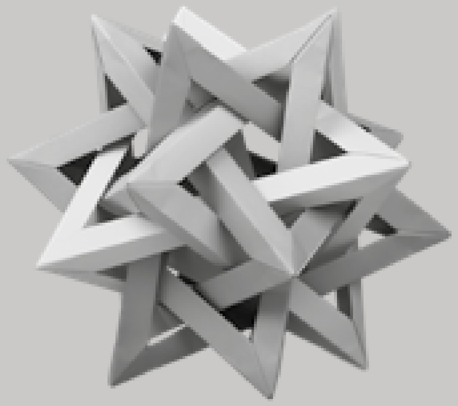
Financial statements at 31 december 2019

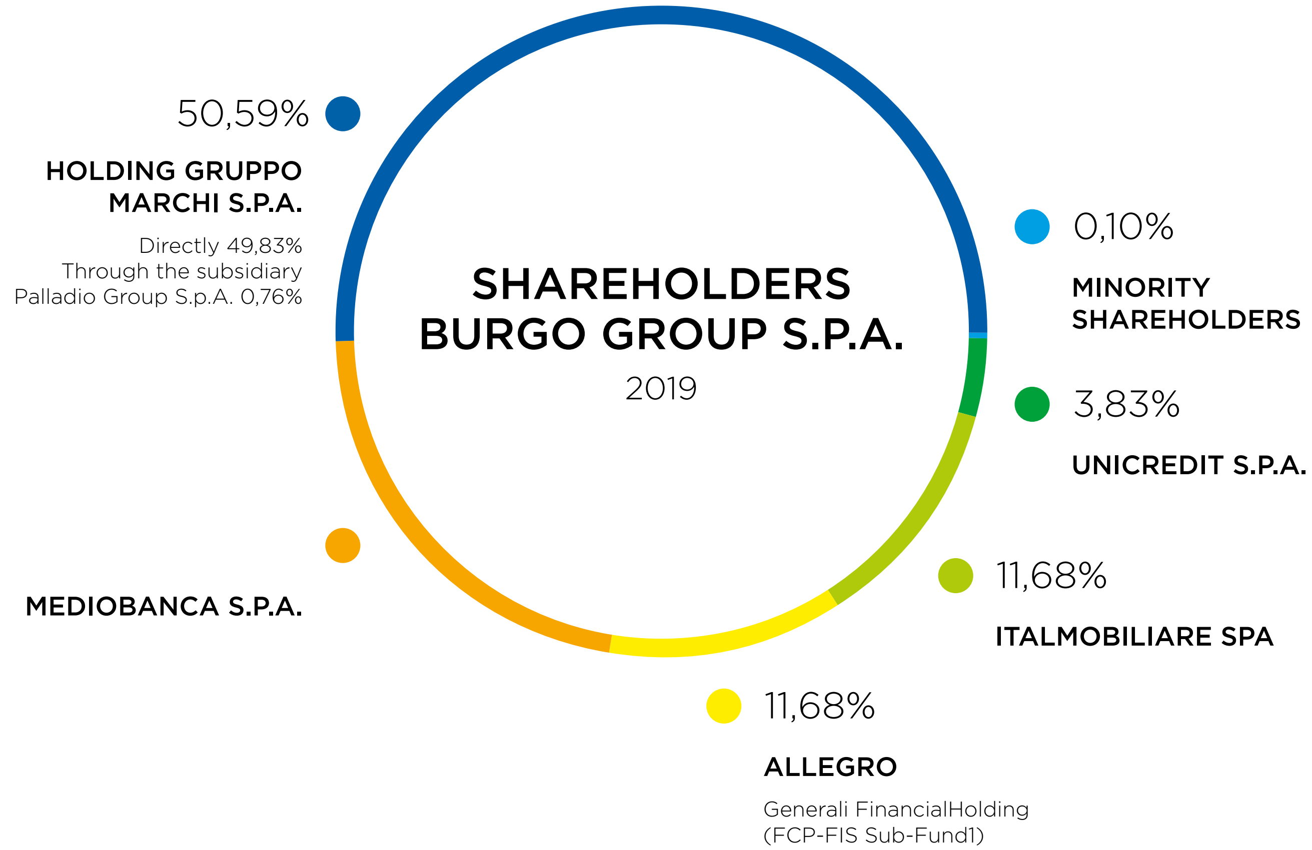
BURGO GROUP



"I've never loved looking behind me to the past, maybe because I'm too committed to looking forward to the future"

Aldo Marchi

Burgo Group structure



Partecipazioni

100,00%	BURGO DISTRIBUZIONE
100,00%	BURGO ARDENNES SA
0,20% / 99,80%	S.E.F.E. SARL
100,00%	BURGO IBERICA PAPEL SA (E)
100,00%	MOSAICO SRL
100,00%	BURGO ENERGIA SRL
100,00%	GEVER SPA
90,00%	BURGO FACTOR SPA
100,00%	BURGO BENELUX SA (B)
100,00%	BURGO FRANCE SARL (F)
100,00%	BURGO UK LTD (UK)
100,00%	BURGO CENTRAL EUROPE GMBH (D)
100,00%	BURGO NORTH AMERICA LTD (USA)
100,00%	BURGO EASTERN EUROPE SP. Z.O.O. (PL)

sales and distribution

paper manu-facturing

energy production and sales

financial assets

forestry resource management

HONORARY CHAIRPERSONS
Giuseppe Lignana
Aldo Marchi

BOARD OF DIRECTORS
(THREE YEAR TERM, 2018-2020)

CHAIRPERSON
Alberto Marchi

CHIEF EXECUTIVE OFFICER
Ignazio Capuano

DIRECTORS
Alberto Franzone (in office until 4 December 2019)
Alessandro Foti
Enrico Laghi
Lorenzo Marzotto
Pietro Manzonetto

BOARD OF STATUTORY AUDITORS
(THREE YEARS 2019 - 2021)

CHAIRPERSON
Fedele Gubitosi

REGULAR AUDITORS
Franco Corgnati
Gaetano Terrin

ALTERNATE AUDITORS
Fabio Gallio
Barbara Negri

INDEPENDENT AUDITING FIRM
(THREE YEARS 2019 - 2021)

EY spa

Burgo Group spa
Registered office in Altavilla Vicentina (prov. Vicenza)
Share capital € 20,000,000.00 fully paid up
Tax ID and Vicenza Business Registry no.: 13051890153

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1. Report on operations

The group and the market in 2019

At the **global level** the year 2019 saw, with respect to the previous year, a slowdown in the rate of economic growth. Global GDP in 2019 is expected to show growth of +2.9%, compared to +3.6% in 2018. The decrease in investments, slowing of industrial production and heightened uncertainty penalised international trade. The international situation deriving from the imposition of new duties, geopolitical tensions and the Brexit continue to have a negative influence even on future prospects for growth. Most recently, the emergence of the Coronavirus in the initial months of 2020 will negatively affect growth in the new year, expected to continue to be driven by emerging and developing markets, even with less brilliant performance than in previous years.

With reference to individual geographic areas, growth in the **USA** was at a lower level than the previous year, with an economic cycle that is still holding on thanks to consumption, despite a decrease in consumer confidence. The **Eurozone** also stabilised at levels lower than those seen in 2018, with GDP performance at +1.1%, against +1.9% in 2018. More specifically, the first quarter of 2019 saw better growth than the remainder of the year, during which productive rhythms slowed. The decrease in industrial production was combined with greater liveliness in the services sector. Among member countries, Germany saw a significant decrease in its own growth following, among other things, weakness in the European auto sector. France and Spain, both of which have higher percentages of services and production of consumer goods, saw better results. In **Italy** GDP is expected to increase by +0.2% in real terms, a clear slowing with respect to the +0.8% of the previous year. Prior to the effects of the Coronavirus, growth was expected to increase in 2020 (+0.6%). Examining the details, in the Italian economy internal and external demand contributed positively for an overall +1%, while the change in stocks had a negative effect of -0.8%. Another positive component was investments, which for 2019 is estimated to continue to rise with respect to the previous year, although the amount is expected to be less significant (+2.2% in 2019, against +1.7% in 2020). In general, in 2019 Italy continued to suffer from the extended period of low productive growth which by now appears to be a characteristic trait. Confidence measures are currently much lower than the average figures in 2018, with households holding a negative outlook, while companies showed a slight increase. Financially speaking, the decrease in the spread between Italian/German government securities relative to the end of 2018 is worthy of note, providing benefits in terms of public finance and the solidity of the Italian credit system.
Due to the decrease in energy prices and the weak dynamics in the Italian economy, **inflation** fell to relative low levels and is estimated at +0.5% for 2019, a further slowing with respect to the previous year and lower than the levels of other European countries. Throughout the production chain the effects of the lowering of commodities and oil prices are clear, with trends showing declines or significant slowdowns.
During 2019 the **euro: dollar exchange rate** fell progressively, from 1.14 at the end of 2018 to 1.12 at the end of 2019. The average value in 2019, of 1.12, showed the strengthening of the US currency, which in 2018 had an average value of 1.18. In the first half of the year the rate reached its peak at 1.16 in January, while the minimum of 1.09 was recorded in October.

Relative to **energy markets**, in 2019 the price of oil reversed trend with respect to the price growth in course since 2017, falling to values of $ 65/barrel. The trend in crude prices saw the highest prices at the beginning of the year, then stabilising at around $ 60/barrel, where it remained until December, when growth of up to $ 69/barrel was seen. The year also saw abrupt, if temporary, occasional increases during times of international tensions. In this context, in 2019 the average price for electricity in Italy (single national price - PUN) was € 52/MWh, down by -14.7% (€ 9/MWh) with respect to 2018, showing the first drop after two years of growth. The decrease in the PUN is in line with the trends seen on the markets of neighbouring countries and mainly reflects downward trends for gas prices. Additionally, in 2019 the trend for natural gas prices in Italy was in line with oil, showing an inversion of the trend with respect to the two previous years. The price for PSV gas was € 16/MWh, down by over € 8/MWh with respect to 2018 (€ 24.2/MWh), also in line with the trends seen in the main European countries and confirmed by TTF performance. The prices for EUA emission rights rose to values of around € 25/t, compared to an average value of € 16/t in 2018, during which a significant increase in prices was seen. In 2019 the minimum values (€ 18.7/t) were seen in February while the maximum values, reaching € 30/t, were seen in July, followed by a new decline and stabilisation during the final months of the year. The Burgo Group operated on the basis of the guidelines established in the **"Burgo2020" Business Plan**. In this framework, the Group continued with its strategy of focusing productivity on business segments with greater added value such as special paper and segments with greater expected growth rates such as cardboard. In this light, the progressively increasing focus on certain special paper production lines led to the decision to transfer the Toscolano plan to the scope of Mosaico srl at the beginning of 2019, through a disposal transaction on the part of Burgo Group spa. During 2019, the Avezzano plant, which had been converted to cardboard production in the first half of 2018, began full production.

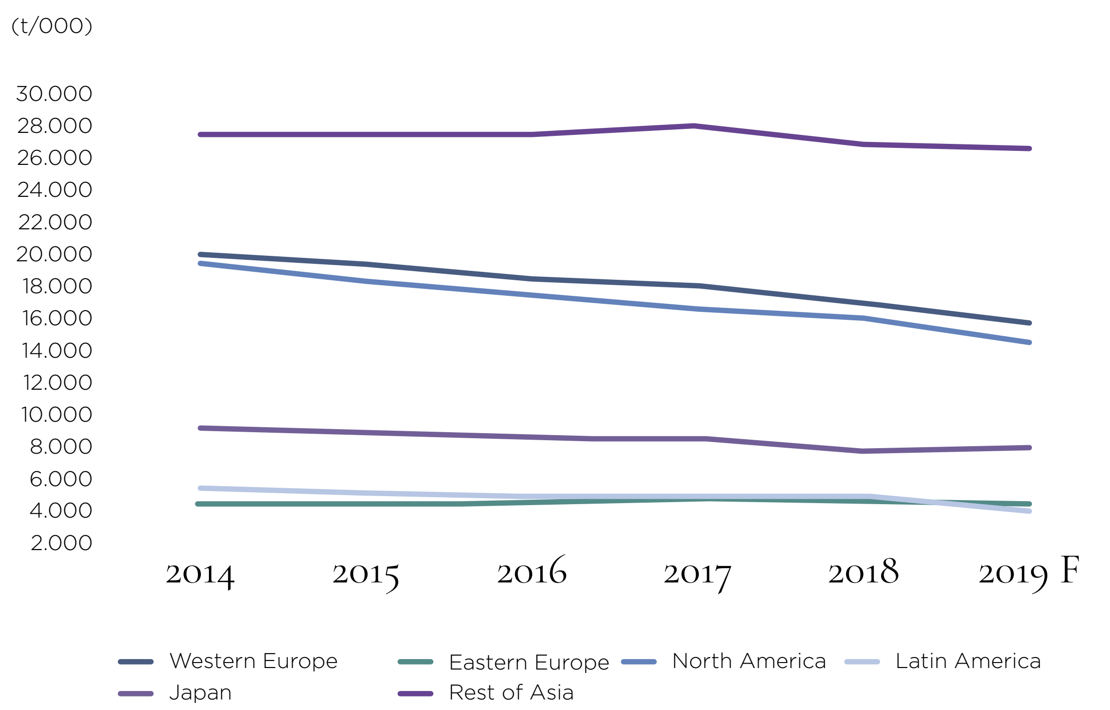
Relative to **strategic investments** the current year saw, in the fourth quarter, the conversion of the PM9 production line at the Verzuolo plant, signalling a full retreat from the production of graphic paper within the plant and its entry into the sector of paper for the production of cardboard. The conversion was successfully completed at the beginning of 2020, representing another step in the Group's strategic repositioning which, with one of the largest plants in Europe, has become one of the main producers of containerboard in Italy. Additionally, the project to replace the wood cooking line at the Burgo Ardennes plant in Belgium continued.
The **economic and financial results for the year** show an improvement in the Group's margins which, against a decrease in turnover of -9.5%, showed a gross operating margin (EBITDA) relative to sales of 7.9% in 2019, compared to 7.3% in 2019. The year saw overall volumes in line with the previous year, with an increase in cardboard sales and a decrease in CM graphic paper. Sales prices and costs both fell.
The spread of the Coronavirus constitutes a significant aspect of uncertainty with regards to the 2020 results, although at present it is not possible to quantify its effects on Group performance. However, note the possible existence of a negative impact on the results in the coming year. For more details, please see the section on significant events after the end of the year.

In the graphic paper segment demand in 2019 fell by -6.1% globally, with a change in western Europe of -9.2% and forecasts that confirm further reductions in coming years. In the other main global markets, North America, Asia and Japan, the decreases in demand were respectively -12%, -2.7% and -0.1%. Analysing the trend by segment, the changes at the global level were -11% for CM, -7.8 for CWF and -2.6% for UWF. Demand for containerboard in western Europe increased by +0.7%, with +2.3% seen in the RCCM segment in which the Group operates. In Italy, demand increased respectively by +2.1% and 4%.

In **conclusion**, the actions implemented and the strategy deriving from application of the "Burgo2020" plan, supported by other operations approve by the Board of Directors made it possible, again this year, in a macroeconomic situation which was less favourable than that of 2018, to maintain economic performance at levels in line with expectations and keep financial debt under control, even in the fact of significant investments aimed at maintaining and improving the Group's manufacturing capacity.

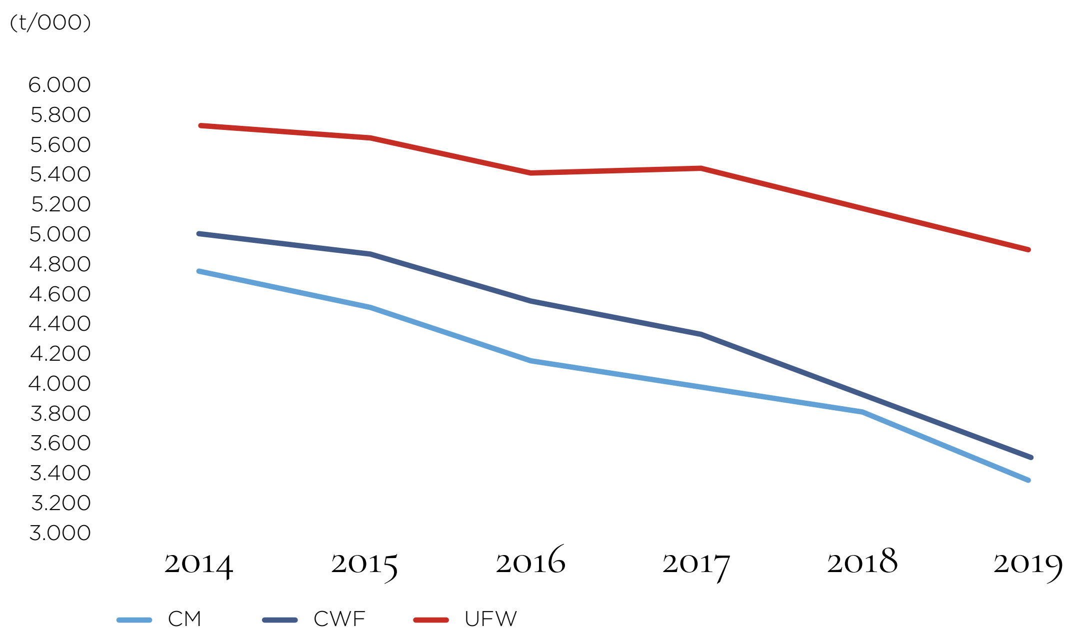
GLOBAL DEMAND FOR WRITING PAPER

Source: PPPC



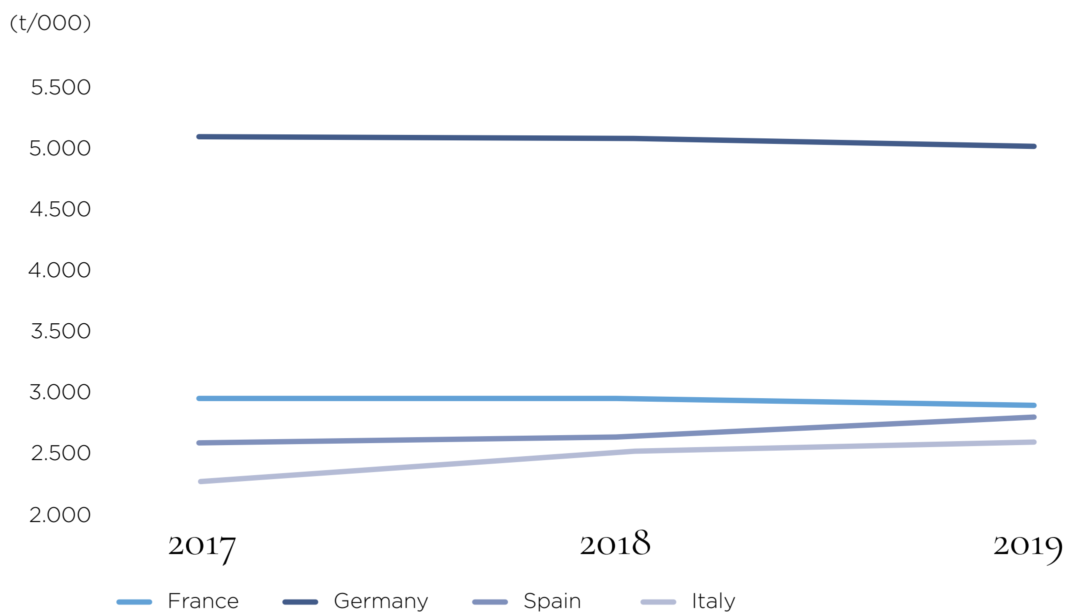
DEMAND - WESTERN EUROPE

Source: PPPC



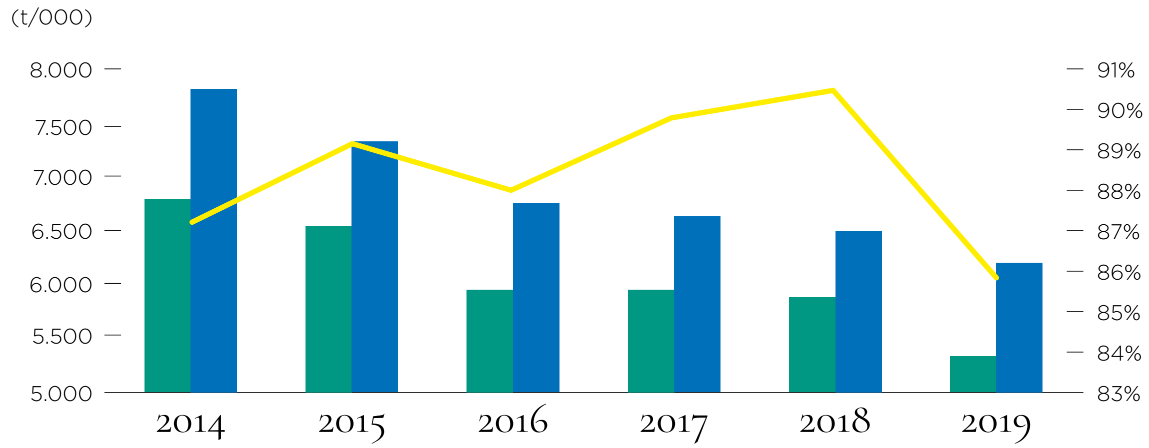
DEMAND - WESTERN EUROPE CONTAINERBOARD

Source: CEPI Containerboard



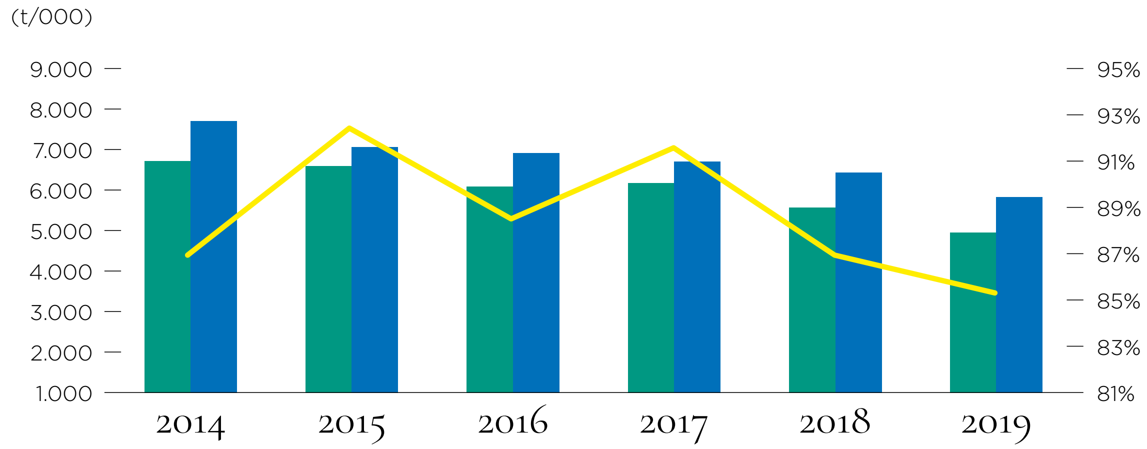
USE RATE OF PRODUCTION CAPACITY IN WESTERN EUROPE Cm

Source: Eurograph



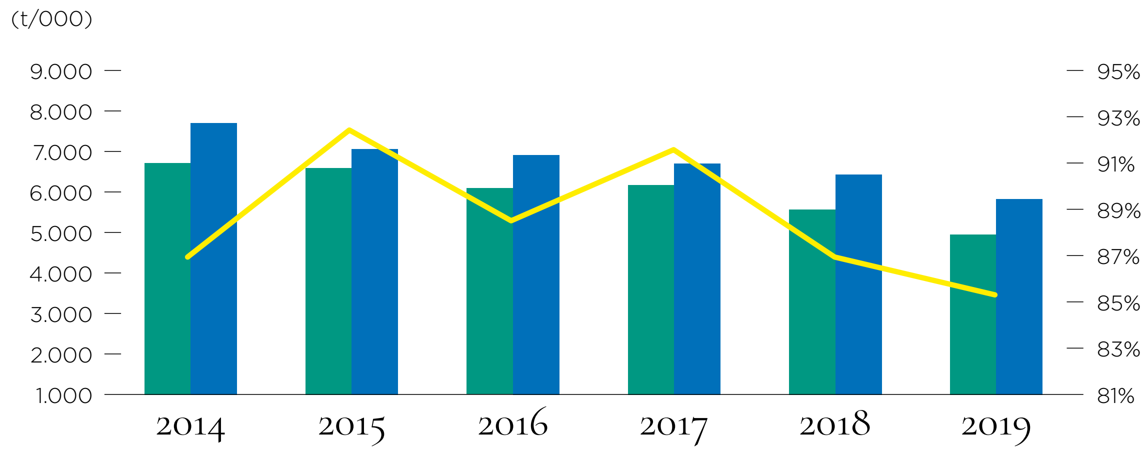
USE RATE OF PRODUCTION CAPACITY IN WESTERN EUROPE Coated wood free paper

Source: Eurograph



USE RATE OF PRODUCTION CAPACITY IN WESTERN EUROPE Natural

Source: Eurograph



Deliveries   Capacity   Deliveries/ Capacity

Development lines and management outlook

On 12 January production of cartonboard began at the Verzuolo, after the completion of a series of technical tests. Production will be supported by the Avezzano plant, which had already become fully operational during 2019. In this way the Group has given itself the objective of switching its production to 30% in the cardboard sector and 20% in the special paper, with no more than 50% in graphic paper even if it represented more than 70% of production still in 2019.
Through investments, the commitment to develop new products in the special paper sector will continue in 2020, as will actions to support the graphic paper segment through customer service and cooperation in developing the most requested products in the current and prospective market phases.

Production

Production of paper, the Group's main area of business, amounted to **1,994,202 t**, showing a negative change of -2.2% with respect to the previous year, bearing in mind that the Verzuolo plant ended production of coated paper as of 17 November.
Production of cellulose came to **386,631 tonnes**, down by -6.7%, while wood pulp production totalled **242,822 tonnes**, showing a decrease of -2.3%.
Finally, electricity production amounted to **2,411,472 MWh**, a -4.3% decrease.

PRODUCTION DATA

		2018	2019	Change %
Paper	t/000	2.039	1.994	-2,2%
Cellulose	t/000	414	387	-6,7%
Wood pulp and Deink	t/000	248	243	-2,3%
Electricity	kWh/mln	2.519	2.411	-4,3%

Sales

Group turnover amounted to € 1,639 million, down by -9.5% (€ -173 million) with respect to 2018, when the figure was € 1,812 million. Paper revenues totalled € 1,441 million, down by -0.7% with respect to the previous year. Cellulose revenues came to € 78 million, showing a negative change of -19.5%. Energy revenues fell by -59.4%, while other revenues increased, including sales of ligninsulphonate, amounting to € 20 million, against € 18 million in 2018 (+7.9%).

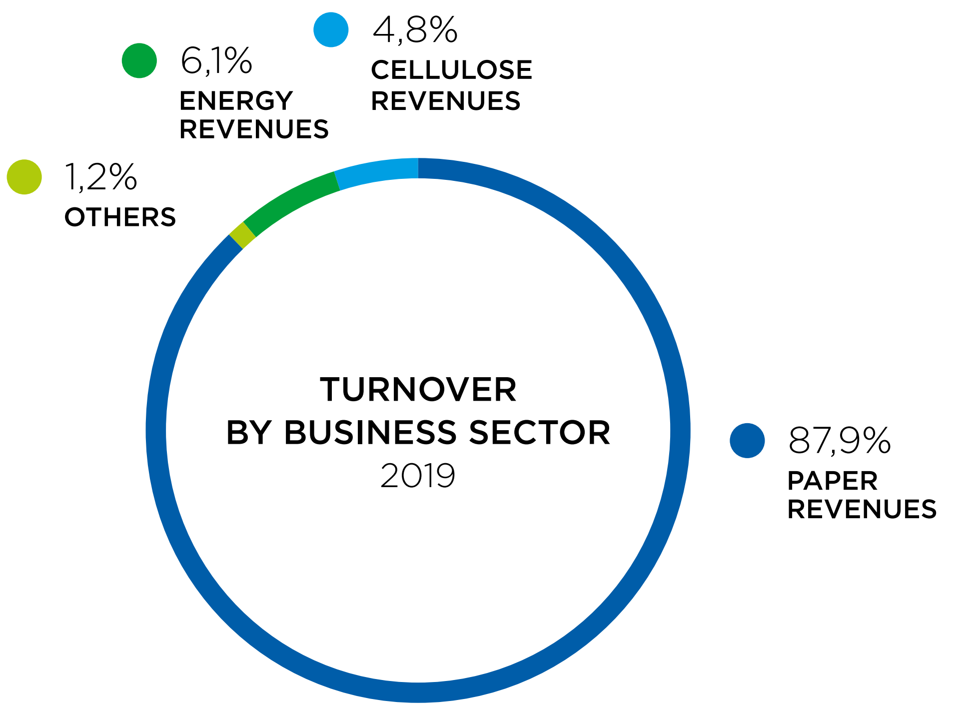
BUSINESS SEGMENTS **€/mln**

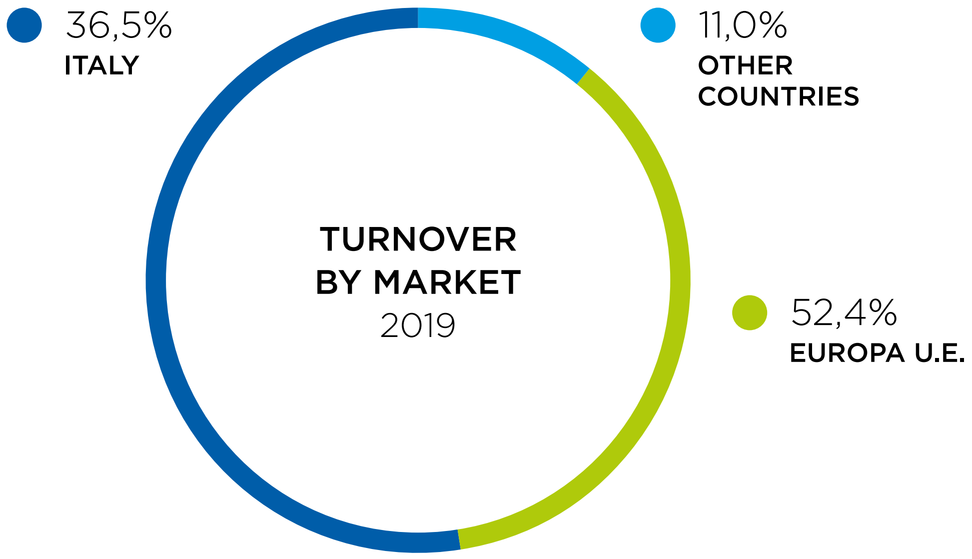
	2018	2019	Change %
Paper revenues *% of total revenues*	1.451 *80,1%*	1.441 *87,9%*	-0,7%
Cellulose revenues *% of total revenues*	97 *5,4%*	78 *4,8%*	-19,5%
Energy revenues *% of total revenues*	245 *13,5%*	100 *6,1%*	-59,4%
Others *% of total revenues*	18 *1,0%*	20 *1,2%*	-7,9%
	1.812	**1.639**	**-9,5%**

The breakdown of sales between the internal market and exports shows that in 2019 the decrease in sales mainly affected the domestic market, compared to that seen abroad. Exports saw their impact in percentage terms growth with respect to sales in Italy.

MARKETS **€/mln**

	2018	2019	Change %
Italy *% of total revenues*	768 *42,4%*	599 *36,5%*	-22,0%
Europe E.U. *% of total revenues*	865 *47,7%*	859 *52,4%*	-0,7%
Other countries *% of total revenues*	179 *9,9%*	181 *11,0%*	1,2%
	1.812	**1.639**	**-9,5%**





Prices

DURING 2019
IN THE MAIN EUROPEAN MARKETS (GERMANY, FRANCE AND THE UK):

- Prices for **CM** (coated mechanical papers) in the main European markets increased (+4% on average). Prices remained high during the first and second quarters, fell during the third quarter and stabilised in the fourth quarter.
- In the **CWF** (coated wood-free) segment, the trend in the European market saw the average price in 2019 rise slightly with respect to 2018, although this effect was less accentuated in certain countries. Prices tended downwards during the second and third quarters of the year.
- The family of **UWF** (uncoated wood-free) papers saw an increase in prices in Europe (+2%). During the first and second quarters of 2019 prices remained constantly above 2018 levels and then fell during the later quarters of the year.
- The ***containerboard*** segment saw an average -12% decrease in sales prices during 2019. This negative trend, which had already begun in the fourth quarter of 2018, continued through the third quarter of 2019, showing signs of stabilisation at the end of the year.
- ***Specialty paper*** showed prices that were stable on average.

IN ITALY:

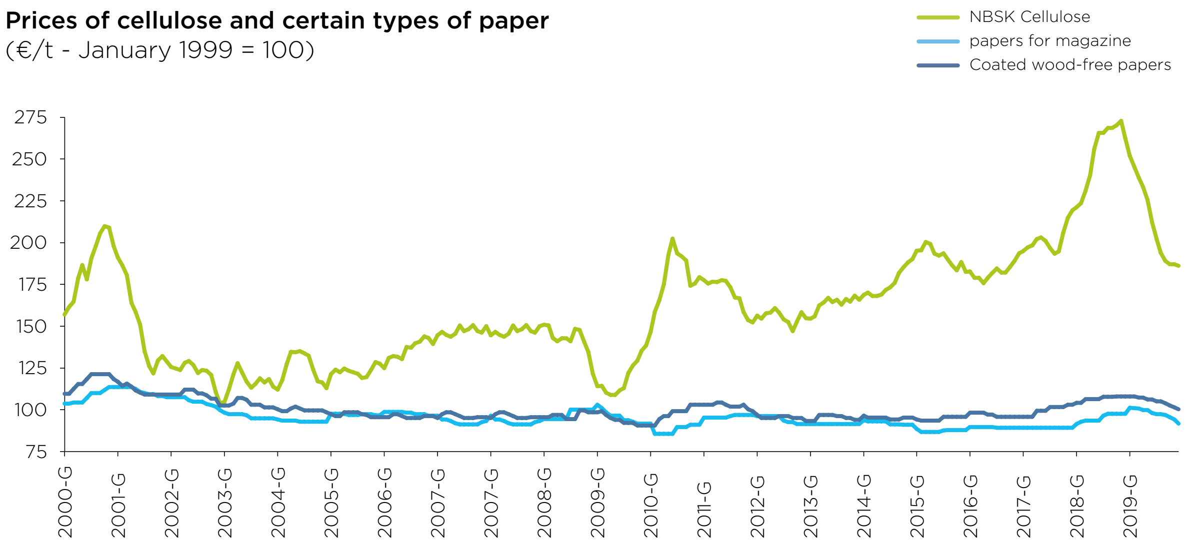
- Prices for **CM** (coated mechanical papers) were on average higher than in 2018 (+5%). During the year, prices were at their highest levels during the first half of the year, progressively falling during the course of the second half. Closing prices in 2019 were substantially aligned with those recorded at the end of 2018.
- The family of **CWF** (coated wood-free) papers saw the highest prices in the first quarter, progressively declining throughout the rest of the year and reaching minimum levels in the final months of the year. Average 2019 prices were substantially aligned with 2018 prices. The price at the end of 2019 was lower than the price at the end of the previous year (-6%).
- In the **UWF** (uncoated wood-free) segment, average prices increased with respect to the previous year (+2%). Changes in prices during the year showed downward trends from the first to the third quarter, stabilising during the final months. The end of the year ended lower than it had started (-3%).
- In 2019, the **containerboard** segment saw a decrease in prices (-25%) with respect to 2018. The decline was constant with the first and fourth quarter showing downward trends, interrupted by a period of stability during the central months of the year. With respect to the prices at the end of 2018, the current year ended with a reduction (-27%).

Source: RISI

Costs

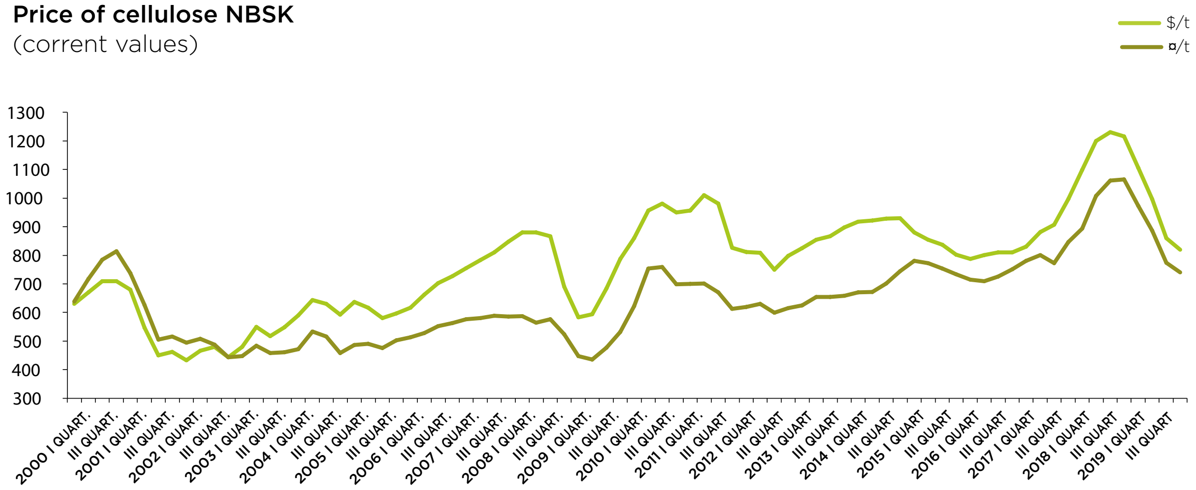
After constant upward trends, in 2019 the average price for cellulose fell. NSBK long-fibre ($ 946/t) fell with respect to the average 2018 price ($ 1,180/t), showing a -20% decrease in dollars and a -16% in euros. The price of eucalyptus also fell, going from an average of $ 1,040/t in 2018 to an average price of $ 828/t in 2019 (-20%).

Prices of cellulose and certain types of paper
(€/t - January 1999 = 100)



Source: Assocarta processing of PPI and Milan Chamber of Commerce data

Price of cellulose NBSK
(corrent values)



Source: Assocarta processing of PPI data

Energy

The Group produces electricity and steam. The subsidiary Burgo Energia srl operates in the electricity sector on the GME (day ahead and infraday markets - MGP and MI), on the EEX (futures market for French, German and Italian electricity), the IDEX (futures market for German and Italian electricity), on the German spot market and on bilateral trading platforms (Over the Counter - OTC). In this context, the subsidiary Burgo Energia srl manages the excess and gaps for the Group's plants.

After Burgo Energia srl left the consumer gas and electricity market in 2018, during the current year the Group continued the process of focussing its activities in the industrial segment to serve the plants.

The activities of the energy management division continued with management of the ISO50001 Energy System at Burgo Group locations and management of activities associated with Emission Trading System regulations. To that end, the procedure for Group locations to participate in the upcoming ETS, in effect as of 2021, was monitored.

The energy division also monitored the issue of electrical load interruptibility, managing the MWs obtained through the three-year auction and participating in some monthly auctions.

As of 2017 the Group, through the subsidiary Burgo Energia srl, has served as a Balance Services Provider for the national electricity grid (TERNA). In 2019, Burgo Energia srl continued to participate in the UVAM project. In 2019, Burgo Energia was awarded balancing capacity of a total of 104 MW, continuing in its role as one of the most important operators in the sector at the national level.

In November 2019, the Group participated in the auction for the Capacity Market project established by Terna for the years 2022 and 2023. The “capacity market” mechanism, in addition to adding various measures which ensure the security of the system and supplies of electricity with always available resources, also provides dedicated remuneration for electricity production plants which undertake to make and maintain capacity available to the system in the case of need. Burgo Energia srl participated in the auctions for both 2022 and 2023 and was awarded the requested capacity in the North and Central South zones.

In 2019, Burgo Energia Srl sold electricity totalling **1.6 billion kWh (2.6 billion in 2018)** and gas totalling **62 million Smc (196 million in 2018).**

In Italy, the Burgo Group, Mosacio and Gever produced electricity for a total of 2.04 billion kWh (2.12 billion kWh in 2018), mainly for own consumption (1.51 billion kWh in 2019, compared to 1.63 billion kWh in 2018). Abroad, the Belgian subsidiary Burgo Ardennes sa produced 0.37 billion kWh (0.404 billion in 2018).

Investiments

In terms of total investments in property, plant and equipment made during the course of **2019**, totalling € 94.4 million (€ 76.3 million in 2018), the mos strictly technical ones came to **€ 90.1 million** (€ 71.5 million in 2018).
The investment plan, consistent with the guidelines found in the Burgo 2020 Business Plan, continued that already begun in previous years, identifying innovative solutions for plants to ensure improvements in production efficiency, while optimising costs, conserving plants and safeguarding quality.
In the **paper sector** new investments in systems were mainly focussed on: converting Line 9 at the **Verzuolo** plant to production of packaging paper, which began operating in January 2020; optimising systems in all the paper mills, bringing technical and organisational innovations to production lines needed to optimise costs, conserve machinery and maintain and constantly improve product quality.
At the **Avezzano** plant, work relative to system changes needed to reduce production waste was successfully completed.
The commitment to the automation sector continued, with targeted actions to update existing plants and introduce, in certain manufacturing locations, new automation and control systems. The activities carried out and the future program will make it possible to avoid the main issues of obsolescence, while simultaneously achieving greater efficiency.
Relative to the **Mosaico** division, new systems initiatives were mainly aimed at improving production efficiency, maintaining systems and monitoring quality.
At the **Ardennes** plant actions continued to modernise the cellulose cooking department, where newly supplied parts were sized to achieve expected production of 400,000 t. Relative to the paper line, actions aimed at maintaining the systems continued.

In the **energy sector** designing work began to create a modern cogeneration plant at the **Tolmezzo** factory, intended to maintain manufacturing continuity, with special attention paid to eliminating any withdrawals from the national grid, and improving the efficiency of energy generation, without forgetting respect for environmental impact parameters.
At the **Avezzano** plant a system was implemented for rapid turbogas and recovery boiler start up, to allow the cogeneration plant to increase its ability to participate in grid services with greater power, increasing the flexibility of the system and strengthening the group's presence in a rapidly developing sector.
Environmental and safety investments continued at all Group locations, in compliance with workplace health and safety prevention and improvement programs, as well as relative to environmental protection and regulatory developments.

Research and development 2019

Le Activities were mainly focussed on:

• production processes, such as development of innovative technologies to improve competitiveness;
• new products in the graphic, special and packaging sectors;
• environmental sustainability.

PRODUCTION PROCESSES

Studies to optimise and analyse the processes used to obtain self-produced fibrous pulps were aimed at increasing the amount of virgin fibres used in graphic and special products and using postconsumer pulp recycled fibres in the packaging sector.
With regards to non-fibrous raw materials, a program was developed to research and apply innovative products in surface treatments.

NEW PRODUCTS

In the paper with wood segment the process of reallocating the LWC range for offset printing was completed, for both glossy and high thickness paper.
Relative to woodfree paper, the range for inkjet and digital printers was further extended, aimed at developing the segment of high graphic performance where at present the reference is to traditional printing technologies.
Additionally, the range of light pure cellulose paper for offset printing was strengthened, with various level of surface coating, aimed at the pharmaceutical and publishing sectors.
In the packaging sector, starting with the use of recycled pulp, the development of corrugated paper and paperback continued and was strengthened, including for high performance uses.
With regards to special papers, the development of environmentally sustainable products was of particular importance, starting from recycled or alternative fibres for flexible and rigid packaging, including for the food sector. Additionally, the ranges of mono-coated papers for vehicle adhesives was strengthen, as well as those for silicone supports, damp-resistant labels and grease-resistant paper for use with food products.

ENVIRONMENTAL SUSTAINABILITY

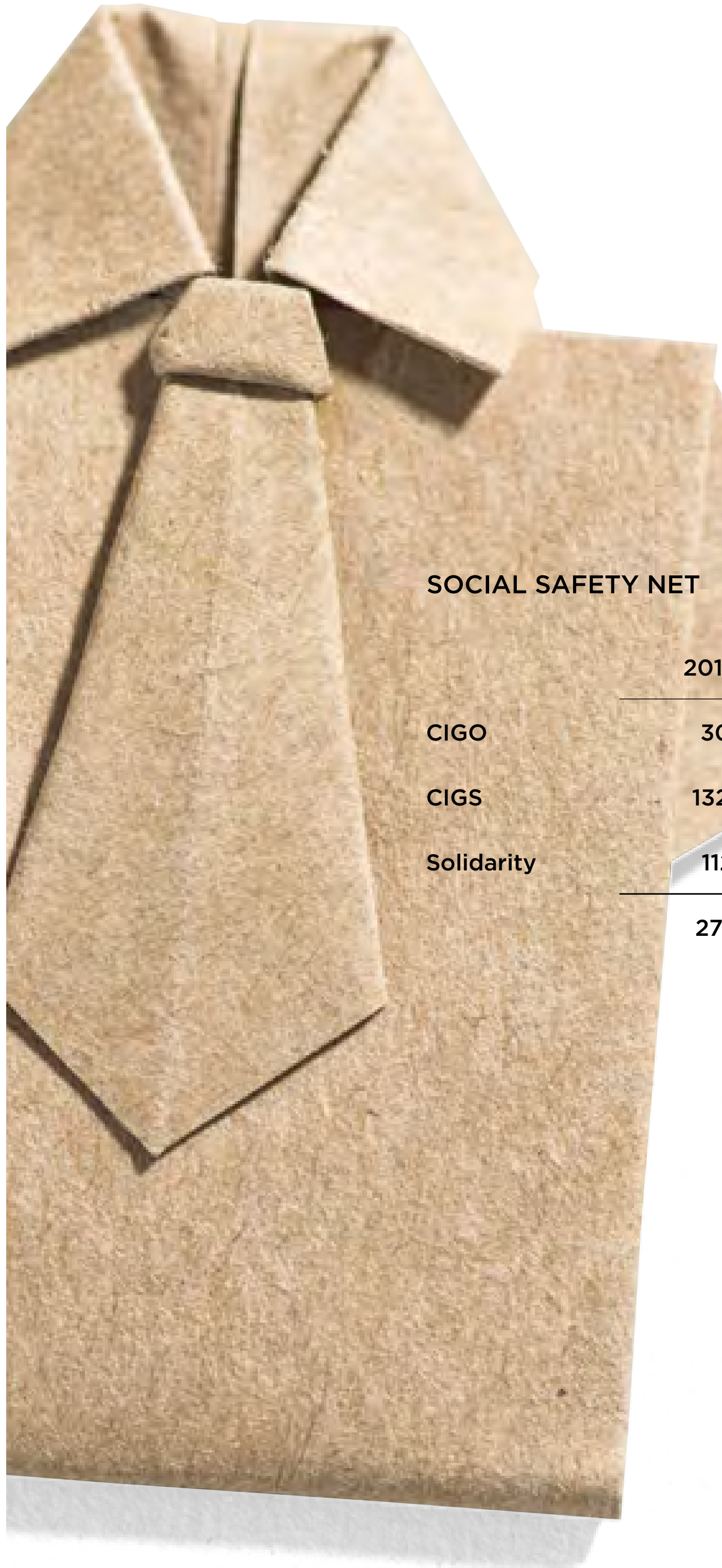
In terms of certifications, work continued to manage chains of custody relative to FSC and PEFC forest certification.
In particular, for the FSC standard during the year the credits accounting system was modified, with a Group credit account system created which includes all the plants and is more closely aligned with the industrial situation.
Relative to UNI EN 15593, for the hygiene and safety of packaging intended for use with food products, activities to obtain certification for the Villorba plant began, so as to guarantee production of one-side coated paper intended for use in food packaging.
Also in the food sector, work began during the year to ensure the Avezzano site complies with the requirements established in European Regulation 2023/2006, regarding Good Manufacturing Practice (GMP).
Control activities for all purchases of wood and wood-derivative products were also ensured, based on the EU Timber Regulation.
Cooperative activities with the main European institutions/associations and trade association working groups also continued, in particular relative to food products, forests and the circular economy.
Finally, activities were carried out to obtain renewal of the Burgo and Mosaico Ecolabel certificates in accordance with the new criteria contained in European Commission Decision 2019/70, in effect as of the beginning of 2019, extended to the Villorba plant, replacing Verzuolo.

Personnel

In 2019, around **60,000** hours of training were provided, of which **23,000** linked to worker safety and health aspects.
As part of agreements involving closed production lines, after offering affected employees the possibility of placement with other Group plants, the collective dismissal process begun on 19/11/2018 for the Duino Aurisina (TS) and Verzuolo (CN) locations was completed on 29/01/2019 with the Ministry of Labour.
In this context, an agreement was reached with the union to manage excess labour solely for the Verzuolo plant, while for the Duino plant in the absence of a shared agreement it was necessary to inform excess workers of their dismissal.
Group employees in the employee register at 31 December 2019 totalled **3,407**, compared to **3,537** at the end of 2018.

