2020
Annual Report
Coesia Group

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

2020
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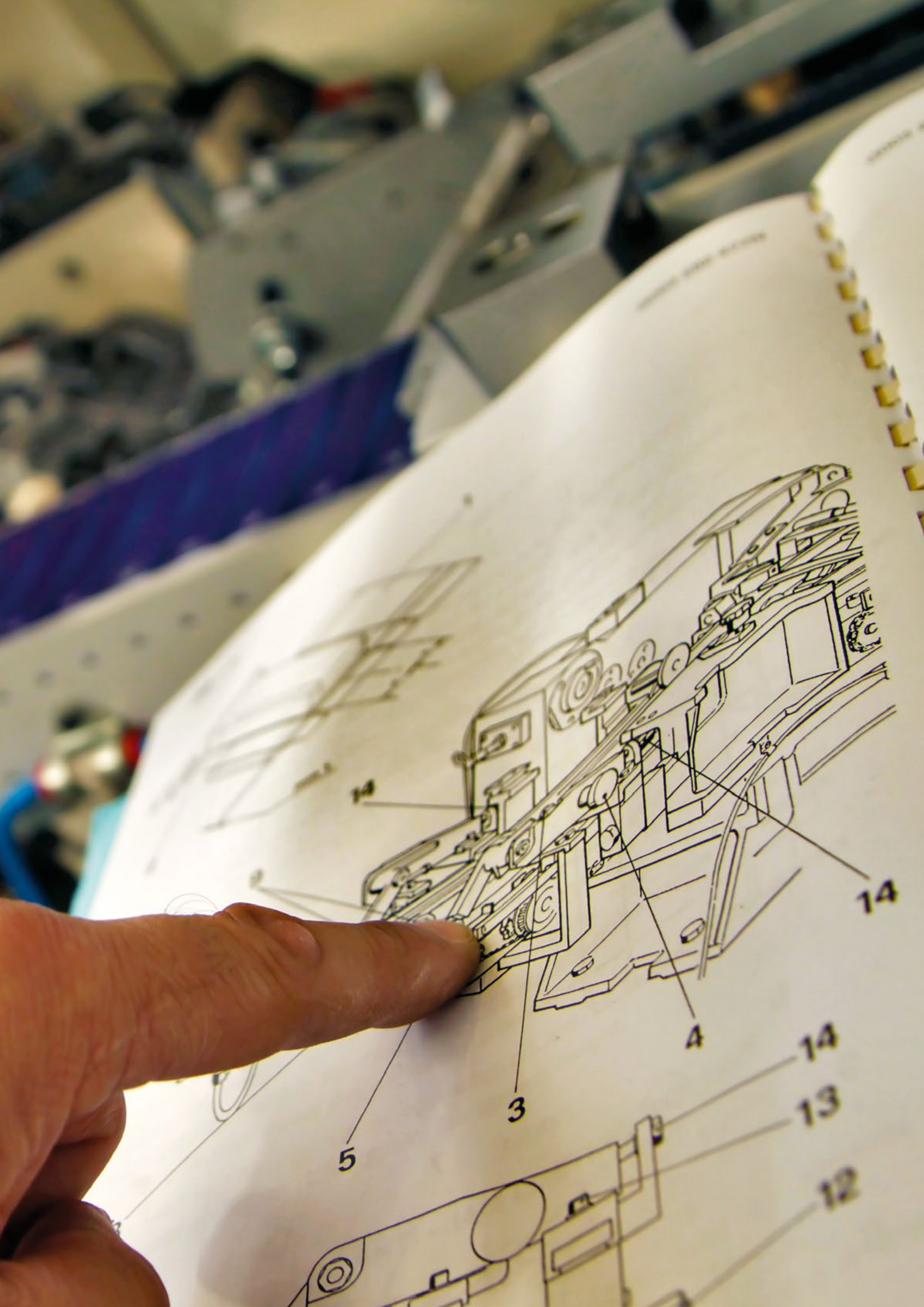
(Translation from the Italian original which remains the definitive version)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ACTIVITIES OF THE GROUP COMPANIES

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

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

ADVANCED AUTOMATED MACHINERY & MATERIALS (AAM&M)

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

- ACMA S.p.A., with its registered office in Bologna, manufactures automated machinery for the packing of consumer goods, with particular references to the food (chocolate, candies, tea, coffee) and personal care (soap, cleanser) segments;
- GDM S.p.A., with its registered office in Offanengo (Cremona), is active in the field of single-use hygiene product automated production and packing machinery;
- VOLPAK S.A., with its registered office in Barcelona (Spain), is active in the automated packaging machinery segment;
- NORDEN AB, with its registered office in Kalmar (Sweden), manufactures packaging and tube filling machines and related packing lines for the cosmetics and pharmaceutical industry;
- CITUS KALIX SAS, with its registered office in Courcouronnes (France), is part of the Norden Group and operates in the tube and lipstick packaging and filling machines for the cosmetics industry, in addition to packing lines;
- R.A. JONES & CO. INC., based in Covington (Kentucky) in the United States, produces automated packing machinery for the food segment and for consumer goods. It directly controls MGS Machine Corporation, based in Minneapolis (Minnesota), which produces automated cardboard packaging machinery and industrial automation solutions for the pharmaceutical, cosmetics, food and personal care segments;
- IPI S.r.l., with its registered office in Perugia, produces aseptic filler machines, package opening and closing systems and multi-layer packaging material using a combination of polyethylene, paper and aluminium sheets. IPI has two production sites in the Perugia area;

- EMMECI S.p.A., with its registered office in Cerreto Guidi (Florence), designs, produces and distributes automated machinery for the production of premium and luxury goods packaging;
- SYSTEM CERAMICS S.p.A., with its registered office in Fiorano Modenese (Modena), is an international leader in the development of production processes for the ceramics industry, which guarantees high industrial standards with regards to pressing, decorating, selection lines and quality control, in addition to providing advanced packing, palletising and handling solutions for the ceramic industry.

INDUSTRIAL PROCESS SOLUTIONS (IPS)

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

OTHER

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

THE MACROECONOMIC SITUATION

2020 saw a significant reduction in global growth in the emerging, developing and advanced economies due to the impact of the Coronavirus (COVID-19) pandemic.

Based on the figures shared by the International Monetary Fund, in 2020 GDP fell by 3.5% in the US (+2.2% in 2019), 6.6% in the Eurozone (+1.3% in 2019) and 4.8% in Japan (+0.3% in 2019). In the main emerging and developing economies, economic growth rates only remained positive in China, where GDP grew 2.3% (+5.8% in 2019), while India's GDP fell by 8.0% (+4.0% in 2019).

According to the International Monetary Fund's estimates from March 2021, the global economy is expected to grow in 2021 and 2022 by 6.0% and 4.4%, respectively. In 2021, the economy is expected to grow by 4.4% in the Eurozone, 6.4% in the US and 3.3% in Japan. While in 2022, it is expected to grow by 3.8% in the Eurozone, 3.5% in the US and 2.5% in Japan.

Emerging and developing countries are expected to grow by 6.7% in 2021 and 5% in 2022. Specifically, India and China are forecast to grow by 8.4% and 12.5%, respectively, in 2021 and by 5.6% and 6.9%, respectively, in 2022.

These estimates are based on the following assumptions: (i) a progressive slowdown in the spread of the pandemic, especially thanks to the expansion of vaccination coverage and improved treatments, allowing for a gradual relaxation of restrictions; (ii) the active support policies provided by governments and institutions remaining in place while still needed; (iii) favourable interest rates, and (iv) higher raw materials prices which reflect the expected global recovery. These forecasts are subject to a high level of uncertainty, mainly related to: (i) the actual progression of the pandemic, specifically with reference to the new waves of infection and possible new variants; (ii) the intensity and efficacy of the containment efforts, particularly with regard to vaccination campaigns; (iii) the intensification of social unrest due to increased inequality, and (iv) the impact that reducing support policies will have on economic activity.

GROUP PERFORMANCE

Markets

The group's performance in 2020 was impaired by the effects the COVID-19 pandemic had on the global economy and operating activities in the different geographic areas in which the group operates, showing a decrease compared to 2019 in terms of revenue and profit. In particular, the group's operating activities were affected by the suspension of production at certain sites, which was required in compliance with local legislation, where applicable, and the implementation of suitable measures aimed at guaranteeing the health and safety of people. Restrictions on freedom of movement and physical presence at the group's or customers' production sites also negatively impacted commercial activities, specifically related to installation services and after-sales services.

As it stands, the situation is gradually improving, even though, as mentioned in more detail below, it is reasonable to assume that at least some of the effects of the pandemic will permeate throughout the whole of 2021.

Advanced Automated Machinery & Materials (AAM&M)

In 2020, volumes and operating results both decreased compared to the previous year, mainly due to the effects of the COVID-19 pandemic which hit all the group companies around the world.

With regard to the tobacco industry, the conventional cigarette market is still sluggish, albeit partially offset by the growth of so-called New Generation Products (NGP). Following a sharp drop in 2019 (specifically in Japan), these products began to gain traction again at the start of 2020, before slowing down when the COVID-19 pandemic hit, delaying a number of potential investments. The pandemic led to the temporary closure of several factories belonging to customers and the postponement of various projects (specifically, as mentioned, those related to NGPs). The main impact was caused by the decrease in demand for new machinery due to the stagnation of investments, particularly by multinationals. In 2020, business picked up, in particular, with so-called "independent" customers (not multinationals) in areas such as the Middle East and related to so-called Other Tobacco Products (OTP) /Oral, with the supply of dozens of Snus lines to customers in both Europe and the US. The after-sales business performed very well, specifically thanks to the use of digital tools such as Remote Production Assistance (RPA), already developed in previous years and successfully used systematically, to the great satisfaction of customers in 2020, in order to at least partially make up for the restrictions placed on physical presence introduced in response to the pandemic.

The Consumer Goods Machinery and Materials (CGM&M) business performed slightly worse than the previous year due to the slowdown of investments by reference operators caused by the public health emergency. Specifically, companies operating in luxury and cosmetics sectors were worst hit by the pandemic emergency. In 2020, there was a drop in volumes, most notably in the machinery segment, attributable to the downturn in investments by the main customers of the companies operating in the CGM&M business. Although the after-sales segment also recorded a drop in volumes, it performed better than the machinery segment, with some companies recognising an increase in revenue compared to 2019. The decrease in operating profit in the CGM&M business was experienced by most companies in the segment, as they had to cope with the economic consequences of the health situation. Europe and North America are still the group's main markets, with emerging developments deriving especially from increasing investments in the 4.0 industry aimed at boosting the production efficiency of facilities. The growth trend in consumer goods is also seen in emerging and developing countries due to their demographic growth and increased purchasing power.

In 2020, development and production continued for the "*SFI", Sustainable Forestry Initiative®* contract acquired by ACMA S.p.A., but which also involves other Coesia group companies. The project offers the group the chance to get established in the coffee market and become a key supplier for a market leader. The contract, for which the prototype was delivered in 2020, provides for the supply of innovative full production lines to set up a factory for the customer, therefore entailing the highest technological innovation, which, again in 2020, led the group to make important investments in research and development.

Industrial Process Solutions (IPS)

The IPS business recorded a drop in sales volumes and slight decrease in operating profit. The decrease in volumes, most notably in the machinery segment, is due to the slowdown in investments by the customers of the companies in the IPS business due to the public health emergency. The after-sales segment also recorded a drop in volumes, but it performed better than the machinery segment, thanks, in particular, to the increase in volumes in the digital printing business compared to 2019. The slight decrease in operating profit in the IPS business was connected to the performance of Atlantic Zeiser GmbH, while the other companies recorded an increase in operating profit both as a percentage and in absolute terms compared to the previous year.

North America (including Mexico) contributed to the increase in volumes for the IPS business, while the other geographical segments recorded a decline compared to 2019.

Income statement

The following main captions of the reclassified income statement are equivalent to the corresponding captions of the income statement shown in the 2020 consolidated financial statements, except for the EBITDA caption which is EBIT plus amortisation and depreciation for the year and EBIT BEFORE NON-RECURRING INCOME/EXPENSE and EBITDA BEFORE NON-RECURRING INCOME/EXPENSE which are EBIT and EBITDA gross of non-recurring income/expense.

€/000	2020	2019
REVENUE	1,761,270	1,958,170
GROSS OPERATING PROFIT	498,573	611,792
EBIT (OPERATING PROFIT) BEFORE NON-RECURRING INCOME/EXPENSE	153,461	224,498
NET NON-RECURRING EXPENSE	(25,014)	(14,790)
EBIT (OPERATING PROFIT)	128,447	209,708
EBITDA BEFORE NON-RECURRING INCOME/EXPENSE	277,111	335,924
NET NON-RECURRING EXPENSE	(25,014)	(14,790)
EBITDA	252,097	321,134
PROFIT FOR THE YEAR	79,151	182,543

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

€/000	2020	2019
M&A TRANSACTIONS COSTS	(826)	(6,332)
DONATIONS	(4,417)	(2,623)
COVID-19 RELATED COSTS	(19,038)	-
RESTRUCTURING COSTS	(733)	(5,835)
TOTAL NET NON-RECURRING EXPENSE	**(25,014)**	**(14,790)**

COVID-19 related costs include non-recurring expense directly attributable to the effects of the COVID-19 pandemic incurred by the group in 2020. Such expense includes costs related to products and activities necessary to protect the health of employees in the work place (masks, disinfectant, sanitisers, tests, health checks, etc.) and expense for employees who were unable to carry out their activities, either in person or remotely, during the closure of the facilities.

Revenue by business segment

€/000	2020	%	2019	%
ADVANCED AUTOMATED MACHINERY AND MATERIALS	1,445,698	82%	1,613,092	82%
INDUSTRIAL PROCESS SOLUTIONS	292,401	17%	317,003	16%
OTHER	23,171	1%	28,075	2%
Total	**1,761,270**	**100%**	**1,958,170**	**100%**

Consolidated revenue was €1,761 million in 2020, down by 10.1% compared to the previous year, mainly due to the effect of the COVID-19 pandemic on the group's activities, as detailed in the "Significant events" paragraph.

With regard to revenue trends by segment, see the comments thereon in the "Operating segment analysis" section of the notes.

Revenue by geographical segment

€/000	2020	%	2019	%	Variation %
EUROPEAN UNION	469,501	27%	521,857	26%	(10%)
ASIA	438,322	25%	470,185	24%	(7%)
NORTH AMERICA	397,953	23%	427,161	22%	(7%)
OTHER	341,742	19%	406,394	21%	(16%)
Total revenue outside Italy	**1,647,518**	**94%**	**1,825,597**	**93%**	**(10%)**
ITALY	113,752	6%	132,573	7%	(14%)
Total revenue	**1,761,270**	**100%**	**1,958,170**	**100%**	**(10%)**

94% of 2020 revenue was earned outside Italy (93% in 2019), specifically, in the rest of the European Union, Asia and North America. Sales decreased across the board, mainly as a result of the COVID-19 pandemic. However, the percentage decrease was lower in North America and Asia, in line with the smaller drop in GDP in these segments compared to the European Union and, in general, the rest of the world.

The *Advanced Automated Machinery & Materials (AAM&M)* business segment recorded an increase in sales, chiefly in Europe, South East Asia and Turkey, showing a downturn in the other geographical segments.

Lastly, the *Industrial Process Solutions (IPS)* business segment recorded a growth in sales in North America and Mexico and a drop in the other geographical segments.

Gross operating profit

Gross operating profit was equal to 28% of revenue, down 3% on the previous year.

Research and development expenditure

The group views research and development activities as a driver of differentiation and long-term sustainable performance. The research and development expenditure incurred during the year amounted to €95.8 million, down in absolute terms on the previous year (€109.7 million incurred in 2019), but substantially in line with the previous year as a percentage of revenue, accounting for approximately 5.4% of 2020 revenue (5.6% in 2019).

Adding the engineering costs incurred for the various projects, the group's total research, development and engineering costs came to 9.3% of revenue in 2020 (compared to 9.0% in 2019).

Development expenditure which met capitalisation requirements under IAS 38 amounted to €65.1 million in 2020 (€75.4 million in 2019). The amortisation of expenditure capitalised during 2020 and previous years amounted to €53.5 million (€41.3 million in 2019). Capitalised expenditure is amortised over five years starting from when the products are available for sale.

