Annual Report 2019

INDUSTRIE SALERI ITALO

Creative Concept

Innovation and look towards the future are the cornerstones of the Saleri Vision. In this volume we have extended the core concepts that the Group embraces and builds in every single activity and in every department, thanks to all the people who work there.
Adapting to change, daily commitment in sustainability, strategic vision and insight are the elements that guide the choices in order to continue growing, together, towards a future evolving more than ever.

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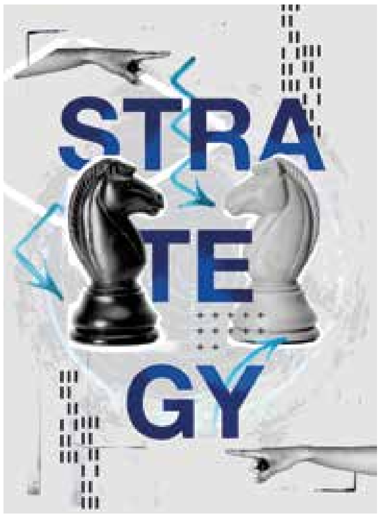

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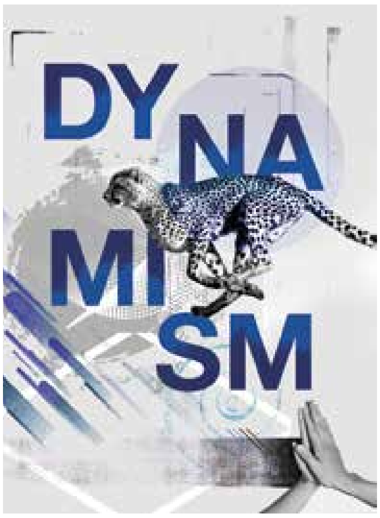

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We have chosen 6 keywords that have been expressed through original collage compositions, in a mix of graphic and photography. Art boards, in which the photographical elements metaphorically embody the presented concepts, while graphics and abstracts symbols complete the core meaning, all matched to the company shades of colours that characterize and strengthen the corporate identity.

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SUSTAINABILITY

The Company environmental policy includes the criteria to which the Saleri Group shall follow with the aim of minimize its impact by adopting a perspective of sustainability, both concerning use of materials, of energy, of water and waste management.
Moreover, to cope with more and more restrictive antipollution regulations, it becomes crucial to find highly efficient solutions, conform to environmental regulations, since the development of efficient products determines an optimization in thermal management, other than an improvement in terms of emissions.


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Section

1

Consolidated non financial statement for 2019

Letter to the Stakeholders

After publishing the first edition of the Industrie Saleri Italo S.p.A. Sustainability Report in 2018, this year we intend to follow up on that initiative, extending the scope of the report and offering stakeholders a better and more useful tool.
This document describes the strategies developed, the action taken and the results achieved by the Group 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 S.p.A. (the "**Business**" or the "**Company**") 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. Last year, the decision to publish the first edition of this Report coincided with a year marked by the effects of the fire that made us reflect carefully on the value of our environment and the local area in which we have established our business. With this new Report, we want to look beyond and highlight the dynamic features of our business, including the actions taken at Group level (the "**Saleri Group**"): with a view to international expansion, we believe it is essential that the activities established and developed in the Brescia area can also be applied in our new plants abroad and through the partnerships we will forge as part of our development efforts.
Despite the market downturn and a loss of profitability, the year 2019 was a fundamental one in laying the foundations for future growth and development. Major new research and development projects were launched , along with plans for international expansion. Meanwhile, solid groundwork for external growth was carried out, along with a reorganisation of internal production processes with a lean production approach.
Notwithstanding the macroeconomic environment and the situation in the sector, the operating results of the Saleri Group (hereinafter, "**Group**" or "**Saleri Group"**) for 2019 show an increase in consolidated revenues from € 161.4 million to € 163.6 million. EBITDA has decreased compared to 2018 and is down from € 21.3 million to € 18.1 million (EBITDA Margin 2019 of 11.0%) due to the absence of certain non-recurring revenues. A consolidated net profit of € 2.8 million (1.7% of revenues) is 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, the Saleri Group 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 2019, there were 573 employees and they were given some 7.138 hours of training (+13% compared to 2018).
Alongside its people, the Group 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.
The major effort in this area by the Technical Department, the R&D Department and the Continuous Improvement and Industrialisation Team has brought about ever increasing efficiencies over the years and, throughout 2019, they were analysed in even greater detail in pursuit of the best production and R&D standards.
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 adversity (first in 2018 and, then, throughout 2019) in light of the negative market conditions in the automotive industry. A fundamental contribution in this process is made by the 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.
Particular thanks much go to the shareholders which, for two years now, have represented a solid partnership on which to construct the future of the business: between the Saleri family and the representatives of the Quaestio Italian Growth Fund, after contributing in prior year to financing the recapitalisation of the Group, there is the utmost climate of collaboration geared towards ensuring the best possible conditions for the future development of the Saleri Group and sustaining its principal growth strategies.
Finally, last but certainly not least, our specific, heartfelt thanks must go to all of the people of the Saleri Group. We thank them for how they have proven capable of dealing with a major organisation and for how they are working hard to guarantee new opportunities for the Group. We offer them a massive "THANK YOU" for what they continue to do to help the Saleri Group grow and develop, while also guided by a sustainable and ethical vision.
In response to the situation that emerged following the COVID 19 emergency, the Saleri Group took immediate action and adopted a series of measures designed to safeguard the health of its employees. Where possible, smart working was introduced and operating procedures were revised with rules and protocols introduced in order to limit the possibility of contagion and favour, initially, the continuation of manufacturing activities. Subsequently, tougher regulations for the continuation of manufacturing activities and orders issued locally led to a major reduction in production activity and the Group sought to access social safety nets. At the same time, production and office premises were sanitised and personal protective equipment was purchased so that activities could continue, where possible, or plans could be made for their restart, while guaranteeing appropriate safety standards for workers.
Treasury management procedures have been further improved while maintaining a constant dialogue with customers, the banks and suppliers in order to guarantee financial support for the Group, consolidate commercial relations and safeguard the Group. I must stress the support that has been received from all the major stakeholders that operate with the Saleri Group: customers, suppliers, banks and all of the Group's people who have proven extremely professional in dealing with this situation. The economic, financial and equity outlook is reviewed constantly based on market indications, in order to monitor forthcoming developments as carefully as possible.
The current situation due to Covid-19 will have a serious impact on results for the year 2020. The production lockdown and the interruption of the supply chain have led to massive revenue decreases and, consequently, to a slump in forecast profits. It remains difficult to foresee the real damage that will be caused by this situation but I am sure that the professionalism shown by the people working for the Group means that we will be able to come through this extraordinary economic situation.

Lumezzane, 29 July 2020

Basilio Saleri
Chairman & CEO

Matteo Cosmi
Managing Director

Chapter

1

Methodological note

This document is the Non-Financial Statement (hereinafter, also "NFS" or "Sustainability Report" or "Non-Financial Statement") of the Saleri Group (hereinafter, also "Saleri"), prepared in accordance with Articles 3 and 4 of 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 Statement has been prepared in compliance with Legislative Decree 254/2016, with reference to a selection of the "GRI Sustainability Reporting Standards" (2016) established by the Global Reporting Initiative (GRI), as in the table "Index of GRI Contents". The Group has adopted the most recent version of the GRI 403 Standard (Occupational Health and Safety), released in 2018.

In line with one of the two options offered by Article 5 of Legislative Decree 254/2016, the Non-Financial Statement has been integrated into the Directors' Report.
The Non-Financial Statement is published annually. This NFS was approved by the Board of Directors of Industrie Saleri Italo S.p.A. on July 29, 2020.

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).

The reporting perimeter of the financial and economic information contained in this document is the same as for the Consolidated Annual Financial Report of Industrie Saleri Italo S.p.A. as of December 31, 2019. The scope of the social and environmental information includes the companies consolidated line-by-line in the Consolidated Annual Financial Report[1]: Saleri Shanghai Co. Ltd., Immobiliare Industriale S.r.l., plus ABL Automazione S.r.l., a company acquired on July 31, 2019 through control of Hold. Co 1 which is, in turn, owned by Industrie Saleri Italo S.p.A. and Berfin S.r.l.

From next year, the NFS will include also the figures relating to the subsidiary Saleri México S.A. de C.V., located in Monterrey, Nuovo Leon, Mexico, incorporated by the Group at the end of 2019, and operational since September 2020.
Finally, the company Italacciai S.r.l. has been sold in June 14, 2019.

The figures contained in this Non-Financial Statement refer to the period between 1 January and 31 December 2019.
Where possible, the information presented in the NFS has been correlated with comparative information for 2018, adjusting the data reported in the NFS 2018[2] (which related to Industria Saleri Italo S.p.A. only) in order to reflect Group information and ensure its comparability. Any further limitations regarding the reporting perimeter have been duly disclosed in this document.

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 to be included in this document but, also, with the collection, analysis and consolidation of data. The figures and information included in this report were obtained from each entity's financial and management reporting system and from a non-financial reporting system implemented in order 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 this Statement, the use of estimates, as far as possible, has been limited, and eventually it is duly indicated within the document.

This document has been the subject of a limited assurance engagement (following the criteria indicated by Standard ISAE 3.000 Revised Principles) by Deloitte & Touche S.p.A. which has issued an independent report stating that the information reported meets the requirements of Article 3(10) of Legislative Decree 254/2016.

The engagement was performed based on the procedures described in the "Report of the Independent Audit Firm", included in this document. For any questions or information requests regarding the Report, please email the following address: **sustainability@saleri.it**.

[1] For further information, see Section 1 – Ownership and governance structure of the Consolidated Annual Financial Report of the Saleri Group as of December 31, 2019, as published in the "Financial Statements" section of the site www.corporate.saleri.it.
[2] For the information previously published, see the NFS 2018, contained in the 2018 Annual Report published in the "Financial Statements" section of the site www.corporate.saleri.it.

Chapter

2

Materiality analysis

The Saleri Group has performed a materiality analysis in order to identify the major economic, social and environmental issues that significantly influence or could influence the decisions and assessments of the Group and its Stakeholders. The result of this analysis is the Materiality Matrix, a methodological instrument widely used as an international best-practice.
The Matrix identifies the material topic for the Group assessing the medium/high importance for both the Group (horizontal axes) and the Stakeholders (vertical axes). The results of the materiality analysis have identified the topics included in the Sustainability Report.
The results offered by the materiality matrix represent a significant tool in order to establish and develop sustainability priorities and continuing to generate shared value. The materiality analysis identified the relevant topics that will be developed through concrete actions and initiatives by the Group.
The Topic identified are the result of the 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; and

Principle 6 the elimination of discrimination in respect of employment and occupation.

ENVIRON-MENT

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

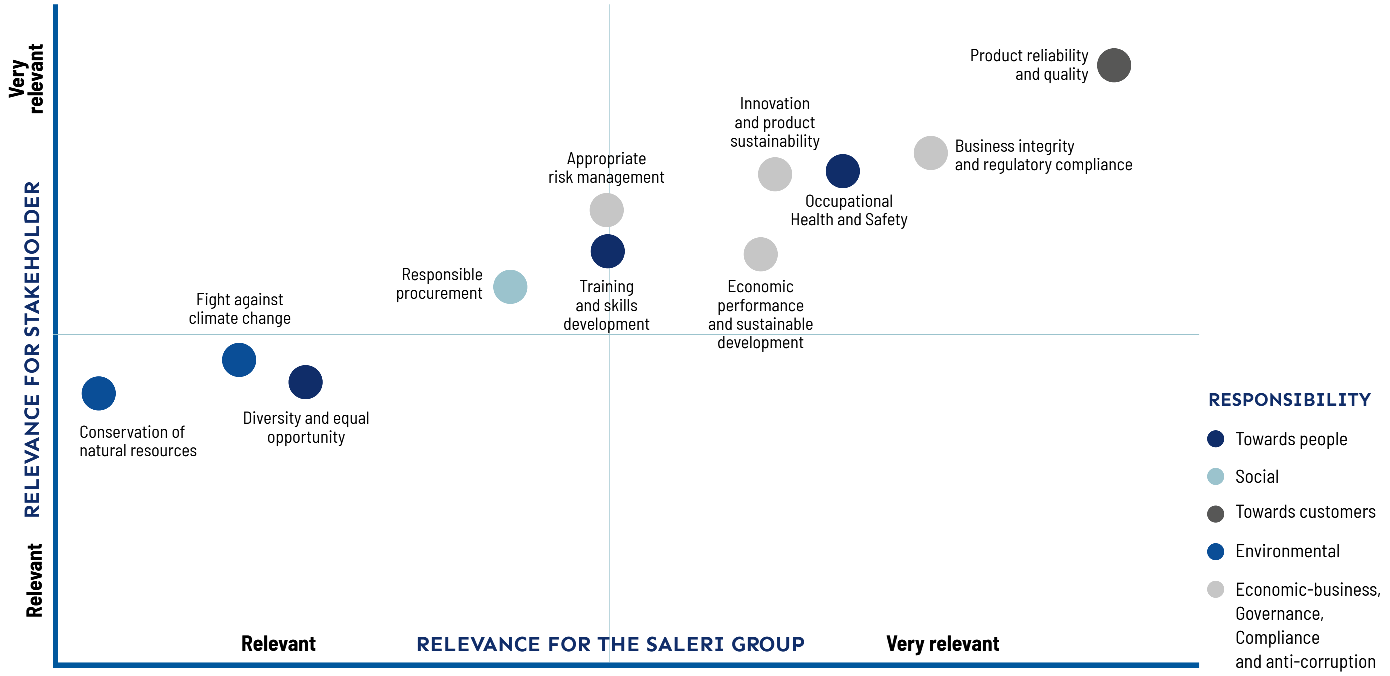
Principle 10 Businesses should work against corruption in all its forms, including extortion and bribery.

For the Saleri Group, 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, the Saleri Group has identified the following key stakeholders: employees, banks and financial institutions, customers, local area and community, shareholders, suppliers, business network and public administration.

Stakeholder	Engagement modes
Company employees	Company intranet Training courses Mailshots Internal events Company welfare
Banks/Financial institutions	Web site Meetings with 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' meetings 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 in 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 materiality analysis was updated in 2019, commencing from the list drawn up in prior year.
In order to measure the importance of each topic identified, the Group has adopted a questionnaire-based method which has enabled it to prioritise topics previously identified as material in 2018. The questionnaire was put to line management of both the Holding Company and Saleri Shanghai Co. Ltd and they were asked to rate the importance of each topic – with a score of between 1 (slightly material) to 5 (highly material), for both internal and external stakeholders. The results from the questionnaires were averaged in order to obtain a final ranking of the material topics. Subsequently, the materiality threshold was set at a score of 3 in order to prioritise those topics emerging from the analysis performed. The only topic below the materiality threshold among those identified as material in 2018 was "Solidarity Projects" which, nonetheless, remains a significant topic for the Group.
The 11 material topics identified are set out below, as divided by macro area and approved by the Board of Directors:

Macro area	Material topics
ECONOMIC RESPONSIBILITY, GOVERNANCE, COMPLIANCE AND ANTI-CORRUPTION	Economic performance and sustainable development Innovation and product 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
RESPONSIBILITY TOWARDS CUSTOMERS	Product reliability and quality
ENVIRONMENTAL RESPONSIBILITY	Fight against climate change Conservation of natural resources

Chapter
3

The Saleri Business

The Saleri Group is 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 the Saleri Group and constitute the added value of every product.

The quality of the Saleri Group's products is confirmed by its collaboration with the most prestigious automobile manufacturers with which the Group 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

Moreover, Mexican manufacturing subsidiary Saleri Mexico S.A. de C.V. will be fully operational from the end of 2020.

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. We note that Saleri GmbH is excluded from the scope of consolidation as it is immaterial. In July 2019, a 100% interest in ABL Automazione S.r.l. was acquired through the investment in Hold. Co 1 S.r.l. (Industrie Saleri Italo S.p.A. 70% and Berfin S.r.l 30%); this subsidiary manufactures automatic assembly machines and lines and is an approved supplier, mainly in the automotive segment.
For further details about the Group companies and their main activities, see Section 4.1 Corporate governance and activities.

The holding company has its registered office in Lumezzane (BS) which is also the site of the Group's main manufacturing facility. In Provaglio d'Iseo, still in the Brescia area, there is the new manufacturing facility which started operating in July 2018 and became fully operational in September 2018, in place of the Lumezzane factory that was damaged by fire. The Lumezzane factory is owned by the Group while the Provaglio d'Iseo and Shanghai facilities and the new facility soon to be opened in Monterrey are leased.

The size and main activities of Saleri's Italo S.p.A.'s factories are described below:

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 holding company 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

The facilities available to ABL Automazione S.r.l. are as follows:

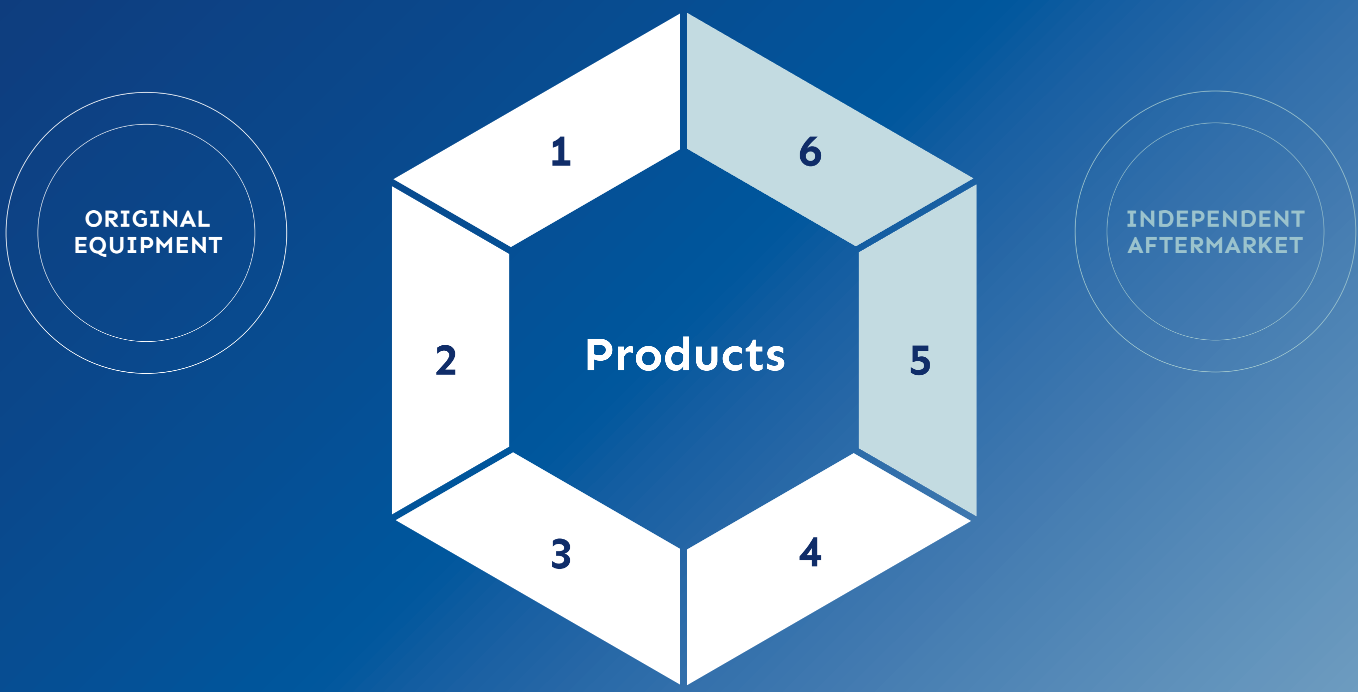
TWO PRODUCTION SITES
1,900 m²
Where production line assembly activities

ONE WAREHOUSE
660 m²

OFFICE
600 m²
Head office and technical/operations offices on two floors

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 - Adjustable 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 Adjustable mechanical water pumps

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

3 Electric pumps

Fully adjustable 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 adjustable, 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 Co. Ltd 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.

Design and realisation of assembly lines

This activity is carried out by ABL Automazione S.r.l. which was acquired by the Saleri Group with effect from 31 July 2019. The company designs and assembles its assembly lines with full autonomy while it uses a network of selected engineering workshops – capable of guaranteeing the highest quality and rapid turnaround times – to produce specific parts. The mechanical engineering and manufacturing activities are carried out by a network of 12 specialist engineering workshops. The main technologies used in these sectors are the following systems: SCADA (supervisory control & data acquisition), DCS (distributed control system), PLC (programmable logic control), HMI (human machine interface) and PAC (programmable automation controller). Meanwhile, the most significant application sectors remain: Machine Manufacturing, Oil&Gas, Aerospace & Defence, Automotive & Transportation (leading sector, representing 20% of value of production) and Food & Beverage. Another fast growing market segment is semi-conductors. Therefore, ABL Automazione S.r.l. operates mainly in the industrial automation segment, especially 'Industry 4.0' where it produces automatic assembly lines and equipment.

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 Co. Ltd.

Europe is the largest global market for the design and realisation of automated assembly lines, also thanks to the importance of the automotive industry. North America is the second largest market worldwide while Asia Pacific is going through the advanced phase of the 'Industrial Revolution' and is showing strong demand for industrial automation for the automotive industry.

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 First pillar — 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 Second pillar — 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 Third pillar — 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 Fourth pillar — 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 and ISO 14001, 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.

INDUSTRIE SALERI ITALO

Certificate

IATF 16949

Quality management systems

Issue date	**20/09/2018**
Expiry date	**19/09/2021**

Certificate

ISO 9001

Quality management systems

Issue date	**15/09/2018**
Expiry date	**09/12/2021**

Certificate

ISO 14001

Environmental management systems

Issue date	**19/02/2018**
Expiry date	**18/02/2021**

SALERI SHANGHAI CO. LTD

Certificate **IATF 16949**

Quality management systems

Issue date	**27/05/2018**
Expiry date	**26/05/2021**

Certificate **ISO 14001**

Environmental management systems

Issue date	**28/09/2019**
Expiry date	**27/09/2022**

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 holding company Industrie Saleri 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

€ million

Economic Value Generated by the Group	FY 2018	FY 2019	△ 2019-2018
Revenues from Sales	156.2	149.8	(6.4)
Other Revenues	5.2	13.8	8.6
Other Extraordinary Incomes	-	0.2	0.2
Exchange rate differences	0.0	0.0	(0.0)
Income (Expenses) from Investments	0.5	0.0	(0.4)
Change in Inventory of Finished Goods	6.5	(3.7)	(10.2)
Extraordinary Income	1.4	0.5	(0.9)
(A) Total Directly Generated Economic Value	169.8	160.6	(9.2)

€ million

Economic Value Distributed by the Group	FY 2018	FY 2019	△ 2019-2018
Remuneration of Suppliers	122.7	111.4	(11.4)
Remuneration of Collaborators	25.3	31.1	5.8
Remuneration of Lenders	2.5	1.8	(0.7)
Remuneration of Shareholders	-	-	-
Remuneration of the PA	0.7	(0.5)	(1.2)
Donations	0.3	0.3	-
(B) Total Economic Value Distributed	151.4	144.0	(7.4)

€ million

Economic Value Retained by the Group	FY 2018	FY 2019	△ 2019-2018
Depreciation & Amortisation	11.7	12.6	0.9
Provisions	1.4	1.2	(0.2)
Adjustments to financial value	1.6	0.1	(1.5)
Use of Provisions	-	-	-
Profits not Distributed	3.7	2.8	(0.9)
(A-B) Economic Value Retained	18.4	16.6	(1.8)

The figures set out in the above table are at Saleri Group level.
We also note that the figures for the economic value generated and distributed in FY18, as published in this document, differ from those included in the 2018 Non-Financial Statement as it only considered the holding company Industrie Saleri Italo S.p.A..

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 and 2019 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.

31.12.2019		
Shareholders	**%**	**No of Shares**
El.Fra Holding S.r.l.	**55.99**	**1,750,809**
Basilio Saleri	60.00	1,050,485
Giovanna Maria Saleri	40.00	700,324
Quaestio Capital SGR S.p.A. per Quaestio Italian Growth Fund	**26.60**	**831,648**
Saleri Luca	**8.35**	**260,974**
Saleri Mariacristina	**4.89**	**153,000**
Saleri Annacaterina Marella	**3.67**	**114,767**
Industrie Saleri Italo S.p.A. (treasury shares)	**0.51**	**15,799**
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

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.

Immobiliare Industriale S.r.l.

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

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.

Hold.Co 1 S.r.l.

A company incorporated in 2019 as a vehicle for the acquisition of a controlling interest in ABL Automazione S.r.l., a company operating in the field of industrial automation and robotics and a long-standing supplier of plant and machinery to the Group. The acquisition forms part of a strategy of consolidation and ongoing innovation of production assets and also reflects the desire to increase integration between product development and production process development.

ABL Automazione S.r.l.

A company incorporated in 1995 by its three founder owners. They had more than twenty years of experience in the field of industrial automation and this meant that, from the outset, the company was able to offer its services as a supplier of automated assembly lines and equipment. The company joined the Saleri Group on 31.07.2019 through Hold. Co 1 S.r.l..

Saleri Mexico, S.A. de C.V.

A company incorporated on 4 October 2019 with the objective of producing and marketing water pumps for the automotive industry, aiming at manufacturers operating in that industry with factories in Central America and North America.

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).

Honorary President Sergio Saleri, the second oldest child of Italo Saleri, founder of Industrie Saleri Italo S.p.A., passed away in 2019. The Honorary President had been appointed together with the nine directors. The following table contains details of the membership of the Board of Directors at 31/12/2019. For further details, see Section 1 of the Directors' Report on the Consolidated Financial Statements.

Membership of the Board of Directors at 31.12.2019

Member	Role	Age	Sex
Basilio Saleri	CHAIRMAN AND MANAGING DIRECTOR	65	
Matteo Cosmi	MANAGING DIRECTOR	42	
Sergio Bona	DIRECTOR	64	
Giorgio Garimberti	DIRECTOR	70	
Wilhelm Becker	DIRECTOR	72	
Alberto Bartoli	DIRECTOR	59	
Alessandro Potestà	DIRECTOR	51	
Massimo Colli	DIRECTOR	70	
Simona Heidempergher	DIRECTOR	51	

88.9% of the members of the Board of Directors are male and are more than 50 years of age.

During 2019, our Honorary President Sergio Saleri passed away. The new generations at the head of our company, will be strongly inspired by his example of innovation and foresight, but also of passion for the simplicity of daily work. His memory is a pride for us and an example for everyone: the constant research of innovation and efficiency, the generosity and his belief that only together with all the employees you can win the toughest challenges, will remain the values that will guide our company.

Sergio Saleri

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 and in office until 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 2019financial statements. On 31 July 2019, 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 the 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 2018-2021 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)

After Law 179/2017 – the "Whistleblowing Law" – came into force, the Company adopted a channel for use by whistleblowers in reporting improper conduct while offering the whistleblowers the safeguards and protection envisaged by the law. Such reports can be made by:

E-mail: **odv@saleri.it**
Ordinary mail: **Odv c/o Industrie Saleri Italo S.p.A.**
via Ruca n. 406, 25065 - Lumezzane (BS)

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, which has been entrusted with assessing the current situation and determining which corrective action is necessary to improve the Internal Control System.
In 2019, a risk assessment and process mapping process was launched with the aim of drawing up an Organisation, Management and Control Model in terms of Legislative Decree 231/01, also for subsidiary ABL Automazione S.r.l.. The other Group companies not directly subject to Italian law in this area are, nonetheless, invited to comply with its guiding principles.

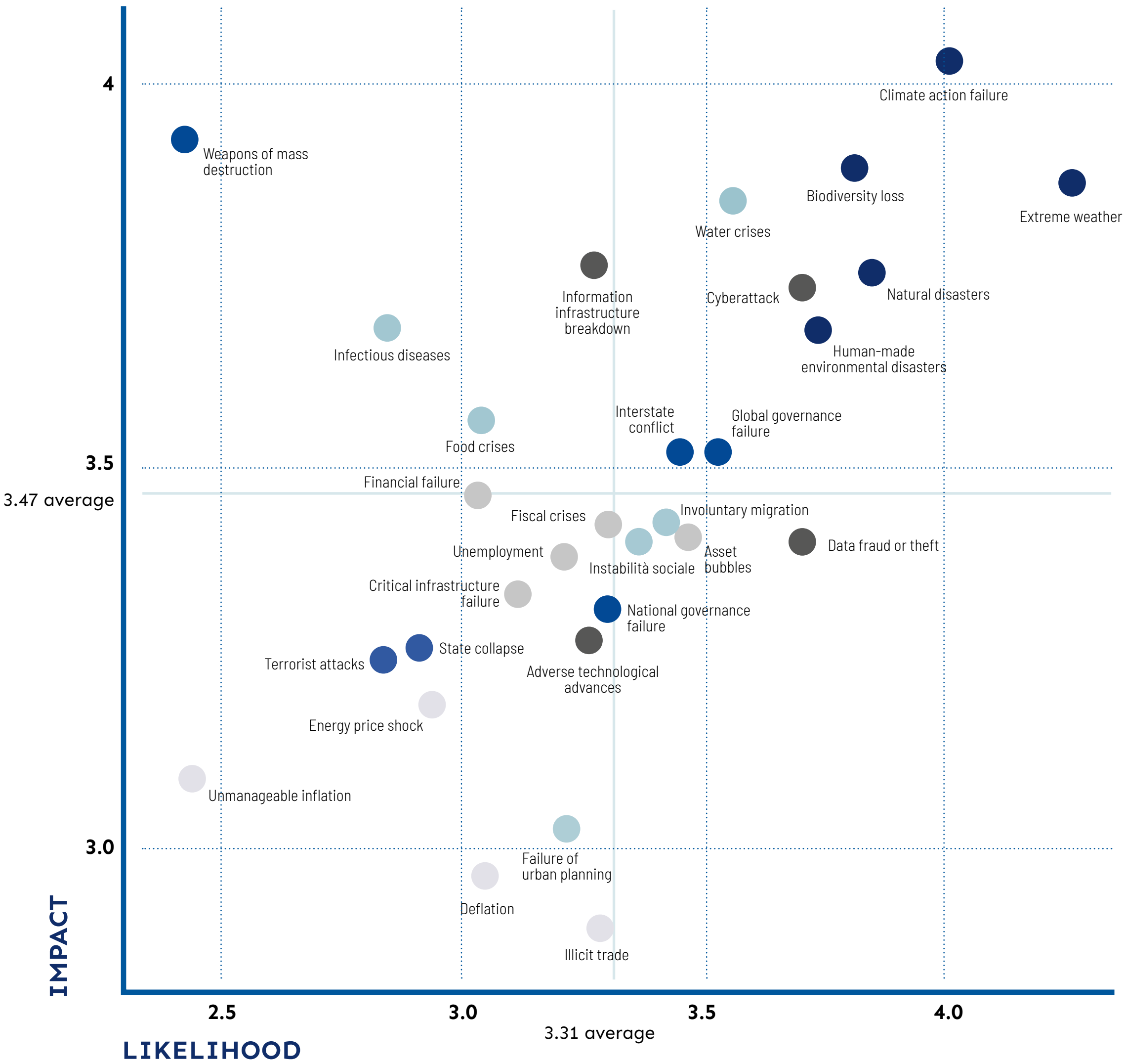
4.7. Risk Management

In recent years, the Saleri Group has gradually embraced the concepts of risk assessment and risk management.
In 2019, the Group further strengthened 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.
Moreover, in order to comply with the requirements of the Budget Law no 145/2018, published in the Official Gazette on 30 December 2018 in order to improve non-financial reporting and diversity reporting, the main risks and the risk management approach are described below.

Reviews of ESG risks - focus on climate change risk

The Saleri Group has performed an Environmental, Social and Financial risk assessment taking account of the group perimeter.
The Global Risk Landscape 2020 matrix prepared by the World Economic Forum shows that, this year, the top three positions in the list of the Top10 risks are occupied by environmental risks and, for this reason, our analysis commences with them.
From a methodological perspective, we will analyse the three main risks by macro-family - based on the matrix indicated above - which are related to the core business of the Saleri Group.

The Global Risks Landscape 2020



Top 10 risks in terms of
LIKELIHOOD

1. Extreme weather
2. Climate action failure
3. Natural disasters
4. Biodiversity loss
5. Human-made environmental disasters
6. Data fraud or theft
7. Cyberattacks
8. Water crises
9. Global governance failure
10. Asset bubbles

Top 10 risks in terms of
IMPACT

1. Climate action failure
2. Armi di distruzione di massa
3. Biodiversity loss
4. Extreme weather
5. Water crises
6. Information infrastructure breakdown
7. Natural disasters
8. Cyberattacks
9. Human-made environmentale disasters
10. Infectious diseases

CATEGORIES

- Economic
- Environmental
- Geopolitical
- Societal
- Technological

Source: World Economic Forum, The Global Risks Report 2020 15th Edition

Environmental

The matrix shows that climactic and environmental risks are the most likely risks and those with the greatest potential impact on the world. Publications on risk analysis also highlight the fact that this is the first time that environmental risks have dominated the league table of issues with the greatest potential impact for stakeholders in the manufacturing segment.
CO_2 reduction and optimising utilisation of resources have always been key drivers for the Saleri Group's R&D projects. In 2018, Saleri was among the five finalists of the Automechanika Innovation Award of Frankfurt (Germany) with a very green electro-mechanical pump called "EMP". 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, resulting in outstanding "Thermal management" optimisation.
For further details, see Section 8- Innovation in Saleri: Research and development
The Saleri Group has adopted an environmental policy in line with legislative requirements designed to protect the environment. It also pays close attention to initiatives in this area.

Extreme weather

It has been estimated that the global temperature will increase by more than 3 degrees Celsius by the end of the century. This is more than twice the limit recommended by experts to avoid the most devastating economic, social and environmental consequences. This would be a genuine "planetary emergency" including "the loss of life, social and geopolitical tension", as well as adverse economic effects.
Only a concrete, collective effort can remedy this risk. As well as distributing guidelines for responsible business along the entire supply chain, the Saleri Group has launched a major smart-working project designed to reduce the CO_2 emissions produced by road traffic. Also, in 2019, Saleri allocated the funds normally used to buy Christmas gifts for its customers to planting 370 trees in Kenya via the Treedom site (https://www.treedom.net/it/organization/saleri-sil); in this way, it has contributed towards the creation of a better environment and, hopefully, will encourage its stakeholders to make contributions too. The trees planted by Saleri absorb around 42,000 Kg of CO_2 from the atmosphere, equal to the volume produced by 219 HGVs (figures provided by Treedom S.r.l.).

Natural Disaster

Natural disasters are events that have become increasingly frequent and ever more serious in the last decade.
They include earthquakes, flooding and fires that have, inevitably, had severe consequences in terms of infrastructural damage, mass migration and possible, serious health problems.
In 2018, the Holding Company suffered the effects of a serious fire which broke out at a building at its Lumezzane plant. Once business operations had been restored, this event led to major reflection on the importance of risk analysis and business continuity, as well as emergency management.
This made the Group's management of the Covid-19 emergency more fluid, as we will described in more detail later.

Biodiversity loss

The loss of biodiversity is the third most significant risk in terms of impact and the fourth most probable based on the latest analysis by the World Economic Forum. According to sector studies, the current extinction rate is almost a hundred times higher than the baseline rate over the last 10 million years1. This situation could lead to the collapse of the healthcare and food supply system, as well as of entire supply chains.
Although this risk is clearly not closely linked to the manufacturing segment, it would be unreasonable to believe we are not affected by its major collateral consequences. The Group's commitment to the environment also regards the area of biodiversity through its compliance with environmental protection regulations. These are particularly tight for the Provaglio d'Iseo (BS) facility which is situated within a protected area.
Also, in terms of environmental risk management, we believe it is essential to highlight how the Group is committed towards its stakeholder by offering an insight into its sustainability management through participation in important global initiatives, in both the automotive industry and in other fields. Specifically, the initiatives Saleri is involved in are:
- CDP, Carbon Disclosure Program per BMW
- NQC per Volkswagen (punteggio: 81%)
- Ecovadis per PSA

[3] Https://reports.weforum.org/global-risks-report-2020/save-the-axolotl/#view/fn-3 , Cit. IPBES (Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services). 2019. Summary for policymakers of the global assessment report on biodiversity and ecosystem services of the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services, Unedited Advance Version, 06 May 2019

Social - Geopolitical

Water Crisis

Water is essential to life. Around 1 in 9 people in the world do no not access to clean drinking water. According to the World Economic Forum report, the water crisis is the fifth most important risk in terms of impact.
Although this risk does not directly regard the Group's activities, it is certainly relevant for the operating and environmental conditions at its production facilities. For this reason, the Saleri Group believes that a commitment to promoting responsible use of water is necessary.

Infection deseases

This risk materialised in February-March 2020 with the Covid-19 epidemic – also known as the Coronavirus. The Saleri Group was first involved when Chinese subsidiary Saleri Shanghai Co. Ltd was affected. The Italian production sites were than affected and, finally, the virus led to the suspension of work at the construction site of the recently incorporated subsidiary in Mexico.
Like many other businesses, the Saleri Group has been fully committed to managing this event and has reacted by acting swiftly to take measures to contain the risk of contagion. It prioritised the safety of individuals, as mentioned in the letter to the stakeholders.

Interstate conflict

In a global operating environment, awareness and understanding of geopolitical situations is a fundamental aspect of business. Around 80% of Saleri's production is for customers in Europe with the remaining 20% for customers in the rest of the world.
Nonetheless, a proper risk assessment must consider the fact that the leading automotive markets are currently going through a period of particularly significant tension. In the best case scenario, this tension could lead to trade restrictions with a potentially serious impact on the import market.

Financial

For a focus on these specific risks, see the detail contained in the relevant section of the Directors' Report.

Compliance risk

Ethical risks

In the course of its activities, holding company 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, safe and efficient working environment for employees and an approach designed to ensure full respect for the external stakeholders. The Saleri Group does business with private customers, not belonging to organisations directly or indirectly controlled by governments or public sector bodies, and it does not take part in public tendering processes. This further reduces the risk of reputational and economic damage resulting from ethically unacceptable conduct.
As mentioned above, in completion of its risk management safeguards, a whistleblower channel has been set up for use in reporting improper or unlawful conduct by email: odv@saleri.it or traditional mail ODV c/o Industrie Saleri Italo S.p.A. Via Ruca n. 406, 25065 Lumezzane (BS).
Subsidiary ABL Automazione S.r.l. has also taken steps to draw up its own Organisation and Management Model in terms of Legislative Decree 231/01 and it will be ready during 2020.
The other Group companies not subject to Italian law are, in any case, called upon to comply with the guiding principles of Legislative Decree no. 231/01.
Saleri Shanghai Co. Ltd has also taken steps to manage this type of risk. It has adopted an ethical code of its own – in line with the Holding Company code and translated into Chinese – and has provided specific training to employees as well as distributing a handbook focusing on the issue of anti-corruption and on ethical values.

Personal data protection/privacy risk

Since the GDPR (General Data Protection Regulation) came into force on 25 May 2018, holding company 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).
In 2019, subsidiary ABL Automazione S.r.l. also consolidated its structure of GDPR compliance while the other Group companies each comply with applicable domestic legislation designed to protect personal data.

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, holding company 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 within the Group 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 aforementioned 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.
The Supervisory Board is also the recipient of information on improper or unlawful conduct reported in terms of Law 179/2017 on Whistleblowing.
In 2019, a compliance project for the adoption of a Management and Control Model in terms of Legislative Decree 231/01 and the Ethical Code by ABL Automazione S.r.l. was launched and it will be completed in 2020.
In support of the handbook already issued to employees of Saleri Shanghai Co. Ltd, a policy containing anticorruption principles and guidelines is currently being prepared for Group companies operating outside the scope of application of Italian laws and regulations.

4.9. Governance of sustainability

The Saleri Group 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: Human Resources, Health Safety & Environment, Administration, Finance & Controlling, ICT 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, the Saleri Group intends to expand and consolidate the dedicated structure in the short to medium term.
At present, given its position in the hierarchical structure, the Board of Directors of Industrie Saleri Italo S.p.A. 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.

Chapter

5

Saleri and its collaborators

In order to manage potential strategic and operational risks, as well as legal and compliance risks, the Saleri Group 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

The Saleri Group 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 2019, Industrie Saleri Italo S.p.A. had 452 employees (actual head count at 31/12) while there was an average of 440 employees during the year then ended. Meanwhile, at Group level, the number of employees rose by 13%, increasing from 507 to 573; 45 of these employees belong to ABL Automazione S.r.l..

The Group 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 Group companies (around 95% of all workers). This percentage increases to 99% if only holding company Industrie Saleri Italo S.p.A. is considered.
Moreover, around 95% of employees work full-time and 96.77% of part-time employees are female.

Contract type

GRI 102-8	2019				2018			
				%				%
Workers with permanent contracts	328	217	545	95	259	187	446	88
Workers with fixed-term contracts	15	13	28	5	29	32	61	12
Total	343	230	573	100	288	219	507	100

Type of employment

GRI 102-8	2019				2018			
				%				%
Workers with part-time contracts	1	30	31	5	0	35	35	7
Workers with full-time contracts	342	200	542	95	288	184	472	93
Total	343	230	573	100	288	219	507	100

Contract type

GRI 102-8	2019			2018		
	Italy	China	Total	Italy	China	Total
Workers with permanent contracts	494	51	545	406	40	446
Workers with fixed-term contracts	2	26	28	22	39	61
Total	496	77	573	428	79	507

In 2019, Industrie Saleri Italo S.p.A. turned to the labour market for additional operational personnel. In more detail, it used an average of 36 persons from employment agencies, split between the assembly and production processing departments; and 4 trainees, working in the offices.
The relatively young average age of the Saleri Group'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 2019, the Saleri Group hired 51 new employees – including 41 by Industrie Saleri Italo S.p.A. – most of them from the Lombardy area.. Industrie Saleri Italo S.p.A. is greatly attached to its local area, has a young workforce and is expanding strongly.
The percentages of employee starters and leavers shown in the following tables were calculated on the respective total number of employees (by age range, gender and geographical area) at the reporting date. It should also be noted that the starters and leavers of ABL Automazione have been considered from the date of that company's inclusion in the Group scope of consolidation (1 August 2019).

Employees Hired

GRI 401-1	2019			2018		
	Italy	China	Total	ITALY	China	Total
Men	28	6	34	42	8	50
%	9	19	10	16	25	17
Women	13	4	17	26	11	37
%	7	9	7	15	23	17
Total	41	10	51	68	19	87
%	8	13	9	16	24	17

Employees terminated

GRI 401-1	2019			2018		
	Italy	China	Total	Italy	China	Total
▸ Men	13	6	19	21	3	24
%	4	19	6	8	9	8
▸ Women	6	6	12	14	14	28
%	3	13	5	8	30	13
Total	19	12	31	35	17	52
%	4	16	5	8	22	10

Employees Hired

GRI 401-1	2019			2018		
	Up to 30 years	Over 30 years	Total	Up to 30 years	Over 30 years	Total
▸ Men	16	18	34	26	24	50
%	17	7	10	31	12	17
▸ Women	10	7	17	20	17	37
%	14	4	7	30	11	17
Total	26	25	51	46	41	87
%	16	6	9	30	12	17

Employees terminated

GRI 401-1	2019			2018		
	Up to 30 years	Over 30 years	Total	Up to 30 years	Over 30 years	Total
▸ Men	7	12	19	8	16	24
%	7	5	6	9	8	8
▸ Women	2	10	12	9	19	28
%	3	6	5	13	13	13
Total	9	22	31	17	35	52
%	6	5	5	11	10	10

5.2 Diversity and equal opportunities

Equal opportunities have always been guaranteed to Saleri's personnel. The Company pays great attention to the family-related needs of its workers, while also taking account of organisational and production requirements.

Women represent a significant percentage of the total number of employees, also because of the sector in which the Group operates. Currently, women represent 40.1% of the Group workforce.

Workforce by employee category and gender

GRI 405-1	31.12.2019			31.12.2018		
Managers	2.3%	0.2%	2.4%	2.4%	0.2%	2.6%
White collars[4]	28.4%	9.9%	38.4%	25.4%	9.9%	35.3%
Blue collars	29.1%	30.0%	59.2%	29.0%	33.1%	62.1%
Total	59.9%	40.1%	100.0%	56.8%	43.2%	100.0%

Workforce by employee category and age group

GRI 405-1	31.12.2019				31.12.2018			
	< 30	30-50	> 50	Total	< 30	30-50	> 50	Total
Managers	0.0%	1.6%	0.9%	2.4%	0.0%	1.4%	1.2%	2.6%
White collars[4]	8.0%	24.6%	5.8%	38.4%	7.1%	23.7%	4.5%	35.3%
Blue collars	20.4%	28.3%	10.5%	59.2%	22.9%	28.4%	10.8%	62.1%
Total	28.4%	54.5%	17.1%	100.0%	30.0%	53.5%	16.6%	100.0%

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 11 such employees, all of them blue collar workers; at 31/12/2019, there were five 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.

[4] The White collars category also includes the "intermediates" category.

5.3 Training and skills development

The Saleri Group 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 "Training on the job" project, a two-week training session aimed at production employees, was launched in 2018 and continued in 2019.

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 2019, a total of 7,374 hours of training was provided to Saleri employees.

Training on business ethics is provided regularly and is classroom based. The same type of training is also provided for other mandatory topics such as the new GDPR. External training is provided by bodies with accreditation for the relevant subjects.

Total and average hours of training by professional category and gender[5]

GRI 401-1

	Hours Men	Ave Hours Men	Hours Women	Ave Hours Women	Total	Ave Hours
MANAGERS	369	28	87	87	456	33
WHITE COLIARS	3,749	23	1,541	27	5,289	24
BLUE COLLARS	1,106	7	524	3	1,630	5
TOTAL	5,224	15	2,151	9	7,374	13

[5] Following improvements made to the system used to report on training in 2019, figures for 2018 have not been included as they are not suitable for comparison.

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 2019, in the holding company, a total of 27 women made use of parental leave as did one employee of subsidiary ABL Automazione S.r.l. All of them 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.
The Chinese welfare system also provides for parental leave. However, in 2019, no employees of Saleri Shanghai Co. Ltd asked for parental leave.

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 2019, in order to improve the way it deals with Job&Family issues, the Company launched a pilot Smart working project that has been 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.
ABL Automazioni S.r.l. is also subject to the Metal-mechanical segment collective labour agreement so it applies the same corporate welfare mechanisms. It also gives each employee luncheon vouchers for use in participating bars and restaurants.
In Chine, each business is left to set up its own employee welfare system. At present, Saleri Shanghai Co. Ltd does not have a welfare plan.

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 union membership in Industrie Saleri Italo S.p.A. is as follows: around 100 employees belong to Fiom-Cgil while around 60 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.
Just one ABL Automazioni S.r.l. employee is a member of a trade union (CISL).
In China, the sole trade union, the ACFTU (All China Federation of Trade Unions) 中华全国总工会, is present in Saleri Shanghai Co. Ltd.
On a Group level, regulations and remuneration vary depending on the national collective labour agreements and laws in the countries in which the Group operates.

Chapter

6

Occupational Health and safety

Within its broader corporate strategy, the Saleri Group 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 Officers, 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.

In 2019, ABL Automazioni S.r.l. launched a process to overhaul its occupational health and safety management and this led to new appointments to the roles of: Employer with Health and Safety Responsibility, Health and Safety Officer and Medical Officer. For the sake of efficiency, these last two roles are filled by the same persons who support the structure of holding company Industrie Saleri Italo S.p.A..

Occupational health and safety regulations in China require the appointment of an EHS Specialist when the number of employees exceeds 100. As a result of the Covid-19 health emergency, the recruitment of personnel originally planned for 2019 has been postponed and the 100 employee threshold has not been reached. In the meantime, the company will continue to operate in full compliance with applicable laws and regulations.

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 81708, 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 for training and health monitoring (CHCO); 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, in order to analyse Risk Assessment Reports, corrective measures and improvements and any issues that could arise in the course of the various risk prevention and protection activities;
- sharing/distribution of SGAS ("Environment and Safety Management System") documents.

6.2 Health and safety training for workers

The Saleri Group 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 Group 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. and ABL Automazione S.r.l. have 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 were three cases of workplace injury. The total number of workplace injuries does not include injuries suffered while travelling to and from work which would have been recorded but did not occur during the year. The workplace injuries recorded were relatively minor and the initial prognosis was that the employees involved would be absent for not more than 30 days.
Unlike the first two injuries, the third case involved an injury where the initial prognosis was for an absence of not more than 30 days but where the actual period of absence from work reached 59 days because of a serious of issues; in any case, there was no serious or permanent injury. Some of this absence (28 days) occurred in 2019 while the remainder related to 2020.

Furthermore, we note that the injury figures no not include injuries suffered by temporary workers supplied by employment agencies. If any such injuries had occurred, they would be recorded in order to review the circumstances and the causes and to determine what corrective and preventive action should be taken.
The results of the risk analysis show that the most probable risks are those regarding fire and those relating to logistics activities (handling and storage of goods). For this reason, in 2019, Industrie Saleri Italo S.p.A. identified a series of specific measures in these risk areas – some of them have already been implemented while others are scheduled for 2020.
The following matrix summarises data on injuries, excluding those during travel to/from work, with the respective frequency and severity rates.

Employee workplace injuries[6]

GRI 403-9	2019			2018		
Frequency rate	3.65	3.08	3.44	0.00	3.03	1.24
Fatality rate	0.00	0.00	0.00	0.00	0.00	0.00
Frequency rate for accidents with severe consequences	0.00	0.00	0.00	0.00	0.00	0.00

Details of employee injuries	2019			2018		
Workplace injuries	2	1	3	0	1	1
of which fatal	0	0	0	0	0	0
of which with severe consequences (excluding fatal ones)	0	0	0	0	0	0

[6] The frequency rate is calculated as the number of workplace injuries divided by the number of hours worked, multiplied by 1,000,000.The fatality rate is calculated as the number of fatal injuries divided by the number of hours worked and multiplied by 1,000,000.
The frequency rate for accidents with severe consequences is calculated as the number of workplace injuries/accidents with severe consequences divided by the number of hours worked and multiplied by 1,000,000.
The total number of hours worked in 2019 was 872,737 (including 547,773 by men and 324,965 by women) and in 2018 it was 806,716 (including 477,186 by men and 329,530 by women).
We note that the hours worked by ABL for use in calculating the injury rates were determined on a proportionate basis from the date of inclusion of that company in the Group perimeter.

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. and Saleri Shanghai Co. Ltd have adopted an environment management system consistent with international standard ISO 14001:2015 and which has been certified by independent body TÜV NORD Italia. 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. and ABL Automazione S.r.l. use electricity and methane gas as sources of energy for the manufacture of their 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. Electricity is the only energy source used by Saleri Shanghai Co. Ltd.
Industrie Saleri Italo S.p.A. performed its first energy health check in 2015 and updated it on 30 September 2019. The energy health check considers all energy sources (electricity and methane gas).
Based on the conclusions reached following the updated energy health check, Industrie Saleri Italo S.p.A. has identified several priority, energy saving measures. The high priority measures have been chosen for implementation in 2020:
- test for compressed air leaks
- elimination of energy consumption on non-working days.

