The caption is broken down as follows.

€/000	31/12/2019	31/12/2018
Securities	39,627	39,075
Current loan assets from non-consolidated group companies	85	85
Current loan assets from associates	40	-
Current loan assets from third parties	300	641
Cash flow hedges	415	374
Fair value hedges	192	338
Loan prepayments	1,757	5,838
Other current financial assets	8,330	300
Total current financial assets	**50,746**	**46,651**

Securities include the carrying amount of the units of the whole-life insurance policy signed by Coesia S.p.A. with Credit Agricole during 2014. The original amount of €20,000 thousand increased during 2016 as a result of the subscription of additional units for €2,000 thousand. The accrued return amounts to €2,065 thousand at 31 December 2019, of which €1,627 thousand accrued in previous years. Interest accrues on a quarterly basis and is paid only when the units are sold.

Furthermore, Coesia S.p.A. signed additional insurance policies for €15,000 thousand from 2015 to 2017, with accrued interest of €562 thousand at the reporting date (of which €448 thousand at 31 December 2018).

"Current loan assets from third parties" of €300 thousand include the fee not yet collected related to the sale of the investment in Sacmo Sas to third parties on 28 December 2018 and €8,028 thousand related to the loans assets of System China, recognised under "Current financial liabilities" arising from System China's subscription of 36% of the share capital of the newco Modula China. As part of Coesia S.p.A.'s acquisition of the System S.p.A. ceramics business unit, System China subscribed 36% of the share capital of the newco Modula China for approximately €8,028 thousand, to be paid via the transfer of the new production facility, under construction at 31 December 2019, intended for System S.p.A.'s Modula business. As agreed between the parties, following the transfer of the production facility, which is expected to take place by June 2020, System China will sell its 36% investment in Modula China to Modula S.p.A. for an amount allowing for the recovery of construction costs. The production facility under construction is reflected under "Non-current assets held for sale" for €7,481 thousand.

Current loan assets from non-consolidated group companies are broken down as follows:

€/000	31/12/2019	31/12/2018
LESINA AUTONOLEGGIO S.r.l. (Italy)	85	85
Total current loan assets from non-consolidated group companies	**85**	**85**

Current loan assets from associates are broken down as follows:

€/000	31/12/2019	31/12/2018
FARE IMPRESA IN DOZZA S.r.l. (Italy)	40	0
Total current loan assets from associates	**40**	**0**

Interest accrues at market rates on loans granted to non-consolidated subsidiaries and associates.

3.3.12 Current tax assets and liabilities

Current tax assets are broken down as follows:

€/000	31/12/2019	31/12/2018
Tax assets	11,209	1,776
Tax consolidation scheme assets	29,135	4,531
Other	8,327	5,668
Total current tax assets	**48,671**	**11,975**

Current tax assets increased due to the acquisition of ceramics business of the System Group and the higher IRAP tax assets of G.D S.p.A. following the attainment of the "Patent Box" tax incentive, as highlighted in the directors' report. The increase in "Tax consolidation scheme assets" is also mainly due to greater IRES tax assets (transferred to the tax consolidation scheme) pertaining to the subsidiary G.D S.p.A. thanks to the Patent Box tax incentive. The aforementioned assets may be used to offset the payment of the related payments on account and direct income taxes.

Current tax liabilities are broken down as follows:

€/000	31/12/2019	31/12/2018
Tax liabilities	9,622	9,583
IRPEF liability for employees and self-employed workers and other withholdings	15,190	11,811
Other tax liabilities	233	699
Total current tax liabilities	**25,045**	**22,093**

Group management does not believe that the years open to inspection for the parent and its main subsidiaries at the reporting date (2015 and subsequent years for Italian companies with regard to both direct and indirect taxes) will lead to any significant liabilities not shown in the consolidated financial statements.

3.3.13 Other current assets

This caption is comprised as follows:

€/000	31/12/2019	31/12/2018
Social security institutions	141	176
Employees	1,275	1,579
Advances to suppliers	9,928	14,569
Non-financial accrued income	3,428	7,626
Property operating lease prepayments	0	1,014
Other operating lease prepayments	0	187
Insurance prepayments	3,230	2,849
Maintenance prepayments	695	586
Other prepayments	12,256	11,852
VAT assets	26,992	21,461
Other assets	11,408	10,305
Total other assets	**69,353**	**72,204**

VAT assets include €4,475 thousand which is expected to be collected beyond 2019.

3.3.14 Cash and cash equivalents

This caption is comprised as follows:

€/000	31/12/2019	31/12/2018
Bank accounts	655,997	355,336
Cash and cash equivalents	582	216
Total cash and cash equivalents	**656,579**	**355,552**

The change in liquidity is detailed in the annexed statement of cash flows.

3.3.15 Non-current assets held for sale

These mainly include System China's building, which is under construction at 31 December 2019, amounting to €7,481 thousand, as already mentioned in the "Current loan assets from third parties" caption.

3.3.16 Equity

Equity captions are broken down as follows:

€/000	31/12/2019	31/12/2018
Share capital	**125,000**	**125,000**
Revaluation reserves	86,135	86,135
Legal reserve	19,146	15,686
Hedging reserve	(12,211)	(7,553)
Actuarial reserve	(18,561)	(13,109)
Translation reserve	21,703	15,681
Total reserves	**96,212**	**96,840**
Retained earnings	**697,899**	**575,660**
Profit for the year attributable to the owners of the parent	**182,543**	**165,905**
Equity attributable to the owners of the parent	**1,101,654**	**963,405**
Equity attributable to non-controlling interests	5,413	4,216
Total equity	**1,107,067**	**967,621**

An analysis of changes in equity is provided in the relevant financial statements schedule.

Equity attributable to the owners of the parent

The share capital amounts to €125,000 thousand, unchanged from the previous year end.

Details on changes in reserves are provided herebelow.

The legal reserve, amounting to €19,146 thousand, increased by €3,460 thousand following the allocation of 2018 profit.

The actuarial reserve decreased by €5,452 thousand mainly following the actuarial gains of the year and the exchange rate effect.

The hedging reserve was a negative €12,211 thousand and comprises changes in the fair value of derivatives on exchange and interest rates signed to hedge foreign currency transactions and loans taken out by the group, net of the related tax effect.

Retained earnings rose on the previous year end by €112,445 thousand, mainly due to the combined effect of the allocation of consolidated profit for the previous year (€162,445 thousand)

and the resolution to distribute dividends of €50,000 thousand to the ultimate parent.

Furthermore, retained earnings include €39,358 thousand related to the first-time adoption reserve accrued for the adoption of the IFRS starting from 1 January 2015 and €4,095 thousand as the negative effect related to the first-time adoption of IFRS 15.

Retained earnings also comprises the negative effect (-€3,378 thousand) of the reserve for first time adoption of IFRS 16 and the positive effect (€13,172 thousand) of the adjustment of the call/put options for non-controlling interests (30% and 40%, respectively) to their estimated realisable value as part of the acquisition of Comas S.p.A. and System Ceramics S.p.A. compared to their measurement at the acquisition date.

Equity attributable to non-controlling interests

This caption refers to equity attributable to non-controlling interests amounting to €5,413 thousand, including the profit attributable to non-controlling interests for 2019 of €874 thousand. The increase is mainly linked to the equity attributable to non-controlling interests of the System Group of €777 thousand. In 2019, the subsidiary Tritron GmbH, 49% owned by non-controlling interests, distributed dividends of €1,102 thousand. Therefore, equity attributable to non-controlling interests decreased by €540 thousand.

