GVS FILTER TECHNOLOGY

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Interim Consolidated Financial Statements

2020

Period:
January – March 2020

SUMMARY

- Review Report
- Consolidated Statements
- Notes to the Interim

REVIEW REPORT ON INTERIM CONSOLIDATED FINANCIAL STATEMENTS

To the Board of Directors of
GVS SpA

Foreword

We have reviewed the accompanying interim consolidated financial statements of GVS SpA (the "Company" and, with its subsidiaries, the "GVS Group"), which comprise the consolidated statement of financial position as of 31 March 2020, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows and related notes for the three-month period ended 31 March 2020. The Directors of GVS SpA are responsible for the preparation of interim consolidated financial statements that give a true and fair view in accordance with International Accounting Standard 34 applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these interim consolidated financial statements based on our review.

Scope of Review

We conducted our work in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim consolidated financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than a full-scope audit conducted in accordance with International Standards on Auditing and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the interim consolidated financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim consolidated financial statements of GVS Group for the three-month period ended 31 March 2020 do not give a true and fair view of the financial position, result of operations and cash flows of GVS Group in accordance with International Accounting Standard 34 applicable to interim financial reporting (IAS 34) as adopted by the European Union.

PricewaterhouseCoopers SpA

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Other Matters

The interim consolidated financial statements have been prepared in connection with the procedure for admission of ordinary shares of GVS SpA to listing on the Mercato Telematico Azionario, the main equity market of Borsa Italiana SpA, the Italian stock exchange.

The interim consolidated financial statements of GVS Group for the period ended 31 March 2019 were neither audited nor reviewed.

Bologna, 8 May 2020

PricewaterhouseCoopers SpA

Signed by

Giuseppe Ermocida
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(In thousands of Euro)	**Notes**	**As of March 31, 2020**	**As of December 31, 2019**
ASSETS			
Non-current assets			
Intangible assets	8.1	101,969	99,846
Right of use assets	8.2	9,971	10,320
Property, plant and equipment	8.3	46,826	46,614
Deferred tax assets		2,159	1,451
Non-current financial assets	8.4	477	542
Total non-current assets		**161,402**	**158,773**
Current assets			
Inventories	8.5	34,199	31,491
Trade receivables	8.6	41,025	35,158
Contract assets	8.7	431	591
Income tax receivables	8.8	264	193
Other current assets and receivables	8.9	8,601	6,430
Current financial assets	8.4	3,594	3,576
Cash and cash equivalents	8.10	47,165	58,542
Total current assets		**135,279**	**135,981**
Total assets		**296,681**	**294,754**
EQUITY AND LIABILITIES			
Share capital		1,650	1,650
Reserves		91,570	59,489
Profit for the period		8,676	33,083
Group shareholders' equity		**101,896**	**94,222**
Non-controlling interests		**19**	**18**
Total equity	8.11	**101,915**	**94,240**
Non-current liabilities			
Non-current borrowings	8.12	105,359	117,638
Non-current lease liabilities	8.2	7,225	7,850
Deferred tax liabilities		1,587	819
Employee benefit obligations		4,232	4,193
Total non-current liabilities		**118,403**	**130,500**
Current liabilities			
Current borrowings	8.12	35,589	36,669
Current lease liabilities	8.2	3,775	3,094
Trade payables	8.13	17,901	13,188
Contract liabilities	8.7	1,889	1,702
Income tax payables	8.8	3,745	2,060
Other current liabilities	8.14	13,464	13,301
Total current liabilities		**76,363**	**70,014**
Total equity and liabilities		**296.681**	**294.754**

CONSOLIDATED INCOME STATEMENT

(In thousands of Euro)	Notes	Three months ended March 31,	
		2020	**2019**
Revenue from contracts with customers	9.1	60,243	57,553
Other income	9.2	317	356
Total revenue		**60,560**	**57,909**
Purchase and consumption of raw materials and finished goods and semi-finished goods	9.3	(16,782)	(15,848)
Personnel expenses	9.4	(18,693)	(19,200)
Cost of services	9.5	(6,956)	(5,641)
Other operating costs	9.6	(634)	(761)
EBITDA		**17,495**	**16,459**
Net impairment losses on financial assets	9.7	(62)	(56)
Depreciation and amortization	9.8	(4,357)	(4,035)
EBIT		**13,076**	**12,368**
Finance income	9.9	52	1,877
Finance costs	9.9	(1,605)	(1,191)
Profit before income tax		**11,523**	**13,054**
Income tax expense	9.10	(2,845)	(3,261)
Net profit		**8,678**	**9,793**
attributable to owners of the parent company		*8,676*	*9,793*
attributable to non-controlling interests		*2*	-
Basic earnings per share	9.11	*0.26*	*0.29*
Diluted earnings per share	9.11	*0.26*	*0.29*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(In thousands of Euro)	Notes	Three months ended March 31,	
		2020	**2019**
Net profit		**8,678**	**9,793**
Other comprehensive income that will be reclassified to profit or loss (net of tax)			
Exchange differences from translation of foreign financial statements	8.11	(1,003)	1,478
		(1,003)	**1,478**
Total other comprehensive income for the period, net of tax		**(1,003)**	**1,478**
Total comprehensive income for the period		**7,675**	**11,271**
attributable to owners of the parent company		*7,676*	*11,271*
attributable to non-controlling interests		*(1)*	-

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Reserves										
(In thousands of Euro)	**Share capital**	***Share premium reserve***	***Legal reserve***	***Extraordinary reserve***	***Currency translation reserve***	***Negative treasury shares reserve***	***Actuarial gains-losses reserve***	***Retained earnings and other reserves***	**Net profit**	**Group shareholders' equity**	**Non-controlling interests**	**Total equity**
As of December 31, 2018	**1,650**	**13,247**	**329**	**25,831**	**(3,267)**	**(10,981)**	**52**	**21,092**	**23,072**	**71,025**	**16**	**71,041**
Net profit	-	-	-	-	-	-	-	-	9,793	9,793	-	9,793
Total other comprehensive income for the period, net of tax	-	-	-	-	1,478	-	-	-	-	1,478	-	1,478
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**1,478**	**-**	**-**	**-**	**9,793**	**11,271**	**-**	**11,271**
Allocation income for the prior year	-	-	-	9,924	-	-	-	13,148	(23,072)	-	-	-
Distribution of dividends	-	-	-	(5,005)	-	-	-	-	-	(5,005)	-	(5,005)
As of March 31, 2019	**1,650**	**13,247**	**329**	**30,750**	**(1,789)**	**(10,981)**	**52**	**34,240**	**9,793**	**77,291**	**16**	**77,307**

		Reserves										
(In thousands of Euro)	**Share capital**	***Share premium reserve***	***Legal reserve***	***Extraordinary reserve***	***Currency translation reserve***	***Negative treasury shares reserve***	***Actuarial gains-losses reserve***	***Retained earnings and other reserves***	**Net profit**	**Group shareholders' equity**	**Non-controlling interests**	**Total equity**
As of December 31, 2019	**1,650**	**13,247**	**329**	**25,745**	**(3,040)**	**(10,981)**	**(51)**	**34,240**	**33,083**	**94,222**	**18**	**94,240**
Net profit	-	-	-	-	-	-	-	-	8,676	8,676	2	8,678
Total other comprehensive income for the period, net of tax	-	-	-	-	(1,002)	-	-	-	-	(1,002)	(1)	(1,003)
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**(1,002)**	**-**	**-**	**-**	**8,676**	**7,674**	**1**	**7,675**
Allocation income for the prior year	-	-	-	15,114	-	-	-	17,969	(33,083)	-	-	-
Annulment of treasury shares	-	-	-	(10,981)	-	10,981	-	-	-	-	-	-
As of March 31, 2020	**1,650**	**13,247**	**329**	**29,878**	**(4,042)**	**-**	**(51)**	**52,209**	**8,676**	**101,896**	**19**	**101,915**

CONSOLIDATED STATEMENT OF CASH FLOWS

(In thousands of Euro)	Notes	Three months ended March 31, 2020	2019
Profit before income tax		11,523	13,054
- Adjustments:			
Depreciation and amortization	9.8	4,357	4,035
Capital loss / (gain) from disposal of assets	9.2 - 9.6	(35)	9
Net financial expenses	9.9	1,553	(686)
Other non-monetary movements		107	101
Cash flow from operating activities before changes in net working capital		***17,505***	***16,513***
Changes in inventory	8.5	(1,907)	(147)
Changes in trade receivables	8.6	(6,641)	(2,744)
Changes in trade payables	8.13	5,402	(5)
Changes in other assets and liabilities	8.9 - 8.14	244	(2,811)
Uses of employee benefit obligations and provisions for risks and charges		(6)	(37)
Income tax paid	9.10	(1,254)	(2,007)
Net cash flow provided by / (used in) operating activities		**13,343**	**8,762**
Investments in property, plant and equipment	8.3	(2,382)	(2,451)
Investments in intangible assets	8.1	(681)	(444)
Disposal of property, plant and equipment	8.3	42	103
Investments in financial assets	8.4	(750)	(164)
Disposal of financial assets	8.4	63	1,619
Acquisition of company branch	7	(3,608)	-
Net cash flow provided by / (used in) investing activities		**(7,316)**	**(1,337)**
Repayment of long-term borrowings	8.12	(13,268)	(12,943)
Changes in current financial liabilities	8.12	388	-
Repayment of lease liabilities	8.2	(724)	(719)
Finance costs paid	9.9	(2,295)	(2,587)
Finance income received	9.9	52	38
Dividends paid	8.11	(1,681)	(5,005)
Net cash flow provided by / (used in) financing activities		**(17,528)**	**(21,216)**
Total cash flow provided / (used) in the year		**(11,501)**	**(13,791)**
	-		
Cash and cash equivalents at the beginning of the period		**58,542**	**45,551**
Total cash flow provided / (used) in the year		(11,501)	(13,791)
Exchange differences from translation of cash and cash equivalents		124	651
Cash and cash equivalents at the end of the period		**47,165**	**32,411**

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF MARCH 31, 2020

1 GENERAL INFORMATION

1.1 Objective

These condensed interim consolidated financial statements as of March 31, 2020 (hereafter, also referred to as the "**Interim Consolidated Financial Statements**") have been prepared solely for: (i) the inclusion by reference in the supplement to the Base Prospectus to listing of the ordinary shares of GVS S.p.A. on the Mercato Telematico Azionario (the "MTA"), the Italian screen-based trading system organized and managed by Borsa Italiana S.p.A and (ii) in any further offering documents relating to sale of the shares of GVS S.p.A. to institutional investors.

