ANNUAL FINANCIAL REPORT

2019

SANLORENZO

I

SANLORENZO AT A GLANCE

II

BOARD OF DIRECTORS' REPORT ON OPERATIONS

I

SANLORENZO AT A GLANCE

letter to shareholders

Dear Shareholders,

The year 2019 was a fundamental, extraordinary year for Sanlorenzo, marking its debut on financial markets with the institutional placement of the Company's shares on the STAR segment of the Mercato Telematico Azionario organised and managed by Borsa Italiana S.p.A. It was also a year in which – once again – we reported double digit growth of our main economic indicators.

Net revenues from the sale of new yachts increased by 39.3%, reaching €455.9 million, with significant growth in all divisions and all geographical areas. The EBITDA, adjusted for non-recurring costs relating to the IPO transaction (€6.1 million), was equal to €66.0 million, with an incidence of 14.5% on net revenues from the sale of new yachts. Net profit reached €27.0 million, more than doubling over 2018.

Thanks to the proceeds from the capital increase connected with the IPO transaction we have significantly strengthened our capital structure, bringing the net financial position from €75.4 million pro forma in 2018 to €9.1 million at the end of 2019. We have also continued with our program of investments, both to increase production capacity and to develop products that are always unique, innovative and sustainable, for a total of €51.4 million.

From the start of 2020 we have moved forward with intense activities of design of new models in the Yacht and Superyacht division. Thanks to R&D efforts, we have begun development of a very innovative product (BGM – Bluegame Multi-hull), with the aim of generating increasingly sustainable projects, also in the world of yachting.
In the new year we will also be proceeding with the start-up "High-end services", a service company that will take Sanlorenzo into a new and as yet unexplored business segment we feel can be very fruitful over the medium-to-long term. It will immediately set Sanlorenzo apart from its competitors, for our particular "Client Club".

Unfortunately, towards the end of the first quarter our Company, like all companies in Italy and probably in the world, has undergone a slowdown due to the COVID-19 emergency. The measures taken by the government – first of all the Prime Ministerial Decree of 22 March – have caused the suspension of production activities from 20 March to 3 April, and it is probable that the Decree will be extended until the week after Easter.
If production activities are able to resume at a good pace at the beginning of May, we believe it will be possible to substantially recover lost time. In this way, this extraordinary situation will not have a decisive impact on the 2020 figures, given the fact that Sanlorenzo presently has a backlog exceeding €500 million (92% from direct clients). In the meantime, we have implemented all possible actions for reduction of operating costs and investments, while proceeding full speed ahead with the development of new models.

We are aware of the fact that the macro-economic and geo-political situation will remain uncertain, and it will not be easy to continue to achieve such extraordinary results. But Sanlorenzo, already in the past, has demonstrated that it is a resilient company, able to react and to bring out its best precisely in the most difficult moments.
Thanks to the IPO completed at the end of 2019, and thanks to the support and energy of all the stakeholders operating for Sanlorenzo, I am certain that the Company will emerge from this situation stronger than ever before.

Our yachts are our passion and we will continue to create products honed down to the smallest details, in keeping with the Sanlorenzo tradition of "made by hand, and made well." The force of our brand is the result of the contribution of all the employees, who together with me make all this possible, day after day, and to whom I would like to express my heartfelt thanks.

I would also like to thank our Shareholders for the trust they have demonstrated in 2019, beginning a path with us that will set its course towards achievement of new and more important goals.

Massimo Perotti
Executive Chairman

sanlorenzo group

CORPORATE DATA
Sanlorenzo S.p.A.
Share Capital €34,500,000 fully paid-in
Tax Code and registration number in the Companies Register of Riviere di Liguria – Imperia La Spezia Savona 00142240464
Registered office in via Armezzone 3, Ameglia (SP)
Secondary offices:
• viale San Bartolomeo 362, La Spezia;
• via Marina di Levante, Viareggio (LU);
• via Salvatori 56/58, Viareggio (LU);
• via Dorsale 13, Massa.
www.sanlorenzoyacht.com

CORPORATE BODIES

Board of Directors [1]	Massimo Perotti	Executive Chairman
	Marco Viti	Managing Director
	Carla Demaria	Managing Director
	Paolo Olivieri	Director and Deputy Chairman
	Cecilia Maria Perotti	Director
	Pietro Gussalli Beretta	Independent Director and Lead Independent Director
	Silvia Merlo	Independent Director
	Licia Mattioli	Independent Director
	Leonardo Luca Etro	Independent Director
Control, Risks and Sustainability Committee	Leonardo Luca Etro	Chairman
	Silvia Merlo	
	Cecilia Maria Perotti	
Remuneration Committee	Silvia Merlo	Chairman
	Paolo Olivieri	
	Leonardo Luca Etro	
Nomination Committee	Pietro Gussalli Beretta	Chairman
	Licia Mattioli	
	Paolo Olivieri	
Committee for Related-Party Transactions	Licia Mattioli	Chairman
	Silvia Merlo	
	Pietro Gussalli Beretta	
Board of Statutory Auditors [2]	Andrea Caretti	Chairman
	Margherita Spaini	Standing Auditor
	Roberto Marrani	Standing Auditor
	Luca Trabattoni	Alternate Auditor
	Marina Scandurra	Alternate Auditor
Independent Auditing Firm [3]	BDO Italia S.p.A.	
Manager charged with preparing the company's financial reports	Attilio Bruzzese	

[1] *Appointed by the ordinary shareholders' meeting on 24 June 2019 and supplemented on 24 October 2019; will remain in office until the date of the shareholders' meeting called to approve the separate financial statements as at 31 December 2021.*

[2] *Appointed by the ordinary shareholders' meeting on 24 October 2019; will remain in office until the date of the shareholders' meeting called to approve the separate financial statements as at 31 December 2021.*

[3] *Appointed by the ordinary shareholders' meeting on 23 November 2019 for nine financial years from 2020 to 2028.*

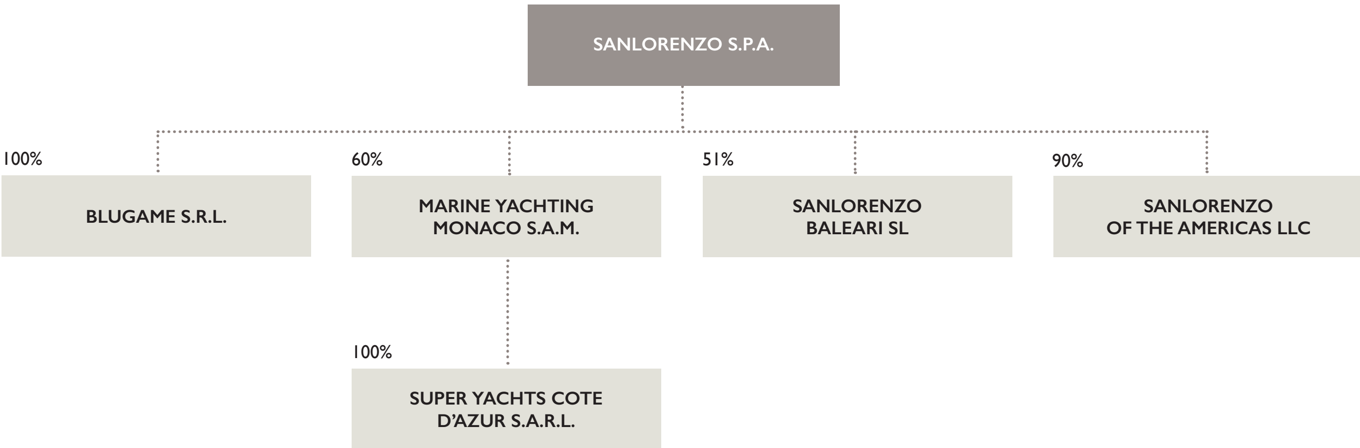
group structure

The Consolidated Financial Statements of Sanlorenzo Group as at 31 December 2019 include Sanlorenzo S.p.A. (Parent Company), four direct subsidiaries of Sanlorenzo S.p.A. (Bluegame S.r.l., Marine Yachting Monaco S.A.M., Sanlorenzo Baleari SL and Sanlorenzo of the Americas LLC) and a company in which the Parent Company indirectly holds the majority of voting rights (Super Yachts Cote D'Azur S.a.r.l.).


SANLORENZO

group structure

CORPORATE ORGANISATIONAL CHART OF THE GROUP AS AT 31 DECEMBER 2019



COMPOSITION OF THE GROUP AT 31 DECEMBER 2019

Company name	Registered office
Sanlorenzo S.p.A.	Ameglia (SP) – Italy
Bluegame S.r.l.	Viareggio (LU) – Italy
Sanlorenzo of the Americas LLC	Fort Lauderdale (FL) – USA
Sanlorenzo Baleari SL	Puerto Portals, Maiorca – Spain
Marine Yachting Monaco S.A.M.	Principality of Monaco
Super Yachts Cote d'Azur S.a.r.l. [4]	Antibes – France

[4] Held by Marine Yachting Monaco S.A.M. On 20 September 2019, the shareholders' meeting of Super Yachts Cote d'Azur S.a.r.l. resolved the winding-up and placement into liquidation of the company effective from 30 September 2019.

II

BOARD OF DIRECTORS' REPORT ON OPERATIONS

introduction

Sanlorenzo S.p.A. (the "Company") drafted the Report on operations as the single document both for the Group Consolidated Financial Statements and the Separate Financial Statements. The Report must be read together with the Financial Statements and the associated Notes to the Financial Statements, integral parts of the Consolidated Financial Statements and the Separate Financial Statements. These documents include the additional information required by Consob, with the provisions issued in implementation of art. 9 of Italian Legislative Decree no. 38/2005 (resolutions 15519 and 15520 of 27 July 2006 and communication DEM/6064293 of 28 July 2006), as well as with each subsequent communication containing provisions governing financial disclosure.

*Note:
This report has been translated into English from the original Italian document solely for the convenience of international readers.
In case of inconsistency between this document and the original document in Italian, the latter will prevail.*

group activities

The Group is a global operator specialised in the design, production and sale of custom-made yachts, superyachts and sport utility yachts, fitted out and customised according to the needs and desires of exclusive customers.
Sanlorenzo is the leading brand at Group level in terms of the number of yachts between 30 and 40 metres long delivered between 2009 and 2019 [5], with a market share of 18% [6].
Sanlorenzo's long tradition in building yachts starts in 1958 with the construction of the luxury wooden flybridge motor yacht, up to the creation of its first composite yacht model in 1985. With the entry of the Executive Chairman Massimo Perotti, in 2005, Sanlorenzo started to sell yachts at global level and, despite always staying true to its concept of the customised yacht in terms of the interior decor and external style, has constantly expanded its product lines; from composite yachts, to semi-displacement composite boats, to superyachts with aluminium hull introduced in 2007 and steel hull introduced in 2010. More recently, the Group has further expanded its range of yachts and superyachts and, in 2018, jointed the composite sport utility yacht segment under the Bluegame brand name.
Sanlorenzo is the only company in the sector operating under a single brand name, both in the market for yachts of between 24 and 38 metres long, where it has operated since its formation, and in the market for metal superyachts of more than 40 metres long.

[5] *Data updated as of early October 2019. Source: The Superyacht Times, November 2019.*

[6] *Calculated on the basis of the 90 yachts delivered by Sanlorenzo with respect to a total of 489 in the sector (source: The Superyacht Times, November 2019).*

Group production is divided into three divisions:
- Yacht Division (dedicated to the design, manufacturing and marketing of composite yachts of between 24 and 38 metres long, sold under the Sanlorenzo brand);
- Superyacht Division (dedicated to the design, manufacturing and marketing of superyachts in aluminium and steel of between 40 and 68 metres long, sold under the Sanlorenzo brand);
- Bluegame Division (dedicated to the design, manufacturing and marketing, under the Bluegame brand, of composite sport utility yachts of between 13 and 22 metres long).

The Group sells yachts both directly (through Sanlorenzo or other Group companies or intermediaries) and through brand representatives, which were 11 at global level at 31 December 2019, each of which operates in one or more assigned regional zones within the context of the global geographical markets.

THE PRODUCTION SITES

The production activities of Yacht Division are carried out in three sites situated in Ameglia (SP), on the banks of the river Magra, in Viareggio (LU) and in Massa.
The production activities of Superyacht Division are carried out at the La Spezia site.
The company operates out of four production sites within a 50km radius, within the nautical district sandwiched between the Apuan Alps and the Tyrrhenian Sea, between the northern Tuscan coast and the Ligurian eastside coast.
The production activities of Bluegame Division are carried out under the coordination of Bluegame by third party companies, which also oversee subsequent fitting-out activities; the sales, technical and management offices of Bluegame Division are located in Viareggio (LU).

group activities

THE PRODUCTS

The divisions produce the following lines of yacht:

- Yacht Division: SL Line, SD Line and SX Line, sold under the Sanlorenzo brand name;
- Superyachts Division: Alloy Line, Steel Line, Explorer Line, sold under the Sanlorenzo brand name;
- Bluegame Division: BG Line and BGX Line, sold under the Bluegame brand name.

The table below shows the total numbers of yachts delivered in the year ended 31 December 2019, compared with 31 December 2018, for each division.

	Year ended 31 December				Change	
	2019	% of total	2018	% of total	2019 vs 2018	2019 vs 2018 %
Yacht Division	34	68.0%	38	79.2%	(4)	-10.5%
Superyacht Division	3	6.0%	3	6.3%	–	–
Bluegame Division	13	26.0%	7	14.5%	6	+85.7%
Total	**50**	**100.0%**	**48**	**100.0%**	**2**	**+4.2%**

Yacht Division

SL Line

The SL Line is the historic Sanlorenzo range and includes flybridge, planning and on-board motor yacht models with living quarters on two and a half decks for layouts with master cabin on the main deck and on two decks with master cabin on the lower deck. The SL Line includes the following six models, which lengths ranging from 24.6 metres to 36.5 metres: SL78, SL86, SL96A, SL102A, SL106, SL118.

SD Line

The SD Line, introduced in 2007, perfectly complements the historic SL Line. The SD Line includes shuttle, semi-displacement type yacht models fitted with a hull that does not rise up above the surface of the water while sailing.

It includes the following four models, which lengths ranging from 28.8 metres to 37.9 metres: SD92, SD96, SD112, SD126.

SX Line

The SX Line, introduced in 2017, covers a new market segment which expands the offering of composite yachts. The SX Line includes crossover type yacht models, a type that combines elements of the flybridge segment with typical features of the Explorer Line (described below), and is characterised by semi-planing speeds (around twenty-two knots), in between that of the SL and SD Lines. The SX Line includes the following three models, which lengths ranging from 23.7 metres to 34.2 metres: SX76, SX88, SX112 (for which the delivery of the first unit is expected in 2020). Model SX126, which is roughly 41.3 metres long, is also currently at the development phase.

The table below shows the numbers of yachts delivered for the Yacht Division in the year ended 31 December 2019, compared with 31 December 2018.

	Year ended 31 December				Change	
	2019	% of total	2018	% of total	2019 vs 2018	2019 vs 2018 %
SL Line	15	44.1%	21	55.3%	(6)	-28.6%
SD Line	3	8.8%	8	21.1%	(5)	-62.5%
SX Line	16	47.1%	9	23.6%	7	+77.8%
Total	**34**	**100.0%**	**38**	**100.0%**	**(4)**	**-10.5%**

group activities

Superyacht Division

Alloy Line

Represents the historic product line of Superyacht Division, introduced in 2007, with the delivery of the first 40Alloy model. These are yacht models made with hull and superstructure entirely in aluminium, characterised by a modern design with fast displacement hull and cutting edge technology.
The Alloy Line includes the following two models, which lengths ranging from 40.8 metres to 44.5 metres: 40Alloy and 44Alloy.

Steel Line

The Steel Line, introduced by Sanlorenzo in 2010, represents the classic line of Superyacht Division and includes yacht models with displacement hull made of steel - an extremely rigid and robust material - and aluminium superstructure laid out over 5/6 decks.
The Steel Line includes the following four models with lengths ranging from 46 metres to 68 metres: 46Steel, 52Steel, 62Steel and 64Steel.

Explorer Line

The Explorer Line, which Sanlorenzo introduced in 2015, includes yacht models with steel displacement hull and aluminium superstructure. It is characterised by features inspired by the big exploration vessels, the large living spaces on-board and high performance in terms of autonomy and sea-keeping.
The Explorer Line includes the following two models measuring between 42.8 metres and 47 metres long: 460EXP and 500EXP.
The table below shows the numbers of yachts delivered for the Superyacht Division in the year ended 31 December 2019, compared with 31 December 2018.

	Year ended 31 December				Change	
	2019	% of total	2018	% of total	2019 vs 2018	2019 vs 2018 %
Alloy Line	1	33.3%	–	–	1	–
Steel Line	1	33.3%	1	33.3%	–	–
Explorer Line	1	33.3%	2	66.7%	(1)	-50.0%
Total	**3**	**100.0%**	**3**	**100.0%**	**–**	**–**

Bluegame Division

Bluegame Division, introduced in 2018, designs and sells Bluegame-branded composite sport utility yachts. In particular, Bluegame Division specialised in designing and marketing yachts of between 13 and 22 metres of the tender and chase boat variety, targeted primarily at yacht and superyacht owners as support vessels.

Bluegame Division's yacht production is assigned entirely to specialised contractors, which operate under the supervision of the Bluegame Division's personnel.

BG Line

The BG Line was introduced in 2018 and consists of two models: BG42 (13.0 metres) and BG62 (18.8 metres). These are also known as walk-around boats, with a cockpit and steering gear located centrally in a raised position, with a walkway all around protected by a high bulwark.

BGX Line

The BGX Line was introduced in 2019, and combines the typical elements of the BG Line with the crossover concept, already developed by Sanlorenzo in a bigger size with the SX Line. The BGX Line currently includes the 22-metre long BGX70 model, presented at the 2019 Cannes Yachting Festival, which will be followed by the BGX50 and the BGX60.

The table below shows the numbers of yachts delivered for Bluegame Division in the year ended 31 December 2019, compared with 31 December 2018.

	Year ended 31 December				Change	
	2019	% of total	2018	% of total	2019 vs 2018	2019 vs 2018 %
BG Line	12	92.3%	7	100.0%	5	+71.4%
BGX Line	1	7.7%	–	–	1	–
Total	**13**	**100.0%**	**7**	**100.0%**	**6**	**+85.7%**

group activities

VALUE AND COMPETITIVE POSITIONING OF THE BRAND

Design and technological innovation of yachts

The strength of the product is the result of the Group's capability of building yachts that set themselves apart for their technological innovation and design - albeit staying true to the iconic Sanlorenzo style, attention to detail, eye-catching look and high quality - and are the result of the process of customisation based on the customer's needs and desires. Furthermore, the Group's yacht range is extensive and diversified in terms of the size and materials used, as well as the characteristics of the various lines, in order to meet the needs of highly sophisticated customers.

Thanks to constant investments in research and development by the Group, the Sanlorenzo fleet presents a high degree of innovation which, combined with an iconic and timeless nautical design, makes every yacht produced by the Group immediately recognisable at sea.

Over time, the design of the first models has gradually evolved, although maintaining the continuity and the unique distinctive traits, ensuring that Sanlorenzo yachts are recognised as such, even years after. The yachts are restyled every ten years on average. The considerable amount of time that normally passes between the launch of a model and the associated restyling makes it possible, among other things, to keep the value of Sanlorenzo branded used yachts high.

Collaborations with world-renowned designers and architects

Sanlorenzo works closely with world-renowned designers and architects on both creating the external features of the yachts and on designing the layout and furnishing of the exteriors and the interiors.

In particular, Sanlorenzo has signed multi-year consultancy contracts, which give the Company the right to use the intellectual property of the designers and architects in conceiving and constructing the interiors and exteriors of each yacht model. The contracts stipulated generally make provision for payment to designers and architects of an agreed flat-rate fee for the creation of the layout of the first yacht for each model, and subsequent royalties in the event the customer chooses the concept created specifically by designers and architects for the interior and exterior furnishings. The contracts, whose duration varies between 20 and 36 months, also give Sanlorenzo the right to be able to take economic advantage of the intellectual property of the designers and architects and, in certain cases, Sanlorenzo has an exclusive right, which prevents designers and architects from working for some competing companies, in order to lend unique yacht models created specifically for Sanlorenzo.

The Group constantly renews its decision to employ a single design firm in order to ensure uniform external features, combining the taste for innovation with the maintenance of its distinctive traits, consistent with the iconic style and history of Sanlorenzo.

For the creation of the external appearances of the yachts, the Group currently collaborates with the Zuccon International Project studio in Rome, managed by brothers Bernardo and Martina Zuccon.

For the layout and fitting of the exteriors and interiors, the Group has not only engaged with the Zuccon International Project studio, but has strengthened its collaboration with world-renowned ar-

chitects and designers for more than ten years, who participate in the creation of the first model of each line, and who offer their expertise and professionalism to owners in building their yachts.
These collaborations incorporate those with Rodolfo Dordoni for the SL100 in 2009, Antonio Citterio and Patricia Viel for the SD112 and Explorer460 in 2016.
In 2016, with the SX88, the valuable collaboration with Piero Lissoni commenced, now the Artistic Director of Sanlorenzo brand.
The SD96 was launched in 2019, whose interiors were created by Patricia Urquiola.

Communication with a new language and connection with art and culture
Over the last three years, Sanlorenzo has implemented an experience-based communication and marketing strategy, targeted at conveying unique emotions and experiences to current and prospective customers, which are synonymous with the Sanlorenzo brand.
The main objective of the Group's communication is focused on the exclusive nature of manufacturing, high quality, design and elegance of the yachts, combined with the exclusivity of the relationship with the customer, the central focus of a totally personalised and engaging experience.
The collaboration with Piero Lissoni has made it possible to further develop the ability to communicate the competitive positioning of Sanlorenzo brand; the most important recent initiatives incorporate the launch of the Almanac - designs created specifically by various artists to convey the themes, which are the hallmark of Sanlorenzo, a collection gifted at the end of the year to Sanlorenzo owners - and the Log Books presenting the Group, the modernisation of the set-up of the stands at the main global boat trade fairs (from Cannes to Düsseldorf, from Montecarlo to Miami), the organisation of the biennial gala event called "Elite Days" where customers from all over the world are welcomed at Sanlorenzo's factory facilities.
The initiatives in the world of art and design that involved Sanlorenzo include:
- the exclusive global agreement for the world of sailing with Art Basel for three years starting from 2018, which sees Sanlorenzo's participation in contemporary art events organised every year by Art Basel in Basel (CH), Miami (FL, USA) and Hong Kong;
- the participation and staging of exhibitions by Sanlorenzo at major events like the Biennale di Venezia (2017) and Milan Design Week (from 2017).

Brand representatives
The appreciation of Sanlorenzo brand also stems from the capacity to cover all the main global geographical markets, both directly and through its sales network, in particular through its brand representatives.
The brand representatives are located in the strategic areas for the global sailing landscape and act as genuine marks of Sanlorenzo's exclusivity, by using its brand name in synergy with Sanlorenzo and in accordance with its philosophy.


CANTIERI


SAN LORENZO

group activities

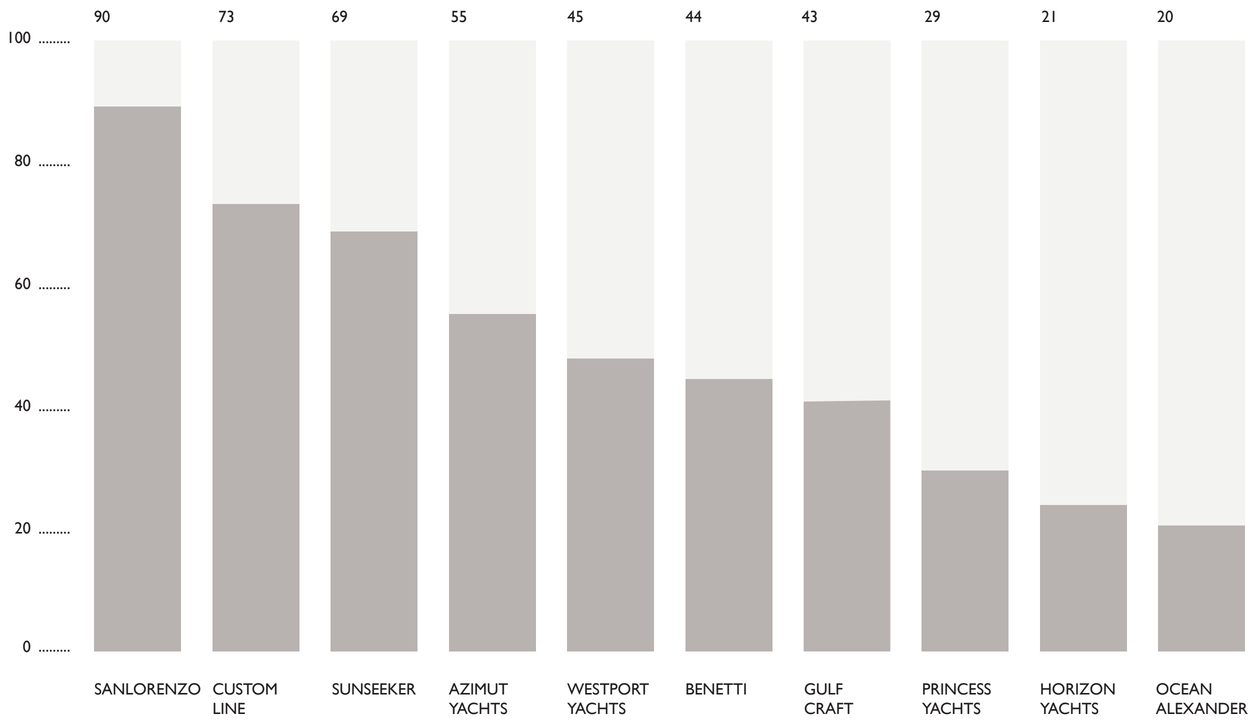
Competitive positioning of the brand

The constant innovation of yacht design, in respect of Sanlorenzo's tradition, customer loyalty and satisfaction, through the attention to detail, thanks to collaboration with local handcraft, product uniqueness, collaborations with world-renowned designers and architects, communication through a new language and the connection with art and culture saw Sanlorenzo solidify its foothold in the luxury sailing market, which recognises Sanlorenzo brand as a symbol of excellence and exclusivity.

Sanlorenzo is the leading brand at Group level in terms of the number of yachts between 30 and 40 metres long delivered between 2009 and 2019[7], with a market share of 18%[8].

TOP TEN SUPERYACHT BRANDS 30/39.99 M BY DELIVERIES SINCE 2009

As per early october 2019



[7] *Data updated as of early October 2019. Source: The Superyacht Times, November 2019.*

[8] *Calculated on the basis of the 90 yachts delivered by Sanlorenzo with respect to a total of 489 in the sector (source: The Superyacht Times, November 2019).*

Sanlorenzo is also the second naval construction Group in the world and the biggest yard operating under a single brand name in terms of yachts longer than 24 metres (87 yachts, up 13% compared to 2018) and total length intended for production (3,061 metres) registered in the backlog as at 31 December 2019, for an average length in terms of pleasure boats under construction of 35 metres[9].

2020 RANK	COMPANY	GOB VISIT	TOTAL LENGTH (M)	NUMBER OF PROJECTS	AVERAGE LENGTH (M)	NUMBER OF PROJECTS 2019	2019 RANK
1	Azimut - Benetti	Visited	3,535	101	35,0	97	1
2	Sanlorenzo	Visited	3,061	87	35,0	77	3
3	Feadship*	Visited	1,216	16	75,9	18	5
4	Sunseeker	-	1,037	32	32,3	32	8
5	Lurssen*	Visited	1,031	9	114,6	9	9
6	Amels - Damen	Visited	930	14	66,4	16	7
7	Alexander Marine	Visited	927	31	31,7	38	6
8	Heesen Yachts	Visited	730	13	56,1	12	10
9	Horizon	Visited	709	24	29,6	21	11
10	Overmarine	Visited	514	12	42,9	11	13
11	Baglietto-CCN	Visited	430	10	42,9	10	15
12	Heysea Yachts	-	400	11	36,2	11	16
13	Bilgin Yachts	-	392	5	78,3	4	New entry
14	Turquoise Yachts	-	390	6	64,9	5	New entry
15	Oceanco	Visited	351	3	117,0	5	12
16	Gulf Craft	Visited	344	9	38,1	8	20
17	Cantiere delle Marche	Visited	341	9	37,7	9	19
18	Palumbo	Visited	339	8	42,3	9	14

* *Official data not shared by the yard.*

Source: The Global Order Book 2020

[9] *Source: Global Order Book 2020, Showboats International.*

group activities

KEY COMPETITIVE STRENGTHS

<u>"Made to measure"</u>
The Group is characterised by its high level of yacht customisation, starting from the initial phases of design of the interiors and exteriors, in which the customer is involved in from the outset, establishing a close relationship of collaboration and knowledge, even personal, with each owner. The high degree of customisation of the interior and exterior fittings and technological equipment, not just of yachts longer than 40 metres, but also those between 24 and 40 metres, is a distinctive trait of Sanlorenzo in the global luxury sailing landscape. This characteristic is based on the Company's philosophy of guaranteeing its customers with a "made to measure" yacht, also in the smaller models.

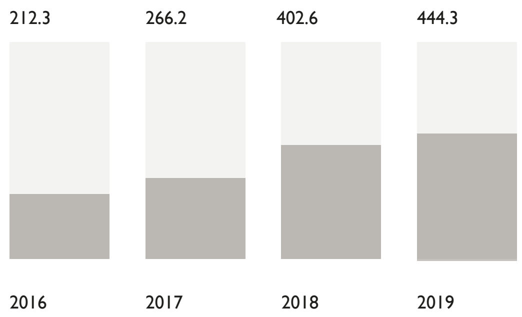
<u>"Connoisseur" customers</u>
The "made to measure" approach has allowed the Company to attract loyal and sophisticated customers over the years, composed primarily of the connoisseurs category. This approach has led, over time, to a high degree loyalty of end customers towards Sanlorenzo.
The Company's loyal customers belong to the social class of the Ultra High Net Worth Individuals (UHNWI), characterised by rates of yachting penetration among the lowest in the luxury segment, within the market segment of the broader Luxury sector (Luxury Yachting).

<u>Productive excellence and flexibility</u>
The Compamy's yachts are created with attention to every detail, in order to maximise quality and comfort for the customer. By leveraging its development and design capabilities, Sanlorenzo has been able to constantly innovate the features of its yachts and has improved their appearances and quality over time, whose skilful combination constitutes a distinctive trait of the Group's yachts.
The high quality of the features is also guaranteed by long-standing relationships with highly-skilled local handcraft employed in the production process. The Group has historically relied on contractors belonging to an ecosystem of craft companies, largely based in the coastal area of Tyrrhenian sea between La Spezia and Viareggio, a long tradition which constitutes a genuine district of nautical excellence.
In fact, the Group can rely on a network of approximately 1,550 artisan contractors who contribute to the production of yachts, each focused on a specific skill area (lamination, carpentry, plumbing, etc.). Thanks to the operational execution delegated to highly experienced and highly skilled artisan companies, the Group can dedicate itself to the higher value-added production phases, connected with direct interaction with the customer and targeted at creating innovative new products, their marketing, brand development and quality control.
Thanks to this unique business structure in the nautical sector, the Group can offer the flexible execution needed to keep the "made to measure, hand-made, well-made" promise for every one of its yachts.

financial highlights[10]

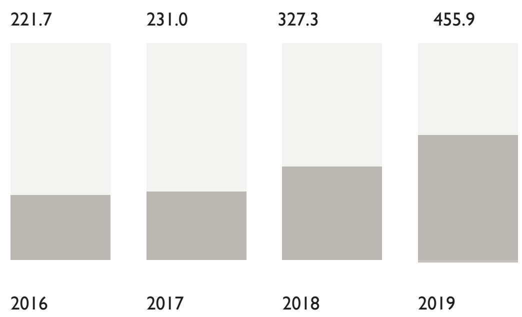
BACKLOG

(in € million)



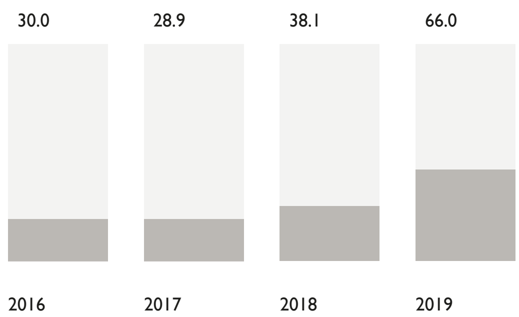
NET REVENUES NEW YACHTS

(in € million)



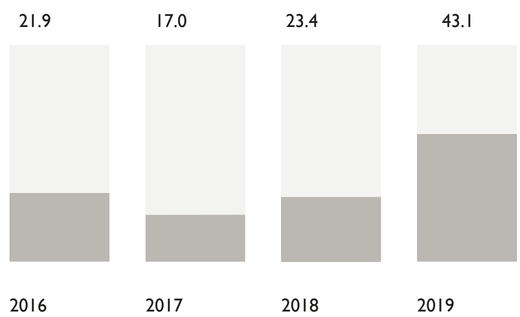
ADJUSTED EBITDA

(in € million)



EBIT

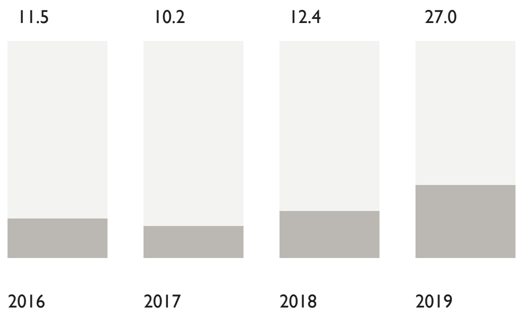
(in € million)



[10] *For a description of the methods of calculating the indicators presented, please refer to the following paragraphs "Backlog performance" and "Main alternative performance indicators".*

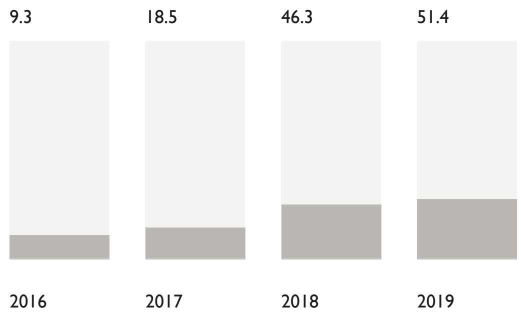
GROUP NET PROFIT

(in € million)



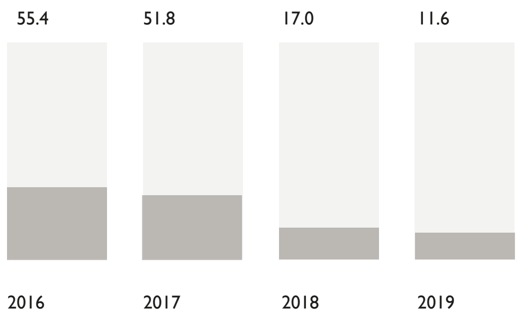
INVESTMENTS

(in € million)



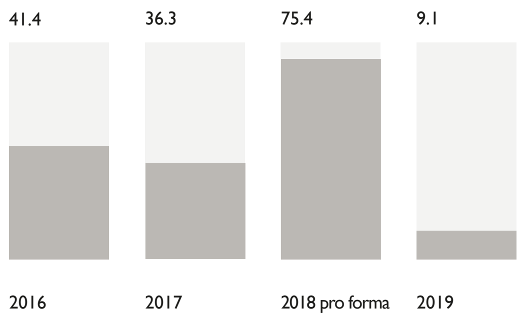
NET WORKING CAPITAL

(in € million)



NET FINANCIAL POSITION

(in € million)

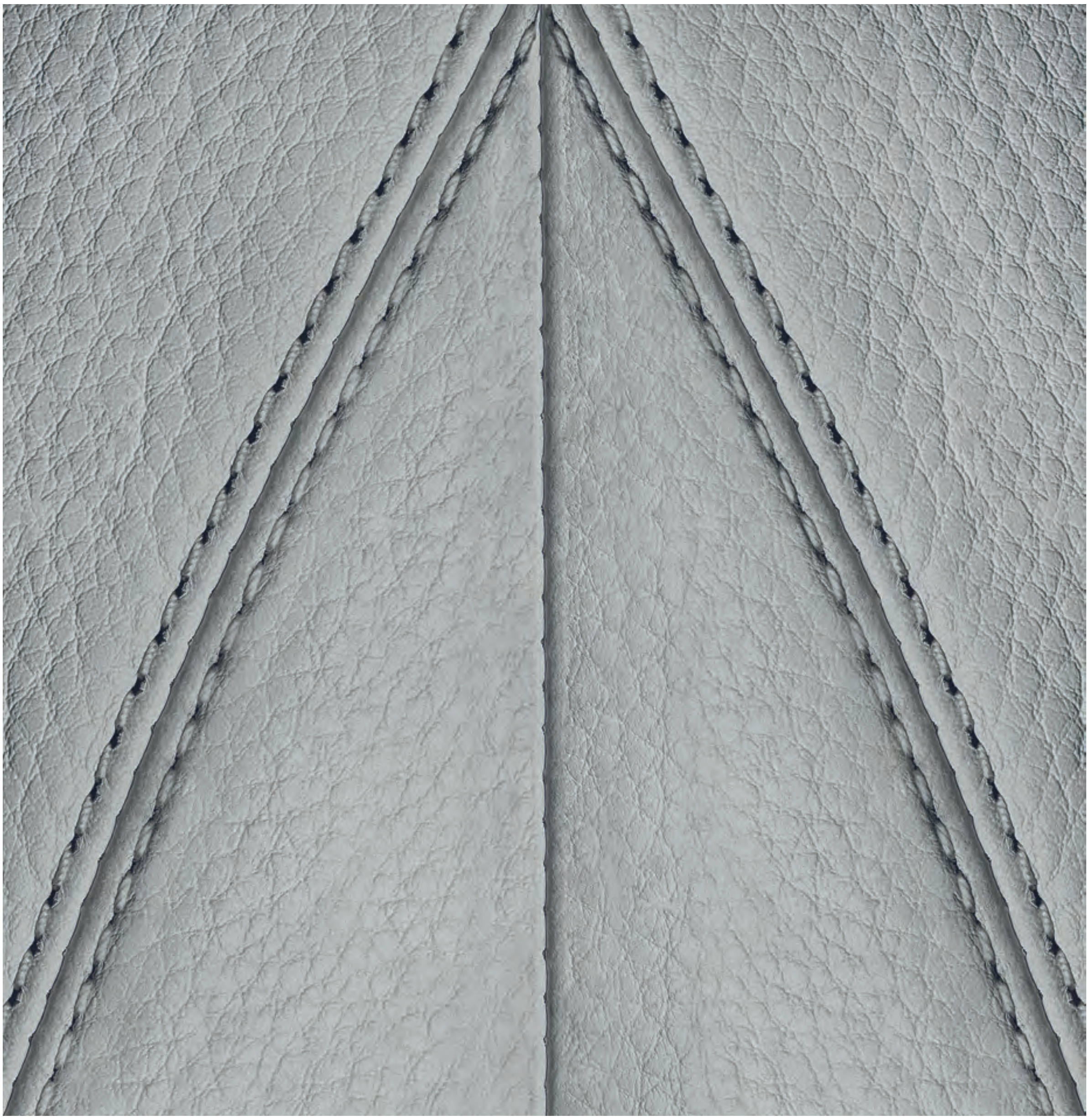


backlog performance

The backlog is calculated as the sum of the value of all orders and sales contracts signed with customers or with the brand representatives relating to yachts due to be delivered or delivered in the current year or set to be delivered in subsequent years. The value of the orders and contracts included in the backlog relates, for each year, to the share of the residual value pertaining to the year in question from 1 January until the delivery date. The backlog relating to the yachts delivered in the financial year is conventionally cleared on 31 December.
The table below shows the Group's backlog performance as at 31 December 2019, with the comparative figures as at 31 December 2018:

(€'000)	Year ended 31 December		Change	
	2019	2018	2019 vs 2018	2019 vs 2018 %
Gross backlog	900,242	729,858	170,384	+23.3%
Net Revenues New Yachts of the year	455,935	327,288	128,647	+39.3%
Net backlog	**444,307**	**402,570**	**41,737**	**+10.4%**
Of which next year	*327,800*	*263,160*	*64,640*	*+24.6%*
Of which subsequent years	*116,507*	*139,410*	*(22,903)*	*-16.4%*

The backlog as at 31 December 2019, traditionally cleared from the Net Revenues New Yachts generated during the year, amounted to €444,307 thousand, an increase of €41,737 thousand compared to 31 December 2018 (10.4%), thanks to the excellent performance recorded by all Group divisions.
The amount of the backlog relating to 2020 amounts to €327,800 thousand, involving good visibility on the coverage of expected revenues for the current year.
The backlog as at 31 December 2019 in relation to 2020 accounts for 73.8% of the total backlog, compared to 65.4% of the quota relating to 2019 of the total backlog at the close of 2018, thanks to an acceleration of Yacht Division recorded in the last few months of 2019, owing to the success of boat shows and favoured by the availability of the new production capacity at the Ameglia site, with reduced lead times from construction to final delivery. As regards Superyacht Division, negotiations were in progress at the end of 2019, which are expected to result in orders/contracts in the first few months of 2020.



operating performance of sanlorenzo group

MAIN ALTERNATIVE PERFORMANCE INDICATORS

In order to allow a better evaluation of its operating performance, Sanlorenzo Group uses some alternative performance indicators which are not identified as accounting measures by the IFRS.
The indicators represented are not identified as accounting measures by the IFRS and, therefore, must not be considered alternative measures to those provided by the accounting statements for the assessment of the Group's economic performance and the relevant financial position. The Group believes that the financial information reported below is an important additional parameter for evaluating its performances, as it allows it to monitor its economic and financial performance in more detail. Since these financial data do not constitute measures that can be determined through the reference accounting standards for the preparation of the consolidated financial statements, the method applied for the associated calculation may not be consistent with the one adopted by other groups and, therefore these data may not be comparable with those presented by said groups.
These alternative performance indicators, determined in compliance with the Guidelines on Alternative Performance Indicators issued by ESMA/2015/1415 and adopted by Consob by means of communication no. 92543 of 3 December 2015, refer solely to the performance of the year forming the object of this financial Report and the years being compared and not to the Group's expected performance.

The alternative performance indicators used in this financial Report are outlined below:

- Value of production: indicates the algebraic sum of the revenues from contracts with customers net of the commissions paid, the change in inventories of work in progress, semi-finished and finished products, other income and capitalised costs of own work;
- Net Revenues New Yachts: are calculated as the algebraic sum of revenues from contracts with customers relating to new yachts net of commissions. Based on the IFRS, the sale price of the new yachts and, therefore, also the calculation of the associated revenues reflects the difference between the value attributed contractually to the pre-owned boats subject to exchange and their relative fair value;
- EBITDA: is represented by the Operating profit/loss (EBIT) before amortisation/depreciation;
- EBITDA Margin: is the ratio between EBITDA and Net Revenues New Yachts;
- Adjusted EBITDA: is represented by the Operating profit/loss (EBIT) before amortisation/depreciation adjusted by non-recurring items;
- Adjusted EBITDA Margin: is the ratio between Adjusted EBITDA and Net Revenues New Yachts;
- Net fixed capital: is calculated as the sum of goodwill, intangible assets with a definite useful life, property, plant and equipment and net deferred tax assets;
- Net working capital: is calculated as the sum of trade receivables, contract assets, inventories and other current assets, net of trade payables, contract liabilities, provisions for current risks and charges and other current liabilities;

- Trade net working capital: is calculated as the sum of trade receivables, contract assets and inventories, net of trade payables and contract liabilities;
- Net invested capital: is calculated as the sum of net fixed capital and net working capital;
- Investments: relate to increases in property, plant and equipment and intangible assets with a definite useful life;
- Net financial position: is calculated as the sum of current and non-current bank payables and other current and non-current financial payables including the fair value (positive or negative) of derivative instruments, net of cash and cash equivalents and other current financial assets, including the fair value (positive or negative) of hedging derivatives.

operating performance of sanlorenzo group

CONSOLIDATED RESULTS

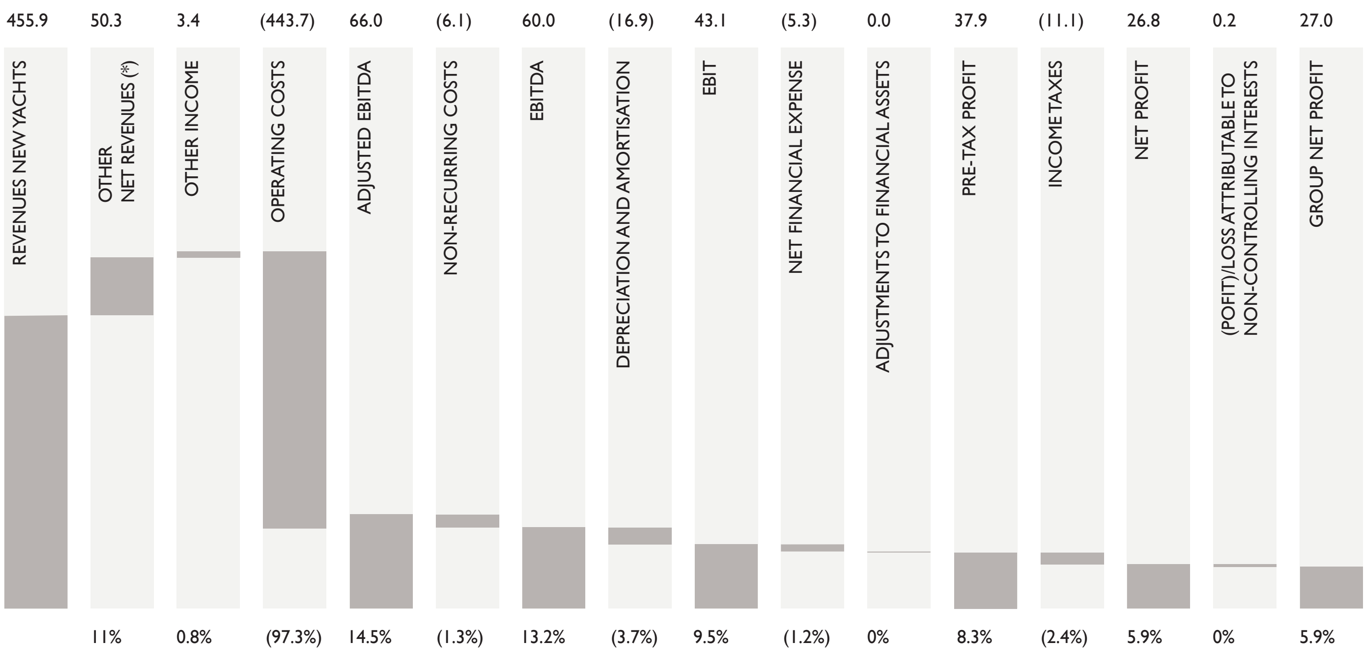
Reclassified statement for profit and loss

The table below shows the consolidated statement for profit and loss as at 31 December 2019, compared with the data from the previous year.

(€'000)	Year ended 31 December				Change	
	2019	% Net Revenues New Yachts	2018	% Net Revenues New Yachts	2019 vs 2018	2019 vs 2018 %
Net Revenues New Yachts	**455,935**	**100.0%**	**327,288**	**100.0%**	**128,647**	**+39.3%**
Net revenues from pre-owned boats, maintenance and other services	50,309	11.0%	47,928	14.6%	2,381	+5.0%
Other income	3,445	0.8%	4,504	1.4%	(1,059)	-23.5%
Operating costs	(443,671)	(97.3)%	(341,646)	(104.4)%	(102,025)	+29.9%
Adjusted EBITDA	**66,018**	**14.5%**	**38,074**	**11.6%**	**27,944**	**+73.4%**
Non-recurring costs	(6,054)	(1.3%)	(3,649)	(1.1)%	(2,405)	+65.9%
EBITDA	**59,964**	**13.2%**	**34,425**	**10.5%**	**25,539**	**+74.2%**
Depreciation and amortisation	(16,868)	(3.7)%	(10,999)	(3.4)%	(5,869)	+53.4%
EBIT	**43,096**	**9.5%**	**23,426**	**7.2%**	**19,670**	**+84.0%**
Net financial expense	(5,251)	(1.2)%	(3,525)	(1.1)%	(1,726)	+49.0%
Adjustments to financial assets	32	0.0%	(918)	(0.3)%	950	-103.5%
Pre-tax profit	**37,877**	**8.3%**	**18,983**	**5.8%**	**18,894**	**+99.5%**
Income taxes	(11,059)	(2.4)%	(6,320)	(1.9)%	(4,739)	+75.0%
Net profit	**26,818**	**5.9%**	**12,663**	**3.9%**	**14,155**	**+111.8%**
(Profit)/Loss attributable to non-controlling interests	212	0.0%	(227)	(0.1)%	439	-193.4%
Group net profit	**27,030**	**5.9%**	**12,436**	**3.8%**	**14,594**	**+117.3%**

The graph below shows a re-statement of the statement for profit and loss as at 31 December 2019, aimed at presenting the performance in the year:

(in € million and as a percentage of Net Revenues New Yachts)



(*) Other net revenues refer to the Net revenues from pre-owned boats, maintenance and other services.

operating performance of sanlorenzo group

Value of production and Net Revenues New Yachts

The following table shows the details of the value of production as at 31 December 2019, compared to 31 December 2018.

(€'000)	Year ended 31 December		Change	
	2019	**2018**	**2019 vs 2018**	**2019 vs 2018 %**
Revenues	518,991	386,384	132,607	+34.3%
Agency commissions	(12,747)	(11,168)	(1,579)	+14.1%
Change in inventories of work in progress, semi-finished and finished products	26,297	(26,110)	52,407	-200.7%
Other income	3,445	4,504	(1,059)	-23.5%
Capitalised costs for own work	1,952	1,326	626	+47.2%
Value of production	**537,938**	**354,936**	**183,002**	**+51.6%**

The value of production as at 31 December 2019 amounted to €537,938 thousand, marking an increase of 51.6% compared to the previous year, due to a significant rise in sales of new boats, driven by yachts and superyachts and the change in the inventories of work in progress, semi-finished and finished products, also in anticipation of an increase in volumes of business in the next year, as confirmed by the backlog performance described previously.

The following table shows the calculation of the Net Revenues New Yachts as at 31 December 2019, compared to 31 December 2018.

(€'000)	Year ended 31 December		Change	
	2019	**2018**	**2019 vs 2018**	**2019 vs 2018 %**
Revenue from contracts with customers (New Yachts)	467,982	335,856	132,126	+39.3%
Agency commissions - New Yachts	(12,047)	(8,568)	(3,479)	+40.6%
Net Revenues New Yachts	**455,935**	**327,288**	**128,647**	**+39.3%**

Net Revenues New Yachts as at 31 December 2019 recorded an increase of 39.3% compared to the previous year, sitting at €455,935 thousand, compared to €327,288 thousand as at 31 December 2018. Agency commissions - New Yachts came to €12,047 thousand as at 31 December 2019, an increase of 40.6% compared to the previous year, showing a performance essentially in line with that of Net Revenues New Yachts.

Net Revenues New Yachts rose significantly in all divisions and for each geographical area, as detailed in the tables below, confirming the attainment of the Group's growth objectives.

operating performance of sanlorenzo group

Net Revenues New Yachts by division

The table below gives the breakdown of Net Revenues New Yachts of the Group for each division in the year ended 31 December 2019, compared with 31 December 2018.

(€'000)	Year ended 31 December				Change	
	2019	% of total	2018	% of total	2019 vs 2018	2019 vs 2018 %
Yacht Division	289,945	63.6%	205,661	62.8%	84,284	+41.0%
Superyacht Division	150,016	32.9%	101,866	31.1%	48,150	+47.3%
Bluegame Division	15,974	3.5%	5,872	1.8%	10,102	+172.0%
Other [11]	–	–	13,889	4.2%	(13,889)	-100.0%
Net Revenues New Yachts	**455,935**	**100.0%**	**327,288**	**100.0%**	**128,647**	**+39.3%**

Yacht Division generated Net Revenues New Yachts of €289,945 thousand, equal to 63.6% of the total, growth of 41.0% compared to 2018.
Superyacht Division recorded an increase in Net Revenues New Yachts of 47.3%, up from €101,866 thousand in 2018 to €150,016 thousand in 2019 (32.9% of the total).
The results of Bluegame Division were also positive, which recorded €15,974 thousand in Net Revenues New Yachts, growth of 172.0% compared to 2018, the year of the substantial start-up of activities of this division, and equal to 3.5% of the total.
It should be noted that the breakdown of Net Revenues New Yachts as at 31 December 2019 between the Group divisions is consistent with the year ended 31 December 2018.

[11] *The item "Other" includes the Net Revenues New Yachts realised by GP Yachts, whose equity investments were sold by the Company on 19 July 2019.*

Net Revenues New Yachts by geographical area

The table below gives the breakdown of Net Revenues New Yachts of the Group for each geographical area in the year ended 31 December 2019, compared with 31 December 2018.

