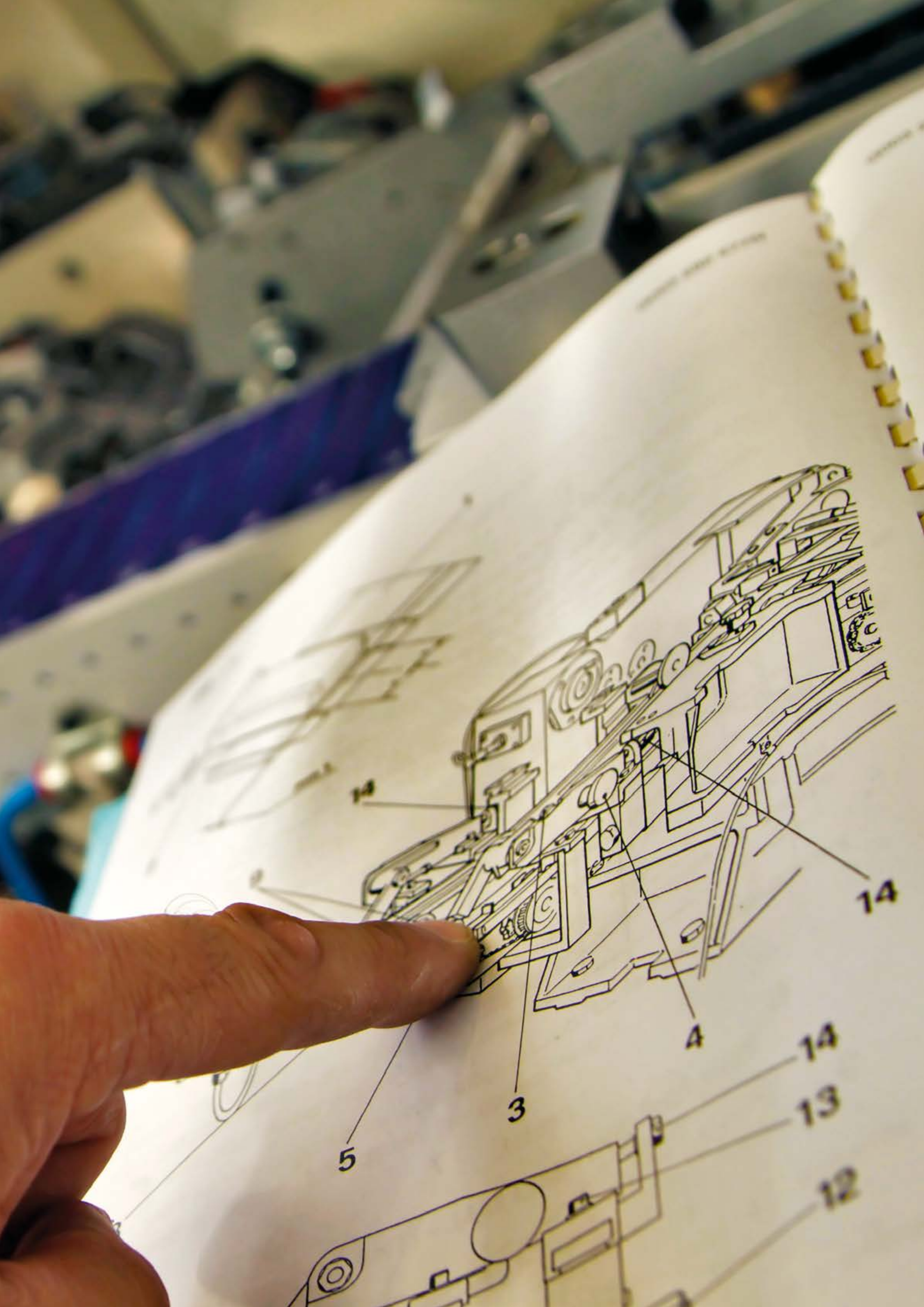
2018
Annual Report
Coesia Group

COESIA S.P.A. - with registered office in Bologna - Via Battindarno 91
Tax code 02221441203 - Bologna Company Registrar
Fully paid-up share capital € 125,000,000

2018
Annual Report
Coesia Group

(Translation from the Italian original which remains the definitive version)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1. 2018 DIRECTORS' REPORT

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ACTIVITIES OF THE GROUP COMPANIES

COESIA S.p.A. is the holding company of an industrial group. Its subsidiaries' core business relates to the design, construction and sale of (i) automated production, packing and packaging machinery for the tobacco, food, cosmetics, pharmaceutical, single-use hygiene products and consumer goods segments, tobacco processing and fume quality control and chemical test plant, instruments and machinery, aseptic filler machines, package opening and closing systems and multi-layer packaging material using a combination of polyethylene, paper and aluminium sheets (Advanced Automated Machinery & Materials), (ii) manufacturing logistics solutions and production automation, in-line printing and premium and luxury goods packaging equipment (Industrial Process Solutions) and (iii) gears on behalf of third parties (Precision Gears, "Other").

On 1 January 2018, through its subsidiary FlexLink AB, the Coesia Group acquired the entire share capital of SSS-Fördertechnik AG (renamed FlexLink Switzerland GmbH), a Swiss company active in the development, production, distribution and installation of factory handling and automation components and systems.

On 30 September 2018, the group (through the special purpose vehicle AZ Coesia GmbH which changed its name to Atlantic Zeiser GmbH in January 2019) acquired the digital printing business of Atlantic Zeiser GmbH (specifically, digital printing applications for the Fast Moving Consumer Goods segment), and with that, the majority investment (51%) in Tritron GmbH, also active in the digital printing business, specifically the production of ink for digital printing, from the German company Orell Füssli GmbH. These acquisitions are an important step for the Coesia Group to strengthen its presence in the digital printing solutions market, focusing on both in-line and near-line printing, through its existing partnership with Hapa, a member of Coesia's leading subsidiaries in digital printing systems for the pharma sector.

On 1 October 2018, the group (through the subsidiary G.D S.p.A.) acquired 70% of Comas S.p.A.'s shares from its founding families. Such company has its registered office in Silea (Treviso) and a branch in Brazil. With 2018 turnover of €219 million, EBITDA of approximately €57 million and approximately 300 employees, Comas S.p.A. is a leader in the production of machinery and assembly lines for processing tobacco in the primary segment. Over the past 30 years it has become a point of reference for cigarette producers, by developing a new type of machinery for the primary processing dedicated to tobacco reduced risk products, and consequently becoming a leader in this sector, which is the future of the tobacco market. Thanks to this acquisition and its existing market position as the parent of Sasib, Molins and Cerulean, G.D S.p.A. will be able to provide all-round solutions to customers in the tobacco industry, with regard to both traditional and new generation products. Reciprocal options for acquiring and selling the remaining 30% of the company's shares were included in the acquisition agreement and can be exercised under the conditions and timeframes agreed therein.

The subsidiary G.D S.p.A. also acquired 30% of Errelle S.r.l.'s quotas in 2018. Such company has its registered office in Sala Bolognese (Bologna) and operates in the automation and industrial assembly sector.

On 28 December 2018, Coesia also sold the subsidiary Sacmo SA, a company focused on rebuilding and retrofitting packaging machinery and integrating full production lines, with particular experience in the cosmetics industry. With this transaction, Coesia reconfirms its focus on the active management of its portfolio and strategic allocation of its capital.

COESIA S.p.A. is the direct parent of the following companies operating in the various group businesses and belonging to the following operating segments, i.e.:

ADVANCED AUTOMATED MACHINERY & MATERIALS (AAM&M)

- G.D S.p.A., with its registered office in Bologna, is mainly active in the field of automated production, packing and packaging machinery for cigarettes and the tobacco industry in general. G.D S.p.A. controls a network of companies (in the USA, Brazil, Germany, United Kingdom, China, Japan, Singapore, Hong Kong, Indonesia, Russia, South Africa, South Korea, Turkey, Poland and the United Arab Emirates) that serve as its distribution and after-sales centres, as well as, in some cases, production centres (in the USA, Brazil, Germany, Japan, Turkey and Indonesia); moreover, G.D S.p.A. wholly owns: (i) Sasib S.p.A., with its registered office in Castel Maggiore (Bologna), which produces automated machinery for the tobacco industry with a large range of maker and packer lines installed in several markets throughout the world and which completes and integrates, also in the low speed segment, the line of products that G.D S.p.A. offers to its customers; (ii) G.F. S.p.A., with its registered office in Solignano (Parma), a company that provides quality control systems and automated machinery for liquid filling, mainly for the pharmaceutical industry and (iii) MPRD Ltd, with its registered office in Milton Keynes (UK), active worldwide in the instrumentation and tobacco machinery segments, respectively under the Cerulean (supply of fume quality control and chemical test instruments and machinery) and Molins (design, development and production of automated machinery for the tobacco industry) brands. MPRD Ltd's wholly-owned subsidiaries in China and Singapore carry out distribution and after-sales activities, while its Czech subsidiary carries out production activities; (iv) Comas S.p.A. (owned at 70%), with its registered office in Silea (Treviso), is active in the design, development and production of machinery and assembly lines for the processing of tobacco in the primary segment, with reference to both traditional and new generation products. Comas S.p.A. also owns a company that carries out production and sales activities in Brazil;

- ACMA S.p.A., with its registered office in Bologna, produces automatic machines for the packaging of consumer goods, with particular reference to the food (chocolate, candy, tea) and personal care (soap, detergents) sectors;
- GDM S.p.A., with its registered office in Offanengo (CR), is active in the field of automated single-use hygiene products production and packing machinery;
- VOLPAK S.A., with its registered office in Barcelona (Spain), is active in the automated packaging machinery segment;
- NORDEN AB, with its registered office in Kalmar (Sweden), manufactures packaging and tube filling machines and related packing lines for the cosmetics and pharmaceutical industry;
- CITUS KALIX SAS, with its registered office in Courcouronnes (France), is part of the Norden Group and produces tube and lipstick packaging and filling machines for the cosmetics industry, in addition to packing lines;
- R.A. JONES & CO. INC., based in Covington (Kentucky) in the United States, produces automated packaging machinery for the food segment and for the consumer goods manufacturing in general. R.A Jones directly controls MGS Machine Corporation, based in

Minneapolis (Minnesota), which is active in the supply of automated packaging machinery and automated solutions for the pharmaceutical and life science, food, personal care and cosmetics segments;

- IPI S.r.l., with its registered office in Perugia, produces aseptic filler machines, package opening and closing systems and multi-layer packaging material using a combination of polyethylene, paper and aluminium sheets. IPI has two production sites in the Perugia area.

INDUSTRIAL PROCESS SOLUTIONS (IPS)

- FLEXLINK AB, a Swedish group with its registered office in Gothenburg (Sweden), operates in the design, construction and sale of logistics and high-end production automation solutions. FlexLink AB is the parent company of ADMV SAS, a company with its registered office in Cremieu (France), which provides automation solutions together with feeders, elevators, depalletizers and palletizers.
- HAPA AG, with its registered office in Zurich (Switzerland), is active in the in-line printing solutions for the pharmaceutical industry;
- EMMECI S.p.A., with its registered office in Cerreto Guidi (Florence), designs, produces and distributes automated machinery for the production of premium and luxury goods packaging;
- AZ COESIA GmbH (ATLANTIC ZEISER GmbH since January 2019), active in the digital printing business, both through the design, production and distribution of technological equipment and solutions and, through its subsidiary TRITRON GmbH, the production and distribution of special ink.

OTHER

- CIMA S.p.A., with its registered office in Bologna, designs and manufactures high performance precision gears, gearboxes and suppressors for the racing, aerospace, automotive and automated machinery segments.

THE MACROECONOMIC SITUATION

2018 saw a slight slowdown in global growth in the emerging, developing and advanced economies.

In 2018, US GDP rose 2.9% (+2.2% in 2017), Eurozone GDP rose 1.8% (+2.4% in 2017). In Germany, it grew 1.5% (+2.5% in 2017), whereas in Japan, it increased 0.9% (+1.9% in 2017). In the main emerging and developing economies, economic growth rates remained positive in China and India. Chinese GDP grew 6.6%, compared to 6.9% in 2017, while India's GDP increased 7.3%, compared to 6.7% in 2017.

According to the International Monetary Fund's most recent estimates, the expected growth of the global economy for 2019 and 2020 should be around 3.5% and 3.6% pa, respectively, which is worse than previous forecasts. The revised estimates mainly reflect the slowdown in the global economy's growth in the second half of 2018 and the weakening of financial market forecasts.

The main risks that may affect these forecasts are the possible escalation of commercial tensions and a further weakening of financial market forecasts.

The growth of the Eurozone in 2019 should be 1.6%, slightly down on 2018 as a result of the expected decline in the growth of most of the main advanced economies of this area (Germany, Italy and Spain). Japan continues to struggle, with a 1.1% growth rate predicted for 2019.

In the emerging and developing economies, growth in the next two years is expected to slightly decrease to 4.5% in 2019 compared to 4.6% in 2018, and then rise to 4.9% in 2020.

GROUP PERFORMANCE

Markets

The results achieved by the group companies in their respective markets in 2018 were better overall than in 2017 despite the growing but still uncertain macroeconomic situation.

Advanced Automated Machinery & Materials (AAM&M)

Volumes and financial performance increased significantly in 2018, despite the complex market conditions.

With respect to the tobacco industry, the conventional products market remained stable with a slightly decreasing trend. However, the focus on both special products (specifically, filters and packets) and production line flexibility is crucial in order to cut costs. The strong fluctuation of the new generation products market, which recorded a deceleration in 2018, led to an ebb in investments in machinery for this product type. Specifically, in Japan (the first market where many of these new products were launched), the Philip Morris International's IQOS and British American Tobacco's GLO fell significantly. However, the multinationals continue to vigorously research new products and develop existing new generation products. China is also starting to act on new generation products and is seeking out collaborations (joint manufacturing) for the development of new heat-not-burn products. Additional markets with high potential for new generation products are the US, Indonesia and the Middle East. Specifically, a decision has been pending for some time now from the FDA in relation to new generation products which will certainly have a decisive impact on market trends. The group also boosted its market position through the acquisition of the controlling investment in Comas S.p.A., a leader in the group's primary segment (tobacco processing) which is expected to bring benefits by creating opportunities for supplying complete primary and secondary plant. In general, the production streamlining process by multinationals continues with the distribution of existing production assets. All of the multinationals' main investments in conventional products/cigarettes chiefly involve moving and refitting machinery, thus cutting back on acquiring new plant, in a market focused on reducing costs. Opportunities for improvements to the current machinery supply may arise, as well as for the transformation of existing machinery to make it compliant with the increasingly stringent anti-smoking regulations. There is still significant demand for special packet solutions for conventional cigarettes from multinationals, while some medium/small-sized manufacturers have begun to adopt machinery to produce sealed packets.

The consumer goods machinery and materials business performed well with sustained growth in both the organic component and MGS, which became part of Coesia in September 2017. The acquisition of MGS enabled the group to strengthen its presence in North America, where Coesia has been a point of reference in the market for years. Europe remains a solid, stable market where investments in the 4.0 industry aim to boost the production efficiency of facilities. The growth trend in consumer goods is also sustained in emerging and developing countries due to their demographic growth and increased purchasing power.

2018 was marked by significant investments in research and development in the consumer goods machinery and material business to meet the demands of a market in rapid, constant evolution. Focus was placed on the ability to provide products that are sustainable and competitive from a cost cutting point of view as well as boasting high technological content. The companies' technological innovation, supported by the Coesia Engineering Center, the heart of the group's top-range research and development, is still the key to continuing to work closely with customers, understanding their current and future needs and supporting an ongoing development in sales.

Industrial Process Solutions (IPS)

All businesses of the IPS segment recorded a rise in sales volumes in 2018. This increase was supported by the expansion of the digital offer for most solutions proposed. There were also two new acquisitions in the IPS operating segment to bolster the products offered in the consumer goods sector.

The geographical areas that made the greatest contribution in terms of boosting sales for the IPS segment were the traditional reference markets, i.e., North America and Europe. Both areas recorded growth in the segment's main industrial sectors. The situation in emerging and developing countries is different however. Sales slackened in Asia due to a deceleration in investments by reference operators, while Latin America enjoyed a strong increase on the previous year thanks to some significant projects in the consumer goods market.

Income statement

The main captions of the following reclassified income statement are equivalent to the corresponding captions of the income statement shown in the 2018 consolidated financial statements, except for the EBITDA caption which is EBIT plus amortisation and depreciation for the year and EBIT BEFORE NON-RECURRING INCOME / EXPENSE and EBITDA BEFORE NON-RECURRING INCOME / EXPENSE which are EBIT and EBITDA gross of non-recurring income/expense.

€/000	2018	2017
REVENUE	1,791,756	1,585,158
GROSS OPERATING PROFIT	590,073	542,947
EBIT (OPERATING PROFIT) BEFORE NON-RECURRING EXPENSE	272,502	241,513
NON-RECURRING EXPENSE	(13,500)	(6,331)
EBIT (OPERATING PROFIT)	259,002	235,182
EBITDA BEFORE NON-RECURRING EXPENSE	341,240	293,154
NON-RECURRING EXPENSE	(13,500)	(6,331)
EBITDA	327,740	286,823
PROFIT FOR THE YEAR	165,905	139,756

Non-recurring expense may be analysed as follows:

€/000	2018	2017
M&A TRANSACTIONS*	(5,936)	(3,068)
95th ANNIVERSARY OF G.D EXPENSE	(3,747)	-
DONATIONS	(2,294)	(2,286)
RESTRUCTURING COSTS	(1,523)	(977)
TOTAL NON-RECURRING EXPENSE	**(13,500)**	**(6,331)**

* For 2017, it included M&A costs of €4,463 thousand and the income of €1,395 thousand relating to the adjustment of the consideration paid for the acquisition of G.F. S.p.A., whereas for 2018 it included the overall net expense of €757 thousand relating to the adjustment of the consideration paid for the acquisition of G.F S.p.A. and Laetus.

Revenue by business segment

€/000	2018	%	2017	%
ADVANCED AUTOMATED MACHINERY & MATERIALS	1,413,143	79%	1,223,423	77%
INDUSTRIAL PROCESS SOLUTIONS	349,915	19%	335,071	21%
OTHER	28,698	2%	26,664	2%
Total	**1,791,756**	**100%**	**1,585,158**	**100%**

Consolidated revenue was €1,792 million for 2018, up 13% on the previous year.

With regard to revenue trends by segment, see the comments thereon in the "Operating segment analysis" section.

Revenue by geographical segment

€/000	2018	%	2017	%	Variation %
EUROPEAN UNION	623,163	35%	472,843	30%	32%
NORTH AMERICA	355,286	20%	289,499	18%	23%
ASIA	411,947	23%	420,087	26%	(2%)
OTHER	325,777	18%	295,938	19%	10%
Total revenue outside Italy	**1,716,173**	**96%**	**1,478,367**	**93%**	**16%**
ITALY	75,583	4%	106,791	7%	(29%)
Total revenue	**1,791,756**	**100%**	**1,585,158**	**100%**	**13%**

96% of 2018 revenue was earned outside Italy (93% in 2017); specifically, from the rest of the European Union and Asia. Sales in the EU and North America rose again, offsetting the slight fall in Asia, which had recorded a rise in the previous year. The rebalancing of sales in Italy and abroad is due to the development of projects by customers, especially in the tobacco industry, compared to the previous year, while "Other" was positively influenced by the rise in sales in the Middle East and Africa.

Sales of both the Advanced Automated Machinery & Material (AAM&M) and Industrial Process Solutions (IPS) segments rose in Europe and North America, with revenue being redistributed in other geographical segments, mainly attributable to the AAM&M segment.

Gross operating profit

Gross operating profit was equal to 33% of revenue, basically in line with the previous years.

Research and development expenditure

The group views research and development activities as a driver of differentiation and long-term sustainable performance. The research and development expenditure incurred during the year amounted to €107.8 million, up on the previous year (€73.9 million incurred in 2017). It accounts for approximately 6% of 2018 revenue (4.7% in 2017).

Adding the engineering costs incurred for the various projects, the group's total research, development and engineering costs amounted to 10.1% of revenue in 2018 (compared to 9.4% in 2017).

Development expenditure which met capitalisation requirements under IAS 38 amounted to €76.8 million in 2018 (€48.1 million in 2017). The amortisation of expenditure capitalised during 2018 and previous years amounted to €35.1 million (€22.1 million in 2017). Capitalised expenditure is amortised over five years starting from when the products are available for sale.

Therefore, research and development expenditure recognised in profit or loss in 2018 amounted to €66.1 million (€47,9 million in 2017).

In 2018, many investments in the tobacco sector were focused on developing new solutions to manufacture new generation products (electronic cigarettes) with liquid and powder refills and multi-segment, in addition to the study and development of new flexible lines for conventional products and digital technologies (the 4.0 industry).

R&D activities for the consumer goods machinery and aseptic filling machinery & materials businesses centred on projects deemed strategic in relation to developing, diversifying and innovating the end products of group customers.

Investments in the Industrial Process Solutions segment increased on the previous year and focused on developing and applying new digital technologies - with high tech and innovative content - and developing the connectivity and interface functions of the solutions provided with the IT architecture of the group's customers. The aim of these investments is to allow the group to penetrate more profitable and technologically advanced market segments.

Operating profit (EBIT)

Operating profit of €259.0 million included a non-recurring expense of €13.5 million as described earlier.

Operating profit gross of the non-recurring expense was €272.5 million or 15.2% as a percentage of revenue, more or less in line with 2017.