PERSONNEL AT 31 DECEMBER

	31 dec 2018	31 dec 2019	Change
Burgo Group*	1.948	1.620	(328)
Italian subsidiaries	949	1.141	192
Foreign subsidiaries	640	646	6
	3.537	**3.407**	**(130)**
** of whitch in Solidarity Contract agreement*	*64*	-	*(64)*
Personnel after CIGS and solidarity	**3.473**	**3.407**	**(66)**



The Group also makes use of temporary workers, for the most part at Burgo Ardennes, which in 2019 had 124 (FTE), compared to 106 in 2018.
Redundancy fund/solidarity hours used, as reported in the table below, decreased as a whole by 82%, going from 275,185 hours in 2018 to 49,527 hours in 2019:

SOCIAL SAFETY NET — **hours**

	2018	2019	Change	% Change
CIGO	30.822	32.621	1.799	5,8%
CIGS	132.254	4.895	(127.350)	-96,3%
Solidarity	112.109	12.011	(100.098)	-89,3%
	275.185	**49.527**	**(225.658)**	**-82,0%**

Financial risk management policy and coverage

Financial instruments in terms of liabilities mainly consist of payables due to financial institutions, derivatives that can also be used to coverage interest rate, exchange rate and commodities risks and trade payables. On the assets side, they consist of cash and cash equivalents, listed shares and securities, trade receivables and financial instruments that can be stipulated as hedges against interest rate and exchange rate risks. The Group is exposed to the following risks indicated below. This section outlines the objectives, policies, management processes and methods used to assess them:

1. credit risk
2. liquidity risk
3. market risk

In each section of comments on financial statement items, the 2019 Financial Statements provide additional quantitative information.
The disclosure required under IFRS7 was included within the Notes to the individual and consolidated financial statements.

1. CREDIT RISK

This represents the risk that a customer or a counterparty to a financial instrument causes a financial loss by not complying with an obligation, and mainly derives from trade receivables and financial investments.

TRADE RECEIVABLES AND OTHER RECEIVABLES

Within the context of its credit management activities through the dedicated department, the Group has established an internal process with the aim of defining every customer's creditworthiness and carefully monitoring credit limits and overdue items. Risk control is based on constant analysis of customers with overdue items or who have exceeded their credit limits, monitored daily for activation of corrective actions, which range from blocking orders to legal action. Internal activities are further supported by instruments of coverage available on the market, including insurance policies and without recourse transfer of receivables. Sales activities are supported by insurance coverage.

FINANCIAL INVESTMENTS

Exposure to credit risk is limited by exclusively investing in securities with high liquidity and only with counterparties recognised as reliable by the market.
At 31 December 2019, exposure through securities consisted of Mediobanca shares (see the section on market risk). Additionally, financial assets also include managed savings investments made with Italian banks known to be reliable.

GUARANTEES

Group policies allow for the issuing of financial guarantees for associated companies. Collateral is also provided in certain cases, relative to subsidised finance operations or for medium-term financing.

2. LIQUIDITY RISK

Liquidity risk is the risk that the Group will have difficulty complying with its obligations relative to financial liabilities.
The approach to liquidity management is aimed at guaranteeing, as much as possible, that there are always sufficient funds available to comply with obligations when maturity dates are reached.
The Group performs liquidity analysis as a function of budget forecasts, determining short, medium and long-term cash flows.
Estimates are periodically reviewed to ensure there is adequate on demand cash and cash equivalents to cover operating expenses forecast for a period of around 3 months.
For short-term financial needs, at 31.12.2019 credit lines were available totalling around € 233.5 million, used for current account payables and short-term financing for around 26% of the total. For long-term financial requirements, the Group has loans of € 566 million.
Note that on 12 March 2019, the Group signed an update to existing agreements with credit institutions regarding the short-term credit lines originally committed at 31 December 2019. The new agreement establishes committed credit lines for a total of € 200 million, until 31 March 2022.

3. MARKET RISK

Market risk is the risk that the fair value or future financial flows associated with a financial instrument fluctuate following a change in market prices, a change in exchange rates, interest rates or the prices of equity instruments. The objective is to manage and control exposure to this risk, keeping it within acceptable levels, while simultaneously optimising returns on investments.

RISK ASSOCIATED WITH INTEREST RATE FLUCTUATIONS

Within the context of its capital intensive business, the Group makes investments, which are mainly technical, making use of debt.
In this context, it is possible to carry out cash flow hedge transactions, to neutralise or reduce the effects of an increase in the rates on the cost the Group must pay to service its debts. The general objectives of a hedging operation therefore can be summarised as transforming the cost of a variable rate debt to the cost of a fixed rate debt, or to reduce the extent to which it is variable. Medium/long-term hedges, when used, are organised on the basis of projections over a multi-year period prepared on the basis of economic and financial budgets and cash flow projections, as well as the net financial position. Short-term loans may also be hedge, even if the duration of the flow is considered not to be significant.

EXCHANGE RISK

In relation to sales activities, purchases and sales are made in other currencies, at present mainly in USD and GBP.
Therefore, hedging policies are mainly focussed on stipulating futures contracts against the euro.
Additionally, other currencies are periodically monitored, which may be used in invoices on a continuous or occasional basis.
Hedges are carried out on the basis of estimates of future financial flows in currencies on the basis of invoices payable and receivable, and taking budget forecasts into account.
Exchange risk hedging transactions are carried out to neutralise the effects induced by changes in the exchange rate on the value in euro of cash flows denominated in foreign currencies.

Hedging policies allow use of forward contracts and options relative to exchange rates, to guarantee the most flexible coverage. Currently, exposure to exchange rate derivatives falls within the forward category.
The period of coverage for hedges is normally three months.

EQUITY RISK

In the context of its investment activities, the Group purchases equity investments for investment purposes.

COMMODITY RISK

The strategic objective is to stabilise profit margins in terms of reducing risks associated with volatility in the prices of gas and materials used in production processes, in order to minimise exposure to risk and possible associated losses.
With an eye to continuously reducing loss risks, the Group has the simultaneous objective of minimising costs associated with obtaining its production factors.

Burgo Group results and financial structure

Financial year 2019 saw a reduction in **operating revenues and proceeds** from € 1,882.5 million to € 1,698.2 million, and Group results substantially stable with a **gross operating margin (EBITDA)** of € 134.1 million, compared to € 136.6 million in 2018. The year saw a downward trend in the costs of fibrous raw materials and gas, which led to a decrease in sales prices for paper. The industrial medium-term focus was on increasing attention to special paper and cardboard while decreasing graphic paper, which allowed the Group to maintain its overall margins.
In terms of **net financial debt** 2019 was stable with respect to the previous year.
The € 4.7 million increase in financial debt depends exclusively on the application of the new standard IFRS 16 as of 1 January 2019 which, as of 31 December 2019, led to an increase in the liabilities of around € 7.7 million, in the absence of which the debt would not have been higher than the previous year.

PROFIT AND LOSS STATEMENT FOR THE YEAR **€/mln**

	2018	2019	Variazione %
Revenues	1.812,1	1.639,2	-9,5%
Other income	70,4	59,0	
Total operating revenues and income	**1.882,5**	**1.698,2**	**-9,8%**
Operating costs	(1.745,9)	(1.564,1)	-10,4%
EBITDA	**136,6**	**134,1**	**-1,8%**
Depreciation and amortisation	(80,9)	(79,2)	
Capital gains/losses on disposal of non-current assets	2,0	(1,5)	
Operating profit/(loss) excluding operations of a non-recurring nature	**57,7**	**53,4**	
Financial expenses	(30,5)	(30,9)	
Financial income	7,3	6,1	
Portions of profit/(loss) of associates	-	-	
Profit/(loss) before tax excluding operations of a non-recurring nature	**34,4**	**28,6**	
Writebacks/writedowns of non-current assets	(22,6)	(10,8)	
Net income/expenses of a non-recurring nature	(0,4)	(0,6)	
Net restructuring expenses	-	(2,1)	
Profit/(loss) before tax	**11,4**	**15,2**	
Income taxes	(1,5)	(5,5)	
Profit/(loss) for the period	**9,9**	**9,7**	

BURGO GROUP RESULTS AND FINANCIAL STRUCTURE

Revenues from ordinary operations in 2019 amounted to € 1,639.2 million, down by € 172.9 million (-9.5%) with respect to the € 1,812.5 million seen in 2018. The decrease was mainly part due to the decrease in sales of energy products to third parties which saw turnover fall by € 145 million, due to the decision to leave the market of sales of gas and electricity to end consumers made midway through financial year 2018, as well as the decrease in average sales prices seen during the year. Paper sales fell by € 10 million following the drop in average sales prices. **Other income** totalled € 59.0 million (€ 70.4 million the previous year) due, in particular, to environmental certificates, interruptibility agreements and sales of ligninsulphonate. As a whole, total operating revenue and income came to € 1698.2 million, compared to € 1,882.5 million in 2018 (-9.8%).

The amount of paper sold totalled 1,998,264 t, up by 0.1% with respect to the 1,996,302 sold in 2018. **Operating expenses** totalled € 1,564.1 million against € 1,745.9 million the previous year, a decrease of 10.4%. Within operating costs, personnel amounted to € 197.8 million, compared to € 199.0 million the previous year.
The gross operating margin (EBITDA) was € 134.1 million, against € 136.6 million in 2018. In percentage terms, EBITDA amounted to 7.9% of sales, compared to 7.3% the previous year.

Amortisation and depreciation came to € 79.2 million (€ 80.9 million in 2018).
Operating income, before non-recurring transactions, amounted to € 53.4 million, compared to € 57.7 million the previous year (-7.3%).
Financial expense increased from € 30.5 million in 2018 to € 30.9 million in the current year. On the other hand, **financial income** came to € 6.1 million, against € 7.3 million in 2018. Relative to **net non-recurring expenses**, writedowns totalling € 10.8 million were allocated, against € 22.6 million in 2018. The Group classifies as non-recurring events or facts which do not occur frequently or derive from operations not representative of normal business, such as restructuring costs or writedowns of non-current assets. More specifically, non-recurring income and expenses refer to writedowns carried out to adjust the carrying value of assets to the recoverable value through use or disposal. In particular, parts of the systems in the Verzuolo plant were written down after conversion of the production line. Following the change in production, it was held that certain components or parts of components were no longer usable and that their value could not be recovered through sale or use. As a consequence of the above, **net profit**, after taxes payable for the year of € 5.5 million, came to € 9.7 million, compared to profit of € 9.9 million the previous year.

STATEMENT OF EQUITY/FINANCIAL POSITION: ASSETS €/mln

	31 dic 2018	31 dic 2019	Change
Non-current assets	**828,0**	**844,6**	**16,6**
Property, plant and equipment	715,3	728,1	12,9
Intangible assets	26,1	24,8	(1,2)
Other non-current assets	17,7	22,8	5,1
Deferred tax assets	69,0	68,9	(0,1)
Current assets	**725,8**	**634,5**	**(91,3)**
Total assets	**1.553,8**	**1.479,1**	**(74,7)**

STATEMENT OF EQUITY/FINANCIAL POSITION: LIABILITIES €/mln

	31 dic 2018	31 dic 2019	Change
Shareholders' equity	**308,0**	**314,3**	**6,3**
Shareholders' equity pertaining to the Group	304,9	310,9	6,0
Shareholders' equity attributable to non-controlling interests	3,1	3,4	0,3
Non-current liabilities	**660,2**	**669,1**	**8,9**
Current liabilities	**585,7**	**495,7**	**(89,9)**
Total shareholders' equity and liabilities	**1.553,8**	**1.479,1**	**(74,7)**

BURGO GROUP RESULTS AND FINANCIAL STRUCTURE

Net **tangible and intangible fixed assets** increased, going from € 741.4 million to € 753.0 million, in particular due to the effects of amortisation/depreciation for € 79.2 million, write-downs for € 10.8 million, increases in fixed tangible assets during the year for € 94.4 million and the recognition of rights of use due to application of IFRS 16 which, at the end of the year, totalled € 7.8 million.
During 2019 the Group continued with its schedule of projects at the Verzuolo and Ardennes plants which continued through the beginning of 2020 for the first and will continue throughout the year for the second.
Warehouse inventories and **trade receivables due from customers** fell respectively by € 10.8 million and € 61.0 million while **trade payables due to suppliers** fell by € 53.4 million, leading to positive cash flow of € 18.4 million.
Working capital therefore fell as a whole by € 8.8 million, while **net financial debt** went from € 486.9 million to € 491.7 million at the end of 2019, an increase of € 4.8 million.
Shareholders' equity increased from € 308 million to € 314.3 million. Note that net costs were allocated to shareholders' equity for € 3.8 million relative to the change in the derivative cash flow hedge of € -1.7 million, the € 0.3 million change in financial assets and the change relative to discounting of defined benefit plans for € -2.4 thousand..

'BREAKDOWN OF NET FINANCIAL DEBT €/mln

	31 dic 2018	31 dic 2019	Change
Current financial assets	155,2	128,2	(27,0)
Short-term financial payables	(103,6)	(72,9)	30,6
Medium/long-term financial assets	4,4	4,2	(0,2)
Medium/long-term financial payables	(542,9)	(551,1)	(8,2)
Net financial debt	**(486,9)**	**(491,7)**	**(4,8)**

CAPITAL AND FINANCIAL STRUCTURE €/mln

	31 dic 2018	31 dic 2019	Change
Intangible assets	26,1	24,8	(1,2)
Property, plant and equipment	715,3	728,1	12,9
Other non-current assets:			
Equity investments	9,7	13,6	3,9
Other receivables and non-current assets	3,6	5,0	1,4
Net fixed assets	**754,7**	**771,6**	**16,9**
Inventories	248,5	237,7	(10,8)
Trade receivables	293,2	232,2	(61,0)
Trade payables	(418,3)	(364,8)	53,4
Working capital	**123,4**	**105,0**	**(18,4)**
Equity investments in current assets	0,8	1,0	0,3
Other receivables and current assets	28,1	35,4	7,3
Deferred tax assets	69,0	68,9	(0,1)
Provisions for deferred tax liabilities	(20,3)	(18,2)	2,0
Provisions for risks and charges	(55,4)	(63,6)	(8,2)
Other payables and non-current liabilities	(3,2)	(0,8)	2,4
Payables for current taxes	(12,5)	(8,2)	4,3
Other payables and current liabilities	(51,4)	(49,8)	1,6
Other operating assets and liabilities	**(44,8)**	**(35,3)**	**9,5**
Working capital	**78,6**	**69,7**	**(8,9)**
Invested capital, after deducting operating liabilities	**833,3**	**841,3**	**8,0**
Severance indemnities and other provisions related to personnel	(38,4)	(35,3)	3,1
Invested capital, after deducting operating liabilities and severance indemnities (TFR)	**794,9**	**806,0**	**11,1**
Share capital	(20,0)	(20,0)	-
Reserves	(284,1)	(280,3)	3,8
Accumulated profits/(losses) including profit/(loss) for the period	(0,8)	(10,6)	(9,8)
Shareholders' equity attributable to non-controlling interests	(3,1)	(3,4)	(0,3)
Own capital	**(308,0)**	**(314,3)**	**(6,3)**
Financial receivables and other non-current financial assets	4,4	4,2	(0,2)
Financial receivables and other current financial assets	94,4	80,9	(13,5)
Cash on hand and other cash equivalents	60,8	47,3	(13,5)
Non-current financial liabilities	(542,9)	(551,1)	(8,2)
Current financial liabilities	(103,6)	(72,9)	30,6
Net financial debt	**(486,9)**	**(491,7)**	**(4,8)**
Total coverage	**(794,9)**	**(806,0)**	**(11,1)**

ANALYSIS BY INDEX

	31 dic 2018	31 dic 2019
ROS (EBIT/Turnover)	3,06%	3,15%
AT (Assets turnover: Turnover/Average invested capital)	1,18	1,12
ROI (EBIT/Average invested capital) = ROS x AT	**3,61%**	**3,51%**
ROI (EBIT/Average invested capital) = ROS x AT	3,61%	3,51%
Debt ratio (CI/CN)	5,26	4,89
Impact of non-management expense	0,17	0,18
ROE (ROI*CI/CN*RN/RO)	**3,26%**	**3,13%**
ROCE (Operating income/Net average invested capital)	**7,07%**	**6,68%**
PFN/Shareholders' equity	**1,58**	**1,56**
PFN/MOL	**3,56**	**3,67**

Parent company Burgo Group S.p.A. results and financial structure

Note that the transfer of the Toscolano plant affected changes in turnover, quantities produced, costs, assets and liabilities. This occurred as part of the business plan with the plant in question progressively positioning itself in the special paper sector, a market segment in which the subsidiary Mosaico srl operates.
Effective as of 01/01/2019 the company Burgo Group transferred the Toscolano plant to the subsidiary Mosaico srl. As part of this transaction, assets of € 48,292 thousand were transferred to the company (represented by tangible fixed assets of € 29,065 thousand, warehouse inventories of € 17,661 thousand, cash for € 714 thousand and other assets for € 851 thousand), as well as liabilities for € 9,575 thousand (represented by the provision for deferred IRES taxes of € 4,027 thousand, the severance indemnity/TFR provision for € 3,398 thousand, the CO_2 charges provision for € 1,796 thousand and other liabilities for € 354 thousand). The increase in shareholders' equity totalled € 38,717 thousand.

PARENT COMPANY BURGO GROUP S.P.A.
RESULTS AND FINANCIAL STRUCTURE

ROCE (OPERATING INCOME/NET AVERAGE INVESTED CAPITAL) €/mln

	2018	2019	Variazione %
Revenues	1.212,0	1.119,4	-7,6%
Other income	43,7	36,2	
Total operating revenues and income	**1.255,6**	**1.155,5**	**-8,0%**
Operating costs	(1.177,1)	(1.083,7)	-7,9%
EBITDA	**78,5**	**71,9**	**-8,5%**
Depreciation and amortisation	(56,3)	(48,3)	
Capital gains/losses on disposal of non-current assets	1,9	(1,5)	
Operating profit/(loss) excluding operations of a non-recurring nature	**24,2**	**22,1**	
Financial expenses	(24,7)	(25,8)	
Financial income	29,1	25,3	
Profit/(loss) before tax excluding operations of a non-recurring nature	**28,6**	**21,5**	
Writebacks/writedowns of non-current assets	(22,6)	(10,8)	
Net income/expenses of a non-recurring nature	(0,4)	(0,6)	
Net restructuring expenses	-	(1,8)	
Profit/(loss) before tax	**5,5**	**8,3**	
Income taxes	2,2	3,4	
Profit/(loss) for the period	**7,7**	**11,7**	

Revenues from ordinary operations in 2019 amounted to € 1,119.4 million, against € 1,212 million in 2018.
Additionally, other income totalling € 36.2 million was seen, in particular coming from environmental certificates and interruptibility agreements (€ 43.7 million the previous year).
As a whole, **total operating revenue and income** came to € 1,155.5 million, compared to € 1,255.6 million in 2018.
Paper quantities sold came to 1,589,338 t against 1,665,464 t the previous year.
Total **operating costs** came to € 1,083.7 million against € 1,177.1 million in 2018. Within operating costs, personnel costs amounted to € 87.3 million, compared to € 97.7 million in 2018.
The **gross operating margin (EBITDA)** was € 71.9 million against € 78.5 million the previous year (-8.5%), while **amortisation and depreciation** amounted to € 48.3 million against € 56.3 million in 2018.
Operating income, before non-recurring transactions amounted to € 22.1 million, against € 24.2 million the previous year.
The result of **financial management** was negative at € -0.5 million, against the positive € 4.4 million recorded in 2018. The change is mainly due to lower dividends received by subsidiaries, equal to € 21.9 million in 2019 and € 27 million in 2018. **Profit before taxes and non-recurring expenses** totalled € 21.5 million, against € 28.6 million the previous year.
Therefore, **net non-recurring charges** of € 13.2 million were allocated. The Company classifies as non-recurring events or facts which do not occur frequently or derive from operations not representative of normal business, such as restructuring costs or writedowns of non-current assets. In detail, **non-recurring expense and income** included:
- writedowns on plants for € 10.8 million;
- € 2.4 million in expenses associated with closed plants;

The **net result** is profit of € 11.7 million, compared to profit of € 7.7 million the previous year.

PARENT COMPANY BURGO GROUP S.P.A.
RESULTS AND FINANCIAL STRUCTURE

STATEMENT OF EQUITY/FINANCIAL POSITION: ASSETS €/mln

	31 dic 2018	31 dic 2019	Change
Non-current assets	**982,8**	**1.011,6**	**28,7**
Property, plant and equipment	478,7	460,2	(18,5)
Intangible assets	12,8	13,2	0,4
Other non-current assets	428,3	474,8	46,5
Deferred tax assets	63,0	63,4	0,3
Current assets	**438,6**	**382,1**	**(56,4)**
Total assets	**1.421,4**	**1.393,7**	**(27,7)**

STATEMENT OF EQUITY/FINANCIAL POSITION: LIABILITIES €/mln

	31 dic 2018	31 dic 2019	Change
Shareholders' equity	**(396,9)**	**(408,2)**	**(11,3)**
Shareholders' equity pertaining to the Group	(396,9)	(408,2)	(11,3)
Non-current liabilities	**(604,5)**	**(586,1)**	**18,3**
Current liabilities	**(420,0)**	**(399,3)**	**20,7**
Total shareholders' equity and liabilities	**(1.421,4)**	**(1.393,7)**	**27,7**

During the year **technical investments** totalling € 62.7 million were made (€ 43 million in 2018). Together with capitalisation of financial expense, internal work and advances on plant maintenance, these bring the total to € 67 million. Recognition of rights of use due to application of IFRS 16 amounted to € 3.3 million at the end of the year. Increases relative to intangible fixed assets amounted to € 0.9 million (€ 0.8 million in 2018). **Trade receivables** went from € 187.6 million in 2018 to € 123.5 million and **warehouse** inventories went from € 134.4 million to € 107.7 million. **Payables due to suppliers** decreased from € 348.8 million at the end of 2018 to € 283.8 million.
Net financial debt came to € 488.9 million, compared to € 484.3 million at the end of 2018, an increase of € 4.6 million.
Shareholders' equity amounted to € 408.2 million against € 396.9 million at the end of 2018.

BREAKDOWN OF NET FINANCIAL DEBT €/mln

	31 dic 2018	31 dic 2019	Change
Current financial assets	90,0	117,5	27,5
Short-term financial payables	(37,2)	(84,4)	(47,2)
Medium/long-term financial assets	2,8	5,4	2,6
Medium/long-term financial payables	(539,9)	(527,3)	12,6
Net financial debt	**(484,3)**	**(488,9)**	**(4,6)**

CAPITAL AND FINANCIAL STRUCTURE

€/mln

	31 dic 2018	31 dic 2019	Change
Intangible assets	12,8	13,2	0,4
Property, plant and equipment	478,7	460,2	(18,5)
Other non-current assets:			
Equity investments	422,1	464,8	42,7
Other receivables and non-current assets	3,4	4,6	1,2
Net fixed assets	**917,0**	**942,8**	**25,8**
Inventories	134,4	107,0	(27,4)
Trade receivables	187,6	123,5	(64,0)
Trade payables	(348,8)	(283,8)	65,0
Working capital	**(26,8)**	**(53,3)**	**(26,5)**
Equity investments in current assets	0,8	1,0	0,3
Other receivables and current assets	25,8	33,1	7,3
Deferred tax assets	63,0	63,4	0,3
Provisions for risks and charges	(35,0)	(37,5)	(2,5)
Other payables and non-current liabilities	(2,5)	-	2,5
Payables for current taxes	(4,8)	(4,0)	0,8
Other payables and current liabilities	(29,2)	(27,1)	2,0
Other operating assets and liabilities	**18,1**	**29,0**	**10,9**
Working capital	**(8,8)**	**(24,4)**	**(15,6)**
Invested capital, after deducting operating liabilities	**908,2**	**918,4**	**10,2**
Severance indemnities and other provisions related to personnel	(27,0)	(21,3)	5,7
Invested capital, after deducting operating liabilities and severance indemnities (TFR)	**881,2**	**897,1**	**15,9**
Share capital	(20,0)	(20,0)	-
Reserves	(350,9)	(350,5)	0,4
Accumulated profits/(losses) including profit/(loss) for the period	(26,0)	(37,7)	(11,7)
Own capital	**(396,9)**	**(408,2)**	**(11,3)**
Financial receivables and other non-current financial assets	2,8	5,4	2,6
Securities other than equity investments	39,6	73,3	33,6
Financial receivables and other current financial assets	50,4	44,2	(6,1)
Cash on hand and other cash equivalents	(539,9)	(527,3)	12,6
Non-current financial liabilities	(37,2)	(84,4)	(47,2)
Net financial debt	**(484,3)**	**(488,9)**	**(4,6)**
Total coverage	**(881,2)**	**(897,1)**	**(15,9)**

Performance of subsidiaries and associated companies

SUBSIDIARIES

BURGO ARDENNES SA

(reporting prepared in accordance with the international accounting standards)
I Revenues amounted to € 294.3 million (€ 299.8 million the previous year).
The gross operating margin (EBITDA) was € 17.9 million, against € 25.3 million the previous year.
Net profits for the year came to € -1.3 million, against € 12.3 million the previous year.

MOSAICO SRL

(financial statements prepared in accordance with the international accounting standards)
Revenues amounted to € 403.0 million (€ 392.2 million the previous year).
The gross operating margin (EBITDA) was € 32.4 million, against € 24.3 million the previous year.
Net profits for the year came to € 13.8 million, against € 11.4 million the previous year.

BURGO DISTRIBUZIONE SRl

(financial statements prepared in accordance with the international accounting standards)
Revenues amounted to € 199.0 million (€ 211.8 million the previous year).
The gross operating margin (EBITDA) was € 3.6 million, against € 3.9 million the previous year.
Net profits for the year came to € 1.9 million, against € 2.2 million the previous year.

BURGO ENERGIA SRL

(financial statements prepared in accordance with the international accounting standards)
Revenues amounted to € 118.4 million (€ 265.0 million the previous year).
The gross operating margin (EBITDA) was € 2.2 million, against € 0.8 million the previous year.
Net profits for the year came to € 1.3 million, against € 0.2 million the previous year.

BURGO FACTOR SPA

(financial statements prepared in accordance with the international accounting standards)
The company managed total receivables equal to € 312.5 million (€ 381.0 million the previous year).
Net profits for the year came to € 2.9 million, against € 3.3 million the previous year.

GEVER SPA

(financial statements prepared in accordance with the international accounting standards)
Revenues amounted to € 47.0 million (€ 60.3 million the previous year).
The gross operating margin (EBITDA) was € 2.2 million, against € 0.9 million the previous year.
Net profits for the year came to € -0.4 million, against € -1.3 million the previous year.

OTHER FOREIGN COMPANIES

The foreign sales companies (Burgo Central Europe, Burgo France, Burgo Ibérica Papel, Burgo UK, Burgo Benelux, Burgo North America, Sefe and Burgo Eastern Europe) achieved a positive net result as a whole, equal to € 1.0 million (€ 0.9 million the previous year).

Relations with subsidiaries, associated companies and parent companies

The parent company Burgo Group sap, in addition to its institutional role providing management and coordination for its subsidiaries and associated companies, also has instrumental relationships with these same companies, with the objective of achieving maximum synergy within the Group both relative to production and organisational and financial aspects, including sales and service relationships, all of which are governed under market conditions or using cost breakdown methodology.

The Company purchases:

- paper and cellulose from Burgo Ardennes;
- paper from Mosaico;
- electricity, gas and correlated services from Burgo Energia;
- electricity and steam from Gever;
- brokering and sales services from Burgo Ibérica Papel, Burgo Central Europe, Burgo France, Burgo UK, Burgo Benelux, Burgo Eastern Europe, Burgo North America and Burgo Distribuzione.

The parent company supplies:

- paper products to Burgo Ardennes, Mosaico and Burgo Distribuzione;
- excess electricity produced in the power plants to Burgo Energia;
- plant services to Gever;
- administrative, tax, legal, financial and treasury and EDP assistance and personal loans to all Group companies;
- guarantees in the interests of Burgo Factor, Burgo Energia, Gever and Burgo Distribuzione;
- insurance coverage to Mosaico, Burgo Factor, Burgo Distribuzione, Burgo Energia, Gever, serving as an intermediary with the companies.

Burgo Factor provides factoring services for receivables due to the Group from its suppliers.
Relative to the electricity and steam purchasing contract with Gever, the parent company guarantees the supply of gas to Gever, charging back all relative costs to it.
The Company makes use of the ability to consolidate the individual items receivable and payable relative to Burgo Distribuzione srl, Burgo Energia srl, Gever spa, Burgo Factor spa and Mosaico srl for IRES purposes and to Burgo Distribuzione srl, Burgo Energia srl, Gever spa and Mosaico srl for VAT purposes, in relation to the current tax regulations in effect.
The above relationships are indicated quantitatively in the schedule below:

RELATIONS WITH RELATED PARTIES — €/000

	Subsidiaries		Total financial statement items			
	31 dec 2018	31 dec 2019	31 dec 2018	%	31 dec 2019	%
Financial receivables and other non-current financial assets	2.800	2.800	2.800	100%	5.410	52%
Trade receivables	64.354	32.925	187.562	34%	123.527	27%
Other receivables and current assets	7.618	12.433	25.808	30%	33.139	38%
Financial receivables and other current financial assets	36.871	68.234	39.641	93%	73.265	93%
Non-current financial liabilities						
Current financial liabilities	(10.870)	(20.062)	(37.217)	29%	(84.446)	24%
Trade payables	(75.967)	(65.710)	(348.824)	22%	(283.814)	23%
Other payables and current liabilities	(2.507)	(4.873)	(29.162)	9%	(27.114)	18%
Economic relationships						
Revenues	272.010	175.932	1.211.963	22%	1.119.375	16%
Other income	12.950	4.646	43.662	30%	36.164	13%
Costs for materials and external services	(256.396)	(257.506)	(1.090.097)	24%	(963.218)	27%
Personnel expenses	-	-	(97.715)	0%	(87.307)	0%
Other operating costs	-	(4.416)	(20.113)	0%	(23.931)	18%
Financial expenses	(951)	(122)	(24.738)	4%	(25.845)	0%
Financial income	27.934	24.068	29.138	96%	25.301	95%
Income taxes	5.803	8.378	2.210	263%	3.380	248%

Corporate governance
and internal audit system

GENERAL INFORMATION

Burgo Group spa share capital amounts to € 20,000,000.00, divided into 395,083,445 shares with no nominal value.
The Company does not hold any treasury shares or shares of its parent companies, including through fiduciary companies or through nominees. During the year it neither acquired nor disposed of treasury shares or shares of parent companies, including through fiduciary companies or nominees.
At 31.12.2019, share capital can be broken down as follows:

- Marchi spa Holding Group (directly and through the subsidiary Palladio Zannini Industrie Grafiche Cartotecniche spa) 50.59%
- Mediobanca spa 22.12%,
- Italmobiliare spa 11.68%,
- Allegro (Generali Financial Holdings FCP-FIS Sub-Fund2) 11.68%,
- Unicredit spa 3.83%,
- Minority shareholders 0.10%.

Article XIX of the Company's Articles of Association requires that four sevenths of its directors in office vote in favour for issues of particular significance in order for the resolution to be valid, including the director appointed by the holders of the equity instruments convertible to ordinary and/or privileged shares of 23 December 2014 (SFP).
Burgo Group spa is not subject to management or coordination by another company or entity.
It subsidiaries have indicated that Burgo Group spa is the subject which provides management and coordination pursuant to article 2497 bis of the Italian Civil Code.
In fact, the parent company determines the management and strategic guidelines for the Group, prepares and adjusts its internal audit model and code of ethics, defines the general policies for financial, production, human resource, procurement and communication management and sets the objectives and procedures relative to workplace health and safety, quality and the environment. Additionally, certain services are managed at a centralised level, including treasury, corporate secretary, legal assistance and internal audit.
The subsidiaries maintain operational independence and can concentrate their resources on their respective core businesses, making use of the parent company's resources for specialised activities, achieving the consequent economies of scale.

***CORPORATE GOVERNANCE* WITHIN THE COMPANY**

The Burgo Group spa Articles of Association adopts the "traditional model" of corporate governance, consisting of a Shareholders' Meeting, a Board of Directors and a Board of Statutory Auditors. The Company is administered by a Board of Directors consisting of seven members, who hold the requirements of honour and professionalism envisaged in the Internal Code of Conduct applicable to listed companies. Directors hold office for three financial years and can be re-elected.
On 9 May 2018, the Shareholders' Meeting appointed 7 directors, 4 of which holding the independence requirements established in the Internal Code of Conduct applicable to listed companies. Additionally, 3 directors are executive (the Chairperson, CEO and Chief Restructuring Officer) and 4 are non-executive.
The Shareholders' Meeting has approved annual individual fees of € 40,000 for members of the Board of Directors.
In addition to the responsibilities pursuant to article 2365, paragraph 2 of the Italian Civil Code, the Board of Directors is granted the widest powers of ordinary and extraordinary administration and is responsible for guiding management of the company, as well as evaluating the adequacy of its organisational, administrative and accounting structure and, on the basis of the delegated bodies, general management performance.
The Board takes decisions with a simple majority, with the exception of cases for which article XIX of the Articles of Association requires a wider majority, as referenced above.
The Chairperson has the power to represent and sign for the company, as established in the Articles of Association. The Chairperson is responsible for institutional and trade organisation relationships and communication with the media. The Chairperson is also responsible for internal audit activities, with Group departments in this area reporting to the Chairperson. The Chairperson works with the CEO to define company strategies.
The Chief Executive Officer is invested with the widest ordinary and extraordinary administrative powers, with the exception of that which the law and article XIX of the Articles of Association reserve expressly for the Shareholders' Meeting and the Board itself and, if not otherwise envisaged, those expressly delegated to the Chairperson and Chief Restructuring Officer.
At least once every 120 days directors who have been granted powers report to the Board on the activities carried out within the context of said powers and on transactions of greater significance carried out by the parent company or subsidiaries and on those in which they have an interest for themselves or for third parties.
During 2019, the Burgo Group spa Board of Directors met four times.

EQUITY FINANCIAL INSTRUMENTS

In execution of the restoration agreement pursuant to article 67, paragraph 3, letter d) of Royal Decree 267 of 16 March 1942, with a Board of Directors resolution of 30 July 2015 the Company issued 200,000,000 equity financial instruments known as "Burgo Group S.p.A. equity instruments convertible to ordinary and/or privileged shares of 23 December 2014" (SFP), subdivided into category A and category B equity financial instruments.
These financial instruments were subscribed by certain lending institutions through the conversion of € 200 million in debt, through adherence to the cited agreement, as specified in the table below:

EQUITY FINANCIAL INSTRUMENTS

	Category A	Category B
Mediobanca S.p.A.	-	130.374.542
Pillarstone Italy Holding S.p.A.	54.096.920	-
Banco BPM S.p.A.	15.528.538	-
	69.625.458	**130.374.542**

Holders of SFPs are granted certain administrative rights which include, among other things, (i) the right to appoint a member of the Board of Directors pursuant to article 2351, fifth paragraph of the Italian Civil Code; (ii) the right to express approval in relation to the appointment of another 3 directors; and (iii) the right to express approval in relation to the appointment of a regular auditor.

INTERNAL AUDIT SYSTEM

The Company's Board of Directors adopted, already in financial year 2003, in application of Italian Legislative Decree 231 of 8 June 2001, an "Organisation, Management and Control Model", which serves to identify and apply a collection of behavioural, organisational and control rules which constitute a control system reasonably able to identify and prevent conduct associated with corporate liability pursuant to Italian Legislative Decree 231/2001, as amended.
The responsibility of monitoring the effective functioning and observance of the Model, as well as proposing updates, is assigned to a collegial Oversight Committee, which reports to the Chairperson.
The Board of Statutory Auditors consists of three regular auditors and two alternate auditors. Their terms will expire on the date the financial statements at 31 December 2021 are approved. During 2019, the Board of Statutory Auditors met four times.
Auditing of the accounts is delegated to an independent auditing firm.

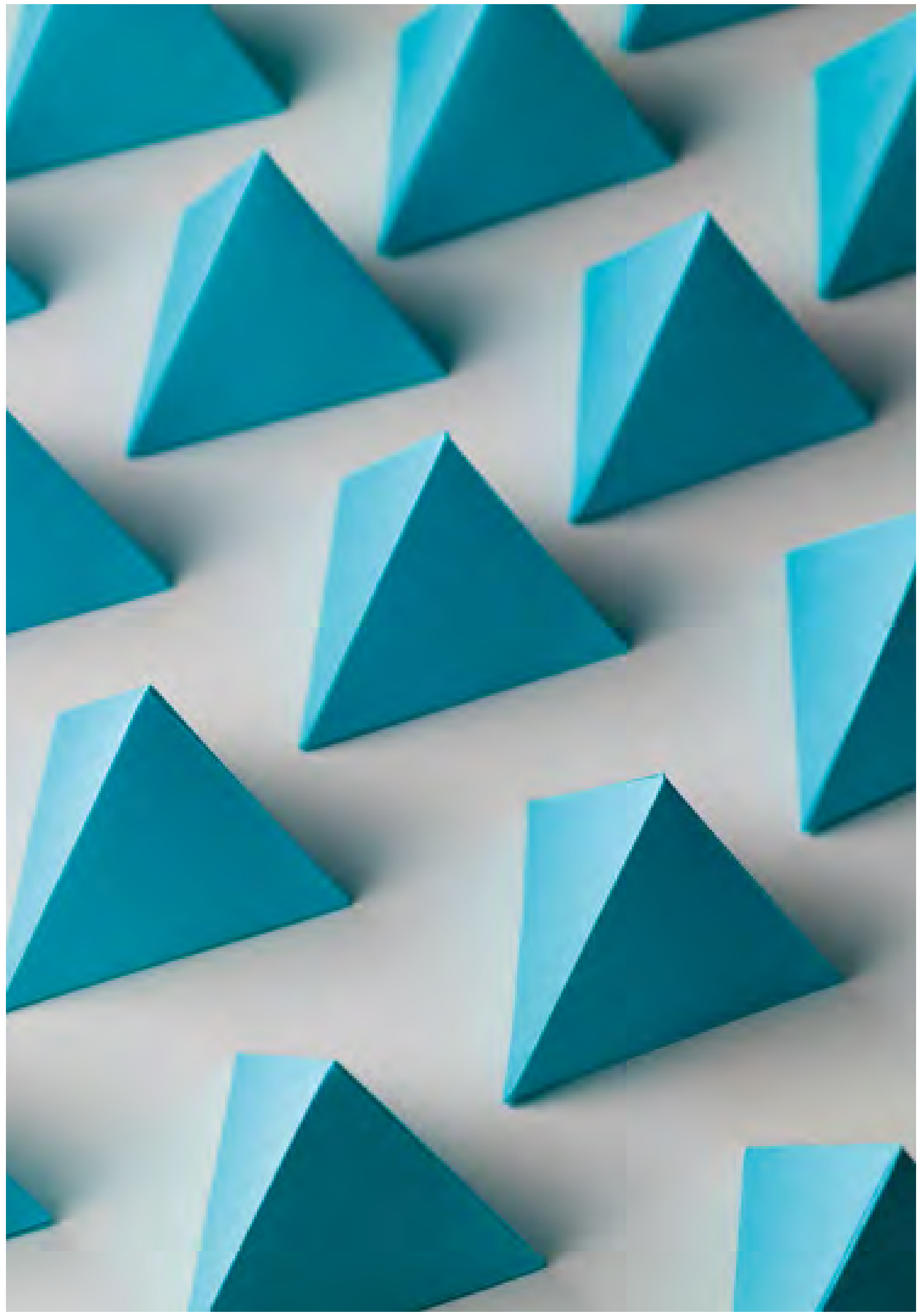
Privacy protection, Italian Legislative Decree 196 of 30 june and GDPR, no. 679 of 27 april 2016

The Company adjusted to the requirements established under the European regulations prior to the deadline.

With reference to financial year 2018, there were no significant incidents regarding files containing personal data used by the company or process of the same, nor did any interested subjects indicate damages deriving from use of the same.

List of secondary offices

As required by the final paragraph of article 2428 of the Italian Civil Code, note that the Company has no secondary offices.



2. Explanatory notes to the consolidated financial statements

Consolidated Balance Sheet

STATEMENT OF EQUITY/FINANCIAL POSITION: ASSETS €/000

	Note	31 dic 2018	31 dic 2019	Change
Non-current assets		**828.042**	**844.620**	**16.578**
Property, plant and equipment		**715.289**	**728.143**	**12.854**
Property, plant and equipment	1	714.277	719.702	5.425
Property investments	1	690	664	(26)
Right of use assets	1	322	7.778	7.456
Intangible assets		**26.066**	**24.829**	**(1.237)**
Goodwill and other intangible assets with undefined life	2	17.061	17.061	-
Intangible assets with defined life	2	9.005	7.768	(1.237)
Other non-current assets		**17.689**	**22.796**	**5.107**
Equity investments in other companies	3	9.662	13.600	3.938
Financial receivables and other non-current financial assets	3	4.382	4.158	(224)
Other receivables and non-current assets	3	3.646	5.038	1.392
Deferred tax assets		**68.998**	**68.852**	**(146)**
Deferred tax assets	4	68.998	68.852	(146)
Current assets		**725.756**	**634.476**	**(91.279)**
Inventories	5	248.456	237.673	(10.783)
Trade receivables	6	293.217	232.171	(61.046)
Other receivables and current assets	7	28.125	35.422	7.297
Equity investments	8	774	1.030	256
Financial receivables and other current financial assets	9	94.357	80.897	(13.460)
Cash on hand and other cash equivalents	10	60.826	47.283	(13.543)
Total assets		**1.553.798**	**1.479.096**	**(74.701)**

STATEMENT OF EQUITY/FINANCIAL POSITION: LIABILITIES €/000

	Note	31 dic 2018	31 dic 2019	Change
Shareholders' equity		**307.959**	**314.301**	**6.342**
Share capital	11	20.000	20.000	-
Reserves	11	284.055	280.294	(3.761)
Accumulated profits/(losses) including profit/(loss) for the period	11	811	10.587	9.777
Shareholders' equity attributable to non-controlling interests	11	3.093	3.420	327
Non-current liabilities		**660.180**	**669.074**	**8.894**
Non-current financial liabilities	12	542.932	551.099	8.167
Severance indemnities and other provisions related to personnel	13	38.415	35.334	(3.080)
Provisions for deferred tax liabilities	14	20.255	18.236	(2.019)
Provisions for risks and charges	15	55.407	63.593	8.186
Other payables and non-current liabilities	16	3.171	811	(2.360)
Current liabilities		**585.659**	**495.721**	**(89.938)**
Current financial liabilities	17	103.556	72.923	(30.633)
Trade payables	18	418.262	364.830	(53.432)
Payables for current taxes	19	12.469	8.184	(4.285)
Other payables and current liabilities	20	51.372	49.784	(1.588)
'Total shareholders' equity and liabilities		**1.553.798**	**1.479.096**	**(74.701)**

Consolidated Profit and Loss Statement for the Year

'PROFIT AND LOSS STATEMENT FOR THE YEAR €/000

	Note	31 dic 2018	31 dic 2019	% change
Revenues	22	1.812.115	1.639.222	-9,5%
Other income	23	70.423	59.027	
Total operating revenues and income		**1.882.537**	**1.698.249**	**-9,8%**
Costs for materials and external services	24	(1.545.294)	(1.307.224)	
Personnel expenses	25	(199.059)	(197.776)	
Other operating costs	26	(43.447)	(49.090)	
Change in inventories	27	40.897	(10.860)	
Capitalised costs for internal work	28	976	821	
Total operating costs		**(1.745.926)**	**(1.564.128)**	**-10,4%**
EBITDA		**136.611**	**134.121**	**-1,8%**
Depreciation and amortisation	29	(80.916)	(79.195)	
Capital gains/losses on disposal of non-current assets	30	1.961	(1.482)	
EBIT before non-recurring expenses and income		**57.656**	**53.444**	
Writebacks/writedowns of non-current assets	31	(22.603)	(10.805)	
Net income/expenses of a non-recurring nature	32	(427)	(577)	
Net restructuring expenses	33	-	(2.067)	
Operating result		**34.626**	**39.994**	
Financial expenses	34	(30.546)	(30.948)	
Financial income	35	7.284	6.142	
Profit/(loss) before tax		**11.364**	**15.189**	
Income taxes	36	(1.455)	(5.463)	
Profit/(loss) for the period		**9.909**	**9.726**	
Minority shareholders		*326*	*289*	
Group (parent company shareholders)		*9.583*	*9.437*	

Consolidated Schedule of Other Components of the Comprehensive Profit and Loss Statement

SCHEDULE OF OTHER COMPONENTS OF THE COMPREHENSIVE PROFIT AND LOSS STATEMENT €/000

	Note	31 dic 2018	31 dic 2019	% change
A - Profit (loss) for the period		**9.909**	**9.726**	**-1,8%**
Other components of the comprehensive profit and loss statement:		-	-	
Other components of the comprehensive profit and loss statement to be subsequently reclassified in the annual profit and loss statement:		-	-	
Translation differences from foreign financial statements		1	18	
		1	18	
Net (loss) profit from cash flow hedge	37	768	(2.355)	
Income taxes		(214)	657	
		554	(1.698)	
Net (loss) profit from financial assets FVOCI	37	(219)	256	
Income taxes		-	-	
		(219)	256	
B- Total other components of the comprehensive profit and loss statement to be subsequently reclassified in the annual profit and loss statement net of taxes		**336**	**(1.424)**	
Other components of the comprehensive profit and loss statement not to be subsequently reclassified in the annual profit and loss statement:				
(Losses) gains from discounting of defined benefit plans	37	1.248	(3.210)	
Income taxes		(312)	871	
		936	(2.338)	
Revaluations of land and buildings		-	-	
Income taxes		-	-	
		-	-	
C- Total Other components of the comprehensive profit and loss statement not to be subsequently reclassified in the annual profit and loss statement net of taxes		**936**	**(2.338)**	
D - Total other components of the comprehensive profit and loss statement net of taxes (B + C)		**1.272**	**(3.763)**	
E - Total comprehensive profit (loss) net of taxes (D +A)		**11.181**	**5.963**	**-43,0%**
Attributable to:				
Minority shareholders		*326*	*289*	
Group (parent company shareholders)		*10.855*	*5.674*	

For comments on the schedule, please see note 37 "Consolidated schedule of other components of the comprehensive profit and loss statement".

Statement of Changes in Shareholders' Equity

CHANGES IN SHAREHOLDERS' EQUITY **€/000**

	Share capital	Legal reserve	Non-distributable reserve from share capital reduction	IAS reserve	Reserve for equity financial instruments	Non-distributable exchange gains reserve	Other reserves	Undistributed profits - Carried forward	Result for the year	Shareholders' equity, majority shareholder	Third party reserves	Profit (loss) for the year pertaining to minority shareholders	Group shareholders' equity
Balances at start of previous period (*)	**20.000**	**13.149**	**138.797**	**(3.519)**	**200.000**	**125**	**(66.804)**	**(12.741)**	**8.414**	**297.421**	**2.452**	**313**	**300.186**
Destination of result - distribution of dividends	-	-	-	-	-	1.155	-	7.210	(8.414)	-	313	(313)	-
Net change profits (losses) directly recognised in shareholders' equity	-	-	-	1.271	-	-	-	-	-	1.271	-	-	1.271
Other changes in shareholders' equity	-	-	-	(120)	-	-	-	(3.240)	-	(3.409)	2	-	(3.408)
Exchange differences from translation of foreign financial statements	-	-	-	-	-	-	1	-	-	1	-	-	1
Profit/(loss) for the period	-	-	-	-	-	-	-	-	9.583	9.583	-	326	9.909
Balances at end of previous period (*)	**20.000**	**13.149**	**138.797**	**(2.369)**	**200.000**	**1.280**	**(66.803)**	**(8.772)**	**9.583**	**304.866**	**2.767**	**326**	**307.959**
Destination of result - distribution of dividends	-	-	-	-	-	-	-	9.583	(9.583)	-	326	(326)	-
Net change profits (losses) directly recognised in shareholders' equity	-	-	-	(3.780)	-	-	-	-	-	(3.780)	-	-	(3.780)
Other changes in shareholders' equity	-	-	-	-	-	-	-	339	-	341	38	-	379
Exchange differences from translation of foreign financial statements	-	-	-	-	-	-	18	-	-	18	-	-	18
Profit/(loss) for the period	-	-	-	-	-	-	-	-	9.437	9.437	-	289	9.726
Balances at period end	**20.000**	**13.149**	**138.797**	**(6.149)**	**200.000**	**1.280**	**(66.785)**	**1.151**	**9.437**	**310.881**	**3.131**	**289**	**314.301**

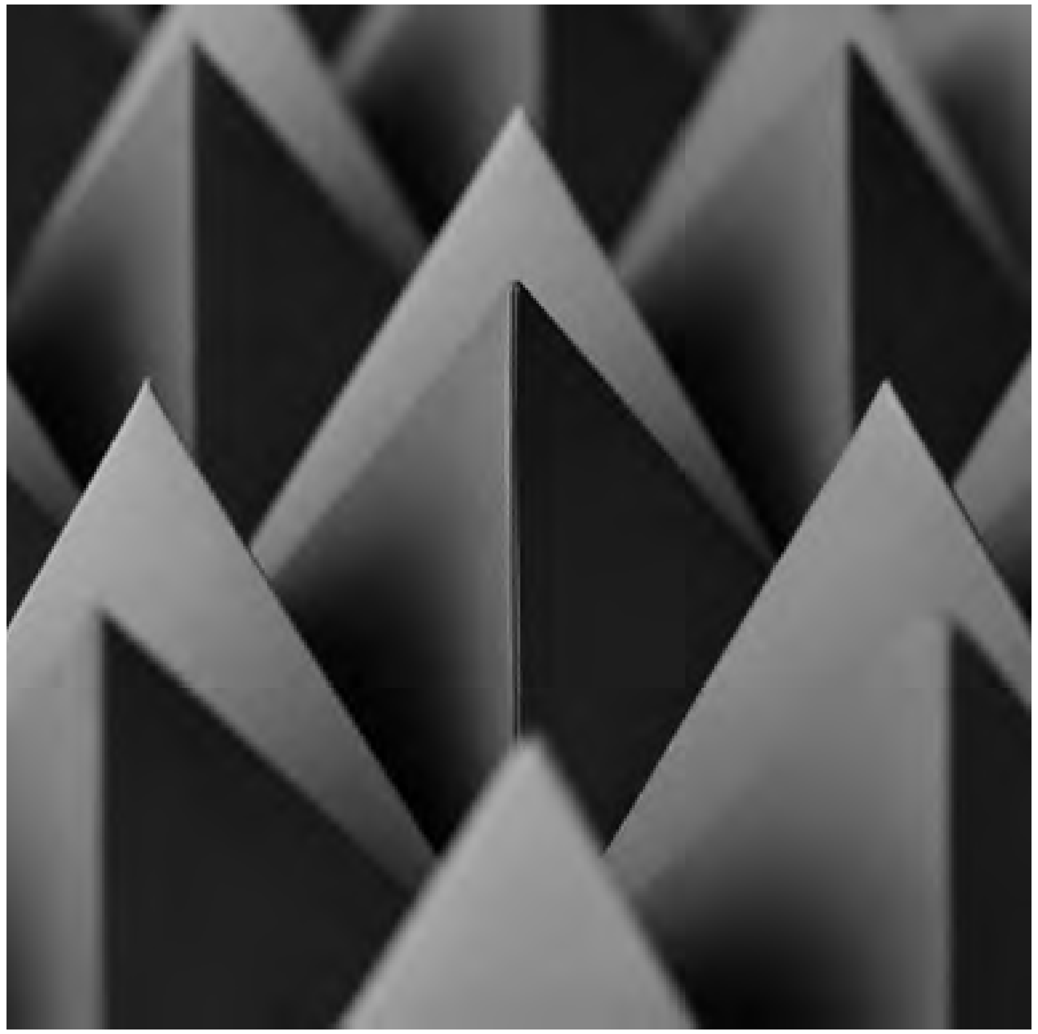
For comments on the changes in shareholders' equity, please see note 11 "shareholders' equity". See page 120.

