GEFRAN GROUP

ANNUAL FINANCIAL REPORT

AT 31 DECEMBER 2018

SUMMARY

NOTICE OF ORDINARY SHAREHOLDERS' MEETING

GEFRAN S.p.A.
Share capital 14,400,000 fully paid-up
Registered offices in Via Statale Sebina 74, Provaglio d'Iseo (BS), Italy
Tax code and Brescia Companies' Register No. 03032420170

NOTICE OF ORDINARY SHAREHOLDERS' MEETING

The Ordinary Shareholders' Meeting will be held at the registered office of Gefran S.p.A., at Via Statale Sebina 74, Provaglio d'Iseo (BS), at 8:30 a.m. on 24 April 2019 (first call), and if necessary, at 5:00 p.m. in the same place on 3 May 2019 (second call), to discuss and vote on the following

AGENDA

1. Annual financial statements for the year ending 31 December 2018

1.1 Approval of the annual financial statements for the year ending 31 December 2018; reports of the Board of Directors, Board of Statutory Auditors and External Auditors;

1.2 Approval of the distribution of dividends.

2. General Group Remuneration Policy. Consultation on the first section of the Remuneration Report, pursuant to paragraph 6, Article 123-*ter* of Legislative Decree 58/1998

3. Revoking of the previous authorisation to buy and sell own shares and release of new authorisation

For the Board of Directors
The Chairman **Maria Chiara Franceschetti**

ANNUAL FINANCIAL REPORT AT 31 DECEMBER 2018

GEFRAN

CHAIRMAN'S LETTER

Dear shareholders,

I am writing this letter to you after having taken over one year ago from a person who has represented the very essence of our Group for more than 40 years, our Honorary Chairman, my father Ennio Franceschetti.

I am writing at the end of a year that has brought much satisfaction: Gefran continues to grow and invest, to create jobs and generate profit, and is increasingly known and appreciated the world over. In short, things are going very well.

And all this is happening as we undergo the generational turnover for which we have been preparing for some time now, adapting our governance accordingly. This is an important development that we are dealing with, being careful to preserve all the qualities that have made us the successful company we are today.

The spirit in which we report on the past year is characterised by a vivacity and an energy that come from knowing that the path we are pursuing has origins distant in time, with strong roots and solid foundations.

This is 2019, and we want to look forward to the future, to the scenarios that will be opening up, and how to build the future with respect for our values, for what we are and our know-how.

We at Gefran want to continue growing: not only because growth is a categorical imperative on today's economic scenario, but because we are ambitious, and we know we have what it takes to build on the results we have achieved so far.

To aim for growth, keeping clearly in mind how to do it. We want our growth to be solid, economically sustainable in the long term, founded on people and innovation.

This means making the most of what we do best – designing and producing – conquering new spaces on the market, consolidating and evolving a complex organisation. We now employ more than 770 people, more than 500 of whom are in Italy: men and women who work hard every day and express all their professionalism, confident that they are part of a company that is generating value.

Creating the environmental and working conditions required to allow people to grow, and for our corporate culture to grow with them: this is what will allow us to welcome new technologies, master them and translate them into product and process innovation essential to keep up with our competitors and improve our efficiency.

Safeguarding and consolidating our enterprise is a duty and a challenge, and creating long-lasting value is a foundation, a healthy guiding principle: the fact that this is reflected in our plans for the current year and for years to come suggests to me that ours will be a sustainable future, despite a world in continual political, social and economic upheaval in which the picture does not always appear rosy.

I wish to conclude by pointing out that the positive results we achieved in the year 2018 have allowed our Board of Directors to propose to shareholders distribution of a dividend of € 0.32 per share, to be distributed in the month of May: more than half of the Group's consolidated net profit, the rest of which will be allocated toward the significant plan for investment in technology, equipment and people that we began to implement last year.

I look forward to seeing you at the Shareholders' Meeting on 3 May, during which we will be asked to resolve on approval of the annual and consolidated financial statements at 31 December 2018. Thank you for your confidence in Gefran.