(€'000)	Year ended 31 December				Change	
	2019	% of total	2018	% of total	2019 vs 2018	2019 vs 2018 %
Europe	279,578	61.3%	188,044	57.5%	91,534	+48.7%
APAC	73,007	16.0%	57,591	17.6%	15,416	+26.8%
Americas	71,744	15.8%	64,119	19.6%	7,625	+11.9%
Middle East and Africa	31,606	6.9%	17,534	5.3%	14,072	+80.3%
Net Revenues New Yachts	**455,935**	**100.0%**	**327,288**	**100.0%**	**128,647**	**+39.3%**

In 2019, Europe, which is the Group's historic market, recorded Net Revenues New Yachts of €279,578 thousand (of which €60,034 thousand generated in Italy), accounting for 61.3% of the total, considerable growth of 48.7% compared to 2018.
The APAC area registered Net Revenues New Yachts of €73,007 thousand, an increase of 26.8% over 2018, accounting for 16.0% of the total, in line with the strategy of increasing the penetration in this geographical area.
The Americas recorded Net Revenues New Yachts of €71,744 thousand, an increase of 11.9%, accounting for 15.8% of the total.
The Middle East and Africa area recorded significant growth, with Net Revenues New Yachts up by 80.3%, reaching €31,606 thousand (6.9% of the total).

operating performance of sanlorenzo group

Operating results

The following table summarises the operating profitability indicators EBITDA and EBIT:

(€'000)	Year ended 31 December				Change	
	2019	% Net Revenues New Yachts	2018	% Net Revenues New Yachts	2019 vs 2018	2019 vs 2018 %
EBIT	**43,096**	**9.5%**	**23,426**	**7.2%**	**19,670**	**+84.0%**
+ Amortisation/depreciation	16,868	3.7%	10,999	3.4%	5,869	+53.4%
EBITDA	**59,964**	**13.2%**	**34,425**	**10.5%**	**25,539**	**+74.2%**
+ Non-recurring costs [12]	6,054	1.3%	3,649	1.1%	2,405	+65.9%
Adjusted EBITDA	**66,018**	**14.5%**	**38,074**	**11.6%**	**27,944**	**+73.4%**

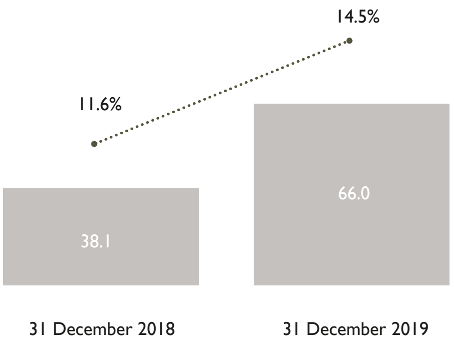
[12] *The non-recurring components for 2019 year stood at €6,054 thousand, relating entirely to the costs of the IPO transaction, while for 2018 year they included (i) impairment losses amounting to €1,120 thousand relating to the goodwill of Sanlorenzo of the Americas LLC for €968 thousand and of Bluegame S.r.l. for €152 thousand; (ii) the costs relating to the 60 year anniversary event of Sanlorenzo for €2,348 thousand; (iii) start-up costs relating to the acquisition of the Cantieri San Marco business unit for €181 thousand.*

EBIT as at 31 December 2019 came to €43,096 thousand, an increase of 84.0% compared to the previous year, with an incidence of 9.5% on Net Revenues New Yachts.
Amortisation/depreciation, amounting to €16,868 thousand, rose by 53.4% compared to 2018, in relation to both significant investments targeted primarily at increasing production capacity and developing new products in 2018 and 2019 years.
EBITDA stood at €59,964 thousand, marking an increase of 74.2% compared to 2018, with a margin on Net Revenues New Yachts of 13.2%.

Adjusted EBITDA for non-recurring items of €6,054 thousand, represented entirely by costs related to the IPO transaction, stood at €66,018 thousand, an increase of 73.4% compared to 2018 and with a margin on Net Revenues New Yachts of 14.5%, compared to 11.6% in 2018.
The significant increase in margins is mainly linked, on the one hand, to the impact on revenues of the gradual increase in the price of new job orders of Superyacht Division, and, on the other, to the operating costs reduction programme, as a result of the process of restructuring of the production capacity resulting from the full implementation of investments.

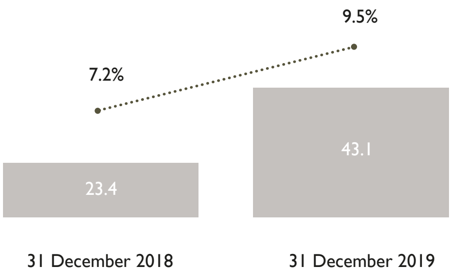
ADJUSTED EBITDA

(in € million)



EBIT

(in € million)



operating performance of sanlorenzo group

The table below shows operating costs broken down by nature including the associated non-recurring components as at 31 December 2019, compared with 31 December 2018.

(€'000)	Year ended 31 December						Change	
	2019	% of total operating costs	% Net Revenues New Yachts	2018	% of total operating costs	% Net Revenues New Yachts	2019 vs 2018	2019 vs 2018 %
Costs for raw materials, consumables and finished products	217,882	48.4%	47.8%	123,863	35.9%	37.8%	94,019	+75.9%
Outsourcing	166,358	37.0%	36.5%	116,828	33.8%	35.7%	49,530	+42.4%
Personnel expenses	35,165	7.8%	7.7%	29,478	8.5%	9.0%	5,687	+19.3%
Costs for services	47,845	10.7%	10.5%	41,247	11.9%	12.6%	6,598	+16.0%
Other operating costs [13]	(17,525)	(3.9)%	(3.8)%	33,879	9.9%	10.4%	(51,404)	-151.7%
Operating costs	**449,725**	**100.0%**	**98.6%**	**345,295**	**100.0%**	**105.5%**	**104,430**	**+30.2%**

Operating costs as at 31 December 2019 totalled €449,725 thousand, marking an increase of 30.2% compared to the previous year, in line with revenue growth. The incidence on Net Revenues New Yachts stands at 98.6% for 2019, below the 105.5% recorded in 2018, due to the reorganisation of some productive processes in all sites following the commissioning of new production capacity in the Ameglia and La Spezia sites.

The increase in the costs for raw materials and consumables reflects the rise in production volumes and the withdrawal for trade-in of pre-owned boats, already partly sold in 2019.
The incidence of primarily flexible costs, represented by costs for raw materials and outsourcing, accounts for over 80% of the Group's operating costs, up compared with the previous year, consistently with the business model, which makes provision for the assignment of the operating activities of production to highly skilled craft companies.

[13] *The other operating costs for the year ended 31 December 2018 include impairment losses of €1,120 thousand relating to the goodwill of Sanlorenzo of the Americas LLC (€968 thousand) and of Bluegame S.r.l. (€152 thousand).*

Net profit

(€'000)	Year ended 31 December				Change	
	2019	% Net Revenues New Yachts	2018	% Net Revenues New Yachts	2019 vs 2018	2019 vs 2018 %
EBIT	**43,096**	9.5%	**23,426**	7.2%	**19,670**	**+84.0%**
Net financial expense	**(5,251)**	(1.2)%	(3,525)	(1.1)%	(1,726)	+49.0%
Adjustments to financial assets	**32**	0.0%	(918)	(0.3)%	950	-103.5%
Pre-tax profit	**37,877**	8.3%	**18,983**	5.8%	**18,894**	**+99.5%**
Income taxes	**(11,059)**	(2.4)%	(6,320)	(1.9)%	(4,739)	+75.0%
Net profit	**26,818**	5.9%	**12,663**	3.9%	**14,155**	**+111.8%**
(Profit)/Loss attributable to non-controlling interests	212	0.0%	(227)	(0.1)%	439	-193.4%
Group net profit	**27,030**	5.9%	**12,436**	3.8%	**14,594**	**+117.4%**

Net financial expense as at 31 December 2019 came to €5,251 thousand, with an incidence on Net Revenues New Yachts of 1.2%.
In referring you to the notes to the financial statements for separate details on financial expenses and income and for more information, it should be noted that the increase in net financial expense of 49.0% compared to 2018, is related to the push down of a medium/long term loan of €40,070 thousand following the reverse merger with the holding company WindCo S.p.A. and to the impact of the recognition in the statement of profit and loss of the transaction costs relating to this loan, still not repaid at the settlement date, which took place in December in conjunction with the IPO.
As a consequence of the above, the pre-tax profit for the year came to €37,877 thousand, up by €18,894 thousand (99.5%), from €18,983 thousand as at 31 December 2018. In terms of the percentage incidence on Net Revenues New Yachts, the pre-tax profit rose by 2.5%, from 5.8% in 2018 to 8.3% as at 31 December 2019.
Income taxes as at 31 December 2019 rose by €4,739 thousand (75.0%), up from €6,320 thousand as at 31 December 2018 to €11,059 thousand at the close of 2019. Income taxes for 2019 represent 29.2% of the pre-tax profit, compared to 33.3% in 2018, mainly due to the greater incidence of the tax benefits of the patent box.
In light of the above, the Group's net profit in the year came to €27,030 thousand, equal to 5.9% of Net Revenues New Yachts and recorded an increase of €14,594 thousand compared to 2018 (+117.4%).

operating performance of sanlorenzo group

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Balance sheet reclassified according to sources and uses
The table below shows the consolidated statement of financial position reclassified by sources and uses as at 31 December 2019, compared with that of 31 December 2018.

(€'000)	As at 31 December		Change	
	2019	2018	2019 vs 2018	2019 vs 2018 %
USES				
Net fixed capital	148,347	112,713	35,634	+31.6%
Net working capital	11,547	17,011	(5,464)	-32.1%
Net invested capital	**159,894**	**129,724**	**30,170**	**+23.3%**
SOURCES				
Net financial position	9,063	22,963	(13,900)	-60.5%
Equity	150,831	106,761	44,070	+41.3%
Total sources	**159,894**	**129,724**	**30,170**	**+23.3%**

Net fixed capital and investments

Net fixed capital

The detailed breakdown of net fixed capital as at 31 December 2019 is reported below, compared with that of 31 December 2018.

(€'000)	As at 31 December				Change	
	2019	% of total assets	2018	% of total assets	2019 vs 2018	2019 vs 2018 %
Goodwill	8,667	2.0%	8,667	2.3%	–	–
Intangible assets with a finite useful life	35,404	8.2%	25,103	6.6%	10,301	+41.0%
Property, plant and equipment	102,598	23.7%	78,470	20.6%	24,128	+30.7%
Other equity investments and other non-current assets	379	0.1%	343	0.1%	36	+10.5%
Net deferred tax assets	3,008	0.7%	1,958	0.5%	1,050	+53.6%
Non-current employee benefits	(796)	(0.2)%	(910)	(0.2)%	114	-12.5%
Non-current provisions for risks and charges	(913)	(0.2)%	(918)	(0.2)%	5	-0.5%
Net fixed capital	**148,347**	**34.2%**	**112,713**	**29.6%**	**35,634**	**+31.6%**

Net fixed capital as at 31 December 2019 amounted to €148,347 thousand, an increase of €35,634 thousand compared to the close of 2018, mainly due to the investments made during the year, connected to both the expansion in production capacity and the development of new models. The incidence on total assets as at 31 December 2019 came to 34.2%, compared to 29.6% at the close of the previous year. For more details on the items that make up Net Fixed Capital, please refer to the Notes to the consolidated financial statements.

operating performance of sanlorenzo group

Investments

The table below shows the increases in property, plant and equipment [14] and in assets with a definite useful life recorded by the Group in the years ended 31 December 2019 and 31 December 2018.

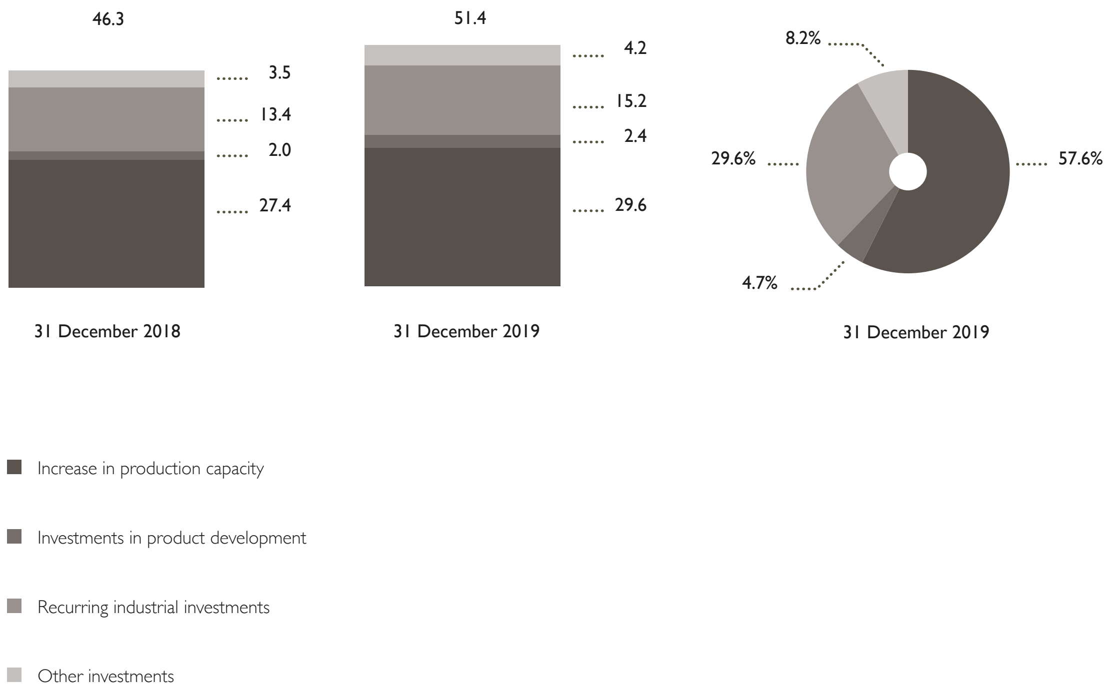
(€'000)	As at 31 December		Change	
	2019	2018	2019 vs 2018	2019 vs 2018 %
Land and buildings	6,826	10,964	(4,138)	-37.7%
Industrial equipment	10,601	4,771	5,830	+122.2%
Plant and equipment	1,739	1,839	(100)	-5.4%
Other assets	4,191	2,968	1,223	+41.2%
Assets under development	12,096	13,075	(979)	-7.5%
Total increases in property, plant and equipment	**35,453**	**33,617**	**1,836**	**+5.5%**
Concessions, licences, trademarks and similar rights	10,164	6,185	3,979	+64.3%
Other assets	3	17	(14)	-82.4%
Development costs	4,880	2,799	2,081	+74.3%
Assets under development	949	3,692	(2,743)	-74.3%
Total increases in intangible assets with a definite useful life	**15,996**	**12,693**	**3,303**	**+26.0%**
Investments in the year	**51,449**	**46,310**	**5,139**	**+11.1%**

[14] *Inclusive of the balances of property, plant and equipment acquired via the demerger of Polo Nautico Viareggio S.r.l. in 2019 and via the acquisitions of the majority interest in Bluegame S.r.l. share capital and the Cantieri San Marco business unit in 2018.*

The investments made in 2019 amounted to €51,449 thousand, compared to €46,310 thousand as at 31 December 2018, of which €15,183 thousand dedicated to product development and the creation of models and moulds and €29,603 thousand connected to the production capacity increase programme launched in 2017.
In particular, the project for the expansion of the Ameglia production site in the D2 area was completed, which involved the construction of two depots, an office building and a logistics warehouse, for a total of €11,868 thousand in investments in 2019. During the fourth quarter, Sanlorenzo also acquired ownership of the two depots located in Viareggio, previously occupied under a lease, for approximately €9,508 thousand, and continued with the expansion of the La Spezia site for €6,106 thousand.

BREAKDOWN OF INVESTMENTS BY NATURE

(in € million)



operating performance of sanlorenzo group

Net Working Capital

The table below details the breakdown of Net Working Capital as at 31 December 2019, compared with 31 December 2018.

(€'000)	As at 31 December				Change	
	2019	% of total assets	2018	% of total assets	2019 vs 2018	2019 vs 2018 %
Inventories	62,311	14.4%	39,323	10.3%	22,988	+58.5%
Trade receivables	20,269	4.7%	31,382	8.2%	(11,113)	-35.4%
Contract assets	87,889	20.3%	94,817	24.9%	(6,928)	-7.3%
Trade payables	(152,189)	(35.1)%	(113,319)	(29.8)%	(38,870)	+34.3%
Contract liabilities	(19,442)	(4.5)%	(52,980)	(13.9)%	33,538	-63.3%
Other current assets	46,007	10.6%	35,321	9.3%	10,686	+30.3%
Current provisions for risks and charges	(9,299)	(2.1)%	(2,722)	(0.7)%	(6,577)	+241.6%
Other current liabilities	(23,999)	(5.5)%	(14,811)	(3.9)%	(9,188)	+62.0%
Net Working Capital	**11,547**	**2.7%**	**17,011**	**4.5%**	**(5.464)**	**-32.1%**

Net working capital as at 31 December 2019 was a positive €11,547 thousand, compared to €17,011 thousand as at 31 December 2018, highlighting a decrease of €5,464 thousand (32.1%). The change was essentially attributable to the combined effect of the following factors:

- inventories recorded a balance of €62,311 thousand as at 31 December 2019, an increase of €22,988 thousand (58.5%) compared to 31 December 2018, as shown in the detailed table below;
- trade receivables recorded a balance of €20,269 thousand as at 31 December 2019, a decrease of €11,113 thousand (35.4%) compared to 31 December 2018;
- contract assets amounted to €87,889 thousand as at 31 December 2019, a decrease of €6,928 thousand (7.3%) compared to 31 December 2018, due to the greater impact of the advances received from customers during the year, partially offset by the reduction in contract liabilities, which came to €19,442 thousand as at 31 December 2019, marking a drop of €33,538 thousand (63.3%) compared to 31 December 2018;
- trade payables recorded a balance of €152,189 thousand as at 31 December 2019, an increase of €38,870 thousand (34.3%) compared to 31 December 2018, in line with the increase in operating costs and investments;
- other current assets posted a balance of €46,007 thousand as at 31 December 2019, marking an increase of €10,686 thousand (30.3%) compared to 31 December 2018, primarily due to the increase in VAT assets, typical of the sector;
- provisions for risks and charges amounted to €9,299 thousand as at 31 December 2019, an increase of €6,577 thousand (241.6%) compared to 31 December 2018;
- other current liabilities amounted to €23,999 thousand as at 31 December 2019, an increase of €9,188 thousand (62.0%) compared to 31 December 2018.

operating performance of sanlorenzo group

Therefore, the details of trade net working capital are provided below.

(€'000)	As at 31 December				Change	
	2019	% of total assets	2018	% of total assets	2019 vs 2018	2019 vs 2018 %
Trade receivables	20,269	4.7%	31,382	8.2%	(11,113)	-35.4%
Contract assets	87,889	20.3%	94,817	24.9%	(6,928)	-7.3%
Inventories	62,311	14.4%	39,323	10.3%	22,988	+58.5%
Trade payables	(152,189)	(35.1)%	(113,319)	(29.8)%	(38,870)	+34.3%
Contract liabilities	(19,442)	(4.5)%	(52,980)	(13.9)%	33,538	-63.3%
Trade net working capital	**(1,162)**	**(0.3)%**	**(777)**	**(0,2)%**	**(385)**	**+49.5%**

As at 31 December 2019, trade net working capital was a negative €(1,162) thousand, compared to €(777) thousand as at 31 December 2018, thanks to the business model, which makes it possible to receive advances from customers on the price of yachts when given milestones are reached.

The table below shows the breakdown of inventories as at 31 December 2019 and 31 December 2018:

(€'000)	As at 31 December				Change	
	2019	% of total assets	2018	% of total assets	2019 vs 2018	2019 vs 2018 %
Raw materials, consumables and supplies	6,117	1.4%	4,957	1.3%	1,160	+23.4%
Work in progress and semi-finished products	32,928	7.6%	23,034	6.1%	9,894	+43.0%
Finished products net of the allowance for inventory write-down	23,266	5.4%	11,332	3.0%	11,934	+105.3%
Inventories	**62,311**	**14.4%**	**39,323**	**10.3%**	**22,988**	**+58.5%**

The balance of inventories as at 31 December 2019 was €62,311 thousand, an increase of €22,988 thousand (58.5%) compared to 31 December 2018.
In particular, work in progress and semi-finished products refer to those jobs whose contract with the customer has still not been finalised at the close of the year. The increase recorded between 31 December 2018 and 31 December 2019, amounting to €9,894 thousand (43.0%) is due to the fact that, in line with previous years, the Group decided to bring forward the production of semi-finished products even in the absence of a contract with the customer in anticipation of an increase in the backlog.
Inventories of finished products amounted to €23,266 thousand as at 31 December 2019, an increase of €11,934 thousand (105.3%) compared to 31 December 2018. This increase is consistent with the planned volumes and connected with the increase in turnover, which involved a greater withdrawal of used yachts, partially already sold at the close of the year for delivery in the first few months of 2020.

operating performance of sanlorenzo group

Net financial position

The breakdown of net financial position as at 31 December 2019 and as at 31 December 2018 is reported hereunder.

(€'000)		31 December 2019	31 December 2018
A	Cash and cash equivalents	(60,186)	(48,732)
B	Other liquid assets	–	–
C	Securities held for trading	–	–
D	**Cash**	**(60,186)**	**(48,732)**
E	**Current financial receivables**	**(6,654)**	**(16,461)**
F	Current bank payables	370	1,079
G	Current portion of debt	17,394	22,281
H	Other current financial payables	1,530	661
I	**Current financial debt (F + G + H)**	**19,294**	**24,021**
J	**Net current financial debt (I + E + D)**	**(47,546)**	**(41,172)**
K	Non-current bank payables	54,706	64,135
L	Bonds issued	–	–
M	Other non-current payables	1,903	–
N	**Non-current financial debt (K + L + M)**	**56,609**	**64,135**
O	**Net financial position (J + N) with ESMA Recommendation**	**9,063**	**22,963**

As at 31 December 2019, the Group's net financial position came to €9,063 thousand, compared to net financial position of €22,963 thousand as at 31 December 2018. If we consider the impact of the reverse merger with the holding company WindCo, effective from 1 January 2019 for accounting purposes, pro-forma net financial position as at 31 December 2018 amounts to €75,444 thousand. In fact, as a result of the merger, the medium/long-term bank loan of €40,070 thousand taken out by WindCo in 2018 and a shareholders' loan of €9,000 thousand were transferred to Sanlorenzo S.p.A., both repaid in December 2019 with the proceeds from the share capital increase connected with the IPO transaction.
In addition, in November 2019, following the demerger of part of the equity of Polo Nautico Viareggio S.r.l. in favour of the Company, after the latter completed the process of the acquisition of the shares, Sanlorenzo S.p.A. took over the two mortgages for a total value of €8,225 thousand (outstanding capital of €7,890 thousand as at 31 December 2019).
The evolution of net financial position in 2019 was positively impacted by both the generation of cash from operating activities, in a context characterised by the above-mentioned significant investments, and by the proceeds from the share capital increase connected with the IPO transaction. Cash and cash equivalents as at 31 December 2019 actually came to €60,186 thousand, an increase of €11,454 thousand compared to 31 December 2018.
Lastly, it should be noted that other current financial receivables include an escrow account of €6,500 thousand, pledged as guarantee for a loan with Credit Agricole Carispezia, which was released in the first few days of 2020.

operating performance of sanlorenzo group

Equity
The breakdown of the Equity as at 31 December 2019 and as at 31 December 2018 is reported hereunder:

(€'000)	31 December 2019	31 December 2018
Share Capital	34,500	30,000
Reserves	91,756	66,168
Group profit	27,030	12,436
Group equity	**153,286**	**108,604**
Equity attributable to non-controlling interests	(2,455)	(1,843)
Equity	**150,831**	**106,761**

The Parent Company's share capital as at 31 December 2019 amounted to €34,500 thousand, fully paid-in, and is composed of 34,500,000 ordinary shares, increased by 4,500,000 shares compared to 30,000,000 shares as at 31 December 2018, thanks to the share capital increase linked to the IPO transaction.
For a comprehensive description of the changes in Equity, please refer to the appropriate table in the financial statements and the notes to the financial statements.

CONSOLIDATED ECONOMIC AND FINANCIAL INDICATORS

Profitability ratios

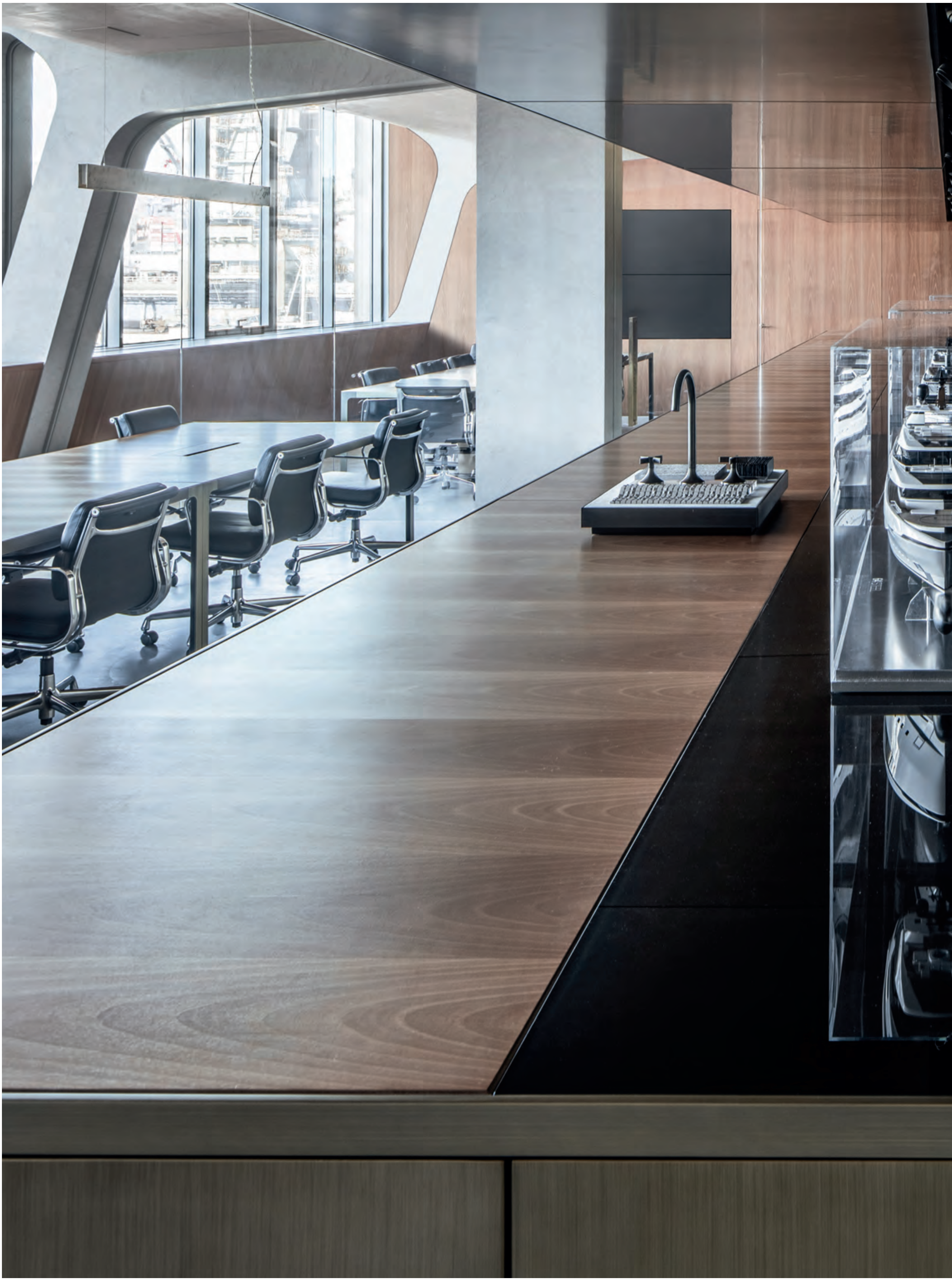
	31 December 2019	31 December 2018
ROE – Net income for the year/Average equity in the year	20.8%	12.5%
ROI – EBIT/Average net invested capital in the year	29.8%	17.9%
ROS – EBIT/Net Revenues New Yachts	9.5%	7.2%

Capital solidity ratios

	31 December 2019	31 December 2018
Elasticity of investments - Current assets/Uses	1.8	2.1
Financial independence ratio - Equity/Net financial position	16.6	4.6
Current liquidity ratio - Current assets/Current liabilities	1.3	1.3

Turnover ratios

	31 December 2019	31 December 2018
Invested capital turnover rate - Revenues/Total assets	1.2	1.0
Average days of inventory - Inventories/Revenues * 360	43.2	36.6
DSO - Trade receivables/Revenues * 360	14.1	29.2
DPO - Trade payables/Operating costs * 360	121.8	118.1



operating performance of the parent company Sanlorenzo S.p.A.

ECONOMIC PERFORMANCE OF SANLORENZO S.P.A.

The table below shows the economic performance of the Parent Company as at 31 December 2019, compared with the data as at 31 December 2018.

(€'000)	Year ended 31 December				Change	
	2019	% Net Revenues New Yachts	2018	% Net Revenues New Yachts	2019 vs 2018	2019 vs 2018 %
Net Revenues New Yachts	**425,478**	**100.0%**	**313,237**	**100.0%**	**112,241**	**+35.8%**
Net revenues from pre-owned boats, maintenance and other services	47,623	11.2%	52,299	16.7%	(4,676)	-8.9%
Other income	3,411	0.8%	4,101	1.3%	(690)	-16.8%
Operating costs	(410,817)	(96.6)%	(332,081)	(106.0)%	(78,736)	+23.7%
Adjusted EBITDA	**65,695**	**15.4%**	**37,556**	**12.0%**	**28,139**	**+74.9%**
Non-recurring costs	(6,054)	(1.4)%	(3,649)	(1.2)%	(2,405)	+65.9%
EBITDA	**59,641**	**14.0%**	**33,907**	**10.8%**	**25,734**	**+75.9%**
Amortisation, depreciation and impairment losses	(14,518)	(3.4)%	(9,249)	(3.0)%	(5,269)	+57.0%
EBIT	**45,123**	**10.6%**	**24,658**	**7.9%**	**20,465**	**+83.0%**
Net financial expense	(4,877)	(1.1)%	(2,870)	(0.9)%	(2,007)	+69.9%
Adjustments to financial assets	19	0.0%	(3,763)	(1.2)%	3,782	-100.5%
Pre-tax profit	**40,265**	**9.5%**	**18,025**	**5.8%**	**22,240**	**+123.4%**
Income taxes	(11,206)	(2.6)%	(5,932)	(1.9)%	(5,274)	+88.9%
Net profit	**29,059**	**6.8%**	**12,093**	**3.9%**	**16,966**	**+140.3%**

Net Revenues New Yachts of the Parent Company as at 31 December 2019 came to €425,478 thousand, an increase of 35.8% compared to €313,237 thousand in 2018.

Operating costs totalled €410,817 thousand, with an incidence of 96.6% on Net Revenues New Yachts, an increase of 23.7% compared to €332,081 thousand in 2018, an increase in line with the rise in volumes recorded during the year.

Adjusted EBITDA amounted to €65,695 thousand, up by 74.9% compared to €37,556 thousand in 2018, and equal to 15.4% of Net Revenues New Yachts. Also considering non-recurring items of €6,054 thousand, relating entirely to the costs of the IPO transaction, the EBITDA as at 31 December 2019 amounts to €59,641 thousand, equal to 14.0% of the Net Revenues New Yachts, marking an increase of €25,734 thousand (75.9%) compared to 2018.

Amortisation/depreciation, amounting to €14,518 thousand, increased by 57.0% compared to 2018 due to the full operation of the investments made in 2018 and 2019.

EBIT as at 31 December 2019 came to €45,123 thousand, up by 83.0% compared to the previous year, equal to 10.6% of the Net Revenues New Yachts.

Net financial expense as at 31 December 2019 totalled €4,877 thousand, an increase of €2,007 thousand compared to 2018. This increase refers mainly to the higher interest payable due to the Parent Company's assumption of a medium/long-term loan of the holding company WindCo amounting to €40,070 thousand following the reverse merger, and the impact of the recognition in profit and loss of the transaction costs relating to this loan, still not repaid at the settlement date, which took place in December.

Due to the above, the pre-tax profit for the year came to €40,265 thousand, up by €22,240 thousand (123.4%), from €18,025 thousand as at 31 December 2018. Income taxes as at 31 December 2019 rose by €5,274 thousand, up from €5,932 thousand as at 31 December 2018 to €11,206 thousand at the close of 2019.

In light of the above, Sanlorenzo S.p.A.'s net result in the year came to €29,059 thousand, equal to 6.8% of Net Revenues New Yachts and recorded an increase of €16,966 thousand compared to 2018 (+140.3%).

operating performance of the parent company Sanlorenzo S.p.A.

STATEMENT OF FINANCIAL POSITION OF SANLORENZO S.P.A.

The table below shows the Parent Company's statement of financial position reclassified by sources and uses as at 31 December 2019, compared with that of 31 December 2018.

(€'000)	As at 31 December		Change	
	2019	2018	2019 vs 2018	2019 vs 2018 %
USES				
Net fixed capital	147,768	114,092	33,676	+29.5%
Net working capital	9,768	15,344	(5,576)	-36.3%
Net invested capital	**157,536**	**129,436**	**28,100**	**+21.7%**
SOURCES				
Net financial position	(1,013)	17,470	(18,483)	-105.8%
Equity	158,549	111,966	46,583	+41.6%
Total sources	**157,536**	**129,436**	**28,100**	**+21.7%**

Net fixed capital as at 31 December 2019 amounted to €147,868 thousand, an increase of €33,676 thousand compared to the close of 2018, mainly due to the investments made during the year, connected to both the expansion in production capacity and the development of new models.

Net working capital as at 31 December 2019 was a positive €9,768 thousand, compared to €15,344 thousand as at 31 December 2018, highlighting a decrease of €5,576 thousand (36.3%).
Net financial position as at 31 December 2019 showed a net cash position of €1,013 thousand, compared to a net debt position of €17,470 thousand as at 31 December 2018.

The breakdown of net financial position of the Parent Company as at 31 December 2019 and as at 31 December 2018 is reported hereunder, with details of the intra-group positions.

(€'000)		31 December 2019		31 December 2018	
		2019	of which intragroup	2018	of which intragroup
A	Cash and cash equivalents	(55,338)	–	(40,927)	–
B	Other liquid assets	–	–	–	–
C	Securities held for trading	–	–	–	–
D	**Cash**	(55,338)		(40,927)	
E	**Current financial receivables**	(20,833)	(14,180)	(24,645)	(8,255)
F	Current bank payables	365	–	248	–
G	Current portion of debt	17,306	–	18,185	–
H	Other current financial payables	1,242	–	661	–
I	**Current financial debt (F + G + H)**	18,913	–	19,094	–
J	**Net current financial debt (I + E + D)**	(57,258)	(14,180)	(46,478)	(8,255)
K	Non-current bank payables	54,607	–	63,948	–
L	Bonds issued	–	–	–	–
M	Other non-current payables	1,638	–	–	–
N	**Non-current financial debt (K + L + M)**	56,245	–	63,948	–
O	**Net financial position (J + N) with ESMA Recommendation**	(1,013)	(14,180)	17,470	(8,255)

The evolution of net financial position in 2019 was positively impacted by both the generation of cash from operating activities, in a context characterised by the above-mentioned significant investments, and by the proceeds from the share capital increase connected with the IPO transaction.

It should be noted that the other current financial receivables include:

- an escrow account of € 6,500 thousand, pledged as guarantee for a loan with Credit Agricole Carispezia, which was released in the first few days of 2020;
- receivables due from Group companies for €14,180 thousand, composed of intra-group loans mainly due to the subsidiaries Sanlorenzo of the Americas LLC and Bluegame S.r.l.

reconciliation between the equity and profit/loss for the year of the parent company and corresponding consolidated values

Pursuant to Consob Communication no. DEM/6064293 of 28 July 2006, the table of reconciliation between the equity and profit/loss for the year of the Parent Company and corresponding consolidated values is reported below.

(€'000)	31 December 2019		31 December 2018	
	Equity	Net profit/loss	Equity	Net profit/loss
Financial statements of the Parent Company	**158,549**	**29,059**	**111,967**	**12,093**
Difference between the equity of the consolidated equity investments and the carrying amount of equity investments	(3,272)	(1,169)	(1,204)	249
Elimination of effects of intra-group transactions	(172)	36	(1,161)	(719)
Elimination of dividends	(2,073)	(1,075)	(998)	813
Translation reserve	254	179	–	–
Tax effects relating to consolidation adjustments	–	–	–	–
Total pertaining to the Group	**153,286**	**27,030**	**108,604**	**12,436**
Equity and net profit/loss attributable to non-controlling interests	(2,455)	(212)	(1,843)	227
Total consolidated financial statements	**150,831**	**26,818**	**106,761**	**12,663**

main risks and uncertainties to which Sanlorenzo S.P.A. and the group are exposed

OPERATIONAL RISKS

Risks connected to the trend in the international economic situation and its impact on the market in which the Group operates

The Group is exposed to the risks connected with the global economic-financial situation and the economic trend in the specific geographic end markets of its products, intended for a customer base of considerably wealthy individuals. Major economic events concerning the global economy or the economy of the countries in which the Group's customers reside, such as financial and economic crises, may involve a risk of customers losing their propensity to purchase or choose not to finalise the purchase of a yacht already ordered. In this case, the Group would be forced to look for a new buyer, retaining any amounts paid by the customer in the form of advances, in compliance with the contracts signed.

This scenario could have negative effects on the Group's economic, equity and financial position.

If, as a result of change in market practice, the Group is unable to continue with the policy of advance collections with respect to the delivery of yachts, based on the times and costs involved in creating the products, this could have a negative impact on the Group's activities, prospects and economic, equity and financial position. The Group's business model also makes provision for the possibility of withdrawing used yachts for exchange. If the macroeconomic situation should deteriorate, the subsequent reduction in demand could have an adverse impact on the sale times and the sale value of used yachts, involving a reduction in the Group's total revenues and an increase in the inventories of finished products.

Risks connected with the inability to reach the Group's objectives, the competition and growth

The Group's growth objectives are tied primarily to the constant evolution of its products, an increase in production capacity, consolidation and growth on the international markets and the ability to interpret customers' preferences and the new market trends. The Group cannot ignore the fact that new products may be introduced to the market later than its competitors or that investments in research and development of new products may not deliver the expected results in terms of numbers, commercial success or revenues or may entail higher than expected costs. If the Group is unable to pursue an effective policy of constant product innovation, both in terms of the technological development of the products, and in terms of the response to market expectations, this could mean a drop in the Group's total revenues.

The pursuit of the strategy to increase the production capacity also depends on an expansion in existing naval sites, or the identification of investment opportunities, which may consist of the acquisition of new production areas. The Group cannot rule out being unable to promptly and effectively conclude projects for the expansion of production capacity already planned or identifying or carrying out adequate and prompt investments and that, where realised, said investments not generating a sufficient return.

As regards the strategy for consolidation and commercial expansion in international markets, the Group is exposed to the risk of growing operational complexities, which could result in the opening of new offices or branches or the incorporation of new companies for the coverage of the markets in which the Group is not present at the moment with its subsidiaries, and an increase in human resources to service these needs. The Group is also exposed to risks connected with operations on international markets, such as, inter alia, macroeconomic and financial risks, regulatory, market, geopolitical and social risks.
Sanlorenzo's reference market is the global luxury yacht market, part of the broader luxury market, which is impacted by changes in customer tastes and preferences, as well as by changes in the life styles in the different geographical areas in which the Group operates. If, in the future, the Group is unable to build yachts, which grasp the preferences of its customers, identify or anticipate the trends in the luxury goods market, the result could be a decrease in Group revenues.

Risks connected with suppliers and contractors relationships, yacht quality and outsourcing

The Group uses suppliers that procure the essential components or services for building the yachts. The Group adopts and imposes the highest production standards in order to ensure its customers delivery of yachts of the utmost quality and reliability. However, the Group cannot overlook the fact that suppliers and contractors may not observe the Group's quality standards, as well as the relevant regulations applied to them, may deliver defective raw materials or products or that do not meet the agreed technical specifications, or carry out works that do not conform to the technical specifications or state of the art, or may be unable to deliver the latter within the times established beforehand for any reason.
For this reason, the Group could be unable to meet the demand for its products or may delivery defective or faulty final products, or may even deliver the products late, as a result of the lengthening of the times from construction of the yachts to delivery to the customer, or could be exposed to the request for the termination of contracts also in the process of being executed, requests for compensation for damages owing to liability for defective or hazardous products or payment of contractual penalties where set forth in the sale contracts, as well as the return of yachts already delivered, with an increase in costs for the Group and possible damage to its reputation. The Group may also receive requests for the replacement of defective components; in this case, the Group cannot rule out being involved in settlements in the future, with the payment of compensation, or in judicial proceedings in which it is defendant.
Any delays from contractors and suppliers may involve slowdowns in the production process and, subsequently delays in the execution of works and the delivery of yachts, problems tied to the quality of production and reflect negatively on the Group's image and the sales.

main risks and uncertainties to which Sanlorenzo S.P.A. and the group are exposed

<u>Risks relating to extraordinary events which may lead to suspensions of activities and the operations of the production facilities</u>

Sanlorenzo is exposed to the risk of having to interrupt or suspend its production activities due to events out of its control, such as the revocation of permits and authorisations, natural catastrophes, epidemics. In consideration of the location of the Parent Company's production sites, situated in proximity to waterways and water basins or on the sea, the latter is exposed to the risk that natural disasters (such as floods, river overflow, seaquakes) could compromise all or part of its operations.

The interdependence between the activities carried out at the production sites of Yacht Division (Ameglia, Viareggio, Massa), also involves a risk that the event, which stunts the activities of one of the naval sites, may have repercussions for the activities of the other sites, with a subsequent impact on overall production.

The restoration of the facilities following prejudicial extraordinary events could cause an increase in costs, the incurring of potential losses, as well as the need to modify the Group's investments plan.

<u>Risks connected with the operating relationship with the brand representatives</u>

The Group entrusts the distribution of its products to a small number of brand representatives and, to a lesser extent, to brokers that occasionally establish contact with potential customers and receive a commission in the event of a sale. The contracts stipulated with the brand representatives make provision for a right of distribution within the area assigned to each one and minimum purchase obligations. These obligations are fulfilled, if necessary, through stock purchases.

The Group is exposed to the risk of not reaching the sales volumes through brand representatives established beforehand, due to the termination of relationships held with said parties or their inability to achieve the pre-established objectives in the reference markets. The Group is also exposed to the risk of failing to adequately and promptly replace its brand representatives in the event of the termination of the associated contractual relations or a general deterioration in the sales performances of its distribution network.

<u>Risks related to changes in the reference regulatory framework</u>

The Group is exposed to the risk that Group operations may be impacted by the issuing of new regulations or amendments to the legislation in force, which require the adoption of more stringent construction standards or, if necessary, regulatory changes regarding tax matters and on yacht sales (such as the VAT percentage, duty on imports by foreign countries, taxation on luxury goods in Italy or abroad, or embargoes) or on sailing (such as legislation regarding fuels, environmental impact and emissions). The Group is also exposed to risks related to fire safety legislation and accidents involving workers, as well as the change of environmental regulations. This scenario could have negative effects on the Group's economic, equity and financial position.

FINANCIAL RISKS

Credit Risk

It is noted that, given the type of products sold by the Group, no specific credit risk is identified; this assessment is supported by the strict rule, contractually formalised, that requires payments to be executed on or before the delivery of the boat and the related transfer of ownership.

Regarding the residual services related to the sale of spare parts or the provision of assistance services not covered by the warranty, which are, however, negligible to the Group business, the Group improved the prevention and monitoring processes for credit-checks, using external sources and internal systems that allow preventive controls on customers' reliability and solvency.

Liquidity risk

The Group carries out prudent financial planning in order to reduce liquidity risk, also in consideration of the seasonal nature and concentration of order collection and deliveries in given periods during the year.

The Group sells its yachts principally to end customers and, to a lesser extent, consigns them to stock as part of the minimum purchase commitments set forth contractually for each brand representative. Contracts for the sale of bespoke yachts to end customers are signed mainly in spring and autumn, periods in which the major boat shows are also concentrated.

The deliveries of yachts are concentred in the April-July period, especially in European countries, while the deliveries of yachts in the APAC and Americas markets are distributed throughout the year.

In the event of sales to order, the Group collects roughly 20% of the yacht price at the time of the order, roughly 60-70% of the price on completion of given production phases (so-called milestones) and the balance on delivery of around 10-20%. In the event of the stock sale, the Group generally collects roughly 10% of the price of the yacht at the time of the order, approximately 40% of the price in subsequent phases and the balance on delivery of around 50%.

The concentration of the collection of orders and deliveries in European countries in given periods of the year, against the constant flow of payments to Group suppliers and contractors, has an impact on liquidity, normally higher between April and July and less so in the first quarter of the year, the period in which financial debt (comprised of short-term loans or contract advances) is higher as a result of the lower flow of collections.

The Group has significant bank credit facilities, whose use is planned on the basis of the trend in financial requirements.

Exposure to the fluctuation in interest rates

The Group is exposed to changes in interest rates on its variable rate debt instruments. The Group adopts precise strategies aimed at reducing the risks connected with changes in interest rates, such as hedging transactions through interest rate swaps or interest rate caps with financial counterparties of prime standing.

However, if interest rates fluctuate in the future, this could cause an increase in financial expense relating to the residual variable rate debt, with possible negative effects on the activities and prospects of the Group, as well as on its economic, equity and financial position.

main risks and uncertainties to which Sanlorenzo S.P.A. and the group are exposed

Exposure to the fluctuation in exchange rates
Sanlorenzo operates on the international markets and also sells its products in non-Euro countries which use currencies other than the Euro. In particular, the exchange rate risk derives predominantly from transactions whose reference currency is the US Dollar. Weakening of the US Dollar against the Euro could have an adverse impact on the activities and prospects of the Group, as well as on its economic, equity and financial position.
Sanlorenzo updates its price list in US Dollars every six months, also incorporating the effects of exchange rate fluctuations. In order to mitigate exchange rate risk, the Company also adopts strategies to hedge expected collections in US Dollars through derivative transactions (forward sale contracts of foreign currency) executed at the time the relevant contract is signed with the customer. Nonetheless, the Group cannot overlook that future significant changes in exchange rates could have a negative impact on the activities and growth prospects of the Group, as well as on its economic, equity and financial position.

RISKS RELATED TO DISPUTES AND TAX AUDITS

The Parent Company is party to some judicial or arbitration proceedings regarding the normal performance of its ordinary activities, which may give rise to obligations for it to make payments, also in the form of compensation. As far as the Company is aware, these proceedings are not, in any case, able to generate significant unfavourable results for the Company; however, an unfavourable outcome to these disputes cannot be ruled out. This scenario could have negative effects on the Group's economic, equity and financial position.
At the date of approval of this annual financial Report, two assessment notices had been issued to the Parent Company regarding direct taxes and VAT relating to the years 2013 and 2014 as a result of the tax audits conducted by the Italian Revenue Agency-Regional Department of Liguria for said tax periods in addition to for 2016, through which the Company took steps to arrange its defence at judicial and administrative proceedings. To cover the related risks, the Company has a provision for risks and charges of €2,534 thousand in place as at 31 December 2019.
For more details regarding administrative, judicial and arbitration proceedings in which the Group is a party, please refer to the associated notes to the financial statements in the Consolidated Financial Statements and the Separate Financial Statements contained in this Financial Report.

Sanlorenzo in the stock exchange

On 10 December 2019, the trading of the Company's shares on the STAR segment of Mercato Telematico Azionario (MTA) (screen-based market) organised and managed by Borsa Italiana S.p.A. began. The initial offer price was €16.00 per share. On 30 December 2019, the closing price of the share was €15.974, for a total capitalisation of €551,103 thousand.

The admission to trading followed an offer reserved to Italian and foreign institutional investors which was successfully completed on 6 December 2019 and included:

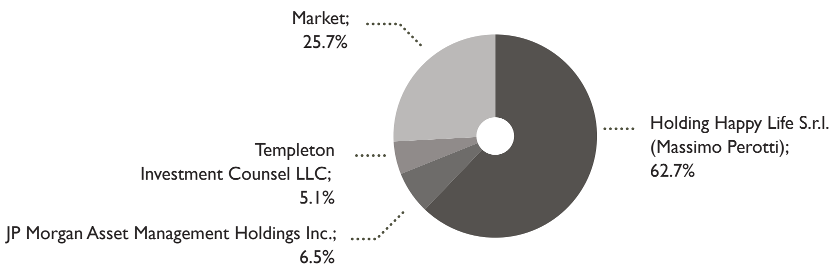
- 4,500,000 shares from a share capital increase with the exclusion of option rights;
- 7,600,000 shares offered for sale by Holding Happy Life S.r.l., the majority shareholder of the Company and subsidiary under the control of Massimo Perotti, including 1,100,000 shares, subject to the over allotment option in service of the greenshoe option (as defined in the Prospectus).

On 9 January 2020, at the end of the planned period for stabilisation activities, the greenshoe option was partially exercised for 157,977 shares. Following the exercise of the greenshoe option, the institutional placement of Sanlorenzo's shares concerned a total of 11,157,977 ordinary Company shares, equal to around 32.3% of the share capital, for a total value of €178,528 thousand.

Significant equity investments in the Company's share capital, according to the communications issued pursuant to art. 120 of Italian Legislative Decree no. 58/1998 (Consolidated Financial Act), are detailed below. In addition, based on the information in the Company's possession, at the date of approval of this Annual Financial Report, the Senior Managers Ferruccio Rossi, Marco Viti, Carla Demaria and Tommaso Vincenzi each hold an equity investment in the Company's capital of 1.6%, 1.6%, 1.0% and 0.4% respectively.

Shareholder	No. ordinary shares	%
Holding Happy Life S.r.l. (Massimo Perotti)	21,644,023	62.7%
JP Morgan Asset Management Holdings Inc.	2,226,630	6.5%
Templeton Investment Counsel LLC	1,755,015	5.1%
Market	8,874,332	25.7%
Total	**34,500,000**	**100.0%**

Last update: 23 January 2020

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research and development activities

Research and development activities play a central role in the Group's business model, in order to create with a high level of innovative content from a design, technology and environmental sustainability perspective, able to meet the needs of its customers.
These activities are targeted, first of all, at the development of new products and models, both as regards the restyling of existing models and the expansion of the current product ranges, and, in particular, for the development of new lines.
As regards technological innovation, in capitalising on its experience, the Group collaborates with leading international companies operating in the segment of engines for the nautical sector and in the electronics and communication sector, in order to develop highly efficient propulsion systems able to cut emissions, as well as for the development of diagnosis and remote assistance devices.
Aside from product innovation and technology, the Group carries out research and development activities dedicated to environmental sustainability, and in terms of the production process and products. The sustainable innovation strategy, which is a cornerstone of the Group's strategy, is structured into three main types of initiatives:

- use of low environmental impact and high energy efficiency materials, components and technological processes in the construction of Sanlorenzo and Bluegame yachts (infusion process for the creation of composite semi-finished products, use of renewable energy, use of sustainable wood, natural tanning of skins, high thermal and acoustic insulation materials);
- use of new sustainable or recyclable materials developed in collaboration with universities and research institutes: among other things, the Group uses, for the Bluegame range, an innovative material for moulds obtained by recycling waste fiberglass (in partnership with GS4C, Politecnico di Milano University and Rivierasca);
- study of feasibility and production of new yacht models in which the "design for manufacturing" philosophy is combined with the "design for disassembly" approach in line with the circular economy principle. This initiative, which includes the recent creation of the HTS ("High Technology & Sustainability") laboratory, was validated and will see its first application to the Bluegame models.

The table below shows the costs incurred by the Group for research and development activities in the year ended 31 December 2019, compared with 31 December 2018.

(€'000)	As at 31 December				Change	
	2019	% Net Revenues New Yachts	2018	% Net Revenues New Yachts	2019 vs 2018	2019 vs 2018 %
Internal costs	1,951	0.5%	1,326	0.4%	625	+47.1%
External costs	3,595	0.8%	4,340	1.4%	(745)	-17.2%
Costs of research and development activities	**5,546**	**1.3%**	**5,666**	**1.8%**	**(120)**	**-2.1%**

For the year ended 31 December 2019, total spending, including costs and investments incurred by the Group for research and development activities, primarily relating to projects for new models of yachts and superyachts, came to €5,546 thousand, marking a decrease of €120 thousand compared to 2018, and an incidence of Net Revenues New Yachts of 1.3%.

environment and workplace safety

ENVIRONMENTAL POLICY

Sanlorenzo is fully aware that its responsibility is measured by its ability to combine, in carrying out its activities, professionalism and quality with rigorous observance of the laws and careful consideration of the needs and expectations as regards the protection of workers and of the property of the local communities. Therefore, the Company aspires to present a model of excellence also to protect the environment and workers' health and safety.
In order to manage the environmental aspects related to its activities, Sanlorenzo is committed to implementing and maintaining a certified Environmental Management System, with the objective of supporting the relevant policy adopted by the company. The Ameglia production facility, unique in the sector owing to its location within a nature reserve, obtained the UNI EN ISO 14001:2015 certification in 2001, subsequently renewed in 2018. The other sites have started the certification process, expected by 2020 for the Massa and La Spezia construction sites, and by 2021 by the Viareggio site.
Environmental and worker health and safety audits are constantly conducted at all sites by third parties and the dedicated internal departments. A total of 60 inspections were carried out at the production sites in 2019.
In 2019, Sanlorenzo also implemented a number of initiatives targeted at reducing its environmental impact. In particular, the Company completed the project for the expansion of the Ameglia site in the D2 area, creating two new construction sites with photovoltaic panels measuring 8,000 square metres, making them self-sufficient from an energy consumption perspective. In order to reduce the environmental impact of the company's activities and increase personnel awareness of eco-sustainable behaviour, water bottles were delivered to all employees in Italian offices and free water dispensers installed. In addition, aside from separated waste collection, office initiatives were implemented to cut plastic use, like the use of consumables like plates, glasses, cutlery made of biodegradable or compostable material.
As regards products, the Group is committed to various projects targeted at reducing its environmental impact throughout the entire life cycle of its yachts. For more details, please refer to the paragraph "Research and development activities" of this Report on operations.

WORKPLACE SAFETY

Sanlorenzo considers pursing the objectives of improving worker health and safety as an integral part of its activities and a strategic value of the Company. In 2019, the Company continued with the implementation and consolidation of workplace health and safety management systems in its sites, with the goal of implementing the relevant policy adopted by the company.

The Certification Project for the Safety Management System was launched in 2014, in compliance with standard BS OHSAS 18001, subsequently replaced by standard ISO 45001, for the certification of production sites, which led to the obtainment of the certification for the Viareggio, Ameglia and La Spezia sites, as indicated in the table below. The authorisation process is currently in progress for the Massa site.

