Independent auditor's report

To the Board of Directors of
GVS SpA

Opinion

We have audited the accompanying consolidated financial statements of GVS SpA (hereinafter, also the "Company" and with its subsidiaries the "GVS Group") for the years ended as at 31 December 2019, 2018 and 2017, which comprise the consolidated statement of financial position, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies (hereinafter, the "Three-year Consolidated Financial Statements").

In our opinion, the Three-year Consolidated Financial Statements give a true and fair view of the financial position of GVS Group as at 31 December 2019, 2018 and 2017 and of the result of its operations and cash flows for the years then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Three-year Consolidated Financial Statements* section of this report. We are independent of GVS SpA pursuant to the regulations and standards on ethics and independence applicable to audits of consolidated financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matters

The Three-year Consolidated Financial Statements were prepared in connection with the procedure for the admission to listing of ordinary shares of GVS SpA on the Mercato Telematico Azionario, the electronic stock market organised and operated by Borsa Italiana SpA.

The figures in the Three-year Consolidated Financial Statements have been derived from the consolidated financial statements of GVS SpA as at and for the year ended 31 December 2019 prepared in accordance with International Financial Reporting Standards as adopted by the European Union,

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the notes to which include a description of the effects of the transition to IFRS and information on the reconciliation schedules required by IFRS 1.

Responsibilities of the Directors and the Board of Statutory Auditors for the Three-year Consolidated Financial Statements

The Directors of GVS SpA are responsible for the preparation of Three-year Consolidated Financial Statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of the Three-year Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

The Directors are responsible for assessing the GVS Group's ability to continue as a going concern and, in preparing the Three-year Consolidated Financial Statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the Three-year Consolidated Financial Statements the Directors use the going concern basis of accounting unless they either intend to liquidate GVS SpA or to cease operations, or have no realistic alternative but to do so.

The Board of Statutory Auditors is responsible for overseeing, in the terms prescribed by law, the GVS Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Three-year Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the Three-year Consolidated Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA 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 the Three-year Consolidated Financial Statements.

As part of our audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the Three-year Consolidated Financial Statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the GVS Group's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- We concluded on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the GVS Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Three-year Consolidated Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the GVS Group to cease to continue as a going concern;
- We evaluated the overall presentation, structure and content of the Three-year Consolidated Financial Statements, including the disclosures, and whether the Three-year Consolidated Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation;
- We obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the GVS Group to express an opinion on the Three-year Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the Three-year Consolidated Financial Statements.

We communicated with those charged with governance, identified at an appropriate level as 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 identified during our audit.

Bologna, 14 February 2020

PricewaterhouseCoopers SpA

Signed by

Giuseppe Ermocida
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2019, 2018 AND 2017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(In thousands of Euro)	**Notes**	**As of December 31,**		
		2019	**2018**	**2017**
ASSETS				
Non-current assets				
Intangible assets	8.1	99,846	100,923	100,835
Right of use assets	8.2	10,320	5,922	5,479
Property, plant and equipment	8.3	46,614	50,058	53,103
Deferred tax assets	8.4	1,451	2,882	4,594
Non-current financial assets	8.5	542	678	411
Derivative financial instruments	8.6	-	-	2,704
Total non-current assets		**158,773**	**160,463**	**167,126**
Current assets				
Inventories	8.7	31,491	32,963	30,140
Trade receivables	8.8	35,158	39,357	36,980
Contract assets	8.9	591	967	1,269
Income tax receivables	8.10	193	326	595
Other current assets and receivables	8.11	6,430	7,632	8,039
Current financial assets	8.5	3,576	1,870	1,152
Cash and cash equivalents	8.12	58,542	45,551	42,388
Total current assets		**135,981**	**128,666**	**120,563**
Total assets		**294,754**	**289,129**	**287,689**
EQUITY AND LIABILITIES				
Share capital		1,650	1,650	1,647
Reserves		59,489	46,303	50,259
Profit for the period		33,083	23,072	6,029
Group shareholders' equity		**94,222**	**71,025**	**57,935**
Non-controlling interests		**18**	**16**	**19**
Total equity	8.13	**94,240**	**71,041**	**57,954**
Non-current liabilities				
Non-current borrowings	8.14	117,638	143,320	165,189
Non-current lease liabilities	8.2	7,850	4,074	3,327
Deferred tax liabilities	8.4	819	160	349
Employee benefit obligations	8.15	4,193	3,907	3,443
Provisions for risks and charges	8.16	-	77	1,677
Total non-current liabilities		**130,500**	**151,538**	**173,985**
Current liabilities				
Current borrowings	8.14	36,669	29,546	24,562
Current lease liabilities	8.2	3,094	2,264	2,265
Trade payables	8.17	13,188	18,480	16,124
Contract liabilities	8.9	1,702	1,957	1,899
Income tax payables	8.10	2,060	3,210	1,862
Other current liabilities	8.18	13,301	11,093	9,038
Total current liabilities		**70,014**	**66,550**	**55,750**
Total equity and liabilities		**294,754**	**289,129**	**287,689**

CONSOLIDATED INCOME STATEMENT

(In thousands of Euro)	Notes	Year ended December 31,		
		2019	**2018**	**2017**
Revenue from contracts with customers	9.1	227,416	208,900	164,846
Other income	9.2	3,169	2,520	2,345
Total revenue		**230,585**	**211,420**	**167,191**
Purchase and consumption of raw materials and finished goods and semi-finished goods	9.3	(67,884)	(62,323)	(46,664)
Personnel expenses	9.4	(73,583)	(70,652)	(57,969)
Cost of services	9.5	(23,442)	(22,918)	(24,612)
Other operating costs	9.6	(3,460)	(2,865)	(4,244)
EBITDA		**62,216**	**52,662**	**33,702**
Net impairment losses on financial assets	9.7	(250)	(78)	(236)
Depreciation and amortization	9.8	(16,302)	(18,415)	(13,375)
EBIT		**45,664**	**34,169**	**20,091**
Finance income	9.9	2,585	3,406	30
Finance costs	9.9	(4,575)	(5,284)	(11,802)
Profit before income tax		**43,674**	**32,291**	**8,319**
Income tax expense	9.10	(10,582)	(9,217)	(2,284)
Net profit		**33,092**	**23,074**	**6,035**
attributable to owners of the parent company		*33,083*	*23,072*	*6,029*
attributable to non-controlling interests		*9*	*2*	*6*
Basic earnings per share	9.12	*21.89*	*15.26*	*4.00*
Diluted earnings per share	9.12	*21.89*	*15.26*	*4.00*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(In thousands of Euro)	Notes	Year ended December 31,		
		2019	**2018**	**2017**
Net profit		**33,092**	**23,074**	**6,035**
Other comprehensive income that will be reclassified to profit or loss (net of tax)				
Exchange differences from translation of foreign financial statements	8.13	220	(494)	(3,995)
		220	**(494)**	**(3,995)**
Other comprehensive income that will not be reclassified to profit or loss (net of tax)				
Actuarial gains / (losses) on post-employment benefit obligations	8.15	(143)	65	7
Tax effect		40	(18)	(2)
		(103)	**47**	**5**
Total other comprehensive income for the period, net of tax		**117**	**(447)**	**(3,990)**
Total comprehensive income for the period		**33,209**	**22,627**	**2,045**
attributable to owners of the parent company		*33,216*	*22,633*	*2,047*
attributable to non-controlling interests		*(7)*	*(6)*	*(2)*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(In thousands of Euro)	Share capital	Reserves							Net profit	Group shareholders' equity	Non-controlling interests	Total equity
		Share premium reserve	*Legal reserve*	*Extraordinary reserve*	*Currency translation reserve*	*Negative treasury shares reserve*	*Actuarial gains-losses reserve*	*Retained earnings and other reserves*				
As of January 1, 2017	**1,647**	**13,247**	**329**	**40,273**	**1,206**	**(11,197)**	**-**	**19,602**	**-**	**65,107**	**21**	**65,128**
Net profit	-	-	-	-	-	-	-	-	6,029	6,029	6	6,035
Total other comprehensive income for the period, net of tax	-	-	-	-	(3,987)	-	5	-	-	(3,982)	(8)	(3,990)
Total comprehensive income for the period	-	-	-	-	*(3,987)*	-	*5*	-	*6,029*	*2,047*	*(2)*	*2,045*
Distribution of dividends	-	-	-	(9,219)	-	-	-	-	-	(9,219)	-	(9,219)
As of December 31, 2017	**1,647**	**13,247**	**329**	**31,054**	**(2,781)**	**(11,197)**	**5**	**19,602**	**6,029**	**57,935**	**19**	**57,954**
Net profit	-	-	-	-	-	-	-	-	23,072	23,072	2	23,074
Total other comprehensive income for the period, net of tax	-	-	-	-	(486)	-	47	-	-	(439)	(8)	(447)
Total comprehensive income for the period	-	-	-	-	*(486)*	-	*47*	-	*23,072*	*22,633*	*(6)*	*22,627*
Allocation income for the prior year	-	-	-	3,940	-	-	-	2,089	(6,029)	-	-	-
Hyperinflation Argentina	-	-	-	-	-	-	-	56	-	56	3	59
Partial pro-rata spin-off of GVS Spa	-	-	-	(4,222)	-	216	-	-	-	(4,006)	-	(4,006)
Contribution of company branch from GVS Group Spa	3	-	-	64	-	-	-	(655)	-	(588)	-	(588)
Distribution of dividends	-	-	-	(5,005)	-	-	-	-	-	(5,005)	-	(5,005)
As of December 31, 2018	**1,650**	**13,247**	**329**	**25,831**	**(3,267)**	**(10,981)**	**52**	**21,092**	**23,072**	**71,025**	**16**	**71,041**
Net profit	-	-	-	-	-	-	-	-	33,083	33,083	9	33,092
Total other comprehensive income for the period, net of tax	-	-	-	-	227	-	(103)	-	-	124	(7)	117
Total comprehensive income for the period	-	-	-	-	227	-	(103)	-	33,083	33,207	2	33,209
Allocation income for the prior year	-	-	-	9,924	-	-	-	13,148	(23,072)	-	-	-
Distribution of dividends	-	-	-	(10,010)	-	-	-	-	-	(10,010)	-	(10,010)
As of December 31, 2019	**1,650**	**13,247**	**329**	**25,745**	**(3,040)**	**(10,981)**	**(51)**	**34,240**	**33,083**	**94,222**	**18**	**94,240**

CONSOLIDATED STATEMENT OF CASH FLOWS

(In thousands of Euro)	Notes	Year ended December 31, 2019	2018	2017
Profit before income tax		43,674	32,291	8,319
- Adjustments:				
Depreciation and amortization	9.8	16,302	18,415	13,375
Capital loss / (gain) from disposal of assets	9.2 - 9.6	(726)	(19)	179
Net financial expenses	9.9	1,990	1,878	11,772
Other non-monetary movements		491	(17)	2,355
Cash flow from operating activities before changes in net working capital		***61,731***	***52,548***	***36,000***
Changes in inventory	8.7	1,707	(2,687)	612
Changes in trade receivables	8.8	4,919	(1,747)	(6,313)
Changes in trade payables	8.17	(5,244)	2,444	1,403
Changes in other assets and liabilities	8.11 - 8.18	1,804	1,923	(1,140)
Uses of employee benefit obligations and provisions for risks and charges	8.15 - 8.16	(191)	(1,645)	(816)
Income tax paid	9.10	(9,827)	(5,486)	(7,326)
Net cash flow provided by / (used in) operating activities		**54,899**	**45,350**	**22,420**
Investments in property, plant and equipment	8.3	(10,252)	(10,702)	(9,535)
Investments in intangible assets	8.1	(2,811)	(2,665)	(2,064)
Disposal of property, plant and equipment	8.3	4,448	271	229
Investments in financial assets	8.5	(1,888)	(850)	(168)
Disposal of financial assets	8.5	349	483	2,447
Acquisition of KUSS (net of cash acquired)	7	-	-	(111,495)
Net cash flow provided by / (used in) investing activities		**(10,154)**	**(13,463)**	**(120,586)**
Proceeds from long-term borrowings	8.14	6,500	-	141,659
Repayment of long-term borrowings	8.14	(25,079)	(15,135)	(22,609)
Changes in current financial liabilities	8.14	-	(3,568)	3,568
Proceeds from lease liabilities	8.2	2,447	-	-
Repayment of lease liabilities	8.2	(2,554)	(2,762)	(2,270)
Finance costs paid	9.9	(5,246)	(5,107)	(2,915)
Finance income received	9.9	192	2,684	159
Dividends paid	8.13	(8,329)	(5,005)	(9,219)
Net cash flow provided by / (used in) financing activities		**(32,069)**	**(28,893)**	**108,373**
Total cash flow provided / (used) in the year		**12,676**	**2,994**	**10,207**
-				
Cash and cash equivalents at the beginning of the period		**45,551**	**42,388**	**33,244**
Total cash flow provided / (used) in the year		12,676	2,994	10,207
Exchange differences from translation of cash and cash equivalents		315	169	(1,063)
Cash and cash equivalents at the end of the period		**58,542**	**45,551**	**42,388**

1 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2019, 2018 AND 2017

1.1 Objective

These consolidated financial statements as of December 31, 2019, 2018 and 2017 (hereafter, also referred to as the "**Consolidated Financial Statements**") have been prepared solely for: (i) the inclusion by reference in the Base Prospectus to listing of the ordinary shares of GVS S.p.A. on the Mercato Telematico Azionario (the "MTA"), the Italian screen-based trading system organized and managed by Borsa Italiana S.p.A and (ii) in any further offering documents relating to sale of the shares of GVS S.p.A. to institutional investors.

The information included in the Consolidated Financial Statements derives from the consolidated financial statements of GVS S.p.A. as of December 31, 2019, prepared in accordance with *International Financial Reporting Standards* adopted by the European Union, which include in the explanatory notes a description of the effects of the transition to IFRS and the prospects of reconciliation as required by the accounting principle IFRS 1.

1.2 General information

GVS S.p.A. (hereafter "**GVS**", or the "**Company**" and together with its subsidiaries the "**GVS Group**" or the "**Group**") is a limited company incorporated in Italy, organized under Italian law, with registered offices in Zola Predosa (BO), Via Roma 50.

GVS is controlled by GVS Group S.p.A., which directly holds 91.64% of the share capital, while the remaining part of the share capital is held by GVS itself through treasury shares. There are no subjects exercising management and coordination over the Company.

The GVS Group operates in production and commercialization of plastic filters for liquids and air, intended for the *Healthcare & Lifesciences, Energy & Mobility* and *Health & Safety* divisions.

1.3 Transactions occurred in the period under review

Acquisition of the KUSS group

On July 3, 2017, the GVS Group, through the subsidiary GVS North America Holdings Inc., entered into a contract with Industrial Opportunity Partners L.P., as the representative of the selling shareholders, for the purchase and sale of shares representing the entire share capital of IOP Filter Holding Inc. (hereinafter, the "**KUSS Acquisition**"). IOP Filter Holding Inc. and its subsidiaries, Kuss Filtration Inc, Kuss Filtration (Europe) Gmbh, Kuss Filtration Co. Ltd, IOP (Shanghai) Filter Co. Ltd and IOP (Brasil) Filtros Ltda (hereinafter, jointly, the "**KUSS Group**") are active in the production and marketing of filters for the automotive, motorcycle, gardening and agriculture sectors. The execution of the sale took place on July 28, 2017 (hereinafter the "**Closing Date**").

The contract for the KUSS Acquisition provided for a provisional price of USD 135.4 million, determined as the sum of: (i) USD 132 million, (ii) the net financial position (iii) any difference between the net working capital and the relative target value of USD 20.5 million, (iv) the exercise value of share capital options exercisable at the Closing Date; all net of additional costs of the transaction borne by the selling shareholders. For the purpose of determining the consideration, the provisional price was subject to adjustment on the basis of the differences, identified by the parties, in relation to the amounts of the components of the provisional price determined on the Closing Date, as well as on the basis of the further contractually foreseen adjustments. In particular, on March 19, 2018 the parties defined, with an independent third-party opinion, a decrease in the provisional price of USD 2.0 million, following which the consideration was defined at USD 133.4 million. The adjustment was settled on that date with the use of an escrow account made up by GVS on the Closing

Date, released in the first quarter of 2018 following the definition of the consideration. It should be noted that this adjustment was reflected in the financial position at December 31, 2017.

It should also be noted that the purchase and sale agreement provided that, in the event of tax savings obtained by any Group company, up to the 2019 tax period, in relation to any tax deduction connected with certain contractually identified transaction costs, the buyer would recognize half of these tax savings to the seller shareholder representative.

Based on the above, and pursuant to IFRS 3, at the date of this document there are no assets or liabilities representing contingent consideration. It should also be noted that the evaluation period, that is the period during which the buyer can adjust the provisional amounts recognized in a business combination, can be considered concluded.

It should also be noted that the transaction in question was carried out with the use of external funding sources; more specifically, through: (i) the issue of a bond loan with a nominal value of €40 million and (ii) a loan granted by a pool of banks with nominal value equal to €80 million.

The accounting effects of the KUSS Acquisition are described in section 7 - "Business combinations".

Real estate reorganization

In the periods under review, the Company carried out some real estate reorganization transactions, described below, to pursue economic, organizational and functional benefits to make the corporate structure more flexible. In particular, the transactions described below allowed for more focus on sales activity, eliminating upkeep and improvement costs for the properties, reducing fixed management costs for the benefit of company profitability, and optimizing and controlling the profitability of sales and real estate activities through separate legal entities.

Sale and leaseback transactions

On December 11, 2019, the Group company GVS Sud S.r.l. signed a purchase and sale agreement with the company GVS Real Estate S.r.l. (hereinafter "**GVS Real Estate**") relating to the sale of land and buildings of a production site located in Italy (Avellino). The consideration for the sale, agreed between the parties, was equal to €1,330 thousand. The parties subsequently signed a lease agreement whereby GVS Real Estate leased the aforementioned sold property to GVS Sud S.r.l. This lease has a duration of six years expiring on December 31, 2025, unless tacitly extended for a further six years if no notice of termination is communicated by GVS Sud S.r.l. at least six months before the expiry of the lease itself, and except for withdrawal to be communicated by GVS Sud S.r.l. The annual rent is agreed in the amount of €250 thousand, in addition to VAT, to be paid in advance six-monthly instalments of €125 thousand each.

In addition, on September 3, 2019, the Group company GVS Filtration Inc signed two purchase and sale agreements with the company GVS Real Estate US Inc. (hereinafter "**GVS Real Estate US**") relating to the sale of land and buildings of two production sites located in Ohio and Wisconsin. The consideration for the sale, agreed between the parties based on the market value determined by the appraisals carried out by an independent third party, amounts to $2,996 thousand and $2,675 thousand, respectively. At the same time as the purchase and sale agreements, the parties signed two lease agreements, through which GVS Real Estate US leased the aforementioned properties to the Group. These contracts, both expiring on December 31, 2022, provide for a monthly fee of $17 thousand and $15 thousand for the production site in Ohio and Wisconsin, respectively.

Finally, on November 15, 2019, the Group company GVS North America Inc. signed a purchase and sale agreement with the company GVS Real Estate US for a property intended for accommodation use for an amount of $500 thousand. At the same time, the parties signed a lease agreement whereby GVS Real Estate US leased the aforementioned property to the Group.

The transactions described above, relating to the production site located in Avellino, the two production sites located in North America and the accommodation property, are determined as sale and leaseback agreements pursuant to IFRS 16. These transactions hereinafter jointly "**Sale and Leaseback Transactions**".

The accounting treatment of the Sale and Leaseback Transactions is described in note 2.5, paragraph "Right of use assets and lease liabilities".

Spin-off of GVS

On October 24, 2017, the Extraordinary Shareholders' Meeting of GVS approved the partial pro rata spin-off proposal consisting of allocating part of the company equity of GVS to the company GVS Real Estate. The proposed spin-off was prepared based on the assets and liabilities valued with reference to the accounting situation as of December 31, 2016. The differences in the carrying amounts of the assets and liabilities to be allocated between the aforementioned accounting situation as of December 31, 2016 and the accounting situation as of the effective date of the spin-off do not involve cash adjustments, remaining charged to the allocated equity.

The spin-off agreement was signed on December 27, 2017 with effect from January 1, 2018. The transaction under review took place through a proportional partial spin-off of part of the equity of GVS to the beneficiary company GVS Real Estate which, against the assets subject to the spin-off, attributed the increase in share capital in service of the spin-off in part to the shareholder GVS Group S.p.A. and in part, in relation to its existing treasury shares, to the same GVS (the "**GVS Spin-off**").

Net transferred assets, equal to €4,222 thousand at the effective date of the transaction, consists of €4,783 thousand from the net carrying amount of the properties referable to two production sites located in Zola Predosa, one of which is the Company's registered office, and for €561 thousand from deferred tax liabilities associated with them.

It should be noted that, following the transaction, GVS sold its interest in GVS Real Estate, obtained through the GVS Spin-off, to the GVS Group S.p.A., consequently reducing the negative treasury shares reserve by €216 thousand. The transaction therefore led to an overall reduction in the Group's net equity of €4,006 thousand.

The GVS Spin-off is not considered a business combination under common control under IFRS, but rather a spin-off of fixed assets and related liabilities. The net assets involved in such spin-off do not meet the definition of a "business" of IFRS 3, but rather represent a group of assets and related liabilities.

The Sale and Leaseback Transactions and the GVS Spin-off are jointly defined below as the "**Real Estate Reorganization**".

Contribution of company branch of the GVS Group S.p.A.

On December 14, 2017, the Extraordinary Shareholders' Meeting of GVS approved the contribution of the company branch of the parent company GVS Group S.p.A., having as its subject the administration, finance and control activities and management of the Company's human resources and systems, as well as the coordination of the same corporate functions of the companies controlled directly or indirectly by the Company, both Italian and foreign, to the same GVS (hereinafter the "**Contribution of company branch**").

The net assets of the Contribution of company branch were assessed on the basis of the balance sheet assets and liabilities with reference to the accounting situation at December 31, 2016, prepared on the basis of Italian GAAP; the differences in the carrying amounts of the above assets and liabilities up to January 1, 2018, the effective date of the Contribution, were settled in cash.