Reconciliation between equity of the parent and consolidated equity

The reconciliation of the equity and profit for the year resulting from the parent's separate financial statements and the corresponding consolidated amounts as at and for the years ended 31 December 2019 and 2018 is as follows:

	2019		2018	
€/000	Equity	Profit for the year	Equity	Profit for the year
Separate financial statements of the parent - IV Directive	**226,218**	**36,994**	**244,353**	**69,198**
Adjustment of the parent's separate financial statements to IFRS	1,151	1,481	(3,535)	(2,458)
IFRS compliant separate financial statements	**227,369**	**38,475**	**240,818**	**66,740**
Difference between the equity of consolidated investees and the equivalent carrying amounts in the parent's separate financial statements	888,966	212,940	716,133	182,534
Dividends	-	(70,000)	-	(79,667)
Equity-accounted investees	-	875	(875)	(477)
Other consolidation entries	(14,681)	253	7,329	(3,225)
Total attributable to the owners of the parent	**1,101,654**	**182,543**	**963,405**	**165,905**
Equity and profit attributable to non-controlling interests	5,413	874	4,216	367
Total consolidated	**1,107,067**	**183,417**	**967,621**	**166,272**

3.3.17 Current and non-current financial liabilities

This caption is comprised as follows at 31 December 2019 and 31 December 2018:

31/12/2019, €/000	CURRENT PORTION	NON-CURRENT PORTION	TOTAL	OF WHICH DUE AFTER FIVE YEARS
CURRENT ACCOUNT OVERDRAFTS	**627**	**-**	**627**	
BANK LOANS	**50,319**	**876,239**	**926,558**	
Loans	50,319	876,239	**926,558**	**509,245**
FINANCE LEASES	**-**	**-**	**-**	**-**
OTHER FINANCIAL BACKERS	**2,763**	**7,387**	**10,150**	**944**
Public funding	515	4,485	**5,000**	944
Factoring	1,848	2,878	**4,726**	
Other	400	24	**424**	
BONDS	**746**	**99,720**	**100,466**	
OTHER FINANCIAL LIABILITIES	**9,635**	**20,276**	**29,911**	
LIABILITIES FOR OPTIONS ON INVESTMENTS	**-**	**346,157**	**346,157**	
TOTAL FINANCIAL LIABILITIES	**64,090**	**1,349,779**	**1,413,869**	**510,199**

31/12/2018, €/000	CURRENT PORTION	NON-CURRENT PORTION	TOTAL	OF WHICH DUE AFTER FIVE YEARS
CURRENT ACCOUNT OVERDRAFTS	**1,818**	**-**	**1,818**	**-**
BANK LOANS	**823**	**429,193**	**430,016**	**37,272**
Loans	823	429,193	**430,016**	37,272
FINANCE LEASES	**1,576**	**5,442**	**7,018**	**1,755**
OTHER FINANCIAL BACKERS	**2,032**	**10,042**	**12,074**	**497**
Public funding	409	3,055	**3,464**	497
Factoring	1,623	6,688	**8,311**	-
Other	-	299	**299**	-
BONDS	**748**	**99,568**	**100,316**	**-**
OTHER FINANCIAL LIABILITIES	**4,761**	**11,687**	**16,448**	**-**
LIABILITIES FOR OPTIONS ON INVESTMENTS	**-**	**133,314**	**133,314**	
TOTAL FINANCIAL LIABILITIES	**11,758**	**689,246**	**701,004**	**39,524**

On 1 October 2014, Coesia S.p.A. issued and placed on the ExtraMOT PRO bond market, which is reserved for professional investors, bonds for €100 thousand with a bullet repayment on 1 October 2021. The liability recognised in the 2019 consolidated financial statements at amortised cost amounts to €99,720 thousand. These bonds accrue interest at an annual rate of 3%, which is payable on 1 October of each year of the bond term, beginning in 2014.

Bank loans totalling €930 million mainly include Coesia S.p.A.'s loans, of which €50 million is due in 2020, €192.3 million due in 2021, €124.7 million due in 2022, €25 million due in 2023, €25 million due in 2024, €12.5 million due in 2025 and €496.7 million due in 2026. All of the above loans are measured at amortised cost. Loans increased on the previous year end due to the new loan for a nominal amount of €500 million (term credit facility) issued in January 2019 to support the group's recent acquisitions and due in 2026. This loan includes a revolving facility of €150 million, unused at 31 December 2019.

The above-mentioned bank loan agreements require compliance with economic and financial covenants calculated on the Coesia Group's consolidated financial statements. Such covenants are checked by banks every year. They were complied with at 31 December 2019. Interest accrues at market rates on all loans.

Furthermore, in order to partially refinance the existing payable, extending its term, a new five-year syndicated loan of €180 million was signed on 20 December 2019 with six lending banks. This loan was issued in January 2020.

The derivative contracts in place at 31 December 2019 are as follows:

- a derivative to hedge interest rate risk related to a bullet loan of €100 million. With a notional amount of €100 million, the derivative was signed on 4 September 2014, renegotiated on 12 July 2017 and expires on 31 July 2022. Under such derivative, the group undertakes to pay/collect the differential between 3-month Euribor and the fixed rate of 0.557% on a quarterly basis. The fair value valuation of such transaction at 31 December 2019 showed a loss of approximately €2,464 thousand, which was recognised under "Non-current financial liabilities", with a balancing entry under the "Hedging reserve";
- a derivative to hedge interest rate risk related to a loan agreed in 2016 and expiring in 2020. With a notional amount of €50 million, the derivative was signed on 27 October 2016 and expires on 27 October 2020. Under such derivative, the group undertakes to pay/collect the differential between 3-month Euribor and the four-year fixed rate of -0.02% on a four-year basis. The fair value valuation of such transaction at 31 December 2019 showed a loss of approximately €187 thousand, which was recognised under "Non-current financial liabilities", with a balancing entry under the "Hedging reserve";
- a derivative to hedge interest rate risk related to a loan agreed in 2017 and expiring in 2021. With a notional amount of €75 million, the derivative was signed on 12 May 2017 and expires on 12 May 2021. Under such derivative, the group undertakes to pay/collect

the differential between 3-month Euribor and the fixed rate of 0.145% on a quarterly basis. The fair value valuation of such transaction at 31 December 2019 showed a loss of approximately €594 thousand, which was recognised under "Non-current financial liabilities", with a balancing entry under the "Hedging reserve";

- a derivative to hedge interest rate risk related to a loan agreed in 2017 and expiring in 2021. With a notional amount of €75 million, the derivative was signed on 11 April 2017 and expires on 11 April 2021. Under such derivative, the group undertakes to pay/collect the differential between 3-month Euribor and the fixed rate of 0.035% on a quarterly basis. The fair value valuation of such transaction at 31 December 2019 showed a loss of approximately €479 thousand, which was recognised under "Non-current financial liabilities", with a balancing entry under the "Hedging reserve";
- a derivative to hedge interest rate risk agreed on 22 December 2017. With a notional amount of €40 million, the derivative started on 22 January 2018 and expires on 22 January 2025. Under such derivative, the group undertakes to pay/collect the differential between 6-month Euribor and the fixed rate of 0.448% on a quarterly basis. It was agreed to hedge the loan of the same amount signed on 22 December 2017 but paid out on 22 January 2018. The market valuation of such transaction at 31 December 2019 showed a loss of approximately €921 thousand, which was recognised under "Non-current financial liabilities", with a balancing entry under the "Hedging reserve";
- a derivative to hedge interest rate risk agreed on 19 January 2018. With a notional amount of €60 million, the derivative started on 22 January 2018 and expires on 22 January 2025. Under such derivative, the group undertakes to pay/collect the differential between 3-month Euribor and the fixed rate of 0.463% on a quarterly basis. It was agreed to hedge the loan of the same amount paid out on 22 January 2018. The fair value valuation of such transaction at 31 December 2019 showed a loss of approximately €1,558 thousand, which was recognised under "Non-current financial liabilities", with a balancing entry under the "Hedging reserve";
- two specular derivatives to hedge interest rate risk agreed on 1 August 2018 (and renewed in January 2019) for a total notional amount of €375 million, expiring on 31 July

2023. Under such derivatives, the group undertakes to pay/collect the differential between 3-month Euribor and the fixed rate of 0.4575% on a quarterly basis. They were agreed to hedge the term credit facility part of the syndicated loan mentioned above signed on 31 July 2018 and paid out in January 2019. The fair value valuation of such transactions at 31 December 2019 showed a loss of approximately €10,060 thousand, which was recognised under "Non-current financial liabilities", with a balancing entry under the "Hedging reserve";

- a derivative measured at fair value and originally signed in 2010 to hedge the interest rate risk linked to the finance lease for the multifunctional MAST building demerged during 2015. With decreasing notional amounts, the derivative expires in 2029. It amounts to €15,382 thousand at 31 December 2019 and provides for a floor of 2.48% and a cap of 4.5%. The derivative does not generate effects if the 3-month Euribor is between 2.48% and 4.5%. The fair value valuation of such transaction at 31 December 2019 showed a loss of approximately €2,261 thousand, which was recognised under "Non-current financial liabilities".