Therefore, research and development expenditure recognised in profit or loss in 2020 amounted to €84.2 million (€75,6 million in 2019).

In 2020, many investments in the tobacco sector were focused on the continued development of new solutions to manufacture new generation products, in addition to the study and development of new flexible platforms based on electronic technology (the 4.0 industry).

R&D activities for the Consumer Goods Machinery and Aseptic Filling Machinery & Materials businesses centred on projects deemed strategic in relation to the prospects of developing, diversifying and innovating the end products of group customers.

In the Industrial Process Solutions business, R&D investments increased. The most significant projects are those related to the application of new digital technologies and the introduction of new products to the industrial automation field.

Operating profit (EBIT)

Operating profit of €128.5 million included net non-recurring expense of €25.0 million as described earlier.

Operating profit gross of non-recurring income/expense was €153.5 million or 8.7% as a percentage of revenue, down compared to 2019, mainly as a result of the production under-absorption related to the closure of certain facilities and the reduction in sales volumes due to the COVID-19 pandemic.

Profitability indicators

The main profitability indicators for 2020 and 2019 were as follows:

Indicators		2020	2019
Return on sales (ROS)	EBIT (OPERATING PROFIT) BEFORE NON-RECURRING INCOME/EXPENSE / Revenue	8.71%	11.46%
Return on investment (ROI)	EBIT (OPERATING PROFIT) BEFORE NON-RECURRING INCOME/EXPENSE / Average net invested capital	8.11%	14.13%
Return on equity (ROE)	Profit for the year / Average equity	6.79%	17.60%

ROI and ROE fell compared to the previous year mainly as a result of the decrease in operating profit and profit for the year.

Statement of financial position

The following main captions of the statement of financial position are equivalent to the corresponding captions of the statement of financial position shown in the 2020 consolidated financial statements.

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

€/000	31/12/2020	31/12/2019
Trade receivables	327,037	369,952
Inventories and contract assets and liabilities	645,069	638,078
Trade payables	(412,213)	(376,586)
Other, net	(294,248)	(319,360)
Net working capital	**265,645**	**312,084**
Property, plant and equipment and investment property	296,508	300,131
Right-of-use assets	113,390	114,839
Intangible assets	1,258,882	1,276,269
Non-current assets	**1,668,780**	**1,691,239**
Pensions, post-employment benefits and other	(73,099)	(93,781)
Net invested capital	**1,861,326**	**1,909,542**
Non-current assets held for sale and liabilities associated with assets held for sale	7,352	7,481
Total net invested capital	**1,868,678**	**1,917,023**

Financed by:

Net financial debt	**615,742**	**809,956**
Equity attributable to non-controlling interests	6,056	5,413
Equity attributable to the owners of the parent	**1,246,880**	**1,101,654**
Total sources of financing	**1,868,678**	**1,917,023**

The slight decrease in total net invested capital compared to the previous year end (equal to around 2.5%) is mainly due to continuing actions started in previous years to improve working capital, in addition to the effect caused by the decrease in turnover.

€/000	31/12/2020	31/12/2019
Cash and cash equivalents	(801,250)	(656,579)
Investments in securities	(34,398)	(39,627)
Liquidity	**(835,648)**	**(696,206)**
Current loan assets	(13,476)	(11,119)
Bonds	100,629	746
Current bank loans and borrowings	12,638	50,946
Current lease liabilities	21,592	21,956
Other current loans and borrowings	10,674	12,398
Current financial debt	**132,057**	**74,927**
Current net financial debt (A)	**(703,591)**	**(621,279)**
Non-current bank loans and borrowings	960,254	876,239
Bonds	-	99,720
Non-current lease liabilities	90,111	91,540
Financial investments	(12,894)	(10,084)
Other non-current loans and borrowings	49,449	26,194
Non-current financial debt (B)	**1,086,920**	**1,083,609**
Net financial debt prior to options on the acquisition of investments (A) + (B)	**383,329**	**462,330**
Liabilities for acquisition of and options on the acquisition of investments (C)*	**232,413**	**347,626**
Total net financial debt (A) + (B) + (C)	**615,742**	**809,956**

*The balance at 31 December 2019 includes €1,469 thousand related to the residual financial liability for the acquisition of 60% of System Ceramics S.p.A., previously classified under "Other non-current loans and borrowings".

The net financial debt at 31 December 2020 includes the negative fair value of currency and interest rate hedges (€31,118 thousand) and other transactions (€2,477 thousand). Total cash flows from operating activities, gross of non-recurring transactions, amount to approximately €106.3 million, as shown in the table below.

€/000	2020	2019
Changes in total net financial debt	194,214	(516,748)
Non-recurring transactions:		
Financial effect of non-recurring income/expense and acquisition/sale of businesses/companies*	8,819	545,516
Restatement of liabilities for options on the acquisition of investments	(115,213)	-
Financial effect of COVID-19 costs	18,512	-
Effect of first debt recognition as per IFRS 16	-	108,109
Dividends distribution	-	50,000
Change in net financial debt, net of non-recurring transactions and dividends distributed	**106,332**	**186,877**

* In 2019, this included the consideration paid for acquisitions, including the value of options for the acquisition of investments, and the net financial debt assumed

The smaller increase compared to the previous year is mainly due to the aforementioned decrease in EBIT. Even though the year was characterised by the economic effects of the COVID-19 pandemic, the group was able to perform well in terms of operating cash flows.

Human resources

The workforce at 31 December 2020 numbered 8,241 (8,519 at 31 December 2019). Italian group personnel at 31 December 2020 came to 3,968.

Operating segment analysis

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

1.1 OTHER INFORMATION

Main risks and uncertainties

In relation to the requirements of article 2428 of the Italian Civil Code for disclosures about the main “risks and uncertainties” and the “environment and personnel”, no significant events took place, except for those related to COVID-19 reported below.

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

Furthermore, for the subsidiary G.D S.p.A., there are currently some regulatory risks, especially in the US, with the possible introduction of limitations, such as on the use of flavourings in tobacco, as well as in the European Union and non-EU countries, that may have an additional negative impact on cigarette consumption and the related demand for machinery. In addition to the aforementioned risks, there are risks related to customers’ increased focus on cost cutting and production consolidation, which may lead to a decrease in demand for machinery and greater pressure on prices and profitability.

Though present, credit, liquidity, currency and interest rate risks do not have significant potential impacts on the group’s current financial position and that of individual group companies. In any case, they are suitably monitored and managed, as commented on in the notes to the consolidated financial statements. Specifically, the policy of COESIA and its subsidiaries is to mitigate currency and interest rate risks via specific hedges. With regard to trade receivables, at present, there has not been an increase in the related risk following the effects of COVID-19 thanks to both the high quality of the customer portfolio and the careful strategy used to monitor receivables managed at group level.

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

As noted, COESIA's and its subsidiaries' market is characterised by demand for highly technological and innovative solutions and, accordingly, the group invests around 9.3% of its revenue in research, development and engineering. In this context, employees' expertise is of strategic importance, especially in technical areas. The group invests heavily and constantly in training, retaining its employees and in the work place. It carefully monitors and applies the relevant labour legislation, especially that covering occupational health and safety. In previous years, the parent and the main Italian group companies completed a project to update the organisational, management and control model as per Legislative decree no. 231/01, with the inclusion of environmental crimes and safeguarding intellectual property. Furthermore, some of the recently-acquired Italian group companies complied with Legislative decree no. 231/2001 aimed at adopting the organisational, management and control model covering the above-mentioned crimes, in addition to occupational safety, private-to-private corruption and undue inducement to give or promise benefits.

Risks related to macroeconomic trends and risks connected to the effects of COVID-19

As the group operates across different international markets, it is affected by changes in the macroeconomic conditions of those markets and, in particular, the public health emergency which appeared in the first months of 2020.

Indeed, 2020 was characterised by the spread of the COVID-19 pandemic, the global socio-economic effects of which were unprecedented and today, it is still not possible to estimate the long-term consequences for people's lives and habits. The adoption of restrictions implemented by the different government authorities to combat the spread of COVID-19 led to a considerable reduction in consumption, inevitably affecting the group's profitability indicators.

As it stands, it is not possible to predict the duration of the pandemic, the restrictions aimed at containing further spread of the virus and the timeframes or effectiveness of the vaccination plans currently being rolled out in different countries. Therefore, it is impossible to forecast any other negative effects which a prolongation of the pandemic could have on the group's global and domestic economic activities, or on its business. Specifically, should there be subsequent waves of COVID-19 in the future, national authorities may reintroduce either all or some of the aforementioned restrictions, which could also negatively impact the group's global and local economic activities and business. Furthermore, should the global economic conditions deteriorate due, for example, to a prolonged recession in Europe or the US or on a global scale, or should COVID-19 cause a recession, a potential negative impact on the group's financial position and financial performance cannot be excluded.

If new serious waves of the COVID-19 pandemic were to spread and several governments were to simultaneously introduce particularly restrictive measures to contain the virus, the group may experience negative effects impacting its:

- supply chain, as the main suppliers may be unable to deliver products or deliveries may be very delayed;
- operating activities, as the group may not be able to make use of its workforce due to government regulations which may limit freedom of movement or if the group is not able to guarantee the safety and protection of the work environment;
- distribution activities, as the main physical distribution channels may be impacted by particularly restrictive measures.

In order to overcome these risks, since the beginning of the public health emergency, the group has introduced the measures necessary to minimise the risk of contagion and safeguard the health and safety of its people, while also guaranteeing operating continuity throughout the period, in compliance with the extraordinary legal provisions imposed in the different jurisdictions, while promptly adopting a structured plan involving all the company departments, aimed at mitigating the impact of the crisis on the group's financial position and financial performance.

Number and nominal value of treasury shares

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

Significant events

2020 was marred by the spread of the SARS-CoV-2 (COVID-19) pandemic. The phenomenon affected the global economy, with significant repercussions for both supply and demand. From the beginning of March to early May 2020, most group companies were forced to totally suspend operations for a certain period, which was followed by a gradual return, until full in-person operations could be guaranteed again in the production departments. This had a significant impact on the group’s financial position and financial performance in 2020. However, it allowed the group to roll out a number of effective safety procedures in accordance with all of the government provisions, guaranteeing a strong focus on the health of people. During the year, all the group’s employees and organisational structures demonstrated great collaboration, allowing for widespread use of remote working, with extremely positive results. There were no significant problems in the supply chain and IT systems were reinforced to adequately support remote activities. The period of closure, the aforementioned slowdown in production activities and the costs associated with managing the COVID-19 pandemic led to a decrease in volumes and profit, which the group was able to suitably absorb. There are, therefore, no risks in terms of the operating continuity of the group’s business and companies. The group’s net financial debt improved compared to the previous year end and the non-revocable lines of credit are currently deemed amply sufficient to cope with any significant delays in cash flows due to the lingering effects of the COVID-19 pandemic.

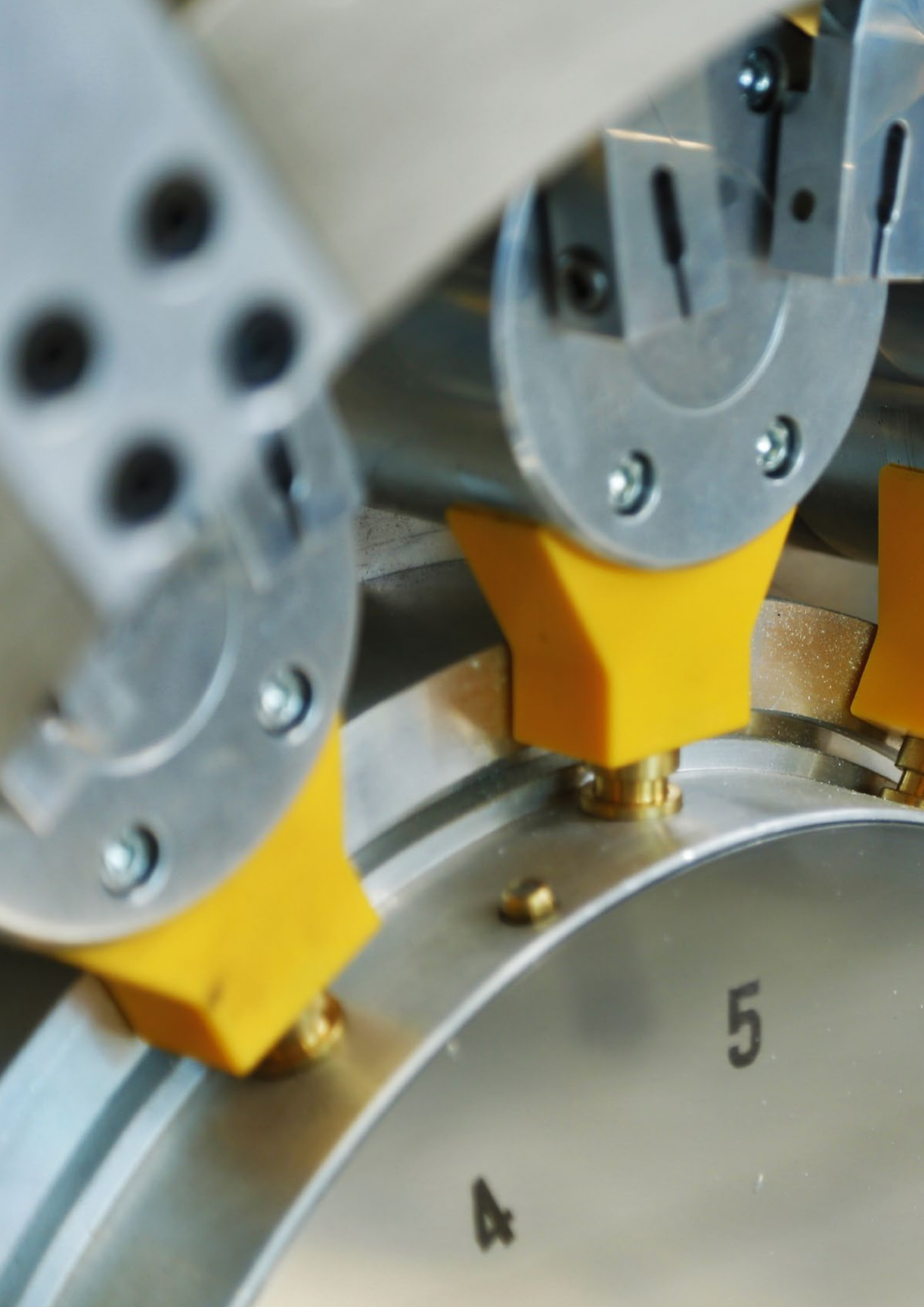
In June 2020, the non-controlling investors in System Ceramics S.p.A. exercised their put option for 40% of the company’s shares to COESIA S.p.A. as per the agreement for COESIA S.p.A.’s acquisition of 60% of System Ceramics S.p.A. drawn up in 2018 and executed in 2019. After such option was exercised, the parent sent a formal claim, following which the parties entered into negotiations to try to find an out-of-court agreement. On 9 June 2021, the parent and the sellers reached and executed an agreement amending part of the original acquisition agreement, whereby the parent acquired the 40% investment in System Ceramics S.p.A. for a fixed consideration and an earn-out to be paid in 2025 and calculated on the basis of the acquiree’s financial position and performance in 2023 and 2024, as detailed in the notes to the consolidated financial statements. Under the agreement, the previous non-controlling investors in System Ceramics S.p.A. retain a pledge and voting rights on 20% of the company’s shares to guarantee payment of the earn-out, if any, until it is settled.

Events after the reporting date

On 23 February 2021, the board of directors of Coesia S.p.A. appointed Alessandro Parimbelli as Chief Executive Officer of the Coesia Group.