To support the Contribution of company branch GVS issued 3,166 new shares with a nominal value of €1 each, allocating the remaining amount of €64 thousand to the capital contribution reserve.

The net assets subject of the Contribution of company branch include: (i) intangible assets, mainly attributable to software and user licenses; (ii) property, plant and equipment, mainly attributable to the data processing center (DPC); (iii) provisions for employee benefits and (iv) other current liabilities, mainly referring to deferred personnel expenses for employees dedicated to the functions carried out by the company branch.

The Contribution of company branch is not considered a business combination under common control under IFRS, as defined below, but rather a purchase of assets and liabilities. The net assets involved in such spin-off do not meet the definition of a "business" of IFRS 3, but rather represent a group of assets and liabilities.

2 SUMMARY OF ACCOUNTING POLICIES AND CRITERIA USED IN PREPARING THE CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of preparation

The information included in the Consolidated Financial Statements derives from the consolidated financial statements of GVS as of December 31, 2019, which represent the first consolidated financial statements of the Company prepared in accordance with the *International Financial Reporting Standards,* as issued by the International Accounting Standards Board ("**IASB**") and endorsed by the European Union (hereinafter the "**IFRS**" or "**International Accounting Standards**"), since, previously, the Company prepared its consolidated financial statements in accordance with the rules applicable in Italy and with the accounting principles issued by the "Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili", and modified by the "Organismo Italiano di Contabilità" (hereinafter the "**Italian GAAP**"). A transition process from those accounting principles to the IFRS was therefore necessary, in accordance with IFRS 1 "First-time Adoption of International Financial Reporting Standards"; for this purpose, 1 January 2017 has been identified as the date of transition to IFRS (the "**Transition Date**"). The consolidated financial statements of GVS as of December 31, 2019 include in the explanatory notes a description of the effects of the transition to IFRS and the prospects of reconciliation as required by the accounting principle IFRS 1.

The main accounting criteria and principles applied in the preparation of the Consolidated Financial Statements are shown below.

2.2 Declaration of conformity with International Accounting Standards

The Consolidated Financial Statements have been prepared in accordance with the International Accounting Standards adopted by the European Union and in force on December 31, 2019. The designation "IFRS" includes all "International Financial Reporting Standards", all "International Accounting Standards" ("**IAS**") and all interpretations of the International Financial Reporting Interpretations Committee ("**IFRIC**"), formerly the Standing Interpretations Committee ("**SIC**").

The Consolidated Financial Statements were approved by the Company's Board of Directors on February 10, 2020 and audited by PricewaterhouseCoopers S.p.A., the Company's independent auditors.

2.3 Principles for the preparation of the Consolidated Financial Statements

The Consolidated Financial Statements comprise the statements required by the accounting principle IAS 1, *i.e.* 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 explanatory notes.

In the income statement, costs are classified costs are classified based on their nature. Assets and liabilities included in the statement of financial position are classified in terms of whether they are current or non-current.

The statement of cash flows is prepared using the indirect method. The statements used are those that best represent the Group's economic and financial situation.

An asset is classified as current when:

- it is expected that it will be realized, or it is held for sale or consumption, during the normal operating cycle;
- it is held primarily for the purpose of trading;
- it is expected that the asset will be realized within twelve months after the reporting period; or
- the asset is cash or a cash equivalent (unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period).

All other assets are classified as non-current. Specifically, IAS 1 uses the term 'non-current' to include tangible, intangible and financial assets of a long-term nature.

A liability is classified as current when:

- it is expected that it will be settled during normal operating cycle;
- it is held primarily for the purpose of trading;
- it is due to be settled within twelve months after the reporting period; or
- there exists no unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

All other liabilities are classified as non-current.

The operating cycle is the time that elapses between the acquisition of goods for the production process and their realization in cash or cash equivalents. When the normal operating cycle is not clearly identifiable, its duration is assumed to be twelve months.

The Consolidated Financial Statements are prepared in Euro, the Company's functional currency. Unless otherwise stated, all financial amounts, explanatory notes and tables are presented in thousands of Euro.

The Consolidated Financial Statements have been prepared:

- on the basis of existing IFRS. Potential future developments and updates in interpretations will be reflected in future years, in accordance with guidance provided on a case by case basis by the relevant accounting standards;
- on a going concern basis, using the accrual basis of accounting, respecting the principle of materiality and significance, ensuring the prevalence of substance over form and with a view to facilitating consistency with future financial statements. Neither assets and liabilities nor income and expenses are offset, unless required or permitted by an IFRS;
- on a historical cost basis, except in relation to the measurement of financial assets and liabilities that under IFRS must be recognized at fair value and for the financial statements of companies operating in economies subject to hyperinflation, prepared on the basis of the current costs.

2.4 Basis and principles of consolidation

The Consolidated Financial Statements include the financial statements of the Company and its subsidiaries as approved by the respective boards of directors and prepared based on the accounting records of the individual companies, adjusted as necessary to align them with IFRS.

The following table provides, for each of the companies included within the scope of the Consolidated Financial Statements, a summary of the company name, location of registered office, functional currency, share capital and percentage of capital held.

Company (*)	Registered office	Currency	Share capital as of December 31, 2019	Parent company	Percentage of capital held As of December 31,		
					2019	2018	2017
GVS Sud Srl	Italy - Zola Predosa (BO)	EUR	10,000	GVS SpA	100.0%	100.0%	100.0%
YUYao Yibo Medical Device Co. Ltd	China – Yuyao	CNY	5,420,000	GVS Technology (Suzhou) Co. Ltd.	100.0%	100.0%	100.0%
Kuss Filtration Co. Ltd	China – Shangai	CNY	18,680,739	GVS Filtration Inc	0.0%	100.0%	100.0%
GVS Technology (Suzhou) Co. Ltd.	China - Suzhou (RPC)	CNY	15,316,027	GVS SpA	100.0%	100.0%	100.0%
Suzhou GVS Trading Co. Ltd.	China – Ningbo	CNY	250,000	GVS Technology (Suzhou) Co. Ltd.	100.0%	0.0%	0.0%
Fenchurch filter (Suzhou) Co. Ltd	China - Suzhou (RPC)	CNY	n.a.	GVS Technology (Suzhou) Co. Ltd.	0.0%	0.0%	100.0%
IOP (China) Filter Co. Ltd	China – Shangai	CNY	17,825,990	GVS Filtration Inc	0.0%	100.0%	100.0%
GVS Fortune Holding Ltd	Hong Kong (RPC)	HKD	1	GVS SpA	100.0%	100.0%	100.0%
Chang Chun Biology Plastic	China - Chang Chun	CNY	n.a.	GVS SpA	0.0%	0.0%	0.0%
GVS North America Inc	USA - Sanford (MA)	USD	9,145,237	GVS North America Holdings Inc	100.0%	100.0%	100.0%
GVS Filtration Inc	USA - Findlay (OH)	USD	25,541,640	GVS North America Holdings Inc	100.0%	100.0%	100.0%
GVS North America Holdings Inc	USA - Sanford (MA)	USD	11,549,000	GVS SpA	100.0%	100.0%	100.0%
IOP Filter Holding Inc	USA - Findlay (OH)	USD	n.a.	GVS North America Holdings Inc	0.0%	0.0%	100.0%
Fenchurch Environmental Group Ltd	United Kingdom – Morecambe	GBP	1,469	GVS SpA	100.0%	100.0%	100.0%
GVS Filter Technology UK Ltd	United Kingdom – Morecambe	GBP	1,469	Fenchurch Environmental Group Ltd	100.0%	100.0%	100.0%
GVS do Brasil Ltda	Brazil - Municipio de Monte Mor, Campinas	BRL	7,428,136	GVS SpA	99.9%	99.9%	99.9%
GVS Argentina Sa	Argentine - Buenos Aires	ARS	16,906,320	GVS SpA	94.1%	94.1%	94.1%
GVS Filter Technology de Mexico	Mexico - Nuevo Leon	MXN	50,000	GVS SpA	99.9%	0.0%	0.0%
GVS Korea Ltd	Korea – Seul	KRW	100,000,000	GVS SpA	100.0%	100.0%	100.0%
GVS Microfiltrazione Srl	Romania – Ciorani	RON	1,600	GVS SpA	100.0%	100.0%	100.0%
GVS Japan KK	Japan – Tokyo	JPY	1,000,000	GVS SpA	100.0%	100.0%	100.0%
GVS Russia LLC	Russia – Mosca	RUB	10,000	GVS SpA	100.0%	100.0%	100.0%
GVS Filtre Teknolojileri	Turkey – Istanbul	TRY	100,000	GVS SpA	100.0%	100.0%	100.0%
Kuss Filtration GmbH	Switzerland – Basilea	CHF	20,000	GVS Filtration Inc	0.0%	100.0%	100.0%
Segre AB	Sweden – Kumla	SEK	n.a.	GVS SpA	0.0%	0.0%	100.0%

(*) The table does not include the Brazilian company IOP (Brasil) Filtros Ltda, as acquired in 2017 and subsequently merged by incorporation during the same year.

All of the companies included within the scope of the consolidation are consolidated on a line by line basis.

The year-end reporting date of the consolidated entities is December 31, the same as that of the Company.

The main changes in the scope of consolidation are briefly described below. For details on the accounting effects of the acquisitions, please see section 7 – "Business combinations".

In the year ended December 31, 2019, the changes in the scope of consolidation were the following:

- incorporation of the company GVS Filter Technology de Mexico;
- incorporation of the company Suzhou GVS Trading Co. Ltd.;
- liquidation of the companies Kuss Filtration Co. Ltd, IOP (China) Filter Co. Ltd and Kuss Filtration GmbH.

In the year ended December 31, 2018, the changes in the scope of consolidation were the following:

- merger by incorporation of the company IOP Filter Holding Inc in GVS Filtration Inc;
- liquidation of the company Segre AB.

In the year ended December 31, 2017, the changes in the scope of consolidation were the following:

- acquisition of the company IOP Filter Holding Inc and its subsidiaries GVS Filtration Inc (former Kuss Filtration Inc), Kuss Filtration (Europe) Gmbh, Kuss Filtration Shanghai, IOP Shanghai Filter Co. Ltd e IOP (Brasil) Filtros Ltda;
- merger by incorporation of the company Fenchurch filter (Suzhou) Co. LTD in GVS Technology (Suzhou) Co. Ltd.;
- merger by incorporation of the company IOP (Brasil) Filtros Ltda in GVS do Brasil Ltda;
- liquidation of the company Chang Chun Biology Plastic;
- incorporation of the company GVS Filtre Teknolojileri.

***

This section describes the criteria followed to define the basis of consolidation and the related consolidation principles adopted.

Subsidiaries

An investor controls an investee when: i) it has power over the investee, ii) it is exposed, or has rights, to variable returns from its involvement with the investee; and iii) it has the ability to affect those returns through its control over the investee. The existence of control is verified each time that facts or circumstances indicate a change in one of the aforementioned control criteria. Subsidiaries are consolidated using the line-by-line method, from the date that control is obtained until the date that such control ceases when it is transferred to third parties. The principles adopted for line-by-line consolidation are as follows:

- the assets, liabilities, revenues and expenses of the subsidiaries are consolidated on a line-by-line basis, attributing to the minority interests, where applicable, their share of equity and profit or loss for the year which are shown separately in equity and in the consolidated statement of comprehensive income;
- gains and losses including any tax effects resulting from transactions between fully consolidated Group companies, which have not been realized with third parties at the end of the reporting period, are eliminated, other than losses that result from transactions involving a reduction in value of the asset transferred. Receivables and payables, costs and revenues and finance income and expenses between companies included in the scope of consolidation are also eliminated;
- if the parent increases its shareholding in a subsidiary subsequent to assuming control, any difference between the acquisition cost and the corresponding share of equity acquired is recognized in equity attributable to owners of the parent. In the same way, if the Parent reduces its shareholding in a subsidiary without a loss of control of the subsidiary, the effects are recognized in equity. If, on the other hand, as a result of the sale of shares in a subsidiary the Parent loses control, the following are recognized in profit or loss:

  (i) any gains/losses, calculated as the difference between the consideration received and the corresponding share of net equity sold;

  (ii) the effects of remeasuring any remaining investment to its fair value;

  (iii) all amounts previously recognized in other comprehensive income in relation to the subsidiary over which control was lost. If, however, it is not foreseen that such amounts would be subsequently reclassified to the income statement, they are reclassified to "Retained earnings".

The new book value of any remaining investment is the fair value at the date of loss of control and this becomes the reference value for future measurement of the investment in accordance with relevant accounting standards.

Business combinations

Business combinations in which control is acquired are recorded as set out in IFRS 3, applying the acquisition method of accounting. Identifiable assets acquired and liabilities and contingent liabilities assumed are recognized at their fair value at the acquisition date (the "**Acquisition Date**"), except for deferred tax assets and liabilities, assets and liabilities relating to employee benefits and assets held for sale, which are recognized on the basis of the relevant accounting principles. If positive, the difference between the acquisition cost and the fair value of the assets and liabilities acquired is recognized in intangible assets as goodwill; if negative, after reviewing the fair value measurements of the assets and liabilities acquired, it is recognized directly in the consolidated statement of comprehensive income as a gain.

The minority interests, on the acquisition date, can be measured at fair value or on a pro-quota basis of the value of the net assets recognized for the acquired company. The choice of the valuation method is made transaction by transaction.

In the event that the values of the acquired assets and liabilities are initially determined on a provisional basis, they must be confirmed within a maximum period of twelve months from the acquisition date, based solely on information relating to facts and circumstances existing at the Acquisition Date. In the period when such values are finally determined, the provisional values are adjusted retrospectively. Transaction costs are recorded in the consolidated statement of comprehensive income when incurred.

In addition to the fair value at the Acquisition Date of the assets transferred, the liabilities assumed and any capital instruments issued for the purposes of the acquisition, the acquisition cost also includes contingent consideration, or that share of the cost, the amount and timing of which are contingent on future events.

Contingent consideration is measured at fair value at the Acquisition Date; subsequent changes in fair value are recognized in the consolidated statement of comprehensive income if the contingent consideration is a financial asset or liability while, if the contingent consideration is classified as equity, the original amount is not remeasured and is recorded directly in equity when settled.

If the business combination is achieved in stages, the acquisition cost is determined by adding the fair value of the previously held equity interest and the consideration for the additional investment. Any difference between the fair value of the previously held equity interest and its acquisition-date fair value is recognized in profit or loss. On assuming control, any amounts previously recognized in other components of comprehensive income are reclassified to the income statement or recognized under another heading in equity in the event they are not reclassified to the income statement.

* * *

Business combinations in which all the combining entities or businesses are ultimately controlled by the same party or parties, both before and after the transaction, are known as business combinations under common control. Such combinations are not governed by IFRS 3 nor by any other EU-IFRS. In the absence of an applicable accounting standard, an accounting policy meeting the requirements of IAS 8 regarding the provision of relevant and reliable information must be applied. Moreover, the accounting policy chosen to represent combinations under common control must reflect the economic substance of the arrangement independently of its legal form. Economic substance, therefore, is the key driver in choosing the most appropriate method to account for such combinations. Economic substance must be considered in terms of the generation of added value and significant variations in cash flows relating to the net assets transferred. It is also important to consider existing interpretations and guidance and reference is made to the Preliminary Guidance on IFRS of the Association of Italian Auditors in relation to how to account for business combination of entities under common control in separate and consolidated financial statements.

The net assets transferred must, therefore, be recognized at the same values as their carrying amounts in the financial statements of the acquired companies or, if available, at the values reported in the consolidated financial statements of the common controlling company. In this regard, in such cases, the Company has chosen to refer to carrying amounts in the financial statements of the acquired companies.

Transactions with minority shareholders

The Group accounts for transactions with minority shareholders as “equity transactions”. Therefore, in the case of acquisitions and disposals of further shares after the achievement of control, the difference between the acquisition cost and the book value of the minority shares acquired is recognized in the Group shareholders’ equity.

Translation of foreign currency balances

The financial statements of the subsidiaries are prepared using the currency of the country in which they have their registered office. The rules for translating the financial statements of companies expressed in currencies other than the Euro, with the exception of companies operating in economies subject to hyperinflation, are as follows:

- assets and liabilities are translated using the exchange rates in effect on the closing date;
- costs and revenues are translated at the average exchange rate for the year;
- the currency translation reserve, included in the items of the comprehensive income statement, includes both the exchange differences generated by the translation of the economic amounts at a different exchange rate from the closing rate and those generated by the translation of the opening net assets at the historical exchange rate;
- any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation shall be treated as assets and liabilities of the foreign operation and shall be translated at the closing rate.

The following table provides the exchange rates used for the translation of the financial statements of companies expressed in currencies other than the Euro for the periods indicated:

	As of December 31,			Year ended December 31,		
Currency	**2019**	**2018**	**2017**	**2019**	**2018**	**2017**
Brazilian Real	4.5157	4.4440	3.9729	4.4134	4.3085	3.6054
Argentine Peso (*)	67.2749	43.1593	22.9310	53.8229	32.9094	18.7408
Swiss Franc	1.0854	1.1269	1.1702	1.1124	1.1550	1.1117
Chinese Renminbi	7.8205	7.8751	7.8044	7.7355	7.8081	7.6290
US Dollar	1.1234	1.1450	1.1993	1.1195	1.1810	1.1297
Hong Kong Dollar	8.7473	8.9675	9.3720	8.7715	9.2559	8.8045
Japanese Yen	121.9400	125.8500	135.0100	122.0058	130.3959	126.7112
Korean Won	1,296.2800	1,277.9300	1,279.6100	1,305.3200	1,299.0700	1,276.7400
Swedish Krona	10.4468	10.2548	9.8438	10.5891	10.2583	9.6351
Russian Ruble	69.9563	79.7153	69.3920	72.4553	74.0416	65.9383
Turkish Lira	6.6843	6.0588	4.5464	6.3578	5.7077	4.1206
Mexican Peso	21.2202	n.a.	n.a.	21.5565	n.a.	n.a.
Romanian Leu	4.7830	4.6635	4.6585	4.7453	4.6540	4.5688
Pound sterling	0.8508	0.8945	0.8872	0.8778	0.8847	0.8767

(*) Please see note 2.5 for a description of the accounting principles applied in relation to economies subject to hyperinflation.

Translation of foreign currency transactions

Transactions of foreign currency transactions are recorded at the current exchange rate in force on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in force on the reporting date. Foreign exchange differences are shown in the income statement under “Exchange rate gains/ (losses)”.

2.5 Accounting policies and criteria

The following paragraphs describe the criteria adopted regarding the classification, recognition, measurement and derecognition of assets and liabilities as well as the criteria used to recognize income statement items.

Intangible assets

An intangible asset is an asset that meets the following conditions:

- it can be identified;
- it is non-monetary;
- it is without physical substance;
- it is under the control of the company that prepares the financial statements; and
- it is expected to produce future economic benefits for the company.

If an asset does not meet all of the above requirements to be considered an intangible asset, the amount incurred to acquire or produce the item internally is expensed when it is incurred.

Intangible assets are initially recognized at cost. The cost of assets acquired externally includes both the purchase price and any cost that may be directly attributed.

Internally generated goodwill is not recognized as an asset, nor are intangible assets recognized in relation to research (or the research phase of an internal project).

An intangible asset arising from development (or from the development phase of an internal project) shall be recognized if, and only if, the following can be demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits: among other things, the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;
- ability to measure reliably the expenditure attributable to the intangible asset during its development.

Intangible assets are measured using the cost model, applying one of the two methods (the cost model and the revaluation model) permitted by IAS 38. The cost model provides that after initial recognition, an intangible asset shall be carried at its cost less any accumulated amortization and impairment losses.

The estimated useful lives of the various classes of intangible assets are as follows:

Categories of intangible assets	**Amortization rates**
Development costs	4-6 years
Customer relationship	8 years
Patents and intellectual property rights	5-14 years
Concessions, licenses, trademarks and similar rights	5-14 years
Other intangible assets	1,5 years

The most significant intangible assets held by the Group are as follows:

(a) Goodwill

Goodwill is recognized as an intangible asset with an indefinite useful life. It is initially measured at cost, as previously described, and subsequently tested for impairment at least annually to identify if goodwill is impaired (see the following paragraph “Impairment of goodwill and tangible, intangible and right of use assets”). Impairment losses recognized for goodwill may not be reversed in subsequent periods.

(b) Intangible assets with a finite useful life

Intangible assets with a finite useful life are recognized at cost, net of accumulated amortization and impairment losses, if any.

Amortization starts when the asset is available for use and is charged systematically over the residual estimated useful life; for details regarding amounts to be amortized and the recoverability of the recognized values of such assets, see the paragraphs on “Property, plant and equipment” and “Impairment of goodwill and tangible, intangible and right of use assets” respectively.

Right or use assets and lease liabilities

In accordance with IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The contract is then reassessed to determine whether it is, or contains, a lease only if the terms and conditions of the contract are changed.

For a contract that is, or contains, a lease, each lease component within the contract is accounted for as a lease separately from non-lease components of the contract, unless the Group applies the practical expedient in paragraph 15 of IFRS 16. Under such practical expedient, the lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

The lease term is the non-cancellable period of a lease, together with both:

- periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
- periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

In assessing whether a lessee is reasonably certain to exercise an option to extend a lease, or not to exercise an option to terminate a lease, an entity shall consider all relevant facts and circumstances that create an economic incentive for the lessee to exercise the option. The lessee shall revise the lease term if there is a change in the non-cancellable period of a lease. At the commencement date, the Group recognizes a right of use asset and a lease liability.

At the commencement date, the right of use asset is measured at cost. The cost of the right of use asset comprises:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the lessee; and
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The obligation relating to the aforementioned costs arises for the lessee on the effective date or as a consequence of the use of the underlying asset during a given period.

At the commencement date, the lessee measures the lease liability at the present value of the lease payments that are not paid at that date. The lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as of the commencement date;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option;
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Lease payments are discounted to their present value using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee is required to use its incremental borrowing rate (the rate of interest it would have to pay to borrow a similar sum over a similar term as the lease contract).

