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1969
2019

50 years of electrical connections

2018 ANNUAL FINANCIAL REPORT

Cembre S.p.A.

Head Office: Via Serenissima 9, Brescia, Italy

Share Capital: EUR 8,840,000 (fully paid-up).

Registration no: 00541390175 (Commercial Register of Brescia)

This document contains translations of the draft statutory annual financial statements and consolidated annual financial statements prepared in the Italian language for the purpose of the Italian law and of CONSOB regulations (CONSOB is the public authority responsible for regulating the Italian securities market)

CONTENTS

REPORT ON OPERATIONS FOR THE 2018 FINANCIAL YEAR

Report on Operations for the 2018 Financial Year	1
Attachment 1: Comparative Consolidated Income Statement	21
Attachment 2: Corporate Boards	22

CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2018

Consolidated Financial Statements at December 31, 2018

Consolidated Statement of Financial Position	24
Consolidated Statement of Comprehensive Income	25
Consolidated Statement of Cash Flows	26
Statement of Changes in the Consolidated Shareholders' Equity	27
Notes to the Consolidated Financial Statements	28

Certification pursuant to article 81-ter of Legislative Decree 58/98	70
---	-----------

Auditing Report on the Consolidated Financial Statements	71
---	-----------

Report of the Board of Statutory Auditors on the Consolidated Financial Statements	76
---	-----------

CEMBRE S.P.A.'S FINANCIAL STATEMENTS AT DECEMBER 31, 2018

Cembre S.p.A.'s Financial Statements at December 31, 2018

Statement of Financial Position	79
Statement of Comprehensive Income	80
Statement of Cash Flows	81
Statement of Changes in the Shareholders' Equity	82
Notes to the Financial Statements	83
Attachment 1: Comparative Income Statement	120
Attachment 2: Summary financial data of consolidated subsidiaries	121
Attachment 3: Compensation for auditing services and other services	122

Certification pursuant to article 154-bis of Legislative Decree 58/98	123
--	------------

Auditing Report on Cembre S.p.A.'s Financial Statements	124
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Report of the Board of Statutory Auditors on Cembre S.p.A.'s Financial Statements	128
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Report on Operations for the 2018 Financial Year

Operating Review

The Cembre Group closed 2018 reporting an 8.6% increase in turnover, with consolidated sales reaching €144.1 million.

On May 3, 2018, effective May 1, 2018, German subsidiary Cembre GmbH completed the acquisition of two companies based in Weinstadt, near Stuttgart: IKUMA GmbH & Co. KG (hereinafter IKUMA KG), company operating in the sale of electrical materials, and IKUMA Verwaltungs GmbH, non-operational company with the sole function of administration and management of IKUMA KG.

Starting from the acquisition date, the two companies formed part of the scope of consolidation of the Cembre Group; therefore, the results for the year also include the figures of these companies.

Performance of consolidated sales by geographical areas shows 6.2% growth in the Italian market, with sales of €59.0 million. Sales in the rest of Europe grew by 15.3% on the previous year to €62.6 million, while sales in the rest of the world were down by 1.4%, reaching €22.4 million. In 2018 sales to the Italian market represented 41.0% of the total (41.9% in 2017), sales to the rest of Europe 43.5% (41% in 2017) and sales in the rest of the world represented 15.5% of total sales (17.1% in 2017).

Sales by geographical area

(Euro '000)	2018	2017	Change	2016	2015	2014	2013	2012	2011	2010
Italy	59,023	55,576	6.2%	49,029	48,564	44,100	39,252	41,096	44,834	41,450
Rest of Europe	62,649	54,319	15.3%	51,516	52,210	51,204	47,980	46,837	43,857	40,284
Rest of the World	22,424	22,742	-1.4%	22,060	20,603	17,601	17,315	15,966	14,337	12,200
TOTAL	144,096	132,637	8.6%	122,605	121,377	112,905	104,547	103,899	103,028	93,934

Sales by IKUMA KG in the relevant period (from 05.01.2018 to 12.31.2018) amounted to €5.2 million; without this contribution, the increase in consolidated sales would have been equal to 4.6%.

During the course of the year, Italian company Cembre S.p.A. and its foreign subsidiaries registered an increase in turnover measured in Euro, with the exception of German subsidiary Cembre GmbH, undergoing an organization restructuring.

Overall, the contribution of foreign subsidiaries to group turnover increased from €57.7 million in 2017 to €66.1 million in 2018, up 14.7%. Excluding IKUMA KG, the contribution by subsidiaries would have been €60.9 million, up 5.6%.

Revenues by Group company (net of intragroup sales)

(Euro '000)	2018	2017	Change	2016	2015	2014	2013	2012	2011	2010
Parent Company	77,955	74,966	4.0%	67,134	65,725	58,554	53,814	54,861	58,834	54,279
Cembre Ltd. (UK)	18,336	17,468	5.0%	18,143	19,710	20,577	19,390	17,535	13,920	11,845
Cembre S.a.r.l. (F)	10,089	9,502	6.2%	8,976	8,677	8,354	7,763	7,615	7,606	6,407
Cembre España S.L.U. (E)	10,853	9,549	13.7%	7,979	8,200	7,016	6,139	6,363	7,151	8,309
Cembre GmbH (D)	7,745	8,217	-5.7%	7,866	7,775	7,558	7,238	8,201	7,815	6,368
Cembre AS (NOR) <i>Liquidated in 2016</i>	n.a.	n.a.	n.a.	23	1,080	960	791	985	859	1,014
Cembre Inc. (USA)	13,876	12,935	7.3%	12,484	10,210	9,886	9,412	8,339	6,843	5,712
IKUMA KG (D)	5,242	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL	144,096	132,637	8.6%	122,605	121,377	112,905	104,547	103,899	103,028	93,934

Revenues from sales and services of the various companies prior to consolidation are outlined below:

	Sales									
(Euro '000)	2018	2017	Change	2016	2015	2014	2013	2012	2011	2010
Cembre S.p.A.	109,068	103,476	5.4%	94,650	92,616	84,903	78,100	79,487	80,777	72,986
Cembre Ltd. (UK)	20,937	18,916	10.7%	19,633	21,130	22,271	20,914	19,193	16,093	13,356
Cembre S.a.r.l. (F)	10,107	9,509	6.3%	9,006	8,680	8,423	7,815	7,623	7,634	6,413
Cembre España S.L.U. (E)	10,860	9,554	13.7%	7,980	8,216	7,019	6,145	6,727	7,155	8,309
Cembre GmbH (D)	7,947	8,328	-4.6%	7,960	7,889	7,685	7,388	8,235	7,981	6,390
Cembre AS (NOR) <i>Liquidated in 2016</i>	n.a.	n.a.	n.a.	198	1,080	960	798	1,004	893	1,014
Cembre Inc. (USA)	13,898	12,962	7.2%	12,645	10,675	10,052	9,456	8,389	6,856	5,744
IKUMA KG (D)	5,242	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

In 2018, Group companies reported the following results:

	Net profit									
(Euro '000)	2018	2017	Change	2016	2015	2014	2013	2012	2011	2010
Cembre S.p.A.	21,257	24,444	-13.0%	15,932	14,438	12,202	8,676	9,918	10,226	9,870
Cembre Ltd. (UK)	1,926	3,743	-48.5%	1,896	2,346	2,603	2,308	1,794	1,266	883
Cembre S.a.r.l. (F)	545	169	222.5%	160	277	194	171	113	100	63
Cembre España S.L.U. (E)	585	740	-20.9%	(9)	414	305	230	(67)	(120)	273
Cembre GmbH (D)	239	508	-53.0%	398	491	303	289	664	621	364

Cembre AS (NOR) <i>Liquidated in 2016</i>	n.a.	n.a.	n.a.	(130)	21	69	11	76	22	157
Cembre Inc. (USA)	1,063	863	23.2%	655	357	561	804	494	320	224
IKUMA KG (D)	634	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

With regard to the net profit of Cembre S.p.A., note that the Company recorded an extraordinary tax benefit in 2017 of €2,279 thousand, following application of the Patent Box regime to prior years (2015 and 2016); the same tax benefit amounts to €1,810 thousand in 2018 and €1,623 thousand for 2017.

Moreover, in 2017, Cembre S.p.A. collected dividends from its subsidiaries for a total of €5,315 thousand, higher than those received in 2018, equal to €2,683 thousand.

The strong increase in net profit of the UK subsidiary is due to the £1,928 thousand (€2,231 thousand) capital gain in 2017 on the sale to the parent company of shares held by the UK Company in other Group subsidiaries, aimed at simplifying the Group's ownership structure.

For a more direct evaluation of the effect of foreign exchange translations, we include below sales figures of Group companies operating outside the Euro area in the respective currency.

	Currency	Sales									
(Euro '000)		2018	2017	Change	2016	2015	2014	2013	2012	2011	2010
Cembre Ltd. (UK)	Gbp	18,523	16,583	11.7%	16,089	15,337	17,953	17,761	15,563	13,967	11,457
Cembre Inc.	US\$	16,412	14,643	12.1%	13,996	11,844	13,354	12,559	10,778	9,543	7,615

	Currency	Net profit									
(Euro '000)		2018	2017	Change	2016	2015	2014	2013	2012	2011	2010
Cembre Ltd. (UK)	Gbp	1,704	3,281	-48.1%	1,554	1,703	2,098	1,960	1,455	1,098	758
Cembre Inc. (USA)	US\$	1,256	975	28.8%	725	396	746	1,067	635	446	297

To provide a better understanding of the Company's financial performance for 2018, a Reclassified Consolidated Income Statement for the year ended December 31, 2017 showing percentage changes is enclosed as Attachment 1.

Gross operating profit for 2018 amounted to €35,650 thousand, representing a 24.7% margin on sales, up 6.6% on 2017 when it amounted to €33,434 thousand, representing a 25.2% margin on sales. The incidence of cost of sales decreased compared to 2017, from

33.1% to 32.6%, while the weight of services costs rose slightly, from 13.1% to 13.5%. On the other hand, the incidence of personnel costs decreased from 28.1% to 27.8%, despite the average workforce having grown from 689 units in 2017 (including 39 temporary workers) to 747 units in 2018 (including 58 temporary workers and 18 employees of IKUMA KG).

Consolidated operating profit for the period amounted to €28,496 thousand, representing a 19.8% margin on sales, up 5.4% on €27,036 thousand in 2017, when it represented a 20.4% margin on sales.

Consolidated profit before taxes amounted to €28,365 thousand, representing a 19.7% margin on sales, up 6.7% on €26,575 thousand in 2017, when it represented a 20.0% margin on sales.

Consolidated net profit for the year amounted to €22,736 thousand, representing a 15.8% margin on sales, stable compared to 2017, when it amounted to €22,727 thousand and represented a 17.1% margin on sales.

On December 22, 2017, Cembre S.p.A. had reached an agreement with Agenzia delle Entrate (the Italian Revenue Service) on the application of the Patent Box Regime, as a result of which a total tax benefit of €3,902 thousand had been recorded for the 2015, 2016 and 2017 financial years, while for 2018, €1,810 thousand was recorded.

By eliminating the effect of the tax benefit related to the application of the Patent Box regime, the consolidated net result would have been equal to €20,926 thousand, corresponding to 14.5% of sales and would have increased by 11.2% compared to the net result for the previous year, which, after adjusting for the same tax benefit, would have amounted to €18,825 thousand.

In 2018, non-recurring costs related to the acquisition of IKUMA were incurred for €411 thousand; in 2017, similar costs were incurred for €52 thousand and non-recurring revenues of €502 thousand were realized, deriving from the sale of the property former office of Cembre Espana SLU. Eliminating the impact of these components, the following profit margins are obtained:

	2018	%	2017	%	Change
Revenues from sales and services	144,096	100.0%	132,637	100.0%	8.6%
Gross Operating Result	36,061	25.0%	32,984	24.9%	9.3%
Operating Result	28,907	20.1%	26,586	20.0%	8.7%
Pre-tax result	28,776	20.0%	26,125	19.7%	10.1%

The consolidated net financial position went from a surplus of €20.2 million at December 31, 2017 to a surplus of €7.5 million at December 31, 2018. In this regard, it is noted that the acquisition of IKUMA involved an outlay of €8.6 million and that, in 2018, dividends were paid for €13.4 million, higher than those paid in 2017 of €11.8 million.

See the notes and the statement of cash flows for further detail.

Capital expenditure

Capital expenditure by the Group in 2018 with regard to fixed assets, growth of amortization and depreciation, is broken down as follows:

	2018	2017	Change
Capital expenditure on intangible assets	3,151	1,101	2,050
Capital expenditure on property, plant and equipment	17,775	11,732	6,043
TOTAL	20,926	12,833	8,093

Note that the increase in intangible assets includes the value of the customer list from acquisition of IKUMA KG equal to €2.0 million and the value of the IKUMA KG trademark, equal to €0.5 million.

In addition to the foregoing, with regard to investments, it is noted that Goodwill of €4.6 million was recorded as assets for the acquisition of IKUMA KG.

More detail is provided in the notes under Property, plant and equipment.

Results of the Parent Company

Results of the Parent Company for 2018 and 2017 are shown in the table below.

(Euro '000)	2018	%	2017	%	Change
Revenues from sales and services	109,068	100	103,476	100	5.4%
Gross operating profit	29,411	27.0	26,859	26.0	9.5%
Operating profit	23,221	21.3	21,248	20.5	9.3%
Pre-tax profit	25,897	23.7	26,600	25.7	(2.6%)
Net profit	21,257	19.5	24,444	23.6	(13.0%)

As indicated above, the 2017 net result for Cembre S.p.A. had benefited from a positive tax component of €3,209 thousand, deriving from the application of the Patent Box regime for 2015, 2016 and 2017, while this benefit in 2018 was €1,810 thousand. Net of said tax benefit, net profit for 2018 would have amounted to €19,447 thousand, representing a 17.8% margin on sales and an 8.4% decrease on 2017, net of the same benefit. In 2018, Cembre S.p.A. received €2,683 thousand in dividends from its subsidiaries as compared with €5,315 thousand in the previous year.

Revenues from sales and services of Cembre S.p.A. grew by 5.4% from €103,476 thousand in 2017 to €109,068 thousand in 2018. Domestic sales grew by 6.2%, sales to other European countries posted a 6.7% increase and sales in the rest of the World increased by 0.1%.

Area (Euro '000)	2018	2017	Change
Italy	59,023	55,576	6.2%
Rest of Europe	33,762	31,641	6.7%
Rest of the World	16,283	16,259	0.1%
Total	109,068	103,476	5.4%

Definition of alternative performance indicators

In compliance with CONSOB Communication DEM/6064293 dated July 28, 2007, below we define alternative performance indicators used in the present document to illustrate the financial and operating performance of the Group.

Gross Operating Result (EBITDA): defined as the difference between sales revenues and costs for materials, of services received, and the net balance of operating income and charges. It represents the profit before depreciation, amortization and write-downs, financial flows and taxes.

Operating Result (EBIT): defined as the difference between the Gross Operating Result and the value of amortization/impairment. It represents the profit achieved before financial activities and taxes.

Net Financial Position: represents the algebraic sum of cash and cash equivalents, financial receivables and current and non-current financial debt.

Reclassified Consolidated Statement of Financial Position

	(Euro '000)	12/31/2018	12/31/2017
	Trade receivables, net	25,626	26,520
	Inventories	50,619	41,673
	Other non-financial assets	3,877	4,764
	Trade payables	(14,863)	(14,581)
	Other non-financial liabilities	(9,953)	(7,794)
A)	Net current assets (working capital)	55,306	50,582
	Property, plant and equipment and investment property	84,365	73,208
	Intangible assets	4,257	1,867
	Goodwill	4,608	-
	Deferred tax assets	2,767	2,294
	Other non-current assets	52	51
B)	Net fixed assets	96,049	77,420
C)	Non-current assets available for sale	-	-
D)	Employee termination indemnity	2,557	2,664
E)	Provisions for risks and charges	606	448
F)	Deferred tax liabilities	2,846	2,047
G)	Net capital employed (A+B+C-D-E-F)	145,346	122,843
	Sources of funds:		
H)	Shareholders' Equity	152,877	143,075
	Long-term financial payables	1,000	-
	Cash and short-term financial receivables	(17,198)	(20,232)
	Short-term financial payables	8,667	-
I)	Net debt/(surplus)	(7,531)	(20,232)
J)	Total sources of funds (H+I)	145,346	122,843

Shareholders' Equity

Consolidation adjustments determined the following differences between the Financial Statements of the Parent Company Cembre S.p.A. at December 31, 2018 and the consolidated accounts at the same date:

(Euro '000)	Shareholders' equity	Net Profit
Parent Company's financial statements	131,061	21,257
Book value of consolidated companies	26,058	4,993
Elimination of intra-group profits included in the value of inventories (*)	(3,940)	(468)
Cembre GmbH product warranty provision reversal (*)	23	-
Dividends from subsidiaries	-	(2,735)
Netting of intragroup capital gains	(11)	2
Amortization of customer list and IKUMA trademark (*)	(115)	(115)
Consumption surplus IKUMA warehouse (*)	(198)	(198)
Consolidated Financial Statements	152,878	22,736

(*) Net of the related tax effect

Main risks and uncertainties

Risks connected to the economic situation

The economic and financial situation of the Group is influenced by macroeconomic factors such as changes in the Gross Domestic Product, consumer and business confidence, changes in interest rates and the cost of raw materials.

Expansion of global economic growth in 2018 continued, but the first signs of weakening growth were observed in the final months of the year.

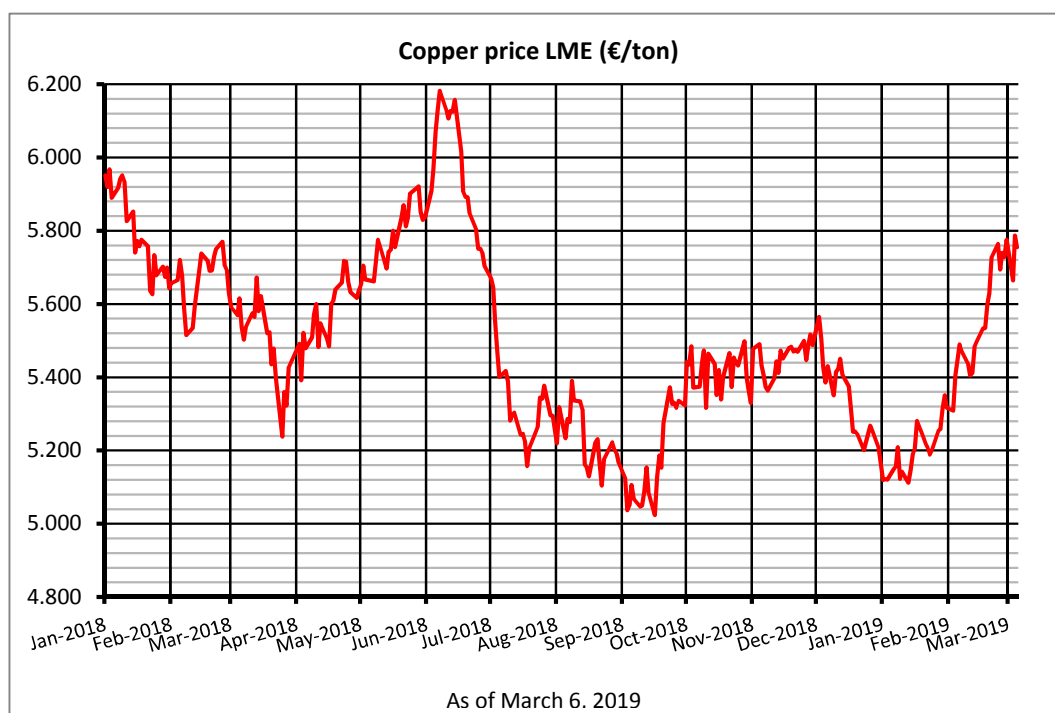
Industrial production declined significantly in the Euro zone in the last quarter, along with inflation, albeit still positive, due to the decline in energy prices.

In the last quarter, the Italian economy confirmed the slowdown recorded after the summer months. Contributing to this decline was weakening internal demand, particularly for investments, following the political uncertainty and trade tensions. Despite an increase in hours worked, employment did not grow. After the tensions in November, the agreement reached with the European Commission on the budgetary plans brought in the spread on government bonds, even though the high level of interest rates is driving up the cost of credit.

Mention also goes to the uncertainty with regard to the economic prospects within the entire EU, particularly following the slowdown in the German economy.

With regard to the United Kingdom's exit from the EU (Brexit), the economic impact on the activities of the Cembre Group is not expected to be significant.

Copper continues to represent the main raw material used in Cembre Group's production process and the price of the commodity is thus constantly monitored.



In 2018, after reaching a peak before the summer, followed by a significant drop to the lows of September, copper was at around €5,400/ton. At the beginning of March, the value hovers around €5,700/ton, after falling to around €5,100/ton in late December 2018.

Thanks to its strong financial position, good competitive hedge and wide international presence, the Cembre Group is confident about the future and feels it is in a position to take advantage of opportunities that may arise and to react to possible changes in the economic scenario that may develop in the next months.

Risks connected with the market

The Group protects its market position by pursuing ongoing innovation, the widening of the product range, the launch of lower cost products and by introducing into production processes the most advanced methods and machinery, while implementing focused marketing policies with the help of its foreign subsidiaries.

Credit risk

Cembre and its subsidiaries focused over time on a careful selection of customers, managing prudently sales to those that do not possess an adequate credit standing. The Group has accrued a provision for doubtful accounts and the management doubtful accounts, constantly monitoring overdues and soliciting payment when terms have expired. To further reduce this type of risk, Cembre S.p.A. stipulated a policy with a primary insurance company against commercial credit losses.

Exposure to credit risk relates exclusively to trade receivables.

Liquidity risk

Thanks to its solid financial position, the Group is not currently subject to particular liquidity risk, even in case the cash flow generated by operations should decline drastically.

Interest rate risk

In April 2018, Parent Company Cembre S.p.A. took out two loans with Banca Intesa, respectively for 10 million, with expiry in October 2019, at a fixed rate of 0.04%, and 4 million, with expiry in April 2020, at a fixed rate of 0.05%. The nature of the rate applied and the relatively short-term maturity protect the Group from any interest rate risk.

Currency risk

Despite its strong international presence, the Group does not have a significant exposure to currency risk, as it operates almost entirely in the Euro area, the currency in which its trade transactions are mainly denominated. Exposure to currency risk is basically limited to sales in US dollars and British pounds, but the size of these transactions is not significant in influencing the overall performance of the Group or its financial position.

Integrity and reputation risk

Possible illicit behavior of employees, aimed at obtaining benefits for themselves and for the Group, can imply the risk of a loss of reputation and of sanctions against the Group. To prevent the risk of these occurrences and in line with Legislative Decree 231/2001, the Company adopted an organizational, management and control model that identifies

processes that are subject to risk and establishes the conduct that the various persons involved are to keep in carrying out their tasks. The model was illustrated to employees through specific training sessions. The Parent Company constantly integrates and upgrades the model.

Further information on main risks and uncertainties is contained in the notes.

Environmental management

Cembre S.p.A. has deemed and recognized as a fundamental step in its development the creation of a harmonized Environmental Management System according to the spirit and the letter of the UNI EN ISO 14001 standard.

To this end, a demanding project had been undertaken that involved all the functions and all the company processes: from the engineering and design phase, to the choice of materials and processes used, to the careful and conscious management of the production phases.

The project was extended to subsidiary Cembre Ltd. (UK), representing the second production site of the Cembre Group; thus the certification of the Environmental Management System according to the ISO 14001:2015 standard now extends to both Cembre S.p.A. and Cembre Ltd.

The certification of the Environmental Management System of the Group's production sites allows us to ensure the application of common, shared and environmentally friendly behavioral guidelines.

Through the implementation of operating procedures strictly in line with regulations regarding environmental protection and the application of principles for sustainable development Cembre can:

- create opportunities to protect the environment by preventing or mitigating environmental impacts,
- fulfill its compliance obligations,
- improve environmental performance,

- design and manufacture products using materials and processes that ensure the protection of the environment throughout the life of the product, from manufacturing to disposal.

Worker safety management

In 2012 Cembre S.p.A. obtained the certification of its worker health and safety management system according to the OHSAS 18001:2007 standard .

Ratios

To provide a better understanding of results of the Group, we provide below the value of some ratios commonly used in financial statement analysis.

Financial ratios

		12/31/2018	12/31/2017
ROE	Return on Equity	0.15	0.16
ROS	Return on Sales	0.20	0.20
ROI	Return on Investment	0.15	0.16

ROE (Return on Equity): is the ratio between net profit and Shareholders' Equity. It is an index of the profitability of capital invested, used to compare the investment in the company with investments of a different nature on a yield basis.

ROS (Return on Sales): is calculated as the ratio between operating profit and net revenues. It indicates profitability as a proportion of revenues, or the ability to generate profit from the purchase-manufacturing-resale cycle.

ROI (Return on Investment): is the ratio between capital employed (total assets net of investments in non-operating assets, which for the Cembre Group do not exist). It indicates the ability of the company to generate profits through operating activities.

Liquidity ratios

		12/31/2018	12/31/2017
CR	Current Ratio	2.91	4.17
LR	Liquidity Ratio	1.39	2.30

DI: it is computed by dividing current assets by current liabilities. It indicates the ability of the company to face current liabilities with current assets. A value above 2 signals an optimal situation.

LS: it is computed by dividing the sum of current and deferred liquidity by current liabilities, and is used to assess the firm's ability to pay off current liabilities. A value above 1 signals an ideal liquidity position.

Debt management ratios

		12/31/2018	12/31/2017
CI	Equity to fixed assets ratio	1.64	1.91
LEV	Leverage (Gearing)	1.27	1.19
IN	Debt ratio	21.5%	16.1%

CI: it is computed by dividing Shareholders' Equity by Fixed Assets and it indicates the ability of the company's equity to cover its investment needs. A value above 1 signals an optimal situation.

LEV (Leverage): it is computed by dividing capital employed by the Shareholders' Equity and it represents the degree of debt of the company. The higher the ratio, the higher the riskiness of the company.

A value between 1 and 2 represents equilibrium in the sources of funds.

IN: it is computed by dividing the sum of current and non-current liabilities by capital employed and it indicates the percentage share of funds provided by third parties in financing the company. A value below 50% indicates an adequate financial structure.

Research & Development

The total cost of activities carried out by Cembre S.p.A. for in-house research and the development of new products amounted in 2018 to €550 thousand, of which €366 thousand relating to research activities, expensed in the year, and €184 thousand to development, capitalized under intangible assets.

Costs relating to prototypes, consulting and design amounted to €73 thousand.

During the course of the year, 5 industrial patent applications were filed, and one for design.

Below we include an overview of projects carried out in the year.

Cable terminals

A total of 20 requests for new products were approached. Each study involved both new connectors and machinery for their manufacturing.

Work on the widening of the range of mechanical locking connectors continued. In particular, a new breaking screw was developed which, after passing the laboratory tests, equipped the new mechanical joints, which are still being tested on the electrical benches.

Development of a rail connector specific for the New York City Transit Authority (New York Subway) was completed. This project involved, in addition to the contact, the extrusion system of the same, creating a tool that better meets the specific needs of customers.

Railroad equipment

A new battery-run drill for drilling patented wooden sleepers has been designed and put into production and will be launched on the market in 2019. The product uses the same 36V battery as the rail drilling machine, extending the range of tools that use the same accumulator platform. The machine's performance is comparable to the current version with endothermic engine, without all of the environmental and operator safety limitations typical of internal combustion machines. The machine is equipped with a display and informs the operator of various parameters, including the working hours performed and any operating errors.

The production of a family of drills for drilling wooden sleepers was launched; these items are entirely made in the production departments of Cembre S.p.A. and required capital expenditure in dedicated machinery and equipment. The project involves completing the range by completely replacing external suppliers.

A prototype for a new battery-run hydraulic utensil for the fastening of clips used to fasten rails to sleepers was developed and manufactured. The subject attachment was

developed by the University of Moscow for the Russian railways. Following testing by installation personnel, a number of construction modifications were defined, to be assessed by operators.