Production site	Certification of the Safety Management System	Certification year
Ameglia	ISO 45001 (first with OHSAS 18001)	2018
La Spezia	ISO 45001 (first with OHSAS 18001)	2019
Massa	ISO 45001 (first with OHSAS 18001)	Authorisation process in progress
Viareggio	ISO 45001 (first with OHSAS 18001)	2016

In addition to having made investments to ensure personnel have the correct protective equipment and to guarantee a work environment in which they can operate in the utmost safety, a total of 5,020 man/hours of training were provided during the year at the Ameglia, La Spezia, Viareggio and Massa facilities, both for in-house personnel and for suppliers and employees of contracted firms, with a special focus on supervisors of the production departments and on issues such as workplace safety and hygiene, the use of lifting equipment, first aid, fire safety, emergency management, professional risk deriving from chemicals and wood dust, etc.
Lastly, no workplace accidents occurred in 2019, which involved a fatality, disability, serious injury or occupational illness, also thanks to the attention dedicated to the issue of safety, which has always been a hallmark of the Company.

human resources

As at 31 December 2019, Sanlorenzo Group employed a total of 483 employees, of which 94.4% at the Parent Company. The growth in the workforce compared to 2018 (43 staff members) was dictated by the increase in the volume of business achieved during the year.
The following table shows the evolution in the number of total employees employed by the Group as at 31 December 2019, compared with 31 December 2018, broken down by company:

	As at 31 December		Change	
	2019	2018	2019 vs 2018	2019 vs 2018 %
Sanlorenzo S.p.A.	456	382	74	+19.4%
Bluegame S.r.l.	15	8	7	+87.5%
Sanlorenzo of the Americas LLC	11	13	(2)	-15.4%
Sanlorenzo Baleari SL	1	1	–	–
Marine Yachting Monaco S.A.M.	–	–	–	–
Super Yachts Cote d'Azur S.a.r.l. [15]	–	–	–	–
GP Yachts S.r.l.	–	36	(36)	-100.0%
Group Employees	**483**	**440**	**43**	**+9.8%**

At category level, white collar workers recorded a bigger increase during the year, with an increase of 58 staff members, while the reduction in blue collar workers is linked to the change in the scope of consolidation related to the sale of the equity investment in GP Yachts S.r.l.

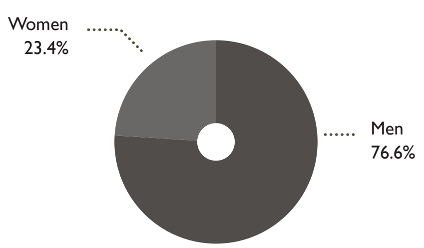
[15] *On 20 September 2019, the shareholders' meeting of Super Yachts Cote d'Azur S.a.r.l. resolved the winding-up and placement into liquidation of the company effective from 30 September 2019.*

	As at 31 December		Change	
	2019	2018	2019 vs 2018	2019 vs 2018 %
Managers	29	28	1	+3.6%
White collars	361	303	58	+19.1%
Blue collars	93	109	(16)	-14.7%
Group Employees	**483**	**440**	**43**	**+9.8%**

The distribution by geographic area saw a great growth in Italy, which accounted for 97.5% of Group employees as at 31 December 2019.

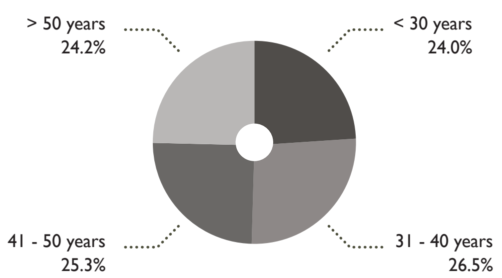
	As at 31 December		Change	
	2019	2018	2019 vs 2018	2019 vs 2018 %
Italy	471	426	45	+10.6%
Rest of Europe	1	1	–	–
United States	11	13	(2)	-15.4%
Group Employees	**483**	**440**	**43**	**+9.8%**

Breakdown by gender



31 December 2019

Breakdown by age



31 December 2019

corporate governance

Sanlorenzo, a company listed on the STAR segment of the MTA (Italian screen-based market), adopted a traditional corporate governance model constructed in compliance with the regulatory provisions and the recommendations of the Corporate Governance Code for listed companies approved by the Corporate Governance Committee of Borsa Italiana S.p.A. which Sanlorenzo adheres to.
Sanlorenzo adopts the traditional administration and control systems, pursuant to articles 2380-bis et seq. of the Italian Civil Code, detailed below:

- the Shareholders' Meeting, ordinary and/or extra ordinary, is responsible for resolving, among other things, on (i) the appointment and revocation of the members of the Board of Directors and the Board of Statutory Auditors as well as on their compensation; (ii) the approval of the financial statements and allocation of profits; (iii) amendments to the By-laws; (iv) the assignment of the independent audit engagement, based on a justified proposal of the Board of Statutory Auditors; (v) incentive plans;
- the Board of Directors holds a central role in the corporate organisation and it is responsible for the functions and the strategic and organisational guidelines, as well as for verifying the necessary controls are in place to monitor the performance of the Company and the Group. The Board of Directors has arranged for the internal setting up of the Control, Risks and Sustainability Committee, the Remuneration Committee, the Nomination Committee and the Committee for Related-Party Transactions;
- the Board of Statutory Auditors shall oversee, among other things, compliance with the law and the By-laws, with the principles of correct corporate governance, and, above all, the adequacy of the organisational, management and accounting structure adopted by the Company and its proper functioning;
- the Independent Auditing Firm conducts the statutory audit. The independent auditors are appointed by the Shareholders' Meeting on the proposal of the Board of Statutory Auditors. The external auditor carries out its activity independently and autonomously.

Pursuant to art. 123-bis of the TUF, the Company is required to annually draft a report on corporate governance and ownership structures, which contains a general description of the governance system adopted by Sanlorenzo Group and which reports information on the ownership structures, including therein the main governance procedures applied and the characteristics of the risk management and internal control system in relation to the financial disclosure process.
The aforementioned Report, approved by the Board of Directors on 13 March 2020 can be consulted on the Company's website www.sanlorenzoyacht.com, in the "Corporate Governance" section.

intra-group transactions and transactions with related parties

On 9 November 2019, the Company's Board of Directors, following up on previous resolutions dated 24 October 2019, approved, in compliance with the "Regulation on related-party transactions" adopted by Consob by means of resolution no. 17221 of 12 March 2010 and subsequent amendments, the draft of the "Procedure on related-party transactions", which makes provision for the establishment within the Board of Directors of the Committee for Related-Party Transactions, set to become effective with the start of trading of the Company's shares on the screen-based market MTA organised and managed by Borsa Italiana S.p.A., subsequently approved definitively by the Board of Directors on 23 December 2019. The aforementioned procedure can be consulted on the Company's website www.sanlorenzoyacht.com, in the "Corporate Governance" section.
It should be noted that transactions with related parties, including therein intra-group transactions do not qualify as either atypical or unusual, as they fall under the normal course of business of Group companies. These transactions were settled at arm's length, given the characteristics of the assets and services rendered.
In the Notes to the Consolidated financial statements and the Separate financial statements of the Parent Company, the company provides the information required by art. 154-ter of the TUF, as indicated in Consob Regulation no. 17221 of 12 March 2010.

atypical and/or unusual transactions

Pursuant to Consob Communication no. DEM/6064293 of 28 July 2006, it should be noted that no atypical and/or unusual transactions were entered into, as defined in the Communication itself.

other information

The Company is not subject to management and coordination activities pursuant to articles 2497 et seq. of the Italian Civil Code, in consideration of the fact that the presumption set forth in art. 2497-sexies of the Italian Civil Code does not apply. Pursuant to articles 2435-bis and 2428 of the Italian Civil Code, it should be noted that, at the close of the year, the Company did not own any treasury shares.

information on relevant non-eu companies

Sanlorenzo S.p.A., the Parent Company, directly controls Sanlorenzo of the Americas LLC, a company incorporated and regulated by US law and, therefore, falling under the definition of "Relevant non-EU company" pursuant to Consob resolution no. 16191/2007, and subsequent amendments. With reference to said company, it should be noted that:

- Sanlorenzo of the Americas LLC drafts the accounting position for the purposes of drafting of the consolidated financial statements;
- Sanlorenzo S.p.A. acquired the by-laws as well as the composition and powers of the corporate bodies;
- Sanlorenzo of the Americas LLC: i) provides the auditor of the Parent Company with the necessary information for carrying out the audit of the annual and interim accounts of said Parent Company; ii) possesses an appropriate administrative-accounting system for regularly sending to the management, the control body and the auditor of the Parent Company, the economic and financial data needed to draft the consolidated financial statements.

significant events occurring during the year

ACQUISITION OF STAKES IN BLUEGAME S.R.L.

On 25 February 2019, Sanlorenzo S.p.A. acquired an additional stake of 34.5% in Bluegame S.r.l. from a private investor, adding to the 50.5% stake already in possession, bringing its stake in the share capital to 85.5%.
Subsequently, on 2 August 2019, Sanlorenzo S.p.A. completed the purchase of a further 15% of the share capital from two minority shareholders, thus holding the entire share capital of Bluegame S.r.l.

REVERSE MERGER WITH WINDCO S.P.A.

On 1 April 2019, the administrative bodies of the holding company WindCo S.p.A. and the subsidiary Sanlorenzo S.p.A. approved and filed at the Register of Companies a plan for the reverse merger by incorporation of WindCo S.p.A. in Sanlorenzo S.p.A. The merger, resolved by the shareholders' meetings of the companies concerned on 15 April 2019, took effect for legal purposes on 28 June 2019, and was effective for tax and accounting purposes retroactively as at 1 January 2019, consistently with the provisions of the merger plan.
Before the merger, WindCo held a controlling interest of 99.6% in the share capital inclusive of the increases recorded in 2018 following the acquisitions of the non-controlling interest of Sanlorenzo S.p.A. WindCo, the merged company, ceased operations, from a tax and accounting perspective (in accounting terms and not in terms of the calculation of the effects of the merger according to IFRS), from 1 January 2019 and, the accounting entries of WindCo were included in Sanlorenzo as of said date.
In accordance with the proposal for the reverse merger of WindCo and Sanlorenzo, as a result of the same, Sanlorenzo S.p.A. shares were assigned proportionally, through reissue, to the shareholders of WindCo, based on the prior corresponding recalculation of the number of shares due to the other minority shareholder of Sanlorenzo without the company's share capital increase.
As a result of the merger, Sanlorenzo S.p.A. assumed the rights and obligations of WindCo, continuing with all the relations of said entity prior to the merger, including therein, WindCo's debt, essentially composed of a bank loan of €40,070 thousand and a shareholders' loan of €9,000 thousand, both fully repaid in December 2019 with the proceeds from the share capital increase linked to the listing transaction.

TRANSFER OF THE EQUITY INVESTMENT IN GP YACHTS S.R.L.

On 19 July 2019, Sanlorenzo S.p.A. sold the entire equity investment held by it in GP Yachts S.r.l., representing a total of 80% of GP Yachts S.r.l.'s share capital, to minority shareholders.

CONTRACT FOR THE ACQUISITION OF STAKES IN THE SHARE CAPITAL OF POLO NAUTICO VIAREGGIO S.R.L. AND THE ASSOCIATED SPIN-OFF PLAN

On 4 July 2019, Sanlorenzo S.p.A. acquired the entire equity investment held by Immobiliare FIPA S.r.l. in Liquidazione (in liquidation) in Polo Nautico Viareggio S.r.l. ("Polo Nautico"), equal to 44.68% of the share capital. Following the stipulation of the sale agreement, Sanlorenzo, which already held a stake of 5.47% in Polo Nautico, ended up temporarily directly holding the majority shareholding of 50.15% in the share capital of Polo Nautico.
On 10 May 2019, Polo Nautico's Board of Directors had approved the plan for the partial spin-off of the consortium company, which was then approved by the extraordinary shareholders' meeting held on 4 June 2019. Based on the spin-off deed, signed on 25 November 2019, Sanlorenzo S.p.A. received, as beneficiary company, the same as the other shareholders of Polo Nautico, part of the assets of said entity, composed, among other things, of the ownership of a warehouse located in Viareggio, already occupied by the Company, and the related liabilities through the assumption of the relative portion of a mortgage of €814 thousand. In addition, as a result of the contract for the purchase of the shares from Immobiliare FIPA S.r.l. in Liquidazione, Sanlorenzo replaced said entity, also receiving additional property rights, including ownership of an additional warehouse located in Viareggio, previously occupied under a lease and took over the relative portion of the mortgage of €7,411 thousand.
On 8 July 2019, the shareholders' meeting of Polo Nautico approved a payment to the share capital increase account totalling €600 thousand, to be converted to share capital following the resolution of the extraordinary shareholders' meeting on the share capital increase, which was subsequently held on 20 January 2020.
On 30 September 2019, Sanlorenzo S.p.A. transferred a 2% equity investment in Polo Nautico to a private entity, hence reducing its shareholding to 48.15%.

ADMISSION TO TRADING OF THE MERCATO TELEMATICO AZIONARIO AND ASSOCIATED INCREASE IN SHARE CAPITAL

On 10 December 2019, the Company's shares were admitted to trading on the STAR segment of Mercato Telematico Azionario (MTA) - Italian screen-based market - organised and managed by Borsa Italiana S.p.A. This transaction involved a Company share capital increase equal to 4,500,000 shares at an offer price of €16.00 per share, for a value of €72,000 thousand before placement commissions.
For more details, please refer to the paragraph "Sanlorenzo in the stock exchange" of this Report on operations.

significant events after the close of the year

On 12 February 2020, the Company's Board of Directors approved the proposed adoption of the stock option plan for 2020 (the "2020 Stock Option Plan") reserved to executive directors and key employees of Sanlorenzo and its subsidiaries.
The 2020 Stock Option Plan makes provision, over a period of three years, for the free assignment of options that attribute to the beneficiaries, subject to the attainment of predetermined performance targets, the right to subscribe Sanlorenzo shares based on a ratio of one share for every option exercised at a strike price equal to the placement price of the Company's shares on the MTA, with an average vesting period of two years.
The 2020 Stock Option Plan will be supported by an appropriate share capital increase through the issuing of new shares equal to around 2.5% of the share capital resulting from the share capital increase itself.
The proposed adoption of the 2020 Stock Option Plan will be subject to approval by the Company's ordinary shareholders' meeting set to take place on 21 April. The extraordinary shareholders' meeting will also be convened on the same date to resolve on the share capital increase in service of the 2020 Stock Option Plan.

business outlook

The Group's backlog as at 29 February 2020 stood at €500,783 thousand, of which €377,470 thousand relating to 2020 and €123,313 thousand relating to subsequent years. These values rose by a total of €56,476 thousand compared to the close of year 2019, and involved good visibility on the coverage of expected revenues, in particular, for the year 2020.
As to date, the impacts of the current economic and social situation linked to the spread of Covid-19 on the expected results for the current year are difficult to evaluate, in consideration of the uncertainty and unpredictability relating to the duration of the effects of this pandemic.
The Company constantly monitors the development of the situation and its effects on the market and has taken important steps to protect the Group and mitigate any possible negative effects.
The Board of Directors will provide further updates on the current situation at the Annual Shareholders' Meeting convening for the approval of 2019 results.
Sanlorenzo has always demonstrated its ability to react to situations of prolonged uncertainty and resilience in the face of unfavourable global economic cycles, such as the period between 2008 and 2014. This capacity is the result of the strength of the product, customer loyalty and the efficient management model based on a flexible costs structure in respect, nonetheless, of productive excellence.
The management continues with the strategy for the development and growth of the Group, also for the year 2020, based on the guidelines already communicated at the time of the IPO, which seen the expansion in product lines, diversification of the markets, development of the services business and an increase in productive efficiency and profitability.

proposed approval of the separate financial statements and allocation of the profit for the year

The Board of Directors, in submitting for approval to the Shareholders' Meeting, the Separate financial statements as at 31 December 2019, which post a net profit of €29,059,398, proposes that the Shareholders' Meeting resolve:

- to approve the Separate financial statements of Sanlorenzo S.p.A., which show a net profit for the year of €29,059,398;
- to approve the proposed allocation of net profit for the year of €29,059,398 to the legal reserve for an amount of €1,452,970 and to the extraordinary reserve in the amount of €27,606,428.

Ameglia, 13 March 2020

On behalf of the Board of Directors
Executive Chairman
Mr. Massimo Perotti

III

CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

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accounting statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(€'000)	Note	31 December 2019	31 December 2018
ASSETS			
Non-current assets			
Property, plant and equipment	12	102,598	78,470
Goodwill [16]	13	8,667	8,667
Intangible assets with a finite useful life	14	35,404	25,103
Equity investments and other non-current assets	16	379	343
Net deferred tax assets	10	3,008	1,958
Total non-current assets		**150,056**	**114,541**
Current assets			
Inventories	17	62,311	39,323
Contract assets	18	87,889	94,817
Other financial assets, including derivatives	22	6,654	16,461
Trade receivables	21	20,269	31,382
Other current assets	20	46,007	35,321
Cash and cash equivalents	21	60,186	48,732
Total current assets		**283,316**	**266,036**
TOTAL ASSETS		**433,372**	**380,577**

[16] Goodwill for the year 2018 takes into account the date of the first-time adoption of the IFRS, starting from 1 January 2018. The difference with respect to the corresponding item included in the Prospectus formalised for the purposes of the listing of the Company's shares on the Mercato Telematico Azionario is due to the different reference time period.

(€'000)	Note	31 December 2019	31 December 2018
EQUITY			
Share capital	23	34,500	30,000
Share premium	23	76,549	30,928
Other reserves [17]	23	15,207	35,240
Profit/(loss) for the year		27,030	12,436
Equity attributable to the owners of the parent		**153,286**	**108,604**
Equity attributable to non-controlling interests	23	(2,455)	(1,843)
TOTAL EQUITY		**150,831**	**106,761**
Non-current liabilities			
Non-current financial liabilities	24	56,609	64,135
Non-current employee benefits	27	796	910
Non-current provisions for risks and charges	28	913	918
Total non-current liabilities		**58,318**	**65,963**
Current liabilities			
Current financial liabilities, including derivatives	24	19,294	24,021
Current provisions for risks and charges	28	9,299	2,722
Trade payables	25	152,189	113,319
Contract liabilities	18	19,442	52,980
Other current liabilities	26	18,615	12,845
Other current tax liabilities	10	2,205	1,790
Net current tax liabilities	10	3,179	176
Total current liabilities		**224,223**	**207,853**
TOTAL LIABILITIES		**282,541**	**273,816**
TOTAL EQUITY AND LIABILITIES		**433,372**	**380,577**

[17] *The item Other reserves for 2018 takes into account the impact on goodwill of the date of the first time adoption of the IFRS, starting from 1 January 2018. The difference with respect to the corresponding item included in the Prospectus formalised for the purposes of the listing of the Company's shares on the Mercato Telematico Azionario is due to the different reference time period.*

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

(€'000)	Note	31 December 2019	31 December 2018
Revenues	7	518,991	386,384
Agency commissions	7	(12,747)	(11,168)
Net revenues		**506,244**	**375,216**
Other income	8	3,445	4,504
Total net revenue and income		**509,689**	**379,720**
Increases in internal work	8	1,952	1,326
Raw materials, consumables and finished products	8	(217,882)	(123,863)
Outsourcing	8	(166,358)	(116,828)
Change in work in progress, semi-finished and finished products	17	26,297	(26,110)
Other service costs	8	(47,845)	(41,247)
Personnel expenses	8	(35,165)	(29,478)
Other operating costs	8	(4,128)	(4,785)
Accruals to provisions for risks and charges	28	(6,596)	(3,190)
Total operating costs		**(449,725)**	**(344,175)**
Operating profit before amortisation and depreciation		**59,964**	**35,545**
Amortisation, depreciation and impairment losses	8,12,14	(16,868)	(12,119)
Operating profit		**43,096**	**23,426**
Financial income	9	42	21
Financial expense	9	(5,293)	(3,546)
Net financial expense		**(5,251)**	**(3,525)**
Share of profit (loss) of equity-accounted investees, net of tax	16	-	-
Adjustments to financial assets	16	32	(918)
Pre-tax profit		**37,877**	**18,983**
Income taxes	10	(11,059)	(6,320)
PROFIT/(LOSS) FOR THE YEAR		**26,818**	**12,663**
Attributable to:			
Owners of the parent		27,030	12,436
Non-controlling interests		(212)	227

(€'000)	31 December 2019	31 December 2018
Other comprehensive income		
Other comprehensive income that will not be subsequently reclassified to net income		
Actuarial change in provisions for employee benefits	21	84
Income taxes relating to actuarial changes in provisions for employee benefits	(6)	(23)
Total	**15**	**61**
Other comprehensive income which will be subsequently reclassified to net income		
Changes in the cash flow hedge reserve	(179)	(364)
Income taxes related to changes in the cash flow hedge reserve	50	101
Change in the translation reserve	-	(4)
Total	**(129)**	**(267)**
Other comprehensive income for the year, net of tax effect	**(114)**	**(206)**
COMPREHENSIVE NET PROFIT FOR THE YEAR	**26,704**	**12,457**
Attributable to:		
Owners of the parent	26,916	12,229
Non-controlling interests	(212)	228

(in Euro)	Note	31 December 2019	31 December 2018
Earnings per share from continuing operations	11	0.84	0.41
Diluted earnings per share from continuing operations	11	0.84	0.41
Group net profit per share	11	0.84	0.41
Group interest in diluted earnings per share	11	0.84	0.41

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(€'000)	Share capital	Share premium	Total other reserves	Profit for the year	Equity attributable to the owners of the Parent Company	Equity attributable to non-controlling interest	Total equity
31 December 2018	**30,000**	**30,928**	**35,240**	**12,436**	**108,604**	**(1,843)**	**106,761**
Allocation of profit for the year	-	-	10,708	(12,436)	(1,728)	(400)	(2,128)
Change in the hedging reserve	-	-	(149)	-	(149)	-	(149)
Adjustment IFRS FTA	-	-	270	-	270	-	270
Dividends	-	-	(3,800)	-	(3,800)	-	(3,800)
Reverse merger with WindCo	-	(19,539)	(28,430)	-	(47,969)	-	(47,969)
Capital increase	4,500	65,160	-	-	69,660	-	69,660
Other changes	-	-	1,368	-	1,368	-	1,368
Profit for the year	-	-	-	27,030	27,030	(212)	26,818
31 December 2019	**34,500**	**76,549**	**15,207**	**27,030**	**153,286**	**(2,455)**	**150,831**

CONSOLIDATED STATEMENT OF CASH FLOWS

(€'000)	Note	31 December 2019	31 December 2018
Cash flows from operating activities			
Profit for the year		26,818	12,663
Adjustments for:			
Depreciation	8, 12	6,518	6,993
Amortisation	8, 14	10,350	4,006
Impairment losses on intangible assets and goodwill	13, 14	-	1,120
Impairment losses on financial assets (other equity investments)	16	(32)	942
Net financial expense	9	5,251	3,524
Gain on sale of property, plant and equipment		(7)	(35)
Impairment losses on trade receivables	19	-	250
Income taxes	10	11,059	6,320
Changes in:			
Inventories	17	(22,988)	36,802
Contract assets	18	6,928	3,297
Trade receivables	19	11,113	(12,652)
Other current assets	20	(10,686)	(9,114)
Trade payables	25	38,870	12,450
Contract liabilities	18	(33,538)	24,087
Other current liabilities	26	5,866	(7,560)
Provisions for risks and charges and employee benefits	27, 28	6,453	774
Cash flows generated by operating activities		**61,975**	**83,867**
Taxes paid		(8,788)	(4,262)
Net cash flows from operating activities		**53,187**	**79,605**
Cash flows from investing activities			
Interest received		43	21
Proceeds from disposal of property, plant and equipment		59	122
Proceeds from disposal of intangible assets		-	26
Change in other equity investments and other non-current assets	16	99	41
Acquisition of subsidiaries or business units, net of cash acquired	30	-	(6,029)
Acquisition of property, plant and equipment	12	(35,453)	(21,519)
Acquisition of intangible assets with a finite useful life	14	(15,994)	(7,871)
Net cash flows used in investing activities		**(51,246)**	**(35,209)**

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(€'000)	Note	31 December 2019	31 December 2018
Cash flows from financing activities			
Interest paid		(5,292)	(3,877)
Proceeds from the issue of share capital		69,660	-
New loans	24	-	64,596
Repayment of loans	24	(63,153)	(76,372)
Changes in other financial assets and financial liabilities including derivatives	22, 24	9,821	(15,316)
New finance leases		2,925	-
Repayment of finance leases		-	(9,621)
Assumption of new loans		47,960	-
Effect of merger with WindCo and other changes in equity	32	(48,608)	-
Dividend paid	23	(3,800)	(300)
Net cash flows from/(used in) financing activities		**9,513**	**(40,890)**
Net (decrease)/increase in cash and cash equivalents		**11,454**	**3,506**
Cash and cash equivalents as at 1 January		48,732	45,226
Cash and cash equivalents as at 31 December		**60,186**	**48,732**

notes to the consolidated financial statements

BASIS OF PREPARATION

Introduction

On 10 December 2019, the trading of the Company's shares on the STAR segment of Mercato Telematico Azionario (MTA) (screen-based market) organised and managed by Borsa Italiana S.p.A. began. The initial offer price was €16.00 per share.
On 30 December 2019, the closing price of the share was €15.974, for a total capitalisation of €551, 103 thousand.
Admission to trading followed an offer reserved to Italian and foreign institutional investors which was successfully completed on 6 December 2019 and, following partial exercise of the greenshoe option, included no. 11,157,977 shares of the Company, of which:

- 4,500,000 shares from a share capital increase with the exclusion of option rights;
- 6,657,977 shares offered for sale by Holding Happy Life S.r.l., a majority shareholder of the Company and subsidiary under the control of Massimo Perotti, including 157,977 shares, subject to the over allotment option in service of the greenshoe option (as defined in the Prospectus).

Due to the aforementioned transaction, Sanlorenzo Group drafts its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS/EU) issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission using the procedure as per article 6 of Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002.
The date of transition, i.e. the beginning of the earliest period for which an entity presents full comparative information under the IFRS in its first IFRS financial statements, is 1 January 2018 and therefore IFRS 1 applies.
On 1 April 2019, the administrative bodies of the holding company WindCo S.p.A. and the subsidiary Sanlorenzo S.p.A. approved and filed at the Register of Companies a plan for the reverse merger by incorporation of WindCo S.p.A. in Sanlorenzo S.p.A. The merger, resolved by the shareholders' meetings of the companies concerned on 15 April 2019, took effect for legal purposes on 28 June 2019, and was effective for tax and accounting purposes retroactively as at 1 January 2019, consistently with the provisions of the merger plan.
On 4 July 2019, the Issuer acquired the entire shareholding held by Immobiliare FIPA S.r.l. in Liquidation in Polo Nautico, equal to 44.68% of the share capital, paying a consideration of €30 thousand.
On 19 July 2019, the entire equity investment in GP Yachts S.r.l. was sold to minority quotaholders for a total value of €200 thousand, equal to the paid-up share capital.

1.Reporting entity
Sanlorenzo S.p.A. (the "Company") is based in Italy. Its registered office is in Via Armezzone 3, Ameglia (La Spezia). The consolidated financial statements include the financial statements of the parent and its subsidiaries (collectively the "Group").
The Group is active primarily in the design, building and sale of boats and pleasure boats in fibreglass, steel and aluminium together with all other materials. It also provides maintenance and charter services for all types of vessels, as well as services relating to these activities (see notes 6 and 7).

2. Basis of preparation
The consolidated financial statements as at and for the year ended 31 December 2019 have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and endorsed by the European Union, including all interpretations of the International Financial Reporting Interpretations Committee (IFRIC), previously known as the Standing Interpretations Committee (SIC).
The notes to the consolidated financial statements were incorporated with the additional information required by Consob and by the regulations issued thereby, pursuant to art. 9 of Italian Legislative Decree no. 38/2005 (resolutions 15519 and 15520) of 27 July 2006 and communication DEM/6064293 of 28 July 2006, pursuant to art. 78 of the Issuer's Regulations, the EC document of November 2003 and, where applicable, the Italian Civil Code.
The consolidated financial statements as at 31 December 2019, approved by the Board of Directors of the Company on 13 March 2020, include the consolidated statement of the financial position, consolidated statement of profit and loss for the year and the other comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity.
As regards the statement of financial position, the presentation format adopted provides for a distinction between current and non-current assets and liabilities, according to paragraphs 60 et seq. of IAS 1.
The presentation of the consolidated statement of profit and loss adopts a classification of costs based on the type of expense.
The consolidated statement of cash flow was prepared based on the indirect method and is presented in compliance with IAS 7, classifying the financial flows between operating, investment and financing activities.
Details of the Group's accounting standards are included in note 41.
It must be noted that, in reference with Consob Resolution no. 15519 of 27 July 2006 and Communication no. DEM/6064293 of 28 July 2006, the financial statements highlight significant relations with related parties in order to provide better information, and the income items deriving from non recurrent events or transactions are recognised, when significant, separately in the management comments and in the financial information sections.

notes to the consolidated financial statements

3. Functional and presentation currency
These consolidated financial statements are presented in Euro, which is the Parent Company's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

4. Use of judgements and estimates
The preparation of annual consolidated financial statements and notes thereto in accordance with the IAS/IFRS requires the directors to apply accounting standards that may sometimes be affected by complex and subjective judgements and estimates, based on past experience and assumptions deemed reasonable and realistic in the circumstances.
The application of these estimates and assumptions affects the reporting amounts in the financial statement, such as the statement of financial position, the statement of profit and loss, other comprehensive income, the statement of cash flows and the disclosures included herein.
The final figures of the financial statement items for which the afore-mentioned estimates and assumptions were used, may differ from those that were actually realised due to the uncertainties that characterise the assumptions and the conditions on which the estimates are based. Estimates and assumptions are periodically reviewed and the effects of each change are reflected in the period in which the estimate revision is made, if such revision affects only the current period or also in the following periods if the revision affects current and future periods.
The items most affected by directors' judgements and estimates and for which a change in the circumstances underlying the assumptions applied could have a significant impact on the consolidated financial statements are summarised below.

Valuations
Information about management judgements made in applying accounting standards that have the most significant effects on the amounts recognised in the consolidated financial statements is included in the following notes:
- note 7 – revenue recognition: whether revenue from contracts is recognised over time or at a point in time;
- note 16 – equity-accounted investees: whether the Group has significant influence over an investee;
- note 30 – consolidation: whether the Group has de facto control over an investee.

Assumptions and estimation uncertainties
Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next year is included in the following notes:
- note 7 – recognition of revenue;
- note 27 – measurement of defined benefit obligations: key actuarial assumptions;
- note 10 – recognition of deferred tax assets: availability of future taxable profit against which deductible temporary differences and tax losses carried forward can be utilised;
- note 15 – impairment test of intangible assets and goodwill: key assumptions underlying recoverable amounts, including the recoverability of development costs;
- notes 28 and 33 – recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources;
- note 19 – measurement of the loss allowance for trade receivables and contract assets; key assumptions used to determine the expected credit losses;

5. Significant accounting standards

In these consolidated financial statements, the accounting standards and consolidation criteria adopted are consistent, except where indicated hereunder, with those used to prepare the consolidated financial statements as at 31 December 2018, drafted for comparative purposes.

The Group has adopted IFRS 16 - Leases starting from 1 January 2019. Therefore the Group, in the capacity as lessee, has recognised the right of use of the assets representing the rights of use of the underlying assets and the lease liabilities entailing the obligation to pay lease fees. The recognition of the lessee is similar to the previous accounting standards. Previously, the Group had determined, at the execution of the agreement, whether it contained a lease, in compliance with IFRIC 4 – Determining whether an arrangement contains a lease. The Group now assesses whether a contract is or contains a lease based on the new definition of leasing. According to IFRS 16, a contract is or contains a lease if it attributes the rights to control the use of an identified asset for a certain period of time against payment.

During the transition to IFRS 16, the Group has chosen to apply a practical expedient that does not require determining which transactions represent a lease. It has applied IFRS 16 only to contracts that were previously identified as leases. The contracts not identified as leases pursuant to IAS 17 and IFRIC 4 were not reviewed again in order to determine whether they were leases. Therefore, the definition of a lease pursuant to IFRS 16 was applied only to contracts executed or amended starting from 1 January 2019.

At the start or at the time of the assessment of a contract containing a lease component, the Group attributes the payment stipulated in the contract separately to each lease and non-lease component, based on their prices. However, for the leasing of properties of which the Group is the lessee, the latter has chosen not to separate the non-lease components and to recognise instead the lease and non-lease components as a single lease component.

The Group has applied IFRS 16 using the modified retrospective approach, based on which the cumulative effect of the initial application is recognised under the retained profit carried forward to 1 January 2019. Consequently, the comparative information presented for 2018 was not redetermined.

(€'000)	As at 1 January 2019
Lease liabilities	3,413
Total assets for rights of use	3,413

notes to the consolidated financial statements

The right of use refers primarily to land and buildings and other tangible assets such as company cars, industrial equipment, computers and printers.
The Group presents lease payables in the item "Other loans and borrowings" in the balance sheet.
The Group recognises an asset with rights of use and a lease liability at the inception date of the lease.
The right of use of an asset is initially measured at cost and subsequently at cost net of accumulated amortisation and impairment loss and adjusted so as to take into account some remeasurements of the lease payable. When an asset with right of use meets the definition of a property investment, it is presented under such item. The right of use is initially designated at cost and subsequently at fair value, in compliance with the accounting standards of the Group.
Financial debt is initially measured at the present value of the instalments not paid at the beginning of the lease, discounted using the interest rate implicit in the lease or if this rate is not easily determinable, the interest rate applied by the Group.
Normally, the Group uses as a discount rate, the incremental borrowing rate.
Financial debt is subsequently increased by the interest expense calculated on the financial debt and after deducting the lease instalments. It is measured again when there is a change in the future payments arising from a change in the index or rate, a change in the estimate of the expected payable amount pursuant to an outstanding guarantee or, eventually, changes in the valuation, for the year, of a purchase, extension or resolution option.

The Group has estimated the duration of lease contracts that include renewal options. The assessment of the reasonable certainty of the exercise of these options has an impact on the duration of the lease contract which affects significantly the amount of payables and the recognised rights of use.
First-time application
At the first-time adoption, for the leases classified as operating leases according to IAS 17, the lease payables were measured at the current value of the residual instalments, discounted according to the incremental rate of the financial debt of the Group as at 1 January 2019. Goods for consideration are valued at an amount equal to the lease instalments, adjusted based on the amount of prepaid or accrued instalments. The Group does not have any significant property leases.
The Group has adopted the following practical expedients to apply IFRS 16 to the leases previously classified as operating leases according to IAS 17:

- has applied the exemption of not recognising the rights of use of assets and liabilities for leases of less than 12 months;
- has excluded the initial direct costs of measuring the right of use as at the initial application date;
- has relied on the experience acquired in determining the duration of the leases in those cases where the contract provides for the option to extend or terminate the lease.

As at 1 January 2019, the Group did not have any leases classified as financial leases pursuant to IAS 17.

Impact of the first-time application

At the first-time application of IFRS 16, the Group has recognised additional rights of use, including property investments and additional liability leases, recognising the difference among the retained profits carried forward. The effects of the first-time application are as follows.

In measuring the payables for leases classified as operating leases, the Group has discounted the lease instalments using the incremental borrowing rate as at 1 January 2019. The weighted average rate applied is 5.86%.

(€'000)	**As at 1 January 2019**
Commitments arising from operating leases as at 31 December 2018 as shown in the consolidated financial statements of the Group	3,748
Discounting impact	(335)
Commitments deriving from operating leases discounted using the incremental borrowing rate as at 1 January 2019	**3,413**
Exemption from recognising leases of assets of a modest value	-
Exemption from recognising short-term leases	-
Options for the extension of a lease, the exercise of which is reasonably certain	-
Discounted values using the incremental interest rate as at 1 January 2019	**3,413**

Following first time application of IFRS 16, as regards the leases previously classified as operating leases, the Group has recognised as at 1 January 2019, €3,413 thousand of payables for leases under "Non-current financial liabilities" and "Current financial liabilities, including derivatives".

As regards lease agreements, pursuant to IFRS 16, the Group has recognised amortisation and interest expense, rather than the costs for operating leases. In 2019, the Group has recognised €1,156 thousand in amortisation and €71 thousand in interest expense on these lease contracts. No amortisation was recognised on assets with rights of use that fall under the definition of property investments.

notes to the consolidated financial statements

PERFORMANCE FOR THE YEAR

6. Operating segments

The Sanlorenzo Group comprises the following operating segments:
- Yacht Division;
- Superyacht Division;
- Bluegame Division.

The operating segments have been identified in accordance with IFRS 8 as the components of the Group:
- that engage in business activities from which the Group earn revenues and incur expenses;
- whose operating results are regularly reviewed by the Parent Company's Board of Directors to make decisions about resources to be allocated to the segment and assess its performance; and
- for which discrete financial information is available.

In detail, the type of product is the primary basis for segmentation identified by the Group. In detail:
- the Yacht segment refers to composite yachts of a length between 24 and 38 metres, marketed under the Sanlorenzo brand;
- the Superyacht segment refers to superyachts in aluminium and steel, of a length of more than 38 metres, marketed under the Sanlorenzo brand;
- the Bluegame brand relates to sports utility yachts (size lower than 24 metres in length and different characteristics from the ones of Yacht and Superyacht), sold under the Bluegame brand.

Key financials for the three segments are regularly prepared and reviewed by the management of the Group, which rely on these data for operating and strategic performance analyses and decisions.

Segments aggregation

As allowed by IFRS 8.12, the Yacht and Superyacht business segments are aggregated into one segment as they have similar economic characteristics in terms of:

a. nature of products: the nature of the product is similar for the two segments, differences depending substantially on size (and related details);
b. nature of production processes: this is the same for the two segments;
c. type or class of customers: these segments have substantially the same customers or same class of customers for its products and services;
d. methods used to distribute the products: these are the same for both Yacht and Superyacht;
e. nature of the regulatory environment: no differences exists in relation to the regulatory environment underlying the business of the two segments;
f. margins: as a consequence of the similarities as per the preceding points, the two segments have also similar marginality whose differences are not substantial but rather temporary and depending on timing of introduction of new products and/or specific marketing actions.

It is also noted that the two segments share common contractual base features.

The Bluegame segment is not aggregated to Yacht and Superyacht since it presents peculiarities which do not meet the aggregation criteria as per IFRS 8: characteristics of the products (Sport Utility Yacht) and the production and sale with a dedicated brand.

Reported Segments

Based on the identification and aggregation steps highlighted above, the only reported segment is the aggregated one including Yacht and Superyacht. The Bluegame segment does not exceed the threshold for separate reporting as per IFRS 8 having recorded Revenues, Profit and Assets below 10% of the combined amounts of all the identified operating segments.

7. Revenue and agency commissions

(€'000)	31 December 2019	31 December 2018	Change
Revenues from contracts with customers	518,991	386,384	132,607
Agency commissions	(12,747)	(11,168)	(1,579)
Net revenues	**506,244**	**375,216**	**131,028**

Revenue from contracts with customers

Revenue from contracts with customers is earned on the sale of new and pre-owned boats, which are shown in the above table gross and net of the agency commissions paid to finalise the sales contracts.

Revenue gross of agency commissions paid amounts, respectively, to €518,991 thousand as at 31 December 2019 and €386,384 thousand as at 31 December 2018.

As at 31 December 2019, gross revenue is €132,607 thousand higher than the previous year due to the increase in sales of new boats.

notes to the consolidated financial statements

Disaggregation of revenue from contracts with customers

A breakdown of revenue from contracts with customers by type is as follows:

(€'000)	31 December 2019	31 December 2018	Change
Revenues New Yachts	467,982	335,856	132,126
Revenue from pre-owned	44,563	50,528	(5,965)
Revenue from maintenance and other services	6,446	-	6,446
Revenues from contracts with customers	**518,991**	**386,384**	**132,607**

Revenue from new boat sales includes guarantee deposits from customers who cancelled their purchases and forfeited their deposit to the Group, in accordance with the relevant contracts signed with the customers. They are recognised in profit or loss and amount to €790 thousand and €1,850 thousand for 2019 and 2018, respectively.
Revenue from pre-owned boats sales amounts to €44,563 thousand and €50,528 thousand for 2019 and 2018, respectively.
Revenue from maintenance and sales of spare parts for each type of boat, amounting to €6,446 thousand as at 31 December 2019, are managed in separate orders received from the customers and represent obligations different from those for the sale of yachts. For the year 2018, these revenues are included in Revenues New Yachts. From 2019, in order to monitor the trend in these activities, the Company saw fit to detail the revenues from maintenance services and other services in a separate row.

A breakdown of revenue from contracts with customers by division is as follows:

(€'000)	31 December 2019	31 December 2018	Change
Yacht Division	335,959	261,287	74,672
Superyacht Division	166,848	105,337	61,511
Bluegame Division	16,184	5,872	10,312
Other [18]	–	13,888	(13,888)
Revenue from contracts with customers	**518,991**	**386,384**	**132,607**

Other revenues refer to the company GP Yachts S.r.l., whose equity investment was sold in full on 19 July 2019 to minority shareholders.
The next table breaks down the revenue from contracts with customers on the basis of the nationality of the owner customer by geographical segment:

(€'000)	31 December 2019	31 December 2018	Change
Italy	79,623	64,354	15,269
Europe (other countries)	251,707	169,449	82,258
USA	49,085	19,341	29,744
Americas (other countries)	27,695	45,967	(18,272)
APAC	75,688	69,513	6,175
Middle East and Africa	35,193	17,760	17,433
Revenue from contracts with customers	**518,991**	**386,384**	**132,607**

[18] *The item "Other" includes Net Revenues New Yachts realised by GP Yachts S.r.l., which exited the scope of consolidation following the transfer of the equity investments held by the Company on 19 July 2019.*

notes to the consolidated financial statements

Performance obligations and revenue recognition policies

Revenue is measured based on the consideration specified in the contract with the customer. The Group recognises revenue when it transfers control over a good or service to a customer.

Nature and conditions of performance obligations, significant payment terms and recognition of the revenue in accordance with IFRS 15

The sale of new boats (90.1% of gross consolidated revenues for the year ended 31 December 2019 and 86.9% for the year ended 31 December 2018) meets the requirement for the transfer of control and for the fulfilment of performance obligations over the boat-building period (i.e. over time). Specifically, new boats are custom built to the customer's requests and the Group has the enforceable right to payment for the performance completed to date plus a reasonable profit margin, should the customer cancel the contract for convenience. The client usually pays the Group a down payment amount on signing. In the event of renunciation of a purchase of the boat by the customer this amount can be retained by the Group and included in revenues.

Revenue and associated costs are recognised over time – i.e. before the goods are delivered to the customers' premises. Progress is determined based on the cost-to-cost method and costs are recognised in profit and loss when they are incurred.

Specifically, revenues generated on the basis of the progress of job orders (over time), not yet invoiced to customers and/or for the portion not covered by advances received, are presented in the balance sheet as "Contract assets". More detailed information is provided in note 18.

Invoices are issued as contractually agreed at the single unit level. The customer provides an advance when the contract is signed and progress billings are issued at agreed milestones.

For example, invoices are issued:
- when the contract is signed;
- when the hull, deck and superstructure have been completed;
- when the internal partitioning has been completed;
- when the main engines have been installed;
- when the work has been completed, i.e. the board is ready for delivery; the "Inspection and acceptance certificate" and the "Deed of transfer of title" are concurrently signed.

It has been estimated that a large part of the price of a boat is generally paid through subsequent advance payments and during the progress of the work as highlighted above and only a residual portion is settled when the boat is delivered.

The difference, for each contract, between the amounts billed and the work in progress is recognised under contract assets (if positive) or contract liabilities (if negative).
Fulfilment of the performance obligation in relation to the sale of pre-owned boats (8.6% of consolidated revenues for the year ended 31 December 2019 and 13.1% for the year ended 31 December 2018) is recognised at a point in time.
The contract terms usually agreed for sales of pre-owned boats provide that transfer of control takes place with transfer of title when the sales contract is signed.
Invoices are issued in accordance with the contract terms and are generally settled before the date of delivery of the pre-owned boat.

Agency commissions
Agency commissions amount to €12,747 thousand and €11,168 thousand as at 31 December 2019 and 31 December 2018, respectively. This amount represents the costs incurred by the Group for the intermediation activity carried out by the dealers and agents.
As at 31 December 2019, agency commissions showed a €1,579 thousand increase versus the previous year.
This trend is consistent with the revenue trend.

notes to the consolidated financial statements

8. Income and expenses
Other income

(€'000)	31 December 2019	31 December 2018	Change
Gains on disposals of assets	13	35	(22)
Other revenue	3,432	4,469	(1,037)
Other income	**3,445**	**4,504**	**(1,059)**

Other income amount to €3,445 thousand and €4,504 thousand for 2019 and 2018, respectively. As at 31 December 2019, other revenues and income was down by €1,059 thousand versus the previous year.
Other revenue mostly refers to the Parent Company and includes:
• income for services provided to suppliers;
• the recognition of a tax benefit on R&D expenditure incurred over the years.

Operating costs

(€'000)	31 December 2019	31 December 2018	Change
Increases in internal work	(1,952)	(1,326)	(626)
Raw materials, consumables and finished products	217,882	123,863	94,019
Outsourcing	166,358	116,828	49,530
Other service costs	47,845	41,247	6,598
Change in work in progress, semi-finished and finished products	(26,297)	26,110	(52,407)
Personnel expenses	35,165	29,478	5,687
Other operating costs	4,128	4,785	(657)
Accruals to provisions and impairment losses	6,596	3,190	3,406
Operating costs	**449,725**	**344,175**	**105,550**

Operating costs amounted to €449,725 thousand and €344,175 thousand for 2019 and 2018, respectively.
The work performed by the Group and capitalised refers to the costs of the personnel involved in the development of new boats, which are capitalised under the item development expenditure in relation to intangible assets with a finite useful life. In 2019 and 2018, the Group decided to also capitalise internal personnel under development activities.
Raw materials, consumables and finished products are presented net of returns, discounts, allowances and bonuses and are almost entirely related to the Parent Company. The variation between 2019 and the previous year amounts to €94,019 thousand and is mainly due to higher purchase volumes of raw materials, consumables as a consequence of the rise in production volumes and the purchase of pre-owned boats.
Outsourcing chiefly related to naval carpentry services, turnkey furnishings for yachts and superyachts, electrical and plumbing work and the fitting of the boat's interior and exterior.
The related cost increased by €49,530 thousand from 2018 to 2019.
Other service costs mostly comprise costs for consultancy services, transport, the board of directors' and statutory auditors' fees, travel and cleaning and maintenance, mostly incurred by Sanlorenzo and Bluegame. Changes in "Other service costs" stand at €6,598 thousand in 2019 from 2018.
The change in working in progress, semi-finished and finished products amounted to €(26,297) thousand and €26,110 thousand respectively as at 31 December 2019 and 2018. Work in progress refers to work orders of less or more than one year duration for which the contract with the customer was not yet finalised by the end of the financial year.
Personnel expenses increased by €5,687 thousand in 2019 from 2018. This change reflected the growth in personnel due to an expansion of the Group as shown in the following table:

	31 December 2019	31 December 2018	Change
Managers	29	28	1
White collars	361	303	58
Blue collars	93	109	(16)
Total	**483**	**440**	**43**

A breakdown of personnel expenses is as follows:

(€'000)	31 December 2019	31 December 2018	Change
Wages and salaries	25,899	21,149	4,750
Social security contributions	7,889	6,943	946
Post-employment benefits	1,377	1,269	108
Other expenses	-	117	(117)
Total	**35,165**	**29,478**	**5,687**

The other operating costs mostly related to advertising for €2,517 thousand, and €2,218 thousand in 2019 and 2018, respectively, and other sundry costs stood at €1,611 thousand and €1,839 thousand for 2019 and 2018, respectively. Between 2019 and 2018, other operating costs decreased by €657 thousand.
In 2019, accruals to provisions and impairment losses consisted of €617 thousand for risk provisions, €3,704 thousand for commitments to withdraw pre-owned boats for the sale of new boats and other provisions for €2,275 thousand. Provisions increased by €3,406 thousand in 2019 from 2018.

Amortisation, depreciation and impairment losses

(€'000)	31 December 2019	31 December 2018	Change
Amortisation	5,666	4,005	1,661
Depreciation	11,202	6,994	4,208
Impairment losses	-	1,120	(1,120)
Amortisation, depreciation and impairment losses	**16,868**	**12,119**	**4,749**

Amortisation, depreciation and impairment losses amounted to €16,868 thousand and €12,119 thousand respectively as at 31 December 2019 and 2018. The change between 2019 and 2018 is equal to €4,749 thousand and is due to the higher capital expenditures made during 2019.
In 2019, the amount of amortisation of intangible assets was €5,666 thousand, referring primarily to the amortisation of trademarks and patents for €1,859 thousand, amortisation of development expenses for €2,583 thousand, amortisation of state concession of the construction site of La Spezia for €361 thousand, amortisation of the rights of use of the warehouses of Viareggio for €442 thousand and amortisation of software applications for €284 thousand.
In 2019, depreciation of tangible assets stood at €11,202 thousand, referring principally to depreciation of industrial and commercial equipment (€5,486 thousand), land and buildings (€3,287 thousand), other assets (€1,920 thousand) and plant and equipment (€509 thousand).

9. Net financial expense

(€'000)	31 December 2019	31 December 2018	Change
Financial income	42	21	21
Financial expense	(5,293)	(3,546)	(1,747)
Net financial expense	**(5,251)**	**(3,525)**	**(1,726)**

Net financial expense amounted to €5,251 thousand and €3,525 thousand for 2019 and 2018, respectively.
This increase of €1,726 thousand between 2019 and 2018 refers to the higher interest payable due to Sanlorenzo S.p.A. assumption of a medium/long-term loan from the holding company WindCo, amounting to €40,070 thousand following the reverse merger, effective for accounting purposes from 1 January 2019, as well as the recognition in the statement of profit and loss of the transaction costs relating to this loan, still not amortised at the settlement date, which took place in December.
A breakdown of each item making up this item is provided below:

(€'000)	31 December 2019	31 December 2018	Change
Interest income – third parties	19	16	3
Interest income – banks	23	3	20
Other financial income	-	2	(2)
Financial income	**42**	**21**	**21**

(€'000)	31 December 2019	31 December 2018	Change
Interest expense – banks	(3,903)	(2,065)	(1,838)
Sundry bank charges	(797)	(1,092)	295
Interest expense – third parties	(294)	(386)	92
Other financial expense	(299)	(3)	(296)
Financial expense	**(5,293)**	**(3,546)**	**(1,747)**

10. Income taxes

This item can be broken down as follows:

(€'000)	31 December 2019	31 December 2018	Change
Current taxes	(8,929)	(5,933)	(2,996)
Taxes relative to prior years	(2,876)	(155)	(2,721)
Deferred tax assets and liabilities	746	(232)	978
Income taxes	**(11,059)**	**(6,320)**	**(4,739)**

The 2019, "Income taxes" stood at €(11,059) thousand, up by €4,739 thousand over the previous year. This item is primarily comprised current taxes of €(8,929) thousand, taxes relative to prior years of €(2,772) thousand including the accruals set aside to take account of the potential liabilities resulting from tax audits, foreign taxes for the US subsidiary of €(104) thousand and positive changes in deferred tax assets and liabilities for €(746) thousand.

More information on deferred tax assets and liabilities is available in the tables in the attachments.

In 2019, current taxes increased by €2,996 thousand in 2019 (+50.5%) due to the significantly higher pre-tax profit (€18,895 thousand).

A reconciliation between the effective and theoretical tax expense is as follows:

(€'000)	31 December 2019	31 December 2018
Pre-tax profit	**37,878**	**18,983**
Tax rate	24%	24%
Theoretical IRES	9,091	4.556
Non-deductible expenses	2,937	1,185
R&D credit exempt	(335)	(517)
Tax incentive	(2,467)	(109)
Impact of IRES tax rate on deferred taxes	-	-
Current year losses on subsidiaries for which no deferred tax asset was recognised	(7)	(8)
Effect of tax rate in foreign jurisdiction and other differences	109	161
IRAP	1,731	1,052
Income taxes	**11,059**	**6,320**

Income taxes for 2019 represent 29.2% of the pre-tax profit, compared to 33.3% in 2018, mainly due to the greater incidence of the tax benefits of the patent box.

Current tax assets and liabilities

(€'000)	31 December 2019	31 December 2018	Change
Current tax assets	5,911	3,108	2,803
Current tax liabilities	(9,090)	(3,284)	(5,806)
Net assets/(liabilities) for current taxes	**(3,179)**	**(176)**	**(3,003)**

Assets refer to IRES and IRAP advances paid in 2019. Current tax liabilities, totalling €(9,090) thousand and €(3,284) thousand as at 31 December 2019 and 2018 respectively, refer predominantly to IRES and IRAP liabilities.

Net deferred tax assets

(€'000)	31 December 2019	31 December 2018	Change
Net deferred tax assets	**3,008**	**1,958**	**1,050**

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The balance shows the difference between deferred tax assets and liabilities that arose over the years.
Net deferred tax assets stood at €3,008 as at 31 December 2019 versus €1,958 thousand as at 31 December 2018. The main temporary differences that gave rise to the deferred tax assets relate to accruals to provisions for risks and charges, write-downs of pre-owned boats, impairment losses on financial assets, amortisation of the Sanlorenzo trademark recognised in previous years and impairment losses on receivables. Deferred tax assets are recognised when management deems they will be recovered through future taxable profits based on the business plans. Deferred tax liabilities relate to current and prior years income taxes to be paid in future in line with the applicable tax legislation. The Group recognised deferred tax liabilities calculated using the enacted rates on the increase in the carrying amount of group-owned buildings made by allocating part of the goodwill thereto (in previous years).

The following table provides details on the changes, nature and amount of temporary differences and the amounts recognised in profit or loss as at 31 December 2019 and 2018.