Following initial recognition, the right-of-use asset is measured applying a cost model:

- less any accumulated depreciation and any accumulated impairment losses; and
- adjusted for any remeasurement of the lease liability.

Following initial recognition, the lease liability is measured by:

- increasing the carrying amount to reflect interest on the lease liability;
- reducing the carrying amount to reflect the lease payments made; and
- remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments.

For a lease modification that is not accounted for as a separate lease, the right of use asset is remeasured (up or down) in line with the change in the lease liability at the modification date. The lease liability is remeasured based on the new contract conditions, using the discount rate at the effective date of the modification.

The Group has elected to exploit the exception permitted by IFRS 16, regarding leases for which the underlying asset is of low value (leases for which the underlying asset value, when new, is less than $5,000). In such cases the right of use assets and related lease liabilities are not recognized, and lease payments are charged directly to the income statement.

The Group has elected not to exploit the exception permitted by IFRS 16, regarding short-term leases (leases that, at the commencement date, have lease terms of 12 months or less).

The lessor shall classify each of its leases as either an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset. At the commencement date, the lessor shall recognize assets held under a finance lease in its statement of financial position and present them as a receivable at an amount equal to the net investment in the lease. The lessor shall recognize lease payments from operating leases as income on either a straight-line basis or another systematic basis. The lessor shall recognize costs, including depreciation, incurred in earning the lease income as an expense.

If the entity transfers an asset to another entity and leases that asset back from the buyer-lessor it shall determine, in accordance with IFRS 15, whether the transfer is accounted for as a sale of that asset. In that case, the seller-lessee shall measure the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller-lessee. Accordingly, the seller-lessee shall recognize only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor. If the fair value of the consideration for the sale of an asset does not equal the fair value of the asset, or if the payments for the lease are not at market rates, the entity shall make the following adjustments to measure the sale proceeds at fair value: (i) any below-market terms shall be accounted for as a prepayment of lease payments; and (ii) any above-market terms shall be accounted for as additional financing provided by the buyer-lessor to the seller-lessee.

Property, plant and equipment

Items of property, plant and equipment are capitalized and accounted for as tangible fixed assets only when both of the following conditions are satisfied:

- it is likely that the future economic benefits generated by the asset will be enjoyed by the company; and
- the cost of the asset can be determined reliably.

Items of property, plant and equipment are initially recorded at cost, defined as the monetary amount or equivalent consideration paid or the fair value of other consideration paid to acquire an asset on the date of its purchase or substitution. Subsequently, property, plant and equipment is carried at cost less any accumulated depreciation and any accumulated impairment losses.

Cost includes amounts directly attributable to enabling the asset to be used as well as any expected costs of dismantling and removing the asset and restoring it to its original condition if a contractual obligation exists.

Expenses incurred for ordinary and/or cyclical maintenance and repairs are charged directly to the income statement in the year incurred. The capitalization of costs inherent to the expansion, modernization or improvement of facilities owned or used by third parties is recorded solely to the extent that they meet the conditions for being classified separately as an asset or part of an asset.

Depreciation is calculated on a straight-line basis over the estimated useful life of the individual assets. The estimated useful life by class of property, plant and equipment is as follows:

Categories of property, plant and equipment	**Depreciation rates**
Buildings	33 years
Lightweight constructions	10 years
General plant and machineries	13 years
Specific plant and machineries	8 years
Furniture	8 years
Office and electronic machines	5 years
Other Equipment	2,5 years
Vehicles	4-5 years

At the end of each year, the company determines whether there have been any significant changes in the expected economic benefits to be derived from capitalized property, plant and equipment and, in such case, makes appropriate changes to the relevant depreciation rate, which is considered a change in accounting estimate as described in IAS 8.

Property, plant and equipment is derecognized when it is sold or otherwise disposed of or when it is expected that no economic benefit can be derived from its sale.

Capital grants are recognized when there is reasonable certainty that they will be received and that all of the conditions relating to them have been satisfied. Grants are therefore deducted from the value of the related assets or accounted for as liabilities and credited to the income statement over the useful economic lives of the related assets.

Impairment of goodwill and tangible, intangible and right of use assets

(a) Goodwill

As noted above, goodwill is tested for impairment annually or more frequently, whenever events or changes in circumstances indicate that goodwill may be impaired, in accordance with IAS 36 (Impairment of assets). Impairment tests are normally performed at each year end and therefore the reference date for such tests is the financial reporting date.

Impairment tests are carried out for each cash-generating unit ("CGU") to which goodwill has been allocated. An asset's cash-generating unit is the smallest group of assets that includes the asset and generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. An impairment loss on goodwill is recognized when the CGU's carrying amount exceeds its recoverable amount. The recoverable amount of a CGU is the higher of its fair value less costs of disposal and its value in use, being the present value of estimated future cash flows; in calculating the value in use, the estimated future cash flows are discounted to present value using a pre-tax discount rate, that reflects current market assessments of the time value of money and the risks specific to the asset. If the impairment loss is higher than the carrying amount of goodwill allocated to the CGU, the excess is applied to the other assets of the CGU in proportion to their carrying amount. The carrying amount of an asset should not be reduced below the highest of:

- the fair value of the assets less costs of disposal;
- the value in use;
- zero.

Impairment losses recognized for goodwill may not be reversed in subsequent periods even if the conditions that gave rise to such impairment loss cease to exist.

(b) Tangible, intangible and right of use assets with a finite useful life

At each balance sheet date, the Group assesses whether there are any indications of impairment of tangible, intangible and/or investment property assets with a finite useful life. Both internal and external sources of information are used for this purpose. Internal sources include obsolescence or physical damage, significant changes in the use of the asset and the economic performance of the asset compared to estimated performance. External sources include the market value of the asset, changes in technology, markets or laws, trends in market interest rates and the cost of capital used to evaluate investments.

When indicators of impairment exist, the recoverable amount is estimated and the carrying amount of the asset reduced accordingly, with the impairment loss being charged to the consolidated statement of comprehensive income. The recoverable amount of an asset is the higher of its fair value less costs of disposal and its value in use. In calculating the value in use, the estimated future cash flows are discounted to present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For assets that do not generate cash inflows that are largely independent of those from other assets or groups of assets, the Group estimates the recoverable amount of the CGU to which the asset belongs.

If the carrying amount of an asset or the CGU to which it belongs exceeds the recoverable amount, an impairment loss is recognized in the consolidated statement of comprehensive income. Such impairment losses are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to other assets of the unit pro rata on the basis of their carrying amounts; the carrying amounts of other assets of the unit may not be reduced below their recoverable amounts. When the conditions that gave rise to an impairment loss no longer exist, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, up to the carrying amount that would have been recorded had no impairment loss been recognized, with the increase being reflected in the consolidated statement of comprehensive income.

Financial assets

On initial recognition, financial assets are classified as “Financial assets at amortized cost”, “Financial assets at fair value through other comprehensive income” or “Financial assets at fair value through profit or loss” based on:

- the entity’s business model for managing the financial assets; and
- the contractual cash flow characteristics of the financial asset.

Financial assets are derecognized when, and only when, disposal involves the substantial transfer of all the risks and rewards of ownership of the financial asset. If, on the other hand, the company retains substantially all the risks and rewards of ownership of the financial asset, it must continue to recognize the financial asset, even if legal ownership has effectively been transferred.

a) Financial assets at amortized cost

Financial assets are measured at amortized cost if both of the following conditions are met:

- the financial asset is held within a "Hold to collect" business model, the objective of which is to hold financial assets in order to collect contractual cash; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (*i.e.*, that pass the SPPI test).

At initial recognition, such assets are measured at fair value including directly attributable transaction costs or income. Subsequent to initial recognition, such financial assets are measured at amortized cost, calculated using the effective interest method. The amortized cost method is not used for those assets (measured at historical cost) whose short-term nature means there is no requirement to discount to present value, assets with no set maturity date or revocable credit lines.

b) *Financial assets at fair value through other comprehensive income*

Financial assets are measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a "Hold to collect and sell" business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (*i.e.*, that pass the SPPI test).

Equity interests, which cannot be classified as subsidiaries, associates or joint ventures, which are not held for trading purposes, are therefore included in this category, for which the option was chosen for the designation at fair value through other comprehensive income.

At initial recognition, such assets are measured at fair value including directly attributable transaction costs or income. Subsequent to initial recognition, equity interests (other than investments in subsidiaries, associates or joint ventures) are measured at fair value, with the offsetting amounts recognized in equity and not subsequently reclassified to profit or loss, even in the event of sale. Related dividends represent the only relevant component recognized in the income statement.

For securities included in this category not listed in an active market, cost is used as an estimate for fair value under certain limited circumstances, such as when recent information to measure fair value is insufficient or there exists a broad range of possible measures of fair value and cost is considered to be the best estimate of these.

c) *Financial assets at fair value through profit or loss*

This category includes all financial assets other than those classified as "Financial assets at fair value through other comprehensive income" or "Financial assets at amortized cost".

Specifically, the item only includes capital instruments held for trading and derivatives not eligible as hedging instruments (which are represented as assets if fair value is positive or liabilities if fair value is negative).

Financial assets measured at fair value through profit or loss are initially recognized at fair value, without considering transaction costs or income directly attributable to the instrument. Subsequently, such financial assets are measured at fair value. Any gains or losses relating to changes in fair value are recognized in the consolidated income statement.

Derivative financial instruments

Derivative financial instruments are accounted for in accordance with the provisions of IFRS 9.

At the date of the contract, derivative financial instruments are initially accounted for at fair value, as financial assets measured at fair value through profit and loss when the fair value is positive or as financial liabilities measured at fair value through profit and loss when the fair value is negative.

A derivative financial instrument is classified as a hedging instrument if the relationship between the hedging instrument and the hedged item is formally documented, including the risk management objectives, the strategy for hedging and the methods that will be used to verify its prospective and retrospective effectiveness. The effectiveness of each hedge is verified both at inception of each derivative financial instrument and during its life, and in particular at each balance sheet or interim balance sheet date. Generally, a hedge is considered highly effective if, both at the beginning and during its life, changes in fair value, in the case of fair value hedges, or expected cash flows in the future, in the case of cash flow hedges, of the hedged item are substantially offset by changes in the fair value of the hedging instrument.

Accounting standard IFRS 9 provides for the possibility of designating the following three hedging relationships:

- fair value hedges: when the hedging concerns the changes in the fair value of assets and liabilities recognized in the financial statements, both the changes in the fair value of the hedging instrument and the changes in the hedged item are recognized in the income statement;
- cash flow hedges: in the case of hedges aimed at neutralizing the risk of changes in the cash flows originating from the future execution of obligations contractually defined at the balance sheet date, the changes in the fair value of the derivative instruments recorded after the initial recognition are accounted for, limited to the effective portion only, in the statement of comprehensive income and therefore in a shareholders' equity reserve. When the economic effects originating from the hedged object arise, the portion accounted for in the statement of comprehensive income is reversed to the income statement. If the hedge is not perfectly effective, the change in the fair value of the hedging instrument relating to the ineffective portion of the same is immediately recognized in the income statement;
- net investment hedges: hedges of a net investment in a foreign operation.

If the analyses do not confirm the effectiveness of the hedge, from that moment the accounting of the hedging operations is interrupted and the hedging derivative contract is reclassified among the financial assets valued at fair value through profit and loss or among the financial liabilities valued at fair value through profit and loss. The hedging relationship also ceases when:

- the derivative instrument expires, is sold, terminated or exercised;
- the hedged item is sold, expires or is reimbursed;
- it is no longer highly probable that the future hedged transaction will take place.

Please see the note 5.5 for information on categories of financial assets and liabilities and for information on fair value.

Trade receivables

Trade receivables for the transfer of goods and provision of services are recognized, in accordance with IFRS 15, based on the terms of the relevant customer contract and classified according to the nature of the counterparty and/or the due date of the receivable (such definition includes invoices to be issued for services already provided).

As trade receivables are typically short-term in nature and do not involve payment of interest, amortized cost is not calculated and they are accounted for at the nominal value stated on the invoice or in the customer contract: such arrangement is followed even for those receivables due after more than 12 months, so long as the effect is not greatly significant. This is due to the fact that the value of short-term receivables is very similar whether the historical cost method or amortized cost method is adopted, and the impact of discounting is insignificant.

Trade receivables are tested for impairment in accordance with the requirements of IFRS 9. For measurement purposes, trade receivables are categorized by due date. Performing receivables are measured collectively, grouping individual exposures based on similar credit risk. The measurement process is based on expected losses over the life of receivables from the time of initial recognition, determined starting from losses suffered on assets with similar credit risk based on past experience and adjusted to take economic future conditions into account.

Inventories

Inventories are assets:

- held for sale in the ordinary course of business;
- in the process of production for such sale; or
- in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are recognized and measured at the lower of cost and net realizable value.

The cost of inventories includes all purchase costs, transformation costs, and other costs incurred to bring the inventories to their current location and condition; inventory costs do not include exchange rate differences in the case of inventories invoiced in foreign currency. In compliance with the provisions of IAS 2, the cost of inventories is calculated using the weighted average cost method.

If net realizable value is lower than cost, the difference is immediately recognized in the income statement.

Cash and cash equivalents

Cash and cash equivalents are recognized, depending on their nature, at nominal value or at amortized cost. Other cash equivalents represent highly liquid short-term financial assets that can be easily converted to known cash amounts and are subject to negligible risk of change in their value, and which have an original maturity, on purchase, of less than three months.

Payables

Trade payables and other payables are initially recognized at fair value and subsequently measured using the amortized cost method.

Amounts due to banks and other lenders are initially recognized at fair value, net of directly attributable accessory costs, and later are measured at amortized cost, using the effective interest rate method. In the event that, following a change in the conditions of a financial liability, there is a change in the estimate of expected cash flows that leads to a change of less than 10% of these flows, it is necessary to recalculate the amortized cost of the financial liability and recognize in the net profit an income or loss deriving from the modification. The amortized cost of the financial liability must be recalculated as the present value of the renegotiated or modified cash flows discounted at the original effective interest rate of the financial liability. Any costs or fees incurred in connection with the change adjust the carrying amount of the modified financial liability and are amortized over the remaining maturity of the modified financial liability.

Payables are derecognized when settled and when the Group has transferred all risks and the charges related to the instrument.

Employee benefit obligations

Employee benefit obligations are benefits granted to employees or their dependents, settled through cash payments (or through the supply of goods and services) directly to the employees, their spouses, children or other dependents, or to third parties, such as insurance companies. They include short-term benefits, benefits due to employees on termination of their employment contract and post-employment benefit plans.

Short-term employee benefit obligations include incentive schemes such as annual bonuses, the MBO and the one-off renewals of the national collective labor agreements and are recognized as liabilities (accrued expenses) after deducting any advances paid, and costs, unless a given IFRS requires or allows the inclusion of such benefits in the cost of a capitalized asset (such as, for example, staff costs relating to the development of internally generated intangible assets).

Benefits relating to the termination of employment include voluntary redundancy incentive schemes, which in the case of voluntary redundancy provide for the employee or group of employees taking part in trade union agreements involving the use of so-called solidarity funds, and (non-voluntary) redundancy arrangements, which apply in the case of termination of employment as a result of a unilateral decision by the company. The company recognizes the cost of such benefits as a liability due as of the earlier between the date the company can no longer withdraw the offer of such benefits and the time when the company recognizes the costs of a corporate restructuring exercise that falls within the provisions of IAS 37. The provisions for voluntary redundancies are reviewed at least every six months.

Post-employment benefit plans may be split into two categories: defined-contribution plans and defined-benefit plans.

Defined-contribution plans mainly include:

- complementary pension funds that involve a defined contribution being made by the company;
- the share of the employee severance indemnity fund accruing since January 1, 2007, for companies with more than 50 employees, whatever the allocation option chosen by the employee;
- the share of the employee severance indemnity fund accruing since January 1, 2007 allocated to complementary pension funds, in the case of companies with less than 50 employees;
- complementary healthcare plans;
- the directors' severance indemnity.

Defined-benefit plans on the other hand include:

- the employee severance indemnity accrued until December 31, 2006 for all companies, as well as the share accrued since January 1, 2007 and not allocated to complementary pension funds, for companies with less than 50 employees;
- complementary pension funds, which provide for the payment a defined benefit to members;
- seniority payments, which provide for a one-off payment to employees who reach a given seniority level.

With defined-contribution plans, the company's obligation is calculated based on the contributions due for the year in question and, therefore, the valuation of the obligation does not require actuarial assumptions and there are no actuarial profits or losses.

The accounting for defined-benefit schemes involves the use of actuarial assumptions to calculate the value of the obligation. Measurement of the obligation is performed by an independent actuary on an annual basis. The projected unit credit method is used to calculate the present value of future cash flows, based on historical/statistical analyses, demographic assumptions and the discounting of such cash flows at a market interest rate. In accordance with IAS 19, actuarial gains and losses are recognized in equity.

Provisions for risks and charges, contingent assets and liabilities

Contingent assets and liabilities may be split into different categories according to their nature and accounting implications. Specifically:

- provisions are effective obligations of uncertain amount and timing arising from past events and for which it is likely that there will be an outlay of financial resources and a reliable estimate of the amount is possible;
- contingent liabilities are possible obligations for which the likelihood of an outlay of financial resources is not remote;
- remote liabilities are those for which the outlay of financial resources is not likely;
- contingent assets are assets that do not meet the certainty requirement and as a result are not recognized in financial statements;
- an onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it;
- a restructuring is a program that is planned and controlled by management, and materially changes either the scope of a business undertaken by an entity or the manner in which that business is conducted.

For cost recognition purposes, provisions are recognized when there is uncertainty about the timing or amount of the future expenditure required to settle the obligation or other liabilities, and in particular trade payables or accruals.

Provisions differ from other liabilities because there is uncertainty about the timing or amount of the future expenditure required in settlement. Given their different nature, provisions are shown separately from trade payables and accruals.

A liability or provision is recognized when:

- there is a current legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

Provisions require the use of estimates. In extremely rare cases, when a reliable estimate cannot be made, this results in a liability that cannot be reliably estimated and is therefore considered a contingent liability.

The provisions for risks and charges are made for amounts that represent the best estimates of the expenditure required to settle the obligations existing at the reporting date, taking into account the risk and uncertainty that inevitably surround many events and circumstances. The size of a provision reflects the potential future events that may affect the amount required to settle an obligation if there exists sufficient objective evidence that these will take place.

Once the best estimate of the expenditure required to settle the existing obligation has been determined, the present value of the provision is calculated in the case in which the time value of money is material.

Treasury shares

Treasury shares are recognized at cost as a reduction in equity. The effects of any subsequent sales are recognized in equity.

Hyperinflation

Group companies operating in high-inflation countries recalculate the values for their non-monetary assets and liabilities in their original individual financial statements to eliminate the distorting effects caused by the loss of purchasing power of the currency. The inflation rate used to implement inflation accounting corresponds to the consumer price index.

Companies operating in countries where the cumulative inflation rate over a three-year period approximates or exceeds 100%, adopt inflation accounting and discontinue it in the event that the cumulative inflation rate over a three-year period falls below 100%.

Gains or losses on the net monetary position were recognized in the income statement.

The financial statements of companies prepared in currencies other than the Euro, operating in high-inflation countries, have been translated into Euro by applying the closing exchange rates to the items of both the statement of financial position and the income statement.

During the course of the third quarter of 2018, the inflation rate accumulated over the past three years in Argentina exceeded 100%. This, together with other characteristics of the country's economy, has led the Group to adopt, as of July 1, 2018, the accounting standard IAS 29 for the Argentine subsidiary GVS Argentina S.A.

Revenue from contracts with customers

Revenue from contracts with customers is recognized when the following conditions are met:

- the contract with a customer has been identified;
- the performance obligations in the contract have been identified;
- the transaction price has been determined;
- the transaction price has been allocated to the performance obligations in the contract; and
- when the related performance obligation contained in the contract is satisfied.

The Group recognizes revenue from contracts with customers when (or as) it satisfies its performance obligations, by transferring the promised goods or services (*i.e.*, an asset) to the customer. An asset is transferred when (or as) the customer obtains control of that asset.

The Group transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognizes revenue over time, if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as it performs;
- the Group's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced;
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If a performance obligation is not satisfied over time, it is satisfied at a point in time. In such case, the Group recognizes revenue at the moment the customer acquires control of the promised asset.

The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both. If the consideration promised in a contract includes a variable amount (*e.g.*, discounts, price concessions, incentives, penalties or other similar items), the Group estimates the amount of consideration to which it is entitled in exchange for transferring the promised goods or services to a customer. The Group includes a variable consideration in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

In the event that the Group has the right to receive a consideration in exchange for goods or services transferred to the customer, the Group recognizes a contract asset. In the event of an obligation to transfer to the customer goods and services for which a consideration has been received, the Group recognizes a contract liability.

Incremental costs of obtaining a contract with a customer are recognized as assets and, to the extent the Group expects to recover them, amortized over the duration of the underlying contract. The incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained shall be recognized as an expense when incurred, unless those costs are explicitly chargeable to the customer regardless of whether the contract is obtained.

Costs incurred to fulfil a contract are recognized as an asset and amortized over the duration of the underlying contract if and only if these costs do not fall within the scope of another accounting standard (for example IAS 2 – Inventories, IAS 16 – Property, plant and equipment e IAS 38 – Intangible assets) and all of the following criteria are met:

- the costs relate directly to a contract (or a specific anticipated contract);
- the costs generate or enhance resources of the entity that will be used in satisfying performance obligations in the future; and
- the costs are expected to be recovered.

Cost recognition

Costs are recognized in the income statement on an accruals basis.

Accounting for listing-related costs

IAS 32 requires that listing-related costs relating to an offer of new shares are accounted for as a deduction from equity, whereas costs relating to an offer of existing shares are recognized directly in the income statement. In the event the listing takes place, the ratio between the number of new shares and the number of post-listing shares will determine the percentage of costs that will be accounted for as a direct deduction from equity. In the event that the listing does not occur, these costs must instead be charged to the income statement. It should be noted that in these Consolidated Financial Statements, a portion of the listing costs incurred up to December 31, 2019, attributable to the public offer of new shares, has been suspended, recording a prepaid expense, net of the related tax effect.

