2018 Annual Report

RESILIENCE

OUR ATTITUDE, OUR STRENGTH

Saleri SIL

INDUSTRIE SALERI ITALO

RESILIENCE

OUR ATTITUDE, OUR STRENGTH

Saleri SIL
INDUSTRIE SALERI ITALO

Creative concept

Resilience

/ re · si · lièn · ce /

From the Latin word "*resalio*" which described the perseverance of those attempting to climb back on board a boat that had capsized at sea, this term as used as a characteristic of a metal, describing its ability to resist stress without breaking. In psychology, it also indicates capacity to deal positively with traumatic events.

On the front cover, we see the resistance curve of metals depicted by an almost artistic cut, showing that breaking point has not been reached. The dark blue colour used links up with the dividing pages included in this report on which we present close ups of people from the business who provide their interpretation of the key issue at hand:

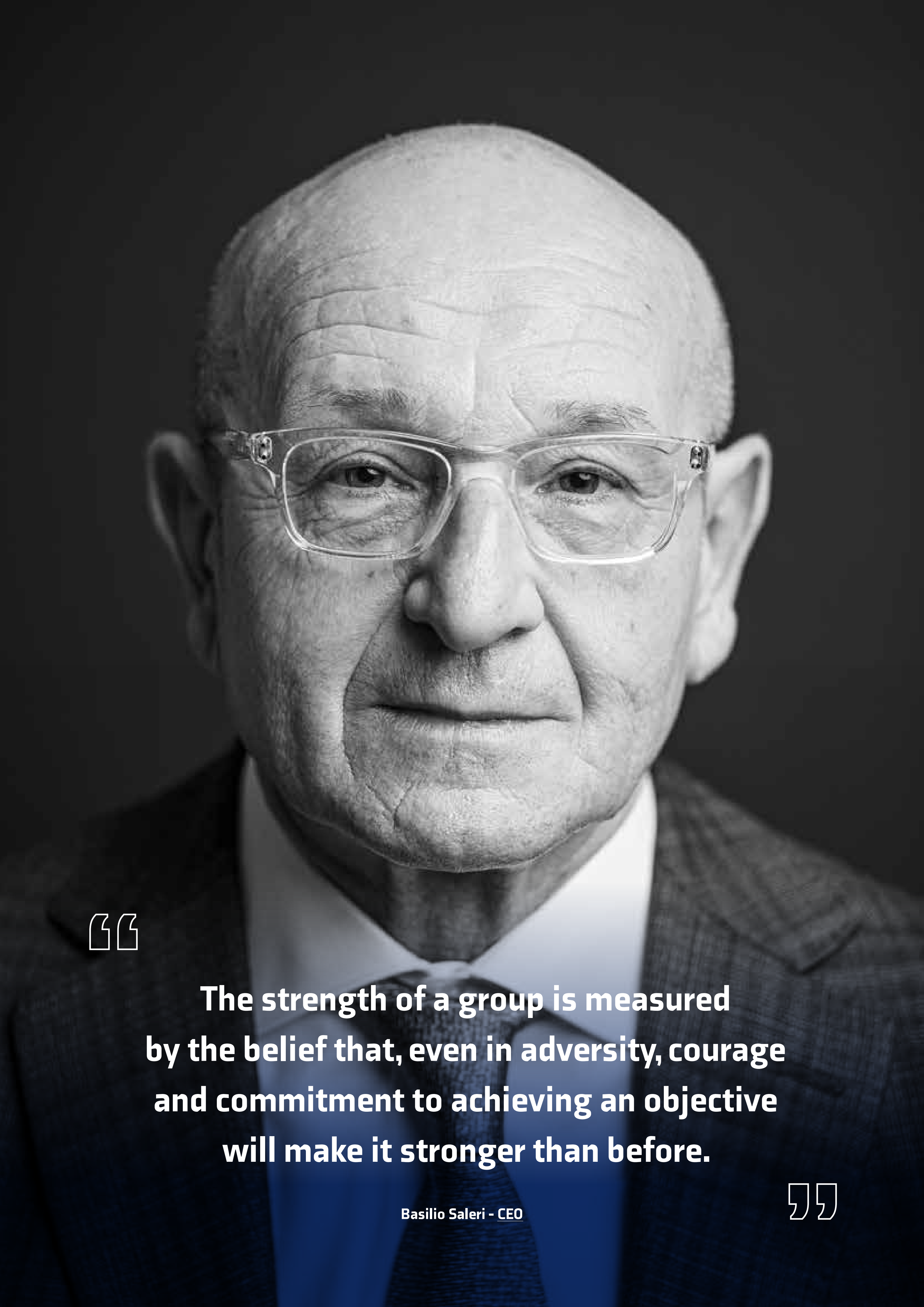
resilience, our attitude, our strength.

Indeed, it is thanks to its human capital, to their dedication and skill, that Saleri was above to overcome the challenges that emerged in 2018, not only continuing to grow but also consolidating its attitude and its capacity to adapt to the market and its customers.

Index

RESILIENCE

OUR ATTITUDE, OUR STRENGTH


The strength of a group is measured
by the belief that, even in adversity, courage
and commitment to achieving an objective
will make it stronger than before.
Basilio Saleri - CEO

Section

I

Non-Financial Statement

Letter to the Stakeholders

This year, we are extremely proud to publish the first edition of the Industrie Saleri Italo S.p.A. Sustainability Report.
This document describes the strategies developed, the action taken and the results achieved by the business in pursuit of sustainable economic growth, reducing the environmental and social impact of our activities and maximising value generation for our stakeholders.
Industrie Saleri Italo has worked daily, for years, to ensure that our products and processes have less and less environmental and social impact. We are constantly committed to continuous improvement based on core principles such as the enhancement and training of our personnel, the promotion of diversity and the development of strong, lasting relations with the community and the local authorities.
Close attention to these aspects forms an integral part of the DNA of the Business which is founded on the solid principles and values that we ask each and every one of our collaborators and partners, in Italy and abroad, to respect and adopt as their own.
The first edition of the Sustainability Report covers a year filled with events that have left their mark – in good ways and bad – on the Company.
Despite the inevitable effects of the fire at the Saleri C factory in Lumezzane, the year 2018 was extremely important in laying the foundations for our future growth and development. Several major investment projects were launched in relation to product development, the systematic search for external growth opportunities, the reorganisation of internal information systems and strengthening the management team.
Revenues for 2018 amounted to € 150.5 million, a 4.6% reduction compared to prior year, mainly because of the consequences of the fire. Notwithstanding the drop in sales, EBITDA increased compared to 2017 from € 16.5 million to € 17.1 million (+ € 0.6 million and + 0.9pp as a percentage of revenues).
A net profit of € 2.1 million was reported.
Well aware of the fact that a stable and skilled workforce is essential in order to maintain its competitive edge and generate value in the long-term, Industrie Saleri Italo decided some time ago to invest in its human resources and continued with this strong conviction in the year just ended.
As at 31 December 2018, there were 428 employees and they were given around 6,300 hours of training (+9% compared to 2017).

Alongside its people, Industrie Saleri Italo also invests with conviction in the production process in order to guarantee constantly high quality levels over time. The Company’s production system is rooted in the Lean Production philosophy. This demonstrates our daily commitment to constant improvement so that our products and process have less and less impact on the environment.
Finally, we must highlight the fact that these results have been possible thanks to the incredible ability of Industrie Saleri Italo’s people to respond promptly to the adversity caused by the fire and to the fundamental support provided, unhesitatingly, by all of the Company’s stakeholders. This confirms the solidity of the relationships that we have managed to build up over time and, above all, the strategic importance that the Company has earned in the business segment in which it operates.
Therefore, our special thanks go to: the new Shareholders who, despite a background of uncertainty, helped us complete the recapitalisation operation; the banks that supported the business with its temporary situation of financial distress; our customers and suppliers who made every effort to adapt to the operational reorganisation immediately after the fire.
However, the results we have achieved together in 2018 must not be construed as a point of arrival but, rather, as the starting point for strong and profitable collaboration in future.
Last but not least in terms of importance, we must offer our heartfelt thanks to the people of Industrie Saleri Italo, the individuals who work for the company with dedication on a daily basis. “THANK YOU” to each and every one of them for what they have done during this particular year and for what, I am sure, they will continue to do to ensure the future growth and development of Industrie Saleri Italo, guided also by a more sustainable and ethical vision.

Lumezzane, 24 May 2019

Basilio Saleri

Chapter

1

Methodological note

This is the first Non-Financial Statement (hereinafter, also “NFS” or “Sustainability Report” or “Non-Financial Statement”) of Industrie Saleri Italo S.p.A. (hereinafter, also “**Saleri**”), prepared in accordance with Article 3 of Italian Legislative Decree 254/2016 (hereinafter, also "Decree”). It contains thorough, transparent information on environmental issues, social issues, personnel-related issues, respect for human rights and the fight against corruption.

The objective is to provide a global picture of the activities undertaken by Industrie Saleri Italo S.p.A, its performance, results and future objectives, in relation to the main sustainability issues in the 2018 reporting period (from 1 January to 31 December).

The Statement has been prepared in compliance with Italian Legislative Decree 254/2016, with reference to the “GRI Sustainability Reporting Standards” published in 2016 and 2018 by the Global Reporting Initiative (GRI), according to the "GRI - Referenced” reporting option.
The Non-Financial Statement is going to be published annually.
This year’s NFS was approved by the Industrie Saleri Italo S.p.A. Board of Directors on 24 May 2019.

The contents were finalised and the significant issues determined, also in relation to the areas required by the Decree, based on the principles set out by the GRI-101 (materiality, stakeholder inclusiveness, sustainability context, completeness, comparability, accuracy, timeliness, clarity, reliability and balance). Specifically, pursuant to the GRI Standards GRI-101: Foundation, this document include the following Standards (“GRI-Referenced”): 102-1, 102-2, 102-3, 102-4, 102-5, 102-6, 102-7, 102-8, 102-9, 102-10, 102-11, 102-12, 102-13, 102-14, 102-16, 102-18, 102-19, 102-20, 102-40, 102-42, 102-43, 102-45, 102-46, 102-47, 102-48, 102-50, 102-51, 102-52, 102-53, 102-54, 102-55, 102-56, 103-1, 103-2, 103-3, 201-1, 205-3, 206-1, 302-1, 303-1, 305-2, 306-2, 401-1, 403-1, 403-2, 403-3, 403-4, 403-5, 403-6, 403-7, 403-9, 405-1, 406-1.

The reporting perimeter of the figures and information contained in this document refers to the performance of Industrie Saleri Italo S.p.A..
With a view to constant improvement, figures relating to the subsidiaries Saleri Shanghai Co. Ltd. and Immobiliare Industriale S.r.l. will be included in the Sustainability Reports of future periods, following implementation of a structured non-financial reporting process.

The figures contained in this Non-Financial Statement refer to 2018 only because, as provided for by the Decree, upon first-time application of Sustainability Reporting Standards, no comparative information is provided and comparative qualitative and quantitative information will be presented from the next reporting period. Moreover, some of the NFS contents specifically requested by Legislative Decree 254/2016 are provided in specific sections of the Directors’ Report on the Consolidated Financial Statements and in the Directors’ Report on the Separate Financial Statements of Industrie Saleri Italo S.p.A.
In 2018, there were no significant changes to the size and organisational structure of the Company.

The Non-Financial Statement has been prepared based on a structured reporting process involving all business departments, managers in charge of relevant areas and those responsible for the figures and information subject to non-financial reporting. They were asked to contribute not only with the identification and assessment of significant projects for inclusion in the report but, also, with the collection, analysis and consolidation of data. In more detail, the figures and information included in the Statement were obtained from the business information system used for Saleri’s financial and management reporting and by a non-financial reporting system set up to meet the requirements of Legislative Decree 254/2016 and the GRI Standards. In order to ensure the reliability of the figures and information included in the Statement, the use of estimates was limited insofar as possible and any estimates made have been highlighted in the document.
This document has been subject to a limited assurance engagement (according to the criteria indicated in the Standard ISAE 3000 Revised) by Deloitte & Touche S.p.A. which has issued an independent report stating that the information reported meets the requirements of art 3, comma 10 of Legislative Decree 254/2016. This verification was carried out following the procedures described in the “Independent Auditors’ Report”, included in this document.
For any questions or information requests regarding the Report, please email the following address: **sustainability@saleri.it**

Chapter

2

Materiality analysis

Saleri has performed a materiality analysis in order to identify the major economic, social and environmental issues significant in their own right and which influence or could influence, substantively, the decisions and assessments of stakeholders. The result of this analysis was the materiality matrix, the methodological instrument widely used in international best practice. It shows the issues defined as material for Saleri i.e. those assessed as of medium/high importance for both the Company (vertical axis) and for the stakeholders (horizontal axis). The issues for inclusion in the Sustainability Report were determined based on the results of the materiality analysis.
The results offered by the materiality matrix represent a significant tool for use in establishing and developing sustainability priorities and continuing to generate shared value. The materiality analysis was used to identify the issues in relation to which concrete measures and appropriate initiatives designed to produce improvements are required. The issues identified are the result of analysis of the global context and the specific business segment with a key role in relation to business responsibility, as well as of dialogue with senior management and with the stakeholders.
Furthermore, the analysis has been performed considering the ten principles of the United Nations Global Compact, as derived from: the Universal Declaration of Human Rights, the International Labour Organisation's Declaration on Fundamental Principles and Rights At work, the Rio Declaration on Environment and Development and the United Nations Convention Against Corruption.

HUMAN RIGHTS	Principle 1	Businesses should support and respect the protection of internationally proclaimed human rights; and
	Principle 2	make sure that they are not complicit, even indirectly, in human rights abuses.
LABOUR	Principle 3	Businesses should uphold the freedom of association of workers and the effective recognition of the right to collective bargaining.
	Principle 4	The elimination of all forms of forced and compulsory labour.
	Principle 5	The effective abolition of child labour.
	Principle 6	The elimination of discrimination in respect of employment and occupation.
ENVIRONMENT	Principle 7	Businesses should support a precautionary approach to environmental challenges
	Principle 8	undertake initiatives to promote greater environmental responsibility; and
	Principle 9	encourage the development and diffusion of environmentally friendly technologies.
ANTI-CORRUPTION	Principle 10	Businesses should work against corruption in all its forms, including extortion and bribery.

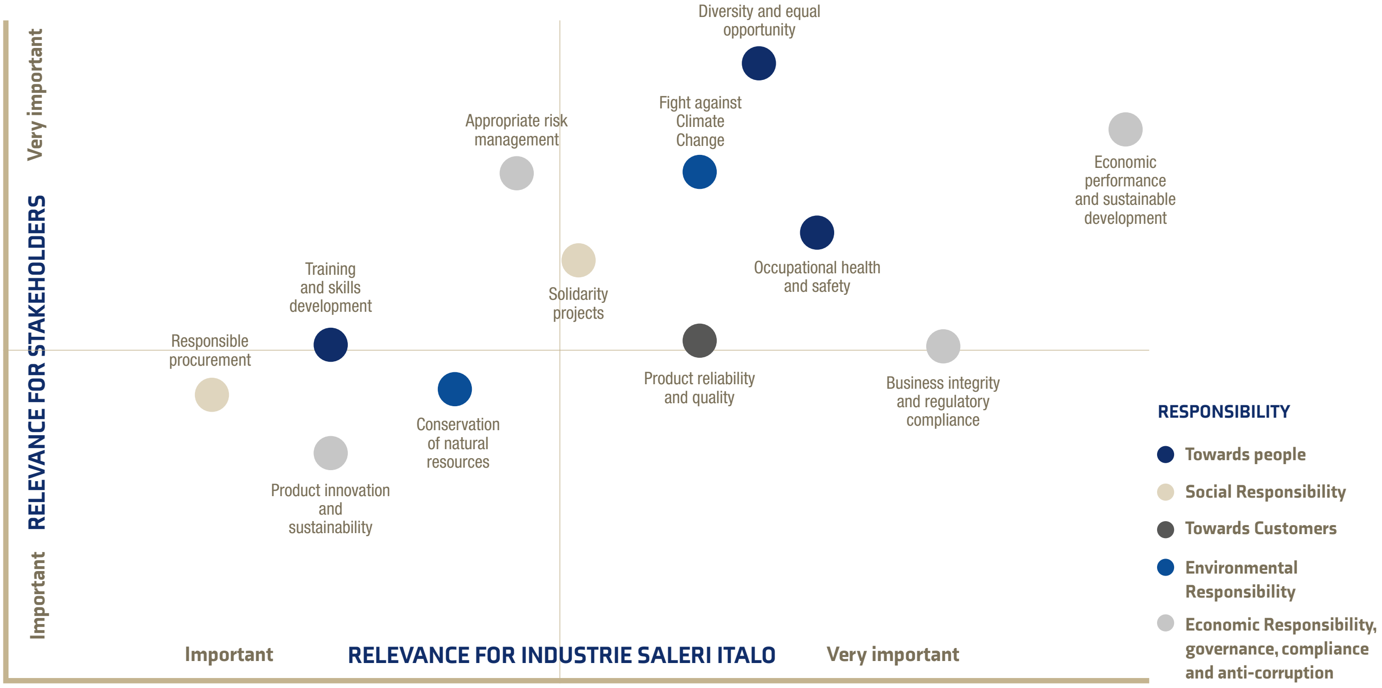
For Saleri, key requisites in pursuit of its corporate objectives include dialogue and interaction with internal and external stakeholders, while fully aware that understanding their needs, interests and expectations makes it possible to generate shared value in the medium and long-term.

Based on its characteristics, activities and awareness of the role that it plays in the context in which it operates, Saleri has identified the following key stakeholders: employees, banks and financial institutions, customers, local area and community, shareholders, suppliers, business network and public administration.

The following table shows the main methods of engagement for each stakeholder category identified:

Stakeholder	Engagement modes
▸ **Employees**	Company intranet Training courses Mailshots Internal events Company welfare
▸ **Banks/Financial institutions**	Web site Meetings with banks/financial institutions
▸ **Customers**	Company web site Customer service Distribution network Telephone and e-mail contact After-sales services Partnerships Participation in industry trade fairs
▸ **Local Area and Community**	Company web site Sponsorships Events Organisation Active participation in community life
▸ **Shareholders**	Financial statements and reports Shareholders' Meeting Company web site Ad hoc regular meetings
▸ **Suppliers/Vendors**	Daily relations Setting and agreement of technical and qualitative standards Suppliers' portal
▸ **Business network**	Ad hoc regular meetings Creation and development of shared projects Participation at industry trade fairs
▸ **Public administration**	Meetings with representatives of local institutions Events in local area

2.1. Materiality matrix



2.2. Material topics

Through the combined application of the principles of materiality and stakeholder inclusiveness, we have drawn up a list of “material topics”. The 12 material topics identified are set out below:

1 ▶	Appropriate risk management
2 ▶	Product innovation and sustainability
3 ▶	Product reliability and quality
4 ▶	Diversity and equal opportunities
5 ▶	Business integrity and legislative/ regulatory compliance
6 ▶	Conservation of natural resources
7 ▶	Fight against Climate Change
8 ▶	Economic performance and sustainable development
9 ▶	Responsible procurement
10 ▶	Solidarity projects
11 ▶	Workplace health and safety
12 ▶	Training and skills development

The material topics are set out below by macro area.

Macro area	Material topics
▸ ECONOMIC RESPONSIBILITY, GOVERNANCE, COMPLIANCE AND ANTI-CORRUPTION	Economic performance and sustainable development Product innovation and sustainability Appropriate risk management Business integrity and regulatory compliance
▸ RESPONSIBILITY TOWARDS PEOPLE	Occupational health and safety Diversity and equal opportunity Training and skills development
▸ SOCIAL RESPONSIBILITY	Responsible procurement Solidarity projects
▸ RESPONSIBILITY TOWARDS CUSTOMERS	Product reliability and quality
▸ ENVIRONMENTAL RESPONSIBILITY	Fight against Climate Change Conservation of natural resources

Chapter

3

The Saleri business

Saleri is a company involved in the design, development and manufacture of water pumps and cooling systems for the automotive industry. Research and development, flexible technical solutions and constant updating of quality standards are the distinctive features of the method adopted by Saleri and constitute the added value of every product.

The quality of Saleri's products is confirmed by its collaboration with the most prestigious automobile manufacturers with which the Company enjoys long-term partnerships in pursuit of innovative research, flexibility and quality.

Over the years, Industrie Saleri Italo S.p.A. has established an important international industrial Group. The Saleri Group companies, controlled by holding company Industrie Saleri Italo S.p.A., operate in a synergic manner in the automotive industry and in the design, development and manufacture of a vast range of cooling systems.

The Group operates through manufacturing and commercial companies in Italy, China and Germany, all of them controlled by holding company Industrie Saleri Italo S.p.A. Manufacturing activities are carried out by:

- Holding company Industrie Saleri Italo S.p.A.
- Chinese subsidiary Saleri Shanghai Co., Ltd
- Subsidiary Italacciai S.r.l. (note that, as of the present date, the entire investment held by Industrie Saleri Italo S.p.A. was about to be sold following the signature of a sale and purchase agreement, subject to deferred execution, to sell the entire investment to a third party buyer)

Alongside the manufacturing companies, the Group includes German subsidiary Saleri GmbH which provides commercial support in Munich and subsidiary Immobiliare Industriale S.r.l. which manages an industrial property that has been leased to a company outside the Saleri Group.

For further details about the Group companies and their main activities, see Section 4.1 Corporate governance and activities.

The Group, together with the holding company, has its registered office in Lumezzane (BS) which is also the site of the main manufacturing facility.
In Provaglio d'Iseo, still in the Brescia area, there is the new manufacturing facility founded in July 2018 which has been operational since September 2018, in place of the factory that was damaged by fire. The Lumezzane factories are owned by the Group while the Provaglio d'Iseo and Shanghai facilities are leased.

Size and main activities of Saleri's factories:

SALERI A
14,250 m²
LUMEZZANE
Production and Assembly (annual production capacity of around 3 million water pumps), warehouse, offices

SALERI B
3,000 m²
LUMEZZANE
Warehouse, Testing Area

SALERI E
8,600 m²
PROVAGLIO D'ISEO
Assembly (annual production capacity of around 1 million water pumps), warehouse, offices.

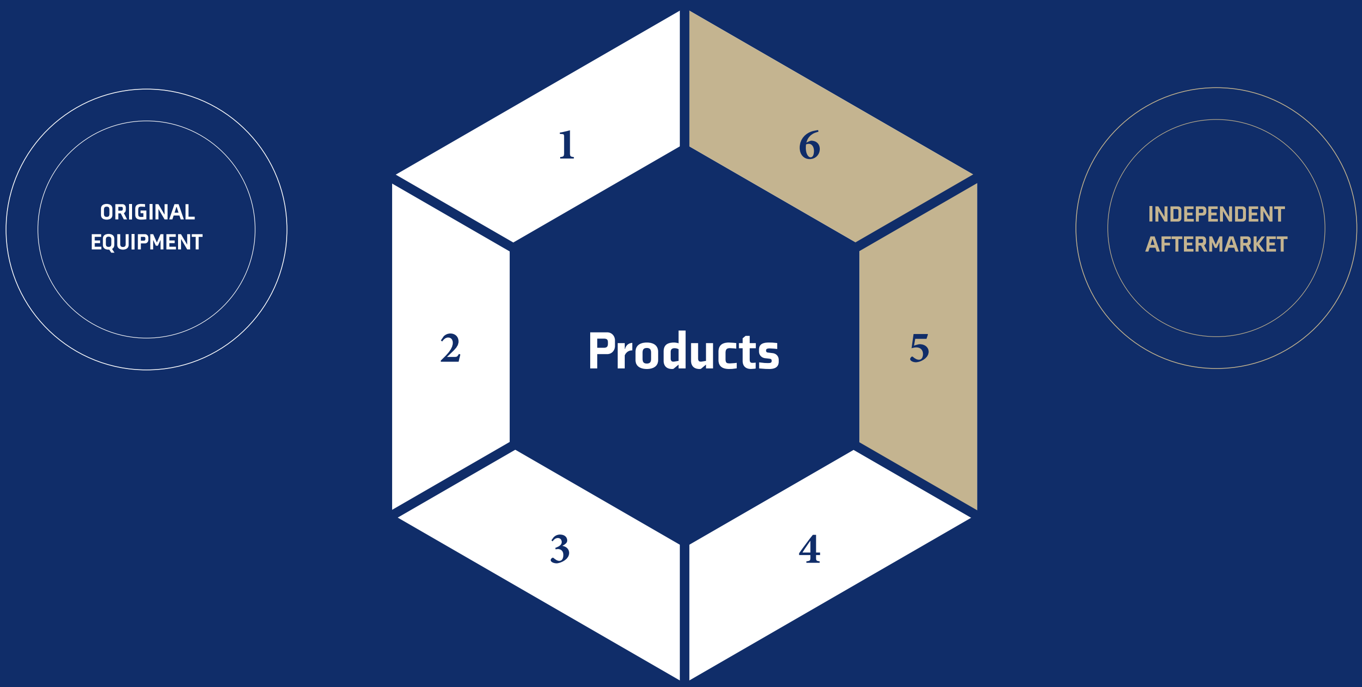
In addition to the factories operated directly by Saleri, the Group also includes another 6,000m² manufacturing facility operated in Shanghai by subsidiary Saleri Shanghai Co Ltd. Details of its size and main activities are provided below:

ANTING TOWN
JIADING DISTRICT
6,000 m²
Mechanical processing/ machining, assembly (annual production capacity of around 1 million water pumps), Warehouse, Offices

3.1 Products and markets served

Any system regulated by the circulation of a fluid requires the best Thermal Management solution. Over the years, Saleri has developed Thermal Management systems that guarantee ever more advanced cooling solutions, in line with growing market demands in terms of performance and environmental protection. Saleri has established itself as a key supplier to the automotive industry thanks to decades-long collaboration on the design and development of cooling systems with the most prestigious brands in the European automotive industry.

This guarantees long-term contracts (5-7 years), a clear idea of future revenues and significant entry barriers.
The business segments in which Saleri operates are divided into two broad categories: products destined for the Original Equipment segment (OEM and OES – Original Equipment Manufacturer and Original Equipment Spare parts) and products destined for the Independent Aftermarket (IAM). These main categories are described in more detail below.



1 — Mechanical water pumps
2 — Switchable mechanical water pumps
3 — Electric pumps
4 — Electromechanical pumps

5 — Water pumps
6 — Distribution kits

Products destined for the Original Equipment segment (OE)

Saleri's core business, it regards the design and manufacture of Water Pumps and more complex Cooling Systems for the OEM and OES segment. The products can be split further into the following categories:

1 Mechanical water pumps

These may only circulate the cooling fluid or they may act as multi-purpose components, incorporating a number of devices.

2 Switchable mechanical water pumps

Cooling systems divided into several sub-groups based on their operating principle which provide optimal support with temperature control strategy with the aim of reducing CO_2 production.

3 Electric pumps

Fully switchable electric pumps for both the main circuit and for auxiliary circuits with various power and voltage levels which can regulate the flow of cooling fluid with great precision.

4 Electromechanical pumps

Pumps that combine electrical operation with mechanical operation as a result of their dual power supply (mechanical and electrical).
EMPs (Electro-Mechanical Pumps) are highly switchable, in terms of performance and power, because the electric drive makes it possible to control the rotor speed, ensuring a very wide range of use. For example, we can say that the EMP may be electrically driven for up to 95% of its life.
The presence of an electric drive also means the pump can be kept active even when the internal combustion engine is switched off or in the start & stop phase. This prevents localised overheating and offers the possibility of removing auxiliary circuits with cooling pumps dedicated to post-run cooling. The option of having a single pump, with centralised control, also makes it possible to remove a series of components from the engine compartment (e.g. piping, connectors and auxiliary pumps) with a significant saving in terms of weight and volume. The mechanical drive uses the power generated by the internal combustion engine and ensures that the pump achieves a very high performance level. This second drive function is essential in ensuring the proper cooling of the system in the toughest conditions. In fact, the current voltage levels of vehicle electrical systems – between 12V and 48V – are insufficient to handle peak workloads.

Products destined for the Independent Aftermarket (IAM) segment

Production and/or sale of water pumps (SIL brand or private label) and Distribution Kits in the IAM circuit. Part of the production destined for the IAM segment is carried out at the Saleri Shanghai factory in China. The types of product currently manufactured by Saleri are as follows:

5 Water pumps

With a catalogue of more than 1,000 products, Saleri offers excellent coverage of the European automobile market. The products, distributed under the SIL brand, are manufactured to the same technological standards as the OE segment and offer quality equivalent to the original.

6 Distribution kits

Saleri offers a wide range of distribution kits with water pumps. The option of a kit reduces the risk of error when identifying the produces necessary for repair/replacement as it contains a full range of distribution components.

Development of prototypes and processes for original productions

Design, purchase or in-house production and, finally, sale of prototype tools for the mass production phase or of prototypes for OE customers.

Markets served

Saleri operates in the Automotive Suppliers market as a Tier 1 supplier in the Original Equipment segment - 85% of revenue – and in the Independent Aftermarket segment – 15% of revenue.
OEM/OES sector customers include engine manufacturers with factories situated mainly in Central Europe (Germany, Austria, Hungary) as well as manufacturers served in China by subsidiary Saleri Shanghai.

ORIGINAL EQUIPMENT

85%
OF REVENUE

INDIPENDENT AFTERMARKET

15%
OF REVENUE

3.2. The R&D Department

Along with the manufacture and sale of the products described above, the Research and Development department plays a key role in the value chain.
It is mainly involved in the development of prototypes and in the design of mass production processes.

The R&D department collaborates closely with the corresponding divisions of client car manufacturers and plans, designs and tests prototypes and production process solutions (including moulds that are sold on to clients as part of specific projects), typically for the production of water pumps and cooling systems for the latest engines.

3.3. Business model and sustainable value creation

Working in the Automotive industry requires great attention to environmental impacts, well in excess of basic legal requirements. For years, Saleri has worked daily to ensure that its products and processes have less and less impact on the environment. This is a constant commitment for continuous improvement.
The main features that enable Industrie Saleri Italo S.p.A. and the Group as a whole to generate value are described briefly below. They include; dynamic, state-of-the-art technology, talented people, the pursuit of constantly high quality levels, good management systems and management capable of reading the market with an eye on the future.

Production Technology – Dynamism, flexibility, innovation

Saleri has implemented a highly automated production system based on principles of modularity and flexibility. This enables it to produce with the highest levels of quality and reliability, handling a large number of variations and ever increasing volume growth. The production structure at the factories can be adapted to small and large production runs with regard to both component production and assembly of finished products.
The use of advanced technology together with the development of specific know-how permits the implementation of state-of-the-art solutions and enables the optimisation of the manufacturing process while, also, guaranteeing the best use of resources. It is with this objective in mind that Saleri has, for some time, adopted the lean manufacturing philosophy when designing and developing its production lines. This philosophy represents a streamlined, efficient production method geared towards the minimisation of waste, in terms of both time and manufacturing resources. It is rooted around four main pillars:

1 Pillar One — The Customer pays for what it perceives as Value

The customer is undoubtedly one of the entities that justify the business's existence as it perceives a value provided by the business and recognises its economic worth accordingly.
Therefore, every effort is directed to the creation of value for the customer, not only in relation to primary activities (i.e. Supply Chain activities that "deliver" the product and/or service to the customer) but, also, to auxiliary activities i.e. those that enable the primary activities to be carried out.

2 Pillar Two — Elimination of waste

All activities that create the value perceived by the customer are important; other activities must be considered as "waste" and, as taught by the Japanese philosophy, they must be fought against.
Activities that create value must take place without interruption, creating a genuine "continuous flow". Enemies of the flow include: waiting time due to batches and inventory, interruptions/stoppages caused by a lack of information and supplier inefficiency (also internal suppliers), returns and reworking, tooling and start-ups.

3 Pillar Three — Problem Solving

Pillar number three is the business culture of Problem Solving. Inefficiencies are examined, the root causes are studied so that various alternative responses can be identified. Finally, standards are used to determine the alternatives that work.

4 Pillar Four — Continuous Improvement

The improvement process (identification and reduction of waste, flow improvement and focus on value for the customer) must never come to an end, also because the primary objective (value for the customer) changes over time and requires adjustment and adaptation on an almost daily basis. The ideal perfection is the total elimination of waste so that all activities create value for the end customer.
This is the point of reference for maintaining a systematic improvement process: it is a dynamic concept, not a static one, as value for the customer changes over time.

The value of Human Capital – Investment in human capital lies behind each and every innovation

Saleri is an organisation that values and exploits differences, creative capacity and emotional intelligence. Product quality, efficiency and the ability to respond to market demands are the result of a method. The method adopted by Saleri is founded on promoting the human factor.

Technological evolution and product quality are the result of a “business process” that revolves around getting the most out of the human factor. This is all the truer in an age when knowledge is more easily accessible than in the past and the real challenge lies in ability to put ideas into practice effectively. Effectiveness depends on the method and the method depends on Saleri personnel, on the human qualities of each individual, working as part of a team, day after day.

Everyone who works for Saleri is party of an organism, not a component of a mechanism. Brescian identity, a G-Local mentality and team building are key to the growth of the business.

Quality – Guaranteeing performance

Performance with regard to the customer, the workers, the supply chain and the environment: the key values of the management system. Saleri has invested in growth and in the implementation of a system capable of responding to customer requests, as demanding as they may be.

Business know-how, accumulated over years of collaboration with car manufacturers, also enables us to design, manufacture and test cooling systems that satisfy even the greatest challenges thrown up by the market.

Management systems policy

In order to compete on the market in the short and long-term and to maintain the highest level of cooperation with customers, suppliers and employees, Saleri places great importance on values such as dynamism, flexibility and innovation. With these objectives in mind, the organisation operates in accordance with the Quality, Environment and Safety management system standards set out by regulations ISO 9001, IATF 16949, ISO 14001 and OHSAS 18001, based on the following guidelines:

- understand and satisfy clients’ current and future needs
- identify processes and parameters to be monitored constantly in order to pursue set objectives
- perform periodic assessments in order to identify areas where the quality system can be made more effective
- make the most of employee capabilities and contributions in a climate of collaboration and involvement
- make each employee aware of his/her duties and responsibilities as part of a chain of production that connects the supplier to the customer and make them aware of their decisive role with regard to corporate image and customer satisfaction
- prevent non-compliance rather than detect it
- establish reciprocally beneficial relations with supplier selected based on their ability to offer quality products and open, constructive collaboration
- take decisions based on certain data, as verified using professional methods and techniques
- make a serious commitment to consider and restrict any harmful effects of the business on the environment
- reduce the harmful impact of products on the environment and increase their longevity
- use plants developed with the most advanced technologies
- study methods and techniques that permit regular monitoring of the consumption of natural resources and energy, in order to ensure they are used in an optimal manner
- constantly monitor the state of the management systems.

Management commitment

In order to achieve ambitious objectives, it is essential to establish full cooperation between management, employees and suppliers, while maintaining ongoing relations with the community and the local authorities. All parties should be involved in a reciprocal, transparent exchange of information and knowledge. While operating constantly in compliance with Italian and international laws and regulations, Saleri is determined to use its business potential in an active and responsible manner and is driven to improve the already good working conditions of its employees, thus increasing the potential human value of the business. Saleri management and personnel are all strongly committed to this company policy.

3.4. Relations with industrial associations

Saleri is fully aware of its role within the network of businesses with which it collaborates and in its economic environment. For this reason, Saleri believes it is of fundamental importance to foster and help create valuable intra-segmental relations that last over time. We highlight below some of the associations to which Industrie Saleri Italo S.p.A. currently belongs:

ASSOCIAZIONE INDUSTRIALE BRESCIANA

AIB

The Company is a member of the AIB which, in coordination with Confindustria Lombardia and, nationwide, with Confindustria, works to protect the interests of member manufacturing businesses, campaigning for business freedom, employment and the expectations of the industrial sector. The AIB has a mandate to represent its members in deals with all authorities, public administrations and entities, as well as with trades unions, economic, public, social and cultural organisations and in relation to public opinion.

ASSOCIAZIONE NAZIONALE FILIERA INDUSTRIA AUTOMOBILISTICA

ANFIA

The Company is a member of ANFIA, one of the largest trade associations affiliated to CONFINDUSTRIA. It aims to represent members' interests in dealings with public and private, national and international institutions and to study and resolve technical, economic, fiscal, legislative, statistical and quality issues regarding the automotive industry.

WELSTEP NETWORK AGREEMENT

RETIMPRESA

The Company also participates in the Welstep business network i.e. a network of 13 businesses whose objective is to form a critical mass and develop economies of scale so that they can jointly adopt business welfare plans. The agreement was born from an initiative by Retimpresa, Confederal Agency for business groupings and networks.

3.5. Economic value generated and distributed

This section contains an analysis of the determination and distribution of economic value among the stakeholders, as performed in accordance with GRI Disclosure.
The table has been prepared distinguishing between three levels of economic value i.e. the economic value generated, distributed and retained by Industrie Saleri Italo S.p.A.. Economic wealth is the overall wealth created by the Company which is subsequently distributed among the various stakeholders: suppliers (operating costs), collaborators, lenders, shareholders, public administration and the community as a whole (external donations).
Stakeholders in the Company are identified based on the impact that the business activity may have with regard to the three pillars of sustainability: finance, environment and social issues. Given that the automotive industry impacts each of the categories indicated, no social groups can be excluded *a priori.*
The "sustainability" of the business is translated more globally through the incorporation of social “concerns” into the more strategic and economic vision of the business.
It should be noted that, as in the Directors’ Report on the Financial Statements, the figures in the following table have been stated as they are classified in the Management Accounts in order to permit a consistent comparison with performance indicators for the industry and with the information issued periodically by the Company to its stakeholders. For further details, see under “Note on reporting methodology” in the Directors’ Report on the Separate Financial Statements.

€ Million

Economic Value Generated by Industrie Saleri Italo S.p.A.	FY 2018	%
Revenue	150.5	93.0%
Sundry revenue	2.4	1.5%
Other income	1.4	0.9%
Exchange differences	-	0.0%
Other non-recurring income	1.1	0.6%
Income (Expenses) from Investments	-	0.0%
Change in inventory (FG)	6.5	4.0%
(A) Total Directly Generated Economic Value	**161.9**	**100.0%**

€ Million

Economic Value Distributed by Industrie Saleri Italo S.p.A.	FY 2018	%
Remuneration of Suppliers	121.5	82.1%
Remuneration of Collaborators	24.3	16.4%
Remuneration of Lenders	2.1	1.4%
Remuneration of Shareholders	-	0.0%
Remuneration of the PA	0.1	0.1%
Donations	0.1	0.0%
(B) Economic Value Distributed	**148.0**	**100.0%**

€ Million

Economic Value retained by Industrie Saleri Italo S.p.A.	FY 2018	%
Depreciation & Amortisation	10.1	72.8%
Provisions	1.4	10.1%
Adjustments to Financial Assets	0.2	1.7%
Use of Provisions	-	0.0%
Profits not distributed	2.1	15.4%
(A-B) Economic Value Retained	**13.9**	**100.0%**

Chapter

4

Corporate Governance, Risk Management and Compliance

4.1. Corporate Governance and activities

The Corporate Governance model adopted by Saleri is based on the right combination of shareholders and management. The model was confirmed following the changes to the share ownership structure that took place in 2018 with the Saleri family still maintaining the role of main shareholder.
The share ownership of Industrie Saleri Italo S.p.A. is shown in the following table.

Shareholders	%	No of Shares
► El.Fra Holding S.r.l.	56.34%	1,761,898
Basilio Saleri	60.00%	1,057,139
Giovanna Maria Saleri	40.00%	704,759
► Quaestio Capital SGR S.p.A. for Quaestio Italian Growth Fund	26.60%	831,648
► Luca Saleri	8.50%	265,684
► Mariacristina Saleri	4.89%	153,000
► Annacaterina Marella Saleri	3.67%	114,767
Total	**100.00%**	**3,126,997**

The Group companies are listed below, together with a short description of their activities.

Industrie Saleri Italo S.p.A.

Industrial parent company, designs, manufactures and sells water pumps and cooling systems for the automotive market in the Original Equipment and Independent Aftermarket segments.

Saleri Shanghai Co. Limited

95%

INVESTMENT HELD BY INDUSTRIE SALERI ITALO S.P.A.

Incorporated in 2008 (local shareholder owns 5% interest), manufactures and sells water pumps for the automotive industry, as destined for European manufacturers with factories in Asia; also sells the parent company products destined for the Independent Aftermarket segment.

Italacciai S.r.l.

66.71%

INVESTMENT HELD BY INDUSTRIE SALERI ITALO S.P.A.

Interest acquired in January 2017, produces bearings for water pumps for the automotive industry - Independent Aftermarket segment - at a factory in Lumezzane (note that the entire investment held by Industrie Saleri Italo S.p.A. is about to be sold following the signature of a sale and purchase agreement, subject to deferred execution, to sell it to a third party buyer).

Immobiliare Industriale S.r.l.

62.50%

INVESTMENT HELD BY INDUSTRIE SALERI ITALO S.P.A.

Established in 2015 following the spin-off of the real estate assets of Italpresse Industrie S.p.A. (former subsidiary of Industrie Saleri Italo that was sold to third parties in 2015) and owner of a property in Capriano del Colle (Brescia) which is let to Italpresse Industrie S.p.A. In 2018, the company completed the sale – at a gain – of investments held by it in Société Civile Immobilière IP (99.00% investment) and in Saleri Iberica Immobiliare Industriale SL (100% investment) while the investment in Immobiliare Industriale Deutschland GmbH (100% interest) is currently under sale.

Saleri GmbH

100%

INVESTMENT HELD BY INDUSTRIE SALERI ITALO S.P.A.

Company that represents parent company Industrie Saleri Italo S.p.A. on the German market. The company is based on Munich, a strategic centre for the development of commercial and technical relations with some of the leading players on the German automobile market.

4.2. The organisation's governance structure

Industrie Saleri Italo S.p.A. has adopted a traditional administration and control model with the presence of:

- the Shareholders' General Meeting – sitting in Ordinary and Extraordinary Sessions and called upon to pass resolutions in accordance with the law and the Articles of Association
- the Board of Statutory Auditors, required to supervise: (i) observance of the law and the articles of association, as well as respect for principles of good administration in conducting company business; (ii) the appropriateness of the organisational structure, the internal control and risk management system and the Company's accounting and administrative system; (iii) risk management and (iv) the audit of the financial statements and the independence of the auditors
- the Board of Directors, appointed to manage the business

The administration and control model also includes the Supervisory Board which was established following the adoption of the Organisation, Management and Control Model in terms of Legislative Decree no 231/2001, as adopted by Industrie Saleri Italo S.p.A. in April 2018.

4.3. Membership of the Board of directors and honorary President

The current Board of Directors has nine members, including two executive directors and seven non-executive directors (five were appointed from the list presented by shareholders El.Fra Holding S.r.l., Luca Saleri, Mariacristina Saleri and Annacaterina Marella Saleri and four from the list presented by shareholder Quaestio Italian Growth Fund). In addition to the nine directors, Sergio Saleri, the second child of Italo Saleri, the founder of Industrie Saleri Italo S.p.A., has been appointed Honorary President.

The following table contains details of the membership of the Board of Directors at 31/12/2018. For further details, see Section 1 of the Directors' Report on the Consolidated Financial Statement and of the Directors' Report on the Separate Financial Statements.

Membership of Board of Directors at 31/12/2018

Member	Role	Age	Sex
Basilio Saleri	CHAIRMAN AND MANAGING DIRECTOR	64	
Matteo Cosmi	DIRECTOR IN CHARGE OF FINANCE	41	
Sergio Bona	DIRECTOR	63	
Giorgio Garimberti	DIRECTOR	69	
Wilhelm Becker	DIRECTOR	71	
Alberto Bartoli	DIRECTOR	58	
Alessandro Potestà	DIRECTOR	50	
Massimo Colli	DIRECTOR	69	
Simona Heidempergher	DIRECTOR	50	

4.4. Membership of the Board of statutory auditors

The Board of Statutory Auditors, as appointed by the Ordinary General Meeting of Industrie Saleri Italo S.p.A. on 24 May 2018 until the date of the General Meeting convened to approve the 2020 financial statements, has three members. The Chairman of the Board of Statutory Auditors was appointed from the list submitted by shareholder Quaestio Italian Growth Fund. The members of the Board of Statutory Auditors are as follows:

Francesco Facchini	CHAIRMAN
Andrea Gabola	STATUTORY AUDITOR
Roberta Lecchi	STATUTORY AUDITOR

4.5. External auditors

The Ordinary Shareholders' General Meeting of Industrie Saleri italo S.p.A. held on 23 November 2017 appointed Deloitte & Touch S.p.A. to audit the separate financial statements of Industrie Saleri Italo S.p.A. and the consolidated financial statements of the Saleri Group until the date of the General Meeting convened to approve the 2019 financial statements. On 31 July 2018, the Board of Directors of Industrie Saleri Italo S.p.A. approved the extension of said engagement to include the audit of the six-monthly separate financial statements of Industrie Saleri Italo S.p.A. and consolidated financial statements of the Saleri Group.

	Deloitte & Touche S.p.A.

4.6. Supervisory board and internal control system

The Supervisory Board was appointed by the Board of Directors of Industrie Saleri Italo S.p.A. in April 2018. It has been appointed for the period 2018-2020 and has one member from within the organisation and one external member, as follows:

Nicla Picchi	CHAIRMAN	(external member)
Serena Militello	MEMBER	(internal member, Head of Saleri's Legal Affairs and Compliance Department)

Moreover, as it understands the importance of strengthening its Internal Control System, since September 2018, Industrie Saleri Italo S.p.A. has been assisted by Protiviti S.r.l., a specialist partner, in order to assess the current situation and establish which corrective action is necessary to improve the Internal Control System.

4.7. Risk Management

In recent years, Industrie Saleri Italo S.p.A. has gradually embraced the concepts of risk assessment and risk management.
In 2018, the Company greatly strenthened the risk assessment process in order to identify and assess risks. This has involved all of the Heads of Department of the company. Corporate governance bodies are also involved in the risk assessment process. Further information on the main risks identified by Saleri is provided below:

Ethical risks

In the course of its activities, Industrie Saleri Italo applies and observes rigorous ethical and moral principles, conducting its business in full compliance with the law and market rules. On 10 April 2018, the Company duly adopted the Organisation and Management Model in terms of Legislative Decree no 231/2001, reorganising its activities and internal procedures in order to prevent the commission of offences under said Decree. The subsequent adoption of the Ethical Code, internal procedures to ensure compliance with the Code and the controls implemented guarantee a healthy, secure and efficient working environment for employees and an approach designed to ensure full respect for the external stakeholders. Industrie Saleri Italo does business with private customers, not belonging to organisations directly or indirectly controlled by governments or public sector bodies, and does not take part in public tendering processes. This further reduces the risk of reputational and economic damage resulting from ethically unacceptable conduct.

Personal data protection/privacy risk

Since the GDPR (General Data Protection Regulation) came into force on 25 May 2018, Industrie Saleri Italo has adopted the procedures necessary to comply with the new European data protection regulation. As Data Controller, the Company has appointed Third Party Data Processors and an internal person to coordinate data protection-related issues. Moreover, although it does not fall within the scope of Article 37 of the GDPR, in order to offer a higher level of personal data protection and compliance, Industrie Saleri Italo has elected to appoint a DPO (Data Protection Officer).

4.8. Compliance

In order to achieve the corporate objectives, Industrie Saleri Italo S.p.A.'s risk management activities also take account of compliance requirements.

Compliance with Legislative Decree 231/2001

In April 2018, Industrie Saleri Italo S.p.A. adopted its Organisational, Management and Control Model in terms of Legislative Decree no 231/01 (OMC Model) and the related Ethical Code.
The text of the OMC Model was written after documenting the mapping of the internal decision making processes regarding actions that may be significant in terms of the aforementioned decree.
Meanwhile, the Ethical Code contains the ethical principles shared and actively promoted by Industrie Saleri Italo S.p.A. and is available – also in English in the Policies section of the company website **www.saleri.it**.
Saleri supports the distribution of the contents of the above documents not only through publication on the company intranet but, especially, through appropriate training provided to its employees and to all new starters. Moreover, in order to ensure that it is shared the whole way along the supply chain Industrie Saleri Italo S.p.A. includes a term of contract whereby it reserves the right to terminate all commercial relations if it becomes aware of any conduct incompatible with its ethical position.
Finally, as already stated, the Board of Directors has established the Supervisory Board whose tasks include monitoring, updating, responding to and promoting compliance with Legislative Decree no 231/01 et seq.
Fully aware of the increasing importance of these issues, in 2014, Saleri

established its Legal Affairs and Compliance Department which is responsible for handling all legal and compliance matters and providing internal advice and assistance to the various departments.
With specific reference to the issue of Whistleblowing in terms of Art. 54-bis of Legislative Decree 165/2001, since 2018, the Supervisory Board of Industrie Saleri Italo S.p.A. has been charged with receiving any reports of unlawful conduct from whistleblower taking appropriate action. The system is anonymous and can be used by sending an email to: odv@saleri.it or via traditional mail. No significant matters were reported by whistleblowers during 2018.

Anticorruption, unfair competition and anti-trust

Industrie Saleri Italo S.p.A. promotes compliance with any direct legislative measures designed to encourage the conduct of business in an ethical and responsible manner, condemning all forms of activity intended to alter market rules.
Anticorruption, unfair competition and anti-trust are issues covered by the 231 Management Model (the OMC Model), by the Ethical Code and by the Travel Policy (internal document), which all employees (and others) have to respect:

- The OMC Model was adopted based on a fully comprehensive risk assessment carried out by an independent law firm which identified management protocols specific to the business of Industrie Saleri Italo S.p.A.. In particular, with regard to the risk of corruption, part A of the Model includes, under "Offences regarding dealings with the Public Administration and private sector corruption", issues such as the proper management of gifts, free samples, entertainment expenses, donations and sponsorships. These protocols provide for a full audit trail of the amounts in question by means of document evidence and a record of the recipients
- The Ethical Code completes the OMC Model and sets out the main rules of conduct for employees and all business partners of Industrie Saleri Italo S.p.A. while prohibiting all conduct that could constitute an offence in terms of Decree 231/01
- The Travel Policy is a practical guide for employees and sets out spending limits for business travel and entertainment activities
- The guidelines for responsible business transactions set out the principles which Industrie Saleri Italo S.p.A. asks its business partners to accept and duly implement

In case of any conflicts of interests, employees are required to inform the Company immediately. If any conflict of interests is not promptly reported, Industrie Saleri Italo S.p.A. shall take appropriate disciplinary action against the employee in question.
Training on the issues highlighted above is entirely provided by the accounting and management personnel of Industrie Saleri Italo S.p.A. with varying regularity (on average, annually) and the documents mentioned are available to all business partners on the company website. This is except for internal documents which are accessible to employees only on the company intranet.
The Supervisory Board is the body to which any inappropriate conduct may be reported. Such information may be communicated by sending an e-mail to odv@saleri.it or by traditional mail in compliance with Whistleblowing principles. The Supervisory Board conducts regular audits to test compliance with the OMC Model and provides advice and assistance to the individuals involved.

4.9. Governance of sustainability

Saleri has long believed that social and environmental issues form an integral part of its strategy and, as such, should be dealt with by the Board of Directors. Decisions taken in relation to sustainability issues are sent to the relevant departments so that they can be duly implemented. Specifically, the departments most involved in this process are: HR, HSE, AFC, IT and Legal.
Fully aware of the growing importance of sustainability issues not only within the business but also in the industry segment and the economy as a whole, Industrie Saleri Italo S.p.A. intends to expand and consolidated the dedicated structure in the short to medium term.
At present, given its position in the hierarchical structure, the Board of Directors is the body responsible for approval of the most significant aspects of sustainability issues. However, less significant activities are also presented to the Board for ratification.

RESILIENCE

OUR ATTITUDE, OUR STRENGTH

Every problem is an opportunity for growth. Method, determination and passion: these are our core characteristics.

Matteo Cosmi - CFO

Chapter

5

Saleri and its collaborators

In order to manage potential strategic and operational risks, as well as legal and compliance risks, Industrie Saleri Italo S.p.A. has established systems and structured policies to handle areas such as staff selection and training, company welfare and industrial relations.

5.1. Saleri's people

Industrie Saleri Italo S.p.A. strives for excellence through constant improvements to its professionalism and the involvement of personal on all levels. The employees and collaborators involved in business activities represent a valuable strategic resource and, for this reason, Saleri undertakes to guarantee respect for diversity and their rights, to foster their well-being and to promote their professional growth and development. At 31 December 2018, Industrie Saleri Italo S.p.A. had 428 employees (actual head count at 31/12) while there was an average of 410 employees during the year then ended.

The Company does not use any unusual forms of contract as it values the professional contribution of each individual and undertakes to build lasting relationships based on principles of loyalty, reciprocal trust and collaboration. Employees hired under permanent contracts account for the bulk of the workforce used by the Company at its factories in Lumezzane and Provaglio d'Iseo (around 95% of all workers). Moreover, around 92% of employees work under full-time contracts. All of the part-time employees are female.

Workforce by contract type and gender at 31/12/2018

Contract type			
PERMANENT	244	162	406
FIXED TERM	12	10	22
Total	**256**	**172**	**428**

Workforce by contract type and gender at 31/12/2018

Contract type			
FULL-TIME	256	137	393
PART-TIME	-	35	35
Total	**256**	**172**	**428**

In 2018, Industrie Saleri Italo S.p.A. turned to the labour market for additional operational personnel. In more detail, it used 55 persons from employment agencies, split between the assembly and production processing departments; 18 trainees, working in the offices; and 4 external workers.

The relatively young average age of Industrie Saleri Italo S.p.A.'s employees (37 years) is tangible proof of a strategy that favours the recruitment, training and internal growth of young people over the sourcing of skills on the market.

The underlying strategy behind Saleri's recruitment policy seeks to guarantee equal opportunities to all candidates. Saleri assesses candidates and encourages career advancement. It avoids all forms of discrimination based on gender, sexual preferences, age, ethnic origin, nationality, state of health and political or religious beliefs.

The availability of skilled, qualified resources and a strong sense of belonging represent key factors in ensuring Saleri maintains its competitive edge. Offering workers a stable, lasting relationship is considered essential to the growth of the business, as well as an important source of motivation. During 2018, Industrie Saleri Italo S.p.A. hired 68 new employees.

Industrie Saleri Italo S.p.A. new hires by gender and age group - 2018

Age group			
▸ < 30 YEARS OLD	25	18	43
▸ >= 30 YEARS OLD	17	8	25
Total	**42**	**26**	**68**
Turnover	**16.40%**	**15.10%**	**15.90%**

Industrie Saleri Italo S.p.A. leavers by gender and age group - 2018

Age group			
▸ < 30 YEARS OLD	8	6	14
▸ >= 30 YEARS OLD	13	8	21
Total	**21**	**14**	**35**
Turnover	**8.20%**	**8.10%**	**8.20%**

In terms of age groups, the newly hired employees were as follows: < 30 years of age – 43 employees; 30-50 years of age – 25 employees; over 50 years of age – zero employees. All of those hired in 2018 came from the Lombardy area. Industrie Saleri Italo S.p.A.'s workforce is strongly attached to the local area, is young and growing fast and is mainly male. Along with the significant number of new recruits (68), a fair number of employees also left the Company (35): in fact, the turnover rate stands at 8.2%.

5.2. Diversity and equal opportunities

Equal opportunities have always been guaranteed to Saleri's female personnel: currently, women represent 40% of the Industrie Saleri Italo S.p.A. workforce. The Company pays great attention to the family-related needs of its workers, while also taking account of organisational and production requirements.

The figures set out below were prepared from data extracted from the management system used by HR administration.

Workforce by category and gender 31/12/2018

Category			
▸ MANAGERS	12	1	**13**
▸ WHITE COLLARS*	108	40	**148**
▸ BLUE COLLARS	136	131	**267**
Total	**256**	**172**	**428**
Total %	**60**	**40**	

Workforce by category and age group 31/12/2018

Category	< 30	30-50	> 50	Totale
▸ MANAGERS	-	7	6	**13**
▸ WHITE COLLARS*	34	100	14	**148**
▸ BLUE COLLARS	113	101	53	**267**
Total	**147**	**208**	**73**	**428**
Total %	**34**	**49**	**17**	

In accordance with the law, Industrie Saleri Italo S.p.A. employs disabled personnel and personnel belonging to protected categories. It has a total of 10 such employees, all of them blue collar workers; at 31/12/2018, there were four male and six female employees from these categories. The duties assigned to employees from these categories take account of their physical and mental condition which is constantly monitored. The development of disabled and protected category employees is encouraged and they are offered due safeguards.

5.3. Training and skills development

Industrie Saleri Italo S.p.A. has always paid great attention to getting the best from its employees while managing them properly, guaranteeing them a work environment capable of encouraging the growth and development of talent.
Continuous training of employees is an issue of primary importance for Saleri. Employees are encouraged to participate at seminars, conventions and training courses relating to their professional duties and activities. The year 2018 saw the launch of the "Training on the job" project, a two-week training session aimed at production employees. These employees are trained by senior colleagues through both theoretical and practical sessions. The objective is to pass on the knowledge and technique needed to work in an autonomous manner.

In 2018, a total of 6,300 hours of training was provided to Saleri employees (around 5,800 hours in 2017).
The breakdown of training hours by employee category (graph below) is partially estimated as detailed figures by professional category are only available for a portion of the total hours of training provided. A system to gather precise data is under implementation so an accurate statement of the total number of hours' training by employee category will be available in future periods.
Training on business ethics is provided periodically in a classroom environment. The same kind of training is provided on other important subjects e.g. the new GDPR. Any external training is provided by entities with accreditation for the type of training in question.

* The White collars category also includes the *"intermediates"* category.

BLUE COLLARS	2,204
WHITE COLLARS	3,817
MANAGERS	279

HOURS
OF TRAINING

6,300

5.4. Parental leave

Both mothers and fathers have a right to parental leave. This is a period of absence from work that may be divided between the two parents and used in the first twelve years of the child's life in order to fulfil emotional and family needs. Although parental leave may be requested by both parents, in the Company's case, it has never been requested by any fathers.

In 2018, a total of 17 women made use of parental leave and enjoyed full freedom of choice over the period and number of days/hours' leave to use. Upon completion of the parental leave period, all of these employees returned to the Company, in the same role as before and with the same salary. A proportionate reduction in salary only occurs if an employee starts to work part time rather than full time.

5.5. Benefits and welfare

Industrie Saleri Italo S.p.A. offers benefits in kind for employees regardless of the contract type. However, certain benefits such as medical insurance, life insurance and insurance against injury at and away from work are only provided to Senior Management.
In 2018, in order to improve the way it deals with Job&Family issues, the Company launched a pilot Smart working project that will soon be rolled out to more categories of employee.
Industrie Saleri Italo S.p.A. has fully implemented the policies on Corporate Welfare contained in the Metal-mechanical segment collective labour agreement signed in 2017. As required by the collective agreement, Industrie Saleri Italo S.p.A. has paid the welfare indemnities required and has enabled employees to join the Metasalute Fund, a healthcare fund for metal-mechanical workers – it is free for employees while the employer pays a contribution of 13€/month per employee.
On a welfare-related issue, the Company has established a canteen where all employees can enjoy meals prepared on the premises.
Industrie Saleri Italo S.p.A. is also a member of "Welstep", a network of businesses created in the Brescia area with the aim of ensuring that corporate welfare activities are handled in a uniform manner. At present, the network has 12 members and covers a total of 2,100 workers.

5.6. Minimum notice for operational changes

As stated in its Ethical Code, Industrie Saleri Italo S.p.A. guarantees the right of its employees to join trade unions. It also recognises the role of the unions and workers' representatives created in accordance with the law and usual practice.
The parties maintain relations founded on mutual respect and constructive debate. There is ongoing, open dialogue with the Trade Unions and workers' representatives with the aim of seeking agreed solutions to respond to market requirements, while increasing competitiveness, flexibility and organisational efficiency.

There has also been intensive collective bargaining on various levels and it has led to important agreements with the unions on salaries and other conditions of employment.
Trade unon membership in Industrie Saleri Italo S.p.A. is as follows: around 100 employees belong to Fiom-Cgil while around 55 employees belong to Fim-Cisl.
Relations between Management and the Trade Unions are based on transparency and reciprocal correctness. During the year, some 50 meetings were held between Industrie Saleri Italo S.p.A. Management and the Unions.

Chapter

6

Occupational health and safety

Within its broader corporate strategy, Industrie Saleri Italo S.p.A. considers the protection of the Health and Safety of its workers and all those interacting or collaborating with its business activities to be a priority objective. The Company is committed to providing safe and secure working conditions in order to prevent work-related illness and injury.

The health and safety management system regards all of Saleri's employees, irrespective of their contractual status. It also regards all of those working on Company premises who are given para-employee status (work experience students, trainees, etc. The system has been implemented:

- as a preliminary basis for future compliance with the requirements of Article 30 of Legislative Decree 81/2008 in order to provide an organisation and management model that avoids administrative liability for legal persons (compliant with Standard OHSAS 18001:2007)
- in order to guarantee the standardisation, distribution and sharing of preventive and protective practices so as to guarantee and improve worker protection.

All related documents and operating policies are available to employees on Company noticeboards and on the Company web site www.saleri.it.

With regard to the identification of risks and related investigations, the Company performs a "Risk Assessment" regarding the Employer's liability. For the purposes of this assessment, it consults with the internal Health and Safety Officer, as supported by an external consulting firm, in collaboration with the medical officers with responsibility for health and safety and consulting with Workers' Safety Representatives. In order to maintain a more detailed knowledge of and pay constant attention to business risks, the risk assessment takes account not only of the residual risk (i.e. the risk after the adoption of any prevention and protection measures) but, also, the absolute risk. The risk assessment also considers workplace facilities, whether made available by the organisation or by other parties, and risks to the health and safety of workers. Risks are identified and assessed in accordance with management system procedures. Based on the risk assessment, the Employer – in collaboration with the Health and Safety Officer, the medical officer and the Workers' Safety Representatives – identifies possible improvements, schedules them and appoints those responsible for implementing the improvements. These instructions are included in the Improvement Plan of the Risk Assessment Report. The measures identified may be operational procedural or technical and are managed as part of the Improvement Plan for the Health and Safety Environment, in accordance with agreed practice.