Outlook

Positive forecasts can be confirmed for the Coesia Group in 2021 considering the trends in negotiations underway with customers and incoming orders expected for 2021. However, due to the prolonged COVID-19 public health emergency, although the group's performance is expected to improve compared to 2020, it will not yet be at the same level as 2019. Expectations for the Advanced Automated Machinery & Materials business segment entail an increase in the main financial results, maintaining profitability thanks to the development of the product mix, the expansion of the sales coverage and efficiency programmes for processes. The Industrial Process Solutions business is expected to improve compared to 2020, with operating profit returning to pre-pandemic levels. Specifically, with regard to logistics and industrial production solutions, the very positive outlook on the American market, together with the effort to focus on the production units, confirms the forecast improvement in terms of volumes. With regard to digital printing, on the other hand, the projects aimed at increasing the profitability of the new machinery which already had a positive impact in 2020 will continue.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2. CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020

2. CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020

Statement of financial position

€/000	Note	31 December 2020	31 December 2019
Property, plant and equipment	3.3.1	296,065	299,608
Investment property	3.3.1	443	523
Right-of-use assets	3.3.2	113,390	114,839
Goodwill and other intangible assets with an indefinite life	3.3.3	989,288	1,008,017
Intangible assets with a finite life	3.3.4	269,594	268,252
Equity-accounted investments	3.3.5	2,556	2,556
Non-current financial assets	3.3.6	15,794	12,830
Deferred tax assets	3.3.7	136,412	104,574
Total non-current assets		**1,823,542**	**1,811,199**
Inventories	3.3.8	463,532	543,790
Contract assets	3.3.9	190,993	94,288
Trade receivables	3.3.10	327,037	369,952
Current financial assets	3.3.11	47,874	50,746
Current tax assets	3.3.12	43,984	48,671
Other current assets	3.3.13	70,896	69,353
Cash and cash equivalents	3.3.14	801,250	656,579
Non-current assets held for sale	3.3.15	7,352	7,481
Total current assets		**1,952,918**	**1,840,860**
Total assets		**3,776,460**	**3,652,059**
Share capital	3.3.16	125,000	125,000
Reserves	3.3.16	48,523	96,212
Retained earnings	3.3.16	994,206	697,899
Profit attributable to the owners of the parent	3.3.16	79,151	182,543
Equity attributable to the owners of the parent		**1,246,880**	**1,101,654**
Equity attributable to non-controlling interests	3.3.16	**6,056**	5,413
Total equity		**1,252,936**	**1,107,067**
Non-current financial liabilities	3.3.17	1,022,876	1,349,779
Non-current lease liabilities	3.3.2	90,111	91,540
Employee benefits	3.3.18	82,108	79,121
Provisions for risks and charges	3.3.19	13,569	14,238
Deferred tax liabilities	3.3.7	127,403	119,234
Other non-current liabilities		-	8
Total non-current liabilities		**1,336,067**	**1,653,920**
Current financial liabilities	3.3.17	343,181	64,090
Current lease liabilities	3.3.2	21,592	21,956
Current portion of provisions for risks and charges	3.3.19	60,235	49,248
Contract liabilities	3.3.9	9,456	-
Trade payables	3.3.20	412,213	376,586
Current tax liabilities	3.3.12	27,280	25,045
Other current liabilities	3.3.21	313,500	354,147
Total current liabilities		**1,187,457**	**891,072**
Total liabilities		**2,523,524**	**2,544,992**
Total equity and liabilities		**3,776,460**	**3,652,059**

Income statement

€/000	Note	2020	2019
Revenue	3.4.1	1,761,270	1,958,170
Cost of sales	3.4.2	(1,262,697)	(1,346,378)
Gross operating profit		**498,573**	**611,792**
Commercial and distribution costs	3.4.3	(128,199)	(150,070)
General and administrative expenses	3.4.4	(150,003)	(162,221)
Research and development expenditure	3.4.5	(84,227)	(75,625)
Other income	3.4.6	-	1,208
Other costs	3.4.6	(7,697)	(15,376)
Operating profit		**128,447**	**209,708**
Financial income	3.4.7	38,744	41,050
Financial expense	3.4.8	(80,359)	(65,878)
Losses on equity-accounted investees	3.4.9	-	(3,682)
Pre-tax profit		**86,832**	**181,198**
Income tax benefit (expense)	3.4.10	(6,764)	2,219
Profit for the year		**80,068**	**183,417**
Profit for the year attributable to non-controlling interests		**917**	**874**
Profit for the year attributable to the owners of the parent		**79,151**	**182,543**

Statement of comprehensive income

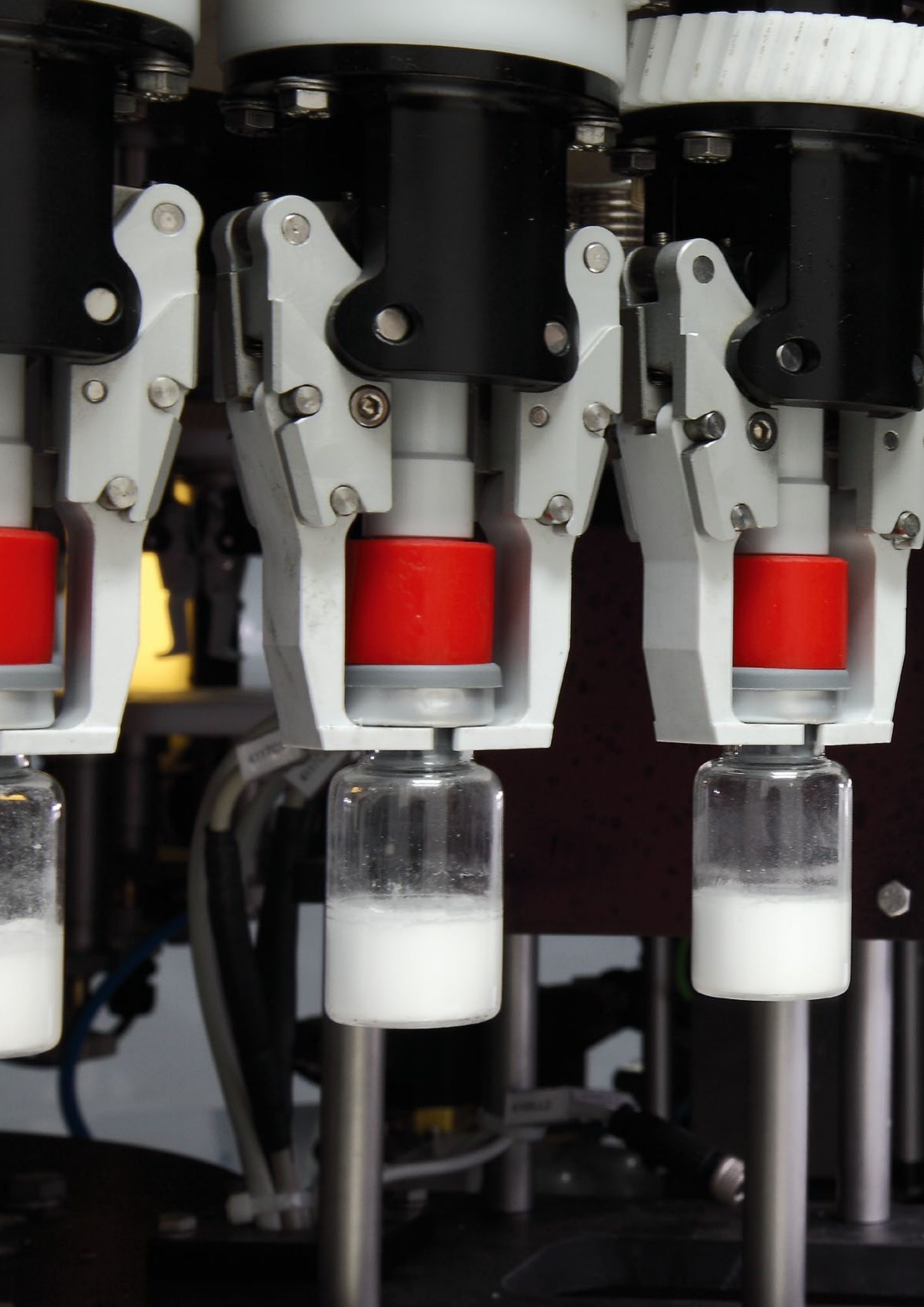
€/000	2020	2019
Profit for the year	**80,068**	**183,417**
Net actuarial losses on defined benefit plans	(4,181)	(5,452)
Total items that will not be reclassified to profit or loss	**(4,181)**	**(5,452)**
Exchange differences on translating financial statements of foreign operations	(32,452)	6,022
Losses on cash flow hedges	(12,506)	(4,658)
Total items that may be reclassified subsequently to profit or loss	**(44,958)**	**1,364**
Other comprehensive expense attributable to the owners of the parent	**(49,139)**	**(4,088)**
Other comprehensive income (expense) attributable to non-controlling interests	**(112)**	**16**
Other comprehensive expense	**(49,251)**	**(4,072)**
Comprehensive income	**30,817**	**179,345**
Comprehensive income attributable to non-controlling interests	**805**	**890**
Comprehensive income attributable to non-controlling interests	**30,012**	**178,455**

Statement of changes in equity Note 3.3.16

€/000	Share capital	Revaluation reserves	Legal reserve	Hedging reserve	Actuarial reserve	Translation reserve	Total reserves	Retained earnings	Profit attributable to the owners of the parent	Equity attributable to the owners of the parent	Equity attributable to non-controlling interests	Total equity
Opening balance at 1 January 2018	125,000	86,135	13,033	(1,974)	(12,708)	10,085	94,571	488,132	139,756	847,459	297	847,756
Other comprehensive income				(5,579)	141	5,479				41	23	64
Profit for the year									165,905	165,905	367	166,272
Comprehensive income	-	-	-	(5,579)	141	5,479	-	-	165,905	165,946	390	166,336
Dividends								(50,000)		(50,000)		(50,000)
Allocation of profit for the prior year			2,653					137,103	(139,756)	-		-
Other					(542)	117		425		-	-	-
Total effects deriving from owner transactions	-	-	2,653	-	(542)	117	-	87,528	(139,756)	(50,000)	-	(50,000)
Total variations in equity investments								-		-	3,529	3,529
Closing balance at 31 December 2018	125,000	86,135	15,686	(7,553)	(13,109)	15,681	96,840	575,660	165,905	963,405	4,216	967,621
Reserve for first time adoption of IFRS 16								(3,378)		(3,378)		(3,378)
Measurement of options for acquisition of investments								13,172		13,172		13,172
Other comprehensive income (expense)				(4,658)	(5,452)	6,022				(4,088)	16	(4,072)
Profit for the year									182,543	182,543	874	183,417
Comprehensive income	-	-	-	(4,658)	(5,452)	6,022	-	9,794	182,543	178,455	890	179,345
Dividends								(50,000)		(50,000)	(540)	(50,540)
Allocation of profit for the prior year			3,460					162,445	(165,905)	-		-
Other										-	85	85
Total effects deriving from owner transactions	-	-	3,460	-	-	-	-	112,445	(165,905)	(50,000)	(455)	(50,455)
Total variations in equity investments								-		-	762	762
Closing balance at 31 December 2019	125,000	86,135	19,146	(12,211)	(18,561)	21,703	96,212	697,899	182,543	1,101,654	5,413	1,107,067
Measurement of options and liabilities for acquisition of investments					-			115,213		115,213		115,213
Other comprehensive expense			-	(12,506)	(4,181)	(32,851)		399		(49,139)	(112)	(49,251)
Profit for the year									79,151	79,151	917	80,068
Comprehensive income	-	-	-	(12,506)	(4,181)	(32,851)	-	115,612	79,151	30,012	805	30,817
Dividends										-	(162)	(162)
Allocation of profit for the prior year			1,849					180,694	(182,543)	-		-
Other								1		1		1
Total effects deriving from owner transactions	-	-	1,849	-	-	-	-	180,695	(182,543)	1	(162)	(161)
Closing balance at 31 December 2020	125,000	86,135	20,995	(24,717)	(22,742)	(11,148)	48,523	994,206	79,151	1,246,880	6,056	1,252,936

Statement of cash flows

Statement of cash flows (indirect method)		
€/000	2020	2019
Cash flows from operating activities		
Profit for the year	79,151	182,543
Adjustments for:		
Depreciation of property, plant, equipment and right of use	56,877	54,833
Amortisation	66,773	56,593
Net variation in loss allowance	1,815	(990)
Net financial expense	26,871	25,168
Share of profit (loss) of equity-accounted investees	0	3,682
Gains (losses) on sale of property, plant and equipment and financial assets	0	0
Change in deferred taxes, provisions and employee benefits	(8,364)	2,593
Taxes	21,357	(11,225)
Non-controlling interests	643	420
Effect of other reserves	(4,180)	(3,378)
Hedging reserve	6,003	470
Exchange differences	(4,209)	(5,161)
Cash flows from operating activities gross of working capital	242,737	305,548
Variations in:		
– inventories and contract assets and liabilities	(6,991)	(2,193)
– trade receivables and other assets	41,452	59,667
– trade payables and other liabilities	(5,674)	(5,401)
Net interest paid	(27,181)	(26,783)
Income taxes paid	(15,684)	(22,851)
A) Net cash flows from operating activities	**228,659**	**307,987**
Cash flows from investing activities		
Sales of property, plant and equipment	8,250	4,576
Investments in property, plant and equipment	(45,742)	(41,809)
Sales of intangible assets	0	371
Net investments in intangible assets	(69,179)	(80,412)
Acquisition of proportionately consolidated equity investments	0	(1,881)
Investments in assets held for sale	0	(6,241)
Net increase in right-of-use assets	(22,634)	(80,910)
Sales of equity investments	0	-
Acquisition of equity investments, including net cash acquired	0	(307,201)
Investments in financial assets	(2,119)	(7,872)
B) Net cash flows used in investing activities	**(131,424)**	**(521,379)**
Cash flows from financing activities		
Dividends distributed	0	(50,000)
Net increase in debt pursuant to IFRS 16	3,610	67,166
New loans	377,323	500,294
Loans repaid	(333,497)	(3,041)
C) Net cash flows from financing activities	**47,436**	**514,419**
Net increase in cash and cash equivalents (A+B+C)	**144,671**	**301,027**
Opening cash and cash equivalents	**656,579**	**355,552**
Closing cash and cash equivalents	**801,250**	**656,579**



3. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020

3. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020

3.1 General information and basis of preparation

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

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

Statement of compliance with IFRS

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

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

Basis of presentation

The consolidated financial statements as at and for the year ended 31 December 2020 are comprised of a statement of financial position, an income statement, a statement of comprehensive income, a statement of changes in equity and a statement of cash flows, as well as these notes.

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

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

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

The consolidated financial statements as at and for the year ended 31 December 2020 were approved by the board of directors on 16 June 2021 for presentation to the shareholders.

Basis of consolidation

The consolidation policies adopted are as follows.

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

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

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

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

In accordance with the applicable IFRS, the group opted to recognise the changes in the acquisition-date net financial debt, which derive from the measurement of the call/put options for the non-controlling interests in the Comas Group and the agreement signed on 9 June 2021 to acquire the non-controlling interests in the System Group, directly in an equity reserve.