The cost of these measures has been included in the 2020 budget.
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.

Non-renewal energy consumed within the organisation (GJ)[7]

GRI 302-1	2019	2018
METHANE GAS	7,759	5,641
ELECTRICITY	33,104	32,937
PETROL FOR COMPANY VEHICLE FLEET	394	419
DIESEL FOR COMPANY VEHICLE FLEET	1,449	891
TOTAL	**42,707**	**39,889**

Consumption increased slight in 2019. This trend is consistent with the acquisition of a new company, ABL Automazione S.r.l., and with the changes in production volumes at each site.
Electricity consumption mainly depends on production requirements. The majority of Industrie Saleri Italo S.p.A.'s electricity consumption occurs at the Saleri A plant where the highest volume of pump production takes place.
Industrie Saleri Italo S.p.A. uses methane gas to power the thermal power plants used for civil purposes (heating, production of hot water, heating of the production premises). In particolare:

- Saleri A and B have strip heaters mounted on the ceiling of production areas;
- Saleri E has convector heaters (in use since June 2018).

Overall consumption increased slightly in 2019 and the trend recorded at each site was consistent with the change in production volumes.

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 business 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.

[7] The following conversion factors were considered when calculating consumption:
- For the 2018 figures: DEFRA 2018 (https://www.gov.uk/government/publications/greenhouse-gas-reporting-conversion-factors-2018);
- For the 2019 figures: DEFRA 2019 (https://www.gov.uk/government/publications/greenhouse-gas-reporting-conversion-factors-2019).

ABL's energy consumption was considered from the date the company entered the Group.
SIL's consumption of petrol and diesel for the company fleet for 2018 was determined on a proportionate number considering the 2019 figures and the number of cars.
Saleri Shanghai's consumption of petrol and diesel for the company fleet was estimated based on average consumption per litre and considering the total number of KM travelled in the year.

Total greenhouse gas emissions (in t CO_2)[8]

GRI 305-1, 305-2	2019	2018
SCOPE 1		
METHANE GAS	396	288
PETROL FOR COMPANY FLEET	26	27
DIESEL FOR COMPANY FLEET	99	61
TOTAL SCOPE 1	**520**	**377**
SCOPE 2		
ELECTRICITY LOCATION BASED	3,505	3,570
ELECTRICITY MARKET BASED	4,587	4,547

7.4 Environmental impact of water resources

Water consumption by the Saleri Group 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 is summarised as follows:

Water consumption by type of source (m^3)[9]

GRI 303-1	2019	2018
MUNICIPAL WATER SUPPLIES	15,076	16,907
TOTAL	**15,076**	**16,907**

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.
Overall consumption decreased in 2019. The decrease recorded by Saleri Shanghai Co. Ltd compensated for the increase recorded by the holding company. For Industrie Saleri Italo S.p.A., the changes at the Saleri B ed E plants are consistent with the changes in working conditions at the two facilities; these changes were due, respectively, to a reduction in personnel at Saleri B and, vice versa, to an increase in production and in personnel at Saleri E.
The increase at Saleri A is mainly due to the installation of a new washing machine.

[8] The following emission factors (in CO_2eq) were considered when calculating Scope 1 emissions
• For 2018 figures: DEFRA 2018 for emissions originating in Italy and elsewhere:
• For 2019 figures: DEFRA 2019 for emissions originating in Italy and elsewhere.
The Scope 2 emissions calculation (location-based method) used average emission factors relating to national energy generation for the various countries of operations, as expressed in CO_2 (source: Terna – international comparisons, 2017). The Scope 2 emissions calculation (market-based method) used emission factors expressed in CO_2eq and relating to the "residual mix" (AIB-2018 European Residual Mix), where available. Otherwise, the emission factors used for the location-based method were also used for the market-based method.
[9] ABL's water consumption has been considered from the date that company entered the Group.

7.5 Environmental impact of waste

Activities at the Group's 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.
In Industrie Saleri Italo S.p.A., waste management is handled by the Waste Management Officer, in accordance with the internal management system. Waste management has been performed using specific software (GRIF LIGHT) since the start of 2016.

Description of waster produced

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 (lack of internal resources to manage separation, lack of space for storage of separated waste; plastic, although separated, does not produce value but involves a disposal cost), the decision that the only possible option at present to minimise the environmental impact of CER 15.01.06[10] was to entrust the activity 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 keeps CER 15.01.06 disposal costs low while minimising the environmental impact. The results are calculated and reported.
Collection points for each type of waste have been set up in the various divisions of each 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. The collection points and temporary storage areas are shown on the "Floor plan of temporary storage areas for waste and hazardous substances".

Since 2015, Company has chosen a time limit based criterion for the manage and control of its temporary waste storage areas. This means that waste is sent for disposal at least quarterly, irrespective of the quantity in the storage area.
Since 2015, the Company has used an external consultant for ADR transport as it has confirmed that the volume transferred and the number of operations carried out per year (figures relating to 2014) are below the applicable thresholds. The check was performed on 26/01/2015 and the appointment of the consultant was notified to the Competent Bodies on 28/01/2015. By the end of February each year, the annual report on the transportation of hazardous materials is prepared. The vehicles used for ADR transport are checked by the Waste Management Officer who also checks that the driver's special licence is valid.

Anomalous and emergency situations

Anomalous and emergency situations that may arise in relation to waste and the environment regard:
- spillage of hazardous substances/waste during movement resulting in production of waste consisting of contaminated absorbent materials;
- in case of fire, hazardous waste may be produced by the combustion of the materials present.

The management of any spreads of hazardous materials, including waste, is covered by the internal emergency plan.
Proper methods for the handling and storage of hazardous materials, including waste, in order to avoid anomalous or emergency situations are set out in Guideline IAS 04 "Handling and storage of hazardous materials".
The effectiveness of the waste management system is measured as required by the management system for the environment – an annual environmental review is performed and reviewed by management and an annual improvement plan is drawn up.
The effectiveness of waste management is measured based on two indicators:
- volume of hazardous waste produced during the year
- volume of non-hazardous waste produced during the year

Waste by type and disposal method (t)[11]

GRI 306-2	2019			2018		
	HAZARDOUS	NON-HAZARDOUS	TOTAL	HAZARDOUS	NON-HAZARDOUS	TOTAL
Recycling	6.09	691.30	697.39	4.08	595.53	599.62
Disposal	603.75	73.19	676.94	507.60	23.54	531.14
Total	609.84	764.49	1,374.33	511.68	619.07	1,130.76

[10] CER 15.01.06: Packaging made of mixed materials.
[11] ABL's waste has been considered from the date the company entered the Group perimeter.

INSIGHT

The guidelines of business development are guided by insight. Remaining competitive in a complex sector like the Automotive one is not simple, but we have understood ahead of time the value of technological partnership with the client. This is why we aim to conclude contracts with the main carmakers which consider the whole complete process: from designing to prototyping new products, till producing and supplying Original Equipment.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Chapter

8

Innovation in Saleri: research and development

The Saleri Group'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. R&D activities are focused 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.

The work of the R&D Department has 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 going forward.
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 (Austria), 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 Eco-sustainable 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 eco-sustainability. 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 adjustable, 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.
Every car emits almost 4 tonnes of CO_2 and this can be compared with a green area equal to around 7 times the area covered by the Colosseum in Rome.
How many trees is it possible to save? Considering the fact that an average-sized car produces 3,900kg of CO_2 a year and a single tree only converts 15kg of CO_2 into oxygen every year, we would have to plant 260 trees to offset the emissions of one car over a year. Using an EMP, it is possible to save 5kg a year so we can save one tree a year by using three cars fitted with an EMP.

Research into applications for the Heavy-Duty segment

A pure research project, in collaboration with the University of Graz (Austria), 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

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

Automechanika Innovation Award

One of the five winners of the Frankfurt "Automechanika 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, the Saleri Group 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.

The surveillance 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, the Group regularly monitors all feedback received from customers by recording all complaints received.

9.1 Quality management policy

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 2019, the Quality Management System was constantly monitored in order to maintain the standards demanded by customers and by IATF 16949:2016 and ISO 9001:2015.

In August 2019, a surveillance audit of Industrie Saleri Italo S.p.A. carried out by the certification body revealed that the company was fully compliant with the standards requested.
A surveillance audit will be carried out in 2020 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

The Saleri Group 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 grounds for 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 process FMEA[12]
▶	feedback to customer through closure of complaint with presentation of 8D[13] 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 Industrie Saleri Italo S.p.A. and Saleri Shanghai Co. Ltd:

NO OF COMPLAINTS IN 2019

No of "0 km" complaints	No of complaints from the field
223	155

The Saleri Group 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.

[12] Failure Mode and Effect Analysis.
[13] Eight disciplines problem solving.

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

The Group 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.
The above comments regard the holding company Industrie Saleri Italo S.p.A. and, with a view to Group growth going forward, they will soon be extended to the subsidiaries.

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 purchased include raw materials and components:
- the raw materials purchased directly by the holding company 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 Group Sourcing division is measured based on KPIs determined based on the 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 Supplier assessment

The Saleri Group 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, the Saleri Group 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 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.
We have no significant issues to report with regard to the suppliers which are of a good quality level in all sectors of interest.
The audits conducted on third party suppliers (Cauto on 14/01/2019 and Markas on 19/12/2019) produced satisfactory results.
Subsidiary Saleri Shanghai Co. Ltd. also performs a qualitative and environmental assessment of its suppliers.

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 2019 - *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 its impact on road traffic.

Community Remuneration (€ thousands)	
Sponsorships	24.7
Charity	31.5
Donations	243.1
Community Remuneration	**299.2**

Chapter
12
Appendix

12.1 Perimeter and impact of material topic

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

Material topic	Correlation with GRI Standards	Where the impacts occurred	Type of impact
Economic performance and sustainable development	Economic performance	Saleri Group	Generated by the Group
Product innovation and sustainability	-	Saleri Group	Generated by the Group
Appropriate risk management	-	Saleri Group	Generated by the Group
Business integrity and regulatory compliance	Anti-corruption Anti-competitive practices	Saleri Group	Generated by the Group
Occupational health and safety	Occupational health and safety	Employees of the Saleri Group	Generated by the Group
Diversity and equal opportunity	Diversity and equal opportunity Employment Non discrimination	Saleri Group	Generated by the Group
Training and skills development	Training	Saleri Group	Generated by the Group
Responsible procurement	-	Saleri Group Suppliers	Generated by the Group
Product reliability and quality	-	Saleri Group Customers	Generated by the Group
Fight against climate change	Emissions	Saleri Group Suppliers	Generated by the Group and connected with the Group's activities
Conservation of natural resources	Energy Water Effluents and waste	Saleri Group	Generated by the Group and connected with the Group's activities

12.2 GRI INDEX

This report refers to the following GRI disclosures:

GRI Standard	Disclosure	Page number	Notes
102-1	Name of the organisation	**16**	
102-2	Activities, brands, products and services	**18-22**	
102-3	Location of headquarters	**16**	
102-4	Location of operations	**22**	
102-5	Ownership and legal form	**28-29**	
102-6	Markets served	**22**	
102-7	Scale of the organisation	**17 ;27**	
102-8	Information on employees and other workers	**38-39**	
102-9	Supply chain	**56-58**	
102-10	Significant changes to the organisation and its supply chain	**12**	
102-11	Application of precautionary approach to risk management	**32-36**	
102-12	External initiatives	**13; 59**	
102-13	Main partnerships and affiliations	**26**	
102-14	Statement from senior decision-maker	**10;11**	
102-16	Values, principles, standards and norms of behaviour	**23-24**	
102-18	Governance structure	**28-31;37**	
102-19	Delegating authority for economic, environmental and social issues	**37**	
102-20	Executive-level responsibility for economic, environmental and social issues	**37**	
102-40	List of stakeholders	**14**	
102-42	Identification and selection of stakeholders	**13-14**	
102-43	Approach to stakeholder engagement	**13-14**	
102-45	Entities included in the consolidated financial statements	**12**	
102-46	Defining reporting content and topic boundaries	**13-15; 60**	
102-47	List of material topics	**15**	
102-48	Restatement of information compared to previous report	**12**	
102-50	Reporting period	**12**	
102-51	Date of publication of most recent report	**12**	
102-52	Reporting cycle	**12**	
102-53	Contact point for questions regarding the report	**12**	
102-54	Claims of reporting in accordance with the GRI standards	**12**	
102-55	GRI content index	**61-63**	
102-56	External assurance	**66-68**	

TOPIC SPECIFIC STANDARDS		Page number	Notes
GRI 200: ECONOMIC TOPIC			
GRI 201: Economic performance (2016)			
103-1	Explanation of the material topic and its boundary	13-15; 60	
103-2	The management approach and its components	27	
103-3	Evaluation of the management approach	27	
201-1	Direct economic value generated and distributed	27	
GRI 205: Anticorruption			
103-1	Explanation of the material topic and its boundary	13-15; 60	
103-2	The management approach and its components	36-37	
103-3	Evaluation of the management approach	36-37	
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	13-15; 60	
103-2	The management approach and its components	36-37	
103-3	Evaluation of the management approach	36-37	
206-1	Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and respective outcomes	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 , whether in or out of court.	
GRI 300: ENVIRONMENTAL TOPIC			
GRI 302: Energy (2016)			
103-1	Explanation of the material topic and its boundary	13-15; 60	
103-2	The management approach and its components	47-48	
103-3	Evaluation of the management approach	47-48	
302-1	Energy consumption within the organisation	47-48	
GRI 303: Water (2016)			
103-1	Explanation of the material topic and its boundary	13-15; 60	
103-2	The management approach and its components	49	
103-2	Evaluation of the management approach	49	
303-1	Interactions with water as a shared resource	49	
GRI 305: Emissions (2016)			
103-1	Explanation of the material topic and its boundary	13-15; 60	
103-2	The management approach and its components	48-49	
103-3	Evaluation of the management approach	48-49	
305-1	Direct greenhouse gas emissions (Scope 1)	48-49	
305-2	Indirect greenhouse gas emissions (Scope 2)	48-49	

TOPIC SPECIFIC STANDARDS		Page number	Notes
GRI 306: Effluents and waste (2016)			
103-1	Explanation of the material topic and its boundary	13-15; 60	
103-2	The management approach and its components	50	
103-3	Evaluation of the management approach	50	
306-2	Waste by type and disposal method	50	
GRI 400: SOCIAL SERIES			
GRI 401: Employment (2016)			
103-1	Explanation of the material topic and its boundary	13-15; 60	
103-2	The management approach and its components	39-40	
103-3	Evaluation of the management approach	39-40	
401-1	New employee hires and employee turnover	39-40	
GRI 403: Occupational health and safety (2018)			
103-1	Explanation of the material topic and its boundary	13-15; 60	
103-2	The management approach and its components	44-46	
103-3	Evaluation of the management approach	44-46	
403-1	Occupational health and safety management system	44	
403-2	Hazard identification, risk assessment and incident investigation	44	
403-3	Occupational health services	45-46	
403-4	Worker participation, consultation and communication on occupational health and safety	44-45	
403-5	Worker training on occupational health and safety	45	
403-6	Promotion of worker health	45-46	
403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	45-46	
403-9	Work-related injuries	46-47	
GRI 405: Diversity and equal opportunity (2016)			
103-1	Explanation of the material topic and its boundary	13-15; 60	
103-2	The management approach and its components	41	
103-3	Evaluation of the management approach	41	
405-1	Diversity of governance bodies and employees	30; 41	
GRI 406: Non-discrimination (2016)			
103-1	Explanation of the material topic and its boundary	13-15; 60	
103-2	The management approach and its components	37	
103-3	Evaluation of the management approach	37	
406-1	Incidents of discrimination and corrective actions taken	No incidents of discrimination were reported during the reporting period.	

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INDEPENDENT AUDITOR'S REPORT
ON THE VOLUNTARY CONSOLIDATED 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 "Decree") and to article 5 of the CONSOB Regulation n. 20267/2018, we have carried out a limited assurance engagement on the consolidated and voluntary Non-Financial Statement of Industrie Saleri Italo S.p.A. and its subsidiaries (hereinafter "Saleri Group" or "Group") as of December 31, 2019 prepared on the basis of art 4 of the Decree, presented in the specific section of the Directors' Report and approved by the Board of Directors on July 29, 2020 (hereinafter "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"), with reference to the selection of 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 Group, and to the extent necessary in order to ensure the understanding of the Group'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 Group's activities as well as, with reference to the topics detected and reported in the NFS, for the policies pursued by the Group and for identifying and managing the risks generated or undertaken by the Group.

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.

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova Parma Roma Torino Treviso Udine Verona

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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*, with reference to the selection of 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 Group'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 art 3 of the Decree and taking into account the adopted reporting standard.

2. Analysis and assessment of the identification criteria of the consolidation area, in order to assess its compliance with the Decree.

3. Comparison between the financial data and information included in the NFS with those included in the consolidated financial statements of the Saleri Group.

4. Understanding of the following matters:

   - business management model of the Group's activities, with reference to the management of the topics specified by article 3 of the Decree;
   - policies adopted by the entity 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 5, letter a).

5. 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, in presence and remote meetings, with the management of Industrie Saleri S.p.A. and its subsidiaries ABL Automazione S.p.A. and Saleri Shanghai Co. Ltd, and we carried out limited documentary verifications, in order to gather information about the processes and procedures which support the collection, aggregation, elaboration and transmittal of non-financial data and information to the department responsible for the preparation of the NFS.

Deloitte.

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

- at the parent company's and subsidiaries' 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;
  b) with regards to quantitative information, we carried out both analytical procedures and limited verifications in order to ensure, on a sample basis, the correct aggregation of data.

- for the following companies, Industrie Saleri Italo S.p.A., ABL Automazione S.p.A. and Saleri Shanghai Co. Ltd, which we selected based on their activities, their contribution to the performance indicators at the consolidated level and their location, we carried out visits on site or remote meetings, during which we have met their 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 Saleri Group as of December 31, 2019 is not prepared, in all material aspects, in accordance with articles 3 and 4 of the Decree and the GRI *Standards*, with reference to the selection of GRI *Standards*.

Other matters

The comparative data presented in the Sustainability Report in relation to the financial year closed on December 31, 2018 have been verified only for the parent company Industrie Saleri Italo S.p.A.

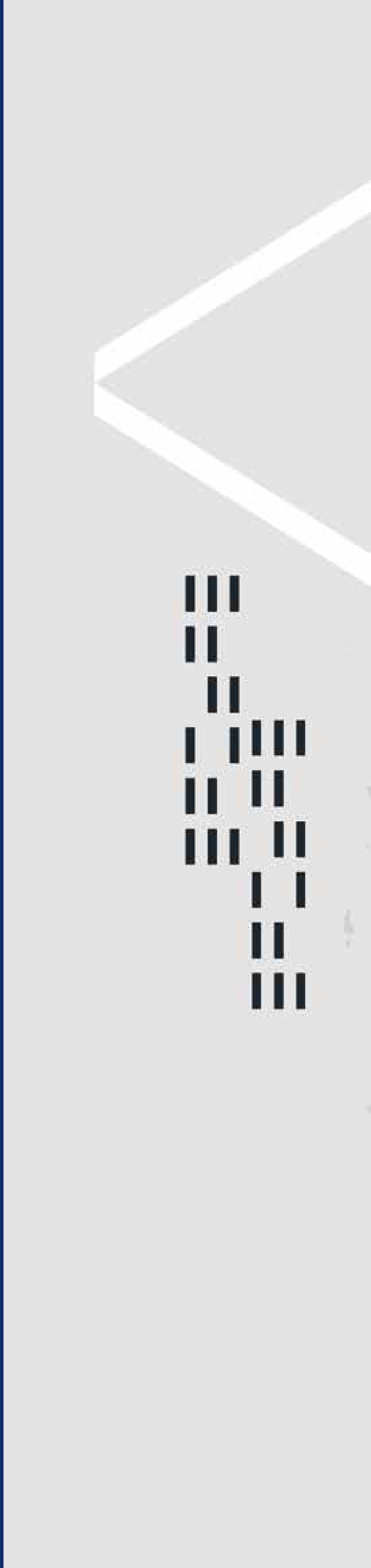
DELOITTE & TOUCHE S.p.A.

Signed by
Piergiulio Bizioli
Partner

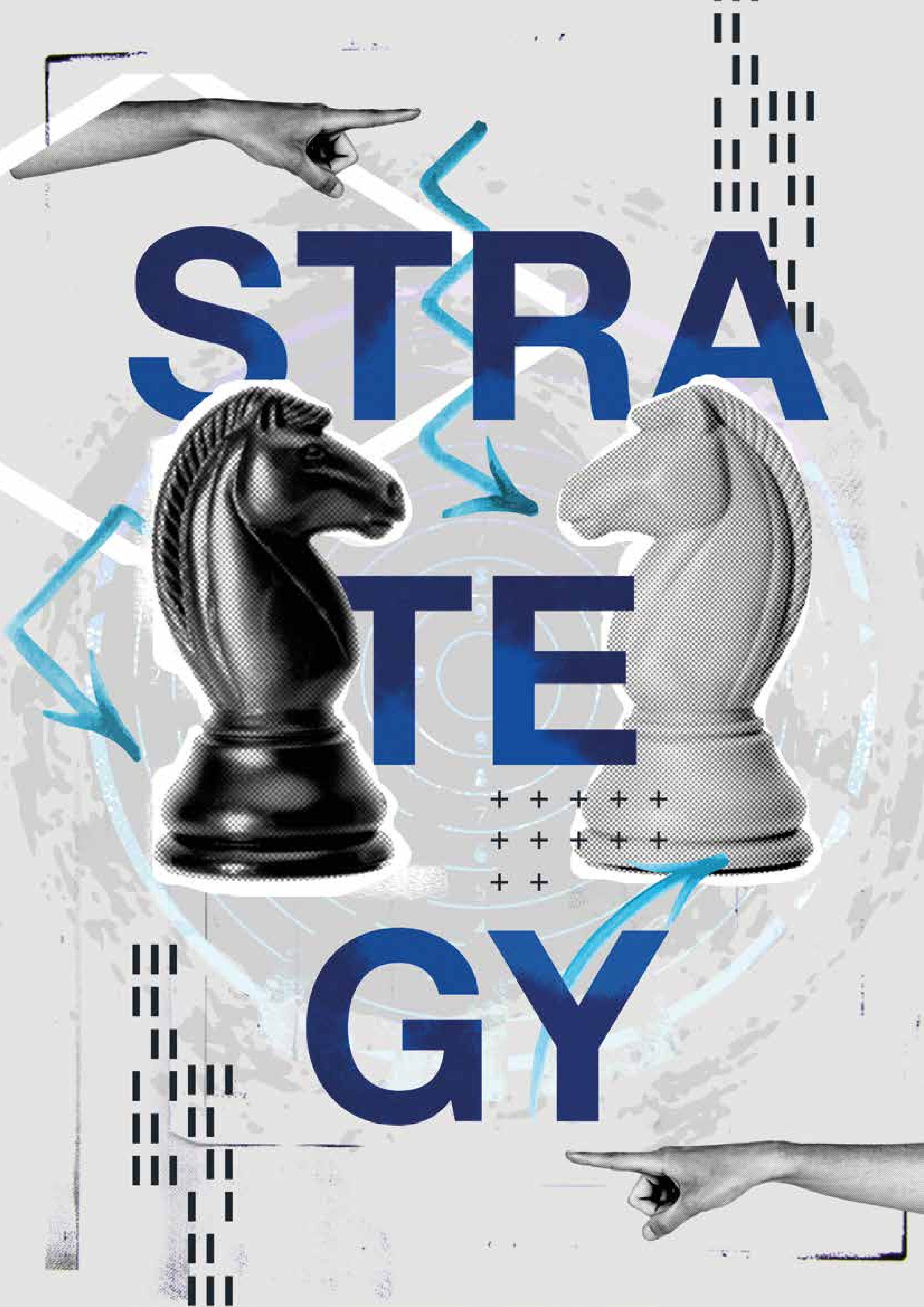
Brescia, Italy
August 6, 2020

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

STRATEGY



Our vision of the future helps us to understand the strategic value of “Pre-development”: a whole department where researchers and engineers, organized in specific and dedicated project-teams, work side by side with each Original Equipment client, with the aim of defining technological contents of the prototypes that will form the basis of future generation of vehicles. We opened to a modern organizational model, not only family-based, but capable of engaging also externally all the necessary management profiles.


STRA
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Section

2

Directors' report on the separate and consolidated financial statements 2019

Letter from the Chairman

Dear Shareholders,
The year 2019 was one of great instability that affected the Automotive industry in particular. The global economic downturn in 2019 (growth was down to 2.8%, the lowest level recorded since the global financial crisis in 2008-2009) is the result of heightening global political instability, economic uncertainty caused by Brexit and ongoing trade tension between the USA and China. In the Automotive industry, stalemate over the definition of an organic system of environmental incentives and disincentives to encourage a shift towards new mobility systems have led car makers to adopt drastic destocking policies (global production was down by 5.7% compared to 2018 and registrations of diesel cars fell by 13.9% in Europe compared to 2018).
Despite the macroeconomic environment and the situation in the sector, and some productive inefficiencies after the fire of January 2028, the operating results of the Saleri Group (hereinafter, "**Group**" or "**Saleri Group**") for 2019 show an increase in consolidated revenues from € 161.4 million to € 163.6 million. EBITDA has decreased compared to 2018 and is down from € 21.3 million to € 18.1 million (EBITDA Margin 2019 of 11.0%) due to the absence of certain non-recurring revenues. The consolidated result of the financial year is positive and equals € 2.8 million (1.7% of revenues).
The Net Financial Position amounts to € 39.3 million and has decreased by € 4.2 million compared to prior year (- € 28.7 Mln in the last three years 2017-2019) confirming the trend of improvement in the key financial ratios for the third year running: the NFP/Consolidated Equity ratio stands at 0.9x (compared to 1.0x in 2018) while the NFP / EBITDA ratio stands at 2.2x and has increased slightly compared to 2.0x in 2018.
In 2019, the Group continued to invest in research and development and in tangible fixed assets, as well as incurring expenses to reinforce the main strategic areas of the business structure, for a total amount of € 16.3m (10.0% of revenue) compared to € 13.6m in 2018. The increase is due to investment planned and in preparation for the portfolio of orders taken that will go into production in 2020 and in the coming years.
In this context, in July 2019, the Group acquired 70% of ABL Automazione S.r.l., a company that produces automated assembly systems. There was also significant investment on the development of production activities on new markets.
The year 2019 saw Saleri awarded a major contract (worth in excess of € 150 million) to supply a German car maker with electrically operated pumps for electric and hybrid vehicles. The award of this contract provides clear evidence of the competitiveness achieved by Saleri in relation to the ongoing technological shift towards the electrification of mobility.
The whole Saleri personnel please accept the warmest thanks on my behalf and from the Board of Directors for all the efforts and the dedication shown in expressing the growth of the total corporate value.
In response to the situation that emerged first in China and, then, in Italy and Europe following the COVID 19 emergency, the Saleri Group took immediate action and adopted a series of measures designed to safeguard the health of its employees. Where possible, smart working was introduced and operating procedures were revised with rules and protocols introduced in order to limit the possibility of contagion.
As the reader will be aware, in Italy, Automotive industry businesses were not included on the list of strategic businesses so, following the issue of subsequent decrees by the Italian government, production activities in Italy were scaled down significantly (in Italy, the Group's activities continued only in relation to the production and sale of Aftermarket products) and the Group had to apply to access the exceptional social safety nets available for its employees. The production activities of Saleri Shanghai suffered a minor reduction due to a lockdown of just two weeks: they recommenced at the end of February 2020 and are now proceeding at full steam with customer orders even exceeding the pre-Covid 19 forecasts. The production activities of the parent company also restarted on 4 May 2020 although orders from all customers have been down. All of the Group's business activities recommenced in compliance with the new rules applying in "Phase 2" of the emergency.
The effects of the current situation will be reflected in the Group's results for 2020: the production lockdown and the

interruption of the supply chain will lead to a fall in revenue for the first half of the year and it will only be partially recoverable in the second half. Nonetheless, there are certain signs of encouragement for the near future: although the parent company's customer orders for the current year are lower than forecast pre-Covid, they are consolidating and are again starting to show a certain stability going forward, the sign of a return to a certain production normality. For now, customers have not made any significant changes to the planned launch of new models or to development milestones for their main engine projects. These factors leave room for optimism in the immediate future.
The investments planned for the current year have only been partially postponed until next year because it is still necessary to support the launch of new contracts that will go into production next year.
International expansion remains one of the fundamental pillars of this growth process for the Saleri Group. The new production facility in Monterrey, Mexico is currently being opened and it will serve the North American market; indeed, already has an important long-term contract. Saleri Shanghai continues to consolidate its position on the Chinese OEM market. In 2020, despite the impact of Covid, the Chinese company's revenue is expected to increase by more than 80% compared to 2019 thanks to activation of OEM contracts acquired in previous years.
Despite the major difficulties created by the current situation, we remain optimistic that the core principles on which our business model is founded, together with our proven capacity to innovate, our unrivalled production excellence in the segment and, last but not least, the professionalism and dedication of our people will enable the Saleri Group to maintain its competitive position and to pursue the path of growth and development undertaken.
We are fully aware that what is currently going on in the world will affect the markets on which the Group is present and we do not intend to underestimate it in the slightest. However, we look ahead to the future with confidence. We know we can count, more than ever, on our values and our strengths and especially on the people (both within the Group and along the supply chain) who work daily with passion and professionalism.

For the second time, the Saleri Group presents its "Non-Financial Statement", a detailed report describing the strategies adopted, the actions taken and the results achieved by the Group in its pursuit of sustainable economic growth, such as reducing the environmental and social impacts of its activities. In contrast to prior year, this year's Non-Financial Statement includes figures and details of actions taken by all of the companies included in the scope of consolidation, in order to outline the international activities and strategies of the whole of the Saleri Group.
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 and Statutory Financial Statements and presents details of the Group situation, the main risks to which the Group is exposed and the ways in which business development may be expected in the years ahead.
Further information can be found in the Notes to the Consolidated Financial Statements and in the Notes to the Statutory Financial Statements.
We present for your review and approval the Consolidated Financial Statements of the Group and the Statutory Financial Statements of Industrie Saleri Italo S.p.A., comprising the Balance Sheet, the Income Statement, the Statement of Cash Flows and the Notes, as at 31 December 2019.

Lumezzane, 29 July 2020

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:

- 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;
- 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;
- current year figures are reported both before and after the effect of changes in the scope of consolidation. A comparison based on a like-for-like scope of consolidation is provided in the various tables of 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 consolidation of ABL Automazione S.r.l. and Hold.Co 1 S.r.l..

Note:

The APIs have been chosen and set out in the Directors' Report because the Directors believe that:

- Net Financial Position, together with other performance indicators such as Capex/Revenues, NFP/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 the amount expressed in Financial Position; 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;
- 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 results

€ millions

CONSOLIDATED	FY 2017	FY 2018	Ind. Saleri Italo S.p.a.	Saleri Shanghai	Immobiliare Industriale	ABL	Hold.Co	Consol. Adj.	FY 2019	Δ 2019 - 2018	
Income Statement											
Revenue from WP Sales	**163.5**	**156.2**	**144.8**	**11.1**	**-**	**-**	**-**	**(6.1)**	**149.8**	**-6.4**	1
Revenue from Sales	**166.0**	**161.4**	**149.0**	**11.1**	**0.9**	**9.7**	**-**	**(7.0)**	**163.6**	**+2.1**	2
Contribution Margin	**34.8**	**38.3**	**32.2**	**2.9**	**0.9**	**3.4**	**-**	**(0.8)**	**38.6**	**+0.3**	3
Contribution Margin %	20.9%	23.7%	21.6%	26.0%	100.0%	35.2%		11.3%	23.6%	-0.1%	
EBITDA	**19.2**	**21.3**	**14.1**	**1.6**	**0.7**	**2.5**	**(0.1)**	**(0.8)**	**18.1**	**-3.2**	4
EBITDA %	11.6%	13.2%	9.4%	14.8%	82.8%	25.8%		11.3%	11.0%	-2.1%	
EBIT	**6.9**	**8.2**	**2.3**	**0.1**	**0.4**	**2.4**	**(0.1)**	**(0.9)**	**4.3**	**-3.9**	
EBIT %	4.1%	5.1%	1.6%	1.3%	45.3%	25.2%		13.0%	2.6%	-2.4%	
Profit (Loss) before taxation	**4.4**	**4.3**	**0.4**	**(0.0)**	**0.4**	**2.4**	**(0.1)**	**(0.9)**	**2.2**	**-2.1**	
Profit (Loss) before taxation %	2.6%	2.7%	0.3%	-0.4%	47.0%	25.3%		13.0%	1.4%	-1.3%	
Consolidated Profit (Loss) for the year	**3.1**	**3.7**	**0.8**	**(0.0)**	**0.3**	**2.5**	**(0.1)**	**(0.7)**	**2.8**	**-0.9**	
Consolidated Profit (Loss) for the year %	1.9%	2.3%	0.6%	-0.4%	33.4%	25.5%		9.8%	1.7%	-0.6%	
of which Minority Interests Result	**0.2**	**0.3**	**-**	**(0.0)**	**0.1**	**0.7**	**(0.0)**	**(0.2)**	**0.6**	**+0.3**	
of which Group Result	**3.0**	**3.4**	**0.8**	**(0.0)**	**0.2**	**1.7**	**(0.1)**	**(0.5)**	**2.1**	**(1.3)**	
Balance Sheet											
Fixed Assets	79.2	80.9	77.0	3.3	10.6	0.1	2.5	(8.9)	84.7	+3.8	
Trade Working Capital	6.9	8.0	(0.6)	0.9	(0.0)	3.3	(0.0)	(0.1)	3.5	-4.5	
Net Invested Capital	**82.7**	**85.2**	**71.3**	**6.1**	**10.5**	**1.8**	**2.5**	**(8.7)**	**83.6**	**-1.6**	5
Net Financial Position	68.0	43.6	36.6	1.0	(0.0)	(0.0)	1.8	-	39.3	-4.2	6
Consolidated Equity	**14.8**	**41.6**	**34.7**	**5.1**	**10.6**	**1.8**	**0.7**	**(8.7)**	**44.2**	**+2.6**	7
of which Minority Interests Equity	**3.8**	**4.1**	**-**	**0.3**	**4.0**	**0.4**	**0.2**	**-**	**4.8**	**+0.7**	
of which Group Equity	**11.0**	**37.5**	**34.7**	**4.8**	**6.6**	**1.5**	**0.5**	**(8.7)**	**39.4**	**+1.9**	
Personnel and capex											
Average number of employees	465 u	517 u	480 u	76 u	0 u	42 u	0 u	0 u	598 u	80 u	8
Revenues per employee (Euro thousands)	35.7	31.2	31.0	14.7	-	22.9	-	-	27.4	-3.8	
Net capex	6.6	13.6	12.9	1.1	0.0	0.1	-	2.1	16.3	+2.7	9
Net capex / Revenues	4.0%	8.5%	8.7%	10.3%		1.5%	0.0%	-29.9%	10.0%	1.5%	
Net Financial Position / EBITDA	3.5x	2.0x	2.6x	0.6x		-0.0x	-24.5x	0.0x	2.2x	0.1x	
Net Financial Position / Equity	4.6x	1.0x	1.1x	0.2x		-0.0x	2.4x	0.0x	0.9x	-0.2x	
ROI (EBIT / Net Invested Capital)	8.3%	9.6%	3.3%	2.3%		137.8%	-2.9%	10.5%	5.2%	-4.4%	
ROE (Consolidated Profit (Loss) for the year / Consolidated Equity)	21.2%	8.9%	2.4%	-0.8%		135.8%	-11.3%	7.9%	6.3%	-2.6%	
Cash flows											
Cash Flows generated by Operating Activities	22.4	7.1	18.1	2.3	0.7	(0.6)	(0.0)	(0.9)	19.6	+12.5	
Cash Flows absorbed by Investing Activities	(6.6)	(13.6)	(12.9)	(1.1)	(0.0)	(0.1)	-	(2.1)	(16.3)	-2.7	
Cash Flows from Financing Activities	(14.5)	(0.5)	(12.2)	(1.2)	(0.7)	0.7	1.8	-	(11.6)	-11.2	
Cash flows from change in Equity	**-**	**23.0**	**(0.3)**	**-**	**-**	**-**	**0.6**	**-**	**(0.3)**	**-23.3**	10
Cash Flow Other Financial Asset/Liabilities	4.4	(2.6)	(1.8)	(0.1)	(0.3)	1.0	(2.3)	3.0	(0.5)	+2.1	
Change in Other Cash Equivalents	-	(14.3)	13.4	-	-	(0.6)	-	-	13.4	+27.8	
Net Cash Flows	**5.6**	**(1.0)**	**4.3**	**(0.2)**	**(0.2)**	**0.4**	**0.0**	**(0.0)**	**4.3**	**+5.3**	11
Reclassification Cash Flow to Cash Equivalents	(2.2)	(3.3)	0.6	-	-	-	-	-	0.6	+4.0	12
Reclassified Cash Flow	**3.5**	**(4.3)**	**4.9**	**(0.2)**	**(0.2)**	**0.4**	**0.0**	**(0.0)**	**4.9**	**+9.3**	

Notes:

1. The decrease in Sales Revenue WP (Water Pumps) is due to a general reduction in both the OEM (Original Equipment Manufacturer) segment and the IAM (Independent Aftermarket) segment. For the OEM segment, the decrease is due to (i) a sharp reduction in registrations of Diesel powered vehicles (which have fallen as a result of the well-publicised scandals regarding falsified emissions readings with a resulting effect on new environmental policy) and (ii) moreover, to an organic production switch overlap between contracts under phase-out and those under phase-in with a greater impact of the former than the latter. For the IAM segment, the decrease is due to the same reasons mentioned previously in relation to Diesel registrations but with a different impact as it generated, for end consumers (the end customer) and intermediate customers (distributors), the combined effect of: for end customers, postponing the replacement of vehicles parts with spare parts rather than replacing the vehicle, as a result of bans on the use of certain older vehicles with higher emissions in an ever increasing number of towns and cities because of environmental regulations; for distributor customers, as a result of indecision on the part of end customers, the need to carry out major destocking of items in inventory, resulting in lower purchases from manufacturers..

2. In addition to the above mentioned Sales Revenue WP, Revenue from Sales includes Sales of Equipment and chargebacks to customers of product development costs, trade discounts granted to IAM customers and revenue not relating to ordinary operating activities including Revenue from the sale of machinery and Revenue from the rental of property. This caption also includes costs incurred and capitalised for Research and Development relating to contracts awarded to the Group and regarding future business.

3. The Contribution Margin, amounting to € 38.6 million and 23.6% of revenue, has increased by € +0.3 million compared to the previous financial year (-0.1% in percentage terms, -0.9% on an equivalent consolidation area). The change in Contribution Margin is mainly due to a decrease in Direct Production Costs, as partially countered by the increase in Production Labour Costs.

4. The decrease in EBITDA (from € 21.3 million to € 18.1 million, -2.1%) is due to a higher incidence of indirect personnel costs as well as of direct personnel costs – (as described below), following targeted recruitment in certain strategic departments in order to sustain the Group's future growth (see table 4.3 b). Achieving production stability at the new Saleri E production plant in Provaglio d'Iseo (in place of the plant that can no longer be used after the fire in January 2018) led to higher non-recurring operating costs being sustained.

5. Net Invested Capital is in line with the amount recorded in 2018. The acquisition of ABL Automazione S.r.l. had a positive impact of € 4.3 million, including vehicle company Hold.Co 1 S.r.l..

6. The Group's Net Consolidated Position has decreased (- € 4.2 million compared to 2018) by € 28.7 million in the last three years (2017-2019) confirming the improvement trend for the third consecutive year of the main financial performance indicators.

7. The Group's shareholders' consolidated equity amounts € 44.2 million increasing by € 2.6 million compared to the previous financial year, thanks to the net profit for 2019 (€ 2.8 million) and, to a residual extent from which € 0.2 million must be deduced for consolidation adjustments. During the period, the parent company also bought back 15,799 treasury shares for a total of € 0.285 million and increased its Negative Reserve for Treasury Shares, accordingly. No dividends were distributed during the period. Minority Interest equity amounts € 4.8 million (increasing by € 0.7 million compared to 2018, mainly attributable to ABL Automazione ed Hold.co). The Saleri Group's shareholders' equity is therefore equivalent to € 39.4 million, increasing by € 1.9 million, comparing to the previous financial year).

8. The consolidation of ABL Automazione S.r.l. has increased the headcount by 42 employees. The increase in the number of FTEs in 2019 is mainly due to the hiring on permanent contracts of direct personnel that was previously employed on a temporary basis.

9. The main capex on tangible assets relates to production machinery and equipment, as planned based on the start of the production phase of no projects for most of which the positive effects in terms of sales revenue are not yet visible. Capex also includes intangible assets due to the capitalisation of research and development costs relating to contracts that have been awarded or can reasonably be expected to be awarded. Finally, it includes goodwill recognised on the acquisition of a controlling interest in ABL Automazione S.r.l..

10. Cash flows generated from changes in equity is due to the purchase of treasury shares in 2019, while, in 2018, it included the paid capital increase subscribed by the Shareholders.

11. Net cash flows result positive for € 4.3 million (increased by € 5.3 million compared to prior year) and largely thanks to collection of the receivable due from the insurance company as a result of the fire that occurred in January 2018.

12. Moreover, other than gross cash flows highlighted in the consolidated financial statement, there are amounts of advance invoices and cashed-in entries from credit institution not yet identified on the company's bank accounts.

Chapter

1

Ownership and governance structure

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

Since the Quaestio Italian Growth Fund acquired a stake in the parent company in 2018 – resulting in a share capital increase totalling € 23,000,000, subscribed together with the Saleri Family – there have been no significant changes in the ownership of the Saleri Group.
In 2019, the only change regarded the buy back by the parent company of 15,799 treasury shares, representing 0.51% of share capital, for € 285,014. Therefore, at 31/12/2019, the share ownership of Industrie Saleri Italo S.p.A. was as shown in the table opposite.
The new financial resources have been used for investments in preparation for the operational implementation of the order backlog, for strategic acquisitions, for the launch of foreign production activities and to strengthen the management structure on a global level.
The objective of the Saleri Group remains that of entering a regulated stock market in the years ahead.
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 accessing regulated markets as a decisive means of medium/long-term growth and development.

Shareholders	%	Number of Shares
El.Fra Holding S.r.l.	**55.99**	**1,750,809**
Basilio Saleri	60.00	1,050,485
Giovanna Maria Saleri	40.00	700,324
Quaestio Capital SGR S.p.A. per Quaestio Italian Growth Fund	**26.60**	**831,648**
Luca Saleri	**8.35**	**260,974**
Mariacristina Saleri	**4.89**	**153,000**
Annacaterina Marella Saleri	**3.67**	**114,767**
Industrie Saleri Italo S.p.A. Purchase of Treasury Shares	**0.51**	**15,799**
Total	**100.00**	**3,126,997**

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 even more of the potential of the Saleri Group.

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).

Sergio Saleri, the second oldest child of Italo Saleri, founder of Industrie Saleri Italo S.p.A., was Honorary President until his death on 6 July 2019.

CHAIRMAN AND CEO

Basilio Saleri

Appointed as CEO and Chairman of the Board of Directors in 2013. At present, 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. and on the Board of Directors of Saleri Mexico S.A. de C.V.

MANAGING DIRECTOR

Matteo Cosmi

Appointed as CFO and Managing Director in May 2018 after acting as Temporary Manager with the roles of CFO and CRO since February 2017. In December 2019, he was appointed Managing Director of Industrie Saleri Italo. He also sits on the Board of Directors of Saleri Mexico S.A. de C.V. 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.

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

Has 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. In office until the General Meeting convened to approve the financial statements for 2020 - 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

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 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 the consolidated financial statements of the Saleri Group.

Deloitte & Touche S.p.A.

1.3. Organisation and activities of the Saleri Group

The Group operates through manufacturing and distribution companies in Italy, China and Mexico and a commercial company in Germany, all of them controlled by parent company Industrie Saleri Italo S.p.A..
In more detail, water pump manufacturing activities are carried out by:

- PARENT COMPANY INDUSTRIE SALERI ITALO S.P.A.
- CHINESE SUBSIDIARY SALERI SHANGHAI CO., LTD
- MEXICAN SUBSIDIARY SALERI MEXICO S.A. DE C.V.

In 2019, ABL Automazione S.r.l., a company that produces automated assembly lines became a part of the Group. It is currently 70% owned through Hold.Co 1 S.r.l..
German subsidiary Saleri GmbH provides commercial support in Munich in dealings with German car makers.
Subsidiary Immobiliare Industriale S.r.l. manages an industrial property that has been leased to a company outside the Saleri Group.

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

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.

Immobiliare Industriale S.r.l.

62.5%

INVESTMENT

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..

Hold.Co 1 S.r.l.

70%

INVESTMENT

Incorporated on 23 July 2019 – owned 30% by Berfin S.r.l. (a company owned by the former quotaholders of ABL Automazione S.r.l.) and 70% by Industrie Saleri Italo S.p.A. – in order to acquire 100% of the quota capital of ABL Automazione S.r.l..

ABL Automazione S.r.l.

70%

INVESTMENT

Acquired in July 2019 and 70% controlled by Industrie Saleri Italo S.p.A. through the investment in HoldCo 1 s.r.l. (owner of 100% of ABL Automazione S.r.l.). The company is based in Gussago (BS)and produces automated assembly lines and equipment. It is recognised as a specialist supplier to the automotive industry.

Saleri GmbH

100%

INVESTMENT

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

Saleri Mexico S.A. de C.V.

99%

INVESTMENT

Incorporated in 2019, this new subsidiary will manufacture and distribute water pumps and cooling systems for the Automotive industry, targeting car makers in North America. It will be operational from the fourth quarter of 2020, thus enabling the Saleri Group to expand its international presence.

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.**
- **HOLD.CO 1 S.r.l.**
- **ABL AUTOMAZIONE S.r.l.**

Chapter

2

The Saleri Group and the Market

In order to make a fair assessment of the performance achieved in 2019, 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 2018 was characterised by numerous trade conflicts and by severe political instability on a global scale, during 2019, international organisations were faced with the delicate task of dealing with numerous uncertainties such as the risk of recession in the USA and the consequences of Brexit. At the start of 2020, the future of the global economy was affected by a series of risks including war in the Middle East and duties resulting from the trade war between the USA and China. The Covid-19 pandemic, which began in China and has now spread all around the world, will cause severe economic consequences that are still difficult to measure with any certainty.

The main challenge will be managing to limit the impact of these phenomena while, at the same time, promoting new stimulus opportunities through fiscal and monetary policy which can intervene against the slowdown of the global economy. At the end of 2019, the main factors resulting in a slight increase in purchasing power were higher levels of productivity, a reduction in unemployment and inflation which was stable at low levels. Meanwhile, from a macroeconomic perspective, the monetary policies of central banks and the financial markets were significantly influenced by the opportunities generated by climate change. The current emergency triggered by the spread of Covid-19 has given central banks and international bodies the difficult task of seeking to combat the economic crisis which seems even more serious than the recent financial crisis in 2008. They are having to adopt expansionary policies that enable countries to sustain individual businesses and workers, who will inevitably lose purchasing power in this situation.

Before the outbreak of Covid-19, after slowing down to 2.8% in 2019, forecast real global GDP growth had been revised upwards for the next three years: research entities already expected a significant increase (+0.4pp) from 2020 thanks to a gradual recovery in business investment. According to the December 2019 estimates of the International Monetary Fund (IMF), growth of 3.6% was forecast at the end of the three-year period 2020-2022. The upwards adjustments were driven mainly by growth on emerging Asian markets which was forecast in excess of 5.5% while growth in Africa and the Middle East was also expected to be higher than the global average. In a context of limited growth, emerging countries must invest in structural reforms that help fuel economic growth and encourage integration between different countries. In the wake of the Covid-19 emergency, analysis are revising their previous forecasts downwards to a significant extent: the new scenario is for a slow recovery with production activities only returning to a full level in the second half of 2020 and real global GDO showing a decrease of 2.8% compared to the forecasts highlighted above.

Pre-Covid 19 forecasts showed the Eurozone with a modest improvement (+0.1% rispetto al 2019) thanks to expectations of increased commercial investment and a recovery in export demand. Germany showed a decrease because of a reduction in industrial activity while the recovery was modest in Italy and France as internal and external demand were still on the decline. The United Kingdom should have benefited from the effects of high public expenditure announced but there is still significant business uncertainty due to Brexit and the economic effects are hard to quantify. As a result of the current spread of Covid-19 in Europe and, especially, in Italy, for the major European Union countries, it is inevitable to speak of deflation in the long-term: the sustainability of the public debt of individual countries has already been challenging in recent years and it will be fundamental in order to ensure an economic recovery in the near future. After facing a period of weak growth of around ten years in the Eurozone, after the financial crisis of 2008, it is inevitable to believe that Italy, Spain, France, Germany and the United Kingdom will be in recession throughout 2020. GDP growth forecasts for emerging European countries showed significant improvement for 2020 (+2.5%, +0.7pp compared to 2019) thanks to increased economic activity in Russia, a recovery in financial conditions in Turkey and consolidated growth in the regions of Central Europe.

In Chine, pre-Covid 19, the GDP growth forecast for 2020 was stable at around 6% although uncertainty over trade relations with the USA made a further reduction in growth possible in the next three years. The Oriental Superpower was the cradle of the initial outbreak of the epidemic and after a period of total lockdown lasting more than two months, economic activity returned to normal in April.

The losses caused by the shutdown of business activities created a real challenge for the Chinese financial system: assuming that activity recovers in the next few months, it remains inevitable that the real global GDP growth forecast will have to be cut by more than 2%.
In the USA, pre-Covid 19, real GDP growth forecasts were down to 2% (-0.3pp compared to 2019). The expansionary fiscal policies adopted by the FED in 2019 will be revised in 2020, as per the "Two-Year Budget" agreement, which results in increased public spending and an interest rate cut by the FED. The main uncertainty regards Latin America where degrowth was already expected before Covid-19, also because of the social issues affecting the region.

2.2. Outlook for the Automotive Industry

The key indicator for the Saleri Group's OE business (85% of consolidated revenues) 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 petrol, diesel (Hybrid, mild-hybrid, etc) and electric engines (39%, 59% and 2%, respectively).

