

2019

ANNUAL
STATEMENT



VINAVIL[®]

YOUR PARTNER IN POLYMERS



Web site: WWW.VINAVIL.COM

Annual Statement 2019

Company Profile of Vinavil S.p.A.	5
Offices Worldwide	6

Financial Statements as at 31 December 2019

Report on Operations	9
Assets - Liabilities - Profit and Loss Statement	27
Cash Flow Statement	31
Explanatory Notes	33
Statutory Auditors' Report	81
Independent Auditors Report	83



Company Profile of VINAVIL S.p.A.

VINAVIL S.p.A., which was founded in 1994 when the MAPEI Group acquired the Vinylacetate Polymers production division of EniChem Synthesis, continues the Italian tradition of fine and secondary chemicals, placing itself at the top of the sector in Europe.

In particular, VINAVIL production consists of the following lines:

- Vinyl and acrylic binders for water-based paints
- Vinyl and acrylic dispersions for adhesives and for the textile industry
- Redispersible powders
- Solid polymers for the chewing-gum industry
- Polymers in beads for special uses
- Vinyl adhesives for DIY

Tailor-made vinyl and acrylic polymers for a wide range of uses (from cement additives to polymerisation suspending agents, etc.).

VINAVIL production in Italy can be summarised in the following data:

- Turnover in 2019: approx. € 181 million (47% in Italy and 53% abroad)
- Employees in 2019: 371, of which 10% employed in research
- Research and development expenses: 6% of annual turnover



As well as in industry, the VINAVIL brand has been a well-known product in families for decades, thanks to the Vinavil universal adhesive, the first and most famous “white glue”. VINAVIL production in Italy is located in the 2 plants in Ravenna and Villadossola (Verbania), strategically located for an effective logistic service both to Northern Europe and to the South and the Mediterranean area.

Since 1997, VINAVIL has intensified its internationalisation with the establishment of VINAVIL Corp. (USA) in North America, with registered office in Deerfield Beach (Florida) and production plant in Chicago, and of VINAVIL Inc. (Canada) with production plant in Laval (Montreal). In 2001 a joint venture established up in Egypt (VINAVIL EGYPT), with a plant in Suez; the MAPEI Group acquired 100% of the company, in anticipation of further developments in this important geographical area.

VINAVIL has progressively obtained the certification of its Management Systems:

- in 1995, the Quality Management System, in compliance with the ISO 9001 standard;
- starting from 2004, of the Environmental Management System, in compliance with the ISO 14001 standard;
- in 2011, the Occupational Health and Safety Management System, in compliance with the OHSAS 18001 standard.

The certification concerns the three sites in Italy, namely:

Milano (Headquarters)
Via Valtellina 63

Ravenna
Via Baiona 107

Villadossola
Via Toce 7



Since 1997, VINAVIL has joined the “Responsible Care” international environmental protection programme.



The Certificate of Excellence, obtained in June 2011, crowned all VINAVIL’s prestigious awards in the field of Quality, Environment and Safety.

Offices Worldwide



Web site: www.vinavil.com

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Administrative headquarters and offices of Vinavil - Milan - Italy



Financial Statements as at 31 December 2019





Report on operations

VINAVIL S.p.A.

Registered Office in Viale Jenner 4, Milan, Italy

Share Capital Euro 6,000,000

Direction and coordination: Mapei S.p.A.

Italian Tax Code and registration with the Registry of Companies in Milan no. 11222570159- E.A.I. no. 1445835

Report on operations statutory Financial Statements as at 31 December 2019

Dear Shareholder,

this report on the situation and management performance of the Company is prepared in compliance with the provisions of art. 2428 of the Italian Civil Code and accompanies the Financial Statements for the year as at 31 December 2019.

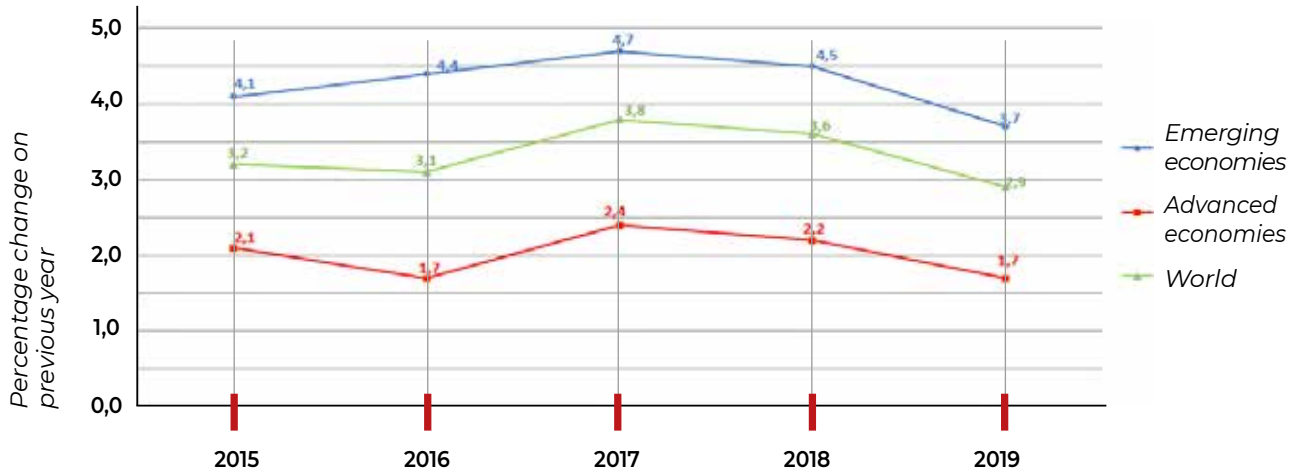
The year closed with a profit of € 4,518,710 net of taxes for the year, after depreciation and taxes respectively amounting to € 4,727,985 and € 2,105,078.

World economic development

In 2019, the development of the world economy reached 2.9%, a significant improvement compared to the previous year during which global GDP increased by 3.6%. Last year, the real growth of the economy amounted to 1.7% in advanced countries, while it increased by 3.7% in emerging markets. As shown in the diagram, the moderation of the growth rate in 2019 affected both mature and emerging markets. The gap between the development rates of mature and emerging economies has narrowed; the slowdown in emerging economies was in fact more significant than the one which hit advanced economies.

Performance of world GDP

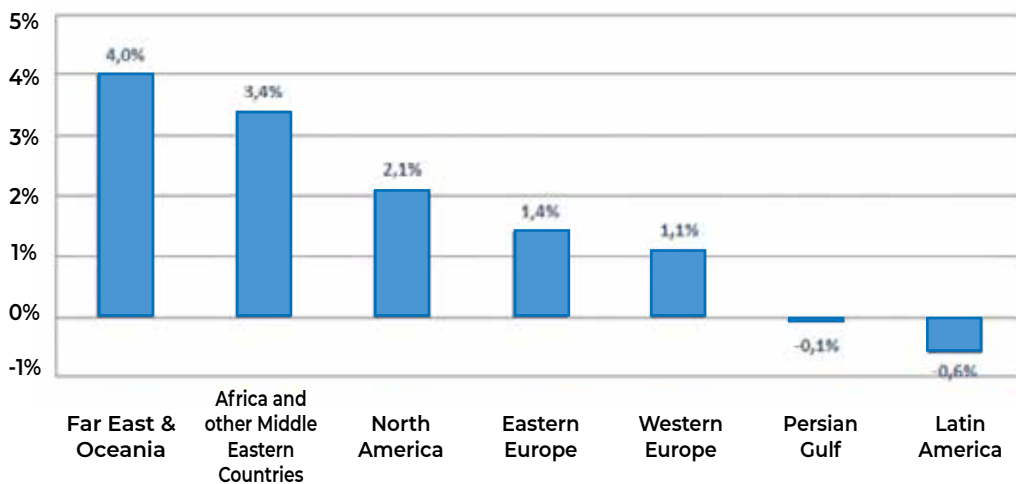
Source: international monetary fund, January 2020



The diagram reflects the GDP performance for the previous year in the various geographical areas.

Estimates on the performance of GDP by geographical area

2019 vs. 2018



2019 was characterised by a moderate increase in the Western European economy, where the gross domestic product achieved a development of 1.1%. Among the major countries in the region, the highest growth occurred in Spain, where the change in GDP stood at 2%. During 2019, the German economy performed worse than the continental average, growing by 0.6%. The development of the French GDP remained 1.4%. Despite the uncertainties related to “Brexit”, in 2019 the British economy managed to achieve growth of more than 1%.

Eastern Europe experienced a slowdown in its economic situation compared to 2018, which closed with a 3.1% increase in GDP. It is estimated, in fact, that the region's economy has grown by 1.4%. The result of the area was affected by the stagnation of the Turkish economy and the slowdown in Russia, where GDP grew by 1.2% last year, compared to +2.3% in 2018. On the contrary, the positive economic dynamics continued in the main countries of the Central Eastern region.

In Africa and other Middle Eastern countries, economic growth is estimated at 3.4% in 2019. The GDP dynamic slowed down compared to 2018, characterised by an economic development of 4.4%. Egypt and Morocco benefited from a favourable macroeconomic situation, while the resumption of the conflict in Libya led to a new severe economic recession for the country. In 2019, there was an increase of 3.3% in the Sub-Saharan region, a rate of development similar to that of the previous year. A strengthening of the economic growth rate in Nigeria was countered by a slowdown in the South African GDP, which in 2019 increased only by 0.4%. In the other countries of the region, the rate of economic development was on average higher.

Economic development in Italy

In 2019, the Italian GDP reached a modest growth, equal to 0.2%. Therefore, there was a slowdown compared to 2018, which closed with a growth of 0.8%. Once again, the Italian growth rate was the lowest among the major economies of the European Union, which recorded an overall growth of 1.2%. The inflation rate remained at 0.6%, which represented a decrease with respect to 2018. In 2019, growth in consumption showed a slight slowdown, settling at 0.5%, while gross fixed capital formation increased by 2.2% compared to a growth of 3% in 2018.

As far as the chemical industry sector is specifically concerned, the current phase in Italy is particularly challenging, but potentially also a harbinger of opportunities, because the worsening of the economic situation is accompanied by profound changes in the competitive environment, also in relation to the transition towards circular economy. The chemical industry plays a strategic role in promoting circular economy, since it is located upstream of many supply chains and possesses the technological skills relating to the management of substances and the transformation of matter.

Operating performance

Compared to last year, the Company recorded a sales' volumes increase of 2.5% in 2019 and a turnover decrease of 0.81%.

The following table shows the distribution by geographical area of the turnover and the relevant development trend (millions of €):

Geographical areas	2019	2018	Δ%
Italy	78	79	-1%
Europe	88	87	1%
Outside Europe	15	16	-4%
Total	180	181	-1%

The analysis of sales by geographical area highlights a substantial stability of the consolidated markets. A slight decrease in sales outside Europe, particularly in the Middle East and Africa, as a result of previous commercial actions in the Paints segment, which completes the range of products offered by the branch in Egypt. In general, the performance of the main segments (Adhesives, Coatings, Textiles) was at the same levels as last year. There was an increase in sales of “Suspending Agents” (+ 41%) and “Redispersible Powders” (+11%), while there was a decrease in both solid polymers for the Chewing Gum industry and in the “Small Packs” for DIY.

The price trend of raw materials was more stable in 2019 than the previous year. Over the year, the cost of the main monomers used in the production cycles declined gradually; this context has allowed the return to a healthy generation of profit, which lacked last year.

As a result of the above, the earnings before interest, taxes, depreciation, and amortisation (EBITDA) stands at € 12.3 million (approximately 6.3% of turnover), compared to € 1.9 million in the previous year.

During the year, the carrying value of the investment in Vinavil Egypt for Chemicals SAE was reduced by € 1 million, following the assessment of the recoverable amount of the investment (impairment test) carried out using the ‘Discounted Cash Flow’ method, in consideration of the presence of indicators of permanent loss of value.

It should be noted that in 2019 the Company distributed dividends for € 5 million and financed investments of approximately € 2.04 million through its operations.

From a financial viewpoint, the net financial position (essentially represented by the “pooling-account” with the parent company Mapei SpA) has improved: from a debt of € 16.3 million at the end of 2018 to € 3.9 million at the end of 2019.

The change in the net financial position essentially originated from the positive cash flows from income management, amounting to € 19.4 million (including € 0.5 million as partial reimbursement of the income relating to the 2014 and 2018 tax losses transferred in the context of tax consolidation), absorbed by technical investments (€ 2 million) and the payment of dividends (€ 5 million).

Disclosure pursuant to art. 2428 of the Italian Civil Code

In order to better highlight the situation of the Company and management performance, below we summarise the equity, financial and economic data for the year, compared with those from the previous year, through a Balance Sheet reclassified by functional areas and the Profit and Loss Statement reclassified on a management accounting basis, as required by the Italian Civil Code (thousands of €).

Balance sheet reclassified as at 31 December

VALUES Euro x.000

	2019	2018
Net fixed assets		
Intangible	197	225
Tangible	25.941	28.602
Financial	17.246	18.246
Total	43.384	47.073
Net Working Capital		
Inventories	22.900	26,626
Receivables	39.071	45.605
Other Assets	-2.236	2.992
Payables	-24.264	-26.077
Other Liabilities	-4.316	-4.285
Total	35.717	44.861
Provisions for risks and employee leaving indemnity		
Reserves for contingencies and other charges	-2.104	-2.003
Employee leaving indemnity	-797	-870
Total	-2.901	- 2.873
Net Invested Capital	76.200	89.061
Net Financial Position		
Liquid funds	-9	-9
Short-term financial debts	1	1
Cash Pooling Position	3.979	16,359
Total	3.971,0	16,351
Shareholders' Equity	72.229	72,710
Total sources of financing	76.200	89,061

The main changes in cash flows, which have led to the improvement of the Net Financial Position, are as follows.

Cash flows absorbed by operating activities: during the year, operating activity led to a positive net change of € 19.4 million (for more details, please refer to the Cash Flow Statement, which forms an integral part of the Explanatory Notes).

Cash flows generated by investment activities: this area led to a negative change of € 2.04 million, following interventions on tangible fixed assets at the production sites of the Company (as commented in the following paragraph "Production/investments" of this report).

Cash flows absorbed by financial activities: arising from the payment of dividends to the parent company for € 5 million.

Profit and Loss Statement reclassified as at 31 December

VALUES Euro x.000

	2019	2018
Revenues from sales	179.717	181.193
Internal production	-958	-472
Value of production	178.759	180.721
External operating costs	140.390	153.319
Added value	38.369	27.402
Personnel costs	26.054	25.491
Earnings before interest, taxes, depreciation, and amortisation (EBITDA)	12.315	1.911
Amortisation/depreciation and provisions	4.728	4.963
Operating result	7.587	-3.052
Income from ancillary activities/business	54	134
Financial income (net of financial charges)	-958	245
Normalised EBIT	6.683	-2.673
Non-operating result		
Full EBIT	6.683	-2.673
Financial charges	59	573
Gross income	6.624	-3.246
Income taxes	2.105	-805
Net income	4.519	-2.441

Main performance indicators

We point out various performance indicators chosen among those considered most significant in relation to the Company's situation. The ratios for the year under scrutiny are compared with those of the previous year.

		2019	2018
1 - financing ratios of fixed assets			
Fixed assets to equity capital ratio	<i>Equity / Fixed assets</i>	1,66	1,54
Fixed assets to equity capital and medium/long term debt ratio	<i>Equity + Consolidated liabilities / Fixed assets</i>	1,73	1,61
2 - financing ratios of fixed assets			
Debt to equity ratio	<i>Consolidated liabilities + Current liabilities / Equity</i>	0,49	0,68
Debt (long-term interest bearing) to equity ratio	<i>Net financial position / Equity</i>	0,05	0,22
3 - profitability index			
ROE Gross	<i>Gross result / Equity</i>	9,2%	-4,5%
ROI	<i>Operating result / Capital operating area (*)</i>	13,8%	-5,6%
ROS	<i>Operating result / Sales revenues</i>	4,2%	-1,7%
4 - liquidity ratio			
Current ratio	<i>Current assets / Current liabilities</i>	1,98	1,61
Cash ratio	<i>(Deferred liquidity + Immediate liquidity) / Current Liabilities</i>	1,27	1,04

(*) Capital operating area: total assets - Financial fixed assets - cash and cash equivalents

Going into detail, the “Fixed assets to equity capital ratio”, which defines the degree of internal hedging of fixed assets, shows an amount of 1.66, which is above the reference parameter generally suggested (between 0.7 and 1), therefore, confirming a satisfactory equity soundness (the company's equity is in fact sufficiently abundant to autonomously finance the fixed assets).

Also the “Fixed assets to equity capital and medium/long-term debt ratio”, which compares the permanent capital, contributed therefore by both the shareholders and by third party financial backers, with the fixed assets, discloses a satisfactory situation and therefore confirms a suitably capitalised equity structure, since it is higher than the minimum threshold generally advised of 1, therefore the financial coverage sources are able to satisfy not only the requirement relating to the fixed assets, but also the requirement generated by the current assets.