Tools

Three new cutting jaws have been designed for the new bi-linear utensil dedicated to the US market. The three jaws considerably widen the cutting range compared to previous models and differ from each other with respect to the type of conductor on which they operate.

In order to facilitate use, a new system of attachment to the 13-ton 'C' compression head of the remote-control of the remote-controlled pump has been designed. The item is produced directly with the 3-D printer, without requiring further interventions to the machine tools or the construction of dies.

At the request of the British market, the study of a new hydraulic head began, to be used for the exploration of potentially under-voltage cables, before proceeding with the cutting procedure. The project has been patented.

A new battery-powered hydraulic pump, subject to patent, is being studied and will introduce several new features: it will be powered by the 36V battery also used for rail drills and will use the smart technology used in the new series of 18V tools; through a luminous Cembre logo, it will provide the operator with a series of real-time information on the status of the machine and the operations being carried out.

Lastly, a model has been submitted for protection of the design of the new electrician's scissors, already been on the market since the end of 2018.

Cable marking

A total of 68 requests for new products relating to flat labels for the marking of cables were followed up. Studies also included the related manufacturing tools.

The project relating to the widening and updating of the current range of thermal transfer printers continues.

Related parties

Transactions concluded between the parent company and its subsidiaries in 2018 are summarized in the table below:

	Receivables	Payables	Revenues	Purchases
Cembre Ltd.	869	70	8,178	717
Cembre S.a.r.l.	427	-	5,314	9
Cembre España SLU	498	2	6,122	5
Cembre Inc.	678	-	8,106	21
IKUMA KG	-	-	14	-
Cembre GmbH	766	22	4,284	183
Total	3,238	94	32,018	935

With reference to assets and liabilities relating to subsidiaries shown above, we confirm that transactions with the same and with related parties fall within the scope of normal operating activities. Revenues include, in addition to those from the sale of products, charges made to subsidiaries for costs relating to services provided in the field of Information Technology, royalties for use of the Cembre trademark and charge-banks of consulting costs sustained in the IKUMA acquisition, for a total of €817 thousand, in addition to €88 thousand in transport costs.

As part of the acquisition of IKUMA KG, Cembre GmbH has recorded €1,978 thousand among its own liabilities. This amount, relative to the discounted debt towards the two sellers, which also hold the role of director in said company, equal to a nominal €2,000 thousand, must be paid in four instalments during the period 2019-2022, should the specific contractual clauses be respected. The discounted non-current portion of this debt amounts to €1,480 thousand.

Cembre S.p.A. leases property for a cumulative annual rent of €534 thousand from Tha Immobiliare S.p.A., with registered office in Brescia, owned by Anna Maria Onofri, Giovanni Rosani and Sara Rosani, Directors of Cembre S.p.A. Invoices issued in the year relating to the above contracts were all paid in full.

Cembre Ltd. leases an industrial building from Borno Ltd., a company controlled by Lysne S.p.A. (the parent of Cembre S.p.A.) for an annual rent of £123 thousand (equal to €139 thousand).

	2018	2017	Change
Rent paid by Cembre S.p.A. to Tha Immobiliare	534	528	6
Rent paid by Cembre Ltd to Borno Ltd.	139	141	(2)
TOTAL	673	669	4

Detail of compensation received by directors and statutory auditors is provided in the notes.

Absence of control and coordination

Despite the fact that article 2497-sexies of the Italian Civil Code states that “it is presumed that, unless otherwise proved, the direction and coordination activities of companies is exercised by the company or entity that is required to consolidate the same in its accounts or that, in any case, controls the former company pursuant to article 2359 (of the Italian Civil Code)”, Cembre S.p.A. believes to be operating in full autonomy from its parent Lysne S.p.A..

In particular, as a non-exhaustive example, the Company manages autonomously its own treasury and relationships with its customers and suppliers, and does not make use of any service provided by its parent company.

Relationships with parent company Lysne S.p.A. are limited to the normal exercise of shareholders’ rights on the part of the parent.

Companies incorporated under the laws of States that are not part of the European Union

In 2018 Cembre S.p.A. controlled only one company incorporated under the laws of States that are not part of the European Union, subsidiary Cembre Inc., incorporated in the US.

The company deems the administrative, accounting and reporting systems currently in use to be adequate in supplying regularly its management and the company’s

independent auditors with the operating and financial information necessary for the preparation of the Consolidated Financial Statements.

The accounts prepared by said foreign subsidiary and used in the preparation of the consolidated financial statements, are audited and made available to the public, as provided by current regulations.

Cembre S.p.A. is active in ensuring an adequate flow of information from said subsidiary to its independent auditors and believes the current communication process in place with the independent auditors to be effective.

Cembre S.p.A. holds Cembre Inc.'s By-laws, the composition and the respective powers of the boards the subsidiary, while it has issued directives ensuring the timely disclosure of any change or amendment to the above.

Own shares and shares of parent companies

At December 31, 2018, the number of own shares held by Cembre S.p.A. was 280,041, corresponding to 1.65% of the capital stock. No treasury shares were acquired in 2018, while 4,616 own shares were sold. The shareholders' meeting of Cembre S.p.A. on April 26, 2018 resolved authorization to purchase and sell own shares, effective for the 18 months subsequent to the date of the meeting.

Ownership Structure and Corporate Governance

In compliance with norms contained in article 123-bis of Legislative Decree 58, dated February 24, 1998 (Testo Unico Consolidated Finance Act), we refer to the Report on Corporate Governance which, in addition to providing a general description of corporate governance and of risk management and internal control procedures, contains information regarding the ownership structure of the Company, the adoption of the Code of Conduct and the observance of the resulting commitments. Said Report is available in the Investor Relations section of the Group's institutional web site www.cembre.it.

Consolidated non-financial declaration

The Consolidated non-financial declaration (Dichiarazione consolidata di carattere non finanziario) issued pursuant to the provisions of Legislative Decree no. 254 of December

30, 2016, constitutes a separate report, available in the "Investor Relations" section of the www.cembre.it website, under "Reports and Financial Statements".

Subsequent events

No event having significant effects on the Group's financial position or operating performance occurred after December 31, 2018.

Outlook

Despite the difficulty in making forecasts, given the uncertain scenario at the global level, the Cembre Group expects to see growth compared to 2018, consequently forecasting an increase in business volume for the end of 2019 and a positive consolidated result.

Proposal for the Allocation of the Net Profit

In order to complete the planned investments and to benefit from self-financed growth, it is advisable that at least a portion of net profit generated be retained. In seeking the approval for our actions by submitting to you the present Financial Statements and Report on Operations, we also invite you, in view of the fact that the legal reserve has already reached 20% of the share capital, to approve our proposed allocation of net profit for 2018, amounting to €21,257,210.35 (rounded off to €21,257,210) as follows:

- €0.90 to be distributed to each of the Company's 16,719,959 shares entitled to dividends (taking into account the 280,041 treasury shares held), for a total of €15,047,963.10, with May 6, 2019 as the ex-dividend date, date of entitlement to payment pursuant to article 83-terdecies of Legislative Decree 58/1998, May 7, 2019 as the record date and May 8, 2019 as the dividend payment date;
- the remainder, amounting to €6,209,247.25, to the extraordinary reserve;
- noting that, keeping into account the program for the acquisition of own shares currently underway, (i) the total amount of the dividend distributed could vary with the number of shares entitled to a dividend at the date of the Shareholder's Meeting resolution, and (ii) additional own shares acquired after the date of the Shareholders' Meeting resolution allocating net profit held by the Company at the record date will not

be entitled to the distribution of a dividend and the corresponding share of net profit will be accrued to the extraordinary reserve.

Attachments

The present Report on Operations includes the following attachments:

Attachment 1 Comparative Consolidated Income Statement for the year ended December 31, 2018.

Attachment 2 Composition of corporate boards.

Brescia, March 11, 2019

**FOR THE BOARD OF DIRECTORS
OF THE PARENT COMPANY CEMBRE S.P.A.**
The Chairman and Managing Director
Giovanni Rosani

Attachment 1 - Report on Operations of the Group

Comparative Consolidated Income Statement

	2018	% of sales	2017	% of sales	Change
(€ '000)					
Revenues from contracts with customers	144.096	100,0%	132.637	100,0%	8,6%
Other revenues	874		653		33,8%
Other non recurring revenues	-		502		
TOTAL REVENUES	144.970		133.792		8,4%
Cost of goods and merchandise	(53.653)	-37,2%	(47.487)	-35,8%	13,0%
Change in inventories	6.637	4,6%	3.630	2,7%	82,8%
Cost of services received	(19.421)	-13,5%	(17.316)	-13,1%	12,2%
Non recurring cost of services	(411)	-0,3%	(52)	0,0%	690,4%
Lease and rental costs	(1.644)	-1,1%	(1.598)	-1,2%	2,9%
Personnel costs	(39.989)	-27,8%	(37.251)	-28,1%	7,4%
Other operating costs	(1.685)	-1,2%	(1.198)	-0,9%	40,7%
Increase in assets due to internal construction	958	0,7%	939	0,7%	2,0%
Impairment losses on contract assets	(89)	-0,1%	(7)	0,0%	1171,4%
Accruals to provisions for risks and charges	(23)	0,0%	(18)	0,0%	27,8%
GROSS OPERATING PROFIT	35.650	24,7%	33.434	25,2%	6,6%
Property, plant and equipment depreciation	(6.393)	-4,4%	(5.814)	-4,4%	10,0%
Intangible asset amortization	(761)	-0,5%	(584)	-0,4%	30,3%
OPERATING PROFIT	28.496	19,8%	27.036	20,4%	5,4%
Financial income	8	0,0%	86	0,1%	-90,7%
Financial expenses	(57)	0,0%	(35)	0,0%	62,9%
Foreign exchange gains (losses)	(82)	-0,1%	(512)	-0,4%	-84,0%
PROFIT BEFORE TAXES	28.365	19,7%	26.575	20,0%	6,7%
Taxes from non recurring operations	0		2.279		
Income taxes	(5.629)	-3,9%	(6.127)	-4,6%	-8,1%
NET PROFIT	22.736	15,8%	22.727	17,1%	0,0%

Attachment 2 to the Report on Operations for 2018

CORPORATE BOARDS

Board of Directors

Giovanni Rosani	Chairman and Managing Director
Anna Maria Onofri	Vice-Chairman
Sara Rosani	Director
Aldo Bottini Bongrani	Director
Felice Albertazzi	Director
Franco Celli	Director
Paola Carrara	Independent Director
Fabio Fada	Independent Director

Statutory Auditors

Fabio Longhi	Chairman
Riccardo Astori	Auditor
Rosanna Angela Pilenga	Auditor
Maria Grazia Lizzini	Substitute Auditor
Rosella Colleoni	Substitute Auditor

Independent Auditors

EY S.p.A.

The above list is updated at March 11, 2019.

The Board of Directors and Board of Statutory Auditor's term expires with the approval of the Financial Statements at December 31, 2020.

The Chairman holds by statute (article 18) powers of legal representation of the Company. The Board of Directors conferred to the Chairman and Managing Director Giovanni Rosani all the ordinary management powers not specifically reserved to it by law, including

exclusive powers over the organization, management and monitoring of the internal control system.

In case of absence or impediment of the Chairman and Managing Director Giovanni Rosani, Vice Chairman Anna Maria Onofri holds all ordinary management powers not reserved to the Board by law. All Managing Directors must keep the Board of Directors informed of all relevant transactions concluded in the context of their mandate. The Board of Directors has approved rules that define which particularly relevant transactions may be concluded exclusively by the same.

Consolidated Financial Statements at December 31, 2018

Consolidated Statements of Financial Position

ASSETS	Notes	Dec. 31, 2018		Dec. 31, 2017	
(euro '000)			<i>of which: related parties</i>		<i>of which: related parties</i>
NON CURRENT ASSETS					
Tangible assets	1	83.294		72.082	
Investment property	2	1.071		1.126	
Intangible assets	3	4.257		1.867	
Goodwill	4	4.608		-	
Other investments		10		10	
Other non-current assets	5	1.522		41	
Deferred tax assets	14	2.767		2.294	
TOTAL NON-CURRENT ASSETS		97.529		77.420	
CURRENT ASSETS					
Inventories	6	50.619		41.673	
Trade receivables	7	25.626		26.520	
Tax receivables	8	2.035		4.299	
Other receivables	9	1.842		465	
Cash and cash equivalents		17.198		20.232	
TOTAL CURRENT ASSETS		97.320		93.189	
NON-CURRENT ASSETS AVAILABLE FOR SALE		-		-	
TOTAL ASSETS		194.849		170.609	

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	Dec. 31, 2018		Dec. 31, 2017	
(euro '000)			<i>of which: related parties</i>		<i>of which: related parties</i>
SHAREHOLDERS' EQUITY					
Capital stock	10	8.840		8.840	
Reserves	10	121.302		111.508	
Net profit	10	22.736		22.727	
TOTAL SHAREHOLDERS' EQUITY		152.878		143.075	
NON-CURRENT LIABILITIES					
Non-current financial liabilities	11	1.000		-	
Other non-current payables	15	1.480	1.480	-	
Employee termination indemnity and other personnel benefits	12	2.557	278	2.664	184
Provisions for risks and charges	13	606	50	448	-
Deferred tax liabilities	14	2.846		2.047	
TOTAL NON-CURRENT LIABILITIES		8.489		5.159	
CURRENT LIABILITIES					
Current financial liabilities	11	8.667		-	
Trade payables	16	14.863	-	14.581	-
Tax payables		2.367		268	
Other payables	17	7.585	498	7.526	200
TOTAL CURRENT LIABILITIES		33.482		22.375	
LIABILITIES ON ASSETS HELD FOR DISPOSAL		-		-	
TOTAL LIABILITIES		41.971		27.534	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		194.849		170.609	

Consolidated Financial Statements at December 31, 2018

Statement of Consolidated Comprehensive Income

	Notes	2018		2017	
(euro '000)			<i>of which: related parties</i>		<i>of which: related parties</i>
Revenues from contracts with customers	18	144.096		132.637	
Other revenues	19	874		653	
Non recurring other revenues		-		502	
TOTAL REVENUES		144.970		133.792	
Cost of goods and merchandise		(53.653)		(47.487)	
Change in inventories	6	6.637		3.630	
Cost of services received	20	(19.421)	(889)	(17.316)	(665)
Non-recurring cost of services	21	(411)		(52)	
Lease and rental costs	22	(1.644)	(674)	(1.598)	(669)
Personnel costs	23	(39.989)	(890)	(37.251)	(335)
Other operating costs	24	(1.685)		(1.198)	
Increase in assets due to internal construction		958		939	
Impairment losses on contract assets	7	(89)		(7)	
Accruals to provisions for risks and charges	25	(23)		(18)	
GROSS OPERATING PROFIT		35.650		33.434	
Property, plant and equipment depreciation	1-2	(6.393)		(5.814)	
Intangible asset amortization	3	(761)		(584)	
OPERATING PROFIT		28.496		27.036	
Financial income	26	8		86	
Financial expenses	26	(57)		(35)	
Foreign exchange gains (losses)		(82)		(512)	
PROFIT BEFORE TAXES		28.365		26.575	
Benefit from the application of Patent Box Regime on previous years		-		2.279	
Income taxes	27	(5.629)		(6.127)	
NET PROFIT FROM ORDINARY ACTIVITIES		22.736		22.727	
NET PROFIT FROM ASSETS HELD FOR DISPOSAL		-		-	
NET PROFIT		22.736		22.727	
Items that will not be reclassified to profit and loss					
Gains (losses) from discounting of Employees' Termination Indemnity		91		38	
Income tax relating to items that will not be reclassified		(22)		(9)	
Items that may be reclassified subsequently to profit and loss					
Conversion differences included in equity		251		(934)	
COMPREHENSIVE INCOME	28	23.056		21.822	
BASIC AND DILUTED EARNINGS PER SHARE	29	1,36		1,36	

Consolidated Financial Statements at December 31, 2018

Consolidated Statement of Cash Flows

	2018	2017
€ '000		
A) CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	20.232	26.709
B) CASH FLOW FROM OPERATING ACTIVITIES		
Net profit for the period	22.736	22.727
Depreciation, amortization and write-downs	7.154	6.398
(Gains)/Losses on disposal of assets	(42)	(535)
Net change in Employee Severance Indemnity	(107)	46
Net change in provisions for risks and charges	158	27
Operating profit (loss) before change in working capital	29.899	28.663
(Increase) Decrease in trade receivables	894	(1.635)
(Increase) Decrease in inventories	(8.946)	(2.877)
(Increase) Decrease in other receivables and deferred tax assets	414	(3.146)
Increase (Decrease) of trade payables	(2.863)	2.019
Increase (Decrease) of other payables, deferred tax liabilities and tax payables	2.957	205
Change in working capital	(7.544)	(5.434)
NET CASH FLOW (USED IN)/FROM OPERATING ACTIVITIES	22.355	23.229
C) CASH FLOW FROM INVESTING ACTIVITIES		
Capital expenditure on fixed assets:		
- intangible	(3.151)	(1.101)
- tangible	(17.775)	(11.732)
- goodwill	(4.608)	-
Proceeds from disposal of tangible, intangible, financial assets		
- tangible	243	1.644
Increase (Decrease) of trade payables for assets	3.145	(744)
NET CASH FLOW (USED IN)/FROM INVESTING ACTIVITIES	(22.146)	(11.933)
D) CASH FLOW FROM FINANCING ACTIVITIES		
(Increase) Decrease in other non current assets	(1)	3
Increase (Decrease) in bank loans and borrowings	9.667	-
Increase (Decrease) in derivative instruments	-	(43)
Change in reserves	371	(4.540)
Dividends distributed	(13.373)	(11.834)
NET CASH FLOW (USED IN)/FROM FINANCING ACTIVITIES	(3.336)	(16.414)
E) INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (B+C+D)	(3.127)	(5.118)
F) Foreign exchange differences	24	(1.388)
G) Discounting of Employee Termination Indemnity	69	29
H) CASH AND CASH EQUIVALENTS AT END OF THE PERIOD (A+E+F+G)	17.198	20.232
Assets available for sales included above	-	-
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	17.198	20.232
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	17.198	20.232
Current financial liabilities	(8.667)	-
Non current financial liabilities	(1.000)	-
NET CONSOLIDATED FINANCIAL POSITION	7.531	20.232
INTERESTS PAID IN THE PERIOD	5	-
BREAKDOWN OF CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		
Cash	12	51
Banks	17.186	20.181
	17.198	20.232

Consolidated Financial Statements at December 31, 2018

Statement of Changes in the Consolidated Shareholders' Equity

(€ '000)	Balance at December 31, 2017	Allocation of previous year net profit	Other changes	Comprehensive income of the period	Balance at December 31, 2018
Capital stock	8.840				8.840
Share premium reserve	12.245				12.245
Legal reserve	1.768				1.768
Reserve for own shares	(5.403)		120		(5.283)
Suspended-tax revaluation reserve	585				585
Other suspended-tax reserves	68				68
Other reserves	23.934	(1.719)		538	22.753
Conversion differences	(2.126)			(287)	(2.413)
Extraordinary reserve	72.283	11.073			83.356
Reserve for FTA	3.715				3.715
Reserve for discounting of Employee Termination Indemnity	42			69	111
Merger surplus reserve	4.397				4.397
Retained earnings	-				-
Net profit	22.727	(22.727)		22.736	22.736
Total Shareholders' Equity	143.075	(13.373)	120	23.056	152.878

(€ '000)	Balance at December 31, 2016	Allocation of previous year net profit	Other changes	Comprehensive income of the period	Balance at December 31, 2017
Capital stock	8.840				8.840
Share premium reserve	12.245				12.245
Legal reserve	1.768				1.768
Reserve for own shares	(863)		(4.540)		(5.403)
Suspended-tax revaluation reserve	585				585
Other suspended-tax reserves	68				68
Other reserves	22.378	995		561	23.934
Conversion differences	(631)			(1.495)	(2.126)
Extraordinary reserve	68.194	4.098	(9)		72.283
Reserve for FTA	3.715				3.715
Reserve for discounting of Employee Termination Indemnity	4		9	29	42
Merger surplus reserve	4.397				4.397
Retained earnings	-				-
Net profit	16.927	(16.927)		22.727	22.727
Total Shareholders' Equity	137.627	(11.834)	(4.540)	21.822	143.075

Notes to the Consolidated Financial Statements at December 31, 2018

I. CORPORATE INFORMATION

Cembre S.p.A. is a joint-stock company with registered office in Brescia, Via Serenissima 9. The Company is listed in the Italian Market of Shares (MTA) managed by Borsa Italiana S.p.A.

Cembre S.p.A. and its subsidiaries (hereinafter referred to jointly as “the Cembre Group” or “the Group”) are active primarily in the manufacturing and sale of electrical connectors and related tools.

Publication of the Consolidated Financial Statements of Cembre for the year ended December 31, 2018 was authorized by a resolution of the Board of Directors dated March 11, 2019.

Cembre S.p.A. is controlled by Lysne S.p.A., a holding company based in Brescia, that does not direct or coordinate its subsidiary.

II. FORM AND CONTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The present Consolidated Financial Statements at December 31, 2018 were prepared under the International Financial Reporting Standards (IFRS) adopted by the European Union and the related implementation regulations issued in application of article 9 of Legislative Decree no. 38/2005.

Principles adopted in the preparation of the Consolidated Financial Statements are those formally approved by the European Union as at December 31, 2018.

The Consolidated Financial Statements were prepared in the expectation of the continuation of the Group’s activities.

With the exception of those items for which international accounting principles provide for a different valuation, the Consolidated Financial Statements were prepared in accordance with the historical cost principle.

Unless otherwise indicated, figures reported in the financial statements and the related notes are expressed in thousands of euro.

The table that follows contains a list of international accounting principles and interpretations approved by the IASB that became effective in 2018, which were taken into account, where applicable, in the preparation of the present Consolidated Financial Statements.

Description	Effective from
IFRS 9 – <i>Financial Instruments (revised)</i>	January 1, 2018
IFRS 15 – <i>Revenue from Contracts with Customers</i>	January 1, 2018
Amendments to IFRS 4 – <i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts</i>	January 1, 2018
Clarifications to IFRS 15 – <i>Revenue from Contracts with Customers</i>	January 1, 2018
IFRIC 22 – <i>Foreign Currency Transactions</i>	January 1, 2018
Amendments to IFRS 2 <i>Share-based Payment – Classification and Measurement of Share-based Payment Transactions</i>	January 1, 2018
Annual Improvements to IFRS standard 2014-2016 Cycle	January 1, 2018
Amendments to IAS 40 <i>Investment Property – Transfers of investment property</i>	January 1, 2018
IFRS Practice Statement – <i>Materiality opinions</i>	Effective immediately

IFRS 9 - Financial instruments

The standard became effective January 1, 2018 and was adopted by the Group on said date. Its application did not have any significant effects on the Group's financial statements, as trade receivables are held with the sole purpose of collecting them upon maturity. Analysis of the provision for doubtful accounts and their adaptation to the new standard did not have any significant impact.

IFRS 15 - Revenue from Contracts with Customers

The standard became effective January 1, 2018 and was adopted by the Group on said date. Adoption of IFRS 15 did not result in any significant changes, due to the fact that the type of sale contracts currently underwritten by the Cembre Group Company envisage the sale of finished products without the supply of any ancillary services; the repair and maintenance services requested by customers are invoiced at the moment in which they are provided. Bonuses recognized to customers at the end of the year based on the sales

volumes achieved were estimated based on past sales and on their expected future performance and deducted from the amount of revenues.

Future changes in accounting principles

The following updates of IFRS have been already approved by the European Union and will become effective in future financial years:

New and revised Principles	Effective from
IFRS 16 – <i>Leases</i>	January 1, 2019
IFRIC 23 – Uncertainty over Income Tax Treatments	January 1, 2019
Amendments to IFRS 9 – Prepayment features with negative compensation	January 1, 2019

Transition to IFRS 16

At December 31, 2018 the following contracts fall under the scope indicated by the standard:

	Motor vehicles	Buildings
Cembre S.p.A.	28	6
Cembre Ltd.	8	2
Cembre S.a.r.l.	3	-
Cembre España SLU	15	-
Cembre Inc.	-	2
IKUMA KG	1	1
Total	55	11

The Cembre Group chose to apply IFRS 16 using the modified retrospective method (catch-up method); the comparative data are not restated and the liability is calculated as the present value of the rent payments, discounted using the incremental borrowing rate as at the transition date. Therefore, the value of the assets is equal to the value of the liabilities.

The incremental borrowing rate (IBR) was calculated in three steps: first, the risk-free rate for bonds issued in the countries in which the Cembre Group's subsidiaries operate was identified as the reference rate; then, using the Bloomberg platform, the spread applicable to the Cembre Group was determined, based on the liabilities as at September 30, 2018 (equal to 0.57%); lastly, the incremental interest rate was calculated by applying

the Group spread to the risk-free rates of the individual countries. The same incremental interest rate was applied for similar contracts.

Contracts with maturity within 12 months were excluded from application of the standard. As far as rental contracts for buildings and offices are concerned, since it is highly probable that they will be extended, from a strategic point of view, the duration was calculated by taking into account the optional period indicated in the contractual clauses as well.

By applying IFRS 16 to the figures as at December 31, 2018, the value of lease assets amounts to €5,738 thousand, the value of current liabilities is at €1,071 thousand and the value of non-current liabilities amounts to €4,667 thousand. Total rents written off amount to €1,175 thousand, amortisation of the right of use amounts to €1,115 thousand and interest expense amounts to €110 thousand. Values are gross of taxes.

Principles and amendments in the endorsement phase

The following updates of IFRS (already approved by the IASB), interpretations and amendments are in the process of being incorporated into European Union regulations:

New and revised Principles	Effective from
IFRS 17 – Insurance Contracts	January 1, 2022

Changes in Accounting Principles	Effective from
IFRIC 23 – Uncertainty over Income Tax Treatments	January 1, 2019
Amendments to IAS 28 – <i>Investments in Associates and Joint-Ventures</i>	January 1, 2019
Annual Improvements to IFRS standard 2015-2017 Cycle	January 1, 2019
Amendments to IAS 19 - <i>Plan amendments, curtailments and settlements</i>	January 1, 2019
Amendments to references to the Conceptual Framework in the IFRS Standards	January 1, 2020
Amendments to IFRS 3 - <i>Definition of a business</i>	January 1, 2020
Amendments to IAS 1 and IAS 8 - <i>Definition of material</i>	January 1, 2020

The Cembre Group will evaluate the possible effects of adoption of the new principles in the next few months.

Principles of consolidation

The Consolidated Financial Statements of the Cembre Group include the statutory accounts at December 31 of every year of Cembre S.p.A. and of its subsidiaries.

Accounting principles adopted in the preparation of the financial statements of subsidiaries are consistent with those of the Parent Company.

The financial statements of consolidated subsidiaries are consolidated under the line-by-line method, thus including all items, irrespective of the share held by the Group, of the elimination of intragroup transactions and of unrealized gains on transactions with third parties.

The book value of investments is netted against the related share in the shareholders' equity of consolidated companies, attributing to assets and liabilities the respective current value at the time control was acquired and recording contingent liabilities, where appropriate. Where positive, the residual amount is recorded among non-current assets as goodwill. Negative residual differences are recorded in the Income Statement.

There are no cases in which an investment is lower than 100% and requires the recognition of the portion of profit and equity attributable to third parties.

The list of Group companies at December 31, 2018 is as follows:

	Stake held
Cembre Ltd. (UK)	100%
Cembre Sarl (France)	100%
Cembre España SLU (Spain)	100%
Cembre GmbH (Germany)	100%
Cembre Inc. (Usa)	100%
Ikuma GmbH & Co. KG (Germany)	100%
Ikuma Verwaltungs GmbH (Germany)	100%

On May 3, 2018 Cembre GmbH acquired, effective from May 1, 2018 a 100%-stake in the share capital of IKUMA GmbH & Co. KG (hereinafter IKUMA KG), company operating in Germany in the sale of electrical materials, and 100% of the share capital of IKUMA Verwaltungs GmbH, non-operational company with the sole function of administration and management of IKUMA KG. Upon signing of the purchase and sale agreement, the amount of €6,300 thousand was deposited; the contract also envisages a deferred amount to be paid in four annual tranches upon occurrence of specific conditions, for a total maximum amount of €2.0 million in the aforementioned four years. This sum was

paid into a guarantee account care of the German notary public who stipulated the purchase agreement.

