Consolidated Financial Statements and Financial Statements as at 31 December 2019

TRANSLATION FROM THE ORIGINAL ITALIAN TEXT
ONLY FOR THE CONVENIENCE OF INTERNATIONAL READERS

MARZOTTO S.p.A.
Company with sole partner
Registered and Administrative office in Largo S. Margherita 1, 36078 Valdagno (VI)
Subject to Trenora S.r.l. management and coordination activities
Tax ID,V.A.T. registration number 00166580241 - REA Vicenza nr. 801 - PEC: Marzotto@legalmail.it

1836

MARZOTTO

GROUP

[Summary]

Marzotto
CONSOLIDATED FINANCIAL STATEMENTS and FINANCIAL STATEMENTS

Marzotto group
CONSOLIDATED FINANCIAL STATEMENTS

Marzotto S.p.A.
FINANCIAL STATEMENTS

Consolidated Financial Statements as at 31 December 2019

MARZOTTO GROUP

Parent company: MARZOTTO S.p.A.
Company with sole partner

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Report on operations

Parent Company: Marzotto S.p.A.
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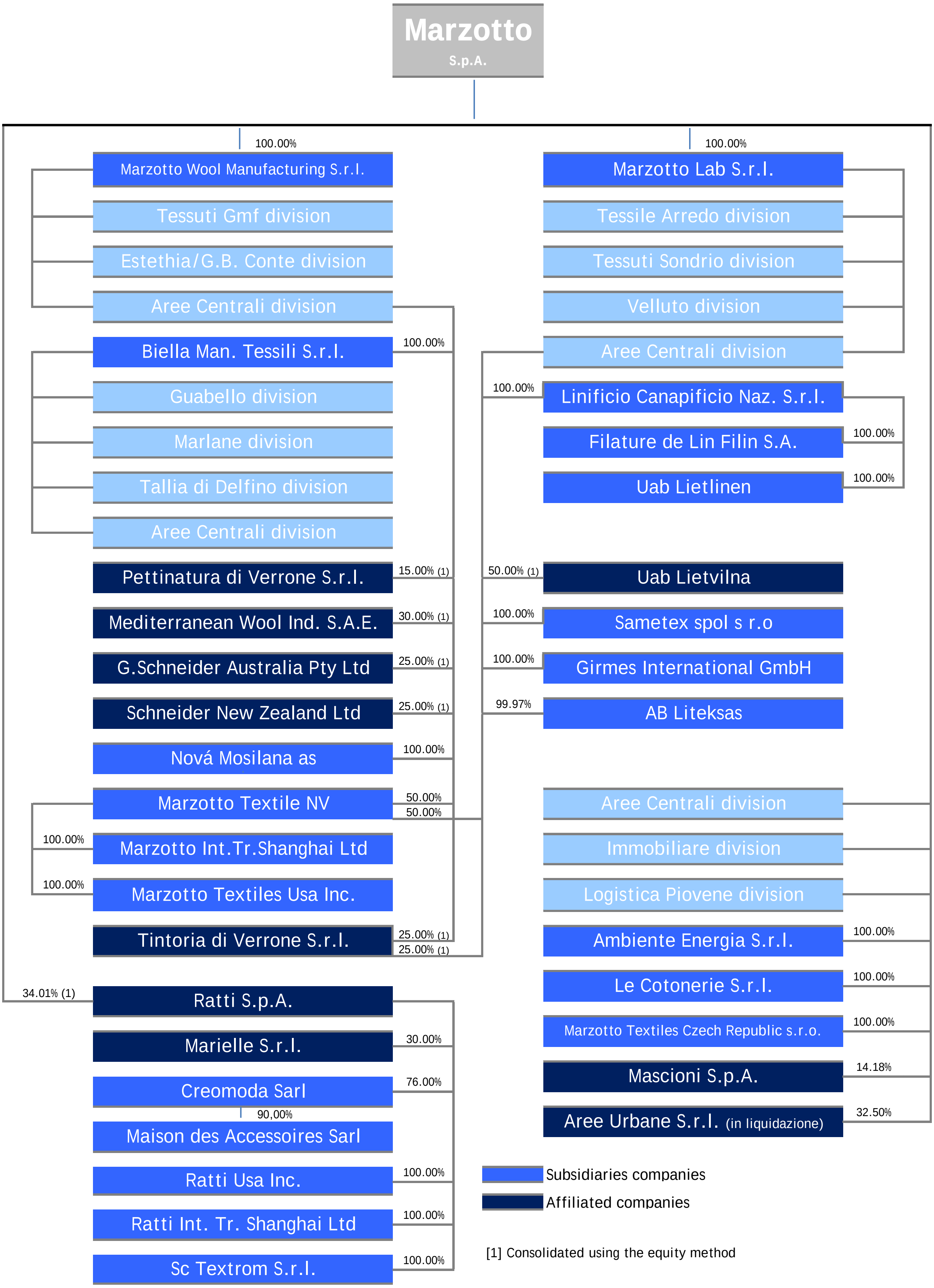
Group structure dated 31 december 2019



Management Report

Introduction

Dear Shareholders,

The consolidated financial statements for the Marzotto Group closed 2019 with net revenues of 336.5 million euros and a net profit of 5.0 million euros.

Basis of preparation of the financial statements

The consolidated financial statements provided below have been prepared in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and approved by the European Commission, as subsequently amended and supplemented.

We refer you to the explanatory notes for comments on the result of the financial statements. Below, please find the information and comparisons regarding the Group's position and future prospects, as well as that information required by current regulations.

[Management Report]

Group activities

The Marzotto Group operates in the following sectors:

- ❖ Wool Fabrics;
- ❖ Sundry Textiles;
- ❖ Other Operations.

The Wool Fabrics sector (where the Marzotto Wool Manufacturing group operates) includes the manufacturing and distribution of wool fabrics, mainly under the following brands:

- **Marzotto**: a leading collection by sales volume worldwide, characterized by its strong product research, aimed at the world of fashion and international markets. The collection is divided into several themes and labels ranging from formal wear to sportswear, outerwear and pure wool performance fabrics that are also used in the shirts segment.
- **Guabello**: a prestigious traditional Italian textile label, with strong regional roots that recognises the people behind its development and success. The collections are made using select Merino wools and exclusive quality fibres, combining tradition, style and research. The Guabello collection is also divided into multiple capsules and labels ranging from more traditional formal clothing with a heritage flair to a more modern line of fabrics that are comfortable and easy to maintain and transport.
- **Marlane**: The brand offers fabrics primarily focused on market trends, providing the right balance between formal, high-quality and performance/comfort fabrics, with a high level of competitiveness in terms of price and customer service.
- **Tallia di Delfino***:* a historical fine fabrics brand known internationally since 1903 for its high-quality men's outerwear, positioned in the luxury segment; it combines age-old traditions with a meticulous attention to detail, a sense of refinement, and constant technological innovation. The collection is made up of the best and most refined raw materials, such as Australian wools, Mongolian cashmere and South African mohair. Starting in 2019, Tallia di Delfino presented the new collection "Gentleman Wardrobe", targeted at the "made to measure" segment and the best international tailoring, with the distribution of a range of fabrics of the highest quality that are always in stock.
- **Estethia/G.B. Conte:** this comprises the **Estethia** division, a dynamic collection present mainly in the women's market and consisting of combed, crepe, monostretch and bistretch fabrics, solid colours and patterned fabrics with innovative finishes with a high quality and research content; **G.B. Conte** is a specialized collection of carded and combed patterned fabrics for outerwear, boiled wool and jerseys. In 2018, the original Harris Tweed carded fabric continued to be marketed in Europe (excluding the UK) through an exclusive distribution agreement with Scottish company Harris Tweed Hebrides, located in the Outer Hebrides.

The Sundry Textiles sector (in which it operates through the Marzotto Lab group) includes the manufacturing and distribution of cotton and velvet fabrics, yarns and linen fabrics, wool yarns and furnishings:

- The **Linen** business, through the Linificio e Canapificio Nazionale group, is a leading manufacturer and distributor of linen fibre yarns and fabrics.
- The **Cotton** business represents the Marzotto Lab division, which produces and markets premium cotton fabrics. The company manages these owned brands: ***Tessuti di Sondrio***, a leading brand and collection in terms of image for cotton and linen fabrics in the high-end segment; ***Dal Sasso***, a historic brand acquired in 2008, which is known for its elegant, sophisticated sportswear in wool and cotton-wool, which complements the Sondrio "life-style" project; and **NTB Nuova Tessilbrenta***,* a brand acquired in 2009, which completes the product range with cotton and cotton blend fabrics for men's and women's sportswear.
- The **Velvet** business was acquired from the shareholder Marzotto S.p.A. in 2012 to broaden the offering by entering the velvet segment through the acquisition of the ***Redaelli Velluti***, ***Redaelli 1893, Niedieck, Christoph Andreae and Girmes*** brands. The Redaelli 1893 brand, intended for the formal and elegant clothing market, also operates in the home furnishings sector, distributing fabrics in particular to textile designers and padding producers. The Niedieck brand, on the other hand, fits in the *sportswear* segment of clothing.
- The **Furnishings** segment includes the manufacture and distribution of blankets, throws, duvets and wool furnishing accessories bearing the ***Lanerossi and Marzotto Home*** brands. These are leading collections in the sector, standing out for their strong level of product research, focused on comfort, environmental sustainability, practicality and the development of new processes relating to consumer health and well-being.
- The Group is also active in the wool yarns segment through its associates Uab Lietvilna and Tintoria di Verrone S.r.l.

Group activities

The **Other Operations** sector includes mainly coordination and strategy, as well as services (management and finance, legal and corporate, human resources management, and information technology) performed centrally for the operating sectors. This area also includes the result of managing the Schio water treatment plant (through the subsidiary Ambiente Energia S.r.l., which operates independently with a sole director vested with full powers) and other equity investments that are not fully consolidated. In particular, please note the 34.01% shareholding in the **Ratti** group, through which Marzotto has also been operating since 2010 in the **Silk** sector. The **Ratti group** is a leader in the design and manufacturing of printed fabrics, solid and yarn dyed fabrics for clothing (shirts, ties, underwear and swimwear) and home décor, and in the production and distribution of finished products, mainly men's and women's accessories (such as ties, shawls, and scarves).

Management Report

Group performance

In the fiscal year 2019, the Marzotto group recognised consolidated revenues of 336.5 million euros (compared to 356.8 million euros in 2018), and a gross margin of 59.9 million euros (18% of net revenues), compared to a gross margin of 67.7 million euros (19% of revenues) during the previous year, and a net profit of 5.0 million euros (compared to a net profit of 15.8 million euros in 2018).

Operating income was positive at 2.7 million euros (0.9% of net revenues), compared to 17.4 million euros (4.9% of net revenues) in 2018, although this figure was strongly influenced by non-recurring income and expenses of 7.2 million euros.

Financial operations showed a positive balance of 3.2 million euros (compared to a positive balance of 2.6 million in 2018) and mainly included net financial expenses of 1.6 million euros (compared to 1.6 million euros in 2018) and income assessed using the equity method from associates totalling 4.9 million euros (compared to 4.2 million euros in 2018), and miscellaneous financial income/expenses of -0.1 million euros.

The analyses described thus far result in a net profit for the Group of 5.0 million euros (compared to a net profit of 15.8 million euros as at 31 December 2018).

[Main events of the year]

Before addressing the Group's business in 2019, we would first like to note the highlights for the year just ended and in the current year.

Praia a Mare litigation

With regard to the Praia a Mare facility, which was acquired by the Company in 1988 and whose operations ceased in 2004, the following proceedings are pending:

1) A special evidentiary hearing requested by the Public Prosecutor at the Court of Paola on behalf of the heirs of persons who worked at the Praia a Mare facility before 1988 (the year of purchase by the Company), as well as of former employees of the Company or their heirs, who are claiming that there were functional omissions in relation to the safety conditions at which the work was carried out at that facility. The expert investigations are still on-going and it is not possible to predict their progress.

2) Several civil claims filed before the Court of Paola by the same persons who requested the special evidentiary hearing (meaning the heirs of persons who worked at the Praia a Mare facility before 1988 and former company workers or their heirs) complaining that the alleged absence of safety conditions for the work carried out there had caused death and serious injury. These proceedings were merged and, after an attempt at reaching a settlement, the preliminary investigation phase was opened, and the hearing was postponed until July 2020. At present, it is not possible to predict the outcome of the proceedings.

3) On 25 September 2019, the operative part of the final decision was filed in the proceeding before the Italian Court of Cassation seeking the overturning of the appeals decision in the proceeding brought by the Catanzaro Public Prosecutor's Office. The Italian Court of Cassation has, among others, (i) declared the Chief Prosecutor's appeal unacceptable, thereby upholding the decisions handed down by the Court of Paola and the Court of Appeal of Catanzaro, which both fully acquitted, because the fact did not occur, all defendants (the managers of this facility and the members of the board of directors from the 1960s to 2004) of the charges of crimes committed against individuals and the environment, (ii) and vacated the appeals court decision appealed by the Municipality of Tortora, for civil law purposes, handing the case back down to the competent civil court to establish a value based on the appeal. At present, no predictions can be made on the case's adjournment, as the grounds for the aforementioned decision by the Italian Court of Cassation have not yet been filed.

Highlights of the income statement and the statement of financial position

The table below summarizes the Group's main income and financial position indicators for the year ended 31 December 2019.

(in millions of euro)	2019	2018	change	change %
Consolidated net revenues	**336.5**	**356.8**	**(20.3)**	**- 5.7%**
Operating income	2.7	17.4	(14.7)	- 84.5%
% of net revenues	*0.9%*	*4.9%*		
EBITDA (1)	**20.7**	**33.8**	**(13.1)**	**- 38.8%**
% of net revenues	***6.1%***	***9.5%***		
Income before taxes	5.9	20.0	(14.1)	- 70.5%
% of net revenues	*1.9%*	*5.6%*		
Group net income	**5.0**	**15.8**	**(10.8)**	**- 68.4%**
% of net revenues	***1.6%***	***4.4%***		
Net working capital	**94.6**	**88.5**	**6.1**	**+ 6.9%**
Net employed capital	**227.4**	**219.4**	**8.0**	**+ 3.6%**
Net financial position	**88.5**	**80.6**	**7.9**	**+ 9.8%**
Investments for the period	10.3	14.7	(4.4)	**- 29.9%**
Active staff: persons	3,155	3,245	(90)	**- 2.8%**

	2019	2018	change
ROI	1.2%	7.9%	-6.7%
ROE	3.6%	11.4%	-7.8%
ROS	0.9%	4.9%	-4.0%
Debt/Equity	63.7%	58.1%	5.6%
Capitalisation ratio	61.1%	63.3%	-2.2%
Financial coverage rate of assets	49.7%	51.3%	-1.6%
Inventory rotation index	188	199	-11
Number of days of credit to clients	67	66	1

As of 01.01.2019, the new IFRS 16 came into effect, which establishes that the accounting treatment of operating lease agreements is the same as for finance lease agreements, i.e. by accounting for usage rights under assets and leases under liabilities as of the transition date (01.01.2019), based on the residual payments due. Lease payments are not recognised during the year, but rather the depreciation of assets consisting of usage rights.

Application of this standard had a positive effect on EBITDA of 1.1 million euros and an increase in the net financial debt of 3.1 million euros.

Legend:

ROI: EBIT/Capital employed
ROE: Net result/Shareholders' equity
ROS: EBIT/Net revenues
Debt/Equity: Net financial position/Shareholders' equity
Capitalisation index: Ratio of shareholders' equity to capital employed net of operating liabilities.
Financial hedging rate on fixed assets: Fixed assets + medium to long-term provisions/Shareholders' equity + medium to long term financial borrowing
Inventory rotation index: Net inventory/Cost of goods sold x 360 days
Credit days to customers: Gross trade receivables/Net revenues x 360 days

(1). EBIT + Amortisation/depreciation.

Management Report

Consolidated income statement

As at 31 December 2019, the Group's net result was positive for 5.0 million euros, compared to a final figure of 15.8 million euros in 2018.

Summary consolidated income statement data for the period, compared with those for 2018, are as follows(1):

(in millions of euro)	2019		2018	
Net revenues	**336.5**	***100.0%***	**356.8**	***100.0%***
Cost of sales	(276.6)	*(82.2%)*	(289.1)	*(81.0%)*
Gross income	**59.9**	***17.8%***	**67.7**	***19.0%***
R&D and marketing costs	(38.8)	*(11.5%)*	(38.8)	*(10.9%)*
General and administrative costs	(18.3)	*(5.4%)*	(18.7)	*(5.2%)*
Profit from core businesses	**2.8**	***0.9%***	**10.2**	***2.9%***
Non-recurring income/(charges)	(0.1)	=	7.2	*2.0%*
Operating income	**2.7**	***0.9%***	**17.4**	***4.9%***
Net financial charges	(1.6)	*(0.5%)*	(1.6)	*(0.5%)*
Dividends and valutation at equity	4.9	*1.5%*	4.2	*1.2%*
Other financial income/charges	(0.1)	=	=	=
Income before taxes	**5.9**	***1.9%***	**20.0**	***5.6%***
Taxes	(0.9)	*(0.3%)*	(4.2)	*(1.2%)*
Group net income	**5.0**	***1.6%***	**15.8**	***4.4%***

Net revenues(2)

A total income of 336.5 million euros was recognised for the year just ended, lower than for with 2018.

With regard to product type, the Wool Fabrics business (Marzotto Wool group) closed the year with a decrease in business volumes of 10%, or 24.4 million euros, while the Sundry Textiles sector (Marzotto Lab group) booked an increase of +4%, or +4.3 million euros.

As regards the end market, the Group recognised a decrease in business performance in both the domestic market and other European countries, totalling 261.4 million euros (-5.9% compared to the final figure for 2018), while on the international market, sales totalled 75.1 million euros (-4.9% compared to the final figure for 2018).

Below is a brief breakdown of net income by sector and geographical area, compared to the results of the previous year.

by sector

(in millions of euro)	2019		2018	
Textile Sector	**330.5**	***98.2%***	**350.6**	***98.3%***
Wool fabrics	218.5	*64.9%*	242.9	*68.1%*
Sundry textiles	112.0	33.3%	107.7	*30.2%*
Other Operations	**18.9**	***5.6%***	**18.6**	***5.2%***
Aggregate total	**349.4**	***103.8%***	**369.2**	***103.5%***
Inter-company sales/other	*(12.9)*	*(3.8%)*	*(12.4)*	*(3.5%)*
Consolidated total	**336.5**	***100.0%***	**356.8**	***100.0%***
of which: Italy	103.6	*30.8%*	110.8	*31.1%*
of which: Other markets	232.9	*69.2%*	246.0	*68.9%*

(1). The Ratti Group, Tintoria di Verrone S.r.l., Uab Lietvilna and Uab Linestus are consolidated with the equity method, in application of IFRS 11.

(2). Compared to 2018, the main foreign currencies of interest to the Group exhibited the following trends compared to the euro:
GBP – Pound sterling: 0.877 (2019 average); 0.885 (2018 average);
JPY – Japanese Yen 122.056 (2019 average); 130.410 (2018 average);
USD – US Dollar 1.120 (2019 average); 1.181 (2018 average);
CZK – Czech Crown 25.670 (2019 average); 25.643 (2018 average).

Below is a brief representation of the geographic breakdown of net income compared to last year's results.

by geographical area

(in millions of euro)	2019		2018	
Italy	103.6	*30.8%*	110.8	*31.1%*
Other European countries	157.8	*46.9%*	167.0	*46.8%*
North America	14.0	*4.2%*	12.9	*3.6%*
Asia	50.2	*14.9%*	54.7	*15.3%*
Other countries	10.9	*3.2%*	11.4	*3.2%*
Total	**336.5**	***100.0%***	**356.8**	***100.0%***

Operating result

The revenues do not have a similar impact on the operating result, mainly due to a reduction of the Wool group's margin. This dynamic is due to the progressive and significant increase in the inputs (primarily raw materials) and to the loss of the volumes recognised during the year.
The operating result totalled 2.8 million euros (-7.4 million euros less than for 2018), accounting for 0.9% of net sales income.

The pursuit of the rationalisation of the industrial and production structure undertaken during previous years gave rise to an intensification of synergies and consolidation of the logistics and commercial network for the purpose of improving the quality of service and limiting costs, ultimately to become more competitive on end markets.

Below is a breakdown by business segment:

by business segment

	2019		2018	
(in millions of euro)	Amount	% on rev.	Amount	% on rev.
Textile Sector	**0.8**	***0.2%***	**8.7**	***2.5%***
Wool fabrics	2.5	*1.1%*	7.8	*3.2%*
Sundry textiles	(1.7)	*(1.5%)*	0.9	*0.8%*
Other Operations	**2.1**	***11.1%***	**1.5**	***8.1%***
Adjustments/other	*(0.1)*	=	=	=
Total	**2.8**	***0.9%***	**10.2**	***2.9%***

Non-recurring income and expenses

In the year in question, non-recurring transactions totalled -0.1 million euros (compared with a positive balance of 7.2 million euros in 2018), mainly comprising net capital gains earned on the sales of assets.

Financial expenses

At the reporting date, net financial expenses amounted to 1.6 million euros, which were essentially in line with the figure for 2018.

Dividends and equity valuations

The item dividends from non-consolidated equity investments and equity valuations, which totalled 4.9 million euros (compared to 4.2 million euros in 2018), includes the economic impact of valuing investments in associate companies using the equity method.

Income taxes

Starting in the fiscal year 2008, Marzotto S.p.A. and Linificio e Canapificio Nazionale S.r.l., and starting in the fiscal year 2009, Biella Manifatture Tessili S.r.l. (formerly Tallia di Delfino S.p.A.), Le Cotonerie S.r.l. (formerly Immobiliare Isola S.r.l.) and Ambiente Energia S.r.l., and starting in 2016, Marzotto Wool Manufacturing S.r.l. and Marzotto Lab S.r.l. opted for the national tax consolidation scheme, for which the consolidating company is Wizard S.r.l., the effects of which are taken into account in the figures as at 31 December 2019.

The impact of the tax burden on the result for the period was negative by 0.9 million euros (compared to -4.2 million euros in 2018), including current tax of 1.5 million euros and deferred tax assets of +0.7 million euros, as well as taxes relating to previous years of 0.1 million euros.

Net result

The analyses performed thus far result in a net profit for the year of 5.0 million euros, compared to a profit of 15.8 million euros for 2018 (of which 6.8 million euros for extraordinary capital gains at the net of taxes).

Consolidated financial position

The Marzotto Group's financial position is summarised in the table below, and compared to the corresponding amounts as at 31 December 2018:

(in millions of euro)	31.12.19	31.12.18
Net trade receivable	56.9	59.6
Other receivables	11.9	11.3
Inventory	144.1	160.1
Commercial suppliers	(89.9)	(108.7)
Other payables	(28.4)	(33.8)
A) Net working capital	**94.6**	**88.5**
B) Assets/liabilities held for sale	**=**	**=**
Receivables beyond 12 months	10.8	11.0
Equity investments	31.3	28.4
Tangible fixed assets	111.9	114.5
Intangible fixed assets	9.6	9.8
C) Net fixed assets	**163.6**	**163.7**
D) Employee severance fund, reserves, and other non-financial M/L term payables	**(24.7)**	**(26.2)**
E) Deferred taxes reserve	**(6.1)**	**(6.6)**
F) Invested capital net of current liabilities (A+B-C-D-E)	**227.4**	**219.4**
Covered by:		
Short-term financial payables	51.0	62.1
Cash and short-term financial receivables	(90.8)	(97.9)
Medium/long term financial payables	128.4	116.5
Medium/long term financial receivables	(0.1)	(0.1)
G) Net borrowing	**88.5**	**80.6**
H) Group shareholders' net equity	**138.9**	**138.8**
I) Total (G+H) as in F	**227.4**	**219.4**

Net capital employed

At the reporting date, the capital employed net of operating liabilities totalled 227.4 million euros, compared to 219.4 million as at 31 December 2018.

The increase recognised of 8.0 million euros is mainly due to the increase in working capital (of 6.1 million euros) and the reduction in medium to long-term provisions (of 2.0 million).

The change of -0.1 million euros in net fixed assets was due to investments in the period (at the net of the normal amortisation/depreciation process in the period) totalling 2.8 million euros, the decrease in medium/long-term receivables (essentially prepaid tax) of -0.2 million euros and the +2.9 million increase in the value of equity investments, mainly related to the valuation of associates using the equity method.

The table below highlights the investments made in each business sector.

(in millions of euro)	2019		2018	
Textile Sector	**9.1**	***88.3%***	**14.1**	***95.9%***
Wool fabrics	6.1	*59.2%*	10.9	*74.1%*
Sundry textiles	3.0	*29.1%*	3.2	*21.8%*
Other Operations/other	1.2	***11.7%***	**0.6**	***4.1%***
Total	**10.3**	***100.0%***	**14.7**	***100.0%***

Investments were mostly in renovations and upgrades to plants and machinery, the efficiency of the production process and logistics service, as well as the adjustment and bringing up to standard of systems and buildings.

Net borrowing

Net borrowing was 88.5 million euros, with an indebtedness ratio(1) of 38.9% of net capital employed (compared to 36.7% as at 31 December 2018).

(in millions of euro)	2019	2018
Net income	5.0	15.8
Adjustments to income line items	(2.8)	(2.7)
Depreciation, amortization and write-downs	18.0	16.3
Provision and use of reserve	(2.4)	1.5
Cash Flow	**17.8**	**30.9**
Change in trade receivables	3.3	2.1
Change in inventory	16.0	(17.1)
Change in payables	(22.7)	4.0
Cash Flow from current assets	**14.4**	**19.9**
Investment in tangible and intangible fixed assets	(10.3)	(14.7)
Disposals of tangible and intangible fixed assets	0.1	0.1
IFRS16 effect 01.01.2019 and subsequent increases	(4.0)	=
Acquisitions/change in shareholdings	(0.1)	(0.3)
Cash Flow from investments	**(14.3)**	**(14.9)**
Free Cash Flow	**0.1**	**5.0**
Conversion differences from net borrowing and minority interests	=	=
Free Cash Flow before dividends	**0.1**	**5.0**
Shareholders' dividends	(8.0)	(8.0)
Capital increase in Parent company	=	=
Change in net financial position for the year	**(7.9)**	**(3.0)**
Initial net borrowing	(80.6)	(77.6)
Final net borrowing	(88.5)	(80.6)

Cash flow generated by current assets was positive for 14.5 million euros (compared to 19.9 million euros as at 31 December 2018), 10.2 million euros of which were used to make investments (compared to 14.7 million euros as at 31 December 2018).
The final net financial debt includes 3.1 million more euros of financial debt as an effect of IFRS 16.

Shareholders’ equity

Group shareholders’ equity as at 31 December 2019 was 138.9 million euros, up 0.1 million euros compared to the previous year. The change was mainly due to the total result for the period, which was positive for 5.0 million euros, offset by the effect of the distribution of dividends of 8.0 million euros. The residual amount of 3.0 million euros consists of the income statement items recognised using the equity method (fair value reserve, IAS 19 and conversion reserve)

The capitalisation index(2), calculated as the ratio of the shareholders’ equity to the net invested capital, is 61.1% (compared to 63.3% in 2018).

(1). Ratio of net debt to capital employed, at the net of operating liabilities.
(2). Ratio of shareholders’ equity to capital employed, at the net of operating liabilities.

[Equity investments]

Equity investments in subsidiaries

Below is a report on the performance of the main subsidiaries of the Marzotto Group.

Marzotto Wool Manufacturing Group

The main business of Marzotto Wool Manufacturing Group, whose parent company is Marzotto Wool Manufacturing S.r.l., with registered office in Valdagno (Vicenza province), is the development, production and distribution of high-end fabrics for men's and women's collections, mainly in wool, but also in wool blends and other fine fibres.

The Marzotto Wool Group includes the subsidiaries Novà Mosilana a.s. (wholly owned), Biella Manifatture Tessili S.r.l. (wholly owned), and the associates Tintoria di Verrone S.r.l. (25% owned), Pettinatura di Verrone S.r.l. (15% owned), Mediterranean Wool Industries SAE (30% owned), Marzotto Textiles USA and Marzotto Shanghai (50% owned), and Schneider Australia and Schneider New Zealand (25%).

The total income earned in 2019 was 218.5 million euros, with an EBIT of 3.1 million and a net profit of 1.0 million euros.

As regards the end markets for sales, Italy and the other European countries played a key role, respectively accounting for 24.2% and 47.7% of the total income. Reflecting the fact that part of its income from Asian markets relates to US corporate groups, the final income figure for the North American market totalled 27 million.

As concerns the breakdown of turnover by operating business unit, the Lanificio Gmf segment recognised income of 110.5 million euros (50.6% of the total) and Biella Manifatture Tessili recognised 89.6 million euros (41%), while Estethia/G.B. Conte closed the year with 18.0 million euros in income (8.2%).

The table below shows the income contribution and trend by business.

Net revenues by business

(in millions of euro)	2019		2018	
Lanificio Gmf	110.5	*50.6%*	123.9	*51.0%*
Biella Manifatture Tessili	89.6	*41.0%*	101.5	*41.8%*
Estethia/G.B. Conte	18.0	*8.2%*	17.1	*7.0%*
Other	0.4	*0.2%*	0.4	*0.2%*
Total	**218.5**	***100.0%***	**242.9**	***100.0%***

[Equity investments]

Below are some comments on the performance of the main segments in which the Group operates.

MARZOTTO WOOL MANUFACTURING

The income earned in 2019 was significantly lower than in 2018, confirming the economic downturn in the sector which had already begun in the fourth quarter of 2018 and then continued in 2019. The decline mainly concerns the business units that operate in the fabrics sector for formal men's clothing, while the Esthetia GB Conte division, which mainly operates in the women's sector, experienced a slight growth in revenues.

The decline in volumes is related to the following factors:

- Fashion has, already for several seasons, moved towards less formal clothing;
- The increase in the cost of raw materials, linked to the drop in production in Australia, which is also due to drought, and the increased demand for wool for the sportswear sector led to a significant increase in the price of the fabric. The big chains and businesses specialized in formal clothing, especially in the Central-Northern European market, which have not managed to pass on these increases to the end market, have moved towards the use of fabrics made with less noble fibres that mix synthetic fibres with natural ones. This was especially true for the first-tier markets that are very important to both the Marzotto and Marlane brands.
- During 2019, the general consumption crisis also significantly affected the sale of clothing, especially men's clothing, in the markets where our lines are most present (Northern Europe and USA).

The loss of sales margins relates to the impossibility of fully passing on the increase in the cost of raw materials to the prices. This influenced the result of the more classic lines such as Marlane and Guabello more, while the Marzotto line performed better, due to a more diversified product. Tallia di Delfino posted slight growth in margins thanks to the new *Gentleman Wardrobe* project, which services the made to measure and bespoke suit segments.

In response to these events, which caused a decline in revenues of around 10%, action was taken in the form of a steep reduction in costs, focusing on all direct and indirect fundamental components, and especially:

- balancing production activities by favouring production at plants with lower production costs;
- A reduction in employees and contractors by not compensating for turnover;
- A rationalisation of product research and development costs through a greater use of computerization and increased coordination of the collections of the various lines to minimize the overlaps in the products offered;
- A rationalisation of the investment plan.

LANIFICIO GMF

The drop in **Lanificio GMF**'s income mainly concerned the main end markets, such as Germany and North America. The reduction in volumes and the simultaneous increase in the cost of certain production factors such as labour in the Czech Republic and utilities, which were added to the aforementioned increase in the cost of raw materials, have directly affected margins.

Despite the reduction in business volumes during the 2019 financial year, **Lanificio GMF** has maintained the elements that have always distinguished its offer, namely the quality of the product and the customer service, together with the right mix of design solutions offered in its collections.

More specifically, the diverse nature of its collections means that the Group can offer international players fabrics suitable for classic clothing, fabrics that are more fashion-focused, and fabrics of an active nature, all the while guaranteeing good value for money. This diversification of the range and relative flexibility of production mitigate the risks relating to a potential slowdown in the trend of certain segments and also enable the Group to seize opportunities arising from changes in the market or in emerging market segments.

In 2019, the core market was Europe, which accounted for 70.0% of the total business volume. The volumes obtained on the American market, which posted a value of 20 million euros, were down.

[Equity investments]

The main factors that have particularly characterised the year in question can be summarised as follows:

Product innovation: major investments were again made in 2019 in research and innovation for the collections, fulfilling the interests of customers and reinforcing the collaborative relationship with the distribution network. In particular, the new creative proposals of fabrics with high technical and performance features, such as those in the Performance line, met with great interest from customers, both for the men's and women's collections.

A new “Organic wool & linen” line was created in late 2019, partly due to the agreement with the Schneider group, which directly operates 15 organic wool farms in Patagonia, and to Linificio e Canapificio Nazionale (a subsidiary of the Marzotto Group) which guaranteed GOTS (global organisation textile standard) certified organic raw materials.

Sustainability: in 2019, substantial sums continued to be invested in environmental certification and protection projects. The focus on environmental and social issues is, on the one hand, totally consistent with the system of time-honoured principles and values enshrined in the Group's Code of Ethics, and on the other is becoming a key factor in how customers assess the service they receive at international level.

Quality and customer service: significant investments to ensure the continuous technological improvement of the plants to guarantee quality, competitiveness and flexibility in production, with a simultaneous continuous, progressive improvement of customer service. Major investments made in both processes and new technologies now enable the rapid adaptation of production models to meet new demand on world markets, in terms of both product innovation and the service offered.

BIELLA MANIFATTURE TESSILI

The results achieved by the business unit summarise the varying performances of the company brands, which include income of 34.3 million euros for the Guabello division (down 8.3% from the previous year), 31.3 million euros for the Marlane division (down 19.7% from 2018) and 23.5 million euros for the Tallia di Delfino division (down 4.1% from 31 December 2018).

Below are comments on the performance of the individual brands:

Guabello closed 2019 with a drop in income compared to the previous year. The decline is linked to a drop in volumes and, in part, a decline in margins. The brand, which starting in previous years had sought to strengthen its strategic positioning in the high-end, fine, formal sector, has consolidated its relationships with its best customers, due to a high level of innovation in its collection, losing volumes in some areas, mainly Italy and Germany, where the crisis in the sector has hit the production/distribution network the most. The Middle and Far Eastern markets still represent the areas of greatest growth opportunity for the brand, and where efforts will continue to be concentrated in the coming years.

Marlane is the division that suffered the most from the crisis in the sector in 2019, with a decline in volumes involving all European markets. However, the growth in the average price and the improvement in the mix of sales kept the total margin positive. As mentioned in 2018, NOS (“Never out of stock”) and *Quick Service* (ready for inventory) continue to represent distinctive activities for Marlane that are not linked to seasonality; unfortunately, these services, which are fundamental to Marlane’s business and the maintenance of high volumes, especially in the first part of the year, were affected by a decline in volumes, linked to the decision by major customers to introduce entry-level priced suits woven from synthetic and artificial fibres or ones mixed with wool. Targeted commercial activity has increased Marlane’s presence in geographical areas such as the Middle and Far East.

In 2019, **Tallia di Delfino** registered a slight decrease in income, but it maintained the brand’s positioning achieved in 2018 in the luxury segment and in some major end markets such as Japan and Asia, where Tallia di Delfino's key customers are located. The division also launched a new service during the year called *Gentlemen’s Wardrobe*, which allows customers to order Tallia di Delfino fabrics online by the yard, even in small quantities, and to choose directly from several exclusive bunches.

[Equity investments]

ESTETHIA/G.B. CONTE

In the year under review, the division recognised net revenues of 18.0 million euros, an increase of 5.3% from the previous year, due mainly to higher sales volumes, while prices remained essentially stable.
The performance was very positive on all markets: America, Asia, as well as Europe. The increase in the result was due to investments made at both the product and marketing levels.

The table below shows revenue contributions and trends by brand.

Net revenues by geographical area

(in millions of euro)	2019		2018	
Italy	52.8	*24.2%*	58.8	*24.2%*
Other European countries	104.2	*47.7%*	117.5	*48.4%*
North America	11.0	*5.0%*	10.9	*4.5%*
Asia	42.6	*19.5%*	46.6	*19.2%*
Other countries	7.9	*3.6%*	9.1	*3.7%*
Total	**218.5**	***100.0%***	**242.9**	***100.0%***

Below are the key indicators of the Marzotto Wool Manufacturing Group.

Key indicators

(in millions of euro)	2019	2018	change	change %
Consolidated net revenues	**218.5**	**242.9**	**(24.4)**	**- 10.0%**
Profit from core businesses	**2.5**	**7.8**	**(5.3)**	**- 67.9%**
% of net revenues	*1.1%*	*3.3%*	*(2.2%)*	
Operating income	**3.1**	**8.6**	**(5.5)**	**- 64.0%**
% of net revenues	*1.4%*	*3.6%*	*(2.2%)*	
Net income	**1.0**	**6.1**	**(5.1)**	**- 83.6%**
Consolidated net invested capital	**129.9**	**121.9**	**8.0**	**+ 6.6%**
Investments for the period	**6.1**	**10.9**	**(4.8)**	**- 44.0%**
Active staff at 31 December: persons	**1,695**	**1,819**	**-124**	**- 6.8%**

[Equity investments]

Marzotto Lab Group

The main goal of the Marzotto Lab Group, whose parent company is Marzotto Lab S.r.l., which has its registered office in Valdagno (Vicenza province), is to carry out industrial and commercial operations relating to the purchase, and main and accessory manufacture of textile fibres of all kinds.

The Marzotto Lab Group, which comprises parent company Marzotto Lab S.r.l., its subsidiary, Linificio e Canapificio Nazionale S.r.l. (wholly owned) and the relative investee companies, AB Liteksas (99.97% owned), Uab Lietvilna (50% owned), Sametex spol s r.o (wholly owned), Girmes G.m.b.H. (wholly owned), Tintoria di Verrone S.r.l. (25% owned), Marzotto Textiles USA and Marzotto Shanghai (50% owned), is active in the Linen, Cotton, Velvet, Furnishings and Other segments (mainly including coordination functions and service activities carried out by the parent company for the operating businesses).