Dividends

Dividend income is recognized in the income statement on an accruals basis, when the right to receive such dividends is created following approval of the dividend distribution resolution of the relevant investee company shareholders' meeting.

Dividends distributed are recorded as changes in equity in the year in which they are approved by the company's shareholders' meeting.

Income tax

Current income taxes are calculated based on taxable income for the year, applying tax rates in effect as of the reporting date. Taxes due for the current year and for previous years, to the extent they are still unpaid, are recognized as liabilities. Income tax receivables and payables, for the current and previous years, represent the amounts that are likely to be recovered from/paid to the tax authorities, applying the tax rates and the tax laws in effect, or effectively issued, at the reporting date.

Deferred taxes include:

- deferred tax liabilities: these represent income taxes due in the future years in respect of the tax effects of temporary differences;
- deferred tax assets: these represent income taxes amounts that may be recovered in future years in respect of deductible temporary differences, carry forward of unused tax losses, and carry forward of unused tax credits.

Deferred tax liabilities and assets are calculated by applying the tax rate to the temporary differences identified, whether taxable or deductible, unused tax losses or unused tax credits.

At each reporting date, both unrecognized and recognized deferred tax assets are remeasured to confirm the likelihood of recovering such deferred tax assets.

Earnings per share

Basic earnings per share is calculated by dividing the result for the year attributable to the Group by the weighted average number of ordinary shares outstanding during the year, excluding treasury shares.

Diluted earnings per share is calculated by dividing the result for the year attributable to the owners of the parent by the weighted average number of ordinary shares outstanding during the year, excluding treasury shares. For the purposes of the calculation of diluted earnings per share, the weighted average number of shares outstanding is adjusted assuming that rights having potential dilutive effects are exercised by all the grantees of such rights, and the result attributable to the owners of the parent is adjusted to take into account the effects, if any, net of tax, of the exercise of those rights.

Operating segments

An operating segment is a component of the group that:

- engages in business activities from which it may earn revenues and incur expenses (including costs and revenues relating to transactions with other components of the same group);
- whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
- for which discrete financial information is available.

Please see note 6 for the information on operating segments.

3 RECENTLY ISSUED ACCOUNTING STANDARDS

Accounting standards not yet applicable as not yet endorsed by the European Union

As of the date of approving these Consolidated Financial Statements, the following standards and amendments had not yet been endorsed by the EU.

Standard/amendment	Endorsed by EU	Effective date
IFRS 17 Insurance Contracts	NO	Years beginning on or after January 1, 2021 (possible extension to January 1, 2022)
Amendment to IFRS 3 Business Combinations	NO	Years beginning on or after January 1, 2020

Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (issued on 23 January 2020)	NO	n.a.

The Group does not expect there to be any financial impact as a result of the entry into force of such standards or amendments.

Accounting standards, amendments and interpretations endorsed by the European Union but not yet adopted by the Group

As of the date of approving these Consolidated Financial Statements, the following standards and amendments had been endorsed by the EU, but not yet adopted by the Group:

Standard/amendment	**Description**	**Effective date**
Amendments to IAS 1 and IAS 8: Definition of Material	These amendments, in addition to clarifying the concept of materiality, focus on defining materiality that is coherent and unique among the various accounting standards, and incorporate the guidelines included in IAS 1 on intangible information. No impacts on the Group financial statements are expected.	January 1, 2020
Amendments to References to the Conceptual Framework in IFRS Standards	These amendments focus on updating certain definitions and certain references contained in the various principles and related interpretations. No impacts on the Group financial statements are expected.	January 1, 2020
Amendments to IFRS 9, IAS 39, IFRS 7 (Interest Rate Benchmark Reform)	These amendments focus on hedge accounting in order to clarify the potential effects deriving from the uncertainty caused by the Interest Rate Benchmark Reform. In addition, these changes require companies to provide additional information to investors about their hedging relationships, which are directly affected by these uncertainties. No impacts on the Group financial statements are expected.	January 1, 2020

4 ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with relevant accounting standards and methods in certain cases requires management to make estimates and assumptions based on difficult and subjective judgments, in turn based on past experience and hypotheses considered reasonable and realistic, given the information known at the time.

Such estimates have an effect on the amounts reported in the financial statements, including the statement of financial position, the income statement, the statement of comprehensive income, the statement of cash flows and the related notes to the financial statements. Actual results may then differ, even significantly, from those reported in the consolidated financial statements due to changes in the factors considered in determining the estimates, given the uncertainties that characterize the assumptions and conditions on which estimates are based.

The accounting estimates that more than others involve a high degree of subjectivity and judgement on the part of management, and where a change in the conditions underlying the assumptions could have a significant effect on the Group's financial results, are detailed below:

a) Impairment of property plant and equipment and intangible assets with a finite useful life: property plant and equipment and intangible assets with a finite useful life are tested for impairment when indicators of impairment are identified that suggest the full asset value may not be recovered through use. Identification of the existence of such indicators of impairment requires management to exercise judgement based on experience and information available both within the Group and in the broader marketplace. If impairment indicators are identified, management employs what it considers to be the most appropriate measurement techniques to estimate such impairment. Both the correct identification of the indicators of impairment of tangible, intangible and right of use assets and the related estimates of the extent of such impairment depend upon factors that may change over time, thereby influencing measurements and management estimates.

b) Impairment of intangible assets with an indefinite useful life (goodwill): Goodwill is tested for impairment annually to identify any loss in value to be recognized in the income statement. Specifically, the impairment test involves allocating goodwill to each cash generating unit and then determining the related recoverable amount, which is deemed to be the higher of its fair value and its value in use. If the recoverable amount is less than the carrying value of the CGU, an impairment loss on goodwill is allocated to it.

c) Allowance for doubtful receivables: such allowance reflects management estimates regarding the historical and expected recoverability of such receivables.

d) Provisions for risks and charges: identification of the existence of a current (legal or constructive) obligation is in certain cases not a simple matter. Management reviews such matters on a case-by-case basis, together with estimates of the outflow of resources required to satisfy the obligation. When managers believe the likelihood of a liability occurring to be only possible, the relevant risks are disclosed in the note on risks and charges, but no provision is made.

e) Useful economic life of property, plant and equipment and intangible assets: useful economic life is determined when the asset is first recognized in the financial statements. Considerations regarding an asset's useful life are based on historical experience, market conditions and expected future events that may affect them, such as technological changes. An asset's actual useful life may, therefore, differ from its estimated useful life.

f) Deferred tax assets: deferred tax assets are recognized to the extent it is probable that future taxable profit will be available against which temporary differences or tax loses can be utilized.

g) Inventories: Inventories of finished products that show signs of obsolescence or are slow moving are tested for impairment and written down in the case in which their recoverable amount is lower than their book value. Such write-downs are based on management estimates and assumptions, in turn based on their experience and past results.

h) Lease liabilities: the measurement of lease liabilities and therefore the related right of use assets depends on determination of the lease term. This is subject to management judgement and decision, in particular with regard to whether or not to include periods covered by an option to extend a lease or terminate a lease. Such decisions may be revisited if a significant event were to occur or were there to be a significant change in circumstances that impacted the likelihood of exercising an option not previously considered in determining the lease term or choosing not to exercise an option previously considered in determining the lease term.

5 MANAGEMENT OF FINANCIAL RISKS

In terms of business-related risks faced, the main risks identified, monitored and actively managed by the Group as described below, are the following:

- market risk, relating to changes in the exchange rate between the Euro and other currencies in which the Group operates and interest rates;
- credit risk, relating to the risk of default on the part of a counterpart; and
- liquidity risk, relating to a lack of financial resources to meet financial obligations.

The Group's objective is to maintain a balanced approach to managing its financial exposure by matching assets and liabilities and achieving operational flexibility through the use of liquidity generated by current operating activities and bank loans.

The Group's ability to generate liquidity from operations together with its borrowing capacity enable it to satisfy its operational requirements to fund working capital, invest and meet its financial obligations. Treasury and financial risk management are centralized within the Company. Specifically, the central finance function is responsible for evaluating and approving forecast financial requirements, monitoring trends and taking corrective action as necessary.

The following note provides qualitative and quantitative indications of reference on the incidence of these risks on the Group.

5.1 Market risk

Exchange rate risk

Exposure to the risk of fluctuating exchange rates is related to the commercial activities of the Group, which also take place in currencies other than the Euro. Revenues and costs denominated in foreign currency can be influenced by fluctuations in the exchange rate with impacts on commercial margins (business risk), just as trade and financial payables and receivables in foreign currency can be impacted by the translation rates used, with an effect on profit or loss (transaction risk). In addition, exchange rate fluctuations also have an effect on consolidated profit and loss and equity, as the financial statements of some Group companies are prepared using currencies other than the Euro and then translated (translation risk).

Revenues from contracts with customers are generally denominated in Euro and US Dollar or indexed to the Euro. The Group does not adopt instruments to hedge exchange rate fluctuations, with the exception of the subscription of a Cross Currency Swap derivative instrument to hedge the exchange rate risk associated with the bond issued in 2014 for a nominal value of $35 million, the contract for which was closed early in 2018. The Group's exchange rate risk management policy is to maintain the target ratio between purchases of raw materials and revenues denominated in a single currency of less than 30%. Exceeding this ratio in relation to one of the currencies in which the Group operates indicates an overexposure to the exchange rate risk associated with that currency. No significant deviations from this target ratio were recorded during the periods under review.

Sensitivity analysis relating to exchange rate risk

For the purposes of the sensitivity analysis of the exchange rate, the balance sheet items as of December 31, 2019, 2018 and 2017 (financial assets and liabilities) denominated in currencies other than the functional currency of each Group company were identified. In assessing the potential effects of exchange rate fluctuations on net income, intercompany payables and receivables in currencies other than the reporting currency were also taken into account.

For the purpose of the analysis, two scenarios were considered, which are affected respectively by an appreciation and a depreciation of 5% of the nominal exchange rate between the currency in which the balance sheet item is denominated and the reporting currency.

The table below shows the results of the analysis:

(In thousands of Euro)	Appreciation of the currency by 5%			Depreciation of the currency by 5%		
	As of December 31,			As of December 31,		
Currency	**2019**	**2018**	**2017**	**2019**	**2018**	**2017**
USD	5,240	5,881	6,960	(4,741)	(5,321)	(6,297)
GBP	97	200	286	(88)	(181)	(258)
EUR	(259)	(516)	(688)	216	448	622
Other	(309)	(129)	(95)	280	117	86
Total	**4,769**	**5,436**	**6,463**	**(4,333)**	**(4,937)**	**(5,847)**

The US dollar balances mainly relate to the bond issued in 2014, as well as to an intra-group loan granted by GVS to the subsidiary GVS North America Holdings Inc.

Interest rate risk

The Group uses external financial resources in the form of debt and uses, where deemed appropriate, available liquidity in market instruments. Changes in interest rate levels affect the cost and return of the various forms of financing and lending, thus affecting the level of consolidated net financial charges. The Group is exposed to the risk of fluctuations in interest rates, given that part of its debt is at variable rates. The Group's policy is to limit the risk of interest rate fluctuations by entering into contracts to hedge interest rate fluctuations.

Sensitivity analysis relating to interest rate risk

As regards interest rate risk, a sensitivity analysis has been performed to determine the effect on the consolidated income statement and consolidated equity that would derive from a hypothetical 50 bps positive and negative change in interest rates compared to those recorded in any period.

The analysis was carried out mainly with regard to the following items:

- cash and cash equivalents;
- short and medium/long-term bank debts.

With reference to cash and cash equivalents, reference was made to the average stock and average rate of return for the period, while with regard to short and medium/long-term financial liabilities, the impact was calculated precisely.

The table below shows the results of the analysis:

(In thousands of Euro)	Impact on profit, net of tax effect	
	- 50 bps	***+ 50 bps***
Year ended December 31, 2019	347	(347)
Year ended December 31, 2018	388	(388)
Year ended December 31, 2017	248	(248)

5.2 Credit risk

The Group faces the exposure to credit risk inherent in the possibility of insolvency (default) and/or impairment in the creditworthiness of customers by means of instruments to assess each individual counterparty through a dedicated organizational structure, equipped with the appropriate tools to constantly monitor customers' behavior and creditworthiness on a daily basis.

The Group is currently structured to implement a continuous monitoring process for receivables, with different collection levels, which vary based on specific knowledge of the customer and late payment days, to optimize working capital and minimize the aforementioned risk.

As of December 31, 2019, there were no exposures exceeding 10% of total trade receivables. The ratio of the top 10 customers to total Group trade receivables as of December 31, 2019 was approximately 38%.

The following table provides a breakdown of trade receivables at December 31, 2019, grouped by past due period, net of the allowance for doubtful receivables.

(In thousands of Euro)	Not yet due	Between 1 and 90 days past-due	Between 91 and 180 days past-due	Over 181 days past-due	Total
Gross trade receivables as of December 31, 2019	28,821	6,493	158	489	**35,961**
Allowance for doubtful receivables	-	(156)	(158)	(489)	**(803)**
Trade receivables as of December 31, 2019	**28,821**	**6,337**	**-**	**-**	**35,158**

It should be noted that the gross value of trade receivables past due at December 31, 2019 amounted to €7,140 thousand, of which €647 thousand (equal to 1.8% of gross trade receivables) refer to positions more than 90 days past due.

5.3 Liquidity risk

Liquidity risk is represented by the possibility that the Group may be unable to raise the financial resources necessary to guarantee current operations and the fulfilment of obligations falling due, or that they may be available at high cost.

In order to mitigate this risk, the Group: (i) periodically verifies the forecast financial requirements on the basis of management needs, in order to act in a timely manner to find the necessary additional resources, (ii) implements all the actions for such finding, (iii) manages an adequate composition in terms of deadlines, tools and level of availability.

As of December 31, 2019, 2018 and 2017, in addition to cash and cash equivalents and investment securities totaling €61,941 thousand, €47,250 thousand and €43,385 thousand, the Group had available and undrawn lines of credit amounting to €8.2 million, €11.4 million and €10.1 million, respectively.

The Group believes that the credit lines currently available, together with the cash flows that will be generated by current operations, will make it possible to meet the financial requirements for investment, working capital management and repayment of financial payables when due.

The table below shows an analysis of the maturities, based on the contractual repayment obligations, outstanding as of December 31, 2019.

(In thousands of Euro)	As of December 31, 2019					
	within 1 year	1-2 years	3-5 years	over 5 years	Contract value	Carrying amount
Financial liabilities	40,304	33,761	90,316	-	**164,382**	**154,307**
Lease liabilities	3,335	2,979	4,916	250	**11,480**	**10,944**
Trade payables	13,188	-	-	-	**13,188**	**13,188**
Other current liabilities	13,301	-	-	-	**13,301**	**13,301**

The amounts shown in the above table represent non-discounted nominal values, determined with reference to the remaining contractual due dates, for both the principal and the interest portion.

5.4 Capital management

The Group's capital management is aimed at guaranteeing solid credit ratings and adequate capital indicators to support its investment plans, while meeting contractual obligations with lenders.

The Group ensures it has sufficient capital to finance its business development needs and meet operating requirements; to guarantee a balanced financial structure and minimize the total cost of capital, finances are sourced through a mix of risk capital and debt to the benefit of all stakeholders.

Returns on capital are monitored by reviewing market trends and business performance, net of other commitments, including borrowing costs. In order to ensure the Group's going concern status, to develop the business and to provide an adequate return on capital, management monitors the Group's debt to equity ratio on an ongoing basis and also monitors debt levels with respect to business trends and expected future cash flows in the medium/long term.

5.5 Financial assets and liabilities by category and fair value

Financial assets and liabilities by category

The following tables show financial assets and liabilities by category as of December 31, 2019, 2018 and 2017:

(In thousands of Euro)	Carrying amount As of December 31,		
	2019	**2018**	**2017**
FINANCIAL ASSETS:			
Financial assets at amortized costs			
Non-current financial assets	538	674	407
Trade receivables	35,158	39,357	36,980
Other current assets and receivables	4,374	3,440	3,032
Current financial assets	177	171	155
Cash and cash equivalents	58,542	45,551	42,388
	98,789	**89,193**	**82,962**
Financial assets at fair value through profit or loss			
Non-current financial assets	4	4	4
Current financial assets	3,399	1,699	997
	3,403	**1,703**	**1,001**
Derivative financial instruments	**-**	**-**	**2,704**
FINANCIAL ASSETS	**102,192**	**90,896**	**86,667**

(In thousands of Euro)	Carrying amount As of December 31,		
	2019	**2018**	**2017**
FINANCIAL LIABILITIES:			
Liabilities at amortized costs			
Non-current borrowings	117,638	143,320	165,189
Non-current lease liabilities	7,850	4,074	3,327
Current borrowings	36,669	29,546	24,562
Current lease liabilities	3,094	2,264	2,265
Trade payables	13,188	18,480	16,124
Other current liabilities	13,061	10,903	8,829
FINANCIAL LIABILITIES	**191,500**	**208,587**	**220,296**

In view of the nature of financial assets and liabilities, for most of them their carrying amounts are deemed to be reasonable approximations of their fair values.

Non-current financial assets and liabilities are settled or measured at market rates and, consequently, their fair values are deemed to be substantially in line with their carrying amounts.

Fair value

For assets and liabilities recognized in the statement of financial position, IFRS 13 requires that such values be classified according to a hierarchy of levels that reflects the significance of the inputs used in the calculation of fair value. The fair value hierarchy classifies the inputs to valuation techniques used to measure fair value as follows:

- **Level 1**: fair value is calculated with reference to quoted prices (unadjusted) in active markets for identical financial instruments. Accordingly, the emphasis within Level 1 is on determining both of the following: (a) the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability; and (b) whether the entity can enter into a transaction for the asset or liability at the price in that market at the measurement date.
- **Level 2**: fair value is calculated using valuation techniques based on observable inputs in active markets. Level 2 inputs include the following: (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in markets that are not active; (c) inputs other than quoted prices that are observable for the asset or liability, for example: interest rates and yield curves observable at commonly quoted intervals, implied volatilities and credit spreads; and (d) market-corroborated inputs.
- **Level 3**: fair value is calculated using valuation techniques based on unobservable market inputs.

The following table shows financial assets and liabilities at fair value, split by fair value hierarchy level:

(In thousands of Euro)	**As of December 31, 2019**		
	Level 1	**Level 2**	**Level 3**
Non-current financial assets	-	-	4
Current financial assets	-	3,399	-
Total financial assets at fair value	**-**	**3,399**	**4**

(In thousands of Euro)	**As of December 31, 2018**		
	Level 1	**Level 2**	**Level 3**
Non-current financial assets	-	-	4
Current financial assets	-	1,699	-
Total financial assets at fair value	**-**	**1,699**	**4**

(In thousands of Euro)	**As of December 31, 2017**		
	Level 1	**Level 2**	**Level 3**
Non-current financial assets	-	-	4
Current financial assets	-	997	-
Derivative financial instruments	-	2,704	-
Total financial assets at fair value	**-**	**3,701**	**4**

There were no transfers between fair value hierarchy levels during the periods under review.

6 OPERATING SEGMENTS

The following disclosure regarding operating segments is provided in accordance with IFRS 8 "*Operating segments*" (hereafter "**IFRS 8**"), which requires that such disclosure reflects the manner in which management manages the business and makes operational decisions.

At an operational level, the Group's organization is based upon a matrix structure defined by product line, distribution channel and geographic area, which also identifies a unitary strategic vision of the business. The type of organization described above reflects the way the management monitors and strategically directs the activities of the Group. In particular, top management monitors the economic results at Group level as a whole, and therefore no operating segments can be identified. Therefore, the Group's activity was represented as a single sector subject to disclosure on the basis of IFRS 8.

The detail of revenues form contracts with customers by product line, distribution channel and geographic area is showed in note 9.1.

As required by IFRS 8, Paragraph 34, it is noted that in the years ended December 31, 2019, 2018 and 2017, there are no single external customers that generate more than 10% of revenues from contracts with customers.

The following table shows non-current asset balances, excluding financial assets and deferred tax assets, by geographic area as of December 31, 2019, 2018 and 2017, allocated based on the country in which the assets are located. Non-current unallocated assets are entirely attributable to goodwill.

(In thousands of Euro)	**As of December 31,**		
	2019	**2018**	**2017**
Italy	21,771	21,037	22,664
USA	38,426	43,334	46,653
United Kingdom	9,777	9,236	9,441
Brazil	3,590	3,810	3,701
China	6,017	5,997	6,835
Romania	4,471	4,445	3,745
Mexico	2,382	-	-
Other	289	203	280
Non-current unallocated assets	70,017	68,841	66,098
Total non-current assets	**156,740**	**156,903**	**159,417**

7 BUSINESS COMBINATIONS

This paragraph describes the business combinations made by the Group in the years ended December 31, 2019, 2018 and 2017, as defined by IFRS 3 - "Business combinations".

KUSS Acquisition

On July 3, 2017, the GVS Group, through the subsidiary GVS North America Holdings Inc., entered into a contract with Industrial Opportunity Partners L.P., as the representative of the selling shareholders, for the purchase and sale of shares representing the entire share capital of IOP Filter Holding Inc., through which it obtained the control of the KUSS Group (see the note 1.3).

The acquisition significantly increased the Group's presence both in a geographic market deemed strategic, such as the United States of America, and in a sector, such as the automotive sector, important for the diversification of markets in which the Group operates.

The contract for the KUSS Acquisition provided for a consideration equal to $133.4 million (€113.8 million), fully paid in cash.

The following table shows the cash flows relating to the KUSS Acquisition:

(In thousands of Euro)	**Year ended December 31, 2017**
Consideration paid	113,755
Cash and cash equivalents acquired	(2,260)
Cash outflow for investing activities	**111,495**

The following table shows the fair value of assets and liabilities assumed identified at the date of acquisition.