Profitability indicators

The main profitability indicators for 2018 and 2017 were as follows:

Indicators		2018	2017
Return on sales (R.O.S.)	EBIT (OPERATING PROFIT) BEFORE NON-RECURRING INCOME / EXPENSE / Revenue	15.21%	15.24%
Return on investment (R.O.I.)	EBIT (OPERATING PROFIT) BEFORE NON-RECURRING INCOME / EXPENSE / Average net invested capital	23.74%	24.31%
Return on equity (R.O.E.)	Profit for the year / Average equity	18.28%	16.96%

The R.O.I. was basically in line with the previous year, despite the significant acquisitions of the year, thanks to the efficient management of working capital and increased volumes, while the R.O.E. improved on the previous year due to the increase in the profit for the year.

Statement of financial position

The following main captions of the statement of financial position are equivalent to the corresponding captions of the statement of financial position shown in the 2018 consolidated financial statements. The group's invested capital is presented in the following table. Furthermore, in that table, the caption "Other, net" comprises non-current financial assets not included in the group's net financial debt (mainly guarantee deposits on leases and equity-accounted investments), current tax assets, other current assets, provisions for risks and charges, current tax liabilities and other current liabilities. "Pensions, post-employment benefits and other" includes the liability for employee benefits and deferred tax assets and liabilities, as well as, for 2017 only, the escrow account related to the Laetus business sale for €2.7 million, classified under "Other current financial assets" and collected in 2018.

€/000	31/12/2018	31/12/2017
Trade receivables	290,538	344,983
Inventories	592,217	596,917
Trade payables	(334,809)	(313,162)
Other, net	(346,989)	(412,132)
Net working capital	**200,957**	**216,606**
Property, plant and equipment and investment property	269,851	255,840
Intangible assets	844,626	616,135
Non-current assets	**1,114,477**	**871,975**
Pensions, post-employment benefits and other	(54,605)	(53,755)
Net invested capital	**1,260,829**	**1,034,826**
Non-current assets and liabilities held for sale	-	-
Total net invested capital	**1,260,829**	**1,034,826**
Financed by:		
Net financial debt	**293,208**	**187,070**
Equity attributable to non-controlling interests	4,216	297
Equity attributable to the owners of the parent	**963,405**	**847,459**
Total sources of financing	**1,260,829**	**1,034,826**

The decrease in net working capital at 31 December 2018 compared to the previous year end is due to the actions taken to improve working capital, and also includes the effect attributable to the acquisitions of the year for €60.9 million.

€/000	31/12/2018	31/12/2017
Cash and liquid funds	(355,552)	(336,497)
Investments in securities	(39,075)	(38,582)
Liquidity	**(394,627)**	**(375,079)**
Current loan assets	(7,576)	(2,760)
Bonds	748	103,000
Current bank loans and borrowings	2,641	6,658
Other current loans and borrowings	8,369	10,084
Current financial debt	**4,182**	**116,982**
Current net financial position (A)	**(390,445)**	**(258,097)**
Non-current bank loans and borrowings	429,193	334,381
Bonds	99,568	99,422
Financial investments	(4,137)	(1,687)
Other non-current loan assets	(1,456)	(463)
Other non-current loans and borrowings	27,171	13,514
Non-current financial debt (B)	**550,339**	**445,167**
Net financial debt prior to options on the acquisition of investments (A) + (B)	**159,894**	**187,070**
Non-current liabilities for options on the acquisition of investments (C)	**133,314**	**0**
Total net financial debt (A) + (B) + (C)	**293,208**	**187,070**

The net financial debt at 31 December 2018 included the negative fair value of currency and interest rate hedges (€10,013 thousand) and other transactions (€2,162 thousand). Total cash flows from operating activities, gross of non-recurring transactions and dividends distributed, amount to approximately €200.6 million, as shown in the table below.

€/000	31/12/2018	31/12/2017
Changes in total net financial debt	(106,138)	(35,818)
Non-recurring transactions:		
Financial effect of non-recurring income/expense and acquisition/sale of businesses/companies*	256,781	51,157
Dividends distribution	50,000	50,000
Change in net financial debt, net of non-recurring transactions and dividends distributed	**200,643**	**65,339**

* Includes the consideration paid for acquisitions, including the value of options for the acquisition of investments, and the net financial debt assumed

The improvement on the previous year is due to the improved EBITDA, the slight decrease in investments (€110 million in 2018 compared to €125.9 million in 2017) and the actions taken to improve operating working capital as described earlier.

Human resources

The workforce at 31 December 2018 numbered 7,555 (7,002 at 31 December 2017). The main increase on the previous year end is linked to the above-mentioned acquisitions which accounted for 460 employees. Italian group personnel at 31 December 2018 amounted to 3,446.

Operating segment analysis

Reference should be made to the notes to the consolidated financial statements.

1.1 OTHER INFORMATION

Main risks and uncertainties

In relation to the requirements of article 2428 of the Italian Civil Code for disclosures about the main "risks and uncertainties" and the "environment and personnel", no significant events took place.

The group companies are exposed to the normal risks and uncertainties of industrial businesses engaged in designing, producing and selling consumer goods with a high technological content on international markets.

Furthermore, specific market risks for the subsidiary G.D. include the performance of new generation products and the new stricter laws being introduced in the US, the European Union and non-EU countries that may have an additional negative impact on cigarette consumption and the demand for new machinery. In addition, increasing regulations are being introduced for conventional products (cigarettes) with a drop in the demand for conventional machinery and growing price pressure with an effect on the company's profitability. These risks are potentially mitigated by the opportunities to transform existing machinery in order to reduce production costs and the supply of innovative products.

At present, credit, liquidity, currency and interest rate risks do not have significant potential impacts on the group's current financial position and that of individual group companies. In any case, they are suitably monitored and managed, as commented on in the notes to the consolidated financial statements. Specifically, the policy of COESIA and its subsidiaries is to mitigate currency and interest rate risks via specific hedges.

Investments in foreign operations are not hedged, except for the programmed distribution of dividends, as foreign currency positions are considered to be of a long-term nature.

As noted, COESIA's and its subsidiaries' market is characterised by demand for highly technological and innovative solutions and, accordingly, the group invests around 10.1% of its revenue in research, development and engineering. In this context, employees' expertise is of strategic importance, especially in technical areas. The group continually invests heavily in training, retaining its employees and in the work place. It carefully monitors and applies the relevant labour legislation, especially that covering occupational health and safety. In 2018, the parent and the main Italian group companies rolled out a project to update their risk assessment structure defined as per Legislative decree no. 231/2001 in relation to environmental crimes and safeguarding intellectual property. Furthermore, again in 2018, some of the recently-acquired Italian group companies acted to comply with Legislative decree no. 231/2001 aimed at adopting the organisational, management and control model covering the above-mentioned crimes, in addition to occupational safety, private-to-private corruption and undue inducement to give or promise benefits.

Number and nominal value of own shares

The group does not hold any own shares.

Significant events

There are no additional significant events to be reported herein, further to those described earlier in relation to the acquisitions made during the year.

Events after the reporting date

On 14 January 2019, the Coesia Group finalised the acquisition of 60% of System S.p.A.'s ceramics business which was transferred to a newco called System Ceramics S.p.A..

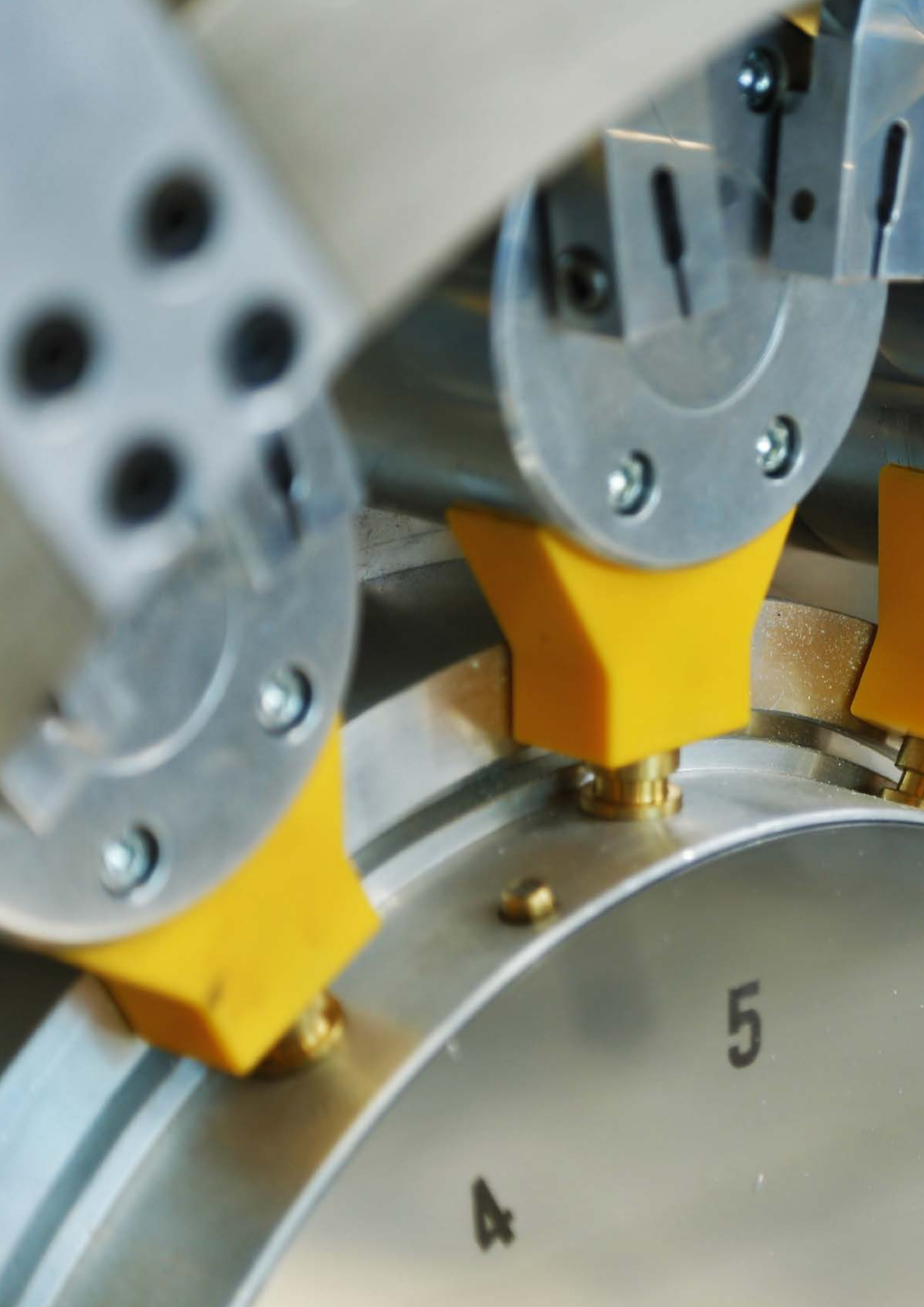
Reciprocal options for acquiring and selling the remaining 40% of the company's shares were included in the acquisition agreement and can be exercised under the conditions and timeframes agreed therein.

This transaction is an important strategic step for Coesia. Through System Ceramics it will have the chance to enter into the segment of plant and machinery for ceramics, a particularly dynamic and technologically advanced segment where System is an undisputed leader in innovation.

Outlook

Positive forecasts should be confirmed for the Coesia Group in 2019 considering the trends in negotiations underway with customers, incoming orders expected during the year and the contribution of new acquisitions. Expectations for the Advanced Automated Machinery & Materials operating segment are an increase in the main financial results, maintaining profitability thanks to the product mix, the expansion of the sales coverage and efficiency programmes for processes with risks deriving from the normal volatile nature of the business against an uncertain macroeconomic backdrop. The new acquisitions will also contribute to developing business in existing sectors and sectors the group has recently entered into.

The Industrial Process Solutions segment is expected to improve on its 2018 results. There will be a specific focus on financial aspects and improving profit margins for new digital machinery and for large projects in 2019, also thanks to projects specifically dedicated to such issues. In addition, the new acquisitions will contribute to the expansion of the referenced market with a rise in digital printing solutions on the consumer goods and pharma market.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2. CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

2. CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

Statement of financial position

€/000	Note	31 December 2018	31 December 2017
Property, plant and equipment	3.3.1	269,337	255,350
Investment property	3.3.1	514	490
Goodwill and other intangible assets with an indefinite life	3.3.2	677,324	488,503
Intangible assets with a finite life	3.3.3	167,302	127,632
Equity-accounted investments	3.3.4	2,397	2,176
Non-current financial assets	3.3.5	7,122	3,626
Deferred tax assets	3.3.6	90,944	93,448
Total non-current assets		**1,214,940**	**971,225**
Inventories	3.3.7	527,156	543,972
Contract work in progress	3.3.8	65,061	52,945
Trade receivables	3.3.9	290,538	344,983
Current financial assets	3.3.10	46,651	44,049
Current tax assets	3.3.11	11,975	14,788
Other current assets	3.3.12	72,204	65,876
Cash and cash equivalents	3.3.13	355,552	336,497
Non-current assets held for sale		-	-
Total current assets		**1,369,137**	**1,403,110**
Total assets		**2,584,077**	**2,374,335**
Share capital	3.3.14	125,000	125,000
Reserves	3.3.14	96,840	94,571
Retained earnings	3.3.14	575,660	488,132
Profit attributable to the owners of the parent	3.3.14	165,905	139,756
Equity attributable to the owners of the parent		**963,405**	**847,459**
Equity attributable to non-controlling interests	3.3.14	**4,216**	**297**
Total equity		**967,621**	**847,756**
Non-current financial liabilities	3.3.15	689,246	447,317
Employee benefits	3.3.16	68,351	84,676
Provisions for risks and charges	3.3.17	7,926	11,463
Deferred tax liabilities	3.3.6	77,198	65,234
Other non-current liabilities		121	4
Total non-current liabilities		**842,842**	**608,694**
Current financial liabilities	3.3.15	11,758	119,742
Current portion of provisions for risks and charges	3.3.17	52,765	56,143
Trade payables	3.3.18	334,809	313,162
Current tax liabilities	3.3.11	22,093	22,264
Other current liabilities	3.3.19	352,189	406,574
Total current liabilities		**773,614**	**917,885**
Total liabilities		**1,616,456**	**1,526,579**
Total equity and liabilities		**2,584,077**	**2,374,335**

Income statement

€/000	Note	2018	2017
Revenue	3.4.1	1,791,756	1,585,158
Cost of sales	3.4.2	(1,201,683)	(1,042,211)
Gross operating profit		**590,073**	**542,947**
Commercial and distribution costs	3.4.3	(133,886)	(127,518)
General and administrative expenses	3.4.4	(117,156)	(125,169)
Research and development expenditure	3.4.5	(66,127)	(47,929)
Other income	3.4.6	738	1,688
Other costs	3.4.6	(14,640)	(8,837)
Operating profit		**259,002**	**235,182**
Financial income	3.4.7	32,184	22,627
Financial expense	3.4.8	(57,681)	(57,019)
Losses on equity-accounted investees	3.4.9	(477)	(398)
Pre-tax profit		**233,028**	**200,392**
Income tax expense	3.4.10	(66,756)	(60,566)
Profit for the year		**166,272**	**139,826**
Profit for the year attributable to non-controlling interests		**367**	**70**
Profit for the year attributable to the owners of the parent		**165,905**	**139,756**

Statement of comprehensive income

€/000	2018	2017
Profit for the year	**166,272**	**139,826**
Net actuarial gains on defined benefit plans	141	3,412
Total items that will not be reclassified to profit or loss	**141**	**3,412**
Exchange differences on translating financial statements of foreign operations	5,479	(42,240)
Gains (losses) on cash flow hedges	(5,579)	503
Total items that may be reclassified subsequently to profit or loss	**(100)**	**(41,737)**
Other comprehensive income (expense) attributable to the owners of the parent	**41**	**(38,325)**
Other comprehensive income (expense) attributable to non-controlling interests	**23**	**(10)**
Other comprehensive income (expense)	**64**	**(38,335)**
Comprehensive income	**166,336**	**101,491**
Comprehensive income attributable to non-controlling interests	**390**	**60**
Comprehensive income attributable to non-controlling interests	**165,946**	**101,431**

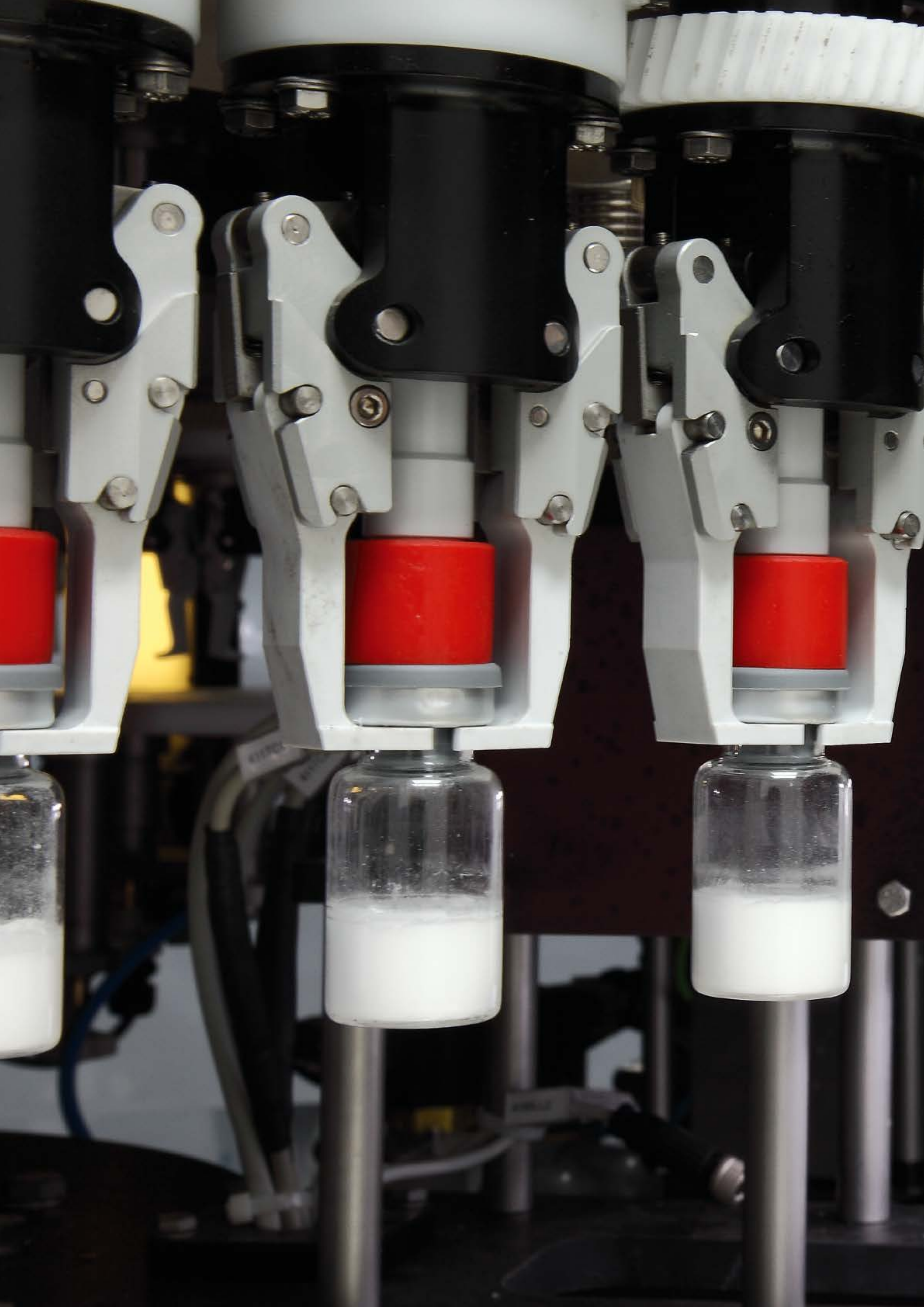
Statement of changes in equity

Note 3.3.14

€/000	Share capital	Revaluation reserves	Legal reserve	Hedging reserve	Actuarial reserve	Translation reserve	Total reserves	Retained earnings	Profit attributable to the owners of the parent	Equity attributable to the owners of the parent	Equity attributable to non-controlling interests	Total equity
Opening balance at 1 January 2016	125,000	86,135	9,301	(1,406)	(12,309)	48,687	130,408	296,554	170,715	722,677	571	723,248
Other comprehensive expense				(1,059)	(4,492)	4,307				(1,244)		(1,244)
Profit for the year									128,681	128,681	(185)	128,496
Comprehensive income	-	-	-	(1,059)	(4,492)	4,307	-	-	128,681	127,437	(185)	127,252
Dividends								(50,000)		(50,000)		(50,000)
Allocation of profit for the prior year			1,146					169,569	(170,715)	-		-
Other								(2)		(2)	108	106
Total effects deriving from owner transactions			1,146					119,567	(170,715)	(50,002)	108	(49,894)
Total variations in equity investments										-	-	-
Closing balance at 31 December 2016	125,000	86,135	10,447	(2,465)	(16,801)	52,994	130,310	416,121	128,681	800,112	494	800,606
IAS 8 reserve for first time adoption of IFRS 15								(4,095)		(4,095)		(4,095)
Other comprehensive expense				503	3,412	(42,240)				(38,325)	(10)	(38,335)
Profit for the year									139,756	139,756	70	139,826
Comprehensive income	-	-	-	503	3,412	(42,240)	-	(4,095)	139,756	97,336	60	97,396
Dividends								(50,000)		(50,000)		(50,000)
Allocation of profit for the prior year			2,586					126,095	(128,681)	-		-
Other				(12)	681	(669)				-	-	-
Total effects deriving from owner transactions	-	-	2,586	(12)	681	(669)	-	76,095	(128,681)	(50,000)	-	(50,000)
Total variations in equity investments								11		11	(257)	(246)
Closing balance at 31 December 2017	125,000	86,135	13,033	(1,974)	(12,708)	10,085	94,571	488,132	139,756	847,459	297	847,756
Other comprehensive income				(5,579)	141	5,479				41	23	64
Profit for the year									165,905	165,905	367	166,272
Comprehensive income	-	-	-	(5,579)	141	5,479	-	-	165,905	165,946	390	166,336
Dividends								(50,000)		(50,000)		(50,000)
Allocation of profit for the prior year			2,653					137,103	(139,756)	-		-
Other					(542)	117		425		-	-	-
Total effects deriving from owner transactions	-	-	2,653	-	(542)	117	-	87,528	(139,756)	(50,000)	-	(50,000)
Total variations in equity investments								-		-	3,529	3,529
Closing balance at 31 December 2018	125,000	86,135	15,686	(7,553)	(13,109)	15,681	96,840	575,660	165,905	963,405	4,216	967,621