Revenues for the year just ended totalled 112.0 million euros, up 4.0% from the previous year (2018: 107.7 million euros).
Below is the opening according to product type:

Net revenues by product

(in millions of euro)	2019		2018	
Linen	51.7	*46.2%*	44.7	*41.5%*
Cotton	33.0	*29.5%*	33.1	*30.7%*
Velvet	14.5	*12.9%*	17.6	*16.3%*
Furnishing	10.3	*9.2%*	9.9	*9.2%*
Other	2.5	*2.2%*	2.4	*2.2%*
Total	**112.0**	***100.0%***	**107.7**	***100.0%***

The Marzotto Lab Group's activities bring together divisions and companies relative to diversified textile sectors, even if they are in part complementary or belong to a single chain.

LINEN

The Linificio e Canapificio Nazionale Group reported a significant increase in revenues and profit compared to 2018, due to an increase in both volumes and especially sales prices.

This achievement was partly due to a recovery in the linen market, an increase in the cost of the raw material, and the extensive efforts made by the Company to improve the quality of its product and its customer service, which improved its reliability and image.

During the year, production plants gradually became saturated and came to work at full capacity.

The main difficulties instead related to a steady increase in the price of raw materials and difficulties in their procurement, due to a lack of availability.

This resulted in Linificio steadily increasing the sale prices of yarns during the year, which put pressure on the market downstream.

In particular, the following growth rates were recognised in 2019: long staple yarns +15%, dry yarns +12.6%, dyed yarns +21.3% and raw fabrics +7.6%.

COTTON

The Tessuti di Sondrio division closed the year with revenues that are in line with the previous year.

In particular, the collection was strengthened further in the area of fine natural fibres such as linen and wool blends, also by exploiting synergies with the production capacity for linen and wool yarns.

In addition to the collection associated with trousers, NTB has developed technical products that meet the new requirements of the *sportswear* market. This collection is attracting particular interest from customers.

Implementation of the efficiency policy at the production plant has continued. Furthermore, action is still being taken to achieve environmentally sustainable products. In particular, in 2019 the following certifications were obtained: GOTS (*Global Organic Textile Standard*), GRS (*Global Recycled Standard*) and OCS (*Organic Content Standard*). Additionally, Tessuti di Sondrio joined ZDHC (*Zero Discharge of Hazardous Chemicals*) as a "contributor".

An initial document has been drawn up which describes the progress made so far on environmental sustainability.

[Equity investments]

VELVET

Textiles for the fashion world: 2019 saw a drop in volumes in the clothing area in particular, due to a change in design trends. The drop in sales affected both large customers and small brands. In particular, there was a significant drop in accessory products (bags and shoes), which fell by 87%. The year saw the start of the development of sustainable products with recycled materials.

Fabrics for the World of Interior Decoration: After a further exploration and analysis of the interior decoration market, further impetus was given to the creation and marketing of new products. This led to an increase in volumes of fabrics for theatres, and in particular for seats and upholstered materials, which increased by approximately 20% during the year.
The first “contract” products that require particular technical specifications (Trevira, FR) were created.

The interior decoration market also represents a much more stable market than that of fashion, which is more subject to fashion trends.

The fall in volumes required a strong focus on all of the business unit’s costs.
In particular, action was taken on the following fronts:

- closure of the factories (weaving and finishing) in Karslice, Czech Republic, for 15 days;
- reduction of employees and contractors by not replenishing worker turnover;
- a reduction in facilities-related investments not relating to safety or legal obligations;
- a rationalisation of maintenance costs through the use of internal resources rather than external companies.

FURNISHINGS

This division operates in the home furnishing textiles sector, offering a range of finished bedlinen and living room products. The distribution structure for the retail channel is based on an extensive network of agents located both in Italy and abroad. During the year, the team set out to develop a strategy increasingly focused on the e-commerce channel, also by revamping its own website. Strong impetus was given to entering the major marketplaces to promote online sales, such as Zalando and Amazon. Social media activity has been intensified, particularly with regard to Instagram. For the sake of proper positioning, some highly recognisable sales areas have been entered. A specific *corner* was created in Italy in the La Rinascente department store in Milan. During the year, catalogues and product packaging were overhauled. The development of large “private label” customers also continued in Northern Europe, Central Europe, the USA and the Far East. At the major trade shows in early 2019, the business unit presented a new collection highly innovative in terms of design and appreciated by customers. A line of environmentally sustainable items called “Green label” was also introduced.

With regard to the end markets, it should be noted that the domestic market accounts for 40.6% of the total (down compared to the 42.9% recognised during the previous year), while the rest of Europe, which represents approximately an additional 47.6% of the total, was slightly higher.

Net revenues by geographical area

(in millions of euro)	2019		2018	
Italy	45.5	*40.6%*	46.3	*42.9%*
Other European countries	53.3	*47.6%*	49.4	*45.9%*
North America	3.0	*2.7%*	2.1	*2.0%*
Asia	7.2	*6.4%*	7.6	*7.1%*
Other countries	3.0	*2.7%*	2.3	*2.1%*
Total	**112.0**	***100.0%***	**107.7**	***100.0%***

[Equity investments]

Below are the key indicators of the Marzotto Lab Group.

Key indicators

(in millions of euro)	2019	2018	change	change %
Consolidated net revenues	**112.0**	**107.7**	**4.3**	**+ 4.0%**
Profit from core businesses	**(1.7)**	**0.9**	**(2.6)**	**n.c.**
% of net revenues	*(1.5%)*	*0.9%*	*(2.4%)*	
Operating income	**(2.2)**	**0.7**	**(2.9)**	**n.c.**
% of net revenues	*(1.9%)*	*0.7%*	*(2.6%)*	
Net income	**(1.2)**	**0.9**	**(2.1)**	**n.c.**
Consolidated net invested capital	**76.7**	**79.3**	**(2.6)**	**- 3.3%**
Investments for the period	**3.0**	**3.2**	**(0.2)**	**- 6.3%**
Active staff at 31 December: persons	**1,351**	**1,314**	**37**	**+ 2.8%**

Equity investments

Other operations

(in millions of euro)	2019	2018	change	change %
Net revenues	**18.9**	**18.6**	**0.3**	**+ 1.6%**
Profit from core businesses	**2.1**	**1.5**	**0.6**	**+ 40.0%**
Operating income	**1.9**	**8.1**	**(6.2)**	**>100%**
Investments for the period	**1.2**	**0.6**	**0.6**	**+ 100.0%**
Active staff at 31 December: persons	**109**	**112**	**(3)**	**- 2.7%**

The **Other Operations** segment mainly includes coordination and strategic management activities, as well as services (management and finance, legal and corporate, human resources management, and information technology) performed centrally for the operating sectors.

This sector also includes the results of the management of the Schio water treatment plant (held through subsidiary Ambiente Energia S.r.l., which operates independently with a sole director vested with full powers), activities relating to renewable energy and equity investments in associates held by Marzotto S.p.A. and consolidated using the equity method (mainly Ratti S.p.A.).

The Ratti Group operates in the silk sector, producing and marketing printed, solid-colour or yarn-dyed fabrics for clothing and furnishings. It also develops and distributes finished products, mainly men’s and women’s accessories.

The Ratti Group earned revenues of 117.0 million euros (compared to 110.5 million in FY 2018) and a net profit of 12.9 million (compared to 10.5 million in 2018).

[Other information]

Labor relations

It was agreed with the Unified Trade Union Representatives and the local trade unions to cancel the Result Award for 2018 for the personnel working at the offices of the Headquarters in Valdagno (Vicenza province) and the Logistics/Warehouses personnel based in Piovene Rocchette (Vicenza province), and to reward the personnel with the “Welfare” option as an alternative, which allows for the purchase of goods and services with the amount of the award exempt from the taxable income for both social security and tax purposes.

Marzotto Wool Manufacturing Group

At Marzotto Wool Manufacturing S.r.l. (headquartered at Valdagno - GMF and Estethia G.B Conte Divisions) Conte), as with Marzotto S.p.A., it was also agreed to cancel the 2018 Result Award and to reward employees with the “Welfare” option.

During the year, to cope with the reduction in production volumes, the Company made use of the Ordinary Wage Guarantee Fund (CIGO) from 2 January to 4 March, from 19 April to 31 July, and from 23 September to 21 December. The use of CIGO was partial, concentrated in one to two days weekly in alternating departments, and it did not involve the entire production structure.
In July, to replace the ongoing and expected turnover of personnel, the plan to assign personnel to production areas (weaving, finishing and dyeing) was completed. 70% of the assignments involved female staff, of whom several hold a textile expert diploma and a chemical expert diploma from the local Vittorio Emanuele Marzotto/Luzzati technical institute, in confirmation of the partnership launched several years ago.

The lack of confirmation of some workers at the natural expiry of their Contract of Limited Time Duration, also due to the difficult market situation and organizational and production issues, led to the declaration of several hours of strike in May and June; the situation returned to normal in July.

Biella Manifatture Tessili S.r.l. also made use of the Ordinary Wage Guarantee Fund (CIGO) in the period from 10.05.2019 to 31.07.2019 and from 02.12.2019 to 21.12.2019. Recourse was partial and for a few days.

At the subsidiary Nová Mosilana a.s. in the Czech Republic, on 12.12.2019, the company’s trade union agreement was signed with an annual validity as of 01.01.2020.

At the associate company Tintoria di Verrone S.r.l., to reflect the positive result expected and the commitment shown by the employees in supporting production requirements, the Company decided to make a bonus pay-out to all of its workers in the form of shopping vouchers of up to 250 euros per person.

Marzotto Lab Group

The Sondrio - Tessuti di Sondrio – Nuova Tessilbrenta Division saw a partial recourse to the Ordinary Wage Guarantee Fund (CIGO) from 14 January to 12 April and from 3 June to 2 August.
On 15 December 2019, the extension of the Company Supplementary Agreement (2nd level agreement) was signed with the local trade unions and the Unitary Union Representative. It will remain in force until 31.12.2020.

With regard to the Company Supplementary Agreement (2nd-level agreement) for the production unit of the Furnishings Division and the Blanket Warehouse at the Piovene Rocchette site, the “Welfare” agreement indicated above was applied for Marzotto S.p.A. and Marzotto Wool Manufacturing S.r.l.; in fact, for reasons tied to its traditional placement within the Group, the Furnishings Division retained the agreement related to the Parent Company.

With regard to Linificio e Canapificio Nazionale S.r.l., there was nothing particularly significant in relation to the Villa D’Almè plant.

At the Lithuanian companies AB Liteksas and UAB Lietvilna, on 11 December 2019, collective company labour agreements were signed for 2020 and 2021 that introduced healthcare provisions at the two companies (a specific policy to cover employees that supplements the services provided by the Lithuanian public health service) and amended the variable reward system.

UAB Lietlinen entered into the company's collective labour agreement for 2020 and 2021, which amended the variable reward system.

There is nothing material to report regarding the Tunisian subsidiary Filin.

[Other information]

Training and development of human resources

In 2019, the Marzotto Group (Marzotto S.p.A., Marzotto Wool Manufacturing S.r.l., Marzotto Lab S.r.l. and Ambiente Energia S.r.l.) invested in 4,828 hours of training, both financed (using the Fondimpresa and Fondirigenti inter-professional funds) and non-financed, across Italy; in addition, 2,867 hours of safety training were delivered.
Foreign plants provided 18,133 hours of training, including safety training courses. The total investment in training in Italy, excluding safety, came to approximately 215,000 euros, including the use of the Fondimpresa and Fondirigenti inter-professional funds.

The objectives of training and development activities included the enhancement of managerial, specialist technical and language skills and the enhancement of the Marzotto Group's competitiveness within the international scenarios: the new training proposal ***Marzotto Academy*** has proposed 25 initiatives aimed at individuals and communities strategic for the business, including topics such as agility, project management, time management, communication, leadership and negotiation.

In 2019, special attention was paid to young people in the Company; in particular, the ***Marzotto YOUNG*** Project entailed the entry of 5 recent university graduates who alternated between working at Group companies and their specialised and conduct training.

In 2019, the Marzotto Group implemented a 24-day training course (divided into 8 classes) on the culture of feedback for the Group's managers to educate them on employee management.

The focus on young people in the Group also entailed the placement of 30 boys and girls with high school and university degrees within the various operating areas of the plants.

Marzotto S.p.A.

In 2019, Marzotto S.p.A. provided 1,504 training hours and 102 safety training hours in Italy.

Ambiente Energia

In 2019, Ambiente Energia invested in 193 hours of training, including 84 hours of safety training.

Marzotto Wool Manufacturing Group

In 2019, Marzotto Wool Manufacturing provided 1,379 hours of training and 783 hours of safety training in Italy.

Biella Manifatture Tessili

In 2019, the company Biella Manifatture Tessili s.r.l. invested 933 hours of training and 1,088 hours of safety training in Italy.

Novà Mosilana

At the subsidiary Nová Mosilana a.s., all employees are trained twice a year in health and safety and fire prevention, in compliance with local legislation. During the year, 159 employees also took part in foreign language courses (Italian, Czech, Russian and English), 15 newly hired assistants and managers took part in employee management courses and 45 employees undertook a technical professional training cycle. Finally, 575 employees followed mandatory safety training (electricians, chemists, pressure tank operators, crane operators, and gas oven operators). A total of 8,856 training hours was provided.

Marzotto Lab

In 2019, Marzotto Lab delivered 904 hours of training and 810 hours of safety training in Italy. Meanwhile, 9,277 hours of training were delivered at foreign plants.

Liteksas – Lietlinen – Lietvilna - Filin

The Lithuanian companies AB Liteksas, UAB Lietlinen and UAB Lietvilna provided 6,602 hours of training, broken down as follows: AB Liteksas provided 296 hours, UAB Lietlinen provided 5,426 hours and UAB Lietvilna provided 880 hours.
The Tunisian subsidiary Filin carried out managerial training for area managers, Italian language courses and technical-specialist courses (SAP, exports, network administration) and safety courses totalling 2,675 hours of training.

[Other information]

Employees by sector

In 2019, the Group reduced its operational workforce both nationally (-35 units compared to 2018) and internationally (-55 units compared to 2018).

The number of active operational staff decreased from 3,245 at the end of 2018 to 3,155 as at 31 December 2019.

	Year-end staff				Average			
	al 31.12.2019		al 31.12.2018		2019		2018	
Wool fabrics	1,695	*53.7%*	1,819	*56.0%*	1,756	*54.6%*	1,832	*56.2%*
Sundry textiles	1,351	*42.8%*	1,314	*40.5%*	1,350	*42.0%*	1,310	*40.2%*
Textile Sector	**3,046**	***96.5%***	**3,133**	***96.5%***	**3,106**	***96.6%***	**3,142**	***96.4%***
Other Operations	109	*3.5%*	112	*3.5%*	111	*3.5%*	117	*3.6%*
Total	**3,155**	***100.0%***	**3,245**	***100.0%***	**3,217**	***100.1%***	**3,259**	***100.0%***
Laid off/dismissed	2		1		1		1	
Total staff year end	**3,157**		**3,246**		**3,218**		**3,260**	

Operational employees by country

	Year-end staff				Average			
	al 31.12.2019		al 31.12.2018		2019		2018	
Italy	1,126	*35.7%*	1,161	*35.8%*	1,146	*35.6%*	1,170	*35.9%*
Czech Republic	1,032	*32.7%*	1,135	*35.0%*	1,082	*33.6%*	1,140	*35.0%*
Lithuania	325	*10.3%*	351	*10.8%*	341	*10.6%*	352	*10.8%*
Tunisia	667	*21.1%*	590	*18.2%*	643	*20.0%*	589	*18.1%*
Other countries	5	*0.2%*	8	*0.2%*	5	*0.2%*	8	*0.2%*
Total	**3,155**	***100.0%***	**3,245**	***100.0%***	**3,217**	***100.0%***	**3,259**	***100.0%***

Research and development

The main actions undertaken were:

The company continued its research and development activities in 2019, focusing its efforts on projects that we believe are particularly innovative, named:

- *Activity 1: industrial research and experimental development activities aimed at producing the new collections for the following divisions of the Marzotto Group:*
  TEXTILE FURNISHINGS DIVISION - REDAELLI VELLUTI - TESSUTI DI SONDRIO

The projects were carried out at the facility located at Largo S. Margherita 1 - 36078 - Valdagno (Vicenza province).
The company incurred costs totalling 1,400,860.23 euros to develop the aforementioned projects. Of the total incremental expenditure of 384,089.63 euros, the company intends to avail itself of the Research and Development tax credit envisaged under Art. 3, Decree-Law No. 145 of 23 December 2013, converted with amendments into Law No. 9 of 21 February 2014, and to use it according to the methods provided by this legislation.
Research activities continue during the year 2020.

Other information

Research and development

Linificio e Canapificio Nazionale S.r.l.

The company continued its research and development work in 2019, focusing its efforts on projects that we believe are particularly innovative, named:

- *Activity 1: continuation of industrial research and experimental development activities as part of the SSUCHY;*
- *Activity 2: continuation of experimental development activities through data verification, production and testing of new samples and prototypes as part of the ETF ECO TEXTILE FOR FASHION project;*
- *Activity 3: continuation of industrial research and experimental development in the following textile projects with particular reference to the development of innovative linen-derived yarns:*
  - *technological innovation in linen systems;*
  - *mechanical automation;*
- *Activity 4: industrial research and experimental development activities with prototyping as part of product innovation projects, with a particular focus on the creation of new collections;*
- *Activity 5: Research and experimental development of new products with related process experimentation through research and testing of very innovative technologies for the reference market.*

The projects were carried out at the facility located at Largo S. Margherita 1 - 36078 - Valdagno (Vicenza province). The company incurred costs totalling 408,811.04 euros to develop the aforementioned projects.
Of the total incremental expenditure of 373,033.96 euros, the company intends to avail itself of the Research and Development tax credit envisaged under Art. 3, Decree-Law No. 145 of 23 December 2013, converted with amendments into Law No. 9 of 21 February 2014, and to use it according to the methods provided by this legislation.
Research activities continue during the year 2020.

Ambiente Energia

The company continued its research and development work in 2019, focusing its efforts on projects that we believe are particularly innovative, named:

- *Activity 1: continuation of the study, analysis, research and design of innovative methods and specific technologies for waste water purification and treatment of liquid and muddy waste, hazardous and non-hazardous, generated by industrial production, with particular reference to laboratory analysis, study and research, creation of pilot systems for the abatement and treatment of additional pollutants present in waste as part of a project for the reuse of waste water generated by the plants. This is innovative in the reference sector.*

The projects were carried out in the facility located at Viale Dell'industria, 126 - 36015 - Schio (Vicenza province).
The company incurred costs totalling 181,190.21 euros to develop the aforementioned projects.
Of the total incremental expenditure of 111,329.73 euros, the company intends to avail itself of the Research and Development tax credit envisaged under Art. 3, Decree-Law No. 145 of 23 December 2013, converted with amendments into Law No. 9 of 21 February 2014, and to use it according to the methods provided by this legislation.
Research activities continue during the year 2020.

Other information

Risk management (IFRS 7)

The Group acts to identify and assess risks, and then implements procedures for managing any risk factors that may influence company results. Below, we will analyse the risk factors, distinguishing between external (contextual) risks and internal (processing) risks.

External risks (contextual)

Risks connected with the economic outlook

The Group products are addressed to markets subject to demand cycles and are influenced by the general economic trend. Major downturns in consumption levels can have a considerable impact on the Group's economic, equity and financial position. In order to mitigate the possible negative impact, the Group has a flexible structure, outsourcing part of production and splitting sales over a portfolio of clients diversified according to product/brand and market.

Risks related to competition in the sectors of the Group's operations

The Group operates in a competitive environment; it is possible that the competition pressure due to a drop in demand translates to pressure on prices. Part of the Group's offering, especially its more basic products, are interchangeable with products offered by our main competitors and therefore, in such cases, price is a significant sales factor.

Should there be a particularly significant drop in volume and/or sale prices, the Group believes that it can take action to cut its own cost structure to minimise the possible negative effects on its economic, financial, equity, and financial position.

Country risk

The Group operates in Tunisia through the subsidiary Filature de Lin SA and in Egypt through the associate Mediterranean Wool Industries S.A.E.
In order to hedge the risks of losses in relation to these investments that may derive from unfavourable political and economic developments in that area, including war and civil disorder, the Group has taken out a specific insurance policy with a major insurer.

Internal risks (procedural)

Risks related to financing sources and liquidity risk

The effects of potential turmoil in the global financial system could represent a risk factor in relation to the possibility of obtaining further financial resources at current conditions.
However, the Group believes that the present debt level and structure, in particular the immediately available financial resources (cash deposits) and the lines of credits not used, will limit the negative impacts of a possible difficulty in obtaining credit.

Credit risk

Credit risk is the risk that a customer or one of the counterparties in a financial instrument may cause a financial loss by not complying with an obligation; it pertains mainly to the Group's trade receivables and financial investments.

- <u>Trade receivables</u>

  The credit risk is partly essentially reduced considering the type of customer, which is diversified and not significantly concentrated in any one end market.

  The risk is managed by a specific office within the company, also through an insurance policy, together with the sales departments.

The Group also uses specialised agencies on a regular basis to obtain business information in order to have detailed knowledge of the geographical areas it serves.

Other information

- Financial investments

  The Group limits its exposure to credit risk by investing exclusively in highly liquid securities and only with counterparties with high credit ratings.

The book value of financial assets represents the Group's maximum exposure to the credit risk. At the end of the year the exposure was as follows:

(thousands of euro)	2019	2018
Financing and cash equivalents	90,849	98,003
Trade and other receivables	69,061	71,143
Total	**159,910**	**169,146**

The age of trade receivables at the date of the financial statements was as follows:

	2019		2018	
(thousands of euro)	gross	fund	gross	fund
Current	44,892	(1,967)	50,304	(619)
Overdue from 0 to 90 days	12,216	(1,669)	10,856	(3,257)
Overdue over 90 days	4,830	(2,152)	3,588	(1,883)
Total	**61,938**	**(5,788)**	**64,748**	**(5,759)**

The information on guarantees given and received is contained in the section entitled "Contractual commitments and guarantees" (memorandum accounts in the Group's explanatory notes).
Information on provisions for bad debt is provided in point 3.2 of the Group note.

Market risk

Market risk is the risk that the fair value or the future cash flows of a financial instrument might change following variations in the market prices, exchange rates, tax rates or quotations of the instruments representing the capital.

- *Exchange rate risk*

  Considering the Group's exposure to exchange rate fluctuations in foreign currency transactions, we carry out hedging transactions to determine the exchange rate based on estimates of net sales and net purchasing volumes for each Group company and the currency exchange rate considered when the price lists are prepared.

  Specifically, the Company uses the following hedging instruments:

  - foreign currency loans;
  - forward sales and purchases in foreign currency.

  These hedging instruments are agreed upon with primary banks with a high credit rating. The Group does not enter into currency forward or options contracts for speculative purposes.

  The hedged cash flows are expected within the next 12 months.

  The impact of the conversion of foreign currencies on the subsidiaries' own equity capital is recorded under a separate item within the shareholders' equity.

  With reference to the most significant currencies, the table below shows the Group's exposure to the exchange rate risk at the date of the financial statements.

Other information

(thousands of euro)	2019 Usd	2019 Jpy	2018 Usd	2018 Jpy
Trade receivables	7,818	45,442	6,312	(91)
Short term financial assets and cash and cash equivalents	2,440	81,276	1,462	89,346
Trade payables	(3,111)	(20,076)	(5,152)	(837)
Total	**7,147**	**106,642**	**2,622**	**88,418**

- *Interest rate risk*

  The Group is exposed to the risk of volatility of interest rates associated with both its liquidity and loans.
  The effects of potential turmoil, already experienced in the banking system, could represent a potential risk in relation to the cost of obtaining financial resources. The benchmark rates and the spreads granted by lending banks call for a constant monitoring of the risk described above. However, this risk is not believed to be significant in terms of impact, given the current level of net debt.

  Interest rate hedging contracts are in place on medium/long-term loans at variable rates, through financial derivatives, to avoid market fluctuations.

Environmental and safety risk

The Group manages the environmental safety risk with suitable staff training on new regulations and by introducing systems to prevent and improve health and safety in the workplace.
In terms of safety, the Group invests constantly in protecting and ensuring the safety of the workplace, both inside and outside the production plants.
The activities of the Group are subject to (local, national and international) laws and regulations on the environment. In particular, the production plants are affected by regulations on atmospheric emissions, waste management and wastewater management, especially because we have finishing and purification plants.
The organisation is always committed to respecting environmental standards in compliance with the environmental regulations in force in each local area with regard to the specific business segments.
New investments are considered also in view of their environmental impact, the potential reduction in the consumption of resources and energy during operations as well as the reduction of the total waste material produced.

Other risks

The risk of price increases for raw materials, where significant, is analysed when the sale lists are prepared. At that same time, the net demand generated by the purchase budget is covered by placing the orders with the suppliers, in order to minimize the effect on the income statement, should the cost of raw materials increase during the year.

Considering the type of production and the financial structure, there are no other significant risks.

Significant events after the close of the year

At the date of this document, there are no significant events to report after the close of the year, other than what is indicated below.

Performance news and outlook for the current year

As regards the economic trend during the first two months of this year, we note that consolidated net revenues totalled 38.1 million euros, down by approximately 14% from the 44.1 million recognised for the same period in 2019.

(in millions of euro)	02.2020		02.2019	
Textile Sector	**37.0**	***97.1%***	**43.1**	***97.8%***
Wool fabrics	20.8	54.6%	28.0	63.5%
Sundry textiles	16.2	42.5%	15.1	34.3%
Other Operations	**2.9**	***7.6%***	**3.1**	***7.0%***
Aggregate total	**39.9**	***104.7%***	**46.2**	***104.8%***
Inter-company sales	*(1.8)*	*(4.7%)*	*(2.1)*	*(4.8%)*
Consolidated total	**38.1**	***100.0%***	**44.1**	***100.0%***

Business outlook

In the first months of 2020, the Marzotto Group had to deal with the events related to the spread of Covid-19 (also known as the Coronavirus), which was first detected in China, and which then spread to other important geographic areas, including, in Europe, primarily Italy, which is currently the second country in the world most affected by the virus.

In the first months of the year, this phenomenon caused a reduction in global consumption, a direct consequence of the health emergency, the general climate that arose, and the restrictive measures adopted by the various countries. This is also significantly affecting the world of clothing and leading to a sharp reduction in consumption.

In this context, the Marzotto Group has made every effort to protect the safety of its employees in Italy and abroad, complying with the instructions provided by the various governments and the World Health Organization, and it has taken all measures to ensure the operating continuity of its plants. Specifically, it launched smart working and time off programmes for employees whose work does not require their physical presence in the workplace, while also implementing, for each facility, all the safety protocols provided by the WHO and the Ministries of Health of the various countries.

Based on recent pronouncements made by Italy's Prime Minister, all the plants, offices and places of business of the Marzotto Group in Italy remain closed, in the hope of resuming operations as soon as possible. Today, most of the Group's employees working in sales, creative, and staff capacities are operating from home in smart working mode.

At this time, orders have fallen in all Group divisions, and all actions have been taken to increase the efficiency of the structures, reduce costs and ensure the Group's financial resilience, such as halting non-strategic investments and all expenses not essential to production continuity.

In the scenario described, the evolution of the year 2020 for the Group will depend on the timing with which the countries most affected by Coronavirus will manage to stabilize their healthcare, social and economic situation, and thereby create the conditions for the gradual recovery of consumption. Strong uncertainties and concerns about the social and economic repercussions of the healthcare crisis will also depend on the timeliness and effectiveness with which monetary and fiscal measures will be defined to support the most exposed economic sectors and operators.

The Group believes that the pandemic-related crisis is in any case temporary, although its timeline is difficult to predict, and in this regard, it confirms all the medium-term strategic objectives, business actions and investments provided in the approved business plans.

In any case, in relation to the above, the projected capacity for the year 2020 has so far decreased considerably. Therefore, at present it is not possible to formulate reliable forecasts of the duration and impact of the emergency on the Group's management and result.

Valdagno (VI), 27 March 2020

FOR THE BOARD OF DIRECTORS
THE MANAGING DIRECTOR
DAVIDE FAVRIN

Consolidated financial statements

Parent Company: Marzotto S.p.A.
Company with sole partner
Registered and Administrative office in Largo S. Margherita 1, 36078 Valdagno (VI)
Subject to Trenora S.r.l. management and coordination activities
Tax ID,V.A.T. registration number 00166580241 - REA Vicenza nr. 801 - PEC: Marzotto@legalmail.it

Consolidated statement of financial position

(thousands of euro)	31.12.2019 Partial	31.12.2019 Total	31.12.2018 Partial	31.12.2018 Total
1. Non-current assets				
1.1 Property, plant and equipment		109,447		113,309
1.2 Civil buildings		2,431		1,238
1.3 Goodwill, trademarks and other intangible assets		9,644		9,765
1.4 Equity Investments		31,074		28,180
1.5 Other investments		178		174
1.6 Long-term receivables		288		241
1.7 Deferred tax assets		10,567		10,794
1.8 Long-term financial receivables third parties	85		86	
Long-term financial receivables affiliates	=	85	=	86
Total non-current assets		**163,714**		**163,787**
2. Non-current assets held for sale		**=**		**=**
3. Current assets				
3.1 Inventories		144,080		160,133
3.2 Trade receivables third parties	56,150		58,989	
Trade receivables affiliates	767	56,917	605	59,594
3.3 Other receivables	10,866		11,100	
Other receivables affiliates	990	11,856	208	11,308
3.4 Current financial assets, cash and cash equivalents third parties	89,662		96,869	
Current financial assets, cash and cash equivalents affiliates	1,102	90,764	1,048	97,917
Total current assets		**303,617**		**328,952**
Total assets		**467,331**		**492,739**
4. Shareholders' equity				
4.1 Share capital and reserves		133,907		123,050
4.2 Income/(Loss) for the year		4,992		15,764
Group shareholders' equity		**138,899**		**138,814**
4.3 Non controlling interests		=		=
Total shareholders' equity		**138,899**		**138,814**
5. Non-current liabilities				
5.1 Long-term provisions		24,718		26,241
5.2 Other long-term payables		34		31
5.3 Deferred tax liabilities		6,078		6,546
5.4 Long-term financial payables		128,394		116,481
Total non-current liabilities		**159,224**		**149,299**
6. Non-current liabilities held for sale		**=**		**=**
7. Current liabilities				
7.1 Trade payables and other payables third parties	108,787		130,218	
Trade payables and other payables affiliates	9,480	118,267	12,288	142,506
7.2 Current financial payables		50,941		62,120
Total current liabilities		**169,208**		**204,626**
Total shareholders' equity and liabilities		**467,331**		**492,739**
Net financial debt		**(88,486)**		**(80,598)**

Consolidated statement of profit/(loss) and consolidated items of other comprehensive income

	(thousands of euro)	Year 2019 Amounts	Year 2019 %	Year 2018 Amounts	Year 2018 %
8.	Net revenues third parties	328,542	97.6	347,454	97.4
	Net revenues affiliates	7,923	2.4	9,312	2.6
	Totale net revenues	**336,465**	**100.0**	**356,766**	**100.0**
	9. Cost of sales third parties	(265,650)	(79.0)	(281,383)	(78.9)
	Cost of sales affiliates	(10,888)	(3.2)	(7,656)	(2.1)
10.	**Gross income**	**59,927**	**17.8**	**67,727**	**19.0**
	11. R&D and marketing costs	(38,804)	(11.5)	(38,804)	(10.9)
	12. General and administrative costs	(18,301)	(5.4)	(18,686)	(5.2)
	13. Other income and charges	(104)	=	7,192	2.0
14.	**Operating income**	**2,718**	**0.8**	**17,429**	**4.9**
	15. Net financial charges third parties	(1,602)	(0.5)	(1,671)	(0.5)
	Net financial charges affiliates	21	=	18	=
	16. Dividends from non consol. equity investments and valuations to equity	4,833	1.4	4,180	1.2
	17. Valuation of equity investments held for sale	=	=	=	=
	18. Other financial income and charges	(81)	=	(4)	=
19.	**Income before taxes**	**5,889**	**1.8**	**19,952**	**5.6**
	20. Taxes	(897)	(0.3)	(4,188)	(1.2)
21.	**Net income from continuing operations**	**4,992**	**1.5**	**15,764**	**4.4**
	22. Net profit/(loss) from discontinued operations	=	=	=	=
23.	**Net income (before non controlling interests)**	**4,992**	**1.5**	**15,764**	**4.4**
	24. Income attributable to non-controlling interests	=	=	=	=
25.	**Group net income**	**4,992**	**1.5**	**15,764**	**4.4**
	26. Fair Value adjustments (1)	1,617	0.5	(1,745)	(0.5)
	27. Other adjustments (1)	1,713	0.5	(1,732)	(0.5)
	Items that will be reclassified subsequently to profit and loss	**3,330**	**1.0**	**(3,477)**	**(1.0)**
	28. IAS 19 adjustments (1)	(321)	(0.1)	(12)	=
	Items that will not be reclassified subsequently to profit and loss	**(321)**	**=**	**(12)**	**=**
29.	**Total comprehensive income for the period**	**8,001**	**2.4**	**12,275**	**3.4**

1. The Change in Fair Value Reserve, IAS 19 Reserve and the Other adjustments are components of the comprehensive income statement accounted for in equity.

Consolidated statement of cash flows

(thousands of euro)	2019	2018
Net income (including non controlling interests)	**4,992**	**15,764**
Amortisation and depreciation	17,971	16,329
Change in provisions	(1,886)	406
(Gains)/losses on disposal of fixed assets	(630)	(10,075)
Investments valued at equity	(2,730)	(2,729)
Change in inventories	16,053	(17,119)
Change in trade receivables and other receivables third parties	3,862	4,236
Change in trade receivables and other receivables affiliates/parent	(951)	2,028
Change in trade payables and other payables third parties	(20,282)	3,830
Change in trade payables and other payables affiliates/parent	(2,808)	810
Change in other long term receivables and payables	(309)	357
Operating cash flow (A)	**13,282**	**13,837**
Investments in intangible and tangible fixed assets	(10,302)	(14,700)
Investments IFRS16	(290)	=
Disposals in intangible and tangible fixed assets	664	6,938
(Investments in) /disposals of other equity investments	(82)	(276)
Cash flow from investments (B)	**(10,010)**	**(8,038)**
Translation exchange differences and other equity changes (C)	669	(657)
Extraordinary operations (D)	=	=
Cash flow before dividends (A+B+C+D)	**3,941**	**5,142**
Dividends paid	(8,000)	(8,000)
Increase in capital share of Parent Company	=	=
Change in net financial position	**(4,059)**	**(2,858)**
Change in long-term financial payables	8,769	50,132
Change in current financial payables third parties	(12,154)	(16,969)
Change in current financial payables for leasing	290	=
Change in current financial payables affiliates/parent	=	=
Change in long-term financial receivables third parties	1	57
Change in long-term financial receivables affiliates/parent	=	167
Total change in current financial assets, cash and cash equivalent	**(7,153)**	**30,529**
Cash and current financial assets - beginning of the period	**97,917**	**67,388**
Cash and current financial assets - end of the period	**90,764**	**97,917**

Statement of changes in shareholders' equity

(thousand euro)	Share capital	Legal reserve	Conversion reserve	Extraordinary reserve	Fair value reserve	IAS 19 reserve	Other reserves	Profits carried forward	Group result	Group s/holders' equity
Balance as at 31.12.2017	**40,000**	**8,000**	**5,868**	**76**	**696**	**(456)**	**28,013**	**39,116**	**13,295**	**134,608**
Allocation of net income: 2017										
a dividends									(8,000)	(8,000)
carried forward								5,295	(5,295)	=
Net income for the year 2018									15,764	15,764
Other total profit/ (losses) [1]			(1,732)	=	(1,745)	(12)				(3,489)
Total other income/charges	**=**	**=**	**(1,732)**	**=**	**(1,745)**	**(12)**	**=**	**=**	**15,764**	**12,275**
Other movements							(69)			(69)
Balance as at 31.12.2018	**40,000**	**8,000**	**4,136**	**76**	**(1,049)**	**(468)**	**27,944**	**44,411**	**15,764**	**138,814**
Allocation of net income: 2018										
a dividends									(8,000)	(8,000)
carried forward								7,764	(7,764)	=
Net income for the year 2019									4,992	4,992
Other total profit/ (losses) [1]			1,713	=	1,617	(321)				3,009
Total other income/charges	**=**	**=**	**1,713**	**=**	**1,617**	**(321)**	**=**	**=**	**4,992**	**8,001**
Other movements							84			84
Balance as at 31.12.2019	**40,000**	**8,000**	**5,849**	**76**	**568**	**(789)**	**28,028**	**52,175**	**4,992**	**138,899**

1. Profits and Losses of the Comprehensive Income Statement recognized in the Shareholders' Equity.

Introduction

Notes to the consolidated financial statements

General information

The Marzotto Group is one of the main international players in the textile field, mainly operating in the development, production and distribution of high-end wool fabrics (through the Marzotto Wool Manufacturing Group), cotton, wool yarns and linens, furnishing textiles, velvets (through the Lab Group) and silk (with a 34.005% investment in the Ratti Group).

The section entitled "Consolidation scope and method" provides information on the companies included in the Group's consolidation scope.

Management and coordination activities

Parent company Marzotto S.p.A. is subject to the management and coordination of Trenora S.r.l., which has its registered office at Largo S. Margherita 1, Valdagno (VI). In compliance with the provisions of Article 2497 *bis*, paragraph 4, of the Italian Civil Code, below is the summary statement of the key data of the last approved financial statements.

Balance sheet	31.12.2018		31.12.2018
(thousands of euro)			
B) Fixed assets	100,163	A) Shareholders' equity	100,958
C) Current assets	911	B) Accounts payable	=
D) Accruals and deferrals	2	D) Accruals and deferrals	118
Total assets	**101,076**	**Total liabilities**	**101,076**

Income statements	Year 2018
(thousands of euro)	
A) Value of production	=
B) Cost of goods sold	(168)
Difference between value and cost of goods sold (A+B)	**(168)**
C) Financial income and charges	4,088
D) Adjustment to value of financial assets	=
Income before taxes (A+B+C+D+E)	**3,920**
Income taxes	(5)
Profit (loss) for the year	**3,915**

The consolidated financial statements of the Marzotto Group were approved by the Marzotto S.p.A. Board of Directors on 27 March 2020. Publication will take place in accordance with the law.