Table 2.2a – Light Vehicles Engine Production (Global & Europe)

Engines of Light Vehicles	2018	2019	Δ % vs '18	2018	2019
	Mln. Units	Mln. Units		% of Total	
"LV Engines" Production by Geographical Area					
China	27.2	24.7	-9.0%	29%	28%
Other Asian Countries	24.4	23.6	-3.2%	26%	27%
Europe	23.4	22.4	-4.0%	25%	25%
North America & Mexico	15.3	14.5	-4.8%	16%	16%
Rest of the World	3.9	3.5	-10.4%	4%	4%
Total	**94.2**	**88.9**	**-5.7%**	**100%**	**100%**
"LV Engines" Production by European Country					
Germany/Austria	6.6	6.3	-4.5%	28%	28%
Central Europe	5.5	5.6	+3.4%	23%	25%
France	3.4	3.2	-5.3%	14%	14%
United Kingdom	2.6	2.2	-15.8%	11%	10%
Spain	1.7	1.8	+1.6%	7%	8%
Italy	1.4	1.3	-10.5%	6%	6%
Russia	0.7	0.7	-6.9%	3%	3%
Turkey	0.8	0.6	-18.5%	3%	3%
Sweden	0.5	0.6	+7.7%	2%	2%
Other European Countries	0.2	0.2	+19.7%	1%	1%
Total	**23.4**	**22.4**	**-4.0%**	**100%**	**100%**

Source: IHS

Global Performance in 2019

In 2018, global production of LV Engines totalled 88.9 million units with significant decrease compared to 2018 (-5.7%); this was the first year of degrowth since 2010. The area with the greatest impact on the decrease in production was Chine (-2.5 million in terms of engines produced, or -9.0%); the Asian colossus thus fell from 20% to 28% of total global production.

The degrowth is also confirmed in other Asian countries, albeit to a lesser extent than in China (-3.3%). The other production areas with most impact on the reduction were North America and Mexico (16% of global production; -4.8%) and Europe (25% of global production; -4.0%).

Table 2.2b – Light Vehicles Engine Production (Global & Europe)

Engines of Light Vehicles	2018	2019	Δ % vs '18	2018	2019
	Mln. Units	Mln. Units		% of Total	
"LV Engines" Production in Europe by Manufacturer					
Volkswagen	5.7	5.6	-2.1%	24%	25%
Renault-Nissan-Mitsubishi	3.7	3.4	-8.0%	16%	15%
PSA	3.1	3.1	-0.2%	13%	14%
Daimler	2.0	1.9	-2.8%	8%	8%
Other Manufacturers	2.3	2.2	-3.9%	10%	10%
BMW	2.0	2.1	+1.1%	9%	9%
Ford	2.1	1.9	-11.1%	9%	8%
FCA	1.3	1.2	-8.2%	6%	5%
Toyota	0.6	0.6	-8.5%	3%	3%
Hyundai	0.5	0.5	-0.4%	2%	2%
Total	**23.4**	**22.4**	**-4.0%**	**100%**	**100%**
"LV Engines" Production in Europe by Propulsion System					
ICE - Gasoline/Petrol	13.1	13.0	-0.7%	56%	58%
ICE - Diesel	9.4	7.8	-16.8%	40%	35%
Hybrid (MHEV - HEV - PHEV)	0.7	1.3	+87.5%	3%	6%
Full Electric (BEV)	0.2	0.3	+61.4%	1%	1%
Total	**23.4**	**22.4**	**-4.0%**	**100%**	**100%**

Source: IHS

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

Looking at the production trend by engine propulsion system, there has been a significant reduction in diesel engine production in Europe and its market share has fallen from 40% in 2018 to 35% in 2019 with a further decrease to 32% forecast for 2020, as a result of strict regulations on emissions. Petrol applications remain predominant and have increased their market share, partially offsetting the share lost by diesel engines and going from 56% in 2018 to 58% in 2019: the forecast for 2020 shows a significant decline to 50%, especially at the expense of new, alternative applications. Hybrid engines doubled their share of applications in the last year, rising from 3% in 2018 to 6% in 2019.

REASONS FOR TRENDS IN 2019

The reasons for the trends seen in 2019 compared to prior year can be traced to increased global political instability, unfavourable financial conditions, economic uncertainty over the effects of Brexit and the continuing trade tension between the USA and China.

In Europe, the production decrease continues to be driven by the technical and organisational effects of adoption of the Worldwide Harmonized Light Vehicle Procedure (WLTP) rules which are increasingly tough on emissions. In the United Kingdom, economic uncertainty over the effects of Brexit led to a significant fall in production compared to 2018 (-15.8%) also as a result of the possible introduction of new customs duties. German has badly felt the effects of introduction of the WLTP rules because of the complexities encountered by manufacturers in relation to the certification process – both directly and indirectly throughout the entire industry segment. Other European car making countries (Italy and France) have also recorded a decline in production while Spain (+1.6%) and Central Europe are the only areas to have recorded increases (+3.4%).

The contrasting trends between production levels and sales levels, again confirmed in 2019, highlight a fall in production because of decisions to destock and reduce risk in anticipation of the introduction of new production processes and applications.

Table 2.2c – New Vehicle Registrations in European Countries

European Countries	DIESEL			PETROL/GASOLINE			ALTERNATIVE FUEL			TOTAL		
	2019	2018	%Chg	2019	2018	%Chg	2019	2018	%Chg	2019	2018	%Chg
AUSTRIA	126,311	140,111	-9.8%	176,706	184,150	-4.0%	26,346	16,807	56.8%	329,363	341,068	-3.4%
BELGIUM	172,517	195,060	-11.6%	338,615	321,886	5.2%	38.871	32,676	19.0%	550,003	549,622	0.1%
BULGARIA	15,705	19,707	-20.3%	21,220	18,795	12.9%	4,431	2,112	109.8%	41,356	40,614	1.8%
CZECH REPUBLIC	69,253	78,991	-12.3%	173,885	175,276	-0.8%	11,299	8,286	36.4%	254,437	262,553	-3.1%
DENMARK	60,028	72,226	-16.9%	146,303	132,907	10.1%	19,275	15,672	23.0%	225,606	220,805	2.2%
ESTONIA	11,327	12,128	-6.6%	18,570	18,785	-1.1%	3,498	1,693	106.6%	33,395	32,606	2.4%
FINLAND	20,871	28,711	-27.3%	67,751	73,065	-7.3%	25,577	18,644	37.2%	114,199	120,420	-5.2%
FRANCE	755,582	844,830	-10.6%	1,281,795	1,188,170	7.9%	176,902	140,481	25.9%	2,214,279	2,173,481	1.9%
GERMANY	1,152,733	1,111,130	3.7%	2,136,891	2,142,700	-0.3%	317,623	181,944	74.6%	3,607,247	3,435,774	5.0%
GREECE	30,356	36,885	-17.7%	74,339	61,320	21.2%	9,414	5,226	80.1%	114,109	103,431	10.3%
HUNGARY	31,063	32,334	-3.9%	114,656	96,481	18.8%	12,122	7,762	56.2%	157,841	136,577	15.6%
IRELAND	54,547	68,367	-20.2%	47,539	48,405	-1.8%	14,984	8,899	68.4%	117,070	125,671	-6.8%
ITALY	762,882	978,809	-22.1%	852,650	678,459	25.7%	301,022	253,767	18.6%	1,916,554	1,911,035	0.3%
LATVIA	6,778	6,632	2.2%	11,207	10,097	11.0%	1,705	1,122	52.0%	19,690	17,851	10.3%
LITHUANIA	8,229	7,892	4.3%	34,433	22,061	56.1%	3,526	2,492	41.5%	46,188	32,445	42.4%
NETHERLANDS	32,836	56,996	-42.4%	316,676	334,401	-5.3%	96,602	52,133	85.3%	446,114	443,530	0.6%
POLAND	111,082	131,023	-15.2%	394,519	368,011	7.2%	49,549	32,826	50.9%	555,150	531,860	4.4%
PORTUGAL	89,417	121,591	-26.5%	110,125	89,748	22.7%	24,257	16,988	42.8%	223,799	228,327	-2.0%
ROMANIA	43,363	53,228	-18.5%	107,755	71,880	49.9%	10,388	5,809	78.8%	161,506	130,917	23.4%
SLOVAKIA	25,504	29,432	-13.3%	70,998	65,209	8.9%	5,065	3,439	47.3%	101,567	98,080	3.6%
SLOVENIA	20,574	22,266	-7.6%	48,542	48,204	0.7%	2,761	2,314	19.3%	71,877	72,784	-1.2%
SPAIN	350,778	473,477	-25.9%	756,131	739,531	2.2%	151,351	108,429	39.6%	1,258,260	1,321,437	-4.8%
SWEDEN	115,334	133,911	-13.9%	164,088	165,853	-1.1%	76,614	53,965	42.0%	356,036	353,729	0.7%
UNITED KINGDOM	583,488	746,332	-21.8%	1,498,640	1,466,024	2.2%	229,012	154,791	47.9%	2,311,140	2,367,147	-2.4%
EUROPEAN UNION	**4,650,558**	**5,402,069**	**-13.9%**	**8,964,034**	**8,521,418**	**5.2%**	**1,612,194**	**1,128,277**	**42.9%**	**15,226,786**	**15,051,764**	**1.2%**
EU (15)	**4,307,680**	**5,008,436**	**-14.0%**	**7,968,249**	**7,626,619**	**4.5%**	**1,507,850**	**1,060,422**	**42.2%**	**13,783,779**	**13,695,477**	**0.6%**
EU (New Entrants)	**342,878**	**393,633**	**-12.9%**	**995,785**	**894,799**	**11.3%**	**104,344**	**67,855**	**53.8%**	**1,443,007**	**1,356,287**	**6.4%**
ICELAND	3,512	6,806	-48.4%	4,979	7,433	-33.0%	3,183	3,632	-12.4%	11,674	17,871	-34.7%
NORWAY	22,823	26,253	-13.1%	22,355	32,602	-31.4%	97,203	89,074	9.1%	142,381	147,929	-3.8%
SWITZERLAND	79,332	90,055	-11.9%	191,420	188,070	1.8%	40,727	21,591	88.6%	311,479	299,716	3.9%
EFTA	**105,667**	**123,114**	**-14.2%**	**218,754**	**228,105**	**-4.1%**	**141,113**	**114,297**	**23.5%**	**465,534**	**465,516**	**0.0%**
EU + EFTA	**4,756,225**	**5,525,183**	**-13.9%**	**9,182,788**	**8,749,523**	**5.0%**	**1,753,307**	**1,242,574**	**41.1%**	**15,692,320**	**15,517,280**	**1.1%**
EU15 + EFTA	**4,413,347**	**5.131.550**	**-14.0%**	**8,187,003**	**7,854,724**	**4.2%**	**1,648,963**	**1,174,719**	**40.4%**	**14,249,313**	**14,160,993**	**0.6%**

Source: ANFIA

The light vehicle production figures produced by HIS, as compared with the registration figures issued by ANFIA, confirm the trends highlighted above. On a European level, diesel car registrations decreased significantly by around 14.0% in 2019 compared to 2018 (some 700 thousand fewer cars registered than in 2018). The largest decrease was recorded in the Netherlands (-42.4%) and the negative trend was confirmed in other leading car maker countries: Spain (-25.9%), United Kingdom (-21.8%), Italy (-22.1%), France (-10.6%). The only country to record an increase in terms of diesel car registrations was Germany with a 3.7% rise. The reduction in diesel registrations in 2019 was partially countered by a 5.2% increase in registrations of petrol vehicles (around 400 thousand more cars registered than in 2018).There were increases in almost all European Union member countries: in Italy, there was a 25.7% increase with almost 200 thousand more new registrations than in 2018. As regards vehicles with alternative fuel sources (hybrid, electric), there was a further rise in registrations in 2019 with an increase of 42.9% (almost 500 thousand more cars registered than in 2018):there was significant growth in al European Union member countries. Considering the various different engine types, across Europe, new registrations increased by 1.2% compared to 1.2% (with around 200 thousand more cars registered).

Expectations for 2020

The forecast for 2020 takes account of the effects of Covid-19 with global production volumes in decline compared to 2019: setting aside the health emergency, the differences between the growth forecasts of emerging countries and developed countries are expected to narrow. It is difficult to arrive at accurate production estimates for 2020 and the situation will have to be monitored constantly.

Forecasts for 2020 and subsequent years are based on certain assumptions:

- **Valid application of new configuration processes in compliance with emissions regulations**
- **Potential reductions because of the effects of Covid-19**
- **Understanding of the real needs of the automotive industry in light of the current situation**
- **Changes in manufacturing processes and purchasing behaviour post-Covid 19**

In Italy, the emergency caused by the SARS-COV-2 epidemic was dealt with and managed by means of a series of Prime Minister's Decrees ("*Decreti del Presidente del Consiglio dei ministri*" or "DPCM"). The DPCMs issued between 22 March 2020 and now have regulated measures for private individuals and businesses designed to combat the spread of the virus. Moreover, Decree Law no 18 of 17 March 2020 ("Curing Italy" decree), Decree Law no 23 of 8 April 2020 ("Liquidity Decree") and Decree Law no 34 of 19 May 2020 (the "Relaunch Decree") have introduced a range of diverse measures (financial, fiscal, employment law, medical/health etc) in order to regulate, inter alia, various aspects regarding business operations during the Covid-19 pandemic.

The situation triggered by the pandemic and the resulting restrictions on the operations of the industry as a whole have required the parent company to move swiftly to adopt the measures needed to reduce the risks that could have affected the business's ability to continue to operate.

The Saleri Group began to deal with the risk of the SARS-COV-2 epidemic at the end of January following signs of alarm in China. In that country, in compliance with the orders of the local government, the Saleri subsidiary suspended its activities and postponed employees' return to work after the Chinese New Year Holidays. Production activities recommenced fully at the end of February 2020. Thanks also to the information provided by the foreign subsidiaries, with specific reference to the health risk for its employees, parent company Industrie Saleri Italo S.p.A. immediately reduced – and later suspended – business travel in order to reduce the risk of contagion. Since then and more incisively from 22 February, the Company has continued to monitor and manage the risk thanks to a team comprising senior personnel from the organisation (MD, CHCO), the Health and Safety Manager and the Medical Officer, with the involvement of trade union representatives. Where applicable, it also immediately introduced smart working.

The DPCM of 22 March 2020 ordered the suspension of most non-essential business activities with resulting effects on the productivity, profitability, finances, employment and markets of businesses in Italy and internationally. For Industrie Saleri Italo S.p.A., which operates as a Tier 1 supplier of leading car makers, the suspension affected the OE segment. In fact, the Company's continued its activities solely as permitted by the aforementioned DPCM in order to guarantee the supply of products and services to those businesses considered of strategic importance to the national economy i.e. those indicated by

ATECO codes 45.2 (repair and maintenance of motor vehicles) and 45.3 (Sale of parts or accessories for motor vehicles. In the period between 22 February and the date of the above DPCM, as the emergency situation worsened and in compliance with the business lockdown imposed by the Italian government, activities were first reduced and then suspended with the Cassa Integrazione Guadagni furlough scheme accessed for employees.
During the period when activities were suspended, the Company maintained close contact with its leading customers and suppliers in order to reschedule production and deliveries. Based on the information and timings available, it prepared and constantly updated a timetable for the restoration of production activities, scheduling the start of sanitisation of production facilities and putting in place all of the safety measures required by applicable law, the instructions of the Risk Committee comprising the company and union representatives and the guidelines of its Business Association.

Moreover, particular working capital dynamics led to a liquidity crisis as a result of the fall in revenues. This was dealt with using a range of instruments in April and May:
- carrying out a capital increase supported by Italian Growth Fund; requesting a 12 month moratorium on principal payments on loans and finance leases; this has not yet been finalised;
- applying for medium/long-term finance under the mechanism set out in the "Liquidity" Decree; this has not yet been finalised;
- negotiation and transformation of payables due to selected strategic suppliers into a senior Bond issued by the Company in July 2020.

Since May 2020, production activities have been gradually returning to their pre-Covid levels. The continuing application of the preventive and protective measures designed to safeguard the health of workers ensures that the highest production and commercial standards continue to be maintained. The automotive industry is, undoubtedly, among those hit worst by the economic and health emergency in 2020 but the return to productivity and possible government incentives for the sector should trigger a recover in the second half of the year.

Given all of the above and considering all of the measures taken to deal with the state of emergency caused by the pandemic, we believe there is no significant uncertainty over the Company and the Group's ability to operate as a going concern. Therefore, this Directors' Report and the Financial Statements have been prepared on a going concern basis.

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. At this time, production forecasts beyond 2021 depend greatly on the capacity of the global economy to react to the current situation so they have been revised slightly downwards for now compared to Pre-Covid estimates. A significant step towards reducing emissions has been made with the introduction of RDE (Real Driving Emissions) certification in September 2019. This made it impossible to register Euro 6 vehicles and introduced Euro 6d-Temp vehicles with the binding obligation for car makers to approve cars based on tests conducted in real conditions and not merely in the laboratory.
Figures published by the European Environment Agency (EEA) show average new car CO_2 emissions of 120.4 grams per kilometre in 2019, a 2g increase compared to 2018, confirming the rising trend already seen last year and the ineffectiveness of the regulations introduced by the European Union to promote green transport.

The second consecutive year of rising emissions since measurement began confirms the reduction in diesel applications in favour of petrol and cars with alternative propulsion systems: unfortunately, all of the figures show an increase in CO_2 emissions for a second year running in 2019. 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 components of initial cost and utilisation costs with ICE versions. Currently, there are around 185,000 public charging points for electric vehicles in the EU, an increase of 35,000 compared to 2017. Increased sales of electric and plug-in hybrid cars mean it is estimated that at least 3 million charging points will be required by 2030. This means an increase of almost 15-times the present level is needed in the next 10 years.

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 key issues include decisions on the production footprint positioning and sizing, in order to gain a competitive edge through differentiation 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 OEM. It is still too early to predict the timing and volume of vehicle and autoparts 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 market. 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.

Diesel

Historically, diesel engine production in Europe has recorded volumes well above the global average. In Europe, in 2019, diesel engines represented 35% of the total against 7% in North America. The reasons lie in socio-economic factors such as the incidence of the price of fuel, urban density and driving style and habits. This remains a crucial period for the future of diesel engines with a range of factors that could impact, in 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 will 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 10% 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 autoparts 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 parts 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 slightly below 10%.
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
- Greater number of cars on the roads in Europe
- Presence of older vehicles will sustain demand for spare parts
- Changing purchasing behaviour by end customers (mechanics) who will make increasing use of on-line channels
- Big data and Analytics will enable predictive analysis of maintenance services, generating new value added 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 diverse 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. Markets 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, adjustable 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 Original Equipment (OE) segment:

the Saleri Group'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.

Adjustable mechanical water pumps

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

Electric pumps

Fully adjustable 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 adjustable, 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:

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

The Group 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:

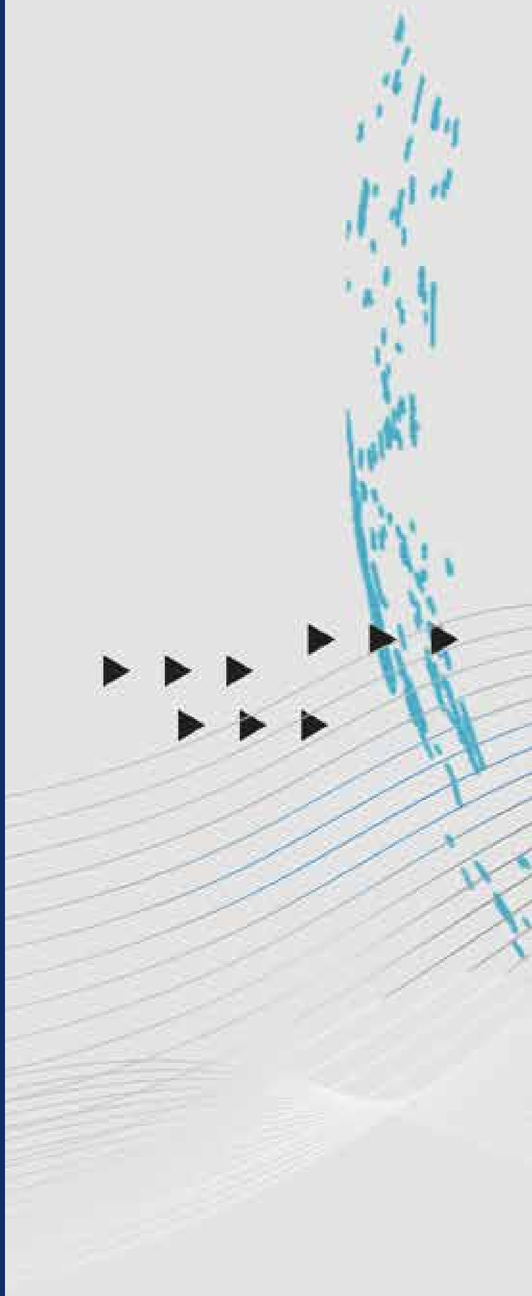
Table 3.3 – Breakdown of Sales

CONSOLIDATED	2017	2018		2019		2017	2018	2019
	€ Million	€ Million	Δ YoY	€ Million	Δ YoY			
Breakdown by Company								
Industrie Saleri Italo S.p.A.	159.2	154.3	-3%	149.0	-3%	96%	96%	91%
Saleri Shanghai Co., Ltd	13.3	14.9	+13%	11.1	-26%	8%	9%	7%
Immobiliare Industriale S.r.l.	0.9	0.9	-1%	0.9	+1%	1%	1%	1%
ABL Automazione S.r.l.	-	-	-	9.7	-	0%	0%	6%
Intercompany Revenue	(7.4)	(8.7)	+18%	(7.0)	-19%	-4%	-5%	-4%
Revenue	**166.0**	**161.4**	**-3%**	**163.6**	**+1%**	**100%**	**100%**	**100%**
Water Pumps Revenue	**163.5**	**156.2**	**-**	**149.8**	**-**	**-**	**-**	**-**
Breakdown by Business Unit								
OE/OES	126.9	118.4	-7%	113.2	-4%	78%	76%	76%
IAM	25.7	22.8	-11%	20.2	-11%	16%	15%	13%
Prototypes	4.0	5.5	+38%	3.3	-40%	2%	4%	2%
Tooling	6.8	9.5	+39%	13.0	+38%	4%	6%	9%
Water Pumps Revenue	**163.5**	**156.2**	**-4%**	**149.8**	**-4%**	**100%**	**100%**	**100%**
OE/OES	4.1	3.9	-5%	3.3	-16%	70%	71%	68%
IAM	1.8	1.6	-11%	1.5	-4%	30%	29%	32%
Prototypes	0.0	0.0	+36%	0.0	+5%	0%	0%	0%
Tooling	0.0	0.0	-	0.0	-13%	0%	0%	0%
Units Sold	**5.9**	**5.5**	**-7%**	**4.8**	**-13%**	**100%**	**100%**	**100%**
Average Price OE/OES	30.7	30.4	-1%	34.5	+14%	-	-	-
Average Price IAM	14.4	14.4	-0%	13.3	-7%	-	-	-
Breakdown by Fuel Type Engines of Application								
Diesel	2.8	2.6	-7%	1.9	-29%	48%	48%	39%
Petrol/Gasoline	2.9	2.7	-10%	2.8	+6%	50%	48%	59%
Hybrid / Other	0.1	0.2	+41%	0.1	-45%	2%	3%	2%
Units Sold	**5.9**	**5.5**	**-7%**	**4.8**	**-12%**	**100%**	**100%**	**100%**
Breakdown of Market of Destination								
EU (Excluding Italy)	141.1	132.3	-6%	130.1	-2%	86%	85%	87%
Italy	12.0	12.5	+5%	11.2	-11%	7%	8%	7%
China	6.0	7.3	+22%	4.2	-42%	4%	5%	3%
Rest of the World	4.4	4.1	-7%	4.3	+4%	3%	3%	3%
Water Pumps Revenue	**163.5**	**156.2**	**-4%**	**149.8**	**-4%**	**100%**	**100%**	**100%**

The breakdown of sales shows that the Saleri Group's sales are significantly and increasingly concentrated on other EU and non-EU markets while the Italian market accounts for just 7% of sales. The proportion of exports and sales revenues generated abroad, mainly on markets where the various client car manufacturers have their production facilities, has remained broadly in line with prior year (93%) and will continue to remain very high, also considering the long-term production contracts already acquired.
In 2019, sone 4.8 million units were sold, down by 13% compared to prior year. However, the fall in water pumps revenues (-4%) was contained thanks to a general increase in selling prices (+ 10%). Average selling prices followed opposite trends in the OE segment (+14%) where a change in product mix towards applications with a greater hi-tech content meant higher prices and in the Independent Aftermarket segment (-7%) where there was greater competitive pressure on prices.
The proportion of water pumps destined for Diesel engines has fallen from 48% of the total in 2018 to 39% in 2019, as a result of restrictive emissions regulations. The decrease in the diesel segment has been countered by an increase in applications for petrol engines which have risen from 48% in 2018 to 59% in 2019. Hybrid applications have decreased slightly from 3% of the total in 2018 to 2% in 2019: customer requests mainly regard projects at the prototype stage. Significant growth in the hybrid segment is expected in the coming years as mass production gets underway.

CHANGE

We never feared change, we have always seen it as an opportunity to evolve and progress. Even when change has been determined by negative events, our strength has been to exploit them in order to grow as a Group.
Thanks to this inclination, we were able to develop a precise, constant and modular production, so we could continue assuring punctual deliveries.




CHANGE

Chapter

4

Business Model and Strategic Approach

4.1. Competitive envoronment 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. Meanwhile, 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 autoparts 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 model of 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 design. 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:

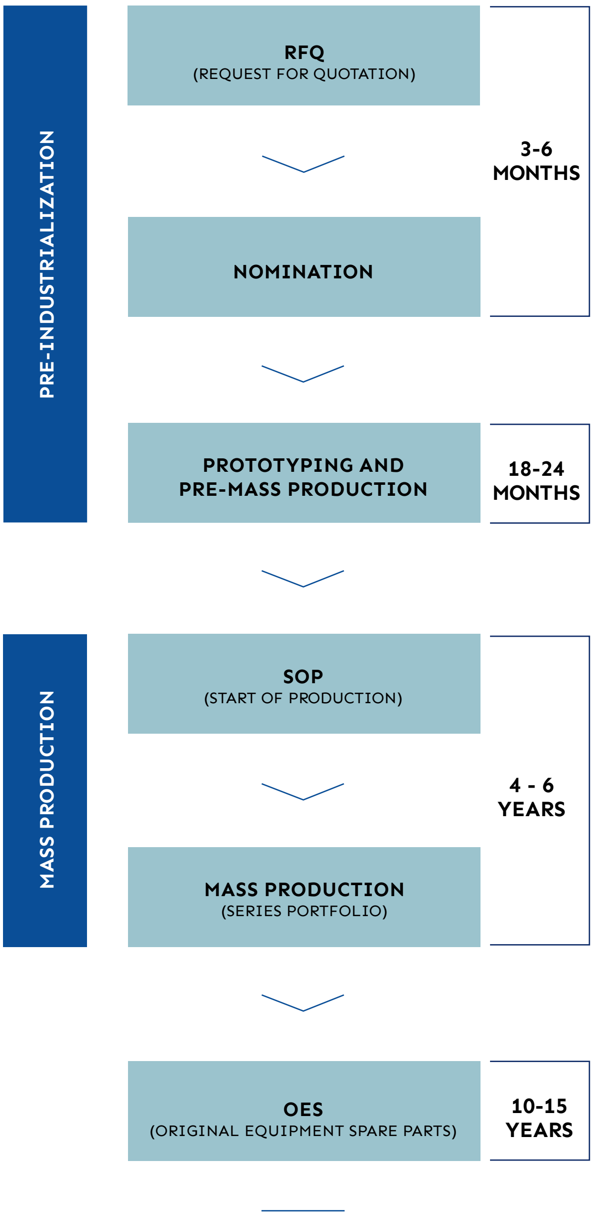
- combining economic decisions and results with ethical values;
- consolidating its technological leadership in terms of the conception, design and production of Thermal Management solutions through constant attention to getting the best from internal skills and capabilities;
- establishing a collaborative 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 pre-mass production phase

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 revenue forecast of the Saleri Group. The figures are taken from the Business Plan 2020 - 2024 and show a forecast rising to € 247 million thanks to the consolidation and development of the current order backlog which contributes more than 90% of revenues over the Plan period. Total revenues from contracts at the mass production stage or for which the Group has already received a formal Nomination currently stand at € 1.5 billion and cover a time period of 10 years, until 2030.

Table 4.3b – Visibility of OE and IAM revenue of the Saleri Group

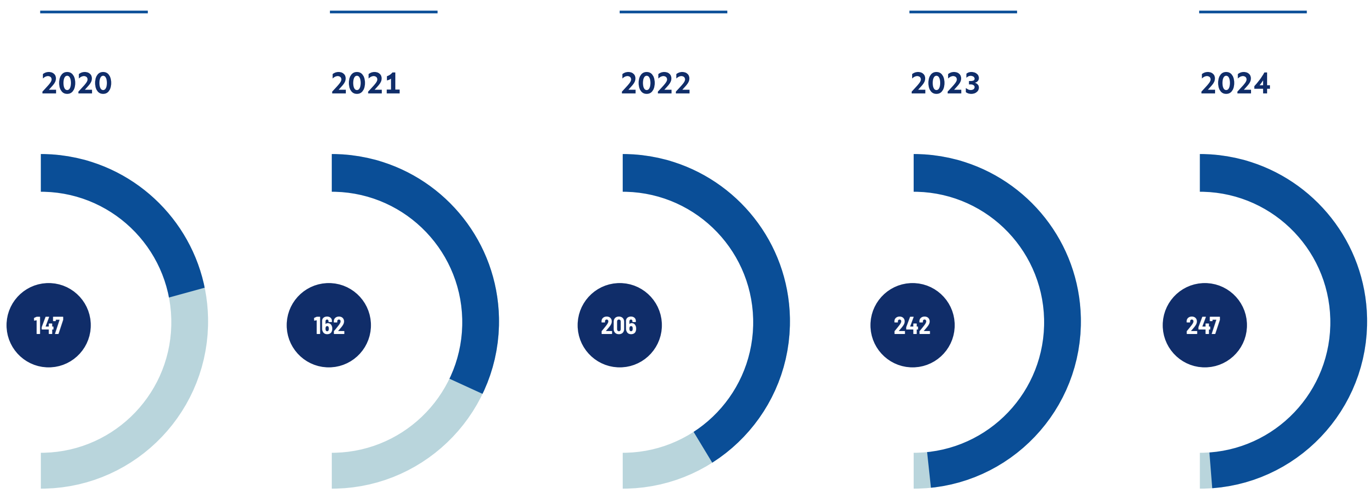
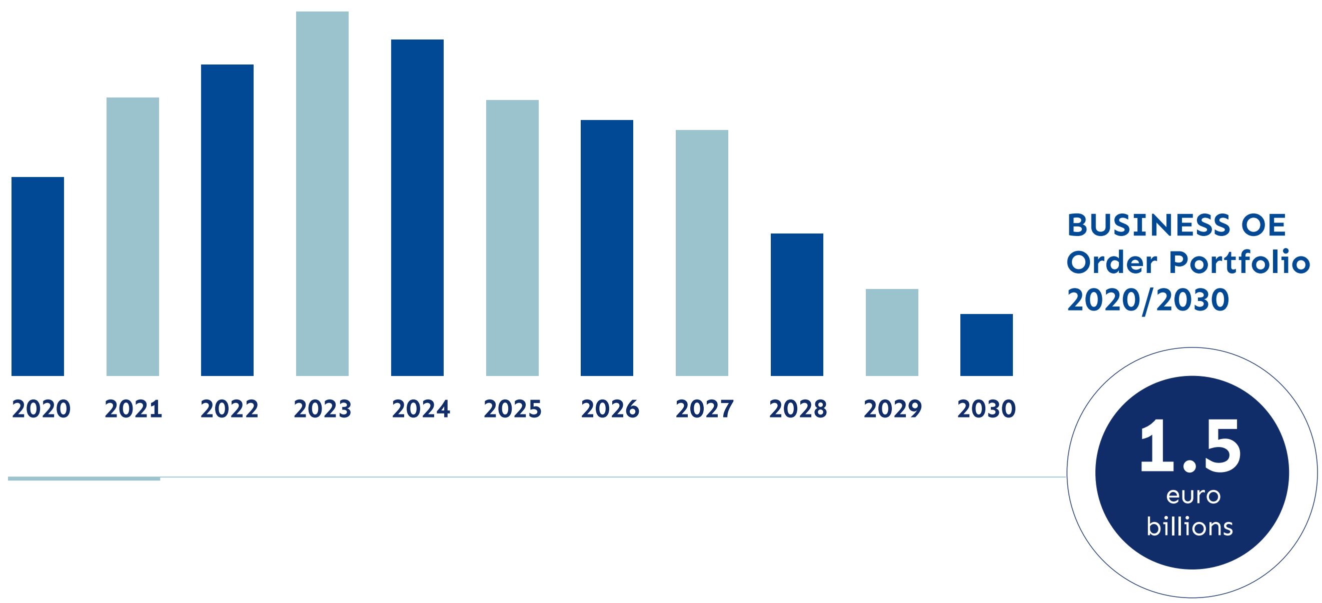


Table 4.3c – Group Order Backlog – Amounts in Euro Millions



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 new lean management techniques in support of the production phase;

Mapping of business processes with the aim of optimising activities in the various business departments and creating correspondence with the business flow of the new SAP ERP whose Go-Live has been postponed to January 2021;

Introduction of the Strategic Management Committee to provide support to the CEO;

Establishment of a new Project Management department with the objective of optimising intra-business activities and improving the operation and efficiency of the various departments in executing plans for growth and development.

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

- Investment in Industrial Automation through interaction with subsidiary ABL with the objective of increasing integration between the product development and process development phases, increasing production efficiency, consolidating quality standards and pursuing constant 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 car makers' 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), including (i) implementation of internal audit function and (ii) migration from ITA GAAP to IAS/IFRS for financial reporting purposes.

4.5. Opening Saleri Mexico S.A. de C.V.

The year 2019 was significant in terms of the Saleri Group's plans for international expansion. In fact, it commenced the opening of a subsidiary in Mexico with a view to serving the local market and the rest of North America. In this way, the Group will take on a global vision, covering in manufacturing terms all of the key geographical areas for the Automotive industry.

The Mexican market is growing rapidly, driven by competitive production costs in relation to both direct labour and lower logistics costs. Following the signature of the USMCA treaty at the end of 2019 – it is scheduled to come into force in place of the NAFTA treaty in the last four months of 2020 – Mexico has become a strategic location to service the North American market: leading car makers have, for some years, been intensifying their production activities and, in the near future, they will ask their strategic suppliers to follow them in order to optimise production processes.

General Motors, Nissan, Chrysler and Volkswagen were the main car-makers in Mexico in 2019 and accounted for 70% of total production. Kia, Ford, Honda, Toyota, Mazda and BMW made up the rest of production.

After the Mexican plant was received official nomination by Volkswagen as a pilot project in February 2019, work commenced on setting up the assembly lines (ordered from ABL Automazione S.r.l.) and on looking for a plant suited to the needs of the new subsidiary. The Group also drew on its many years of experience operating the production facility in Shanghai.

Saleri Mexico S.A de C.V. will be situated in an industrial park near Monterrey Airport (OMA VYNMSA Aero Industrial Park): the site is situated 230 km from the US border. Activities since the nomination have involved production tests in the first few months of 2020 while mass production is expected to commence in January 2021. Sales and marketing activities have already led to the acquisition of new products that will enable the newly incorporated company to gain an increasing share of the market in the years ahead.

Saleri has used the services of the PRODENSA Group to manage the start-up phase. This is a professional firm with great expertise in the automotive industry, specialising in services in support to foreign companies that want to launch a business in Mexico. The services provided will ensure that the move into Mexico is as smooth as possible and at the best conditions. From September 2020, production activities will undergo a training phase with regard to the setting up of the production lines and the training of direct and indirect personnel.

The Mexican subsidiary has ambitious objectives that form part of the Group's global strategy of increased internationalisation of the Saleri brand and products, reducing its reliance on the European market. In the coming years, the activities of Saleri Mexico will focus on expanding on the North American market, an ideal opportunity to promote the know-how contained in Saleri products.

4.6. Acquisition of ABL Automazione S.r.l.

ABL Automazione S.r.l. was acquired by the Saleri Group with effect from 31 July 2019. The investment was part of a strategy to integrate a high value added process that would have been hard to realise in-house: in this way, the Saleri Group acquired know-how to a process forming part of one of the critical phases of the business's production model.
The deal was carried out by incorporating a vehicle company, Hold. Co 1 S.r.l., owned 70% by Saleri and 30% by the Sellers. In 2020, Hold. Co and ABL will approve a reverse merger of Hold.Co into ABL, in compliance with Article 2501 bis of the Italian Civil Code.

ABL Automazione S.r.l. is one of Industrie Saleri Italo S.p.A.'s strategic suppliers. In recent years, it has realised a number of production lines, increasing the automation of company activities. The Italian parent company is also ABL's leading customer, accounting for between 40% and 60% of its sales revenue in recent years. ABL's business consists of the production of automated assembly lines for manufacturing segments such as automotive (75% of revenue), Oil&Gas (assembly of hydraulic components) and earth moving equipment.
ABL's core business is the design and production of industrial automation plant and equipment: the main standards required are the efficiency, flexibility and quality of the production systems. The company has always developed the market by drawing on its experience in the field of industrial automation with the aim of proposing itself as a uniquely qualified supplier of automated assembly lines and equipment.

Through its integration into the Saleri Group, ABL Automazione will become an ever closer partner in the design and realisation of assembly lines as part of the international expansion that will characterise the growth of the business in the coming years. The main areas of improvement for the business regard the standardisation of production processes and the reorganisation of production activities into business units with specific duties that will help increase profitability, also through the joint exploitation of the Saleri brand.

Chapter

5

Human Resources

Workforce

A detailed analysis of the Saleri Group workforce is provided below (reporting date figures):

Human Capital

	2017	2018	2019
No of employees (TOT.)	515	507	573
Difference (N°)	60	(8)	66
Average age of employees (YEARS)	37.3	37.5	37

Split by gender

MALE	2017	2018	2019
Number	301	288	343
% of Total	58.4%	56.8%	59.9%

FEMALE	2017	2018	2019
Number	214	219	230
% of Total	41.6%	43.2%	40.1%

Breakdown by contract type

PERMANENT	2017	2018	2019
Number	447	446	545
% of Total	86.8%	88.0%	95.1%

FIXED TERM	2017	2018	2019
Number	68	61	28
% of Total	13.2%	12.0%	4.9%

Breakdown by working hours

FULL TIME	2017	2018	2019
Number	479	472	542
% of Total	93.0%	93.1%	94.6%

PART TIME	2017	2018	2019
Number	36	35	31
% of Total	7.0%	6.9%	5.4%

Breakdown by education level

DEGREE AND HIGH SCHOOL DIPLOMA	2017	2018	2019
Number	279	290	340
% of Total	54.2%	57.2%	59.3%

MIDDLE SCHOOL CERTIFICATE OR LOWER	2017	2018	2019
Number	236	217	233
% of Total	45.8%	42.8%	40.7%

Hours of training

	2017	2018	2019
Hours of training provided	TOT. 5.835	TOT. 6.317	TOT. 7.374
Hours of training per employee (Hours of training/ Ave no of employees)	11.3	12.5	12.9

	2017	2018	2019
Hours of strike action for internal	N° 0	N° 0	N° 0
Sickness rate (Sick hours/ Total workable hours)	2.55%	2.48%	2.74%

At the end of 2019, the Saleri Group had 573 employees (head count at 31/12/2019) with an average for the year of 564 employees (of which 452 employed by parent company Industrie Saleri Italo S.p.A.). The reporting date figure represented an increase of 66 employees (including 42 thanks to the acquisition of ABL Automazione) compared to the headcount of 507 employees at the end of 2018, a sign of the growth undertaken by the Group.
In terms of the types of contract used, 545 employees are hired under permanent contracts (95.1%) while 28 have fixed-term contracts (4.9%). Part-time employees represent 5.4% of the total (31 employees). These figures reflect the Group's commitment to establishing lasting employment relationships and creating relations of value for the Group as a whole.
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 59.3% of employees have an upper secondary school diploma or a degree; this percentage has increased constantly over the last three years, a sign that new employees are contributing towards the expansion of the Group from a managerial perspective. The professional growth and development of Saleri Group employees is sustained by a continuous training program. In 2019, some 7,300 hours of training were provided to Group employees (around 6,300 hours in 2018).
The low average age of the Group employees (37.0 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 40.1% of the total workforce. The Group pays great attention to the family-related needs of its workers, while also taking account of organisational and production requirements.
No cases of professional illness arose in 2019 while there were three cases of workplace injury. The total number of workplace injuries does not include injuries suffered while travelling to and from work which would have been recorded but did not occur during the year. The workplace injuries recorded were relatively minor: in the first two cases, the employees involved were absent for not more than 30 days while the third individual was absent from work for a period of 59 days because of a serious of issues, although no serious or permanent injuries had been suffered. Some of this absence (28 days) occurred in 2019 while the remainder related to 2020.

Chapter

6

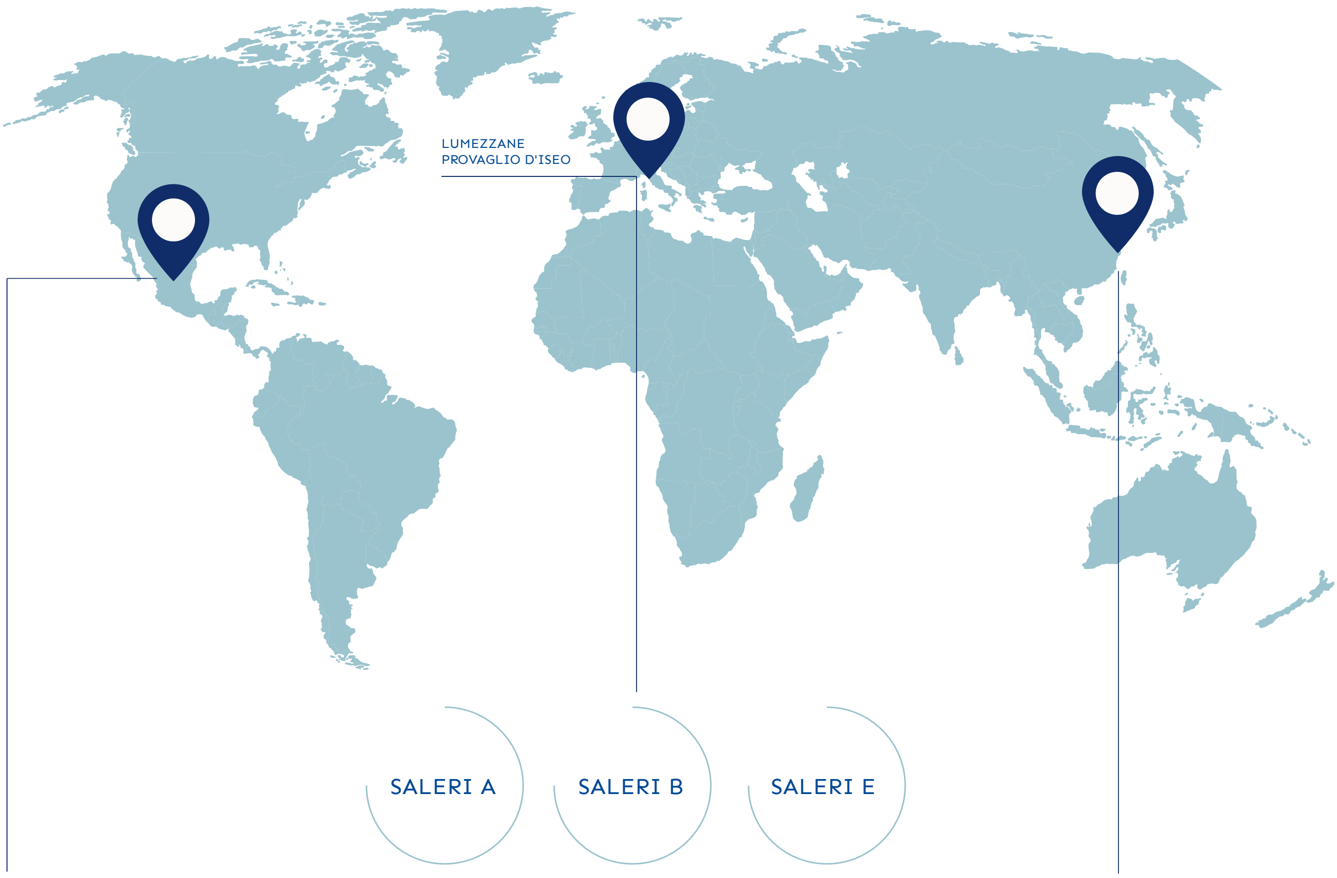
Production facilities

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 the second half of 2018, in place of the factory that was damaged by fire.

A further, 6,000 sqm production facility in Shanghai is operated by subsidiary Saleri Shanghai Co., Ltd while the production facility of Saleri Mexico S.A. de C.V. is scheduled to open in 2020, covers 3,000 sqm and could be extended by 2,000 sqm in future.

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



SALERI MEXICO S.A. DE C.V.
Mass production (Assembly) is expected to commence in January 2021. Production activities will commence with a training period in September 2020

LUMEZZANE
Production and Assembly (production capacity of around 3 million water pumps), warehouse, offices

LUMEZZANE
Warehouse, Testing Area

PROVAGLIO D'ISEO
Assembly (production capacity of around 1 million water pumps), warehouse, offices

SALERI SHANGHAI CO. LTD (CHINA)
Assembly (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 autoparts 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 manufacturing district of Lumezzane and the Brescia area

The origins and development 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 800km^2 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 capability has given Lumezzane a strong presence on international markets (on average exports account for 70% of its revenues).