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

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

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

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

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

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

Translating foreign currency financial statements

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

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

The exchange rates applied are as follows:

Currency	Closing rate at 31/12/2020	Closing rate at 31/12/2019
United Arab Emirates dirham	4.5065	4.1257
Argentinian peso	103.2494	67.2749
Brazilian real	6.3735	4.5157
Swiss franc	1.0802	1.0854
Renminbi (Chinese yuan)	8.0225	7.8205
Colombian peso	4,202.34	3,688.6600
Czech koruna	26.242	25.4080
Egyptian pound	19.3168	18.0192
Pound sterling	0.89903	0.8508
Hong Kong dollar	9.5142	8.7473
Indonesian rupiah	17,240.76	15,595.6000
Indian rupee	89.6605	80.1870
Japanese yen	126.49	121.9400
Mexican peso	24.416	21.2202
Malaysian ringgit	4.934	4.5953
Polish zloty	4.5597	4.2568
Russian ruble	91.4671	69.9563
Saudi riyal	4.6016	4.2128
Swedish krona	10.0343	10.4468
Singapore dollar	1.6218	1.5111
Thai baht	36.727	33.4150
Turkish lira	9.1131	6.6843
Ukrainian hryvnia	34.7689	26.7195
US dollar	1.2271	1.1234
Vietnamese dong	28,331	26,033
South Korean won	1,336	1,296.2800
South African rand	18.0219	15.7773

Currency	2020 average rate	2019 average rate
United Arab Emirates dirham	4.1945	4.1107
Argentinian peso	80.9009	53.8430
Brazilian real	5.8943	4.4135
Swiss franc	1.0705	1.1124
Renminbi (Chinese yuan)	7.8747	7.7355
Colombian peso	4,214.9253	3,673.8618
Czech koruna	26.4551	25.6704
Egyptian pound	18.0654	18.8380
Pound sterling	0.8897	0.8778
Hong Kong dollar	8.8587	8.7715
Indonesian rupiah	16,627.3687	15,835.4007
Indian rupee	84.6392	78.8365
Japanese yen	121.8458	122.0073
Mexican peso	24.5194	21.5568
Malaysian ringgit	4.7959	4.6374
Polish zloty	4.4430	4.2976
Russian ruble	82.7248	72.4561
Saudi riyal	4.2831	4.1975
Swedish krona	10.4848	10.5891
Singapore dollar	1.5742	1.5273
Thai baht	35.7081	34.7571
Turkish lira	8.0547	6.3573
Ukrainian hryvnia	30.8432	28.9183
US dollar	1.1422	1.1195
Vietnamese dong	26,532.1206	25,999.7843
South Korean won	1,345.5765	1,305.3200
South African rand	18.7655	16.1762

Consolidation scope

The consolidated financial statements at 31 December 2020 are the results of the consolidation at such date of the financial statements of all companies directly and indirectly controlled by COESIA S.p.A. (the parent), except for the subsidiaries Lesina Autonoleggio S.r.l. and Comas Machinery India Private Limited as they were not material. The historical cost of equity investments measured at cost in the consolidated financial statements is not significantly different to the amount of such investments calculated using the equity method at 31 December 2020.

4S Engineering S.r.l. and FlexLink Systems Pty Ltd. left the consolidation scope during the year following the completion of their liquidation process.

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

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

Accounting policies

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

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

The comments present the corresponding amounts at 31 December 2019 and restated figures where different.

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

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

Estimates

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

All estimates and related assumptions are based on past experience and assumptions deemed reasonable and realistic when the consolidated financial statements were being prepared, also considering forecasts on how the COVID-19 pandemic will pan out. The closing balances of captions may differ from such estimates following possible changes in factors considered at the basis of their determination. The estimates and assumptions are regularly revised and, should the actual amounts differ from the initial estimates, the effects that cannot currently be estimated or foreseen are taken to profit or loss when such estimate is modified. If the modification of the estimate relates to both current and future periods, the effects of the estimation variation are taken to profit or loss in the relevant periods.

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

Loss allowance

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

Allowance for inventory write-down

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

Recoverable amount of non-current assets

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

Provisions for risks and charges

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

Provisions for product warranties and installations

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

Contingent liabilities

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

Realisation of deferred tax assets

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

Defined benefit plans

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

Foreign currency transactions

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

Fair value measurement

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

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

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

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

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

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

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

Accounting policies

Property, plant and equipment

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

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

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

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

Land is not depreciated.

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

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

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

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

Investment property

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

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

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

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

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

Right-of-use assets

IFRS 16 Leases provides a single lessee accounting model, eliminating the distinction between an operating lease and a finance lease and providing for the recognition of right-of-use assets and lease liabilities.

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. Right-of-use assets are initially measured at cost and subsequently depreciated over the term of the contract as defined when analysing whether the entity is reasonably certain to exercise the options to extend or terminate the lease. The cost of the right-of-use asset comprises the amount of the initial measurement of the lease liability, any initial direct costs incurred, an estimate of any costs to be incurred in restoring the asset at the end of the lease and any lease payments made at the commencement date less any lease incentives received.

Lease liabilities are initially measured at the present value of the fixed payments that are not paid at the commencement date and the exercise price of the purchase option and the option to terminate the lease if the lessee is reasonably certain to exercise the option. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined, or the lessee's incremental borrowing rate based on the term of the contract and the payment currency. Lease liabilities are subsequently measured by increasing the carrying amount to reflect interest on the lease liability and reducing the carrying amount to reflect the lease payments made. Lease liabilities are remeasured to reflect changes to the lease payment, adjusting the right-of-use assets by the same amount. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, a lessee shall recognise any remaining amount of the remeasurement in profit or loss. A lessee shall account for a lease modification as a separate lease if the modification increases the scope of the lease by adding the right to use one or more underlying assets and the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope. For a lease modification that is not accounted for as a separate lease, a lessee shall remeasure the lease liability by discounting the revised lease payments using a revised discount rate, based on the new lease term.

The lessee shall account for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset, recognising in profit or loss any gain or loss relating to the partial or full termination of the lease.

Right-of-use assets are not recognised for: i) short-term leases; ii) leases for which the underlying asset is of low value. The lease payments associated with those leases are recognised as an expense on a straight-line basis.

In the income statement, a lessee shall recognise the depreciation charge for the right-of-use asset under operating costs and interest expense on the lease liability under financial expense. The income statement also includes: i) payments for short-term leases and low-value leases, in the simplified format allowed by IFRS 16; and ii) variable lease payments not included in the measurement of the lease liability (e.g., payments based on use of the leased asset).

Intangible assets

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

Goodwill and other intangible assets with an indefinite life

Goodwill

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

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

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

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

The impairment loss is firstly used to reduce the carrying amount of goodwill.

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

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

Trademarks with an indefinite life

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

Intangible assets with a finite life

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

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

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

Research and development expenditure

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Equity-accounted investments

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

Investments in other companies are stated at acquisition or subscription cost. They are decreased for impairment if the investees have incurred losses and profits large enough to absorb those losses are not forecast in the immediate future. If the reasons for the write-down no longer exist, the original value is reinstated in subsequent years.

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

Employee benefits

Pension funds

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

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

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

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

Termination benefits

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

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

Receivables and financial assets

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

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

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

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

“Other non-current equity instruments” are initially recognised at cost (fair value of the initial fee paid) plus any directly-attributable transaction costs. Changes in fair value and any gains or losses on the sale of the investment are taken directly to comprehensive income. As such option is irrevocable and can be exercised investment by investment, any exceptions during initial recognition shall be disclosed in the relevant note. All investments in equity instruments shall be measured at fair value. In the case of securities traded on active markets, the fair value is determined with reference to the price at the close of trading at the reporting date.

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

Cash and cash equivalents

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

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

The current account overdraft is classified under “Current financial liabilities”.

Financial liabilities

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

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

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

Financial instruments

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

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

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

Derivatives

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

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

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

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

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

Inventories

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

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

Provisions for risks and charges

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

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

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

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

Fair value

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

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

Revenue recognition

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

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

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

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

Dividends

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

Purchase and service costs

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

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

Financial income and expense

Financial income and expense are recognised on an accruals basis.

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

Income tax expense

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

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

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

Grants related to income

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

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

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

Foreign currency transactions

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

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

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

Standards, amendments and interpretations endorsed by the EU and applicable as of 1 January 2020

The following table sets out the standards and interpretations approved by the IASB, endorsed by the EU and applicable for first time in 2020:

	Endorsement date	Published in the Official Journal	Effective date	Effective date for the group
Amendment to IFRS 16 Leases: COVID-19-related rent concessions (issued on 28 May 2020)	9 Oct 2020	12 Oct 2020	1 Jun 2020	1 Jan 2020
Amendments to IFRS 3 Business combinations (issued on 22 October 2018)	21 Apr 2020	22 Apr 2020	1 Jan 2020	1 Jan 2020
Amendments to IFRS 9, IAS 39 and IFRS 7: Interest rate benchmark reform (issued on 26 September 2019)	15 Jan 2020	16 Jan 2020	1 Jan 2020	1 Jan 2020
Amendments to references to the Conceptual Framework in IFRS standards (issued on 29 March 2018)	29 Nov 2019	6 Dec 19	1 Jan 2020	1 Jan 2020
Amendments to IAS 1 and IAS 8: Definition of material (issued on 31 October 2018)	29 Nov 2019	10 Dec 19	1 Jan 2020	1 Jan 2020

The amendment to IFRS 16 "COVID-19-related rent concessions" introduced a practical expedient to the "Lease modifications" section under which a lessee is not required to assess whether rent concessions received since 1 January 2020 that derive from the effects of COVID-19 are lease modifications. Accordingly, such rent concessions can be accounted for as positive variable lease payments without going through a lease modification.

In order to apply the exemption, all of the following conditions must be met:

- the rent concession occurs as a direct consequence of the COVID-19 pandemic and the reduction in lease payments affects only payments originally due up to June 2021;
- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- there is no substantive change to other terms and conditions of the lease.

The amendments to IFRS 3 Business combinations issued on 22 October 2018 clarify the definition of a transaction as an acquisition of a business or a group of assets.

The amendments to IFRS 9, IAS 39 and IFRS 7 "Interest rate benchmark reform" amend certain requirements for hedge accounting, providing temporary departures therefrom, in order to mitigate the impact of the uncertainty arising from the IBOR reform on future cash flows in the period preceding its completion. Moreover, the amendments require entities to provide additional disclosures about their hedging relationships that are directly affected by the uncertainties stemming from the reform, to which the departures apply.

On 29 March 2018, the IASB published an amendment to the References to the conceptual framework in IFRS standards. The conceptual framework sets out the fundamental concepts for financial reporting. It helps to ensure that the standards are conceptually consistent and that similar transactions are treated the same way, so as to provide useful information for investors, lenders and other creditors.

The amendments to IAS 1 and IAS 8 "Definition of material" aim to clarify the definition of "material" to make it easier for companies to judge if information is material and thus whether to include it in their financial statements. Specifically, it is specified that information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The adoption of the above standards and interpretations did not have a material impact on the measurement of the group's assets, liabilities, costs and revenues.

Forthcoming standards and interpretations

Standards and interpretations approved by the IASB and endorsed by the EU

The following table sets out the standards and interpretations approved by the IASB and endorsed by the EU and which will become mandatory after 31 December 2020:

	Endorsement date	Published in the Official Journal	Effective date	Effective date for the group
Amendments to IFRS 4 Insurance contracts: Deferral of effective date of IFRS 9 (issued on 25 June 2020)	15 Dec 2020	16 Dec 2020	1 Jan 2021	1 Jan 2021
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest rate benchmark reform – Phase 2 (issued on 27 August 2020)	1 Jan 2021	13 Jan 2021	14 Jan 2021	1 Jan 2021

The amendments to IFRS 4 Insurance contracts "Deferral of effective date of IFRS 9" aim to help companies implement IFRS 17 and make it easier for them to explain their financial performance.

The amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 "Interest rate benchmark reform – Phase 2" supplement those issued in 2019. The Phase 2 amendments mainly address the effects of changes to contractual cash flows or hedging relationships resulting from the replacement of one rate with an alternative rate (replacement issues). They help companies in applying IFRS when changes are made to contractual cash flows or hedging relationships due to the interest rate benchmark reform and provide useful information to users of financial statements.

Standards/interpretations approved by the IASB but not yet endorsed by the EU

The following table sets out the standards, interpretations, amendments to standards and interpretations or specific provisions contained in the standards and interpretations approved by the IASB but not yet endorsed by the EU at 31 December 2020:

	Expected effective date
IFRS 17 Insurance contracts (issued on 18 May 2017)	Annual reporting periods beginning on or after 1 January 2023
Amendments to IAS 1 Presentation of financial statements: Classification of liabilities as current or non-current	Annual reporting periods beginning on or after 1 January 2023
Amendments to: · IFRS 3 Business combinations · IAS 16 Property, plant and equipment · IAS 37 Provisions, contingent liabilities and contingent assets · Annual improvements 2018-2020 (all issued on 14 May 2020)	Annual reporting periods beginning on or after 1 January 2022
Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of accounting policies (issued on 12 February 2021)	Annual reporting periods beginning on or after 1 January 2023
Amendments to IAS 8 Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates (issued on 12 February 2021)	Annual reporting periods beginning on or after 1 January 2023

IFRS 17 Insurance contracts is a new standard that covers the recognition, measurement, presentation and disclosure of insurance contracts. It will replace IFRS 4 Insurance contracts issued in 2005. IFRS 17 applies to all insurance contracts regardless of the type of entity issuing the contracts and also to certain guarantees and financial instruments with discretionary participation features.

On 23 January 2020, the IASB issued amendments to the definitions of current and non-current assets contained in IAS 1, providing a more general approach to the classification of liabilities under IAS 1 based on contractual agreements.

On 14 May 2020, the IASB issued the following amendments:

- Amendments to IFRS 3 “Reference to the Conceptual Framework” which: (i) update references to the Conceptual Framework for Financial Reporting in IFRS 3; (ii) provide clarifications on the requirements for the recognition of provisions, contingent liabilities and levies assumed in a business combination at the acquisition date; (iii) explicitly state that an acquirer does not recognise contingent assets acquired in a business combination.
- Amendments to IAS 16 “Property, plant and equipment: proceeds before intended use” which clarify that proceeds from selling goods produced by an asset before the related item is available for use should be recognised in profit or loss together with the costs of producing those items.
- Amendments to IAS 37 “Onerous contracts - cost of fulfilling a contract” which provide clarifications on assessing whether a contract is onerous.
- “Annual improvements to IFRS standards 2018-2020 cycle”, containing technical and wording amendments to standards.

The amendments to IAS 1 and IAS 8 improve accounting policy disclosures so that they provide more useful information to investors and other primary users of the financial statements and help companies distinguish changes in accounting estimates from changes in accounting policies.

The IASB also published the proposal to extend by one year the application period of the amendment to IFRS 16 Leases issued in 2020 to help lessees accounting for COVID-19-related rent concessions.

The adoption of the above standards and interpretations are not expected to have a material impact on the measurement of the group’s assets, liabilities, costs and revenues.

Financial risk management

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

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

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

Liquidity risk

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

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

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

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

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

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

The following table shows the carrying amount and type of hedging transactions reflected in the current and non-current financial asset and liability captions at 31 December 2020.

€/000	FAIR VALUE GAIN		FAIR VALUE LOSS	
	CURRENT	NON-CURRENT	CURRENT	NON-CURRENT
INTEREST RATE HEDGE	-	-	-	(34,464)
CURRENCY HEDGE	3,536	-	(190)	0
Total	**3,536**	**0**	**(190)**	**(34,464)**

Credit risk

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

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

This process involves ongoing controls and monthly checks between the administration and sales departments. To date, there has been no increase in credit risk following the effects of COVID-19 thanks to both the high quality of the customer portfolio and the careful strategy used to monitor receivables managed at group level.

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

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

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

Market risk

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

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

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

Currency risk

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

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

Interest rate risk

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

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

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

The group's financial debt at a floating rate amounted to approximately €31 million at the reporting date. The impacts of a hypothetical increase or decrease in 2020 interest rates by 30 basis points, gross of tax effects, would be roughly €0.09 million.

The impact of the same hypothetical fluctuation in interest rates on derivative instruments measured at fair value in place at the reporting date, gross of tax effects, would amount to a gain of €282 thousand should the interest rate increase or a loss of €198 thousand should it decrease.

Price risk

The group is not exposed to price risk on commodities, except on an immaterial level, and the assets available for sale at 31 December 2020 refer to a property under construction, as detailed below, the carrying amount of which does not differ significantly from its fair value.

3.2 Segment reporting

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

Advanced Automated Machinery & Materials

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

The main companies operating in this segment are as follows:

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

- Emmeci S.p.A.;
- System Ceramics S.p.A..

Industrial Process Solutions

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

- FlexLink Group;
- Hapa AG;
- AZ Coesia GmbH (now Atlantic Zeiser GmbH);
- Tritron GmbH.

Operating segment analysis

The following tables, prepared on a consolidated basis, present information on operating segments for 2020 and 2019.