Statement of cash flows

Statement of cash flows (indirect method)		
€/000	**2018**	**2017**
Cash flows from operating activities		
Profit for the year	165,905	139,756
Adjustments for:		
Depreciation	24,463	22,318
Amortisation	44,275	29,324
Net variation in loss allowance for impairment	2,816	(304)
Net financial expense	17,327	17,404
Share of profit of equity-accounted investees	477	398
Gains on sale of property, plant and equipment	945	60
Impairment losses on assets available for sale	-	-
Change in deferred taxes, provisions and employee benefits	1,720	(4,641)
Taxes	56,626	62,939
Non-controlling interests	390	(186)
Hedging reserve	(5,579)	
Exchange differences	(3,987)	96
Cash flows from operating activities gross of working capital	305,378	267,164
Variations in:		
– inventories and contract work in progress	32,414	(127,815)
– trade receivables and other assets	130,754	6,653
– trade payables and other liabilities	(100,746)	121,813
Net interest paid	(18,566)	(17,821)
Income taxes paid	(52,300)	(63,599)
A) Net cash flows from operating activities	**296,934**	**186,395**
Cash flows from investing activities		
Sales of property, plant and equipment	1,563	1,557
Investments in property, plant and equipment	(29,508)	(69,868)
Sales of intangible assets	-	1,775
Net investments in intangible assets	(80,442)	(56,016)
Acquisition of proportionately consolidated equity investments	(698)	(2,574)
Sales of equity investments	2,403	-
Acquisition of equity investments, including net cash acquired	(113,641)	(47,064)
Investments in financial assets	(9,426)	(7,876)
Sales of financial assets	-	1,069
B) Net cash flows used in investing activities	**(229,749)**	**(178,997)**
Cash flows from financing activities		
Dividends distributed	(50,000)	(60,000)
Loans taken out	108,615	149,794
Loans repaid	(106,745)	(50,270)
C) Net cash flows from (used in) financing activities	**(48,130)**	**39,524**
Net increase in cash and cash equivalents (A+B+C)	**19,055**	**46,922**
Opening cash and cash equivalents	**336,497**	**289,575**
Closing cash and cash equivalents	**355,552**	**336,497**



3. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

3. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

3.1 General information and basis of preparation

The COESIA Group operates in the design, construction and sale of (i) automated production, packing and packaging machinery for the tobacco, food, cosmetics, pharmaceutical, single-use hygiene products and consumer goods segments, tobacco processing and fume quality control and chemical test plant, instruments and machinery, aseptic filler machines, package opening and closing systems and multi-layer packaging material using a combination of polyethylene, paper and aluminium sheets (Advanced Automated Machinery & Materials), (ii) manufacturing logistics solutions and production automation, in-line printing and premium and luxury goods packaging equipment (Industrial Process Solutions) and (iii) gears on behalf of third parties (Precision Gears, "Other").

The main COESIA group companies and their activities are discussed in the directors' report.

Statement of compliance with IFRS

These consolidated financial statements were prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission using the procedure provided for by article 6 of Regulation (EC) no. 1606/2002 of the European Parliament and Council of 19 July 2002 and pursuant to article 9 of Legislative decree no. 38/05.

"IFRS" specifically refers to all the International Financial Reporting Standards and the International Accounting Standards (IAS), integrated by the interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

Basis of presentation

The consolidated financial statements as at and for the year ended 31 December 2018 are comprised of a statement of financial position, an income statement, a statement of comprehensive income, a statement of changes in equity and a statement of cash flows, as well as these notes.

The financial statements structure chosen by the group is as follows:

- the statement of financial position prepared presenting assets and liabilities as current or non-current based on the group's ordinary operating cycle;

- the income statement classified by function, as this is deemed to correctly present the group's business;
- the statement of comprehensive income with captions comprising the profit for the year and gains and losses recognised directly in equity for non-owner transactions. The captions are presented net of tax effects;
- the statement of changes in equity showing the comprehensive income, presenting separately total amounts pertaining to the owners of the parent and those pertaining to non-controlling interests;
- the statement of cash flows showing cash flows using the "indirect method", as provided for by IAS 7.

Reference should be made to the directors' report for information on the group's performance for the year.

The consolidated financial statements as at and for the year ended 31 December 2018 were approved by the board of directors on 18 April 2019 for presentation to the shareholders.

Basis of consolidation

The consolidation policies adopted are as follows.

Subsidiaries are companies controlled by COESIA S.p.A., as it has the power to directly or indirectly govern their financial and operating policies and obtain benefits from their operations. In general, subsidiaries are companies in which COESIA S.p.A. holds over 50% of the voting rights, also considering potential voting rights that are currently exercisable.

Business combinations are recognised using the acquisition method. The consideration transferred in a business combination is determined when control is taken and is equal to the fair value of the assets transferred and liabilities incurred or assumed, in addition to any equity instruments issued by the acquirer. Costs directly related to the transaction are taken to profit or loss when incurred.

At the date control is acquired, the equity of the investees is calculated by measuring the individual assets and liabilities at the fair value at the date control is acquired. Any residual positive difference compared to the acquisition cost is recognised under the asset caption "Goodwill", while any negative difference is taken to profit or loss.

The anticipated acquisition method provided for by IFRS 3 was applied to recognise the acquisition of Comas S.p.A. and its subsidiaries in light of the group's put option and the non-controlling investors' call option, with the agreed expiry dates, for the acquisition of the non-controlling interest. Accordingly, the group recognised a liability equal to the amount the option is expected to be exercised for and it did not recognise Comas S.p.A.'s equity and profit for the year attributable to non-controlling interests. The goodwill related to the acquisition of the Comas Group was calculated by comparing the acquisition price comprising the option amount with the entire fair value of the transferred assets.

Receivables, payables, costs and revenue items between group companies are eliminated, along with intragroup profit and losses related to amounts included under assets.

The presence of captions related to assets, liabilities and interest income and expense with subsidiaries and the parent in the statement of financial position and income statement related to transactions with companies not included in the consolidation scope.

Investments in associates are measured using the equity method. Generally, a portion of the share capital or voting rights equal to or higher than 20% but lower than 50% is held in these investees.

Investments in other companies are initially recognised at cost and adjusted to fair value with the difference taken to profit or loss. Generally, a portion of the share capital or voting rights lower than 20% is held in these investees. Should it not be possible to reliably determine the fair value, such investments are measured at cost, adjusted for any impairment losses. The related dividends are recognised under financial income when the right thereto is determined, which generally coincides with the shareholders' resolution.

With the exception of Coesia India Pvt, Ltd, Comas Machinery India Private Limited and Flexlink Systems Pty Ltd which close their financial years at 31 March as required by local regulations and Tritron GmbH which closes its financial year at 30 September, all other group companies close the year at 31 December.

Such companies prepare a reporting package for consolidation purposes at 31 December.

Translating foreign currency financial statements

Under IAS 21, the financial statements of companies operating in non-Eurozone areas are translated into Euro - the group's functional currency - by applying the closing spot exchange rates to asset and liability captions, historical exchange rates to equity captions and average rates for the year to income statement captions.

The translation differences arising on financial statements of companies operating in non-Eurozone areas deriving from the application of different exchange rates for assets and liabilities, equity and income statement captions are recognised under the equity caption "Exchange differences on translating foreign currency financial statements". The translation reserve is taken to profit or loss when the entire investment is sold, i.e., when the investee no longer qualifies as a subsidiary. If the group only sells part of its investment, without losing control, the portion of the exchange rate gain or loss related to the portion of the investment sold is allocated to equity pertaining to non-controlling interests.

The exchange rates applied are as follows:

Currency	Closing rate at 31/12/2018	Closing rate at 31/12/2017
Brazilian real	4.444	3.97
Argentinian peso	N/A	22.93
Swiss franc	1.13	1.17
Renminbi (Chinese yuan)	7.88	7.80
Pound sterling	0.90	0.89
Hong Kong dollar	8.97	9.37
Indian rupee	79.73	76.61
Japanese yen	125.85	135.01
Mexican peso	22.49	23.66
Russian ruble	79.72	69.39
Swedish krona	10.25	9.84
Thai baht	37.05	39.12
Turkish lira	6.06	4.55
Ukrainian hryvnia	31.74	33.73
US dollar	1.145	1.20
South Korean won	1,277.93	1,279.61
South African rand	16.46	14.81
Malaysian ringgit	4.731	4.85
Indonesian rupiah	16,500	16,239.12
United Arab Emirates dirham	4.205	4.40
Czech koruna	25.72	25.54
Polish zloty	4.30	4.18

Currency	2018 average rate	2017 average rate
Brazilian real	4.31	3.61
Argentinian peso	N/A	18.73
Swiss franc	1.16	1.11
Renminbi (Chinese yuan)	7.81	7.63
Pound sterling	0.89	0.88
Hong Kong dollar	9.26	8.80
Indian rupee	80.73	73.52
Japanese yen	130.40	126.69
Mexican peso	22.71	21.33
Russian ruble	74.04	65.93
Swedish krona	10.26	9.64
Thai baht	38.16	38.29
Turkish lira	5.71	4.12
Ukrainian hryvnia	32.11	30.01
US dollar	1.181	1.13
South Korean won	1,299.07	1,276.47
South African rand	15.62	15.05
Malaysian ringgit	4.763	4.85
Indonesian rupiah	16,803.22	15,115.52
United Arab Emirates dirham	4.337	4.15
Czech koruna	25.65	26.33
Polish zloty	4.26	4.26

Consolidation scope

The consolidated financial statements at 31 December 2018 are the results of the consolidation at such date of the financial statements of all companies directly and indirectly controlled by COESIA S.p.A. (the parent), except for the subsidiaries Lesina Autonoleggio S.r.l. and Comas Machinery India Private Limited. The historical cost of equity investments measured at cost in the consolidated financial statements is not significantly different to the amount of such investments calculated using the equity method at 31 December 2018.

The following companies were included in the consolidation scope for the first time this year:

- Comas S.p.A., Pebo S.r.l., Comas Latino America Ltda., AZ Coesia GmbH (subsequently renamed Atlantic Zeiser GmbH), Tritron GmbH, Tritron Usa Inc. and FlexLink Switzerland GmbH (previously named SSS-Fördertechnik AG), all acquired during the year, as described in the directors' report;
- Coesia Ventures S.r.l., set up during the year.

The associate Errelle S.r.l. was consolidated using the equity method, as the group acquired a non-controlling interest therein (30%) during 2018, as described in the directors' report.

Control is defined as per IFRS 10, i.e., the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities, as specified in greater detail above.

Companies leaving the consolidation scope in 2018 refer to the sale of the investment in SACMO SAS to third parties on 28 December 2018.

A list of investees included in the consolidation scope is annexed to these notes.

Accounting policies

The consolidated financial statements are prepared on the basis of historical cost, with the exception of derivative instruments which are measured at fair value.

The consolidated financial statements are prepared on a going concern basis and the same accounting policies are applied at all group companies and consistently in both years.

The comments present the corresponding amounts at 31 December 2017 and restated figures where different.

The consolidated financial statements are audited by KPMG S.p.A..

The carrying amounts of financial statements captions and relevant notes, given their size, are expressed in thousands of Euros.

Estimates

Drafting the consolidated financial statements, prepared on a going concern basis, required the formulation of assumptions and estimates which impact the carrying amounts of revenues, costs, assets and liabilities and the related disclosure, in addition to contingent assets and liabilities at the reporting date.

All estimates and related assumptions are based on past experience and assumptions deemed reasonable and realistic when the financial statements were being prepared. The closing balances of captions may differ from such estimates following possible changes in factors considered at the basis of their determination. The estimates and assumptions are regularly revised and, should the actual amounts differ from the initial estimates, the effects that can not currently be estimated or foreseen are taken to profit or loss when such estimate is modified. If the modification of the estimate relates to both current and future periods, the effects of the estimation variation are taken to profit or loss in the relevant periods.

The main captions for which estimates are used as the following:

Allowance for Impairment

The loss allowance reflects management estimates of expected losses from the portfolio of receivables with end customers, determined on the basis of past experience with similar types of receivables, current and past overdue amounts, losses and collections, careful monitoring of credit quality and forecasts of economic and market conditions.

Allowance for inventory write-down

The allowance for inventory write-down reflects management estimates on expected losses on the group's inventories, determined on the basis of past experience and the past and expected performance of the market.

Recoverable amount of non-current assets

Non-current assets include net property, plant and equipment and investment property, intangible assets (including goodwill and trademarks) and other financial assets. Management reviews the carrying amounts of non-current assets held and utilised and assets held for sale when required by events and circumstances and at least annually for intangible assets with an indefinite life. The test is performed by using estimates of cash flows expected from the use or sale of the asset, adjusted by suitable discount rates. When a non-current asset is impaired, the group writes it down by the difference between its carrying amount and its recoverable amount through the utilisation or sale of the asset, determined on the basis of the most recent group plans.

Provisions for risks and charges

Provisions for risks and charges are accrued to cover present, legal or constructive obligation as a result of a past event and a reliable estimate can be made of the amount of the obligation at the reporting date. The accruals reflect the best possible estimate on the basis of available elements.

Provisions for product warranties and installations

The provisions for product warranties and installations mainly reflect charges for work carried out under warranty and installation to be incurred after the reporting date but relating to machinery sold before that date.

Contingent liabilities

The group is subject to the risk of having to fulfil obligations deriving from litigation or disputes for which it is not possible to predict the relevant cost with certainty. This is mainly due to the multiple, complex and uncertain nature of interpretations and the variety of jurisdictions and applicable laws, in addition to the different degree of unpredictability that characterises the events and circumstances inherent to all disputes. Management consults its legal and tax experts to suitably deal with and assess such liabilities. Should such assessments reveal the probability of an outflow of resources embodying economic benefits and the amount can be reasonably estimated, the group makes an accrual to the provisions for risks and charges. If the outflow is deemed possible or, in extremely rare cases, probable, but the amount cannot be determined, disclosure is provided in the notes to the financial statements.

Realisation of deferred tax assets

The group recognises deferred tax assets to the extent that their recovery is probable. In determining the captions, the budget results and forecasts for subsequent years were used in line with those applied in the impairment test related to the recoverable amount of non-current assets.

Defined benefit plans

The group has defined benefit plans in place for employees. Through experts and actuaries, the group uses different statistical assumptions and assessment factors to calculate the costs, liabilities and assets related to such plans. The demographic and economic assumptions relate to discount rates, the expected return on the assets underlying the individual plans, if any, the rates of salary increase, the demographic trend, the inflation rate, any advances requested and mortality and resignation rates.

Foreign currency transactions

Foreign currency transactions are translated into the functional currency of each group company at the exchange rate ruling at the transaction date. Monetary items in foreign currency at the reporting date are retranslated into Euro - the group's functional currency - using the closing exchange rate.

Fair value measurement

Several IFRS and disclosure requirements require the group to measure the fair value of financial and non-financial assets and liabilities.

In relation to the fair value measurement of the various asset or liability categories included in Level 3 (described below), the group has a control structure in place which avails of a team of appraisers who report to the group CFO.

The team of appraisers periodically re-examines the unobservable inputs and valuations. When third-party information, such as broker quotations or pricing services, is used in determining the fair value, the team of appraisers assesses and documents the evidence obtained from the third parties to support the fact that such valuations meet the requirements of IFRS, including the fair value hierarchy level applicable to the related measurement.

In measuring the fair value of an asset or a liability, the group uses observable market data where possible. The fair values are divided up into various hierarchy levels on the basis of inputs used in the valuation techniques, as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than the quoted prices referred to in level 1 that may be observed for the asset or liability either directly (prices) or indirectly (price derivatives).
- Level 3: inputs related to the asset or liability that are not based on observable market data.

If the inputs used to measure the fair value of an asset or a liability are categorised within different levels, the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The group recognises transfers between the various fair value hierarchy levels at the end of the reporting period in which the transfer occurred.

Accounting policies

Property, plant and equipment

Property, plant and equipment are measured at purchase or production cost, net of accumulated depreciation and any impairment losses. Cost includes accessory costs and direct and indirect charges at the amount reasonably attributable to the asset.

If a property, plant and equipment item is comprised of various components with different useful lives, they are recognised separately, if material.

Property, plant and equipment are depreciated on a straight-line basis using the following rates, which have been calculated based on the assets' residual useful lives:

• Civil property and buildings	3%
• Plant and machinery	10%-15.5%
• Furniture	12%
• Electronic accounting machines	18%-20%
• Equipment and models	25%
• Vehicles	20%-25%
• Leasehold improvements	future income-generating potential

Land is not depreciated.

Property, plant and equipment purchased during the year are depreciated at half the above rates, since on average they are only used in production for half the year and this approach allows an approximation of their shorter period of use.

The depreciation methods, useful lives and residual amounts are checked at the reporting date and adjusted, if necessary.

Assets are written down to reflect impairment, regardless of the depreciation already charged. If the reason for the write-down no longer exists in subsequent years, the asset is reinstated to its original value.

Subsequent costs (improvement and maintenance expenses) are only capitalised when it is probable that the related future economic benefits will flow to the group.

Assets under finance and operating leases

Assets held under finance leases, which substantially transfer all the risks and rewards of title to the group, are recognised as assets at their present value at the inception of the lease, less related costs and any costs to take over the lease or, if lower, the present value of the minimum lease payments.

The related liability to the lessor is recognised under financial liabilities.

Lease payments are broken down into principal and interest in order to reach a constant interest rate on the residual liability. The assets are depreciated using the same rates previously indicated for property, plant and equipment.

Leases where the lessor substantially maintains all the risks and rewards of title are classified as operating leases and the related costs are taken to profit or loss over the term of the lease.

Investment property

This caption contains property held for rentals or for capital appreciation or both.

Investment property is recognised using the cost model, as allowed by IAS 40 (an alternative to the fair value method).

Property for which a terminal recoverable amount lower than the carrying amount (or with a nil balance) are depreciated each year on a straight-line basis in relation to the recoverable amount and the assumed useful life estimated at 33 years. If the property's recoverable amount is estimated to be higher than the carrying amount, it is not depreciated.

Subsequent costs (improvement and maintenance expenses) are only capitalised when it is probable that the related future economic benefits will flow to the group.

Property showing impairment losses are written down as necessary. The fair value is determined, at least once a year, via specific appraisals.

Intangible assets

Intangible assets acquired or developed internally are recognised under assets, in accordance with IAS 38 Intangible assets, if they are identifiable, when it is probable that their use will generate future economic benefits and when the cost of the asset can be reliably determined. Such assets are initially recognised at acquisition or internal production cost, including all directly related charges.

Goodwill and other intangible assets with an indefinite life

Goodwill

Goodwill is an intangible asset with an indefinite life that arises from business combinations measured with the acquisition method and is recognised as the positive difference between the acquisition cost and the group's interest after recognising all the other identifiable assets, liabilities and contingent liabilities at their fair value, pertaining to both the owners of the parent and non-controlling interests (full fair value method) at the acquisition date.

As per IAS 36, goodwill is not amortised, instead it is tested for impairment annually or every time specific events or certain circumstances that reveal a possible impairment loss arise.

Impairment losses are immediately taken to profit or loss and cannot be reversed.

For goodwill impairment testing purposes, the group identifies cash-generating units (CGUs) that benefit from the synergies of the acquisition. The cash flows are discounted at the cost of capital in relation to the specific risks of the unit. An impairment loss is recognised if it arises from checking the discounted cash flows that the recoverable amount of the CGU is lower than the carrying amount. The impairment loss is firstly used to reduce the carrying amount of goodwill.

If a subsidiary or joint venture is sold, the related residual goodwill is included in calculating the gain or loss on sale.

At its first-time adoption of IFRS, the group chose not to apply IFRS 3 Business combinations retrospectively. Accordingly, goodwill arising on acquisitions carried out prior to transition to IFRS are maintained at the amounts resulting from the application of Italian GAAP at such date and allocated to cash-generating units in order to test them for impairment.

Trademarks with an indefinite life

Trademarks deriving from acquisitions, which qualify as intangible assets with an indefinite life, are not amortised. The recoverability of their carrying amount is checked on a yearly basis and, in any case, any time events occur that reveal possible impairment losses.

Intangible assets with a finite life

These are stated at purchase cost, including related charges, and are amortised on a straight-line basis in line with their future income-generating potential, as follows:

• patents and intellectual property rights	3-5 years
• software licences	3-5 years
• trademarks	10 years
• participation in the creation of moulds	3 years
• application software	3 years
• development expenditure	5 years

These costs are amortised over their future income-generating potential.