6.1. Health services

Industrie Saleri Italo S.p.A. has set up a specific organisation to guarantee the proper performance of activities designed to eliminate or minimise risk, to ensure a proper flow of information to the Employer for risk assessment purposes and, vice versa, a flow of information towards the employee so that he/she has all of the information needed to safeguard his/her interests.

The professional figures included in the organisation in question are those indicated by Legislative Decree 81/08. The Health and Safety Officer reviews the organisation constantly to check that it is suitable and suggests any changes to the Head of HR and to the Employer.

This subject is a key issue at the regular meetings in terms of Article 35 of Legislative Decree 81/08, during which any requests for changes are considered and finalised.

The Employer has appointed a medical officer and has entered into an annual contract with them in order to guarantee a regular presence in the Company – around once a week.

The Employer, directly or through the risk prevention and protection service, convenes the "regular meeting" at least once a year, in accordance with Article 25 of Legislative Decree 81/08, and it is attended by a) the Employer or his/her representative; b) the Health and Safety Officer; c) the medical officer, where appointed; d) workers' safety representatives. Employee participation and consultation is guaranteed by:

- meetings between Company management and workers' safety representatives over issues regarding health, safety and the environment (e.g. regular meeting in terms of Art. 35 of Legislative Decree 81/08);
- meetings between the Health and Safety Service and the Workers' Safety Representatives, as called by one of the two parties;
- sharing of SGAS ("Environment and Safety Management System") documents.

6.2. Health and safety training for workers

Saleri understands the key role played by its human resources. Therefore, it has implemented an employee training system involving many channels and levels. All employees are trained on workplace health and safety, compliance with business ethics and the processing of confidential information.
The Company provides:

- introductory information to all those who start working for Saleri (students, work experience, trainees, newly-hired employees, irrespective of contract type and duration);
- general training required by law;
- specific training required by law;
- specific information if necessary because of (i) situations of particular risk or (ii) new substances.

In addition to training strictly related to work activities, Saleri is also committed to preventative action to improve workers' health e.g. the distribution, through the medical officer and together with the Employer and the Health and Safety Officer, of useful guidelines to encourage employees to stop smoking (or to cut down) or to avoid alcohol abuse.

6.3. Prevention and mitigation of the risk of professional illness

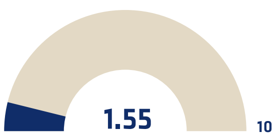
Industrie Saleri Italo S.p.A. has appointed a medical officer who guarantees his/her presence at the Company almost once a week to perform appropriate medical check-ups, any extraordinary medicals needed (on request by the employee or the medical officer) and to review reports from health monitoring.
The medical officer has drawn up the health monitoring plan based on the list of duties, considering the results of the risk assessment and the comments of the Employer.
Every year, the Company signs an annual contract with a health centre and schedules appointments for workers based on the health monitoring plan.
Any requests by the medical officer for additional clinical tests by specialists are accepted and satisfied in order to achieve better assessment of suitability for work. The medical officer works with the Employer during the risk assessment phase in order to identify any situations that could represent a potential source of professional illness. Based on the health monitoring results, the medical officer may reach conclusions of use in directing and planning risk assessment activities.

6.4. Workplace injuries

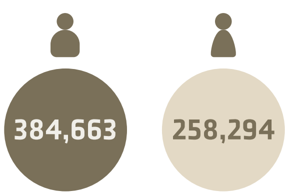
No cases of professional illness arose in 2018 while there was one case of workplace injury. The total number of workplace injuries does not include injuries suffered while travelling to and from work. The workplace injury recorded was minor, happened to a female employee and no main cause has been identified. The employee in question was absent for a total of six days as a result of the injury. Therefore, taking account of the total number of hours worked of 642,957 hours, the frequency index recorded by Industrie Saleri Italo S.p.A. is 1.55 . The number of hours worked by gender have been estimated based on the gender make-up of the workforce at 31/12 – 384,663 hours for men and 258,294 for women.
During 2018, there were no fatal or serious injuries (involving absences of more than 180 days). The total number of injuries recorded does not include accidents on the way to and from work in employees' own vehicles (2 cases in 2018) because the travel in question did not involve company cars, car fleets or transport organised by Industrie Saleri Italo S.p.A.. Moreover, the figures on workplace injuries do not include those relating to personnel supplied by labour agencies.
The results of the risk analysis show that the greatest risk regards fire. For this reason, in 2018, Industrie Saleri Italo S.p.A. offered incentives to increase the number of members of its fire prevention teams and provided fire prevention training (16 hours) to 28 employees.

Number of injuries

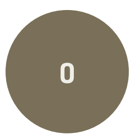
Frequency index



Hours worked by gender



Fatal or serious injuries



[1] The frequency index was calculated as the ratio of the number of injuries to the total number of hours worked in the same period, multiplied by 1,000,000.

Chapter

7

Saleri and the environment

7.1. Environmental risk management

As part of its routine activities, the Risk Protection and Protection Service constantly monitors compliance with environmental laws and regulations. The Service also allocates some time for more detailed and specific checks. The effectiveness of the Company's compliance with environmental protection laws and regulations is assessed as required by the environment management system, performing the following annually:

- a test of compliance with the law
- an environmental review
- a review by management
- a test of compliance with international standard ISO 14001:2015, performed by an independent certification body and drawing up an annual improvement plan

In addition to the above checks, compliance with laws and regulations is continuously monitored during the year. Therefore, any non-compliance would be swiftly detected so that an appropriate response could be taken.

Environmental issues are also managed by means of a risk-based approach:

- External risks (environmental sustainability), regarding protection of the environment and the local territory, by reducing environmental impacts and limiting the use of natural and energy resources. These impacts are considered in relation to the entire product lifespan
- Strategic risks, including collaboration with strategic providers of services involving a potential environmental risk (refuse collection, cleaning services, maintenance)
- Legal and compliance risks, regarding respect for legislative requirements (authorisations and compliance obligations) and requests by local institutions

Industrie Saleri Italo S.p.A. has adopted an environment management system consistent with international standard ISO 14001:2015 and which has been certified by TÜV NORD Italia for all company sites. The environmental policy which establishes the foundations of this management system also includes the criteria which Saleri intends to follow in other to minimise its environmental footprint from a sustainability perspective, with regard to the use of materials, energy, water and waste management.

7.2. Energy consumption

Industrie Saleri Italo S.p.A. uses electricity and methane gas as sources of energy for the manufacture of its products, for their packaging and for production-related services. Methane gas is not used in the production process but only for heating and to produce hot water. Electricity is the sole energy source used in the production process.

Industrie Saleri Italo S.p.A. performed its first energy health check in 2015 and is now taking the steps needed to update it by the end of 2019. For now, Industrie Saleri Italo S.p.A. intends to draw up plans to increase efficiency and reduce energy consumption for sustainability purposes. These plans will be based on the results of the forthcoming energy health check.

The Company intends to pursue the criteria and commitments set out in its environmental policy, setting targets and allocating responsibility and resources. Energy management effectiveness is measured as prescribed by the environment management system, performing an annual environmental analysis, a management review and drawing up an annual improvement plan.

Energy consumption in 2018 was as follows:

Total energy consumption - 2018

	Quantity	GJ	
METHANE GAS	140,877 m³	4,966	TOTAL GJ 34,278
ELECTRICITY	8,142,272 kWh	29,312	

The energy intensity level is calculated as specific energy consumption per unit of product sold, considering total energy consumed and the number of units sold in 2018 (3,498,790 units). Therefore, the energy intensity level for 2018 was 2.32 kWh/unit. Energy intensity only considers total energy consumption, calculated as the sum of electricity consumption and methane gas consumption.

Energy consumption was converted into GJ using the ABI LAB 2018 conversion factors.

7.3. Emissions

Emissions management effectiveness is measured as prescribed by the environment management system, performing an annual environmental analysis, a review by management and drawing up an annual improvement plan. Emissions analyses are performed periodically, as required, and the results evaluated – for both fugitive emissions and channelled emissions. Periodically, the need to update communications and authorisation levels for significant and non-significant emissions is assessed.
For the purposes of the calculation, the main types of emissions relating to the energy sources mentioned above are set out below. Specifically, we refer to Scope 1 and Scope 2 emissions as follows:

- **Scope 1:** direct emissions, associated with sources owned or controlled by the Company such as fuel used for heating and for the operational vehicles needed for airport activities;
- **Scope 2:** indirect emissions, resulting from the consumption of electricity purchased by the Company. In more detail, in accordance with GRI reporting standards, they are calculated with location and market based methodologies, using appropriate emission factors.

CO_2e Emissions - 2018

SCOPE 1	SCOPE 2 Location based	SCOPE 2 Market based
tCO_2e 278	tCO_2e 2,616	tCO_2e 3,884

7.4. Environmental impact of water resources

Water consumption by Industrie Saleri Italo S.p.A. is monitored with water used in production processes and in the offices. Water is used in the production of items for sale (machine working processes and washing) and for production related services (testing area, cleaning processes, water for hygiene/health purposes – restrooms/toilets, changing room showers, heating, fire prevention water reserves, canteens). Water is also accumulated in reserves for use in case of fire.
Water is drawn solely from the public water system for all purposes.
No other sources of water are used. The water is drawn manually except for reserve tanks which have an automatic filling system. This means that the appropriate amount of water is drawn to meet requirements as they arise, with a direct check by the individual drawing the water. Water consumption in 2018 is summarised as follows:

Water consumption - 2018

	m^3
MUNICIPAL WATER SYSTEM	8,136

The above figures are the final figures shown in the bills issued by the water company.
Water management effectiveness is evaluated as prescribed by the environment management system, performing an annual environmental review, a review by management and drawing up an annual improvement plan.
Water consumption was high in 2018 mainly because of the fire that broke out at the Saleri C facility (the fire services used the water reserve at the Saleri A facility as a source of water to put out the fire; the reserve was then restored to its original level) and because of the need to fill the new fire prevention water reserve at the Saleri E facility – it was tested and filled again following a leak.
The installation of a new washing machine at Saleri A also led to an increase in consumption.

Source used: to calculate CO_2 emissions, for Scope 1 Environment Ministry emission factors per the “Table of standard national parameters for the monitoring and communication of greenhouse cases” were used; for the Scope 2 “Location Based” approach, the atmospheric emission factor of CO_2 and other greenhouse gases in the electricity industry, ISPRA 280/2018, was used; finally, for the Scope 2 “Market Based” approach, the emission factor regarding the residual mix - European Residual Mixes 2017, AIB – was used.

7.5. Environmental impact of waste

Activities at the three production facilities are carried out and controlled with the objective of optimising waste management with waste handed on to disposal companies for subsequent disposal or recycling.
In order to optimise waste management – recycling or disposal – the various departments at each factory separate the different types of waste (hazardous and non-hazardous) and check that it is handled without any danger or harm to health or the environment.
Waste management is handled by the Waste Management Officer, in accordance with the internal management system.
Non-hazardous waste management has been performed by specific software (GRIF LIGHT) since the start of 2016. Hazardous waste management is performed using the same software (on an interoperable basis with SISTRI until 1 January 2019 when the closure of SISTRI became effective in terms of Decree Law 135/2018).
With regard to separated waste management, following studies and simulations conducted in-house by the Prevention and Protection Service together with current and potential providers of waste disposal services, in light of market changes, the decision was taken to grant the CER 15.01.06 service to an authorised recycler with its own facility which sorts waste in order to recycle as much as possible.
The sorting process performed by the recycling firm separates general waste (handed over in black bags) from recyclable plastic (plastic film is packaged and sent to a recycling plant to produce new plastic film while hard plastic is sent to a recycling plant to be transformed into plastic granules). This solution minimises the environmental impact.
Collection points for each type of waste have been set up in the various divisions of each of Industrie Saleri Italo S.p.A.'s production facilities. The separated waste is then taken on by the Waste Management Officer for temporary storage before being transferred to recycling and disposal companies.
In 2018, the loss of the Saleri C factory required a major overhaul of the production and warehouse lay-outs as production processes were now concentrated at Saleri A while materials storage was at Saleri A and Saleri B. The waste collection and temporary storage points also underwent certain changes.
The Company's activities generate various types of special waste, hazardous and non-hazardous, liquid and solid.
Some of the waste generated is subject to ADR transport regulations. Since 2015, the Company has used an external consultant for ADR transport. The annual report on the transport of hazardous goods is prepared by the end of February each year.
Waste management effectiveness is assessed, as prescribed by the environment management system, by performing an annual environmental analysis, a management review and drawing up an annual improvement plan.

In 2018, the Company produced the following quantities of waste:

Tonnes of waste produced - 2018

	Hazardous	Non-hazardous	TOTAL
RECYCLING	4.08 t	571.42 t	575.50 t
DISPOSAL	487.10 t	4.82 t	491.92 t
TOTAL	491.18	576.24	1,067.42

Some of this waste is subject to temporary storage before disposal operations (D15) or is set aside before recycling takes place (R13).

Chapter

8

Innovation in Saleri: research and development

Saleri's R&D activities are driven by the mega-trends that are revolutionising transport systems. For some time, the focus has been on seeking the best Thermal Management solutions for the vehicles of the future.

The key trends regarding vehicle evolution are electrification, self-drive, reduction of emissions and environmental impact, connectivity and new models of access to mobility. In 2018, R&D activities concentrated on the development of new systems in order to:

- increase the technological content of existing products in order to improve the performance of cooling systems for internal combustion engines;
- anticipate the thermal management needs of components relating to electrification (battery packs and power modules);
- contribute towards a reduction in atmospheric emissions and fuel consumption by engines, responding to increasingly demanding anti-pollution regulations, now and in future;
- improve on competitors' patents, while maintaining system functions unchanged as well as the quality, duration and easy of assembly with automatic systems
- improve process technologies through research into design simplifications that lead to production cost savings.

8.1. Organisation of the R&D Department

Research and development – at process level, as well as at product level – is strategic in order to remain competitive and to reinforce the positioning of the Company. Therefore, it is carried out in close collaboration with leading European car manufacturers with which new and innovative solutions are co-designed with a view to mass production at a later stage.

Research and development begins with a review of requirements and thinking of new concepts (in-house pre-development). This phase involves intensive creativity and patenting activities. Clients are then offered customised versions of the concepts developed and, once the contract has been obtained, the product/process is developed together with the client, through all phases from prototyping to mass production.

The R&D Department is organised into structured development areas: Technical Division, Advanced Engineering (pre-development), Electronic Design, Electric Pump Design, OE Applications Design, CAE (Computer-Aided Engineering), Project Management and Testing. The activities may be summarised as follows:

- **Design:** new products are developed in a simulated environment, using advanced technology and software than ensure high levels of speed and reliability from the early stages of the process
- **Prototyping and testing:** development of test sequences to assess the performance and reliability of the water pumps in real, extreme conditions of use (test of characterisation, endurance, corrosion, thermal shock in a climactic chamber, acoustic, vibration analysis, etc.)
- **Simultaneous Engineering:** all development activities are performed by an inter-divisional team in collaboration with counterparts from customers and suppliers

Once again in 2018, the work of the R&D Department made it possible to deposit several important international patents that will protect the Group's intellectual property and know-how, ensuring that it maintains a competitive advantage, with positive effects in terms of revenue and profit in the years ahead.

The work of the R&D division is carried out by a team of more than 40 people in collaboration with three universities in Italy (University of Brescia, University of Padua and University of Bergamo).

Saleri has developed and supported 2 research doctorates close to completion, 10 master's theses and various training activities in high schools. Every year, Industrie Saleri Italo S.p.A. takes on around 110 high school students on work experience placements and holds around 15 round table debates on Technical and Strategic issues.

In collaboration with the University of Graz, Saleri is involved in the development of innovative cooling systems for applications in the truck segment. The project will be completed with the supply of components to be tested directly on an engine at the university. This activity lets the Company technicians play an active role in a prestigious engineering environment while providing training on cooling systems as a whole.

8.2. Ecosustainable Thermal Management solutions

The primary objective of the entire Saleri R&D Department and, in particular, the Product Concept Department has always been to provide customers with the best cooling system solutions, anticipating their needs where possible.

In order to comply with ever more restrictive anti-pollution regulations, the "Thermal Management" question has become increasingly important in all segments of the automotive industry. The need to find ever more efficient solutions, in order to provide clients with increasingly innovative products with a high technical content, drives the thought process of every person working in the R&D Department. This way of thinking combines perfectly with the need to create solutions ever more compliant with environmental regulations as the design of more efficient products means optimising thermal management and, thus, improving performance in terms of emissions. The idea of creating innovative, efficient solutions sits well alongside the aim of creating products increasingly geared towards ecosustainability.

The main projects include:

EMP – Electro Mechanical Pump

This water pump has dual drive – mechanical and electrical – and sees a single product offer the advantages of a mechanical pump combined with the benefits of an electric pump. It is highly switchable, in terms of performance and power, with the electric drive making it possible to control the rotor speed, ensuring a very wide range of use. The presence of an electric drive also means the pump can be kept active even when the internal combustion engine is switched off or in the start & stop phase, thus avoiding localised overheating. The option of having a single pump, with centralised control leads to significant savings in terms of weight and volume. The mechanical drive uses the power generated by the internal combustion engine and ensures that the pump achieves a very high performance level. The fact that the pump can be controlled independently either mechanically or electrically enables optimal management of vehicle engine cooling and this has led to improvements in terms of energy efficiency, fuel consumption and CO_2 emissions. The strengths of this pump include the immediate switching between mechanical and electrical mode, energy savings during the vehicle warm-up phase and the possibility of a zero flow if no cooling is needed.

Research into applications for the Heavy-Duty segment

A pure research project, in collaboration with the University of Graz, looking into the possibility of reducing CO_2 emissions also for fuel-intensive vehicles.
The project believes in the potential reduction of losses by replacing mechanical pumps with electric drive hydraulic pumps. Tests performed on a 6 cylinder diesel engine showed a fuel saving. Further tests are in progress in order to demonstrate the importance of optimal thermal management in terms of fuel consumption.

Water Injection Pump

The Technical Division is developing a cooling system that injects nebulised water into the intake chamber in internal combustion engines. This helps reduce peak temperatures in the air-fuel mixture in the combustion chamber – these temperatures are the main cause of production of nitrogen oxides. As NOx are reduced, so performance improves along with consumption levels. There are additional benefits in terms of fuel optimisation (reducing NOx emissions) and increased power generated from the same amount of fuel (reduction in fuel consumption and CO_2 emissions).

Dual pump

This is the combination of two electric water pumps in a single product. It offers numerous advantages, including: the possibility to manage two separate circuits with two different liquids using a single component, the chance to expand the field of operation of the pump by combining the two circuits through an adjustment valve and the possibility of synergies thanks to economies of scale.

Research into use of alternative fluids

A research project into the use of alternative fluids - viscous and dielectric oils – to cool components such as batteries and power modules. The use of fluids of this type, in direct contact with electronic devices, combines the benefits of electrical insulation with those of effective thermal management.

8.3. Recognition and awards received

In 2018, Saleri received numerous awards and recognitions, the result of is commitment to constantly improving its processes and products. They are summarised below:

Automechanica Innovation Award

One of the five winners of the Frankfurt "Automechanica Innovation Award" (an award for automotive innovation since 1996), thanks to the EMP product

2018 Excellent EMP Supplier Award

Award received at the Global Automotive Powertrain Innovation Summit in Shanghai for supply chain excellence and the ability to satisfy customer requirements thanks to the EMP product

Cribis Prime Company

Award from business information specialist Cribis D&B for economic soundness and the utmost reliability in commercial relations

BAQ 2018 *Bollino per l'Alternanza di Qualità*

For its commitment to social issues and, in particular, its school-work project, Confindustria has awarded Industrie Saleri Italo S.p.A. the "BAQ 2018 - *Bollino per l'Alternanza di Qualità*". For some years, Industrie Saleri Italo S.p.A. has been working with the ITIS Beretta di Gardone Val Trompia (BS) upper technical school on a work-school project called "*Far Crescere per Crescere*". The project aims to make young people (more than 110 have taken part) aware of the concept of innovation, not only in relation to technical design and the product but regarding all processes on all levels

Chapter

9

Management of product quality and customer quality

Throughout Saleri's history, quality has been a starting point rather than an objective to be pursued. The Company has a Quality Department which, as well as performing normal control and prevention activities on processes and products, carries out constant monitoring to ensure that business processes are in line with the highest standards in terms of quality certification and on the origin of materials from areas affected by conflict or significant human rights violations.
Over the years, Saleri has constantly pursued continuous progress in order to adapt to – and often anticipate – the growing demands and pressures of the automotive market which is ever more attentive to product quality and safety issues. Saleri's operations sites are certified under standards ISO 9001/2015 and IATF 16949:2016. The supervisory activities carried out by the certification bodies confirm the organisation's ability to maintain product quality in line with international standards. In order to hold on to these certifications, the Company complies with the testing protocols of the bodies that carry out annual audits of the state of the Management System and business and production processes. These activities are completed by an internal audit plan duly applied to all business processes and to all departments, as well as to major suppliers.
In addition to the above, Saleri regularly monitors all feedback received from customers by recording all complaints received.

9.1. Quality management system

The Industrie Saleri Italo S.p.A. Quality Management System complies with the IATF 16949:2016 industry standard and with international regulation ISO 9001:2015. It aims to achieve the following objectives:

▶	**understand customer needs and expectations in order to increase their satisfaction levels**
▶	**involve all significant and non-significant interested parties with the aim of satisfying their needs and expectations in the Company's operating environment**
▶	**create partnerships with Supply Chain suppliers in order to help integration of upstream processes**
▶	**continuous improvement of products and processes in pursuit of the "zero defects" objective**
▶	**monitor the efficiency and effectiveness of business processes in order to measure performance compared to established targets**

Industrie Saleri Italo S.p.A. has made the following commitments to help it achieve these objectives:

▶	**guarantee high quality standards for its products**
▶	**guarantee constant technological research in order to offer increasingly innovative products that appeal to customers**
▶	**work with customers and suppliers to guarantee product safety throughout period of use**
▶	**listen to customer voice by assessing customer satisfaction and reviewing possible complaints**
▶	**inform customers of potential risks regarding use of products, as well as related environmental impact where relevant.**

The decision to invest in quality is necessary in order to compete on a global market. It is all the more necessary for a business that designs, manufactures and sells components and products for which safety is essential. The focus on quality and safety is apparent from the earliest stages of the product life cycle and all modern methods are used in order to improve the products and avoid possible errors that could lead to very significant costs if they are not identified in time.
In 2018, the Quality Management System was constantly monitored and adapted to new market demands by complying with IATF 16949:2016 and ISO 9001:2015.
In July 2018, after an independent audit by TÜV NORD, the Company achieved its goal of obtaining certification that its QMS was in line with standard IATF 16949 and regulation ISO 9001:2015; all of the applicable requirements were fully satisfied.
A supervisory audit will be carried out in 2019 as part of the three-year duration of the certificate which is scheduled to expire in September 2021. 100% of Industrie Saleri Italo S.p.A. products are manufactured based on the standard described above and this also guarantees full compliance with product related health and safety requirements.

9.2. Customer complaints policy

Industrie Saleri Italo S.p.A. pays great attention to the handling of customer complaints, an issue key to the development of the business. The following is assessed in relation to every complaint filed by a customer, whether in relation to the production lines ("at 0km" complaints) or the network (complaints "from the field"):

- ▶ **the foundation of the claim**
- ▶ **an analysis of any defects using all of the data available for each item launched on the market by Industrie Saleri Italo S.p.A.**
- ▶ **seek out the root cause with the highest Problem Solving approach standards**
- ▶ **implementation of corrective measures designed to eliminate the causes and subsequent analysis of the effectiveness of these measures**
- ▶ **use of the Lesson Learned to extend corrective measures effectively implemented through constant updating of FMEA process**
- ▶ **feedback to customer through closure of complaint with presentation of 8D on web site where the customer can assess the action taken and award a rating that also contributes to customer satisfaction**

The following table contains some details of the complaints made by customers and received in 2018 for both types of complaint recorded by the Company:

No of "at 0km" complaints	No of complaints "from the field"
241	115

Industrie Saleri Italo S.p.A. systematically handles the analysis process for warranties with car manufacturers: it examines all components returned under warranty by customers and performs a detailed investigation into the causes of malfunction for each of them; where possible the components are tested in bays set up to reproduce the defect or show that there is no problem with the return and it can be classified as NTF (No Trouble Found).

The test results are used to determine the percentage of responsibility of Industrie Saleri Italo S.p.A. and the car manufacturer based on the terms of the Warranty Agreement. A Technical Factor is determined and used to establish the amount of the refund requested from Industrie Saleri Italo S.p.A. by the client car manufacturer.

Chapter

10

Supply chain management

Saleri's objectives include the establishment of solid partnerships with its suppliers in pursuit of quality and the creation of an environment geared towards safety, innovation and technological development. By creating strategic partnerships, both parties gain a competitive advantage and the cooperation enables them to resolve problems in a proactive manner, to boost know-how and, finally, to find innovative solutions in line with market requirements.

10.1. Supply chain management policy

Industrie Saleri Italo S.p.A. is aware that doing business responsibly requires a first person commitment to raising awareness of key issues along the entire supply chain. Numerous initiatives have been undertaken in order to guide suppliers towards a process of development of sustainability issues. These include the publication of related policies on the Company web site www.saleri.it. The "Policies" section of the website includes:

The environmental policy

The Ethical Code

The policy on Conflict Minerals

Guidelines for responsible trade

Respect for the principles set out in the above documents is an essential prerequisite for the establishment of any commercial relationship with Industrie Saleri Italo S.p.A. and this is stated in the Company's general terms of business. In the medium/long-term. Industrie Saleri Italo S.p.A. intends to involve its commercial partners even more actively by organising audits and having them complete self-assessment questionnaires on sustainability issues. All suppliers are selected after comprehensive screening of the production capability and product quality as performed by the Industrie Saleri Italo S.p.A. Supplier Quality Assurance team in compliance with the IATF16949 certification.

10.2. Description of the supply chain

The Industrie Saleri Italo S.p.A. Sourcing Department invests many of its human and technical resources in the consolidation of relations with the Company's long-standing vendors. It does so while seeking to expand its body of suppliers, looking to the market for potential new partners.

In short, the supplier management process provides for the gradual consolidation of existing supplier relations, the development and improvement of the quality system and the production processes of key and less key suppliers, market surveys and assessments of new vendors, all in order to extend the global vendor map towards Far Eastern and European countries.

The objectives provide, in general, for major development of supplier partnerships, an improvement in product technical/quality aspects and optimisation of negotiating, procurement and logistics processes. All matters regarding the identification of the supplier, ordering methods, price setting and lead time and planned and managed in accordance with the IATF certification.

The items purchases include raw materials and components:

- the raw materials purchased directly by Industrie Saleri Italo S.p.A. are aluminium alloys;
- the components purchased are products made of aluminium alloys, steel, plastic, rubber and rare-earth elements.

Components are supplied in rough form, as semi-finished goods, finished goods and/or assembled items. The performance of the Industrie Saleri Italo S.p.A. Sourcing division is measured based on KPIs determined based on the Company's quality system; in more detail, the KPIs regard:

- reduction in the number of suppliers;
- the number of audits performed during the year;
- the level of certification of the vendor list.

Vendor performance is subject to qualitative documents and the company vendor rating, currently under review.

10.3. Environmental assessment of suppliers

Industrie Saleri Italo S.p.A. is aware of the fact that its environmental impact also depends on the impact generated by its suppliers to which it entrusts activities and engagements. Potential environmental impacts regard:

WASTE

ATMOSPHERIC EMISSIONS

NOISE POLLUTION

WATER DISCHARGES

Therefore, in its management system, Saleri has established and outlined its practices in order to assess the environmental impacts of its suppliers and prevent impacts not compliant with laws, regulations and its environmental policy. Moreover, the Company is committed to spreading its environmental policy and its sustainability principles to its suppliers.

Based on the criteria established, Industrie Saleri Italo S.p.A. assigns different levels of criticality to its products and services and performs checks on supplier purchases regarding the products and services identified. Specifically, the organisation checks processes, products and services provided externally when they are considered critical i.e. when:

- the products and services of external suppliers are destined to be incorporated in the products and services of the organisation;
- a process or a part thereof is provided by an external vendor as a result of a decision by the organisation;
- a process supplied by an external vendor involves indirect environmental issues that could have an impact on the Company's environmental performance;
- a process supplied by an external vendor falls within the scope of application of Legislative Decree 81/08.

The procurement process provides for:

- the setting of requirements for products and services purchased;
- assessment, selection, rating, monitoring of performance and reassessment of suppliers;
- testing to ensure that products and services purchased fulfil requirements.

All of the suppliers (and contractors) subject to this procedure are subject to assessment. In principle, the assessment involves rating the Supplier's organisation based on parameters including:

- ability to meet contractual requirements in terms of orders completed;
- technical, technological and professional capabilities as shown by machinery, plant, equipment and controls;
- professional capacity, qualifications, certifications;
- ability to meet legal, technical safety and quality requirements e.g.:
  - presence of any licences or concessions specifically provided for by applicable law for the supply of goods or services in question (e.g. transportation or disposal of waste, transportation of chemical products subject to ADR rules, supply of safety cards, obligatory qualifications, etc.);
  - compliance with Legislative Decree 81/08 (appointments, safety plan, equipment compliant with regulations, working procedures, etc.) as regards contractors;
- ability to guarantee checks on environmental/safety issues, with particular regard to those directly connected with activities carried out on behalf of the Company.

In particular, during the assessment process (both initial and subsequent), the Supplier is assessed based on analysis of specific factors. These factors are set out in the Approved Suppliers and Contractors schedule – list and assessment – which lists the Suppliers identified and, for each of them, the assessment is performed awarding a score in each of the above fields (where relevant in each case).

The average score obtained determines the Supplier rating:

- Q = supplier approved (score ≥ 2.5)
- QR = supplier conditionally approved (1.5 < score < 2.5)
- QS = approval suspended (score ≤ 1,5)

Legislative compliance requirements must be satisfied in full, otherwise the Supplier is automatically suspended. The assessment is performed annually by the RSGAS ("Officer in charge of the Environment and Safety Management System"). Information may be gathered by obtaining and evaluating documentation, examining the Supplier's performance based on current and past experience, possible visits to Supplier premises (also in the form of an audit), etc.

Obviously, the result of the assessment determines whether the Supplier continues to be used. Generally speaking, the choice of Suppliers to operate within the business depends on criteria such as quality, compliance with environmental and safety requirements, assessment of technical capability, nature of goods/service, price/value for money.

In 2018, Industrie Saleri Italo S.p.A. assessed 93 suppliers and 65 of them were given a critical rating of 1 i.e. important in terms of safety and the environment. Once supplier was replaced because it received a score < 1.5. Meanwhile, a second supplier was replaced because of its score of <2.5 (the threshold for full approval). In the first case, the supplier had certain non-compliance issues with regard to laws and regulations on waste disposal. In the second case, the supplier was not sufficiently proactive and careful. In both cases, the suppliers were replaced by other companies – one new supplier and one existing one.

Chapter

11

Saleri and social issues

Industrie Saleri Italo S.p.A. has been operating since the 1940s and has also shown a strong attachment to its local area. The Company was founded by Italo Saleri and is now in its fourth generation of Saleri family ownership. The Company headquarters have been in the Lumezzane area since Industrie Saleri Italo S.p.A. was founded and the Company has always played an active role in improving the living standards and working conditions of the Val Gobbia area. It has contributed towards the economic development of the area which came to be known as the "Valley of Gold" in the 1980s.
The great many initiatives carried out for the local community have touched many different sectors: construction of sports facilities, support for cultural projects ("Felice Saleri" library), sponsorship of local sports groups/teams, establishment of a Day Centre for Disabled People, establishment of a supply chain which prioritises local businesses, where possible. More specifically, since 2018, the Company has been participating in the "Light of Reason" project which aims to deliver reading and multimedia materials to the homes of people with mobility problems.
Since 2015, Industrie Saleri Italo S.p.A., together with other companies in the Brescia area, has been a member of the "Welstep" business network which aims to support business welfare.
It is this commitment to the local community that enables Saleri to strengthen its links with scientific and educational institutions, with young people in general and to promote a culture of interest in issues regarding sport, education, solidarity and the environment. Industrie Saleri Italo S.p.A.'s commitment to social issues – and to the school-work experience project – is confirmed by the fact that Confindustria has awarded the Company the "BAQ 2018 - *Bollino per l'Alternanza di Qualità*".
For many years, Industrie Saleri Italo S.p.A. has been working with the ITIS Beretta di Gardone Val Trompia (BS) Technical School on a school-work experience project called "*Far Crescere per Crescere*". This project aims to raise the awareness of young people (more than 110 have now taken part) to the concept of genuine innovation, not only in relation to technical design and the product, but involving all processes at every level.
In terms of its environmental impact on the local area, the Company has moved its headquarters from the centre of Lumezzane to the town's industrial area thus reducing the impact of vehicular traffic. In 2018, together with other companies, Saleri contributed to the Municipal project to widen access roads to the industrial area. As part of an energy efficient plan, the Company intends to adopt metering systems that will provide more accurate information on consumption levels.
The main types of project supported by Saleri in 2018 are summarised below together with the number of beneficiaries of each type.

Type of activity	Total donated (€)	No of recipients
Health and prevention	**2,000**	3
Community and assistance	**44,500**	13
Culture, history, traditions	**33,562**	5
Sport	**17,800**	3
Environment	**2,500**	4
Emergencies	**5,000**	2
Total	**105,362**	30

Chapter

12

GRI Content Index

12.1. Perimeter and impact of material issues

The following table lists the sustainability issues considered material for Saleri, together with the related GRI Sustainability Reporting Standards referred to in this document and the issues referred to by Legislative Decree 254/16.

Material topic	Correlation with GRI Standards	Boundary of impact	Type of impact
Economic performance and sustainable development	Economic performance	Industrie Saleri Italo	Caused by Industrie Saleri Italo
Product innovation and sustainability	-	Industrie Saleri Italo	Caused by Industrie Saleri Italo
Appropriate risk management	-	Industrie Saleri Italo	Caused by Industrie Saleri Italo
Business integrity and regulatory compliance	Anti-corruption Anti-competitive behaviour	Industrie Saleri Italo	Caused by Industrie Saleri Italo
Occupational health and safety	Occupational health and safety	Industrie Saleri Italo Employees	Caused by Industrie Saleri Italo
Diversity and equal opportunity	Diversity and equal opportunity Employment Non-discrimination	Industrie Saleri Italo	Caused by Industrie Saleri Italo
Training and skills development	Training	Industrie Saleri Italo	Caused by Industrie Saleri Italo
Responsible procurement	-	Industrie Saleri Italo Suppliers/Vendors	Caused by Industrie Saleri Italo
Solidarity projects	Local community	Industrie Saleri Italo	Caused by Industrie Saleri Italo
Product reliability and quality	-	Industrie Saleri Italo Customers	Caused by Industrie Saleri Italo
Fight against Climate Change	Emissions	Industrie Saleri Italo Suppliers/Vendors	Caused by Industrie Saleri Italo and to which the company contributes
Conservation of natural resources	Energy Water Effluents and waste	Industrie Saleri Italo	Caused by Industrie Saleri Italo and to which the company contributes

12.2. GRI INDEX

The Industrie Saleri Italo S.p.A. Sustainability Report for 2018 has been prepared in accordance with GRI Standards, based on the "Referenced" option.
The following table contains Industrie Saleri Italo S.p.A. information based on GRI Standards with reference to the materiality analysis performed.
For each piece of information provided, a cross reference to the relevant page of this document is provided.

GRI Standard	Disclosure	Page
102-1	Name of the organisation	15
102-2	Activities, brands, products and services	16-19
102-3	Location of headquarters	15
102-4	Location of operations	16; 20
102-5	Ownership and legal form	25-26
102-6	Markets served	20
102-7	Scale of the organisation	16; 20; 24; 32
102-8	Information on employees and other workers	32-34
102-9	Supply chain	46-47
102-10	Significant changes to the organisation and its supply chain	11
102-11	Application of precautionary approach to risk management	28-29
102-12	External initiatives	48
102-13	Membership of associations	23
102-14	Statement from senior decision-maker	10
102-16	Values, principles, standards and norms of behaviour	15; 28-29
102-18	Governance structure	25-26
102-19	Delegating authority	29
102-20	Executive-level responsibility for economic, environmental and social issues	29
102-40	List of stakeholder groups	13
102-42	Identifying and selecting stakeholders	12-13
102-43	Approach to stakeholder engagement	13
102-45	Entities included in the consolidated financial statements	11
102-46	Defining report content and topic boundaries	13-14; 49
102-47	List of material topics	13-14
102-48	Restatements of information	This is Industrie Saleri Italo S.p.A.'s first sustainability report
102-50	Reporting period	11
102-51	Date of most recent report	This is Industrie Saleri Italo S.p.A.'s first sustainability report
102-52	Reporting cycle	11
102-53	Contact point for questions regarding the report	11
102-54	Claims of reporting in accordance with the GRI standards	11
102-55	GRI content index	50-53
102-56	External assurance	54-56

Topic specific standards		Page	Omissions
GRI 200: ECONOMIC SERIES			
GRI 201: Economic performance (2016)			
103-1	Explanation of the material topic and its boundary	13-14; 49	
103-2	The management approach and its components	24	
103-3	Evaluation of the management approach	24	
201-1	Direct economic value generated and distributed	24	
GRI 205: Anti-corruption			
103-1	Explanation of the material topic and its boundary	13-14; 49	
103-2	The management approach and its components	28-29	
103-3	Evaluation of the management approach	28-29	
205-3	Confirmed incidents of corruption and actions taken	No incidents of corruption were reported during the reporting period.	
GRI 206: Anti-competitive behaviour (2016)			
103-1	Explanation of the material topic and its boundary	13-14; 49	
103-2	The management approach and its components	28-29	
103-3	Evaluation of the management approach	28-29	
206-1	Legal actions for anti-competitive behaviour, anti-trust and monopoly practices	During the reporting period there were no reports and/or complaints about failure to comply with laws or regulations and legal actions for anti-competitive behaviour, violation of anti-trust and monopoly regulations, where in or out of court.	
GRI 300: ENVIRONMENTAL SERIES			
GRI 302: Energy (2016)			
103-1	Explanation of the material topic and its boundary	13-14; 49	
103-2	The management approach and its components	38	
103-3	Evaluation of the management approach	38	
302-1	Energy consumption within the organisation	38	
GRI 303: Water (2016)			
103-1	Explanation of the material topic and its boundary	13-14; 49	
103-2	The management approach and its components	39	
103-2	Evaluation of the management approach	39	
303-1	Interactions with water as a shared resource	39	

Topic specific standards		Page	Omissions
GRI 305: Emissions (2016)			
103-1	Explanation of the material topic and its boundary	13-14; 49	
103-2	The management approach and its components	39	
103-2	Evaluation of the management approach	39	
303-1	Direct (Scope 1) GHG emissions	39	
305-2	Energy indirect (Scope 2) GHG emissions	39	
GRI 306: Effluents and waste (2016)			
103-1	Explanation of the material topic and its boundary	13-14; 49	
103-2	The management approach and its components	40	
103-3	Evaluation of the management approach	40	
306-2	Waste by type and disposal method	40	
GRI 400: SOCIAL SERIES			
GRI 401: Employment (2016)			
103-1	Explanation of the material topic and its boundary	13-14; 49	
103-2	The management approach and its components	32-33	
103-3	Evaluation of the management approach	32-33	
401-1	New employee hires and employee turnover	33	
GRI 403: Occupational health and safety (2018)			
103-1	Explanation of the material topic and its boundary	13-14; 49	
103-2	The management approach and its components	36-37	
103-3	Evaluation of the management approach	36-37	
403-1	Occupational health and safety management system	36	
403-2	Hazard identification, risk assessment and incident investigation	37	
403-3	Occupational health services	36-37	
403-4	Worker participation, consultation and communication on occupational health and safety	36-37	
403-5	Worker training on occupational health and safety	37	
403-6	Promotion of worker health	36-37	
403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	36-37	
403-9	Work-related injuries	37	
GRI 405: Diversity and equal opportunity (2016)			
103-1	Explanation of the material topic and its boundary	13-14; 49	
103-2	The management approach and its components	33-34	
103-3	Evaluation of the management approach	33-34	
405-1	Diversity of governance bodies and employees	26; 34	

Topic specific standards		Page	Omissions
GRI 406: Non-discrimination (2016)			
103-1	Explanation of the material topic and its boundary	13-14; 49	
103-2	The management approach and its components	28-29	
103-3	Evaluation of the management approach	28-29	
406-1	Diversity of governance bodies and employees	No incidents of discrimination were reported during the reporting period	
Product innovation and sustainability			
103-1	Explanation of the material topic and its boundary	13-14; 49	
103-2	The management approach and its components	41-43	
103-3	Evaluation of the management approach	41-43	
Appropriate risk management			
103-1	Explanation of the material topic and its boundary	13-14; 49	
103-2	The management approach and its components	28; 32; 37; 38	
103-3	Evaluation of the management approach	28; 32; 37; 38	
Skills training and development			
103-1	Explanation of the material topic and its boundary	13-14; 49	
103-2	The management approach and its components	34-35; 37	
103-3	Evaluation of the management approach	34-35; 37	
Responsible procurement			
103-1	Explanation of the material topic and its boundary	13-14; 49	
103-2	The management approach and its components	46-47	
103-3	Evaluation of the management approach	46-47	
Product reliability and quality			
103-1	Explanation of the material topic and its boundary	13-14; 49	
103-2	The management approach and its components	44-45	
103-3	Evaluation of the management approach	44-45	
Solidarity projects			
103-1	Explanation of the material topic and its boundary	13-14; 49	
103-2	The management approach and its components	48	
103-3	Evaluation of the management approach	48	

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**INDEPENDENT AUDITOR'S REPORT
ON THE VOLUNTARY AND INDIVIDUAL NON-FINANCIAL STATEMENT PURSUANT TO ARTICLE 3, PARAGRAPH 10 OF LEGISLATIVE DECREE No. 254 OF DECEMBER 30, 2016 AND ART. 5 OF CONSOB REGULATION N. 20267 OF JANUARY, 2018**

**To the Board of Directors of
Industrie Saleri Italo S.p.A.**

Pursuant to article 3, paragraph 10, of the Legislative Decree no. 254 of December 30, 2016 (hereinafter the "Decree") and to article 5 of the CONSOB Regulation n. 20267/2018, we have carried out a limited assurance engagement on the individual and voluntary Non-Financial Statement of Industrie Saleri Italo S.p.A. (hereinafter "Saleri" or the "Company") as of December 31, 2018 prepared on the basis of article 3 and 7 of the Decree, presented in the specific section of the report on operations and approved by the Board of Directors on May 24, 2019 (hereinafter the "NFS").

Responsibility of the Directors and the Board of Statutory Auditors for the NFS

The Directors are responsible for the preparation of the NFS in accordance with articles 3 and 4 of the Decree and the "*Global Reporting Initiative Sustainability Reporting Standards*" established in 2016 by GRI – Global Reporting Initiative (hereinafter "GRI Standards") which they have identified as reporting framework.

The Directors are also responsible, within the terms established by law, for such internal control as they determine is necessary to enable the preparation of NFS that is free from material misstatement, whether due to fraud or error.

The Directors are moreover responsible for defining the contents of the NFS, within the topics specified in article 3, paragraph 1, of the Decree, taking into account the activities and characteristics of the Company, and to the extent necessary in order to ensure the understanding of the Company's activities, its trends, performance and the related impacts.

Finally, the Directors are responsible for defining the business management model and the organisation of the Company's activities as well as, with reference to the topics detected and reported in the NFS, for the policies pursued by the Company and for identifying and managing the risks generated or undertaken by the Company.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the compliance with the provisions set out in the Decree.

Auditor's Independence and quality control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. Our auditing firm applies International Standard on Quality Control 1 (ISQC Italia 1) and, accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

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Auditor's responsibility

Our responsibility is to express our conclusion based on the procedures performed about the compliance of the NFS with the Decree and the GRI Standards. We conducted our work in accordance with the criteria established in the "*International Standard on Assurance Engagements ISAE 3000 (Revised) - Assurance Engagements Other than Audits or Reviews of Historical Financial Information*" (hereinafter "ISAE 3000 Revised"), issued by the *International Auditing and Assurance Standards Board* (IAASB) for limited assurance engagements. The standard requires that we plan and perform the engagement to obtain limited assurance whether the NFS is free from material misstatement. Therefore, the procedures performed in a limited assurance engagement are less than those performed in a reasonable assurance engagement in accordance with ISAE 3000 Revised, and, therefore, do not enable us to obtain assurance that we would become aware of all significant matters and events that might be identified in a reasonable assurance engagement.

The procedures performed on NFS are based on our professional judgement and included inquiries, primarily with company personnel responsible for the preparation of information included in the NFS, analysis of documents, recalculations and other procedures aimed to obtain evidence as appropriate.

Specifically we carried out the following procedures:

1. Analysis of relevant topics with reference to the Company's activities and characteristics disclosed in the NFS, in order to assess the reasonableness of the selection process in place in light of the provisions of article 3 of the Decree and taking into account the adopted reporting standard.

2. Comparison between the financial data and information included in the NFS with those included in the individual financial statement of Industrie Saleri Italo S.p.A..

3. Understanding of the following matters:

   - business management model of the Company's activities, with reference to the management of the topics specified by article 3 of the Decree;
   - policies adopted by the Company in connection with the topics specified by article 3 of the Decree, achieved results and related fundamental performance indicators;
   - main risks, generated and/or undertaken, in connection with the topics specified by article 3 of the Decree.

   Moreover, with reference to these matters, we carried out a comparison with the information contained in the NFS and the verifications described in the subsequent point 4, letter a).

4. Understanding of the processes underlying the origination, recording and management of qualitative and quantitative material information included in the NFS.

   In particular, we carried out interviews and discussions with the management of Industrie Saleri Italo S.p.A. and we carried out limited documentary verifications, in order to gather information about the processes and procedures which support the collection, aggregation, elaboration and uploading of non-financial data and information to the department responsible for the preparation of the NFS.

   In addition, for material information, taking into consideration the Company's activities and characteristics:

   - at company's level:

     a) with regards to qualitative information included in the NFS, and specifically with reference to the business management model, policies applied and main risks, we carried out interviews and gathered supporting documentation in order to verify its consistency with the available evidence;

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b) with regards to quantitative information, we carried out both analytical procedures and limited verifications in order to review, on a sample basis, the correct aggregation of data.

- for the site of Lumezzane (BS - Italy), which we selected based on its activities, its contribution to the performance indicators and its location, we carried out site visits, during which we have met the local management and have gathered supporting documentation with reference to the correct application of procedures and calculation methods used for the indicators.

Conclusion

Based on the work performed, nothing has come to our attention that causes us to believe that the NFS of the Industrie Saleri Italo S.p.A. as of December 31, 2018 is not prepared, in all material aspects, in accordance with article 3 of the Decree and the GRI Standards, with reference to the selection of GRI *Standards*.

DELOITTE & TOUCHE S.p.A.

Piergiulio Bizioli
Partner

Brescia, Italy
June 7, 2019

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

RESILIENCE

OUR ATTITUDE, OUR STRENGTH

Resilience is managing to find unimaginable strength to take action, looking beyond the immediate present, towards a better future.

Fausto Timelli - Know How Leader

Section

II

Directors' report on the Consolidated Financial Statements at 31 December 2018

Letter from the Chairman

Dear Shareholders,

The global economy continued to grow in the year just ended, albeit at a slower than forecast rate. The International Monetary Fund has revised downwards slightly its global GDP growth forecast for 2019 and 2020. The main reasons for the revised global growth forecast are the negative impact of the trade tension between the United States and China, the weak performances on several key economies – especially in Asia and Europe – and the monetary tightening pursued by the ECB.

The slowdown has also affected the Automotive industry, the Saleri Group's key market segment. In the first quarter of 2019, the five largest European markets, which account for 76% of total new vehicle registrations, recorded a 3.2% decrease compared to the same period of 2018 with diesel vehicle registrations down by 16.6% in the quarter. Various tensions in Europe and internationally and the slowdown of the global economy lead us to expect some difficult months ahead.

In this particularly complex economic situation, the year 2018 was one dense in events with a positive and a negative effect on the Saleri Group and its performance.

Indeed, the results for the year just ended were achieved thanks to the concrete response by Saleri Group people to the adversity caused by the fire which caused damage in excess of € 25 million and put the Group's operational, commercial and financial future at risk. The results reported in the financial statements show that operating losses have been contained and appropriate insurance pay-outs obtained. While revenues have decreased, operating margins and net profit have improved compared to prior year.

We must highlight the support provided, unhesitatingly, by all Saleri Group stakeholders, confirming the strong relationships that that the Group has managed to establish over time but, also and above all, the strategic importance of the Saleri Group in the business segment in which it operates.

Therefore, our special thanks go to: the new Shareholders who, despite a background of uncertainty, helped us complete the recapitalisation operation; the banks that supported the business with its temporary situation of financial distress; our customers and suppliers who made every effort to adapt to the operational reorganisation of the Group immediately after the fire.

Last but not least in terms of importance, we must offer our heartfelt thanks to the people of the Saleri Group, the individuals who work for the organisation with dedication on a daily basis. "THANK YOU" to each and every one of them for what they have done during this particular year and for what, I am sure, they will continue to do to ensure the Group's future growth and development.

Nonetheless, the intangible effects of the fire will continue to be felt in 2019. To date, we have fallen behind to a certain extent in achieving our forecast production efficiency targets and with the launch of certain commercial expansion and product development initiatives. Against the background of a negative market situation, these effects could lead to the downwards revision of the results forecast for the year ahead.

The year 2019 will be fundamental for the Saleri Group in doing the groundwork for its future development. A number of important product development projects have already been launched – with special attention to innovative projects regarding the electrification of the Automotive industry – the systematic search for external growth opportunities, the reorganisation of internal information systems and the strengthening of the management team.

In 2018, the Saleri Group saw its revenues from Sales fall from € 169.1 million to € 157.4 million (-€ 11.6 million, of which € 4.2million due to the deconsolidation of subsidiary Italacciai and € 7.4 million of revenues lost because of reasons attributable to the fire).

EBITDA has increased from € 19.9 million in 2017 to € 21.3 million in 2018 (+ € 1.3 million and + 1.7pp as a percentage of revenues).

The consolidated net profit of € 3.7 million is in line with prior year.

Adjusted Net Financial Indebtedness amounts to € 43.6 million and has decreased by € 27.2 million (or by € 25.6 million with a like-for-like scope of consolidation) compared to prior year.

In the last two years, the key financial ratios have improved significantly: the ratio of Adjusted Net Financial Indebtedness to Consolidated Equity has improved from 7.0x in 2016 to 1.0x in 2018 while the ratio of Adjusted Net Financial Indebtedness to EBITDA has improved from 6.9x in 2016 to 2.0x in 2018.

This year, for the first time, parent company Industrie Saleri Italo S.p.A. presents its "Non-Financial Statement", a detailed report on the strategies adopted, the actions taken and the results achieved by the Company in its pursuit of sustainable economic growth and in its attempts to reduce the environmental and social impacts of its activities.

All significant events that affected the year 2018 and which are expected to characterise the years ahead are dealt with in detail in the following pages. Drawing on the experience gained, we wish to continue to grow in order to consolidate the Group's position in one of the world's most competitive manufacturing segments, generating work opportunities and value for the shareholders.

This Directors' Report has been prepared as an accompaniment to the Consolidated Financial Statements and presents the Group situation in detail, a description of the main risks and uncertainties to which the Group is exposed and the ways in which business development may be expected. Further information can be found in the Notes to the Consolidated Financial Statements.

We present for your review and approval the Consolidated Financial Statements (comprising the Balance Sheet, the Income Statement, the Statement of Cash Flows and the Notes) for the Group headed by Industrie Saleri Italo S.p.A. for the year ended 31 December 2018.

Lumezzane, 24 May 2019

Basilio Saleri

Note on reporting methodology

In order to make it easier to understand the economic and financial performance of the Saleri Group, we note the following with regard to the results reported in this Report:

- The Directors have identified certain Alternative Performance Indicators ("API"). These indicators also help the Directors to identify operating trends and make decisions regarding investments, the allocation of resources and other operational issues. The Income Statement, Balance Sheet and Statement of Cash Flows are presented in reclassified, Management Accounts format. This is in order to make it possible to perform a comparison with indicators for the sector or with the information issued periodically by the Group to its Stakeholders.

- In order to enable the results to be read and understood on a consistent basis for all of the reporting periods, the following was done when preparing the Management Accounts:

  - the insurance pay-out of € 22,473 thousand received (and reported in the separate financial statements of parent company Industrie Saleri Italo S.p.A. under Income Statement line item A5 b)) is reported as follows in the reclassified Income Statement in this Directors' Report (i) as a reduction to the specified cost items directly relating to and resulting from the fire, (ii) as compensation for the loss of contribution margin suffered as a result of lower revenues generated because of fire-related reasons and (iii) for portion of the pay-out relating to capitalised costs, under extraordinary income items. The specific allocation of the insurance pay-out to costs incurred and directly attributable to the fire was made possible thanks to the meticulous accounting treatment of said costs under specific cost centres or line items in accordance with the terms attached to the insurance policy;

  - compared to the Italian GAAP-based classification, as reflected in the Notes to the Financial Statements and in other schedules included in the Financial Statements, reclassification adjustments have been made in order to provide the most appropriate representation of the performance of the Saleri Group. For example, costs for customer indemnities, classified against revenues in accordance with Italian GAAP, have been reclassified to extraordinary expenses insofar as non-recurring;

  - also, when the Directors' Report was prepared, certain account balances were disclosed separately in order to bring them more into line with Management Accounting purposes; the corresponding prior year figures were also restated accordingly;

  - prior year figures are reported before the effect of changes in the scope of consolidation. A comparison based on a like-for-like scope of consolidation is provided in the Notes to the Financial Statements, where considered appropriate. Reference should also be made to the Notes for details of the main variances relating to the deconsolidation of Italacciai S.r.l..

The APIs have been chosen and set out in the Directors' Report because the Directors believe that:
- Net Financial Indebtedness, together with other performance indicators such as Capex/Revenues, Net Financial Indebtedness/Equity permit a better assessment of the solidity of the balance sheet structure and the ability to repay debt;
- Net Working Capital, Fixed Capital and Net Invested Capital permit a better assessment of capacity to meet short-term commercial commitments through current assets and of the consistency between the structure of temporary applications and sources of funds;
- EBITDA and EBIT, together with other profit indicators, can show changes in operating performance and provide useful information on the Group's capacity to sustain debt; these indicators are also widely used by analysts and directors to assess performance in the segment where the Group operates.

The following should be noted for a proper interpretation of the APIs:
- The APIs are determined solely based on the historical information of the Saleri Group and are not indicative of the Group's future performance. The APIs are not regulated by ITAGAAP or by IFRS and, even though they are derived from the consolidated financial statements of Industrie Saleri Italo S.p.A., they are not audited. The APIs must not be considered as replacing the indicators provided for by ITA GAAP. The APIs shall be read together with financial information obtained from the financial statements. As the APIs are not defined by ITA GAAP, the methods used by the Group to calculate them might not be consistent with those adopted by other groups/companies and they might not be suitable for comparison. The APIs used by the Group have been calculated on a consistent basis for all periods for which financial information is included in these Financial Statements.

Summary of Group results

€ Million

CONSOLIDATED	FY 2016	FY 2017	FY 2018	Δ 2018 - 2017	
Income Statement					
Revenue from Sales	159.7	169.1	157.4	-11.6	1
Revenue	160.0	168.8	157.5	-11.3	2
Contribution Margin	29.1	35.0	37.6	+2.6	3
Contribution Margin %	18.2%	20.7%	23.9%	+3.2%	
EBITDA	12.2	19.9	21.3	+1.3	
EBITDA %	7.6%	11.8%	13.5%	+1.7%	
EBIT	0.3	7.9	8.2	+0.3	
EBIT %	0.2%	4.7%	5.2%	+0.5%	
Profit (Loss) before taxation	(5.8)	5.2	4.3	-0.8	4
Profit (Loss) before taxation %	-3.6%	3.1%	2.8%	-0.3%	
Consolidated Profit (Loss) for the year	(4.7)	3.9	3.7	-0.3	
Consolidated Profit (Loss) for the year %	-2.9%	2.3%	2.3%	+0.0%	
Balance Sheet					
Fixed Assets	84.4	80.3	80.9	+0.6	
Trade Working Capital	9.2	10.2	8.0	-2.2	
Net Invested Capital	96.0	86.0	99.5	+13.6	5
Adjusted Net Financial Indebtedness	84.0	70.8	43.6	-27.2	6
Total Consolidated Equity	12.1	15.2	41.6	+26.5	7
Personnel and Capex					
Average Personnel	455	515	491	-24	8
Revenue per Employee (Euro thousands)	49.7	46.5	50.0	3.4	
Net Capex	22.3	7.8	13.3	+5.5	9
Key Performance Indicators					
OE Revenue	123.0	126.7	118.8	-8.0	
IAM Revenue	27.9	31.5	23.9	-7.6	10
Prototype Revenue	3.8	4.0	5.5	+1.5	
Tools Revenue	4.9	6.8	9.2	+2.4	11
Revenue from Sales	159.7	169.1	157.4	-	
Capex / Revenue	13.9%	4.6%	8.4%	-	
Adj Net Financial Indebtedness / EBITDA	6.9x	3.6x	2.0x	-	
Adj Net Financial Indebtedness / Consolidated Equity	7.0x	4.7x	1.0x	-	
ROI (EBIT / Net Invested Capital)	0.3%	9.1%	8.2%	-	
ROE (Consolidated Net Profit for the Year / Consolidated Equity)	-39.0%	26.0%	8.9%	-	
Cash Flows					
Cash Flows generated by Operating Activities	-	20.0	17.4	-2.6	
Cash Flows absorbed by Investing Activities	-	(7.4)	(13.3)	-5.9	
Cash Flows from Financing Activities	-	(7.4)	(13.8)	-6.4	
Paid Share Capital Increase	-	0.1	23.0	+22.9	
Adjusted Net Cash Flows	-	5.3	13.3	+8.0	12
Change in Receivables from Insurance Company	-	-	(14.3)	-14.3	
Net Cash Flows	-	5.3	(1.0)	-6.3	

1 Loss of revenues due to fire (€ 7.4m); deconsolidation of subsidiary Italacciai (€ 4.2m)
2 Revenue - compared to Revenue from Sales - includes trade discounts and charges to customers for project cancellation costs
3 Lower incidence of purchase costs; insurance compensation for lost revenue
4 Reduction due to lower incidence of non-recurring items
5 Increase due to recognition of receivable from Insurance Company of € 14.3m
6 Includes receivable from Insurance Company, largely collected between February and April 2019
7 Share Capital Increase of € 23m and net profit for year
8 Deconsolidation of Italacciai (-33); increase to compensate for low automation of plant installed after fire (+9)
9 Effect of capex incurred due to fire of € 6.2m (of which € 4.2m for new site in Provaglio d'Iseo)
10 Decrease of € 7.6m of which € 4.2m due to deconsolidation of subsidiary Italacciai
11 Increase in revenue from pre-production activities - projects with SOP in 2019-2020
12 Cash flows including change in receivable from Insurance Company as it relates to costs incurred and compensated during the period (receivable collected in amount of € 13.6m between February and April 2019)

Note: For details of these items, see the Balance Sheet contained in this Directors' Report and the information provided in the section "Note on Reporting Method" for a better understanding of the amounts and the alternative performance indicators.

Economic value generated and distributed

This section contains details of the economic value generated by the Group and distributed among the stakeholders, as prepared in accordance with GRI standards.
The table below has been prepared distinguishing between three levels of economic value – that generated, that distributed and that retained by the Saleri Group. Economic value represents the overall wealth created by the Saleri Group which is subsequently divided among the various stakeholders: suppliers (operating costs), collaborators, lenders, shareholders, public administration and the community as a whole (external donations).

€ Million

Economic Value Generated by the Group	FY 2017	FY 2018	Differenza
▸ Revenue	168.8	157.5	-11.3
▸ Sundry revenue	-	2.4	+2.4
▸ Other income	1.3	1.4	+0.1
▸ Exchange differences	-	-	-
▸ Other non-recurring income	0.2	1.1	+0.9
▸ Income (Expenses) from Investments	2.5	0.5	-2.0
▸ Change in inventory (FG)	(2.1)	6.5	+8.6
(A) Total Directly Generated Economic Value	170.7	169.3	-1.4

€ Million

Economic Value Distributed by the Group	FY 2017	FY 2018	Differenza
▸ Remuneration of Suppliers	124.5	122.7	-1.8
▸ Remuneration of Collaborators	24.8	25.9	+1.1
▸ Remuneration of Lenders	3.5	2.5	-1.0
▸ Remuneration of Shareholders	-	-	-
▸ Remuneration of PA	1.2	0.7	-0.6
▸ Donations	0.1	0.1	-0.0
(B) Economic Value Distributed	154.0	151.7	-2.3

€ Million

Economic Value Retained by the Group	FY 2017	FY 2018	Differenza
▸ Depreciation & Amortisation	11.2	11.7	+0.5
▸ Provisions	0.9	1.4	+0.5
▸ Adjustments to Financial Assets	0.7	0.8	+0.1
▸ Use of Provisions	-	-	-
▸ Profits not distributed	3.9	3.7	-0.3
(A-B) Economic Value Retained	16.7	17.6	+0.9

Note:
Revenues are reported as reclassified in the Management Accounts and include trade discounts granted to customers; Sundry Revenue includes the insurance pay-out received in compensation for the compensation margin lost because of the fire; Remuneration of Lenders includes financial expenses on bank loans; Remuneration of Suppliers includes purchases of goods and services, on an accrual basis; Remuneration of Shareholders includes the payment of dividends or financial expenses on loans; Remuneration of the PA - Public Administration - includes taxes paid; Donations include charity and support for social projects.

Chapter

1

Ownership and governance structure

1.1. Operations on the share capital of Industrie Saleri Italo S.p.A.

The recapitalisation of parent company Industrie Saleri Italo S.p.A. was completed on 24 May 2018 with the full subscription of the approved share issue of € 23,000,000.
Therefore, from 24 May 2018, the share ownership of Industrie Saleri Italo S.p.A. was as shown in the following table.