Chapter

7

Consolidated Results

7.1. Overview of the consolidated results of the Saleri Group

With effect from 31 July 2019, the scope of consolidation has also included ABL Automazione S.r.l., a controlling interest in which has been acquired through vehicle company Hold.co 1 S.r.l.. Therefore, the income statement results of said company have been consolidated for the period of control only (i.e. from 1 August 2019 to 31 December 2019).
The income statement and balance sheet highlights of the companies included in the Group Scope of Consolidation are set out below.
Consolidated Result for the year amounts to € 2,774 thousand.
Consolidated Shareholders' Equity amounts to € 44,235 thousand, of which € 4,794 thousand pertains to Minority Interests. The Group's consolidated equity amounts € 39,441 thousand.
Saleri Shanghai and Hold.Co 1 S.r.l. are the only companies included in the scope of consolidation to report a loss; all of the other companies report 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 7.1a – Consolidated Results for 2019

CONSOLIDATO	FY 2017	FY 2018	Ind. Saleri Italo S.p.A.	Saleri Shanghai	Immobiliare Industriale	ABL	Hold.Co	Consol. Adj.	FY 2019	Δ 2019-2018	
	€ Million	€ Million	€ Million	€ Million	€ Million	€ Million	€ Million	€ Million	€ Million	€ Million	
Income Statement											
Revenue from WP Sales	**163.5**	**156.2**	**144.8**	**11.1**	**-**	**-**	**-**	**(6.1)**	**149.8**	**-6.4**	1
Revenue from Sales	**166.0**	**161.4**	**149.0**	**11.1**	**0.9**	**9.7**	**-**	**(7.0)**	**163.6**	**+2.1**	2
Contribution Margin	**34.8**	**38.3**	**32.2**	**2.9**	**0.9**	**3.4**	**-**	**(0.8)**	**38.6**	**+0.3**	3
Contribution Margin %	20.9%	23.7%	21.6%	26.0%	100.0%	35.2%	-	11.3%	23.6%	-0.1%	
EBITDA	**19.2**	**21.3**	**14.1**	**1.6**	**0.7**	**2.5**	**(0.1)**	**(0.8)**	**18.1**	**-3.2**	4
EBITDA %	11.6%	13.2%	9.4%	14.8%	82.8%	25.8%	-	11.3%	11.0%	-2.1%	
EBIT	**6.9**	**8.2**	**2.3**	**0.1**	**0.4**	**2.4**	**(0.1)**	**(0.9)**	**4.3**	**-3.9**	
EBIT %	4.1%	5.1%	1.6%	1.3%	45.3%	25.2%	-	13.0%	2.6%	-2.4%	
Profit (Loss) before taxation	**4.4**	**4.3**	**0.4**	**(0.0)**	**0.4**	**2.4**	**(0.1)**	**(0.9)**	**2.2**	**-2.1**	
Profit (Loss) before taxation %	2.6%	2.7%	0.3%	-0.4%	47.0%	25.3%	-	13.0%	1.4%	-1.3%	
Consolidated Profit (Loss) for the year	**3.1**	**3.7**	**0.8**	**(0.0)**	**0.3**	**2.5**	**(0.1)**	**(0.7)**	**2.8**	**-0.9**	
Consolidated Profit (Loss) for the year %	1.9%	2.3%	0.6%	-0.4%	33.4%	25.5%	-	9.8%	1.7%	-0.6%	
of which Minority Interests Result	**0.2**	**0.3**	**-**	**(0.0)**	**0.1**	**0.7**	**(0.0)**	**(0.2)**	**0.6**	**+0.3**	
of which Group Result	**3.0**	**3.4**	**0.8**	**(0.0)**	**0.2**	**1.7**	**(0.1)**	**(0.5)**	**2.1**	**(1.3)**	
Balance Sheet											
Fixed Assets	79.2	80.9	77.0	3.3	10.6	0.1	2.5	(8.9)	84.7	+3.8	
Trade Working Capital	6.9	8.0	(0.6)	0.9	(0.0)	3.3	(0.0)	(0.1)	3.5	-4.5	
Net Invested Capital	**82.7**	**85.2**	**71.3**	**6.1**	**10.5**	**1.8**	**2.5**	**(8.7)**	**83.6**	**-1.6**	5
Net Financial Position	68.0	43.6	36.6	1.0	(0.0)	(0.0)	1.8	-	39.3	-4.2	6
Consolidated Equity	**14.8**	**41.6**	**34.7**	**5.1**	**10.6**	**1.8**	**0.7**	**(8.7)**	**44.2**	**+2.6**	7
of which Minority Interests Equity	**3.8**	**4.1**	**-**	**0.3**	**4.0**	**0.4**	**0.2**	**-**	**4.8**	**+0.7**	
of which Group Equity	**11.0**	**37.5**	**34.7**	**4.8**	**6.6**	**1.5**	**0.5**	**(8.7)**	**39.4**	**+1.9**	

CONSOLIDATED	FY 2017	FY 2018	Ind. Saleri Italo S.p.a.	Saleri Shanghai	Immobiliare Industriale	ABL	Hold.Co	Consol. Adj.	FY 2019	Δ 2019-2018	
	€ Million	€ Million	€ Million	€ Million	€ Million	€ Million	€ Million	€ Million	€ Million	€ Million	
Personnel and capex											
Average number of employees	465 u	517 u	480 u	76 u	0 u	42 u	0 u	0 u	598 u	80 u	8
Revenues per employee (Euro thousands)	35.7	31.2	31.0	14.7	-	22.9	-	-	27.4	-3.8	
Net capex	6.6	13.6	12.9	1.1	0.0	0.1	-	2.1	16.3	+2.7	9
Net capex / Revenues	4.0%	8.5%	8.7%	10.3%	-	1.5%	0.0%	-29.9%	10.0%	1.5%	
Net Financial Position / EBITDA	3.5x	2.0x	2.6x	0.6x	-	-0.0X	-24.5x	0.0x	2.2x	0.1x	
Net Financial Position / Equity	4.6x	1.0x	1.1x	0.2x	-	-0.0X	2.4x	0.0x	0.9x	-0.2x	
ROI (EBIT / Net Invested Capital)	8.3%	9.6%	3.3%	2.3%	-	137.8%	-2.9%	10.5%	5.2%	-4.4%	
ROE (Consolidated Profit (Loss) for the year / Consolidated Equity)	21.2%	8.9%	2.4%	-0.8%	-	135.8%	-11.3%	7.9%	6.3%	-2.6%	
Cash flows											
Cash Flows generated by Operating Activities	22.4	7.1	18.1	2.3	0.7	(0.6)	(0.0)	(0.9)	19.6	+12.5	
Cash Flows absorbed by Investing Activities	(6.6)	(13.6)	(12.9)	(1.1)	(0.0)	(0.1)	-	(2.1)	(16.3)	-2.7	
Cash Flows from Financing Activities	(14.5)	(0.5)	(12.2)	(1.2)	(0.7)	0.7	1.8	-	(11.6)	-11.2	
▸ **Cash flows from change in Equity**	**-**	**23.0**	**(0.3)**	**-**	**-**	**-**	**0.6**	**-**	**(0.3)**	**-23.3**	10
Cash Flow Other Financial Asset/Liabilities	4.4	(2.6)	(1.8)	(0.1)	(0.3)	1.0	(2.3)	3.0	(0.5)	+2.1	
Change in Other Cash Equivalents	-	(14.3)	13.4	-	-	(0.6)	-	-	13.4	+27.8	
▸ **Net Cash Flows**	**5.6**	**(1.0)**	**4.3**	**(0.2)**	**(0.2)**	**0.4**	**0.0**	**(0.0)**	**4.3**	**+5.3**	11
Reclassification Cash Flow to Cash Equivalents	(2.2)	(3.3)	0.6	-	-	-	-	-	0.6	+4.0	12
▸ **Reclassified Cash Flow**	**3.5**	**(4.3)**	**4.9**	**(0.2)**	**(0.2)**	**0.4**	**0.0**	**(0.0)**	**4.9**	**+9.3**	

Table 7.1b – Consolidated Results for 2018

CONSOLIDATED	FY 2016	FY 2017	Ind. Saleri Italo S.p.a.	Saleri Shanghai	Immobiliare Industriale	ABL	Hold. CO1	Consol. Adj.	FY 2018	Δ 2018-2017
	€ Million	€ Million	€ Million	€ Million	€ Million	€ Million	€ Million	€ Million	€ Million	€ Million
Income Statement										
Revenue from WP Sales	**158.4**	**163.5**	**150.3**	**14.6**	**-**	**-**	**-**	**(8.7)**	**156.2**	**-7.3**
Revenue from Sales	**161.9**	**166.0**	**154.3**	**14.9**	**0.9**	**-**	**-**	**(8.7)**	**161.4**	**-4.5**
Contribution Margin	**30.1**	**34.8**	**32.5**	**4.9**	**0.9**	**-**	**-**	**0.0**	**38.3**	**+3.5**
Contribution Margin %	18.6%	20.9%	21.1%	-32.7%	100.0%	-	-	-0.0%	23.7%	+2.8%
EBITDA	**11.9**	**19.2**	**17.1**	**3.4**	**0.8**	**-**	**-**	**0.0**	**21.3**	**+2.0**
EBITDA %	7.3%	11.6%	11.1%	22.5%	89.1%	-	-	-0.0%	13.2%	+1.6%
EBIT	**0.0**	**6.9**	**5.6**	**2.1**	**0.5**	**-**	**-**	**0.0**	**8.2**	**+1.3**
EBIT %	0.0%	4.1%	3.6%	14.3%	51.4%	-	-	-0.0%	5.1%	+0.9%
Profit (Loss) before taxation	(5.8)	4.4	2.2	1.2	0.9	-	-	0.0	4.3	-0.0
Profit (Loss) before taxation %	-3.6%	2.6%	1.4%	8.2%	98.7%	-	-	-0.0%	2.7%	+0.1%
Consolidated Profit (Loss) for the year	**(4.7)**	**3.1**	**2.1**	**0.9**	**0.7**	**-**	**-**	**0.0**	**3.7**	**+0.6**
Consolidated Profit (Loss) for the year %	-2.9%	1.9%	1.4%	5.8%	76.9%	-	-	-0.0%	2.3%	+0.4%
of which Minority Interests Result	**0.2**	**0.2**	**-**	**0.0**	**0.3**	**-**	**-**	**-**	**0.3**	**+0.1**
of which Group Result	**(4.9)**	**3.0**	**2.1**	**0.8**	**0.4**	**-**	**-**	**0.0**	**3.4**	**+0.4**
Balance Sheet										
Fixed Assets	84.4	79.2	74.0	3.6	11.0	-	-	(7.8)	80.9	+1.7
Trade Working Capital	9.2	6.9	6.6	1.5	(0.0)	-	-	(0.2)	8.0	+1.1
Net Invested Capital	**96.0**	**82.7**	**75.4**	**7.0**	**10.7**	**-**	**-**	**(7.9)**	**85.2**	**+2.5**
Net Financial Position	84.0	68.0	41.2	1.9	0.5	-	-	-	43.6	-24.4
Consolidated Equity	**12.0**	**14.8**	**34.2**	**5.1**	**10.3**	**-**	**-**	**(7.9)**	**41.6**	**+26.9**
of which Minority Interests Equity	**3.6**	**3.8**	**-**	**0.3**	**3.8**	**-**	**-**	**-**	**4.1**	**+0.3**
of which Group Equity	**8.3**	**11.0**	**34.2**	**4.8**	**6.4**	**-**	**-**	**(7.9)**	**37.5**	**+26.6**
Personnel and capex										
Average number of employees	460 u	465 u	436 u	81 u	0 u	0 u	0 u	0 u	517 u	52 u
Revenues per employee (Euro thousands)	35.2	35.7	35.4	18.4	-	-	-	-	31.2	-4.5
Net capex	-	6.6	12.6	0.9	(0.0)	-	-	0.1	13.6	+7.1
Net capex / Revenues	0.0%	4.0%	8.2%	6.1%	-	-	-	-1.1%	8.5%	4.5%
Net Financial Position / EBITDA	7.1x	3.5x	2.4x	0.6x	-	-	-	0.0x	2.0x	-1.5x
Net Financial Position / Equity	7.0x	4.6x	1.2x	0.4x	-	-	-	0.0x	1.0x	-3.6x
ROI (EBIT / Net Invested Capital)	0.0%	8.3%	7.4%	30.6%	-	-	-	-0.0%	9.6%	1.3%
ROE (Consolidated Profit (Loss) for the year / Consolidated Equity)	-39.3%	21.2%	6.3%	17.1%	-	-	-	-0.0%	8.9%	-12.4%
Cash flows										
Cash Flows generated by Operating Activities	-	22.4	4.3	4.0	0.8	-	-	(1.9)	7.1	-15.3
Cash Flows absorbed by Investing Activities	-	(6.6)	(12.6)	(0.9)	0.0	-	-	(0.1)	(13.6)	-7.1
Cash Flows from Financing Activities	-	(14.5)	2.4	(1.4)	(1.5)	-	-	-	(0.5)	+14.0
Cash flows from change in Equity	**-**	**-**	**23.0**	**-**	**-**	**-**	**-**	**-**	**23.0**	**+23.0**
Cash Flow Other Financial Asset/Liabilities	-	4.4	(4.1)	(1.2)	0.7	-	-	2.0	(2.6)	-7.0
Change in Other Cash Equivalents	-	-	(14.3)	-	-	-	-	-	(14.3)	-14.3
Net Cash Flows	**-**	**5.6**	**(1.4)**	**0.4**	**(0.0)**	**-**	**-**	**0.0**	**(1.0)**	**-6.7**
Reclassification Cash Flow to Cash Equivalents	-	(2.2)	(2.9)	(0.4)	-	-	-	-	(3.3)	-1.2
Reclassified Cash Flow	**-**	**3.5**	**(4.3)**	**-**	**-**	**-**	**-**	**0.0**	**(4.3)**	**-7.8**

7.2. Consolidated income statement

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

Table 7.2. Reclassified Consolidated Income Statement

INCOME STATEMENT	FY 2017		FY 2018		FY 2019		Δ 2019-2018		ABL	Hold.Co	FY 2019 Iso perimetro		Δ 2019-2018	
	€ million	% of Revenue	€ million	% of Revenue	€ million	% of Revenue	€ million	% of Revenue			€ million	% of Revenue	€ million	% of Revenue
Revenue from ordinary operating activities	163.5	98.5%	156.2	96.8%	149.8	91.6%	-6.4	-4.1%	-	-	149.8	97.3%	-6.4	-4.1%
Other Revenue	2.5	1.5%	5.2	3.2%	13.8	8.4%	+8.6	+163.6%	9.7	-	4.1	2.7%	-1.1	-20.9%
Revenue from Sales	**166**	**100.0%**	**161.4**	**100.0%**	**163.6**	**100.0%**	**+2.1**	**+1.3%**	**9.7**	**-**	**153.9**	**100.0%**	**-7.5**	**-4.7%**
Direct Production Costs	(112.9)	(68.0%)	(101.6)	(63.0%)	(99.6%)	(60.9%)	+2.0	+2.0%	(5.1)	-	(94.5)	(61.4%)	+7.1	+1.5%
Other Variable Production Costs	(4.8)	(2.9%)	(6.6)	(4.1%)	(7.1)	(4.4%)	-0.6	-0.3%	(0.1)	-	(7.0)	(4.5%)	-0.4	-0.5%
Production Labour Costs	(13.5)	(8.1%)	(15.0)	(9.3%)	(18.2)	(11.1%)	-3.3	-1.9%	(1.0)	-	(17.2)	(11.2%)	-2.2	-1.9%
Contribution Margin	**34.8**	**20.9%**	**38.3**	**23.7%**	**38.6**	**23.6%**	**+0.3**	**-0.1%**	**3.4**	**-**	**35.2**	**22.9%**	**-3.1**	**-0.9%**
Indirect Personnel	(8.9)	(5.4%)	(9.6)	(5.9%)	(11.4)	(7.0%)	-1.8	-1.0%	(0.4)	-	(11.0)	(7.2%)	-1.4	-1.2%
Other Indirect Costs	(6.6)	(4.0%)	(7.4)	(4.6%)	(9.1)	(5.6%)	-1.7	-1.0%	(0.5)	(0.1)	(8.5)	(5.5%)	-1.1	-0.9%
Indirect Costs	**(15.5)**	**(9.4%)**	**(17.0)**	**(10.6%)**	**(20.5)**	**(12.6%)**	**-3.5**	**-2.0%**	**(0.9)**	**(0.1)**	**(19.6)**	**(12.7%)**	**-2.5**	**-2.2%**
▸ **EBITDA**	**19.2**	**11.6%**	**21.3**	**13.2%**	**18.1**	**11.0%**	**-3.2**	**-2.1%**	**2.5**	**(0.1)**	**15.6**	**10.2%**	**-5.6**	**-3.0%**
Depreciation & Amortisation	(11.1)	(6.7%)	(11.2)	(6.9%)	(11.7)	(7.2%)	-0.5	-0.2%	(0.0)	-	(11.7)	(7.6%)	-0.5	-0.7%
Allocations to Provisions	(0.9)	(0.5%)	(1.4)	(0.9%)	(1.2)	(0.7%)	+0.2	+0.1%	(0.0)	-	(1.1)	(0.7%)	+0.3	+0.1%
Reclassification MA provisions for deferred expenses	(0.4)	(0.2%)	(0.5)	(0.3%)	(0.8)	(0.5%)	-0.3	-0.2%	-	-	(0.8)	(0.5%)	+0.3	-0.2%
Depreciation, Amortisation and Provisions	**(12.4)**	**(7.5%)**	**(13.1)**	**(8.1%)**	**(13.7)**	**(8.4%)**	**(0.7)**	**-0.3%**	**(0.1)**	**-**	**(13.7)**	**(8.9%)**	**-0.6**	**-0.8%**
▸ **EBIT**	**6.9**	**4.1%**	**8.2**	**5.1%**	**4.3**	**2.6%**	**-3.9**	**-2.4%**	**2.4**	**(0.1)**	**2.0**	**1.3%**	**-6.2**	**-3.8%**
Financial Income (Expenses)	(3.3)	(2.0%)	(2.4)	(1.5%)	(1.8)	(1.1%)	+0.7	+0.4%	(0.0)	(0.0)	(1.8)	(1.2%)	+0.7	+0.4%
Non-Recurring Income (Expenses)	0.8	0.5%	(1.4)	(0.9%)	(0.3)	(0.2%)	+1.1	+0.7%	0.0	-	(0.3)	(0.2%)	+1.1	+0.7%
▸ **Result before Taxation**	**4.4**	**2.6%**	**4.3**	**2.7%**	**2.2**	**1.4%**	**-2.1**	**-1.3%**	**2.4**	**(0.1)**	**(0.1)**	**(0.1%)**	**-4.5**	**-2.8%**
Taxation	(1.2)	(0.7%)	(0.7)	(0.4%)	0.5	0.3%	+1.2	+0.7%	0.0	-	0.5	0.3%	+1.2	+0.7%
▸ **Result for the Period**	**3.1**	**1.9%**	**3.7**	**2.3%**	**2.8**	**1.7%**	**-0.9**	**-0.6%**	**2.5**	**(0.1)**	**0.4**	**0.3%**	**-3.3**	**-2.0%**
Profit pertaining to Minority Interests	(0.2)	(0.1%)	(0.3)	(0.2%)	(0.6)	(0.4%)	-0.3	-0.2%	(0.7)	-	0.1	0.1%	+0.4	+0.2%
▸ **Net Profit of Group**	**3.0**	**1.8%**	**3.4**	**2.1%**	**2.1**	**1.3%**	**-1.3**	**-0.8%**	**1.7**	**(0.1)**	**0.5**	**0.3%**	**-2.9**	**-1.8%**

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

Indirect costs, totalling € 20.5 million, have increased by € 3.5 million compared to prior year (+ € 2.6 based on a like for like scope of consolidation) because of higher Other Indirect Costs and Indirect Personnel Costs. The structure has been expanded in order to sustain the future growth planned by the Group.
EBITDA has decreased from € 21.3 million in 2018 to € 18.1 million (- € 3.2 million and - 2.1pp as a percentage of revenues).

EBIT has decreased from €8.2 million in 2018 to € 4.3 million (-€ 3.9 million, -2.4pp as a percentage of revenues). Depreciation and amortisation have increased (€ 11.7 million, + € 0.5 million compared to 2018) while allocations to provisions for risks have decreased (€ 1.2 million, - € 0.2 million compared to prior year); this last item refers to the risk of quality issues and customer complaints. The MA provisions for reclassification of deferred expenses are increasing (€ 0.8 million, +€ 0.3 million compared to 2018).

Financial expenses have decreased by € 0.7 million compared to prior year as a result of the reduction in financial liabilities (- € 13.8 million compared to prior year, based on a like for like scope of consolidation) 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 € 0.3 million.

As a result of the profits reported by almost all subsidiaries and considering changes in deferred tax assets and liabilities, the overall tax charge is positive (€ 0.5 million) and has resulted in a positive Consolidated Net Result for the year of € 2.8 million – of which € 0.6 million pertaining to Non-Controlling interests and € 2.1 million pertaining to the Group (rounded).

7.3. Consolidated balance sheet

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

Table 7.3 – Reclassified Consolidated Balance Sheet

CONSOLIDATED BALANCE SHEET	FY 2017	FY 2018	FY 2019	Δ 2019-2018	ABL	Hold.Co	FY 2019 - Iso perimeter	Δ 2019-2018
	€ million	€ million	€ million	€ million				€ million
Tangible and Intangible Assets	78.9	80.8	84.6	+3.8	0.1	-	84.5	+3.7
Financial Assets	0.3	0.0	0.0	+0.0	-	2.5	(2.5)	-2.5
Fixed Assets	**79.2**	**80.9**	**84.7**	**+3.8**	**0.1**	**2.5**	**82.0**	**+1.1**
Trade Receivables	9.8	13.1	9.6	-3.5	2.6	-	7.0	-6.1
Trade Payables	(28.6)	(36.0)	(37.3)	-1.3	(1.8)	(0.0)	(35.5)	+0.6
Inventory	25.6	30.9	31.2	+0.3	2.5	-	28.7	-2.2
Trade Working Capital	**6.9**	**8.0**	**3.5**	**-4.5**	**3.3**	**(0.0)**	**0.2**	**-7.8**
Tax Receivables (Payables)	4.2	5.8	6.1	+0.3	0.6	(0.0)	5.4	-0.3
Intra-Group Receivables (Payables)	1.3	0.1	0.8	+0.7	1.3	(0.0)	(0.5)	-0.6
Other Current Assets (Liabilities)	(3.4)	(4.3)	(4.9)	-0.6	(2.4)	-	(2.5)	+1.8
Prepaid Expenses and Acc. Income, Acc. Expenses and Def. Income	0.1	0.7	0.6	-0.2	0.0	0.0	0.5	-0.2
Provisions	(5.6)	(5.9)	(7.0)	-1.1	(1.1)	-	(5.9)	+0.0
Net Invested Capital	**82.7**	**85.2**	**83.6**	**-1.6**	**1.8**	**2.5**	**79.3**	**-5.9**
Loans and Finance Leases	48.1	50.1	40.2	-9.9	0.7	1.8	37.7	-12.4
Self-liquidating facilities	24.3	11.3	8.3	-3.0	0.2	-	8.1	-3.2
Current account facilities	(4.5)	(3.5)	(7.7)	-4.3	(0.4)	(0.0)	(7.3)	-3.8
Cash Items	-	(14.3)	(1.4)	+12.9	(0.6)	-	(0.9)	+13.4
Net Financial Position	**68.0**	**43.6**	**39.3**	**-4.2**	**(0.0)**	**1.8**	**37.6**	**-5.9**
Share Capital	5.2	17.9	17.6	-0.3	0.8	0.0	16.9	-1.0
Share Premium Reserve	-	10.2	7.7	-2.5	-	-	7.7	-2.5
Other Equity Reserve	2.7	5.7	11.3	+5.7	(1.8)	0.6	12.5	+6.8
Profit for the Year	3.1	3.7	2.8	-0.9	2.5	(0.1)	0.4	-3.3
Equity of Group	**11.0**	**37.5**	**39.4**	**+1.9**	**1.5**	**0.5**	**37.5**	**-0.0**
Equity of Minority Interests	3.8	4.1	4.8	+0.7	0.4	0.2	4.2	+0.1
Consolidated Equity	**14.8**	**41.6**	**44.2**	**+2.6**	**1.8**	**0.7**	**41.7**	**+0.1**
Sources of Funds	**82.7**	**85.2**	**83.6**	**-1.6**	**1.8**	**2.5**	**79.3**	**-5.9**

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

Fixed Assets have increased by € 3.8 million compared to 31 December 2018 (+€3.7 million based on a like for like scope of consolidation) as a result of scheduled production capex and the capitalisation of research and development costs regarding project development work of contracts already awarded or close to being awarded.
The consolidation of ABL Automazione S.r.l. had an impact of € 2.6 million, including € 2.5 million regarding the amount recognised upon the acquisition of the investment.
Trade Working Capital, amounting to € 3.5 million at 31 December 2019, has decreased considerably compared to prior year (- € 4.5 million), mainly because of the reduction in trade receivables.
Inventories have increased by € 0.3 million, mainly because of the amount of € 2.5 million due to the acquisition of ABL Automazione. Considering the former scope of consolidation, inventories have decreased by - € 2.2 million: this is not a structural change as it is due to a reduction in inventories of finished goods, destined for both the IAM and OEM markets, to an increase in raw materials inventories mainly because of strategic purchases of aluminium at favourable prices and to a decrease in Tooling inventories (- € 1.2 million).
The increase in trade payables (+ € 1.3 million) is due to the harmonisation of terms of payment by the parent company while the acquisition of ABL had a negative impact of € 1.8 million on the scope of consolidation.
Trade receivables amount to € 9.6 million: the decrease is due to several policies to make working capital management more efficient, with a direct impact regarding the use of non-recourse factoring (-€ 6.1 million based on a like for like scope of consolidation, - € 3.5 million considering the new scope of consolidation).
Net Invested Capital amounts to € 83.6 million, a € 1.6 million decrease compared to 31 December 2018 (€ 79.3 million and - € 5.9 million based on a like for like scope of consolidation).
At 31 December 2019, Net Financial Position stood at € 39.3 million (€ 37.6 million based on a like for like scope of consolidation), a decrease of € 4.2 million compared to 31 December 2018.
New subsidiary Hold.Co has increased the Group's financial amount of Position by € 1.8 million.
At 31 December 2019, Consolidated Shareholders' Equity amounts to € 44.2 million (of which € 4.8 million pertaining to Non-Controlling Interests). The increase of € 2.6 million compared to prior year is mainly due to net profits for the year, to the buyback of treasury shares by the parent company (-€ 0.3 million) and to translation differences.
No dividends were paid in 2019.
As a result of the above, the Adjusted Net Financial Position / Consolidated Equity ratio has decreased slightly from 1.0x in 2018 to 0.9x in 2019.

2019 COMPARED TO 2018

FIXED ASSETS
+3.8 million

TRADE WORKING CAPITAL
-4.5 million

INVENTORIES
+0.3 million

TRADE PAYABLES
+ 1.3 million

TRADE RECEIVABLES
-6.1 million

NET INVESTED CAPITAL
-1.6 million

NET FINANCIAL INDEBTEDNESS
-4.2 million

CONSOLIDATE SHAREHOLDERS' EQUITY
+2.6 million

7.4. Consolidated cash flows

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

Table 7.4. Consolidated Cash Flows

CONSOLIDATED CASH FLOW	FY 2017	FY 2018	FY 2019	FY 2019	ABL	Hold.Co	FY 2019 - Iso perimeter	
	€ million	€ million	€ million	Δ vs 2018			€ million	Δ vs 2018
Cash and Cash Equivalents at start of Period - Financial Statement	**3.9**	**7.4**	**3.0**	**-4.3**	**-**	**-**	**3.0**	**-4.3**
Reclassification cash equivalents transitory account	5.1	2.9	(0.4)	-3.3	-	-	(0.4)	-3.3
Cash and Cash Equivalents at start of Period - Management Account	**(1.2)**	**4.5**	**3.5**	**-1.0**	**-**	**-**	**3.5**	**-1.0**
EBITDA	**19.2**	**21.3**	**18.1**	**-3.2**	**2.5**	**(0.1)**	**15.6**	**-5.6**
Δ in Trade Receivables	(1.6)	(16.3)	0.5	+16.8	(2.4)	-	3.0	+19.3
Δ in Trade Payables	(6.7)	7.5	1.3	-6.2	1.8	0.0	(0.6)	-8.0
Δ in Inventory	11.5	(5.3)	(0.3)	+5.1	(2.5)	-	2.2	+7.6
Δ in Trade Working Capital	**3.1**	**(14.2)**	**1.5**	**+15.7**	**(3.1)**	**0.0**	**4.6**	**+18.8**
Cash EBITDA	**22.4**	**7.1**	**19.6**	**+12.5**	**(0.6)**	**(0.0)**	**20.2**	**+13.2**
Capex on Tangible and Intangible Assets	(6.6)	(13.6)	(16.3)	-2.7	(0.1)	-	(16.2)	-2.5
Adj. Cash Flow from Operating Activities	**15.8**	**(6.6)**	**3.3**	**+9.8**	**(0.8)**	**(0.0)**	**4.1**	**+10.6**
Δ in Other Current Assets (Liabilities)	4.4	(2.6)	(0.5)	+2.1	1.0	(2.3)	0.8	+3.4
Share Capital Increases in Cash	-	23.0	(0.3)	-23.3	-	0.6	(0.8)	-23.8
Δ in Receivables from Insurance Companies	-	(14.3)	13.4	+27.8	(0.6)	-	14.0	+28.3
Cash Flows for Debt Servicing	**20.1**	**(0.5)**	**15.9**	**+16.4**	**(0.3)**	**(1.8)**	**18.0**	**+18.5**
Δ in MLT Debt	(11.2)	2.0	(9.9)	-11.8	0.7	1.8	(12.4)	-14.3
Financial Income (Expenses)	(3.3)	(2.4)	(1.8)	+0.7	(0.0)	(0.0)	(1.8)	+0.7
Debt Servicing	**(14.5)**	**(0.5)**	**(11.6)**	**-11.2**	**0.7**	**1.8**	**(14.2)**	**-13.7**
Net Cash Flows	**5.6**	**(1.0)**	**4.3**	**+5.3**	**0.4**	**0.0**	**3.8**	**+4.9**
Cash and Cash Equivalents at end of Period - Management Account	**4.5**	**3.5**	**7.7**	**+4.3**	**0.4**	**0.0**	**7.3**	**+3.8**
Reclassification cash equivalents transitory account	2.9	(0.4)	0.3	+0.7	-	-	0.3	+0.7
Cash and Cash Equivalents at end of Period - Financial Statement	**7.4**	**3.0**	**8.0**	**+4.9**	**-**	**-**	**8.0**	**+4.9**
Total Cash Flow	**3.5**	**(4.3)**	**4.9**	**+9.3**	**-**	**-**	**4.9**	**+9.3**

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

At the start of the period, cash and cash equivalents – the positive current account balances of the Saleri Group companies – amounted to € 3.5 million.

Cash flows generated by Operating Activities totalled € 19.6 million, higher than in 2018 (+ € 12.5 million, +€ 13.2 based on a like for like scope of consolidation). While EBITDA decreased (- €3.2 million) and cash flows were absorbed by the changes in payables (- €6.2 million) and inventories (+ €5.2 million), the change in receivables had a highly positive impact on cash flows (+ € 16.8 million, + € 19.3 million considering a like for like scope of consolidation).

Cash flows absorbed by investing activities amounted to € 16.3 million, an increase of € 2.7 million compared to prior year, mainly as a result of capex incurred for the implementation of production lines and development costs relating to new products, improvements to the efficiency of production assets and the acquisition of a controlling investment in ABL Automazione S.r.l..

Changes in Other Current Assets and Liabilities further affected cash flows, absorbing cash of € 0.5 million (-€ 0.8 million based on a like for like scope of consolidation), mainly in relation to tax balances. Equity has been adjusted by - € 0.3 million in relation to a treasury share buyback program for a future employee incentive plan.

Changes of other Cash Equivalents exclusively includes the receivable from Insurance Companies that was collected at the start of the period in the amount of € 13.7 million while a receivable of € 0.3 million for insurance pay-outs in compensation for damage to third party assets was recognised at the reporting date.

The above operations generated Cash Flows of € 15.9 million for use in Servicing Debt. Debt Servicing absorbed cash of € 11.6 million including € 9.9 million to reduce medium/long-term debt and € 1.8 million for financial expenses. Therefore, net cash flows totalled € 4.3 million, generating an available current account balance of € 7.7 million at the reporting date.

The total amount of cash and cash equivalents previously described result differently from the value reported in the Consolidated Financial Statement, for the reclassification to cash and cash equivalents of advanced payment from credit institutions, that will which to be paid to banks and vice versa. The variation of this amount, included in the Credit Management, has the goal to give a more precise indication of real variation included in cash flow of the period. The total amount of reclassification at the end of the year is equal to € 0.3 million, for a final result of cash equivalent at 31/12/2019 equal to € 8.0 million.

2019 COMPARED TO 2018

CASH FLOWS

+13.2 million

CHANGE IN RECEIVABLES

+19.3 million

CASH FLOWS ABSORBED BY INVESTING ACTIVITIES

+2.7 million

19.5 MILLION

CASH FLOWS GENERATED BY OPERATING ACTIVITIES

Chapter

8

Risks

The main risks identified by management regard the categories described below:

8.1. Risks regarding industry trends

The Saleri Group operates mainly in the automotive industry which is characterised 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. In more detail, the flagship product – for with the mass production line was installed during the summer months with production starting towards the end of 2019 and mass production getting underway in the second half of 2020 – will be the EMP (Electro Mechanical Pump), patented finalist at the international Automechanika Innovation Award 2018 in the OE products category. This 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; this is of particular interest to car makers as they strive to observe the carbon dioxide emissions limits set by the European Union.

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.

8.2. 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.

8.3. 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.

8.4. Risk 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.

8.5. 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.

8.6. 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 2019, there were Interest Rate Cap agreements with a notional amount totalling Euro 2.0 million. These derivatives, measured 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).

8.7. 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 2019, 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.

8.8. Risk of volatility 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.

8.9. 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

8.10. 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).

8.11. 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.

8.12. 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

9

Research and development activities

9.1. 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 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.

As in 2018, the work of the Research and Development 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 Research and Development 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.

9.2. Eco Sustainable 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 philosophy combines perfectly with the need to create solutions ever more compliant with environmental regulations as the design of efficient products leads to optimal thermal management while also 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 adjustable, 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. This 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

10

Recognition and awards received

In 2019, parent company Industrie Saleri Italo S.p.A. received important recognition of the Group's professionalism and numerous technical skills as well as if its desire to play a role not only in the business environment but, also, in social activities.

BAQ 2019
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 2019 - 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 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.

This prestigious award may be added to those received in 2018, the result of the Group's commitment to the constant improvement of 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.

Chapter

11

Financial relations

The following table shows changes in the items included in the Saleri Group's financial indebtedness. The share capital increase carried out in 2018 and the rescheduling of debt repayment dates have produced a more solid financial structure, in line with operating cash flows.

Financial performance indicators for 2019 are set out below with comparatives for 2018:

▶	**Net Financial Position (including factoring): increase of € 5.2 million**
▶	**Net Financial Position: reduction of € 4.2 million**
▶	**Reduction in ratio of Net Financial Indebtedness / Consolidated Equity from 1.0x to 0.9x**
▶	**Increase in ratio of Net Financial Indebtedness / EBITDA from 2.0x to 2.2x**
▶	**Reduction of average cost of borrowing from 363 bps to 293 bps (-72 bps) with financial expenses reduced by € 0.7 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.

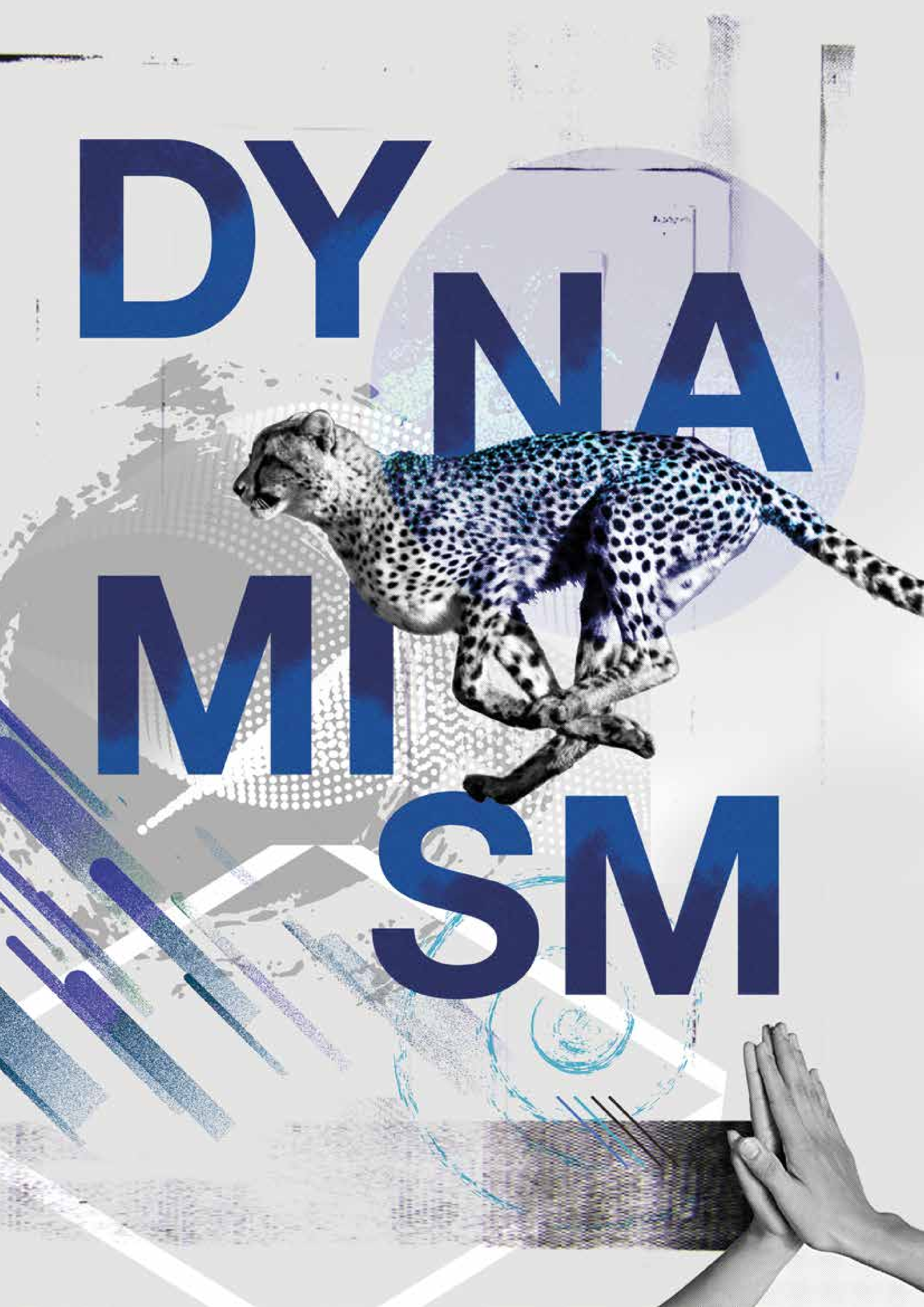
Table 11.1 – Details of the consolidated financial structure

CONSOLIDATED	FY 2017	FY 2018	FY 2019	∆ vs 2018
	€ Mln	€ Mln	€ Mln	€ Mln
Breakdown of Debt				
Bank Loans	35.0	37.4	30.8	-6.6
Finance Lease Payables	13.1	12.7	9.4	-3.3
Advance Facilities	24.3	11.3	8.3	-3.0
Financial Position	**72.5**	**61.4**	**48.5**	**-12.9**
Receivables from Insurance Companies	-	(14.3)	(0.9)	+13.4
Securities (Current)	-	-	(0.6)	-0.6
Current Account Balances	(4.5)	(3.5)	(7.7)	-4.3
Net Financial Position	**68.0**	**43.6**	**39.3**	**-4.2**
Non-Recourse Factoring Facilities	10.8	10.4	19.9	+9.5
Net Financial Position (Inc. Factoring)	**78.8**	**54.0**	**59.3**	**+5.2**
Financial Ratios				
EBITDA	**19.2**	**21.3**	**18.1**	**-3.2**
Equity	14.8	41.6	44.2	+2.6
NFP / Equity	4.6x	1.0x	0.9x	-0.2x
NFP / EBITDA	3.5x	2.0x	2.2x	-
Financial Income / (Expenses)	**(3.3)**	**(2.4)**	**(1.8)**	**+0.7**
Average Cost of Debt (Basis Points)	**462**	**365**	**294**	**- 70.7**
Duration				
Due within a year	8.0	10.4	8.5	
Between 1 and 5 years	37.1	36.4	30.3	
After more than five years	3.0	3.3	1.4	
Due within a year	17%	21%	21%	
Between 1 and 5 years	77%	73%	75%	
After more than five years	6%	7%	4%	

Note:
Unsecured Loans are divided into categories considering the original nature of the agreement. Specifically, Unsecured Loans refer to the short-term borrowings consolidated in 2018 with a five-year repayment period. 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) and recourse factoring. Non-Recourse Factoring facilities refer to facilities for the recurring and occasional factoring of receivables. Mortgage Loans are secured on land and buildings. Receivables from insurance companies include the residual receivable relating to the fire.

DYNAMISM

In Saleri, all Company activities such as custom product designs realized in cooperation with carmakers, and highly automatized production, are based on modularity and dynamicity principles. We also preserve a much more compact company size in relation to main competitors, which allow us to realize products in a flexible way and at highest levels of quality and reliability, adapting the production to smaller and bigger series, both concerning processing of components and also assembly of the final product.


DYNAMISM

Chapter

12

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

12.1. Income Statement of Industrie Saleri Italo S.p.A.

The parent company income statement, as 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 12.1. Reclassified Income Statement

INCOME STATEMENT INDUSTRIE SALERI ITALO S.P.A.	FY 2017		FY 2018		FY 2019		Δ 2019-2018	
	€ million	% on Revenues	€ million	% on Revenues	€ million	% on Revenues	€ million	% on Revenues
Revenue from ordinary operating activities	157.6	99.0%	150.3	97.4%	144.8	97.2%	-5.5	-3.7%
Other Revenue	1.6	1.0%	4.1	2.6%	4.2	2.8%	+0.1	+3.0%
Revenue from Sales	**159.2**	**100.0%**	**154.3**	**100.0%**	**149.0**	**100.0%**	**-5.4**	**-3.5%**
Direct Production Costs	(112.1)	(70.4%)	(101.6)	(65.8%)	(93.9)	(63.1%)	+7.7	+2.8%
Other Variable Production Costs	(4.5)	(2.8%)	(6.3)	(4.1%)	(6.8)	(4.5%)	-0.4	-0.4%
Production Labour Costs	(12.6)	(7.9%)	(13.9)	(9.0%)	(16.1)	(10.8%)	-2.2	-1.8%
Contribution Margin	**30.0**	**18.8%**	**32.5**	**21.1%**	**32.2**	**21.6%**	**-0.3**	**+0.5%**
Indirect Personnel	(8.5)	(5.4%)	(9.1)	(5.9%)	(10.6)	(7.1%)	-1.5	-1.2%
Other Indirect Costs	(5.3)	(3.3%)	(6.3)	(4.1%)	(7.6)	(5.1%)	-1.3	-1.0%
Indirect Costs	**(13.8)**	**(8.7%)**	**(15.4)**	**(10.0%)**	**(18.2)**	**(12.2%)**	**-2.7**	**-2.2%**
EBITDA	**16.1**	**10.1%**	**17.1**	**11.1%**	**14.1**	**9.4%**	**-3.1**	**-1.7%**
Depreciation & Amortisation	(9.6)	(6.1%)	(10.1)	(6.6%)	(10.6)	(7.1%)	-0.4	-0.5%
Allocations to Provisions	(0.8)	(0.5%)	(1.4)	(0.9%)	(1.1)	(0.8%)	+0.3	+0.1%
Reclassification MA provisions for deferred expenses	-	0.0%	-	0.0%	-	0.0%	-	+0.0%
Depreciation, Amortisation and Provisions	**(10.5)**	**(6.6%)**	**(11.5)**	**(7.5%)**	**(11.7)**	**(7.9%)**	**-0.2**	**-0.4%**
EBIT	**5.7**	**3.6%**	**5.6**	**3.6%**	**2.3**	**1.6%**	**-3.3**	**-2.1%**
Financial Income (Expenses)	(3.0)	(1.9%)	(2.1)	(1.3%)	(1.6)	(1.1%)	+0.4	+0.2%
Non-Recurring Income (Expenses)	0.6	0.4%	(1.3)	(0.8%)	(0.3)	(0.2%)	+1.0	+0.6%
Result before Taxation	**3.3**	**2.0%**	**2.2**	**1.4%**	**0.4**	**0.3%**	**-1.8**	**-1.2%**
Taxation	(0.8)	(0.5%)	(0.1)	(0.1%)	0.4	0.3%	+0.5	+0.3%
Result for the Period	**2.4**	**1.5%**	**2.1**	**1.4%**	**0.8**	**0.6%**	**-1.3**	**-0.8%**
Profit pertaining to Minority Interests	1.0	0.6%	0.1	0.1%	(0.1)	(0.1%)	-0.2	-0.1%
Net Profit of Group	**1.5**	**0.9%**	**2.1**	**1.3%**	**0.9**	**0.6%**	**-1.2**	**-0.7%**

In 2019, Industrie Saleri Italo S.p.A. recorded a decrease in revenues from € 154.3 million to € 149.0 million (-€ 5.4 million, or a YoY decrease of 3.5%), mainly because of a drastic slump in vehicle registrations in the Diesel segment which also triggered a policy of destocking on the part of customers. This phenomenon was particularly apparent in the first half of the year while the trend reversed somewhat and there was a partial recovery in the second half of 2019.

Other Revenues includes the amount relating to the increase in Non-Current Assets for Development Costs incurred (€ 1.3 million against € 0.9 million in 2018). It also includes items not normally recurring but related to the Company's operating activities: in prior year, these included € 2.4 million for the insurance pay-out for damage caused by the fire while, in 2019, they include the amount of € 1.9 million received from customers in respect of the cancellation of projects that had been assigned to the Company.

As a result of the fall in sales, Contribution Margin has decreased from € 32.5 million in 2018 to € 32.2 million (-€ 0.3 million and + 0.5% as a percentage of revenues). This result is mainly due to the aforementioned reduction in revenues. Some of the effects caused by the emergency situation following the fire in January 2018 also had a negative impact on 2019.

Direct production costs have decreased (- € 7.7 million, equal to - 2.8% of revenues) as a result of a series of purchases of aluminium at favourable prices and also because of the insourcing of certain logistics services that had been outsourced in the period after the fire. Production labour have reached 10.8% of revenues (+1.8% as a percentage of revenues) because of a reduction in labour productivity due to the need to carry out certain phases of production on lines with a low level of automation. Productivity also decreased because of the decision to carry out maintenance of machinery when production was shut down (work carried out partly during the summer vacation period and partly during the Christmas holidays). Finally, the new organisation involves recurring logistics costs (recorded under "Other variable production costs").

Indirect costs, totalling € 18.2 million, have increased by € 2.7 million compared to prior year with a € 1.5 million increase in indirect personnel costs and a € 1.3 million increase in other indirect costs. This item is partially adjusted in the caption "Other Revenues" by the deferral of Development costs for new contracts under development and to be capitalised in future, as per the previous paragraph.

EBITDA has decreased from €17.1 million in 2018 to € 14.1 million (- € 3.1 million and – 1.7pp as a percentage of revenues).

EBIT has decreased from € 5.6 million in 2018 to € 2.3 million in 2019 (- € 3.3 million or -2.1pp as a percentage of revenues). There has been an increase in depreciation and amortisation (amounting to € 10.6 million, + € 0.4 million compared to 2018) – due to higher capex incurred during the year – as partially countered by lower allocations to provisions for risks (€ 1.1 million, -€ 0.3 million compared to prior year).

Financial expenses have decreased by € 0.4 million compared to prior year thanks to a reduction in financial payables (€ - 10.6 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. It is worth mentioning the fact that there has been a general reduction in the use of factoring of receivables as it is more expensive than the use of overdraft facilities.

There were net extraordinary expenses of € 0.3 million.

The net profit for the period amounts to € 903 thousand.

The accounting effect of IAS 17 had a negative effect of € 76 thousand for a statutory positive result of € 826 thousand.

12.2 Balance Sheet of Industrie Saleri Italo S.p.A.

The parent company's balance sheet, as 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 12.2. Reclassified Balance Sheet

BALANCE SHEET INDUSTRIE SALERI ITALO S.P.A.	FY 2017	FY 2018	FY 2019	Δ 2019-2018
	€ million	€ million	€ million	€ million
Tangible and Intangible Assets	63.7	66.2	68.6	+2.4
Financial Assets	7.9	7.8	8.4	+0.6
Fixed Assets	**71.6**	**74.0**	**77.0**	**+2.9**
Trade Receivables	10.7	12.0	6.2	-5.9
Trade Payables	(27.0)	(33.8)	(33.4)	+0.4
Inventory	23.2	28.4	26.7	-1.7
Trade Working Capital	**6.9**	**6.6**	**(0.6)**	**-7.2**
Tax Receivables (Payables)	4.2	5.7	5.1	-0.6
Intra-Group Receivables (Payables)	(1.1)	(1.4)	(2.2)	-0.7
Other Current Assets (Liabilities)	(4.0)	(4.3)	(2.7)	+1.7
Prepaid Expenses and Acc. Income, Acc. Expenses and Def. Income	0.1	0.7	0.5	-0.2
Provisions	(5.6)	(5.9)	(5.9)	+0.0
Net Invested Capital	**72.0**	**75.4**	**71.3**	**-4.0**
Loans and Finance Leases	42.3	46.8	36.2	-10.6
Self-liquidating facilities	24.3	11.3	8.1	-3.2
Current account facilities	(3.9)	(2.5)	(6.8)	-4.3
Cash Items	-	(14.3)	(0.9)	+13.4
Net Financial Position	**62.7**	**41.2**	**36.6**	**-4.6**
Share Capital	5.2	17.9	17.6	-0.3
Share Premium Reserve	-	10.2	7.7	-2.5
Other Equity Reserve	0.1	1.5	6.1	+4.6
Profit for the Year	1.5	2.1	0.9	-1.2
Equity of Group	**6.7**	**31.7**	**32.3**	**+0.6**
Equity of Minority Interests	2.6	2.5	2.4	-0.1
Consolidated Equity	**9.3**	**34.2**	**34.7**	**+0.6**
Sources of Funds	**72.0**	**75.4**	**71.3**	**-4.0**

Fixed Assets have increased by + € 2.9 million compared to 31 December 2018.

Trade Working Capital, amounting to -€ 0.6 million at 31 December 2019, continues to decrease compared to prior years (as a percentage of value of production, it decreased from 4.3% in 2018 to -0.4% in 2019, although there were some significant changes in its composition).

Inventories have decreased by € 1.7 million as a result of a reduction in inventories of finished goods destined for the IAM market, an increase in raw materials inventories mainly because of strategic purchases of aluminium made at advantageous prices and a reduction in Tooling inventories (- € 1.3 million).

Trade payables has decreased by € 0.4 million, accompanied by an increase in average supplier payment periods due to the desire to standardise terms of payment across the Group.

Trade receivables have decreased by € 5.9 million, solely as a result of policies designed to make working capital management more efficient with a direct impact in terms of utilisation of non-recourse factoring. Net Invested Capital amounts to € 71.3 million and has decreased by € 4.0 million compared to 31 December 2018.

At 31 December 2019, Net Financial Position stood at € 36.6 million, a decrease of € 4.6 million compared to 31 December 2018. Current financial assets include the receivable from the insurance company which stood at € 14.3 million at 31 December 2018. Some € 13.7 million of this receivable was collected in the first few months of 2019 and the receivable was increased by € 0.3 million under the agreement to pay compensation for damages to third party assets thus taking the total to € 0.9 million.

At 31 December 2019, Shareholders' Equity stands at € 34.7 million. The change compared to prior year is due to the Net Profit for the period and to the buyback of treasury shares for a total of € 0.3 million. No dividends were paid during 2019.

As a result of the above, the Net Financial Position / Equity ratio continued to improve, passing from 1.2x in 2018 to 1.1x in 2019.

2019 COMPARED TO 2018

FIXED ASSETS	TRADE WORKING CAPITAL	INVENTORIES	TRADE PAYABLES
+2.9 million	-0.6 million	-1.7 million	-0.4 million

TRADE RECEIVABLES	NET INVESTED CAPITAL	NET FINANCIAL INDEBTEDNESS	SHAREHOLDERS' EQUITY
-5.9 million	-4.0 million	-4.6 million	+0.6 million

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

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

Table 12.3. Cash Flows of Industrie Saleri Italo S.p.A.

CASH FLOW INDUSTRIE SALERI ITALO S.P.A.	FY 2017	FY 2018	FY 2019	FY 2019
	€ million	€ million	€ million	Δ vs 2018
Cash and Cash Equivalents at start of Period - Financial Statement	**3.3**	**5.7**	**2.1**	**-3.5**
Reclassification cash equivalents transitory account	4.2	1.7	(0.4)	-2.1
Cash and Cash Equivalents at start of Period - Management Account	**(1.0)**	**3.9**	**2.5**	**-1.4**
EBITDA	**16.1**	**17.1**	**14.1**	**-3.1**
Δ in Trade Receivables	(1.0)	(14.4)	2.7	+17.1
Δ in Trade Payables	(5.5)	6.7	(0.4)	-7.1
Δ in Inventory	10.0	(5.2)	1.7	+7.0
Δ in Trade Working Capital	**3.5**	**(12.8)**	**4.1**	**+16.9**
Cash EBITDA	**19.7**	**4.3**	**18.1**	**+13.8**
Capex on Tangible and Intangible Assets	(5.6)	(12.6)	(12.9)	-0.3
Adj. Cash Flow from Operating Activities	**14.1**	**(8.4)**	**5.2**	**+13.5**
Δ in Other Current Assets (Liabilities)	3.8	(4.1)	(1.8)	+2.3
Share Capital Increases in Cash	-	23.0	(0.3)	-23.3
Δ in Receivables from Insurance Companies	-	(14.3)	13.4	+27.8
Cash Flows for Debt Servicing	**17.9**	**(3.8)**	**16.5**	**+20.3**
Δ in MLT Debt	(10.0)	4.4	(10.6)	-15.0
Financial Income (Expenses)	(3.0)	(2.1)	(1.6)	+0.4
Debt Servicing	**(13.0)**	**2.4**	**(12.2)**	**-14.6**
Net Cash Flows	**4.9**	**(1.4)**	**4.3**	**+5.7**
Cash and Cash Equivalents at end of Period - Management Account	**3.9**	**2.5**	**6.8**	**+4.3**
Reclassification cash equivalents transitory account	1.7	(0.4)	0.2	+0.7
Cash and Cash Equivalents at end of Period - Financial Statement	**5.7**	**2.1**	**7.1**	**+4.9**
Total Cash Flow	**2.4**	**(3.5)**	**4.9**	**+8.5**

At the start of the period 2019, cash and cash equivalents (the Company's positive current account balances related to transitory current cash)– amounted to € 2.5 million.

During the year, cash flows generated by Operating Activities totalled € 18.1 million, higher than in 2018 (+ € 13.8 million). While lower EBITDA (-€3.1 million) and changes in payables (- €7.1 million) and in inventories (+ € 7.0 million) had a negative impact on cash flows, the credit management (receivables from customers, recourse and credit advances) had a positive effect (+ € 17.1 million).

Cash flows absorbed by investing activities amounted to € 12.9 million, some € 0.3 million more than in prior year: this capex was necessary mainly in order to introduce machinery and equipment relating to new products. Although the assets in question have undergone a pre-production test phase, they have not yet made a positive contribution towards the creation of value. Certain capex has been incurred (around €0.7 million for a fire prevention system) to increase production efficiency and improve the safety of the Group's plant and buildings. The change in Other Current Assets and Liabilities had a further effect on cash flows as it absorbed cash of € 1.8 million, mainly because of the change in non-trade receivables. During the period, the Company also invested in non-current financial assets with the acquisition of a controlling interest in "ABL Automazione S.r.l." with the objective of integrating and improving the performance of the Company's machinery. Manufacturing company "Saleri Mexico S.A. de C.V." was also incorporated with the aim of manufacturing and distributing products in the Thermal Management segment on the North American market.