Notes to the consolidated financial statements

Compliance with IFRS/IAS

These consolidated financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and approved by the European Union, as well as with the orders issued in implementation of Italian Legislative Decree 38/2005.
IFRS also means all revised international accounting standards (IAS) and all interpretations by the International Financial Reporting Interpretations Committee (IFRIC), previously named the Standing Interpretations Committee (SIC).

Financial statements

These financial statements consist of the consolidated statement of financial position, the consolidated statement of profit/(loss) and the other items of comprehensive consolidated income, the consolidated statement of cash flows, the consolidated statement of changes in shareholders' equity and the explanatory notes.
More specifically:

- in the consolidated statement of financial position, current and non-current assets and current and non-current liabilities are shown separately. Current assets are expected to be realised, transferred or consumed during the regular operating cycle of the Group; current liabilities are those that are expected to be paid off during the regular operating cycle of the Group or in the 12 months following the close of the period;
- for the consolidated statement of profit/(loss) and consolidated items of other comprehensive income, costs are allocated according to their intended purpose;
- for the consolidated statement of cash flows we have used the indirect method.

Unless otherwise specified, all figures stated in the financial statements and explanatory notes are in thousands of euros.

Identification of the segments

The disclosure according to business segment and geographic area is given in accordance with that required by IFRS 8 - Operating Segments.
The criteria applied to identify these segments are based on the ways in which the management manages the Group and attributes managerial responsibilities.

The information by sector is primarily organised by product line, as follows:

- Wool Fabrics;
- Sundry Textile;
- Other Operations.

The Group also operates through associates in the silk and wool yarns sector.
Its activities are carried out at various plants located throughout Italy (wool and cotton weaving, linen yarns, silk making, velvet fabric production), in Tunisia (linen spinning and weaving), in Egypt (combing), in Lithuania (linen spinning, wool spinning, blankets), in the Czech Republic (woollen spinning and weaving and velvet fabric production) and by qualified contractors. Furthermore, the Group operates in the textile machinery sector in the linen area (through Linificio e Canapificio Nazionale S.r.l.).

The information by geographical area is subject to secondary disclosure.

Going concern

The consolidated financial statements have been prepared on the basis of the accounting records as at 31 December 2019 and on a going concern basis.

Notes to the consolidated financial statements

Accounting standards, amendments and interpretations applied by the Group as from 1 January 2019.

The same accounting standards and drafting criteria were used in the preparation of this document as in the preparation of the financial statements for the year ended 31 December 2018, except for the new standards, amendments and interpretations in force as from 01 January 2019. The new standards have had no material impact on the Group's consolidated financial statements and are described below.

Accounting standards that entered into force on 01 January 2019

On 13 January 2016, the IASB published IFRS 16 - Leases, which is intended to replace IAS 17 - Leases and 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 new standard provides a new definition of a lease and introduces a control-based criterion (right of use) of an asset to distinguish lease agreements from service agreements, identifying as discriminating factors;
the identification of the asset, the right to replace it, the right to obtain substantially all the economic benefits deriving from the use of the asset and the right to direct the use of the asset underlying the agreement.
The standard establishes a single model for the recognition and valuation of lease agreements for the lessee, which provides for the recognition of the leased asset (including in operating leases) under the assets, with a financial payable as a contra-entry, also providing for the possibility of not recognising as leases those agreements involving low-value assets and leases with a contractual term of 12 months or less. Conversely, the standard does not include significant changes for lessors.
The Group adopted IFRS16, and measured usage rights as assets and liabilities for leases at the transition date, based on residual payments due. The comparative period figures have not been restated. The Group also made use exceptions to the standard for lease contracts that, at the date of first application, have a term of 12 months or less and lease agreements where the underlying asset is of modest value.

The values of the Group’s usage rights as assets and the leases as liabilities are described below, along with the related changes that took place during the period:

(thousands of euro) Leased assets	Civil buildings	Industrial buildings	Other tangible fixed assets	Total
Balances as at 01.01.2019	**1,616**	**1,167**	**883**	**3,666**
acquisitions	92	=	198	290
depreciation for the year	(469)	(178)	(411)	(1,058)
Balances as at 31.12.2019	**1,239**	**989**	**670**	**2,898**

Leasing liabilities	Civil buildings	Industrial buildings	Other tangible fixed assets	Total
Balances as at 01.01.2019	**1,626**	**1,177**	**999**	**3,802**
acquisitions	92	=	198	290
passive interests	10	23	7	40
payments	(475)	(185)	(391)	(1,051)
Balances as at 31.12.2019	**1,253**	**1,015**	**813**	**3,081**

The amounts recognised in the income statement are shown below:

(thousands of euro)	Total
depreciation for the year	(1,058)
passive interests for leasing	(40)
leasing costs for location	1,068
Total effects on the income statement	**(30)**

On 7 June 2017, the IASB published IFRIC Interpretative Document 23 – Uncertainty over Income Tax Treatments. It addresses the issue of uncertainty about the tax treatment to be adopted with regard to income taxes. The document provides that uncertainties in determining tax liabilities or assets will only be reflected in the financial statements when it is probable that the entity will pay or recover the amount in question.

Notes to the consolidated financial statements

Change to accounting standards

Furthermore, the document does not contain any new disclosure obligations, but it does point out that the entity will have to determine whether it will be necessary to provide information on considerations made by management relating to the uncertainty regarding the recognition of taxes, in accordance with IAS 1. This amendment had no impact on the Group's financial statements.

On 31 October 2017, the IASB published the IFRS 9 – Prepayments Features with Negative Compensation, approved and published by the EU on 26 March 2018.

On 7 February 2018, the IASB published the amendment document to IAS 19 – Plan Amendment, Curtailment or Settlement, approved and published by the EU on 14 March 2019, which clarifies pension expenses in the event of an amendment to the defined benefit plan.

On 12 October 2017, the IASB published the amendment document to IAS 28 – Long-term interests in associates and joint ventures, endorsed and published by the EU on 11 February 2019, which aims to clarify that the provisions on impairment of IFRS 9 apply to long-term interests in associates and joint ventures.

On 12 December 2017, the IASB published the document *Annual Improvements to IFRS's 2015-2017 Cycle*, to supplement and modify the pre-existing standards (including IFRS 3 Business Combination, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs), approved and published by the EU on 15 February 2019.

These amendments had no applicability or impact on the Group's financial statements.

Accounting standards, amendments and interpretations not yet applicable and not adopted early by the Group

On 29 March 2018, the IASB issued amendments to the references to the conceptual framework in IFRS16, which update existing references to the previous frameworks in different accounting standards and interpretations, and which replace them with references to the revised conceptual framework. These changes will enter into force on 1 January 2020.

On 31 October 2018, the IASB published an amendment document to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, with the aim of clarifying the definition of "material" to help companies assess whether or not a piece of information should be included in financial statements. These changes will enter into force on 1 January 2020.

In September 2019, the IASB published amendment documents to IFRS9, IAS39 and IFRS7, which include temporary concessions that permit the continued use of hedge accounting during the period of uncertainty preceding the reform regarding the replacement of the current benchmark interest rate with an alternative, risk-free interest rate.

The Group will adopt these new standards and amendments on the basis of the envisaged date of application and will assess their potential impact on its consolidated financial statements when they come into force.

Notes to the consolidated financial statements

Method of consolidation

The consolidated financial statements of the Marzotto Group include the economic, equity and financial position of parent company Marzotto and the companies over which it has the right to exercise control.
The definition of control is not based exclusively on the concept of legal ownership. Control exists when a Group has the direct or indirect power to govern the financial and operating policies of a company in order to obtain the relevant benefits. Generally speaking, control is assumed to exist when the Group directly or indirectly holds more than half the voting rights, also considering those that can be potentially exercised immediately. The financial statements of the subsidiaries are included in the consolidated financial statements starting from the date on which control is assumed and until such time as the control ceases to exist, adopting the full method by way of consolidation criteria.
The Group uses the purchase accounting method for business combinations. The cost of the business combination is calculated as at the acquisition date in consideration of the fair value of the assets sold and/or liabilities accepted and the capital instruments issued in order to obtain control. The cost of the combination includes the fair value of all liabilities incurred or assumed. The costs of the acquisition are recorded on the consolidated income statement when incurred.
The assets, liabilities and contingent liabilities acquired and identifiable are noted at fair value at the date of acquisition. At each acquisition, the Group decides whether or not to recognise the minority interests of the company acquired at fair value or according to their interest share in the fair value of the net assets acquired. The surplus between the total cost of the business acquired, the amount of each minority interest in the company acquired and the fair value as at the acquisition date of each minority interest pre-existing in the company acquired with respect to the portion of the buyer in the fair value of the assets and liabilities that can be identified and contingent liabilities, is recorded as goodwill. If the buyer’s share of the fair value of the assets and liabilities that can be identified and the contingent liabilities of the business acquired exceeds the cost of the combination, the difference is recognised directly in the income statement.
As regards the accounting treatment of transactions or events that modify the interest shares in subsidiaries and the attribution of the subsidiary’s losses pertaining to minorities, IAS 27 (revised 2008) establishes that, once control has been obtained of a business, the transactions in which the parent company acquires or transfers further minority shares without altering the control exerted over the subsidiary are transactions with shareholders and should therefore be recognised as equity. Accordingly, it follows that the book value of controlling interests and minority interests must be adjusted to reflect the change in the interest in the subsidiary and all differences between the amount of the adjustment made to the minority interest and fair value of the price paid or received against this transaction, is noted directly as equity and attributed to the shareholders of the parent company. There will be no adjustments to the value of goodwill and profits or losses recognised in the income statement.

The main consolidation criteria adopted are as follows:

- for fully consolidated equity investments, the book value of the individual equity investments consolidated is derecognised against the related shareholders’ equity, with the assumption of the assets, liabilities, costs and revenues of the subsidiaries, regardless of the size of the investment held, with the share of the capital and reserves pertaining to the minority shareholders of the subsidiaries and the portion pertaining to minority shareholders of the profit or loss for the period of the consolidated subsidiaries identified separately in the consolidated statement of financial position and the consolidated income statement;
- for the booking of the acquisitions of subsidiaries, the purchase method is used, as envisaged by IFRS 3 Revised (see the paragraph on “Business combinations”);
- all balances and significant transactions between group companies are eliminated, as are profits and losses (the latter unless representative of an effective lesser value of the asset sold) deriving from commercial or financial intra-group transactions not yet performed towards third parties;
- increases/decreases in the shareholders’ equity of the consolidated companies allocated to a result achieved after the date of acquisition of the equity investment, are recognised at the time of consolidation eliminations under a specific equity reserve called “Profits (losses) carried forward”;
- the dividends distributed by Group companies were eliminated from the income statement during consolidation.

The consolidated financial statements include the portion pertaining to the Group of the results of the companies booked using the equity method starting from the date on which the significant influence or joint control takes effect and until such time as said significant influence or joint control ceases to apply. Intra-group profits not yet realised with regards to third parties are eliminated for the portion pertaining to the Group in the investee company. Intra-group losses not yet realised with regards to third parties are also eliminated unless representing an effective lesser value of the asset sold.
Any losses exceeding shareholders' equity are recognised to the extent to which the investing company is committed to fulfilling legal or implicit obligations with regards to the investee or in any case to covering its losses.

Investments in associates

These are equity investments held in companies over whose financial and operational policies the Group exercises significant influence. Equity investments in companies over which significant influence is exerted ("associates"), which is assumed to exist when the percentage of the investment held ranges between 20% and 50%, are measured using the equity method. By virtue of the application of the equity method, the book value of the investment is aligned to shareholders' equity, adjusted, where necessary, to reflect the application of the IFRSs approved by the European Commission, and includes the registration of any goodwill identified at the time of acquisition. The portion of profits/losses realised by the associate after acquisition is recognised in the income statement, whilst the portion of changes to reserves subsequent to acquisition is recognised under the equity reserves. When the portion of Group losses in an associate equals or exceeds its share pertaining to the associate, considering all receivables that are not guaranteed, the value of the equity investment can be reduced to zero and the Group does not book any additional losses with respect to those within its remit, apart from those for which the Group is liable. Profits and losses not realised and generated on transactions with associates are eliminated according to the value of the investment of the Group held in them.

Equity investments in joint ventures or companies under joint control

Joint ventures are companies subject to the joint control of companies over which the Group has the power to govern the operating and financial policies if there is unanimous consent by the other parties with joint control. Investments in joint ventures or companies under joint control are consolidated using the equity method and the homogeneous accounting standards as applicable to the Group.

Equity investments in other companies

Equity investments in other companies constituting "financial assets available for sale" are measured at fair value and all profits and losses deriving from the changes in fair value are allocated directly to shareholders' equity until sold. Comprehensive profits and losses are booked to the income statement of the year during which the sale is made, unless a financial asset available for sale has accumulated a significant or prolonged reduction in fair value. In this case, the accumulated capital loss in the fair value reserve is transferred from shareholders' equity to the income statement.

Notes to the consolidated financial statements

Below are the subsidiaries and associates included within the scope of consolidation as at 31 December 2019.

Operating Companies consolidated on a line-by-line basis:

Company	Reg. office	Share Capital	Currency	% Ownership 2019	% Ownership 2018
Le Cotonerie S.r.l.	Valdagno (I)	15.00	K EUR	100.00	100.00
Ambiente Energia S.r.l.	Schio (I)	100.00	K EUR	100.00	100.00
Marzotto Textiles Czech Republic s. r.o.	Praga (CZ)	200.00	K CZK	100.00	100.00
Marzotto Wool Manufacturing S.r.l.	Valdagno (I)	10,000.00	K EUR	100.00	100.00
and it's subisidiaries:					
Biella Manifatture Tessili S.r.l.	Valdagno (I)	1,000.00	K EUR	100.00	100.00
Novà Mosilana a.s.	Brno (CZ)	1,095,000.00	K CZK	100.00	100.00
Marzotto Lab S.r.l.	Valdagno (I)	10,000.00	K EUR	100.00	100.00
and it's subisidiaries:					
AB Liteksas	Kaunas (LT)	11,890.00	K EUR	99.97	99.97
Sametex spol. s r.o	Kraslice (CZ)	565,863.00	K CZK	100.00	100.00
Girmes International G.m.b.h.	Tonisvorst (DE)	800.00	K EUR	100.00	100.00
Marzotto Textile N.V.	Amsterdam (NL)	45.00	K EUR	100.00	100.00
and it's subisidiaries:					
Marzotto Int.Trad. (Shanghai) Ltd.	Shanghai (RPC)	1,001.46	K CNY	100.00	100.00
Marzotto Textiles USA Inc.	New York (USA)	410.00	K USD	100.00	100.00
Linificio e Canapificio Nazionale S.r.l.	Valdagno (I)	27,648.00	K EUR	100.00	100.00
and it's subisidiaries:					
Filature de Lin Filin S.A.	Chbedda (TN)	16,155.00	K TND	100.00	100.00
UAB Lietlinen	Kaunas (LT)	8,445.00	K EUR	100.00	100.00

Operating Companies consolidated at equity:

Company	Reg. office	Share Capital	Currency	% Ownership 2019	% Ownership 2018
Mascioni S.p.A.	Milan (I)	10,000.00	K EUR	14.18	28.35
Mediterranean Wool Industries Co. S.A.E.	Sadat City (ET)	9,208.00	K EUR	30.00	30.00
G. Schneider PTY Limited	Greenwich (AUS)	84.00	K AUD	25.00	=
Schneider New Zealand Limited	Christchurch (AUS)	318.00	K NZD	25.00	=
UAB Lietvilna	Kaunas (LT)	4,550.00	K EUR	50.00	50.00
Tintoria di Verrone S.r.l.	Verrone (I)	100.00	K EUR	50.00	50.00
Pettinatura di Verrone S.r.l.	Verrone (I)	3,000.00	K EUR	15.00	15.00
Ratti S.p.A.	Guanzate (I)	11,115.00	K EUR	34.01	33.90
and it's subisidiaries:					
Creomoda S.a.r.l.	Sousse (TN)	660.00	K TND	25.84	25.61
La Maison des accessories S.a.r.l.	Sousse (TN)	120.00	K TND	23.26	=
Ratti USA Inc.	New York (USA)	500.00	K USD	34.01	33.90
Ratti Int. Trading (Shanghai) Co. Ltd	Shanghai (RPC)	110.00	K EUR	34.01	33.90
Textrom S.r.l.	Cluj - Napoca (RO)	0.20	K RON	34.01	33.90

Operating Companies classified among non-current assets held for sale:

Company	Reg. office	Share Capital	Currency	% Ownership 2019	% Ownership 2018
Aree Urbane S.r.l. in liquidation	Milan (I)	100.00	K EUR	32.50	32.50

Notes to the consolidated financial statements

Conversion of accounts carried in foreign currencies

The presentation currency adopted by the Group is the euro, which is also the functional currency of parent company Marzotto S.p.A.

As at the closing date, the accounts of foreign companies carried in functional currencies that differ from the euro are converted into the presentation currency as follows:

- assets and liabilities are converted using the exchange rates in force as at the year end date;
- income statement items are converted using average exchange rates for the financial year/period.

Any exchange differences emerging from this conversion process are accrued within a separate item of equity (conversion reserve) until disposal of the foreign company.

The exchange rates applied for the conversion of the financial statements of the companies included in the consolidation scope are provided in the table below:

Currency (units per 1 euro)		2019	2018	% change
	- for the profit and loss account (average prevailing exchange rates for the year)			
AUD	Australian Dollar	1.611	1.580	2.0
CZK	Czech Crown	25.670	25.643	0.1
CNY	China Renmimbi	7.734	7.807	(0.9)
TND	Tunisian Dinar	3.282	3.111	5.5
RON	New Leu	4.746	4.654	2.0
NZD	New Zeland Dollar	1.699	1.707	(0.4)
USD	USA Dollar	1.120	1.181	(5.2)
	- for the balance sheet (year-end prevailing exchange rates)			
AUD	Australian Dollar	1.600	1.622	(1.4)
CZK	Czech Crown	25.408	25.724	(1.2)
CNY	China Renmimbi	7.821	7.875	(0.7)
TND	Tunisian Dinar	3.139	3.430	(8.5)
RON	New Leu	4.783	4.664	2.6
NZD	New Zeland Dollar	1.665	1.706	(2.4)
USD	USA Dollar	1.123	1.145	(1.9)

Notes to the consolidated financial statements

The most significant valuation criteria adopted when preparing the financial statements are described as follows:

1.1 Real estate, plants and machinery
1.2 Civil real estate

Property, plant and equipment is carried at historical cost, including directly attributable accessory costs.

Land, both vacant and annexed to residential or industrial buildings, is not amortised since its useful life is indefinite.

Some assets that had been revalued in previous periods are recognised on the basis of the revalued amount, regarded as the substitute amount of the cost at the date of transition to IAS.

Assets acquired through business combination operations are recognized at fair value defined provisionally at the acquisition date and adjusted, if necessary, within the following twelve months.

Maintenance and repair expenses that do not increase the value or prolong the remaining useful life of assets are recognised as expenses in the period in which they are incurred.

Tangible assets are shown net of accumulated depreciation and any impairment, determined in accordance with the methods described below. Depreciation is straight-line, based on the estimated useful life of the asset.

The estimated useful life of the main property, plant and equipment is as follows:

Land	indefinite
Buildings	10/33 years
Plant and machinery:	
- Textiles	8 years
- Textiles in corrosive environment	5/6 years
- Other	6/25 years
Industrial and commercial equipment	4/7 years
Other assets:	
- Electronic office machinery	5 years
- Office furniture and fixtures	7/9 years
- Vehicles	4/5 years

Assets classified under IFRS 16 are depreciated according to their residual useful life, which is determined on the basis of the contracts in question.

1.3 Goodwill, trademarks and other intangible fixed assets

Intangible assets with a “finite useful life” are recognised at cost, determined according to the methods prescribed for tangible assets, and shown net of accumulated amortisation and any lasting impairment.

Intangible assets with an “indefinite useful life” are not amortised.

Intangible assets acquired through business combination operations are recognized at fair value defined provisionally at the acquisition date and adjusted, if necessary, within the following twelve months.

Impairment

In application of the reference accounting standards (IAS 36), the Group verifies, at every reporting date, whether there is any indication of lasting impairment to assets.
If these indications exist, an estimate is prepared of the value that can be recovered on the asset, i.e. the greater of the fair value of an asset or cash generating unit, less the costs of sale, and its use value. In determining its value in use, estimated future cash flows are discounted to present value, using a rate gross of tax that reflects current market appraisals of the value of money and the specific risks of the asset.
A reduction in value is recognized in the income statement when the book value of the asset, or of the related cash generating unit, to which it is allocated, is greater than the estimated realizable value.
Impairment losses are written back if the reasons for generating them no longer exist.

Notes to the consolidated financial statements

1.4 Investments measured at equity

Equity investments in associates and joint ventures are measured according to the equity method, in which the income statement reflects the share of the company's net profit or loss for the year attributable to the parent. If a company recognises adjustments directly through equity, the Group recognises its share of such adjustments and presents them, where applicable, in the statement of changes in shareholders' equity. Gains and losses arising from transactions between the Group and the associate (or joint venture), are derecognised in proportion to the equity investment in the company.

1.5 Other equity investments

Equity investments in companies other than subsidiaries and associates are measured at fair value, with any profits or losses recognised directly in shareholders' equity. At the time of their sale, such accumulated profits and losses are recognised in the income statement.

When their fair value cannot be reliably determined, equity investments in other companies are valued at cost, adjusted for impairment where applicable, the effect of which is recognised in the income statement.

At every reporting date, the Group verifies whether there are any indicators of lasting impairment to its equity investments and makes the appropriate adjustments, as described above.

1.8 Medium/long-term financial receivables

Financial assets are initially carried at their nominal value, representative of the fair value, and later recognized at the lower between the book value and the estimated sale value.

2. Non-current assets held for sale

Assets or groups of assets and liabilities whose value will be recovered mainly through their sale rather than their ongoing use are recognised separately from other assets and liabilities in the statement of financial position.

Non-current assets or groups of assets and liabilities held for sale are recognized at the lower between the book value and the fair value net of the costs of sale.

3.1 Inventory

Inventory of raw materials, semi-finished goods and finished products is measured at the lesser of the purchase or production cost (determined according to the FIFO method) and the presumed net realisable value.

Inventory of consumables is measured at the lower of cost (determined using the weighted average cost method) and the presumed net realisable value.
The inventory valuation includes direct material and labour costs and indirect costs (variable and fixed) attributable to production.

3.2 Trade receivables
3.3 Other receivables

Trade receivables due within standard business terms and other operating receivables (other receivables) are not discounted and are carried at nominal value net of any write-downs. The adjustment to the estimated realisable value is recognised in special adjustment provisions.

3.4 Short-term financial assets and cash and cash equivalents

Financial assets held for trading are recognised at the fair value shown in the income statement.

Cash and cash equivalents are made up of cash in hand, i.e. cash that is readily available or available in the very short term, successfully, and without collection expenses.

A financial asset (or, if applicable, a portion of a financial asset or a portion of a group of similar financial assets) is cancelled from the statement of financial position when:

- the rights to receive cash flows from the asset expire;
- the Group has transferred the right to receive financial flows from the asset or has taken over the contractual obligation to pay them fully and without delay to a third party and (a) it has basically transferred all risks and benefits of the ownership of the financial asset or (b) it has not transferred nor retained basically all risks and benefits of the asset, but it has transferred the control of the same.

Notes to the consolidated financial statements

5.1 Long-term provisions

Allocations to long-term provisions are recognised when there is a legal or implicit obligation towards a third party and it is likely that there will be an outlay of resources, the amount of which can be reliably estimated. If the effect is significant, the allocations are determined by discounting the expected future cash flows at a pre-tax discount rate that reflects the current market value of the cost of money in relation to time.
When the amount is discounted, the increase in the provision due to the passing of time is recognised as a financial expense.

Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the entity pays fixed contributions to a separate entity and has no legal or implicit obligation to pay additional contributions. The contributions to be paid into defined contribution plans are recorded as a cost in the result of the period in which they are incurred. Contributions paid in advance are recorded amongst assets to the extent to which the advance payment will determine a reduction in future payments or a refund.

Defined benefit plans

The amount payable for employee termination indemnities falls within the scope of defined benefit pension plans, which are plans based on the working life of employees and on the remuneration received by the employee during a pre-determined period of service.
More specifically, the liability relating to the employee termination indemnity is booked at its actuarial value, insofar as it can be classified as an employee benefit due on the basis of a defined benefit plan. The booking of defined benefit plans requires an estimate using actuarial techniques of the amount of the benefits accrued by employees in exchange for work performed during the current and previous years, and the discounting of these benefits in order to determine the current value of the company's commitments (IAS 19).
According to Law 296/06, effective from 30 June 2007, employee termination indemnities accrued after 1 January 2007 must be paid in an appropriate treasury fund opened with INPS (National Institute for Social Protection) or, at the employee's indication, to a specific supplementary pension fund. With these payments, the item relating to employee termination indemnities is no longer subject to allocations, unlike employee termination indemnities accrued by 31 December 2006, which are within the scope of defined benefit pension plans.

In June 2012, IAS 19 was amended to provide for the recording of changes to actuarial gains/losses of defined benefit plans, including employee termination indemnities, to other comprehensive income as from 1 January 2013. The Group has decided to apply this amendment early, as from the financial statements as at 31 December 2012.

Notes to the consolidated financial statements

5.4 Medium/long-term financial payables

Financial liabilities, except for derivatives, are initially carried at fair value net of directly attributable transaction costs. They are later measured using the effective interest rate method.

6. Non-current liabilities held for sale

The groups of assets and liabilities whose value will be recovered mostly through their sale rather than through their continued use are recognised separately from other assets and liabilities in the statement of financial position.

The groups of non-current assets and liabilities classified as held for sale are shown at the lower of the book value and the fair value net of selling costs.

7.1 Trade payables and other payables

Trade payables due within standard business terms, and other operating payables, are not discounted and are carried at nominal value.

7.2 Short-term financial payables

Financial liabilities, except for derivatives, are carried at fair value net of directly attributable transaction costs.

Derivative financial instruments

Derivatives are carried at fair value. They are designated as hedging instruments when the relationship between the derivative and the underlying instrument is formally documented and the effectiveness of the hedge, which is verified periodically, is adequate.

When the derivatives cover the risk of change in fair value of the underlying instruments (fair value hedge), they are carried at fair value, and the difference is recognised in the income statement; consistently, the underlying instruments are adjusted to reflect the change in fair value associated with the hedged risk, and the difference is also recognised in the income statement.

When derivatives cover the risk of changes in cash flows from the underlying instruments (cash flow hedge), the changes in fair value are initially recognised in shareholders' equity and later in the income statement, in line with the effects produced by the hedging transaction.

Changes in the fair value of derivatives that do not satisfy the conditions for being qualified as hedges are recognised in the income statement.

The fair values used to prepare the financial statements, relating to the valuation of term purchases and sales of foreign currency, foreign exchange options and interest rate swaps, were established based on the rates provided by the banking system.

Translation of items in foreign currency

The financial statements of each consolidated company are prepared using the currency of the economy in which the company operates.

In such cases, all transactions in currencies other than the unit of account are recorded at the exchange rate prevailing on the transaction date. Monetary assets and liabilities denominated in currencies other than the unit of account are later adjusted by the exchange rate prevailing at the end-date of the accounting period.

Contributions

Contributions from both government agencies and private third parties are carried at fair value when there is the reasonable certainty that they will be received and the prescribed conditions for obtaining them are satisfied.

Contributions received for specific expenses are recognised among other liabilities and credited to the income statement on a straight-line basis throughout the same period in which the related costs accrue.

Contributions received for specific assets the value of which is stated among tangible and intangible assets, are shown among liabilities and credited in the income statement in relation to the depreciation period for the assets to which they refer.

Operating contributions are fully recognised in the income statement when the conditions for recognising them are satisfied.

Notes to the consolidated financial statements

8. Revenues

Depending on the type of transaction, revenues are recognised based on specific criteria indicated below:

- revenues from the sale of goods are recognised when the significant risks and benefits of ownership are transferred to the purchaser (typically at the time of shipment);
- revenues for services provided are recognised based on the status of completion of the assets.

15. Net financial expenses

Financial income and expenses are recognised on the basis of accrued interest on the net value of the relevant financial assets and liabilities using the effective interest rate.

16. Dividends

Dividends are recognised when the right to receive payment is established.

Dividends payable to third parties are shown as changes in shareholders' equity on the date at which they are approved by the Shareholders' Meeting of the parent company.

20. Taxes

Current income taxes for the financial year are determined based on estimates of taxable income and according to law.

Deferred and advance income taxes are calculated on the temporary differences between the recorded asset values and the respective recognised values for tax purposes, applying the tax rate in effect at the date the temporary difference will be reversed, calculated on the basis of the tax rates provided by the law or substantially in force at the accounting reference date.

The asset entry for advance tax payments is made when recovery is likely, that is when it is estimated that in the future there will be taxable amounts sufficient to recover the asset. The ability to recover assets for advance tax payments is reassessed at the end of each accounting period.

In addition deferred tax receivables and payables are set aside following the adjustments made, upon consolidation, to the financial statements of the companies of the Group.

29. Base profit per share

The profit per share is calculated dividing the profit attributable to the holders of ordinary shares of the parent company by the weighted average of the outstanding ordinary shares during the period.

Use of estimates

In application of IFRS, preparing the consolidated financial statements requires the use of estimates and assumptions that affect the values of the assets and liabilities in the statement of financial position and the relevant information, as well as of any contingent assets and liabilities at the reference date.

Estimates and their underlying assumptions are based on past experience and on other factors that are deemed reasonable in each case. Actual results may differ from these estimates.

Estimates and assumptions are reviewed periodically and the effects of each change are reflected in the income statement.

A significant discretionary valuation is required from the directors to establish the amount of deferred tax assets that may be booked. They have to estimate the likely time of occurrence and the amount of future profit subject to tax as well as a planning strategy for future taxes.

Estimates are also used to record provisions for bad debt, inventory obsolescence, amortisation and depreciation, employee benefits and provisions for risks and charges and for purchase price allocation.

At every reporting date, the Group verifies whether there are any indicators of lasting impairment for all non-financial assets. Goodwill and other intangible assets with an indefinite useful life are subject to review each year to identify any decrease in value. The recoverable value of non-current assets is typically established with regard to the value in use, based on the present value of financial flows expected from the continuous use of the asset. This verification also involves the choice of an appropriate discount rate to calculate the present value of the expected cash flows.

Notes to the consolidated financial statements

Tax consolidation

Parent company Marzotto S.p.A., together with other companies of the Marzotto Group, joined the national tax consolidation scheme with Wizard S.r.l. as the parent company.
Economic relations, as well as mutual responsibilities and obligations, between the consolidating company and the above subsidiaries are defined in the consolidation regulations.
Subsidiaries which have positive taxable income for the years concerned pay Wizard S.r.l. the greater tax payable by the latter; The taxable income of the subsidiaries used to determine this higher tax was that declared in the tax return referred to in Article 121(a) of the TUIR.
Consolidated companies with negative taxable income receive compensation amounting to 100% of the tax saving achieved on a Group level and corresponding to the tax generated by the subsidiary from Wizard S.r.l. This compensation is due at the time of effective use by Wizard S.r.l.

Consolidated companies with interest expense not deducted pursuant to Article 96 of the TUIR and transferred to the tax consolidation scheme receive from Wizard S.r.l. compensation corresponding to 100% of the tax savings achieved at the Group level and corresponding to the tax generated by the subsidiary in relation to its interest expense. This compensation is due at the time of actual use of the EBIT surplus transferred to the tax consolidation. Assuming that the EBIT surpluses transferred cannot offset the amount of the non-deductible interest payable by the consolidated companies, interest expense is deemed to be offset in proportion to the ratio between the non-deductible interest generated during the period by each company and the total non-deductible interest of the consolidated companies in the same tax period.
In the event that the consolidated companies have surpluses of ACE (Support for Economic Growth pursuant to Article 1 of Legislative Decree No. 201/2011) to be transferred to the Group, within the limits of the Group's comprehensive income, these companies receive compensation corresponding to 100% of the tax savings achieved at Group level from Wizard S.r.l. If several consolidated companies have a surplus of ACE that may be transferred to the Group and the Group's overall comprehensive income is not sufficient to deduct it, a proportional criterion must be applied.

Tax payables are recognised under tax payables net of payments on account, withholding taxes and, in general, tax receivables. The same item includes the current IRES calculated on the basis of the calculation of the positive and negative taxable amounts of the subsidiaries that have adhered to the national tax consolidation scheme, net of the payments on account, withholding taxes and tax receivables accrued by the companies themselves. As a contra-entry to the tax payable, the corresponding receivables of the consolidating company from the Group companies are recognised for the current tax corresponding to the positive taxable amounts transferred as part of the national tax consolidation scheme.
The payable for compensation due to subsidiaries with negative taxable income is recognised under “Payables to subsidiaries”.
Deferred and advance corporation tax is calculated on the temporary differences between the values of assets and liabilities determined according to statutory criteria and the corresponding tax values exclusively with reference to the company.
Current, deferred and advance IRAP is determined exclusively with reference to the company.

Other information

All figures in the consolidated statement of financial position, the consolidated statement of profit/(loss) and other items of comprehensive consolidated income, the consolidated statement of cash flows, the consolidated statement of changes in shareholders’ equity, and in the explanatory notes, are expressed in thousands of euros.

For ease of comparison, the figures for the previous year have been reclassified as needed, and adequate information has been provided.

Please refer to the Report on Operations for further information regarding:

- main events of the 2019 financial year;
- events after the close of the financial year;
- foreseeable development of operations;
- risk factors (IFRS 7);
- other relevant information on operating performance and financial position.

Notes to the consolidated financial statements

With regard to the disclosure obligations established by Italian Law No. 124 of 4 August 2017, we report:

Marzotto S.p.A.

- Income recognised during the period for the production of electricity from solar farms of 336 thousand euros, including 292 thousand for contributions to electricity production (TPA) and 44 thousand for fees for energy produced and sold (TFO). During the year, 364 thousand euros were collected by the Energy Services Operator (net of withholding tax and compensation paid by the Operator) relating to the production of electricity from photovoltaic plants, including 321 thousand euros for contributions (TPA) and 43 thousand euros for energy produced and sold (TFO);
- Income recognised during the period, but not yet collected, for training aid (already included in the Register of government aid) for 28 thousand euros towards FONDIMPRESA and for 1 thousand euros towards FONDIRIGENTI.

Marzotto Wool Manufacturing S.r.l.

- Income recognised during the period for contributions to investments in new capital goods (pursuant to Article 18 of Legislative Decree 91 of 24 June 2014) of 30 thousand euros. During the period, receivables were used to offset contributions to new capital goods for 72 thousand euros;
- Income recognised but not yet collected in the period for training aid (already included in the Register of government aid) for 27 thousand euros to FONDIMPRESA.

Biella Manifatture Tessili S.r.l.

- Income recognised during the period for the production of electricity from solar farms of 85 thousand euros, including 48 thousand for contributions to electricity production (TPA) and 37 thousand for fees for energy produced and sold (TFO). During the year, 77 thousand euros were collected by the Energy Services Operator (net of withholding tax and compensation paid by the Operator) relating to the production of electricity from photovoltaic plants, including 48 thousand euros for contributions (TPA) and 29 thousand euros for energy produced and sold (TFO);
- Income recognised during the period for contributions to investments in new capital goods (pursuant to Article 18 of Legislative Decree 91 of 24 June 2014) of 83 thousand euros. During the year, receivables for contributions to new capital goods of 212 thousand euros were used for offsetting;
- Income received from Finpiemonte S.p.A. for 8 thousand euros on 11/07/2019 and for 18 thousand euros on 03/12/2019, for the “SILKNET” Centres of Innovation Project, Line A – Piedmont Region, (already included in the Register of government aid);
- Income recognised but not yet collected in the period for training aid (already included in the Register of government aid) for 28 thousand euros towards FONDIMPRESA.

Marzotto Lab S.r.l.

- Income recognised during the period for the production of electricity from photovoltaic facilities totalling 71 thousand euros, including 69 thousand for contributions to electricity production (TPA) and 1 thousand euros for fees on the energy produced and sold (TFO). During the year, 65 thousand euros were collected by the Energy Services Operator (net of withholding tax and compensation paid by the Operator) relating to the production of electricity from photovoltaic plants, including 64 thousand euros for contributions (TPA) and 1 thousand euros for energy produced and sold (TFO);
- Income recognised during the period for investment contributions to new capital goods (pursuant to Article 18 of Legislative Decree 91 of 24 June 2014) of 5 thousand euros. During the period, receivables were used to offset contributions to new capital goods for 9 thousand euros;
- Income recognised in the period for research and development tax credits of 188 thousand euros; 72 thousand euros relating to research and development tax credits in 2017 were used for offsetting during the year;
- Income received from the Lombardy Region of 30 thousand euros on 29/08/2019 for the Project “ITC4 GREEN FASHION” Smart Fashion and Design - Lombardy Region (already included in the Register of government aid);
- Income recognised but not yet collected in the period for training aid (already included in the Register of government aid) for 8 thousand euros towards FONDIMPRESA.

Linificio e Canapificio Nazionale S.r.l.

- Income recognised in the period for research and development tax credits of 164 thousand euros; 114 thousand euros relating to research and development tax credits in 2017 were used for offsetting during the year;
- Income recognised but not yet collected in the period for training aid for 11 thousand euros towards FONDIMPRESA.

Ambiente Energia S.r.l.

- Income recognised in the period for research and development tax credits of 52 thousand euros; 61 thousand euros relating to research and development tax credits in 2017 were used for offsetting during the year.

Tintoria di Verrone S.r.l. (100%)

- Return of 58 thousand euros on 12/02/2019 to the Italian Energy and Environmental Services Fund (CSEA) for an adjustment regarding income collected in 2018 of 198 thousand euros relating to bonuses on consumption in 2016 for energy-intensive companies (already included in the Register of government aid);
- Income received from Italian Energy and Environmental Services Fund (CSEA) of 155 thousand euros on 10/10/2019, for bonuses on consumption in 2018 for energy-intensive companies (already included in the Register of government aid);
- Subsidy recognised but not yet collected towards Finpiemonte S.p.A. for a planned installation of a photovoltaic plant under the “Energy efficiency and renewable energy in companies” program for 103 thousand euros (already included in the Register of government aid);
- Income recognised and collected on 19/11/2019 for training aid of 2 thousand euros towards FONDIMPRESA.