	2020			
€/000	*ADVANCED AUTOMATED MACHINERY AND MATERIALS*	*INDUSTRIAL PROCESS SOLUTIONS*	*OTHER*	TOTAL
Revenue	1,445,698	292,401	23,171	**1,761,270**
Operating profit before non-recurring expense	125,716	26,453	1,292	**153,461**
Non-recurring expense	(23,805)	(307)	(902)	**(25,014)**
Operating profit	101,911	26,146	390	**128,447**
Net financial expense and exchange differences (*)				**(41,615)**
Gains (losses) on equity-accounted investees				**-**
Pre-tax profit				**86,832**
Income tax expense				**(6,764)**
Profit for the year				**80,068**
Profit for the year attributable to non-controlling interests				**917**
Profit for the year attributable to the owners of the parent				**79,151**
Amortisation, depreciation and impairment losses	(107,940)	(14,046)	(1,664)	**(123,650)**

(*) includes net exchange losses of €14.8 million, impairment of loan assets of €1 million and interest expense on lease liabilities of €3.5 million

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

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

Statement of financial position figures at 31 December 2020 are as follows:

€/000	ADVANCED AUTOMATED MACHINERY & MATERIALS	INDUSTRIAL PROCESS SOLUTIONS	OTHER	UNALLOCATED (*)	TOTAL (**)
Property, plant and equipment, investment property and intangible assets	1,476,110	183,060	8,552	1,058	1,668,780
Other assets	1,239,702	165,486	11,467	683,673	2,100,328
Non-current assets held for sale	7,352				7,352
Total assets at 31/12/2020	2,723,164	348,546	20,019	684,731	3,776,460
Total liabilities at 31/12/2020	1,220,591	187,629	9,337	1,105,967	2,523,524

(*) Unallocated amounts refer to the assets and liabilities of the parent and Coesia Finance S.p.A. and respectively include cash and cash equivalents of €646,756 thousand and loans and borrowings of €1,073,521 thousand that cannot be directly allocated to the other operating segments.

(**) The difference between total assets and total liabilities (€1,252,936 thousand) represents the consolidated equity at 31 December 2020.

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

€/000	ADVANCED AUTOMATED MACHINERY & MATERIALS	INDUSTRIAL PROCESS SOLUTIONS	OTHER	UNALLOCATED (*)	TOTAL (**)
Property, plant and equipment, investment property and intangible assets	1,494,537	186,460	8,820	1,422	1,691,239
Other assets	1,195,848	182,118	12,983	562,390	1,953,339
Non-current assets held for sale	7,481				7,481
Total assets at 31/12/2019	2,697,866	368,578	21,803	563,812	3,652,059
Total liabilities at 31/12/2019	1,297,180	186,369	9,320	1,052,123	2,544,992

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

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

The sales volumes of the Advanced Automated Machinery & Materials segment decreased on the previous year due to the public health emergency. Operating profit as a percentage of revenue was impacted by the costs to complete the new platforms and decreased compared to the previous year, mainly due to the production under-absorption related to the shutdown of facilities or delays in orders attributable to the public health emergency. Positive forecasts should be confirmed for the segment in 2021 considering the trends in negotiations underway with customers and incoming orders, unless the COVID-19 emergency endures.

Sales in the Industrial Process Solutions (IPS) segment slowed down in 2020 as a result of projects being postponed due to the public health emergency. The segment recorded an operating profit (slightly up as a percentage of revenue on the previous year despite the fall in turnover) thanks to the positive contribution of sales volumes in the after-sales segment, the improved profitability of machinery and efforts to contain indirect costs. Actions to improve the profitability of machinery and streamline operating costs will continue in 2021 to support a further improvement expected in future financial performances.

3.3 *Notes to the statement of financial position*

3.3.1 Property, plant and equipment and investment property

This caption is comprised as follows:

€/000	31/12/2020	31/12/2019
Land	27,264	28,161
Buildings	105,670	111,394
Leasehold improvements	2,338	3,127
Plant and machinery	80,016	74,644
Industrial and commercial equipment	15,968	18,621
Other assets	13,583	19,493
Advances paid for the purchase of property, plant and equipment	957	1,034
Assets under construction	50,269	43,134
Total property, plant and equipment	**296,065**	**299,608**
Investment property	443	523
Total investment property	**443**	**523**

Details and analyses of changes in property, plant and equipment in 2020 are provided in Annex II.

Property, plant and equipment and investment property are largely in line with the previous year end. Increases at 31 December 2020 mainly relate to capital expenditure for plant, machinery and equipment required to extend, renew and modernise the group's production sites and offices.

Assets under construction mainly comprise work in progress on buildings owned by G.D S.p.A. which will be ready to use in subsequent years (€36,239 thousand; 31 December 2019: €34,757 thousand), along with upgrading work under way at certain facilities.

3.3.2 Right-of-use assets and lease liabilities

The group's right-of-use assets can be analysed as follows:

€/000	31/12/2019	Increases for new contracts and lease modifications	Terminations or lease modifications	Depreciation and impairment losses for the year	Exchange losses	31/12/2020
Land and buildings	105,891	21,681	(2,501)	(18,423)	(1,429)	**105,219**
Plant and machinery	2,117	-	-	(318)	-	**1,799**
Vehicles	6,049	3,494	(203)	(3,456)	14	**5,898**
Other assets	782	179	(16)	(465)	(6)	**474**
Total right-of-use assets	**114,839**	**25,354**	**(2,720)**	**(22,662)**	**(1,421)**	**113,390**

“Land and buildings” of €105.2 million comprise right-of-use assets related to land and buildings in Italy of €75.1 million and to buildings located abroad of €30.1 million. Right-of-use assets related to buildings mainly refer to leases of building complexes used as headquarters and offices. The increases of €21.7 million refer to leases signed during the year and the amendment of the estimated duration and contractual options. The decreases of €2.5 million refer to terminations and the remeasurement of lease liabilities due to forecasts that the group will exercise the option to terminate the lease or not renew it.

“Plant and machinery” and “Vehicles” equal to €1.8 million and €5.9 million, respectively, mainly refer to leases signed by group companies for plant used in production and company vehicles, while “Other assets” of €0.5 million includes leases of forklifts, trucks, hardware and other minor industrial and commercial equipment.

Lease liabilities changed as follows during the year:

€/000	31/12/2019	Increases for new contracts and lease modifications	Terminations or lease modifications	Repayments of the year	Exchange losses	31/12/2020
Lease liabilities	113,496	25,354	(2,730)	(23,280)	(1,137)	**111,703**
of which:						
Non-current portion	91,540					**90,111**
Current portion	21,956					**21,592**
Total lease liabilities	**113,496**	**25,354**	**(2,730)**	**(23,280)**	**(1,137)**	**111,703**

Lease liabilities mainly include those for the lease of the group’s headquarters and administrative offices. “Increases for new contracts and lease modifications” mainly include leases signed during the year for building units and the remeasurement of certain leases already in place, resulting from the update of the measurement component of the leases themselves, i.e., the reasonable certainty that contractual renewal options will be exercised. The decrease during the year is due to the repayment of lease instalments due within one year expired in 2020 (€23.4 million) and terminations and the remeasurement of lease liabilities due to forecasts that the group will exercise the option to terminate the lease or not renew it (€2.7 million).

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

	Due within one year	Due within five years	Due after five years	31/12/2020
Lease liabilities	**21,592**	**48,230**	**41,881**	**111,703**

3.3.3 Goodwill and other intangible assets with an indefinite life

€/000	31/12/2020	31/12/2019
Goodwill (arising on consolidation)	908,153	927,267
Trademarks with an indefinite life	81,135	80,750
Total	**989,288**	**1,008,017**

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

Goodwill, totalling €908.2 million (31 December 2019: €927.3 million), is allocated to the Advanced Automated Machinery & Materials and Industrial Process Solution CGUs for €790.0 million (31 December 2019: €809.1 million) and €118.2 million (31 December 2019: €118.2 million), respectively.

Trademarks with an indefinite life amount to €81.1 million (31 December 2019: €80.8 million) and are fully allocated to the Advanced Automated Machinery & Materials and Industrial Process Solutions CGUs, for €71.4 million and €9.7 million (€71.4 million and €9.4 million, respectively, at 31 December 2019).

The decrease on the previous year (€18.7 million) refers fully to exchange losses, mainly related to fluctuations in the dollar exchange rate.

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

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

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

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

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

- the growth rate "g" was assumed at 2%;
- the 2021-2025 CAGR (compound average growth rate) was assumed at 3.61% for the Industrial Process Solution segment and 7.71% for the Advanced Automated Machinery and Materials segment;
- the WACC (weighted average cost of capital) was assumed at 4.7%.

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

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

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

3.3.4 Other intangible assets with a finite life

This caption is comprised as follows:

€/000	31/12/2020	31/12/2019
Trademarks with a finite life	53	55
Industrial patents and intellectual property rights	12,685	17,163
Software licences	8,853	11,997
Development costs	189,045	178,257
Other intangible assets with a finite life	57,967	60,340
Assets under development and payments on account	991	440
Total	**269,594**	**268,252**

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

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

Capitalised development costs for the year amounts to €65,076 thousand, while amortisation for the year amounts to €53,535 thousand. Capitalised development costs mainly relates to the subsidiary G.D S.p.A. and refers to the development of the new platforms dedicated to new generation products in the tobacco segment and new flexible platforms based on electronic technology (the 4.0 industry), and to the subsidiary ACMA S.p.A. related to the "SFI" Sustainable Forestry Initiative®.

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

3.3.5 Equity-accounted investments

This caption refers to:

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

All of the above broke-even in 2020.

The group also holds a non-controlling investment (49%) in XPack S.r.l., a company active in the design and production of innovative packaging machinery. Following the assessment of the forecast profits of the associate, the non-controlling investment and the quotaholder loan paid to the company, recognised under "Non-current financial assets" at 31 December 2020, were fully impaired. Therefore, at 31 December 2020, the carrying amount is zero.

3.3.6 Non-current financial assets

This caption is comprised as follows:

Investments in subsidiaries and associates measured at cost:

€/000	Investor	31/12/2020	31/12/2019
LESINA AUTONOLEGGIO S.r.l. (Italy)	G.D S.p.A. (Italy)	147	147
FARE IMPRESA IN DOZZA	G.D S.p.A. (Italy)	43	43
COMAS MACHINERY INDIA PRIVATE LIMITED	COMAS S.p.A. (Italy)	7	7
Total investments in subsidiaries and associates measured at cost		**197**	**197**

Investments in other companies

This caption is comprised as follows:

€/000	Investor	31/12/2020	31/12/2019
Gudang Garam	G.D S.p.A. (Italy)	111	111
Crit S.r.l.	G.D S.p.A. (Italy)	52	52
Other	Various	181	198
Total investments in other companies measured at cost		**344**	**361**

Other non-current financial assets:

Such caption, totalling €15,253 thousand (31 December 2019: €12,272 thousand), includes €12,894 thousand (31 December 2019: €10,084 thousand) related to the group's units in three closed-end funds investing in companies developing innovative technologies (venture capital companies). Such investments were classified as financial assets measured at fair value through profit or loss in accordance with the provisions of IFRS 9 for measuring assets and liabilities. The group undertook to subscribe units for €5,000 thousand, USD5,000 thousand and USD5,000 thousand, respectively. The increase is partly related to the positive fair value of the units held (€983 thousand) while the rest is due to new subscriptions during the year.

The remaining amount of €2,359 thousand (31 December 2019: €2,188 thousand) chiefly refers to guarantee deposits.

The parent also granted a quotaholder loan of €3,000 thousand to XPack S.r.l. in 2020, based on the forecast future losses of the associate, this amount was fully impaired using allowances accrued in 2019 and 2020 (€2,000 thousand and €1,000 thousand, respectively).

3.3.7 Deferred tax assets and liabilities

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

3.3.8 Inventories

This caption is comprised as follows:

€/000	31/12/2020	31/12/2019
Raw materials, consumables and supplies	172,059	174,604
(LESS) Allowance for inventory write-down	(44,242)	(38,853)
Total raw materials, consumables and supplies	**127,817**	**135,751**
Work in progress and semi-finished products	357,767	421,751
(LESS) Allowance for inventory write-down	(94,493)	(87,358)
Total work in progress and semi-finished products	**263,274**	**334,393**
Finished goods	110,929	112,035
(LESS) Allowance for inventory write-down	(38,488)	(38,389)
Total finished goods	**72,441**	**73,646**
Total inventories	**640,755**	**708,390**
Total allowance for inventory write-down	**(177,223)**	**(164,600)**
Total inventory	**463,532**	**543,790**

The decrease in inventories on the previous year end amounts to €80,258 thousand, net of the €12,623 thousand increase in the allowance for inventory write-down.

The decrease is mainly due to the increase in contract assets and liabilities related to contract work in progress. Accruals to the allowance for inventory write-down are made for obsolete, slow-moving and/or excess materials.

3.3.9 Contract assets and liabilities

€/000	31/12/2020	31/12/2019
Contract work in progress	337,154	144,314
(LESS) Allowance for inventory write-down	(6,514)	(422)
(LESS) Payments in advance received	(139,647)	(49,604)
Total contract assets	**190,993**	**94,288**

€/000	31/12/2020	31/12/2019
Contract work in progress	29,173	-
(LESS) Allowance for inventory write-down	(1,153)	-
(LESS) Payments in advance received	(37,474)	-
Total contract liabilities	**(9,456)**	**-**

Starting from 2020, the group has changed how contract work in progress is presented to bring it into line with common accounting practices. Therefore, contract work in progress is now recognised under “Contract assets” and “Contract liabilities”, net of relevant payments in advance received from customers. Should contract work in progress be higher than the payments in advance received, the latter are recognised as contract assets. Conversely, if the former is higher, it is recognised as contract liabilities. In order to make 2020 comparable with 2019, balances at 31 December 2019 have been restated according to the new method. This led to the reclassification of payments in advance received on contract work in progress at 31 December 2019 from “Other current liabilities” to “Contract liabilities”.

The overall increase in contract assets and liabilities on the previous year end, including translation differences, amounts to €87,249 thousand. This increase is due to the higher number of contracts in progress and not yet delivered at 31 December 2020 compared to the previous year end following the postponement of the delivery of certain projects as a result of the COVID-19 pandemic, in addition to the aforementioned “SFI” Sustainable Forestry Initiative® contract, equal to €48,937 thousand at 31 December 2020 (31 December 2019: €15,534 thousand).

3.3.10 Trade receivables

The caption is broken down as follows:

€/000	31/12/2020	31/12/2019
Trade receivables	360,022	401,122
(LESS) Loss allowance	(32,985)	(31,170)
Total trade receivables	**327,037**	**369,952**

Trade receivables derive exclusively from the group’s industrial activities and are shown net of the loss allowance of €32,985 thousand (31 December 2019: €31,170 thousand). The caption includes trade receivables due after one year of €8,319 thousand (31 December 2019: €5,214 thousand). The decrease on the previous year end of €41,100 thousand is mainly due to the group postponing the invoicing of certain contracts which also led to an increase in contract assets, lower volumes and the different timing of collections.

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

Receivables from non-consolidated subsidiaries

€/000	31/12/2020	31/12/2019
Lesina Autonoleggio S.r.l.	7	5
Total	**7**	**5**

Receivables from associates

€/000	31/12/2020	31/12/2019
XPack S.r.l.	76	63
Finotti Artigiana S.r.l.	7	9
Errelle S.r.l.	168	114
Total	**251**	**186**

Receivables from related companies

€/000	31/12/2020	31/12/2019
MAST S.r.l.	5,140	4,798
Total	**5,140**	**4,798**

3.3.11 Current financial assets

The caption is broken down as follows.

€/000	31/12/2020	31/12/2019
Securities	34,398	39,627
Current loan assets from non-consolidated group companies	85	85
Current loan assets from associates	80	40
Current loan assets from third parties	565	300
Cash flow hedges	2,065	415
Fair value hedges	1,471	192
Loan prepayments	1,890	1,757
Other current financial assets	7,320	8,330
Total current financial assets	**47,874**	**50,746**

Securities include the carrying amount of the units of the whole-life insurance policy signed by COESIA S.p.A. with Credit Agricole during 2014. The original amount of €20,000 thousand increased during 2016 as a result of the subscription of additional units for €2,000 thousand. The accrued return amounts to €2,398 thousand at 31 December 2020, of which €2,065 thousand accrued in previous years. Interest accrues on a quarterly basis and is paid only when the units are sold.

Furthermore, COESIA S.p.A. signed additional insurance policies for €15,562 thousand from 2015 to 2017. The group collected €5,562 in 2020 as one of such policies expired. As a result, the residual amount of the policies at 31 December 2020 was €10,000.