"Liabilities for options on investments" includes the measurement of call/put options for the non-controlling interests in the Comas Group and the System Group at 31 December 2019.

The current portion of "Other financial liabilities" includes €8,028 thousand for the payment related to System China's subscription of 36% of the share capital of the newco Modula China, as already mentioned in the "Current loan assets from third parties" caption.

3.3.18 Employee benefits

Defined benefit plans

At 31 December 2019, the caption mainly includes €74,098 thousand (31 December 2018: €62,870 thousand) for post-employment benefits for companies resident in Italy and liabilities for defined benefit pension funds pursuant to IAS 19 for foreign companies, determined on an actuarial basis, as mentioned in the section on accounting policies. The changes in defined benefit plans during the year were as follows:

€/000	2019	2018
Present value of defined benefit plans - opening balance	**62,870**	**63,540**
Interest cost	1,061	868
Current service cost	3,005	2,791
Past service cost	(1,208)	97
Benefits paid by the group and employees	(6,221)	(4,732)
Net actuarial gains (losses) for the year	7,547	(294)
Net transfers	5,911	(90)
Net exchange rate gains	1,133	690
Present value of defined benefit plans - closing balance	**74,098**	**62,870**

The main demographic assumptions adopted in assessing the actuarial loss are as follows:

- the annual probability of elimination of the liability due to the death of employees in service, for which local statistical mortality tables were used;
- the annual probability of elimination of the liability for reasons other than the death of employees, which was calculated on the basis of the group's historical data;
- the pensionable age on the basis of ruling legislation.

The discount rates used as reference are as follows:

2019	Europe	America	Asia Pacific
Discount rate	0.25%-2.1%	3.0%-3.1%	8.10%
Annual salary increase rate	1.0%-3.0%	0.0%-3.5%	8.00%
Annual inflation rate	0.95%-3.2%	0.00%	0.00%

2018	Europe	America	Asia Pacific
Discount rate	0.85%-2.9%	4.0%-4.1%	8.50%
Annual salary increase rate	1.0%-3.0%	0.0%-3.5%	8.00%
Annual inflation rate	1.0%-2.5%	0.00%	0.00%

The effects of a hypothetical increase or decrease of 50 basis points in the 2019 discount rate, net of the tax effects, are as follows:

Sensitivity analysis (€/000)	Increase + 50 bp	Decrease - 50 bp
Net actuarial gains (losses) for the year	(11,346)	12,664

3.3.19 Current and non-current portion of the provisions for risks and charges

These provisions are composed as follows:

€/000	31 December 2019	31 December 2018
Provisions for product warranties	45,304	45,507
Other provisions for risks and charges	18,182	15,184
Total provisions for risks and charges	**63,486**	**60,691**

€/000	Non-current portion	Current portion	Total 2019
Provisions for product warranties	3,519	41,784	45,303
Other provisions for risks and charges	8,205	9,978	18,183
Total provisions for risks and charges	**11,724**	**51,762**	**63,486**

The provisions for product warranties and installations and other provisions for risks and charges mainly reflect charges for work carried out under warranty to be incurred after the reporting date but relating to machinery sold before that date, as well as prudently estimated charges for contract risks and any loss-making orders related to group production activities.

3.3.20 Trade payables

€/000	31 December 2019	31 December 2018
Trade payables and invoices to be received	354,196	316,733
Liabilities to sales agents	13,998	12,209
Trade payables to non-consolidated group companies	66	50
Trade payables to associates	8,326	5,817
Total trade payables	**376,586**	**334,809**

The €41,777 thousand increase on the previous year end is mainly due to the contribution of the new acquisitions of the year (€64.5 million).

3.3.21 Other current liabilities

€/000	31 December 2019	31 December 2018
Advances from customers	297,609	248,542
Social security institutions	17,519	15,837
Due to employees - wages and salaries	31,005	26,959
Due to employees - holidays accrued but not taken	13,661	13,582
Due to employees - other	3,750	2,927
Accrued non-financial expenses	1,578	445
Deferred non-financial income	5,926	3,301
VAT liability	11,472	3,131
Employee benefits	-	17,810
Other	21,231	19,655
Total other current liabilities	**403,751**	**352,189**

The increase in advances from customers (net of the contribution of the new acquisitions of the year of approximately €13.4 million) is mainly due a different order mix.

3.4 Notes to the income statement

In accordance with IAS 1, the following table shows an analysis of the operating profit.

€/000	2019	2018
Sales revenue, net	1,958,170	1,791,756
Purchase of goods and change in inventories	(685,690)	(630,890)
Services	(401,596)	(367,915)
Personnel expense	(543,194)	(450,127)
Amortisation, depreciation and impairment losses	(111,426)	(68,738)
Other costs, net	(6,556)	(15,084)
Operating profit	**209,708**	**259,002**

3.4.1 Revenue

Revenue is broken down below by geographical segment in the following table:

€/000	2019	%	2018	%	Variation %
EUROPEAN UNION	521,857	26%	623,163	35%	(16%)
NORTH AMERICA	427,161	22%	355,286	20%	20%
ASIA	470,185	24%	411,947	23%	14%
OTHER	406,394	21%	325,777	18%	25%
Total revenue outside Italy	**1,825,597**	**93%**	**1,716,173**	**96%**	**6%**
ITALY	132,573	7%	75,583	4%	75%
Total revenue	**1,958,170**	**100%**	**1,791,756**	**100%**	**9%**

93% of 2019 revenue was earned outside Italy (96% in 2018); specifically, from the rest of the European Union and Asia. Sales rose across the board, particularly in North America and in "Other", offsetting the fall in the European Union, which had recorded a rise in the previous year. The rebalancing of sales in Italy and abroad is due to the development of projects by customers, especially in the tobacco industry, compared to the previous year, while "Other" was positively influenced by the rise in sales in the Middle East and Africa.

3.4.2 Cost of sales

The cost of sales amounts to €1,346,378 thousand (68.8% as a percentage of revenue) for the year ended 31 December 2019, in line with the 2018 balance of €1,201,683 thousand (67.1% as a percentage of revenue). The €144,695 thousand increase in the carrying amount is mainly due to the greater sales volumes.

3.4.3 Commercial and distribution costs

Commercial and distribution costs amount to €150,070 thousand (7.7% as a percentage of revenue) for the year ended 31 December 2019, compared with €133,886 thousand (7.5% as a percentage of revenue) for 2018, up €16,184 thousand mainly due to greater sales volumes and the consolidation of the System Group.

3.4.4 General and administrative expenses

General and administrative expenses amount to €162,221 thousand (8.3% as a percentage of revenue) for the year ended 31 December 2019, compared with €117,156 thousand (6.5% as a percentage of revenue) for 2018, up €45,065 thousand mainly due to greater sales volumes and the consolidation of the System Group.

3.4.5 Research and development expenditure

Reference should be made to note 3.3.4 and the directors' report for details on such caption.

3.4.6 Other income and other costs

This caption chiefly refers to income and costs related to M&A activities and donations made during the year and restructuring costs.

3.4.7 Financial income

This caption is comprised as follows:

€/000	2019	2018
Exchange rate gains	32,282	26,508
Interest income	4,399	3,619
Other financial income	4,369	2,057
Total	**41,050**	**32,184**

"Other financial income" includes the fair value measurement of the group's units in closed-end investment funds recognised under other financial assets of €3,020 thousand.