Notes to the consolidated financial statements

The tables below are in **thousands of euros**.

1.1) Property, plant and machinery
1.2) Civil buildings

	2019	2018	Change
Amounts to:	**111,878**	**114,547**	**(2,669)**

broken down as follows:

Description	A) Civil land and buildings	B) Industrial land and buildings	C) Plant and machinery	D) Industrial and comm. equipment	E) Other tangible fixed assets	F) Tangible fixed assets under cons./ advances	Total
Original cost (at exchange rate of 31/12)	1,443	123,891	281,118	12,142	15,641	3,388	437,624
Depreciation funds	(205)	(74,173)	(225,071)	(10,919)	(12,709)	=	(323,077)
Balances as at 31.12.2018	**1,238**	**49,718**	**56,047**	**1,223**	**2,932**	**3,388**	**114,547**
Movements during the year:							
Original cost:							
IFRS16 01.01.2019	1,616	1,167	=	=	883	=	3,666
acquisitions	1	2,841	7,440	589	561	(1,564)	9,868
acquisitions IFRS16	92	=	=	=	198	=	290
exchange rate differences	=	1,052	2,438	31	112	34	3,667
disposals	=	=	(7,504)	(212)	(1,422)	(22)	(9,160)
Depreciation funds:							
depreciation for the year	(42)	(2,618)	(12,154)	(650)	(891)	=	(16,355)
depreciation IFRS16	(466)	(183)	=	=	(409)	=	(1,058)
exchange rate differences	(8)	(494)	(2,087)	(28)	(96)	=	(2,713)
disposals	=	=	7,493	212	1,421	=	9,126
Total movements for the year	**1,193**	**1,764**	**(4,374)**	**(58)**	**358**	**(1,552)**	**(2,669)**
Original cost (at exchange rate of 31/12)	3,152	128,951	283,492	12,550	15,974	1,836	445,955
Depreciation funds	(721)	(77,468)	(231,819)	(11,385)	(12,684)	=	(334,077)
Balances as at 31.12.2019	**2,431**	**51,483**	**51,673**	**1,165**	**3,289**	**1,836**	**111,878**

The changes that took place pertained to the acquisitions carried out by Marzotto S.p.A. (354 thousand euros), Marzotto Wool Manufacturing S.r.l. (2,010 thousand euros), Marzotto Lab S.r.l. (337 thousand euros), Ambiente Energia S.r.l. (736 thousand euros), Novà Mosilana a.s. (2,988 thousand euros), Sametex spol s r. o (379 thousand euros), AB Liteksas (265 thousand euros), Biella Manifatture Tessili S.r.l. (925 thousand euros) and the Linificio Group (1,874 thousand euros).

The sale of assets during the year involved booking net capital gains gross of tax of 630 thousand euros (of which gains of 654 thousand euros and losses of 24 thousand euros).

As at 31 December 2019, the fixed assets of the subsidiary Filature de Lin Filin S.A. (Tunisia), consolidated on a line-by-line basis, were encumbered by mortgages to guarantee a short-term bank loan of 3,852 thousand euros at the reporting date.

Notes to the consolidated financial statements

1.3) Goodwill, trademarks and other intangible assets

	2019	2018	Change
Amounts to:	**9,644**	**9,765**	**(121)**

made up as follows:

Description	A) Research, development and advertising costs	B) Ind. patent and intellectual property rights	C) Concessions, licenses, trade-marks and similar rights	D) Goodwill	E) Other intangible fixed assets	Intangible fixed assets being developed and advances
Original cost	7,172	7,761	167	237	222	15,559
Depreciation funds	(5,429)	(256)	=	(109)	=	(5,794)
Balances as at 31.12.2018	**1,743**	**7,505**	**167**	**128**	**222**	**9,765**
Movements during the year:						
Original cost:						
acquisitions	516	9	=	1	(92)	434
exchange rate differences	31	=	=	=	=	31
reversal due to amort. being completed	(1)	=	=	(1)	=	(2)
Amortisation:						
for the year	(531)	(15)	=	(12)	=	(558)
exchange rate differences	(28)	=	=	=	=	(28)
reversal due to amort. being completed	1	=	=	1	=	2
Total movements for the year	**(12)**	**(6)**	**=**	**(11)**	**(92)**	**(121)**
Original cost	7,718	7,770	167	237	130	16,022
Depreciation funds	(5,987)	(271)	=	(120)	=	(6,378)
Balances as at 31.12.2019	**1,731**	**7,499**	**167**	**117**	**130**	**9,644**

Concessions, licences, trademarks and similar rights include the values of the trademarks of Guabello for 2,300 thousand euros and of Tallia di Delfino for 1,170 thousand euros, the value of the Lanerossi trademark for 2,900 thousand euros, and the value of the velvet trademarks “Redaelli Velluti”, “Redaelli 1893”, “Niedieck” and “Christoph Andreae” of the Marzotto Group. The period increase of 434 thousand euros mainly refers to the purchase of software for 516 thousand euros.

The trademarks, which are considered intangible assets with an indefinite useful life, are not amortised, but rather are tested periodically for any lasting impairment in compliance with IAS 36. Impairment testing of the value of trademarks is carried out by establishing their value in use according to the method of comparable royalty rates. Cash flows are discounted at a rate equal to the current interest rate without market risk, in relation to a time frame consistent with the duration of the flows (according to the historical value of the trademarks), plus the risk coefficient specific to the activity.

[Notes to the consolidated financial statements]

Goodwill includes 167 thousand euros for the purchase of the "Logistics Services" business unit of Piovene.

In compliance with international accounting standards, this item is not subject to amortisation, but rather to annual impairment testing. This analysis is carried out by comparing the book value of goodwill with the greater of the value in use and fair value.

In the early months of 2019 there were no significant events to suggest that the values in the financial statements were permanently impaired.
However, the estimate of the recoverable value of the CGU is discretionary and subject to the use of estimates by the management. In fact there are several factors connected to the difficult market situation which may require a new calculation of the value of goodwill. The Company will monitor closely the circumstances and events which may cause a new assessment of losses of value.

Research and development expenses paid during the year, pertaining to product innovation and applications for the rationalisation of production and logistics, have been charged to the income statement.

1.4) Equity investments

	2019	2018	Change
Amounts to:	**31,074**	**28,180**	**2,894**

made up as follows:

Description	A) Ratti Group	B) Mascioni Group	C) Mediterranean Wool Ind.	D) Pettinatura di Verrone	Sub total
Original cost	10,747	706	2,027	1,667	15,147
Adjustment to equity	8,313	(706)	51	325	7,983
Balances as at 31.12.2018	**19,060**	**=**	**2,078**	**1,992**	**23,130**
Movements during the year:					
Original cost:					
acquisitions	78	=	=	=	78
devaluations	=	=	=	=	=
Adjustment to equity:					
accrued pro-quota profit/(loss)	4,356	=	=	16	4,372
pro-quota dividends paid in 2018	(1,857)	=	=	=	(1,857)
effect of change in shareholders' equity	45	=		=	45
Total movements for the year	**2,622**	**=**	**=**	**16**	**2,638**
Original cost	10,825	706	2,027	1,667	15,225
Adjustment to equity	10,857	(706)	51	341	10,543
Balances as at 31.12.2019	**21,682**	**=**	**2,078**	**2,008**	**25,768**

Description	E) Schneider Australia	F) Schneider New Zealand	G) Uab Lietvilna	H) Tintoria di Verrone S.r.l.	Total
Original cost	52	189	2,848	108	18,344
Adjustment to equity	(4)	(46)	1,659	244	9,836
Balances as at 31.12.2018	**48**	**143**	**4,507**	**352**	**28,180**
Movements during the year:					
Original cost:					
acquisitions	=	=	=	=	78
devaluations	=	=	=	=	=
Adjustment to equity:					
accrued pro-quota profit/(loss)	18	5	401	41	4,837
pro-quota dividends paid in 2018	=	=	(250)	=	(2,107)
effect of change in shareholders' equity	(2)	43	=		86
Total movements for the year	**16**	**48**	**151**	**41**	**2,894**
Original cost	52	189	2,848	108	18,422
Adjustment to equity	12	2	1,810	285	12,652
Balances as at 31.12.2019	**64**	**191**	**4,658**	**393**	**31,074**

The above table shows the shares held by the Group in associates.

In compliance with the reference standard (IFRS 11), the Group uses the equity method to account for Ratti S.p.A. companies. (34.005% owned), Uab Lietvilna (50% owned), Tintoria di Verrone S.r.l. (50% owned).
The Group also holds equity investments in the associates Mascioni S.p.A. (14.18% owned), Mediterranean Wool Industries Co. S.A.E. (30% owned) and Pettinatura di Verrone S.r.l. (15% owned), Schneider Australia PTY Limited (25% owned) and Schneider New Zealand Limited (25% owned), they too, assessed using the equity method.

The period adjustment reflects the measurement using the equity method of the above equity investments.

1.5) Other investments

	2019	2018	Change
Amounts to:	**178**	**174**	**4**

1.6) Other medium/long-term receivables

	2019	2018	Change
Amounts to:	**288**	**241**	**47**
made up as follows:			
Other receivables	288	241	47
Total	**288**	**241**	**47**

The item **Other medium/long-term receivables** (288 thousand euros) is mainly composed of security deposits paid by the Group companies.

1.7) Deferred tax assets

	2019	2018	Change
Amounts to:	**10,567**	**10,794**	**(227)**
made up as follows:			
Depreciation of inventory	3,284	3,252	32
Depreciation of receivables	1,360	1,308	52
Accrual for risks and charges	3,941	4,432	(491)
Forex	50	358	(308)
Tax losses	621	187	434
Other temporary differences	1,311	1,257	54
Total	**10,567**	**10,794**	**(227)**

The table above gives details of the items involved by temporary differences on which prepaid tax assets have been calculated.
As at the reporting date, prepaid tax receivables total 10,567 thousand euros, making for a decrease of 227 thousand euros.

These receivables mainly regard the parent company for 3,071 thousand euros, Marzotto Wool Manufacturing S.r.l. for 2,559 thousand euros, Biella Manifatture Tessili S.r.l. for 2,036 thousand euros, Marzotto Lab S.r.l. for 1,636 thousand euros, the Linificio e Canapificio Nazionale group for 889 thousand euros, Novà Mosilana a.s. for 352 thousand euros, and other group companies.

Taking into consideration the Italian regulations on the unlimited carrying forward of tax losses, the outlook for business performance and participation in the national tax consolidation of parent company Wizard S.r.l. by the Italian companies of the group, the directors decided to recognise the advance taxation connected to the losses that may be carried forward by the companies.

1.8) Medium/long-term financial receivables

	2019	2018	Change
Amounts to:	**85**	**86**	**(1)**
made up as follows:			
Guarantee deposits (financial)	66	72	(6)
Other receivables	19	14	5
Total	**85**	**86**	**(1)**

2. Assets held for sale/discontinued operations

The item includes the equity investment in the associate Aree Urbane S.r.l. in liquidation, fully written down in previous years.

3.1) Inventory

	2019	2018	Change
Amounts to:	**144,080**	**160,133**	**(16,053)**
and can be broken down as follows:			
Raw, ancillary and consumable materials	46,742	49,385	(2,643)
Unfinished, semi-finished goods and work in progress	45,728	54,792	(9,064)
Finished products and goods for resale	51,610	55,956	(4,346)
Total	**144,080**	**160,133**	**(16,053)**

Inventory of raw materials, semi-finished goods and finished products is measured at the lesser of the purchase or production cost (determined according to the FIFO method) and the presumed net realisable value. Inventory of consumables is measured at the lower of cost (determined using the weighted average cost method) and the presumed net realisable value.
The inventory valuation includes direct material and labour costs and indirect costs (variable and fixed) attributable to production.
The group operates in a sector subject to changes in fashion. It should be noted that unsold seasonal fashion articles still held in inventory at year-end are appropriately written down to their presumed realisable value.

Inventories shows a net increase of 16,053 thousand euros from last year. The breakdown and change in the item is as follows:

- inventories in the Wool Fabrics sector for 97,855 thousand euros (114,596 thousand euros as at 31 December 2018);
- inventories in the Sundry Textile sector for 46,206 thousand euros (45,499 thousand euros as at 31 December 2018);
- inventories in the other/sundry sector for 19 thousand euros (38 thousand euros as at 31 December 2018).

Notes to the consolidated financial statements

3.2) Trade receivables

	2019	2018	Change
Amounts to:	**56,917**	**59,594**	**(2,677)**

and refers to:

	2019		2018	
	Amount	%age	Amount	%age
Active customers receivables	59,368	*100.0*	62,048	*100.0*
- Bad debt provision	(4,035)	*(6.8)*	(4,035)	*(6.5)*
= Net active customers receivables	**55,333**	***93.2***	**58,013**	***93.5***
Bad debt	2,570	*100.0*	2,700	*100.0*
- Bad debt provision	(1,753)	*(68.2)*	(1,724)	*(63.9)*
= Net bad debt	**817**	***31.8***	**976**	***36.1***
Receivables from parent companies	**26**	***100.0***	**50**	**=**
Receivables from affiliates	**741**	***100.0***	**555**	***100.0***
Total face value of receivables	62,705	*100.0*	65,353	*100.0*
- Bad debt provision	(5,788)	*(9.2)*	(5,759)	*(8.8)*
Net receivables from customers	**56,917**	***90.8***	**59,594**	***91.2***

Trade receivables total 56,917 thousand euros, net of the provision for doubtful debt of 5,788 thousand euros (provision of 5,759 thousand euros at 31 December 2018).

The value of the provision is considered appropriate in terms of bringing the par value of receivables in line with the presumed realisable value, and is consistent with the provisions of the reference accounting standard.

In order to provide complete information, please note that as at the reporting date, the impact of the transfer of receivables without recourse is 32,878 thousand euros.

We believe that the book value of the trade receivables, settled under normal market conditions, approximates their fair value.

Trade receivables by geographical area are shown in the table below:

	Italy	Other European Countries	North America	Asia	Other Countries	Total
Towards clients	34,756	11,750	3,577	4,302	7,553	61,938
Towards parent companies	26	=	=	=	=	26
Towards affiliates	162	188	=	=	391	741
Gross receivables	**34,944**	**11,938**	**3,577**	**4,302**	**7,944**	**62,705**

Trade receivables from associates relate to:

	2019	2018	Change
G. Schneider Australia Pty Ltd	6	=	6
Tintoria di Verrone S.r.l.	17	23	(6)
Uab Lievilna	188	154	34
Mediterranean Wool Industries CO. S.A.E.	385	182	203
Ratti S.p.A.	144	195	(51)
Mascioni S.p.A.	1	1	=
Total	**741**	**555**	**186**

Trade receivables from associates result from business relations and are settled under normal market conditions.

Notes to the consolidated financial statements

3.3) Other receivables

	2019	2018	Change
Amounts to:	**11,856**	**11,308**	**548**
made up as follows:			
Due from Tax Authorities	6,285	7,233	(948)
Other receivables	2,928	2,326	602
Other receivables from parent companies	983	201	782
Other receivables from affiliates	7	7	=
Accrued income and prepaid expenses	1,653	1,541	112
Total	**11,856**	**11,308**	**548**

The amount of the item **Other receivables** is 11,856 thousand euros; below are the main items comprising this value.

Receivables from tax authorities relate to:

	2019	2018	Change
Added value tax	2,556	2,503	53
Other taxes and interest	3,729	4,730	(1,001)
Total	**6,285**	**7,233**	**(948)**

In detail, the entry Receivables due from the Tax Authorities for VAT for 2,556 thousand euros, is imputable for 130 thousand euros to the parent company, 96 thousand euros to Marzotto Lab S.r.l., 1,221 thousand euros to the Linificio Group, 423 thousand euro to Nová Mosilana a.s., 111 thousand euros to Sametex spol s r.o, 488 thousand euros to Biella Manifatture Tessili S.r.l. and 87 thousand euros Ambiente Energia S.r.l.

Other tax and interest of 3,729 thousand euros includes receivables for IRAP regional productivity tax, IRES corporate income tax and other receivables due from the tax authorities.

Sundry receivables amount to 2,928 thousand euros and mainly include receivables from employees of 752 thousand euros, receivables relating to the valuation of currency hedging contracts in place at the reporting date of 1,211 thousand euros and advances to suppliers of 211 thousand euros.

Other receivables from the parent company mainly include receivables from parent company Wizard S.r.l. as a result of the joining by some Group companies of the tax consolidation scheme, amounting to 983 thousand euros.

Accrued income and deferred expenses come to 1,653 thousand euros and mainly relate to the deferral of insurance costs.

Notes to the consolidated financial statements

	2019	2018	Change
Amounts to:	**90,764**	**97,917**	**(7,153)**
and refers to:			
Financial assets			
Due from affiliates	1,102	1,048	54
Other financial receivables	6	8	(2)
Cash			
Bank and post-office accounts	89,585	96,806	(7,221)
Cash and cash equivalent on hand	71	55	16
Total	**90,764**	**97,917**	**(7,153)**

The total amount of the Group's **short-term financial assets and cash and cash equivalents** is 90,764 thousand euros, compared with 97,917 thousand euros in the previous year.

More specifically, short-term financial assets include financial receivables from associates of 1,102 thousand euros, held towards the company Mediterranean Wool Industries Co. S.A.E.

Liquid funds come to 89,656 thousand euros (96,861 thousand euros in 2018) and include temporary funds available on bank accounts and amounts held as cash for future use.

We believe that the book value of the cash and cash equivalents and short-term financial assets is in line with their fair value as at the reporting date.

Notes to the consolidated financial statements

Shareholders' equity as at 31 December 2019 is 138,899 thousand euros, improving by 85 thousand euros on last year. The change is mainly due to the comprehensive period result, which is positive for 4,992 thousand euros, offset by the reduction in reserves for the distribution of dividends, for 8,000 thousand euros.

Share capital

Number of Shares	Share capital at 31.12.2018	Share capital change	Share capital at 31.12.2019
Ordinary shares	40,000,000	=	40,000,000
Total	**40,000,000**	**=**	**40,000,000**

As at 31 December 2019, the fully subscribed and paid-up share capital was 40,000 thousand euros.

Legal reserve

Balances equity as at 31 December 2018	8,000
+/- change	=
Total	**8,000**

The **legal reserve**, amounting to 8,000 thousand euros, did not change during the year.

Conversion reserve

Balances equity as at 31 December 2018	4,136
+/- change	1,713
Total	**5,849**

The Conversion reserve totals 5,849 thousand euros and records a rise of 1,713 thousand euros by virtue of the exchange differences deriving from the conversion into euros of the financial statements of the consolidated companies carried in currencies other than the euro.

Extraordinary reserve

Balances equity as at 31 December 2018	76
+/- change	=
Total	**76**

The **extraordinary reserve**, amounting to 76 thousand euros, did not change during the year.

IAS Reserve

	2019	2018	Change
IAS 19 Reserve	(789)	(468)	(321)
Fair value Reserve	710	(949)	1,659
Fair value IRS Reserve	(142)	(100)	(42)
Total	**(221)**	**(1,517)**	**1,296**

In order to address the risks of changes in the variable interest rates on medium/long-term loans, the Group carries out interest rate hedging transactions (interest rate swaps to predefine a fixed interest rate.

To address exchange rate risks relating to purchases and sales in foreign currencies, the Group also carries out hedging transactions to predefine the exchange rate on projected requirements (cash flow hedging).

Specifically, the following hedging instruments are used:

- foreign currency loans;
- forward sales and purchases in foreign currency.

These transactions fall within the scope of "cash flow hedges" insofar as they are stipulated to cover a risk of fluctuations in cash flows deriving from either an existing asset or liability or a future operation.

As established by international accounting standards, the portion of the gain or loss relating to the measurement of such derivatives (mark to market) has been booked net of the tax effect, amongst the items of the statement of comprehensive income, as the effectiveness of the cover guaranteed by these financial instruments has been proven.

The fair value reserve includes the market value of these transactions, net of tax, which as at the reporting date came to 710 thousand euros relating to "cash flow hedging transactions" (*currency*) and -142 thousand euros relating to interest rate hedges (*IRS*).

The gain or loss recorded under shareholders' equity is booked to the income statement when the operation hedged affects it.

Below is a reconciliation of the shareholders' equity and result of the parent company with the corresponding consolidated values:

	2019		2018	
	Income	**Net equity**	**Income**	**Net equity**
Marzotto S.p.A.	10,325	123,266	14,082	120,957
Elimination of shareholdings consolidated line-by-line	6,607	6,695	18,834	12,666
Valuations at equity	4,836	13,031	4,151	10,216
Intercompany dividends	(17,708)	=	(18,716)	=
Consolidation adjustments	932	(4,092)	(2,587)	(5,025)
Total	**4,992**	**138,899**	**15,764**	**138,814**

Notes to the consolidated financial statements

5.1) Long-term provisions

	2019	2018	Change
Amounts to:	**24,718**	**26,241**	**(1,523)**

and refers to:

	2019	2018	Change	due to		
Provision for staff term.indemnities				Accruals	Utilisation	Exch. Diff.
Amounts to:	**9,258**	**9,664**	**(406)**	2,942	(3,348)	=
and refer to:						
Marzotto S.p.A.	676	714	(38)	358	(396)	=
Marzotto Wool S.r.l.	4,875	5,181	(306)	1,106	(1,412)	=
Marzotto Lab S.r.l.	970	1,065	(95)	498	(593)	=
B.M.T. S.r.l.	1,952	1,977	(25)	811	(836)	=
Ambiente Energia S.r.l.	94	93	1	34	(33)	=
AB Liteksas	105	91	14	14	=	=
Linificio S.r.l.	586	543	43	121	(78)	=

Employee termination indemnities reflect the indemnity, calculated in accordance with current legislation, accrued by employees as at 31 December 2006, which will be liquidated when they leave. Where specific conditions apply, they may be partially advanced to employees during the course of their working life.
The provision for employee termination indemnities is treated from an accounting point of view as a defined benefit and as such is recalculated at the end of each period according to a statistical and actuarial criterion which also takes account of financial discounting.
This liability has been calculated according to the actuarial criterion of the "projected unit credit method" which "considers each working period as the source of one additional unit of right to the benefits and measures each unit separately to calculate the final obligation".
The following parameters are used: an annual discount rate of 1.26% and an annual inflation index of 1.20%.
The booking of employee benefits is in accordance with IAS 19 for defined benefits plans; the company has decided to apply the amendments made by IAS 19 early, as from the financial statements as at 31 December 2012, with the consequent noting of changes in actuarial gains/losses amongst other items of the statement of comprehensive income, whilst financial gains/losses are noted on the income statement.
According to Law no. 296/06, effective from 30 June 2007, employee termination indemnities accrued after 1 January 2007 must be paid into an appropriate treasury fund opened with the INPS (National Institute for Social Protection) or, according to the instructions of the employee, to an appropriate supplementary pension fund. With these payments, the item relating to employee termination indemnities is no longer affected by provisions other than the revalued share of the previously accumulated debt.

Pension	2019	2018	Change
and refer to:	**499**	**546**	**(47)**

The provision refers to a partially reversible supplementary pension fund set up in favour of a former director of the parent company.

Notes to the consolidated financial statements

	2019	2018	Change	due to		
Other provisions				Accruals	Utilisation	Exch. Diff.
Amounts to:	**14,961**	**16,031**	**(1,070)**	241	(1,311)	=
and refer to:						
Agents' severance pay provision	4,761	4,742	19	100	(81)	=
Legal risk fund	1,297	1,992	(695)	78	(773)	=
Restructuring and relocation provisions	2,861	2,861	=	=	=	=
Tax provisions	53	88	(35)	=	(35)	=
Other provisions for risk/charges	5,989	6,348	(359)	63	(422)	=

Allocations to provisions for risks and charges during the year relate to the management's best estimate of the contingent liabilities connected to disputes in progress. Where applicable, their estimate takes account of the opinion of legal advisors and other experts, previous experience in the history of the company and other entities in similar situations and the company's intention as regards taking further action.

Below are comments on the main provisions booked.

The **agents' indemnity provision**, allocated to cover any risks of the termination of agency contracts, was adjusted to take into account foreseeable contingent liabilities connected to contracts in existence at the end of the financial year. This provision was calculated on the basis of the provisions of law in force as at the reporting date, and the change during the year takes account of expected future cash flows.

The **provision for litigation risk** is intended to cover liabilities that may arise from litigation or other disputes. This includes an estimate of charges from ongoing litigation, updated based on indications from internal and external legal counsel.

The **restructuring and relocation provisions** are allocated mainly to offset planned charges and costs related to the industrial reorganisation plan of some production operations.

The **tax provision** includes accruals made to cover losses that may be incurred by the company in connection with tax liabilities.

Other provisions for risks and charges include foreseeable risks following operations in relation to Aree Urbane S.r.l., in addition to expenses associated with the former Praia a Mare plant. Reference is made to the report on operations for more information.

5.2) Other medium/long-term payables

	2019	2018	Change
Amounts to:	**34**	**31**	**3**
and refers to:			
Payables due to social security institutions	34	31	3
Total	**34**	**31**	**3**

5.3) Deferred taxes payables

	2019	2018	Change
Amounts to:	**6,078**	**6,546**	**(468)**
and can be broken down as follows:			
Tangible and intangible assets differences	3,813	3,730	83
Capitalized installment	1,428	1,857	(429)
Other temporary differences	837	959	(122)
Total	**6,078**	**6,546**	**(468)**

This item includes deferred taxes reported by the consolidated companies, mainly attributable to the difference between depreciation and amortisation based on tax rates and on the useful life of the asset.

Notes to the consolidated financial statements

	2019	2018	Change
Amounts to:	**128,394**	**116,481**	**11,913**
and can be broken down as follows:			
Secured financing received	=	=	=
Non-secured financing received	126,081	116,200	9,881
Financial payables for leasing	2,066	=	2,066
Other medium/long-term debt	247	281	(34)
Total	**128,394**	**116,481**	**11,913**

Medium/long-term financial payables are financial liabilities due to banks and other lenders beyond twelve months.

As at the reporting date, the portion due within 12 months is reclassified to current financial liabilities.

More specifically, the item medium/long-term loans , which amounted to 126,081 thousand euros as at 31 December, consists of the non-current portion of loans; it is broken down as follows:

Bank	nominal value	residual debt	overdue beyond one year
Banco BPM	16,000	11,750	8,750
Banca Nazionale del Lavoro	5,000	3,750	1,250
Unicredit	3,000	2,500	1,500
Friuladria Credit Agricole	5,000	4,300	3,500
Banca Popolare dell'Emilia	4,000	3,214	2,420
Mediocredito Italiano	5,000	1,944	833
Banca Popolare di Sondrio	3,000	2,405	1,609
UBI Banca S.p.A.	7,500	7,500	7,500
Banca Intesa	5,000	5,000	5,000
Banca Montepaschi di Siena	5,000	4,375	3,125
Banca Nazionale del Lavoro	10,000	8,000	6,000
Banca Popolare di Sondrio	4,000	4,000	3,120
Unicredit	7,000	5,833	3,500
Friuladria Credit Agricole	5,000	3,000	2,000
Mediocredito Italiano	5,000	3,889	1,667
Banco BPM	24,000	20,500	16,500
UBI Banca S.p.A.	7,500	7,500	7,500
Banca Intesa	3,000	3,000	3,000
Banca Popolare di Sondrio	2,000	1,604	1,072
Banca Intesa	6,000	6,000	6,000
Banca Popolare dell'Emilia	5,000	4,017	3,025
Banca Nazionale del Lavoro	4,000	3,200	2,400
Banca Sella	6,000	6,000	5,006
Banca Montepaschi di Siena	5,000	4,375	3,125
Banca Popolare di Sondrio	16,000	9,781	8,900
Banco BPM	5,000	4,500	3,500
Friuladria Credit Agricole	4,000	2,400	1,600
Biver Banca	5,000	4,017	3,025
Banca Intesa	5,000	5,000	5,000
UniCredit Bank Czech Republic and Slovakia, a.s.	4,000	3,750	2,750
Všeobecná úvěrová banka, a.s. (Gruppo Intesa)	1,614	807	404
Banca Popolare di Sondrio	1,500	1,500	1,500
Total	**194,114**	**159,411**	**126,081**

There are no debts backed by collateral over company assets.

Other medium/long-term financial payables of 247 thousand euros include 187 thousand euros of fair value relating to financial derivatives (interest rate swaps) booked using hedge accounting.

To stabilise future flows relating to hedged loans, interest rate swap agreements were entered into in 2018, with characteristics that fully mirror the characteristics of the related loans; therefore, the hedging relationship is effective.

The interest rate swaps relate to:

- Marzotto Wool Manufacturing S.r.l.: Banca Montepaschi di Siena, notional 5,000 thousand euros, fixed rate 0.70% and Banca Nazionale del Lavoro, notional 10,000 thousand euros, fixed rate 0.89%;
- Biella Manifatture Tessili S.r.l.: Banca Montepaschi di Siena, notional 5,000 thousand euros, fixed rate 0.70% and Banca Nazionale del Lavoro, notional 4,000 thousand euros, fixed rate 0.89%;

Notes to the consolidated financial statements

7.1) Trade payables and other payables

	2019	2018	Change
Amounts to:	**118,267**	**142,506**	**(24,239)**
and can be broken down as follows:			
Trade payables	88,422	107,001	(18,579)
Trade payables due to affiliates	538	637	(99)
Advance payments received	914	1,083	(169)
Payables due to Inland Revenue	4,740	5,027	(287)
Payables due to social security institutions	3,556	3,901	(345)
Payables due to employees	9,788	10,940	(1,152)
Other payables	408	1,776	(1,368)
Other payables to parent companies	8,942	10,698	(1,756)
Accrued liabilities and deferred income	959	1,443	(484)
Total	**118,267**	**142,506**	**(24,239)**

Trade payables are due within the year, and pertain to debts for the purchase of goods and services relating to ordinary operations and settled under normal market conditions.

Trade payables to associates relate to:

	2019	2018	Change
Mediterranean Wool Industries Co. S.A.E.	266	393	(127)
Pettinatura di Verrone S.r.l.	261	241	20
Ratti S.p.A.	=	3	(3)
Tintoria di Verrone S.r.l.	11	=	11
Total	**538**	**637**	**(99)**

Advance payments from customers are advances received from customers on supplies.

Payables to tax authorities can be broken down as follows:

	2019	2018	Change
Taxes withheld	2,609	2,519	90
Income taxes	1,034	781	254
Regional manufacturing tax	273	855	(582)
Value added tax	94	106	(11)
Other amounts due to Inland Revenue	730	767	(37)
Total	**4,740**	**5,027**	**(287)**

Other payables to tax authorities, in the amount of 4,740 thousand euros, decreased by 287 thousand euros.

Payables to social security institutions regard:

	2019	2018	Change
INPS	2,166	2,499	(333)
Other Italian institutions	622	690	(68)
Foreign social security agencies	768	712	56
Total	**3,556**	**3,901**	**(345)**

Payables to social security institutions reflect non-matured positions at the end of the financial year, regularly paid upon maturity.

Payables to other institutions include amounts payable to supplementary pension funds.

Notes to the consolidated financial statements

Payables to employees can be broken down as follows:

	2019	2018	Change
December salaries paid in January	2,552	2,500	52
Staff termination indemnities paid after year-end	232	24	208
Deferred salaries	6,622	8,054	(1,432)
Miscellaneous amounts due	382	362	20
Total	**9,788**	**10,940**	**(1,152)**

Other payables to parent companies of 8,942 thousand euros mainly include payables to parent company Wizard S.r.l. for dividends resolved upon by the Shareholders' Meeting held in May 2018, for 8,000 thousand euros, and payables to parent company Wizard S.r.l. as a result of the adherence of certain Group companies to the tax consolidation scheme, for 942 thousand euros.

The item **Other payables** includes payables relating to the valuation of the currency hedging contracts in place at the reporting date of 130 thousand euros (1,471 thousand euros during the previous year).

Accrued liabilities and deferred income in the previous year include 507 thousand euros of capital grants from local public entities in favour of the subsidiary Filature de Lin Filin S.A.

7.2) Short-term financial payables

	2019	2018	Change
Amounts to:	**50,941**	**62,120**	**(11,179)**
and can be broken down as follows:			
Payables due to bank and other lenders	45,994	60,124	(14,130)
Payables for leasing	1,015	=	1,015
Secured financing received	3,852	1,916	1,936
Other amounts due to third parties	80	80	=
Total	**50,941**	**62,120**	**(11,179)**

Short-term financial payables, equal to 50,941 thousand euros as at the reporting date, include amounts payable to banks and other lenders for 45,994 thousand euros for the use of facilities and the current portion of medium/long-term loans.

Collateralised loans, amounting to 3,852 thousand euros, relate to a short-term collateralised loan agreement entered into by subsidiary Filature De Lin Filin S.A.

Below is a breakdown of the net financial position as at 31 December 2019, showing changes occurring during the year in question.

Net financial position

	2019	2018	Change
Amounts to:	**(88,486)**	**(80,598)**	**(7,888)**
and can be broken down as follows:			
1.8 Long term financial receivables	85	86	(1)
3.4 Current financial assets	90,764	97,917	(7,153)
5.4 Long term financial payables	(128,394)	(116,481)	(11,913)
7.2 Current financial payables	(50,941)	(62,120)	11,179
Total	**(88,486)**	**(80,598)**	**(7,888)**

Net borrowing totals -88,486 million euros.
Please see the statement of cash flows for evidence of the individual factors that contributed to the change during the period.

[Notes to the consolidated financial statements]

Comments on the commitments as at 31 December 2019 are provided below:

"***Guarantees to subsidiaries and associates***" were given:

- by the parent company in favour of the subsidiary Marzotto Lab S.r.l. for 16,000 thousand euros for the assignment of receivables without recourse;
- by the parent company to the subsidiary Marzotto Lab S.r.l. for 51,000 thousand euros to guarantee loans;
- by the parent company to the subsidiary Marzotto Lab S.r.l. for 28,850 thousand euros for lines of credit;
- by the parent company to the subsidiary Marzotto Wool Manufacturing S.r.l. for 33,000 thousand euros for the assignment of receivables without recourse;
- by the parent company to the subsidiary Linificio e Canapificio Nazionale S.r.l. for 2,000 thousand euros for the assignment of receivables without recourse;
- to other subsidiaries and associates to guarantee lines of credit for 8,294 thousand euros, and to guarantee miscellaneous securities for 357 thousand euros.

"***Guarantees received from third parties***" were given:

- to subsidiaries/associates for 702 thousand euros to guarantee miscellaneous securities;
- to the parent company to guarantee miscellaneous securities for 174 thousand euros.

"Foreign currency hedging contracts" for the group's Italian companies regard forward purchasing contracts of 59,675 thousand euros and forward sale agreements of 13,068 thousand euros.

As of 31 December 2019, currency forward purchasing contracts totalled 13,850 thousand US dollars, with an equivalent value of 12,007 thousand euros, and 130,000 thousand Japanese yen, with an equivalent value of 1,061 thousand euros. Currency forward purchasing contracts amount to 930,000 thousand CZK, equating to 35,383 thousand euros, 39,500 thousand AUD, equating to 24,035 thousand euros, and 300 thousand USD, equating to 257 thousand euros.

Currency forward purchasing contracts for the foreign companies were 2,100 thousand euros, with an equivalent value of 53,811 thousand CZK.
Currency forward purchasing contracts for the foreign companies were 2,500 thousand euros, with an equivalent value of 65,621 thousand CZK.

The fair value of the currency forward sale and purchase contracts at the reporting date, which was positive for 1,081 thousand euros, was determined on the basis of quotes provided by the banks.

"***Interest rate hedging contracts"*** relate to:

- Marzotto Wool Manufacturing S.r.l. has two interest rate swaps on a notional amount of 15,000 thousand euros. As of 31 December 2019, the fair value of these instruments is a loss of 112 thousand euros;
- Biella Manifatture Tessili S.r.l. has two interest rate swaps on a notional amount of 9,000 thousand euros. As of 31 December 2019, the fair value of these instruments is a loss of 75 thousand euros.

Notes to the consolidated financial statements

For comments on the income performance of the Group during the year in question, reference is made to the specific paragraph of the Report on Operations.

8. Net revenues

The table below gives the breakdown of **Net revenues** according to business sector.

	2019	2018	% change
Marzotto Wool M.	218,546	242,854	(10.0)
Marzotto Lab	112,003	107,738	4.0
Other operations	18,865	18,549	1.7
Eliminations/adjustments	(12,949)	(12,375)	4.6
Total	**336,465**	**356,766**	**(5.7)**

Net revenues earned by the Group during the year amounted to 336,465 thousand euros, up by 5.7% compared with the previous year.

The item "Net revenues" includes the following **other revenues**:

	2019	2018	% change
Amounts to:	**18,511**	**17,224**	**7.5**
and refers to:			
Real estate income	1,145	1,139	0.5
Contribution to operating expenses	513	464	10.6
Other revenues and miscellaneous income	16,853	15,621	7.9
Total	**18,511**	**17,224**	**7.5**

The item "Other revenues and miscellaneous income" mainly relates to the sale of semi-finished goods, manufacturing, and other services relating to ordinary operations.
The item "Operating contributions" includes grants for research and development accrued during the year of 404 thousand euros, contributions received from the subsidiary Biella Manifatture Tessili S.r.l. of 26 thousand euros (Finpiemonte S.p.A.) and contributions received from the subsidiary Filature de Lin Filin S.A. of 83 thousand euros (portion for the year).