Upon allocation of the IKUMA KG purchase price, the following values were recognized:

Customer list	1,965
Inventory fair value	283
Trademark	495
Deferred taxes	(823)
Goodwill	4,608

- customer list: an intangible asset representing the value of commercial relations between IKUMA KG and its customers, quantified at €1,965 thousand, with a useful life of 10 years;
- inventory fair value: a current asset equal to the difference between the book value of inventory and the relative fair value, equal to €283 thousand. Based on the inventory turnover rate, this difference was assumed to be eliminated in four months;
- trademark: an intangible asset representing the value of the IKUMA brand on the market, quantified at €495 thousand, with a useful life of 10 years;
- deferred taxes: a deferred tax liability equal to €823 thousand, as the tax effect calculated based on the rates in effect in Germany with regard to the aforementioned items;
- goodwill: equal to €4,608 thousand, calculated as the residual value given by the difference between the total value of the purchase, the aforementioned items and the shareholders' equity of IKUMA KG.

At May 1, 2018 the assets and liabilities of IKUMA KG were as follows:

Assets	
Property, plant and equipment	24
Inventories	1,844
Trade receivables	646
Other receivables	13
Cash and cash equivalents	418
Total Assets	2,945

Liabilities	
Shareholders' Equity	500
Trade payables	711
Tax payables	127
Other payables	1,607
Total Liabilities	2,945

IKUMA KG achieved the following results during the period from May 1, 2018 to December 31, 2018:

Income statement May 1 - December 31	
Revenues	5,242
Purchases of goods and merchandise	(4,030)
Change in inventories	519
Services	(423)
Rent	(52)
Personnel	(515)
Other costs	(61)
Amortization and depreciation	(11)
Financial income (expense)	(41)
Income taxes	6
Net profit	634

Translation of financial statements expressed in currencies other than the euro

The functional and reporting currency of the Group is the euro.

Financial statements denominated in functional currencies other than the euro are translated according to the following criteria:

- assets and liabilities are translated at the exchange rate applicable at the date of the financial statements;
- Income Statement items are translated at the average exchange rate for the year;
- foreign-exchange translation differences are recorded in a specific Shareholders' Equity reserve.

At the time at which a foreign subsidiary is disposed of, accumulated foreign-exchange differences recorded under Shareholders' Equity relating to the same are taken to the Income Statement.

Exchange rates applied in the translation of financial statements of subsidiaries are shown in the table below (expressed in currency/€).

Currency	Exchange rate at Dec. 31, 2018	Average exchange rate for 2018
British pound	0.89453	0.88471
US dollar	1.14500	1.18096

III. CONSOLIDATION PRINCIPLES AND VALUATION CRITERIA

Form of the Financial Statements

The Financial Statements are prepared as follows:

- current and non-current assets and liabilities are reported separately in the Consolidated Statement of Financial Position;
- the analysis of costs in the Statement of Consolidated Comprehensive Income is carried out based on the nature of the same;
- the Consolidated Statement of Cash Flows is prepared by applying the indirect method.

Financial Statements forms are unchanged from previous year.

Finally, with reference to CONSOB Regulation no. 15519 dated July 27, 2006, the Financial Statements include a separate reporting of amounts pertaining to related parties, where significant.

Property, plant and equipment

Property, plant and equipment is recorded at the historical cost and reported net of accumulated depreciation and losses in value.

Ordinary maintenance and repair costs are not capitalized, and are charged to the Income Statement in the year in which they are incurred.

Depreciation commences when the asset is available for use and is calculated on a straight line basis over the estimated residual useful life of the asset, taking into account its residual value. Depreciation rates applied reflect the useful life generally attributed to the various classes of assets and are summarized below, with no changes compared to the prior year:

- Buildings and light installations:	from 2% to 10%
- Plant and machinery:	from 5% to 25%
- Industrial and commercial equipment:	from 6% to 25%
- Other assets:	from 6% to 33%.

Land has an undetermined useful life and is therefore not subject to depreciation.

The book value of property, plant and equipment is subjected to an impairment test whenever events or changes occurred indicate that the book value of the same can no longer be retrieved in line with the depreciation schedule originally set. Whenever there exists such an indication, the assets or cash generating units are written down to reflect their expected realizable value.

The residual value of assets, their useful life and methods applied are reviewed annually and adjusted, where necessary, at the end of each year.

Tangible assets are eliminated from the balance sheet at the time of their sale or when there no longer exists the expectation of future economic benefits from their use or disposal.

Losses and gains (calculated as the difference between net revenues from the disposal and the book value of the asset) are recorded in the Income Statement in the year in which they are disposed of.

Leased assets

Assets held under a financial lease, through which all risks and benefits relating to ownership are transferred to the Group, are recorded under assets at the lower of their current value and the present value of minimum lease payments due according to the contract, including the bullet payment due at the end of the lease to exercise the purchase option.

The liability corresponding to the lease contract is recorded under financial liabilities.

Leased assets are classified under the respective category among property, plant and equipment, and depreciated over the shorter period between the term of the lease and the expected residual useful life of the asset.

Lease contracts in which the lessor holds all risks and enjoys all benefits deriving from the leased asset are classified as operating leases and recorded as costs in the Income Statement over the term of the contract.

Investment property

Assets that cease to be used in the context of the Group's ordinary operations but possess all the characteristics set forth in IFRS 5 to be included among non-current assets available for sale, are classified among Investment property and continue to be amortized as if they were still included among Property, plant and equipment, applying the same amortization rates used for the latter.

Intangible assets

Intangible assets are recorded under assets, as provided by IAS 38 (Intangible assets), whenever it is probable that future economic benefits are generated through use and when the cost of the intangible asset can be determined in a reliable manner.

Intangible assets acquired separately are initially capitalized at cost, while those acquired through mergers are capitalized at their fair value at the time of acquisition.

With the exception of development costs, assets generated internally are not recorded as intangible assets.

After the initial recording, intangible assets are carried in the balance sheet at cost, net of accumulated amortization calculated on a straight-line basis over their expected useful economic life, and of write-downs carried out as a result of durable losses in value.

The useful life generally attributed to the various classes of assets is the following, with no changes compared to the prior year:

- concessions and licenses:	5 to 10 years
- software licenses	3 to 5 years
- patents	2 years
- development costs:	5 years
- trademarks:	10 to 20 years

Amortization commences when the asset is available for use, that is, when it is in a position and in the necessary condition to operate in the manner intended by management.

The book value of intangible assets is subjected to an impairment test whenever events or changes occurred indicate that the book value of the same can no longer be retrieved in line with the amortization schedule originally set.

Whenever there exists such an indication and the book value of the asset exceeds its realizable value, the value of the asset is written-down to its expected realizable value.

Goodwill

Goodwill is calculated as the positive difference between the purchase price of an equity investment, the shareholders' equity of the acquired company and any assets and liabilities recorded at the time of acquisition and not previously present in the financial statements of the latter. Goodwill is an asset with an indefinite useful life and is therefore not amortized. However, it undergoes an impairment test at least once a year and whenever there are signs that indicate a loss in value, in order to compare the book value with the recoverable value, in accordance with IAS 36.

Impairment of goodwill is determined by evaluating the recoverable value of the cash-generating unit (or group of cash-generating units) to which the goodwill refers. Reductions in the value of goodwill cannot be restored in future years.

Financial assets

Financial assets are initially recorded at cost, inclusive of accessory purchase costs, representing the fair value of the price paid. After the initial recording, financial assets are valued in accordance with their final purpose as described below.

Financial assets valued at fair value, whose change is recorded in the Income Statement

These are financial assets held for trading purposes, acquired for the purpose of obtaining a profit from short-term fluctuations in price. Derivatives are classified as financial assets held for trading, unless they are designated as effective hedging instruments.

Financial assets held to maturity

Financial assets other than derivatives that generate fixed financial flows or flows that may be determined and have a set maturity, are classified as Financial assets held to maturity when the Group intends to and is capable of holding them to maturity.

Financial assets that the Group decides to hold for an indefinite period of time do not fall under this category.

After their initial recording, long-term financial investments held to maturity, such as bonds, are accounted for at the amortized cost, using the effective rate of interest method, are discounted to their present value.

The amortized cost is calculated keeping into account discounts and premiums, amortized over the term of the financial asset.

Loans extended and receivables

Loans and receivables are non-derivative financial assets providing for fixed payments or payments that may be determined, not listed on an active market. Such assets are recorded at the amortized cost using the actual discount rate method.

Gains and losses are recorded in the Income Statement whenever loans extended and receivables are eliminated from the accounts or they experience losses in value, together with the related amortization.

Financial assets available for sale

Financial assets available for sale include financial assets that do not fall under the above categories. After the initial recording, these are accounted for at fair value, while gains and losses are recorded under a specific Shareholders' Equity reserve until the assets are sold or a loss in value is ascertained. In such case, gains and losses accrued are charged to the Income Statement.

In the case of securities widely traded on a regulated market, the fair value is determined with reference to the listed price at the closing of trading on the date of the financial statements. In the case of financial assets for which there does not exist an active market,

the fair value is determined through valuation techniques based on the price recorded in recent transactions between unrelated parties or on the basis of the current market value of a similar instrument, or on discounted cash flows or option pricing models. Investments in other companies fall in this category.

Loss in value of financial assets

The Group verifies at least yearly the possible loss in value of individual financial assets. These are recorded only at the time when there exists objective evidence, at the occurrence of one or more events, that the asset has experienced a loss of value with respect to its initial recorded value.

Treasury shares

Treasury shares are recorded as a reduction of Shareholders' Equity in a specific reserve. The purchase, sale, issue or cancellation of treasury shares held does not determine the recording of any gain or loss in the Income Statement.

Inventories

Inventories are valued at the lower of cost and their expected realizable value, represented by their normal sale price, net of completion and selling costs.

The cost of inventories includes the acquisition cost, the transformation cost and other costs incurred to take inventories to their current location and state.

The cost of inventories is determined under the weighted-average method, inclusive of the cost of beginning inventories. Provisions for slow-moving stock are accrued for finished products, materials and other supplies, keeping into account their expected useful life and retrievable value.

Receivables and payables

Receivables are recognized at fair value, with simultaneous recognition of a provision for doubtful accounts that takes into account possible losses in value (expected losses), determined based on the prior trend of insolvencies and expected future conditions. Payables are normally valued at the amortized cost, adjusted under exceptional conditions for changes in value.

Cash and cash equivalents

Cash and cash equivalents are recorded at face value.

Loans

Loans are initially recorded at cost, corresponding to the fair value of the amount received, net of accessory costs.

After the initial recording, loans are valued at the amortized cost, using the effective interest method.

Translation of amounts denominated in currencies other than the euro

Transactions denominated in currencies other than the euro are initially accounted for in euro at the exchange rate at the date of the transaction. Currency translation differences arising at the time at which foreign currency receivables are collected and payables are paid out, are recorded in the Income Statement.

At the date of the financial statements, monetary assets and liabilities denominated in currencies other than the euro – consisting of cash on hand or assets and liabilities to be received or paid out, whose amount is set and may be determined – are translated into euro at the exchange rate at the date of the financial statements, recording in the Income Statement the currency translation difference.

Non-monetary items denominated in currencies other than the euro are translated into euro at the exchange rate at the time of the transaction, representing the historical exchange rate.

Functional currencies adopted by Group companies correspond to the currencies of the respective country in which subsidiaries are based.

Provisions for risks and charges

Provisions for risks and charges are accrued against known liabilities, whose existence is certain or probable, but whose amount and expiration cannot be determined at the date of the financial statements. Accruals are made when the existence of a current obligation, legal or implicit, deriving from a past event, the fulfillment of which is expected to require the use of resources whose amount can be reliably estimated, is probable.

Provisions are valued at the fair value of liabilities. When the financial effect and the timing of the cash outflow can be estimated in a reliable manner, provisions include the interest component, recorded in the Income Statement among financial income (expense).

Provisions accrued are reviewed at each accounting date and adjusted to bring them into line with the best estimate available to date.

Employee benefits

Under IAS 19, and before the reform introduced by the 2007 Budget Law, the Employee Severance Indemnity was classified among defined benefit plans and was therefore subject to actuarial adjustments.

Employee termination indemnities accrued up to December 31, 2006, continue to be accounted for as defined benefit plans, while those accrued from January 1, 2007 are accounted for in two different ways:

- where the individual employee has opted for complementary pension funds, employee termination indemnities accrued after January 1, 2007 and until the time at which the choice is made by the employee, are accounted for as a defined benefit plan. Subsequently they are accounted for as a defined contribution plan;
- where the individual employee has opted for accumulation with the treasury fund of the national social security agency (INPS), indemnities accrued after January 1, 2007 are accounted for as a defined contribution plan.

Elimination of financial assets and liabilities

Financial assets are eliminated when the Group ceases to hold rights to receive financial flows deriving from the same or when such rights are transferred to another entity, that is when risks and benefits of the financial instrument cease to have an effect on the financial position and operating performance of the Group.

A financial liability is written-off exclusively when the related obligation is cancelled, fulfilled or expired.

Any material change in the contractual terms relating to the liability result in its cancellation and in the recording of a new liability.

Any difference between the book value and the amount paid to extinguish the liability is recorded in the Income Statement.

Loss in value of non-financial assets

The Group verifies at least yearly the possible loss in value of individual assets. In such case, or in cases in which an annual assessment of impairment is required, the Group estimates the recoverable value. If an asset's book value is higher than its recoverable value, the asset has undergone impairment and is consequently written down to return it to its recoverable value.

In determining the recoverable value, the Group discounts estimated future cash flows using a pre-tax discount rate, which reflects the market assessments of the present value of money and the risks specific to the asset.

Impairment losses on continuing operations are recognized in the Income Statement in cost categories consistent with the intended use of the asset that underwent impairment. Previously revalued fixed assets are an exception to this, if the revaluation was recognized among the other items of the Comprehensive Income Statement. In such cases, the impairment is in turn recognized among the other items of the Comprehensive Income Statement up to the amount of the prior revaluation.

As at the reporting date, the Group assesses the existence of any indicators of loss (or reduction) of previously recognized impairment and, should such indicators exist, estimates the recoverable value of the asset or of the CGU. Said recovery is recognized in the Income Statement, unless the fixed asset has been recorded at the revalued amount, in which case the recovery is treated as an increase in revaluation.

Revenues

Revenues are valued at the current value of the amount received or receivable.

Disposal of assets

The revenue is recognized when the Company has transferred the risks and benefits connected with the ownership of the good, and ceases to exercise the activity associated with ownership and the actual control over the asset sold.

Services rendered

Revenues are recorded based on the stage of completion of the operation at the date of the financial statements.

When the result of the service rendered cannot be reliably estimated, revenues are recorded only to the extent of retrievable costs.

The stage of completion is determined by valuing work carried out or by determining the proportion between costs incurred and total estimated costs to completion.

Interest

Interest is recorded in the period in which it accrues, using the effective interest method.

Dividends

Dividends are recorded when the right of shareholders to receive them arises.

Grants

Grants are recorded at fair value when there exists a reasonable certainty that that the same will actually be received and the Company meets the conditions for the entitlement to the grant.

Grants linked to cost components (operating grants) are recorded under “other revenues” and amortized over several years so that revenues match the costs they are intended to compensate.

The fair value of grants linked to assets (e.g. grants on the purchase of plant and equipment or grants for capitalized development costs), is suspended under long-term liabilities and released to the Income Statement under “other revenues” over the useful life of the asset to which it relates, thus in the period over which the depreciation expense relating to the asset is charged to the Income Statement.

Financial charges

Financial charges are recorded as a cost in the period in which they accrue. In accordance with IAS 23, financial charges incurred in the acquisition of significant assets (qualifying assets) are capitalized.

Cost of goods purchased and services received

The cost of goods purchased and services received is recorded in the Income Statement based on the accrual method.

Income taxes (current, prepaid and deferred)

Current taxes are determined based on a realistic estimate of the tax expense for the period in accordance with applicable tax regulations in the respective countries.

The Group records deferred and prepaid taxes arising from temporary differences between the book value of assets and liabilities and the related values reported for tax purposes, in addition to differences in the value of assets and liabilities generated by consolidation adjustments.

Prepaid taxes are recorded only where there exists reasonable certainty of their retrieval through future profits within the term in which tax benefits are enjoyed.

Deferred tax assets are recorded also where there exist deductible losses or tax credits, whenever it is deemed probable that sufficient future profits will be generated in the medium-term (3 to 5 years).

Earnings per share

Earnings per share are calculated by dividing consolidated net profit by the weighted average number of shares in circulation for the period.

Fully diluted earnings per share (calculated by subtracting from consolidated net profit the cost of converting all stock options into ordinary shares) are obtained by adjusting the number of shares in circulation assuming the exercise of stock options having a diluting effect.

Use of estimates

In accordance with IAS/IFRS, the Group made use of estimates and assumptions based on prior experience and other factors deemed determinant, but not certain. Actual data could therefore differ from estimates and projections made.

Estimated data is reviewed periodically and adjustments made to the same are taken to the Income Statement for the period in which the review takes place in case the review

affect only one period, or subsequent accounting periods, in case it affects also the same. Below we describe review processes and key assumptions used by management in applying accounting principles.

Provision for inventory depreciation

The provision for inventory depreciation is accrued to bring the book value of inventories into line with their expected realizable value.

Management reviews the composition of inventories with particular reference to slow moving stock to determine the amount to be accrued prudentially to reflect the obsolescence of stocks.

Provision for doubtful accounts

The provision for doubtful accounts reflects management estimates regarding losses on trade receivables.

Losses on trade receivables expected by the Group are based on past experience on similar portfolios of receivables, current overdues vs. historical overdues, losses and collections, the close monitoring of credit risk and credit worthiness of customers, in addition to projections on economic and market conditions.

Retrievable value of non-current assets

Non-current assets include property, plant and equipment, intangible assets, goodwill and other financial assets.

Whenever circumstances so require, the management reviews periodically the book value of non-current assets held and used by the Group, in addition to assets to be disposed of. Such activity is carried out using estimates of expected cash flows from the sale of the asset and of adequate discount rates used in calculating the present value of the same.

Whenever the book value of a non-current asset experiences a loss in value, the Group records a write-down equal to the difference between the book value of the asset and its retrievable value either through use or disposal of the same.

Post-retirement benefits

In the estimation of post-retirement benefits the Group makes use of traditional actuarial techniques based on stochastic simulations of the “Monte Carlo” type. Assumptions made relate to the discount rate and the annual inflation rate. Actuarial advisors of the Group make also use of demographic projections based on current mortality rates, employee disablement and resignation rates observed in Parent Company Cembre S.p.A..

In 2018, based on past turnover experience, the probability of a Cembre S.p.A.’s employee terminating his or her employment for causes other than death is the following:

Male	6.18%
Female	4.46%

Assumptions regarding the discounting and inflation rates, as well as the annual rate of increase in the post-retirement benefits were:

Discounting rate	1.57%
Yearly inflation rate	1.50%
Yearly real increase in retributions	1.00%

Expected advances to be paid out are 5% per year and each advance corresponds to 70% of the accrued indemnity.

Recoverability of deferred tax assets

The Group evaluates the possibility to recover deferred tax assets on the basis of profits and expected future market conditions in view of current sale contracts and ability of expected future profits to offset tax credits, in addition to the expected variance of the same and based on expected results.

Potential liabilities

In carrying out its activity, management consults with its legal and tax advisors and experts. The Group ascertains a liability arising from litigation whenever it deems probable that a financial outlay will be made in the future and when the amount of resulting losses can be reasonably estimated. In case a financial outlay becomes possible but its amount cannot be determined, such occurrence is reported in the notes.

IV. SEGMENT INFORMATION

IFRS 8 requires segment information to be supplied using the same elements on which management bases internal reporting.

The Cembre Group adopted as its primary reporting focus information by geographical area based on the location in which the operations of the Company are based or the production process takes place. As the Cembre Group operates in a single segment denominated “Electric connectors and related tools”, items based on this element are not usually utilized for the purposes of internal reporting.

2018	Italy	Rest of Europe	Rest of World	Elimination of intragroup	TOTAL
Revenues					
Sales to customers	77,955	52,264	13,877		144,096
Sales to other Group	31,113	2,827	21	(33,961)	-
Revenues by sector	109,068	55,091	13,898	(33,961)	144,096
Operating profit by sector	22,172	4,948	1,376		28,496
Overhead costs not assigned					-
Operating profit					28,496
Financial income (expense)					(131)
Income taxes					(5,629)
Net profit					22,736

2017	ITALY	EUROPE	REST OF WORLD	Elimination of intragroup	TOTAL
Revenues					
Sales to customers	74,967	44,735	12,935		132,637
Sales to other Group	28,510	1,571	27	(30,108)	-
Revenues by sector	103,477	46,306	12,962	(30,108)	132,637
Operating profit by sector	21,694	3,866	1,476		27,036
Overhead costs not assigned					-
Operating profit					27,036
Financial income (expense)					(461)
Income taxes					(3,848)
Net profit					22,727

As the distribution of sales by geographical area is different from that of the related Group activities, a breakdown of sales by geographical area of customers is shown below.

	2018	2017
Italy	59,023	55,576
Europe	62,649	54,319
Rest of World	22,424	22,742
	144,096	132,637

The breakdown of assets and liabilities is shown below:

12/31/2018	ITALY	EUROPE	REST OF WORLD	TOTAL
Assets and Liabilities				
Assets of the sector	142,125	41,709	8,494	192,328
Unassigned assets				2,521
Total assets				194,849
Liabilities of the sector	35,117	8,153	-	43,270
Unassigned liabilities				(1,299)
Total liabilities				41,971
Other information by sector				
Capital expenditure:				
- Property, plant and equipment	16,793	830	152	17,775
- Intangible assets	674	2,465	12	3,151
Total investments				20,926
Depreciation and amortization:				
- Property, plant and equipment	(5,600)	(708)	(85)	(6,393)
- Intangible assets	(588)	(170)	(3)	(761)
Accruals to provision for employee benefits	897	-	-	897
Average no. of employees	495	214	34	743

12/31/2017	ITALY	EUROPE	REST OF WORLD	TOTAL
Assets and Liabilities				
Assets of the sector	131,553	34,646	7,892	174,091
Unassigned assets				(3,482)
Total assets				170,609
Liabilities of the sector	23,536	3,907	113	27,556
Unassigned liabilities				(22)
Total liabilities				27,534
Other information by sector				
Capital expenditure:				
- Property, plant and equipment	10,824	856	52	11,732
- Intangible assets	1,097	2	2	1,101
Total investments				12,833
Depreciation and amortization:				
- Property, plant and equipment	(5,039)	(677)	(98)	(5,814)
- Intangible assets	(571)	(12)	(1)	(584)
Accruals to provision for employee benefits	(880)	(94)	-	(974)
Average no. of employees	473	188	28	689

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plant and Machinery	Equipment	Other assets	Leased assets	Work in progress	Total
Historical cost	44,112	62,195	13,139	7,662	37	4,320	131,465
Revaluation FTA of IFRS	5,921	-	-	-	-	-	5,921
Revaluations for tax purposes	934	43	-	-	-	-	977
Accumulated depreciation	(12,282)	(39,017)	(9,110)	(5,841)	(31)	-	(66,281)
Balance at Dec. 31, 2017	38,685	23,221	4,029	1,821	6	4,320	72,082
Increases	3,407	9,468	368	1,468	40	3,024	17,775
Currency translation differences	(18)	(9)	-	5	-	-	(22)
Depreciation	(1,033)	(3,881)	(717)	(702)	(7)	-	(6,340)
Net divestments	(10)	(90)	(1)	(8)	-	(92)	(201)
Reclassifications	2,370	1,148	247	5	-	(3,770)	-
Balance at Dec. 31, 2018	43,401	29,857	3,926	2,589	39	3,482	83,294

	Land and buildings	Plant and Machinery	Equipment	Other assets	Leased assets	Work in progress	Total
Historical cost	43,003	56,572	12,448	7,455	37	1,636	121,151
Revaluation FTA of IFRS	5,921	-	-	-	-	-	5,921
Revaluations for tax purposes	934	43	-	-	-	-	977
Accumulated depreciation	(11,323)	(36,046)	(8,700)	(5,657)	(25)	-	(61,751)
Balance at Dec. 31, 2016	38,535	20,569	3,748	1,798	12	1,636	66,298
Increases	1,193	5,362	659	655	-	3,869	11,738
Currency translation differences	(92)	(40)	(1)	(23)	-	-	(156)
Depreciation	(991)	(3,510)	(649)	(595)	(6)	-	(5,751)
Net divestments	-	(16)	(10)	(12)	-	(7)	(45)
Reclassifications	40	856	282	(2)	-	(1,178)	(2)
Balance at Dec. 31, 2017	38,685	23,221	4,029	1,821	6	4,320	72,082

Capital expenditure in 2018 amounted to €17,775 thousand and related primarily to the Parent Company.

Expenditure on buildings mainly included renovation of the historic headquarters building in Brescia, for €220 thousand, and construction of a new industrial building that hosts the packaging department, for €3,032 thousand. Expenditure on equipment amounted to €1,735 thousand and also consisted primarily of the construction of the new warehouse (€883 thousand), while investment in production machinery amounted to €7,733 thousand. Expenditure for the manufacturing of dies amounted to €290 thousand. Advances paid for assets to be delivered in 2019 amounted to €2,651 thousand – a large

part of which are due to advances paid on completion of the new industrial building – while expenditure in dies and equipment under construction by the Parent Company amounted to €373 thousand.

Investments made by foreign subsidiaries include €630 thousand spent by Cembre Ltd., predominantly on plant and equipment and in fitting out the new offices.

Property, plant and equipment from the acquisition of IKUMA amounts to €27 thousand, classified under “Other assets”.

Item “Land and buildings” includes the €5,921 thousand revaluation made upon the first-time application of international accounting principles (IAS).

2. INVESTMENT PROPERTY

	Land and buildings	Plant and Machinery	Other assets	Total
Historical cost	1,714	278	5	1,997
Accumulated depreciation	(606)	(261)	(4)	(871)
Balance at Dec. 31, 2017	1,108	17	1	1,126
Depreciation	(44)	(8)	(1)	(53)
Net divestments	-	(2)	-	(2)
Balance at Dec. 31, 2018	1,064	7	-	1,071

The balance at December 31, 2018 consists only of the building located in Calcinatè (Bergamo) owned by Cembre S.p.A. and whose fair value is in line with its book value.

3. INTANGIBLE ASSETS

	Development costs	Patents	Software	Trademarks	Other	Work in progress	Total
Historical cost	1,868	641	5,058	-	78	93	7,738
Accumulated amortization	(1,205)	(423)	(4,199)	-	(44)	-	(5,871)
Balance at Dec. 31, 2017	663	218	859	-	34	93	1,867
Increases	184	56	431	495	1,965	20	3,151
Amortization	(239)	(154)	(189)	(33)	(146)	-	(761)
Reclassifications	-	-	43	-	-	(43)	-
Balance at Dec. 31, 2018	608	120	1,144	462	1,853	70	4,257

Upon allocation of the purchase price of the investment in IKUMA KG, the Customer List of the acquired company was recognized under Other Intangible Assets for €1,965 thousand; the value of the trademark was also recognized for €495 thousand.

Development costs are discussed more in detail in the Report on Operations.

4. GOODWILL

	12/31/2018	12/31/2017	Change
Goodwill	4,608	-	4,608

This item includes the difference between the value of the investment in IKUMA GmbH & Co. KG and its shareholders' equity value, net of intangible assets and other assets recognized upon allocation of the purchase price.

At December 31, 2018, in order to assess the consistency of the goodwill value recognized in the financial statements, an impairment test was conducted on the net capital employed of subsidiary IKUMA. The objective of the analysis was to verify that the recoverable value of the net capital employed of IKUMA was not lower than the book value recognized in the Consolidated Financial Statements.

The estimate of recoverable value was made by using the discounted cash flow method in its unlevered version, applied to the 2019-2021 economic and financial plan of the CGU (Cash Generating Unit) identified for IKUMA.