Shareholders	%	No of Shares
► El.Fra Holding S.r.l.	56.34%	1,761,898
Basilio Saleri	60.00%	1,057,139
Giovanna Maria Saleri	40.00%	704,759
► Quaestio Capital SGR S.p.A. per Quaestio Italian Growth Fund	26.60%	831,648
► Luca Saleri	8.50%	265,684
► Mariacristina Saleri	4.89%	153,000
► Annacaterina Marella Saleri	3.67%	114,767
Total	100.00%	3,126,997

On 24 May 2018, the Ordinary Shareholders' Meeting of Industrie Saleri Italo S.p.A. appointed a new Board of Directors and Board of Statutory Auditors. Details are provided on the following pages.

The new financial resources together with the reinforcement of the management team are designed to accelerate the Group's plans for growth and to enable it to assess strategic acquisitions with a view to the implementation and consolidation of the product range and the reinforcement of the Group's global presence. The objective of the Saleri Group is to enter the regulated equity market in the next three years.

Quaestio Italian Growth Fund is one of the leading funds specifically dedicated to medium-sized listed Italian companies. It may invest up to 40% of its resources in unlisted companies with ambitious plans for growth and which see the Stock Market as a decisive means of medium/long-term growth and development. Quaestio Italian Growth Fund seeks to be a partner, offering a financial contribution but also playing an active, supporting role in the creation of value in order to bring out out even more of the Saleri Group's potential.

1.2. Corporate offices

Industrie Saleri Italo S.p.A. has adopted a traditional administration and control model characterised by the presence of:

- the Shareholders' General Meeting, held in ordinary and extraordinary sessions, and called upon to pass resolutions in accordance with the law and the Articles of Association;
- the Board of Statutory Auditors, called upon to supervise (i) observance of the law and the articles of association, as well as respect for principles of good management in carrying out corporate activities, (ii) the appropriateness of the organisational structure, the risk management and internal control system and the accounting / administrative system, (iii) risk management and (iv) the audit of the financial statements and auditor independence;
- the Board of Directors, appointed to carry out company management and administration.

The administration and control model is completed by the presence of the Supervisory Board which was established following the adoption of an Organisation, Management and Control Model in terms of Legislative Decree 231/2001 with effect from April 2018.

Membership of the Board of Directors

The current Board of Directors has nine members, including two executive directors and seven non-executive directors (five were appointed from the list presented by shareholders El.Fra Holding S.r.l., Luca Saleri, Mariacristina Saleri and Annacaterina Marella Saleri and four from the list presented by shareholder Quaestio Italian Growth Fund).

After acting as Deputy Chairman and Managing Director until May 2018, Sergio Saleri, the second born child of Group founder Italo Saleri, now holds the position of Honorary President.

THE MEMBERS OF THE BOARD OF DIRECTORS ARE AS FOLLOWS:

CHAIRMAN AND MANAGING DIRECTOR

Basilio Saleri

Appointed as Managing Director and Chairman of the Board of Directors in 2013. He is also the Chairman and Managing Director of El.Fra Holding S.r.l., holding company of Industrie Saleri Italo S.p.A., and of Immobiliare Industriale S.r.l., subsidiary of Industrie Saleri Italo S.p.A.. He also sits on the Board of Directors of Saleri Shanghai Co., Ltd, the Chinese subsidiary of Industrie Saleri Italo S.p.A.

DIRECTOR IN CHARGE OF FINANCE

Matteo Cosmi

Appointed as CFO and Managing Director in May 2018 after acting as Temporary Manager with the roles of CFO and CRO from February 2017. Was founder and director of Fingiaco, a financial advisory company specialising in Debt Advisory, M&A and performance improvement services.

DIRECTOR

Sergio Bona

Has a degree in Construction Engineering from Milan Polytechnic. He is also Managing Director of Sabim S.r.l. and Simpafin S.r.l., companies operating in the real estate segment.

DIRECTOR

Giorgio Garimberti

Has a degree in Mechanical Engineering from the University of Bologna. Joined VM Motori S.p.A. as Production and Factory Manager in 1987, becoming its General Manager a year later and acting as Managing Director from 2007 until 2017. Is currently a member of the FCA directors' committee.

HONORARY PRESIDENT

Sergio Saleri

DIRECTOR

Wilhelm Becker

Has a degree in Business and Economics. Began his carrier in with BMW in 1976, working in logistics. In 1987, he was appointed Global Material Planning Senior Vice President and, in 2000, he became the Strategic Head of the Group's small vehicles division, holding this role until 2007. He currently sits on the Boards of Directors of several important companies in the automotive industry as well as providing strategic consultancy services.

DIRECTOR

Alberto Bartoli

Managing Director of Gefran S.p.A. since 2018. An Italian Chartered Accountant with a degree in Business and Economics from the University of Parma. He joined Sabaf S.p.A. as CFO in 1994, becoming a Director for the period 1997 – 2017 and holding the position of Managing Director from 2012 until 2017. Also holds several honorary offices in various Associations.

DIRECTOR

Alessandro Potestà

Has a degree in Business and Economics from the University of Turin. Between 2008 and 2011, he filled management roles in the Investment and Corporate Development Divisions for the IFIL Group (now EXOR). Is currently Senior Portfolio Manager with Quaestio Capital Management SGR S.p.A.

DIRECTOR

Massimo Colli

An Italian Chartered Accountant and Registered Auditor with a degree in Business and Economics from the Luigi Bocconi Business University. He has 40 years of audit experience with Ernst&Young, specialising in listed companies in the banking and finance sector. Works as a lecturer at Luigi Bocconi Business University and at the Training Academy for the Order of *Dottori Commercialisti* ("Chartered Accountants") in Milan and is head of internal training courses in Ernst&Young for the audit of banks.

DIRECTOR

Simona Heidempergher

As a degree in Economic and Social Studies from the Luigi Bocconi Business University. Holds the position of Chief Investment Officer with the Merifin Europe SA Group as well as sitting on the Boards of Directors of several listed companies with the role of independent director.

Membership of the Board of Statutory Auditors

The Board of Statutory Auditors, as appointed by the Shareholders' General Meeting on 24 May 2018 until the date of the General Meeting convened to approve the 2020 financial statements, has three members. The Chairman of the Board of Statutory Auditors was appointed from the list submitted by shareholder Quaestio Italian Growth Fund.

Francesco Facchini	CHAIRMAN
Andrea Gabola	STATUTORY AUDITOR
Roberta Lecchi	STATUTORY AUDITOR

External auditors

The Ordinary Shareholders' General Meeting of Industrie Saleri italo S.p.A. held on 23 November 2017 appointed Deloitte & Touche S.p.A. to audit the separate financial statements of Industrie Saleri Italo S.p.A. and the consolidated financial statements of Saleri until the date of the General Meeting convened to approve the 2019 financial statements.

On 31 July 2018, the Board of Directors of Industrie Saleri Italo S.p.A. approved the extension of said engagement to include the audit of the six-monthly separate financial statements of Industrie Saleri Italo S.p.A. and consolidated financial statements of the Saleri Group.

Deloitte & Touche S.p.A.

1.3. Saleri group organisation and activities

The Group operates through manufacturing and commercial companies in Italy, China and Germany, all of them controlled by parent company Industrie Saleri Italo S.p.A.. Manufacturing activities are carried out by:

- PARENT COMPANY INDUSTRIE SALERI ITALO S.P.A.
- CHINESE SUBSIDIARY SALERI SHANGHAI CO., LTD
- SUBSIDIARY ITALACCIAI S.R.L. *

German subsidiary Saleri GmbH provides commercial support in Munich. Subsidiary Immobiliare Industriale S.r.l. manages an industrial property that has been leased to a company outside the Saleri Group.

* Note that, as of the present date, the entire investment held by Industrie Saleri Italo S.p.A. was about to be sold following the signature of a sale and purchase agreement, whose execution is deferred, to sell the entire investment to a third party buyer.

Industrie Saleri Italo S.p.A.

Industrial parent company, designs, manufactures and sells water pumps and cooling systems for the automotive market in the Original Equipment and Independent Aftermarket segments.

Saleri Shanghai Co. Limited

95%

INVESTMENT HELD BY INDUSTRIE SALERI ITALO S.P.A.

Incorporated in 2008 (local shareholder owns 5% interest), manufactures and sells water pumps for the automotive industry, as destined for European manufacturers with factories in Asia; also sells the parent company products destined for the Independent Aftermarket segment.

Italacciai S.r.l.

66.71%

INVESTMENT HELD BY INDUSTRIE SALERI ITALO S.P.A.

Interest acquired in January 2017, produces bearings for water pumps for the automotive industry – Independent Aftermarket segment - at a factory in Lumezzane (note that the entire investment held by Industrie Saleri Italo S.p.A. is about to be sold following signature of an agreement, whose execution is deferred, to sell it to a third party buyer).

Immobiliare Industriale S.r.l.

62.50%

INVESTMENT HELD BY INDUSTRIE SALERI ITALO S.P.A.

Established in 2015 following the spin-off of the real estate assets of Italpresse Industrie S.p.A. (former subsidiary of Industrie Saleri Italo that was sold to third parties in 2015) and owner of a property in Capriano del Colle (Brescia) which is let to Italpresse Industrie S.r.l. In 2018, the company completed the sale – at a gain – of investments held by it in Société Civile Immobilière IP (99.00% investment) and in Saleri Iberica Immobiliare Industriale SL (100% investment) while the investment in Immobiliare Industriale Deutschland GmbH (100% interest) is currently under sale.

Saleri GmbH

100%

INVESTMENT HELD BY INDUSTRIE SALERI ITALO S.P.A.

Company that represents parent company Industrie Saleri Italo S.p.A. on the German market. The company is based on Munich, a strategic centre for the development of commercial and technical relations with some of the leading players on the German automobile market.

1.4. Scope of consolidation

The consolidated financial statements of the Saleri Group are prepared by Industrie Saleri Italo S.p.A.. The following companies are included in the scope of consolidation:

- INDUSTRIE SALERI ITALO S.P.A.
- SALERI SHANGHAI CO., LIMITED
- IMMOBILIARE INDUSTRIALE S.R.L.

With effect from 2018, Italacciai S.r.l. has been excluded from the scope of consolidation as the investment in said company will be sold by 30 June 2019 as per the sale and purchase agreement signed on 24 May 2019 whose execution is deferred. Saleri GmbH has been excluded from the scope of consolidation as it its immaterial.

Chapter

2

The Saleri Group and the Market

In order to make a fair assessment of the performance achieved in 2018, we present an overview of the global macroeconomic environment with particular reference to the markets where the Saleri Group has business interests.

2.1. Macroeconomic situation

If 2017 was a peak "Goldilocks Economy" year with the return of politics as a key market force, the year 2018 was one of trade conflict and interest rate fears. The dominant issue in 2019 may be identified in the search for economic policies and strategies capable of prolonging the economic cycle.
From a macroeconomic perspective, there are several factors that could intervene against the imminent global slowdown. Increased productivity and limited inflation will have a decisive impact on the monetary policy of the central banks and, ultimately, on the financial markets.

Real, global GDP growth should slow down from 3.2% in 2018 to 2.8% in the period 2019-2021. The slight downwards adjustments for the UK, the Eurozone and Japan are countered by the upwards adjustment of Russian forecasts. Production growth has remained weak with export orders falling for eight consecutive months. A number of risks continue to affect the outlook: ongoing trade tension although there have been some recent signs of improvement, a larger than expected economic slowdown in China and the effects of the process for the United Kingdom's departure from the European Union (Brexit). The main central banks have stated their intention to maintain a clearly expansionary approach for some time yet; this has led to a fall in long-term yields and a recovery in share prices.

Eurozone

In the Eurozone, the growth forecast for the current year has been revised downwards to a significant extent and inflation expectations have reduced. The slowdown is due to decreases recorded in Germany (-0.2%) and Italy (-0.1%): for Germany, the decrease is partly due to the temporary slump for the German automobile industry which has had a negative effect on the contribution of foreign demand on Eurozone growth; meanwhile, for Italy, internal demand has decreased in all areas. Spain has shown stable rates of growth (+0.6%) while there has been an acceleration in France (+0.4%).

The Executive Board of the ECB will maintain expansionary conditions for longer: it has put back the minimum horizon until which interest rates will remain unchanged to the end of 2019 and has announced a new series of focused, longer-term refinancing operations whose price conditions – to be finalised in the coming months – will take account of future economic developments. The Board is ready to use all of the means at its disposal to sustain the economy and ensure that inflation converges towards lower levels but close to 2 per cent in the medium term.

China

In China, in 2019, growth could weaken somewhat. The high level of borrowing and debt servicing in the real estate segment could depress consumer spending while capital expenditure growth could remain moderate. With a view to protecting the economy against the impact of US customs duties, the government will probably act to encourage lending and ward off the weakening of the Yuan.

North America

In North America, one of the main risks has eased off now that the USA, Mexico and Canada have agreed upon changes to the NAFTA treaty. US growth should remain above average in 2019 despite a reduction in tax incentives. The US Federal Reserve (Fed) will probably continue to increase interest rates at a steady pace. Canada and Mexico should benefit from the robust growth of the United States. In the long-term, the sizeable US public deficit could represent a risk of its trajectory becomes unsustainable.

2.2. Outlook for the automotive industry

The key indicator for the Saleri Group's OE business (84% of consolidated revenues including Tools and Prototypes) is the figure for production of engines for cars and commercial vehicles up to 3.5 tonnes (**Light Vehicle Engines**). The main destination sector regards engine manufacturers with factories in Europe (90% of OE revenues). The applications produced by the Saleri Group are installed on diesel, petrol and hybrid engines (48%, 49% and 4%, respectively). At present, the Group's main car manufacturer customers are BMW and Audi from the Volkswagen Group (52% and 12% of consolidated revenues, respectively).

Table 2.2a - Production of Engines for Light Vehicles by Geographical Area

Light Vehicle Engines	2017	2018	Δ % vs 17	IQ 2018	IQ 2019	Δ %	2019	Δ % vs 18	2017	2018	2019
	Mln Units	Mln Units		Mln Units	Mln Units		Mln Units		% of Total		
"LV Engines" Production by Geographical Area											
North America & Mexico	15.2	15.3	+0.3%	3.9	3.8	-2.5%	15.0	-2.0%	16%	16%	16%
Europe	24.0	23.3	-3.1%	6.3	5.9	-5.5%	22.9	-1.8%	25%	25%	25%
China	28.3	27.2	-3.9%	6.9	5.9	-14.2%	27.1	-0.1%	30%	29%	29%
Other Asian Countries	23.8	24.6	+3.3%	6.2	6.2	+0.2%	24.7	+0.6%	25%	26%	26%
Rest of the World	3.9	3.9	+1.5%	1.0	0.8	-21.2%	3.6	-7.3%	4%	4%	4%
Total	95.1	94.2	-1.0%	24.3	22.7	-6.7%	93.3	-0.9%	100%	100%	100%
"LV Engines" Production by European Country											
Germany/Austria	6.8	6.7	-1.5%	1.8	1.7	-2.2%	7.1	+5.7%	28%	29%	31%
Central Europe	5.6	5.4	-3.8%	1.4	1.4	-2.7%	5.5	+2.3%	23%	23%	24%
France	3.4	3.4	-2.6%	0.9	0.9	-2.0%	3.2	-4.1%	14%	14%	14%
United Kingdom	2.7	2.6	-3.6%	0.7	0.6	-14.2%	2.2	-14.4%	11%	11%	10%
Spain	1.8	1.7	-10.3%	0.4	0.4	-1.9%	1.6	-2.30%	8%	7%	7%
Italy	1.6	1.5	-7.0%	0.4	0.3	-22.0%	1.3	-15.2%	7%	6%	5%
Turkey	0.8	0.8	-1.2%	0.2	0.2	-22.3	0.6	-19.4%	3%	3%	3%
Russia	0.7	0.7	+11.6%	0.2	0.2	+1.3%	0.7	-2.0%	3%	3%	3%
Sweden	0.5	0.5	-2.6%	0.1	0.1	+2.0%	0.6	+7.7%	2%	2%	2%
Other European Countries	0.1	0.1	+11.3%	-	-	+19.2%	-	-35.9%	0%	0%	0%
Total	24.0	23.3	-3.1%	6.3	5.9	-5.5%	22.9	-1.8%	100%	100%	100%

Source:
IHS, figures updated to 30 April 2019

Global Performance in 2018

In 2018, global production of LV Engines totalled 94.2 million units with a year on year decrease (albeit a small one of -1%) for the first time after eight years. The production areas with the greatest impact on the decrease were Europe (25% of global production; -3.1%) and China (30% of global production; -3.9%), as partially offset by the production increases recorded in Other Asian Countries (+3.3%) and in North America & Mexico (+0.3%).

The recessionary trend is also confirmed by actual figures for IQ 2019. Global production has decreased by 1.6 million units compared to IQ 2018 (-6.7%) with clear reductions recorded in China (-14.2%) and Europe (-5.5%), as dragged down by the double digit decreases in Italy, the United Kingdom and Turkey (which together account for around 20% of European production).

Table 2.2b - European Production of Engines for Light Vehicles by Manufacturer

Light Vehicle Engines	2017	2018	Δ % vs 17	IQ 2018	IQ 2019	Δ %	2019	Δ % vs 18	2017	2018	2019
	Mln Units	Mln Units		Mln Units	Mln Units		Mln Units		% of Total		
"LV Engines" Production Europe by Manufacturer											
Volkswagen	5.7	5.7	-1.0%	1.5	1.5	-2.2%	5.9	+3.6%	24%	24%	26%
Renault-Nissan-Mitsubishi	3.8	3.7	-4.8%	1.0	0.9	-7.8%	3.5	-5.7%	16%	16%	15%
PSA	3.3	3.1	-4.4%	0.8	0.9	+4.3%	3.2	+2.0%	14%	14%	14%
Ford	2.2	2.0	-7.7%	0.6	0.5	-17.3%	1.8	-12.2%	9%	9%	8%
BMW	2.1	2.0	-4.5%	0.6	0.5	-3.9%	2.1	+4.9%	9%	9%	9%
Daimler	2.0	2.0	-2.5%	0.5	0.5	-4.9%	2.0	-0.5%	8%	9%	9%
FCA	1.5	1.3	-13.7%	0.4	0.3	-17.5%	1.2	-12.3%	6%	6%	5%
Hyundai	0.6	0.5	-5.2%	0.1	0.1	-1.5%	0.5	-3.1%	2%	2%	2%
Toyota	0.5	0.6	+12.4%	0.2	0.1	-4.9%	0.6	-7.1%	2%	3%	2%
Other Manufacturers	2.1	2.3	+6.1%	0.6	0.6	-7.2%	2.2	-3.6%	9%	10%	10%
Total	24.0	23.3	-3.1%	6.3	5.9	-5.5%	22.9	-1.8%	100%	100%	100%
"LV Engines" Europe by Propulsion System											
ICE - Gasoline	12.8	13.1	+2.2%	3.5	3.3	-3.7%	12.8	-2.2%	53%	56%	56%
ICE - Diesel	10.6	9.2	-13.2%	2.6	2.2	-15.2%	8.1	-11.9%	44%	40%	36%
Hybrid (MHEV - HEV - PHEV)	0.4	0.7	+68.0%	0.1	0.3	+105.1%	1.5	+108.1%	2%	3%	7%
Full Electric (BEV)	0.1	0.2	+75.7%	-	0.1	+75.8%	0.4	+99.3%	0%	1%	2%
Total	24.0	23.3	-3.1%	6.3	5.9	-5.5%	22.9	-1.8%	100%	100%	100%

Note:
Source IHS; figures updated to 30 April 2019; ICE - Internal Combustion Engine; HYBRID – conventional ICE with an electric propulsion unit, including MHEV mild hybrid electric vehicles (up to 20 kW) e ICE start-stop; Full Electric (BEV) – vehicles that use an electric propulsion system powered by rechargeable batteries

The breakdown by manufacturer (European engine factories) shows differing trends for the various companies, as also affected by their own industrial and commercial dynamics. In particular, we highlight the negative performances of Renault-Nissan (-7.8% in IQ 2019 compared to IQ 2018), Ford (-17.3%) and FCA (-17.5%).
BMW reduced its production from 2.1 million engines in 2017 to 2.0 million in 2018 (-4.5%). Meanwhile, engine production has fallen by 3.9% in IQ 2019 compared to IQ 2018. However, this figure is in contrast to the sales trend reported for the same period (+1.1% year on year and + 0.1% quarter on quarter).

Meanwhile, the production trend by engine propulsion system shows a drastic slump in diesel engine production in Europe (which accounts for the bulk of global production) with its market share falling from 44% in 2017 to 40% in 2018 (a further decrease to 36% is forecast for 2019) in favour of petrol engines and new, hybrid applications. The reduction in diesel production is not a general one but regards specific countries.
In terms of sales, the largest falls were recorded in Spain (-28%), Italy (-25%), the UK (-21%) and France (-17%). Sales on the German market have gone against this trend and diesel car sales grew in January (+2.1%), February (+3.0%) and March (+2.7%).

Reasons

The reasons for these trends regard unfavourable tariffs/trade conditions, US-China trade tension and general uncertainty over US foreign policy decisions (with an impact on geolocation decisions between Mexico and the USA). In Europe, the production decrease is due to the technical and organisational effects of adoption of the Worldwide Harmonized Light Vehicle Procedure (WLTP) and to uncertainty over new, increasingly restrictive emissions regulations. Germany, in particular, has badly felt the effects of introduction of the WLTP because of the complexities encountered by manufacturers in relation to the certification process – both directly and indirectly throughout the entire industry segment.
The contrasting trends between production levels and sales levels, especially for BMW, lead us to believe that production has fallen because of decisions to destock and reduce risk in anticipation of the introduction of new production processes and applications. This trend is also confirmed by forecasts for 2019 as a whole.

Expectations for 2019

a major trend reversal is expected in the second half of 2019 with a recovery in production levels and containment of the decreases recorded in IQ. Production 93.3 million units is forecast on a global scale (-0.9% compared to 2018) with 22.9 million units forecast in Europe (-1.8%). A slight containment of the fall in diesel applications is forecast for the European market with the year-end reduction forecast at -11.9% (against -15.2% in IQ).

In confirmation of the above, a significant increase in production is forecast for the main German manufacturers in the second half of 2019. This will bring production volumes back into line with sales and recover the decreases recorded in the past 15 months. For BMW, production of 2.1 million units is forecast for 2019 as a whole (+4.9% compared to 2018) with 5.9 million units forecast for VW (+3.6% compared to 2018).

The 2019 forecasts are based on a number of assumptions:

▶	**Valid application of new configuration processes in compliance with emissions regulations**
▶	**Confirmation of growth trend for company car fleets**
▶	**An end to repressed demand, also through measures to encourage purchasing decisions**
▶	**Launch of new products by domestic manufacturers**
▶	**Capex by manufacturers in order to increase existing production capacity**

Long-term outlook

It is hard to forecast LV market trends. They are influenced by many economic and political factors, as well as by the impact of regulations on emissions reductions by 2021 and, then, by 2025 and 2030, and their impact on the plans of European carmakers. The next appointment is in September 2019 with the introduction of RDE (Real Driving Emissions) certification for all newly registered LVs and carmakers will have to be ready for it.

Figures just published by the European Environment Agency (EEA) show average new car CO_2 emissions of 118.5 grams per kilometre in 2017, a 0.4% increase compared to 2016, confirming last year's provisional figures. This is the first emissions increase since measurement started and coincides with the first year in which petrol vehicles overtook diesel vehicles in terms of new car sales.
Given that diesel car sales continued to decline in 2018, all of the signs are – unfortunately – that CO_2 will increase for a second consecutive year in 2018.

Achieving CO_2 emissions targets by 2021 – not to mention the extremely tough targets agreed recently for 2025 and 2030 – will require a very large increase in cars with alternative propulsion systems, especially electric cars.

The reality is that consumers are in no hurry to purchase electric vehicles for a range of well-known factors: high purchase prices, charging infrastructure does not cover all areas, the lack of value for money considering all autoparts of initial cost and utilisation costs with ICE versions. Currently, there are around 150,000 public charging points for electric vehicles in the EU. At least 2.8 million will be required by 2030 based on prudent estimates by the European Commission. This means an increase of almost 20-times is needed in the next 12 years. The General Secretary of the ACEA, Joannert, has called upon national governments and political leaders in the EU to make the infrastructural investments needed so that electric vehicle sales can truly take off in Europe.

2.3. Original Equipment Manufacturers for the automotive industry segment

The supply of products and services in the OEM segment is a vital part of and anticipator of trends in the global automobile industry. Autoparts suppliers, logistics companies and potential new entrants all have to monitor market trends and business models on a reciprocal basis.

The most significant issues include decisions on the production footprint positioning and sizing, in order to gain a competitive edge in a standardised competitive environment where the process is more important than the product.

The guiding factors include the competitiveness of internal capacity, decisions on economies of scale, the characteristics of internal demand or the escalation of tariff barriers. For European production, any growth in sourcing from outside the EU will be limited while some internal relocation from Western Europe to Central and Eastern Europe and to North Africa is expected. Finally, Brexit could bring about significant changes to the allocation of production, investment and inter-regional business flows.

In North America, after an initial phase of great uncertainty, the USMCA agreements between Mexico and the United States have prevented the departure of manufacturers that have made massive investment in Mexico, including Ford, General Motors, FCA and important Automotive OEMs.

It is too early to predict the timing and volume of vehicle and autopart exports that will emerge from China. For now, the volumes are fairly limited with the bulk of foreign OEMs preferring to use their installed capacity in China to serve, first of all, the Chinese model. The growth of export models will largely depend on tariff conditions. For Chinese OEMs, exports are an area of great interest, especially as a release valve in case of a decline in internal demand. So far, the performance of joint venture brands created by foreign and domestic Chinese companies has been disappointing.

Expectations for propulsion systems

Diesel

Historically, diesel engine production in Europe has recorded volumes well above the global average. In Europe, in 2018, diesel engines represented 40% of the total against just 4% in North America. The reasons like in socio-economic factors such as the incidence of the price of fuel, urban density (which limits the dispersal of CO_2) and driving style and habits.

This remains a crucial period for the future of diesel engines with a range of factors that could impact, on one way or another, the future share of this type of technology. Undoubtedly, the cost of complying with anti-pollution regulations will have an impact, as well the technological evolution of petrol engines and hybrid propulsion systems but, also, tax decisions on fuel price alignment.

After the shock due to Diesel-Gate which triggered a 12% reduction in market share in Europe, diesel production should decrease but not to a significant extent in the long-term, especially in the high level segments.

Electric

The introduction and development of technology regarding electric propulsion systems will result in certain changes to the production model of autopart suppliers. They will have to adapt rapidly by developing solutions that are as flexible and as modular as possible. The greatest success will be enjoyed by integrated solutions capable of guaranteeing more efficiency and benefits in terms of costs and weight.

In fact, Thermal Management systems will have to serve the Powertrain and Power Electronics in an integrated and systematic fashion, shifting the creation of value from the propulsion system to other vehicle components. An increase in technical solution differentiation is also forecast because of the different regulations applicable in each country.

New integrated solution embedders are now emerging although their product range should be restricted to auto industry segments with high volumes and high levels of standardisation i.e. global cars. For the upper market segments, conventional OEM-Tier1 relations should remain unchanged.

2.4. Performance of the independent aftermarket

The Independent Aftermarket segment generates a Sell-Out Value of around € 770 billion a year and includes both spare parts and related services (installation, maintenance, distribution). The water pumps spare part segment is worth around € 700 million a year (Sell-In Value, from manufacturer to distributor).

The European market absorbs around 30% of this amount i.e. around € 250 million while the Saleri Group's current market share is around 10%.

Long-term forecasts show average annual growth of 3.3% on a global scale, as follows:

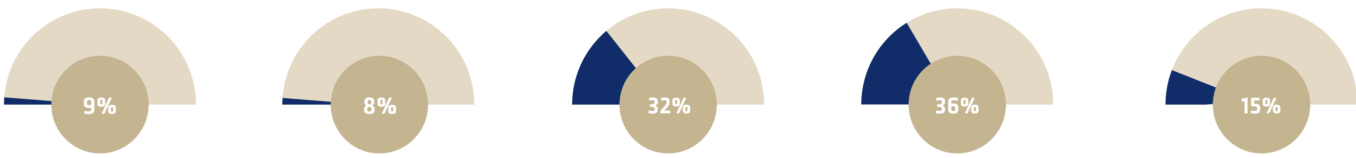
ASIA (excluding China)
9% of global value – average long-term annual growth of 6.9%

CHINA
8% of global value – average long-term annual growth of 8.8%

EUROPE
32% of global value – average long-term annual growth of 1.6%

NORTH AMERICA
36% of global value – average long-term annual growth of 1.7%

REST OF THE WORLD
15% of global value – average long-term annual growth of 1.8%



The factors that will drive Independent Aftermarket developments are summarised below:

- increase in average vehicle mileage over their lifespan, with a resulting increase in wear and tear
- increased number of cars on the roads in Europe and presence of older vehicles will sustain demand for spare parts
- changing purchasing behaviour by end customers (mechanics) who will tend to use on-line channels for purchasing decisions resulting in greater price transparency
- Big data and Analytics will become new sources of value generation, enabling predictive analysis of maintenance services
- Advanced Driver Assistance Systems (ADAS) will reduce accidents but maintenance will be required more frequently
- Greater importance of professionally operated fleets with need for various service offerings
- Electrification could result in profit shifting to players at the end of the value chain

Chapter

3

Products and markets served

3.1. Market served

Founded in 1942, Industrie Saleri Italo S.p.A. is now the parent company of an international group ("Saleri Group"), the leader in the development of Thermal Management solutions for the Automotive industry, through the design and production of mechanical, switchable and electric water pumps. The Group operates as a Tier 1 supplier in the Original Equipment segment for some of Europe's leading car manufacturers, in the premium brands segment. In the Independent Aftermarket segment - which accounts for a little under 20% of revenue - the Group has a catalogue of more than 1,000 products.

The Group's competitors are manufacturers of autoparts in the Light Vehicles segment (cars and commercial vehicles up to 3.5 tonnes).

The markets in which Saleri operates are the Original Equipment Manufacturers (OEM) segment, the Original Equipment Spare parts (OES) segment and the Independent Aftermarket (IAM).

3.2. Product Range

Any system regulated by the circulation of a fluid requires the best Thermal Management solution. Over the years, Saleri has developed Thermal Management systems that guarantee ever more advanced cooling solutions, in line with growing market demands in terms of performance and environmental protection. At present, sales consist of:

Products destined for the (OE) segment

Saleri's core business, it regards the design and manufacture of Water Pumps and more complex Cooling Systems for the OEM and OES segment. The products can be split further into the following categories:

Mechanical water pumps

These may only circulate the cooling fluid or they may act as multi-purpose components, incorporating a number of devices.

Switchable mechanical water pumps

Cooling systems divided into several sub-groups based on their operating principle which provide optimal support with temperature control strategy with the aim of reducing CO_2 production.

Electric pumps

Fully switchable electric pumps for both the main circuit and for auxiliary circuits with various power and voltage levels which can regulate the flow of cooling fluid in a high precision manner.

Electromechanical pumps

Pumps that combine electrical operation with mechanical operation as a result of their dual power supply (mechanical and electrical). EMPs (Electro-Mechanical Pumps) are highly switchable, in terms of performance and power, because the electric drive makes it possible to control the rotor speed, ensuring a very wide range of use. For example, we can say that the EMP may be electrically driven for up to 95% of its life. The presence of an electric drive also means the pump can be kept active even when the internal combustion engine is switched off or in the start & stop phase. This prevents localised overheating and offers the possibility of removing auxiliary circuits with cooling pumps dedicated to post-run cooling. The option of having a single pump, with centralised control, also makes it possible to remove a series of components from the engine compartment (e.g. piping, connectors and auxiliary pumps) with a significant saving in terms of weight and volume. The mechanical drive uses the power generated by the internal combustion engine and ensures that the pump achieves a very high performance level. This second drive function is essential in ensuring the proper cooling of the system in the toughest conditions. In fact, the current voltage levels of vehicle electrical systems – between 12V and 48V – are insufficient to handle peak workloads.

Products destined for the Independent Aftermarket (IAM)

Production and/or sale of water pumps (SIL brand or private label) and Distribution Kits in the IAM circuit. Part of the production destined for the IAM segment is carried out at the Saleri Shanghai factory in China. The types of product currently manufactured by Saleri are as follows:

Water pumps

With a catalogue of more than 1,000 products, Saleri offers excellent coverage of the European automobile market. The products, distributed under the SIL brand, are manufactured to the same technological standards as the OE segment and offer quality equivalent to the original.

Distribution kits

Saleri offers a wide range of distribution kits with water pumps. The option of a kit reduces the risk of error when identifying the produces necessary for repair/replacement as it contains a full range of distribution parts.

Development of prototypes and processes for original productions

Design, purchase or in-house production and, finally, sale of prototype tools for the mass production phase or of prototypes for OE customers.

3.3. Breakdown of sales

The following table contains a breakdown of the Saleri Group's sales by Group company, business unit, geographical area and make / trade split plus an analysis of revenue concentration:

Table 3.3 - Breakdown of Sales

CONSOLIDATED	2016	2017		2018		2016	2017	2018
	€ Million	€ Million	YoY	€ Million	YoY	% of Total		
Breakdown by Company								
Industrie Saleri Italo S.p.A.	156.2	157.9	+1%	150.5	-5%	98%	93%	96%
Saleri Shanghai Co.. Ltd	11.4	13.3	+16%	14.9	+13%	7%	8%	9%
Italacciai	-	5.0	ns	-	-100%	0%	3%	0%
Intercompany Revenue	(7.9)	(7.0)	-12%	(8.0)	+15%	-5%	-4%	-5%
Revenue	159.7	169.1	+6%	157.4	-7%	100%	100%	100%
Revenue from Water Pumps	159.7	164.8	-	157.4	-	-	-	-
Breakdown by Business Unit								
OE/OES	123.0	126.7	+3%	118.8	-6%	77%	77%	75%
IAM	27.9	27.3	-2%	23.9	-12%	17%	17%	15%
Prototypes	3.8	4.0	+5%	5.5	+38%	2%	2%	4%
Tools	4.9	6.8	+38%	9.2	+35%	3%	4%	6%
Revenue	159.7	164.8	+3%	157.4	-4%	100%	100%	100%
OE/OES	3.4	4.1	+21%	3.9	-5%	66%	70%	71%
IAM	1.8	1.8	-0%	1.6	-11%	34%	30%	29%
Prototypes	-	-	+14%	-	+36%	0%	0%	0%
Tools	-	-	+44%	-	+4%	0%	0%	0%
Units Sold	5.2	5.9	+14%	5.5	-7%	100%	100%	100%
Average Price OE/OES	36.2	30.7	-15%	30.4	-1%	-	-	-
Average Price IAM	15.9	15.5	-2%	15.3	-2%	-	-	-
Breakdown by Engine Fuel Type								
Diesel	87.2	78.2	-10	75.0	-4%	55%	47%	48%
Gasoline / Petrol	70.5	82.4	+17	76.5	-7%	44%	50%	49%
Hybrid / Other	1.9	4.2	+116	6.0	+45%	1%	3%	4%
Units Sold	159.7	164.8	+3	157.5	-4%	100%	100%	100%

CONSOLIDATED	2016	2017		2018		2016	2017	2018
	€ Million	€ Million	YoY	€ Million	YoY	% sul totale		
Make / Trading Breakdown								
Pumps Made	4.2	4.9	+16%	4.3	-13%	82%	83%	78%
Pumps Traded (IAM)	0.9	1.0	+4%	1.2	+24%	18%	16%	22%
Other	-	-	+41%	-	+124%	-	-	-
Units Sold	5.2	5.9	+14%	5.5	-7%	100%	100%	100%
Breakdown by Market of Destination								
EU (Excluding Italy)	139.3	141.1	+1%	132.3	-6%	87%	86%	84%
Italy	14.9	12.0	-20%	12.5	+5%	9%	7%	8%
China	2.2	6.0	+169%	7.3	+20%	1%	4%	5%
Rest of the World	3.3	5.7	+72%	5.4	-5%	2%	3%	3%
Revenue	159.7	164.8	+3%	157.4	-4%	100%	100%	100%
Breakdown by customer								
BMW	75.9	90.7	+20%	90.2	-1%	47%	55%	57%
Audi	22.1	22.6	+2%	19.9	-12%	14%	14%	13%
Opel (GM then PSA)	18.6	12.8	-31%	7.3	-43%	12%	8%	5%
FCA	10.0	6.5	-35%	6.9	+5%	6%	4%	4%
Other OE customers	5.2	5.0	-5%	9.2	+85%	3%	3%	6%
IAM customers	27.9	27.3	-2%	23.9	-12%	17%	17%	15%
Revenue	159.7	164.8	+3%	157.4	-4%	100%	100%	100%

The breakdown of sales shows that the Saleri Group makes the vast majority of its sales on other EU and non-EU markets while the Italian market accounts for around 8% of sales. The proportion of exports and sales revenues generated abroad, manly on markets where the various client car manufacturers have their production facilities, has remained broadly in line with prior year (92%) and will continue to remain very high, also considering the long-term production contracts already acquired.

In 2018, some 5.5 million units were sold. This was 7% lower than in prior year and in line with the drop in sales revenues, mainly as a result of the fire in January 2018.

Average selling prices have decreased by 1% in the Original Equipment segment – due to application of agreed discounts to long-term contracts – and by 2% in the Independent Aftermarket segment – due to increased competitive pressure on prices.

The number of traded water pumps increased from 1 million units in 2017 to 1.2 million in 2018 (+24%) and they now represent more than 60% (against 55% in 2017) of the water pumps sold in the Independent Aftermarket segment. The increase is a direct result of the effects of the fire which temporarily put out of use part of the production facilities used to manufacture water pumps for the Aftermarket segment.

Chapter

4

Business model and strategic approach

4.1. Competitive environment and changes in the automotive industry

The competitive environment in which the Saleri Group operates is characterised by the presence of large players (also because of a major trend of business combinations in recent times).

In the OE segment, customers include the main engine makers of international car manufacturers. The main suppliers of standard autoparts and the suppliers of raw materials are large mass-market players; for certain production activities and for non-standard component engineering, the Group uses a network of suppliers in the Brescia area. In the Independent Aftermarket segment, customers include large wholesale and retail groups with a global presence. The Saleri group's competitors include manufacturers belonging to large autopart manufacturing groups – multi-product and multi-channel – and, to a lesser extent, manufacturers of water pumps only.

The high level of contractual bargaining powers of its competitors means that the Group must focus its efforts on developing product and process solutions that anticipate mega-trends in the Automotive industry which, in short, regard a new mew model eco-sustainable urban and extra-urban mobility.

The electrification of means of transport (both propulsion systems and auxiliary circuits) is bringing about changes to general vehicle architecture.

Similarly, thermal management systems will have to be rethought in order to extend their function to include overall vehicle fluid management. Technical problems can be simulated but will only become fully apparent when production and utilisation reach mass levels.

In order to face up to these challenges, the Saleri Group has been working on pure research projects for some years, both autonomously and in collaboration with the R&D departments of leading car manufacturers. To date, the Saleri Group has developed a number of solutions based on electrically powered pumps and cooling systems for various vehicles under production. Similarly, solutions for the hybrid and electric engines that will go into mass production in the years ahead have reached an advanced stage of design and industrialisation.

4.2. Strategic approach of the Saleri Group

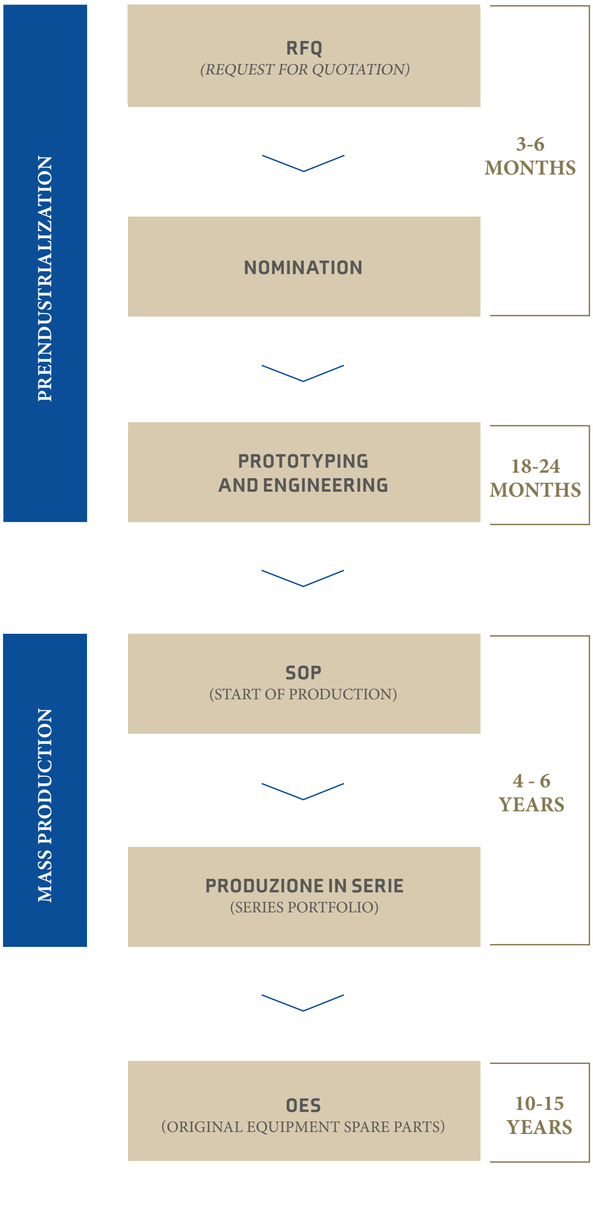
Constant attention to research activities, the development of customised technical solutions and continuous improvement of quality standards are the distinguishing features that have enabled the Group to position itself among the European leaders in the strategic autoparts segment, becoming a key partner of some of Europe's leading car manufacturers. The Group has developed its business model with several fundamental objectives in mind:

- combining economic decisions and results with ethical values
- consolidating its technological leadership in terms of the conception, design and production of Thermal Management solutions through constant attention to getting the best from internal skills and capabilities
- establishing a collaborative product & process development system together with customers and strategic suppliers. The collaborative model is based on the co-design of integrated solutions including production lines, propulsion systems and auxiliary vehicle systems. The objective is to maximise design uniformity, minimise costs, minimise quality risks and, above all, shorten the product launch cycle, a key success factor in the current competitive environment.

4.3. Process and product development cycle

In the OE segment, the Product Development and Launch Cycle is that of the contract business. This model involves, on the one hand, fairly long design, prototyping and testing phases (usually involving significant expense) while, on the other hand, it guarantees significant entry barriers and a good idea of future revenues.

Table 4.3a. Example of Product Development and Launch Cycle



RFQ

Based on broad technical specifications, sometimes pre-developed in the co-design phase, the client manufacturer requests a quotation for the mass production of an application

Nomination

Exclusive appointment to mass produce the application with long-term orders, price and discounts and recognition of costs for mass production preparatory phase.

Prototyping and Engineering

Intermediate phases are planned together with the car manufacturer - Milestones – until the Start of Production ("SOP"). Prototype tooling is produced during this phase together with Prototypes and Tooling needed for mass production. Production line testing takes place in a period between 6 and 12 months before the SOP.

Mass Production

In line with forecasts for mass production of the application, based on customer orders

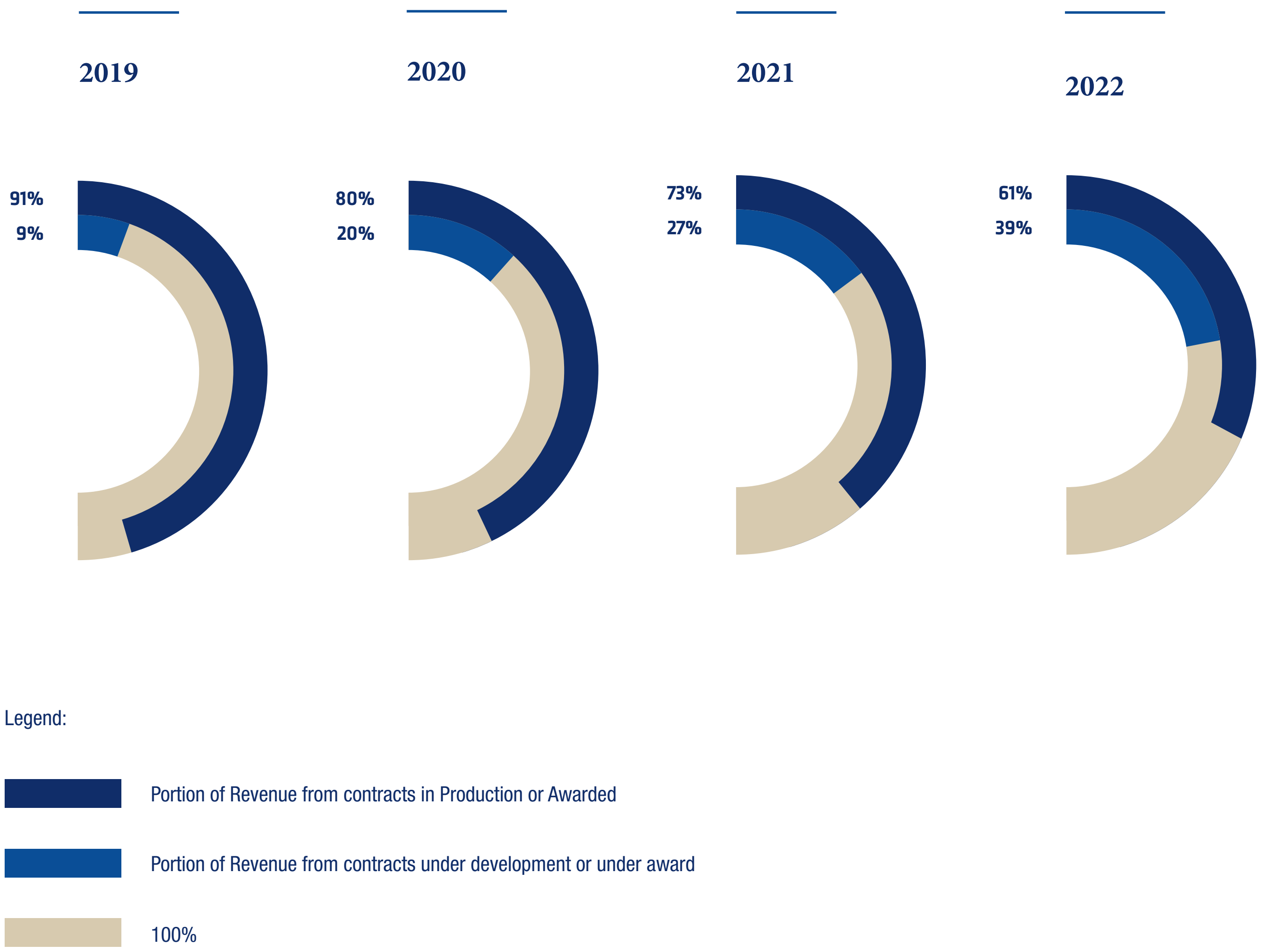
OES ("Original Equipment Spare Parts")

The manufacturer must guarantee the supply of original spare parts to the official network of the OEM ("Original Equipment Manufacturer").

The following graph shows the forecast revenue breakdown of parent company Industrie Saleri Italo S.p.A. in the Original Equipment segment (around 85% of total revenue). Figures are taken from the Business Plan 2018 - 2022 approved by the parent company Board of Directors in May 2018 and the subject of an Independent Business Review by Pricewaterhouse & Coopers.

In the period 2019-2022, more than 75% of the revenue in excess of € 650 million forecast for the Original Equipment segment comes from contracts at the mass production stage or for which Industrie Saleri Italo S.p.A. has received a formal nomination/appointment.

Table 4.3b – Visibility of forecast revenue of parent company Industrie Saleri Italo S.p.A.



Note:
Composition based on Industrie Saleri Italo S.p.A. revenue in the Original Equipment segment (around 85% of total revenue) ; Revenue from contracts in production: resulting from orders currently at mass production stage; Revenue from contracts awarded: estimated based on orders from projects for which Industrie Saleri Italo S.p.A. has received a formal nomination; Revenue from contracts at the development stage or under award: estimated based on contracts for which Industrie Saleri Italo S.p.A. has ongoing project development awarded by the customer.

4.4. Main actions taken and planned by management

As already mentioned, in recent years, the Saleri Group organisation has undergone radical change in order to face up to competitive challenges and pursue the objectives agreed with the new shareholders. The main actions already taken include:

Reinforcement of the management team in strategic functions through the recruitment of highly capable individuals with specific skills and experience in the Automotive and Industrial Automation segment

Creation of a Business Development department to identify and coordinate development projects both internally and externally

Introduction of an Executive Management Committee as a strategic body to provide support to the CEO

Improvement of integrated management systems to perform business planning and control on a Group level, promptly recording data on Group performance and providing support with budgeting and reporting. Involves implementation of CPM Tagetik software and new ERP (SAP – migration in progress and GoLive scheduled for 1 January 2020)

In the coming years, the main actions will regard the following:

- Investment in Industrial Automation by seeking our strategic partners with the aim of increasing integration between the product development and process development phases, increasing production efficiency, consolidating quality standards and pursuing continuous production improvement, also by containing production costs;
- Greater synergies with main suppliers of components;
- Planning further investment in high-performance equipment to support research, design, development, prototyping and testing activities;
- Stronger collaborations with the car manufacturers' technical departments, based on the resident-to-resident model already successfully implemented with some existing customers;
- Looking for diversification opportunities in the current customer portfolio by expanding the automotive industry product range (e.g.: trucks and heavy vehicles);
- Penetration of new geographical areas and consolidation of more mature and service oriented markets;
- Start of preparations for a stock market listing (STAR segment), to be carried out in 2019, including (i) implementation of internal audit function and (ii) migration from ITA GAAP to IAS/IFRS for financial reporting purposes.

RESILIENCE

OUR ATTITUDE, OUR STRENGTH


A sense of belonging and a strong connection with our partner-suppliers helped us get back to our feet immediately, while maintaining our identity intact.
Luigi Belleri - Sourcing Director

Chapter

5

Human resources

Saleri Group Workforce

A detailed analysis of the Saleri Group workforce is provided below (average annual figures):

Human Capital

	2016	2017	2018
Number of Employees (TOT.)	455	515	491
Difference (N°)	76	60	(24)
Average Age of Employees (YEARS)	36.9	37.3	37.5

Breakdown by Gender

Men	2016	2017	2018
Number	255	301	268
% of total	56%	58%	55%

Women	2016	2017	2018
Number	200	214	223
% of total	44%	42%	45%

Breakdown by Contract Type

Permanent	2016	2017	2018
Number	414	447	404
% of total	91%	87%	82%

Fixed term	2016	2017	2018
Number	41	68	87
% of total	9%	13%	18%

Breakdown by Working Hours

Full Time	2016	2017	2018
Number	419	479	455
% of total	92%	93%	93%

Part Time	2016	2017	2018
Number	36	36	36
% of total	8%	7%	7%

Breakdown by Education level

Degree and High School Diploma	2016	2017	2018
Number	248	279	279
% of total	54%	54%	57%

Middle School Certificate or Lower	2016	2017	2018
Number	207	236	212
% of total	46%	46%	43%

Hours of Training

	2016	2017	2018
Total Hours of Training Provided	5,534	5,835	6,317
Hours of Training per Employee (Hours of Training / Average no of Employees)	TOT. 12.2	TOT. 11.3	TOT. 12.9
Hours of Strike Action for Internal Reasons	N° 0	N° 0	N° 0
Sickness Rate (Sick Hours / Total Workable Hours)	2.51%	2.55%	2.48%

Breakdown of Trade Union Membership

	2016	2017	2018
Number of Employees who belong to trades unions	N° 127	N° 163	N° 140
	28%	32%	29%

	2016	2017	2018
Number of Employees who do not belong to trades unions	N° 328	N° 377	N° 351
	72%	73%	71%

In 2018, the Industrie Saleri Italo S.p.A. Group had an average of 491 employees (of which 410 employed by parent company Industrie Saleri Italo S.p.A.), a decrease of 24 (of which 5 for the parent company) compared to 515 employees in 2017. Excluding the 33 Italacciai employees – considered in 2017 as that company was included in the scope of consolidation – there has been a 9 employee increase compared to 2017.

In terms of the types of contract used, 404 employees are hired under permanent contracts (82%) while 87 have fixed-term contracts or are on apprenticeships (18%). Part-time employees represent 7.1% of the total (36 employees).

The different professional profiles and the variety of skills present within the Saleri Group represent an important and distinguishing feature. The level of education of the workforce is in line with the requirements of the business and 57% of employees have an upper secondary school diploma or a degree. The most junior personnel has its first contact with the Group via work experience. Some 29 persons began work experience in 2018, in line with prior years. The professional growth and development of Saleri Group employees is sustained by a continuous training program. In 2018, some 6,300 hours of training were provided to Group employees (around 5,800 hours in 2017).

The low average age of the Group employees (37.5 years) is tangible proof of a strategy that prioritises the recruitment, training and internal development of younger people rather than sourcing skills on the labour market.
Equal opportunities have always been guaranteed to Group personnel: currently, women represent 45% of the total workforce (44% in 2017).
The Group pays great attention to the family-related needs of its workers, while also taking account of organisational and production requirements.

6

Production facilities

6.1. Headquarters and location of the production facilities

Parent company Industrie Saleri Italo S.p.A. has its headquarters and main production facility in Lumezzane (BS). In Provaglio d'Iseo, still in the Brescia area, there is the new manufacturing facility which has been operational since September 2018, in place of the factory that was damaged by fire.

A further, 6,000sqm production facility in Shanghai is operated by subsidiary Saleri Shanghai Co., Ltd.

The Lumezzane factory is owned by the Group while the Provaglio d'Iseo and Shanghai facilities are leased.

Industrie Saleri Italo S.p.A. (Italy)

SALERI A
14,250 sqm
LUMEZZANE
Production and Assembly (annual production capacity of around 3 million water pumps), warehouse, offices

SALERI B
3,000 sqm
LUMEZZANE
Warehouse, Testing Area

SALERI E
8,600 sqm
PROVAGLIO D'ISEO
Assembly (annual production capacity of around 1 million water pumps), warehouse, offices

Saleri Shanghai Co. LTD (China)

ANTING TOWN
JIADING
DISTRICT
6,000 sqm
Mechanical processing/ machining, assembly (annual production capacity of around 1 million water pumps), Warehouse, Offices

6.2. Production technology

The Group has implemented a highly automated production system based on principles of modularity and flexibility. This enables it to produce with the highest levels of quality and reliability, handling a large number of variations and ever increasing volume growth. The production structure at the factories can be adapted to the small and large production runs with regard to both autopart production and assembly of finished products.

The use of advanced technology together with the development of specific know-how permits the implementation of state-of-the-art solutions and enables the optimisation of the manufacturing process while, also, guaranteeing the best use of resources.

6.3. The Lumezzane manufacturing district and the Brescia area

The origins and the growth of the Lumezzane district can be traced to the presence of natural resources in the area: water from the River Gobbia to generate hydropower and iron from the mines in Val Trompia.

The district currently covers an area of around 800 squarekilometres and is characterised by the presence of more than 200 small businesses (87% of the businesses have sales of less than € 50 million) specialising in the processing of metal products (especially, aluminium, steel and brass).

The high degree of specialisation in metal processing makes Lumezzane the global centre of brass ingot production. Gnutti, Almag and Lucchini (the last of these is now called Acciaierie Venete) are some of the leading companies in the district that have managed to establish themselves on the world stage. There has also been significant growth in manufacturers of moulds which, as well as servicing local companies, have established themselves in the automotive market. The low level of concentration is due to production cycle fragmentation, to the significant division of labour and to intensive use of sub-contracting for production processes and procurement of autoparts.

Production diversification and flexibility, together with a strong vocation for production, process innovation and efficiency are the factors on which the Lumezzane district has, historically, constructed its competitive edge. This situation has enabled Lumezzane businesses to benefit from the high levels of productivity and quality associated with specialisation without sacrificing the objective of cost containment. In any case, cost containment is achieved by encouraging competition among suppliers.

The high volume, high quality production capacity has given Lumezzane a strong presence on international markets (on average exports account for 70% of its revenues).

7

Fire and resulting activities

On 11 January 2018, fire broke out at the leased factory premises in Lumezzane (known as Saleri C), as used for production, shipment and storage activities – the fire was accidental.
As a result of the fire, the ground floor and the first floor and everything contained therein (sundry equipment, finished goods, semi-finished goods and components) were totally destroyed. Production lines used to assemble water pumps were only partially damaged but were rendered unusable.
Damage was also incurred by the adjacent building and by other assets owned by third parties (leased). Luckily, no persons were injured in the fire. Management swiftly took steps to limit the impact on general operating activities, on production levels and, therefore, on customer service and to maintain commitments towards all stakeholders.

In more detail, the Business Recovery measures adopted regarded:

Securing the building and recovering production line modules, as far as possible

Reorganising the production process at the other factories in order to minimise the production shutdown

The prompt launch of the damage assessment process with the appointed loss adjusters

The above activities were possible also thanks to the cooperation of many customers and suppliers.
A new production site was quickly identified in the Municipality of Provaglio d'Iseo (BS). It was leased and the production lines and part of the logistics activities were relocated there from June 2018 onwards. Production commenced in 2018 and work on preparing the site for full operations were completed in September 2018.
Industrie Saleri Italo S.p.A. is covered by insurance policies with a HDI Assicurazione S.p.A. (a leading insurance company) for all of the types of damages suffered. The maximum insurance amount proved sufficient to cover the damages suffered. In order to minimise the time taken to collect insurance compensation, the Company requested separate pay-outs, as provided for by the general policy terms. In 2018, insurance playout agreements were signed in relation to Goods (items in inventory), Plant and Machinery, Third Party Assets (present in the Saleri C building at the time of the fire) and Indirect Damages (regarding the contribution margin lost because of the reduction in sales revenue and the additional costs incurred because of the fire).

The total insurance compensation confirmed in 2018 was:

€ 22,473 Including:

AGREED AND DOCUMENTED IN MARCH 2018

€ 8,150

Agreed and documented in March 2018 and paid out in April 2018

AGREED AND DOCUMENTED IN DECEMBER 2018

€ 14,323

Agreed and documented on 28 December 2018 (a receivable for said amount is recorded in the Balance Sheet), of which € 13,667 thousand was paid out in February and April 2019 with € 656 thousand expected to be collected in 2019

The compensation due to third parties unfortunately damaged by the fire has yet to be finalised – this regards the leased property and the adjacent production activity.

Parent company Industrie Saleri Italo S.p.A. has sufficient insurance cover also in relation to the likely amount of these damages.

Reference should be made to the Notes to the Financial Statements for more details of the balance sheet, financial and income statement effect of the fire and its consequences.

Table 7.1 - Summary of amounts indemnified and to be indemnified following the fire

Amounts in € Thousands

	Compensation	Paid in 2018	Paid in 2019	Not yet paid	Date received
Inventory	8,150	8,150	-	-	April 2018
Plant, Machinery, Indirect Damages	13,667	-	13,667	-	Feb. / April 2019
Other Items	656	-	-	656	by end of 2019
Total	22,473	8,150	13,667	656	

Chapter

8

Consolidated results

8.1. Overview of the consolidated results of the Saleri Group

The income statement and balance sheet highlights of the companies included in the Group Scope of Consolidation are set out below. Consolidated Net Profit for the year amounts to € 3,689 thousand. Consolidated Shareholders' Equity amounts to € 41,623 thousand, of which € 4,112 thousand pertains to Non-Controlling Interests.

All of the companies in the Scope of Consolidation have reported profits. The following tables have been prepared on a Management Accounting basis as described in more detail in the introductory "Note on Reporting Methodology" to which reference should be made.