9. Cost of goods sold

	2019	2018	% change
Amounts to:	**(276,538)**	**(289,039)**	**(4.3)**
and refers to:			
Third party production	(9,935)	(14,726)	(32.5)
In house manufacturing	(95,459)	(99,007)	(3.6)
Purchase of raw materials, finished and semi-finished products	(134,174)	(162,901)	(17.6)
Change in stock of raw materials, finished and semi-finished products	(13,829)	10,789	>100,0
Commercial exchange differences	(585)	(137)	n.c.
Other logistic and industrial costs	(22,556)	(23,057)	(2.2)
Total	**(276,538)**	**(289,039)**	**(4.3)**

Notes to the consolidated financial statements

Trade exchange rate differences are detailed below:

Trade exchange rate differences	2019	2018	% change
Amounts to:	**(585)**	**(137)**	**n.c.**
and refers to:			
Exchange rate on cash from customers in foreign currency	461	280	
Exchange rate gains on payments to suppliers in foreign currency	(77)	406	
Exchange rate on extinguishing of trade financing in foreign currency	(969)	(823)	
Total	**(585)**	**(137)**	**n.c.**

Exchange differences on hedging transactions are all related to hedging instruments put in place to determine the exchange rate based on estimates of net sales and purchasing volumes for each Group company and the currency exchange rate considered when the price lists are prepared. The Group does not enter into currency forward contracts for speculative purposes.

11. Marketing and product development costs

The breakdown of **commercial and development costs** produced as at 31 December 2019 is given in the table below:

	2019	2018	% change
Amounts to:	**(38,804)**	**(38,804)**	**=**
and refers to:			
Variable sales costs	(11,791)	(12,292)	(4.1)
Losses, write-down, accounts receivables	(1,095)	(970)	12.9
Product research and development	(12,349)	(12,551)	(1.6)
Advertising, marketing and public relations	(3,256)	(2,868)	13.5
Other fixed sales and marketing costs	(10,313)	(10,123)	1.9
Total	**(38,804)**	**(38,804)**	**=**

Variable selling costs of 11,791 thousand euros include:

- premiums, commission and agent contributions for 7,176 thousand euros;
- transport and transport insurance costs for 4,585 thousand euros;
- costs for royalties and agent indemnities for 30 thousand euros.

Losses, impairment and credit management, amounting to 1,095 thousand euros, includes the change in provisions for doubtful debt and losses on loans recorded during the period (for -386 thousand euros), insurance costs (for -513 thousand euros) and other credit management expenses (for -196 thousand euros).

Other fixed commercial costs of 10,313 thousand euros mainly include commercial staff costs, expenses incurred for travel and transfers and other minor expenses.

12. General and administrative costs

	2019	2018	% change
Amounts to:	**(18,301)**	**(18,686)**	**(2.1)**

General and administrative costs as at 31 December 2019 include payroll costs (around 9,577 thousand euros), consultancy costs and fees (legal, administrative and other minor), third-party costs (2,687 thousand euros), insurance expenses (489 thousand euros) and other costs (maintenance, depreciation/amortisation, utilities and transport) of 5,548 thousand euros.

Notes to the consolidated financial statements

13. Other income and expenses

	2019	2018	% change
Amounts to:	**(104)**	**7,192**	**n.c.**
and refers to:			
Gain on disposal of tangible and intangible assets	654	10,107	
Loss on disposal of tangible and intangible assets	(24)	(32)	
Allocation/use to legal risk fund and future charges	580	(2,111)	
Other income/charges	(1,314)	(772)	
Total other income/charges	**(104)**	**7,192**	**n.c.**

The balance of Other income and expenses is negative by 104 thousand euros; it mainly consists of net capital gains realised of 630 thousand euros, with the remainder regarding income components accrued in previous years or that concern non-recurring events.

14. EBIT

The table below provides a breakdown of EBIT by business segment.

	2019	2018	% change
Amounts to:	**2,718**	**17,429**	**(84.4)**
and refers to:			
Marzotto Wool M.	3,067	8,650	(64.5)
Marzotto Lab	(2,217)	718	n.c.
Other operations	1,870	8,061	(76.8)
Eliminations/Adjustments	(2)	=	n.c.
Total	**2,718**	**17,429**	**(84.4)**

EBIT amounts to 2,718 thousand euros, down by 14,711 thousand from the previous reporting date.

Below are the details of personnel costs and the depreciations and amortisations included in the EBIT calculation.

Payroll costs:

	2019	2018	% change
Amounts to:	**(80,824)**	**(83,605)**	**(3.3)**
and refers to:			
Marzotto Wool M.	(50,680)	(53,705)	(5.6)
Marzotto Lab	(21,804)	(21,159)	3.0
Other operations	(8,340)	(8,741)	(4.6)
Total	**(80,824)**	**(83,605)**	**(3.3)**

The number of active **employees** had the following trend:

	Year End Staff			Average		
	31.12.2019	31.12.2018	% change	2019	2018	% change
Blue-collar workers	2,521	2,584	(2.4)	2,565	2,599	(1.3)
White-collar workers	601	625	(3.8)	617	624	(1.1)
Managers	35	37	(5.4)	36	37	(2.7)
Total	**3,157**	**3,246**	**(2.7)**	**3,218**	**3,260**	**(1.3)**

Amortisation and depreciation was as follows:

	2019	2018	% change
Amounts to:	**(17,971)**	**(16,329)**	**10.1**
and refers to:			
amortization of intangible fixed assets	(558)	(498)	
depreciation of tangible fixed assets	(17,413)	(15,831)	

Notes to the consolidated financial statements

15. Net financial expenses

	2019	2018	% change
Amounts to:	**(1,581)**	**(1,653)**	**(4.4)**
and refers to:			
Financial income			
Interests received from affiliates	21	18	16.7
Interests received from banks	103	132	(22.0)
Interests received from other	53	=	n.c.
Exchange rate gains on financial transactions	1,777	1,097	62.0
Total financial income	**1,954**	**1,247**	**56.7**
Financial charges			
Interests payable to banks	(1,234)	(802)	53.9
Bank charges	(417)	(535)	(22.1)
Exchange rate losses on financial transactions	(1,802)	(1,507)	19.6
Other financial charges	(82)	(56)	46.4
Total financial charges	**(3,535)**	**(2,900)**	**21.9**
Total	**(1,581)**	**(1,653)**	**(4.4)**

The balance of financial operations as at 31 December 2019 is negative for 1,581 thousand euros, improving by 72 thousand euros.

In addition, it should be noted that interest income from associates relates to Mediterranean Wool Industries Co. S.A.E. for 21 thousand euros.

16. Dividends from unconsolidated equity investments and valuations at equity

	2019	2018	% change
Amounts to:	**4,833**	**4,180**	**15.6**
and refer to:			
Valuations to equity			
Ratti Group	4,352	3,509	
Uab Linestus	=	28	
G. Schneider Australia Pty Ltd	18	=	
Schneider New Zealand Ltd	5	=	
Pettinatura di Verrone S.r.l.	16	29	
Uab Lietvilna	401	566	
Tintoria di Verrone S.r.l.	41	48	
Total valuations to equity	**4,833**	**4,180**	**15.6**
Total	**4,833**	**4,180**	**15.6**

The above investments are measured according to the equity method; accordingly, their book value has been aligned to incorporate the results for the year.

Notes to the consolidated financial statements

18. Other financial income and expenses

	2019	2018	% change
Amounts to:	**(81)**	**(4)**	**>100%**
and refers to:			
Adjustment TFR IAS 19	(81)	(4)	
Total	**(81)**	**(4)**	**>100%**

The item **Other financial income and charges**, equal to -81 thousand euros, includes the financial component of the adjustment of employee termination indemnities, in application of standard IAS 19.

20. Income taxes

	2019	2018	% change
Amounts to	**(897)**	**(4,188)**	**(78.6)**
and refer to:			
Current taxes	(1,472)	(4,904)	
Deferred taxes receivable	596	1,751	
Deferred taxes payable	123	(1,411)	
Other variations	(144)	376	
Total	**(897)**	**(4,188)**	**(78.6)**

Estimated taxes for 2019 were negative for 897 thousand euros, down by 3,291 thousand euros on the previous year.

The reconciliation of the theoretical tax rate with the effective tax rate on income before taxes is set out in the table below.

	2019		2018	
	Amount	%age	Amount	%age
Pre-tax profit	**5,889**		**19,952**	
Theoretical taxes	(1,413)	(24.0)	(4,788)	(24.0)
IRAP	(235)	(4.0)	(1,163)	(5.8)
Deferred taxes	719	12.2	340	1.7
Other variations	32	0.5	1,423	7.1
Total taxes	**(897)**	**(15.2)**	**(4,188)**	**(21.0)**

Equity investments held directly or indirectly by the parent company

Below is the list of equity investments in which the parent company directly or indirectly holds more than 10% of the voting shares as at 31 December 2019. All equity investments represent ownership:

Company name	Head office	Direct investor	% owned	% group owned
Le Cotonerie S.r.l.	Valdagno (I)	Marzotto S.p.A.	100.00%	100.00%
Ambiente Energia S.r.l.	Schio (I)	Marzotto S.p.A.	100.00%	100.00%
Marzotto Textiles Czech Republic s. r.o.	Praga (CZ)	Marzotto S.p.A.	100.00%	100.00%
Aree Urbane S.r.l. in liquidation	Milan (I)	Marzotto S.p.A.	32.50%	32.50%
Mascioni S.p.A.	Milan (I)	Marzotto S.p.A.	14.18%	14.18%
Marzotto Wool Manufacturing S.r.l.	Valdagno (VI)	Marzotto S.p.A.	**100.00%**	**100.00%**
Biella Manifatture Tessili S.r.l.	Valdagno (I)	Marzotto Wool Manufacturing S.r.l.	100.00%	100.00%
Novà Mosilana a.s.	Brno (CZ)	Marzotto Wool Manufacturing S.r.l.	100.00%	100.00%
Pettinatura di Verrone S.r.l.	Verrone (I)	Marzotto Wool Manufacturing S.r.l.	15.00%	15.00%
Mediterranean Wool Industries Co. S.A.E.	Sadat City (ET)	Marzotto Wool Manufacturing S.r.l.	30.00%	30.00%
Tintoria di Verrone S.r.l.	Verrone (I)	Marzotto Wool Manufacturing S.r.l.	25.00%	50.00%
G. Schneider PTY Limited	Greenwich (AUS)	Marzotto Wool Manufacturing S.r.l.	25.00%	25.00%
Schneider New Zealand Limited	Christchurch (AUS)	Marzotto Wool Manufacturing S.r.l.	25.00%	25.00%
Marzotto Lab S.r.l.	Valdagno (VI)	Marzotto S.p.A.	**100.00%**	**100.00%**
AB Liteksas	Kaunas (LT)	Marzotto Lab S.r.l.	99.97%	99.97%
Sametex spol s r.o	Kraslice (CZ)	Marzotto Lab S.r.l.	100.00%	100.00%
Girmes International G.m.b.h.	Tonisvorst (DE)	Marzotto Lab S.r.l.	100.00%	100.00%
Tintoria di Verrone S.r.l.	Verrone (I)	Marzotto Lab S.r.l.	25.00%	50.00%
UAB Lietvilna	Kaunas (LT)	Marzotto Lab S.r.l.	50.00%	50.00%
Marzotto Textile N.V.	Amsterdam (NL)	Marzotto Wool S.r.l./Marzotto Lab S.r.l.	**100.00%**	**100.00%**
Marzotto Int. Trad. (Shanghai) Co. Ltd.	Shanghai (RPC)	Marzotto Textile N.V.	100.00%	100.00%
Marzotto Textiles USA Inc.	New York (USA)	Marzotto Textile N.V.	100.00%	100.00%
Linificio e Canapificio Nazionale S.r.l.	Valdagno (I)	Marzotto Lab S.r.l.	**100.00%**	**100.00%**
Filature de Lin Filin S.A.	Chbedda (TN)	Linificio e Canapificio Nazionale S.r.l.	100.00%	100.00%
UAB Lietlinen	Kaunas (LT)	Linificio e Canapificio Nazionale S.r.l.	100.00%	100.00%
UAB Linestus in liquidazione	Kaunas (LT)	UAB Lietlinen	50.00%	50.00%
Ratti S.p.A.	Guanzate (I)	Marzotto S.p.A.	**34.01%**	**34.01%**
Creomoda S.a.r.l.	Soussa (TN)	Ratti S.p.A.	76.00%	25.84%
La Maison des accessories S.a.r.l.	Soussa (TN)	Ratti S.p.A.	68.40%	23.26%
Ratti USA Inc.	New York (USA)	Ratti S.p.A.	100.00%	34.01%
Ratti Int. Trading (Shanghai) Co. Ltd	Shanghai (RPC)	Ratti S.p.A.	100.00%	34.01%
Textrom S.r.l.	Cluj - Napoca (RO)	Ratti S.p.A.	100.00%	34.01%
Marielle S.r.l.	Florence (FI)	Ratti S.p.A.	30.00%	10.20%

Notes to the consolidated financial statements

Related parties

It is in the economic interest of the parent company to carry out operations with related parties, to realise the existing synergies within the Group, especially with reference to the integration of production and sales, the efficient use the acquired knowledge, the rationalisation of the use of central structures and financial resources.
All relations with subsidiaries, associates and other related parties, whether in relation to the exchange of goods and services or to financial transactions, are carried out at arm's length.
The relations with subsidiaries have been eliminated from the consolidated financial statements.
Relations with associates are shown in the financial statements and the relevant notes.

Directors and Statutory Auditors

Amounts paid to the Directors and Statutory Auditors of the Marzotto Group:

	Office		
(thousands of euro)	Directors	Auditors	**Total**
Remuneration	1,092	40	**1,132**

In the year in question, compensation for the supervisory body of 16 thousand euros was recognised.

Independent Auditors

Remuneration due for the financial year for services provided by the Independent Auditors

		Company	
(thousand of euro)	Marzotto S.p.A.	Subsidiaries	**Total**
Auditing services	16	226	**242**

Other information

During the financial year there were no atypical or unusual transactions.

Events after the date of these financial statements

Please see the Management Report for events occurring after 31 December 2019.

Segment reporting

The tables below provide segment reporting information.

Notes to the consolidated financial statements

Segment reporting 2019

(thousands of euro)

Segment reporting Income statement	Marzotto Wool M.	Marzotto Lab	Other Operations	Eliminations	Total
Other revenues	218,013	110,591	7,861	=	**336,465**
Inter-sector revenues	532	1,412	11,004	(12,948)	**=**
Totale revenues	**218,545**	**112,003**	**18,865**	**(12,948)**	**336,465**
Sector costs	(215,478)	(114,219)	(16,996)	12,946	**(333,747)**
of which depreciation & amortization	(12,166)	(4,121)	(2,005)	321	**(17,971)**
of which other non monetary costs	(189)	(197)	=	=	**(386)**
Operating income	**3,067**	**(2,216)**	**1,869**	**(2)**	**2,718**
Financial charges net	=	=	=	=	**(1,581)**
Dividends from non cons. equity invest. and valuation to equity	=	=	=	=	**4,833**
Other financial income/charges	=	=	=	=	**(81)**
Pre-tax profit	**=**	**=**	**=**	**=**	**5,889**
Taxes	=	=	=	=	**(897)**
Net profit	**=**	**=**	**=**	**=**	**4,992**

Segment reporting Balance sheet	Marzotto Wool M.	Marzotto Lab	Other Operations	Eliminations	Total
Assets by segment	110,632	54,892	(1,603)	181,486	**345,408**
Equity investments in subsidiaries companies	93,317	56,970	100,842	(251,129)	**=**
Equity investments in affiliated companies	4,681	4,997	21,396	=	**31,074**
Non-allocated assets	=	=	=	=	**90,849**
Total assets	**208,630**	**116,859**	**120,635**	**(69,643)**	**467,331**
Shareholders' equity	=	=	=	=	**138,899**
Liabilities by segment	83,397	45,210	27,930	(7,438)	**149,099**
Non-allocated liabilities	=	=	=	=	**179,333**
Total liabilities and shareholders' equity	**83,397**	**45,210**	**27,930**	**(7,438)**	**467,331**
Investments	**6,089**	**3,025**	**1,188**	**=**	**10,302**

Information by geographical area	Italy	Other Europ. Countries	North America	Asia	Other Countries	Total
Revenues	103,644	157,748	14,013	50,155	10,905	**336,465**
Fixed assets	334,812	116,697	648	210	14,964	**467,331**
Investments	5,379	4,325	=	=	598	**10,302**

Please note that the unallocated assets and liabilities respectively correspond to the assets and liabilities making up the net borrowing.

Notes to the consolidated financial statements

Segment reporting 2018

(thousands of euro)

Segment reporting Income statement	Marzotto Wool M.	Marzotto Lab	Other Operations	Eliminations	Total
Other revenues	238,289	102,153	7,011	9,313	**356,766**
Inter-sector revenues	4,565	5,585	11,538	(21,688)	**=**
Totale revenues	**242,854**	**107,738**	**18,549**	**(12,375)**	**356,766**
Sector costs	(234,204)	(107,020)	(10,488)	12,375	**(339,337)**
of which depreciation & amortization	(11,151)	(3,559)	(1,617)	(2)	**(16,329)**
of which other non monetary costs	(162)	(132)	4	=	**(291)**
Operating income	**8,650**	**718**	**8,061**	**=**	**17,429**
Financial charges net	=	=	=	=	**(1,653)**
Dividends from non cons. equity invest. and valuation to equity	=	=	=	=	**4,180**
Other financial income/charges	=	=	=	=	**(4)**
Pre-tax profit	**=**	**=**	**=**	**=**	**19,952**
Taxes	=	=	=	=	**(4,188)**
Net profit	**=**	**=**	**=**	**=**	**15,764**

Segment reporting Balance sheet	Marzotto Wool M.	Marzotto Lab	Other Operations	Eliminations	Total
Assets by segment	130,020	54,269	2,225	180,042	**366,556**
Equity investments in subsidiaries companies	93,317	56,356	100,837	(250,510)	**=**
Equity investments in affiliated companies	4,592	4,839	18,749	=	**28,180**
Non-allocated assets	=	=	=	=	**98,003**
Total assets	**227,929**	**115,464**	**121,811**	**(70,468)**	**492,739**
Shareholders' equity	=	=	=	=	**138,814**
Liabilities by segment	110,585	41,068	29,552	(5,876)	**175,329**
Non-allocated liabilities	=	=	=	=	**178,596**
Total liabilities and shareholders' equity	**110,585**	**41,068**	**29,552**	**(5,876)**	**492,739**
Investments	**10,886**	**3,241**	**573**	**=**	**14,700**

Information by geographical area	Italy	Other Europ. Countries	North America	Asia	Other Countries	Total
Revenues	110,722	167,006	12,914	54,699	11,425	**356,766**
Fixed assets	352,731	126,814	73	377	12,744	**492,739**
Investments	8,392	5,830	=	=	478	**14,700**

Please note that the unallocated assets and liabilities respectively correspond to the assets and liabilities making up the net borrowing.

Valdagno (VI), 27 March 2020

FOR THE BOARD OF DIRECTORS
THE MANAGING DIRECTOR
DAVIDE FAVRIN

EY S.p.A.
Via San Crispino, 106
35129 Padova

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Fax: +39 049 7707428
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Building a better working world

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010 (Translation from the original Italian text)

To the Shareholders of
Manifattura Lane Gaetano Marzotto & Figli S.p.A.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Marzotto Group (the Group), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statement of profit/(loss) and consolidated items of other comprehensive income, the consolidated statement of cash flow for the year then ended, the consolidated statement of changes in equity 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 Manifattura Lane Gaetano Marzotto & Figli S.p.A. 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 Company or to cease operations, or have no realistic alternative but to do so.

EY S.p.A.
Sede Legale: Via Lombardia, 31 - 00187 Roma
Capitale Sociale Euro 2.525.000,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584 - numero R.E.A. 250904
P.IVA 00891231003
Iscritta al Registro Revisori Legali al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998
Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

A member firm of Ernst & Young Global Limited

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 Manifattura Lane Gaetano Marzotto & Figli S.p.A. are responsible for the preparation of the Report on Operations of Marzotto 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 of Marzotto 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 Marzotto 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.

Padova, April 10, 2020

EY S.p.A.
Signed by: Stefano Marchesin, auditor

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

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PARENT COMPANY: MARZOTTO S.p.A.

Company with Sole Shareholder - subject to management and coordination by Trenora S.r.l.

Tax ID and V.A.T. registration number 00166580241
REA Vicenza nr. 801
PEC: Marzotto@legalmail.it

Registered and Administrative office:

Largo S. Margherita, 1
36078 Valdagno (VI)
Tel. 0445 429411

Secondary offices:

Piovene Rocchette (VI), Via A. Rossi 50

Financial Statements as at 31 December 2019

MARZOTTO S.P.A.

MARZOTTO S.p.A.
Company with sole partner

Registered and Administrative office in Largo S. Margherita 1, 36078 Valdagno (VI)
Subject to Trenora S.r.l. management and coordination activities
Tax ID,V.A.T. registration number 00166580241 - REA Vicenza nr. 801 - PEC: Marzotto@legalmail.it

1836
MARZOTTO
GROUP

General information

Marzotto S.p.A.
Company with sole partner
Registered and Administrative office in Largo S. Margherita 1, 36078 Valdagno (VI)
Subject to Trenora S.r.l. management and coordination activities
Tax ID,V.A.T. registration number 00166580241 - REA Vicenza nr. 801 - PEC: Marzotto@legalmail.it

[Corporate management and shareholders]

Corporate management

Board of Directors
Chairman
Antonio Favrin [1]
Deputy Chairman
Andrea Donà dalle Rose [1]
Board Members
Federica Favrin
Andrea Guaccero
Vittorio Marzotto
Donatella Ratti
Chief Executive Officer
Davide Favrin [1]

1. Members of Executive Committee

Board of statutory auditors
Acting Auditors
Sandro Miotto - Chairman
Marco Della Putta
Federico Giorgione
Substitute Auditors
Paolo Corgnati
Stefano Rudelli

Indipendent auditors
EY S.p.A.

Shareholders

As at 31.12.2019 the share capital amounted to 40,000,000 Euros, totally owned by the **Sole Shareholder Wizard S.r.l.**

Report on operations

[Management Report]

Dear Shareholders,

The financial statements for the year ended 31 December 2019, submitted herewith for your review and approval, close with revenues of 11.7 million euros and a profit of 10.3 million euros.

Standards for the preparation of the financial statements

Marzotto S.p.A.'s financial statements have been prepared in compliance with the International Financial Reporting Standards (IAS/IFRS) and the related interpretations of the International Accounting Standards Board (IASB), approved by the European Commission and transposed into Italian law by Legislative Decree 38/2005.

Please see the explanatory notes for comments on the result in the financial statements. Below, please find information on the company's position and future outlook, as well as that information required by current regulations.

General information

Marzotto S.p.A. is the parent company of the Marzotto Group, which is one of the main international players in the textile sector, operating in the development, production and distribution of high-end wool fabrics (through the Marzotto Wool Manufacturing Group), cotton, wool yarns and linens, furnishing textiles, velvets (through the Marzotto Lab Group) and silk (with the Ratti Group).

[Management Report]

Before moving onto discuss the business of your Company in FY 2019, we would first note the key events that took place in the year just ended and during this year.

Praia a Mare litigation

With regard to the Praia a Mare plant, which was acquired by the Company in 1988 and whose operations ceased in 2004, the following proceedings are pending:

1) A special evidentiary hearing requested by the Public Prosecutor at the Court of Paola on behalf of the heirs of persons who worked at the Praia a Mare plant before 1988 (the year of purchase by the Company), as well as of former employees of the Company or their heirs, who are claiming that there were functional omissions in relation to the safety conditions of the work carried out at that plant. The expert investigations are still on-going and it is not possible to predict their progress.

2) Several civil appeals filed before the Court of Paola by the same persons who requested a pre-trial hearing (hence the heirs of persons who worked at the Praia a Mare plant before 1988 and former company workers or their heirs) complaining that the alleged absence of safety conditions for the works carried out there had caused death or serious injury. These proceedings were merged and, after an attempt at settlement, the preliminary investigation phase was opened with the postponement of the hearing until July 2020. At present, it is not possible to predict how the proceedings will progress.

3) On 25 September 2019 the operative part of the final decision was filed in the proceedings before the Italian Court of Cassation against the appeals decision brought by the Catanzaro Public Prosecutor's Office. The Italian Court of Cassation has, among others, (i) declared the appeal filed by the Chief Prosecutor to be unacceptable, thereby upholding the decision of the Court of Paola and the decision of the Court of Appeal of Catanzaro which both fully acquitted, because the fact did not occur, all defendants (the managers of this establishment and the members of the board of directors from the 1960s to 2004) of the charges of crimes against individuals and the environment, (ii) overturned the appeals court decision herewith appealed by the Municipality of Tortora, for civil law purposes, and handed the case back down to the competent civil court to rule on its value on appeal. At present, no predictions can be made regarding the adjournment, as the grounds for this decision handed down by the Court of Cassation have not yet been filed.

Highlights of the income statement and statement of financial position

The table below contains summaries of the Company's main economic, income and financial indicators for the year ended 31 December 2019.

(in millions of euro)	2019	2018	change	change %
Net revenues	**11.7**	**12.1**	**(0.4)**	**- 3.3%**
Operating income	0.4	6.9	(6.5)	- 94.2%
% of net revenues	*3.3%*	*57.0%*		
EBITDA (1)	**1.8**	**7.9**	**(6.1)**	**- 77.2%**
% of net revenues	***15.4%***	***65.5%***		
Income before taxes	11.0	16.5	(5.5)	- 33.3%
% of net revenues	*93.9%*	*136.4%*		
Net income	**10.3**	**14.1**	**(3.8)**	**- 27.0%**
% of net revenues	***87.9%***	***116.6%***		
Net working capital	**(5.9)**	**(4.6)**	**(1.3)**	**+ 28.3%**
Net employed capital	**107.7**	**107.8**	**(0.1)**	**- 0.1%**
Net financial position	**(15.6)**	**(13.1)**	**(2.5)**	**+ 19.1%**
Investments for the period	0.4	0.2	0.2	**+ 100.0%**
Active staff: persons	87	93	(6)	**- 6.5%**

(*) Net financial debt in the table = positive NFP

	2019	2018	change
ROI	0.4%	6.4%	-6.0%
ROE	8.4%	11.7%	-3.3%
ROS	3.3%	57.0%	-53.7%
Debt/Equity	-12.7%	-10.8%	-1.8%
Capitalisation ratio	114.5%	112.2%	2.3%
Financial coverage rate of assets	87.8%	93.0%	-5.2%
Inventory rotation index	=	=	=
Number of days of credit to clients	194	229	-35

As of 01.01.2019, the new IFRS 16 came into effect, which establishes that the accounting treatment of operating lease agreements is the same as for finance lease agreements, i.e. by accounting for usage rights under assets and leases under liabilities as of the transition date (01.01.2019), based on residual payments due. Lease payments are not recognised during the year, rather the depreciation of assets consisting of usage rights.

The application of this standard had a positive effect on the EBITDA of 0.3 million euros and a negative effect on the net financial position of 0.4 million euros.

Legend:

ROI: EBIT/Capital employed
ROE: Net result/Shareholders' equity
ROS: EBIT/Net revenues
Debt/Equity: Net financial position/Shareholders' equity
Capitalisation index: Ratio of shareholders' equity to capital employed net of operating liabilities.
Financial hedging of fixed assets: Fixed assets + medium to long-term provisions/Shareholders' equity + medium to long-term financial borrowing
Inventory rotation index: Net inventory/Cost of goods sold x 360 days
Credit days to customers: Gross trade receivables/Net revenues x 360 days

(1). EBIT + Amortisation/depreciation.

Report on Operations

Income statement

The income statement is summarised below.

(in millons of euro)	2019		2018	
Net revenues	**11.7**	***100.0%***	**12.1**	***100.0%***
Cost of sales	(2.3)	*(19.7%)*	(2.4)	*(19.8%)*
Gross income	**9.4**	***80.3%***	**9.7**	***80.2%***
R&D and marketing costs	=	=	=	=
General and administrative costs	(8.9)	*(76.1%)*	(9.3)	*(76.9%)*
Profit from core businesses	**0.5**	***4.2%***	**0.4**	***3.3%***
Non-recurring income/(charges)	(0.1)	*(0.9%)*	6.5	*53.7%*
Operating income	**0.4**	***3.3%***	**6.9**	***57.0%***
Net financial charges	0.1	*0.9%*	(0.1)	*(0.8%)*
Dividends	10.5	*89.7%*	9.7	*80.2%*
Other financial income/charges	=	=	=	=
Income before taxes	**11.0**	***93.9%***	**16.5**	***136.4%***
Taxes	(0.7)	*(6.0%)*	(2.4)	*(19.8%)*
Net income	**10.3**	***87.9%***	**14.1**	***116.6%***

Net revenues

Net revenues earned by the Company in 2019 total 11.7 million euros and relate to the following businesses:

(in millions of euro)	2019		2018	
Holding and coordination	8.3	*70.9%*	8.6	*71.1%*
Real estate	1.1	*9.4%*	1.1	*9.1%*
Logistics	1.7	*14.6%*	1.8	*14.9%*
Other	0.6	*5.1%*	0.6	*4.9%*
Total	**11.7**	***100.0%***	**12.1**	***100.0%***

by geographical area

(in millions of euro)	2019		2018	
Italy	10.6	*90.6%*	10.9	*90.1%*
Other European Countries	1.1	*9.4%*	1.2	*9.9%*
Total	**11.7**	***100.0%***	**12.1**	***100.0%***

Operating profit

The result from ordinary operations as at 31 December 2019 was positive for 0.5 million euros, deriving from revenues achieved during the period of 11.7 million euros, net of the cost of goods sold (2.3 million euros) and general and administrative costs (8.9 million euros).

Non-recurring income and expenses

As at the reporting date, the net balance of non-recurring operations totalled -0.1 million euros, compared with a 2018 balance of +6.5 million euros (which included extraordinary capital gains following the sale of owned artworks for 9.7 million euros).

Net financial expenses

In FY 2019, the Company booked net financial expenses of +0.1 million euros, compared with -0.1 million euros of net financial expenses during the previous year.

Dividends from investees

Dividends recognised and received by the parent company during the year amounted to 10.5 million euros and comprised 8.0 million in dividends approved by Marzotto Wool Manufacturing S.r.l., 0.7 million in dividends approved by Ambiente Energia S.r.l. and 1.8 million euros from the associate Ratti S.p.A.
In 2018, this item amounted to 9.7 million euros and comprised 8.0 million in dividends approved by Marzotto Wool Manufacturing S.r.l., 0.5 million in dividends approved by Ambiente Energia S.r.l. and 1.2 million euros from the associate Ratti S.p.A.

Income taxes

Marzotto S.p.A. and the subsidiaries Linificio e Canapificio Nazionale S.r.l., Biella Manifatture Tessili S.r.l., Le Cotonerie S.r.l., Ambiente Energia S.r.l., Marzotto Wool Manufacturing S.r.l. and Marzotto Lab S.r.l. opted for the national tax consolidation scheme, for which the parent company is Wizard S.r.l., and its effects are reflected in the results as of 31 December 2019.

The balance of tax operations for the period is negative for 0.7 million euros (-2.4 million as at 31 December 2018).

Net result

On the basis of the aforementioned analyses, net profit for the year was 10.3 million (deriving mainly from the 10.5 million in dividends previously described), compared with a net profit of 14.1 million in 2018.

Financial position

The Company's financial position as at 31 December 2019 is summarised in the table below, compared with the corresponding amounts for the previous year.

(in millions of euro)	31.12.2019	31.12.2018
Net trade receivable	6.2	7.6
Other receivables	1.3	1.6
Inventory	=	=
Commercial suppliers	(1.8)	(1.7)
Other payables	(11.6)	(12.1)
A) Net working capital	**(5.9)**	**(4.6)**
B) Assets/liabilities held for sale	**=**	**=**
Receivables beyound 12 months	3.1	3.4
Equity investments	111.8	111.7
Tangible fixed assets	9.6	9.7
Intangible fixed assets	1.3	1.4
C) Net fixed assets	**125.8**	**126.2**
D) Employee severance fund, reserves, and other non-financial M/L term payables	**(10.6)**	**(11.8)**
E) Deferred taxes reserve	**(1.6)**	**(2.0)**
F) Invested capital net of current liabilities (A+B-C-D-E)	**107.7**	**107.8**
Covered by:		
Short-term financial payables	0.3	=
Cash and short-term financial receivables	(22.0)	(13.1)
Medium/long term financial payables	6.1	=
Medium/long term financial receivables	=	=
G) Net borrowing	**(15.6)**	**(13.1)**
H) Shareholders' net equity	**123.3**	**120.9**
I) Total (G+H) as in F	**107.7**	**107.8**

Net capital employed

Capital employed, net of operating liabilities, came to 107.7 million euros, including net fixed assets of 125.8 million euros and provisions for employee termination indemnities and other non-financial medium/long-term liabilities of 10.6 million euros.

In detail, fixed assets include long-term receivables in the amount of 3.1 million euros, which represent prepaid tax receivables deemed likely to be recovered; investments for 111.8 million euros, which include the book value of equity investments in subsidiaries and associates (see section 1.5 of the explanatory notes); fixed assets for 10.9 million euros, of which land and buildings for 5.5 million euros and plant, machinery and equipment (mainly relating to the Piovene logistics business) for 3.7 million euros.

The item "Employee termination indemnities and other non-financial medium/long-term liabilities" includes the indemnity, calculated in accordance with current legislation, accrued by employees up until 31 December 2006 for 0.7 million euros; the pension provision for 0.5 million euros; the provision for restructuring and delocalisation for 2.9 million euros, intended to cover expenses connected with the plan to restructure some industrial activities; the provision for legal risks and disputes for 1.1 million euros, intended to cover liabilities that may ensue from legal and other disputes; and other provisions for risks and charges for 5.4 million euros, related to the foreseeable risks consequent to the operations relating to the company Aree Urbane S.r.l. and the plant at Praia a Mare.

Net borrowing

The Company's net borrowings were positive for 15.6 million euros at the reporting date, compared with a positive balance of 13.1 million euros in 2018.
The final net financial debt includes 0.4 million euros of higher financial debts due to IFRS 16.

Shareholders' equity

Shareholders' equity came in at 123.3 million euros, up 2.4 million euros on 2018. The change was due to the result for the period, as well as a decrease of 8.0 million euros due to the distribution of dividends to shareholder Wizard S.r.l.

To aid comprehension of the Company's equity position, we should point out that the index measuring the ratio of own funds and net capital employed increased from 112.2% at the end of 2018 to 114.5% at the end of 2019.

[Equity investments]

Equity investments in subsidiaries

The main news and information on the performance of subsidiaries and associates is provided below. Transactions with subsidiaries and associates and other related parties are presented in the financial schedules and the relevant notes.

Marzotto Wool Manufacturing Group

The main object of Marzotto Wool Manufacturing Group, with parent company Marzotto Wool Manufacturing S.r.l., which has its registered office in Valdagno (VI), is the development, production and distribution of high-end fabrics for men's and women's collections, mainly in wool, but also in wool blends and other fine fibres.

The Marzotto Wool Group includes the subsidiaries Novà Mosilana a.s. (wholly owned), Biella Manifatture Tessili S.r.l. (Wholly owned), and the associates Tintoria di Verrone S.r.l. (25% owned), Pettinatura di Verrone S.r.l. (15% owned), Mediterranean Wool Industries SAE (30% owned), Marzotto Textiles USA and Marzotto Shanghai (50% owned), and Schneider Australia and Schneider New Zealand (25%).

The total income earned in 2019 was 218.5 million euros, with an EBIT of 3.1 million and net profit of 1.0 million euros.

As regards the sales outlet market, Italy and the other European countries played a key role, respectively accounting for 24.2% and 47.7% of total turnover. Reflecting the fact that part of its income from Asian markets relates to US corporate groups, the final income figure for the North American market was 27 million.

As concerns the breakdown of turnover by operating business unit, the Lanificio Gmf segment registered turnover of 110.5 million euros (50.6% of the total) and Biella Manifatture Tessili registered 89.6 million euros (41.0%) while Estethia/G.B. Conte closed the year with 18.0 million euros in turnover (8.2%).

The table below shows turnover contribution and trends by business.

Net revenues by business

(in millions of euro)	2019		2018	
Lanificio Gmf	110.5	*50.6%*	123.9	*51.0%*
Biella Manifatture Tessili	89.6	*41.0%*	101.5	*41.8%*
Estethia/G.B. Conte	18.0	*8.2%*	17.1	*7.0%*
Other	0.4	*0.2%*	0.4	*0.2%*
Total	**218.5**	***100.0%***	**242.9**	***100.0%***

[Equity investments]

Below are some comments on the performance of the main segments in which the Group operates.

MARZOTTO WOOL MANUFACTURING

The income earned in 2019 was significantly lower than in 2018, confirming the economic downturn in the sector which had already begun in the fourth quarter of 2018 and then continued in 2019. The decline mainly concerns the business units that operate in the fabrics sector for formal men's clothing, while the Esthetia GB Conte division, which mainly operates in the women's sector, experienced slight revenue growth.

The decline in volumes is related to the following elements:

- The trend of fashion has been moving towards less formal clothing in the last few seasons;
- The increase in the cost of raw materials, linked to the drop in production in Australia, also due to drought, and the increased demand for wool for the sportswear sector, led to a significant increase in the price of the fabric. The big chains and the formal clothing specialists, especially in the Central Northern European market, unable to pass on these increases to the end market, have moved towards using fabrics made with less noble fibres that mix synthetic fibres with natural fibres. This was especially true for the very significant first-tier markets for both the Marzotto and Marlane brands.
- During 2019, the general consumption crisis also significantly affected the sale of clothing, especially men's clothing, in the markets where our lines are most present (Northern Europe and USA).

The loss of sales margins relates to the impossibility of fully recovering the increase in the cost of raw materials with prices. This influenced more the result of the more classic lines such as Marlane and Guabello, while the Marzotto line performed better, as it has a more diversified product. Tallia di Delfino achieved slight growth in margins thanks to the new *Gentleman Wardrobe* project, which services the made to measure and bespoke suit segments.

In response to these phenomena, which caused a decline in revenues of around 10%, actions were taken in the form of a steep reduction in costs of all direct and indirect fundamental components, and in particular:

- balancing production activities by favoring production in factories with lower production costs;
- reduction in employees and contractors by not compensating for turnover;
- rationalisation of product research and development costs through a greater use of digitalization and a greater coordination between the collections of the various lines to minimize the overlaps in the products offered to a minimum;
- rationalisation of the investment plan.