Consolidated Cash Flow Statement

CASH FLOW STATEMENT €/000

	31 dic 2018	31 dic 2019
A - Net initial monetary availability	**(51.853)**	**(18.301)**
B- Monetary flow from operating activities		
Net profit (loss) deriving from operating activities	9.909	9.726
Amortisation, depreciation, write-downs and writebacks	103.519	90.000
Writedowns and writebacks of financial assets	-	360
Capital (gains) losses on disposal of non-current assets	(1.961)	1.482
Capital (gains) losses on disposal of financial assets	1	-
Change in TFR and provisions for risks	6.181	1.904
Change in deferred tax assets and provision for deferred taxes	(7.722)	(912)
Profit (loss) for the period before changes in working capital	**109.927**	**102.559**
Change in inventories	(40.897)	10.783
Change in trade receivables	67.945	61.046
Change in trade payables	(17.203)	(53.432)
Change in other assets and liabilities	5.866	(18.268)
Change in net working capital	**15.711**	**128**
Total B- Monetary flow from operating activities	**125.638**	**102.687**
C - Monetary flow from investing activities		
Investments in property, plant and equipment	(71.496)	(90.104)
Other increases in property, plant and equipment	(4.768)	(4.295)
Investments in intangible assets	(915)	(918)
Recognition of other non-current assets	(14.226)	(14.672)
Change in equity investments	(1)	(4.298)
Revenues from sales of fixed assets	17.137	16.627
Total C - Monetary flow from investing activities	**(74.269)**	**(97.660)**
D - Monetary flow from financing activities		
Change in non-current securities and financial receivables	(11)	224
Change in financial receivables and other current financial assets	12.653	13.460
Change in current and non-current other non-financial liabilities	(418)	60
New loans	4.435	27.796
Repayment of loans	(31.072)	(24.990)
Repayment right of use loans	-	(2.265)
Changes in Shareholders' Equity	(3.404)	(27)
Total D - Monetary flow from financing activities	**(17.817)**	**14.258**
E - Monetary flow for the period (B + C + D)	**33.552**	**19.285**
Net final monetary availability (A + E)	**(18.301)**	**984**

For the structure of final net monetary availability, please see note 10 "cash and other cash equivalents", which provides a reconciliation statement regarding cash and other cash equivalents.



General information

GROUP STRUCTURE AND SCOPE OF CONSOLIDATION

Details of consolidated companies, broken down by the consolidation criteria used, with information about company name, registered office, equity and stake held, are provided below.

LIST OF COMPANIES CONSOLIDATED ON A LINE BY LINE BASIS

Company name	Registered office		Share capital (*)	%	Stake held by
Gever S.p.A. (electricity and steam production)	Altavilla Vicentina (VI)	EUR	3.120.000	100,00	Burgo Group S.p.A.
Burgo Ardennes S.a (industria cartaria)	Virton (Belgium)	EUR	75.000.000	99,99	Burgo Group S.p.A.
				0,01	Mosaico S.r.l.
Burgo Iberica Papel S.a. (sales)	Barcellona (Spain)	EUR	268.000	100,00	Burgo Ardennes S.a
Burgo Benelux S.a.r.l. (sales)	Bruxelles (Belgium)	EUR	247.900	100,00	Burgo Group S.p.A.
Burgo France S.a.r.l. (sales)	Champeaux (France)	EUR	600.000	100,00	Burgo Group S.p.A.
Burgo UK L.t.d. (sales)	Milton Keynes (UK)	GBP	250.000	100,00	Burgo Group S.p.A.
Burgo Central Europe G.m.b.h. (sales)	Monaco di Baviera (Germany)	EUR	256.000	100,00	Burgo Group S.p.A.
Burgo North America L.t.d. (sales)	Stamford - Connecticut (USA)	USD	100.000	100,00	Burgo Group S.p.A.
Burgo Factor S.p.A. (factoring)	Milan	EUR	3.000.000	90,00	Burgo Group S.p.A.
Burgo Distribuzione S.r.l. (sales)	Altavilla Vicentina (VI)	EUR	9.060.000	100,00	Burgo Group S.p.A.
S.E.F.E. S.a. '(forest management)	Ecouviez (France)	EUR	76.250	99,80	Burgo Ardennes S.a
				0,20	Burgo Group S.p.A.
Burgo Energia S.r.l. (energy wholesaler)	Altavilla Vicentina (VI)	EUR	5.015.000	100,00	Burgo Group S.p.A.
Mosaico S.r.l. (paper industry)	Altavilla Vicentina (VI)	EUR	75.000.000	100,00	Burgo Group S.p.A.
Burgo Eastern Europe Sp z.o.o. (sales)	Varsavia (Poland)	PLN	5.000	100,00	Burgo Group S.p.A.

**The subsidiary Burgo Polska changed its name to Burgo Eastern Europe Sp zoo during 2019.*

ACCOUNTING STANDARDS AND CONSOLIDATION CRITERIA

The consolidated financial statements for Burgo Group spa at 31 December 2019 were prepared by applying the international accounting standards issued by the International Accounting Standard Board (IASB) and approved by the European Union, including among these the international subjects subject to interpretation (International Accounting Standards – IAS/IFRS) and interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) and the previous Standing Interpretations Committee (SIC).
The Group adopted the referenced accounting standards as of 1 January 2006, with reference to Italian Legislative Decree 38 of 28 February 2005, which implemented the option found within article 5 of Regulation EC 1606/2002.
During the year, the Group continued with the actions aimed at strengthening equity and restoring financial balance, necessary for the implementation of the *Burgo 2020 Plan*.
This gave rise to the financial balance plan, pursuant to article 67, paragraph 3, letter d of the Italian Bankruptcy Law, as envisaged in the agreement reached with the lending institutions.

FINANCIAL STATEMENT SCHEDULES

All that illustrated in the previous section is understood to be fully referenced here.
The Group's consolidated financial situations are shown in thousands of euro. The euro is also the functional currency used by the Group, given that it is the currency used in the economies in which the Group mainly operates.
The Group's fiscal year coincides with the calendar year (1 January - 31 December).
Preparation of the consolidated financial statements and accounting schedules required the following choices:

- **Consolidated Balance Sheet:** a form of representation was selected that distinguishes between current and non-current assets and liabilities, based on that allowed under paragraphs 60 and subsequent of IAS 1;
- **Consolidated Profit and Loss and Income Statement:** it was decided to classify items by nature, holding this the most representative with respect to presentation by destination. In fact, this complies with internal reporting and management methods and was therefore held to offer more reliable and significant information for the purposes of comprehending the profit (loss) for the year in question;

- **Cash flow statement:** this is structured on the basis of the indirect method.

The Group ended financial year 2019 with profits of € 9.7 million, shareholders' equity of € 314.3 million and net financial debt of € 491.7 million.
The consolidated financial situations were prepared using the general cost principle, with the exception of financial assets, measured in accordance with IFRS 9, and derivatives, measured at fair value. Assets and liabilities and income and expense are not offset, unless this is allowed or required under an international accounting standard or interpretation.

CONSOLIDATION STANDARDS

The consolidated financial statements include the financial statements of Burgo Group spa, the parent company, and those of subsidiaries over which Burgo Group spa holds direct or indirect control.
In addition to the subsidiaries, the scope of consolidation also includes associated companies and companies under joint control.
Control exists when the parent company has the power to determine the financial and operating policies of a company, in order to obtain benefits from its business.
Subsidiaries are consolidated starting on the date on which control is effectively obtained by the Group and consolidation ceases on the date on which control is transferred outside of the Group.
These companies are consolidated on a line by line basis.
Associated companies, over which Burgo Group spa exercises significant influence, or companies for which it exercises joint control over financial and operating policies, are measured using the equity method.
In preparing the consolidated figures, the equity, economic and financial situations of subsidiaries as prepared at the reporting date were used, as well as additional information useful for the translation to the standards adopted in preparing the consolidated financial statements, in order to allow for application of homogeneous accounting standards.
The main operations carried out in preparing the consolidated financial statements are:

- elimination of the book value of equity investments held by the parent company and other companies within the scope of consolidation with the relative shareholders' equity, while taking on the assets and liabilities of companies consolidated

with the line by line method. Positive differences emerging from the purchase cost of the equity investments with the relative shares of shareholders' equity are recognised as adjustments to the relevant assets item on the basis of the assessment carried out at the time of purchase. Any residual amount not allocated is recognised in an assets item called "goodwill", which is subject to an impairment test. Any negative residual amounts are recognised in the annual profit and loss statement, as envisaged under IFRS 3 (business combinations);
- elimination of reciprocal relationships between companies consolidated using the line by line method, specifically:
- transactions that give rise to receivables and payables, as well as costs and revenues;
- unrealised gains and losses, included in measurements of inventories;
- reversal of dividends received from consolidated companies;
- adjustment of the carrying value of companies consolidated using the equity method, in order to include the portion of the pertinent result.

OPERATIONS IN FOREIGN CURRENCIES

Revenues and costs relative to operations in foreign currencies are recorded at the exchange rate in effect at the time the operation was completed. Monetary assets and liabilities in foreign currencies are converted by applying the current exchange rate on the reporting date for the reference period, attributing any exchange differences generating to the annual profit and loss statement.

FINANCIAL STATEMENTS OF FOREIGN COMPANIES

Translation into euro of items in the consolidated balance sheet for financial statements expressed in currencies other than the euro is done by applying the exchange rates at the end of the year. Items in the annual profit and loss statement are translated into euro using the average exchange rates for the year. Exchange differences originating from the translation into current end of year exchange rates of items in the initial shareholders' equity and the results of the year to average exchange rates are recognised in consolidated shareholders' equity. The table below shows the exchange rates applied when translating financial statements in currencies other than the euro for financial years ending on 31 December 2018 and 31 December 2019.

'EXCHANGE RATES

	2018		2019	
	Balance sheet (exchange rate at end of year)	Profit and loss statement (average exchange rate)	Balance sheet (exchange rate at end of year)	Profit and loss statement (average exchange rate)
US dollar	1,145	1,181	1,123	1,120
Pound sterling	0,895	0,885	0,851	0,877
Polish zloty	4,301	4,262	4,257	4,298

Accounting standards and measurement criteria

Il bilancio consolidato al 31 dicembre 2019 è stato redatto in conformità ai principi contabili utilizzati per la redazione del bilancio separato IAS/IFRS al 31 dicembre 2018, tenuto conto degli emendamenti e dei nuovi principi entrati in vigore a partire dal 1° gennaio 2019, di seguito elencati.

IFRS accounting standards, amendments and interpretations applied as of 1 January 2019:

The following IFRS accounting standards, amendments and interpretations were applied for the first time by the Company as of 1 January 2019:

IFRS 16 on 13 January 2016, the IASB published standard IFRS 16 – Leases, replacing the standard IAS 17 – Leases, as well as the interpretations IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases — Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The Standard provides a new definition of a lease and introduces a criteria based on the notion of control over an asset (right of use) to distinguish leasing contracts from contracts for the provision of services, identifying the following as discriminating factors: identification of the asset, the right to replace the same, the right to obtain substantially all economic benefits deriving from use of the asset and, finally, the right to direct the use of the asset underlying the contract. The Standard establishes a single model for recognising and measuring lease contracts for the lessee, which involves recognition of the asset underlying the lease in the assets, whether operational or not, and a matching entry in the form of a financial payable. The Standard does not introduce any significant changes for lessors. The change in the definition of lease mainly refers to the criteria based on control, "right of use". Under IFRS 16, a contract contains a lease if the client has the right to control use of an identified asset for a period of time in exchange for payment. This notion is different from the "risks and benefits" concept which receives significant attention in IAS 17 and IFRIC 4.

As of 1 January 2019, the Group decided to apply the standard using the modified retrospective method, without making any changes to comparison figures. More specifically, relative to leasing contracts previously classified as operating, the Group recognised: a) a right of use equal to the value of the financial liability as of the transition date, b) a financial liability, equal to the current value of residual future payments as of the transition date, discounted by using an average rate for each contract.
The Group determined the value of the right of use as equal to the value of the financial liability as of the transition date, net of any accruals or deferrals relative to the lease as of the transition date. In adopting the Standard, the Group made use of the practical expedients and exemptions provided for under paragraphs: i) 16.5(a) in relation to short- term contracts, for all asset classes (excluding leases with a duration of less than 12 months as of first time adoption from the scope of application), ii) 16.5(b) in relation to contracts with a value of less than € 5,000 and iii) 16.15 in relation to the possibility of not separating non-lease components. The Group did not adopt the Portfolio approach. The rate applying the leasing liabilities as of 1 January 2019 was 2.0%. Any leases previously classified as financial leases pursuant to IAS 17 were reclassified under rights of use.
From 1 January 2019 to 31 December 2019, application of the new standard had the following effects:

€/000

	Effects at transition date 01/01/2019	Effects as of 31/12/2019
ASSETS		
Rights of use for commercial leases	3.935	3.321
Rights of use for residential leases	877	683
Rights of use for industrial leases	2.029	2.587
Rights of use for vehicle leases	773	708
Rights of use for IT contracts	405	250
TOTAL ASSETS	**8.019**	**7.548**
Financial leasing liabilities - portion beyond the year	6.127	5.636
Financial leasing liabilities - portion within the year	1.893	1.975
TOTAL LIABILITIES	**8.019**	**7.610**
COSTS		
Operating costs	-	(2.279)
Depreciation and amortisation	-	2.190
Financial expenses	-	152
RESULT FOR THE YEAR	**-**	**63**

As a whole, application of the new standard involved, as of 31 December 2019:

a) recognition of rights of use among property, plant and equipment for a total of € 7,548 thousand;
b) recognition of a financial liability totalling € 7,610 thousand;
c) worsening of the net financial position for € 7,610 thousand;
d) improvement of the gross operating margin for a total of € 2,279 thousand, deriving from the reversal of leasing and rental fees;
e) improvement of the gross operating profit for a total of € 90 thousand, deriving from the reversal of leasing and rental fees counterbalanced by greater amortisation/depreciation of € 2,190 thousand;
f) worsening of financial management for € 152 thousand, deriving from recognition of greater financial expense.

The financial leases for Burgo Ardennes are not included in the above effects as these were recognised in accordance with IAS 17, prior to adoption of IFRS 16.

On 12 December 2017, the IASB published the document "**Annual Improvements to IFRSs 2015-2017 Cycle"** which implements amendments to certain standards as part of the annual improvement cycle. The main changes involve:

IFRS 3 *Business Combinations and IFRS 11 Joint Arrangements:* the amendment clarifies that at the time an entity acquires control over a business which represents a joint operation, it must remeasure the equity investment previously held in the said business. This process is not required in the case joint control is obtained.

IAS 12 *Income Taxes:* the amendment clarifies that all tax effects linked to dividends (including payments for financial instruments classified within shareholders' equity) must be recognised in a manner consistent with the transaction which generated the profits (income statement, other comprehensive income or shareholders' equity).

IAS 23 *Borrowing costs:* the amendment clarifies that in the case of loans which continue to exist even after the relative qualifying asset is already ready for use or sale, these become part of the the combination of financing used to calculate the cost of the financing.

The adoption of this amendment had no effects on the Group's consolidated financial statements.

On 7 February 2018, the IASB published the document ***"Plant Amendment, Curtailment or Settlement (Amendments to IAS 19).*** The document clarifies how an entity should recognise a change (i.e. a curtailment or settlement) in a defined benefit plan. The amendments ask entities to update their hypotheses and remeasure the net liabilities or assets deriving from the plan. The amendments clarify that after the occurrence of such an event, an entity must use updated hypotheses to measure the current service cost and interest for the remainder of the reference period subsequent to the event. The adoption of this amendment had no effects on the Group's consolidated financial statements.
On 12 October 2017, the IASB published the document ***"Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28).*** The document clarifies the need to apply IFRS 9, including impairment requirements, to other long-term interests in associates and joint ventures relative to which the shareholders' equity method is not applied. The adoption of this amendment had no effects on the Group's consolidated financial statements.
On 7 June 2017, the IASB published the interpretation ***"Uncertainty over Income Tax Treatments (IFRIC Interpretation 23)"***. The interpretation deals with uncertainties regarding tax treatments to be adopted relative to income taxes. In particular, the Interpretations asks entities to analyse uncertain tax treatments (individually or as a whole, based on their characteristics) always assuming that the tax authorities will audit the tax position in question, with full knowledge of all relevant information. If an entity holds it is unlikely that the tax authorities would accept the tax treatment used, then it must reflect the effect of this uncertainty in measuring its current and deferred income taxes. Additionally, the document does not contain a new disclosure obligation but emphasises that an entity must establish whether it is necessary to provide information about the considerations made by management and relative to uncertainties inherent to recognition of taxes, in accordance with that established in IAS 1. The new interpretation applies as of 1 January 2019. The adoption of this amendment had no effects on the Group's consolidated financial statements.
On 12 October 2017, the IASB published the amendment to ***IFRS 9 "Prepayment Features with Negative Compensation.*** This document specifies that instruments which provide for early repayment may satisfy the Solely Payments of Principal and Interest ("SPPI") test also in the case in which "reasonable additional compensation" to be paid in the case of early repayment is "negative compensation" for the financing entity. The adoption of this amendment had no effects on the Group's consolidated financial

statements.

IFRS and IFRIC accounting standards, amendments and interpretations approved by the European Union, not yet obligatorily applicable and not adopted in advance by the Group as at 31 December 2019

On 31 October 2018, the IASB published the document ***"Definition of Material (Amendments to IAS 1 and IAS 8)"***.

On 29 March 2018, the IASB published an amendment to "***References to the Conceptual Framework in IFRS Standards***".

On 26 September 2019, the IASB published amendments in "***Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform***".

There are no other new standards, amendments or interpretations that are effective as of the reference date of these Consolidated Financial Statements and which are likely to have a significant impact on the Group.

Standards IAS 14 "Segment reporting" and IAS 33 "Earnings per share" were not applied, as the Company is not obliged to apply them as it is not listed on regulated markets.

Below we examine in detail the criteria adopted for the following items:

PROPERTY, PLANT AND EQUIPMENT

A cost sustained to acquire a property, plant, machinery or part of the same is recognised as an asset on the condition that the cost of the asset can be reliably determined and the Group can make use of the relative future economic benefits.

Property, plant and equipment

Assets recognised among property, plant and equipment are recognised at the purchase cost, including any directly attributable accessory costs, necessary to render the asset functional to the use for which it was acquired, and net of any relative depreciation accumulated and impairment losses.

Expenses sustained subsequently are added to the cost to the extent in which these expenses are able to improve the originally determined performance of the asset.

Assets recognised among property, plant and equipment through business combinations are measured at their fair value upon initial recognition, as determined at the time they were acquired. Subsequently, they are measured using the historic cost method.

Assets recognised among property, plant and equipment, with the exception of land, depreciate at constant rates throughout the course of the useful life of the asset, understood to be the estimated period during which the asset will be used by the company, starting from the moment the asset becomes available for use. The value to be depreciated is represented by the carrying value of the asset net of any impairment and reduced by the presumable realisable value at the end of the useful life, if this is significant and can be reasonably determined.

If the asset is composed of several significant components with different useful lives, depreciation is carried out for each component, following the component approach established in IAS 16.

Spare parts of significant value relative to plant and machinery are capitalised and depreciated on the basis of the useful life of the asset to which they refer, in accordance with the indications found in IAS 16.

The book value of property, plant and equipment is subject to verification to identify any losses in value when events or changes indicate that the book value may not be recoverable.

For newly acquired assets, the following useful lives are applied:

USEFUL LIFE OF NEWLY ACQUIRED ASSETS

	Useful life
Industrial buildings	30 years
General plants	15 years
Specific plants	20 years
Miscellaneous equipment	4 years
Office machines and machinery	8 years
Vehicles	5 years
Electronic machines	5 years

Useful life and realisable values are reviewed every year and any changes are made prospectively. When necessary, they are applied prospectively and may involve an extension or r4eduction in the original amortisation/depreciation period.
Land, whether free of construction or containing civil or industrial buildings, is recognised separately and not depreciated, given that it is an element with unlimited useful life. When an asset is disposed of or when no future economic benefit is expected, it is eliminated from the financial statements and any losses or profits are recognised in the profit and loss statement for the year during the financial year in which it was eliminated.
Expenses for leasehold improvements such as expenses to remodel real estate that is not owned are capitalised in consideration of the fact that for the duration of the leasing contract the user company has control over the assets and can take advantage of their future economic benefits. Said costs are amortised over a period equal to the lesser of that representing the residual useful life of the fixed asset and the residual duration of the leasing contract.
Pursuant to IAS 23, the Group capitalises financial expense attributable to the purchase, construction or production of a capitalisable asset.

Property investments

The item includes land, buildings or parts of non-instrumental buildings, held in order to benefit from leasing fees, increases in value or both.
Property investments are measured at cost, net of any losses due to writedowns and depreciation accumulated.

Right of use assets

This item includes the accounting measurement of contracts to which IFRS 16 applies. This item recognises leasing contracts for assets over which the Group holds control (right of use) over an asset. As discriminating factors to identify these, the following were used: the asset can be identified, there is a right to replacement of the asset, the right to obtain substantially all economic benefits deriving from use of the asset and, finally, the right to direct the use of the asset underlying the contract. The Standard establishes a single model for recognising and measuring lease contracts for the lessee, which involves recognition of the asset underlying the lease in the assets, whether operational or not, and a matching entry in the form of a financial payable.
The Group has made use of the practical expedients and exemptions allowed in paragraphs:

i) 16.5(a) in relation to short term contracts, for all asset classes (exclusion of leases with a duration of less than 12 months at the time of first time adoption from the scope of application);
ii) 16.5(b) in relation to contracts with a value of less than € 5,000;
iii) 16.15 in relation to the possibility of not separating non-lease components;
iv) The Portfolio approach was not adopted.
In particular, relative to lease contracts the Group recognises
a) a right of use equal to the value of the financial liability as of the date the contract takes effect.
b) a financial liability, equal to the current value of residual future payments as of the date the contract takes effect, discounted using an average rate for each contract.

For details on first time application of the standard, please see the paragraph "IFRS accounting standards, amendments and interpretations applied as of 1 January 2019".

INTANGIBLE ASSETS

Intangible assets are non-monetary elements without physical substance, which can be identified and are controlled by the Group, intended to generate future economic benefits. Intangible assets can be recognised in the accounts when it is probable that use of the asset will generate future economic benefits and when the cost of the asset can be determined in a reliable manner.
Intangible assets acquired separately are initially recognised at cost, those acquired through business combinations are measured at fair value upon initial recognition. Expenses sustained after initial acquisition are added to the cost of the asset to the degree in which these expenses are able to generate future economic benefits.
After initial recognition, intangible assets are measured net of provisions for amortisation and any accumulated losses of value.

Goodwill and other intangible assets with undefined life

An intangible asset is considered to have undefined life when, on the basis of analysis of the relevant factors, there is no foreseeable limit on the period of use during which it is expected the asset will generate net incoming financial flows for the Group.
The Group has identified goodwill as an intangible asset with undefined useful life, which represents the positive difference between the cost of a business combination and the equity interest held by the Group in the current fair value of the assets, liabilities and potential liabilities acquired and identifiable on the purchase date.
Any negative difference (negative goodwill) is instead recognised in the annual profit and loss statement at the time of acquisition.
After initial recognition, goodwill is not amortised, but is decreased relative to any losses of value, determined in accordance with IAS 36 (impairment of assets).
Goodwill is annually subject to recoverability analysis. This may also occur more frequently if events or changes in circumstances occur which could lead to possible losses of value.
In the cases in which goodwill is assigned to a cash generating unit (or group of units) whose assets are partially dismissed, the goodwill associated with the transferred asset is considered in order to determine any capital gains or losses deriving from the transaction, and is measured on the basis of the values of the disposed of assets, with respect to the assets still held relative to the same CGU.

Intangible assets with defined life

These assets are recognised at the acquisition or production cost, including all attributable accessory charges, and depreciated at a constant rate in relation to their utility over time, starting at the moment the asset becomes available for use.
Useful life is reviewed every year and any changes are made prospectively, when necessary.
Plant and expansion costs, if recognised in the assets, as well as patent and usage rights for intellectual property are depreciated over a maximum period of five years.
Concession, license, trademark costs and those for similar rights are annually reduced as a function of the contractual duration and the limits of the presumable period of economic utilisation.

IMPAIRMENT TEST

The value of intangible assets and property, plant and equipment is subject to recoverability checks every time it is held that a lasting loss of value has occurred.
Relative to goodwill, other intangible assets with undefined useful life and other assets not available for use, impairment tests are performed at least once a year.
The test is done by comparing the book value with the greater of the fair value and the value in use of the asset.
If no binding sales agreement or an active market for the asset is available, the fair value is determined on the basis of the best available information, in order to reflect the amount that the Group could obtain, at the reporting date of the financial statements, if disposing of the asset in a free transaction between knowledgeable and willing parties, after deducting disposal costs.
The value in use of an asset is calculated by discounting expected cash flows from usage of the asset (both incoming and outgoing), basing financial flow projections on reasonable and sustainable suppositions, able to represent the best possible estimates by corporate management of a series of economic conditions that will exist throughout the remaining life of the asset, giving greater significance to information obtained externally.
The discount rate applied reflects current market evaluations of the time value of money and the specific risks of the asset.
Measurement is done for each individual or for the smallest combination of assets (cash generating units) that generate independent incoming cash flows deriving from their utilisation.

When the value determined with the impairment test is lower than the cost, the loss of value is recognised against the asset and among the costs in the annual profit and loss statement.
If in subsequent financial years the reasons behind recognising the impairment are determined to no longer exist following a new impairment test, the asset, with the exception of goodwill, is written back up to the new recoverable value, which in any case cannot exceed the value that would have existed if no loss in value had been recognised.
The writeback is recognised in the annual profit and loss statement, unless the asset is recognised at the written back value, in which case the writeback is recognised in the revaluation reserve.

EQUITY INVESTMENTS MEASURED AT EQUITY

This item includes equity investments in associated companies and equity investments in jointly controlled companies.
These equity investments are measured using the equity method. Any losses exceeding shareholders' equity are recognised in the financial statements to the degree in which the investor has undertaken to fulfil legal or implicit obligations relative to the investee or, in any case, to cover its losses.
Associated companies are those over which the Group exercises significant influence, but does not have control or joint control over financial and operating policies. The consolidated financial statements include the portion pertaining to the Group of the results of its associated companies, accounted for using the equity method, starting on the date on which it begins to hold significant influence and until the moment in which this influence ceases to exist. Unrealised infragroup profits relative to minority shareholders are eliminated relative to the portion pertaining to the Group held in the investee. Unrealised infragroup losses relative to minority shareholders are also eliminated if they do not represent an effective lower value for the asset disposed of.

FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset for an entity and a financial liability or an instrument representing capital for another entity.

Financial assets

Initial recognition and measurement

At the time of initial recognition, financial assets are classified, based on the case, on the basis of subsequent measurement methods, that is at amortised cost, at fair value through other comprehensive income or at fair value through profit and loss.
Classification of financial assets at initial recognition depends on the characteristics of the contractual cash flows associated with the financial assets and the business model used by the Group to manage them. With the exception of trade receivables which do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus transaction costs, in the case of a financial recognised in the income statement not at fair value. Trade receivables which do not contain significant financing component or for which the Group has applied the practical expedient are measured at the transaction price, determined according to IFRS 15.
For a financial asset to be classified and measured at amortised cost or at fair value through other comprehensive income, it must generate cash flows associated solely with payments of principal and interest (SPPI). Assessment of this aspect is known as the SPPI test and is performed at the individual instrument level.
The Group's business model for managing financial assets refers to the manner in which it manages its financial assets in order to generate cash flows. The business model determines whether the cash flows derive from collecting contractual cash flows, sales of financial assets or from both.
The purchase or sale of a financial asset which requires delivery either through a standardised sale or through regular way trade is recognised on the negotiation date, that is the date on which the Group undertook to purchase or sell the asset.

Subsequent measurement

For the purposes of subsequent measurement, financial assets are classified into four categories:

- Financial assets at amortised cost (debt instruments);
- Financial assets at fair value through other comprehensive income with reclassification of cumulated profits and losses (debt instruments);
- Financial assets at fair value through other comprehensive income without reversal of cumulated profits and losses at the time of elimination (equity instruments);
- Financial assets at fair value through profit and loss.

Classification depends on the purpose for which the assets are acquired and held. The Group determines classification of assets at initial recognition, verifying the category at each subsequent reporting date.

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following requirements are met:

- the financial asset is held under a business model with the objective of holding financial assets to collect contractual cash flows;
- The contractual terms of the financial asset establish cash flows at set dates representing solely payments of principal and interest.

Financial assets at amortised cost are subsequently measured using the criteria of effective interest and are subject to impairment. Profits and losses are recognised in the income statement when the asset is eliminated, amended or remeasured.

Financial assets at fair value through other comprehensive income (debt instruments)

The Group measures debt instruments at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held under a business model which has the dual objectives of collecting contractual cash flows and sale of the financial assets;
- the contractual terms of the financial asset establish cash flows at set dates representing solely payments of principal and interest.

For assets involving debt instruments measured at fair value through other comprehensive income, interest receivable, variations due to exchange differences and impairment, together with writebacks, are recognised in the income statement and calculated in the same way as financial assets measured at amortised cost. Remaining changes in fair value are recognised in other comprehensive income. At the time of elimination, the cumulative change in fair value recognised in OCI is reclassified to the income statement.

Investments in equity instruments

At initial recognition, the Group may irrevocably decide to classify its stock

investments as equity instruments recognised at fair value through other comprehensive income when the satisfy the definition of equity instruments pursuant to IAS 32 "Financial instruments: Presentation" and are not held for trading. Classification is done for each individual instrument.
Profits and losses resulting from these financial assets are never reversed to the income statement. Dividends are recognised as other revenues in the income statement when the right to payment has been resolved, except when the Group benefits from these amounts as recovery of part of the cost of the financial asset, in which case, the profits are recognised under OCI. Equity instruments recognised at fair value through other comprehensive income are not subject to impairment testing.

Financial assets at fair value through profit and loss

This category includes assets held for trading, assets designated at initial recognition as financial assets at fair value with changes recognised in the income statement and financial assets necessarily measured at fair value. Assets held for trading are all assets acquired to be sold or repurchased over the short term. Derivatives, including separated ones, are classified as financial instruments held for trading, unless they are designated as effective hedging instruments. Financial assets with cash flows which do not pass the SPPI test are classified and measured at fair value through profit and loss, regardless of the business mode. Despite the criteria for debt instruments for classification at amortised cost or at fair value through other comprehensive income, as described above, debt instruments can be recognised at fair value through profit and loss at initial recognition if this involves the elimination or significant reduction of an accounting misalignment.

Derecognition

A financial asset (or, when applicable, part of a financial asset or part of a group of similar financial assets) is derecognised in the first place (e.g. removed from the statement of the Group's equity/financial situation) when:

- the rights to receive financial flows from the asset no longer exist, or
- the Group has transferred the right to receive cash flows from the asset to a third party or has taken on the contractual obligation to pay them fully and promptly and (a) has substantially transferred all risks and benefits of ownership of the financial asset or (b) has not substantially transferred nor retained all the risks and benefits of the asset, but has transferred control over the same.

In cases where the Group has transferred the rights to receive cash flows from an asset or has signed an agreement based on which it maintains contractual rights to receive cash flows from the financial asset, but has a contractual obligation to pay the cash flows to one or more beneficiaries (pass-through), it determines if and to what extent it has retained the risks and benefits inherent to ownership. If it has neither substantially transferred nor retained all the risks and benefits or has not lost control over the same, the asset continues to be recognised in the Group's financial statements to the extent of its residual involvement with the asset in question. In this case, the Group also recognises an associated liability. The asset transferred and the associated liability are measured so as to reflect the rights and obligations that continue to apply to the Group.
When the entity's residual involvement is a guarantee for the transferred asset, involvement is measured on the basis of the lesser of the amount of the asset and the maximum amount of the fee received which the entity may have to repay.

Impairment of financial assets

The Group recognises impairment due to expected credit loss (ECL) for all financial assets represented by debt instruments not held at fair value through profit and loss. ECLs are based on the difference between contractual cash flows due in compliance with the contract and all the cash flows the Group expects to receive, discounted by an approximation of the original effective interest rate. Expected cash flows include cash flows deriving from enforcement of collateral held or other credit guarantees which are an integral part of the contractual conditions.

Expected losses are recognised in two phases. Relative to credit exposures for which no significant increase in credit risk has been seen following initial recognition, it is necessary to recognise credit losses deriving from an estimate of default events likely to occur within the subsequent 12 months (12-month ECL). For credit exposures that have seen a significant increase in credit risk after initial recognition, expected losses relative to the full residual duration of the exposure must be recognised, regardless of when the default event is expected to occur ("lifetime ECL").

For trade receivables and assets deriving from contracts, the Group applies a simplified approach to calculate expected losses. Therefore, the Group does not monitor changes in credit risk but recognises the expected loss in full at each reference date. The Group has established a matrix system based on historic information, revised to consider forward looking elements with reference to specific types of debtors and the economic environment, used as tool to determine expected losses.

For assets represented by debt instruments measured at fair value through other comprehensive income, the Group applies the simplified approach allowed for low credit risk assets. At each reporting date, the Group evaluates whether a debt instrument has low credit risk, using available information.

Financial liabilities

Initial recognition and measurement

At initial recognition, financial liabilities are classified among financial liabilities measured at fair value through profit and loss, among mortgages and loans or among derivatives designated as hedging instruments.

All financial liabilities are initially recognised at fair value, to which is added in the cases of mortgages, loans and payables, the transaction costs directly attributable to the same.

The Group's financial liabilities include trade payables and other payables, mortgages and loans, including current account overdrafts, guarantees granted and derivatives.

Subsequent measurement

Measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit and loss

Financial liabilities at fair value through profit and loss with changes recognised in the income statement include liabilities held for trading and financial liabilities initially recognised at fair value with changes recognised in the income statement.

Liabilities held for trading are all those kept to be sold over the short term. This category also includes derivative financial instruments subscribed by the Group which are not designated as hedging instruments in a hedging relationship as defined under IFRS 9.

Profit or loss associated with liabilities held for trading is recognised in the profit and loss statement.

Financial liabilities are designated at fair value with changes recognised in the income statement as of the initial recognition date only if the criteria in IFRS 9 are satisfied. At initial recognition, the Group has not designated financial liabilities at fair value with changes recognised in the income statement.

Loans and receivables

This is the most significant category for the Group. After initial recognition, loans are measured using the amortised cost criteria, using the effective interest rate method. Profits and losses are recognised in the income statement when the liability is extinguished, as well as through the amortisation process.
The amortised cost is calculated by recognising the discount or premium on acquisition and fees or costs which are an integral part of the effective interest rate. Amortisation at the effective interest rate is recognised among financial expense in the profit and loss statement.

Financial guarantee liabilities

Financial guarantee liabilities issued by the Group are contracts which require payment to reimburse the holder of a debt security against a loss suffered by them following the debtor not making payments at contractually established due dates. Financial guarantee contracts are initially recognised as liabilities at fair value, plus any transaction costs directly attributable to issuing of the guarantee. Subsequently, the liability is measured as the greater of the best estimate of the payment required to fulfil the guaranteed obligation as of the reporting date and the amount initially recognised, net of cumulative amortisation.

Derecognition

A financial liability is derecognised when the obligation underlying the liability is repaid, cancelled or fulfilled. When an existing financial liability is replaced by another of by the same lender, under substantially different conditions, or the conditions for an existing liability are substantially changed, this exchange or change is recognised as the accounting derecognition of the original liability, followed by recognition of a new liability, with any differences between the book values recognised in the profit and loss statement for the year.

Offsetting of financial instruments

An asset and a financial liability can be offset and the net balance recognised in the balance sheet if there is a current legal right to offset the amounts recognised for accounting purpose and there is an intention to extinguish the residual net amount or to realise the asset and simultaneously extinguish the liability.

DERIVATIVES

As of 1 January 2019, the Group no longer makes use of the possibility to continue to make use of the provisions established in IAS 39 solely relative to hedge accounting, instead following the provisions contained in IFRS 9.
Derivatives are used with the sole purpose of hedging in order to reduce financial risks. They are measured at fair value starting on the date they are stipulated. When a hedging transaction begins, the Group formally designates and documents the hedging relationship for which hedge accounting will be used, indicating its risk management objectives and the strategy pursued. This document involves identifying the hedging instrument, the element of the transaction being hedged, the nature of the risk and methods the Group intends to use to measure the efficacy of the hedge in compensating for variations in the fair value of the hedged element or financial flows associated with the hedged risk. Efficacy must be measured in a reliable manner. It is expected that these hedges are highly effective in compensating for the exposure of the hedged element to changes in the fair value of financial flows associated with the risk covered. Assessment of whether or not the hedges are effective is done continuously during the accounting periods in which they are designated as such.
Transactions which meet the criteria for hedge accounting are recognised as follows:

Fair value hedge

If a derivative is designated to hedge against exposure to variations in the fair value of an asset or liability attributable to a particular risk, profit or loss deriving from subsequent changes in the fair value of the hedging instrument is recognised in the annual profit and loss statement.
Profit or loss deriving from an adjustment in the fair value of the hedged item, relative to the portion attributable to the risk hedged against, changes the book value of this item and is recognised in the annual profit and loss statement.

Cash flow hedge

If a derivative is designated as an instrument hedging against exposure to changes in the financial flows of an asset or liability recognised in the financial statements or a transaction deemed highly probable, the effective portion of the profits or losses deriving from the fair value adjustment of the derivative is recognised in a specific shareholders' equity reserve and reclassified in the annual profit and loss statement when the effects of the transaction being hedged are recognised in the annual profit and loss statement. The profit or loss associated with this ineffective portion of the hedging is instead immediately recognised in the annual profit and loss statement. If a hedging instrument is closed by the transaction being hedged has not yet been realised, cumulative profits and losses remain in the shareholders' equity reserve and are reclassified in the annual profit and loss statement at the time the relative transaction is realised.

If the transaction being hedged is no longer deemed probable, profits or losses not yet realised and recognised in the shareholders' equity reserve are immediately recognised in the annual profit and loss statement.

If hedge accounting can no longer be applied, profits or losses deriving from the fair value measurement of the derivative are directly recognised in the annual profit and loss statement.

INVENTORIES

Inventories of raw materials, products in progress and finished products are measured at the lesser of the cost, determined using the average weighted cost method, and the net realisable value presumable from market trends.

For raw materials, market value means replacement cost. For finished and semi-finished products it means the amount the Group expects to obtain from sales in normal business operations, net of estimated costs to complete the good and sales and distribution costs it will sustain.

Measurement of warehouse inventories include direct costs for materials and labour and indirect costs (variable and fixed).

Provisions for impairment of materials, finished products, spare parts and other obsolete or slow rotation stocks are calculated, taking into account future expected use and realisable value.

Products in progress relative to work orders are measured using the percentage of completion, recognising costs and revenues relative to said progress to the annual profit and loss statement.

Any losses from these contracts are recognised in the annual profit and loss statement in the full amount, at the time they become known.

CASH AND OTHER CASH EQUIVALENTS

This item indicates cash and other cash equivalents and short-term highly tradable financial investments that can be readily turned into cash and are subject to irrelevant risks in terms of variations in their value. These financial items are recognised at their nominal value.

For the purposes of the Consolidated Statement of Cash Flows, cash and other cash equivalents are shown net of bank overdrafts as of the reporting date.

NON-CURRENT ASSETS HELD FOR SALE

Non-current assets and groups of assets and liabilities for which the book value will mainly be recovered through sale, rather than through continuous use, are presented separately under other assets and liabilities in the consolidated balance sheet.

These assets, classified within a specific item in the consolidated balance sheet, are measured at the lower of the book value and the fair value minus foreseeable sales costs. Gains and losses, net of the relative tax effects, from non-current assets disposed of or held for sale are recognised in a specific item within the annual profit and loss statement.

TRADE PAYABLES AND MISCELLANEOUS PAYABLES

This item includes payables due to suppliers and other liabilities, with the exception of financial liabilities which are recognised separately. These liabilities are initially recognised at the fair value of the fee to be paid.

Subsequently, payables are measured using the amortised cost criteria, determined with the effective interest method.

EMPLOYEE BENEFITS

Benefits due after the termination of the employment relationship are divided into defined contribution plans and defined benefit plans.
For defined contribution plans, the legal or implicit obligation of the company is limited to the amount of contributions to be paid: consequently, actuarial risk and investment risk fall to the employee.
For defined benefit plans, the company's obligation consists in granted and ensuring the agreed upon benefits for the employees: actuarial risk and investment risk fall to the company.
Until 31 December 2006, the severance indemnity was classifiable among defined benefit plans.
The regulations for this provision were amended by Italian Law 296 of 27 December 2006 ("2007 Financial Law"), and by subsequent Decrees and Regulations issued during the initial months of 2007. In the light of these changes, and in particular those with reference to companies with at least 50 employees, this practice is not to be considered a defined benefit plan solely for the portions accrued prior to 1 January 2007 (and not yet liquidated as of the reporting date). Portions accruing after this date can be classified as a defined contribution plan.
The Group's obligation to finance defined benefit plans and the annual cost recognised in the annual profit and loss statement are determined by applying actuarial methodology, based on demographic hypotheses, in relation to mortality rates and turnover in the reference population and on financial hypotheses, in relation to the discount rate which reflects the value of money over time, the inflation rates, and future salary and wage levels.
The amount recognised as a liability for defined benefits indicates the current value of the obligation as of the reporting date, net of the current value of any existing program assets.
The amount recognised in the annual profit and loss statement consists of the following elements:

- social security costs relative to current work performed;
- interest expense;
- expected returns from program assets, if existing.

The revision of IAS 19 referenced above required the Group, as of the financial year which began on 1 January 2013, to directly recognise actuarial profits and losses relative to defined benefit plans deriving from changes in the actuarial hypotheses used or changes in plan conditions in shareholders' equity and the schedule of other components of the comprehensive profit and loss statement.
The amount of rights accrued by employees during the year is recognised under the item personnel expenses, while the financial component, which represents the charge that the company would face if it were to finance the amount of the severance indemnity (TFR) on the market, is recognised under financial income/expense.

PROVISIONS FOR RISKS AND CHARGES

The Group allocates provisions for risks and charges when:

- there is a current obligation (legal or implied) relative to third parties and deriving from a past event;
- it is probable that the Group will need to use resources to comply with the obligation;
- a reliable estimate of the amount of the obligation can be made.

Provisions are recognised at the value which represents the best estimate that the Group would reasonably pay to fulfil the obligation (fair value) or to transfer it to third parties, on the reporting date.
Changes in estimates are shown in the profit and loss statement for the period in which the change occurred.
When financial effects associated with the time forecast of the payment is significant and the payment date for the obligations can be reliably estimated, the provision is discounted using a discount rate that reflects current assessments of the cost of money in relation to time. In this case, the amount recognised in the financial statements increases each year to reflect the passage of time and this increase is recognised in the annual profit and loss statement under the item "financial expense".
Significant potential liabilities represented by the following are illustrated in the Notes:

• possible (but not probable) obligations, deriving from past events, the existence of which will only be confirmed if one or more future events occur, which are not fully under the control of the company;
• current obligations deriving from past events, for which the amount cannot be reliably estimated, or for which compliance may not involve any expense.

ITEMS IN OTHER CURRENCIES OR SUBJECT TO "EXCHANGE RISK"

These are registered at the current exchange rate in effect on the date of the transaction. Monetary assets and liabilities in foreign currencies are converted using the exchange rate on the reporting date. Non-monetary items are kept at the conversion rate for the transaction, unless there is a persistent unfavourable trend in the exchange rate.
Both exchange differences generated from the repayment of items with different exchange rates relative to the conversion rate used at initial recognition, and those relative to the measurement of monetary items at the reporting date are recognised in the annual profit and loss statement.

RECOGNITION OF REVENUES AND COSTS

Revenues are measured on the basis of the payment the company believes it is entitled to receive for the sale of its products or services.
Revenues from sales of products are recognised, net of discounts, rebates or returns, when control over the assets or services is transferred to the customer. Transfer of control occurs when the following conditions are met:
• the company does not have the possibility to make use of the goods or services, as this has been transferred to the customer;
• the significant risks and benefits associated with ownership of the goods has been transferred to the purchaser of the goods (generally upon shipment or delivery of the goods);
• the value of the revenues is reliably determined;
• the economic benefits deriving from the sale will be used by the Group;
• the costs sustained or to be sustained are reliably determined.
Revenues from services are recognised once the services are complete.
Revenues of a financial nature are recognised on an accrual basis.

Dividends are recognised when they are received, under the item "Income from equity investments". Costs are recognised using criteria analogous to those used for the recognition of revenues, and in any case on an accrual basis.

CURRENT, PREPAID AND DEFERRED TAXES

Income taxes are determined on the basis of estimated taxable income, with reference to the current tax regulations, in the countries in which the Group companies reside.
Forecast debt, net of any advances and withholdings, is recognised under the balance sheet liabilities in the item "current tax payables".
Taxes relative to components recognised directly under shareholders' equity are recognised directly to shareholders' equity and not in the annual profit and loss statement.
Deferred tax assets and liabilities are calculated for all temporary differences between the book value attributed to assets and liabilities in the financial statements and the value attributed to the same assets and liabilities for tax purposes, unless the temporary differences derive from:
• initial recognition of goodwill;
• initial recognition of an asset or liability, in a transaction which
• is not a business combination and
• does not influence accounting results nor taxable income on the date of the transaction in question;
• equity investments in subsidiaries, associates and companies under joint control, when:
• the Group is able to control the schedule for cancelling temporary taxable differences;
• it is probable that the temporary differences will not be cancelled for the foreseeable future.
Deferred tax assets are not recognised when it is not reasonably certain they will be recovered, in compliance with the principle of prudence.
Additionally, their value is reviewed at the end of each period and is reduced to the extent that it is no longer probable sufficient taxable profits will be available in the future to allow full or partial use of these assets.
Deferred tax assets and liabilities are defined on the basis of the tax rates which are

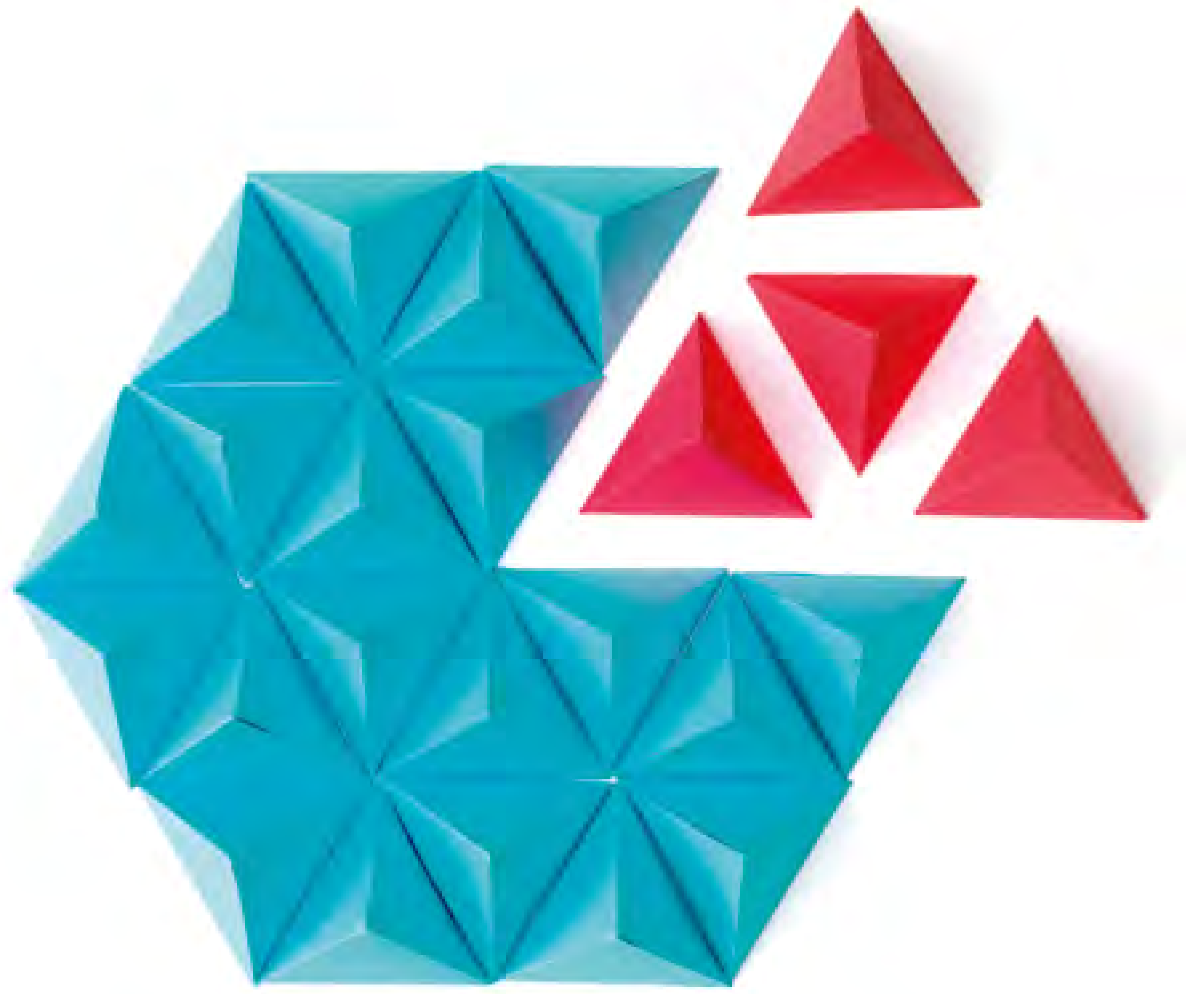
expected to be applied in the year in which the assets will be realised or the liabilities will be repaid, considering rates in effect or those substantially issued as of the reporting date.
Deferred tax assets and liabilities are classified among non-current assets and liabilities.