Research and development expenditure

Research expenditure incurred for the purposes of achieving new knowledge and discoveries, either scientific or technical, is recognised as an expense when incurred.

Development expenditure related to specific projects for developing new products or improving existing products or developing or improving production processes is capitalised if the innovations introduced lead to processes that are technically feasible and/or products that can be sold commercially, if the company can demonstrate its intention to complete the development project, the availability of the resources to complete the development and that the future economic costs and benefits can be measured reliably.

Capitalised expenditure includes costs for materials used and direct labour. Such expenditure is amortised over the duration of the related economic benefits, generally set at five years and adjusted for any impairment losses that arise subsequent to initial recognition.

Impairment losses on property, plant and equipment, investment property and intangible assets

The group performs impairment tests on the carrying amounts of intangible assets with an indefinite life and goodwill, in addition to assets under development using the methods described in the relevant paragraphs. On the other hand, other assets, with the exception of inventories and deferred tax assets and in addition to that already set out in the paragraph on property, plant and equipment, are tested for impairment when events arise that indicate a possible impairment loss.

If the test detects that the assets, or a cash-generating unit, have undergone impairment, the recoverable amount is estimated and any difference between it and the carrying amount is recognised in profit or loss.

The recoverable amount of the cash generating units (CGU), to which goodwill and intangible assets with an indefinite life are attributed, is checked by calculating their value in use, i.e., the present value of forecast cash flows, using a rate that reflects the specific risks of individual cash-generating units at the measurement date. In applying such method, management uses many assumptions, including the estimate of future increases in sales, gross profit, operating costs, the growth rate of terminal values, investments, changes in working capital and the weighted average cost of capital (discount rate), considering the risks specific to the asset or CGU. Future cash flows arise on the basis of a group medium-term plan that is updated annually and approved by the parent's board of directors.

The recoverable amount of receivables recognised at amortised cost is the present value of future cash flows, discounted at the effective interest rate calculated at initial recognition.

The recoverable amount of other assets is the higher of the sale price and the value in use determined by discounting forecast future cash flows on the basis of a rate that reflects market valuations.

If there is no binding sale agreement, the fair value is estimated by reference to the quoted prices of an active market, recent transactions or best available information that reflects the amount that can be obtained from the sale of the asset.

Any impairment losses of held-to-maturity investments and receivables measured at amortised cost are reinstated if the subsequent increase in the recoverable amount can be determined objectively. When it is not possible to determine the impairment loss on an individual asset, the group calculates the impairment loss on the CGU it belongs to.

The impairment loss on a CGU is initially recognised under goodwill, if present, and subsequently proportionately allocated to the other assets comprising the CGU.

An impairment loss is recognised if an asset's recoverable amount is lower than the carrying amount.

Equity-accounted investments

Investments in non-consolidated subsidiaries and associates are accounted for using the equity method, as indicated in the related notes, or at cost when equity accounting is not necessary to give a true and fair view in the consolidated financial statements.

Investments in other companies are stated at acquisition or subscription cost. They are decreased for impairment if the investees have incurred losses and profits large enough to absorb those losses are not forecast in the immediate future. If the reasons for the write-down no longer exist, the original value is reinstated in subsequent years.

The equity method entails the recognition of an amount equal to the corresponding portion of equity as per the most recent approved financial statements, less dividends and after adjustments required by the reporting standards adopted for the consolidated financial statements.

Employee benefits

Pension funds

Group companies have both defined contribution plans and defined benefit plans in place.

A defined contribution plan is a plan under which the group pays fixed contributions to a third party fund and has no legal or other obligation to pay future contributions if the fund does not hold sufficient assets to fulfil the obligations to the beneficiaries of the plan. With defined benefit plans, the group pays voluntary or contractually-set contributions to public and private pension funds. The contributions are recognised as personnel expense on an accruals basis.

The liability recognised for defined benefit plans corresponds to the present value of the obligation at the reporting date, net of the fair value of the plan assets, where applicable. The obligations for defined benefit plans are determined annually by an independent actuary using the projected unit credit method to determine the present value of the relevant obligations. The present value of the defined benefit plan is determined by discounting future cash flows at an interest rate equal to the rate on high-quality corporate bonds issued in the currency in which the liability will be settled and that takes into consideration the term of the related pension plan. The changes in actuarial gains/losses ("revaluations") are recognised under other comprehensive income/expense.

Service costs, in addition to interest expense related to the time value component in actuarial calculations (the latter being classified among financial expense), are taken to profit or loss.

Termination benefits

Termination benefits are paid when employees terminate their employment before the normal retirement date or when they accept to dissolve the contract. The group recognises termination benefits when it is proven that the termination of the employment is in line with a formal plan that defines the termination of the employment or when the payment of the benefits is the result of a leaving incentive process.

Pursuant to IAS 19, the post-employment benefits (TFR) of Italian companies vested up to 31 December 2006 are considered a defined benefit plan. Post-employment benefits as from 1 January 2007 are considered a defined contribution plan.

Receivables and financial assets

Trade receivables and debt securities issued are initially recognised when they are originated.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Upon initial recognition, a financial asset is classified on the basis of its measurement: amortised cost; fair value through other comprehensive income (FVOCI) - debt securities; FVOCI - equity securities; or fair value through profit or loss (FVTPL). Financial assets are not reclassified subsequently to their initial recognition unless the group changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

“Loans and receivables” are recognised at amortised cost, taking interest to profit or loss, calculating it at the effective interest rate or by applying a rate that nullifies the sum of the present values of net cash flows generated by the financial instrument. The losses are taken to profit or loss when the impairment occurs or the loans and receivables are derecognised. The receivables are subject to impairment and thus recognised at their estimated realisable value (fair value) by accruing a specific loss allowance directly deducted from the carrying amount of the asset. The receivables are impaired when there is objective evidence that they will probably not be collected and based on past experience and statistics (expected losses). Should the reasons for the impairment cease to exist in future years, the asset’s carrying amount is reinstated to the amount that would have derived from the application of amortised cost had the impairment not been made.

“Other non-current equity instruments” are initially recognised at cost (fair value of the initial fee paid) plus any directly-attributable transaction costs. Changes in fair value and any gains or losses on the sale of the investment are taken to comprehensive income and never pass through the income statement. As such option is irrevocable and can be exercised investment by investment, any exceptions during initial recognised shall be disclosed in the relevant note. All investments in equity instruments shall be measured at fair value. In the case of securities traded on active markets, the fair value is determined with reference to the price at the close of trading at the reporting date.

In cases of investments where there is no active market, the fair value is determined on the basis of the price of recent transactions between independent parties for similar financial instruments or by using other measurement techniques, such as income-based assessments or based on discounted cash flow analysis. Limited to a few circumstances, cost can be an appropriate estimate of fair value if, for example, the most recent information available to measure the fair value is insufficient, or if there is a broad range of possible measurements of fair value. Cost is never the best estimate of fair value for investments in listed equity instruments. “Financial assets which the group designates at fair value through profit or loss upon initial recognition” are measured using the fair value at the relevant reporting date. In cases of unlisted instruments, the fair value is determined using generally-accepted financial measurement techniques based on market data. The gains and losses deriving from measurement at fair value of the assets classified in this category are taken to profit or loss.

Cash and cash equivalents

Cash and cash equivalents include cash balances, call deposits with banks and other short-term investments that are highly liquid (that can be transformed into cash within ninety days). They are stated at their nominal amount.

In order to classify financial instruments in accordance with the criteria set out in IFRS 9 as required by IFRS 7, cash and cash equivalents are classified under “Financial assets at amortised cost” for the purposes of credit risk.

The current account overdraft is classified under “Current financial liabilities”.

Financial liabilities

Financial liabilities are initially recognised at fair value, which substantially matches the amount collected, net of transaction costs. Management classifies financial liabilities in accordance with the criteria set out in IFRS 9 and referred to in IFRS 7 upon initial recognition.

Subsequent to initial recognition, such liabilities are measured at amortised cost in accordance with IFRS 9.

“Financial liabilities measured at amortised cost” are recognised at amortised cost, taking interest to profit or loss, calculating it at the effective interest rate or by applying a rate that nullifies the sum of the present values of net cash flows generated by the financial instrument. Instruments due within one year are stated at their nominal amount as being close to the amortised cost.

Financial instruments

Financial instruments are initially recognised at fair value and, subsequent to initial recognition, they are measured in relation to their classification, as per IFRS 9.

IFRS 9 classifies financial assets into three main categories: amortised cost; fair value through other comprehensive income (FVOCI); and fair value through profit or loss (FVTPL). Under IFRS 9, the classification is generally based on the entity’s business model for managing financial assets and the characteristics of the contractual cash flows of the financial asset. The categories provided for under IAS 39, i.e., held to maturity, loans and receivables and available for sale, are eliminated. Under IFRS 9, embedded derivatives in contracts where the main element is a financial asset that falls under the scope of the standard shall not be separated. Hybrid instruments are examined as a whole for the purposes of their classification.

IFRS 9 substantially maintains the provisions of IAS 39 for the classification and measurement of financial liabilities. Adopting IFRS 9 did not have significant effects on the accounting policies applied by the group to financial liabilities and derivatives.

Derivatives

Derivatives are classified under “Hedging derivatives” is they meet hedge accounting requirements, otherwise they are recognised as “Non-hedging derivatives” even if they are used with the intention of managing risk exposure.

In accordance with IFRS 9, the Coesia Group availed itself of the option to continue applying the hedge accounting methods and requirements set out in the previously ruling IAS 39 and thus define the effectiveness of the hedge in relation to the derivative. Specifically, financial instruments are recognised in accordance with the methods adopted by the group for hedge accounting, only when the relationship between the derivative and the hedged item is formally documented and the effectiveness of the hedge is high (test of effectiveness).

The effectiveness of the hedging transactions is documented at the beginning of the transaction and periodically (at least at every annual and interim reporting date).

When derivatives hedge the risk of changes in the fair value of the hedged instruments (fair value hedges), the derivatives are recognised at fair value through profit or loss.

When derivatives hedge the risk of changes in the cash flows of the hedged instruments (cash flow hedges), the effective portion of the changes in the fair value of the derivatives is recognised in other comprehensive income and presented in the hedging reserve, while the ineffective portion is recognised immediately in profit or loss.

Inventories

Inventories are measured at the lower of cost, calculated using the weighted average cost method, and related market value.

Obsolete and slow-moving items are written down based on forecast use or sale, through accruals to the allowance for inventory write-down. Work in progress and semi-finished products are stated based on the completed contract method, under which contract revenue and outcome are only recognised when the contract is completed, thus when the work is finalised and delivered.

Provisions for risks and charges

Provisions for risks and charges are accrued to cover present, legal or constructive obligation as a result of a past event and a reliable estimate can be made of the amount of the obligation at the reporting date. The accruals reflect the best possible estimate on the basis of available elements.

If a liability is considered contingent, no accrual is made to the provision for risks and adequate disclosure is provided in the notes to the consolidated financial statements.

When the effect of the time value of money is material and the obligation settlement dates can be reliably estimated, the provision is discounted. The increase in the provision due to the passage of time is taken to profit or loss under financial income and expense.

Provisions are periodically updated to reflect variations in estimates of costs, completion times and the discount rate. Revised estimates of provisions are recognised in the same profit or loss caption as the previous accrual or, where the liability refers to property, plant and equipment (e.g., decommissioning and restoration), as a balancing entry to the related asset.

Fair value

Under IFRS 13, there are three fair value hierarchy levels used to measure financial instruments recognised in the statement of financial position:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities which the company can access at the measurement date;
- Level 2: inputs other than the quoted prices referred to in level 1 that may be observed for the

asset or liability either directly or indirectly;

- Level 3: unobservable inputs for the asset or liability.

Revenue recognition

IFRS 15 introduces a single general model to establish whether, when and to what extent to recognise revenue. It replaces IAS 18 Revenue, IAS 11 Construction contracts and relevant interpretations.

Specifically, IFRS 15 establishes a new revenue recognition model which applies to all contracts with customers, except for lease contracts, insurance contracts and financial instruments that fall within the scope of other IFRS.

Under the new model, an entity recognises revenue by applying the following steps:

- identify the contract with a customer;
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract;
- recognise revenue when (or as) the entity satisfies a performance obligation.

Following the introduction of IFRS 15 starting from 2018, the group opted for the full retrospective method in its first-time adoption. Therefore, the effects of applying IFRS 15 are also reflected on the comparative data.

The main impacts of the application of IFRS 15 on the revenue recognition methods used by the group refer to the effects related to the new method applied to recognise revenue related to installations and support invoiced when the service is rendered, previously fully recognised through an accrual to a provision for risks and charges for the amount of the expected costs for completing the service. The effects on 2017 balances (presented for comparison purposes), restated following the application of IFRS 15, are as follows:

€/000	Difference
Deferred tax assets	1,749
Total non-current assets	**1,749**
Contract work in progress	13,268
Trade receivables	(37,246)
Total current assets	**(23,978)**
Total assets	**(22,229)**
Retained earnings – IAS 8 reserve	(4,095)
Profit attributable to the owners of the parent	(427)
Equity attributable to the owners of the parent	**(4,522)**
Equity attributable to non-controlling interests	**-**
Total equity	**(4,522)**
Provisions for risks and charges	(1,183)
Total non-current liabilities	**(1,183)**
Current portion of provisions for risks and charges	(16,524)
Total current liabilities	**(16,524)**
Total liabilities	**(17,707)**
Total equity and liabilities	**(22,229)**

€/000	Difference
Revenue	(496)
Cost of sales	(96)
Gross operating profit	**(592)**
Operating profit	**(592)**
Pre-tax profit	**(592)**
Income tax expense	165
Profit for the year	**(427)**
Profit for the year attributable to non-controlling interests	**-**
Profit for the year attributable to the owners of the parent	**(427)**

Dividends

Dividends are recognised when the legal right to receive payment is established which occurs following the shareholders' resolution approving the financial statements.

Purchase and service costs

Purchase and service costs are measured at the fair value of the fee paid or agreed. Generally, purchase and service costs comprise cash and cash equivalents paid or to be paid in the future within the normal payment terms. Accordingly, purchase and service costs are recognised on the basis of the purchase cost of the goods and services as per the invoice, net of premiums, discounts and allowances.

Purchase and service costs are adjusted to account for any decisions to applying additional discounts further to those contractually agreed and any delays in payment exceeding twelve months such to be considered a loan from the group's supplier. In the latter case, the present value of purchase and service costs is represented by the future cash flows capitalised at a market interest rate.

Financial income and expense

Financial income and expense are recognised on an accruals basis.

These include interest expense accrued on every loan, discounts for early collection with respect to sales term agreed with customers, financial income on cash and cash equivalents and similar securities, in addition to the economic effects deriving from the fair value measurement of derivative instruments (for any non-effective part of the hedge).

Income tax expense

Current taxes are recognised on the basis of taxable profit, in accordance with current regulations, considering any exemptions and the related applicable tax rates.

Furthermore, deferred tax assets and liabilities are recognised on the temporary differences between the carrying amounts of assets and liabilities and their tax bases of each company. Similarly, deferred taxes are considered on the consolidation adjustments. In particular, deferred tax assets are recognised when it is reasonably certain that there will be future taxable profits against which the deferred tax assets may be used. Deferred tax assets and liabilities are calculated on the basis of the expected rates applicable in the period when the related temporary differences reverse. Deferred tax liabilities are not accrued to reflect the tax charge, where applicable, on available reserves and profits of foreign subsidiaries that do not plan to make any distribution.

Current and deferred tax assets and liabilities are offset where due to/from the same tax authority, if the reversal period is the same and if there is a legal right to offset.

Grants related to income

Public grants related to assets are recognised in the statement of financial position, recognising the grant as an adjustment entry of the asset's carrying amount.

The grant is taken to profit or loss over the useful life of the depreciable asset as a reduction of amortised cost.

Grants related to income are taken to profit or loss as an income item when the recognition conditions are met, i.e., where their recognition is certain against costs for which the grants are granted.

Foreign currency transactions

All transactions are accounted for in Euros. Foreign currency transactions are translated into the functional currency of each group company at the exchange rate ruling at the transaction date.

Receivables and payables arising on transactions in foreign currency are translated at the exchange rates ruling on the date when those transactions were performed. Exchange rate differences are taken to profit or loss when realised.

At year end, receivables and payables in foreign currency are retranslated at the exchange rates ruling at the reporting date. Any resulting exchange rate gains and losses are taken to profit or loss.

Standards, amendments and interpretations endorsed by the EU and applicable as of 1 January 2018

- IFRS 15 Revenue from contracts with customers
- IFRS 9 Financial instruments
- Classification and measurement of share-based payment transactions (amendments to IFRS 2).
- Transfers of investment property (amendments to IAS 40).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (amendments to IFRS 1 and IAS 28).
- IFRIC 22 Foreign Currency Transactions and Advance Consideration.

New standards and amendments not yet applicable and not adopted early by the Group

The new standards or amendments thereto applicable for annual periods beginning on or after 1 January 2019 available for early adoption are set out below. The group has opted not to adopt them early in preparing these consolidated financial statements.

- IFRS 16 Leases – IFRS 16 replaces current standards on leases, including IAS 17 Leases, IFRIC 4 Determining whether an arrangement contains a lease, SIC-15 Operating leases - Incentives and SIC-27 Evaluating the substance of transactions involving the legal form of a lease.

  IFRS 16 is applicable to annual periods beginning on or after 1 January 2019. Earlier application is permitted to entities that also adopt IFRS 15 upon first-time adoption of IFRS 16 or that had already applied it. IFRS 16 introduces a single accounting model in the financial statements of lessees, requiring lessees to recognise a right-of-use asset and a lease liability that reflects the obligation to make lease payments. Lessees are exempt from applying IFRS 16 for short-term leases and those of a low value.

  The Group carried out a detailed preliminary analysis comprising mapping all contracts involved and the potential effects on the consolidated financial statements, but has not yet completed it. The actual impacts of IFRS 16 application on the financial statements in the year of first-time adoption will depend on future economic conditions and operating and accounting choices.

- IFRIC 23 – Uncertainty over income tax treatments. In June 2017, IASB published IFRIC 23 – Uncertainty over income tax treatments. This interpretation clarifies the application of the recognition and measurement requirements set out in IAS 12 Income taxes when there is uncertainty over tax treatments. The amendments are applicable for annual periods beginning on or after 1 January 2019. Early adoption is permitted.
- Amendment to IAS 28 Investments in associates and joint ventures: Long-term interests in associates and joint ventures. This amendment clarifies that IFRS 9 applies to long-term interests in associates and joint ventures which substantially form part of the net investment in the associate or joint venture. Also, under the amendment, IFRS 9 applies to such interests before application of IAS 28 so that the entity does not take into account any adjustments to long-term interests deriving from application of such standard. The amendments are applicable for annual periods beginning on or after 1 January 2019. Early adoption is permitted.
- Amendment to IFRS 9 Financial instruments: Prepayment features with negative compensation. In October 2017, IASB published the amendment to IFRS 9, Prepayment features with negative compensation. The amendment provides that financial instruments with prepayment which could lead to negative compensation can be measured at amortised cost or fair value through other comprehensive income, depending on the company's business model. The amendments are applicable for annual periods beginning on or after 1 January 2019.

Documents not yet endorsed by the European Union at 31 December 2018

The following standards and interpretations are not expected to have significant effects on the group's consolidated financial statements:

- Annual improvements to IFRS (2015-2017 cycle) – amendments to IFRS 3, IAS 12 and IAS 23;
- IFRS 17 Insurance contracts;

- Annual improvements to IFRS (2015-2017 cycle);
- Amendment to IAS 19: Plan amendment, curtailment or settlement (published in February 2018);
- Amendment to IFRS 10 and IAS 28: Sales or contribution of assets between an investor and its associate or joint venture" (published on 11 September 2014);
- IFRS 14 Regulatory deferral accounts;
- The revised Conceptual Framework for Financial Reporting (published in March 2018);
- Amendment to IFRS 3: Definition of a business (published in October 2018);
- Amendment to IAS 1 and IAS 8: Definition of material (published in October 2018).

Financial risk management

COESIA Group's operations expose it to the following financial risks:

- liquidity risk;
- market risk;
- credit risk.

The main risks are reported and discussed at group management level in order to provide for their hedging, insurance and assessment of residual risk. In accordance with IFRS 7, qualitative and quantitative disclosure on the impact of such risks on the group is provided below.

Liquidity risk

Liquidity risk can arise from the inability to find the cash flows necessary for the group's operations at economic terms.

The two main factors that determine the group's liquidity situation are the cash flows generated or absorbed by operating and investing activities and the due dates and renewal terms of debt or degree of liquidity of financial assets and market conditions.

The group has adopted a series of policies and processes aimed at optimising cash flow management, reducing liquidity risk:

- maintaining a prudent level of available funds;

- varying tools uses for sourcing cash flows and presence on the capital market;
- obtaining suitable committed credit facilities;
- monitoring forecast liquidity conditions in relation to the group planning process.

From an operating point of view, the group manages liquidity risk by monitoring cash flows and maintaining a suitable level of available funds.

The composition of financial liabilities is detailed in the note to current and non-current financial liabilities.

The following table shows the carrying amount and type of hedging transactions reflected in the current and non-current financial asset and liability captions at 31 December 2018.

€/000	FAIR VALUE GAIN		FAIR VALUE LOSS	
	CURRENT	NON-CURRENT	CURRENT	NON-CURRENT
INTEREST RATE HEDGE	-	-	-	(9,516)
CURRENCY HEDGE	712	-	(1,200)	(9)
Total	**712**	**0**	**(1,200)**	**(9,525)**

Credit risk

Credit risk is the group's exposure to potential losses deriving from non-fulfilment of obligations taken on by counterparties.