The “Debt to equity ratio” decreased slightly compared to the previous year, mainly due to the decrease in current liabilities. Total liabilities amounted to approximately € 35.46 million, against a Shareholders' Equity of € 72.23 million.

The “Current ratio” is 1.98 (1.61 in 2018); which indicates a satisfactory ability of the company to meet short-term commitments with its own current resources.

The “Cash ratio ” was also positive at 1.27 (1.04 in 2018).

The values adopted by the current ratio and the cash ratio overall disclose that the Company is able, using its liquidity, to deal with short-term commitments.

The profitability indicators show, from an economic point of view, a positive return on equity of 9.2%; the positive trend is determined by the increase in profit for the year.

Return on investment and sales are both positive; the positive trend of the indicators was mainly determined by the improvement in the operating result, driven by a significant increase in margins on sales.

Risk management

In this part of this report, in compliance with the provisions of art. 2428 of the Civil Code, the intention is to report the risks, that is to say those events capable of producing negative effects in order to pursue the corporate objectives, which can represent an obstacle to the creation of value.

The Company has activated a mechanism for the constant monitoring of said risks, so as to prevent the potential negative effects and adopt the necessary action for their containment.

The main ones are listed below:

Risks associated with credit management

The Company’s commercial policy is characterised by safeguarding credit by means of a constant and, if necessary, preventive control and monitoring of the financial standing of the customer.

It should be borne in mind that, operating with a rather high number of customers, there are no significant credit positions that lead to an excessive credit concentration.

Price risk: the sales price policy is established based on foreseeable changes in the cost for raw materials and purchased finished products; the objective is to adjust the same, as soon as possible, in order to reflect the increase in costs.

In order to reduce the risk relevant to price fluctuations in raw materials, the Company carries out specific market, trying to take advantage, as best as possible of market fluctuations.

Furthermore, the Company normally does not execute medium/long-term contractual commitments with customers and suppliers.

Risks associated with currency exchange rates

The Company operates in a financial context essentially linked to the Euro. The financial exposure in currencies other than the Euro is limited and does not involve particular risks.

The Company holds a foreign currency current account (USD), centralised with the Group's Central Treasury (cash pooling), for the ordinary management of supplies and collections in the Dollar area.

Risks associated with financial requirements and liquidity management

The Company manages its financial needs and excess liquidity through the centralised treasury management system, maintained with the parent company Mapei S.p.A., which guarantees the Group's liquidity.

Environmental impact, health and safety risks

The Company pays particular attention to protecting the environment and the health and safety at the workplace, complying with all environmental and safety regulations. The Company has structures dedicated to the management of these issues. At Group level, the HSE (Health, Safety and Environment) function operates with the task of coordinating the operations of the individual companies.

Risks associated with tax and legal disputes

The Company uses specialised Lawyers in order to face and deal with risks relevant to situations that may involve the Company. To date the Company is not involved in any disputes worth mentioning and for which loss is possible or probable.



Relations with subsidiaries, associates, parent companies, subsidiaries of the parent company and related parties

Parent company

Vinavil S.p.A. is a subsidiary of Mapei S.p.A. with registered office in Via Cafiero 22, Milan, Italy, that owns 99.98% of the share capital.

Transactions between Vinavil S.p.A. and the parent company Mapei S.p.A. mainly concern:

- Trade relations relevant to the purchase and sale of products;
- Centralised services (IT, technical, organisation, general) provided by the parent company;
- Tax relations based on the parent company's participation in the National Tax Consolidation Regime prepared by the Holding;
- Financial relations for Group cash pooling.

All transactions are regulated by contract and executed at arm's length.

Associates

Relations with the associate are both of a commercial nature, for assets sold and/or purchased at normal market conditions, and above all of a financial nature, resulting from the shareholders' meeting resolutions for the distribution of dividends in 2017 and 2018 (not yet collected at 31 December of 2019).

Other companies subject to control by the parent company

Relations with other Group companies are of a commercial nature relevant to the purchase and sales of products.

These relations are regulated on an arm's-length basis.

The breakdown of the financial and economic relations between the Company and other Group companies, including the parent company, the associate and Companies subject to control by the parent company, is illustrated in Annex 1 and 2 to this report. There are no significant relations with other related parties.

Transactions on treasury or parent company shares

The Company does not own, nor did it acquire or dispose during the year, treasury or parent company shares of Mapei S.p.A., with which it has commercial and financial relations regulated on an arm's-length basis.

Please note that the shares of the Company as at 31 December are fully registered to Mapei S.p.A., following the transfer, by transfer in 2019, of the shares (1,200 with a nominal value of 1 Euro each) owned by lawyer Laura Squinzi in favour of the other shareholder Mapei S.p.A.



Other information – National tax consolidation

The Company exercised the option for group taxation for IRES (company earnings tax) purposes (Tax Consolidation), jointly with the parent company Mapei S.p.A. and the other companies controlled by the latter.

Research and development

The Company's commitment to Research and Development is increasingly oriented towards the search for technological solutions capable of promoting an environmentally friendly development, successfully addressing the great global challenges of climate change and the limited availability of resources.

The transition to circular economy, which is necessary to safeguard the environment and the well-being of future generations, can also represent a great development opportunity for Vinavil; for this reason, the activity within its own Research Laboratories continued in 2019 as well, with the aim of identifying innovative products oriented towards environmental sustainability, in collaboration with some important Italian and foreign independent research institutes, such as the National Research Council (and in particular with the Italian Trees and Timber Institute) and the POLYMAT Institute of the University of the Basque Country.

The Company continued its collaboration with qualified customers in 2019, with the aim of finding innovative solutions; in this regard, the activity which led to the introduction, in the previous year, of a new wood adhesive (of the D4 Mono-component Class) with a low odour level and resistant to freezing/thawing is being consolidated. This product has been particularly appreciated by customers located in the Baltic area, where these are two fundamental characteristics.

The experimentation and activity in the self-adhesive products sector continue with the consolidation of a new product used in the production of labels to be applied on glass bottles; this application shows, in fact, a good resistance to water, when the bottle is immersed in the ice tray to keep it cold.

In the sector of the production of chipboard panels in wood, studies have begun with the aim of replacing traditional binders based on Urea-Formaldehyde resins (no longer complying with the regulations) with a vinyl-based binder. The laboratory tests results are positive, the pre-industrial tests have begun.

With the aim of expanding the attractiveness of the market in the Coating sector, the Research and Development activity has focused on the study of polymers for wall paints with a lower content of volatile substances.

Moreover, the efforts to support the development of the textile sector on the market also continued, especially in the development of hydrophobing agent for the replacement of fluorinated products, an activity which has become a priority in the field of textile finishings, in collaboration with an important laboratory belonging to INNOVHUB - Silk Section (Company wholly owned by the Chamber of Commerce of Milan Monza Brianza and Lodi, which performs applied research activities).

Vinavil's Research and Development strategy for the future is aimed both at strengthening its presence in the historical sectors, through extensive technical assistance, and at the continuous development of its processes and products, aiming at technical and technological improvement and therefore essentially at the achievement of greater profits in the future.



Production/investment

The investment during 2019 led to an expense commitment of approximately € 2 million.

At the Ravenna plant, extraordinary maintenance and upgrading interventions were carried out on the “Methanol Tank”, on the “Veova Tank” and adaptation and safety interventions were carried out throughout the site.

The most important investments for the Villadossola plant concern works on buildings for adaptation to new safety regulations and specific works to further improve the performance of some plants. In addition, the railway connection was upgraded, a new boiler was purchased, an Emergency Vent Abatement System was installed, a new anticaking dosing system was created, three new air duct burners were purchased in the “Spray Dryer” plant and the “Acrylics” production line was upgraded.

Safety, quality and environmental sustainability

During the year 2019, the transition to the new requirements of the 2015 edition of the ISO 9001 and ISO 14001 standards was consolidated, which constitute the reference of the Management Systems for Quality and Environmental Management and the path which will lead us to the transition of the Health and Safety of Workers Management System, from the current OHSAS 18001:2007 to the new ISO 45001:2018.

The activity of continuous implementation of company standards to the requirements of the FSSC 22000 and ISO 22000 standards and of the main customers in the sector continued, in the context of the Food Safety Management System applied to the Raviflex BLS production line, which is component of the basic gum for chewing-gums.

All business process updating activities are aimed at a progressive integration of the systems applied in the organisation and towards an ever stronger alignment with the Corporate Procedures of the MAPEI group.

Vinavil S.p.A. continues its participation in the international “Responsible Care” project, promoted in Italy by Federchimica.

In 2019, the following main improvement measures relevant to Quality, Environment and Safety were carried out at Villadossola:

- Support for the systematic application of “safety briefings” activities in the various production departments and in-depth study of specific prevention issues affecting the plant;
- In the context of Italian Legislative Decree 105/15 (Seveso III law on the risks of a major accident), please note the installation of a new condenser for the treatment of emergency emissions from production departments;
- Launch of a five-year review plan of hazard and operability analysis, the so-called “HazOp” from HAZard and OPerability analysis), in view of the renewal of the Safety Report in 2021;
- Important revision of the procedure for managing Personal Protective Equipment;
- Update of the Risk Assessment Document.

Also in the Ravenna production plant, in 2019, important improvement interventions relating to Quality, Environment and Safety were carried out, in order to guarantee performance adequate to the corporate standard. These are confirmed as strong points:

- The constant investment in Health, Safety and Environment training, provided in line with the annual plan, for a total of approximately 2300 hours.
- Surveillance activity performed by the persons in charge maintain the attention on issues related to the environment, safety and health of workers high;
- Installation of a so-called “zoning in & out” system for limiting the speed of fork-lift trucks in the area dedicated to the warehouse and installation on the fork-lift trucks of the so-called “Blue Light” system (this system increases the level of safety by making the vehicle in motion visible).

Implementation of Italian Legislative Decree 231/2001

Also in 2019, Vinavil operated in compliance with the directives of the Group and its Supervisory Body, carrying out some activities among which:

- publication and adoption of the Policy on “whistleblowing” (which is a tool through which employees can report a possible fraud, a crime, an offense or any irregular conduct, committed by other persons belonging to the organisation);
- compliance with the regularity and contents of the information flows requested from the various corporate functions;
- communication, training and information activities proposed under Legislative Decree 231/01 “Regulation of the administrative liability of legal persons, companies and associations, including those without legal status”, and for the dissemination and knowledge of the Company Code of Ethics (a document which defines the moral and social standards with which employees must comply), of the Organisation, Management and Control Model (the so-called, in Italian, M.O.G.C.) and the tasks and responsibilities of the various company figures involved in its implementation;
- periodic reports for the Board of Directors and the Board of Statutory Auditors.
- implementation of supervisory activities (audits) for 2019 and planning for 2020.

Human Resources

As at 31/12/2019, the workforce was made up of 371 individuals distributed between the categories as follows:

- Managers 10
- Junior Managers 52
- White Collars 118
- Blue Collars 191

During the year, there were 10 terminations and 5 new recruits.

Secondary offices and locations where business activities are carried out

In compliance with art. 2428, subsection 5, of the Italian Civil Code, it is hereby specified that the Company does not currently have secondary offices, but operates via the following premises:

- Milan (MI) – Via Valtellina, 63
- Ravenna (RA) – Via Baiona, 107
- Villadossola (VB) – Via Toce, 7

Disclosure on financial instruments

With reference to the disclosure on financial instruments required by art. 2428, subsection 3, no. 6 bis of the Italian Civil Code, the Company does not have any derivative contracts.



Payment of dividends

In 2019, the distribution of a dividend for € 5 million was resolved.

Direction and coordination activities

Based on the requirements of art. 2497 bis, point 4, of the Italian Civil Code, it should be noted that the Company is subject to direction and coordination by the parent company Mapei S.p.A. Please refer to the Explanatory Notes for the key data relevant to the last approved Financial Statements of Mapei SpA.

2020 Business outlook

The spread of the COVID-19 virus is having a significant impact on the economy worldwide.

As of today, the Company's activities, despite the difficulty of the contingent situation in which it is operating, have not been particularly limited, also in consideration of the type of activity carried out. However, given the uncertainty of this emergency situation, it cannot be excluded that temporary interruptions or further limitations of the Company's activity may occur in the future caused by delays or suspension in the supply of products, also due to the interruption of transportation or new legal restrictions in the various countries in which it operates.

In order to protect its employees, the Company has implemented high safety and monitoring standards to prevent the spread of COVID-19 and has adopted a Safety Protocol in its production and commercial facilities as well as in its headquarters, in compliance with the legislative and health provisions in force. There is a risk that, should the epidemic persist, Covid-19 may become the trigger of a global recession, on whose duration there are still no reliable assessments and whose effects on the world economy will depend on the ability to isolate the contagion and from the decisions taken by government authorities to contain the spread of the epidemic.

The final impact of the spread of Covid-19 is currently unpredictable and it is therefore not possible to assess the impact it will have on the end markets as well as on the economic, equity and/or financial situation of the Company.

However, even in a context of uncertainty regarding the possible effects of Covid-19, at present we are not aware of any elements which may question the continuation of the business, thus confirming the principles with which the Financial Statements were drawn up.

Milan, 30 April 2020

THE CHAIRMAN OF THE BOARD OF DIRECTORS

(Dr. Marco Squinzi)

Annex 1 to the 2019 Report on Operations

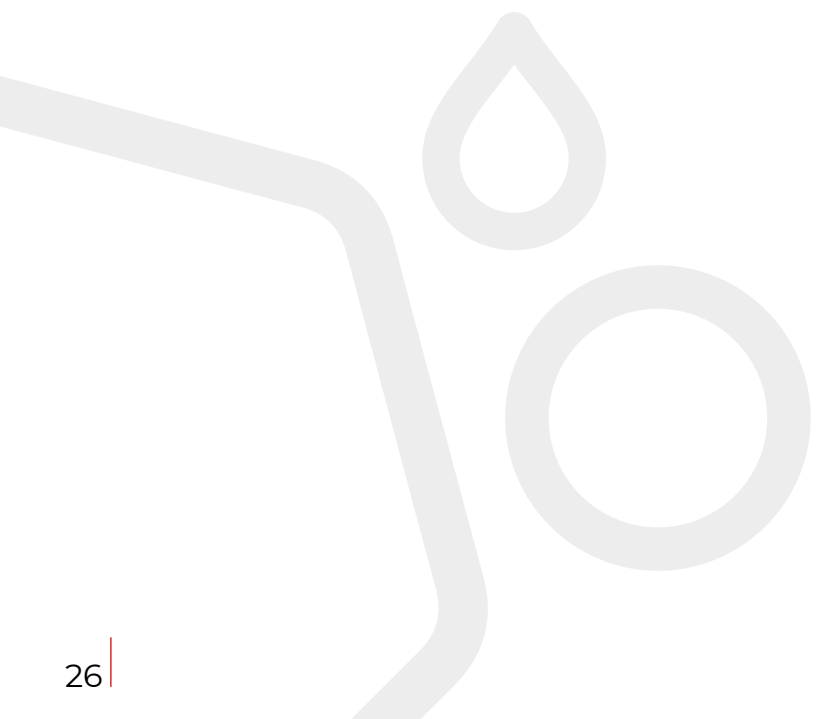
Intra-group relations as at 31 December 2019 - Balance sheet

Values in Euro	Trade receivables	Financial receivables	Payables to tax authorities	Trade payables	Cash pooling payables
Parent Company	6.160.292	271.404	1.018.983	(1.792.625)	(3.978.532)
Other Group companies	10.202.642	741.826		(96.179)	
Total	16.362.934	1.013.230	1.018.983	(1.888.804)	(3.978.532)

Annex 2 to the 2019 Report on Operations

Intra-group relations as at 31/12/2019 - Profit and Loss Statement

	A) 1	A) 5	B) 6	B) 7	B) 14	C) 16	C) 17	D) 19
Values in Euro	Revenues from sales and services	Other revenues and income	Raw, ancillary materials, consumables and goods	Costs of Services	Other operating expenses	Interests and other financial income	Interest and other financial charges	Adjustments to the carrying value of financial assets (write-downs)
Parent Company	23.189.626	9.900	(3.615.040)	(1.113.887)		42.522	(32.388)	
Other Group companies	42.784.208	24.688	(5.060)	(64.804)	(1.254)			(1.000.000)
Total	65.973.834	34.588	(3.620.100)	(1.178.691)	(1.254)	42.522	(32.388)	(1.000.000)