The analysis produced the following results:

	Recoverable value	Book value	Difference
IKUMA/Goodwill CGU	9,646	8,494	1,152

Therefore, there is no need to adjust the goodwill value.

The WACC, namely the weighted average cost of capital, used to measure the cash flows was equal to 9.87%, while the long-term growth rate G was prudently assumed to be equal to 0%.

Sensitivity Analysis

Upon changing said parameters, the results of the impairment test would vary as follows:

Value of goodwill

Recoverable value

		Long-term growth rate G				
		0.00%	0.50%	1.00%	1.50%	2.00%
WACC	8.90%	10,702	11,222	11,807	12,473	13,235
	9.40%	10,146	10,606	11,121	11,702	12,361
	9.90%	9,646	10,056	10,512	11,022	11,598
	10.40%	9,194	9,561	9,967	10,419	10,925
	10.90%	8,783	9,113	9,477	9,879	10,327

Difference of recoverable value - book value

		Long-term growth rate G				
		0.00%	0.50%	1.00%	1.50%	2.00%
WACC	8.90%	2,207	2,727	3,313	3,979	4,741
	9.40%	1,651	2,112	2,627	3,207	3,867
	9.90%	1,152	1,561	2,017	2,528	3,103
	10.40%	699	1,066	1,473	1,924	2,430
	10.90%	289	619	982	1,385	1,833

5. OTHER NON-CURRENT ASSETS

	12/31/2018	12/31/2017	Change
Guarantee deposits	42	41	1
Guarantee loan	1,480	-	1,480
Total	1,522	41	1,481

The item guarantee loan includes the discounted value of the non-current portion of the sum deposited with the notary public upon acquisition of IKUMA KG. This amount was deposited in order to cover the debt to the Company's sales personnel and administrators, recognized under "Other non-current debt", the payment of which is linked to compliance with certain contractual clauses effective in future years. The actuarial effect of this sum amounts to €20 thousand.

6. INVENTORIES

	12/31/2018	12/31/2017	Change
Raw materials	12,593	9,672	2,921
Work in progress and semi-finished goods	12,252	11,486	766
Finished goods	25,774	20,515	5,259
Total	50,619	41,673	8,946

The increase in value of inventories is due to the increase in stock in Cembre S.p.A., as well as the increase in Cembre Inc., which recorded a considerable increase in sales. It is also due to consolidation of the newly acquired IKUMA KG, which contributed inventories for a total value of €2,363 thousand.

The value of finished goods inventories is adjusted to its expected realizable value through a provision for slow-moving stock amounting approximately to €3,996 thousand. Changes in the provision in 2018 are shown in the table that follows:

	2018	2017
Balance at January 1	3,070	2,729
Accruals	991	678
Uses	(97)	(244)
Currency translation differences	32	(93)
Balance at December 31	3,996	3,070

Accruals primarily regarded inventories of Cembre S.p.A. (€524 thousand), Cembre Inc. (€217 thousand) and Cembre GmbH (€96 thousand).

7. TRADE RECEIVABLES

	12/31/2018	12/31/2017	Change
Gross trade receivables	26,183	27,361	(1,178)
Provision for doubtful accounts	(557)	(841)	284
Total	25,626	26,520	(894)

Trade receivables by geographical area

	12/31/2018	12/31/2017	Change
Italy	13,350	14,488	(1,138)
Europe	10,649	10,021	628
North America	1,326	1,664	(338)
Oceania	460	211	249
Middle East	132	234	(102)
Far East	137	607	(470)
Africa	129	136	(7)
Total	26,183	27,361	(1,178)

Average collection time shortened from 68 days in 2017 to 60 days in 2018.

Changes in the provision for doubtful accounts are shown in the table that follows:

	2018	2017
Balance at January 1	841	1,178
Accruals	89	8
Uses	(111)	(195)
Releases	(262)	(148)
Currency translation differences	-	(2)
Balance at December 31	557	841

Breakdown of receivables by maturity at December 31, 2018

Year	Not matured	0-90 days	91-180 days	181-365 days	Over one year	Under litigation	Total
2018	23,001	2,558	148	97	308	71	26,183
2017	23,653	3,055	112	107	352	82	27,361

8. TAX RECEIVABLES

	12/31/2018	12/31/2017	Change
Tax receivables	2,035	4,299	(2,264)

The item predominantly includes the receivable recognized by the Parent Company and relative to application of the Patent Box regime.

9. OTHER ASSETS

	12/31/2018	12/31/2017	Change
Receivables from employees	65	28	37
VAT and other indirect taxes receivable	339	37	302
Advances to suppliers	737	184	553
Other	701	216	485
Total	1,842	465	1,377

The residual item "Other" includes the value of the current portion of the sum deposited with the notary public upon acquisition of IKUMA KG, amounting to €498 thousand.

10. SHAREHOLDERS' EQUITY

The capital stock of the Parent Company amounts to €8,840 thousand, and is made up of 17 million ordinary shares of par value €0.52 each, fully underwritten and paid-up.

At December 31, 2018 Cembre S.p.A. held 280,041 treasury shares, corresponding to 1.65% of its capital stock. Against these shares the Company recorded €5,283 thousand in a specific equity reserve under liabilities.

A reconciliation between the Shareholders' Equity and net profit of the Parent Company and the Consolidated Shareholders' Equity and net profit is provided in the Report on Operations.

Changes in individual components of the Consolidated Shareholders' Equity are shown in the "Statement of Changes in the Consolidated Shareholders' Equity" included in the Consolidated Financial Statements.

Item "Other reserves" is made up as follows:

	12/31/2018	12/31/2017
Elimination of investments in subsidiaries	23,079	22,070
Elimination of unrealized intra-group profits in stock	(3,471)	(3,796)
Cembre GmbH product warranty provision reversal	22	22
Dividends from subsidiaries	3,134	5,649
Currency translation differences on intra-group balances	-	(1)
Intra Group reconciliation and gains	(11)	(10)
Total	22,753	23,934

Upon the first-time application of IFRS, Cembre S.p.A. chose to adopt as inventory valuation method the average cost, in line with the rest of the Group. For this reason the consolidated "Reserve for the first-time adoption of IFRS" differs by €336 thousand from the one recorded under equity by the Parent Company.

11. CURRENT AND NON-CURRENT FINANCIAL LIABILITIES

	Effective interest rate	Term ending	12/31/2018	12/31/2017
Bank loans				
Cembre S.p.A.				
<i>Non-current portion</i>				
Banca Intesa	0.05%	apr-20	1,000	-
NON-CURRENT FINANCIAL LIABILITIES			1000	-
Bank loans				
Cembre S.p.A.				
<i>Current portion</i>				
Banca Intesa	0.04%	Oct-19	6,667	-
Banca Intesa	0.05%	apr-20	2,000	-
CURRENT FINANCIAL LIABILITIES			8,667	-

12. EMPLOYEE TERMINATION INDEMNITY AND OTHER RETIREMENT BENEFITS

The item includes the Employee Severance Indemnity accrued for employees of the Italian company. Special retirement benefits, due in accordance with French regulations to persons employed in France at the time of retirement, are also included in the provision.

Employee termination indemnities accrued at December 31, 2018 was discounted on the basis of an evaluation made by a registered actuary, in accordance with current regulations.

	2018	2017
Beginning balance	2,664	2,618
Accruals	897	974
Uses	(394)	(305)
Social security (INPS) treasury account	(550)	(615)
Discounting effect	(60)	(8)
Closing balance	2,557	2,664

Total termination indemnities accrued with INPS' treasury account at the end of the year amount to €6,968 thousand.

13. PROVISIONS FOR RISKS AND CHARGES

Changes in the year are shown in the table below.

	Customer indemnities	Directors' variable compensation	Employee incentives	Total
At December 31, 2017	132	-	316	448
Accruals	23	50	85	158
At December 31, 2018	155	50	401	606

Upon proposal by the Appointments and Remuneration Committee, and consistent with its remuneration policy, the Company introduced a variable compensation based on medium- and long-term objectives for its Chairman and Managing Director. This amount will be paid out in 2021 contingent on the achievement of objectives set for financial years 2018-2020 by the Board of Directors. The amount of the accrual against the possible variable compensation of directors is recorded among the cost of services and, given the limited impact, was not discounted.

The provision for employee benefits includes amounts accrued for sales personnel that will be paid out upon the achievement of performance objectives set in the sales development plan launched by the Company and expiring in 2020.

14. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities at December 31, 2018 are summarized as follows:

	12/31/2018	12/31/2017
Deferred tax assets		
Elimination of unrealized intra-group profits in stock	1,524	1,343
Write-down of inventories	517	370
Provision for French personnel costs	99	100
Consulting capitalized by Cembre GmbH	130	-
Provision for doubtful accounts of the Parent Company	88	150
Differences on amortization and depreciation of Parent Company	205	181
Other	204	150
Gross deferred tax assets	2,767	2,294
Deferred tax liabilities		
Average cost valuation of inventories by the Parent	(326)	(241)
Accelerated depreciation	(164)	(159)
Elimination of Cembre GmbH product warranty provision	(10)	(11)
Reversal of land depreciation	(24)	(24)
Revaluation of land	(1,652)	(1,652)
Discounting of employee termination indemnity	26	40
Discounting of the Cembre GmbH guarantee loan	(7)	-
Allocation of IKUMA investment purchase price	(689)	-
Gross deferred tax liabilities	(2,846)	(2,047)
Net deferred tax liabilities	(79)	247

15. OTHER NON-CURRENT PAYABLES

	12/31/2018	12/31/2017	Change
Payable to IKUMA Directors	1,480	-	1,480

This item includes the discounted value of the non-current portion of the management bonus and non-competition bonus envisaged by the IKUMA purchase agreement, which will be paid annually in 2020-2022.

16. TRADE PAYABLES

	12/31/2018	12/31/2017	Change
Payable to suppliers	14,773	14,538	235
Advances	90	43	47
Total	14,863	14,581	282

Trade payables by geographical area, in thousands of euro, are disclosed here below.

	12/31/2018	12/31/2017	Change
Italy	13,068	12,701	367
Europe	1,653	1,786	(133)
North America	39	27	12
Other	13	24	(11)
Total	14,773	14,538	235

17. OTHER PAYABLES

The item other payables may be broken down as follows:

	12/31/2018	12/31/2017	Change
Payables to employees	2,027	1,904	123
Employee withholding taxes payable	1,208	1,119	89
Bonuses owed to customers	-	371	(371)
VAT and similar foreign taxes payable	631	751	(120)
Commissions payable	394	336	58
Payable to Statutory Auditors and similar foreign boards	19	19	-
Payable to Directors	14	200	(186)
Social security payables	2,670	2,635	35
Payable on sundry taxes	34	72	(38)
Payable to IKUMA Directors	498	-	498
Other	338	236	102
Accrued liabilities	(248)	(117)	(131)
Total	7,585	7,526	59

Bonuses owed to customers were reclassified as a reduction to trade receivables; the item Payable to IKUMA Directors includes the value of the current portion of the management bonus and non-competition bonus envisaged by the purchase agreement, to be paid in 2019.

18. REVENUE FROM CONTRACTS WITH CUSTOMERS

In 2018, revenues grew by 8.6% on the previous year. A total of 41.0% of Group sales were represented by Italy (6.2% more than in 2017), while sales in the rest of Europe represented 43.5% of total sales (up 15.3% on the previous year). Sales to the rest of the World decreased by 1.4%, representing 15.5% of total sales. Further detail is provided in the Report on Operations.

19. OTHER REVENUES

Other revenues are made up as follows:

	2018	2017	Change
Extraordinary income	-	144	(144)
Capital gains	51	38	13
Use and release of funds	263	4	259
Insurance damages	41	54	(13)
Reimbursements	365	271	94
Other	131	132	(1)
Grants	23	10	13
Total	874	653	221

“Reimbursements” relate primarily to transport costs charged to customers, while “use and release of funds” regard adaptation of the provision for doubtful accounts taxed by Cembre S.p.A. With regard to operating grants, pursuant to Art. 1, paragraph 125, of Law 124/2017 (Compliance with transparency and disclosure obligations), in 2018, grants amounting to €17 thousand were obtained from the “Fondo Formazienda” fund for training courses provided to Parent Company personnel.

20. COSTS FOR SERVICES AND COSTS FOR NON-RECURRING SERVICES

The item “costs for services” is broken down as follows:

	2018	2017	Change
Subcontracted work	4,184	3,198	986
Electricity, heating and water	1,665	1,530	135
Transport of goods sold	2,361	2,190	171
Fuel	432	410	22
Travelling expenses	1,137	1,128	9
Maintenance and repair	2,213	1,969	244
Consulting	1,736	1,838	(102)
Advertising and promotion	755	789	(34)
Insurance	916	841	75
Boards' compensation	941	720	221
Postage and telephone	376	395	(19)
Commissions	957	758	199
Security and cleaning	577	564	13
Bank charges	181	160	21
Other	990	826	164
Total	19,421	17,316	2,105

The increase in costs for subcontracted work is due to the increase in production volumes, as well as to different management of the copper waste generated by the production process.

21. COSTS FOR NON-RECURRING SERVICES

Costs for non-recurring services, equal to €411 thousand, refer to the due diligence and consulting activities aimed at acquisition of the German company IKUMA KG and amounted to €52 thousand in 2017.

22. LEASES AND RENTALS

The item is broken down as follows:

	2018	2017	Change
Rent and related costs	910	689	221
Vehicle leasing	734	909	(175)
Total	1,644	1,598	46

More information on to leases stipulated with related parties is reported in note 33 below.

23. PERSONNEL COSTS

Personnel costs are broken down as follows:

	2018	2017	Change
Wages and salaries	30,548	28,095	2,453
Social security contributions	7,200	6,966	234
Employee termination indemnity	1,259	1,210	49
Retirement benefits	157	397	(240)
Other costs	825	583	242
Total	39,989	37,251	2,738

“Wages and salaries” include €1,958 thousand relating to personnel on short-term contracts, of which €1,834 thousand relating to the Parent Company and €124 thousand to the German subsidiary.

Average number of employees by category:

	2018	2017	Change
Managers	14	14	-
White collars	338	325	13
Blue collars	337	311	26
Outsourced personnel	54	39	15
Total	743	689	54

Average number of employees by Group company:

	Managers	White collars	Blue collars	Short-term personnel	Total 2018	Total 2017	Change
Cembre S.p.A.	6	209	231	49	495	473	22
Cembre Ltd.	3	31	72	-	106	99	7
Cembre Sarl	1	20	6	-	27	26	1
Cembre España SLU	1	29	9	3	42	41	1
Cembre Inc.	2	26	6	-	34	28	6
IKUMA KG	-	12	7	-	19	n.a.	19
Cembre GmbH	1	11	6	2	20	22	(2)
Total	14	338	337	54	743	689	54

24. OTHER OPERATING COSTS

The item is broken down as follows:

	2018	2017	Change
Sundry taxes	809	729	80
Losses on receivables	26	17	9
Capital losses	95	14	81
Donations	31	35	(4)
Other	724	403	321
Total	1,685	1,198	487

The item "Other" consists primarily of sundry expenses of the Parent Company for the production departments.

25. ACCRUALS TO PROVISIONS FOR RISKS AND CHARGES

The item is broken down as follows:

	2018	2017	Change
Customer indemnities	23	18	5

The customer indemnities provision amounts to €23 thousand and was accrued against possible charges in the case of termination of agency mandates.

26. FINANCIAL INCOME (EXPENSE)

	2018	2017	Change
Interest earned on bank account balances	6	21	(15)
Other financial income	2	65	(63)
Total financial income	8	86	(78)
Loans and bank overdrafts	(5)	-	(5)
Financial charges on discounting of Employee Termination Indemnity	(30)	(31)	1
Other financial charges	(22)	(4)	(18)
Total financial expense	(57)	(35)	(22)
Financial income (expense)	(49)	51	(100)

Other financial charges include discounting of the guarantee loan relative to the sum deposited with the notary public upon acquisition of IKUMA KG, as described in note 5.

27. INCOME TAXES

Income taxes are made up as follows:

	2018	2017	Change
Current taxes	(7,948)	(7,539)	(409)
Deferred taxes	512	(189)	701
Patent Box Benefit	1,810	1,623	187
Extraordinary income	(3)	(22)	19
Total	(5,629)	(6,127)	498

The table that follows shows a reconciliation between the theoretical tax expense, calculated at the normal tax rate of the Parent Company (Corporate (IRES) + Regional Tax on Productive Activities (IRAP) = 27.9%), and the actual tax expense recorded in the consolidated accounts.

	2018		2017	
	Amount	%	Amount	%
Profit before taxes	28,365		26,575	
Theoretical tax expense	7,914	27.90%	7,414	27.90%
Effect of non-deductible charges	1,420	5.01%	2,899	10.91%
Effect of untaxed income and deductions	(1,638)	-5.77%	(2,299)	-8.65%
Effect of different taxable IRAP	75	0.26%	(37)	-0.14%
Other deductions	(15)	-0.05%	(7)	-0.03%
Patent Box	(1,810)	-6.38%	(1,623)	-6.11%
Extraordinary income	3	0.01%	22	0.08%
Effect of other foreign tax rates	(320)	-1.13%	(242)	-0.91%
Total income taxes in the financial	5,629	19.84%	6,127	23.06%

At December 31, 2018, there were no temporary differences and loss carry-forwards on which no deferred tax assets or liability had been recorded.

Deferred tax assets and liabilities are made up as follows:

	2018	2017
Elimination of unrealized intra-group profits in stock	181	(126)
Provision for doubtful accounts of the Parent Company	(62)	(66)
Discounting of the Cembre GmbH guarantee loan	(7)	-
Average cost valuation of inventories by the Parent	(85)	-
Accelerated depreciation	(5)	(3)
Write-down of inventories	147	(50)
Discounting of employee termination indemnity	7	7
Provision for French personnel costs	(1)	12

Differences on amortization and depreciation of Parent Company	24	33
Goodwill amortization	-	(3)
Elimination of Cembre GmbH product warranty provision	1	(1)
Allocation of IKUMA investment purchase price	134	-
Consulting capitalized by Cembre GmbH	130	-
Other	48	8
Prepaid/deferred taxes for the period	512	(189)

28. COMPREHENSIVE INCOME

The Cembre Group uses a single table to report its comprehensive income. In particular, the economic effects recorded directly under Shareholders' Equity are reported separately and result in an increase or decrease of net profit for the period. At December 31, 2018, the changes relate only to foreign exchange translation differences arising upon consolidation on the translation into euro of the financial statements of subsidiaries operating outside the euro zone, to the effect of the discounting of Employee Termination Indemnities.

29. EARNINGS PER SHARE (BASIC AND DILUTED)

Earnings per share are calculated by dividing net profit by the weighted average number of shares in circulation for the period, excluding treasury shares held at the end of the year, amounting to 280,041.

	2018	2017
Consolidated net profit	22,736	22,727
No. of ordinary shares ('000)	16,720	16,715
Basic and diluted earnings per share	1.36	1.36

30. DIVIDENDS

On May 9, 2018 the Company distributed (with ex-dividend date May 7) a dividend on net profit for the year ended December 31, 2017, amounting to €13,372 thousand, equivalent to €0.80 for each share entitled to dividends.

	2018	2017
<i>Resolved and paid in the year:</i>		
Balance due for 2017 dividend: €0.80 (2016: €0.70)	13,372	11,838
<i>Proposal submitted to the Shareholders' Meeting (not recorded as liability at December 31)</i>		
Balance due for 2018 dividend: €0.90 (2017: €0.80)	15,048	13,372

Proposed dividends submitted for approval to the Shareholders' Meeting amount to €0.90 per share, for a total of €15,048 thousand. This amount was not recorded as a liability.

31. COMMITMENTS AND RISKS

	12/31/2018	12/31/2017	Change
Guarantees granted	779	696	83

Commitments at December 31, 2018 included guarantees granted by the Parent Company to the Brescia Municipality amounting to €352 thousand against the construction of development infrastructure in connection with the construction of new parking spaces and entrance at the Brescia main complex, and €199 thousand of guarantees given to Brescia Customs Authorities. The residual guarantees relate to guarantees for supplies granted to electrical and railway companies.

32. NET FINANCIAL POSITION

The net financial position of the Group at the end of the year amounted to a surplus of €7,531 thousand, declining on December 31, 2017.

At December 31, 2018, the Group had no outstanding debt involving covenants or negative pledges. Below we include the Net Financial Position of the Group, as provided by Consob in Regulation DEM/6064313 dated July 28, 2006.

	12/31/2018	12/31/2017
A Cash	12	51
B Bank deposits	17,186	20,181
C Cash and cash equivalents (A+B)	17,198	20,232
D Financial receivables	-	-
E Current bank debt	(8,667)	-
F Current financial debt (E)	(8,667)	-
G Net current financial position (C+D+F)	8,531	20,232
H Non-current bank debt	(1,000)	-
I Non-current financial debt (H)	(1,000)	-
J Net Financial Position (G+I)	7,531	20,232

33. RELATED PARTIES

The table that follows shows transactions between the Parent Company Cembre S.p.A. and its subsidiaries at December 31, 2018.

	Receivables	Payables	Revenues	Purchases
Cembre Ltd.	869	70	8,178	717
Cembre S.a.r.l.	427	-	5,314	9
Cembre España SLU	498	2	6,122	5
Cembre Inc.	678	-	8,106	21
IKUMA KG	-	-	14	-
Cembre GmbH	766	22	4,284	183
Total	3,238	94	32,018	935

With reference to assets and liabilities relating to subsidiaries shown above, we confirm that transactions with the same and with related parties fall within the scope of normal operating activities. Revenues include, in addition to those from the sale of products, charges made to subsidiaries for costs relating to services provided in the field of Information Technology, royalties for use of the “Cembre” trademark and charge-banks of consulting costs sustained in the IKUMA acquisition, for a total of €817 thousand, in addition to €88 thousand in transport costs.

Cembre GmbH has a debt to the directors and former owners of IKUMA for €1,978 thousand (discounted value of €2,000 thousand), described in Notes 5 and 9.

Among assets leased to Cembre S.p.A. by third parties are an industrial building adjacent to the Company’s registered office measuring a total of 5,960 square meters on three floors, in addition to the Monza, Padua and Bologna sales offices. These properties are owned by company Tha Immobiliare S.p.A., with registered office in Brescia, controlled by Anna Maria Onofri, Giovanni Rosani and Sara Rosani, directors of Cembre S.p.A. Rent paid on said assets amounted to €534 thousand. It is in the Company’s interest to benefit from the continuity of office space reducing the risk of early termination of leases. At the end of the year, all amounts due to Tha Immobiliare had been settled.

Cembre Ltd. leased an industrial building from Borno Ltd., a company controlled by Lysne S.p.A., for an annual rent of £123 thousand (equal to €139 thousand).

Rent paid between group companies:

	2018	2017	Change
Rent paid by Cembre SpA to Tha Immobiliare	534	528	6
Rent paid by Cembre Ltd to Borno Ltd.	139	141	(2)
Total	673	669	4

Cembre S.p.A. does not have direct relationships with its parent company Lysne S.p.A. of any other nature than that of the exercise of shareholders' rights on the part of the parent. Lysne S.p.A. does not carry out any management or coordination activity with respect to Cembre S.p.A.

Boards' compensation

In 2018, compensation for the Board of Directors and the Board of Statutory Auditors, net of social security contributions, amounted to:

	Board of Statutory Auditors	Directors
Emoluments as directors and auditors of Cembre S.p.A.	84	458
Remuneration as employees	-	699
Non-monetary benefits	-	20

Non-monetary benefits relate to the use of a company car and insurance policies underwritten on their behalf.

Consistent with its remuneration policy, the Company introduced a variable compensation based on medium- and long-term objectives for its Chairman and Managing Director. This remuneration will be paid out in 2021 contingent on the achievement of objectives set for financial years 2018-2020 by the Board of Directors, upon proposal by the Appointments and Remuneration Committee. The amount allocated amounts to €50 thousand.

Directors of IKUMA KG received €220 thousand in remuneration during the period May-December.

34. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The Group makes very limited use of derivative instruments to hedge against interest risk and currency exposure.

The short term maturity of a large part of the financial instruments held is such that their carrying value is in line with their fair value of the same.

Risks connected with the market

The Group faces these risks with ongoing innovation, the widening of the product range, high automation and the upgrade of its production process, implementing focused marketing policies also with the help of its foreign subsidiaries.

Interest rate risk

In April, Parent Company Cembre S.p.A. took out two loans with Banca Intesa, respectively for 10 million, with expiry in October 2019, at a fixed rate of 0.04%, and 4 million, with expiry in April 2020, at a fixed rate of 0.05%. The nature of the rate applied and the relatively short-term maturity protect the Group from any interest rate risk.

Currency risk

Despite a strong international presence, the Group does not have a significant exposure to currency risk (on an operating or equity basis), as it operates mainly in the euro area, the currency in which its trade transactions are mainly denominated.

Exposure to currency risk is determined mainly by sales in US dollars and British pounds. The entity and volume are not such as to have a significant impact on the Group's results. In addition to currency risk, the Group is also exposed to currency translation risk. As described in the consolidation principles section, in fact, financial statements of consolidated companies prepared in currencies other than the euro are translated into euro at the exchange rate published on the Internet site of the Ufficio Italiano Cambi. In the table that follows we report the economic effect of possible fluctuations in exchange rates for main financial figures of consolidated companies operating outside the euro area.

	Currency	Change exchange rate	Change Shareholders'	Change Turnover	Change Profit before
Cembre Ltd.	GBP	5% / -5%	590/(590)	926/(926)	106/(106)
Cembre Inc.	USD	5% / -5%	442/(442)	821/(821)	81/(81)

At December 31, 2018, the effect of foreign-exchange transactions is negative by €83 thousand.

Liquidity risk

The exposure of the Group to liquidity risk is not material as its financial position is balanced. The collection and payment cycle is also in balance, as shown by the ratio of current assets to current liabilities.

Credit risk

Exposure to credit risk relates exclusively to trade receivables.

As shown in note 7, none of the areas in which the Group operates poses relevant credit risks.

Operating procedures limit the sale of products or services to customers who do not possess an adequate credit profile or provide secured guarantees. Receivables matured over 12 months and those under litigation are widely covered by the provision for bad debt accrued. Moreover, Cembre S.p.A. has stipulated an insurance policy against commercial credit risk, allowing it to reduce further exposure to credit risk.

35. SUBSEQUENT EVENTS

No event having significant effects on the Group's financial position or operating performance occurred after December 31, 2018.

36. CONSOLIDATED COMPANIES

The consolidation perimeter changed as compared to December 31, 2017, following Cembre GmbH's acquisition of the entire capital of companies IKUMA GmbH & Co. KG and IKUMA Verwaltungs GmbH, both with headquarters in Weinstadt, near Stuttgart.

Therefore, the companies consolidated line-by-line are:

Company	Registered office	Share capital	Share held at Dec. 31, 2018	Share held at Dec. 31, 2017
Cembre Ltd	Sutton Coldfield (Birmingham - UK)	GBP 1,700,000	100%	100%
Cembre Sarl	Morangis (Paris)	EURO 1,071,000	100%	100%
Cembre España SLU	Torrejón de Ardoz (Madrid)	EURO 2,902,000	100%	100%
Cembre GmbH	Munich (Germany)	EURO 10,112,000	100%	100%
Cembre Inc.	Edison (New Jersey, US)	US\$ 1,440,000	100%	100%
IKUMA GmbH & Co. KG	Weinstadt (Germany)	EURO 40,000	100% (*)	-
IKUMA Verwaltungs GmbH	Weinstadt (Germany)	EURO 25,000	100% (*)	-

(*) fully held via Cembre GmbH

Brescia, March 11, 2019

**FOR THE BOARD OF DIRECTORS
OF THE PARENT COMPANY CEMBRE S.P.A.**
The Chairman and Managing Director
Giovanni Rosani

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E-mail: Info@cembre.com



C e m b r e

Attestation in respect of the Consolidated financial statements

pursuant to art 154-bis Paragraph 5, of Legislative Decree 58 dated Feb. 24, 1998 "Consolidated Law on financial intermediation regulations" and subsequent integrations and updatings

The undersigned Giovanni Rosani and Claudio Bornati, in their position as Managing Director and Manager responsible for the preparation of financial reports of Cembre S.p.A., respectively, pursuant to Article 154-bis, paragraphs 3 and 4 of Legislative Decree No.58/1998, certify that internal controls over financial reporting in place for the preparation of 2018 consolidated financial statements and during the period covered by the report, were:

- adequate to the Company structure, and
- effectively applied during the process.