Cordially,

Maria Chiara Franceschetti

LETTER FROM THE CHIEF EXECUTIVE OFFICER

Dear Shareholders,

I am happy to be writing my second letter to you at the end of another highly positive year for our Group.

I am saying this because of the trends in the principal financial indicators: sales have grown to 135.6 million euro (+5.4% over last year); Ebit is 13.7 million (+23.3%), and net profit is 8.2 million euro (+18.7%). It is also justified by the acceleration of the process we are undergoing to ensure solid, economically sustainable growth of the Group in the medium term.

In 2018 we invested 9.4 million euro in development of new products, improving the quality of our range, adapting our production facilities and improving our processes. All these actions were implemented taking into account the possibilities offered by digitalisation, from which we expect to see an overall improvement in organisational efficiency. Investment will be intensified over the next three years, facilitated by the virtuous dynamic of net indebtedness, which had dropped to 4.5 million euro by the end of the year.

A significant portion of investment is allocated to people, as we are convinced that growth of professional quality and enhancement of the skills and well-being of people who work in the company are, now more than ever, not only an ethical duty but key factors in global competition. The Gefran Group continued to generate highly qualified employment opportunities in 2018, and its staff grew by 41 people, to a total of 771 employees. The results achieved are, objectively speaking, extraordinary: participation in our welfare initiatives, international mobility, customised training plans and a Talent Academy (FLY) have helped to build a case of excellence, as testified by the prestigious Best Job prize awarded to us by the German Quality and Finance Institute (ITQF) and the interest in Gefran demonstrated by prominent national radio and television channels.

In the final part of the year we registered a slowdown caused by deterioration of the international economic cycle. I hope that the impact of this slowdown will be minimised by diversification of our geographic presence (with eleven production facilities and thirteen sales organisations), but I believe that our distinctive legacy of know-how, ability to interpret risk (internal and external) and system of values put us in a position to face even the least favourable economic trends with confidence.

We are perfectly aware of the challenges we face on today's market: the continual need to innovate and promptly adapt our range to rapidly changing demand. We have traced a path, and we are following it, aware that we are under examination at all times and must improve every day.

Thank you for your attention,

Alberto Bartoli

CORPORATE BODIES

Board of Directors

Honorary Chairman	Ennio Franceschetti
Chairman	Maria Chiara Franceschetti
Vice Chairman	Andrea Franceschetti
Vice Chairman	Giovanna Franceschetti
CEO	Alberto Bartoli
Director	Romano Gallus
Director	Mario Benito Mazzoleni (*)
Director	Daniele Piccolo (*)
Director	Monica Vecchiati (*)

Board of Statutory Auditors

Chairman	Marco Gregorini
Standing Auditor	Primo Ceppellini
Standing Auditor	Roberta Dell'Apa
Deputy Auditor	Guido Ballerio
Deputy Auditor	Luisa Anselmi

Control and Risks Committee

- Daniele Piccolo
- Mario Benito Mazzoleni
- Monica Vecchiati

Remuneration Committee

- Daniele Piccolo
- Romano Gallus
- Monica Vecchiati

External auditor

PricewaterhouseCoopers S.p.A.

On 21 April 2016, the ordinary shareholders’ meeting of Gefran S.p.A. engaged the external auditor PricewaterhouseCoopers S.p.A. to audit the separate annual financial statements of Gefran S.p.A., as well as the consolidated annual and interim financial statements of the Gefran Group for a period of nine years until the approval of the financial statements for 2024, in accordance with Italian Legislative Decree 39/2010.

(*) Independent directors pursuant to the Consolidated Law on Finance (TUF) and the Code of Conduct

The **Board of Directors** in office comprises nine members, in accordance with the resolution of the Ordinary Shareholders' Meeting of 20 April 2017, which appointed the members of the Company's management body, described at the beginning of this section. The entire Board will remain in office until the approval of the 2019 financial statements.