1.2 General information

GVS S.p.A. (hereafter "**GVS**", or the "**Company**" and together with its subsidiaries the "**GVS Group**" or the "**Group**") is a limited company incorporated in Italy, organized under Italian law, with registered offices in Zola Predosa (BO), Via Roma 50.

GVS is controlled by GVS Group S.p.A. which directly holds 100.0% of the share capital, following the resolution of the extraordinary Shareholders' Meeting of GVS, approved on March 13, 2020, which established the annulment of the treasury shares held by the same GVS. There are no subjects exercising management and coordination over the Company.

The GVS Group operates in production and commercialization of plastic filters for liquids and air, intended for the *Healthcare & Lifesciences*, *Energy & Mobility* and *Health & Safety* divisions.

1.3 Transactions occurred in the period under review

Acquisition of a company branch by GVS Filter Technology de Mexico

On October 30, 2019, the GVS Group, through the subsidiary GVS Filter Technology de Mexico S. de. R.L. de C.V., entered into a contract with Graphic Controls Acquisition Corp. for the acquisition of a company branch consisting of a complex of assets, including inventories attributable to filters, tangible assets attributable to plants and machinery, intangible assets and other assets as contractually defined (hereinafter the "**Acquisition of the Company Branch GCA**"). Under the aforementioned contract, GVS Filter Technology de Mexico S. de. R.L. de C.V. also took over certain previously existing sales and supply contracts. The acquisition was completed on January 20, 2020 (hereinafter the "**Closing Date**"). The contract provides for a provisional price of USD 3,970 thousand, including a fixed part, subject to price adjustment, and a variable part. Further information regarding the assets acquired and the composition of the consideration are described in section 7.

The acquisition described is considered as a business combination in accordance with IFRS 3.

2 SUMMARY OF ACCOUNTING POLICIES AND CRITERIA USED IN PREPARING THE CONSOLIDATED FINANCIAL STATEMENTS

2.1 Basis of preparation

The Interim Financial Statements have been prepared in accordance with IAS 34, the international accounting standard for interim financial reporting. IAS 34 allows entities that have published full IFRS compliant financial statements for the preceding financial period to prepare condensed financial statements that include less information at interim dates. These Interim Financial Statements have been prepared in "condensed" form and should therefore be read together with the consolidated financial statements as of December 31, 2019, 2018 and 2017 (hereinafter the "**Consolidated Financial Statements**").

The main accounting criteria and principles applied in the preparation of the Interim Consolidated Financial Statements are shown below.

2.2 Declaration of conformity with International Accounting Standards

The Interim Consolidated Financial Statements have been prepared in accordance with the International Accounting Standards adopted by the European Union and in force on March 31, 2020. The designation "IFRS" includes all "International Financial Reporting Standards", all "International Accounting Standards" ("**IAS**") and all interpretations of the International Financial Reporting Interpretations Committee ("**IFRIC**"), formerly the Standing Interpretations Committee ("**SIC**").

The Interim Consolidated Financial Statements were approved by the Company's Board of Directors on May 8, 2020 and were subject to a limited review by PricewaterhouseCoopers S.p.A., the Company's independent auditors.

2.3 Principles for the preparation of the Consolidated Financial Statements

The Interim Consolidated Financial Statements comprise the statements required by the accounting principle IAS 1, *i.e.* a statement of financial position, an income statement, a statement of comprehensive income, a statement of changes in equity and a statement of cash flows, as well as explanatory notes.

In the income statement, costs are classified costs are classified based on their nature. Assets and liabilities included in the statement of financial position are classified in terms of whether they are current or non-current. The statement of cash flows is prepared using the indirect method. The statements used are those that best represent the Group's economic and financial situation.

An asset is classified as current when:

- it is expected that it will be realized, or it is held for sale or consumption, during the normal operating cycle;
- it is held primarily for the purpose of trading;
- it is expected that the asset will be realized within twelve months after the reporting period; or
- the asset is cash or a cash equivalent (unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period).

All other assets are classified as non-current. Specifically, IAS 1 uses the term 'non-current' to include tangible, intangible and financial assets of a long-term nature.

A liability is classified as current when:

- it is expected that it will be settled during normal operating cycle;
- it is held primarily for the purpose of trading;
- it is due to be settled within twelve months after the reporting period; or
- there exists no unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

All other liabilities are classified as non-current.

The operating cycle is the time that elapses between the acquisition of goods for the production process and their realization in cash or cash equivalents. When the normal operating cycle is not clearly identifiable, its duration is assumed to be twelve months.

The Interim Consolidated Financial Statements are prepared in Euro, the Company's functional currency. Unless otherwise stated, all financial amounts, explanatory notes and tables are presented in thousands of Euro.

The Interim Consolidated Financial Statements have been prepared:

- on the basis of existing IFRS. Potential future developments and updates in interpretations will be reflected in future years, in accordance with guidance provided on a case by case basis by the relevant accounting standards;
- on a going concern basis, using the accrual basis of accounting, respecting the principle of materiality and significance, ensuring the prevalence of substance over form and with a view to facilitating consistency with future financial statements. Neither assets and liabilities nor income and expenses are offset, unless required or permitted by an IFRS;
- on a historical cost basis, except in relation to the measurement of financial assets and liabilities that under IFRS must be recognized at fair value and for the financial statements of companies operating in economies subject to hyperinflation, prepared on the basis of the current costs.

With reference to the going concern, it should be noted that the spread of COVID-19 globally during 2020 has not affected the Group's economic and financial performance in the three months ended March 31, 2020, which is in line with forecasts made in the budget. In particular, the trends recorded in the three months ended March 31, 2020 lead to believe that the Group's performance will be in line, if not improving, although with a different distribution of revenues and investments between the divisions in which the Group operates, compared to the forecasts made in the business plan. It should also be noted that the cash as of March 31, 2020, equal to Euro 47.2 million, the credit lines currently available and the cash flows that will be generated by the operating activities, are considered sufficient to fulfill the obligations and to finance the Group operations.

2.4 Basis and principles of consolidation

The Interim Consolidated Financial Statements include the financial statements of the Company and its subsidiaries as approved by the respective boards of directors and prepared based on the accounting records of the individual companies, adjusted as necessary to align them with IFRS.

The following table provides, for each of the companies included within the scope of the Consolidated Financial Statements, a summary of the company name, location of registered office, functional currency, share capital and percentage of capital held.

					Percentage of capital held	
Company	**Headquarter**	**Currency**	**Share capital as of March 31, 2020**	**Parent company**	**As of March 31, 2020**	**As of December 31, 2019**
GVS Sud Srl	Italy - Zola Predosa (BO)	EUR	10.000	GVS SpA	100,0%	100,0%
YUYao Yibo Medical Device Co. Ltd	China - Yuyao	CNY	5.420.000	GVS Technology (Suzhou) Co. Ltd.	100,0%	100,0%
GVS Technology (Suzhou) Co. Ltd.	China - Suzhou (RPC)	CNY	15.316.027	GVS SpA	100,0%	100,0%
Suzhou GVS Trading Co. Ltd.	China - Ningbo	CNY	250.000	GVS Technology (Suzhou) Co. Ltd.	100,0%	100,0%
GVS Fortune Holding Ltd	Hong Kong (RPC)	HKD	1	GVS SpA	100,0%	100,0%
GVS North America Inc	USA - Sanford (MA)	USD	9.145.237	GVS North America Holdings Inc	100,0%	100,0%
GVS Filtration Inc	USA - Findlay (OH)	USD	25.541.640	GVS North America Holdings Inc	100,0%	100,0%
GVS North America Holdings Inc	USA - Sanford (MA)	USD	11.549.000	GVS SpA	100,0%	100,0%
Fenchurch Environmental Group Ltd	United Kingdom - Morecambe	GBP	1.469	GVS SpA	100,0%	100,0%
GVS Filter Technology UK Ltd	United Kingdom - Morecambe	GBP	1.469	Fenchurch Environmental Group Ltd	100,0%	100,0%
GVS do Brasil Ltda	Brazil - Municipio de Monte Mor, Campinas	BRL	7.428.136	GVS SpA	99,9%	99,9%
GVS Argentina Sa	Argentine - Buenos Aires	ARS	16.906.320	GVS SpA	94,1%	94,1%
GVS Filter Technology de Mexico	Mexico - Nuevo Leon	MXN	50.000	GVS SpA	99,9%	99,9%
GVS Korea Ltd	Korea - Seul	KRW	100.000.000	GVS SpA	100,0%	100,0%
GVS Microfiltrazione Srl	Romania - Ciorani	RON	1.600	GVS SpA	100,0%	100,0%
GVS Japan KK	Japan - Tokyo	JPY	1.000.000	GVS SpA	100,0%	100,0%
GVS Russia LLC	Russia - Mosca	RUB	10.000	GVS SpA	100,0%	100,0%

GVS Filtre Teknolojileri	Turkey - Istanbul	TRY	100.000	GVS SpA	100,0%	100,0%

All of the companies included within the scope of the consolidation are consolidated on a line by line basis.

It should be noted that in the quarter ended March 31, 2020 no changes in the scope of consolidation took place.