Table 8.1a - Consolidated Results for 2018

Income Statement 2018	Industrie Saleri Italo	IAS 17	Industrie Saleri Italo (IAS 17)	Saleri Shanghai	Immobiliare Industriale	Consol. Adj.	Consolidated
► Revenue	150,550	-	150,550	14,938	883	(8,877)	157,493
► EBITDA	13,337	3,773	17,110	3,361	787	4	21,262
% of Revenue	8.9%	-	11.4%	22.5%	89.1%	0.0%	13,5%
D&A / Provisions	(8,289)	(3,235)	(11,524)	(1,220)	(333)	-	(13,077)
► EBIT	5,048	537	5,586	2,141	454	4	8,185
► Profit before taxation	2,063	174	2,237	1,231	872	4	4,344
► Consolidated Profit (Loss) for the Year	2,057	84	2,141	865	680	3	3,689
Balance Sheet at 31 December 2018	**Industrie Saleri Italo**	**IAS 17**	**Industrie Saleri Italo (IAS 17)**	**Saleri Shanghai**	**Immobiliare Industriale**	**Consol. Adj.**	**Consolidated**
Fixed Assets	57,261	16,775	74,037	3,639	10,975	(7,762)	80,888
Trade Working Capital	6,650	-	6,650	1,532	(2)	(178)	8,001
Other Current Assets and Liabilities and Provisions	11,274	(2,258)	9,016	1,829	(243)	35	10,637
► Net Invested Capital	75,186	14,517	89,703	6,999	10,730	(7,905)	99,527
Net Financial Indebtedness	43,459	12,052	55,510	1,926	467	-	57,903
Adjusted Net Financial Indebtedness	29,136	12,052	41,187	1,926	467	-	43,580
► Total Consolidated Shareholders' Equity	31,727	2,466	34,192	5,073	10,263	(7,905)	41,623

Table 8.2b - Consolidated Results for 2017

Income Statement 2017	Industrie Saleri Italo	IAS 17	Industrie Saleri Italo (IAS 17)	Saleri Shanghai	Italacciai	Immobiliare Industriale	Consol. Adj.	Consolidated
► Revenue	157,874	-	157,874	13,269	4,955	890	(8,184)	168,804
► EBITDA	10,388	6,151	16,539	2,189	271	675	242	19,917
% of Revenue	6.6%		10.5%	16.5%	5.5%	75.9%	-3.0%	11.8%
D&A / Provisions	(6,821)	(3,500)	(10,322)	(1,205)	(120)	(325)	(94)	(12,066)
► EBIT	3,567	2,650	6,217	984	151	350	148	7,850
► Profit before taxation	1,737	2,057	3,794	340	50	516	469	5,170
► Consolidated Profit (Loss) for the Year	1,459	1,486	2,946	192	50	440	321	3,948

Balance Sheet at 31 December 2017	Industrie Saleri Italo	IAS 17	Industrie Saleri Italo (IAS 17)	Saleri Shanghai	Italacciai	Immobiliare Industriale	Consol. Adj.	Consolidated
Fixed Assets	52,490	19,147	71,637	3,944	1,242	11,481	(7,974)	80,330
Trade Working Capital	8,421	-	8,421	2,121	1,723	(1)	(2,107)	10,157
Other Current Assets and Liabilities and Provisions	(3,692)	(2,810)	(6,502)	1,575	(1,191)	(29)	1,611	(4,536)
► Net Invested Capital	57,219	16,337	73,556	7,640	1,774	11,451	(8,470)	85,951
► Net Financial Indebtedness	50,549	13,361	63,911	3,383	1,621	1,868	-	70,783
Adjusted Net Financial Indebtedness	50,549	13,361	63,911	3,383	1,621	1,868	-	70,783
► Total Consolidated Shareholders' Equity	6,670	2,976	9,646	4,256	153	9,583	(8,470)	15,168

8.2. Consolidated income statement

The reclassified consolidated income statement of the Group is set out below:

Table 8.2 - Reclassified Consolidated Income Statement

CONSOLIDATED	FY 2016		FY 2017		FY 2018		Δ 2018 - 2017	
	€ Million	% of Revenue	€ Million	% of Revenue	€ Million	% of Revenue	€ Million	% of Revenue
Revenue from Sales, net	158.4	100.0%	167.7	100.0%	156.3	100.0%	-11.5	-
Sundry Revenue	1.6	1.0%	1.1	0.6%	1.2	0.8%	+0.2	+0.2%
Revenue	160.0	101.0%	168.8	100.6%	157.5	100.8%	-11.3	+0.2%
Direct Cost of Production	(113.1)	(71.4%)	(114.4)	(68.2%)	(101.6)	(65.0%)	+12.8	+3.2%
Other Variable Production Costs	(5.1)	(3.2%)	(4.8)	(2.8%)	(5.6)	(3.6%)	-0.9	-0.8%
Cost of Production Labour	(12.8)	(8.1%)	(14.6)	(8.7%)	(15.0)	(9.6%)	-0.3	-0.9%
Insurance Indemnity (Loss of Contr. Margin)	-	-	-	-	2.4	1.5%	+2.4	+1.5%
Contribution Margin	29.1	18.3%	35.0	20.9%	37.6	24.1%	+2.6	+3.2%
Fixed Personnel Costs	(9.8)	(6.2%)	(9.4)	(5.6%)	(9.6)	(6.1%)	-0.2	-0.6%
Other Indirect Costs	(7.0)	(4.4%)	(5.7)	(3.4%)	(6.8)	(4.3%)	-1.0	-0.9%
Indirect Costs	(16.8)	(10.6%)	(15.1)	(9.0%)	(16.4)	(10.5%)	-1.3	-1.5%
EBITDA	12.2	7.7%	19.9	11.9%	21.3	13.6%	+1.3	+1.7%
D&A	(11.0)	(6.9%)	(11.2)	(6.7%)	(11.7)	(7.5%)	-0.5	-0.8%
Provisions	(0.9)	(0.6%)	(0.9)	(0.5%)	(1.4)	(0.9%)	-0.5	-0.4%
Provisions	(11.9)	(7.5%)	(12.1)	(7.2%)	(13.1)	(8.4%)	-1.0	-1.2%
EBIT	0.3	0.2%	7.9	4.7%	8.2	5.2%	+0.3	+0.6%
Financial Income (Expenses)	(4.0)	(2.5%)	(3.5)	(2.1%)	(2.4)	(1.6%)	+1.0	+0.5%
Non-Recurring Income (Expenses)	(2.2)	(1.4%)	0.8	0.5%	(1.4)	(0.9%)	-2.2	-1.4%
Profit (Loss) before Taxation	(5.8)	(3.7%)	5.2	3.1%	4.3	2.8%	-0.8	-0.3%
Taxation	1.1	0.7%	(1.2)	(0.7%)	(0.7)	(0.4%)	+0.6	+0.6%
Consolidated Profit (Loss) for the Year	(4.7)	(3.0)%	3.9	2.4%	3.7	2.4%	-0.3	+0.0%
Profit (Loss) pertaining to Non-Controlling Interests	0.2	0.1%	0.2	0.1%	0.3	0.2%	+0.1	+0.1%
Consolidated Profit (Loss) pertaining to Group	(4.9)	(3.1)%	3.8	2.2%	3.4	2.2%	-0.4	(0.1)%

Notes:
see the introductory "Note on Reporting Methodology" for an understanding of the principles adopted when preparing these schedules.

In 2018, the Saleri Group saw its revenues fall from € 168.8 million to € 157.5 million (- € 11.3 million, including - € 7.1 million considering a like for like scope of consolidation, a year on year decrease of 4.3%).
This decrease is attributable to the consequences of the fire that occurred on 11 January 2018 at the Parent Company's factory in Lumezzane (known as Saleri C). Part of the insurance pay-out received as compensation for the loss of contribution margin on the revenues lost because of the fire has been recorded here in the amount of € 2.4 million (with regard to the calculation of the damages with the insurance company - see the introductory "Note on the Reporting Methodology"). The rest of the insurance pay-out offsets the higher costs increased, among them higher variable production costs (mainly maintenance and shipping) and the increase in production labour costs due to greater utilisation of assembly area personnel because of the temporary use of production lines with a low level of automation in the period after the fire.

Therefore, despite the fall in sales, the Contribution Margin has increased from €35 million in 2017 to € 37.6 million (+ € 2.6 million and +3.2% as a percentage of revenues). The improvement has been driven by a significant reduction in direct production costs (-3.2% compared to 2017).

Indirect costs, totalling € 16.4 million, have increased by € 1.3 million compared to prior year but remain below their 2016 level.

EBITDA has increased from €19.9 million in 2017 to € 21.3 million (+ € 1.3 million and + 1.7pp as a percentage of revenues).

EBIT has increased from € 7.9 million in 2017 to € 8.2 million in 2018 (+ € 0.3 million or +0.6pp as a percentage of revenues). There have been increases in depreciation and amortisation (amounting to € 11.7 million, + € 0.5 million compared to 2017) and in allocations to the provision for risks (€ 1.4 million, + € 0.5 million compared to prior year); the latter increase relates to quality risks expected as a result of the temporary production set-up introduced in the aftermath of the fire.

Financial expenses have decreased by € 1.0 million compared to prior year thanks to a reduction in the cost of borrowing (down by around (of around 60 bps) and a reduction in financial payables (€ - 12.9 million compared to prior year) due to loan repayments (long-term loans and finance lease liabilities), as well as to lower utilisation of overdraft facilities.

There were net extraordinary expenses of € 1.4 million.
As a result of the profits reported by all subsidiaries and the accompanying taxable income, the overall tax charge is negative (- € 0.6 million) and has resulted in a Consolidated Net Profit for the year of € 3.7 million – of which € 0.3 million pertaining to Non-Controlling interests and € 3.4 million pertaining to the Group.

8.3. Consolidated balance sheet

The Group's reclassified Consolidated Balance Sheet is set out below:

Table 8.3 - Reclassified Consolidated Balance Sheet

CONSOLIDATED	Dec-16	Dec-17		Dec-18	
	€ Million	€ Million	Δ vs 16'	€ Million	Δ vs 17'
▸ Tangible Assets	79.2	75.9	-3.3%	75.3	-0.7%
▸ Intangible Assets	4.6	4.2	-0.4%	5.6	+1.4%
▸ Financial Assets	0.6	0.2	-0.4%	0.1	-0.2%
Fixed Assets	84.4	80.3	-4.1%	80.9	+0.6%
▸ Inventory	37.1	27.2	-9.9%	30.9	+3.8%
▸ Trade Receivables	7.3	10.5	+3.2%	13.1	+2.6%
▸ Trade Payables	(35.2)	(27.5)	+7.7%	(36.0)	-8.5%
Trade Working Capital	9.2	10.2	+1.0%	8.0	-2.2%
▸ Tax Receivables (Payables)	7.1	4.2	-2.8%	5.8	+1.5%
▸ Intra-Group Receivables (Payables)	3.1	1.3	-1.8%	(0.1)	-1.4%
▸ Other Current Assets (Liabilities)	(4.2)	(3.7)	+0.6%	(4.2)	-0.5%
▸ Receivables from Insurance Company	-	-	-	14.3	+14.3%
▸ Prepaid Expenses and Accrued Income	1.1	0.1	-1.0%	0.7	+0.6%
▸ Provisions	(4.6)	(6.6)	-2.0%	(5.9)	+0.6%
Net Invested Capital	96.0	86.0	-10.1%	99.5	+13.6%
▸ Loans and Finance Leases, ST Facilities	70.5	60.9	-9.6%	49.4	-11.4%
▸ Self-Financing Facilities	11.9	13.7	+1.8%	11.3	-2.4%
▸ Current Account Facilities	1.5	(3.8)	-5.3%	(2.8)	+1.0%
Net Financial Indebtedness	84.0	70.8	-13.2%	57.9	-12.9%
▸ Adjusted Net Financial Indebtedness	84.0	70.8	-13.2%	43.6	-27.2%
▸ Share Capital and Share Premium Reserve	5.2	5.2	-	28.2	+23.0%
▸ Equity Reserves	8.2	2.4	-5.8%	6.0	+3.6%
▸ Profit (Loss) for the Year	(4.9)	3.8	+8.6%	3.4	-0.4%
Total Equity - Group	8.5	11.3	+2.9%	37.5	+26.2%
▸ Total Equity - Non-Controlling Interests	3.6	3.9	+0.3%	4.1	+0.3%
Total Consolidated Shareholders' Equity	12.1	15.2	+3.1%	41.6	+26.5%

Note:
see the introductory "Note on Reporting Methodology" for an understanding of the principles adopted when preparing these schedules.

Fixed Assets have increased by € 0.6m compared to 31 December 2017 (after the € 4.1 million decrease recorded in prior year) as a result of scheduled production capex, leasehold improvements for the launch of the new factory in Provaglio d'Iseo (leased premises) and the capitalisation of research and development costs regarding project development work of contracts already awarded or close to being awarded, minus impairment adjustments regarding fixed assets destroyed or damaged in the fire. The deconsolidation of Italacciai has had an effect of € 2.6 million.

Net Working Capital, amounting to € 8.0 million at 31 December 2018, is substantially unchanged compared to prior years although there have been some significant changes in its constituent components. Inventories have increased by € 3.8 million after decreasing by € 11.5 million in prior year. This increase may be considered exceptional as it relates to the production reorganisation in the aftermath of the fire, to an increase in tooling inventory (a decrease is expected in 2019 as a result of sales already contractually agreed) and to speculative purchases of raw materials (mainly aluminium). The increase in trade payables (+€ 8.5 million) is partly due to the inventory trend described above and partly to the payment made early in January 2019, in agreement with trade creditors, in settlement of amounts originally due for payment at the end of December 2018 (€ 5.1 million). Trade receivables have increased by € 2.6 million solely as a result of policies adopted to make working capital management more efficient, with a direct result on utilisation of non-recourse factoring facilities.

Current financial assets include the receivable from the insurance company of € 14.3 million, as described in Paragraph 7. As already stated, some € 13.7 million of the receivable has now been collected.

Net Invested Capital amounts to € 99.5 million, an increase of € 13.6 million compared to 31 December 2017.

At 31 December 2018, the Net Financial Indebtedness showed net debt of € 57.9 million. In order to provide a better understanding of financial trends in 2018, we have also shown the Adjusted Net Financial Indebtedness, including the receivable from the insurance company which, as stated, was largely collected between February and April 2019

Therefore, at 31 December 2018, the Adjusted Net Financial Indebtedness showed net debt of € 43.6 million, a decrease of € 27.2 million compared to 31 December 2017 (of which € 1.6 million is due to deconsolidation of subsidiary Italacciai)

At 31 December 2018, Consolidated Shareholders' Equity amounts to € 41.6 million (of which € 4.1 million pertaining to Non-Controlling Interests). The increase of € 26.5 million compared to prior year is due to the share capital increase subscribed and paid in May 2018 in the amount of € 23.0 million plus net profits for the year. No dividends were distributed in 2018

As a result of the above, the Adjusted Net Financial Indebtedness / Consolidated Equity ratio has improved considerably from 4.7x in 2017 to 1.0x in 2018

8.4. Consolidated cash flows

Consolidated cash flows for the year are summarised in the following table:

Tabella 8.4. Group Cash Flows

CONSOLIDATED	FY 2017	FY 2018	
	€ Million	€ Million	Δ vs 17'
Cash and Cash Equivalents at start of period	(1.5)	3.8	+5.3%
► EBITDA	19.9	21.3	+1.3%
▲▲ in Trade Receivables (incl. Factoring)	(1.2)	≤	+0.7%
▲▲ in Trade Payables	(7.8)	8.2	+16.0%
▲▲ in Inventory	9.5	(4.3)	-13.9%
Change in Net Working Capital	0.5	3.4	+2.8%
Payment of Taxes	2.3	(2.4)	-4.7%
▲▲ in Other Current Assets (Liabilities)	0.7	(2.3)	-3.1%
Financial Income (Expenses)	(3.5)	(2.4)	+1.0%
Cash Flows Generated by Operating Activities	20.0	17.4	-2.6%
Capex	(7.8)	(7.1)	+0.7%
Restoration Capex after the fire	-	(6.2)	-6.2%
Change in Financial Assets	0.4	(0.0)	-0.4%
Cash Flows absorbed by Investing Activities	(7.4)	(13.3)	-5.9%
▲▲ in Financial Payables	(9.9)	(14.2)	-4.4%
Paid Share Capital Increases	0.1	23.0	+22.9%
Income (Expenses) from Investments	2.5	0.5	-2.0%
Cash Flows from Financing Activities	(7.3)	9.2	+16.5%
► Adjusted Net Cash Flows	5.3	13.3	+8.0%
Change in Receivables from Insurance Company	-	(14.3)	-14.3%
► Net Cash Flows	5.3	(1.0)	-6.3%
Cash and Cash Equivalents at end of Period	3.8	2.8	-1.0%

Note:
see the introductory "Note on Reporting Methodology" for an understanding of the principles adopted when preparing these schedules.

17.4 MILLION

CASH FLOWS GENERATED BY OPERATING ACTIVITIES

At the start of the period, cash and cash equivalents – the positive current account balances of the Saleri Group companies – amounted to € 3.8 million. Cash flows generated by Operating Activities totalled € 17.4 million, slightly lower than in 2017 (- € 2.6 million). While EBITDA increased, there was a positive change in working capital and a reduction in financial expenses, tax payments and changes in other current assets and liabilities absorbed cash totalling € 4.7 million.

Cash flows absorbed by investing activities amounted to € 13.3 million, an increase of € 5.9 million compared to prior year, mainly as a result of capex incurred as a direct result of the fire. Only a portion of this capex was covered by insurance compensation (around € 2.5 million) while the remainder was not covered as it was considered long-term by parent company Industrie Saleri Italo S.p.A.: the long-term capex included costs to fit out the new factory in Provaglio d'Iseo and to purchase new tools and machinery.

Cash flows from financing activities were positive by € 9.2 million as a result of the share capital increase subscribed and paid in May 2018 in the amount of € 23.0 million, instalments paid on loans and finance leases and lower utilisation of short-term finance. No new loans were arranged during the period. In 2018, income from investments included the proceeds from the sale of the investments held by Immobiliare Industriale S.r.l.

Adjusted Net Cash Flows - before the amount of € 14.3 million relating to the receivable from the insurance company in compensation for the costs incurred in 2018 – amount to € 13.3 million.
Therefore, net cash flows amount to € 1.0 million, resulting in a Group current account balance of € 2.8 million at the reporting date.

Chapter 9

Risk factors

The risk assessment process carried out in 2018 revealed that the Saleri Group is exposed to several risk factors, as included in the macro-categories outlined below:

9.1. Risks regarding industry trends

The Saleri Group operates mainly in the automotive industry which is affected by the following trends:

▶	**Process of concentration of market players (both assemblers and suppliers of autoparts)**
▶	**Fall in demand from mature markets accompanied by higher volumes in emerging countries – where terms of sale are somewhat different and the macroeconomic environment is unstable**
▶	**Toughening of competition with imposition of aggressive pricing policies**
▶	**Expected technological changes with means and effects not yet fully apparent**

In order to deal with this situation, the Saleri Group aims to retain and, where possible, strengthen its position of leadership by:

▶	**Anticipating market needs and developing products through established collaborations with the Group's main customers**
▶	**Developing new technologies that can guide and orient the engineering decisions of leading customers**
▶	**Maintaining high quality and safety standards which differentiate the product through the deployment of resources and the implementation of production processes that would be unsustainable for competitors**
▶	**Making production processes more efficient**

In light of these equally important risks, the Saleri Group has implemented a monitoring system that has been put in the hands of the Sales, Business Development, R&D, Strategic Marketing and Legal departments. The role of these departments is to monitor the market and market rules, designing and planning for the future development of the business.

The risks represent genuine opportunities for the Group and they must be pursued by developing products that offer better and better performance in order to provide customers with an edge in terms of lower consumption and, consequently, lower emissions.

The Group's historical customers are well aware of its capabilities and its resilience. They have confirmed their confidence in the Group by awarding it projects that will last until 2024 and beyond. The key product to enter the market in 2019 will be the EMP (Electro-Mechanical Pump), the patented finalist at the international Automechanika Innovation Award in the OE products category.

As already described in this report, the product will permit greater temperature control, fully exploiting the potential of electrical operation while significant reducing the power absorbed by the engine, leading to energy savings in terms of consumption and emissions.

The Saleri Group is aware that the need to contain consumption levels and, consequently, emissions (also because of the expected reduction in hydrocarbon availability in the near future) will have a very major impact on the entire automotive industry, including on water pumps. Therefore, it is ready to launch a new generation of "hybrid" and "intelligent" water pumps that will be able to operate indifferently with mechanical or electrical drive. This awareness forms the basis for a commitment increasingly oriented towards sustainability.

9.2. Product liability risk

The Sectors in which the Group operates are particularly demanding in terms of product quality as any defects could result in product liability towards end customers or a market recall campaign resulting in additional costs. Therefore, the Group has implemented quantity control procedures in accordance with its quality certification.

9.3. Risks regarding retention and recruitment of key resources and skills

The Group's success largely depends on the ability of its executive directors and other members of the management team to manage the Group and each business area in an effective manner. The loss of the services of an executive director, manager or other key resource as a result of organisational change and/or business restructuring without proper and timely replacement and reorganisation, as well as the inability to attract and retain new, skilled resources, could have a negative effect on the Group's business future, as well as on its operating results and/or financial situation.

The current organisational structure provides for significant involvement of line management in the decision-making personnel and, therefore, they are considered key resources. If any of these individuals should leave the Group, it could cause temporary problems with management of certain activities.
For some years, the Group has had several initiatives to increase staff loyalty. These include the granting of employee benefits, non-competition agreements and loyalty incentive agreements with key personnel.

9.4. Risks regarding failure to protect product exclusivity on the markets where the group operates

Most of the Saleri Group's products and design solutions are patented. There is a risk that competitors may infringe this patent protection and/or that the markets where such patents are infringed will not adequately defend patent holder rights. Commercial activities in countries where it is hard to enforce industrial patent rights exposes the Group to a greater risk in relation to the protection of its products. The Group has adopted structured processes to manage innovations and protect intellectual property. The Group also performs regular monitoring of the patent strategies adopted/to be adopted based on a cost/opportunity analysis.

9.5. Revenue concentration risk

The Saleri Group's products are destined mainly for the Premium automotive segment so it is inevitable that revenue is concentrated on a limited number of leading customers (BMW, Audi, Daimler GM). Customer relations are stable and long-established as cooling systems follow the path of development and production of the engine on which they are applied. There are significant entry barriers due to the high engineering content in the production process, the long development period (time to market in excess of 2 years) and the high initial investment to develop projects and processes. Compared to other sectors or segments of the same industry, revenue is relatively easy to forecast as contracts acquired tend to be long-term (in line with engine life cycles, generally 5-8 years). Sales contracts with Premium automotive customers do not provide for guaranteed minimum volumes. However, historically, the variance between budget and actual contract orders has never exceeded 5% (duly taken into account by the parent company when making production and revenue forecasts).

The leading customers in the OE segment (BMW, Audi, Daimler, GM) have excellent credit ratings, as do Independent Aftermarket segment customers which belong to large international groups.
The risk is constantly monitored through preliminary customer assessment and checks on compliance with agreed terms of payment. Some time ago, in order to reduce the risk of saturation of the segments/markets where it operates, the Group launched a strategy of diversification into other geographical areas and is currently expanding its product range, also turning its attention to the mid-premium and truck sectors.
Analysis of trade receivable balances does not show any variation in credit quality; therefore, no significant changes to commercial credit protection policy have been implemented.

9.6. Interest rate risk

The Group constantly monitors the interest rate risk in relation to its sources of finance represented by bank borrowing at variable rates of interest linked to the Euribor rate. Given current interest rate trends and the average duration of its bank borrowing (3 years), the Group prefers variable rate borrowing.

At 31 December 2018, there were IRS and Interest Rate Cap agreements with a notional amount totalling € 7.3 million and an MtM value of €- 15 thousand. These derivatives, accounted for at fair value through profit or loss, have been arranged to hedge the interest rate risk relating to medium/long-term financing agreements (loans and finance leases).

9.7. Exchange rate risk

The Saleri Group mainly operates in Euro. Except for a few transactions denominated in Euro, the Chinese subsidiary operates in Chinese renminbi. We note that, in 2018, Chinese renminbi revenue represented less than 4% of consolidated revenue so the potential impact on consolidated revenue does not appear significant. Nonetheless, the Group constantly monitors exchange rate trends and the management of activities relating to the Chinese subsidiary.

9.8. Risk of volatility of raw material prices

Aluminium alloys and, to a small extent, rare earth metals (an essential component of permanent magnets for electric engines) represent a significant portion of the Group's purchase costs. The selling prices of the Saleri Group's products are negotiated and agreed with customers in specific nomination letters. In major transactions, there is a percentage adjustment to the selling price in case of raw material price fluctuation. Such adjustments are made monthly, quarterly or annually depending on the contractual agreement. This means that the Group can pass on to the customer during the year much of any price fluctuation and is not, therefore, exposed to the risk of raw material price volatility.

9.9. Liquidity risk

The liquidity risk is usually defined as the risk that a business might be unable to fulfil its payment commitments because of difficulty in raising funds (funding liquidity risk) or in liquidating assets on the market (asset liquidity risk). This leads to a negative impact on the result for the year if the entity is forced to incur additional costs to meet its commitments or, in extreme cases, finds itself in a situation of insolvency that puts at risk its ability to operate as a going concern.

In 2018, the Group reached an agreement with the banks designed (i) to reschedule its medium-term borrowing repayments, bringing them into line with the capacity to generate cash flows for use in servicing debt as forecast in the approved Business Plan and (ii) the redetermination of the amount of its short-term borrowing.

Moreover, In order to minimise the liquidity risk, the Group's Finance and Administration Management follows a prudent approach, constantly ensuring:

- the maintenance of an appropriate level of cash by systematically checking that short-term cash inflows (receipts from customers and any other receipts) are capable of covering its cash outflows (short-term borrowing, supplier payments and other outgoings);
- the availability of funds from an appropriate amount of borrowing facilities

The Group has adopted certain management tools in order to mitigate the liquidity risk. In more detail:

- An action plan has been implemented to equip the Group companies with the best working capital management practices – this helps optimise turnover ratios and will contribute towards a reduction in inventory in the medium-term
- Prompt monitoring has been used to improve the customer invoicing and collections cycle
- Short term cash flow control and forecast systems have been implemented to guarantee the right levels of cash for the business generated by the Group

9.10. Risk of Business Interruption

In 2018, with regard to the risk of non-availability of production facilities and the interruption of their operations, also in light of the fire that occurred in January, parent company Industrie Saleri S.p.A. reviewed its Business Continuity Plan by means of a risk analysis designed to identify and assess the main potential threats to production continuity. The impact analysis was performed based on the ZHA (Zurich Hazard Analysis) technique, focussing on potential business interruption problems typical of the Company in terms of risks relating to its buildings and more general risks. The ZHA method is an inductive one and is based on input from specialists from various parts of the business.

9.11. Information technologies risk

Given the importance of the continuous operation of its IT systems, the Group has implemented specific measures such as redundancy, high-reliability systems and emergency procedures on which simulations are regularly performed in order to ensure their effectiveness also in relation to the GDPR on personal data protection and the increasing digitalisation of the production cycle (Industry 4.0).

9.12. Ethical risks

In the course of its activities, the Saleri Group applies and observes rigorous ethical and moral principles, conducting its business in full compliance with the law and market rules. Parent company Industrie Saleri Italo S.p.A. has duly adopted the Organisation and Management Model in terms of Legislative Decree no 231/2001, reorganising its activities and internal procedures in order to prevent the commission of offences under said Decree. The subsequent adoption of the Ethical Code, internal procedures to ensure compliance with the Code and the controls implemented guarantee a healthy, secure and efficient working environment for employees and an approach designed to ensure full respect for the external stakeholders. However, the Group does business with private customers, not belonging to organisations directly or indirectly controlled by governments or public sector bodies, and does not take part in public tendering processes. This further reduces the risk of reputational and economic damage resulting from ethically unacceptable conduct.

9.13. Personal data protection/privacy risk

Since the GDPR (General Data Protection Regulation) came into force on 25 May 2018, parent company Industrie Saleri Italo has implemented the internal procedures necessary to comply with the requirements of the new regulation. Accordingly, within each of its organisations, it has designated a Controller and a Processor. They, in turn, are responsible for appointing a DPO (Data Protection Officer) in cases where the processing is performed by a public authority or by a public body, except for judicial authorities, by parties whose main activities consist of processing operation that require the regular, systematic monitoring of data subjects on a large-scale, by persons whose activities consist of the large-scale processing of particular categories of personal data (sensitive data) or of data relating to criminal convictions or offences.

Chapter

10

Research and Development

The mega-trends that are revolutionising transport guide the R&D activities of the Saleri Group. For some time, the focus has been on seeking the best Thermal Management solutions for the vehicles of the future.
The key trends regarding vehicle evolution are electrification, self-drive, reduction of emissions and environmental impact, connectivity and new models of access to mobility. In 2018, R&D activities concentrated on the development of new systems in order to:

▶	**Increase the technological content of existing products in order to improve the performance of cooling systems for internal combustion engines**
▶	**Anticipate the thermal management needs of electrification autoparts (battery packs and power modules)**
▶	**Contribute towards a reduction in atmospheric emissions and fuel consumption by engines, responding to increasingly demanding anti-pollution regulations, now and in future**
▶	**Improve on competitors' patents, while maintaining system functions unchanged as well as the quality, duration and easy of assembly with automatic systems**
▶	**Improve process technologies through research into design simplifications that lead to production cost savings**

10.1. Organisation of the R&D Department

Research and development – at process level, as well as at product level – is strategic in order to remain competitive and to reinforce the positioning of the Group. Therefore, it is carried out – almost entirely by the parent company - in close collaboration with leading European car manufacturers with which new and innovative solutions are co-designed with a view to mass production at a later stage.

Research and development begins with a review of requirements and thinking of new concepts (in-house pre-development). This phase involves intensive creativity and patenting activities. Clients are then offered customised versions of the concepts developed and, once the contract has been obtained, the product/process is developed together with the client, through all phases from prototyping to mass production.

The Research and Development Department is organised into structured development areas: Technical Division, Advanced Engineering (pre-development), Electronic Design, Electric Pump Design, OE Applications Design, CAE (Computer-Aided Engineering), Project Management and Testing. The activities may be summarised as follows:

Design

New products are developed in a simulated environment, using advanced technology and software than ensure high levels of speed and reliability from the early stages of the process

Prototyping and testing

Development of test sequences to assess the performance and reliability of the water pumps in real, extreme conditions of use (test of characterisation, endurance, corrosion, thermal shock in a climactic chamber, acoustic, vibration analysis, etc.)

Simultaneous Engineering

All development activities are performed by an inter-divisional team in collaboration with counterparts from customers and suppliers

Once again in 2018, the work of the R&D Department made it possible to deposit several important international patents that will protect the Group's intellectual property and know-how, ensuring that it maintains a competitive advantage, with positive effects in terms of revenue and profit in the years ahead.

The work of the R&D Department is carried out by a team of more than 40 people in collaboration with three universities in Italy (University of Brescia, University of Padua and University of Bergamo).
Saleri has developed and supported 2 research doctorates close to completion, 10 master's theses and various training activities in high schools. Every year, parent company Industrie Saleri Italo S.p.A. takes on around 110 high school students on work experience placements and holds around 15 round table debates on Technical and Strategic issues.

In collaboration with the University of Graz, parent company Industrie Saleri Italo S.p.A. is involved in the development of innovative cooling systems for applications in the truck segment. The project will be completed with the supply of autoparts to be tested directly on an engine at the university. This activity lets Industrie Saleri italo S.p.A. technicians play an active role in a prestigious engineering environment while providing training on cooling systems as a whole.

10.2. Ecosustainable Thermal Management solutions

The primary objective of the entire R&D Department and, in particular, the Product Concept Department has always been to provide customers with the best cooling system solutions, anticipating their needs where possible.
In order to comply with ever more restrictive anti-pollution regulations, the "Thermal Management" question has become increasingly important in all segments of the automotive industry. The need to find ever more efficient solutions, in order to provide clients with increasingly innovative products with a high technical content, drives the thought process of every person working in the R&D Department. This way of thinking combines perfectly with the need to create solutions ever more compliant with environmental regulations as the design of more efficient products means optimising thermal management and, thus, improving performance in terms of emissions. The idea of creating innovative, efficient solutions sits well alongside the aim of creating products increasingly geared towards ecosustainability. The main projects include:

EMP Electro Mechanical Pump

This water pump has dual drive – mechanical and electrical – and sees a single product offer the advantages of a mechanical pump combined with the benefits of an electric pump. It is highly switchable, in terms of performance and power, with the electric drive making it possible to control the rotor speed, ensuring a very wide range of use. The presence of an electric drive also means the pump can be kept active even when the internal combustion engine is switched off or in the start & stop phase, thus avoiding localised overheating. The option of having a single pump, with centralised control leads to significant savings in terms of weight and volume.

The mechanical drive uses the power generated by the internal combustion engine and ensures that the pump achieves a very high performance level. The fact that the pump can be controlled independently either mechanically or electrically enables optimal management of vehicle engine cooling and this has led to improvements in terms of energy efficiency, fuel consumption and CO_2 emissions. The strengths of this pump include the immediate switching between mechanical and electrical mode, energy savings during the vehicle warm-up phase and the possibility of a zero flow if no cooling is needed.

Research into applications for the Heavy-Duty segment

A pure research project, in collaboration with the University of Graz, looking into the possibility of reducing CO_2 emissions also for fuel-intensive vehicles. The project believes in the potential reduction of losses by replacing mechanical pumps with electric drive hydraulic pumps. Tests performed on a 6 cylinder diesel engine showed a fuel saving. Further tests are in progress in order to demonstrate the importance of optimal thermal management in terms of fuel consumption.

Water Injection Pump

The Technical Division is developing a cooling system that injects nebulised water into the intake chamber in internal combustion engines. This helps reduce peak temperatures in the air-fuel mixture in the combustion chamber – these temperatures are the main cause of production of nitrogen oxides. As NOx are reduced, so performance improves along with consumption levels. There are additional benefits in terms of fuel optimisation (reducing NOx emissions) and increased power generated from the same amount of fuel (reduction in fuel consumption and CO_2 emissions).

Dual pump

This is the combination of two electric water pumps in a single product. It offers numerous advantages, including: the possibility to manage two separate circuits with two different liquids using a single component, the chance to expand the field of operation of the pump by combining the two circuits through an adjustment valve and the possibility of synergies thanks to economies of scale.

Research into use of alternative fluids

A research project into the use of alternative fluids - viscous and dielectric oils – to cool components such as batteries and power modules. The use of fluids of this type, in direct contact with electronic devices, combines the benefits of electrical insulation with those of effective thermal management.

Chapter

11

Recognition and awards received

In 2018, parent company Industrie Saleri Italo S.p.A. received numerous awards and recognitions, the result of is commitment to constantly improving its processes and products. They are summarised below:

Automechanica Innovation Award

One of the five winners of the Frankfurt "Automechanica Innovation Award" (an award for automotive innovation since 1996), thanks to the EMP product

2018 Excellent EMP Supplier Award

Award received at the Global Automotive Powertrain Innovation Summit in Shanghai for supply chain excellence and the ability to satisfy customer requirements thanks to the EMP product

Cribis Prime Company

Award from business information specialist Cribis D&B for economic soundness and the utmost reliability in commercial relations

BAQ 2018 *Bollino per l'Alternanza di Qualità*

For its commitment to social issues and, in particular, its school-work project, Confindustria has awarded Industrie Saleri Italo S.p.A. the "BAQ 2018 - *Bollino per l'Alternanza di Qualità*". For some years, Industrie Saleri Italo S.p.A. has been working with the ITIS Beretta di Gardone Val Trompia (BS) upper technical school on a work-school project called *"Far Crescere per Crescere"*. The project aims to make young people (more than 110 have taken part) aware of the concept of innovation, not only in relation to technical design and the product but regarding all processes on all levels.

Chapter

12

Financial relations

12.1. Results of financial restructuring plan

In May 2018, parent company Industrie Saleri Italo S.p.A. and subsidiary Saleri Shanghai Co., Ltd signed a series of bilateral agreements with their financial creditors (banks and leasing companies) designed to bring planned repayments of borrowing back into line with cash flows available to service debt as forecast in the Business Plan. These agreements were coordinated by a framework agreement that regulated the reporting commitments made by Industrie Saleri Italo S.p.A. and Saleri Shanghai Co. Ltd to the Financial Creditors in relation to the proper execution of the Business Plan based on which the financial restructuring was agreed.

Summarising, the Bilateral Agreements provided for:

- **The extension of the residual duration (from 4 years to 7 years= of the main loans and lease agreements (average current duration of 3 years)**
- **The consolidation of certain short-term borrowings into unsecured loans for a period of 5 years**
- **The renewal of short-term credit facilities, in line with expected utilisation requirements**
- **The reduction and standardisation of the interest rates applied**

The proposal was addressed to all financial creditors and there was a take-up rate of 97%.

12.2. Group financial structure

The following table shows changes in the items included in the Saleri Group's financial indebtedness:

Table 12.2a - Details of the Saleri Group financial structure

CONSOLIDATED	FY 2016	FY 2017	FY 2018	
	€ Million	€ Million	€ Million	Δ vs '17
Bank Loans	37.4	32.5	26.9	-5.7%
Finance Lease Payables	18.0	13.4	12.1	-1.3%
Short-Term Borrowing	15.2	15.0	-	-15.0%
Long-Term Loan (consolidation of ST borrowings)	-	-	10.5	+10.5%
Advance Facility	11.9	13.7	11.3	-2.4%
Financial Indebtedness	82.4	74.6	60.7	-13.9%
Current Account Balances	1.5	(3.8)	(2.8)	+1.0%
Net Financial Indebtedness	84.0	70.8	57.9	-12.9%
Receivables from Insurance Company	-	-	(14.3)	-14.3%
Adjusted Net Financial Indebtedness	84.0	70.8	43.6	-27.2%
EBITDA	12.2	19.9	21.3	+1.3%
Total Consolidated Equity	12.1	15.2	41.6	+26.5%
Adjusted NFI / Consolidated Equity	7.0x	4.7x	1.0x	-3.6x%
Adjusted NFI / EBITDA	6.9x	3.6x	2.0x	-1.5x%
Financial Expenses	4.0	3.5	2.4	-1.0%
Average Cost of Borrowing (Basis Points)	-	384	312	-72%

Note: Unsecured Loans are divided into two categories considering the original nature of the agreement. Specifically, Unsecured Loans (consolidated facilities) refer to the short-term borrowings consolidated in 2018 with a five-year repayment period. The leases are finance leases and refer to tangible assets used in operating activities. Advance accounts include advance facilities (until 2017), advances on invoices (from 2018), recourse factoring and a facility for advances on tooling flows. Current accounts include both DR and CR current account balances. Non-Recourse Factoring facilities refer to facilities for the recurring and occasional factoring of receivables. Mortgage Loans are secured on land and buildings.

Share capital transactions and the debt restructuring described above have enabled the Group to return to a balanced financial structure, in line with its operating cash flows. The Group's financial performance may be represented by the following indicators (shown for a like for like Scope of Consolidation) for 2018 with comparatives for 2017:

- Adjusted Net Financial Indebtedness has been reduced by € 27.2 million (of which € 1.2 million due to deconsolidation of Italacciai);
- Net Financial Indebtedness reduced by € 13.9 million
- Decrease in ratio of Adjusted Net Financial Indebtedness / Consolidated Equity from 4.7x to 1.0x
- Utilisation of short-term facilities (current account overdrafts and other facilities) equal to 30%
- Decrease in ratio of Adjusted Net Financial Indebtedness / EBITDA from 3.6x to 2.0x
- Reduction in weight of repayment commitments within 12 months from 62% (of total nominal amount of debt) to 23% (see Table 12.2b)
- Reduction of average cost of borrowing from 384 bps to 312 bps with financial expenses reduced by € 1.0 million

Relationships with the banks have always been based on the utmost transparency. Management intends to favour relationships with those banks capable of supporting the Group with all of its financial requirements and duly offering solutions to specific needs.

Table 12.2b - Details of the Saleri Group financial structure

CONSOLIDATED	Nominal Amount	Due within 1 year	1 to 5 years	More than 5 years	Due within 1 year	1 to 5 years	More than 5 years
31.12.2017 - Pre Restructuring (including Italacciai)							
Loans and Finance Leases	45.9	22.9	21.7	1.4	50%	47%	3%
ST Borrowing Facilities	15.0	15.0	-	-	100%	-	-
Total	60.9	37.8	21.7	1.4	62%	36%	2%
31.12.2017 - Post Restructuring (including Italacciai)							
Loans and Finance Leases	45.9	7.0	36.8	2.1	15%	80%	5%
LT Loans (Consolidation of ST borrowing facilities)	15.0	4.5	10.5	-	30%	70%	-
Total	60.9	11.4	47.3	2.1	19%	78%	3%
31.12.2018 - Post Restructuring							
Loans and Finance Leases	38.9	9.1	26.4	3.5	23%	68%	9%
ST Borrowing Facilities	10.5	2.4	8.1	-	23%	77%	-
Total	49.4	11.5	34.5	3.5	23%	70%	7%

Notes
- The various maturity bands are determined based on the period between the reporting date and the contractual maturity date of the commitments
- The amounts shown in the tables represent the nominal cash flows indicated in the respective repayment plans
- Cash flows refer to the nominal amount of the debt at the reporting date (excluding related financial expenses)

Chapter

13

Results of Parent Company Industrie Saleri Italo S.p.A.

13.1. Income statement of Industrie Saleri Italo S.p.A.

The parent company's income statement, reclassified based on the criteria described in the introductory "Note on Reporting Methodology", is set out below. The figures in the table are after adjustments to treat finance leases in accordance with IAS 17.

Table 13.1 - Reclassified Income Statement

INDUSTRIE SALERI ITALO SPA	FY 2016		FY 2017		FY 2018		Δ 2018 - 2017	
	€ Million	% of Revenue	€ Million	% of Revenue	€ Million	% of Revenue	€ Million	Δ % Revenue
Revenue from Sales, net	156.2	100.0%	157.6	100.0%	150.3	100.0%	-7.3	-
Sundry Revenue	-	-	0.2	0.2%	0.3	0.2%	+0.0	+0.0%
Revenue	156.2	100.0%	157.9	100.2%	150.5	100.2%	-7.3	+0.0%
Direct Cost of Production	(114.7)	(73.4%)	(112.1)	(71.1%)	(101.6)	(67.6%)	+10.5	+3.5%
Other Variable Production Costs	(4.9)	(3.2%)	(4.2)	(2.7%)	(5.4)	(3.6%)	-1.3	-1.0%
Cost of Production Labour	(12.2)	(7.8%)	(12.6)	(8.0%)	(13.9)	(9.2%)	-1.3	-1.2%
Insurance Indemnity (Loss of Contr. Margin)	-	-	-	-	2.4	1.6%	+2.4	+1.6%
Contribution Margin	24.4	15.6%	29.0	18.4%	31.9	21.3%	+3.0	+2.9%
Fixed Personnel Costs	(9.4)	(6.0%)	(8.5)	(5.4%)	(9.1)	(6.1%)	-0.6	-0.7%
Other Indirect Costs	(5.5)	(3.6%)	(3.9)	(2.5%)	(5.7)	(3.8%)	-1.8	-1.3%
Indirect Costs	(14.9)	(9.6%)	(12.4)	(7.9%)	(14.8)	(9.9%)	-2.4	-2.0%
EBITDA	9.5	6.1%	16.5	10.5%	17.1	11.4%	+0.6	+0.9%
D&A	(9.6)	(6.1%)	(9.5)	(6.0%)	(10.1)	(6.7%)	-0.6	-0.7%
Provisions	(0.9)	(0.6%)	(0.8)	(0.5%)	(1.4)	(0.9%)	-0.6	-0.4%
Provisions	(10.5)	(6.7%)	(10.3)	(6.5%)	(11.5)	(7.7%)	-1.2	-1.1%
EBIT	(1.0)	(0.6%)	6.2	3.9%	5.6	3.7%	-0.6	-0.2%
Financial Income (Expenses)	(3.5)	(2.2%)	(3.0)	(1.9%)	(2.1)	(1.4%)	+1.0	+0.6%
Non-Recurring Income (Expenses)	(2.1)	(1.4%)	0.6	0.4%	(1.3)	(0.9%)	-1.9	-1.2%
Profit (Loss) before Taxation	(6.6)	(4.2%)	3.8	2.4%	2.2	1.5%	-1.6	-0.9%
Taxation	1.4	0.9%	(0.8)	(0.5%)	(0.1)	(0.1%)	+0.8	+0.5%
Profit (Loss) for the Year	(5.3)	(3.4%)	2.9	1.9%	2.1	1.4%	-0.8	-0.4%
IAS Effect	(2.1)	(1.3%)	(1.5)	(0.9%)	(0.1)	(0.1%)	+1.4	-
Profit (Loss) for the Year - ITA GAAP	(7.3)	(4.7%)	1.5	0.9%	2.1	1.4%	+0.6	+0.4%

In 2018, Industrie Saleri Italo S.p.A. recorded a decrease in revenues from € 157.6 million to € 150.3 million (- € 7.3 million or a year on year decrease of 4.7%), mainly because of the consequences of the fire that occurred on 11 January 2018. Under the settlement reached with the insurance company (see the introductory "Note on Reporting Methodology"), a specific amount of € 2.4 million was received in compensation for this loss.

However, despite the fall in sales, Contribution Margin increased from € 29.0 million in 2017 to € 31.9 million (+ € 2.9 million and +2.9ppas a percentage of revenues). This improvement was driven by a significant reduction in direct production costs (-3.5pp compared to 2017).

Indirect costs, totalling € 14.8 million, have increased by € 2.4 million compared to prior year but remain below their 2016 level.
EBITDA has increased from € 16.5 million in 2017 to € 17.1 million (+ € 0.6 million and + 0.9pp as a percentage of revenues).

EBIT has decreased from € 6.2 million in 2017 to € 5.6 million (- € 0.6 million or-0.2pp as a percentage of revenues). Depreciation and amortisation has increased (to stand at € 10.1 million, + € 0.6 million compared to 2017) because of the higher capex incurred during the year while allocations to provisions for risks have also increased (€ 1.4 million, + € 0.5 million compared to prior year).

Financial expenses have decreased by € 1.0 million compared to prior year because of the lower cost of borrowing (down by around 85 bps) and a reduction in financial payables (€ - 10.9 million compared to prior year) because of debt repayments (Loans and Finance Leases), as well as lower utilisation of short-term borrowing facilities.
There were net non-recurring expenses of € 1.3 million, including:

- **Losses on tangible assets damaged by the fire - € 0.8 million**
- **Impairment adjustment to investment in subsidiary Italacciai S.r.l. - € 0.2 million**
- **Out of period income due to reversal of finance lease instalments charged in 2017 until conclusion of the interbank restricting agreement - € 1.7 million**
- **Extraordinary compensation for customers, in excess of the amount provided - € 1.3 million**
- **Extraordinary consulting services - € 0.5 million**

The profit before taxation for 2018 amounts to € 2,237 thousand. Taxes, not including intra-Group effects in application of the consolidated taxation agreement, amount to € 96 thousand for a net profit of € 2,141 thousand.

The accounting effect of applying IAS 17 to Finance Leases is positive by € 84 thousand, resulting in a statutory net profit of € 2,057 thousand.

13.2. Balance sheet of Industrie Saleri Italo S.p.A.

The parent company's balance sheet, reclassified based on the criteria described in the introductory "Note on Reporting Methodology", is set out below. The figures in the table are after adjustments to treat finance leases in accordance with IAS 17.

Table 13.2 - Reclassified Balance Sheet

INDUSTRIE SALERI ITALO SPA	Dec-16	Dec-17		Dec-18	
	€ Million	€ Million	Δ vs 16'	€ Million	Δ vs 17'
▸ Tangible Assets	64.0	60.2	(3.8)	61.1	+0.9
▸ Intangible Assets	3.7	3.5	(0.2)	5.2	+1.7
▸ Financial Assets	7.8	7.9	0.2	7.8	-0.1
Fixed Assets	75.5	71.6	(3.9)	74.0	+2.4
▸ Inventory	33.2	23.2	(10.0)	28.4	+5.2
▸ Trade Receivables	8.8	10.7	1.9	12.0	+1.3
▸ Trade Payables	(32.5)	(25.5)	7.0	(33.8)	-8.3
Trade Working Capital	9.5	8.4	(1.1)	6.6	-1.8
▸ Tax Receivables (Payables)	6.6	4.2	(2.5)	5.7	+1.5
▸ Intra-Group Receivables (Payables)	(0.1)	(1.1)	(1.0)	(1.4)	-0.3
▸ Other Current Assets (Liabilities)	(4.4)	(4.0)	0.4	(4.4)	-0.3
▸ Receivables from Insurance Company	-	-	-	14.3	+14.3
▸ Prepaid Expenses and Accrued Income	1.1	0.1	(1.0)	0.7	+0.6
▸ Provisions	(4.6)	(5.6)	(1.1)	(5.9)	-0.3
Net Invested Capital	83.6	73.6	(10.1)	89.7	+16.1
▸ Loans and Finance Leases, ST Borrowing	67.4	57.7	(9.8)	46.8	-10.9
▸ Self Financing Facilities	8.4	10.2	1.8	11.3	+1.1
▸ Current account facilities	1.0	(3.9)	(4.9)	(2.5)	+1.4
Net Financial Indebtedness	76.8	63.9	(12.9)	55.5	-8.4
▸ Adjusted Net Financial Indebtedness	76.8	63.9	(12.9)	41.2	-22.7
▸ Share Capital and Share Premium Reserve	5.2	5.2	-	28.2	+23.0
▸ Equity Reserves	7.0	1.5	(5.4)	3.9	+2.4
▸ Profit for the Year	(5.3)	2.9	8.2	2.1	-0.8
Total Equity	6.8	9.6	2.8	34.2	+24.5
▸ IAS Effect	1.6	3.0	1.3	2.5	(0.5)
Total Equity - ITA GAAP	5.2	6.7	1.5	31.7	+25.1
Sources of Finance	83.6	73.6	(10.1)	89.7	+16.1

Fixed Assets have increased by + € 2.4 million compared to 31 December 2017. Trade Working Capital, amounting to € 6.6 million at 31 December 2018, continues to decrease compared to prior years (as a percentage of value of production, it decreased from 5.3% in 2017 to 4.4% in 2018, although there were some significant changes in its composition). Inventories have increased by € 5.2 million.

This increase may be considered exceptional as it relates to the production reorganisation in the aftermath of the fire, to an increase in tooling inventory (a decrease is expected in 2019 as a result of sales already contractually agreed) and to speculative purchases of raw materials (mainly aluminium).

The increase in trade payables (+€ 8.3 million) is partly due to the inventory trend described above and partly to the payment made early in January 2019, in agreement with trade creditors, in settlement of amounts originally due for payment at the end of December 2018 (€ 5.1 million).

Trade receivables have increased by € 1.3 million solely as a result of policies adopted to make working capital management more efficient, with a direct result on utilisation of non-recourse factoring facilities.

Current financial assets include the receivable from the insurance company of € 14.3 million, as described in Paragraph 7. As already stated, some € 13.7 million of the receivable has now been collected.

Net Invested Capital amounts to € 89.7 million, an increase of € 16.1 million compared to 31 December 2017.

At 31 December 2018, the Net Financial Indebtedness showed net debt of € 55.5 million. In order to provide a better understanding of financial trends in 2018, we have also shown the Adjusted Net Financial Indebtedness, equal to € 41.2 million, including the receivable from the insurance company which, as stated, was largely collected between February and April 2019.

The Adjusted Net Financial Indebtedness has improved by € 22.7 million compared to 31 December 2017.

At 31 December 2018, Shareholders' Equity amounts to € 34.2 million. The increase of € 24.5 million compared to prior year is due to the share capital increase subscribed and paid in May 2018 in the amount of € 23.0 million plus net profits for the year. No dividends were distributed in 2018. As a result of the above, the Adjusted Net Financial Indebtedness / Equity ratio has improved considerably from 6.6x in 2017 to 1.2x in 2018.

13.3. Cash flows of Industrie Saleri Italo S.p.A.

Cash flows for the year are summarised in the following table:

Table 13.3 - Cash Flows of Industrie Saleri Italo S.p.A.

INDUSTRIE SALERI ITALO SPA	FY 2017	FY 2018	
	€ Million	€ Million	Δ vs 17'
Cash and Cash Equivalents at start of period	(1.0)	3.9	+4.9
► EBITDA	16.5	17.1	+0.6
▲▲ in Trade Receivables (incl. Factoring)	0.1	0.8	+0.7
▲▲ in Trade Payables	(7.1)	8.0	+15.1
▲▲ in Inventory	10.0	(5.2)	-15.3
Change in Net Working Capital	3.0	3.5	+0.5
► Payment of Taxes	2.3	(1.8)	-4.2
▲▲ in Other Current Assets (Liabilities)	0.1	(3.0)	-3.1
► Financial Income (Expenses)	(3.0)	(2.1)	+1.0
Cash Flows Generated by Operating Activities	18.9	13.7	-5.2
► Capex	(5.7)	(7.4)	-1.6
► Restoration Capex after Fire	-	(6.2)	-6.2
► Change in Financial Assets	(0.5)	(0.1)	+0.4
Cash Flows Absorbed by Financing Activities	(6.2)	(13.6)	-7.4
▲▲ in Financial Payables	(10.0)	(10.2)	-0.2
► Paid Share Capital Increase	-	23.0	+23.0
► Income (Expenses) from Investments	2.2	0.0	-2.2
Cash Flows from Financing Activities	(7.7)	12.8	+20.6
► Adjusted Net Cash Flows	4.9	12.9	+8.0
► Change in Receivables from Insurance Company	-	(14.3)	-14.3
► Net Cash Flows	4.9	(1.4)	-6.3
Cash and Cash Equivalents at end of period	3.9	2.5	-1.4

13.7 MILLION

CASH FLOWS GENERATED BY OPERATING ACTIVITIES

At the start of the period, cash and cash equivalents – the Company's positive current account balances– amounted to € 3.9 million.
Cash flows generated by Operating Activities totalled € 13.7 million, lower than in 2017 (- € 5.2 million), mainly as a result of the increase in inventories (as already stated in this report, this increase is not structural but the result of issues emerging in the aftermath of the fire). While EBITDA increased, there was a positive change in working capital and a reduction in financial expenses, tax payments and changes in other current assets and liabilities absorbed cash totalling € 3.5 million.

Cash flows absorbed by investing activities amounted to € 13.6 million, an increase of € 7.4 million compared to prior year, mainly as a result of capex incurred as a direct result of the fire.
Capex (€ 7.4 million) was necessary in relation to further automation of water pump production and for the interconnection of production plant with management systems. Meanwhile, routine capex was incurred to ensure machinery was constantly updated and fully effective.

Cash flows from financing activities were positive by € 12.8 million as a result of the share capital increase subscribed and paid in May 2018 in the amount of € 23.0 million, instalments paid on loans and finance leases and lower utilisation of short-term finance. No new loans were arranged during the period.

Adjusted Net Cash Flows – before the change of € 14.3 million relating to the receivable from the insurance company in compensation for costs incurred in 2018 – amounted to € 12.9 million.
Actual net cash flows amounted to - € 1.4 million, resulting in a reporting date current account balance of € 2.5 million.

Chapter

14

Results of Saleri Shanghai Co., Ltd

The Saleri Group operates on the Asian market through subsidiary Saleri Shanghai Co., Ltd (95% owned) which manufactures water pumps. The investment in Saleri Shanghai is an important part of the Group's development strategy. It also fulfils the requirement of the automotive components market to service key customers locally and reinforces the Group's position on the global market for cooling systems for the automotive industry.
Around half of Saleri Shanghai's production is carried out for parent company Industrie Saleri Italo S.p.A. which it supplies with pumps for the Independent Aftermarket. The remaining production is for local customers.

In January 2018, the subsidiary received a Nomination for a contract to supply water pumps to Korean car manufacturing giant Hyundai for the period 2020 - 2023: (SOP scheduled for June 2020; total contractual volumes of around 1.5m units).

Details of the Company's production location and workforce are provided in the earlier sections of this report.
The Company's reclassified Income Statement is as follows:

Table 14a - Income Statement of Saleri Shanghai Co., Ltd

SALERI SHANGHAI Co. Ltd	FY 2016		FY 2017		FY 2018		Δ 2018 - 2017	
	€ Million	% of Revenue	€ Million	% of Revenue	€ Million	% of Revenue	€ Million	% of Revenue
Revenue from Sales, net	10.7	100.0%	13.2	100.0%	14.7	100.0%	+1.5	-
Sundry Revenue	0.7	6.7%	0.1	0.4%	0.2	1.6%	+0.2	+1.2%
► Revenue	11.4	106.7%	13.3	100.4%	14.9	101.6%	+1.7	+1.2%
Direct Cost of Production	(6.7)	(62.8%)	(8.5)	(64.6%)	(8.8)	(59.5%)	-0.2	+5.1%
Other Variable Production Costs	(0.2)	(1.4%)	(0.2)	(1.5%)	(0.2)	(1.3%)	+0.0	+0.2%
Cost of Production Labour	(0.6)	(5.6%)	(0.8)	(5.7%)	(1.1)	(7.2%)	-0.3	-1.5%
► Contribution Margin	3.9	36.8%	3.8	28.6%	4.9	33.5%	+1.2	+4.9%
Fixed Personnel Costs	(0.4)	(4.1%)	(0.5)	(3.5%)	(0.5)	(3.2%)	-0.0	+0.3%
Other Indirect Costs	(1.3)	(12.3%)	(1.1)	(8.5%)	(1.1)	(7.5%)	+0.0	+1.0%
► Indirect Costs	(1.8)	(16.4%)	(1.6)	(12.0%)	(1.6)	(10.7%)	+0.0	+1.4%
EBITDA	2.2	20.4%	2.2	16.6%	3.4	22.9%	+1.2	+6.3%
D&A	(1.1)	(10.2%)	(1.2)	(8.9%)	(1.2)	(8.3%)	-0.0	+0.6%
Provisions	-	-	(0.0)	(0.2%)	-	-	+0.0	+0.2%
► Provisions	(1.1)	(10.2%)	(1.2)	(9.1%)	(1.2)	(8.3%)	-0.0	+0.8%
► EBIT	1.1	10.3%	1.0	7.4%	2.1	14.6%	+1.2	+7.1%
Financial Income (Expenses)	(0.4)	(3.4%)	(0.3)	(2.0%)	(0.3)	(2.4%)	-0.1	-0.3%
Non-Recurring Income (Expenses)	(0.3)	(2.7%)	(0.4)	(2.8%)	(0.6)	(3.8%)	-0.2	-1.0%
► Profit (Loss) before Taxation	0.4	4.1%	0.3	2.6%	1.2	8.4%	+0.9	+5.8%
Taxation	(0.1)	(1.3%)	(0.1)	(1.1%)	(0.4)	(2.5%)	-0.2	-1.4%
Profit (Loss) for the Year	0.3	2.8%	0.2	1.4%	0.9	5.9%	+0.7	+4.4%

In 2018, Revenues amounted to € 14.7 million, an increase of € 1.5 million (or +9.3%) compared to 2017. Most of the increase (€ 1.2 million) is due to higher sales of water pumps to the parent company which used the Chinese subsidiary to make up the production shortfall caused by the fire at its own factory.

EBITDA has increased from € 2.2 million to € 3.4 million mainly because of a reduction in purchase costs and greater absorption of indirect costs.
Net profit for the year amounts to € 0.9 million and has increased by 3.5% compared to 2017. In 2018, the percentage of revenues generated by third party customers (around 40%), other than parent company Industrie Saleri Italo S.p.A., remained stable.

The Company's reclassified balance sheet is set out below:

Table 14b - Balance Sheet of Saleri Shanghai Co., Ltd

SALERI SHANGHAI Co. Ltd	Dec-16	Dec-17	Dec-18	Δ vs 17'
	€ Million	€ Million	€ Million	Δ
Tangible Assets	3.9	3.3	3.2	-0.1
Intangible Assets	0.8	0.6	0.4	-0.2
Financial Assets	-	-	-	-
Fixed Assets	4.7	3.9	3.6	-0.3
Inventory	4.4	3.0	2.7	-0.2
Trade Receivables	0.5	0.7	1.1	+0.4
Trade Payables	(2.7)	(1.5)	(2.3)	-0.8
Trade Working Capital	2.2	2.1	1.5	-0.6
Tax Receivables (Payables)	0.2	(0.1)	(0.1)	+0.0
Intra-Group Receivables (Payables)	1.5	1.6	1.7	+0.1
Other Current Assets (Liabilities)	0.2	0.1	0.2	+0.1
Prepaid Expenses and Accrued Income	-	-	-	-
Provisions	-	-	-	-
Invested Capital	8.8	7.6	7.0	-0.6
Loans & Finance Leases, ST Borrowings	-	-	2.0	2.0
Self-Financing Facilities	3.6	3.4	-	-3.4
Current Account Facilities	0.9	0.0	(0.1)	-0.1
Net Financial Indebtedness	4.5	3.4	1.9	-1.5
Share Capital and Share Premium Reserve	2.0	2.0	2.0	-
Equity Reserves	2.0	2.1	2.2	+0.1
Profit for the Year	0.3	0.2	0.9	+0.7
Shareholders' Equity	4.3	4.3	5.1	+0.8
Sources of Finance	8.8	7.6	7.0	-0.6

The make-up of invested capital at 31 December 2018 has not changed significantly compared to 31 December 2017.
Fixed assets amount to € 3.6 million and have decreased compared to prior year, solely because of depreciation and amortisation.

Trade Working Capital amounts to € 1.5 million. The decrease compared to prior year is mainly due to the increase in trade payables, as partially countered by an increase in trade receivables, in line with revenue growth.

Net Financial Indebtedness has decreased by € 1.5 million due to the consolidation of several short-term borrowings into medium/long-term loans and to lower use of short-term borrowing than in prior year.
At 31 December 2018, equity amounted to € 5.1 million.
The Company is actively seeking to acquire business from new customers on the local market. Such local customers need to increase their production quality levels compared to their current procurement sources. Ultimately, 70% of production is expected to be destined for the local market while 30% will go to service Industrie Saleri Italo's IAM channel.

Chapter

15

Results of Immobiliare Industriale S.r.l.

Since the spin-off of the real estate activities of Italpresse Industrie S.p.A. (February 2015), the Saleri Group has operated in the "Real Estate" segment through 62.5% owned subsidiary Immobiliare Industriale S.r.l..

The Company's activities involve renting out its real estate properties i.e. an industrial property in the Municipality of Capriano del Colle (BS). The building is used by Italpresse Industrie S.r.l. and Gauss Automazione S.r.l. (Norican Group) under a rental agreement signed on 14 February 2015 for a total period of 12 years.

In 2018, the Company also completed the liquidation – at a surplus – of the investments held in Société Civile Immobilière IP (99%) and Saleri Iberica Immobiliare Industriale SL (100%) while the investment in Immobiliare Industriale Deutschland GmbH (100%) is still under liquidation.
The three foreign subsidiaries were put into liquidation following the disposal of the assets owned by them and which were originally used to support Italpresse's business activities.
The liquidation of Immobiliare Industriale Deutschland GmbH should be completed in 2019 without any significant impact on the carrying amount of the investment in Immobiliare Industriale S.r.l.'s financial statements.

The Company's reclassified income statement is as follows:

Table 15a - Income Statement of Immobiliare Industriale S.r.l.

IMMOBILIARE INDUSTRIALE S.R.L.	FY 2016		FY 2017		FY 2018		Δ 2018 - 2017	
	€ Million	% of Revenue	€ Million	% of Revenue	€ Million	% of Revenue	€ Million	Δ % Revenue
▸ Sundry Revenue	0.9	100.0%	0.9	100.0%	0.9	100.0%	-0.0	-
▸ Revenue	0.9	100.0%	0.9	100.0%	0.9	100.0%	-0.0	-
▸ Other Indirect Costs	(0.2)	(17.4%)	(0.2)	(24.1%)	(0.1)	(10.9%)	+0.1	+13.2%
▸ EBITDA	0.7	82.6%	0.7	75.9%	0.8	89.1%	+0.1	+13.2%
▸ D&A	(0.3)	(36.7%)	(0.3)	(36.5%)	(0.3)	(37.7%)	-0.0	-1.2%
▸ Provisions	-	-	-	-	-	-	-	-
Provisions	(0.3)	(36.7%)	(0.3)	(36.5%)	(0.3)	(37.7%)	-0.0	-1.2%
EBIT	0.4	45.9%	0.4	39.4%	0.5	51.4%	+0.1	+12.1%
▸ Financial Income (Expenses)	(0.1)	(9.7%)	(0.1)	(6.8%)	(0.0)	(4.6%)	+0.0	+2.2%
▸ Non-Recurring Income (Expenses)	0.2	27.0%	0.2	25.4%	0.5	51.9%	+0.2	+26.5%
Profit before Taxation	0.5	63.1%	0.5	58.0%	0.9	98.7%	+0.4	+40.7%
▸ Taxation	(0.1)	(15.2%)	(0.1)	(8.6%)	(0.2)	(21.8%)	-0.1	-13.2%
Profit (Loss) for the Year	0.4	47.9%	0.4	49.5%	0.7	77.0%	+0.2	+27.5%

In 2018, revenue amounted to € 0.9 million and consisted of rental income from the property in Capriano del Colle. The increase (+0.8% compared to 2017) is due to annual, index-linked rent rises (in 2017, the Company recorded revenue of € 0.9 million net of € 14 thousand paid to the tenant in compensation for hailstorm damage to the building roof).