3.4.8 Financial expense

This caption is comprised as follows:

€/000	2019	2018
Exchange rate losses	(31,942)	(34,678)
Interest expense on loans and leases	(8,093)	(4,143)
Interest expense on bonds	(2,992)	(5,393)
Interest expense on lease liabilities	(3,372)	-
Impairment loss on loan assets from associates	(4,464)	-
Net expense for the sale of investments	-	(1,809)
Other financial expense	(15,015)	(11,658)
Total	**(65,878)**	**(57,681)**

The increase in interest expense is related to the rise in gross debt, while the increase in other financial expense is mainly due to the higher costs (approximately €2.5 million) related to derivatives in place to hedge interest rates.

"Net expense for the sale of investments" mainly refers to the effects of the sale of the subsidiary Sacmo SAS on 28 December 2018.

3.4.9 Losses on equity-accounted investees

This caption includes charges related to the measurement of the investment in the associate XPack S.r.l. at equity equal to €3,682 thousand and refers to the impairment loss on the investment recognised at 31 December 2019 and the accrual to the provision to cover losses of €2,000 thousand.

3.4.10 Income tax benefit (expense)

This caption is comprised of income tax benefit amounting to €11,225 thousand (net of income tax expense of €43,052) and deferred tax liabilities of €9,006 thousand (net of deferred tax assets). Income taxes include a tax income of €54,227 thousand following the successful completion of the ruling procedure with the Italian Tax Authorities in 2019, which allowed the subsidiary G.D S.p.A. to avail itself of the so-called Patent Box incentive for the 2015-2019 five-year period. Accordingly, the Patent Box incentive for 2015-2018 was recognised in the income statement in 2019.

With respect to Italian companies, deferred taxes were calculated based on the enacted IRES and IRAP rates of 24% and 3.9%, respectively.

The main differences between the theoretical taxes calculable with the reference tax rate in Italy and the taxes recognised in the financial statements are mainly due to changes in taxed provisions in addition to the different tax rates and regulations applied in the various countries.

DISCLOSURE REQUIRED BY LAW NO. 124/2017

The following tables provide the information related to the disclosure requirements introduced by article 1.125/129 of the new annual Law on the market and competition (Law no. 124 of 4 August 2017) related to transparency in the public grant system (subsidies, grants, paid engagements or any kind of economic advantage set out in such law), for the Italian group companies. With regard to state aid and aid provided under the de minimis regime contained in the National register of state aid, as per article 52 of Law no. 234 of 24 December 2012, in order to meet disclosure requirements, reference is made to such register. The following information is reported on a collection basis, which considers the date the grants were actually collected by the company.

COESIA S.p.A.

€/000			
Granting party	**Grant received in 2019**	**Grant received in 2018**	**Reason**
INPS	3	-	Law no. 205 of 27 December 2017, paragraphs 100-108 and 113-114
Total	**3**	**-**	

Coesia Finance S.p.A.

€/000			
Granting party	**Grant received in 2019**	**Grant received in 2018**	**Reason**
INPS	2	-	Law no. 205 of 27 December 2017, paragraphs 100-108 and 113-114
Total	**2**	**-**	

G.D S.p.A.

€/000			
Granting party	**Grant received in 2019**	**Grant received in 2018**	**Reason**
INPS	163	50	Law no. 205 of 27 December 2017, paragraphs 100-108 and 113-114
GSE S.p.A.	8	-	Secondo Conto Energia (second feed-in tariff) Ministerial decree of 19 February 2007 incentive to produce electricity using photovoltaic conversion
Total	**171**	**50**	

G.F. S.p.A.

€/000			
Granting party	Grant received in 2019	Grant received in 2018	Reason
INPS	10	-	Law no. 205 of 27 December 2017, paragraphs 100-108 and 113-114
Total	10	-	

Co.me.sca S.r.l.

€/000			
Granting party	Grant received in 2019	Grant received in 2018	Reason
INPS	-	8	Law no. 190 of 23 December 2014, paragraphs 118 and following
INPS	6	1	Law no. 205 of 27 December 2017, paragraphs 100-108 and 113-114
Total	6	9	

C.I.M.A. Costruzioni Italiane Macchine Attrezzi S.p.A.

€/000			
Granting party	Grant received in 2019	Grant received in 2018	Reason
INPS	21	6	Law no. 205 of 27 December 2017, paragraphs 100-108 and 113-114
GSE S.p.A.	321	371	Incentivising rate under AEEG (Italian Regulatory authority for electricity, gas and water) Resolution no. 88/07 and Resolution no. 90/07
Total	342	377	

ACMA S.p.A.

€/000			
Granting party	Grant received in 2019	Grant received in 2018	Reason
Fondimpresa	-	11	Law no. 845 of 1978 and article 118 of Law no. 388/2000
INPS	-	20	Law no. 190 of 23 December 2014, paragraphs 118 and following
INPS	-	2	Law no. 208 of 28 December 2015, article 1.178 and following paragraphs
INPS	21	3	Law no. 205 of 27 December 2017, paragraphs 100-108 and 113-114
Total	21	36	

Emmeci S.p.A.

€/000			
Granting party	Grant received in 2019	Grant received in 2018	Reason
INPS	11	1	Law no. 205 of 27 December 2017, paragraphs 100-108 and 113-114
Total	11	1	

IPI S.p.A.

€/000			
Granting party	Grant received in 2019	Grant received in 2018	Reason
Fondimpresa	10	-	Law no. 845 of 1978 and article 118 of Law no. 388/2000
INPS	3	1	Law no. 205 of 27 December 2017, paragraphs 100-108 and 113-114
Total	**13**	**1**	

Sasib S.p.A.

€/000			
Granting party	Grant received in 2019	Grant received in 2018	Reason
INPS	39	18	Law no. 205 of 27 December 2017, paragraphs 100-108 and 113-114
Fondimpresa	19	-	Law no. 845 of 1978 and article 118 of Law no. 388/2000
Total	**58**	**18**	

3.5 Other information

Related party disclosure

The COESIA Group's relationships with related parties are neither atypical or unusual; they are part of the group's ordinary business operations.

Sales and financial transactions with such parties were carried out on an arm's length basis and were all concluded in the parent's interest.

The following tables show the statement of financial position and income statement captions related to the COESIA Group's transactions with related parties, as per IAS 24.

As at and for the year ended 31 December 2019

€/000

Ultimate parents, subsidiaries and associates	Assets	Liabilities	Costs	Revenue
Ultimate parent				
IS.Co. S.r.l.	29,135	-	-	-
Subsidiaries:				
Lesina Autonoleggi S.r.l.	90	66	223	6
Associates				
XPack S.r.l.	63	-		
Fare Impresa in Dozza S.r.l.	40	4	74	27
ProSGM S.r.l.	-	839	1,623	-
Finotti Artigiana S.r.l.	9	472	527	-
Errelle S.r.l.	114	7,011	9,842	14
Related companies	Assets	Liabilities	Costs	Revenue
Mast S.r.l.	4,897	1,745	4,131	320
TOTAL	34,348	10,137	16,420	367

As at and for the year ended 31 December 2018

€/000

Parents, subsidiaries and associates	Assets	Liabilities	Costs	Revenue
Ultimate parent				
IS.Co. S.r.l.	4,531	0	2,250(1)	-
Subsidiaries:				
Lesina Autonoleggi S.r.l.	7	43	234	10
Associates				
XPack S.r.l.	8	-		
Fare Impresa in Dozza S.r.l.	-	7	110	-
Errelle S.r.l.	101	5,817	8,615	-
Related companies	Assets	Liabilities	Costs	Revenue
Mast S.r.l.	4,504	2,446	4,634	267
TOTAL	9,151	8,313	15,843	277

Note (1): includes interest related to 2018 on the bond repaid on 2 July 2018 (€2.25 million)

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Fees to directors, statutory auditors and key management personnel

Fees to the board of directors for the year ended 31 December 2019, excluding the parent's CEO, amount to €600 thousand, whereas fees to the board of statutory auditors total €418 thousand, both short term.

In addition to the parent's CEO, key management personnel include members of the Coesia Operating Committee comprised of the CEOs/Managing Directors/General Managers of the main group companies, the group CFO, the Chief Human Resources Officer, the Chief Market Development Officer, the Chief Technology Officer, the Operational Excellence Director and the CEOs/Managing Directors of the operating segments and regions.

Gross remuneration to key management personnel for 2019 amounts to €20,044 thousand (of which €2,972 thousand long term).