Equity has decreased by € 0.3 million following the buyback of treasury shares. The net profit for 2018 has been allocated to reduce accumulated losses.

The receivable from Insurance Companies was collected at the start of the period in the amount of € 13.7 million while a receivable of € 0.3 million for insurance pay-outs in compensation for damage to third party assets was recognised at the reporting date.

The above operations generated Cash Flows of € 16.5 million for use in Servicing Debt. Debt Servicing absorbed cash of € 12.2 million including € 10.6 million to reduce medium/long-term debt and € 1.6 million for financial expenses. Therefore, net cash flows totalled € 4.3 million, generating a Group current account balance of € 6.8 million at the reporting date.
The total amount of cash and cash equivalents previously described result differently from the value reported in the Consolidated Financial Statement, for the reclassification to cash and cash equivalents of advanced payment from credit institutions, that will which to be paid to banks and vice versa. The variation of this amount, included in the Credit Management, has the goal to give a more precise indication of real variation included in cash flow of the period. The total amount of reclassification at the end of the year is equal to € 0.2 million, for a final result of cash equivalent at 31/12/2019 equal to € 7.1 million.

2019 COMPARED TO 2018

CASH FLOWS	CHANGE IN RECEIVABLES	CASH FLOWS ABSORBED BY INVESTING ACTIVITIES
+13.8 million	+17.1 million	+0.3 million

18.1 MILLION

CASH FLOWS GENERATED BY OPERATING ACTIVITIES

Chapter

13

Results of Saleri Shanghai Co., Ltd

The Saleri Group operates on the Asian market through subsidiary Saleri Shanghai Co. Ltd (95% owned) which manufactures and distributes 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 55% 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 making 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.

13.1. Income Statement of Saleri Shanghai Co., Ltd

The Company's reclassified Income Statement is as follows:

Table 13.1. Income Statement of Saleri Shanghai Co., Ltd

INCOME STATEMENT SALERI SHANGHAI CO. LTD	FY 2017		FY 2018		FY 2019		Δ 2019-2018	
	€ million	% on Revenues	€ million	% on Revenues	€ million	% on Revenues	€ million	% on Revenues
Revenue from ordinary operating activities	13.2	99.2%	14.6	98.0%	11.1	100.3%	-3.5	-24.0%
Other Revenue	0.1	0.8%	0.3	2.0%	(0.0)	(0.3%)	-0.3	-112.1%
Revenue from Sales	**13.3**	**100.0%**	**14.9**	**100.0%**	**11.1**	**100.0%**	**-3.8**	**-25.7%**
Direct Production Costs	(8.5)	(64.3%)	(8.8)	(58.6%)	(6.8)	(61.7%)	+1.9	-3.1%
Other Variable Production Costs	(0.3)	(2.4%)	(0.2)	(1.6%)	(0.2)	(2.0%)	+0.0	-0.3%
Production Labour Costs	(0.9)	(6.4%)	(1.1)	(7.1%)	(1.1)	(10.3%)	-0.1	-3.2%
Contribution Margin	**3.6**	**26.8%**	**4.9**	**32.7%**	**2.9**	**26.0%**	**-2.0**	**-6.6%**
Indirect Personnel	(0.4)	(2.8%)	(0.5)	(3.1%)	(0.4)	(3.8%)	+0.0	-0.7%
Other Indirect Costs	(1.1)	(8.4%)	(1.0)	(7.0%)	(0.8)	(7.4%)	+0.2	-0.4%
Indirect Costs	**(1.5)**	**(11.2%)**	**(1.5)**	**(10.1%)**	**(1.2)**	**(11.2%)**	**+0.3**	**-1.1%**
EBITDA	**2.1**	**15.6%**	**3.4**	**22.5%**	**1.6**	**14.8%**	**-1.7**	**-7.7%**
Depreciation & Amortisation	(1.0)	(7.7%)	(0.7)	(4.9%)	(0.7)	(6.3%)	+0.0	-1.4%
Allocations to Provisions	(0.0)	(0.2%)	-	0.0%	-	0.0%	-	+0.0%
Reclassification MA provisions for deferred expenses	(0.4)	(3.1%)	(0.5)	(3.2%)	(0.8)	(7.3%)	-0.3	-4.0%
Depreciation, Amortisation and Provisions	**(1.5)**	**(11.0%)**	**(1.2)**	**(8.2%)**	**(1.5)**	**(13.6%)**	**(0.3)**	**-5.4%**
EBIT	**0.6**	**4.6%**	**2.1**	**14.3%**	**0.1**	**1.3%**	**-2.0**	**-13.1%**
Financial Income (Expenses)	(0.3)	(2.0%)	(0.3)	(2.3%)	(0.1)	(1.3%)	+0.2	+1.0%
Non-Recurring Income (Expenses)	(0.0)	(0.0%)	(0.6)	(3.8%)	(0.0)	(0.4%)	+0.5	+3.4%
Result before Taxation	**0.3**	**2.5%**	**1.2**	**8.2%**	**(0.0)**	**(0.4%)**	**-1.3**	**-8.6%**
Taxation	(0.1)	(1.1%)	(0.4)	(2.4%)	0.0	0.0%	+0.4	+2.5%
Result for the Period	**0.2**	**1.4%**	**0.9**	**5.8%**	**(0.0)**	**(0.4%)**	**-0.9**	**-6.2%**

In 2019, Revenues amounted to € 11.1 million, a decrease of € 3.8 million (-25.7%) compared to 2018. Most of the decrease (€ 2.3 million) is due to lower sales of water pumps to the parent company because of a reduction in said company's finished goods inventories.

Meanwhile, the decrease relating to the Original Equipment market is due to the end of the life cycle of the key product sold to customer BMW Brilliance; it has been replaced by a new product, also awarded to the Company, which will have a significant impact from 2020 onwards (phase out – phase in). Inventory reduction policies and the start of the new production led to a temporary production shutdown which the Chinese subsidiary also used to alter and test its production machinery. EBITDA has decreased from € 3.4 million in 2018 to € 1.6 million (-€1.7 million), mainly because of the aforementioned reduction in sales as partially offset by lower indirect costs.

Depreciation and amortisation remain stable at € 0.7 million despite the disposal of mechanical engineering machinery no longer used in the production process which has been sold to the parent company as a consequence of the aforementioned capex relating to new products. The MA provisions for deferred expenses are increasing (€ 0.8 million, +€ 0.3 million compared to 2018).

The net loss for the year amounts to -€43 thousand and has decreased by 6.2% compared to 2018.

In 2019, the percentage of revenues generated by third party customers (around 40%), other than parent company Industrie Saleri Italo S.p.A., remained stable.

13.2 Balance Sheet of Saleri Shanghai Co., Ltd

The Company's reclassified Balance Sheet is set out below:

Table 13.2. Balance Sheet of Saleri Shanghai Co., Ltd

BALANCE SHEET SALERI SHANGHAI CO. LTD	FY 2017	FY 2018	FY 2019	Δ 2019-2018
	€ million	€ million	€ million	€ million
Tangible and Intangible Assets	3.9	3.6	3.3	-0.4
Financial Assets	-	-	-	-
Fixed Assets	**3.9**	**3.6**	**3.3**	**-0.4**
Trade Receivables	0.7	1.1	0.8	-0.3
Trade Payables	(1.5)	(2.3)	(2.1)	+0.3
Inventory	3.0	2.7	2.2	-0.6
Trade Working Capital	**2.1**	**1.5**	**0.9**	**-0.6**
Tax Receivables (Payables)	(0.1)	(0.1)	(0.1)	-0.0
Intra-Group Receivables (Payables)	1.6	1.9	1.9	+0.0
Other Current Assets (Liabilities)	0.1	0.0	0.2	+0.1
Prepaid Expenses and Acc. Income, Acc. Expenses and Def. Income	-	-	-	-
Provisions	-	-	-	-
Net Invested Capital	**7.6**	**7.0**	**6.1**	**-0.9**
Loans and Finance Leases	3.7	2.6	1.5	-1.1
Self-liquidating facilities	-	-	-	-
Current account facilities	(0.3)	(0.7)	(0.5)	+0.2
Cash Items	-	-	-	-
Net Financial Position	**3.4**	**1.9**	**1.0**	**-0.9**
Share Capital	2.0	2.0	2.0	-
Share Premium Reserve	-	-	-	-
Other Equity Reserve	2.1	2.2	3.2	+0.9
Profit for the Year	0.2	0.9	(0.0)	-0.9
Equity	**4.3**	**5.1**	**5.1**	**+0.0**
Sources of Funds	**7.6**	**7.0**	**6.1**	**(0.9)**

At 31 December 2019, invested capital decreased by €0.9 million compared to prior year; there were no significant changes to its make-up.

Fixed assets amount to € 3.63million and have decreased compared to prior year because of depreciation and amortisation and the disposal of machinery no longer used in the production process. The increase in intangible assets is due to deferred costs charged by the parent company in relation to the development of new contracts.

Trade Working Capital amounts to € 0.9 million. The decrease compared to prior year is mainly due to the decrease in inventories, a non-recurring effect relating to the end of the contract previously mentioned.

Decreases in trade receivables and trade payables are due to the same dynamics and should also be considered non-recurring.

Net Financial Position has decreased by € 0.9 million as a result of loan and finance lease repayments.

At 31 December 2019, 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

14

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.

The liquidation of Immobiliare Industriale Deutschland GmbH is still in progress and it is reasonable to expect that it will be completed in 2020 without any significant impact on the carrying amount of the investment in Immobiliare Industriale S.r.l.'s financial statements.

14.1 Income Statement of Immobiliare Industriale S.r.l.

The Company's reclassified Income Statement is as follows:

Table 14.1 Income Statement of Immobiliare Industriale S.r.l.

INCOME STATEMENT IMMOBILIARE INDUSTRIALE S.R.L.	FY 2017		FY 2018		FY 2019		△ 2019-2018	
	€ million	% on Revenues	€ million	% on Revenues	€ million	% on Revenues	€ million	% on Revenues
Revenue from ordinary operating activities	-	0.0%	-	0.0%	-	0.0%	-	+0.0%
Other Revenue	0.9	100.0%	0.9	100.0%	0.9	100.0%	+0.0	+0.6%
Revenue from Sales	**0.9**	**100.0%**	**0.9**	**100.0%**	**0.9**	**100.0%**	**+0.0**	**+0.6%**
Direct Production Costs	-	0.0%	-	0.0%	-	0.0%	-	+0.0%
Other Variable Production Costs	-	0.0%	-	0.0%	-	0.0%	-	+0.0%
Production Labour Costs	-	0.0%	-	0.0%	-	0.0%	-	+0.0%
Contribution Margin	**0.9**	**100.0%**	**0.9**	**100.0%**	**0.9**	**100.0%**	**+0.0**	**+0.0%**
Indirect Personnel	-	0.0%	-	0.0%	-	0.0%	-	+0.0%
Other Indirect Costs	(0.2)	(24.1%)	(0.1)	(10.9%)	(0.2)	(17.2%)	-0.1	-6.3%
Indirect Costs	**(0.2)**	**(24.1%)**	**(0.1)**	**(10.9%)**	**(0.2)**	**(17.2%)**	**-0.1**	**-6.3%**
EBITDA	**0.7**	**75.9%**	**0.8**	**89.1%**	**0.7**	**82.8%**	**-0.1**	**-6.3%**
Depreciation & Amortisation	(0.3)	(36.5%)	(0.3)	(37.7%)	(0.3)	(37.5%)	-	+0.2%
Allocations to Provisions	-	0.0%	-	0.0%	-	0.0%	-	+0.0%
Reclassification MA provisions for deferred expenses	-	0.0%	-	0.0%	-	0.0%	-	+0.0%
Depreciation, Amortisation and Provisions	**(0.3)**	**(36.5%)**	**(0.3)**	**(37.7%)**	**(0.3)**	**(37.5%)**	**-**	**+0.2%**
EBIT	**0.4**	**39.4%**	**0.5**	**51.4%**	**0.4**	**45.3%**	**-0.1**	**-6.1%**
Financial Income (Expenses)	(0.1)	(6.8%)	(0.0)	(4.6%)	(0.0)	(0.9%)	+0.0	+3.6%
Non-Recurring Income (Expenses)	0.2	25.4%	0.5	51.9%	0.0	2.6%	-0.4	-49.3%
Result before Taxation	**0.5**	**58.0%**	**0.9**	**98.7%**	**0.4**	**47.0%**	**-0.5**	**-51.7%**
Taxation	(0.1)	(8.6%)	(0.2)	(21.8%)	(0.1)	(13.6%)	+0.1	+8.2%
Result for the Period	**0.4**	**49.5%**	**0.7**	**76.9%**	**0.3**	**33.4%**	**-0.4**	**-43.6%**

In 2019, revenues amounted to € 0.9 million and consisted of rental income from the property in Capriano del Colle. The increase (+0.65% compared to 2018) is due to annual, index-linked rent rises.
There was zero non-recurring income in 2019. In prior year, it totalled € 0.5 million and included income from subsidiaries received following completion of the liquidation of foreign subsidiaries.
These amounts included € 0.1 million referring to an advance on liquidation proceeds received on 13 May 2018 from subsidiary Immobiliare Industriale Deutschland GMBH in liquidation.

The Company reports a Fiscal Year Net Result of € 0.3 million for 2019.

14.2 Balance Sheet of Immobiliare Industriale S.r.l.

The Company's reclassified Balance Sheet is set out below:

Table 14.2 Balance Sheet of Immobiliare Industriale S.r.l.

BALANCE SHEET IMMOBILIARE INDUSTRIALE S.R.L.	FY 2017	FY 2018	FY 2019	Δ 2019-2018
	€ million	€ million	€ million	€ million
Tangible and Intangible Assets	11.3	11.0	10.6	-0.3
Financial Assets	0.2	-	-	-
Fixed Assets	**11.5**	**11.0**	**10.6**	**-0.3**
Trade Receivables	-	-	-	-
Trade Payables	(0.0)	(0.0)	(0.0)	-0.0
Inventory	-	-	-	-
Trade Working Capital	**(0.0)**	**(0.0)**	**(0.0)**	**-0.0**
Tax Receivables (Payables)	0.1	0.1	0.1	+0.0
Intra-Group Receivables (Payables)	(0.1)	(0.3)	(0.2)	+0.2
Other Current Assets (Liabilities)	0.0	(0.0)	(0.0)	-0.0
Prepaid Expenses and Acc. Income, Acc. Expenses and Def. Income	0.0	0.0	0.0	-0.0
Provisions	-	-	(0.0)	-0.0
Net Invested Capital	**11.5**	**10.7**	**10.5**	**-0.2**
Loans and Finance Leases	2.1	0.7	-	-0.7
Self-liquidating facilities	-	-	-	-
Current account facilities	(0.2)	(0.2)	(0.0)	+0.2
Cash Items	-	-	-	-
Net Financial Position	**1.9**	**0.5**	**(0.0)**	**-0.5**
Share Capital	0.0	0.0	0.0	-
Share Premium Reserve	-	-	-	-
Other Equity Reserve	9.1	9.6	10.3	+0.7
Profit for the Year	0.4	0.7	0.3	-0.4
Equity	**9.6**	**10.3**	**10.6**	**+0.3**
Sources of Funds	**11.5**	**10.7**	**10.5**	**-0.2**

Fixed assets include land and buildings at Capriano al Colle (BS). Intangible assets have been fully amortised and solely consist of capitalised expenses relating to the spin-off operation carried out in 2015. Financial assets show a zero balance and only include the investment – written down in full in prior year - in Immobiliare Industriale Deutschland GMBH in liquidation (the liquidation process was launched in prior years but has not yet been completed).
Intra-Group payables amount to € 0.2 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. They also include the service fee payable for administrative services. Financial payables included the mortgage loan from Mediocredito Italiano S.p.A. which was repaid in full during the year. Cash and cash equivalents amount to € 0.01 million. The decrease of € 0.5 million is due to repayment of the aforementioned loan. Quota Capital amounts to € 10 thousand. Quotaholders' Equity amounts to € 10.6 million. No dividends were paid during 2019.

Chapter

15

Results of ABL Automazione S.r.l.

Since the acquisition of a controlling interest in ABL Automazione S.r.l. (on 1 August 2019), the Saleri Group has been active in the Industrial Automation segment through the subsidiary. The Group owns 70% of the subsidiary through vehicle company Hold.Co 1 S.r.l. which will be the subject of a reverse merger with ABL.
The Company's activities involve the construction of special machinery and industrial automation. This is a strategic segment for the Saleri Group, also because of the relations already forged in prior years which have resulted in the insertion of machinery and robots at the Group's factories.

The acquisition also seeks to achieve greater integration between the product design and development phase and mass production processes, to increase production efficiency, to consolidate quality standards and to pursue constant production improvement also while containing production costs.
The income statement and balance sheet set out below show ABL Automazione S.r.l.'s final results for 2019. As previously highlighted in the summary of consolidated results, ABL's income statement results form part of the scope of consolidation from the Company's data of acquisition on 1 August 2019.

15.1 Income Statement of ABL Automazione S.r.l.

The Company's reclassified Income Statement is as follows:

Table 15.1 Income Statement of ABL Automazione S.r.l.

INCOME STATEMENT ABL AUTOMAZIONE S.R.L.	FY 2018		FY 2019		Δ 2019-2018	
	€ million	% on Revenues	€ million	% on Revenues	€ million	% on Revenues
Revenue from ordinary operating activities	-	0.0%	-	0.0%	-	+0.0%
Other Revenue	11.2	100.0%	15.5	100.0%	+4.3	+38.6%
Revenue from Sales	**11.2**	**100.0%**	**15.5**	**100.0%**	**+4.3**	**+38.6%**
Direct Production Costs	(5.6)	(50.2%)	(8.5)	(55.0%)	-2.9	-4.8%
Other Variable Production Costs	(0.4)	(3.4%)	(0.4)	(2.3%)	+0.0	+1.1%
Production Labour Costs	(2.7)	(24.2%)	(2.8)	(18.3%)	-0.1	+5.9%
Contribution Margin	**2.5**	**22.2%**	**3.8**	**24.4%**	**+1.3**	**+2.1%**
Indirect Personnel	(0.8)	(7.2%)	(0.8)	(5.3%)	-0.0	+1.8%
Other Indirect Costs	(1.1)	(9.9%)	(1.2)	(7.7%)	-0.1	+2.2%
Indirect Costs	**(1.9)**	**(17.0%)**	**(2.0)**	**(13.0%)**	**-0.1**	**+4.0%**
EBITDA	**0.6**	**5.2%**	**1.8**	**11.4%**	**+1.2**	**+6.2%**
Depreciation & Amortisation	(0.0)	(0.4%)	(0.0)	(0.3%)	-0.0	+0.0%
Allocations to Provisions	-	0.0%	(0.2)	(1.1%)	-0.2	-1.1%
Reclassification MA provisions for deferred expenses	-	0.0%	-	0.0%	-	+0.0%
Depreciation, Amortisation and Provisions	**(0.0)**	**(0.4%)**	**(0.2)**	**(1.4%)**	**-0.2**	**-1.1%**
EBIT	**0.5**	**4.9%**	**1.5**	**10.0%**	**+1.0**	**+5.1%**
Financial Income (Expenses)	(0.0)	(0.3%)	(0.0)	(0.2%)	+0.0	+0.2%
Non-Recurring Income (Expenses)	(0.0)	(0.0%)	0.0	0.1%	+0.0	+0.1%
Result before Taxation	**0.5**	**4.5%**	**1.5**	**9.9%**	**+1.0**	**+5.3%**
Taxation	(0.2)	(1.4%)	0.0	0.1%	+0.2	+1.5%
Result for the Period	**0.4**	**3.2%**	**1.5**	**10.0%**	**+1.2**	**+6.8%**

The company operates in the special machinery construction segment and accounts for progress with its activities based on specific contracts. Sales and margins thereon are realised when ownership of the goods changes hands. Contracts in progress whose sale has not yet been completed are accounted for in inventory as goods destined for sale under "Work in Progress".

In 2019, revenues amounted to € 15.5 million and consisted of sales of contracts completed and delivered. The increase (+ € 4.3 million compared to 2018) is due to the timing of completion of contracts.

Direct production costs amount to € 8.5 million (55.0% of revenues) and have increased compared to prior year (€ 5.6 million in 2018 i.e. 50.2% of revenues), also as a result of the status of inventory of contracts in progress as recorded in inventory as 'Work in Progress'.

Other variable production costs are in line with prior year (€ 0.4 million) while Production labour costs amount to € 2.8 million (18.3% of revenues) as a result of exceptional, increased use of external labour. In 2018, this figure amounted to € 2.7 million (24.2% of revenues) due to the state of completion of contracts not delivered in prior year and remaining in 'Work in Progress' inventory.

Indirect costs amount to € 2.0 million with a slight increase compared to prior year (€ 1.9 million). Indirect costs have decreased by 4.0pp as a percentage of revenues. The higher level of costs is due to a non-recurring effect regarding overlap of the governance structure following the acquisition of the Company.

As a result of the above, EBITDA amounts to € 1.8 million (11.4% of revenues) and has increased compared to prior year (€ 0.6 million, 5.2% of revenues).

Depreciation and amortisation includes depreciation of production assets and amortisation of intangible assets. The total is not significant (€ 47 thousand).

Allocations to provisions includes the amount of €0.17 million allocated to the provision for future costs in relation to contracts to be completed. Due to the reversal of the deferred tax provision and the recognition of deferred tax assets, the total amount of taxes is € 20 thousand.

The Company reports a positive Net Result of € 1.5 million for 2019.

15.2 Balance Sheet of ABL Automazione S.r.l.

The Company's reclassified Balance Sheet is set out below:

Table 15.2 – Balance Sheet of ABL Automazione S.r.l.

BALANCE SHEET ABL AUTOMAZIONE S.R.L.	FY 2018	FY 2019	Δ 2019-2018
	€ million	€ million	€ million
Tangible and Intangible Assets	0.2	0.1	-0.0
Financial Assets	-	-	-
Fixed Assets	**0.2**	**0.1**	**-0.0**
Trade Receivables	0.8	2.6	+1.8
Trade Payables	(2.6)	(1.8)	+0.7
Inventory	4.7	2.5	-2.2
Trade Working Capital	**2.9**	**3.3**	**+0.4**
Tax Receivables (Payables)	0.5	0.6	+0.1
Intra-Group Receivables (Payables)	-	1.3	+1.3
Other Current Assets (Liabilities)	(5.7)	(2.4)	+3.2
Prepaid Expenses and Acc. Income, Acc. Expenses and Def. Income	0.0	0.0	-0.0
Provisions	(1.4)	(1.1)	+0.2
Net Invested Capital	**(3.4)**	**1.8**	**+5.1**
Loans and Finance Leases	0.5	0.7	+0.3
Self-liquidating facilities	0.0	0.2	+0.2
Current account facilities	(3.4)	(0.4)	+3.0
Cash Items	(0.8)	(0.6)	+0.2
Net Financial Position	**(3.6)**	**(0.0)**	**+3.6**
Share Capital	0.8	0.8	-
Share Premium Reserve	-	-	-
Other Equity Reserve	(0.8)	(0.5)	+0.4
Profit for the Year	0.4	1.5	+1.2
Equity	**0.3**	**1.8**	**+1.5**
Sources of Funds	**(3.4)**	**1.8**	**+5.1**

At 31 December 2019, invested capital increased by € 5.1 million compared to prior year with significant changes in its component items.

Fixed assets amount to € 0.1 million and have decreased because of depreciation. The Company's production activities do not require significant investment in production assets.

The Company operates on a contract basis so Trade Working Capital varies significantly depending on the state of completion of the contracts. At 31 December 2019, Trade Working Capital totalled € 3.3 million. The increase compared to prior year is mainly due to higher trade receivables (+ € 1.8 million).

Inventories have been measured at cost. The amount relating to inventory of components, not relating to contracts, has remained stable while contract work in progress has decreased by € 2.2 million as a result of changes in contracts included in inventory in relation to their state of completion.

Trade Receivables has to be measured together with "Other Current Assets and Liabilities" and "Intra-Group Receivables and Payables" as the former includes advance payments received from customers in relation to contract milestones/progress and the latter regards the separation of balances with the Saleri Group that were previously classified in Working Capital. The sum of these three captions is + € 1.5 million compared to - € 4.8 at 31 December 2018: in this case, too, it must be stressed that the state of completion of contracts influenced the closing balances.

The net financial position has deteriorated by € 3.6 million due to a € 3.0 million reduction in current account balances, an increase in certain loans and a decrease in current securities considered akin to cash items.

At 31 December 2019, Quotaholders' equity amounts to € 1.8 million and has increased compared to prior year thanks to the net profit for the period (€ 1.5 million).

No dividends were distributed during the period.

Chapter
16

Results of Hold.Co 1 S.r.l.

This company was incorporated on 23 July 2019 – it is owned 30% by Berfin S.r.l. (a company owned by the former owners of ABL Automazione S.r.l.) and 70% by Industrie Saleri Italo S.p.A. – in order to acquire 100% of the quota capital of ABL Automazione S.r.l.. A reverse merger between Hold.Co 1 and ABL is planned by the end of 2020.

The income statement and balance sheet set out below show Hold.Co 1 S.r.l.'s closing results for 2019. As the Company was incorporated in 2019, there are no prior year comparative figures.

16.1 Income Statement of Hold.Co 1 S.r.l.

The Company's reclassified Income Statement is as follows:

Table 16.1 Income Statement of Hold.Co 1 S.r.l.

INCOME STATEMENT HOLD.CO 1 S.R.L.	FY 2019	
	€ million	% on Revenues
Revenue from ordinary operating activities	-	0.0%
Other Revenue	-	0.0%
Revenue from Sales	**-**	**0.0%**
Direct Production Costs	-	0.0%
Other Variable Production Costs	-	0.0%
Production Labour Costs	-	0.0%
Contribution Margin	**-**	**0.0%**
Indirect Personnel	-	0.0%
Other Indirect Costs	(0.1)	0.0%
Indirect Costs	**(0.1)**	**0.0%**
EBITDA	**(0.1)**	**0.0%**
Depreciation & Amortisation	-	0.0%
Allocations to Provisions	-	0.0%
Reclassification MA provisions for deferred expenses	-	0.0%
Depreciation, Amortisation and Provisions	**-**	**0.0%**
EBIT	**(0.1)**	**0.0%**
Financial Income (Expenses)	(0.0)	0.0%
Non-Recurring Income (Expenses)	-	0.0%
Result before Taxation	**(0.1)**	**0.0%**
Taxation	-	0.0%
Result for the Period	**(0.1)**	**0.0%**

As the Company's sole purpose was to acquire ownership of ABL Automazione s.r.l., it does not have any sales activities. In 2019, it booked indirect costs of € 68 thousand for legal and notary services and stamp duty of € 4 thousand.

The Company has also incurred financial expenses of € 10 thousand on the loan arranged to finance the acquisition of ABL Automazione S.r.l..

The Company reports a net loss of € 82 thousand for 2019.

16.2 Balance Sheet of Hold.Co 1 S.r.l.

The Company's reclassified Balance Sheet is as follows:

Table 16.2 – Balance Sheet of Hold.Co 1 S.r.l.

BALANCE SHEET HOLD.CO 1 S.R.L.	FY 2019
	€ million
Tangible and Intangible Assets	-
Financial Assets	2.5
Fixed Assets	**2.5**
Trade Receivables	-
Trade Payables	(0.0)
Inventory	-
Trade Working Capital	**(0.0)**
Tax Receivables (Payables)	(0.0)
Intra-Group Receivables (Payables)	(0.0)
Other Current Assets (Liabilities)	-
Prepaid Expenses and Acc. Income, Acc. Expenses and Def. Income	0.0
Provisions	-
Net Invested Capital	**2.5**
Loans and Finance Leases	1.8
Self-liquidating facilities	-
Current account facilities	(0.0)
Cash Items	-
Net Financial Position	**1.8**
Share Capital	0.0
Share Premium Reserve	-
Other Equity Reserve	0.8
Profit for the Year	(0.1)
Equity	**0.7**
Sources of Funds	**2.5**

At 31 December 2019, invested capital amounted to € 2.5 million and mainly consisted of the value of the investment in ABL Automazione S.r.l..
The net financial position shows debt of € 1.8 million, mainly in respect of the loan arranged to finance the acquisition of the above investment.

At 31 December 2019, Quotaholders' equity amounts to € 0.7 million and includes Quota Capital (€ 10 thousand) and the Extraordinary Reserve (€ 795 thousand). The net loss for the period amounts to € 82 thousand.

No dividends were distributed during the period.

Chapter

17

Intra-Group Relations

Intra-Group relations, whether commercial or financial, take place on an arm's length basis.
In 2019, there were no atypical and/or unusual transactions or transactions not forming part of ordinary business activities or such as to significantly influence the Company's income statement, balance sheet and financial position.

The following table shows the amounts relating to transactions with Group companies. Amounts are stated in thousands of Euro:

Table 17.1 – Intra-Group income statement relations

Issuer Revenues	Receiving Costs	Revenues for goods and services	Other Revenues	Interest Income	Costs for goods and services	Interest Expense	Revenue Not Consolidated	Costs Not Consolidated
Industrie Saleri Italo S.p.A.	Saleri Shanghai Co. Ltd	730.0	-	-	730.0	-	-	-
Industrie Saleri Italo S.p.A.	Immobiliare Industriale S.r.l.	25.0	-	-	25.0	-	-	-
Industrie Saleri Italo S.p.A.	Hold.Co 1 S.r.l.	-	-	0.0	-	0.0	-	-
Industrie Saleri Italo S.p.A.	Saleri GMBH	-	-	0.1	-	0.1	0.1	-
Industrie Saleri Italo S.p.A.	Saleri Mexico S.A. de C.V.	-	-	0.1	-	0.1	-	-
Saleri Shanghai Co. Ltd	Industrie Saleri Italo S.p.A.	6,146.6	-	-	6,146.6	-	0.1	-
Saleri GMBH	Industrie Saleri Italo S.p.A.	59.6	-	-	59.6	-	-	59.6
ABL Automazione S.r.l.	Industrie Saleri Italo S.p.A.	2,207.5	-	-	2,207.5	-	-	-
ABL Automazione S.r.l.	Saleri Mexico S.A. de C.V.	555.0	-	-	555.0	-	555.0	-
ABL Automazione S.r.l.	Saleri Shanghai Co. Ltd	2.0	-	-	2.0	-	-	-
Total		**9,725.7**	**-**	**0.2**	**9,725.7**	**0.2**	**555.1**	**59.6**

Table 17.2 – Intra-Group financial relations

Company	Credits	Debts	Credits Not Consolidated	Debts Not Consolidated
Industrie Saleri Italo S.p.A.	1,683.8	3,856.7	279.7	64.9
Saleri Shanghai Co. Ltd	2,778.1	913.6	0.0	0.0
Immobiliare Industriale S.r.l.	-	180.5	0.0	0.0
ABL Automazione S.r.l.	1,570.4	291.9	554.6	0.0
Hold.Co 1 S.r.l.	-	20.0	0.0	0.0
Saleri Mexico S.r.l.	2.3	782.7	-	-
Saleri GMBH	62.6	51.7	-	-
Total	**6,097.1**	**6,097.1**	**834.4**	**64.9**

FUTURO

We work every day putting in field competences and methods with an oriented vision towards the future, trying to anticipate market scenarios to be ready and responsive. For several years now, our production has been almost totally robotized and composed by different production lines. This implementation perfectly completes the fundamental R&D activity we carry on, also based on products of highly technological content.
We challenge the future aiming to consolidate our technological partner role, with the ambition of being able to contribute tracing the routes of innovation thanks to the results of the researches developed in our departments.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Consolidated Financial Statements at 31.12.2019

General information about the Company

General details

Registered office	Via Ruca 406, San Sebastiano 25065 Lumezzane (BS)
Tax Number	03066870175
Business Database/REA Number	BS 317605
VAT Number	01589150984
Share Capital in Euro	Euro 17,922,413 wholly paid
Legal form	Società per Azioni (Joint stock company)
Main business segment (ATECO)	29.32.09
Is company in liquidation?	no
Does company have a single shareholder	no
Is company subject to management and coordination by another entity	no
Does company belong to a Group	yes
Name of holding company	EL.FRA HOLDING S.R.L.
Country of holding company	Italy

Consolidated balance sheet

	31/12/2019	31/12/2018
BALANCE SHEET		
ASSETS		
B) Non-current assets		
I - Intangible assets		
1) start-up and expansion costs	-	22,184
2) development costs	1,461,286	1,968,838
3) patents and intellectual property rights	494,097	68,503
5) goodwill	2,864,632	-
6) assets in progress and payments on account	3,058,816	866,589
7) other	3,358,914	2,739,063
Total intangible assets	**11,237,745**	**5,665,177**
II - Tangible assets		
1) land and buildings	30,606,970	31,576,671
2) plant and machinery	34,591,771	34,041,048
3) industrial and commercial equipment	4,727,303	4,571,396
4) other tangible assets	1,344,095	1,617,241
5) assets under construction and payments on account	2,111,767	3,365,209
Total tangible assets	**73,381,906**	**75,171,565**
III - Financial assets		
1) investments in		
a) subsidiaries	31,192	25,000
d-bis) other entities	4,247	4,247
Total investment	**35,439**	**29,247**
3) other securities	6,340	7,111
4) derivative instruments	13	742
Total non-current financial assets	**41,792**	**37,100**
Total non-current assets (B)	**84,661,443**	**80,873,842**

	31/12/2019	31/12/2018
BALANCE SHEET		
ASSETS		
C) Current assets		
I - Inventory		
1) Raw, ancillary and consumable materials	13,119,874	10,665,850
2) Work in progress and semi-finished goods	3,233,937	3,030,923
3) Contract work in progress	1,956,148	-
4) Finished goods	12,778,157	16,497,170
5) Payments on account	131,253	746,998
Total inventory	**31,219,369**	**30,940,941**
II - Receivables		
1) Trade accounts		
Due within a year	9,640,433	13,094,517
Total trade receivables	**9,640,433**	**13,094,517**
2) From subsidiaries		
Due within a year	834,389	22,410
Total receivables from subsidiaries	**834,389**	**22,410**
4) From parent companies		
Due within a year	-	3,466
Total receivables from parent companies	**-**	**3,466**
5-bis) Tax receivables		
Due within a year	1,714,957	2,365,666
Total tax receivables	**1,714,957**	**2,365,666**
5-ter) Deferred tax assets	5,752,077	4,466,834
5-quater) From others		
Due within a year	4,685,721	15,027,427
Due after more than a year	156,030	257,610
Total receivables from others	**4,841,751**	**15,285,037**
Total receivables	**22,783,607**	**35,237,930**
III - Current financial assets		
1) Investments in subsidiaries	-	1,000
4) Other investments	13,294	13,294
6) Other securities	566,233	-
Total current financial assets	**579,527**	**14,294**
IV - Cash and cash equivalents		
1) Bank and post office accounts	7,952,094	3,034,675
3) Cash and cash equivalents on hand	14,336	7,764
Total cash and cash equivalents	**7,966,430**	**3,042,439**
Total current assets (C)	**62,548,933**	**69,235,604**
D) Prepaid expenses and accrued income	**1,491,447**	**2,209,601**
Total assets	**148,701,823**	**152,319,047**

	31/12/2019	31/12/2018
LIABILITIES AND SHAREHOLDERS' EQUITY		
PASSIVE		
A) Shareholders' equity of Group		
I - Share capital	**17,922,413**	**17,922,413**
II - Share premium reserve	**7,696,219**	**10,237,587**
III - Revaluation reserves	**2,832,678**	**2,832,678**
IV - Legal reserve	**1,134,850**	**1,032,000**
VI - Other reserves, disclosed separately		
Consolidation reserve	3,379,172	3,379,172
Reserve for translation differences	(152,125)	(198,927)
Sundry other reserves	364,052	364,052
Total other reserves	**3,591,099**	**3,544,297**
VIII - Retained earnings (accumulated losses)	**4,409,479**	**(1,448,776)**
IX - Profit (Loss) for the year	**2,139,554**	**3,390,729**
X - Negative reserve for treasury shares held	**(285,014)**	**-**
Total shareholders' equity of Group	**39,441,278**	**37,510,928**
Shareholders' equity of non-controlling interests		
Capital and reserves of non-controlling interests	4,159,643	3,813,938
Profit (Loss) of non-controlling interests	633,975	298,153
Total shareholders' equity of non-controlling interests	**4,793,618**	**4,112,091**
Total consolidated shareholders' equity	**44,234,896**	**41,623,019**
B) Provisions for risks and charges		
2) taxation, including deferred tax	2,579,474	2,621,021
3) derivative instruments	-	16,109
4) other	1,927,908	1,700,000
Total provisions for risks and charges	**4,507,382**	**4,337,130**

	31/12/2019	31/12/2018
LIABILITIES AND SHAREHOLDERS' EQUITY		
PASSIVE		
C) Employee severance indemnity (TFR) provision	**2,498,523**	**1,581,848**
D) Payables		
3) Shareholder loans payable		
Due after more than a year	525,000	-
Total shareholder loans payable	**525,000**	**-**
4) Bank borrowing		
Due within a year	15,475,568	21,059,976
Due after more than a year	20,085,807	26,789,631
Total bank borrowing	**35,561,375**	**47,849,607**
5) Payables to other lenders		
Due within a year	6,170,308	3,857,443
Due after more than a year	6,801,737	9,728,042
Total payables to other lenders	**12,972,045**	**13,585,485**
6) payments on account		
due within a year	2,609,486	876,098
Total payments on account	**2,609,486**	**876,098**
7) Trade accounts	37,287,165	36,034,060
Due within a year	37,287,165	36,034,060
Total trade payables	**37,287,165**	**36,034,060**
9) payables to subsidiaries		
Due within a year	64,896	101,837
Total payables to subsidiaries	**64,896**	**101,837**
12) Tax payables		
Due within a year	1,412,777	1,055,424
Total tax payables	**1,412,777**	**1,055,424**
13) payables to social security and pensions institutions		
due within a year	1,742,251	1,407,451
Total payables to social security and pensions institutions	**1,742,251**	**1,407,451**
14) other payables		
due within a year	4,523,044	**3,281,602**
Total other payables	**4,523,044**	**3,281,602**
Total payables	**96,698,039**	**104,191,564**
E) Accrued expenses and deferred income	**762,983**	**585,486**
Total liabilities and shareholders' equity	**148,701,823**	**152,319,047**

Consolidated income statement

	31/12/2019	31/12/2018
INCOME STATEMENT		
A) Value of production		
1) revenue from sales and services	155,189,329	154,550,726
2) change in inventory of work in progress, semi-finished and finished goods	(3,621,862)	3,588,614
3) change in contract work in progress	(3,351,863)	-
4) increases in non-current assets due to internal works	2,636,056	913,274
5) other revenues and income		
operating grant income	12,195	-
other	7,716,628	26,979,205
Total other revenue and income	**7,728,823**	**26,979,205**
Total value of production	**158,580,483**	**186,031,819**
B) Cost of production		
6) raw, ancillary and consumable materials and goods	76,176,211	96,051,109
7) services	35,052,430	41,001,771
8) use of third party assets – lease and rental costs	1,938,417	1,685,109
9) personnel costs		
a) wages and salaries	21,669,589	18,192,448
b) social contributions	6,333,063	5,295,046
c) employee severance indemnity / TFR	1,081,372	928,941
e) other personnel costs	188,721	212,810
Total personnel costs	**29,272,745**	**24,629,245**
10) depreciation, amortisation and writedowns		
a) amortisation of intangible assets	1,914,496	1,762,311
b) depreciation of tangible assets	9,830,286	9,433,176
c) other writedowns of non-current assets	0	1,560,488
d) writedowns of current receivables and cash and cash equivalents	45,007	0
Total depreciation, amortisation and writedowns	**11,789,789**	**12,755,975**
11) change in inventory of raw, ancillary and consumable materials and goods	(1,981,983)	(1,219,457)
13) other allocations to provisions	1,136,088	1,400,000
14) sundry operating expenses	1,298,698	3,314,796
Total production costs	**154,682,395**	**179,618,548**
Difference between value and cost of production (A - B)	**3,898,088**	**6,413,271**

INCOME STATEMENT	31/12/2019	31/12/2018
C) Financial income and expenses		
15) income from investments		
from subsidiaries	22,900	459,641
Total income from investments	**22,900**	**459,641**
16) other financial income		
b) from securities in non-current assets other than equity investments	290	119
c) from securities in current assets other than equity investments	15,685	-
d) income other than the above		
from subsidiaries	146	-
other	17,497	11,268
Total income other than the above	**17,643**	**11,268**
Total other financial income	**33,618**	**11,387**
17) interest and other financial expenses		
other	1,716,657	2,223,360
Total interest and other financial expenses	**1,716,657**	**2,223,360**
17-bis) exchange gains and losses	(22,206)	(139,193)
Total financial income and expenses (15 + 16 - 17 + - 17-bis)	**(1,682,345)**	**(1,891,525)**
D) Adjustments to value of financial assets and liabilities		
18) revaluations		
d) of derivative instruments	16,109	44,516
Total revaluations	**16,109**	**44,516**
19) writedowns		
a) of investments	770	217,125
d) of derivative instruments	729	5,501
Total writedowns	**1,499**	**222,626**
Total adjustments to value of financial assets and liabilities (18 - 19)	**14,610**	**(178,110)**
Profit before taxation (A - B + - C + - D)	**2,230,353**	**4,343,636**
20) Taxes on income for the year: current, deferred and deferred tax income		
current taxes	-584,701	-763,645
prior year taxes	339,304	73,759
deferred tax and deferred tax income	1,467,181	391,441
income (expenses) from participation in tax consolidation/fiscal transparency	-	(208,791)
Total taxes on income for the year: current, deferred and deferred tax income	**543,176**	**-654,754**
21) Consolidated profit (loss) for the year	2,773,529	3,688,882
Profit pertaining to the Group	**633,975**	**3,390,729**
Profit pertaining to non-controlling interests	**2,139,554**	**298,153**

Consolidated statement of cash flows, indirect method

	31/12/2019	31/12/2018
STATEMENT OF CASH FLOWS, INDIRECT METHOD		
A) Cash flows from operating activities (indirect method)		
Profit (Loss) for the year	2,773,529	3,688,882
Taxes on income	(543,176)	654,754
Interest expenses/(income)	1,682,345	1,891,525
(Gains)/Losses on disposal of assets	(1,276)	726,238
1) Profit (Loss) for the year before taxes on income, interest, dividends and gains/losses on disposals	3,911,422	6,961,399
Adjustments for non-cash items with no impact on net working capital		
Allocations to provisions	2,898,077	2,522,162
Depreciation/amortisation of non-current assets	11,744,782	11,195,487
Impairment adjustments/writedowns	(476,977)	1,777,613
Adjustments to value of financial assets and liabilities re derivatives not involving cash flows	(15,380)	(39,015)
Other adjustments for non cash items	(1,270,696)	(1,682,278)
Total adjustments for non-cash items with no impact on net working capital	**12,879,806**	**13,773,969**
2) Cash flows before changes in net working capital	16,791,228	20,735,368
Changes in net working capital		
Decrease/(Increase) in inventory	(288,208)	(5,343,517)
Decrease/(Increase) in trade receivables	3,454,084	(1,684,517)
Increase/(Decrease) in trade payables	1,253,105	9,022,736
Decrease/(Increase) in prepaid expenses and accrued income	718,154	(242,821)
Increase/(Decrease) in accrued expenses and deferred income	177,497	516,886
Other decreases/(Other increases) in net working capital	14,444,480	(15,129,525)
Total changes in net working capital	**19,759,112**	**(12,860,758)**
3) Cash flows after changes in net working capital	36,550,340	7,874,610
Other adjustments		
Interest received/(paid)	(1,468,055)	(1,630,801)
(Taxes on income paid)	(642,485)	(793,827)
(Use of provisions)	(2,534,030)	(2,202,971)
Total other adjustments	**(4,644,570)**	**(4,627,599)**
Cash flows from operating activities (A)	**31,905,770**	**3,247,011**
B) Cash flows from investing activities		
Tangible assets		
(Additions)	(8,131,906)	(11,304,455)
Disposals	237,010	416,120
Intangible assets		
(Additions)	(4,267,275)	(3,885,809)
Financial assets		
(Additions)	(6,192)	(100,065)
Disposals	-	633,224
Current financial assets		
Disposals	199,915	-
(Acquisition of subsidiaries net of cash and cash equivalents)	(2,351,645)	-
Cash flows from investing activities (B)	**(14,320,093)**	**(14,240,985)**

	31/12/2019	31/12/2018
STATEMENT OF CASH FLOWS, INDIRECT METHOD		
C) Cash flows from financing activities		
Debt		
Increase/(Decrease) in short-term bank borrowing	(3,271,543)	(19,480,676)
Loans arranged	525,000	12,961,310
(Loans repaid)	(9,630,129)	(9,832,754)
Equity		
Paid share capital increase	-	23,000,000
Sale/(Purchase of treasury shares	(285,014)	-
Cash flows from financing activities (C)	**(12,661,686)**	**6,647,880**
Increase (decrease) in cash and cash equivalents (A ± B ± C)	**4,923,991**	**(4,346,094)**
Cash and cash equivalents at start of period		
Bank and post office accounts	3,034,675	7,355,174
Cash and cash equivalents on hand	7,764	33,359
Total cash and cash equivalents at start of period	**3,042,439**	**7,388,533**
Cash and cash equivalents at end of period		
Bank and post office accounts	7,952,094	3,034,675
Cash and cash equivalents on hand	14,336	7,764
Total cash and cash equivalents at end of period	**7,966,430**	**3,042,439**
Acquisition or disposal of subsidiaries		
Total consideration paid or received	2,500,000	-
Part of consideration consisting of cash	750,000	-
Cash and cash equivalents acquired or sold in transactions for acquisition / disposal of subsidiaries	182,518	-
Carrying amount of assets/liabilities acquired or sold	(650,026)	-

INDUSTRIE SALERI ITALO S.p.A.
Via Ruca n. 406 – Lumezzane (BS)
Share capital Euro 23,922,413.12 – wholly paid
Tax number and Brescia Register of Companies no. 03066870175
VAT number 01589150984

Notes to the Consolidated Financial Statements at 31 December 2019

General information

The Consolidated Financial Statements at 31 December 2019, 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 31/12/2019 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 31/12/2019.
The financial statements reflect a change in the scope of consolidation between 2018 and 2019, as described in more detail below. The Balance Sheet, Income Statement and Statement of Cash Flows amounts at 31/12/2019 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 amounts 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.

Foreword

The Consolidated Financial Statements at 31 December 2019 were prepared at the time of the pandemic caused by the Coronavirus called "Covid-19", which spread in Italy and in the rest of the world from the first few months of 2020 and involved a period of lockdown of production activities.
The Saleri Group began to deal with the risk of the Covid-19 epidemic at the end of January following signs of alarm in China. In that country, in compliance with the orders of the local government, subsidiary Saleri Shanghai suspended its activities and postponed employees' return to work after the Chinese New Year Holidays. Production activities recommenced fully in April.
The Prime Minister's Decree ("DPCM ") of 22 March 2020 ordered the suspension of most non-essential business activities with resulting effects on the productivity, profitability, finances, employment and markets of businesses in Italy and internationally.
The suspension affected both the Parent Company and ABL which continued to operate only as permitted by the aforementioned DPCM to guarantee the supply of goods and services to business sectors considered strategic to the national economy. They also facilitated smart working where possible and encourage employees to use their annual leave. Above all, the Group complied with the new legal requirements with the fundamental aim of safeguarding the health of its workers, the most important concern in a period of such great difficulty.
Decree Law no 18 of 17 March 2020 ("the Curing Italy" decree) contained urgent measures for businesses, workers and families in relation to the Coronavirus (COVID-19) emergency and these included an extension of the deadline by which the 2019 Financial Statements have to be approved. Specifically, Article 106 of the Decree Law establishes that, by way of derogation from the usual rules and from the articles of association, the Company's Ordinary General Meeting to approve the financial statements at 31 December 2019 may be convened within 180 days of the reporting date. However, the health emergency meant that the Company and several subsidiaries were unable to approve their Financial Statements by this later deadline and, in order to obtain

information from the subsidiaries for inclusion in the Consolidated Financial Statements, the Board of Directors further postponed approval beyond the date of 28 June 2020.
The DPCMs issued between 22 March 2020 and now have regulated measures for private individuals and businesses designed to combat the spread of the virus. Moreover, Decree Law no 18 of 17 March 2020 ("Curing Italy" decree), Decree Law no 23 of 8 April 2020 ("Liquidity Decree") and Decree Law no 34 of 19 May 2020 (the "Relaunch Decree") have introduced a range of diverse measures (financial, fiscal, employment law, medical/health etc) in order to regulate, inter alia, various aspects regarding business operations during the Covid-19 pandemic.
In particular, Article 38-iv of Decree Law no 34 of 19 May 2020 established that, when preparing the 2020 financial statements, the amounts reported may be measured on a going concern basis if that basis was properly applied in the financial statements for the last reporting period ended prior to 23 February 2020 (i.e. the financial statements at 31 December 2019 for entities whose annual reporting period follows the calendar year) and extended said provisions to financial statements for periods ended before 23 February 2020 but not yet approved i.e. for annual financial statements at 31 December 2019.
Pursuant to Article 2427 (1)(22-iv) of the Italian Civil Code and Italian Accounting Standards (specifically, Standard OIC 29), the health emergency is not classified as an event after the reporting period that must be reflected in the assets and liabilities reported in the Financial Statements at 31 December 2019, as it occurred after that date. However, given its significance, the health emergency is similar to a natural calamity occurring in the period after the reporting period and related disclosures are provided in these Notes.
The situation triggered by the pandemic and the resulting restrictions on the operations of the industry as a whole required the Group to act swiftly to adopt the measures necessary to reduce the risks that could have affected its ability to operate as a going concern.
Based on its short-term forecast of treasury requirements, the Group duly signed up to initiatives launched with the Italian Government in order to (i) obtain a moratorium on debt repayments and to (ii) obtain new loans accompanied by Public Guarantees. The related requests were promptly made by the Parent Company and ABL Automazione S.r.l. and are almost all still at the stage of finalisation. However, with regard to the debt moratorium requests, the Banks involved have already suspended repayment of instalments falling due.
Moreover, in anticipation of a return to full activities, the Group has maintained close contact with leading customers and suppliers in order to reschedule deliveries after said customers and suppliers expressed their interest in continuing with business relations.
The Group has drawn up and is constantly updating a timetable for the restoration of production activities. This has led to the start of sanitisation activities at production facilities and the adoption of all of the safety measures required by the Government and, for the Italian Companies, by Trade Union Agreements and Industry Association guidelines.
Given the above and in consideration of all of the action taken to deal with the state of emergency caused by the pandemic, we do not believe there is any significant uncertainty over the Group and the Company's ability to operate as a going concern. This is not only in light of Article 38-iv of Decree Law no 34 of 19 May 2020 which permits the going concern outlook to be assessed based on the most recent published Financial Statements, in place of a prospective assessment of the next 12 months, but also considering the fact that the initiatives undertaken by the Group have made it possible to handle the crisis situation in such a way as not to compromise the Group's economic and financial equilibrium. Reference should be made to the "Information on significant events after the reporting period" paragraph for further details of these initiatives. Accordingly, the Consolidated Financial Statements at 31 December 2019 have been prepared on a going concern basis.
Reference should also be made to the Directors' Report for further information on the above.