Non-recurring income amounts to € 0.5 million and includes income from subsidiaries received following completion of the liquidation of the foreign subsidiaries as follows: (i) Societé Civile Immobilière IP - € 0.2 million and (ii) Saleri Iberica Immobiliare Industriale SL - € 0.2 million. The remaining € 0.1 million refers to an advance on liquidation proceeds received on 13 May 2018 from Immobiliare Industriale Deutschland GMBH in liquidation.
The Company reports a net profit of € 0.7 million for 2018.

The Company's reclassified balance sheet is set out below:

Table 15b – Balance Sheet of Immobiliare Industriale S.r.l.

IMMOBILIARE INDUSTRIALE S.R.L.	Dec-16	Dec-17	Dec-18	Δ vs 17'
	€ Million	€ Million	€ Million	Δ
► Tangible Assets	11.3	11.3	11.0	-0.3
► Intangible Assets	0.1	-	-	-
► Financial Assets	0.5	0.2	-	-0.2
Fixed Assets	11.9	11.5	11.0	-0.5
► Inventory	-	-	-	-
► Trade Receivables	-	-	-	-
► Trade Payables	(0.1)	-	-	-
Trade Working Capital	(0.1)	-	-	-
► Tax Receivables (Payables)	-	0.1	0.1	-
► Intra-Group Receivables (Payables)	-	(0.1)	(0.3)	-0.2
► Other Current Assets (Liabilities)	-	0.1	0.2	+0.1
► Prepaid Expenses and Accrued Income	-	-	-	-
► Provisions	-	-	-	-
Invested Capital	11.8	11.5	10.7	-0.7
► Loans & Finance Leases, ST Borrowings	3.1	2.1	0.7	-1.4
► Self-Financing Facilities	-	-	-	-
► Current Account Facilities	(0.4)	(0.2)	(0.2)	-
Net Financial Indebtedness	2.7	1.9	0.5	-1.4
► Share Capital and Share Premium Reserve	-	-	-	-
► Equity Reserves	8.7	9.1	9.6	+0.4
► Profit for the Year	0.4	0.4	0.7	+0.2
Shareholders' Equity	9.1	9.6	10.3	+0.7
Sources of Finance	11.8	11.5	10.7	-0.7

Fixed assets include land and buildings at Capriano al Colle (BS) while intangible assets include capitalised expenses relating to the spin-off operation carried out in 2015.
Financial assets have decreased and now show a zero balance as: (i) subsidiaries Societé Civile Immobilière IP in liquidation and Saleri Iberica Immobiliare Industriale SL in liquidation stopped operating in 2018 and have distributed the residual assets from their final liquidation statement; (ii) the investment in Immobiliare Industriale Deutschland GMBH in liquidation (the process started in prior year but has not yet been completed) has been written down in full.
Intra-Group payables amount to € 0.3 million and regard the payable/receivable balances with parent company Industrie Saleri Italo S.p.A. in settlement of the tax balances transferred under the consolidated taxation arrangement which the Company elected to join together with the parent company.
Financial payables include the mortgage loan from Mediocredito Italiano S.p.A. (outstanding amount of € 0.7 million and maturing in September 2019). Cash and cash equivalents amount to € 0.2 million. The decrease of € 1.4 million is mainly due to scheduled repayment of the aforementioned loan and to the early repayment on 3 December 2018 of the unsecured loan from Banca Popolare di Sondrio.
Quota Capital amounts to € 10 thousand. Quotaholders' Equity amounts to € 10.3 million.

RESILIENCE

OUR ATTITUDE, OUR STRENGTH

> We persuaded our customers to continue to believe in us: when you cooperate like this, success is the only outcome.

Mauro De Rita - Original Equipment Sales Director

Section

III

Consolidated Financial Statements at 31 December 2018

General information about the Company

General details

NAME	Industrie Saleri Italo S.p.A.
REGISTERED OFFICE	Via Ruca 406, 25065 - Lumezzane (BS)
SHARE CAPITAL	17.922.413
IS SHARE CAPITAL WHOLLY PAID?	yes
CHAMBER OF COMMERCE CODE	Brescia
VAT NUMBER	01589150984
TAX NUMBER	03066870175
BUSINESS DATABASE/REA NUMBER	BS-317605
LEGAL FORM	*Società per azioni* (Joint stock company)
MAIN BUSINESS SEGMENT (ATECO):	293209 Manufacture of other parts and accessories for cars and their engines
IS COMPANY IN LIQUIDATION?	no
DOES COMPANY HAVE A SINGLE SHAREHOLDER?	no
IS COMPANY SUBJECT TO MANAGEMENT AND COORDINATION BY ANOTHER ENTITY?	no
NAME OF COMPANY OR ENTITY THAT PROVIDES MANAGEMENT AND COORDINATION	-
DOES COMPANY BELONG TO A GROUP?	yes
NAME OF HOLDING COMPANY	El.Fra Holding s.r.l.
COUNTRY OF HOLDING COMPANY	Italy
REGISTER OF COOPERATIVES NUMBER	-

ASSETS	Dec-18	Dec-17
A) DUE FROM SHAREHOLDERS FOR UNPAID CAPITAL	-	-
B) NON-CURRENT ASSETS		
I - Intangible assets:		
1) start-up and expansion costs	22,184	44,368
2) research, development and advertising costs	1,968,838	410,999
3) patents and intellectual property rights	68,503	285,389
4) concessions, licences, trademarks and similar rights	-	3,533
5) goodwill	-	-
5-bis) consolidation difference	-	-
6) assets in progress and payments on account	866,589	1,789,225
7) other	2,739,063	1,652,601
Total	**5,665,177**	**4,186,115**
II - Tangible assets:		
1) Land and buildings	31,576,671	34,084,221
2) Plant and machinery	34,041,048	35,355,597
3) Industrial and commercial equipment	4,571,396	4,737,308
4) Other tangible assets	1,617,241	1,576,684
5) Assets under construction and payments on account	3,365,209	160,493
Total	**75,171,565**	**75,914,303**
III - Financial assets:		
1) investments in:	29,247	202,830
a) non-consolidated subsidiaries	25,000	198,583
b) associated companies	-	-
c) parent companies	-	-
d) entities controlled by parent companies	-	-
d-bis) other entities	4,247	4,247
2) receivables:	-	-
a) due from non-consolidated subsidiaries	-	-
due within a year	-	-
due after more than a year	-	-
b) due from associated companies	-	-
due within a year	-	-
due after more than a year	-	-
c) due from parent companies	-	-
due within a year	-	-
due after more than a year	-	-
d) due from entities controlled by parent companies	-	-
due within a year	-	-
due after more than a year	-	-
d) due from others	-	-
due within a year	-	-
due after more than a year	-	-
3) other securities	7,111	7,111
4) derivatives	742	6,243
Total	**37,100**	**216,184**
Total non-current assets (B)	**80,873,842**	**80,316,602**

ASSETS	Dec-18	Dec-17
C) CURRENT ASSETS		
I - Inventory:		
1) raw, ancillary and consumable materials	10,665,850	9,278,704
2) work in progress and semi-finished goods	3,030,923	4,170,347
3) contract work in progress	-	-
4) finished goods	16,497,170	13,166,414
5) payments on account	746,998	537,881
Total	30,940,941	27,153,346
II - Receivables:		
1) trade accounts	13,094,517	11,584,030
due within a year	13,094,517	11,584,030
due after more than a year	-	-
2) due from non-consolidated subsidiaries	22,410	20,689
due within a year	22,410	20,689
due after more than a year	-	-
3) due from associated companies	-	-
due within a year	-	-
due after more than a year	-	-
4) due from parent companies	3,466	-
due within a year	3,466	-
due after more than a year	-	-
5) due from entities controlled by parent companies	-	-
due within a year	-	-
due after more than a year	-	-
5-bis) tax receivables	2,365,666	1,606,027
due within a year	2,365,666	1,606,027
due after more than a year	-	-
5-ter) deferred tax assets	4,466,834	4,076,319
due within a year	4,466,834	4,076,319
due after more than a year	-	-
5-quater) due from others	15,285,037	610,614
due within a year	15,027,427	430,524
due after more than a year	257,610	180,090
Total	35,237,930	17,897,679
III - Current financial assets:		
1)investments in non-consolidated subsidiaries	1,000	-
2) investments in associated companies	-	-
3) investments in parent companies	-	-
3-bis) investments in entities controlled by parent companies	-	-
4) other investments	13,294	13,294
5) derivatives	-	-
6) other securities		-
Total	14,294	13,294
IV - Cash and cash equivalents:		
1) bank and post office accounts	3,034,675	7,356,848
2) cheques	-	-
3) cash and cash equivalents on hand	7,764	33,596
Total	3,042,439	7,390,444
Total current assets (C)	69,235,604	52,454,763
D) Prepaid expenses and accrued income	2,209,601	1,972,324
Total assets	152,319,047	134,743,689

LIABILITIES AND SHAREHOLDERS' EQUITY	Dec-18	Dec-17
A) SHAREHOLDERS' EQUITY		
I - Share capital	17,922,413	5,160,000
II - Share premium reserve	10,237,587	-
III - Revaluation reserves	2,832,678	2,832,678
IV - Legal reserve	1,032,000	1,032,000
V - Statutory reserves	-	-
VI - Other reserves:	3,544,297	3,583,976
consolidation reserve	3,379,172	3,363,056
extraordinary reserve	-	-
merger surplus	-	-
merger deficit	-	-
reserve for translation of financial statements in foreign currency	(198,927)	(143,132)
other reserves	364,052	364,052
VII - Cash flow hedge reserve	-	-
VIII - Retained earnings (Accumulated losses)	(1,448,776)	(5,055,365)
IX - Profit (Loss) for the year	3,390,729	3,757,008
X - Negative reserve for treasury shares held	-	-
Total shareholders' equity - Group	37,510,928	11,310,297
Capital and reserves pertaining to non-controlling interests	3,813,938	3,666,045
Profit (Loss) for year pertaining to non-controlling interests	298,153	191,324
Total shareholders' equity - non-controlling interests	4,112,091	3,857,369
Total consolidated shareholders' equity	41,623,019	15,167,666
B) PROVISIONS FOR RISKS AND CHARGES		
1) retirement benefits and similar obligations	-	-
2) taxation, including deferred tax	2,621,021	2,834,037
2-bis) consolidation provision for future risks and charges	-	-
3) derivatives	16,109	60,624
4) other	1,700,000	1,200,000
Total	4,337,130	4,094,661
C) EMPLOYEE SEVERANCE INDEMNITY ("TFR") PROVISION	1,581,848	2,460,390
D) PAYABLES		
1) bonds	-	-
due within a year	-	-
due after more than a year	-	-
2) convertible bonds	-	-
due within a year	-	-
due after more than a year	-	-
3) shareholder loans payable	-	-
due within a year	-	-
due after more than a year	-	-
4) bank borrowing	47,849,607	63,036,760
due within a year	21,059,976	44,573,092
due after more than a year	26,789,631	18,463,668
5) payables to other lenders	13,585,485	16,128,530
due within a year	3,857,443	15,634,780
due after more than a year	9,728,042	493,750

LIABILITIES AND SHAREHOLDERS' EQUITY	Dec-18	Dec-17
6) payments on account	876,098	599,530
due within a year	876,098	599,530
due after more than a year	-	-
7) trade payables	36,034,060	27,504,905
due within a year	36,034,060	27,504,905
due after more than a year		-
8) credit instruments	-	-
due within a year	-	-
due after more than a year	-	-
9) payables to non-consolidated subsidiaries	101,837	-
due within a year	101,837	-
due after more than a year	-	-
10) payables to associated companies	-	-
due within a year	-	-
due after more than a year	-	-
11) payables to parent companies	-	-
due within a year	-	-
due after more than a year	-	-
11-bis) payables to entities controlled by parent companies	-	-
due within a year	-	-
due after more than a year	-	-
12) tax payables	1,055,424	1,449,731
due within a year	1,055,424	1,449,731
due after more than a year	-	-
13) payables to social security and pensions institutions	1,413,340	1,191,976
due within a year	1,413,340	1,191,976
due after more than a year	-	-
14) other payables	3,275,713	3,025,436
due within a year	3,275,713	3,025,436
due after more than a year	-	-
Total	104,191,564	112,936,868
E) ACCRUED EXPENSES AND DEFERRED INCOME	585,486	84,104
Total liabilities and shareholders' equity	152,319,047	134,743,689

INCOME STATEMENT	31/12/2018	31/12/2017
A) VALUE OF PRODUCTION		
1) revenue from sales and services	154,550,726	168,957,249
2) change in inventory of work in progress, semi-finished and finished goods	3,588,614	(2,019,223)
3) change in contract work in progress	-	-
4) increase in non-current assets due to internal works	913,274	790,334
5) other revenue and income	26,979,205	1,604,586
operating grant income	-	-
other	26,979,205	1,604,586
Total	186,031,819	169,332,946
B) COST OF PRODUCTION		
6) raw, ancillary and consumable materials and goods for resale	96,051,109	85,062,512
7) services	41,001,771	31,088,564
8) use of third party assets - lease and rental costs	1,685,109	741,330
9) personnel:	24,629,245	23,880,944
a) wages and salaries	18,192,448	17,781,273
b) social contributions	5,295,046	4,891,198
c) employee severance indemnity ("TFR")	928,941	976,453
d) retirement benefits and similar obligations	-	-
e) other personnel costs	212,810	232,020
10) depreciation, amortisation and writedowns:	12,755,975	11,474,358
a) amortisation of intangible assets	1,762,311	1,614,053
b) depreciation of tangible assets	9,433,176	9,465,878
c) other writedowns of non-current assets	1,560,488	277,747
d) writedowns of current receivables and cash and cash equivalents	-	116,680
11) change in inventory of raw, ancillary and consumable materials and goods for resale	(1,219,457)	8,593,009
12) provisions for risks	-	-
13) other provisions	1,400,000	754,790
14) sundry operating expenses	3,314,796	1,659,533
Total	179,618,548	163,255,040
DIFFERENCE BETWEEN VALUE AND COST OF PRODUCTION (A-B)	6,413,271	6,077,906
C) FINANCIAL INCOME AND EXPENSES		
15) income from investments	459,641	2,463,855
from non-consolidated subsidiaries	459,641	226,240
from associated companies	-	-
from parent companies	-	-
from entities controlled by parent companies	-	-
other	-	2,237,615
16) other financial income:		
a) from receivables classed as non-current assets	-	-
from non-consolidated subsidiaries	-	-
from associated companies	-	-
from parent companies	-	-
from entities controlled by parent companies	-	-
other	-	-
b) from securities classed as non-current assets other than equity investments	119	150
c) from securities classed as current assets other than equity investments	-	-

INCOME STATEMENT	31/12/2018	31/12/2017
d) income other than the above	11,268	13,532
from non-consolidated subsidiaries	-	689
from associated companies	-	-
from parent companies	-	-
from entities controlled by parent companies	-	-
other	11,268	12,843
Total	11,387	13,682
▶ 17) interest and other financial expenses	2,223,360	3,358,122
to non-consolidated subsidiaries	-	-
to associated companies	-	-
to parent companies	-	-
to entities controlled by parent companies	-	-
other	2,223,360	3,358,122
▶ 17-bis) exchange gains and losses	(139,193)	50,874
exchange gains	(139,193)	58,696
exchange losses	-	7,822
Total (15 + 16 - 17 + - 17 bis)	(1,891,525)	(829,711)
D) ADJUSTMENTS TO VALUE OF FINANCIAL ASSETS		
▶ 18) revaluations:	44,516	-
a) of investments	-	-
b) of non-current financial assets other than equity investments	-	-
c) of securities classed as current assets other than equity investments	-	-
d) of derivatives	44,516	-
▶ 19) writedowns:	222,626	38,467
a) of investments	217,125	20,415
b) of non-current financial assets other than equity investments	-	-
c) of securities classed as current assets other than equity investments	-	-
d) of derivatives	5,501	18,052
Total adjustments (18 - 19)	(178,110)	(38,467)
▶ PROFIT BEFORE TAXATION (A - B +- C +- D)	4,343,636	5,209,728
20) taxes on income for the year	(654,754)	(1,261,396)
a) current tax	(763,645)	(574,581)
b) deferred tax	(73,759)	(760,644)
c) deferred tax income	391,441	73,829
d) income and expenses from tax consolidation	(208,791)	-
▶ 21) PROFIT (LOSS) FOR THE YEAR	3,688,882	3,948,332
PROFIT (LOSS) FOR YEAR - NON-CONTROLLING INTERESTS	298,153	191,324
PROFIT (LOSS) FOR YEAR - GROUP	3,390,729	3,757,008

Consolidated statement of cash flows, indirect method

	31/12/2018	31/12/2017
A.CASH FLOWS FROM OPERATING ACTIVITIES		
Profit (loss) for the year	3,688,882	3,948,332
Taxes on Income	654,754	1,261,396
Interest expenses/(income)	1,891,525	3,118,200
(Dividends)	0	0
(Gains)/Losses on asset disposals	726,238	(2,237,615)
1Profit (Loss) for the year before taxes on income, dividends and gains/losses on disposals	6,961,399	6,090,313
Adjustments for non-cash items with no impact on net working capital		
Allocations to provisions	2,522,162	754,790
Depreciation/Amortisation of non-current assets	11,195,487	11,079,931
Impairment writedowns	1,777,613	298,162
Adjustments to Value of Fin Assets and Liabilities	(39,015)	18,052
Other adjustments for non-cash items	(1,682,278)	976,453
Total adjustments for non-cash items with no impact on net working capital	13,773,969	13,127,388
2 Cash Flows before changes in NWC	20,735,368	19,217,701
Changes in net working capital		
Decrease / (Increase) in Inventory	(5,343,517)	9,906,556
Decrease / (Increase) in Trade Receivables	(1,684,517)	(2,380,103)
(Decrease) / Increase in Trade Payables	9,022,736	(6,615,614)
Decrease / (Increase) in Prepaid Exp & Acc Income	(242,821)	(1,080,265)
(Decrease) / Increase in Acc Exp & Def Inc	516,886	69,142
Other decreases/(Other increases) in net working capital	(15,129,525)	2,887,770
Change in net working capital	(12,860,758)	2,787,486
3 Cash Flows after changes in NWC	7,874,610	22,005,187
Interest received / (paid)	(1,630,801)	(2,952,827)
Taxes on income (paid)	(793,827)	(19,754)
Dividends received		
(Use of provisions)	(2,202,971)	(354,790)
Other receipts/(payments)		(59,849)
Total other adjustments	(4,627,599)	(3,387,220)
4 Cash Flows after other adjustments	3,247,011	18,617,967

Cash flows from operating activities		
B.CASH FLOWS FROM INVESTING ACTIVITIES		
Capex on non-current assets		
-Tangible assets		
(Additions)	(11,304,455)	(6,034,467)
Disposals	416,120	551,021
-Intangible assets		
(Additions)	(3,885,809)	(1,369,743)
Disposals	0	12,489
-Financial assets		
(Additions)	(100,065)	0
Disposals	633,224	388,971
-Current financial assets		
(Additions)		(170,298)
Disposals		0
(Acquisition of business units net of cash and cash equivalents)	-	-
Sale of business units net of cash and cash equivalents	-	-
Cash flows from investing activities	(14,240,985)	(6,622,027)
C.CASH FLOWS FROM FINANCING ACTIVITIES		
Debt		
-Increase (Decrease) in ST bank borrowing	(19,480,676)	4,798,905
-Loans arranged	12,961,310	0
-(Loans repaid)	(9,832,754)	(13,306,279)
Equity		
-Paid share capital increase	23,000,000	-
-(Share capital refunds)	-	-
-Sale (Purchase) of treasury shares	-	-
-(Dividends and advances on dividends paid)	-	-
Cash flows from financing activities	6,647,880	(8,507,374)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (A ± B ± C)	(4,346,094)	3,488,566
-Forex effect on cash and cash equivalents		
Cash and cash equivalents at start of period		
Bank and post office accounts	7,355,174	3,891,254
Cheques		
Cash and cash equivalents on hand	33,359	10,624
Total cash and cash equivalents at start of period	7,388,533	3,901,878
Of which not freely available		
Cash and cash equivalents at end of period		
Bank and post office accounts	3,034,675	7,356,848
Cheques		
Cash and cash equivalents on hand	7,764	33,596
Total cash and cash equivalents at end of period	3,042,439	7,390,444
Of which not freely available		

RESILIENCE

OUR ATTITUDE, OUR STRENGTH


When all seems lost,
you find strength and resources you feared
you did not have.
Marco Pinnacoli - Aftermarket Sales Director

INDUSTRIE SALERI ITALO S.P.A.
Via Ruca n. 406 – Lumezzane (BS)
Share capital Euro 17,922,413.12 – wholly paid
Tax number and Brescia Register of Companies no. 03066870175
VAT number 01589150984

Notes to the Consolidated Financial Statements at 31 December 2018

General information

The Consolidated Financial Statements at 31 December 2018, as prepared in accordance with Articles 25 et seq. of Legislative Decree 127/1991, reflect the line-by-line consolidation of the financial statements of Industrie Saleri Italo S.p.A. and its subsidiaries, as described in more detail in the “Scope of Consolidation” note. They comprise the Balance Sheet, the Income Statement, the Statement of Cash Flows and the Notes – prepared in accordance with Article 38 of the aforementioned Legislative Decree – which constitute an integral part of the Consolidated Financial Statements.

Moreover, we note that the accounting policies and criteria used when preparing the Consolidated Financial Statements at 31/12/2018 take account of the changes to Italian GAAP introduced by Legislative Decree 139/2015 which implemented Directive 2013/34/EU. Italian Accounting Standards (“OIC”) were amended as a result of Legislative Decree 139/2015.

The Consolidated Financial Statements are presented with prior year comparative figures. It should be noted that, where necessary, the prior year figures have been reclassified in order to produce a consistent comparison between the two periods but without altering the result for the period or Shareholders’ Equity at 31 December 2017.

The financial statements reflect a change in the scope of consolidation between 2017 and 2018, as described in more detail below. The Balance Sheet, Income Statement and Statement of Cash Flows amounts at 31/12/2017 reflect the amounts included in the prior year Consolidated Financial Statements, as approved by the Shareholders’ General Meeting. Appropriate information is provided in the later sections of these Notes to provide an understanding of the effect of the change in the scope of consolidation.

Unless otherwise stated, the figures reported in these Notes are stated in Euro, given that the Euro is the currency in which the majority of the Group’s transactions are carried out.

The Group’s business activities

The Group headed by parent company Industrie Saleri Italo S.p.A., a company founded in 1942, is mainly involved in the design, manufacture and sale of engine cooling systems for the automobile industry and operates in both the original equipment and the aftermarket segments.

The Group’s ability to provide a leading customer base in the automotive industry with a wide range of technologically advanced solutions has enabled the business to grow strongly in recent years. Long-term production contracts have consistently been acquired, guaranteeing a healthy workload for the years ahead.

Through subsidiary Immobiliare Industrial S.r.l., the Group also operates to a minor extent in the real estate industry.

Reporting principles

The Consolidated Financial Statements have been prepared in accordance with Legislative Decree no 127/1991 which implemented in Italy EEC VII Directive on Consolidated reporting. Their preparation also took account of the financial reporting provisions of the Italian Civil Code, as amended by Legislative Decree no 6 of 17 January 2003 as subsequently amended, concerning the “Organic reform of corporate legislation” where applicable to Consolidated financial statements.

The Notes are intended to illustrate, analyse and, in some cases, interpret the amounts reported in the financial statements and contain the disclosures required by Article 38 and by other provisions of Legislative Decree no 127/1991. Such additional information considered necessary to present a true and fair view of the situation has been provided even if not specifically required by law.

Where statutory reporting requirements demand particular information on items and events not present or non-existent, rather than indicating their non-applicability to these Financial Statements, we have chosen to make no mention thereof in order to avoid increasing unnecessarily the information provided in these Notes.

The Group Statement of Cash Flows has been attached in order to complete the financial information provided by the Consolidated Financial Statements.
The Consolidated Financial Statements are also accompanied by a report of the Board of Director's on the Group's operating activities, in terms of Article 40 of Legislative Decree 127/91.
The scope of consolidation, the consolidation principles, the main accounting policies and details of each of the captions reported in the Consolidated Financial Statements are presented below.

The Financial Statements have been prepared in Euro. Roundings have been allocated as follows:

- Roundings of Balance Sheet assets and liabilities have been allocated to Shareholders' equity line item "VII Other reserves", even where said line item has a zero balance;
- Positive roundings of Income Statement items have been allocated to caption "A5 Other revenues and income";
- Negative roundings of Income Statement items have been allocated to caption "B14 Sundry operating expenses.

We note that, on 28 January 2019, the Italian Accounting Standards Board / "OIC" issued the document "Amendments to Italian Accounting Standards". These amendments are already applicable to 2018 financial statements, regard the following accounting standards but had no impact on the Group's Consolidated Financial Statements:

- OIC 7 – Green certificates: this standard has been withdrawn as the law on green certificates terminated in 2018 and they were no longer valid;

- OIC 28 – Equity: a disclosure obligation was introduced in relation to the fair value of derivative contracts regarding company shares for which the number of shares assigned is only determined when the option is actually exercised (i.e. warrants issued by the company). OIC 32 excludes derivatives regarding treasury shares from its scope of application;

- OIC 32 – Derivative instruments: the amendment clarifies the treatment of a hedging operation that gives rise to an onerous contract. This occurs, for example, when the hedge regards the forward purchase of an asset destined for resale. In this case, of the purchase price of the asset plus the amount of the reserve is greater than the future resale value, it cannot be assumed that the negative reserve will be recoverable. In order to clarify the nature of the situation, the OIC has amended the text by changing the income statement caption under which the reversal of a reserve no longer considered recoverable should be classified from D 19 d) writedown of derivative instruments to B 13 other provisions; this is in order to highlight the fact that there is an onerous contract.

Consolidation criteria

The financial statements of companies included in the scope of consolidation that are used for consolidation purposes are those prepared as at 31 December 2018 by the respective Boards of Directors for approval by the shareholders.
Such financial statements have been adjusted, where necessary, to eliminate tax items and to render them consistent with Group accounting principles which are in line with consolidated statutory reporting requirements, as interpreted by the accounting standards issued by Italian Accounting Standards Board ("OIC") and by the IASB (International Accounting Standards Board).

All of the subsidiaries included in the scope of consolidation are consolidated on a line-by-line basis, as follow:

a) assets, liabilities, revenues and costs are included in full, irrespective of the percentage investment held, while the portion of Shareholders' Equity and result for the year pertaining to non-controlling interests are disclosed separately;
b) the carrying amount of investments on consolidated companies is eliminated against the corresponding portion of equity while the assets and liabilities, revenues and costs are included on a line-by-line basis; the difference emerging, at the acquisition date, from the elimination of the carrying amount of an entity included in the scope of consolidation against the corresponding portion of shareholders' equity at present value is allocated, where possible, to the assets and liabilities of the entity in question. Any residual amount is treated as follows:
   - if positive, it is recorded under "consolidation differences" under "intangible assets" and amortised on a straight-line basis over its expected useful life (not more than 20 years);
   - if negative, it is recorded under Shareholders' Equity as a "consolidation reserve" or, where unfavourable results are forecast, under a caption called "consolidation provision for risks and charges";
c) all receivables and payables and transactions between consolidated entities are eliminated;
d) significant gains realised between consolidated entities and profits included in intangible assets coming from consolidated entities have been eliminated;
e) profits and losses from trade or financial transactions between Group companies, net of related deferred tax and/or deferred tax income, are eliminated; an exception to this rule regards positive intercompany margins realised and relating to assets recorded in inventory at the reporting date – such margins are not eliminated in terms of Article 31(2)(d);
f) any provisions made by foreign subsidiaries included in the scope of consolidation in order to take advantage of tax benefits otherwise not available have been eliminated from the Consolidated Financial Statements, net of the related tax effects, based on the tax rate in force at the date of preparation of the Consolidated Financial Statements;
g) income and expenses resulting from transactions between the same entities are eliminated;

h) profits included in tangible and intangible assets and resulting from purchases of goods and services produced within the Group on an arm's length basis are eliminated. The portion of intra-Group revenues relating to such goods and services is reclassified, net of the related "internal profits", under the caption "increases in non-current assets due to internal works ";

i) assets and liabilities expressed in currencies other than the Euro are translated at the reporting date exchange rate; revenues and costs are translated at average rates for the period. The exchange rates used are those officially published. Exchange differences arising from the comparison between opening equity translated at the spot rates at the end of prior period and the difference between the result for the period, translated at average rates, and those obtained from the translation at reporting date rates are allocated directly to consolidated shareholders' equity under the caption "Reserve for translation differences". In detail:

- for balance sheet items, equity items and current assets, the Euro / Renmimbi reporting date exchange rate is Euro 1: Renmimbi 7.8751;
- for income statement items, the average rate for 2018 is Euro 1: Renmimbi 7.8081.

Scope of consolidation

The scope of consolidation at 31 December 2018 includes all of the Italian and foreign entities shown in the following table, in which the Company holds a majority of voting rights and, in any cases, the entities over which it exercises dominant influence.
The financial statements of the Companies in the scope of consolidation have been included on a line-by-line basis.
The companies not included in the scope of consolidation and those in which the percentage interest held is lower than 20% and which constitute non-current assets are valued under the cost method.
For consolidation purposes, the financial statements used are those of the individual companies, as approved or under approval by the respective General Meetings, as reclassified and adjusted to bring them into line with the accounting principles and valuation criteria adopted by the Group.
Compared to 31 December 2017, the only change to the scope of consolidation regards the exclusion of subsidiary Italacciai S.r.l.
On 24 May 2019, parent company Industrie Saleri Italo S.p.A. signed an agreement, subject to deferred execution, to sell the entire investment held in Italacciai S.r.l. to the minority quotaholder.
Following the signature of this agreement, the parent company decided to reclassify the investment to Current Financial Assets as it is now destined for sale.

The following table contains a list of the subsidiaries included in the scope of consolidation on a line-by-line basis:

NAME	REGISTERED OFFICE	SHARE CAPITAL	PERCENTAGE INTEREST
SALERI SHANGHAI CO.LTD	Taifeng road 188/b,Anting Town Jiading district 201.814 Shanghai China	RMB 14,821,016	95.00%
IMMOBILIARE INDUSTRIALE S.R.L.	Via Ruca, 406 – Lumezzane (BS)	Euro 10,000	62.50%

The subsidiaries excluded from the scope of consolidation are listed below:

NAME	REGISTERED OFFICE	Shareholder	SHARE CAPITAL	PERCENTAGE INTEREST
SALERI GMBH	Spitzerstrasse, 14 – Munchen (Deutschland)	Industrie Saleri Italo S.p.A	Euro 25,000	100.00%
IMMOBILIARE INDUSTRIALE DEUTSCHLAND GMBH IN LIQUIDATION	Siemenstrasse, 26 70825 – Korntal Munchingen (Deutschland)	Immobiliare Industriale s.r.l.	Euro 540,000	100.00%
ITALACCIAI S.R.L.	Via Industriale, 120 – Lumezzane (BS)	Industrie Saleri Italo S.p.A.	Euro 100,000	66.71%

Reasons for exclusion

Pursuant to Article 28(2)(a) of Legislative Decree 127/91, we note that the following companies have been excluded from the scope of consolidation as their financial statements are immaterial in relation to the provision of a true and fair representation of the Group's balance sheet and financial position:

- **Saleri Gmbh** – company that essentially operates as a branch office on the German market;
- **Immobiliare Industriale Deutschland Gmbh in liquidation**, controlled by Immobiliare Industriale S.r.l. – the company originally owned a property leased to third parties and is now at an advanced stage of liquidation as it has sold the only asset it held. At the date of these Notes, the last formal steps for the liquidation of the legal entity were still in progress. The liquidation process has not produced any significant effects on the company. Subsidiaries **Société Civile Immobilière IP in liquidation and Saleri Iberica Immobiliare Industriale S.L. in liquidation**, already excluded from the scope of consolidation at 31 December 2017, completed their liquidation process and were cancelled during the year.

As stated above, the reason for the exclusion from the scope of consolidation of subsidiary **Italacciai S.r.l.** is the fact that a binding, preliminary agreement – subject to deferred execution - for the sale of the entire investment held by the Company (66.71%) to the minority quotaholder at an agreed price of € 1,000 has been signed.

Accounting policies and valuation criteria

The accounting policies and valuation criteria adopted by the Company in preparing the attached Financial Statements are those required by the applicable legislation (Article 2423(2) of the Italian Civil Code), as well as by the accounting standards issued by the OIC – Italian Accounting Standards Board – and, where they are lacking, those issued by the IASB (International Accounting Standards Board).
The Financial Statements have been prepared clearly and provide a true and fair representation of the Group's balance sheet and financial situation and its result for the year.
Further information is provided in the notes on each caption.
The criteria used when preparing the Financial Statements at 31 December 2018 are those used in the separate financial statements of the parent company which prepares the consolidated financial statements. They are consistent with those used when preparing the prior year Consolidation Financial Statements, especially with regard to valuations and the consistent application of the same principles.
The amounts reported in the Financial Statements have been measured using the general prudence and accrual principles, on a going concern basis and taking account of the economic function of each asset and liability considered.

Prudence

Application of the prudence principle involved the separate measurement of each component item of the individual asset or liability captions, in order to avoid offsetting of losses that should be recognised and profits that should not as they have not been realised.

Accruals

In accordance with the accrual principle, the effect of transactions and other events has been accounted for and allocated to the period to which such transactions and events refer and not to those in which the related cash movements (collections and payments) take place.

Going concern issue

Group Management has prepared the 2018 Consolidated Financial Statements on a going concern basis. This decision was taken in light of i) full subscription in 2018 of the share capital increase totalling Euro 23 million by new shareholder Quaestio Capital SGR S.p.A. (Euro 15 million) and the Saleri Family (Euro 8 million), ii) the conclusion of a framework agreement with the financial creditors for the restructuring of debt and the reduction of financial expenses, iii) signature of a payment agreement with the insurance company in relation to full compensation for the damages caused by the fire in January 2018 2018), iv) the confirmed competitive positioning in terms of product and process innovation (nomination by one of the Group's leading customers for the long-term supply of an innovative pump to manage engine cooling, as conceived and developed by the Parent Company) and v) the resulting consolidated profitability and the sold equity and financial structure.

Consistent application of accounting policies and valuation methods is essential to ensure the comparability of the financial statements from one reporting period to another.
Details of the most significant accounting policies and valuation criteria applied during the period are provided below.

Intangible assets

Intangible assets are recorded at purchase or production cost, including related expenses, and amortised on a straight-line basis.
Start-up and expansion costs are reported under the relevant caption and amortised over their useful life which cannot exceed five years.
Development costs are expenses in the Income Statement for the period in which they are incurred. This is except for expenses relating to projects designed to realise new products whose sale on a commercial basis – with margins sufficient to enable recovery of the expenses incurred – is realistically foreseeable. Deferred development costs are amortised over a period of not more than five years.
Leasehold improvements made during the period are amortised over the residual period of the related lease/rental agreement.
The consolidation difference (disclosed separately under Balance Sheet caption B.I.5 bis) emerges upon preparation of the Consolidated Financial Statements when the carrying amount of investments is eliminated for the first time against the corresponding portion of equity of the subsidiaries. Any excess that cannot be allocated to individual asses of the entities included in the consolidation is recorded under the caption "Consolidation difference", where requirements are met; this caption is amortised based on its useful life i.e. the period over which economic benefits are expected to be enjoyed.

Other items included in intangible assets but not specifically mentioned here are recorded in the Financial Statements at purchase cost and amortised on a straight-line basis over their estimated useful lives which cannot exceed five years.
Where required by the Italian Civil Code, the above items have been recognised with the agreement of the Board of Statutory Auditors.
Intangible assets whose fair value at the reporting date is permanently impaired compared to the amortised cost determined as above are adjusted to bring them into line with their fair value; the amount and reasons for any impairment adjustments made to intangible assets are disclosed, with specific reference to their involvement in the future generation of profits, their estimated useful life and, insofar as relevant, their market value. Details of differences with adjustments made in prior periods are also shown and their impact on the results for the period is highlighted.
During the reporting periods, conditions requiring impairment adjustments to be made to intangible assets did not materialise.

Tangible assets

Tangible assets are recorded at purchase or production cost, adjusted for certain assets in application of specific monetary revaluation laws, as reported on a specific schedule. Cost includes related expenses and direct and indirect expenses insofar as reasonably attributable to the asset until the time the assets become available for use.
Tangible assets are systematically depreciated every year on a straight-line basis using rates determined based on the residual useful lives of the assets.

The depreciation rates used are unchanged compared to prior year and are in line with those established by the Finance Ministry Decree of 31/12/1988, as follows:

Category	Rate
► Land and buildings	
Industrial buildings	3.00%
► Plant and machinery	
General plant and machinery	10.00%
Specific plant and machinery	10.00-9.00%
► Industrial and commercial equipment	
Equipment	25.00-18.00%
Prototype Equipment	50.00%
► Other tangible assets	
Office furniture and equipment	12.00%
Electronic office equipment	20.00%
Motor vehicles	25.00%
Internal means of transport	20.00%
Assets costing not more than Euro 516.46	100.00%

Ordinary maintenance expenses are charged in full to the Income Statement. Incremental maintenance expenses are allocated to the relevant tangible asset and depreciated over the remaining useful life of that asset.
Tangible assets under construction are valued at cost including direct and indirect related expenses and disclosed under the asset caption reserved for them.
Tangible assets purchased under finance leases with a final purchase option are recognised as assets in the period in which the final purchase option is exercised.
Any assets subject to sale and purchase with a final return obligation are recorded in the Balance Sheet of the seller.

Tangible assets whose fair value at the reporting date is permanently impaired compared to the depreciated cost determined as above are adjusted to bring them into line with their fair value; the amount and reasons for any impairment adjustments made to tangible assets are disclosed, with specific reference to their involvement in the future generation of profits, their estimated useful life and, insofar as relevant, their market value. Details of differences with adjustments made in prior periods are also shown and their impact on the results for the period is highlighted.

During the reporting period, certain assets were adjusted for impairment as there were indicators of impairment of their carrying amount, as described in more detail in the Note on "Land and Buildings".

Financial assets

Investments in subsidiaries and associated companies

Investments in subsidiaries and associated companies classified as non-current assets are measured at purchase and/or subscription cost. Cost is adjusted for impairment if the subsidiaries/associated companies have incurred losses and sufficient profits to absorb said losses are not foreseeable in the immediate future. Investments recorded under non-current financial assets represent a permanent, strategic investment by the Company. Investments that are not considered long-term are classified as current assets.

Other investments and non-current securities

Securities constituting short-term investments have been measured at the lower of purchase or subscription cost and fair value.

Inventory, securities and current financial assets

Inventory, securities and current financial assets are recorded at the lower of purchase cost – including direct related expenses – and estimated realisable amount, based on market trends.

The cost calculation methods adopted are as follows:

- for raw and ancillary materials, purchase cost is determined applying the weighted average cost method;
- for finished goods and work in progress, production cost includes the purchase cost of raw materials and components determined as above plus the portion of direct and indirect production costs ("general production costs") reasonably attributable to them, also taking account of the percentage of completion of the production phase they have reached;
- for some items such as prototypes and equipment ("tooling"), purchase cost is determined using the specific cost method;

Estimated realisable amount, based on market trends, is determined based on the current prices-costs and prices-revenues of inventory at the reporting date. If estimated realisable amount is lower than purchase or production cost, the inventory is written down accordingly by means of an allocation to the inventory provision.
The value of obsolete and slow moving inventory has been written down based on their possible future utilisation or realisation by means of an allocation to the inventory obsolescence provision.

Receivables

Receivables are classified as non-current assets or as current assets based on their destination/origin in relation to ordinary activities. They are reported at estimated realisable amount, after the provision for bad debts calculated in relation to the risk of bad debts resulting from a specific analysis of each balance and taking account of historical bad debt trends and the country risk; the amount recorded in the bad debt provision is considered reasonable in relation to expected bad debts. Where necessary, this amount is obtained by means of direct adjustment to specific receivables on a detailed basis.

Receivables due after more than 12 months are recorded using the amortised cost method, taking account of the time factor. The amortised cost method is not applied when the effective interest rate is not significantly different than the market interest rate or when the effects of application of the amortised cost method are immaterial compared to the method already adopted.

Receivables include invoices issued and invoices not yet issued but referring to transactions relating to the reporting period.

Receivables denominated in foreign currency are initially recognised at the spot exchange rate in force at the transaction date. At the reporting date, foreign currency receivables are restated at the reporting date spot rate. When realised, exchange gains and losses are recorded in the Income Statement. Any unrealised net exchange gain resulting from translation of foreign currency receivables is allocated to a non-distributable reserve until realised.

Receivables are derecognised from the Balance Sheet when the right to receive cash flows is extinguished and substantially all of the risks and rewards of title to the asset have been transferred or if the receivable is definitively considered non-recoverable after all necessary recovery procedures have been completed.

Any receivables from customers involved in insolvency proceedings or in a state of proven economic distress which render enforcement measures pointless are written off in full or to the extent that information obtained or the procedures in progress lead to the conclusion that they will prove uncollectable.

Cash and cash equivalents

This caption contains all cash and cash equivalents held by the Group, whether on hand or in bank accounts. They are reported at nominal amount.

Prepaid expenses and accrued income, accrued expenses and deferred income

Prepaid expenses and accrued income include income relating to the period but collectible in future periods and expenses incurred before the reporting date but relating to future periods. Accrued expenses and deferred income include expenses relating to the period but payable in future periods and income already received by the reporting date but relating to future periods.

Provisions for risks and charges

Provisions for risks and charges have been created to cover losses or liabilities of a determinate nature, which are certain or probable, but whose amount or due date could not be determined at the reporting date.
Provisions for risks and charges also include the provision for "taxation, including deferred tax" which includes amounts relating to probable tax liabilities whose amount or due date is uncertain and which originate from tax assessments not

yet finalised or ongoing tax disputes or similar circumstances. The provision "for taxation, including deferred tax" includes deferred tax liabilities determined based on taxable temporary differences.
These provisions were calculated in accordance with the prudence and accrual principles. No general provisions for risks without any economic justification have been created.

Employee severance indemnity ("TFR") provision

The employee severance indemnity provision represents the Parent Company's effective commitment towards each employee, as determined in accordance with current legislation in each country and for the Italian companies, in particular, in accordance with the terms of Article 2120 of the Italian Civil Code, national collective labour agreements and supplementary local agreements. Therefore, the "Employee severance indemnity provision" includes indemnities accruing in favour of employees at the reporting date, net of advances paid and after deducting partial advances maturing and paid. For the Italian companies, following supplementary pension reform in 2006, amounts accruing from 1 January 2007 onwards may be maintained in the company or allocated to a supplementary pension fund, as the employee chooses.
This liability is subject to index-based revaluation.

Payables

Payables falling due within a year are stated at nominal amount and include, where applicable, interest accruing and due at the reporting date.

Payables falling due after more than a year are recorded using the amortised cost method, taking account of the time factor. The amortised cost method is not applied when the effective interest rate is not significantly different than the market interest rate or when the effects of application of the amortised cost method are immaterial compared to the method already adopted.

Payables include invoices received and invoices yet to be received but for services relating to the reporting period.

Payables are derecognised from the Balance Sheet when the specific contractual obligation is extinguished.

Derivative instruments

Derivative instruments classified as held for trading - as they do not fulfil hedge account requirements or if they were entered into to manage the main risks (interest rate risk and exchange risk) to which the Group is exposed, they have not been designated for hedge accounting. Changes in fair value are recorded in the Balance Sheet and in the Income Statement under captions D18 or D19.
Derivatives embedded in other financial instruments must also be measured at fair value. An embedded derivative is separated from the primary contract and accounted for as a derivative instrument only if:

a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the primary contract. There is a close relationship in cases where the hybrid contract is entered into in accordance with market practice;

b) all elements of the definition of derivative instrument provided by OIC 32.11 are satisfied.

Translation of amounts denominated in foreign currency

Receivables and payables originally expressed in foreign currency are translated into Euro at the historical rates on the date they arose. Exchange differences realised upon settlement of payables and collection of receivables in foreign currency are recorded in the Income Statement.

Foreign currency receivables outstanding at the reporting date have been translated into Euro at the reporting date exchange rate. Exchange gains and losses arising in this way have been recorded in the Income Statement under caption C.17-bis "Exchange gains/losses ", while allocating an amount equal to any net gain arising to a non-distributable equity reserve until the time of realisation.

Revenue, income, costs and expenses

Revenue and expenses are recorded in the Income Statement on an accrual basis, while recognising prepaid expenses and accrued income, accrued expenses and deferred income, in accordance with the prudence principle.
Revenue and income, costs and expenses are recorded net of returns, discounts, allowances and bonuses, as well as any taxes directly related to the sale of products and the provision of services.
Revenue from the sale of products is recognised upon change of ownership which normally coincides with shipment or delivery. Revenue for services is recognised when the services have been rendered.
Revenue relating to contract work in progress is recognised in proportion to the percentage of completion of the works.
Revenue and income, costs and expenses relating to transactions in foreign currency are determined at the spot rate on the date when the related transaction took place.
Income and expenses relating to sale and purchase transactions with a future return obligation, including the difference between forward price and spot price, are recognised on an accrual basis.
Gains on finance lease transactions are allocated over the period of the finance lease agreement. Financial income and revenue from services are recognised on an accrual basis.

Taxes on income for the period

Current taxes, deferred taxes and deferred tax income are calculated applying tax rules in the countries where the consolidated companies are based.
Current taxes are determined based on a realistic estimate of the expense payable in application of current tax legislation; the related liability is stated net of payments on account, withholding taxes suffered and tax credits under the caption "Tax payables"; any net receivable is recorded under "Tax receivables".
Deferred taxes are calculated in the financial statements of the individual consolidated entities based on temporary differences between the amount attributed to assets and liabilities for statutory reporting purposes and the amount attributed to the same assets and liabilities for tax purposes; they are also recorded in the consolidated financial statements in relation to differences generated by consolidation adjustments. Deferred tax assets, including the benefit of tax loss carry-forwards, are recognised under the relevant current assets caption. The tax benefit of tax loss carry-forwards is recognised when it is reasonably certain that it will be realised.
Once again in 2018, the consolidated taxation arrangement elected for by Industrie Saleri Italo S.p.A. together with subsidiary Immobiliare Industriale S.r.l. for the period 2016-2018 was again in operation.
The related rules, as contained in Articles 117-129 of Legislative Decree 917/86, as subsequently amended and integrated, involve the determination for corporate income tax (IRES) purposes of an overall amount of taxable income consisting of the sum of the income and/or losses of the parent company and the participating subsidiaries. This leads to a single tax payment or to a single tax receivable that may be collected or carried forward by the parent company. The parent company also carries forward any consolidated tax loss.

Finance lease contracts

Finance lease contracts have been accounted for in accordance with the finance lease method required by IAS 17.
Therefore, the related tangible assets have been capitalised and are reported net of accumulated depreciation. The outstanding principal payable is reported as a liability. Interest expense and depreciation have been recorded in the Income Statement in place of the finance lease instalments.

Use of estimates

Preparation of the Consolidated Financial Statements requires the use of estimates and assumptions that affect the value of assets and liabilities at the reporting date. Inevitably, the actual results that will subsequently materialise may differ from these estimates.
In particular, estimates are used to determine the useful life of tangible assets and to record the related depreciation, to make provisions for bad debts and for inventory obsolescence, to make writedowns, to provide for employee benefits and to provide for taxation and other items. Estimates and assumptions are revised periodically and the effects of every change are reflected in the Income Statement for the period in which the estimate is revised.

Changes to accounting policies and valuation criteria

We note that in these Financial Statements no changes have been made to accounting policies and valuation criteria compared to prior year. This is except for foreign currency assets and liabilities which have been measured in accordance with the new requirements of Article 2426 (8-bis) of the Italian Civil Code.

Exceptions in terms of article 2423 (4) of the Italian Civil Code

No exceptions in terms of Article 2423(4) of the Italian Civil Code were made when preparing the Financial Statements.

Comparability of account balances

When preparing the Consolidated Financial Statements, certain items were reclassified and the prior year consolidated financial statements were adjusted accordingly in order to make the amounts reported in the Financial Statements for the two reporting periods suitable for comparison in terms of Article 2423-ter of the Italian Civil Code. In more detail:

- payables to pension funds for employee severance indemnity/TFR: Euro 186,183 reclassified from caption D13 (payables to social security and pensions institutions) to caption D14 (Other payables);
- customs duties on purchases: Euro 181,499 reclassified from caption B14 (sundry operating expenses) to caption B6 (raw, ancillary and consumable materials and goods.

Notes to the balance sheet

Non-current assets

Intangible assets

Movements	Start-up and expansion costs	Development costs	Patents and intellectual property rights	Concessions, licences, trademarks and similar rights	Assets in progress and payments on account	Other	Total
Historical Cost	110,920	1,992,496	1,163,249	87,333	1,789,225	5,147,438	10,290,661
Previous Revaluations	-	-	-	-	-	-	-
Accumulated Amortisation	(66,552)	(1,581,497)	(877,860)	(83,800)	-	(3,217,090)	(5,826,799)
Previous Writedowns	-	-	-	-	-	(277,747)	(277,747)
Opening amount	44,368	410,999	285,389	3,533	1,789,225	1,652,601	4,186,115
Additions during the year	-	777,028	57,104	-	444,582	2,607,095	3,885,809
Change in scope of consolidation (cost)	-	-	-	(87,333)	-	(25,939)	(113,272)
Change in scope of consolidation (Accum. Amort'n)	-	-	-	83,800	-	2,882	86,682
Reclassifications	-	1,367,218	-	-	(1,367,218)	-	-
Movements to other caption during period	-	-	-	-	-	-	-
Disposals (historical cost)	-	-	-	-	-	(1,002,029)	(1,002,029)
Disposals (Accum. Amort'n)	-	-	-	-	-	387,861	387,861
Revaluations during year	-	-	-	-	-	-	-
Amortisation for the year	(22,184)	(586,407)	(273,991)	-	-	(879,729)	(1,762,311)
Writedowns for the year	-	-	-	-	-	-	-
Other Changes	-	-	1	-	-	(3,679)	(3,678)
Total changes	(22,184)	1,557,839	(216,886)	(3,533)	(922,636)	1,086,462	1,479,062
Historical cost	110,920	4,136,742	1,220,354	-	866,589	6,722,886	13,057,491
Revaluations	-	-	-	-	-	-	-
Accumulated amortisation	(88,736)	(2,167,904)	(1,151,851)	-	-	(3,706,076)	(7,114,567)
Writedowns	-	-	-	-	-	(277,747)	(277,747)
Net carrying amount at 31/12/2018	22,184	1,968,838	68,503	-	866,589	2,739,063	5,665,177

The amounts reported under "Changes to Scope of Consolidation (cost)" and "Changes to Scope of Consolidation (accumulated amortisation) entirely refer to the effects of deconsolidation of amounts relating to subsidiary Italacciai S.r.l.

Start-up and expansion costs

The amount of Euro 22,184 (against Euro 44,368 at 31 December 2017), net of accumulated amortisation of Euro 88,736, entirely refers to deferred expenses relating to the spin-off operation in 2015 whereby subsidiary Immobiliare Industriale S.r.l. was established.

Development costs

The amount of Euro 1,968,838 (against Euro 410,999 at 31 December 2017), net of accumulated amortisation of Euro 2,167,904, refers to development costs wholly incurred by the Parent Company.
Once again in 2018, the Parent Company carried out intensive research and development activities into technological innovation. Further details are provided in the Directors' Report.
With regard to development activities alone, in 2018, the Parent Company incurred personnel costs totalling around Euro 1,445,275. Based on a careful analysis

of available information on the number of hours spent on development projects already assigned (i.e. projects for which a final contract has been signed) or under assignment (projects which the Company reasonably believes will be confirmed by a contract) by customers, the Directors concluded that they could capitalise a total amount of Euro 913,274. In more detail:

- Euro 136,245 relating to projects where the development phase has not yet been completed have been recorded under Intangible Assets in progress;
- Euro 777,029 relating to projects where the development phase has been completed have been capitalised under Development costs together with Euro 1,367,217 reclassified from Intangible Assets in progress and relating to previous years (for a total capitalised in 2018 of Euro 2,144,246).

The amount of Euro 200,000 recorded under "Other changes" refers to amounts allocated in prior year to intangible assets which have now been more correctly classified as machinery.

The following table contains the disclosures required by Article 2427(3) in relation to development costs.

	Opening amount	Increases	Decreases	Closing amount
Development costs	410,999	2,144,246	586,407	1,968,838
Total	410,999	2,144,246	586,407	1,968,838

The capitalised costs are amortised over period of not more than five years. This period is normally shorter than the production period of a series. Decreases of Euro 586,407 relate to amortisation for the period.

Patents and intellectual property rights

This item amounts to Euro 68,503 (Euro 285,389 at 31 December 2017) after accumulated amortisation of Euro 1,151,851. It includes:

- Patents of Euro 8,784;
- Software of Euro 56,208.

Increases of Euro 57,104 refer to new software purchased by the Parent Company (Euro 53,472) while the remainder relates to subsidiary Saleri Shanghai.

This category of intangible assets is amortised on a straight-line basis over a period of three years. Amortisation for 2018 amounted to Euro 273,991 (Euro 320,820 in 2017).

Concessions, licences, trademarks and similar rights

At 31 December 2018, this caption had a zero balance. It previously referred to the Software licences of subsidiary Italacciai S.r.l. which has now been deconsolidated.

Intangible assets in progress and payments on account

This balance amounts to Euro 866,589 (Euro 1,789,225 at 31 December 2017) and entirely consists of payments on account relating to the Parent Company. In more detail, the balance includes:

- Euro 161,203 of internal development costs incurred in relation to development projects in progress. As already noted under the caption "Development costs", additions for 2018 amount to Euro 136,245. Once reclassified to the relevant asset category as described above, these capitalised costs will be amortised over five years commencing from the date of completion of the development phase;
- Euro 80,433 of payments on account on capex incurred in relation to the leasehold property at Provaglio; the amount entirely consists of additions for the period;
- Euro 624,953 of capex on new business software that has not yet completed its testing and release phase; the increase in such costs for the period was Euro 227,903.

During the reporting period, projects of Euro 1,367,218 that completed the development stage were reclassified and capitalised under "Development costs".

Other intangible assets

This caption amounts to Euro 2,739,063 (Euro 1,652,601 at 31 December 2017) after accumulated amortisation of Euro 3,706,076 and an impairment provision of Euro 277,747. The balance has recorded a net increase of Euro 1,086,462.

This balance and changes thereon are detailed below:

Industrie Saleri Italo S.p.A.

This item, amounting to Euro 2,343,962 (Euro 1,022,180 at 31 December 2017), refers to:

- Leasehold improvements of Euro 1,910,629 (Euro 614,168 at 31 December 2017);
- Other deferred costs of Euro 433,333 (Euro 685,759 at 31 December 2017).

The balance is stated net of an impairment provision of Euro 277,747 that was recorded in prior years in terms of Article 2426(1)(3) of the Italian Civil Code and Italian Accounting Standard OIC 9. This provision was recorded after certain intangible assets were tested for impairment.

The overall increase – net of amortisation for the year – was due to the following:

- total additions of Euro 2,607,095, of which around Euro 2,013,719 of leasehold improvements to the new production facility in Provaglio d'Iseo. This capex mainly regarded the setting-up of the plants, certain building work and modifications to the building to ensure it met the production and quality standards essential to the type of business conducted by Industrie Saleri Italo S.p.A.

- the write-off – while recognising a loss on disposal – of the net carrying amount of Euro 614,168 of all items capitalised under "Leasehold improvements" at the Saleri C property following the fire on 11 January 2018 which led the Competent Government Authorities to declare the building unsuitable for use – consequently, it was no longer possible to recover the value of the capex incurred on said property.

Saleri Shanghai Co.Ltd

This item, amounting to Euro 395,101 (Euro 607,363 at 31 December 2017), refers to leasehold improvements. There have been no changes to the balance other than for amortisation for the year.

Tangible assets

Movements	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other tangible assets	Assets under construction and payments on account	Total
► Historical cost	30,237,422	72,955,285	29,280,131	5,378,090	160,493	138,011,421
► Previous revaluations	10,098,051	-	-	-	-	10,098,051
► Accumulated depreciation	(6,251,252)	(37,399,688)	(24,542,823)	(3,801,406)	-	(71,995,169)
► Previous writedowns	-	(200,000)	-	-	-	(200,000)
Opening amount	34,084,221	35,355,597	4,737,308	1,576,684	160,493	75,914,303
► Additions during the year	40,530	4,498,259	2,747,128	696,984	3,321,554	11,304,455
► Change in scope of consolidation (cost)	-	(2,928,019)	(1,260,916)	(217,911)	-	(4,406,846)
► Change in scope of consolidation (Accum. Depre'n)	-	2,197,426	901,708	186,744	-	3,285,878
► Reclassifications	-	51,816	47,895	-	(99,711)	-
► Movements to other caption during period	-	-	-	-	-	-
► Disposals (historical cost)	(9,523)	(1,120,999)	(395,381)	(232,261)	(16,750)	(1,774,914)
► Disposals (Accum. Depr'n)	1,244	929,175	156,776	158,039	-	1,245,234
► Revaluations during year	-	-	-	-	-	-
► Amortisation for the year	(979,313)	(5,569,127)	(2,334,181)	(550,555)	-	(9,433,176)
► Writedowns for the year	(1,560,488)	-	-	-	-	(1,560,488)
► Other Changes	-	626,920	(28,941)	(483)	(377)	597,119
Total changes	(2,507,550)	(1,314,549)	(165,912)	40,557	3,204,716	(742,738)
► Historical cost	30,268,429	74,083,262	30,389,916	5,624,419	3,365,209	143,731,235
► Revaluations	10,098,051	-	-	-	-	10,098,051
► Accumulated depreciation	(7,229,321)	(39,842,214)	(25,818,520)	(4,007,178)	-	(76,897,233)
► Writedowns	(1,560,488)	(200,000)	-	-	-	(1,760,488)
Net carrying amount at 31/12/2018	31,576,671	34,041,048	4,571,396	1,617,241	3,365,209	75,171,565

The amounts shown under "Changes to Scope of Consolidation" entirely refer to the effect of deconsolidating the amounts relating to subsidiary Italacciai S.r.l. "Other changes" mainly refers to adjustments to calculations regarding certain finance lease agreements accounted for in accordance with IAS 17 (adjustments due to the rescheduling of these agreements as part of the broader debt restructuring agreement with the banks) and, to a residual extent, to the difference generated in relation to the opening balance of Saleri Shanghai Co. Ltd. as measured at the exchange rate used for 2017.

In accordance with the law, the following table shows the tangible assets reported in the Financial Statements of Group companies at 31 December 2018 that have been subject to monetary revaluations and exceptions to statutory valuation methods.

Description	Revaluation Decree Law no.185/2008	Total revaluations
► Land and buildings	10,098,051	10,098,051
Total	10,098,051	10,098,051

Land and Buildings

This caption amounts to Euro 31,576,671 (Euro 34,084,221 at 31 December 2017) and is stated net of accumulated depreciation of Euro 7,229,321 (Euro 6,251,252 at 31 December 2017).

The balance and the main changes thereon are detailed below:

Industrie Saleri Italo S.p.A.

The balance amounts to Euro 20,624,215 (Euro 22,820,887 at 31 December 2017) after accumulated depreciation of Euro 4,365,756.

During the period, the balance

- increased by Euro 40,530 as a result of urbanisation expenses paid in relation to the extension of the factory building at Via Ruca, 406;
- decreased by Euro 8,279 as a result of disposals relating to assets in the Saleri C building which was destroyed by the fire on 11 January 2018;
- decreased by a further Euro 1,560,488 as a result of impairment adjustments recorded during the period. These adjustments were made in order to take account of currently foreseeable future cash flows, insofar as recorded under the caption.

Immobiliare Industriale S.r.l.

This balance amounts to Euro 10,952,456 (Euro 11,263,334 at 31 December 2017) after accumulated depreciation of Euro 2,863,585 (Euro 2,552,687 at 31 December 2017). It refers to property including Land and Buildings in the Municipality of Capriano del Colle (BS), via Industriale n.11. During the period, the balance decreased by Euro 310,878, entirely as a result of depreciation for the year.

Plant and machinery

This balance, amounting to Euro 34,041,048 (against Euro 35,355,597 at 31 December 2017), is stated net of accumulated depreciation of Euro 39,842,218 (Euro 39,190,365 at 31 December 2017). It includes plant and machinery of Euro 16,589,675 (Euro 19,083,996 at 31 December 2017) held under finance leases and reported in accordance with IAS 17.

The balance may be detailed as follows:

Industrie Saleri Italo S.p.A.

The balance amounts to Euro 31,922,600 (Euro 32,203,409 at 31 December 2017) after accumulated depreciation of Euro 38,284,923 (Euro 36,215,576 at 31 December 2017).