Independent auditors' fees

Pursuant to article 2427 of the Italian Civil Code, the table below shows the fees paid by Coesia S.p.A. and group companies to the independent auditors and their network, for audit engagements and other services, set out by type or category (in thousands of Euros).

Service type	Service provider	Beneficiary	Fees
Audit	KPMG S.p.A.	Coesia S.p.A.	61
Other services	KPMG S.p.A.	Coesia S.p.A.	770
Other attestation services	KPMG S.p.A.	Coesia S.p.A.	20
Total Coesia S.p.A.			**851**
Audit	KPMG S.p.A.	Subsidiaries	420
Audit	KPMG network	Subsidiaries	807
Other attestation services	KPMG S.p.A.	Subsidiaries	57
Other attestation services	KPMG network	Subsidiaries	5
Total subsidiaries			**1,289**
Total			**2,140**

Guarantees issued and third-party goods held at group companies

The following table shows the guarantees issued mainly by banks in favour of customers to guarantee the current functioning of machinery or to guarantee supplies.

Furthermore, the table presents third-party goods held at group companies.

€/000	31/12/2019	31/12/2018
Securities	116,679	118,681
Third-party goods held at group companies	6,310	15,434
TOTAL	**122,989**	**134,115**

3.6 Annexes

The annexes are an integral part of these notes. Their purpose is to provide additional information.

The following information is included in these annexes:

- Schedule of intangible assets at 31 December 2019 (Annex I);
- Schedule of property, plant and equipment at 31 December 2019 (Annex II);
- List of consolidated investments (Annex III).

ANNEX I - SCHEDULE OF INTANGIBLE ASSETS AT 31 DECEMBER 2019

Intangible assets with a finite life - €/000

	31/12/2018			Changes							31/12/2019		
	Historical cost	Accumulated amortisation	Carrying amount at 31/12/2018	Changes in consolidation scope	Exchange rate difference	Reclassifications	Increase	Amortisation and impairment losses for the year	Historical cost	Accumulated amortisation	Historical cost	Accumulated amortisation	Carrying amount at 31/12/2019
Trademarks with a finite life	130	(89)	41	20	0	0	3	(9)	0	0	508	(453)	55
Industrial patents and intellectual property rights	20,856	(13,762)	7,094	13,922	171	0	1,425	(5,440)	(38)	29	60,475	(43,312)	17,163
Software licences	64,498	(48,663)	15,835	496	37	438	1,988	(6,473)	(434)	110	74,986	(62,989)	11,997
Development expenditure	360,480	(216,872)	143,608	0	549	0	75,379	(41,279)	0	0	436,475	(258,218)	178,257
Other intangible assets with a finite life	5,244	(4,998)	246	64,259	20	(1,240)	465	(3,392)	(476)	458	71,434	(11,094)	60,340
Assets under development and payments on account	478		478	0	13	(438)	407	0	(20)	0	440	0	440
Total	451,686	(284,384)	167,302	78,697	790	(1,240)	79,667	(56,593)	(968)	597	644,318	(376,066)	268,252

Intangible assets with an indefinite life - €/000

	31/12/2018	Changes					31/12/2019
		Changes in consolidation scope	Exchange rate difference	Increase	Decrease	Impairment losses for the year	
Goodwill	654,526	268,043	3,953	745	-	-	927,267
Trademarks with an indefinite life	22,798	58,126	(174)	-	-	-	80,750
Total	677,324	326,169	3,779	745	-	-	1,008,017

ANNEX II – SCHEDULE OF PROPERTY, PLANT AND EQUIPMENT AT 31 DECEMBER 2019

€/000

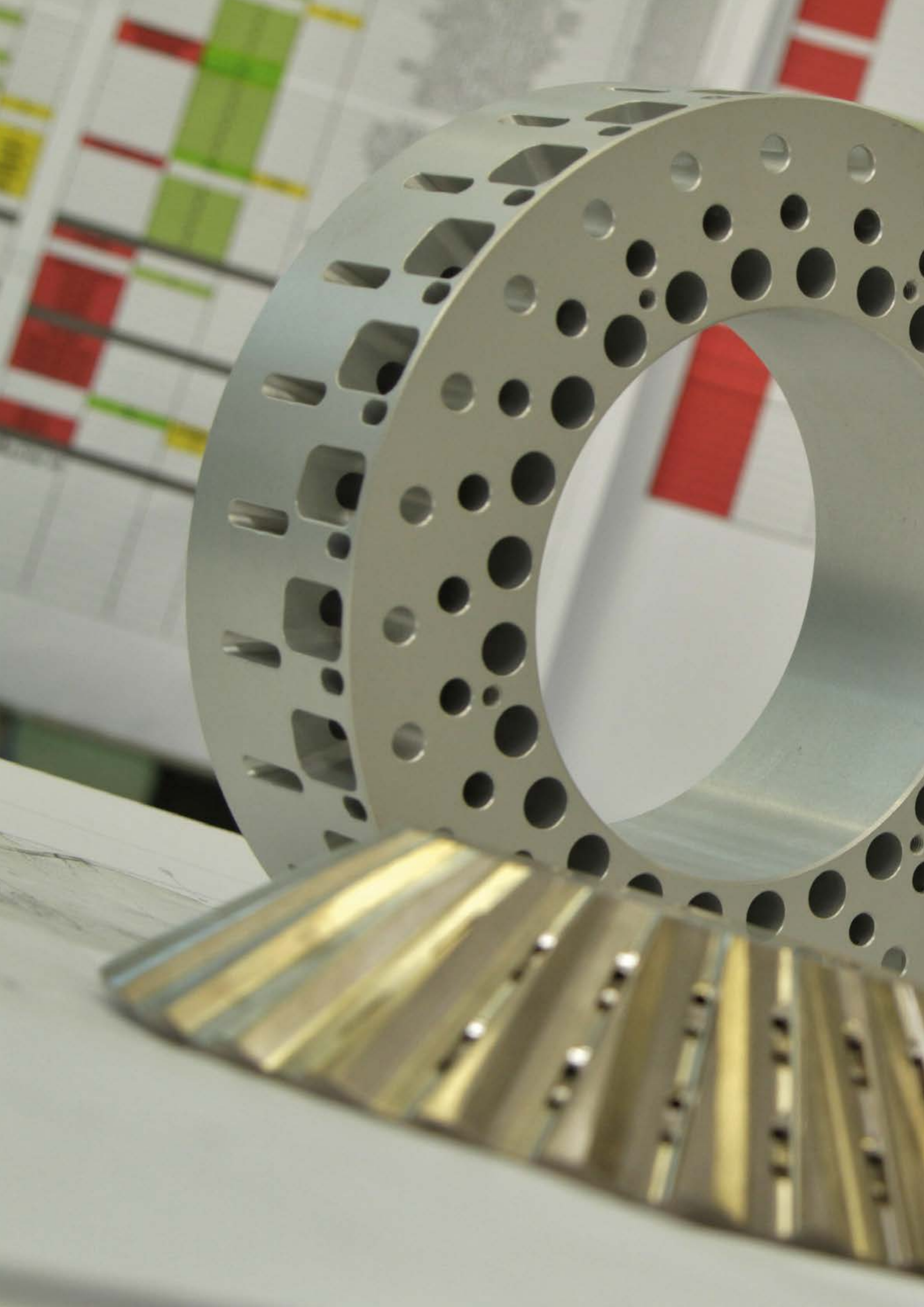
	31/12/2018			Changes							31/12/2019		
	Historical cost	Accumulated depreciation	Carrying amount at 31/12/2018	Changes in consolidation scope	Reclassifications	Exchange rate difference	Increase	Depreciation and impairment losses for the year	Historical cost	Accumulated depreciation	Historical cost	Accumulated depreciation	Carrying amount at 31/12/2019
Land	27,049	0	27,049	1,663	(889)	233	111	0	(6)	0	28,161	0	28,161
Buildings	237,280	(120,186)	117,094	7,553	(10,513)	518	3,453	(6,641)	(50)	(20)	237,795	(126,401)	111,394
Leasehold improvements	7,209	(5,351)	1,858	29	868	(9)	1,233	(837)	(128)	113	10,062	(6,935)	3,127
Plant and machinery	287,748	(230,540)	57,208	15,922	(778)	188	16,544	(14,139)	(2,452)	2,151	340,284	(265,640)	74,644
Industrial and commercial equipment	83,612	(69,566)	14,046	5,196	698	161	8,014	(6,407)	(4,836)	1,749	101,049	(82,428)	18,621
Other assets	73,512	(58,202)	15,310	4,177	(287)	297	5,784	(5,714)	(3,306)	3,232	92,583	(73,090)	19,493
Advances paid for the purchase of property, plant and equipment	279	0	279	0	0	0	1,210	0	(455)	0	1,034	0	1,034
Assets under construction	36,493	0	36,493	3,872	(8,360)	(4)	11,701	0	(568)	0	43,134	0	43,134
Total	753,182	(483,845)	269,337	38,412	(19,261)	1,384	48,050	(33,738)	(11,801)	7,225	854,102	(554,494)	299,608