Assets - Liabilities -
Profit and Loss Statement



Balance sheet - year from 1.1.2019 to 31.12.2019

Assets

	31.12.2019	31.12.2018	difference
B) Fixed assets			
I Intangible fixed assets			
3) industrial patents and intellectual property rights	6.514,72	1.597,06	4.917,66
4) concessions, licenses, trademarks and similar rights	190.495,50	223.616,00	(33.120,50)
Total intangible fixed assets	197.010,22	225.213,06	(28.202,84)
II Tangible fixed assets			
1) land and buildings	12.001.495,29	12.599.295,80	(597.800,51)
2) plants and machinery	12.691.930,81	13.852.161,23	(1.160.230,42)
3) industrial and commercial equipment	116.352,43	105.938,31	10.414,12
4) other assets	256.439,77	182.237,57	74.202,20
5) tangible assets in process and advances	874.651,37	1.862.076,01	(987.424,64)
Total tangible fixed assets	25.940.869,67	28.601.708,92	(2.660.839,25)
III Financial fixed assets			
1) shares			
b) subsidiary companies	17.050.651,96	18.050.651,96	(1.000.000,00)
d) other companies	195.994,87	195.994,87	0,00
Total financial fixed assets	17.246.646,83	18.246.646,83	(1.000.000,00)
Total fixed assets	43.384.526,72	47.073.568,81	(3.689.042,09)
C) Current assets			
I Inventories			
1) raw, ancillary and consumable materials	14.748.266,63	17.426.582,47	(2.678.315,84)
4) finished products and goods	8.241.486,32	9.199.701,07	(958.214,75)
	22.989.752,95	26.626.283,54	(3.636.530,59)
II Receivables			
1) due from customers	21.966.197,07	25.621.622,84	(3.655.425,77)
3) due from subsidiary companies short-term	808.547,78	725.628,62	82.919,16
4) due from parent company short-term	6.431.695,83	8.516.671,21	(2.084.975,38)
5) due from companies subject to the control of parent companies	10.135.919,89	11.224.929,76	(1.089.009,87)
5) bis tax credits			
a) due within 12 months	1.224.561,62	1.717.934,47	(493.372,85)
b) due beyond 12 months	31.200,33	31.633,33	(433,00)
5) ter prepaid taxes	330.667,00	332.173,00	(1.506,00)
5) quater due from others	190.185,47	190.774,93	(589,46)
	41.118.974,99	48.361.368,16	(7.242.393,17)
IV Liquid funds			
1) bank and post office deposits	0,00	0,00	0,00
3) cash and equivalents on hand	9.030,11	9.299,46	(269,35)
	9.030,11	9.299,46	(269,35)
Total current assets	64.117.758,05	74.996.951,16	(10.879.193,11)
D) Accruals and deferrals	187.985,60	236.205,70	(48.220,10)
TOTAL ASSETS	107.690.270,37	122.306.725,67	(14.616.455,30)

THE CHAIRMAN OF THE BOARD OF DIRECTORS
(Marco Squinzi)

Balance sheet - year from 1.1.2019 to 31.12.2019

Liabilities

		31.12.2019	31.12.2018	difference
A) Shareholders' equity				
I	Capital	6.000.000,00	6.000.000,00	0,00
III	Revaluation reserves	43.245.623,65	43.245.623,65	0,00
IV	Legal reserve	1.200.000,00	1.200.000,00	0,00
VI	Other reserves, stated separately	4.832.464,81	4.838.320,03	(5.855,22)
VIII	Profits (loss) carried forward	12.432.372,93	19.868.278,40	(7.435.905,47)
		67.710.461,39	75.152.222,08	(7.441.760,69)
IX	Profit (loss) for the year	4.518.709,72	(2.441.760,69)	6.960.470,41
		72.229.171,11	72.710.461,39	(481.290,28)
B) Reserves for contingencies and other charges				
1)	reserves for pension liabilities and other post-employment benefits	1.625.521,79	1.558.246,26	67.275,53
2)	deferred tax fund	45.229,00	10.737,00	34.492,00
4)	other	433.925,76	433.925,76	0,00
		2.104.676,55	2.002.909,02	101.767,53
C) Severance Indemnity				
		796.808,65	869.931,27	(73.122,62)
D) Payables				
4)	Due to banks	1.406,04	1.327,68	78,36
7)	Due to suppliers	21.355.8820,3030	24.326.510,00	(2.970.630,9070)
10)	Due to associates	47.116,28	37.541,20	9.575,08
11)	Short-term payables due to parent companies	6.790.139,70	18.063.884,12	(11.273.744,42)
11 bis)	Payables due from companies subject to the control of parent companies	49.062,60	8.790,42	40.272,18
12)	Tax payables	659.906,57	647.346,95	12.559,62
13)	Amounts due to social security institutions	636.837,81	661.724,77	(24.886,96)
14)	other payables	3.019.262,73	2.976.295,55	42.967,18
		32.559.614,06	46.723.423,99	(14.163.809,93)
E) Accruals and deferrals				
		0,00	0,00	0,00
TOTAL LIABILITIES		107.690.270,37	122.306.725,67	(14.616.455,30)

THE CHAIRMAN OF THE BOARD OF DIRECTORS
(Marco Squinzi)

Profit and loss statement - year from 1.1.2019 to 31.12.2019

	31.12.2019	31.12.2018	difference
A) Value of production			
1) revenues from sales and services	179.717.230,39	181.192.967,42	(1.475.737,03)
2) changes in inventories of finished products	(958.214,75)	(472.141,60)	(486.073,15)
5) income from ancillary activities/business	943.704,21	996.334,68	(52.630,47)
	179.702.719,85	181.717.160,50	(2.014.440,65)
B) Costs of production			
6) raw, ancillary materials, consumables and goods	(108.836.192,91)	(122.385.064,42)	13.548.871,51
7) for services	(28.223.481,94)	(27.876.153,72)	(347.328,22)
8) for use of third party assets	(945.693,35)	(917.218,57)	(28.474,78)
9) for employees			
a) wages and salaries	(18.108.328,95)	(17.581.871,73)	(526.457,22)
b) social security contributions	(6.228.953,49)	(6.216.058,50)	(12.894,99)
c) employee leaving indemnity	(1.152.804,11)	(1.135.635,17)	(17.168,94)
d) pension liabilities and similar	(194.171,49)	(205.343,35)	11.171,86
e) other costs	(76.843,25)	(80.230,24)	3.386,99
	(25.761.101,29)	(25.219.138,99)	(541.962,30)
10) amortisation, depreciation and write-downs			
a) amortisation of intangible fixed assets	(41.233,16)	(34.718,44)	(6.514,72)
b) amortisation of tangible fixed assets	(4.686.752,28)	(4.928.059,13)	241.306,85
	(4.727.985,44)	(4.962.777,57)	234.792,13
11) changes in left-over stocks	(2.678.315,84)	(2.413.097,26)	(265.218,58)
14) other operating expenses	(889.885,03)	(862.445,77)	(27.439,26)
	(172.062.655,80)	(184.635.896,30)	12.573.240,50
Difference between value and cost of production	7.640.064,05	(2.918.735,80)	10.558.799,85
C) Financial income and charges			
15) d) income from equity investments in associated companies	0,00	212.202,03	(212.202,03)
16) other financial income			
d) financial income from parent companies	42.521,98	33.547,69	(33.547,69)
	42.521,98	33.547,69	8.974,29
17) interest and other financial charges			
a) payable interest to parent company	(32.388,50)	(22.679,17)	(9.709,33)
d) other financial charges	(47.889,94)	(44.594,60)	(3.295,34)
	(80.278,44)	(67.273,77)	(13.004,67)
17) bis exchange gains and losses	21.480,13	(506.261,84)	527.741,97
Total (15 + 16 - 17)	(16.276,33)	(327.785,89)	311.509,56
D) Value adjustments to financial assets			
19) write-downs:	0,00	0,00	0,00
a) of equity investments	(1.000.000,00)	0,00	1.000.000,00
Total adjustments (18 - 19)	(1.000.000,00)	0,00	(1.000.000,00)
EARNINGS BEFORE TAXES	6.623.787,72	(3.246.521,69)	9.870.309,41
20) a) current income taxes for the year	(2.069.080,00)	0,00	(2.069.080,00)
20) b) tax related to previous years	0,00	8.667,00	(8.667,00)
20) c) deferred and prepaid taxes	(35.998,00)	3.704,00	(39.702,00)
20) d) income arising from the adoption of the fiscal consolidated system	0,00	792.390,00	(792.390,00)
	(2.105.078,00)	804.761,00	(2.909.839,00)
PROFIT (LOSS) FOR THE YEAR	4.518.709,72	(2.441.760,69)	6.960.470,41

THE CHAIRMAN OF THE BOARD OF DIRECTORS
(Marco Squinzi)

Cash flow statement

	2019	2018	Changes
A. Cash flows from operating activities (indirect method)			
Profit (loss) for the year	4.518.709,72	(2.441.760,69)	6.960.470,41
Income taxes	2.105.078,00	(796.094,00)	2.901.172,00
Interest payable/(interest income)	(10.128,37)	(10.861,12)	732,75
(Dividends)	0,00	(212.202,03)	212.202,03
1. Profit (loss) before income taxes, interest, dividends and gains/losses on disposals	6.613.659,35	(3.460.917,84)	10.074.577,19
<i>Adjustment for non-monetary elements that were not offset in the net working capital</i>			
Provisions	197.737,21	208.907,46	(11.170,25)
Provisions for employee leaving indemnity	48.402,73	54.503,02	(6.100,29)
Amortisation and depreciation of fixed assets	4.727.985,44	4.962.777,57	(234.792,13)
Value adjustments to financial assets	1.000.000,00	0,00	1.000.000,00
2. Cash flow before changes in net working capital	5.974.125,38	5.226.188,05	747.937,33
<i>Changes in net working capital</i>			
Decrease/(increase) of inventories	3.636.530,59	2.885.238,86	751.291,73
Decrease/(increase) of trade receivables	3.655.425,77	2.291.306,25	1.364.119,52
Decrease/(increase) of receivables due from associates	(82.919,16)	(9.359,66)	(73.559,50)
Decrease/(increase) of receivables due from parent companies	379.075,38	(565.047,31)	944.122,69
Decrease/(increase) of other receivables	1.583.405,18	(811.451,56)	2.394.856,74
Decrease/(increase) of accrued income and prepaid expenses	48.220,10	(32.695,18)	80.915,28
Increase/(decrease) of trade payables	(2.970.630,97)	292.450,68	(3.263.081,65)
Increase/(decrease) of payables due to parent companies	615.347,27	(394.552,81)	1.009.900,08
Increase/(decrease) in payables due to associates	9.575,08	19.675,63	(10.100,55)
Increase/(decrease) of other payables	(292.267,98)	(146.789,23)	(145.478,75)
3. Cash flow after changes in net working capital	6.581.761,26	3.528.775,67	3.052.985,59
Interest collected/(paid)	21.214,68	(11.489,22)	32.703,90
Income taxes collected - parent company	480.738,00	0,00	480.738,00
(Income taxes paid - parent company)	0,00	(1.983.753,00)	1.983.753,00
(Income taxes paid - IRAP)	0,00	(99.359,00)	99.359,00
Use of employee leaving indemnity	(121.525,34)	(167.834,33)	46.308,99
Use of provisions	(130.461,68)	(15.349,81)	(115.111,87)
4. Cash flow after other adjustments	249.965,66	(2.277.785,36)	2.527.751,02
Cash flow from operating activities (A)	19.419.511,65	3.016.260,52	16.403.251,13
B. Cash flow from investment activities			
Tangible fixed assets	(2.025.913,04)	(2.376.878,96)	350.965,92
(Investments)	(2.025.913,04)	(2.376.878,96)	350.965,92
Intangible fixed assets	(13.030,32)	(3.195,00)	(9.835,32)
(Investments)	(13.030,32)	(3.195,00)	(9.835,32)
Financial fixed assets	0,00	0,00	0,00
(Investments)	0,00	0,00	0,00
Cash flow from investment activities (B)	(2.038.943,36)	(2.380.073,96)	341.130,60
C. Cash flow from financing activities			
<i>Loan capital</i>			
Increase (decrease) in short-term payables to banks	78,36	(86,58)	164,94
Increase (decrease) in payables due to cash pooling	(12.380.916,00)	3.323.560,00	(15.704.476,00)
<i>Shareholders' equity</i>			
Dividends (and interim dividend payments) paid	(5.000.000,00)	(4.000.000,00)	(1.000.000,00)
Cash flow from financing activities (C)	(17.380.837,64)	(676.526,58)	(16.704.311,06)
Increase (decrease) in liquid funds (A ± B ± C)	(269,35)	(40.340,02)	40.070,67
Cash and cash equivalents as at 1 January	9.299,46	49.639,48	(40.340,02)
Cash and cash equivalents as at 31 December	9.030,11	9.299,46	(269,35)

Explanatory notes to the financial Statements as at 31 December 2019

VINAVIL S.p.A.

Registered Office in Viale Jenner 4, Milan, Italy

Share Capital Euro 6,000,000

Direction and coordination: Mapei S.p.A.

**Italian Tax Code and registration with the Registry of Companies in
Milan no. 11222570159- E.A.I. no. 1445835**

Preparation standards

The Financial Statements as at 31 December 2019 were prepared in compliance with the provisions of the Italian Civil Code, as amended by Italian Legislative Decree 139/2015, interpreted and supplemented by the accounting standards issued by the Italian Accounting Body ("OIC").

The Financial Statements consist of the Balance Sheet (prepared in compliance with the framework envisaged by art. 2424 and 2424-bis of the Italian Civil Code), the Profit and Loss Statement (prepared in compliance with the framework envisaged by arts. 2425 and 2425 bis of the Italian Civil Code), the Cash Flow Statement (whose content, in compliance with art. 2425-ter of the Italian Civil Code, is filed pursuant to the provisions of Accounting Standard OIC 10) and these Explanatory Notes, prepared pursuant to the provisions of arts. 2427 and 2427-bis of the Italian Civil Code.

The following Explanatory Notes analyse and integrate the data of the Financial Statements with the additional information deemed necessary for a true and correct representation of the data illustrated.

When preparing the Financial Statements there were no extraordinary cases that required to resort to the exceptions envisaged by art. 2423 et seq. of the Italian Civil Code.

It should be noted that the Company does not hold treasury shares and shares of its parent company.

Furthermore, it is noted that comments relevant to the nature of the activities carried out by the Company and the research and development activities are described in the Report on Operations to which reference is made, also for the information on relations with parent companies and with other related parties and the other information envisaged by Article 2497 ter of the Italian Civil Code relevant to Companies that exercise direction and coordination activities..

Direction and Coordination

As noted in the Report on Operations, the Company is subject to the direction and coordination of Mapei S.p.A. with registered office in via Cafiero 22 Milan, Italy, pursuant to arts. 2497 sexies and 2497 septies of the Italian Civil Code. The information on the last approved Financial Statements of this Company is reported at the end of this document.

With regard to the information relevant to relations with the subject that carries out the Direction and Coordination activities and with the other companies subject to the same, as well as the effect that this activity had on company business and on its results, we refer to the Report on Operations. The same report also details, analytically, the reasons for the decisions made by the Company that were influenced by the subject that exercises Direction and Coordination activities



Postulates and reporting standards

In compliance with the provisions of art. 2423 of the Italian Civil Code, the general postulates of clarity and the truthful and correct representation of the financial situation of the Company and the economic result for the year were observed in the preparation of the Financial Statements.

The recognition, valuation, presentation and disclosure of the items may differ from those regulated by the provisions of the law on financial statements in cases where their failure to comply has irrelevant effects on the true and fair representation of the financial situation of the Company and the economic result for the year. To this end, information is considered relevant, based on qualitative and/or quantitative aspects, when its omission or misstatement could reasonably influence the decisions made by users based on the Company's Financial Statements. Additional specific criteria adopted to define the concept of irrelevance are indicated in correspondence with the individual items of the Financial Statements when affected by its application. The relevance of each item is considered in the context of other similar items.

The principles set out by art. 2423-bis of the Italian Civil Code were also observed as shown below.

The valuation of the items of the Financial Statements was carried out prudently and on a going concern basis, as well as taking into account the substance of the transaction or contract. For each transaction or fact and, in any case, for all business events, the substance of the same was identified, regardless of its origin and possible interdependence of several contracts forming part of complex transactions was evaluated.

Profits indicated in the Financial Statements are exclusively those as at the reporting date.

Revenues and expenses shown are those pertaining to the financial year, regardless of the date of collection or payment.

Risks and losses pertinent to the year were taken into account, even if known subsequent to the reporting date.

Heterogeneous elements included in each item were valued and booked separately.

In compliance with art. 2423, subsection 5-ter of the Italian Civil Code, for each item of the Balance Sheet and Profit and Loss Statement, the amount of the corresponding item of the previous year is shown. Should the items not be comparable, those of the previous year are appropriately adjusted and the non-comparability and adaptation or impossibility of this are reported and commented in these Explanatory Notes.