During the period, the balance decreased by a total of Euro 1,314,549. This was the net result of:

- increases totalling Euro 4,550,075 (of which Euro 82,944 for assets acquired under finance leases and Euro 51,816 reclassified from Assets under construction on receipt of the final balance re payments on account previously made); these increases mainly refer to the costs incurred to restore production plant damaged by the fire in January 2018 and to purchase new or replacement production lines (in place of some of those totally destroyed by the fire) needed to carry out the contracts acquired by the Company and to equip the new production facility ("Saleri E") in Provaglio d'Iseo. The increases also include maintenance capex incurred to ensure machinery is kept updated and fully efficient; increases of Euro 51,816 regard reclassifications from Assets under construction in relation to payments on account previously made for projects completed during the year;
- decreases totalling Euro 191,824 almost entirely consisting of the net carrying amount of assets destroyed by fire on 11 January 2018;
- an increase of Euro 646,246 due to changes to the lease repayment scheduling and the related calculations for several finance lease agreements accounted for in accordance with IAS17 (adjustment due to rescheduling of these finance leases as part of the broader debt restructuring with a number of banks);
- depreciation totalling Euro 5,285,306 (Euro 5,139,130 in 2017)

The amount reported in the Financial Statements is stated net of the impairment provision of Euro 200,000 recorded in 2017 following analysis of old plant and machinery not yet fully depreciated whose value had been impaired.

Saleri Shanghai Co.Ltd

The balance amounts to Euro 2,118,448 (Euro 2,421,595 at 31 December 2017) after accumulated depreciation of Euro 1,017,291 (Euro 777,363 at 31 December 2017).

Net decreases for the period totalled Euro 303,147, mainly because of depreciation and, to a minor extent, other changes.

Italacciai S.r.l.

There is a zero balance following the deconsolidation of the subsidiary. At 31 December 2017, the subsidiary's reported plant and machinery of Euro 748,413 after accumulated depreciation of Euro 2,179,606.

Industrial and Commercial Equipment

This caption amounts to Euro 4,571,396 (Euro 4,737,308 at 31 December 2017) and is stated net of accumulated depreciation of Euro 25,818,520 (Euro 24,542,824 at 31 December 2017).

The balance and the main changes during the period may be detailed as follows:

Industrie Saleri Italo S.p.A.

The balance amounts to Euro 3,938,161 (Euro 3,584,954 at 31 December 2017) after accumulated depreciation of Euro 24,982,260 (Euro 22,938,395 at 31 December 2017).

During the period, the balance increased by a total of Euro 353,207. This was the net effect of:

- increases totalling Euro 2,649,294 (of which Euro 47,895 reclassified from Assets under construction); as stated for the increases to "Plant and Machinery", the increases to "Industrial and Commercial Equipment" also mainly refer to costs incurred to restore industrial equipment damaged by the fire in January 2018 and to purchase new or replacement equipment (some in place of equipment totally destroyed by the fire) needed to carry out the contracts acquired by the Company and to equip the new production facility ("Saleri E") in Provaglio d'Iseo. Part of the cost was also incurred as part of the capex necessary to instal the additional production capacity needed to cope with the new long-term production contracts acquired by the Original Equipment division;
- decreases totalling Euro 157,075 and regarding the net carrying amount of the assets destroyed in the fire on 11 January 2018;
- depreciation for the period of Euro 2,115,330;
- other minor changes.

Saleri Shanghai Co.Ltd

The balance amounts to Euro 633,235 (Euro 793,146 at 31 December 2017) after accumulated depreciation of Euro 836,260 (Euro 702,720 at 31 December 2017).

The net decrease for the year amounted to Euro 159,911 and was due to:

- increases/additions totalling Euro 145,729;
- decreases due to disposals of Euro 81,530 (net carrying amount);
- depreciation for the year of Euro 218,851;
- other minor changes.

Other tangible assets

This caption amounts to Euro 1,617,241 (Euro 1,576,684 at 31 December 2017) and is stated net of accumulated depreciation of Euro 4,007,178 (Euro 3,845,023 at 31 December 2017).

The balance and the main changes during the period may be detailed as follows:

Industrie Saleri Italo S.p.A.

Ammontano a Euro 1.526.154 (Euro 1.465.930 alla fine dell'esercizio precedente) al netto del fondo ammortamento pari ad Euro 3.914.248 (Euro 3.589.327 alla fine dell'esercizio precedente).

The balance amounts to Euro 1,526,154 (Euro 1,465,930 at 31 December 2017) after accumulated depreciation of Euro 3,914,248 (Euro 3,589,327 at 31 December 2017).

During the period, the balance recorded a net increase of Euro 60,225 as a result of:

- increases/additions totalling Euro 657,420; these increases mainly related to the new site in Provaglio d'Iseo (in particular, furniture and fittings of Euro 102,606, electronic office equipment of Euro 331.339) as well as to cars purchased under finance leases of Euro 212,575 and vehicles of Euro 10,900;
- decreases totalling Euro 73,647, mainly representing the net carrying amount of assets destroyed by the fire on 11 January 2018;
- depreciation for the period of Euro 523,548.

Saleri Shanghai Co.Ltd

The balance amounts to Euro 91,087 (Euro 79,587 at 31 December 2017) after accumulated depreciation of Euro 92,930 (Euro 74,701 at 31 December 2017).

During the period, the balance recorded a net increase of Euro 11,500, as a result of:

- increases / additions totalling Euro 39,564;
- depreciation for the year of Euro 27,006;
- disposals and other minor changes.

Assets under construction and payments on account

Assets under construction and payments on account totalled Euro 3,365,209 (Euro 160,493 at 31 December 2017).

The balance and the main changes during the year may be detailed as follows:

Industrie Saleri Italo S.p.A.

The balance amounts to Euro 2,968,081 (Euro 118,475 at 31 December 2017) and refers to payments made on account during the period towards additions to tangible assets.

During the period, payments on account totalling Euro 2,966,067 were made in relation to new production lines and equipment to cope with the new long-term production contracts acquired by the Original Equipment division.

During the period, Euro 99,711 was reclassified to the relevant tangible asset categories following the completion of the related additions. Decreases for the period totalled Euro 16,750 and mainly referred to the reversal of payments on account made in prior years.

Saleri Shanghai Co.Ltd

The balance amounts to Euro 397,128 (Euro 42,018 at 31 December 2017).

The balance has increased by Euro 355,110 over the period, mainly because of additional payments on account for purchases of moulds.

Financial assets

Total financial assets	Euro
▶ Historical cost	229,034
▶ Previous revaluations	-
▶ Previous writedowns	(12,850)
Opening amount	**216,184**
▶ Acquisitions during the period	-
▶ Reclassifications from another caption	-
▶ Reclassifications to another caption	-
▶ Disposals	(173,583)
▶ Revaluations during the period	-
▶ Writedowns during the period	(5,501)
Amount at 31/12/2018	**37,100**

Investments

Investments in	Subsidiaries	Associated companies	Parent companies	Other companies	Total
▶ Historical cost	198,583	-	-	4,247	202,830
▶ Previous revaluations	-	-	-	-	-
▶ Previous writedowns	-	-	-	-	-
Opening amount	198,583	-	-	4,247	202,830
▶ Acquisitions during the period	-	-	-	-	-
▶ Reclassifications from another caption	-	-	-	-	-
▶ Reclassifications to another caption	-	-	-	-	-
▶ Disposals	(173,583)	-	-	-	(173,583)
▶ Revaluations during the period	-	-	-	-	-
▶ Writedowns during the period	-	-	-	-	-
Amount at 31/12/2018	25,000	-	-	4,247	29,247

Investments in subsidiaries

“Investments in subsidiaries” refers to the following investments not included in the scope of consolidation:

NAME	LOCATION	SHARE CAPITAL - EURO
Saleri Gmbh	Spitzerstrasse,14 Munchen - Germany	25,000
Immobiliare Industriale Deutschland Gmbh in liquidation	Siemenstrasse, 26 70825 – Korntal Munchingen (Germany)	540,000

For subsidiary Saleri Gmbh, the following table presents a comparison between the Book Equity pertaining to the Group and the carrying amount of the investment. It should be noted that:

- the figures for the subsidiary are as at 31.12.2017 – reporting date of the latest, approved financial statements;
- at the date of preparation of these Notes, the financial Statements at 31.12.2018 had not yet been approved;
- although the cost of the investment in Saleri Gmbh is greater than the corresponding portion of Shareholders' Equity, no adjustment has been made as the difference is not felt to reflect any permanent impairment of value. nent impairment of value.

Name	% Interest	Equity	Profit (Loss) for prior year	Share of equity	Carrying amount	Difference
Saleri Gmbh	100.00%	22,879	(4,731)	18,148	25,000	(6,852)
			Total	18,148	25,000	(6,852)

With regard to subsidiary Immobiliare Industriale Deutschland Gmbh in liquidation, as already reported in the Notes to the Consolidated Financial Statements at 31 December 2017, we note that the subsidiary has refunded part of its share capital in the form of an advance on the liquidation proceeds. Therefore, the value of the investment has been written down to zero while the surplus refunded has been recognised as financial income. We note that, at the date of these Notes, the liquidation procedure had not yet been completed but it is reasonable to believe that its completion will not lead to any further, significant refunds.

Other securities

Other securities	Total
Historical cost	19,961
Previous revaluations	-
Previous writedowns	(12,850)
Opening amount	7,111
Acquisitions during the period	-
Reclassifications from other captions	-
Reclassifications to other captions	-
Disposals	-
Revaluations during the period	-
Writedowns during the period	-
Amount at 31/12/2018	7,111

The amount of Euro 7,111 refers to equity investments held and has not changed compared to prior year.

Derivative instruments

Derivative Instruments - Assets	Total
Historical cost	6,243
Previous revaluations	-
Previous writedowns	-
Opening amount	6,243
Acquisitions during the period	-
Reclassifications from other captions	-
Reclassifications to other captions	-
Disposals	-
Revaluations during the period	-
Writedowns during the period	(5,501)
Amount at 31/12/2018	742

This caption entirely refers to the parent company. It includes the reporting date measurement of the positive fair value of the derivative instruments in place at that date. These derivatives have been arranged to hedge the interest rate risk in relation to medium/long-term loans and finance lease agreements at 31 December 2018.

Current assets

Inventory

Description	31/12/17	Change	31/12/18
Raw, ancillary & consumable materials	9,278,704	1,387,146	10,665,850
WIP	4,170,347	(1,139,424)	3,030,923
Finished goods and products	13,166,414	3,330,756	16,497,170
Payments on account	537,881	209,117	746,998
Total	27,153,346	3,787,595	30,940,941

In order to provide a better understanding of the amounts reported and of changes for the year, the following table shows the 31/12/2017 excluding amounts relating to subsidiary Italacciai S.r.l. which left the scope of consolidation in 2018.

Description	Opening amount after changes in scope of consolidation	Change	31/12/18
▸ Raw, ancillary & consumable materials	9,114,890	1,550,960	10,665,850
▸ WIP	3,119,378	(88,455)	3,030,923
▸ Finished goods and products	12,825,275	3,671,895	16,497,170
▸ Payments on account	537,881	209,117	746,998
Total	25,597,424	5,343,517	30,940,941

At 31 December 2018, inventory totalled Euro 30,940,941 and mainly referred to parent company Industrie Saleri Italo S.p.A. (around 92%) and to subsidiary Saleri Shanghai Co. Ltd (around 8% of the total).
Excluding the effect of the deconsolidation of subsidiary Italacciai S.r.l., the increase of Euro 5,398,946 (+21% approx..) compared to 31 December 2017 mainly relates to the inventory of parent company Industrie Saleri Italo S.p.A. (which has increased by around Euro 5,641,790 before consolidation adjustments or by around 25%); in contrast, the inventory of subsidiary Saleri Shanghai Co. Ltd has decreased by around 8% (Euro 242,844).
The increase in the parent company's inventory mainly regarded finished goods (+Euro 3,607,308 or +31% approx..) and raw, ancillary and consumable materials (+Euro 1,532,342 or +19% approx.) as a result of production reorganisation in the aftermath of the fire, an increase in Tooling inventory and speculative purchases of raw materials.
The inventory balance reported above is stated net of the Inventory provision totalling Euro 1,009,418 recorded to take account of obsolete and slow moving items and to report carrying amount at the lower of cost and realisable value. During 2018, the provision was increased by Euro 435,609. As a result of the fire on 11 January 2018, the parent company's inventory at the Saleri C building was totally destroyed. The amount of that inventory at the date of the fire was Euro 8,332,548 before the related inventory provision of Euro 589,035 which was reversed in full. The change in inventory over the year, as reported in the Income Statement, also takes account of the effect of inventory destroyed by fire.

The following table shows movements on the inventory provision.

Inventory provision	31/12/17	Reversal of Saleri C provision	Increase	31/12/18
▸ 1. Raw, ancillary and consumable materials	(687,998)	410,927	(210,533)	(487,604)
▸ 2. WIP and semi-finished goods	(233,520)	95,910	(51,932)	(189,542)
▸ 3. Contract WIP	-	-	-	-
▸ 4. Finished goods	(241,326)	82,198	(173,144)	(332,272)
▸ 5. Payments on account	-	-	-	-
Total	(1,162,844)	589,035	(435,609)	(1,009,418)

Receivables

Here are no receivables relating to transactions that involve a forward return obligation for the purchaser.

Description	31/12/17	Change	31/12/18
▸ Trade receivables	11,584,030	1,510,487	13,094,517
▸ Receivables from non-consolidated subsidiaries	20,689	1,721	22,410
▸ Receivables from associated companies	-	-	-
▸ Receivables from parent companies	-	3,466	3,466
▸ Receivables from entities controlled by parent companies	-	-	-
▸ Tax receivables	1,606,027	759,639	2,365,666
▸ Deferred tax assets	4,076,319	390,515	4,466,834
▸ Receivables from others	610,614	14,674,423	15,285,037
Total	17,897,679	17,340,251	35,237,930

In order to provide a better understanding of the balance, the following table shows the change for the year comparing the closing amount with the opening amount excluding receivables relating to subsidiary Italacciai S.r.l. which left the scope of consolidation in 2018.

Description	Opening amount after change in scope of consolidation	Change	31/12/18
Trade receivables	11,410,000	1,684,517	13,094,517
Receivables from non-consolidated subsidiaries	20,689	1,721	22,410
Receivables from associated companies	-	-	-
Receivables from parent companies	-	3,466	3,466
Receivables from entities controlled by parent companies	-	-	-
Tax receivables	1,478,496	887,170	2,365,666
Deferred tax assets	4,076,319	390,515	4,466,834
Receivables from others	607,353	14,677,684	15,285,037
Total	17,592,857	17,645,073	35,237,930

Excluding the effect of the deconsolidation of subsidiary Italacciai S.r.l., the total change in receivables mainly regards other receivables, trade receivables and tax receivables, as analysed in more detail in the relevant sections of these Notes.

Breakdown by residual duration

Description	31/12/18	Due within a year	Due after more than a year	Of which due after more than five years
Trade receivables	13,094,517	13,094,517	-	-
Receivables from non-consolidated subsidiaries	22,410	22,410	-	-
Receivables from associated companies	-	-	-	-
Receivables from parent companies	3,466	3,466	-	-
Receivables from entities controlled by parent companies	-	-	-	-
Tax receivables	2,365,666	2,365,666	-	-
Deferred tax assets	4,466,834	-	-	-
Receivables from others	15,285,037	15,027,427	257,610	-
Total	35,237,930	30,513,486	257,610	-

Trade receivables

At 31 December 2018, trade receivables amounted to Euro 13,094,517 and mainly referred to parent company The increase of Euro 1,684,517 (excluding changes in the scope of consolidation) compared to 31 December 2017 is mainly due to lower utilisation of non-recourse factoring facilities at 31 December 2018, in line with the Group’s working capital management policies.

Trade receivables are stated net of a provision for bad debts created to take account of collection issues. There were no movements on the provision during the period and it is considered reasonable compared to expected losses on receivables, also in light of ongoing disputes and litigation.

Receivables from non-consolidated subsidiaries

Receivables from subsidiaries amount to Euro 22,410, against Euro 20,689 at 31 December 2017. They mainly refer to receivables from subsidiary Italacciai S.r.l. under a service agreement,

The interest-bearing loan receivable at 31 December 2017 from French subsidiary Societè Civile Immobilière IP in liquidation was repaid during 2018.

Receivables from parent companies

Receivables from parent companies amount to Euro 3,466 and refer to amounts due from parent company El.Fra Holding S.r.l. for advances made to it during the year.

Tax receivables

Description	Industrie Saleri Italo S.p.A.	Immobiliare Industriale S.r.l.	Saleri Shanghai Co. Ltd	Consolidated
▸ IRES receivables	438,269	-	-	438,269
▸ VAT receivables	1,722,102	10,711	10,467	-
▸ Other tax receivables	184,117	-	-	184,117
Total	**2,344,488**	**10,711**	**10,467**	**2,365,666**

The balance of Euro 2,365,666 (Euro 1,478,496 at 31 December 2017 after changes in the scope of consolidation) is analysed as follows:

Industrie Saleri Italo S.p.A.

- “IRES Receivables”, amounting to Euro 438,269: refers to the refund request filed, as consolidating entity, in relation to the non-deduction of IRAP in relation to personnel costs.;
- “VAT Receivables”, amounting to Euro 1,722,102, refers to the VAT balance resulting from the December 2018 VAT return. The amount includes foreign VAT receivables relating to EU countries where the Company has operated directly;
- “Other tax receivables”, amounting to Euro 184,117: mainly refers to tax credits subsequently offset in January 2019.

Immobiliare Industriale S.r.l.

- “VAT Receivables”, amounting to Euro 10,711: refers to the VAT balance resulting from the December 2018 VAT return.

Saleri Shanghai Co.Ltd

- “VAT Receivables”, amounting to Euro 10,467.

Deferred tax assets

Deferred tax assets amount to Euro 4,466,834 (Euro 4,076,319 at 31 December 2017) and mainly comprise the amounts recognised in the financial statements of the parent company and Immobiliare Industriale S.r.l. in relation to temporary differences, in accordance with current tax legislation, as well as in relation to tax losses and to the carry forward of interest expenses deductible in future periods. These deferred tax assets were calculated using an IRES rate of 24%.
A small portion (Euro 47,762) of deferred tax assets were recognised in relation to consolidation adjustments.

Other receivables

The amount of Euro 15,285,037 (Euro 607,353 at 31 December 2017 after changes in the scope of consolidation) almost entirely refers to the parent company and includes:

Receivable within a year:

- Euro 128,585 of Advances to Suppliers for services not yet completed;
- Euro 14,323,150 of Receivables from Insurance Companies for pay-outs relating to the claim for fire damage caused on 11 January 2018 – the related settlement and payment agreements were signed on 28 December 2018. At the date of these Notes, some Euro 13,666,550 of this receivable had been collected;
- Euro 365,019 of Receivables from the Banks for amounts collected from factored debtors that have not been paid over;
- Euro 210,673 of sundry receivables.

Receivable after more than a year:

- Euro 150,480 of guarantee deposits paid, mainly in relation to lease and rental agreements;
- Euro 107,130 of sundry receivables.

Current financial assets

Investments in subsidiaries

The amount of Euro 1,000 refers to the parent company's investment in Italacciai S.r.l. in relation to which a final sale and purchase agreement – subject to deferred execution – was signed on 24 May 2019 to sell the entire investment at a price of Euro 1,000.

Investments in other entities

The amount of Euro 13,294 entirely relates to the parent company. It did not change over the period and includes minority investments in other entities.

Cash and cash equivalents

This balance includes cash on hand of Euro 7,764 plus bank current account balances of Euro 3,034,675.

Description	31/12/17	Change	31/12/18
► Bank and post office accounts	7,356,848	(4,322,173)	3,034,675
► Cash and cash equivalents on hand	33,596	(25,832)	7,764
Total	**7,390,444**	**(4,348,005)**	**3,042,439**

In order to provide a better understanding of the balance, the following table shows the change during the period comparing the closing amount with the opening amount excluding balances relating to subsidiary Italacciai S.r.l. which left the scope of consolidation in 2018.

Description	Opening amount after changes in scope of consolidation	Change	31/12/18
► Bank and post office accounts	7,355,174	(4,320,499)	3,034,675
► Cash and cash equivalents on hand	33,359	(25,595)	7,764
Total	**7,388,533**	**(4,346,094)**	**3,042,439**

This balance may be detailed as follows:

Description	Industrie Saleri Italo S.p.A.	Immobiliare Industriale S.r.l.	Saleri Shanghai Co. Ltd	Consolidated
► Bank and post office accounts	2,120,162	217,305	697,208	3,034,675
► Cash and cash equivalents on hand	5,220	-	2,544	7,764
Total	**2,125,382**	**217,305**	**699,752**	**3,042,439**

The change for the period is due to the cash flow management strategy resulting from decisions regarding the utilisation of available advances / facilities.

Prepaid expenses and accrued income

Description	31/12/17	Change	31/12/18
► Prepaid expenses:			
Contributions to customers	1,289,176	342,931	1,632,107
Insurance policies	18,707	15,540	34,247
Other costs	664,441	(121,194)	543,247
Total	**1,972,324**	**237,277**	**2,209,601**

This item, amounting to Euro 2,209,601 at 31 December 2018, mainly refers to the prepaid expenses of parent company Industrie Saleri Italo S.p.A.
Prepaid contributions to customers refers to contributions charged or for which a payment commitment has already been signed with the customer and which relate to future periods.

Other prepaid expenses mainly refer to maintenance contracts and subscription instalments.

Shareholders' equity

Movements on Group consolidated shareholders' equity

	Opening amount	Allocation of prior year net profit		Other changes			Profit for year	Amount at 31/12/2018
		Allocation to dividends	Other allocations	Increases	Decreases	Reclassif.		
▸ Share capital	5,160,000	-	-	12,762,413	-	-	-	17,922,413
▸ Share premium reserve	-	-	-	10,237,587	-	-	-	10,237,587
▸ Revaluation reserves	2,832,678	-	-	-	-	-	-	2,832,678
▸ Legal reserve	1,032,000	-	-	-	-	-	-	1,032,000
▸ Statutory reserves	-	-	-	-	-	-	-	-
▸ Other reserves								
Consolidation reserve	3,363,056	-	-	16,116	-	-	-	3,379,172
Extraordinary reserve	-	-	-	-	-	-	-	-
Reserve for translation of foreign currency financial statements	(143,132)	-	-	(55,795)	-	-	-	(198,927)
Sundry other reserves	364,052	-	-	-	-	-	-	364,052
Total other reserves	3,583,976	-	-	(39,679)	-	-	-	3,544,297
▸ Cash flow hedge reserve	-	-	-	-	-	-	-	-
▸ Retained earnings (Accumulated losses)	(5,055,365)	-	3,757,008	444,288	(594,707)	-	-	(1,448,776)
▸ Profit (Loss) for the year	3,757,008	-	(3,757,008)	-	-	-	3,390,729	3,390,729
Total shareholders' equity - Group	11,310,297	-	-	23,404,609	(594,707)	-	3,390,729	37,510,928
▸ Capital and reserves of non-controlling interests	3,666,045	-	191,324	-	(43,431)	-	-	3,813,938
▸ Profit (Loss) for year pertaining to non-controlling interests	191,324	-	(191,324)	-	-	-	298,153	298,153
Total shareholders' equity - non-controlling interests	3,857,369	-	-	-	(43,431)	-	298,153	4,112,091
Total consolidated shareholders' equity	15,167,666	-	-	23,404,609	(638,138)	-	3,688,882	41,623,019

Share capital

Share Capital, wholly subscribed and paid at 31 December 2018, amounts to Euro 17,922,413.12 (Euro 5,160,000 at 31 December 2017) and is represented by 3,126,997 shares.

Movements during the year were as follows:

- on 20/04/2018, the quotaholders of holding company El.Fra Holding S.r.l., Luca Saleri and Annacaterina Saleri, subscribed and paid their portion of the share capital increase **("Aucap A")** approved by the Shareholders' General Meeting of 05/04/2018, an amount of Euro 8,000,000;
- on 24/05/2018, holding company quotaholder Quaestio Capital SGR S.p.A., as manager of and on behalf of the Quaestio Italian Growth Fund, subscribed and paid its portion of the share capital increase (**"Aucap B"**) approved by the Shareholders' General Meeting of 05/04/2018, an amount of Euro 4,762,413.12.

Share premium reserve

This reserve was created during the reporting period and amounts to Euro 10,237,587. The amount was paid in the form of a share premium by shareholder Quaestio Capital SGR S.p.A., as manager of and on behalf of the Quaestio Italian Growth Fund, following the share capital increase ("Aucap B") approved by the Shareholders' General Meeting of 05/04/2018.

Revaluation reserves

This balance refers to monetary revaluations carried out in application of the following revaluation laws:

- Law no 413/91 - Euro 84,651;
- Decree Law no. 185/08 - Euro 2,748,027.

Legal reserve

At 31 December 2018, this reserve amounted to Euro 1,032,000 and did not change during the period.

The Share Capital increase means that the reserve has not yet reached the limit permitted by Article 2430 of the Italian Civil Code.

Consolidation reserve

This caption shows a balance of Euro 3,379,172 at 31 December 2018 compared to Euro 3,363,056 at 31 December 2017. The decrease for the year relates to the deconsolidation of subsidiary Italacciai S.r.l. which left the scope of consolidation in 2018.

As stated earlier, on 24 May 2019, parent company Industrie Saleri Italo S.p.A. signed an agreement – subject to deferred execution – to sell its entire investment in Italacciai S.r.l. to the minority quotaholder.

Following signature of this agreement, the parent company has reclassified the investment to Current Financial Assets as it is destined for sale.

Reserve for translation of financial statements in foreign currency

This caption shows a negative balance of Euro 198,927 at 31 December 2018 in relation to the translation of the foreign currency financial statements of subsidiary Saleri Shanghai Co.Ltd.

Sundry other reserves

This item, amounting to Euro 364,052, did not change during the period.

Retained earnings (accumulated losses)

This caption showed accumulated losses of Euro 1,448,776 at 31 December 2018 against accumulated losses of Euro 5,055,365 at 31 December 2017. Movements during the year were as follows:

- An increase of Euro 3,757,008 due to allocation of the Group profit for 2018 to retained earnings;
- A decrease of Euro 150,419 due to consolidation adjustments mainly generated by application of IAS 17 and changes of accounting policies.

Reconciliation between the net profit/(loss) and shareholders' equity of the consolidating entity and the corresponding amounts per the Consolidated Financial Statements

	Year 2018		Year 2017	
Amounts in thousands of Euro	Shareholders' equity	of which Profit for the year	Shareholders' equity	of which Profit for the year
Shareholders' equity and result for the year of the Parent Company	31,726,656	2,056,997	6,669,659	1,459,337
Elimination of carrying amount of investments and proportionate amount of shareholders' equity	2,215,265	-	1,764,480	321,000
Pro-quota results of investee companies	1,246,647	1,246,647	490,463	490,463
Gains net of depreciation/amortisation allocated to fixed assets and consolidation difference at date of acquisition of investments	-	-	-	-
Reversal of treasury shares	-	-	-	-
Elimination of effects of transactions between consolidated companies	(143,284)	2,779	(146,063)	444,071
Alignment of accounting policies	2,465,645	84,306	2,531,758	1,042,137
Restatement of investments at equity	-	-	-	-
Shareholders' equity and result for year pertaining to the Group	**37,510,928**	**3,390,728**	**11,310,297**	**3,757,008**
Shareholders' equity and result for the year pertaining to non-controlling interests	4,112,091	298,153	3,857,369	191,324
Shareholders' equity and result for the year - consolidated	**41,623,019**	**3,688,881**	**15,167,666**	**3,948,332**

Provisions for risks and charges

Description	Provision for taxation, including deferred tax	Provision for derivative instruments	Other provisions	Total provisions for risks and charges
Opening amount	2,834,037	60,624	1,200,000	4,094,661
▸ Changes during the year				
Allocated	193,221		1,400,000	1,593,221
Utilised	(406,237)	(44,515)	(900,000)	(1,350,752)
Other changes	-	-	-	-
Total changes	(213,016)	(44,515)	500,000	242,469
Amount at 31/12/2018	2,621,021	16,109	1,700,000	4,337,130

The “Provision for taxation, including deferred tax”, amounting to Euro 2,621,021, includes taxes resulting from application of IAS 17 and deferred taxes recorded by the parent company in relation to the revaluation of properties performed in 2008 in terms of Decree Law no 185/08 which was not deductible for tax purposes.
The provision “Liabilities for derivatives” entirely refers to the parent company and includes the reporting date measurement of the negative fair value of derivative instruments in place at that date. These derivative instruments have been entered as hedges of the interest rate risk regarding medium/long-term loan agreements and finance lease agreements in place at 31 December 2018.
“Other provisions”, amounting to Euro 1,700,000, entirely refer to the parent company and include:

- Euro 300,000 of prudent provisions made for sundry litigation in progress or threatened which, at the date of approval of the financial statements, had not yet been settled; no additional provision was made in relation to these risks during the period;
- Euro 1,400,000 of product warranty provisions. During the period, utilisation of the provision totalled Euro 900,000 while increases totalled Euro 1,400,000; the provision is reasonable in relation to the estimated costs that the company could be called upon to sustain to fulfil its contractual warranty commitments.

Employee severance indemnity (“TFR”) provision

The TFR provision has been calculated, for the parent company, in accordance with Article 2120 of the Italian Civil Code, taking account of legislative requirements and the specific provisions of employment contracts and professional agreements. It includes annual accruals and revaluations performed based on ISTAT coefficients. It represents the effective liability accruing in favour of employees in accordance with the law and applicable labour agreements, considering all forms of continuous remuneration.
The provision represents the total of the individual indemnities accruing in favour of employees at the reporting date. It is stated net of payments made on account and amounts paid to social security and pensions institutions and pension funds, in accordance with current legislation. It represents the companies’ liability towards employees at the reporting date.
The following table provides details of the creation and utilisation of the provision (Art. 2427(4) of the Italian Civil Code).

Description	Employee Severance Indemnity - "TFR"
Opening amount	2,460,390
▸ Changes during the year	
Change in scope of consolidation	928,941
Allocated during year	(896,734)
Utilised during year	(910,749)
Other changes	(878,542)
Amount at 31 December 2018	1,581,848

“Other changes” of Euro 910,749 refers to the opening balance of subsidiary Italacciai S.r.l..

Payables

There are no payables relating to transactions involving a future return obligation for the buyer.

Description	31/12/17	Change	31/12/18
Bonds	-	-	-
Convertible bonds	-	-	-
Shareholders' loans payable	-	-	-
Bank borrowing	63,036,760	(15,187,153)	47,849,607
Payables to other lenders	16,128,530	(2,543,045)	13,585,485
Payments on account	599,530	276,568	876,098
Trade payables	27,504,905	8,529,155	36,034,060
Payables in form of credit instruments	-	-	-
Payables to non-consolidated subsidiaries	-	101,837	101,837
Payables to associated companies	-	-	-
Payables to parent companies	-	-	-
Payables to companies controlled by parent companies	-	-	-
Tax payables	1,449,731	(394,307)	1,055,424
Payables to social security and pensions institutions	1,191,976	221,364	1,413,340
Other payables	3,025,436	250,277	3,275,713
Total	**112,936,868**	**(8,745,304)**	**104,191,564**

Excluding the effect of the deconsolidation of subsidiary Italacciai S.r.l., the overall reduction of payables mainly relates to decreases in bank borrowings and payables to other lenders that were only partially offset by an increase in trade payables. All of the main increases in the various types of payable are analysed in more detail in the respective sections below.

Description	Opening amount after effect of change in scope of consolidation	Change	31/12/18
Bonds	-	-	-
Convertible bonds	-	-	-
Shareholders' loans payable	-	-	-
Bank borrowing	61,658,682	(13,809,075)	47,849,607
Payables to other lenders	16,128,530	(2,543,045)	13,585,485
Payments on account	599,530	276,568	876,098
Trade payables	27,011,324	9,022,736	36,034,060
Payables in form of credit instruments	-	-	-
Payables to non-consolidated subsidiaries	-	101,837	101,837
Payables to associated companies	-	-	-
Payables to parent companies	-	-	-
Payables to companies controlled by parent companies	-	-	-
Tax payables	1,354,680	(299,256)	1,055,424
Payables to social security and pensions institutions	1,133,171	280,169	1,413,340
Other payables	2,804,000	471,713	3,275,713
Total	**110,689,917**	**(6,498,353)**	**104,191,564**

Breakdown of residual duration

Description	31/12/18	Due within a year	Due after more than a year	Of which due after more than five years
▶ Bank borrowing	47,849,607	21,059,976	26,789,631	2,662,791
▶ Payables to other lenders	13,585,485	3,857,443	9,728,042	-
▶ Payments on account	876,098	876,098	-	-
▶ Trade payables	36,034,060	36,034,060	-	-
▶ Payables in form of credit instruments	-	-	-	-
▶ Payables to non-consolidated subsidiaries	101,837	101,837	-	-
▶ Tax payables	1,055,424	1,055,424	-	-
▶ Payables to social security and pensions institutions	1,413,340	1,413,340	-	-
▶ Other payables	3,275,713	3,275,713	-	-
Total	**104,191,564**	**67,673,891**	**36,517,673**	**2,662,791**

Bank borrowing

Description	31/12/17	31/12/18	Change
▶ a) Bank borrowing due within a year	44,759,656	21,059,976	(23,699,680)
Lines of credit	1,250,000	-	(1,250,000)
Current account overdrafts	1,704,353	184,147	(1,520,206)
Loans	17,831,208	10,603,335	(7,227,873)
Advances on receivables	23,974,095	10,272,494	(13,701,601)
Other payables	-	-	-
▶ b) Bank borrowing due after more than a year	18,277,104	26,789,631	8,512,527
Loans	18,277,104	26,789,631	8,512,527
Total bank borrowing	**63,036,760**	**47,849,607**	**(15,187,153)**

In order to provide a better understanding of the balance, the following table shows the change for the year comparing the closing amount with the opening amount excluding balances relating to subsidiary Italacciai S.r.l. which left the scope of consolidation in 2018.

Description	Opening amount after effect of change in scope of consolidation	31/12/18	Change
a) Bank borrowing due within a year	43,381,578	21,059,976	(22,321,602)
Lines of credit	1,250,000	-	(1,250,000)
Current account overdrafts	1,269,857	184,147	(1,085,710)
Loans	17,530,634	10,603,335	(6,927,299)
Advances on receivables	23,331,087	10,272,494	(13,058,593)
Other payables	-	-	-
b) Bank borrowing due after more than a year	18,277,104	26,789,631	8,512,527
Loans	18,277,104	26,789,631	8,512,527
Advances on receivables	-	-	-
Other payables	-	-	-
Total bank borrowing	**61,658,682**	**47,849,607**	**(13,809,075)**

The following bank borrowings – as also analysed by maturity date – are secured on the assets of the companies included in the scope of consolidation:

Description	Due within a year	Due after between 1 year and 5 years	Due after more than 5 years	Total	Owner of mortgaged asset
Popolare di Sondrio loan	-	-	-	-	Industrie Saleri Italo S.p.A.
BPM loan	99,336	418,106	332,214	849,657	Industrie Saleri Italo S.p.A.
BPM loan	179,162	754,105	599,198	1,532,466	Industrie Saleri Italo S.p.A.
ICCREA loan	117,627	494,227	320,316	932,170	Industrie Saleri Italo S.p.A.
ICCREA loan	417,765	1,760,430	1,411,063	3,589,258	Immobiliare Industriale S.r.l.
Mediocredito loan	684,210	-	-	684,210	Immobiliare Industriale S.r.l.
Total	**1,498,100**	**3,426,869**	**2,662,791**	**7,587,761**	

For secured bank borrowing, reference should be made to the detailed notes below for each consolidated company. The amount of the guarantees shown in the table represents the value of the guarantees in relation to the outstanding debt at the reporting date.

The total amount of Euro 47,849,607, against Euro 63,036,760 at 31 December 2017, is detailed as follows:

Industrie Saleri Italo S.p.A.

Description	31/12/17	31/12/18	Change
a) Bank borrowing due within a year	39,018,307	18,372,619	20,645,688
Lines of credit	1,250,000	-	1,250,000
Current account overdrafts	1,269,857	184,054	1,085,803
Loans	13,167,363	7,916,071	5,251,292
Advances on receivables	23,331,087	10,272,494	13,058,593
Other payables	-	-	-
b) Bank borrowing due after more than a year	17,172,542	26,789,631	(6,293,178)
Loans	17,172,542	26,789,631	(9,617,089)
Advances on receivables	-	-	-
Other payables	-	-	-
Total bank borrowing	**56,190,849**	**45,162,250**	**14,352,510**

Bank Borrowing amounts to Euro 45,162,250 and has decreased by Euro 11,028,599 compared to 31 December 2017. Bank borrowing due within a year amounts to Euro 18,372,619 and has decreased by more than Euro 20 million (Euro 20,645,688) compared to 31 December 2017. Meanwhile, bank borrowing due after more than a year amounts to Euro 26,789,631 and has increased compared to 31 December 2017 (Euro 9,617,089). These significant changes in the debt structure (made possible by the Framework Agreement signed with the banks in May 2018), together with the improvement in the financial and equity situation following the share capital increase described earlier in these Notes, has improved the Group's finances (as well as strengthening its equity structure).
Loans payable at 31 December 2018 (both current and non-current) amount to Euro 34,705,703 and are analysed as follows:

- Secured loan with an outstanding amount of Euro 849,657 and original principal of Euro 2,000,000. The loan is repayable in 84 monthly instalments in arrears between 31/12/2017 and 31/12/2024; interest is index linked to the Euribor 3 month rate;
- Secured loan with an outstanding amount of Euro 1,532,466 and original principal of Euro 5,000,000. The loan is repayable in 84 monthly instalments in arrears between 31/12/2017 and 31/12/2024; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 498,511 and original principal of Euro 750,000. The loan is repayable over 60 months between 31/12/2017 and 31/12/2022; interest is index-linked to the Euribor 3 month rate;
- Secured syndicated loan with an outstanding amount of Euro 932,170, original principal of Euro 2,000,000. The loan is repayable over 84 months between 31/12/2017 and 31/12/2024; interest is index-linked to the Euribor 3 month rate;
- Secured syndicated loan with an outstanding amount of Euro 3,589,258, original principal of Euro 4,000,000. The loan is repayable in 108 monthly instalments in arrears between 31/12/2017 and 31/12/2026; interest is index-linked to the Euribor 3 month rate;
- Unsecured syndicated loan with an outstanding amount of Euro 444,463, original principal of Euro 2,000,000. The loan is repayable in 9 six-monthly instalments in arrears between 31/12/2017 and 31/05/2022; interest is index-linked to the Euribor 6 month rate;
- Unsecured loan with an outstanding amount of Euro 2,550,793 and original principal of Euro 5,000,000. The loan is repayable in 60 monthly instalments in arrears between 31/12/2017 and 31/12/2022; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 357,431 and original principal of Euro 1,500,000. The loan is repayable in 60 monthly instalments in arrears between 31/12/2017 and 31/12/2022; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 435,970 and original principal of Euro 1,000,000. The loan is repayable in 61 monthly instalments in arrears between 31/12/2017 and 10/01/2023; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 696,738 and original principal of Euro 1,000,000. The loan is repayable in 60 monthly instalments in arrears between 31/12/2017 and 10/01/2023; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 887,559 and original principal of Euro 2,000,000. The loan is repayable in 60 monthly instalments in arrears between 31/12/2017 and 01/01/2023; interest is index linked to the Euribor 1 month rate;
- Unsecured loan with an outstanding amount of Euro 3,254,866 and original principal of Euro 4,000,000. The loan is repayable in 60 monthly instalments in arrears between 31/12/2017 and 01/01/2023; interest is index linked to the Euribor 1 month rate;
- Unsecured loan with an outstanding amount of Euro 727,895 and original principal of Euro 2,000,000. The loan is repayable in 60 monthly instalments in arrears between 31/12/2017 and 31/12/2022; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 3,959,318 and original principal of Euro 7,000,000. The loan is repayable in 60 monthly instalments in arrears between 31/12/2017 and 31/12/2022; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 1,115,132 and original principal of Euro 1,500,000. The loan is repayable in 60 monthly instalments in arrears between 31/12/2017 and 31/12/2022; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 831,774 and original principal of Euro 2,000,000. The loan is repayable in 60 monthly instalments in arrears between 31/12/2017 and 31/12/2022; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 1,555,913 and original principal of Euro 4,000,000. The loan is repayable in 60 monthly instalments in arrears between 31/12/2017 and 31/12/2022; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 1,367,744 and original principal of Euro 1,700,000. The loan is repayable in 59 monthly instalments in arrears between 31/12/2017 and 30/11/2022; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 399,494 and original principal of Euro 459,510 disbursed in 2018. The loan is repayable in 54 monthly instalments in arrears between 01/06/2018 and 30/11/2022; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 316,787 and original principal of Euro 472,044 disbursed in 2018. The loan is repayable in 24 monthly instalments in arrears between 30/04/2018 and 30/04/2020; interest is index linked to the Euribor 6 month rate;
- Unsecured loan with an outstanding amount of Euro 282,793 and original principal of Euro 316,553 disbursed in 2018. The loan is repayable in 53 monthly instalments in arrears between 21/06/2018 and 31/12/2022; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 2,000,180 and original principal of Euro 2,500,000 disbursed in 2018. The loan is repayable in 60 monthly instalments in arrears between 31/12/2017 and 31/12/2022; interest is index linked to the Euribor 3 month rate;

- Unsecured loan with an outstanding amount of Euro 1,912,081 and original principal of Euro 2,109,713 disbursed in 2018. The loan is repayable in 53 monthly instalments in arrears between 19/06/2018 and 01/12/2022; interest is index linked to the Euribor 1 month rate;
- Unsecured loan with an outstanding amount of Euro 2,815,945 and original principal of Euro 3,500,000 disbursed in 2018. The loan is repayable in 59 monthly instalments in arrears between 31/12/2017 and 30/11/2022; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 404,101 and original principal of Euro 500,000 disbursed in 2018. The loan is repayable in 60 monthly instalments in arrears between 31/12/2017 and 31/12/2022; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 673,305 and original principal of Euro 1,000,000 disbursed in 2018. The loan is repayable in 60 monthly instalments in arrears between 31/12/2017 and 31/12/2022; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 313,358 and original principal of Euro 400,000 disbursed in 2018. The loan is repayable in 59 monthly instalments in arrears between 31/12/2017 and 30/11/2022; interest is index linked to the Euribor 3 month rate;

Reference should be made to the Directors' Report for more detailed information about the availability of borrowing facilities to fund working capital and to meet any extraordinary cash requirements.

Immobiliare Industriale S.r.l.

Description	31/12/17	31/12/18	Change
► a) Bank borrowing due within a year	989,631	688,234	(301,397)
Current account overdrafts	-	93	93
Loans	989,631	688,141	(301,490)
Altri debiti:	-	-	-
► b) Bank borrowing due after more than a year	1,104,562	0	(1,104,562)
Loans	1,104,562	0	(1,104,562)
Total bank borrowing	2,094,193	688,234	(1,405,959)

The current account payables refer to expenses for the period not yet charged at 31/12/2018.
Loans payable totalling Euro 688,141 (Euro 2,094,193 at 31 December 2017) include the following:

- Secured loan with an outstanding amount of Euro 688,141and original principal of Euro 6,500,000. The loan is repayable over 132 months between 31/03/2009 and 27/09/2019; repayment is due in 22 six- monthly instalments in arrears and interest is index-linked to the Euribor 3 month rate.

The unsecured loan from Banca Popolare di Sondrio which had an outstanding amount of Euro 725,666 at 31/12/2017 and was repayable by 30/04/2020 was unwound on 03/12/2018.

Saleri Shanghai Co.Ltd

Bank borrowing amounting to Euro 1,999,123, against Euro 3,373,640 at 31 December 2017, entirely consists of unsecured loans resulting from the consolidation of short-term borrowing.

Payables to other lenders

This caption amounts to Euro 13,585,485 (Euro 16,128,530 at 31 December 2017) and refers to payables towards leasing companies and factoring companies.

The significant decrease compared to prior year (Euro 2,543,045) is due to the aforementioned Framework Agreement signed by the parent company with its financial creditors (leasing companies included). The negotiation period necessary to reach agreement on the Framework Agreement (it commenced in June 2017 and ended, as already stated, in May 2018) led, in prior year, to a suspension of repayments in agreement with the financial creditors (leasing companies) and the level of debt increased accordingly. When the Framework Agreement was signed, it had retroactive effect and the overdue amounts were included in the new restructured liability.

Payments on account

This item entirely relates to the Parent Company. It amounts to Euro 876,098 (Euro 599,530 at 31 December 2017) and refers to advances received from customers towards the supply of equipment.

Trade payables

Description	Industrie Saleri Italo S.p.A.	Immobiliare Industriale S.r.l.	Saleri Shanghai Co. Ltd	Consolidated
▶ Trade Payables	33,770,382	2,048	2,261,630	36,034,060
Total	**33,770,382**	**2,048**	**2,261,630**	**36,034,060**

Trade payables amount to Euro 36,034,060 against Euro 27,504,905 at 31 December 2017 (Euro 27,011,324 after the change in the scope of consolidation). They include liabilities for purchases of goods and services based on agreed contractual terms and conditions. The increase of Euro 9,022,736 compared to prior year (after the change in the scope of consolidation) mainly relates to the parent company's trade payables which increased after several payments due by the reporting date were postponed until 2019; there has been no significant change in average days purchases outstanding.

Payables to non-consolidated subsidiaries

The amount of Euro 101,837 entirely relates to the Parent Company. It includes a trade payable to Italacciai S.r.l. and the net amount of receivables/payables with that company and resulting from the settlement of tax balances (receivables and payables) transferred under the Group taxation arrangement.

Tax payables

Tax payables amount to Euro 1,055,424 against Euro 1,449,731 at 31 December 2017 (Euro 1,354,680 after the change in the scope of consolidation) and are detailed as follows:

Description	Industrie Saleri Italo S.p.A.	Immobiliare Industriale S.r.l.	Saleri Shanghai Co. Ltd	Consolidated
▶ IRAP payable	156,202	3,974	-	160,176
▶ IRES payable	152,451	-	-	152,451
▶ Taxes with held at source from employees	500,834	-	-	500,834
▶ Taxes with held at source from freelance professionals	14,885	-	-	14,885
▶ VAT payable	157,149	-	-	157,149
▶ Other tax payables	-	-	69,929	69,929
Total	**981,521**	**3,974**	**69,929**	**1,055,424**

Payables to social security and pensions institutions

Payables to Social Security and Pensions Institutions amount to Euro 1,413,340 against Euro 1,191,976 (Euro 1,133,171 after changes to the scope of consolidation). They are detailed as follows:

Description	Industrie Saleri Italo S.p.A.	Immobiliare Industriale S.r.l.	Saleri Shanghai Co. Ltd	Consolidated
► Payables to INPS	912,739	-	-	912,739
► Payables to INAIL	7,874	-	-	7,874
► Payables to other social security and pensions institutions	492,727	-	-	492,727
Total	1,413,340	-	-	1,413,340

Excluding the effect of the deconsolidation of Italacciai Srl, the balance has increased by Euro 280,169, partly because of an increase in the burden of contributions on salaries paid in the month of December and on deferred remuneration (accrued holiday pay and leave) of Parent Company employees.

Payables to others

Payables to Others amount to Euro 3,275,713 against Euro 3,025,436 at 31 December 2017 (Euro 2,804,000 after changes to the scope of consolidation).
They are detailed as follows:

Description	Industrie Saleri Italo S.p.A.	Immobiliare Industriale S.r.l.	Saleri Shanghai Co. Ltd	Consolidated
► Payables to employees	2,567,462	-	-	2,567,462
► Payables to directors and statutory auditors	42,323	-	-	42,323
► Other	632,665	-	33,263	665,928
Total	3,242,450	-	33,263	3,275,713

Excluding the effect of the deconsolidation of Italacciai Srl, the balance has increased by Euro 471,713 mainly because of a higher liability for deferred remuneration (accrued holiday pay and leave) of parent company employees.

Accrued expenses and deferred income

Accrued expenses and deferred income amount to Euro 585,486 against Euro 84,104 at 31 December 2017. They mainly comprise the parent company's deferred income in relation to contributions from customers.

Notes to the income statement

The analysis of the Income Statement items should be read with reference to the “Comparability of Account Balances” paragraph in the introductory section of these Notes.

Value of production

Revenue from sales and services

This item amounts to Euro 154,550,726 against Euro 168,957,249 in 2017. It mainly refers to the Parent Company and regards the production and sale of cooling pumps.

Description	2017	Change	2018
Revenue from sales	168,957,249	(14,406,523)	154,550,726
Total	**168,957,249**	**(14,406,523)**	**154,550,726**

In order to provide a better understanding of the amounts reported, the following table shows the change for the year comparing the 2018 figure with the 2017 figure as adjusted to exclude amounts relating to subsidiary Italacciai S.r.l. which left the scope of consolidation in 2018.

Description	2017 - after effect of change in scope of consolidation	Change	2018
Revenue from sales	164,016,759	(9,466,033)	154,550,726
Total	**164,016,759**	**(9,466,033)**	**154,550,726**

Revenue from the sale of goods is stated after returns, discounts and bonuses agreed and granted to customers and warranty chargebacks. Revenue from sales also includes chargebacks such as contributions debited to customers for the development of new products and the construction of related equipment, as well as a small amount of incidental selling expenses (shipping and packaging).

Excluding the effect of the change in the scope of consolidation, the Euro 9,466,033 decrease in revenue from sales (-6% approx..) is mainly due to a fall in the parent company’s sales to third parties (-Euro 10,253,960 or -6.5% approx.) recorded as a result of the fire at the start of the year and described in detail elsewhere in these Notes and in the Directors’ Report. This decrease was only partially offset by an increase in third party sales by subsidiary Saleri Shanghai (increase of around Euro 800,000 or +6% compared to prior year).

Breakdown of sales by geographical area

Geographical area	2018
Italy	12,971,677
Other countries	141,579,049
Total	**154,550,726**

Increases in fixed assets due to internal works

During the period, the Group capitalised development costs of Euro 913,274. The costs capitalised entirely refer to the cost of personnel directly employed in development projects for contracts whose award had been confirmed at 31 December 2018 but which had not yet gone into mass production. See the Note on Development Costs and Intangible Assets in Progress for further information.

Other revenue and income

Other revenue totals Euro 26,979,205 against Euro 1,604,586 in 2017 (Euro 1,587 after adjustment for the change in scope of consolidation). It mainly refers to the other revenue of the parent company (Euro 26,746,054 after consolidation adjustments) and includes:

- Euro 22,473,150 of insurance pay-outs in respect of the claim regarding the fire on 11 January 2018 for which insurance payment agreements have already been signed;
- Euro 500,643 of chargebacks to customers and suppliers of costs incurred that are not attributable to the Group;
- Euro 279,784 of chargebacks for equipment realised in-house;
- Euro 1,348,402 of contributions received from customers towards the purchase of equipment;
- Euro 257,198 of project cancellation costs charged to customers;
- Euro 109,028 of gains on fixed asset disposals.

The total increase of Euro 25,391,719 compared to prior year (after the effect of deconsolidation of Italacciai S.r.l.) is mainly due to the insurance pay-outs described above and to contributions received towards equipment purchase costs.

Cost of production

The following table contains details of cost of production for 2017 and 2018.

	2017	2018	Change	% Change
► Raw, ancillary and consumable materials and goods for resale	85,062,512	96,051,109	10,988,597	12.9%
► Services	31,088,564	41,001,771	9,913,207	31.9%
► Use of third party assets - Lease and rental costs	741,330	1,685,109	943,779	127.3%
► Personnel:				
a) wages and salaries	17,781,273	18,192,448	411,175	2.3%
b) social contributions	4,891,198	5,295,046	403,848	8.3%
c) employee severance indemnity - TFR	976,453	928,941	(47,512)	-4.9%
d) retirement benefits and similar obligations		-	-	-
e) other personnel costs	232,020	212,810	(19,210)	-8.3%
► Depreciation, amortisation and writedowns:				
a) intangible assets	1,614,053	1,762,311	148,258	9.2%
b) tangible assets	9,465,878	9,433,176	(32,702)	-0.3%
c) other writedowns of non-current assets	277,747	1,560,488	1,282,741	461.8%
d) writedowns of current receivabes	116,680		(116,680)	-100.0%
► Changes in inventory of raw, ancillary and consumable materials and goods	8,593,009	(1,219,457)	(9,812,466)	-114.2%
► Provisions for risks	-	-	-	-
► Other provisions	754,790	1,400,000	645,210	85.5%
► Sundry operating expenses	1,659,533	3,314,796	1,655,263	99.7%
► Rounding	-	-	-	-
Total	163,255,040	179,618,548	16,363,508	-

In order to provide a better understanding of the amounts reported, we present below a similar table in which the 2017 figures have been adjusted to exclude amounts relating to subsidiary Italacciai S.r.l. which let the scope of consolidation in 2018; the differences between 2017 and 2018 are, therefore, stated after the effect of said deconsolidation.

	2017 after effect of change in scope of consolidation	2018	Change	% Change
► Raw, ancillary and consumable materials and goods for resale	82,863,374	96,051,109	13,187,735	15.9%
► Services	30,059,687	41,001,771	10,942,084	36.4%
► Use of third party assets - Lease and rental costs	654,247	1,685,109	1,030,862	157.6%
► Personnel:				
a) wages and salaries	16,627,409	18,192,448	1,565,039	9.4%
b) social contributions	4,518,854	5,295,046	776,192	17.2%
c) employee severance indemnity - TFR	879,528	928,941	49,413	5.6%
d) retirement benefits and similar obligations	-	-	-	-
e) other personnel costs	227,157	212,810	(14,347)	-6.3%
► Depreciation, amortisation and writedowns:				
a) intangible assets	1,609,472	1,762,311	152,839	9.5%
b) tangible assets	9,352,582	9,433,176	80,594	0.9%
c) other writedowns of non-current assets	277,747	1,560,488	1,282,741	461.8%
d) writedowns of current receivabes	114,409	-	(114,409)	-100.0%
► Changes in inventory of raw, ancillary and consumable materials and goods	8,585,985	(1,219,457)	(9,805,442)	-114.2%
► Provisions for risks	-	-	-	-
► Other provisions	754,790	1,400,000	645,210	85.5%
► Sundry operating expenses	1,625,523	3,314,796	1,689,273	103.9%
► Rounding	-	-	-	-
Total	158,150,764	179,618,548	21,467,784	-

The following paragraphs contain details of the main cost categories and the most significant changes compared to prior year.

Costs for raw, ancillary and consumable materials and goods

These costs are reported in the Income Statement net of adjustments for returns, discounts, allowances and bonuses. They amount to Euro 96,051,109 for 2018 against Euro 84,881,013 in 2017 (Euro 82,863,374 after the effect of deconsolidation of subsidiary Italacciai S.r.l.).

The increase of Euro 13,187,735 is mainly due to an increase in costs for purchases of raw, ancillary and consumable materials for the Parent Company (+Euro 12,368,892 or +15%). This is due, on the one hand, to the need to replenish inventory in 2018 to replace the goods stored in the Saleri C Building destroyed in the fire on 11 January 2018 and, on the other hand, to the fact that purchases were comparatively low in 2017 because of general policies to contain costs and make the entire supply chain more efficient; the contribution made by these policies was diminished in 2018 because of the fire.

The cost increase compared to prior year should, however, be considered together with the change in related inventory. Inventory of raw, ancillary and consumable materials and goods increased by Euro 1,274,885 whereas it decreased by Euro 8,585,985 in 2017. Therefore, the total cost recorded in the consolidated income statement for 2018 in relation to purchases of such inventory was Euro 94,776,224 i.e. some Euro 3,326,865 more (or +4% approx.) than in prior year (Euro 91,449,359).

Reference should be made to the Directors' Report for further information on this cost category and on the change compared to prior year.

Costs for services

Description	Industrie Saleri Italo S.p.A.	Immobiliare Industriale S.r.l.	Saleri Shanghai Co. Ltd	Consolidated
► Costs for Services	40,109,598	30,054	862,119	41,001,771
Total	**40,109,598**	**30,054**	**862,119**	**41,001,771**

Costs for services amount to Euro 41,001,771 against Euro 31,088,564 in 2017 (Euro 30,059,687 after the effect of deconsolidation of subsidiary Italacciai S.r.l.). They mainly comprise the Parent Company's costs for services, as follows:

Description	2017	2018	Change
► Industrial services	20,150,681	22,190,714	2,040,033
► Consulting	1,482,650	2,472,618	989,968
► General expenses	5,745,402	13,352,980	7,607,578
► Other services	1,323,191	2,093,286	770,095
Total	**28,701,924**	**40,109,598**	**11,407,674**

Industrial services mainly refer to outsourced services including die-casting and other casting, machining, other processing and treatments regarding certain stages of the production process. The increase in costs for services mainly regards costs for outsourced services (machining and other), for die-casting and other casting and other industrial expenses which were higher in 2018 than in 2017 also as a result of the previously mentioned fire. In the case of costs for industrial services, too, the higher cost incurred compared to prior year was indirectly countered by a corresponding increase in inventory of semi-finished and finished goods.

Consulting costs include accounting, management and tax consulting but also sales and marketing advice and services in relation to patents, quality control and the environment. The overall increase of Euro 989,969 mainly regards costs for technical consulting (up by Euro 576,435), tax and management consulting (up by Euro 351,573) and sales and marketing consulting (up by Euro 100,468) while there were lower costs for environmental consulting and assistance with patent applications (down by Euro 80,349).

General Expenses include costs for Freight, Utilities, Maintenance and other costs relating to the Group's activities. The overall increase of Euro 7,607,578 is mainly due to: maintenance costs (up by Euro 4,141,930), largely extraordinary maintenance in response to the fire (maintenance work to repair damaged machinery); freight costs (up by Euro 2,867,430) also because of the relocation of production to the new Saleri E factory in Provaglio d'Iseo; emoluments of the new Board of Directors; and non-recurring legal expenses incurred for the reorganisation of corporate governance during the period. We also highlight the increase in temporary labour costs – also non-recurring – which was another consequence of the fire.

Other services is a minor cost item. The increase compared to prior year is mainly due to the increase in research and development costs, patents and project cancellation costs, costs for security services and costs for the fees of the Board of Statutory Auditors and the external auditors.

The increase in costs for services for the Parent Company was partially offset by a decrease in costs for services for the other consolidated companies (Euro 465,590).

Use of third party assets – lease and rental costs

This item amounts to Euro 1,685,109 against Euro 741,330 in 2017 (Euro 701,463 after the effect of deconsolidation of subsidiary Italacciai S.r.l.).
It is analysed as follows:

Description	Industrie Saleri Italo S.p.A.	Immobiliare Industriale S.r.l.	Saleri Shanghai Co. Ltd	Consolidated
▸ Use of third party assets	1,152,140	-	532,969	1,685,109
Total	1,152,140	-	532,969	1,685,109

The balance includes hire and rental expenses, largely relating to the Parent Company and to subsidiary Saleri Shanghai Co., Ltd.

Personnel costs

Personnel costs amount to Euro 24,629,245 against Euro 23,880,944 in 2017 (Euro 22,256,598 after the effect of deconsolidation of subsidiary Italacciai S.r.l.) and are analysed below

This item comprises all employee related expenses including merit based increases, promotions, seniority increases, accrued holiday pay and provisions required by law and collective labour agreements.

Description	Industrie Saleri Italo S.p.A.	Immobiliare Industriale S.r.l.	Saleri Shanghai Co. Ltd	Consolidated
▸ Personnel costs				
a) wages and salaries	17,260,335	-	932,113	18,192,448
b) social contributions	4,867,661	-	427,385	5,295,046
c) employee severance indemnity - TFR	928,941	-	-	928,941
d) retirement benefits and similar obligations	-	-	-	-
e) other personnel costs	111,546	-	101,264	212,810
Total	23,168,483	-	1,460,762	24,629,245

The overall increase of Euro 2,372,647 (or +11% approx., after the change in scope of consolidation) compared to prior year includes Euro 2,138,075 (or +9% approx.) relating to the parent company – mainly because of an increase in the average number of employees and the deployment of more personnel in the assembly area due to temporary use of assembly lines with limited automation (after the fire) - and Euro 234,572 (or +16% approx.) relating to the Chinese subsidiary mainly because of higher average salaries.

Amortisation of intangible assets

Amortisation of intangible assets (Euro 1,762,311 against Euro 1,614,053 in 2017) has already been commented upon in the Note on intangible assets. Excluding the amount relating to subsidiary Italacciai S.r.l., amortisation for the year ended 31/12/2017 totals Euro 1,608,885.

Depreciation of tangible assets

Depreciation of tangible assets (Euro 9,433,176 against Euro 9,465,878 in 2017) has already been commented upon in the Note on tangible assets. We note, however, that it has been calculated based on the useful life of tangible assets and their use in the production process.
Excluding the amount relating to subsidiary Italacciai S.r.l., depreciation for the year ended 31/12/2017 totals Euro 9,258,884.

Other writedowns of non-current assets

As stated in the note on tangible assets, the Company has written down tangible assets by Euro 1,560,488. It should be recalled that the writedown recorded in prior year related to intangible assets.

Writedowns of current receivables

During the year, there were no writedowns of current receivables as non was required. The writedown of Euro 116,680 recorded in prior year included Euro 30,000 for financial receivables and Euro 86,680 for trade receivables.

Other provisions

This item, amounting to Euro 1,400,000, refers to allocations to the product warranty provision and, as in prior year, it relates entirely to the Parent Company. In 2017, the amount allocated was Euro 754,790.

Sundry operating expenses

Sundry operating expenses amount to Euro 3,314,7955 against Euro 1,659,533 in 2017 (Euro 1,625,523 after the effect of deconsolidation of subsidiary Italacciai S.r.l.) and are detailed as follows:

Description	Industrie Saleri Italo S.p.A.	Immobiliare Industriale S.r.l.	Saleri Shanghai Co. Ltd	Consolidated
Sundry operating expenses	2,213,628	71,000	1,030,168	3,314,796
Total	**2,213,628**	**71,000**	**1,030,168**	**3,314,796**

The increase compared to prior year includes Euro 1,460,345 regarding the Parent Company mainly for losses on assets recorded as a result of the fire (Euro 826,756) and for higher indemnities paid to customers (+ Euro 391,628); the increase also includes Euro 273,961 relating to the Chinese subsidiary.

These increases were only partially offset by the decrease in sundry operating expenses relating to subsidiary Immobiliare Industriale S.r.l. (-Euro 55,755).

Financial income and expenses

Income from investments

The amount of Euro 459,641 compares with Euro 2,463,855 in prior year and mainly consists of income received following the liquidation of foreign subsidiaries and associated companies as follows:

- Societè Civile Immobilière IP in liquidation - Euro 162,102
- Saleri Iberica Immobiliare Industriale SL in liquidation - Euro 197,539

The additional amount of Euro 100,000 recorded under this caption represents an advance on liquidation proceeds received on 13/08/2018 from associated company Immobiliare Industriale Deutschland Gmbh in liquidation.