(In thousands of Euro)	**Temporary fair value at acquisition date**	**Adjustments**	**Fair value at acquisition date**
ASSETS			
Non-current assets			
Intangible assets (goodwill and other preexisting surplus value excluded)	108	34,361	34,469
Goodwill and other preexisting surplus values	32,776	(32,776)	-
Right of use assets	561	-	561
Property, plant and equipment	12,662	-	12,662

(In thousands of Euro)	**Temporary fair value at acquisition date**	**Adjustments**	**Fair value at acquisition date**
Deferred tax assets	2,554	-	2,554
Non-current financial assets	848	-	848
Total non-current assets	**49,509**	**1,585**	**51,094**
Current assets			
Inventories	11,712	1,265	12,977
Trade receivables	8,848	-	8,848
Contract assets	-	-	-
Income tax receivables	43	-	43
Other current assets and receivables	987	-	987
Current financial assets	110	-	110
Cash and cash equivalents	2,260	-	2,260
Total current assets	**23,960**	**1,265**	**25,225**
Total assets	**73,469**	**2,850**	**76,319**
Non-current liabilities			
Non-current borrowings	672	-	672
Non-current lease liabilities	56	-	56
Deferred tax liabilities	-	1,210	1,210
Employee benefit obligations	-	-	-
Provisions for risks and charges	460	-	460
Other non-current liabilities	-	-	-
Total non-current liabilities	**1,188**	**1,210**	**2,398**
Current liabilities			
Current borrowings	118	-	118
Current lease liabilities	505	-	505
Trade payables	4,861	-	4,861
Contract liabilities	-	-	-
Income tax payables	51	-	51
Other current liabilities	2,864	-	2,864
Total current liabilities	**8,399**	**-**	**8,399**
Total liabilities	**9,587**	**1,210**	**10,797**
Net assets (A)	**63,882**	**1,640**	**65,522**
Consideration (B)	**113,755**	**-**	**113,755**
Goodwill (B) - (A)	**49,873**	**(1,640)**	**48,233**

As a result of the purchase price allocation process, the following main fair value adjustments of assets and liabilities acquired were made:

- recognition within intangible assets of the customer relationship, for €22,972 thousand (€13,783 thousand net of tax effect);
- recognition within intangible assets of patents, for €8,631 thousand (€5,178 thousand net of tax effect);
- recognition within intangible assets of the open orders book, for €2,758 thousand (€1,655 thousand net of tax effect);
- revaluation of inventories for €1,265 thousand (€759 thousand net of tax effect).

Please note that goodwill and other preexisting surplus values are deductible for tax purposes.

The goodwill, equal to €48,233 thousand, is attributable to the ability of the acquired company to generate future economic benefits, in particular in relation to the generation of new business opportunities and is not deductible for tax purposes.

The fair value of acquired trade receivables is €8,848 thousand; the gross contractual amount for trade receivables due is €9,232 thousand.

The contribution of KUSS Group to revenues from contracts with customers of the Group for the year ended December 31, 2017 is €24,406 thousand. Revenues from contracts with customers of the Group, if the acquisition had occurred on January 1, 2017, would have been €204,821 thousand. These amounts have been calculated using the subsidiary's results and adjusting them for differences in the accounting policies between the Group and the subsidiary.

Transaction costs relating to KUSS Acquisition of €894 thousand are included in cost of services in the income statement for the year ended December 31, 2017.

8 NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

8.1 Intangible assets

The following table provides a breakdown of intangible assets as of December 31, 2019, 2018 and 2017, together with details of movements during the periods under review:

(In thousands of Euro)	Development costs	Goodwill	Customer relationship	Patents and intellectual property rights	Concessions, licenses, trademarks and similar rights	Other intangible assets	Assets under construction and advances	Total
Cost as of January 1, 2017	**1,487**	**20,578**	**-**	**1,957**	**2,181**	**968**	**237**	**27,408**
Investments	871	-	-	109	127	-	957	**2,064**
Reclassification	477	-	-	-	239	-	(757)	**(41)**
Business combinations	-	48,233	22,972	8,631	108	2,758	-	**82,702**
Currency translation differences	(178)	(2,713)	(510)	(207)	(166)	(61)	(8)	**(3,843)**
Cost as of December 31, 2017	**2,657**	**66,098**	**22,462**	**10,490**	**2,489**	**3,665**	**429**	**108,290**
Investments	1,322	-	-	45	170	-	1,128	**2,665**
Reclassification	508	-	-	38	220	-	(630)	**136**
Contribution of company branch	-	-	-	-	2,020	-	-	**2,020**
Currency translation differences	96	2,743	1,065	379	42	128	(109)	**4,344**
Cost as of December 31, 2018	**4,583**	**68,841**	**23,527**	**10,952**	**4,941**	**3,793**	**818**	**117,455**
Investments	1,543	-	-	231	164	-	873	2,811
Reclassification	284	-	-	53	6	-	(592)	(249)
Currency translation differences	120	1,176	452	140	29	-	25	1,942
Cost as of December 31, 2019	**6,530**	**70,017**	**23,979**	**11,376**	**5,140**	**3,793**	**1,124**	**121,959**
Accumulated depreciation as of January 1, 2017	**(347)**	**-**	**-**	**(1,730)**	**(1,461)**	**(960)**	**-**	**(4,498)**
Amortization	(384)	-	(1,242)	(488)	(303)	(850)	-	**(3,267)**
Reclassification	-	-	-	-	(7)	-	-	**(7)**
Currency translation differences	43	-	73	22	131	48	-	**317**
Accumulated depreciation as of December 31, 2017	**(688)**	**-**	**(1,169)**	**(2,196)**	**(1,640)**	**(1,762)**	**-**	**(7,455)**
Amortization	(679)	-	(2,851)	(966)	(592)	(1,933)	-	**(7,021)**
Contribution of company branch	-	-	-	-	(1,551)	-	-	**(1,551)**
Currency translation differences	(25)	-	(145)	(44)	(193)	(98)	-	**(505)**
Accumulated depreciation as of December 31, 2018	**(1,392)**	**-**	**(4,165)**	**(3,206)**	**(3,976)**	**(3,793)**	**-**	**(16,532)**
Amortization	(1,063)	-	(3,008)	(944)	(414)	-	-	(5,429)
Reclassification	-	-	-	-	-	-	-	-
Currency translation differences	(43)	-	(70)	(19)	(20)	-	-	(152)
Accumulated depreciation as of December 31, 2019	**(2,498)**	**-**	**(7,243)**	**(4,169)**	**(4,410)**	**(3,793)**	**-**	**(22,113)**
Net book value as of January 1, 2017	**1,140**	**20,578**	**-**	**227**	**720**	**8**	**237**	**22,910**
Net book value as of December 31, 2017	**1,969**	**66,098**	**21,293**	**8,294**	**849**	**1,903**	**429**	**100,835**
Net book value as of December 31, 2018	**3,191**	**68,841**	**19,362**	**7,746**	**965**	**-**	**818**	**100,923**
Net book value as of December 31, 2019	**4,032**	**70,017**	**16,736**	**7,207**	**730**	**-**	**1,124**	**99,846**

Intangible assets with definite useful life

Customer relationship includes the value of commercial relationships recognized as a result of the purchase price allocation relating to the KUSS Acquisition.

Patents mainly refer to the amounts recognized as a result of the purchase price allocation relating to the KUSS Acquisition, as well as the deposit of new applications.

Concessions, licenses, trademarks and similar rights refer to the purchase and customization of software for industrial management and programming.

Investments in intangible assets during the years ended December 31, 2019, 2018 and 2017 amounted to €2,811 thousand, €2,665 thousand and €2,064 thousand respectively and mainly related to development costs and assets under construction and refer to costs incurred for the development of new products and related production processes. Investments in assets under construction refer also to software and applications to support the production processes.

Software and licenses deriving from the Contribution amounts to €469 thousand.

No indicators of impairment of intangible assets were identified during the years under review.

The effects relating to business combinations refer to the change in scope of consolidation following the KUSS Acquisition, the effects of which are described in note 7.

Intangible assets with indefinite useful life

Goodwill

As of December 31, 2019, 2018 and 2017 the value of goodwill mainly refers to the acquisition of the KUSS Group on July 28, 2017, as well as to business combinations that took place before the Transition Date.

The table below provides details of goodwill as of December 31, 2019, 2018 and 2017 divided between the portion attributable to the KUSS Acquisition (see Note 7 "Business Combinations") and that attributable to business combinations that took place before the Transition Date.

(In thousands of Euro)	As of December 31,		
	2019	**2018**	**2017**
KUSS acquisition	50,350	49,400	47,163
Previous business combinations	19,668	19,441	18,935
Total goodwill	**70,017**	**68,841**	**66,098**

In line with the requirements of IAS 36, an impairment test was carried out on the individual dates of the financial statements to ascertain the existence of any impairment of goodwill. To this end, for the purpose of verifying the recoverability of goodwill recorded under intangible assets, a single Cash Generating Unit ("**CGU**") has been identified, consisting of all the operating activities of the GVS Group as a whole. For the purpose of identifying the CGU, the elements provided for by IAS 36 were considered, including the fact that management monitors the Group's operations on a consolidated basis and the fact that management makes strategic decisions, with particular reference to product offerings and investment decisions, at Group level.

As of December 31, 2019, goodwill, amounting to €70,017 thousand, was subjected to an impairment test, with the assistance of an independent third party, in accordance with the provisions of IAS 36, by comparing the carrying amount of goodwill with the recoverable amount of the related CGU to which it refers. Specifically, the recoverable amount configuration is that of the value in use, determined by discounting the forecast data of the CGU ("**DCF Method**") relating to the period of 4 years after the balance sheet date. The key assumptions used to determine the CGU's forecast data are the estimated levels of growth in revenues, EBITDA, operating cash flows, the growth rate of terminal value and the weighted average cost of capital (discount rate), taking into account past economic and financial performance and future expectations inferable from the "Business Plan 2020-2023" approved on February 10, 2020 by the Board of Directors of GVS.

The terminal value of the CGU was determined on the basis of the criterion of the perpetual return on the CGU's normalized cash flow, with reference to the last forecast period considered, assuming a growth rate and a discount rate (WACC, which represents the weighted average between the cost of equity and the cost of debt, after tax) of 1.0% and 9.4% respectively.

For the purposes of estimating the value in use of the CGU to which the goodwill is allocated, the following sources of information were used:

- internal sources: IAS 36 requires that the estimate of value in use be based on the most up to date earnings flow forecasts made by senior management. The "Business Plan 2020-2023" was used for the goodwill impairment test as of December 31, 2019.
- external sources: for the purposes of the goodwill impairment test, external sources of information were used to calculate the weighted average cost of capital, determined using the capital asset pricing model ("**CAPM**") method. In particular, as required by IAS 36, the cost of capital was calculated considering the target financial structure resulting from the analysis of the financial structure of comparable listed companies. A premium was also applied in determining the cost of capital to take account of the smaller size/liquidity of the CGU compared to comparable listed companies.

The results of the impairment test did not reveal any impairment loss with regard to goodwill.

A sensitivity analysis was also carried out by determining the break-even point WACC, which, keeping the other parameters constant, would render the difference between the recoverable amount and the carrying amount of the CGU as nil. In these circumstances, the break-even point WACC is 27.0%, while it would be 26.6% assuming a zero-growth rate.

Also with reference to December 31, 2018 and 2017, goodwill was subjected to an impairment test in accordance with the provisions of IAS 36, (*i.e.*, by comparing the carrying amount of the goodwill with the recoverable amount of the related CGU to which it refers); the recoverable amount configuration is always that of the value in use, determined by discounting the forecast data of the CGU ("**DCF Method**") relating to the period of 4 years after the above reference date. Also for these periods, the key assumptions used to determine the CGU's forecast data are the estimated levels of growth in revenues, EBITDA, operating cash flows, the growth rate of terminal value and the weighted average cost of capital (discount rate), taking into account past economic and financial performance and future expectations inferable from the "Business Plan 2019-2022" and "Business Plan 2018-2021" respectively.

The terminal value of the CGU was determined on the basis of the criterion of the perpetual return on the CGU's normalized cash flow, with reference to the last forecast period considered, assuming a growth rate of 0.7% and 1.2% respectively and a discount rate (WACC, which represents the weighted average between the cost of equity and the cost of debt, after tax) of 11.8% and 10.6% respectively.

For the purposes of estimating the value in use of the CGU to which the goodwill is allocated, the following sources of information were used:

- internal sources: IAS 36 requires that the estimate of value in use be based on the most up to date earnings flow forecasts made by senior management. For the purposes of the impairment test of goodwill as of December 31, 2018 and 2017, the "2019-2022" and "2018-2021" business plans were used, respectively.
- external sources: for the purposes of the goodwill impairment test, external sources of information were used to calculate the weighted average cost of capital, determined using the capital asset pricing model ("**CAPM**") method. In particular, as required by IAS 36, the cost of capital was calculated considering the target financial structure resulting from the analysis of the financial structure of comparable listed companies at the respective reference dates. A premium was also applied in determining the cost of capital to take account of the smaller size/liquidity of the CGU compared to comparable listed companies.

The results of the impairment test did not reveal any impairment loss with regard to goodwill.

A sensitivity analysis was also carried out by determining the break-even point WACC, which, keeping the other parameters constant, would render the difference between the recoverable amount and the carrying amount of the CGU as nil. In these circumstances, the break-even point WACC is 19.0% and 14.5%, while it would be 18.7% and 14.0% assuming a zero-growth rate.

8.2 Right of use assets and lease liabilities

The following table provides financial details of lease contracts held by the Group, mainly in the role of lessee:

(In thousands of Euro)	As of December 31,		
	2019	**2018**	**2017**
Right of use assets (buildings)	9,542	5,172	4,379
Right of use assets (vehicles)	654	594	965
Right of use assets (equipment)	124	156	135
Total right of use assets	**10,320**	**5,922**	**5,479**
Current lease liabilities	3,094	2,264	2,265
Non-current lease liabilities	7,850	4,074	3,327
Total lease liabilities	**10,944**	**6,338**	**5,592**

The following table provides economic and cash flow details of lease contracts held by the Group, mainly in the role of lessee:

(In thousands of Euro)	Year ended December 31,		
	2019	**2018**	**2017**
Depreciation right of use assets (buildings)	2,071	2,074	1,584
Depreciation right of use assets (vehicles)	516	526	578
Depreciation right of use assets (equipment)	59	55	37
Total depreciation of right of use assets	**2,646**	**2,655**	**2,199**
Interest expenses	**152**	**91**	**91**
Software	94	186	52
Costs for low value assets	54	19	32
Variable payments not included in lease liabilities	403	317	220
Total other costs	**551**	**522**	**304**
Cash outflows related to leases	**2,706**	**2,853**	**2,361**

Right of use of building assets as of December 31, 2017, mainly related to the leasing of two production plants in North America, of a production plant in China and of some warehouses in United Kingdom. As of December 31, 2019 and 2018, right of use of building assets refers also to the leasing of lands and buildings subject to the Real Estate Reorganization (see note 1.3). Please refer to section 11 for information on related party transactions.

Right of use assets recognized during the year ended December 31, 2019 mainly refer to: (i) Sale and Leaseback Transactions, relating to the production plant of Avellino and to two production plants in North America, in Ohio and Wisconsin (see note 1.3), (ii) the renewal of the lease contract related to a production plant in North America, Sanford and (iii) the subscription of a lease contract related to a production plant in Mexico.

Right of use assets recognized during the year ended December 31, 2018 mainly refer to the lease contract signed with GVS Real Estate related to two production plan subject to the GVS Spin-off (see note 1.3), and to the renewal of a lease contract related to the production plant in North America, Westborough.

Right of use assets recognized during the year ended December 31, 2017 mainly refer to: (i) the consolidation of the KUSS Group from July 28, 2017 (see note 7); (ii) the subscription of a new lease contract of a warehouse in United Kingdom and (iii) new lease contracts of vehicles.

As of December 31, 2019, 2018 and 2017, the Group had not identified any indicators of impairment of right of use assets.

The following table provides details of the Group's undiscounted lease liabilities as of December 31, 2019, 2018 and 2017:

(In thousands of Euro)	**Within 1 year**	**1 to 2 years**	**3 to 5 years**	**Over 5 years**	**Contractual amount**	**Carrying amount**
As of December 31, 2019	3,335	2,979	4,916	250	**11,480**	**10,944**
As of December 31, 2018	2,324	1,528	2,625	-	**6,477**	**6,338**
As of December 31, 2017	2,290	1,504	1,828	58	**5,680**	**5,592**

The discount rate applied is based on the Group's incremental borrowing rate (the rate of interest it would have to pay to borrow a similar sum over a similar term, with similar guarantees, to acquire an asset with value similar to that of the right-of-use in a similar economic environment). The Group has decided to apply a single discount rate to a portfolio of leases with reasonably similar characteristics, such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment.

8.3 Property, plant and equipment

The following table provides a breakdown of property, plant and equipment as of December 31, 2019, 2018 and 2017, together with details of movements during the periods under review:

(In thousands of Euro)	Land and buildings	Plant and machineries	Industrial and commercial equipment	Other assets	Leasehold improvements	Assets under construction and advances	Total
Cost as of January 1, 2017	**17,963**	**46,119**	**37,702**	**5,657**	**3,066**	**2,607**	**113,114**
Investments	86	2,441	1,152	451	177	5,228	**9,535**
Disposals	(5)	(418)	(173)	(114)	-	(60)	**(770)**
Reclassification	388	652	34	410	-	(1,443)	**41**
Business combinations	4,216	7,939	101	22	152	232	**12,662**
Currency translation differences	(576)	(3,048)	(289)	(313)	(174)	163	**(4,237)**
Cost as of December 31, 2017	**22,072**	**53,685**	**38,527**	**6,113**	**3,221**	**6,727**	**130,345**
Investments	5	1,774	764	931	297	6,931	**10,702**
Disposals	-	(297)	-	(626)	-	(31)	**(954)**
Reclassification	311	959	2,891	154	-	(5,810)	**(1,495)**
GVS Spin-off	(8,772)	-	-	-	-	-	**(8,772)**
Contribution of company branch	-	-	1	753	-	-	**754**
Currency translation differences	75	279	(107)	36	37	(45)	**275**
Cost as of December 31, 2018	**13,691**	**56,400**	**42,076**	**7,361**	**3,555**	**7,772**	**130,855**
Investments	**172**	**2,653**	**1,037**	**480**	**176**	**5,734**	**10,252**
Disposals	**(8,424)**	**(493)**	**(43)**	**(106)**	**-**	**-**	**(9,066)**
Reclassification	**53**	**1,509**	**3,304**	**36**	**232**	**(4,885)**	**249**
Currency translation differences	**74**	**700**	**345**	**79**	**96**	**77**	**1,371**
Cost as of December 31, 2019	**5,566**	**60,769**	**46,719**	**7,850**	**4,059**	**8,698**	**133,661**
Accumulated depreciation as of January 1, 2017	**(6,408)**	**(31,540)**	**(28,049)**	**(4,769)**	**(1,736)**	**-**	**(72,502)**
Depreciation	(535)	(4,065)	(2,561)	(383)	(365)	-	**(7,909)**
Disposals	2	233	20	107	-	-	**362**
Reclassification	-	81	123	(197)	-	-	**7**
Currency translation differences	164	1,933	352	270	81	-	**2,800**
Accumulated depreciation as of December 31, 2017	**(6,777)**	**(33,358)**	**(30,115)**	**(4,972)**	**(2,020)**	**-**	**(77,242)**
Depreciation	(425)	(4,943)	(2,446)	(530)	(395)	-	**(8,739)**
Disposals	-	87	-	615	-	-	**702**
Reclassification	-	1,118	164	77	-	-	**1,359**
GVS Spin-off	3,989	-	-	-	-	-	**3,989**
Contribution of company branch	-	-	-	(647)	-	-	**(647)**
Currency translation differences	25	(241)	99	(80)	(22)	-	**(219)**
Accumulated depreciation as of December 31, 2018	**(3,188)**	**(37,337)**	**(32,298)**	**(5,537)**	**(2,437)**	**-**	**(80,797)**
Depreciation	**(414)**	**(4,299)**	**(2,560)**	**(569)**	**(385)**	**-**	**(8,227)**
Disposals	**2,552**	**274**	**1**	**70**	**-**	**-**	**2,897**
Reclassification	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Currency translation differences	**(34)**	**(443)**	**(307)**	**(69)**	**(67)**	**-**	**(920)**
Accumulated depreciation as of December 31, 2019	**(1,084)**	**(41,805)**	**(35,164)**	**(6,105)**	**(2,889)**	**-**	**(87,047)**
Net book value as of January 1, 2017	**11,555**	**14,579**	**9,653**	**888**	**1,330**	**2,607**	**40,612**
Net book value as of December 31, 2017	**15,295**	**20,327**	**8,412**	**1,141**	**1,201**	**6,727**	**53,103**
Net book value as of December 31, 2018	**10,503**	**19,063**	**9,778**	**1,824**	**1,118**	**7,772**	**50,058**
Net book value as of December 31, 2019	**4,482**	**18,964**	**11,555**	**1,745**	**1,170**	**8,698**	**46,614**

Property, plant and equipment mainly refers to land and buildings and to plant, machinery, molds, industrial equipment used in the production process.

Investments in property, plant and equipment during the years ended December 31, 2019, 2018 and 2017 amounted to €10,252 thousand, €10,702 thousand and €9,535 thousand respectively and mainly related to the expansion of production capacity, the internalization of certain production phases, as well as the maintenance and updating of certain production lines. In 2019, investments were also made to improve and enhance the production lines in relation to the new plant in Mexico.

The effects relating to business combinations refer to the change in scope of consolidation following the KUSS Acquisition, starting from July 28, 2017, the effects of which are described in note 7.

The net book value of property, plant and equipment disposed of during the years ended December 31, 2019, 2018 and 2017 was not materially significant.

Property, plant and equipment subject to Contribution of company branch, of €107 thousand, are mainly attributable to the data processing center (CED).

During the years ended December 31, 2019, 2018 and 2017, the Group did not recognize impairment losses in respect of property, plant and equipment.

As of December 31, 2019, 2018 and 2017 no property or capital goods were burdened by guarantees granted to third parties.