Pursuant to Article 2423 ter, subsection 2, of the Italian Civil Code, items preceded by Arabic numerals may be further broken down, without eliminating the item and corresponding amount; the same can be aggregated only when the aggregation, due to their amount, is irrelevant for a fair and true view of the financial position of the Company and the economic result for the year or when it favours the clarity of the Financial Statements. In this second case, the Explanatory Notes separately describe the items that have been aggregated.

Unless otherwise indicated, all amounts are expressed in thousands of Euro.

The amounts indicated in the annexes to these Explanatory Notes are expressed in Euro.

The information herein these Explanatory Notes relevant to the items of the Balance Sheet and related items of the Profit and Loss Statement are presented in the order in which the related items are reported in the Balance Sheet and Profit and Loss Statement, pursuant to art. 2427, subsection 2, of the Italian Civil Code.

Valuation criteria

The valuation criteria for the various items of the Financial Statements are in compliance with those established by art. 2426 of the Italian Civil Code and accounting standards of reference.

The valuation criteria applied have not changed with respect to the previous year.

The most significant valuation criteria and first-time application rules adopted are shown below, with a specific indication of the choices made among several accounting alternatives if allowed by the law.

Intangible fixed assets

Intangible fixed assets are recognised in the Balance Sheet assets when they are individually identifiable and their cost can be estimated with sufficient reliability. Intangible fixed assets are booked at purchase price or production cost, including accessory charges, net of amortisations and write-downs. Intangible fixed assets are amortised on a straight-line basis over their estimated useful life.

The Company, at each reference date of the Financial Statements, values the presence of impairment indicators and, should such indicators exist, it estimates the recoverable value of the asset and performs a write-down, pursuant to Article 2426, subsection 1, number 3, of the Italian Civil Code, should the same result and consistently lower than the net book value. Refer to the following paragraph "Write-downs for impairment of tangible and intangible fixed assets" for further details on their booking.

Start-up and expansion costs with ongoing use are booked under the assets with the consent of the Board of Statutory Auditors.

For intangible assets, the amortisation period is at most equal to the statutory or contractual limit. If the Company expects to use the asset for a shorter period, useful life reflects such lesser period compared to the statutory or contractual limit for the purpose of calculating amortisation

The amortisation rates applied are as follows:

Intellectual property rights	33%
Concessions, licences, trademarks and similar rights	10%

Tangible fixed assets

Tangible fixed assets are booked at cost of purchase actually incurred for purchase or production and are recognised when risks and benefits are transferred, which normally coincides with the transfer of the ownership. This cost includes the purchase cost, accessory purchase costs and all costs incurred to bring the asset to the place and in the conditions necessary for it to be a durable asset for the Company. The cost of production includes direct costs (materials and direct labour, design costs, external supplies, etc.), and general production costs, for the amount reasonably attributable to the asset for the period of its manufacturing up to the time that the asset is ready for use.

Tangible fixed assets, whose use is limited over time, are depreciated on a straight-line basis in each financial year in relation to their residual useful life. Depreciation starts when the asset is available and ready for use.

The amount of depreciation attributable to each financial year refers to the distribution of the cost incurred over the entire estimated useful life.

The initial amount to be depreciated, initially estimated at the time of preparation of the sinking plan based on the prices available on the market through the sale of fixed assets similar both in terms of their technical characteristics and useful life, is reviewed periodically in order to check that the initial estimate is still valid. This amount is considered net of possible removal costs. Should the removal cost exceed the realisable value, the excess is set aside over the useful life of the asset by booking, pro rata, provisions for recovery or restoration or similar provisions.

The realisable value is not taken into account when it is considered meagre compared to the amount to be depreciated.

If the tangible fixed asset includes components, fixtures or accessories, with useful lives having a different duration than the main asset, the depreciation of these components is calculated separately from the main asset, unless this is not significant or practicable.

The depreciation rates applied, unchanged from the previous financial year, are as follows:

Industrial buildings	4%
Plants and machinery	11.5%
Various small and laboratory equipment	40%
Electric machinery	20%
Office furniture and fittings	12%
Vehicles	25%
Transport vehicles	20%

With regard to the increases for the year, depreciation of fixed assets has been determined by applying 50% of the rate, deemed representative of the average period of availability of the asset. If, as at the reporting date, the fixed asset has suffered impairment and thus its value is lower than the book value, it is written down to this lower value. If in subsequent years the reasons for the write-down cease to exist, steps are taken to reinstate the original value, taking into account depreciations not calculated due to said write-down.

Ordinary maintenance costs are booked in full to the Profit and Loss Statement at the time they are incurred; maintenance costs that increase the production capacity or useful life are assigned to the assets to which they refer and are depreciated on the basis of their useful life.

Tangible fixed assets that the Company decides to sell are classified separately from tangible fixed assets in a separate item of current assets and measured at the net book value or the realisable value inferable from the market trend, whichever lower, without being further depreciated. This reclassification is made if the following requirements are met:

- the fixed assets can be sold at their current conditions or do not require changes such as to defer their disposal;
- the sale seems highly probable in light of the initiatives undertaken, the expected price and market conditions;

- the transaction should be completed in the short term.

The valuation criteria adopted for assets for sale is also applied to obsolete assets and in general to assets that will no longer be used or are usable in the production cycle.

Buildings have been revaluated on the basis of Italian Law 2 of 28 January 2009.

Tangible fixed assets are revaluated only where allowed by law.

Write-downs due to impairment of tangible and intangible fixed assets

Write-downs due to impairment of tangible and intangible fixed assets are booked in compliance with Accounting Standard OIC 9.

At each reporting date, the company assesses if there is any indication that a fixed asset has suffered impairment. If such an indication exists, the recoverable amount of the fixed asset is estimated.

In particular, if the recoverable amount of a fixed asset (i.e. its value in use or fair value, whichever higher) is less than its book value, the fixed asset is recognised at this lower value. The difference is recognised in the Profit and Loss Statement as impairment under item B10) c).

In order to consider whether an asset has been impaired, the Company at least checks for the existence of the following indicators:

- if the market value of an asset decreased significantly during the financial year, more than would have been expected to occur over time or with the normal use of the asset in question;
- if significant changes occurred or will occur during the financial year with a negative impact for the Company in the technological, market, economic or regulatory environment in which the Company operates or in the target market of the asset;
- if the market interest rates or other returns on investment increased during the year and it is likely that these increases will influence the discount rate used in the calculation of the value in use of an asset and significantly reduce the recoverable amount;
- if the obsolescence or physical damage of an asset is evident;
- if significant changes occurred during the year with a negative impact on the company (such as non-use of the asset, disposal or restructuring plans, redefinition of the useful life of the fixed asset), or are supposed to occur in the near future, to the extent or manner in which an asset is used or expected to be used.

If it is not possible to estimate the recoverable amount of the individual fixed asset, the recoverable amount of the cash-generating unit to which the fixed asset belongs is calculated. This occurs when individual fixed assets do not generate cash flows independently of other fixed assets. In this case, if the recoverable amount of the CGU is lower than its book value, the reduction of the book value of the assets that form the CGU is firstly recognised in the value of the goodwill allocated to the CGU and, subsequently, to the other assets on a pro rata basis, based on the book value of each asset belonging to the CGU.

In the absence of indicators of potential impairment, the recoverable amount is not determined. The impairment is reversed if the reasons for the write-down for impairment no longer exist and is carried out within the limits of the value that the asset would have had if the impairment had never occurred.

The write-down recognised on goodwill and on deferred charges cannot be reinstated in that not allowed by the regulations in force.

Investments

Investments are booked under financial fixed assets if they are expected to have a longterm continuity in the corporate portfolio, otherwise they are recognised in Current Assets..

Long-term investments in non-controlled holdings

Investments in non-controlled companies are booked at purchase or incorporation cost, including any accessory charges. The cost incurred at the time of purchase of a long-term investment is maintained in the Financial Statements for subsequent years, unless impairment occurs. At each reporting date, the Company evaluates if there is any indication that an equity investment has suffered an impairment. The impairment is calculated by comparing the carrying amount of the investment with its recoverable amount, determined on the basis of expected future economic benefits to the economy of the participating company. The write-down for impairment no longer applies if the reasons for the write-down no longer exist.

Inventories

Inventories are booked at the lower between purchase or production cost and the estimated realisable value based on market performance, as at the reporting date, determined using the Weighted average cost method.

In addition to the invoice price, the cost includes accessory charges, such as customs, transportation and other direct taxes of that material, net of returns, trade discounts, allowances and bonuses.

The value of inventories thus obtained is written down in order to take into account the obsolescence of goods, as well as the actual possibilities of sale based on their handling.

The value of inventories is reinstated in the financial year in which the reasons for the previous write-down made cease to exist within the limits of the original cost incurred.



Receivables

Receivables arising from revenues for the sale of goods or the provision of services are recognised in current assets on an accruals basis when the conditions for recognising the related revenues occur. Receivables arising for different reasons are booked when there is a “claim” to the receivable and, therefore, when they actually represent a third-party obligation towards the company; if financial, they are classified as financial fixed assets, with an indication of the amount payable within the next financial year.

Receivables are valued in the Financial Statements at amortised cost, taking into account the time factor and within the limits of their estimated realisable value, and, therefore, they are shown in the Balance Sheet net of the relevant provisions for bad debts considered appropriate to reasonably hedge expected losses due to non-recoverability. If the interest rate of the transaction does not differ significantly from the market rate and is due within 12 months, the receivable is initially recognised at a value equal to the nominal value net of all premiums, discounts, allowances and includes of any costs directly attributable to the transaction which generated such receivable. These transaction costs, any commission receivable and payable and any difference between the initial value and the nominal value at maturity are spread over the duration of the loan using the effective interest method.

When the interest rate of the transaction inferable from contractual conditions is significantly different from the market rate, the receivable (and the corresponding revenue for commercial transactions) is initially booked at a value equal to the present value of the future cash flows plus any transaction costs. The rate used for discounting future cash flows is the market rate.

In the case of receivables arising from commercial transactions, the difference between the initial recognition value of the receivable so determined and the forward value is recognised in the Profit and Loss Statement as a financial income over the period of the receivable using the effective interest rate method.

In the case of financial receivables, the difference between cash and cash equivalents paid and the present value of future cash flows, determined using the market interest rate, is recognised under financial charges or income in the Profit and Loss Statement at the time of initial recognition, unless the substance of the transaction or contract does not lead to attributing a different nature to this component. Subsequently, the interest income accruing on the transaction is calculated at the effective interest rate and charged to the Profit and Loss Statement offsetting the credit value. The value of the receivables is subsequently reduced due to the amounts received, both in terms of principal and interest, and due to any write-down bringing the receivables to their estimated realisable value or due to losses.

The Company assumes as not relevant the effects arising from the application of the amortised cost and the discounting when the expiry of the receivables is within 12 months, also taking into account all contractual and substantial considerations in place relevant to the recognition of the receivable for which the differential between the initial value and nominal value at maturity are of an insignificant amount.

It should be noted that the Company has not booked significant receivables in the Financial Statements due beyond 12 months.



Receivables due from Group companies

Items “C-II-3” and “C-II-4” include receivables from associates and parent companies, respectively, as defined pursuant to art. 2359 of the Italian Civil Code. These receivables are separately indicated in the Balance Sheet.

Receivables due from companies subject to joint control (so-called sister companies), other than subsidiaries, associates and parent companies, are recognised in item “C-II-5”.

Write off of receivables

A receivable is written off from the Financial Statements when:

- the contractual rights to the cash flows arising from the receivable expire;
- or the ownership of the contractual rights to the cash flows arising from the receivable is transferred and all the risks related to the receivable are basically transferred with it.

For the purposes of assessing the transfer of risks, all contractual clauses are taken into consideration, such as repurchase requirements when certain events occur or the existence of commissions, excesses and penalties due to non-payment.

When the receivable is written off from the Financial Statements following a disposal that implies the substantial transfer of all risks, the difference between consideration and recognition value of the receivable at the time of sale is recognised as a loss on disposal to be booked under the item B14 of the Profit and Loss Statement, unless the contract allows to identify other types of economic components, financial or otherwise.

Liquid funds

Bank, postal deposits and cheques (from a current account, banker’s drafts and similar instruments) are valued pursuant to the general principle of the estimated realisable value, which coincides with the nominal value in absence of hard to collect situations.

Cash and revenue stamps are valued at nominal value.

Cash pooling

Cash pooling, represented by the centralised management of the treasury by a company within a Group, makes it possible to optimise the use of financial resources and is characterised by outstanding payables and receivables due to/from the company that manages the cash pooling, respectively for withdrawals from the common current account and for the liquidity paid into it. The Company recognises receivables that are generated in the item “Financial assets for cash pooling” by indicating the counterpart, which can be the subsidiary or parent company, among Financial assets that are not fixed assets. If the receivables are not due in the short term, they are classified as Financial fixed assets. Any write-downs and revaluations of such receivables are booked in the Profit and Loss Statement, in the item “Write-downs of financial assets for cash pooling” and “Revaluations of financial assets for cash pooling” indicating the counterpart. Any debt position arising from a cash pooling is classified pursuant to the provisions of OIC 19 “Payables”.



Accruals and deferrals

These items include the portion of costs and income, common to two or more years, on an accrual basis. On the basis of this method, the recognition of an accrual or deferral occurs when the following conditions are met:

- the contract starts in a financial year and ends in a subsequent financial year;
- the consideration for the services is contractually due in advance or afterwards for services common to two or more consecutive periods;
- the amount of accruals and deferrals changes over time.

Income and prepayments do not include income and charges whose accrual is accrued in full in the financial year to which the Financial Statements refer or in subsequent years.

At the end of each financial year, it is verified whether the conditions that led to the initial recognition of the accrual or deferral are still met; if necessary, the required value adjustments are made. This assessment takes into account not only the passing of time but also the possible recoverability of the amount booked in the Financial Statements.

Shareholders' equity

This item includes all financial transactions executed between the Company and subjects exercising their rights and duties as Shareholders.

Reserves for contingencies and other charges

“For Pension liabilities”: is relevant to the indemnity for the termination of agency relationships (qualified based on the National Collective Agency Agreements) and to Provisions for Junior Manager and Manager bonuses.

“For taxes”: includes probable taxes relevant to tax assessments in progress, determined taking into account the evolution of the interpretation both of legal theory and case law and also assessed by acquiring suitable professional opinions, and deferred taxes determined pursuant to that which is described in the section “Income taxes”.

“Others”: these mainly concern reserves for contingencies and other charges intended to cover known or likely losses or liabilities, the timing and extent of which however could not be determined as at the reporting date.

Provisions are quantified on the basis of estimates that take account of all items available, on an accrual basis and pursuant to the principle of prudence. These elements also include the time line when an exact requirement exists as at the reporting date, pursuant to a contractual or legal obligation, whose cash outlay can be reliably estimated and the contingency date, reasonably determinable, is sufficiently distant in time to render the current amount of the requirement as at the reporting date significantly different from the amount estimated at the time of the cash outlay.

No generic risk provisions were set up without economic justification.

Potential liabilities, when existing, are recognised in the Financial Statements and booked in the provisions only if they are considered likely and if the amount of the related charge can be reasonably estimated. No provisions were made for remote risks, however, in the case of contingent liabilities considered possible, even if not probable, the Explanatory Notes included information on uncertainty, where relevant, which could cause loss, the estimated amount or the indication that it cannot be calculated and other possible effects as well as the indication of the opinion of the Company's management and of its legal counsel and other experts, where available.

Provisions for employee leaving indemnity

Provisions for severance indemnity are allocated to hedge the entire liability accrued towards employees in compliance with current laws and the collective labour and additional corporate agreements. This liability is subject to revaluation pursuant to art. 2120 of the Italian Civil Code.

Employee leaving indemnity booked in the Financial Statements corresponds to the total amount of individual indemnities accrued by employees, including revaluations, net of advances paid, and taking into account the effects of the reform introduced by Italian Law 296 of 27 December 2006 (2007 Italian Finance Bill), concerning the allocation of Severance Indemnity (to the INPS Treasury or other chosen entities). As a result of this reform, the amounts of Employee Leaving Indemnity accrued up to 31 December 2006, remain with the company and contribute to forming the provisions for severance indemnity allocated in the Financial Statements.

Starting from 1 January 2007, the amounts of Employee Leaving Indemnity accrued during the year are recognised in the Profit and Loss Statement and reflected, for the part still to be paid to the INPS Treasury Fund or to other funds, in current payables under item "D) 14".

Payables

Payables from the purchase of goods are booked in the Balance Sheet when significant risks, charges and benefits connected to ownership have been substantially transferred.

Payables for services are booked when the services have been supplied.

Financial payables for financing transactions and payables that arise for reasons other than the purchase of goods and services are booked when the Company has an obligation towards the counterpart, identified based on legal and contractual standards.

The item advances includes advances from customers for goods or services not yet supplied.

Payables are valued in the Financial Statements at amortised cost, taking into account the timing.