The group is equipped with commercial credit control processes which include analyses of customer reliability and checking exposure via ageing reporting and the average collection times through the DSO (days sales outstanding) by customer.

This process involves ongoing controls and monthly checks between the administration and sales departments.

In addition, in order to further reduce credit risk, the group agrees factoring and securitisation contracts without recourse, which transfer the credit risk to the factors.

Investments of liquidity and hedging transactions via derivative instruments are carried out with leading national and international banks.

The carrying amount of financial assets is the group's maximum exposure to credit risk, in addition to the nominal amount of guarantees granted on third-party debts or commitments.

Market risk

Based on the definition provided by IFRS 7, market risk is the probability that the fair value or cash flows of a financial asset or liability will fluctuate due to changes in elements such as:

- exchange rates (currency risk);
- interest rates (interest rate risk);
- commodity prices (price risk).

The objectives of market risk management are to monitor, manage and control the group's exposure to such risks within acceptable levels, along with the resulting impacts on the financial position, financial performance and cash flows.

Currency risk

The group's exposure to currency risk derives from the geographical distribution of its various industrial activities compared to the geographical distribution of the markets where it sells its products. Its exposure to currency risk on sales transactions is hedged via currency swaps, forward contracts and currency options.

The group's investments in foreign subsidiaries are not hedged as they are considered long term.

Interest rate risk

The group's exposure to interest rate risk mainly derives from the need to fund the group's non-organic growth. Fluctuations in market interest rates can have a negative or a positive impact on the group's financial performance, indirectly impacting the borrowing costs.

In order to mitigate its exposure to interest rate risk, the group agreed some interest rate swaps which hedge a portion of the group's debt and exchange a differential between a floating and one or more fixed rates applied to a specific notional amount.

The group believes the risk of higher interest rates on the portion of debt not hedged by financial derivatives is not significant.

The group’s financial debt at a floating rate amounted to approximately €39 million at the reporting date. The impacts of a hypothetical increase or decrease in 2018 interest rates by 30 basis points, gross of tax effects, would be roughly €0.1 million.

The impact of the same hypothetical fluctuation in interest rates on derivative instruments measured at fair value in place at the reporting date, gross of tax effects, would amount to a gain of €285 thousand should the interest rate increase or a loss of €302 thousand should it decrease.

Price risk

The group is not exposed to price risk on commodities, except at an immaterial level, and did not recognise any assets available for sale measured at fair value in the 2018 consolidated financial statements.

3.2 Segment reporting

The group's operating segments pursuant to IFRS 8 are the business activities that generate revenue and costs, whose results are periodically revised by the chief operating decision-maker in order to assess performances and decisions about allocating resources, and for which separate financial information is available, including for internal use. The group's significant operating segments are as follows:

Advanced Automated Machinery & Materials

The object of this segment is production of automated production, packing and packaging machinery for the tobacco, food, cosmetics, pharmaceutical, nappy, fast moving consumer goods segments, fume quality control and chemical test instruments and machinery, aseptic filler machines, package opening and closing systems and multi-layer packaging material using a combination of polyethylene, paper and aluminium sheets, along with services related to the sale and distribution of such products.

The main companies operating in this segment are as follows:

- G.D S.p.A.;
- Sasib S.p.A.;
- MPRD Ltd;
- Comas S.p.A.
- ACMA S.p.A.;
- Volpak SA;
- R.A Jones & co;
- GDM S.p.A.;
- Norden Machinery AB;
- Citus Kalix Sas;
- IPI S.r.l.;
- G.F. S.p.A.;
- MGS Machine Corporation.

Industrial Process Solutions

The activities of this segment focus on design, construction, sale and assistance for manufacturing logistics solutions and production automation, in-line printing equipment and premium and luxury goods packaging equipment. The main companies operating in this segment are as follows:

- Flexlink Group;
- Hapa AG;
- Emmeci S.p.A.
- AZ COESIA GmbH (now Atlantic Zeiser GmbH)
- Tritron GmbH

Operating segment analysis

The following tables, prepared on a consolidated basis, present information on operating segments for 2018 and 2017.

	2018			
€/000	ADVANCED AUTOMATED MACHINERY AND MATERIALS	INDUSTRIAL PROCESS SOLUTIONS	OTHER	TOTAL
Revenue	1,413,143	349,915	28,698	**1,791,756**
Operating profit before non-recurring income/expense	233,630	36,145	2,727	**272,502**
Non-recurring expense	(10,836)	(2,664)	-	**(13,500)**
Operating profit	222,794	33,481	2,727	**259,002**
Net financial expense and exchange rate differences (*)				**(25,497)**
Losses on equity-accounted investees				**(477)**
Pre-tax profit				**233,028**
Income tax expense				**(66,756)**
Profit for the year				**166,272**
Profit for the year attributable to non-controlling interests				**367**
Profit for the year attributable to the owners of the parent				**165,905**
Amortisation, depreciation and impairment losses	(58,772)	(8,292)	(1,674)	**(68,738)**

(*) including net exchange rate losses of €8.2 million

	2017			
€/000	ADVANCED AUTOMATED MACHINERY AND MATERIALS	INDUSTRIAL PROCESS SOLUTIONS	OTHER	TOTAL
Revenue	1,223,423	335,071	26,664	1,585,158
Operating profit before non-recurring income/expense	197,221	42,003	2,289	241,513
Non-recurring income/(expense)	(6,508)	180	(3)	(6,331)
Operating profit	190,713	42,183	2,286	235,182
Net financial expense and exchange rate differences (*)				(34,392)
Losses on equity-accounted investees				(398)
Pre-tax profit				200,392
Income tax expense				(60,566)
Profit for the year				139,826
Profit for the year attributable to non-controlling interests				70
Profit for the year attributable to the owners of the parent				139,756
Amortisation, depreciation and impairment losses	(43,565)	(6,518)	(1,558)	(51,641)

(*) including net exchange rate losses of €18.5 million

Statement of financial position figures at 31 December 2018 are as follows:

€/000	ADVANCED AUTOMATED MACHINERY & MATERIALS	INDUSTRIAL PROCESS SOLUTIONS	OTHER	UNALLOCATED (*)	TOTAL (**)
Property, plant and equipment, investment property and intangible assets	889,371	216,160	8,738	208	1,114,477
Other assets	1,017,471	198,820	13,999	239,310	1,469,600
Non-current assets held for sale					-
Total assets at 31/12/2018	1,906,842	414,980	22,737	239,518	2,584,077
Total liabilities at 31/12/2018	886,988	167,903	10,166	551,399	1,616,456

(*) Unallocated amounts refer to the assets and liabilities of the parent and Coesia Finance S.p.A. and respectively include cash and cash equivalents of €218,079 thousand and loans and borrowings of €530,416 thousand that cannot be directly allocated to the other operating segments.

(**) The difference between total assets and total liabilities (€967,621 thousand) represents the consolidated equity at 31 December 2018.

Statement of financial position figures at 31 December 2017 are as follows:

€/000	ADVANCED AUTOMATED MACHINERY & MATERIALS	INDUSTRIAL PROCESS SOLUTIONS	OTHER	UNALLOCATED (*)	TOTAL (**)
Property, plant and equipment, investment property and intangible assets	655,452	207,562	8,716	245	871,975
Other assets	1,034,059	189,726	14,863	263,712	1,502,360
Non-current assets held for sale					
Total assets at 31/12/2017	1,689,511	397,288	23,579	263,957	2,374,335
Total liabilities at 31/12/2017	800,423	168,856	9,530	547,770	1,526,579

(*) Unallocated amounts refer to the assets and liabilities of the parent and Coesia Finance S.p.A. and respectively include cash and cash equivalents of €247,184 thousand and loans and borrowings of €531,447 thousand that cannot be directly allocated to the other operating segments.

(**) The difference between total assets and total liabilities (€847,756 thousand) represents the consolidated equity at 31 December 2017.

Overall, 2018 results were in line with forecasts, up on 2017.

The sales volumes of the Advanced Automated Machinery & Materials segment increased significantly on the previous year despite the persisting tough market situation. The growth in sales was obtained by consolidating territorial coverage, extending the customer portfolio and expanding services. Operating profit increased significantly and as a percentage of revenue remained substantially in line with the previous year. Positive forecasts can be confirmed for the sector in 2019 considering the trends in negotiations underway with customers and incoming orders expected during the year, against a market backdrop that maintains elements of uncertainty.

The Industrial Process Solutions segment reflects a mix of businesses with improved operating profit on 2017 and others that suffered the deferral of investments by customers. Overall, the segment showed a slowdown in terms of operating profit. However, activities underway to improve the profitability of machinery and projects and to contain operating costs are expected to enhance future economic performance.

3.3 Notes to the statement of financial position

3.3.1 Property, plant and equipment and investment property

This caption is comprised as follows:

€/000	31/12/2018	31/12/2017
Land	27,049	25,917
Buildings	117,094	112,366
Leasehold improvements	1,858	2,113
Plant and machinery	57,208	43,510
Industrial and commercial equipment	14,046	12,054
Other assets	15,310	14,536
Advances paid for the purchase of property, plant and equipment	279	10,153
Assets under construction	36,493	34,701
Total property, plant and equipment	**269,337**	**255,350**
Investment property	514	490
Total investment property	**514**	**490**

Details and analyses of changes in property, plant and equipment in 2018 are provided in Annex II.

Property, plant and equipment and investment property increased by a total of €11,596 thousand over the previous year end due to the change to the consolidation scope.

Moreover, in 2018:

- land and buildings increased by €7,583 thousand, mainly related to the expansion of the production site of the subsidiary G.D S.p.A. which began in 2017;
- plant and machinery totalling €11,689 thousand were purchased during the year, with significant investments in state-of-the-art plant and machinery.

Assets under construction mainly comprise work in progress on buildings owned by G.D S.p.A. which will be ready to use in 2019 (€31,026 thousand, 31 December 2017: €29,927 thousand).

3.3.2 Goodwill and other intangible assets with an indefinite life

€/000	31/12/2018	31/12/2017
Goodwill (arising on consolidation)	654,526	465,305
Trademarks with an indefinite life	22,798	23,198
Total	**677,324**	**488,503**

Details and analyses of changes in this caption during the year are provided in Annex I.

Goodwill, totalling €654.5 million (31 December 2017: €465.3 million), is allocated to the Advanced Automated Machinery & Materials and Industrial Process Solution CGUs for €498.7 million (31 December 2017: €311.3 million) and €155.8 million (31 December 2017: €154 million), respectively.

Trademarks with an indefinite life amount to €22.8 million (31 December 2017: €23.2 million) and are fully allocated to the Industrial Process Solutions CGU.

The change in the caption "Trademarks" is due to the decrease in translation difference (€0.4 million).

The change in the caption "Goodwill" is due to:

- the acquisition of the Comas Group for €177.6 million and reflects the allocation of the excess acquisition cost for the Comas Group compared to the group's share of the acquiree's equity, calculated by measuring the individual assets and liabilities at the acquisition-date fair value (1 October 2018). As mentioned earlier, following the application of the anticipated acquisition method, the goodwill was calculated considering the entire current amount of assets and liabilities transferred following the recognition of a liability at the amount the option for the remaining 30% interest still owned by non-controlling investors is expected to be exercised for;
- the acquisition of the Atlantic Zeiser Group for €3.1 million and reflects the allocation of the excess acquisition cost for the group compared to the group's share of the acquiree's equity, calculated by measuring the individual assets and liabilities at the fair value at the date control is acquired (30 September 2018);
- the acquisition of FlexLink Switzerland GmbH for €0.4 million and reflects the allocation of

the excess acquisition cost for company compared to the group's share of the acquiree's equity, calculated by measuring the individual assets and liabilities at the fair value at the date control is acquired (1 January 2018);

- the increase in translation differences of €8.1 million, mainly related to trends in the dollar exchange rate.

As indicated in the "Accounting policies" paragraph, goodwill is tested annually for impairment. The main assumptions, methods and parameters used for the purposes of the impairment test are as follows.

The recoverable amount of the CGUs was defined on the basis of the calculation of the value in use meant as the present value of future operating cash flows, using the discounted cash flow method.

The future cash flows of the CGUs were estimated on the basis of a three-year plan approved by the board of directors of Coesia S.p.A. projected over a five-year horizon and also considering a terminal value suitably adjusted to take into consideration conditions of normal group operations on the basis of forecasts developed by management.

Cash flows are discounted using discount rates that reflect current market valuations of the cost of money and consider risks specific to operating segments.

Details on growth assumptions under the forecast plans and discount rates used in impairment procedures are as follows:

- The growth rate "g" was assumed at 2%;
- the 2019-2023 CAGR (compound average growth rate) was assumed at 7.08% for the Industrial Process Solution segment and 7.63% for the Advanced Automated Machinery and Materials segment;
- the WACC (weighted average cost of capital) was assumed at 6.7 %.

A sensitivity analysis was performed to simulate the value of the CGUs following the change of certain basic parameters of the valuation model: WACC, long-term nominal growth rate (g) and profitability of the CGUs.

The results of the impairment test on goodwill and the relevant sensitivity analysis did not show any risks of impairment.

In the same manner, trademarks with an indefinite life are tested annually for impairment and a sensitivity analysis is performed. The results of such impairment test on trademarks with an indefinite life and the relevant sensitivity analysis did not show any risks of impairment.

3.3.3 Other intangible assets with a finite life

This caption is comprised as follows:

€/000	31/12/2018	31/12/2017
Trademarks with a finite life	41	45
Industrial patents and intellectual property rights	7,094	8,638
Software licences	15,835	14,168
Development expenditure	143,608	102,005
Other intangible assets with a finite life	246	272
Assets under development and payments on account	478	2,504
Total intangible assets	**167,302**	**127,632**

Details and analyses of changes in this caption during the year are provided in Annex I.

Software licences mainly include costs incurred to implement the new ERP system, as detailed later on.

Capitalised development expenditure for the year amounts to €76,820 thousand, while amortisation for the year amounts to €35,063 thousand. Capitalised development expenditure mainly relates to the subsidiary G.D S.p.A. and refers to the development of the new platforms dedicated to new generation products in the tobacco segment, as detailed in the directors' report.

As per IAS 38, such development projects were tested for impairment to examine their ability to generate probable future economic benefits. The development expenditure incurred by the group that does not meet such requirements was taken directly to profit or loss.

Assets under development and payments on account show a net decrease of €2,026 thousand, mainly due to the reclassification to "Software" following the go-live of the new ERP system in 2018 for all the European companies of the FlexLink Group.

3.3.4 Equity-accounted investments

This caption refers to XPack S.r.l., with registered office in Granarolo Emilia (BO), held at 49% (€1,722 thousand) and Errelle S.r.l., with registered office in Sala Bolognese (BO), held at 30%

(€675 thousand).

At 31 December 2018, the equity accounting of the investment in XPack S.r.l. led to a loss of €477 thousand reflected in the income statement caption "Losses on equity-accounted investees". The associate Errelle S.r.l., on the other hand, broke even in 2018.

3.3.5 Non-current financial assets

This caption is comprised as follows:

Investments in subsidiaries and associates measured at cost:

€/000	Investor	31/12/2018	31/12/2017
LESINA AUTONOLEGGIO S.r.l. (Italy)	G.D S.p.A. (Italy)	62	30
FARE IMPRESA IN DOZZA	G.D S.p.A. (Italy)	43	3
COMAS MACHINERY INDIA PRIVATE LIMITED	COMAS S.p.A. (Italy)	7	0
COESIA MIDDLE EAST (Dubai)	G.D Teknik Hizmetler ve Ticaret Ltd Sirketi (Turkey)	0	11
Total investments in subsidiaries and associates measured at cost		**112**	**44**

Investments in other companies

This caption is comprised as follows:

€/000	Investor	31/12/2018	31/12/2017
Gudang Garam	G.D S.p.A. (Italy)	111	111
Crit S.r.l.	G.D S.p.A. (Italy)	52	52
Other sundry	Various	169	198
Total investments in other companies measured at cost		**332**	**361**

Other non-current financial assets:

Such caption, totalling €5,593 thousand (31 December 2017: €2,150 thousand), mainly includes:

- €1,456 thousand (31 December 2017: €463 thousand) related to a loan to the associate XPACK S.r.l.. This non-interest bearing five-year loan taken out in 2017 was measured at amortised cost to reflect the related implicit interest;
- €4,137 thousand (31 December 2017: €1,687 thousand) related to the parent's units in two

closed-end funds investing in companies developing innovative technologies (venture capital companies). Such investments were classified as financial assets measured at fair value through profit or loss in accordance with the provisions of IFRS 9 for measuring assets and liabilities. The parent undertook to subscribe units for €5,000 thousand, USD5,000 thousand and USD5,000 thousand, respectively;

The remaining amount of €1,085 thousand chiefly refers to guarantee deposits.

3.3.6 Deferred tax assets and liabilities

Deferred tax assets and deferred tax liabilities reflect taxes on temporary differences between the carrying amounts of assets and liabilities and their tax bases and on consolidation adjustments. The deferred tax assets, mainly related to recognised taxed provisions and unrealised intragroup gains, were recognised as they are reasonably realisable. The deferred tax liabilities are mostly related to the capitalisation of development expenditure and the tax effect on the recognition of leases using the financial method. In calculating deferred taxes, the group used the rate that substantially reflects the forecast tax burden for future years on the basis of ruling legislation (for Italian companies: IRES at 24% and IRAP at 3.9%).

3.3.7 Inventories

This caption is comprised as follows:

€/000	31/12/2018	31/12/2017
Raw materials, consumables and supplies	128,528	120,423
(LESS) Allowance for inventory write-down - raw materials, consumables and supplies	(26,519)	(24,852)
Total raw materials, consumables and supplies	**102,009**	**95,571**
Work in progress and semi-finished products	418,910	452,900
(LESS) Allowance for inventory write-down - work in progress and semi-finished products	(75,234)	(84,631)
Total work in progress and semi-finished products	**343,676**	**368,269**
Finished goods	107,249	106,890
(LESS) Allowance for inventory write-down - finished goods	(25,778)	(26,758)
Total finished goods	**81,471**	**80,132**
Total inventories	**654,687**	**680,213**
Total allowance for inventory write-down	**(127,531)**	**(136,241)**
Total inventory	**527,156**	**543,972**

The decrease in inventories on the previous year end, including translation differences and new acquisitions (€24,646 thousand), amounts to €16,816 thousand, net of the €8,710 thousand decrease in the allowance for inventory write-down.

The decrease in inventories on the previous year end, net of the change in consolidation scope, is mainly due to the optimisation of stock, trends in revenue and the slight decrease in the order backlog for 2019 compared to 2018. Accruals to the allowance for inventory write-down are made for obsolete, slow-moving and/or excess materials.

3.3.8 Contract work in progress

€/000	31/12/2018	31/12/2017
Contract work in progress	65,793	54,102
(LESS) Allowance for inventory write-down - contract work in progress	(732)	(1,157)
Total contract work in progress	**65,061**	**52,945**

The increase in contract work in progress on the previous year end, including translation differences and new acquisitions, amounts to €12,116 thousand, net of the €425 thousand decrease in the allowance for inventory write-down.

3.3.9 Trade receivables

The caption is broken down as follows:

€/000	31/12/2018	31/12/2017
Trade receivables	316,369	367,998
(LESS) Allowance for impairment - trade receivables	(25,831)	(23,015)
Total trade receivables	**290,538**	**344,983**

Such receivables derive exclusively from the group's industrial activities and are shown net of the allowance for impairment of €25,831 thousand (31 December 2017: €23,015 thousand). The caption includes receivables due after one year of €4,559 thousand (31 December 2017: €5,437 thousand). The decrease on the previous year end is due to the different timing of collections and the actions taken to improve operating working capital, net of the contribution of companies acquired during the year (approximately €45 million).

Furthermore, such caption includes the following receivables from subsidiaries, non-consolidated associates and related companies:

Receivables from non-consolidated subsidiaries

€/000	31/12/2018	31/12/2017
Lesina Autonoleggio S.r.l.	7	16
Total	**7**	**16**

Receivables from associates

€/000	31/12/2018	31/12/2017
XPack S.r.l.	8	7
Errelle S.r.l.	101	0
Total	**109**	**7**

Receivables from related companies

€/000	31/12/2018	31/12/2017
MAST S.r.l.	4,508	4,213
Total	**4,508**	**4,213**

3.3.10 Current financial assets

The caption is broken down as follows.

€/000	31/12/2018	31/12/2017
Securities	39,075	38,582
Short-term loan assets from non-consolidated group companies	85	85
Short-term loan assets from associates	-	20
Short-term loan assets from third parties	641	-
Cash flow hedges	374	545
Fair value hedges	338	315
Derivatives - other	-	133
Loan prepayments	5,838	1,660
Other current financial assets	300	2,709
Total current financial assets	**46,651**	**44,049**

Securities include the carrying amount of the units of the whole-life insurance policy signed by Coesia S.p.A. with Credit Agricole during 2014. The original amount of €20,000 thousand increased during 2016 as a result of the subscription of additional units for €2,000 thousand. The accrued return amounts to €1,627 thousand at 31 December 2018, of which €1,256 thousand accrued in previous years. Interest accrues on a quarterly basis and is paid only when the units are sold.

Furthermore, Coesia S.p.A. signed additional insurance policies for €15,000 thousand in 2015, 2016 and 2017 (of which €5,000 thousand in 2017), with accrued interest of €448 thousand at the reporting date (of which €326 thousand at 31 December 2017).