The following table provides the exchange rates used for the translation of the financial statements of companies expressed in currencies other than the Euro for the periods indicated:

Currency	**As of March 31, 2020**	**As of December 31, 2019**	**Three months ended March 31,**	
			2020	**2019**
Brazilian Real	5.7001	4.5157	4.9256	4.2775
Argentine Peso	70.5388	67.2749	67.7364	44.2247
Swiss Franc	1.0585	1.0854	1.0670	1.1324
Chinese Renminbi	7.7784	7.8205	7.6997	7.6635
US Dollar	1.0956	1.1234	1.1064	1.1358
Hong Kong Dollar	8.4945	8.7473	8.5745	8.9116
Japanese Yen	118.9000	121.9400	120.0759	125.0835
Korean Won	1,341.0300	1,296.2800	1,316.6064	1,278.5949
Swedish Krona	11.0613	10.4468	10.6944	10.4187
Russian Ruble	85.9486	69.9563	73.8205	74.9094
Turkish Lira	7.2063	6.6843	6.7428	6.1102
Mexican Peso	26.1772	21.2202	22.0918	na
Romanian Leu	4.8283	4.7830	4.7974	4.7358
Pound sterling	0.8864	0.8508	0.8633	0.8725

For the criteria used for the definition of subsidiaries and for the methods of translation of foreign currency items, as well as for the accounting of transactions with minorities, please refer to related section reported in the Consolidated Financial Statements.

2.5 Accounting policies and criteria

The Interim Financial Statements have been prepared using the same accounting standards and consolidation principles as those used in preparing the Consolidated Financial Statements to which reference is made, except for:

- accounting principles, or amendments to existing accounting principles, effective from January 1, 2020 (for more details, please see note 3), and
- income taxes, recognized on the basis of the best estimate of the weighted average tax rate expected for the entire year, in accordance with IAS 34.

2.6 Seasonality

The market in which the Group operates is not characterized by seasonal sales patterns that could result in sales revenues and operating costs differing from one month to another. Therefore, the results for the first quarter of the year may represent a proportionate share of total year sales and costs. Financial balances in the first half of the year may also be affected by seasonal factors.

3 RECENTLY ISSUED ACCOUNTING STANDARDS

Accounting standards not yet applicable as not yet endorsed by the European Union

As of the date of approving these Interim Consolidated Financial Statements, the following standards and amendments had not yet been endorsed by the EU.

Standard/amendment	Endorsed by EU	Effective date
IFRS 17 Insurance Contracts	NO	Years beginning on or after January 1, 2021 (possible extension to January 1, 2022)
Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (issued on 23 January 2020)	NO	January 1, 2023

The Group does not expect there to be any financial impact as a result of the entry into force of such standards or amendments.

Accounting standards, amendments and interpretations endorsed by the European Union in force from January 1, 2020

In accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", the table below shows the IFRS in force starting from January 1, 2020.

Standard/amendment	Description
Amendments to IAS 1 and IAS 8: Definition of Material	These amendments, in addition to clarifying the concept of materiality, focus on defining materiality that is coherent and unique among the various accounting standards, and incorporate the guidelines included in IAS 1 on intangible information. No impacts on the Group financial statements are expected.
Amendments to References to the Conceptual Framework in IFRS Standards	These amendments focus on updating certain definitions and certain references contained in the various principles and related interpretations. No impacts on the Group financial statements are expected.
Amendments to IFRS 9, IAS 39, IFRS 7 (Interest Rate Benchmark Reform)	These amendments focus on hedge accounting in order to clarify the potential effects deriving from the uncertainty caused by the Interest Rate Benchmark Reform. In addition, these changes require companies to provide additional information to investors about their hedging relationships, which are directly affected by these uncertainties. No impacts on the Group financial statements are expected.
Amendments to IFRS 3 Business Combinations	These amendments focus on the definition of business in such a way as to further clarify when there is an acquisition of a business or a purchase of a group of assets. This amendment is applied in the context of the accounting of the Acquisition of the Company Branch GCA by the Group.

4 ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with relevant accounting standards and methods in certain cases requires management to make estimates and assumptions based on difficult and subjective judgments, in turn based on past experience and hypotheses considered reasonable and realistic, given the information known at the time.

Such estimates have an effect on the amounts reported in the financial statements, including the statement of financial position, the income statement, the statement of comprehensive income, the statement of cash flows and the related notes to the financial statements. Actual results may then differ, even significantly, from those reported in the consolidated financial statements due to changes in the factors considered in determining the estimates, given the uncertainties that characterize the assumptions and conditions on which estimates are based.

For further details about the description of the valuation processes relevant for the Group, please refer to the corresponding paragraph of the Consolidated Financial Statements.

5 MANAGEMENT OF FINANCIAL RISKS

In terms of business-related risks faced, the main risks identified, monitored and actively managed by the Group as described below, are the following:

- market risk, relating to changes in the exchange rate between the Euro and other currencies in which the Group operates and interest rates;
- credit risk, relating to the risk of default on the part of a counterpart; and
- liquidity risk, relating to a lack of financial resources to meet financial obligations.

The Group's objective is to maintain a balanced approach to managing its financial exposure by matching assets and liabilities and achieving operational flexibility through the use of liquidity generated by current operating activities and bank loans.

The Group's ability to generate liquidity from operations together with its borrowing capacity enable it to satisfy its operational requirements to fund working capital, invest and meet its financial obligations. Treasury and financial risk management are centralized within the Company. Specifically, the central finance function is responsible for evaluating and approving forecast financial requirements, monitoring trends and taking corrective action as necessary.

The following note provides qualitative and quantitative indications of reference on the incidence of these risks on the Group.

5.1 Market risk

Exchange rate risk

Exposure to the risk of fluctuating exchange rates is related to the commercial activities of the Group, which also take place in currencies other than the Euro. Revenues and costs denominated in foreign currency can be influenced by fluctuations in the exchange rate with impacts on commercial margins (business risk), just as trade and financial payables and receivables in foreign currency can be impacted by the translation rates used, with an effect on profit or loss (transaction risk). In addition, exchange rate fluctuations also have an effect on consolidated profit and loss and equity, as the financial statements of some Group companies are prepared using currencies other than the Euro and then translated (translation risk).

Revenues from contracts with customers are generally denominated in Euro and US Dollar or indexed to the Euro. The Group does not adopt instruments to hedge exchange rate fluctuations. The Group's exchange rate risk management policy is to maintain the target ratio between purchases of raw materials and revenues denominated in a single currency of less than 30%. Exceeding this ratio in relation to one of the currencies in which the Group operates indicates an overexposure to the exchange rate risk associated with that currency.

Sensitivity analysis relating to exchange rate risk

For the purposes of the sensitivity analysis of the exchange rate, the balance sheet items as of March 31, 2020 and as of December 31, 2019 (financial assets and liabilities) denominated in currencies other than the functional currency of each Group company were identified. In assessing the potential effects of exchange rate fluctuations on net income, intercompany payables and receivables in currencies other than the reporting currency were also taken into account.

For the purpose of the analysis, two scenarios were considered, which are affected respectively by an appreciation and a depreciation of 5% of the nominal exchange rate between the currency in which the balance sheet item is denominated and the reporting currency.

The table below shows the results of the analysis:

(In thousands of Euro)	Appreciation of 5%		Depreciation of 5%	
	As of March 31, 2020	**As of December 31, 2019**	**As of March 31, 2020**	**As of December 31, 2019**
USD	5,188	5,240	(4,671)	(4,741)
GBP	3	97	(2)	(88)
EUR	(162)	(259)	147	216
Other	(304)	(309)	275	280
Total	**4,725**	**4,769**	**(4,251)**	**(4,333)**

Interest rate risk

The Group uses external financial resources in the form of debt and uses, where deemed appropriate, available liquidity in market instruments. Changes in interest rate levels affect the cost and return of the various forms of financing and lending, thus affecting the level of consolidated net financial charges. The Group is exposed to the risk of fluctuations in interest rates, given that part of its debt is at variable rates. The Group's policy is aimed at constantly monitoring the trend of interest rates. In the periods under review, the Group did not enter into any derivative financial instruments for hedging purposes.

Sensitivity analysis relating to interest rate risk

As regards interest rate risk, a sensitivity analysis has been performed to determine the effect on the consolidated income statement and consolidated equity that would derive from a hypothetical 50 bps positive and negative change in interest rates compared to those recorded in any period.

The analysis was carried out mainly with regard to the following items:

- cash and cash equivalents;
- short and medium/long-term bank borrowings.

With reference to cash and cash equivalents, reference was made to the average stock and average rate of return for the period, while with regard to short and medium/long-term financial liabilities, the impact was calculated precisely.

The table below shows the results of the analysis:

(In thousands of Euro)	**Impact on profit, net of tax effect**	
	- 50 bps	***+ 50 bps***
Three months ended December 31, 2020	76	(76)

5.2 Credit risk

The Group faces the exposure to credit risk inherent in the possibility of insolvency (default) and/or impairment in the creditworthiness of customers by means of instruments to assess each individual counterparty through a dedicated organizational structure, equipped with the appropriate tools to constantly monitor customers' behavior and creditworthiness on a daily basis.

The Group is currently structured to implement a continuous monitoring process for receivables, with different collection levels, which vary based on specific knowledge of the customer and late payment days, to optimize working capital and minimize the aforementioned risk.

As of March 31, 2020, there were no exposures exceeding 10% of total trade receivables. The ratio of the top 10 customers to total Group trade receivables as of March 31, 2020 was approximately 25%.

The following table provides a breakdown of trade receivables as of March 31, 2020 and as of December 31, 2019, grouped by past due period, net of the allowance for doubtful receivables.