If the interest rate of the transaction is not significantly different from the market rate, the payable is initially booked for an amount equal to the nominal value net of all transaction costs, bonuses, discounts and allowances arising directly from the transaction that generated the payable. These transaction costs, i.e. accessory expenses to obtain loans, commissions receivable and payable and all differences between the initial value and nominal value at maturity are spread over the duration of the payable using the effective interest method.

When the interest rate of the transaction obtained from the contractual conditions is significantly different from the market rate, the payable (and corresponding cost for commercial transactions) is initially booked at an amount equal to the current value of future cash flows and taking into account any transaction costs. The rate used for discounting future cash flows is the market rate. In the case of payables arising from commercial transactions, the difference between the initial recognition value of the payable so determined and the forward value is recognised in the Profit and Loss Statement as a financial expense over the period of the payable using the effective interest rate method. In the case of financial payables, the difference between the liquid funds used and the current value of future cash flows, determined using the market interest rate, is recorded among financial incomes or charges of the Profit and Loss Statement as at the date of initial valuation, unless the substance of the transaction or contract does not lead to attributing a different nature to this component. Subsequently, the interest payable accruing on the transaction is calculated at the effective interest rate and charged to the Profit and Loss Statement by offsetting the amount of the payable.

The amount of the payables is subsequently reduced for the amounts paid, both in terms of principal and interest.

The Company considers the effects arising from the application of the amortised cost and discounting as not relevant when the maturity of the payables is within 12 months, also taking into account all of the existing contractual and substantial considerations upon recognition of the payable, and the transaction costs and all other differences between the initial and nominal value at maturity are insignificant amounts. In this case, discounting is omitted, interest is calculated at nominal value, and transaction costs are recognised as deferrals and amortised on a straight-line basis over the period of the payable to adjust the nominal interest expense.

It should be noted that the Company has not booked any payables due after 12 months.

Payables due to Group companies

Items "D) 9" and "D) 11" include, respectively, payables due to associates and parent companies as defined pursuant to art. 2359 of the Italian Civil Code. These payables are indicated separately in the Balance Sheet.

Payables due to companies subject to joint control (so-called sister companies), other than subsidiaries, associates and parent companies, are recognised in item "D) 11-bis".

Revenues

Revenues for the sale of goods are recognised on an accruals basis when both of the following conditions are met:

- the production process of goods and services was completed;
- the transfer has already taken place, i.e. the substantial and not formal transfer of the ownership occurred. For the sale of goods, this event is represented by the dispatch or delivery of the movables, whereas for goods requiring a public deed (real estate and movable properties) by the signing date of the purchase and sale agreement. In the case of services, the exchange is considered to have taken place when the service is rendered, i.e. the service is performed.

Revenues from the provision of services are recognised on the date on which the services are completed or, for those depending on contracts with periodic fees, on the date on which the fees accrue.

Sales revenues are recognised net of returns, discounts, allowances and bonuses, as well as net of taxes directly related to the sale of the products and the provision of services and revenue adjustments pertaining to the financial year are booked as a direct reduction of the item revenues. The item “income from ancillary activities/business” includes positive non-financial income items, deriving only from ancillary management.

Costs

Purchase costs are recognised on an accruals basis. Raw, ancillary materials, consumables and goods include accessory purchase costs (transport, insurance, loading and unloading, etc.) if included by the supplier in the purchase price, otherwise they are booked separately in Services based on their nature.

Costs include those whose amount is certain and those still to be documented but for which the transfer of the property or service has already taken place.

Financial income and charges

Include all positive and negative components of the profit (loss) for the year relevant to the Company's financing activities and are recognised on an accruals basis.

Dividends

Dividends are recognised when, subsequent to the resolution passed by the Shareholders' Meeting of the subsidiary to distribute the profit or reserves, the right to collection arises for the participating company. The dividend is recognised as financial income, regardless of the nature of the reserves being distributed. The participating company verifies that, as a result of the distribution, the recoverable amount of the equity investment has not decreased to such an extent as to require the recognition of an impairment loss.

Income taxes, deferred and prepaid taxes

Taxes for the year are determined based on the taxable income calculated using a prudent interpretation of current tax legislation.

Given that the Company participates in the tax consolidation, for which the Holding Mapei S.p.A. is the consolidating company, tax credits and payables (relevant to IRES) pertinent to the year are reclassified among the receivables and payables due to the parent company.

In the event of a negative taxable income, the tax yield on these losses is booked, only in the case of verified capacity by the National Tax Consolidation regime.

Income taxes for the year relevant to IRAP are instead allocated to the item “tax payables”, net of any advances paid.

In compliance with the provisions of the Italian Civil Code and accounting principles, as in previous years, deferred and prepaid taxes have been recognised.

In particular, prepaid taxes are recognised if there is reasonable certainty of their realisation. These taxes are calculated based on the tax rate for the year in which the temporary differences will be carried forward.

The tax benefit associated with the losses that can be carried forward, not recognised within the scope of the National Tax Consolidation regime, is booked in the Financial Statements only when the following conditions simultaneously exist:

- reasonable certainty exists of obtaining taxable income in the future that may absorb said losses that can be carried forward, within the period the same are deductible pursuant to tax laws;
- the losses in question arise from well-identified circumstances, and it is reasonably certain that such circumstances will not occur again.

Prepaid and deferred taxes are not discounted.

Translation of foreign currency items

In compliance with art. 2426, subsection 1, no. 8-bis of the Italian Civil Code, monetary assets and liabilities are made in any currency except the functional currency used in the Financial Statements (so-called “coin of account”), are subsequent to the initial valuation and booked at the spot exchange rate as at the reporting date. The resulting exchange gains and losses are booked to the Profit and Loss Statement in item c17-bis) “exchange gains and losses” and any net gain, which forms the profit (loss) for the year, is set aside in a specific reserve that is not distributable until realized.

Non-monetary assets and liabilities in currencies other than the reporting currency are recorded at the exchange rate in force as at the time of purchase. If the exchange rate in force at the end of reporting period is significantly different from the one existing at the date of acquisition, the change in the exchange rate is one of the elements taken into consideration in the valuation process to determine the book value of individual nonmonetary assets. Thus, any exchange rate differences (positive or negative) contribute to determining the recoverable amount.

With reference to the investments valued using the equity method, in which the underlying Financial Statements are expressed in foreign currency, the same are translated into the money of account in compliance with the provisions of OIC 17 “Consolidated Financial Statements and the equity method”, and subsequently, the investment is valued pursuant to the specific accounting discipline of the equity method.

Significant fluctuations are those that cannot be predicted in exchange rates subsequent to the reporting date with the foreign currencies to which the company is most exposed without hedges; significant fluctuations are not reported in these Financial Statements due to the fact that they are pertinent to the following year but are illustrated in the Explanatory Notes under the section “significant events subsequent to the reporting date”.



Changes to accounting standards

The change of an accounting standard is recognized in the year on which it is adopted, and the relevant facts and transactions are handled in compliance with OIC 29, that is applied considering the effects retroactively. The change implies the accounting recognition of these effects on the opening balance of the Shareholders' Equity for the year.

For comparative purposes only, the opening balance of the previous year's equity and the comparative data for the previous year are adjusted as if the new accounting principle has always been applied. However, when the effects arising from the change of the standard are not significant, the Company may decide not to restate the comparative data.

When all else has failed and it is not feasible to calculate the previous effect, the company does not restate the comparative data and applies the new accounting principle prospectively.

The relevant effects deriving from the adoption of the new standards on the Balance Sheet, Profit and Loss Statement and Cash Flow Statement were shown and analysed in these Explanatory Notes, the ones that are specifically relevant to the items of the Financial Statements concerned.

Balance sheet

Assets

Intangible fixed assets

The following is a breakdown of the net amounts as at 31 December 2019 and 31 December 2018:

Description	Industrial patents and intellectual property rights	Concessions, licences, trademarks and similar rights	Total intangible fixed assets
Cost	3.195	295.205	298.400
Amortisation (amortisation fund)	1.598	71.589	73.187
31/12/2018	1.597	223.616	225.213
Increases for purchases	13.031	0	13.031
Depreciation/amortisation for the year	8.113	33.120	41.233
31/12/2019	6.515	190.496	197.011
Cost	16.226	295.205	311.431
Amortisation (amortisation fund)	9.711	104.709	114.420
31/12/2019	6.515	190.496	197.011

The amount of the item "Concessions, licences, trademarks and similar rights" refers to licenses purchased in 2017 by Mapei S.p.A. (€ 240 thousand) for the use of the new operating system (note that as part of the IT system used by the Company, on 1 January 2017 it completed the transition from the "AS400" platform to the Microsoft Dynamics architecture called "AX", already used by the parent company). These are amortised over 8 years.

Tangible fixed assets

The following is a breakdown of the net amounts as at 31 December 2019 and 31 December 2018:

Description	Land and buildings	Plants and machinery	Industrial and commercial equipment	Other tangible fixed assets	Tangible assets in process and advances	Total tangible fixed assets
Cost	20.181.034	114.859.673	1.268.540	3.444.221	1.862.076	141.615.544
Revaluations	3.948.000	44.790.982	0	0	0	48.738.982
Amortisation (amortisation fund)	11.529.738	145.798.494	1.162.602	3.261.983	0	161.752.817
31/12/2018	12.599.296	13.852.161	105.938	182.238	1.862.076	28.601.709
Increases for purchases	6.837	71.062	46.510	48.238	1.853.265	2.025.912
Reclassifications (of the balance sheet value)	208.308	2.460.841	70.509	101.032	-2.840.690	0
Depreciation/ amortisation for the year	812.946	3.692.133	106.605	75.068	0	4.686.752
31/12/2019	12.001.495	12.691.931	116.352	256.440	874.651	25.940.869
Cost	20.396.179	117.391.576	1.385.559	3.593.491	874.651	143.641.456
Revaluations	3.948.000	44.790.982	0	0	0	48.738.982
Amortisation (amortisation fund)	12.342.684	149.490.627	1.269.207	3.337.051	0	166.439.569
31/12/2019	12.001.495	12.691.931	116.352	256.440	874.651	25.940.869

The net decrease of € 2,661 thousand is the result of investments made during the year for € 2,026 thousand, net of total depreciation for € 4,687 thousand. The investments mainly relate to the following investments:

Villadossola Plant

- expansion of the acrylic production line amounting to € 255 thousand;
- installation of the Emergency Vent Abatement System amounting to € 137 thousand;
- purchase and installation of a new boiler amounting to € 131 thousand;
- adaptation of the new anti-caking dosing system in the “Spray Dryer” plant amounting to € 116 thousand;
- replacement of 6kv cells in the electrical substation at “isola 23” amounting to € 110 thousand;
- installation of three new air duct burners in the “Spray Dryer” plant amounting to € 67 thousand;
- interventions for the adjustment of the underground modular “weight bridge at the Shipping and Receiving Department amounting to € 65 thousand;
- revamping of the railway link amounting to € 60 thousand;

Ravenna plant

Extraordinary maintenance work on the “Methanol Tank”, on the “Veova Tank” and amounting to € 75 thousand.

During the financial year, several measures were also carried out, both in Villadossola and in Ravenna, for the adaptation to new safety regulations.

The item “Tangible assets in process and advances” suffered a net decrease during the year for € 987 thousand. This amount results from capitalisations made during the year for € 1,853 thousand, and transfers to other items, when the asset is ready for use, for € 2,840 thousand.

Monetary revaluations

Pursuant to art. 10 of law 72/83 and art. 11 of Law 342/2000, we report in the following table the list, divided by category, of the assets included in the Company’s assets as at 31.12.2019, on which monetary revaluations have been carried out, with reference to the related regulations.

	Goods not revaluated		Goods revaluated		Balance as at 31.12.2019
	Cost	Italian Law 266 of 23/12/2005	Italian Law 2 of 28/01/2009		
Land and buildings	20.396.178	0	3.948.000		24.344.178
Plants and machinery	117.391.576	44.790.982	0		162.182.558
Industrial and commercial equipment	1.385.560	0	0		1.385.560
Other assets	3.593.491	0	0		3.593.491
Value as at year-end	142.766.805	44.790.982	3.948.000		191.505.787

Financial lease transactions

There are no financial lease transactions to report.

Financial fixed assets

The breakdown of financial fixed assets is equal to € 17,247 thousand (€ 18,247 thousand at 31 December 2018).

Financial fixed assets refer exclusively to investments in associates and other companies.

Shares are entered at purchase cost, net of any write-downs made.

Description	Associates	Investments in other companies	Total
Cost	18.050.652	195.995	18.246.647
Revaluations	0	0	0
31/12/2018	18.050.652	195.995	18.246.647
Write-downs	1.000.000	0	0
Other variations	0	0	0
31/12/2019	17.050.652	195.995	18.246.647
Cost	18.050.652	195.995	18.246.647
Revaluations	0	0	0
Write-downs	1.000.000	0	1.000.000

The variation with respect of the previous year, registered in the item of investments in associated companies, concerns the decrease of € 1,000 thousand following the write-downs made during the year on the shares held in the company Vinavil Egypt for Chemicals SAE. In consideration of the macroeconomic scenario in which the associate company operates and in consideration of the loss for the year suffered by the same, which brought the Shareholders' Equity from € 2,491 thousand at 31.12.2018 to € 505 thousand at 31.12.2019 (as results from the 2019 financial statements of Vinavil Egypt for Chemicals SAE), since indicators of impairment have arisen, an impairment test was carried out using the 'Discounted Cash Flow' method, in order to verify the recoverability of the book value at 31 December 2019 of the same; this verification highlighted the need to proceed with a write-down of the investment.

The item investment in "other companies" is represented by:

- the investment for a nominal value of € 195,909 equal to 3.5% in Ravenna Servizi Industriali soc. cons. p. a., for a cost of € 195,909;
- the purchase executed in 2017 for a 0.05% stake in Mapei Egypt for Constructio Chemicals, equal to 10 shares, for a nominal amount of USD 100 for a value of € 85.87

For the comparison between the book value and the share of shareholders' equity attributable to Vinavil S.p.A. please refer to the following table, which also indicates the main data of the associated company.

Name	Shareholders equity as at 31.12.2019	Profit (loss) as at 31.12.2019	Shareholders' equity as at 31.12.2019	Share held %	Exchange rate as at 31.12.2019	Share held	Balance sheet value or corresponding receivable
	<i>(in foreign currency)</i>	<i>(in foreign currency)</i>	<i>(in Euro)</i>			<i>(in Euro)</i>	<i>(in Euro)</i>
Vinavil Egypt for Chemicals SAE	9.096.582	(35.796.239)	504.827	49,95%	18,01920	(252.161)	17.050.652
Capital: EGP 30.000.000							

Current assets

Inventories

The following is a breakdown of inventories as at 31 December 2019 and 31 December 2018:

Description	31/12/2018	Changes	31/12/2019
Raw, ancillary materials and consumables	17.426.582	-2.678.315	14.748.267
Finished products and goods	9.199.701	-958.215	8.321.486
- Provision for bad debts on inventory (Finished Products)	0	0	-80.000
Total Inventories	26.626.283	-3.636.530	22.989.753

Raw and ancillary materials, relating to materials intended to be transformed, decreased compared to the previous year by € 2,678 thousand, mainly due to the decrease in the price of VAM (Vinyl Acetate Monomer, which is the main material used in the production cycles of the Company) which during the year decreased by around 19% compared to the end of 2018.

Also, the decrease compared to the previous year in finished products intended for resale must be substantially attributed to the drop in the price of the raw material VAM.

The valuation of the inventories is carried out using the weighted average cost method.

The values entered in the provision for bad debts relate to non-recent inventories and bring the value of these products to the lower of cost and presumed realisable value.

The transactions in the provision for bad debts on inventory are the following:

Balance as at 31.12.2018	provisions	uses	Balance as at 31.12.2019
Finished Products	80	0	80
Balance as at 31.12.2018	80	0	80

Receivables recorded in current assets

Receivables recorded in current assets amount to € 41,119 thousand (€ 48,361 thousand in the previous year). They are composed as follows:

Description	Due within 12 months	Due beyond 12 months	Nominal value	Provision for risks - writedown	Net value
Due from customers	23.248.637	0	23.248.637	-1.282.440	21.966.197
Due from associated companies	808.548	0	808.548		808.548
Due from parent companies	6.431.696	0	6.431.696		6.431.696
Due from companies controlled by parent companies	10.135.920	0	10.135.920		10.135.920
For tax credits	1.224.562	31.200	1.255.762		1.255.762
For prepaid taxes	330.667	0	330.667		330.667
Amount due from others	190.185	0	190.185		190.185
Total receivables recorded in current assets	49.403.896	31.633	42.401.415	-1.282.440	41.118.975

Below are the data relating to the breakdown of receivables by maturity, pursuant to art. 2427, paragraph 1, number 6 of the Italian Civil Code

Description	31/12/2018	Change during the year	31/12/2019	Amount due within 12 months	Amount due beyond 12 months	Beyond 5 years
Trade receivables included among current assets	25.621.623	-3.655.426	21.966.197	21.966.197	0	0
Due from subsidiaries	0	0	0	0	0	0
Trade receivables from associated companies included among current assets	725.629	82.919	808.548	808.548	0	0
Parent companies included among current assets	8.516.671	-2.084.975	6.431.696	6.431.696	0	0
Receivables due from companies controlled by parent companies posted to current assets	11.224.930	-1.089.010	10.135.920	10.135.920	0	0
Tax receivables included among current assets	1.749.567	-493.805	1.255.762	1.224.562	31.200	0
Assets for prepaid tax included among current assets	332.173	-1.506	330.667	0	0	0
Other receivables included among current assets	190.775	-590	190.185	190.185	0	0
Total receivables included among current assets	48.361.368	-7.242.393	41.118.975	40.757.108	31.200	0

Breakdown of receivables recorded in current assets by geographical area

Geographical area	Customers	Collegate Associates	Parent companies	Companies controlled by parent companies	Taxes	Prepaid taxes	Other	Total
Italy	13.019.755	0	0	208.127	1.255.762	330.667	57.124	14.871.435
Foreign	8.946.442	808.548	6.431.696	9.927.793	0	0	133.061	26.247.540
	21.966.197	808.548	6.431.696	10.135.920	1.255.762	330.667	190.185	41.118.975

Trade receivables included among current assets

Trade receivables included among current assets, due within the following year, essentially refer to normal sales operations.