The undersigned officers certify that this 2018 consolidated financial statements:

a) was prepared in accordance with International Financial Reporting Standards, as endorsed by the European Union through Regulation (EC) 1606/2002 of the European Parliament and Counsel, dated 19 July 2002, and

b) corresponds to the Company's evidence and accounting books and entries;

c) provide a fair and correct representation of the financial conditions, results of operations and cash flows of the Company and its consolidated subsidiaries.

The undersigned officers attest, also, that the report on operations includes a reliable operating and financial review of the Company and of the Group as well as a description of the main risks and uncertainties to which they are exposed.

Brescia, March 22, 2019

Chairman and
Managing Director

signed by:
Giovanni Rosani

Manager responsible for the
preparation of financial reports

signed by:
Claudio Bornati

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010 and article 10 of EU Regulation n. 537/2014 (Translation from the original Italian text)

To the Shareholders of
Cembre S.p.A.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Cembre Group (the Group), which comprise the consolidated statement of financial position as at December 31st 2018, and the consolidated statement of comprehensive income, statement of changes in the consolidated shareholder's equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31st 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of Cembre S.p.A. in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matters

The consolidated financial statements of Cembre Group for the year ended December 31st 2017 were audited by another auditor who expressed an unmodified opinion on those statements on March 28th 2018.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We identified the following key audit matters:

Key Audit Matter	Audit Response
<p>Valuation of the purchase price allocation related to IKUMA acquisition</p>	
<p>During the first semester of 2018 the Group, through the German subsidiary Cembre GmbH, acquired the entity IKUMA GmbH & Co. KG. The acquisition has been accounted pursuant to IFRS 3, Business Combination and the related purchase price allocation (hereinafter, "PPA"). The PPA is aimed to determine, at the acquisition date, the fair value of assets and liabilities acquired. In this process the assets and liabilities identified relates to the customer list, the brand and the inventory stock. The fair value of the identified assets has been estimated based on complex assumptions that, by their nature, required judgments from Group management. The PPA resulted in a residual goodwill.</p> <p>Considering the significant value of the transaction and the PPA, the complexity of the assumptions assumed in the calculation of the fair value of the assets and liabilities identified, and the level of judgement exercised by management, we determined this area represents a key audit matter.</p> <p>The notes "Principles of consolidation" and 3 "Intangible Assets" of the consolidated financial statements as of December 31, 2018 include the description of the process followed by Group management and the impacts on the consolidated financial statements.</p>	<p>Our audit procedures in response to the key audit matter included, among others: (i) the assessment of the process adopted by management for the fair valuation of the assets and liabilities identified, (ii) the assessment of the reasonableness of the assumptions used to determine the fair value and the forecast data and (iii) the testing of the appropriateness of the values allocated to the single assets and liabilities identified.</p> <p>Furthermore, we assessed the methodology adopted by management and recalculated the correctness of the PPA calculation.</p> <p>In performing our audit procedures we involved EY internal valuation specialists who assisted us in the assessment of the main assumptions and methodology adopted by management.</p> <p>Lastly, we evaluated the appropriateness of the disclosure included in the consolidated financial statements as of December 31, 2018.</p>
<p>Valuation of the goodwill related to IKUMA acquisition</p>	
<p>The consolidated financial statements as of December 31, 2018 include goodwill balance for € 4,6 million entirely related to the IKUMA Cash Generating Unit (CGU).</p> <p>The processes and the valuation techniques adopted by management to determine the recoverable value of the CGU, in terms of value in use, are based on complex assumptions that, by their nature, involve management judgement, particularly for the estimating forecast cash flows included in the business plan, the normalized cash flows used to</p>	<p>Our audit procedures in response to the key audit matter included, among others:</p> <ul style="list-style-type: none"> • Gained an understanding of the relevant controls over the process for determining the recoverable amounts within the goodwill impairment test. • Assessed the correctness of the perimeter considered in the identification of the CGU. • Assessed the reasonableness of the forecasted cash flows • Assessed the coherence of the forecasted cash flows adopted for the CGU and the

calculate the terminal value and the growth and discount rates applied. Considering the level of management judgement and complexity of the assumptions adopted in the assessment of the recoverable amount of goodwill, we determined that this area represents a key audit matter. The goodwill required disclosures are reported in note 4 "Goodwill" paragraph "Goodwill" of the consolidated financial statements as of December 31, 2018.

- business plan for the period 2019-2021.
- Assessed the long period growth rate and discount rate assumed by management.

In performing our audit procedures we involved EY internal valuation specialists who performed an independent recalculation and a sensitivity analysis of main assumptions, in order to determine any significant impacts on the valuation of the recoverable amount.

Lastly, we evaluated the appropriateness of the disclosure included in the consolidated financial statements as of December 31, 2018.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005, and, within the terms provided by the 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, when preparing the consolidated financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the consolidated financial statements on a going concern basis unless they either intend to liquidate the Parent Company Cembre S.p.A. or to cease operations, or have no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to

provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- we have obtained sufficient appropriate audit evidence regarding the financial information of the entities 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 have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of Cembre S.p.A., in the general meeting held on April 26th 2018, engaged us to perform the audits of the consolidated financial statements for each of the years ending December 31st 2018 to December 31st 2026.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Company of the Group in conducting the audit.

We confirm that the opinion on the consolidated financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) in their capacity as audit committee, prepared pursuant to article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998

The Directors of Cembre S.p.A. are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and Ownership Structure of Group Cembre as at December 31st 2018, including their consistency with the related consolidated financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998, with the consolidated financial statements of Cembre Group as at December 31st 2018 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operations and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the consolidated financial statements of Cembre Group as at December 31st 2018 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated 30 December 2016

The Directors of Cembre S.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated 30 December 2016. We have verified that non-financial information have been approved by Directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated 30 December 2016, such non-financial information are subject to a separate compliance report signed by us.

Brescia, 22 marzo 2019

EY S.p.A.

Signed by: Stefano Colpani, partner

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

REPORT BY THE BOARD OF STATUTORY AUDITORS
ON THE CONSOLIDATED FINANCIAL STATEMENTS OF THE CEMBRE GROUP AT
DECEMBER 31, 2018

To our Shareholders:

The Consolidated Financial Statements for the 2018 financial year delivered to the Board of Statutory Auditors within the required deadline - consisting of the Consolidated Statement of Financial Position, Consolidated Statement of Comprehensive Income, Statement of Changes in the Consolidated Shareholders' Equity and of the Notes to the Consolidated Financial Statements - were prepared under the *International Financial Reporting Standards* (IFRS) adopted by the European Union and in compliance with regulations issued to implement article 9 of Legislative Decree 38/2005, in force at December 31, 2018.

The international accounting principles, amendments and interpretations issued by IASB applicable from January 1, 2018 and described in the Notes to the Consolidated Financial Statements, were employed in the preparation of the Consolidated Financial Statements. The coming into force of amendments to IFRS 9 and 15 found application in the Consolidated Financial Statements of the Cembre Group.

For the lease contracts included in the scope of the standard, the Cembre Group has decided to apply IFRS 16, which became effective from January 1, 2019 using the amended retrospective method (catch-up method).

Items in the consolidated financial statements were recorded at historical cost, with the exception of those items for which the accounting principles provide for a different valuation method.

The consolidated financial statements report a net profit of €22,736 thousand, compared to a consolidated net profit of €22,727 thousand in the previous year.

Independent Auditors EY S.p.A., as stated in the Auditing Report drawn up pursuant to articles 14 of Legislative Decree 39/2010 and 10 of Regulation (EU) no. 537/2014 issued on March 22, 2019, ascertained that:

- *“the Consolidated Financial Statements of the Cembre Group provide a true and correct representation of the financial condition of the Group at December 31, 2018, of its operating performance and cash flows for the 2018 financial year and are consistent with IFRS adopted by the European Union and regulations issued to implement article 9 of Legislative Decree no. 38 of February 28, 2005”;*

- *“the Report on Operations and some specific information contained in the Report on Corporate Governance with the Consolidated Financial Statements are consistent with the Consolidated Financial Statements of the Cembre Group for the financial year closed December 31, 2018 and are prepared in compliance with applicable norms and regulations”;*
- *“with reference to the certification pursuant to art. 14, paragraph 2 lett. e) of Legislative Decree 39 of January 27, 2010, issued on the basis of the knowledge and understanding of the company and the related context acquired during the audit, we have nothing to report”.*

In compliance with article 41, par. 3 of Legislative Decree no. 127/91, with the exception of the issues specified below, the Consolidated Financial Statements were therefore not audited by the Board of Statutory Auditors.

The Notes to the consolidated financial statements provide a detail of Balance Sheet and Income Statement items and illustrate accounting principles, consolidation principles and valuation criteria applied in the preparation of the same, in addition to changes in accounting principles.

Determination of the consolidation area, the choice of consolidation principles in application of the line-by-line method, of subsidiaries to be consolidated, and the procedures for the consolidation are consistent with IFRS.

Information provided in the Report on Operations adequately illustrates the operating and financial situation of the parent company, investments made, alternative performance indicators, Shareholders' Equity, main risks and uncertainties, environmental management, worker safety, performance indicators, research, development and technological innovation activities, relationships with subsidiaries, parent companies and related parties - shown also in financial statements - and the consolidated non-financial declaration, its operating performance in 2018 and the outlook for the parent company and the Group as a whole.

With regard to the key audit matters (*KAMs*), EY S.p.A. identified and focused its attention on assessment of the purchase price allocation and measurement of goodwill from the acquisition of the IKUMA Group. These aspects were covered in the audit and in forming an opinion on the overall consolidated financial statements, and they are not subject to a separate opinion.

Based on the checks and assessments carried out, we confirm that:

- the scope of consolidation was determined correctly;
- the consolidation procedures adopted are compliant with the legal provisions and were applied correctly;
- the examination of the Report on Operations highlighted its consistency with the consolidated financial statements;

- all of the information used for the purposes of consolidation refers to the entire administrative period of the year 2018;
- the measurement criteria are consistent with those used in the prior year;
- changes in the scope of consolidation compared to December 31, 2017 regard the inclusion of Ikuma GmbH & Co. KG and Ikuma Verwaltungs GmbH.

Brescia, March 25, 2019

The Board of Statutory Auditors

The Chairman

Fabio Longhi

Financial Statements at December 31, 2018

Statements of financial position

ASSETS	Notes	Dec. 31, 2018		Dec. 31, 2017	
			of which: related parties		of which: related parties
NON CURRENT ASSETS					
Tangible assets	1	72.899.598		61.848.636	
Investment property	2	1.070.773		1.125.532	
Intangible assets	3	1.941.458		1.855.139	
Investments in subsidiaries	4	20.909.981		12.609.981	
Other investments	5	10.333		10.333	
Other non-current assets	6	8.003		8.003	
Deferred tax assets	14	848.600		733.592	
TOTAL NON-CURRENT ASSETS		97.688.746		78.191.216	
CURRENT ASSETS					
Inventories	7	35.657.164		30.946.760	
Trade receivables	8	15.617.954		16.709.505	
Trade receivables from subsidiaries	9	3.238.132	3.238.132	2.373.027	2.373.027
Tax receivables	10	1.912.174		4.287.481	
Other assets	11	917.943		439.377	
Cash and cash equivalents	16	11.240.731		13.588.602	
TOTAL CURRENT ASSETS		68.584.098		68.344.752	
NON-CURRENT ASSETS AVAILABLE FOR SALE		-		-	
TOTAL ASSETS		166.272.844		146.535.968	

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	Dec. 31, 2018		Dec. 31, 2017	
			of which: related parties		of which: related parties
EQUITY					
Capital stock	12	8.840.000		8.840.000	
Reserves	12	100.965.105		89.704.298	
Net profit	12	21.257.210		24.444.345	
TOTAL SHAREHOLDERS' EQUITY		131.062.315		122.988.643	
NON-CURRENT LIABILITIES					
Non-current financial liabilities	13	1.000.375		-	
Employee Severance Indemnity and other personnel benefits	14	2.203.655	278.402	2.305.696	184.450
Provisions for risks and charges	15	605.953	50.000	447.892	-
Deferred tax liabilities	16	1.976.221		1.877.144	
TOTAL NON-CURRENT LIABILITIES		5.786.204		4.630.732	
CURRENT LIABILITIES					
Current financial liabilities	13	8.667.222		-	
Trade payables	17	13.413.399		13.665.062	
Trade payables to subsidiaries	18	93.756	93.756	11.819	11.819
Tax payables		2.011.619		-	
Other Payables	19	5.238.329		5.239.712	
TOTAL CURRENT LIABILITIES		29.424.325		18.916.593	
LIABILITIES ON ASSETS HELD FOR DISPOSAL		-		-	
TOTAL LIABILITIES		35.210.529		23.547.325	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		166.272.844		146.535.968	

Financial Statements at December 31, 2018

Statement of comprehensive income

	Notes	2018		2017	
			<i>of which: related parties</i>		<i>of which: related parties</i>
Revenues from contracts with customers	20	109.067.580	31.112.671	103.476.300	28.509.756
Other revenues	21	1.474.821	904.910	1.059.173	712.098
TOTAL REVENUES		110.542.401		104.535.473	
Cost of goods and merchandise	22	(42.667.705)	(934.740)	(40.277.060)	(433.191)
Change in inventories	7	4.710.404		2.336.523	
Cost of services received	23	(14.349.793)	(669.288)	(12.766.571)	(664.856)
Lease and rental costs	24	(1.019.616)	(534.469)	(983.185)	(527.925)
Personnel costs	25	(27.549.288)	(890.224)	(25.922.580)	(335.231)
Other operating costs	26	(1.166.576)		(854.805)	
Increase in assets due to internal construction		934.119		809.631	
Accruals to provisions for risks and charges	27	(22.601)		(18.264)	
GROSS OPERATING PROFIT		29.411.345		26.859.162	
Tangible asset depreciation	1-2	(5.602.465)		(5.039.585)	
Intangible asset amortization	3	(587.958)		(571.139)	
OPERATING PROFIT		23.220.922		21.248.438	
Financial income	28	2.689.225	2.683.185	5.393.610	5.315.078
Financial expenses	28	(34.995)		(31.177)	
Foreign exchange gains (losses)	29	21.984		(11.114)	
PROFIT BEFORE TAXES		25.897.136		26.599.757	
Benefit from the application of Patent Box Regime on previous years		-		2.279.186	
Income taxes	30	(4.639.926)		(4.434.598)	
NET PROFIT FROM ORDINARY ACTIVITIES		21.257.210		24.444.345	
NET PROFIT FROM ASSETS HELD FOR DISPOSAL		-		-	
NET PROFIT		21.257.210		24.444.345	
Items that will not be reclassified to profit and loss					
Gains (losses) from discounting of Employees' Termination Indemnity		90.603		38.522	
Income tax relating to items that will not be reclassified		(21.745)		(9.245)	
COMPREHENSIVE INCOME	31	21.326.068		24.473.622	

Financial Statements at December 31, 2018

Statement of Cash Flows

	2018	2017
A) CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	13.588.602	20.127.391
B) CASH FLOW FROM OPERATING ACTIVITIES		
Net profit for the year	21.257.210	24.444.345
Depreciation, amortization and write-downs	6.190.423	5.610.724
(Gains)/Losses on disposal of assets	(24.345)	(25.476)
Net change in Employee Severance Indemnity	(102.041)	(48.203)
Net change in provisions for risks and charges	158.061	26.863
Operating profit (loss) before change in working capital	27.479.308	30.008.253
(Increase) Decrease in trade receivables	226.446	(1.338.605)
(Increase) Decrease in inventories	(4.710.404)	(2.336.524)
(Increase) Decrease in other receivables and deferred tax assets	1.781.733	(3.473.987)
Increase (Decrease) of trade payables	(3.314.306)	2.100.376
Increase (Decrease) of other payables and deferred tax liabilities	2.109.313	245.919
Change in working capital	(3.907.218)	(4.802.821)
NET CASH FLOW (USED IN)/FROM OPERATING ACTIVITIES	23.572.090	25.205.432
C) CASH FLOW FROM INVESTING ACTIVITIES		
Capital expenditure on fixed assets:		
- intangible	(674.394)	(1.095.177)
- tangible	(16.793.140)	(10.823.701)
- financial	(8.300.000)	(2.758.968)
Proceeds from disposal of tangible, intangible, financial assets		
- intangible	117	-
- tangible	218.817	65.876
Increase (Decrease) of trade payables for assets	3.144.580	(744.291)
NET CASH FLOW (USED IN)/FROM INVESTING ACTIVITIES	(22.404.020)	(15.356.261)
D) CASH FLOW FROM FINANCING ACTIVITIES		
(Increase) Decrease in other non current assets	-	(212)
Increase (Decrease) in bank loans and borrowings	9.667.597	-
Increase (Decrease) of liabilities from derivative instruments	-	(43.487)
Change in reserves	119.878	(4.539.903)
Dividends distributed	(13.372.274)	(11.833.635)
NET CASH FLOW (USED IN)/FROM FINANCING ACTIVITIES	(3.584.799)	(16.417.237)
E) INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (B+C+D)	(2.416.729)	(6.568.066)
F) Discounting of employees' termination indemnities	68.858	29.277
G) CASH AND CASH EQUIVALENTS AT END OF YEAR (A+E+F)	11.240.731	13.588.602
CASH AND CASH EQUIVALENTS AT END OF YEAR	11.240.731	13.588.602
Current financial liabilities	(8.667.222)	-
Non current financial liabilities	(1.000.375)	-
NET FINANCIAL POSITION	1.573.134	13.588.602
INTEREST PAID IN THE YEAR	(1.209)	-
BREAKDOWN OF CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash	6.756	9.920
Banks	11.233.975	13.578.682
	11.240.731	13.588.602

Financial Statements at December 31, 2018

Statement of Changes in the Shareholders' Equity

	Balance at December 31, 2017	Allocation of previous year net profit	Other movements	Comprehensive income	Balance at December 31, 2018
Capital stock	8.840.000				8.840.000
Share premium reserve	12.244.869				12.244.869
Legal reserve	1.768.000				1.768.000
Reserve for own shares	(5.402.563)		119.878		(5.282.685)
Suspended-tax revaluation reserve	585.159				585.159
Other suspended-tax reserves	68.412				68.412
Extraordinary reserve	71.950.374	11.072.071			83.022.445
Reserve for FTA	4.051.204				4.051.204
Reserve for discounting of Employee Termination Indemnity	41.705			68.858	110.563
Merger surplus reserve	4.397.138				4.397.138
Retained earnings	-				-
Net profit	24.444.345	(24.444.345)		21.257.210	21.257.210
Total Shareholders' Equity	122.988.643	(13.372.274)	119.878	21.326.068	131.062.315

	Balance at December 31, 2016	Allocation of previous year net profit	Other movements	Comprehensive income	Balance at December 31, 2017
Capital stock	8.840.000				8.840.000
Share premium reserve	12.244.869				12.244.869
Legal reserve	1.768.000				1.768.000
Reserve for own shares	(862.660)		(4.539.903)		(5.402.563)
Suspended-tax revaluation reserve	585.159				585.159
Other suspended-tax reserves	68.412				68.412
Extraordinary reserve	67.860.751	4.098.233	(8.610)		71.950.374
Reserve for FTA	4.051.204				4.051.204
Reserve for discounting of Employee Termination Indemnity	3.818		8.610	29.277	41.705
Merger surplus reserve	4.397.138				4.397.138
Retained earnings	-				-
Net profit	15.931.868	(15.931.868)		24.444.345	24.444.345
Total Shareholders' Equity	114.888.559	(11.833.635)	(4.539.903)	24.473.622	122.988.643

Note to the Financial Statements of Cembre S.p.A. at December 31, 2018

I. CORPORATE INFORMATION

Cembre S.p.A. is a joint-stock company with registered office in Brescia, Via Serenissima 9. The company is listed in the Italian Market of Shares (MTA) managed by Borsa Italiana S.p.A.

Cembre S.p.A. (hereinafter “the Company”) are active primarily in the manufacturing and sale of electrical connectors and related tools.

Publication of the Financial Statements of Cembre S.p.A. for the year ended December 31, 2018 was authorized by a resolution of the Board of Directors dated March 11, 2019.

Cembre S.p.A. is controlled by Lysne S.p.A., a holding company based in Brescia, that does not exercise coordination and management.

II. FORM AND CONTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The present Financial Statements at December 31, 2018 were prepared under the International Financial Reporting Standards (IFRS) adopted by the European Union and the related implementation regulations issued in application of article 9 of Legislative Decree no. 38/2005.

Principles adopted in the preparation of the Financial Statements are those formally approved by the European Union as at December 31, 2018.

With the exception of those items for which international accounting principles provide for a different valuation, the Financial Statements were prepared in accordance with the historical cost principle.

Unless otherwise indicated, figures reported in the Financial Statements and the related notes are expressed in Euro.

The Financial Statements at December 31, 2018 were prepared in the expectation of continuation of the company’s activities.

The table that follows contains a list of international accounting principles and interpretations approved by the IASB that became effective in 2018, which were taken into account, where applicable, in the preparation of the present Financial Statements.

Description	Effective from
IFRS 9 – <i>Financial Instruments (revised)</i>	January 1, 2018
IFRS 15 – <i>Revenue from Contracts with Customers</i>	January 1, 2018
Amendments to IFRS 4 – <i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts</i>	January 1, 2018
Clarifications to IFRS 15 – <i>Revenue from Contracts with Customers</i>	January 1, 2018
IFRIC 22 – <i>Foreign Currency Transactions</i>	January 1, 2018
Amendments to IFRS 2 <i>Share-based Payment – Classification and Measurement of Share-based Payment Transactions</i>	January 1, 2018
Annual Improvements to IFRS standard 2014-2016 Cycle	January 1, 2018
Amendments to IAS 40 <i>Investment Property – Transfers of investment property</i>	January 1, 2018
IFRS Practice Statement – <i>Materiality opinions</i>	Effective immediately

IFRS 9 - Financial instruments

The standard became effective January 1, 2018 and was adopted by the company on said date. Its application did not have any significant effects on the Financial Statements of Cembre S.p.A., as trade receivables are held with the sole purpose of collecting them upon maturity. Analysis of the provision for doubtful accounts and their adaptation to the new standard did not have any significant impact.

IFRS 15 - Revenue from Contracts with Customers

The standard became effective January 1, 2018 and was adopted by the Company on said date. Adoption of IFRS 15 did not result in any significant changes, due to the fact that the type of sale contracts currently underwritten by Cembre S.p.A. envisage the sale of finished products without the supply of any ancillary services; the repair and maintenance services requested by customers are invoiced at the moment in which they are provided. Bonuses recognized to customers at the end of the year based on the sales volumes achieved were estimated based on past sales and on their expected future performance and deducted from the amount of revenues.

Future changes in accounting principles

The following updates of IFRS have been already approved by the European Union and will become effective in future financial years:

New and revised Principles	Effective from
IFRS 16 – <i>Leases</i>	January 1, 2019
IFRIC 23 – Uncertainty over Income Tax Treatments	January 1, 2019
Amendments to IFRS 9 – Prepayment features with negative compensation	January 1, 2019

Transition to IFRS 16

At December 31, 2018 the following contracts fall under the scope indicated by the standard:

	Motor vehicles	Buildings
Cembre S.p.A.	28	6

The Company chose to apply IFRS 16 using the modified retrospective method (catch-up method), the comparative data are not restated and the liability is calculated as the present value of the rent payments, discounted using the incremental borrowing rate as at the transition date; therefore, the value of the assets is equal to the value of the liabilities.

The incremental borrowing rate (IBR) was calculated in three steps: first, the rate for BTPs issued by the Italian government was identified as the reference rate; then, using the Bloomberg platform, the spread applicable to Cembre was determined, based on the liabilities as at September 30, 2018 (equal to 0.57%); lastly, the incremental interest rate was calculated by applying the company spread to the reference rate determined for Italy. The same incremental interest rate was applied for similar contracts.

Contracts with maturity within 12 months were excluded from application of the standard. As far as rental contracts for buildings and offices are concerned, since it is highly probable that they will be extended, from a strategic point of view, the duration was calculated by taking into account the optional period indicated in the contractual clauses as well.

By applying IFRS 16 to the figures as at December 31, 2018, the value of lease assets amounts to €4,336 thousand, the value of current liabilities is at €695 thousand and the value of non-current liabilities amounts to €3,641 thousand. Total rents written off amount to €771 thousand, amortization of the right of use amounts to €727 thousand and interest expense amounts to €80 thousand.

The following updates of IFRS (already approved by the IASB), interpretations and amendments are in the process of being incorporated into European Union regulations:

New and revised Principles	Effective from
IFRS 17 – Insurance Contracts	January 1, 2022

Changes in Accounting Principles	Effective from
IFRIC 23 – Uncertainty over Income Tax Treatments	January 1, 2019
Amendments to IAS 28 – <i>Investments in Associates and Joint-Ventures</i>	January 1, 2019
Annual Improvements to IFRS standard 2015-2017 Cycle	January 1, 2019
Amendments to IAS 19 - <i>Plan amendments, curtailments and settlements</i>	January 1, 2019
Amendments to references to the Conceptual Framework in the IFRS Standards	January 1, 2020
Amendments to IFRS 3 - <i>Definition of a business</i>	January 1, 2020
Amendments to IAS 1 and IAS 8 - <i>Definition of material</i>	January 1, 2020

Cembre S.p.A. expects that adoption of the changes with respect to the accounting standards will not have any significant impacts.

III. CONSOLIDATION PRINCIPLES AND VALUATION CRITERIA

Form of the financial statements

The financial statements are prepared as follows:

- current and non-current assets and liabilities are reported separately in the Statement of Financial Position;
- the analysis of costs in the Statement of Comprehensive Income is carried out based on the nature of the same;
- the Statement of Cash Flows is prepared by applying the indirect method.

Financial Statements forms are unchanged from previous year.

Furthermore, with reference to CONSOB Regulation no. 15519 dated July 27, 2006, the Financial Statements include a separate reporting of amounts pertaining to related parties, where significant.

Property, plant and equipment

Property, plant and equipment is recorded at the historical cost and reported net of accumulated depreciation and losses in value.

Ordinary maintenance and repair costs are not capitalized, and are charged to the income statement in the year in which they are incurred.

Depreciation commences when the asset is available for use and is calculated on a straight line basis over the estimated residual useful life of the asset, taking into account its residual value. Depreciation rates applied reflect the useful life generally attributed to the various classes of assets and are summarized below, with no changes compared to the prior year:

- Buildings and light installations:	from 3% to 10%
- Plant and machinery:	from 10% to 15%
- Industrial and commercial equipment:	from 15% to 25%
- Other assets:	from 12% to 25%.

Land has an undetermined useful life and is therefore not subject to depreciation.

The book value of property, plant and equipment is subjected to an impairment test whenever events or changes occurred indicate that the book value of the same can no longer be retrieved in line with the depreciation schedule originally set. Whenever there exists such an indication, the assets or cash generating units are written down to reflect their expected realizable value.

The residual value of assets, their useful life and methods applied are reviewed annually and adjusted, where necessary, at the end of each year.

Tangible assets are eliminated from the balance sheet at the time of their sale or when there no longer exists the expectation of future economic benefits from their use or disposal.

Losses and gains (calculated as the difference between net revenues from the disposal and the book value of the asset) are recorded in the Income Statement in the year in which they are disposed of.

Leased assets

Assets held under a financial lease, through which all risks and benefits relating to ownership are transferred to the Company, are recorded under assets at the lower of their current value and the present value of minimum lease payments due according to the contract, including the bullet payment due at the end of the lease to exercise the purchase option.

The liability corresponding to the lease contract is recorded under financial liabilities. Leased assets are classified under the respective category among property, plant and equipment, and depreciated over the shorter period between the term of the lease and the expected residual useful life of the asset.