ESTIMATES AND ASSUMPTIONS

Application of certain accounting standards necessarily requires significant elements based on estimates and assumptions that are uncertain when formulated. For the 2019 financial statements, it is held that the assumptions made were appropriate and consequently, that the financial statements were prepared with the intent of clarity and to truly and accurately represent the equity and financial situation and the economic results for the year. Within the explanatory notes, information is provided in the relevant sections about the reasons underlying decisions made, measurements taken and estimate criteria adopted in applying the international accounting standards. In order to formulate reliable estimates and hypotheses, historic experience was used, as well as other factors deemed reasonable for the case in question, on the basis of the information available. Nonetheless, it cannot be excluded that changes in said estimates and assumptions could create significant effects on the equity and economic situation, as well as on the potential liabilities and assets reported within the financial statement disclosures, in the case that different elements of judgement arise with respect to those previously expressed. More specifically, greater use of subjective assessments on the part of company management was necessary in the following cases:

- determining impairment of goodwill, property, plant and equipment and equity investments;
- determining the fair value of financial assets and liabilities when the amounts could not be directly observed on active markets. In this case, the subjective elements are found in the selection of measurement models and input parameters that may not be observable on the market;
- quantifying provisions for risks and charges and provisions for employee benefits, due to the uncertainty of that required, survival times and actuarial hypotheses used;
- estimating the recoverability of prepaid tax assets.

The presentation of these cases is provided with the intention of allowing those reading the financial statements to better understand the main areas of uncertainty, but is not in any case to suggest that alternative assumptions could be appropriate or more valid. Estimates and assumptions are periodically reviewed and the effects of each change are shown in the profit and loss statement for the period in which the change occurred.



Explanatory notes to consolidated Balance Sheet

Non-current assets

1) PROPERTY, PLANT AND EQUIPMENT

The assets indicated in the following breakdown are included in this item:

PROPERTY, PLANT AND EQUIPMENT €/000

	31 dic 2018	31 dic 2019	Change
Property, plant and equipment	714.277	719.702	5.425
Property investments	690	664	(26)
Right of use assets	322	7.778	7.456
	715.289	**728.143**	**12.854**

PROPERTY, PLANT AND EQUIPMENT

The table below shows changes occurring during the year.

'FLOWS FROM PROPERTY, PLANT AND EQUIPMENT €/000

	Land and buildings	Plant and machinery	Industrial and sales equipment	Other assets	Fixed assets in progress	Total
Historic cost at start of period	**641.359**	**2.998.457**	**20.239**	**52.120**	**55.616**	**3.767.791**
Increases during period	555	12.444	244	721	80.435	94.399
Disposals during period	(6.924)	(25.327)	(539)	(865)	-	(33.657)
Revaluations, impairment during period	(1.277)	(9.528)	-	-	-	(10.805)
Other changes	601	18.491	354	166	(14.386)	5.226
Historic cost at period end	**634.314**	**2.994.537**	**20.297**	**52.142**	**121.664**	**3.822.954**
Provision for amortisation/ depreciation at start of period	**418.068**	**2.567.987**	**18.581**	**48.878**	**-**	**3.053.514**
Amortisation/ depreciation during period	10.369	64.146	587	1.240	-	76.343
Uses during period	(6.754)	(23.738)	(539)	(799)	-	(31.830)
Other changes in the provision	-	5.223	-	3	-	5.226
Provision for amortisation/ depreciation at period end	**421.683**	**2.613.612**	**18.629**	**49.328**	**-**	**3.103.253**
Net book value at period end	**212.630**	**380.925**	**1.669**	**2.814**	**121.664**	**719.702**

Capitalisation carried out during the year amounted to € 94,399 thousand (€ 76,265 thousand in 2018) and also included other increases for € 821 thousand (€ 976 thousand in 2018) relative to internal work; capitalisation of financial expense equal to € 231 thousand (€ 253 thousand in 2018), calculated with reference to a rate of 1.99%, implementing IAS 23; and advances on maintenance work for € 3,501 thousand (€ 3,998 thousand in 2018).
Please see the Report on Operations for comments and details on investments in 2019.
The historic cost and the provision for depreciation eliminated due to the disposals amount, respectively, to € 33,657 thousand and € 31,830 thousand. The main transactions involved the company Burgo Group spa and, in particular, the scrapping of the wood pulp and other obsolete systems in the Verzuolo plant as well as € 5,906 thousand relative to the disposal of glossy drying and other systems on the MC9 of Verzuolo. During the year, writedowns of € 10,805 thousand were recognised, € 9,528 thousand relative to systems not used following the reconversion of the MC9 at Verzuolo, for which the recovery value through sale is lower than the net carrying value at the end of the previous year, based on previous market values. € 1,277 thousand refers to adjusting the amount for a buildable area to market value.
At the end of the year, the residual life of the parent company's property, plant and equipment was reviewed, with the necessary changes made to the depreciation plans.

FLOW OF PROPERTY INVESTMENTS **€/000**

	Civil land	Civil buildings	Total
Historic cost at start of period	**82**	**931**	**1.014**
Increases during period	-	-	-
Disposals during period	-	-	-
Revaluations, impairment during period	-	-	-
Other changes	-	-	-
Historic cost at period end	**82**	**931**	**1.014**
Provision for amortisation/ depreciation at start of period	**-**	**324**	**324**
Amortisation/depreciation during period	-	26	26
Uses during period	-	-	-
Other changes in the provision	-	-	-
Provision for amortisation/ depreciation at period end	**-**	**350**	**350**
Net book value at period end	**82**	**581**	**664**

With regards to real estate activities during the year, with the exception of depreciation for the period totalling € 26 thousand (€ 26 thousand in 2018), no other changes occurred.

RIGHT OF USE ASSETS FLOW €/000

	Commercial leases	Residential leases	Industrial leases	Vehicle leases	IT	Total
Historic cost at start of period	**3.935**	**877**	**2.489**	**773**	**405**	**8.479**
Increases during period	-	-	1.474	241	15	1.730
Disposals during period	-	-	-	-	(12)	(12)
Historic cost at period end	**3.935**	**877**	**3.964**	**1.014**	**408**	**10.198**
Provision for amortisation/ depreciation at start of period	**-**	**-**	**138**	**-**	**-**	**138**
Amortisation/ depreciation during period	614	194	1.009	307	158	2.282
Uses during period	-	-	-	-	-	-
Provision for amortisation/ depreciation at period end	**614**	**194**	**1.147**	**307**	**158**	**2.420**
Net book value at period end	**3.321**	**683**	**2.817**	**708**	**250**	**7.778**

At 1 January 2019, in accordance with accounting standard IAS 17, the Group recognised assets under financial leases involving the subsidiary Burgo Ardennes for a historic cost of € 460 thousand as well as a provision for depreciation of € 138 thousand. Following the adoption of the new accounting standard IFRS 16, there will no longer be any distinction between financial and operating leases meaning that financially leased assets are incorporated into right of use assets.
Note that, as of the transition date of 1 January 2019, a historic cost of € 8,019 thousand was recognised among tangible fixed assets, under the item "Right of use assets". During 2019 increases were recorded in the amount of € 1,730 thousand following the opening of new lease contracts. Depreciation/amortisation during the period totalled € 2,282 thousand.

2) INTANGIBLE ASSETS

The balance is as follows:

INTANGIBLE ASSETS €/000

	31 dic 2018	31 dic 2019	Change
Goodwill and other assets with undefined life			
Goodwill	**17.061**	**17.061**	**-**
	17.061	**17.061**	**-**
Intangible assets with defined life			
Concessions, licenses, trademarks and similar rights	1.511	2.031	520
Other intangible assets	6.909	5.298	(1.611)
Fixed assets in progress and advances	585	439	(146)
	9.005	**7.768**	**(1.237)**
Total intangible assets	**26.066**	**24.829**	**(1.237)**

The goodwill item includes goodwill recognised for incorporation of the Villorba plant in Cartiere Marchi spa during 2006 (€ 10,837 thousand).
Recoverability of goodwill is verified annually or more frequently if deemed necessary, by determining the value in use.
Goodwill is allocated to the respective cash generating units (CGU). CGUs refer to individual production sites. To determine the value in use, the current value of future financial flows was calculated, estimated by applying discounting rates that reflect

current market values of the temporal value of money and the specific risks of the business, as well as terminal growth rates in line with inflation levels.
Finally, the current value of the flows and the terminal value of the individual CGUs was compared with the capital invested in them.
For the purposes of the impairment test, the main assumptions, in line with current measurements of the cost of money, which taken into account the specific risks of the CGUs, involve the risk-free rate of 1.90% (2.62% in 2018), the market risk premium of 5.5% in line with that of the previous year (increased to 2.5% to incorporate other risks for certain CGUs), a variable growth rate between 1.00% and 2.50% based on the CGU, the cost of debt before taxes of 2.25% and the ratio between equity and debt, respectively equal to 71.47% and 28.53% (respectively 78.72% and 21.28% the previous year) derived as the average value of a panel of comparable listed companies in the same sector.
During the year in question the impairment test performed did not indicate a need to carry out writedowns.
Below is a breakdown of residual goodwill at the end of the year for each CGU: Villorba € 10,837 thousand.
Additionally, the impairment test was carried out with reference to CGUs for which indicators of impairment were identified in previous years, but in no case did the test indicate a need to carry out writedowns.

The Group, which as the right to receive green certificates against the production of energy from renewable sources at the Ardennes plant, recognised securities totalling € 14,672 thousand in the balance sheet (€ 14,226 thousand in 2018), of which € 5,298 recognised among intangible assets at year end.
The table below shows changes occurring during the year.

FLOW FROM INTANGIBLE ASSETS €/000

	Goodwill and other intangible assets with undefined life	Plant and expansion costs - historic cost	Industrial patent and intellectual property rights	Concessions, licenses, trademarks and similar rights	Other intangible assets	Fixed assets in progress and advances	Total
Historic cost at start of period	**17.061**	**5.007**	**382**	**13.879**	**6.909**	**585**	**43.823**
Increases during period	-	-	-	918	14.672	-	15.590
Disposals during period	-	-	-	-	(16.283)	-	(16.283)
Revaluations, impairment during period	-	-	-	-	-	-	-
Other changes	-	-	-	146	-	(146)	-
Historic cost at period end	**17.061**	**5.007**	**382**	**14.943**	**5.298**	**439**	**43.130**
Provision for amortisation/ depreciation at start of period	**-**	**5.007**	**382**	**12.368**	**-**	**-**	**17.756**
Amortisation/ depreciation during period	-	-	-	545	-	-	545
Uses during period	-	-	-	-	-	-	-
Other changes in the provision	-	-	-	-	-	-	-
Provision for amortisation/ depreciation at period end	**-**	**5.007**	**382**	**12.913**	**-**	**-**	**18.301**
Net book value at period end	**17.061**	**-**	**-**	**2.031**	**5.298**	**439**	**24.829**

The increases of € 15,590 thousand include software purchases for € 918 thousand, in addition to the recognition of green certificates for € 14,672 thousand.
Decreases relate to the sales green certificates for € 16,283 thousand.

3) OTHER NON-CURRENT ASSETS

These include the items indicated below:

EQUITY INVESTMENTS AND SECURITIES €/000

	31 dec 2018	31 dec 2019	Change
Equity investments in other companies	9.662	13.600	3.938
	9.662	**13.600**	**3.938**

The item "Equity investments in other companies" increased during the year due to recognition of the equity investment in the Consorzio Interconnector Energy Italia. This equity investment is recognised in the financial statements with a net value of € 3,939 thousand. The other equity investments, with a recognised value of € 9,651 thousand, refer to the portion pertaining to the Burgo Group of the Consorzio Paper Interconnector, mainly acquired in 2017 in the context of the last capital increase.

FINANCIAL RECEIVABLES AND OTHER NON-CURRENT FINANCIAL ASSETS €/000

	31 dec 2018	31 dec 2019	Change
'Non-current financial receivables due from others	4.382	4.158	(224)
	4.382	**4.158**	**(224)**

Financial receivables due from others total € 4,158 thousand, of which € 2,610 thousand for the financial receivable due to Burgo Group relative to the investee Consorzio Interconnector Energy Italia and € 1,000 thousand for a term deposit made by Burgo Ardennes to guarantee a loan obtained for the cooker investment.

'OTHER RECEIVABLES AND NON-CURRENT ASSETS €/000

	31 dec 2018	31 dec 2019	Change
Non-current receivables due from customers	5	-	(5)
Non-current sundry receivables due from others	103	94	(9)
Non-current guarantee deposits	3.538	4.944	1.406
	3.646	**5.038**	**1.392**

The increase in other receivables and non-current assets, equal to € 1,392 thousand with respect to the previous year, is mainly due to the increase in the Terna guarantee deposit made by Burgo, relative to the portions paid to the guarantee fund to carry out interconnection work between Italy and the rest of Europe as part of the Interconnector procedure.

4) DEFERRED TAX ASSETS

These amount to € 68,852 thousand, a decrease of € 146 thousand. Below is a detailed explanation:

DEFERRED TAX ASSETS €/000

	31 Dec 2018			31 Dec 2019		
	Taxable	% rate	(Debit)/ credit	Taxable	% rate	(Debit)/ credit
IRES						
Taxed provisions (allocated)	109.980	24,0	26.216	111.207	24,0	26.551
Derivatives	(1.431)	24,0	(343)	36	24,0	9
Discounting	(113)	24,0	(27)	(210)	15,3	(32)
IAS 19 discounting - actuarial G/L	8.943	24,0	2.146	5.363	23,7	1.269
Amortisation, depreciation and writedowns	(48.443)	24,0	(11.626)	(41.874)	24,0	(10.050)
30% limit financial expense	75.679	24,0	18.163	60.411	24,0	14.499
IRES losses to be used in future financial years	188.064	24,0	45.135	175.134	24,0	42.032
Allocation of shortfall	(41.416)	24,0	(9.940)	(22.885)	24,0	(5.492)
Other items	(1.668)	24,0	(400)	(1.443)	24,0	(346)
	289.595		**69.325**	**285.738**		**68.439**
IRAP						
Taxed provisions (allocated)	43.148	3,9	1.683	43.944	3,8	1.652
Discounting	(467)	3,9	(18)	(103)	3,9	(4)
Amortisation, depreciation and writedowns	(7.814)	3,9	(305)	(8.679)	3,9	(339)
Allocation of shortfall	(41.416)	3,9	(1.615)	(22.885)	3,9	(893)
Derivatives	(1.431)	3,9	(56)	36	3,9	1
Other items	(425)	3,9	(17)	(164)	3,9	(6)
	(8.406)		**(328)**	**12.149**		**412**
Other items	5	28,0	1	5	28,0	1
			68.998			**68.852**

Deferred tax assets show the balance between positions receivable and payable deriving from companies for which offsetting is legally allowed.
The main differences seen during the year can be attributed to the following phenomena:

- provisions taxed for IRES and IRAP purposes;
- amortisation/depreciation and impairment for IRES and IRAP;
- IRES losses to be used in future financial years;
- allocation of shortfalls for IRES and IRAP.

For more details about the applicable rate, please see note 36 "income taxes".
Note that the tax losses of the parent company can currently all be carried forward indefinitely.
Recognition of deferred tax assets relative to a portion of IRES tax losses that can be carried forward is justified by a reasonable expectation of sufficient future taxable income, based on the economic forecasts found in the Burgo 2020 industrial plan.
Tax losses which led to tax losses, summarised by year of creation and maturity, relate to the parent company. 2001 and 2002 tax losses can be used only by Burgo Group spa, while the other losses can be used within the scope of consolidation. In the context of determining taxable CNM for 2019, part of tax losses recognised among assets were also used, created in financial year 2008.

TAX LOSSES €/000

		2018		2019	
	maturity	loss	tax	loss	tax
2001	can be carried forward indefinitely	5.585	1.340	5.318	1.277
2002		152.738	36.657	152.738	36.657
2008		29.741	7.138	17.078	4.099
		188.064	**45.135**	**175.134**	**42.032**

CURRENT ASSETS

5) INVENTORIES

INVENTORIES €/000

	31 dec 2018	31 dec 2019	Change
raw materials inventories	62.489	53.775	(8.714)
stock inventories	46.286	47.102	816
provision for impairment of stock	(12.040)	(13.378)	(1.338)
Raw materials, subsidiary and consumable items	**96.735**	**87.499**	**(9.236)**
Products in progress and semi-finished products	35.955	36.107	152
Products in progress	**35.955**	**36.107**	**152**
Finished products and goods	117.891	117.585	(306)
Provision for impairment of products	(2.125)	(3.518)	(1.393)
Finished products	**115.766**	**114.067**	**(1.699)**
	248.456	**237.673**	**(10.783)**

Warehouse inventories decreased as a whole by € 10,783 thousand (in 2018 there was an increase of € 40,897 thousand). More specifically:

- raw materials and stocks decreased by € 9,236 thousand (in 2018 the change was an increase, in the amount of € 7,239 thousand);
- products in progress increased by € 152 thousand (in 2018 they had increased by € 5,306 thousand);
- finished products decreased by € 1,699 thousand (in 2018 they had increased by € 28,352 thousand).

The value of inventories is net of the provision for impairment of stocks, € 13,378 thousand (€ 12,040 thousand in 2018) and that for product impairment, € 3,518 thousand (€ 2,125 thousand in 2018).
These provisions were adjusted during the year on the basis of the most recent assessments of the risk of not recovering the value of inventories and the sales of obsolete materials occurring during financial year 2019.

6) TRADE RECEIVABLES

TRADE RECEIVABLES €/000

	31 dec 2018	31 dec 2019	Change
Relative to customers	352.944	292.253	(60.691)
Advances from customers	2	-	(2)
minus: provision for doubtful accounts	(59.729)	(60.082)	(353)
	293.217	**232.171**	**(61.046)**

Trade receivables do not accrue interest. It is held that the value inserted (adjusted by the provision for doubtful accounts) approximates the presumable realisable value.
Allocations to the provision for doubtful accounts during the year amounted to € 6,971 thousand (€ 3,113 thousand in 2018) while uses of the provision came to € 6,618 thousand.
The table below provides a breakdown of trade receivables by geographic area, exclusive of infragroup transactions.

TRADE RECEIVABLES BY GEOGRAPHIC AREA

	31 dec 2018	31 dec 2019	Change
Italy	174.099	129.124	(44.976)
Europe E.U.	96.890	87.289	(9.601)
Other countries	22.227	15.759	(6.469)
	293.217	**232.171**	**(61.046)**

7) OTHER RECEIVABLES AND CURRENT ASSETS

OTHER RECEIVABLES AND CURRENT ASSETS €/000

	31 dec 2018	31 dec 2019	Change
Current tax receivables	**8.793**	**17.151**	**8.358**
Current sundry receivables due from others	16.752	12.436	(4.317)
Current receivables due from social security entities	50	100	50
Current derivative assets	1.579	3.273	1.694
Other sundry receivables	**18.382**	**15.809**	**(2.573)**
Other assets	**950**	**2.462**	**1.512**
	28.125	**35.422**	**7.297**

Other receivables and current assets increased as a whole by € 7,297 thousand. The main changes were due to the increase in tax receivables of € 8,358 thousand, mainly due to greater VAT credits and the decrease in other receivables due from others for € 4,317 thousand, mainly due to a decrease in advances to suppliers. Assets relative to derivatives increased by € 1,694 thousand relative to hedging contracts for electricity, gas and emission rights.

8) EQUITY INVESTMENTS

EQUITY INVESTMENTS €/000

	31 dec 2018	31 dec 2019	Change
Other equity investments	774	1.030	256
	774	**1.030**	**256**

Securities in the portfolio at the end of financial year 2019 consisted of 105,000 Mediobanca shares (unchanged with respect to 31 December 2018).
Pursuant to accounting standard IFRS 9, the Mediobanca shares are classified as financial assets measured at fair value through other comprehensive income (FVOCI). Adjustment to market values is done on the basis of stock market listings as of the end of the year, specifically: Mediobanca € 9.814 (€ 7.376 at 31 December 2018).
The adjustment to market value involved an increase in the value of the Mediobanca shares by € 256 thousand, passing through the specific fair value through other comprehensive income reserve.

9) FINANCIAL RECEIVABLES AND OTHER CURRENT FINANCIAL ASSETS

FINANCIAL RECEIVABLES AND OTHER CURRENT FINANCIAL ASSETS €/000

	31 dec 2018	31 dec 2019	Change
Financial receivables due from others	93.932	80.852	(13.080)
Derivative financial assets	335	7	(329)
Other financial assets	90	38	(52)
	94.357	**80.897**	**(13.460)**

Financial receivables due from others mainly regard:

- advances paid to suppliers of the parent company and the subsidiaries Mosaico and Burgo Ardennes by Burgo Factor for € 72,864 thousand (€ 91,099 thousand in 2018) at market rates, the average duration of which falls between 30 and 90 days;
- financial receivables due from factoring companies for without recourse transfer of receivables for € 2,536 thousand;
- investments in managed savings by the parent company for € 2,453 thousand.

10) CASH AND OTHER CASH EQUIVALENTS

CASH AND OTHER CASH EQUIVALENTS €/000

	31 dec 2018	31 dec 2019	Change
Bank and postal deposits	60.789	47.250	(13.539)
Cash and cash on hand	37	33	(4)
	60.826	**47.283**	**(13.543)**

Cash and other cash equivalents totalled € 47,283 thousand. The book value is equal to the fair value.
Below is a reconciliation table for the item "Cash and other cash equivalents" with net monetary availability recognised in the cash flow statement:

RECONCILIATION OF CASH AND OTHER CASH EQUIVALENTS €/000

	31 dec 2018	31 dec 2019	Change
Cash on hand and other cash equivalents	60.826	47.283	(13.543)
Current accounts and other loans	(79.127)	(46.299)	32.828
	(18.301)	**984**	**19.285**

SHAREHOLDERS' EQUITY

11) SHAREHOLDERS' EQUITY

Total consolidated shareholders' equity amounted to € 314,301 thousand (€ 307,959 thousand at 31 December 2018).

Share capital at 31 December 2019 consisted of 395,083,445 ordinary shares with no nominal value, for a total value of € 20,000,000.

The parent company has no treasury shares in its portfolio.

Consolidated shareholders' equity at 31 December 2019 increased by € 6,342 thousand with respect to 31 December 2018, as a consequence of the following changes:

- an increase due to profits for the year of € +9,726 thousand (€ +9,909 thousand in 2018);
- an decrease due to net fair value changes in financial derivatives recognised using hedge accounting for € -1,186 thousand (€ +554 thousand in 2018);
- an increase for net changes in the adjustment reserve for financial assets at fair value through other comprehensive income for € +256 thousand (€ -219 thousand in 2018);
- a decrease for net changes equal to € -2,338 thousand (€ +936 thousand in 2018) due to discounting of TFR and other social security plans pursuant to IAS 19;
- an increase for adjustments relative to previous years for € 379 thousand;
- an increase for foreign exchange differences for € 18 thousand.

For more information, please see the "Statement of changes in consolidated shareholders' equity".

RESERVES AND PROFITS CARRIED FORWARD €/000

	31 dec 2018	31 dec 2019	Change
Non-distributable reserve from share capital reduction	138.797	138.797	-
Legal	13.149	13.149	-
Reserve for equity financial instruments	200.000	200.000	-
Non-distributable exchange gains reserve	1.280	1.280	-
Other reserves	238	238	-
Consolidation	(67.041)	(67.023)	18
IAS 19 reserve	(7.725)	(10.064)	(2.338)
Reserve for accounting standard change - FTA	4.011	4.013	2
Reserve for adjustment to FVOCI	314	570	256
Cash flow hedge reserve	1.032	(666)	(1.698)
	284.055	**280.294**	**(3.761)**
Profits (losses) carried forward reserve	(8.772)	1.151	9.922
	(8.772)	**1.151**	**9.922**

Deferred taxes relative to items directly attributed to shareholders' equity are as follows:

DEFERRED TAXES RECOGNISED DIRECTLY TO SHAREHOLDERS' EQUITY €/000

	31 dec 2018	31 dec 2019	Change
Fair value changes in cash flow hedges	(399)	97	496
Actuarial gains/(losses)	2.134	3.008	874
Other	1.052	1.052	-
	2.787	**4.158**	**1.370**

NON-CURRENT FINANCIAL LIABILITIES

12) NON-CURRENT FINANCIAL LIABILITIES

NON-CURRENT FINANCIAL LIABILITIES €/000

	31 dec 2018	31 dec 2019	Change
Bonds	1.250	8.500	7.250
Converting loan	100.000	100.000	-
Loan payables	441.503	436.900	(4.603)
Right of use liabilities	179	5.699	5.520
	542.932	**551.099**	**8.167**

RIGHT OF USE LIABILITIES - FLOWS €/000

	01 jan 2019	Increases	Decreases	Reclassification	31 dec 2019
Non-current right of use liabilities	6.305	1.730	-	(2.337)	5.699
Current right of use liabilities	2.006	-	(2.253)	2.337	2.090
Total	**8.312**	**1.730**	**(2.253)**	**-**	**7.789**

Non-current financial liabilities include:

- The bond loan issued by the subsidiary Burgo Ardennes for € 8,500 thousand; the bond was subscribed by S.R.I.W. during 2019 and is fully repayable after the end of the year;
- Convertible loan in equity financial instruments (SFP) for € 100,000 thousand;
- Payables due to shareholders of the parent company for loans in the amount of € 242,064 thousand (€ 251,932 thousand at the end of the previous year) and for MLT loans due to others for € 194,836 thousand (€ 187,940 thousand at the end of the previous year). During the course of the year the Group signed new loans for € 27,796 thousand;
- Liabilities for rights of use of € 5,699 thousands.

In compliance with contractual provisions established with credit institutions, during 2019 advance repayments of loan debt were made, following sales of non-core assets (€ 997 thousand), of which € 826 thousand against excess cash recorded at the end of financial year 2018 and € 171 thousand for other clauses in financing agreements. These repayments will be subtracted from the final payment in the amortisation plan for the loans.
The equity structure relative to non-current financial liabilities remained substantially unchanged with respect to the previous year.
Interest on variable rate loans was determined every six months. The conditions for fixed rate loans remained constant through to maturity of the instruments. For all payables relative to loans, valued at the amortised cost, it is held that the book value reflects the fair value of the financial instrument as of the reporting date.
Note that the loans include a negative pledge clause which limits the Group's ability to provide collateral to cover its own obligations and those of third parties, with the exclusion of guarantees necessary to carry out its core business.

LOAN PAYABLES - BREAKDOWN OF MATURITY DATES €/000

	31 dec 2018	31 dec 2019	Change
from 2 - 3 years	43.254	425.179	381.924
from 4 - 5 years	398.249	-	(398.249)
over 5 years	-	11.721	11.721
	441.503	**436.900**	**(4.603)**

BONDS - BREAKDOWN OF MATURITY DATES €/000

	31 dec 2018	31 dec 2019	Change
from 2 - 3 years	1.250	4.675	3.425
from 4 - 5 years	-	3.400	3.400
over 5 years	-	425	425
	1.250	**8.500**	**7.250**

CONVERTING LOAN - BREAKDOWN OF MATURITY DATES €/000

	31 dec 2018	31 dec 2019	Change
from 2 - 3 years	-	100.000	100.000
from 4 - 5 years	100.000	-	(100.000)
over 5 years	-	-	-
	100.000	**100.000**	**-**

RIGHT OF USE LIABILITIES - BREAKDOWN OF MATURITY DATES €/000

	31 dec 2018	31 dec 2019	Change
from 2 - 3 years	179	2.941	2.762
from 4 - 5 years	-	1.585	1.585
over 5 years	-	1.172	1.172
	179	**5.699**	**5.520**

13) SEVERANCE INDEMNITIES (TFR) AND OTHER PROVISIONS RELATIVE TO PERSONNEL

'TFR (SEVERANCE INDEMNITY) €/000

	31 dec 2018	31 dec 2019	Change
Actuarial measurement of TFR at start of period	44.336	38.415	(5.921)
Provisions	138	273	135
Payments	(5.718)	(5.158)	561
TFR discounting - IAS 19 reserve	(893)	1.417	2.311
TFR discounting - financial expense (income)	539	561	23
Other changes - incoming (outgoing) transfers	14	(175)	(188)
	38.415	**35.334**	**(3.080)**

The main component involved in the decrease is the liquidation of TFR liabilities relative to the employees let go from the Verzuolo and Duino plants of Burgo Group spa and of the company Burgo Energia slr following disposal of the business unit.
For actuarial measurement of the provision for severance indemnities (TFR) at 31 December 2019, on the basis of accounting standard IAS 19 an independent actuary carried out the calculation, on the basis of information provided by the Group.
In the calculation, the actuary made use of the following demographic hypotheses:

- for probability of death, the RG48 survival table used by the Italian General Accounting Office to estimate pension expenses for the Italian population was used;
- for probability of disability, the INPS model was adopted, differentiated by age and sex;
- for retirement age for the generic active population, achievement of the minimum requirements established for General Obligatory Insurance was assumed;
- for probability of departure for reasons other than death, an annual frequency was used for the individual Group companies that varied between 3.00% and 6.00%;
- for the probability of TFR advances, a yearly value of 2.00% was assumed.

Financial economic hypotheses used in the measurement are described below:

ECONOMIC/FINANCIAL HYPOTHESES USED €/000

	2018	2019
Annual theoretical discounting rate	1,57%	0,77%
Annual inflation rate	1,50%	1,20%
Annual TFR increase rate	2,63%	2,40%

The validity of this data is connected to the stability of the reference regulatory situation, expected performance of interest rates on the financial market, the expected performance of salary trends, of future liquidation trends and the frequency with which employees make use of advances, which must be on average compatible with the economic/financial hypotheses made.
Based on the social security reform, for companies with more than 50 employees future portions of the TFR provision accruing no longer accumulate within the company but go to supplementary social security or the INPS treasury fund. Therefore, projection of salaries based on given growth rates and professional roles is no longer necessary.

14) PROVISION FOR DEFERRED TAXES

The provision for deferred taxes amounted to € 18,236 thousand (€ 20,255 thousand at the end of the previous year). This provision includes amounts allocated for deferred taxes that cannot be compensated for with deferred tax assets.
Below is a breakdown:

DEFERRED TAX LIABILITIES €/000

	31 dec 2018			31 dec 2019		
	Taxable	% rate	Debit/credit	Taxable	% rate	Debit/credit
IRES						
Taxed provisions (allocated)	5.954	27,5	1.637	(9.572)	22,7	(2.175)
Derivatives	-	-	-	(312)	24,0	(75)
IAS 19 discounting - actuarial G/L	-	-	-	(1.488)	24,0	(357)
Amortisation, depreciation and writedowns	-	-	-	(2.039)	24,0	(489)
Allocation of shortfall	-	-	-	16.205	24,0	3.889
Other items	(827)	24,0	(199)	(337)	24,0	(81)
	5.127		**1.439**	**2.457**		**712**
IRAP						
Taxed provisions (allocated)	-	-	-	(7.165)	3,9	(279)
Amortisation, depreciation and writedowns	-	-	-	(772)	3,9	(30)
Allocation of shortfall	-	-	-	16.205	3,9	632
Derivatives	-	-	-	(312)	3,9	(12)
Other items	(1.562)	3,9	(61)	(1.340)	3,9	(52)
	(1.562)		**(61)**	**6.615**		**258**
Deferred foreign taxes						
Taxed provisions (allocated)	77.095	25,0	19.274	73.223	25,0	18.306
Other items	(1.518)	26,1	(396)	(4.145)	25,1	(1.040)
	75.576		**18.877**	**69.078**		**17.266**
			20.255			**18.236**

Deferred tax liabilities refer to legal entities which have a negative balance in their individual financial statements. Specifically, these were Burgo Ardennes, Burgo Factor and Burgo Central Europe.
The negative change in the balance at the end of the year totalling € 2,109 thousand is mainly due to the effects of deferred taxes relative to the subsidiary Burgo Ardennes. Recall that during 2018 a tax reform was approved in Belgium for direct taxes (ISOC) that involved a switch from the 33.99% rate which was valid through the end of 2017 to a rate of 29.58% for financial years 2018 and 2019, with an additional decrease to 25% in 2020. This change was taken into account when recognising deferred taxes.

15) PROVISIONS FOR RISKS AND CHARGES

PROVISIONS FOR RISKS AND CHARGES €/000

	31 dec 2018	31 dec 2019	Change
Provision for industrial charges	33.259	38.780	5.521
Provision for disputes in course	9.006	12.508	3.502
Provision for supplementary customer allowance	3.688	3.856	168
Provision for restructuring charges	7.380	4.457	(2.923)
Other provisions for risks and charges	821	906	85
Provision for future personnel plans	1.253	3.086	1.833
	55.407	**63.593**	**8.186**

Below a breakdown and information about changes in the provisions is provided:

PROVISIONS FOR RISKS AND CHARGES - CHANGES €/000

	Balance at start of period	Increases	Decreases	Discounting	Balance at period end
Provision for industrial charges	33.259	12.508	(7.677)	690	38.780
Provision for disputes in course	9.006	4.577	(1.075)	-	12.508
Provision for supplementary customer allowance	3.688	359	(310)	119	3.856
Provision for restructuring charges	7.380	2.067	(4.990)	-	4.457
Other provisions for risks and charges	821	86	-	-	906
Unemployment fund with company contribution	1.253	77	(28)	1.784	3.086
	55.407	**19.674**	**(14.080)**	**2.593**	**63.593**

The provision for industrial charges is relative to:

- charges to purchase quotas for CO_2 emissions for the deficit resulting from the difference between final emissions recorded and assignments. € 7,539 thousand was allocated in 2019 (€ 18,789 thousand in 2018). Uses during the year totalled € 1,805 thousand (€ 7,841 thousand in 2018);
- covering expenses it is held will be sustained for reclamation of the sludge landfills. € 690 thousand was allocated in 2019, mainly for disposal of Verzuolo sludge, while the provision created for reclamation of the Mantova landfill was partially released for € 2,260 thousand, in reference to the combination of uses which occurred during the year, leading to a decrease in the provision of € 2,769 thousand;
- charges emerging from situations directly associated with production. In 2019 € 4,949 thousand was allocated, mainly relative to Burgo Ardennes for actions to adjust systems (€ 2,136 thousand). Uses totalled € 3,103 thousand.

The provision for disputes in course is created to deal with potential liabilities that could arise in relation to legal disputes and disputed items. Allocations during the year were mainly associated with a dispute with the Region of Abruzzo. Uses during the year were a consequence of the resolution of pre-existing disputes and the elimination of the requirements met the previous year for provisions relative to disputes. The resolution or settlement of disputes during the year did not lead to any substantial contingent liabilities.

The provision for supplementary customer allowance is an estimate of the indemnities to be paid to sales agents for interruption of the agency relationship.

The provision for restructuring costs includes provisions made for expenses to be sustained to carry out the restructuring plan. During the year, the provision was used for € 4,990 thousand (€ 2,080 thousand in 2018) against charges expected and arising during the year in question, following the closure of the Verzuolo and Duino production lines and the restructuring of Burgo Energia. During the year allocations of € 2,067 thousand were made, mainly for reclamation of the former Chieti plant.

The provision for other risk and charges includes allocations for other potential liabilities, other than those above. Changes during the year are mainly due to uses and allocations for disputes and balancing of charges relative to the subsidiary Burgo Energia.

The provision for other personnel expenses includes:

- the provision "unemployment fund with company contribution" refers to the subsidiary Burgo Ardennes which, as required under local regulations, must pay supplementary indemnities to employees with certain work seniority and age requirements, if they choose to make use of the pre-pension provided by the government and decide to leave work prior to the age established for old-age pensioning;
- a provision for a defined social security plan determined through payments to an insurance company;

For actuarial measurement of the "unemployment fund with company contribution" at 31 December 2019, on the basis of accounting standard IAS 19 an independent actuary carried out the calculation, on the basis of information provided by the Group.
In the calculation, the actuary made use of the following demographic hypotheses:

- for probability of death, the tables in effect in Belgium, specifically MR-3 for men and FR-3 for women;
- for the rate of adhesion to pre-pensioning it was assumed that 5% of employees over 60 and 4% of employees between 55 and 59 would opt for the benefit as soon as possible, and that the rest would remain in service until reaching 60.

Financial economic hypotheses used in the measurement are described below:

ECONOMIC/FINANCIAL HYPOTHESES USED

	2018	2019
Annual theoretical discounting rate	0,01%	-0,26%
Annual inflation rate	1,90%	1,90%

For the actuarial assessment of the social security plan at 31 December 2019 on the basis of accounting standard IAS 19, the same basic hypotheses adopted for the "provision for unemployment fund with company contribution" were used.
Similar to that done for the provision for employee severance indemnities, the interest cost component was recognised among financial expense.

16) OTHER PAYABLES AND NON-CURRENT LIABILITIES

OTHER PAYABLES AND NON-CURRENT LIABILITIES €/000

	31 dec 2018	31 dec 2019	Change
Non-current payables due to suppliers	3.141	778	(2.364)
Non-current sundry payables due from others	30	34	4
	3.171	**811**	**(2.360)**

The payable refers to multi-year premiums paid to suppliers of wood by the subsidiary Burgo Ardennes, for € 778 thousand.

CURRENT LIABILITIES

17) CURRENT FINANCIAL LIABILITIES

'CURRENT FINANCIAL LIABILITIES €/000

	31 dec 2018	31 dec 2019	Change
Bonds	1.250	1.250	-
Loan payables - current portion	22.499	22.658	159
Current accounts and other loans	79.127	46.299	(32.828)
Payables due from other lenders	39	56	17
Right of use liabilities	114	2.090	1.976
Other financial liabilities	528	570	43
	103.556	**72.923**	**(30.633)**

The decrease in current accounts payable and other loans of € 32,828 thousand after the decrease already seen the previous year (€ 47,437 thousand) is due to the reduction in use of financial lines due to lower advances made to suppliers by the parent company and subsidiaries Mosaico and Burgo Ardennes by Burgo Factor.
The current portion of payables relative to loans changed due to the reclassification of the portion of debt to be paid by the end of the next year in the short-term area.
The item "Other financial liabilities" includes interest accruing on loans and use of short-term bank lines.
Interest on variable rate loans is determined half-yearly, while that for fixed rate loans remained constant until the instrument matured. For all payables relative to loans, valued at the amortised cost, it is held that the book value approximates the fair value of the financial instrument as of the reporting date.
Also note that for short-term financial needs, at the end of 2019 credit lines were available totalling around € 233.5 million (€ 381 million at the end of the previous year), used for current account payables and short-term financing for around 26% of the total.

18) TRADE PAYABLES

'TRADE PAYABLES €/000

	31 dec 2018	31 dec 2019	Change
Current payables due to suppliers	418.262	364.830	(53.432)
	418.262	**364.830**	**(53.432)**

Trade payables do not accrue interest. The amount recognised in the financial statements approximates the market value.
The table below provides a breakdown by geographic area:

'TRADE PAYABLES BY GEOGRAPHIC AREA €/000

	31 dec 2018	31 dec 2019	Change
Italy	210.032	197.959	(12.073)
Europe E.U.	199.715	157.945	(41.770)
Other countries	8.527	8.927	400
	418.273	**364.830**	**(53.443)**

19) CURRENT TAX PAYABLES

These amounted to € 8,184 thousand. The item mainly includes payables due to the tax authorities for substitute taxes and income taxes for IRES and IREP, as well as income taxes for foreign subsidiaries.

PAYABLES FOR CURRENT TAXES €/000

	31 dec 2018	31 dec 2019	Change
Tax payables, income tax	5.445	382	(5.063)
Tax payables, VAT	285	283	(2)
Payables for withholdings	5.924	6.149	226
Tax payables for municipal taxes	6	7	1
Other tax payables	810	1.363	553
	12.469	**8.184**	**(4.285)**

20) OTHER PAYABLES AND CURRENT LIABILITIES

These consist of the following:

OTHER PAYABLES AND CURRENT LIABILITIES €/000

	31 dec 2018	31 dec 2019	Change
Current sundry payables due to others	8.787	7.541	(1.245)
Payables for commissions and premiums	6.340	4.448	(1.892)
Payables due to personnel	19.959	18.721	(1.238)
Current payables due to social security entities	9.040	8.788	(252)
Current derivative liabilities	149	4.053	3.904
Deferred income from grants for plants	4.712	4.034	(678)
Deferred income from capital account grants	48	32	(16)
Other accrued expenses and deferred income	2.337	2.167	(170)
	51.372	**49.784**	**(1.588)**

Other payables and current liabilities were substantially stable.

21) COMMITMENTS AND POTENTIAL LIABILITIES

'COMMITMENTS AND POTENTIAL LIABILITIES €/000

	31 dec 2018	31 dec 2019	Change
Personal guarantees provided in favour of:			
subsidiaries	42.543	42.543	-
other subjects	21.474	21.474	-
	64.017	**64.017**	-
Others:			
third party securities in custody	16.882	16.882	-
third party assets	1.315	1.315	-
	18.197	**18.197**	**-**
	82.213	**82.213**	**-**

Sureties are provided by bank and insurance institutions within the context of the Group's core business. Third party securities refers to parent company shares held in custody by the same

Explanatory notes to Profit and Loss Statement for the Year

Below are the main items which were not commented on relative to the consolidated profit and loss statement. For comments on changes in the most significant items, please see the analysis of the Group's income results in the Report on Operations.

22) REVENUES

REVENUES €/000

	31 dec 2018	31 dec 2019	Change
Paper	1.450.957	1.441.254	(9.702)
Cellulose	97.238	78.316	(18.922)
Energy	207.668	93.901	(113.767)
Gas	37.776	5.810	(31.966)
Others	18.476	19.941	1.465
	1.812.115	**1.639.222**	**(172.893)**

Revenues decreased by € 172,893 thousand (-9.5%). In particular, revenues from paper remained stable (-0.7%) and those from cellulose decreased by 19.5%. On the other hand, total revenues from energy (electricity and gas) decreased respectively by 55% and 85%. Other revenues increased by 8%.
Below is a breakdown of revenues by geographic area:

MARKETS €/000

	31 dec 2018	31 dec 2019	Change
Italy	767.879	598.778	(169.102)
Europe E.U.	865.206	859.342	(5.864)
Other countries	179.029	181.102	2.073
	1.812.115	**1.639.222**	**(172.893)**

23) OTHER INCOME

OTHER INCOME €/000

	31 dec 2018	31 dec 2019	Change
Insurance settlements	1.488	1.896	408
Environmental certificates	41.980	34.112	(7.868)
Energy expense recovery and reimbursements	14.559	10.565	(3.994)
Sundry income and expense recovery	10.311	10.048	(263)
Grants for current expenses	2.085	2.406	321
	70.423	**59.027**	**(11.396)**

Other income decreased by € 11,396 thousand. The change is substantially due to lower revenues from environmental certificates for € 7,868 thousand and lower revenues from interruptibility services for € 3,994 thousand.

Other income and expense recovery decreased by € 263 thousand and includes income for the partial release of the provision for industrial charges relative to the Mantua landfill for € 2,260 thousand. Other income included commissions receivable for Burgo Factor spa factoring business for € 1,932 thousand (€ 2,368 thousand the previous year).

The item contributions includes:

- the portion accruing for 2019 of € 678 thousand (€ 718 thousand in 2018) for capital grants accruing in previous years;
- contributions for personnel training of € 374 thousand (€ 460 thousand in 2018);
- contributions for subsidies associated with personnel expenses, in the operating account, for research and other contributions for € 1,354 thousand (€ 907 thousand in 2018).

24) PURCHASES OF MATERIALS AND EXTERNAL SERVICES

PURCHASES OF MATERIALS AND EXTERNAL SERVICES €/000

	31 dec 2018	31 dec 2019	Change
'Purchases of raw materials, subsidiary and consumable items and goods	922.177	834.617	(87.560)
Transport and accessory expense on purchases	31.501	32.863	1.362
Transport and accessory expense on sales	128.447	127.686	(761)
Other industrial services	28.817	30.891	2.074
Industrial maintenance	26.681	30.188	3.506
Electricity and methane	377.545	222.789	(154.755)
Fees to independent auditing firm	293	334	41
Fees to statutory auditors	210	202	(8)
Other general and administrative services	25.628	24.812	(816)
Rentals and leases	3.994	2.843	(1.151)
	1.545.294	**1.307.224**	**(238.069)**

Purchases of materials and external services decreased by € 238,069 thousand. The most significant changes involved:

- the decrease in spending to purchase raw materials, subsidiaries, consumables and goods (€ 87,560 thousand), in particular due to the decrease in purchase prices for cellulose and pulp, as well as the lower volumes of purchases due to the stoppage at the Verzuolo plant for production conversion during the final part of the year;
- a decrease in the cost of electricity and methane for sales (€ 154,755 thousand) due to the disposal of the business unit which sold electricity and gas to end consumers; the cost of methane for own consumption and electricity for operating production plants decreased.

Energy costs are shown net of payments the Group has the right to as a heavy energy consumption business. Amounts received in 2019 totalled € 267 thousand (€ 609 thousand in 2018).

Operating costs also include costs for rights of use relative to contracts of modest value and/or with durations of less than a year for € 2,843 thousand.

Please see note 26) for a more in depth comment on the cost for CO_2.

25) PERSONNEL EXPENSES

PERSONNEL EXPENSES €/000

	31 dec 2018	31 dec 2019	Change
Wages and salaries	129.963	128.497	(1.467)
Social security contributions	47.315	47.071	(243)
Expenses for defined benefit programs	7.455	7.309	(146)
Others	14.326	14.898	573
	199.059	**197.776**	**(1.283)**

The cost of labour decrease by € 1,283 thousand in 2019; it decreased by € 577 thousand in 2018.
Other costs include fees paid to directors and fees paid for temporary work provided within the companies of the Group. During 2019 fees paid for temporary work services totalled € 7,693 thousand (€ 6,458 thousand in 2018).
Additionally, the item includes premiums, pre-pensions and complementary insurance for employees of the subsidiary Burgo Ardennes.

26) OTHER OPERATING

OTHER OPERATING COSTS €/000

	31 dec 2018	31 dec 2019	Change
Provisions			
for impairment of receivables	3.113	4.672	1.559
for CO2 certificates	17.389	5.743	(11.647)
for industrial charges	1.610	5.659	4.050
for disputes in course	1.125	4.577	3.453
for supplementary customer allowance	488	428	(60)
for other provisions	649	86	(563)
	24.373	21.164	(3.208)
Other costs			
Corporate expenses, taxes and indirect taxes	15.004	14.622	(382)
Contributions, donations and fines	1.347	1.396	49
CO2 certificates	-	7.615	7.615
Losses and other costs	2.723	4.293	1.570
	19.074	27.926	8.852
	43.447	**49.090**	**5.643**

Other operating costs increased by € 5,643 thousand, mainly due to the combined effects of:
- greater net allocations for doubtful accounts of € 1,559 thousand (gross of recoveries for insurance compensation the allocation in 2019 totalled € 6,797 thousand);
- greater allocations to the provision for industrial charges of € 4,050, mainly relative to future projects involving systems;
- greater allocations relative to disputes;
- an increase in other costs of € 10,252 thousand.

For an analysis of allocations, please see note 15 "provisions for risks and charges" and note 6 "trade receivables".
Net costs for CO_2 during the year totalled € 13,358 thousand (€ 17,389 thousand in 2018), of which € 7,615 thousand for purchases made during the year and € 5,743 thousand for allocations to the provision for CO_2 charges. Note that as of 2019, in contrast to 2018, the company classifies costs for purchases of CO_2, equal to € 7,615

thousand (€ 0 in 2018) under the item Other operating costs, rather than under the item Costs for raw materials and external services. Allocations, equal to € 5,743 in 2019 (€ 17,389 thousand in 2018), continue to be classified under the item Other operating costs, as occurred the previous year. Given the amount in question, the company did not consider it necessary to reclassify the balances from the previous year in the financial statement schedules and details.

27) CHANGE IN INVENTORIES

CHANGE IN INVENTORIES			€/000
	31 dec 2018	31 dec 2019	Change
Change in inventories	40.897	(10.860)	(51.757)
	40.897	**(10.860)**	**(51.757)**

The change in inventories led to a cost for the year of € 51,757 thousand, following the reduction in the value of stock at the end of the year.