Sundry income

This caption totals Euro 11,268 for 2018 and mainly consists of interest income on receivables (Euro 9,312) recorded by the parent company. In prior year, the balance of Euro 13,532 mainly referred to interest on tax rebates (Euro 11,268) recorded by the parent company.

Interest and other financial expenses

Interest and other financial expenses amount to Euro 2,223,360 against Euro 3,358,122 in 2017 and are analysed as follows:

Description	Amount
Bank borrowing	1,629,690
Other	593,671
Total	**2,223,360**

The decrease of Euro 1,134,762 compared to prior year is mainly due to a reduction in the Parent Company's financial expenses thanks to the debt restructuring negotiated with the banks, as already described in these Notes.

Exchange gains and losses

Exchange gains of Euro 139,193, compared to exchange losses of Euro 50,874 in 2017, mainly refer to the exchange differences of subsidiary Saleri Shanghai Co.Ltd.

Revaluations of derivative instruments

The amount of Euro 44,516 refers to the positive fair value measurement of derivative instruments in place at the reporting date, in accordance with Italian Accounting Standard OIC 32.

Writedowns of investments

The amount of Euro 217,125 refers to writedowns of subsidiary Italacciai S.r.l. which is not included in the scope of consolidation in 2018.

Writedowns of derivative instruments

The amount of Euro 5,501 refers to the negative fair value measurement of derivative instruments in place at the reporting date, in accordance with OIC 32.

Taxes on income – current, deferred and deferred tax income

Description	2017	Change	2018
Current tax	574,581	189,064	763,645
Deferred tax	760,644	(686,885)	73,759
Deferred tax income	(73,829)	(317,612)	(391,441)
Income and expenses from tax consolidation	-	-	208,791
Total	**1,261,396**	**(815,433)**	**654,754**

OTHER INFORMATION

Related party transactions

We note that the Group companies routinely enter into commercial and financial transactions with one another. As already highlighted in the “Consolidation Methods” paragraph, receivables and payables, revenue and expenses between companies in the scope of consolidation have been eliminated. All intercompany transactions have been entered into on an arm’s length basis. Financial receivables from other related parties total Euro 34,151.

Fees

As required by law, the following table contains details of the total fees of the Directors, the members of the Board of Statutory Auditors and the External Auditor for performance of their duties.

Description	Consolidated
Directors' Fees	938,168
Board of Statutory Auditors' Fees	36,400
External Auditors' Fees	119,716
Total	**1,094,284**

Employment details

The following table shows the average number of employees – by employee category – of the companies consolidated line-by-line.

Workforce	2017	Change	2018
White collars - Managers	174	8	182
Blue collars - Intermediates	350	(41)	309
Total	**524**	**(33)**	**491**

The headcount decrease – excluding the 33 employees of Italacciai S.r.l. which left the scope of consolidation in 2018 – refers almost exclusively to the Parent Company.

See the Directors’ Report for further information on personnel.

Summary of public finance in terms of article 1 (125) to (129) of law no 124/2017

Article 1 (125) to (129) of Law no 124 of 4 August 2017 ("Annual law for the market and competition) introduced new disclosure requirements on public finance received and approved.

These amounts are reported on a "cash basis". During 2018, the Group did not receive any finance (or grants) included in the definition governed by Law 124 of 4 August 2017.

Disclosures regarding financial instruments

The following table contains information on transactions to hedge the interest rate risk in relation to loans and finance leases in place at 31/12/2018:

Description	Fair value 31/12/2018	Fair value 31/12/2017	Change in P&L	Change in Equity	Type	Amount
► Interest rate swap	(13,907)	(54,024)	40,117	-	Hedge	825,000
► Options	(1,460)	6,600	(8,060)	-	Hedge	6,505,415

Significant events after the reporting date

In terms of Article 2427(22-iv) of the Italian Civil Code, we note that there have been no significant events after the reporting date.

Lumezzane (BS), 24 May 2019

THE BOARD OF DIRECTORS

Signed by **Basilio Saleri (Chairman)**

Signed by **Matteo Cosmi**

Signed by **Sergio Bona**

Signed by **Giorgio Garimberti**

Signed by **Wilhelm Becker**

Signed by **Alessandro Potestà**

Signed by **Alberto Bartoli**

Signed by **Simona Heidempergher**

Signed by **Massimo Colli**

Deloitte.

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INDEPENDENT AUDITOR'S REPORT
PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010

To the Shareholders of
Industrie Saleri Italo S.p.A.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Industrie Saleri italo S.p.A. and its subsidiaries (the "Saleri Group"), which comprise the consolidated balance sheet as of December 31, 2018, the consolidated statement of income and statement of cash flows for the year then ended and the explanatory notes.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as of December 31, 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Italian law governing financial statements.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of Industrie Saleri Italo S.p.A. (the "Company") in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance the Italian law governing financial statements and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Company or the termination of the business or have no realistic alternatives to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain 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.

- Obtain 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude 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 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.

- Evaluate 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.

- Obtain 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.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14, paragraph 2 (e), of Legislative Decree 39/10

The Directors of Abc S.p.A. are responsible for the preparation of the report on operations of Saleri Group as of December 31, 2018, including its consistency with the related consolidated financial statements and its compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations with the consolidated financial statements of Saleri Group as of December 31, 2018 and on its compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the report on operations is consistent with the consolidated financial statements of Saleri Group as of December 31, 2018 and is prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the Group and of the related context acquired during the audit, we have nothing to report.

DELOITTE & TOUCHE S.p.A.

Signed by
Piergiulio Bizioli
Partner

Brescia, Italy
June 7, 2019

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

RESILIENCE

OUR ATTITUDE, OUR STRENGTH

> The strong sense of responsibility instilled in each of us enabled us to handle the situation.

Enrico Bossini - Assembly Department Manager

Sez.

IV

Separate Financial Statements at 31 December 2018

General information about the Company

General details

NAME	Industrie Saleri Italo S.p.A.
REGISTERED OFFICE	Via Ruca 406, 25065 - Lumezzane (BS)
SHARE CAPITAL	17.922.413
IS SHARE CAPITAL WHOLLY PAID?	yes
CHAMBER OF COMMERCE CODE	Brescia
VAT NUMBER	01589150984
TAX NUMBER	03066870175
BUSINESS DATABASE/REA NUMBER	BS-317605
LEGAL FORM	*Società per azioni* (Joint stock company)
MAIN BUSINESS SEGMENT (ATECO):	293209 Manufacture of other parts and accessories for cars and their engines
IS COMPANY IN LIQUIDATION?	no
DOES COMPANY HAVE A SINGLE SHAREHOLDER?	no
IS COMPANY SUBJECT TO MANAGEMENT AND COORDINATION BY ANOTHER ENTITY?	no
NAME OF COMPANY OR ENTITY THAT PROVIDES MANAGEMENT AND COORDINATION	-
DOES COMPANY BELONG TO A GROUP?	yes
NAME OF HOLDING COMPANY	El.Fra Holding s.r.l.
COUNTRY OF HOLDING COMPANY	Italy
REGISTER OF COOPERATIVES NUMBER	-

Balance sheet

BALANCE SHEET - ASSETS	31/12/2018	31/12/2017
A)DUE FROM SHAREHOLDERS FOR UNPAID CAPITAL		
B)NON-CURRENT ASSETS		
I)Intangible assets:		
1)Start-up and expansion costs	-	-
2)Development costs	1,968,838	410,999
3)Patents and intellectual property rights	64,992	285,389
4)Concessions, licences, trademarks and similar rights	-	-
5)Goodwill	-	-
6)Assets under construction and payments on account	866,589	1,789,225
7)Other	2,343,962	1,022,180
Total intangible assets	5,244,381	3,507,793
II)Tangible assets:		
1)Land and buildings	20,624,215	22,820,887
2)Plant and machinery	15,333,225	13,119,443
3)Industrial and commercial equipment	3,938,161	3,584,954
4)Other tangible assets	1,340,151	1,402,686
5)Assets under construction and payments on account	2,968,081	118,475
Total tangible assets	44,203,833	41,046,445
III)Financial assets:		
1)Investments in:	-	-
a) subsidiaries	7,786,806	7,905,077
b) associated companies	-	-
c) parent companies	-	-
d) entities subject to control of parent companies	-	-
d-bis) Other entities	4,247	4,247
Total investments	7,791,053	7,909,324
2)Receivables:		
a) from subsidiaries	-	-
b) from associated companies	-	-
c) from parent companies	-	-
d) from entities subject to control of parent companies	-	-
d-bis) from others	-	-
Total Receivables	-	-
3)Other Securities	7,111	7,111
4)Derivatives	742	6,243
Total financial assets	7,798,906	7,922,678
Total non-current assets (b)	57,247,120	52,476,916
C)CURRENT ASSETS		
I)Inventory:		
1)Raw, ancillary and consumable materials	9,610,864	8,423,274
2)Work in progress and semi-finished goods	2,860,228	2,835,564
3)Contract work in progress	-	-
4)Finished goods	15,298,505	11,755,580
5)Payments on account	628,981	151,505
Total Inventory	28,398,578	23,165,923

Stato patrimoniale - Attivo	31/12/2018	31/12/2017
II)Receivables:		
1)Trade accounts		
due within a year	12,021,781	10,717,082
due after more than a year	-	-
Total trade receivables	12,021,781	10,717,082
2)due from subsidiaries		
due within a year	590,712	240,286
due after more than a year	-	-
Total receivables due from subsidiaries	590,712	240,286
3)due from associated companies		
due within a year	-	-
due after more than a year	-	-
Total receivables due from associated companies	-	-
4)due from parent companies		
due within a year	3,466	-
due after more than a year	-	-
Total receivables due from parent companies	3,466	-
5)due from entities controlled by parent companies		
due within a year	-	-
due after more than a year	-	-
Total receivables due from entities controlled by parent companies	-	-
5-bis)Tax receivables		
due within a year	2,344,488	1,452,008
due after more than a year	-	-
Total tax receivables	2,344,488	1,452,008
5-ter)Deferred tax assets		
due within a year	-	-
due after more than a year	4,330,452	3,984,247
Total deferred tax assets	4,330,452	3,984,247
5-quater)due from others		
due within a year	14,903,268	334,405
due after more than a year	150,480	118,002
Total receivables due from others	15,053,748	452,407
Total Receivables	34,344,647	16,846,030
III)Current financial assets		
1)Investments in subsidiaries	1,000	-
2)Investments in associated companies	-	-
3)Investments in parent companies	-	-
3-bis) Investments in entities controlled by parent companies	-	-
4)Other investments	13,294	13,294
5)Derivatives	-	-
6)Other securities	-	-
Total current financial assets	14,294	13,294
IV)Cash and cash equivalents:		
1)Bank and post office accounts	2,120,162	5,639,120
2)Cheques	-	-
3)Cash and cash equivalents on hand	5,220	29,217
Total IV)	2,125,382	5,668,337
Total current assets	64,882,901	45,693,584
D)prepaid expenses and accrued income	3,505,269	3,615,960
Total assets	125,635,290	101,786,460

Balance sheet – liabilities and equity	31/12/2018	31/12/2017
A)SHAREHOLDERS' EQUITY		
I)Share capital	17,922,413	5,160,000
II)Share premium reserve	10,237,587	-
III)Revaluation reserve	4,609,122	4,609,122
IV)Legal reserve	1,032,000	1,032,000
V)Statutory reserves	-	-
VI)Other reserves, disclosed separately	364,052	364,052
- Extraordinary reserve	-	-
- Additional paid-in capital	-	-
- Payments to cover losses	-	-
- Reserve for merger surplus	-	-
- Sundry other reserves	364,052	364,052
VII)Cash flow hedge reserve	-	-
VIII)Retained earnings (Accumulated losses)	-4,495,515	-5,954,852
IX)Profit (Loss) for the year	2,056,997	1,459,337
X)Negative reserve for treasury shares held	-	-
Total shareholders' equity	31,726,656	6,669,659
B)PROVISIONS FOR RISKS AND CHARGES		
1)retirement benefits and similar obligations	-	-
2)taxation, including deferred tax	1,666,909	1,682,419
3)derivatives	16,109	60,624
4)other	1,700,000	1,200,000
Total provisions for risks and charges	3,383,018	2,943,043
C)EMPLOYEE SEVERANCE INDEMNITY/TFR PROVISION	1,581,848	1,549,641
D)PAAYBLES		
1)Bonds		
due within a year	-	-
due after more than a year	-	-
Total bonds	-	-
2)Convertible bonds		
due within a year	-	-
due after more than a year	-	-
Total convertible bonds	-	-
3)Shareholder loans payable		
due within a year	-	-
due after more than a year	-	-
Total shareholder loans payable	-	-
4)Bank borrowing		
due within a year	18,372,619	39,018,307
due after more than a year	26,789,631	17,172,542
Total bank borrowing	45,162,250	56,190,849
5)Payables to other lenders		
due within a year	891,309	1,809,237
due after more than a year	-	-
Total payables to other lenders	891,309	1,809,237

Balance sheet – liabilities and equity	31/12/2018	31/12/2017
6)Payments on account		
due within a year	876,098	599,530
due after more than a year	-	-
Total payments on account	876,098	599,530
7)Trade payables		
due within a year	33,770,382	25,461,684
due after more than a year	-	-
Total trade payables	33,770,382	25,461,684
8)Credit instruments		
due within a year	-	-
due after more than a year	-	-
Total credit instruments	-	-
9)Payables to subsidiaries		
due within a year	2,020,932	1,348,206
due after more than a year	-	-
Total payables to subsidiaries	2,020,932	1,348,206
10)Payables to associated companies		
due within a year	-	-
due after more than a year	-	-
Total payables to associated companies	-	-
11)Payables to parent companies		
due within a year	-	-
due after more than a year	-	-
Total payables to parent companies	-	-
11-bis) Payables to entities controlled by parent companies		
due within a year	-	-
due after more than a year	-	-
Total payables to entities controlled by parent companies	-	-
12)Tax payables		
due within a year	981,521	1,278,484
due after more than a year	-	-
Total tax payables	981,521	1,278,484
13)Payables to social security and pensions institutions		
due within a year	1,413,340	1,133,171
due after more than a year	-	-
Total payables to social security and pensions institutions	1,413,340	1,133,171
14)Other payables		
due within a year	3,242,450	2,742,007
due after more than a year	-	-
Total other payables	3,242,450	2,742,007
Total payables	88,358,282	90,563,168
E)ACCRUED EXPENSES AND DEFERRED INCOME	585,486	60,949
Total liabilities and equity	125,635,290	101,786,460

INCOME STATEMENT	31/12/2018	31/12/2017
A) VALUE OF PRODUCTION		
1) revenue from sales and services	147,695,379	157,949,339
2) change in inventories of WIP, semi-finished and finished goods	3,567,590	-586,111
3) Change in contract work in progress	-	-
4) increases in non-current assets due to capitalisation of internal works	913,274	790,334
5) other revenue and income	-	-
Operating grant income	-	-
Other	27,039,978	1,663,434
Total other revenue and income	27,039,978	1,663,434
Total value of production	179,216,221	159,816,996
B) COST OF PRODUCTION		
6) raw, ancillary and consumable materials and goods	96,144,884	83,775,992
7) services	40,284,596	28,716,938
8) use of third party assets – lease and rental costs	4,924,997	6,691,173
9) personnel		
a) wages and salaries	17,260,335	15,927,227
b) social contributions	4,867,661	4,058,012
c) employee severance indemnity / TFR	928,941	879,528
d) retirement benefits and similar obligations	-	-
e) other personnel costs	111,546	165,641
Total personnel costs	23,168,483	21,030,408
10) depreciation, amortisation and writedowns		
a) amortisation of intangible assets	1,531,421	1,063,117
b) depreciation of tangible assets	5,357,242	4,918,882
c) other writedowns of non-current assets	1,560,488	277,747
d) writedowns of current receivables and cash and cash equivalents	-	84,240
Total depreciation, amortisation and writedowns	8,449,151	6,343,986
11) changes in inventory of raw, ancillary and consumable materials and goods for resale	-1,187,590	9,562,618
12) provisions for risks	-	-
13) other provisions	1,400,000	754,790
14) sundry operating expenses	2,213,628	753,283
Total cost of production	175,398,149	157,629,188
Difference between value and cost of production (A - B)	3,818,072	2,187,808
C) Financial income and expenses		
15) income from investments		
- in subsidiaries	1,490	-
- in associated companies	-	-
- in parent companies	-	-
- in entities controlled by parent companies	-	-
Other	-	2,237,615
Total income from investments	1,490	2,237,615
16) other financial income		
a) from receivables classed as non-current assets	-	-
- from subsidiaries	-	-
- from associated companies	-	-

INCOME STATEMENT	31/12/2018	31/12/2017
- from parent companies	-	-
- from entities controlled by parent companies	-	-
- from other entities	-	-
a) from receivables classed as non-current assets	-	-
b) from securities classed as non-current assets other than equity investments	119	150
c) from securities classed as current assets other than equity investments	-	-
d) income other than the above	-	-
- from subsidiaries	-	-
- from associated companies	-	-
- from parent companies	-	-
- from entities controlled by parent companies	-	-
- from other entities	9,312	11,268
▶ Total income other than the above	9,312	11,268
▶ Total other financial income	9,431	11,418
▶ 17) interest and other financial expenses		
- to subsidiaries	-	-
- to associated companies	-	-
- to parent companies	-	-
- to entities controlled by parent companies	-	-
other	1,573,745	2,352,142
Total interest and other financial expenses	1,573,745	2,352,142
▶ 17-bis) exchange gains and losses	-13,668	11,261
Total financial income and expenses (15 + 16 - 17 + - 17-bis)	-1,576,492	-91,848
▶ D) ADJUSTMENTS TO VALUE OF FINANCIAL ASSETS AND LIABILITIES		
▶ 18) Revaluations		
a) of equity investments	-	-
b) of non-current financial assets other than equity investments	-	-
c) of securities classed as current assets other than equity investments	-	-
d) of derivatives	-44,516	-
▶ 18) Revaluations	-44,516	-
▶ 19) Writedowns	-	-
a) of equity investments	217,125	341,415
b) of non-current financial assets other than equity investments	-	-
c) of securities classed as current assets other than equity investments	-	-
d) of derivatives	5,501	18,052
▶ Total writedowns	222,626	359,467
Total adjustments to value of financial assets	-178,110	-359,467
Profit before taxation (A - B + - C + - D)	2,063,470	1,736,493
20) Taxes on income for the year – current, deferred and deferred tax income	-	-
20) a) Current taxes	377,181	221,512
20) b) Deferred taxes	-15,510	189,632
20) c) Deferred tax income	-346,205	-30,445
20) d) Income (Expenses) from participation on tax consolidation	8,993	103,543
Total taxes on income for the year – current, deferred and deferred tax income	6,473	277,156
21) Profit (Loss) for the year	2,056,997	1,459,337

Statement of cash flows, indirect method

	31/12/18	31/12/17
A.CASH FLOWS FROM OPERATING ACTIVITIES		
Profit (loss) for the year	2,056,997	1,459,337
Taxes on income	6,473	277,156
Interest expenses/(income)	1,576,492	2,340,724
(Dividends)	-	-
(Gains)/Losses on asset disposals	716,238	-2,237,615
1Profit (Loss) for the year before taxes on income, interest, dividends and gains/losses on disposals	4,356,200	1,839,602
Adjustments for non-cash items with no impact on net working capital		
Allocations to provisions	2,328,941	1,634,318
Depreciation/Amortisation of non-current assets	6,888,663	5,981,999
Impairment writedowns	1,777,613	703,402
Adjustments to value of financial assets and liabilities	-39,015	18,052
Other adjustments for non-cash items	-6,465	-137,246
Total adjustments for non-cash items with no impact on net working capital	10,949,737	8,200,525
2 Cash flows before changes in NWC	15,305,937	10,040,127
Changes in net working capital		
Decrease / (Increase) in Inventory	-5,232,655	10,027,225
Decrease / (Increase) in Trade Receivables	-1,304,699	-1,919,506
(Decrease) / Increase in Trade Payables	-8,308,698	5,443,903
Decrease / (Increase) in Prepaid Expenses and Accrued Income	110,691	-234,994
(Decrease) / Increase in Accrued Expenses and Deferred Income	524,537	57,528
Other decreases/(Other increases) in net working capital	-14,761,975	1,330,517
Change in net working capital	-12,355,403	3,816,867
3 Cash flow after changes in NWC	2,950,534	13,856,994
Interest received / (paid)	-1,336,120	-2,175,351
Taxes on income (paid)	-220,979	-
Dividends received	-	-
(Use of Provisions for Risks and Charges)	-915,510	-
(Use of employee severance indemnity /TFR provision)	-896,734	-1,299,401
(Use of provisions)	-	-
Other receipts/(payments)	-	-
Total other adjustments	-3,369,343	-3,474,752
4 Cash flows after other adjustments	-418,809	10,382,242
Cash flows from operating activities		
B.CASH FLOWS FROM INVESTING ACTIVITIES		
Capex on non-current assets		
-Tangible assets		
(Additions)	-10,461,587	-5,322,719
Disposals	263,509	433,354
-Intangible assets		
(Additions)	-3,882,177	-957,321
Disposals	-	12,490

	31/12/18	31/12/17
-Financial assets		
(Additions)	-100,065	-529,921
Disposals	2,701	22,564
-Current financial assets		
(Additions)	-	-
Disposals	-	2,237,615
(Acquisition of business units net of cash and cash equivalents)	-	-
Sale of business units net of cash and cash equivalents	-	-
Cash flows from investing activities	-14,177,619	-4,103,938
C.CASH FLOWS FROM FINANCING ACTIVITIES		
Debt		
-Increase (Decrease) in short-term bank borrowing	-16,481,042	3,791,934
-Loans arranged	12,961,310	-
-(Loans repaid)	-8,426,795	-7,655,955
Equity		
-Paid share capital increase	23,000,000	-
-(Share capital refunds)	-	-
-Sale (Purchase) of treasury shares	-	-
-(Dividends and advances on dividends paid)	-	-
Cash flows from financing activities	11,053,473	-3,864,021
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (A ± B ± C)	-3,542,955	2,414,283
-Forex effect on cash and cash equivalents	-	-
Cash and cash equivalents at start of period		
Bank and post office accounts	5,639,120	3,247,708
Cheques	-	-
Cash and cash equivalents on hand	29,217	6,346
Total cash and cash equivalents at start of perio	5,668,337	3,254,054
Of which not freely available	-	-
Cash and cash equivalents at end of period		
Bank and post office accounts	2,120,162	5,639,120
Cheques	-	-
Cash and cash equivalents on hand	5,220	29,217
Total cash and cash equivalents at end of period	2,125,382	5,668,337
Of which not freely available	-	-

Notes to the Separate Financial Statements, opening section

Dear Shareholders,
These financial statements, as submitted for your review and approval, report a net profit for the year of Euro 2,056,997.
As described in more detail in the "Structure and content of the financial statements" section, the financial statements present a true and fair representation of the Company's balance sheet and financial position and of its result for the year.
These Notes form an integral part of the Financial Statements at 31 December 2018. They have been prepared in accordance with Article 2427 of the Italian Civil Code and contain all of the information of use in providing an accurate interpretation of the Financial Statements.

Business activities

Industrie Saleri Italo S.p.A., a company founded in 1942, is active in the design, manufacture and sale of engine cooling systems for the automobile industry and operates in both the original equipment (OEM) and the aftermarket (IAM) segments.
The Company's ability to provide a leading customer base with a wide range of technologically advanced solutions has enabled the business to grow strongly in recent years. Long-term production contracts have consistently been acquired, guaranteeing a healthy workload for the years ahead.
The Directors' Report contains further information on the activities of the Company and its subsidiaries.

Structure and content of the financial statements

The financial statements for the year ended 31 December 2018 comprise the Balance Sheet, the Income Statement, the Statement of Cash Flows and these Notes. They reflect the contents of the properly maintained accounting records and have been prepared in accordance with the requirements of Articles 2423 and 2423 – bis of the Italian Civil Code, as well as with the accounting standards and accounting recommendations issued by the Italian Accounting Standards Board ("Organismo Italiano di Contabilità" - O.I.C.).
The structure and content of the financial statements are consistent with the requirements of Articles 2424 and 2425 of the Italian Civil Code and with the terms of Article 2423-ter. Meanwhile the Notes are consistent with the requirements of Articles 2427 and 2427-bis and all other relevant provisions.
The entire document has been prepared in order to present a true and fair view of the Company's balance sheet and financial position and of its result for the year. Where necessary, additional information has been provided in order to provide a full understanding.

Going concern issue

The Company has prepared the 2018 financial statements on a going concern basis. This decision was taken in light of: the actions taken in 2018 (full subscription of a paid share capital increase of Euro 23 million by new shareholder Quaestio Capital Sgr in the amount of Euro 15 million and by the Saleri Family in the amount of Euro 8 million; conclusion of a framework agreement with the financial creditors for the restructuring of debt and the reduction of financial expenses; signature of a payment agreement with the insurance company in relation to full compensation for the damages caused by the fire in January 2018); the confirmed competitive positioning in terms of product and process innovation (nomination by one of the Company's leading customers for the long-term supply of an innovative pump to manage engine cooling, as conceived and developed by the Company); and the resulting consolidated profitability and the solid equity and financial structure.

Exceptions

(See Art. 2423(5) of the Italian Civil Code)
There were no exceptional circumstances requiring the use of exceptions in terms of Article 2423 (5) of the Italian Civil Code.

Comparability of amounts reported

When preparing the financial statements at 31 December 2018, certain account balances were reclassified. The corresponding prior year amounts were also restated accordingly in order to render the figures for the two reporting periods suitable for comparison in terms of Article 2423-ter of the Italian Civil Code.
In detail:
- Payables to pension funds for employee severance indemnity/TFR: Euro 186,183 reclassified from line item D13 (payables to social security and pensions institutions) to line item D14 (Other payables);
- Customs duties on purchases: Euro 181,499 reclassified from line item B14 (sundry operating expenses) to line item B6 (costs for raw materials);
- Lease payment expenses: reclassified from line item B8 (use of third party assets – lease and rental costs) to line item B7 (costs for services).

Principles followed when preparing the Financial Statements

Pursuant to Article 2423-bis of the Italian Civil Code, the following principles were followed when preparing the financial statements:
- Each amount was measured based on the prudence principle and on a going concern basis, while taking account of the substance of the transaction or the contract;

- Only those gains or profits actually realised during the reporting period were included;
- Income and expenses relating to the period were included, irrespective of their collection or payment date;
- Risks and losses relating to the period were taken into account even if they came to light after the reporting date;
- Different items included in the various financial statement captions were measured separately.

The valuation criteria required by Article 2426 of the Italian Civil Code remained unchanged compared to those adopted in prior year.
The Financial Statements, together with these Notes, have been prepared to the nearest Euro.

Financial Statements Format adopted by the Company

We note the following with regard to the format of the Financial Statements:

- The format of the Balance Sheet and Income Statement is as required, respectively by Article 2424 and 2425 of the Italian Civil Code. Line items indicated by Arab numerals and by small letters per Articles 2424 and 2425 of the Italian Civil Code but which are not reported had zero balances in both the current and the previous reporting period;
- The Statement of Cash Flows, as introduced by Article 2425-ter of the Italian Civil Code, has been prepared using the indirect method and its format is consistent with that recommended by Italian Accounting Standard OIC 10 (revised in 2016).

The Notes to the Financial Statements contain obligatory tables and/or those important in providing a proper understanding of the information in the Financial Statements, as envisaged by the Italian Civil Code or prepared in accordance with specific legal requirements.
In accordance with Article 2423-ter, the prior year comparative amount is reported for each line item.
Reference should be made to the relevant section for information on the Company's economic and financial performance and on its related party transactions.

Audit

The Financial Statements at 31 December 2018, as submitted for your approval, have been audited by Deloitte & Touche S.p.A. on the basis of the engagement conferred upon them by the Shareholders' General Meeting of 23 November 2017 until approval of the Financial Statements at 31 December 2019. Deloitte & Touche S.p.A.'s audit work regards the following:

- Separate financial statements;
- Consolidated financial statements;
- Periodical checks to ensure accounting records are properly maintained;
- Other certification activities.

The fees agreed for the audit of the Company's financial statements at 31 December 2018 amount to Euro 53,500, excluding VAT and any out of pocket expenses.

Accounting policies and measurement criteria adopted

The accounting policies and measurement criteria required by Article 2426 of the Italian Civil Code were applied when preparing the Financial Statements.

Intangible assets

Intangible assets are individually identifiable assets, controlled by the Company and generally consisting of legally protected rights or of assets capable of producing future economic benefits. These assets have been recorded at purchase or internal production cost, including direct related expenses.
The amounts are reported net of accumulated amortisation, calculated on a straight-line basis at the rates indicated below, while taking account of the remaining useful lives of the assets.

Description		Rates or criteria applied
Development costs	▶	20%
Patents and intellectual property rights	▶	33%
Other intangible assets	▶	Based on contract period

The amortisation rates have not changed compared to prior year.

No dividends were distributed during the reporting period. Therefore, the Company complied with the requirements of Article 2426(5) of the Italian Civil Code (it is not possible to distribute dividends in excess of the amount of available reserves sufficient to cover the amount of unamortised costs).
If there are indicators of impairment, intangible assets undergo an impairment test as described below under "Impairment of assets"; any impairment writedowns may be reversed subsequently if the reasons for the writedown cease to apply.
With effect from 1 April 2016, it is no longer possible to restore the amount of start-up and expansion costs, development costs and goodwill. During the reporting period, there were no circumstances requiring any impairment adjustments to be made to intangible assets.
Intangible assets whose value has been impaired at the reporting date compared to the amount determined above are reported at the lower amount; this lower amount is not maintained in subsequent financial statements if the reasons for the adjustment cease to apply, except in the case of goodwill.

Patents and intellectual property rights

Costs incurred to obtain legal protected rights are capitalised. This includes user licences which are amortised over their expected useful lives which cannot, in any case, exceed the period fixed by law or by the contract.

Development costs

are amortised over their useful lives (5 years). In exceptional cases where the useful life cannot be reliably estimated, they are amortised over a period of not more than five years. Until they have been fully amortised, it is only possible to distribute dividends if there are sufficient available reserves to cover the amount of the unamortised costs.

Assets in progress and payments on account

Advances to suppliers towards the purchase of intangible assets are initially recognised on the date when the obligation to pay such amounts arises. Intangible assets in progress includes costs incurred to realise an asset; these costs continued to be classified as assets in progress until title to the right has been acquired or the project has been completed. At that point, the amounts are reclassified to the relevant intangible asset captions.

Other intangible assets

Leasehold improvements are amortised over the shorter of the future useful life of the expenses incurred and the residual lease period, taking account of any renewal period if it depends on the lessee.

Tangible assets

Tangible assets are recognised at purchase cost, internal production cost or contribution value. Cost includes related expenses, as well as any direct expenses needed to make the asset available for use; it is stated net of any capital grant income.

Ordinary maintenance costs are expenses in full in the Income Statement in the period in which they are incurred.

Tangible assets are stated net of accumulated depreciation, as calculated on a straight-line basis at the rates indicated below which have been determined based on the remaining useful lives of the assets. The depreciation rates applied are as follows:

Asset category	Depreciation rate
Buildings	3%
Plant and machinery	10%
Industrial and commercial equipment	25%
Prototype equipment	50%
Other tangible assets:	
- Furniture and fittings	12%
- Electronic office equipment	20%
- Cars and motorcycles	25%
- Internal means of transport	20%

The depreciation rates applied have not changed compared to prior year.

If there are indicators of impairment, tangible assets undergo an impairment test as described below under "Impairment of assets"; any impairment writedowns may be reversed subsequently if the reasons for the writedown cease to apply.

Tangible assets whose value has been impaired at the reporting date compared to the amount determined above are reported at the lower amount; this lower amount is not maintained in subsequent financial statements if the reasons for the adjustment cease to apply.

Cost is revalued in application of revaluation laws; in any case, revalued amount shall not exceed market value. No discretionary or voluntary revaluations have been performed and the valuations performed do not exceed the value in use or market value of the tangible asset in question, as determined on an objective basis.

Tangible assets destined for sale are classified under a specific current assets caption as the conditions set out by Italian Accounting Standard OIC no. 16 have been met.

Impairment of assets

Art. 2426 (1)(3) of the Italian Civil Code requires the adjustment of any non-current assets whose value has been impaired at the reporting date compared to its net carrying amount.

Italian Accounting Standard OIC 9 defines impairment as a reduction of value that renders the recoverable amount of an asset, as determined on a long-term basis, lower than its net carrying amount.

The recoverability of the amounts recorded is tested by comparing their net carrying amount with the greater of fair value less costs to sell and the value in use of the asset as OIC 9 defines recoverable amount as the greater of the fair value of an asset or a cash generating unit less costs to sell and its value in use. Value in use is generally determined by discounting cash flows expected from use of the asset or the cash generating unit, taking account of the expected disposal value at the end of its useful life.

Cash generating units have been identified, in a manner consistent with the organisational and business structure, as assets that generate independent cash inflows due to continuing use.
During the reporting period, impairment adjustments were recorded in relation to certain assets as there were indicators of impairment of tangible assets recorded in the Balance Sheet, as described in more detail in the Note on "Land and Buildings".

Assets held under finance leases

Tangible assets held under finance leases are reported in accordance with Italian GAAP. This involves recording the lease instalments as period costs over the duration of the finance lease while recording a prepaid expense for advance instalments and recognising the asset at the amount of the final purchase option in the period when said option is exercised.
During the lease period, the final purchase option and the outstanding commitment for finance lease instalments are disclosed under Commitments. A later section of the Notes contains details of the effect of applying IAS 17 to account for finance leases in place at the reporting date and for those that have ended but which still produce an effect under the finance lease accounting method.

Non-current financial assets

Non-current financial assets consisting of investments in subsidiaries and associated companies are measured at cost, inclusive of related expenses. Their carrying amount is determined based on acquisition or subscription price or on the value attributed to contributed assets.
Cost determined as above is adjusted for any impairment. If the reasons for any impairment adjustment cease to apply, the value of the investment is restored up to not more than the acquisition cost.
The amount so determined is not greater than the amount that would have been determined applying the criteria required by Article 2426(4) of the Italian Civil Code.
Investments not determined to form part of the Company's long-term portfolio are classified under current financial assets.
Investments in other entities and/or associated companies have been recognised at acquisition cost, as adjusted for any impairment based on the losses reported by the investee companies; in such cases, they are reported at less than their acquisition cost.
Securities are reported using the amortised cost method, as required by Italian Accounting Standard OIC 20.
Any receivables classed as non-current financial assets are reported using the amortised cost method, taking account of the time factor and estimated realisable amount.
The amortised cost method is not applied when the effective interest rate is not significantly different to the market interest rate or when the effects of application of the method are insignificant compared to the method adopted.

Inventory, securities and current financial assets

Inventory, securities and current financial assets have been recorded at the lower of purchase cost –including direct related expenses – and estimated realisable value based on market trends.
The purchase cost of raw and ancillary materials is determined using the weighted average cost method.
For finished goods and WIP, production cost includes the purchase cost of raw materials and components – determined as above – and the portion of direct and indirect production costs ("general production costs") that is reasonably attributable, also taking account of the state of completion of the relevant production phase.
The purchase cost of certain items e.g. prototypes and tooling is determined based on the specific cost method.
Estimated realisable value, as based on market trends, is determined based on the current purchase prices and selling prices of the inventory at the reporting date. If estimated realisable value is lower than purchase or production cost, the inventory is written down to that lower amount by means of a specific inventory provision.
The value of obsolete and slow moving items has been written down based on its prospects of future use or realisation by means of a specific inventory provision.

Receivables

Receivables due within a year are reported at estimated realisable amount by creating a specific provision for bad debts. Every year, an amount representing the risk of non-collection of the receivables reported in the Financial Statements is allocated to the provision, as determined based on general economic conditions, the business sector and the location of the debtor.
Receivables due after more than a year are recorded at the amortised cost method, taking account of the time factor. The amortised cost method is not applied when the effective interest rate is not significantly different to the market rate of interest or when the effects of application of the amortised cost method are insignificant compared to the method adopted.
Receivables include invoices issued and those yet to be issued for services relating to the reporting period.
Foreign currency receivables are initially recorded by applying the spot exchange rate at the transaction date. At the reporting date, foreign currency receivables are restated at the spot rate in force at that date. Realised exchange gains and losses are recorded in the Income Statement. Any unrealised net gain resulting from the translation of amounts denominated in foreign currency is allocated to a reserve not distributable until realisation.
Receivables are derecognised from the Balance Sheet when the right to receive cash flows is extinguished and substantially all of the risks and rewards of title to the asset have been transferred or if the receivable is definitively considered non-recoverable after all necessary recovery procedures have been completed.
Any receivables from customers involved in insolvency proceedings or in a state of proven economic distress which render enforcement measures pointless are written off in full or to the extent that information obtained or the procedures in progress lead to the conclusion that they will prove uncollectable.

Cash and cash equivalents

This caption contains all cash and cash equivalents held by the Company, whether on hand or in bank accounts. They are reported at nominal amount.

Prepaid expenses and accrued income, accrued expenses and deferred income

Prepaid expenses and accrued income include income relating to the period but collectible in future periods and costs incurred by the reporting date but relating to subsequent periods. Accrued expenses and deferred income include expenses relating to the period but payable to subsequent periods and income received by the reporting date but relating to subsequent periods.

Provisions for risks and charges

Provisions for risks and charges have been recorded to cover losses or liabilities of a determinate nature, which are certain or probably, but whose amount or due date could not be determined at the reporting date.

Provisions for risks and charges also include the provision for "taxation, including deferred tax" which includes amounts relating to probable tax liabilities whose amount or due date is uncertain and which originate from tax assessments not yet finalised or ongoing tax disputes or similar circumstances. The provision "for taxation, including deferred tax" includes deferred tax liabilities determined based on taxable temporary differences.

These provisions were calculated in accordance with the prudence and accrual principles. No general provisions for risks without any economic justification have been created.

Employee Severance Indemnity / "TFR" Provision

The employee severance indemnity provision represents the Company's effective liability towards each employee, as determined in accordance with current legislation in each country and for the Italian companies, in particular, in accordance with the terms of Article 2120 of the Italian Civil Code, national collective labour agreements and supplementary local agreements. Therefore, the "Employee severance indemnity provision" includes indemnities accruing in favour of employees at the reporting date, net of advances paid and after deducting partial advances maturing and paid. Following supplementary pension reform in 2006, amounts accruing from 1 January 2007 onwards may be maintained in the company or allocated to a supplementary pension fund, as the employee chooses. This liability is subject to index-based revaluation.

Payables

Payables falling due within a year are stated at nominal amount and include, where applicable, interest accruing and due at the reporting date.

Payables falling due after more than a year are recorded using the amortised cost method, taking account of the time factor. The amortised cost method is not applied when the effective interest rate is not significantly different than the market interest rate or when the effects of application of the amortised cost method are immaterial compared to the method already adopted.

Foreign currency payables are initially recorded at the spot exchange rate in force on the transaction date.

Payables are derecognised from the Balance Sheet when the specific contractual obligation is extinguished.

Derivative instruments

Derivative instruments classified as held for trading - as they do not fulfil hedge account requirements or if they were entered into to manage the main risks (interest rate risk and exchange risk) to which the Group is exposed, they have not been designated for hedge accounting. Changes in fair value are recorded in the Balance Sheet and in the Income Statement under captions D18 or D19.

Derivatives embedded in other financial instruments must also be measured at fair value. An embedded derivative is separated from the primary contract and accounted for as a derivative instrument only if:

a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the primary contract. There is a close relationship in cases where the hybrid contract is entered into in accordance with market practice;
b) all elements of the definition of derivative instrument provided by OIC 32.11 are satisfied.

Translation of amounts denominated in foreign currency

Receivables and payables originally expressed in foreign currency are translated into Euro at the historical rates on the date they arose. Exchange differences realised upon settlement of payables and collection of receivables in foreign currency are recorded in the Income Statement.

Foreign currency receivables outstanding at the reporting date have been translated into Euro at the reporting date exchange rate. Exchange gains and losses arising in this way have been recorded in the Income Statement under caption C.17-bis "Exchange gains/losses ", while allocating an amount equal to any net gain arising to a non-distributable equity reserve until the time of realisation.

Revenue, income, costs and expenses

Revenue and income are recorded net of returns, discounts and allowances, as well as any taxes directly related to the sale of products and the provision of services.

In more detail:

- Revenue for services is recognised when the service has been provided and in accordance with the related contracts. Revenue relating to contract work in progress is recognised based on the percentage of completion of works;
- Revenue from the sale of products is recognised upon change of ownership which normally coincides with shipment or delivery;
- Costs are accounted for in accordance with the accrual principle;
- Allocations to provisions for risks and charges are recorded based on their nature, where possible, in the relevant Income Statement categories;
- Financial income and expenses are recorded in accordance with the accrual principle.

Dividends

Dividends are accounted for on an accrual basis when the right to collection emerges, in terms of Italian Accounting Standard OIC 21.

Taxes on income

Taxes on income are recorded based on an estimate of taxable income in compliance with tax laws and regulations in force at the reporting date, while taking account of applicable exemptions and tax credits due.
The Company has adhered, as consolidating entity, to the consolidated taxation arrangement in terms of Articles 117 to 129 of Presidential Decree 917/86 for the three-year period 2016-2018. The Company determines a single tax base for the Group of companies participating in the tax consolidation. In this way, it benefits from the possibility of offsetting taxable income and tax losses in a single tax return. Each company participating in the tax consolidation transfers its taxable income or tax loss to the consolidating entity. The consolidating entity records a receivable from participating companies for IRES payable (the participating companies each record a liability towards the consolidating entity). In contrast, in the case of companies that contribute tax losses, the consolidating entity records a payable equal to the IRES on the portion of the loss actually offset at Group level (the participating company records a receivable from the consolidating entity).

Where necessary, deferred tax assets and liabilities are recorded on temporary differences between the statutory result for the period and taxable income.
Pursuant to Article 2427(1)(14) of the Italian Civil Code, the Notes include a table containing a description of the temporary differences that led to the recognition of deferred tax assets and liabilities. Said table states the tax rate applied, changes compared to prior year, amounts credited or debited to the Income Statement or to Equity, items excluded from the computation and the reasons for their exclusion.

Notes to the Financial Statements, Assets

Notes to the balance sheet

Assets

Non-current assets

Intangible assets

Intangible assets represent expenses that produce long-term benefits. They amount to Euro 5,244,381 (Euro 3,507,793 at 31 December 2017) and are stated net of accumulated amortisation (Euro 3,379,356).

Details of intangible assets and movements thereon during the year are shown in the following table.

Description	Opening Amount	Increases	Decreases	Closing Amount
Start-up and expansion costs	-	-	-	-
Development costs	410,999	2,144,246	586,407	1,968,838
Patents and intellectual property rights	285,389	53,472	273,869	64,992
Concessions, licences, trademarks and similar rights	-	-	-	-
Goodwill	-	-	-	-
Assets in progress and payments on account	1,789,225	444,582	1,367,218	866,589
Other intangible assets	1,022,180	2,607,095	1,285,313	2,343,962
Total	3,507,793	5,249,395	3,512,807	5,244,381

Movements on intangible assets

The following table shows movements on intangible assets (Article 2427(2) of the Italian Civil Code).

	Start-up and expansion costs	Development costs	Patents and intellectual property rights	Concession, licences, trademarks and similar rights	Goodwill	Assets in progress and payments on account	Other intangible assets	Total intangible assets
Opening amount								
Cost	-	1,992,496	1,163,249	-	-	1,789,225	2,536,822	7,481,792
Revaluations	-	-	-	-	-	-	-	-
Amortisation (Accumulated Amortisation)	-	1,581,497	877,860	-	-	-	1,236,895	3,696,252
Writedowns	-	-	-	-	-	-	277,747	277,747
Net carrying amount	-	410,999	285,389	-	-	1,789,225	1,022,180	3,507,793
Changes during the year								
Increases due to additions	-	777,028	53,472	-	-	444,582	2,607,095	3,882,177
Reclassifications (of net carrying amount)	-	1,367,218	-	-	-	-1,367,218	-	-
Decreases due to disposals (of net carrying amount)	-	-	-	-	-	-	614,168	614,168
Revaluations performed during the year	-	-	-	-	-	-	-	-
Amortisation for the year	-	586,407	273,869	-	-	-	671,145	1,531,421
Writedowns performed during the year	-	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	-	-
Total changes	-	1,557,839	-220,397	-	-	-922,636	1,321,782	1,736,588
Closing amount								
Cost	-	2,932,036	994,221	-	-	866,589	4,108,638	8,901,484
Revaluations	-	-	-	-	-	-	-	-
Amortisation (Accumulated Amortisation)	-	963,198	929,229	-	-	-	1,486,929	3,379,356
Writedowns	-	-	-	-	-	-	277,747	277,747
Net carrying amount	-	1,968,838	64,992	-	-	866,589	2,343,962	5,244,381

Development costs

in 2018, the Company carried out intensive research and development activities into technological innovation. Further details are provided in the Directors' Report. With regard to development activities alone, in 2018, the Company incurred personnel costs totalling around Euro 1,445,275. Based on a careful analysis of available information on the number of hours spent on development projects already assigned (i.e. projects for which a final contract has been signed) or under assignment (projects which the Company reasonably believes will be confirmed by a contract) by customers, the Directors concluded that they could capitalise a total amount of Euro 913,274.

In more detail:

- Euro 136,245 relating to projects where the development phase has not yet been completed have been recorded under Intangible Assets in progress;
- Euro 777,029 relating to projects where the development phase has been completed have been capitalised under Development costs together with Euro 1,367,217 reclassified from Intangible Assets in progress and relating to previous years (for a total capitalised in 2018 of Euro 2,144,246).

The following table contains the disclosures required by Article 2427(3) in relation to development costs.

	Opening amount	Increases	Decreases	Closing amount
► Development costs	410,999	2,144,246	586,407	1,968,838
Total	410,999	2,144,246	586,407	1,968,838

The capitalised costs are amortised over period of not more than five years.
This period is normally shorter than the production period of a series.
Decreases of Euro 586,407 relate to amortisation for the period.

Patents and intellectual property rights

The net balance amounts to Euro 64,992 (Euro 285,389 at 31 December 2017) and includes:

• Patents of Euro 8,784;
• Software of Euro 56,208.

Increases of Euro 53,472 refer to new software purchases.
This category of intangible assets is amortised on a straight-line basis over a period of three years.

Assets in progress and payments on account

This item amounts to Euro 866,589 (Euro 1,789,225 at 31 December 2017).
The balance includes:

- Euro 161,203 of internal development costs incurred in relation to development projects in progress. Once reclassified to the relevant asset category as described above, these capitalised costs will be amortised over five years commencing from the date of completion of the development phase. As already noted under the caption "Development costs", the amount of Euro 136,245 relates to costs incurred in 2018; additions for 2018 amount to Euro 136,245;
- Euro 80,433 of payments on account on capex incurred in relation to the leasehold property at Provaglio; the amount entirely consists of additions for the period;
- Euro 624,953 of capex on new business software that has not yet completed its testing and release phase; the increase in such costs for the period was Euro 227,903.

During the reporting period, projects of Euro 1,367,218 that completed the development stage were reclassified and capitalised under "Development costs".

Other intangible assets

This caption amounts to Euro 2,343,962 (Euro 1,022,180 at 31 December 2017) after accumulated amortisation of Euro 1,486,929.
Total additions of Euro 2,607,095 include Euro 2,013,719 of leasehold improvements to the new production facility in Provaglio d'Iseo. This capex mainly regarded the setting-up of the plants, certain building work and modifications to the building to ensure it met the production and quality standards essential to the type of business conducted by Industrie Saleri Italo S.p.A.

Other intangible assets, after accumulated amortisation, are detailed as follows:

- Leasehold improvements of Euro 1,910,629;
- Other deferred costs of Euro 433,333.

The balance is stated net of an impairment provision of Euro 277,747 that was recorded in prior years in terms of Article 2426(1)(3) of the Italian Civil Code and Italian Accounting Standard OIC 9. This provision was recorded after certain intangible assets were tested for impairment.
After the fire on 11 January 2018, once the competent Government Authorities had declared the affected building (known as "Saleri C") unsuitable for use, the Company disposed of all of the assets capitalised under "Leasehold improvements" at the Saleri C property. The net carrying amount of such assets – Euro 614,168 – was recorded under losses on disposals.

Tangible assets

Movements on tangible assets

Tangible assets include land, buildings, industrial and commercial equipment, tangible assets under construction and other tangible assets. They amount to Euro 44,203,833 (Euro 41,046,445 at 31 December 2017) after accumulated depreciation (Euro 53,082,390).
After the fire on 11 January 2018, the Company disposed of the tangible assets that had been present in building Saleri C. The net carrying amount of these assets was Euro 204,442 and it was accounted for under losses on disposals.
The following table contains details of the items included in the net carrying amount of Tangible Assets in the Financial Statements (Art. 2427(2) of the Italian Civil Code).

	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other tangible assets	Assets under construction and payments on account	Total tangible assets
Opening amount						
Cost	20,016,766	32,042,850	26,523,349	4,783,124	118,475	83,484,564
Revaluations	6,502,686	-	-	-	-	6,502,686
Depreciation (Accumulated Depreciation)	3,698,565	18,723,407	22,938,395	3,380,438	-	48,740,805
Writedowns	-	200,000	-	-	-	200,000
Net carrying amount	22,820,887	13,119,443	3,584,954	1,402,686	118,475	41,046,445
Changes during year						
Increases due to additions	40,530	4,415,315	2,601,399	444,845	2,966,067	10,468,156
Reclassifications (of net carrying amount)	-	51,816	47,895	-	-99,711	-
Decreases due to disposals (of net carrying amount)	8,279	151,464	157,075	35,789	16,750	369,357
Revaluations performed during the year	-	-	-	-	-	-
Depreciation for the year	668,435	2,101,885	2,115,330	471,591	-	5,357,241
Writedowns performed during the year	1,560,488	-	-	-	-	1,560,488
Other changes	-	-	-23,682	-	-	-23,682
Total changes	-2,196,672	2,213,782	353,207	-62,535	2,849,606	3,157,388
Closing amount						
Cost	20,047,774	35,442,827	28,944,103	5,141,240	2,968,081	92,544,025
Revaluations	6,502,686	-	-	-	-	6,502,686
Depreciation (Accumulated Depreciation)	4,365,757	19,909,602	25,005,942	3,801,089	-	53,082,390
Writedowns	1,560,488	200,000	-	-	-	1,760,488
Net carrying amount	20,624,215	15,333,225	3,938,161	1,340,151	2,968,081	44,203,833

The Company identified indicators of impairment in relation to certain tangible assets. Therefore, as required by Italian Accounting Standard OIC 9, it had to make further impairment writedowns of Euro 1,560,488, in terms of Article 2426(1) and (3) of the Italian Civil Code.

Land and buildings

This caption amounts to Euro 20,624,215 (Euro 22,280,887 at 31 December 2017) and is stated net of accumulated depreciation of Euro 4,365,757.

During the year, the balance increased by Euro 40,530 as a result of urbanisation expenses paid in relation to the extension of the factory building at Via Ruca, 406.

As stated above, during the period, the Company made further impairment adjustments of Euro 1,560,488 in order to take account of currently foreseeable future cash flows in relation to some of the assets included in this caption.

Decreases for the year of Euro 8,279 entirely refer to disposals of assets in the Saleri C building and destroyed by the fire on 11 January 2018.

In accordance with Italian Accounting Standard OIC no 16, the value of the land on which the buildings stand has been reported separately.

Plant and machinery

This balance amounts to Euro 15,333,225 (against Euro 13,119,443 at 31 December 2017). It is stated net of accumulated depreciation of Euro 19,909,602.

Increases of Euro 4,467,131 were recorded during the year.

These increases mainly refer to the costs incurred to restore production plant damaged by the fire in January 2018 and to purchase new or replacement production lines (in place of some of those totally destroyed by the fire) needed to carry out the contracts acquired by the Company and to equip the new production facility ("Saleri E") in Provaglio d'Iseo. The increases also include maintenance capex incurred to ensure machinery is kept updated and fully efficient.

Increases of Euro 51,816 regard reclassifications from Assets under construction in relation to payments on account previously made for projects completed during the year.

Decreases totalling Euro 151,464 almost entirely refer to the net carrying amount of assets destroyed by fire on 11 January 2018.

Further details are provided in the Directors' Report.

After analysis of old plant and machinery that has not yet been fully depreciated but whose value has been impaired, the Company opted to maintain the impairment provision of Euro 200,000 recorded in 2017.

Industrial and commercial equipment

This caption amounts to Euro 3,938,161 (Euro 3,584,954 at 31 December 2017) and is stated net of accumulated depreciation of Euro 25,005,942.
Increases during the year amount to Euro 2,649,294 (including Euro 47,895 reclassified from Assets under construction upon completion of capex that commenced in prior years).
As for the increases to "Plant and machinery", the increases to "Industrial and commercial equipment" mainly refer to the costs incurred to restore industrial equipment damaged by the fire in January 2018 and to purchase new or replacement equipment (in place of some of that totally destroyed by the fire) needed to carry out the contracts acquired by the Company and to equip the new production facility ("Saleri E") in Provaglio d'Iseo. The costs incurred related to the capex plan necessary to install the additional production capacity required to fulfil the new long-term production contracts acquired by the Original Equipment division.
Decreases for the year of Euro 157,075 include Euro 10,378 representing the net carrying amount of the assets destroyed by fire on 11 January 2018.

Other tangible assets

The following table contains a detailed breakdown of "Other tangible assets". It shows movements on each of the component asset categories.

	Furniture and fittings	Electronic office equipment	Cars and motorcycles	Motor vehicles	Sundry other assets	Total other tangible assets
Historical cost	1,124,463	3,127,667	-	530,994	-	4,783,124
Prior year revaluations	-	-	-	-	-	-
Opening accumulated depreciation	718,981	2,287,533	-	373,924	-	3,380,438
Prior year writedowns	-	-	-	-	-	-
Net carrying amount	405,482	840,134		157,070		1,402,686
Increases – additions	102,606	331,339	-	10,900	-	444,845
Transfers to other captions	-	-	-	-	-	-
Transfers from other captions	-	-	-	-	-	-
Disposals/Decreases for year: Historical cost	-6,569	-75,160	-	-5,000	-	-86,729
Disposals / Decreases for year: accumulated depreciation	-2,046	-44,394	-	-4,500	-	-50,940
Revaluations during year	-	-	-	-	-	-
Depreciation for year	81,649	317,388	-	72,554	-	471,591
Writedowns during year	-	-	-	-	-	-
Interest capitalised during year	-	-	-	-	-	-
Closing amount	421,916	823,319	-	94,916	-	1,340,151

This caption amounts to Euro 1,340,151 (Euro 1,402,686 at 31 December 2017) and is stated net of accumulated depreciation of Euro 3,801,089. It includes:

- Furniture and fittings of Euro 421,916 (Euro 405,482 at 31 December 2017); additions for the year totalled Euro 102,606 mainly in order to prepare the new factory in Provaglio d'Iseo;
- Electronic office equipment of Euro 823,319 (Euro 840,134 at 31 December 2017); additions for the year totalled Euro 331,339, mainly in relation to the new factory in Provaglio d'Iseo;
- Motor vehicles of Euro 94,916 (Euro 157,070 at 31 December 2017); additions for the year totalled Euro 10,900.

Decreases for the year of Euro 35,789 almost entirely refer to the net carrying amount of the assets destroyed by fire on 11 January 2018.

Assets under construction and payments on account

The balance amounts to Euro 2,968,081 (Euro 118,475 at 31 December 2017) and refers to payments made on account during the period towards additions to tangible assets.

During the period, Euro 99,711 was reclassified to the relevant tangible asset categories following the completion of the related additions. Decreases for the period totalled Euro 16,750 and mainly referred to the reversal of payments on account made in prior years.

Increases during the period of Euro 2,966,067 related to payments on account made in relation to new production lines and equipment to cope with the new long-term production contracts acquired by the Original Equipment division.

Revalued tangible assets at the reporting date

As required by law, the following table contains details of the tangible assets reported in the Company's Financial Statements at 31 December 2018 which have been the subject of monetary revaluations and exceptions to statutory valuation criteria.

Description	Revaluation under Decree Law no. n. 185/2008	Total revaluations
Land and buildings	6,502,686	6,502,686
Total	**6,502,686**	**6,502,686**

The Company has made use of the possibility offered by Decree Law no 185/2008 to revalue some of the tangible assets reported in its Financial Statements at 31/12/2008.

The revaluation was performed in 2008 and led, in the Financial Statements for that year, to an increase of Euro 6,502,696 in "Land and Buildings" and an increase in Shareholders' Equity of Euro 4,460,842, as recorded under the caption "Revaluation reserves ex Decree Law no 185/2008" net of deferred tax of Euro 2,041,844. The revaluation was performed for statutory reporting purposes only without payment of any substitute tax.

Finance lease transactions

The following table contains the information required by Article 2427(22) of the Italian Civil Code on finance lease transactions whereby the majority of the risks and rewards relating to the leased assets are transferred to the Company.

	Amount
Total amount of assets held under finance leases at the reporting date	16,775,378
Notional depreciation charge for the year	3,235,378
Notional adjustments and reversals for the year	-
Present value of lease instalments not yet due at reporting date	12,051,593
Financial expenses for the year based on effective interest method	388,259

Financial assets

Movements on equity investments, other securities and derivatives

The investments classed as non-current financial assets represent long-term, strategic investments by the Company. At 31 December 2018, they amounted to Euro 7,791,053 (Euro 7,909,324 at 31 December 2017).

The following table contains a breakdown of the net carrying amount of financial assets as reported in the Financial Statements (Art. 2427(2) of the Italian Civil Code).

	Investments in subsidiaries	Investments in associated companies	Investments in parent companies	Investments in entities controlled by parent companies	Investments in other entities	Total Investments	Other securities	Derivatives
Opening amount								
Cost	8,226,077	-	-	-	4,247	8,230,324	19,961	6,243
Revaluations	-	-	-	-	-	-	-	-
Writedowns	321,000	-	-	-	-	321,000	12,850	-
Net carrying amount	7,905,077	-	-		4,247	7,909,324	7,111	6,243
Changes during the year								
Increases due to additions	-	-	-	-	-	-	-	-
Reclassifications (of net carrying amount)	-1,000	-	-	-	-	-1,000	-	-
Decreases due to disposals (of net carrying amount)	211	-	-	-	-	211	-	-
Revaluations performed during year	-	-	-	-	-	-	-	-
Writedowns performed during year	217,125	-	-	-	-	217,125	-	5,501
Other changes	100,065	-	-	-	-	100,065	-	-
Total Changes	-118,271	-	-	-	-	-118,271	-	-5,501
Closing amount								
Cost	8,324,931	-	-	-	4,247	8,329,178	19,961	742
Revaluations	-	-	-	-	-	-	-	-
Writedowns	538,125	-	-	-	-	538,125	12,850	-
Net carrying amount	7,786,806	-	-	-	4,247	7,791,053	7,111	742

"Investments in subsidiaries" totalling Euro 7,786,806 includes:

- Subsidiary Immobiliare Industriale S.r.l. - Euro 5,714,156;
- Subsidiary Saleri Shanghai Co. Ltd - Euro 2,047,650;
- Subsidiary Saleri GmbH - Euro 25,000.

Decreases of Euro 211 refer to the investment in Societè Immobiliére IP which was liquidated during the year.

Immobiliare Industriale S.r.l.

The Company owns 62.50% of the subsidiary.

The investment amounts to Euro 5,714,156 and did not change during the period. In 2016, pursuant to Article 1(556) to (563) of Law no 232 of 11 December 2016, the Company revalued the investment by Euro 4,899,578 in order to bring its carrying amount into line with the corresponding portion of the subsidiary's Equity as per an expert appraisal.

Saleri Shanghai Co. Ltd.

The Company owns 95.00% of the subsidiary.

The investment amounts to Euro 2,047,650 and did not change during the period.

Italacciai S.r.l.

The Company owns 66.71% of the subsidiary.

At 31 December 2017, the investment amounted to Euro 118,060 (gross value of Euro 439,060) after an impairment provision of Euro 321,000.

On 27 December 2018, Industrie Saleri Italo S.p.A. paid in additional capital of Euro 100,065 which was recorded in the Income Statement under writedowns.

On 24 May 2019, a final sale and purchase agreement – subject to deferred execution – was signed for the sale of the entire interest held by the Company (66.71%) to the majority quotaholder for a price of Euro 1,000. The investment has, therefore, been written down to its disposal value and reclassified to current assets. Therefore, the amount of Euro 217,125 recorded under "Writedowns" entirely refers to the writedown of Italacciai S.r.l. and includes:

- Euro 100,065 for the writedown of the additional capital paid into the subsidiary;
- Euro 117,060 for the writedown of the carrying amount of the investment insofar as it exceeds the disposal value.

Saleri GmBH

The Company holds 100.00% of the subsidiary.

The carrying amount of the investment is Euro 25,000. The investment in the company (which operates a local branch office) did not change during the period.

Details of non-current investments in subsidiaries

Investments in subsidiaries are recorded at purchase or subscription cost. If the carrying amount of an investment is greater than the corresponding portion of equity held, an appropriate writedown is made.

Pursuant to Article 2427(5) of the Italian Civil Code, the following table contains details of the direct or indirect investments in subsidiaries, as included in Non-current financial assets.

Name	Location	Tax number (Italian companies)	Capital in Euro	Profit (Loss) for last reporting period in Euro	Equity in Euro	Investment held in Euro	% investment held	Carrying amount
Immobiliare Industriale s.r.l.	LUMEZZANE (BS)	03697930984	10,000,00 wholly paid	679,734	10,262,629	6,414,143	62,5	5,714,156
Saleri GMBH	Germania	n.a.	25,000	-4,731	22,879	22,879	100	25,000
Saleri Shanghai Co., Ltd	China	n.a.	1,899,059	1,007,419	5,217,010	4,956,160	95	2,047,650
Total								7,786,806

Except for the investment in Saleri Gmbh for which figures from the approved financial statements at 31 December 2017 are shown, the figures for the other investments are from financial statements at 31 December 2018 as approved by the respective General Meetings.