8.4 Deferred tax assets and deferred tax liabilities

The following table provides a breakdown of deferred tax assets as of December 31, 2019, 2018 and 2017:

(In thousands of Euro)	As of December 31,		
	2019	**2018**	**2017**
Unrealized exchange gains or losses	1,532	1,350	1,830
Non-deductible expenses	652	1,411	981
Intangible assets	14,098	14,351	14,755
Previous years fiscal losses	326	855	1,468
Inventories	779	738	911
Property, plant and equipment	72	109	133
Borrowings	-	-	649
Employee benefit obligations	135	106	107
Right of use assets	107	19	16
Trade receivables	88	70	91
Other	146	657	676
Deferred tax assets (gross value)	**17,935**	**19,666**	**21,617**
Set-off of deferred tax liabilities	(16,484)	(16,784)	(17,023)
Total deferred tax assets	**1,451**	**2,882**	**4,594**

Deferred tax assets are recognized to the extent to which it is probable that future taxable profit will be available against which they can be utilized.

Deferred tax assets relating to tax losses are recognized only when it is probable that taxable profits will be available against which the tax losses can be utilized. As of December 31, 2019, 2018 and 2017 there were no unrecognized deferred tax assets relating to tax losses.

The following table provides a breakdown of deferred tax liabilities as of December 31, 2019, 2018 and 2017:

(In thousands of Euro)	As of December 31,		
	2019	**2018**	**2017**
Unrealized exchange gains or losses	2,097	1,601	199
Property, plant and equipment	1,053	905	1,425
Intangible assets	13,084	13,545	14,524
Derivative financial instruments	-	-	649
Employee benefit obligations	61	88	90
Sublease	21	31	12
Other	987	774	473
Deferred tax liabilities (gross value)	**17,303**	**16,944**	**17,372**
Set-off of deferred tax assets	(16,484)	(16,784)	(17,023)
Total deferred tax liabilities	**819**	**160**	**349**

The following table provides a breakdown of the gross value of deferred tax assets at December 31, 2019, 2018 and 2017, together with details of movements during the periods under review:

(In thousands of Euro)	Property, plant and equipment	Previous years fiscal losses	Unrealized exchange gains or losses	Inventories	Borrowings	Employee benefit obligations	Non-deductible expenses	Right of use assets	Intangible assets	Trade receivables	Other	Total deferred tax assets
Balance as of January 1, 2017	**59**	**200**	**213**	**86**	**1,696**	**103**	**765**	**-**	**1,722**	**26**	**109**	**4,979**
Provisions (releases) in income statement	32	516	1,617	(233)	(1,047)	7	-	16	(1,185)	73	852	648
Provisions (releases) in comprehensive income statement	-	-	-	-	-	(3)	-	-	-	-	-	(3)
Business combinations	-	817	-	1,060	-	-	401	-	14,483	8	63	16,832
Currency translation differences	42	(65)	-	(2)	-	-	(185)	-	(265)	(16)	(348)	(839)
Balance as of December 31, 2017	**133**	**1,468**	**1,830**	**911**	**649**	**107**	**981**	**16**	**14,755**	**91**	**676**	**21,617**
Provisions (releases) in income statement	(25)	(548)	(480)	(198)	(649)	(25)	116	3	(361)	(24)	74	(2,117)
Provisions (releases) in comprehensive income statement	-	-	-	-	-	(12)	-	-	-	-	-	(12)
Currency translation differences	1	(65)	-	25	-	-	99	-	(43)	3	(93)	(73)
Contribution of company branch	-	-	-	-	-	36	215	-	-	-	-	251
GVS Spin-off	-	-	-	-	-	-	-	-	-	-	-	-
Balance as of December 31, 2018	**109**	**855**	**1,350**	**738**	**-**	**106**	**1,411**	**19**	**14,351**	**70**	**657**	**19,666**
Provisions (releases) in income statement	(37)	(542)	182	31	-	6	(774)	86	(273)	16	(137)	(1,442)
Provisions (releases) in comprehensive income statement	-	-	-	-	-	23	-	-	-	-	-	23
Currency translation differences	-	13	-	10	-	-	15	2	20	2	(374)	(312)
Balance as of December 31, 2019	**72**	**326**	**1,532**	**779**	**-**	**135**	**652**	**107**	**14,098**	**88**	**146**	**17,935**

The following table provides a breakdown of the gross value of deferred tax liabilities at December 31, 2019, 2018 and 2017, together with details of movements during the periods under review:

(In thousands of Euro)	Unrealized exchange gains or losses	Derivative financial instruments	Employee benefit obligations	Intangible assets	Inventories	Property, plant and equipment	Sublease	Other	Total deferred tax liabilities
Balance as of January 1, 2017	**924**	**1,696**	**99**	**807**	**-**	**1,628**	**26**	**847**	**6,027**
Provisions (releases) in income statement	(657)	(1,047)	(8)	(151)	(526)	(972)	(14)	(90)	(3,465)
Provisions (releases) in comprehensive income statement	-	-	(1)	-	-	-	-	-	(1)
Business combinations	-	-	-	14,202	507	741	-	38	15,488
Currency translation differences	(68)	-	-	(334)	19	28	-	(322)	(677)
Balance as of December 31, 2017	**199**	**649**	**90**	**14,524**	**-**	**1,425**	**12**	**473**	**17,372**
Provisions (releases) in income statement	1,393	(649)	(8)	(1,014)	-	-	18	281	21
Provisions (releases) in comprehensive income statement	-	-	6	-	-	-	-	-	6
Currency translation differences	9	-	-	35	-	41	1	20	106
GVS Spin-off	-	-	-	-	-	(561)	-	-	(561)
Balance as of December 31, 2018	**1,601**	**-**	**88**	**13,545**	**-**	**905**	**31**	**774**	**16,944**
Provisions (releases) in income statement	492	-	(10)	(471)	-	131	(10)	229	361
Provisions (releases) in comprehensive income statement	-	-	(17)	-	-	-	-	-	(17)
Reclassification	4	-	-	10	-	17	-	(16)	15
Balance as of December 31, 2019	**2,097**	**-**	**61**	**13,084**	**-**	**1,053**	**21**	**987**	**17,303**

Deferred tax assets and liabilities are recognized on temporary differences between the carrying amount of an asset or a liability in the consolidated financial statements and its tax base.

8.5 Financial assets (current and non-current)

The following table provides a breakdown of financial assets (current and non-current) at December 31, 2019, 2018 and 2017:

(In thousands of Euro)	As of December 31,		
	2019	**2018**	**2017**
Security deposits	373	338	407
Non-current receivables related to leases	165	336	-
Equity instruments	4	4	4
Non-current financial assets	**542**	**678**	**411**
Investment funds	3,399	1,699	997
Current receivables related to leases	177	171	155
Current financial assets	**3,576**	**1,870**	**1,152**
Total financial assets	**4,118**	**2,548**	**1,563**

Security deposits, classified as financial assets measured at amortized cost according to the provisions of IFRS 9, refer to amounts paid for existing lease contracts.

Receivables related to leases refer a sub-lease contract, valued as financial on the basis of the requirements of IFRS 16. The sub-lease, identified as part of a contract with a customer, is for a portion of a production site located in North America. The lease contract, originally expiring in 2018, was renewed in 2018 for a further two years, with the option of renewal for a further year.

Investment funds, classified as financial assets measured at fair value through profit and loss according to the provisions of IFRS 9, refer to excess liquidity used in unlisted securities relating to investment funds, mainly linked to the trend of interbank interest rates on the Brazilian market.

8.6 Derivative financial instruments

Non-current derivative financial instruments, equal to zero as of December 31, 2019 and 2018, amounted to €2,704 thousands as of December 31, 2017.

The amount refers to the positive fair value of a derivative CCS (Cross Currency Swap) financial instrument type aimed at hedging the risk of a change in the fair value, deriving from a change in the exchange rate, of the bond loan issued in the 2014 (see note 8.14). The derivative financial instrument, with a notional amount of $35 million, equal to the nominal value of the hedged item, granted a fixed exchange rate USD/EUR of 1.3546 for the entire life of the bond loan. The contract relating to the derivative financial instrument was closed in advance in 2018, resulting in the recognition of a financial income of €2,250 thousand.

In accordance with the provisions of IFRS 9, the derivative contract has been designated as a fair value hedge financial instrument. Consequently, the changes in the fair value of the derivative and of the hedged item are recognized in the income statement under financial income and costs.

8.7 Inventories

The following table provides a breakdown of inventories as of December 31, 2019, 2018 and 2017:

(In thousands of Euro)	**As of December 31,**		
	2019	**2018**	**2017**
Finished goods	15,482	14,614	14,858
Raw materials and consumables	12,574	15,954	14,375
Work in progress	4,623	4,839	4,201
Inventories (gross value)	**32,679**	**35,407**	**33,434**
Inventory impairment provision	(1,188)	(2,444)	(3,294)
Inventories	**31,491**	**32,963**	**30,140**

Net write-downs to the inventory impairment provision amounted to €40 thousand for the year ended December 31, 2019, a negative amount of € 112 thousand for the year ended December 31, 2018 and €41 thousand for the year ended December 31, 2017. The decrease in inventory impairment provision as of December 31, 2019 and 2018 is mainly attributable to the uses of these periods.

8.8 Trade receivables

The following table provides a breakdown of trade receivables as of December 31, 2019, 2018 and 2017:

(In thousands of Euro)	**As of December 31,**		
	2019	**2018**	**2017**
Trade receivables from customers	35,961	39,073	36,920
Trade receivables from related parties	-	946	857
Trade receivables (gross value)	35,961	**40,019**	**37,777**
Allowance for doubtful receivables	**(803)**	(662)	(797)
Trade receivables	**35,158**	**39,357**	**36,980**

Details of trade receivables due from related parties are provided in note 11 "Related party transactions".

The carrying value of trade receivables is considered a good approximation of the related fair value.

The following table provides a breakdown of trade receivables as of December 31, 2019, 2018 and 2017 grouped by past due period, net of the allowance for doubtful receivables.

(In thousands of Euro)	**Not overdue**	**1-90 days past due**	**91-180 days past due**	**More than 181 days past due**	**Total**
Gross trade receivables as of December 31, 2019	28,821	6,493	158	489	**35,961**
Allowance for doubtful receivables	-	(156)	(158)	(489)	**(803)**
Trade receivables as of December 31, 2019	**28,821**	**6,337**	**-**	**-**	**35,158**
Gross trade receivables as of December 31, 2018	29,526	8,646	451	1,396	**40,019**
Allowance for doubtful receivables	-	-	(212)	(450)	**(662)**
Trade receivables as of December 31, 2018	**29,526**	**8,646**	**239**	**946**	**39,357**
Gross trade receivables as of December 31, 2017	27,605	7,891	675	1,606	**37,777**
Allowance for doubtful receivables	-	-	(48)	(749)	**(797)**
Trade receivables as of December 31, 2017	**27,605**	**7,891**	**627**	**857**	**36,980**

The nominal value of trade receivables as of December 31, 2019, 2018 and 2017 includes respectively to €7,140 thousand, €10,493 thousand and €10,172 thousand relating to positions past due, of which €647 thousand, €1,847 thousand and €2,281 thousand refer to positions past-due for over 90 days. Of these, €946 thousand and €857 thousand, respectively at December 31, 2018 and 2017, refer to receivables from related parties, not impaired, and entirely collected during the 2019 financial year.

Movements in the allowance for doubtful receivables during the years ended December 31, 2019, 2018 and 2017 are shown in the following table:

(In thousands of Euro)	**Allowance for doubtful receivables**
Balance as of January 1, 2017	**403**
Net provisions	236
Uses	(193)
Currency translation differences	(33)
Business combinations	384
Balance as of December 31, 2017	**797**
Net provisions	78
Uses	(220)
Currency translation differences	7
Balance as of December 31, 2018	**662**
Net provisions	250
Uses	(115)
Currency translation differences	6
Balance as of December 31, 2019	**803**

Net provisions to the allowance for doubtful receivables are accounted for in the income statement in the line item net impairment losses on financial assets (see note 9.7).

8.9 Contract assets and liabilities

Contract assets amounted to €591 thousand, €967 thousand and €1,269 thousand as of December 31, 2019, 2018 and 2017 respectively. They mainly refer to the right to obtain the consideration for goods transferred to the customer in relation to the creation of molds and equipment, mainly for the Energy & Mobility division.

Contract liabilities amounted to €1,702 thousand, €1,957 thousand and €1,899 thousand as of December 31, 2019, 2018 and 2017 respectively. They refer to advances from customers relating to contractual obligations not yet satisfied.

Contract assets and liabilities are shown net in the statement of financial position if they refer to the same contractual obligation towards the same customer. The following table provides the gross amount of contract assets and liabilities, and the related netting, as of December 31, 2019, 2018 and 2017:

(In thousands of Euro)	As of December 31,		
	2019	**2018**	**2017**
Contract assets (gross value)	2,220	2,430	3,427
Netting with contract liabilities	(1,629)	(1,463)	(2,158)
Contract assets	**591**	**967**	**1,269**
	-	-	-
Contract liabilities (gross value)	3,331	3,420	4,057
Netting with contract assets	(1,629)	(1,463)	(2,158)
Contract liabilities	**1,702**	**1,957**	**1,899**

8.10 Income tax receivables and payables

Income tax receivables amounted to €193 thousand, €326 thousand and €595 thousand as of December 31, 2019, 2018 and 2017 respectively.

Income tax payables amounted to €2,060 thousand, €3,210 thousand and €1,862 thousand as of December 31, 2019, 2018 and 2017 respectively.

Movements in net income tax balances in the years ended December 31, 2019, 2018 and 2017 were mainly due to charges of income tax expenses for the year amounting to €8,915 thousand, €7,079 thousand and €6,397 thousand and payments amounting to €9,827 thousand, €5,486 thousand and €7,326 thousand.

8.11 Other current assets and receivables

The following table provides a breakdown of other current assets and receivables as of December 31, 2019, 2018 and 2017:

(In thousands of Euro)	As of December 31,		
	2019	**2018**	**2017**
Advances	937	3,352	4,004
Tax receivables not related to income taxes	2,839	2,355	2,466
Prepaid expenses	1,119	840	1,003
Receivables from employees	177	183	57
Other	1,358	902	509
Other current assets and receivables	**6,430**	**7,632**	**8,039**

Advances as of December 31, 2019, 2018 and 2017 mainly related to payments on account to suppliers for goods and services not yet received. In particular, as of December 31, 2018 and 2017 they mainly refer to advances to the parent company GVS Group S.p.A. Please refer to note 11 “Related party transactions”.

Tax receivables mainly included VAT receivables.

8.12 Cash and cash equivalents

The following table provides a breakdown of cash and cash equivalents as of December 31, 2019, 2018 and 2017:

(In thousands of Euro)	As of December 31,		
	2019	**2018**	**2017**
Post office and bank accounts	58,510	45,513	42,341
Checks and cash	32	38	47
Cash and cash equivalents	**58,542**	**45,551**	**42,388**

As of December 31, 2017, cash and cash equivalents included €1,707 thousand in restricted deposits in favor of third parties, related to the KUSS Acquisition, fully released in the first quarter of 2018 following the definition of the consideration.

As of December 31, 2018 and 2017, cash and cash equivalents were not subject to any constraints or restrictions.

For details regarding movements in cash and cash equivalents, reference is made to the statement of cash flows.

8.13 Total equity

The following table provides a breakdown of total equity as of December 31, 2019, 2018 and 2017:

(In thousands of Euro)	As of December 31,		
	2019	**2018**	**2017**
Share capital	1,650	1,650	1,647
Share premium reserve	13,247	13,247	13,247
Legal reserve	329	329	329
Extraordinary reserve	25,745	25,831	31,054
Currency translation reserve	(3,040)	(3,267)	(2,781)
Negative treasury shares reserve	(10,981)	(10,981)	(11,197)
Actuarial gains-losses reserve	(51)	52	5
Retained earnings and other reserves	34,240	21,092	19,602
Net profit	33,083	23,072	6,029
Non-controlling interests	18	16	19
Total equity	**94,240**	**71,041**	**57,954**

The consolidated statement of changes in equity is presented above, in the related section.

Changes in equity in the year ended December 31, 2019 related to:

- the distribution of €10,010 thousand to the shareholder GVS Group S.p.A., as resolved by the Company's ordinary Shareholders' Meetings held on January 15, 2019 and August 1, 2019;
- the recognition of total comprehensive income for the year amounting to €33,209 thousand.

Changes in equity in the year ended December 31, 2018 related to:

- the negative impact of the GVS Spin-off, amounting to €4,006 thousand (see note 1.3);
- the distribution of €5,005 thousand to the shareholder GVS Group S.p.A., as resolved by the Company's ordinary Shareholders' Meeting held on January 3, 2018;
- the Contribution of company branch which, net of adjustments for the application of IFRS, which resulted in a negative impact of €588 thousand (see note 1.3);
- the revaluation of the opening period total equity relating to the subsidiary GVS Argentina S.A., following the application of the accounting standard IAS 29 for companies operating in high-inflation countries, which resulted in a positive impact of €59 thousand;
- the recognition of total comprehensive income for the year amounting to €22,627 thousand.

Changes in equity in the year ended December 31, 2017 related to:

- the distribution of €9,219 thousand to the shareholder GVS Group S.p.A., as resolved by the Company's ordinary Shareholders' Meeting held on January 9, 2017;
- the recognition of total comprehensive income for the year amounting to €2,045 thousand.

Share capital

As of December 31, 2019, the Company's fully paid up share capital amounted to €1,650 thousand and comprised 1,650,000 ordinary shares with a nominal value of €1 per share.

Currency translation reserve

The currency translation reserve includes all the differences deriving from the translation into Euro of the financial statements of the subsidiaries included in the scope of consolidation expressed in foreign currency.

Negative treasury shares reserve

The treasury shares reserve refers to the purchase of 137,995 shares for a total equal to 8.36% of the Company's share capital. This negative reserve amounts to €10,981 thousand as of December 31, 2019 and 2018 and €11,197 thousand as of December 31, 2017.

Actuarial gains-losses reserve

The actuarial gain or losses reserve includes the profits and losses deriving from changes in the actuarial assumptions in relation to the defined benefit plans.

First-time adoption reserve

The first-time adoption reserve, included in the other reserves, amounts to a negative balance of €1,532 thousand in the periods in question, and represents the effects of the transition from the Italian GAAP to the IFRS.

8.14 Current and non-current borrowings

The following table provides a breakdown of current and non-current borrowings as of December 31, 2019, 2018 and 2017:

	As of December 31,					
	2019		2018		2017	
(In thousands of Euro)	Current portion	Non-current portion	Current portion	Non-current portion	Current portion	Non-current portion
Bond 2014	4,411	17,684	4,327	21,674	3,624	24,487
Bond 2017	7,972	31,890	-	39,816	-	39,767
Total bond loans	**12,383**	**49,574**	**4,327**	**61,490**	**3,624**	**64,254**
Pool Loan	13,351	58,176	13,430	71,628	4,349	85,068
Banco BPM financing	1,756	4,152	-	-	-	-
Unicredit loan (2017)	1,332	2,663	1,332	3,995	1,332	5,327
BNL Loan	1,000	2,000	1,000	3,000	2,000	3,000
Banco BPM loan	1,342	1,008	1,330	2,350	1,320	3,680
BPER loan	316	-	1,260	316	1,252	1,576
Deutsche Bank loan	313	-	1,250	313	1,250	1,563
Banco Popolare loan (2015)	-	-	255	-	505	255
Credit lines	3,000	-	3,000	-	6,568	-
Accrued expenses	1,713	-	2,124	-	2,050	-
Total financial liabilities from banks	**24,123**	**67,999**	**24,981**	**81,602**	**20,626**	**100,469**
Facilitated financing MIUR (GVS Sud)	98	-	98	98	97	196
Simest loan	-	-	75	-	150	75
Facilitated financing MIUR (GVS SpA)	65	65	65	130	65	195
Total other financial liabilities	**163**	**65**	**238**	**228**	**312**	**466**
Total borrowings	**36,669**	**117,638**	**29,546**	**143,320**	**24,562**	**165,189**

Below is a description of the bonds and loans outstanding at December 31, 2019.

a) Bond loans

Bond 2017

On July 25, 2017, GVS issued an unlisted bond loan guaranteed by GVS North America Inc, GVS NA Holdings, Inc and GVS Filter Technology UK Ltd, reserved exclusively for qualified investors, for a total amount of €40,000 thousand and maturing on July 25, 2024 (hereinafter the "**Bond 2017**").

The resources obtained through the bond issue were used to finance the KUSS Acquisition and the development of normal operations.

The Bond 2017, placed with an issue price equal to 100% of the nominal value, provides for interest paid by means of deferred semi-annual coupons maturing on January 25 and July 25 of each year and calculated as described below:

- at an annual rate of 3.0% if the ratio of net financial indebtedness to consolidated EBITDA, calculated on the reference date of the annual financial report or half-yearly financial report prior to coupon payment, is less than 3.0;
- at an annual rate of 3.25% if the ratio of net financial indebtedness to consolidated EBITDA, calculated on the reference date of the annual financial report or half-yearly financial report prior to the payment of the coupon and from December 31, 2018 until the end of the contract, is between 3.0 and 3.5;
- at an annual rate of 3.5% if the ratio of net financial indebtedness to consolidated EBITDA, calculated on the reference date of the annual financial report or half-yearly financial report prior to the payment of the coupon and until December 31, 2018, is between 3.5 and 3.75.

The Bond 2017 provides for the repayment of the nominal value of the debt through the payment of annual instalments of €8,000 thousand starting from July 25, 2020.

It should be noted that the resources obtained through the issuance of the 2017 Bond Loan are intended to finance the KUSS Acquisition and the operations of the Group.