In the Financial Statements there are trade receivables in foreign currency for € 599 thousand; the main currencies are USD and GBP.

It should be noted that there are no receivables with a residual duration greater than one year and that the data, in the Annex, are shown gross of provisions for bad debts.

The provision for receivables risks is adequate on the basis of a prudential evaluation criterion deriving from the risks of doubtful realisation of trade receivables; the transactions of the fund are the following:

Balance as at 31/12/2018	1.284.257
Use	1.817
Provisions for the year	0
Balance as at 31/12/2019	1.282.440

Trade receivables from associated companies included among current assets

Amount to € 809 thousand (€ 725 thousand as at 31 December 2018) and refer mainly to dividends approved by Vinavil Egypt for Chemicals, which have not yet been collected as at 31 December, of which

- € 441 thousand refer to dividends approved in 2017;
- € 212 thousand refer to dividends approved in 2018.

The increase in the position with respect to the previous year is mainly attributable to the valuation of receivables in foreign currency (EGP) at the exchange rate of 31 December 2019 (more favourable than that of 2018).

Trade receivables from parent companies included among current assets

Receivables due from the parent company, Mapei S.p.A., due within 12 months, amount to € 6,431 thousand (€ 8,517 thousand as at 31 December 2018), of which:

- € 6,160 thousand refer to commercial transactions executed with the parent company, which are regulated at arm's length;
- € 271 thousand of fiscal nature, attributable to the amount reported in the IRES Reimbursement Application for the failure to deduct IRAP, relevant to expenses for employees and similar, pursuant to article 2, subsection 1-quater, of Italian Law Decree 201 of 2011, introduced by article 4, subsection 12, of Italian Law Decree 16 of 2 March 2012, converted, with amendments, by Italian Law 44 of 26 April 2012, for tax periods prior to that of 31 December 2012. Compared to the previous year, financial receivables decreased because in December 2019 the Company received partial reimbursement:

- IRES for non-deduction of IRAP for an amount of € 220 thousand relating to the years 2007 and 2008;
- IRES for € 481 thousand, based on the residual consolidated income transferred in 2014 and 2018 to the parent company as a result of joining the tax consolidation regime.

Receivables due from companies controlled by parent companies posted to current assets

These are receivables from companies controlled by Mapei S.p.A.; all due within 12 months and amount to € 10,136 thousand (€ 11,225 thousand as at 31 December 2018).

The following is the breakdown by geographical area:

- Italy 2%;
- EEC 11%;
- Non-EEC 87%.

Tax receivables included among current assets

Tax receivables, due within 12 months, amount to € 1,256 thousand (€ 1,750 as at 31 December 2018), of which:

- € 987 thousand: for VAT;
- € 146 thousand: for “Research and development” tax credit remaining from the previous tax return;
- € 54 thousand: they refer to the residual IRAP credit of the previous tax return, net of the lower tax due in the year;
- € 32 thousand: they equal to the tax credit available in 2020 following the donations made during the year and in the years 2018 and 2017 to support the Italian public cultural heritage.
- € 6 thousand: for the IRES tax credit outstanding from the previous tax return.

Tax receivables due beyond 12 months, for € 31 thousand, refer to tax receivables usable in 2021 for € 21 thousand and in 2022 for € 10 thousand, following the donations made during the year and in 2017 in support of the Italian public cultural heritage.

Assets for prepaid tax included among current assets

The item refers to the booking of prepaid taxes (€ 331 thousand). The breakdowns, also inclusive of the deferred taxes as per item “B 2)” of the liabilities and the related economic effect, are shown in enclosure 7, which represents an essential part of these Explanatory Notes.

Prepaid taxes mainly consist, in view of amortisation on the revaluation of buildings (carried out in 2008) which are not tax deductible, of the provision for other risks and charges and of the provision for bad debts on inventory.

On the basis of future income-earning prospects, no doubts have emerged on the recoverability of these prepaid taxes.

Other receivables included among current assets

Other receivables included among current assets, all within 12 months, amount to € 191 thousand (€ 486 as at 31 December 2017); are broken down here below:

Description	31/12/2018	Variation during the year	31/12/2019
- Receivables from employees	171.409	57	171.466
- Advances to suppliers	1.312	0	1.312
- Security deposits	10.543	553	11.096
- Several	7.511	-1.200	6.311
Total	190.775	-590	190.185

Liquid funds

They amount to € 9 thousand (the same amount as at 31 December 2018).

They consist of available funds necessary for normal treasury management.

Description	31/12/2018	Variation during the year	31/12/2019
Bank and post office deposits	0	0	0
Cheques	0	0	0
Cash and other cash on hand	9.299	-269	9.030
Total liquid funds	9.299	-269	9.030

Prepaid expenses and accrued income

Amount to € 188 thousand (€ 236 thousand as at 31 December 2018) and essentially refer to insurance premiums and portions of fees pertaining to the following year.

Description	31/12/2018	Variation during the year	31/12/2019
Accrued income	0	0	0
Deferred income	236.206	48.220	187.986
D) Accruals and deferrals	236.206	48.220	187.986

Liabilities

Shareholders' equity

The changes for the year are:

- the one envisaged by the Shareholders' Meeting dated 23 May 2019, which resolved to fully cover the loss for the year of € 2,442 thousand by means of partial use, for the same amount, of the equity item "Retained earnings (accumulated losses)", and to release the item "Reserve from exchange gains not redeemed" for the amount of € 6 thousand by transferring this amount to the item "Retained earnings (accumulated losses)".
- the one envisaged by the shareholders' resolution dated 11 November 2019 which ordered the distribution of a dividend for a total of € 5,000 thousand from the item "Retained earnings".

Shareholders' Equity as at the reporting date is broken down as follows:

	Year opening balance	Dividend allocation	Other destinations	Result for the year	Year closing balance
I - Capital	6.000.000	0	0	0	6.000.000
III - Revaluation reserves	43.245.624	0	0	0	43.245.624
IV - Legal reserve	1.200.000	0	0	0	1.200.000
VI - Other reserves					
Reserve from exchange gains not redeemed	5.855	0	-5.855	0	0
Miscellaneous other reserves	4.832.465	0	0	0	4.832.465
Total other reserves	4.838.320	0	-5.855	0	4.832.465
VIII - Profit (loss) carried forward	19.868.278	5.000.000	-2.435.906	0	12.432.372
IX - Profit (loss) for the year	-2.441.761	0	2.441.761	4.518.710	4.518.710
Total shareholders' equity	72.710.461	5.000.000	0	0	72.229.171

Capital

The share capital as at 31 December 2019 amounted to € 6,000, fully paid in, and is represented by 6,000,000 ordinary shares with a nominal value of € 1 each.

Revaluation reserves

The revaluation reserve, Italian Law 266/2005, is composed of the amount of the revaluation for € 44,791 thousand, net of the 12% substitute tax.

The revaluation reserve, Italian Law 2/2009, is composed of the amount of the revaluation for € 3,948 thousand, net of the 3% substitute tax.

Legal reserve

The legal reserve amounts to € 1,200 thousand and is made up by provisions for profits and has reached the limit of 20% of the share capital.

Other reserves

Other reserves amount to € 4,838 thousand, of which:

- € 4,832 for the Realignment reserve: consists of the amount of the accelerated depreciation tax provisions as at 31/12/2004 for € 5,491 thousand net of the 12% substitute tax;
- € 6 thousand for the ex art. 2426, point 8 bis of the Italian Civil Code reserve.

Description	Amount
Tax realignment reserve Law 266/2005	4.832.465
Total miscellaneous other reserves	4.832.465

Availability and use of shareholders' equity

The information required by Article 2427, paragraph 1, number 7-bis of the Italian Civil Code relating to the specification of the shareholders' equity items, with reference to their origin, possibility of use and distribution, as well as their use in previous years, are inferable from the tables below:

Nature / Description	Amount	Origin / nature	Possibility of use (*)	Amount available	Effective uses in the 3 prev. years	
					To cover Losses	For other reasons
Capital	6.000.000			0	0	0
Revaluation reserves	43.245.624	Capital reserve	A- B- C	43.245.624	0	0
Legal reserve	1.200.000	surplus fund	B	0	0	0
Other reserves						
Miscellaneous other reserves	4.832.465	surplus fund	A- B- C	4.832.465	0	0
Total other reserves	4.832.465			4.832.465	0	0
Profits carried forward	12.432.372	surplus fund	A- B- C	12.432.372	0	12.000.000
Total	67.710.461		0	60.510.461	0	12.000.000
Unavailable amount	0	0		155.820	0	0
Residual available share	0	0		60.354.641	0	0

(*) A: capital increase, B: hedge losses, C: distribution to shareholders

Description	Amount	Origin	Possibility of uses	Available amount	Summary of the uses during the three previous years to cover losses	Summary of the uses during the three previous years for other reasons
Realignment reserve Italian Law 266/2005	4.832.465	surplus fund	A: capital increase, B: hedge losses, C: distribution to shareholders	4.832.465	0	0
	4.832.465			4.832.465	0	0

To complete the disclosure, the transactions that occurred in the equity accounts in the two previous years are hereby shown:

Changes	Share capital	Legal reserve	other reserves	Profit and loss carried forward	operating result	Total
balance as in the Financial Statements as at 31/12/2017	6.000.000	1.200.000	48.078.089	16.842.991	7.031.142	79.152.222
<i>allocation of the operating result</i>						
profit carried forward FY 2017				7.031.142	(7.031.142)	0
other changes						
dividend distribution				(4.000.000)		(4.000.000)
profits on foreign exchange from previous years			5.855	(5.855)		0
2018 operating result					(2.441.761)	(2.441.761)
balance as in the Financial Statements as at 31/12/2018	6.000.000	1.200.000	48.083.944	19.868.278	(2.441.761)	72.710.461
<i>allocation of the operating result</i>						
loss coverage for year 2018				(2.441.761)	2.441.761	0
other changes						
dividend distribution				(5.000.000)		(5.000.000)
profits on foreign exchange from previous years			(5.855)	5.855		0
2019 operating result					4.518.710	4.518.710
balance as in the Financial Statements as at 31.12.2019	6.000.000	1.200.000	48.078.089	12.432.372	4.518.710	72.229.171

Reserves for risks and charges

The composition and movements of the individual items are represented as follows:

Description	Year opening balance	Operating accrual	Use in the financial year	Total Changes	Year closing balance
Provisions for pension liabilities and other obligations	1.558.246	197.737	130.461	67.276	1.625.522
Deferred tax fund	10.737	37.397	2.905	34.492	45.229
Other	433.926	0	0	0	433.926
Total reserves for risks and charges	2.002.909	235.134	133.366	101.768	2.104.677

The **“Provisions for pension liabilities and other obligations”** refer to the “Provisions for Supplementary Customer Allowances”, which represents the overall amounts accrued envisaged by the collective bargaining agreement that regulates the agency relationship and “Provisions for Junior Manager and Manager bonuses”.

During 2019, it developed as follows (values in thousands of €):

	Indemnity for agents and customer	Bonus provisions for Managers and Executives	Total
Balance as at 31.12.2018	51	1.507	1.558
Utilisation for the year	0	-130	-130
Provisions for the year	4	193	197
Balance as at 31.12.2019	55	1.570	1.625

The “Tax Provisions” developed as follows (values in thousands of €):

	Deferred taxes	Total
Balance as at 31.12.2018	11	11
Provisions for the year	37	37
Uses	-3	-3
Balance as at 31.12.2019	45	45

“Deferred tax fund” consists of the “presumed exchange gains”, managed exclusively in the tax return equal to € 37 thousand and, for the remaining part (equal to € 8 thousand) by the decision to recognise dividends approved by the associate company in 2017 and 2018, but not yet collected by Vinavil SpA. In fact, it should be remembered that dividends are taxed on a so-called “cash basis” instead of “accrual basis”.

“Sundry risks provisions” (€ 434 thousand) covers the probable liabilities to the charge of the company for risks related to any return of income deriving from the activities linked to energy efficiency certificates.

These provisions were valued pursuant to the principle of prudence and on an accruals basis.

Employee leaving indemnity Provisions as at 31 December 2019 amounted to € 797 thousand (€ 870 thousand at 31 December 2018) and corresponds to the total amount of Leaving Indemnity accrued by employees in service at the end of 2018, net of advances pursuant to article 1 of Italian Law 297 of 29 May 1982.

The payments also include the portions accrued and paid during the year to the supplementary pension and welfare funds for the employees that have joined said fund.

The change during the year was as follows:

Staff severance fund	Amount
Year opening balance	869.931
Operating accrual	1.152.804
Use in the financial year	1.225.926
Other changes	0
Total Changes	-73.122
Year closing balance	796.809

Payables

Payables are recorded in liabilities for a total of € 32,559,613 (€ 46,723,424 in the previous year). The individual items are composed as follows:

Description	31/12/2018	Changes	31/12/2019
Payables to banks	1.328	78	1.406
Payables to suppliers	24.326.513	-2.970.631	21.355.882
Payables to associated companies	37.541	9.575	47.116
Payables to parent companies	18.063.884	-11.273.744	6.790.140
Payables to companies controlled by parent companies	8.790	40.273	49.063
Tax payables	647.347	12.560	659.907
Payables to social security and welfare institutions	661.725	-24.887	636.838
Other payables	2.976.296	42.965	3.019.261
	46.723.424	-14.163.811	32.559.613

Changes and maturity of payables

Below are the data relating to the breakdown of payables by maturity, pursuant to art. 2427, paragraph 1, number 6 of the Italian Civil Code:

Description	31/12/2018	Changes	31/12/2019	Due within 12 months	Due beyond 12 months	Beyond 5 years
Payables to banks	1.328	78	1.406	1.406	0	0
Payables to suppliers	24.326.513	-2.970.631	21.355.882	21.355.882	0	0
Payables to associated companies	37.541	9.575	47.116	47.116	0	0
Payables to parent companies	18.063.884	-11.273.744	6.790.140	6.790.140	0	0
Payables to companies controlled by parent companies	8.790	40.273	49.063	49.063	0	0
Tax payables	647.347	12.560	659.907	659.907	0	0
Payables to social security and welfare institutions	661.725	-24.887	636.838	636.838	0	0
Other Payables	2.976.296	42.965	3.019.261	3.019.261	0	0
	46.723.424	-14.163.811	32.559.613	32.559.613	0	0

There are no payables with a residual duration of more than one year. There are no payables secured by collateral on Company assets.

Payables to suppliers

Payables to suppliers are booked for € 21,356 thousand (€ 24,327 thousand in 2018) and refers to supplies of goods and services, brokerage and consulting.

Credit notes receivable have been deducted from the balance of this item of the Financial Statements given that they can be legally offset against supplier invoices.

The item includes payables in foreign currencies not forming part of the Eurozone for a total of € 4,964 thousand, mainly in USD.

Payables due to associates

Payables due from the associate Vinavil Egypt for Chemicals are of a commercial nature.

Payables due to parent companies

Payables due to the parent company Mapei S.p.A. as at 31 December 2019, are booked for € 6,790 thousand (€ 18,064 thousand in 2018).

Payables due from the parent company refer to:

- commercial transactions and provision of services for € 1,793 thousand;
- the negative balance of the giro account (cash pooling) of € 3,978 thousand (€ 16,359 thousand as at 31 December 2018);
- for € 1,019 thousand it represents the amount of payables due to tax authorities transferred to the parent company as a result of participation in the tax consolidation regime (€ 1,706 thousand), net of the residual consolidated income transferred in 2014 (residual of € 375 thousand) and in 2018 (residual of € 312 thousand). The amounts of the aforementioned receivables will be liquidated by the parent company at the same time as the use by the same of the tax losses to which the receivables refer.