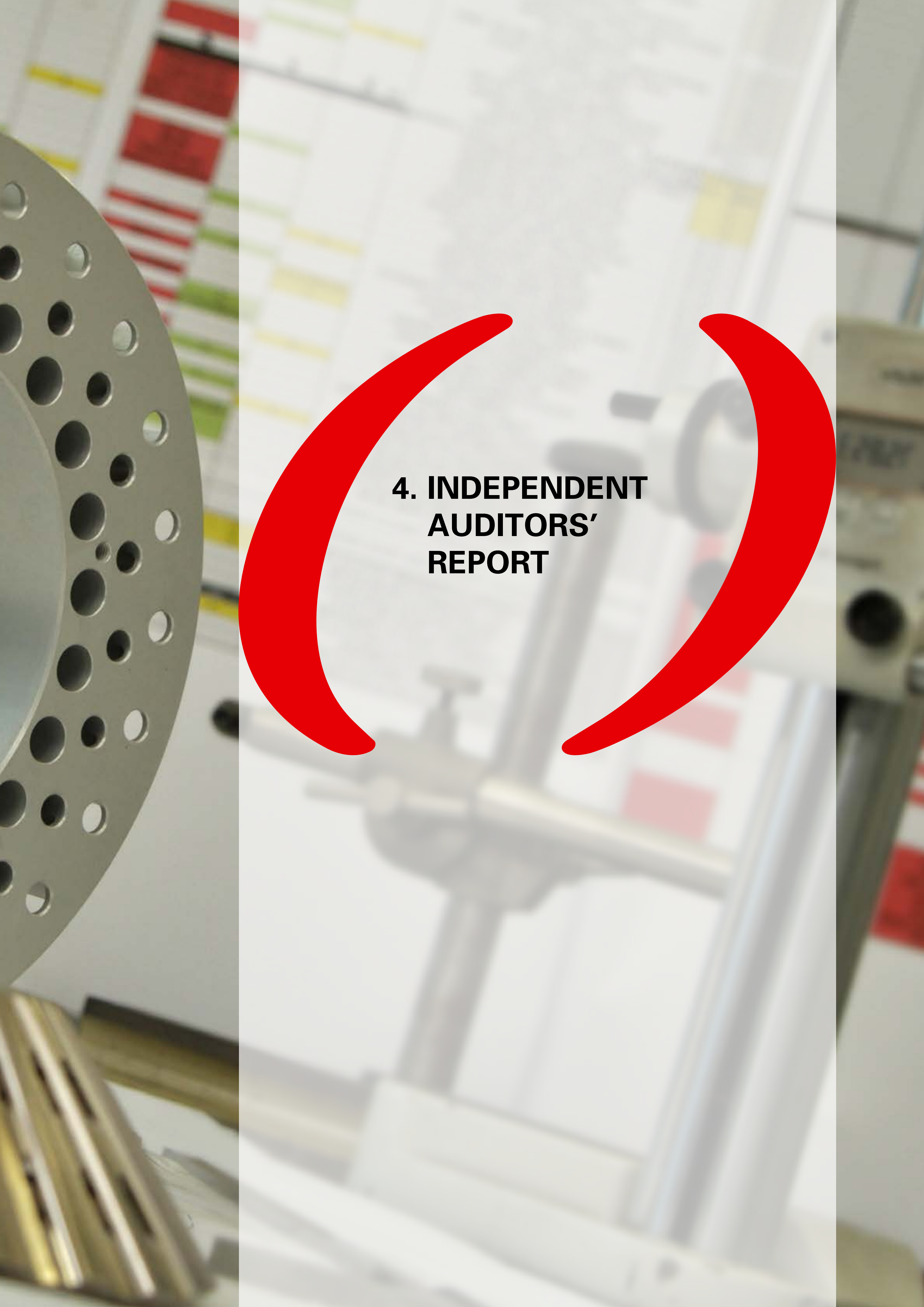
ANNEX III - LIST OF CONSOLIDATED INVESTMENTS

COMPANY	REGISTERED OFFICE	SHARE/QUOTA CAPITAL	% OF OWNERSHIP	
			DIRECT	INDIRECT
Consolidated companies:				
ACMA S.p.A.	Bologna	€9,300,000	100.00%	
C.I.M.A. S.p.A.	Villanova (Bologna)	€4,810,000	100.00%	
G.D.M. S.p.A.	Bologna	€1,500,000	100.00%	
G.D S.p.A.	Bologna	€4,000,000	100.00%	
Comesca S.r.l.	Scarperia (Florence)	€41,600		100.00%
G.D Automatic Machinery Ltd	Berkshire (UK)	GBP10,000		100.00%
JSC G.D Automatic Packaging Machinery	Moscow (Russia)	RUB2,500,000		100.00%
G.D Automatische Verpackungsmachinen GmbH	Langenfeld (Germany)	€511,292		100.00%
G.D China Automatic Machinery Ltd	Hong Kong (China)	HKD10,000		100.00%
G.D Do Brasil Maquinas de Embalar Ltda	Sao Paulo (Brazil)	BRL123,094,569		100.00%
Sasib S.p.A.	Castel Maggiore (Bologna)	€1,746,870		100.00%
G.D Jidokikai K.K.	Tokyo (Japan)	JPY98,000,000		100.00%
G.D Machinery South East Asia Pte Ltd.	Singapore	SGD200,000		100.00%
G.D USA Inc.	Richmond (USA)	USD500,000		100.00%
NAM Shared Service LLC	US	USD1		100.00%
Nova Prefabbricati S.r.l.	Bologna	€15,000		100.00%
TOCECO Ltd	Hong Kong (China)	HKD10,000		100.00%
TOCECO International Trading Ltd	Shanghai (China)	HKD1,569,026		100.00%
Toceco China (Kunming) Trading Company Limited	Kunming (China)	USD400,000		100.00%
G.D Pars Limited Liability Company	Tehran (Iran)			100.00%
PT G.D Indonesia	Indonesia	USD290,000		100.00%
GD Teknik Hizmetler ve Ticaret Ltd Sirketi	Izmir (Turkey)	TRY135,000,000		100.00%
G.D TECH.CENTER MIDDLEEAST FZE FZE	Sarjah (UAE)	AED2,000,000		100.00%
G.D South Africa Technical Centre (PTY) Ltd	Johannesburg (South Africa)	ZAR100		100.00%
Coesia Korea Co. Ltd	Seoul (South Korea)	WON50,000		100.00%
Coesia Middle East Dmcc	Dubai (UAE)	AED50,000		100.00%
G.F. S.p.A.	Rubbiamo (Parma)	€3,000,000		100.00%
Mprd Ltd UK	Milton Keynes (UK)	GBP5,000,000		100.00%
Molins Far East Pte Ltd	Singapore	GBP91,000		100.00%
Molins S.R.O.	Plzen (Czech Republic)	CZK20,000		100.00%
Cerulean Shangai Company Ltd	Shanghai (China)	CNY2,307,000		100.00%
MGS Machine Corporation	Minneapolis, MN (USA)	USD334		100.00%
Comas S.p.A.	Silea (TV)	€1,096,000		70.00%
Pebo S.r.l.	Silea (TV)	€40,000		70.00%
Comas Latino America Ltda.	Santa Cruz do Sul (Brazil)	BRL1,015,000		63.00%
Volpak SA	Barcelona (Spain)	€9,900,000	100.00%	
Hapa AG	Volketswill (Switzerland)	CHF1,000,000	100.00%	
COESIA IPS CGM S de RL de CV	Mexico City (Mexico)	MXN322,500	100.00%	
Norden Machinery AB	Kalmar (Sweden)	SEK17,336,575	100.00%	
Franssons Maskinbearbetning I Kalmar AB	Kalmar (Sweden)	SEK200,000		100.00%
Citus Kalix Sas	Courcouronnes (France)	€7,193,040		100.00%
Norden GmbH	Ostfildern (Germany)	€25,565		100.00%
Sirius Machinery Co Ltd	Suzhou (China)	CNY15,782,000		100.00%
Coesia Finance S.p.A.	Bologna	€120,000	100.00%	
Coesia India Pvt. Ltd	Maharashtra (India)	INR5,414,850		100.00%
4S Engineering S.r.l.	Bologna	€20,000	100.00%	
R.A Jones & co.	Davenport / Covington (USA)	USD10	100.00%	
IPI S.r.l.	Perugia	€13,000,000	100.00%	
IPI Asia Pacific	Bangkok (Thailand)	THB 4,000,000		49.00%
IPI Ucraine LTD	Kiev (Ukraine)	UAH100,017		100.00%
IPI ASIA Asep.PacK.Sys.Sdn.Bhd	Malaysia	MYR23,000,000		100.00%
IPI Paketleme San. Ve. Tic. LTD	Istanbul (Turkey)	TRY679,600		100.00%
Emmeci S.p.A.	Cerreto Guidi (Florence)	€4,000,000	100.00%	
Emmeci Europe Sarl	Noisielle (France)	€630,000		100.00%
Emmeci USA LLC	East Providence, RI (USA)	USD9,000		100.00%
AZ COESIA GmbH	Hemmingem (Germany)	€5,025,000	100.00%	
Tritron GmbH	Battenberg (Germany)	€200,000		51.00%
Tritron Usa Inc.	Chester VA, (USA)	USD1		51.00%
Coesia Ventures S.r.l.	Bologna	€10,000	100.00%	