The Bond 2017 agreement defines as financial constraints the compliance, at consolidated level, with:

- a minimum ratio between EBITDA and net financial charges of at least 4.50 on the date of each annual and half-yearly financial report during the term of the contract (each the "Determination Date");
- a maximum ratio of net financial indebtedness to EBITDA as described below:
  i. not exceeding 3.75 on each Determination Date until December 31, 2018 and
  ii. not exceeding 3.50 on each Determination Date as from June 30, 2019;
- a maximum ratio of net financial indebtedness to shareholders' equity as described below:
  i. not exceeding 3.00 on each Determination Date until December 31, 2018 and
  ii. not exceeding 2.50 on each Determination Date from June 30, 2019.

The debt under the Bond 2017 is not backed by any collateral on the Group's assets.

Bond 2014

On January 9, 2014, the Company issued a bond loan, maturing on January 9, 2024, guaranteed by GVS North America Inc, Maine Manufacturing LLC and GVS Filter Technology UK Ltd, reserved for qualified investors, for a total amount of USD 35,000 thousand (hereinafter the "**Bond 2014**"). The Bond 2014, initially listed on the Vienna Stock Exchange, was subsequently withdrawn from trading.

The Bond 2014, placed with an issue price equal to 100% of the nominal value, provides for interest calculated at an annual rate of 7.0% or 6.5% depending on whether the ratio of consolidated net financial indebtedness to consolidated EBITDA, as contractually defined, calculated at the reference date of the annual financial report or half-yearly financial report prior to coupon payment, is between 2.5 and 3.0 or less than 2.5 respectively. This interest is paid with deferred half-yearly coupons falling due on January 9 and July 9 of each year.

The Bond 2014 provides, after a pre-amortization period of 4 years, for the repayment of the nominal value of the debt through the payment of annual instalments of $5,000 thousand starting from January 9, 2018.

The Bond 2014 defines as financial constraints the respect, at consolidated level, of

- a minimum ratio between consolidated EBITDA and net financial charges, as defined in the contract, equal to at least 4.5 at the date of each annual and half-yearly financial report during the term of the contract;
- a maximum ratio of consolidated net financial indebtedness to consolidated EBITDA, as defined in the contract, not exceeding 3.0 at the date of each annual and half-yearly financial report during the term of this contract;
- a maximum ratio between consolidated net financial indebtedness and consolidated shareholders' equity, as defined in the contract, not exceeding 2.0 at the date of each annual and half-yearly financial report during the term of this contract.

The debt under the Bond 2014 is not backed by any collateral on the Group's assets.

b) Loans outstanding at December 31, 2019

b1) Pool Loan

On July 26, 2017 GVS on the one hand, Mediobanca - Banca di Credito Finanziario S.p.A., in its capacity as arranger and facility agent, and Banca Nazionale del Lavoro S.p.A. and Unicredit S.p.A., in their capacity as arrangers, signed the loan (hereinafter the "**Pool Loan**"), the purpose of which is to make available to GVS two lines of credit (together the "**Facilities**") for an amount of €80,000 thousand ("**Line A**") and €10,000 thousand ("**Line B**") respectively, guaranteed by GVS NA Holdings Inc, GVS North America Inc and GVS Filter Technology UK Ltd.

The resources obtained through Line A are intended to finance the KUSS Acquisition and to repay part of the debt of the acquired companies, while the resources obtained through Line B are intended to refinance the outstanding debt of GVS.

The contract provides for the reimbursement of the Lines after 5 years from the date of conclusion, subsequently extended to 2024 through an amending act signed on July 29, 2019 (the "**Amending Act**"). In particular, the Amending Act amended the terms of the contract with reference, *inter alia*, to the repayment plan for the Facilities, extending the maturity of the loan and reducing the amount of the instalments, and defining the financial restrictions.

The debt repayment schedule is defined in the Amending Act as follows:

- €4,500 thousand on July 26, 2018;
- €6,750 thousand, every six months, for the following eleven half-years;
- €11,250 thousand on July 26, 2024.

The interest rate applicable to all the Facilities is equal to the sum of the (i) applicable 1 month EURIBOR rate; plus a spread subject to change depending on the ratio between consolidated net debt and the Group's consolidated EBITDA, calculated on an annual basis, from a minimum of 125 bps, if the ratio is less than 1.75, to a maximum of 225 bps, if the ratio is greater than 3.25.

The loan agreement, as established by the Amending Act, provides that the financial obligations are to comply, at a consolidated level, with the following:

- a ratio between net financial indebtedness and EBITDA, as defined in the contract, not exceeding 3.5, verified at each date relating to the annual financial report and the interim financial report during the entire duration of the contract. It should be noted that, in this respect, the original contract provided for a maximum ratio decreasing from 3.75 to 2.5 during the duration of the contract;
- a ratio of EBITDA to net financial charges, as defined in the contract, of not less than 4.5, verified at each date relating to the annual financial report and the interim financial report during the entire duration of the contract. It should be noted that, in this respect, the original contract provided for a minimum ratio increasing from 6.0 to 7.0 during the duration of the contract.

b2) Banco BPM financing

On May 27, 2019 GVS signed a financing agreement with Banco BPM S.p.A. for a total amount of €6,500 thousand, to be used to finance the general financial needs of the Company. The maturity date for the financing is April 28, 2023.

The contract provides for 3 monthly pre-amortization instalments (from May 28, 2019 to August 30, 2019) and subsequently 44 deferred monthly instalments to repay the principal portion of the financing plus interest accrued during the reference period from September 30, 2019 until the maturity date. The interest rate is variable and corresponds to the 1-month Euribor plus a spread of 1.15%.

b3) Unicredit loan (2017)

On August 8, 2017 GVS signed a loan agreement with Unicredit S.p.A. for a total amount of €6,659 thousand. The maturity date for the loan is August 31, 2022. The contract provides for 10 deferred six-monthly instalments starting from August 28, 2018 until the maturity date. The interest rate applicable to the loan contract is variable and corresponds to the 6-month Euribor plus a spread of 1.15%.

b4) BNL Loan

On April 20, 2015 GVS stipulated a loan agreement with Banca Nazionale del Lavoro S.p.A., subsequently modified by an amending act on March 2, 2018, for a total amount of €10,000 thousand. The maturity date of the loan, originally set on April 20, 2020, was extended by the amending act to October 20, 2022. The residual debt at the date of the amending act, equal to €5,000 thousand, is repaid through the payment of 10 no. deferred six-monthly instalments, equal to €500 thousand each, starting from April 20, 2018 until October 20, 2022. The interest rate applicable to the loan contract is variable and corresponds to the 6-month Euribor plus a spread of 1.0%.

b5) Banco BPM loan

On April 10, 2017 GVS signed a loan agreement with Banco BPM S.p.A. for a total amount of €5,000 thousand, to be used to finance the general financial needs of the Company. The maturity date for the loan is September 30, 2021. The contract provides for 3 quarterly pre-amortization instalments (from June 30, 2017 to December 31, 2017) and subsequently 15 deferred quarterly instalments to repay the principal of the loan from March 31, 2018 until the maturity date. The annual nominal interest rate applicable to the loan agreement is 0.71% fixed for the entire duration of the loan.

b6) BPER loan

On March 18, 2016, GVS signed a loan agreement with Banco Popolare dell'Emilia Romagna (BPER) for a total amount of €5,000 thousand. The maturity date of the contract shall expire on March 17, 2020. The contract provides for 48 monthly repayment instalments and includes the principal (with an increasing amount) plus interest accrued during the reference period. The interest rate is variable and corresponds to the 3-month Euribor plus a spread of 0.8%.

b7) Deutsche Bank loan

On March 18, 2016, the Company entered into a loan agreement with Deutsche Bank AG for a total amount of €5,000 thousand, to be used to finance the general financial needs of the Company. The maturity date for the loan is March 18, 2020. The contract provides for the repayment of the principal amount in 16 instalments on a quarterly basis. The applicable interest rate is determined by the 3-month Euribor rate plus a spread of 0.70%.

c) Loans no longer outstanding at December 31, 2019

- *Banco Popolare loan (2015):* signed on April 2, 2015, for a total amount of €2,000 thousand and an interest rate equal to the 3-month Euribor plus a *spread* of 1.029%, due on June 30, 2019;
- *Unicredit loan (2015):* signed on March 24, 2015, for a total amount of €15,000 thousand and an interest rate equal to the 3-month Euribor plus a *spread* of 1.25%, due on March 31, 2019 and reimbursed in advance in 2017;
- *MPS loan:* signed on February 5, 2013, for a total amount of $8,200 thousand and an interest rate equal to the 3-month Libor plus a *spread* of 4%, due on February 5, 2018 and reimbursed in advance in 2017;
- *Carisbo loan (2015-2019):* signed on March 6, 2015, for a total amount of €3,000 thousand and an interest rate equal to the 3-month Euribor plus a *spread* of 0.95%, due on March 6, 2019 and reimbursed in advance in 2017;
- *Banco Popolare loan (2012):* signed on December 3, 2012, for a total amount of €4,000 thousand and an interest rate equal to the 3-month Euribor plus a *spread* of 4.8%, due on December 31, 2017;
- *Carisbo loan (2015-2018):* signed on March 6, 2015, for a total amount of €3,000 thousand and an interest rate equal to the 3-month Euribor plus a *spread* of 0.95%, due on December 31, 2018 and reimbursed in advance in 2017.

In accordance with IAS 7, the following table shows changes in financial liabilities, including both those arising from cash flows generated and/or used by financing activities as well as those arising from non-cash changes.

(In thousands of Euro)	As of January 1, 2019	Proceeds	Reclassification	Repayments	Changes in accrued expenses	Amortized cost	(Gains) losses on exchange rate	As of December 31, 2019
Non-current borrowings	143,320	6,500	(32,562)	-	-	-	380	117,638
Current borrowings	29,546	-	32,562	(25,079)	(410)	50	-	36,669
Total borrowings	**172,866**	**6,500**	**-**	**(25,079)**	**(410)**	**50**	**380**	**154,307**

(In thousands of Euro)	As of January 1, 2018	Reclassification	Repayments	Changes in credit lines	Changes in accrued expenses	Amortized cost	(Gains) losses on exchange rate	As of December 31, 2018
Non-current borrowings	165,189	(23,383)	-	-	-	-	1,514	143,320
Current borrowings	24,562	23,383	(15,135)	(3,568)	74	230	-	29,546
Total borrowings	**189,751**	**-**	**(15,135)**	**(3,568)**	**74**	**230**	**1,514**	**172,866**

(In thousands of Euro)	As of January 1, 2017	Proceeds	Reclassification	Repayments	Changes in credit lines	Changes in accrued expenses	Change in scope of consolidation	Amortized cost	(Gains) losses on exchange rate	Currency translation differences	As of December 31, 2017
Non-current borrowings	53,386	141,659	(16,135)	(9,289)	-	-	672	(585)	(4,365)	(154)	165,189
Current borrowings	17,048	-	16,135	(13,320)	3,568	1,320	118	(177)	-	(130)	24,562
Total borrowings	**70,434**	**141,659**	**-**	**(22,609)**	**3,568**	**1,320**	**790**	**(762)**	**(4,365)**	**(284)**	**189,751**

8.15 Employee benefit obligations

The following table provides a breakdown of employee benefit obligations as of December 31, 2019, 2018 and 2017, together with details of movements during the periods under review:

(In thousands of Euro)	**Employees severance indemnity**	**Directors' severance indemnity**	**Total employee benefit obligations**
Balance as of January 1, 2017	**2,108**	**1,174**	**3,282**
Current service cost	127	75	202
Finance costs	28	10	38
Actuarial (gains) / losses	(10)	3	(7)
Benefit paid	(72)	-	(72)
Balance as of December 31, 2017	**2,181**	**1,262**	**3,443**
Current service cost	26	75	101
Finance costs	29	11	40
Actuarial (gains) / losses	(43)	(22)	(65)
Contribution of company branch	473	-	473
Benefit paid	(85)	-	(85)
Balance as of December 31, 2018	**2,581**	**1,326**	**3,907**
Current service cost	127	74	201
Finance costs	40	15	55
Actuarial (gains) / losses	84	59	143
Benefit paid	(113)	-	(113)
Balance as of December 31, 2019	**2,719**	**1,474**	**4,193**

Employee benefit obligations represent the estimated obligation, calculated based on actuarial techniques, of the amount to be paid to employees on termination of their employment contract.

As of December 31, 2019, 2018 and 2017, employee benefits obligations refer to the severance indemnity provision for employees and the directors' severance indemnity.

Employee severance indemnity

Employee severance indemnity amounts to €2,719 thousand, €2,581 thousand, and €2,181 thousand for the year ended December 31, 2019, 2018 and 2017 respectively and is entirely attributable to the Group's Italian companies.

The value of the employee severance indemnity, which meets the defined benefit plan criteria defined by IAS 19, is calculated on an actuarial basis. The actuarial, financial and demographic assumptions adopted in determining the liability as of December 31, 2019, 2018 and 2017 in accordance with IAS 19 are described below:

(in percentage)	**As of December 31,**		
	2019	**2018**	**2017**
Financial assumptions			
Discount rate	0.77%	1.57%	1.30%
Inflation rate	1.00%	1.50%	1.50%
Rate of wages increase	2.00%	2.50%	2.50%
Rate of employee severance indemnity increase	2.25%	2.63%	2.63%
Demographic assumptions	-	-	-
Death	Tables of death probability as determined by Ragioneria Generale dello Stato called RG48	Tables of death probability as determined by Ragioneria Generale dello Stato called RG48	Tables of death probability as determined by Ragioneria Generale dello Stato called RG48
Disability	Probability adopted in the INPS model in 2010	Probability adopted in the INPS model in 2010	Probability adopted in the INPS model in 2010

(in percentage)	As of December 31,		
	2019	**2018**	**2017**
Retirement	Meeting of the first valid requirement for Mandatory General Insurance	Meeting of the first valid requirement for Mandatory General Insurance	Meeting of the first valid requirement for Mandatory General Insurance
Probability of early retirement	3.00%	3.00%	3.00%
Annual turnover rate	2.50%	2.50%	2.50%

The following table shows the results of sensitivity analyses performed for each actuarial, financial and demographic assumption as of December 31, 2019, 2018 and 2017, highlighting the effects (in absolute terms) that would have occurred upon reasonable possible changes in such assumptions:

(In thousands of Euro)	**Discount rate**		**Inflation rate**		**Turn over**	
	+0.50%	**-0.50%**	**+0.25%**	**-0.25%**	**+2.00%**	**-2.00%**
Employee severance indemnity as of December 31, 2019	(162)	185	42	(35)	(76)	114
Employee severance indemnity as of December 31, 2018	(153)	170	40	(37)	(59)	78
Employee severance indemnity as of December 31, 2017	(138)	153	34	(32)	(65)	84

The following table shows the estimate of expected payments (in nominal value) as of December 31, 2019 relating to the employee severance indemnity in future years.

(In thousands of Euro)	**Employee severance indemnity**
2020	98
2021	158
2022	82
2023	99
2024	105
2025	171
2026	113
2027	103
2028	246
2029	137
Total	**1,312**

Directors' severance indemnity

Directors' severance indemnity amounts to €1,474 thousand, €1,326 thousand, and €1,262 thousand for the year ended December 31, 2019, 2018 and 2017 respectively.

The value of directors' severance indemnity, which meets the defined benefit plan criteria defined by IAS 19, is calculated on an actuarial basis. The actuarial, financial and demographic assumptions adopted in determining the liability as of December 31, 2019, 2018 and 2017 in accordance with IAS 19 are described below:

(in percentage)	As of December 31,		
	2019	**2018**	**2017**
Financial assumptions			
Discount rate	0.37%	1.13%	0.88%
Rate of wages increase	0.00%	0.00%	0.00%
Rate of directors' end-of-mandate increase	0.00%	0.00%	0.00%
Demographic assumptions			
Death	Tables of death probability as determined by Ragioneria Generale dello Stato called RG48	Tables of death probability as determined by Ragioneria Generale dello Stato called RG48	Tables of death probability as determined by Ragioneria Generale dello Stato called RG48
Disability	Probability adopted in the INPS model in 2010	Probability adopted in the INPS model in 2010	Probability adopted in the INPS model in 2010
Retirement	At 65 years old if following the end of mandate, otherwise at the end of mandate	At 65 years old if following the end of mandate, otherwise at the end of mandate	At 65 years old if following the end of mandate, otherwise at the end of mandate
Probability of early retirement	2.50%	2.50%	2.50%

The following table shows the results of sensitivity analyses performed for each actuarial, financial and demographic assumption as of December 31, 2019, 2018 and 2017, highlighting the effects (in absolute terms) that would have occurred upon reasonable possible changes in such assumptions:

(In thousands of Euro)	Discount rate		Turn over	
	+0.50%	**-0.50%**	**+2.00%**	**-2.00%**
Directors' severance indemnity as of December 31, 2019	(52)	56	133	(158)
Directors' severance indemnity as of December 31, 2018	(50)	51	27	(36)
Directors' severance indemnity as of December 31, 2017	(52)	56	21	(29)

8.16 Provisions for risks and charges

The following table provides a breakdown of provisions for risks and charges as of December 31, 2019, 2018 and 2017, together with details of movements during the periods under review:

(In thousands of Euro)	**Provisions**
Balance as of January 1, 2017	**210**
Net provisions	1,876
Uses	(744)
Business combinations	460
Currency translation differences	(125)
Balance as of December 31, 2017	**1,677**
Net provisions	11
Uses	(1,560)
Currency translation differences	(51)
Balance as of December 31, 2018	**77**
Net provisions	-
Uses	(78)
Currency translation differences	1
Balance as of December 31, 2019	**-**

Net provisions recognized in income statement for the year ended December 31, 2017, equal to €1,876 thousand, mainly refer to the personnel reorganization of the KUSS Group, acquired during the same period.

8.17 Trade payables

The following table provides a breakdown of trade payables as of December 31, 2019, 2018 and 2017:

(In thousands of Euro)	As of December 31,		
	2019	**2018**	**2017**
Trade payables to suppliers	13,157	18,449	15,993
Trade payables to related parties	31	31	131
Trade payables	**13,188**	**18,480**	**16,124**

The item mainly includes payables relating to the purchase of raw materials, components and services.

Details of trade payables due to related parties are provided in Note 11 “Related party transactions”.

The carrying value of trade payables is considered to be a good approximation of the related fair value.

8.18 Other current liabilities

The following table provides a breakdown of other current liabilities as of December 31, 2019, 2018 and 2017:

(In thousands of Euro)	As of December 31,		
	2019	**2018**	**2017**
Payables to employees	7,452	7,187	5,269
Payables due to social security institutes	2,347	2,231	2,323
Tax payables not related to income taxes	1,341	1,242	1,070
Payables for dividends	1,681	-	-
Accrued expenses	217	157	162
Deferred income	23	33	47
Payables to directors	18	23	20
Other	222	220	147
Other current liabilities	**13,301**	**11,093**	**9,038**

Payables due to employees mainly related to wages and salaries to be paid as well as deferred costs, including costs relating to vacations, leave and additional months’ pay.

Payables due to social security institutes mainly related to payables due to pension and other social security institutes for the payment of contributions.

Tax payables not related to income taxes as of December 31, 2019, 2018 and 2017 mainly related to amounts due to the tax authorities in respect of VAT and other indirect taxes, as well as withholding taxes.

Payables for dividends as of December 31, 2019 related to dividends approved during 2019.

9 NOTES TO THE CONSOLIDATED INCOME STATEMENT

9.1 Revenue from contracts with customers

The following table provides a breakdown of revenue from contracts with customers by division for the years ended December 31, 2019, 2018 and 2017:

(In thousands of Euro)	Year ended December 31,		
	2019	**2018**	**2017**
Healthcare Liquid	69,553	60,074	54,727
Healthcare Air & Gas	26,307	23,692	23,923
Laboratory	19,279	17,716	16,289
Healthcare & Lifesciences	**115,139**	**101,482**	**94,939**
Powertrain & Drivetrain	40,430	38,469	21,825
Safety & Electronics	23,123	25,869	21,487
Sport & Utility	24,732	22,783	8,937
Energy & Mobility	**88,285**	**87,121**	**52,249**
Personal Safety	13,971	12,366	8,129
Air Safety	10,021	7,931	9,529
Health & Safety	**23,992**	**20,297**	**17,658**
Revenue from contracts with customers	**227,416**	**208,900**	**164,846**

The following table provides a breakdown of revenue from contracts with customers by type of sale for the years ended December 31, 2019, 2018 and 2017:

(In thousands of Euro)	Year ended December 31,		
	2019	**2018**	**2017**
Business to business (BTB)	186,527	171,601	130,153
Business to consumer (BTC)	40,889	37,299	34,693
Revenue from contracts with customers	**227,416**	**208,900**	**164,846**

The following table provides a breakdown of revenue from contracts with customers by geographic area for the years ended December 31, 2019, 2018 and 2017:

(In thousands of Euro)	Year ended December 31,		
	2019	**2018**	**2017**
North America	96,072	86,776	57,088
Europe	63,968	61,963	53,200
Asia	50,989	44,483	37,664
Other countries	16,387	15,678	16,894
Revenue from contracts with customers	**227,416**	**208,900**	**164,846**

Almost all of the contracts with customers entered into by the Group do not include variable consideration.

The Group believes that there is no contract that contains a significant financial component, or for which the period between the transfer of the agreed good to the customer and the payment made by the customer itself exceeds twelve months. Therefore, the Group has not made any adjustments to the transaction consideration to take into account the effects of the time value of the money.

For contractual obligations fulfilled over time, the Group recognizes revenues from contracts with customers on the basis of methods based on the inputs used to fulfil the contractual obligation, consisting of the costs incurred. For contractual obligations fulfilled at a point in time, revenues from contracts with customers are recognized at the time of transfer of control of the goods.

9.2 Other income

The following table provides a breakdown of other income for the years ended December 31, 2019, 2018 and 2017:

(In thousands of Euro)	Year ended December 31,		
	2019	2018	2017
Government grants	403	518	719
Recharges	470	406	593
Insurance reimbursements	114	141	28
Scraps	171	149	126
Rental income	-	112	43
Capital gains on disposal of assets	794	21	-
Other	1,217	1,173	836
Other income	**3,169**	**2,520**	**2,345**

Government grants refer mainly to tax credits on research projects, as well as to a contribution obtained by the RNC for a specific project.