Furthermore, "Other current financial assets" at 31 December 2017 included €2,707 thousand as the residual portion of the proceeds for the 2015 sale of the Laetus business. The receivable pending at 31 December 2017 was collected in 2018, except for €945 thousand which was allocated to the counterparty as a price adjustment.

"Short-term loan assets from third parties" include the fee not yet collected related to the sale of the investment in Sacmo Sas to third parties on 28 December 2018.

Short-term loan assets from non-consolidated group companies are broken down as follows:

€/000	31/12/2018	31/12/2017
LESINA AUTONOLEGGIO S.r.l. (Italy)	85	85
Total short-term loan assets from non-consolidated group companies	**85**	**85**

Short-term loan assets from associates are broken down as follows:

€/000	31/12/2018	31/12/2017
FARE IMPRESA IN DOZZA S.r.l. (Italy)	0	20
Total short-term loan assets from associates	**0**	**20**

Interest accrues at market rates on loans granted to non-consolidated subsidiaries and associates.

3.3.11 Current tax assets and liabilities

Current tax assets are broken down as follows:

€/000	31/12/2018	31/12/2017
Tax assets	1,776	3,948
Tax consolidation scheme assets	4,531	7,217
Other	5,668	3,623
Total current tax assets	**11,975**	**14,788**

Current tax liabilities are broken down as follows:

€/000	31/12/2018	31/12/2017
Tax liabilities	9,583	10,115
IRPEF liability for employees and self-employed workers and other withholdings	11,811	11,277
Other tax liabilities	699	872
Total current tax liabilities	**22,093**	**22,264**

Group management does not believe that the years open to inspection for the parent and its main subsidiaries at the reporting date (2014 and subsequent years for Italian companies with regard to both direct and indirect taxes) will lead to any significant liabilities not shown in the consolidated financial statements.

3.3.12 Other current assets

This caption is comprised as follows:

€/000	31/12/2018	31/12/2017
Social security institutions	176	56
Employees	1,579	975
Advances to suppliers	14,569	13,943
Non-financial accrued income	7,626	3,786
Property operating lease prepayments	1,014	724
Other operating lease prepayments	187	209
Insurance prepayments	2,849	1,058
Maintenance prepayments	586	605
Other prepayments	11,852	9,049
VAT assets	21,461	23,517
Other receivables	10,305	11,954
Total other assets	**72,204**	**65,876**

VAT assets include €3,272 thousand which is expected to be collected beyond 2019.

3.3.13 Cash and cash equivalents

This caption is comprised as follows:

€/000	31/12/2018	31/12/2017
Bank and post office accounts	355,336	335,471
Cash and cash equivalents	216	1,026
Total cash and cash equivalents	**355,552**	**336,497**

The change in liquidity is detailed in the annexed statement of cash flows.

3.3.14 Equity

Equity captions are broken down as follows:

€/000	31/12/2018	31/12/2017
Share capital	**125,000**	**125,000**
Revaluation reserves	86,135	86,135
Legal reserve	15,686	13,033
Hedging reserve	(7,553)	(1,974)
Actuarial reserve	(13,109)	(12,708)
Translation reserve	15,681	10,085
Total reserves	**96,840**	**94,571**
Retained earnings	**575,660**	**488,132**
Profit for the year attributable to the owners of the parent	**165,905**	**139,756**
Equity attributable to the owners of the parent	**963,405**	**847,459**
Equity attributable to non-controlling interests	4,216	297
Total equity	**967,621**	**847,756**

An analysis of changes in equity is provided in the relevant financial statements schedule.

Equity attributable to the owners of the parent

The *share capital* amounts to €125,000 thousand, unchanged from the previous year end.

Details on changes in reserves are provided here below.

The *legal reserve*, amounting to €15,686 thousand, increased by €2,653 thousand following the allocation of 2017 profit.

The actuarial reserve decreased by €401 thousand mainly following the actuarial gains of the year and the exchange rate effect.

The hedging reserve was a negative €7,553 thousand and comprises changes in the fair value of derivatives on exchange and interest rates signed to hedge foreign currency transactions and loans taken out by the group, net of the related tax effect.

Retained earnings rose on the previous year end by €87,528 thousand, mainly due to the combined effect of the allocation of consolidated profit for the previous year (€137,103 thousand) and the resolution to distribute dividends of €50,000 thousand to the ultimate parent.

Furthermore, retained earnings include €39,358 thousand related to the first-time adoption reserve accrued for the adoption of IFRS starting from 1 January 2015 and €4,095 thousand as the negative effect related to the first-time adoption of IFRS 15.

Equity attributable to non-controlling interests

This caption refers to equity attributable to non-controlling interests amounting to €4,216 thousand, including the profit attributable to non-controlling interests for 2018 of €367 thousand. The increase is linked to the acquisition of the Atlantic Zeiser Group, which led to the consolidation of Tritron GmbH, 49% held by non-controlling interests.

Reconciliation between equity of the parent and consolidated equity

The reconciliation of the equity and profit for the year resulting from the parent's separate financial statements and the corresponding consolidated amounts as at and for the years ended 31 December 2018 and 2017 is as follows:

	2018		2017	
€/000	Equity	Profit for the year	Equity	Profit for the year
Separate financial statements of the parent - IV Directive	**244,353**	**69,198**	**230,472**	**53,042**
Adjustment of the parent's separate financial statements to IFRS	(3,535)	(2,458)	(1,079)	(96)
IFRS compliant separate financial statements	**240,818**	**66,740**	**229,393**	**52,946**
Difference between the equity of consolidated investees and the equivalent carrying amounts in the parent's separate financial statements	716,133	182,534	608,596	162,480
Dividends	-	(79,667)	-	(74,116)
Equity-accounted investees	(875)	(477)	(398)	(398)
Other consolidation entries	7,329	(3,225)	9,868	(1,156)
Total attributable to the owners of the parent	**963,405**	**165,905**	**847,459**	**139,756**
Equity and profit attributable to non-controlling interests	4,216	367	297	70
Total consolidated	**967,621**	**166,272**	**847,756**	**139,826**

3.3.15 Current and non-current financial liabilities

This caption is comprised as follows at 31 December 2018 and 31 December 2017:

31/12/2018, €/000	CURRENT PORTION	NON-CURRENT PORTION	TOTAL	OF WHICH DUE AFTER FIVE YEARS
CURRENT ACCOUNT OVERDRAFTS	**1,818**	**-**	**1,818**	**-**
BANK LOANS	**823**	**429,193**	**430,016**	**37,272**
Loans	823	429,193	**430,016**	37,272
FINANCE LEASES	**1,576**	**5,442**	**7,018**	**1,755**
OTHER FINANCIAL BACKERS	**2,032**	**10,042**	**12,074**	**497**
Public funding	409	3,055	**3,464**	497
Factoring	1,623	6,688	**8,311**	-
Other	-	299	**299**	-
Bonds	**748**	**99,568**	**100,316**	**-**
OTHER FINANCIAL LIABILITIES	**4,761**	**11,687**	**16,448**	**-**
LIABILITIES FOR OPTIONS ON INVESTMENTS	**-**	**133,314**	**133,314**	
TOTAL FINANCIAL LIABILITIES	**11,758**	**689,246**	**701,004**	**39,524**

31/12/2017, €/000	CURRENT PORTION	NON-CURRENT PORTION	TOTAL	OF WHICH DUE AFTER FIVE YEARS
CURRENT ACCOUNT OVERDRAFTS	**5,698**	**-**	**5,698**	**-**
BANK LOANS	**960**	**334,381**	**335,341**	**-**
Loans	960	334,381	**..341**	-
FINANCE LEASES	**1,588**	**6,431**	**8,019**	**1,958**
OTHER FINANCIAL BACKERS	**7,691**	**2,084**	**9,775**	**-**
Public funding	333	2,084	**2,417**	-
Factoring	7,358	-	**7,358**	-
Other	-	-	**-**	-
Bonds	**103,000**	**99,422**	**202,422**	**-**
OTHER FINANCIAL LIABILITIES	**805**	**4,999**	**5,804**	**-**
TOTAL FINANCIAL LIABILITIES	**119,742**	**447,317**	**567,059**	**1,958**

On 2 July 2018, the parent repaid the bond to its ultimate parent, IS.CO S.r.l., recognised under "Current loans and borrowings" at 31 December 2017, early.

On 1 October 2014, Coesia S.p.A. issued and placed on the ExtraMOT PRO bond market, which is reserved for professional investors, bonds for €100 thousand with a bullet repayment on 1 October 2021. The liability recognised in the 2018 consolidated financial statements at amortised cost amounts to €99,568 thousand. These bonds accrue interest at an annual rate of 3%, which is payable on 1 October of each year of the bond term, beginning in 2014.

Bank loans totalling €430 million mainly include Coesia S.p.A.'s loans, of which €50 million due in 2020, €192.5 million due in 2021, €125 million due in 2022, €25 million due in 2023, €25 million due in 2024 and €12.5 million due in 2025. All of the above loans are measured at amortised cost. Loans increased on the previous year end due to two new loans totalling €100 million taken out in the first half of 2018 to be repaid between 2021 and 2025.

The above-mentioned bank loan agreements require compliance with economic and financial covenants calculated on Coesia Group's consolidated financial statements. Such covenants are checked by banks every year. They were complied with at 31 December 2018. Interest accrues at market rates on all loans.

In addition, Coesia S.p.A. signed a syndicated loan with nine lending banks on 31 July 2018 for a total of €650 million (of which €500 million for the term credit facility and €150 million for the revolving credit facility) expiring on 31 July 2023 in order to financially support the inorganic growth of the Coesia Group. The loan had not been used at 31 December 2019. The term credit facility of €500 million was paid out in January 2019 to support the acquisition of System Ceramics S.p.A., as detailed in the directors' report.

The derivative contracts in place at 31 December 2018 are as follows:

- a derivative to hedge interest rate risk related to a bullet loan of €100 million. With a notional amount of €100 million, the derivative was signed on 4 September 2014, renegotiated on 12 July 2017 and expires on 31 July 2022. Under such derivative, the group undertakes to pay/collect the differential between 3-month Euribor and the fixed rate of 0.557% on a quarterly basis. The market valuation of such transaction at 31 December 2018 showed a loss of approximately €2,341 thousand, which was recognised under "Non-current financial liabilities", with a balancing entry under the "Hedging reserve";
- a derivative to hedge interest rate risk related to a loan agreed in 2016 and expiring in 2020. With a notional amount of €50 million, the derivative was signed on 27 October 2016 and expires on 27 October 2020. Under such derivative, the group undertakes to pay/collect the differential between 3-month Euribor and the four-year fixed rate of -0.02%

on a quarterly basis. The market valuation of such transaction at 31 December 2018 showed a loss of approximately €241 thousand, which was recognised under "Non-current financial liabilities", with a balancing entry under the "Hedging reserve";

- a derivative to hedge interest rate risk related to a loan agreed in 2017 and expiring in 2021. With a notional amount of €75 million, the derivative was signed on 12 May 2017 and expires on 12 October 2021. Under such derivative, the group undertakes to pay/collect the differential between 3-month Euribor and the fixed rate of 0.145% on a quarterly basis. The market valuation of such transaction at 31 December 2018 showed a loss of approximately €662 thousand, which was recognised under "Non-current financial liabilities", with a balancing entry under the "Hedging reserve";
- a derivative to hedge interest rate risk related to a loan agreed in 2017 and expiring in 2021. With a notional amount of €75 million, the derivative was signed on 11 April 2017 and expires on 11 April 2021. Under such derivative, the group undertakes to pay/collect the differential between 3-month Euribor and the fixed rate of 0.035% on a quarterly basis. The market valuation of such transaction at 31 December 2018 showed a loss of approximately €485 thousand, which was recognised under "Non-current financial liabilities", with a balancing entry under the "Hedging reserve";
- a derivative to hedge interest rate risk agreed on 22 December 2017. With a notional amount of €40 million, the derivative started on 22 January 2018 and expires on 22 January 2025. Under such derivative, the group undertakes to pay/collect the differential between 6-month Euribor and the fixed rate of 0.448% on a quarterly basis. It was agreed to hedge the loan of the same amount signed on 22 December 2017 but paid out on 22 January 2018. The market valuation of such transaction at 31 December 2018 showed a loss of approximately €719 thousand, which was recognised under "Non-current financial liabilities", with a balancing entry under the "Hedging reserve";
- a derivative to hedge interest rate risk agreed on 19 January 2018. With a notional amount of €60 million, the derivative started on 22 January 2018 and expires on 22 January 2025. Under such derivative, the group undertakes to pay/collect the differential

between 3-month Euribor and the fixed rate of 0.463% on a quarterly basis. It was agreed to hedge the loan of the same amount paid out on 22 January 2018. The market valuation of such transaction at 31 December 2018 showed a loss of approximately €749 thousand, which was recognised under “Non-current financial liabilities”, with a balancing entry under the “Hedging reserve”;

- two speculative derivatives to hedge interest rate risk agreed on 1 August 2018. With a total notional amount of €375 million, the derivatives start from 29 March 2019 and expire on 31 July 2023. Under such derivatives, the group undertakes to pay/collect the differential between 3-month Euribor and the fixed rate of 0.3775% on a quarterly basis. They were agreed to hedge the term credit facility part of the syndicated loan signed on 31 July 2018 mentioned above. The market valuation of such transactions at 31 December 2018 showed a loss of approximately €4,320 thousand, which was recognised under “Non-current financial liabilities”, with a balancing entry under the “Hedging reserve”;
- a derivative measured at fair value and originally signed in 2010 to hedge the interest rate risk linked to the finance lease for the multifunctional MAST building demerged during 2015. With decreasing notional amounts, the derivative expires in 2029. It amounts to €16,661 thousand at 31 December 2018 and provides for a floor of 2.48% and a cap of 4.5%. The derivative does not generate effects if the 3-month Euribor is between 2.48% and 4.5%. The market valuation of such transaction at 31 December 2018 showed a loss of approximately €2,162 thousand, which was recognised under “Non-current financial liabilities”.

3.3.16 Employee benefits

Defined benefit plans

At 31 December 2018, the caption mainly includes €62,870 thousand (31 December 2017: €63,540 thousand) for post-employment benefits for companies resident in Italy and liabilities for defined benefits pension funds pursuant to IAS 19 for foreign companies, determined on an actuarial basis, as mentioned in the section on accounting policies. The changes in defined benefit plans during the year were as follows:

€/000	2018	2017
Present value of defined benefit plans - opening balance	**63,540**	**71,617**
Interest cost	868	945
Current service cost	2,791	2,607
Past service cost	97	571
Benefits paid by the group and employees	(4,732)	(5,719)
Net actuarial losses for the year	(294)	(3,318)
Net transfers	(90)	(4)
Net exchange rate gains (losses)	690	(3,159)
Present value of defined benefit plans - closing balance	**62,870**	**63,540**

The main demographic assumptions adopted in assessing the actuarial loss are as follows:

- the annual probability of elimination of the liability due to the death of employees in service, for which local statistical mortality tables were used;
- the annual probability of elimination of the liability for reasons other than the death of employees, which was calculated on the basis of the group's historical data;
- the pensionable age on the basis of ruling legislation.

The discount rates used as reference are as follows:

2018	Europe	America	Asia Pacific
Discount rate	0.85%-2.9%	4.0%-4.1%	8.50%
Annual salary increase rate	1.0%-3.0%	0.0%-3.5%	8.00%
Annual inflation rate	1.0%-2.5%	0.00%	0.00%

2017	Europe	America	Asia Pacific
Discount rate	0.7%-3.3%	3.3%-4.0%	7.2%
Annual salary increase rate	1.0%-3.0%	0.0%-3.5%	8.0%
Annual inflation rate	1.0%-3.4%	0.0%	0.0%

The effects of a hypothetical increase or decrease of 50 basis points in the 2018 discount rate, net of the tax effects, are as follows:

Sensitivity analysis (€/000)	Increase + 50 bp	Decrease - 50 bp
Net actuarial gains (losses) for the year	(9,867)	10,715

3.3.17 Current and non-current portion of the provisions for risks and charges

These provisions are composed as follows:

€/000	31 December 2018	31 December 2017
Provisions for product warranties and installations	45,507	51,905
Other provisions for risks and charges	15,184	15,701
Total provisions for risks and charges	**60,691**	**67,606**

€/000	Non-current portion	Current portion	Total 2018
Provisions for product warranties and installations	2,804	42,703	45,507
Other provisions for risks and charges	5,122	10,062	15,184
Total provisions for risks and charges	**7,926**	**52,765**	**60,691**

The provisions for product warranties and installations and other provisions for risks and charges mainly reflect charges for work carried out under warranty and installation to be incurred after the reporting date but relating to machinery sold before that date, as well as prudently estimated charges for contract risks and any loss-making orders related to group production activities.

3.3.18 Trade payables

€/000	31 December 2018	31 December 2017
Trade payables and invoices to be received	316,733	303,193
Payables to sales agents	12,209	9,920
Trade payables to non-consolidated group companies	50	37
Trade payables to associates	5,817	12
Total trade payables	**334,809**	**313,162**

The €21,647 thousand increase on the previous year end is mainly due to the contribution of the new acquisitions of the year (€18,676 thousand).

3.3.19 Other current liabilities

€/000	31 December 2018	31 December 2017
Advances from customers	248,542	327,337
Social security institutions	15,837	15,349
Due to employees - wages and salaries	26,959	26,512
Due to employees - holidays accrued but not taken	13,582	13,689
Due to employees - other	2,927	2,140
Accrued non-financial expenses	445	661
Deferred non-financial income	3,301	1,455
VAT liability	3,131	1,197
Employee benefits	17,810	-
Other	19,655	18,234
Total other current liabilities	**352,189**	**406,574**

The decrease in advances from customers (net of the contribution of the new acquisitions of the year of approximately €17,708 thousand) is mainly due to the slowdown in the order backlog at the end of 2018 compared to 2017 caused by the different timing of orders and a different mix of orders, particularly in certain segments.

Employee benefits include the portion for the year of the cost of future long-term incentives granted to the group's top management starting from 2016, classified under non-current "Employee benefits" at 31 December 2017.

3.4 Notes to the income statement

In accordance with IAS 1, the following table shows an analysis of the main operating costs.

€/000	2018	2017
Sales revenue, net	1,791,756	1,585,158
Purchase of goods and change in inventories	(630,890)	(486,489)
Services	(367,915)	(335,497)
Personnel expense	(450,127)	(459,577)
Amortisation, depreciation and impairment losses	(68,738)	(51,641)
Other costs, net	(15,084)	(16,772)
Operating profit	**259,002**	**235,182**

3.4.1 Revenue

Revenue is broken down below by geographical segment in the following table:

€/000	2018	%	2017	%	Variation %
EUROPEAN UNION	623,163	35%	472,843	30%	32%
NORTH AMERICA	355,286	20%	289,499	18%	23%
ASIA	411,947	23%	420,087	26%	(2%)
OTHER	325,777	18%	295,938	19%	10%
Total revenue outside Italy	**1,716,173**	**96%**	**1,478,367**	**93%**	**16%**
ITALY	75,583	4%	106,791	7%	(29%)
Total revenue	**1,791,756**	**100%**	**1,585,158**	**100%**	**13%**

96% of 2018 revenue was earned outside Italy (93% in 2017); specifically, from the rest of the European Union and Asia. Sales in the EU and North America rose again, offsetting the slight fall in Asia, which had recorded a rise in the previous year. The rebalancing of sales in Italy and abroad is due to the development of projects by customers compared to the previous year, while “Other” was positively influenced by the rise in sales in the Middle East and Africa.

Sales of both the AAM&M and IPS segments rose in Europe and North America, with revenue being redistributed in other geographical segments, mainly attributable to the AAM&M segment.

3.4.2 Cost of sales

The cost of sales amounts to €1,201,683 thousand (67.1% as a percentage of revenue) for the year ended 31 December 2018, in line with the 2017 balance of €1,042,211 thousand (65.8% as a percentage of revenue). The €159,472 thousand increase in the carrying amount is mainly due to the greater sales volumes.

3.4.3 Commercial and distribution costs

Commercial and distribution costs amount to €133,886 thousand (7.5% as a percentage of revenue) for the year ended 31 December 2018, compared with €127,518 thousand (8% as a percentage of revenue) for 2017, up €6,368 thousand mainly due to greater sales volumes.

3.4.4 General and administrative expenses

General and administrative expenses amount to €117,156 thousand (6.5% as a percentage of revenue) for the year ended 31 December 2018, compared with €125,169 thousand (7.9% as a percentage of revenue) for 2017, down €8,013 thousand. Such decrease is mainly due to the actions put in place to cut back on overheads in 2018.

3.4.5 Research and development expenditure

Reference should be made to note 3.3.3 and the directors' report for details on such caption.

3.4.6 Other income and other costs

This caption chiefly refers to income and costs related to M&A activities and donations made during the year.

3.4.7 Financial income

This caption is comprised as follows:

€/000	2018	2017
Exchange rate gains	26,508	15,504
Interest income	3,619	4,263
Other financial income	2,057	2,860
Total	**32,184**	**22,627**

3.4.8 Financial expense

This caption is comprised as follows:

€/000	2018	2017
Exchange rate losses	(34,678)	(33,959)
Interest expense on loans and leases	(4,143)	(4,869)
Interest expense on bonds	(5,393)	(7,641)
Net expense for the sale of investments	(1,809)	-
Other financial expense	(11,658)	(10,550)
Total	**(57,681)**	**(57,019)**

"Net expense for the sale of investments" mainly refers to the effects of the sale of the subsidiary Sacmo SAS on 28 December 2018.

3.4.9 Equity-accounted investees

This caption includes charges related the measurement of the investment in the associate XPack S.r.l. at equity (€477 thousand).