(In thousands of Euro)	**Not overdue**	**1-90 days past due**	**91-180 days past due**	**More than 181 days past due**	**Total**
Gross trade receivables as of March 31, 2020	34,943	6,277	297	372	**41,889**
Allowance for doubtful receivables	-	(195)	(297)	(372)	**(864)**
Trade receivables as of March 31, 2020	34,943	6,082	-	-	**41,025**
Gross trade receivables as of December 31, 2019	28,821	6,493	158	489	**35,961**
Allowance for doubtful receivables	-	(156)	(158)	(489)	**(803)**
Trade receivables as of December 31, 2019	28,821	6,337	-	-	**35,158**

It should be noted that the gross value of trade receivables past due at March 31, 2020 amounted to €6,946 thousand (€7,140 thousand at December 31, 2019), of which €669 thousand (€647 thousand at December 31, 2019) refer to positions more than 90 days past due.

5.3 Liquidity risk

Liquidity risk is represented by the possibility that the Group may be unable to raise the financial resources necessary to guarantee current operations and the fulfilment of obligations falling due, or that they may be available at high cost.

In order to mitigate this risk, the Group: (i) periodically verifies the forecast financial requirements on the basis of management needs, in order to act in a timely manner to find the necessary additional resources, (ii) implements all the actions for such finding, (iii) manages an adequate composition in terms of deadlines, tools and level of availability.

As of March 31, 2020, in addition to cash and cash equivalents and investment securities totaling €50,209 thousand (€61,941 thousand at December 31, 2019) the Group had available and undrawn lines of credit amounting to €7.8 million (€8.2 million at December 31, 2019).

The Group believes that the credit lines currently available, together with the cash flows that will be generated by current operations, will make it possible to meet the financial requirements for investment, working capital management and repayment of financial payables when due.

The table below shows an analysis of the maturities, based on the contractual repayment obligations, outstanding as of March 31, 2020.

(In thousands of Euro)	**As of March 31, 2020**					
	within 1 year	**1-2 years**	**3-5 years**	**over 5 years**	**Contract value**	**Carrying amount**
Financial liabilities	39,373	33,666	78,239	-	**151,278**	**140,948**
Lease liabilities	3,965	3,009	4,370	125	**11,469**	**11,000**
Trade payables	17,901	-	-	-	**17,901**	**17,901**
Other current liabilities	13,464	-	-	-	**13,464**	**13,464**

The amounts shown in the above table represent non-discounted nominal values, determined with reference to the remaining contractual due dates, for both the principal and the interest portion.

5.4 Capital management

The Group's capital management is aimed at guaranteeing solid credit ratings and adequate capital indicators to support its investment plans, while meeting contractual obligations with lenders.

The Group ensures it has sufficient capital to finance its business development needs and meet operating requirements; to guarantee a balanced financial structure and minimize the total cost of capital, finances are sourced through a mix of risk capital and debt to the benefit of all stakeholders.

Returns on capital are monitored by reviewing market trends and business performance, net of other commitments, including borrowing costs. In order to ensure the Group's going concern status, to develop the business and to provide an adequate return on capital, management monitors the Group's debt to equity ratio on an ongoing basis and also monitors debt levels with respect to business trends and expected future cash flows in the medium/long term.

5.5 Financial assets and liabilities by category and fair value

Financial assets and liabilities by category

The following tables show financial assets and liabilities by category as of March 31, 2020 and as of December 31, 2019.

(In thousands of Euro)	**Carrying amount**	
	As of March 31, 2020	**As of December 31, 2019**
FINANCIAL ASSETS:		
Financial assets at amortized costs		
Non-current financial assets	473	538
Trade receivables	41,025	35,158
Other current assets and receivables	5,433	4,374
Current financial assets	550	177
Cash and cash equivalents	47,165	58,542
	94,646	**98,789**
Financial assets at fair value through profit or loss		
Non-current financial assets	4	4
Current financial assets	3,044	3,399
	3,048	**3,403**
FINANCIAL ASSETS	**97,694**	**102,192**

(In thousands of Euro)	**Carrying amount**	
	As of March 31, 2020	**As of December 31, 2019**
FINANCIAL LIABILITIES:		
Liabilities at amortized costs		
Non-current borrowings	105,359	117,638
Non-current lease liabilities	7,225	7,850
Current borrowings	35,589	36,669
Current lease liabilities	3,775	3,094
Trade payables	17,901	13,188
Other current liabilities	13,082	13,061
FINANCIAL LIABILITIES	**182,931**	**191,500**

In view of the nature of financial assets and liabilities, for most of them their carrying amounts are deemed to be reasonable approximations of their fair values.

Non-current financial assets and liabilities are settled or measured at market rates and, consequently, their fair values are deemed to be substantially in line with their carrying amounts.

Fair value

For assets and liabilities recognized in the statement of financial position, IFRS 13 requires that such values be classified according to a hierarchy of levels that reflects the significance of the inputs used in the calculation of fair value. The fair value hierarchy classifies the inputs to valuation techniques used to measure fair value as follows:

- **Level 1**: fair value is calculated with reference to quoted prices (unadjusted) in active markets for identical financial instruments. Accordingly, the emphasis within Level 1 is on determining both of the following: (a) the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability; and (b) whether the entity can enter into a transaction for the asset or liability at the price in that market at the measurement date.
- **Level 2**: fair value is calculated using valuation techniques based on observable inputs in active markets. Level 2 inputs include the following: (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in markets that are not active; (c) inputs other than quoted prices that are observable for the asset or liability, for example: interest rates and yield curves observable at commonly quoted intervals, implied volatilities and credit spreads; and (d) market-corroborated inputs.
- **Level 3**: fair value is calculated using valuation techniques based on unobservable market inputs.

The following table shows financial assets and liabilities at fair value, split by fair value hierarchy level as of March 31, 2020 and as of December 31, 2019.

(In thousands of Euro)	**As of March 31, 2020**		
	Level 1	**Level 2**	**Level 3**
Non-current financial assets	-	-	4
Current financial assets	-	3,044	-
Total financial assets at fair value	**-**	**3,044**	**4**

(In thousands of Euro)	**As of December 31, 2019**		
	Level 1	**Level 2**	**Level 3**
Non-current financial assets	-	-	4
Current financial assets	-	3,399	-
Total financial assets at fair value	**-**	**3,399**	**4**

There were no transfers between fair value hierarchy levels during the periods under review.

6 OPERATING SEGMENTS

The following disclosure regarding operating segments is provided in accordance with IFRS 8 "*Operating segments*" (hereafter "**IFRS 8**"), which requires that such disclosure reflects the manner in which management manages the business and makes operational decisions.

At an operational level, the Group's organization is based upon a matrix structure defined by product line, distribution channel and geographic area, which also identifies a unitary strategic vision of the business. The type of organization described above reflects the way the management monitors and strategically directs the activities of the Group. In particular, top management monitors the economic results at Group level as a whole, and therefore no operating segments can be identified. Therefore, the Group's activity was represented as a single sector subject to disclosure on the basis of IFRS 8.

The detail of revenues form contracts with customers by product line, distribution channel and geographic area is showed in note 9.1.

As required by IFRS 8, Paragraph 34, it is noted that in the three months ended March 31, 2020 and in the year ended December 31, 2019, there are no single external customers that generate more than 10% of revenues from contracts with customers.

The following table shows non-current asset balances, excluding financial assets and deferred tax assets, by geographic area as of March 31, 2020 and as of December 31, 2019, allocated based on the country in which the assets are located. Non-current unallocated assets are entirely attributable to goodwill.

(In thousands of Euro)	**As of March 31, 2020**	**As of December 31, 2019**
Italy	21,459	21,771
USA	38,561	38,426
United Kingdom	9,022	9,777
China	5,889	6,017
Romania	4,420	4,471
Mexico	4,054	2,382
Brazil	2,810	3,590
Other	281	289
Non-current unallocated assets	72,270	70,017
Total non-current assets	**158,766**	**156,740**

7 BUSINESS COMBINATIONS

On October 30, 2019, the GVS Group, through the subsidiary GVS Filter Technology de Mexico S. de. R.L. de C.V., entered into a contract with Graphic Controls Acquisition Corp. for the Acquisition of the Company Branch GCA consisting of a complex of assets, including inventories attributable to filters, tangible assets attributable to plants and machinery, intangible assets and other assets as contractually defined. Under the aforementioned contract, GVS Filter Technology de Mexico S. de. R.L. de C.V. it also took over certain previously existing sales and supply contracts. The acquisition was completed on January 20, 2020 (hereinafter the "**Closing Date**").

The contract provides for a provisional price of USD 3,970 thousand, of which:

- USD 1,970 thousand paid by GVS Filter Technology de Mexico on the Closing Date, subject to adjustment on the basis of any difference between the value of inventories on the Closing Date and the related target value as defined in the contract (the “**Price Adjustment**”), which should be paid between the parties on the next date between (i) sixty days from the Closing Date and (ii) ten days from the agreement between the parties regarding the value of inventories on the Closing Date, and

- a variable component based on sales made to certain customers during the twelve months following the Closing Date, for an amount between USD 200 thousand and USD 2,000 thousand, to be settled through the use of an escrow account, made by GVS Filter Technology de Mexico on the Closing Date.

It should be noted that, as of the date of these Interim Consolidated Financial Statements, the Price Adjustment has not yet been determined by the parties.

The fair value of the variable consideration, equal to USD 2,000 thousand, has been estimated on the basis of the present value of the expected future cash flows. In consideration of the fact that this variable consideration will be determined on the basis of the revenues recorded in the twelve months following the Closing Date, no adjustment has been made to the transaction consideration to take into account the effects of the time value of the money.

The following table shows the fair value of assets assumed identified at the acquisition date.

(In thousands of Euro)	**Temporary fair value at acquisition date**
Tangible assets	1,217
Inventories	1,456
Total assets acquired (A)	**2,673**
Consideration (B)	**3,608**
Goodwill (B) - (A)	**935**

Goodwill was recognized provisionally, since the valuation period as defined by IFRS 3 is in progress, also in consideration of the fact that the Price Adjustment has not yet been determined by the parties, for an amount equal to €935 thousand.

The contribution of the business acquired to revenue from contracts with customers of the Group for the three months ended March 31, 2020 is €349 thousand.