Capital gains on disposal of assets, for the year ended December 31, 2019, mainly refer to capital gains recognized following the disposal of real estate as a consequence of the Sale and Leaseback Transactions (see note 1.2).

9.3 Purchase and consumption of raw materials and finished goods and semi-finished goods

The following table provides a breakdown of purchase and consumption of raw materials and finished goods and semi-finished goods for the years ended December 31, 2019, 2018 and 2017:

(In thousands of Euro)	Year ended December 31,		
	2019	2018	2017
Purchase of raw materials	66,788	65,682	49,513
Change in inventories of work in progress and finished goods	497	(1,490)	1,543
Change in inventories of raw materials and consumables	599	(1,869)	(4,392)
Purchase and consumption of raw materials and finished goods and semi-finished goods	**67,884**	**62,323**	**46,664**

The item includes net write-downs to the inventory impairment provision amounting to €40 thousand for the year ended December 31, 2019, a negative amount of €112 thousand for the year ended December 31, 2018 and €41 thousand for the year ended December 31, 2017.

9.4 Personnel expenses

The following table provides a breakdown of personnel expenses for the years ended December 31, 2019, 2018 and 2017:

(In thousands of Euro)	Year ended December 31,		
	2019	2018	2017
Wages and salaries	56,918	55,136	46,012
Social security contributions	15,581	14,536	11,143
Provisions for employee benefit obligations	916	749	708
Other personnel costs	168	231	106
Personnel expenses	**73,583**	**70,652**	**57,969**

The following table provides the average number of employees of the Group, by category, for the years ended December 31, 2019, 2018 and 2017:

(In units)	Year ended December 31,		
	2019	2018	2017
Blue collar	1,935	1,742	1,657
White collar	312	422	395
Managers	41	74	69
Executives	26	25	21
Total number of employees	**2,314**	**2,263**	**2,142**

The increase in personnel expenses in 2018, as well as in the average number of employees, is mainly attributable to the KUSS Acquisition.

9.5 Cost of services

The following table provides a breakdown of cost of services for the years ended December 31, 2019, 2018 and 2017:

(In thousands of Euro)	Year ended December 31,		
	2019	2018	2017
Utilities and cleaning	5,699	5,309	4,565
Maintenance	3,014	3,094	2,813
Freight	2,569	2,523	2,272
Consulting services	2,349	2,612	3,043
Travel expenses	2,010	1,995	1,546
Outsourcing costs	1,374	1,231	1,164
Marketing costs	1,312	1,172	993
Insurance	1,124	1,036	900
Company canteen	794	748	692
Fees	603	553	732
Remuneration for directors	413	418	539
Audit fees	220	218	218
Services from GVS Group S.p.A.	-	-	3,563
Other services	1,961	2,009	1,572
Cost of services	**23,442**	**22,918**	**24,612**

Services from GVS Group S.p.A. refer to costs for administration, finance and control services, as well as the management of human resources and systems, rendered by the parent company GVS Group S.p.A. and ceased following the Contribution.

9.6 Other operating costs

The following table provides a breakdown of other operating costs for the years ended December 31, 2019, 2018 and 2017:

(In thousands of Euro)	Year ended December 31,		
	2019	2018	2017
Rentals	1,260	1,324	1,078
Indirect tax	975	919	671
Charities and membership fees	170	157	138
Provisions for risks and charges	-	11	1,876
Capital losses on disposal of assets	68	2	179
Others	987	452	302
Other operating costs	**3,460**	**2,865**	**4,244**

Rentals include: (i) rents referring to the leasing low value assets, for which the Group has made use of the exemption provided by IFRS 16, (ii) the variable components of certain rents and (iii) costs associated with the use of the assets underlying the lease contracts that do not fall within the scope of IFRS 16.

A detailed breakdown of movements in the provisions for risks and charges for the years ended December 31, 2019, 2018 and 2017 is shown in section 8.16.

9.7 Net impairment losses on financial assets

Net impairment losses on financial assets, recognized according to the requirements of IFRS 9, amounting to €250 thousand, €78 thousand and €236 thousand for the years ended December 31, 2019, 2018 and 2017 respectively, related to the impairment of trade receivables.

A detailed breakdown of movements in the allowance for doubtful receivables for the years ended December 31, 2019, 2018 and 2017 is included above in note 8.7 – "Trade receivables".

9.8 Depreciation and amortization

The following table provides a breakdown of depreciation and amortization for the years ended December 31, 2019, 2018 and 2017:

(In thousands of Euro)	**Year ended December 31,**		
	2019	**2018**	**2017**
Amortization of intangible assets	5,429	7,021	3,267
Depreciation of property, plant and equipment	8,227	8,739	7,909
Depreciation of right of use assets	2,646	2,655	2,199
Depreciation and amortization	**16,302**	**18,415**	**13,375**

A detailed breakdown of movements in property, plant and equipment and in intangible assets for the years ended December 31, 2019, 2018 and 2017 is included above in note 8.1 and 8.3 respectively. The information on right of use assets is included above in note 8.2.

9.9 Finance income and costs

The following table provides a breakdown of finance income for the years ended December 31, 2019, 2018 and 2017:

(In thousands of Euro)	**Year ended December 31,**		
	2019	**2018**	**2017**
Income from derivative instruments	-	2,250	-
Net exchange gain on foreign currency items	2,393	1,086	-
Other finance income	192	70	30
Finance income	**2,585**	**3,406**	**30**

The income from derivative instruments refers to the early termination, in 2018, of the contract relating to the derivative financial instrument, of the Cross Currency Swap type, to hedge the bond issue in dollars.

The following table provides a breakdown of finance costs for the years ended December 31, 2019, 2018 and 2017:

(In thousands of Euro)	**Year ended December 31,**		
	2019	**2018**	**2017**
Interest expenses on bonds	2,620	3,018	1,992
Interest expenses on financial loans	1,510	1,853	1,156
Net exchange losses on foreign currency items	-	-	8,293
Interest expenses on lease liabilities	152	91	91
Net interest expenses on employee benefit obligations	55	40	38
Amortized cost	159	249	142
Other finance costs	79	33	90
Finance costs	**4,575**	**5,284**	**11,802**

Finance income and costs for the years ended December 31, 2018 and 2017 includes the net exchange gains and losses relating to the bond issue in dollars, perfectly compensated by the change in fair value of the Cross Currency Swap derivative instrument, for €454 thousand and €4,363 thousand respectively.

9.10 Income taxes

The following table provides a breakdown of income taxes for the years ended December 31, 2019, 2018 and 2017:

(In thousands of Euro)	**Year ended December 31,**		
	2019	**2018**	**2017**
Current tax	8,915	7,079	6,397
Deferred tax	1,803	2,138	(4,113)
Prior years income taxes	(136)	-	-
Income taxes	**10,582**	**9,217**	**2,284**

The following table shows the reconciliation between the theoretical tax charge and the reported tax expense for the years ended December 31, 2019, 2018 and 2017:

(In thousands of Euro)	**Year ended December 31,**		
	2019	**2018**	**2017**
Profit before income tax	**43,674**	**32,291**	**8,319**
Theoretical tax rate	24.0%	24.0%	24.0%
Theoretical income tax expense	**10,482**	**7,750**	**1,997**
Effect of difference between local tax rate and theoretical tax rate	(57)	6	(163)
Effect of non-taxed income	(2,203)	(842)	(1,185)
IRAP	556	608	441
ACE	(63)	(86)	(83)
Change in tax rates on deferred taxes recognized due to change in nominal tax rates	-	-	937
Effect of non-deductible expenses	3,011	1,692	1,939
Other	(1,144)	89	(1,599)
Total income tax expense	**10,582**	**9,217**	**2,284**

Change in tax rates on deferred taxes recognized due to change in nominal tax rates in 2017 is entirely attributable to the reduction in the tax rate in the United States, which went from 40% to 25%.

9.11 Earnings per share

The following table shows earnings per share, calculated by dividing the result for the year by the weighted average number of ordinary shares outstanding during the year.

	Year ended December 31,		
	2019	**2018**	**2017**
Net profit attributable to the Group (in thousands of Euro)	33,092	23,074	6,035
Average number of ordinary shares	1,512,005	1,512,005	1,508,839
Earnings per share (in Euro)	**21.89**	**15.26**	**4.00**

Diluted earnings per share is equal to basic earnings per share as no financial instruments having potential dilutive effects had been issued.

10 HYPERINFLATION

In accordance with IFRS regarding the criteria for introducing/ending inflation accounting, the subsidiary GVS Argentina S.A. has adopted inflation accounting since the preparation of the consolidated financial statements as of December 31, 2018 and is the only Group company operating in a high-inflation country. The price index used for this purpose was the national consumer price index (CPI) published by the National Institute for Statistics and Census (INDEC). The losses on the net monetary position were recognized in the income statement as finance income and costs for a positive amount of €29 thousand for the year ended December 31, 2019 and for a negative amount of €13 thousand for the year ended December 31, 2018.

11 RELATED PARTY TRANSACTIONS

Group transactions with related parties, identified in accordance with the criteria defined in IAS 24 – Related Party Disclosures, are mainly of a commercial and financial nature and were entered into under normal market conditions.

The following tables show the details of the economic and financial relationships with related parties. The companies indicated have been identified as related parties because they are directly or indirectly connected to the Group's shareholders.

The table below provides details of the statement of financial position amounts relating to the Group's related party transactions as of December 31, 2019, 2018 and 2017.

(In thousands of Euro)	Parent Company	Companies under control of the parent companies		Top management	Total	Total financial statements item	Percentage of item
	GVS Group S.p.A.	GVS Real Estate	GVS Real Estate US				
Right of use assets							
As of December 31, 2019	-	3,038	861	-	**3,899**	**10,320**	**37.8%**
As of December 31, 2018	-	1,992	-	-	**1,992**	**5,922**	**33.6%**
Trade receivables							
As of December 31, 2018	946	-	-	-	**946**	**39,357**	**2.4%**
As of December 31, 2017	857	-	-	-	**857**	**36,980**	**2.3%**
Income tax receivables							
As of December 31, 2017	273	-	-	-	**273**	**595**	**45.9%**
Other current assets and receivables							
As of December 31, 2019	515	-	-	-	**515**	**6,430**	**8.0%**
As of December 31, 2018	3,048	6	-	-	**3,054**	**7,632**	**40.0%**
As of December 31, 2017	3,519	-	-	-	**3,519**	**8,039**	**43.8%**
Non-current lease liabilities							
As of December 31, 2019	-	2,465	665	-	**3,130**	**7,850**	**39.9%**
As of December 31, 2018	-	1,627	-	-	**1,627**	**4,074**	**39.9%**
Current lease liabilities							
As of December 31, 2019	-	622	360	-	**982**	**3,094**	**31.7%**
As of December 31, 2018	-	378	-	-	**378**	**2,264**	**16.7%**
Trade payables							
As of December 31, 2019	31	-	-	-	**31**	**13,188**	**0.2%**
As of December 31, 2018	31	-	-	-	**31**	**18,480**	**0.2%**
As of December 31, 2017	131	-	-	-	**131**	**16,124**	**0.8%**
Income tax payables							
As of December 31, 2019	555	-	-	-	**555**	**2,060**	**26.9%**
As of December 31, 2018	1,667	-	-	-	**1,667**	**3,210**	**51.9%**
Other current liabilities							
As of December 31, 2019	1,681	-	-	184	**1,865**	**13,301**	**14.0%**
As of December 31, 2018	-	-	-	259	**259**	**11,093**	**2.3%**
As of December 31, 2017	-	-	-	192	**192**	**9,038**	**2.1%**

The table below provides details of the income statement amounts relating to the Group's related party transactions for the years ended December 31, 2019, 2018 and 2017.

(In thousands of Euro)	Parent Company	Companies under control of the parent companies		Top Managemen t	Total	Total financial statement s item	Percentag e of item
	GVS Group S.p.A.	GVS Real Estate	GVS Real Estate US				
Total other income							
Year ended December 31, 2019	-	1	758	-	**759**	**3,169**	**24.0%**
Year ended December 31, 2017	72	-	-	-	**72**	**2,345**	**3.1%**
Personnel expenses							

(In thousands of Euro)	Parent Company	Companies under control of the parent companies		Top Management	Total	Total financial statements item	Percentage of item
	GVS Group S.p.A.	GVS Real Estate	GVS Real Estate US				
Year ended December 31, 2019	-	-	-	2,064	**2,064**	**73,583**	**2.8%**
Year ended December 31, 2018	-	-	-	2,037	**2,037**	**70,652**	**2.9%**
Year ended December 31, 2017	-	-	-	1,073	**1,073**	**57,969**	**1.9%**
Cost of services							
Year ended December 31, 2017	3,563	-	-	-	**3,563**	**24,612**	**14.5%**
Depreciation and amortization							
Year ended December 31, 2019	-	404	93	-	**497**	**16,302**	**3.0%**
Year ended December 31, 2018	-	321	-	-	**321**	**18,415**	**1.7%**
Finance costs							
Year ended December 31, 2019	-	23	6	-	**29**	**4,575**	**0.6%**
Year ended December 31, 2018	-	25	-	-	**25**	**5,284**	**0.5%**

Transactions with GVS Group S.p.A.

On December 14, 2017, the Extraordinary Shareholders' Meeting of GVS approved the contribution of the company branch of the parent company GVS Group S.p.A. in GVS (see note 1.3).

Costs for services to GVS Group S.p.A. for the year ended December 31, 2017 refer solely to the services described above carried out by the GVS Group S.p.A. prior to the Contribution. Other current receivables and assets at December 31, 2018 and 2017 refer, for €2,450 thousand and €3,389 thousand, respectively, to advances paid by the Group to the GVS Group S.p.A. for the aforementioned services. In 2019, the GVS Group S.p.A. liquidated the advances received in favor of the Group.

The trade receivables from the Parent Company mainly refer to the lease, up to the date of the Contribution, of certain premises at the Company's registered office in Zola Predosa (BO). These trade receivables were entirely collected by GVS in 2019.

The Company and the Italian subsidiary GVS Sud S.r.l. adhere to the national tax consolidation scheme option under the GVS Group S.p.A. Income tax payables as of December 31, 2019 and 2018 and income tax receivables as of December 31, 2017 refer solely to this case.

On August 1, 2019, January 15, 2019, January 3, 2018 and January 9, 2017, the Shareholders' Meeting of GVS resolved the distribution of dividends to the Parent Company, for an amount of €5,005 thousand, €5,005 thousand, €5,005 thousand and €9,219 thousand, respectively.

Transactions with GVS Real Estate

On October 24, 2017, the Extraordinary Shareholders' Meeting of GVS approved the proposed partial pro-rata spin-off (see note 1.3). It should be noted that, following the transaction, GVS sold its interest in GVS Real Estate, obtained through the GVS Spin-off, to the GVS Group S.p.A., consequently reducing the negative treasury shares reserve by €216 thousand.

On March 5, 2018 GVS signed a lease contract with GVS Real Estate, expiring on January 28, 2024, concerning two production sites, including the registered office of the Company, located in Zola Predosa (BO) (*i.e.*, the real estate assets included in the scope of the GVS Spin-off (see note 1.3)). Right of use assets and lease liabilities as of December 31, 2018, as well as depreciation, amortization and finance costs for the same period, solely refer to this lease contract.

On December 11, 2019, the Group company GVS Sud S.r.l. signed a purchase and sale agreement with the company GVS Real Estate S.r.l. relating to the sale of land and buildings of a production site located in Italy (Avellino). The parties subsequently signed a lease agreement whereby GVS Real Estate leased the aforementioned sold property to GVS Sud S.r.l. (see note 1.3). The lease contract relating to the aforementioned land and buildings subject to prior purchase and sale involved the registration, as of December 31, 2019, of right of use assets and related lease liabilities for €1,429 thousand and €1,457 thousand, respectively, as well as depreciation, amortization and finance costs, for the year ended December 31, 2019, for €12 thousand and €1 thousand, respectively. Other income, for €1 thousand, refer to the capital gain recognized as a result of the purchase and sale carried out.

Transactions with GVS Real Estate US

On September 3, 2019, the Group company GVS Filtration Inc signed two purchase and sale agreements with the company GVS Real Estate US Inc. relating to the sale of land and buildings of two production sites located in Ohio and Wisconsin. At the same time as the purchase and sale agreements, the parties signed two lease agreements, through which GVS Real Estate US leased the aforementioned properties to the Group (see note 1.3). The lease contracts relating to the aforementioned real estate, subject to prior sale, involved the registration, as of December 31, 2019, of right of use assets and related lease liabilities for €829 thousand and €988 thousand, respectively, as well as depreciation, amortization and financial charges, for the year ended December 31, 2019, for €73 thousand and €5 thousand, respectively. Other income, for €663 thousand, refer to the capital gains recognized as a result of the purchase and sale agreements carried out.

Transactions with Top Management

The following figures within the Group are considered members of the Top Management:

- *chief executive officer*;
- *chief financial officer*;
- *chief operation officer*;
- *the heads of the divisions (i) Healthcare & Life Sciences; (ii) Health & Safety; (iii) Energy & Mobility and (iv) Science & Development.*

The table below provides details of compensation accrued by Top Management for the years ended December 31, 2019, 2018 and 2017.

(In thousands of Euro)	**Year ended December 31,**		
	2019	**2018**	**2017**
Compensation	868	833	481
Bonus and other incentives	776	776	339
Other	420	428	253
Total	**2,064**	**2,037**	**1,073**

Other related parties

In addition to the financial and economic transactions with related parties presented in the tables above, it is specified that:

- other current liabilities as of December 31, 2019, 2018 and 2017 include payables towards directors for compensation not yet paid for €18 thousand, €23 thousand and €20 thousand respectively;
- employee benefit obligations as of December 31, 2019, 2018 and 2017 include payables relating to directors' severance indemnities for €1,474 thousand, €1,326 thousand and €1,262 thousand respectively;
- cost of services for the year ended December 31, 2019, 2018 and 2017 include compensations to directors and accruals to severance indemnities for €413 thousand, €418 thousand and €539 thousand respectively.

The attribution of the severance indemnities in favor of certain directors was resolved by the Shareholders 'Meeting of the Company on January 15, 2015, with reference to the 2015-2017 three-year period and renewed by the same Shareholders' Meeting by resolution of May 23, 2018 with reference to the three-year period 2018-2020.

12 COMMITMENTS AND GUARANTEES

Sureties and guarantees granted in favor of third parties

As of December 31, 2019, the Group had no sureties and guarantees in place. As of December 31, 2018 and 2017 there were sureties issued by Unicredit in favor of Simest for €75 thousand and €287 thousand respectively.

Contingent liabilities

During 2018, the Parent Company was subject to an audit by the Italian Tax Agency in relation to the 2015 tax period, for which a tax inspection report was submitted. At this stage, no notice of investigation has been received. Therefore, since the tax inspection report does not constitute an enforceable act, the claim of the Italian tax authorities cannot be considered final. Although it is not possible to exclude *tout court* a negative outcome in any subsequent phases of the proceedings, the Parent Company believes that it can produce technical arguments capable of significantly reducing the tax claim contained in the tax inspection report in the context of any litigation or in the context of a procedure to avoid litigation (*i.e.*, assessment procedure with tax settlement by consent and/or judicial conciliation). In view of this, it was not deemed necessary to make an *ad hoc* provision in the financial statements.

13 COMPENSATION DUE TO DIRECTORS AND STATUTORY AUDITORS

Compensation due to directors and statutory auditors for the years ended December 31, 2019, 2018 and 2017 amounted to €367 thousand, €371 thousand and €490 thousand respectively.

No loans or advances were granted to directors or shareholders during the year.

14 Fees due to independent auditors

Fees due to independent auditors for the years ended December 31, 2019, 2018 and 2017 amounted to €220 thousand, €218 thousand and €218 thousand respectively.

15 Research and development

Research and development activities are aimed at product development, from the conception and definition of prototypes up to the first stages of production, as well as the improvement of production processes. Product development has multiple stages including: creation of a prototype, production and checks and controls for final approval.

The table below provides details of research and development expenses recognized in operating costs for the years ended December 31, 2019, 2018 and 2017.

(In thousands of Euro)	Year ended December 31,		
	2019	**2018**	**2017**
Research and development costs	17,709	18,116	9,904
Capitalized development costs	(1,955)	(1,813)	(1,347)
Amortization of capitalized development costs	1,063	679	384
Research and development costs included in operating costs	**16,817**	**16,982**	**8,941**

16 SIGNIFICANT EVENTS OCCURRING AFTER THE REPORTING PERIOD

Purchase of assets by GVS Filter Technology de Mexico

On October 30, 2019, the Group GVS, through its subsidiary GVS Filter Technology de Mexico, has entered into a contract with Graphic Controls Acquisition Corp. for the purchase of inventories related to filters and tangible and intangible assets related to plant, machinery and software, respectively, as well as other assets as defined by contract. The execution of the sale took place on January 20, 2020, which represents the closing date.

The purchase contract provides for a provisional cost of $3,970 thousand, of which:

- $1,970 thousand paid by GVS Filter Technology de Mexico at the closing date, adjusted on the basis of any difference between the value of the inventories at the closing date and the relevant target value as defined in the contract, which shall be settled between the parties at the following date between (i) sixty days from the closing date and (ii) ten days from the agreement between the parties on the value of the inventories at the closing date; and
- a variable component based on sales made to certain customers during the 12 months following the closing date, to be settled through the use of an escrow account, made up by GVS Filter Technology de Mexico at the closing date, equal to $2,000 thousand.

It is estimated that the purchase contract will result in the recognition of inventories totaling $1.6 million and tangible and intangible assets totaling $2.4 million.

Spin-off of GVS Microfiltrazione S.r.l.

On January 20, 2020, the Ordinary Shareholders' Meeting of GVS approved the proposed partial pro-rata spin-off by allocating part of the company equity of GVS Microfiltrazione S.r.l. to the newly established company GVS Patrimonio Immobiliare S.r.l. The net assets, which will be transferred at their carrying amount on the effective date of the spin-off, are attributable: (i) to land; (ii) to a production site with related inventory and (iii) to liabilities attributable to such assets as indicated in the spin-off proposal.