"Current loan assets from third parties" include €7,320 thousand related to the loan assets of System China, recognised under "Current financial liabilities" arising from System China's subscription of 36% of the share capital of the newco Modula China. As part of COESIA S.p.A.'s acquisition of the System S.p.A. ceramics business unit, System China subscribed 36% of the share capital of the newco Modula China for approximately €7,320 thousand, to be paid via the transfer of the new production facility intended for System S.p.A.'s Modula business. As agreed between the parties, following the transfer of the production facility, which is expected to take place in 2021, System China will sell its 36% investment in Modula China to Modula S.p.A. for an amount allowing for the recovery of construction costs. The production facility under construction is reflected under "Non-current assets held for sale" for €7,352 thousand.

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

€/000	31/12/2020	31/12/2019
LESINA AUTONOLEGGIO S.r.l. (Italy)	85	85
Total current loan assets from non-consolidated group companies	**85**	**85**

Current loan assets from associates are broken down as follows:

€/000	31/12/2020	31/12/2019
FARE IMPRESA IN DOZZA S.r.l. (Italy)	80	40
Total current loan assets from associates	**80**	**40**

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

3.3.12 Current tax assets and liabilities

Current tax assets are broken down as follows:

€/000	31/12/2020	31/12/2019
Tax assets	6,626	11,209
Tax consolidation scheme assets	30,926	29,135
Other	6,432	8,327
Total current tax assets	**43,984**	**48,671**

The tax consolidation scheme assets can be used in upcoming tax years to offset the payment of the related payments on account and direct income taxes of Italian group companies.

Current tax liabilities are broken down as follows:

€/000	31/12/2020	31/12/2019
Tax liabilities	12,503	9,622
IRPEF liability for employees and self-employed workers and other withholdings	12,746	15,190
Other tax liabilities	2,031	233
Total current tax liabilities	**27,280**	**25,045**

Group management does not believe that the years open to tax inspection for the parent and its main subsidiaries at the reporting date (2016 and subsequent years for Italian companies with regard to both direct and indirect taxes) will lead to any significant liabilities not shown in the consolidated financial statements. Other tax liabilities include the substitute tax of €1,953 thousand to be paid on the revaluations of property, plant and equipment and intangible assets made at 31 December 2020 by certain Italian group companies as per Law no. 126/2020.

3.3.13 Other current assets

This caption is comprised as follows:

€/000	31/12/2020	31/12/2019
Social security institutions	312	141
Employees	1,938	1,275
Advances to suppliers	11,871	9,928
Non-financial accrued income	89	3,428
Other operating lease prepayments	474	0
Insurance prepayments	2,820	3,230
Maintenance prepayments	649	695
Other prepayments	8,464	12,256
VAT assets	30,985	26,992
Other assets	13,294	11,408
Total other current assets	**70,896**	**69,353**

VAT assets include €3,171 thousand which is expected to be collected beyond 2020.

3.3.14 Cash and cash equivalents

This caption is comprised as follows:

€/000	31/12/2020	31/12/2019
Bank and postal accounts	800,683	655,997
Cash and cash equivalents	567	582
Total cash and cash equivalents	**801,250**	**656,579**

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

3.3.15 Non-current assets held for sale

These mainly include System China's building, which is under construction at 31 December 2020, amounting to €7,352 thousand, as already mentioned in the "Current loan assets from third parties" caption.

3.3.16 Equity

Equity captions are broken down as follows:

€/000	31/12/2020	31/12/2019
Share capital	**125,000**	**125,000**
Revaluation reserves	86,135	86,135
Legal reserve	20,995	19,146
Hedging reserve	(24,717)	(12,211)
Actuarial reserve	(22,742)	(18,561)
Translation reserve	(11,148)	21,703
Total reserves	**48,523**	**96,212**
Retained earnings	**994,206**	**697,899**
Profit for the year attributable to the owners of the parent	**79,151**	**182,543**
Equity attributable to the owners of the parent	**1,246,880**	**1,101,654**
Equity attributable to non-controlling interests	6,056	5,413
Total equity	**1,252,936**	**1,107,067**

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

Equity attributable to the owners of the parent

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

Details on changes in reserves are provided herebelow.

The legal reserve, amounting to €20,995 thousand, increased by €1,849 thousand following the allocation of the 2019 profit.

The actuarial reserve decreased by €4,181 thousand mainly following the actuarial losses of the year.

The hedging reserve was a negative €24,717 thousand and comprises changes in the fair value of derivatives on exchange and interest rates signed to hedge foreign currency transactions and loans taken out by the group, net of the related tax effect.

Retained earnings increased by €296,307 thousand on the previous year end mainly due to the combined effect of the allocation of the profit for the previous year and the positive effect, totalling €115,213 thousand, of:

- the adjustment of the financial liability related to the call/options on the non-controlling interest in Comas S.p.A. to its estimated settlement amount; and
- the adjustment of the financial liability related to the agreement signed on 9 June 2021 for

the acquisition of the non-controlling interest in System Ceramics S.p.A., as described in more detail in the section on “Current and non-current financial liabilities”, to its estimated settlement amount.

Furthermore, retained earnings include €39,358 thousand related to the first-time adoption reserve accrued for the adoption of the IFRS starting from 1 January 2015, €4,095 thousand as the negative effect related to the first-time adoption of IFRS 15 and €3,378 thousand as the negative effect related to the first-time adoption of IFRS 16.

Equity attributable to non-controlling interests

This caption refers to equity attributable to non-controlling interests amounting to €6,056 thousand, including the profit attributable to non-controlling interests for 2020 of €917 thousand. In 2020, the subsidiary Tritron GmbH, 49% owned by non-controlling interests, distributed dividends of €330 thousand. Therefore, equity attributable to non-controlling interests decreased by €162 thousand.

Reconciliation between equity of the parent and consolidated equity

The reconciliation of the equity and profit for the year resulting from the parent’s separate financial statements and the corresponding consolidated amounts as at and for the years ended 31 December 2020 and 2019 is as follows:

	2020		2019	
€/000	Equity	Profit for the year	Equity	Profit for the year
Separate financial statements of the parent - IV Directive	**274,608**	**62,225**	**226,218**	**36,994**
Adjustment of the parent’s separate financial statements to IFRS	1,730	578	1,151	1,481
IFRS-compliant separate financial statements	**276,338**	**62,803**	**227,369**	**38,475**
Difference between the equity of consolidated investees and the equivalent carrying amounts in the parent’s separate financial statements	938,120	83,055	888,966	212,940
Dividends	-	(85,062)	-	(70,000)
Equity-accounted investees	-	-	-	875
Other consolidation entries	32,422	18,355	(14,681)	253
Total attributable to the owners of the parent	**1,246,880**	**79,151**	**1,101,654**	**182,543**
Equity and profit attributable to non-controlling interests	6,056	917	5,413	874
Total consolidated	**1,252,936**	**80,068**	**1,107,067**	**183,417**

3.3.17 Current and non-current financial liabilities

This caption is comprised as follows at 31 December 2020 and 31 December 2019:

31/12/2020, €/000	CURRENT PORTION	NON-CURRENT PORTION	TOTAL	OF WHICH DUE AFTER FIVE YEARS
CURRENT ACCOUNT OVERDRAFTS	-	-	-	-
BANK LOANS	**12,638**	**960,254**	**972,892**	**693,957**
Loans	12,638	960,254	**972,892**	**693,957**
FINANCE LEASES	-	-	-	-
OTHER FINANCIAL BACKERS	**2,856**	**11,820**	**14,676**	-
Public funding	1,244	7,950	**9,194**	-
Factoring	1,444	3,811	**5,255**	-
Other	168	59	**227**	-
BONDS	**100,629**	-	**100,629**	-
OTHER FINANCIAL LIABILITIES	**7,818**	**37,629**	**45,447**	-
LIABILITIES FOR ACQUISITION OF AND OPTIONS ON INVESTMENTS	**219,240**	**13,173**	**232,413**	
TOTAL FINANCIAL LIABILITIES	**343,181**	**1,022,876**	**1,366,057**	**693,957**

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

In June 2020, the non-controlling investors in System Ceramics S.p.A. exercised their put option for 40% of the company's shares to COESIA S.p.A. as per the agreement for COESIA S.p.A.'s acquisition of 60% of System Ceramics S.p.A. drawn up in 2018 and executed in 2019. After such option was exercised, the parent sent a formal claim, following which the parties entered into negotiations to try to find an out-of-court agreement. On 9 June 2021, the parent and the sellers reached and executed an agreement amending part of the original acquisition agreement, whereby the parent acquired the 40% investment in System Ceramics S.p.A. for a fixed consideration and an earn-out to be paid in 2025 and calculated on the basis of the acquiree's financial position and performance in 2023 and 2024. The current portion of "Liabilities for acquisition of and options on investments” includes the amount due to the sellers of 40% of System Ceramics S.p.A. (including a residual amount of €1,469 thousand due for the previous acquisition of a 60% stake). The non-current portion of such caption includes the best estimate of the earn-out due in 2025. Such estimate is based on the acquiree’s three-year business plan.

The current portion of “Liabilities for acquisition of and options on investments” also includes the call/put options for the non-controlling interests in the Comas Group.

On 1 October 2014, COESIA S.p.A. issued and placed on the ExtraMOT PRO bond market, which is reserved for professional investors, bonds for €100 thousand with a bullet repayment on 1 October 2021. The liability recognised in the 2020 consolidated financial statements at amortised cost amounts to €99,881 thousand. These bonds accrue interest at an annual rate of 3%, which is payable on 1 October of each year of the bond term, beginning in 2014.

Bank loans totalling €972.9 million mainly include COESIA S.p.A.’s loans, of which €12.6 million is due in 2021, €25.0 million due in 2022, €25.0 million due in 2023, €203.8 million due in 2024, €12.5 million due in 2025 and €694.0 million due in 2026. All of the above loans are measured at amortised cost.

Loans increased on the previous year end due to:

- two new loans, one issued in January 2020 with a nominal amount of €180 million due in 2024 and one issued in April 2020 with a nominal amount of €200 million due in 2026;
- the repayment of four different loans, totalling €330 million, which were due in 2020-2022.

These actions enabled the group to extend its average payment dates.

The above-mentioned bank loan agreements require compliance with economic and financial covenants calculated on the COESIA Group’s consolidated financial statements. Such covenants are checked by banks every year. They were complied with at 31 December 2020. Interest accrues at market rates on all loans.

The derivatives in place at 31 December 2020 are as follows:

- a derivative to hedge interest rate risk agreed on 22 December 2017. With a notional amount of €40 million, the derivative started on 22 January 2018 and expires on 22 January 2025. Under such derivative, the group undertakes to pay/collect the differential between 6-month Euribor and the fixed rate of 0.448% on a quarterly basis. It was agreed to hedge the loan agreement of the same amount signed on 22 December 2017 but paid out on 22 January 2018. The market valuation of such transaction at 31 December 2020 showed a loss of approximately €873 thousand, which was recognised under “Non-current financial liabilities”, with a balancing entry under the “Hedging reserve”;

- a derivative to hedge interest rate risk agreed on 19 January 2018. With a notional amount of €60 million, the derivative started on 22 January 2018 and expires on 22 January 2025. Under such derivative, the group undertakes to pay/collect the differential between 3-month Euribor and the fixed rate of 0.463% on a quarterly basis. It was agreed to hedge the loan of the same amount paid out on 22 January 2018. The market valuation of such transaction at 31 December 2020 showed a loss of approximately €1,390 thousand, which was recognised under “Non-current financial liabilities”, with a balancing entry under the “Hedging reserve”;
- four derivatives to hedge interest rate risk. With a notional amount of €180 million, the derivatives started on 8 January 2020 and expire on 20 December 2024. Under such derivatives, the group undertakes to pay/collect the differential between 3-month Euribor and the fixed rate of -0.01% on a quarterly basis. They were agreed to hedge the syndicate loan agreement signed on 20 December 2019 and paid out on 8 January 2020. The market valuation of such transaction at 31 December 2020 showed a loss of approximately €3,533 thousand, which was recognised under “Non-current financial liabilities”, with a balancing entry under the “Hedging reserve”;
- four derivatives to hedge interest rate risk. With a notional amount of €200 million, the derivatives started on 30 April 2020 and expire on 31 December 2026. Under such derivatives, the group undertakes to pay/collect the differential between 3-month Euribor and the fixed rate of 0.0175% (average) on a quarterly basis. They were agreed to hedge the syndicate loan agreement signed on 15 April 2020 and paid out on 30 April 2020. The market valuation of such transaction at 31 December 2020 showed a loss of approximately €5,328 thousand, which was recognised under “Non-current financial liabilities”, with a balancing entry under the “Hedging reserve”;
- nine derivatives to hedge interest rate risk for a total notional amount of €475 million,

expiring on 31 December 2026. Under such derivatives, the group undertakes to pay/collect the differential between 3-month Euribor and the fixed rate of 0.3608% (average of the nine derivatives) on a quarterly basis. They were agreed to hedge the term credit facility part of the syndicated loan agreement signed in July 2018 and paid out in January 2019. The market valuation of such transactions at 31 December 2020 showed a loss of approximately €23,340 thousand, which was recognised under "Non-current financial liabilities", with a balancing entry under the "Hedging reserve";

- a derivative measured at fair value and originally signed in 2010 to hedge the interest rate risk linked to the finance lease for the multifunctional MAST building demerged during 2015. With decreasing notional amounts, the derivative expires in 2029. It amounts to €14,080 thousand at 31 December 2020 and provides for a floor of 2.48% and a cap of 4.5%. The derivative does not generate effects if the 3-month Euribor is between 2.48% and 4.5%. The market valuation of such transaction at 31 December 2020 showed a loss of approximately €2,169 thousand, which was recognised under "Non-current financial liabilities";
- a derivative measured at fair value and originally signed in 2017 to hedge the interest rate risk related to a loan agreed in 2017, originally expiring in 2021 but fully repaid on 8 January 2020. With a notional amount of €75 million, the derivative started on 12 May 2017 and expires on 12 May 2021. Under such derivative, the group undertakes to pay/collect the differential between 3-month Euribor and the fixed rate of 0.145% on a quarterly basis. The market valuation of such transaction at 31 December 2020 showed a loss of approximately €186 thousand, which was recognised under "Non-current financial liabilities";
- a derivative measured at fair value and originally signed in 2017 to hedge the interest rate risk related to a loan agreed in 2017, originally expiring in 2021 but fully repaid on 8 January 2020. With a notional amount of €75 million, the derivative started on 11 April 2017 and expires on 11 April 2021. Under such derivative, the group undertakes to pay/collect the differential between 3-month Euribor and the fixed rate of 0.035% on a quarterly basis. The market valuation of such transaction at 31 December 2020 showed a loss of approximately €122 thousand, which was recognised under "Non-current financial liabilities".

The current portion of “Other financial liabilities” includes €7,320 thousand for the payment related to System China’s subscription of 36% of the share capital of the newco Modula China, as already mentioned in the “Current loan assets from third parties” caption.