8 NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

8.1 Intangible assets

The following table provides a breakdown of intangible assets as of March 31, 2020 and as of December 31, 2019, together with details of movements during the periods under review:

(In thousands of Euro)	**Development costs**	**Goodwill**	**Customer relationship**	**Patents and intellectual property rights**	**Concessions, licenses, trademarks and similar rights**	**Other intangible assets**	**Assets under construction and advances**	**Total**
Cost as of December 31, 2019	**6,530**	**70,017**	**23,979**	**11,376**	**5,140**	**3,793**	**1,124**	**121,959**
Investments	471	-	-	3	20	-	187	681
Reclassification	29	-	-	14	87	-	(113)	17
Business combinations	-	935	-	-	-	-	-	935
Currency translation differences	54	1,318	608	263	(61)	-	(10)	2,172
Cost as of March 31, 2020	**7,084**	**72,270**	**24,587**	**11,656**	**5,186**	**3,793**	**1,188**	**125,764**
Accumulated depreciation as of December 31, 2019	**(2,498)**	**-**	**(7,243)**	**(4,169)**	**(4,410)**	**(3,793)**	**-**	**(22,113)**
Amortization	(329)	-	(761)	(283)	(83)	-	-	**(1,456)**
Reclassification	-	-	-	-	(6)	-	-	**(6)**
Currency translation differences	(10)	-	(191)	(58)	39	-	-	**(220)**
Accumulated depreciation as of March 31, 2020	**(2,837)**	**-**	**(8,195)**	**(4,510)**	**(4,460)**	**(3,793)**	**-**	**(23,795)**
Net book value as of December 31, 2019	**4,032**	**70,017**	**16,736**	**7,207**	**730**	**-**	**1,124**	**99,846**
Net book value as of March 31, 2020	**4,247**	**72,270**	**16,392**	**7,146**	**726**	**-**	**1,188**	**101,969**

<u>Intangible assets with definite useful life</u>

Customer relationship includes the value of commercial relationships recognized as a result of the purchase price allocation relating to the KUSS Acquisition.

Patents mainly refer to the amounts recognized as a result of the purchase price allocation relating to the KUSS Acquisition, as well as the deposit of new applications.

Concessions, licenses, trademarks and similar rights refer to the purchase and customization of software for industrial management and programming.

Investments in intangible assets during the three months ended March 31, 2020 amounted to €681 thousand and mainly related to development costs and assets under construction and refer to costs incurred for the development of new products and related production processes. Investments in assets under construction refer also to software and applications to support the production processes.

As of March 31, 2020, no indicators of impairment of intangible assets were identified.

Intangible assets with indefinite useful life

Goodwill

As of March 31, 2020 the value of goodwill, equal to €72,270 thousand (€70,017 thousand as of December 31, 2019), mainly refers to the acquisition of the KUSS Group on July 28, 2017 (for more details, please see the note "Business combinations" in the Consolidated Financial Statements), as well as to previous business combinations. This value increased during the quarter ended March 31, 2020, by €935 thousand, due to the Acquisition of the Company Branch GCA (please see note 7).

The Group, in accordance with the requirements of IAS 36, proceeded to verify the absence of impairment indicators as of March 31, 2020 with reference to the goodwill recorded in intangible assets. In particular, the Group has not identified indicators of impairment, in consideration of: (i) economic and financial performance in line with budget; (ii) medium-long term growth rates in line with those determined in the previous estimates; (iii) absence of interruptions or slowdowns in its operations which have had a noteworthy impact on economic and financial performance; (iv) investment forecasts unchanged, in terms of overall amount, compared to what was planned and (v) no changes in its business model.

In particular, also considering the COVID-19 spreading globally during 2020, the Group's trends recorded in the quarter ended March 31, 2020 lead to believe that the performance of the first year of the plan will be in line, if not improvement, albeit with a different breakdown of revenues and investments between the divisions in which the Group operates, compared to the original plan, considered for the purpose of defining the flows used for the impairment test of goodwill as of December 31, 2019.

It should also be noted that interest rates did not increase in such a way to significantly reduce, as a consequence of an increase in the discount rate used, the recoverable amount of goodwill.

As of the date of these Interim Consolidated Financial Statements, the Group's management has not identified any causes that could change the results of the impairment test carried out as of 31 December 2019.

The main assumptions for the determination of the recoverable amount, as well as the results of the impairment test carried out as of December 31, 2019, are illustrated in the Consolidated Financial Statements, to which reference is made.

8.2 Right of use assets and lease liabilities

The following table provides financial details of lease contracts held by the Group, mainly in the role of lessee:

(In thousands of Euro)	**As of March 31, 2020**	**As of December 31, 2019**
Right of use assets (buildings)	9,152	9,542
Right of use assets (vehicles)	708	654
Right of use assets (equipment)	111	124
Total right of use assets	**9,971**	**10,320**
Current lease liabilities	3,775	3,094
Non-current lease liabilities	7,225	7,850
Total lease liabilities	**11,000**	**10,944**

The following table provides economic and cash flow details of lease contracts held by the Group, mainly in the role of lessee:

(In thousands of Euro)	**Three months ended March 31,**	
	2020	**2019**
Depreciation right of use assets (buildings)	772	464
Depreciation right of use assets (vehicles)	102	230
Depreciation right of use assets (equipment)	34	16
Total depreciation of right of use assets	**908**	**710**
Interest expenses	**78**	**36**
Software	67	73
Costs for low value assets	18	11
Variable payments not included in lease liabilities	-	100
Total other costs	**85**	**184**
Cash flows related to leases	**802**	**755**

Right of use of building assets as of March 31, 2020, mainly related to the lease of: (i) two production plants in North America; (ii) lands and buildings subject to the Real Estate Reorganization (for more details, please see note 1.2 of the Consolidated Financial Statements); (iii) a production plant in Mexico, as well as to sale and leaseback transactions, mainly relating to the production plant of Avellino and to two production plants in North America, in Ohio and Wisconsin respectively (for more details, please see note 1.2 of the Consolidated Financial Statements).

As of March 31, 2020, the Group had not identified any indicators of impairment of right of use assets.

The following table provides details of the Group’s undiscounted lease liabilities as of March 31, 2020:

(In thousands of Euro)	**Within 1 year**	**1 to 2 years**	**3 to 5 years**	**Over 5 years**	**Contractual amount**	**Carrying amount**
As of March 31, 2020	3,965	3,009	4,370	125	**11,469**	**11,000**

For information regarding the assessments relating to the determination of the discount rate, please refer to note 8.2 of the Consolidated Financial Statements.

8.3 Property, plant and equipment

The following table provides a breakdown of property, plant and equipment as of March 31, 2020, together with details of movements during the quarter under review:

(In thousands of Euro)	**Land and buildings**	**Plant and machineries**	**Industrial and commercial equipment**	**Other assets**	**Leasehold improvements**	**Assets under construction and advances**	**Total**
Cost as of December 31, 2019	**5,566**	**60,769**	**46,719**	**7,850**	**4,059**	**8,698**	**133,661**
Investments	-	35	95	216	7	2,029	**2,382**
Disposals	-	-	-	(17)	-	-	**(17)**
Reclassification	-	2,085	772	5	1,005	(3,884)	**(17)**
Business combinations	-	-	-	-	-	1,217	**1,217**
Currency translation differences	(354)	(1,219)	(558)	(223)	(191)	(275)	**(2,820)**
Cost as of March 31, 2020	**5,212**	**61,670**	**47,028**	**7,831**	**4,880**	**7,785**	**134,406**
Accumulated depreciation as of December 31, 2019	**(1,084)**	**(41,805)**	**(35,164)**	**(6,105)**	**(2,889)**	**-**	**(87,047)**
Depreciation	(51)	(1,022)	(685)	(148)	(87)	-	**(1,993)**
Disposals	-	-	-	10	-	-	**10**
Reclassification	-	-	-	6	-	-	**6**
Currency translation differences	124	724	427	140	29	-	**1,444**
Accumulated depreciation as of March 31, 2020	**(1,011)**	**(42,103)**	**(35,422)**	**(6,097)**	**(2,947)**	**-**	**(87,580)**
Net book value as of December 31, 2019	**4,482**	**18,964**	**11,555**	**1,745**	**1,170**	**8,698**	**46,614**
Net book value as of March 31, 2020	**4,201**	**19,567**	**11,606**	**1,734**	**1,933**	**7,785**	**46,826**

Property, plant and equipment mainly refers to land and buildings and to plant, machinery, molds, industrial equipment used in the production process.

Investments in property, plant and equipment during the quarter ended March 31, 2020 amounted to €2,382 and mainly related to the expansion of production capacity and to the maintenance and updating of certain production lines.

The effects relating to business combinations refer to the acquisition of a company branch by GVS Filter Technology de Mexico, the effects of which are described in note 7.

The net book value of property, plant and equipment disposed of during the quarter ended March 31, 2020 was not materially significant.

During the quarter ended March 31, 2020, the Group did not recognize impairment losses in respect of property, plant and equipment.

As of March 31, 2020, no property or capital goods were burdened by guarantees granted to third parties.

8.4 Financial assets (current and non-current)

The following table provides a breakdown of financial assets (current and non-current) at March 31, 2020 and at December 31, 2019:

(In thousands of Euro)	**As of March 31, 2020**	**As of December 31, 2019**
Security deposits	350	373
Non-current receivables related to lease	123	165
Equity instruments	4	4
Non-current financial assets	**477**	**542**
Investment funds	3,044	3,399
Restricted deposits	367	-
Current receivables related to lease	183	177
Current financial assets	**3,594**	**3,576**
Total financial assets	**4,071**	**4,118**

Security deposits, classified as financial assets measured at amortized cost according to the provisions of IFRS 9, refer to amounts paid for existing lease contracts.

Receivables related to leases refer a sub-lease contract, valued as financial on the basis of the requirements of IFRS 16. The sub-lease, identified as part of a contract with a customer, is for a portion of a production site located in North America.