Pursuant to Article 19 of the Articles of Association, the Board of Directors is vested with the widest powers for the ordinary and extraordinary management of the Company, without limitation and therefore with the power to carry out all acts considered necessary to implement and achieve the corporate purpose, excluding only those strictly reserved by law to the Shareholders' Meeting. In particular, the Board is exclusively responsible for, among other things, examining and approving strategic, business and financial plans, and the Group's structure; the Board also oversees operating performance, and pays particular attention to possible conflicts of interest.

The Chairman of the Board of Directors is the Company's legal representative, pursuant to Article 21 of the Articles of Association. In its meeting on 24 April 2018 the Board of Directors granted the Honorary Chairman Ennio Franceschetti certain powers relating to the strategic coordination of the Company. The Board also conferred powers of legal representation and other powers on Chief Executive Officer Alberto Bartoli and Chairman Maria Chiara Franceschetti. Vice Chairmen Giovanna Franceschetti and Andrea Franceschetti have been awarded powers in specific corporate areas.

The Board of Directors met 9 times in 2018.

Control and Risks Committee

The Committee is tasked with supporting, by conducting the appropriate preliminary work, the assessments and decisions of the Board of Directors in relation to the internal control and risk management system, as well as those relating to the approval of interim and annual financial reports. In its meeting of 20 April 2017, the Board of Directors appointed the members of the committee, as set out above.

The Committee met five times in 2018.

Remuneration Committee

The Committee submits proposals or expresses opinions to the Board of Directors on the remuneration of executive directors, other directors with special duties and managers with strategic responsibilities and sets performance objectives associated with the variable component of their remuneration; it also monitors the application of the decisions adopted by the Board, checking in particular that the performance objectives are actually achieved. In its meeting of 20 April 2017, the Board of Directors appointed new members of the committee, as set out on page 12.

On 14 March 2019 the Company's Board of Directors transformed the existing Remuneration Committee into an Appointments and Remuneration Committee, awarding it the powers identified in art. 5 of the Code of Conduct in addition to the powers it held previously.

Board of Statutory Auditors

Pursuant to Article 28 of the Articles of Association, the Board of Statutory Auditors comprises three standing auditors and two deputy auditors, who shall remain in office for three years and may be re-elected. The current Board of Statutory Auditors was appointed by the Shareholders' Meeting of 24 April 2018 for three years, until the approval of the 2020 annual financial statements.

The Board of Statutory Auditors is tasked with monitoring compliance with the law and the memorandum of association, proper management of the Company and the appropriateness of the internal control system. It also attends Board of Directors' meetings and Shareholders' Meetings.

The Board of Statutory Auditors met eight times in 2018.

Management and coordination activities

Gefran S.p.A. is not subject to management and coordination pursuant to Article 2497 et seq. of the Civil Code, since the following indicators that the Company may be subject to the management and control of others are non-existent:

- the preparation of Group business, strategic and financial plans and budgets by the parent company;
- the issuing of directives pertaining to finance and credit policy;
- the centralisation of functions such as treasury, administration, finance and control;
- the defining of Group growth strategies, the strategic and market positioning of the Group and individual companies, especially if the policy guidelines are likely to influence and determine their actual implementation by Company management.

KEY CONSOLIDATED INCOME STATEMENT AND STATEMENT OF FINANCIAL POSITION FIGURES

The amounts shown below only refer to continuing operations, unless otherwise specified.

Group income statement highlights

(EUR / 000)	31 December 2018		31 December 2017		Q4 2018		Q4 2017	
Revenues	135,571	100.0%	128,639	100.0%	34,491	100.0%	34,488	100.0%
EBITDA	20,058	14.8%	19,039	14.8%	4,629	13.4%	5,476	15.9%
EBIT	13,743	10.1%	11,149	8.7%	3,015	8.7%	2,889	8.4%
Profit (loss) before tax	13,187	9.7%	8,905	6.9%	3,333	9.7%	1,824	5.3%
Result from operating activities	9,026	6.7%	6,677	5.2%	2,707	7.8%	595	1.7%
Net profit (loss) from assets held for sale	(875)	-0.6%	187	0.1%	0	0.0%	187	0.5%
Group net profit (loss)	8,151	6.0%	6,864	5.3%	2,707	7.8%	782	2.3%