LANIFICIO GMF

Regarding **Lanificio GMF**, the drop in revenues mainly concerned the main end markets such as Germany and North America. The reduction in volumes and the simultaneous increase in the cost of certain production factors such as labour in the Czech Republic and utilities, which have added to the aforementioned increase in the cost of raw materials, have directly affected margins.

Despite the decline in business volumes during 2019, **Lanificio GMF** has maintained the elements that have always distinguished its offer, namely the quality of the product and customer service, together with the right mix of design solutions offered in its collections.

More specifically, the diverse nature of its collections means that the Group can offer international players fabrics suitable for classic clothing, fabrics that are more fashion-focused, and fabrics of an active nature, all the while guaranteeing good value for money. This diversification of the offer and the relative flexibility of production both mitigate the risks relating to a potential slowdown in the trend of certain segments and also enable the Group to seize opportunities arising from changes in the market or emerging market segments.

In 2019, the core market was Europe, where the segment reached 70.0% of the total business volume. The volumes achieved on the American market, which recorded a value of 20 million euros, were down.

[Equity investments]

The main factors that have characterised the year in question can be summarised as follows:

Product innovation: major investments were again made in 2019 in research and innovation for the collections, fulfilling the interests of customers and reinforcing the collaborative relationship with the distribution network. In particular, the new creative proposals of fabrics with high technical and performance features, such as those in the Performance line, met with great interest from customers, for both the men's and women's collections.

A new “Organic wool & linen” line was expanded in late 2019, partly due to the agreement with the Schneider group, which directly operates 15 organic wool farms in Patagonia, and to Linificio e Canapificio Nazionale (a subsidiary of Marzotto Group) which guaranteed GOTS (global organisation textile standard) certified organic raw materials.

Sustainability: in 2019, substantial sums continued to be invested in environmental certification and protection projects. The focus on environmental and social issues is, on the one hand, fully integrated within the time-honoured system of principles and values defined in the Group's Code of Ethics, and on the other is becoming a key factor in assessing customer service at international level.

Quality and service for customers: significant investments aimed at ensuring the continuous technological improvement of the plants in order to guarantee quality, competitiveness and flexibility in production, with a simultaneous continuous, progressive improvement of customer services. Major investments made in both processes and new technologies now enable rapid adaptation of production models to align with new demand from world markets, in terms of both product innovation and the service offered.

BIELLA MANIFATTURE TESSILI

The results achieved by the business unit summarise the various performances of the corporate brands, which include turnover of 34.3 million euros for the Guabello division (down 8.3% from the previous year), 31.3 million euros for the Marlane division (down 19.7% in line with 2018) and 23.5 million euros for the Tallia di Delfino division (down 4.1% in line with the 31st December 2018).

Below are comments on the performance of the individual brands:

Guabello closed 2019 with a drop in income compared to the previous year. The year’s decline is linked to a decline in volumes and, in part, a decline in margins. The brand, which starting in previous years had sought to strengthen its strategic positioning in the sector of fine, formal, high-end sector, has consolidated relationships with its best customers, due to a high level of innovation in its collection, losing volumes in some areas, primarily Italy and Germany, where the crisis in the sector has hit the production/distribution network the most. The Middle and Far Eastern markets still represent the areas of greatest growth opportunity for the brand, and where efforts will continue to be concentrated in the coming years.

Marlane is the division that suffered the most from the crisis in the sector in 2019, with a decline in volumes involving all European markets. However, the growth in the average price and the improvement in the mix of sales kept the total margin positive. As mentioned in 2018, NOS (“Never out of stock”) and *Quick Service* (ready for inventory) continue to represent distinctive activities of Marlane that are not linked to seasonality; unfortunately, these services, which are fundamental to Marlane’s business and its maintenance of high volumes, especially in the first part of the year, were affected by a decline in volumes, linked to the decision by major customers to introduce entry-level priced suits woven from synthetic and artificial fibres or ones mixed with wool. Targeted commercial activity has increased Marlane’s presence in geographical areas such as the Middle and Far East.

In 2019, **Tallia di Delfino** recognised a slight decrease in income, but it maintained the brand’s positioning achieved in 2018 in the luxury segment and in some major end markets such as Japan and Asia, where Tallia di Delfino's key customers are located. The division also launched a new defined service during the year called *Gentlemen’s Wardrobe*, which allows customers to order Tallia di Delfino fabrics online by the yard, even in small quantities, and choosing directly from several exclusive bunches.

Equity investments

ESTETHIA/G.B. CONTE

In the year under review, the segment recognised net revenues of 18.0 million euros, up 5.3% from the previous year, due mainly to higher sales volumes, while prices remained essentially stable. The performance was very positive on all markets: America, Asia, as well as Europe. The increase in the result was due to investments made at both the product and marketing levels.

Net revenues by geographical area

(in millions of euro)	2019		2018	
Italy	52.8	*24.2%*	58.8	*24.2%*
Other European countries	104.2	*47.7%*	117.5	*48.4%*
North America	11.0	*5.0%*	10.9	*4.5%*
Asia	42.6	*19.5%*	46.6	*19.2%*
Other countries	7.9	*3.6%*	9.1	*3.7%*
Total	**218.5**	***100.0%***	**242.9**	***100.0%***

Below are the key indicators of the Marzotto Wool Manufacturing Group.

Key indicators

(in millions of euro)	2019	2018	change	change %
Consolidated net revenues	**218.5**	**242.9**	**(24.4)**	**- 10.0%**
Profit from core businesses	**2.5**	**7.8**	**(5.3)**	**- 67.9%**
% of net revenues	*1.1%*	*3.3%*	*(2.2%)*	
Operating income	**3.1**	**8.6**	**(5.5)**	**- 64.0%**
% of net revenues	*1.4%*	*3.6%*	*(2.2%)*	
Net income	**1.0**	**6.1**	**(5.1)**	**- 83.6%**
Consolidated net invested capital	**129.9**	**121.9**	**8.0**	**+ 6.6%**
Investments for the period	**6.1**	**10.9**	**(4.8)**	**- 44.0%**
Active staff at 31 December: persons	**1,695**	**1,819**	**-124**	**- 6.8%**

[Equity investments]

Marzotto Lab Group

The main object of the Marzotto Lab Group, with parent company Marzotto Lab S.r.l., which has its registered office in Valdagno (VI), is to carry out industrial and commercial operations relating to the purchase, and main and accessory manufacture, of textile fibres of all kinds.

The Lab Group, which comprises parent company Marzotto Lab S.r.l., its subsidiary, Linificio e Canapificio Nazionale S.r.l. (wholly owned) and the relative investee companies, AB Liteksas (99.97% owned), Uab Lietvilna (50% owned), Sametex spol s r.o (wholly owned), Girmes GmbH (wholly owned), Tintoria di Verrone S.r.l. (25% owned), Marzotto Textiles USA and Marzotto Shanghai (50% owned), is active in the Linen, Cotton, Velvet, Furnishings and Other segments (mainly including management functions and services carried out by the parent company for the operating businesses).

Turnover volume for the year just ended was 112.0 million euros, up 4.0% on the previous year (2018: 107.7 million euros).
Below is the opening according to product type:

Net revenues by product

(in millions of euro)	2019		2018	
Linen	51.7	*46.2%*	44.7	*41.5%*
Cotton	33.0	*29.5%*	33.1	*30.7%*
Velvet	14.5	*12.9%*	17.6	*16.3%*
Furnishing	10.3	*9.2%*	9.9	*9.2%*
Other	2.5	*2.2%*	2.4	*2.2%*
Total	**112.0**	***100.0%***	**107.7**	***100.0%***

The activities of the Marzotto Lab Group involve divisions and companies relative to diversified textile sectors, even if partially complementary or belonging to a single chain.

LINEN

The Linificio e Canapificio Nazionale Group reported a significant increase in revenues and profit compared to 2018, due to an increase in both volumes and especially sales prices.

This achievement was partly due to a recovery in the linen market and partly to the extensive efforts made by the Company to improve the quality of its product and its customer service, which improved its reliability and enhanced its image.

During the year, production plants gradually became saturated and came to work at full capacity.

On the other hand, the main difficulties related to a steady increase in the price of raw materials combined with difficulties in supplying them, due to a lack of availability.

This resulted in Linificio steadily increasing the sale prices of yarns during the year, with consequent tension in the downstream market.

In particular, the following percentages of growth were recorded in 2019: long staple yarns +15%, dry yarns +12.6%, dyed yarns +21.3% and raw fabrics +7.6%.

COTTON

The Tessuti di Sondrio division closed the year with revenues that are in line with the previous year.

In particular, the collection was strengthened further in the area of fine natural fibres such as linen and wool blends, also by exploiting synergies with the production capacity for linen and wool yarns.

In addition to the collection associated with trousers, NTB has developed technical products that meet the new requirements of the sportswear market. This collection is attracting particular interest from customers.

Implementation of the efficiency policy at the production plant has continued. Furthermore, action continues to be taken to achieve environmentally sustainable products. In particular, in 2019 the following certifications were obtained: GOTS (*Global Organic Textile Standard*), GRS (*Global Recycled Standard*) and OCS (*Organic Content Standard*). Additionally, Tessuti di Sondrio joined ZDHC (*Zero Discharge of Hazardous Chemicals*) as a contributor.

An initial document has been drawn up that describes the progress made so far on environmental sustainability.

[Equity investments]

VELVET

Textiles for the fashion world: 2019 saw a decline in volumes in the clothing area in particular, due to a change in design trends. The drop in sales affected both large customers and small brands. In particular, there was a significant drop in accessory products (bags and shoes), which fell by 87%.
The year saw the start of the development of sustainable products made with recycled materials.

Fabrics for the World of Interior Decoration: After a further exploration and analysis of the interior decoration market, further impetus was given to the creation and marketing of new products. This led to an increase in volumes of fabrics for theatres, and in particular for seats and upholstered materials, which increased by approximately 20% during the year.
The first *contract* products that require specific technical specifications (Trevira, FR) were created.

The furnishings market also represents a much more stable market than that of fashion, which is more subject to fashion trends.

The reduction in volumes required a strong focus on all of the business unit's costs.
In particular, action was taken on the following fronts:

- closure of the factories (weaving and finishing) in Karslice, Czech Republic, for 15 days;
- a reduction of employees and contractors by not replenishing turnover;
- a reduction in facilities-related investments not relating to safety or legal obligations;
- the rationalisation of maintenance costs through the use of internal resources rather than external companies.

FURNISHINGS

This division operates in the home furnishing textiles sector, offering a range of finished bedlinen and living room products. The distribution structure, as regards the retail channel, is based on an extensive network of agents both in Italy and abroad. During the year, the team set out to develop a strategy increasingly focused on the e-commerce channel, also by revamping its own website. Strong impetus was given to entering the major marketplaces to promote online sales, such as Zalando and Amazon. Social media activity has been intensified, particularly with regard to Instagram. In order to have a correct positioning, some highly recognisable sales areas have been entered. A specific corner was created in Italy in the La Rinascente department store in Milan. During the year, catalogues and the product packaging were overhauled. Development also continued among large "private label" customers in Northern Europe, Central Europe, USA, and the *Far East*. At the major trade shows in early 2019, the business unit presented a new collection that was highly innovative in terms of design and appreciated by customers. A line of environmentally sustainable items called "Green label" was also introduced.

With regard to the end markets, it should be noted that the domestic market accounts for 40.6% of the total (down compared with the 42.9% recorded in the previous year), while the rest of Europe, which covers around an additional 47.6% of the total, was slightly up.

Net revenues
by geographical area

(in millions of euro)	2019		2018	
Italy	45.5	*40.6%*	46.3	*42.9%*
Other European countries	53.3	*47.6%*	49.4	*45.9%*
North America	3.0	*2.7%*	2.1	*2.0%*
Asia	7.2	*6.4%*	7.6	*7.1%*
Other countries	3.0	*2.7%*	2.3	*2.1%*
Total	**112.0**	***100.0%***	**107.7**	***100.0%***

[Equity investments]

Below are the key indicators of the Marzotto Lab Group.

Key indicators

(in millions of euro)	2019	2018	change	change %
Consolidated net revenues	**112.0**	**107.7**	**4.3**	**+ 4.0%**
Profit from core businesses	**(1.7)**	**0.9**	**(2.6)**	**n.c.**
% of net revenues	*(1.5%)*	*0.9%*	*(2.4%)*	
Operating income	**(2.2)**	**0.7**	**(2.9)**	**n.c.**
% of net revenues	*(1.9%)*	*0.7%*	*(2.6%)*	
Net income	**(1.2)**	**0.9**	**(2.1)**	**n.c.**
Consolidated net invested capital	**76.7**	**79.3**	**(2.6)**	**- 3.3%**
Investments for the period	**3.0**	**3.2**	**(0.2)**	**- 6.3%**
Active staff at 31 December: persons	**1,351**	**1,314**	**37**	**+ 2.8%**

[Equity investments]

Ambiente Energia S.r.l.
Share capital
100,000 euros

Established on 22 May 2009, Ambiente Energia S.r.l. is a limited liability company with its registered office at Viale dell'Industria, Schio (VI).
The Company, which operates independently with a single director vested with full powers, mainly carries out integrated industrial and other waste management activities, in the capture, collection, supply, purification and drainage phases, and carries out waste, water, sludge treatment and similar activities.
The subsidiary closes the year with revenues of 5.9 million euros, (5.2 million euros in 2018) and a net result of 0.8 million euros (0.7 million euros in 2018).

[Equity investments]

Equity investments in associates

Below is a summary of other equity investments in associates:

Ratti S.p.A.
Share capital
11,115,000 euros

	2019	2018
Equity investments	34.01%	33.95%
no. of shares owned	9,300,400	9,283,900
Marzotto S.p.A. book value	10.8 euro/millions	10.7 euro/millions

In 2010, Marzotto S.p.A. purchased an initial equity investment of 33.36% in Ratti S.p.A., a company listed on the Milan stock exchange with its registered office in Guanzate (CO).

The Ratti Group operates in the silk sector, producing and marketing printed, solid-colour or yarn-dyed fabrics for clothing and furnishing and develops and distributes finished products, mainly men's and women's accessories.

The Ratti Group achieved revenues of 117.0 million euros (110.5 million in FY 2018) and net profit of 12.9 million (10.5 million in 2018).

Mascioni S.p.A. (MI)
Share capital
10,000,000 euros

	2019	2018
Equity investments	14.18%	14.18%
no. of shares owned	283,500	283,500
Marzotto S.p.A. book value	=	=

It should be recalled that the company entered into composition proceedings in 2015.
The equity investment was written off.

Aree Urbane S.r.l. (MI)
in liquidation
Share capital
100,000 euros

	2019	2018
Equity investments	32.50%	32.50%
Marzotto S.p.A. book value	=	=

[Other information]

Employees

As of 31 December 2019, the Company had 88 active employees, compared with 94 in the previous year.

	Year-end staff				Average staff			
	31.12.2019		31.12.2018		2019		2018	
Fabrics	6	*6.9%*	7	*7.5%*	7	*7.8%*	7	*7.2%*
Other Operations	81	*93.1%*	86	*92.5%*	83	*92.2%*	90	*92.8%*
Total	**87**	***100.0%***	**93**	***100.0%***	**90**	***100.0%***	**97**	***100.0%***
Laid off/dismissed	1		1		1		1	
Total staff year end	**88**		**94**		**91**		**98**	

Labour relations

It was agreed with the Unitary Trade Union Representative and the local trade unions to cancel the Result Award for 2018 for the personnel at the head offices in Valdagno (Vicenza province) and for the Logistics/Warehouses personnel based in Piovene Rocchette (Vicenza province), and to reward the personnel with the Welfare option as an alternative, which allows for the purchase of goods and services with the amount of the premium excluded from taxable income for both social security and tax purposes.

Training and development of human resources

In 2019, Marzotto S.p.A. provided 1,504 training hours and 102 safety training hours in Italy.

Secondary offices

In accordance with the provisions of Article 2428, para. 5, of the Italian Civil Code, evidence is provided of the secondary operating offices at which the Company carries out its activities:

- Piovene Rocchette (Vicenza province), Via A. Rossi 50

Other information

Risk factors (IFRS 7)

The Company acts to identify and assess risk, and then implements procedures for managing any risk factors that may influence company results.

Internal risks (processing risks)

Risks related to financing sources and liquidity risk

The effects of potential turmoil in the global financial system could represent a risk factor in relation to the possibility of obtaining further financial resources at current conditions.

However, the Company believes that the present debt structure, in particular the immediately available financial resources (deposits) and unused lines of credit, will limit the negative effects of any difficulty in obtaining credit.

Credit risk

Credit risk is the risk that a customer or one of the counterparties to a financial instrument may cause a financial loss by not complying with an obligation, and mainly pertains to the Company's trade receivables and financial investments.

The ***commercial credit risk*** is essentially reduced also in view of the type of customers, which are diversified and not significantly concentrated in the new outlet markets.

Through a specific department, the Company adopts procedures for verifying the credit rating of its customers when they request extended payments. Exposure is regularly monitored and suitable action is taken to combat delays, minimise exposure and reduce the risk of loss.

As concerns the ***financial credit risk***, the Company limits its exposure to credit risk by investing exclusively in high liquidity securities and only with high credit rating parties.

The ageing of trade receivables at the date of the financial statements was:

	2019		2018	
(thousands of euro)	gross	fund	gross	fund
Current	235	(69)	3,435	(69)
Overdue from 0 to 90 days	116	=	155	=
Overdue over 90 days	1,640	(3)	62	(4)
Total	**1,991**	**(72)**	**3,652**	**(73)**

Interest rate risk

The Company is exposed to the risk of volatility of interest rates associated both with liquidity and loans.

The effects of potential turmoil, already experienced in the banking system, could represent a potential risk in relation to the cost of obtaining financial resources. The benchmark rates and the spreads granted by lending banks call for a constant monitoring of the risk described above. However, this risk is not believed to be significant in terms of impact given the current level of net debt.

[Other information]

Environmental risk and safety

The Company manages the environmental risk and safety with suitable staff training according to new legislation and by introducing systems to prevent and improve health and safety at work.
In terms of safety, the Company invests constantly in protecting and ensuring the safety of the workplace, both inside and outside the production plants.
The organisation is always committed to respecting environmental standards in compliance with the environmental regulations in force in each local area with regard to the specific business segments.
New investments are being considered, also in view of their environmental impact, the potential savings in terms of a reduction in the consumption of resources and energy during operations, as well as the reduction of total waste materials produced.

Considering the sector in which the Company operates and its financial structure, there are no other significant risks.

With regard to the risks of the Group, of which Marzotto is the parent, please see the report on operations for the consolidated financial statements. With regard to the specific risks of the subsidiaries, please see the risks described in the consolidated financial statements.

Significant events after the close of the year

At the date of this document, there are no significant events to report after the close of the year.

[Other information]

Business outlook

The management of Marzotto S.p.A., whose purpose is to manage the operative Companies, is influenced by the performance of the investee companies.
As regards economic performance during the first two months of this year, we note that the consolidated net revenues of the Marzotto Group totalled 38.1 million euros, down by around 14% from the 44.1 million booked for the same period in 2019, with an initial expectation for a reversal in the trend starting in the second and third quarters of the year.

In the first months of 2020, the Marzotto Group had to deal with the events related to the spread of Covid-19 (also known as the Coronavirus), which was first detected in China, and which then spread to other important geographic areas, including, in Europe, primarily Italy, which is currently the second country in the world most affected by the virus.

In the first months of the year, this phenomenon caused a reduction in global consumption, a direct consequence of the healthcare emergency, the general climate that arose, and the restrictive measures adopted by the various countries. This is also significantly affecting the world of clothing and leading to a sharp reduction in consumption.

In this context, the Marzotto Group has made every effort to protect the safety of its employees in Italy and abroad, complying with the instructions provided by the various governments and the World Health Organization, and it has taken all measures to ensure the operating continuity of its plants. Specifically, it launched smart working and time off programmes for employees whose work does not require their physical presence in the workplace, while also implementing, for each facility, all the safety protocols provided by the WHO and the Ministries of Health of the various countries.

Based on recent pronouncements by Italy's Prime Minister, all the plants, offices and places of business of the Marzotto Group in Italy are closed, in the hope of resuming operations as soon as possible. Today, most of the Group's employees working in sales, creative and staff capacities are operating from home in smart working capacities.

At this time, orders have fallen in all Group divisions, and all actions have been taken to increase the efficiency of the structures, reduce costs and ensure the Group's financial resilience, such as halting non-strategic investments and all expenses not essential to production continuity.

In the scenario described, the evolution of the year 2020 for the Group will depend on the timing with which the countries most affected by Coronavirus will be able to stabilize their healthcare, social and economic situation, and thereby create the conditions for a gradual recovery of consumption. Strong uncertainties and concerns about the social and economic repercussions of the healthcare crisis will also depend on the timeliness and effectiveness with which monetary and fiscal measures will be defined to support the sectors and economic operators most exposed.

The Group believes that the pandemic-related crisis is in any case temporary, although its timeline is difficult to predict, and in this regard it confirms all the strategic medium-term objectives, business actions and investments provided in the approved business plans.

In any case, in relation to the above, the projected capacity for the year 2020 has so far decreased considerably. Therefore, at present it is not possible to formulate reliable forecasts of the duration and impact of the emergency on the Group's management and results.

Valdagno (VI), 27 March 2020

FOR THE BOARD OF DIRECTORS
THE MANAGING DIRECTOR
DAVIDE FAVRIN

Financial statements

[Company statement of financial position]

(thousands of euro)	31.12.2019 Partial	31.12.2019 Total	31.12.2018 Partial	31.12.2018 Total
1. Non-current assets				
1.1 Property, plant and machinery		8,867		8,837
1.2 Civil buildings		785		807
1.3 Goodwill, trademarks and other intangible assets		1,266		1,425
1.5 Other investments (participations)		111,821		111,738
1.6 Long-term receivables		11		11
1.7 Deferred tax assets		3,071		3,408
1.8 Long-term financial receivables third parties	36		41	
Long-term financial receivables subsidiaries and affiliates	=	36	=	41
Total non-current assets		**125,857**		**126,267**
2. Non-currents assets held for sale		**=**		**=**
3. Current assets				
3.1 Inventories		=		=
3.2 Trade receivables third parties	1,919		3,579	
Trade receivables subsidiaries and affiliates	4,265	6,184	4,011	7,590
3.3 Other receivables third parties	1,282		1,631	
Other receivables subsidiaries and affiliates	7	1,289	8	1,639
3.4 Current financial assets, cash and cash equivalents third parties	9,715		12,939	
Current financial assets, cash and cash equivalents subs. and affiliates	12,251	21,966	162	13,101
Total current assets		**29,439**		**22,330**
Total assets		**155,296**		**148,597**
4. Shareholders' equity				
4.1 Share capital and reserves		112,941		106,875
4.2 Income/(Loss) for the year		10,325		14,082
Shareholders' equity		**123,266**		**120,957**
5. Non-current liabilities				
5.1 Long-term provisions		10,581		11,783
5.2 Other long-term payables		=		=
5.3 Deferred tax liabilities		1,593		2,014
5.4 Long-term financial payables		6,142		11
Total non-current liabilities		**18,316**		**13,808**
6. Current liabilities				
6.1 Trade payables and other payables third parties	4,811		5,353	
Trade payables and other payables subsidiaries and affiliates	8,590	13,401	8,474	13,827
6.2 Current financial payables third parties	313		5	
Current financial payables subsidiaries and affiliates	=	313	=	5
Total current liabilities		**13,714**		**13,832**
Total shareholders' equity and liabilities		**155,296**		**148,597**
Net financial debt		**15,547**		**13,126**

[Company statement of profit/(loss) for the year and items of other comprehensive income]

		Year 2019		Year 2018	
	(thousand euro)	Amounts	%	Amounts	%
7.	Net revenues third parties	1,135	9.7	1,330	11.0
	Net revenues subsidiaries and affiliates	10,597	90.3	10,771	89.0
	Total net revenues	**11,732**	**100.0**	**12,101**	**100.0**
	8. Cost of sales third parties	(2,286)	(19.5)	(2,422)	(20.0)
	Cost of sales subsidiaries and affiliates	(7)	(0.1)	(15)	(0.1)
9.	**Gross income**	**9,439**	**80.4**	**9,664**	**79.9**
	10. R&D and marketing costs	(7)	(0.1)	(14)	(0.1)
	11. General and administrative costs	(8,883)	(75.7)	(9,266)	(76.6)
	12. Other income and charges	(106)	(0.9)	6,481	53.6
13.	**Operating income**	**443**	**3.7**	**6,865**	**56.8**
	14. Net financial charges third parties	14	0.1	(60)	(0.5)
	Net financial charges subsidiaries and affiliates	48	0.4	7	0.1
	15. Dividends	10,507	89.6	9,706	80.2
	16. Valuation of equity investments held for sale	=	=	=	=
	17. Other financial income and charges	(6)	(0.1)	(1)	=
18.	**Income before taxes**	**11,006**	**93.7**	**16,517**	**136.6**
	19. Taxes	(681)	(5.8)	(2,435)	(20.1)
20.	**Net income**	**10,325**	**87.9**	**14,082**	**116.5**
	21. Fair Value adjustments [1]	=	=	=	=
	22. Other adjustments [1]	=	=	=	=
	Items that will be reclassified subsequently to profit and loss	**=**	**=**	**=**	**=**
	23. IAS 19 adjustments [1]	(16)	(0.1)	(3)	=
	Items that will not be reclassified subsequently to profit and loss	**(16)**	**=**	**(3)**	**=**
24.	**Total comprehensive income for the period**	**10,309**	**87.9**	**14,079**	**116.5**

1. The Change in Fair Value Reserve, IAS 19 Reserve and the Other adjustments are components of the comprehensive income statement accounted for in equity.

[Company statement of cash flows]

(thousands of euro)	2019	2018
Net income	**10,325**	**14,082**
Amortisation and depreciation	1,316	1,080
Change in provisions	(1,302)	3,163
Gain/(losses) on disposal of fixed assets	(46)	(9,675)
Change in inventories	=	45
Change in trade receivables and other receivables third parties	2,026	488
Change in trade receivables and other receivables subsidiaries and affiliates	(253)	751
Change in trade payables and other payables third parties	(542)	541
Change in trade payables and other payables subsidiaries and affiliates	116	346
Change in long-term other financial receivables and payables	=	=
Operating cash flow (A)	**11,640**	**10,821**
Investments in intangible and tangible fixed assets	(444)	(194)
Investments IFRS16	(120)	=
Disposals in intangible and tangible fixed assets	46	6,460
Investments in equity investments	(83)	(34)
Disposals of other equity investments	=	=
Cash flow from investments (B)	**(601)**	**6,232**
Translation exchange differences and other equity changes (C)	=	=
Extraordinary operations (D)	=	=
Cash flow before dividends (A+B+C+D)	**11,039**	**17,053**
Dividends paid	(8,000)	(8,000)
Increase in share capital of Parent Company	=	=
Change in net financial position	**3,039**	**9,053**
Change in long-term financial payables	5,698	(1,682)
Change in current financial payables third parties	3	(4,783)
Change in leasing financial receivables	120	=
Change in current financial payables subsidiaries and affiliates	=	=
Change in long-term financial receivables third parties	5	2
Change in long-term financial receivables subsidiaries and affiliates	=	=
Total Change in current financial assets, cash and cash equivalent	**8,865**	**2,590**
Cash and current financial assets - beginning of the period	**13,101**	**10,511**
Cash and current financial assets - end of the period	**21,966**	**13,101**

[Company statement of changes in shareholders' equity]

(thousand euro)	Share capital	Legal reserve	Extra-ordinary reserve	Transfer reserve	IAS 19 reserve	Profits carried forward	Income for the year	Total share-holders' equity
Balances as at 31.12.2017	**40,000**	**8,000**	**76**	**51,998**	**(6)**	**1,351**	**13,459**	**114,878**
Net income for the year 2018							14,082	14,082
Other total profit/(losses) [1]					(3)			(3)
Total other income/charges	**=**	**=**	**=**	**=**	**(3)**	**=**	**14,082**	**14,079**
Allocation of net income 2017								
dividends							(8,000)	(8,000)
carried forward						5,459	(5,459)	=
Balances as at 31.12.2018	**40,000**	**8,000**	**76**	**51,998**	**(9)**	**6,810**	**14,082**	**120,957**
Net income for the year 2019							10,325	10,325
Other total profit/(losses) [1]					(16)			(16)
Total other income/charges	**=**	**=**	**=**	**=**	**(16)**	**=**	**10,325**	**10,309**
Allocation of net income 2018								
dividends							(8,000)	(8,000)
carried forward						6,082	(6,082)	=
Balances as at 31.12.2019	**40,000**	**8,000**	**76**	**51,998**	**(25)**	**12,892**	**10,325**	**123,266**

1. Profits and Losses of the Comprehensive Income Statement recognized in Shareholders' Equity.

Notes to the Company's financial statements

General information

Marzotto S.p.A. is a joint stock company with sole shareholder and registered office in Valdagno (VI).

As of 2015, Marzotto S.p.A. has mainly been providing strategic management and coordination activities in support of the operative companies (administration and finance, legal and corporate, human resource management and information systems) and distribution logistics activities at the site of Piovene Rocchette (VI), on behalf of the Group companies and third parties.

Management and coordination activities

Marzotto S.p.A. is managed and coordinated by Trenora S.r.l. (Valdagno); a summary table of key data for this company from the last approved financial statements is shown below.

Balance sheet	31.12.2018		31.12.2018
(thousands of euro)			
B) Fixed assets	100,163	A) Shareholders' equity	100,958
C) Current assets	911	B) Accounts payable	=
D) Accruals and deferrals	2	D) Accruals and deferrals	118
Total assets	**101,076**	**Total liabilities**	**101,076**

Income statements	Year 2018
(thousands of euro)	
A) Value of production	=
B) Cost of goods sold	(168)
Difference between value and cost of goods sold (A+B)	**(168)**
C) Financial income and charges	4,088
D) Adjustment to value of financial assets	=
Income before taxes (A+B+C+D+E)	**3,920**
Income taxes	(5)
Profit (loss) for the year	**3,915**

Publication

The Company, which has equity investments in subsidiaries and associates, has prepared the Group’s consolidated financial statements at the same time as the separate financial statements. Publication will take place in accordance with the law.

Notes to the Company's financial statements

Change to accounting standards

These separate financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and approved by the European Union, as well as with the orders issued in implementation of Italian Legislative Decree no. 38/2005.
IFRS also means all revised international accounting standards (IAS) and all interpretations by the International Financial Reporting Interpretations Committee (IFRIC), previously named the Standing Interpretations Committee (SIC).

Accounting standards that entered into force on 01 January 2019

On 13 January 2016, the IASB published IFRS 16 - Leases, which is intended to replace IAS 17 - Leases and 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 new standard provides a new definition of a lease and introduces a control-based criterion (right of use) of an asset to distinguish lease agreements from service agreements, identifying as discriminating factors; the identification of the asset, the right to replace it, the right to obtain substantially all the economic benefits deriving from the use of the asset and the right to direct the use of the asset underlying the agreement.
The standard establishes a single model for the recognition and measurement of lease agreements for the lessee, which provides for the recognition of the leased asset (including in operating leases) in assets, with a financial payable as a contra-entry, also providing for the possibility of not recognising as leases agreements involving low-value assets and leases with a term of 12 months or less. Conversely, the standard does not include significant changes for lessors.
The Company adopted IFRS16 to measure usage rights as assets and leases as liabilities at the transition date, based on residual payments due. The comparative period figures have not been restated. In addition, the company made use of the exceptions to the standard for lease agreements that at the date of first application have a term of 12 months or less and for lease contracts where the underlying asset is of modest value.

The values of the assets consisting of usage rights and the liabilities from leases are described below, along with the related changes that occurred during the period:

(thousands of euro) **Leased assets**	**Civil buildings**	**Industrial buildings**	**Other tangible fixed assets**	**Total**
Balances as at 01.01.2019	**12**	**448**	**141**	**601**
acquisitions	=	=	120	120
depreciation for the year	(4)	(224)	(77)	(305)
Balances as at 31.12.2019	**8**	**224**	**184**	**416**

Leasing liabilities	**Civil buildings**	**Industrial buildings**	**Other tangible fixed assets**	**Total**
Balances as at 01.01.2019	**12**	**448**	**158**	**618**
acquisitions	=	=	120	120
passive interests	=	2	2	4
payments	(4)	(224)	(65)	(293)
Balances as at 31.12.2019	**8**	**226**	**215**	**449**

The amounts recognised in the income statement are shown below:

(thousands of euro)	**Total**
depreciation for the year	(305)
passive interests for leasing	(4)
leasing costs for location	306
Total effects on the income statement	**(3)**

[Notes to the Company's financial statements]

On 7 June 2017, the IASB published IFRIC Interpretative Document 23 – Uncertainty over Income Tax Treatments. It addresses the issue of uncertainty about the tax treatment to be adopted with regard to income taxes. The document provides that uncertainties in determining tax liabilities or assets will only be reflected in the financial statements when it is probable that the entity will pay or recover the amount in question.
Furthermore, the document does not contain any new disclosure obligations, but it does point out that the entity will have to determine whether it will be necessary to provide information on considerations made by management relating to the uncertainty regarding the recognition of taxes, in accordance with IAS 1. This change had no impact on the company's financial statements.

On 31 October 2017, the IASB published the amendment document for IFRS 9 – Prepayments Features with Negative Compensation, approved and published by the EU on 26 March 2018.

On 7 February 2018, the IASB published the amendment document to IAS 19 – Plan Amendment, Curtailment or Settlement, approved and published by the EU on 14 March 2019, which clarifies pension expenses in the event of an amendment to the defined benefit plan.

On 12 October 2017, the IASB published the amendment document to IAS 28 – Long-term interests in associates and joint ventures, approved and published by the EU on 11 February 2019, which clarifies that the provisions on impairment in IFRS 9 apply to long-term interests in associates and joint ventures.

On 12 December 2017, the IASB published the document Annual Improvements to IFRSs 2015-2017 Cycle to supplement and modify the pre-existing standards (including IFRS 3 Business Combination, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs), approved and published by the EU on 15 February 2019.

These changes did not have any applicability or impact on the company’s financial statements.

Accounting standards, amendments and interpretations not yet applicable and not adopted early by the Company

On 29 March 2018, the IASB issued amendments to the references to the conceptual framework in IFRS16, which update existing references to the previous frameworks in different accounting standards and interpretations, replacing them with references to the revised conceptual framework. These changes will enter into force on 1 January 2020.

On 31 October 2018, the IASB published an amendment document to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, with the aim of clarifying the definition of “material” to help companies assess whether or not information should be included in the financial statements. These changes will enter into force on 1 January 2020.

In September 2019, the IASB published amendment documents to IFRS9, IAS39 and IFRS7, which include temporary concessions that permit the continued use of *hedge accounting* during the period of uncertainty preceding the reform regarding the replacement of the current benchmark interest rate, with an alternative, risk-free interest rate.
The Company will adopt these new standards and amendments on the basis of the envisaged date of application, and will assess their potential impact on the Company's separate financial statements when they come into force.

Introduction

Notes to the Company's financial statements

Compliance with IFRS/IAS

These financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and approved by the European Union, as well as with the orders issued in implementation of Italian Legislative Decree 38/2005.
IFRS also means all revised international accounting standards (IAS) and all interpretations by the International Financial Reporting Interpretations Committee (IFRIC), previously named the Standing Interpretations Committee (SIC).

Financial statements

This document consists of the statement of financial position, the statement of profit/(loss) for the year and other items of comprehensive income, the cash flow statement, the statement of changes in shareholders' equity and the relative explanatory notes.

With regard to the presentation of the financial statements, the Company has made the following choices:

- in the statement of financial position, current and non-current assets and current and non-current liabilities are shown separately. Current assets are expected to be realised, transferred or consumed during the Company's normal operating cycle; current liabilities are expected to be paid off during the Company's normal operating cycle or in the 12 months following the end of the period;
- for the statement of profit/(loss) for the period and other items of comprehensive income, costs are allocated according to their intended purpose;
- for the statement of cash flows, the indirect method has been used.

Identification of the segments

Disclosure according to business segment and geographical area is provided in accordance with IFRS 8 - Operating Segments.
The criteria applied to identify these segments are based on the ways in which the management manages the Group and attributes managerial responsibilities.

The information by segment is primarily organised by business type, as follows:

- Holding and coordination;
- Real estate;
- Logistics;
- Other.

Going concern

The separate financial statements have been prepared on the basis of the accounting records as at 31 December 2019 and on a going concern basis.

Valuation criteria

[Notes to the Company's financial statements]

The most significant valuation criteria adopted in preparing the financial statements are indicated below:

1.1 Property, plant and equipment
1.2 Civil real estate

Property, plant and equipment is carried at historical cost, including directly attributable accessory costs.
Land, both vacant and annexed to civil or industrial buildings, has not been amortised since its useful life is indefinite.
Some assets that had been revalued in previous periods are recognised on the basis of the revalued amount, regarded as the substitute amount of the cost at the date of transition to IAS.
Maintenance and repair expenses that do not increase the value or prolong the remaining useful life of assets are recognised as expenses in the period in which they are incurred.
Tangible assets are shown net of accumulated depreciation and any impairment, determined in accordance with the methods described below. Depreciation is straight-line, based on the estimated useful life of the asset.
The estimated useful life of the main property, plant and equipment is as follows:

Land	indefinite
Buildings	10/33 years
Plant and machinery:	
- Textiles	8 years
- Textiles in corrosive environment	5/6 years
- Other	6/25 years
Industrial and commercial equipment	4/7 years
Other assets:	
- Electronic office machinery	5 years
- Office furniture and fixtures	7/9 years
- Vehicles	4/5 years

Assets classified according to IFRS 16 are depreciated according to their residual useful life, which is identified on the basis of the contracts in question.

1.3 Goodwill, trademarks and other intangible fixed assets

Intangible assets with a "finite useful life" are recognised at cost, determined according to the methods prescribed for tangible assets, and shown net of accumulated amortisation and any lasting impairment, determined according to the methods described below.
Intangible assets with an "indefinite useful life" (e.g. trademarks) are not amortised.