Investment funds, classified as financial assets measured at fair value through profit and loss according to the provisions of IFRS 9, refer to excess liquidity used in unlisted securities relating to investment funds, mainly linked to the trend of interbank interest rates on the Brazilian market.

Restricted deposits refer entirely to the balance of a deposit restricted for six months.

8.5 Inventories

The following table provides a breakdown of inventories as of March 31, 2020 and as of December 31, 2019:

(In thousands of Euro)	**As of March 31, 2020**	**As of December 31, 2019**
Finished goods	14,805	15,482

Raw materials and consumables	15,475	12,574
Work in progress	5,369	4,623
Inventories (gross value)	**35,649**	**32,679**
Inventory impairment provision	**(1,450)**	**(1,188)**
Inventories	**34,199**	**31,491**

Net write-downs to the inventory impairment provision amounted to €231 thousand for the quarter ended March 31, 2020.

8.6 Trade receivables

The following table provides a breakdown of trade receivables as of March 31, 2020 and as of December 31, 2019:

(In thousands of Euro)	**As of March 31, 2020**	**As of December 31, 2019**
Trade receivables from customers (gross value)	41,889	35,961
Allowance for doubtful receivables	(864)	(803)
Trade receivables	**41,025**	**35,158**

Due to the short-term nature of the trade receivables, their carrying amount is considered to be the same as their fair value.

Movements in the allowance for doubtful receivables during the quarter ended March 31, 2020 are shown in the following table:

(In thousands of Euro)	**Allowance for doubtful receivables**
Balance as December 31, 2019	**803**
Net provisions	62
Uses	(6)
Currency translation differences	5
Balance as of March 31, 2020	**864**

Net provisions to the allowance for doubtful receivables are accounted for in the income statement in the line item net impairment losses on financial assets (see note 9.7).

8.7 Contract assets and liabilities

Contract assets amounted to €431 as of March 31, 2020 (€591 thousand as of December 31, 2019). They mainly refer to the right to obtain the consideration for goods transferred to the customer in relation to the creation of molds and equipment, mainly for the Energy & Mobility division.

Contract liabilities amounted to €1,889 thousand as of March 31, 2020 (€1,702 thousand as of December 31, 2019). They refer to advances from customers relating to contractual obligations not yet satisfied.

Contract assets and liabilities are shown net in the statement of financial position if they refer to the same contractual obligation towards the same customer. The following table provides the gross amount of contract assets and liabilities, and the related netting, as of March 31, 2020 and as of December 31, 2019:

(In thousands of Euro)	**As of March 31, 2020**	**As of December 31, 2019**
Contract assets (gross value)	2,177	2,220
Set-off of contract liabilities	(1,746)	(1,629)

Contract assets	**431**	**591**
Contract liabilities (gross value)	3,635	3,331
Set-off of contract assets	(1,746)	(1,629)
Contract liabilities	**1,889**	**1,702**

8.8 Income tax receivables and payables

Income tax receivables amounted to €264 thousand as of March 31, 2020 (€193 thousand as of December 31, 2019).

Income tax payables amounted to €3,745 thousand as of March 31, 2020 (€2,060 thousand as of December 31, 2019).

Movements in net income tax balances in the quarter ended March 31, 2020 were mainly due to charges of income tax expenses amounting to €2,803 thousand and payments amounting to €1,254 thousand.

8.9 Other current assets and receivables

The following table provides a breakdown of other current assets and receivables as of March 31, 2020 and as of December 31, 2019:

(In thousands of Euro)	**As of March 31, 2020**	**As of December 31, 2019**
Advances	1,082	937
Tax receivables not related to income taxes	4,171	2,839
Prepaid expenses	2,086	1,119
Receivables from employees	256	177
Other	1,006	1,358
Other current assets and receivables	**8,601**	**6,430**

The increase in other current assets and receivables as of March 31, 2020, respect to the amount as of December 31, 2019, mainly refers to the increase in tax receivables not related to income taxes, in particular with reference to VAT receivables, and in prepaid expenses, in particular with reference to assurance costs.

8.10 Cash and cash equivalents

The following table provides a breakdown of cash and cash equivalents as of March 31, 2020 and as of December 31, 2019:

(In thousands of Euro)	**As of March 31, 2020**	**As of December 31, 2019**
Post office and bank accounts	47,128	58,510
Cheques and cash	37	32
Cash and cash equivalents	**47,165**	**58,542**

As of March 31, 2020, cash and cash equivalents were not subject to any constraints or restrictions.

For details regarding movements in cash and cash equivalents, reference is made to the statement of cash flows.

8.11 Total equity

The following table provides a breakdown of total equity as of March 31, 2020 and as of December 31, 2019:

(In thousands of Euro)	**As of March 31, 2020**	**As of December 31, 2019**

Share capital	1,650	1,650
Share premium reserve	13,247	13,247
Legal reserve	329	329
Extraordinary reserve	29,878	25,745
Currency translation reserve	(4,042)	(3,040)
Negative treasury shares reserve	-	(10,981)
Actuarial gains-losses reserve	(51)	(51)
Retained earnings and other reserves	52,209	34,240
Net profit	8,676	33,083
Non-controlling interests	19	18
Total equity	**101,915**	**94,240**

The consolidated statement of changes in equity is presented above, in the related section.

Changes in equity in the quarter ended March 31, 2020 related to the recognition of total comprehensive income for the period amounting to €7,675 thousand.

Share capital

As of March 31, 2020, the Company's fully paid up share capital amounted to €1,650 thousand and comprised 165,000,000 ordinary shares without nominal value.

In particular, on 13 March 2020, the extraordinary Shareholders' Meeting of GVS cancelled the n. 1,512,005 shares owned by the shareholder GVS Group and the no. 137,995 treasury shares, with the simultaneous reissue of n. 1,650,000 shares without nominal value, all attributable to the shareholder GVS Group. The Shareholders' Meeting also resolved to split the ordinary shares in circulation according to the following ratio: n. 100 new ordinary shares for every n. 1 ordinary share, after reducing their nominal value to zero.

Currency translation reserve

The currency translation reserve includes all the differences deriving from the translation into Euro of the financial statements of the subsidiaries included in the scope of consolidation expressed in foreign currency.

Negative treasury shares reserve

The negative treasury shares reserve, amounting to €10,981 thousand as of December 31, 2019, was reduced to zero following the cancellation, approved by the extraordinary Shareholders' Meeting on March 13, 2020, of 137,995 treasury shares, without any reduction of the share capital, with the simultaneous reduction of the extraordinary reserve.

Actuarial gains-losses reserve

The actuarial gain or losses reserve includes the profits and losses deriving from changes in the actuarial assumptions in relation to the defined benefit plans.

First-time adoption reserve

The first-time adoption reserve, included in the other reserves, amounts to a negative balance of €1,532 thousand, and represents the effects of the transition from the Italian GAAP to the IFRS.

8.12 Current and non-current borrowings

The following table provides a breakdown of current and non-current borrowings as of March 31, 2020 and as of December 31, 2019:

(In thousands of Euro)	**As of March 31, 2020**	**As of December 31, 2019**

	Current	Non-current	Current	Non-current
Bond 2014	4,554	13,551	4,411	17,684
Bond 2017	7,975	31,899	7,972	31,890
Total bond	**12,529**	**45,450**	**12,383**	**49,574**
Pool loan	13,358	51,461	13,351	58,176
Banco BPM financing	1,757	3,715	1,756	4,152
Unicredit loan (2017)	1,332	1,997	1,332	2,663
BNL loan	1,000	2,000	1,000	2,000
Banco BPM loan	1,342	671	1,342	1,008
BPER loan	-	-	316	-
Deutsche Bank loan	-	-	313	-
Credit lines	3,388	-	3,000	-
Accrued expenses	720	-	1,713	-
Total financial liabilities from banks	**22,897**	**59,844**	**24,123**	**67,999**
MIUR loan (GVS Sud)	98	-	98	-
MIUR loan (GVS SpA)	65	65	65	65
Total other financial liabilities	**163**	**65**	**163**	**65**
Total borrowings	**35,589**	**105,359**	**36,669**	**117,638**

It should be noted that in the three months ended March 31, 2020 the Group has not entered into any new borrowing. For further details regarding the borrowings of the Group, reference is made to the relative note of the Consolidated Financial Statements.

In accordance with IAS 7, the following table shows changes in financial liabilities, including both those arising from cash flows generated and/or used by financing activities as well as those arising from non-cash changes.

(In thousands of Euro)	**As of January 1, 2020**	**Reclassification**	**Repayments**	**Changes in credit lines**	**Changes in accrued expenses**	**Amortized cost**	**(Gains) losses on exchange rate**	**As of March 31, 2020**
Non-current borrowings	117,638	(12,731)	-	-	-	-	452	105,359
Current borrowings	36,669	12,731	(13,268)	388	(993)	62	-	35,589
Total borrowings	**154,307**	**-**	**(13,268)**	**388**	**(993)**	**62**	**452**	**140,948**

8.13 Trade payables

The following table provides a breakdown of trade payables as of March 31, 2020 and as of December 31, 2019:

(In thousands of Euro)	**As of March 31, 2020**	**As of December 31, 2019**
Trade payables to suppliers	17,870	13,157
Trade payables to related parties	31	31
Trade payables	**17,901**	**13,188**

The item mainly includes payables relating to the purchase of raw materials, components and services. The increase in trade payables as of March 31, 2020, compared with the amount as of December 31, 2019, mainly refers to the increase in the purchases at the end of the three months ended March 31, 2020 as a consequence of the need of the Group to increase the stock of raw materials.

Due to the short-term nature of the trade payables, their carrying amount is considered to be the same as their fair value.