28) CAPITALISED COSTS FOR INTERNAL

CAPITALISED COSTS FOR INTERNAL WORK			€/000
	31 dec 2018	31 dec 2019	Change
Capitalised costs	976	821	(154)
	976	**821**	**(154)**

This item includes costs for employee work, warehouse materials and other costs sustained to complete internal systems work. Please see the Report on Operations for more details on the main investments made during 2019.

29) DEPRECIATION AND AMORTISATION

DEPRECIATION AND AMORTISATION			€/000
	31 dec 2018	31 dec 2019	Change
Buildings	10.334	10.369	35
Plant and machinery	67.954	64.096	(3.858)
Industrial equipment	506	587	82
Other assets	1.505	1.290	(216)
Buildings for civil use	26	26	-
Rights of use	92	2.281	2.189
Intangible assets with defined life	498	545	47
	80.916	**79.195**	**(1.721)**

Amortisation of rights of use based on application of IFRS 16 in 2019 amounted to € 2,281 thousand.

30) CAPITAL GAINS/LOSSES ON DISPOSAL OF NON-CURRENT ASSETS

CAPITAL GAINS/LOSSES ON DISPOSAL OF NON-CURRENT ASSETS **€/000**

	31 dec 2018	31 dec 2019	Change
Capital gains	2.041	187	(1.854)
Capital losses	(80)	(1.669)	(1.589)
	1.961	**(1.482)**	**(3.443)**

The main capital losses during the year were linked to the disposals occurring at the Verzuolo plant due to conversion to containerboard production.
Additionally, lower capital gains were realised from the disposals of small systems from other plants.

31) WRITEBACKS/WRITEDOWNS OF NON-CURRENT ASSETS

'WRITEBACKS/WRITEDOWNS OF ASSETS **€/000**

	31 dec 2018	31 dec 2019	Change
Land and buildings	87	1.277	1.190
Plant and machinery	12.663	9.528	(3.135)
Goodwill and other assets with undefined life	9.854	-	(9.854)
	22.603	**10.805**	**(11.798)**

During the year, writedowns were recognised relative to fixed assets totalling € 10,805 thousand, specifically € 9,528 thousand for the Verzuolo plant and €1,277 thousand for a plot of buildable land.

32) NET EXPENSES/INCOME OF A NON-RECURRING

NET EXPENSES/INCOME OF A NON-RECURRING NATURE **€/000**

	31 dec 2018	31 dec 2019	Change
Non-recurring income	-	-	-
Non-recurring charges	427	577	150
	427	**577**	**150**

Non-recurring expenses/income during the year totalled € 577 thousand in net expenses and relate to other industrial expenses for plants which are no longer operational (Chieti, Marzabotto and the San Mauro offices).

33) NET RESTRUCTURING EXPENSES

NET RESTRUCTURING EXPENSES **€/000**

	31 dec 2018	31 dec 2019	Change
Oneri di ristrutturazione	-	2.067	2.067
	-	**2.067**	**2.067**

During the year, net restructuring expenses were recognised in the amount of € 2,067 thousand. Restructuring expenses refer to the reclamation of production states in which production has been stopped for € 1,800 thousand (Chieti plant) and for redundancy incentives granted to Burgo Energia employees who left the company after restructuring.

34) FINANCIAL EXPENSE

FINANCIAL EXPENSES €/000

	31 dec 2018	31 dec 2019	Change
Interest expense on payables due to banks	14.225	12.446	(1.779)
Discounting of severance indemnities (TFR)	539	561	23
Other financial expense	15.451	17.311	1.860
Exchange losses	331	269	(62)
Write-downs of equity investments	-	360	360
	30.546	**30.948**	**402**

Financial expense amounted to € 30,948 thousand, showing a € 402 thousand increase with respect to the previous year. The main changes involved:

- financial expense from amounts due to banks decreasing by € 1,779 thousand, consisting of interest and charges payable on loans;
- lower exchange losses which amounted to € 269 thousand (€ 331 thousand the previous year).

Other financial expense, other than the above, mainly includes discounts of a financial nature for short-term client payments (up by € 412 thousand with respect to 2018) and to charges on financial transactions (up by € 895 thousand with respect 2018), as well as the portion accruing during the year for commissions paid in advance against short-term credit lines and commissions for non-use.

Following application of IFRS 16, financial expense recognised in 2019 amounted to € 158 thousand.

35) FINANCIAL INCOME

FINANCIAL INCOME €/000

	31 dec 2018	31 dec 2019	Change
Income from equity investments			
Dividends from other companies	49	49	-
	49	49	-
Other financial income			
Interest income from banks	132	52	(80)
Interest income from long-term receivables	5.159	4.381	(777)
Other financial income	340	194	(146)
Exchange gains	1.601	1.465	(136)
Exchange gains on P&L elisions	4	1	(4)
	7.235	6.093	(1.142)

Financial income amounted to € 6,142 thousand, compared to € 7,284 thousand the previous year and fell with respect to the previous year by € 1,142 thousand.

The decrease is mainly due to the decrease in interest income from factor transactions receivable relative to Burgo Factor. Exchange gains fell, going from € 1,601 thousand the previous year to € 1,465 thousand in 2019.

36) INCOME TAXES

Current taxes reflect the amount allocated relative to the regulations in effect in the various countries in which the Group operates.
Deferred tax assets and liabilities recognised in the annual profit and loss statement reflect the changes in the same occurring at the equity level, with respect to the previous year.

INCOME TAXES €/000

	31 dec 2018	31 dec 2019	Change
Current taxes - IRES	1.299	774	(525)
Current taxes - IRAP	2.441	2.650	209
Current taxes - foreign companies	4.563	2.193	(2.369)
Deferred tax assets/liabilities - IRES	1.670	1.212	(459)
Deferred tax assets/liabilities - IRAP	(714)	(328)	386
Deferred tax assets/liabilities - foreign companies	(7.804)	(1.038)	6.766
	1.455	**5.463**	**4.008**

By way of illustration, below are the nominal rates applied in each jurisdiction.

TAX RATES

	2019
Italy	27,90%
Belgium	29,58%
France	33,33%
Spain	28,00%
Great Britain	20,00%
Germany	32,97%
Poland	19,00%
United States of America	21,00%

For Belgium, the corporate tax reforms associated with Belgian Law 25/12/2017 (MB 29/12/2017) involved a reduction in the ISOC rate from 33.99% to 29.58% for 2018 and 2019, and a further reduction to 25% as of 2020, effective as of 1/1/2018.
Reconciliation of income taxes recognised in the annual profit and loss statement and theoretical taxes resulting from application of the tax rate in effect on before tax profit is as follows:

RECONCILIATION BETWEEN INCOME TAX AND THEORETICAL TAX €/000

	2019	
Before tax results for the year	**15.189**	
Theoretical tax (IRES) - Italian tax rate in effect: 24.0%		3.645
Current taxes (IRES) recognised in the financial statements		774
Deferred taxes (IRES) recognised in the financial statements		1.212
Current/deferred taxes, foreign companies		1.155
Total taxes recognised in the financial statements		**3.141**
Effective tax rate on before tax profit		20,7%
Current taxes (IRAP) recognised in the financial statements - 3.9% rate in effect		2.650
Deferred taxes (IRAP) recognised in the financial statements - 3.9% rate in effect		(328)
Total (IRAP) taxes recognised in the financial statements		**2.322**
Effective (IRAP) tax rate on before tax profit		15,3%
Total taxes recognised in the financial statements		**5.463**
Effective tax rate on before tax profit		36,0%

37) CONSOLIDATED SCHEDULE OF OTHER COMPONENTS OF THE COMPREHENSIVE PROFIT AND LOSS STATEMENT

The schedule presented on page 45 illustrates the economic result that would be achieved in the case that all changes in items directly attributed to shareholders' equity passed through the annual profit and loss statement and has been adjusted to the provisions of IAS 1, indicating through grouping the items which, upon the meeting of specific conditions, will be reclassified to profit (loss) for the year and, separately, those that will not be reclassified to profit (loss) for the year.

The Group presents the following items:

- year-end fair value adjustment of hedging derivatives. During the year, the gross variation was negative for € -2,355 thousand, which net of taxes (€ 657 thousand) is equal to € -1,698 thousand;
- adjustment of financial instruments to the market value at year end. At the end of the year, the parent company classified the Mediobanca shares held in its portfolio as FVOCI. During 2019, the change was positive for € 256 thousand (see note 8 for more details);
- profits and losses from discounting of defined benefit plans associated with defined benefit plans recognised within a specific shareholders' equity reserve: in 2019 losses of € -3,210 thousand were recognised which, net of tax effects of € 871 thousand, led to a negative change of € -2,338 thousand;
- the effects of translating the financial statements of foreign companies (€ 18 thousand).

Relations with related parties

Related party transactions, including infragroup transactions, are not classified as atypical or unusual, as they are part of the ordinary business of the Group's companies. These operations, when not completed under standard conditions or those dictated by specific regulatory provisions, are in any case carried out under market conditions.
Related party transactions (based on the definition in IAS 24) essentially involve the exchange of goods, the provision of services or the supply and use of financial means.
Below are the economic and equity effects of transactions with related parties for the consolidated figures of the Burgo Group at 31 December 2019.

RELATIONS WITH RELATED PARTIES

€/000

	Subsidiaries		Total financial statement items			
	31 dec 2018	31 dec 2019	31 dec 2018	%	31 dec 2019	%
Financial receivables and other non-current financial assets	2.800	2.800	2.800	100%	5.410	52%
Trade receivables	64.354	32.925	187.562	34%	123.527	27%
Other receivables and current assets	7.618	12.433	25.808	30%	33.139	38%
Financial receivables and other current financial assets	36.871	68.234	39.641	93%	73.265	93%
Non-current financial liabilities						
Current financial liabilities	(10.870)	(20.062)	(37.217)	29%	(84.446)	24%
Trade payables	(75.967)	(65.710)	(348.824)	22%	(283.814)	23%
Other payables and current liabilities	(2.507)	(4.873)	(29.162)	9%	(27.114)	18%
Economic relationships						
Revenues	272.010	175.932	1.211.963	22%	1.119.375	16%
Other income	12.950	4.646	43.662	30%	36.164	13%
Costs for materials and external services	(256.396)	(257.506)	(1.090.097)	24%	(963.218)	27%
Personnel expenses	-	-	(97.715)	0%	(87.307)	0%
Other operating costs	-	(4.416)	(20.113)	0%	(23.931)	18%
Financial expenses	(951)	(122)	(24.738)	4%	(25.845)	0%
Financial income	27.934	24.068	29.138	96%	25.301	95%
Income taxes	5.803	8.378	2.210	263%	3.380	248%

In addition the transactions reported above, at 31 December 2019 there were medium/long-term loans, interest rate and exchange rate hedging contracts and insurance policies covering industrial risks and civil liability with related parties, all stipulated at market conditions.

At 31 December 2019, loans with related parties amounted to a nominal € 253,973 thousand (€ 263,842 thousand at 31 December 2018).

Significant events after year end

During the first few months of 2020, after successful start up in January after the production conversion from graphic paper to containerboard, the Verzuolo paper making plant began production.
Starting in February 2020, in both Italy and throughout most of the world, countries began to suffer the initial effects of the new coronavirus (COVID-19) virus epidemic, which had begun to spread throughout continental China at the beginning of January 2020, subsequently transforming into a global pandemic and causing local slowdowns or shutdowns of certain economic activities and pushing the Italian government to adopt increasingly strict measures to avoid the spread of the virus. It should be noted that the Company took immediate action to protect the health of its employees.

Estimates calculated at 31 December 2019 were made on the basis of macroeconomic indicators relative to that date.
The current health emergency, which occurred after the end of the year, did not lead to any adjustments as at present no impacts have arisen of a significance which could compromise the business as a going concern or the Company's overall profitability.
At present we can report the following:

- turnover has not seen any significant negative impacts deriving from the current situation;
- credit positions are constantly monitored and currently there are no uncertain positions not already considered in the writedowns already seen in the financial statements;
- activities at the production plants and offices in Italy were not interrupted by the health emergency;
- activities as the production plants and offices of the foreign subsidiaries were suspended for several days in Belgium and for a yet undetermined amount of time at the commercial branch in the United States.

That said, the impact of the health emergency will be constantly monitored as it develops and will be considered in the Company's economic estimates throughout 2020.

Other information

FEES PAID TO EXECUTIVES WITH STRATEGIC RESPONSIBILITIES

Fees paid to executives with strategic responsibilities: fees paid to the Chairperson and CEO in 2019 totalled € 800 thousand.

RECONCILIATION STATEMENT OF PARENT COMPANY AND GROUP RESULTS

The statement below illustrates the connection between the shareholders' equity and results for the year of Burgo Group spa and the shareholders' equity and result for the year in the consolidated financial statements.

RECONCILIATION BETWEEN SHAREHOLDERS' EQUITY AND PARENT COMPANY AND CONSOLIDATED RESULT **€/000**

	'Shareholders' equity		'Profit/(loss) for the period	
	31 dec 18	31 dec 19	31 dec 18	31 dec 19
Parent Company Financial Statements	**396.915**	**408.236**	**7.736**	**11.720**
Elision of consolidated equity investments	(88.581)	(93.975)	29.044	19.127
Elimination of dividends from consolidated companies	-	-	(27.125)	(21.987)
Adjustments for adaptation to Group accounting standards	(375)	41	253	865
Consolidated Financial Statements	**307.959**	**314.301**	**9.909**	**9.726**

NUMBER OF EMPLOYEES

NUMBER OF EMPLOYEES

	Start of year	Year end	Average 2018	Average 2019
Executives	46	46	48	48
Office Workers	891	894	904	900
Manual Workers	2.600	2.467	2.652	2.464
	3.537	**3.407**	**3.604**	**3.412**

INDEPENDENT AUDITING FEES (ARTICLE 2427, PARAGRAPH 1, 16 BIS, ITALIAN CIVIL CODE)

COMPENSATION FOR STATUTORY AUDITING PURSUANT TO ARTICLE 2427, PARAGRAPH 1, NO. 16 BIS, ITALIAN CIVIL CODE €/000

	2019 Financial Statements
Statutory auditing services for the annual accounts:	
Parent Company	117.700
Italian subsidiaries	118.776
Foreign subsidiaries	98.170
	334.646

DISCLOSURE FOR TRANSPARENCY IN PUBLIC SUBSIDIES, REQUIRED BY ITALIAN LAW 124/2017, ARTICLE 1, PARAGRAPHS 125-129, AS AMENDED.

Italian Law 124 of 2017 (the annual market and competition law) introduced new disclosure requirements relative to transparency in public subsidies received and granted, in article 1, paragraphs 125-129. The following schedule provides information about grants and other economic advantages received from Italian public administrations during 2019. For the purposes of the consolidated financial statements, only information with regards to Italian companies is provided.

SUBSIDISED RATE LOANS

Granting entity	Purpose	Subsidised rate	Amount financed
FinPiemonte	Grant for the Verzuolo plant project		Total amount disbursed in 2019 was **€** 111 thousand, total spending amounts to **€** 140 thousand.
UbiBanca (as the agent of Cassa depositi e prestiti) through Banco di Sardegna	Subsidised loan, Law FIT 46/82, Sora plant	Annual fixed rate 0.50%	The loan was disbursed on 27/05/2019 for **€** 2,963 thousand. The residual value to be repaid as of 31/12/2019 was **€** 2,754 thousand.
UbiBanca (as the agent of Cassa depositi e prestiti) through Banco di Sardegna	Loan at market rates, Law FIT 46/82, Sora plant	Annual rate 2.75% + Euribor 6M	The loan was disbursed on 27/05/2019 for **€** 329 thousand. The residual value to be repaid as of 31/12/2019 was **€** 329 thousand.
FVG Region through Mediocredito	Investment initiative, Italian Law 908/1955	Euribor 6M reduced by 20%, floor of 0.85%	The loan was disbursed on 26/05/2016 for **€** 1,767 thousand. The residual value to be repaid as of 31/12/2019 was **€** 792 thousand.
FVG Region	Contribution FVG R&D Tolmezzo n.732		The contribution was disbursed in previous years for **€** 283 thousand.

OTHER INFORMATION

Note that on the basis of the most authoritative interpretations of the stated law, any payments, general measures or tax subsidies which can be used by all companies or generally by companies within specific sectors, such as the paper sector or sector of heavy energy user companies, were not considered.
While the Group holds that these stances are appropriate, it also decided to indicate the following contributions which can be enjoyed by all companies in these financial statements:
- energy efficiency certificates for € 17,731 thousand;
- hydroelectric energy production incentives for € 1,707 thousand.

The amounts indicated in the disclosure above are also shown in the financial statements of the relevant Group companies.

Information about the financial risk management policy

The following information, pursuant to current accounting standard IFRS 7, is aimed at illustrating the impact that financial instruments have on the amount of risk exposure, providing details on measurements and mechanisms that the Group has implemented to manage this exposure.

SIGNIFICANCE OF FINANCIAL INSTRUMENTS RELATIVE TO THE EQUITY AND FINANCIAL SITUATION AND ECONOMIC RESULT

Below is information regarding the significance of financial instruments relative to the consolidated equity situation and the consolidated economic result is provided separately.

SIGNIFICANCE OF FINANCIAL INSTRUMENTS TO THE EQUITY AND FINANCIAL SITUATION

The table shows the book value recognised for each financial asset and liability in the consolidated profit and loss statement and the fair value for each.

FINANCIAL INSTRUMENTS €/000

	31 dec 2018		31 dec 2019	
	Book value	Fair value	Book value	Fair value
Financial assets available for sale	774	774	1.030	1.030
Trade receivables and other receivables	327.790	327.790	273.516	273.516
Financial receivables	94.021	94.021	80.890	80.890
Cash and cash equivalents	60.826	60.826	47.283	47.283
Assets	1.915	1.915	3.280	3.280
Liabilities	(149)	(149)	(4.053)	(4.053)
Lending from banks	(200.157)	(218.742)	(205.582)	(209.091)
Right of use liabilities	(293)	(293)	(7.789)	(7.789)
Loans from associated companies	(263.845)	(292.383)	(253.976)	(280.642)
Bonds and converting loans	(102.500)	(117.472)	(109.750)	(124.981)
Trade payables and other payables	(485.164)	(485.164)	(419.612)	(419.612)
Payables due to banks	(79.655)	(79.655)	(46.869)	(46.869)
	(646.435)	**(708.529)**	**(641.632)**	**(687.038)**

Note that the values shown under the item "derivatives" include all derivatives recognised using hedge accounting rules, regardless of the type of risk covered.
The analysis below shows the portion of derivatives designated as hedges against the specific risk analysed, on a case by case basis.
In particular, in analysing liquidity risk, only derivatives which hedge against financial liabilities are included, excluding positions which hedge against commodity risk.
After summarising the criteria and financial models used to estimate the fair value of the financial instruments shown above, further details will be provided about the individual financial items.

DERIVATIVES

IIn general, the fair value of derivatives is determined on the basis of market prices, if available.
If this reference is not available/accessible, fair value estimates are made on the basis of standard financial algorithms.
In particular, the fair value of forward exchange rate derivatives is calculated by discounting the difference between the contractual price and the end price, redetermined on the basis of market conditions on the reporting date.
For interest rate derivatives, different models are used based on the type of instrument being evaluated. In particular:

- For interest rate swaps, the discount cash flow model is used. Fair value is determined by discounting estimated future cash flows on the basis of interest rate conditions at the reporting date;
- The Black & Scholes model is used for collars. Use of this model is common practice and makes it possible to assess the fair value of the option, quantifying the probability of receiving a positive payoff.

For commodity derivatives, the discount cash flow model is used, estimating future cash flows on the basis of market prices available at the reporting date.

DETAILS ON MARKET RISK HEDGING INSTRUMENTS

Among commodity exposures, price risk deriving from volatility in electricity purchase prices was partially managed through the establishment of commodity swaps and futures, recognised based on hedge accounting rules, and in part through setting prices with counterparties, while price risk relative to gas was managed through fixed price contracts.
As shown in the table "financial instruments", the fair value of derivatives generated financial receivables of € 3.3 million (€ 1.9 million the previous year) and financial payables for € -4.1 million (€ -0.2 million the previous year).

INVESTMENTS IN EQUITY INSTRUMENTS

The fair value of equity instruments held to maturity and financial assets held for sale is determined on the basis of official stock market listings obtained on the reporting date

DEBT SECURITIES

The value of debt securities is calculated by adding together the current values, determined on the reporting date, of all future cash flows, including capital and interest. To quantify the portion of interest held in indexed instruments, the rate curve available at the reporting date was used.

CAPITAL MANAGEMENT

No particular risks nor significant information was identified relative to capital management.

FINANCIAL ASSETS

The tables below provide a breakdown of financial assets.

NON-CURRENT FINANCIAL ASSETS €/000

	31 dec 2018	31 dec 2019
Loans and receivables	8.028	9.196
	8.028	**9.196**

CURRENT FINANCIAL ASSETS €/000

	31 dec 2018	31 dec 2019
Loans and receivables	413.784	345.210
Cash and cash equivalents	60.826	47.283
Financial assets FVOCI	774	1.030
Current derivative assets	1.579	3.273
Financial assets for derivatives, current	335	7
Current derivatives	1.915	3.280
	477.300	**396.803**

Receivables and loans include trade receivables, factoring business, temporary cash deposits, guarantee deposits and other receivables and receivables due from social security institutions and tax authorities.
Financial assets at FVOCI represent shares listed on the Milan stock market.

FINANCIAL LIABILITIES

The table below provides a breakdown of financial liabilities.

NON-CURRENT FINANCIAL LIABILITIES

€/000

	31 dec 2018	31 dec 2019
Lending from banks	(189.568)	(194.834)
Loans from associated companies	(251.935)	(242.066)
Non-current bonds	(1.250)	(8.500)
Converting loan	(100.000)	(100.000)
Right of use liabilities	(179)	(5.699)
Other payables	(3.171)	(811)
	(546.103)	**(551.911)**

CURRENT FINANCIAL LIABILITIES

€/000

	31 dec 2018	31 dec 2019
Lending from banks	(10.589)	(10.748)
Loans from associated companies	(11.910)	(11.910)
Bonds	(1.250)	(1.250)
Derivatives	(149)	(4.053)
Right of use liabilities	(114)	(2.090)
Payables due to banks	(79.127)	(46.299)
Trade payables and other payables	(482.520)	(419.371)
	(585.659)	**(495.721)**

OTHER ADDITIONAL INFORMATION

The Group did not carry out any reclassification of financial assets, changing the measurement criteria relative to the same. As a consequence, no remeasurement was done. Additionally, no assets were transferred that did not involve elimination from the accounts.

CREDIT RISK

This section describes credit risk exposures and methods used to manage them in qualitative and quantitative terms.

RISK EXPOSURE

As of the reporting date, the Group's exposure to credit risk was as follows:

EXPOSURE TO CREDIT RISK

€/000

	31 dec 2018	31 dec 2019
Financial assets FVOCI	774	1.030
Trade receivables and other receivables	421.722	354.368
Cash and cash equivalents	60.916	47.321
	483.413	**402.720**

TRADE RECEIVABLES AND IMPAIRMENT OF RECEIVABLES

Positions are subject to individual impairment when an objective situation of partial or full non-collectability is determined, if individually significant. Relative to receivables not subject to individual impairment, provisions are allocated on a collective basis, taking historical experience and statistical data into account.
Changes in the provision for impairment of trade receivables are summarised in the table below.

PROVISION FOR IMPAIRMENT OF FINANCIAL ASSETS

	31 dec 2018	31 dec 2019
Balance at start of period	(55.558)	(59.729)
Uses	3.314	6.614
Provisions	(3.100)	(6.971)
Other changes	(4.384)	4
	(59.729)	**(60.082)**

CONCENTRATION OF CREDIT RISK

As of the reporting date, the Company's exposure to credit risk was as follows:

BREAKDOWN OF RISK BY CUSTOMER TYPE €/000

	31 dec 2018	31 dec 2019
End consumers	195.053	153.782
Retailers	3.514	3.277
Stock exchange	6.218	1.663
Wholesalers	38.393	28.647
Printers	53.218	49.389
Publishers	5.074	3.654
Credit institutions	60.916	47.321
Tax authorities	8.793	17.151
Others	120.482	106.076
	491.661	**410.961**

CREDIT RISK MANAGEMENT METHODS

TRADE RECEIVABLES AND OTHER RECEIVABLES

Within the context of its normal credit management activities through the dedicated department, the Group has instituted an internal credit risk management process with the aim of defining every customer's creditworthiness and carefully monitoring credit limits and overdue items. Regarding measurement of creditworthiness, functional to assignment of credit and the creation of commercial relationships, internal procedures require the collection and analysis of qualitative and quantitative information. Customer credit levels are periodically reviewed using a process that also makes use of historic solvency information. Customers are classified based on a two level scoring system, that differentiates between reliable and non-reliable customers. At-risk customers are subject to strict controls and any future orders are only fulfilled after approval by the Credit Committee. Risk control is based on constant analysis of customers with overdue items or who have exceeded their credit limits, monitored daily for application of corrective actions, which range from blocking orders to legal action.

FINANCIAL INVESTMENTS

The Group limits its exposure to credit risk by exclusively investing in securities with high liquidity and only with counterparties recognised as reliable by the market. At 31 December 2019 its exposure to securities referred to its Mediobanca shares.

GUARANTEES

Group policies allow for the issuing of financial guarantees for associated companies.

MARKET RISK

Market risk is defined as the possibility that the fair value or cash flows associated with a given financial instrument fluctuate as a consequence of changes in market variables, such as exchange rates, interest rates, raw materials prices or stock market prices.
The market risk to which the Group was exposed during the year just ended can be classified as follows:
- Price risk for equity instruments and other listed securities;
- Exchange risk;
- Interest rate risk;
- Commodity risk.

Below is an analysis of the significance of these risks and the methods used to manage them.

PRICE RISK FOR EQUITY INSTRUMENTS AND OTHER LISTED SECURITIES

All equity investments held by the Company are shares listed on the Milan stock market, within the FTSE-MIB index, representing Mediobanca risk capital.
The amount of Mediobanca shares, 105,000 units, did not change with respect to the previous year.
Below is a table summarising the exposure of the above within the financial statements.

SHARES AND FUNDS €/000

	31 dec 2018	31 dec 2019
Shares	774	1.030
	774	**1.030**

SENSITIVITY ANALYSIS RELATIVE TO EQUITY RISK

The shares held in the portfolios of Group companies are significantly correlated with the FTSE MIB index, as they are listed on the same stock market.
Sensitivity analysis was done hypothesising a +/-10% change in the value of the indices. This analysis led to a fair value change of the securities in the portfolio of € +0.16 million (€ +0.01 million in 2018) and of € -0.07 million (€ +0.05 million in 2018). All effects would be seen in shareholders' equity.
Exposure to risk relative to changes in stock market prices remained unchanged in 2019 with respect to the previous year.

EQUITY RISK MANAGEMENT METHODS

GENERAL ASPECTS

In the context of its investment activities, the Group purchases equity investments for investment purposes. In this context, the Group may carry out financial hedging transactions relative to the portion of assets held for possible sale. The general objectives of a hedging transaction therefore involve stabilising the value of the investment, neutralising the effects generated by market variability. During the year, the Group did not establish any hedges of this type.

EQUITY RISK MANAGEMENT POLICIES

Hedges are organised with reference to pre-established development strategies and with the aim of minimising exposure to unfavourable trends on the market, stabilising the impact on the annual profit and loss statement.

EXCHANGE RISK

The Group holds some of its trade receivables/payables in currencies other than the euro, and also has short-term loans in foreign currencies.
The exchange risk management policy establishes that derivatives should only be used to hedge against risk. Derivatives existing at 31 December 2019 used to manage exchange risk include only futures contract to purchase/sell foreign currencies. Even if these serve hedging purposes, these derivatives are not recognised using hedge accounting, as the rigidity of this treatment would negative impact the operational efficiency of the hedges.
The foreign currencies used by the Group are CHF, JPY, AUD, GBP and USD, with the final three representing almost the entirety of trade items in foreign currencies.

SENSITIVITY ANALYSIS RELATIVE TO EXCHANGE RISK

In order to measure the possible effects of changes in the exchange rate obtained at the reporting date on the consolidated balance sheet and annual profit and loss statement, a variation in the value of the euro with respect to the reference foreign currencies at 31 December 2019 was hypothesised.
Specifically, a 10% upward and downward shock in the euro exchange rate was applied, recognising the additional profit or loss with respect to the market scenario to risky items, which in this case were represented by trade payables and receivables and exchange rate derivatives.
Since the exchange rate derivatives are not recognised using hedge accounting, the impact of these transactions - similar to trade payables/receivables - is seen solely in the profit or loss for the year and hence in the annual profit and loss statement.
The net impact on the result from the year deriving from a +/- 10% shock would have been, respectively, € -1,083 thousand (€ -313 thousand in 2018) and € +1,323 thousand (€ +389 thousand in 2018).

EXCHANGE RISK MANAGEMENT METHODS

In relation to sales activities, the Group makes purchases and sales other currencies, at present mainly in USD and GBP. Therefore, hedging policies are mainly focussed on stipulating futures contracts against the euro.
Additionally, other currencies are periodically monitored, which may be used in invoices on a continuous or occasional basis.

GENERAL ASPECTS

Hedges are carried out on the basis of estimates of future financial flows in currencies on the basis of invoices payable and receivable, and taking budget and/or forecasts into account.

EXCHANGE RISK MANAGEMENT POLICIES

The special nature of the Group's business allows it to make forecasts relative to financial issues relative to flows in foreign currencies.
Estimates of flows must meet all the formal requirements relative to amount, currency, date of manifestation and status relative to the probability of manifestation, necessary when producing exposure measurements.
Exchange risk hedging transactions are carried out in compliance with cash flow hedge principles, which amount to neutralising the effects induced by changes in the exchange rate on the value in euro of cash flows denominated in foreign currencies.
Hedging policies are managed exclusively through the use of forward contracts and options relative to exchange rates, to guarantee more flexible coverage with respect to forward contracts. Currently, exposure to exchange rate derivatives falls within the forward category.

INTEREST RATE RISK

Financial liabilities which expose the Group to interest rate risk are medium/long-term variable rate loans.
These assets are classified as "held to maturity" and do not generate effects on the annual profit and loss statement/consolidated balance sheet if not due to effects of cash flows received (financial income) or any lasting losses of value which make recognition of impairment necessary.
The table below identifies positions subject to interest rate risk.

POSITIONS WITH INTEREST RATE RISK €/000

	31 dec 2018	31 dec 2019
Fixed rate financial instruments		
Fixed rate loans	(5.071)	(26.876)
	(5.071)	**(26.876)**
Variable rate financial instruments		
Financial assets		
Non-current guarantee deposits	3.538	4.944
Financial instruments with positive FV	1.915	3.280
Loans to others	4.382	4.158
Financial liabilities		
Derivatives with negative FV	(149)	(4.053)
Variable rate loans	(561.721)	(546.690)
Current account advances	(79.655)	(46.869)
Financial leasing	-	(3.129)
	(635.228)	**(593.304)**
	(640.299)	**(620.180)**

SENSITIVITY ANALYSIS RELATIVE TO INTEREST RISK

Analysis was done to determine the impacts of a +/- 100 basis point shift in the estimated interest rate curve at 31 December 2019 on the annual profit and loss statement and consolidated balance sheet.
Analysis was done supposing that the other variables, in particular exchange rates, remained constant and was done using the same suppositions as in 2019.
In each curve scenario, and limited to derivatives subject to hedge accounting rules, an after the fact efficacy test was done to quantify the impact on shareholders' equity (efficacy component) and on the results for the year (any inefficacy component). In every case, for non-linear derivatives (collar) the time value change with respect to the effective market scenario was recognised in the annual profit and loss statement.
In order to determine the impacts of asset and liability items indexed at variable rates on the result for the year, a shock was also applied to cash flows effectively paid during the administrative period. These analyses made it possible to identify the greater financial expense/income that would have been recorded in the annual profit and loss statement if interest rates had been 100 bps higher or lower than those actually recorded.
The impact on the annual profit and loss statement deriving from a +/- 100 bps shock would have been, respectively, € -3.8 million and € +0.1 million (in 2018: € -3.7 million and € +0.1 million). The effect on shareholders' equity was null in that there are not financial liabilities relative to derivatives.

INTEREST RISK MANAGEMENT METHODS

GENERAL ASPECTS

In the context of its own economic production, which is capital intensive, the Group makes investments for production purposes by taking out loans. In this context, it carries out cash flow hedge transactions, which serve to neutralise the effects of an increase in the rates on the cost the Group must pay to service its debts. The general objectives of a hedging operation therefore can be summarised as transforming the cost of a variable rate debt to the cost of a fixed rate debt, or to reduce the extent to which it is variable.

INTEREST RISK MANAGEMENT POLICIES

Medium/long-term hedges are organised on the basis of projections over a multi-year period prepared on the basis of economic and financial budgets and cash flow projections, as well as the net financial position. The amount hedged may vary between 30% to 100% of the notional value of the instrument hedged and be structured for a period of time that in general ranges from a minimum of 3 years to a maximum of 10 years.

COMMODITY RISK

Commodity price risk derives from purchases and sales of electricity and gas.

FUEL PRICE RISK

In order to supply its various plants with the electricity necessary for production, the Group has various contracts to purchase gas. Given the variable nature of the price of the commodity, the Group suffers risk deriving from fluctuations in the supply prices which it can partially protect itself from by setting prices with counterparties.
At 31 December 2019, the company had gas purchases with the following characteristics in effect:

- Fixed price purchases;
- Variable price purchases on the basis of the spot gas price recorded on the Italian PSV market;
- Variable price purchases on the basis of the spot gas price recorded on the European TTF market.

Hedging derivatives for fuel and electricity price risk
Within exposures to commodities, price risk deriving from an imbalance between indexed purchases and sale was in part managed during the year through the subscription of a commodity swap. Use of derivatives was made by applying hedge accounting methodology, in accordance with that established in IAS 9.
Financial instruments used were of a type that made it possible to recognise them as a cash flow hedge.

SENSITIVITY ANALYSIS RELATIVE TO COMMODITY RISK

A change in the coverage provided by the cash flow hedge, following a 10% increase or decrease in the reference indexes, would create an impact, respectively, of € +1,761 thousand or € -1,761 thousand on shareholders' equity (€ 677 thousand and € -677 thousand respectively at 31/12/2018).

COMMODITY RISK MANAGEMENT METHODS

GENERAL ASPECTS

The Group's strategic objective is to stabilise profit margins in terms of reducing risks associated with volatility in electricity purchase/sales prices and purchase prices of materials used in production processes, in order to minimise exposure to the correlated risk and losses. With an eye to continuously reducing loss risks, the Group has the simultaneous objective of minimising costs associated with obtaining its production factors.

When negotiating financial contracts for raw materials, the Group does not have the ability to take risk positions on the commodities market. These contracts will have the sole purpose of reducing the risk of an increase in the purchase prices of the production factors used in production processes.

Relative to risk monitoring, the Group applies a quantitative measure for risks, both with reference to analysing physical portfolio exposures to VaR analysis of trading activities, and when measuring the efficacy of derivatives negotiated for hedging purposes.

COMMODITY RISK MANAGEMENT POLICIES

Management of risks associated with oscillations in commodities prices involves several administrative departments, at the individual Group company level.

In determining its hedging strategy and with reference to the various types of supply contracts, the Group implements mitigation strategies with the objective of stabilising its profit margin.

With reference to the procedures used to estimate exposure to risks associated with commodities, the following elements are considered:

- nominal quantities, that it is the quantity recognised within physical and financial contracts;
- fair value/stop loss, that is the amount calculated on the basis of the current value of future financial flows generated by the contract as a function of price indexing rules. Stop loss identifies the largest sustainable loss in terms of fair value. In addition to this threshold, the position must also be closed with a symmetrical contract in the opposite direction;

- the change in the value of the position following a marginal variation in the price of energy (only for variable price contracts);
- the change in the value of the position following a marginal variation in the price of the fuels (only for indexed price contracts).

LIQUIDITY RISK

Liquidity risk is the risk that the Group will have difficulty complying with its future obligations relative to financial liabilities.
Risk analysis is done with the aim of quantifying cash flows deriving from the various types of financial liabilities held by the Group at 31 December 2019, at each contractual repayment date.
Financial liabilities have been broken down into non-derivative financial liabilities and derivative financial liabilities, based on their nature. For the latter, given the difference in accounting treatment, it was necessary to carry out a further classification based on whether or not the derivative is classified as a hedging instrument according on the accounting standards.
Relative to cash flow maturities, given the nature of the Group's monetary cycle it was held expedient to group payments into half-yearly payment buckets.
To quantify cash flows on liabilities index at variable rates, the measurement method based on forward interest rates implicit in the market rate curve was used.
For derivatives, the following approach was used:
- Collar: cash flows were estimated on the basis of the non-discounted fair value of individual caplets/floorlets.

Below is a summary of analysis done on derivative financial liabilities and non-derivative financial liabilities, providing a comparison between the situations at 31 December 2018 and 31 December 2019.

31/12/2018 €/000

	Book value	Contractual financial flows	6 months or less	6-12 months	1-2 years	2-5 years	more than 5 years
Non-derivative financial liabilities:							
Loans	566.502	631.253	5.277	25.395	60.082	540.499	-
Trade payables and other payables	485.164	663.011	660.478	-	2.533	-	-
Right of use liabilities	293	293	114	179	-	-	-
Derivative financial liabilities:							
Derivatives	1.766	1.535	1.535	-	-	-	-
	1.052.107	**1.292.907**	**664.220**	**25.573**	**62.615**	**540.499**	**-**

31/12/2019 €/000

	Book value	Contractual financial flows	6 months or less	6-12 months	1-2 years	2-5 years	more than 5 years
Non-derivative financial liabilities:							
Loans	569.308	603.644	4.154	24.188	573.478	1.561	263
Trade payables and other payables	419.612	486.825	486.825	-	-	-	-
Right of use liabilities	7.789	7.789	1.099	992	2.949	1.896	854
Derivative financial liabilities:							
Derivatives	4.053	4.053	2.026	2.026	-	-	-
	1.007.502	**1.175.413**	**567.379**	**26.559**	**576.087**	**4.020**	**1.369**

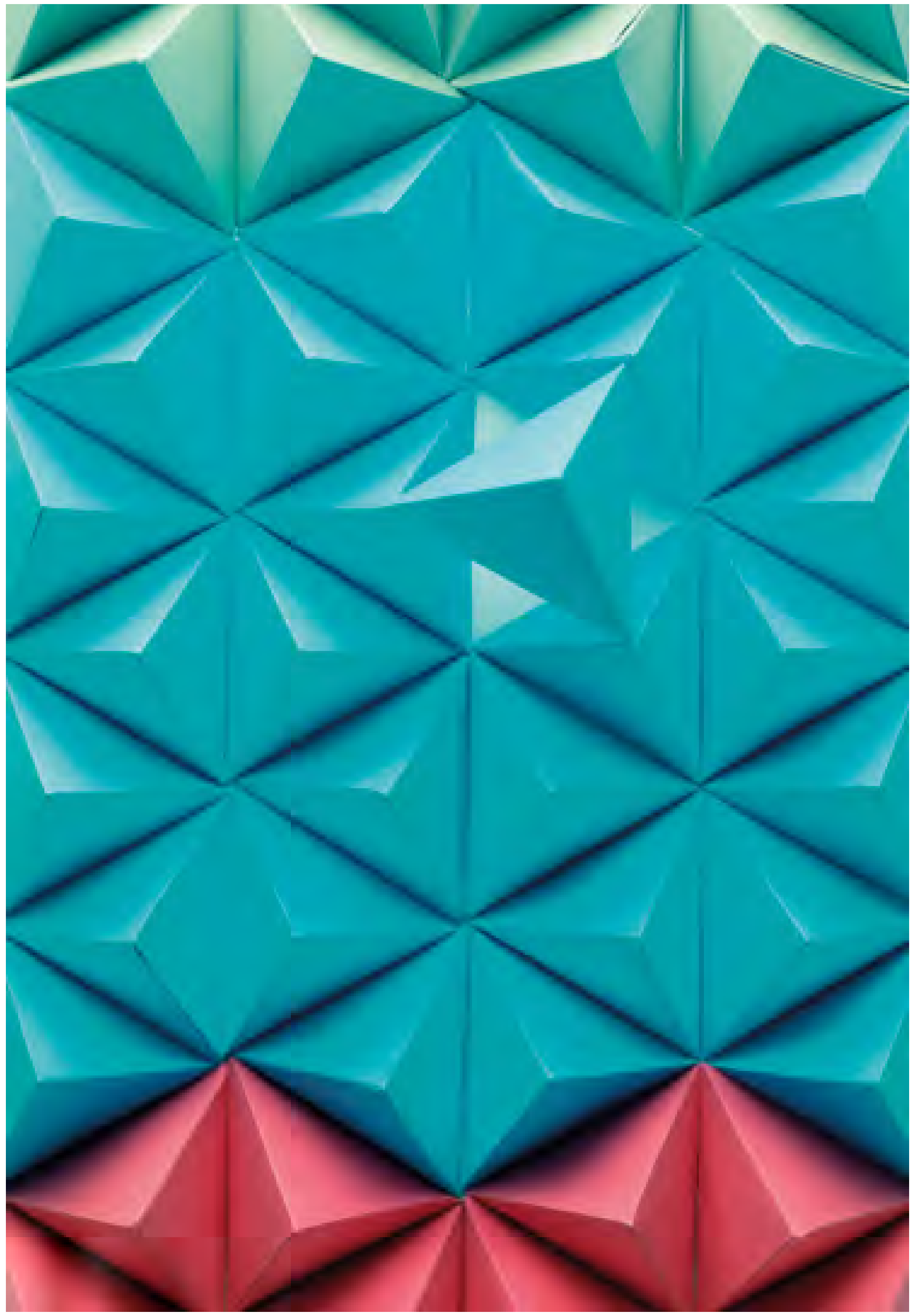
LIQUIDITY RISK MANAGEMENT METHODS

GENERAL ASPECTS

The Group's approach to liquidity management is aimed at guaranteeing, as much as possible, that there are always sufficient funds available to comply with obligations when maturity dates are reached.

LIQUIDITY RISK MANAGEMENT POLICIES

The Group performs liquidity analysis as a function of budget forecasts, determining short, medium and long-term cash flows. Estimates are periodically reviewed to ensure there is adequate on demand cash and cash equivalents to cover operating expenses forecast for the short term (around 3 months). For short-term financial needs, at 31.12.2019 credit lines were available totalling around € 233.5 million, used for current account payables and short-term financing for around 26% of the total. For long-term financial requirements, the Group has loans of € 566 million.



Report of the independent auditing firm

EY
Building a better working world

Burgo Group S.p.A.

Consolidated financial statements as at December 31, 2019

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010

EY S.p.A.
Via Isonzo, 11
37126 Verona

Tel: +39 045 8312511
Fax: +39 045 8312550
ey.com

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010

To the Shareholders of
Burgo Group S.p.A.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Burgo Group S.p.A. (the Group), which comprise the consolidated statement of financial position as at December 31, 2019, the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flows statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Responsibilities of Directors and Those Charged with Governance for the consolidated Financial Statements

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and, within the terms provided by the 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, when preparing the consolidated financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the consolidated financial statements on a going concern basis unless they either intend to liquidate the Parent Company Burgo Group S.p.A. or to cease operations, or have no realistic alternative but to do so.
The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Group's financial reporting process.

EY S.p.A.
Sede Legale: Via Lombardia 31, 00187, Roma
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REPORT OF THE INDIPENDENT AUDITING FIRM

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in 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 International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of 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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- we have obtained sufficient appropriate audit evidence regarding the financial information of the entities 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 have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010

The Directors of Burgo Group S.p.A. are responsible for the preparation of the Report on Operations of the Group as at December 31, 2019, including its consistency with the related consolidated financial statements and its compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations, with the consolidated financial statements of the Group as at December 31, 2019 and on its compliance with the applicable laws and regulations, and in order to assess whether it contains material misstatements.

In our opinion, the Report on Operations is consistent with the consolidated financial statements of the Group as at December 31, 2019 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Verona, May 25, 2020

EY S.p.A.

Signed by: Daniele Tosi, Auditor

This report has been translated into the English language solely for the convenience of international readers.

3. Explanatory notes to the individual financial statements

Balance Sheet

STATEMENT OF EQUITY/FINANCIAL POSITION: ASSETS €

	Note	31 dec 2018	31 dec 2019	Change
Non-current assets		**982.818.874**	**1.011.559.822**	**28.740.948**
Property, plant and equipment		**478.734.645**	**460.193.824**	**(18.540.820)**
Property, plant and equipment	1	478.344.601	456.755.661	(21.588.941)
Property investments	1	390.044	335.690	(54.354)
Right of use assets	1	-	3.102.474	3.102.474
Intangible assets		**12.758.460**	**13.207.570**	**449.110**
Goodwill and other intangible assets with undefined life	2	10.836.969	10.836.969	-
Intangible assets with defined life	2	1.921.491	2.370.601	449.110
Other non-current assets		**428.295.904**	**474.795.137**	**46.499.233**
Equity investments in subsidiaries	3	412.442.684	451.159.584	38.716.900
Equity investments in other companies	3	9.661.533	13.599.650	3.938.117
Financial receivables and other non-current financial assets	3	2.800.000	5.410.391	2.610.391
Other receivables and non-current assets	3	3.391.688	4.625.512	1.233.824
Deferred tax assets		**63.029.866**	**63.363.291**	**333.425**
Deferred tax assets	4	63.029.866	63.363.291	333.425
Current assets		**438.551.090**	**382.147.239**	**(56.403.852)**
Inventories	5	134.412.757	106.977.437	(27.435.320)
Trade receivables	6	187.562.277	123.527.025	(64.035.252)
Other receivables and current assets	7	25.807.533	33.139.115	7.331.582
Equity investments	8	774.480	1.030.470	255.990
Financial receivables and other current financial assets	9	39.641.251	73.265.174	33.623.923
Cash on hand and other cash equivalents	10	50.352.792	44.208.018	(6.144.774)
Total asset		**1.421.369.964**	**1.393.707.060**	**(27.662.904)**

STATEMENT OF EQUITY/FINANCIAL POSITION: LIABILITIES €

	Note	31 dec 2018	31 dec 2019	Change
Shareholders' equity		**396.915.090**	**408.236.090**	**11.321.000**
Share capital	11	20.000.000	20.000.000	-
Reserves	11	350.914.893	350.515.621	(399.272)
Accumulated profits (losses)	11	18.264.139	26.000.197	7.736.058
Profit (loss) for the year	11	7.736.058	11.720.272	3.984.214
Non-current liabilities		**604.455.066**	**586.141.653**	**(18.313.413)**
Non-current financial liabilities	12	539.872.055	527.290.440	(12.581.616)
Severance indemnities and other provisions related to personnel	13	27.013.414	21.346.741	(5.666.673)
Provisions for risks and charges	14	35.036.978	37.504.472	2.467.494
Other payables and non-current liabilities	15	2.532.618	-	(2.532.618)
Current liabilities		**419.999.809**	**399.329.318**	**(20.670.492)**
Current financial liabilities	16	37.217.114	84.445.507	47.228.393
Trade payables	17	348.824.109	283.813.938	(65.010.171)
Payables for current taxes	18	4.796.498	3.955.623	(840.876)
Other payables and current liabilities	19	29.162.088	27.114.250	(2.047.838)
Total shareholders' equity and liabilities		**1.421.369.964**	**1.393.707.060**	**(27.662.904)**

Profit and loss statement for the year

PROFIT AND LOSS STATEMENT FOR THE YEAR

€

	Note	31 dec 2018	31 dec 2019	% Change
Revenues	21	1.211.963.093	1.119.375.324	-7,6%
Other income	22	43.662.056	36.164.363	
Total operating revenues and income		**1.255.625.149**	**1.155.539.687**	**-8,0%**
Costs for materials and external services	23	(1.090.097.298)	(963.218.473)	
Personnel expenses	24	(97.715.205)	(87.307.309)	
Other operating costs	25	(20.113.434)	(23.930.583)	
Change in inventories	26	30.313.448	(9.774.076)	
Capitalised costs for internal work	27	517.495	563.020	
Total operating costs		**(1.177.094.994)**	**(1.083.667.421)**	**-7,9%**
EBITDA		**78.530.155**	**71.872.266**	**-8,5%**
Depreciation and amortisation	28	(56.313.520)	(48.347.920)	
Capital gains/losses on disposal of non-current assets	29	1.940.849	(1.456.832)	
EBIT before non-recurring expenses and income		**24.157.484**	**22.067.513**	
Writebacks/writedowns of non-current assets	30	(22.603.453)	(10.805.133)	
Income/expenses of a non-recurring nature	31	(427.064)	(577.221)	
Net restructuring expenses	32	-	(1.800.000)	
Operating result		**1.126.966**	**8.885.158**	
Financial expenses	33	(24.738.427)	(25.845.312)	
Financial income	34	29.137.563	25.300.814	
Profit/(loss) before tax		**5.526.102**	**8.340.660**	
Income taxes	35	2.209.956	3.379.611	
Profit/(loss) for the period		**7.736.058**	**11.720.272**	**51,5%**

SCHEDULE OF OTHER COMPONENTS OF THE COMPREHENSIVE PROFIT AND LOSS STATEMENT

€

	Note	31 dec 2018	31 dec 2019	% Change
A - Profit (loss) for the period		**7.736.058**	**11.720.272**	**51,5%**
Other components of the comprehensive profit and loss statement:		-	-	
Other components of the comprehensive profit and loss statement to be subsequently reclassified in the annual profit and loss statement:		-	-	
Net (loss) profit from cash flow hedge	36	-	(35.750)	
Income taxes	36	-	9.974	
		-	(25.776)	
Net (loss) profit from financial assets FVOCI	36	(218.820)	255.990	
		(218.820)	255.990	
B- Total other components of the comprehensive profit and loss statement to be subsequently reclassified in the annual profit and loss statement net of taxes		**(218.820)**	**230.214**	
Other components of the comprehensive profit and loss statement not to be subsequently reclassified in the annual profit and loss statement:				
(Losses) gains from discounting of defined benefit plans	36	610.606	(828.271)	
Income taxes	36	(146.530)	198.785	
		464.076	(629.486)	
C- Total Other components of the comprehensive profit and loss statement not to be subsequently reclassified in the annual profit and loss statement net of taxes		**464.076**	**(629.486)**	
D - Total other components of the comprehensive profit and loss statement net of taxes (B + C)		**245.256**	**(399.272)**	
E - Total comprehensive profit (loss) net of taxes (D +A)		**7.981.313**	**11.321.000**	**41,8%**

Statement of Changes in Shareholders' Equity

CHANGES IN SHAREHOLDERS' EQUITY **€/000**

	Share capital	Legal reserve	Non-distributable reserve from share capital reduction	IAS reserve	Reserve for equity financial instruments	Non-distributable exchange gains reserve	Other reserves	Undistributed profits - Carried forward	Result for the year	Total
Balances at start of previous period (*)	**20.000**	**13.149**	**138.797**	**(2.675)**	**200.000**	**125**	**238**	**16.729**	**2.690**	**389.054**
Destination of result - distribution of dividends	-	-	-	-	-	1.155	-	1.536	(2.690)	-
Net change profits (losses) directly recognised in shareholders' equity	-	-	-	245	-	-	-	-	-	245
Other changes in shareholders' equity	-	-	-	(120)	-	-	-	-	-	(120)
Exchange differences from translation of foreign financial statements	-	-	-	-	-	-	-	-	-	-
Profit/(loss) for the period	-	-	-	-	-	-	-	-	7.736	7.736
Balances at end of previous period (*)	**20.000**	**13.149**	**138.797**	**(2.550)**	**200.000**	**1.280**	**238**	**18.264**	**7.736**	**396.915**
Destination of result - distribution of dividends	-	-	-	-	-	-	-	7.736	(7.736)	-
Net change profits (losses) directly recognised in shareholders' equity	-	-	-	(399)	-	-	-	-	-	(399)
Other changes in shareholders' equity	-	-	-	-	-	-	-	-	-	-
Exchange differences from translation of foreign financial statements	-	-	-	-	-	-	-	-	-	-
Profit/(loss) for the period	-	-	-	-	-	-	-	-	11.720	11.720
Balances at period end	**20.000**	**13.149**	**138.797**	**(2.949)**	**200.000**	**1.280**	**238**	**26.000**	**11.720**	**408.236**

For comments on the changes in shareholders' equity, please see note 11 "shareholders' equity". See page 248.