Payables due to companies subject to the control of parent companies

Payables due from Group companies amount to € 49 thousand (€ 9 thousand in 2018) and are all of a commercial nature and due within 12 months.

Tax payables

The balance of € 660 thousand (€ 647 thousand in 2018) consists mainly of payables for withholdings.

Payables due to social security and welfare institutions

Amount to € 637 thousand and are mainly represented by contributions relevant to ordinary salaries for December 2019, and to the contributions on additional monthly salaries for the amount pertinent to the year.

Other Payables

Amount in total to € 3,019 thousand as at 31 December 2019 (€ 2,976 thousand in 2018) and mainly include the amounts due to employees relevant to remuneration and payables for holiday entitlement accrued and not taken of € 698 thousand, the accrual of the 14th month wage of € 751 thousand and the participation bonus of € 855 thousand.

Financial charges allocated to the amounts booked in the assets of the Balance Sheet

All financial charges are allocated to the Profit and Loss Statement, therefore, there are no financial charges allocated to asset entries of the Balance Sheet.

Breakdown of payables by geographical area

Below are the data relating to the breakdown of payables by geographical area, pursuant to art. 2427, paragraph 1, number 6 of the Italian Civil Code:

Geographical area	Italy	Foreign	Total
Payables to banks	1.406	0	1.406
Payables to suppliers	10.146.474	11.209.408	21.355.882
Payables to associated companies	0	47.116	47.116
Payables to parent companies	6.790.140	0	6.790.140
Payables to companies controlled by parent companies	4.485	44.578	49.063
Tax payables	659.907	0	659.907
Payables to social security and welfare institutions	636.838	0	636.838
Other Payables	3.019.261	0	3.019.261
Total payables by geographical area	21.258.511	11.301.102	32.559.613

Profit and loss Statement

Value of production

Revenues from sales and services

Revenues from sales and services as at 31 December 2019 amounted to € 179,717 thousand, compared to € 181,193 thousand for the previous year, with a decrease of € 1,476 thousand equal to -0.81%.

Sales are stated net of trade discounts and consumption bonuses as at year end.

Description	Start-up and expansion costs
sale of finished products	172.332.365
sales incentives	-1.052.770
allowances payable/receivable	-2.969
sale of raw materials	271.418
sale of packaging	606.297
sale of other list materials	42.077
intercompany service provision	7.520.812
Total	179.717.230

The breakdown of revenues from Group companies and the Parent company is illustrated in Annex 2 to the Report on Operations.

Breakdown of revenues from sales and services by geographical area

In relation to the provisions envisaged in art. 2427, paragraph 1, number 10 of the Italian Civil Code, the breakdown of revenues by geographical area is shown in the following tables:

Description	Current year value
Italy	77.129.579
Europe	83.620.256
America	4.400.627
Africa	4.527.297
Russia	2.252.879
Turkey	1.828.317
Asia Oceania	5.958.275
Total	179.717.230

Changes in inventories of products in process, semi-finished and finished products

This item includes (values in thousands of €):

	31/12/2018	Variation during the year	31/12/2019
Initial inventories of finished products and goods	(9.672)	472	(9.200)
Final inventories of finished products and goods	9.200	(958)	8.242
Total	-472	(486)	(958)

The changes shown reflect the performance of the business, as better illustrated in the corresponding item in the Balance Sheet ("Inventories" item "C I") to which reference is made.

Income from ancillary activities/business

Amount to € 944 thousand, up by € 53 thousand compared to 2018.

Other revenues and income mainly consist of charges for services (€ 119 thousand), revenues from non-recurring activities for € 386 thousand, various charge backs to employees (€ 97 thousand) and for revenues for € 239 thousand from the sale of "white certificates" relevant to the Villadossola Cogenerator ["white certificates" - Energy Efficiency Certificates - are awarded for the achievement in energy savings by applying efficient technologies and systems].

Revenue was generated from non-recurring activities, in addition to the acknowledged differences between the provisions made in the financial statements and the actual values. € 146 thousand were recorded as an offsetting entry to the tax credit for research and development costs; the amount was calculated based on the incremental expenses for R&D activities carried out in FY 2018 (for more details, please refer to the "Research and Development" section of the Report on Operations).

The breakdown of other revenues from Group companies and the Parent Company is illustrated in Annex 2 to the Report on Operations.



Costs of production

The cost of production as at 31 December 2019, was € 172,063 thousand, compared to € 184,636 thousand in for the previous year, down by € 12,573 thousand or -6.8%.

Raw, ancillary materials, consumables and goods

As at 31 December 2019 they amounted to € 108,836 thousand, compared to € 122,385 thousand for the previous year; the decrease is equal to € 13,549 thousand and is mainly due to a reduction in the price of the raw material VAM.

Annex 2 to the Report on Operations illustrates the breakdown of the purchases made by Group companies and from the Parent company, which amount to € 3,620 thousand.

Services

As at 31 December 2019 they amounted to € 28,223 thousand, compared to € 27,876 thousand for the previous year; the increase amounts to € 347 thousand compared to the previous year.

Costs for services are broken down into costs for industrial services of € 21,159 thousand, commercial services of € 1,911 thousand and general services of € 5,153 thousand.

Costs for industrial services (values in thousands of €)	31/12/2018	Variation during the year	31/12/2019
Customer transport costs	9.946	(317)	9.629
Energy consumption	5.116	188	5.304
Provision of services	2.773	93	2.866
Maintenance	2.934	231	3.165
Other industrial services	281	(86)	195
Total	21.050	109	21.159

Costs for commercial services (values in thousands of €)	31/12/2018	Variation during the year	31/12/2019
Accounts payable commissions, social security charges	1.122	(126)	996
Personnel travel expenses	731	(90)	641
Advertising, sponsorships, customer support, exhibitions	174	77	251
Other commercial services	25	(2)	23
Total	2.052	-141	1.911

Costs for general services (values in thousands of €)	31/12/2018	Variation during the year	31/12/2019
Professional and various advice	2.055	308	2.363
Insurance	656	(12)	644
Remuneration of Directors and Statutory Auditors	330	22	352
Company canteen	353	9	362
Cleaning	215	4	219
Various maintenance and repair costs	391	65	456
Post, telephone	149	(2)	147
Remuneration for auditors	56	0	56
Legal	84	3	87
Other general costs	485	(18)	467
Total	4.774	379	5.153

The increase in costs for general services is linked to the increase in professional advice and various services, mainly for the facilitation procedure referred to in the Law dated 11 December 2016, no. 232, the so-called hyper-amortisation, relating to the new production line of the "Acriliche 3500" plant in Villadossola, which was formalised by means of the sworn technical report in December 2019.

Annex 2 to the Report on Operations illustrates the breakdown of the purchases made by Group companies and from the Parent company, which amount to € 1,179 thousand.

For use of third party assets

As at 31 December 2019, they amounted to € 946 thousand, compared to € 917 thousand for the previous year.

They mainly consist of long-term rentals relevant to vehicles used by employees (€ 344 thousand), fees for the use of fork-lift trucks (€ 209 thousand) and commercial leases for the Milan offices owned by third parties (€ 175 thousand).

For employees

The total cost of labour as at 31 December 2019 is € 25,761 thousand and shows an increase of € 542 thousand compared to the previous year, due in part to new recruits for the year and the increase in salaries for seniority.

The item includes the cost for employees, including the cost of holidays not taken and other legal provisions and collective agreements.

The average number of employees at the end of 2019 is shown in the section "Other information".

Employee costs are as follows:

(values in thousands of €)	31/12/2018	Variation during the year	31/12/2019
Wages and salaries	17.582	526	18.108
Social security contributions	6.216	13	6.229
Employee leaving indemnity	1.136	17	1.153
Pension liabilities and similar	205	(11)	194
Other cost	80	(3)	77
Total	25.219	542	25.761

The increase compared to the previous year is mainly attributable to the programmes implemented by the company during the year, aimed at developing the resources in terms of quality and quantity and their improved integration.

Amortisation, depreciation and write-downs

Amortisation/depreciation of fixed assets are made up as follows:

(values in thousands of €)	31/12/2018	Variation during the year	31/12/2019
Amortisation of intangible fixed assets	35	6	41
Amortisation of tangible fixed assets	4.928	(241)	4.687
Total	4.963	(235)	4.728

Amortisations was calculated on the basis of the rates representative of the estimated useful life for all income. The reduction is due to the completion of amortisation/ depreciation periods. No disposals were made during the year.

Changes in inventories of raw, ancillary materials, consumables and goods

This item includes (values in thousands of €):

	31/12/2018	Variation during the year	31/12/2019
Initial inventories of raw materials	(16.893)	2.511	(14.382)
Final inventories of raw materials	14.382	(2.694)	11.688
Initial inventories of packaging	(651)	(42)	(693)
Final inventories of packaging	693	(56)	637
Initial inventories of promotional material	(3)	(16)	(19)
Final inventories of promotional material	19	4	23
Initial inventories of maintenance materials	(2.292)	(40)	(2.332)
Final inventories of maintenance materials	2.332	67	2.399
Initial inventories of workwear	0	0	0
Final inventories of workwear	0	1	1
Total	(2.413)	(265)	(2.678)

The changes shown reflect the performance of the business, as better illustrated in the corresponding item in the Balance Sheet ("Inventories" item "C I") to which reference is made.

Other operating charges

As at 31 December 2018, they amounted to € 862 thousand, compared to € 806 thousand for the previous year, up by € 56 thousand.

(values in thousands of €)	31/12/2018	Variation during the year	31/12/2019
Membership fees	201	1	202
Tax charges	169	11	180
Entertainment expenses	117	89	206
Contingent assets	252	(88)	164
Payments in support of culture "ART BONUS"	48	0	48
Benefits and donations	18	14	32
Other costs	57	1	58
Total	862	28	890

Contingent liabilities arise mainly from differences between allocations made in the Financial Statements and actual amounts.

Annex 2 to the Report on Operations details costs incurred for Group companies and the Parent Company.

Financial income and charges

The item discloses a negative net balance as at 31 December 2019 of € 16 thousand, compared with a negative balance of € 328 thousand in the previous year.

Income from stakes in associates

The position as at 31 December 2019 shows a balance of zero; the balance of € 212 thousand in 2018 refers to the recognition of the dividend approved by the associate Vinavil Egypt for Chemicals SAE.

Sundry financial income

This item, equal to € 42 thousand, refers to interest income accrued on the giro account with the parent company (€ 33 thousand at 31 December 2018).

Interest and other financial charges

These amount in total to € 80 thousand. The balance is made up as follows:

(values in thousands of €)	31/12/2018	Variation during the year	31/12/2019
Interest payable on "pooling" account	23	9	32
Financial discounts	44	4	48
Total	67	13	80

Exchange gains and losses

The realised and unrealised exchange differences on payments and collections during the year and for the adjustment of the receivables and payables to the year-end exchange rates, produced an exchange profit as at 31 December 2019 of € 21 thousand compared with a loss of € 506 thousand in 2018, as analysed below:

(values in thousands of €)	31/12/2018	Variation during the year	31/12/2019
Exchange gain realised during the year	378	(180)	198
Exchange loss realised during the year	(949)	618	(331)
Liquid funds adjustment	77	(65)	12
Realised exchange gains/(losses)	(494)	373	(121)
Customers for exchange adjustments	(5)	81	76
Suppliers for exchange adjustments	(7)	73	66
Unrealised exchange gains/(losses)	(12)	154	142
Total	(506)	527	21

The change is due to a different performance of currencies during the year.

Value adjustments to financial activities

Write-down of investments

The item as at 31 December 2019 refers to the write-down of the investment in the associate Vinavil Egypt for Chemicals SAE for € 1,000 thousand, as better shown in the corresponding item of the Balance Sheet ("Financial fixed assets" item "B III") to which reference should be made.

(values in thousands of €)	31/12/2018	Variation during the year	31/12/2019
Write-down			
a) of investment	0	1.000	1.000
Total	0	1.000	1.000

Income taxes for the year, current, deferred and prepaid

At 31 December 2019 negative taxes of € 2,105 thousand were registered; they relate to payables for taxes for the year equal to € 2,069 thousand and to prepaid and deferred taxes which have a cost component of € 36 thousand in 2019.

Current taxes

Income taxes for the year are calculated on the estimate of tax income, which takes into account both the increasing and decreasing changes envisaged by current legislation.

The taxes for the year are the following:

(values in thousands of €)	31/12/2018	Variation during the year	31/12/2019
IRES for the year	0	1.706	1.706
IRAP for the year	0	363	363
Total	0	2.069	2.069

They consist of € 363 thousand of IRAP for the year 2019 and € 1,706 thousand of consolidation expenses. The latter represent the IRES burden for the year, transferred to the parent company Mapei S.p.A. as a result of participation in the tax consolidation regime.

At 31 December 2018, the IRES item presents a balance equal to zero, since the Company has recognised an "Income from participation in the tax consolidation regime", as better shown in the corresponding item to which reference should be made.

Deferred taxes

In consideration of the application of the correct accounting standards presently in force, the Company has taken steps to calculate the pertaining deferred and prepaid taxes. The difference for the period is negative and amounts to € 36 thousand.

The economic effect for the year is illustrated in the comments on point “C II 4 ter)” of the assets. The reconciliation between the theoretical and actual tax burden is shown in the following table:

	FY 2018			Changes FY 2019		FY 2019			Economic impact 2019 (- revenue) (+ cost)
	Amount of temporary differences	Rate %	Tax effect	Provisions	Uses	Amount of temporary differences	Rate %	Tax effect	
Provisions for Taxable Supplementary Customer Allowances	14.060	27,90%	3.923			14.060	27,90%	3.923	0
Provisions for other risks and charges	433.926	27,90%	121.065			433.926	27,90%	121.065	0
Provision for bad debts on inventory		27,90%		80.000,00		80.000	27,90%	22.320	-22.320
Surplus ACE Tax	78.233	24,00%	18.776		78.233		24,00%		18.776
Membership fees	26.207	24,00%	6.290	11.106	21.207	16.106	24,00%	3.865	2.425
Depreciation on revaluation of buildings	631.680	27,90%	176.239			631.680	27,90%	176.239	0
Unrealised exchange losses	24.502	24,00%	5.880	13.562	24.502	13.562	24,00%	3.255	2.625
Total	1.208.608		332.173	104.667	123.942	1.189.333		330.667	1.506
Deferred taxes									
Unrealised foreign exchange rate gains	12.105	24,00%	2.905	155.820	12.105	155.820	24,00%	37.397	34.492
2016 Dividends (not collected as at 31/12)		24,00%			0		24,00%		0
2017 Dividends (not collected as at 31/12)	22.027	24,00%	5.286			22.027	24,00%	5.286	0
2018 Dividends (not collected as at 31/12)	10.610	24,00%	2.546			10.610	24,00%	2.546	0
Total	44.742		10.737	155.820	12.105	188.457		45.229	34.492
Net deferred (prepaid) taxes			- 321.436	51.152	- 111.837			- 285.438	
						Total in the Profit and Loss Statement			35.998

The reconciliation between the theoretical and actual tax burden is shown in the following table:

	IRES	IRAP
Difference between value and cost of production		7.640.064
Personnel costs		25.761.100
Provision for bad debts		
Total		33.401.164
Profit before taxes	6.623.788	
contingent assets	164.265	
Provision for bad debts on inventory accrual	80.000	80.000
compensation for project-based contracts (including directors) and occasional workers		243.567
Property Tax	63.801	127.601
costs for apartments	60.377	
telephone expenses	27.569	
auto deductibility costs 70%	132.475	
membership fees	- 10.101	
mileage allowance		27.769
donations	35.895	16.800
administrative penalties	7.834	
amount of Severance Indemnity to pension funds (4%)	- 44.176	
entertainment expenses	18.453	
contingent asset R&D tax credit	- 146.459	- 146.459
super-amortisation (Art. 1, paragraphs 91-94 and 97, Law 28 December 2015, n. 208 - Stability Law 2016)	- 334.461	
hyper-amortisation (Article 1, paragraphs 8 to 13, Law no. 232 of 11 December 2016 - Stability Law 2017)	- 325.676	
VAT paid and other non-deductible costs	23.280	
exchange rate differences	- 154.655	
Investment write-down	1.000.000	
tax wedge		- 24.460.363
Incentive for economic growth	- 114.293	
Taxable income	7.107.916	9.290.079
IRES (rate 24,00%) IRAP (rate: 2,68% - 3,9% - 4,82% - 4,97%)	1.705.900	363.180
Effective rate	25,75%	1,09%
Theoretical rate	0,00%	3,90%

Incomes from participation in the tax consolidation regime

The item of the previous year represents the “Income from participation in the tax consolidation regime”, in which the remuneration recognised by the consolidating company Mapei S.p.A. was recorded against the transfer to the Group of the tax loss occurred in 2018, amounting to € 3,302 thousand. The remuneration was, therefore, equal to 24% of the aforementioned loss and was set at € 792 thousand

(values in thousands of €)	31/12/2018	during the year	31/12/2019
Income from consolidation	(792)	792	0
Total	(792)	792	0

Other information

Data on employment

The average company workforce registered the following changes:

	31/12/2018	Variation during the year	31/12/2019
Directors	11	0	11
Middle management	50	2	52
Office staff	120	(1)	119
Blue collar workers	193	0	193
Total	374	1	375

The employment contract applied is that for the Chemical, Chemical-Pharmaceutical Industry.