8.14 Other current liabilities

The following table provides a breakdown of other current liabilities as of March 31, 2020 and as of December 31, 2019:

(In thousands of Euro)	**As of March 31, 2020**	**As of December 31, 2019**
Payables to employees	6,639	7,452
Payables due to social security institutes	2,359	2,347
Tax payables not related to income taxes	3,851	1,341
Payables for dividends	-	1,681
Accrued expenses	101	217
Deferred income	281	23
Payables to directors	14	18
Other	219	222
Other current liabilities	**13,464**	**13,301**

Payables due to employees mainly related to wages and salaries to be paid as well as deferred costs, including costs relating to vacations, leave and additional months' pay.

Payables due to social security institutes mainly related to payables due to pension and other social security institutes for the payment of contributions.

Tax payables not related to income taxes as of March 31, 2020 and as of December 31, 2019 mainly related to amounts due to the tax authorities in respect of VAT and other indirect taxes, as well as withholding taxes.

9 NOTES TO THE CONSOLIDATED INCOME STATEMENT

9.1 Revenue from contracts with customers

The following table provides a breakdown of revenue from contracts with customers by division for the three months ended March 31, 2020 and 2019:

(In thousands of Euro)	**Three months ended March 31,**	
	2020	**2019**
Healthcare Liquid	16,158	16,697
Healthcare Air & Gas	6,507	6,912
Laboratory	5,486	4,795
Healthcare & Lifesciences	**28,151**	**28,404**
Powertrain & Drivetrain	8,482	10,540
Safety & Electronics	6,392	5,447
Sport & Utility	5,466	6,813
Energy & Mobility	**20,340**	**22,800**
Personal Safety	10,022	3,567
Air Safety	1,730	2,782
Health & Safety	**11,752**	**6,349**
Revenue from contracts with customers	**60,243**	**57,553**

The following table provides a breakdown of revenue from contracts with customers by type of sale for the three months ended March 31, 2020 and 2019:

(In thousands of Euro)	**Three months March 31,**	
	2020	**2019**
Business to business (BTB)	45,755	49,421

Business to consumer (BTC)	14,488	8,132
Revenue from contracts with customers	**60,243**	**57,553**

The following table provides a breakdown of revenue from contracts with customers by geographic area for the three months ended March 31, 2020 and 2019:

(In thousands of Euro)	**Three months ended March 31,**	
	2020	**2019**
North America	23,026	24,084
Europe	20,655	17,578
Asia	12,634	11,835
Other countries	3,928	4,056
Revenue from contracts with customers	**60,243**	**57,553**

Almost all of the contracts with customers entered into by the Group do not include variable consideration.

The Group believes that there is no contract that contains a significant financial component, or for which the period between the transfer of the agreed good to the customer and the payment made by the customer itself exceeds twelve months. Therefore, the Group has not made any adjustments to the transaction consideration to take into account the effects of the time value of the money.

For contractual obligations fulfilled over time, the Group recognizes revenues from contracts with customers on the basis of methods based on the inputs used to fulfil the contractual obligation, consisting of the costs incurred. For contractual obligations fulfilled at a point in time, revenues from contracts with customers are recognized at the time of transfer of control of the goods.

9.2 Other income

The following table provides a breakdown of other income for the three months ended March 31, 2020 and March 31, 2019:

(In thousands of Euro)	**Three months ended March 31,**	
	2020	**2019**
Recharges	46	154
Scraps	37	42
Capital gains on disposal of assets	35	-
Government grants	3	79
Other	196	81
Other income	**317**	**356**

9.3 Purchase and consumption of raw materials and finished goods and semi-finished goods

The following table provides a breakdown of purchase and consumption of raw materials and finished goods and semi-finished goods for the three months ended March 31, 2020 and 2019:

(In thousands of Euro)	**Three months ended March 31,**	
	2020	**2019**
Purchase of raw materials	18,744	19,773
Change in inventories of work in progress and finished goods	(1,099)	(2,470)
Change in inventories of raw materials and consumables	(863)	(1,455)
Purchase and consumption of raw materials and finished goods and semi-finished goods	**16,782**	**15,848**

9.4 Personnel expenses

The following table provides a breakdown of personnel expenses for the three months ended March 31, 2020 and 2019:

(In thousands of Euro)	**Three months ended March 31,**	
	2020	**2019**
Wages and salaries	13,943	14,919
Social security contributions	4,360	4,077
Provisions for employee benefit obligations	214	204
Other personnel costs	176	-
Personnel expenses	**18,693**	**19,200**

The decrease in personnel expenses in the three months ended March 31, 2020 compared to the same period of the previous year is due to the combined effect (i) of the optimization of labor costs as a consequence of the relocation of part of the production, characterized by a greater use of direct labor, in countries where such labor has a lower cost and (ii) a change in the mix of products made in the United Kingdom, with a higher incidence of the *Health & Safety* division, whose production lines, presenting a greater level of automation, need less direct labor.

9.5 Cost of services

The following table provides a breakdown of cost of services for the three months ended March 31, 2020 and 2019:

(In thousands of Euro)	**Three months ended March 31,**	
	2020	**2019**
Consulting services	1,907	584
Utilities and cleaning	1,347	1,439
Freight	813	561
Maintenance	669	924
Outsourcing costs	497	380
Travel expenses	430	408
Insurance	276	265
Company canteen	203	200
Fees	146	124
Marketing costs	135	207
Audit fees	118	-
Remuneration for directors	102	106
Other services	313	443
Cost of services	**6,956**	**5,641**

Consulting services for the three months ended March 31, 2020, include the expenses related to the listing of the ordinary shares of GVS for Euro 1,280 thousand.

9.6 Other operating costs

The following table provides a breakdown of other operating costs for the three months ended March 31, 2020 and 2019:

(In thousands of Euro)	**Three months ended March 31,**

	2020	2019
Indirect tax	236	384
Rentals	191	216
Charities and membership fees	34	28
Capital losses on disposal of assets	-	9
Others	173	124
Other operating costs	**634**	**761**

Rentals include: (i) rents referring to the leasing low value assets, for which the Group has made use of the exemption provided by IFRS 16, (ii) the variable components of certain rents and (iii) costs associated with the use of the assets underlying the lease contracts that do not fall within the scope of IFRS 16.

9.7 Net impairment losses on financial assets

Net impairment losses on financial assets, recognized according to the requirements of IFRS 9, amounting to €62 thousand and €56 thousand for the three months ended March 31, 2020 and 2019 respectively, are related to the impairment of trade receivables.

A detailed breakdown of movements in the allowance for doubtful receivables for the three months ended March 31, 2020 is included above in note 8.6 – “Trade receivables”.

9.8 Depreciation and amortization

The following table provides a breakdown of depreciation and amortization for the three months ended March 31, 2020 and 2019:

(In thousands of Euro)	**Three months ended March 31,**	
	2020	**2019**
Amortization of intangible assets	1,456	1,318
Depreciation of property, plant and equipment	1,993	2,007
Depreciation of right of use assets	908	710
Depreciation and amortization	**4,357**	**4,035**

A detailed breakdown of movements in property, plant and equipment and in intangible assets for the three months ended March 31, 2020 is included above in note 8.1 and 8.3 respectively. The information on right of use assets is included above in note 8.2.

9.9 Finance income and costs

The following table provides a breakdown of finance income for the three months ended March 31, 2020 and 2019:

(In thousands of Euro)	**Three months ended March 31,**	
	2020	**2019**
Net exchange gain on foreign currency items	-	1,839
Other finance income	52	38
Finance income	**52**	**1,877**

The following table provides a breakdown of finance costs for the three months ended March 31, 2020 and 2019:

(In thousands of Euro)	**Three months ended March 31,**	
	2020	**2019**

Interest expenses on bonds	640	666
Interest expenses on financial loans	317	442
Net exchange losses on foreign currency items	503	-
Interest expenses on lease liabilities	78	36
Amortized cost	62	40
Other finance costs	5	7
Finance costs	**1,605**	**1,191**

9.10 Income taxes

The following table provides a breakdown of income taxes for the three months ended March 31, 2020 and 2019:

(In thousands of Euro)	**Three months ended March 31,**	
	2020	**2019**
Current tax	2,803	2,635
Deferred tax	25	626
Prior years income taxes	17	-
Income tax expense	**2,845**	**3,261**

Income tax expenses, in accordance with IAS 34, were recognized on the basis of the estimate made by management of the expected weighted average of the effective annual tax rate for the entire year, equal to 24.7% for the three months ended March 31, 2020 (25.0% for the three months ended March 31, 2019).

9.11 Earnings per share

The following table shows earnings per share, calculated by dividing the result for the year by the weighted average number of ordinary shares outstanding during the year.

	Three months ended March 31,	
	2020	**2019**
Profit for the period - Shareholders of the parent company (in thousand of Euro)	8,676	9,793
Average number of ordinary shares	33,850,290	33,850,290
Earnings per share (in Euro)	**0.26**	**0.29**

Diluted earnings per share is equal to basic earnings per share as no financial instruments having potential dilutive effects had been issued.

10 HYPERINFLATION

In accordance with IFRS regarding the criteria for introducing/ending inflation accounting, the subsidiary GVS Argentina S.A. has adopted inflation accounting since the preparation of the consolidated financial statements as of December 31, 2018 and is the only Group company operating in a high-inflation country. The price index used for this purpose was the national consumer price index (CPI) published by the National Institute for Statistics and Census (INDEC). Also considering the limited contribution of the above-mentioned subsidiary to the Group’s performance, the effects on the income statement for the three months ended March 31, 2020 were not significant.

11 RELATED PARTY TRANSACTIONS

Group transactions with related parties, identified in accordance with the criteria defined in IAS 24, are mainly of a commercial and financial nature and were entered into under normal market conditions.

The following tables show the details of the economic and financial relationships with related parties. The companies indicated have been identified as related parties because they are directly or indirectly connected to the Group's shareholders.

The table below provides details of the statement of financial position amounts relating to the Group's related party transactions as of March 31, 2020 and as of December 31, 2019.