Group income statement highlights, excluding non-recurring items

(EUR / 000)	31 December 2018		31 December 2017		Q4 2018		Q4 2017	
Revenues	135,571	100.0%	128,639	100.0%	34,491	100.0%	34,488	100.0%
EBITDA	20,058	14.8%	19,360	15.0%	4,629	13.4%	5,476	15.9%
EBIT	13,743	10.1%	11,470	8.9%	3,015	8.7%	2,889	8.4%
Profit (loss) before tax	13,187	9.7%	9,226	7.2%	3,333	9.7%	1,824	5.3%
Result from operating activities	9,026	6.7%	6,998	5.4%	2,707	7.8%	595	1.7%
Net profit (loss) from assets held for sale	(875)	-0.6%	187	0.1%	0	0.0%	187	0.5%
Group net profit (loss)	8,151	6.0%	7,185	5.6%	2,707	7.8%	782	2.3%

Group statement of financial position highlights

(EUR / 000)	31 December 2018	31 December 2017
Invested capital from operations	77,335	73,477
Net working capital	32,055	30,621
Shareholders’ equity	72,814	69,911
Net financial position	(4,521)	(4,780)

(EUR / 000)	31 December 2018	31 December 2017
Operating cash flow	18,992	21,424
Investments	9,438	5,641

ALTERNATIVE PERFORMANCE INDICATORS

In addition to the standard financial schedules and indicators required under IFRS, this document includes reclassified schedules and alternative performance indicators. These are intended to enable a better assessment of the Group's economic and financial management. However, these tables and indicators must not be considered as a substitute for those required under IFRS.

Specifically, the alternative indicators used in the notes to the income statement are:

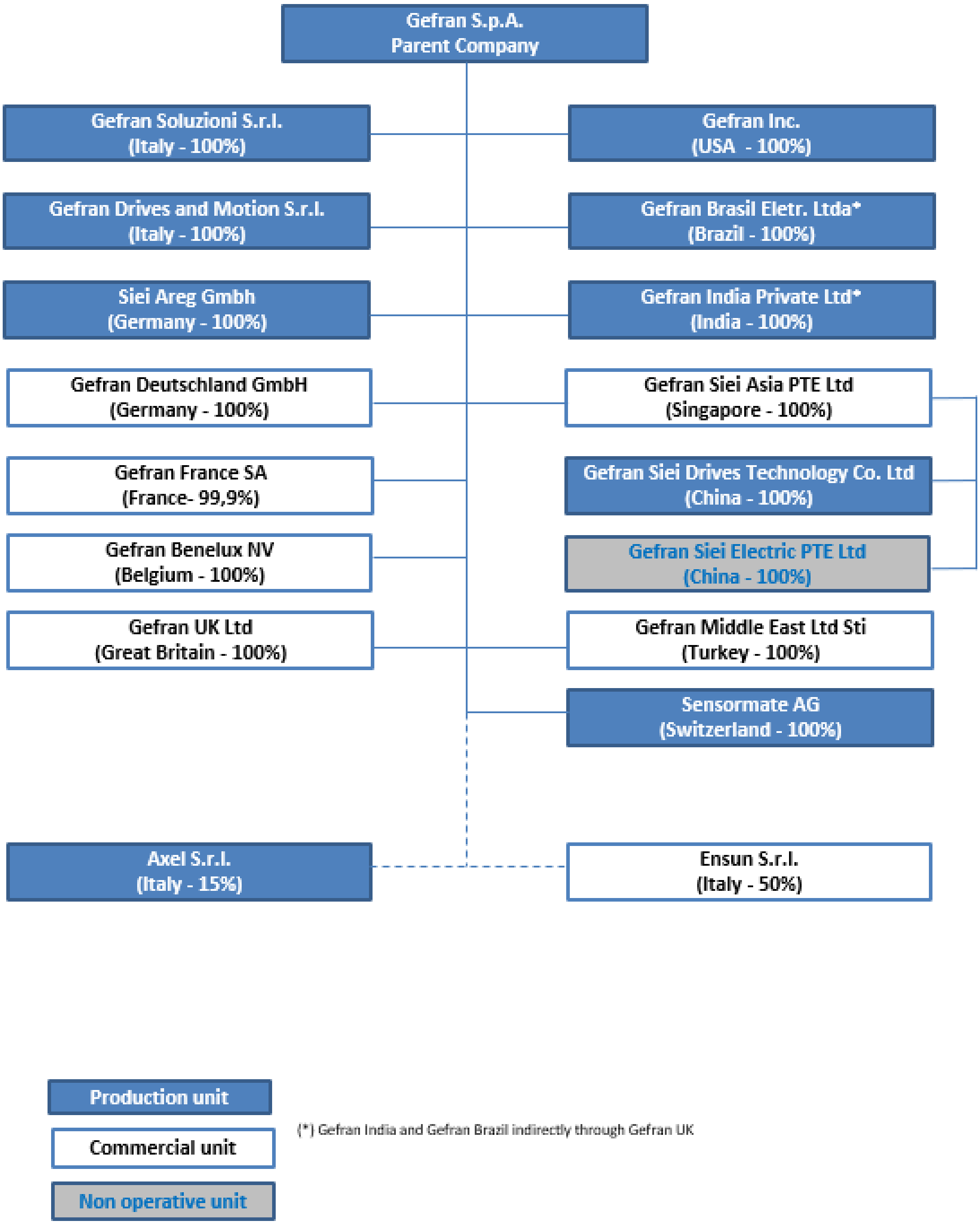
- **Added value**: the direct margin resulting from revenues, including only direct material, gross of other production costs, such as personnel costs, services and other sundry costs;
- **EBITDA**: operating result before depreciation, amortisation and impairment. The purpose of this indicator is to present the Group's operating profitability before the main non-monetary items;
- **EBIT**: operating result before financial management and taxes. The purpose of this indicator is to present the Group's operating profitability.