ANNEX III - LIST OF CONSOLIDATED INVESTMENTS

COMPANY	REGISTERED OFFICE	SHARE/QUOTA CAPITAL	% OF OWNERSHIP	
			DIRECT	INDIRECT
Consolidated companies:				
FlexLink Holding AB	Gothenburg (Sweden)	SEK3,285,000	100.00%	
ADMV Sas	Cremieu (France)	€64,000		100.00%
Flexlink AB	Gothenburg (Sweden)	SEK1,000,000		100.00%
PT Flexlink Systems	Jakarta (Indonesia)	IDR928,000		100.00%
Flexlink Automation (Shanghai) Co. Ltd.	Shanghai (China)	CNY1,655.000		100.00%
Flexlink Systems Polska Sp Zoo	Poznan (Poland)	PLN480,000		100.00%
Flexlink Systems Russia Llc	St. Petersburg (Russia)	RUB1,000,000		100.00%
Flexlink Systems Sro	Prague (Czech Republic)	CZK1,500,000		100.00%
Flexlink Systems Espana Sl	Barcelona (Spain)	€123,000		100.00%
Flexlink Systems Pte Ltd.	Singapore	SGD1		100.00%
Flexlink Systems Ltda	Sao Paulo (Brazil)	BRL666,000		100.00%
Flexlink Systems Pty Ltd.	Mount Waverley (Australia)	AUD1		100.00%
Flexlink Engineering Sdn Bhd	Kuala Lumpur (Malaysia)	MYR500,000		100.00%
Flexlink Automation Sdn Bhd	Kuala Lumpur (Malaysia)	MYR300,000		100.00%
Flexlink Systems Inc.	Allentown (USA)	USD1,000		100.00%
Flexlink Systems Sas	Elancourt (France)	€80,000		100.00%
Flexlink Systems Canada Inc.	Burlington (Canada)	CAD1,200,000		100.00%
Flexlink Systems GmbH	Offenbach am Main (Germany)	€102,000		100.00%
Flexlink Systems Ltd.	Milton Keynes (UK)	GBP1,599,000		100.00%
Flexlink Systems Kft	Budapest (Hungary)	HUF10,000,000		100.00%
Flexlink Systems S.p.A.	Rivoli (Turin)	€306,000		100.00%
Flexlink Systems Bv.	Amsterdam (the Netherlands)	€23,000		100.00%
Flexlink Systems Nv.	Heverlee (Belgium)	€62,000		100.00%
Intramotion LLC	Lviv (Ukraine)	UAH471,000		100.00%
Flexlink Software Engineering GmbH	Offenbach am Main (Germany)	€25,000		100.00%
FlexLink Switzerland GmbH	Wollerau (Switzerland)	CHF1,020,000		100.00%
System Ceramics S.p.A.	Fiorano Modenese (MO)	€10,000,000	60.00%	
Tosilab S.p.A.	Fiorano Modenese (MO)	€499,200		60.00%
Studio 1 Automazioni Industriali S.r.l.	Casalgrande (RE)	€50,000		60.00%
System Espana S.a.	Spain	€240,408		59.70%
System Brasil Ltda	Brasile	BRL5,500,000		59.70%
System (China).Technology Co. Ltd.	China	CNY67,992,724		60.00%
System South East Pte Ltd	Singapore	SGD100,000		60.00%
System Norte America S.a.	Mexico	MXN1,400,000		60.00%
PT System Indonesia	Indonesia	IDR3,027,500,000		57.00%
System Bohemia Sro	Czech Republic	CSK100,000		60.00%
System Seramik Ltds	Turkey	TRL438,784		58.20%
System Poland Spolka Z OO	Poland	PLN400,000		60.00%
System Russia Ltd	Russia	RUB144,000,000		60.00%
Siam System Technology Ltd	Thailand	THB6,000,000		60.00%
Siam System Service Ltd	Thailand	THB100,000		29.40%
System Argentina S.A.	Argentina	ARS741,580		59.40%
System Vietnam Co. Ltd	Vietnam	VND7,185,997,600		60.00%
System Colombia Ltd	Colombia	COP810,000,000		60.00%
System Ceramics (India) Pvt. Ltd	India	INR104,551,400		59.40%
System Egypt LLC	Egypt	EGP1,142,811		59.40%
System Saudi Arabia Ltd	Saudi Arabia	SAR500,000		60.00%
Gesticer S.a.	Portugal	€70,300		60.00%
System EAU FZE	Ras Al Khaimah	AED109,575		60.00%
System Ceramics Inc	US	USD3,649,956		60.00%
Companies measured using the equity method:				
XPack S.r.l.	Castel Maggiore (BO)	€100,000	49.00%	
ProSGM S.r.l.	Valsamoggia (BO)	€15,300		30.00%
Finotti S.r.l.	Bentivoglio (BO)	€80,000		30.00%
Errelle S.r.l.	Sala Bolognese (BO)	€15,000		30.00%
Companies measured at cost				
Lesina Autonoleggi S.r.l.	Bologna	€15,000		99.00%
Fare Impresa in Dozza S.r.l. - Impresa sociale	Bologna	€20,000		30.00%
Comas Machinery India Private Limited	India	INR500,000		90.00%





4. INDEPENDENT AUDITORS' REPORT

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(Translation from the Italian original which remains the definitive version)

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010

*To the shareholders of
Coesia S.p.A.*

Report on the audit of the consolidated financial statements

Opinion

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

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Coesia Group as at 31 December 2019 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "*Auditors' responsibilities for the audit of the consolidated financial statements*" section of our report. We are independent of Coesia S.p.A. (the "parent") in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the group's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the consolidated financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the parent or ceasing operations exist, or have no realistic alternative but to do so.