Cash Flow Statement

CASH FLOW STATEMENT		€/000
	31 dec 2018	31 dec 2019
A - Net initial monetary availability	**51.648**	**71.320**
B- Monetary flow from operating activities		
Net profit (loss) deriving from operating activities	7.736	11.720
Amortisation, depreciation, write-downs and writebacks	78.917	59.153
Writedowns and writebacks of financial assets	-	360
Capital (gains) losses on disposal of non-current assets	(1.941)	1.457
Change in TFR and provisions for risks	2.929	1.166
Change in deferred tax assets and provision for deferred taxes	1.261	3.221
Profit (loss) for the period before changes in working capital	**88.902**	**77.078**
Change in inventories	(30.313)	9.774
Change in trade receivables	19.472	64.035
Change in trade payables	6.710	(65.010)
Change in other assets and liabilities	5.332	(14.552)
Change in net working capital	**1.201**	**(5.753)**
Total B- Monetary flow from operating activities	**90.103**	**71.324**
C - Monetary flow from investing activities		
Investments in property, plant and equipment	(42.957)	(62.700)
Other increases in property, plant and equipment	(4.768)	(4.295)
Investments in intangible assets	(797)	(876)
Change in equity investments	-	(4.298)
Revenues from sales of fixed assets	2.621	291
Total C - Monetary flow from investing activities	**(45.901)**	**(71.879)**
D - Monetary flow from financing activities		
Change in non-current securities and financial receivables	168	(2.610)
Change in financial receivables and other current financial assets	(269)	(2.259)
Change in current and non-current other non-financial liabilities	(432)	(20)
New loans	4.435	7.574
Repayment of loans	(28.312)	(22.016)
Repayment right of use assets	-	(874)
Changes in Shareholders' Equity	(120)	-
Total D - Monetary flow from financing activities	**(24.529)**	**(20.205)**
E - Monetary flow for the period (B + C + D)	**19.672**	**(20.760)**
Net final monetary availability (A + E)	**71.320**	**50.560**
Additional information:		
Interest received during the period	1.089	2.271
Interest paid during the period	(24.224)	(25.148)
Taxes paid during the period	-	2.698
Dividends received during the period	27.003	21.886

For the structure of final net monetary availability, please see note 10 "cash and other cash equivalents", which provides a reconciliation statement regarding cash and other cash equivalents.

General information

Burgo Group spa is an Italian company, registered with the Vicenza Business Registry (no.13051890153), with its registered offices in Altavilla Vicentina (prov. Vicenza), in via Piave 1. These draft financial statements were approved by the Board of Directors on 23 April 2020.

ACCOUNTING STANDARDS

The individual financial statements for Burgo Group spa at 31 December 2019 were prepared by applying the International Accounting Standards issued by the International Accounting Standard Board (IASB) and approved by the European Union, including among these the international subjects subject to interpretation (International Accounting Standards – IAS/IFRS) and interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) and the previous Standing Interpretations Committee (SIC).
The Company adopted the referenced accounting standards as of 1 January 2007, with reference to Italian Legislative Decree 38 of 28 February 2005, which implemented the option found within article 5 of Regulation EC 1606/2002.
During the year, the Company and the Group which it heads continued with the actions aimed at strengthening equity and restoring financial balance, necessary for the implementation of the Burgo 2020 Plan.
This gave rise to the financial balance plan, pursuant to article 67, paragraph 3, letter d of the Italian Bankruptcy Law, as envisaged in the agreement reached with the lending institutions.

FINANCIAL STATEMENT SCHEDULES

All that illustrated in the previous section is understood to be fully referenced here.
The profit and loss statement, other components of the comprehensive profit and loss statement and the Company's equity/financial situation are presented in euro, while the cash flow statement, statement of changes in shareholders' equity and the explanatory notes are presented in thousands of euro. In fact, the euro is the functional currency used by the Company, given that it is the currency used in the economies in which the Company operates.
The Company's fiscal year coincides with the calendar year (1 January - 31 December).
Preparation of the individual financial statements of Burgo Group spa and the accounting schedules required the following choices:

- **Balance sheet:** a form of representation was selected that distinguishes between current and non-current assets and liabilities, based on that allowed under paragraphs 60 and subsequent of IAS 1;
- **Consolidated Profit and Loss and Income Statement:** it was decided to classify items by nature, holding this the most representative with respect to presentation by destination. In fact, this complies with internal reporting and management methods and was therefore held to offer more reliable and significant information for the purposes of comprehending the profit (loss) for the year in question;
- **Cash flow statement:** this is structured on the basis of the indirect method.

The Company ended 2019 with profits of € 11.7 million (€ 9.7 million in consolidated profits), shareholders' equity of € 408.2 million (€ 314.3 million in consolidated shareholders' equity) and net financial debt of € 488.9 million (€ 491.7 million in consolidated net financial debt).
The consolidated financial situations were prepared using the general cost principle, with the exception of financial assets, measured in accordance with IFRS 9, and derivatives, measured at fair value.
Assets and liabilities and income and expense are not offset, unless this is allowed or required under an international accounting standard or interpretation.

Accounting standards and measurement criteria

The individual financial statements at 31 December 2019 were prepared in compliance with the IAS/IFRS accounting standards for preparing individual financial statements at 31 December 2018, taking into account the amendments and new standards which took effect as of 1 January 2019, listed below.

IFRS accounting standards, amendments and interpretations applied as of 1 January 2019

The following IFRS accounting standards, amendments and interpretations were applied for the first time by the Company as of 1 January 2019:

IFRS 16: on 13 January 2016 the IASB published standard IFRS 16 – Leases which replaced standard IAS 17 – Leases, as well as the interpretations IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases — Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The Standard provides a new definition of a lease and introduces a criteria based on the notion of control over an asset (right of use) to distinguish leasing contracts from contracts for the provision of services, identifying the following as discriminating factors: identification of the asset, the right to replace the same, the right to obtain substantially all economic benefits deriving from use of the asset and, finally, the right to direct the use of the asset underlying the contract. The Standard establishes a single model for recognising and measuring lease contracts for the lessee, which involves recognition of the asset underlying the lease in the assets, whether operational or not, and a matching entry in the form of a financial payable. The Standard does not introduce any significant changes for lessors. The change in the definition of lease mainly refers to the criteria based on control, "right of use". Under IFRS 16, a contract contains a lease if the client has the right to control use of an identified asset for a period of time in exchange for payment. This notion is different from the "risks and benefits" concept which receives significant attention in IAS 17 and IFRIC 4.
As of 1 January 2019, the Company decided to apply the standard using the modified retrospective method, without making any changes to comparison figures. More specifically, relative to leasing contracts previously classified as operating, the Company recognised: a) a right of use equal to the value of the financial liability as of the transition date, b) a financial liability, equal to the current value of residual future payments as of the transition date, discounted by using an average rate for each contract. The Company determined the value of rights of use for financial liabilities as of the transition date, net of any accruals or deferrals relative to the lease as of the transition date. In adopting the Standard, the Company made use of the practical expedients and exemptions provided for under paragraphs: i) 16.5(a) in relation to short- term contracts, for all asset classes (excluding leases with a duration of less than 12 months as of first time adoption from the scope of application), ii) 16.5(b) in relation to contracts with a value of less than € 5,000 and iii) 16.15 in relation to the possibility of not separating non-lease components. The Company did not adopt the Portfolio approach. The rate applying the leasing liabilities as of 1 January 2019 was 2.0%. Any leases previously classified as financial leases pursuant to IAS 17 were reclassified under rights of use.
From 1 January 2019 to 31 December 2019, application of the new standard had the following effects:

IFRS ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLIED AS OF 1 JANUARY 2019

€/000

	Effects at transition date 01/01/2019	Effects as of 31/12/2019
ASSETS		
Rights of use for commercial leases	376	333
Rights of use for residential leases	719	569
Rights of use for industrial leases	1.151	1.811
Rights of use for vehicle leases	360	314
Rights of use for IT contracts	144	75
TOTAL ASSETS	**2.750**	**3.102**
Financial leasing liabilities - portion beyond the year	-	2.278
Financial leasing liabilities - portion within the year	-	851
TOTAL LIABILITIES	**-**	**3.129**
COSTS		
Operating costs	-	(931)
Depreciation and amortisation	-	901
Financial expenses	-	58
RESULT FOR THE YEAR	**-**	**27**

As a whole, application of the new standard involved, as of 31 December 2019:

a) recognition of rights of use among property, plant and equipment for a total of € 3,102 thousand;
b) recognition of a financial liability totalling € 3,129 thousand;
c) worsening of the net financial position for € 3,129 thousand;
d) improvement of the gross operating margin for a total of € 931 thousand, deriving from the reversal of leasing and rental fees;
e) improvement of the gross operating profit for a total of € 30 thousand, deriving from the reversal of leasing and rental fees for € 931 thousand, counterbalanced by greater amortisation/depreciation of € 901 thousand;
f) worsening of financial management for € 58 thousand, deriving from recognition of greater financial expense.

On 12 December 2017, the IASB published the document "Annual Improvements to IFRSs 2015-2017 Cycle" which implements amendments to certain standards as part of the annual improvement cycle. The main changes involve:

IFRS 3 Business Combinations and IFRS 11 Joint Arrangements: the amendment clarifies that at the time an entity acquires control over a business which represents a joint operation, it must remeasure the equity investment previously held in the said business. This process is not required in the case joint control is obtained.

IAS 12 Income Taxes: the amendment clarifies that all tax effects linked to dividends (including payments for financial instruments classified within shareholders' equity) must be recognised in a manner consistent with the transaction which generated the profits (income statement, other comprehensive income or shareholders' equity).

IAS 23 Borrowing costs: the amendment clarifies that in the case of loans which continue to exist even after the relative qualifying asset is already ready for use or sale, these become part of the the combination of financing used to calculate the cost of the financing.

The adoption of this amendment had no effects on the Company's financial statements.

On 7 February 2018, the IASB published the document **"Plant Amendment, Curtailment or Settlement (Amendments to IAS 19).** The document clarifies how an entity should recognise a change (i.e. a curtailment or settlement) in a defined benefit plan. The amendments ask entities to update their hypotheses and remeasure the net liabilities or assets deriving from the plan. The amendments clarify that after the occurrence of such an event, an entity must use updated hypotheses to measure the current service cost and interest for the remainder of the reference period subsequent to the event. The adoption of this amendment had no effects on the Company's financial statements.

On 12 October 2017, the IASB published the document **"Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28).** The document clarifies the need to apply IFRS 9, including impairment requirements, to other long-term interests in associates and joint ventures relative to which the shareholders' equity method is not applied. The adoption of this amendment had no effects on the Company's financial statements.

On 7 June 2017, the IASB published the interpretation **"Uncertainty over Income Tax Treatments (IFRIC Interpretation 23)".** The interpretation deals with uncertainties regarding tax treatments to be adopted relative to income taxes. In particular, the Interpretations asks entities to analyse uncertain tax treatments (individually or as a whole, based on their characteristics) always assuming that the tax authorities will audit the tax position in question, with full knowledge of all relevant information. If an entity holds it is unlikely that the tax authorities would accept the tax treatment used, then it must reflect the effect of this uncertainty in measuring its current and deferred income taxes. Additionally, the document does not contain a new disclosure obligation but emphasises that an entity must establish whether it is necessary to provide information about the considerations made by management and relative to uncertainties inherent to recognition of taxes, in accordance with that established in IAS 1. The new interpretation applies as of 1 January 2019. The adoption of this amendment had no effects on the Company's financial statements.

On 12 October 2017, the IASB published the amendment to **IFRS 9 "Prepayment Features with Negative Compensation.** This document specifies that instruments which provide for early repayment may satisfy the Solely Payments of Principal and Interest ("SPPI") test also in the case in which "reasonable additional compensation" to be paid in the case of early repayment is "negative compensation" for the financing entity. The adoption of this amendment had no effects on the Company's financial statements.

IFRS and IFRIC accounting standards, amendments and interpretations approved by the European Union, not yet obligatorily applicable and not adopted in advance by the Company as at 31 December 2019

On 31 October 2018, the IASB published the document ***"Definition of Material (Amendments to IAS 1 and IAS 8)"***.
On 29 March 2018, the IASB published an amendment to "***References to the Conceptual Framework in IFRS Standards"***.
On 26 September 2019, the IASB published amendments in ***"Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform"***.

Below we examine in detail the criteria adopted for the following items:

PROPERTY, PLANT AND EQUIPMENT

A cost sustained to acquire a property, plant, machinery or part of the same is recognised as an asset on the condition that the cost of the asset can be reliably determined and the Company can make use of the relative future economic benefits.

Property, plant and equipment

LAssets recognised among property, plant and equipment are recognised at the purchase cost, including any directly attributable accessory costs, necessary to render the asset functional to the use for which it was acquired, and net of any relative depreciation accumulated and impairment losses.
Expenses sustained subsequently are added to the cost to the extent in which these expenses are able to improve the originally determined performance of the asset.
Assets recognised among property, plant and equipment through business combinations are measured at their fair value upon initial recognition, as determined at the time they were acquired. Subsequently, they are measured using the historic cost method.
Assets recognised among property, plant and equipment, with the exception of land, depreciate at constant rates throughout the course of the useful life of the asset, understood to be the estimated period during which the asset will be used by the company, starting from the moment the asset becomes available for use. The value to be depreciated is represented by the carrying value of the asset net of any impairment and reduced by the presumable realisable value at the end of the useful life, if this is significant and can be reasonably determined.
If the asset is composed of several significant components with different useful lives, depreciation is carried out for each component, following the component approach established in IAS 16.

IFRS AND IFRIC ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPROVED BY THE EUROPEAN UNION, NOT YET OBLIGATORILY APPLICABLE AND NOT ADOPTED IN ADVANCE BY THE COMPANY AS AT 31 DECEMBER 2019

Spare parts of significant value relative to plant and machinery are capitalised and depreciated on the basis of the useful life of the asset to which they refer, in accordance with the indications found in IAS 16.
The book value of property, plant and equipment is subject to verification to identify any losses in value when events or changes indicate that the book value may not be recoverable.
For newly acquired assets, the following useful life are applied:

USEFUL LIFE OF NEWLY ACQUIRED ASSETS

	Useful life
Industrial buildings	30 years
General plants	15 years
Specific plants	20 years
Miscellaneous equipment	4 years
Office machines and machinery	8 years
Vehicles	5 years
Electronic machines	5 years

Useful life and realisable values are reviewed every year and any changes are made prospectively. When necessary, they are applied prospectively and may involve an extension or r4eduction in the original amortisation/depreciation period.
Land, whether free of construction or containing civil or industrial buildings, is recognised separately and not depreciated, given that it is an element with unlimited useful life. When an asset is disposed of or when no future economic benefit is expected, it is eliminated from the financial statements and any losses or profits are recognised in the profit and loss statement for the year during the financial year in which it was eliminated. Expenses for leasehold improvements such as expenses to remodel real estate that is not owned are capitalised in consideration of the fact that for the duration of the leasing contract the user company has control over the assets and can take advantage of their future economic benefits. Said costs are amortised over a period equal to the lesser of that representing the residual useful life of the fixed asset and the residual duration of the leasing contract. Pursuant to IAS 23, the Company capitalises financial expense attributable to the purchase, construction or production of a capitalisable asset.

Property investments
The item includes land, buildings or parts of non-instrumental buildings, held in order to benefit from leasing fees, increases in value or both.
Property investments are measured at cost, net of any losses due to writedowns.

RIGHT OF USE ASSETS

This item includes the accounting measurement of contracts to which IFRS 16 applies. This item recognises leasing contracts for assets over which the Company holds control (right of use) over an asset. As discriminating factors to identify these, the following were used: the asset can be identified, there is a right to replacement of the asset, the right to obtain substantially all economic benefits deriving from use of the asset and, finally, the right to direct the use of the asset underlying the contract. The Standard establishes a single model for recognising and measuring lease contracts for the lessee, which involves recognition of the asset underlying the lease in the assets, whether operational or not, and a matching entry in the form of a financial payable.

The Company has made use of the practical expedients and exemptions allowed in paragraphs:
i) 16.5(a) in relation to short term contracts, for all asset classes (exclusion of leases with a duration of less than 12 months at the time of first time adoption from the scope of application);
ii) 16.5(b) in relation to contracts with a value of less than € 5,000;
iii) 16.15 in relation to the possibility of not separating non-lease components;
iv) The Portfolio approach was not adopted.
In particular, relative to lease contracts the Company recognises
a) a right of use equal to the value of the financial liability as of the date the contract takes effect.
b) a financial liability, equal to the current value of residual future payments as of the date the contract takes effect, discounted using an average rate for each contract.
For details on first time application of the standard, please see the paragraph “IFRS accounting standards, amendments and interpretations applied as of 1 January 2019”.

IFRS AND IFRIC ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPROVED BY THE EUROPEAN UNION, NOT YET OBLIGATORILY APPLICABLE AND NOT ADOPTED IN ADVANCE BY THE COMPANY AS AT 31 DECEMBER 2019

INTANGIBLE ASSETS

Intangible assets are non-monetary elements without physical substance, which can be identified and are controlled by the Company, intended to generate future economic benefits. Intangible assets can be recognised in the accounts when it is probable that use of the asset will generate future economic benefits and when the cost of the asset can be determined in a reliable manner.
Intangible assets acquired separately are initially recognised at cost, those acquired through business combinations are measured at fair value upon initial recognition.
For details on first time application of the standard, please see the paragraph "IFRS accounting standards, amendments and interpretations applied as of 1 January 2019".
Expenses sustained after initial acquisition are added to the cost of the asset to the degree in which these expenses are able to generate future economic benefits.
After initial recognition, intangible assets are measured net of provisions for amortisation and any accumulated losses of value.

Goodwill and other intangible assets with undefined life

An intangible asset is considered to have undefined life when, on the basis of analysis of the relevant factors, there is no foreseeable limit on the period of use during which it is expected the asset will generate net incoming financial flows for the Company.
The Company has identified goodwill as an intangible asset with undefined useful life, which represents the positive difference between the cost of a business combination and the equity interest held by the Company in the current fair value of the assets, liabilities and potential liabilities acquired and identifiable on the purchase date.
Any negative difference (negative goodwill) is instead recognised in the annual profit and loss statement at the time of acquisition.
After initial recognition, goodwill is not amortised, but is decreased relative to any losses of value, determined in accordance with IAS 36 (impairment of assets). Goodwill is annually subject to recoverability analysis. This may also occur more frequently if events or changes in circumstances occur which could lead to possible losses of value.
In the cases in which goodwill is assigned to a cash generating unit (or group of units) whose assets are partially dismissed, the goodwill associated with the transferred asset is considered in order to determine any capital gains or losses deriving from the transaction, and is measured on the basis of the values of the disposed of assets, with respect to the assets still held relative to the same CGU.

Intangible assets with defined life

These assets are recognised at the acquisition or production cost, including all attributable accessory charges, and depreciated at a constant rate in relation to their utility over time, starting at the moment the asset becomes available for use. Useful life is reviewed every year and any changes are made prospectively, when necessary.
Plant and expansion costs, if recognised in the assets, as well as patent and usage rights for intellectual property are depreciated over a maximum period of five years.
Concession, license, trademark costs and those for similar rights are annually reduced as a function of the contractual duration and the limits of the presumable period of economic utilisation.

IMPAIRMENT TEST

The value of intangible assets and property, plant and equipment is subject to recoverability checks every time it is held that a lasting loss of value has occurred.
Relative to goodwill, other intangible assets with undefined useful life and other assets not available for use, impairment tests are performed at least once a year.
The test is done by comparing the book value with the greater of the fair value and the value in use of the asset.
If no binding sales agreement or an active market for the asset is available, the fair value is determined on the basis of the best available information, in order to reflect the amount that the Company could obtain, at the reporting date of the financial statements, if disposing of the asset in a free transaction between knowledgeable and willing parties, after deducting disposal costs.
The value in use of an asset is calculated by discounting expected cash flows from usage of the asset (both incoming and outgoing), basing financial flow projections on reasonable and sustainable suppositions, able to represent the best possible estimates by corporate management of a series of economic conditions that will exist throughout the remaining life of the asset, giving greater significance to information obtained externally.
The discount rate applied reflects current market evaluations of the time value of money and the specific risks of the asset.
Measurement is done for each individual or for the smallest combination of assets (cash generating units) that generate independent incoming cash flows deriving from their utilisation.

When the value determined with the impairment test is lower than the cost, the loss of value is recognised against the asset and among the costs in the annual profit and loss statement.
If in subsequent financial years the reasons behind recognising the impairment are determined to no longer exist following a new impairment test, the asset, with the exception of goodwill, is written back up to the new recoverable value, which in any case cannot exceed the value that would have existed if no loss in value had been recognised. The writeback is recognised in the annual profit and loss statement, unless the asset is recognised at the written back value, in which case the writeback is recognised in the revaluation reserve.

EQUITY INVESTMENTS IN SUBSIDIARIES, COMPANIES UNDER JOINT CONTROL AND ASSOCIATED COMPANIES

Subsidiaries are companies over which the Company has the power to directly or indirectly determine administrative and management choices and obtain the relative benefits. Generally, control is assumed to exist when the Company directly or indirectly holds more than half of voting rights exercisable at the Shareholders' Meeting, including potential voting rights deriving from convertible securities.
Joint control companies are companies over which the Company exercises joint control over their economic activities with one or more other parties. Joint control assumes that strategic, financial and management decisions are taken by unanimous consent by the parties exercising control.
Associated companies are those over which the Company exercises significant influence when determining administrative and management choices, although it does not hold control. Generally significant influence is assumed to exist when the Company directly or indirectly holds at least 20% of the voting rights exercisable at the Shareholders' Meeting.
Equity investments in subsidiaries, jointly controlled companies and associated companies are recognised at cost, subsequently adjusted for any changes in value if, following appropriate impairment tests, conditions are identified which make it necessary to adjust the book value to the effective economic value of the equity investment. The original cost is restored in subsequent years if the reasons for the writedowns cease to exist.
Any writedowns or writebacks are recognised in the profit and loss statement.

The risk deriving from losses exceeding cost are recognised among provisions, to the degree that the Company is required to meet legal and implicit obligations.
Note that, when the switch was made to the international accounting standards, an impairment test was performed which confirmed the book value of the equity investments recognised in the financial statements.

FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset for an entity and a financial liability or an instrument representing capital for another entity.

Financial assets

Initial recognition and measurement

At the time of initial recognition, financial assets are classified, based on the case, on the basis of subsequent measurement methods, that is at amortised cost, at fair value through other comprehensive income or at fair value through profit and loss.
Classification of financial assets at initial recognition depends on the characteristics of the contractual cash flows associated with the financial assets and the business model used by the Company to manage them. With the exception of trade receivables which do not contain a significant financing component or for which the company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus transaction costs, in the case of a financial recognised in the income statement not at fair value. Trade receivables which do not contain significant financing component or for which the company has applied the practical expedient are measured at the transaction price, determined according to IFRS 15.
For a financial asset to be classified and measured at amortised cost or at fair value through other comprehensive income, it must generate cash flows associated solely with payments of principal and interest (SPPI). Assessment of this aspect is known as the SPPI test and is performed at the individual instrument level.
The company's business model for managing financial assets refers to the manner in which it manages its financial assets in order to generate cash flows. The business model determines whether the cash flows derive from collecting contractual cash flows, sales of financial assets or from both.
The purchase or sale of a financial asset which requires delivery with a period of times either through a standardised sale or through regular way trade is recognised on the

negotiation date, that is the date on which the company undertook to purchase or sell the asset.

Subsequent measurement

For the purposes of subsequent measurement, financial assets are classified into four categories:

- Financial assets at amortised cost (debt instruments);
- Financial assets at fair value through other comprehensive income with reclassification of cumulated profits and losses (debt instruments);
- Financial assets at fair value through other comprehensive income without reversal of cumulated profits and losses at the time of elimination (equity instruments);
- Financial assets at fair value through profit and loss.

Classification depends on the purpose for which the assets are acquired and held. The company determines classification of assets at initial recognition, verifying the category at each subsequent reporting date.

Financial assets at amortised cost (debt instruments)

The company measures financial assets at amortised cost if both of the following requirements are met:

- the financial asset is held under a business model with the objective of holding financial assets to collect contractual cash flows;
- The contractual terms of the financial asset establish cash flows at set dates representing solely payments of principal and interest.

Financial assets at amortised cost are subsequently measured using the criteria of effective interest and are subject to impairment. Profits and losses are recognised in the income statement when the asset is eliminated, amended or remeasured.

Financial assets at fair value through other comprehensive income (debt instruments)

The company measures debt instruments at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held under a business model which has the dual objectives of collecting contractual cash flows and sale of the financial assets;
- the contractual terms of the financial asset establish cash flows at set dates representing solely payments of principal and interest.

For assets involving debt instruments measured at fair value through other comprehensive income, interest receivable, variations due to exchange differences and impairment, together with writebacks, are recognised in the income statement and calculated in the same way as financial assets measured at amortised cost. Remaining changes in fair value are recognised in other comprehensive income. At the time of elimination, the cumulative change in fair value recognised in OCI is reclassified to the income statement.

Investments in equity instruments

At initial recognition, the company may irrevocably decide to classify its stock investments as equity instruments recognised at fair value through other comprehensive income when the satisfy the definition of equity instruments pursuant to IAS 32 "Financial instruments: Presentation" and are not held for trading. Classification is done for each individual instrument.

Profits and losses resulting from these financial assets are never reversed to the income statement. Dividends are recognised as other revenues in the income statement when the right to payment has been resolved, except when the company benefits from these amounts as recovery of part of the cost of the financial asset, in which case the profits are recognised under OCI. Equity instruments recognised at fair value through other comprehensive income are not subject to impairment testing.

Financial assets at fair value through profit and loss

This category includes assets held for trading, assets designated at initial recognition as financial assets at fair value with changes recognised in the income statement and financial assets necessarily measured at fair value. Assets held for trading are all assets acquired to be sold or repurchased over the short term. Derivatives, including separated ones, are classified as financial instruments held for trading, unless they are designated as effective hedging instruments. Financial assets with cash flows which do not pass the SPPI test are classified and measured at fair value through profit and loss, regardless of the business mode. Despite the criteria for debt instruments for classification at amortised cost or at fair value through other comprehensive income, as described above, debt instruments can be recognised at fair value through profit and loss at initial recognition if this involves the elimination or significant reduction of an accounting misalignment.

Derecognition

A financial asset (or, when applicable, part of a financial asset or part of a group of similar financial assets) is derecognised in the first place (e.g. removed from the statement of the company's equity/financial situation) when:

- the rights to receive financial flows from the asset no longer exist, or
- the company has transferred the right to receive cash flows from the asset to a third party or has taken on the contractual obligation to pay them fully and promptly and (a) has substantially transferred all risks and benefits of ownership of the financial asset or (b) has not substantially transferred nor retained all the risks and benefits of the asset, but has transferred control over the same.

In cases where the company has transferred the rights to receive cash flows from an asset or has signed an agreement based on which it maintains contractual rights to receive cash flows from the financial asset but has a contractual obligation to pay the cash flows to one or more beneficiaries (pass-through), it determines if and to what extent it has retained the risks and benefits inherent to ownership. If it has neither substantially transferred nor retained all the risks and benefits or has not lost control over the same, the asset continues to be recognised in the company's financial statements to the extent of its residual involvement with the asset in question. In this case, the company also recognises an associated liability. The asset transferred and the associated liability are measured so as to reflect the rights and obligations that continue to apply to the company.

When the entity's residual involvement is a guarantee for the transferred asset, involvement is measured on the basis of the lesser of the amount of the asset and the maximum amount of the fee received which the entity may have to repay.

Impairment of financial assets

The company recognises impairment due to expected credit loss (ECL) for all financial assets represented by debt instruments not held at fair value through profit and loss. ECLs are based on the difference between contractual cash flows due in compliance with the contract and all the cash flows the company expects to receive, discounted by an approximation of the original effective interest rate. Expected cash flows include cash flows deriving from enforcement of collateral held or other credit guarantees which are an integral part of the contractual conditions.

Expected losses are recognised in two phases. Relative to credit exposures for which no significant increase in credit risk has been seen following initial recognition, it is necessary to recognise credit losses deriving from an estimate of default events likely to occur within the subsequent 12 months (12-month ECL). For credit exposures that have seen a significant increase in credit risk after initial recognition, expected losses relative to the full residual duration of the exposure must be recognised, regardless of when the default event is expected to occur ("lifetime ECL").

For trade receivables and assets deriving from contracts, the company applies a simplified approach to calculate expected losses. Therefore, the company does not monitor changes in credit risk but recognises the expected loss in full at each reference date. The company has established a matrix system based on historic information, revised to consider forward looking elements with reference to specific types of debtors and the economic environment, used as tool to determine expected losses.

For assets represented by debt instruments measured at fair value through other comprehensive income, the company applies the simplified approach allowed for low credit risk assets. At each reporting date, the company evaluates whether a debt instrument has low credit risk, using available information.

Financial liabilities

Initial recognition and measurement

At initial recognition, financial liabilities are classified among financial liabilities measured at fair value through profit and loss, among mortgages and loans or among derivatives designated as hedging instruments.
All financial liabilities are initially recognised at fair value, to which is added in the cases of mortgages, loans and payables, the transaction costs directly attributable to the same.
The company's financial liabilities include trade payables and other payables, mortgages and loans, including current account overdrafts, guarantees granted and derivatives.

Subsequent measurement

Measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit and loss

Financial liabilities at fair value through profit and loss with changes recognised in the income statement include liabilities held for trading and financial liabilities initially recognised at fair value with changes recognised in the income statement.
Liabilities held for trading are all those kept to be sold over the short term. This category also includes derivative financial instruments subscribed by the Company which are not designated as hedging instruments in a hedging relationship as defined under IFRS 9.
Profit or loss associated with liabilities held for trading is recognised in the profit and loss statement.
Financial liabilities are designated at fair value with changes recognised in the income statement as of the initial recognition date only if the criteria in IFRS 9 are satisfied.
At initial recognition, the company has not designated financial liabilities at fair value with changes recognised in the income statement.

Loans and receivables

This is the most significant category for the company. After initial recognition, loans are measured using the amortised cost criteria, using the effective interest rate method. Profits and losses are recognised in the income statement when the liability is extinguished, as well as through the amortisation process.
The amortised cost is calculated by recognising the discount or premium on acquisition and fees or costs which are an integral part of the effective interest rate. Amortisation at the effective interest rate is recognised among financial expense in the profit and loss statement.

Financial guarantee liabilities

Financial guarantee liabilities issued by the company are contracts which require payment to reimburse the holder of a debt security against a loss suffered by them following the debtor not making payments at contractually established due dates.
Financial guarantee contracts are initially recognised as liabilities at fair value, plus any transaction costs directly attributable to issuing of the guarantee. Subsequently, the liability is measured as the greater of the best estimate of the payment required to fulfil the guaranteed obligation as of the reporting date and the amount initially recognised, net of cumulative amortisation.

Derecognition

A financial liability is derecognised when the obligation underlying the liability is repaid, cancelled or fulfilled. When an existing financial liability is replaced by another of by the same lender, under substantially different conditions, or the conditions for an existing liability are substantially changed, this exchange or change is recognised as the accounting derecognition of the original liability, followed by recognition of a new liability, with any differences between the book values recognised in the profit and loss statement for the year

Offsetting of financial instruments

An asset and a financial liability can be offset and the net balance recognised in the balance sheet if there is a current legal right to offset the amounts recognised for accounting purpose and there is an intention to extinguish the residual net amount or to realise the asset and simultaneously extinguish the liability.

DERIVATIVES

As of 1 January 2019, the company no longer makes use of the right to continue to make use of the provisions established in IAS 39 solely relative to hedge accounting. As of 1 January 2019, it uses IFRS 9 for hedge accounting.
Derivatives are used with the sole purpose of hedging in order to reduce financial risks. They are measured at fair value starting on the date they are stipulated. When a hedging transaction begins, the company formally designates and documents the hedging relationship for which hedge accounting will be used, indicating its risk management objectives and the strategy pursued. This document involves identifying the hedging instrument, the element of the transaction being hedged, the nature of the risk and methods the Company intends to use to measure the efficacy of the hedge in compensating for variations in the fair value of the hedged element or financial flows associated with the hedged risk. Efficacy must be measured in a reliable manner. It is expected that these hedges are highly effective in compensating for the exposure of the hedged element to changes in the fair value of financial flows associated with the risk covered. Assessment of whether or not the hedges are effective is done continuously during the accounting periods in which they are designated as such.
Transactions which meet the criteria for hedge accounting are recognised as follows:

Fair value hedge

If a derivative is designated to hedge against exposure to variations in the fair value of an asset or liability attributable to a particular risk, profit or loss deriving from subsequent changes in the fair value of the hedging instrument is recognised in the annual profit and loss statement.
Profit or loss deriving from an adjustment in the fair value of the hedged item, relative to the portion attributable to the risk hedged against, changes the book value of this item and is recognised in the annual profit and loss statement.

Cash flow hedge

If a derivative is designated as an instrument hedging against exposure to changes in the financial flows of an asset or liability recognised in the financial statements or a transaction deemed highly probable, the effective portion of the profits or losses deriving from the fair value adjustment of the derivative is recognised in a specific shareholders' equity reserve and reclassified in the annual profit and loss statement when the effects of the transaction being hedged are recognised in the annual profit and loss statement. The profit or loss associated with this ineffective portion of the hedging is instead immediately recognised in the annual profit and loss statement. If a hedging instrument is closed by the transaction being hedged has not yet been realised, cumulative profits and losses remain in the shareholders' equity reserve and are reclassified in the annual profit and loss statement at the time the relative transaction is realised.
If the transaction being hedged is no longer deemed probable, profits or losses not yet realised and recognised in the shareholders' equity reserve are immediately recognised in the annual profit and loss statement.
If hedge accounting can no longer be applied, profits or losses deriving from the fair value measurement of the derivative are directly recognised in the annual profit and loss statement.

IFRS AND IFRIC ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPROVED BY THE EUROPEAN UNION, NOT YET OBLIGATORILY APPLICABLE AND NOT ADOPTED IN ADVANCE BY THE COMPANY AS AT 31 DECEMBER 2019

INVENTORIES

Inventories of raw materials, products in progress and finished products are measured at the lesser of the cost, determined using the average weighted cost method, and the net realisable value presumable from market trends.
For raw materials, market value means replacement cost. For finished and semi-finished products it means the amount the Company expects to obtain from sales in normal business operations, net of estimated costs to complete the good and sales and distribution costs it will sustain.
Measurement of warehouse inventories include direct costs for materials and labour and indirect costs (variable and fixed).
Provisions for impairment of materials, finished products, spare parts and other obsolete or slow rotation stocks are calculated, taking into account future expected use and realisable value.

CASH AND OTHER CASH EQUIVALENTS

This item indicates cash and other cash equivalents and short-term highly tradable financial investments that can be readily turned into cash and are subject to irrelevant risks in terms of variations in their value. These financial items are recognised at their nominal value.
For the purposes of the Statement of Cash Flows, cash and other cash equivalents are shown net of bank overdrafts as of the reporting date.

NON-CURRENT ASSETS HELD FOR SALE

Non-current assets and groups of assets and liabilities for which the book value will mainly be recovered through sale, rather than through continuous use, are presented separately under other assets and liabilities in the balance sheet.
These assets, classified within a specific item in the balance sheet, are measured at the lower of the book value and the fair value minus foreseeable sales costs. Gains and losses, net of the relative tax effects, from non-current assets disposed of or held for sale are recognised in a specific item within the annual profit and loss statement.

TRADE PAYABLES AND MISCELLANEOUS PAYABLES

This item includes payables due to suppliers and other liabilities, with the exception of financial liabilities which are recognised separately. These liabilities are initially recognised at the fair value of the fee to be paid.
Subsequently, payables are measured using the amortised cost criteria, determined with the effective interest method.

EMPLOYEE BENEFITS

Benefits due after the termination of the employment relationship are divided into defined contribution plans and defined benefit plans.
For defined contribution plans, the legal or implicit obligation of the company is limited to the amount of contributions to be paid: consequently, actuarial risk and investment risk fall to the employee.
For defined benefit plans, the company's obligation consists in granted and ensuring the agreed upon benefits for the employees: actuarial risk and investment risk fall to the company.
Until 31 December 2006, the severance indemnity was classifiable among defined benefit plans.
The regulations for this provision were amended by Italian Law 296 of 27 December 2006 ("2007 Financial Law"), and by subsequent Decrees and Regulations issued during the initial months of 2007. In the light of these changes, and in particular those with reference to companies with at least 50 employees, this practice is not to be considered a defined benefit plan solely for the portions accrued prior to 1 January 2007 (and not yet liquidated as of the reporting date). Portions accruing after this date can be classified as a defined contribution plan.
The Company's obligation to finance defined benefit plans and the annual cost recognised in the annual profit and loss statement are determined by applying actuarial methodology, based on demographic hypotheses, in relation to mortality rates and turnover in the reference population and on financial hypotheses, in relation to the discount rate which reflects the value of money over time, the inflation rates, and future salary and wage levels.
The amount recognised as a liability for defined benefits indicates the current value of the obligation as of the reporting date, net of the current value of any existing program assets.
The amount recognised in the annual profit and loss statement consists of the following

elements:
- social security costs relative to current work performed;
- interest expense;
- expected returns from program assets, if existing.

The revision of IAS 19 referenced above required the Company, as of the financial year beginning on 01 January 2013, to directly recognise actuarial profits and losses relative to defined benefit plans deriving from changes in the actuarial hypotheses used or changes in plan conditions in shareholders' equity and the schedule of other components of the comprehensive profit and loss statement.
The amount of rights accrued by employees during the year is recognised under the item personnel expenses, while the financial component, which represents the charge that the company would face if it were to finance the amount of the severance indemnity (TFR) on the market, is recognised under financial income/expense.

PROVISIONS FOR RISKS AND CHARGES

The Company allocates provisions for risks and charges when:
- there is a current obligation (legal or implied) relative to third parties and deriving from a past event;
- it is probable that the Company will need to use resources to comply with the obligation;
- a reliable estimate of the amount of the obligation can be made.

Provisions are recognised at the value which represents the best estimate that the Company would reasonably pay to fulfil the obligation (fair value) or to transfer it to third parties, on the reporting date.
Changes in estimates are shown in the profit and loss statement for the period in which the change occurred.
When financial effects associated with the time forecast of the payment is significant and the payment date for the obligations can be reliably estimated, the provision is discounted using a discount rate that reflects current assessments of the cost of money in relation to time. In this case, the amount recognised in the financial statements increases each year to reflect the passage of time and this increase is recognised in the annual profit and loss statement under the item "financial expense".
Significant potential liabilities represented by the following are illustrated in the

Notes:
- possible (but not probable) obligations, deriving from past events, the existence of which will only be confirmed if one or more future events occur, which are not fully under the control of the company;
- current obligations deriving from past events, for which the amount cannot be reliably estimated, or for which compliance may not involve any expense.

ITEMS IN OTHER CURRENCIES OR SUBJECT TO "EXCHANGE RISK"

These are registered at the current exchange rate in effect on the date of the transaction. Monetary assets and liabilities in foreign currencies are converted using the exchange rate on the reporting date. Non-monetary items are kept at the conversion rate for the transaction, unless there is a persistent unfavourable trend in the exchange rate.
Both exchange differences generated from the repayment of items with different exchange rates relative to the conversion rate used at initial recognition, and those relative to the measurement of monetary items at the reporting date are recognised in the annual profit and loss statement.

RECOGNITION OF REVENUES AND COSTS

Revenues are measured on the basis of the payment the company believes it is entitled to receive for the sale of its products or services.
Revenues from sales of products are recognised, net of discounts, rebates or returns, when control over the assets or services is transferred to the customer. Transfer of control occurs when the following conditions are met:
- the company does not have the possibility to make use of the goods or services, as this has been transferred to the customer;
- the significant risks and benefits associated with ownership of the goods has been transferred to the purchaser of the goods (generally upon shipment or delivery of the goods);
- the value of the revenues is reliably determined;
- the economic benefits deriving from the sale will be used by the company;
- the costs sustained or to be sustained are reliably determined.

Revenues from services are recognised once the services are complete.

Revenues of a financial nature are recognised on an accrual basis.
Dividends are recognised when they are received, under the item "Income from equity investments".
Costs are recognised using criteria analogous to those used for the recognition of revenues, and in any case on an accrual basis.

CURRENT, PREPAID AND DEFERRED TAXES

Income taxes are determined on the basis of estimated taxable income, with reference to the current tax regulations.
Forecast debt, net of any advances and withholdings, is recognised under the balance sheet liabilities in the item "current tax payables".
Taxes relative to components recognised directly under shareholders' equity are recognised directly to shareholders' equity and not in the annual profit and loss statement.
Deferred tax assets and liabilities are calculated for all temporary differences between the book value attributed to assets and liabilities in the financial statements and the value attributed to the same assets and liabilities for tax purposes, unless the temporary differences derive from:

- initial recognition of goodwill;
- initial recognition of an asset or liability, in a transaction which
- is not a business combination and
- does not influence accounting results nor taxable income on the date of the transaction in question;
- equity investments in subsidiaries, associates and companies under joint control, when:
- the Company is able to control the schedule for cancelling temporary taxable differences;
- it is probable that the temporary differences will not be cancelled for the foreseeable future.

Deferred tax assets are not recognised when it is not reasonably certain they will be recovered, in compliance with the principle of prudence.
Additionally, their value is reviewed at the end of each period and is reduced to the extent that it is no longer probable sufficient taxable profits will be available in the future to allow full or partial use of these assets.
Deferred tax assets and liabilities are defined on the basis of the tax rates which are expected to be applied in the year in which the assets will be realised or the liabilities will be repaid, considering rates in effect or those substantially issued as of the reporting date.
Deferred tax assets and liabilities are classified among non-current assets and liabilities.

ESTIMATES AND ASSUMPTIONS

Application of certain accounting standards necessarily requires significant elements based on estimates and assumptions that are uncertain when formulated. For the 2017 financial statements, it is held that the assumptions made were appropriate and consequently, that the financial statements were prepared with the intent of clarity and to truly and accurately represent the equity and financial situation and the economic results for the year. Within the explanatory notes, information is provided in the relevant sections about the reasons underlying decisions made, measurements taken and estimate criteria adopted in applying the international accounting standards. In order to formulate reliable estimates and hypotheses, historic experience was used, as well as other factors deemed reasonable for the case in question, on the basis of the information available. Nonetheless, it cannot be excluded that changes in said estimates and assumptions could create significant effects on the equity and economic situation, as well as on the potential liabilities and assets reported within the financial statement disclosures, in the case that different elements of judgement arise with respect to those previously expressed. More specifically, greater use of subjective assessments on the part of company management was necessary in the following cases:

- determining impairment of goodwill, property, plant and equipment and equity investments;
- determining the fair value of financial assets and liabilities when the amounts could not be directly observed on active markets. In this case, the subjective elements are found in the selection of measurement models and input parameters that may not be observable on the market;
- quantifying provisions for risks and charges and provisions for employee benefits, due to the uncertainty of that required, survival times and actuarial hypotheses used;
- estimating the recoverability of prepaid tax assets.

The presentation of these cases is provided with the intention of allowing those reading the financial statements to better understand the main areas of uncertainty, but is not in any case to suggest that alternative assumptions could be appropriate or more valid.

Estimates and assumptions are periodically reviewed and the effects of each change are shown in the profit and loss statement for the period in which the change occurred.

Explanatory notes to Balance Sheet

Non-current assets

1) PROPERTY, PLANT AND EQUIPMENT

The assets indicated in the following breakdown are included in this item:

PROPERTY, PLANT AND EQUIPMENT €/000

	31 dec 2018	31 dec 2019	Change
Property, plant and equipment	478.345	456.756	(21.589)
Property investments	390	336	(54)
Right of use assets	-	3.102	3.102
	478.735	**460.194**	**(18.541)**

PROPERTY, PLANT AND EQUIPMENT

The table below shows changes occurring during the year:

FLOWS FROM PROPERTY, PLANT AND EQUIPMENT **€/000**

	Land and buildings	Plant and machinery	Industrial and sales equipment	Other assets	Fixed assets in progress	Total
Historic cost at start of period	**483.704**	**2.026.537**	**6.997**	**34.406**	**37.794**	**2.589.439**
Increases during period	477	7.287	136	477	58.618	66.996
Disposals during period	(6.924)	(22.400)	-	(337)	-	(29.661)
Revaluations, impairment during period	(1.277)	(9.528)	-	-	-	(10.805)
Transfer	(35.513)	(138.541)	(991)	(2.771)	(92)	(177.907)
Other changes	17	10.343	-	39	(5.177)	5.223
Historic cost at period end	**440.484**	**1.873.699**	**6.142**	**31.815**	**91.144**	**2.443.283**
Provision for amortisation/ depreciation at start of period	**317.509**	**1.754.342**	**6.743**	**32.500**	**-**	**2.111.094**
Amortisation/ depreciation during period	6.551	39.553	142	762	-	47.008
Uses during period	(6.754)	(20.838)	-	(321)	-	(27.914)
Transfer	(20.295)	(124.834)	(989)	(2.767)	-	(148.884)
Other changes in the provision	-	5.223	-	-	-	5.223
Provision for amortisation/ depreciation at period end	**297.012**	**1.653.446**	**5.896**	**30.175**	**-**	**1.986.527**
Net book value at period end	**143.472**	**220.253**	**247**	**1.640**	**91.144**	**456.756**

The decrease in the net book value of property, plant and equipment, for € 21,589 thousand, originated mainly from the following components:

- increases of € 66,996 thousand (€ 47,725 thousand in 2018) relative to: investments of € 62,700 thousand during the year (the main investments were made in the Verzuolo plant for € 54,107 thousand, see the Report on Operations for more details); other increases for € 564 thousand relative to internal work; capitalisation of financial expense for € 231 thousand, calculated using a 1.99% rate, in implementation of IAS 23; advances on extraordinary maintenance projects for € 3,501 thousand;
- decreases for net disposals and sales of € 29,661 thousand (€ 56,731 thousand in 2018), of which the main ones were € 12,512 thousand for the scrapping of the wood pulp and other obsolete systems at the Verzuolo plant and € 5,906 thousand relative to the disposal of the glossy drying and other machine parts of the L9, again at the Verzuolo plant;
- decreases for € 177,907 thousand following the transfer of the Toscolano plant to Mosaico srl on 01/01/2019.

The provision for depreciation saw a net change of € 124,567 thousand (€ 149 thousand in 2018) which can be broken down as follows:

- increases for depreciation during the year of € 47,008 thousand;
- decreases following the disposal of systems for € 27,914 thousand, as listed above;
- decreases for the disposal as above for € 148,884 thousand.