Alternative indicators used in the notes to the statement of financial position are:

- **Net non-current assets**: the algebraic sum of the following items in the statement of financial position:
    - Goodwill
    - Intangible assets
    - Property, plant, machinery and tools
    - Shareholdings valued at equity
    - Equity investments in other companies
    - Receivables and other non-current assets
    - Deferred tax assets
- **Working capital**: the algebraic sum of the following items in the statement of financial position:
    - Inventories
    - Trade receivables
    - Trade payables
    - Other assets
    - Tax receivables
    - Current provisions
    - Tax payables
    - Other liabilities
- **Net invested capital**: the algebraic sum of net fixed assets, working capital and provisions;
- **Net financial position**: the algebraic sum of the following items:
    - Medium/long-term financial payables
    - Short-term financial payables
    - Financial liabilities for derivatives
    - Financial assets for derivatives
    - Cash and cash equivalents and short-term financial receivables

REPORT ON OPERATIONS

1. STRUCTURE OF THE GEFRAN GROUP



(*) Gefran India and Gefran Brazil indirectly through Gefran UK

2. GEFRAN GROUP ACTIVITIES

The Gefran Group operates in three main business areas: industrial sensors, automation components and motion control for the electronic control of electric motors.

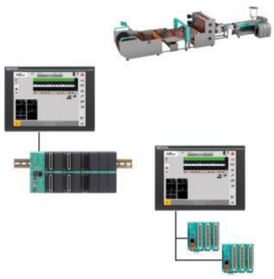
The Group offers a complete range of products and tailored turnkey solutions in numerous automation sectors. 70% of its revenues are generated abroad.

Sensors

The sensors business offers a complete range of products for measuring four physical parameters, position, pressure, force and temperature, which are used in many industrial sectors.

Gefran stands out for its technological leadership. It produces primary components internally and boasts a comprehensive product range that is unique worldwide. In certain product families, Gefran is world leader. The sensors business generates two thirds of its revenues abroad.