3.3.18 Employee benefits

Defined benefit plans

At 31 December 2020, the caption mainly includes €76,367 thousand (31 December 2019: €74,098 thousand) for post-employment benefits for companies resident in Italy and liabilities for defined benefits pension funds pursuant to IAS 19 for foreign companies, determined on an actuarial basis, as mentioned in the section on accounting policies. The changes in defined benefit plans during the year were as follows:

€/000	2020	2019
Present value of defined benefit plans - opening balance	**74,098**	**62,870**
Interest cost	639	1,061
Current service cost	3,386	3,005
Past service cost	(146)	(1,208)
Benefits paid by the group and employees	(5,862)	(6,221)
Net actuarial losses for the year	5,959	7,547
Net transfers	(34)	5,911
Net exchange gains (losses)	(1,673)	1,133
Present value of defined benefit plans - closing balance	**76,367**	**74,098**

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

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

The discount rates used as reference are as follows:

2020	Europe	America	Asia Pacific
Discount rate	0.2%-1.5%	2.1%-2.3%	7.3%
Annual salary increase rate	1.0%-3.0%	0.0%-3.5%	5.0%
Annual inflation rate	0.8%-3.10%	0.0%	0.0%

2019	Europe	America	Asia Pacific
Discount rate	0.25%-2.1%	3.0%-3.1%	8.1%
Annual salary increase rate	1.0%-3.0%	0.0%-3.5%	8.0%
Annual inflation rate	0.95%-3.2%	0.0%	0.0%

The effects of a hypothetical increase or decrease of 50 basis points in the 2020 discount rate, net of the tax effects, are as follows:

Sensitivity analysis (€/000)	Increase + 50 bp	Decrease - 50 bp
Net actuarial (gains)/losses for the year	(11,286)	11,733

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

These provisions are composed as follows:

€/000	31 December 2020	31 December 2019
Provisions for product warranties	58,972	45,304
Other provisions for risks and charges	14,832	18,182
Total provisions for risks and charges	**73,804**	**63,486**

€/000	Non-current portion	Current portion	Total 2020
Provisions for product warranties	7,826	51,147	58,972
Other provisions for risks and charges	5,743	9,089	14,832
Total provisions for risks and charges	**13,569**	**60,235**	**73,804**

The provisions for product warranties and other provisions for risks and charges mainly reflect charges for work carried out under warranty to be incurred after the reporting date but relating to machinery sold before that date, as well as prudently estimated charges for contract risks and any loss-making orders, not included under "Contract assets" and "Contract liabilities", related to group production activities.

3.3.20 Trade payables

€/000	31 December 2020	31 December 2019
Trade payables and invoices to be received	388,741	354,196
Payables to sales agents	13,808	13,998
Trade payables to non-consolidated group companies	29	66
Trade payables to associates	9,635	8,326
Total trade payables	**412,213**	**376,586**

The €35,627 thousand increase on the previous year end is mainly due to the different procurement times due to production trends impacted by COVID-19, the year-end backlog and actions to manage working capital.

3.3.21 Other current liabilities

€/000	31 December 2020	31 December 2019
Advances from customers	202,080	248,005
Social security institutions	20,991	17,519
Due to employees - wages and salaries	39,652	31,005
Due to employees - holidays accrued but not taken	13,203	13,661
Due to employees – other	6,598	3,750
Accrued non-financial expenses	3,103	1,578
Deferred non-financial income	2,906	5,926
VAT liability	10,410	11,472
Other	14,557	21,231
Total other current liabilities	**313,500**	**354,147**

The decrease in advances from customers is attributable to the reclassification of a portion of advances due to the aforementioned new accounting method applied for contract assets and liabilities.

3.4 Notes to the income statement

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

€/000	2020	2019
Sales revenue, net	1,761,270	1,958,170
Purchase of goods and change in for the inventories and provisions	(667,123)	(685,451)
Services	(308,070)	(401,596)
Personnel expense	(519,958)	(543,194)
Amortisation, depreciation and impairment losses	(123,650)	(111,426)
Other costs, net	(14,022)	(6,795)
Operating profit	**128,447**	**209,708**

3.4.1 Revenue

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

€/000	2020	%	2019	%	Variation %
EUROPEAN UNION	469,501	27%	521,857	26%	(10%)
ASIA	438,322	25%	470,185	24%	(7%)
NORTH AMERICA	397,953	23%	427,161	22%	(7%)
OTHER	341,742	19%	406,394	21%	(16%)
Total revenue outside Italy	**1,647,518**	**94%**	**1,825,597**	**93%**	**(10%)**
ITALY	113,752	6%	132,573	7%	(14%)
Total revenue	**1,761,270**	**100%**	**1,958,170**	**100%**	**(10%)**

94% of 2020 revenue was earned outside Italy (93% in 2019), specifically, in the rest of the European Union, Asia and North America. Sales decreased across the board, mainly as a result of the COVID-19 pandemic. However, the percentage decrease was lower in North America and Asia, in line with the smaller drop in GDP in these segments compared to the European Union and, in general, the rest of the world.

3.4.2 Cost of sales

The cost of sales amounts to €1,262,697 thousand (71.7% as a percentage of revenue) for 2020, compared with €1,346,378 thousand (68.8% as a percentage of revenue) for 2019, down €83,681 thousand mainly due to lower sales volumes. It increased as a percentage of revenue however, mainly due to the production under-absorption related to the shutdown of facilities to contain the spread of COVID-19.

3.4.3 Commercial and distribution costs

Commercial and distribution costs amount to €128,199 thousand (7.3% as a percentage of revenue) for 2020, compared with €150,070 thousand (7.7% as a percentage of revenue) for 2019, down €21,871 thousand mainly due to lower sales volumes and cost efficiency actions rolled out in 2020 to manage the impacts of the COVID-19 pandemic.

3.4.4 General and administrative expenses

General and administrative expenses amount to €150,003 thousand (8.5% as a percentage of revenue) for 2020, compared with €162,221 thousand (8.3% as a percentage of revenue) for 2019, down €12,218 thousand mainly due to lower sales volumes and cost efficiency actions rolled out in 2020 to manage the impacts of the COVID-19 pandemic.

3.4.5 Research and development expenditure

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

3.4.6 Other income and other costs

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

3.4.7 Financial income

This caption is comprised as follows:

€/000	2020	2019
Exchange gains	33,619	32,282
Interest income	2,840	4,399
Other financial income	2,285	4,369
Total	**38,744**	**41,050**

"Other financial income" includes the fair value measurement of the group's units in closed-end investment funds recognised under other financial assets of €983 thousand.

3.4.8 Financial expense

This caption is comprised as follows:

€/000	2020	2019
Exchange losses	(48,363)	(31,942)
Interest on loans	(8,592)	(8,093)
Interest expense on bonds	(3,161)	(2,992)
Interest expense on lease liabilities	(3,496)	(3,372)
Impairment loss on loan assets from associates	(1,000)	(4,464)
Other financial expense	(15,747)	(15,015)
Total	**(80,359)**	**(65,878)**

Interest expense is largely in line with 2019, while exchange rate trends in 2020 led to a roughly €16.4 million increase in exchange losses compared to the previous year.

3.4.9 Losses on equity-accounted investees

In 2020, this caption included the impairment loss on the investment in the associate XPack S.r.l..

3.4.10 Income tax benefit (expense)

This caption is comprised of income tax expense amounting to €21,357 thousand and deferred tax assets of €14,593 thousand (net of deferred tax liabilities and revaluation tax). Income taxes include a net tax asset of €5,902 thousand due to the recognition in 2020 of the Patent Box incentive obtained by the subsidiary G.D for 2019 (compared to the €54,375 thousand recognised in 2019 for the 2015-2018 period). Deferred tax assets include the tax effect (€18,165 thousand) of the revaluation of assets by certain Italian group companies as per article 110 of Law decree no. 104 of 14 August 2020 converted by Law no. 126 of 13 October 2020. The caption also includes €1,953 thousand to be paid in subsequent years on such revaluations.

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

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

DISCLOSURE REQUIRED BY LAW NO. 124/2017

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

COESIA S.p.A.

€/000			
Granting party	Grant received in 2020	Grant received in 2019	Reason
INPS	3	3	Law no. 205 of 27 December 2017, paragraphs 100-108 and 113-114
Total	**3**	**3**	

Coesia Finance S.p.A.

€/000			
Granting party	Grant received in 2020	Grant received in 2019	Reason
INPS	3	2	Law no. 205 of 27 December 2017, paragraphs 100-108 and 113-114
Total	**3**	**2**	

G.D S.p.A.

€/000			
Granting party	Grant received in 2020	Grant received in 2019	Reason
INPS	198	163	Law no. 205 of 27 December 2017, paragraphs 100-108 and 113-114
GSE S.p.A.	-	8	Secondo Conto Energia (second feed-in tariff) Ministerial decree of 19 February 2007 incentive to produce electricity using photovoltaic conversion
Total	**198**	**171**	

G.F. S.p.A.

€/000			
Granting party	Grant received in 2020	Grant received in 2019	Reason
INPS	-	10	Law no. 205 of 27 December 2017, paragraphs 100-108 and 113-114
Total	**-**	**10**	

CO.ME.SCA S.r.l.

€/000			
Granting party	Grant received in 2020	Grant received in 2019	Reason
INPS	10	6	Law no. 205 of 27 December 2017, paragraphs 100-108 and 113-114
Total	10	6	

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

€/000			
Granting party	Grant received in 2020	Grant received in 2019	Reason
INPS	24	21	Law no. 205 of 27 December 2017, paragraphs 100-108 and 113-114
GSE S.p.A.	55	0	Incentives as per Ministerial decree of 16 February 2016 and Prime Minister's decree no. 445/00
GSE S.p.A.	359	321	Incentive tariff under AEEG (Italian Regulatory authority for electricity, gas and water) Resolutions nos. 88/07 and 90/07
Total	438	342	

ACMA S.p.A.

€/000			
Granting party	Grant received in 2020	Grant received in 2019	Reason
INPS	45	21	Law no. 205 of 27 December 2017, paragraphs 100-108 and 113-114
Total	45	21	

Emmeci S.p.A.

€/000			
Granting party	Grant received in 2020	Grant received in 2019	Reason
INPS	12	11	Law no. 205 of 27 December 2017, paragraphs 100-108 and 113-114
Total	12	11	

IPI S.p.A.

€/000			
Granting party	Grant received in 2020	Grant received in 2019	Reason
INPS	7	3	Law no. 205 of 27 December 2017, paragraphs 100-108 and 113-114
Total	7	3	

Sasib S.p.A.

€/000			
Granting party	Grant received in 2020	Grant received in 2019	Reason
INPS	39	39	Law no. 205 of 27 December 2017, paragraphs 100-108 and 113-114
Total	39	39	

System Ceramics S.p.A.

€/000			
Granting party	Grant received in 2020	Grant received in 2019	Reason
GSE S.p.A.	74	52	Incentive tariff under AEEG (Italian Regulatory authority for electricity, gas and water) Resolutions nos. 88/07 and 90/07
IRAP	201	-	Rebate of the 2019 IRAP balance as per article 24 of Law decree no. 34/2020
INPS	56	39	Law no. 205 of 27 December 2017, paragraphs 100-108 and 113-114
Total	**331**	**91**	

3.5 Other information

Related party disclosure

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

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

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

As at and for the year ended 31 December 2020

€/000

Parents, subsidiaries and associates	Assets	Liabilities	Costs	Revenue
Ultimate parent				
IS.Co. S.r.l.	30,926	-	-	-
Subsidiaries:				
Lesina Autonoleggi S.r.l.	92	30	114	12
Associates:				
XPack S.r.l.	76	-	-	-
Fare Impresa in Dozza S.r.l.	80	5	38	-
ProSGM S.r.l.	-	841	2,176	-
Finotti Artigiana S.r.l.	7	991	1,291	-
Errelle S.r.l.	168	7,798	10,210	-
Related companies	Assets	Liabilities	Costs	Revenue
Mast S.r.l.	5,140	565	2,016	219
TOTAL	36,489	10,230	15,845	231

As at and for the year ended 31 December 2019

€/000

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

Fees to directors, statutory auditors and key management personnel

Fees to the board of directors for the year ended 31 December 2020, excluding the parent's chairwoman and CEO, amount to €437 thousand, whereas fees to the board of statutory auditors total €418 thousand, both short term.

In addition to the parent's chairwoman and CEO, key management personnel include the heads of central departments, the business CEOs and the CEOs/Managing Directors/General Managers of the main group companies, operating segments and regions.

Gross remuneration to key management personnel for 2020 amounts to €15,226 thousand (all short term).

Independent auditors' fees

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

Service type	Service provider	Beneficiary	Fees
Audit	KPMG S.p.A.	COESIA S.p.A.	61
Other services	KPMG S.p.A.	COESIA S.p.A.	15
Other attestation services	KPMG S.p.A.	COESIA S.p.A.	10
Total COESIA S.p.A.			**86**
Audit	KPMG S.p.A.	Subsidiaries	421
Audit	KPMG network	Subsidiaries	800
Other attestation services	KPMG S.p.A.	Subsidiaries	20
Other attestation services	KPMG network	Subsidiaries	5
Total subsidiaries			**1,246**
Total			**1,332**

Guarantees issued and third-party assets held at group companies

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

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

€/000	31/12/2020	31/12/2019
Securities	95,519	116,679
Third-party assets held at group companies	9,424	6,310
TOTAL	**104,943**	**122,989**

3.6 Annexes

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

The following information is included in these annexes:

- Schedule of intangible assets at 31 December 2020 (Annex I);
- Schedule of property, plant and equipment at 31 December 2020 (Annex II);
- List of consolidated investments (Annex III).

ANNEX I - SCHEDULE OF INTANGIBLE ASSETS AT 31 DECEMBER 2020

Intangible assets with a finite life - €/000

	31/12/2019			Changes							31/12/2020		
	Historical cost	Accumulated amortisation	Carrying amount at 31/12/2019	Changes in consolidation scope	Exchange difference	Reclassifications	Increase	Amortisation and impairment losses for the year	Historical cost	Accumulated amortisation	Historical cost	Accumulated amortisation	Carrying amount at 31/12/2020
Trademarks with a finite life	508	(453)	55	0	0	0	5	(7)	(1)	1	512	(459)	53
Industrial patents and intellectual property rights	60,475	(43,312)	17,163	0	(111)	0	659	(5,025)	(1)	0	61,176	(48,491)	12,685
Software licences	74,986	(62,989)	11,997	0	(112)	167	1,847	(4,703)	(10,137)	9,794	66,458	(57,605)	8,853
Development expenditure	436,475	(258,218)	178,257	0	(752)	0	65,076	(53,535)	(7,326)	7,325	494,189	(305,144)	189,045
Other intangible assets with a finite life	71,434	(11,094)	60,340	0	(86)	(29)	1,248	(3,503)	(577)	574	71,929	(13,962)	57,967
Assets under development and payments on account	440	0	440	0	(2)	(138)	821	0	(130)	0	991	0	991
Total	644,318	(376,066)	268,252	0	(1,063)	0	69,656	(66,773)	(18,171)	17,694	695,255	(425,661)	269,594

Intangible assets with an indefinite life - €/000

	31/12/2019	Changes					31/12/2020
		Changes in consolidation scope	Exchange difference	Increase	Decrease	Impairment losses for the year	
Goodwill	927,267	-	(19,114)	-	-	-	908,153
Trademarks with an indefinite life	80,750	-	385	-	-	-	81,145
Total	1,008,017	-	(18,729)	-	-	-	989,288