Additionally, writedowns of € 10,805 thousand are recognised in the financial statements to adjust the carrying value of assets to their recoverable value through use or sale, of which € 1,277 thousand relative to the adjustment to market value for a buildable area and € 9,528 thousand relative to systems disposed of or no longer usable following reconversion of MC 9 at Verzuolo.
At the end of the year, the residual life of the company's property, plant and equipment was reviewed, with the necessary changes made to the depreciation plan.
Fully depreciated assets still in use have a historic cost equal to € 1,196,123 thousand.
Pursuant to article 10 of Italian Law 72 of 19 March 1983, relative to revaluations, below is a breakdown of revaluation balances at 31/12/2019, equal to € 188,517 thousand and almost entirely depreciated.

MONETARY REVALUATIONS PURSUANT TO ARTICLE 2427, NO. 2, ITALIAN CIVIL CODE

€/000

	Law 576/75	Law 72/83	Law 413/91	Other	Total
Land and buildings	4.488	17.573	36.190	20.549	78.801
Plants and machinery	14.092	79.767	-	13.996	107.855
Industrial and sales equipment	89	266	-	83	438
Other assets	277	963	-	183	1.423
	18.946	**98.569**	**36.190**	**34.812**	**188.517**

FLOW OF PROPERTY INVESTMENTS

€/000

	Civil land	Civil buildings	Total
Historic cost at start of period	**69**	**473**	**542**
Increases during period	-	-	-
Disposals during period	-	-	-
Revaluations, impairment during period	-	-	-
Other changes	-	(59)	(59)
Historic cost at period end	**69**	**414**	**483**
Provision for amortisation/ depreciation at start of period	**-**	**152**	**152**
Amortisation/depreciation during period	-	12	12
Uses during period	-	-	-
Other changes in the provision	-	(17)	(17)
Provision for amortisation/ depreciation at period end	**-**	**147**	**147**
Net book value at period end	**69**	**266**	**336**

The other changes lines show changes relative to the transfer to Mosaico srl of the civil real estate located at the Toscolano plant.

RIGHT OF USE ASSETS FLOW €/000

	Commercial leases	Residential leases	Industrial leases	Vehicle leases	IT	Total
Historic cost at start of period	**376**	**719**	**1.151**	**360**	**144**	**2.750**
Increases during period	-	-	1.183	70	-	1.253
Disposals during period	-	-	-	-	-	-
Historic cost at period end	**376**	**719**	**2.334**	**430**	**144**	**4.003**
Provision for amortisation/ depreciation at start of period	**-**	**-**	**-**	**-**	**-**	**-**
Amortisation/ depreciation during period	43	151	523	115	69	901
Uses during period	-	-	-	-	-	-
Provision for amortisation/ depreciation at period end	**43**	**151**	**523**	**115**	**69**	**901**
Net book value at period end	**333**	**569**	**1.811**	**314**	**75**	**3.102**

Note that, as of the transition date of 1 January 2019, a historic cost of € 2,750 thousand was recognised among tangible fixed assets, under the item "Right of use assets".
During 2019 increases were recorded in the amount of € 1,253 thousand following the opening of new lease contracts. Depreciation/amortisation during the period totalled € 901 thousand.

2) INTANGIBLE ASSETS

The balance is as follows:

INTANGIBLE ASSETS €/000

	31 dec 2018	31 dec 2019	Change
Goodwill and other assets with undefined life			
Goodwill	10.837	10.837	-
	10.837	10.837	-
Intangible assets with defined life			
Concessions, licenses, trademarks and similar rights	1.336	1.931	595
Fixed assets in progress and advances	585	439	(146)
	1.921	2.371	449
	12.758	**13.208**	**449**

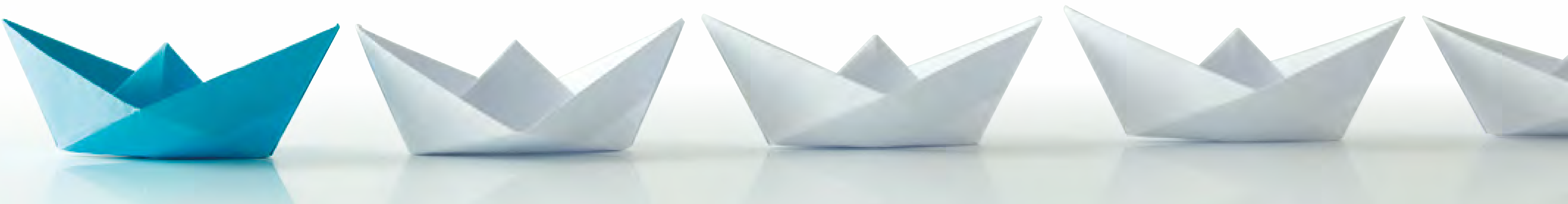
The goodwill item includes goodwill recognised for incorporation of the Villorba plant in Cartiere Marchi spa during 2006 (€ 10,837 thousand).
Recoverability of goodwill is verified annually or more frequently if deemed necessary, by determining the value in use.
Goodwill is allocated to the respective cash generating units (CGU). CGUs refer to individual production sites. To determine the value in use, the current value of future financial flows was calculated, estimated by applying discounting rates that reflect current market values of the temporal value of money and the specific risks of the business, as well as terminal growth rates in line with inflation levels.
Finally, the current value of the flows and the terminal value of the individual CGUs was compared with the capital invested in them.
For the purposes of the impairment test, the main assumptions, in line with current measurements of the cost of money, which taken into account the specific risks of the CGUs, involve the risk-free rate of 1.90% (2.62% in 2018), the market risk premium of 5.5% in line with that of the previous year (increased to 2.5% to incorporate other risks for certain CGUs), a variable growth rate between 1.00% and 2.50% based on the

CGU, the cost of debt before taxes of 2.25% and the ratio between equity and debt, respectively equal to 71.47% and 28.53% (respectively 78.72% and 21.28% the previous year) derived as the average value of a panel of comparable listed companies in the same sector.
During the year in question the impairment test performed did not indicate a need to carry out writedowns.
Below is a breakdown of residual goodwill at the end of the year for each CGU:
Villorba € 10,837 thousand.

Additionally, the impairment test was carried out with reference to CGUs for which indicators of impairment were identified in previous years, but in no case did the test indicate a need to carry out writedowns.
Increases, totalling € 876 thousand, refer to investments in software and usage licenses. In particular, among the most significant investments made during the year was € 736 thousand to update and develop the Group's ERP system.
Amortisation during the year was equal to € 427 thousand.
The value of intangible assets fully amortised but still in use was € 7,343 thousand.

FLOW FROM INTANGIBLE ASSETS **€/000**

	Goodwill and other intangible assets with undefined life	Concessions, licenses, trademarks and similar rights	Fixed assets in progress and advances	Total
Historic cost at start of period	**10.837**	**9.479**	**585**	**20.901**
Increases during period	-	876	-	876
Disposals during period	-	-	-	-
Revaluations, impairment during period	-	-	-	-
Other changes	0	146	(146)	-
Historic cost at period end	**10.837**	**10.501**	**439**	**21.777**
Provision for amortisation/ depreciation at start of period	**-**	**8.143**	**-**	**8.143**
Amortisation/ depreciation during period	-	427	-	427
Uses during period	-	-	-	-
Other changes in the provision	-	-	-	-
Provision for amortisation/ depreciation at period end	**-**	**8.569**	**-**	**8.569**
Net book value at period end	**10.837**	**1.931**	**439**	**13.208**



3) OTHER NON-CURRENT ASSETS

EQUITY INVESTMENTS AND SECURITIES

These include the items indicated below:

EQUITY INVESTMENTS AND SECURITIES €/000

	31 dec 2018	31 dec 2019	Change
Gever S.p.A	17.882	17.882	-
Burgo Ardennes S.a.	292.701	292.701	-
Burgo Benelux S.a.r.l.	290	290	-
Burgo France S.a.r.l.	142	142	-
Burgo UK L.t.d.	388	388	-
Burgo Central Europe G.m.b.h.	377	377	-
Burgo North America L.t.d.	110	110	-
Burgo Factor S.p.A.	4.105	4.105	-
Burgo Distribuzione S.r.l.	11.530	11.530	-
S.E.F.E. S.a.	-	-	-
Burgo Energia S.r.l.	15	15	-
Mosaico S.r.l.	84.903	123.620	38.717
Burgo Estern Europe Sp zoo	1	1	-
Equity investments in subsidiaries	**412.443**	**451.160**	**38.717**
Equity investments in other companies	**9.662**	**13.600**	**3.938**
	422.104	**464.759**	**42.655**

On 1 January 2019, against the transfer to the subsidiary Mosaico srl of the business unit relative to the Toscolano plant, the equity investment held in Mosaico srl by Burgo Group spa was increased by € 38,717 thousand.
The increase in equity investments in other companies, of € 3,938 thousand, refers to an equity investment in Consorzio Italia Energy Interconnector S.c.r.l., which in turn holds an equity investment in Monita Interconnector srl, which manages a power line which connects Italy and Montenegro. Payment to subscribe the capital of the Consorzio occurred as part of the Interconnector procedure.

EQUITY INVESTMENTS IN SUBSIDIARIES AND IN OTHER COMPANIES €/000

Company name	Registered office		Share capital (*)	Shareholders' equity (*)	Profit (loss) (*)	Stake directly held	Book value
Subsidiaries							
Gever S.p.A.	Altavilla Vicentina (VI)	EUR	3.120	23.391	(416)	100,00	17.882
Burgo Ardennes S.a	Virton (Belgium)	EUR	75.000	137.176	(1.339)	99,99	292.701
Burgo Benelux S.a.r.l.	Brussels (Belgium)	EUR	248	337	(7)	100,00	290
Burgo France S.a.r.l.	Champeaux (France)	EUR	600	299	174	100,00	142
Burgo UK L.t.d.	Milton Keynes (UK)	GBP	250	572	71	100,00	388
Burgo Central Europe G.m.b.h.	Munich (Germany)	EUR	256	942	272	100,00	377
Burgo North America L.t.d.	Stamford - Connecticut (USA)	USD	100	616	-	100,00	110
Burgo Factor S.p.A.	Milan	EUR	3.000	34.199	2.890	90,00	4.105
Burgo Distribuzione S.r.l.	Altavilla Vicentina (VI)	EUR	9.060	13.595	1.899	100,00	11.530
S.E.F.E. S.a	Ecouviez (France)	EUR	76	521	87	0,20	-
Burgo Energia S.r.l.	Altavilla Vicentina (VI)	EUR	5.015	6.840	1.272	100,00	15
Mosaico S.r.l.	Altavilla Vicentina (VI)	EUR	75.000	139.408	13.778	100,00	123.620
Burgo Eastern Europe Sp zoo	Warsaw (Poland)	PLN	5	3.013	1.069	100,00	1
							451.159

(*) The figures for each investee were taken from the 2019 financial statements of 2019 draft financial statements. In the cases in which the carrying value was higher than the portion of shareholders' equity, also taking into account adjustments required in preparation of the consolidated financial statements, the greater value is justified by unexpressed values relative to the investee, such as goodwill. More specifically, in terms of significance, we note that the differential between the carrying value of the equity investment in Burgo Ardennes and the relative recognisable shareholders' equity (statutory shareholders' equity plus profits from the current year), equal to € 206.8 million (€ 200.1 million at 31-12-2018), originated with the allocation within the carrying value of the equity investment of the portion of the shortfall arising from the Cartiere Burgo/Dieci merger in financial year 2001, for a total of € 103 million. This greater value was allocated, in the consolidated financial statements, to tangible fixed assets associated with Burgo Ardennes on the basis of a specific exchange appraisal. At 31 December 2019, the value of the subsidiary's shareholders' equity, expressed on the basis of international accounting standards for the consolidated financial statements of Burgo Group spa, was € 137.2 million (€ 148.1 million at 31-12-2018) with a difference of € 155.5 million (€ 144.6 million at 31-12-2018) with respect to the carrying value in the parent company's financial statements, consisting of total and accumulated dividends distributed between financial years 2001 and 2019 and positive results achieved. Despite the profits recognised by the associated company, which has always achieved annual profits, cash flows forecast for coming years as well as the strategic importance of the equity investment within the Burgo Group, an impairment test was still performed, which did not indicate any lasting losses of value (paragraph 12.h.i IAS 36).

(**) 100% held, including the indirect shares held by Mosaico srl.

FINANCIAL RECEIVABLES AND OTHER NON-CURRENT FINANCIAL ASSETS €/000

	31 dec 2018	31 dec 2019	Change
Non-current financial receivables due from subsidiaries	2.800	2.800	-
Non-current financial receivables due from others	-	2.610	2.610
	2.800	**5.410**	**2.610**

The receivable due from the parent company, already present the previous year, consists of a medium-term loan disbursed to the subsidiary Mosaico srl for € 2,800 thousand. On the other hand, the new receivable due from other companies refers to a shareholder loan opened by Consorzio Italia Energy Interconnector, relative to obligations deriving from the Interconnector procedure.

OTHER RECEIVABLES AND NON-CURRENT ASSETS €/000

	31 dec 2018	31 dec 2019	Change
Non-current sundry receivables due from others	2	-	(2)
Non-current guarantee deposits	3.390	4.625	1.235
	3.392	**4.626**	**1.234**

Other receivables and non-current assets consist of guarantee deposits for € 4,625 thousand. The increase, of € 1,235 thousand, is mainly due to the increase in the guarantee deposit made with Terna for the Interconnector procedure, relative to amounts paid during 2019 to guarantee the execution of interconnection work.

4) DEFERRED TAX ASSETS

These amounted to € 63,363 thousand. The balance in the accounts includes allocations for deferred taxes which it is held can be compensated for with deferred tax payables. Below are the details:

DEFERRED TAX ASSETS €/000

	31 dec 2018			31 dec 2019		
	Taxable	% rate	(Debit)/ credit	Taxable	% rate	(Debit)/ credit
IRES						
Taxed provisions (allocated)	82.203	24,0	19.729	87.991	24,0	21.118
Derivatives	-	-	-	36	24,0	9
Discounting	(467)	24,0	(112)	(103)	24,0	(25)
IAS 19 discounting - actuarial G/L	7.967	24,0	1.912	5.228	24,0	1.255
Amortisation, depreciation and writedowns	(49.182)	24,0	(11.804)	(41.588)	24,0	(9.981)
30% limit financial expense	75.679	24,0	18.163	60.411	24,0	14.499
IRES losses to be used in future financial years	188.064	24,0	45.135	175.134	24,0	42.032
Allocation of shortfall	(38.260)	24,0	(9.182)	(22.885)	24,0	(5.492)
Other items	(1.739)	24,0	(417)	(1.514)	24,0	(363)
	264.264		**63.423**	**262.709**		**63.050**
IRAP						
Taxed provisions (allocated)	38.798	3,9	1.513	41.139	3,9	1.604
Discounting	(467)	3,9	(18)	(103)	3,9	(4)
Amortisation, depreciation and writedowns	(8.420)	3,9	(328)	(8.420)	3,9	(328)
Allocation of shortfall	(38.260)	3,9	(1.492)	(22.885)	3,9	(893)
Derivatives	-	-	-	36	3,9	1
Other items	(1.739)	3,9	(68)	(1.739)	3,9	(68)
	(10.089)		**(393)**	**8.027**		**313**
			63.030			**63.363**

In 2019, the Company recognised the following main effects in the item deferred tax assets:

- lower IRES tax assets for the 30% limit on financial charges for € 3,664 thousand;
- lower IRES tax liabilities for net changes in provisions for non-deductible impairment and amortisation/depreciation for € 1,823 thousand;
- lower IRES tax assets for losses to be used in future financial years for € 3,103 thousand. The provision for current taxes at 31 12 2019 made use of previous losses for € 12,325 thousand relative to group tax losses in 2008;
- lower IRES and IRAP tax liabilities for depreciation of assets relative to which was allocated the shortfall from the Burgo-Marchi merge for € 262 thousand;
- lower IRES tax assets for TFR discounting pursuant to IAS 19 (actuarial gains/losses) for € 657 thousand;
- greater IRES and IRAP tax assets on taxed provisions for € 1,480 thousand, in particular for allocations made to provisions for risks and charges;
- lower IRES and IRAP deferred tax liabilities for € 4,027 thousand and lower IRES and IRAP deferred tax assets for € 681 thousand, following the transfer of the Toscolano plant to the subsidiary Mosaico srl.

For more details about the applicable rate, please see note 35 "income taxes".

Note that the Company's losses can currently all be carried forward indefinitely.
Recognition of deferred tax assets relative to a portion of IRES tax losses that can be carried forward is justified by a reasonable expectation of sufficient future taxable income, in the context of national tax consolidation, based on the economic forecasts found in the Burgo 2020 industrial plan.
Below are the details of tax losses recognised in the financial statements, which generated deferred taxes, net of uses for the group.

TAX LOSSES €/000

		2018		2019	
	maturity	**loss**	**tax**	**loss**	**tax**
2001	can be carried forward indefinitely	5.585	1.340	5.318	1.277
2002		152.738	36.657	152.738	36.657
2008		29.741	7.138	17.078	4.099
		188.064	**45.135**	**175.134**	**42.033**

Note that 2001 and 2002 tax losses can only be used by Burgo Group spa.
As indicated above, tax losses arising in financial year 2008 were decreased by € 12,325 thousand following their use when determining the group IRES taxable amount of 2019.

Current assets

5) INVENTORIES

INVENTORIES €/000

	31 dec 2018	31 dec 2019	Change
raw materials inventories	33.164	25.062	(8.101)
stock inventories	27.554	26.231	(1.323)
provision for impairment of stock	(7.405)	(7.849)	(444)
Raw materials, subsidiary and consumable items	**53.313**	**43.444**	**(9.869)**
Products in progress and semi-finished products	17.174	12.220	(4.954)
Products in progress	**17.174**	**12.220**	**(4.954)**
Finished products and goods	65.015	52.675	(12.340)
Provision for impairment of products	(1.089)	(1.362)	(273)
Finished products	**63.926**	**51.313**	**(12.612)**
	134.413	**106.977**	**(27.435)**

It should be noted that inventories at 31 12 2018 included the amounts associated with the Toscolano business unit which was transferred to the subsidiary Mosaico srl, in the amount of € 17,661 thousand.
The value of raw materials, consumables and finished products is shown net of the provision for obsolescence for € 8,211 thousand (€ 8,494 thousand the previous year).
This provision was adjusted during the year on the basis of the most recent assessments of the risk of not recovering the value of inventories.
The decrease in the value of raw materials, totalling € 4,344 thousand net of the transfer (€ 8,101 thousand before the transfer), can mainly be attributed to the decrease in purchase prices and, consequently, in the average weighted cost at the end of the year in question.
The decrease in the value of products in progress and in finished products, equal to € 5,244 thousand net of the value of Toscolano (€ 17,566 thousand before the transfer), is due both to lower quantities in stock (associated with the stoppage at the Verzuolo plant to convert systems) and to a reduction in the average cost of production linked to the decrease in the cost of raw materials.

6) TRADE RECEIVABLES

TRADE RECEIVABLES €/000

	31 dec 2018	31 dec 2019	Change
Relative to customers	162.066	128.721	(33.345)
minus: provision for doubtful accounts	(38.858)	(38.119)	739
	123.208	**90.602**	**(32.606)**
Relative to the Group companies	64.354	32.925	(31.430)
	64.354	**32.925**	**(31.430)**
	187.562	**123.527**	**(64.035)**

Trade receivables due from third parties decreased by € 32,606 thousand mainly due to lower sales during the final quarter.
Receivables due from other Group companies fell due to lower receivables due from the subsidiary Mosaico srl after the transfer of the Toscolano business unit.
Trade receivables do not accrue interest. It is held that the value inserted (adjusted by the provision for doubtful accounts) approximates the presumable realisable value.
The provision for doubtful accounts is adequate to risk coverage requirements.
The table below provides a breakdown of trade receivables by geographic area, exclusive of infragroup transactions.

TRADE RECEIVABLES BY GEOGRAPHIC AREA €/000

	31 dec 2018	31 dec 2019	Change
Italy	51.629	29.097	(22.532)
Europe E.U.	59.493	52.019	(7.474)
Other countries	12.087	9.487	(2.600)
	123.208	**90.602**	**(32.606)**

7) OTHER RECEIVABLES AND CURRENT ASSETS

OTHER RECEIVABLES AND CURRENT ASSETS €/000

	31 dec 2018	31 dec 2019	Change
Current tax receivables	**3.812**	**9.219**	**5.406**
Current sundry receivables due from subsidiaries	1.180	1.504	324
Current tax consolidation receivables due from subsidiaries	6.438	7.659	1.220
Sundry receivables due from group companies	**7.618**	**9.162**	**1.544**
Current sundry receivables due from others	13.948	9.444	(4.504)
Current receivables due from social security entities	42	30	(12)
Current derivative assets	-	3.271	3.271
Other sundry receivables	**13.990**	**12.744**	**(1.245)**
Other assets	**388**	**2.014**	**1.626**
	25.808	**33.139**	**7.332**

Other receivables and current assets increased by € 7,332 thousand.
The main changes are described in detail below:

- tax receivables: these went from € 3,812 the previous year to € 9,219 thousand; among the most significant changes note the increase in the VAT receivable of € 5,439 thousand;
- receivables for tax consolidation relative to subsidiaries: these increased by € 1,220 thousand;
- other receivables due from others: these fell by € 4,504 thousand, mainly due to lower advances to suppliers;
- recognition of assets for derivatives for € 3,271 thousand.

8) EQUITY INVESTMENTS

EQUITY INVESTMENTS €/000

	31 dec 2018	31 dec 2019	Change
Other equity investments	774	1.030	256
	774	**1.030**	**256**

Securities in the portfolio at the end of financial year 2019 consisted of 105,000 Mediobanca shares (unchanged with respect to 31 December 2018).
Pursuant to accounting standard IFRS 9, the Mediobanca shares are classified as financial assets measured at fair value through other comprehensive income (FVOCI).
Adjustment to market values is done on the basis of stock market listings as of the end of the year, specifically: Mediobanca € 9.814 (€ 7.376 at 31 December 2018).
The adjustment to market value involved an increase in the value of the Mediobanca shares by € 256 thousand, passing through the specific fair value through other comprehensive income reserve.

9) FINANCIAL RECEIVABLES AND OTHER CURRENT FINANCIAL ASSETS

FINANCIAL RECEIVABLES AND OTHER CURRENT FINANCIAL ASSETS €/000

	31 dec 2018	31 dec 2019	Change
Financial receivables due from subsidiaries	36.871	68.236	31.365
Financial receivables due from others	2.453	4.989	2.536
Derivative financial assets	231	7	(224)
Other financial assets	87	33	(53)
	39.641	**73.265**	**33.624**

Among other things, the balance includes financial receivables due from subsidiaries represent pass-through items in the context of coordinated treasury management (€ 68,236 thousand).
Specifically, receivables due from subsidiaries consist of the following positions:

- Burgo Energia: € 447 thousand (€ 11,920 thousand at 31 December 2018);
- Burgo Distribuzione: € 17,073 thousand (€ 20,282 thousand at 31 December 2018);
- Burgo Factor: € 36,669 thousand (€ 872 thousand at 31 December 2018);
- Burgo Ardennes: € 14,047 thousand (€ 3,797 thousand at 31 December 2018);

10) CASH AND OTHER CASH EQUIVALENTS

CASH ON HAND AND OTHER CASH EQUIVALENTS €/000

	31 dec 2018	31 dec 2019	Change
Bank and postal deposits	50.332	44.187	(6.144)
Cash and cash on hand	21	21	(1)
	50.353	**44.208**	**(6.145)**

Liquidity and on demand bank deposits accrue interest at variable market rates. The book value, which represents the nominal value, is also equal to the fair value.
For a comment on the change in the item current accounts and other loans, please see note 16 "current financial liabilities".
Below is a reconciliation table for the item "Cash and other cash equivalents" with net monetary availability recognised in the cash flow statement:

RECONCILIATION OF CASH AND OTHER CASH EQUIVALENTS €/000

	31 dec 2018	31 dec 2019	Change
Cash on hand and other cash equivalents	50.353	44.208	(6.145)
shared current accounts receivable	36.871	68.236	31.365
shared current accounts payable	(10.870)	(20.062)	(9.192)
Current accounts and other loans	(5.035)	(41.822)	(36.787)
	71.320	**50.560**	**20.760**

Shareholders’ equity

11) SHAREHOLDERS’ EQUITY

Total shareholders' equity amounted to € 408,236 thousand (€ 396,915 thousand at 31 December 2018).
Share capital at 31 December 2019 consisted of 395,083,445 ordinary shares with no nominal value, for a total value of € 20,000 thousand.
The company has no treasury shares in its portfolio.
Shareholders' equity at 31 December 2019 increased by € 11,321 thousand with respect to 31 December 2018, as a consequence of the following changes:

- profit for the year of € 11,720 thousand;
- fair value changes, net of taxes, on equity investments and other securities classified as FVOCI, which led to an increase of € 256 thousand from fair value adjustments;
- the recognition in the reserve, net of taxes, of actuarial gains based on that required under IAS 19, which led to a decrease of € 629 thousand;
- the recognition, in the CFH reserve, net of taxes, of the fair value of financial instruments recognised using hedge accounting (cash flow hedge) for a negative change of € 26 thousand.

For more information, please see the "Statement of changes in shareholders' equity".
The table below breaks down the reserves, including profits carried forward:

RESERVES AND PROFITS CARRIED FORWARD €/000

	31 dec 2018	31 dec 2019	Change
Non-distributable reserve from share capital reduction	138.797	138.797	-
Legal	13.149	13.149	-
Reserve for equity financial instruments	200.000	200.000	-
Non-distributable exchange gains reserve	1.280	1.280	-
Other reserves	238	238	-
IAS 19 reserve	(6.875)	(7.504)	(629)
Reserve for accounting standard change - FTA	4.011	4.011	-
Reserve for adjustment to FVOCI	314	570	256
Cash flow hedge reserve	-	(26)	(26)
	350.915	**350.516**	**(399)**
Profits (losses) carried forward reserve	18.264	26.000	7.736
	18.264	**26.000**	**7.736**

Deferred taxes relative to items directly attributed to shareholders' equity are as follows:

DEFERRED TAXES RECOGNISED DIRECTLY TO SHAREHOLDERS' EQUITY €/000

	31 dec 2018	31 dec 2019	Change
Fair value changes in cash flow hedges	-	10	10
Actuarial losses	1.912	2.111	199
	1.912	**2.121**	**209**

To complete the information provided about shareholders' equity, below is the schedule pursuant to article 2427, no. 7 bis of the Italian Civil Code, which provides the items composing shareholders' equity, broken down on the basis of their origin, possibility of use and whether they can be distributed, as well as uses made in previous years.
This classification takes into account the amendments made to the Italian Civil Code by Italian Legislative Decree 139 of 18 August 2015, and was also carried out on the basis of the indications found in "Guide to regulations on distribution of profits and reserves pursuant to Italian Legislative Decree 38 of 28 February 2005", issued by the Italian Accounting Body.

DISTRIBUTABILITY OF RESERVES PURSUANT TO ARTICLE 2427, NO. 7 BIS, ITALIAN CIVIL CODE

€/000

	amount	possibility of use	"portion available (for distribution)"	
Capital reserves:				
Non-distributable reserve from share capital reduction	138.797	B	-	
SFP reserve, non-distributable	46.646	B	-	
	185.443		-	
Profit reserves:				
SFP reserve, non-distributable	153.354	B	-	
Legal reserve	13.149	B	13.149	
CFH reserve	(26)		-	(2)
IAS 19 reserves	(7.504)		-	(3) (5)
Reserve for FV adjustment of AFS assets	570		-	(4)
FTA reserve (Italian Legislative Decree 38/2005 art.7 paragraph 7)	4.011	B	-	
Merger surplus	238	A, B, C	238	
Exchange reserve	1.280	B	-	
	165.072		13.387	
Profits (losses) carried forward reserve	26.000	A, B, C	-	(1) (5)
	26.000		-	
	191.072		13.387	
	376.515		**13.387**	

Key:
A: for capital increase
B: to cover losses
C: for distribution to shareholders
D: for other constraints in the Articles of Association
(1) Recall that, for the purposes of Italian Law 488 of 1992, the 2004 profit carried forward derives in part from the reversal of advance amortisation recognised in the annual profit and loss statement in previous years, destined to cover the following investment programs:
- Law 488 program 21165 Duino € 11,448 thousand
- Law 488 program 82305 Duino € 9,676 thousand
(2) Reserve for fair value adjustment of hedging derivatives and the relative underlying assets/liabilities. This reserve is correlated with the recognition of cash flow hedges. In particular, it refers to unrealised gains and losses, net of the relative tax effects, which derive from the fair value adjustment of a cash flow hedge and its relative underlying elements. Note that, in application of Italian Legislative Decree 38/2005, this reserve is subject to the unavailability regime established under article 6, paragraph 1, letter b of the same decree.
(3) Reserve for gains/losses from discounting of defined benefit plans, based on that required under IAS 19.
(4) Reserve for fair value adjustment of financial assets available for sale. Note that, in application of Italian Legislative Decree 38/2005, this reserve is subject to the unavailability regime established under article 6, paragraph 1, letter b of the same decree.
(5) The purposes for which this reserve can be used are not indicated, given that it is a negative value which is offset by decreasing the portion available of profits carried forward.

The tax regime for the reserve is illustrated below.
In regards to suspended tax reserves, the legal reserve is bound for tax purposes in the amount of € 709 thousand for the reconstitution of suspended tax reserves of companies incorporated in previous years. Recall that, for tax purposes, a constraint is set on amounts in reserves, equal to the balance of off the accounts deductions made and not yet reabsorbed, net of associated deferred taxes. This balance is estimated to be around € 57 million at the end of the year, net of deferred IRES taxes.
Recall that tax regulations do not envisage taxation, provided that after any distribution shareholders' equity reserves remain that are equal to the net amount reported above.

NON-CURRENT LIABILITIES

12) NON-CURRENT FINANCIAL LIABILITIES

NON-CURRENT FINANCIAL LIABILITIES €/000

	31 dec 2018	31 dec 2019	Change
Converting loan	100.000	100.000	-
Loan payables	439.872	425.012	(14.860)
Right of use liabilities	-	2.278	2.278
	539.872	**527.290**	**(12.582)**

RIGHT OF USE LIABILITIES - FLOWS €/000

	01/01/2019	Increases	Decreases	Reclassification	31/12/2019
Non-current right of use liabilities	2.008	1.253	-	(983)	2.278
Current right of use liabilities	742	-	(874)	983	851
Total	**2.750**	**1.253**	**(874)**	**-**	**3.129**

Non-current financial liabilities include:
- convertible loan in equity financial instruments (SFP) for € 100,000 thousand;
- amounts due to shareholders for loans for € 242,064 thousand and MLT loans due to others for € 182,948 thousand;
- a subsidised loan of € 2,963 thousand and a bank loan of € 329 thousand for a total of € 3,292 thousand, relative to admission to receive the benefits of the Fund for Technological Innovation, Law FIT 46/82 for the Sora plant;
- liabilities for rights of use for € 2,278 thousand, following application of IFRS 16.

During 2019, the company repaid € 997 thousand in advance, of which € 826 thousand due to excess cash as of the reference date of 31 12 2018 and € 171 thousand for other clauses included in the financing agreements. These repayments will be subtracted from the final payment in the amortisation plan for the loans.
The equity structure relative to non-current financial liabilities remained substantially unchanged with respect to the previous year.

Interest on variable rate loans was determined every six months. The conditions for fixed rate loans remained constant through to maturity of the instruments. For all payables relative to loans, valued at the amortised cost, it is held that the book value reflects the fair value of the financial instrument as of the reporting date.
Note that the loans stipulated in the context of the recovery plan include a negative pledge clause which limits the company's ability to provide collateral to cover its own obligations and those of third parties, with the exclusion of guarantees necessary to carry out its core business.

CONVERTING LOAN - BREAKDOWN OF MATURITY DATES €/000

	31 dec 2018	31 dec 2019	Change
from 2 - 3 years	-	100.000	100.000
from 4 - 5 years	100.000	-	(100.000)
over 5 years	-	-	-
	100.000	**100.000**	**-**

LOAN PAYABLES - BREAKDOWN OF MATURITY DATES €/000

	31 dec 2018	31 dec 2019	Change
from 2 - 3 years	41.626	425.015	383.389
from 4 - 5 years	398.249	-	(398.249)
	439.875	**425.015**	**(14.860)**

RIGHT OF USE LIABILITIES - BREAKDOWN OF MATURITY DATES €/000

	31 dec 2018	31 dec 2019	Change
from 2 - 3 years	-	1.331	1.331
from 4 - 5 years	-	746	746
over 5 years	-	201	201
	-	**2.278**	**2.278**

13) SEVERANCE INDEMNITIES (TFR) AND OTHER PROVISIONS RELATIVE TO PERSONNEL

TFR (SEVERANCE INDEMNITY) €/000

	31 dec 2018	31 dec 2019	Change
Actuarial measurement of TFR at start of period	31.205	27.013	(4.192)
Payments	(3.961)	(3.273)	688
TFR discounting - IAS 19 reserve	(611)	828	1.439
TFR discounting - financial expense (income)	380	370	(10)
Transfer	-	(3.398)	(3.398)
Other changes - incoming (outgoing) transfers	**-**	**(195)**	**(195)**
	27.013	**21.347**	**(5.667)**

For actuarial measurement of the provision for severance indemnities (TFR) at 31 December 2019, on the basis of accounting standard IAS 19 an independent actuary carried out the calculation, on the basis of information provided by the Company.
In the calculation, the actuary made use of the following demographic hypotheses:

- to estimate probability of death within the group of employees subject to measurement, the RG48 survival table used by the Italian General Accounting Office to estimate pension expenses for the Italian population was used;
- to estimate probability of disability within the group of employees subject to measurement, an INPS table was used, broken down by age and sex;
- for retirement age for the generic active population, achievement of the minimum requirements established for General Obligatory Insurance was assumed;
- for probability of departure for reasons other than death, an annual frequency of 3.00% was considered (unchanged with respect to the previous year);
- for the probability of TFR advances, a yearly value of 2.00% was assumed (unchanged with respect to the previous year).

Financial economic hypotheses used in the measurement are described below:

ECONOMIC/FINANCIAL HYPOTHESES USED €/000

	2018	2019
Annual theoretical discounting rate	1,57%	0,77%
Annual inflation rate	1,50%	1,20%
Annual TFR increase rate	2,63%	2,40%

The validity of this data is connected to the stability of the reference regulatory situation, expected performance of interest rates on the financial market, the expected performance of salary trends, of future liquidation trends and the frequency with which employees make use of advances, which must be on average compatible with the economic/financial hypotheses made.
Based on the social security reform, since the Company has more than 50 employees future portions of the TFR provision accruing no longer accumulate within the company but go to supplementary social security or the INPS treasury fund. Therefore, projection of salaries based on given growth rates and professional roles is no longer necessary.

14) PROVISIONS FOR RISKS AND CHARGES

PROVISIONS FOR RISKS AND CHARGES €/000

	31 dec 2018	31 dec 2019	Change
Provision for industrial charges	18.430	20.541	2.111
Provision for disputes in course	8.573	11.866	3.293
Provision for supplementary customer allowance	654	641	(13)
Provision for restructuring charges	7.380	4.457	(2.923)
	35.037	**37.504**	**2.467**

Below is a breakdown of changes in the provisions:

PROVISIONS FOR RISKS AND CHARGES - CHANGES €/000

	Balance at start of period	Transfer	Increases	Decreases	Discounting	Balance at end of period
Provision for industrial charges	18.430	(1.796)	6.366	(2.823)	364	20.541
Provision for disputes in course	8.573	-	4.347	(1.054)	-	11.866
Provision for supplementary customer allowance	654	-	-	(50)	36	641
Provision for restructuring charges	7.380	-	1.800	(4.723)	-	4.457
	35.037	**(1.796)**	**12.513**	**(8.650)**	**400**	**37.504**

The provision for industrial charges is mainly intended to cover expenses that are expected to be sustained for reclamation of the landfills and for disposal of sludge and asbestos; it also covers the emerging charges for obligations associated with carbon dioxide (CO_2) emissions. The increase during the year was due in large part to the provisions for future purchases of black certificates, which in 2019 totalled € 3,904 thousand.

The provision for disputes in course is created to deal with potential liabilities that could arise in relation to legal disputes and disputed items. The increase is due to the allocation made for a loss in existing disputes.
The provision for supplementary customer allowance represents the updated estimate of the indemnities to be paid to sales agents for interruption of the agency relationship.
The provision for restructuring costs includes provisions made for expenses to be sustained to carry out the restructuring plan. This was increased by € 1,800 thousand during the year, against uses of € 4,723 thousand.

15) OTHER PAYABLES AND NON-CURRENT LIABILITIES

OTHER PAYABLES AND NON-CURRENT LIABILITIES €/000

	31 dic 2018	31 dic 2019	Variazione
Non-current payables due to suppliers	2.533	-	(2.533)
	2.533	**-**	**(2.533)**

Payables relative to supplier invoices for multi-year maintenance and investments of € 2,533 thousand were reclassified to current liabilities, as they are payable by the end of the next year.

Current liabilities

16) CURRENT FINANCIAL LIABILITIES

CURRENT FINANCIAL LIABILITIES €/000

	31 dec 2018	31 dec 2019	Change
Loan payables - current portion	20.812	21.229	418
Current accounts and other loans	5.035	41.822	36.787
Payables due to subsidiaries	10.870	20.062	9.192
Right of use liabilities	-	851	851
Other financial liabilities	501	481	(20)
	37.217	**84.446**	**47.228**

Interest on variable rate loans was redetermined every six months. The conditions for fixed rate loans remained constant through to maturity of the instruments. For all payables relative to loans, valued at the amortised cost, it is held that the book value reflects the fair value of the financial instrument as of the reporting date. Additionally, the current portions of rights of use were recognised in the financial statements for € 851, in application of IFRS 16.
Amounts due to subsidiaries for € 20,062 thousand include payables relative to the shared current accounts with Gever spa, for € 1,847 thousand, and with Mosaico srl for € 18,215 thousand.
Other financial liabilities, equal to € 481 thousand, include interest expense payable accruing on loans and relative to the use of short-term bank credit lines.
Also note that for short-term financial needs, credit lines are available totalling around € 200 million, at 31 December 2019 used for a total of around € 57 million or 29%. Please refer to the section on significant events after the end of the year for information about developments in the availability of credit lines.

17) TRADE PAYABLES

TRADE PAYABLES €/000

	31 dec 2018	31 dec 2019	Change
Current payables due to suppliers	272.857	218.104	(54.753)
Trade payables due to Group companies	75.967	65.710	(10.257)
	348.824	**283.814**	**(65.010)**

Trade payables do not accrue interest. The amount recognised in the financial statements approximates the market value.
The table below provides a breakdown by geographic area:

TRADE PAYABLES BY GEOGRAPHIC AREA €/000

	31 dec 2018	31 dec 2019	Change
Italy	161.506	146.362	(15.144)
Europe E.U.	104.840	65.014	(39.826)
Other countries	6.511	6.728	217
	272.857	**218.104**	**(54.753)**

18) CURRENT TAX PAYABLES

PAYABLES FOR CURRENT TAXES €/000

	31 dec 2018	31 dec 2019	Change
Tax payables, income tax	783	-	(783)
Tax payables, VAT	288	285	(2)
Payables for withholdings	3.726	3.671	(55)
	4.796	**3.956**	**(841)**

Current tax payables amount to € 3,956 thousand. This item mainly includes payables due to tax authorities for taxes to be paid in the form of replacement tax. The decrease is due to the extinction of payables due to tax authorities for direct taxes (IRES and IRAP).

19) OTHER PAYABLES AND CURRENT LIABILITIES

OTHER PAYABLES AND CURRENT LIABILITIES €/000

	31 dec 2018	31 dec 2019	Change
Current sundry payable due to others	5.665	4.754	(911)
Current sundry payable due to subsidiaries	764	594	(170)
Payables for commissions and premiums	5.332	3.567	(1.764)
Current tax consolidation payables due to subsidiaries	644	70	(574)
Payables due to personnel	8.773	8.175	(598)
Current payables due to social security entities	5.373	4.482	(891)
Current derivatives liabilities	-	3.157	3.157
Deferred income from grants for plants	1.066	804	(262)
Other accrued expenses and deferred income	1.545	1.511	(34)
	29.162	**27.144**	**(2.048)**

The decrease of € 2,048 thousand, is due in particular to:

- a decrease in other payables for € 911, mainly due to lower allocations of accruals for general system charges for electricity taken from the grid;
- a decrease in payables for commissions and premiums of € 1,764 thousand;
- a decrease in payables due to social security entities for € 891 thousand;
- a decrease in payables for tax consolidation relative to subsidiaries for € 574 thousand;
- a decrease in payables due to personnel for € 598 thousand;
- recognition of current liabilities for derivatives in the financial statements for € 3,157 thousand.

20) COMMITMENTS AND POTENTIAL LIABILITIES

COMMITMENTS AND POTENTIAL LIABILITIES €/000

	31 dec 2018	31 dec 2019	Change
Personal guarantees provided in favour of:			
subsidiaries	42.543	11.322	(31.221)
other subjects	21.474	15.225	(6.249)
	64.017	26.547	(37.470)
Others:			
third party securities in custody	16.882	16.882	-
third party assets	829	-	(829)
	17.711	**16.882**	**(829)**
	81.727	**43.429**	**(38.299)**

Guarantees provided to third parties in the interest of subsidiaries relate to credit institutions that issue sureties on the account of subsidiaries. Other guarantees consist of sureties provided by banks and insurance companies within the context of the Company's normal core business.
Third party securities refer to the Company's shares held in custody by Burgo Group spa.

Profit and Loss Statement for the Year

Below are the main items which were not commented on relative to the profit and loss statement. For comments on changes in the most significant items, please see analysis of income results in the Report on Operations.

21) REVENUES

REVENUES €/000

	31 dec 2018	31 dec 2019	Change
Paper	1.113.572	1.036.263	(77.309)
Energy	34.913	36.854	1.942
Gas	51.810	36.049	(15.761)
Others	11.668	10.209	(1.460)
	1.211.963	**1.119.375**	**(92.588)**

The decrease in revenues totals € 92,588 thousand. Sales linked to energy increased by € 1,942 thousand while sales linked to sales of gas decreased by € 15,761 thousand, in particular due to lower reinvoicing to Gever spa.
The decrease in paper turnover is due both to lower paper volumes, which fell from 1,665 t in 2018 to 1,589 t in 2019, as well as to lower average net sales prices. It should be noted that the net sales price would have increased with respect to 2018 if containerboard from the Avezzano plant were not included, which negatively impacts the average.

Below is a breakdown of revenues by geographic area:

MARKETS €/000

	31 dec 2018	31 dec 2019	Change
Italy	486.897	388.221	(98.676)
Europe E.U.	589.957	597.864	7.906
Other countries	135.109	133.291	(1.818)
	1.211.963	**1.119.375**	**(92.588)**

22) OTHER INCOME

OTHER INCOME €/000

	31 dec 2018	31 dec 2019	Change
Insurance settlements	1.074	1.572	498
Environmental certificates	24.483	18.044	(6.438)
Energy expense recovery and reimbursements	12.703	7.848	(4.855)
Sundry income and expense recovery	4.899	8.187	3.288
Grants for current expenses	503	513	10
	43.662	**36.164**	**(7.498)**

Other income fell by € 7,498 thousand, in particular due to lower fees relative to the interruptibility service and the decrease in profit from environmental certificates.

The item "grants for current expenses" includes:

- the portion accruing for 2019 (€ 262 thousand) of grants disbursed in previous years;
- the grant from Fondimpresa, a private association for personnel training (€ 140 thousand);
- the grant from Finpiemonte (€ 111 thousand) for a project involving the Verzuolo plant.

23) PURCHASES OF MATERIALS AND EXTERNAL SERVICES

PURCHASES OF MATERIALS AND EXTERNAL SERVICES €/000

	31 dec 2018	31 dec 2019	Change
Purchases of raw materials, subsidiary and consumable items and goods	749.898	661.466	(88.433)
Transport and accessory expense on purchases	10.970	11.960	990
Transport and accessory expense on sales	88.058	82.425	(5.633)
Other industrial services	17.859	21.608	3.749
Industrial maintenance	11.703	10.670	(1.033)
Electricity and methane	194.176	160.170	(34.006)
Fees to independent auditing firm	144	118	(27)
Fees to statutory auditors	105	105	-
Other general and administrative services	16.046	14.366	(1.681)
Rentals and leases	1.137	331	(806)
	1.090.097	**963.218**	**(126.879)**

Purchases of materials and external services decreased by € 126,879 thousand. Again in this case, as was seen in the revenues item, the transfer of the Toscolano plant to the subsidiary Mosaico contributed to the changes between 2018 and 2019. The most significant changes involve the decrease in raw materials, subsidiary and consumable items and goods (€ 88,433 thousand), mainly due to lower average purchase prices for cellulose, the decrease in transport and accessory expenses for sales (€ 5,633 thousand) and in energy products (€ 34,006 thousand) due to the reduction in the average gas price in 2019 with respect to the same period the previous year. Additionally, an increase was recorded for other industrial services, in the amount of € 3,749 thousand, mainly due to greater costs linked to the disposal of waste at the Avezzano plant. Energy costs are shown net of payments the Company has the right to as a heavy energy consumption business (the payments received in 2019 totalled € 267 thousand).

24) PERSONNEL EXPENSES

PERSONNEL EXPENSES			€/000
	31 dec 2018	31 dec 2019	Change
Wages and salaries	67.686	59.473	(8.213)
Social security contributions	23.487	21.227	(2.260)
Expenses for defined benefit programs	5.067	4.176	(891)
Others	1.475	2.431	956
	97.715	**87.307**	**(10.408)**

Personnel expenses decreased by € 10,408 thousand with respect to the previous year, accounting for 7.6% of turnover (7.8% in 2018). Again in this case, as was seen in the revenues item, the transfer of the Toscolano plant to the subsidiary Mosaico contributed to the changes between 2018 and 2019. For more details, please see the Report on Operations, under the item "Personnel".
Other costs include fees to directors, temporary work and expenses for personnel training.

25) OTHER OPERATING COSTS

OTHER OPERATING COSTS			€/000
	31 dec 2018	31 dec 2019	Change
Provisions			
for impairment of receivables	503	2.306	1.803
for CO2 certificates	12.031	3.905	(8.127)
for industrial charges	281	2.825	2.544
for disputes in course	1.125	4.347	3.223
for supplementary customer allowance	(182)	(13)	169
	13.758	13.369	(388)
Other costs			
Corporate expenses, taxes and indirect taxes	5.329	4.744	(585)
Contributions, donations and fines	638	744	106
CO2 certificates	-	4.416	4.416
Losses and other costs	389	657	268
	6.356	10.561	4.205
	20.114	**23.930**	**3.817**

Other operating costs increased by € 3,817 thousand. For an analysis of allocations please see note 14 "provisions for risks and charges" and note 6 "trade receivables".
Net allocations for impairment risks totalled € 2,306 thousand, gross of insurance compensation of € 1,228 thousand.
Net CO_2 costs for the year came to € 6,946 thousand (€ 12,031 thousand in 2018) of which € 4,416 thousand for purchases made during the year (€ 0 thousand in 2018) and € 3,905 thousand for allocations to the provision for CO_2 expense (€ 12,031 thousand in 2018), from which € 1,375 thousand is subtracted for resales of certificates (€ 0 thousand in 2018).

26) CHANGE IN INVENTORIES

CHANGE IN INVENTORIES €/000

	31 dec 2018	31 dec 2019	Change
Change in inventories	30.313	(9.774)	(40.088)
	30.313	**(9.774)**	**(40.088)**

The change in warehouse inventories constitutes a cost for the year of € 9,774 thousand, as a consequence of the decrease in stocks at the end of the period. For more detailed information, please see note 5 to the balance sheet.

27) CAPITALISED COSTS FOR INTERNAL WORK

CAPITALISED COSTS FOR INTERNAL WORK €/000

	31 dec 2018	31 dec 2019	Change
Capitalised costs	517	563	46
	517	**563**	**46**

This item includes costs for employee work, warehouse materials and other costs sustained to complete internal systems work, which were capitalised among property, plant and equipment.
Please see the Report on Operations for more details on the main investments made during 2019.

28) DEPRECIATION AND AMORTISATION

DEPRECIATION AND AMORTISATION €/000

	31 dec 2018	31 dec 2019	Change
Buildings	7.620	6.551	(1.069)
Plant and machinery	47.325	39.553	(7.772)
Industrial equipment	132	142	10
Other assets	861	762	(99)
Buildings for civil use	14	12	(2)
Rights of use	-	901	901
Intangible assets with defined life	361	427	66
	56.314	**48.348**	**(7.966)**

Depreciation and amortisation, equal to € 48,348 thousand, decreased by € 7,966 thousand. Note that the transfer of the Toscolano plant to the subsidiary Mosaico affected the change seen between 2018 and 2019, for which depreciation/amortisation in 2018 totalled € 4,403 thousand.

29) CAPITAL GAINS/LOSSES ON DISPOSAL OF NON-CURRENT ASSETS

CAPITAL GAINS/LOSSES ON DISPOSAL OF NON-CURRENT ASSETS €/000

	31 dec 2018	31 dec 2019	Change
Capital gains	2.017	177	(1.840)
Capital losses	(76)	(1.634)	(1.558)
	1.941	**(1.457)**	**(3.398)**

The main capital losses during the year were linked to the disposals occurring at the Verzuolo plant due to conversion to containerboard production.

30) WRITEBACKS/WRITEDOWNS OF ASSETS

WRITEBACKS/WRITEDOWNS OF ASSETS €/000

	31 dec 2018	31 dec 2019	Change
Land and buildings	87	1.277	1.190
Plant and machinery	12.663	9.528	(3.135)
Goodwill and other assets with undefined life	9.854	-	(9.854)
	22.603	**10.805**	**(11.798)**

During the year, writedowns were recognised relative to fixed assets totalling € 10,805 thousand, specifically € 9,528 thousand for the Verzuolo plant and €1,277 thousand for a plot of land.