Impairment

At every reporting date, the Company verifies whether there are any indicators of lasting impairment to the assets.
If these indications exist, an estimate is prepared of the value that can be recovered on the asset, i.e. the greater of the fair value of an asset or cash generating unit, less the costs of sale, and its use value. In determining its value in use, estimated future cash flows are discounted to present value, using a rate gross of tax that reflects current market appraisals of the value of money and the specific risks of the asset.
A reduction in value is recognized in the income statement when the book value of the asset, or of the related cash generating unit, to which it is allocated, is greater than the estimated realizable value.
Impairment losses are written back if the reasons for generating them no longer exist.

[Notes to the Company's financial statements]

1.5 Equity investments

Equity investments in subsidiaries, joint ventures and associates that represent long-term investments are shown at the cost of acquisition or establishment, insofar as it is representative of the fair value. At every reporting date, the Company checks whether there are any indicators of lasting impairment for all equity investments in respect of their value at initial recognition. Equity investments in subsidiaries, joint ventures and associates that represent long-term investments therefore maintain their value at initial recognition unless there is lasting impairment. Equity investments in other companies are measured at fair value, with any profits or losses recognised directly in equity. At the time of their sale, such accumulated profits and losses are recognised in the income statement. When fair value cannot be reliably determined, equity investments in other companies are measured at cost adjusted for impairment, with the difference recognised in the income statement.
In particular, equity investments in subsidiaries and associates are tested for impairment at least once a year; this test requires an estimate of the recoverable value of the asset, i.e. the greater of the fair value of an asset or cash generating unit less selling costs and value in use.

1.8 Medium/long-term financial assets

Financial assets are initially recognised at the amount incurred, which is representative of fair value, and later recognised at the lower of the book value and the presumed realisable value.

2. Non-current assets held for sale

Assets or groups of assets and liabilities whose value will be recovered mainly through their sale rather than their ongoing use are recognised separately from other assets and liabilities in the statement of financial position.
Non-current assets or groups of assets and liabilities held for sale are recognised at the lower between the book value and the fair value net of the costs of sale.

3.1 Inventory

Inventories are measured at the lower of cost and the presumed net realisable value, using the weighted average cost criterion to determine the cost. The inventory valuation includes direct material and labour costs and indirect costs (variable and fixed) attributable to production.

3.2 Trade receivables
3.3 Other receivables

Trade receivables due within standard business terms and other operating receivables (other receivables) are not discounted and are carried at nominal value net of any write-downs (fair value). The adjustment to the estimated realisable value is recognised in a special adjustment reserve.

3.4 Short-term financial assets and cash and cash equivalents

Financial assets held for trading are recognised at the fair value shown in the income statement.

Cash and cash equivalents are made up of cash in hand, i.e. cash that is readily available or available in the very short term, successfully, and without collection expenses.

A financial asset (or, if applicable, a portion of a financial asset or portion of a group of similar financial assets) is cancelled from the statement of financial position when:

- the rights to receive cash flows from the asset expire;
- the Company has transferred the right to receive cash flows from the asset or has taken over the contractual obligation to pay them fully and without delay to a third party and (a) it has substantially transferred all risks and benefits of the ownership of the financial asset or (b) it has not substantially transferred nor retained all risks and benefits of the asset, but has transferred control of the same.

Notes to the Company's financial statements

5.1 Long-term provisions

Allocations to long-term provisions are recognised when there is a legal or implicit obligation towards a third party and it is likely that there will be an outlay of resources, the amount of which can be reliably estimated. If the effect is significant, the allocations are determined by discounting the expected future cash flows at a pre-tax discount rate that reflects the current market value of the cost of money in relation to time.
When the amount is discounted, the increase in the provision due to the passing of time is recognised as a financial expense.

Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the entity pays fixed contributions to a separate entity and has no legal or implicit obligation to pay additional contributions. The contributions to be paid into defined contribution plans are recorded as a cost in the result of the period in which they are incurred. Contributions paid in advance are recorded amongst assets to the extent to which the advance payment will determine a reduction in future payments or a refund.

Defined benefit plans

The amount payable for employee termination indemnities falls within the scope of defined benefit pension plans, which are plans based on the working life of employees and on the remuneration received by the employee during a pre-determined period of service.
More specifically, the liability relating to the employee termination indemnity is booked at its actuarial value, insofar as it can be classified as an employee benefit due on the basis of a defined benefit plan. The booking of defined benefit plans requires an estimate using actuarial techniques of the amount of the benefits accrued by employees in exchange for work performed during the current and previous years, and the discounting of these benefits in order to determine the current value of the company's commitments (IAS 19).
According to Italian Law no. 296/06, effective from 30 June 2007, employee termination indemnities accrued after 1 January 2007 must be paid into an appropriate treasury fund opened with the INPS (National Institute for Social Protection) or, at the employee's indication, to a specific supplementary pension fund. With these payments, the item relating to employee termination indemnities is no longer subject to allocations, unlike employee termination indemnities accrued by 31 December 2006, which come under the scope of defined benefit pension plans.

In June 2012, IAS 19 was amended to provide for the recording of changes to actuarial gains/losses of defined benefit plans, including employee termination indemnities, to other comprehensive income as from 1 January 2013. The Company decided to apply this amendment early, as from the financial statements as at 31 December 2012.

5.4 Medium/long-term financial payables

Financial liabilities, except for derivatives, are initially carried at fair value net of directly attributable transaction costs. They are later measured using the effective interest rate method.

6.1 Trade payables and other payables

Trade payables due within standard business terms, and other operating payables, are not discounted and are carried at nominal value.

6.2 Short-term financial payables

Financial liabilities, except for derivatives, are carried at fair value net of directly attributable transaction costs.

[Notes to the Company's financial statements]

Derivative financial instruments

Derivatives are carried at fair value. They are designated as hedging instruments when the relationship between the derivative and the underlying instrument is formally documented and the effectiveness of the hedge, which is verified periodically, is adequate.
When the derivatives cover the risk of change in fair value of the underlying instruments (fair value hedge), they are carried at fair value, and the difference is recognised in the income statement; consistently, the underlying instruments are adjusted to reflect the change in fair value associated with the hedged risk, and the difference is also recognised in the income statement.
When derivatives cover the risk of changes in cash flows from the underlying instruments (cash flow hedge), the changes in fair value are initially recognised in shareholders' equity and later in the income statement, in line with the effects produced by the hedging transaction.
Changes in the fair value of derivatives that do not satisfy the conditions for being qualified as hedges are recognised in the income statement.
The fair values used to prepare the financial statements, relating to the valuation of term purchases and sales of foreign currency, foreign exchange options and interest rate swaps, were established based on the rates provided by the banking system.

Translation of items in foreign currency

Transactions in foreign currencies are recorded at the exchange rate prevailing on the day of the transaction.
At the closing date, trade and financial receivables and payables are adjusted to the exchange rate at end of the year.
Instruments used to hedge the exchange rate risk, in relation to specific assets and liabilities or groups of assets and liabilities, are shown in the income statement on an accrual basis.

Contributions

Contributions from both government agencies and private third parties are carried at fair value when there is the reasonable certainty that they will be received and the prescribed conditions for obtaining them are satisfied.
Contributions received for specific expenses are recognised among other liabilities and credited to the income statement on a straight-line basis throughout the same period in which the related costs accrue.
Contributions received for specific assets whose value is stated among tangible and intangible assets are shown among liabilities and credited to the income statement in relation to the depreciation period for the assets to which they refer.
Operating contributions are fully recognised in the income statement when the conditions for recognising them are satisfied.

[Notes to the Company's financial statements]

7. Revenues

Depending on the type of transaction, revenues are recognised based on specific criteria indicated below:

- revenues from the sale of goods are recognised when the significant risks and benefits of ownership are transferred to the purchaser (typically at the time of shipment);
- revenues for services provided are recognised based on the status of completion of the assets.

14. Net financial expenses

Financial income and expenses are recognised on the basis of accrued interest on the net value of the relevant financial assets and liabilities using the effective interest rate.

15. Dividends

Dividends are recognised when the right to receive payment is established.
Dividends payable to third parties are shown as changes in shareholders' equity on the date of approval by the Shareholders' Meeting.

19. Taxes

Current income taxes for the financial year are determined based on estimates of taxable income and according to law.
Deferred and advance income taxes are calculated on the basis of the temporary differences between the recorded asset values and the respective recognised values for tax purposes, applying the tax rate in effect at the date on which the temporary difference will be reversed, calculated on the basis of the tax rates provided by law or substantively in force at the reference date.
The asset entry for advance tax payments is made when recovery is likely, that is when it is estimated that in the future there will be taxable amounts sufficient to recover the asset. The ability to recover assets for advance tax payments is reassessed at the end of each accounting period.

Use of estimates

In application of IFRS, preparing the financial statements requires the use of estimates and assumptions that affect the values of assets and liabilities in the statement of financial position and the relevant information on any contingent assets and liabilities at the reference date.
The estimates and assumptions are made by the directors with the support of the company departments and, where appropriate, by independent specialists; they are revised regularly, booking the effects of each change to the income statement.
Actual results may differ from these estimates.
Estimates and assumptions are reviewed periodically and the effects of each change are reflected in the income statement.

A significant discretionary valuation is required from the directors to establish the amount of deferred tax assets that may be booked. They have to estimate the likely time of occurrence and the amount of future profit subject to tax as well as a planning strategy for future taxes.
Estimates are also used to record provisions for bad debt, inventory obsolescence, amortisation and depreciation, employee benefits and provisions for risks and charges.
At every reporting date, the Company checks whether there are any indicators of lasting impairment for all non-financial assets. Goodwill and other intangible assets with an indefinite useful life are subject to review each year to identify any decrease in value. The recoverable value of non-current assets is typically established with regard to the value in use, based on the present value of financial flows expected from the continuous use of the asset. This verification also involves the choice of an appropriate discount rate to calculate the present value of the expected cash flows.

[Notes to the Company's financial statements]

Tax consolidation

The Company, together with other companies of the Marzotto Group, joined the national tax consolidation scheme with Wizard S.r.l. as the parent company.
Economic relations, as well as mutual responsibilities and obligations, between the consolidating company and the above subsidiaries are defined in the consolidation regulations.
Subsidiaries which have positive taxable income for the years concerned pay Wizard S.r.l. the greater tax payable by the latter; The taxable income of the subsidiaries used to determine this higher tax was that declared in the tax return referred to in Article 121(a) of the TUIR.
Consolidated companies with negative taxable income receive compensation amounting to 100% of the tax saving achieved on a Group level and corresponding to the tax generated by the subsidiary from Wizard S.r.l. This compensation is due at the time of effective use by Wizard S.r.l.

Consolidated companies with interest expense not deducted pursuant to Article 96 of the TUIR and transferred to the tax consolidation scheme receive from Wizard S.r.l. compensation corresponding to 100% of the tax savings achieved at the Group level and corresponding to the tax generated by the subsidiary in relation to its interest expense. This compensation is due at the time of actual use of the EBIT surplus transferred to the tax consolidation. Assuming that the EBIT surpluses transferred cannot offset the amount of the non-deductible interest payable by the consolidated companies, interest expense is deemed to be offset in proportion to the ratio between the non-deductible interest generated during the period by each company and the total non-deductible interest of the consolidated companies in the same tax period.
In the event that the consolidated companies have surpluses of ACE (Support for Economic Growth pursuant to Article 1 of Legislative Decree No. 201/2011) to be transferred to the Group, within the limits of the Group's comprehensive income, these companies receive compensation corresponding to 100% of the tax savings achieved at Group level from Wizard S.r.l. If several consolidated companies have a surplus of ACE that may be transferred to the Group and the Group's overall comprehensive income is not sufficient to deduct it, a proportional criterion must be applied.

Tax payables are recognised under tax payables net of payments on account, withholding taxes and, in general, tax receivables. The same item includes the current IRES calculated on the basis of the calculation of the positive and negative taxable amounts of the subsidiaries that have adhered to the national tax consolidation scheme, net of the payments on account, withholding taxes and tax receivables accrued by the companies themselves. As a contra-entry to the tax payable, the corresponding receivables of the consolidating company from the Group companies are recognised for the current tax corresponding to the positive taxable amounts transferred as part of the national tax consolidation scheme.
The payable for compensation due to subsidiaries with negative taxable income is recognised under “Payables to subsidiaries”.
Deferred and advance corporation tax is calculated on the temporary differences between the values of assets and liabilities determined according to statutory criteria and the corresponding tax values exclusively with reference to the company.
Current, deferred and advance IRAP is determined exclusively with reference to the company.

Other information

For ease of reading, all figures in the consolidated statement of financial position, the statement of profit/(loss) for the year and other items of comprehensive income, the statement of cash flows and the statement of changes in shareholders’ equity, as well as in the explanatory notes are expressed in thousands of euros.

For ease of comparison, the figures for the previous year have been reclassified as needed, and adequate information has been provided.

Please refer to the Report on Operations for further information regarding:

- main events of the 2019 financial year;
- events after the close of the financial year;
- outlook (IFRS 7);
- other relevant information on operating performance and financial position.

Notes to the Company's financial statements

With regard to the disclosure obligations established by Italian Law 124 of 4 August 2017, and subsequent amendments (Italian Decree-Law No. 34 of 30/04/2019), please note:

- Income recognised during the period for the production of electricity from solar farms of 336 thousand euros, including 292 thousand for contributions to electricity production (TPA) and 44 thousand for fees for energy produced and sold (TFO). During the year, 364 thousand euros were collected by the Energy Services Operator (net of withholding tax and compensation paid by the Operator) relating to the production of electricity from photovoltaic plants, including 321 thousand euros for contributions (TPA) and 43 thousand euros for energy produced and sold (TFO);
- Income recognised but not yet collected in the period for training aid (already included in the Register of government aid) for 28 thousand euros towards FONDIMPRESA and 1 thousand euros towards FONDIRIGENTI.

Notes to the Company's financial statements

The tables below are in **thousands of euros**.

	2019	2018	Change
Amounts to:	**9,652**	**9,644**	**8**
broken down as follows:			

Descrption	A) Civil land and buildings	B) Industrial land and buildings	C) Plant and machinery	D) Industrial and comm. equipment	E) Other tangible fixed assets	F) Tangible fixed assets under cons./ advances	Total
Original cost	982	11,398	8,100	728	1,143	13	22,364
Depreciation funds	(175)	(6,721)	(4,084)	(656)	(1,084)	=	(12,720)
Balances as at 31.12.2018	**807**	**4,677**	**4,016**	**72**	**59**	**13**	**9,644**
Movements during the year:							
Original cost:							
IFRS16 01.01.2019	12	448	=	=	141	=	601
acquisitions	=	43	113	21	17	160	354
acquisitions IFRS16	=	=	=	=	120	=	120
gross disposal	=	=	=	=	(546)	=	(546)
Depreciation funds:							
depreciation for the year	(29)	(241)	(419)	(47)	(26)	=	(762)
depreciation IFRS16	(5)	(224)	=	=	(76)	=	(305)
gross disposal	=	=	=	=	546	=	546
Total movements for the year	**(22)**	**26**	**(306)**	**(26)**	**176**	**160**	**8**
Original cost	994	11,889	8,213	749	875	173	22,893
Depreciation funds	(209)	(7,186)	(4,503)	(703)	(640)	=	(13,241)
Balances as at 31.12.2019	**785**	**4,703**	**3,710**	**46**	**235**	**173**	**9,652**

Tangible fixed assets as at 31 December 2019 are 9,652 thousand euros, down by 8 thousand euros.

In detail, the increases for investments in the period (354 thousand euros) mainly relate to the following categories of assets:

- **Industrial land and buildings** for 43 thousand euros. These expenses relate to work on the Piovene building;
- **Plants and machinery** for 113 thousand euros. These capitalisations refer to lighting and fire prevention systems in the Piovene warehouse for 87 thousand euros, and to safety and environmental modifications for 26 thousand euros;
- **Industrial and commercial equipment** for 21 thousand euros. These investments mainly regard the purchase of shelving for the Valdagno archive and lighting for the Piovene warehouse.
- **Other tangible assets** for 17 thousand euros related to hardware.

Work in progress from the previous year has been reclassified to the relevant categories.

As of 31 December 2019, the fixed assets of the Company were not encumbered by mortgages or third party liens.

[Notes to the Company's financial statements]

1.3) Goodwill, trademarks and other intangible assets

	2019	2018	Change
Amounts to:	**1,266**	**1,425**	**(159)**

made up us follows:

Description	A) Ind. patent and intellectual property rights	B) Concessions, licenses, trade-marks and similar rights	C) Goodwill	D) Other intangible fixed assets	E) Intangible fixed assets being developed and advances	Total
Original cost	4,172	542	167	=	60	4,941
Accumulated depreciation	(3,262)	(254)	=	=	=	(3,516)
Balances as at 31.12.2018	**910**	**288**	**167**	**=**	**60**	**1,425**
Movements during the year:						
Original cost:						
acquisitions	84	6	=	=	=	90
disposals/depreciations	=	=	=	=	=	=
Amortisation:						
for the year	(237)	(12)	=	=	=	(249)
disposals/depreciations	=	=	=	=	=	=
Total movements for the year	**(153)**	**(6)**	**=**	**=**	**=**	**(159)**
Original cost	4,256	548	167	=	60	5,031
Depreciation funds	(3,499)	(266)	=	=	=	(3,765)
Balances as at 31.12.2019	**757**	**282**	**167**	**=**	**60**	**1,266**

Intangible assets as at 31 December 2019 came to 1,266 thousand euros, a change of 159 thousand euros from the previous year (which included -249 thousand euros of amortisations and depreciations in the period).

The main increases in the period relate to industrial patent rights and intellectual property rights for 84 thousand euros (mainly software and EDP applications).

Goodwill relates to the "Logistics Services" business unit of Piovene in 2011.
This item is recognised with the consent of the Board of Statutory Auditors.

Research and development expenses paid during the year, mainly pertaining to product innovation and applications for the rationalisation of production and logistics, have been charged to the income statement.

Intangible assets with a "finite useful life" are recognised at cost, determined according to the methods prescribed for tangible assets, and shown net of accumulated amortisation.

The average amortisation rates applied are shown, by individual category, in the following table:

	2019
Software	12.00%
Concessions, licenses and similar rights	10.60%

Notes to the Company's financial statements

	2019	2018	Change
Amounts to:	**111,821**	**111,738**	**83**

made up as follows:

Description	A) Shareholdings in Subsidiaries	B) Shareholdings in Affiliates	C) Shareholdings in other companies	Total
Original cost	100,837	10,746	206	111,789
Adjust. for permanent decrease in value	=	=	(51)	(51)
Balances as at 31.12.2018	**100,837**	**10,746**	**155**	**111,738**
Movements during the year:				
Original cost:				
acquisitions	5	78	=	83
disposal	=	=	=	=
Total movements for the year	**5**	**78**	**=**	**83**
Original cost	100,842	10,824	206	111,872
Adjust. for permanent decrease in value	=	=	(51)	(51)
Balances as at 31.12.2019	**100,842**	**10,824**	**155**	**111,821**

The investments are intended to be strategic and long-term for the Company and are measured, in compliance with the principle of continuity of measurement criteria, at purchase or subscription cost.

Equity investments are valued pursuant to IAS 36 (Impairment of assets), on which basis the Company checks whether there is any indication of lasting impairment.

A financial asset or group of financial assets should be regarded as impaired if, and only if, there is objective evidence of impairment as a result of one or more events that took place after initial recognition (when a loss event occurs) and this loss event has an impact, which can be reliably estimated, on the estimated future cash flows of the financial asset or group of financial assets. Evidence of impairment may be represented by indicators such as financial difficulties, inability to honour obligations, insolvency in paying interest or making major payments, by debtors or a group of debtors; the probability of default or subjection to another form of financial reorganisation, and where the data that can be observed shows that there is a measurable decline in estimated future cash flows, such as changes in the circumstances or economic conditions connected with obligations.

In particular, where the conditions are met, material equity investments are tested for impairment using an estimate of the recoverable value of the asset, i.e. the greater of the fair value of an asset or cash generating unit less selling costs and value in use.

The parameters used for the valuations are in line with current market standards for the valuation of equity investments in industrial contexts with a long-term time frame.

For details of the equity investments, please see the tables below.

As at 31 December 2019, the item is 111,821 thousand euros, having booked increases for 83 thousand euros. The change relates to the capital increase in subsidiary Le Cotonerie S.r.l. for 5 thousand euros and the purchase of 16,500 shares in the associate Ratti S.p.A. for 78 thousand euros.

Notes to the Company's financial statements

1.6) Other medium/long-term receivables

	2019	2018	Change
Amounts to:	**11**	**11**	**=**
made up as follows:			
Other receivables	11	11	=
Total	**11**	**11**	**=**

Sundry medium/long-term receivables, of 11 thousand euros, include the caution deposits paid and still in place as at 31 December 2019.

1.7) Deferred tax assets

	2019	2018	Change
Amounts to:	**3,071**	**3,408**	**(337)**
made up as follows:			
Depreciation of receivables	17	17	=
Accrual for risk and charges	2,781	3,190	(409)
Other temporary differences	273	201	72
Total	**3,071**	**3,408**	**(337)**

The table above gives details of the items involved by temporary differences on which prepaid tax assets have been calculated.

1.8) Medium/long-term financial receivables

	2019	2018	Change
Amounts to:	**36**	**41**	**(5)**
made up as follows:			
Guarantee deposits (financial)	36	41	(5)
Total	**36**	**41**	**(5)**

Medium/long-term financial receivables amount to 36 thousand euros and relate to interest-bearing caution deposits.

Notes to the Company's financial statements

3.2) Trade receivables

	2019	2018	Change
Amounts to:	**6,184**	**7,590**	**(1,406)**

and refer to:

	2019		2018	
	Amount	%age	Amount	%age
Active customers receivables	1,919	*100.0*	3,648	*100.0*
- Bad debt provision	=	=	(69)	*(1.9)*
= Net active customers receivables	**1,919**	***100.0***	**3,579**	***98.1***
Bad debt	72	*100.0*	4	*100.0*
- Bad debt provision	(72)	*(100.0)*	(4)	*(100.0)*
= Net bad debt	**=**	**=**	**=**	**=**
Receivables from subsidiaries	**3,962**	***100.0***	**3,639**	***100.0***
Receivables from parent	**26**	***100.0***	**50**	***100.0***
Receivables from affiliates	**277**	***100.0***	**322**	***100.0***
Total face value of receivables	6,256	*100.0*	7,663	*100.0*
- Bad debt provision	(72)	*(1.2)*	(73)	*(1.0)*
Net receivables from customers	**6,184**	***98.8***	**7,590**	***99.0***

Trade receivables totalled 6,184 thousand euros, net of a provision for doubtful debt of 72 thousand euros.

The value of the provision booked is considered appropriate in terms of bringing the nominal value of receivables in line with the presumed realisable value and is consistent with the provisions of the reference accounting standard.

We believe that the book value of the trade receivables, settled under normal market conditions, approximates their fair value.

Trade receivables by geographic area is as follows:

	Italy	Other European Countries	North America	Asia	Other Countries	Total
Towards customers	1,976	5	=	=	10	1,991
Towards subsidiaries	3,660	288	=	4	10	3,962
Towards parent	26	=	=	=	=	26
Towards affiliates	159	118	=	=	=	277
Gross receivables	**5,821**	**411**	**=**	**4**	**20**	**6,256**

Notes to the Company's financial statements

Trade receivables due from subsidiaries relate to:

	2019	2018	Change
Novà Mosilana a.s.	72	103	(31)
AB Liteksas	13	12	1
Marzotto Int. Trading Shanghai Ltd.	4	4	=
Ambiente Energia S.r.l.	188	172	16
Sametex spol s r. o	196	169	27
Le Cotonerie S.r.l.	1	=	1
Marzotto Wool Manufacturing S.r.l.	830	917	(87)
Marzotto Lab S.r.l.	616	607	9
Biella Manifatture Tessili S.r.l.	1,186	925	261
Linificio S.r.l.	840	713	127
UAB Lietlinen	6	6	=
Filature de Lin Filin s.a.	10	11	(1)
Total	**3,962**	**3,639**	**323**

Trade receivables due from lead companies relate to:

	2019	2018	Change
Trenora S.r.l.	20	17	3
Wizard S.r.l.	6	33	(27)
Total	**26**	**50**	**(24)**

Trade receivables from associates relate to:

	2019	2018	Change
Tintoria di Verrone S.r.l.	14	12	2
Uab Lietvilna	118	114	4
Ratti S.p.A.	144	195	(51)
Mascioni S.p.A.	1	1	=
Total	**277**	**322**	**(45)**

Trade receivables from parent companies, subsidiaries and associates result from business relations and are settled under normal market conditions.

Notes to the Company's financial statements

3.3) Other receivables

	2019	2018	Change
Amounts to:	**1,289**	**1,639**	**(350)**
made up as follows:			
Due from Tax Authorities	997	1,267	(270)
Other receivables	156	174	(18)
Accrued income and prepaid expenses	136	198	(62)
Total	**1,289**	**1,639**	**(350)**

Receivables from tax authorities relate to:

	2019	2018	Change
Added value tax	130	10	120
Income taxes	416	416	=
Interest due	35	35	=
Advance payments	383	339	44
Credits for taxes withheld	9	10	(1)
Other items	24	457	(433)
Total	**997**	**1,267**	**(270)**

The item Income taxes of 416 thousand refers, for 373 thousand, to an IRES corporate income tax credit from tax consolidation.

Other receivables relate to:

	2019	2018	Change
Due from State pension funds	40	40	=
Due from employees	101	107	(6)
Other receivables from affiliates	7	8	(1)
Other receivables	8	19	(11)
Total	**156**	**174**	**(18)**

As at 31 December 2019, the item amounted to 156 thousand euros, including 7 thousand euros from the associate Mascioni S.p.A.

Notes to the Company's financial statements

	2019	2018	Change
Amounts to:	**21,966**	**13,101**	**8,865**
and refers to:			
Financial assets			
Due from subsidiaries	12,251	162	12,089
Other financial receivables	=	3	(3)
Cash			
Bank and post-office accounts	9,707	12,927	(3,220)
Cash and cash equivalent on hand	8	9	(1)
Total	**21,966**	**13,101**	**8,865**

The total amount of the Company's short-term financial assets and cash and cash equivalents is 21,966 thousand euros.

Liquid funds come to 9,715 thousand euros and include temporary funds available on bank accounts and amounts held as cash for future use.

The values stated can be converted readily into cash and are subject to insignificant value risk.

Please see the cash flow statement for details of the sources of funds and uses that gave rise to the change in available cash as at 31 December 2019.

Financial receivables due from subsidiaries relate to:

	2019	2018	Change
Marzotto Textile N.V.	193	162	31
Marzotto Wool Manufacturing S.r.l.	43	=	43
Marzotto Lab S.r.l.	12,015	=	12,015
Total	**12,251**	**162**	**12,089**

Financial receivables from subsidiaries include giro accounts held under market conditions.

Notes to the Company's financial statements

4. Shareholders' equity

Shareholders' equity as at 31 December 2019 is 123,266 thousand euros, improving by 2,309 thousand euros on last year.

Share capital

Number of Shares	Share capital at 31.12.2018	Share capital change	Share capital at 31.12.2019
Ordinary shares	40,000,000	=	40,000,000
Total	**40,000,000**	**=**	**40,000,000**

As at 31 December 2019, the fully subscribed and paid-up **share capital** was 40,000 thousand euros.

Extraordinary reserve

Balances equity as at 31 December 2018	76
+/- change	=
Total	**76**

The **extraordinary reserve**, amounting to 76 thousand euros, did not change during the year.

Legal reserve

Balances equity as at 31 December 2018	8,000
+/- change	=
Total	**8,000**

The **legal reserve**, amounting to 8,000 thousand euros, did not change during the year.

Transfer reserve

Balances equity as at 31 December 2018	51,998
+/- change	=
Total	**51,998**

The **transfer reserve,** amounting to 51,998 thousand euros, includes capital gains arising as part of the reorganisation due to the transfer.

	2019	2018	Change
IAS 19 reserve	(25)	(9)	(16)
Profits carried forward	12,892	6,810	6,082
Total	**12,867**	**6,801**	**6,066**

Statutory and tax regulations to which share capital and reserves as at 31/12/2019 are subject, in case of their reimbursement

Description	Total amount of reserves and undistributed profits	Capital reserves which represent income for the Company	Capital and reserves which are not income for the Company or Shareholder	Total
Share capital	=	=	40,000	40,000
Legal reserve	3,267	884	3,849	8,000
Extraordinary reserve	76	=	=	76
IAS 19 reserve	(25)	=	=	(25)
Transfer reserve	51,998	=	=	51,998
Profits carried forward	12,892	=	=	12,892
Total	**68,208**	**884**	**43,849**	**112,941**

Following the demerger operation carried out in the 2010 tax period, the tax values recognised in shareholders' equity differ from those of the financial statements; in particular, the tax value of the share capital is higher, by 10,850 thousand euros, than the value shown in the table above, while "other reserves" show a lower tax value.

Capital and reserves with tax constraints

The equity constraint as at 31 December 2019 can be broken down as follows:

- the equity constraint for IRES purposes amounts to 281 thousand euros, consisting of the tax reversal made in 2004 and higher tax amortisation than accounting amortisation in 2007.

Capital and reserves with statutory constraints

Description	12/31/2019	Possibility of use	Notes
Share capital	40,000		
Legal reserve	8,000	B	
Extraordinary reserve	76	A B C	
IAS 19 reserve	(25)		
Transfer reserve	51,998	A B C	
Profits carried forward	12,892	A B C	
Total	**112,941**		

A: for capital increase

B: to cover losses

C: for distribution to shareholders

D: for other statutory constraints

Notes to the Company's financial statements

	2019	2018	Change
Amounts to:	**10,581**	**11,783**	**(1,202)**
and refer to:			

Provision for staff termination indemnities	2019	2018	Change
Amounts to:	**676**	**714**	**(38)**
the change is due to:			
Accrual in income statement	358	389	(31)
Disbursements for terminations	(119)	(78)	(41)
0.50% contributions on accruals for the year	(23)	(25)	2
Transfer to other reserves/other companies	(279)	(347)	68
Transfer to tax authorities for personal income taxes ("IRPEF")	(1)	(3)	2
Adjustment as per IAS 19	26	5	21
Total	**(38)**	**(59)**	**21**

Employee termination indemnities reflect the indemnity, calculated in accordance with current legislation, accrued by employees as at 31 December 2006, which will be liquidated when they leave. Where specific conditions apply, they may be partially advanced to employees during the course of their working life.
The provision for employee termination indemnities is treated from an accounting point of view as a defined benefit and as such is recalculated at the end of each period according to a statistical and actuarial criterion which also takes account of financial discounting.
This liability has been calculated according to the actuarial criterion of the "projected unit credit method" which "considers each working period as the source of one additional unit of right to the benefits and measures each unit separately to calculate the final obligation".
The following parameters are used: an annual discount rate of 1.26% and an annual inflation index of 1.20%.
The recognition of employee benefits is made in accordance with IAS 19 for defined benefits plans; the company has decided to apply the amendments made by IAS 19 early, as from the financial statements as at 31 December 2012, with the consequent recognition of changes in actuarial gains/losses amongst other items of comprehensive income, whilst financial gains/losses are recognised in the income statement.
According to Italian Law no. 296/06, effective from 30 June 2007, employee termination indemnities accrued after 1 January 2007 must be paid into an appropriate treasury fund opened with the INPS (National Institute for Social Protection) or, at the employee's indication, to a specific supplementary pension fund. With these payments, the item relating to employee termination indemnities is no longer affected by provisions other than the revalued share of the accumulated past debt.

Notes to the Company's financial statements

Pension	2019	2018	Change
Amounts to:	**499**	**546**	**(47)**

The provision relates to supplementary pension schemes currently in place for the secondary beneficiary.

	2019	2018	Change	due to	
Other provisions				Accrual	Utilization
Amounts to:	**9,406**	**10,523**	**(1,117)**	32	(1,149)
and refers to:					
Legal risk fund	1,077	1,774	(697)	32	(729)
Restructuring and relocation provisions	2,861	2,861	=	=	=
Other provisions for risk/charges	5,468	5,888	(420)	=	(420)

Allocations to provisions for risks and charges during the year relate to the management's best estimate of the contingent liabilities connected to disputes in progress. Where applicable, their estimate takes account of the opinion of legal advisors and other experts, previous experience in the history of the company and other entities in similar situations and the company's intention as regards taking further action.

Below are comments on the main provisions booked.

The **provision for litigation risk** is intended to cover liabilities that may arise from litigation or other disputes. This includes an estimate of charges from ongoing litigation, updated based on indications from internal and external legal counsel.

The **restructuring and relocation provisions** are allocated mainly to offset planned charges and costs related to the industrial reorganisation plan of some production operations.

Other provisions for risks and charges include foreseeable risks following operations in relation to Aree Urbane S.r.l., in addition to expenses associated with the former Praia a Mare plant. Reference is made to the report on operations for more information.

Notes to the Company's financial statements

5.3) Deferred taxes payables

	2019	2018	Change
Amounts to:	**1,593**	**2,014**	**(421)**
and can be broken down as follows:			
Tangible and intangible assets differences	165	157	8
Deferred tax liabilities	1,428	1,857	(429)
Total	**1,593**	**2,014**	**(421)**

This item includes deferred taxes reported by the Company, mainly attributable to the difference between depreciation and amortisation based on tax rates and on the useful life of the asset.

5.4) Medium/long term financial payables

	2019	2018	Change
Amounts to:	**6,142**	**11**	**6,131**
and can be broken down as follows:			
Secured financing received	=	=	=
Non-secured financing received	6,000	=	6,000
Financial payables for leasing	140	=	140
Due to other lenders	2	11	(9)
Total	**6,142**	**11**	**6,131**

Medium/long-term financial payables are financial liabilities due to banks and other lenders beyond twelve months.

More specifically, the medium/long-term loans item, which amounted to 6,000 thousand euros as at 31 December, consists of the non-current portion of loans and breaks down as follows:

- Banca Intesa loan, par value 6,000 thousand euros, drawn down during the year, residual payable of 6,000 thousand euros, all of which is due beyond one year.

[Notes to the Company's financial statements]

	2019	2018	Change
Amounts to:	**13,401**	**13,827**	**(426)**
and can be broken down as follows:			
Trade payables	1,771	1,694	77
Trade payables due to parent companies	34	45	(11)
Trade payables due to subsidiaries	=	3	(3)
Payables due to Inland Revenue	717	1,308	(591)
Payables due to social security institutions	302	364	(62)
Payables due to employees	1,820	1,702	118
Other payables	193	201	(8)
Other payables due to parent companies	8,556	8,371	185
Other payables due to subsidiaries	=	55	(55)
Accrued liabilities and deferred income	8	84	(76)
Total	**13,401**	**13,827**	**(426)**

Other payables to tax authorities, in the amount of 13,401 thousand euros at 31 December 2019, decreased by 426 thousand euros.

Trade payables consist of trade payables arising from transactions with third party supplies and with Group companies registered net of commercial discounts and billing adjustments (returns and/or bonuses) in the amount corresponding to the amount defined with the counterparty.

The value of the trade payables as at the reporting date is a consequence, in particular, of the trend of purchases and investments of the latter part of the year in question.

Trade payables are due within the year, and pertain to debts for the purchase of goods and services relating to ordinary operations and settled under normal market conditions.

Trade payables to subsidiaries relate to:

	2019	2018	Change
Marzotto Wool Manufacturing S.r.l.	33	40	(7)
Sametex spol s r. o	1	5	(4)
Total	**34**	**45**	**(11)**

Trade payables to associates relate to:

	2019	2018	Change
Ratti S.p.A.	=	3	(3)
Total	**=**	**3**	**(3)**

Notes to the Company's financial statements

Payables to tax authorities can be broken down as follows:

	2019	2018	Change
Regional manufacturing tax	66	602	(536)
Withholding taxes	548	541	7
Other amounts due	103	165	(62)
Total	**717**	**1,308**	**(591)**

Payables to tax authorities, amounting to 717 thousand euros, mainly consist of tax withholdings on income from employment and other taxes for the period.

Payables to social security institutions relate to:

	2019	2018	Change
INPS for current taxes	217	270	(53)
Due to other institutions	85	94	(9)
Total	**302**	**364**	**(62)**

Payables to social security institutions reflect non-matured positions at the end of the financial year, regularly paid upon maturity.

Payables to other institutions include amounts due to supplementary pension funds.

Payables to employees can be broken down as follows:

	2019	2018	Change
December salaries paid in January	418	446	(28)
Staff termination indemnities paid after year-end	93	=	93
Deferred salaries for vacation days accrued and not taken	1,105	1,124	(19)
Deferred salaries for other deferrals	199	125	74
Other items	5	7	(2)
Total	**1,820**	**1,702**	**118**

These debt positions mainly relate to salaries and wages for December, to accrued holiday entitlement not yet taken and other deferred remuneration.

Other payables relate to:

	2019	2018	Change
Other payables due to parent companies	8,556	8,371	185
Other payables due to subsidiaries	=	55	(55)
Other amounts due to third parties	193	201	(8)
Total	**8,749**	**8,627**	**122**

Other payables to parent companies of 8,556 thousand euros relate to the dividends resolved upon by the Shareholders' Meeting of May 2019 (8,000 thousand euros) and payables to the parent company Wizard S.r.l. deriving from tax consolidation (556 thousand euros).

Notes to the Company's financial statements

6.2) Short-term financial payables

	2019	2018	Change
Amounts to:	**313**	**5**	**308**
and can be broken down as follows:			
Payables due to banks and other lenders	4	5	(1)
Financial payables for leasing	309	=	309
Total	**313**	**5**	**308**

Payables to banks and other lenders relate to the use of facilities, short-term loans and the current portion of medium/long-term loans.

The table below gives the breakdown of net borrowing.

Net financial position

	2019	2018	Change
Amounts to:	**15,547**	**13,126**	**2,421**
and can be broken down as follows:			
1.8 Long term financial receivables	36	41	(5)
3.4 Current financial assets, cash and cash equivalents	21,966	13,101	8,865
5.4 Long term financial payables	(6,142)	(11)	(6,131)
6.2 Current financial payables	(313)	(5)	(308)
Total	**15,547**	**13,126**	**2,421**

The net financial position at the reporting date was positive for 15,547 thousand euros, representing an improvement of 2,421 thousand euros.
Please see the statement of cash flows for evidence of the individual factors that went towards determining the change during the period.