3.4.10 Income tax expense

This caption is comprised of current taxes amounting to €56,626 thousand and net deferred tax expense of €10,130 thousand. With respect to Italian companies, deferred taxes were calculated based on the enacted IRES and IRAP rates of 24% and 3.9%, respectively.

The main differences between the theoretical taxes calculable with the reference tax rate in Italy and the taxes recognised in the financial statements are mainly due to changes in taxed provisions in addition to the different tax rates and regulations applied in the various countries.

DISCLOSURE REQUIRED BY LAW NO. 124/2017

The following tables provide the information related to the disclosure requirements introduced by article 1.125/129 of the new annual Law on the market and competition (Law no. 124 of 4 August 2017) related to transparency in the public grant system (subsidies, grants, paid engagements or any kind of economic advantage set out in such law), for the Italian group companies. With regard to state aid and aid provided under the de minimis regime contained in the National register of state aid, as per article 52 of Law no. 234 of 24 December 2012, in order to meet disclosure requirements, reference is made to such register. The following information is reported on a collection basis, which considers the date the grants were actually collected by the company.

G.D S.p.A.

€/000			
Granting party	Grant received in 2018	Grant received in 2017	Reason
The City of Bologna (Province)	-	224	Grants to extend the education services offered to children aged 0-3 years as per Regional Law no. 1/2000
Fondimpresa	336	134	Law no. 845 of 1978 and article 118 of Law no. 388/2000
INPS (the Italian social security institution)	178	292	Law no. 190 of 23 December 2014, paragraphs 118 and following
INPS	39	68	Law no. 208 of 28 December 2015, article 1.178 and following paragraphs
INPS	50	-	Law no. 205 of 27 December 2017, paragraphs 100-108 and 113-114
The state/tax authorities	178	70	Super depreciation under Law no. 208 of 28 December 2015, article 91.1
The state/tax authorities	17	17	Tax credit under Law no. 296 of 27 December 2006 (energy contribution), article 1.344-347
The state/tax authorities	5	-	Tax credit for donations to culture (article 1 of Law decree no. 83/2014; article 1.11 of Law no. 190/2014; article 1.318 of Law no. 208/2015; article 17 of Law decree no. 189/2016)
The state/tax authorities	1,209	346	Tax credit for research and development activities under article 3 of Law decree no. 145 of 2013 as replaced by article 1.35 of Law no. 190 of 2014; Law no. 232 of 2016
The state/tax authorities	66	64	4% of post-employment benefits allocated to supplementary pension funds under article 105.3 of Presidential decree no. 917/86 (ref. article 10.1 of Legislative decree no. 252 of 8 December 2005)
Total	2,078	1,215	

C.I.M.A. Costruzioni Italiane Macchine Attrezzi S.p.A.

€/000			
Granting party	Grant received in 2018	Grant received in 2017	Reason
Fondimpresa	19	10	Law no. 845 of 1978 and article 118 of Law no. 388/2000
INPS	39	48	Law no. 190 of 23 December 2014, paragraphs 118 and following
INPS	15	16	Law no. 208 of 28 December 2015, article 1.178 and following paragraphs
INPS	6	-	Law no. 205 of 27 December 2017, paragraphs 100-108 and 113-114
The state/tax authorities	36	21	Super depreciation under Law no. 208 of 28 December 2015, article 91.1
The state/tax authorities	4	4	4% of post-employment benefits allocated to supplementary pension funds under article 105.3 of Presidential decree no. 917/86 (ref. article 10.1 of Legislative decree no. 252 of 8 December 2005)
GSE S.p.A.	353	344	Incentivising rate under AEEG (Italian Regulatory authority for electricity, gas and water) Resolution no. 88/07 and Resolution no. 90/07
GSE S.p.A.	4	3	Energy sales fees under AEEG Resolution no. 280/07, articles 6/7, and contract fees under AEEG Resolution no. 348/07, article 13
Total	476	446	

Acma S.p.A.

€/000			
Granting party	**Grant received in 2018**	**Grant received in 2017**	**Reason**
Fondimpresa	11	10	Law no. 845 of 1978 and article 118 of Law no. 388/2000
INPS	20	69	Law no. 190 of 23 December 2014, paragraphs 118 and following
INPS	2	3	Law no. 208 of 28 December 2015, article 1.178 and following paragraphs
INPS	3	-	Law no. 205 of 27 December 2017, paragraphs 100-108 and 113-114
The state/tax authorities	9	-	4% of post-employment benefits allocated to supplementary pension funds under article 105.3 of Presidential decree no. 917/86 (ref. article 10.1 of Legislative decree no. 252 of 8 December 2005)
Total	**45**	**82**	

Emmeci S.p.A.

€/000			
Granting party	**Grant received in 2018**	**Grant received in 2017**	**Reason**
Florence Chamber of Commerce	1	-	Grant related to school/work turnover for REA companies/parties in the province of Florence
Fondimpresa	10	-	Law no. 845 of 1978 and article 118 of Law no. 388/2000
The region of Tuscany	5	-	Grant for activating work experience funded under POR FSE 2014/2020
The state/tax authorities	9	7	Super depreciation under Law no. 208 of 28 December 2015, article 91.1
The state/tax authorities	1	-	4% of post-employment benefits allocated to supplementary pension funds under article 105.3 of Presidential decree no. 917/86 (ref. article 10.1 of Legislative decree no. 252 of 8 December 2005)
Total	**26**	**7**	

Flexlink Systems S.p.A.

€/000			
Granting party	**Grant received in 2018**	**Grant received in 2017**	**Reason**
Fondimpresa	-	13	Law no. 845 of 1978 and article 118 of Law no. 388/2000
INPS	2	3	Law no. 190 of 23 December 2014, paragraphs 118 and following
The state/tax authorities	1	-	Super depreciation under Law no. 208 of 28 December 2015, article 91.1
Total	**3**	**16**	

G.F. S.p.A.

€/000			
Granting party	**Grant received in 2018**	**Grant received in 2017**	**Reason**
Fondimpresa	7	-	Grants under the training fund
The state/tax authorities	45	20	Super depreciation under Law no. 208 of 28 December 2015, article 91.1 and following paragraphs
The state/tax authorities	2	2	4% of post-employment benefits allocated to supplementary pension funds under article 105.3 of Presidential decree no. 917/86 (ref. article 10.1 of Legislative decree no. 252 of 8 December 2005)
Total	**54**	**22**	

GDM S.p.A.

€/000			
Granting party	Grant received in 2018	Grant received in 2017	Reason
The state/tax authorities	1,291	-	Patent Box under Law no. 190 of 2017, article 1.37-45
The state/tax authorities	92	22	Super depreciation under Law no. 208 of 28 December 2015, article 91.1
The state/tax authorities	385	170	Tax credit for research and development activities under article 3 of Law decree no. 145 of 2013 as replaced by article 1.35 of Law no. 190 of 2014; Law no. 232 of 2016
The state/tax authorities	2	-	4% of post-employment benefits allocated to supplementary pension funds under article 105.3 of Presidential decree no. 917/86 (ref. article 10.1 of Legislative decree no. 252 of 8 December 2005)
Total	1,770	192	

IPI S.r.l.

€/000			
Granting party	Grant received in 2018	Grant received in 2017	Reason
INPS	9	35	Law no. 190 of 23 December 2014, paragraphs 118 and following
INPS	1	3	Law no. 208 of 28 December 2015, article 1.178 and following paragraphs
INPS	1	-	Law no. 205 of 27 December 2017, paragraphs 100-108 and 113-114
The region of Umbria	147	-	POR FESR 2014-2020. Axis I - Action 1.1.1. Tender to support industrial research and experimental development – 2015 CUP no. I98I16000070007
The state/tax authorities	23	12	Super depreciation under Law no. 208 of 28 December 2015, article 91.1
The state/tax authorities	40	41	Tax credit for research and development activities under article 3 of Law decree no. 145 of 2013 as replaced by article 1.35 of Law no. 190 of 2014; Law no. 232 of 2016
The state/tax authorities	3	-	4% of post-employment benefits allocated to supplementary pension funds under article 105.3 of Presidential decree no. 917/86 (ref. article 10.1 of Legislative decree no. 252 of 8 December 2005)
Total	224	91	

Sasib S.p.A.

€/000			
Granting party	Grant received in 2018	Grant received in 2017	Reason
INPS	12	32	Law no. 190 of 23 December 2014, paragraphs 118 and following
INPS	7	14	Law no. 208 of 28 December 2015, article 1.178 and following paragraphs
INPS	18	-	Law no. 205 of 27 December 2017, paragraphs 100-108 and 113-114
The state/tax authorities	21	10	Super depreciation under Law no. 208 of 28 December 2015, article 91.1
The state/tax authorities	1,148	-	Tax credit for research and development activities under article 3 of Law decree no. 145 of 2013 as replaced by article 1.35 of Law no. 190 of 2014; Law no. 232 of 2016
The state/tax authorities	6	6	4% of post-employment benefits allocated to supplementary pension funds under article 105.3 of Presidential decree no. 917/86 (ref. article 10.1 of Legislative decree no. 252 of 8 December 2005)
Total	1,212	62	

3.5 Other information

Related party disclosure

The COESIA Group's relationships with related parties are neither atypical or unusual; they are part of the group's ordinary business operations.

Sales and financial transactions with such parties were carried out on an arm's length basis and were all concluded in the parent's interest.

The following tables show the statement of financial position and income statement captions related to COESIA Group's transactions with related parties, as per IAS 24.

As at and for the year ended 31 December 2018

€/000

Parents, subsidiaries and associates	Receivables	Payables	Costs	Revenue
Ultimate parent				
IS.Co. S.r.l.	4,531	0	2,250(1)	-
Subsidiaries:				
Lesina Autonoleggi S.r.l.	7	43	234	10
Associates				
XPack S.r.l.	8	-		
Fare Impresa in Dozza S.r.l.	-	7	110	-
Errelle S.r.l.	101	5,817	8,615	-
Related companies	Receivables	Payables	Costs	Revenue
MAST S.r.l.	4,504(2)	2,446	4,634	267(3)
TOTAL	9,151	8,313	15,843	277

Note (1): include interest related to 2018 on the bond repaid on 2 July 2018 (€2.25 million).

(2): includes services provided (€1,207 thousand, including VAT) and receivables for MAST S.r.l. expenses recharged by the subsidiary G.D S.p.A. (€3,297 thousand).

(3): includes revenue from services rendered (€110 thousand) and MAST S.r.l. expenses recharged by the subsidiary G.D S.p.A. (€157 thousand).

As at and for the year ended 31 December 2017

€/000

Parents, subsidiaries and associates	Receivables	Payables	Costs	Revenue
Ultimate parent				
IS.Co. S.r.l.	7,217	102,250(1)	4,050	-
Subsidiaries:				
Lesina Autonoleggi S.r.l.	101	37	193	7
Associates				
XPack S.r.l.	7	4	4	6
Related companies	Receivables	Payables	Costs	Revenue
MAST S.r.l.	4,213(2)	1,519	4,189	229(3)
Other related parties	Receivables	Payables	Costs	Revenue
Sole shareholder of the ultimate parent	-	-	450	-
TOTAL	11,538	103,810	8,886	242

Note (1): includes bonds redeemable on 30 June 2018, held by the ultimate parent, IS.Co. S.r.l. (€100 million, including accrued interest of €2.25 million).

(2): includes services provided (€1,073 thousand, including VAT) and receivables for MAST S.r.l. expenses recharged by the subsidiary G.D S.p.A. (€3.140 thousand).

(3): includes revenue from services rendered (€108 thousand) and MAST S.r.l. expenses recharged by the subsidiary G.D S.p.A. (€111 thousand).

Fees to directors, statutory auditors and key management personnel

Fees to the board of directors for the year ended 31 December 2018, excluding the parent's CEO, amount to €600 thousand, whereas fees to the board of statutory auditors total €420 thousand, both short term.

In addition to the parent's CEO, key management personnel include members of the Coesia Operating Committee comprised of the CEOs/Managing Directors/General Managers of the main group companies, the group CFO, the Chief Human Resources Officer, the Chief Market Development Officer, the Chief Technology Officer, the Operational Excellence Director and the Managing Directors of the operating segments and regions.

Gross remuneration to key management personnel for 2018 amount to €11,098 thousand, due within one year.

Independent auditors' fees

Pursuant to article 2427 of the Italian Civil Code, the table below shows the fees paid by Coesia S.p.A. and group companies to the independent auditors and their network, for audit engagements and other services, set out by type or category (in thousands of Euros).

Service type	Service provider	Beneficiary	Fees
Audit	KPMG S.p.A.	Coesia S.p.A.	52
Other services	KPMG S.p.A.	Coesia S.p.A.	270
Other attestation services	KPMG S.p.A.	Coesia S.p.A.	12
Total Coesia S.p.A.			**334**
Audit	KPMG S.p.A.	Subsidiaries	347
Audit	KPMG network	Subsidiaries	922
Other attestation services	KPMG S.p.A.	Subsidiaries	28
Other attestation services	KPMG network	Subsidiaries	2
Tax services	KPMG network	Subsidiaries	10
Other services	KPMG S.p.A.	Subsidiaries	2
Other services	KPMG network	Subsidiaries	11
Total subsidiaries			**1,322**
Total			**1,656**

Guarantees issued and third-party goods held at group companies

The following table shows the guarantees issued mainly by banks in favour of customers to guarantee the current functioning of machinery or to guarantee supplies.

Furthermore, the table presents third-party goods held at group companies.

€/000	31 December 2018	31 December 2017
Securities	118,681	102,369
Third-party goods held at group companies	15,434	6,506
TOTAL	**134,115**	**108,875**

Commitments

The following tables summarises group commitments related to payments for commitments assumed under operating leases (mainly for buildings and vehicles).

31 December 2018 (€/000)	DUE WITHIN ONE YEAR	DUE AFTER ONE YEAR - WITHIN FIVE YEARS	DUE AFTER FIVE YEARS	TOTAL
COMMITMENTS FOR OPERATING LEASES	13,365	35,122	12,231	60,718
TOTAL	**13,365**	**35,122**	**12,231**	**60,718**

31 December 2017 (€/000)	DUE WITHIN ONE YEAR	DUE AFTER ONE YEAR - WITHIN FIVE YEARS	DUE AFTER FIVE YEARS	TOTAL
COMMITMENTS FOR OPERATING LEASES	11,377	20,699	5,321	37,397
TOTAL	**11,377**	**20,699**	**5,321**	**37,397**

3.6 Annexes

The annexes are an integral part of these notes. Their purpose is to provide additional information.

The following information is included in these annexes:

- Schedule of intangible assets at 31 December 2018 (Annex I);
- Schedule of property, plant and equipment at 31 December 2018 (Annex II);
- List of consolidated investments (Annex III);

ANNEX I - SCHEDULE OF INTANGIBLE ASSETS AT 31 DECEMBER 2018

Intangible assets with a finite life - €/000

	31/12/2017			Changes							31/12/2018		
	Historical cost	Accumulated amortisation	Carrying amount at 31/12/2017	Changes in consolidation scope	Exchange rate difference	Reclassifications	Increase	Amortisation and impairment losses for the year	Historical cost	Accumulated amortisation	Historical cost	Accumulated amortisation	Carrying amount at 31/12/2018
Trademarks with a finite life	126	(81)	45	0	0	0	2	(6)	0	0	128	(87)	41
Industrial patents and intellectual property rights	19,062	(10,424)	8,638	19	(103)	241	987	(2,688)	0	0	20,206	(13,112)	7,094
Software licences	53,001	(38,833)	14,168	619	105	5,059	2,311	(6,427)	0	0	61,095	(45,260)	15,835
Development expenditure	284,334	(182,329)	102,005	0	506	(660)	76,820	(35,063)	0	0	361,000	(217,392)	143,608
Other intangible assets with a finite life	5,084	(4,812)	272	19	(2)	(17)	65	(91)	0	0	5,149	(4,903)	246
Assets under development and payments on account	2,504	0	2,504	0	1	(2,284)	257	0	0	0	478		478
Total	364,111	(236,479)	127,632	657	507	2,339	80,442	(44,275)	0	0	448,056	(280,754)	167,302

Intangible assets with an indefinite life - €/000

	31/12/2017	Changes					31/12/2018
		Changes in consolidation scope	Exchange rate difference	Increase	Decrease	Impairment losses for the year	
Goodwill	465,305	181,126	8,095	-	-	-	654,526
Trademarks with an indefinite life	23,198	-	(400)	-	-	-	22,798
Total	488,503	181,126	7,695	-	-	-	677,324