Other Securities

The amount of Euro 7,111 has not changed compared to prior year and refers to shares held.

Derivatives

The balance of Euro 742 (Euro 6,243 at 31 December 2017) has decreased by Euro 5,501 due to measurement of derivatives.

This item includes the reporting date measurement of the positive fair value of the derivative instruments in place at 31 December 2018. These derivatives have been arranged to hedge the interest rate risk in relation to medium/long-term loans and finance lease agreements at 31 December 2018.

Current assets

Inventory

In terms of Article 2427(4) of the Italian Civil Code, inventory is analysed as follows.

Item	Opening amount	Change during year	Closing amount
1)Raw, ancillary and consumable materials	8,423,274	1,187,590	9,610,864
2)WIP and semi-finished goods	2,835,564	24,664	2,860,228
3)Contract work in progress	-	-	-
4)Finished goods	11,755,580	3,542,925	15,298,505
5)Payments on account	151,505	477,476	628,981
Total	**23,165,923**	**5,232,655**	**28,398,578**

This balance represents the value of the physical inventory held at Company and third party warehouses at 31 December 2018 and goods in transit.
The amount of Euro 28,398,578 is stated net of the obsolescence provision of Euro 1,009,418 created following an analysis of obsolete/slow moving inventory and inventory with below cost selling prices. In 2018, the provision was increased by Euro 435,609. As a result of the fire on 11 January 2018, t inventory at the Saleri C building was totally destroyed. The amount of that inventory at the date of the fire was Euro 8,332,548 before the related inventory provision of Euro 589,035 which was reversed in full. The change in inventory over the year, as reported in the Income Statement, also takes account of the effect of inventory destroyed by fire.

The following table shows movements on the inventory provision:

	31/12/2018			
Inventory provision	Opening amount	Reversal of Saleri C provision	Increases	Closing amount
1. Raw, ancillary and consumable materials	-687,998	410,927	-210,533	-487,604
2. WIP and semi-finished goods	-233,520	95,910	-51,932	-189,542
3. Contract work in progress	-	-	-	-
4. Finished goods	-241,326	82,198	-173,144	-332,272
5. Payments on account	-	-	-	-
Total	**-1,162,844**	**589,035**	**-435,609**	**-1,009,418**

Receivables classed as current assets

Changes in and maturity of receivables classed as current assets

The following table contains a breakdown of receivables classed as current assets, together with changes compared to prior year and the due date of the receivables (Art. 2427 (4) and (6) of the Italian Civil Code).

	Opening amount	Change during year	Closing amount	Amount due within a year	Amount due after more than a year	Of which due after more than five years
Trade receivables	10,717,082	1,304,699	12,021,781	12,021,781	-	-
Receivables from subsidiaries	240,286	350,426	590,712	590,712	-	-
Receivables from associated companies	-	-	-	-	-	-
Receivables from parent companies	-	3,466	3,466	3,466	-	-
Receivables from entities controlled by parent companies	-	-	-	-	-	-
Tax receivables	1,452,008	892,480	2,344,488	2,344,488	-	-
Deferred tax assets	3,984,247	346,205	4,330,452	-	4,330,452	-
Receivables from others	452,407	14,601,341	15,053,748	14,903,268	150,480	-
Total receivables classed as current assets	**16,846,030**	**17,498,617**	**34,344,647**	**29,863,715**	**4,480,932**	**-**

Breakdown of receivables classed as current assets by geographical area

Receivables classed as current assets may be broken down as follows in terms of the geographical business area of debtors (Art. 2427 (6) of the Italian Civil Code):

	Europe (excl. Italy)	Italy	Rest of World	Total
Trade receivables	5,852,839	4,841,576	1,327,366	12,021,781
Receivables from subsidiaries	-	365,199	225,513	590,712
Receivables from associated companies	-	-	-	-
Receivables from parent companies	-	3,466	-	3,466
Receivables from entities controlled by parent companies	-	-	-	-
Tax receivables	-	2,344,488	-	2,344,488
Deferred tax assets	-	4,330,452	-	4,330,452
Receivables from others	-	15,053,748	-	15,053,748
Total	**5,852,839**	**26,938,929**	**1,552,879**	**34,344,647**

Trade receivables

The amount of Euro 12,021,781 (Euro 10,717,082 at 31 December 2017) entirely consists of trade receivables. The balance is stated net of the provision for bad debts of Euro 161,365 and fairly represents the estimated realisable amount.
The overall increase of Euro 1,304,699 is mainly due to lower use of available credit facilities (Recourse factoring) at 31 December 2018 in line with the Company's working capital management policies.

Provision for bad debts

Trade receivables are stated net of a provision for bad debts created to take account of collection issues. There were no movements on the provision during the period and it is considered reasonable compared to expected losses on receivables.

Receivables from subsidiaries

	31 December 2017	31 December 2018	Change
► Immobiliare Industriale s.r.l.	125,019	342,789	217,770
► Italacciai s.r.l.	25,716	22,410	-3,306
► Saleri Shanghai Co. Ltd	89,551	225,513	135,962
Total	**240,286**	**590,712**	**350,426**

Receivables totalling Euro 342,789 due from Immobiliare Industriale S.r.l. represent the net amount of the receivables/payables with the subsidiary and derive from the settlement of tax balances (receivables and payables) "transferred" under the consolidated taxation arrangement.

Receivables totalling Euro 225,513 from Saleri Shanghai Co. Ltd have arisen from commercial relations and under the service agreement in force.
Receivables totalling Euro 22,410 from Italacciai S.r.l. almost entirely refer to the service agreement and, to a minor extent, to sundry advances paid.

Receivables from parent companies

Description	Opening amount	Change during year	Closing amount
► Receivables from El.Fra Holding S.r.l.	-	3,466	3,466
Total receivables from parent companies	**-**	**3,466**	**3,466**

Receivables from parent company El.Fra Holding S.r.l. refer to advances paid during the year.

Tax receivables

	31 December 2017	31 December 2018	Change
► Withholding taxes suffered	96	-	-96
► IRES receivables	438,830	438,269	-561
► VAT receivables	587,011	1,722,102	1,135,091
► Other tax receivables	426,071	184,117	-241,954
Total	**1,452,008**	**2,344,488**	**892,480**

"IRES Receivables", amounting to Euro 438,269: refers to the refund request filed, as consolidating entity, in relation to the non-deduction of IRAP in relation to personnel costs.
"VAT Receivables", amounting to Euro 1,722,102, refers to the VAT balance resulting from the December 2018 VAT return.
The amount includes foreign VAT receivables relating to EU countries where the Company has operated directly.
"Other tax receivables", amounting to Euro 184,117: mainly refers to tax credits subsequently offset in January 2019.

Deferred tax assets

For further details of this balance, see the Note on deferred taxes.

Other receivables

Other receivables amounts to Euro 15,053,748 and has increased by Euro 14,601,341 compared to 31 December 2017 when it stood at Euro 452,407.
The amount of Euro 14,903,268 due within a year includes:

- Euro 128,585 of Advances to Suppliers for services not yet completed;
- Euro 14,323,150 of Receivables from Insurance Companies for pay-outs relating to the claim for fire damage caused on 11 January 2018 – the related settlement and payment agreements were signed on 28 December 2018. At the date of these Notes, some Euro 13,666,550 of this receivable had been collected;
- Euro 365,019 of Receivables from the Banks for amounts collected from factored debtors that have not been paid over;
- Euro 86,514 of Sundry receivables.

The amount of Euro 150,480 due after more than a year entirely consists of guarantee deposits paid, mainly in relation to lease and rental agreements.

Current financial assets

Investments in subsidiaries

As already stated in the note on "Non-current assets – Investments in subsidiaries", the amount of Euro 1,000 refers to the investment in Italacciai S.r.l. in relation to which a final sale and purchase agreement – subject to deferred execution – was signed on 24 May 2019 for the sale of the entire investment at a price of Euro 1,000.

Investments in other entities

The amount of Euro 13,294 did not change over the period and includes minority investments in other entities.

Cash and cash equivalents

The balance detailed below represents cash and cash equivalents at the reporting date and changes during the reporting period (Art. 2427 (4) of the Italian Civil Code).

Description	Opening amount	Change during year	Closing amount
► 1)Bank and post office accounts	5,639,120	-3,518,958	2,120,162
► 2)Cheques	-	-	-
► 3)Cash and cash equivalents on hand	29,217	-23,997	5,220
Total	**5,668,337**	**-3,542,955**	**2,125,382**

The change for the period is due to the cash flow management strategy resulting from decisions regarding the utilisation of available advances / facilities.

Prepaid expenses and accrued income

The balance and changes compared to prior year are analysed as follows (Article 2427(7) of the Italian Civil Code):

Description	Opening amount	Change during year	Closing amount
▶ Accrued income	-	-	-
▶ Prepaid expenses	3,615,960	-110,691	3,505,269
Total prepaid expenses and accrued income	**3,615,960**	**-110,691**	**3,505,269**

	31 December 2017	31 December 2018	Change
▶ Prepaid expenses:	3,615,960	3,505,269	-110,691
- lease instalments	1,713,027	1,333,303	-379,724
- contributions to customers	1,289,167	1,632,107	342,940
- insurance premiums	18,707	28,750	10,043
- other	595,059	511,108	-83,951
Total	**3,615,960**	**3,505,269**	**-110,691**

Prepaid lease instalments almost entirely refer to initial advance payments made at the outset of individual lease agreements and taken to the Income Statement in subsequent periods over the period of the lease. The balance also includes a small amount relating to instalments paid in advance in the month of December.
Prepaid contributions to customers refers to contributions charged or for which a payment commitment has already been signed with the customer and which relate to future periods.
Other prepaid expenses mainly refer to maintenance contracts and subscription instalments.

Notes to the Financial Statements, Liabilities and Equity

Shareholders' Equity

Changes in Shareholders' Equity

At 31 December 2018, Shareholders' Equity amounted to Euro 31,726,656 and movements during the year then ended were as follows (Art. 2427(4) of the Italian Civil Code).

	Opening amount	Allocation of prior year net profit or loss		Other changes			Result for year	Closing amount
		Allocation to dividends	Other allocations	Increases	Decreases	Reclassifications (of carrying amount)		
Share capital	5,160,000	-	-	12,762,413	-	-	-	17,922,413
Share premium reserve	-	-	-	10,237,587	-	-	-	10,237,587
Revaluation reserves	4,609,122	-	-	-	-	-	-	4,609,122
Legal reserve	1,032,000	-	-	-	-	-	-	1,032,000
Sundry other reserves	364,052	-	-	-	-	-	-	364,052
Total other reserves	364,052	-	-	-	-	-	-	364,052
Retained earnings (Accumulated losses)	-5,954,852	-	1,459,337	-	-	-	-	-4,495,515
Profit (Loss) for the year	1,459,337	-	-1,459,337	-	-	-	2,056,997	2,056,997
Total shareholders' equity	6,669,659	-	-	23,000,000	-	-	2,056,997	31,726,656

Availability and utilisation of Shareholders' Equity

The following table contains further details of the reserves that make up Shareholders' Equity. It shows their origin or nature, their possible utilisation and availability for distribution and their actual utilisation in prior years (Art. 2427(7) of the Italian Civil Code):

Legend for "Origin / nature" column: C = Capital reserve; E = Earnings reserve.

					Summary of utilisation in last three years	
	Amount	Origin / nature	Possible utilisation	Amount available	To cover losses	For other reasons
Share capital	17,922,413	-	-	-	-	-
Share premium reserve	10,237,587	C	A,B,C	10,237,587	-	-
Revaluation reserves	4,609,122	U	A,B,C	4,609,122	-	-
Legal reserve	1,032,000	U	B	1,032,000	-	-
Statutory reserves	-	-	-	-	-	-
Other reserves	-	-	-	-	-	-
Extraordinary reserve	-	-	-	-	7,374,806	900,000
Reserve for exceptions in terms of Art 2423 of the Italian Civil Code	-	-	-	-	-	-
Reserve for shares or quotas of parent company	-	-	-	-	-	-
Reserve for revaluation of investments	-	-	-	-	-	-
Payments for share capital increases	-	-	-	-	-	-
Payments for future capital increases	-	-	-	-	-	-
Additional paid-in capital	-	-	-	-	-	-
Payments to cover losses	-	-	-	-	-	-
Reserve for reduction of share capital	-	-	-	-	-	-
Merger surplus reserve	-	-	-	-	-	-
Reserve for unrealised exchange gains	-	-	-	-	-	-
Reserve for earnings adjustments in progress	-	-	-	-	-	-
Sundry other reserves	364,052	U	A,B	364,052	-	-
Total other reserves	364,052	-	-	364,052	7,374,806	900,000
Cash flow hedge reserve	-	-	-	-	-	-
Retained earnings	-4,495,515	-	-	-	-	-
Negative reserve for treasury shares held	-	-	-	-	-	-
Total	29,669,659	-	-	16,242,761	7,374,806	900,000
Amount not distributable	-	-	-	9,380,888	-	-
Residual amount distributable	-	-	-	6,861,873	-	-

Legend: A: for share capital increase B: to cover losses C: for distribution to shareholders D: for other statutory requirements E: other

Origin, possible use and availability for distribution of sundry other reserves

	Amount	Origin/nature	Possible utilisation
► Reserves in terms of Art. 15 of Decree Law 429/1982	220,011	U	A,B
► Other reserves	144,041	U	A,B
Total	**364,052**	-	-

Legend: A: for share capital increase B: to cover losses C: for distribution to shareholders D: for other statutory requirements E: other

Share capital

Share Capital, wholly subscribed and paid at 31 December 2018, amounts to Euro 17,922,413.12 (Euro 5,160,000 at 31 December 2017) and is represented by 3,126,997 shares.

Movements during the year were as follows:

- on 20/04/2018, the quotaholders of holding company El.Fra Holding S.r.l., Luca Saleri and Annacaterina Saleri, subscribed and paid their portion of the share capital increase ("**Aucap A**") approved by the Shareholders' General Meeting of 05/04/2018, an amount of Euro 8,000,000;
- on 24/05/2018, holding company quotaholder Quaestio Capital SGR S.p.A., as manager of and on behalf of the Quaestio Italian Growth Fund, subscribed and paid its portion of the share capital increase ("**Aucap B**") approved by the Shareholders' General Meeting of 05/04/2018, an amount of Euro 4,762,413.12.

Share premium reserve

This reserve was created during the reporting period and amounts to Euro 10,237,587. The amount was paid in the form of a share premium by shareholder Quaestio Capital SGR S.p.A., as manager of and on behalf of the Quaestio Italian Growth Fund, following the share capital increase ("Aucap B") approved by the Shareholders' General Meeting of 05/04/2018.

Revaluation reserves

This balance refers to monetary revaluations carried out in application of the following revaluation laws:

- Law no. 413/91 -Euro 84,651;
- Decree Law no. 185/08 - Euro 212,842;
- Law no. 232/2016 - Euro 4,311,629.

There were no changes to these reserves during the year.

Legal reserve

At 31 December 2018, this reserve amounted to Euro 1,032,000 and did not change during the period.
The Share Capital increase means that the reserve has not yet reached the limit permitted by Article 2430 of the Italian Civil Code

Sundry other reserves

This reserve did not change during the period.

Retained earnings (Accumulated losses)

This caption showed accumulated losses of Euro 4,495,515 at 31 December 2018 (Euro 5,954,852 at 31 December 2017). It decreased by Euro 1,459,337 during the year following the allocation of the net profit for 2017 as per a General Meeting resolution of 13 April 2018.

Provisions for risks and charges

The following table contains a breakdown of Provisions for risks and charges and details of movements thereon during the year (Art. 2427 (4) of the Italian Civil Code).

	Provision for retirement benefits and similar obligations	Provision for taxation, including deferred tax	Derivatives	Other provisions	Total provisions for risks and charges
Opening amount	-	1,682,419	60,624	1,200,000	2,943,043
▸ Changes during year	-	-	-	-	-
▸ Allocated during year	-	-	-	1,400,000	1,400,000
▸ Utilised during year	-	15,510	44,515	900,000	960,025
▸ Other changes	-	-	-	-	-
▸ Total changes	-	-15,510	-44,515	500,000	439,975
Closing amount	-	1,666,909	16,109	1,700,000	3,383,018

The “Provision for taxation, including deferred tax”, amounting to Euro 1,666,909, relates to the deferred taxes provided in relation to the revaluation of properties performed in 2008 in terms of Decree Law no 185/08 which was not deductible for tax purposes. During the reporting period, deferred taxes relating to depreciation of the revalued property but not deductible for tax purposes were reversed. The section of these Notes on deferred taxes provides further information on the deferred tax provision.

The provision “Liabilities for derivatives” includes the reporting date measurement of the negative fair value of derivative instruments in place at that date. These derivative instruments have been entered as hedges of the interest rate risk regarding medium/long-term loan agreements and finance lease agreements in place at 31 December 2018.

“Other provisions”, amounting to Euro 1,700,000, regards:

- Euro 300,000 of prudent provisions made for sundry litigation in progress or threatened which, at the date of approval of the financial statements, had not yet been settled; no additional provision was made in relation to these risks during the period;
- Euro 1,400,000 of product warranty provisions. During the period, utilisation of the provision totalled Euro 900,000 while increases totalled Euro 1,400,000; the provision is reasonable in relation to the estimated costs that the company could be called upon to sustain to fulfil its contractual warranty commitments.

Employee severance indemnity (“TFR”) provision

The TFR provision has been calculated in accordance with Article 2120 of the Italian Civil Code, taking account of legislative requirements and the specific provisions of employment contracts and professional agreements. It includes annual accruals and revaluations performed based on ISTAT coefficients.

It represents the effective liability accruing in favour of employees in accordance with the law and applicable labour agreements, considering all forms of continuous remuneration.

The provision represents the total of the individual indemnities accruing in favour of employees at the reporting date. It is stated net of payments made on account and amounts paid to social security and pensions institutions and pension funds, in accordance with current legislation. It represents the Company’s liability towards employees at the reporting date.

The following table provides details of the creation and utilisation of the provision (Art. 2427(4) of the Italian Civil Code).

	Employee severance indemnity (“TFR”) provision
Opening amount	1,549,641
▸ Changes during year	-
▸ Allocated during year	928,941
▸ Utilised during year	896,734
▸ Other changes	-
▸ Total changes	32,207
Closing amount	1,581,848

Payables

Changes in and maturity of payables

The following table contains a breakdown of payables, changes in each line item and information by maturity date (Art. 2427(4) of the Italian Civil Code).

	Opening amount	Change during year	Closing amount	Amount due within a year	Amount due after more than a year	Of which due after more than 5 years
▸ Bonds	-	-	-	-	-	-
▸ Convertible bonds	-	-	-	-	-	-
▸ Shareholder loans payable	-	-	-	-	-	-
▸ Bank borrowing	56,190,849	-11,028,599	45,162,250	18,372,619	26,789,631	2,662,791
▸ Payables to other lenders	1,809,237	-917,928	891,309	891,309	-	-
▸ Payments on account	599,530	276,568	876,098	876,098	-	-
▸ Trade payables	25,461,684	8,308,698	33,770,382	33,770,382	-	-
▸ Credit instruments	-	-	-	-	-	-
▸ Payables to subsidiaries	1,348,206	672,726	2,020,932	2,020,932	-	-
▸ Payables to associated companies	-	-	-	-	-	-
▸ Payables to parent companies	-	-	-	-	-	-
▸ Payables to entities controlled by parent companies	-	-	-	-	-	-
▸ Tax payables	1,278,484	-296,963	981,521	981,521	-	-
▸ Payables to social security and pensions institutions	1,133,171	280,169	1,413,340	1,413,340	-	-
▸ Other payables	2,742,007	500,443	3,242,450	3,242,450	-	-
Total	**90,563,168**	**-2,204,886**	**88,358,282**	**61,568,651**	**26,789,631**	**2,662,791**

Bank borrowing

	31 December 2017	31 December 2018	Change
▸ a) Bank borrowing due within a year	39,018,307	18,372,619	-20,645,688
Lines of credit	1,250,000	-	-1,250,000
Current account overdrafts	1,269,857	184,054	-1,085,803
LOANS	13,167,363	7,916,071	-5,251,292
Advances on receivables	23,331,087	10,272,494	-13,058,593
▸ b) Bank borrowing due after more than a year	17,172,542	26,789,631	9,617,089
Loans	17,172,542	26,789,631	9,617,089
Total bank borrowing	**56,190,849**	**45,162,250**	**-11,028,599**

Bank Borrowing amounts to Euro 45,162,250 and has decreased by Euro 11,028,599 compared to 31 December 2017. Bank borrowing due within a year amounts to Euro 18,372,619 and has decreased by more than Euro 20 million (Euro 20,645,688) compared to 31 December 2017. Meanwhile, bank borrowing due after more than a year amounts to Euro 26,789,631 and has increased compared to 31 December 2017 (Euro 9,617,089).

These significant changes in the debt structure (made possible by the Framework Agreement signed with the banks in May 2018), together with the improvement in the financial and equity situation following the share capital increase described earlier in these Notes, has improved the Company's finances (as well as strengthening its equity structure).

Loans payable at 31 December 2018 (both current and non-current) amount to Euro 34,705,703 and are analysed as follows:

- Secured loan with an outstanding amount of Euro 849,657 and original principal of Euro 2,000,000. The loan is repayable in 84 monthly instalments in arrears between 31/12/2017 and 31/12/2024; interest is index linked to the Euribor 3 month rate;
- Secured loan with an outstanding amount of Euro 1,532,466 and original principal of Euro 5,000,000. The loan is repayable in 84 monthly instalments in arrears between 31/12/2017 and 31/12/2024; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 498,511 and original principal of Euro 750,000. The loan is repayable over 60 months between 31/12/2017 and 31/12/2022; interest is index-linked to the Euribor 3 month rate;
- Secured syndicated loan with an outstanding amount of Euro 932,170, original principal of Euro 2,000,000. The loan is repayable over 84 months between 31/12/2017 and 31/12/2024; interest is index-linked to the Euribor 3 month rate;
- Secured syndicated loan with an outstanding amount of Euro 3,589,258, original principal of Euro 4,000,000. The loan is repayable in 108 monthly instalments in arrears between 31/12/2017 and 31/12/2026; interest is index-linked to the Euribor 3 month rate;
- Unsecured syndicated loan with an outstanding amount of Euro 444,463, original principal of Euro 2,000,000. The loan is repayable in 9 six-monthly instalments in arrears between 31/12/2017 and 31/05/2022; interest is index-linked to the Euribor 6 month rate;
- Unsecured loan with an outstanding amount of Euro 2,550,793 and original principal of Euro 5,000,000. The loan is repayable in 60 monthly instalments in arrears between 31/12/2017 and 31/12/2022; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 357,431 and original principal of Euro 1,500,000. The loan is repayable in 60 monthly instalments in arrears between 31/12/2017 and 31/12/2022; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 435,970 and original principal of Euro 1,000,000. The loan is repayable in 61 monthly instalments in arrears between 31/12/2017 and 10/01/2023; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 696,738 and original principal of Euro 1,000,000. The loan is repayable in 60 monthly instalments in arrears between 31/12/2017 and 10/01/2023; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 887,559 and original principal of Euro 2,000,000. The loan is repayable in 60 monthly instalments in arrears between 31/12/2017 and 01/01/2023; interest is index linked to the Euribor 1 month rate;
- Unsecured loan with an outstanding amount of Euro 3,254,866 and original principal of Euro 4,000,000. The loan is repayable in 60 monthly instalments in arrears between 31/12/2017 and 01/01/2023; interest is index linked to the Euribor 1 month rate;
- Unsecured loan with an outstanding amount of Euro 727,895 and original principal of Euro 2,000,000. The loan is repayable in 60 monthly instalments in arrears between 31/12/2017 and 31/12/2022; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 3,959,318 and original principal of Euro 7,000,000. The loan is repayable in 60 monthly instalments in arrears between 31/12/2017 and 31/12/2022; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 1,115,132 and original principal of Euro 1,500,000. The loan is repayable in 60 monthly instalments in arrears between 31/12/2017 and 31/12/2022; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 831,774 and original principal of Euro 2,000,000. The loan is repayable in 60 monthly instalments in arrears between 31/12/2017 and 31/12/2022; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 1,555,913 and original principal of Euro 4,000,000. The loan is repayable in 60 monthly instalments in arrears between 31/12/2017 and 31/12/2022; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 1,367,744 and original principal of Euro 1,700,000. The loan is repayable in 59 monthly instalments in arrears between 31/12/2017 and 30/11/2022; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 399,494 and original principal of Euro 459,510 disbursed in 2018. The loan is repayable in 54 monthly instalments in arrears between 01/06/2018 and 30/11/2022; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 316,787 and original principal of Euro 472,044 disbursed in 2018. The loan is repayable in 24 monthly instalments in arrears between 30/04/2018 and 30/04/2020; interest is index linked to the Euribor 6 month rate;
- Unsecured loan with an outstanding amount of Euro 282,793 and original principal of Euro 316,553 disbursed in 2018. The loan is repayable in 53 monthly instalments in arrears between 21/06/2018 and 31/12/2022; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 2,000,180 and original principal of Euro 2,500,000 disbursed in 2018. The loan is repayable in 60 monthly instalments in arrears between 31/12/2017 and 31/12/2022; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 1,912,081 and original principal of Euro 2,109,713 disbursed in 2018. The loan is repayable in 53 monthly instalments in arrears between 19/06/2018 and 01/12/2022; interest is index linked to the Euribor 1 month rate;
- Unsecured loan with an outstanding amount of Euro 2,815,945 and original principal of Euro 3,500,000 disbursed in 2018. The loan is repayable in 59 monthly instalments in arrears between 31/12/2017 and 30/11/2022; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 404,101 and original

principal of Euro 500,000 disbursed in 2018. The loan is repayable in 60 monthly instalments in arrears between 31/12/2017 and 31/12/2022; interest is index linked to the Euribor 3 month rate;

- Unsecured loan with an outstanding amount of Euro 673,305 and original principal of Euro 1,000,000 disbursed in 2018. The loan is repayable in 60 monthly instalments in arrears between 31/12/2017 and 31/12/2022; interest is index linked to the Euribor 3 month rate;
- Unsecured loan with an outstanding amount of Euro 313,358 and original principal of Euro 400,000 disbursed in 2018. The loan is repayable in 59 monthly instalments in arrears between 31/12/2017 and 30/11/2022; interest is index linked to the Euribor 3 month rate.

Reference should be made to the Directors' Report for more detailed information about the availability of borrowing facilities to fund working capital and to meet any extraordinary cash requirements.

Payables to other lenders

This caption amounts to Euro 891,309 (Euro 1,809,237 at 31 December 2017) and refers to payables towards leasing companies for instalments that matured during the period and payables to factoring companies.
The significant decrease compared to prior year (Euro 917,928) is due to the aforementioned Framework Agreement signed by the company with its financial creditors (leasing companies included). The negotiation period necessary to reach agreement on the Framework Agreement (it commenced in June 2017 and ended, as already stated, in May 2018) led, in prior year, to a suspension of repayments in agreement with the financial creditors (leasing companies) and the level of debt increased accordingly. When the Framework Agreement was signed, it had retroactive effect and the overdue amounts were included in the new restructured liability.

Payments on account

This item amounts to Euro 876,098 (Euro 599,530 at 31 December 2017) and refers to advances received from customers towards the supply of equipment (Tooling).

Payables to subsidiaries

	31 December 2017	31 December 2018	Change
► Saleri Shanghai Co., Ltd	1,106,212	1,919,095	812,883
► Immobiliare Industriale s.r.l.	211	-	-211
► Italacciai s.r.l.	241,783	101,837	-139,946
Total payables to subsidiaries	**1,348,206**	**2,020,932**	**672,726**

Payables to subsidiaries include:

- Trade payables of Euro 1,919,095 due to Saleri Shanghai;
- Euro 101,837 due to Italacciai S.r.l. in the form of trade payables and the net receivable/payable balance with said company in relation to tax balances (receivables and payables) “transferred” under the consolidated taxation arrangement.

Tax payables

	31 December 2017	31 December 2018	Change
IRAP payable	170,516	156,202	-14,314
IRES payable	-	152,451	152,451
Tax withheld at source from employees	422,654	500,834	78,180
Tax withheld at source from freelance professionals	11,039	14,885	3,846
Substitute tax payable	590,748	-	-590,748
VAT payable	-	157,149	157,149
Other taxes payable	83,527	-	-83,527
Total	**1,278,484**	**981,521**	**-296,963**

The IRAP payable of Euro 156,202 represents the 2018 tax balance due after payments made on account.
The IRES payable of Euro 152,451 represents the 2018 tax balance per the Group Tax Consolidation. This amount is the net result of the receivables/payables of participating companies.

The VAT payable of Euro 157,149 refers to VAT payables in other EU countries where the Company operates directly.

Payables to pensions and social security institutions

	31 December 2017	31 December 2018	Change
Payable to INPS	767,905	912,739	144,834
Payable to INAIL	7,617	7,874	257
Other payables to social security and pensions institutions	357,649	492,727	135,078
Total	**1,133,171**	**1,413,340**	**280,169**

Payables to social security and pensions institutions represent the contributions payable by the Company and have been duly settled on their legal due date.

Other payables include social security and pension contributions recorded in relation to accrued employee holiday pay.

Other payables

	31 December 2017	31 December 2018	Change
a) Other payables due within a year	2,742,007	3,242,450	500,443
Payables to employees	2,223,089	2,567,462	344,373
Payables to directors and statutory auditors	51,429	42,323	-9,106
- other	467,489	632,665	165,176
b) Other payables due after more than a year	-	-	-
Total other payables	**2,742,007**	**3,242,450**	**500,443**

Payables to employees refer to December salaries and other deferred remuneration accruing at the reporting date.
Other payables includes payables to treasury funds and supplementary pension funds for TFR entitlement accruing but not yet paid.

Breakdown of payables by geographical area

The following table contains a breakdown of payables by the geographical area of business of the creditors.

	Europe (excl. Italy)	Italy	Rest of the World	Total
Bonds	-	-	-	-
Convertible bonds	-	-	-	-
Shareholder loans payable	-	-	-	-
Bank borrowing	-	45,162,250	-	45,162,250
Payables to other lenders	-	891,309	-	891,309
Payments on account	876,098	-	-	876,098
Trade payables	8,969,696	24,733,537	67,149	33,770,382
Credit instruments	-	-	-	-
Payables to subsidiaries	-	101,837	1,919,095	2,020,932
Payables to associated companies	-	-	-	-
Payables to parent companies	-	-	-	-
Payables to entities controlled by parent companies	-	-	-	-
Tax payables	-	981,521	-	981,521
Payables to social security and pensions institutions	-	1,413,340	-	1,413,340
Other payables	-	3,242,450	-	3,242,450
Total payables	9,845,794	76,526,244	1,986,244	88,358,282

Payables secured on company assets

The following table contains details of payables secured on company assets (Article 2427 (6) of the Italian Civil Code):

	Secured payables				Unsecured payables	Total
	Payables secured by mortgages	Payables secured by pledges	Payables secured by liens	Total secured payables		
Bonds	-	-	-	-	-	-
Convertible bonds	-	-	-	-	-	-
Shareholder loans payable	-	-	-	-	-	-
Bank borrowing	6,903,550	-	-	6,903,550	38,258,700	45,162,250
Payables to other lenders	-	-	-	-	891,309	891,309
Payments on account	-	-	-	-	876,098	876,098
Trade payables	-	-	-	-	33,770,382	33,770,382
Credit instruments	-	-	-	-	-	-
Payables to subsidiaries	-	-	-	-	2,020,932	2,020,932
Payables to associated companies	-	-	-	-	-	-
Payables to parent companies	-	-	-	-	-	-
Payables to entities controlled by parent companies	-	-	-	-	-	-
Tax payables	-	-	-	-	981,521	981,521
Payables to social security and pensions institutions	-	-	-	-	1,413,340	1,413,340
Other payables	-	-	-	-	3,242,450	3,242,450
Total payables	6,903,550			6,903,550	81,454,732	88,358,282

Reference should be made to the Note on Bank Borrowing for further information on payables secured by mortgages; we note the following with regard to the mortgage loans:

- the amount of the mortgages shown in the table refers to the amount of the guarantee equal to the outstanding liability at the reporting date;
- Mortgages totalling Euro 3,314,292 apply to the Company's property while the remaining Euro 3,589,258 are4 secured on the property of subsidiary Immobiliare Industriale S.r.l..

Accrued expenses and deferred income

Details of this item and movements thereon during the year are provided below (Art. 2427(7) of the Italian Civil Code).

	Opening amount	Change	Closing amount
Accrued expenses	-	-	-
Deferred income	60,949	524,537	585,486
Total accrued expenses and deferred income	60,949	524,537	585,486

	31 December 2017	31 December 2018	Change
Deferred income:	60,949	585,486	524,537
- lease instalments	4,670	-	-4,670
- other	56,279	585,486	529,207
Total	60,949	585,486	524,537

Other deferred income mainly refers to contributions from customers.

Notes to the Financial Statements, Income Statement

Value of production

The following table contains a breakdown of value of production and details of changes in the various component items compared to prior year:

	2017	2018	Change	% Chg
Revenue from sales and services	157,949,339	147,695,379	-10,253,960	-6,5%
Change in inventory of WIP, semi-finished and finished goods	-586,111	3,567,590	4,153,701	708,7%
Change in contract work in progress	-	-	-	
Increase in non-current assets due to capitalisation of internal works	790,334	913,274	122,940	15,6%
Other revenues and income	1,663,434	27,039,978	25,376,544	1525,6%
Total Value of Production	**159,816,996**	**179,216,221**	**19,399,225**	**-**

Revenue from the sale of goods is stated after returns, discounts and bonuses agreed and granted to customers and warranty chargebacks. Revenue from sales also includes chargebacks such as contributions debited to customers for the development of new products and the construction of related equipment, as well as a small amount of incidental selling expenses (shipping and packaging).
The Euro 10,253,960 overall decrease in revenue from sales is mainly due to a fall in net revenue from the sale of goods as a result of the fire at the start of the year, as described in detail elsewhere in these Notes and in the Directors' Report. This decrease was partially offset by an increase in revenue from services and, in particular, by recharges of contributions for the development of equipment (increase of around Euro 1,000,000).

Breakdown of revenue from sales and services by business category

In accordance with Article 2427(10) of the Italian Civil Code, we provide a breakdown of revenue from sales and services by business category.

Descrizione	2018
Manufacture and Sale of Water Pumps, Equipment and Prototypes	147,695,379
Total	**147,695,379**

Breakdown of revenue from sales and services by geographical area

In accordance with Article 2427(10) of the Italian Civil Code, we provide a breakdown of revenue from sales and services by geographical area.

	2018
Italy	12,088,287
Other countries	135,607,092
Total	**147,695,379**

The breakdown of revenue by geographical area shows that the Company makes the vast majority of its sales on other EU and non-EU markets.
The penchant for exports and the percentage of sales made in other countries, primarily to German car manufacturers, has remained broadly in line with prior year (92%). It will remain very high in the years ahead in light of the long-term production contracts already acquired.

Increases in non-current assets due to capitalisation of internal works

During the period, the Company capitalised development costs of Euro 913,274. The costs capitalised entirely refer to the cost of personnel directly employed in development projects for contracts whose award had been confirmed at 31 December 2018 but which had not yet gone into mass production. See the Notes on Development Costs and Intangible Assets in Progress for further information.

Other revenue and income

"Other revenue and income", amounting to Euro 27,039,978, includes:

- Euro 22,473,150 of insurance pay-outs in respect of the claim regarding the fire on 11 January 2018 for which insurance payment agreements have already been signed;
- Euro 1,745,851 of unaccrued prior year income mainly relating to the reversal of lease instalments charged in the first six months of 2018 and in the second half of 2017 following signature of the Debt Restructuring Framework Agreement;
- Euro 1,348,402 of contributions received from customers towards the purchase of equipment;
- Euro 500,643 of chargebacks to customers and suppliers of costs incurred that are not attributable to the Company.
- Euro 279,784 of chargebacks for equipment realised in-house;
- Euro 257,198 of project cancellation costs charged to customers;
- Euro 164,946 of intercompany royalties and services;
- Euro 109,028 of gains on fixed asset disposals.

The total increase of Euro 25,376,544 compared to prior year is mainly due to the insurance pay-outs described above and to the reversal of lease instalments. Reference should be made to the Directors' Report for further details on the breakdown of Revenue from Sales and, more generally, on Value of Production.

Cost of production

The following table contains a breakdown of "Cost of production" and details of changes compared to prior year.

	2017	2018	Change	% Chg
► Raw, ancillary and consumable materials and goods	83,775,992	96,144,884	12,368,892	14.8%
► Services	28,716,938	40,284,596	11,567,658	40.3%
► Use of third party assets – lease and rental costs	6,691,173	4,924,997	-1,766,176	-26.4%
► Personnel costs:				
a) wages and salaries	15,927,227	17,260,335	1,333,108	8.4%
b) social contributions	4,058,012	4,867,661	809,649	20.0%
c) employee severance indemnity / "TFR"	879,528	928,941	49,413	5.6%
d) retirement benefits and similar obligations	-	-	-	-
e) other personnel costs	165,641	111,546	-54,095	-32.7%
► Depreciation, amortisation and writedowns:				
a) amortisation of intangible assets	1,063,117	1,531,421	468,304	44.1%
b) depreciation of tangible assets	4,918,882	5,357,242	438,360	8.9%
c) other writedowns of non-current assets	277,747	1,560,488	1,282,741	461.8%
d) writedowns of current receivables	84,240	-	-84,240	-100.0%
► Changes in inventory of raw, ancillary and consumable materials and goods	9,562,618	-1,187,590	-10,750,208	-112.4%
► Provisions for risks	-	-	-	-
► Other provisions	754,790	1,400,000	645,210	85.5%
► Sundry operating expenses	753,283	2,213,628	1,460,345	193.9%
Total	157,629,188	175,398,149	17,768,961	-

See the Directors' Report for details of all cost categories and of changes compared to prior year.

Costs for raw, ancillary and consumable materials and goods for resale

These costs are reported in the Income Statement net of adjustments for returns, discounts, allowances and bonuses. They amount to Euro 96,144,884 for 2018 against Euro 83,775,992 in 2017.
Purchase costs mainly relate to raw materials (aluminium) and to pump components (bearings and shafts, thermostats, pulleys, plates, covers, etc.) as well as to purchases of finished pumps (IAM) and consumable materials. The breakdown of purchases has not changed significantly compared to prior year except as necessary as a result of the fire at the start of the year (increase in purchases of finished pumps).

The significant increase compared to prior year (+Euro 12,368,892 or +15%) should be considered together with the change in related inventory. This was due, on the one hand, to the replenishment of inventory carried out in 2018 following the destruction of goods held at the Saleri C building in the fire on 11 January 2018 and, on the other hand, to the fact that purchases were comparatively low in 2017 also because of general policies to contain costs and make the entire supply chain more efficient; the contribution made by these policies was diminished in 2018 because of the fire.

Costs for services

This caption amounts to Euro 40,284,596 and refers to a series of costs for services. The following table shows the mainly types of service:

	2017	2018	Change
► Industrial services	20,150,681	22,190,714	2,040,033
► Consulting	1,482,650	2,472,618	989,968
► General Expenses	5,745,402	13,352,980	7,607,578
► Other services	1,338,205	2,268,284	930,079
Total Costs for Services	**28,716,938**	**40,284,596**	**11,567,658**

Industrial services mainly refer to outsourced services including die-casting and other casting, machining, other processing and treatments regarding certain stages of the production process. The increase in costs for services mainly regards costs for outsourced services (machining and other), for die-casting and other casting and other industrial expenses which were higher in 2018 than in 2017 also as a result of the previously mentioned fire. In the case of costs for industrial services, too, the higher cost incurred compared to prior year was indirectly countered by a corresponding increase in inventory of semi-finished and finished goods.
Consulting costs include accounting, management and tax consulting but also sales and marketing advice and services in relation to patents, quality control and the environment. The overall increase of Euro 989,969 mainly regards costs for technical consulting (up by Euro 576,435), tax and management consulting (up by Euro 351,573) and sales and marketing consulting (up by Euro 100,468) while there were lower costs for environmental consulting and assistance with patent applications (down by Euro 80,349.
General Expenses include costs for Freight, Utilities, Maintenance and other costs relating to the Company's activities. The overall increase of Euro 7,607,578 is mainly due to: maintenance costs (up by Euro 4,141,930), largely extraordinary maintenance in response to the fire (maintenance work to repair damaged machinery); freight costs (up by Euro 2,867,430) also because of the relocation of production to the new Saleri E factory in Provaglio d'Iseo; emoluments of the new Board of Directors; and non-recurring legal expenses incurred for the reorganisation of corporate governance during the period. We also highlight the increase in temporary labour costs – also non-recurring – which was another consequence of the fire (the cost of temporary labour is classified under Income Statement caption B9).
Other services is a minor cost item. The increase compared to prior year is mainly due to the increase in research and development costs, patents and project cancellation costs, costs for security services and costs for the fees of the Board of Statutory Auditors and the external auditors.
See the Directors' Report for a detailed analysis of extraordinary increases and decreases during the year as a direct consequence of the fire.

Use of third party assets – Lease and rental costs

This item mainly refers to finance lease costs and, to a minor, extent operating lease costs, hire charges and other rental costs.
The decrease totalling Euro 1,766,176 compared to prior year is mainly due to a reduction in finance lease costs (by around Euro 2 million) as a result of the natural expiry of several contracts and the impact of the Debt Restructuring Agreement.
In contrast, hire costs and property rental costs have increased slightly (+ Euro 261,831 due to the new rental agreement for the Saleri E building in Provaglio d'Iseo which was not offset by the suspension of rental payments for the Saleri C building with effect from March 2019) but by less than the decrease in finance lease costs.

Personnel costs

This item, amounting to Euro 23,168,483, comprises all employee related expenses including merit based increases, promotions, seniority increases, accrued holiday pay and provisions required by law and collective labour agreements. The total cost has increased mainly because of an increase in the average number of employees and, to a minor extent, because of a reduction in certain relief on social contributions. See the later section of these Notes for details of the workforce in 2018.

Amortisation of intangible assets

Amortisation of intangible assets (Euro 1,531,421 against Euro 1,063,117 in 2017) has already been commented upon in the Note on intangible assets.

Depreciation of tangible assets

Depreciation of tangible assets (Euro 5,357,242 against Euro 4,918,882 in 2017) has already been commented upon in the Note on tangible assets. We note, however, that it has been calculated based on the useful life of tangible assets and their use in the production process.

Other writedowns of non-current assets

As stated in the note on tangible assets, the Company wrote down tangible assets by Euro 1,560,488 in 2018. It should be recalled that the writedown recorded in prior year related to intangible assets.

Writedowns of current receivables

During the year, there were no writedowns of current receivables as non was required. The writedown of Euro 84,240 recorded in prior year included Euro 30,000 for financial receivables and Euro 54,240 for trade receivables.

Other provisions

This item, amounting to Euro 1,400,000, refers to allocations to the product warranty provision. In 2017, the amount allocated was Euro 754,790.

Sundry operating expenses

Sundry operating expenses, amounting to Euro 2,213,628, mainly refers to customer indemnities, unaccrued prior year expenses, membership fees and sundry taxes. The increase of Euro 1,460,345 compared to prior year mainly regards losses on asset disposals recorded as a result of the fire (Euro 826,756) and the higher level of indemnities paid to customers (Euro 391,628).

Financial income and expenses

Breakdown of income from investments

In accordance with Article 2427(11) of the Italian Civil Code, the following table contains details of income from investments other than dividends.

	Income other than dividends
► From subsidiaries	1,490
► From associated companies	-
► From parent companies	-
► From entities controlled by parent companies	-
► From others	-
Total	**1,490**

The income reported for 2018 entirely refers to the proceeds from the liquidation of the French subsidiary.
In prior year, other income from investments mainly referred to the earn-out payment finalised and settled during the year in relation to the sale of an investment in Italpresse S.p.A. in 2015.

Breakdown of sundry income

The following table contains a detailed breakdown of line item "C.16.d) Income other than the above".

	Subsidiaries	Associated companies	Parent companies	Controlled by parent companies	Other	Total
► Bank and post office interest	-	-	-	-	541	541
► Other income	-	-	-	-	8,771	8,771
Total	-	-	-	-	**9,312**	**9,312**

The total amount of Euro 9,312 for 2018 mainly refers to interest income on receivables. In 2017, the total amount of Euro 11,268 mainly comprised interest income on tax refunds.

Breakdown of interest and other financial expenses by type of debt

In accordance with Article 2427 (12) of the Italian Civil Code, the following table contains details of interest and other financial expenses relating to bonds, bank borrowing and other debt.

	Interest and other financial expenses
Bank borrowing	1,443,528
Other	130,217
Total	**1,573,745**

Adjustments to value of financial assets and liabilities

The following table contains details of "Adjustments to value of financial assets and liabilities" and of changes compared to prior year.

	2017	Change	2018
18) Revaluations			
d) of derivatives	-	44,516	44,516
19) Writedowns			
a) of equity investments	341,415	-124,290	217,125
b) of non-current financial assets other than equity investments	-	-	-
c) of current securities other than equity investments	-	-	-
d) of derivatives of financial assets from cash pooling	18,052	-12,551	5,501
Total	**-359,467**	**181,357**	**-178,110**

Writedowns of investments entirely relate to subsidiary Italacciai S.r.l..

The amount of Euro 5,501 refers to the negative fair value measurement of derivative instruments in place at the reporting date, in accordance with Italian Accounting Standard OIC 32.

Taxes on income – current, deferred and deferred tax income

Taxes on income for the year

The following table contains a breakdown of "Taxes on income for the year":

	2017	Change	% Chg	2018
Current taxes	221,512	155,669	70,3%	377,181
Prior year taxation	-	-	-	-
Deferred taxes	189,632	-205,142	-108,2%	-15,510
Deferred tax income	-30,445	-315,760	-1037,1%	-346,205
Income (Expense) from participation in tax consolidation / fiscal transparency	103,543	-94,550	-91,3%	8,993
Total	**277,156**	**-270,683**	-	**6,473**

Deferred taxation (Art. 2427 (14) of the Italian Civil Code)

Deferred taxes have been calculated taking account of the amount of all temporary difference generated by applying tax laws and regulations and applying the tax rates in force when the difference emerged.

Deferred tax assets have been recognised as it is reasonably certain that, in future periods, there will be taxable income of not less than the amount of the differences reversing.

The following table contains details of the temporary differences that led to the recognition of deferred tax assets and liabilities. It shows the relevant amount, the tax rate applied, the tax effect, the amounts credited or debited to the income statement and the items excluded from the calculation; details are provided for current year and prior year. The table also shows the amount of deferred tax assets recognised in relation to tax losses for the year and for prior years.

	Prior year		Change		Current year	
	IRES	IRAP	IRES	IRAP	IRES	IRAP
DEFERRED TAX ASSETS	Amount of temporary differences					
Interest expenses not deducted and GOI excess	32,765	-	2,342,504	-	2,375,269	-
Allocation to provisions for risks and charges	900,000	-	500,000	-	1,400,000	-
Allocation to inventory obsolescence provision	274,511	-	734,907	-	1,009,418	-
Writedown of non-current assets	477,747	-	1,560,488	-	2,038,235	-
Other changes in deferred tax assets	-	-	257,832	-	257,832	-
Total deductible temporary differences	1,685,023	-	5,395,731	-	7,080,754	-
Tax losses	14,951,149	-	-3,988,354	-	10,962,795	-
IRES and IRAP rates	24	3.90	-	-	24	3.90
Deferred tax assets	3,992,682	-	337,770	-	4,330,452	-
DEFERRED TAXES	Amount of temporary differences					
Depreciation of assets revalued under Decree Law no.185/2008	6,030,176	6,030,176	-55,590	-55,590	5,974,586	5,974,586
Total taxable temporary differences	6,030,176	6,030,176	-55,590	-55,590	5,974,586	5,974,586
IRES and IRAP rates	24	3.90	-	-	24	3.90
Deferred tax liabilities	1,447,242	235,177	-13,341	-2,169	1,433,901	233,008
Rounding	-	-	-	-	-	-
Deferred tax assets (liabilities) net for IRES and IRAP	2,545,440	-235,177	351,111	2,169	2,896,551	-233,008
Total deferred tax assets (liabilities) net	2,310,263	-	353,280	-	2,663,543	-
- allocated to Income Statement	-	-	353,280	-	-	-
- allocated to Equity	-	-	-	-	-	-

Tax reconciliation - IRES

The following table contains a reconciliation between the tax expense reported in the Financial Statements and the theoretical tax expense, with the information required by Italian Accounting Standard OIC 25.

	FINANCIAL STATEMENTS	Taxes
► Profit before taxation (A - B + - C + - D)	2,063,470	-
► Theoretical tax expense %	24	495,233
► Temporary differences deductible in later periods:		
- allocation to provision for risks	1,400,000	-
- writedown of non-current assets	1,560,488	-
- writedown of inventory	435,609	-
► Total	3,396,097	-
► Reversal of prior year temporary differences:		
- utilisation of provision for risks	900,000	-
► Total	900,000	-
► Differences that will not reverse in later periods / Permanent differences:		
- IMU – local property tax	43,232	-
- motor vehicle expenses	147,103	-
- unaccrued prior year expenses	352,842	-
- telephone expenses	14,205	-
- fines and penalties	29,329	-
- non-deductible costs	65,971	-
- non-deductible D&A	225,035	-
- writedown of investments	217,125	-
- donations	57,562	-
- other increases	528,644	-
- super-depreciation	-1,496,478	-
- other decreases	-509,037	-
► Total	-324,467	-
► Taxable income for IRES	4,235,100	-
► Current IRES for the year	-	948,071

Tax reconciliation - IRAP

The following table contains a reconciliation between the tax expense reported in the Financial Statements and the theoretical tax expense, with the information required by Italian Accounting Standard OIC 25.

	FINANCIAL STATEMENTS	Taxation
► Taxable base for IRAP	29,947,043	-
► Costs not deductible for IRAP purposes:		
-interest element of lease instalments	388,259	-
- IMU – local property tax	54,040	-
- directors' fees	863,190	-
- non-deductible costs and unaccrued prior year expenses	439,671	-
- other items	63,679	-
► Revenue not considered for IRAP purposes		
- utilisation of provisions	900,000	-
► Total	30,855,882	-
► Theoretical tax expense %	3,90%	1,203,379
► Deductions:		
- INAIL	169,361	-
- Social security /pension contributions	3,868,280	-
- Expenses for apprentices, R&D personnel	2,441,048	-
- other personnel related deductions	14,705,875	-
► Total	21,184,564	-
► Total	-	-
► Taxable income for IRAP	9,671,319	-
► Current IRAP for the year	-	377,181

Notes to the financial statements, other information

Employment details

In accordance with Article 2427 (15) of the Italian Civil Code, the following table contains details of the Company's employees at 31/12/2018.

	Average Number in 2017	Average Number in 2018
SENIOR MANAGERS	-	-
MANAGERS	11	12
WHITE COLLARS	130	139
BLUE COLLARS	248	259
OTHER EMPLOYEES	16	-
Total Employees	**405**	**410**

Fees, advances and loans granted to directors and statutory auditors and commitments made on their behalf

The following table contains details of the fees, advances and loans granted to the Directors and to members of the Board of Statutory Auditors, as well as details of commitments made on their behalf in the year ended 31 December 2018, as required by Article 2427(16) of the Italian Civil Code.

	Directors	Statutory Auditors
Fees	863,190	36,400
Advances	-	-
Loans	-	-
Commitments made on their behalf as a result of guarantees given	-	-

Fees of the external auditor or audit firm

Pursuant to Article 2427(16 bis) of the Italian Civil Code, the following table contains details of fees for services rendered. Fees for compulsory audit services are shown separately from fees for other services.

	Amount
Audit of the annual financial statements	74,380
Other audit services	33,150
Tax advisory services	-
Other non-audit services	-
Total fees of the external auditor or audit firm	**107,530**

Categories of shares issued by the Company

As required by Article 2427(17) of the Italian Civil Code, the following table contains details of the shares that make up share capital. It shows the number and nominal amount of the shares subscribed during the year.

	Opening number of shares	Opening nominal amount of shares	Number of shares subscribed during the year	Nominal amount of shares subscribed during the year	Closing number of shares	Closing nominal amount of shares
Category A	900,000	5,160,000	1,395,349	7,995,815	2,295,349	13,155,815
Category B	-	-	831,648	4,766,598	831,648	4,766,598
Total	900,000	5,160,000	2,226,997	12,762,413	3,126,997	17,922,413

Off-balance sheet commitments, guarantees and contingent liabilities

Pursuant to Article 2427(9) of the Italian Civil Code, the following table shows the total amount of off-Balance Sheet commitments, guarantees and contingent liabilities. It shows the nature of the secured guarantees given, commitments regarding retirement benefits and similar obligations and commitments made towards subsidiaries, associated companies and entities controlled by parent companies.

	Amount
Commitments	12,051,594
retirement benefits and similar obligations	-
towards subsidiaries	-
towards associated companies	-
towards parent companies	-
towards entities controlled by parent companies	-
Guarantees	7,201,898
of which secured	3,500,856
Contingent liabilities	-

The commitments shown in the table refer to finance lease agreements and represent the outstanding liability at the reporting date.

At 31 December 2018, guarantees referred to the following:

- around Euro 3,016,831 of guarantees issued by the Company on behalf of subsidiaries (mainly Saleri Shanghai and, to a minor extent, Italacciai) in favour of some of their lenders; the amount disclosed is equal to the exposure of the subsidiaries (as translated into Euro at the reporting date exchange rate if necessary) towards the beneficiaries of the guarantees at the reporting date; compared to 31 December 2017, the total amount of guarantees has decreased by Euro 1,316,691; the maximum amount of the guarantees issued is around Euro 5,433,895;
- around Euro 684,211 of guarantees issued and still in place in relation to possible indemnity obligations under the contract for the sale of the investment in Italpresse S.p.A.; in more detail, the possible indemnity obligation is towards the operating company (subsequently sold) created following the spin-off of the real estate division (now Immobiliare Industriale) and relating to its joint liability for the debt of the company spun off; the amount of the guarantee is equal to the residual third party debt of Immobiliare Industriale transferred upon the spin-off.
- around Euro 3,500,856 of mortgages attaching to assets owned by the Company as security for loans granted to it by banks and financial institutions. The amount has been measured based on outstanding debt at 31/12/2018.

Related party transactions

Pursuant to Article 2427(22-bis) of the Italian Civil Code, we note that the following related party transactions took place during the year; all of them were conducted on an arm's length basis.

	Subsidiaries	Associated companies	Other related parties
Revenue	497,698	-	-
Costs	8,577,507	-	-
Financial income / expense	-	-	-
Financial receivables	342,789	-	34,151
Trade receivables	247,923	-	-
Financial payables	101,837	-	-
Trade payables	1,919,095	-	-

Significant events after the reporting date

In terms of Article 2427(22-iv) of the Italian Civil Code, we note that there have been no significant events after the reporting date.

Summary of public sector funding in terms of Article 1(125) to (129) of Law 124/2017

Article 1 (125) to (129) of Law no 124 of 4 August 2017 ("Annual law for the market and competition") introduced new disclosure requirements on public finance received and approved.

These amounts are reported on a "cash basis". During 2018, the Company did not receive any finance (or grants) included in the definition governed by Law 124 of 4 August 2017.

Disclosures regarding derivative instruments in terms of Article 2427-bis of the Italian Civil Code

The following table presents the detailed information required by Article 2427-bis(1)(1) of the Italian Civil Code.

For each category of derivative instrument indicated in the table, we have provided information on significant terms and conditions that could affect the amount, maturity and certainty of future cash flows, the fundamental assumptions on which the models are based and the valuation methods if fair value has not been determined based on market information.

	Fair value 31/12/2018	Fair value 31/12/2017	Change through Income Statement	Change through equity	Nature	Amount
Interest rate swap	-13,907	-54,024	40,117		Hedge	825,000
Options	-1,460	6,600	-8,060		Hedge	6,505,415

Proposed allocation of profits or coverage of losses

Allocation of profit for the year

Dear Shareholders,
All matters not specifically commented upon in these Notes are clearly and accurately set out in the Financial Statements presented for your review. The Financial Statements have been prepared with as much detail as possible.
We assure you that the amounts reported in the Financial Statements presented for your review and approval were obtained from the properly maintained accounting records and invite you to approve the Financial Statements – comprising the Balance Sheet, Income Statement, Statement of Cash Flows and Notes – as well as the proposed allocation of result for the year, as follows:

	Amount
► Profit for the year	-
► Legal reserve	102,850
► Accumulated prior year losses	1,954,147
Total	2,056,997

Significant effects of exchange rate fluctuation

In accordance with Article 2427(6-bis) of the Italian Civil Code, we note that there have been no significant exchange rate fluctuations between the reporting date and the date on which these Financial Statements were issued.

Equity investments involving unlimited liability

Pursuant to Article 2361(2) of the Italian Civil Code, we note that the Company does not hold any equity investments that involve unlimited liability.

Lumezzane (BS), 24 May 2019

THE BOARD OF DIRECTORS

Signed by **Basilio Saleri (Presidente)**

Signed by **Matteo Cosmi**

Signed by **Sergio Bona**

Signed by **Giorgio Garimberti**

Signed by **Wilhelm Becker**

Signed by **Alessandro Potestà**

Signed by **Alberto Bartoli**

Signed by **Simona Heidempergher**

Signed by **Massimo Colli**

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INDEPENDENT AUDITOR'S REPORT
PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010

To the Shareholders of
Industrie Saleri Italo S.p.A.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Industrie Saleri Italo S.p.A. (the Company), which comprise the balance sheet as of December 31, 2018, the statement of income and statement of cash flows for the year then ended and the explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as of December 31, 2018, and of its financial performance and its cash flows for the year then ended in accordance with the Italian law governing financial statements.

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 requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with the Italian law governing financial statements, and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Company or the termination of the business or have no realistic alternatives to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established 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 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 these financial statements.

Deloitte.

2

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain 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.

- Obtain 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude 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.

- Evaluate 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 communicate with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14, paragraph 2 (e) of Legislative Decree 39/10

The Directors of Abc S.p.A. are responsible for the preparation of the report on operations of Industrie Saleri Italo S.p.A. as of December 31, 2018, including its consistency with the related financial statements and its compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations with the financial statements of Industrie Saleri Italo S.p.A. as of December 31, 2018 and on its compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the report on operations is consistent with the financial statements of Industrie Saleri Italo S.p.A. as of December 31, 2018 and is prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the entity and of the related context acquired during the audit, we have nothing to report.

DELOITTE & TOUCHE S.p.A.

Signed by
Piergiulio Bizioli
Partner

Brescia, Italy
June 7, 2019

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

Report of the Board of Statutory Auditors to the shareholders' General Meeting

in terms of art. 2429 (2) of the Italian Civil Code

To the General Meeting of the Shareholders of Industrie Saleri Italo S.p.A.

During the year ended 31 December 2018, we performed our work in accordance with legal requirements and the guidelines for Boards of Statutory Auditors issued by the Italian Accounting Profession ("*il Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili*").

Supervisory activities in terms of Articles 2403 et seq. of the Italian Civil Code

We supervised compliance with the law and the articles of association and respect for principles of good business management.

We attended Shareholders' General Meetings and Board of Directors' Meetings. Based on the information available, we did not identify any breaches of the law or the articles of association, nor any transactions that were manifestly imprudent, risky, involved a potential conflict of interests or were such as to compromise the corporate assets.

We obtained information about the work performed by the external auditors. On this basis, no significant data and information in need of disclosure in this report came to light.

During the meetings held, we obtained information about the general operating performance and the outlook for the future. We also acquired information on the most significant transactions – in terms of size or nature – carried out by the company and, based on the information acquired, we have no particular comments to make.

Within the scope of our responsibility, we have gained an understanding of and supervised the adequacy and operation of the Company's organisational structure. This also involved gathering information from the managers in charge of the various departments and we have no particular comments to make in this regard.
We assessed and supervised the appropriateness of the administrative and accounting system, as well as its reliability in accurately reporting operations. This involved gathering information from the managers in charge of the various departments and from the external auditors, as well as reviewing Company documents. We have no particular comments to make in this regard.
We have received no reports in terms of Article 2408 of the Italian Civil Code.

During the year, the Board of Statutory Auditors did not issue any opinions provided for by law.

During our supervisory activities, as described above, no further significant matters in need of mention in this Report came to light.

Comments on the financial statements

We have reviewed the financial statements for the year ended 31 December 2018 and report as follows thereon.

As we are not required to perform detailed checks on the contents of the financial statements, we have checked the general approach followed in preparing the financial statements and their general compliance with statutory reporting requirements in terms of their preparation and structure. We have no particular comments to make in this regard.

We have checked compliance with statutory requirements on preparation of the Directors' Report and have no particular comments to make in this regard.
As far as we are aware, when preparing the financial statements, the Directors did not deviate from statutory requirements in terms of Article 2423(5) of the Italian Civil Code.

Pursuant to Article 2426(5) of the Italian Civil Code, we have expressed our consent to the capitalisation of development costs of Euro 2,144,246.

We have confirmed that the financial statements reflect the facts and information of which we gained knowledge in the course of our work and have no comments to make in this regard.

For certification that the financial statements for the year ended 31 December 2018 provide a true and fair view of the balance sheet and financial situation and of the result for the year, in accordance with Italian statutory reporting requirements, reference should be made to the report issued today by Deloitte & Touche S.p.A., as legally appointed to audit the financial statements.

Observations and proposals regarding approval of the financial statements

Also considering the results of the work done by the external auditors, as set out in their report on the financial statements, we recommend the Shareholders' General Meeting to approve the financial statements for the year ended 31 December 2018, as prepared by the Directors.

The Board of Statutory Auditors does not have any observations to make in terms of the allocation of the net profit for the year proposed by the Directors in the Notes to the Financial Statements.

Lumezzane (BS), 7 June 2019
The Board of Statutory Auditors

Signed by Francesco Facchini *(Chairman)*

Signed by Roberta Lecchi *(Statutory auditor)*

Signed by Andrea Gabola *(Statutory auditor)*

RESILIENCE

OUR ATTITUDE, OUR STRENGTH

There was only one way to overcome the situation and start again: everyone had to roll their sleeves up and cooperate!
Gabriele Ghidini - Maintenance Manager

CONCEPT AND GRAPHIC DESIGN:
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