Contractual commitments and guarantees

Notes to the Company's financial statements

Comments on the commitments as at 31 December 2019 are provided below:

“***Guarantees to subsidiaries and associates***” were given:

- in favour of the subsidiary Marzotto Lab S.r.l. for 16,000 thousand euros for assignments of receivables without recourse;
- to the subsidiary Marzotto Lab S.r.l. for 51,000 thousand euros as a guarantee of loans granted;
- to the subsidiary Marzotto Lab S.r.l. for 28,850 thousand euros for lines of credit;
- to the subsidiary Marzotto Wool S.r.l. for 33,000 thousand euros for lines of credit;
- to the subsidiary Linificio e Canapificio Nazionale S.r.l. for 2,000 thousand euros for the assignment of receivables without recourse;
- in the interest of Sametex Spol s r. or as a guarantee of credit lines for 3,460 thousand euros.

“***Guarantees received from third parties***” were given:

- to the Company to guarantee rental income for 174 thousand euros.

[Notes to the Company's financial statements]

For comments on the income performance of the Company during the year in question, reference is also made to the specific paragraph of the Report on Operations.

7. Net revenues

The table below gives the breakdown of Net revenues according to business sector.

	2019	2018	% change
Holding/coordination	8,324	8,552	(2.7)
Real estate	1,079	1,150	(6.2)
Logistics	1,719	1,774	(3.1)
Other	610	625	(2.4)
Total	**11,732**	**12,101**	**(3.0)**

Revenues relating to the business holding and coordination mainly include proceeds from the billing of services provided by the Company to Group companies for support and assistance in defining operative guidelines, administrative management, financial management and control, legal advisory and advisory services on corporate law, procurement services and IT services.
The revenues included in the Real Estate sector relate to proceeds deriving from property management, such a rental income for the lease of the portion of the property situated in Piovene Rocchette (VI).

8. Cost of goods sold

	2019	2018	% change
Amounts to:	**(2,293)**	**(2,437)**	**(5.9)**
and refers to:			
Other costs	=	(42)	n.c.
Other logistic and industrial costs	(2,293)	(2,395)	(4.3)
Total	**(2,293)**	**(2,437)**	**(5.9)**

The item in question totals 2,293 thousand euros and mainly comprises costs relating to the Logistics business at Piovene (VI) site for 1,171 thousand.

11. General and administrative costs

	2019	2018	% change
Amounts to:	**(8,883)**	**(9,266)**	**(4.1)**

General and administrative costs as at 31 December 2019 mainly include payroll costs for 5,078 thousand euros, costs for directors and auditors for 955 thousand euros, consultancy costs and fees (legal, administrative and other minor) for 368 thousand euros, insurance expenses for 107 thousand euros and maintenance, utilities and transport costs for 2,375 thousand euros.

12. Other income and expenses

	2019	2018	% change
Amounts to:	**(106)**	**6,481**	**>100%**
and refers to:			
Disposal of tangible and intangible assets	46	9,678	
Loss on disposal of investment	=	(3)	
Allocation/use to legal risk fund and future charges	695	(3,005)	
Other income/charges	(847)	(189)	
Total other income/charges	**(106)**	**6,481**	**>100%**

Other income and expenses is negative by 106 thousand euros and mainly consists of income components accrued in previous years or whose source is extraneous to the company’s ordinary operations.

Notes to the Company's financial statements

13. Operating income

	2019	2018	% change
Amounts to:	**443**	**6,865**	**(93.5)**

Below are the details of payroll costs and depreciation and amortisation included in the Operating income calculation.

Payroll costs

	2019	2018	% change
Amounts to:	**(6,633)**	**(7,235)**	**(8.3)**
and refers to:			
Wages and salaries	(4,817)	(5,300)	(9.1)
Social security contributions	(1,398)	(1,505)	(7.1)
Staff termination indemnities	(358)	(390)	(8.2)
Pension funds and similar liabilities	(18)	(15)	20.0
Other labour costs	(42)	(25)	68.0

The table above gives the costs relating to employees. Salaries and wages also include labour costs for temporary staff.

The number of active **employees** had the following trend:

	Year End Staff			Average		
	31.12.2019	31.12.2018	% change	2019	2018	% change
Blue-collar workers	15	13	*15.4*	14	14	=
White-collar workers	65	71	*(8.5)*	68	72	*(5.6)*
Managers	8	10	*(20.0)*	9	12	*(25)*
Total	**88**	**94**	***(6.4)***	**91**	**98**	***(7.1)***

Amortisation and depreciation was as follows:

Ammortization	2019	2018	% change
Amounts to:	**(1,316)**	**(1,080)**	**21.9**
and refers to:			
amortization of intangible fixed assets	(249)	(253)	
depreciation of tangible fixed assets	(1,067)	(827)	

Notes to the Company's financial statements

14. Net financial expenses

	2019	2018	% change
Amounts to:	**62**	**(53)**	**n.c.**
and refer to:			
Financial income			
Interest received from subsidiaries	48	7	>100,0
Interests received from banks	9	3	>100,0
Other financial income	53	=	n.c.
Total financial income	**110**	**10**	**+100,0**
Financial charges			
Interest payable to subsidiaries	=	(20)	n.c.
Bank services	(25)	(26)	(3.8)
Other financial charges	(23)	(17)	35.3
Total financial charges	**(48)**	**(63)**	**(23.8)**
Total	**62**	**(53)**	**n.c.**

Interest received from subsidiaries is detailed as follows:

	2019	2018	% change
Amounts to:	**48**	**7**	**>100,0**
and refers to:			
Marzotto Wool Manufacturing S.r.l.	11	=	n.c.
Marzotto Lab S.r.l.	36	6	>100,0
Marzotto Textile N.V.	1	1	=
Total	**48**	**7**	**>100,0**

15. Dividends from investees

	2019	2018	% change
Amounts to:	**10,507**	**9,706**	**8.3**
and refers to:			
Dividends from subsidiary companies			
Marzotto Wool Manufacturing S.r.l.	8,000	8,000	
Ambiente Energia S.r.l.	650	500	
Dividends from affiliates companies			
Ratti S.p.A.	1,857	1,206	
Dividends from other companies	=	=	
Total dividends	**10,507**	**9,706**	**8.3**

17. Other financial income and expenses

	2019	2018	% change
Amounts to:	**(6)**	**(1)**	**>100,0**
and refers to:			
Adjustement TFR IAS 19	(6)	(1)	
Total	**(6)**	**(1)**	**>100,0**

Notes to the Company's financial statements

19. Income taxes

	2019	2018	% change
Amounts to:	**(681)**	**(2,435)**	**(72.0)**
and refers to:			
Current taxes	(637)	(1,164)	
Deferred taxes payable	421	(1,861)	
Deferred taxes receivable	(331)	591	
Other variations	(134)	(1)	
Total	**(681)**	**(2,435)**	**(72.0)**

The reconciliation of the theoretical tax rate with the effective tax rate on income before taxes is set out in the table below.

	2019		2018	
	Amount	%age	Amount	%age
Pre-tax profit	**11,006**		**16,517**	
Theoretical taxes	(2,641)	(24.0)	(3,964)	(24.0)
Exemption on dividens	2,396	21.8	2,213	13.4
Other permanent changes	(156)	(1.4)	(144)	(0.9)
IRAP	(66)	(0.6)	(603)	(3.7)
Other variations	(214)	(1.9)	63	0.4
Total taxes	**(681)**	**(6.2)**	**(2,435)**	**(14.7)**

Notes to the Company's financial statements

Related parties

It is in the economic interest of the single participating entities to carry out operations with related parties.

All transactions with subsidiaries, affiliates and other related parties, whether in relation to the exchange of goods and services or to financial operations, are carried out at arm's length.

Relations with subsidiaries and affiliates are also shown in the financial statements and the notes.

The tables below detail the equity and economic values of the transactions performed with parent companies, subsidiaries, associates and affiliates as at 31 December 2019.

Receivables and payables existing with Group Companies as at 31 December 2019

	Receivables				Payables			
Company	Trade	Other	Financial	Total	Trade	Other	Financial	Total
Biella ManifattureTessili S.r.l.	1,186	=	=	1,186	=	=	=	=
Marzotto Wool Manufacturing S.r.l.	830	=	43	873	33	=	=	33
Marzotto Lab S.r.l.	616	=	12,015	12,631	=	=	=	=
Ambiente Energia S.r.l.	188	=	=	188	=	=	=	=
Marzotto Textile NV	=	=	193	193	=	=	=	=
Novà Mosilana a.s.	72	=	=	72	=	=	=	=
AB Liteksas	13	=	=	13	=	=	=	=
Marzotto Int. Tr. Shanghai Co. Ltd	4	=	=	4	=	=	=	=
Sametex spol s r. o	196	=	=	196	1	=	=	1
Le Cotonerie S.r.l.	1	=	=	1	=	=	=	=
UAB Lietlinen	6	=	=	6	=	=	=	=
Linificio S.r.l.	840	=	=	840	=	=	=	=
Filature de Lin Filin s.a.	10	=	=	10	=	=	=	=
Uab Lietvilna	118	=	=	118	=	=	=	=
Tintoria di Verrone S.r.l.	14	=	=	14	=	=	=	=
Ratti S.p.A.	144	=	=	144	=	=	=	=
Mascioni S.p.A.	1	7	=	8	=	=	=	=
Trenora S.r.l.	20	=	=	20	=	=	=	=
Wizard S.r.l.	6	=	=	6	=	8,556	=	8,556
Total	**4,265**	**7**	**12,251**	**16,523**	**34**	**8,556**	**=**	**8,590**

Revenues, income, costs and charges with the Group Companies for the year 2019

	Revenues and other income				Costs and charges			
Company	Products	Services	Finance	Total	Products	Services	Finance	Total
Biella Manifatture Tessili S.r.l.	2,219	=	=	2,219	=	=	=	=
Marzotto Wool Manufacturing S.r.l.	3,297	=	11	3,308	=	352	=	352
Marzotto Lab S.r.l.	2,115	=	36	2,151	=	1	=	1
Ambiente Energia S.r.l.	321	=	=	321	=	=	=	=
Marzotto Textile NV	=	=	1	1	=	=	=	=
Novà Mosilana a.s.	358	=	=	358	=	=	=	=
AB Liteksas	43	=	=	43	=	=	=	=
Sametex spol s r. o	374	=	=	374	=	1	=	1
Linificio S.r.l.	1,385	=	=	1,385	=	=	=	=
Uab Lietvilna	231	=	=	231	=	=	=	=
Tintoria di Verrone S.r.l.	14	=	=	14	=	=	=	=
Ratti S.p.A.	190	=	=	190	=	=	=	=
Trenora S.r.l.	32	=	=	32	=	=	=	=
Wizard S.r.l.	18	=	=	18	=	=	=	=
Total	**10,597**	**=**	**48**	**10,645**	**=**	**354**	**=**	**354**

Notes to the Company's financial statements

Directors and Statutory Auditors

Remuneration paid to the Directors and Statutory Auditors of Marzotto S.p.A.

	Office		
(thousand of euro)	Directors	Auditors	**Total**
Remuneration	918	37	**955**

Independent Auditors

Remuneration due for the financial year for services provided by the Independent Auditors

		Company	
(thousand of euro)	Marzotto S.p.A.	Subsidiaries	**Total**
Auditing services	16	226	**242**

Non-typical/unusual operations

During FY 2019, the Company has implemented no non-typical and/or unusual operations.

Events after the date of these financial statements

Please see the Management Report for events after 31 December 2019.

Equity investments

[Notes to the Company's financial statements]

Equity investments held directly and indirectly by the Company

Below is the list of equity investments in which Marzotto S.p.A. directly or indirectly holds more than 10% of the voting shares as at 31 December 2019. All equity investments represent ownership:

Company name	Head office	Direct investor	% direct owned	% Marzotto S.p.A. owned
Marzotto Wool Manufacturing S.r.l.	Valdagno (VI)	Marzotto S.p.A.	**100.00%**	**100.00%**
Biella Manifatture Tessili S.r.l.	Valdagno (I)	Marzotto Wool Manufacturing S.r.l.	100.00%	100.00%
Nová Mosilana a.s.	Brno (CZ)	Marzotto Wool Manufacturing S.r.l.	100.00%	100.00%
Marzotto Textile N.V.	Amsterdam (NL)	Marzotto Wool/Marzotto Lab	**100.00%**	**100.00%**
Marzotto Textiles USA Inc.	New York (USA)	Marzotto Textile N.V.	100.00%	100.00%
Marzotto Inter. Tr. (Shanghai) Co. Ltd.	Shanghai (RPC)	Marzotto Textile N.V.	100.00%	100.00%
Le Cotonerie S.r.l.	Valdagno (I)	Marzotto S.p.A.	100.00%	100.00%
Ambiente Energia S.r.l.	Schio (I)	Marzotto S.p.A.	100.00%	100.00%
Marzotto Lab S.r.l.	Valdagno (VI)	Marzotto S.p.A.	**100.00%**	**100.00%**
AB Liteksas	Kaunas (LT)	Marzotto Lab S.r.l.	99.97%	99.97%
Sametex spol s r. o	Kraslice (CZ)	Marzotto Lab S.r.l.	100.00%	100.00%
Girmes International G.m.b.h.	Tonisvorst (DE)	Marzotto Lab S.r.l.	100.00%	100.00%
Marzotto Textiles Czech Republic s. r.o.	Praga (CZ)	Marzotto S.p.A.	100.00%	100.00%
Pettinatura Verrone S.r.l.	Verrone (I)	Marzotto Wool Manufacturing S.r.l.	15.00%	15.00%
UAB Lietvilna	Kaunas (LT)	Marzotto Lab S.r.l.	50.00%	50.00%
Tintoria di Verrone S.r.l.	Verrone (BI)	Marzotto Wool/Marzotto Lab	50.00%	50.00%
Aree Urbane S.r.l.	Milan (I)	Marzotto S.p.A.	32.50%	32.50%
Mascioni S.p.A.	Milan (I)	Marzotto S.p.A.	14.18%	14.18%
G. Schneider PTY Limited	Greenwich (AUS)	Marzotto Wool Manufacturing S.r.l.	25.00%	25.00%
Schneider New Zealand Limited	Christchurch (AUS)	Marzotto Wool Manufacturing S.r.l.	25.00%	25.00%
Mediterranean Wool Industries Co. S.A.E.	Sadat City (ET)	Marzotto Wool Manufacturing S.r.l.	30.00%	30.00%
Linificio e Canapificio Nazionale S.r.l.	Valdagno (I)	Marzotto Lab S.r.l.	**100.00%**	**100.00%**
Filature de Lin Filin S.A.	Chbedda (TN)	Linificio e Canapificio N. S.r.l.	100.00%	100.00%
UAB Lietlinen	Kaunas (LT)	Linificio e Canapificio N. S.r.l.	100.00%	100.00%
Ratti S.p.A.	Guanzate (I)	Marzotto S.p.A.	**34.01%**	**34.01%**
Creomoda S.a.r.l.	Sousse (TN)	Ratti S.p.A.	76.00%	25.84%
La Maison des Accessories S.r.a.l.	Sousse (TN)	Ratti S.p.A.	68.40%	17.68%
Marielle S.r.l.	Florence (FI)	Ratti S.p.A.	30.00%	10.20%
Ratti USA Inc.	New York (USA)	Ratti S.p.A.	100.00%	34.01%
Ratti Int. Trading (Shanghai) Co. Ltd	Shanghai (RPC)	Ratti S.p.A.	100.00%	34.01%
Textrom S.r.l.	Cluj - Napoca (RO)	Ratti S.p.A.	100.00%	34.01%

[Notes to the Company's financial statements]

We provide further details on the equity investments held by the Company below.

Company	Reg. office	Share Capital	Currency	% Ownership 2019	% Ownership 2018
Le Cotonerie S.r.l.	Valdagno (I)	15.00	K EUR	100.00	100.00
Ambiente Energia S.r.l.	Schio (I)	100.00	K EUR	100.00	100.00
Marzotto Textiles Czech Republic s. r.o.	Praga (CZ)	200.00	K CZK	100.00	100.00
Marzotto Wool Manufacturing S.r.l.	Valdagno (I)	10,000.00	K EUR	100.00	100.00
and it's subisidiaries:					
Biella Manifatture Tessili S.r.l.	Valdagno (I)	1,000.00	K EUR	100.00	100.00
Novà Mosilana a.s.	Brno (CZ)	1,095,000.00	K CZK	100.00	100.00
Marzotto Lab S.r.l.	Valdagno (I)	10,000.00	K EUR	100.00	100.00
and it's subisidiaries:					
AB Liteksas	Kaunas (LT)	11,890.00	K EUR	99.97	99.97
Sametex spol. s r.o	Kraslice (CZ)	565,863.00	K CZK	100.00	100.00
Girmes International G.m.b.h.	Tonisvorst (DE)	800.00	K EUR	100.00	100.00
Marzotto Textile N.V.	Amsterdam (NL)	45.00	K EUR	100.00	100.00
and it's subisidiaries:					
Marzotto Int.Trad. (Shanghai) Ltd.	Shanghai (RPC)	1,001.46	K CNY	100.00	100.00
Marzotto Textiles USA Inc.	New York (USA)	410.00	K USD	100.00	100.00
Linificio e Canapificio Nazionale S.r.l.	Valdagno (I)	27,648.00	K EUR	100.00	100.00
and it's subisidiaries:					
Filature de Lin Filin S.A.	Chbedda (TN)	16,155.00	K TND	100.00	100.00
UAB Lietlinen	Kaunas (LT)	8,445.00	K EUR	100.00	100.00
Mascioni S.p.A.	Milan (I)	10,000.00	K EUR	14.18	28.35
Mediterranean Wool Industries Co. S.A.E.	Sadat City (ET)	9,208.00	K EUR	30.00	30.00
G. Schneider PTY Limited	Greenwich (AUS)	84.00	K AUD	25.00	25.00
Schneider New Zealand Limited	Christchurch (AUS)	318.00	K NZD	25.00	25.00
UAB Lietvilna	Kaunas (LT)	4,550.00	K EUR	50.00	50.00
Tintoria di Verrone S.r.l.	Verrone (I)	100.00	K EUR	50.00	50.00
Pettinatura di Verrone S.r.l.	Verrone (I)	3,000.00	K EUR	15.00	15.00
Ratti S.p.A.	Guanzate (I)	11,115.00	K EUR	34.01	33.95
and it's subisidiaries:					
Creomoda S.a.r.l.	Sousse (TN)	660.00	K TND	25.84	25.80
La Maison des accessories S.a.r.l.	Sousse (TN)	120.00	K TND	23.26	=
Ratti USA Inc.	New York (USA)	500.00	K USD	34.01	33.95
Ratti Int. Trading (Shanghai) Co. Ltd	Shanghai (RPC)	110.00	K EUR	34.01	33.95
Textrom S.r.l.	Cluj - Napoca (RO)	0.20	K RON	34.01	33.95
Aree Urbane S.r.l. in liquidation	Milan (I)	100.00	K EUR	32.50	32.50

[Notes to the Company's financial statements]

(thousand euro)	Situation as at 31.12.2018				Changes during the year 2019			
	Number of shares	%	Pro-quota net	Net book	Number of shares	Gross book value		Adjust-
Description	owned	owned	equity [1]	value	(+/-)	Increases	Decreases	ments
Le Cotonerie S.r.l.	1	*100.00*	11	47	=	5	=	=
Ambiente Energia S.r.l.	1	*100.00*	8,742	8,010	=	=	=	=
Marzotto Wool Manufacturing S.r.l.	1	*100.00*	69,887	49,371	=	=	=	=
Mrzotto Lab S.r.l.	1	*100.00*	40,045	43,401	=	=	=	=
Marzotto Textiles Czech Rep. s r.o	1	*100.00*	115	7	=	=	=	=
Shareholdings in subsidiaries			**118,800**	**100,836**	**=**	**5**	**=**	**=**
Mascioni S.p.A.	283,500	*14.18*	1,471	=	=	=	=	=
Aree Urbane S.r.l. in liquidation	1	*32.50*	(29,954)	=	=	=	=	=
Ratti S.p.A.	9,283,900	*33.90*	17,637	10,747	16,500	78	=	=
Shareholding in affiliates			**(10,846)**	**10,747**	**16,500**	**78**	**=**	**=**
Società Editrice Il Mulino S.p.A.	224,989	*4.79*	132	143	=	=	=	=
Next Technology Tecnotessile S.r.l.	19,968	*1.58*	8	10	=	=	=	=
Tollegno Holding S.p.A.	2,270	*0.01*	3	1	=	=	=	=
Consorzio Ivrea Energia (in liquid.)	1	*11.11*	1	1	=	=	=	=
Shareholdings in other companies			**144**	**155**	**=**	**=**	**=**	**=**
Total equity investments			**108,098**	**111,738**	**16,500**	**83**	**=**	**=**

1. For subsidiary and affiliated companies, the net equity attributable to Marzotto is shown in the Parent Company's Financial Statements, or in the consolidated Financial Statements if prepared.

Situation as at 31.12.2019						
Net equity as of	Number of shares owned	% owned	Pro-quota Net Income	Pro-quota net equity (1)	Net book value	Description
Dec. 2019	1	*100.00*	(6)	10	52	Le Cotonerie S.r.l.
Dec. 2019	1	*100.00*	831	8,923	8,010	Ambiente Energia S.r.l.
Dec. 2019	1	*100.00*	3,227	66,520	49,371	Marzotto Wool Manufacturing S.r.l.
Dec. 2019	1	*100.00*	(1,896)	38,070	43,401	Marzotto Lab S.r.l.
Dec. 2019	1	*100.00*	32	149	7	Marzotto Textiles Czech Rep. s r.o
			2,188	**113,672**	**100,841**	**Shareholdings in subsidiaries**
Dec. 2017	283,500	*14.18*	732	1,471	=	Mascioni S.p.A.
Dec. 2017	1	*32.50*	(382)	(29,954)	=	Aree Urbane S.r.l. in liquidation
Dec. 2019	9,300,400	*34.01*	4,356	20,209	10,825	Ratti S.p.A.
			4,706	**(8,274)**	**10,825**	**Shareholding in affiliates**
Dec. 2018	224,989	*4.79*	7	141	143	Società Editrice Il Mulino S.p.A.
Dec. 2018	19,968	*1.58*	=	9	10	Next Technology Tecnotessile S.r.l.
Dec. 2018	2,270	*0.01*	=	3	1	Tollegno Holding S.p.A.
Dec. 2012	1	*11.11*	n.d.	1	1	Consorzio Ivrea Energia (in liquidation)
			7	**154**	**155**	**Shareholdings in other companies**
			6,901	**105,552**	**111,821**	**Total equity investments**

Proposals to the Shareholders' Meeting

Allocation of earnings for the year

Dear Shareholders,

We invite you to approve the presented financial statements and propose to allocate the profits for the period of 10,324,609.46 euros as follows:

- Earnings carried forward: EUR 10,324,609.46.

After this allocation, the earnings carried forward, at the net of losses, will amount to 23,216,617.84 euros.

Valdagno (VI), 27 March 2020

FOR THE BOARD OF DIRECTORS
THE MANAGING DIRECTOR
DAVIDE FAVRIN

EY S.p.A.
Via San Crispino, 106
35129 Padova

Tel: +39 049 7707411
Fax: +39 049 7707428
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Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010
(Translation from the original Italian text)

To the Shareholders of
Manifattura Lane Gaetano Marzotto & Figli S.p.A.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the financial statements of Manifattura Lane Gaetano Marzotto & Figli S.p.A. (the Company) which comprise the statement of financial position as at December 31, 2019, and the statement of profit/(loss) and items of other comprehensive income, the statement of cash flow of the Company for the year then ended, the Company statement of changes in equity 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 Consolidated 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.

EY S.p.A.
Sede Legale: Via Lombardia, 31 - 00187 Roma
Capitale Sociale Euro 2.525.000,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584 - numero R.E.A. 250904
P.IVA 00891231003
Iscritta al Registro Revisori Legali al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998
Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

A member firm of Ernst & Young Global Limited

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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.

Building a better working world

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 Manifattura Lane Gaetano Marzotto & Figli S.p.A. are responsible for the preparation of the Report on Operations of Manifattura Lane Gaetano Marzotto & Figli 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 Manifattura Lane Gaetano Marzotto & Figli 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 [consolidated] financial statements of Manifattura Lane Gaetano Marzotto & Figli 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.

Padova, April 10, 2020

EY S.p.A.
Signed by: Stefano Marchesin, auditor

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

REPORT PURSUANT TO ARTICLE 2429(2) OF THE ITALIAN CIVIL CODE OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING OF MARZOTTO S.P.A.

To the shareholder of Marzotto S.p.A.

Introduction

During the year ended 31 December 2019, the Board of Statutory Auditors performed the duties set forth in Articles 2403 et seq. of the Italian Civil Code, as EY S.p.A. is required to perform the duties set forth in Article 2409-bis of the Civil Code.

During the year ended 31 December 2019, our work was based on the provisions of law and the Code of Conduct of the Board of Statutory Auditors issued by the National Council of Chartered Accountants and Accounting Experts, with respect to which we conducted a positive self-assessment for each member of the Board of Statutory Auditors.

Supervision conducted pursuant to Articles 2403 et seq. of the Italian Civil Code

We monitored compliance with the law and the articles of association and observance of the principles of proper management.

We attended the shareholders' meetings, and meetings of the board of directors and of the executive committee, in relation to which, on the basis of the information available, we did not detect any breaches of the law or the articles of association, nor any manifestly imprudent or risky transactions, nor any transactions that might give rise to a conflict of interest or compromise the integrity of the company's assets.

We obtained information from the directors during the meetings regarding the general business performance and business outlook, as well as on the most significant transactions, due to their size or characteristics, carried out by the company and its subsidiaries and, based on the information obtained, we have no particular observations to make.

We have maintained a constant exchange of information with the person in charge of the statutory audit of the acounts, and no data or information has emerged that should be highlighted in this report.

We acted as a supervisory body, based on the board of directors' resolution of 29 June 2018 and, in performing this function, the verifications carried out did not reveal any significant risks or hazardous situations, and no actions have emerged that constitute breaches of the Organisational Model adopted, as also indicated in the report issued on 27 March 2020.

We obtained information and verified the adequacy of the organisational, administrative and accounting structure and its actual functioning, also in view of the timely detection of crisis or going concern situations, including through the collection of information from the department managers, and in this regard we have no particular observations to report.

We have acquired knowledge of, and supervised, to the extent of our competence, the adequacy and functioning of the administrative and accounting system, as well as the reliability of the latter in correctly representing operating events, by obtaining information from the department managers and the examination of company documents, and we have no particular observations to report in this regard.

No complaints were received from shareholders pursuant to Article 2408 of the Italian Civil Code.

The Board of Statutory Auditors did not issue any opinions required by law during the year.

In the course of the supervisory activity described above, no other material facts emerged requiring mention in this report.

Observations concerning the financial statements

As far as we are aware, the directors did not derogate from the provisions of law pursuant to Article 2423, paragraph 5, of the Italian Civil Code.

With regard to the matters within our competence, we acknowledge that:

a) we have monitored the general layout of the financial statements and ascertained that their structure and the documents comprising them, the drafting principles and the valuation criteria adopted are consistent with the requirements of current legislation; we have no particular observations to report in this regard;
b) the financial statements have been prepared, as in previous years, in application of the international accounting standards issued by the International Accounting Standards Board (IASB) endorsed by the European Union and implemented into Italian law by Italian Legislative Decree 38/2005.
c) the measurement policies followed in preparing the financial statements and the content of the individual items are thoroughly described by the administrative body in the explanatory notes;
d) the explanatory notes contain all the information necessary to provide a correct understanding of the financial statements; the administrative body also provides adequate information about transactions with third parties and related parties and intercompany transactions;
e) We have verified compliance with the provisions of law on the preparation of the management report, and we have no observations to make in this regard.

Pursuant to Art. 2426 (6) of the Italian Civil Code, we have expressed our consent to the recognition of €167,000 of goodwill in the balance sheet that has not been amortised.

The directors also prepared the consolidated financial statements for the year ended 31 December 2019.

As indicated in the introduction, the statutory audit is entrusted to the independent auditor EY S.p.A, which yesterday, 11 April 2019, issued its reports to the separate and consolidated financial statements for the year ended 31 December 2019, pursuant to Article 14 of Italian Legislative Decree 39 of 27 January 2010, both of which express positive opinions without remarks or requests for information.

Comments and proposals regarding the approval of the financial statements

Considering the results of our work, the Board of Statutory Auditors proposes that the shareholders' meeting approve the financial statements for the year ended 31 December 2019, as drafted by the directors.
The Board of Statutory Auditors has no comments concerning the proposed allocation of net income for the year made by the directors in the explanatory notes to the financial statements.

Treviso, 10 April 2020

The Board of Statutory Auditors

Sandro Miotto (Chairman)

Reclassified financial statements of subsidiaries

	Marzotto Wool Manufacturing S.r.l. (thousand euro)		Marzotto Lab S.r.l. (thousand euro)		Ambiente Energia S.r.l. (thousand euro)	
	2019	2018	2019	2018	2019	2018
1. Non-current assets						
1.1 Property, plant and equipment	15,820	16,997	5,129	5,294	6,197	6,135
1.2 Civil buildings	101	41	466	390	15	15
1.3 Goodwill, trademarks and other intangible assets	265	256	3,735	3,756	846	931
1.4 Equity Investments	=	=	=	=	1	1
1.5 Other investments	97,469	97,465	60,024	59,410		
1.6 Long-term receivables	28	25	11	10	1	1
1.7 Deferred tax assets	2,559	2,658	1,636	1,237	15	24
1.8 Long-term financial receivables	1	1	2,406	2,391	12	12
Total non-current assets	**116,243**	**117,443**	**73,407**	**72,488**	**7,087**	**7,119**
2. Non-current assets held for sale	**=**	**=**	**=**	**=**	**=**	**=**
3. Current assets						
3.1 Inventories	32,036	38,634	17,437	17,569	=	=
3.2 Trade receivables	44,871	49,726	13,699	14,328	1,776	1,758
3.3 Other receivables	2,566	1,440	1,240	943	314	230
3.4 Current financial assets, cash and cash equivalents	22,828	28,919	16,341	14,381	4,632	2,519
Total current assets	**102,301**	**118,719**	**48,717**	**47,221**	**6,722**	**4,507**
Total assets	**218,544**	**236,162**	**122,124**	**119,709**	**13,809**	**11,626**
4. Shareholders' equity						
4.1 Share capital and reserves	63,293	60,295	39,966	39,779	8,091	8,076
4.2 Income/(Loss) for the year	3,227	9,592	(1,896)	266	831	666
4.3 Non controlling interests	=	=	=	=	=	=
Total shareholders' equity	**66,520**	**69,887**	**38,070**	**40,045**	**8,922**	**8,742**
5. Non-current liabilities						
5.1 Long-term provisions	6,420	6,706	2,310	2,368	99	97
5.2 Other long-term payables	=	=	=	=	=	=
5.3 Deferred tax liabilities	899	707	404	345	1,142	1,215
5.4 Long-term financial payables	46,626	47,170	32,858	32,363	1,527	=
Total non-current liabilities	**53,945**	**54,583**	**35,572**	**35,076**	**2,768**	**1,312**
6. Non-current liabilities held for sale	**=**	**=**	**=**	**=**	**=**	**=**
7. Current liabilities						
7.1 Trade payables and other payables	68,899	84,108	23,418	22,141	2,105	1,572
7.2 Current financial payables	29,180	27,584	25,064	22,447	14	=
Total current liabilities	**98,079**	**111,692**	**48,482**	**44,588**	**2,119**	**1,572**
Total shareholders' equity and liabilities	**218,544**	**236,162**	**122,124**	**119,709**	**13,809**	**11,626**
Net financial debt	**(52,977)**	**(45,834)**	**(39,175)**	**(38,038)**	**3,103**	**2,531**

Reclassified financial statements of subsidiaries

	Marzotto Wool Manufacturing S.r.l. (thousand euro)		Marzotto Lab S.r.l. (thousand euro)		Ambiente Energia S.r.l. (thousand euro)	
	2019	2018	2019	2018	2019	2018
8. Net revenues	**123,268**	**137,622**	**57,258**	**60,177**	**5,891**	**5,171**
9. Cost of sales	(108,418)	(115,602)	(45,233)	(46,262)	(4,213)	(3,866)
10. Gross income	**14,850**	**22,020**	**12,025**	**13,915**	**1,678**	**1,305**
11. Product development and marketing costs	(13,463)	(13,745)	(10,514)	(10,016)	(8)	(12)
12. General and administrative costs	(4,885)	(6,162)	(4,032)	(4,399)	(328)	(314)
13. Other income and charges	251	240	(386)	(170)	(198)	(95)
14. Operating income	**(3,247)**	**2,353**	**(2,907)**	**(670)**	**1,144**	**884**
15. Net financial charges	(829)	(249)	(212)	(153)	(6)	(7)
16. Dividends from non-consolidated equity investments and valuations to equity	6,551	8,110	650	900	=	=
17. Other financial income and charges	(45)	(2)	(10)	=	=	=
18. Income before taxes	**2,430**	**10,212**	**(2,479)**	**77**	**1,138**	**877**
18. Taxes	797	(620)	583	189	(307)	(211)
20. Net income from continuing operations	**3,227**	**9,592**	**(1,896)**	**266**	**831**	**666**
21. Net income from discontinued operations	=	=	=	=	=	=
22. Net income	**3,227**	**9,592**	**(1,896)**	**266**	**831**	**666**

Reclassified financial statements of subsidiaries

	Le Cotonerie S.r.l. (thousand euro)		Marzotto Textile Czech Rep. (thousand czk)			
	2019	2018	2019	2018	2019	2018
1. Non-current assets						
1.1 Property, plant and equipment	=	=	=	=		
1.2 Civil buildings	=	=	3,262	=		
1.3 Goodwill, trademarks and other intangible assets	=	=	=	(17)		
1.4 Equity Investments	=	=	=	=		
1.5 Other investments	=	=	=	=		
1.6 Long-term receivables	=	=	=	=		
1.7 Deferred tax assets	=	=	=	=		
1.8 Long-term financial receivables	=	=	=	=		
Total non-current assets	**=**	**=**	**3,262**	**(17)**	**=**	**=**
2. Non-current assets held for sale	**=**	**=**	**=**	**=**		
3. Current assets						
3.1 Inventories	=	=	=	=		
3.2 Trade receivables	=	=	2,420	1,271		
3.3 Other receivables	1	4	98	60		
3.4 Current financial assets, cash and cash equivalents	11	9	2,858	3,192		
Total current assets	**12**	**13**	**5,376**	**4,523**	**=**	**=**
Total assets	**12**	**13**	**8,638**	**4,506**	**=**	**=**
4. Shareholders' equity						
4.1 Share capital and reserves	16	13	2,970	2,423		
4.2 Income/(Loss) for the year	(6)	(3)	812	529		
4.3 Non controlling interests	=	=	=	=		
Total shareholders' equity	**10**	**10**	**3,782**	**2,952**	**=**	**=**
5. Non-current liabilities						
5.1 Long-term provisions	=	=	=	=		
5.2 Other long-term payables	=	=	=	=		
5.3 Deferred tax liabilities	=	=	=	=		
5.4 Long-term financial payables	=	=	2,580	=		
Total non-current liabilities	**=**	**=**	**2,580**	**=**	**=**	**=**
6. Non-current liabilities held for sale	**=**	**=**	**=**	**=**	**=**	**=**
7. Current liabilities						
7.1 Trade payables and other payables	2	3	1,584	1,554		
7.2 Current financial payables	=	=	692	=		
Total current liabilities	**2**	**3**	**2,276**	**1,554**	**=**	**=**
Total shareholders' equity and liabilities	**12**	**13**	**8,638**	**4,506**	**=**	**=**
Net financial debt	**11**	**9**	**(414)**	**3,192**	**=**	**=**

Reclassified financial statements of subsidiaries

	Le Cotonerie S.r.l. (thousand euro)		Marzotto Textile Czech Rep. (thousand czk)			
	2019	2018	2019	2018	2019	2018
8. Net revenues	**=**	**=**	**18,350**	**14,400**		
9. Cost of sales	=	=	(15,215)	(12,472)		
10. Gross income	**=**	**=**	**3,135**	**1,928**	**=**	**=**
11. Product development and marketing costs	=	=	=	=		
12. General and administrative costs	(4)	(4)	(2,288)	(1,267)		
13. Other income and charges	(3)	=	=	=		
14. Operating income	**(7)**	**(4)**	**847**	**661**	**=**	**=**
15. Net financial charges	=	=	(35)	(8)		
16. Dividends from non-consolidated equity investments and valuations to equity	=	=	=	=		
17. Other financial income and charges	=	=	=	=		
18. Income before taxes	**(7)**	**(4)**	**812**	**653**	**=**	**=**
18. Taxes	1	1	=	(124)		
20. Net income from continuing operations	**(6)**	**(3)**	**812**	**529**	**=**	**=**
21. Net income from discontinued operations	=	=	=	=		
22. Net income	**(6)**	**(3)**	**812**	**529**	**=**	**=**

Summary of the main resolutions of the Shareholders' Meeting

With regard to the financial statements for the year ended 31 December 2019, the Marzotto S.p.A. Shareholders' Meeting of 29 April 2020 resolved:

- to approve the Company's Financial Statements and the Management Report as at 31 December 2019 and the presentation of the Consolidated Financial Statements as at 31 December 2019 of the Marzotto Group, along with the related reports;
- to allocate the profit for the period of 10,324,609.46 euros as follows:
  - to earnings carried forward: EUR 10,324,609.46.

After this allocation, the profits carried forward will amount to 23,216,617.84.

1836
MARZOTTO
GROUP

MARZOTTO S.p.A.

Company with Sole Shareholder - subject to management and coordination by Trenora S.r.l.

Tax ID and V.A.T. registration number 00166580241
REA Vicenza nr. 801
PEC: Marzotto@legalmail.it

Registered and Administrative office:

Largo S. Margherita, 1
36078 Valdagno (VI)
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