(€'000)	Tax Effect as at 1 January 2019 (with FTA effects)	Adjustments	Utilisations 2019	Accruals 2019	Total in profit or loss 2019	Tax effect as at 31 December
Deferred tax assets						
Loss allowance	190	34	133	-	(133)	91
Provisions for risks and charges	1,700	-	721	1,840	1,119	2,819
Unpaid directors' fees	7	-	7	5	(2)	5
Unpaid membership fees	4	-	4	3	(1)	3
Amortisation of trademarks	284	-	284	-	(284)	-
Amortisation of Goodwill	3	-	1	-	(1)	2
Impairment losses on pre-owned boats	954	-	954	250	(704)	250
Effect of IAS 17	282	-	-	-	-	282
Measurement of the Sanlorenzo of the Americas investment using the equity method	1,997	(1,997)	-	-	-	-
Measurement of the Sundiro investment using the equity method	10	-	-	-	-	10
Agency commissions on contracts of less than one year	359	-	359	-	(359)	-
Derivatives	80	-	-	42	42	122
Effect of IAS 19	19	-	-	-	-	19
Legal costs	242	-	-	-	-	242
Effect of IFRS 15	177	(32)	89	-	(89)	56
Measurement of financial liabilities at amortised cost	49	117	24	-	(24)	142
Other	-	2,206	673	-	(673)	1,533
Total deferred tax assets	**6,357**	**328**	**2,576**	**2,140**	**(1,109)**	**5,576**
Deferred taxes						
Accumulated amortisation and depreciation in previous years	-	-	-	-	-	-
Differences on goodwill for Irap purposes	(251)	-	-	-	-	(251)
Deferred tax liabilities on goodwill	(1,423)	-	86	-	86	(1,337)
Contracts of less than one year	(2,010)	-	1,922	-	1,922	(88)
Bluegame contracts of less than one year	(20)	2	18	-	18	-
Amortisation of development costs over its useful life	(695)	-	433	604	(171)	(866)
Other	-	(26)	-	-	-	(26)
Total deferred tax liabilities	**(4,399)**	**(24)**	**2,459**	**604**	**1,855**	**(2,568)**
Net deferred tax assets	**1,958**	**304**	**5,035**	**2,744**	**746**	**3,008**

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11. Earnings per share

The next table shows how the earnings per share were calculated as at 31 December 2019 and 2018 based on the ratio of the profits attributable to the owners of the parent to the weighted average number of ordinary shares each year.
The share capital and the number of shares of the Parent Company, following the share capital increase linked to the IPO transaction, changed with respect to 31 December 2018, up from €30,000 thousand and 30,000,000 ordinary shares as at 31 December 2018 to €34,500 thousand and 34,500,000 ordinary shares as at 31 December 2019.
There were no dilutive potential ordinary shares in the period.

(in Euro)	**31 December 2019**	**31 December 2018**
Profit for the year attributable to the owners of the parent	27,029,974	12,436,000
Average number of shares	32,250,000	30,000,000
Earnings per share	**0.84**	**0.41**

ASSETS

12. Property, plant and equipment

Property, plant and equipment amounted to €102,598 thousand and €78,470 thousand as at 31 December 2019 and 31 December 2018, respectively. A breakdown of the item at each date presented and changes therein is provided below.

(€'000)	Land and buildings	Industrial equipment	Plants and equipment	Other assets	Assets under development	Total
Historical cost	56,304	44,462	6,952	9,605	19,397	**136,720**
Accumulated depreciation	(21,357)	(27,142)	(4,164)	(5,587)	-	**(58,250)**
Carrying amount as at 31 December 2018	**34,947**	**17,320**	**2,788**	**4,018**	**19,397**	**78,470**
Changes:						**-**
Additions	6,826	10,601	1,739	4,191	12,096	**35,453**
Disposals	-	-	(33)	(96)	-	**(129)**
Reclassifications	421	5,464	(84)	241	(5,998)	**44**
Depreciation	(3,261)	(5,485)	(509)	(1,921)	-	**(11,176)**
Utilisation of accumulated depreciation	5	-	86	(155)	-	**(64)**
Historical cost	63,551	60,527	8,574	13,941	25,495	**172,088**
Accumulated depreciation	(24,613)	(32,627)	(4,587)	(7,663)	-	**(69,490)**
Carrying amount as at 31 December 2019	**38,938**	**27,900**	**3,987**	**6,278**	**25,495**	**102,598**

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As at 31 December 2019, Property, plant and equipment comprises:

- land and buildings of €38,938 thousand, mostly comprising the Parent Company's buildings at the production sites in Ameglia (SP), Viareggio (LU) and La Spezia;
- industrial equipment of €27,900 thousand, mainly consisting of technical tools, mostly owned by the Parent Company, for scaffolding and the handling and extraction of fibreglass moulding;
- plant and equipment of €3,987 thousand, entirely owned by the Parent Company and mostly comprising fire and intake systems;
- other assets of €6,278 thousand, of which 5,509 thousand for the Parent Company and the remainder for the other Group companies. The other assets chiefly include office furniture and fittings, trade fair equipment and electronic equipment;
- assets under development of €25,495 thousand relate primarily to the Parent Company and, to a minimal part, to Bluegame and mainly include the costs incurred to construct new buildings (offices and warehouses) for expanding the production site of Ameglia (SP) and the costs for bringing the Massa (MS) production site into line with the applicable regulations.

In 2019, property, plant and equipment increased by €35,453 thousand, mainly for assets under development by €12,096 thousand, industrial equipment by €10,601 thousand, buildings by €6,826 thousand, other assets by €4,191 thousand and plants by €1,739 thousand. Specifically, the increase in assets under development mostly related to the warehouses being built in Ameglia (SP) in the area adjacent to the current production site.
In 2019, decreases amounted to €129 thousand, net of accumulated depreciation of €64 thousand, and involved other assets and plants of the Parent Company.
Depreciation in 2019 amounted to €11,176 thousand, €4,182 thousand higher than in 2018 mostly as a result of the investments made during the year and the previous year.

13. Goodwill

Goodwill is recognised in the consolidated financial statements at the date of acquisition of the control of a business pursuant to IFRS 3 and is the aggregate of the consideration transferred to acquire a business or a business unit and the algebraic sum of the fair values, assigned at the acquisition date, to the identifiable assets and liabilities acquired that composed such business or business unit.
As it has an indefinite useful life, goodwill is not amortised but is tested for impairment at least once a year unless some indications of impairment based on external and internal sources of information identified by the Group makes it necessary to test it for impairment also during preparation of the interim reports. For impairment testing purposes, goodwill acquired as part of a business combination is allocated to the individual Cash-Generating Units (or groups of CGUs) that are expected will benefit from the combination synergies, in line with the minimum level for which that goodwill is monitored by the Group.
After its initial recognition, goodwill is measured at cost less any accumulated impairment losses.

(€'000)	31 December 2019	31 December 2018	Change
Goodwil [19]	8,667	8,667	–

As at 31 December 2019 and 31 December 2018, goodwill was €8,667 thousand.
It arose on the 2008 merger of the former holding company, Happy Fly S.r.l., and its subsidiary FlyOpen S.p.A. into Sanlorenzo S.p.A.

The balance of €8,667 thousand is net of amortisation recognised up until the date of transition (FTA).
The Group applied the exemption, provided by IFRS 1.C1 for business combinations, which allows the first-time adopter not to apply IFRS 3 retrospectively to business combinations that occurred before the date of transition to IFRSs.

[19] *Goodwill for the year 2018 takes into account the date of the first-time adoption of the IFRS, starting from 1 January 2018. The difference with respect to the corresponding item included in the Prospectus formalised for the purposes of the listing of the Company's shares on the Mercato Telematico Azionario is due to the different reference time period.*

14. Intangible assets with a finite useful life

Intangible assets with a definite useful life amounted to €35,404 thousand as at 31 December 2019 and €25,103 thousand as at 31 December 2018.

A breakdown of the item at each date presented and changes therein is provided below.

(€'000)	Concessions, licences, trademarks and similar rights	Other assets	Development costs	Assets under development	Total
Historical cost	31,675	2,662	20,126	5,899	**60,362**
Accumulated amortisation	(21,319)	(2,626)	(11,314)	–	**(35,259)**
Carrying amount as at 31 December 2018	**10,356**	**36**	**8,812**	**5,899**	**25,103**
Changes:					
Additions	10,164	–	4,880	948	**15,992**
Disposals	–	–	–	–	**–**
Reclassifications	–	–	2,811	(2,811)	**–**
Amortisation	(3,083)	(24)	(2,584)	–	**(5,691)**
Utilisation of accumulated amortisation	–	–	–	–	**–**
Historical cost as at 31 December 2019	41,839	2,662	27,817	4,036	**76,354**
Accumulated amortisation and impairment losses as at 31 December 2019	(24,402)	(2,650)	(13,898)	–	**(40,950)**
Carrying amount as at 31 December 2019	**17,437**	**12**	**13,919**	**4,036**	**35,404**

With reference to the development costs presented in the consolidated financial statements of Sanlorenzo S.p.A. as at 31 December 2019, no impairment indicators were identified to suggest that capitalised development costs were subject to impairment.

As at 31 December 2019, Intangible assets with a finite useful life comprises:

- concessions, licences, trademarks and similar rights of €17,437 thousand, mostly related to the Parent Company. More specifically, the item is composed primarily of the concession acquired together with the former Cantieri San Marco business unit during the year in question for €3,972 thousand; trademark of the Parent Company for €1,683 thousand; two mooring rights acquired by the Parent Company until 2067 in La Spezia in "Porto Mirabello" amounting to a net €1,796 thousand; the right of use for the properties in Viareggio for €8,961 thousand acquired with the demerger of Polo Nautico Viareggio S.r.l. during the year; software for €625 thousand and sundry rights for €400 thousand.
- other assets of €12 thousand.
- development costs of €13,919 thousand, comprising costs to design and develop new boats incurred by the Parent Company and Bluegame S.r.l.
- Assets under development of €4,036 thousand, mostly consisting of development costs for the design and study of new boat models.

In 2019, the additions of €15,992 thousand mainly related to assets under development for €948 thousand, development costs for €4,880 thousand and trademarks, patents, rights on use of buildings and mooring rights for €10,164 thousand.

Amortisation in 2019 amounted to €5,691 thousand, €1,686 thousand higher than in 2018 mostly as a result of the investments made during the year.

Recoverability of development costs

As at 31 December 2019 and 2018, intangible assets projects to develop new boats and innovative fibreglass, steel and aluminium solutions for medium to large boats of €13,919 thousand and €8,812 thousand, respectively.

Its design costs, over eight years, were amortised based on a 12.5% rate.

Projects normally take between one to three years to develop (roughly 18 months for fibreglass boats) and the Group usually recognises the related costs over this period. The design stage ends with the building of the prototype and the model is definitive for sale on the market (new boat design). However, the Group may incur design costs after this if it decides to improve the boat, restyle it or if the customer requests customisation (boat design in production). Designs obviously have to reflect market trends and consider competitors' strategies. Due to difficulties in identifying the right moment for a new product to go to market, the Group defines its specific strategy in this respect each year.

Based on the business plan, which considers sales forecasts, Company management deems that the development costs recognised as at 31 December 2019 is recoverable.

15. Impairment testing

This section describes the methods applied to test goodwill and development costs for impairment in accordance with IAS 36 and the results of these tests.

As at 31 December 2019, the Company checked the recoverable amount of its intangible assets of €8,667 thousand, in line with its impairment procedure. No indications of impairment were identified at Group level.

The Sanlorenzo Group identified a Cash-Generating Unit (CGU) for the goodwill for impairment testing purposes. This CGU comprises all the Group's operating activities.

The test for impairment on its assets, in accordance with IAS 36, provides for two different calculations of the recoverable amount, either value in use or fair value less costs to sell. Paragraph 18 of IAS 36 defines the "recoverable amount as the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use". In this case, as it was not possible to measure the fair value of the assets being tested for impairment as at 31 December 2019, management estimated their recoverable amount considering value in use, calculated by discounting the 2020-2022 estimated operating cash flows obtained from the financial projections in the 2020-2022 plan.

The 2020-2022 Plan was approved on 16 September 2019 by Sanlorenzo S.p.A.'s Board of Directors.

The difference between the resulting value in use and the carrying amount of the net operating invested capital, including goodwill and development costs, is positive by roughly 336%.

Management used the WACC, estimated as follows, as the discount rate:

- the risk free rate was taken to be equal to the average rate of return on 10-year government bonds, i.e. 1.97%;
- an equity risk premium of 6.00% was used;
- a beta levered coefficient was measured considering a basket of listed companies active in the same sector as the Group, i.e. 1.23;
- an additional risk premium of 4.00% was used.

The cost of debt was estimated to be 1.97%, increased by a specific spread (1.50%), obtained from an analysis of the credit spreads of a basket of comparables.

It was also used a debt to equity ratio of 93.96%, equal to the average debt to equity ratio of a basket of comparables.

Application of this model led to the calculation of a discount rate of 8.17% (pre-tax WACC of 10.75%). The terminal value was calculated using the "perpetuity" formula, assuming a growth rate "g" of 1.30% and a normalised operating cash flow using the projections for 2022, last year considered as basis in the calculation for impairment test.
Management also tested the model's sensitivity by changing the above parameters to check its robustness and accuracy.
It assumed a change of up to 1% in the discount and growth rates and a decrease in the cash flows estimated using the approved business plan (-10.00%). This sensitivity analysis did not show that the assets were impaired.
An analysis of the base scenario and the sensitivity analysis after introducing changes to the main parameters of the impairment test showed that the carrying amount of Group goodwill is recoverable.
The following table shows the WACC, growth rate and percentage of operating cash flows that individually align the CGU's recoverable amount with its carrying amount as at 31 December 2019.

	Base scenario	WACC	Growth rate	Operating cash flows
WACC	11.00%	32.50%	11.00%	11.00%
Growth rate (g)	1.30%	1.30%	-41.00%	1.30%
Operating cash flows	100.00%	100.00%	100.00%	22.90%

notes to the consolidated financial statements

16. Equity investments and other non-current assets

Equity investments and other non-current assets may be analysed as follows:

(€'000)	31 December 2019	31 December 2018	Change
Associates	345	-	345
Other companies	34	33	1
Other assets	-	310	(310)
Equity investments and other non-current assets	**379**	**343**	**36**

Changes in the investments in associates and other companies over the year are shown below:

(€'000)	Associates	Other companies	Other assets	Total
Carrying amount as at 31 December 2018	-	33	310	343
Changes:				
Additions/capital increases	347	21	-	368
Disposals	(2)	(20)	(310)	(332)
Carrying amount as at 31 December 2019	345	34	-	379

Investments in associates amounted to €345 thousand and €0 as at 31 December 2019 and 2018, respectively. This item refers to the investment held in the associate Polo Nautico. For further details see paragraph 31.
Investments in other companies amounted to €34 thousand and €33 thousand as at 31 December 2019 and 2018 respectively, and are represented by investments that are fairly negligible in companies and consortiums, not falling under the consolidation scope.
The item "Other receivables" was €0 and €310 thousand as at 31 December 2019 and 2018 respectively. This item was zeroed as it relates to the guarantee deposit paid to the company Polo Nautico for the acquisition of the share of the Viareggio production site.

17. Inventories

This item may be broken down as follows as at 31 December 2019 and 2018:

(€'000)	31 December 2019	31 December 2018	Change
Raw materials, consumables and supplies	6,117	4,957	1,160
Work in progress and semi-finished products	32,928	23,034	9,894
Finished products	24,163	15,227	8,936
Allowance for inventory write-down - finished products	(897)	(3,895)	2,998
Inventories	**62,311**	**39,323**	**22,988**

Inventories amounted to €62,311 thousand and €39,323 thousand as at 31 December 2019 and 2018, respectively.
Raw materials, consumables and supplies include the materials necessary to build the boats.
Work in progress and semi-finished products relates to the boat construction contracts that have not been finalised with the customer before year end. The change recorded between 31 December 2019 and 31 December 2018 is mostly due to a change in the product portfolio: the Group decided to increase its production of yachts of less than 24 metres which led to an increase in semi-finished products, since those are not covered by customers' orders.
The finished goods comprise traded-in boats, which are recognised at their fair value when the Group receives them.
During the valuation process of pre-owned boats, the Group relies on various elements such as the analysis of the specific characteristics of the pre-owned boats, the valuations carried out at the time of their purchase including age, current market trend, also through the indications of an independent third party, the uniqueness of each boat and of each trade negotiation, as well as the sales already concluded in the subsequent period. The project "Experienced Yachts", designed to diversify and qualify the pre-owned boats of the Group compared with the competition, provides for each boat that is part of the programme to be valued, managed and reconditioned by the Group's personnel in order to guarantee the efficacy of the boats' machinery and instruments.

The measurement of pre-owned boats is based on an independent expert appraisal which considers the above factors and each boat's general conditions.
Changes in the allowance for inventory write-down over the three years are as follows:

(€'000)	Balance
Allowance for inventory write-down - finished products as at 31 December 2018	**3,895**
Accruals	897
Utilisations	(3,895)
Allowance for inventory write-down - finished products as at 31 December 2019	**897**

notes to the consolidated financial statements

18. Contract assets and liabilities

Contract assets refer to ongoing contracts measured using the cost-to-cost method as the contract terms have already been finalised with the customer.
They are recognised as assets net of the related contract liabilities when, based on a case-by-base analysis, the gross value of the work performed at the reporting date is higher than the progress payments received from the customers. Conversely, if the progress payments are greater than the related contract assets, the difference is recognised as a contract liability.
Net contract assets are as follows:

(€'000)	31 December 2019	31 December 2018	Change
Contract assets (gross)	427,221	239,867	187,354
Progress payments	(339,332)	(145,050)	(194,282)
Contract assets (net)	**87,889**	**94,817**	**(6,928)**

With reference to each financial year end, the revenues related to activities to be still carried out and involving obligations toward the customers are as follows:

(€'000)	31 December 2019	31 December 2018	Change
Yacht	210,157	168,780	41,377
Superyacht	224,271	226,570	(2,299)
Bluegame	9,879	7,220	2,659
Total	**444,307**	**402,570**	**41,737**

Unsatisfied or partially unsatisfied performance obligations refer to all the boats (both with original expected duration within 1 year and more) and are expected to be recognised in accordance with production timing related to yacht (between 7 and 16 months on average) and superyacht (between 24 and 46 months on average). Net contract liabilities are as follows:

(€'000)	31 December 2019	31 December 2018	Change
Payables for work to be carried out	2,275	2,585	(310)
Total advances received from customers	356,499	195,445	161,054
Advances deducted from contract assets	(339,332)	(145,050)	(194,282)
Contract liabilities (net)	**19,442**	**52,980**	**(33,538)**

This item amounted to a net €19,442 thousand and €52,980 thousand as at 31 December 2019 and 31 December 2018, respectively. The change of €33,538 thousand between 2019 and 2018 is mainly due to the increase in advances received from customers.
Liabilities arising from contracts as at 31 December 2019 were recorded as revenues in the following financial year with the exception of the amount of €895 thousand, which relate to a portion of the advance received from a customer, which is being disputed.

19. Trade receivables

(€'000)	31 December 2019	31 December 2018	Change
Receivables from customers	20,648	32,453	(11,805)
Loss allowance	(379)	(1,071)	692
Total trade receivables	**20,269**	**31,382**	**(11,113)**

Trade receivables amounted to €20,269 thousand and €31,382 thousand as at 31 December 2019 and 31 December 2018, respectively.
As at 31 December 2019, trade receivables decreased compared with 31 December 2018, in the amount of €11,113 thousand.
The trade receivables are presented net of the loss allowance set up over the years to provide for credit-impaired receivables that are still recognised pending the completion of the related court-approved creditors' settlement procedure or out-of-court recovery proceedings. It is deemed that the loss allowance is adequate to cover any risks of losses.
Changes in the loss allowance in 2019 are as follows:

(€'000)	Balance
Loss allowance as at 31 December 2018	**1,071**
Utilisations/Releases	(692)
Accruals	–
Loss allowance as at 31 December 2019	**379**

A breakdown of trade receivables by geographical area is as follows:

(€'000)	31 December 2019	31 December 2018	Change
Hong Kong	389	6,773	(6,384)
APAC (other countries)	556	2,036	(1,480)
Italy	6,256	5,020	1,236
Germany	1,712	4,024	(2,312)
Europe (other countries)	5,755	5,195	560
British Virgin Islands	543	4,089	(3,546)
USA	(1,920)	3,713	(5,633)
Americas (other countries)	40	510	(470)
Africa	0	13	(13)
Middle East	6,938	9	6,929
Receivables from customers	**20,269**	**31,382**	**(11,113)**

A breakdown of receivables from customers by due date is as follows:

31 December 2019	Not overdue	Overdue for (dd)		
(€'000)		0-365	366-730	> 730
Receivables from customers	16,022	1,726	755	200
Loss allowance	–	–	(179)	(200)
Receivables for customers to be invoiced	1,945	–	–	–
Total Receivables from customers	**17,967**	**1,726**	**576**	**–**

20. Other current assets

(€'000)	31 December 2019	31 December 2018	Change
Payments on account to suppliers	12,923	15,709	(2,786)
Other assets	6,810	2,856	3,954
Other tax assets	16,566	8,012	8,554
Costs to obtain the contracts	5,792	6,633	(841)
Accrued income and prepaid expenses	3,916	2,111	1,805
Other receivables and other current assets	**46,007**	**35,321**	**10,686**

The item "Other current assets" amounted to €46,007 thousand and €35,321 thousand as at 31 December 2019 and 31 December 2018, respectively.
All the amounts due are deemed to be collectable and, therefore, they have not been impaired.
Over the year ended 31 December 2019, this item shows an increase of €10,686 thousand due primarily to an increase in tax payables. The increase refers mainly to VAT relating to the Parent Company and to Bluegame Srl. The generation of large VAT assets each year is typical of the Group's sector.
In addition, costs for the acquisition of contracts related to agency commissions were down by €841 thousand. Agency fees were recognised in the profit and loss based on a time approach that follows the work in progress on a boat.

21. Cash and cash equivalents

(€'000)	31 December 2019	31 December 2018	Change
Banks and postal current account	60,152	48,592	11,560
Cash on hand	34	140	(106)
Cash and cash equivalents	**60,186**	**48,732**	**11,454**

Cash and cash equivalents amounted to €60,186 thousand and €48,732 thousand as at 31 December 2019 and 2018, respectively. The statement of cash flows provides more information about changes in cash and cash equivalents.

22. Other financial assets, including derivatives
This item includes loans granted to parents and associates, term current accounts and bonds.

(€'000)	31 December 2019	31 December 2018	Change
Loans granted to parents	1	70	(69)
Term current accounts	6,500	16,100	(9,600)
Derivatives	153	291	(138)
Total other financial assets	**6,654**	**16,461**	**(9,807)**

Derivatives amounted to €153 thousand and €291 thousand as at 31 December 2019 and 31 December 2018 respectively. They include currency hedges (EUR/USD) and interest rate hedges with a positive fair value (Mark to Market Value) at the reporting dates. The Group uses derivatives to hedge against the risk of fluctuations in the US Dollar for its sales in that currency and the risks that interest rates on its loans and borrowings may increase.
Current account in escrow, which as at 31 December 2018 amounted to €15,000 thousand was down to €6,500 thousand in 2019 and referred to a loan with Credit Agricole Carispezia bank. The other current account in escrow, which as at 31 December 2018 amounted to €1,100 thousand and was derecognised in 2019, referred to the irrevocable proposal made to Immobiliare FIPA S.rl. in Liquidation.


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EQUITY AND LIABILITIES

23. Share capital and reserves

Group equity

The next table provides a breakdown of the Group's equity:

(€'000)				Other reserves												
	Share Capital	**Share premium**	**Total other reserves**	**Legal reserve**	**Extraordinary reserve**	**Consolidation reserve**	**Post-merger reserve**	**Merger surplus**	**Other reserves**	**Reserve FTA/OCI**	**Profit from previous years**	**Cash flow hedge reserve**	**Profit for the year**	**Equity attributable to the owners of the parent**	**Equity attributable to non-controlling interests**	**Total equity**
31 December 2018	**30,000**	**30,928**	**35,240**	**3,556**	**35,827**	**(2,537)**	**133**	**235**	**–**	**(1,717)**	**–**	**(257)**	**12,436**	**108,604**	**(1,843)**	**106,761**
Allocation of profit for the year			10,708	536	10,172								(12,436)	(1,728)	(400)	(2,128)
Change in the hedging reserve			(149)									(149)		(149)		(149)
Adjustment IFRS FTA			270							270				270		270
Dividends			(3,800)		(3,800)									(3,800)		(3,800)
Reverse merger with WindCo		(19,539)	(28,430)	(2,585)	(25,613)		(84)	(148)						(47,969)		(47,969)
Capital increase		65,160	–											69,660		69,660
Other changes	4,500		1,368		874	(779)			94	1,230	(21)	(30)		1,368		1,368
Profit for the year			–										27,030	27,030	(212)	26,818
Value as at 31 December 2019	**34,500**	**76,549**	**15,207**	**1,507**	**17,460**	**(3,316)**	**49**	**87**	**94**	**(217)**	**(21)**	**(436)**	**27,030**	**153,286**	**(2,455)**	**150,831**

Share capital and share premium

Ordinary shares

As at 31 December 2019, the Parent Company's fully paid-up and subscribed share capital amounted to €34,500 thousand and comprised 34,500,000 shares with no indication of their nominal value.

Share premium

The share premium amounted to €76,549 thousand resulting from the capital increase carried out by the shareholders in the periods 2011 and 2013, by its partial use in the year 2014 for a bonus issue, by the Parent Company, the decrease of €19,539 thousand due to the impact of the reverse merger with WindCo and by the capital increase carried out by the shareholders during the year for €65,160 thousand net of placement commissions.

Nature and purpose of reserves

The other reserves include:

(€'000)	31 December 2019	31 December 2018	Change
Legal reserve	1,507	3,556	(2,049)
Reserve FTA/OCI	(217)	(1,717)	1,500
Extraordinary reserve	17,460	35,827	(18,367)
Consolidation reserve	(3,316)	(2,537)	(779)
Post-merger reserve	49	133	(84)
Reserve from elimination of exchange differences	94	-	94
Spin-off surplus	-	-	-
Merger surplus	87	235	(148)
Profit from previous years	(21)	-	(21)
Cash flow hedge reserve	(436)	(257)	(179)
Other reserves	**15,207**	**35,240**	**(20,033)**

The item comprises:
- Post-merger reserve established by the Company with capital contributions from the shareholders for €49 thousand and for €133 thousand as at 31 December 2019 and 31 December 2018, respectively. This reserve was down during the year due to the effect of the reverse merger with WindCo.
- The consolidation reserve, which includes the difference between the carrying amount of the Group's equity investments and its share of the investees' equity. It had a negative balance of €3,316 thousand and €2,537 thousand as at 31 December 2019 and 31 December 2018 respectively.
- Extraordinary reserve, relating to the Parent Company, of €17,460 thousand and €35,827 thousand as at 31 December 2019 and 31 December 2018, respectively. In January 2019 the Parent Company distributed dividends for additional €3,800 thousand. The decrease of €25,613 thousand in the reserve was due to the effect of the reverse merger with WindCo.
- The Merger surplus of €87 thousand and €235 thousand as at 31 December 2019 and 31 December 2018 relates to the Parent Company, and was formed following the merger by incorporation with Eureka Imbarcazioni S.r.l. carried out in 2012. This reserve was down during the year due to the effect of the reverse merger with WindCo.
- The reserve from elimination of exchange differences of €94 thousand established as at 31 December 2019 for the exchange differences between the profit and loss and balance sheet in the financial statements of Sanlorenzo of the Americas and for the differences in intra-group cancellations.
- The negative Cash flow hedge reserve, relating to the Parent Company, for €436 thousand as at 31 December 2019 and the negative €257 thousand as at 31 December 2018.
- The Reserve FTA/OCI, which was affected by the transition of the financial statements to IFRS, in the amount of €(217) thousand as at 31 December 2019 and €(1,717) as at 31 December 2018.
- Profit/loss from the previous year for €(21) thousand as at 31 December 2019 was due to the impact of IFRS 16.
- Legal reserve, which includes the allocation carried out by the Parent Company up to €1,507 thousand according to the provisions of the Italian Civil Code. This reserve was down during the year due to the effect of the reverse merger with WindCo.

Equity attributable to non-controlling interests

The decrease in equity attributable to non-controlling interests is mainly due to the loss for the year attributable thereto. The item stood at €(2,455) thousand as at 31 December 2019 versus €(1,843) thousand as at 31 December 2018.

Capital management

The objective of the Group's capital management policies is the creation of value for Shareholders and support for the future development of the Group through the maintenance of an adequate level of capitalisation, which permits access to external sources of funding under advantageous conditions. The Group manages the capital structure and carries out adjustments in line with the changes in the general economic conditions and the strategic objectives.

24. Financial liabilities
This item can be broken down as follows:

(€'000)	31 December 2019	31 December 2018	Change
Bank loans and borrowings (beyond 12 months)	54,706	64,135	(9,429)
Other loans and borrowings (beyond 12 months)	1,903	-	1,903
Total non-current loans and borrowings	**56,609**	**64,135**	**(7,526)**
Short-term bank loans and borrowings	17,764	2,360	(5,596)
of which, bank loans	*17,394*	*22,281*	*(4,887)*
of which, bank advances	*16*	*741*	*(725)*
other short-term loans and borrowings	*354*	*338*	*16*
Short-term loans and borrowings to other lenders	1,022	-	1,022
Derivatives (current portion)	508	661	(153)
Total current loans and borrowings	**19,294**	**24,021**	**(4,727)**

Total non-current loans and borrowings amounted to €56,609 thousand and €64,135 thousand as at 31 December 2019 and 31 December 2018, respectively.The item mainly refers to long-term loans and borrowings stipulated by the Parent Company for €54,706 thousand and €64,135 thousand as at 31 December 2019 and 31 December 2018, respectively.

The non-current portion of Other loans and borrowings amounted to €1,903 thousand as at 31 December 2019 and refers to the impact of IFRS 16.
The item "Total current loans and borrowings", of €19,294 thousand and €24,021 thousand as at 31 December 2019 and 31 December 2018, respectively, referred primarily to:
- the current portion of the bank loans for €17,394 thousand and €22,281 thousand, respectively as at 31 December 2019 and 31 December 2018,

including the book value of the loans due within 12 months and the accruals of related interest due to the financing institutions.
- advance accounts relating to the Parent Company and the subsidiary Bluegame S.r.l. amounting to €16 thousand and €741 thousand as at 31 December 2019 and 31 December 2018, respectively;
- other financial payables of €354 thousand as at 31 December 2019 and €338 thousand as at 31 December 2018, relating primarily to the Parent Company and the subsidiary Bluegame S.r.l.;
- other loans and borrowings of €1,022 thousand, relating entirely to the effect of application of IFRS 16;
- liabilities for financial instruments hedging foreign exchange risk and interest rate risk totalling €508 thousand and €661 thousand as at 31 December 2019 and 31 December 2018, respectively.

A breakdown of the changes in financial liabilities is provided below:

(€'000)

Financial liabilities as at 31 December 2018	**88,156**
Changes in advances	(725)
Changes in fair value of derivatives	(153)
Increase in liabilities following acquisitions	7,890
New loans	–
Repayment of loans	(22,206)
Changes in other loans and borrowings	16
New finance leases - IFRS 16 application	2,925
Repayment of finance leases	–
Financial liabilities as at 31 December 2019	**75,903**

notes to the consolidated financial statements

The breakdown of net financial position of Sanlorenzo Group as at 31 December 2019 and as at 31 December 2018 is reported hereunder:

(€'000)		31 December 2019	31 December 2018
A	Cash and cash equivalents	(60,186)	(48,732)
B	Other liquid assets	-	-
C	Securities held for trading	-	-
D	**Cash**	**(60,186)**	**(48,732)**
E	**Current financial receivables**	**(6,654)**	**(16,461)**
F	Current bank payables	370	1,079
G	Current portion of debt	17,394	22,281
H	Other current financial payables	1,530	661
I	**Current financial debt (F + G + H)**	**19,294**	**24,021**
J	**Net current financial debt (I + E + D)**	**(47,546)**	**(41,172)**
K	Non-current bank payables	54,706	64,135
L	Bonds issued	-	-
M	Other non-current payables	1,903	-
N	**Non-current financial debt (K + L + M)**	**56,609**	**64,135**
O	**Net financial position (J + N) with ESMA Recommendation**	**9,063**	**22,963**

For details, see the Report on operations.
As at 31 December 2019 as in the previous years, the Parent Company was required to comply with some financial parameters (covenants) on loans to be calculated, on an annual basis, in the consolidated financial statements of Sanlorenzo S.p.A. As at 31 December 2019, these parameters were complied with.

Loan	Parameter	Limit
Crédit Agricole mortgage loan of €15M 2019-2026	Net financial position/EBITDA	< 3.25
Creval unsecured loan of €7M 2018-2023	Net financial position/EBITDA	< 3.00
Deutsche Bank unsecured loan of €7.5M 2018-2023	Net financial position/EBITDA	< 3.25
Deutsche Bank unsecured loan of €7.5M 2018-2023	Net financial position/Equity	< 1.00
Intesa Sanpaolo unsecured loan of €3M 2017-2022	Net financial position/EBITDA	< 2.90
MPS unsecured loan of €6M 2019-2023	Net financial position/EBITDA	< 3.25
MPS unsecured loan of €6M 2019-2023	Net financial position/Equity	< 1.00
UniCredit unsecured loan of €15M 2017-2022	Net financial position/EBITDA	< 3.00
UniCredit unsecured loan of €15M 2017-2022	Net financial position/Equity	< 1.00
UniCredit unsecured loan of €15M 2017-2022	EBITDA/Financial charges	> 6.5

The Parent Company is also subject to restrictions on cash flows represented by an escrow account of €6,500 thousand related too a secured loan with Credit Agricole Carispezia, which was released at the beginning of the year 2020.
The following table shows details on the conditions and due dates of the loans as at 31 December 2019 and 31 December 2018, respectively.

(€'000)			31 December 2019						31 December 2018					
	Nominal interest rate	Year of maturity/ repayment	Nominal value	Accounting records	Carrying amount	Within 1 year	From 1 to 5 years	Over 5 years	Nominal value	Accounting records	Carrying amount	Within 1 year	From 1 to 5 years	Over 5 years
Sanlorenzo S.p.A.														
Banco BPM – Unsecured loan of €5M 30 June 2022	1.5%	2022	2,632	(43)	2,589	1,030	1,559	–	3,684	(79)	3,605	1,015	2,590	–
Banco BPM – Unsecured loan of €6M 29 December 2023	0.9%	2023	4,823	(31)	4,792	1,179	3,613	–	6,000	(44)	5,956	1,162	4,794	–
Banco BPM – Mortgage Loan of €7.75M 31 December 2025	1.6%	2025	3,812	(51)	3,761	596	2,507	658	4,413	(66)	4,349	590	2,502	1,257
Banco BPM – Mortgage Loan of €814k 31 December 2030	1.1%	2030	781	–	781	67	277	437	–	–	–	–	–	–
Banco BPM – Mortgage Loan of €7.41M 31 December 2030	1.1%	2030	7,109	–	7,109	612	2,514	3,983	–	–	–	–	–	–
Banco Di Sardegna – Unsecured loan of €5M 28 March 2023	1.2%	2023	3,284	(9)	3,275	993	2,282	–	4,269	(15)	4,254	979	3,275	–
BNL – Mortgage Loan of €6.25M 12 December 2019	3.8%	2019	–	–	–	–	–	–	1,042	(17)	1,025	1,025	–	–
Cassa Di Risparmio Di Bra – Unsecured loan of €5M 28 March 2023	1.2%	2023	3,284	(9)	3,275	993	2,282	–	4,269	(15)	4,254	979	3,275	–
Carige – Unsecured loan of €2.5M 28 February 2019	0.9%	2019	–	–	–	–	–	–	418	–	418	418	–	–
Carige – Unsecured loan of €5M 31 December 2023	1.4%	2023	4,027	(16)	4,011	971	3,040	–	5,000	(22)	4,978	966	4,012	–
Crédit Agricole – Mortgage Loan of €15M 29 November 2028	0.8%	2026	14,259	(93)	14,166	1,482	6,158	6,526	15,000	(116)	14,884	721	6,054	8,109
Creval – Unsecured loan of €7M 5 July 2023	1.8%	2023	5,307	(9)	5,298	1,378	3,920	–	6,664	(14)	6,650	1,352	5,298	–
Deutsche Bank – Unsecured loan of €7.5M 31 March 2023	1.1%	2023	4,875	(9)	4,866	1,497	3,369	–	6,375	(16)	6,359	1,494	4,865	–
Intesa Sanpaolo – Unsecured loan of €3M 13 July 2022	0.9%	2022	1,650	(1)	1,649	599	1,050	–	2,250	(2)	2,248	599	1,649	–
MPS – Unsecured loan of €2.5M 30 June 2019	0.9%	2019	–	–	–	–	–	–	1,071	(1)	1,070	1,070	–	–
MPS – Unsecured loan of €6M 31 December 2023	1.1%	2023	4,800	(20)	4,780	1,193	3,587	–	6,000	(30)	5,969	1,190	4,779	–
UBI – Unsecured loan of €5M 6 June 2021	1.1%	2021	2,522	(7)	2,515	1,670	845	–	4,179	(18)	4,161	1,646	2,515	–
UniCredit – Unsecured loan of €15M 31 December 2022	1.4%	2022	9,000	–	9,000	3,000	6,000	–	12,000	(49)	11,951	2,979	8,972	–
Bluegame S.r.l.														
Banco BPM – Unsecured loan of €350k 31 January 2022	2.8%	2022	187	(1)	186	88	98	–	273	(1)	271	85	186	–
Sanlorenzo of the Americas LLC														
LH Finance – Loan of $4.2M 30 Jue 2019	3.0%	2019	–	–	–	–	–	–	4,010	–	4,010	4,010	–	–
Total			**72,352**	**(299)**	**72,053**	**17,348**	**43,101**	**11,604**	**86,917**	**(505)**	**86,412**	**22,280**	**54,766**	**9,366**

25. Trade payables

(€'000)	31 December 2019	31 December 2018	Change
Trade payables	152,021	113,319	38,702
Affiliated companies	139	–	139
Holding company	29	–	29
Trade payables	**152,189**	**113,319**	**38,870**

Trade payables include amounts due to suppliers and payables due to affiliated companies and the holding company.
"Trade payables" amounted to €152,021 thousand and €113,319 thousand as at 31 December 2019 and 31 December 2018, respectively. The change recorded is in line with the increase in the business volume and the investments observed in the period analysed.
"Affiliated companies" shows a zero balance as at 31 December 2018 and €139 thousand as at 31 December 2019 due to the change in the investment in Polo Nautico Viareggio during the year.

A breakdown of trade payables by current and non-current is as follows:

(€'000)	31 December 2019	31 December 2018	Change
Trade payables	152,021	113,319	38,702
of which current	*152,021*	*113,319*	*38,702*
of which non-current	–	–	–
Trade payables	**152,021**	**113,319**	**38,702**

A breakdown of trade payables by geographical segment is as follows:

(€'000)	31 December 2019	31 December 2018	Change
Italy	145,631	107,158	38,473
Europe (other countries)	5,871	4,507	1,364
Americas	317	1,522	(1,205)
APAC	202	132	70
Middle East	–	–	–
Trade payables	**152,021**	**113,319**	**38,702**

notes to the consolidated financial statements

26. Other current liabilities

(€'000)	31 December 2019	31 December 2018	Change
Shareholder loans	–	50	(50)
Social security contributions	2,486	1,939	547
Other liabilities	8,425	6,369	2,056
Accrued expenses and deferred income	7,704	4,487	3,217
Other current liabilities	18,615	12,845	5,770

Shareholder loans of €50 thousand as at 31 December 2018 show the non-interest bearing short-term loan provided to Bluegame S.r.l. by its shareholders and reimbursed during the first half of 2019.
"Social security contributions" show liabilities at the reporting date due to INPS, INAIL and Previndai (Italian social security institutions) for contributions due on wages and salaries. They amounted to €2,486 thousand as at 31 December 2019 and to €1,939 thousand as at 31 December 2018, up by €547 thousand. This increase is in line with the increase in personnel expense.
"Other liabilities" amounted to €8,425 thousand and €6,369 thousand as at 31 December 2019 and 31 December 2018, respectively. They mainly refer to the Parent Company and include its liabilities with employees and the lease liabilities for the former Immobiliare FIPA S.r.l. in Liquidation warehouses in Viareggio and Massa, still not paid for the current and previous years, given still contractually payable.
"Accrued expenses and deferred income" was up between 2018 and 2019 by €3,217 thousand. Deferred income mainly refers to suspended revenues relating to margins deriving from the sales of boats and agency commissions payable whose accrual follows the progress of work on the construction of boats.

27. Employee benefits

(€'000)	
31 December 2018	**910**
Accruals	(70)
Interest	15
Utilisations	(81)
Incoming and outgoing employees	–
Present value as at 31 December 2019	**774**
Net actuarial gains/(losses) based on past experience	(23)
Net actuarial gains/(losses) arising on changes to demographic assumptions	–
Net actuarial gains/(losses) arising on changes to financial assumptions	45
31 December 2019	**796**

Post-employment benefits are recognised by the Group's Italian and foreign companies in line with the relevant national regulations. They include the benefits accrued by employees at the reporting date, net of any advances received or amounts transferred to the Italian Previndai, Gomma Plastica, Cometa or other pension plans or the INPS treasury fund.
In accordance with IAS 19, the Group measures post-employment benefits using actuarial valuation methods performed by an external expert.
These methods are revised when necessary.
The main financial and demographical assumptions are set out below with annual turnover rates and possible advances given to employees used to determine the present value of the Group's liability related to post-employment benefits.

FINANCIAL ASSUMPTIONS

	31 December 2019	31 December 2018
Annual discount rate	0.77%	1.57%
Annual inflation rate	1.20%	1.50%
Annual growth rate of post-employment benefits	2.40%	2.63%
Annual remuneration growth rate	0.50%	0.50%

DEMOGRAPHICAL ASSUMPTIONS

Mortality	RG48 mortality tables published by the Italian State General Accounting Office
Disability	INPS tables split by age and gender
Retirement	100% upon attainment of the AGO requirements

ANNUAL TURNOVER RATE AND ADVANCES OF POST-EMPLOYMENT BENEFITS

	31 December 2019	31 December 2018
Advances	1.00%	1.00%
Turnover rate	1.50%	1.50%

As at 31 December 2019, net actuarial gains/(losses) based on past experience amounted to €23 thousand and is due to variations from one valuation to another in terms of new, outgoing and retired employees, requests for advances, etc. that differ from those assumed. A net actuarial gains/(losses) arising on changes in financial assumptions amounted to €44 thousand.

28. Provisions for risks and charges

(€'000)	Disputes	Warranties	Exchange rates fluctuationsi	Pre-owned	Total
Provisions for risks and charges as at 31 December 2018	**134**	**3,506**	**-**	**-**	**3,640**
Accruals	2,400	617	45	3,510	6,572
Utilisations	-	-	-	-	-
Provisions for risks and charges as at 31 December 2019	**2,534**	**4,123**	**45**	**3,510**	**10,212**

The provisions for risks and charges include the provision for disputes, the provision for warranties, the provision for foreign exchange fluctuations and the provisions for risks on pre-owned.

In turn, they may be analysed as follows:

- Provision for disputes: refers to the amount prudently set up aside by the Parent Company. This item amounted to €2,534 thousand as at 31 December 2019 and €134 thousand as at 31 December 2018. More details on these disputes are provided in the following paragraph.
- Provision for warranties: it was calculated based on the best estimate of the cost of possible repairs to be provided under warranty to boats sold at the reporting dates for which the contract revenues have already been recognised. The provision covers the new boats sold by the Parent Company and the subsidiary Bluegame S.r.l. It amounted to €4,123 thousand as at 31 December 2019, and €3,506 thousand as at 31 December 2018, respectively. Warranty term amounted normally two years for the new boats and one year for pre-owned boats.
- Exchange rates fluctuations: as at 31 December 2019 it amounted to €45 thousand.
- Provisions for risks on pre-owned: as at 31 December 2019, it amounted to €3,510 thousand and refers to the commitment for withdrawing pre-owned versus new yachts.

A breakdown of the provision for warranties between its current and non-current portions is as follows:

(€'000)	31 December 2019	31 December 2018	Change
Warranties	4,123	3,506	617
of which current	*3,210*	*2,588*	*622*
of which non-current	*913*	*918*	*(5)*
Total	**4,123**	**3,506**	**617**

All other provisions are current.

notes to the consolidated financial statements

Administrative, in-court and arbitration proceedings

Administrative, in-court and arbitration proceedings in which Sanlorenzo Group is involved

At the approval date of these consolidated financial statements, Sanlorenzo Group is involved in legal proceedings as part of its normal business activities. They could lead to fines or compensation for damage having to be paid.

As far as the Group is aware, these legal proceedings are normal given the Group's operations and size and the risks inherent in its business. Specifically, at the approval date of these consolidated financial statements, neither the Parent Company Sanlorenzo S.p.A nor the other Group's companies are involved in legal proceedings that could have a significant adverse effect. However, it cannot be excluded that their outcome could negatively affect the Group's financial position, financial performance and cash flows in the future.

Assisted by its legal advisors, the Group has not set up a specific provision for the possible liabilities that could arise from the proceedings in its consolidated financial statements as it deems that a negative outcome is possible or remote.

However, the Group cannot exclude that it may be required to disburse amounts in the future should the outcome of the proceedings not be in its favour. Excluding that set out below, at the date of approval of these consolidated financial statements, the Group is not involved in legal or arbitration proceedings that could have or have had in the recent past significant repercussions on its financial position or performance.

At the date of drafting of the consolidated financial statements, in relation to the arbitration proceedings brought against the Company, the latter booked a liability of €895 thousand to the consolidated financial statements corresponding to the risk considered likely in respect of said proceedings, based on the estimates of its UK legal advisors.

The main proceedings and inspections involving the Parent Company and some Group's companies are described below.

Arbitration proceedings

At the date of approval of these consolidated financial statements, the Parent Company and the Maltese company Contra Limited ("Contra") are part of an arbitration case in London. Contra, purchaser of a SD110 yacht, complained about the Company's non-fulfilment of the obligations assumed under the sale contract, requesting the latter's termination and sentencing of the Company to repay the price paid and compensation for the alleged damages suffered, for an amount of around €10,000,000. In relation to said dispute, the Company booked a liability of €895 thousand to the consolidated financial statements corresponding to the risk considered likely in respect of said proceedings based on the estimates of its UK legal advisors.

Tax proceedings

Following the conclusion of the audits conducted for the purposes of direct taxes and VAT by the Italian Revenue Agency-Regional Department of Liguria for the tax periods 2013, 2014 and 2016, the Company was notified of the following:

- two assessment notices for IRES, IRAP and VAT issued by the Revenue Agency of Liguria and relating to the 2013 and 2014 tax periods. The first assessment notice contained findings relating to taxes totalling €515 thousand plus penalties of €586 thousand and interest, while the second contained findings for taxes totalling €317 thousand plus penalties of €293 thousand plus interest;
- a report on findings for IRES, IRAP and VAT issued by the Revenue Agency of Liguria and relating to the 2016 tax period. This report on findings contained remarks regarding taxes totalling €2,157 thousand, while penalties were estimated at €2,025 thousand.

With reference to the aforementioned assessment notice relating to the 2013 tax period, an appeal was filed to the Provincial Tax Commission in Genoa, which has yet to be discussed before the Tax Court given that dialogue has commenced simultaneously between the Company and the Revenue Agency of Liguria in order to evaluate the possibility of reaching a settlement.

With reference to the aforementioned assessment notice relating to the 2014 tax period, a tax settlement proposal was presented, taking into account the similarity of the issues addressed in the assessment notices for the 2013 and 2014 tax periods and considering that dialogue has commenced with the Revenue Agency in order to evaluate the possibility of a settlement.

In respect of the risk regarding the above-mentioned tax audits, the Company increased the previous provision for risks, bringing it to €2,534 thousand.

Administrative proceedings

At the date of approval of these consolidated financial statements, the Company is not involved in significant administrative proceedings.

To the date of these consolidated financial statements, it is a party to other legal proceedings involving immaterial amounts but for which it could be found liable and, hence, required to pay settlements and possible legal costs.

29. Financial instruments – Fair values and risk management
Derivatives
The Company uses derivatives to hedge against the risk of fluctuations in exchange and interest rates. This item includes the fair value of derivatives in place as at 31 December of each year.
Changes in the derivatives are analysed below:

(€'000)	31 December 2019	31 December 2018	Change
Derivative assets			
Currency hedges	148	181	(33)
Interest rate hedges	4	110	(106)
Total assets	**152**	**291**	**(139)**
Derivative liabilities			
Currency hedges	(5)	(297)	292
Interest rate hedges	(503)	(364)	(139)
Total liabilities	**(508)**	**(661)**	**153**

Derivative assets amounted to €152 thousand and €291 thousand as at 31 December 2019 and 31 December 2018, respectively.
Derivative liabilities amounted to €508 thousand and €661 thousand as at 31 December 2019 and 31 December 2018, respectively.
As the derivatives qualify for hedge accounting for the Group, they are categorised as level 2 fair value.

Risk factors

Credit Risk

It is noted that, given the type of products sold by the Group, no specific credit risk is identified; this assessment is supported by the strict rule, contractually formalised, that requires payments to be executed on or before the delivery of the boat and the related transfer of ownership.
Regarding the residual services related to the sale of spare parts or the provision of assistance services not covered by the warranty, which are, however, negligible to the Group business, the Group improved the prevention and monitoring processes for credit-checks, using external sources and internal systems that allow preventive controls on customers' reliability and solvency.

Liquidity risk

The Group was able to manage the liquidity risk by reinvesting cash flows from operations and by obtaining loan commitments, considered adequate to meet its financial liquidity needs.

Risks related to changes in the reference regulatory framework

The Group is required to comply with laws and technical regulations applicable to its products and their sale in the countries where it operates and sells its products.
With respect to its production activities, regulations about (i) occupational health and safety, (ii) environmental protection, and (iii) boat building technical standards are very important, also because their modification could lead to higher production costs.
The issue of new regulations or changes to existing regulations could require the Group to adopt tougher standards, which could entail costs to align the production methods or product characteristics or, even limit the Group's operations. This could have a negative effect on its business and prospects as well as its financial position, financial performance and cash flows.
With respect to the sale of the Parent Company and Group's products, any regulatory changes to the taxation or sale of the yachts (e.g. VAT, import duties and taxes on luxury goods, embargos) or sailing (e.g. regulations about fuel, the environmental impact and emissions) may affect the Group's business and, hence, its financial position, financial performance and cash flows.

notes to the consolidated financial statements

Risks related to disputes and tax audits
The Parent Company and the Group could be involved in legal proceedings giving rise to the risk of paying fines and compensation. In addition, the Parent Company is exposed to the risk that the outcome of pending disputes involving large amounts may not be in its favour and this would have a negative effect on its financial position, financial performance and cash flows.

Exposure to interest rate fluctuation
The Group is exposed to changes in interest rates on its variable rate debt instruments in the Euro area.
The Group adopts precise strategies aimed at reducing the risks connected with changes in interest rates, such as hedging transactions through interest rate swaps or interest rate caps with financial counterparties of prime standing.

Exposure to exchange rate fluctuations
Consistently with the geographical distribution of its turnover, the Group is exposed to foreign exchange risk is limited, being the Euro the currency primarily used for the sale of yachts.
In order to mitigate the negative effect of exchange rate fluctuations, in the limited cases of sale of yachts in other currencies (mainly USD in the U.S.A. market), specific currency swaps or forward currency sales transactions are set up when the related contract with customer is entered.

GROUP STRUCTURE

30. Subsidiaries

The Consolidated Financial Statements of Sanlorenzo Group as at 31 December 2019 include Sanlorenzo S.p.A. (Parent Company), four direct subsidiaries of Sanlorenzo S.p.A. (Bluegame S.r.l., Marine Yachting Monaco S.A.M., Sanlorenzo Baleari SL and Sanlorenzo of the Americas LLC) and a company in which the Parent Company indirectly holds the majority of voting rights (Super Yachts Cote D'Azur S.a.r.l.).

These Consolidated Financial Statements were prepared on the basis of the accounting positions of the Parent Company and its subsidiaries, adjusted accordingly to ensure they conform to the IFRS. The following table summarises information, as at 31 December 2019, concerning the name and registered office of all subsidiaries, as well as the Group's direct or indirect holding in their share capital.

Company name	Registered office	Currency	Share Capital (currency unit)	Holding	
				Direct	Indirect
Bluegame S.r.l.	Viareggio (LU) – Italy	Euro	100,000	100%	–
Sanlorenzo of the Americas LLC	Fort Lauderdale (FL) – USA	USD	2,000,000	90%	–
Sanlorenzo Baleari SL	Puerto Portals, Maiorca – Spain	Euro	500,000	51%	–
Marine Yachting Monaco S.A.M.	Principality of Monaco	Euro	150,000	60%	–
Super Yachts Cote d'Azur S.a.r.l. [20]	Antibes – France	Euro	37,000	–	60%

[20] *Held by Marine Yachting Monaco S.A.M. On 20 September 2019, the shareholders' meeting of Super Yachts Cote d'Azur S.a.r.l. resolved the winding-up and placement into liquidation of the company effective from 30 September 2019.*

notes to the consolidated financial statements

Bluegame S.r.l.
This company, with registered office in Viareggio, was set up at the end of 2017 and had previously acquired the historical "Bluegame" brand from Open Boat Italia, a company owning yacht moulds, under deed of arrangement. In February 2019, the Parent Company acquired another 34.5% of the company Bluegame from a private investor, with respect to the 50.5% already in its possession. In August 2019, the parent reached 100% control by acquired the remaining 15%.
The Company ended 2019 with a profit of €752 thousand and 2018 with a profit of €293 thousand.

Sanlorenzo of the Americas LLC
Based in Fort Lauderdale (Florida, USA), this company's business objective is to sell Sanlorenzo boats to international customers in Canada, the US and Central and South America as well as acting as a dealer and providing post-sale support in these markets. Since its incorporation in September 2008, Sanlorenzo of the Americas has steadily promoted the Sanlorenzo brand in the American markets.
On 15 July 2019, the Parent Company sold a 10% investment in the share capital of Sanlorenzo of the Americas to the executive Marco Segato.
In the year ended 31 December 2019, the subsidiary recorded a loss of €1,889 thousand versus a loss of €2,445 thousand as at 31 December 2018.

Sanlorenzo Baleari SL
This company, based in Puerto Portals, Mallorca (Spain) with a share capital of €500 thousand, is 51% owned by Sanlorenzo S.p.A. It provides support to the sales and customer service activities in Spain and the Balearic Islands.
In 2019, the Company recorded a loss of approximately €37 thousand while in 2018 recorded a loss of €32 thousand.

Marine Yachting Monaco S.A.M.
This company is based in Principality of Monaco and has a share capital of €150 thousand. It is 60% owned by Sanlorenzo S.p.A. while three non-controlling investors share the other 40% and manage the company, together with its wholly-owned subsidiary Super Yacht Cote d'Azur S.a.r.l. in Liquidation. It sells pre-owned yachts and agrees charters for Sanlorenzo customers and dealers.
The Company ended 2019 with a net profit of approximately €28 thousand and 2018 with a net profit of approximately €58 thousand.
The Company Super Yachts Cote d'Azur S.a.r.l. in Liquidation ended 2019 with a loss of €59 thousand and broke even in 2018. In 2019, the liquidation proceedings of the Company were initiated.