Automation components



The automation components business is divided into three product lines: instrumentation, power controllers and automation platforms (operator interfaces, PLCs and I/O modules). These components are widely used in the control of industrial processes. As well as supplying products, Gefran offers its customers the possibility of designing and supplying tailored turnkey automation solutions through a close strategic partnership during the design and production stages.

Gefran sets itself apart with its expertise in hardware and software acquired in over thirty years of experience. Gefran is one of the main Italian manufacturers in these product lines and generates around half of its sales through exports.

Motion control

The motion control business develops products and solutions to regulate speed and control AC, DC and brushless electric motors. Products (inverters, armature converters and servodrives) guarantee maximum performance in terms of system precision and dynamics. These products are used in a variety of applications, including lift control, cranes, metal rolling lines, and in paper, plastics, glass and metal processing.

Through the integration of advanced capabilities and flexible hardware and software configurations, Gefran provides advantageous solutions for customers and target markets, optimising both technology and costs. The motion control business generates about 70% of its revenues abroad.

3. BREAKDOWN OF THE MAIN ACTIVITIES AMONG GROUP COMPANIES

Company	Production of sensors	Production of automation components	Production of motion control	Central services	Sales
Gefran S.p.A.	×	×		×	×
Gefran Soluzioni S.r.l.		×			×
Gefran Drives and Motion S.r.l.			×		×
Gefran Inc	×				×
Gefran France SA					×
Gefran Deutschland GmbH					×
Gefran Brasil Eletr. Ltda		×			×
Gefran UK Ltd					×
Gefran Benelux NV					×
Gefran Siei Asia Pte Ltd				×	×
Gefran Siei Drives Technology Co Ltd	×		×		×
Gefran Siei Electric Pte Ltd					×
Gefran India Private Ltd			×		×
Siei Areg GmbH			×		×
Gefran Middle East Ltd Sti					×
Sensormate AG	×				×
Ensun S.r.l.				×	×
Axel S.r.l.		×			×

A brief description of Gefran S.p.A. and the Gefran Group subsidiaries included in the scope of consolidation, with their main characteristics as of 31 December 2018, is provided below.

The Parent Company **Gefran S.p.A.** with registered offices in Provaglio di Iseo (BS), Italy. Gefran S.p.A has three divisions: sensors, automation components and motion control, and central support functions such as procurement, logistics, administration, finance, control, legal, public relations, IT systems and human resources.

Gefran Soluzioni S.r.l., with its registered office in Provaglio d'Iseo (BS), is 100% directly controlled by the Parent Company. It was created in April 2015 by the spin-off of the company branch of Gefran S.p.A. that designs and produces systems and panels for industrial automation. It took on its current form in 2016, with the transfer of activities relating to programmable automation from the Parent Company Gefran S.p.A.

Gefran Drives and Motion S.r.l., with its registered office in Gerenzano (VA), is 100% directly controlled by the Parent Company. It was created in July 2018 and has been operative since 1 October 2018, following the contribution of property, assets and liabilities from the Parent Company Gefran S.p.A. The company is concerned with research and development, production and sale of drives.

Gefran Inc., with its registered office in Charlotte (NC), USA, is 100% directly controlled by the Parent Company; it operates a manufacturing site in Winchester (MA), where melt sensors are manufactured. Gefran Inc. is the second largest producer of melt pressure sensors in the US. It sells its own products in North America, along with the Gefran Group's sensors and automation components products.

Gefran France S.A., with its registered office in Saint-Priest, France, is 99.9% directly controlled by the Parent Company. It sells the Gefran Group's sensors and automation components products in France.

Gefran Brasil Eletroelectronica Ltda, with its registered office in Sao Paulo, Brazil, is 99.9% controlled by the Parent Company, with the remaining 0.1% controlled indirectly through Gefran UK. Gefran Brasil sells sensors and automation components products and has an assembly line for regulators and static units serving the local market.