Lease contracts in which the lessor holds all risks and enjoys all benefits deriving from the leased asset are classified as operating leases and recorded as costs in the Income Statement over the term of the contract.

Investment property

Assets that cease to be used in the context of the Group's ordinary operations but possess all the characteristics set forth in IFRS 5 to be included among non-current assets available for sale, are classified among Investment property and continue to be amortized as if they were still included among Property, plant and equipment.

Intangible assets

Intangible assets are recorded under assets, as provided by IAS 38 (Intangible assets), whenever it is probable that future economic benefits are generated through use and when the cost of the intangible asset can be determined in a reliable manner.

Intangible assets acquired separately are initially capitalized at cost, while those acquired through mergers are capitalized at their fair value at the time of acquisition.

With the exception of development costs, assets generated internally are not recorded as intangible assets.

After the initial recording, intangible assets are carried in the balance sheet at cost, net of accumulated amortization calculated on a straight-line basis over their expected useful economic life, and of write-downs carried out as a result of durable losses in value. Intangible assets having an indefinite useful life are not amortized and subjected periodically to an impairment test to assess possible loss in value.

The useful life generally attributed to the various classes of assets is the following, with no changes compared to the prior year:

- concessions and licenses:	5 to 10 years
- software licenses	3 to 5 years
- patents	2 years
- development costs:	5 years
- trademarks:	10 to 20 years.

Amortization commences when the asset is available for use, that is, when it is in a position and in the necessary condition to operate in the manner intended by management.

The book value of intangible assets is subjected to an impairment test whenever events or changes occurred indicate that the book value of the same can no longer be retrieved in line with the amortization schedule originally set. Whenever there exists such an indication and the book value of the asset exceeds its realizable value, the value of the asset is written-down to its expected realizable value.

Investments in subsidiaries

Recognized at cost, adjusted for any impairment.

The positive difference, emerging at the time of purchase, between the acquisition cost and the portion of shareholders' equity at current values of the investee company pertaining to the Company is, therefore, included in the book value of the investment.

Investments in subsidiaries are subject to assessment with regard to any impairment each time impairment indicators are identified. If there is evidence that such investments have undergone impairment, such impairment is recognized in the income statement as a write-down.

If the impairment of the investee company exceed the book value of the investment, the value of the investment is brought down to zero and the additional loss amount is recognized as accrual under liabilities. Should said impairment subsequently decrease, it is recognized in the Income Statement as a recovery within the limits of the cost.

Financial assets

Financial assets are initially recorded at cost, inclusive of accessory purchase costs, representing the fair value of the price paid. After the initial recording, financial assets are valued in accordance with their final purpose as described below.

Financial assets valued at fair value, with changes recorded in the Income Statement.

These are financial assets held for trading purposes, acquired for the purpose of obtaining a profit from short-term fluctuations in price. Derivatives are classified as financial assets held for trading, unless they are designated as effective hedging instruments.

Financial assets held to maturity

Financial assets other than derivatives that generate fixed financial flows or flows that may be determined and have a set maturity, are classified as “financial assets held to maturity” when the Company intends to and is capable of holding them to maturity.

Financial assets that the Company decides to hold for an indefinite period of time do not fall under this category.

After their initial recording, long-term financial investments held to maturity, such as bonds, are accounted for at the amortized cost, using the effective rate of interest method, are discounted to their present value.

The amortized cost is calculated keeping into account discounts and premiums, amortized over the term of the financial asset.

Loans extended and receivables

Loans and receivables are non-derivative financial assets providing for fixed payments or payments that may be determined, not listed on an active market. Such assets are recorded at the amortized cost using the actual discount rate method. Gains and losses are recorded in the Income Statement whenever loans and receivables are eliminated from the accounts or they experience losses in value, together with the related amortization.

Financial assets available for sale

Financial assets available for sale include financial assets that do not fall under the above categories. After the initial recording, these are accounted for at fair value, while gains and losses are recorded under a specific Shareholders' Equity reserve until the assets are sold or a loss in value is ascertained. In such case, gains and losses accrued are charged to the income statement.

In the case of securities widely traded on a regulated market, the fair value is determined with reference to the listed price at the closing of trading on the date of the financial statements. In the case of financial assets for which there does not exist an active market, the fair value is determined through valuation techniques based on the price recorded in recent transactions between unrelated parties or on the basis of the current market value of a similar instrument, or on discounted cash flows or option pricing models. Investments in other companies fall in this category.

Loss in value of financial assets

The Company verifies at least yearly the possible loss in value of individual financial assets. These are recorded only at the time when there exists objective evidence, at the occurrence of one or more events, that the asset has experienced a loss of value with respect to its initial recorded value.

Treasury shares

Treasury shares are recorded as a reduction of Shareholders' Equity in a specific reserve.

The purchase, sale, issue or cancellation of treasury shares held does not determine the recording of any gain or loss in the Income Statement.

Inventories

Inventories are valued at the lower of cost and their expected realizable value, represented by their normal sale price, net of completion and selling costs.

The cost of inventories includes the acquisition cost, the transformation cost and other costs incurred to take inventories to their current location and state.

The cost of inventories is determined under the weighted-average method, inclusive of the cost of beginning inventories. Provisions for slow-moving stock are accrued for finished products, materials and other supplies, keeping into account their expected useful life and retrievable value.

Receivables and payables

Receivables are recognized at fair value, with simultaneous recognition of a provision for doubtful accounts that takes into account possible losses in value (expected losses), determined based on the prior trend of insolvencies and expected future conditions. Payables are normally valued at the amortized cost.

Cash and cash equivalents

Cash and cash equivalents are recorded at face value.

Loans

Loans are initially recorded at cost, corresponding to the fair value of the amount received, net of accessory costs.

After the initial recording, loans are valued at the amortized cost, using the effective interest method.

Translation of amounts denominated in currencies other than the Euro

Transactions denominated in currencies other than the Euro are initially accounted for in Euro at the exchange rate at the date of the transaction. Currency translation differences

arising at the time at which foreign currency receivables are collected and payables are paid out, are recorded in the income statement.

At the date of the financial statements, monetary assets and liabilities denominated in currencies other than the Euro – consisting of cash on hand or assets and liabilities to be received or paid out, whose amount is set and may be determined – are translated into Euro at the exchange rate at the date of the financial statements, recording in the income statement the currency translation difference.

Non-monetary items denominated in currencies other than the Euro are translated into Euro at the exchange rate at the time of the transaction, representing the historical exchange rate.

Provisions for risks and charges

Provisions for risks and charges are accrued against known liabilities, whose existence is certain or probable, but whose amount and expiration cannot be determined at the date of the financial statements. Accruals are made when the existence of a current obligation, legal or implicit, deriving from a past event, the fulfillment of which is expected to require the use of resources whose amount can be reliably estimated, is probable.

Provisions are valued at the fair value of liabilities. When the financial effect and the timing of the cash outflow can be estimated in a reliable manner, provisions include the interest component, recorded in the Income Statement among financial income (expense). Provisions accrued are reviewed at each accounting date and adjusted to bring them into line with the best estimate available to date.

Employee benefits

Under IAS 19, and before the reform introduced by the 2007 Budget Law, the Employee Severance Indemnity was classified among defined benefit plans and was therefore subject to actuarial adjustments.

Employee termination indemnities accrued up to December 31, 2006, continue to be accounted for as defined benefit plans, while those accrued from January 1, 2007 are accounted for in two different ways:

- where the individual employee has opted for complementary pension funds, employee termination indemnities accrued after January 1, 2007, and until the time at which the choice is made by the employee, are accounted for as a defined benefit plan. Subsequently they are accounted for as a defined contribution plan;
- where the individual employee has opted for accumulation with the treasury fund of the national social security agency (INPS), indemnities accrued after January 1, 2007 are accounted for as a defined contribution plan.

Elimination of financial assets and liabilities

Financial assets are eliminated when the Company ceases to hold rights to receive financial flows deriving from the same or when such rights are transferred to another entity, that is when risks and benefits of the financial instrument cease to have an effect on the financial position and operating performance of the Company.

A financial liability is written-off exclusively when the related obligation is cancelled, fulfilled or expired.

Any material change in the contractual terms relating to the liability result in its cancellation and in the recording of a new liability.

Any difference between the book value and the amount paid to extinguish the liability is recorded in the Income Statement.

Revenues

Revenues are valued at the current value of the amount received or receivable.

Disposal of assets

Revenues are recognized when the Company has transferred the risks and benefits connected with the ownership of the good, and ceases to exercise the activity associated with ownership and the actual control over the asset sold.

Services rendered

Revenues are recorded based on the stage of completion of the operation at the date of the financial statements.

When the result of the service rendered cannot be reliably estimated, revenues are recorded only to the extent of retrievable costs.

The stage of completion is determined by valuing work carried out or by determining the proportion between costs incurred and total estimated costs to completion.

Interest

Interest is recorded in the period in which it accrues, using the effective interest method.

Dividends

Dividends are recorded when the right of shareholders to receive them arises.

Grants

Grants are recorded at fair value when there exists a reasonable certainty that that the same will actually be received and the Company meets the conditions for the entitlement to the grant.

Grants linked to cost components (operating grants) are recorded under “other revenues” and amortized over several years so that revenues match the costs they are intended to compensate.

The fair value of grants linked to assets (e.g. grants on the purchase of plant and equipment or grants for capitalized development costs), is suspended under long-term liabilities and released to the income statement under “other revenues” over the useful life of the asset to which it relates, thus in the period over which the depreciation expense relating to the asset is charged to the income statement.

Financial charges

Financial charges are recorded as a cost in the period in which they accrue. In accordance with IAS 23, financial charges incurred in the acquisition of significant assets (qualifying assets) are capitalized.

Cost of goods purchased and services received

The cost of goods purchased and services received is recorded in the income statement based on the accrual method.

Income taxes (current, prepaid and deferred)

Current taxes are determined based on a realistic estimate of the tax expense for the period in accordance with applicable tax regulations. The Company records deferred and prepaid taxes arising from temporary differences between the book value of assets and liabilities and the related values reported for tax purposes.

Prepaid taxes are recorded only where there exists reasonable certainty of their retrieval through future profits within the term in which tax benefits are enjoyed. Deferred tax assets are recorded also where there exist deductible losses or tax credits, whenever it is deemed probable that sufficient future profits will be generated in the medium-term (3 to 5 years).

Financial derivatives

Derivative financial instruments are valued at market value (fair value). A derivative financial instrument can be acquired for trading or hedging purposes.

Gains and losses on financial instruments acquired for trading purposes are charged to the income statement.

Derivatives acquired for hedging purposes may be accounted for under the hedge accounting method – offsetting the recording of the derivative in the income statement with adjustments to the value of assets and liabilities hedged – only when derivatives meet specific criteria.

Hedge derivatives are classified as “fair value hedges” when they are acquired to hedge against the risk of fluctuations in the market value of an underlying asset or liability or the risk of fluctuations in the financial flows deriving from the same, both in the case of existing assets and liabilities or those deriving from a future transaction.

In the case of fair value hedges, gains and losses on the restatement of the market value of a derivative instrument are taken to the income statement.

With regard to the hedging of financial flows, gains and losses on the hedge instrument are recorded under Shareholders’ Equity when they relate to the portion of the hedge considered effective, while the portion not hedged is recorded in the income statement.

Earnings per share

Earnings per share are calculated by dividing net profit by the weighted average number of shares in circulation for the period.

Fully diluted earnings per share (calculated by subtracting from consolidated net profit the cost of converting all stock options into ordinary shares) are obtained by adjusting the number of shares in circulation assuming the exercise of stock options having a diluting effect.

Use of estimates

In accordance with IAS/IFRS, the Company made use of estimates and assumptions based on prior experience and other factors deemed determinant, but not certain. Actual data could therefore differ from estimates and projections made.

Estimated data is reviewed periodically and adjustments made to the same are taken to the Income Statement for the period in which the review takes place in case the review affect only one period, or, subsequent accounting periods in case it affects also the same. Below we describe review processes and key assumptions used by management in applying accounting principles.

Provision for inventory depreciation

The provision for inventory depreciation is accrued to bring the book value of inventories into line with their expected realizable value.

Management reviews the composition of inventories with particular reference to slow moving stock to determine the amount to be accrued prudentially to reflect the obsolescence of stocks.

Provision for doubtful accounts

The provision for doubtful accounts reflects management estimates regarding losses on trade receivables.

The estimated provision for doubtful accounts is based on expected losses by the Company, according to past experience on similar portfolios of receivables, current overdues vs. historical overdues, losses and collections, the close monitoring of credit risk

and credit worthiness of customers, in addition to projections on economic and market conditions.

Retrievable value of non-current assets

Non-current assets include property, plant and equipment, intangible assets, investments and other financial assets. Whenever circumstances so require, the management reviews periodically the book value of non-current assets held and used by the Group, in addition to assets to be disposed of. Such activity is carried out using estimates of expected cash flows from the sale of the asset and of adequate discount rates used in calculating the present value of the same. Whenever the book value of a non-current asset experiences a loss in value, the Company records a write-down equal to the difference between the book value of the asset and its retrievable value either through use or disposal of the same.

Post-retirement benefits

In the estimation of post-retirement benefits the Company makes use of traditional actuarial techniques based on stochastic simulations of the “Monte Carlo” type. Assumptions made relate to the discount rate and the annual inflation rate. Actuarial advisors of the Company also make use of demographic projections based on current mortality rates, employee disablement and resignation rates.

In 2018, based on past turnover experience, the probability of a company employee terminating his or her employment for causes other than death is the following:

Male	6.18%
Female	4.46%

The following assumptions were adopted with regard to the discounting rate, inflation rate and annual rate of increase in the post-retirement benefits:

Discounting rate	1.57%
Yearly inflation rate	1.50%
Yearly real increase in retributions	1.00%

Expected advances to be paid out are 5% per year and each advance corresponds to 70% of the accrued indemnity.

Recoverability of deferred tax assets

Cembre S.p.A. evaluates the possibility to recover deferred tax assets on the basis of profits and expected future market conditions in view of current sale contracts and ability of expected future profits to offset tax credits, in addition to the expected variance of the same and based on expected results.

Potential liabilities

In carrying out its activity, management consults with its legal and tax advisors and experts. The Company ascertains a liability arising from litigation whenever it deems probable that a financial outlay will be made in the future and when the amount of resulting losses can be reasonably estimated. In case a financial outlay becomes possible but its amount cannot be determined, such occurrence is reported in the notes.

IV. NOTES TO THE FINANCIAL STATEMENTS OF CEMBRE S.P.A.

1. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plant and Machinery	Equipment	Other assets	Work in progress	Total
Historical cost	41,296,225	57,558,472	12,112,764	4,686,076	4,319,991	119,973,528
Accumulated depreciation	(10,360,622)	(35,833,056)	(8,466,650)	(3,464,564)	-	(58,124,892)
Balance at Dec. 31, 2017	30,935,603	21,725,416	3,646,114	1,221,512	4,319,991	61,848,636
Increases	3,407,030	9,153,905	343,917	864,552	3,023,736	16,793,140
Depreciation	(894,461)	(3,580,377)	(641,297)	(433,135)	-	(5,549,270)
Net divestments	(9,569)	(89,819)	(735)	(385)	(92,400)	(192,908)
Reclassifications	2,370,740	1,148,338	247,010	3,600	(3,769,688)	-
Balance at Dec. 31, 2018	35,809,343	28,357,463	3,595,009	1,656,144	3,481,639	72,899,598

	Land and buildings	Plant and Machinery	Equipment	Other assets	Work in progress	Total
Historical cost	40,063,549	52,389,369	11,217,953	4,461,983	1,635,575	109,768,429
Accumulated depreciation	(9,528,954)	(33,043,681)	(7,905,938)	(3,238,477)	-	(53,717,050)
Balance at Dec. 31, 2016	30,534,595	19,345,688	3,312,015	1,223,506	1,635,575	56,051,379
Increases	1,192,827	4,760,338	630,414	370,504	3,869,619	10,823,702
Depreciation	(831,668)	(3,220,957)	(569,230)	(364,189)	-	(4,986,044)
Net divestments	-	(16,096)	(8,761)	(8,309)	(7,235)	(40,401)
Reclassifications	39,849	856,443	281,676	-	(1,177,968)	-
Balance at Dec. 31, 2017	30,935,603	21,725,416	3,646,114	1,221,512	4,319,991	61,848,636

The volume of capital expenditure by Cembre S.p.A. in 2018 amounted to €16,793 thousand. Investments in buildings mainly regarded refurbishment of the building that accommodates the Company's sales and management offices, for which €220 thousand was invested, as well as the construction of a new industrial warehouse for €3,032 thousand; moreover, for the same works, some €1,735 thousand was invested in equipment. Investments in production plant and machinery amounted to €7,419 thousand, with particular mention to the purchase of a work cell for €1,610 thousand, expansion of the conveyor system for the automatic warehouse for €1,020 thousand and the purchase of a packaging machine for a total of €675 thousand. The purchase of dies amounted to an expenditure of €528 thousand. Investment in equipment and dies under construction amounted to €373 thousand, while advances paid for the supply of fixed assets amounted to €2,651 thousand; of this amount, €1,496 thousand refers to the construction of a new industrial building.

The item “Land and buildings” includes the €5,921 thousand revaluation made upon the first-time application of international accounting principles (IAS).

The monetary revaluations of property, plant and equipment recognized in the Financial Statements of Cembre S.p.A. at December 31, 2018 are listed below:

Description	Law 576/75	Law 72/83	Law 413/91	Total
Land and buildings	-	246,245	687,441	933,686
Plant and Machinery	227	42,073	-	42,300
Total	227	288,318	687,441	975,986

2. INVESTMENT PROPERTY

	Land and buildings	Plant and Machinery	Other assets	Total
Historical cost	1,713,397	277,759	5,322	1,996,478
Accumulated depreciation	(606,413)	(260,032)	(4,501)	(870,946)
Balance at Dec. 31, 2017	1,106,984	17,727	821	1,125,532
Depreciation	(44,400)	(8,156)	(639)	(53,195)
Net divestments	-	(1,564)	-	(1,564)
Balance at Dec. 31, 2018	1,062,584	8,007	182	1,070,773

Pending improvement in the market which facilitates its sale, the item includes the building in Calcinate (BG) and relative equipment, no longer used in the business activities.

The fair value at December 31, 2018 is in line with its book value.

3. INTANGIBLE ASSETS

	Development costs	Patents	Software	Other int. assets	Work in progress	Total
Historical cost	1,867,516	641,865	4,802,453	77,545	92,500	7,481,879
Accumulated depreciation	(1,205,142)	(423,835)	(3,954,993)	(42,770)	-	(5,626,740)
Balance at Dec. 31, 2017	662,374	218,030	847,460	34,775	92,500	1,855,139
Increases	183,784	56,431	414,078	-	20,100	674,393
Amortization	(238,463)	(154,169)	(179,816)	(15,509)	-	(587,957)
Net divestments	(117)	-	-	-	-	(117)
Reclassifications	-	-	42,660	-	(42,660)	-
Balance at Dec. 31, 2018	607,578	120,292	1,124,382	19,266	69,940	1,941,458

4. INVESTMENTS IN SUBSIDIARIES

	12/31/2017	Change	Write-downs	12/31/2018
Cembre Ltd.	3,437,433	-	-	3,437,433
Cembre Sarl	1,201,608	-	-	1,201,608
Cembre España SLU	3,115,554	-	-	3,115,554
Cembre GmbH	1,987,192	8,300,000	-	10,287,192

Cembre Inc.	2,868,194	-	-	2,868,194
Total	12,609,981	8,300,000	-	20,909,981

The following information is provided with regard to investments in direct subsidiaries, expressed in Euro:

Company and registered office	Share capital	Shareholders' equity	Net profit	%
Cembre Ltd. (Sutton Coldfield - Birmingham)	1,900,439	13,192,311	1,926,245	100
Cembre Sarl (Morangis - Paris)	1,071,000	3,522,578	546,789	100
Cembre España SLU (Torrejon - Madrid)	2,902,200	7,344,127	585,412	100
Cembre GmbH (Monaco - Germany)	10,112,000	14,770,365	548,679	100
Cembre Inc. (Edison - New Jersey - Usa)	1,257,641	7,728,338	1,063,388	100

Values expressed in currencies other than the Euro were converted at the exchange rate in effect on the last day of the year, for share capital and reserves, and at the average exchange rate for the year with regard to net profit.

On May 3, 2018 Cembre GmbH acquired, effective from May 1, 2018 a 100%-stake in the share capital of IKUMA GmbH & Co. KG (hereinafter IKUMA KG), company operating in Germany in the sale of electrical materials, and 100% of the share capital of IKUMA Verwaltungs GmbH, non-operational company with the sole function of administration and management of IKUMA KG.

Following said acquisition, the share capital of German company Cembre GmbH increased by €8.3 million.

Therefore, Cembre S.p.A. indirectly controls the following companies:

Company and registered office	Share capital	Shareholders' equity	Net profit	% Indirect
IKUMA GmbH & Co. KG (Weinstadt - Germany)	40,000	1,134,228	634,228	100
IKUMA Verwaltungs GmbH (Weinstadt - Germany)	25,000	11,005	(1,683)	100

5. OTHER INVESTMENTS

	12/31/2018	12/31/2017	Change
Inn.tec. S.r.l.	5,165	5,165	-
Conai	59	59	-
A.Q.M. S.r.l.	5,109	5,109	-
Total	10,333	10,333	-

These represent the cost of the investment in Consorzio Nazionale Imballaggi, the cost of the investment in Inn.tec. S.r.l., consortium for technological innovation, with registered office at Provincia di Brescia, and the investment in A.Q.M. S.r.l., consortium company for the supply of technical services to companies.

6. OTHER NON-CURRENT ASSETS

These solely include guarantee deposits.

7. INVENTORIES

	12/31/2018	12/31/2017	Change
Raw materials	10,953,228	8,462,052	2,491,176
Work in progress and semi-finished goods	11,934,651	11,069,546	865,105
Finished goods	12,769,285	11,415,162	1,354,123
Total	35,657,164	30,946,760	4,710,404

The value of finished goods was decreased to its expected realizable value through the provision for finished goods, amounting to approximately to €1,495 thousand. Changes in the provision in 2018 were as follows:

	2018	2017
Provision at January 1	1,064,866	1,130,000
Accruals	523,971	141,585
Uses	(93,714)	(206,719)
Balance at December 31	1,495,123	1,064,866

8. TRADE RECEIVABLES

	12/31/2018	12/31/2017	Change
Gross trade receivables	15,984,475	17,335,778	(1,351,303)
Provision for doubtful accounts	(366,521)	(626,273)	259,752
Total	15,617,954	16,709,505	(1,091,551)

Trade receivables by geographical area are outlined below, in thousands of Euro:

	12/31/2018	12/31/2017	Change
Italy	13,350	14,485	(1,135)
Europe	1,737	1,582	155
North America	39	80	(41)
Oceania	460	136	324
Middle East	132	234	(102)
Far East	138	608	(470)
Africa	128	211	(83)
Total	15,984	17,336	(1,352)

Management periodically reviews the adequacy of the provision for doubtful accounts, also based on estimates regarding the recoverability of positions at greatest risk. Should insolvency proceedings be initiated against a debtor, the related amount is fully written down.

Average collection time shortened from 72 days in 2017 to 64 days in 2018.

The provision for doubtful accounts changed as follows:

	2018	2017
Provision at January 1	626,273	917,237
Uses	(22,551)	(147,246)
Releases	(237,201)	(143,718)
Balance at December 31	366,521	626,273

The breakdown of receivables by maturity at December 31 was as follows:

	Not matured	1-90 days	91-180 days	181-365 days	Over one year	Under litigation	Total
2018	15,080	490	130	110	103	71	15,984
2017	16,056	851	72	106	169	82	17,336

9. TRADE RECEIVABLES FROM SUBSIDIARIES

Trade receivables from the following companies:

	12/31/2018	12/31/2017	Change
Cembre Ltd. (UK)	868,850	449,211	419,639
Cembre S.a.r.l. (France)	426,923	420,058	6,865
Cembre España SLU (Spain)	498,069	132,853	365,216
Cembre GmbH (Germany)	766,175	449,867	316,308
Cembre Inc. (US)	677,798	921,038	(243,240)
IKUMA KG (Germany)	317	-	317
Total	3,238,132	2,373,027	865,105

10. TAX RECEIVABLES

	12/31/2018	12/31/2017	Change
Receivables for IRES refunds on IRAP	3,394	21,637	(18,243)
Tax credits for R&D contributions	-	70,866	(70,866)
Credit for excess advance payment	97,617	292,727	(195,110)
Patent Box receivable	1,810,189	3,901,915	(2,091,726)
Reimbursements	974	336	638
Total	1,912,174	4,287,481	(2,375,307)

On December 22, 2017 Cembre S.p.A., with the assistance of Studio Tributario e Societario Deloitte, signed an agreement with Agenzia delle Entrate (the Italian Revenue Service)

that defines the methods and criteria for calculation of the economic contribution to the production of business income by intangible fixed assets for the purposes of the so-called “Patent Box”, with regard to tax years 2015-2019.

The benefit for the year 2018 is equal to €1,810 thousand.

11. OTHER ASSETS

	12/31/2018	12/31/2017	Change
Advances to suppliers	475,091	184,207	290,884
Receivables from employees	23,872	23,205	667
Receivables for indirect taxes	309,488	36,944	272,544
Other	109,492	195,021	(85,529)
Total	917,943	439,377	478,566

The residual item “Other” predominantly includes receivables from suppliers for the year-end bonus upon achievement of supply objectives.

12. SHAREHOLDERS’ EQUITY

The share capital amounts to €8,840,000 and is made up of 17 million ordinary shares of par value €0.52 each, fully underwritten and paid-up.

The legal reserve amounts to 20% of the share capital.

At December 31, 2018 Cembre S.p.A. held 280,041 treasury shares, corresponding to 1.65% of its capital stock. Against these shares the Company recorded €5,283 thousand in a specific equity reserve under liabilities.

The table below highlights the origin, possibility of use and distribution of the shareholders’ equity items:

Nature/description	Amount	Possibility of use	Portion available
Share capital	8,840,000		
Share capital reserves:			
Share premium reserve	12,244,869	A B C	12,244,869
Suspended-tax reserves	585,159	A B	---
Other suspended-tax reserves	68,412	B	---
Restricted reserves:			
Reserve for Treasury Shares	(5,282,684)		---
Profit reserves:			
Legal Reserve	1,768,000	B	---
First time application of IAS/IFRS reserve	4,051,204	B	---
Discounting of employee termination indemnities	110,564	B	---

Merger differences	4,397,137	A B C	4,397,137
Extraordinary reserve	83,022,444	A B C	83,022,444
Total	109,805,105		99,664,450
Non-distributable portion			607,578
Residual distributable portion			99,056,872

Legend: A= capital increase; B= coverage of losses; C= distribution to shareholders.

The non-distributable portion of reserves regards development costs not yet amortized.

13. CURRENT AND NON-CURRENT FINANCIAL LIABILITIES

	Effective interest rate	Term ending	12/31/2018	12/31/2017
Bank loans				
<i>Non-current portion</i>				
Banca Intesa contract 68407	0.05%	Apr-20	1,000,375	-
NON-CURRENT FINANCIAL LIABILITIES			1,000,375	-
Bank loans				
<i>Current portion</i>				
Banca Intesa contract 33439	0.04%	Oct-19	6,667,222	-
Banca Intesa contract 68407	0.05%	Apr-20	2,000,000	-
CURRENT FINANCIAL LIABILITIES			8,667,222	-

14. EMPLOYEE SEVERANCE INDEMNITY AND OTHER PERSONNEL BENEFITS

Employee Termination Indemnity showed the following changes:

	2018	2017
Provision at January 1	2,305,696	2,353,899
Accruals	897,141	879,752
Uses	(389,073)	(304,615)
Discounting effect	(60,570)	(7,638)
Social security (INPS) treasury account	(549,539)	(615,702)
Balance at December 31	2,203,655	2,305,696

The total amount paid to the INPS treasury account at December 31, 2018 amounts to €6,968 thousand.

Employee termination indemnities accrued at December 31, 2018 was discounted on the basis of an evaluation made by a registered actuary.