Super Yachts Cote d'Azur S.a.r.l. in Liquidation
This company is owned by Marine Yaching Monaco S.A.M.

31. Associated companies

The Parent Company also holds an equity investment in the associated company Polo Nautico Viareggio S.r.l., a limited liability consortium, ("Polo Nautico"), which deals with the management, for consortium companies, of a yard of around 7,000 square metres on the sea front complete with mooring quays and the relevant equipment and services in Viareggio.

On 4 July 2019, the Parent Company acquired the entire investment held by Immobiliare FIPA S.r.l. in Liquidation of Polo Nautico Viareggio S.r.l., a limited liability consortium, for 44.68% of the share capital (€67,400) in addition to the 5.47% investment already held, amounting to €292 thousand.

On 10 May 2019, Polo Nautico approved the demerger project, with its total assets and liabilities transferred to specific beneficiaries. The related demerger deed was signed on 25 November 2019.

On 30 September 2019, Sanlorenzo S.p.A. sold 2% of its equity investment in Polo Nautico to third parties.

The shareholding in Polo Nautico is booked in the Company's financial statements with the equity method.

32. Reverse merger with WindCo S.p.A.

On 1 April 2019, the administrative bodies of the holding company WindCo S.p.A. and the subsidiary Sanlorenzo S.p.A. approved and filed at the Register of Companies a plan for the reverse merger by incorporation of WindCo S.p.A. in Sanlorenzo S.p.A.

The merger, resolved by the shareholders' meetings of the companies concerned on 15 April 2019, took effect for legal purposes on 28 June 2019, and was effective for tax and accounting purposes retroactively as at 1 January 2019, consistently with the provisions of the merger plan.

Before the merger, WindCo held a controlling interest of 99.6% in the share capital inclusive of the increases recorded in 2018 upon acquisition of the additional following non-controlling interests of Sanlorenzo S.p.A., in particular:

- 16% and 2.3% of the share capital acquired on 19 July 2018 respectively from Fondo Italiano Inve stimento SGR S.p.A. and Carol Invest S.r.l.;
- 23% of the share capital acquired on 20 Decem ber 2018 from Sundiro (HK) Development Co. Ltd.

WindCo and Sanlorenzo were under joint control and consequently the merger is not considered a business combination. The accounting effects on equity, from an accounting perspective, were calculated starting from the acquisition date.

The acquisitions of the non-controlling interests occurred during 2018 from the shareholders Fondo Italiano di Investimento SGR S.p.A., Carol Invest S.r.l. and Sundiro (HK) Development Co. Ltd were recognised against the equity as at the acquisition date, as set forth in IFRS 3 in the case of acquisition of non-controlling interests.

WindCo, the merged company, ceased operations, from a tax and accounting perspective (in accounting terms and not in terms of the calculation of the effects of the merger according to IFRS), from 1 January 2019 and, the accounting entries of WindCo were included in Sanlorenzo as of said date.

In accordance with the proposal for the reverse merger of WindCo and Sanlorenzo, as a result of the same, Sanlorenzo S.p.A. shares were assigned proportionally, through reissue, to the shareholders of WindCo, based on the prior corresponding recalculation of the number of shares due to the other minority shareholder of Sanlorenzo without the company's share capital increase.

notes to the consolidated financial statements

Assets and liabilities subject to the merger as at 1 January 2019, net of the investment held in Sanlorenzo S.p.A., once derecognised during the merger against equity, can be detailed as follows:

Assets and liabilities from merger (€'000)	
Intangible assets with a finite useful life	1
Net deferred tax assets	76
Other current assets	703
Cash and cash equivalents	27
Non-current financial liabilities	(50,287)
Current financial liabilities, including derivatives	(2,223)
Trade payables	(34)
Other current liabilities	(203)
Other current tax liabilities	(6)
Net current tax liabilities	(50)
Total assets and liabilities from merger	**(51,996)**

This merger generated the consolidation of net assets and liabilities for a negative amount of €51,996 thousand as at 1 January 2019. The main liabilities incorporated by Sanlorenzo S.p.A. refer to a long-term loan of €40,070 thousand principal and non-interest-bearing loans received from the shareholder for €12,800 thousand, of which €3,800 thousand paid back in the first six months of 2019. Both the bank loan and the residual shareholder loans were repaid in December 2019 with the proceeds deriving from the capital increase from the IPO (Initial Public Offering) transaction.

notes to the consolidated financial statements

OTHER INFORMATION

33. Commitments

The most significant contractual commitments already undertaken with third parties as at 31 December 2019, amounted to €956 thousand compared with €58,306 thousand as at 31 December 2018. The significant difference was due to the commitments for the withdrawal of pre-owned boats against the sale of new boats to customers, in the amount of €54,976 thousand, which were fully recognised in 2019.
In particular, they refer to:

- Commitments for financial lease contracts, concerning the purchase of forklifts, for a total €35 thousand (€25 thousand as at 31 December 2018) for payments falling due, including interest;
- Commitment of €3,000 thousand (31 December 2018: €2,400 thousand) to secure a line of credit granted by the German bank AKF Bank GmbH to a dealer to acquire Sanlorenzo boats;
- Sundry sureties of €920 thousand (31 December 2018: €305 thousand) for state concessions, guarantees, etc.

34. Contingent liabilities

Legal proceedings are ongoing for events related to the Group's normal business activities. They include a tax dispute and some civil proceedings mostly with customers and insurance companies.
The Company's directors do not believe that any of these proceedings involve a risk of a significant cash outlay or may give rise to significant liabilities in excess of the allocations already made. They will evaluate any negative developments that cannot currently be foreseen or calculated, which may arise as a result of internal analyses or the ongoing judicial investigations and may then make a provision.

35. Related parties

Business and financial relationships with related parties are governed under market conditions, taking into account the characteristics of the goods and services provided.
Economic transactions and balances with consolidated companies were eliminated at the consolidation phase and, therefore, are not subject to comments.
Financial transactions were in place with the holding company Holding Happy Life and with the associated company Polo Nautico in the consolidated financial statements as at 31 December 2019, as detailed in the table below.

(€'000)	Holding company	Associated companies	Total	Total financial statement item	Impact on financial statement item
Equity investments and other non-current assets					
Equity investments and other non-current assets as at 31 December 2019	–	345	345	379	91.0%
Equity investments and other non-current assets as at 31 December 2018	–	–	–	343	–
Other financial assets, including derivatives					
Current financial assets as at 31 December 2019	1	–	1	6,654	0.0%
Current financial assets as at 31 December 2018	70	–	70	16,461	0.4%
Contract assets					
Contract assets as at 31 December 2019	851	–	851	87,889	1.0%
Contract assets as at 31 December 2018	–	–	–	94,817	–
Trade receivables					
Trade receivables as at 31 December 2019	–	–	–	20,269	–
Trade receivables as at 31 December 2018	–	–	–	31,382	–
Trade payables					
Trade payables as at 31 December 2019	29	139	168	152,189	0.1%
Trade payables as at 31 December 2018	–	–	–	113,319	–
Non-current financial liabilities					
Non-current financial liabilities as at 31 December 2019	–	–	–	56,609	–
Non-current financial liabilities as at 31 December 2018	–	–	–	64,135	–
Sales revenues					
Sales revenues as at 31 December 2019	–	–	–	518,991	–
Sales revenues as at 31 December 2018	–	–	–	386,384	–
Operating costs					
Operating costs as at 31 December 2019	–	467	467	499,725	0.1%
Operating costs as at 31 December 2018	–	–	–	344,175	–

notes to the consolidated financial statements

The list of natural persons and legal entities considered to be Related Parties, with an indication of the type of relation, is provided below.

Related party	Main types of relations
Related parties - Legal entities	
Holding Happy Life S.r.l.	Holding company of Sanlorenzo
Polo Nautico Viareggio S.r.l.	Associated company of Sanlorenzo.
Marò 17 s.s.	Massimo Perotti was one of the two shareholders directors until 3 July 2019.
Nuova Nautical Transports S.r.l.	The CEO, Gian Paolo Tamburini, is the uncle of the Executive Chairman, Massimo Perotti, and great-uncle of Cecilia Maria Perotti and Cesare Perotti. It carries out transport of goods by road on behalf of Sanlorenzo.
Sanlorenzo Champlas S.r.l.	Massimo Perotti is Chairman of the Board of Directors, while Holding Happy Life S.r.l. is shareholder with a 44% equity investment; Cecilia Maria Perotti is the attorney. It is licensed to a free, non-exclusive use of the Sanlorenzo trademark.
Corilia Société Civile Immobilière	The manager Corinne Desantis is the legally separated wife of Massimo Perotti and mother of Cecilia Maria Perotti and Cesare Perotti. She was the owner of a property leased to Super Yachts Cote d'Azur, sold on 26 July 2019.
World Yachts S.r.l.	The shareholder and CEO, Glenda Cecchi, is the wife of Ferruccio Rossi. The company holds a supply agreement of materials with Sanlorenzo.
Related parties - Natural persons	
Massimo Perotti	Executive Chairman and indirect majority shareholder
Marco Viti	CEO and shareholder.
Carla Demaria	CEO and shareholder.
Ferruccio Rossi	Manager with strategic responsibilities and shareholder.
Tommaso Vincenzi	Manager with strategic responsibilities and shareholder.
Antonio Santella	Manager with strategic responsibilities.

The following tables show the business and equity relationships with the related parties mentioned above in place in 2019 and in the previous year.

(€'000)	Balance Sheet figures		Income statement figures	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Related parties - Legal entities				
Holding Happy Life S.r.l.	823	–	–	–
Polo Nautico Viareggio S.r.l.	(139)	–	(467)	–
Marò 17 s.s.	99	–	81	–
Nuova Nautical Transports S.r.l.	32	7	(426)	(449)
Corilia Société Civile Immobilière	–	–	–	(32)
World Yachts S.r.l.	(1,438)	–	(2,955)	–

(€'000)	Balance Sheet figures		Income statement figures	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Related parties - Natural persons				
Massimo Perotti	(67)	(52)	(1,928)	(2,173)
Marco Viti	(209)	(141)	(939)	(531)
Carla Demaria	(153)	–	(666)	–
Ferruccio Rossi	114	184	(870)	(738)
Tommaso Vincenzi	(82)	(12)	(354)	(362)
Antonio Santella	73	76	(239)	(381)

Pursuant to Consob Resolution no. 17221 of 12 March 2010, it is acknowledged that, in 2019, the Group did not conclude, with related parties, any transactions of greater significance or that had a significant impact on the Group's equity position or result for the year.

Remuneration paid by the Group

The remuneration paid by the Group to the members of the Board of Directors, the members of the Board of Statutory Auditors and the Managers with strategic responsibilities during the year ended 31 December 2019 is detailed below:

(€'000)	31 December 2019
Group remuneration	2,739
of which Committees	2
of which annual attendance fee	7
Total remuneration paid to the Board of Directors	**2,739**

(€'000)	31 December 2019
Group remuneration	81
Total remuneration paid to the Board of Statutory Auditors	**81**

(€'000)	31 December 2019
Group remuneration	2,827
of which non-competition agreement	*70*
of which bonus	*550*
of which RAL (gross annual pay)	*2,207*
Total remuneration paid to the Managers with strategic responsibilities	**2,827**

36. Remuneration to the Independent Auditing Firm

Pursuant to article 149-duodecies of the Issuers' Regulations, the remuneration paid by the Group to the Independent Auditing Firm is reported below.

(in Euro)	Service provider	Remuneration for 2019
Auditing	KPMG S.p.A.	53,000
	BDO Italia S.p.A.	62,280
Certification services	KPMG S.p.A.	928,500
	KPMG S.p.A. Network	71,760
Other services	–	0
Total remuneration paid to the Independent Auditing Firm		**1,115,540**

37. Disclosure pursuant to article 1 paragraph 125 of Italian law no. 124/2017

Pursuant to the requirements of article 1 paragraph 125 of Italian law no. 124/2017, the table below shows the information relating to the public grants received by the Company in 2019.

Public entity	Grant (in Euro)	Description
Fondimpresa	16,374	Employee training grants (article 31)
Fondimpresa	20,792	Employee training grants (article 31)


ATTILA

notes to the consolidated financial statements

38. Management and coordination activities

In addition to the control situation pursuant to article 93 of the TUF, the holding company Holding Happy Life S.r.l does not exercise management and coordination activities over Sanlorenzo pursuant to articles 2497 et seq. of the Italian Civil Code.

39. Events occurring after the reporting date

In data 12 febbraio 2020, il Consiglio di On 12 February 2020, the Company's Board of Directors approved the proposed adoption of the stock option plan for 2020 (the "2020 Stock Option Plan") reserved to executive directors and key employees of Sanlorenzo and its subsidiaries.

The 2020 Stock Option Plan makes provision, over a period of three years, for the free assignment of options that attribute to the beneficiaries, subject to the attainment of predetermined performance targets, the right to subscribe Sanlorenzo shares based on a ratio of one share for every option exercised at a strike price equal to the placement price of the Company's shares on the MTA, with an average vesting period of two years.

The 2020 Stock Option Plan will be supported by an appropriate share capital increase through the issuing of new shares equal to around 2.5% of the share capital resulting from the share capital increase itself.

The proposed adoption of the 2020 Stock Option Plan will be subject to approval by the Company's ordinary shareholders' meeting set to take place on 21 April. The extraordinary shareholders' meeting will also be convened on the same date to resolve on the share capital increase in service of the 2020 Stock Option Plan.

ACCOUNTING STANDARDS

40. Basis of measurement

These consolidated financial statements have been prepared using the historical cost method, except for hedging derivatives which are measured at fair value at each reporting date.

41. Significant accounting standards

The Group has consistently applied the following accounting standards to all periods presented in these consolidated financial statements, except if mentioned otherwise (see also note 5).
Some items of the statements of profit or loss and comprehensive income presented for comparative purposes have been reclassified or restated to reflect the change in a standard (see also note 5).

Basis of preparation

The consolidated financial statements as at 31 December 2019 include the statements of financial position, profit or loss, comprehensive income, changes in equity and cash flows, and the related accompanying notes.
The consolidated financial statements have been prepared in accordance with the "International Financial Reporting Standards" (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union. IFRS include the ruling International Accounting Standards (IAS) and all the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), previously called the Standing Interpretations Committee (SIC).
The consolidated financial statements have been prepared using the historical cost method (any exceptions to this method are explained below) and the going concern assumption.
The directors have checked that there are no material uncertainties (as defined in IAS 1.25) on going concern.
The Group elected to present its assets and liabilities as current or non-current and its revenues and costs by nature from among the options allowed by IAS 1.
The statement of cash flows is prepared using the indirect method.
The significant accounting standards adopted to prepare the consolidated financial statements applied to all the periods presented and by all the Group's companies are described below.
Unless specified otherwise, the accounting standards have been applied consistently to all the periods included in the consolidated financial statements.
Please refer to note 5 for more information and details regarding the application of the accounting standards.

notes to the consolidated financial statements

<u>Basis of consolidation</u>

Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. The carrying amount of any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs, except if related to the issue of debt or equity securities, are recognised as expenses.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Normally these amounts are booked to profit/(loss) for the year.

The potential consideration is booked at fair value on the acquisition date. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interests and other components of equity related to the subsidiary. Any resulting gain or loss is recognised in profit or loss for the year. Any interest retained in the former subsidiary is measured at fair value when control has been lost.

Equity-accounted investees
The Group's interests in equity-accounted investees comprise interests in associates and a joint venture. The Group has significant influence over financial and management policies of the associates, even though it does not have control or joint control. Interests in associates and the joint venture are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. The consolidated financial statements include the Group's share of the profit or loss and OCI of equity-accounted investees, until the date on which significant influence or joint control ceases.

Transactions eliminated on consolidation
In drafting the consolidated financial statements, intra-group transactions and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

<u>Foreign currency</u>
Foreign currency transactions
Foreign currency transactions are translated into each company's functional currency of the Group at the exchange rate at the transaction-date. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in profit or loss as finance expense.

Foreign operations
Assets and liabilities of foreign operations, including goodwill and fair value adjustments deriving from the acquisition, are translated into Euro, which is the Parent Company's functional currency and the consolidated financial statements' presentation currency, at the exchange rate at the closing date. Revenue and costs of foreign operations are translated into Euro using the average period rates. Foreign currency differences are recognised in OCI and accumulated in the translation reserve, except to the extent that the translation difference is allocated to NCI.

notes to the consolidated financial statements

Revenue from contracts with customers
In accordance with IFRS 15, revenue from contracts with customers is recognised when control of the good or service is transferred to the customer either over time or at a point in time.
In relation to pre-owned boats, since the acquisition of the same takes place following the sales of new boats and constitutes part of the payment of the agreed price, it should be noted that, according to IFRS 15, the sale price of new boats and therefore also the calculation of the related revenues reflects the difference between the contractually attributed value of the pre-owned boats and their relative fair value.
Contracts that meet the requirements for the recognition of revenue over time are classified as "contract assets" or "contract liabilities" depending on whether the difference between the fulfilment of the performance obligation by the Group and the progress payments received from the customer is positive or negative. Specifically:

- Contract assets include the right to the consideration for the goods or services already transferred to the customer;
- Contract liabilities show the Group's obligation to transfer goods or services to the customer for which it has already received (or has the right to receive) consideration.

If a contract has more than one performance obligation, which is a promise to transfer a distinct good or service (or a series of distinct goods or services that are substantially the same and that have the same pattern of transfer) to a customer, classification as a contract asset or liability takes place considering all the performance obligations as a whole.
Assets and liabilities arising from contracts with customers where the revenue is recognised over time are measured using the cost-to-cost method, whereby the contract costs, revenue and profit or loss is recognised in line with fulfilment of the performance obligation (progress towards completion). The percentage of costs incurred at the reporting date is compared to the total costs to satisfy the performance obligation.
Conversely, if the requirements for the recognition of revenue over time are not met, revenue is recognised at a point in time. In this case, progress towards completion is recognised under inventories.
Contract assets are recognised net of any accumulated impairment losses.
The Group regularly reviews the estimates and any gains or losses are recognised in the period in which the changes to the estimates are made. Onerous contracts are treated in accordance with the methods described in note 41.
The consideration for contracts in a currency other than the functional currency is measured by translating the accrued consideration, calculated using the percentage of completion method, using the closing rates. However, the Group's exchange rate risk policy requires that all contracts that expose cash flows to changes in exchange rates are hedged on time.
However, see note 29 for derivatives designated
Revenues related to maintenance, sales of spare parts and charter services activities are managed through spot orders from the client and are recognised at a point in time basis.

Employee benefits

Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Defined benefit plans

The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

An independent actuary performs the calculation using the projected unit credit method. When the calculation generates a surplus, the Group recognises a net benefit asset to the extent of the asset ceiling, i.e. the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the year by applying the discount rate used to measure the defined benefit obligation at the beginning of the year to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the year as a result of contributions and benefit payments. Net interest and other expenses on the net defined benefit liability (asset) are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefits that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognised in profit or loss in the period in which they arise.

Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted.

notes to the consolidated financial statements

Government grants

Government grants relating to costs incurred during the period are recognised in profit or loss as other income when the government grant becomes receivable. Other government grants relating to assets recorded in the balance sheet are initially recognised at fair value as deferred revenues if there is reasonable certainty that they will be received and that the Group will comply with the conditions for their receipt and are then recognised in profit/loss for the year as other income on a systematic basis over the useful life of the asset to which they refer.

Cost recognition

Costs are recognised when they relate to goods or services acquired or used in the period or on an accruals basis.

Financial income and expense

Interest income or expense is recognised in profit and loss using the effective interest method. Dividend income is recognised in profit or loss on the date on which the Group's right to receive payment is established.
The effective interest rate is the rate that exactly discounts the estimated future payments or collections over the financial asset's useful life: – is the gross book value of the financial asset; or – at the amortised cost of the financial liability. In order to calculate interest income and expense, the effective interest rate is applied to the asset's gross carrying amount (when the asset is not impaired) or the liability's amortised cost.

Moreover, when a financial asset is impaired after initial recognition, interest income is calculated by applying the effective interest rate to the financial asset's amortised cost. Should the financial asset no longer be impaired, the interest income is again calculated considering the asset's gross carrying amount.

Income taxes

The tax expense for the period includes the current and deferred taxes recognised in profit or loss, except for those related to business combinations or items recognised directly in equity or other comprehensive income. The Group recognises interest and fines related to income taxes, including the accounting treatment to be applied to income taxes of an uncertain nature, in accordance with IAS 37 - Provisions, contingent liabilities and contingent assets, when they do not meet the definition of income taxes.

Current taxes

Current taxes comprise the expected tax payable or receivable on the taxable profit or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends. Current tax assets and liabilities are offset only when certain criteria are met.

Deferred taxes

Deferred taxes are recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred taxes are not recognised for:

- temporary differences arising on the initial recognition of assets and liabilities in a transaction other than a business combination that does not affect either the accounting profit or loss or the taxable profit (or tax loss);
- temporary differences arising on investments in subsidiaries, associates and joint ventures where the Group is able to control when they will reverse and it is probable that the temporary differences will not reverse in the foreseeable future and taxable temporary differences recognised on goodwill;
- taxable temporary differences related to the initial recognition of the goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Group.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. These reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that the Group will acquire future taxable profits again which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Measurement of the deferred tax reflects the tax effects of how the Group expects to recover or settle the carrying amount of assets and liabilities at the reporting date.

Deferred tax assets and liabilities are offset only if certain criteria are met.

Trade receivables

Trade receivables arising on the sale of goods or services produced or sold by the Group are recognised under current assets. They are recognised at their nominal amount (shown in the invoice) net of any impairment losses, provided for on the basis of an estimate of the risk that the trade receivables will not be collected at the reporting date.

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost, which is their initial recognition amount net of principal repayments, increased or decreased by amortisation applying the effective interest method to any difference between the initial carrying amount and their amount at repayment, less any adjustments (made directly or through the loss allowance) due to a loss in value or because the trade receivables are not expected to be recovered.

notes to the consolidated financial statements

At initial recognition, trade receivables without a significant financing component are initially measured at the transaction price.
The Group recognises impairment losses where there is objective evidence that it will not recover the amount from the counterparty in line with the contract terms.
Objective evidence includes events such as:
a) significant financial difficulty of the borrower;
b) pending legal disputes with the borrower about the recoverability of the amount;
c) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.
The impairment loss is calculated as the difference between the carrying amount of the asset and the present value of the future cash flows recognised in profit or loss. Unrecoverable amounts are derecognised from the statement of financial position through the loss allowance.
If the reasons for the impairment loss are no longer valid in subsequent periods, an impairment gain is recognised and the asset is reinstated at the amount it would have had calculated using the amortised cost method.

Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in, first-out principle. In the case of inventories of products manufactured by the Group, cost includes an appropriate share of production overheads based on normal operating capacity.

Property, plant and equipment

Recognition and initial measurement

Property, plant and equipment are measured at cost, including capitalised borrowing costs, net of depreciation and any impairment losses.
If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment.
Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

Subsequent expenditure

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives.
Depreciation is generally recognised in the profit or loss for the year. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.
Land is not depreciated.

The estimated useful lives for current and comparative periods are as follows:

Land and buildings	
Industrial buildings	3%
Buildings on third-party land	State concession term
Plant and equipment	
Plant and equipment	11.50%
Industrial and commercial equipment	
Industrial equipment	25%
Moulds and models	12.50%
Cradles	10%
Other assets	
Trade fair furniture and fittings	10%
Office furniture and equipment	12%
Furniture and electronic equipment	20%-25%
Light construction	10%
Vehicles	20%
Other	10%

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

notes to the consolidated financial statements

<u>Intangible assets and goodwill</u>
Recognition and initial measurement
Goodwill: Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.
Research and development: Research expenditure is expensed under profit/(loss) when incurred. Development costs are capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognised in profit or loss as incurred. Subsequent to initial recognition, development costs are measured at cost less accumulated amortisation and any accumulated impairment losses.
Other intangible assets: Other intangible assets with a finite useful life are recognised at cost less amortisation and any impairment losses.

Subsequent expenditure
Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

Amortisation
Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Goodwill is not amortised.

The estimated useful lives for current and comparative periods are as follows:

Development costs	8 years – 12.50%
Software	5 years – 20%
Mooring rights	Transaction term
Trademarks	18 years
Goodwill arising on consolidation	10 years – 10%
Other	Over the individual transaction term

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Cash and cash equivalents

Cash and cash equivalents include cash, deposits with banks or other credit institutions available for current operations, postal accounts and other cash equivalents as well as investments with a maturity of less than three months. Cash and cash equivalents are recognised at their fair value which is usually equal to their nominal amount.

Financial instruments

Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. At initial recognition, trade receivables without a significant financing component are initially measured at the transaction price.

Classification and subsequent measurement

Financial assets

At initial recognition, a financial asset is classified based on its measurement at:

- amortised cost;
- fair value through other comprehensive income (FVOCI);
- fair value through profit or loss (FVTPL).

The Group defines their classification in line with the business model within which the financial assets are held and the contractual cash flow characteristics of the financial asset.

Financial assets are not reclassified after their initial recognition unless the Group modifies the business model for the management of financial assets. In this case, all involved financial assets are reclassified on the first day of the year following the change made to the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets: assessment of the business model
The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

Financial assets: assessment whether contractual cash flows are solely payments of principal and interest
For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet the following condition. In making this assessment, the Group considers:
- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate elements;
- elements on prepayments and extension; and
- contract terms that limit the Group's requests for cash flows to specific assets.

Financial assets: classification, subsequent measurement and gains and losses

Financial assets at FVTPL: these assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in the profit or loss of the year. However, see note 29 for derivatives designated as hedging instruments.

Financial assets measured at amortised cost: these assets are subsequently measured at amortised cost using the effective interest method. Amortised cost is decreased for impairment. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss of the year as are any derecognition gains or losses.

Debt instruments at FVOCI: these assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss of the year. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss of the year.

Equity instruments at FVOCI: these assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss of the year unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified contractual terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Derivatives and hedge accounting

The Group uses derivatives to hedge its exposure to currency and interest rate risks.

Derivatives are always measured at fair value through profit or loss, unless they qualify for hedge accounting for a specific risk related to the Group's underlying asset or liability or commitments.

At inception of the designed hedging relationship, the Group documents its risk management objective and strategy, the economic relationship between the hedged item and the hedging instrument and whether changes in the cash flows of the hedged item and the hedging instrument will offset each other.

Cash flow hedges

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in OCI and accumulated in the hedging reserve. The effective portion of changes in the fair value of the derivative that is recognised in OCI is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

The Group designates only the change in fair value of the spot element of forward exchange contracts as the hedging instrument in cash flow hedging relationships. The change in fair value of the forward element of forward exchange contracts (forward points) is separately accounted for as a cost of hedging and recognised in a cost of hedging reserve within equity.

If a hedged forecast transaction leads to the subsequent recognition of a non-financial asset or liability, for example, inventories, the gain or loss accumulated in the hedging reserve and the cost of hedging reserve is included directly in the initial cost of the asset or liability at recognition. The gain or loss for all other hedged planned transactions is reclassified from the hedging reserve and the costs of hedging reserve to profit or loss in the same year or years in which the hedged future cash flows affect profit or loss.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument is sold, expires, is terminated or is exercised, then hedge accounting is discontinued prospectively.

When hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the hedging reserve remains in equity until, for a hedge of a transaction resulting in the recognition of a non-financial asset or liability, it is included in the non-financial item's cost on its initial recognition or, for other cash flow hedges, it is reclassified to profit or loss in the same period or periods as the hedged expected future cash flows affect profit or loss. If the hedged future cash flows are no longer expected to occur, then the amounts that have been accumulated in the hedging reserve and the cost of hedging reserve are immediately reclassified to profit or loss.

Share Capital

Ordinary shares

Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity. Income tax relating to transaction costs of an equity transaction are accounted for in accordance with IAS 12.

Repurchase and reissue of ordinary shares (treasury shares)

When shares recognised as equity are repurchased, the amount of the consideration paid, which includes directly attributable costs is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the treasury share reserve. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity. The resulting surplus or deficit on the transaction is recognised under share premium.

Impairment

Non-derivative financial assets

Financial instruments and contract assets

The Group recognises loss allowances for ECLs on:

- financial assets measured at amortised cost;
- debt investments at FVOCI;
- contract assets.

The Group measures the loss allowance as equal to the lifetime expected credit losses, except for that set out below for the 12-month expected credit losses:

- debt instruments with a low credit risk at the reporting date; and
- other debit securities and bank current accounts with a credit risk (i.e., the default risk expected over the financial instrument's term) that has not increased significantly since initial recognition.

The loss allowance for trade receivables and contract assets is always measured considering their lifetime expected credit losses.

The Group considers reasonable and supportable information that is available without undue cost or effort that is indicative of significant increases in credit risk since initial recognition to estimate the expected credit losses. It considers quantitative and qualitative information and analysis, based on past experience of the Group, of the financial asset and forward looking information. The credit risk of a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs
ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets
At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is "credit-impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.
Evidence that a financial asset is credit-impaired includes the following observable data:
- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of the loss allowance in the statement of financial position
Loss allowances for financial assets measured at amortised cost are deducted from the carrying amount of the assets. For debt securities at FVOCI, the loss allowance is charged to profit or loss of the year and is recognised in OCI.

Write-off
The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Group has a policy of writing-off the gross carrying amount when the financial asset is 180 days past due based on historical experience of recoveries of similar assets. For corporate customers, the Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the Group estimated the asset's recoverable amount. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or Cash-Generating Units (CGUs). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss of the year. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis. An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Provisions

A provision is recognised when, at the reporting date, the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation.

The discount rate used to calculate the present value of the liability reflects assessments of the time value of money and the risks specific to the liability. Changes in estimates are recognised in profit or loss in the period the change takes place. The disclosure required by IAS 37 - Provisions, contingent assets and contingent liabilities is not provided for some disputes in order not to jeopardise the Group's position vis-à-vis these disputes or negotiations.

Risks for which a liability is solely possible are disclosed in the section of the notes on commitments and risks and no provision is made.

With respect to contract assets and liabilities, if the business plan is revised during the contract term and the contract becomes onerous, the portion of the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it is recognised in full in the period in which they are expected to be incurred and provided for in a provision for onerous contracts under current liabilities. The provision is released to profit and loss and recognised under Other operating revenue.

notes to the consolidated financial statements

Leases

Determining whether an arrangement contains a lease
At inception of a contract, the Group assesses whether the contract is, or contains, a lease. At inception or on reassessment of an arrangement that contains a lease, the Group separates payments and other consideration required by the arrangement into those for the lease and those for other elements on the basis of their relative fair values. If, in the case of a financial lease, the Group decides that it is not feasible to accurately divide the instalments, then an asset and liability are recognised in an amount equal to the fair value of the underlying asset. Subsequently, the liability is reduced as payments are made and a finance cost on the liability is recognised using the Group's incremental borrowing rate.

Leased assets
Leases of property, plant and equipment that transfer to the Group substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.
Assets held under other leases are classified as operating leases and are not recognised in the Group's statement of financial position.

Lease payments
Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.
Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Operating profit

Operating profit is the result generated from the continuing principal revenue producing activities of the Group as well as other income and expenses related to operating activities. Operating profit excludes net finance costs, share of profit of equity-accounted investees and income taxes.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.
A number of the Group's accounting standards and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities (see note 4).

When one is available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.
If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.
If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.
The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

42. Standards issued but not yet effective

IFRIC 23 – Uncertainty over Income Tax Treatments

On 7 June 2017, the IASB published the interpretative document IFRIC 23 - Uncertainty over Income Tax Treatments. The document addresses the issue of uncertainties on the tax treatment to be adopted in relation to income taxes. The document provides that uncertainties in the determination of tax liabilities or assets are reflected in the financial statements only when it is probable that the entity will pay or recover the related amount. In addition, the document does not contain any new disclosure requirements but stresses that the entity will have to determine whether it will be necessary to provide information on the considerations made by management regarding the uncertainty inherent in accounting for taxes, in accordance with IAS 1. The new interpretation applies from 1 January 2019, but early application is permitted. The directors do not expect a significant effect in the consolidated financial statements of the Group from the adoption of this interpretation.

notes to the consolidated financial statements

Amendment to IFRS 9 – Prepayment Features with Negative Compensation
This document (published on 12 October 2017) specifies that the instruments that provide for early repayment could comply with the "SPPI" test even if the "reasonable additional compensation" to be paid in the event of early repayment is a "negative compensation" for the lender. The amendment applies from 1 January 2019, but early application is permitted. The directors do not expect a significant effect on the consolidated financial statements of the Group from the adoption of these amendments.

IFRS and IFRIC accounting standards, amendments and interpretations not yet endorsed by the European Union
At the time of preparing the consolidated financial statements, the competent bodies of the European Union had not yet completed the approval process necessary for the adoption of the amendments and principles described below.
Amendment to IFRS 10 and IAS 28 "Sales or Contribution of Assets between an Investor and its Associate or Joint Venture" (published on 11 September 2014). The document was published in order to solve the current conflict between IAS 28 and IFRS 10 relating to the valuation of the profit or loss resulting from the sale or contribution of a non-monetary asset to a joint venture or associate in exchange for a stake in the latter's capital. At present, the IASB has suspended the application of this amendment.
On 7 February 2018, the IASB published the document *"Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)"*. The document clarifies how an entity must recognise an amendment (i.e. a curtailment or settlement) to a defined benefit plan. The amendments require the entity to update its assumptions and remeasure the net liability or asset arising from the plan. The amendments clarify that after the occurrence of such an event, an entity uses updated assumptions to measure the current service cost and interest for the remainder of the reporting period following the event. Directors do not expect a significant effect in the consolidated financial statements of the Group from the adoption of these amendments.
On 22 October 2018, the IASB published a document entitled *"Definition of a Business (Amendments to IFRS 3)"*. The document provides some clarifications regarding the definition of business for the purposes of the correct application of IFRS 3. In particular, the amendment clarifies that while a business usually produces an output, the presence of an output is not strictly necessary to identify a business with an integrated set of assets/processes and assets. However, to meet the definition of business, an integrated set of assets/processes and assets must include, as a minimum, a substantial input and process that together contribute significantly to the ability to create output. To this end, the IASB has replaced the term "ability to create output" with "ability to contribute to the creation of output" to clarify that a business can exist even without the presence of all the inputs and processes necessary to create an output.

The amendment also introduced a test ("concentration test"), optional for the entity, which to determine whether a set of assets/processes and assets purchased is not a business. If the test provides a positive result, the set of assets/processes and goods purchased is not a business and the principle does not require further testing. If the test fails, the entity will need to conduct further analysis of the assets/processes and goods purchased to identify the presence of a business. To this end, the amendment added a number of illustrative examples to IFRS 3 to help understand the practical application of the new definition of business in specific cases. The amendments apply to all business combinations and acquisitions of assets after 1 January 2020, but earlier application is permitted. Considering that this amendment will be applied to new acquisition transactions that will be completed from 1 January 2020, any effects will be recognised in the consolidated financial statements closed after that date and the directors do not expect effects on the consolidated financial statements of the Group from the adoption of this amendment.

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

The document introduced an amendment to the definition of 'material' in IAS 1 - Presentation of Financial Statements and IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors. This amendment aims to make the definition of "material" more specific and introduces the concept of 'obscured information' alongside the concepts of omitted or incorrect information already present in the two standards being amended. The amendment clarifies that information is "obscured" if it has been described in such a way that it has an effect on primary readers of financial statements similar to that which would have occurred had the information been omitted or misstated. The directors do not expect a significant effect on the consolidated financial statements of the Group from the adoption of this amendment.

IFRS 17 - Insurance contracts replaces the previous standard IFRS 4 - Insurance contracts and solves the problems of comparability it created, requiring all insurance contracts to be accounted for consistently, to the benefit of both investors and insurance companies. Insurance obligations will be accounted for using current values - instead of historical cost. The information will be updated regularly, providing more useful information to users of the financial statements. The document applies to financial statements for financial years beginning on or after 1 January 2021. The directors do not expect a significant effect on the consolidated financial statements of the Group from the adoption of these amendments.

notes to the consolidated financial statements

43. First-time adoption

As described in the introduction, the consolidated financial statements as at 31 December 2019 represent the first IFRS consolidated financial statements of Sanlorenzo S.p.A and, therefore, IFRS 1 is applied.

The data reported in the Sanlorenzo Group's consolidated financial statements as at 31 December 2018, prepared in accordance with the International Financial Reporting Standards endorsed by the European Union derive from the consolidated financial statements as at 31 December 2018 prepared in accordance with the Italian regulations governing their preparation.

Pursuant to IFRS 1, the Group has applied the same accounting standards in its opening IFRS statement of financial position at 1 January 2018 and all the periods included in the first IFRS consolidated financial statements.

Statement of financial position

(€'000)	1 January 2018				31 December 2018			
	Note	Ita-Gaap	Adjustment IFRS FTA	IFRS	Note	Ita-Gaap	Adjustment IFRS FTA	IFRS
Non-current assets	a	78,641	1,837	80,478	f	111,425	3,116	114,541
Current assets	b	374,735	(128,479)	246,256	g	410,412	(144,376)	266,036
Total assets		**453,376**	**(126,642)**	**326,734**		**521,837**	**(141,260)**	**380,577**
Equity	c	96,443	(1,740)	94,703	h	107,925	(1,164)	106,761
Non-current liabilities	d	32,462	578	33,040	i	65,297	666	65,963
Current liabilities	e	324,471	(125,480)	198,991	j	348,615	(140,762)	207,853
Total equity and liabilities		**453,376**	**(126,642)**	**326,734**		**521,837**	**(141,260)**	**380,577**

As at 1 January 2018

a. Non-current assets

Non-current assets recognised in the Financial Statements Italian Gaap as at 1 January 2018 amounted to €78,641 thousand compared with €80,478 thousand of the IFRS financial statements with a difference due to the transition to IFRS of €1,837 thousand. The main differences are:
- €1,522 thousand for development costs;
- €504 thousand for prepaid taxes;
- €(189) thousand for the application of the amortised cost accounting standard

b. Current assets

Current assets recognised in the Financial Statements Italian Gaap as at 1 January 2018 amounted to €374,735 thousand compared with €246,256 thousand of the IFRS financial statements with a negative difference due to the transition to IFRS of €(128,479) thousand.
The main differences are:
- €(128,446) thousand for the reclassification of advances received from the customers, in reduction of the contract assets;
- €3,714 thousand for the recognition of margin from work orders of less than one year duration that were previously valued at cost;
- €(2,916) thousand from the application of IFRS 15 regarding the losses expected from the sale of pre-owned boats that were withdrawn following the sale of new boats;
- €(637) thousand for the recognition in the profit and loss of prepaid expenses related to legal disputes.
- €(194) thousand for the application of the amortised cost accounting standard.

c. Equity

Equity in the Financial Statements Italian Gaap as at 1 January 2018 amounted to €96,443 compared with €94,703 thousand of the IFRS financial statements with a negative difference due to the transition to IFRS of €(1,740) thousand.The main differences are:
- €3,540 thousand for the recognition of margin from work orders of less than one year duration that were previously valued at cost;
- €1,522 thousand for development costs;
- €(131) thousand for the application of IAS 19 for post-employment benefits;
- €(2,089) thousand from the application of IFRS 15 regarding the losses expected from the sale of pre-owned boats that were withdrawn following the sale of new boats;
- €(637) thousand for the recognition in the profit and loss of prepaid expenses related to legal disputes.
- €(13) thousand for the application of the amortised cost accounting standard;
- €(322) thousand for prepaid taxes;
- €(699) thousand for the recognition of the R&D contribution;
- €(2,911) thousand for the adjustment of the margin from the boats sold to the American subsidiary.

notes to the consolidated financial statements

d.Non-current liabilities

Non-current liabilities recognised in the Italian Gaap financial statements as at 1 January 2018 amounted to €32,462 thousand compared with €33,040 thousand of the IFRS financial statements with a difference due to the transition to IFRS of €578 thousand. The main differences are:

- €130 thousand for the application of IAS 19 for post-employment benefits;
- €672 thousand concerning the short- and long-term reclassification of the provision for warranties;
- €(224) thousand for the application of the amortised cost accounting standard.

e. Current liabilities

Current liabilities recognised in the Italian Gaap financial statements as at 1 January 2018 amounted to €324,471 thousand compared with €198,991 thousand of the IFRS financial statements with a difference due to the transition to IFRS of €(125,480) thousand. The main differences are:

- €(128,446) thousand for the reclassification of advances received from the customers, in reduction of the contract assets;
- €2,910 thousand for the adjustment of the margin from the boats sold to the American subsidiary.
- €699 thousand for the recognition of the R&D contribution;
- €(672) thousand concerning the short- and long-term reclassification of the provision for warranties;
- €29 thousand for other changes.

As at 31 December 2018

f. Non-current assetsi

Non-current assets recognised in the Italian Gaap financial statements as at 31 December 2018 amounted to €111,425 thousand compared with €114,541 thousand of the IFRS financial statements with a difference due to the transition to IFRS of €3,116 thousand. The main differences are:

- €(275) thousand related to the consolidation of Sanlorenzo of the Americas;
- €2,495 thousand for development costs;
- €208 thousand for prepaid taxes;
- €(112) thousand for the application of the amortised cost accounting standard;
- €800 thousand for the adjustment of the amortisation rate on goodwill.

g. Current assets

Current assets recognised in the Italian Gaap financial statements as at 31 December 2018 amounted to €410,412 thousand compared with €266,036 thousand of the IFRS financial statements with a difference due to the transition to IFRS of €(144,376) thousand. The main differences are:

- €6,615 thousand for the consolidation of Sanlorenzo of the Americas;
- €(7,173) thousand for the adjustment of the margin from the boats sold to the American subsidiary and for other services provided;
- €7,073 thousand for the recognition of margin from work orders of less than one year duration that were previously valued at cost;
- €(148,911) thousand for the reclassification of advances received from the customers, in reduction of the contract assets;
- €(867) for the recognition in the profit and loss of prepaid expenses related to legal disputes;
- €(595) thousand for the application of the amortised cost accounting standard;
- €(518) thousand from the application of IFRS 15 regarding the losses expected from the sale of pre-owned boats that were withdrawn following the sale of new boats.

h. Equity

Equity in the Italian Gaap financial statements as at 31 December 2018 amounted to €107,925 thousand compared with €106,761 thousand of the IFRS financial statements with a negative difference due to the transition to IFRS of €(1,164) thousand. The main differences are:

- €5,987 thousand for the recognition of margin from work orders of less than one year duration that were previously valued at cost;
- €2,495 thousand for development costs;
- €(65) thousand for the application of IAS 19 for post-employment benefits;
- €(341) thousand from the application of IFRS 15 regarding the losses expected from the sale of pre-owned boats that were withdrawn following the sale of new boats;
- €(867) thousand for the recognition in the profit and loss of prepaid expenses related to legal disputes.
- €(205) thousand for the application of the amortised cost accounting standard;
- €30 thousand for prepaid taxes;
- €(1,031) thousand for the recognition of the R&D contribution;
- €(7,173) thousand for the adjustment of the margin from the boats sold to the American subsidiary;
- €800 thousand for the adjustment of the amortisation rate on goodwill;
- €(794) thousand for the consolidation of Sanlorenzo of the Americas.

i. Non-current liabilities

Non-current liabilities recognised in the Italian Gaap financial statements as at 31 December 2018 amounted to €65,297 thousand compared with €65,963 thousand of the IFRS financial statements with a difference due to the transition to IFRS of €666 thousand. The main differences are:

- €918 thousand concerning the short- and long-term reclassification of the provision for warranties;
- €65 thousand for the application of IAS 19 for post-employment benefits;
- €(317) thousand for the application of the amortised cost accounting standard.

j. Current liabilities

Current liabilities recognised in the Italian Gaap financial statements as at 31 December 2018 amounted to €348,615 thousand compared with €207,853 thousand of the IFRS financial statements with a difference due to the transition to IFRS of €(140,762) thousand. The main differences are:

- €(148,912) thousand for the reclassification of advances received from the customers, in reduction of the contract assets;
- €7,133 thousand for the consolidation of Sanlorenzo of the Americas;
- €1,086 thousand for agency commissions accrued on the recognition of income from the sale of boats during the year;
- €(917) thousand concerning the short- and long-term reclassification of the provision for warranties;
- €1,032 thousand for the recognition of the R&D contribution;
- €(184) thousand for the application of the amortised cost.

Consolidated statement of profit or loss

(€'000)	31 December 2018		
	Ita-Gaap	Adjustment IFRS FTA	IFRS
Revenue and income, net	392,862	(13,142)	379,720
Operating costs	(355,591)	1,416	(344,175)
Amortisation, depreciation and impairment losses	(12,829)	710	(12,119)
Operating profit	**24,442**	**(1,016)**	**23,426**
Net financial expense	(2,737)	(788)	(3,525)
Adjustments to financial assets	(3,457)	2,539	(918)
Pre-tax profit	**18,248**	**735**	**18,983**
Income taxes	(5,945)	(375)	(6,320)
Profit for the year	**12,303**	**360**	**12,663**

notes to the consolidated financial statements

In 2018, profit and loss according to the Italian Gaap showed a net profit of €12,303 thousand versus an IFRS profit and loss that shows a net profit of €12,663 thousand. The difference of €360 thousand derives from the application of equity differences already described.

Ameglia, 13 March 2020

On behalf of the Board of Directors
Executive Chairman
Cav. Massimo Perotti

certification pursuant to art. 154-bis

Certification pursuant to art. 154-bis of italian legislative decree no. 58 of 24 february 1998 (consolidated law on finance) and art. 81-ter of the consob regulation no. 11971 of 14 may 1998, as amended and supplemented

1. The undersigned, Massimo Perotti, in his capacity as the Executive Chairman of the Board of Directors and Attilio Bruzzese, in his capacity as the Manager charged with preparing the company's financial reports of Sanlorenzo S.p.A., certify, also taking into account the provisions of art. 154-bis, paragraphs 3 and 4, of Italian Legislative Decree no. 58 of 24 February 1998:
   - the adequacy in terms of the characteristics of the Company and
   - the actual application of the administrative and accounting procedures for the preparation of the consolidated financial statement for 2019.

2. From the application of the administrative and accounting procedures for the preparation of the annual consolidated financial statements as at 31 December 2019, no significant facts need to be reported.

3. It is hereby also certified that:
   3.1 The annual financial statements:
      a) have been prepared in compliance with the international accounting standards endorsed by the European Union pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and the Council of 19 July 2002;
      b) reflect the figures of the accounting records;
      c) are suitable to provide a truthful and correct representation of the equity, economic and financial position of the issuer.
   3.2 The report on operations includes an accurate analysis of the performance and net operating results, as well as of the position of the issuer and of all companies under the consolidation scope, along with a description of the main risks and uncertainties to which they are exposed.

Ameglia, 13 March 2020

Mr Massimo Perotti
Executive Chairman
of the Board of Directors

Attilio Bruzzese
Manager charged with preparing
the company's financial reports

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SEPARATE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2019

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STATEMENT OF FINANCIAL POSITION

(€'000)	Note	31 December 2019	31 December 2018
ASSETS			
Non-current assets			
Property, plant and equipment	11	98,862	77,057
Goodwill	12	8,667	8,667
Intangible assets with a finite useful life	13	36,680	25,389
Equity investments and other non-current assets	15	2,925	2,717
Net deferred tax assets	10	2,211	1,998
Total non-current assets		**149,345**	**115,828**
Current assets			
Inventories	16	61,266	33,931
Contract assets	17	75,781	73,561
Other financial assets, including derivatives	21	20,833	24,645
Trade receivables	18	27,067	44,317
Other current assets	19	41,290	34,959
Cash and cash equivalents	20	55,338	40,927
Total current assets		**281,575**	**252,340**
TOTAL ASSETS		**430,920**	**368,168**

(€'000)	Note	31 December 2019	31 December 2018
EQUITY			
Share capital	22	34,500	30,000
Share premium	22	76,549	30,928
Other reserves	22	18,441	38,945
Profit/(loss) for the year		29,059	12,093
TOTAL EQUITY		**158,549**	**111,966**
Non-current liabilities			
Non-current financial liabilities	23	56,245	63,948
Non-current employee benefits	26	748	854
Non-current provisions for risks and charges	27	829	882
Total non-current liabilities		**57,822**	**65,684**
Current liabilities			
Current financial liabilities, including derivatives	23	18,913	19,094
Current provisions for risks and charges	27	11,418	5,039
Trade payables	24	145,953	108,176
Contract liabilities	17	15,788	41,520
Other current liabilities	25	17,367	11,893
Other current tax liabilities	10	2,065	1,511
Net current tax liabilities	10	3,045	3,285
Total current liabilities		**214,549**	**190,518**
TOTAL LIABILITIES		**272,371**	**256,202**
TOTAL EQUITY AND LIABILITIES		**430,920**	**368,168**

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STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

(€'000)	Note	31 December 2019	31 December 2018
Revenues	7	486,019	377,707
Agency commissions	7	(12,918)	(12,171)
Net revenues		**473,101**	**365,536**
Other income	8	3,411	4,101
Total net revenue and income		**476,512**	**369,637**
Increases in internal work	8	1,693	1,176
Raw materials, consumables and finished products	8	(193,304)	(132,501)
Outsourcing	8	(163,227)	(110,084)
Change in work in progress, semi-finished and finished products	8	26,395	(22,752)
Other service costs	8	(46,134)	(38,958)
Personnel expenses	8	(32,440)	(26,092)
Other operating costs	8	(3,718)	(4,003)
Accruals to provisions for risks and charges	27	(6,136)	(2,516)
Total operating costs		**(416,871)**	**(335,730)**
Operating profit before amortisation and depreciation		**59,641**	**33,907**
Amortisation, depreciation and impairment losses	9, 11, 13	**(14,518)**	**(9,249)**
Operating profit		**45,123**	**24,658**
Financial income	9	302	21
Financial expense	9	(5,179)	(2,891)
Net financial expense		**(4,877)**	**(2,870)**
Adjustments to financial assets	15	19	(3,763)
Pre-tax profit		**40,265**	**18,025**
Income taxes	10	(11,206)	(5,932)
PROFIT/(LOSS) FOR THE YEAR		**29,059**	**12,093**

(€'000)	31 December 2019	31 December 2018
Other comprehensive income		
Other comprehensive income that will not be subsequently reclassified to net income		
Actuarial change in provisions for employee benefits	18	(5)
Income taxes relating to actuarial changes in provisions for employee benefits	(5)	2
Total	**13**	**(3)**
Other comprehensive income which will be subsequently reclassified to net income		
Changes in the cash flow hedge reserve	148	(365)
Income taxes related to changes in the cash flow hedge reserve	(41)	102
Change in the translation reserve	-	-
Total	**107**	**(263)**
Other comprehensive income for the year, net of tax effect	**120**	**(266)**
COMPREHENSIVE NET PROFIT FOR THE YEAR	**29,179**	**11,827**

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STATEMENT OF CHANGES IN EQUITY

(€'000)	Share capital	Share premium	Total other reserves	Legal reserve	Extraordinary reserve	Other reserves	Profit for the year	Total equity
31 December 2018	**30,000**	**30,928**	**38,945**	**3,557**	**36,701**	**(1,313)**	**12,093**	**111,966**
Allocation of profit for the year	-	-	10,707	535	10,172	-	(12,093)	(1,386)
Change in the hedging reserve	-	-	(148)	-	-	(148)	-	(148)
Adjustment IFRS FTA	-	-	1,546	-	-	1,546	-	1,546
Dividends	-	-	(3,800)	-	(3,800)	-	-	(3,800)
Reverse merger with WindCo	-	(19,539)	(28,430)	(2,585)	(25,613)	(232)	-	(47,969)
Capital increase	4,500	65,160	-	-	-	-	-	69,660
Other changes	-	-	(379)	-	-	(379)	-	(379)
Profit for the year	-	-	-	-	-	-	29,059	29,059
31 December 2019	**34,500**	**76,549**	**18,441**	**1,507**	**17,460**	**(526)**	**29,059**	**158,549**

STATEMENT OF CASH FLOWS

(€'000)	Note	31 December 2019	31 December 2018
Cash flows from operating activities			
Profit for the year		29,059	12,093
Adjustments for:			
Depreciation	8, 11	3,906	6,891
Amortisation	8, 13	10,612	2,359
Impairment losses on intangible assets and goodwill	12, 13	-	-
Impairment losses on financial assets (other equity investments)	15	(19)	3,763
Net financial expense	9	4,878	2,870
Gain on sale of property, plant and equipment		(7)	23
Impairment losses on trade receivables	18	-	250
Income taxes	10	11,206	5,931
Changes in:			
Inventories	16	(27,336)	25,454
Contract assets	17	(2,220)	7,146
Trade receivables	18	17,250	(20,977)
Other current assets	19	(6,331)	(4,563)
Trade payables	24	37,777	13,604
Contract liabilities	17	(25,732)	16,012
Other current liabilities	25	3,158	6,347
Provisions for risks and charges and employee benefits	26, 27	6,219	21
Cash flows generated by operating activities		**62,420**	**77,224**
Taxes paid		(8,788)	(3,102)
Net cash flows from operating activities		**53,632**	**74,122**
Cash flows from investing activities			
Interest received		302	21
Proceeds from disposal of property, plant and equipment		31	37
Proceeds from disposal of intangible assets		-	-
Changes in equity investments and other non-current assets	15	70	-
Acquisition of subsidiaries or business units, net of cash acquired	29	(189)	(2,593)
Acquisition of property, plant and equipment	11	(32,506)	(27,148)
Acquisition of intangible assets with a finite useful life	13	(15,202)	(21,597)
Net cash flows used in investing activities		**(47,494)**	**(51,280)**

accounting statements

(€'000)	Note	31 December 2019	31 December 2018
Cash flows from financing activities			
Interest paid		(5,179)	(2,891)
Proceeds from the issue of share capital		69,660	-
New loans	23	-	61,500
Repayment of loans	23	(58,229)	(66,683)
Changes in other financial assets and financial liabilities including derivatives	21, 23	3,824	(15,316)
New finance leases		2,373	-
Repayment of finance leases		-	-
Assumption of new loans		47,960	-
Results from merger with WindCo		(48,336)	-
Dividend paid	22	(3,800)	(300)
Net cash flows from/(used in) financing activities		8,273	(23,690)
Net (decrease)/increase in cash and cash equivalents		14,411	(848)
Cash and cash equivalents as at 1 January		40,927	41,775
Cash and cash equivalents as at 31 December		**55,338**	**40,927**


SANLORENZO

notes to the separate financial statements

BASIS OF PREPARATION

Introduction

On 10 December 2019, the trading of the Company's shares on the STAR segment of Mercato Telematico Azionario (MTA) (screen-based market) organised and managed by Borsa Italiana S.p.A. began. The initial offer price was €16.00 per share. On 30 December 2019, the closing price of the share was €15.974, for a total capitalisation of €551,103 thousand.