Fees for managers and internal statutory auditors

	Fees	Advances	Receivables	Commitments on their behalf due to guarantees made
Managers	293.371	0	0	0
Internal Statutory Auditors	58.240	0	0	0
Total fees for managers and internal statutory auditors	351.611	0	0	0

The fees take into account the services provided and completed during the year.

Fees for external legal auditor or audit firm

The fees for the services provided are as follows:

Remuneration	Value
Legal audit of annual accounts	56.175
Other audit services	0
Tax advisory service	0
Other services different from auditing	0
<i>Total remuneration due to the legal auditor or audit firm</i>	<i>56.175</i>

The fees take into account the services provided and completed during the year.

Commitments, guarantees and contingent liabilities not recorded on the Balance Sheet

They refer to:

- € 466 thousand for a surety issued in favour of the company G.S.E. S.p.A. of Rome to hedge a payable arising from the verification activity performed on a cogeneration unit at the Villadossola production site;
- € 12 thousand, to a surety issued in favour of "Rete Ferroviaria Italiana" for the railway link to Villadossola;
- € 13 thousand, to sureties issued for property leases.
- 3,300,000 USD issued in favour of Bank of Alexandria, Cairo - Egypt (subject not resident in Italy), in the interest of the associate against a credit line granted by the same.

Information on assets and loans addressed for specific deals

There are no assets and loans addressed for specific deals.

Information on transactions with related parties

Transactions with related parties other than those illustrated in the Report on Operations have not been indicated; there are no off-balance sheet transactions.

Information on agreements not recorded on the Balance Sheet

There are no agreements not recorded on the balance sheet.

Information on significant events after the end of the year

The spread of the COVID-19 virus is having a significant impact on the economy worldwide. As of today, the Company's activities, despite the difficulty of the contingent situation in which it is operating, have not been particularly limited, also in consideration of the type of activity carried out. However, given the uncertainty of this emergency situation, it cannot be excluded that temporary interruptions or further limitations of the Company's activity may occur in the future caused by delays or suspension in the supply of products also due to the interruption of transportation or new legal restrictions in the various countries in which it operates.

In order to protect its employees, the Company has implemented high safety and monitoring standards to prevent the spread of COVID-19 and has adopted a Safety Protocol in its production and commercial facilities as well as in its headquarters, in compliance with the legislative and health provisions in force. There is a risk that, should the epidemic persist, Covid-19 may become the trigger of a global recession, on whose duration there are still no reliable assessments and whose effects on the world economy will depend on the ability to isolate the contagion and from the decisions taken by government authorities to contain the spread of the The final impact of the spread of Covid-19 is currently unpredictable and it is therefore not possible to assess the impact it will have on the end markets as well as on the economic, equity and/or financial situation of the Company.

However, even in a context of uncertainty regarding the possible effects of Covid-19, at present we are not aware of any elements which may question the continuation of the business, thus confirming the principles with which the Financial Statements were drawn up.

Companies drafting the consolidated financial statements of the largest / smallest group of companies to which they are part as subsidiary company

The following table shows the information required by Article 2427, paragraph 1, number 22 quinquies and 22 sexies of the Italian Civil Code:

Company name	MAPEI S.p.A.
Town (if in Italy) or foreign state	MILAN
Italian Tax code (for Italian companies)	01649960158
Place of filing of the Consolidated Financial Statements	VIALE E. JENNER, 4

Summary of the financial statements of the company exercising management and coordination activities

The Company is subject to direction or coordination of the company Mapei S.p.A.

Pursuant to art. 2497 bis, paragraph 4 of the Italian Civil Code, the essential data of the latest approved Financial Statements of the company exercising management and coordination activities are shown below:

	31/12/2018	31/12/2017
Date of the last approved Financial Statements		
A) Receivables due from Shareholders for outstanding payments		
B) Fixed assets	578.963.427	508.046.745
C) Current assets	639.812.163	581.799.027
D) Accrued income and prepaid expenses	3.755.972	2.406.483
Total assets	1.222.531.562	1.092.252.255
A) Shareholders' equity		
Share capital	100.000.000	100.000.000
Reserves	318.003.755	288.758.518
Profit (loss) for the year	46.140.014	32.746.003
Total shareholders' equity	464.143.769	421.504.521
B) Reserves for contingencies and other charges	46.219.676	46.348.882
C) Total reserve for Severance Indemnities (TFR)	4.001.039	4.410.162
D) Payables	707.178.031	619.302.367
E) Accrued expenses and deferred income	989.047	686.323
Total liabilities	1.222.531.562	1.092.252.255

	31/12/2018	31/12/2017
Date of the last approved Financial Statements		
A) Value of production	553.061.256	517.954.363
B) Costs of production	557.193.542	533.430.664
C) Financial income and charges	78.953.590	63.233.611
D) Value adjustments to financial assets	(24.327.946)	(20.053.969)
Income taxes for the year	4.353.344	(5.042.662)
Profit (loss) for the year	46.140.014	32.746.003

Proposal for the allocation of profits or loss coverage

Dear Shareholders, the draft Financial Statements for the year ended on 31 December 2019, together with the related explanatory notes and this Report on Operations, which we submit for your examination and approval, show a Profit of € 4,518,709.72, net of provisions for taxes.

We refer to the decisions of the Shareholders' Meeting regarding the allocation of the Profit for the year, considering that the Legal Reserve has already reached one fifth of the Share Capital and that it is necessary to make allocations in favour of the "Reserve for net unrealised gains on exchange rates" (pursuant to art. 2426 no. 8 bis of the Italian Civil Code), since net (unrealised) exchange gains amounting to € 155,819.50 were recorded during the year.

Notes to the final part

Repurchase transactions

There were no repurchase transactions as at the reporting date.

Receivables and payables with a residual duration of more than 5 years and payables secured by collateral on corporate assets

There were no outstanding receivables or payables with a residual duration exceeding five years secured by collateral on corporate assets as at the reporting date.

Disclosure on public funds

In FY 2019, the Company received € 239 thousand from the sale of “white certificates” pertaining to the Villadossola Cogenerator (with respect to the achievement of energy savings through the application of efficient technologies and systems), the Company did not receive other amounts beyond the aforementioned from the national public administration for services that were not performed within ordinary business activity. Furthermore, for completeness of information, it should be noted that during FY 2018 the company continued its research and development activities, directing its efforts towards particularly innovative projects; for the development of these projects the Company incurred expenses in 2018 for € 1,887,535.52, divided between categories of costs eligible for the “research tax credit” established by Italian Law Decree 145 of 23/12/2013, amended by art. 1, subsection 35 of Italian Law 190 of 23/12/2014 (Stability Law 2015).

The tax credit for investments in research and development activities was calculated, on the basis of the incremental expenditure (compared to the three-year period 2012- 2013-2014) for € 292,919.58, for € 146,459.79, and was booked in the item “A) 5 - Other revenues and income” in the Profit and Loss Statement.

Research activities continued during FY 2019.

This section has also been prepared for the purpose of fulfilling the disclosure requirements pursuant to Italian Law 124, article 1, subsections 125-129 of 4 August 2017.

The Administrative Body

**The chairman of the
board of directors**

(Dr. Marco Squinzi)

Board of Statutory Auditors' Report

Board of Statutory Auditors' Report pursuant to Article 2429, subsection two of the Italian Civil Code

To the Shareholders' Meeting of VINA VIL S.p.A.

Whereas

The Board of Statutory Auditors, in the year ended 31 December 2019, performed the functions envisaged in Articles 2403 et seq. of the Italian Civil Code, those envisaged in art. 24-09 - bis, of the Italian Civil Code to the statutory auditor EY S.p.a.

During the financial year as at 31 December 2019, we conducted our work in compliance with legal requirements and Rules of conduct for the Board of Statutory Auditors issued by the National Board of Accountants, with regard to which we have carried out a positive self-assessment for each member of the Board of Statutory Auditors.

Supervisory activity pursuant to art. 2403 wt seq. of the Italian Civil Code

We monitored compliance with the law, articles of association and principles of proper administration.

We participated in Shareholders' and Board of Directors' Meetings, in relation to which, on the basis of the available information, we did not note any breaches of the law or Articles of Association, or any transactions that were manifestly imprudent, hazardous, in potential conflict of interest or such that they would compromise the integrity of the Company's equity.

During the meetings held, we acquired information from the Directors on the general operating performance and outlook for the future as well as on the most significant transactions in terms of size or characteristics, executed by the Company and its subsidiaries, on the basis of the information acquired, we have no particular comments to report.

We met the Supervisory Body and no critical issues emerged in relation to the correct implementation of the organisational model that need to be highlighted in this report.

We acquired knowledge and monitored, within the area of our responsibility, the adequacy and functioning of the company's organisational structure, also by collecting information from department heads and, in this regard, we have no particular comments to report.

We acquired knowledge and monitored, within the area of our responsibility, the adequacy and functioning of the administrative-accounting system as well as its reliability to correctly represent management related issues, by means of obtaining information from department heads and analysing corporate, we have no particular comments to report.

No complaints were received by the Shareholders ex art. 24.08 of the Italian Civil Code.

The Board of Statutory Auditors did not issue the opinions envisaged by the law during the year. During the supervisory activity, as described above, no further significant facts emerged that need to be mentioned in this report.

Online observations to the Financial Statements

To the best of our knowledge, the directors, in the drafting the financial statements, did not derogate from the law pursuant to art. 2423, paragraph 4, of the Italian Civil Code.

Online observations and proposals for the approval of the financial statements

Taking into account the results of the activity carried out by us, as well as the results of the report on the financial statements issued by the auditing company, the board proposes that the assembly approves the Financial Statements for the year ended on 31 December 2019, as drawn up by the directors.

The Board of Statutory Auditors agreed with the proposal by the Directors in the Explanatory Notes for the allocation of the operating result.

In consideration of the operational difficulties related to the pandemic spread of Covid- 19 and the reorganised organisation of the audits of the Board of Statutory Auditors aimed at protecting the citizens' health, with the unanimous consent of the members of the Board, the President is delegated to sign this Report.

Milan, 16 June 2020

The Board of Statutory Auditors

The President

Dr. Guglielmo Calderari



Report of the audit firm



Report of the independent audit firm pursuant to art. 14 of Legislative Decree 39 of 27 January 2010

To the Shareholder of Vinavil S.p.A.

Report on the audit of the Financial Statements

Opinion

We performed the audit of the Financial Statements of Vinavil S.p.A. (the Company), consisting of the Balance Sheet as at 31 December 2019, Profit and Loss Statement and Cash Flow Statement for the year ended on the aforementioned date and the Explanatory Notes.

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company as at 31 December 2019, the operating result and cash flows for the year ended on that date, in compliance with the Italian regulations governing their preparation.

Elements on which the opinion is based

In compliance with the International Auditing Standards (ISA Italy).

Our responsibilities under these principles are further described in the section of this report. We are independent of the Company in compliance with the rules and standards on ethics and independence applicable in the Italian legal system for auditing financial statements. We believe that we have acquired sufficient and appropriate evidence on which to base our opinion.

Other Aspects

The audit activity was carried out in the context of the situation that arose following the spread of COVID 19 and the related measures, which included restrictions to circulation, issued by the Italian Government to protect the health of citizens. Consequently, due to objective situations of force majeure, the audit procedures envisaged by the reference professional standards were carried out in the context of (i) a reorganised organisation of personnel, based on an extensive use smart working and (ii) of different ways of interfacing with company representatives and gathering evidence, mainly using documentation in electronic format transmitted to us with remote communication techniques.



Responsibility of the Directors and Board of Statutory Auditors for the Financial Statements

Directors are responsible for the preparation of the Financial Statements that give a true and fair view in compliance with the Italian Legislation governing the preparation criteria and, within the terms envisaged by the law, for that part of the internal control they deem necessary to allow the preparation of the Financial Statements that does not contain significant errors due to fraud or unintentional behaviour or events.

Directors are responsible for assessing the Company's ability to continue operating on a going concern basis and, in drafting the Financial Statements, for the suitability of using the going concern basis, as well as for an adequate disclosure on the subject. The Directors use the assumption of a going concern for the preparation of the Financial Statements unless they have assessed that the conditions exist for the liquidation of the of the Company or for the interruption of the business or should they have no realistic alternatives to such choices. The Board of Statutory Auditors is responsible for the supervision, within the terms envisaged by law, of the preparation process of the Company's financial information.

Responsibility of the External Auditor for the audit of the Financial Statements

Our objectives are the acquisition of a reasonable certainty that the Financial Statements on a whole do not contain significant errors, due to fraud or unintentional behaviours or events, and the issue of an Audit Report that includes our opinion. Reasonably security means a high level of security which, however, does not provide the guarantee that an audit carried out in compliance with International Auditing Standards (ISA Italia) always identifies a significant error, if it exists. Errors can result from fraud or unintentional behaviours or events and are considered significant if it can reasonably be expected that they, individually or together, will be able to influence the economic decisions made by users on the basis of the Financial Statements. In the scope of the audit performed in compliance with the International Accounting Standards (ISA Italy), we have exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

EY S.p.A.

Registered Office: Via Lombardia, 31 - 00187 Rome

Fully paid-up share capital Euro 2,525,000.00

Registered in the ordinary section of the Registry of companies at the Chamber of Commerce of Rome

Italian tax code and registration number 00434000584 - E.A.I. no. 250904

VAT number 00891231003

Registered in the Registry of Statutory Auditors at no. 70945, Published in the Official Gazette Suppl. 13 - IV Special Series of 2/17/1998

Registered in the Special Registry of Consob for audit companies

Under no. 2 resolution no.10831 of 16/7/1997

A member firm of Ernst & Young Global Limited



- we have identified and assessed the risks of significant errors in the Financial Statements, due to fraud or unintentional behaviours or events; we have defined and performed audit procedures in response to these risks; we have acquired sufficient and appropriate audit evidence on which to base our opinion. The risk of not identifying a significant error due to fraud is higher than the risk of not identifying a significant error deriving from unintentional behaviour or events, as fraud can imply the existence of collusion, falsification, intentional omission, misleading representations or the use of force in the internal control;
- we acquired an understanding of the internal audit that is relevant for the purposes of the audit in order to define appropriate audit procedures in the circumstances, and not to express an opinion on the effectiveness of the Company's internal audit system;
- we assessed the appropriateness of the accounting principles used as well as the reasonableness of the accounting estimates made by the Directors and the relevant disclosure;
- we reached a conclusion regarding the appropriateness of use by the Directors of the going concern basis and, based on the audit evidence obtained, on the possible existence of a significant uncertainty regarding events or circumstances that can give rise to significant doubts about the capacity of the Company to continue to operate on a going concern basis. In the presence of significant uncertainty, we are required to draw attention in our audit report to the relevant Financial Statements disclosure or, should such information be inadequate, to reflect such circumstance when formulating our opinion. Our conclusions are based on the audit evidence obtained up to the date of this report. However, subsequent events or circumstances may result in the Company ceasing to operate as a going concern;
- we assessed the presentation, structure and content of the Financial Statements as a whole, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in order to provide a correct representation.

We have notified the governance managers, identified at an appropriate level as required by the International Audit Standards (ISA Italia), inter alia other aspects, the importance and timing planned for the audit and significant results arising from the same, including any significant shortcomings within the internal control as identified during the audit.



Report on other legal and regulatory provisions

Opinion pursuant to art. 14, paragraph 2, letter e), of Legislative Decree 39 of 27 January 2010

The Directors of Vinavil S.p.A. are responsible for the preparation of the Report on Operations for Vinavil S.p.A. as at 31 December 2019, including its consistency with the relevant Financial Statements and compliance with the law.

We have carried out the procedures indicated in audit standard (SA Italia) 720B a), in order to express an opinion on the consistency of the Report on Operations with the Financial Statements of Vinavil S.p.A. as at 31 December 2019, and the compliance of the same with the law, as well as to issue a declaration on any significant errors. In our opinion, the Report on Operations is consistent with the Financial Statements of Vinavil S.p.A. as at 31 December 2019, and is prepared in compliance with the law. With reference to the declaration referred to in art. 14, paragraph 2, letter e), of Legislative Decree 39 of 27 January 2010, issued based on the knowledge and understanding of the business and the relevant context acquired during the audit, we have nothing to report.

Milan, 15 June 2020

EY S.p.A.

Renato Macchi
Statutory Auditor



Vinavil S.p.A.

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