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.

With effect from 31/07/2019, through subsidiary ABL Automazione S.r.l., the Group has also carried out the design and realisation of industrial automation systems, specifically, automated equipment for hi-tech robotised assembly destined for the Automotive and Oil&Gas industries.

Through subsidiary Immobiliare Industriale 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.

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 2019 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 7.8205;
- for income statement items, the average rate for 2019 is Euro 1: Renmimbi 7.7355.

Scope of consolidation

The scope of consolidation at 31 December 2019 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 case, 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 2018, the scope of consolidation has undergone two changes with the inclusion of subsidiaries Hold.Co 1 S.r.l. and ABL Automazione S.r.l..
Hold.Co 1 S.r.l. was incorporated on 23/07/2019 with 70% of Quota Capital paid by parent company Industrie Saleri Italo S.p.A.. The remaining 30% is held by third parties.
The company's only asset is a 100% investment in ABL Automazione S.r.l., as held since 31/07/2019.
On 04/10/2019, the parent company also incorporated Saleri México S.A. de C.V., a 99.00% owned subsidiary. The other 1.00% is held by El.Fra Holding S.r.l. holding company of Industrie Saleri Italo S.p.A..

The companies included in the scope of consolidation on a line-by-line basis are listed below:

Parent company

NAME	REGISTERED OFFICE	SHARE CAPITAL
Industrie Saleri Italo S.p.A.	Via Ruca, 406 – Lumezzane (BS)	Euro 23,922,413.12

Direct Subsidiaries

NAME	REGISTERED OFFICE	SHARE CAPITAL	PERCENTAGE HELD
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%
Hold.Co 1 S.r.l.	Via Ruca, 406 – Lumezzane (BS)	Euro 10,000	70.00%

Indirect Subsidiaries

NAME	REGISTERED OFFICE	QUOTAHOLDER	QUOTA CAPITAL	PERCENTAGE HELD
ABL Automazione S.r.l.	Via Mandolossa, 102/B – Gussago (BS)	Hold.Co 1 S.r.l.	Euro 750,000	70,00%

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

NAME	REGISTERED OFFICE	SHAREHOLDER	SHARE CAPITAL	PERCENTAGE HELD
Saleri GMBH	Spitzerstrasse, 14 Munich (Germany)	Industrie Saleri Italo S.p.A.	Euro 25,000	100.00%
Immobiliare Industriale Deutschland GMBH in liquidation	Siemenstrasse, 26 70825 – Korntal Munchingen (Germany)	Immobiliare Industriale S.r.l.	Euro 540,000	100.00%
Saleri México S.A. de C.V.	San Pedro Garza Garcia, Nuevo Leon México CP 66269 - Ave. San Patricio # 111	Industrie Saleri Italo S.p.A.	MXN 50,000	99.00%

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** – during the reporting period, the company – which, in prior years, essentially operated as a branch office on the German market – began to provide consulting activities to support the parent company in its dealings with customers based in Germany; despite the start of these activities, its financial statements remain immaterial;
- **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;
- **Saleri México S.A. de C.V.** – the company was incorporated at the end of 2019 and will only commence its activities in 2020.

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 2019 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

As described in more detail in the "Foreword" paragraph, the Group has prepared the 2019 Consolidated Financial Statements on a going concern basis.
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 over a period of ten years as this period is felt best to represent its useful life and not to exceed the period of utilisation of the asset, taking account of the extent of the benefits expected and the synergies resulting from the business acquired.
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:

Categories	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:
- or 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 contract work in progress, cost is measured using the completed contract method;
- 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 are classified as held for trading as they do not fulfil hedge account requirements because, even though they were arranged to manage the main risks (interest rate 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 in 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 2019, the consolidated taxation arrangement elected for by Industrie Saleri Italo S.p.A. together with subsidiary Immobiliare Industriale S.r.l. for the period 2019-2021 was 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 leases

In accordance with Italian Accounting Standard OIC 17, the "finance lease method" has been used to account for leases in the consolidated financial statements, broadly in line with the rules laid down 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 measurement 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 Art. 2423 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 the Metasalute Fund: reclassified from caption D13 (payables to social security and pensions institutions) to caption D14 (Other payables) in the amount of Euro 5.889.

We note that, in order to provide a better understanding of the amounts set out in these Notes, the effects of changes to the scope of consolidation have been shown in the relevant tables. These changes include amounts relating to companies included in the Group scope of consolidation for 2019 from the date of acquisition.

Notes to the Balance Sheet

Non-current assets

Intangible assets

Movements	Start-up and expansion costs	Development cost	Patents and intellectual property rights	Concessions, licences, trademarks and similar rights	Consolidation differences	Assets in progress and payments on account	Other	Total
Historical cost	110,920	2,932,036	997,854	-	-	866,589	6,689,636	11,597,035
Previous revaluations	-	-	-	-	-	-	-	-
Accumulated amortisation	(88,736)	(963,198)	(929,351)	-	-	-	(3,672,826)	(5,654,111)
Previous writedowns	-	-	-	-	-	-	(277,747)	(277,747)
Opening amount	**22,184**	**1,968,838**	**68,503**	**-**	**-**	**866,589**	**2,739,063**	**5,665,177**
Additions during the year	-	72,981	587,982	-	2,989,181	2,312,396	1,293,916	7,256,456
Change in scope of consolidation (cost)	-	-	110,182	-	-	-	-	110,182
Change in scope of consolidation (Accum. Amort'n)	-	-	(52,855)	-	-	-	-	(52,855)
Reclassifications	-	-	39,736	-	-	(39,736)	-	-
Movements to other caption during period	-	-	-	-	-	-	-	-
Disposals (historical cost)	-	(36,426)	-	-	-	(80,433)	-	(116,859)
Disposals (Accum. Amort'n)	-	7,286	-	-	-	-	-	7,286
Revaluations during year	-	-	-	-	-	-	-	-
Amortisation for the year	(22,184)	(551,393)	(259,480)	-	(124,549)	-	(956,890)	(1,914,496)
Writedowns for the year	-	-	-	-	-	-	277,747	277,747
Other Changes	-	-	29	-	-	-	5,078	5,107
Total changes	**(22,184)**	**(507,552)**	**425,594**	**-**	**2,864,632**	**2,192,227**	**619,851**	**5,572,568**
Historical cost	110,920	2,968,591	1,735,783	-	2,989,181	3,058,816	7,988,630	18,851,921
Revaluations	-	-	-	-	-	-	-	-
Accumulated amortisation	(110,920)	(1,507,305)	(1,241,686)	-	(124,549)	-	(4,629,716)	(7,614,176)
Writedowns	-	-	-	-	-	-	-	-
Net carrying amount at 31/12/2019	**-**	**1,461,286**	**494,097**	**-**	**2,864,632**	**3,058,816**	**3,358,914**	**11,237,745**

The amounts reported under "Changes to Scope of Consolidation (cost)" and "Changes to Scope of Consolidation (accumulated amortisation) entirely refer to the effects of consolidation of amounts relating to subsidiary ABL Automazione S.r.l. at the date of acquisition.

Start-up and expansion costs

The fully amortised amount (Euro 22,184 at 31 December 2018) 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 1,461,286 (Euro 1,968,838 at 31 December 2018), net of accumulated amortisation of Euro 1,507,305, refers to development costs wholly incurred by the Parent Company.
Once again in 2019, 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 2019, the Parent Company incurred personnel costs totalling around Euro 1,531,743. 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 1,314,276. In more detail:

- Euro 1,241,295 relating to projects where the development phase has not yet been completed have been recorded under Intangible Assets in progress;
- Euro 72,981 relating to projects where the development phase has been completed have been capitalised under Development costs.

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

Description	Opening balance	Increases	Decreases	Closing balance
Development costs	1,968,838	72,981	580,533	1,461,286
Total	**1,968,838**	**72,981**	**580,533**	**1,461,286**

The capitalised costs are amortised over period of not more than five years. This period is normally shorter than the mass production period of the related items.
Decreases of Euro 580,333 relate to:

- Euro 551,393 of amortisation for the period;
- Euro 29,140 for the derecognition of development costs capitalised in error in the previous reporting period.

Patents and intellectual property rights

This item amounts to Euro 494,097 (Euro 68,503 at 31 December 2018) after accumulated amortisation of Euro 1,241,686. It includes:

- Patents of Euro 7,988;
- Software of Euro 486,109.

Increases of Euro 587,982 mainly refer to new software purchased by the Parent Company (Euro 585,318) while the remainder (Euro 2,664) relates to subsidiary ABL Automazione S.r.l..

Consolidation difference

The consolidation difference of Euro 2,864,632 (net of amortisation of Euro 124,549) arose upon the elimination of the carrying amount of the investment in ABL Automazione S.r.l. against the corresponding portion of Equity at the acquisition date. The difference is not attributable to any individual assets of the entity and is being amortised over ten years. Said period is felt best to reflect its useful life and does not exceed the period in which the asset will be used, taking account of the expected benefits and synergies expected from the business acquired.

Intangible assets in progress and payments on account

This balance amounts to Euro 3,058,816 (Euro 866,589 at 31 December 2018) and entirely consists of payments on account relating to the Parent Company. In more detail, the balance includes:

- Euro 1,402,498 of internal development costs incurred in relation to development projects in progress. The costs now recorded under this caption will be reclassified to the relevant asset category as described above – once their suitability for capitalisation has been confirmed – and they 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 161,203 refers to costs incurred and deferred until 2018; the increase for 2019 amounts to Euro 1,241,295;
- Euro 1,656,318 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 1,071,101.

During the reporting period, no projects completed the development stage and were thus reclassified and capitalised under "Development costs".

Other intangible assets

This caption amounts to Euro 3,358,914 (Euro 2,739,063 at 31 December 2018) after accumulated amortisation of Euro 4,629,716. The balance has recorded a net increase of Euro 1,293,916.

The impairment provision of Euro 277,747 created by the Parent Company in prior years pursuant to Article 2426(1) of the Italian Civil Code and Italian Accounting Standard OIC 9 in relation to the impairment of certain assets was released in full during the period as the reasons for it ceased to apply. The assets in relation to which the provision had been created have been amortised in full.

The balance and changes thereon are detailed below:

Industrie Saleri Italo S.p.A.

This item, amounting to Euro 2,467,958 (Euro 2,343,962 at 31 December 2018), refers to:

- Leasehold improvements of Euro 2,251,291 (Euro 1,910,629 at 31 December 2018);
- Other deferred costs of Euro 216,667 (Euro 433,333 at 31 December 2018).

As stated above, the impairment provision of Euro 277,747 created by the Parent Company in prior years pursuant to Article 2426(1) of the Italian Civil Code and Italian Accounting Standard OIC 9 in relation to the impairment of certain assets was released in full during the period as the reasons for it ceased to apply. The assets in relation to which the provision had been created have been amortised in full.

Additions for the period amount to Euro 589,707 and include Euro 170,653 of capex at the new production facility in Provaglio d'Iseo, primarily work on construction of a projecting roof or canopy. The other additions of Euro 419,054 refer to leasehold improvements.

Saleri Shanghai Co.Ltd

This item, amounting to Euro 890,956 (Euro 395,101 at 31 December 2018), refers to:

- Euro 301,333 of leasehold improvements, including additions during the period of Euro 114,586;
- Euro 589,623 of deferred expenses, entirely consisting of additions for the period.

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	30,268,430	73,428,019	30,369,133	5,623,551	3,365,209	143,054,342
Previous revaluations	10,098,051	-	-	-	-	10,098,051
Accumulated depreciation	(7,229,322)	(39,186,971)	(25,797,737)	(4,006,310)	-	(76,220,340)
Previous writedowns	(1,560,488)	(200,000)	-	-	-	(1,760,488)
Opening amount	**31,576,671**	**34,041,048**	**4,571,396**	**1,617,241**	**3,365,209**	**75,171,565**
Additions during the year	12,913	3,008,597	2,415,387	256,121	2,501,677	8,194,695
Change in scope of consolidation (cost)	42,489	340,604	34,924	314,389	-	732,406
Change in scope of consolidation (Accum, Depre'n)	(42,489)	(320,318)	(34,924)	(251,152)	-	(648,883)
Reclassifications	0	3,384,025	158,167	-	(3,542,192)	-
Movements to other caption during period	0	-	-	-	-	-
Disposals (historical cost)	(2,953)	(1,708,877)	(93,795)	(107,785)	(215,699)	(2,129,109)
Disposals (Accum, Depr'n)	399	1,517,250	57,145	98,515	-	1,673,309
Revaluations during year	0	-	-	-	-	-
Amortisation for the year	(980,060)	(5,881,770)	(2,387,820)	(580,636)	-	(9,830,286)
Writedowns for the year	0	-	-	-	-	-
Other Changes	0	211,213	6,823	(2,598)	2,772	218,210
Total changes	**(969,701)**	**550,723**	**155,907**	**(273,146)**	**(1,253,442)**	**(1,789,659)**
Historical cost	30,320,879	78,463,580	32,890,639	6,083,678	2,111,767	149,870,543
Revaluations	10,098,051	-	-	-	-	10,098,051
Accumulated depreciation	(8,251,472)	(43,871,809)	(28,163,336)	(4,739,583)	-	(85,026,200)
Writedowns	(1,560,488)	-	-	-	-	(1,560,488)
Net carrying amount at 31/12/2019	**30,606,970**	**34,591,771**	**4,727,303**	**1,344,095**	**2,111,767**	**73,381,906**

In 2018, the Group identified potential indicators of impairment of certain tangible assets. Therefore, in accordance with Italian Accounting Standard OIC 9, it made further writedowns in terms of Articles 2426(1) and (3) of the Italian Civil Code and created an impairment provision totalling Euro 1,560,488. These impairment adjustments have been maintained unchanged in 2019 as there are no new issues requiring changes to the conclusions reached at the time. As the reasons for created of an impairment provision of Euro 200,000 for "Plant and Machinery" ceased to apply, said provision was reversed during the period.
The amounts shown under "Changes to Scope of Consolidation (cost)" and "Changes to Scope of Consolidation (accumulated depreciation)"entirely refer to the effect of consolidating the amounts relating to subsidiary ABL Automazione S.r.l. at the date of acquisition. "Other changes" mainly refers to the reversal of the impairment provision and, to a residual extent, to the difference generated on the opening balances of Saleri Shanghai Co. Ltd., as measured at the balance sheet exchange rate used for 2018.
Amounts are stated net of consolidation adjustments regarding intercompany transactions.
In accordance with the law, the following table shows the tangible assets reported in the Financial Statements of Group companies at 31 December 2019 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 30,606,970 (Euro 31,576,671 at 31 December 2018) and is stated net of accumulated depreciation of Euro 8,251,472 (Euro 7,229,322 at 31 December 2018).
The balance and the main changes thereon are detailed below:

Industrie Saleri Italo S.p.A.

The balance amounts to Euro 19,965,392 (Euro 20,624,215 at 31 December 2018) after accumulated depreciation of Euro 5,034,541. During the period, the balance increased by Euro 12,913 mainly because of work on flooring production areas.
As stated above, the Company has not made any impairment provisions on top of the amount provided in prior year as it believes the existing provision reflects the effective impairment of land and buildings.
Decreases for the period total Euro 2,554 and entirely relate to the reclassification of an asset wrongly included in "Land and Buildings". In compliance with Italian Accounting Standard OIC 16, the value of the land on which the buildings are situated has been reported separately.

Immobiliare Industriale S.r.l.

This balance amounts to Euro 10,641,578 (Euro 10,952,456 at 31 December 2018) after accumulated depreciation of Euro 3,174,443 (Euro 2,863,585 at 31 December 2018). 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 34,591,771 (against Euro 34,041,048 at 31 December 2018), is stated net of accumulated depreciation of Euro 43,871,809 (Euro 39,186,971 at 31 December 2018). It includes plant and machinery of Euro 13,552,626 (Euro 16,589,675 at 31 December 2018) held under finance leases and reported in accordance with IAS 17.
The balance and the main changes thereon are detailed below:

Industrie Saleri Italo S.p.A.

The balance amounts to Euro 34,010,145 (Euro 31,922,600 at 31 December 2018) after accumulated depreciation of Euro 42,455,577 (Euro 38,178,679 at 31 December 2018).
Additions for the period totalled Euro 7,583,994.
Additions mainly refer to maintenance capex incurred to ensure machinery is kept updated and fully efficient, as well as to new workstations needed to handle the contracts acquired by the Company. Additions of Euro 2,774,090 refer to reclassifications from Assets under construction in relation to payments on account previously made for projects completed during the year.
Decreases for the period amount to Euro 32,964 and almost entirely refer to the net carrying amount of assets sold to third parties or scrapped. As previously stated, as the reasons that had led to the creation of an impairment provision of Euro 200,000 ceased to apply, the provision was reversed during the period.

Saleri Shanghai Co.Ltd

The balance amounts to Euro 1,442,470 (Euro 2,118,448 at 31 December 2018) after accumulated depreciation of Euro 757,692 (Euro 1,017,291 at 31 December 2018).
Increases for the period totalled Euro 612,109 (including Euro 609,935 of reclassifications from "Assets under construction and payments on account") while decreases totalled Euro 1,076,442 as a result of the disposal or sale of machinery no longer used in the production process.

ABL Automazione S.r.l.

Plant and machinery amounts to Euro 19,291 (Euro 20,286 at the date of inclusion in the scope of consolidation) net of accumulated depreciation of Euro 321,312 (Euro 320,318 at the date of inclusion in the scope of consolidation).

Industrial and Commercial Equipment

This caption amounts to Euro 4,727,303 (Euro 4,571,396 at 31 December 2018) and is stated net of accumulated depreciation of Euro 28,163,336 (Euro 25,797,737 at 31 December 2018). 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 4,080,263 (Euro 3,938,161 at 31 December 2018) after accumulated depreciation of Euro 27,168,794.
Additions for the period amount to Euro 2,336,554.
As in the case of "Plant and Machinery", additions to "Industrial and Commercial Equipment" mainly refer to purchases of new equipment needed to carry out the contracts acquired by the Company. The costs incurred have been sustained as part of the plan of capex necessary to install the additional production capacity needed to cope with the new, long-term production contracts acquired by the Original Equipment division.
Decreases for the period amount to Euro 27,650 and refer to the sale to customers of equipment initially destined to remain in the Company's assets.

Saleri Shanghai Co.Ltd

The balance amounts to Euro 647,040 (Euro 633,235 at 31 December 2018) after accumulated depreciation of Euro 959,618 (Euro 836,260 at 31 December 2018).
Increases for the period totalled Euro 237,000 (of which Euro 158,167 of reclassifications from "Assets under construction and payments on account") while decreases amounted to Euro 9,000.

ABL Automazione S.r.l.

Abi Automazione S.r.l.'s equipment has been depreciated in full.

Other tangible assets

This caption amounts to Euro 1,344,095 (Euro 1,617,241 at 31 December 2018) and is stated net of accumulated depreciation of Euro 4,739,583 (Euro 4,006,310 at 31 December 2018). It includes cars held under finance leases of Euro 198,103 (Euro 186,003 at 31 December 2018) as a result of application of IAS 17. 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 1,208,439 (Euro 1,526,154 at 31 December 2018) after accumulated depreciation of Euro 4,352,180 (Euro 3,914,249 at 31 December 2018) and refers to:

- Furniture and fittings of Euro 353,352 (Euro 421,915 at 31 December 2018); additions for the period totalled Euro 17,978 mainly in order to furnish and fit out the offices at the new site in Provaglio d'Iseo;
- Electronic office equipment of Euro 620,675 (Euro 823,318 at 31 December 2018); additions for the period totalled Euro 136,903, mainly for the purchase of electronic equipment;
- Cars and vehicles of Euro 234,412 (Euro 280,921 at 31 December 2018); additions for the period totalled Euro 73,766.

Decreases for the period amounted to Euro 9,241 (net of accumulated depreciation) and entirely referred to the net carrying amount of a car sold during the reporting period.

Saleri Shanghai Co.Ltd

The balance amounts to Euro 77,185 (Euro 91,087 at 31 December 2018) after accumulated depreciation of Euro 127,424 (Euro 92,930 at 31 December 2018).
During the year, there were increases of Euro 20,733 for purchases of electronic equipment and decreases of Euro 29.

ABL Automazione S.r.l.

The balance amounts to Euro 58,471 (Euro 63,237 at the date of inclusion in the scope of consolidation) after accumulated depreciation of Euro 259,979 (Euro 251,152 at the date of inclusion in the scope of consolidation). Increases of Euro 6,741 regard purchases of furniture and electronic equipment.

Assets under construction and payments on account

Assets under construction and payments on account totalled Euro 2,111,767 (Euro 3,365,209 at 31 December 2018). 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 1,901,691 (Euro 2,968,081 at 31 December 2018) and refers to payments made on account during the period towards additions to tangible assets.
During the period, Euro 2,774,090 was reclassified to the relevant tangible asset categories following the completion of the related capex. Decreases for the period totalled Euro 84,870 and mainly referred to the reversal of payments on account made in prior years. Increases for the period totalling Euro 1,792,570 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.

Saleri Shanghai Co.Ltd

The balance amounts to Euro 210,076 (Euro 397,128 at 31 December 2018). The balance increased by Euro 709,107 over the period, mainly because of additional payments on account for purchases of mould. During the period, Euro 768,102 was reclassified to the relevant tangible asset categories following the completion of the related capex. The additional decrease of Euro 130,829 refers to the allocation of certain payments on account to other balance sheet captions not included in Tangible Assets.

Financial assets

Total financial assets	Euro
Historical cost	55,451
Previous revaluations	0
Previous writedowns	(18,351)
Opening amount	**37,100**
Acquisitions during the period	6,192
Reclassifications from another caption	0
Reclassifications to another caption	0
Disposals	0
Revaluations during the period	0
Writedowns during the period	(1,500)
Amount at 31/12/2019	**41,792**

Investments

Investments in	Subsidiaries	Associated companies	Parent companies	Other companies	Total
Historical cost	25,000	-	-	4,247	29,247
Previous revaluations	-	-	-	-	-
Previous writedowns	-	-	-	-	-
Opening amount	**25,000**	**-**	**-**	**4,247**	**29,247**
Acquisitions during the period	6,192	-	-	-	6,192
Reclassifications from another caption	-	-	-	-	-
Reclassifications to another caption	-	-	-	-	-
Disposals	-	-	-	-	-
Revaluations during the period	-	-	-	-	-
Writedowns during the period	-	-	-	-	-
Amount at 31/12/2019	**31,192**	**-**	**-**	**4,247**	**35,439**

The increase for the period refers to subsidiary Saleri México S.A. de C.V. which is not included in the scope of consolidation.
The amount refers to payment of 99% of that company's share capital at the time of incorporation, inclusive of direct related expenses.

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 liquidazione	Siemenstrasse, 26 70825 – Korntal Munchingen (Germany)	540,000
Saleri Mexico S.A. de C.V.	San Pedro Garza Garcia, Nuevo Leon México CP 66269 - Ave. San Patricio # 111	2,325

The following table presents a comparison between Book Equity pertaining to the Group and the carrying amount of the investments:

Name	% Interest	Equity	Profit (Loss) for prior year	Share of equity	Carrying amount	Difference
Saleri Gmbh	100,00%	20,848	2,630	20,848	25,000	(4,152)
Saleri Mexico S.A. de C.V.	99,00%	(29,980)	(31,832)	(29,680)	6,192	(35,872)
			Total	**(8,832)**	**31,192**	**(40,024)**

For subsidiary Saleri Gmbh, it should be noted that:

- the figures for the subsidiary are as at 31.12.2019 – reporting date of the latest, approved financial statements;
- 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. Indeed, during the reporting period, the Company started providing consulting services to assist the Parent Company in dealings with customers based in Germany.

With regard to subsidiary Immobiliare Industriale Deutschland Gmbh in liquidation, as already reported in the Notes to the Consolidated Financial Statements at 31 December 2018, we note that the subsidiary has refunded part of its share capital in the form of an advance on the liquidation proceeds; the refund already received is greater than the carrying amount of the investment. 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.

With regard to subsidiary Saleri México S.A. de C.V., we note that:

- the figures for this subsidiary are from the accounts as at 31.12.2019; as the company was incorporated in 2019, it is not obliged to prepare financial statements for the period ended at that date;
- although the cost of the investment 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, also considering the fact that the subsidiary's activities will only be launched at the end of 2020.

Other securities

Other securities	Total
Historical cost	19,961
Previous revaluations	0
Previous writedowns	(12,850)
Opening amount	**7,111**
Acquisitions during the period	0
Reclassifications from other captions	0
Reclassifications to other captions	0
Disposals	0
Revaluations during the period	0
Writedowns during the period	(771)
Other changes	0
Amount at 31/12/2019	**6,340**

The amount of Euro 6,340 (Euro 7,111 at 31 December 2018) has decreased by Euro 771 due to the writedown of the equity investments held.

Derivative Instruments

Derivative Instruments - Assets	Total
Historical cost	6,243
Previous revaluations	0
Previous writedowns	(5,501)
Opening amount	**742**
Acquisitions during the period	0
Reclassifications from other captions	0
Reclassifications to other captions	0
Disposals	0
Revaluations during the period	0
Writedowns during the period	(729)
Amount at 31/12/2019	**13**

This caption entirely refers to the parent company. It includes the reporting date measurement (as confirmed with the respective banks) 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 2019.

Current assets

Inventory

Description	Opening amount	Change	31/12/19
Raw, ancillary & consumable materials	10,665,850	2,454,024	13,119,874
WIP	3,030,923	203,014	3,233,937
Contract WIP	-	1,956,148	1,956,148
Finished goods and products	16,497,170	(3,719,013)	12,778,157
Payments on account	746,998	(615,745)	131,253
Total	**30,940,941**	**278,428**	**31,219,369**

In order to provide a better understanding of the amounts reported and the changes thereto, the following table contains separate disclosure of amounts relating to changes in the scope of consolidation. All such amounts relate to subsidiary ABL Automazione S.r.l..

Description	Opening amount	Change in scope of consolidation	Change in year	31/12/19
Raw, ancillary & consumable materials	10,665,850	553,703	1,900,321	13,119,874
WIP and semi-finished goods	3,030,923	-	203,014	3,233,937
Contract WIP	-	5,308,011	(3,351,863)	1,956,148
Finished goods and products	16,497,170	-	(3,719,013)	12,778,157
Payments on account	746,998	-	(615,745)	131,253
Total	**30,940,941**	**5,861,714**	**(5,583,286)**	**31,219,369**

At 31 December 2019, inventory totalled Euro 31,219,369 and mainly referred to parent company Industrie Saleri Italo S.p.A. (around 85%), to subsidiary Saleri Shanghai Co. Ltd (around 7%) and to subsidiary ABL Automazione S.r.l. (around 8%). The contract work in progress entirely relates to subsidiary ABL Automazione S.r.l..
The decrease of Euro 5,583,286 (-15% approx..) compared to 31 December 2018 and in relation to the change to the scope of consolidation mainly regards the inventory of subsidiary ABL Automazione S.r.l. (down by Euro 3,374,957, -58% approx..), of subsidiary Saleri Shanghai (down by Euro 572.390 -21% approx..) and, to a residual extent, of the parent company (down by Euro 1,727,599, -6% approx..).

For the parent company, there has been an increase in inventory of raw, ancillary and consumable materials as a result of purchases made in anticipation of future price increases (+22%) while finished goods inventory has decreased (-23%) also in relation to Tooling inventory.

The inventory balance reported above is stated net of the Inventory provision totalling Euro 1,019,418 recorded to take account of obsolete and slow moving items and to report carrying amount at the lower of cost and realisable amount.
During 2019, the provision was increased by Euro 531,705 while there were decreases of Euro 681,925 due to the reversal of amounts previously allocated that were no longer required.

The following table shows movements on the inventory provision.

Inventory provision	Opening amount	Change in scope of consolidation	Increases	Decreases	31/12/19
1, Raw, ancillary and consumable materials	(487,604)	(160,000)	(307,508)	280,135	(674,977)
2, WIP and semi-finished goods	(189,542)	-	(86,099)	142,555	(133,086)
3, Contract WIP	-	-	-	-	-
4, Finished goods	(332,272)	-	(138,098)	259,235	(211,135)
5, Payments on account	-	-	-	-	-
Total	**(1,009,418)**	**(160,000)**	**(531,705)**	**681,925**	**(1,019,198)**

"Changes in scope of consolidation" refers entirely to subsidiary ABL Automazione S.r.l..

Receivables

There are no receivables relating to transactions that involve a forward return obligation for the purchaser.

Description	31/12/18	Change	31/12/19
Trade receivables	13,094,517	(3,454,084)	9,640,433
Receivables from non-consolidated subsidiaries	22,410	811,979	834,389
Receivables from associated companies	-	-	-
Receivables from parent companies	3,466	(3,466)	-
Receivables from entities controlled by parent companies	-	-	-
Tax receivables	2,365,666	(650,709)	1,714,957
Deferred tax assets	4,466,834	1,285,243	5,752,077
Receivables from others	15,285,037	(10,443,286)	4,841,751
Total	**35,237,930**	**(12,454,323)**	**22,783,607**

In order to provide a better understanding of the balance and changes thereto, the following table shows amounts relating to changes in the scope of consolidation. All such amounts relate to subsidiary ABL Automazione S.r.l..

Description	31/12/18	Change in scope of consolidation	Change in year	31/12/19
Trade receivables	13,094,517	760,406	(4,214,490)	9,640,433
Receivables from non-consolidated subsidiaries	22,410	-	811,979	834,389
Receivables from associated companies	-	-	-	-
Receivables from parent companies	3,466	-	(3,466)	-
Receivables from entities controlled by parent companies	-	-	-	-
Tax receivables	2,365,666	1,100,288	(1,750,997)	1,714,957
Deferred tax assets	4,466,834	-	1,285,243	5,752,077
Receivables from others	15,285,037	40,880	(10,484,166)	4,841,751
Total	**35,237,930**	**1,901,574**	**(14,355,897)**	**22,783,607**

Excluding the effect of changes to the scope of consolidation, 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	31/12/19	Due within a year	Due after more than a year	Of which due after more than five years
Trade receivables	9,640,433	9,640,433	-	-
Receivables from non-consolidated subsidiaries	834,389	834,389	-	-
Receivables from associated companies	-	-	-	-
Receivables from parent companies	-	-	-	-
Receivables from entities controlled by parent companies	-	-	-	-
Tax receivables	1,714,957	1,714,957	-	-
Deferred tax assets	5,752,077	-	-	-
Receivables from others	4,841,751	4,573,681	268,070	-
Total	**22,783,607**	**16,763,460**	**268,070**	**-**

Trade Receivables

At 31 December 2019, trade receivables amounted to Euro 9,640,433 and referred to parent company Industrie Saleri Italo S.p.A. (64% of the total), subsidiary Saleri Shanghai Co. Ltd (9% of the total) and subsidiary ABL Automazione S.r.l. (27% of the total).
The decrease of Euro 4,214,490 (excluding changes in the scope of consolidation) compared to 31 December 2018 is mainly due to increased use of available non-recourse factoring facilities at 31 December 2019, 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 other than in relation to the change in the scope of consolidation and it is considered reasonable compared to expected losses on receivables, also in light of ongoing disputes and litigation.
Changes in the provision during the reporting period are shown below:

Description	31/12/18	Change in scope of consolidation	Allocated	Utilised	31/12/19
Provision for bad debts	(161,365)	(10,000)	-	-	(171,365)

Receivables from non-consolidated subsidiaries

Receivables from subsidiaries amount to Euro 834,389, against Euro 22,410 at 31 December 2018. They entirely refer to receivables from Saleri Gmbh and Saleri México S.A. de C.V..
In more detail:

- The receivables from Saleri Gmbh, totalling Euro 51,686 (zero at 31 December 2018), entirely relate to the parent company and include:
  - Euro 50,095 for a short-term loan granted to the subsidiary, inclusive of interest accruing;
  - Euro 1,591 for sundry advances.
- The receivables from Saleri México S.A. de C.V., totalling Euro 782,703 (zero at 31 December 2018), include:
  - Euro 60,052 for a short-term loan granted by the parent company to the subsidiary, inclusive of interest accruing;
  - Euro 681,979 of trade receivables, mainly in respect of the supply of machinery and related services by subsidiary ABL Automazione S.r.l.;
  - Euro 40,672 for sundry advances.

Following the disposal of the investment in Italacciai S.r.l. in 2019, receivables from that company are now included under "Trade Receivables" rather than "Receivables from Subsidiaries".

Receivables from parent companies

The receivables from parent companies totalling Euro 3,466 at 31 December 2018 were collected in full during the year.

Tax Receivables

Description	Industrie Saleri Italo S.p.A.	Immobiliare Industriale S.r.l.	Saleri Shanghai Co. Ltd	Hold,Co 1 S.r.l.	ABL Automazione S.r.l.	Consolidated
W/holding taxes suffered	-	-	-	-	14	14
IRES receivables	558,509	-	-	-	-	558,509
IRAP receivables	170,230	1,104	-	-	-	171,334
VAT receivables	179,297	13,673	-	-	738,459	931,429
Other tax receivables	16,144	-	37,460	-	67	53,671
Total	**924,180**	**14,777**	**37,460**	**-**	**738,540**	**1,714,957**

The balance of Euro 1,714,957 (Euro 2,365,666 at 31 December 2018) is analysed as follows:

Industrie Saleri Italo S.p.A.
"IRES Receivables", amounting to Euro 558,509 (Euro 438,269 at 31 December 2018), include:
- Euro 438,269 representing the refund request filed, as consolidating entity, in relation to the non-deduction of IRAP in relation to personnel costs. This receivable has been collected in full in 2020;
- Euro 120,240 representing the IRES receivable for 2019.

"IRAP Receivables", amounting to Euro 170,230, refer to IRAP payments on account made for 2019.
"VAT Receivables", amounting to Euro 179,297 (Euro 1,722,102 at 31 December 2018), refer to the VAT balance resulting from the December 2019 VAT return. The amount includes foreign VAT receivables relating to EU countries where the Company has operated directly.
"Other tax receivables", amounting to Euro 16,144 (Euro 184,117 at 31 December 2018), mainly refers to tax credits subsequently offset in 2020.

Immobiliare Industriale S.r.l.
"IRAP Receivables", amounting to Euro 1,104: refers to the IRAP balance for 2019 net of payments made on account.
"VAT Receivables", amounting to Euro 13,673: refers to the VAT balance resulting from the December 2019 VAT return.

Saleri Shanghai Co.Ltd
"Other tax receivables", amounting to Euro 37,460: refer to income taxes for which a refund is awaited.

ABL Automazione S.r.l.
Tax receivables refer almost entirely to the "VAT Receivable" per the December 2019 VAT return.

Deferred Tax Assets

Deferred tax assets amount to Euro 5,752,077 (Euro 4,466,834 at 31 December 2018) 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 270,405) of deferred tax assets were recognised in relation to consolidation adjustments.

Other receivables

The amount of Euro 4,841,751 (Euro 15,285,037 at 31 December 2018 after changes in the scope of consolidation) almost entirely refers to the parent company and includes:

<u>Receivables due within a year:</u>
- Euro 2,112,354 of costs advanced, mainly to customers;
- Euro 882,500 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, this receivable had been collected in full;
- Euro 780,768 of Advances to Suppliers for services not yet completed;
- Euro 447,000 regarding a receivable from litigation with a former customer that has been concluded with a definitive decision in the Company's favour;
- Euro 210,761 of DR balances with certain suppliers of goods and services;
- Euro 106,524 of Receivables from the Banks for amounts collected from factored debtors that have not been paid over;
- Euro 145,814 of sundry receivables.

<u>Receivables due after more than a year:</u>
- Euro 156,030 almost entirely relating to guarantee deposits paid mainly in respect of lease and rental agreements.

The significant decrease compared to prior year is almost entirely due collection of almost all of the amount receivable by the parent company from insurance companies in compensation of the fire damage suffered on 11 January 2018.

Current financial assets

Investments in subsidiaries

The investment held by the Parent Company in Italacciai S.r.l. (Euro 1,000 at 31 December 2018) was sold on 24 June 2019.

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.

Other securities

The amount of Euro 566,233 refers to securities held by subsidiary ABL Automazione S.r.l. and is detailed as follows:

Description	31/12/18	Change in scope of consolidation	Increases	Decreases	31/12/19
Bonds	-	693,936	-	(198,915)	495,021
Equities	-	71,212	-	-	71,212
Total before impairment provision	**-**	**765,148**	**-**	**(198,915)**	**566,233**
Impairment provision	-	-	-	-	-
Total	**-**	**765,148**	**-**	**(198,915)**	**566,233**

Cash and cash equivalents

This balance includes cash on hand of Euro 14,336 plus bank current account balances of Euro 7,952,094.

Description	31/12/18	Change	31/12/19
Bank and post office accounts	3,034,675	4,917,419	7,952,094
Cash and cash equivalents on hand	7,764	6,572	14,336
Total	**3,042,439**	**4,923,991**	**7,966,430**

In order to provide a better understanding of the balance and changes thereto, the following table shows amounts relating to the change in the scope of consolidation. These amounts all relate to subsidiary ABL Automazione S.r.l..

Description	31/12/18	Change in scope of consolidation	Change in year	31/12/19
Bank and post office accounts	3,034,675	181,594	4,735,825	7,952,094
Cash and cash equivalents on hand	7,764	924	5,648	14,336
Total	**3,042,439**	**182,518**	**4,741,473**	**7,966,430**

This balance may be detailed as follows:

Description	Industrie Saleri Italo S.p.A.	Immobiliare Industriale S.r.l.	Saleri Shanghai Co. Ltd	Hold.Co 1 S.r.l.	ABL Automazione S.r.l.	Consolidated
Bank and post office accounts	7,051,175	10,241	476,706	9,632	404,340	7,952,094
Cash and cash equivalents on hand	7,355	-	3,891	-	3,090	14,336
Total	**7,058,530**	**10,241**	**480,597**	**9,632**	**407,430**	**7,966,430**

The change for the period is due to the cash flow management strategy adopted by Group management.

Prepaid Expenses and Accrued Income

Description	31/12/18	Change	31/12/19
Prepaid expenses:			
Contributions to customers	1,632,107	(843,919)	788,188
Insurance policies	34,247	(5,444)	28,803
Other costs	543,247	131,209	674,456
Total	**2,209,601**	**(718,154)**	**1,491,447**

This item, amounting to Euro 1,491,447 at 31 December 2019 (Euro 2,209,601 at 31 December 2018) almost entirely 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 31/12/2019
		Allocation to dividends	Other allocations	Increases	Decreases	Reclassif.		
Share capital	17,922,413	-	-	-	-	-	-	17,922,413
Share premium reserve	10,237,587	-	-	-	(2,541,368)	-	-	7,696,219
Revaluation reserves	2,832,678	-	-	-	-	-	-	2,832,678
Legal reserve	1,032,000	-	102,850	-	-	-	-	1,134,850
Statutory reserves	-	-	-	-	-	-	-	-
Other reserves								
Consolidation reserve	3,379,172	-	-	-	-	-	-	3,379,172
Extraordinary reserve	-	-		-	-	-	-	-
Reserve for translation of foreign currency financial statements	(198,927)	-	-	46,802	-	-	-	(152,125)
Sundry other reserves	364,052	-	-	-	-	-	-	364,052
Total other reserves	3,544,297	-	-	46,802	-	-	-	3,591,099
Cash flow hedge reserve	-	-	-	-	-	-	-	-
Retained earnings (Accumulated losses)	(1,448,776)	-	3,287,879	2,570,376	-	-	-	4,409,479
Profit (Loss) for the year	3,390,729	-	(3,390,729)	-	-	-	2,139,554	2,139,554
Negative reserve for treasury shares held		-		(285,014)	-	-	-	(285,014)
Total shareholders' equity - Group	**37,510,928**	**-**	**-**	**2,617,178**	**(2,541,368)**	**-**	**2,139,554**	**39,441,278**
Capital and reserves of non-controlling interests	3,813,938	-	298,153	47,552	-	-	-	4,159,643
Profit (Loss) for year pertaining to non-controlling interests	298,153	-	(298,153)	-	-	-	633,975	633,975
Total shareholders' equity - non-controlling interests	**4,112,091**	**-**	**-**	**47,552**	**-**	**-**	**633,975**	**4,793,618**
Total consolidated shareholders' equity	**41,623,019**	**-**	**-**	**2,664,730**	**(2,541,368)**	**-**	**2,773,529**	**44,234,896**

Share capital

Share Capital, wholly subscribed and paid at 31 December 2019, amounts to Euro 17,922,413.12 and is represented by 3,126,997 shares. There were no movements on share capital during the reporting period.

Share premium reserve

This reserve was created in 2019 and amounts to Euro 7,696,219. 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 5 April 2018. Following a General Meeting resolution of 24 June 2019, part of the share premium reserve (Euro 2,541,368) was used to cover accumulated losses remaining after allocation of the net profit for 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 2019, this reserve amounted to Euro 1,134,850 and increased by Euro 102,850 during the period after allocation of the net profit for 2018 in accordance with the General Meeting resolution of 24 June 2019. The Share Capital increase carried out in 2018 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 2019 and is unchanged on prior year.
The consolidation difference emerging upon preparation of the Consolidated Financial Statements due to elimination of the carrying amount of the investments included in the scope of consolidation in 2019 against the corresponding portions of Equity of those subsidiaries has been recognised under the asset caption "Consolidation difference".

Reserve for translation of financial statements in foreign currency

This caption shows a negative balance of Euro 152,125 at 31 December 2019 in relation to the translation of the foreign currency financial statements of subsidiary Saleri Shanghai Co..

Sundry other reserves

This item, amounting to Euro 364,052, did not change during the period.

Retained earnings (accumulated losses)

La voce, pari ad This caption showed retained earnings of Euro 4,409,479 at 31 December 2019 against accumulated losses of Euro 1,448,776 at 31 December 2018. Movements during the year were as follows:

- increase of Euro 3,287,879 due to allocation of the Group's net profit for 2018;
- increase of Euro 2,541,368 due to utilisation of the share premium reserve;
- increase of Euro 29.008 due to consolidation adjustments mainly generated by application of IAS 17 and alignment to Group accounting policies.

Negative reserve for treasury shares held

At 31 December 2019, this caption had a negative balance of Euro 285,014. It was created following the purchase – authorised by the General Meeting of 24 June 2019 – of 15,799 treasury shares at a total cost of Euro 285,014. The price has been paid in full.

Reconciliation between the net profit/(LOSS) and shareholders' equity of the consolidating entity and the corresponding amounts per the consolidated financial statements

	2019		2018	
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	**32,344,163**	**902,521**	**31,726,656**	**2,056,997**
▸ Elimination of carrying amount of investments and relevant portion of equity	540,944	-	2,215,265	-
▸ Pro-quota results of investee companies	1,813,193	1,813,193	1,246,647	1,246,647
▸ Gains net of depreciation/amortisation allocation to non-current assets and consolidation difference at date of acquisition of investments	2,864,632	(124,549)	-	-
▸ Elimination of effects of transactions between consolidated companies	(520,009)	(375,459)	(143,284)	2,779
▸ Alignment of accounting policies	2,398,358	(76,152)	2,465,645	84,306
▸ Restatement of investments at equity	-	-	-	-
Shareholders' equity and result for year pertaining to Group	**39,441,281**	**2,139,554**	**37,510,929**	**3,390,729**
▸ **Shareholders' equity and result for year pertaining to non-controlling interests**	**4,793,618**	**633,975**	**4,112,091**	**298,154**
Shareholders' equity and result for the year - consolidated	**44,234,899**	**2,773,529**	**41,623,020**	**3,688,883**

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	**2,621,021**	**16,109**	**1,700,000**	**4,337,130**
Changes during the year				
Change in scope of consolidation	-	-	230,306	230,306
Allocated	-	-	1,653,402	1,653,402
Utilised	(41,547)	(16,109)	(1,655,800)	(1,713,456)
Other changes	-	-	-	-
Total changes	(41,547)	(16,109)	227,908	170,252
Amount at 31/12/2019	**2,579,474**	**-**	**1,927,908**	**4,507,382**

The "Provision for taxation, including deferred tax", amounting to Euro 2,579,474, 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 2019. At 31 December 2019, there were no derivative instruments with a negative fair value. Other provisions", amounting to Euro 1,927,908, refer to:
- Euro 642,908 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. Provisions totalling Euro 25,494 were utilised during the period. We note that, in January 2020, the parent company was the subject of a tax inspection by the Italian Tax Authorities in relation to the 2015 and 2016 tax periods. Following issue of the related Tax Inspection Report, the Company decided prudently to allocate a further Euro 368,402 to the provision for risks for the IRES/corporate income tax due; this is while it awaits feedback to its comments before deciding whether or not to proceed with the dispute. No further provision has been made for IRAP and VAT in relation to the said Tax Inspection Report as the existing provision was already sufficient;
- Euro 1,100,000 of product warranty provisions. During the period, utilisation of the provision totalled Euro 1,400,000 while increases totalled Euro 1,100,000; 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, taking account of historical costs and any complaints already received;
- Euro 15,000 of provisions for future expenses in relation to damage that occurred during the period to a property owned by subsidiary Immobiliare Industriale S.r.l.;
- Euro 170,000 of provisions made by subsidiary ABL Automazione S.r.l. for completion costs in relation to contracts invoiced during the period.

Employee severance indemnity ("TFR") provision

The TFR provision has been calculated, for the parent company and subsidiary ABL Automazione S.r.l. 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	**1,581,848**
Changes during the year	
Change in scope of consolidation	912,064
Allocated	1,081,372
Utilised	(1,076,761)
Other changes	-
Total changes	916,675
Amount at 31/12/2019	**2,498,523**

The amount of Euro 912,064 shown under "Changes in Scope of Consolidation" entirely refers to the effect of consolidation of amounts relating to subsidiary ABL Automazione S.r.l. at its date of acquisition.

Payables

There are no payables relating to transactions involving a future return obligation for the buyer.

Description	31/12/18	Change	31/12/19
Bonds	-	-	-
Convertible bonds	-	-	-
Shareholders' loans payable	-	525,000	525,000
Bank borrowing	47,849,607	(12,288,232)	35,561,375
Payables to other lenders	13,585,485	(613,440)	12,972,045
Payments on account	876,098	1,733,388	2,609,486
Trade payables	36,034,060	1,253,105	37,287,165
Payables in form of credit instruments	-	-	-
Payables to non-consolidated subsidiaries	101,837	(36,941)	64,896
Payables to associated companies	-	-	-
Payables to parent companies	-	-	-
Payables to companies controlled by parent companies	-	-	-
Tax payables	1,055,424	357,353	1,412,777
Payables to social security and pensions institutions	1,407,451	334,800	1,742,251
Other payables	3,281,602	1,241,442	4,523,044
Total	**104,191,564**	**(7,493,525)**	**96,698,039**

For a better understanding of the amounts reported and the changes thereto, the following table shows separately amounts relating to the changes in the scope of consolidation. The amounts all relate to subsidiary ABL Automazione S.r.l..

Description	31/12/18	Change in scope of consolidation	Change in year	31/12/19
Bonds	-	-	-	-
Convertible bonds	-	-	-	-
Shareholders' loans payable	-	-	525,000	525,000
Bank borrowing	47,849,607	1,349,962	(13,638,194)	35,561,375
Payables to other lenders	13,585,485	17,455	(630,895)	12,972,045
Payments on account	876,098	4,321,550	(2,588,162)	2,609,486
Trade payables	36,034,060	1,904,891	(651,786)	37,287,165
Payables in form of credit instruments	-	-	-	-
Payables to non-consolidated subsidiaries	101,837	-	(36,941)	64,896
Payables to associated companies	-	-	-	-
Payables to parent companies	-	-	-	-
Payables to companies controlled by parent companies	-	-	-	-
Tax payables	1,055,424	12,626	344,727	1,412,777
Payables to social security and pensions institutions	1,407,451	63,487	271,313	1,742,251
Other payables	3,281,602	703,564	537,878	4,523,044
Total	**104,191,564**	**8,373,535**	**(15,867,060)**	**96,698,039**

Breakdown by residual duration

Description	31/12/2019	Due within a year	Due after more than a year	Of which due after more than five years
Bonds	-	-	-	-
Convertible bonds	-	-	-	-
Shareholders' loans payable	525,000	-	525,000	-
Bank borrowing	35,561,375	15,475,568	20,085,807	937,101
Payables to other lenders	12,972,045	6,170,308	6,801,737	-
Payments on account	2,609,486	2,609,486	-	-
Trade payables	37,287,165	37,287,165	-	-
Payables in form of credit instruments	-	-	-	-
Payables to non-consolidated subsidiaries	64,896	64,896	-	-
Payables to associated companies	-	-	-	-
Payables to parent companies	-	-	-	-
Payables to companies controlled by parent companies	-	-	-	-
Tax payables	1,412,777	1,412,777	-	-
Payables to social security and pensions institutions	1,742,251	1,742,251	-	-
Other payables	4,523,044	4,523,044	-	-
Total	**96,698,039**	**69,285,495**	**27,412,544**	**937,101**

Loans payable to Shareholders

The amount of Euro 525,000 entirely refers to subsidiary Hold.Co 1 S.r.l. and consists of loans payable to shareholders not belonging to the Group.

Bank Borrowing

Description	31/12/18	31/12/19	Change
a) Bank borrowing due within a year	**21.059.976**	**15.475.568**	**(5.584.408)**
Lines of credit	-	-	-
Current account overdrafts	184.147	241.409	57.262
Loans	10.603.335	10.167.684	(435.651)
Advances on receivables	10.272.494	5.066.475	(5.206.019)
Other payables	-	-	-
b) Bank borrowing due after more than a year	**26.789.631**	**20.085.807**	**(6.703.824)**
Loans	26.789.631	20.085.807	(6.703.824)
Advances on receivables	-	-	-
Other payables	-	-	-
Total bank borrowing	**47.849.607**	**35.561.375**	**(12.288.232)**

In order to provide a better understanding of the balance and changes thereto, the following table shows separately amounts relating to the changes in the scope of consolidation. All such amounts relate to subsidiary ABL Automazione S.r.l..