ANNEX II – SCHEDULE OF PROPERTY, PLANT AND EQUIPMENT AT 31 DECEMBER 2020

€/000

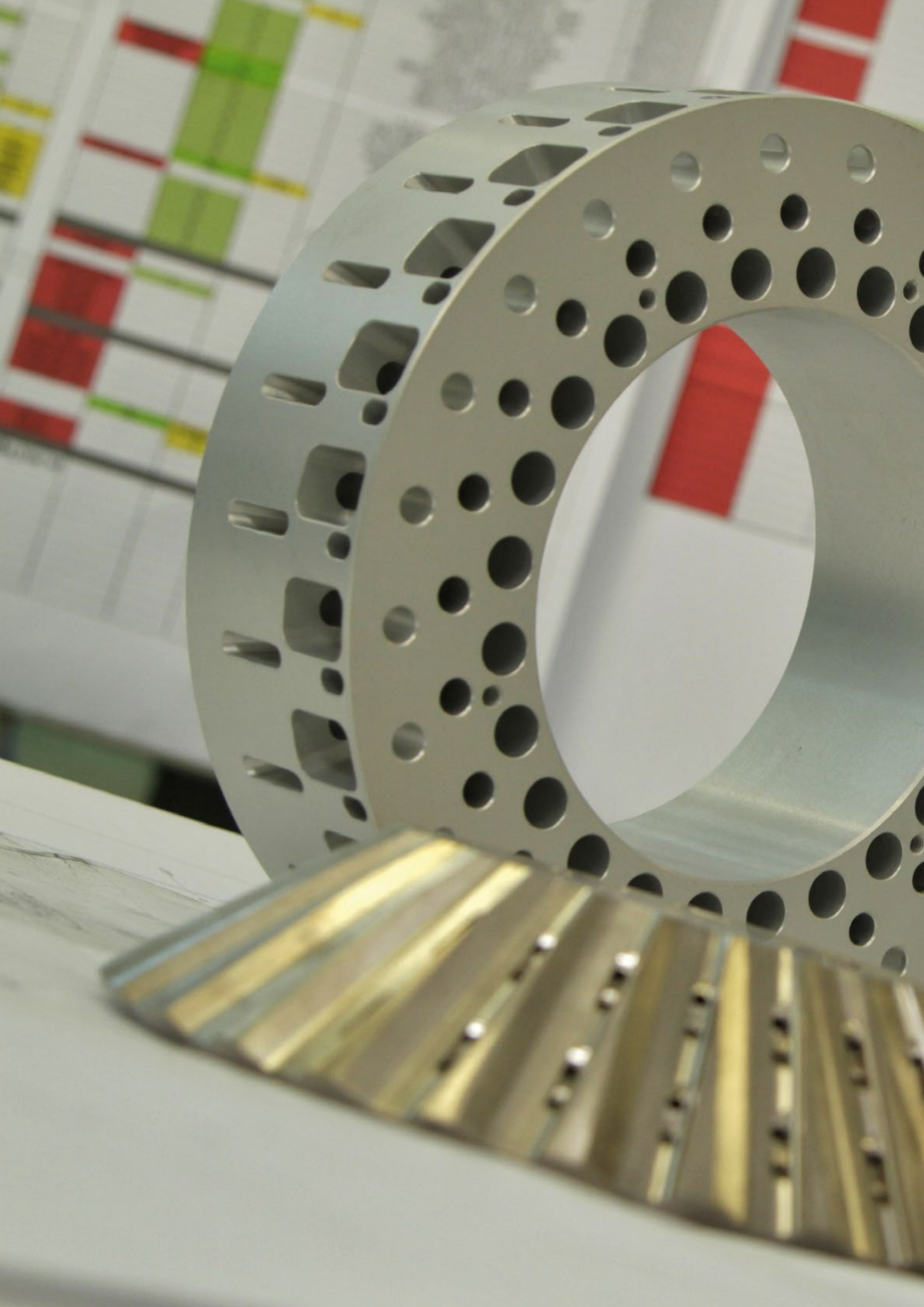
	31/12/2019			Changes							31/12/2020		
	Historical cost	Accumulated depreciation	Carrying amount at 31/12/2019	Changes in consolidation scope	Reclassifica tions	Exchange difference	Increase	Depreciation and impairment losses for the year	Historical cost	Accumulate d depreciatio n	Historical cost	Accumulated depreciation	Carrying amount at 31/12/2020
Land	28,161	0	28,161	-	0	(973)	142	0	(66)	0	27,264	0	27,264
Buildings	237,795	(126,401)	111,394	-	209	(1,997)	2,529	(6,707)	(1,680)	1,922	234,509	(128,839)	105,670
Leasehold improvements	10,062	(6,935)	3,127	-	25	(369)	519	(955)	(349)	340	9,516	(7,178)	2,338
Plant and machinery	340,284	(265,640)	74,644	-	1,513	(1,876)	21,922	(14,590)	(9,547)	7,950	348,999	(268,983)	80,016
Industrial and commercial equipment	101,049	(82,428)	18,621	-	(606)	(627)	4,815	(6,404)	(4,336)	4,505	100,196	(84,228)	15,968
Other assets	92,583	(73,090)	19,493	-	756	(592)	4,296	(5,558)	(8,443)	3,631	87,794	(74,211)	13,583
Advances paid for the purchase of property, plant and equipment	1,034	0	1,034	-	(1,117)	0	1,144	0	(104)	0	957	0	957
Assets under construction	43,134	0	43,134	-	(780)	(387)	10,330	0	(2,028)	0	50,269	0	50,269
Total	854,102	(554,494)	299,608	-	-	(6,821)	45,697	(34,214)	(26,553)	18,348	859,504	(563,439)	296,065

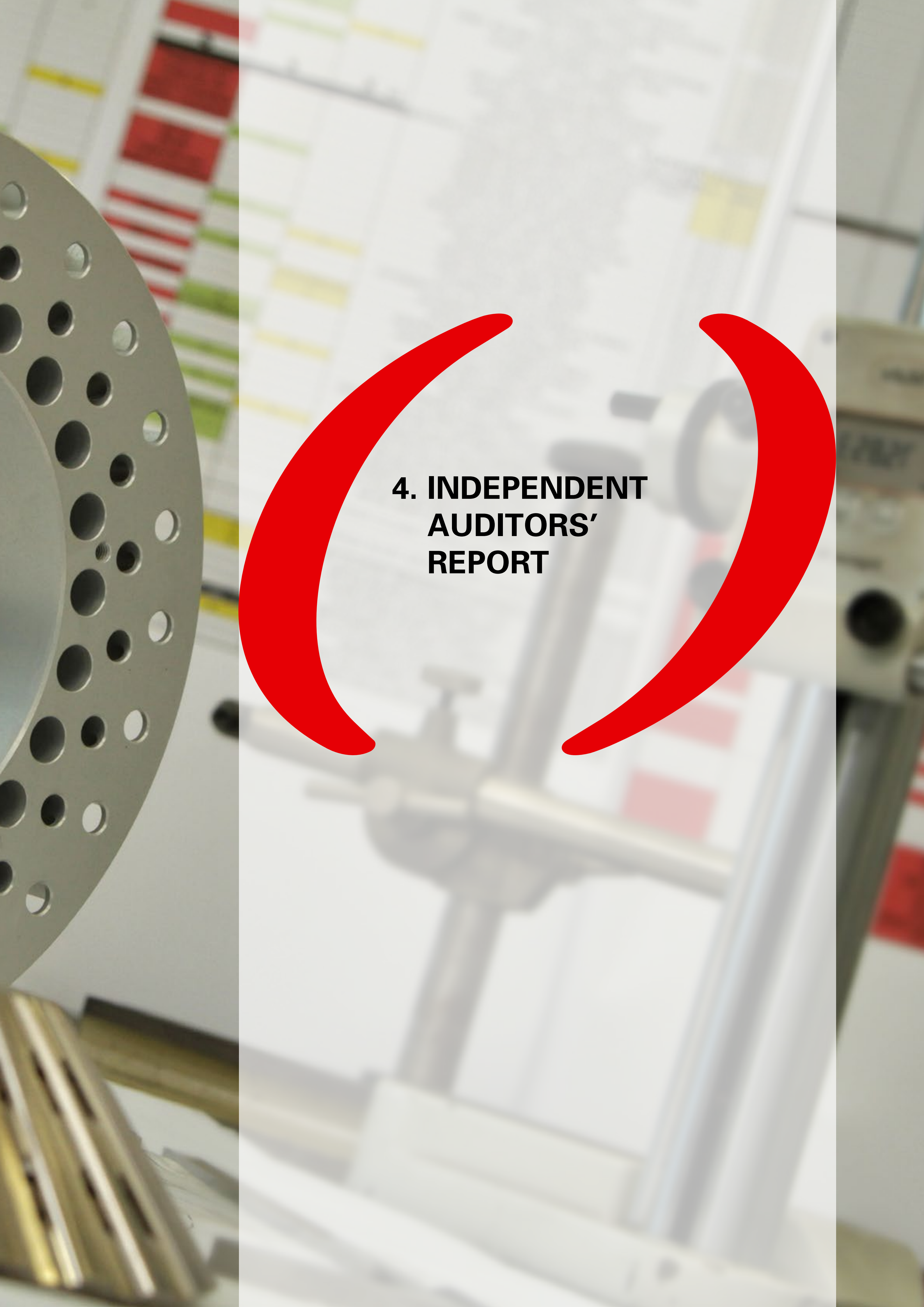
ANNEX III - LIST OF CONSOLIDATED INVESTMENTS

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

ANNEX III - LIST OF CONSOLIDATED INVESTMENTS

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





4. INDEPENDENT AUDITORS' REPORT

KPMG

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

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

To the shareholders of
Coesia S.p.A.

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of the Coesia Group (the "group"), which comprise the statement of financial position as at 31 December 2020, the income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Coesia Group as at 31 December 2020 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union.

Basis for opinion

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

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

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

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

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

Auditors' responsibilities for the audit of the consolidated financial statements

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

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

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the group to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Report on other legal and regulatory requirements

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

The parent's directors are responsible for the preparation of the group's directors' report at 31 December 2020 and for the consistency of such report with the related consolidated financial statements and its compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report with the group's consolidated financial statements at 31 December 2020 and its compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report is consistent with the group's consolidated financial statements at 31 December 2020 and has been prepared in compliance with the applicable law.

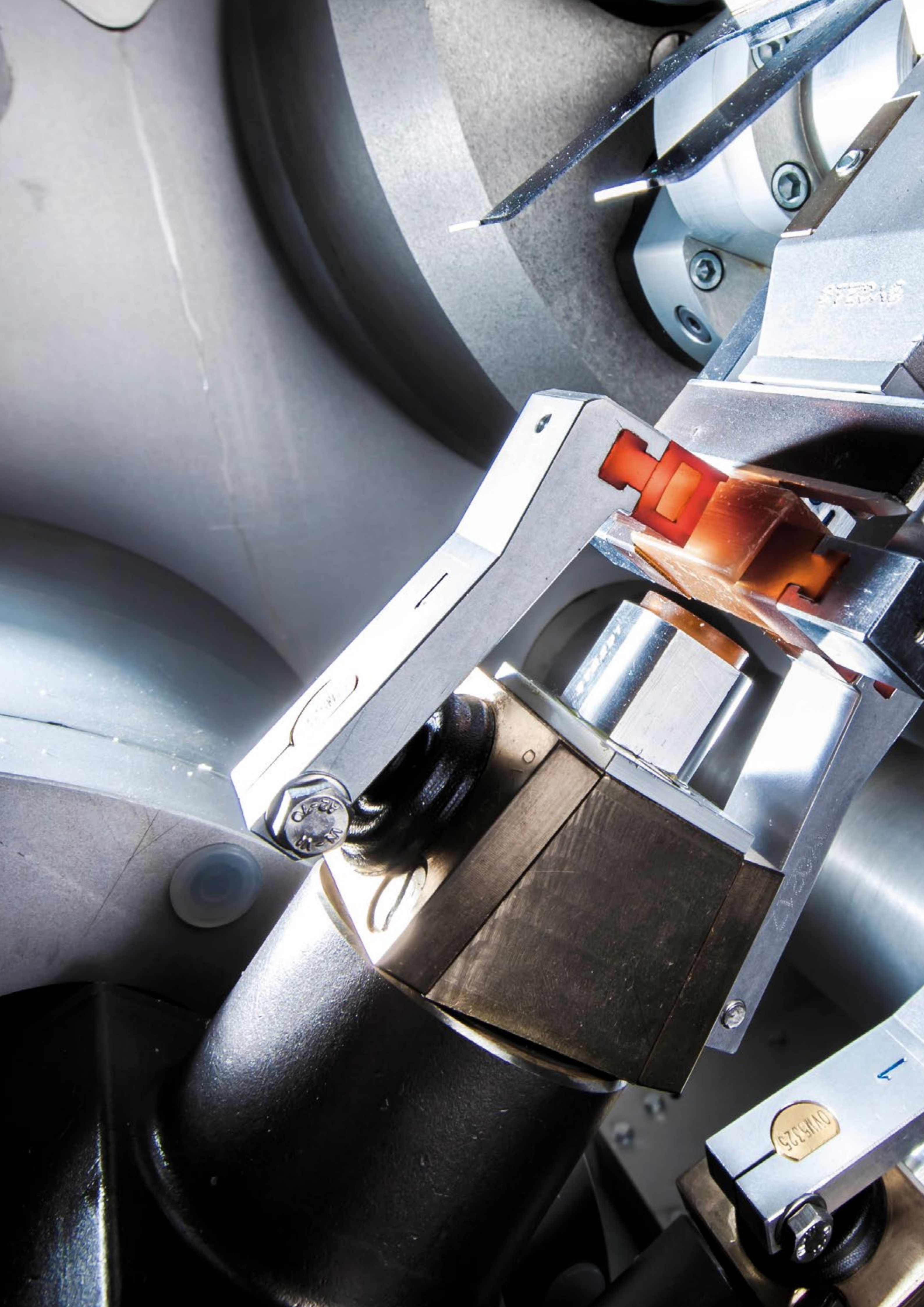
With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

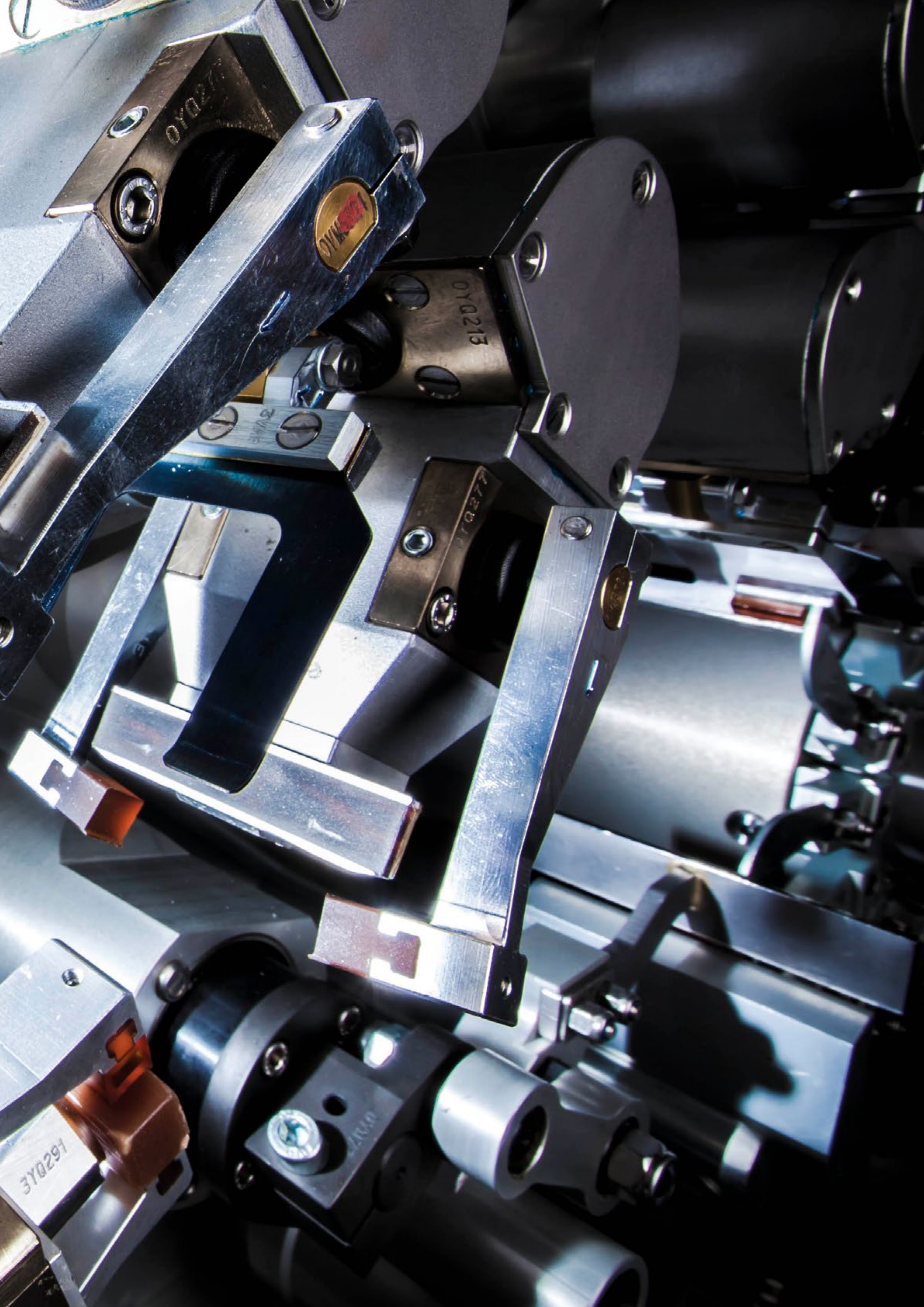
Bologna, 16 June 2021

KPMG S.p.A.

(signed on the original)

Massimo Tamburini
Director of Audit

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