A change in the discount rate used could result in the following impacts on amount of debt accrued:

Change in rate	12/31/2018	12/31/2017
0.5%	2,119,358	2,212,839
-0.5%	2,301,348	2,414,876

15. PROVISIONS FOR RISKS AND CHARGES

	Customer indemnities	Directors' compensation	Employee incentives	Total
At December 31, 2017	131,972	-	315,920	447,892
Accruals	22,601	50,000	85,460	158,061
At December 31, 2018	154,573	50,000	401,380	605,953

In line with the remuneration policy of Cembre S.p.A., variable compensation contingent on the achievement of medium-long term targets was introduced in favor of the Chairman and Managing Director for 2018-2020. The amount of the accrual relative to said variable compensation is recorded among the cost of services and, given the limited impact, was not discounted.

The provision for employee benefits includes amounts accrued for sales personnel that will be paid out upon the achievement of performance objectives set in the sales development plan launched by the Company. The amount of the accrual is recognized among personnel costs.

16. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets are predominantly recorded with regard to the provision for slow-moving stock, as described above, and the provision for doubtful accounts, for the portion not deductible for tax purposes. Deferred tax liabilities, on the other hand, predominantly arise from revaluation of land upon first-time adoption of the international accounting standards, measurement of inventories at average cost (fiscally the LIFO criterion was maintained) and discounting of the employee termination indemnity. For additional information, see the disclosure in the paragraph on taxes.

There are no receivables with maturity of over five years.

	12/31/2018	12/31/2017	Change
Deferred tax assets			
Write-down of inventories	371,718	268,456	103,262
Provision for doubtful accounts	87,965	150,306	(62,341)
Differences on depreciation	205,039	180,812	24,227
Other	183,878	134,018	49,860
Gross deferred tax assets	848,600	733,592	115,008

Deferred tax liabilities			
Average cost valuation of inventories	(325,776)	(241,236)	(84,540)
Reversal of land depreciation	(24,017)	(24,017)	-
Revaluation of land	(1,651,933)	(1,651,933)	-
Discounting of employee termination indemnity	25,505	40,042	(14,537)
Gross deferred tax liabilities	(1,976,221)	(1,877,144)	(99,077)
Net deferred tax liabilities	(1,127,621)	(1,143,552)	15,931

There are no temporary differences or accruals that could generate unrecognized deferred tax assets and/or liabilities.

17. TRADE PAYABLES

	12/31/2018	12/31/2017	Change
Trade payables	13,369,859	13,622,445	(252,586)
Advances	43,540	42,617	923
Total	13,413,399	13,665,062	(251,663)

“Trade payables” are recognized net of trade discounts; any cash discounts are recognized at the time of payment. The nominal value of such payables is adjusted for any returns or allowances (invoicing adjustments), to the extent corresponding to the amount defined with the counterparty.

The distribution of trade payables by geographical area is shown below, in thousands of Euros:

	12/31/2018	12/31/2017	Change
Italy	13,068	12,700	368
Europe	273	894	(621)
North America	16	4	12
Other	13	24	(11)
Total	13,370	13,622	(252)

18. TRADE PAYABLES TO SUBSIDIARIES

The balance of trade payables is to the following subsidiaries:

	12/31/2018	12/31/2017	Change
Cembre Ltd (UK)	69,816	3,785	66,031
Cembre S.a.r.l. (France)	-	40	(40)
Cembre GmbH (Germany)	22,132	4,256	17,876
Cembre España S.L.U. (Spain)	1,808	3,738	(1,930)
Total	93,756	11,819	81,937

19. OTHER PAYABLES

The item is broken down as follows:

	12/31/2018	12/31/2017	Change
Payables to employees	1,721,377	1,603,217	118,160
Employee withholding taxes payable	1,071,974	1,015,445	56,529
Commissions payable	360,630	302,336	58,294
Payable to Directors	-	200,000	(200,000)
Payable to Statutory Auditors	18,720	18,720	-
Social security payables	2,176,623	2,090,341	86,282
Payable on sundry taxes and withholdings	16,503	18,939	(2,436)
Other	62,644	53,905	8,739
Accrued liabilities	(190,142)	(63,191)	(126,951)
Total	5,238,329	5,239,712	(1,383)

The item "Payable to Directors" includes the variable compensation to the Managing Director, accrued following achievement of the objectives for the period 2014-2017.

20. REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue from contracts with customers by geographical area is broken down as follows:

	2018	2017	Change
Italy	59,022,685	55,576,647	3,446,038
Rest of Europe	33,762,011	31,641,021	2,120,990
Rest of the World	16,282,884	16,258,632	24,252
Total	109,067,580	103,476,300	5,591,280

Further detail is provided in the Report on Operations.

21. OTHER REVENUES

	2018	2017	Change
Capital gains	31,507	31,289	218
Insurance reimbursements	26,526	14,031	12,495
Reimbursements	129,737	115,577	14,160
Reimbursement intragroup transport	87,856	102,367	(14,511)
Intragroup services and royalties	817,054	495,230	321,824
Release of provisions	237,201	-	237,201
Other	127,198	298,279	(171,081)
Grants	17,742	2,400	15,342
Total	1,474,821	1,059,173	415,648

Intragroup services predominantly regard “Information Technology” services provided by Cembre S.p.A. in favour of subsidiaries. They also include royalties for use of the Cembre brand and charge-back of consulting costs sustained during the process of acquisition of IKUMA.

Operating grants are recognized with regard to training courses provided to personnel; moreover, pursuant to Art. 1, paragraph 125, of Law 124/2017 (Compliance with transparency and disclosure obligations), in 2018, grants amounting to a total of €17,280 thousand were obtained from the “Fondo Formazienda” fund.

22. COST OF GOODS AND MERCHANDISE

	2018	2017	Change
Raw materials and merchandise	38,946,863	36,943,075	2,003,788
Consumables and supplies	3,348,298	2,966,499	381,799
Transport and customs fees	372,544	367,486	5,058
Total	42,667,705	40,277,060	2,390,645

23. COST OF SERVICES

	2018	2017	Change
Subcontracted work	3,899,430	3,193,244	706,186
Transport	1,254,541	1,233,135	21,406
Maintenance and repair	1,684,218	1,421,501	262,717
Electricity, heating and water	1,393,920	1,300,197	93,723
Consulting	1,555,061	1,276,947	278,114
Directors' compensation	633,313	632,498	815
Payments to statutory auditors	87,360	87,360	0
Commissions	814,439	613,075	201,364
Postage and telephone	172,413	201,761	(29,348)
Fuel	252,882	232,564	20,318
Travelling expenses	541,036	520,868	20,168
Insurance	375,608	379,376	(3,768)
Bank charges	81,010	73,846	7,164
Personnel training	67,450	80,655	(13,205)
Advertising and trade fair displays	140,450	206,180	(65,730)
Security and cleaning	491,814	469,161	22,653
Other	904,848	844,203	60,645
Total	14,349,793	12,766,571	1,583,222

The increase in costs for subcontracted work is due to the increase in production volumes, as well as to different management of the copper waste generated by the production process.

24. LEASES AND RENTALS

	2018	2017	Change
Rent and related costs	554,092	547,696	6,396
Vehicle leasing	465,524	435,489	30,035
Total	1,019,616	983,185	36,431

These essentially comprise rent on buildings of third parties and related parties, as specified in the Report on Operations, and costs to lease vehicles. More information on leases stipulated with related parties is reported in Note 35 below.

25. PERSONNEL COSTS

This item includes the entire cost for personnel, including unused holidays and provisions required by law and by the collective agreements. The employee termination indemnity at December 31, 2018 includes the cost for indemnity accrued during the year for employees who resigned and the employee portion of contribution to the COMETA supplementary pension fund.

	2018	2017	Change
Wages and salaries	20,012,875	18,930,802	1,082,073
Social security contributions	5,566,339	5,269,400	296,939
Employee termination indemnity	1,239,361	1,189,558	49,803
Retirement benefits	63,661	55,172	8,489
Other costs	667,052	477,648	189,404
Total	27,549,288	25,922,580	1,626,708

Average personnel employed in the Company is broken down as follows:

	2018	2017	Change
Managers	6	6	-
White collars	209	200	9
Blue collars	231	229	2
Outsourced personnel	49	38	11
Total	495	473	22

During the course of the year, Cembre S.p.A. used an average of 49 short-term staff, for a total cost of €1,834 thousand. This amount is classified under wages and salaries.

26. OTHER OPERATING COSTS

The item is broken down as follows:

	2018	2017	Change
Sundry taxes	465,788	454,207	11,581

Membership fees	61,175	55,402	5,773
Donations	30,000	35,000	(5,000)
Losses on receivables	20,113	17,205	2,908
Capital losses	90,566	14,123	76,443
Other	498,934	278,868	220,066
Total	1,166,576	854,805	311,771

The residual item "Other" includes ancillary costs incurred for the sales offices and production departments.

27. ACCRUALS TO PROVISIONS FOR RISKS AND CHARGES

The item is broken down as follows:

	2018	2017	Change
Customer indemnities	22,601	18,264	4,337

The customer indemnities provision amounts to €23 thousand and was accrued against possible charges in the case of termination of agency mandates.

28. FINANCIAL INCOME (EXPENSE)

	2018	2017	Change
Dividends from subsidiaries	2,683,185	5,315,078	(2,631,893)
Interest earned on bank account balances	3,936	13,011	(9,075)
Other financial income	2,104	65,521	(63,417)
Total financial income	2,689,225	5,393,610	(2,704,385)
Financial charges on discounting of Employee Termination Indemnity	(30,034)	(30,885)	851
Other financial charges	(4,961)	(292)	(4,669)
Total financial expense	(34,995)	(31,177)	(3,818)
Financial income (expense)	2,654,230	5,362,433	(2,708,203)

During 2018, the Parent Company collected dividends from:

- Cembre Sarl for €151 thousand;
- Cembre Ltd. for £952 thousand, equal to €1,077 thousand;
- Cembre Inc. for \$600 thousand, equal to €488 thousand;
- Cembre España SLU for €967 thousand;

29. FOREIGN EXCHANGE GAINS (LOSSES)

The item is broken down as follows:

	2018	2017	Change
Realised foreign exchange gains	137,414	323,895	(186,481)
Realised foreign exchange losses	(124,865)	(310,427)	185,562
Unrealised foreign exchange gains	10,121	-	10,121
Unrealised foreign exchange losses	(686)	(24,582)	23,896
Total	21,984	(11,114)	33,098

30. INCOME TAXES FOR THE YEAR

	2018	2017	Change
Current taxes for IRES	(5,399,129)	(5,011,814)	(387,315)
Current taxes for IRAP	(1,085,327)	(1,000,867)	(84,460)
Deferred taxes	37,676	(22,674)	60,350
Patent Box Benefit	1,810,189	1,622,729	187,460
Net extraordinary gains/(losses)	(3,335)	(21,972)	18,637
Total	(4,639,926)	(4,434,598)	(205,328)

Application of the Patent Box regime to 2018 generated a tax benefit of €1,810 thousand, recognised as a reduction to taxes for the year.

The allocation of current taxes is calculated on the taxable income amount, which takes into account increases and decreases to be made in the income tax return to the statutory profit for the year.

Reconciliation of theoretical taxes, arising from application of the nominal rate, and actual taxes to the Income Statement is as follows:

	IRES
Profit before taxes	25,897,136
Theoretical tax expense (24.0%)	6,215,313
Effect of permanent differences	(847,475)
Effect of temporary differences	46,161
Various deductions	(14,869)
Total income taxes in the financial statements	5,399,129

	IRAP
Gross taxable IRAP	50,862,079
Theoretical tax expense (3.9%)	1,983,621
Effect of permanent differences	10,452
Effect of temporary differences	(8,485)
Deductions for personnel	(900,261)
Total income taxes in the financial statements	1,085,327

The item “deferred tax assets and liabilities” is broken down as follows:

	2018	2017	Change
Average cost valuation of inventories	(84,540)	(581)	(83,959)
Discounting of employee termination indemnity	7,208	7,413	(205)
Goodwill amortization	-	(2,713)	2,713
Write-down of inventories	103,262	(15,632)	118,894
Differences on depreciation	24,227	33,082	(8,855)
Other	(12,481)	(44,243)	31,762
Deferred tax assets and liabilities for the year	37,676	(22,674)	60,350

31. COMPREHENSIVE INCOME

Following adoption of the changes to IAS 19, the actuarial changes to the employee termination indemnity were recognized directly in a specific reserve of shareholders' equity. These amounts constitute changes in the comprehensive income for the year and are highlighted with separate indication of the relative tax effect. The net effect for 2018 is positive and amounts to €69 thousand.

32. DIVIDENDS

On May 9, 2018 the Company distributed (with ex-dividend date May 7) a dividend on net profit for the year ended December 31, 2017, amounting to €13,372 thousand, equivalent to €0.80 for each share entitled to dividends.

	2018	2017
<i>Resolved and paid in the year:</i>		
Balance due for 2017 dividend: €0.80 (2016: €0.70)	13,372,274	11,837,634
<i>Proposal submitted to the Shareholders' Meeting (not recorded as liability at December 31)</i>		
Balance due for 2018 dividend: €0.90 (2017: €0.80)	15,047,963	13,372,274

Proposed dividends submitted for approval to the Shareholders' Meeting amount to €0.90 per share, for a total of €15,048 thousand. This amount was not recorded as a liability.

33. COMMITMENTS AND RISKS

At December 31, 2018, guarantees granted by Cembre S.p.A. amounted to €778,607, compared to €696,081 at December 31, 2017.

Among the guarantees provided to third parties, mention goes to the commitments made with respect to the Municipality of Brescia, for a total of €352 thousand, to guarantee

completion of the development works linked to renovation of the entrance and parking lot of the company's headquarters.

The residual portion refers to guarantees granted to Italian and foreign electrical and railway entities, to guarantee supply for €228 thousand, and guarantees granted to Dogana di Brescia for €199 thousand.

34. NET FINANCIAL POSITION

The net financial position of Cembre S.p.A. amounted at the end of 2018 to a surplus of €1,573 thousand, declining on December 31, 2017.

At December 31, 2018, the Company had no outstanding debt involving covenants or negative pledges.

Below we include the Net Financial Position, as provided by Consob in Regulation DEM/6064313 dated July 28, 2006.

		12/31/2018	12/31/2017
A	Cash	6,756	9,920
B	Bank deposits	11,233,975	13,578,682
C	Cash and cash equivalents (A+B)	11,240,731	13,588,602
D	Current bank debt	(8,667,222)	-
E	Current financial debt (D)	(8,667,222)	-
F	Net current financial position (C+E)	2,573,509	13,588,602
G	Non-current bank debt	(1,000,375)	-
H	Non-current financial debt (G)	(1,000,375)	-
I	Net Financial Position (F+H)	1,573,134	13,588,602

35. RELATED PARTIES

The table below summarizes transactions between Parent company Cembre S.p.A. and the subsidiaries in 2018, with regard to purchases and sales. For receivables/payables, see the specific paragraphs of this document.

Company	Sales	Purchases
Cembre Ltd.	8,178,575	717,476
Cembre S.a.r.l.	5,313,848	8,504
Cembre España S.L.U.	6,121,805	4,729
Cembre Inc.	8,105,633	20,895
Cembre GmbH	4,283,723	183,136
IKUMA KG	13,997	-
TOTAL	32,017,581	934,740

Revenues include, in addition to those from the sale of products, charges made to subsidiaries for costs relating to services provided in the field of Information Technology, royalties for use of the Cembre trademark and charge-banks of consulting costs sustained in the IKUMA acquisition, for a total of €817 thousand, in addition to €88 thousand in transport costs.

With reference to assets and liabilities relating to subsidiaries and other related parties at year-end, we confirm that transactions with the same fall within the scope of normal operating activities.

The percent stakes with regard to investments in subsidiaries at December 31, 2018 are outlined below:

Company	Registered office	Share capital	Percentage held				Percentage with voting rights
			direct	indirect	through	total	
Cembre Ltd.	Sutton Coldfield (Birmingham-GB)	GBP 1,700,000	100%	-	-	100%	100%
Cembre Sarl	Morangis (Paris - France)	Euro 1,071,000	100%	-	-	100%	100%
Cembre España SLU	Torrejón de Ardoz (Madrid -Spain)	Euro 2,902,200	100%	-	-	100%	100%
Cembre GmbH	Munich (Germany)	Euro 1,812,000	100%	-	-	100%	100%
Cembre Inc.	Edison (NJ- Usa)	US\$ 1,440,000	100%	-	-	100%	100%
IKUMA GmbH & Co. KG	Weinstadt (Germany)	Euro 40,000	-	100%	Cembre GmbH	100%	100%
IKUMA Verwaltungs GmbH	Weinstadt (Germany)	Euro 25,000	-	100%	Cembre GmbH	100%	100%

All of the above equity investments are held by way of ownership.

Among assets leased to Cembre S.p.A. by third parties are an industrial building adjacent to the Company's registered office measuring a total of 5,960 square meters on three floors, in addition to the Monza, Padua and Bologna sales offices. These properties are owned by company Tha Immobiliare S.p.A., with registered office in Brescia, controlled by Anna Maria Onofri, Giovanni Rosani and Sara Rosani, directors of Cembre S.p.A. Rent paid on said assets amounted to €534 thousand. Such rents are in line with market conditions. It is in the Company's interest to benefit from the continuity of office space reducing the risk of early termination of leases. At the end of 2018, all amounts due to Tha Immobiliare had been settled. Said contracts envisage an automatic renewal clause upon expiry.

	2018	2017	Change
Rent paid by Cembre SpA to Tha Immobiliare	534,469	527,925	6,544

Cembre S.p.A. does not have direct relationships with its parent company Lysne S.p.A. of any other nature than that of the exercise of shareholders' rights on the part of the parent. Lysne S.p.A. does not carry out any management or coordination activity with respect to Cembre S.p.A.

36. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Given the limited exposure, Cembre S.p.A. makes extremely limited use of derivative instruments to hedge against interest risk and currency exposure.

Risks connected with the market

Cembre S.p.A. faces these risks with ongoing innovation, widening of the product range, high automation and with the upgrade of its production process, implementing focused marketing policies also with the help of its foreign subsidiaries.

Interest rate risk

In April, the Company took out two loans with Banca Intesa, respectively for 10 million, with expiry in October 2019, at a fixed rate of 0.04%, and 4 million, with expiry in April 2020, at a fixed rate of 0.05%. The nature of the rate applied and the relatively short-term maturity protect the Group from any interest rate risk.

Currency risk

Despite a strong international presence, Cembre S.p.A. does not have a significant exposure to currency risk (on an operating or equity basis), as it operates mainly in the Euro area, the currency in which its trade transactions are mainly denominated.

At December 31, 2018, the following currency positions were open:

	2018		2017	
	Original currency	Equivalent €	Original currency	Equivalent €
Receivables	US\$ 1,096,952	€958,037	US\$ 1,104,601	€921,038
Payables*	US\$ 26,133	€22,823	US\$ (68,579)	€(57,182)
Payables	GBP 362	€405	GBP 1,061	€1,196
Payables	JPY 200,000	€1,589	JPY 243,940	€1,807
Current account balance in foreign currency	US\$ 9,696	€8,468	US\$ 71,686	€59,774

* in 2017, the item predominantly included advances to suppliers

The items were converted into Euro at the exchange rate in effect on December 31, 2018 and generated, with respect to the original amount recorded, a negative exchange rate difference of €5 thousand, recorded in the income statement.

The table below summarizes the economic effect, in thousands of Euro, of possible changes in exchange rate for the items indicated above:

	Change in exchange rate	Receivables	Payables	Current account
2018	5%	(47)	1	(3)
	-5%	49	(2)	3
2017	5%	(32)	2	-
	-5%	36	(5)	-

As illustrated, the entity and volume are not such as to have a significant impact on the Company's results.

Liquidity risk

The exposure of the Company to liquidity risk is not material as its financial position is balanced. The collection and payment cycle is also in balance, as shown by the ratio of current assets to current liabilities.

At December 31, 2018 the breakdown in payables to suppliers based on expiry was as follows (in thousands of Euro):

		0-30	31-60	61-90	91-120	over 120	TOTAL
2018	Past due	1,645	2,726	410	356	744	5,881
	Falling due	1,104	5,747	611	11	16	7,489
2017	Past due	2,852	296	60	44	124	3,376
	Falling due	1,275	7,591	1,293	87	-	10,246

Credit risk

Exposure to credit risk by Cembre S.p.A. relates exclusively to trade receivables.

As shown in Note 8, none of the areas in which Cembre S.p.A. operates poses relevant credit risks.

Operating procedures limit the sale of products or services to customers who do not possess an adequate credit profile or provide secured guarantees.

Receivables matured over 12 months and those under litigation are widely covered by the provision for bad debt accrued. Moreover, Cembre S.p.A. has stipulated an insurance policy against commercial credit risk, allowing it to reduce further exposure to credit risk.

37. SUBSEQUENT EVENTS

No event having significant effects on the Company's financial position or operating performance occurred after December 31, 2018.

Attachments

This document includes the following attachments:

Attachment 1: Comparative Income Statement;

Attachment 2: Summary financial data providing the key figures of the last financial statements of the consolidated subsidiaries;

Attachment 3: Compensation for auditing services and other services.

Brescia, March 11, 2019

FOR THE BOARD OF DIRECTORS
The Chairman and Managing Director
Giovanni Rosani

Attachment 1 – Notes to the Financial Statements of Cembre S.p.A.

Comparative Income Statement

	2018	%	2017	%	change
Revenues from contracts with customers	109.067.580	100,0%	103.476.300	100,0%	5,4%
Other revenues	1.474.821		1.059.173		39,2%
Total Revenues	110.542.401		104.535.473		5,7%
Cost of goods and merchandise	(42.667.705)	-39,1%	(40.277.060)	-38,9%	5,9%
Change in inventories	4.710.404	4,3%	2.336.523	2,3%	101,6%
Cost of services received	(14.349.793)	-13,2%	(12.766.571)	-12,3%	12,4%
Lease and rental costs	(1.019.616)	-0,9%	(983.185)	-1,0%	3,7%
Personnel costs	(27.549.288)	-25,3%	(25.922.580)	-25,1%	6,3%
Other operating costs	(1.166.576)	-1,1%	(854.805)	-0,8%	36,5%
Increase in assets due to internal construction	934.119	0,9%	809.631	0,8%	15,4%
Accruals to provisions for risks and charges	(22.601)	0,0%	(18.264)	0,0%	23,7%
Gross Operating Profit	29.411.345	27,0%	26.859.162	26,0%	9,5%
Tangible assets depreciation	(5.602.465)	-5,1%	(5.039.585)	-4,9%	11,2%
Intangible assets amortization	(587.958)	-0,5%	(571.139)	-0,6%	2,9%
Operating Profit	23.220.922	21,3%	21.248.438	20,5%	9,3%
Financial income	2.689.225	2,5%	5.393.610	5,2%	-50,1%
Financial expenses	(34.995)	0,0%	(31.177)	0,0%	12,2%
Foreign exchange gains (losses)	21.984	0,0%	(11.114)	0,0%	-297,8%
Profit Before Taxes	25.897.136	23,7%	26.599.757	25,7%	-2,6%
Benefit from the application of Patent Box Regime on previous years	-	0,0%	2.279.186	2,2%	-100,0%
Income taxes	(4.639.926)	-4,3%	(4.434.598)	-4,3%	4,6%
Net Profit	21.257.210	19,5%	24.444.345	23,6%	-13,0%

Attachment 2 – Notes to the Financial Statements of Cembre S.p.A.

Summary financial data of consolidated subsidiaries (ex article 2429 of the Italian Civil Code)

(amounts in euro)	Non-current assets	Current assets	Total assets	Shareholders' Equity	Total Liabilities	Total Liabilities and Shareholders' Equity
Cembre Ltd	4.247.208	11.834.919	16.082.128	13.192.311	2.889.816	16.082.128
Cembre Sarl	410.243	4.877.032	5.287.275	3.522.578	1.764.697	5.287.275
Cembre España SL	2.750.570	5.524.196	8.274.766	7.344.127	930.639	8.274.766
Cembre GmbH	13.796.207	4.037.412	17.833.620	14.770.365	3.063.254	17.833.620
Cembre Inc.	411.278	8.082.817	8.494.094	7.728.338	765.757	8.494.094
IKUMA GmbH & Co. KG	26.816	3.262.752	3.289.568	1.134.228	2.155.340	3.289.568
IKUMA Verwaltungs GmbH	-	22.976	22.976	11.005	11.971	22.976

(amounts in euro)	Total revenues	Gross operating profit	Operating profit	Profit before taxes	Income taxes	Net profit (loss)
Cembre Ltd	21.028.996	2.837.569	2.390.443	2.386.373	(460.128)	1.926.245
Cembre Sarl	10.149.323	829.763	775.693	775.549	(228.760)	546.789
Cembre España SLU	10.892.847	906.190	780.572	780.163	(194.752)	585.412
Cembre GmbH	8.023.998	820.908	744.580	784.839	(236.160)	548.679
Cembre Inc.	14.026.275	1.464.963	1.376.185	1.376.046	(312.657)	1.063.388
IKUMA GmbH & Co. KG	8.549.098	796.885	781.330	726.436	(92.208)	634.228
IKUMA Verwaltungs GmbH	333.312	(3.674)	(3.674)	(1.683)	-	(1.683)

Figures above relate to the respective Financial Statements at December 31, 2018

The translation of amounts expressed in currencies other than the euro was carried out as described in the notes to the Financial Statements at December 31, 2018.

Attachment 3 to the Note to the Financial Statements of Cembre S.p.A.

COMPENSATION FOR AUDITING SERVICES AND OTHER SERVICES

(pursuant to article 149-duodecies of the CONSOB Issuers' Regulation)

Type of services	Independent Auditors	Recipient	Compensation (Euro '000)
Audit	EY	Cembre S.p.A.	54
Additional auditing activities	EY	Cembre S.p.A.	38
Limited audit, consolidated non-financial declaration	EY	Cembre S.p.A.	6
Audit	EY	Subsidiaries	93
Agreed-Upon-Procedures in the acquisition of IKUMA	EY	Cembre GmbH	47

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C e m b r e

Attestation in respect of the statutory financial statements

pursuant to art 154-bis Paragraph 5, of Legislative Decree 58 dated Feb. 24, 1998 "Consolidated Law on financial intermediation regulations" and subsequent integrations and updatings

The undersigned Giovanni Rosani and Claudio Bornati, in their position as Managing Director and Manager responsible for the preparation of financial reports of Cembre S.p.A., respectively, pursuant to Article 154-bis, paragraphs 3 and 4 of Legislative Decree No.58/1998, certify that internal controls over financial reporting in place for the preparation of 2018 statutory financial statements and during the period covered by the report, were:

- adequate to the company structure, and
- effectively applied during the process.

The undersigned officers certify that this 2018 statutory financial statements:

- a) was prepared in accordance with International Financial Reporting Standards, as endorsed by the European Union through Regulation (EC) 1606/2002 of the European Parliament and Counsel, dated 19 July 2002, and
- b) corresponds to the company's evidence and accounting books and entries;
- c) provide a fair and correct representation of the financial conditions, results of operations and cash flows of the Company.

The undersigned officers attest, also, that the report on operations includes a reliable operating and financial review of the Company as well as a description of the main risks and uncertainties to which it is exposed.

Brescia, March 22, 2019

Chairman and
Managing Director

signed by:
Giovanni Rosani

Manager responsible for the
preparation of financial reports

signed by:
Claudio Bornati

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010 and article 10 of EU Regulation n. 537/2014 (Translation from the original Italian text)

To the Shareholders of
Cembre S.p.A.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Cembre S.p.A. (the Company), which comprise the statement of financial position as at December 31st 2018, and the statement of comprehensive income, statement of changes in shareholder's equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31st 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matters

The financial statements of Cembre S.p.A. for the year ended December 31st 2017 were audited by another auditor who expressed an unmodified opinion on those statements on March 28th 2018.

Key Audit Matters

There are no key audit matters to be communicated in this report.