Admission to trading followed an offer reserved to Italian and foreign institutional investors which was successfully completed on 6 December 2019 and, following partial exercise of the greenshoe option, included no. 11,157,977 shares of the Company, of which:

- 4,500,000 shares from a share capital increase with the exclusion of option rights;
- 6,657,977 shares offered for sale by Holding Happy Life S.r.l., a majority shareholder of the Company and subsidiary under the control of Massimo Perotti, including 157,977 shares, subject to the over allotment option in service of the greenshoe option (as defined in the Prospectus).

Due to the aforementioned transaction, Sanlorenzo drafts its separate financial statements in accordance with the International Financial Reporting Standards (IFRS/EU) issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission using the procedure as per article 6 of Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002.

The date of transition, i.e. the beginning of the earliest period for which an entity presents full comparative information under the IFRS in its first IFRS financial statements, is 1 January 2018 and therefore IFRS 1 applies.

On 1 April 2019, the administrative bodies of the holding company WindCo S.p.A. and the subsidiary Sanlorenzo S.p.A. approved and filed at the Register of Companies a plan for the reverse merger by incorporation of WindCo S.p.A. in Sanlorenzo S.p.A. The merger, resolved by the shareholders' meetings of the companies concerned on 15 April 2019, took effect for legal purposes on 28 June 2019, and was effective for tax and accounting purposes retroactively as at 1 January 2019, consistently with the provisions of the merger plan.

On 4 July 2019, the Issuer acquired the entire shareholding held by Immobiliare FIPA S.r.l. in Liquidation in Polo Nautico, equal to 44.68% of the share capital, paying a consideration of €30 thousand.

On 19 July 2019, the entire equity investment in GP Yachts S.r.l. was sold to minority quotaholders for a total value of €200 thousand, equal to the paid-up share capital.

1. Reporting entity

Sanlorenzo S.p.A. (the "Company") is based in Italy. Its registered office is in Via Armezzone 3, Ameglia (La Spezia). The Company designs, builds and sells boats and pleasure boats in fibreglass, steel and aluminium together with all other materials. It also provides maintenance and charter services for all types of vessels (see notes 6 and 7).

2. Basis of preparation

The separate financial statements of Sanlorenzo S.p.A. as at 31 December 2019 have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and endorsed by the European Union, including all interpretations of the International Financial Reporting Interpretations Committee (IFRIC), previously known as the Standing Interpretations Committee (SIC).
The notes to the separate financial statements were incorporated with the additional information required by Consob and by the regulations issued thereby, pursuant to art. 9 of Italian Legislative Decree no. 38/2005 (resolutions 15519 and 15520) of 27 July 2006 and communication DEM/6064293 of 28 July 2006, pursuant to art. 78 of the Issuer's Regulations, the EC document of November 2003 and, where applicable, the Italian Civil Code.
The separate financial statements as at 31 December 2019, approved by the Board of Directors of the Company on 13 March 2020, include the statement of financial position, statement of profit/(loss) for the year and the other comprehensive income, statement of cash flow and statement of changes in equity.
As regards the statement of financial position, the presentation format adopted provides for a distinction between current and non-current assets and liabilities, according to paragraphs 60 et seq. of IAS 1.
The presentation of the statement of profit and loss adopts a classification of costs based on the type of expense.
The statement of cash flows was prepared based on the indirect method and is presented in compliance with IAS 7, classifying the financial flows between operating, investment and financing activities.
Details of the Company's accounting standards are included in note 40.
It must be noted that, in reference with Consob Resolution no. 15519 of 27 July 2006 and Communication no. DEM/6064293 of 28 July 2006, the financial statements highlight significant relations with related parties in order to provide better information, and the income items deriving from non recurrent events or transactions are recognised, when significant, separately in the management comments and in the financial information sections.

notes to the separate financial statements

3. Functional and presentation currency

These financial statements are presented in Euro, which is the Company's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

4. Use of judgements and estimates

The preparation of annual separate financial statements and notes thereto in accordance with the IAS/IFRS requires the directors to apply accounting standards that may sometimes be affected by complex and subjective judgements and estimates, based on past experience and assumptions deemed reasonable and realistic in the circumstances.

The application of these estimates and assumptions affects the reporting amounts in the financial statement, such as the statement of financial position, the statement of profit and loss, other comprehensive income, the statement of cash flows and the disclosures included herein. The final figures of the financial statement items for which the afore-mentioned estimates and assumptions were used, may differ from those that were actually realised due to the uncertainties that characterise the assumptions and the conditions on which the estimates are based. Estimates and assumptions are periodically reviewed and the effects of each change are reflected in the period in which the estimate revision is made, if such revision affects only the current period or also in the following periods if the revision affects current and future periods.

The items most affected by directors' judgements and estimates and for which a change in the circumstances underlying the assumptions applied could have a significant impact on the consolidated financial statements are summarised below.

Valuations

Information about management judgements made in applying accounting standards that have the most significant effects on the amounts recognised in the consolidated financial statements is included in the following notes:

- note 7 – revenue recognition: whether revenue from contracts is recognised over time or at a point in time;
- note 15 – equity-accounted investees: whether the Group has significant influence over an investee;
- note 29 – consolidation: whether the Group has de facto control over an investee.

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next year is included in the following notes:

- note 7 – recognition of revenue;
- note 26 – measurement of defined benefit obligations: key actuarial assumptions;
- note 11 – recognition of deferred tax assets: availability of future taxable profit against which deductible temporary differences and tax losses carried forward can be utilised;
- note 14 – impairment test of intangible assets and goodwill: key assumptions underlying recoverable amounts, including the recoverability of development costs;
- notes 27 and 32 – recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources;
- note 18 – measurement of the loss allowance for trade receivables and contract assets; key assumptions used to determine the expected credit losses;

5. Significant accounting standards

The Company has adopted IFRS 16 - Leases starting from 1 January 2019. Therefore the Company, in the capacity as lessee, has recognised the right of use of the assets representing the rights of use of the underlying assets and the lease liabilities entailing the obligation to pay lease fees. The recognition of the lessee is similar to the previous accounting standards. Previously, the Company had determined, at the execution of the agreement, whether it contained a lease, in compliance with IFRIC 4 – Determining whether an arrangement contains a lease. The Company now assesses whether a contract is or contains a lease based on the new definition of lease. According to IFRS 16, a contract is or contains a lease if it attributes the rights to control the use of an identified asset for a certain period of time against payment.

During the transition to IFRS 16, the Company has chosen to apply a practical expedient that does not require determining which transactions represent a lease. It has applied IFRS 16 only to contracts that were previously identified as leases. The contracts not identified as leases pursuant to IAS 17 and IFRIC 4 were not reviewed again in order to determine whether they were leases. Therefore, the definition of a lease pursuant to IFRS 16 was applied only to contracts executed or amended starting from 1 January 2019.

At the start or at the time of the assessment of a contract containing a lease component, the Company attributes the payment stipulated in the contract separately to each lease and non-lease component, based on their prices. However, for the lease of properties of which the Company is the lessee, the latter has chosen not to separate the non-lease components and to recognise instead the lease and non-lease components as a single lease component.

The Company has applied IFRS 16 using the modified retrospective approach, based on which the cumulative effect of the initial application is recognised under the retained profit carried forward to 1 January 2019. Consequently, the comparative information presented for 2018 was not redetermined.

(€'000)	As at 1 January 2019
Lease liabilities	2,584
Total assets for rights of use	**2,584**

notes to the separate financial statements

The right of use refers primarily to land and buildings and other tangible assets such as company cars, industrial equipment, computers and printers.
The Company recognises the lease liabilities under the item "Other loans and borrowings" in the balance sheet, broken down by within and beyond 12 months.
The Company recognises an asset with rights of use and a lease liability at the inception date of the lease. The right of use of an asset is initially measured at cost and subsequently at cost net of accumulated amortisation and impairment loss and adjusted so as to take into account some remeasurements of the lease payable. When an asset with right of use meets the definition of a property investment, it is presented under such item. The right of use is initially designated at cost and subsequently at fair value, in compliance with the accounting standards of the Company.
Financial debt is initially measured at the present value of the instalments not paid at the beginning of the lease, discounted using the interest rate implicit in the lease or if this rate is not easily determinable, the interest rate applied by the Company.
Normally, the Company uses as a discount rate, the incremental borrowing rate.
Financial debt is subsequently increased by the interest expense calculated on the financial debt and after deducting the lease instalments. It is measured again when there is a change in the future payments arising from a change in the index or rate, a change in the estimate of the expected payable amount pursuant to an outstanding guarantee or, eventually, changes in the valuation, for the year, of a purchase, extension or resolution option.
The Company has estimated the duration of lease contracts that include renewal options.
The assessment of the reasonable certainty of the exercise of these options has an impact on the duration of the lease contract which affects significantly the amount of payables and the recognised rights of use.

First-time application

At the first-time adoption, for the leases classified as operating leases according to IAS 17, the lease payables were measured at the current value of the residual instalments, discounted according to the incremental rate of the financial debt of the Company as at 1 January 2019. Goods for consideration are valued at an amount equal to the lease instalments, adjusted based on the amount of prepaid or accrued instalments. The Company does not have significant property leases.
The Company has adopted the following practical measures to apply IFRS 16 to the leases previously classified as operating leases according to IAS 17:

- has applied the exemption of not recognising the rights of use of assets and liabilities for leases of less than 12 months;
- has excluded the initial direct costs of measuring the right of use as at the initial application date;
- has relied on the experience acquired in determining the duration of the leases in those cases where the contract provides for the option to extend or terminate the lease.

As at 1 January 2019, the Company did not have any leases classified as financial leases pursuant to IAS 17.

Impact of the first-time application

At the first-time application of IFRS 16, the Company has recognised additional rights of use, including property investments and additional liability leases, recognising the difference among the retained profits carried forward. The effects of the first-time application are as follows.

In measuring the payables for leases classified as operating leases, the Company has discounted the lease instalments using the incremental borrowing rate as at 1 January 2019. The weighted average rate applied is 5.86%.

(€'000)	As at 1 January 2019
Commitments arising from operating leases as at 31 December 2018 as shown in the separate financial statements of the Company	2,906
Discounting impact	(322)
Commitments deriving from operating leases discounted using the incremental borrowing rate as at 1 January 2019	2,584
Exemption from recognising leases of assets of a modest value	-
Exemption from recognising short-term leases	-
Options for the extension of a lease, the exercise of which is reasonably certain	-
Discounted values using the incremental interest rate as at 1 January 2019	**2,584**

Following first-time application of IFRS 16, as regards the leases previously classified as operating leases, the Company has recognised as at 1 January 2019, €2,584 thousand of payables for leases under "Non-current financial liabilities" and "Current financial liabilities, including derivatives".

As regards lease contracts, pursuant to IFRS 16, the Company has recognised amortisation and interest expense, rather than the costs for operating leases. In 2019, the Company has recognised €856 thousand in amortisation and €63 thousand in interest expense on these lease contracts. No amortisation was recognised on assets with rights of use that fall under the definition of property investments.

notes to the separate financial statements

PERFORMANCE FOR THE YEAR

6. Operating segments

The Company is composed of the following operating divisions:
- Yacht Division;
- Superyacht Division.

The operating divisions have been identified in accordance with IFRS 8 as the components of the Company:
- that engage in business activities from which the Group earn revenues and incur expenses;
- whose operating results are regularly reviewed by the Parent Company's Board of Directors to make decisions about resources to be allocated to the segment and assess its performance; and
- for which discrete financial information is available.

In detail, the type of product is the primarily basis for segmentation identified by the Company. In detail:
- the Yacht segment refers to composite yachts of a length between 24 and 38 metres, marketed under the Sanlorenzo brand;
- the Superyacht segment refers to superyachts in aluminium and steel, of a length of more than 38 metres, marketed under the Sanlorenzo brand;

Key financials for the two segments are regularly prepared and reviewed by the management of the Company, which rely on these data for operating and strategic performance analyses and decisions.

Segments aggregation

As allowed by IFRS 8.12, the Yacht and Superyacht business segments are aggregated into one segment as they have similar economic characteristics in terms of:

a. nature of products: the nature of the product is similar for the two segments, differences depending substantially on size (and related details);
b. nature of production processes: this is the same for the two segments;
c. type or class of customers: these segments have substantially the same customers or same class of customers for its products and services;
d. methods used to distribute the products: these are the same for both Yacht and Superyacht;
e. nature of the regulatory environment: no differences exists in relation to the regulatory environment underlying the business of the two segments;
f. margins: as a consequence of the similarities as per the preceding points, the two segments have also similar marginality whose differences are not substantial but rather temporary and depending on timing of introduction of new products and/or specific marketing actions.

It is also noted that the two segments share common contractual base features.

Reported Segments

Based on the identification and aggregation steps highlighted above, the only reported segment is the aggregated one including Yacht and Superyacht.

7. Revenue and agency commissions

(€'000)	31 December 2019	31 December 2018	Change
Revenue from contracts with customers	486,019	377,707	108,312
Agency commissions	(12,918)	(12,171)	(747)
Net revenues	**473,101**	**365,536**	**107,565**

Revenue from contracts with customers
Revenue from contracts with customers is earned on the sale of new and pre-owned boats, which are shown in the above table gross and net of the agency commissions paid to finalise the sales contracts.
Revenue gross of agency commissions paid amounts, respectively, to €486,019 thousand as at 31 December 2019 and €377,707 thousand as at 31 December 2018. As at 31 December 2019, gross revenue is €108,312 thousand higher than the previous year due to the increase in sales of new boats.

Disaggregation of revenue from contracts with customers

A breakdown of revenue from contracts with customers by type is as follows:

(€'000)	31 December 2019	31 December 2018	Change
Revenues New Yachts	437,676	322,811	114,865
Revenue from pre-owned	42,382	50,528	(8,146)
Revenue from maintenance and other services	5,961	4,368	1,593
Revenue from contracts with customers	**486,019**	**377,707**	**108,312**

Revenue from new boat sales includes guarantee deposits from customers who cancelled their purchases and forfeited their deposit to the Company, in accordance with the relevant contracts signed with the customers. They are recognised in profit or loss and amount to €790 thousand and €1,850 thousand for 2019 and 2018, respectively.

Revenue from pre-owned boats sales amounts to €42,382 thousand and €50,528 thousand for 2019 and 2018, respectively.

Revenue from maintenance and sales of spare parts for each type of boat, amounting to €5,961 thousand as at 31 December 2019 and €4,368 thousand as at 31 December 2018, are managed in separate orders received from the customers and represent obligations different from those for the sale of yachts.

A breakdown of revenue from contracts with customers by division is as follows:

(€'000)	31 December 2019	31 December 2018	Change
Yacht Division	319,170	272,369	46,801
Superyacht Division	166,849	105,338	61,511
Revenue from contracts with customers	**486,019**	**377,707**	**108,312**

The next table breaks down the revenue from contracts with customers on the basis of the nationality of the owner customer by geographical segment:

(€'000)	31 December 2019	31 December 2018	Change
Italy	75,929	49,540	26,389
Europe (other countries)	239,125	164,212	74,913
USA	32,587	30,717	1,870
Americas (other countries)	27,497	45,964	(18,467)
APAC	75,688	69,513	6,175
Middle East and Africa	35,193	17,761	17,432
Revenue from contracts with customers	**486,019**	**377,707**	**108,312**

Performance obligations and revenue recognition policies

Revenue is measured based on the consideration specified in the contract with the customer.
The Company recognises revenue when it transfers control over a good or service to a customer.

Nature and conditions of performance obligations, significant payment terms and recognition of the revenue in accordance with IFRS 15

The sale of new boats (90.0% of gross revenues for the year ended 31 December 2019 and 85.4% for the year ended 31 December 2018) meets the requirement for the transfer of control and for the fulfilment of performance obligations over the boat-building period (i.e., over time). Specifically, new boats are custom built to the customer's requests and the Company has the enforceable right to payment for the performance completed to date plus a reasonable profit margin, should the customer cancel the contract for convenience. The client usually pays the Company a down payment amount on signing. In the event of renunciation of a purchase of the boat by the customer this amount is retained by the Company and included in revenues.

Revenue and associated costs are recognised over time – i.e. before the goods are delivered to the customers' premises. Progress is determined based on the cost-to-cost method and costs are recognised in profit and loss when they are incurred. Specifically, revenues generated on the basis of the progress of job orders (over time), not yet invoiced to customers and/or for the portion not covered by advances received, are presented in the balance sheet as "Contract assets". More detailed information is provided in note 17.

Invoices are issued as contractually agreed at the single unit level. The customer provides an advance when the contract is signed and progress billings are issued at agreed milestones.

For example, invoices are issued:

- when the contract is signed;
- when the hull, deck and superstructure have been completed;
- when the internal partitioning has been completed;
- when the main engines have been installed;
- when the work has been completed, i.e. the board is ready for delivery; the "Inspection and acceptance certificate" and the "Deed of transfer of title" are concurrently signed.

It has been estimated that a large part of the price of a boat is generally paid through subsequent advance payments and during the progress of the work as highlighted above and only a residual portion is settled when the boat is delivered.

The difference, for each contract, between the amounts billed and the work in progress is recognised under contract assets (if positive) or contract liabilities (if negative).
Fulfilment of the performance obligation in relation to the sale of pre-owned boats (8.6% of revenues for the year ended 31 December 2019 and 13.1% for the year ended 31 December 2018) is recognised at a point in time.
The contract terms usually agreed for sales of pre-owned boats provide that transfer of control takes place with transfer of title when the sales contract is signed.
Invoices are issued in accordance with the contract terms and are settled before the date of delivery of the pre-owned boat.

Agency commissions

The item Agency commissions amounts to €12,918 thousand and €12,171 thousand as at 31 December 2019 and 31 December 2018, respectively. This amount represents the costs incurred by the Company for the intermediation activity carried out by the dealers.
As at 31 December 2019, agency commissions showed a €747 thousand increase versus the previous year. This trend is consistent with the revenue trend.

notes to the separate financial statements

8. Income and expenses
Other income

(€'000)	31 December 2019	31 December 2018	Change
Gains on disposals of assets	13	35	(22)
Other revenue	3,398	4,066	(668)
Other income	**3,411**	**4,101**	**(690)**

Other income amount to €3,411 thousand and €4,101 thousand for 2019 and 2018, respectively. As at 31 December 2019, other income was down by €690 thousand versus the previous year.
"Other revenue" includes:
• income for services provided to suppliers;
• the recognition of a tax benefit on R&D expenditure incurred over the years.

Operating costs

(€'000)	31 December 2019	31 December 2018	Change
Increases in internal work	(1,693)	(1,176)	(517)
Raw materials, consumables and finished products	193,304	132,501	60,803
Outsourcing	163,227	110,084	53,143
Other service costs	46,134	38,958	7,176
Change in work in progress, semi-finished and finished products	(26,395)	22,752	(49,147)
Personnel expenses	32,440	26,092	6,348
Other operating costs	3,718	4,003	(285)
Accruals to provisions and impairment losses	6,136	2,516	3,620
Operating costs	**416,871**	**335,730**	**81,141**

Operating costs amounted to €416,871 thousand and €335,730 thousand for 2019 and 2018, respectively.
Work performed by Sanlorenzo and capitalised refer to personnel costs involved in development activities and capitalised in the item development costs classified as intangible assets with a finite useful life. In the years 2019 and 2018, the Company decided to capitalise also internal personnel under development activities.
Raw materials, consumables and finished products are presented net of returns, discounts, allowances and bonuses. The increase of €60,803 thousand in 2019 from the previous year is mainly due to higher purchase volumes of raw materials, consumables and finished products as consequence of the rise in revenue for the building and sale of the boats.
Outsourcing chiefly related to naval carpentry services, turnkey furnishings for yachts and superyachts, electrical and plumbing work and the fitting of the boat's interior and exterior.
The related cost increased by €53,143 thousand from 2018 to 2019.
"Other service costs" mostly comprised costs for consultancy services, transport, the board of directors' and statutory auditors' fees, travel and cleaning and maintenance. Changes in "Other service costs" stood at €7,176 thousand in 2019 from 2018.
The change in working in progress, semi-finished and finished products amounted to €(26,395) thousand and €22,752 thousand respectively as at 31 December 2019 and 2018. Work in progress refers to work orders of less or more than one year duration for which the contract with the customer was not yet finalised by the end of the financial year.
Personnel expenses increased by €6,348 thousand in 2019 from 2018. This change reflected the growth in personnel due to an expansion of the Company as shown in the following table:

	31 December 2019	31 December 2018	Change
Managers	25	25	-
White collars	340	271	69
Blue collars	91	86	5
Total	**456**	**382**	**74**

A breakdown of personnel expenses is as follows:

(€'000)	31 December 2019	31 December 2018	Change
Wages and salaries	23,578	18,459	5,119
Social security contributions	7,559	6,315	1,244
Post-employment benefits	1,303	1,318	(15)
Total	**32,440**	**26,092**	**6,348**

The other operating costs mostly related to advertising for €2,172 thousand and €2,218 thousand in 2019 and 2018, respectively, and other sundry costs stood at €1,546 thousand and €1,785 thousand for 2019 and 2018, respectively. Between 2019 and 2018, other operating costs decreased by €285 thousand.
In 2019, accruals to provisions and impairment losses consisted of €370 thousand for risk provisions, €3,704 thousand for commitments to withdraw pre-owned boats for the sale of new boats and other provisions for €2,062 thousand. Provisions increased by €3,620 thousand in 2019 from 2018.

Amortisation, depreciation and impairment losses

Amortisation, depreciation and impairment losses amounted to €14,518 thousand and €9,249 thousand respectively as at 31 December 2019 and 2018. The change between 2019 and 2018 was €5,269 thousand and is due to the higher capital expenditures made during 2019.

In 2019, the amount of amortisation of intangible assets was €3,906 thousand, referring primarily to the amortisation of trademarks and patents for €271 thousand, amortisation of development expenses for €2,419 thousand, amortisation of state concession of the construction site of La Spezia for €361 thousand, amortisation of the rights of use of the warehouses of Viareggio for €442 thousand and amortisation of software applications for €276 thousand.

In 2019, depreciation of tangible assets stood at €10,612 thousand, referring principally to depreciation of industrial and commercial equipment (€5,250 thousand), land and buildings (€3,278 thousand), other assets (€1,576 thousand) and plant and equipment (€509 thousand).

(€'000)	31 December 2019	31 December 2018	Change
Amortisation	3,906	2,365	1,541
Depreciation	10,612	6,884	3,728
Amortisation, depreciation and impairment losses	**14,518**	**9,249**	**5,269**

notes to the separate financial statements

9. Net financial expense

This item includes:

(€'000)	31 December 2019	31 December 2018	Change
Financial income	302	21	281
Financial expense	(5,179)	(2,891)	(2,288)
Net financial expense	**(4,877)**	**(2,870)**	**(2,007)**

Net financial expense amounted to €(4,877) thousand and €(2,870) thousand for 2019 and 2018, respectively.
This increase of €(2,007) thousand between 2019 and 2018 refers to the higher interest expense due to Sanlorenzo S.p.A. assumption of a medium/long-term loan from the holding company WindCo, amounting to €40,070 thousand, following the reverse merger, with accounting impact starting from 1 January 2019 as well as the impact from the recognition in the statement of profit and loss of the transaction costs relating to this loan, still not amortised as at the settlement date which took place in December.
A breakdown of each item making up this item is provided below:

(€'000)	31 December 2019	31 December 2018	Change
Interest income - third parties	278	16	262
Interest income – banks	24	3	21
Other financial income	-	2	(2)
Financial income	**302**	**21**	**281**

(€'000)	31 December 2019	31 December 2018	Change
Interest expense – banks	(3,877)	(1,516)	(2,361)
Sundry bank charges	(786)	(914)	128
Interest expense - third parties	(221)	(312)	91
Other financial expense	(295)	(149)	(146)
Financial expense	**(5,179)**	**(2,891)**	**(2,288)**

10. Income taxes

This item can be broken down as follows:

(€'000)	31 December 2019	31 December 2018	Change
Current taxes	(8,720)	(5,733)	(2,987)
Taxes relative to prior years	(2,876)	(156)	(2,720)
Deferred tax assets and liabilities	390	(43)	433
Income taxes	**(11,206)**	**(5,932)**	**(5,274)**

The 2019, "Income taxes" stood at €(11,206) thousand, up by €(5,274) thousand over the previous year. This item consists of current taxes of €(8,720) thousand, taxes relative to prior years of €(2,876) thousand including the accruals set aside to take account of the potential liabilities resulting from tax audits, foreign taxes for the US subsidiary of €(109) thousand and positive changes in deferred tax assets and liabilities for €(390) thousand. More information on deferred tax assets and liabilities is available in the tables in the attachments.

In 2019, current taxes increased by €(2,987) thousand (+52.11%) due to the significantly higher pre-tax profit (€22,241 thousand).

A reconciliation between the effective and theoretical tax expense is as follows:

(€'000)	31 December 2019	31 December 2018
Pre-tax profit	**40,265**	**18,024**
Tax rate	24%	24%
Theoretical IRES	9,664	4,326
Non-deductible expenses	2,873	1,079
R&D credit exempt	(282)	(439)
Tax incentive	(2,467)	(109)
Impact of IRES tax rate on deferred taxes	-	-
Current year losses on subsidiaries for which no deferred tax asset was recognised	-	-
Effect of tax rate in foreign jurisdiction and other differences	(282)	42
IRAP	1,700	1,033
Income taxes	**11,206**	**5,932**

Current tax assets and liabilities

(€'000)	31 December 2019	31 December 2018	Change
Current tax assets	(5,859)	(3,103)	(2,756)
Current tax liabilities	8,904	6,388	2,516
Net assets/(liabilities) for current taxes	**3,045**	**3,285**	**(240)**

Assets refer to IRES and IRAP advances paid in 2019. Current tax liabilities, totalling €8,904 thousand and €6,388 thousand as at 31 December 2019 and 2018 respectively, refer to IRES and IRAP liabilities.

Net deferred tax assets

(€'000)	31 December 2019	31 December 2018	Change
Net deferred tax assets	2,211	1,998	213

The balance shows the difference between deferred tax assets and liabilities that arose over the years. Net deferred tax assets stood at €2,211 thousand as at 31 December 2019 versus €1,998 thousand as at 31 December 2018. The main temporary differences that gave rise to the deferred tax assets relate to accruals to provisions for risks and charges, write-downs of pre-owned boats, impairment losses on financial assets, amortisation of the Sanlorenzo trademark recognised in previous years and impairment losses on receivables. Deferred tax assets are recognised when management deems they will be recovered through future taxable profits based on the business plans. Deferred tax liabilities relate to current and prior years income taxes to be paid in future in line with the applicable tax legislation. The Company recognised deferred tax liabilities calculated using the enacted rates on the increase in the carrying amount of company-owned buildings made by allocating part of the goodwill thereto (in previous years).

The following tables provide details on the changes, nature and amount of temporary differences and the amounts recognised in profit or loss as at 31 December 2019 and 2018.

(€'000)	Tax Effect as at 1 January 2019	FTA	Adjustments	Utilisations 2019	Accruals 2019	Total in profit or loss 2019	Tax effect as at 31 December 2019
Deferred tax assets							
Loss allowance	224	-	-	133	-	(133)	91
Provisions for risks and charges	1,511	-	-	563	1,712	1,149	2,660
Unpaid directors' fees	7	-	-	7	5	(2)	5
Unpaid membership fees	4	-	-	4	3	(1)	3
Amortisation of trademarks	284	-	-	284	-	(284)	-
Amortisation of Goodwill	4	-	-	1	-	(1)	3
Impairment losses on pre-owned boats	954	-	-	954	250	(704)	250
Effect of IFRS 38	-	32	-	22	-	(22)	10
Effect of IAS 17	-	-	-	-	-	-	-
Share capital increase cost against Reserve	-	-	-	-	471	471	471
Sanlorenzo of the Americas LLC balances	-	2,001	-	1,422	-	(1,422)	579
R&D deferred	-	288	-	47	-	(47)	241
Agency commissions on contracts of less than one year	-	359	-	359	-	(359)	-
Derivatives	-	-	-	-	-	-	-
Effect of IAS 19	-	-	-	-	-	-	-
Legal costs	-	242	-	-	-	-	242
Effect of IFRS 15	-	-	-	-	-	-	-
Measurement of financial liabilities at amortised cost	-	166	-	24	-	(24)	142
Other	-	325	(177)	89	-	(89)	59
Total deferred tax assets	**2,988**	**3,413**	**(177)**	**3,909**	**2,441**	**(1,468)**	**4,756**
Deferred taxes							
Depreciation on revalued assets	(1675)	-	-	86	-	86	(1,589)
Differences on goodwill for Irap purposes	-	-	-	-	-	-	-
Deferred tax liabilities on goodwill	-	-	-	-	-	-	-
Contracts of less than one year	-	(2,010)	-	1,922	-	1,922	(88)
Amortisation of development costs over its useful life	-	(685)	-	433	592	(159)	(844)
Other	(32)	-	-	34	26	8	(24)
Total deferred tax liabilities	**(1,707)**	**(2,695)**	**-**	**2,475**	**618**	**1,857**	**(2,545)**
Net deferred tax assets	**1,281**	**718**	**(177)**	**6,384**	**3,059**	**389**	**2,211**

ASSETS

11. Property, plant and equipment
Property, plant and equipment amounted to €98,862 thousand and €77,057 thousand as at 31 December 2019 and 31 December 2018, respectively.
A breakdown of the item at each date presented and changes therein is provided below.

(€'000)	Land and buildings	Industrial equipment	Plant and equipment	Other assets	Assets under development	Total
Historical cost	56,176	42,460	6,935	8,498	19,040	**133,109**
Accumulated depreciation	(21,324)	(25,928)	(4,147)	(4,653)	-	**(56,052)**
Carrying amount as at 31 December 2018	**34,852**	**16,532**	**2,788**	**3,845**	**19,040**	**77,057**
Changes:	-	-	-	-	-	-
Additions	6,041	9,332	1,739	3,304	12,090	**32,506**
Disposals	-	-	(33)	(96)	-	**(129)**
Reclassifications	537	5,349	(84)	-	(5,886)	**(84)**
Depreciation	(3,278)	(5,250)	(509)	(1,575)	-	**(10,612)**
Utilisation of accumulated depreciation	-	-	86	38	-	**124**
Historical cost	62,754	57,141	8,557	11,706	25,244	**165,402**
Accumulated depreciation	(24,602)	(31,178)	(4,570)	(6,190)	-	**(66,540)**
Carrying amount as at 31 December 2019	**38,152**	**25,963**	**3,987**	**5,516**	**25,244**	**98,862**

As at 31 December 2019, property, plant and equipment comprises:

- Land and buildings of €38,152 thousand, mostly comprising the Company's buildings at the production sites in Ameglia (SP), Viareggio (LU) and La Spezia.
- Industrial equipment of €25,963 thousand, mainly consisting of technical tools for scaffolding, handling and extraction of fibreglass moulding.
- Plant and equipment of €3,987 thousand, mostly comprising fire and intake systems.
- Other assets, €5,516 thousand chiefly include office furniture and fittings, trade fair equipment and electronic equipment.
- Assets under development of €25,244 thousand mainly include the costs incurred to construct new buildings (offices and warehouses) for expanding the production site of Ameglia (SP) and the costs for aligning the Massa (MS) production site to the applicable regulations.

In the year 2019, property, plant and equipment increased by €32,506 thousand, mainly for assets under development by €12,090 thousand, industrial equipment by €9,332 thousand, buildings by €6,041 thousand, other assets by €3,304 thousand and plants by €1,739 thousand. Specifically, the increase in assets under development mostly related to the warehouses being built in Ameglia (SP) in the area adjacent to the current production site.
In 2019, disposals amounted to €129 thousand, net of accumulated depreciation of €124 thousand, and involved plants and other assets.
Depreciation in 2019 amounted to €10,612 thousand, €3,728 thousand higher than in 2018 mostly as a result of the investments made during the year.

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12. Goodwill

Goodwill is recognised in the financial statements at the date of acquisition of the control of a business pursuant to IFRS 3 and is the aggregate of the consideration transferred to acquire a business or a business unit and the algebraic sum of the fair values, assigned at the acquisition date, to the identifiable assets and liabilities acquired that composed such business or business unit.

As it has an indefinite useful life, goodwill is not amortised but is tested for impairment at least once a year unless some indications of impairment based on external and internal sources of information identified by the Company makes it necessary to test it for impairment also during preparation of the interim reports. For impairment testing purposes, goodwill acquired as part of a business combination is allocated to the individual Cash-Generating Units (or groups of CGUs) that are expected will benefit from the combination synergies, in line with the minimum level for which that goodwill is monitored by the Company.

After its initial recognition, goodwill is measured at cost less any accumulated impairment losses.

(€'000)	31 December 2019	31 December 2018	Change
Goodwill [21]	8,667	8,667	-

As at 31 December 2019 and 31 December 2018, goodwill was €8,667 thousand.

It arose on the 2008 merger of the former holding company, Happy Fly S.r.l., and its subsidiary FlyOpen S.p.A. into Sanlorenzo S.p.A.

The Company applied the exemption, provided by IFRS 1.C1 for business combinations, which allows the first- time adopter not to apply IFRS 3 retrospectively to business combinations that occurred before the date of transition to IFRSs.

[21] *Goodwill for the year 2018 takes into account the date of the first-time adoption of the IFRS, starting from 1 January 2018. The difference with respect to the corresponding item included in the Prospectus formalised for the purposes of the listing of the Company's shares on the Mercato Telematico Azionario is due to the different reference time period.*

13. Intangible assets with a finite useful life

Intangible assets with a definite useful life amounted to €36,680 thousand as at 31 December 2019 and €25,389 thousand as at 31 December 2018.
A breakdown of the item at each date presented and changes therein is provided below.

(€'000)	Concessions, licences, trademarks and similar rights	Other assets	Development costs	Assets under development	Total
Historical cost	14,167	486	19,598	5,648	**39,899**
Accumulated amortisation	(2,772)	(473)	(11,265)	-	**(14,510)**
Carrying amount as at 31 December 2018	**11,395**	**13**	**8,333**	**5,648**	**25,389**
Changes:	-	-	-	-	**-**
Additions	10,157	-	4,345	699	**15,201**
Disposals	-	-	-	-	**-**
Reclassifications	-	(2,153)	2,582	(2,581)	**(2,152)**
Amortisation	(1,486)	(1)	(2,420)	-	**(3,907)**
Utilisation of accumulated amortisation	-	2,149	-	-	**2,149**
Historical cost as at 31 December 2019	24,324	(1,667)	26,525	3,766	**52,948**
Accumulated amortisation and impairment losses as at 31 December 2019	(4,258)	1,675	(13,685)	-	**(16,268)**
Carrying amount as at 31 December 2019	**20,066**	**8**	**12,840**	**3,766**	**36,680**

notes to the separate financial statements

With reference to the development costs presented in the consolidated financial statements of Sanlorenzo S.p.A. as at 31 December 2019, no impairment indicators were identified to suggest that capitalised development costs were subject to impairment.
As at 31 December 2019, intangible assets with a finite useful life comprises:

- Concessions, licences, trademarks and similar rights for €20,066 thousand: in detail, this item is composed primarily of the concession acquired together with the business unit of the former Cantieri San Marco for €3,972 thousand; trademark of the Company for €4,337 thousand; a mooring right acquired by the Company until 2067 in La Spezia in "Porto Mirabello" amounting to €1,796 thousand; the right of use for the properties in Viareggio for €8,961 thousand acquired with the demerger of Polo Nautico during the year; the software application for €599 thousand and sundry rights for €400 thousand.
- Other assets of €8 thousand;
- Development costs of €12,840 thousand, comprising costs to design and develop new boats incurred by the Company.
- Assets under development of €3,766 thousand, mostly consisting of development costs for the design and study of new boat models.

In 2019, the additions of €15,201 thousand mainly related to assets under development (€699 thousand), development costs (€4,345 thousand) and trademarks, patents, rights on use of buildings and mooring rights (€10,157 thousand).
Amortisation in 2019 amounted to €3,907 thousand, €1,541 thousand higher than in 2018 mostly as a result of the investments made during the year.

Recoverability of development costs
As at 31 December 2019 and 2018, intangible assets include projects to develop new boats and innovative fibreglass, steel and aluminium solutions for medium to large boats in the amount of €12,840 thousand and €8,333 thousand, respectively.
Its design costs, over eight years, were amortised based on a 12.5% rate.
Projects normally take between one to three years to develop (roughly 18 months for fibreglass boats) and the Company usually recognises the related costs over this period. The design stage ends with the building of the prototype and the model is definitive for sale on the market (new boat design). However, the Company may incur design costs after this if it decides to improve the boat, restyle it or if the customer requests customisation (boat design in production). Designs obviously have to reflect market trends and consider competitors' strategies. Due to difficulties in identifying the right moment for a new product to go to market, the Company defines its specific strategy in this respect each year.
Based on the business plan, which considers sales forecasts, Company management deems that the development costs recognised as at 31 December 2019 is recoverable.

14. Impairment test

This section describes the methods applied to test goodwill and development costs for impairment in accordance with IAS 36 and the results of these tests.

As at 31 December 2019, the Company checked the recoverable amount of its intangible assets of €8,667 thousand, in line with its impairment procedure.

The Company identified a Cash-Generating Unit (CGU) for the goodwill for impairment testing purposes.

The test for impairment on its assets, in accordance with IAS 36, provides for two different calculations of the recoverable amount, either value in use or fair value less costs to sell. Paragraph 18 of IAS 36 defines the "recoverable amount as the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use". In this case, as it was not possible to measure the fair value of the assets being tested for impairment as at 31 December 2019, management estimated their recoverable amount considering value in use, calculated by discounting the 2020-2022 estimated operating cash flows obtained from the financial projections in the 2020-2022 Plan of Sanlorenzo S.p.A.

The 2020-2022 Plan of Sanlorenzo S.p.A., extrapolated from the 2020-2022 Plan drawn up by the Group, approved by the Board of Directors on 16 September 2019, was also approved on 13 March 2020 by the Board of Directors of the Company.

The difference between the resulting value in use and the carrying amount of the net operating invested capital, including goodwill and development costs, is positive by roughly 330%.

Management used the WACC, estimated as follows, as the discount rate:

- the risk free rate was taken to be equal to the average rate of return on 10-year government bonds, i.e. 1.97%;
- an equity risk premium of 6.00% was used;
- a beta levered coefficient was measured considering a basket of listed companies active in the same sector as the Company, i.e. 1.23;
- an additional risk premium of 4.00% was used.

The cost of debt was estimated to be 1.97%, increased by a specific spread (1.50%), obtained from an analysis of the credit spreads of a basket of comparables.

It was also used a debt to equity ratio of 93.96%, equal to the average debt to equity ratio of a basket of comparables.

Application of this model led to the calculation of a discount rate of 8.17% (pre-tax WACC of 10.75%).

The terminal value was calculated using the "perpetuity" formula, assuming a growth rate "g" of 1.30% and a normalised operating cash flow using the projections for 2022, last year considered as basis in the calculation for impairment test.

Management also tested the model's sensitivity by changing the above parameters to check its robustness and accuracy.

It assumed a change of up to 1% in the discount and growth rates and a decrease in the cash flows estimated using the approved business plan (-10.00%). This sensitivity analysis did not show that the assets were impaired.

An analysis of the base scenario and the sensitivity analysis after introducing changes to the main parameters of the impairment test showed that the carrying amount of Group goodwill is recoverable.

The following table shows the WACC, growth rate and percentage of operating cash flows that individually align the CGU's recoverable amount with its carrying amount as at 31 December 2019.

	Base scenario	WACC	Growth rate	Operating cash flows
WACC	9.58%	32.90%	9.58%	9.58%
Growth rate (g)	1.30%	1.30%	-42.70%	1.30%
Operating cash flows	100.00%	100.00%	100.00%	24.80%

15. Equity investments and other non-current assets

Equity investments and other non-current assets may be analysed as follows:

(€'000)	31 December 2019	31 December 2018	Change
Subsidiaries	2,559	2,374	185
Associates	332	-	332
Other companies	34	33	1
Other assets	-	310	(310)
Equity investments and other non-current assets	**2,925**	**2,717**	**208**

Changes in the investments in associates and other companies over the year are shown below:

(€'000)	Subsidiaries	Associates	Other companies	Other assets	Total
Carrying amount as at 31 December 2018	**2,374**	**-**	**33**	**310**	**2,717**
Changes:					
Additions/Capital increases	985	334	22		1,341
Disposals	(800)	(2)	(21)	(310)	(1,133)
Carrying amount as at 31 December 2019	**2,559**	**332**	**34**	**-**	**2,925**

Investments in subsidiaries totalled €2,559 thousand and €2,374 thousand for the years ended 31 December 2019 and 31 December 2018 and refer to the transfer of GP Yachts and to the full purchase of Bluegame. In detail:

Company name	Share Capital	%	Nominal value (Euro)	Book value (Euro)	Share of equity (Euro)	Equity (Euro)	Profit/(loss) for the year (Euro)	Financial Statements as at
Bluegame S.r.l. Viareggio (LU) – Italy	Euro 100,000	100%	100,000	1,035,500	1,487,487	1,487,487	752,124	31/12/2019
Sanlorenzo of the Americas LLC Fort Lauderdale (FL) – USA	USD 2,000,000	90%	1,290,029	1,433,366	659,353	(2,852,758)	(2,069,855)	31/12/2019
Sanlorenzo Baleari SL Puerto Portals, Maiorca – Spain	Euro 500,000	51%	255,000	-	(2,403,969)	(4,713,665)	(32,250)	31/12/2019
Marine Yachting Monaco S.A.M. Principality of Monaco	Euro 150,000	60%	90,000	90,000	210,203	350,338	28,126	31/12/2019

Investments in associates amounted to €332 thousand and €0 as at 31 December 2019 and 2018, respectively. This item refers to the investment held in the associate Polo Nautico.
Investments in other companies amounted to €34 thousand and €33 thousand as at 31 December 2019 and 2018 respectively, and are represented by investments that are fairly negligible in companies and consortiums, not falling under the consolidation scope. The item "Other assets" was €0 and €310 thousand as at 31 December 2019 and 2018 respectively. This item was zeroed as it relates to the guarantee deposit paid to the company Polo Nautico for the acquisition of the share of the Viareggio production site.

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16. Inventories

This item may be broken down as follows as at 31 December 2019 and 2018.

(€'000)	31 December 2019	31 December 2018	Change
Raw materials, consumables and supplies	6,036	4,859	1,177
Work in progress and semi-finished products	31,964	21,972	9,992
Finished products	24,163	10,520	13,643
Allowance for inventory write-down - finished products	(897)	(3,420)	2,523
Inventories	**61,266**	**33,931**	**27,335**

Inventories amounted to €61,266 thousand and €33,931 thousand as at 31 December 2019 and 2018, respectively.
Raw materials, consumables and supplies include the materials necessary to build the boats.
Work in progress and semi-finished products relates to the boat construction contracts that have not been finalised with the customer before year end.
The change recorded between 31 December 2019 and 31 December 2018 is mostly due to a change in the product portfolio: the Company decided to increase its production of yachts of less than 24 metres which led to an increase in semi-finished products, since those are not covered by customers' orders.
The finished goods comprise traded-in boats, which are recognised at their fair value when the Company receives them.

During the valuation process of pre-owned boats, the Company relies on various elements such as the analysis of the specific characteristics of the pre-owned boats, the valuations carried out at the time of their purchase including age, current market trend, also through the indications of an independent third party, the uniqueness of each boat and of each trade negotiation, as well as the sales already concluded in the subsequent period. The project "Experienced Yachts", designed to diversify and qualify the pre-owned boats of the Company compared with the competition, provides for each boat that is part of the programme to be valued, managed and reconditioned by the Company's personnel in order to guarantee the efficacy of the boats' machinery and instruments. The measurement of pre-owned boats is based on an independent expert appraisal which considers the above factors and each boat's general conditions.

Changes in the allowance for inventory write-down over the three years are as follows:

(€'000)	Balance
Allowance for inventory write-down - finished products as at 31 December 2018	**3,420**
Accruals	897
Utilisations	(3,420)
Allowance for inventory write-down - finished products as at 31 December 2019	**897**

17. Contract assets and liabilities

Contract assets refer to ongoing contracts measured using the cost-to-cost method as the contract terms have already been finalised with the customer.
They are recognised as assets net of the related contract liabilities when, based on a case-by-base analysis, the gross value of the work performed at the reporting date is higher than the progress payments received from the customers. Conversely, if the progress payments are greater than the related contract assets, the difference is recognised as a contract liability.
Net contract assets are as follows:

(€'000)	31 December 2019	31 December 2018	Change
Contract assets (gross)	408,870	222,472	186,398
Progress payments	(333,089)	(148,911)	(184,178)
Contract assets (net)	**75,781**	**73,561**	**2,220**

With reference to each financial year end, the revenues related to activities to be still carried out and involving obligations toward the customers are as follows:

(€'000)	31 December 2019	31 December 2018	Change
Yacht	208,370	168,776	39,594
Superyacht	224,271	226,570	(2,299)
Total	**432,641**	**395,346**	**37,295**

Unsatisfied or partially unsatisfied performance obligations refer to all the boats (both with original expected duration within 1 year and more) and are expected to be recognised in accordance with production timing related to yacht (between 7 and 16 months on average) and superyacht (between 24 and 46 months on average).
Net contract liabilities are as follows:

(€'000)	31 December 2019	31 December 2018	Change
Payables for work to be carried out	2,062	2,017	45
Total advances received from customers	346,815	188,414	158,401
Advances deducted from contract assets	(333,089)	(148,911)	(184,178)
Contract liabilities (net)	**15,788**	**41,520**	**(25,732)**

This item amounted to a net €15,788 thousand and €41,520 thousand as at 31 December 2019 and 31 December 2018, respectively. The change of €(25,732) thousand between 2019 and 2018 is mainly due to the increase in advances received from customers.
Liabilities arising from contracts as at 31 December 2019 were recorded as revenues in the following financial year with the exception of the amount of €895 thousand, which relate to a portion of the advance received from a customer, which is being disputed.

18. Trade receivables

(€'000)	31 December 2019	31 December 2018	Change
Receivables from customers	17,122	24,837	(7,715)
Trade receivables from subsidiaries	10,324	20,551	(10,227)
Loss allowance	(379)	(1,071)	692
Total trade receivables	**27,067**	**44,317**	**(17,250)**

Trade receivables amounted to €27,067 thousand and €44,317 thousand as at 31 December 2019 and 31 December 2018, respectively.
As at 31 December 2019, trade receivables decreased compared with the same figure of 31 December 2018 by €17,250 thousand.
The trade receivables are presented net of the loss allowance set up over the years to provide for credit-impaired receivables that are still recognised pending the completion of the related court-approved creditors' settlement procedure or out-of-court recovery proceedings. It is deemed that the loss allowance is adequate to cover any risks of losses.
Changes in the loss allowance in 2019 are as follows:

(€'000)	Balance
Loss allowance as at 31 December 2018	1,071
Utilisations/Releases	(692)
Accruals	-
Loss allowance as at 31 December 2019	**379**

A breakdown of trade receivables by geographical area is as follows:

(€'000)	31 December 2019	31 December 2018	Change
The Netherlands	440	1,130	(690)
Germany	1,712	4,024	(2,312)
Italy	4,388	5,477	(1,089)
Europe (other countries)	4,063	3,191	872
Americas	8,581	21,671	(13,090)
Saudi Arabia	6,000	-	6,000
Other Middle East countries	938	17	921
Hong Kong	389	6,773	(6,384)
APAC (other countries)	556	2,024	(1,468)
Africa	-	10	(10)
Receivables from customers	**27,067**	**44,317**	**(17,250)**

A breakdown of receivables from customers by due date is as follows:

31 December 2019	Not overdue	Overdue for (dd)		
(€'000)		0-365	366-730	>730
Receivables from customers	12,975	11,243	745	200
Loss allowance	-	(179)	-	(200)
Receivables for customers to be invoiced	2,283	-	-	-
Total Receivables from customers	**15,258**	**11,064**	**745**	**-**

19. Other current assets

(€'000)	31 December 2019	31 December 2018	Change
Payments on account to suppliers	12,791	14,255	(1,464)
Other assets	6,590	2,280	4,310
Other tax assets	12,526	9,068	3,458
Costs to obtain the contracts	5,792	6,433	(641)
Accrued income and prepaid expenses	3,591	2,923	668
Other receivables and other current assets	**41,290**	**34,959**	**6,331**

The item "Other current assets" amounted to €41,290 thousand and €34,959 thousand as at 31 December 2019 and 31 December 2018, respectively. All the amounts due are deemed to be collectable and, therefore, they have not been impaired.
Over the year ended 31 December 2019, this item shows an increase of €6,331 thousand due primarily to an increase in tax payables. The increase refers primarily to the VAT of the Company. The generation of significant VAT receivables during each year is typical of the sector to which the Company belongs.
In addition, costs for the acquisition of contracts related to agency commissions were down by €641 thousand. Agency fees were recognised in the profit and loss based on a time approach that follows the work in progress on a boat.

20. Cash and cash equivalents

(€'000)	31 December 2019	31 December 2018	Change
Banks and postal current account	55,311	40,880	14,431
Cash on hand	27	47	(20)
Cash and cash equivalents	**55,338**	**40,927**	**14,411**

Cash and cash equivalents amounted to €55,338 thousand and €40,927 thousand as at 31 December 2019 and 2018, respectively. The statement of cash flows provides more information about changes in cash and cash equivalents.

21. Other financial assets, including derivatives

This item includes loans granted to parents and associates, term current accounts and bonds.

(€'000)	31 December 2019	31 December 2018	Change
Other securities	-	-	-
Loans granted to parents	1	70	(69)
Loans granted to subsidiaries	14,180	8,184	5,996
Loans granted to associates	-	-	-
Term current accounts	6,500	16,100	(9,600)
Derivatives	152	291	(139)
Total other financial assets	**20,833**	**24,645**	**(3,812)**

Derivatives amounted to €152 thousand and €291 thousand as at 31 December 2019 and 31 December 2018 respectively. They include currency hedges (EUR/USD) and interest rate hedges with a positive fair value (Mark to Market Value) at the reporting dates. The Company uses derivatives to hedge against the risk of fluctuations in the US Dollar for its sales in that currency and the risks that interest rates on its loans and borrowings may increase.

Current account in escrow, which as at 31 December 2018 amounted to €15,000 thousand and concerned a loan from the Credit Agricole Carispezia bank, was down to €6,500 thousand in 2019 and was subsequently unrestricted in the first days of 2020. The other current account in escrow, which as at 31 December 2018 amounted to €1,100 thousand and was derecognised in 2019, referred to the irrevocable proposal made to Immobiliare FIPA S.rl. in Liquidation.

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EQUITY AND LIABILITIES

22. Share capital and reserves

Company's Equity

The next table provides a breakdown of the Company's equity:

(€'000)	Share Capital	Share premium	Total other reserves	Other reserves								Profit for the year	Total equity
				Legal reserve	Extra-ordinary reserve	Post-merger reserve	Merger surplus	Other reserves	Reserve FTA/OCI	Profit from previous years	Cash flow hedge reserve		
31 December 2018	**30,000**	**30,928**	**38,945**	**3,557**	**36,701**	**132**	**236**	**-**	**(1,393)**	**-**	**(288)**	**12,093**	**111,966**
Allocation of profit for the year	-	-	10,707	535	10.172	-	-	-	-	-	-	(12,093)	(1,386)
Change in the hedging reserve	-	-	(148)	-	-	-	-	-	-	-	(148)	-	(148)
Adjustment IFRS FTA	-	-	1,546	-	-	-	-	-	1,546	-	-	-	1,546
Dividends	-	-	(3,800)	-	(3.800)	-	-	-	-	-	-	-	(3,800)
Reverse merger with WindCo	-	(19,539)	(28,430)	(2,585)	(25,613)	(83)	(149)	-	-	-	-	-	(47,969)
Capital increase	4,500	65,160	-	-	-	-	-	-	-	-	-	-	69.660
Other changes	-	-	(379)	-	-	-	-	11	(370)	(20)	-	-	(379)
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	29,059	29,059
Value as at 31 December 2019	**34,500**	**76,549**	**18,441**	**1,507**	**17,460**	**49**	**87**	**11**	**(217)**	**(20)**	**(436)**	**29,059**	**158,549**

Share capital and share premium

Ordinary shares

As at 31 December 2019, the Parent Company's fully paid-up and subscribed share capital amounted to €34,500 thousand and comprised 34,500,000 shares with no indication of their nominal value.

Share premium

The share premium amounted to €76,549 thousand resulting from the capital increase carried out by the shareholders in the years 2011 and 2013, by its partial use in the year 2014 for a bonus issue, by the Company, the decrease of €19,539 thousand due to the impact of the reverse merger with WindCo and by the capital increase carried out by the shareholders during the year for €65,160 net of placement commissions.

Nature and purpose of reserves

The other reserves include:

(€'000)	31 December 2019	31 December 2018	Change
Legal reserve	1,507	3,557	(2,050)
Reserve FTA/OCI	(217)	(1,393)	1,176
Extraordinary reserve	17,460	36,701	(19,241)
Post-merger reserve	49	132	(83)
Merger surplus	88	236	(148)
Spin-off surplus	11	-	11
Profit from previous years	(21)	-	(21)
Cash flow hedge reserve	(436)	(288)	(148)
Other reserves	**18,441**	**38,945**	**(20,504)**

notes to the separate financial statements

The item comprises:

- Post-merger reserve with capital contributions from the shareholders for €49 thousand and for €132 thousand as at 31 December 2019 and 31 December 2018, respectively. This reserve was down during the year due to the effect of the reverse merger with WindCo.
- Extraordinary reserve of €17,460 thousand and €36,701 thousand as at 31 December 2019 and 31 December 2018, respectively. In January 2019 the Company distributed dividends for additional €3,800 thousand. The decrease in the reserve was due to the effect of the reverse merger with WindCo.
- The Merger surplus of €88 thousand and €236 thousand as at 31 December 2019 and 31 December 2018, respectively, was the result of the merger by incorporation with Eureka Imbarcazioni S.r.l. carried out in 2012. This reserve was down during the year due to the effect of the reverse merger with WindCo.
- The Spin-off surplus of €11 thousand resulted from the demerger of Polo Nautico Viareggio S.r.l. in the year 2019.
- The negative Cash flow hedge reserve for €436 thousand as at 31 December 2019 and the negative €288 thousand as at 31 December 2018.
- The Reserve FTA/OCI, which was affected by the transition of the financial statements to IFRS, in the amount of €(217) thousand as at 31 December 2019 and €(1,393) as at 31 December 2018.
- Profit/loss from the previous year for €(21) thousand at 31 December 2019 was due to the impact of IFRS 16.
- Legal reserve, which includes the allocation carried out by the Company up to €1,507 thousand according to the provisions of the Italian Civil Code. This reserve was down during the period due to the effect of the reverse merger with WindCo.