31) NET EXPENSES/INCOME OF A NON-RECURRING NATURE

Non-recurring expenses/income during the year totalled € 577 thousand in net expenses and relate to other industrial expenses for plants which are no longer operational (Chieti, Marzabotto and the San Mauro offices).

32) NET RESTRUCTURING EXPENSES

NET RESTRUCTURING EXPENSES €/000

	31 dec 2018	31 dec 2019	Change
Restructuring expenses	-	1.800	1.800
	-	**1.800**	**1.800**

Allocations were made in the amount of € 1,800 thousand for the reclamation of production sites at which production has been stopped.

33) FINANCIAL EXPENSES

FINANCIAL EXPENSES

	31 dec 2018	31 dec 2019	Change
Interest expense on payables due to banks	12.180	11.505	(674)
Discounting of severance indemnities (TFR)	380	370	(10)
Interest expense on infragroup current account	951	122	(829)
Other financial expense	11.227	13.487	2.260
Write-downs of equity investments	-	360	360
	24.738	**25.845**	**1.107**

During the year, financial expense from amounts due to banks fell by € 674 thousand and interest expense from infragroup current accounts fell by € 829 thousand. Financial expense other than the above increased by € 2,260 thousand. This mainly includes discounts of a financial nature for short-term client payments and charges on financial transactions, as well as the portion accruing during the year for commissions paid in advance against short-term credit lines and commissions for non-use.

34) FINANCIAL INCOME

FINANCIAL INCOME €/000

	31 dec 2018	31 dec 2019	Change
Income from equity investments			
Dividends from subsidiaries	26.953	21.837	(5.116)
Dividends from other companies	49	49	-
	27.003	21.886	(5.116)
Other financial income			
Interest income from banks	107	38	(69)
Interest income on infragroup current account	981	2.207	1.226
Other financial income	1	26	25
Exchange gains	1.046	1.144	97
	2.135	**3.415**	**1.279**
	29.138	**25.301**	**(3.837)**

Financial income decreased by € 3,837 thousand with respect to the previous year. More specifically, the main components of this item were the following:

- dividends from subsidiaries:

Burgo Ardennes € 8,300 thousand (€ 6,200 thousand in 2018);
Burgo Deutschland € 240 thousand (€ 240 thousand in 2018);
Burgo Distribuzione € 2,200 thousand (€ 2,150 thousand in 2018);
Mosaico € 10,850 thousand (€ 16,950 thousand in 2018);
Burgo Eastern Europe € 247 thousand (€ 179 thousand in 2018);

- dividends from other companies for € 49 thousand refer to listed shares held in the portfolio.
- interest income from infragroup current accounts relative to subsidiaries for € 2,207 thousand.
- exchange gains through transactions in foreign currencies for € 1,144 thousand.

35) INCOME TAXES

INCOME TAXES €/000

	31 dec 2018	31 dec 2019	Change
Current taxes - IRES	(4.643)	(7.670)	(3.027)
Current taxes - IRAP	1.134	1.069	(65)
Deferred tax assets/liabilities - IRES	1.998	3.433	1.436
Deferred tax assets/liabilities - IRAP	(699)	(212)	487
	(2.210)	**(3.380)**	**(1.170)**

These include net income for current IRES from tax consolidation for € 7,670 thousand (including the effect deriving from the use of Group tax losses in the amount of 80%), charges for current IRAP for € 1,069 thousand and net deferred tax liabilities for € 3,221 thousand.
Reconciliation of income taxes recognised in the statement of profit and loss and theoretical taxes resulting from application of the tax rate in effect on before tax profit is as follows:

RECONCILIATION BETWEEN INCOME TAX AND THEORETICAL TAX €/000

	2018		2019	
Before tax results for the year	**5.526**		**8.341**	
Theoretical tax (IRES) - Italian tax rate in effect: 24%		1.326		2.002
increases (temporary and permanent)	65.105		52.807	
decreases (temporary and permanent)	(59.356)		(65.521)	
	11.275		**(4.373)**	
Current taxes recognised in the financial statements		1.161		708
Charge (income) from tax consolidation		(5.803)		(8.378)
Deferred taxes (IRES) recognised in the financial statements		1.998		3.433
Total (IRES) taxes recognised in the financial statements		**(2.645)**		**(4.236)**
Current taxes (IRAP) recognised in the financial statements - 3.9% rate in effect		1.134		1.069
Deferred taxes (IRAP) recognised in the financial statements - 3.9% rate in effect		(699)		(212)
Total (IRAP) taxes recognised in the financial statements		**435**		**857**
Total taxes recognised in the financial statements		**(2.210)**		**(3.380)**
Effective tax rate (IRES and IRAP) on before tax result		0,0%		0,0%

Increases in income are for the most part temporary and without time limits, which is the reason the relative deferred tax assets were allocated.

Decreases in income on the other hand mainly consist of dividends, which are 95% exempt, uses of provisions for risks and charges taxed in previous year, and the reversal effect relative to writedowns not deducted in previous year.

Please see note 4 "deferred tax assets" for more information on deferred taxes, relative to both other increases and decreases and tax losses.

36) SCHEDULE OF OTHER COMPONENTS OF THE COMPREHENSIVE PROFIT AND LOSS STATEMENT

The schedule presented, found after the profit and loss statement at the start of the explanatory notes, illustrates the theoretical economic result that would be achieved in the case that all changes in items directly attributed to shareholders' equity passed through the annual profit and loss statement and has been adjusted to the provisions of IAS 1, indicating through grouping the items which, upon the meeting of specific conditions, will be reclassified to profit (loss) for the year and, separately, those that will not be reclassified to profit (loss) for the year.

The company has the following items:

- adjustment of derivatives recognised using cash flow hedge rules to the fair value at end of year. During the year, the gross variation was negative for € 36 thousand, which net of taxes (€ 10 thousand) is equal to € 26 thousand;
- adjustment of financial instruments to the market value at year end. At the end of the year, the parent company classified the Mediobanca shares held in its portfolio as FVOCI. During 2019, the change was positive for € 256 thousand (see note 8 for more details);
- actuarial gains (losses) during the year which, pursuant to the revised IAS 19, are allocated to a specific shareholders' equity reserve. During the year, the gross variation was negative for € 828 thousand, which net of taxes (€ 199 thousand) is equal to € 629 thousand.

Relations with related parties

Related party transactions, including infragroup transactions, are not classified as atypical or unusual, as they are part of the Company's ordinary business.
These operations, when not completed under standard conditions or those dictated by specific regulatory provisions, are in any case carried out under market conditions.
Below are the economic and equity effects of transactions with related parties for the individual figures of Burgo Group spa at 31 December 2019.
Related party transactions (based on the definition in IAS 24) essentially involve the exchange of goods, the provision of services or the supply and use of financial means.

RELATIONS WITH RELATED PARTIES €/000

	Subsidiaries		Total financial statement items			
	31 dec 2018	31 dec 2019	31 dec 2018	%	31 dec 2019	%
Relations with related parties						
Financial receivables and other non-current financial assets	2.800	2.800	2.800	100%	5.410	52%
Trade receivables	64.354	32.925	187.562	34%	123.527	27%
Other receivables and current assets	7.618	12.433	25.808	30%	33.139	38%
Financial receivables and other current financial assets	36.871	68.234	39.641	93%	73.265	93%
Current financial liabilities	(10.870)	(20.062)	(37.217)	29%	(84.446)	24%
Trade payables	(75.967)	(65.710)	(348.824)	22%	(283.814)	23%
Other payables and current liabilities	(2.507)	(4.873)	(29.162)	9%	(27.114)	18%
Economic relationships						
Revenues	272.010	175.932	1.211.963	22%	1.119.375	16%
Other income	12.950	4.646	43.662	30%	36.164	13%
Costs for materials and external services	(256.396)	(257.506)	(1.090.097)	24%	(963.218)	27%
Other operating costs	-	(4.416)	(20.113)	0%	(23.931)	18%
Financial expenses	(951)	(122)	(24.738)	4%	(25.845)	0%
Financial income	27.934	24.068	29.138	96%	25.301	95%
Income taxes	5.803	8.378	2.210	263%	3.380	248%

In addition the transactions reported above, at 31 December 2019 there were medium/long-term loans, exchange rate hedging contracts and insurance policies covering industrial risks and civil liability with related parties, all stipulated at market conditions.
At 31 December 2019, loans with related parties amounted to a nominal € 253,973 thousand (€ 263,842 thousand at 31 December 2018).
Fees paid to executives with strategic responsibilities: fees paid to the Chairperson and CEO in 2019 totalled € 800 thousand.
As the parent company, the Company adheres to tax consolidation, together with its subsidiaries Burgo Distribuzione srl, Burgo Energia srl, Gever spa , Mosaico srl and Burgo Factor spa. The first four subsidiaries also participate in group VAT liquidation pursuant to article 73 of Italian Presidential Decree 633/72 and the Italian Ministerial Decree of 13 December 1979.

Disputes

LEGAL DISPUTES

At present, the Company is not involved in any legal disputes that could have a noticeable effect on its accounts. For all disputes in which a loss for the company is probable, a provision which substantially covers the entire risk is allocated.

TAX DISPUTES

This brief note provides the status of the main tax disputes involving the company, updated as of the date these draft financial statements were prepared.

Marchi group reorganisation and non-deductibility of black list costs
The dispute relative to tax period 2003 mainly referred to certain areas of interpretation regarding an extraordinary reorganisation operation carried out by the former subsidiary Cartiere Marchi SpA.
The company was successful at the first two levels of the tax dispute, with the minor exception of certain costs relative to a supplier residing in a black list country, for which the sums have already been paid.
With a judgment of 31 October 2018, filed on 6 December 2018, no. 31613, the Court of Cassation confirmed the previous judgements in favour of the company.
Additionally, the Court granted the company's cross-claim, relative to the first and second level rulings on the non-deductibility of costs sustained in 2003 relative to the foreign supplier referenced above.
The Court of Cassation then referred the case to the Veneto Regional Tax Commission for a new decisions which, for other years, had already accepted the company's rationale with regards to the deductibility of the costs in question.
The Regional Commission, with a judgement filed on 18 December 2019, dismissed the case, ordering the tax authorities to pay expenses.
Additionally, repayment of that advanced during the case has already been obtained, for over € 200,000.

Significant events after year end

During the first few months of 2020, after successful start up in January after the production conversion from graphic paper to containerboard, the Verzuolo paper making plant began production.
Starting in February 2020, in both Italy and throughout most of the world, countries began to suffer the initial effects of the new coronavirus (COVID-19) virus epidemic, which had begun to spread throughout continental China at the beginning of January 2020, subsequently transforming into a global pandemic and causing local slowdowns or shutdowns of certain economic activities and pushing the Italian government to adopt increasingly strict measures to avoid the spread of the virus. It should be noted that the Company took immediate action to protect the health of its employees.

Estimates calculated at 31 December 2019 were made on the basis of macroeconomic indicators relative to that date.

The current health emergency, which occurred after the end of the year, did not lead to any adjustments as at present no impacts have arisen of a significance which could compromise the business as a going concern or the Company's overall profitability.
At present we can report the following:

- turnover has not seen any significant negative impacts deriving from the current situation;
- credit positions are constantly monitored and currently there are no uncertain positions not already considered in the writedowns already seen in the financial statements. Nonetheless, note the increasing request for longer payment terms;
- activities at the production plants and offices were not interrupted by the health emergency;

That said, the impact of the health emergency will be constantly monitored as it develops and will be considered in the Company's economic estimates throughout 2020.

Proposal for approval of the financial statements and destination of the profits for the year

The financial year ended on 31 December with profits of € 11,720,271.92.
The Board of Directors submits to the Shareholders' Meeting the proposal to approve profits for the year be carried forward in the amount of € 11,720,271.92. The reserve for unrealised exchange gains is adjusted to the new value of potential exchange differences at the end of the year, falling by € 474,911.33 to € 804,864.63.

Other information

NUMBER OF EMPLOYEES

	Start of year	Year end	Average 2019	Average 2018
Executives	25	25	26	26
Office Workers	408	418	417	444
Manual Workers	1.302	1.177	1.186	1.526
	1.735	**1.620**	**1.629**	**1.996**

DISCLOSURE FOR TRANSPARENCY IN PUBLIC SUBSIDIES, REQUIRED BY ITALIAN LAW 124/2017, ARTICLE 1, PARAGRAPHS 125-129, AS AMENDED.

Law no. 124 of 2017 (the annual market and competition law) introduced new disclosure requirements relative to transparency in public subsidies received and granted, in article 1, paragraphs 125-129.

The following schedule provides information about grants and other economic advantages received from Italian public administrations during 2019:

CONTRIBUTIONS AND SUBSIDISED RATE LOANS

Granting entity	Purpose	Subsidised rate	Amount financed
FinPiemonte	Grant for the Verzuolo plant project	-	Total amount disbursed in 2019 was **€** 111 thousand, total spending amounts to **€** 140 thousand
UbiBanca (as the agent of Cassa depositi e prestiti) through Banco di Sardegna	Subsidised loan, Law FIT 46/82, Sora plant	Annual fixed rate 0.50%	The loan was disbursed on 27/05/2019 for **€** 2,963 thousand. The residual value to be repaid as of 31/12/2019 was **€** 2,754 thousand.
UbiBanca (as the agent of Cassa depositi e prestiti) through Banco di Sardegna	Loan at market rates, Law FIT 46/82, Sora plant	Annual rate 2.75% + Euribor 6M	The loan was disbursed on 27/05/2019 for **€** 329 thousand. The residual value to be repaid as of 31/12/2019 was **€** 329 thousand.

Note that on the basis of the most authoritative interpretations of the stated law, any payments, general measures or tax subsidies which can be used by all companies or generally by companies within specific sectors, such as the paper sector or sector of heavy energy user companies, were not considered.

While the company holds that these stances are appropriate, it also decided to indicate the following incentives in these financial statements which can be enjoyed by all companies:

- energy efficiency certificates for € 14,962 thousand;
- hydroelectric energy production incentives for € 1,707 thousand.

Information about the financial risk management policy

The following information, pursuant to current accounting standard IFRS 7, is aimed at illustrating the impact that financial instruments have on the amount of risk exposure, providing details on measurements and mechanisms that the company has implemented to manage this exposure.

SIGNIFICANCE OF FINANCIAL INSTRUMENTS RELATIVE TO THE EQUITY AND FINANCIAL SITUATION AND ECONOMIC RESULT

Below is information regarding the significance of financial instruments relative to the equity situation and the economic result is provided separately.

SIGNIFICANCE OF FINANCIAL INSTRUMENTS TO THE EQUITY AND FINANCIAL SITUATION

The table below shows the book value recognised in the annual profit and loss statement and the fair value for each financial asset and liability.

FINANCIAL INSTRUMENTS **€/000**

	31 dec 2018		31 dec 2019	
	Book value	Fair value	Book value	Fair value
Financial assets available for sale	774	774	1.030	1.030
Trade receivables and other receivables	216.761	216.761	160.631	160.631
Financial receivables	42.210	42.210	76.059	76.059
Cash and cash equivalents	50.353	50.353	44.208	44.208
Assets	231	231	3.277	3.277
Liabilities	-	-	(3.157)	(3.157)
Lending from banks	(196.841)	(215.358)	(192.268)	(208.292)
Right of use liabilities	-	-	(3.129)	(3.129)
Loans from associated companies	(263.842)	(292.383)	(253.973)	(280.642)
Bonds	(100.000)	(114.835)	(100.000)	(115.231)
Trade payables and other payables	(385.315)	(385.315)	(311.727)	(311.727)
Current loans from associated companies	(10.870)	(10.870)	(20.062)	(20.062)
Payables due to banks	(5.536)	(5.536)	(42.303)	(42.303)
	(652.074)	**(713.967)**	**(641.414)**	**(699.338)**

Note that the amounts shown under the "derivatives" item include all derivatives recognised using hedge accounting rules, regardless of the nature of risk hedged against, and any derivatives for which the company did not make use of the right to use hedge accounting and derivatives recognised at fair value through profit and loss.
The analysis below shows the portion of derivatives designated as hedges against the specific risk analysed, on a case by case basis.
In particular, in analysing liquidity risk, only derivatives which hedge against financial liabilities are included, excluding positions which hedge against commodity risk.
After summarising the criteria and financial models used to estimate the fair value of the financial instruments shown above, further details will be provided about the individual financial items.

DERIVATIVES

In general, the fair value of derivatives is determined on the basis of market prices, if available. If this reference is not available/accessible, fair value estimates are made on the basis of standard financial algorithms.
In particular, the fair value of forward exchange rate derivatives is calculated by discounting the difference between the contractual price and the end price, redetermined on the basis of market conditions on the reporting date.
For interest rate derivatives, when recognised, different models are used based on the type of instrument being evaluated. In particular:

- for interest rate swaps, the discount cash flow model is used. Fair value is determined by discounting estimated future cash flows on the basis of interest rate conditions at the reporting date;
- the Black & Scholes model is used for collars. Use of this model is common practice and makes it possible to assess the fair value of the option, quantifying the probability of receiving a positive payoff.

DETAILS ON FINANCIAL RISK HEDGING INSTRUMENTS

As part of its financial risk management processes the Company stipulates derivative contracts. Although these derivatives are traded solely for hedging purposes, not all transactions are subject to hedge accounting rules.

DETAILS ON MARKET RISK HEDGING INSTRUMENTS

Among commodity exposures, price risk deriving from volatility in the purchase prices of gas was managed by signing contracts that set prices to be paid with counterparties.

As shown in the "financial instruments" table, the fair value of derivatives generated financial assets of € 3,277 thousand (€ 231 in 2018) and financial liabilities for € 3,157 (€ 0 thousand in 2018).

INVESTMENTS IN EQUITY INSTRUMENTS

The fair value of equity instruments held to maturity and financial assets measured at fair value through other comprehensive income is determined on the basis of official stock market listings obtained on the reporting date.

DEBT SECURITIES

The value of debt securities is calculated by adding together the current values, determined on the reporting date, of all future cash flows, including capital and interest. To quantify the portion of interest held in indexed instruments, the rate curve available at the reporting date was used.

CAPITAL MANAGEMENT

No particular risks nor significant information was identified relative to capital management.

FINANCIAL ASSETS

The tables below provide a breakdown of financial assets.

NON-CURRENT FINANCIAL ASSETS

€/000	31 dec 2018	31 dec 2019
Loans and receivables	6.192	10.036
	6.192	**10.036**

CURRENT FINANCIAL ASSETS

€/000	31 dec 2018	31 dec 2019
Loans and receivables	252.694	226.621
Cash and cash equivalents	50.439	44.241
Financial assets FVOCI	774	1.030
Current derivatives	231	3.277
	304.138	**275.170**

Loans and receivables include trade receivables, financial receivables due from subsidiaries, receivables due from social security entities, receivables due from tax authorities and sundry receivables.
Financial assets available for sale represent shares listed on the Milan stock market.

FINANCIAL LIABILITIES

The table below provides a breakdown of financial liabilities.

NON-CURRENT FINANCIAL LIABILITIES

€/000	31 dec 2018	31 dec 2019
Lending from banks	(187.940)	(182.949)
Loans from associated companies	(251.932)	(242.064)
Converting loan	(100.000)	(100.000)
Right of use liabilities	-	(2.278)
Other payables	(2.533)	-
	(542.405)	**(527.290)**

CURRENT FINANCIAL LIABILITIES

€/000	31 dec 2018	31 dec 2019
Lending from banks	(8.902)	(9.320)
Loans from associated companies	(22.779)	(31.972)
Right of use liabilities	-	(851)
Payables due to banks	(5.035)	(41.822)
Trade payables and other payables	(383.284)	(312.208)
	(420.000)	**(396.172)**

OTHER ADDITIONAL INFORMATION

The Company did not carry out any reclassification of financial assets, changing the measurement criteria relative to the same. As a consequence, no remeasurement was done. Additionally, no assets were transferred that did not involve elimination from the accounts.

IMPACT OF FINANCIAL INSTRUMENTS ON THE ANNUAL PROFIT AND LOSS STATEMENT

To highlight the impact financial instruments have on the result for the year, the following tables are provided.

FINANCIAL INCOME AND EXPENSE RECOGNISED IN THE PROFIT AND LOSS STATEMENT €/000

	31 dec 2018	31 dec 2019
Interest income from current account	1.088	2.245
Dividends from other companies	49	49
Exchange gains	1.046	1.144
Other income	1	26
	2.184	**3.464**
Interest expense from current account	(1.511)	(798)
Interest expense on mortgages	(11.620)	(10.830)
Charges due to suppliers	(1)	(1)
Factoring commissions	(395)	(399)
Other expense	(10.832)	(13.088)
	(24.359)	**(25.115)**
Dividends from subsidiaries and associated companies	26.953	21.837
Net income (expense) from discounting	(380)	(370)
	4.399	**(184)**

FINANCIAL INCOME AND EXPENSE RECOGNISED IN SHAREHOLDERS' EQUITY €/000

	31 dec 2018	31 dec 2019
Change in cash flow hedge reserve	-	(26)
Change in FVOCI securities revaluation reserve	(219)	256
	(219)	**230**
recognised to:		
Cash flow hedge reserve	-	(26)
fair value revaluation reserve	(219)	256
	(219)	**230**

Note that the change in the Cash Flow Hedge reserve is shown net of deferred taxes accruing during the year.

CREDIT RISK

This section describes credit risk exposures and methods used to manage them in qualitative and quantitative terms.

RISK EXPOSURE

As of the reporting date, the Company's exposure to credit risk was as follows:

EXPOSURE TO CREDIT RISK €/000

	31 dec 2018	31 dec 2019
Financial assets FVOCI	774	1.030
Trade receivables and other receivables	258.885	236.657
Cash and cash equivalents	50.439	44.241
	310.099	**281.928**

TRADE RECEIVABLES AND IMPAIRMENT OF RECEIVABLES

Positions are subject to individual impairment when an objective situation of partial or full non-collectability is determined, if individually significant. Relative to receivables not subject to individual impairment, provisions are allocated on a collective basis, taking historical experience and statistical data into account.
Changes in the provision for impairment of trade receivables are summarised in the table below:

PROVISION FOR IMPAIRMENT OF FINANCIAL ASSETS €/000

	31 dec 2018	31 dec 2019	Change
Balance at start of period	(39.666)	(38.858)	808
Uses	1.469	4.273	2.803
Provisions	(503)	(3.534)	(3.031)
Other changes	(158)	-	158
	(38.858)	**(38.119)**	**739**

CONCENTRATION OF CREDIT RISK

There are no particular risks deriving from concentration of credit, as shown in the table below.

BREAKDOWN OF RISK BY CUSTOMER TYPE €/000

	31 dec 2018	31 dec 2019
End consumers	123.208	90.602
Other group companies	111.643	113.123
Credit institutions	50.439	44.241
Tax authorities	3.812	9.219
Others	20.996	24.743
	310.099	**281.928**

CREDIT RISK MANAGEMENT METHODS

TRADE RECEIVABLES AND OTHER RECEIVABLES

Within the context of its normal credit management activities through the dedicated department, the Company has instituted an internal credit risk management process with the aim of defining every customer's creditworthiness and carefully monitoring credit limits and overdue items. Regarding measurement of creditworthiness, functional to assignment of credit and the creation of commercial relationships, internal procedures require the collection and analysis of qualitative and quantitative information. Customer credit levels are periodically reviewed using a process that also makes use of historic solvency information. Customers are classified based on a two level scoring system, that differentiates between reliable and non-reliable customers. At-risk customers are subject to strict controls and any future orders are only fulfilled after approval by the Credit Committee. Risk control is based on constant analysis of customers with overdue items or who have exceeded their credit limits, monitored daily for activation of corrective actions, which range from blocking orders to legal action.
In 2019, the company covered itself against credit risk relative to Italian customers by stipulating a credit insurance contract with a major insurance company.

FINANCIAL INVESTMENTS

The company limits its exposure to credit risk by exclusively investing in securities with high liquidity and only with counterparties recognised as reliable by the market. At 31 December 2019, exposure through securities consisted of Mediobanca shares (see the section on market risk). Additionally, financial assets also include managed savings investments made with Italian banks known to be reliable.

GUARANTEES

Company policies allow for the issuing of financial guarantees for associated companies.

MARKET RISK

Market risk is defined as the possibility that the fair value or cash flows associated with a given financial instrument fluctuate as a consequence of changes in market variables, such as exchange rates, interest rates, raw materials prices or stock market prices.
The market risk to which the Company was exposed during the year just ended can be classified as follows:

- price risk for equity instruments and other listed securities;
- exchange risk;
- interest rate risk;
- commodity risk.

Below is an analysis of the significance of these risks and the methods used to manage them.

PRICE RISK FOR EQUITY INSTRUMENTS AND OTHER LISTED SECURITIES

All equity investments held by the Company are shares listed on the Milan stock market, within the FTSE-MIB index, representing Mediobanca risk capital.
The amount of Mediobanca shares, 105,000 units, did not change with respect to the previous year.
Below is a table summarising the exposure of the above within the financial statements.

SHARES AND FUNDS €/000

	31 dec 2018	31 dec 2019
Shares	774	1.030
	774	**1.030**

SENSITIVITY ANALYSIS RELATIVE TO EQUITY RISK

The shares held in the Company's portfolio are significantly correlated with the FTSE MIB index, as they are listed on the same stock market.
Sensitivity analysis was done hypothesising a +/-10% change in the value of the indices. This analysis led to a fair value change of the securities in the portfolio of € +0.20 million (€ +0.10 million in 2018) and of € -0.05 million (€ -0.07 million in 2018). All effects would be seen in shareholders' equity.

EQUITY RISK MANAGEMENT METHODS

GENERAL ASPECTS

In the context of its investment activities, the Burgo Group purchases equity investments for investment purposes. In this context, the Company may carry out financial hedging transactions relative to the portion of assets held for possible sale. The general objectives of a hedging transaction therefore involve stabilising the value of the investment, neutralising the effects generated by market variability. During the current year, the Company did not carry out any hedging transactions.

EQUITY RISK MANAGEMENT POLICIES

Hedges are organised with reference to pre-established development strategies and with the aim of minimising exposure to unfavourable trends on the market, stabilising the impact on the annual profit and loss statement.

EXCHANGE RISK

The Company holds some of its trade receivables/payables in currencies other than the euro, and also has short-term loans in foreign currencies.
The exchange risk management policy establishes that derivatives should only be used to hedge against risk. Derivatives existing at 31 December 2019 used to manage exchange risk include only futures contract to purchase/sell foreign currencies. Even if these serve hedging purposes, these derivatives are not recognised using hedge accounting, as the rigidity of this treatment would negative impact the operational efficiency of the hedges.
The foreign currencies used by the Company are CHF, JPY, PLN, AUD, GBP and USD, with the final three representing almost the entirety of trade items in foreign currencies.

SENSITIVITY ANALYSIS RELATIVE TO EXCHANGE RISK

In order to measure the possible effects of changes in the exchange rate obtained at the reporting date on the balance sheet and annual profit and loss statement, a variation in the value of the euro with respect to the reference foreign currencies at 31 December 2019 was hypothesised.
Specifically, a 10% upward and downward shock in the euro exchange rate was applied, recognising the additional profit or loss with respect to the market scenario to risky items, which in this case were represented by trade payables and receivables and exchange rate derivatives.
Since the exchange rate derivatives are not recognised using hedge accounting, the impact of these transactions - similar to trade payables/receivables - is seen solely in the profit or loss for the year and hence in the annual profit and loss statement.
The net impact on the result from the year deriving from a +/- 10% shock would have been, respectively, € -2,187 thousand (€ -1,390 thousand in 2018) and € 2,673 thousand (€ +1,699 thousand in 2018).

EXCHANGE RISK MANAGEMENT METHODS

In relation to sales activities, the Company makes purchases and sales other currencies, at present in USD and GBP. Therefore, hedging policies are mainly focussed on stipulating futures contracts against the euro.
Additionally, other currencies are periodically monitored, which may be used in invoices on a continuous or occasional basis.

GENERAL ASPECTS

Hedges are carried out on the basis of estimates of future financial flows in currencies on the basis of invoices payable and receivable, and taking budget and/or forecasts into account.

EXCHANGE RISK MANAGEMENT POLICIES

The special nature of the Company's business allows it to make forecasts relative to financial issues relative to flows in foreign currencies. Estimates of flows must meet all the formal requirements relative to amount, currency, date of manifestation and status relative to the probability of manifestation, necessary when producing exposure measurements.

Exchange risk hedging transactions are carried out in compliance with cash flow hedge principles, which amount to neutralising the effects induced by changes in the exchange rate on the value in euro of cash flows denominated in foreign currencies. Hedging policies are managed exclusively through the use of forward contracts and options relative to exchange rates, to guarantee more flexible coverage with respect to forward contracts. Currently, exposure to exchange rate derivatives falls within the forward category.

INTEREST RATE RISK

Financial liabilities which expose the Company to interest rate risk are medium/long-term variable rate loans.
In terms of assets, items sensitive to interest rate risk are:

- a loan to a subsidiary indexed to the variable 6-month Euribor rate;
- a shareholders' loan to a company in which an equity investment is held, classified among equity investments in other companies.

These assets are classified as "held to maturity" and do not generate effects on the annual profit and loss statement/balance sheet if not due to effects of cash flows received (financial income), discounting of their value or any lasting losses of value which make recognition of impairment necessary.
The table below identifies positions subject to interest rate risk.

POSITIONS WITH INTEREST RATE RISK

€/000

	31 dec 2018	31 dec 2019
Fixed rate financial instruments		
Fixed rate loans	-	(329)
	-	(329)
Variable rate financial instruments		
Financial assets		
Non-current guarantee deposits	3.390	4.625
Financial instruments with positive FV	231	3.277
Loans to associated companies	2.800	2.800
Loans to others	-	2.610
Financial liabilities		
Derivatives with negative FV	-	(3.157)
Variable rate loans	(560.684)	(545.912)
Current account advances	(5.536)	(42.303)
Financial leasing	-	(3.129)
	(563.189)	(585.814)
	(563.189)	**(586.143)**

SENSITIVITY ANALYSIS RELATIVE TO INTEREST RISK

Analysis was done to determine the impacts of a +/- 100 basis point shift in the estimated interest rate curve at 31 December 2019 on the annual profit and loss statement and balance sheet.
Analysis was done supposing that the other variables, in particular exchange rates, remained constant and was done using the same suppositions as in 2019.
In each curve scenario, and limited to derivatives subject to hedge accounting rules, an after the fact efficacy test was performed again to quantify the impact on shareholders' equity (efficacy component) and on the results for the year (any inefficacy component).
In every case, for non-linear derivatives (collar) the time value change with respect to the effective market scenario was recognised in the annual profit and loss statement.
At 31 December 2019 the company did not have any derivatives.
In order to determine the impacts of asset and liability items indexed at variable rates on the result for the year, a shock was also applied to cash flows effectively paid during the administrative period. These analyses made it possible to identify the greater financial expense/income that would have been recorded in the annual profit and loss statement if interest rates had been 100 bps higher or lower than those actually recorded.
The impact on the annual profit and loss statement deriving from a +/- 100 bps shock would have been, respectively, € -3.8 million and € +0.1 million (in 2018: € -3.8 million and € 0.1 million). The effect on shareholders' equity was null in that there are not financial liabilities relative to derivatives.

INTEREST RISK MANAGEMENT METHODS

GENERAL ASPECTS

In the context of its own economic production, which is capital intensive, the Company makes investments for production purposes by taking out loans. In this context, it carries out cash flow hedge transactions, which serve to neutralise the effects of an increase in the rates on the cost the Company must pay to service its debts. The general objectives of a hedging operation therefore can be summarised as transforming the cost of a variable rate debt to the cost of a fixed rate debt, or to reduce the extent to which it is variable.

COMMODITY RISK

For the company, commodity risk mainly exists for purchases of gas and, to a lesser extent, for purchases of electricity and rights to issue carbon dioxide.

GAS PRICE RISK

In order to supply its various plants with the electricity necessary for production, the Company has various contracts to purchase gas. Given the variable nature of the price of the commodity, the Company suffers risk deriving from fluctuations in the supply prices which it can partially protect itself from by using derivatives and by setting prices with counterparties. At 31 December 2019, the Company had gas purchases with the following characteristics in effect.

- fixed price purchases;
- variable price purchases on the basis of the spot gas price recorded on the Italian PSV market.

ELECTRICITY PRICE RISK

In order to supply its various plants with the electricity necessary for production, the Company a contract to purchase electricity with the subsidiaries Burgo Energia srl and Gever spa. Given the variable nature of the price of the commodity, the Company suffers risk deriving from fluctuations in the supply prices which it can partially protect itself from by using derivatives and by setting prices with counterparties.
At 31 December 2019, the Company had no fixed price gas purchases.

CARBON DIOXIDE EMISSION RIGHTS PRICE RISK

In order to supply its various plants with the rights to issue carbon dioxide, needed to comply with the obligations deriving from the ETS scheme, the Company has purchase contracts with the subsidiary Burgo Energia srl. Given the variable nature of the price of the commodity, the Company suffers risk deriving from fluctuations in the supply prices which it can partially protect itself from by using derivatives and by setting prices with counterparties. At 31 December 2019, the Company had acquired fixed price issue rights through the signing of futures agreements.

COMMODITY RISK MANAGEMENT METHODS

GENERAL ASPECTS

The Company's strategic objective is to stabilise profit margins in terms of reducing risks associated with volatility in electricity purchase/sales prices and purchase prices of materials used in production processes, in order to minimise exposure to the correlated risk and losses. With an eye to continuously reducing loss risks, the Company has the simultaneous objective of minimising costs associated with obtaining its production factors.
When negotiating financial contracts for raw materials, the Company does not have the ability to take risk positions on the commodities market. These contracts will have the sole purpose of reducing the risk of an increase in the purchase prices of the production factors used in production processes.
Relative to risk monitoring, the Company applies a quantitative measure for risks, both with reference to analysing exposures and to measuring the efficacy of derivatives negotiated for hedging purposes.

COMMODITY RISK MANAGEMENT POLICIES

Management of risks associated with oscillations in the prices of commodities includes the involvement of several administrative departments within the Company. These include, in addition to those already cited, the Purchasing Department and the Sales Department. In determining its hedging strategy and with reference to the various types of supply contracts, the Company implements mitigation strategies with the objective of stabilising its profit margin.

With reference to the procedures used to estimate exposure to risks associated with commodities, the following elements are considered:

- nominal quantities, that it is the quantity recognised within physical and financial contracts;
- fair value/stop loss, that is the amount calculated on the basis of the current value of future financial flows generated by the contract as a function of price indexing rules. Stop loss identifies the largest sustainable loss in terms of fair value. In addition to this threshold, the position must also be closed with a symmetrical contract in the opposite direction;

• the change in the value of the position following a marginal variation in the price of energy (only for variable price contracts);
• the change in the value of the position following a marginal variation in the price of the commodities (only for indexed price contracts).

LIQUIDITY RISK

Liquidity risk is the risk that the Company will have difficulty complying with its future obligations relative to financial liabilities. Risk analysis is done with the aim of quantifying cash flows deriving from the various types of financial liabilities held by the Company at 31 December 2019, at each contractual repayment date.
Financial liabilities have been broken down into non-derivative financial liabilities and derivative financial liabilities, based on their nature. For the latter, given the difference in accounting treatment, it was necessary to carry out a further classification based on whether or not the derivative is classified as a hedging instrument according on the accounting standards.
Relative to cash flow maturities, given the nature of the Company's monetary cycle it was held expedient to group payments into half-yearly payment buckets.
To quantify cash flows on liabilities index at variable rates, the measurement method based on forward interest rates implicit in the market rate curve was used.
For derivatives, the following approach was used:
• Collar: cash flows were estimated on the basis of the non-discounted fair value of individual caplets/floorlets;
• swaption: expected cash flows deriving from the swaption were measured on a non-discounted fair value basis relative to the financial instrument, weighted by the probability the option will be exercised.

Below is a summary of analysis done on derivative financial liabilities and non-derivative financial liabilities, providing a comparison between the situations at 31 December 2019 and 31 December 2018.

31/12/2018 €/000

	Book value	Contractual financial flows	6 months or less	6-12 months	1-2 years	2-5 years	more than 5 years
Non-derivative financila liabilities							
Loans	560.684	621.651	3.729	23.868	54.413	539.641	-
Trade payables and other payables	385.315	385.315	382.783	-	2.533	-	-
	945.999	**1.006.966**	**386.512**	**23.868**	**56.945**	**539.641**	**-**

31/12/2019 €/000

	Book value	Contractual financial flows	6 months or less	6-12 months	1-2 years	2-5 years	more than 5 years
Non-derivative financila liabilities							
Loans	546.241	599.050	3.829	23.863	569.535	1.561	263
Trade payables and other payables	311.727	311.727	311.727	-	-	-	-
Right of use liabilities	3.129	3.129	435	416	1.331	901	46
Derivative financial liabilities:							
Derivatives	3.157	3.157	1.579	1.579	-	-	-
	864.255	**917.064**	**317.569**	**25.857**	**570.866**	**2.461**	**309**

LIQUIDITY RISK MANAGEMENT METHODS

GENERAL ASPECTS

The Company's approach to liquidity management is aimed at guaranteeing, as much as possible, that there are always sufficient funds available to comply with obligations when maturity dates are reached.

LIQUIDITY RISK MANAGEMENT POLICIES

The Company performs liquidity analysis as a function of budget forecasts, determining short, medium and long-term cash flows. Estimates are periodically reviewed to ensure there is adequate on demand cash and cash equivalents to cover operating expenses forecast for the short term (around 3 months). For short-term financial needs, credit lines are available totalling around € 200 million, at 31 December 2019 used for a total of around € 57 million or 29%. Please refer to the section on significant events after the end of the year for information about developments in the availability of short-term credit lines. For long-term financial requirements, the Company has loans of around € 546 million at market rates (€ 561 million at 31 December 2018).

Report of the independent auditing firm

Burgo Group S.p.A.

Financial statements as at December 31, 2019

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010

EY S.p.A.
Via Isonzo, 11
37126 Verona

Tel: +39 045 8312511
Fax: +39 045 8312550
ey.com

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010

To the Shareholders of
Burgo Group S.p.A.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Burgo Group S.p.A. (the Company), which comprise the statement of financial position as at December 31, 2019 and the statement of income, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Responsibilities of Directors and Those Charged with Governance for the Financial Statements

The Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and, within the terms provided by the 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 Company's ability to continue as a going concern and, when preparing the financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the financial statements on a going concern basis unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Company's financial reporting process.

EY S.p.A.
Sede Legale: Via Lombardia, 31 – 00187 Roma
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REPORT OF THE INDEPENDENT AUDITING FIRM

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Building a better working world

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010

The Directors of Burgo Group S.p.A. are responsible for the preparation of the Report on Operations of Burgo Group S.p.A. as at December 31, 2019, including its consistency with the related financial statements and its compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations, with the financial statements of Burgo Group S.p.A. as at December 31, 2019 and on its compliance with the applicable laws and regulations, and in order to assess whether it contains material misstatements.

In our opinion, the Report on Operations is consistent with the financial statements of Burgo Group S.p.A. as at December 31, 2019 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Verona, May 25, 2020

EY S.p.A.

Signed by: Daniele Tosi, Auditor

This report has been translated into the English language solely for the convenience of international readers.

Report of the board of statutory auditors

BURGO GROUP S.p.A.
Registered office: Via Piave, 1 - Altavilla Vicentina (VI) Italy
Fully paid up share capital: € 205,443,391.40
Registered with the Vicenza Business Registry, no. 13051890153

Board of Statutory Auditors' Report to the Shareholders' Meeting pursuant to Article 2429, paragraph 2 of the Italian Civil Code

Dear Shareholders,
This report was approved by the Board in time for it to be filed at the company's registered offices within 15 days prior to the date of the first call of the Shareholders' Meeting to approve the financial statements commented on herein.
In doing so, the administrative body made available the following documents relative to the financial year ending on 31 December 2019, approved on 23 April 2020:
- the draft financial statements, together with the explanatory notes;
- the report on operations;
- the consolidated financial statements.

Please note that Italian Law Decree no. 18/2020, also known as “Cura Italia”, provides for an exception to postpone the approval of the 2019 financial statements up to 180 days from the end of the financial year, instead the 120 days provided for by Art. 2364 of the Italian Civil Code, which the Company has chosen to do. The financial statements and the Board of Statutory Auditors’ and Independent Auditing Firm’s reports must be filed and submitted at the Company’s registered offices within 15 days prior to calling the Shareholders’ Meeting scheduled for 25 June 2020, in the case of Burgo Group S.p.A.
The layout of this report is similar to the previous year’s, guided by the law and further influenced by Standard No. 7.1. of the “Norme di comportamento del collegio sindacale - Principi di comportamento del collegio sindacale di società non quotate” [Code of Conduct for Boards of Statutory Auditors – Principles of Conduct for Boards of Statutory Auditors of Unlisted Companies], issued by Italy’s National Council of Chartered Accountants and Accounting Experts (CNDCEC) and in effect since 30 September 2015.

General introduction
Explanatory Notes in XBRL format
The Board of Statutory Auditors noted that the administrative body did not prepare the explanatory notes making use of the "XBRL taxonomy". The Company is exempt from this requirement, as it prepares its annual financial statements on the basis of the provisions of Italian Legislative Decree 38/2005, implementing the International Financial Reporting Standards (IFRS).

Knowledge of the company, assessment of risks and report on assignments

The Board of Statutory Auditors notes that “planning” of its supervisory activities was carried out by making use of the information it has acquired over time with reference (i) to the type of business carried out by the Company, (ii) its organisational and accounting structure, and (iii) its size and issues. The Board of Statutory Auditors recalls that, during planning of its supervisory activities, it is necessary to evaluate the intrinsic risks and critical issues relative to the above-referenced parameters.

It was thus possible to confirm that:
- the core business conducted by the Company did not change during the reporting year and is consistent with the Company’s purpose;
- its organisational structure and IT structures and equipment remained essentially unchanged;
- the human resources constituting its "workforce" decreased from 1,996 units to 1,629 units, in line with the scheduled restructuring plans;
- the foregoing is indirectly borne out by a comparison of the figures presented in the statements of profit or loss for the past two years, i.e., the reporting year (2019) and the previous year (2018). Consequently, our checks were carried out with these presuppositions, having verified the substantial compliance of the figures and results with those of the previous year.

This report, therefore, summarises activities relative to the disclosure required under Article 2429, paragraph 2 of the Italian Civil Code and, more specifically:
- the results for the reporting year;
- the activity performed in fulfilment of the duties imposed by law;
- remarks and proposals concerning the financial statements, with particular regard to the administrative body’s use of any exceptions pursuant to Article 2423, paragraph 4 of the Italian Civil Code;
- any complaints received from the shareholders pursuant to Article 2408 of the Italian Civil Code.

The activities carried out by the Board of Statutory Auditors concerned the entire year, during which the meetings set out in Article 2404 of the Italian Civil Code were regularly held and documented with specific minutes which were duly signed, indicating unanimous approval.

Supervisory activities

During its periodic checks, the Board of Statutory Auditors inquired into the course of the Company’s business, with a particular focus on matters of a contingent and/or extraordinary nature, so as to identify their impact on the Company’s operating performance and financial structure, in addition to any risks, such as risks deriving from losses on receivables, which were subject to regular monitoring.
The Board of Statutory Auditors also periodically assessed the adequacy of the enterprise’s organisational and functional structure and any changes in that structure with respect to the minimum needs established by operating performance. Relations with persons operating within the aforementioned structure — directors, employees and external advisors — were guided by mutual collaboration, in accordance with the roles entrusted to each, with a clear understanding of those of the Board of Statutory Auditors.
For the entire year, it was determined that:
- internal administrative personnel tasked with recording company events remained essentially unchanged compared to the previous year;
- their level of technical competency remained appropriate to the nature of the ordinary operating events to be recorded and they have sufficient knowledge of the Company’s concerns;
- external advisors and professionals assigned to provide accounting, tax, corporate and employment law assistance did not change and have long-standing knowledge of the business conducted and ordinary and extraordinary management concerns that affected the results presented in the financial statements.

The information required under Article 2381, paragraph 5 of the Italian Civil Code was provided by the CEO even more frequently than the minimum schedule of every 6 months, both at the time of scheduled meetings and through individual communications with members of the Board of Statutory Auditors at the company's offices, as well as through telephone and digital flows of information with members of the Board of Directors. From all of this, it follows that the executive directors complied with the provisions of the cited regulation, both in substance and form.

In conclusion, to the extent it could be determined in the course of the activity performed during the year, the Board of Statutory Auditors may state that:

- the decisions made by the shareholders during the sole Shareholders' Meeting held during the year, as well as those made by the administrative body during the six Board of Directors meetings, were compliant with the law and the Articles of Association and were not manifestly imprudent or such as to definitively compromise the Company's financial integrity;
- sufficient information regarding the Company's general performance and future outlook, as well as the transactions undertaken by the company which, by extent or characteristics, are considered highly significant, has been obtained;
- the transactions undertaken were also compliant with the law and the Articles of Association and were not in potential conflict with the resolutions passed by the Shareholders' Meeting or such as to compromise the Company's financial integrity;
- there were no specific remarks on the adequacy of the Company's organisational structure, nor on the adequacy of its managing and accounting system, or the reliability of the latter in properly representing operating events;
- the information acquired by the Oversight Committee did not indicate any problems with respect to the current Organisational Model that must be highlighted in this report;
- in performing our supervisory activity, as described above, no further material information or events that would require mention in this report have been identified;
- it was not necessary to take action in response to omissions by the administrative body pursuant to Article 2406 of the Italian Civil Code;
- no complaints were received pursuant to Article 2408 of the Italian Civil Code;
- no complaints were made pursuant to Article 2409, paragraph 7 of the Italian Civil Code;
- during the year, the Board of Statutory Auditors provided its opinion on the proposal for variable remuneration of the CEO, pursuant to Article 2389, paragraph 3 of the Italian Civil Code;
- in the notes to the separate financial statements, in the paragraph on "Information on significant events taking place after the end of the year", the Company emphasizes the onset of the COVID-19 pandemic, which has affected Italy as well as most European and extra-Community countries since February 2020. This event, which "has caused the slowdown or shutdown of some economic and commercial activities, has forced the government to adopt increasingly restrictive measures in order to prevent the spread of the virus". In the face of this event, the Company took immediate action to protect the health of its employees. The Company specifies that "the accounting estimates at 31 December 2019 were performed based on a series of macroeconomic and financial indicators provided on that date and that the current health emergency was therefore classified by the Company as an event which occurred after the reporting date and does not require adjustments. Given that the situation is still ongoing and rapidly changing, a quantitative estimate of its potential impact on the Company's economic and equity situation cannot be provided, although it could be negative. Nonetheless, it is not likely to be such as to compromise the business as a going concern and the Company's overall profitability".

Individual Financial Statements

Recalling that we are not responsible for the independent auditing of the financial statements, we reviewed the annual financial statements at 31 December 2019, made available to us pursuant to the terms of Article 2429 of the Italian Civil Code, relative to which we note the following.
We monitored the general structure given to the financial statements, their general compliance with the law in terms of format and structure, and to that end, we have no particular comments. We verified compliance with the provisions of law governing the preparation of the Report on Operations and have no particular comments.

To the extent of our knowledge, in preparing the financial statements, the Directors did not elect to apply any exceptions to provisions of law pursuant to Article 2423, paragraph 4 of the Italian Civil Code.
The financial statements were prepared in application of the international accounting standards issued by the International Accounting Standard Board (IASB) and approved by the European Commission pursuant to regulation EC 1606/2002, in the same manner as the previous year.

The financial statements show net profits of € 11.7 million, compared to € 7.7 million the previous year. Shareholders' equity amounted to € 408.2 million against € 396.1 million at 31 December 2018.

Consolidated Financial Statements

We also reviewed the draft consolidated financial statements at 31 December 2019, made available to us pursuant to Article 2429 of the Italian Civil Code, together with the draft financial statements of the parent company and the relative reports on operations.
The reporting date of the financial statements of the companies within the scope of consolidation coincides with the financial statements of the consolidating company.
The consolidated financial statements were prepared in compliance with the provisions of Italian Legislative Decree no 127 of 9 April 1991, and concluded with profits of € 9.4 million and Shareholders' Equity of € 314.3 million.
The explanatory notes analytically indicate criteria and the scope of consolidation and there are no differences with respect to the previous year in terms of the criteria used to prepare the consolidated financial statements.
In particular, the scope of consolidation includes companies controlled in compliance with Articles 26 and 28 of Italian Legislative Decree 127/1991 and the changes with respect to the previous year. The consolidation procedures adopted follow the line-by-line and global method relative to measuring the controlling stake held. The equity method was used for associated companies.

In regards to the report on operations, we note that the information is complete and the figures are congruent with those found in the consolidated financial statements.

Report of the Independent Auditing Firm
Note that the Independent Auditing Firm appointed to audit the individual and consolidated financial statements issued its own reports on the separate and consolidated financial statements at 31 December 2019 on 25 May 2020. Both reports indicate compliance with the IFRS/IAS accounting standards, with no requests for additional information.

Conclusions
In the light of the above, the Board of Statutory Auditors, in regards to its areas of responsibility, has not found any reasons to prevent the approval of the draft financial statements at 31 December 2019 for Burgo Group S.p.A., as presented to you by the Board of Directors.

Altavilla Vicentina, 29 May 2020
For the Board of Statutory Auditors

Chairman

Fedele Gubitosi

REPORT OF THE BOARD OF STATUTORY AUDITORS

This report is printed on Respecta 100 115 gsm paper (inside pages) and 350 gsm paper (cover) produced at Burgo plants in Sarego (VI) and Sora (FR).
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Burgo Group Spa
Via Piave 1 - 36077
Altavilla Vicentina (VI) - Italy
www.burgo.com