Description	31/12/18	Change in scope of consolidation	31/12/19	Change
a) Bank borrowing due within a year	**21,059,976**	**1,349,962**	**15,475,568**	**(6,934,370)**
Lines of credit	-	-	-	-
Current account overdrafts	184,147	-	241,409	57,262
Loans	10,603,335	349,962	10,167,684	(785,613)
Advances on receivables	10,272,494	1,000,000	5,066,475	(6,206,019)
Other payables	-	-	-	-
b) Bank borrowing due after more than a year	**26,789,631**	**-**	**20,085,807**	**(6,703,824)**
Loans	26,789,631	-	20,085,807	(6,703,824)
Advances on receivables	-	-	-	-
Other payables	-	-	-	-
Total bank borrowing	**47,849,607**	**1,349,962**	**35,561,375**	**(13,638,194)**

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	Due after more than 5 years	Total	Owner of mortgaged asset
BPM loan	102,077	645,669	-	747,746	Industrie Saleri Italo S.p.A.
BPM loan	184,110	1,164,549	-	1,348,659	Industrie Saleri Italo S.p.A.
ICCREA loan	120,619	691,325	-	811,944	Industrie Saleri Italo S.p.A.
ICCREA loan	430,726	1,789,661	937,101	3,157,488	Immobiliare Industriale S.r.l.
Mediocredito loan	-	-	-	-	Immobiliare Industriale S.r.l.
Total	**837,2532**	**4,291,204**	**937,101**	**6,065,837**	

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 35,561,375, against Euro 47,849,607 at 31 December 2018, is detailed as follows:

Industrie Saleri Italo S.p.A.

Description	31/12/18	31/12/19	Change
a) Bank borrowing due within a year	**18,372,619**	**13,008,659**	**(5,363,960)**
Lines of credit	0	0	0
Current account overdrafts	184,054	239,160	55,106
Loans	7,916,071	7,912,224	(3,847)
Advances on receivables	10,272,494	4,857,275	(5,415,219)
Other payables			-
b) Bank borrowing due after more than a year	**26,789,631**	**18,846,246**	**(7,943,385)**
Loans	26,789,631	18,846,246	(7,943,385)
Advances on receivables	-	-	-
Other payables	-	-	-
Total bank borrowing	**45,162,250**	**31,854,905**	**(13,307,345)**

Bank Borrowing amounts to Euro 31,854,905 and has decreased by Euro 13,307,345 compared to 31 December 2018. Bank borrowing due within a year amounts to Euro 13,008,659 and has decreased by Euro 5,363,960 compared to 31 December 2018. Meanwhile, bank borrowing due after more than a year amounts to Euro 18,846,246 and has decreased by Euro 7,943,385 compared to 31 December 2018.
Loans payable at 31 December 2019 (both current and non-current) amount to Euro 26,758,470 and are analysed as follows:

- Secured loan with an outstanding amount of Euro 747,747 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 1,348,659 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 377,540 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 811,944, 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 3,157,488, 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 317,465, 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 1,931,814 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 270,698 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 332,827 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 531,255 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 676,755 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 2,481,804 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 550,637 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 2,998,544 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 844,532 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 630,242 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 1,178,353 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 1,028,562 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 300,948 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 79,990 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 214,182 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 Euro1,499,996 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 1,449,446 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 2,117,628 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 306,065 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 340,016 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 233,333 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	31/12/18	31/12/19	Change
a) Bank borrowing due within a year	**688,234**	**94**	**(688,140)**
Lines of credit	0	0	0
Current account overdrafts	93	94	1
Loans	688,141	0	(688,141)
Advances on receivables	0	0	0
Other payables	-	-	-
b) Bank borrowing due after more than a year	**0**	**0**	**0**
Loans	0	0	0
Advances on receivables	-	-	-
Other payables	-	-	-
Total bank borrowing	**688,234**	**94**	**(688,140)**

The current account payables refer to expenses for the period not yet charged at 31/12/2019.
The secured loan from Banca Mediocredito S.p.A. which had an outstanding amount of Euro 688,141 at 31/12/2018 was repaid in full during 2019.

Saleri Shanghai Co.Ltd

Bank borrowing amounting to Euro 1,536,688, against Euro 1,999,123 at 31 December 2018, entirely consists of unsecured loans resulting from the consolidation of short-term borrowing.

Hold.Co 1 S.r.l.

Bank borrowing of Euro 1,225,000 entirely refers to the loan agreement signed on 31 July 2019 with Banca di Credito Cooperativo di Brescia.

ABL Automazione S.r.l.

Description	31/12/18	31/12/19	Change
a) Bank borrowing due within a year	**1,349,962**	**694,095**	**(655,867)**
Lines of credit	0	0	0
Current account overdrafts	0	2,155	2,155
Loans	349,962	482,740	132,778
Advances on receivables	1,000,000	209,200	(790,800)
Other payables	-	-	-
b) Bank borrowing due after more than a year	**0**	**250,593**	**250,593**
Loans	0	250,593	250,593
Advances on receivables	-	-	-
Other payables	-	-	-
Total bank borrowing	**1,349,962**	**944,688**	**(405,274)**

The current account payables refer to expenses for the period not yet charged at 31/12/2019.

Loans payable at 31 December 2019 (both current and non-current) amount to Euro 733,333 (Euro 466,771 at 31 December 2019) and are analysed as follows:

- Loan with an outstanding amount of Euro 140,000 and original principal of Euro 420,000. The loan is repayable in 36 months between 31/10/2017 and 31/10/2020; repayment has been agreed in 7 six-monthly instalments in arrears at a fixed rate of 1.223%;
- Loan with an outstanding amount of Euro 93,333 and original principal of Euro 280,000. The loan is repayable in 36 months between 31/10/2017 and 31/10/2020; repayment has been agreed in 7 six-monthly instalments in arrears at a fixed rate of 1.223;
- Loan with an outstanding amount of Euro 500,000 and original principal of Euro 500,000. The loan is repayable in 15 months between 16/03/2020 and 16/06/2021; repayment has been agreed in 6 quarterly instalments in arrears at a fixed rate of 0.95%.

Payables to Other Lenders

This caption amounts to Euro 12,972,045 (Euro 13,585,485 at 31 December 2018) and consists almost entirely of payables towards leasing companies and factoring companies.

The slight decrease compared to prior year has, in fact, been greatly influenced by an increase in the parent company's payables due to increased use of Recourse Factoring in 2019.

Payments on account

This item amounts to Euro 2,609,486 (Euro 876,098 at 31 December 2018) and refers to advances received from customers towards the supply of equipment.

The balance almost entirely refers to the parent company and to subsidiary ABL Automazione S.r.l.

Trade Payables

Description	Industrie Saleri Italo S.p.A.	Immobiliare Industriale S.r.l.	Saleri Shanghai Co. Ltd	Hold.Co 1 S.r.l.	ABL Automazione S.r.l.	Consolidated
Trade payables	33,397,190	4,242	1,998,642	48,182	1,838,909	37,287,165
Total	**33,397,190**	**4,242**	**1,998,642**	**48,182**	**1,838,909**	**37,287,165**

Trade payables amount to Euro 37,287,165 against Euro 36,034,060 at 31 December 2018. They include liabilities for purchases of goods and services based on agreed contractual terms and conditions. Excluding the increase of Euro 1,904,891 due to the change in the scope of consolidation, the balance has not varied significantly compared to prior year (- Euro 651,786).

Payables to non-consolidated subsidiaries

The amount of Euro 64,896 (against Euro 101,837 at 31 December 2018) entirely relates to the parent company and is payable to subsidiaries Saleri Gmbh and Saleri México S.A. de C.V..
In more detail:
The payables totalling Euro 62,595 to Saleri Gmbh (zero at 31 December 2018) include:

- Euro 3,000 of trade payables;
- Euro 59,595 payable under the service agreement.

The payables to Saleri Mexico S.A. de C.V., amounting to Euro 2,301, exclusively refer to payment of the corresponding portion of the subsidiary's capital as per the deed of incorporation of 4 October 2019. Following the sale of the investment in Italacciai S.r.l. in 2019, payables to that company are now included in "Trade Payables" and are no longer reported under Payables to subsidiaries.

Tax Payables

Tax payables amount to Euro 1,412,777 against Euro 1,055,424 at 31 December 2018. They are detailed as follows:

Description	Industrie Saleri Italo S.p.A.	Immobiliare Industriale S.r.l.	Saleri Shanghai Co. Ltd	Hold.Co 1 S.r.l.	ABL Automazione S.r.l.	Consolidated
IRAP payable	-	-	-	-	17,098	17,098
IRES payable	-	-	-	-	218,662	218,662
Taxes withheld at source from employees	925,367	-	-	-	91,560	1,016,927
Taxes withheld at source from freelance professionals	11,039	-	-	6,385	1,877	19,301
Substitute taxes	-	-	-	-	-	-
VAT payable	26,824	-	110,117	-	-	136,941
Other tax payables	-	-	3,848	-	-	3,848
Total	**963,230**	**-**	**113,965**	**6,385**	**329,197**	**1,412,777**

Payables to Social Security and Pensions Institutions

They are detailed as follows:
Payables to Social Security and Pensions Institutions amount to Euro 1,742,251 against Euro 1,407,451 at 31 December 2018.

Description	Industrie Saleri Italo S.p.A.	ABL Automazione S.r.l.	Consolidated
Payables to INPS	985,388	120,427	1,105,815
Payables to INAIL	17,892	661	18,553
Payables to other social security and pensions institutions	540,061	77,822	617,883
Total	**1,543,341**	**198,910**	**1,742,251**

Payables to social security and pensions institutions represent the contributions payable by the companies.
They have been duly paid by the legal due date.
"Other payables to social security and pensions institutions" includes amounts relating to contributions allocated on payroll accruals.

Payables to Others

Payables to Others amount to Euro 4,523,044 against Euro 3,281,602 at 31 December 2018. They are detailed as follows:

Description	Industrie Saleri Italo S.p.A.	Immobiliare Industriale S.r.l.	Saleri Shanghai Co. Ltd	Hold.Co 1 S.r.l.	ABL Automazione S.r.l.	Consolidated
Payables to employees	2,806,975	-	-	-	371,713	3,178,688
Payables to directors and statutory auditors	64,972	6,240	-	-	39,477	110,689
Other	1,207,056	6	337	-	26,268	1,233,667
Total	**4,079,003**	**6,246**	**337**	**-**	**437,458**	**4,523,044**

"Payables to employees" refers to salaries for the month of December and to other deferred remuneration accruing at the reporting date. The parent company's "Payables to Others" includes payables to treasury and pension funds for TFR entitlement accruing but not yet paid (Euro 225,196) and CR balances with certain customers (Euro 702,200).

Accrued expenses and deferred income

Accrued expenses and deferred income amount to Euro 762,983 against Euro 585,486 at 31 December 2018. They mainly comprise the parent company's deferred income in relation to contributions from customers.

Notes to the Income Statement

Value of Production

Revenue from sales and services

This item amounts to Euro 157,241,529 against Euro 154,550.726 in 2018. It mainly refers to the Parent Company and regards the production and sale of cooling pumps. It also includes a minor amount of sales of machinery and revenue for services rendered by subsidiary ABL Automazione S.r.l..

Description	2018	Change	2019
Revenue from sales	154,550,726	638,603	155,189,329
Total	**154,550,726**	**638,603**	**155,189,329**

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 5,140,262 decrease in revenue from sales (-3% approx..) is mainly due to a fall in the sales to third parties of the parent company and subsidiary Saleri Shanghai. This decrease is partially countered by an increase in sales of subsidiary ABL Automazione S.r.l. from its date of inclusion in the scope of consolidation.

Breakdown of revenue from sales and services by business category

Description	31/12/2019
Production and Sale of Water Pumps, Equipment and Prototypes	146,988,803
Contract work on Machinery and services and maintenance	7,311,394
Rental income	889,132
Total	**155,189,329**

Breakdown of sales by geographical area

Geographical Area	2018	Change	2019
Italy	12,971,677	7,774,046	20,745,723
Other countries	141,579,049	(7,135,443)	134,443,606
Total	**154,550,726**	**638,603**	**155,189,329**

Increases in fixed assets due to internal works

LThe amount of Euro 2,636,056 refers to development costs (Euro 1,314,276) and assets built within the Group (Euro 1,321,780) Development costs capitalised in 2019 entirely relate to the parent company and refer to the cost of personnel directly employed in development projects for contracts whose award had been confirmed at 31 December 2019 but which had not yet gone into mass production. See the Note on Development Costs and Intangible Assets in Progress for further information.

Assets built in-house entirely refers to machinery produced by subsidiary ABL Automazione S.r.l. and sold to the parent company from the date on which the subsidiary entered the scope of consolidation.
In 2018, increases in fixed assets due to internal works (Euro 913,274) entirely related to the capitalisation of development costs of the parent company.

Other revenue and income

Other revenue totals Euro 7,728,823 against Euro 26,979,205 in 2018. It almost entirely consists of other revenue of the parent company and includes:
- Euro 2,171,892 of project cancellation costs charged to customers;
- Euro 1,743,088 of contributions received from customers towards the purchase of equipment;
- Euro 1,045,860 of chargebacks for equipment realised in-house;
- Euro 447,000 of income relating to a receivable for litigation with a former customer in respect of which a final decision has been issued in favour of the Company;
- Euro 405,330 of unaccrued prior year income, mainly relating to amounts provided in error in prior years and collections of receivables that had been written off;
- Euro 295,004 of chargebacks to customers and suppliers of costs incurred that are not attributable to the Group;
- Euro 268,204 of insurance pay-outs almost entirely relating to damage caused by fire on 11 January 2018 for which insurance payment agreements were signed in 2019;
- Euro 52,907 of gains on fixed asset disposals;
- Euro 12,195 of operating grant income.

The decrease of Euro 19,250,382 compared to prior year is mainly due to the insurance pay-outs received by the parent company in prior year in relation to the fire on 11 January 2018.
Reference should be made to the Directors' Report for a more detailed breakdown of Revenue from Sales and Value of Production, in general.

Cost of production

The following table contains details of cost of production for 2018 and 2019.

Description	2018	2019	Change	% Chg,
Raw, ancillary and consumable materials and goods for resale	96,051,109	76,176,211	(19,874,898)	-20.69%
Services	41,001,771	35,052,430	(5,949,341)	-14.51%
Use of third party assets - Lease and rental costs	1,685,109	1,938,417	253,308	15.03%
Personnel:				
a) wages and salaries	18,192,448	21,669,589	3,477,141	19.11%
b) social contributions	5,295,046	6,333,063	1,038,017	19.60%
c) employee severance indemnity - TFR	928,941	1,081,372	152,431	16.41%
d) retirement benefits and similar obligations	-	-	-	0.00%
e) other personnel costs	212,810	188,721	(24,089)	-11.32%
Depreciation, amortisation and writedowns:				
a) intangible assets	1,762,311	1,914,496	152,185	8.64%
b) tangible assets	9,433,176	9,830,286	397,110	4.21%
c) other writedowns of non-current assets	1,560,488	-	(1,560,488)	-100.00%
d) writedowns of current receivabes	-	45,007	45,007	
Changes in inventory of raw, ancillary and consumable materials and goods	(1,219,457)	(1,981,983)	(762,526)	62.53%
Provisions for risks	-	-	-	-
Other provisions	1,400,000	1,136,088	(263,912)	-18.85%
Sundry operating expenses	3,314,796	1,298,698	(2,016,098)	-60.82%
Rounding	-	-	-	-
Total	**179,618,548**	**154,682,395**	**(24,936,153)**	

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

Costs for raw, ancillary and consumable materials and goods are reported in the Income Statement net of adjustments for returns, discounts, bonuses and allowances. They total Euro 76,176,211 for 2019 against Euro 96,051,109 in 2018.

The composition of the balance has not changed significant compared to prior year except, with regard to the parent company, for the decrease in purchases of finished pumps and components compared to 2018 when inventory had to be replenished following the fire in January that year.

Description	Industrie Saleri Italo S.p.A.	Saleri Shanghai Co. Ltd	ABL Automazione S.r.l.	Consolidated
Raw, ancillary and consumable materials and goods for resale	68,180,151	6,342,728	1,653,332	76,176,211
Total	**68,180,151**	**6,342,728**	**1,653,332**	**76,176,211**

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	Hold.Co 1 S.r.l.	ABL Automazione S.r.l.	Consolidated
Costs for Services	33,543,559	53,683	562,241	68,284	824,663	35,052,430
Total	**33,543,559**	**53,683**	**562,241**	**68,284**	**824,663**	**35,052,430**

Costs for services amount to Euro 35,052,430 against Euro 41,001,771 in 2018. They mainly comprise the Parent Company's costs for services (around 96% of the total), as follows:

Description	2018	2019	Change
Industrial services	22,190,714	21,367,534	(823,180)
Consulting	2,472,618	1,191,928	(1,280,690)
General expenses	13,352,980	8,446,569	(4,906,411)
Other services	2,093,286	2,537,528	444,242
Total	**40,109,598**	**33,543,559**	**(6,566,039)**

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 Euro 823,180 decrease in costs for services is mainly due to the gradual return to normal production activities after they were compromised by the fire in 2018.
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 decrease of Euro 1,280,690 mainly regards costs for technical consulting (down by Euro 357,318), tax and management consulting (down by Euro 872,256) and sales consulting (down by Euro 167,102). These decreases were partially countered by an increase in marketing consulting (Euro 59,716).

General Expenses include costs for Freight, Utilities, Maintenance and other costs relating to the Group's activities. The overall decrease of Euro 4,894,936 is mainly due to: extraordinary maintenance costs (maintenance work to repaid damaged machinery) carried out in 2018 in response to the fire (down by Euro 3,843,960) and freight costs (down by Euro 1,307,688) also in relation to the relocation of production to the new Saleri E factory in Provaglio d'Iseo in 2018.
Other services is a catch-all caption. 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.

Use of third party assets – lease and rental costs

This item amounts to Euro 1,938,417 against Euro 1,685,109 in 2018. It is analysed as follows:

Description	Industrie Saleri Italo S.p.A.	Saleri Shanghai Co. Ltd	ABL Automazione S.r.l.	Consolidated
Use of third party assets Lease and rental costs	1,224,536	622,805	91,076	1,938,417
Total	**1,224,536**	**622,805**	**91,076**	**1,938,417**

The balance mainly includes hire and rental expenses.

Personnel costs

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.

Personnel costs amount to Euro 29,272,745 against Euro 24,629,245 in 2018 and are analysed below:

Description	Industrie Saleri Italo S.p.A.	Saleri Shanghai Co. Ltd	ABL Automazione S.r.l.	Consolidated
Personnel costs				
a) wages and salaries	19,757,421	1,058,747	853,421	21,669,589
b) social contributions	5,628,113	428,831	276,119	6,333,063
c) employee severance indemnity - TFR	1,009,762	-	71,610	1,081,372
d) retirement benefits and similar obligations	-	-	-	-
e) other personnel costs	113,999	74,722	-	188,721
Total	**26,509,295**	**1,562,300**	**1,201,150**	**29,272,745**

The total cost has increased mainly because of an increase in the average number of employees.

Amortisation of intangible assets

Amortisation of intangible assets (Euro 1,914,496 against Euro 1,762,311 in 2018) has already been commented upon in the Note on intangible assets.

Depreciation of tangible assets

Depreciation of tangible assets (Euro 9,830,286 against Euro 9,433,176 in 2018) 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 already described in the note on Non-Current Assets, in 2019, the Group did not make any further writedowns of non-current assets as it believed the amount provided in prior year was sufficient.

Writedowns of current receivables

During the year, writedowns of current receivables totalled Euro 45,007.

Other provisions

This item, amounting to Euro 1,136,088, refers to allocations to the product warranty provision (Euro 1,100,000) and to completion costs of contracts already invoiced (Euro 36,088). In 2018, the amount allocated was Euro 1,400,000.

Sundry operating expenses

Sundry operating expenses amount to Euro 1,298,698 against Euro 3,314,796 in 2018 and are detailed as follows:

Description	Industrie Saleri Italo S.p.A.	Immobiliare Industriale S.r.l.	Saleri Shanghai Co. Ltd	Hold.Co 1 S.r.l.	ABL Automazione S.r.l.	Consolidated
Sundry operating expenses	807,095	74,633	389,801	3,679	23,490	1,298,698
Total	**807,095**	**74,633**	**389,801**	**3,679**	**23,490**	**1,298,698**

The decrease compared to prior year (Euro 2,039,588) mainly regards regarding the Parent Company and is mainly as a result of the losses on assets recorded as a result of the fire in 2018 (Euro 826,756) and of higher indemnities paid to customers in 2018 (Euro 584,035).

Financial income and expenses

Income from investments

The amount of Euro 22,900 refers to income received following the final liquidation of Saleri Iberica Immobiliare Industriale SL, a company based in Spain, which ceased operating in 2018 and was controlled by consolidated company Immobiliare Industriale S.r.l..

Income from securities included in current assets that are not equity investments

The amount of Euro 15,685 refers to income on securities included in the current assets of subsidiary ABL Automazione S.r.l..

Sundry income

This caption totals Euro 17,497 for 2019 and mainly consists of bank interest income recorded by the parent company.

Interest and other financial expenses

Interest and other financial expenses amount to Euro 1,716,657 against Euro 2,223,360 in 2018 and are analysed as follows:

Description	Amount
Bonds	-
Bank borrowing	1,363,033
Other	353,624
Totale	**1,716,657**

Exchange gains and losses

Net exchange losses of Euro 22,206, compared to exchange losses of Euro 139,193 in 2018, mainly refer to the exchange differences of the parent company and subsidiary Saleri Shanghai Co.Ltd.

Revaluation of derivative instruments

The amount of Euro 16,109 refers to the positive fair value measurement of derivative instruments in place at the reporting date, in accordance with Italian Accounting Standard OIC 32..

Writedown of investments

The amount of Euro 770 refers to writedowns of non-controlling investments.

Writedowns of derivative instruments

The amount of Euro 729 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	2018	Change	2019
Current tax	763,645	78,573	584,701
Deferred tax	73,759	(22,034)	339,304
Deferred tax income	(391,441)	(643,013)	(1,467,181)
Income and expenses from tax consolidation	208,791	-	-
Total	**654,754**	**(586,474)**	**(543,176)**

As already stated in the Note on "Provisions for Risks and Charges", the amount of Euro 368,402 refers to prudent provision made for prior year taxes in respect of which the Company received a Tax Inspection Report from the authorities in 2020.

Deferred tax income mainly refers to the parent company (Euro 861,642), to subsidiary ABL Automazione S.r.l. (Euro 355,795) and to subsidiary Immobiliare Industriale S.r.l. (Euro 4,186). It also includes an amount (Euro 245,558) relating to consolidation adjustments.

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.
The following table shows amounts relating to transactions with non-consolidated subsidiaries and other related parties.

	Non consolidated subsidiaries	Other related parties
Revenue	147	
Costs	59,596	577,242
Financial income/expenses	-	-
Financial receivables	152,410	6,791
Trade receivables	681,979	-
Financial payables	2,301	-
Trade payables	62,595	-

Fees

As required by law, the following table contains details of the total fees of the Directors, the members of the FeesBoard of Statutory Auditors and the External Auditor for performance of their duties.

Description	Consolidated
Directors' Fees	1,308,530
Board of Statutory Auditors' Fees	55,056
External Auditors' Fees	170,716
Total	**1,534,302**

Employment details

The following table shows the average number of employees – by employee category – of the companies consolidated line-by-line.

Workforce	2018	Change in scope of consolidation	Change in year	2019
White collars - Managers	182	29	10	221
Blue collars - Intermediates	309	16	18	343
Total	**491**	**45**	**28**	**564**

The change – excluding the effect of the change in scope of consolidation due to inclusion of subsidiary ABL Automazione S.r.l. – mainly refers to the parent company. See the Directors' Report for further information on personnel.

Summary of public finance in terms of art. 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 2019, the Group did not receive grants and contributions totalling Euro 63,436 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 31/12/2019:

Description	Fair value 31/12/2019	Fair value 31/12/2018	Change in Income Statement	Nature	Amount
Interest rate swap	-	(13,907)	13,907	HEDGE	-
Options	13	(1,460)	1,473	HEDGE	2,035,473

Significant events after the reporting period

Pursuant to Article 2427(22-iv) of the Italian Civil Code, the events relating to the Covid-19 pandemic, which occurred in the first few months of 2020, should be considered as events after the reporting period as they took place between the reporting date of the Financial Statements and the date of formal approval of the Financial Statements by the Shareholders. For further information, see the "Foreword" paragraph of these Notes.
We note that, on 30 April 2020, an Extraordinary General Meeting of Parent Company Shareholders approved a paid Share Capital increase for a nominal amount of Euro 6,000,000 with the issue of new category "C" shares, taking Share Capital to Euro 23,922,413.12. This share issue was fully subscribed by Shareholder Quaestio Capital SGR S.p.A. as manager and on behalf of the Quaestio Italian Growth Fund in two tranches on 4 May 2020 (Euro 2,000,000) and 12 June 2020 (Euro 4,000,000).
We also note that, on 1 July 2020, the Parent Company issued bonds with a value of Euro 3,825,107, called "Saleri Supplier Value Chain Bonds 2020-2022". These bonds were subscribed by several of the Company's suppliers.
As already mentioned in the Notes to "Provisions for Risks and Charges" and "Taxes on Income for the Year", in January 2020, the Italian Tax Authorities began a tax inspection in respect of the 2015 and 2016 tax periods. Following the issue of the Tax Inspection Report, the Parent Company has submitted its comments and it awaits feedback before deciding whether or not to continue the related dispute.

Lumezzane (BS), 29 July 2020

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**

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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 at December 31, 2019, 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 at December 31, 2019, 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 Industrie Saleri Italo S.p.A. are responsible for the preparation of the report on operations of Saleri Group as at December 31, 2019, 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 at December 31, 2019 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 at December 31, 2019 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
August 6, 2020

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

Section

3

Separate Financial Statements at 31.12.2019

General information about the Company

General details

Name	Industrie Saleri Italo S.p.A.
Registered office	Via Ruca 406, 25065 Lumezzane (BS)
Share capital	23,922,413
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	Societa' 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

	31/12/2019	31/12/2018
BALANCE SHEET		
ASSETS		
A) DUE FROM SHAREHOLDERS FOR UNPAID CAPITAL		
B) NON-CURRENT ASSETS		
I - Intangible assets		
1) Start-up and expansion costs	-	-
2) Development costs	1,461,286	1,968,838
3) Patents and intellectual property rights	440,706	64,992
4) Concessions, licences, trademarks and similar rights	-	-
5) Goodwill	-	-
6) Assets under construction and payments on account	3,058,816	866,589
7) Other	2,467,958	2,343,962
Total Intangible Assets	**7,428,766**	**5,244,381**
II - Tangible assets		
1) Land and buildings	19,965,392	20,624,215
2) Plant and machinery	20,457,519	15,333,225
3) Industrial and commercial equipment	4,080,263	3,938,161
4) Other tangible assets	1,010,336	1,340,151
5) Assets under construction and payments on account	1,901,691	2,968,081
Total Tangible Assets	**47,415,201**	**44,203,833**
III - Financial assets		
1) Investments in:		
a) subsidiaries	8,356,498	7,786,806
b) associated companies	-	-
c) parent companies	-	-
d) entities subject to control of parent companies	-	-
d-bis) Other entities	4,247	4,247
Total investments	**8,360,745**	**7,791,053**
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	**0**	**0**
3) Other Securities	6,340	7,111
4) Derivatives	13	742
Total Financial Assets	**8,367,098**	**7,798,906**
TOTAL NON-CURRENT ASSETS (B)	**63,211,065**	**57,247,120**

	31/12/2019	31/12/2018
BALANCE SHEET		
ASSETS		
C) CURRENT ASSETS		
I - Inventory		
1) Raw, ancillary and consumable materials	11,766,582	9,610,864
2) Work in progress and semi-finished goods	3,060,179	2,860,228
3) Contract work in progress	-	-
4) Finished goods	11,781,049	15,298,505
5) Payments on account	63,169	628,981
Total Inventory	**26,670,979**	**28,398,578**
II - Receivables		
1)Trade accounts		
due within a year	6,155,658	12,021,781
due after more than a year	-	-
Total trade receivables	**6,155,658**	**12,021,781**
2) Due from subsidiaries		
due within a year	1,683,753	590,712
due after more than a year	-	-
Total receivables due from subsidiaries	**1,683,753**	**590,712**
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	924,180	2,344,488
due after more than a year	-	-
Total tax receivables	**924,180**	**2,344,488**
5-ter) Deferred tax assets		
due within a year	-	-
due after more than a year	5,176,585	4,330,452
Total deferred tax assets	**5,176,585**	**4,330,452**
5-quater) Due from others		
due within a year	4,459,013	14,903,268
due after more than a year	155,075	150,480
Total receivables due from others	**4,614,088**	**15,053,748**
Total Receivables	**18,554,264**	**34,344,647**

	31/12/2019	31/12/2018
BALANCE SHEET		
ASSETS		
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	**13,294**	**14,294**
IV - Cash and cash equivalents		
1) Bank and post office accounts	7,051,175	2,120,162
2) Cheques	-	-
3) Cash and cash equivalents on hand	7,355	5,220
Total IV)	7,058,530	2,125,382
TOTAL CURRENT ASSETS	**52,297,067**	**64,882,901**
D) PREPAID EXPENSES AND ACCRUED INCOME	**2,458,666**	**3,505,269**
TOTAL ASSETS	**117,966,798**	**125,635,290**

	31/12/2019	31/12/2018
BALANCE SHEET		
LIABILITIES AND EQUITY		
A) SHAREHOLDERS' EQUITY		
I - Share capital	**17,922,413**	**17,922,413**
II - Share premium reserve	**7,696,219**	**10,237,587**
III - Revaluation reserve	**4,609,122**	**4,609,122**
IV - Legal reserve	**1,134,850**	**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)**
IX - Profit (Loss) for the year	**902,521**	**2,056,997**
X - Negative reserve for treasury shares held	**(285,014)**	
Totale patrimonio netto di gruppo	**32,344,163**	**31,726,656**
B) PROVISIONS FOR RISKS AND CHARGES		
1) Retirement benefits and similar obligations	-	-
2) Taxation, including deferred tax	1,651,400	1,666,909
3) Derivatives	-	16,109
4) Other	1,742,908	1,700,000
TOTAL PROVISIONS FOR RISKS AND CHARGES	**3,394,308**	**3,383,018**
C) EMPLOYEE SEVERANCE INDEMNITY /TFR PROVISION	**1,554,684**	**1,581,848**
D) PAYABLES		
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	13,008,659	18,372,619
due after more than a year	18,846,246	26,789,631
Total bank borrowing	**31,854,905**	**45,162,250**

	31/12/2019	31/12/2018
BALANCE SHEET		
LIABILITIES AND EQUITY		
5) Payables to other lenders		
due within a year	3,539,360	891,309
due after more than a year	-	-
Total payables to other lenders	**3,539,360**	**891,309**
6) Payments on account		
due within a year	685,103	876,098
due after more than a year	-	-
Total payments on account	**685,103**	**876,098**
7) Trade payables		
due within a year	33,401,797	33,770,382
due after more than a year	-	-
Total trade payables	**33,401,797**	**33,770,382**
8) Credit instruments		
due within a year	-	-
due after more than a year	-	-
Total credit instruments		
9) Payables to subsidiaries		
due within a year	3,856,741	2,020,932
due after more than a year	-	-
Total payables to subsidiaries	**3,856,741**	**2,020,932**
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	963,230	981,521
due after more than a year	-	-
Total tax payables	**963,230**	**981,521**
13) Payables to social security and pensions institutions		
due within a year	1,543,341	1,407,867
due after more than a year	-	-
Total payables to social security and pensions institutions	**1,543,341**	**1,407,867**
14) Other payables		
due within a year	4,079,003	3,247,923
due after more than a year	-	-
Total other payables	**4,079,003**	**3,247,923**
TOTAL PAYABLES	**79,923,480**	**88,358,282**
E) ACCRUED EXPENSES AND DEFERRED INCOME	**750,163**	**585,486**
TOTAL LIABILITIES AND EQUITY	**117,966,798**	**125,635,290**

Income Statement

	31/12/2019	31/12/2018
INCOME STATEMENT		
A) Value of production		
1) Revenue from sales and services	142,061,709	147,695,379
2) Change in inventories of WIP, semi-finished and finished goods	(3,317,505)	3,567,590
3) Change in contract work in progress	-	-
4) Increases in non-current assets due to capitalisation of internal works	1,314,276	913,274
5) Other revenue and income	-	-
Operating grant income	12,195	1,200
Other	7,844,319	27,038,778
Total other revenue and income	**7,856,514**	**27,039,978**
Total value of production	**147,914,994**	**179,216,221**
B) Cost of production		
6) Raw, ancillary and consumable materials and goods	74,323,594	96,144,884
7) Services	33,555,034	40,284,596
8) Use of third party assets – lease and rental costs	4,495,866	4,924,997
9) Personnel	-	-
a) Wages and salaries	19,757,421	17,260,335
b) Social contributions	5,628,113	4,867,661
c) Employee severance indemnity / TFR	1,009,762	928,941
d) Retirement benefits and similar obligations	-	-
e) Other personnel costs	113,999	111,546
Total personnel costs	**26,509,295**	**23,168,483**
10) Depreciation, amortisation and writedowns		
a) Amortisation of intangible assets	1,544,190	1,531,421
b) Depreciation of tangible assets	5,938,176	5,357,242
c) Other writedowns of non-current assets	-	1,560,488
d) Writedowns of current receivables and cash and cash equivalents	45,007	-
Total depreciation, amortisation and writedowns	**7,527,373**	**8,449,151**
11) Changes in inventory of raw, ancillary and consumable materials and goods for resale	(2,155,718)	(1,187,590)
12) Provisions for risks	-	-
13) Other provisions	1,100,000	1,400,000
14) Sundry operating expenses	807,095	2,213,628
Total cost of production	**146,162,539**	**175,398,149**
Difference between value and cost of production (A - B)	**1,752,455**	**3,818,072**

	31/12/2019	31/12/2018
INCOME STATEMENT		
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	-	-
Total income from investments		**1,490**
16) other financial income		
a) from receivables classed as non-current assets	-	-
- from subsidiaries	-	-
- from associated companies	-	-
- from parent companies	-	-
- from entities controlled by parent companies	-	-
- from other entities	-	-
b) from securities classed as non-current assets other than equity investments	290	119
c) from securities classed as current assets other than equity investments	-	-
d) income other than the above	-	-
- from subsidiaries	150	-
- from associated companies	-	-
- from parent companies	-	-
- from entities controlled by parent companies	-	-
- from other entities	16,249	9,312
Total income other than the above	**16,399**	**9,312**
Total other financial income	**16,689**	**9,431**
17) interest and other financial expenses		
- to subsidiaries	-	-
- to associated companies	-	-
- to parent companies	-	-
- to entities controlled by parent companies	-	-
other	1,264,012	1,573,745
Total interest and other financial expenses	**1,264,012**	**1,573,745**
17-bis) exchange gains and losses	(9,400)	(13,668)
Total financial income and expenses (15 + 16 - 17 + - 17-bis)	**(1,256,723)**	**(1,576,492)**
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	16,109	44,516
18) Revaluations	16,109	44,516

	31/12/2019	31/12/2018
INCOME STATEMENT		
19) Writedowns		
a) of equity investments	770	217,125
b) of non-current financial assets other than equity investments	-	-
c) of securities classed as current assets other than equity investments	-	-
d) of derivatives	729	5,501
Total writedowns	**1,499**	**222,626**
TOTAL ADJUSTMENTS TO VALUE OF FINANCIAL ASSETS	**14,610**	**(178,110)**
Profit before taxation (A - B + - C + - D)	**510,342**	**2,063,470**
20) Taxes on income for the year – current, deferred and deferred tax income		
a) Current taxes	207,554	377,181
b) Deferred taxes	368,402	-
c) Deferred tax income	(861,642)	(361,715)
d) Income (Expenses) from participation on tax consolidation	106,493	8,993
Total taxes on income for the year – current, deferred and deferred tax income	**(392,179)**	**6,473**
21) Profit (Loss) for the year	**902,521**	**2,056,997**

Statement of cash flows, indirect method

	31/12/2019	31/12/2018
A) CASH FLOWS FROM OPERATING ACTIVITIES		
PROFIT (LOSS) FOR THE YEAR	**902,521**	**2,056,997**
Taxes on income	(392,179)	6,473
Interest expenses/(income)	1,256,723	1,576,492
(Dividends)	-	-
(Gains)/Losses on asset disposals	(1,276)	716,238
1) Profit (Loss) for the year before taxes on income, interest, dividends and gains/ losses on disposal	**1,765,789**	**4,356,200**
Adjustments for non-cash items with no impact on net working capital		
Allocations to provisions	2,641,467	2,328,941
Depreciation/Amortisation of non-current assets	7,482,366	6,888,663
Impairment writedowns	(476,977)	1,777,613
Adjustments to value of financial assets and liabilities	(15,380)	(39,015)
Other adjustments for non-cash items	(702,961)	(6,465)
Total adjustments for non-cash items with no impact on net working capital	**8,928,515**	**10,949,737**
2) Cash flows before changes in NWC	**10,694,304**	**15,305,937**
Changes in net working capital		
Decrease / (Increase) in Inventory	1,877,820	(5,232,655)
Decrease / (Increase) in Trade Receivables	5,866,123	(1,304,699)
(Decrease) / Increase in Trade Payables	368,585	(8,308,698)
Decrease / (Increase) in Prepaid Expenses and Accrued Income	1,046,603	110,691
(Decrease) / Increase in Accrued Expenses and Deferred Income	164,677	524,537
Δ in Financial Receivables	(983,082)	(354,892)
Δ in Tax Receivables	1,617,124	(892,480)
Δ in Sundry Receivables	10,394,653	(14,593,654)
Decrease / (Increase) in Sundry Receivables	11,028,695	(15,841,026)
Δ in Other Payables	2,475,894	879,806
Δ in Tax Payables	(18,291)	(75,451)
Δ in Payables to Social Security and Pensions Institutions	135,474	274,696
(Decrease) / Increase in Sundry Payables	2,593,077	1,079,051
Other decreases/(Other increases) in net working capital	13,621,772	(14,761,975)
CHANGE IN NET WORKING CAPITAL	**22,208,410**	**(12,355,403)**
3) Cash flows after changes in NWC	**32,902,714**	**2,950,534**
Interest received / (paid)	(1,029,611)	(1,336,120)
Taxes on income (paid)	(497,976)	(220,979)
Dividends received	-	-
(Use of Provisions for Risks and Charges)	(1,425,494)	(915,510)
(Use of employee severance indemnity /TFR provision)	(1,036,926)	(896,734)
(Use of provisions)	-	-
Other receipts/(payments)	-	-
TOTAL OTHER ADJUSTMENTS	**(3,990,007)**	**(3,369,343)**
4) Cash Flows after other adjustments	**28,912,707**	**(418,809)**

	31/12/2019	31/12/2018
CASH FLOWS FROM OPERATING ACTIVITIES		
B) CASH FLOWS FROM INVESTING ACTIVITIES		
Capex on non-current assets		
-Tangible assets		
(Additions)	(9,106,822)	(10,461,587)
Disposals	157,279	263,509
-Intangible assets		
(Additions)	(3,519,317)	(3,882,177)
Disposals	0	0
-Financial assets		
(Additions)	(567,391)	(100,065)
Disposals		2,701
-Current financial assets		
(Additions)	-	-
Disposals	1,000	-
(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	**(13,035,251)**	**(14,177,619)**
C) CASH FLOWS FROM FINANCING ACTIVITIES		
Debt		
-Increase (Decrease) in short-term bank borrowing	(2,712,060)	(16,481,042)
-Loans arranged	-	12,961,310
-(Loans repaid)	(7,947,234)	(8,426,795)
Equity		
-Paid share capital increase	-	23,000,000
-(Share capital refunds)	-	-
-Sale (Purchase) of treasury shares	(285,014)	-
-(Dividends and advances on dividends paid)	-	-
CASH FLOWS FROM FINANCING ACTIVITIES	**(10,944,308)**	**11,053,473**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (A ± B ± C)	**4,933,148**	**(3,542,955)**
-Forex effect on cash and cash equivalents		
Cash and cash equivalents at start 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 start of period	**2,125,382**	**5,668,337**
Of which not freely available	-	-
Cash and cash equivalents at end of period		
Bank and post office accounts	7,051,175	2,120,162
Cheques	-	-
Cash and cash equivalents on hand	7,355	5,220
Total cash and cash equivalents at end of period	**7,058,530**	**2,125,382**
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 902,521.
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 2019. 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.

Foreword

The Separate Financial Statements at 31 December 2019 were prepared at the time of the pandemic caused by the Coronavirus called "Covid-19", which spread in Italy and in the rest of the world from the first few months of 2020 and involved a period of lockdown of production activities. In Italy, the Prime Minister's Decree ("DPCM ") of 22 March 2020 ordered the suspension of most non-essential business activities with resulting effects on the productivity, profitability, finances, employment and markets of businesses in Italy and internationally.
The suspension affected the OE segment of Industrie Saleri Italo S.p.A. which continued to operate only as permitted by the aforementioned DPCM to guarantee the supply of goods and services to business sectors considered strategic to the national economy i.e. the business segments indicated by ATECO code 45.2 (Repair and maintenance of motor vehicles) and 45.2 (Sale of spare parts or accessories for motor vehicles). . They also facilitated smart working where possible and encourage employees to use their annual leave. Above all, the Group complied with the new legal requirements with the fundamental aim of safeguarding the health of its workers, the most important concern in a period of such great difficulty.
Decree Law no 18 of 17 March 2020 ("the Curing Italy" decree) contained urgent measures for businesses, workers and families in relation to the Coronavirus (COVID-19) emergency and these included an extension of the deadline by which the 2019 Financial Statements have to be approved. Specifically, Article 106 of the Decree Law establishes that, by way of derogation from the usual rules and from the articles of association, the Company's Ordinary General Meeting to approve the financial statements at 31 December 2019 may be convened within 180 days of the reporting date. However, the health emergency meant that the Company and several subsidiaries were unable to approve their Financial Statements by this later deadline and, in order to obtain information from the subsidiaries for inclusion in the Consolidated Financial Statements, the Board of Directors further postponed approval beyond the date of 28 June 2020.
The DPCMs issued between 22 March 2020 and now have regulated measures for private individuals and businesses designed to combat the spread of the virus. Moreover, Decree Law no 18 of 17 March 2020 ("Curing Italy" decree), Decree Law no 23 of 8 April 2020 ("Liquidity Decree") and Decree Law no 34 of 19 May 2020 (the "Relaunch Decree") have introduced a range of diverse measures (financial, fiscal, employment law, medical/health etc) in order to regulate, inter alia, various aspects regarding business operations during the Covid-19 pandemic.
In particular, Article 38-iv of Decree Law no 34 of 19 May 2020 established that, when preparing the 2020 financial statements, the amounts reported may be measured on a going concern basis if that basis was properly applied in the financial statements for the last reporting period ended prior to 23 February 2020 (i.e. the financial statements at 31 December 2019 for entities whose annual reporting period follows the calendar year) and extended said provisions to financial statements for periods ended before 23 February 2020 but not yet approved i.e. for annual financial statements at 31 December 2019.
Pursuant to Article 2427 (1)(22-iv) of the Italian Civil Code and Italian Accounting Standards (specifically, Standard OIC 29), the health emergency is not classified as an event after the reporting period that must be reflected in the assets and liabilities reported in the Financial Statements at 31 December 2019, as it occurred after that date. However, given its significance, the health emergency is similar to a natural calamity occurring in the period after the reporting period and related disclosures are provided in these Notes.
The situation triggered by the pandemic and the resulting restrictions on the operations of the industry as a whole required the Company to act swiftly to adopt the measures necessary to reduce the risks that could have affected its ability to operate as a going concern.
Based on its short-term forecast of treasury requirements, the Company duly signed up to initiatives launched with the Italian Government in order to (i) obtain a moratorium on debt repayments and to (ii) obtain new loans accompanied by Public Guarantees.

The related requests were promptly made by the Company and are almost all still at the stage of finalisation. However, with regard to the debt moratorium requests, the Banks involved have already suspended repayment of instalments falling due. Moreover, in anticipation of a return to full activities, the Company has maintained close contact with leading customers and suppliers in order to reschedule deliveries after said customers and suppliers expressed their interest in continuing with business relations.
The Company has drawn up and is constantly updating a timetable for the restoration of production activities. This has led to the start of sanitisation activities at production facilities and the adopted of all of the safety measures required by the Government and, for the Italian Companies, by Trade Union Agreements and Industry Association guidelines.
Given the above and in consideration of all of the action taken to deal with the state of emergency caused by the pandemic, we do not believe there is any significant uncertainty over the Company's ability to operate as a going concern. This is not only in light of Article 38-iv of Decree Law no 34 of 19 May 2020 which permits the going concern outlook to be assessed based on the most recent published Financial Statements, in place of a prospective assessment of the next 12 months, but also considering the fact that the initiatives undertaken by the Company have made it possible to handle the crisis situation in such a way as not to compromise its economic and financial equilibrium. Reference should be made to the "Information on significant events after the reporting period" paragraph for further details of these initiatives. Accordingly, the Separate Financial Statements at 31 December 2019 have been prepared on a going concern basis.
Reference should also be made to the Directors' Report for further information on the above.

Business activities

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 2019 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.

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 2019, 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 Metasalute Fund, reclassified from caption D13 (payables to social security and pensions institutions) to caption D14 (Other payables) in the amount of Euro 5,889.

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 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 2019, 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 (annual and six-monthly);
- Consolidated financial statements (annual and six-monthly);
- 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 2019 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.

The measurement criteria required by Article 2426 of the Italian Civil Code have been maintained unchanged compared to those adopted in prior year.

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		Rate or criteria applied
Start-up and expansion costs	▶	-
Development costs	▶	20%
Patents and intellectual property rights	▶	33%
Concessions, licences, trademarks and similar rights	▶	-
Goodwill	▶	-
Other intangible assets	▶	Based on contract period

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 while the reasons that had led to impairment adjustments to certain intangible assets now amortised in full ceased to apply.

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: in 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.

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

Le immobilizzazioni materiali sono state iscritte in Bilancio al costo 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. Note that, with effect from 2019, the depreciation of new tangible assets is now calculated based on the effective number of days' use.
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.
Cost may be 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-linked revaluation.

Payables

Ayables 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 are classified as held for trading as they do not fulfil hedge account requirements because, even though they were arranged to manage the main risks (interest rate risk) to which the Company is exposed, they have not been designated for hedge accounting. Changes in fair value, as confirmed with the relevant banks, 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 te Financial Statements, Assets

NOTES TO THE BELANCE SHEET

Assets

Non-current assets

Intangible assets

Intangible assets represent expenses that produce long-term benefits. They amount to Euro 7,428,766 (Euro 5,244,381 at 31 December 2018) and are stated net of accumulated amortisation (Euro 4,257,020).

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	1,968,838	72,981	580,533	1,461,286
Patents and intellectual property rights	64,992	625,054	249,340	440,706
Concessions, licences, trademarks and similar rights	-	-	-	-
Goodwill	-	-	-	-
Assets in progress and payments on account	866,589	2,312,396	120,169	3,058,816
Other intangible assets	2,343,962	867,454	743,458	2,467,958
Rounding	-	-	-	-
Total	**5,244,381**	**3,877,885**	**1,693,500**	**7,428,766**

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	-	2,932,036	994,221	-	-	866,589	4,108,638	8,901,484
Revaluations	-	-	-	-	-	-	-	0
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**
Changes during the year								
Increases due to additions	-	72,981	585,318	-	-	2,312,396	589,707	3,560,402
Reclassifications (of net carrying amount)	-	-	39,736	-	-	(39,736)	-	0
Decreases due to disposals (of net carrying amount)	-	29,140	-	-	-	80,433	-	109,573
Revaluations performed during the year	-	-	-	-	-	-	-	0
Amortisation for the year	-	551,393	249,340	-	-	-	743,458	1,544,191
Writedowns performed during the year	-	-	-	-	-	-	-	0
Other changes	-	-	-	-	-	-	277,747	277,747
Total changes	**-**	**(507,552)**	**375,714**	**-**	**-**	**2,192,227**	**123,996**	**2,184,385**
Closing amount								
Cost	-	2,756,964	1,372,538	-	-	3,058,816	4,497,468	11,685,786
Revaluations	-	-	-	-	-	-	-	0
Amortisation (Accumulated Amortisation)	-	1,295,678	931,832	-	-	-	2,029,510	4,257,020
Writedowns	-	-	-	-	-	-	-	0
Net carrying amount	**-**	**1,461,286**	**440,706**	**-**	**-**	**3,058,816**	**2,467,958**	**7,428,766**

Development costs

In 2019, 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 2019, the Company incurred personnel costs totalling around Euro 1,531,743. 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 1,314,276. In more detail:

- Euro 1,241,295 relating to projects where the development phase has not yet been completed have been recorded under Intangible Assets in progress;
- Euro 72,981 relating to projects where the development phase has been completed have been capitalised under Development costs.

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

	Opening amount	Increases	Decreases	Closing amount
Development costs	1,968,838	72,981	580,533	1,461,286
Total	**1,968,838**	**72,981**	**580,533**	**1,461,286**

The capitalised costs are amortised over period of not more than five years. This period is normally shorter than the mass production period of the related items.
Decreases of Euro 580,533 relate to:
- Euro 551,393 of amortisation for the period;
- Euro 29,140 for the derecognition of development costs capitalised in error in the previous reporting period.

Patents and intellectual property rights

The net balance amounts to Euro 440,706 (Euro 64,992 at 31 December 2018) and includes:
- Patents of Euro 5,856;
- Software of Euro 434,850.

Increases of Euro 625,054 (of which Euro 39,736 reclassified from Intangible assets in progress) entirely refer to new software purchases.
This category of intangible assets is amortised on a straight-line basis over a period of three years.

Intangible assets in progress and payments on account

This item amounts to Euro 3,058,816 (Euro 866,589 at 31 December 2018).
The balance includes:
- Euro 1,402,498 of internal development costs incurred in relation to development projects in progress. The costs now recorded under this caption will be reclassified to the relevant asset category as described above – once their suitability for capitalisation has been confirmed – and they 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 161,203 refers to costs incurred and deferred until 2018; the increase for 2019 amounts to Euro 1,241,295;
- Euro 1,656,318 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 1,071,101.

During the reporting period, no projects completed the development stage and were thus reclassified and capitalised under "Development costs".

Other intangible assets

This caption amounts to Euro 2,467,958 (Euro 2,343,962 at 31 December 2018) after accumulated amortisation of Euro 2,059,510.
Additions for the period amount to Euro 589,707 and include Euro 170,653 of capex at the new production facility in Provaglio d'Iseo, primarily work on construction of a projecting roof or canopy. The other additions of Euro 419,054 refer to leasehold improvements.
Other intangible assets, after accumulated amortisation, are detailed as follow:
- Leasehold improvements of Euro 2,251,291;
- Other deferred costs of Euro 216,667.