(In thousands of Euro)	Parent company	Companies under control of the parent company		Top management	Total related parties	Total financial statement line item	Percentage of financial statement line item
	GVS Group	GVS Real Estate	GVS Real Estate US				
Right of use assets							
As of March 31, 2020	-	2,879	799	-	**3,678**	**9,971**	**36.9%**
As of December 31, 2019	-	3,038	861	-	**3,899**	**10,320**	**37.8%**
Other current assets and receivables							
As of March 31, 2020	568	-	-	-	**568**	**8.601**	**6.6%**
As of December 31, 2019	515	-	-	-	**515**	**6.430**	**8.0%**
Non-current lease liabilities							
As of March 31, 2020	-	2,153	598	-	**2.751**	**7.225**	**38.1%**
As of December 31, 2019	-	2,465	665	-	**3.130**	**7.850**	**39.9%**
Current lease liabilities							
As of March 31, 2020	-	922	356	-	**1.278**	**3.775**	**33.9%**
As of December 31, 2019	-	622	360	-	**982**	**3.094**	**31.7%**
Trade payables							
As of March 31, 2020	31	-	-	-	**31**	**17.901**	**0.2%**
As of December 31, 2019	31	-	-	-	**31**	**13.188**	**0.2%**
Income tax payables							
As of March 31, 2020	1,161	-	-	-	**1.161**	**3.745**	**31.0%**
As of December 31, 2019	555	-	-	-	**555**	**2.060**	**26.9%**
Other current liabilities							
As of March 31, 2020	-	-	-	204	**204**	**13.464**	**1.5%**
As of December 31, 2019	1,681	-	-	184	**1.865**	**13.301**	**14.0%**

The table below provides details of the income statement amounts relating to the Group's related party transactions for the three months ended March 31, 2020.

(In thousands of Euro)	Parent company	Companies under control of the parent company		Top management	Total related parties	Total financial statement line item	Percentage of financial statement line item
	GVS Group	GVS Real Estate	GVS Real Estate US				
Personnel expenses							
Three months ended March 31, 2020	-	-	-	553	**553**	**18,693**	**3.0%**
Depreciation and amortization							
Three months ended March 31, 2020	-	156	83	-	**239**	**4,357**	**5.5%**
Finance costs							
Three months ended March 31, 2020	-	13	4	-	**17**	**1,605**	**1.1%**

Transactions with GVS Group S.p.A.

The Company and the Italian subsidiary GVS Sud S.r.l. adhere to the national tax consolidation scheme option under the GVS Group S.p.A. Income tax payables as of March 31, 2020 and as of December 31, 2019 refer solely to this case.

Transactions with GVS Real Estate

On March 5, 2018 GVS signed a lease contract with GVS Real Estate, expiring on January 28, 2024, concerning two production sites, including the registered office of the Company, located in Zola Predosa (BO) (*i.e.*, the real estate assets included in the scope of the GVS Spin-off (see note 1.2 to the Consolidated Financial Statements)). The aforementioned lease contract determined, as of March 31, 2020, the recognition of right of use assets and related lease liabilities amounting to €1,510 thousand and €1,612 thousand respectively (€1,606 thousand and €1,627 thousand as of December 31, 2019), as well as the recognition of depreciation and finance costs amounting to €96 thousand and €7 thousand.

On December 11, 2019, the Group company GVS Sud S.r.l. signed a purchase and sale agreement with the company GVS Real Estate S.r.l. relating to the sale of land and buildings of a production site located in Italy (Avellino). The parties subsequently signed a lease agreement whereby GVS Real Estate leased the aforementioned sold property to GVS Sud S.r.l. (see note 1.2 to the Consolidated Financial Statements). The aforementioned lease contract determined, as of March 31, 2020, the recognition of right of use assets and related lease liabilities amounting to €1,369 thousand and €1,463 thousand respectively (€1,429 thousand and €1,457 thousand as of December 31, 2019), as well as the recognition of depreciation and finance costs amounting to €60 thousand and €6 thousand.

Transactions with GVS Real Estate US

On September 3, 2019, the Group company GVS Filtration Inc signed two purchase and sale agreements with the company GVS Real Estate US Inc. relating to the sale of land and buildings of two production sites located in Ohio and Wisconsin. At the same time as the purchase and sale agreements, the parties signed two lease agreements, through which GVS Real Estate US leased the aforementioned properties to the Group (see note 1.2 of the Consolidated Financial Statements). The lease contracts relating to the aforementioned real estate, subject to prior sale, determined the recognition, as of March 31, 2020, of right of use assets and related lease liabilities for € 779 thousand and €931 thousand, respectively (€829 thousand and €988 thousand as of December 31, 2019), as well as depreciation and finance costs for €70 thousand and €4 thousand.

Transactions with Top Management

The following figures within the Group are considered members of the Top Management:

- chief executive officer;
- chief financial officer;
- chief operation officer;
- the heads of the divisions (i) Healthcare & Life Sciences; (ii) Health & Safety; (iii) Energy & Mobility and (iv) Science & Development.

The table below provides details of compensation accrued by Top Management for the three months ended March 31, 2020 and 2019.

(In thousands of Euro)	**Three months ended March 31,**	
	2020	**2019**
Compensation	235	225
Bonus and other incentives	193	194

Other	125	151
Total	**553**	**570**

Other related parties

In addition to the financial and economic transactions with related parties presented in the tables above, it is specified that:

- other current liabilities as of March 31, 2020 include payables towards directors for compensation not yet paid for €14 thousand (€18 thousand as of December 31, 2019);
- employee benefit obligations as of March 31, 2020 include payables relating to directors'severance indemnities for €1,488 thousand (€1.474 thousand as of December 31, 2019);
- cost of services for the three months ended March 31, 2020 include compensations to directors and accruals to severance indemnities for €102 thousand (€106 thousand for the three months ended March 31, 2019).

The attribution of the severance indemnities in favor of certain directors was resolved by the Shareholders 'Meeting of the Company on January 15, 2015, with reference to the 2015-2017 three-year period and renewed by the same Shareholders' Meeting by resolution of May 23, 2018 with reference to the three-year period 2018-2020. It should be noted that on April 17, 2020 the Board of Directors of the Company resolved, with effect from the listing date of GVS's ordinary shares, the termination of the provisions to the severance indemnities related to one director, who will cease to hold the position of executive director from the listing date.

12 COMMITMENTS AND GUARANTEES

Sureties and guarantees granted in favor of third parties

As of March 31, 2020, the Group had no sureties and guarantees in place.

Contingent liabilities

During 2018, the Parent Company was subject to an audit by the Italian Tax Agency in relation to the 2015 tax period, for which a tax inspection report was submitted. At this stage, no notice of investigation has been received. Therefore, since the tax inspection report does not constitute an enforceable act, the claim of the Italian tax authorities cannot be considered final. Although it is not possible to exclude *tout court* a negative outcome in any subsequent phases of the proceedings, the Parent Company believes that it can produce technical arguments capable of significantly reducing the tax claim contained in the tax inspection report in the context of any litigation or in the context of a procedure to avoid litigation (*i.e.*, assessment procedure with tax settlement by consent and/or judicial conciliation). In view of this, it was not deemed necessary to make an *ad hoc* provision in the financial statements.

13 COMPENSATION DUE TO DIRECTORS AND STATUTORY AUDITORS

Compensation due to directors and statutory auditors for the three months ended March 31, 2020 amounted to €98 thousand (€101 thousand for the three months ended March 31, 2019).

No loans or advances were granted to directors or shareholders during the three months ended March 31, 2020.

14 Fees due to independent auditors

Fees due to independent auditors for the three months ended March 31, 2020 amounted to €626 thousand, of which €118 thousand related to audit services and €508 thousand related to non-audit services.

15 Research and development

Research and development activities are aimed at product development, from the conception and definition of prototypes up to the first stages of production, as well as the improvement of production processes. Product development has multiple stages including creation of a prototype, production and checks and controls for final approval.

The table below provides details of research and development expenses recognized in operating costs for the three months ended March 31, 2020 and 2019.

(In thousands of Euro)	**Three months ended March 31,**	
	2020	**2019**
Research and development costs	4,255	4,611
Capitalized development costs	(512)	(406)
Amortization of capitalized development costs	329	234
Research and development costs included in operating costs	**4,072**	**4,439**

16 SIGNIFICANT EVENTS OCCURRING AFTER THE REPORTING PERIOD

On January 20, 2020, the Ordinary Shareholders' Meeting of GVS approved the proposed partial pro-rata spin-off by allocating part of the company equity of GVS Microfiltrazione S.r.l. to the newly established company GVS Patrimonio Immobiliare S.r.l. (for further details please refer to the note "Significant events occurring after the reporting period" in the Consolidated Financial Statements). The spin-off is not yet legally effective due to administrative slowdowns.

As of the date of the Interim Financial Statements, the Group has recorded a decrease in the sale of the products of the *Energy & Mobility* division, but at the same time an increase in the sale of the products of the *Healthcare & Life Sciences* and *Health & Safety* divisions, due to the increased demand for some specific products related to the *Air & Gas* subdivision. Moreover, in order to meet the strong growth in the demand for these products, the Group has launched several new production lines or increased the existing ones in the various production sites and in particular: (i) in the production sites in Italy 7 new FFP2/FFP3 mask production lines and a new Elipse semi-face mask production line have been started up; (ii) in the production site in Romania 2 new FFP2/FFP3 mask production lines and a new production line for respirator filters have been started up; (iii) in the Findlay production site in Ohio, USA, 3 new FP2/FP3 mask production lines, 2 new Elipse semi-face mask production lines, 1 new EPA filter production line for respirators have been started up and, in addition, a new production line for respirators is in the development phase; (iv) three new FFP2/FFP3 mask production lines have been started up in the production site in Wisconsin, USA; (v) two new FFP2/FFP3 mask production lines and two new filter production lines for respirators have been started up in the production site in Mexico; (vi) two new FFP2/FFP3 mask production lines and one new Elipse semi-face mask production line have been started up in the production site in China, and the existing filter production lines for respirators have been upgraded.

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