Capital management

The objective of the Company's capital management policies is the creation of value for Shareholders and support for the future development of the Company through the maintenance of an adequate level of capitalisation, which permits access to external sources of funding under advantageous conditions. The Company manages the capital structure and carries out adjustments in line with the changes in the general economic conditions and the strategic objectives.

23. Financial liabilities

This item can be broken down as follows:

(€'000)	31 December 2019	31 December 2018	Change
Bank loans and borrowings (beyond 12 months)	54,607	63,948	(9,341)
Other loans and borrowings (beyond 12 months)	1,638	-	1,638
Total non-current loans and borrowings	**56,245**	**63,948**	**(7,703)**
Short-term bank loans and borrowings	17,671	18,433	(762)
of which, bank loans	*17,306*	*18,185*	*(879)*
of which, bank advances	*17*	*19*	*(2)*
other short-term loans and borrowings	*348*	*229*	*119*
Short-term loans and borrowings to other lenders	735	-	735
Derivatives (current portion)	507	661	(154)
Total current loans and borrowings	**18,913**	**19,094**	**(181)**

The item "Total non-current loans and borrowings", standing at €56,245 thousand and €63,948 thousand as at 31 December 2019 and 31 December 2018, respectively, referred primarily to long-term loans and borrowings.

The non-current portion of Other loans and borrowings amounted to €1,638 thousand as at 31 December 2019 and refer to the impact of IFRS 16.

The item "Total current loans and borrowings", of €18,913 thousand and €19,094 thousand as at 31 December 2019 and 31 December 2018, respectively, referred primarily to:

- the current portion of bank loans for €17,306 thousand and €18,185 thousand, respectively as at 31 December 2019 and 31 December 2018, including the book value of the loans due within 12 months and the accruals of related interest due to the financing institutions.
- advance accounts amounting to €17 thousand and €19 thousand as at 31 December 2019 and 31 December 2018, respectively.
- loans and borrowings to other lenders for €735 thousand, fully referring to the impact of the application of IFRS 16.
- liabilities for derivatives, hedging foreign exchange and interest rate risks, totalling €507 thousand and €661 thousand as at 31 December 2019 and 31 December 2018, respectively.

A breakdown of the changes in financial liabilities is provided below:

(€'000)	
Financial liabilities as at 31 December 2018	**83,042**
Changes in advances	(2)
Changes in fair value of derivatives	(154)
Increase in liabilities following acquisitions	7,890
New loans	-
Repayment of loans	(18,110)
Changes in other loans and borrowings	119
New finance leases - IFRS 16 application	2,373
Repayment of finance leases	-
Financial liabilities as at 31 December 2019	**75,158**

notes to the separate financial statements

The breakdown of net financial position of the Company as at 31 December 2019 and as at 31 December 2018 is reported hereunder.

(€'000)		As at 31 December			
		2019	of which intra-group	2018	of which intra-group
A	Cash and cash equivalents	(55,338)	-	(40,927)	-
B	Other liquid assets	-	-	-	-
C	Securities held for trading	-	-	-	-
D	**Cash**	**(55,338)**	-	**(40,927)**	-
E	**Current financial receivables**	**(20,833)**	**(14,180)**	**(24,645)**	**(8,255)**
F	Current bank payables	365	-	248	-
G	Current portion of debt	17,306	-	18,185	-
H	Other current financial payables	1,242	-	661	-
I	**Current financial debt (F + G + H)**	**18,913**	-	**19,094**	-
J	**Net current financial debt (I + E + D)**	**(57,258)**	**(14.180)**	**(46,478)**	**(8,255)**
K	Non-current bank payables	54,607	-	63,948	-
L	Bonds issued	-	-	-	-
M	Other non-current payables	1,638	-	-	-
N	**Non-current financial debt (K + L + M)**	**56,245**	-	**63,948**	-
O	**Net financial position (J + N) with ESMA Recommendation**	**(1,013)**	**(14,180)**	**17,470**	**(8,255)**

For details, see the Report on operations.

As at 31 December 2019, the Company was required to comply with some financial parameters (covenants) on loans to be calculated, on an annual basis, in the consolidated financial statements of Sanlorenzo S.p.A.
As at 31 December 2019, these parameters were complied with.

Loan	Parameter	Limit
Crédit Agricole mortgage loan of €15M 2019-2026	Net financial position/EBITDA	< 3.25
Creval unsecured loan of €7M 2018-2023	Net financial position/EBITDA	< 3.00
Deutsche Bank unsecured loan of €7.5M 2018-2023	Net financial position/EBITDA	< 3.25
Deutsche Bank unsecured loan of €7.5M 2018-2023	Net financial position/Equity	< 1.00
Intesa Sanpaolo unsecured loan of €3M 2017-2022	Net financial position/EBITDA	< 2.90
MPS unsecured loan of €6M 2019-2023	Net financial position/EBITDA	< 3.25
MPS unsecured loan of €6M 2019-2023	Net financial position/Equity	< 1.00
UniCredit unsecured loan of €15M 2017-2022	Net financial position/EBITDA	< 3.00
UniCredit unsecured loan of €15M 2017-2022	Net financial position/Equity	< 1.00
Unicredit unsecured loan of €15M 2017-2022	EBITDA/Financial charges	> 6.5

The Company is also subject to restrictions on cash flows represented by an escrow account of €6,500 thousand related to a secured loan with Credit Agricole Carispezia, which was released at the beginning of 2020.
The following table shows details on the conditions and due dates of the loans as at 31 December 2019 and 31 December 2018, respectively.

(€'000)			31 December 2019						31 December 2018					
	Nominal Interest rate	Year of maturity/ repayment	Nominal value	Accounting records	Carrying amount	Within 1 year	From 1 to 5 years	Over 5 years	Nominal value	Accounting records	Carrying amount	Within 1 year	From 1 to 5 years	Over 5 years
Banco BPM – Unsecured loan of €5M 30 June 2022	1.5%	2022	2,632	(43)	2,589	1,030	1,558	–	3,684	(79)	3,605	1,015	2,590	–
Banco BPM – Unsecured loan of €6M 29 December 2023	0.9%	2023	4,823	(31)	4,792	1,179	3,613	–	6,000	(44)	5,956	1,162	4,794	–
Banco BPM – Mortgage Loan of €7.75M 31 December 2025	1.6%	2025	3,812	(51)	3,761	596	2,507	658	4,413	(66)	4,349	590	2,502	1,257
Banco BPM – Mortgage Loan of €814k 31 December 2030	1.1%	2030	781	–	781	67	276	437	–	–	–	–	–	–
Banco BPM – Mortgage Loan of €7.41M 31 December 2030	1.1%	2030	7,109	–	7,109	612	2,514	3,983	–	–	–	–	–	–
Banco Di Sardegna – Unsecured loan of €5M 28 March 2023	1.2%	2023	3,284	(9)	3,275	993	2,282	–	4,269	(15)	4,254	979	3,275	–
BNL – Mortgage Loan of €6.25M 12 December 2019	3.8%	2019	–	–	–	–	–	–	1,042	(17)	1,025	1,025	–	–
Cassa Di Risparmio Di Bra – Unsecured loan of €5M 28 March 2023	1.2%	2023	3,284	(9)	3,275	993	2,282	–	4,269	(15)	4,254	979	3,275	–
Carige – Unsecured loan of €2.5M 28 February 2019	0.9%	2019	–	–	–	–	–	–	418	–	418	418	–	–
Carige – Unsecured loan of €5M 31 December 2023	1.4%	2023	4,027	(16)	4,011	971	3,040	–	5,000	(22)	4,978	966	4,012	–
Crédit Agricole – Mortgage Loan of €15M 29 November 2028	0.8%	2026	14,259	(93)	14,166	1,482	6,158	6,526	15,000	(116)	14,884	721	6,054	8,109
Creval – Unsecured loan of €7M 5 July 2023	1.8%	2023	5,307	(9)	5,298	1,378	3,920	–	6,664	(14)	6,650	1,352	5,298	–
Deutsche Bank – Unsecured loan of €7.5M 31 March 2023	1.1%	2023	4,875	(9)	4,866	1,497	3,369	–	6,375	(16)	6,359	1,494	4,865	–
Intesa Sanpaolo – Unsecured loan of €3M 13 July 2022	0.9%	2022	1,650	(1)	1,649	599	1,050	–	2,250	(2)	2,248	599	1,649	–
MPS – Unsecured loan of €2.5M 30 June 2019	0.9%	2019	–	–	–	–	–	–	1,071	(1)	1,070	1,070	–	–
MPS – Unsecured loan of €6M 31 December 2023	1.1%	2023	4,800	(20)	4,780	1,193	3,587	–	6,000	(30)	5,969	1,190	4,779	–
UBI – Unsecured loan of €5M 6 June 2021	1.1%	2021	2,522	(7)	2,515	1,670	845	–	4,179	(18)	4,161	1,646	2,515	–
UniCredit – Unsecured loan of €15M 31 December 2022	1.4%	2022	9,000	–	9,000	3,000	6,000	–	12,000	(49)	11,951	2,979	8,972	–
Total			**72,165**	**(298)**	**71,867**	**17,260**	**43,001**	**11,604**	**82,634**	**(504)**	**82,131**	**18,185**	**54,580**	**9,366**

24. Trade payables

(€'000)	31 December 2019	31 December 2018	Change
Trade payables	145,164	105,426	39,738
Subsidiaries	621	2,750	(2,129)
Affiliated companies	139	-	139
Holding company	29	-	29
Trade payables	**145,953**	**108,176**	**37,777**

"Trade payables" include amounts due to suppliers and payables due to affiliated companies, holding company and subsidiaries.
"Trade payables" amounted to €145,164 thousand and €105,426 thousand as at 31 December 2019 and 31 December 2018, respectively. The change recorded is in line with the increase in business volume and the investments observed in the periods analysed.
"Subsidiaries" shows a balance of €621 thousand as at 31 December 2019 and €2,750 thousand as at 31 December 2018.
"Affiliated companies" shows a zero balance as at 31 December 2018 and €139 thousand as at 31 December 2019 due to the change in the investment in Polo Nautico.

A breakdown of trade payables by current and non-current is as follows:

(€'000)	31 December 2019	31 December 2018	Change
Trade payables	145,164	105,426	39,738
of which current	145,164	105,426	39,738
of which non-current	-	-	-
Trade payables	**145,164**	**105,426**	**39,738**

A breakdown of trade payables by geographical area is as follows:

(€'000)	31 December 2019	31 December 2018	Change
Italy	138,916	100,828	38,088
Europe (other countries)	5,813	4,272	1,541
Americas	233	218	15
APAC	202	108	94
Trade payables	**145,164**	**105,426**	**39,738**

notes to the separate financial statements

25. Other current liabilities

(€'000)	31 December 2019	31 December 2018	Change
Social security contributions	2,307	1,650	657
Other liabilities	4,959	3,698	1,261
Accrued expenses and deferred income	10,101	6,545	3,556
Other current liabilities	**17,367**	**11,893**	**5,474**

"Social security contributions" show liabilities at the reporting date due to INPS, INAIL and Previndai (Italian social security institutions) for contributions due on wages and salaries. They amounted to €2,307 thousand as at 31 December 2019 and to €1,650 thousand as at 31 December 2018, up by €657 thousand. This increase is in line with the increase in personnel expense.
The item "Other liabilities" shows a balance, as at 31 December 2019, of €4,959 thousand and is represented by payables to personnel and allocations for the leases of the warehouses in Viareggio and Massa ex Immobliare FIPA S.r.l. in Liquidation, not yet paid for the current year and for the previous years, since contractually they are not yet due.
"Accrued expenses and deferred income" was up between 2018 and 2019 standing at €3,556 thousand. Deferred income mainly refers to suspended revenues relating to margins deriving from the sales of boats and agency commissions payable whose accrual follows the progress of work on the construction of boats.

26. Employee benefits

(€'000)	Change
31 December 2018	854
Accruals	(65)
Interest	15
Utilisations	(76)
Incoming and outgoing employees	-
Present value as at 31 December 2019	**728**
Net actuarial gains/(losses) based on past experience	(23)
Net actuarial gains/(losses) arising on changes to demographic assumptions	-
Net actuarial gains/(losses) arising on changes to financial assumptions	43
31 December 2019	**748**

Post-employment benefits include the benefits accrued by employees at the reporting date, net of any advances received or amounts transferred to the Italian Previndai, Gomma Plastica, Cometa or other pension plans or the INPS treasury fund.

In accordance with IAS 19, the Company measures post-employment benefits using actuarial valuation methods performed by an external expert. These methods are revised when necessary.

notes to the separate financial statements

The main financial and demographical assumptions are set out below with annual turnover rates and possible advances given to employees used to determine the present value of the Company's liability related to post- employment benefits.

FINANCIAL ASSUMPTIONS

	31 December 2019	31 December 2018
Annual discount rate	0.77%	1.57%
Annual inflation rate	1.20%	1.50%
Annual growth rate of post-employment benefits	2.40%	2.63%
Annual remuneration growth rate	0.50%	0.50%

DEMOGRAPHICAL ASSUMPTIONS

Mortality	RG48 mortality tables published by the Italian State General Accounting Office
Disability	INPS tables split by age and gender
Retirement	100% upon attainment of the AGO requirements

ANNUAL TURNOVER RATE AND ADVANCES OF POST-EMPLOYMENT BENEFITS

	31 December 2019	31 December 2018
Advances	1.00%	1.00%
Turnover rate	1.50%	1.50%

As at 31 December 2019, net actuarial gains/(losses) based on past experience amounted to €23 thousand and is due to variations from one valuation to another in terms of new, outgoing and retired employees, requests for advances, etc. that differ from those assumed. A net actuarial gains/(losses) arising on changes in financial assumptions amounted to €43 thousand.

Actuarial gains and losses are recognised in other comprehensive income while the Company provides for the related cost under personnel expenses or as production costs, under the gross operating profit or general and administrative costs as the case may be.

27. Provisions for risks and charges

(€'000)	Disputes	Warranties	Losses on equity investments	Exchange rates fluctuations	Pre-owned	Total
Provisions for risks and charges as at 31 December 2018	134	3,400	2,387	-	-	5,921
Accruals	2,400	370	-	46	3,510	6,326
Utilisations	-	-	-		-	-
Provisions for risks and charges as at 31 December 2019	**2,534**	**3,3770**	**2,387**	**46**	**3,510**	**12,247**

The provisions for risks and charges include the provision for disputes, the provision for costs to complete contracts, the provision for warranties, the provision for losses on equity investments, the provision for foreign exchange fluctuations and the provisions for risks on pre-owned.

In turn, they may be analysed as follows:

- Provision for disputes: refers to the amount prudently set up by the Company for the resolution of disputes. This item amounted to €134 thousand as at 31 December 2018 and €2,534 thousand as at 31 December 2019. More details on these disputes are provided in the following paragraph.
- Provision for warranties: it was calculated based on the best estimate of the cost of possible repairs to be provided under warranty to boats sold at the reporting dates for which the contract revenues have already been recognised. The provision covers the new boats of the Company. It amounted to €3,770 thousand as at 31 December 2019, and €3,400 thousand as at 31 December 2018, respectively. Warranty term amounted normally two years for the new boats and one year for pre-owned boats.
- Provision for losses on equity investments: was set up in order to align the investment in the subsidiary Sanlorenzo Baleari SL to parent's share of its equity. This item shows a balance of €2,387 thousand for the year ended 31 December 2018 and 31 December 2019.
- Provision for foreign exchange fluctuations: was set up in 2019 in the amount of €46 thousand.
- Provisions for risks on pre-owned: as at 31 December 2019, it amounted to €3,510 thousand and refers to the commitment for withdrawing pre-owned versus new yachts.

A breakdown of the provision for warranties between its current and non-current portions is as follows:

(€'000)	31 December 2019	31 December 2018	Change
Warranties	3,770	3,400	370
of which current	*2,941*	*2,518*	*423*
of which non-current	*829*	*882*	*(53)*
Total	**3,770**	**3,400**	**370**

All other provisions are current.

Administrative, in-court and arbitration proceedings

Administrative, in-court and arbitration proceedings in which the Company is involved

The Company, at the approval date of these separate financial statements, is involved in legal proceedings as part of its normal business activities. They could lead to fines or compensation for damage imputable to the Company.

As far as the Company is aware, these legal proceedings are normal, given the Company's operations and size. Specifically, at the approval date of these separate financial statements, the Company is not involved in any legal proceedings that could have a significant adverse effect. However, it cannot be excluded that their outcome could negatively affect the Company's financial position, performance and cash flow in the future.

Assisted by its legal advisors, the Company has not set up a specific provision for possible liabilities that could arise from the proceedings in its financial statements as it deems that a negative outcome in said disputes is either not possible or remote. However, the Company cannot exclude that it may be required to disburse amounts in the future should the outcome of the proceedings not be in its favour. Excluding that set out below, at the date of approval of these financial statements, the Company is not involved in legal or arbitration proceedings that could have or have had in the recent past significant repercussions on its financial position or performance.

notes to the separate financial statements

At the date of drafting of the separate financial statements, in relation to the arbitration proceedings brought against the Company, the latter booked a liability of €895 thousand to the financial statements corresponding to the risk considered likely in respect of said proceedings, based on the estimates of its UK legal advisors.
The main proceedings and inspections involving the Company are described below.

Arbitration proceedings
At the approval date of these separate financial statements, the Sanlorenzo S.p.A. and Contra Limited ("Contra"), a company under Malta's laws, are part of an arbitration proceeding in London. Contra, purchaser of a SD110 yacht, complained about the Company's non-fulfilment of the obligations assumed under the sale contract, requesting the latter's termination and sentencing of the Company to repay the price paid and compensation for the alleged damages suffered, for an amount of around €10,000,000. In relation to said dispute, the Company booked a liability of €895 thousand to the separate financial statements corresponding to the risk considered likely in respect of said proceedings based on the estimates of its UK legal advisors.

Tax proceedings
Following the conclusion of the audits conducted for the purposes of direct taxes and VAT by the Italian Revenue Agency-Regional Department of Liguria for the tax periods 2013, 2014 and 2016, the Company was notified of the following:

- two assessment notices for IRES, IRAP and VAT issued by the Revenue Agency of Liguria and relating to the 2013 and 2014 tax periods. The first assessment notice contained findings relating to taxes totalling €515 thousand plus penalties of €586 thousand and interest, while the second contained findings for taxes totalling €317 thousand plus penalties of €293 thousand plus interest;
- a report on findings for IRES, IRAP and VAT issued by the Revenue Agency of Liguria and relating to the 2016 tax period. This report on findings contained remarks regarding taxes totalling €2,157 thousand, while penalties were estimated at €2,025 thousand.

With reference to the aforementioned assessment notice relating to the 2013 tax period, an appeal was filed to the Provincial Tax Commission in Genoa, which has yet to be discussed before the Tax Court given that dialogue has commenced simultaneously between the Company and the Revenue Agency of Liguria in order to evaluate the possibility of reaching a settlement.
With reference to the aforementioned assessment notice relating to the 2014 tax period, a tax settlement proposal was presented, taking into account the similarity of the issues addressed in the assessment notices for the 2013 and 2014 tax periods and considering that dialogue has commenced with the Revenue Agency in order to evaluate the possibility of a settlement.
In respect of the risk regarding the above-mentioned tax audits, the Company increased the previous provision for risks, bringing it to €2,534 thousand.

Administrative proceedings

At the date of approval of these financial statements, the Company is not involved in significant administrative proceedings.

To the date of these consolidated financial statements, it is a party to other legal proceedings involving immaterial amounts but for which it could be found liable and, hence, required to pay settlements and possible legal costs.

28. Financial instruments – Fair values and risk management

Derivatives

The Company uses derivatives to hedge against the risk of fluctuations in exchange and interest rates. This item includes the fair value of derivatives in place as at 31 December of each year.

Changes in the derivatives are analysed below:

(€'000)	31 December 2019	31 December 2018	Change
Derivative assets			
Currency hedges	148	181	(33)
Interest rate hedges	4	110	(106)
Total assets	152	291	(139)
Derivative liabilities			
Currency hedges	(5)	(297)	292
Interest rate hedges	(502)	(364)	(138)
Total liabilities	(507)	(661)	154

Derivative assets amounted to €152 thousand and €291 thousand as at 31 December 2019 and 31 December 2018, respectively.

Derivative liabilities amounted to €507 thousand and €661 thousand as at 31 December 2019 and 31 December 2018, respectively.

As the derivatives qualify for hedge accounting for the Company, they are categorised as level 2 fair value.

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Risk factors

Credit Risk

It is noted that, given the type of products sold by the Company, no specific credit risk is identified; this assessment is supported by the strict rule, contractually formalised, that requires payments to be executed on or before the delivery of the boat and the related transfer of ownership.
Regarding the residual services related to the sale of spare parts or the provision of assistance services not covered by the warranty, which are, however, negligible to the Company business, the Company improved the prevention and monitoring processes for credit-checks, using external sources and internal systems that allow preventive controls on customers' reliability and solvency.

Liquidity risk

The Company was able to manage the liquidity risk by reinvesting cash flows from operations and by obtaining loan commitments, considered adequate to meet its financial liquidity needs.

Risks related to changes in the reference regulatory framework

The Company is required to comply with laws and technical regulations applicable to its products and their sale in the countries where it operates and sells its products.
With respect to its production activities, regulations about (i) occupational health and safety, (ii) environmental protection, and (iii) boat building technical standards are very important, also because their modification could lead to higher production costs.
The issue of new regulations or changes to existing regulations could require the Company to adopt tougher standards, which could entail costs to align the production methods or product characteristics or, even limit the Company's operations. This could have a negative effect on its business and prospects as well as its financial position, financial performance and cash flows. With respect to the sale of the Company's products, any regulatory changes to the taxation or sale of the yachts (e.g., VAT, import duties and taxes on luxury goods, embargos) or sailing (e.g., regulations about fuel, the environmental impact and emissions) may affect the Company's business and, hence, its financial position, financial performance and cash flows.

Risks related to disputes and tax audits
The Company is exposed to the risk of legal proceedings giving rise to the risk of paying fines and compensation. In addition, the Company is exposed to the risk that the outcome of pending disputes involving large amounts may not be in its favour and this would have a negative effect on its financial position, financial performance and cash flows.

Exposure to interest rate fluctuation
The Company is exposed to changes in interest rates on its variable rate debt instruments within the Euro area.
The Company adopts precise strategies aimed at reducing the risks connected with changes in interest rates, such as hedging transactions through interest rate swaps or interest rate caps with financial counterparties of prime standing.

Exposure to exchange rate fluctuations
Consistently with the geographical distribution of its turnover, the Company's exposure to foreign exchange risk is limited, being the Euro the currency primarily used for the sale of yachts.
In order to mitigate the negative effect of exchange rate fluctuations, in the limited cases of sale of yachts in other currencies (mainly USD in the U.S.A. market), specific currency swaps or forward currency sales transactions are set up when the related contract with customer is entered.

notes to the separate financial statements

GROUP STRUCTURE

29. Subsidiaries

The following table summarises information, as at 31 December 2019, regarding the name and registered office of all subsidiaries, as well as the Company's direct or indirect holdings in their share capital.

Company name	Registered office	Currency	Holding		
			Share Capital (currency unit)	Direct	Indirect
Bluegame S.r.l.	Viareggio (LU) – Italy	Euro	100,000	100%	–
Sanlorenzo of the Americas LLC	Fort Lauderdale (FL) – USA	USD	2,000,000	90%	–
Sanlorenzo Baleari SL	Puerto Portals, Maiorca – Spain	Euro	500,000	51%	–
Marine Yachting Monaco S.A.M.	Principality di Monaco	Euro	150,000	60%	–
Super Yachts Cote d'Azur S.a.r.l. [22]	Antibes – France	Euro	37,000	–	60%

Bluegame S.r.l.

This company, with registered office in Viareggio, was set up at the end of 2017 and had previously acquired the historical "Bluegame" brand from Open Boat Italia, a company owning yacht moulds, under deed of arrangement. In February 2019, Sanlorenzo S.p.A. acquired another 34.5% of Bluegame, from a private investor, in addition to the 50.5% it already held. In August 2019, the parent reached 100% control by acquired the remaining 15%.
The Company ended 2019 with a profit of €752 thousand and 2018 with a profit of €293 thousand.

[22] *Held by Marine Yachting Monaco S.A.M. On 20 September 2019, the shareholders' meeting of Super Yachts Cote d'Azur S.a.r.l. resolved the winding-up and placement into liquidation of the company effective from 30 September 2019.*

Sanlorenzo of the Americas LLC

Based in Fort Lauderdale (Florida, USA), this company's business objective is to sell Sanlorenzo boats to international customers in Canada, the US and Central and South America as well as acting as a dealer and providing post-sale support in these markets. Since its incorporation in September 2008, Sanlorenzo of the Americas has steadily promoted the Sanlorenzo brand in the American markets.
On 15 July 2019, Sanlorenzo S.p.A sold a 10% investment in the share capital of Sanlorenzo of the Americas to the executive Marco Segato.
In the year ended 31 December 2019, the subsidiary recorded a loss of €2,070 thousand versus a loss of €2,445 thousand as at 31 December 2018.

Sanlorenzo Baleari SL

This company, based in Puerto Portals, Mallorca (Spain) with a share capital of €500 thousand, is 51% owned by Sanlorenzo S.p.A. It provides support to the sales and customer service activities in Spain and the Balearic Islands.
In 2019, the Company recorded a loss of approximately €32 thousand while in 2018 recorded a loss of €34 thousand.

Marine Yachting Monaco S.A.M.

This company is based in Principality of Monaco and has a share capital of €150 thousand. It is 60% owned by Sanlorenzo S.p.A. while three non-controlling investors share the other 40% and manage the company, together with its wholly-owned subsidiary Super Yacht Cote d'Azur S.a.r.l. in Liquidation. It sells pre-owned yachts and agrees charters for Sanlorenzo customers and dealers.
The Company ended 2019 with a net profit of approximately €28 thousand and 2018 with a net profit of approximately €58 thousand.
The Company Super Yachts Cote d'Azur S.a.r.l. in Liquidation ended 2019 with a loss of €59 thousand and broke even in 2018. In 2019, the liquidation proceedings of the Company were initiated.

Super Yachts Cote d'Azur S.a.r.l. in Liquidation

This company is owned by Marine Yaching Monaco S.A.M.

notes to the separate financial statements

30. Associated companies

The Company holds also an equity investment in the associated company Polo Nautico Viareggio S.r.l., a limited liability consortium, ("Polo Nautico"), which carries out the management, for consortium companies, of a yard of approximately 7,000 square meters on the sea front complete with mooring quays and the relevant equipment and services in Viareggio.

On 4 July 2019, Sanlorenzo S.p.A. acquired the entire investment held by Immobiliare FIPA S.r.l. in Liquidation on Polo Nautico Viareggio S.r.l., a limited liability consortium, for 44.68% of the share capital (€67,400) in addition to the 5.47% investment already held, amounting to €292 thousand.

On 10 May 2019, Polo Nautico approved the demerger project, with its total assets and liabilities transferred to specific beneficiaries. The related demerger deed was signed on 25 November 2019.

On 30 September 2019, Sanlorenzo S.p.A. sold 2% of its equity investment in Polo Nautico to third parties. The shareholding in Polo Nautico is booked in the Company's financial statements with the equity method.

31. Reverse merger with WindCo S.p.A.

On 1 April 2019, the administrative bodies of the holding company WindCo S.p.A. and the subsidiary Sanlorenzo S.p.A. approved and filed at the Register of Companies a plan for the reverse merger by incorporation of WindCo S.p.A. in Sanlorenzo S.p.A.

The merger, resolved by the shareholders' meetings of the companies concerned on 15 April 2019, took effect for legal purposes on 28 June 2019, and was effective for tax and accounting purposes retroactively as at 1 January 2019, consistently with the provisions of the merger plan.

Before the merger, WindCo held a controlling interest of 99.6% in the share capital inclusive of the increases recorded in 2018 upon acquisition of the additional following non-controlling interests of Sanlorenzo S.p.A., in particular:

- 16% and 2.3% of the share capital acquired on 19 July 2018 respectively from Fondo Italiano Investimento SGR S.p.A. and Carol Invest S.r.l.;
- 23% of the share capital acquired on 20 December 2018 from Sundiro (HK) Development Co. Ltd.

WindCo and Sanlorenzo were under joint control and consequently the merger is not considered a business combination. The accounting effects on equity, from an accounting perspective, were calculated starting from the acquisition date.

The acquisitions of the non-controlling interests occurred during 2018 from the shareholders Fondo Italiano di Investimento SGR S.p.A., Carol Invest S.r.l. and Sundiro (HK) Development Co. Ltd were recognised against the equity as at the acquisition date, as set forth in IFRS 3 in the case of acquisition of non-controlling interests.

WindCo, the merged company, ceased operations, from a tax and accounting perspective (in accounting terms and not in terms of the calculation of the effects of the merger according to IFRS), from 1 January 2019 and, the accounting entries of WindCo were included in Sanlorenzo as of said date.
In accordance with the proposal for the reverse merger of WindCo and Sanlorenzo, as a result of the same, Sanlorenzo S.p.A. shares were assigned proportionally, through reissue, to the shareholders of WindCo, based on the prior corresponding recalculation of the number of shares due to the other minority shareholder of Sanlorenzo without the company's share capital increase.
Assets and liabilities subject to the merger as at 1 January 2019, net of the investment held in Sanlorenzo S.p.A., once derecognised during the merger against equity, can be detailed as follows:

Assets and liabilities from merger (€'000)	
Intangible assets with a finite useful life	1
Net deferred tax assets	76
Other current assets	703
Cash and cash equivalents	27
Non-current financial liabilities	(50,287)
Current financial liabilities, including derivatives	(2,223)
Trade payables	(34)
Other current liabilities	(203)
Other current tax liabilities	(6)
Net current tax liabilities	(50)
Total assets and liabilities from merger	**(51,996)**

This merger generated the consolidation of net assets and liabilities for a negative amount of €51,996 thousand as at 1 January 2019. The main liabilities incorporated by Sanlorenzo S.p.A. refer to a long-term loan of €40,070 thousand principal and non-interest-bearing loans received from the shareholder for €12,800 thousand, of which €3,800 thousand paid back in the first six months of 2019. Both the bank loan and the residual shareholder loans were repaid in December 2019 with the proceeds deriving from the capital increase from the IPO (Initial Public Offering) transaction.

notes to the separate financial statements

OTHER INFORMATION

32. Commitments

The most significant contractual commitments already undertaken with third parties as at 31 December 2019, amounted to €956 thousand compared with €58,306 thousand as at 31 December 2018. The significant difference was due to the commitments for the withdrawal of pre-owned boats against the sale of new boats to customers, in the amount of €54,976 thousand, which were fully recognised in 2019.
In particular, they refer to:
- Commitments for financial lease contracts, concerning the purchase of forklifts, for a total €35 thousand (€25 thousand as at 31 December 2018) for payments falling due, including interest;
- Commitment of €3,000 thousand (31 December 2018: €2,400 thousand) to secure a line of credit granted by the German bank AKF Bank GmbH to a dealer to acquire Sanlorenzo boats;
- Sundry sureties of €920 thousand (31 December 2018: €305 thousand) for state concessions, guarantees, etc.

33. Contingent liabilities

Legal proceedings are ongoing for events related to the Company's normal business activities. They include a tax dispute and some civil proceedings mostly with customers and insurance companies. The Company's directors do not believe that any of these proceedings involve a risk of a significant cash outlay or may give rise to significant liabilities in excess of the allocations already made. They will evaluate any negative developments that cannot currently be foreseen or calculated, which may arise as a result of internal analyses or the ongoing judicial investigations and may then make a provision.

34. Related parties

Business and financial relationships with related parties are governed under market conditions, taking into account the characteristics of the goods and services provided.
Financial transactions were in place with the holding company Holding Happy Life, the subsidiaries and the associated company Polo Nautico in the separate financial statements as at 31 December 2019, as detailed in the table below.

(€'000)	Holding company	Subsidiaries	Associated companies	Total	Total financial statement item	Impact on financial statement item
Equity investments and other non-current assets						
Equity investments and other non-current assets as at 31 December 2019	–	2,559	332	2,891	2,925	98.8%
Equity investments and other non-current assets as at 31 December 2018	–	2,374	–	2,374	2,717	87.4%
Other financial assets, including derivatives						
Current financial assets as at 31 December 2019	1	14,180	–	14,181	20,833	68.1%
Current financial assets as at 31 December 2018	70	8,184	–	8,254	24,645	33.5%
Contract assets						
Contract assets as at 31 December 2019	851	8,217	–	9,068	75,781	12.0%
Contract assets as at 31 December 2018	–	–	–	–	73,561	–
Trade receivables						
Trade receivables as at 31 December 2019	–	10,324	–	10,324	27,067	38.1%
Trade receivables as at 31 December 2018	–	20,551	–	20,551	44,317	46.4%
Trade payables						
Trade payables as at 31 December 2019	29	621	139	789	145,953	0.5%
Trade payables as at 31 December 2018	–	2,750	–	2,750	108,176	2.5%
Contract liabilities						
Contract liabilities as at 31 December 2019	–	500	–	500	15,788	3.2%
Contract liabilities as at 31 December 2018	–	–	–	–	41,520	–
Non-current financial liabilities						
Non-current financial liabilities as at 31 December 2019	–	–	–	–	56,245	–
Non-current financial liabilities as at 31 December 2018	–	–	–	–	63,948	–
Sales revenues						
Sales revenues as at 31 December 2019	–	13,231	–	13,231	486,019	2.7%
Sales revenues as at 31 December 2018	–	46,433	–	46,433	377,707	12.3%
Operating costs						
Operating costs as at 31 December 2019	–	2,910	467	3,377	416,871	0.8%
Operating costs as at 31 December 2018	–	1,999	–	1,999	335,730	0.6%
Financial income						
Financial income as at 31 December 2019	–	259	–	259	302	85.8%
Financial income as at 31 December 2018	–	–	–	–	21	–

notes to the separate financial statements

The list of natural persons and legal entities considered to be Related Parties other than the Group companies, with an indication of the type of relation, is provided below.

Related party	Main types of relations
Related parties - Legal entities	
Holding Happy Life S.r.l.	Holding company of Sanlorenzo.
Polo Nautico Viareggio S.r.l.	Associated company of Sanlorenzo.
Marò 17 s.s.	Massimo Perotti was one of the two shareholders directors until 3 July 2019.
Nuova Nautical Transports S.r.l.	The CEO, Gian Paolo Tamburini, is the uncle of the Executive Chairman, Massimo Perotti, and great-uncle of Cecilia Maria Perotti and Cesare Perotti. It carries out transport of goods by road on behalf of Sanlorenzo.
Sanlorenzo Champlas S.r.l.	Massimo Perotti is Chairman of the Board of Directors, while Holding Happy Life S.r.l. is shareholder with a 44% equity investment; Cecilia Maria Perotti is the attorney. It is licensed to a free, non-exclusive use of the Sanlorenzo trademark.
World Yachts S.r.l.	The shareholder and CEO, Glenda Cecchi, is the wife of Ferruccio Rossi. The company holds a supply agreement of materials with Sanlorenzo.
Related parties - Natural persons	
Massimo Perotti	Executive Chairman and indirect majority shareholder.
Marco Viti	CEO and shareholder.
Carla Demaria	CEO and shareholder.
Ferruccio Rossi	Manager with strategic responsibilities and shareholder.
Tommaso Vincenzi	Manager with strategic responsibilities and shareholder.
Antonio Santella	Manager with strategic responsibilities.

The following tables show the business and equity relationships with the related parties mentioned above in place in 2019 and in the previous year.

	Balance Sheet figures		Income statement figures	
(€'000)	**31 December 2019**	**31 December 2018**	**31 December 2019**	**31 December 2018**
Related parties - Legal entities				
Holding Happy Life S.r.l.	823	–	–	–
Polo Nautico Viareggio S.r.l.	(139)	–	(467)	–
Marò 17 s.s.	99	–	81	–
Nuova Nautical Transports S.r.l.	32	7	(426)	(449)
World Yachts S.r.l.	(1,438)	–	(2,955)	–

	Balance Sheet figures		Income statement figures	
(€'000)	**31 December 2019**	**31 December 2018**	**31 December 2019**	**31 December 2018**
Related parties - Natural persons				
Massimo Perotti	(67)	(52)	(1,928)	(2,173)
Marco Viti	(209)	(141)	(939)	(531)
Carla Demaria	–	–	–	–
Ferruccio Rossi	114	184	(870)	(738)
Tommaso Vincenzi	(82)	(12)	(354)	(362)
Antonio Santella	73	76	(239)	(381)

notes to the separate financial statements

<u>Intra-group transactions</u>

The main transactions finalised by Sanlorenzo S.p.A. with the companies of the Group are:

- trading relations: primarily distribution agreements governing the sales of products and agency commissions within the territories under their scope, as well as the conditions in terms of trade management;
- financial relations: primarily interest-bearing financial agreements between the subsidiaries and the Company;
- service relations: primarily related to technical support services provided by the Company to the subsidiaries.

The Company deems that all the relations among the companies of the Group do not qualify as atypical or unusual as they fall under the ordinary course of the Group's activities.

The following tables detail the equity and business relations of the transactions with Related Parties carried out by the Company in 2019 and 2018.

(€'000)	31 December 2019							
	Trade receivables	Financial receivables	Trade payables	Financial payables	Total revenue	Costs and other income	Income from investments	Financial income (expense)
Sanlorenzo Baleari SL	–	4,715	–	–	–	(37)	–	–
Marine Yachting Monaco S.A.M.	–	–	(27)	–	–	(237)	–	–
Super Yachts Cote d'Azur S.a.r.l.	–	4	–	–	–	(139)	–	–
Bluegame S.r.l.	274	5,720	(503)	–	59	(495)	–	–
Sanlorenzo of the Americas LLC	10,050	3,740	(8,227)	–	13,174	(2,002)	–	204
Total	**10,324**	**14,179**	**(8,757)**	**–**	**13,233**	**(2,910)**	**–**	**204**

(€'000)	31 December 2018							
	Trade receivables	Financial receivables	Trade payables	Financial payables	Total revenue	Costs and other income	Income from investments	Financial income (expense)
Sanlorenzo Baleari SL	–	4,683	-	–	–	(526)	–	–
Marine Yachting Monaco S.A.M.	–	-	(5)	–	–	(447)	–	–
Super Yachts Cote d'Azur S.a.r.l.	–	30	(41)	–	–	(56)	–	–
Bluegame S.r.l.	730	202	(43)	–	418	(35)	–	–
Sanlorenzo of the Americas LLC	19,611	3,269	(2,062)	–	46,589	(5,650)	–	–
Total	**20,341**	**8,184**	**(2,151)**	**–**	**47,007**	**(6,714)**	**–**	**–**

Remuneration paid by the Company

The remuneration paid by the Company to the members of the Board of Directors, the members of the Board of Statutory Auditors and the Managers with strategic responsibilities during the year ended 31 December 2019 is detailed below:

(€'000)	31 December 2019
Remuneration paid by the Company	2,739
Of which committees	2
Of which annual attendance fee	7
Total remuneration paid to the Board of Directors	**2,739**

(€'000)	31 December 2019
Remuneration paid by the Company	81
Total remuneration paid to the Board of Statutory Auditors	**81**

(€'000)	31 December 2019
Remuneration paid by the Company	2,157
of which non-competition agreement	*70*
of which bonus	*350*
of which RAL (gross annual pay)	*1,737*
Total remuneration paid to the Managers with strategic responsibilities	**2,157**

notes to the separate financial statements

35. Remuneration to the Independent Auditing Firm

Pursuant to article 149-duodecies of the Issuers' Regulations, following are the remuneration paid to the Independent Auditing Firm.

(in Euro)	Service provider	Remuneration for 2019
Auditing	KPMG S.p.A.	53,000
	BDO Italia S.p.A.	58,380
Certification services	KPMG S.p.A.	923,500
	KPMG S.p.A. Network	71,760
Other services	–	-
Total remuneration paid to the Independent Auditing Firm		**1,106,640**

36. Disclosure pursuant to article 1 paragraph 125 of Italian law no. 124/2017

Pursuant to the requirements of article 1 paragraph 125 of Italian law no. 124/2017, the table below shows the information relating to the public grants received by the Company in 2019.

Public entity	Grant (in Euro)	Description
Fondimpresa	16,374	Employee training grants (article 31)
Fondimpresa	20,792	Employee training grants (article 31)

37. Management and coordination activities

In addition to the control situation pursuant to article 93 of the TUF, the holding company Holding Happy Life S.r.l does not exercise management and coordination activities over Sanlorenzo pursuant to articles 2497 et seq. of the Italian Civil Code.

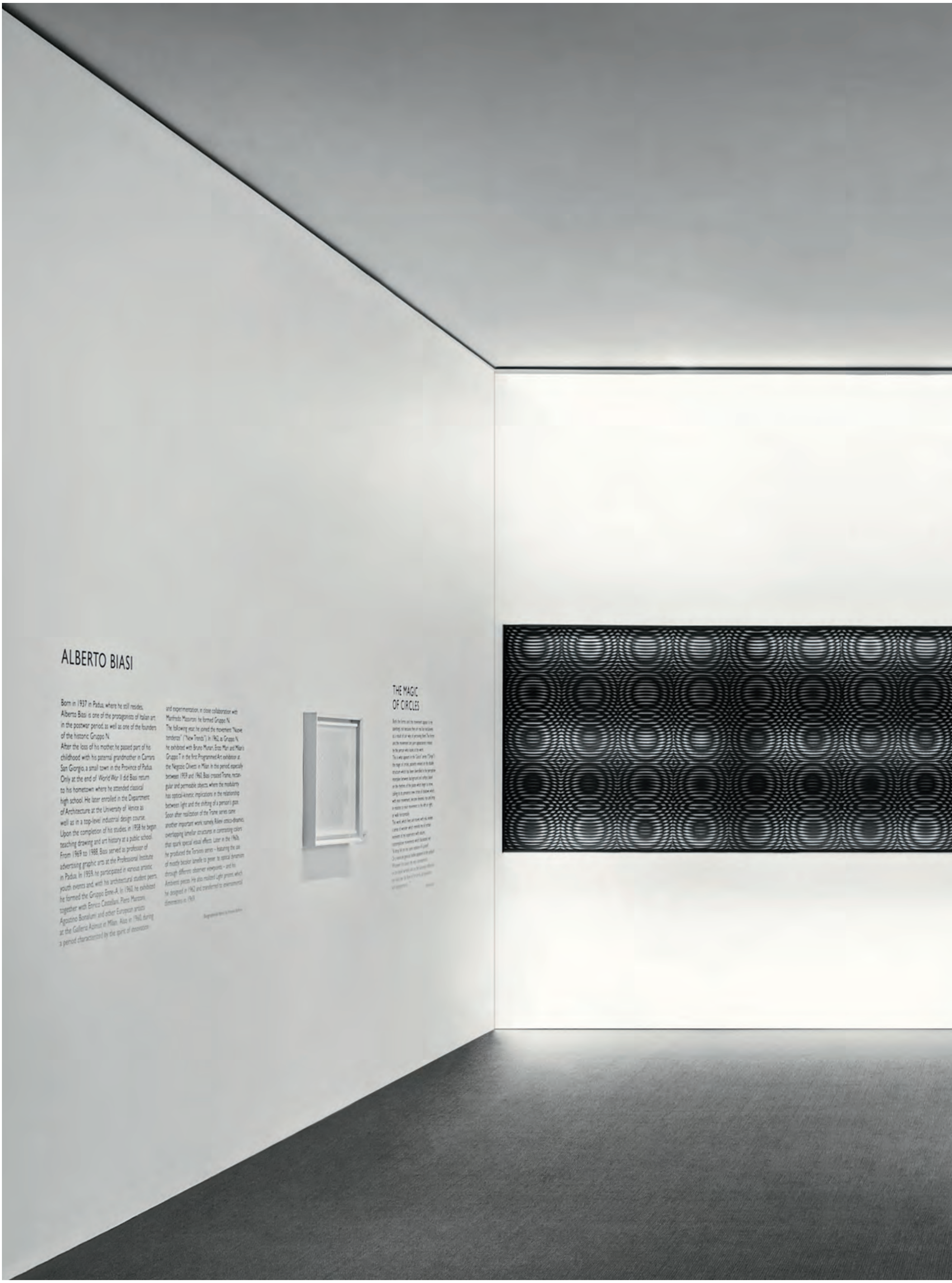
38. Events occurring after the reporting date

On 12 February 2020, the Company's Board of Directors approved the proposed adoption of the stock option plan for 2020 (the "2020 Stock Option Plan") reserved to executive directors and key employees of Sanlorenzo and its subsidiaries.

The 2020 Stock Option Plan makes provision, over a period of three years, for the free assignment of options that attribute to the beneficiaries, subject to the attainment of predetermined performance targets, the right to subscribe Sanlorenzo shares based on a ratio of one share for every option exercised at a strike price equal to the placement price of the Company's shares on the MTA, with an average vesting period of two years.

The 2020 Stock Option Plan will be supported by an appropriate share capital increase through the issuing of new shares equal to around 2.5% of the share capital resulting from the share capital increase itself.

The proposed adoption of the 2020 Stock Option Plan will be subject to approval by the Company's ordinary shareholders' meeting set to take place on 21 April. The extraordinary shareholders' meeting will also be convened on the same date to resolve on the share capital increase in service of the 2020 Stock Option Plan.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THE MAGIC OF CIRCLES


SANLORENZO

notes to the separate financial statements

ACCOUNTING STANDARDS

39. Basis of measurement

These separate financial statements have been prepared using the historical cost method, except for hedging derivatives which are measured at fair value at each reporting date.

40. Significant accounting standards

The Company has consistently applied the following accounting standards to all periods presented in these separate financial statements, except if mentioned otherwise (see also note 5).
Some items of the statements of profit or loss and comprehensive income presented for comparative purposes have been reclassified or restated to reflect the change in a standard (see also note 5).

Basis of preparation

The separate financial statements as at 31 December 2019 include the statements of financial position, profit or loss, comprehensive income, changes in equity and cash flows, and the related accompanying notes.
The financial statements have been prepared in accordance with the "International Financial Reporting Standards" (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union. IFRS include the ruling International Accounting Standards (IAS) and all the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), previously called the Standing Interpretations Committee (SIC).
The separate financial statements have been prepared using the historical cost method (any exceptions to this method are explained below) and the going concern assumption. The directors have checked that there are no material uncertainties (as defined in IAS 1.25) on going concern.
The Company elected to present its assets and liabilities as current or non-current and its revenues and costs by nature from among the options allowed by IAS 1. The statement of cash flows is prepared using the indirect method.
The significant accounting standards adopted to prepare the separate financial statements applied to all the periods presented in the Company's financial statements are described below.
Unless specified otherwise, the accounting standards have been applied consistently to all the periods included in the separate financial statements. Please refer to note 5 for more information and details regarding the application of the accounting standards.

Basis of measurement

Foreign currency transactions

Foreign currency transactions are recorded in Euro by applying to the amount in foreign currency the spot rate of exchange between the Euro and the foreign currency in effect as at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in profit or loss as finance expense.

Revenue from contracts with customers
In accordance with IFRS 15, revenue from contracts with customers is recognised when control of the good or service is transferred to the customer either over time or at a point in time.
In relation to pre-owned boats, since the acquisition of the same takes place following the sales of new boats and constitutes part of the payment of the agreed price, it should be noted that, according to IFRS 15, the sale price of new boats and therefore also the calculation of the related revenues reflects the difference between the contractually attributed value of the pre-owned boats and their relative fair value.
Contracts that meet the requirements for the recognition of revenue over time are classified as "contract assets" or "contract liabilities" depending on whether the difference between the fulfilment of the performance obligation by the Company and the progress payments received from the customer is positive or negative. Specifically:

- contract assets include the right to the consideration for the goods or services already transferred to the customer;
- contract liabilities show the Company's obligation to transfer goods or services to the customer for which it has already received (or has the right to receive) a consideration.

If a contract has more than one performance obligation, which is a promise to transfer a distinct good or service (or a series of distinct goods or services that are substantially the same and that have the same pattern of transfer) to a customer, classification as a contract asset or liability takes place considering all the performance obligations as a whole.
Assets and liabilities arising from contracts with customers where the revenue is recognised over time are measured using the cost-to-cost method, whereby the contract costs, revenue and profit or loss is recognised in line with fulfilment of the performance obligation (progress towards completion). The percentage of costs incurred at the reporting date is compared to the total costs to satisfy the performance obligation.
Conversely, if the requirements for the recognition of revenue over time are not met, revenue is recognised at a point in time. In this case, progress towards completion is recognised under inventories.
Contract assets are recognised net of any accumulated impairment losses.
The Company regularly reviews the estimates and any gains or losses are recognised in the period in which the changes to the estimates are made.
Onerous contracts are treated in accordance with the methods described in note 40.
The consideration for contracts in a currency other than the functional currency is measured by translating the accrued consideration, calculated using the percentage of completion method, using the closing rates. However, the Company's exchange rate risk policy requires that all contracts that expose cash flows to changes in exchange rates are hedged on time.
However, see note 28 for derivatives designated as hedging instruments.
Revenues related to maintenance, sales of spare parts and charter services activities are managed through spot orders from the client and are recognised at a point in time basis.

<u>Employee benefits</u>

Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Defined benefit plans

The Company's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

An independent actuary performs the calculation using the projected unit credit method. When the calculation generates a surplus, the Company recognises a net benefit asset to the extent of the asset ceiling, i.e. the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the year by applying the discount rate used to measure the defined benefit obligation at the beginning of the year to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the year as a result of contributions and benefit payments. Net interest and other expenses on the net defined benefit liability (asset) are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Other long-term employee benefits

The Company's net obligation in respect of long-term employee benefits is the amount of future benefits that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognised in profit or loss in the period in which they arise.

Termination benefits
Termination benefits are expensed at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted.

Government grants
Government grants relating to costs incurred during the period are recognised in profit or loss as other income when the government grant becomes receivable. Other government grants relating to assets recorded in the balance sheet are initially recognised at fair value as deferred revenues if there is reasonable certainty that they will be received and that the Company will comply with the conditions for their receipt and are then recognised in profit/loss for the year as other income on a systematic basis over the useful life of the asset to which they refer.

Cost recognition
Costs are recognised when they relate to goods or services acquired or used in the period or on an accruals basis.

Financial income and expense
Interest income or expense is recognised in profit and loss using the effective interest method. Dividend income is recognised in profit or loss on the date on which the Company's right to receive payment is established.
The effective interest rate is the rate that exactly discounts the estimated future payments or collections over the financial asset's useful life: – is the gross book value of the financial asset; or – at the amortised cost of the financial liability. In order to calculate interest income and expense, the effective interest rate is applied to the asset's gross carrying amount (when the asset is not impaired) or the liability's amortised cost. Moreover, when a financial asset is impaired after initial recognition, interest income is calculated by applying the effective interest rate to the financial asset's amortised cost. Should the financial asset no longer be impaired, the interest income is again calculated considering the asset's gross carrying amount.

Income taxes
The tax expense for the period includes the current and deferred taxes recognised in profit or loss, except for those related to business combinations or items recognised directly in equity or other comprehensive income. The Company recognises interest and fines related to income taxes, including the accounting treatment to be applied to income taxes of an uncertain nature, in accordance with IAS 37 - Provisions, contingent liabilities and contingent assets, when they do not meet the definition of income taxes.

Current taxes
Current taxes comprise the expected tax payable or receivable on the taxable profit or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends. Current tax assets and liabilities are offset only when certain criteria are met.

Deferred taxes
Deferred taxes are recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred taxes are not recognised for:

- temporary differences arising on the initial recognition of assets and liabilities in a transaction other than a business combination that does not affect either the accounting profit or loss or the taxable profit (or tax loss);
- temporary differences arising on investments in subsidiaries, associates and joint ventures where the Company is able to control when they will reverse and it is probable that the temporary differences will not reverse in the foreseeable future and taxable temporary differences recognised on goodwill; and
- taxable temporary differences related to the initial recognition of the goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Company. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. These reductions are reversed when the probability of future taxable profits improves.
Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that the Company will acquire future taxable profits again which they can be used.
Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.
Measurement of the deferred tax reflects the tax effects of how the Company expects to recover or settle the carrying amount of assets and liabilities at the reporting date.
Deferred tax assets and liabilities are offset only if certain criteria are met.

Trade receivables

Trade receivables arising on the sale of goods or services produced or sold by the Company are recognised under current assets. They are recognised at their nominal amount (shown in the invoice) net of any impairment losses, provided for on the basis of an estimate of the risk that the trade receivables will not be collected at the reporting date.

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost, which is their initial recognition amount net of principal repayments, increased or decreased by amortisation applying the effective interest method to any difference between the initial carrying amount and their amount at repayment, less any adjustments (made directly or through the loss allowance) due to a loss in value or because the trade receivables are not expected to be recovered.

At initial recognition, trade receivables without a significant financing component are initially measured at the transaction price.

The Company recognises impairment losses where there is objective evidence that it will not recover the amount from the counterparty in line with the contract terms.

Objective evidence includes events such as:

a) significant financial difficulty of the borrower;
b) pending legal disputes with the borrower about the recoverability of the amount;
c) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

The impairment loss is calculated as the difference between the carrying amount of the asset and the present value of the future cash flows recognised in profit or loss. Unrecoverable amounts are derecognised from the statement of financial position through the loss allowance. If the reasons for the impairment loss are no longer valid in subsequent periods, an impairment gain is recognised and the asset is reinstated at the amount it would have had calculated using the amortised cost method.

Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in, first-out principle. In the case of inventories of products manufactured by the Company, cost includes an appropriate share of production overheads based on normal operating capacity.

notes to the separate financial statements

Property, plant and equipment

Recognition and initial measurement

Property, plant and equipment are measured at cost, including capitalised borrowing costs, net of depreciation and any impairment losses.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

Subsequent expenditure

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Company.

Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives.

Depreciation is generally recognised in the profit or loss for the year. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for current and comparative periods are as follows:

Land and buildings	
Industrial buildings	3%
Buildings on third-party land	State concession term
Plant and equipment	
Plant and equipment	11.50%
Industrial and commercial equipment	
Industrial equipment	25%
Moulds and models	12.50%
Cradles	10%
Other assets	
Trade fair furniture and fittings	10%
Office furniture and equipment	12%
Furniture and electronic equipment	20%-25%
Light construction	10%
Vehicles	20%
Other	10%

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

notes to the separate financial statements

Intangible assets and goodwill

Recognition and initial measurement

Goodwill: Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

Research and development: Research expenditure is expensed under profit/(loss) when incurred. Development costs are capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognised in profit or loss as incurred. Subsequent to initial recognition, development costs are measured at cost less accumulated amortisation and any accumulated impairment losses.

Other intangible assets: Other intangible assets with a finite useful life are recognised at cost less amortisation and any impairment losses.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

Amortisation

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Goodwill is not amortised.

The estimated useful lives for current and comparative periods are as follows:

Development costs	8 years – 12.50%
Software	5 years – 20%
Mooring rights	Transaction term
Trademarks	18 years
Goodwill arising on consolidation	10 years – 10%
Other	Over the individual transaction term

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Cash and cash equivalents

Cash and cash equivalents include cash, deposits with banks or other credit institutions available for current operations, postal accounts and other cash equivalents as well as investments with a maturity of less than three months. Cash and cash equivalents are recognised at their fair value which is usually equal to their nominal amount.

Financial instruments

Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. At initial recognition, trade receivables without a significant financing component are initially measured at the transaction price.

Classification and subsequent measurement

Financial assets

At initial recognition, a financial asset is classified based on its measurement at:

- amortised cost;
- fair value through other comprehensive income (FVOCI);
- fair value through profit or loss (FVTPL).

The Company defines their classification in line with the business model within which the financial assets are held and the contractual cash flow characteristics of the financial asset.

Financial assets are not reclassified after their initial recognition unless the Company modifies the business model for the management of financial assets. In this case, all involved financial assets are reclassified on the first day of the year following the change made to the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

notes to the separate financial statements

A financial asset is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by- investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets: assessment of the business model

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

Financial assets: assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet the following condition. For assessment purposes, the Company takes into consideration:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate elements;
- elements on prepayments and extension; and
- contract terms that limit the Company's requests for cash flows to specific assets.

Financial assets: classification, subsequent measurement and gains and losses
Financial assets at FVTPL: these assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in the profit or loss of the year. However, see note 28 for derivatives designated as hedging instruments.
Financial assets measured at amortised cost: these assets are subsequently measured at amortised cost using the effective interest method. Amortised cost is decreased for impairment. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss of the year as are any derecognition gains or losses.
Debt instruments at FVOCI: these assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss of the year. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss of the year.
Equity instruments at FVOCI: these assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss of the year unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Derecognition
Financial assets
The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Financial liabilities
The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified contractual terms is recognised at fair value.
On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

notes to the separate financial statements

Offsetting
Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Derivatives and hedge accounting
The Company uses derivatives to hedge its exposure to currency and interest rate risks. Derivatives are always measured at fair value through profit or loss, unless they qualify for hedge accounting for a specific risk related to the Company's underlying asset or liability or commitments.
At inception of the designed hedging relationship, the Company documents its risk management objective and strategy, the economic relationship between the hedged item and the hedging instrument and whether changes in the cash flows of the hedged item and the hedging instrument will offset each other.

Cash flow hedges
When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in OCI and accumulated in the hedging reserve. The effective portion of changes in the fair value of the derivative that is recognised in OCI is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.
The Company designates only the change in fair value of the spot element of forward exchange contracts as the hedging instrument in cash flow hedging relationships. The change in fair value of the forward element of forward exchange contracts (forward points) is separately accounted for as a cost of hedging and recognised in a cost of hedging reserve within equity.
If a hedged forecast transaction leads to the subsequent recognition of a non-financial asset or liability, for example, inventories, the gain or loss accumulated in the hedging reserve and the cost

of hedging reserve is included directly in the initial cost of the asset or liability at recognition. The gain or loss for all other hedged planned transactions is reclassified from the hedging reserve and the costs of hedging reserve to profit or loss in the same year or years in which the hedged future cash flows affect profit or loss.
If the hedge no longer meets the criteria for hedge accounting or the hedging instrument is sold, expires, is terminated or is exercised, then hedge accounting is discontinued prospectively. When hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the hedging reserve remains in equity until, for a hedge of a transaction resulting in the recognition of a non-financial asset or liability, it is included in the non- financial item's cost on its initial recognition or, for other cash flow hedges, it is reclassified to profit or loss in the same period or periods as the hedged expected future cash flows affect profit or loss. If the hedged future cash flows are no longer expected to occur, then the amounts that have been accumulated in the hedging reserve and the cost of hedging reserve are immediately reclassified to profit or loss.

Share Capital

Ordinary shares

Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity. Income tax relating to transaction costs of an equity transaction are accounted for in accordance with IAS 12.

Repurchase and reissue of ordinary shares (treasury shares)

When shares recognised as equity are repurchased, the amount of the consideration paid, which includes directly attributable costs is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the treasury share reserve. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity. The resulting surplus or deficit on the transaction is recognised under share premium.

<u>Impairment</u>

Non-derivative financial assets

Financial instruments and contract assets

The Company recognises loss allowances for ECLs on:

- financial assets measured at amortised cost;
- debt investments at FVOCI;
- contract assets.

The Company measures the loss allowance as equal to the lifetime expected credit losses, except for that set out below for the 12-month expected credit losses:

- debt instruments with a low credit risk at the reporting date; and
- other debit securities and bank current accounts with a credit risk (i.e., the default risk expected over the financial instrument's term) that has not increased significantly since initial recognition.

The loss allowance for trade receivables and contract assets is always measured considering their lifetime expected credit losses.

The Company considers reasonable and supportable information that is available without undue cost or effort that is indicative of significant increases in credit risk since initial recognition to estimate the expected credit losses. It considers quantitative and qualitative information and analysis, based on past experience of the Company, of the financial asset and forward looking information. The credit risk of a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

Expected Credit Losses (ECLs) are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is "credit-impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a debt or an advance payment by the Company that it would have not otherwise been taken into consideration;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of the loss allowance in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the carrying amount of the assets. For debt securities at FVOCI, the loss allowance is charged to profit or loss of the year and is recognised in OCI.

Write-off

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Company has a policy of writing-off the gross carrying amount when the financial asset is 180 days past due based on historical experience of recoveries of similar assets. For corporate customers, the Company individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

Non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the Company estimated the asset's recoverable amount. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or Cash-Generating Units (CGUs). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.
An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.
Impairment losses are recognised in profit or loss of the year. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.
An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Provisions
A provision is recognised when, at the reporting date, the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.
The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation.
The discount rate used to calculate the present value of the liability reflects assessments of the time value of money and the risks specific to the liability. Changes in estimates are recognised in profit or loss in the period the change takes place. The disclosure required by IAS 37 - Provisions, contingent assets and contingent liabilities is not provided for some disputes in order not to jeopardise the Company's position vis-à-vis these disputes or negotiations.
Risks for which a liability is solely possible are disclosed in the section of the notes on commitments and risks and no provision is made.
With respect to contract assets and liabilities, if the business plan is revised during the contract term and the contract becomes onerous, the portion of the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it is recognised in full in the period in which they are expected to be incurred and provided for in a provision for onerous contracts under current liabilities. The provision is released to profit and loss and recognised under Other operating revenue.

Leases

Determining whether an arrangement contains a lease

At inception of a contract, the Company assesses whether the contract is, or contains, a lease. At inception or on reassessment of an arrangement that contains a lease, the Company separates payments and other consideration required by the arrangement into those for the lease and those for other elements on the basis of their relative fair values. If, in the case of a financial lease, the Company decides that it is not feasible to accurately divide the instalments, then an asset and liability are recognised in an amount equal to the fair value of the underlying asset. Subsequently, the liability is reduced as payments are made and a finance cost on the liability is recognised using the Company's incremental borrowing rate.

Leased assets

Leases of property, plant and equipment that transfer to the Company substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognised in the Company's statement of financial position.

Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Operating profit

Operating profit is the result generated from the continuing principal revenue producing activities of the Company as well as other income and expenses related to operating activities. Operating profit excludes net finance costs, share of profit of equity-accounted investees and income taxes.

notes to the separate financial statements

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Company's accounting standards and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities (see note 4).

When one is available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Company measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Company determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

41. Standards issued but not yet effective

IFRIC 23 – Uncertainty over Income Tax Treatments

On 7 June 2017, the IASB published the interpretative document IFRIC 23 - Uncertainty over Income Tax Treatments. The document addresses the issue of uncertainties on the tax treatment to be adopted in relation to income taxes. The document provides that uncertainties in the determination of tax liabilities or assets are reflected in the financial statements only when it is probable that the entity will pay or recover the related amount. In addition, the document does not contain any new disclosure requirements but stresses that the entity will have to determine whether it will be necessary to provide information on the considerations made by management regarding the uncertainty inherent in accounting for taxes, in accordance with IAS 1. The new interpretation applies from 1 January 2019, but early application is permitted. The directors do not expect a significant effect in the separate financial statements of the Company from the adoption of this interpretation.

Amendment to IFRS 9 – Prepayment Features with Negative Compensation

This document (published on 12 October 2017) specifies that the instruments that provide for early repayment could comply with the "SPPI" test even if the "reasonable additional compensation" to be paid in the event of early repayment is a "negative compensation" for the lender. The amendment applies from 1 January 2019, but early application is permitted. The directors do not expect a significant effect in the separate financial statements of the Company from the adoption of this interpretation.

IFRS and IFRIC accounting standards, amendments and interpretations not yet endorsed by the European Union

At the time of preparing this financial statements, the competent bodies of the European Union had not yet completed the approval process necessary for the adoption of the amendments and principles described below.

notes to the separate financial statements

Amendment to IFRS 10 and IAS 28 "Sales or Contribution of Assets between an Investor and its Associate or Joint Venture"
(published on 11 September 2014). The document was published in order to solve the current conflict between IAS 28 and IFRS 10 relating to the valuation of the profit or loss resulting from the sale or contribution of a non-monetary asset to a joint venture or associate in exchange for a stake in the latter's capital. At present, the IASB has suspended the application of this amendment.
On 7 February 2018, the IASB published the document "*Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)*". The document clarifies how an entity must recognise an amendment (i.e. a curtailment or settlement) to a defined benefit plan. The amendments require the entity to update its assumptions and remeasure the net liability or asset arising from the plan. The amendments clarify that after the occurrence of such an event, an entity uses updated assumptions to measure the current service cost and interest for the remainder of the reporting period following the event. The directors do not expect a significant effect in the separate financial statements of the Company from the adoption of this amendment.

On 22 October 2018, the IASB published a document entitled "*Definition of a Business (Amendments to IFRS 3)*". The document provides some clarifications regarding the definition of business for the purposes of the correct application of IFRS 3. In particular, the amendment clarifies that while a business usually produces an output, the presence of an output is not strictly necessary to identify a business with an integrated set of assets/processes and assets. However, to meet the definition of business, an integrated set of assets/processes and assets must include, as a minimum, a substantial input and process that together contribute significantly to the ability to create output. To this end, the IASB has replaced the term "ability to create output" with "ability to contribute to the creation of output" to clarify that a business can exist even without the presence of all the inputs and processes necessary to create an output. The amendment also introduced a test ("concentration test"), optional for the entity, which to determine whether a set of assets/processes and assets purchased is not a business. If the test provides a positive result, the set of assets/processes and goods purchased is not a business and the principle does not require further testing. If the test fails, the entity will need to conduct further analysis of the assets/processes and goods purchased to identify the presence of a business. To this end, the amendment added a number of illustrative examples to IFRS 3 to help understand the practical application of the new definition of business in specific cases. The amendments apply to all business combinations and acquisitions of assets after 1 January 2020, but earlier application is permitted. Considering that this amendment will be applied to new acquisition transactions that will be completed from 1 January 2020, any effects will be recognised in the consolidated financial statements closed after that date and the directors do not expect effects on the separate financial statements from the adoption of this amendment.

On 31 October 2018, the IASB published a document entitled *"Definition of Material (Amendments to IAS 1 and IAS 8)"*. The document introduced an amendment to the definition of 'material' in IAS 1 - Presentation of Financial Statements and IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors. This amendment aims to make the definition of "material" more specific and introduces the concept of 'obscured information' alongside the concepts of omitted or incorrect information already present in the two standards being amended. The amendment clarifies that information is "obscured" if it has been described in such a way that it has an effect on primary readers of financial statements similar to that which would have occurred had the information been omitted or misstated. The directors do not expect a significant effect in the separate financial statements of the Company from the adoption of this amendment.

IFRS 17 - Insurance contracts replaces the previous standard IFRS 4 - Insurance contracts and solves the problems of comparability it created, requiring all insurance contracts to be accounted for consistently, to the benefit of both investors and insurance companies. Insurance obligations will be accounted for using current values - instead of historical cost. The information will be updated regularly, providing more useful information to users of the financial statements. The document applies to financial statements for financial years beginning on or after 1 January 2021. The directors do not expect a significant effect in the separate financial statements of the Company from the adoption of these amendments.

notes to the separate financial statements

42. First-time adoption
As described in the introduction, the separate financial statements as at 31 December 2019 represent the first IFRS separate financial statements of Sanlorenzo S.p.A and, therefore, IFRS 1 is applied. The data reported in the Sanlorenzo S.p.A. separate financial statements as at 31 December 2018, prepared in accordance with the International Financial Reporting Standards endorsed by the European Union derive from the separate financial statements as at 31 December 2018 prepared in accordance with the Italian regulations governing their preparation.
Pursuant to IFRS 1, the Company has applied the same accounting standards in its opening IFRS statement of financial position as at 1 January 2018 and all the periods included in the first IFRS separate financial statements.

Statement of financial position

(€'000)	1 January 2018				31 December 2018			
	Note	Ita-Gaap	Adjustment IFRS FTA	IFRS	Note	Ita-Gaap	Adjustment IFRS FTA	IFRS
Non-current assets	a	74,670	1,837	76,507	f	111,966	3,860	115,827
Current assets	b	368,478	(128,479)	239,999	g	403,399	(151,060)	252,340
Total assets		**443,147**	**(126,642)**	**316,505**		**515,366**	**(147,199)**	**368,167**
Equity	c	101,930	(1,740)	100,190	h	111,975	(8)	111,967
Non-current liabilities	d	25,041	578	25,619	i	65,014	670	65,685
Current liabilities	e	316,176	(125,480)	190,696	j	338,377	(147,862)	190,515
Total equity and liabilities		**443,147**	**(126,642)**	**316,505**		**515,366**	**(147,199)**	**368,167**

As at 1 January 2018

a. Non-current assets

Non-current assets recognised in the Italian Gaap financial statements as at 1 January 2018 amounted to €74,670 thousand compared with €76,507 thousand of the IFRS financial statements with a difference due to the transition to IFRS of €1,837 thousand. The main differences are:

- €1,522 thousand for development costs;
- €504 thousand for prepaid taxes;
- €(189) thousand for the application of the amortised cost accounting standard.

b. Current assets

Current assets recognised in the Italian Gaap financial statements as at 1 January 2018 amounted to €368,478 thousand compared with €239,999 thousand of the IFRS financial statements with a negative difference due to the transition to IFRS of €(128,479) thousand. The main differences are:

- €(128,446) thousand for the reclassification of advances received from the customers, in reduction of the contract assets;
- €3,714 thousand for the recognition of margin from work orders of less than one year duration that were previously valued at cost;
- €(2,916) thousand from the application of IFRS 15 regarding the losses expected from the sale of pre-owned boats that were withdrawn following the sale of new boats;
- €(637) thousand for the recognition in the profit and loss of prepaid expenses related to legal disputes.
- €(194) thousand for the application of the amortised cost accounting standard.

c. Equity

Equity in the Italian Gaap financial statements as at 1 January 2018 amounted to €101,930 compared with €100,190 thousand of the IFRS financial statements with a negative difference due to the transition to IFRS of €(1,740) thousand. The main differences are:

- €3,540 thousand for the recognition of margin from work orders of less than one year duration that were previously valued at cost;
- €1,522 thousand for development costs;
- €(131) thousand for the application of IAS 19 for post-employment benefits;
- €(2,089) thousand from the application of IFRS 15 regarding the losses expected from the sale of pre-owned boats that were withdrawn following the sale of new boats;
- €(637) thousand for the recognition in the profit and loss of prepaid expenses related to legal disputes.
- €(13) thousand for the application of the amortised cost accounting standard;
- €(322) thousand for prepaid taxes;
- €(699) thousand for the recognition of the R&D contribution;
- €(2,911) thousand for the adjustment of the margin from the boats sold to the American subsidiary.

notes to the separate financial statements

d. Non-current liabilities

Non-current liabilities recognised in the Italian Gaap financial statements as at 1 January 2018 amounted to €25,041 thousand compared with €25,619 thousand of the IFRS financial statements with a difference due to the transition to IFRS of €578 thousand. The main differences are:

- €130 thousand for the application of IAS 19 for post-employment benefits;
- €672 thousand concerning the short- and long term reclassification of the provision for warranties;
- €(224) thousand for the application of the amortised cost accounting standard.

e. Current liabilities

Current liabilities recognised in the Italian Gaap financial statements as at 1 January 2018 amounted to €316,176 thousand compared with €190,696 thousand of the IFRS financial statements with a difference due to the transition to IFRS of €(125,480) thousand. The main differences are:

- €(128,446) thousand for the reclassification of advances received from the customers, in reduction of the contract assets;
- €2,910 thousand for the adjustment of the margin from the boats sold to the American subsidiary.
- €699 thousand for the recognition of the R&D contribution;
- €(672) thousand concerning the short- and long term reclassification of the provision for warranties;
- €29 thousand for other changes.

As at 31 December 2018

f. Non-current assets

Non-current assets recognised in the Italian Gaap financial statements as at 31 December 2018 amounted to €111,966 thousand compared with €115,827 thousand of the IFRS financial statements with a difference due to the transition to IFRS of €3,860 thousand. The main differences are:

- €2,454 thousand for development costs;
- €718 thousand for prepaid taxes;
- €(112) thousand for the application of the amortised cost accounting standard;
- €800 thousand for the adjustment of the amortisation rate on goodwill.

g. Current assets

Current assets recognised in the Italian Gaap financial statements as at 31 December 2018 amounted to €403,399 thousand compared with €252,340 thousand of the IFRS financial statements with a difference due to the transition to IFRS of €(151,060) thousand. The main differences are:

- €(7,173) thousand for the adjustment of the margin from the boats sold to the American subsidiary and for other services provided;
- €7,004 thousand for the recognition of margin from work orders of less than one year duration that were previously valued at cost;
- €(148,911) thousand for the reclassification of advances received from the customers, in reduction of the contract assets;
- €(867) for the recognition in the profit and loss of prepaid expenses related to legal disputes;
- €(595) thousand for the application of the amortised cost accounting standard;
- €(519) thousand from the application of IFRS 15 regarding the losses expected from the sale of pre-owned boats that were withdrawn following the sale of new boats.

h. Equity

Equity in the Italian Gaap financial statements as at 31 December 2018 amounted to €111,975 compared with €111,967 thousand of the IFRS financial statements with a negative difference due to the transition to IFRS of €(8) thousand. The main differences are:

- €5,918 thousand for the recognition of margin from work orders of less than one year duration that were previously valued at cost;
- €(341) thousand from the application of IFRS 15 regarding the losses expected from the sale of pre owned boats that were withdrawn following the sale of new boats;
- €(867) thousand for the recognition in the profit and loss of prepaid expenses related to legal disputes.
- €(205) thousand for the application of the amortised cost accounting standard;
- €30 thousand for prepaid taxes;
- €(1,031) thousand for the recognition of the R&D contribution;
- €(7,173) thousand for the adjustment of the margin from the boats sold to the American subsidiary;
- €800 thousand for the adjustment of the amortisation rate on goodwill;
- €2,861 thousand for other changes.

notes to the separate financial statements

i. Non-current liabilities

Non-current liabilities recognised in the Italian Gaap financial statements as at 31 December 2018 amounted to €65,014 thousand compared with €65,685 thousand of the IFRS financial statements with a difference due to the transition to IFRS of €670 thousand. The main differences are:

- €882 thousand concerning the short- and long term reclassification of the provision for warranties;
- €105 thousand for the application of IAS 19 for post-employment benefits;
- €(317) thousand for the application of the amortised cost accounting standard.

j. Current liabilities

Current liabilities recognised in the Italian Gaap financial statements as at 31 December 2018 amounted to €338,377 thousand compared with €190,515 thousand of the IFRS financial statements with a difference due to the transition to IFRS of €(147,862) thousand. The main differences are:

- €(148,912) thousand for the reclassification of advances received from the customers, in reduction of the contract assets;
- €1,086 thousand for agency commissions accrued on the recognition of income from the sale of boats during the year;
- €(882) thousand concerning the short- and long term reclassification of the provision for warranties;
- €1,031 thousand for the recognition of the R&D contribution;
- €(185) thousand for the application of the amortised cost.

Statement of profit and loss

(€'000)	31 December 2018		
	Ita-Gaap	Adjustment IFRS FTA	IFRS
Revenue and income, net	372,951	(3,313)	369,638
Operating costs	(338,999)	3,267	(335,731)
Amortisation, depreciation and impairment losses	(11,059)	1,809	(9,249)
Operating profit	**22,893**	**1,764**	**24,657**
Net financial expense	(2,600)	(270)	(2,870)
Adjustments to financial assets	(3,763)	-	(3,763)
Pre-tax profit	**16,530**	1,494	18,024
Income taxes	(5,822)	(109)	(5,931)
Profit for the year	**10,708**	**1,386**	**12,093**

Profit and loss in 2018, in compliance with the Italian Gaap, showed a net profit of €10,708 thousand compared with an IFRS profit and loss with a net profit of €12,093 thousand. The difference of €1,386 thousand derives from the application of equity differences already described.

proposed approval of the separate financial statements and allocation of the profit for the year

The Board of Directors, in submitting for approval to the Shareholders' Meeting, the Separate financial statements as at 31 December 2019, which post a net profit of €29,059,398, proposes that the Shareholders' Meeting resolve:

- to approve the Separate financial statements of Sanlorenzo S.p.A., which show a net profit for the year of €29,059,398;
- to approve the proposed allocation of net profit for the year of €29,059,398 to the legal reserve for an amount of €1,452,970 and to the extraordinary reserve in the amount of €27,606,428.

Ameglia, 13 March 2020

On behalf of the Board of Directors
Executive Chairman
Mr Massimo Perotti

certification pursuant to art. 154-bis

Certification pursuant to art. 154-bis of italian legislative decree no. 58 of 24 february 1998 (consolidated law on finance) and art. 81-ter of the consob regulation no. 11971 of 14 may 1998, as amended and supplemented

1. The undersigned, Massimo Perotti, in his capacity as the Executive Chairman of the Board of Directors and Attilio Bruzzese, in his capacity as the Manager charged with preparing the company's financial reports of Sanlorenzo S.p.A., certify, also taking into account the provisions of art. 154-bis, paragraphs 3 and 4, of Italian Legislative Decree no. 58 of 24 February 1998:
   - the adequacy in terms of the characteristics of the Company and
   - the actual application of the administrative and accounting procedures for the preparation of the consolidated financial statement for 2019.

2. From the application of the administrative and accounting procedures for the preparation of the annual separate financial statements as at 31 December 2019, no significant facts need to be reported.

3. It is hereby also certified that:
   3.1 The annual financial statements:
   a) have been prepared in compliance with the international accounting standards endorsed by the European Union pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and the Council of 19 July 2002;
   b) reflect the figures of the accounting records;
   c) are suitable to provide a truthful and correct representation of the equity, economic and financial position of the issuer.
   3.2 The report on operations includes an accurate analysis of the performance and net operating results, as well as of the position of the issuer and of all companies under the consolidation scope, along with a description of the main risks and uncertainties to which they are exposed.

Ameglia, 13 March 2020

Mr Massimo Perotti
Executive Chairman
of the Board of Directors

Attilio Bruzzese
Manager charged with preparing
the company's financial reports

V

REPORT FROM THE INDEPENDENT AUDITING FIRM

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Sanlorenzo S.p.A.

Independent auditor's report
in accordance with article 14 of
Legislative Decree No. 39 of 27
January 2010 and article 10 of
Regulation (EU) No. 537/2014

Consolidated financial statements as of
31 December 2019

This report has been translated into English from the original, which was prepared in Italian and represents the only authentic copy, solely for the convenience of international readers.

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Via Roma 5/1
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Independent auditor's report
pursuant to article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the shareholders of
Sanlorenzo S.p.A.

Report on the audit of the consolidated financial statements

Opinion

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

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2019, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of this report. We are independent of Sanlorenzo S.p.A. (the Company) in accordance with the ethical and independence requirements applicable in Italy to the audit of financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	Audit response
Contract assets and liabilities We refer to notes n. 18 “Contract assets and liabilities” The Sanlorenzo Group recored in the consolidated financial statements as of 31 December 2019 assets for contract amounting to Euro 87.889 thousand (equal to 20,28% of total assets and Contract liabilities amounting to Euro 19.442 thousand (equal to 4,49% of total equity and liabilities). Assets for construction refer to ongoing contracts measured using the cost-to-cost method as the contract terms have already been finalised with the customer. They are recognised as assets net of the related contract liabilities when, based on a case by-base analysis, the gross value of the work performed at the reporting date is higher than the progress payments received from the customers. Conversely, if the progress payments are greater than the related contract assets, the difference is recognised as a contract liability The forecast of total costs requires a high level of management judgement and an error in this stage could lead to a wrong valuation of the construction contracts (and consequently of operating revenue) that could be significant. The correct measurement of the stage of completion of the construction contracts and of the possible related liabilities represents a key audit matter due to the magnitude of the amounts involved and due to the high level of management judgement.	Our main audit procedures performed in response to the key audit matter regarding contract assets and liabilities included the following: We performed an understanding and evaluation of the internal control system with reference to the construction contracts. For each construction contract we obtained and examined the contract (and their amendments and modifications agreed with the client, if any) and verified that the total revenues were in accordance with the contracts. For each construction contract we performed comparative analysis by comparing the budget of the full life costs with the one for sister vessels and with the budgets obtained in past years, in order to verify significant fluctuations. We had discussions with the Project Managers and with the management control team in order to understand main fluctuations and evaluate the reasonableness of the budgets and their updates. We analysed and verified the process of attribution of the costs incurred to the related construction contract and we checked the balance between general accounting and industrial accounting for a sample of. We performed substantive procedures in order to test the correct attribution of the costs to the related construction contract. We verified the percentage of completion computed by comparing the costs incurred at the reporting date with the estimated full life costs, for a sample of. We performed substantive procedures on the closing of the accounting for the constructions delivered during the financial year. We verified the completeness and accuracy of the disclosures in the notes.

Key audit matters	Audit response
Recoverability of goodwill We refer to notes n.13 “Goodwill” and n. 15 “Impairment Test” The carrying amount of goodwill reported in the consolidated financial statements at 31 December 2019 is Euro 8.667 thousand (equal to the 2,00% on total assets). For the purpose of the impairment test, a Cash Generating Unit (“CGU”) has been identified represented by the total operating assets of the Sanlorenzo Group as a whole. As it was not possible to measure the fair value of the assets being tested for impairment as at 31 December 2019, management estimated their recoverable amount considering value in use, calculated by discounting the 2020-2022 estimated operating cash flows obtained from the financial projections included in Piano 2020-2022. This item was considered significant for the audit given its magnitude as well as the subjectivity and complexity inherent to the evaluation process; the recoverability of goodwill is related to the occurrence of the assumptions underlying the strategic plan, the discount rates, discounting and future growth used and additional parameters characterized by subjectivity.	Our main audit procedures performed in response to the key audit matter regarding the recoverability of goodwill included the following: We understood and evaluated the methodology adopted by management to perform the impairment test on the Cash Generating Unit. We examined the projections included in the Strategic Plan 2020-2022 and we had discussions with management in order to understand and critically analyse the assumptions used by them. We verified the accuracy of the impairment test model used by management through an independent re-computation and by comparing the results obtained. We recomputed the discount rates used by management for the CGU and the growth rate with the support of experts from the BDO network. We performed sensitivity analysis in order to evaluate if changes in the discount and growth rates could lead to an impairment. We verified the completeness and accuracy of the disclosures in the notes.

Other matters

The consolidated financial statements present for comparative purposes the corresponding amounts of the previous period that have been prepared in accordance with International Financial Reporting Standards deriving from the financial statements at 31 December 2018, that have been prepared in accordance with italian regulation governing its preparation and that have been audited by another auditor that, on 12 April 2019, issued an unmodified opinion on these financial statements. Explanatory note no. 40 describes the effects of the transition to International Financial Reporting Standards as adopted by the European Union and includes the disclosure on the reconciliation statements required by the international Financial Reporting Standard IFRS 1.

Responsibilities of Management and those charged with Governance for the Consolidated Financial Statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Group’s ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate Sanlorenzo S.p.A. or to cease operations, or have no realistic alternative but to do so.

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- concluded on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

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

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

Additional disclosures required by art. 10 of Regulation (EU) N 537/2014

On 23 November 2019, the shareholders meeting of Sanlorenzo S.p.A. engaged us to perform the statutory audit of the Company's stand alone and consolidated financial statements for the years ending 31 December 2019 to 31 December 2027.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the board of statutory auditors, in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on other legal and regulatory requirements

Opinion in accordance with article 14, paragraph 2, letter e), of Legislative Decree N. 39/10 and article 123-bis, paragraph 4, of Legislative Decree N. 58/98.

The directors of Sanlorenzo S.p.A. are responsible for preparing a report on operations and a report on operation of the corporate governance report of the Sanlorenzo Group as of 31 December 2019, including their consistency with the relevant consolidated financial statements and their compliance with the law and regulations.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information of the corporate governance report as provided by article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the consolidated financial statements of the Sanlorenzo Group as of 31 December 2019 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the above mentioned specific information of the corporate governance report with the consolidated financial statements of the Sanlorenzo Group as of 31 December 2019 and are prepared in compliance with the law and regualtion.

With reference to the assessment pursuant to article 14, paragraph. 2, letter e), of Legislative Decree n. 39/10 based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Genova, 27 March 2020

BDO Italia S.p.A.

Signed by
Paolo Maloberti
Partner

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

Sanlorenzo S.p.A.

Independent auditor’s report pursuant to article 14 of Legislative Decree n. 39 dated 27 January 2010 and article 10 of EU Regulation n. 537/2014

Financial statements as of 31 December 2019

This report has been translated into English from the original, which was prepared in Italian and represents the only authentic copy, solely for the convenience of international readers.

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Via Roma 5/1
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Independent auditor's Report

pursuant to article 14 of Legislative Decree n. 39, dated January 27 2010 and article 10 of EU Regulation n. 537/2014

To the shareholders of
Sanlorenzo S.p.A.

Report on the financial statements

Opinion

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

In our opinion the financial statements give a true and fair view of the financial position of the Company as at 31 December 2019 and (of) its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as the regulation issued to implement art. 9 of Legislative Decree N0. 38/05.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical and independence requirements applicable in Italy to the audit of financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	Audit response
Contract assets and liabilities	
We refer to note no.17 *Contract assets and liabilities*. Sanlorenzo S.p.A. recorded in its financial statements at 31 December 2019 assets for construction contracts amounting to Euro 75.781 thousand (equal to 17,59% on total assets) and liabilities for construction contracts amounting to Euro 15.788 thousand (equal to 3,66% on total liabilities and net equity). Assets for construction contracts refer to ongoing contracts measured using the cost-to-cost method as the contract terms have already been finalised with the customer. They are recognised as assets net of the related contract liabilities when, based on a case-by-base analysis, the gross value of the work performed at the reporting date is higher than the progress payments received from the customers. Conversely, if the progress payments are greater than the related contract assets, the difference is recognised as a contract liability. The forecast of total costs requires a high level of management judgement and an error in this stage could lead to a wrong valuation of the construction contracts (and consequently of operating revenue) that could be significant. The correct measurement of the stage of completion of the construction contracts and of the possible related liabilities represents a key audit matter due to the magnitude of the amounts involved and due to the high level of management judgement.	Our main audit procedures performed in response to the key audit matter regarding contract assets and liabilities included the following: We performed an understanding and evaluation of the internal control system with reference to the construction contracts. For each construction contract we obtained and examined the contract (and their amendments and modifications agreed with the client, if any) and verified that the total revenues were in accordance with the contracts. For each construction contract we performed comparative analysis by comparing the budget of the full life costs with the one for sister vessels and with the budgets obtained in past years, in order to verify significant fluctuations. We had discussions with the Project Managers and with the management control team in order to understand main fluctuations and evaluate the reasonableness of the budgets and their updates. We analysed and verified the process of attribution of the costs incurred to the related construction contract and we checked the balance between general accounting and industrial accounting for a sample of. We performed substantive procedures in order to test the correct attribution of the costs to the related construction contract. We verified the percentage of completion computed by comparing the costs incurred at the reporting date with the estimated full life costs, for a sample of. We performed substantive procedures on the closing of the accounting for the constructions delivered during the financial year. We verified the completeness and accuracy of the disclosures in the notes.

Key audit matter	Audit response
Recoverability of goodwill	
We refer to note no.12 “goodwill” an note no.14 “impairment test”	Our main audit procedures performed in response to the key audit matter regarding the recoverability of goodwill included the following:
The carrying amount of goodwill reported in the financial statements at 31 December 2019 is Euro 8.667 thousand (equal to the 2,01% on total assets). For the purpose of the impairment test, a Cash Generating Unit (“CGU”) has been identified represented by the total operating assets of the Sanlorenzo as a whole. As it was not possible to measure the fair value of the assets being tested for impairment as at 31 December 2019, management estimated their recoverable amount considering value in use, calculated by discounting the 2020-2022 estimated operating cash flows obtained from the financial projections included in Piano 2020-2022. This item was considered significant for the audit given its magnitude as well as the subjectivity and complexity inherent to the evaluation process; the recoverability of goodwill is related to the occurrence of the assumptions underlying the strategic plan, the discount rates, discounting and future growth used and additional parameters characterized by subjectivity.	We understood and evaluated the methodology adopted by management to perform the impairment test on the Cash Generating Unit. We examined the projections included in the Strategic Plan 2020-2022 and we had discussions with management in order to understand and critically analyse the assumptions used by them. We verified the accuracy of the impairment test model used by management through an independent re-computation and by comparing the results obtained. We recomputed the discount rates used by management for the CGU and the growth rate with the support of experts from the BDO network. We performed sensitivity analysis in order to evaluate if changes in the discount and growth rates could lead to an impairment. We verified the completeness and accuracy of the disclosures in the notes.

Other matters

The financial statements present for comparative purposes the corresponding amounts of the previous period that have been prepared in accordance with International Financial Reporting Standards deriving from the financial statements at 31 December 2018, that have been prepared in accordance with italian regulation governing its preparation and that have been audited by another auditor that, on April 12 2019, issued an unmodified opinion on these financial statements. Explanatory note no. 40 describes the effects of the transition to International Financial Reporting Standards as adopted by the European Union and includes the disclosure on the reconciliation statements required by the international Financial Reporting Standard IFRS 1.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

The directors are responsible for the preparation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, as well as the regulation issued to implement art. 9 of Legislative Decree N0. 38/05 and, within the terms provide by the law, for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Company’s ability to continue as a going concern, and, in preparing the financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate Sanlorenzo S.p.A. or to cease operations, or have no realistic alternative but to do so.

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also have:

- identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We have communicated with those charged with governance, as properly identified in accordance with ISA Italia, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have also provided those charged with governance with a statement that we have complied with relevant ethical and independence requirements applicable in Italy, and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We described those matters in the auditor's report.

Additional disclosures required by art. 10 of Regulation (EU) 537/2014

We were initially engaged by the shareholders meeting of Sanlorenzo S.p.A. on November 23,2019 to perform the audits of the financial statements of the entity and the consolidated financial statements of the Group each fiscal year starting from 31 December 2019 to 31 December 2027.

We declare that we did not provide prohibited non audit services, referred to article 5, paragraph 1, of Regulation (EU) 537/2014, and that we remained independent of the company in conducting the audit.

We confirm that the opinion on the financial statements included in this audit report is consistent with the content of the additional report prepared in accordance with article 11 of the EU Regulation n.537/2014, submitted to those charged with governance.

Report on other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, letter e), of Legislative Decree n. 39/10 and of article 123-bis of Legislative Decree n. 58/98.

The directors of Sanlorenzo S.p.A. are responsible for the preparation of the report on operations and of the corporate governance report of Sanlorenzo S.p.A. as at 31 December 2019, including their consistency with the financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and of specific information of the corporate governance report as provided by article 123-bis, paragraph. 4, of Legislative Decree n. 58/98, with the financial statements of Sanlorenzo S.p.A. as at 31 December 2019 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements if any.

In our opinion, the report on operations and the above mentioned specific information of the corporate governance report are consistent with the financial statements of Sanlorenzo S.p.A. as at 31 December 2019 and are compliant with applicable laws and regulations.

With reference to the assessment pursuant to article 14, paragraph. 2, letter e), of Legislative Decree n. 39/10 based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Genova, 27 March 2020

BDO Italia S.p.A.

Signed by
Paolo Maloberti
Partner

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

VI

REPORT FROM THE BOARD OF STATUTORY AUDITORS

Report from the Board of Statutory Auditors to the Shareholders' Meeting of Sanlorenzo S.p.A. called to approve the Separate Financial Statements as at 31 December 2019 pursuant to Art. 153 of Italian Legislative Decree no. 58/98

Dear Shareholders,

In compliance with the provisions of Art. 153 of Italian Legislative Decree no. 58 of 24 February 1998 ("TUF") and the instructions contained in Consob Communication no. 1025564 dated 6 April 2001 as amended, and taking into account the principles of conduct recommended by the Italian accounting profession ("CNDCEC"), the Board of Statutory Auditors of Sanlorenzo S.p.A. (the "Company") is reporting to you on the supervisory activity carried out during the year 2019 with this Report, specifying that:

- the undersigned board was appointed on 24 October 2019;
- up until that date the control activities were carried out by the Board previously in office, so the content of this report referring to the entire year 2019 was shared with the previous Board through the exchange of information.
- after being listed on the Stock Exchange on 10 December 2019, references to the regulatory structure of listed companies are to be considered applied starting from that date.

Summary of the activity of the Board of Statutory Auditors

In compliance with the provisions of Art. 149 of TUF and Art. 2403 of the Italian Civil Code, the Board of Statutory Auditors organised its activity in order to supervise:

- observance of the law and of the by-laws;
- observance of the principles of correct corporate governance;
- the adequacy of the organisational structure;
- the adequacy of the internal control system;
- the reliability of the administrative-accounting system for correct representation of the operational transactions;
- the methods for implementing the Corporate Governance Code, which the Company has declared that it follows;
- the organic unity of the instructions given to the Group companies in order to fulfil the disclosure obligations established by the law (pursuant to Art. 114, paragraph 2 of TUF).

During the year ended on 31 December 2019 the Board of Statutory Auditors held a total of eight meetings in the two different compositions before and after 24 October 2019 as explained above, and drew up their minutes in which the control and supervisory activity carried out is reported. The Board of Statutory Auditors also attended the meetings of the Board of Directors and of the Board

Committees, as well as the Shareholders' Meetings.

The Board of Statutory Auditors preparing this report declares that all of its members comply with the regulatory provisions issued by Consob in connection with the limitation of plurality of offices and, to this regard, has indicated the offices significant for said purpose that are held in the Report on Corporate Governance and Ownership Structures of the Company, prepared pursuant to Art. 123-bis of TUF and made available on the Company website.

Key performance highlights

The transactions having greater economic, financial and capital importance carried out by the Company are described in detail in the report on operations; of these, the following are particularly reported:

- the reverse merger transaction with WindCo S.p.A. was concluded in June 2019;
- the equity investment held in GP Yachts S.r.l. was sold in July 2019;
- the Company submitted its application to be admitted to the stock exchange listing of its shares on the Mercato Telematico Azionario (MTA) (screen-based market) organised and managed by Borsa Italiana S.p.A. and, should the prerequisites be met, on the STAR Segment on 20 September 2019;
- the company Polo Nautico Viareggio S.r.l. was reorganised between July and September 2019, after which Sanlorenzo held a 48.15% stake;
- on 10 December 2019, after being admitted to listing on the STAR segment of Mercato Telematico Azionario (MTA) (screen-based market) organised and managed by Borsa Italiana S.p.A., trading of the Company's shares began. This transaction entailed the issue of no. 4,500,000 new shares at the offer price of Euro 16.00 per share, for a value of Euro 72,000,000.00;
- lastly, the current difficult assessment of the impacts made by the Covid-19 emergency, which is being continuously monitored and handled with specific measures to protect the Group and to mitigate possible negative effects on its profit.

Observance of the law and of the by-laws

Attending the Board of Directors meetings and those of its Committees, collecting information and performing controls as necessary allowed the Board of Statutory Auditors to ascertain that your Company is operating in observance of the laws, regulations and by-laws.

Specifically, the rules regulating operation of the corporate bodies and the Company's activity and the recommendations of the institutional bodies are constantly monitored by the supervisory executive officers who, with their adequate professional competence in the different specialisations, ensure that they are correctly applied also by, if necessary, availing themselves of expert professionals in the separate disciplines.

Observance of the principles of correct corporate governance

The corporate activity is constantly monitored in order to preserve and to protect the corporate assets and to create value. Among other things, the following are carefully analysed and discussed in-depth during the Board of Directors meetings:

- operating performance;
- the periodic economic and financial results and budget figures;
- the most significant transactions and any investment, acquisition and divestment proposals while assessing their risks, analysing the competitive scenarios, reference markets, economic aspects, the impact that the transactions have on the Group, and consonance and compatibility with the available resources;
- any transactions with related parties consistent with the procedure adopted by the Company;
- the most significant transactions of the subsidiaries, their financial performance and equity structure, bearing in mind the particular situations of the markets of reference in which they operate.

The Board of Statutory Auditors finds no clearly imprudent or risky transactions conflicting with the board resolutions and the interests of the Company and Shareholders.

The resolutions of the Board of Directors are implemented by top management and the administration, sales and production organisation with compliance criteria.

From the operations standpoint, the Board of Statutory Auditors collected information, requested useful material, encouraged meetings with the Manager charged with preparing the company's financial reports and the management control managers, with the Independent Auditing Firm, with the Internal Audit function, with the Legal and Corporate Affairs Office Manager and with the Supervisory Body pursuant to Italian Legislative Decree no. 231/2001. In this way it was able to acquire cognizance of the effectiveness and efficiency of the operating activities and of the reliability and continuity of the controls that guarantee prompt corrective actions as needed.

Adequacy of the organisational structure

The Board of Statutory Auditors examined the organisation charts, levels of responsibility, operating powers and flow of the directives, and assessed the ability of the organisation as a whole to exercise an adequate strategic-managerial policy and to perform the proper controls on the running of technical and technological, commercial and administration-accounting operations of the entire Group. Examination of the powers of attorney allowed the Board of Statutory Auditors to reach a positive opinion regarding their clearness and rationality.

The Board of Statutory Auditors was able to ascertain that the offices in charge quickly and reliably acquire useful and necessary information also from the subsidiaries and that respond with adequate and effective measures. The procedures used for this purpose and the directives given regarding the management economic control proved sufficient for adequately performing this activity.

Adequacy of the internal control system

The main characteristics of the internal control and risk management system are described in the Report on Corporate Governance and Ownership Structures and in the Annual Report concerning the year 2019. The internal control and risk management system ("SCIGR") consists of the rules, procedures and corporate structures that operate in order to allow the Company and the Group to operate effectively to identify, manage and monitor the major risks to which they are exposed. The SCIGR is an integrated system that involves the entire organisational structure; in order to guarantee a consistent approach at Group level, the Company defines the Group directives on the governance system supplemented by the Group internal control and risk management policies, which are applied to all Companies.

In this context of initial preparation, and afterwards of constant development and strengthening of the key internal controls, the Board of Statutory Auditors, consistent with the applicable sector regulations, supervised the adequacy of the SCIGR adopted by the Company and its Group shortly after the listing and verified its action functioning. In particular, the Board, starting from the moment the listing process commenced:

- took note of the periodic SCIGR adequacy assessment expressed by the Board of Directors after hearing the opinion of the Control, Risk and Sustainability Committee;
- examined the periodic report of the Control, Risk and Sustainability Committee issued every six months to support the Board of Directors;
- attended all Control, Risk and Sustainability Committee meetings, acquiring information also regarding the initiatives that the Committee deemed advisable to promote and request with regard to specific topics;
- checked the autonomy, independence and functionality of the Internal Audit Function, and implemented and kept up adequate and constant contact with it;
- examined the Audit Plan prepared by the Internal Audit function and approved by the Board of Directors, noted its observance, and received flows of information on the results of the audits;
- acquainted itself with the activities of the Supervisory Body set up by the Company in compliance with the provisions of Italian Legislative Decree no. 231/2001 through specific reports and update meetings concerning the activity it performed;
- obtained information from the managers of the corporate functions involved in the SCIGR;
- obtained information from the previous board of statutory auditors on the receipt of operating economic and financial reports from the subsidiaries by the management of the Company
- met and exchanged information with the Executive Chairman, in his role of executive director appointed to supervise the SCIGR, with whom it shared its observations on improving the architecture of the controls implemented by the Company.

In light of all of the above, considering the developments to be watched pointed out above and bearing in mind the evolutionary nature of the SCIGR, no elements that might lead this Board to deem the internal control and risk management system of the Company as inadequate as a whole emerged from the analyses made and on the basis of the information elements acquired.

Reliability of the administration system and Supervisory activities concerning the financial disclosure process

The Board checked the existence of adequate rules and procedures, though still in the implementation stage, supervising the financial disclosure collection, formation and circulation process.

It also took note that the CFO, also in his position of Manager charged with preparing the company's financial reports, confirmed:

- the adequacy and suitability of powers and resources granted to him by the Board of Directors;
- to have had direct access to all information necessary to produce accounting data;
- to have participated in the internal flows of information for accounting purposes and to have approved the relevant corporate procedures.

The Independent Auditing Firm reported no finding during the periodic meetings held with the Board of Statutory Auditors as concerns the administration-accounting system, assessed based on its ability to correctly represent the corporate transactions, the prompt update of corporate accounting, correct bookkeeping, and the punctual execution of the tax and contribution fulfilments.

Therefore, the Board provides an opinion of substantial adequacy of the financial disclosure formation process and deems that there are no findings to be submitted to the Shareholders' Meeting.

Supervision of transactions with related parties - atypical and/or unusual transactions

Starting from 24 October 2019 and taking effect from the start-up of trading, the Company has a procedure regarding transactions with related parties ("OPC Procedure") adopted in compliance with the provisions of Consob Regulation no. 17221/2010 as amended and with Art. 2391-bis of the Italian Civil Code, also applicable to transactions carried out by the subsidiaries.

The Board of Statutory Auditors deems that the aforesaid procedure is compliant with the rules set out in above-mentioned Consob Regulation no. 17221/2010 as amended; over the course of the year, the Board supervised its compliance by the Company.

The 2019 Separate Financial Statements of Sanlorenzo S.p.A., the Annual Report and the 2019 Consolidated Financial Statements report the effects on the economic situation and assets of the transactions with related parties, and the description of the relevant relationships.

During 2019, classified related party transactions of greater significance pursuant to the OPC Procedure were not submitted to the attention of the relevant Committee, and neither were there any urgent transactions with related parties.

The Board found the information provided to the Board of Directors in the 2019 Separate Financial Statements of the Company to be adequate as concerns intercompany and related party transactions. As far as we know, during the year 2019 no atypical and/or unusual transactions were entered into, as defined by Consob Communication no. DEM/6064293 dated 28 July 2006.

Statutory audit

The Board reminds you that during the listing process the Shareholders' Meeting held on 23 November 2019 awarded the appointment for the statutory audit pursuant to Art. 17 of Italian Legislative Decree no. 39/2010 for the years 2019-2027 to BDO Italia S.p.A., whose consideration is itemized in the Explanatory Notes, to which you are referred.

In this context, the Board of Statutory Auditors supervised the statutory audit of the annual and consolidated accounts and the independence of the auditing firm, and certifies that during the portion of the year 2019 of activity the latter provided no services other than auditing.

As part of the relations between supervisory body and auditor provided for by paragraph 3 of Art. 150 of TUF, and in light of the powers of the Board of Statutory Auditors in its role of internal control and audit committee, the Board of Statutory Auditors held special meetings periodically with the firm appointed to perform the statutory audit, during which data and information important for discharging the respective tasks were also exchanged.

The Board of Statutory Auditors promoted meetings with the Independent Auditing Firm specifically aimed at acquiring information on the preparation of the separate financial statements as at 31 December 2019.

The Executive Chairman, and the Manager charged with preparing the company's financial reports, issued the certificates provided for by Art. 154-bis of TUF both at the end of both the separate financial statements and the consolidated financial statements as at 31 December 2019 of the company.

On 27 March 2020, the Independent Auditing Firm issued the reports pursuant to Arts. 14 and 16 of Italian Legislative Decree no. 39/2010 for the separate financial statements and the Group consolidated financial statements as at 31 December 2019, respectively.

Resulting from said reports is that the financial statement documents were drafted clearly and truthfully and correctly represent the statement of financial position, the statement of profit and loss and the statement of cash flows for the year ended on said date, in compliance with the standards and rules of reference.

On that same date the Independent Auditing Firm also issued its supplementary report required by Art. 11 of EU Regulation no. 537/14, which reveals no significant gaps in the internal control and risk management system in connection with the financial disclosure process, with the statement pursuant to Art. 6 of EU Regulation no. 537/2014 annexed, from which no situations that might jeopardise its independence arise.

The Board sends these statements to the Board of Directors annexed hereto without comments.

Within its area of responsibility, the Board supervised the general layout of the separate financial statements and of the consolidated financial statements, and it checked that the valuation procedures applied correspond with the international accounting standards; it is specifically pointed out that, in compliance with what is stated in joint document Bank of Italy/Consob/ISVAP no. 4 dated 3 March 2010, correspondence of the Impairment Testing procedure with the instructions of IAS 36 was formally and autonomously approved by the Board of Directors after first evaluating the methodology used by the Control and Risks Committee.

Adherence to the Corporate Governance Code, composition of the Board of Directors and remuneration

On 24 October 2019, the Board of Directors of your Company passed a number of resolutions functional for the listing operation, necessary to provide the Company with a corporate governance structure that complies with the regulations dictated by the Corporate Governance Code adopted by the corporate governance committee set up by Borsa Italiana.

The Board of Statutory Auditors also acknowledges the following:

- In the early months of 2020, the Board of Directors carried out a self-assessment process on the size, composition and functioning of the Board itself and of its Committees; the process, which came to a positive conclusion, was directed with the coordination of the Lead Independent Director.
- In the early months of 2020, in line with the recommendations of Rule Q.1.1 of the Codes of Conduct of the Board of Statutory Auditors of Listed Companies prepared by the CNDCEC, the Board of Statutory Auditors also performed its own self-assessment activity on its composition and functioning, and examined and discussed the relevant results during a special meeting.
- The Board of Statutory Auditors verified correct application of the criteria and process implemented by the Board of Directors in order to assess the independence of the directors defined "independent"; likewise, it ascertained the existence of their independence and sent this result to the Board of Directors as required by Corporate Governance Code.
- In light of the existing best practices, the Board of Directors performed its own assessments of the existence of the independence requirement on the basis of all the information in any case at the Company's disposal, aimed at acquiring precise and detailed information from the Directors defined independent on any existence of business, financial or professional relationships and of self-employment or employment, or other asset-based or professional relationships considered significant pursuant to the Corporate Governance Code and TUF.

The Board has no comments to make regarding the consistency of the remuneration policy with the Corporate Governance Code recommendations.

The Board of Statutory Auditors acknowledges that the regulatory provisions regarding gender quotas have been observed.

Instructions given to group companies

The Board of Statutory Auditors found that the offices of the Company give the necessary instructions to the Group companies to provide the public with the information required by Art. 114 of Italian Legislative Decree no. 58/98 in observance of the conditions pursuant to Art. 36 of Consob Resolution no. 16191/2007 ("Stock Market Regulations").

Additional Information

The Board of Statutory Auditors acknowledges the following.

- During the year ended on 31 December 2019, neither claims pursuant to Art. 2408 of the Italian Civil Code nor complaints from third parties were received.
- During the year ended on 31 December 2019, the Board of Statutory Auditors provided, where necessary, its opinions and comments required by the law. Specifically, on 20 November 2019, at the end of a complex process to assess offers received by the independent auditing firms sent to participate in the specific tender, the Board of Statutory Auditors filed at the registered office its grounded opinion pursuant to Art. 13, paragraph 1 of Italian Legislative Decree no. 39/2010 in connection with the shareholders' meeting granting the statutory audit assignment for the period 2019-2027.
- During the supervisory activity it performed during the year, the Board of Statutory Auditors found no omissions, reprehensible facts or serious irregularities and, therefore, does not deem it necessary to make reports and proposals to the Shareholders' Meeting pursuant to Art. 153 of Italian Legislative Decree no. 58/98.
- The Board of Statutory Auditors supervised the correct implementation of the obligations imposed on the Company by the market abuse regulation, including those pertaining to internal dealing transactions, and by regulations on protecting savings and corporate reporting.
- In so far as it has not reached the size limits, the company is not required to prepare the non-financial report.

In referring to all of the considerations put forward herein, the Board of Statutory Auditors finds no reasons impeding the approval of the Separate Financial Statements of Sanlorenzo S.p.A. for the year ended on 31 December 2019, as submitted to you by the Board of Directors, and provides its opinion in favour of the proposal to allocate the profit of the year.

Ameglia, 27 March 2020

THE BOARD OF STATUTORY AUDITORS

Andrea Caretti, Chairman

Margherita Spaini

Roberto Marrani

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