The impairment provision of Euro 277,747 created in prior years pursuant to Article 2426(1) of the Italian Civil Code and Italian Accounting Standard OIC 9 in relation to the impairment of certain assets was released in full during the period as the reasons for it ceased to apply. The assets in relation to which the provision had been created have been amortised in full.

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 47,415,201 (Euro 44,203,833 at 31 December 2018) after accumulated depreciation (Euro 57,538,680).

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	20,047,774	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**
Changes during year						
Increases due to additions	12,913	4,809,904	2,336,554	154,881	1,792,570	9,106,822
Reclassifications (of net carrying amount)	-	2,774,090	-	-	(2,774,090)	0
Decreases due to disposals (of net carrying amount)	2,554	32,964	27,650	9,241	84,870	157,279
Revaluations performed during the year	-	-	-	-	-	0
Depreciation for the year	669,182	2,626,736	2,166,802	475,455		5,938,175
Writedowns performe during the year	-	-	-	-	-	0
Other changes	-	200,000	-	-	-	200,000
Total changes	**(658,823)**	**5,124,294**	**142,102**	**(329,815)**	**(1,066,390)**	**3,211,368**
Closing amount						
Cost	20,057,735	41,613,334	31,249,057	5,189,866	1,901,691	100,011,683
Revaluations	6,502,686	-	-	-	-	6,502,686
Depreciation (Accumulated Depreciation)	5,034,541	21,155,815	27,168,794	4,179,530	-	57,538,680
Writedowns	1,560,488	-	-	-	-	1,560,488
Net carrying amount	**19,965,392**	**20,457,519**	**4,080,263**	**1,010,336**	**1,901,691**	**47,415,201**

In 2018, the Company identified potential indicators of impairment of certain tangible assets. Therefore, in accordance with Italian Accounting Standard OIC 9, it made further writedowns in terms of Articles 2426(1) and (3) of the Italian Civil Code and created an impairment provision totalling Euro 1,560,488. These impairment adjustments have been maintained unchanged in 2019 as there are no new issues requiring changes to the conclusions reached at the time. As the reasons for created of an impairment provision of Euro 200,000 for "Plant and Machinery" ceased to apply, said provision was reversed during the period.

Land and buildings

This caption amounts to Euro 19,965,392 (Euro 20,624,215 at 31 December 2018) and is stated net of accumulated depreciation of Euro 5,034.541.

During the period, the balance increased by Euro 12,913 mainly because of work on flooring production areas.

As stated above, the Company has not made any impairment provisions on top of the amount provided in prior year as it believes the existing provision reflects the effective impairment of land and buildings.

Decreases for the period total Euro 2,554 and entirely relate to the reclassification of an asset wrongly included in "Land and Buildings. In compliance with Italian Accounting Standard OIC 16, the value of the land on which the buildings are situated has been reported separately.

Plant and machinery

The balance amounts to Euro 20,457,519 (Euro 15,333,225 at 31 December 2018) after accumulated depreciation of Euro 21,155,815. Increases of Euro 7,583,994 were recorded during the year.
These additions mainly refer to maintenance capex incurred to ensure machinery is kept updated and fully efficient, as well as to new workstations needed to handle the contracts acquired by the Company. Increases of Euro 2,774,090 refer to reclassifications from Assets under construction in relation to payments on account previously made for projects completed during the year.
Decreases for the period amount to Euro 32,964 and almost entirely refer to the net carrying amount of assets sold to third parties or scrapped. As previously stated, as the reasons that had led to the creation of an impairment provision of Euro 200,000 ceased to apply, the provision was reversed during the period.

Industrial and commercial equipment

The balance amounts to Euro 4,080,263 (Euro 3,938,161 at 31 December 2018) after accumulated depreciation of Euro 27,168,794.
Increases during the year amount to Euro 2,336,554.
As in the case of "Plant and Machinery", additions to "Industrial and Commercial Equipment" mainly refer to purchases of new equipment needed to carry out the contracts acquired by the Company. The costs incurred have been sustained as part of the plan of capex necessary to install the additional production capacity needed to cope with the new, long-term production contracts acquired by the Original Equipment division.
Decreases for the period amount to Euro 27,650 and refer to the sale to customers of equipment initially destined to remain in the Company's assets.

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	1,220,499	3,383,845	-	536,896	-	5,141,240
Prior year revaluations	-	-	-	-	-	-
Opening accumulated depreciation	798,584	2,560,527	-	441,978	-	3,801,089
Prior year writedowns	-	-	-	-	-	-
Net carrying amount	**421,915**	**823,318**		**94,918**		**1,340,151**
Increases – additions	17,978	136,903	-	-	-	154,881
Transfers to other captions	-	-	-	-	-	-
Transfers from other captions	-	-	-	-	-	-
Disposals/Decreases for year: Historical cost	(29,585)	(3,979)	-	(73,927)	-	(107,491)
Disposals / Decreases for year: accumulated depreciation	(29,585)	(3,979)	-	(64,686)	-	(98,250)
Revaluations during year	-	-	-	-	-	-
Depreciation for year	86,541	339,546	-	49,368	-	475,455
Writedowns during year	-	-	-	-	-	-
Interest capitalised during year	-	-	-	-	-	-
Closing amount	**353,352**	**620,675**	**-**	**36,309**	**-**	**1,010,336**

This caption amounts to Euro 1,010,336 (Euro 1,340,151 at 31 December 2018) and is stated net of accumulated depreciation of Euro 4,179,530. It includes:

- Furniture and fittings of Euro 353,352 (Euro 421,915 at 31 December 2018); additions for the period totalled Euro 17,978 mainly in order to furnish and fit out the offices at the new site in Provaglio d'Iseo;
- Electronic office equipment of Euro 620,675 (Euro 823,318 at 31 December 2018); additions for the period totalled Euro 136,903, mainly for the purchase of electronic equipment;
- Cars and vehicles of Euro 36,309 (Euro 94,918 at 31 December 2018); there were no additions during the period.

Decreases for the period amounted to Euro 9,241 (net of accumulated depreciation) and entirely referred to the net carrying amount of a car sold during the reporting period.

Assets under construction and payments on account

The balance amounts to Euro 1,901,691 (Euro 2,968,081 at 31 December 2018) and refers to payments made on account during the period towards additions to tangible assets.
During the period, Euro 2,774,090 was reclassified to the relevant tangible asset categories following the completion of the related capex. Decreases for the period totalled Euro 84,870 and mainly referred to the reversal of payments on account made in prior years. Increases for the period totalling Euro 1,792,570 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.

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 2019 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 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 leases

The following table contains the disclosures required by Article 2427(22) of the Italian Civil Code on finance leases 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	13,750,730
Notional depreciation charge for the year	3,235,414
Notional adjustments and reversals for the year	-
Present value of lease instalments not yet due at reporting date	9,417,875
Financial expenses for the year based on effective interest method	283,678

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 2019, they amounted to Euro 8,360,745 (Euro 7,791,053 at 31 December 2018).

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	8,324,931	-	-	-	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**
Changes during the year								
Increases due to additions	569,692	-	-	-	-	569,692	-	-
Reclassifications (of net carrying amount)	-	-	-	-	-	-	-	-
Decreases due to disposals (of net carrying amount)	-	-	-	-	-	-	-	-
Revaluations performed during year	-	-	-	-	-	-	-	-
Writedowns performed during year	-	-	-	-	-	-	770	729
Other changes	-	-	-	-	-	-	(1)	
Total Changes	**569,692**	**-**	**-**	**-**	**-**	**569,692**	**(771)**	**(729)**
Closing amount								
Cost	8,536,498	-	-	-	4,247	8,360,745	19,960	13
Revaluations	-	-	-	-	-	-	-	-
Writedowns	-	-	-	-	-	-	13,620	-
Net carrying amount	**8,356,498**	**-**	**-**	**-**	**4,247**	**8,360,745**	**6,340**	**13**

"Investments in subsidiaries" totalling Euro 8,356,498 includes:
- Subsidiary Immobilare Industriale S.r.l. - Euro 5,714,156;
- Subsidiary Saleri Shanghai Co. Ltd - Euro 2,047,650;
- Subsidiary Hold.Co.1 S.r.l. - Euro 563,500;
- Subsidiary Saleri GmbH - Euro 25,000;
- Subsidiary Saleri México SA de CV - Euro 6,192.

The increase of Euro 569,692 refers to subsidiaries Hold.Co 1 S.r.l. and Saleri México as described in more detail below.

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.

Hold.Co 1 S.r.l.
The Company owns 70.00% of the subsidiary.
Hold.Co 1 S.r.l. was incorporated on 23/07/2019 with a payment of Euro 7,000 (70% of the quota capital of Euro 10,000). Subsequently, on 30/07/2019, paid in additional capital of Euro 556,500.
The subsidiary owns 100% of ABL Automazione S.r.l., a company acquired from third parties on 31/07/2019 which is the only asset of Hold.Co 1 S.r.l..

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 did not change during the period. In 2019, Saleri Gmbh started providing consulting services to assist the Parent Company in dealings with customers based in Germany.

Saleri México S.A. de C.V.
The Company owns 99.00 of the subsidiary.
The value of the investment is Euro 6,192 which represents the share capital and expenses relating to the incorporation on 4/10/2019.

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	296,711	10,559,341	6,599,588	62,50%	5,714,156
Saleri GMBH	Germania		25,000	2,630	20,848	20,848	100,00%	25,000
Saleri Shanghai Co. Ltd	China		1,899,059	(146,777)	5,108,252	4,852,839	95,00%	2,047,650
Hold,Co 1 S.r.l.	Lumezzane (BS)	04119250985	10,000,00 wholly paid	(81,727)	723,274	506,292	70,00%	563,500
Saleri Mexico S.A. de C.V.	Mexico		2,325	(31,832)	(29,980)	(29,680)	99,00%	6,192
Total								**8,356,498**

Except for Saleri México S.A. de C.V., which was not required to prepare Financial Statements at 31/12/2019, the amounts shown in the table refer to the financial statements approved by the respective Boards of Directors of the companies.

Other Securities

The amount of Euro 6,340 (Euro 7,111 at 31 December 2018) has decreased by Euro 771 due to the writedown of the securities held.

Derivative instruments

The balance of Euro 13 (Euro 742 at 31 December 2018) has decreased by Euro 729 due to measurement of derivatives.
The caption 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 2019.

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	9,610,864	2,155,718	11,766,582
2)WIP and semi-finished goods	2,860,228	199,951	3,060,179
3)Contract work in progress	-	-	-
4)Finished goods	15,298,505	(3,517,456)	11,781,049
5)Payments on account	628,981	(565,812)	63,169
Total	**28,398,578**	**(1,727,599)**	**26,670,979**

This balance represents the value of the physical inventory held at Company and third party warehouses at 31 December 2019 and goods in transit.
The amount of Euro 26,670.979 (Euro 28,398,578 at 31 December 2018) is stated net of the obsolescence provision of Euro 859,198 created following an analysis of obsolete/slow moving inventory and inventory with below cost selling prices. In 2019, the provision was increased by Euro 531,705 while reversals totalled Euro 681,925.

The following table shows movements on the inventory provision:

	31/12/2019			
Inventory provision	**Opening amount**	**Increases**	**Decreases**	**Closing amount**
1. Raw, ancillary and consumable materials	(487,604)	(307,508)	280,135	(514,977)
2. WIP and semi-finished goods	(189,542)	(86,099)	142,555	(133,086)
3. Contract work in progress	-	-	-	-
4. Finished goods	(332,272)	(138,098)	259,235	(211,135)
5. Payments on account	-	-	-	-
Total	**(1,009,418)**	**(531,705)**	**681,925**	**(859,198)**

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	12,021,781	(5,866,123)	6,155,658	6,155,658	-	-
Receivables from subsidiaries	590,712	1,093,041	1,683,753	1,683,753	-	-
Receivables from associated companies	-	-	-	-	-	-
Receivables from parent companies	3,466	(3,466)	-	-	-	-
Receivables from entities controlled by parent companies	-	-	-	-	-	-
Tax receivables	2,344,488	(1,420,308)	924,180	924,180	-	-
Deferred tax assets	4,330,452	846,133	5,176,585	-	-	-
Receivables from others	15,053,748	(10,439,660)	4,614,088	4,459,013	155,075	-
Total receivables classed as current assets	**34,344,647**	**(15,790,383)**	**18,554,264**	**13,222,604**	**155,075**	**-**

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):

	Europa	Italy	Rest of the World	Total
Trade receivables	1,533,890	3,771,873	849,895	6,155,658
Receivables from subsidiaries	51,686	492,366	1,139,701	1,683,753
Receivables from associated companies	-	-	-	-
Receivables from parent companies	-	-	-	-
Receivables from entities controlled by parent companies	-	-	-	-
Tax receivables	-	924,180	-	924,180
Deferred tax assets	-	5,176,585	-	5,176,585
Receivables from others	-	4,614,088	-	4,614,088
Total	**1,585,576**	**14,979,092**	**1,989,596**	**18,554,264**

Trade receivables

The amount of Euro 6,155,658 (Euro 12,021,781 at 31 December 2018) entirely consists of trade receivables. The balance is stated net of the provision for bad debts of Euro 102,815 and fairly represents the estimated realisable amount.

The overall decrease of Euro 5,866,123 is mainly due to greater use of available credit facilities (Non-recourse factoring) at 31 December 2019 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. The provision amounts to Euro 102,816 against Euro 161,365 at 31 December 2018 and utilisation during the reporting period totalled Euro 58,549.

Description	Opening amount	Utilised	Allocated	Closing amount
Provision for bad debts	(161,365)	58,549	-	(102,816)

Receivables from subsidiaries

	31 December 2018	31 December 2019	Change
Immobiliare Industriale S,r,l,	342,789	180,512	(162,277)
Italacciai S,r,l,	22,410	-	(22,410)
Saleri Shanghai Co, Ltd	225,513	911,638	686,125
Saleri GMBH	-	51,686	51,686
Hold,Co 1 S,r,l,	-	20,003	20,003
ABL Automazione S,r,l,	-	291,851	291,851
Saleri Mexico S,a, de C,V,	-	228,063	228,063
Total	**590,712**	**1,683,753**	**1,093,041**

Receivables totalling Euro 180,512 due from Immobiliare Industriale S.r.l. (Euro 342,789 at 31 December 2018) represent:
- Euro 174,262 for the net amount of the receivables/payables with the subsidiary, as resulting from settlement of tax balances (receivables and payables) "transferred" under the consolidated taxation arrangement;
- Euro 6,250 due under the service agreement.

Receivables totalling Euro 911,638 from Saleri Shanghai Co. Ltd (Euro 225,513 at 31 December 2018) refer to:
- Euro 178,294 of trade receivables;
- Euro 3,344 for sundry advances;
- Euro 730,000 of receivables under the service agreement and the Royalties agreement.

Receivables totalling Euro 51,686 from Saleri Gmbh (zero at 31 December 2018) refer to:
- Euro 50,095 for the short-term loan granted to the subsidiary, including interest accruing;
- Euro 1,591 for sundry advances;

Receivables totalling Euro 20,003 from Hold.Co 1 S.r.l. (zero at 31 December 2018) which entirely refer to a short-term loan granted to the subsidiary, inclusive of interest accruing.
Receivables totalling Euro 291,851 from ABL Automazione S.r.l. (zero at 31 December 2018) which entirely consist of trade receivables.
Receivables totalling Euro 228,063 from Saleri México S.A. de C.V. (zero at 31 December 2018) which include:
- Euro 60,052 due under a short-term loan granted to the subsidiary, inclusive of interest accruing;
- Euro 127,338 of trade receivables;
- Euro 40,673 for sundry advances.

Following the sale of the investment in Italacciai S.r.l. in 2019, receivables from that company are now included under "Trade receivables" rather than under "Receivables from subsidiaries".

Receivables from parent companies

Descrizione	Opening amount	Change during year	Closing amount
Crediti vs El.fra Holding S.r.l.	3,466	(3,466)	-
Total receivables from parent companies	**3,466**	**(3,466)**	**-**

At 31 December 2019, there were no receivables due from parent company El.Fra Holding S.r.l..

Tax receivables

	31 December 2018	31 December 2019	Change
Withholding taxes suffered	-	-	-
IRES receivables	438,269	558,509	120,240
IRAP receivables	-	170,230	170,230
VAT receivables	1,722,102	179,297	(1,542,805)
Other tax receivables	184,117	16,144	(167,973)
Total	**2,344,488**	**924,180**	**(1,420,308)**

"IRES Receivables", amounting to Euro 558,509 (Euro 438,269 at 31 December 2018), include:
- Euro 438,269 representing the refund request filed, as consolidating entity, in relation to the non-deduction of IRAP in relation to personnel costs. This receivable has been collected in full in 2020;
- Euro 120,240 representing the IRES receivable for 2019.

"IRAP Receivables", amounting to Euro 170,230, refer to IRAP payments on account made for 2019.

"VAT Receivables", amounting to Euro 179,297 (Euro 1,722,102 at 31 December 2018), refer to the VAT balance resulting from the December 2019 VAT return. The amount includes foreign VAT receivables relating to EU countries where the Company has operated directly.
"Other tax receivables", amounting to Euro 16,144 (Euro 184,117 at 31 December 2018), mainly refers to tax credits subsequently offset in 2020.

Deferred tax assets

For further details of this balance, see the Note on deferred taxes.

Other receivables

Other receivables amounts to Euro 4,614,088 and has decreased by Euro 10,439,660 compared to 31 December 2018 when it stood at Euro 15,053,748.
The significant decrease compared to prior year is almost entirely due collection of almost all of the amount receivable from insurance companies in compensation of the fire damage suffered on 11 January 2018. The amount of Euro 4,459,013 due within a year includes:

- Euro 2,112,354 of costs advanced, mainly to customers;
- Euro 882,500 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, this receivable had been collected in full;
- Euro 678,211 of Advances to Suppliers for services not yet completed;
- Euro 447,000 regarding a receivable from litigation with a former customer that has been concluded with a definitive decision in the Company's favour;
- Euro 210,761 of DR balances with certain suppliers of goods and services;
- Euro 106,524 of Receivables from the Banks for amounts collected from factored debtors that have not been paid over;
- Euro 21,663 of sundry receivables.

The amount of Euro 155,075 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

The investment in Italacciai S.r.l., carried at Euro 1,000 at 31 December 2018, was sold on 24 June 2019.

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	2,120,162	4,931,013	7,051,175
2) Cheques	-	-	-
3) Cash and cash equivalents on hand	5,220	2,135	7,355
Total	**2,125,382**	**4,933,148**	**7,058,530**

The change for the period is due to the cash flow management strategy followed by Company management.

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	-	(0)	-
Prepaid expenses	3,505,269	(1,046,603)	2,458,666
Total prepaid expenses and accrued income	**3,505,269**	**(1,046,603)**	**2,458,666**

	31 December 2018	31 December 2019	Change
Prepaid expenses:	3,505,269	2,458,666	(1,046,603)
- lease instalments	1,333,303	1,023,635	(309,668)
- contributions to customers	1,632,107	788,188	(843,919)
- insurance premiums	28,750	11,058	(17,692)
- other	511,108	635,785	124,677
Accrued income	-	-	(0)
Total	**3,505,269**	**2,458,666**	**(1,046,603)**

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 2019, Shareholders' Equity amounted to Euro 32,344,163 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	17,922,413	-	-	-	-	-	-	17,922,413
Share premium reserve	10,237,587	-	-	-	2,541,368	-	-	7,696,219
Revaluation reserves	4,609,122	-	-	-	-	-	-	4,609,122
Legal reserve	1,032,000	-	102,850	-	-	-	-	1,134,850
Statutory reserves	-	-	-	-	-	-	-	-
Other reserves	-	-	-	-	-	-	-	-
Extraordinary reserve	-	-	-	-	-	-	-	-
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	-	-	-	-	-	-	364,052
Total other reserves	364,052	-	-	-	-	-	-	364,052
Cash flow hedge reserve	-	-	-	-	-	-	-	-
Retained earnings (Accumulated losses)	(4,495,515)	-	1,954,147	-	(2,541,368)	-	-	-
Profit (Loss) for the year	2,056,997	-	(2,056,997)	-	-	-	902,521	902,521
Loss rescheduled during year	-	-	-	-	-	-	-	-
Negative Reserve for Treasury Shares	-	-	-	(285,014)	-	-	-	(285,014)
Total shareholders' equity	**31,726,656**	**-**	**-**	**(285,014)**	**-**	**-**	**902,521**	**32,344,163**

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	7,696,219	C	A,B,C	7,696,219	-	-
Revaluation reserves	4,609,122	U	A,B,C	4,609,122	-	-
Legal reserve	1,134,850	U	B	1,134,850	-	-
Statutory reserves	-	-	-	-	-	-
Other reserves	-	-	-	-	-	-
Extraordinary reserve	-	-	-	-	7,374,806	-
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	-
Cash flow hedge reserve	-	-	-	-	-	-
Retained earnings	-	-	-	-	-	-
Negative reserve for treasury shares held	(285,014)	-	-	-	-	-
Total	**31,441,642**	**-**	**-**	**13,804,243**	**7,374,806**	**-**
Amount not distributable	-	-	-	4,559,985	-	-
Residual amount distributable	-	-	-	9,244,258	-	-

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 2019, amounts to Euro 17,922,413.12 and is represented by 3,126,997 shares. There were no movements on share capital during the reporting period.

Share premium reserve
This reserve was created in 2019 and amounts to Euro 7,696,219. 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 5 April 2018.
Following a General Meeting resolution of 24 June 2019, part of the share premium reserve (Euro 2,541,368) was used to cover accumulated losses remaining after allocation of the net profit for 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 2019, this reserve amounted to Euro 1,134,850 and increased by Euro 102,850 during the period after allocation of the net profit for 2018 in accordance with the General Meeting resolution of 24 June 2019.

The Share Capital increase carried out in 2018 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)
As already mentioned in the note on "Share premium reserve", accumulated losses – which totalled Euro 4,495,515 at 31 December 2018 – were covered in full during 2019, as follows, as per a General Meeting resolution of 24 June 2019:
- Euro 1,954,147 through allocation of the net profit for 2018;
- Euro 2,541,368 by using said amount from the share premium reserve.

Negative Reserve for treasury shares held
At 31 December 2019, this caption had a negative balance of Euro 285,014. It was created following the purchase – authorised by the General Meeting of 24 June 2019 – of 15,799 treasury shares at a total cost of Euro 285,014. The price has been paid in full.

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	-	1,666,909	16,109	1,700,000	3,383,018
Changes during year	-	-	-	-	-
Allocated during year	-	-	-	1,468,402	1,468,402
Utilised during year	-	15,509	16,109	1,425,494	1,457,112
Other changes	-	-	-	-	-
Total changes	-	(15,509)	(16,109)	42,908	11,290
Closing amount	-	1,651,400		1,742,908	3,394,308

The "Provision for taxation, including deferred tax", amounting to Euro 1,651,400, 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 2019. At 31 December 2019, there were no derivative instruments with a negative fair value.

"Other provisions", amounting to Euro 1,742,908, refers to:

- Euro 642,908 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. Provisions totalling Euro 25,494 were utilised during the period. We note that, in January 2020, the Company was the subject of a tax inspection by the Italian Tax Authorities in relation to the 2015 and 2016 tax periods. Following issue of the related Tax Inspection Report, the Company decided prudently to allocate a further Euro 368,402 to the provision for risks for the IRES/corporate income tax due; this is while it awaits feedback to its comments before deciding whether or not to proceed with the dispute. No further provision has been made for IRAP and VAT in relation to the said Tax Inspection Report as the existing provision was already sufficient;
- Euro 1,100,000 of product warranty provisions. During the period, utilisation of the provision totalled Euro 1,400,000 while increases totalled Euro 1,100,000; 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, taking account of historical costs and any complaints already received;

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	1,581,848
Changes during year	-
Allocated during year	1,009,762
Utilised during year	1,036,926
Other changes	-
Total changes	(27,164)
Closing amount	1,554,684

The amount utilised during the period (Euro 1,036,926) mainly refers to payments to treasury funds (Euro 901,876).

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).

Descrizione	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	45,162,250	(13,307,345)	31,854,905	13,008,659	18,846,246	937,101
Payables to other lenders	891,309	2,648,051	3,539,360	3,539,360	-	-
Payments on account	876,098	(190,995)	685,103	685,103	-	-
Trade payables	33,770,382	(368,585)	33,401,797	33,401,797	-	-
Credit instruments	-	-	-	-	-	-
Payables to subsidiaries	2,020,932	1,835,809	3,856,741	3,856,741	-	-
Payables to associated companies	-	-	-	-	-	-
Payables to parent companies	-	-	-	-	-	-
Payables to entities controlled by parent companies	-	-	-	-	-	-
Tax payables	981,521	(18,291)	963,230	963,230	-	-
Payables to social security and pensions institutions	1,407,867	135,474	1,543,341	1,543,341	-	-
Other payables	3,247,923	831,080	4,079,003	4,079,003	-	-
Total	**88,358,282**	**(8,434,802)**	**79,923,480**	**61,077,234**	**18,846,246**	**937,101**

Bank borrowing

Description	31 December 2018	31 December 2019	Change
a) Bank borrowing due within a year	18,372,619	13,008,659	(5,363,960)
Lines of credit	(0)	-	-
Current account overdrafts	184,054	239,160	55,106
Loans	7,916,071	7,912,224	(3,847)
Advances on receivables	10,272,494	4,857,275	(5,415,219)
Other payables	-	-	-
b) Bank borrowing due after more than a year	26,789,631	18,846,246	(7,943,385)
Loans	26,789,631	18,846,246	(7,943,385)
Advances on receivables	-	-	-
Other payables	-	-	-
Total bank borrowing	**45,162,250**	**31,854,905**	**(13,307,345)**

Bank Borrowing amounts to Euro 31,854,905 and has decreased by Euro 13,307,345 compared to 31 December 2018. Bank borrowing due within a year amounts to Euro 13,008,659 and has decreased by Euro 5,363,960 compared to 31 December 2018.

This decrease is almost entirely due to less use of advances on invoices. Meanwhile, bank borrowing due after more than a year amounts to Euro 18,846,246 and has decreased by Euro 7,943,385 compared to 31 December 2018.

Loans payable at 31 December 2019 (both current and non-current) amount to Euro 26,758,470 (against 34,705,703 at 31 December 2018) and are analysed as follows:

- Secured loan with an outstanding amount of Euro 747,747 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 1,348,659 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 377,540 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 811,944, 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 3,157,488, 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 317,465, 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 1,931,814 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 270,698 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 332,827 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 531,255 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 676,755 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 2,481,804 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 550,637 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 2,998,544 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 844,532 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 630,242 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 1,178,353 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 1,028,562 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 300,948 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 79,990 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 214,182 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 1,499,996 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 1,449,446 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 2,117,628 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 306,065 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 340,016 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 233,333 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 3,539,360 (Euro 891,309 at 31 December 2018) and refers to payables towards leasing companies for overdue instalments and payables to factoring companies.
The significant increase compared to 31 December 2018 is mainly due to higher payables to Factoring companies because of increased use of Recourse Factoring in 2019.

Payments on account

This item amounts to Euro 685,103 (Euro 876,098 at 31 December 2018) and refers to advances received from customers towards the supply of equipment (Tooling).

Trade payables

Trade payables amount to Euro 33,401,797 (Euro 33,770,382 at 31 December 2018). They include liabilities at 31 December 2019 for purchases of goods and services based on agreed contractual terms and conditions.

Payables to subsidiaries

	31 December 2018	31 December 2019	Change
SALERI SHANGHAI CO., LTD	1,919,095	2,778,050	858,955
IMMOBILIARE INDUSTRIALE S.R.L.	-	-	-
SALERI GMBH	-	62,595	62,595
HOLD,CO 1 S.R.L.	-	-	-
ABL AUTOMAZIONE S.R.L.	-	1,013,795	1,013,795
SALERI MEXICO S.A. de C.V.	-	2,301	2,301
ITALACCIAI S.R.L.	101,837	-	(101,837)
Total payables to subsidiaries	**2,020,932**	**3,856,741**	**1,835,809**

Payables to Saleri Shanghai Co. Ltd, totalling Euro 2,778,050 (Euro 1,919,095 at 31 December 2018), entirely consist of trade payables.
Payables to Saleri Gmbh, totalling Euro 62,595 (zero at 31 December 2018), include:
- Euro 3,000 of trade payables;
- Euro 59,595 of payables under the service agreement.
Payables to ABL Automazione S.r.l., totalling Euro 1,013,795, entirely consist of trade payables.

Payables to Saleri Mexico S.A. de C.V., totalling Euro 2,301, exclusively refer to payment of the corresponding portion of that company's capital as per the deed of incorporation of 4 October 2019.
Following the sale of the investment in Italacciai S.r.l. in 2019, payables to that company are now included in "Trade Payables" and are no longer reported under Payables to subsidiaries.

Tax payables

	31/12/2018	31/12/2019	Change
IRAP payable	156,202	-	(156,202)
IRES payable	152,451	-	(152,451)
Tax withheld at source from employees	500,834	925,367	424,533
Tax withheld at source from freelance professionals/ collaborators	14,885	11,039	(3,846)
Substitute tax payable	-	-	0
VAT payable	157,149	26,824	(130,325)
Other taxes payable	0	0	0
Total	**981,521**	**963,230**	**(18,291)**

Payables for taxes withheld at source from employees and professionals/collaborators represent the deductions made at source by the Company which have been duly paid over to the authorities on their legal due dates.
The VAT payable of Euro 26,824 refers to VAT payable in other EU countries where the Company operates directly.

Payables to social security and pensions institutions

	31/12/2018	31/12/2019	Change
Payable to INPS	907,266	985,388	78,122
Payable to INAIL	7,874	17,892	10,018
Other payables to social security and pensions institutions	492,727	540,061	47,334
Total	**1,407,867**	**1,543,341**	**135,474**

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

	31/12/2018	31/12/2019	Change
a) Other payables due within a year	3,247,923	4,079,003	831,080
Payables to employees	2,572,935	2,806,975	234,040
Payables to directors and statutory auditors	42,323	64,972	22,649
- other	632,665	1,207,056	574,391
b) Other payables due after more than a year	-	-	-
Total Other payables	**3,247,923**	**4,079,003**	**831,080**

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 (Euro 225,196) and CR balances with several customers (Euro 702,200) .

Breakdown of payables by geographical area

The following table contains a breakdown of payables by the geographical area of business of the creditors.

	Europa	Italy	Rest of the World	Total
Bonds	-	-	-	-
Convertible bonds	-	-	-	-
Shareholder loans payable	-	-	-	-
Bank borrowing	-	31,854,905	-	31,854,905
Payables to other lenders	-	3,539,360	-	3,539,360
Payments on account	634,703	50,400	-	685,103
Trade payables	6,901,497	26,192,161	308,139	33,401,797
Credit instruments	-	-	-	-
Payables to subsidiaries	62,595	1,013,795	2,780,351	3,856,741
Payables to associated companies	-	-	-	-
Payables to parent companies	-	-	-	-
Payables to entities controlled by parent companies	-	-	-	-
Tax payables	-	963,230	-	963,230
Payables to social security and pensions institutions	-	1,543,341	-	1,543,341
Other payables	11,169	4,067,834	-	4,079,003
Total payables	**7,609,964**	**69,225,026**	**3,088,490**	**79,923,480**

Payables secured on company assets

The following table contains details of payables secured on company assets (Article 2427 (6) of the Italian Civil Code):

	Payables secured on company assets				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	6,065,836	-	-	6,065,836	25,789,069	31,854,905
Payables to other lenders	-	-	-	-	3,539,360	3,539,360
Payments on account	-	-	-	-	685,103	685,103
Trade payables	-	-	-	-	33,401,797	33,401,797
Credit instruments	-	-	-	-	-	-
Payables to subsidiaries	-	-	-	-	3,856,741	3,856,741
Payables to associated companies	-	-	-	-	-	-
Payables to parent companies	-	-	-	-	-	-
Payables to entities controlled by parent companies	-	-	-	-	-	-
Tax payables	-	-	-	-	963,230	963,230
Payables to social security and pensions institutions	-	-	-	-	1,543,341	1,543,341
Other payables	-	-	-	-	4,079,003	4,079,003
Total payables	**6,065,836**	**-**	**-**	**6,065,836**	**73,857,644**	**79,923,480**

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 2,908,348 apply to the Company's property while the remaining Euro 3,157,488 are 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	585,486	164,677	750,163
Total accrued expenses and deferred income	**585,486**	**164,677**	**750,163**

	31/12/2018	31/12/2019	Change
Deferred income:	585,486	750,163	164,677
- lease instalments	-	-	-
- other	585,486	750,163	164,677
Accrued expenses	-	-	-
Total	**585,486**	**750,163**	**164,677**

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:

	2018	2019	Change	% Chg
Revenue from sales and services	147,695,379	142,061,709	(5,633,670)	(4)
Change in inventory of WIP, semi-finished and finished goods	3,567,590	(3,317,505)	(6,885,095)	(193)
Change in contract work in progress	-	-	-	-
Increase in non-current assets due to capitalisation of internal works	913,274	1,314,276	401,002	44
Other revenues and income	27,039,978	7,856,514	(19,183,464)	(71)
Total Value of Production	**179,216,221**	**147,914,994**	**(31,301,227)**	**-**

Revenue from the sale of goods is stated after returns, discounts and bonuses agreed and granted to customers and warranty chargebacks. "Other revenues and income" mainly refers to intercompany charges for service agreements, insurance pay-outs, contributions debited to customers for the development of new products and the construction of related equipment, as well as a project cancellation charges.

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.

Description	2019
Manufacture and Sale of Water Pumps, Equipment and Prototypes	142,061,709
Total	**142,061,709**

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.

	2019
Italy	14,247,256
Other countries	127,814,453
Total	**142,061,709**

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 (90%), albeit with a more diversified customer portfolio. 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 1,314,276. 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 2019 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 7,856,514, includes:
- Euro 2,171,892 of project cancellation costs charged to customers;
- Euro 1,743,088 of contributions received from customers towards the purchase of equipment;
- Euro 1,045,860 of chargebacks for equipment realised in-house;
- Euro 755,000 of royalties and intercompany services;
- Euro 447,000 of income relating to a receivable for litigation with a former customer in respect of which a final decision has been issued in favour of the Company;
- Euro 405,330 of unaccrued prior year income, mainly relating to the reversal of amounts provided in error in prior years and collections of receivables that had been written off;
- Euro 295,004 of chargebacks to customers and suppliers of costs incurred that are not attributable to the Company.
- Euro 234,524 of insurance pay-outs relating to damage caused by fire on 11 January 2018 for which insurance payment agreements were signed in 2019;
- Euro 52,907 of gains on fixed asset disposals.

The decrease of Euro 19,250,382 in "Other revenues and income" compared to prior year is mainly due to the insurance pay-outs received n prior year in relation to the fire on 11 January 2018. 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.

	2018	2019	Change	% Chg
Raw, ancillary and consumable materials and goods	96,144,884	74,323,594	(21,821,290)	(23)
Services	40,284,596	33,555,034	(6,729,562)	(17)
Use of third party assets – lease and rental costs	4,924,997	4,495,866	(429,131)	(9)
Personnel costs:				
a) wages and salaries	17,260,335	19,757,421	2,497,086	14
b) social contributions	4,867,661	5,628,113	760,452	16
c) employee severance indemnity / "TFR"	928,941	1,009,762	80,821	9
d) retirement benefits and similar obligations	-	-	0	0
e) other personnel costs	111,546	113,999	2,453	2
Depreciation, amortisation and writedowns:				
a) amortisation of intangible assets	1,531,421	1,544,190	12,769	1
b) depreciation of tangible assets	5,357,242	5,938,176	580,934	11
c) other writedowns of non-current assets	1,560,488	-	(1,560,488)	(100)
d) writedowns of current receivables	-	45,007	45,007	0
Changes in inventory of raw, ancillary and consumable materials and goods	(1,187,590)	(2,155,718)	(968,128)	82
Provisions for risks	-	-	0	0
Other provisions	1,400,000	1,100,000	(300,000)	(21)
Sundry operating expenses	2,213,628	807,095	(1,406,533)	(64)
Rounding	-	-	-	-
Total	**175,398,149**	**146,162,539**	**(29,235,610)**	**-**

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 74,323,594 for 2019 against Euro 96.144,884 in 2018.
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 for the decrease in purchases of finished pumps and components compared to 2018 when inventory had to be replenished following the fire in January that year.

Costs for services

This caption amounts to Euro 33,555,034 against Euro 40,284,596 in 2018 and refers to a series of costs for services. The following table shows the main types of service:

	2018	2019	Change
Industrial services	22,190,714	21,367,534	(823,180)
Consulting	2,472,618	1,191,928	(1,280,690)
General Expenses	13,352,980	8,458,044	(4,894,936)
Other services	2,268,284	2,537,528	269,244
Total Costs for Services	**40,284,596**	**33,555,034**	**(6,729,562)**

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. The decrease of Euro 823,180 in costs for services is mainly due to the gradual return to normal production activities after they were affected by the fire in 2018.
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 decrease of Euro 1,280,690 mainly regards costs for technical consulting (down by Euro 357,318), tax and management consulting (down by Euro 872,256) and sales consulting (down by Euro 167,102). These decreases were partially countered by an increase in marketing consulting (Euro 59,716).
General Expenses include costs for Freight, Utilities, Maintenance and other costs relating to the Company's activities. The overall decrease of Euro 4,894,936 is mainly due to: extraordinary maintenance costs (maintenance work to repair damaged machinery) carried out in 2018 in response to the fire (down by Euro 3,843,960) and freight costs (down by Euro 1,307,688) also in relation to the relocation of production to the new Saleri E factory in Provaglio d'Iseo in 2018.
Other services is a catch-all caption. 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.

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 of Euro 429,131 compared to prior year is mainly due to a reduction in finance lease costs as a result of the natural expiry of several contracts. Property rental costs have also decreased (Euro 128,5125) compared to prior year when the Company was party to rental contracts for both the new Saleri E building in Provaglio d'Iseo and the Saleri C building; the latter was only suspended from March 2019.

Personnel costs

This item, amounting to Euro 26,509,295, 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 by around Euro 3,340,812 mainly because of an increase in the average number of employees. See the later section of these Notes for details of the workforce in 2019.

Amortisation of intangible assets

Amortisation of intangible assets (Euro 1,544,190 against Euro 1,531,421 in 2018) has already been commented upon in the Note on intangible assets.

Depreciation of tangible assets

Depreciation of tangible assets (Euro 5,938,176 against Euro 5,357,242 in 2018) 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. As stated above, with effect from 2019, depreciation of new tangible assets is calculated based on the effective number of days' utilisation.

Other writedowns of non-current assets

As already described in the note on Non-Current Assets, in 2019, the Company did not make any further writedowns of non-current assets as it believed the amount provided in prior year was sufficient.

Writedowns of current receivables

During the year, writedowns of current receivables totalled Euro 45,007.

Other provisions

This item, amounting to Euro 1,100,000, refers to allocations to the product warranty provision. In 2018, the amount allocated was Euro 1,400,000.

Sundry operating expenses

Sundry operating expenses, amounting to Euro 807,095, mainly refers to unaccrued prior year expenses, membership fees and sundry taxes. The decrease of Euro 1,406,533 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 584,035).

Breakdown of sundry income

The following table provides a breakdown of line item "C.16.d) Income other than the above".

	Subsidiaries	Associated companies	Parent companies	Entities controlled by parent companies	Other	Total
Bank and post office interest	-	-	-	-	16,249	16,249
Other income	-	-	-	-	-	0
Total	**-**	**-**	**-**	**-**	**16,249**	**16,249**

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
Bonds	0
Bank borrowing	1,194,067
Other debt	69,945
Total	**1,264,012**

Adjustments to value of financial assets and liabilities

The following table contains details of "Adjustments to value of financial assets and liabilities" and of differences compared to prior year.

	2018	Difference	2019
18) Revaluations			
d) of derivatives	44,516	(28,407)	16,109
19) Writedowns			
a) of equity investments	217,125	(216,355)	770
b) of non-current financial assets other than equity investments	-	-	-
c) of current securities other than equity investments	-	-	-
d) of derivatives	5,501	(4,772)	729
of financial assets from cash pooling	-	-	-
Total	**(178,110)**	**192,720**	**14,610**

The amount of Euro 16,109 refers to measurement of the positive fair value of derivative instruments in place at the reporting date, in accordance with Italian Accounting Standard OIC 32.
Writedowns of equity investments entirely refer to minority investments.
The amount of Euro 729 refers to measurement of the negative fair value 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":

	2018	Change	% Chg	2019
Current taxes	377,181	(169,627)	(45)	207,554
Prior year taxation	-	368,402	-	368,402
Deferred taxes and deferred tax income	(361,715)	(499,927)	138	(861,642)
Income (Expense) from participation in tax consolidation / fiscal transparency	8,993	97,500	1,084	106,493
Total	**6,473**	**(398,652)**	**-**	**(392,179)**

As already stated in the Note on "Provisions for Risks and Charges", the amount of Euro 368,402 refers to the prudent provision made for prior year taxes in respect of which the Company received a Tax Inspection Report from the authorities in 2020.

Deferred taxation (Art. 2427 (14) of the Italian Civil Code)

Deferred taxes have been calculated taking account of the amount of all temporary differences generated by applying tax laws and regulations and applying the tax rates in force when the differences 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	2,375,269	-	2,912,706	-	5,287,975	-
Allocation to provisions for risks and charges	1,400,000	-	(300,000)	-	1,100,000	-
Allocation to inventory obsolescence provision	1,009,418	-	(150,220)	-	859,198	-
Writedown of non-current assets	2,038,235	-	(477,747)	-	1,560,488	-
Other changes in deferred tax assets	257,832	-	727,576	-	985,408	-
Total deductible temporary differences	7,080,754	-	2,712,315	-	9,793,069	-
Tax losses	10,962,795	-	813,236	-	11,776,031	-
IRES and IRAP rates	-	-	-	-	-	-
Deferred tax assets	4,330,452	-	846,133	-	5,176,585	-
DEFERRED TAXES	Amount of temporary differences					
Depreciation of assets revalued under Decree Law no. 185/2008	5,974,586	5,974,586	(55,589)	(5,974,586)	5,918,997	-
Total taxable temporary differences	5,974,586	5,974,586	(55,589)	(5,974,586)	5,918,997	-
IRES and IRAP rates	-	-	-	-	-	-
Deferred tax liabilities	1,433,901	233,008	(13,342)	(2,167)	1,420,559	230,841
Rounding	-	-	-	-	-	-
Deferred tax assets (liabilities) net for IRES and IRAP	2,896,551	(233,008)	859,475	2,169	3,756,026	(230,841)
Total deferred tax assets (liabilities) net	2,663,543	-	(2,663,543)	-	-	-
- allocated to Income Statement	-	-	861,642	-	-	-
- 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)	510,342	-
Theoretical tax expense %	24	122,482
Temporary differences taxable in later periods:		
- gains on asset disposals in instalments	-	-
- other	-	-
Total	0	0
Temporary differences deductible in later periods:		
- allocation to provision for bad debts	45,007	-
- allocation to provision for risks	1,100,000	-
- writedown of non-current assets	-	-
- writedown of inventory	531,705	-
- directors' emoluments not paid	-	-
- other allocations to provisions for risks	-	-
Total	1,676,712	0
Reversal of prior year temporary differences:		
- utilisation of provision for bad debts	-	-
- utilisation of provision for risks	1,425,494	-
- revaluation of non-current assets	477,747	-
- portion of gains in instalments	-	-
- directors' emoluments paid	-	-
- portion of entertainment expenses	-	-
- other items	681,926	-
Total	2,585,167	0
Differences that will not reverse in later periods / Permanent differences:		
- IMU – local property tax	26,801	-
- motor vehicle expenses	241,492	-
- unaccrued prior year expenses	278,349	-
- telephone expenses	15,445	-
- fines and penalties	7,571	-
- non-deductible costs	57,486	-
- non-deductible D&A	507,734	-
- writedown of investments	770	-
- donations	56,154	-
- other increases	498,565	-
- super-depreciation	(1,862,048)	-
- portion of interest expenses not deductible in prior year	-	-
- exempt gains	-	-
- other decreases	(687,160)	-
Total	(858,841)	0
Taxable income for IRES	(1,256,954)	0
Increase in IRES –Current taxes	-	-
Current IRES for the year	-	-

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	Taxes
Taxable base for IRAP	29,406,757	0
Costs not deductible for IRAP purposes:		
-interest element of lease instalments	283,678	-
- IMU – local property tax	53,603	-
- costs for freelance / occasional personnel	-	-
- directors' fees	1,096,433	-
- inventory writedown	-	-
- non-deductible costs and unaccrued prior year expenses	342,677	-
- other items	46,001	-
Revenue not considered for IRAP purposes		
- utilisation of provisions	1,400,000	-
Total	29,829,149	0
Theoretical tax expense %	-	-
Deductions:		
- INAIL	200,374	-
- Social security /pension contributions	9,024,990	-
- Expenses for apprentices, R&D personnel	2,698,390	-
- other personnel related deductions	12,583,502	-
Total	24,507,256	0
Temporary differences taxable in later periods:		
- other items	-	-
Total	0	0
- Non-deductible amortisation of trademarks and goodwill		
- other items	-	-
Total	0	0
Reversal of prior year temporary differences:		
- gains on disposal in instalments	-	-
- entertainment expenses	-	-
- other items	-	-
Total	0	0
Taxable income for IRAP	5,321,893	-
Current IRAP for the year	-	207,554

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 31/12/2019.

	Average Number in 2018	Average Number in 2019
Senior managers	-	-
Managers	12	13
White collars	139	159
Blue collars	259	268
Other employees	-	-
Total Employees	**410**	**440**

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 2019, as required by Article 2427(16) of the Italian Civil Code.

	Directors	Statutory Auditors
Fees	1,096,433	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	90,101
Other audit services	37,400
Tax advisory services	-
Other non-audit services	-
Total fees of the external auditor or audit firm	**127,501**

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	2,295,349	13,155,815	(15,799)	(90,552)	2,279,550	13,065,263
Category B	831,648	4,766,598	-	-	831,648	4,766,598
Ordinary Shares	-	-	15,799	90,552	15,799	90,552
Total	**3,126,997**	**17,922,413**	**0**	**0**	**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	9,417,875
retirement benefits and similar obligations	-
towards subsidiaries	-
towards associated companies	-
towards parent companies	-
towards entities controlled by parent companies	-
Guarantees	5,846,240
of which secured	3,064,759
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 2019, guarantees referred to the following:

- around Euro 1,524,557 of guarantees issued by the Company on behalf of subsidiary Saleri Shanghai in favour of some of its lenders; the amount disclosed is equal to the exposure of the subsidiary (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 2018, the total amount of guarantees has decreased by Euro 458,789; the maximum amount of the guarantees issued is around Euro 2,160,000 for this category;

- around Euro 1,256,924of guarantees issued by the Company on behalf of other entities (former subsidiary Italacciai S.r.l.) in favour of some of their lenders; this category was not present at 31 December 2018 as Italacciai S.r.l. was included in the scope of consolidation. The maximum amount of the guarantees issued is around Euro 1,580,000 for this category;

- around Euro 3,064,759 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 31/12/2019.

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.

	Parent companies	Subsidiaries	Associated companies	Other related parties
Revenue	-	893,838	-	-
Costs	-	6,214,512	-	-
Financial income / expense	-	150	-	-
Financial receivables	-	345,085	-	6,791
Trade receivables	-	1,338,668	-	-
Financial payables	-	2,301	-	-
Trade payables	-	3,854,440	-	-

Significant events after the reporting period

Pursuant to Article 2427(22-iv) of the Italian Civil Code, the events relating to the Covid-19 pandemic, which occurred in the first few months of 2020, should be considered as events after the reporting period as they took place between the reporting date of the Financial Statements and the date of formal approval of the Financial Statements by the Shareholders. For further information, see the "Foreword" paragraph of these Notes.

We note that, on 30 April 2020, an Extraordinary General Meeting of Company Shareholders approved a paid Share Capital increase for a nominal amount of Euro 6,000,000 with the issue of new category "C" shares, taking Share Capital to Euro 23,922,413.12. This share issue was fully subscribed by Shareholder Quaestio Capital SGR S.p.A. as manager and on behalf of the Quaestio Italian Growth Fund in two tranches on 4 May 2020 (Euro 2,000,000) and 12 June 2020 (Euro 4,000,000).

We also note that, on 1 July 2020, the Company issued bonds with a value of Euro 3,825,107, called "Saleri Supplier Value Chain Bonds 2020-2022". These bonds were subscribed by several of the Company's suppliers.

As already mentioned in the Notes to "Provisions for Risks and Charges" and "Taxes on Income for the Year", in January 2020, the Italian Tax Authorities began a tax inspection in respect of the 2015 and 2016 tax periods. Following the issue of the Tax Inspection Report, the Company has submitted its comments and it awaits feedback before deciding whether or not to continue the related dispute.

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 2019, the Company received grants or contributions included in the definition governed by Law 124 of 4 August 2017 in the amount of Euro 63,436.

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.

	Fair value 31/12/2019	Fair value 31/12/2018	Change through Income Statement	Change through equity	Nature	Amount
Interest rate swap	-	(13,907)	13,907	-	Hedge	-
Options	13	(1,460)	1,473	-	Hedge	2,035,473

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	45,126
Extraordinary reserve	857,395
Total	**902,521**

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), 29 July 2020

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**

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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 at December 31, 2019, 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 at December 31, 2019, 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.

Deloitte.

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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.

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.

Deloitte.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14, paragraph 2 (e) of Legislative Decree 39/10

The Directors of Industrie Saleri Italo S.p.A. are responsible for the preparation of the report on operations of Industrie Saleri Italo S.p.A. as at December 31, 2019, 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 at December 31, 2019 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 at December 31, 2019 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
August 6, 2020

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 2019, 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 2019 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 72,981, bring the total of such costs capitalised to a net amount of Euro 1,461,286.
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 of the fact that the financial statements for the year ended 31 December 2019 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.

With regard to the health emergency triggered in the first few months of 2020 by the effects of the Covid-19 pandemic, the Board of Directors believe it is appropriate to recall the information provided in the Directors' Report which highlights the measures taken and planned in order to enable the Company (i) to mitigate the negative effects suffered because of the lockdown measures imposed by the Prime Minister's Decree / DPCM of 22/3/2020 which ordered the closure of production activities that were non-essential and non-priority for the national economy, and (ii} to adapt and reorganise swiftly in order to operate in compliance with the regulatory measures and operating protocols issued to reduce and contain the risk of Covid-19 contagion in the workplace.
Finally, we recall that, with approval of the financial statements at 31 December 2019, the appointment given previously to the company hired to audit the financial statements has come to its natural end. The Board of Statutory Auditors will draft a new proposal for submission to the General Meeting of the Shareholders in accordance with the procedure laid down by Article 13(1) of Legislative Decree 39/2010.

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 2019, 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), 6 August 2020

THE BOARD OF STATUTORY AUDITORS

Signed by **Francesco Facchini (Chairman)**
Signed by **Roberta Lecchi (Statutory auditor)**
Signed by **Andrea Gabola (Statutory auditor)**

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