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

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

— identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

— obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control;

— evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;

— conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the group to cease to continue as a going concern;

— evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

— obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10

The parent's directors are responsible for the preparation of the group's directors' report at 31 December 2019 and for the consistency of such report with the related consolidated financial statements and its compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report with the group's consolidated financial statements at 31 December 2019 and its compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report is consistent with the group's consolidated financial statements at 31 December 2019 and has been prepared in compliance with the applicable law.

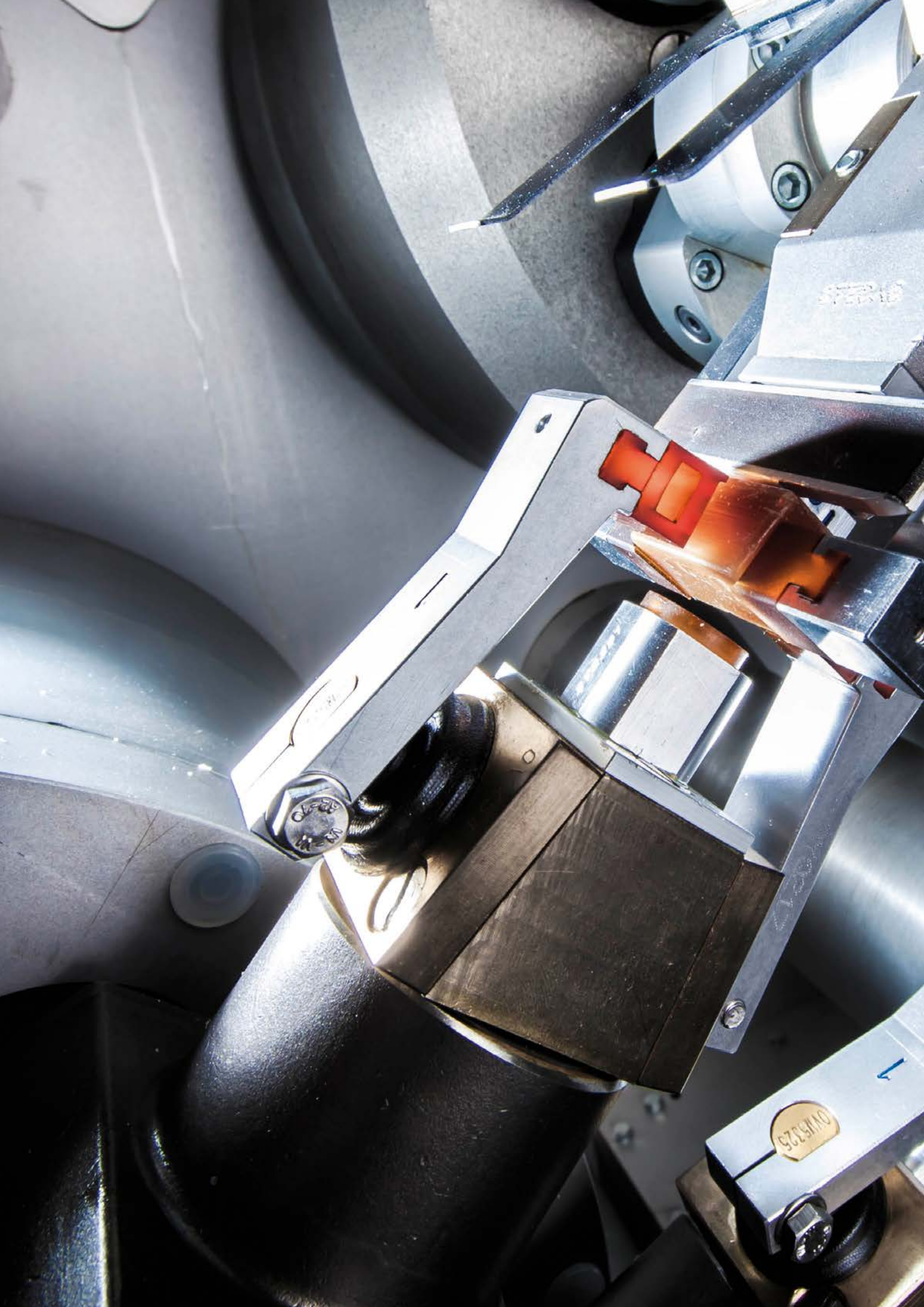
With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

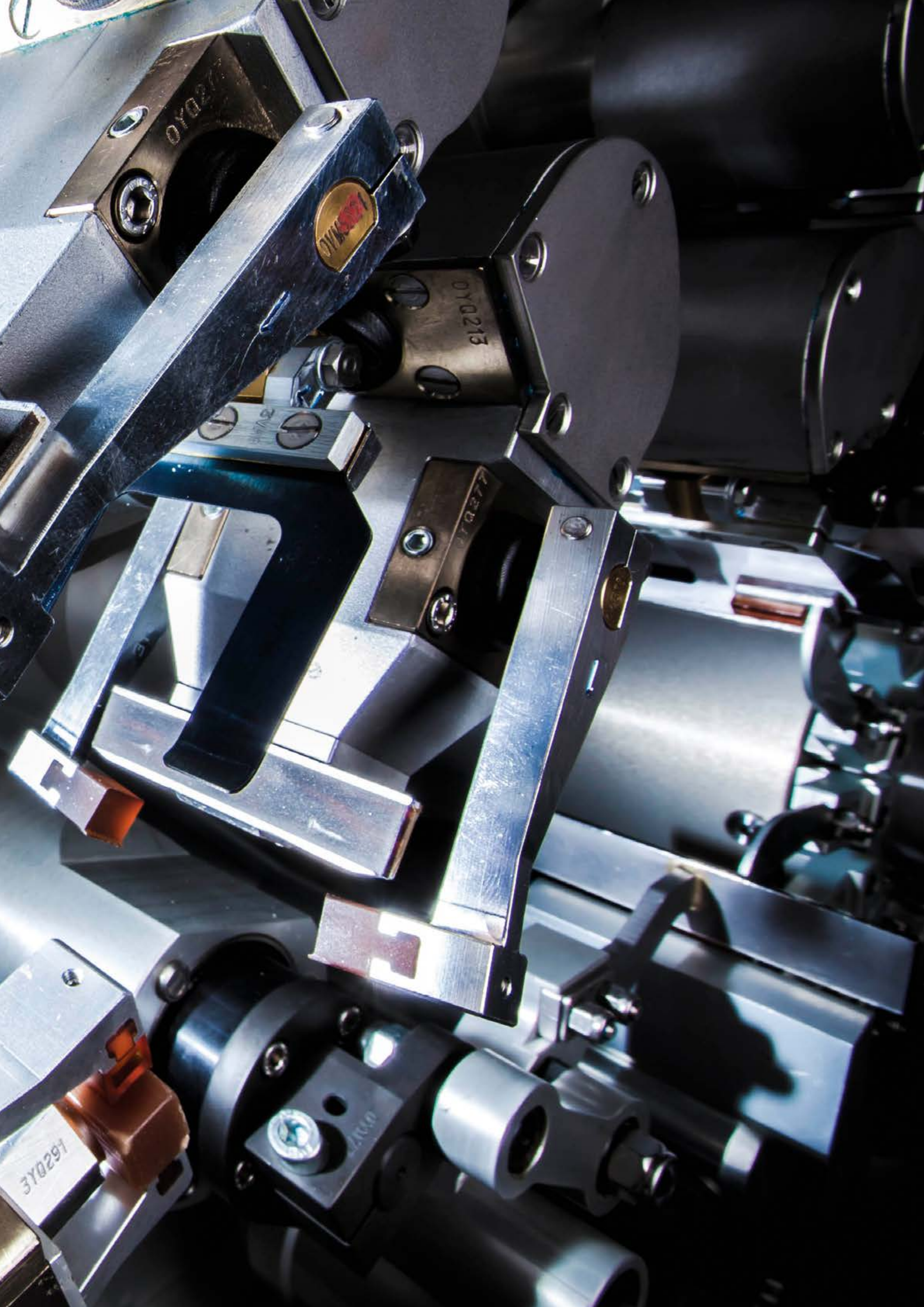
Bologna, 26 June 2020

KPMG S.p.A.

(signed on the original)

Rodolfo Curti
Director of Audit

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