Responsibilities of Directors and Those Charged with Governance for the Financial Statements

The Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005, and, within the terms provided by the 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 Company's ability to continue as a going concern and, when preparing the financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the financial statements on a going concern basis unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;

- we have evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of Cembre S.p.A., in the general meeting held on April 26th 2018, engaged us to perform the audits of the financial statements for each of the years ending December 31st 2018 to December 31st 2026.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) in their capacity as audit committee, prepared pursuant to article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998

The Directors of Cembre S.p.A. are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and Ownership Structure of Cembre S.p.A. as at December 31st 2018, including their consistency with the related financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998, with the financial statements of Cembre S.p.A. as at December 31st 2018 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operations and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the financial statements of Cembre S.p.A. as at December 31st 2018 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated 30 December 2016

The Directors of Cembre S.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated 30 December 2016. We have verified that non-financial information have been approved by Directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated 30 December 2016, such non-financial information are subject to a separate compliance report signed by us.

Brescia, 22 marzo 2019

EY S.p.A.
Signed by: Stefano Colpani, partner

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

REPORT BY THE BOARD OF STATUTORY AUDITORS
TO THE SHAREHOLDERS' MEETING OF CEMBRE SPA, DRAWN UP PURSUANT TO
ARTICLE 153 OF LEGISLATIVE DECREE 58/98 ("TUF") AND ARTICLE 2429, PARAGRAPH
TWO, OF THE ITALIAN CIVIL CODE

To our Shareholders:

Pursuant to article 2429, paragraph 2 of the Italian Civil Code and article 153 of Legislative Decree no. 58/98, the Board of Statutory Auditors reports to the Shareholders' Meeting, called to approve the Financial Statements for the year, on the monitoring activity carried out and on omissions and censurable facts observed, in addition to expressing a recommendation on the Financial Statements, their approval and other pertinent issues.

The Board of Statutory Auditors currently in office was appointed by the Shareholders' Meeting of April 26, 2018 pursuant to laws, regulations and by-laws, also with regard to balance in gender representation. The Board of Statutory Auditors' term will end with the Shareholders' Meeting called to approve the Financial Statements at December 31, 2020.

Members of the Board of Statutory Auditors have complied with the limit on the number of appointments that may be held by members, set by article 144-terdecies of the Issuers' Regulation.

In terms of the auditing duties, the meeting of April 26, 2018 granted the mandate, upon justified proposal by the Board of Statutory Auditors, to the auditing firm EY S.p.A., pursuant to Legislative Decree 58/1998 and Legislative Decree 39/2010, to whose reports reference is made. The auditing mandate shall have a term of nine years (2018-2026). The Independent Auditors' term will end with the Shareholders' Meeting called to approve the Financial Statements at December 31, 2026.

In 2018, in compliance with the responsibilities assigned by article 149 of Legislative Decree no. 58/98, the Board of Statutory Auditors:

- attended the Ordinary Shareholders' Meeting of April 26, 2018 and the meetings of the Board of Directors, obtaining from the Directors adequate information on the operations of the Company and their foreseeable development, in addition to the main transactions, in terms of size and importance, carried out by the Company and its subsidiaries;
- acquired knowledge necessary to verify compliance with the law, the by-laws, correct management principles and the adequacy of the Company's organizational structure, through the acquisition of documents and information from the managers of the

- departments involved and from the periodic exchange of information with the Independent Auditors;
- attended, at least through its Chairman, the Control and Risk Committee, Appointments and Remuneration Committee and Supervisory Body's meetings;
 - monitored the functioning and effectiveness of internal control systems, in addition to the adequacy of the administrative and accounting system, with particular attention to the ability of the latter to portray the operations of the Company;
 - promptly shared with the managers of the Independent Auditors key data and information for the performance of its respective duties pursuant to art. 150 of Legislative Decree 58/98, also by examining the work carried out and receiving reports as provided by article 14 of Legislative Decree 39/2010, and art. 11 of EU Reg. 537/2014;
 - examined the contents of the Additional Report pursuant to art. 11 of EU Regulation 537/2014, which was transmitted to the Board of Directors pursuant to art. 19 paragraph 1 letter a) of Legislative Decree 39/10, from which no aspects emerged that should be highlighted in this report;
 - monitored the functioning of the control system on subsidiaries and the adequacy of instructions imparted to subsidiaries pursuant to article 114, paragraph 2, of Legislative Decree 58/98;
 - acknowledged the issue of the Report on Remuneration as per article 123-ter of Legislative Decree 58/98 and article 84-quarter of the Consob Issuers' Regulation, without having relevant issues to report;
 - ascertained compliance of the statutory provisions with the legal and regulatory provisions;
 - monitored the implementation of corporate governance rules adopted by the Company in compliance with the Corporate Governance Code of Listed Companies promoted by Borsa Italiana S.p.A.;
 - monitored compliance of the internal procedure on Dealings with Related Parties with the Regulation approved by Consob with Resolution no. 17221 of March 12, 2010 and subsequent amendments, as well as its observance, pursuant to art. 4, paragraph 6 of the same Regulation, taking into account the indications and guidelines provided in Communication no. DEM/10078683 of September 24, 2010 and Consob resolutions no. 19925 of March 22, 2017 and no. 19974 of April 27, 2017;
 - monitored on the financial reporting process, verifying compliance by the Directors with norms inherent to the preparation, approval and publication of the accounts of Cembre

S.p.A. and the consolidated financial statements;

- assessed the adequacy of the method and impairment process implemented in order to clarify any existence of impairment of the equity investment acquired during the year;
- verified that the Report by the Board of Directors on Operations for the 2018 financial year complied with applicable legislation and was consistent with resolutions adopted by the Board of Directors and events represented in the accounts of Cembre S.p.A. and the consolidated financial statements;
- acknowledged the content of the Consolidated Half-year Report, without having exceptions to report, in addition to verifying that the same was published in compliance with currently applicable regulations;
- verified that the Report on Operations for the 2018 financial year was in compliance with regulations in force and conformed with the facts represented in the statutory and consolidated financial statements;
- acknowledged that the Company continued to issue on a voluntary basis Interim Reports on the first and third quarters within the deadlines set by the previous regulations;
- monitored compliance with the requirements established by Legislative Decree no. 254/2016 and examined the Consolidated Non-Financial Declaration, ascertaining compliance with the guidelines for its preparation pursuant to said decree.

According to article 19, paragraph 1, of Legislative Decree no. 39/2010, as amended by Legislative Decree no. 135/2016, the Board of Statutory Auditors, in its capacity as Committee for Internal Control and Audit, also has specific tasks regarding information, monitoring, control and verification as described in the new regulation, fulfilling its duties and carrying out the tasks assigned to it by said regulation.

Based on the information and data acquired during the monitoring activity carried out by the Board of Statutory Auditors as described above, no fact from which to infer the lack of compliance with the law or the Company's By-laws or such as to justify its reporting to the Supervisory Body or worth mentioning in the present Report emerged.

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With reference to the activities carried out during the year - also in compliance with the guidelines provided by CONSOB with Communication DEM/1025564 of April 6, 2001 and subsequent amendments and additions ("Communication on the contents of the Report by the Board of Statutory Auditors to the Shareholders' Meeting as per article 2429, paragraph 3, of the Italian Civil Code and 153, paragraph 1, of Legislative Decree 58/98 - Summary sheet of monitoring activities carried out by the Board of Statutory Auditors") - we report the following.

1. Among the significant information indicated by the Company in the Report on Operations, mention goes to the purchase on May 3, 2018 (effective from May 1, 2018) of the companies IKUMA GmbH & Co. KG and IKUMA Verwaltungs GmbH, both part of the same group and with headquarters in Weinstad, near Stuttgart (De). IKUMA GmbH & Co. KG operates in the marketing of electrical materials, while IKUMA Verwaltungs GmbH is a non-operating company with the exclusive function of administration and management of IKUMA GmbH & Co.KG. The acquisition was carried out through subsidiary Cembre GmbH. for a total purchase price of 8.3 EUR million.

There do not emerge any other transactions carried out by the Company or its subsidiaries that may be considered significant or having a relevant economic or financial impact.

All activities carried out by the Company were reported in detail in the Report on Operations. In any case, the Board of Statutory Auditors monitored and verified - based on information in its possession - that operations carried out were in compliance with the law, the Company's By-laws and correct management principles, were not manifestly imprudent, did not constitute a potential conflict of interest, were not in contrast with Shareholders' resolutions taken or were such as to compromise the integrity of the company's assets.

2. The Board of Statutory Auditors did not encounter any atypical or unusual transaction as defined in CONSOB Communication DEM/6064293 dated July 28, 2006.

We acknowledge that information provided in the Financial Report regarding events and significant operations that are not repeated frequently or atypical or unusual transactions, including those within Group companies or with related parties, is adequate.

3. The characteristics of transactions with subsidiaries and related parties carried out by the Company and its subsidiaries in 2018, entities involved and the related economic effects, are reported in the Related Parties section in the Report on Operations, to which we refer.

Dealings with Related Parties, defined in accordance with international accounting principles and guidelines issued by CONSOB, are regulated by an internal procedure (the "Procedure"), adopted by the Board of Directors of the Company on November 11, 2010, in compliance with article 2391 *bis* of the Italian Civil Code and the Regulation issued by CONSOB, as last modified on March 13, 2018. The Board of Statutory Auditors examined the Procedure verifying its conformity with regulations issued by CONSOB on related parties dealings.

4. We acknowledge that Independent Auditors EY S.p.A. issued on March 22, 2019 the Audit Report pursuant to article 14 of Legislative Decree no. 39/2010 and article 10 of EU

Regulation 537/2014, in which it attested that:

- the Financial Statements of Cembre S.p.A. and the Consolidated Financial Statements of the Cembre Group at December 31, 2018 provide a true and correct representation of the financial position and operating performance the income and cash flows of the Company the Group for the 2018 financial year in compliance with the *International Financial Reporting Standards* adopted by the European Union, as well as the provisions issued in compliance with art. 9 of Legislative Decree no. 38 of February 28, 2005;
- the Report on Operations and some specific information contained in the above-mentioned Report on Corporate Governance and Ownership Structure are consistent with the Financial Statements of the parent company and the Consolidated Financial Statements of the Cembre SpA Group at December 31, 2018 and that they are prepared in compliance with the law;
- the opinion on the Financial Statements and on the Consolidated Financial Statements expressed in the aforementioned Reports is in line with that indicated in the Additional Report for the Board of Statutory Auditors, in its capacity as Committee for Internal Control and Audit, prepared pursuant to art. 11 of EU Regulation 537/2014.

In its Report on the audit of the consolidated financial statements, the Independent Auditors also declared to have verified approval by the directors of Cembre S.p.A. of the Non-Financial Declaration for the year 2018.

The audit reports for the individual and consolidated financial statements illustrate the key audit matters (KAMs) which, based on the professional opinion of the auditors, are most significant in auditing the individual and consolidated financial statements for the year in question. In particular, EY S.p.A., for the financial statements of Cembre S.p.A. at December 31, 2018, did not identify any key aspects worthy of mention in this report.

Said Audit Reports by the Independent Auditors do not contain findings or exceptions made to information supplied, nor statements issued pursuant to art. 14, paragraph 2, letters d) and e) of Legislative Decree 39/2010.

Also on March 22, 2019, the Independent Auditors:

- transmitted to the Board of Statutory Auditors in its capacity as Committee for Internal Control and Audit, the Additional Report provided for in Article 11 of EU Regulation 537/2014 issued on the same date;
- issued, pursuant to art. 3, paragraph 10 of Legislative Decree 254/2016 and art. 5 of Consob Regulation Resolution no. 20267/2018, the "Independent Auditors' report on the consolidated non-financial declaration". In their report, the Independent Auditors stated that, based on the work performed, no elements came to their attention that would suggest that the Cembre Group's Consolidated Non-financial Declaration for the year ended

December 31, 2018 was not drafted, in all its significant aspects, in compliance to the provisions of articles 3 and 4 of the Decree and the GRI Standards, indicated in the paragraph "Methodological note" of the Non-Financial Declaration.

During the periodic meetings of the Board of Statutory Auditors with the Independent Auditors, pursuant to art. 150, paragraph 3 of Legislative Decree no. 58/1998, no aspect worthy of mention in the present report emerged, nor did it receive from the same information on facts deemed to be reprehensible in connection with the performance of the audit carried out.

In 2018, the Board of Statutory Auditors, in its capacity as Committee for Internal Control and Audit:

- a. verified and monitored the independence of the Independent Auditors, pursuant to art. 19, paragraph 1, letter e) of Legislative Decree 39/2010, as amended by Legislative Decree no. 135/2016;
- b. examined the transparency report and the additional report prepared by the Independent Auditors in compliance with criteria set out in EU Reg. 537/2014, noting that, based on the information acquired, no critical aspects emerged in relation to the independence of the Independent Auditors;
- c. received written confirmation on March 22, 2019 from the Independent Auditors that during the period from January 1, 2018 to the moment of issuance of the Report, it did not identify any situations that could compromise its independence from Cembre SpA pursuant to the combined provisions of articles 4, 5 and 6, par. 2 of EU Regulation 537/2014, par. 17, letter a) of the Auditing Principle (Isa Italia) 260, as well as 9, 9-bis, 10 and 17 of Legislative Decree 39/2010.
- d. discussed with the Independent Auditors risks that may compromise their independence and any possible measures adopted to mitigate such risks, pursuant to art. 6, par. 2, lett. b) of EU Reg. 537/2014.

5-6. In 2018, the Board of Statutory Auditors did not receive any report pursuant to article 2408 of the Italian Civil Code, or any complaints from Shareholders or other parties.

The Board is not aware of any other facts or statements to report to the Shareholders' Meeting.

7. As already indicated in the Report by the Board of Statutory Auditors on the financial statements for the year ended December 31, 2017, during the Board of Directors' meeting of January 19, 2018, the Company appointed the previous Independent Auditors PricewaterhouseCoopers S.p.A. as its "*non-financial declaration independent auditor*" pursuant

to Legislative Decree no. 254/2016 for a compensation of €17,000.

The Board of Statutory Auditors confirmed the compatibility of the appointment with current norms and specifically with the provisions of article 17, paragraph 3 of Legislative Decree 39/2010, as amended by Legislative Decree no. 135/2016 and with the restrictions imposed by article 5 of EU Regulation no. 537/2014 to which reference is made in the same. Based on these verifications it expressed its opinion as required by current regulations.

8. During the year 2018, EY GmbH was granted the professional mandate, on behalf of Cembre GmbH, to carry out the Agreed-upon-Procedures with regard to acquisition of the Ikuma Group. The compensation for said mandate was agreed upon in the amount of €47 thousand. Note that the mandate had been granted prior to the appointment of EY S.p.A. as Independent Auditor of the Cembre Group.

A detailed description of remuneration paid is reported by the Board of Directors in the table drawn up pursuant to art. 149-duodecies of CONSOB Regulation no. 11971 of May 14, 1999 and subsequent amendments and additions ("Regulations for the implementation of Legislative Decree No. 58 of February 24, 1998, concerning the regulation of listed companies", and the "Issuers' Regulation").

In relation to the aforementioned appointments, the Board of Statutory Auditors monitored and ascertained, also pursuant to art. 19 of Legislative Decree no. 39/2010 and art. 5 of EU Reg. 537/2014, respect of the relevant regulatory provisions, as well as compatibility with the restrictions and limitations envisaged by law.

With approval of the financial statements at December 31, 2017, the term of independent auditing firm PricewaterhouseCoopers S.p.A. ended. The new auditing firm was selected through a specific selection procedure in compliance with the provisions of art. 16, paragraph 3, of the Delegated Regulation (EU) no. 537/2014, at the end of which the Board of Statutory Auditors, pursuant to art. 16, paragraph 2 of the Regulation, prepared a motivated recommendation containing two possible candidates, one of which is preferred, which was delivered to the Board of Directors on January 11, 2018. The recommendation was acquired in the proceedings at the meeting of the Board of Directors of January 19, 2018 and was submitted to the Shareholders' Meeting, which appointed the company E.Y. S.p.A. as new auditing firm for the Cembre Group for the nine-year period 2018-2026.

9. In 2018, the Board of Statutory Auditors, pursuant to the applicable law and regulations, and in addition to the opinions reported in above points 7 and 8, expressed an opinion with regard to the monetary incentive plan for the Managing Director approved by the Board of

Directors on November 7, 2018.

The Board of Statutory Auditors has also expressed its opinion in all those cases in which it has been requested to do so by the Board of Directors in the context of those decisions that require the prior opinion of the Board of Statutory Auditors.

10. In general, with the end of acquiring information instrumental in carrying out its monitoring activities, in 2018 the Board of Statutory Auditors

- met six times, in compliance with the frequency required by law, to carry out periodic checks and adopt the required resolutions. Activities carried out in said meetings are documented in the related minutes. All meetings were attended by all members;
- attended all six of the Board of Directors' Meetings during which Directors informed the Board of Statutory Auditors on the main transactions of economic and financial relevance carried out by the Company and its subsidiaries;
- attended the Shareholders' Meeting of April 26, 2018;
- met once as a Board for the sharing of information with the Company's independent auditors, PriceWaterhouseCoopers S.p.A. and once with E.Y. S.p.A., without any relevant aspects or circumstance worthy of mention in the present Report having been discussed;
- attended, at least through its Chairman, three meetings of the Appointments and Remuneration Committee;
- also attended the five meetings of the Internal Control and Risk Committee and of the Supervisory Body – of which on two occasions represented solely by its Chairman – ascertaining the adequacy of the company's structure to its size;

11. The Board of Statutory Auditors monitored compliance with the Law and the By-laws and the respect of correct management practices, ensuring that operations resolved and carried out by Directors were consistent with said rules and principles in addition to being inspired by rational economic principles and not manifestly imprudent or excessively risky, in contrast with resolutions taken by the Board or such as to compromise the integrity of the company's assets;

The Board believes that the instruments and governance institutes adopted by the Company are valid to ensure respect of the principles of correct administration.

12. The Board of Statutory Auditors acquired direct knowledge and monitored, to the extent required by our task, the adequacy of the organizational structure of the Company in relation to its size, also gathering information from persons in charge of the management of the

Company, the Person in charge of *Internal Audit*, the *Control and Risk Committee*, the *Supervisory Body* and the Independent Auditors, with the aim of exchanging data and information.

In light of verifications carried out and the absence of critical situations, the organizational structure of the Company appears adequate to its corporate goal, the characteristics and size of the company.

13. With regard to the adequacy and effectiveness of the internal auditing and risk management system, also at the consolidated level, the Board of Statutory Auditors carried out its task through the exhaustive collection of information, by:

- reviewing the report of the Person in charge of Internal Audit on the adequacy and functioning of internal audit and risk management systems of the Company;
- attending meetings of the Internal Control and Risk Committee and of the Supervisory Body;
- reviewing the report of the Internal Control and Risk Committee on the internal audit system;
- reviewing information on measures taken and procedures adopted pursuant to Legislative Decree 231/2001 and subsequent amendments, on the administrative responsibility of organizations with regard to crimes referred to in the above legislation;
- reviewing information on monitoring activity for hygiene, employee safety and the environment in general, and on the implementation of corrective action, also by seeking specific independent advice;
- reviewing the results of work carried out by the Independent auditors;
- reviewing information provided by the management and respective boards of subsidiaries, pursuant to commas 1 and 2 of article 151 of Legislative Decree 58/98;
- certification of the financial statements pursuant to art. 81-ter of Consob Regulation dated May 14, 1999 and subsequent amendments, underwritten by the Managing Director and Manager in charge of drafting the Company's accounts;

The Board of Statutory Auditors also interfaced with the Person responsible for Internal Audit to evaluate the audit plan and its outcome, both in its introduction phase, and in that of the review of verifications performed and the related follow-up.

The Company adopted the Organizational Model contemplated by Legislative Decree 231/2001 (the "Model 231") of which the Code of Ethics is an integral part. The Model is continually updated to bring it into line with normative changes introduced over time. In its

meeting of November 14, 2018 the Board of Directors updated the Organization Model and Code of Ethics with regard to the liability of entities (instigation to corruption, racism and xenophobia) and alignment with the new *whistleblowing* regulations in relation to the contents of Law nos. 199/2016, 167/2017 and 179/2017.

On May 25, 2018 EU Regulation 679/2016 (*General Data Protection Regulation*) became effective, with respect to which Cembre adapted its organizational processes with regard to the protection of personal data. Having met the regulatory requirements, the Company did not appoint a Data Protection Officer. The Board acknowledges that the yearly reports of the Internal Audit Department close with an overall favorable opinion of the internal control structure.

In light of the monitoring activity carried out and of the positive opinions regarding the adequacy, effectiveness and functioning of the internal control and risk management system formulated by the Internal Audit and Risk Committee and by the Board of Directors, the Board of Statutory Auditors deems, within the scope of its responsibilities, such system to be adequate.

14. The Board also monitored the ability of the managerial accounting system of the Company to correctly represent the performance of the Company through the gathering of information from the Appointed Manager and competent head of departments, the review of corporate documents and the analysis of results of work carried out by the independent auditors. In particular, the Board reports that in 2018 the Appointed Manager verified, with the help of the Internal Audit Department, the adequacy and actual application of administrative and accounting procedures as per article 154-bis, TUF; such activity allowed to attest that the financial statements provide a true and correct representation of the financial situation and economic performance of the Company and its subsidiaries.

Following acquisition of Ikuma GmbH and the relative Purchase Price Allocation, carried out for the purposes of the Group's consolidated financial statements, an impairment test was performed on goodwill as well as on the entire equity investment, in accordance with IAS 36. The analysis was conducted by the Company and approved by the Board of Directors on March 11, 2019. The impairment procedure and its results were monitored by the Board of Statutory Auditors through participation in the meeting of the Control and Risk Committee, which examined them.

In light of the monitoring activity carried out and of the positive opinion on the adequacy of the organizational, administrative and accounting structure of the Company expressed by the Board of Directors at its meeting of November 14, 2018, the Board of Statutory Auditors

deems, within the scope of its responsibilities, such system to be adequate and reliable in providing a correct representation of the Company's performance.

15. The Board monitored the adequacy of instructions imparted to subsidiaries pursuant to article 114, paragraph 2, of Legislative Decree no. 58/98 and subsequent amendments, and on the correct flow of information between them, and deems the Company to be capable of complying with disclosure requirements set by Law, without exception. With reference to subsidiary Cembre Inc., incorporated in the US and therefore not operating under the laws of the EU, whose accounts are audited, we attest that the administrative, accounting and reporting systems used are adequate in providing a regular flow of operating and financial information to the company's management and Independent auditors.

16. In compliance with article 150, paragraph 3 of TUF, periodic meetings with the Independent Auditors were carried out to verify the reliability of the management and accounting system of the Company and the internal control system. No relevant aspect requiring further analysis or the existence of censurable facts emerged.

With reference to the functions assumed pursuant to article 19 of Legislative Decree 39/2010, the Board of Statutory Auditors, also in the context of meetings held with the Independent Auditors, took vision of the work plan adopted, received information on the process for identification and measurement of risks, on the areas of attention in auditing of the individual and consolidated financial statements, on identification of the key aspects of the audit (*KAMs*) in accordance with ISA Italia 701, on the auditing strategy, on the audit findings, on the accounting principles adopted, on the accounting of major operations that occurred in the year, on the outcome of auditing activities and on the fundamental issues that emerged upon the independent audit relating to financial reporting, all of which did not reveal any shortcomings in the internal control system and in the financial reporting process.

17. The Company participates and complies with the Corporate Governance Code issued by the Committee for Corporate Governance of listed companies promoted by Borsa Italiana S.p.A. The corporate governance system adopted is reported in detail in the Report on Corporate Governance and Ownership Structure for financial year 2018, approved by the Board of Directors on March 11, 2019.

In accordance with said Corporate Governance Code, the Board of Statutory Auditors verified, during the year, the correct application of criteria and procedures for determining the existence of requisites of independence applied by the Board of Directors in evaluating the independence of Non-executive Independent Directors and the respect of requisites in the

composition of the Board of Directors. The Board of Statutory Auditors also verified the existence of the same requisites of independence as for the Board of Directors for its own members and made its recommendation pursuant to the Corporate Governance Code that prescribes to declare individual or third party interests in specific operations carried out by the Board of Directors. To this end, it declares that in 2018, no situations occurred that would require any of the members of the Board of Statutory Auditors to make said declarations.

We refer to the Report on Corporate Governance and Ownership Structure for more information on the Company's Corporate Governance, with regard to which the Board has no further observations to report.

18. With regard to the overall evaluation of monitoring activities carried out, the Board can attest that:

- information provided by Directors in the Report on Operations is deemed exhaustive, complete and consistent with resolutions adopted by the Board of Directors and facts represented in the Financial Statements;
- the Report on Operations includes, in addition to the Comparative Consolidated Income Statement and a list of Members of Corporate Boards, information on performance indicators, investments made, environmental management, workplace safety, research and development activities, in addition to reporting detail of main risks and uncertainties connected with the overall economic situation, the market for the Company's products, credit markets, liquidity, interest rates, exchange rates, the integrity and reputation of the Company;
- in the periodic verifications and checks performed on the Company, we did not encounter any atypical or unusual transaction either with third parties, related parties or between Group companies;
- with regard to transactions between Group companies and those with related parties, the Report on Operations and the Notes to the financial statements describe and explain exchanges of goods and services between the Company and its subsidiaries or other related parties, attesting that the same were carried out at market conditions, keeping into account the quality of goods and services exchanged;
- the Report on Remuneration as per article 123-ter Legislative Decree 58/98 and article 84-quarter of the Issuers' Regulation was drawn up, verifying its compliance with the provisions of the law, without any particular observations to report;
- in the field of risk management and financial instruments, the nature and amount of risks were reported;
- the Audit Report does not contain reference to lack of disclosure or related observations

and proposals;

- in compliance with articles 123-bis of the Finance Act (Testo Unico) and 89-bis of the Consob Issuers' Regulation, we acknowledge that, as it appears in the Report on Corporate Governance and Ownership Structure, the Cembre Group participates and complies with the Corporate Governance Code issued by the Committee for Corporate Governance of listed companies, as integrated and implemented, through its adoption and compliance with Regulations for STAR segment listed companies;
- the adoption of said Code was verified by the Board of Statutory Auditors and represented the subject, in its various aspects, of the Report on Corporate Governance, to which we refer.

Furthermore, the Board of Statutory Auditors verified that the Company fulfilled its obligations under Legislative Decree no. 254/2016 and that, in particular, has drafted the Consolidated Non-Financial Declaration, in compliance with the provisions of art. 4 of the same decree. Consequently, the Board of Statutory Auditors acknowledges that the Company, possessing the necessary requirements, has availed itself of the option to be exonerated from drafting the individual non-financial declaration, as envisaged by art. 6, paragraph 1, of Legislative Decree 254/2016. Said declaration was accompanied by the required certifications of the Independent Auditors regarding compliance of the information provided in the document with the provisions of the aforementioned Legislative Decree with reference to the principles, methods and procedures established for their preparation, also pursuant to Consob Regulation no. 20267 of January 18, 2018.

The Board of Statutory Auditors also attests, pursuant to article 150 of Legislative Decree no. 58/98 and subsequent amendments, that no data or relevant information, omissions, censurable facts, irregularities or in any case significant events worth reporting to relevant Authorities or Supervisory Bodies, or of mention in the present report have emerged.

19. Based on the above, in relation to monitoring activities carried out in the year, the Board of Statutory Auditors has no observation to make or proposal to formulate to the Shareholders' Meeting pursuant to article 153, paragraph 2 of Legislative Decree 58/98.

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The statutory accounts, for which we verified compliance with laws regulating its format and preparation through checks carried out by us, within the limits of our task, as provided by article 149 of Legislative Decree 58/98, and subsequent amendments – having ascertained that no waivers pursuant to article 2423 of the Italian Civil Code were exercised – and information provided by the Independent Auditors, report a net income of €21,257,210, as

compared with a net income of €24,444,345 in the previous year.

The Board of Statutory Auditors therefore deems the Financial Statements at December 31, 2018 and the proposed allocation of net profit for the year submitted by the Board of Directors to be suitable to receive your approval.

Brescia, March 25, 2019

The Board of Statutory Auditors

The Chairman

Fabio Longhi