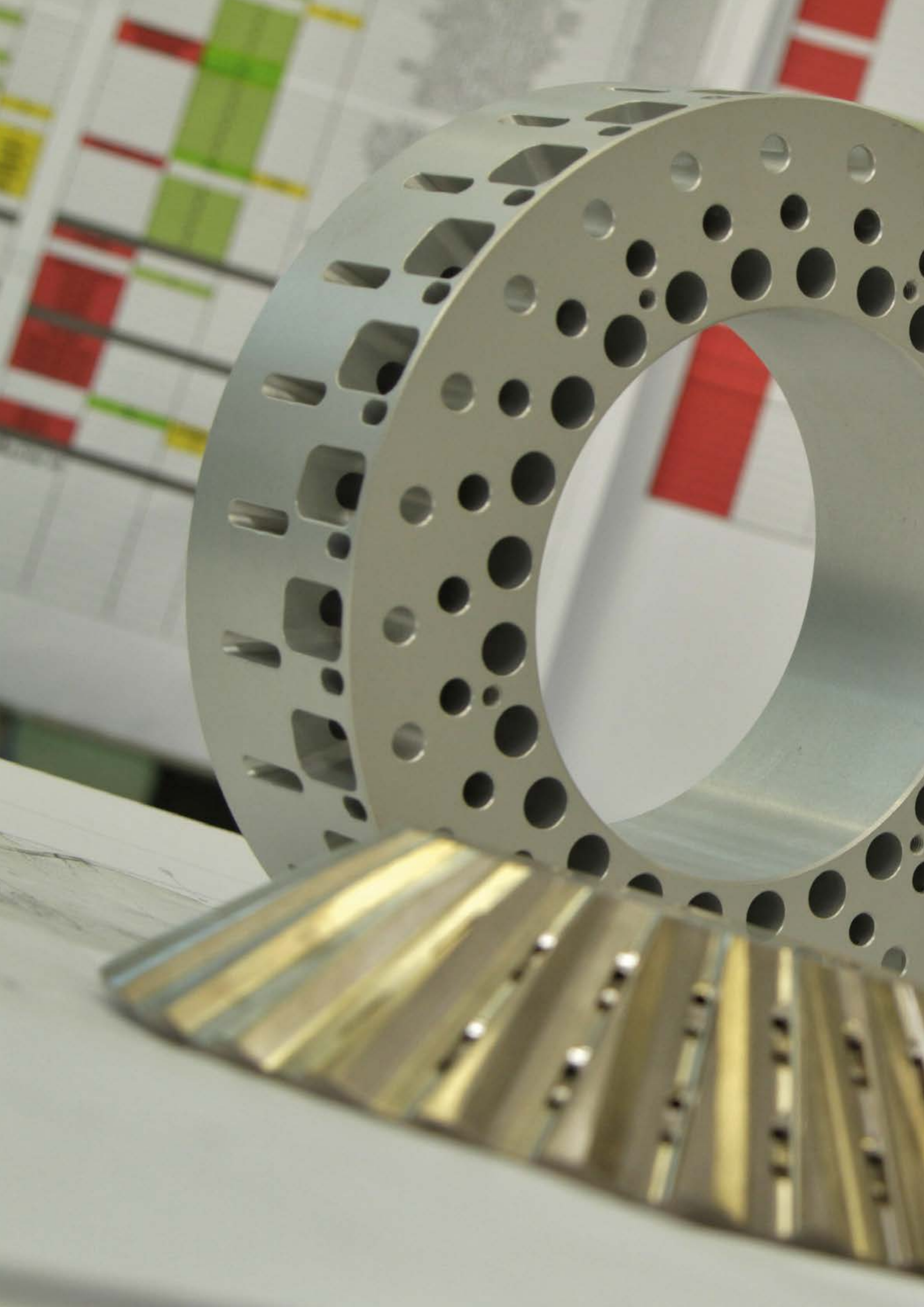
ANNEX II – SCHEDULE OF PROPERTY, PLANT AND EQUIPMENT AT 31 DECEMBER 2018

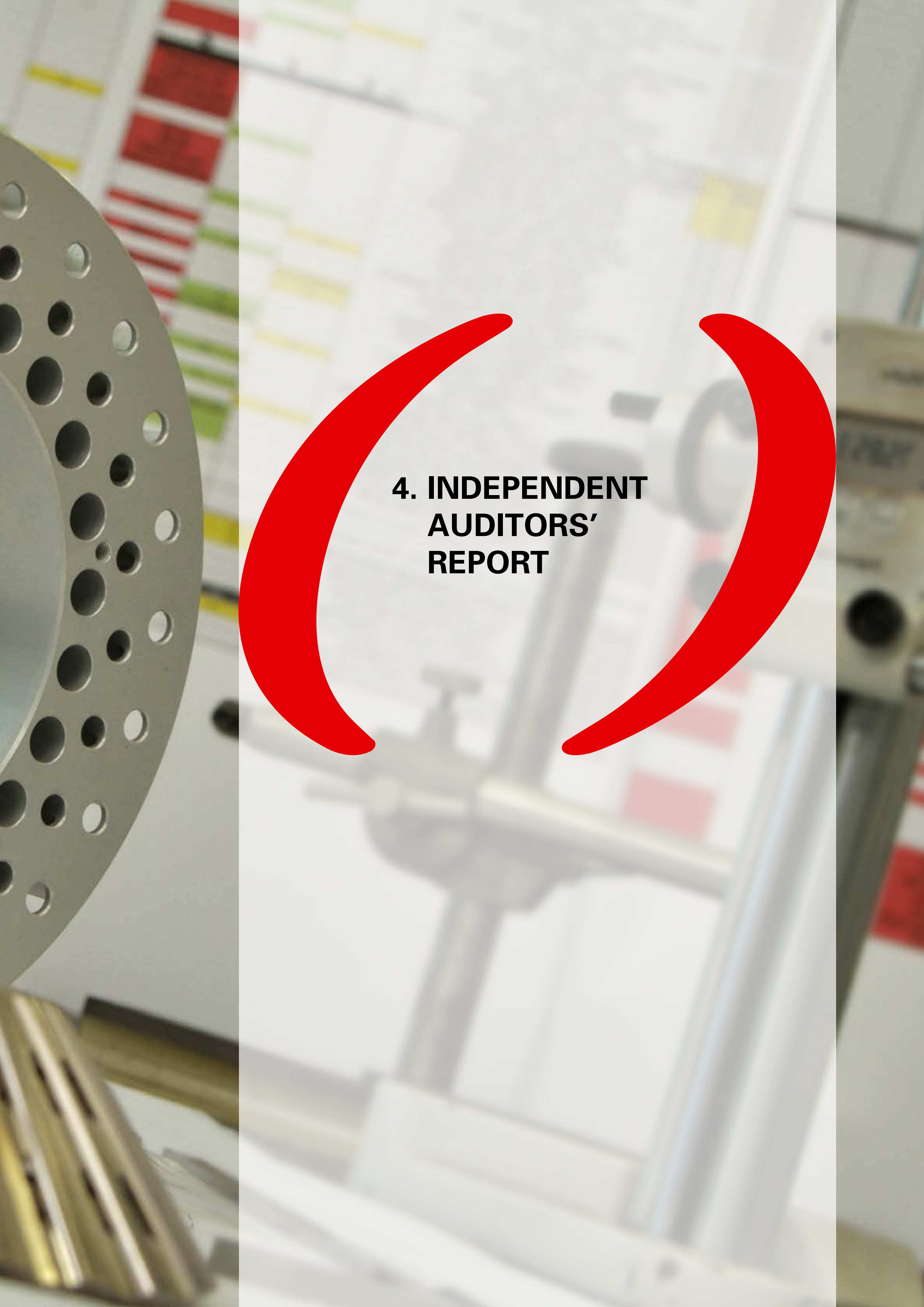
€/000

	31/12/2017			Changes							31/12/2018		
	Historical cost	Accumulated depreciation	Carrying amount at 31/12/2017	Changes in consolidation scope	Reclassific-ations	Exchange rate difference	Increase	Amortisation and impairment losses for the year	Historical cost	Accumulated depreciation	Historical cost	Accumulated depreciation	Carrying amount at 31/12/2018
Land	25,917	0	25,917	483	0	447	202	0			27,049	0	27,049
Buildings	225,315	(112,949)	112,366	3,962	(594)	325	7,381	(6,334)	(40)	28	236,349	(119,255)	117,094
Leasehold improvements	8,046	(5,933)	2,113	0	200	13	450	(948)	(77)	107	8,632	(6,774)	1,858
Plant and machinery	274,237	(230,727)	43,510	2,944	7,635	(40)	11,689	(8,168)	(3,662)	3,300	292,803	(235,595)	57,208
Industrial and commercial equipment	73,426	(61,372)	12,054	2,861	352	253	3,218	(4,689)	(1,123)	1,120	78,987	(64,941)	14,046
Other assets	66,849	(52,313)	14,536	1,187	373	264	3,356	(4,324)	(1,973)	1,891	70,056	(54,746)	15,310
Advances paid for the purchase of property, plant and equipment	10,153	0	10,153	0	(9,823)	(1)	45	0	(95)		279	0	279
Assets under construction	34,701	0	34,701	159	(482)	(13)	3,167	0	(1,039)		36,493	0	36,493
Total	718,644	(463,294)	255,350	11,596	(2,339)	1,248	29,508	(24,463)	(8,009)	6,446	750,648	(481,311)	269,337

ANNEX III - LIST OF CONSOLIDATED INVESTMENTS

COMPANY	REGISTERED OFFICE	SHARE/QUOTA CAPITAL	% OF OWNERSHIP	
			DIRECT	INDIRECT
Consolidated companies:				
ACMA S.p.A.	Bologna	€9,300,000	100.00%	
C.I.M.A. S.p.A.	Villanova (Bologna)	€4,810,000	100.00%	
Comesca S.r.l.	Scarperia (Florence)	€41,600		100.00%
G.D Automatic Machinery Ltd	Berkshire (UK)	GBP10,000		100.00%
G.D Automatic Packaging Equipment CJSC	Moscow (Russia)	RUB2,500,000		100.00%
G.D Automatische Verpackungsmachinen GmbH	Langenfeld (Germany)	€511,292		100.00%
G.D China Automatic Machinery Ltd	Hong Kong (China)	HKD10,000		100.00%
G.D Do Brasil Maquinas de Embalar Ltda	Sao Paulo (Brazil)	BRL123,094,569		100.00%
Sasib S.p.A.	Castel Maggiore (Bologna)	€1,746,870		100.00%
G.D Jidokikai K.K.	Tokyo (Japan)	JPY98,000,000		100.00%
G.D Machinery South East Asia Pte Ltd.	Singapore	SGD200,000		100.00%
G.D USA Inc.	Richmond (USA)	USD500,000		100.00%
G.D S.p.A.	Bologna	€4,000,000	100.00%	
G.D.M. S.p.A.	Bologna	€1,500,000	100.00%	
Nova Prefabbricati S.r.l.	Bologna	€15,000		100.00%
TOCECO Ltd	Hong Kong (China)	HKD10,000		100.00%
TOCECO International Trading Ltd	Shanghai (China)	HKD1,569,026		100.00%
Toceco China (Kunming) Trading Company Limited	Kunming (China)	USD400,000		100.00%
G.D Pars Limited Liability Company	Tehran (Iran)			100.00%
Volpak SA	Barcelona (Spain)	€9,900,000	100.00%	
PT G.D Indonesia	Indonesia	USD290,000		100.00%
Hapa AG	Volketswill (Switzerland)	CHF1,000,000	100.00%	
COESIA IPS CGM S de RL de CV	Mexico City (Mexico)	MXN322,500	100.00%	
GD Teknik Hizmetler ve Ticaret Ltd Sirketi	Izmir (Turkey)	TRY83,500,000		100.00%
G.D TECH.CENTER MIDDLEEAST FZE FZE	Sarjah (UAE)	AED2,000,000		100.00%
Coesia Middle East Dmcc	Dubai (UAE)	AED50,000		100.00%
Norden Machinery AB	Kalmar (Sweden)	SEK17,336,575	100.00%	
Norden UK Ltd	Milton Keynes (UK)	GBP15,000		100.00%
Franssons Maskinbearbetning I Kalmar AB	Kalmar (Sweden)	SEK200,000		100.00%
Citus Kalix Sas	Courcouronnes (France)	€7,193,040		100.00%
ADMV Sas	Cremieu (France)	€64,000		100.00%
Norden GmbH	Ostfildern (Germany)	€25,565		100.00%
Sirius Machinery Co Ltd	Suzhou (China)	CNY15,782,000		100.00%
Coesia Finance S.p.A.	Bologna	€120,000	100.00%	
Coesia India Pvt. Ltd	Maharashtra (India)	INR5,414,850		100.00%
4S Engineering S.r.l.	Bologna	€20,000	100.00%	
FlexLink Holding AB	Gothenburg (Sweden)	SEK3,285,000	100.00%	
R.A Jones & co.	Davenport / Covington (USA)	USD10	100.00%	
Flexlink AB	Gothenburg (Sweden)	SEK1,000,000		100.00%
PT Flexlink Systems	Jakarta (Indonesia)	IDR928,000		100.00%
Flexlink Automation (Shanghai) Co. Ltd.	Shanghai (China)	CNY1,655.000		100.00%
Flexlink Systems Polska Sp Zoo	Poznan (Poland)	PLN480,000		100.00%
Flexlink Systems Russia Llc	St. Petersburg (Russia)	RUB1,000,000		100.00%
Flexlink Systems Sro	Prague (Czech Republic)	CZK1,500,000		100.00%
Flexlink Systems Espana Sl	Barcelona (Spain)	€123,000		100.00%
Flexlink Systems Pte Ltd.	Singapore	SGD1		100.00%
Flexlink Systems Ltda	Sao Paulo (Brazil)	BRL666,000		100.00%
Flexlink Systems Pty Ltd.	Mount Waverley (Australia)	AUD1		100.00%
Flexlink Engineering Sdn Bhd	Kuala Lumpur (Malaysia)	MYR500,000		100.00%
Flexlink Automation Sdn Bhd	Kuala Lumpur (Malaysia)	MYR300,000		100.00%
Flexlink Systems Inc.	Allentown (USA)	USD1,000		100.00%
Flexlink Systems Sas	Elancourt (France)	€80,000		100.00%
Flexlink Systems Canada Inc.	Burlington (Canada)	CAD1,200,000		100.00%
Flexlink Systems GmbH	Offenbach an Main (Germany)	€102,000		100.00%
Flexlink Systems Ltd.	Milton Keynes (UK)	GBP1,599,000		100.00%
Flexlink Systems Kft	Budapest (Hungary)	HUF10,000,000		100.00%
Flexlink Systems S.p.A.	Rivoli (Turin)	€306,000		100.00%
Flexlink Systems Bv.	Amsterdam (the Netherlands)	€23,000		100.00%
Flexlink Systems Nv.	Heverlee (Belgium)	€62,000		100.00%
Intramotion LLC	Lviv (Ukraine)	UAH471,000		100.00%
Flexlink Software Engineering GmbH	Offenbach an Main (Germany)	€25,000		100.00%
FlexLink Switzerland GmbH	Wollerau (Svizzera)	CHF1,020,000		100.00%
G.D South Africa Technical Centre (PTY) Ltd	Johannesburg (South Africa)	ZAR100		100.00%
Coesia Korea Co. Ltd	Seoul (South Korea)	WON50,000		100.00%
IPI S.r.l.	Perugia	€13,000,000	100.00%	
IPI Asia Pacific	Bangkok (Thailand)	THB 4,000,000		49.00%
IPI Ucraine LTD	Kiev (Ukraine)	UAH100,017		100.00%
IPI ASIA Asep.PacK.Sys.Sdn.Bhd	Malaysia	MYR23,000,000		100.00%
IPI Paketleme San. Ve. Tic. LTD	Istanbul (Turkey)	TRY679,600		100.00%
SCJ Acma Russia	Moscow (Russia)	RUB10,000		100.00%
Emmeci S.p.A.	Cerreto Guidi (Florence)	€4,000,000	100.00%	
Emmeci Europe Sarl	Noisielle (France)	€630,000		100.00%
Emmeci USA LLC	East Providence, RI (USA)	USD9,000		100.00%
G.F. S.p.A.	Rubbiamo (Parma)	€3,000,000		100.00%
Mprd Ltd UK	Milton Keynes (UK)	GBP5,000,000		100.00%
Molins Do Brasil Maquinas Automaticas Ltda	Curitiba (Brazil)	BRL26,000,000		100.00%
Molins Far East Pte Ltd	Singapore	GBP91,000		100.00%
Molins S.R.O.	Plzen (Czech Republic)	CZK20,000		100.00%
Cerulean GmbH	Hamburg (Germany)	€26,000		100.00%
Cerulean Shangai Company Ltd	Shanghai (China)	CNY2,307,000		100.00%
MGS Machine Corporation	Minneapolis, MN (USA)	USD334		100.00%
Comas S.p.A.	Silea (TV)	€1,096,000		70.00%
Pebo S.r.l.	Silea (TV)	€40,000		70.00%
Comas Latino America Ltda.	Santa Cruz do Sul (Brazil)	BRL1,015,000		63.00%
AZ COESIA GmbH	Hemmingem (Germany)	€5,025,000	100.00%	
Tritron GmbH	Battenberg (Germany)	€200,000		51.00%
Tritron Usa Inc.	Chester VA, (USA)	USD1		51.00%
Coesia Ventures S.r.l.	Bologna	€10,000	100.00%	
Companies measured using the equity method:				
XPack S.r.l.	Castel Maggiore (Bologna)	€100,000	49.00%	
Errelle S.r.l.	Sala Bolognese (BO)	€15,000		30.00%
Companies measured at cost				
Lesina Autonoleggi S.r.l.	Bologna	€15,000		99.00%
Fare Impresa in Dozza S.r.l. - Impresa sociale	Bologna	€20,000		30.00%
Comas Machinery India Private Limited	India	INR500,000		90.00%





4. INDEPENDENT AUDITORS' REPORT

KPMG

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(Translation from the Italian original which remains the definitive version)

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010

To the shareholders of
Coesia S.p.A.

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of the Coesia Group (the "group"), which comprise the statement of financial position as at 31 December 2018, the income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Coesia Group as at 31 December 2018 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union.

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 "*Auditors' responsibilities for the audit of the consolidated financial statements*" section of our report. We are independent of Coesia S.p.A. (the "parent") in accordance with the ethics and independence rules and standards applicable in Italy to audits of 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 parent's directors and board of statutory auditors ("Collegio Sindacale") for the consolidated financial statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the group's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the consolidated financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the parent or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, the group's financial reporting process.

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 ISA Italia, we exercise professional judgement and maintain professional scepticism 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 the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' 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 the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10

The parent's directors are responsible for the preparation of the group's directors' report at 31 December 2018 and for the consistency of such report with the related consolidated financial statements and its compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report with the group's consolidated financial statements at 31 December 2018 and its compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report is consistent with the group's consolidated financial statements at 31 December 2018 and has been prepared in compliance with the applicable law.

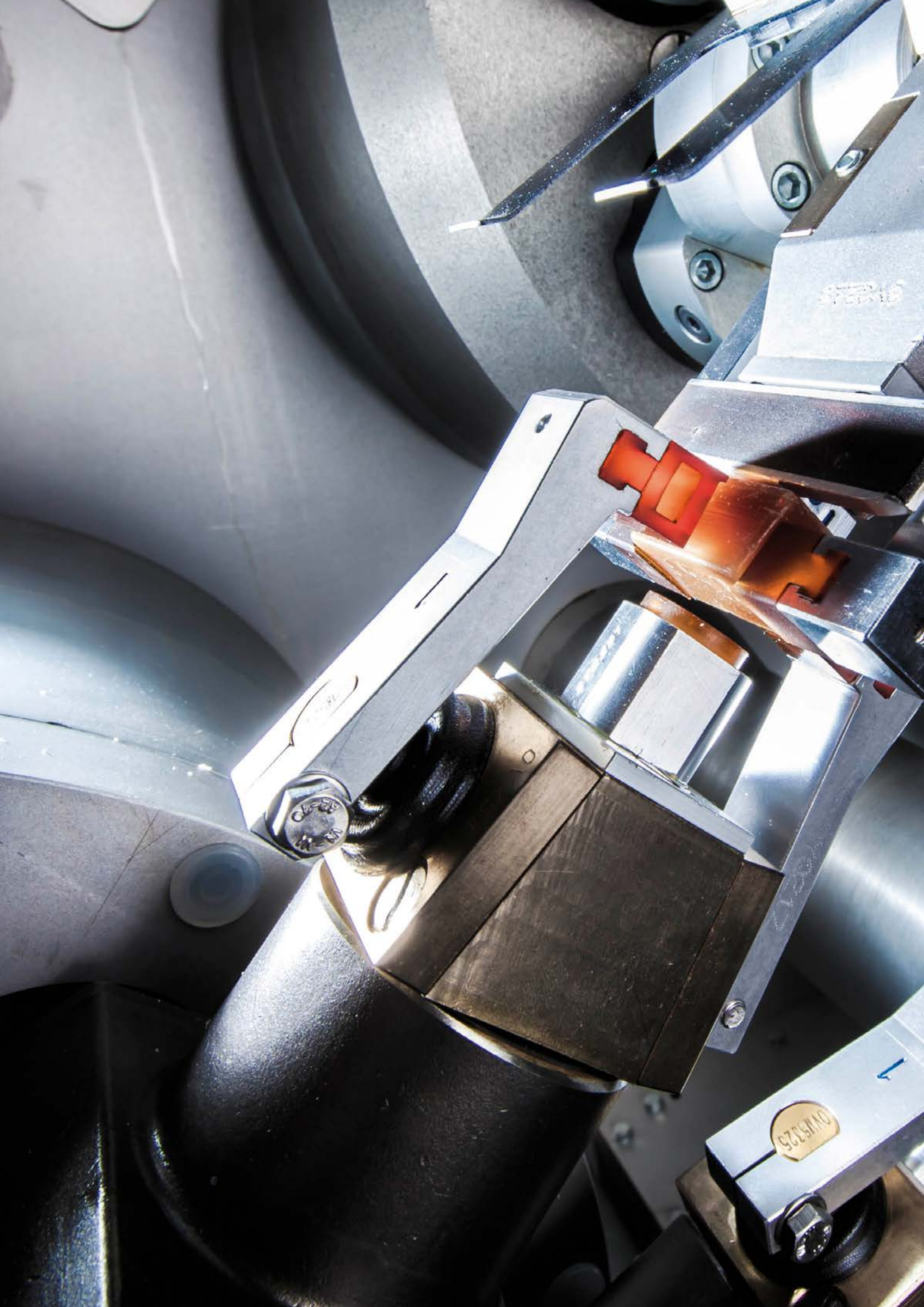
With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

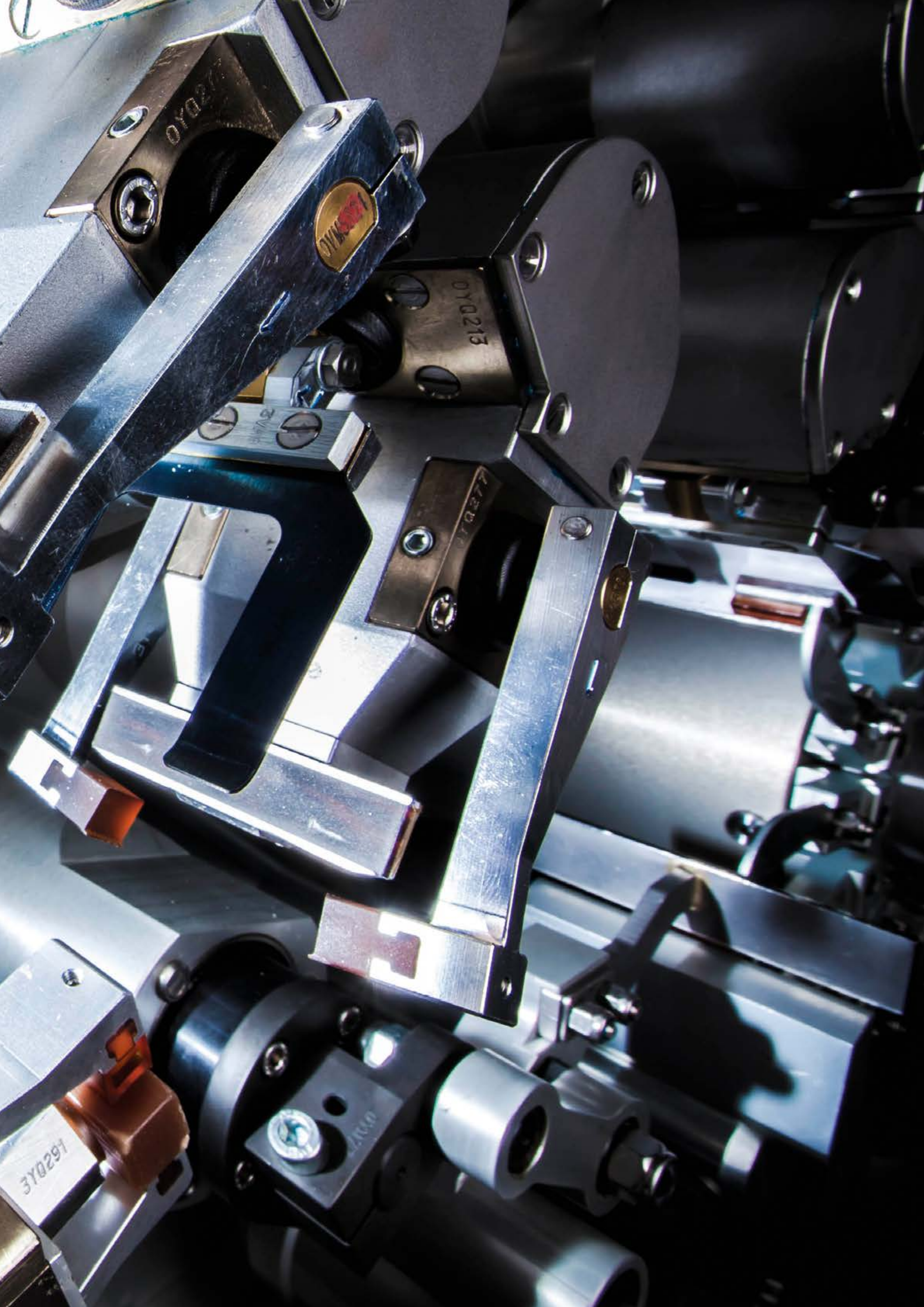
Bologna, 18 April 2019

KPMG S.p.A.

(signed on the original)

Rodolfo Curti
Director of Audit

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