Gefran Deutschland GmbH, with its registered office in Seligenstadt, Germany, is 100% controlled by the Parent Company. Gefran Deutschland sells sensors and automation components in Germany, Europe's largest market for equipment manufacturers.

Gefran Benelux NV, with its registered office in Olen, Belgium, is 100% directly controlled by the Parent Company. In addition to the Gefran sensors and components, it also sells dedicated systems for the oil installations sector.

Sensormate AG, with its registered office in Aadorf, Switzerland, is 100% directly controlled by the Parent Company. It was acquired in 2013 and took on its current form in 2014, after the merger with Gefran Suisse S.A. It produces strategically important load cells and sensors, which supplement the Group's other products in the business. It sells the entire Gefran product range in Switzerland.

Gefran UK Ltd, with its registered office in Warrington, UK, is 100% directly controlled by the Parent Company. Gefran UK focuses on the sale of sensors and automation components in the UK.

Siei Areg GmbH, with its registered office in Pleidelsheim, Germany, is 100% controlled by the Parent Company. The company produces and sells small-scale electric motors with integrated drive. It also sells motion control products in Germany.

Gefran Siei Asia Pte Ltd, with its registered office in Singapore, is 100% controlled by the Parent Company and distributes the entire Gefran product range.

Gefran Siei Drives Technology Co. Ltd, with its registered office in Shanghai, China, is 100% controlled by Gefran Siei Asia, and indirectly by Gefran S.p.A. Since 2004 it has assembled low-power drives for the lifting market and, since 2009, it has assembled a line of sensors, mainly for the local market.

Gefran Siei Electric Pte Ltd, with its registered office in Shanghai, China, is 100% controlled by Gefran Siei Asia, and indirectly by Gefran S.p.A. The company has been in liquidation since the beginning of 2009.

Gefran India Private Ltd, with its registered office in Pune, India, is 95% directly controlled by the Parent Company, with the remaining 5% controlled indirectly through Gefran UK. The company distributes Gefran products in India. Since 2016, it has assembled motion control products for the Indian lifting market.

Gefran Middle East elektrik ve elektronik san. Ve Tic. Ltd. Şti, with its registered office in Istanbul (Turkey) and 100% controlled by the parent company, was incorporated in October 2013 to sell the full range of Gefran products in Turkey.

The main associated companies at 31 December 2018 include:

Ensun S.r.l., with its registered office in Brescia, is 50% controlled by Gefran S.p.A. The company operates in the renewable energy sector, particularly in the photovoltaic systems management business.

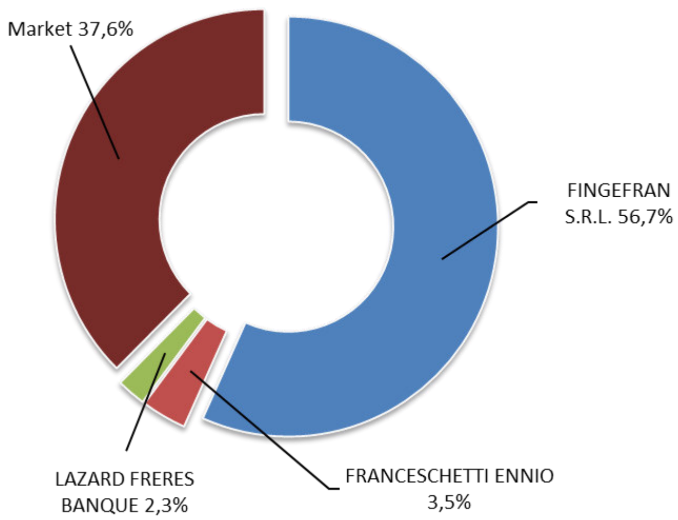
Axel S.r.l., based in Dandolo (VA), produces and sells application software for industrial automation. Gefran holds a 15% stake in this company.

4. SHAREHOLDERS AND STOCK PERFORMANCE

On 31 December 2018, the subscribed and paid-up share capital was EUR 14,400,000.00, divided into 14,400,000 ordinary shares, with a nominal value of EUR 1.00 per share. No further financial instruments have been issued.

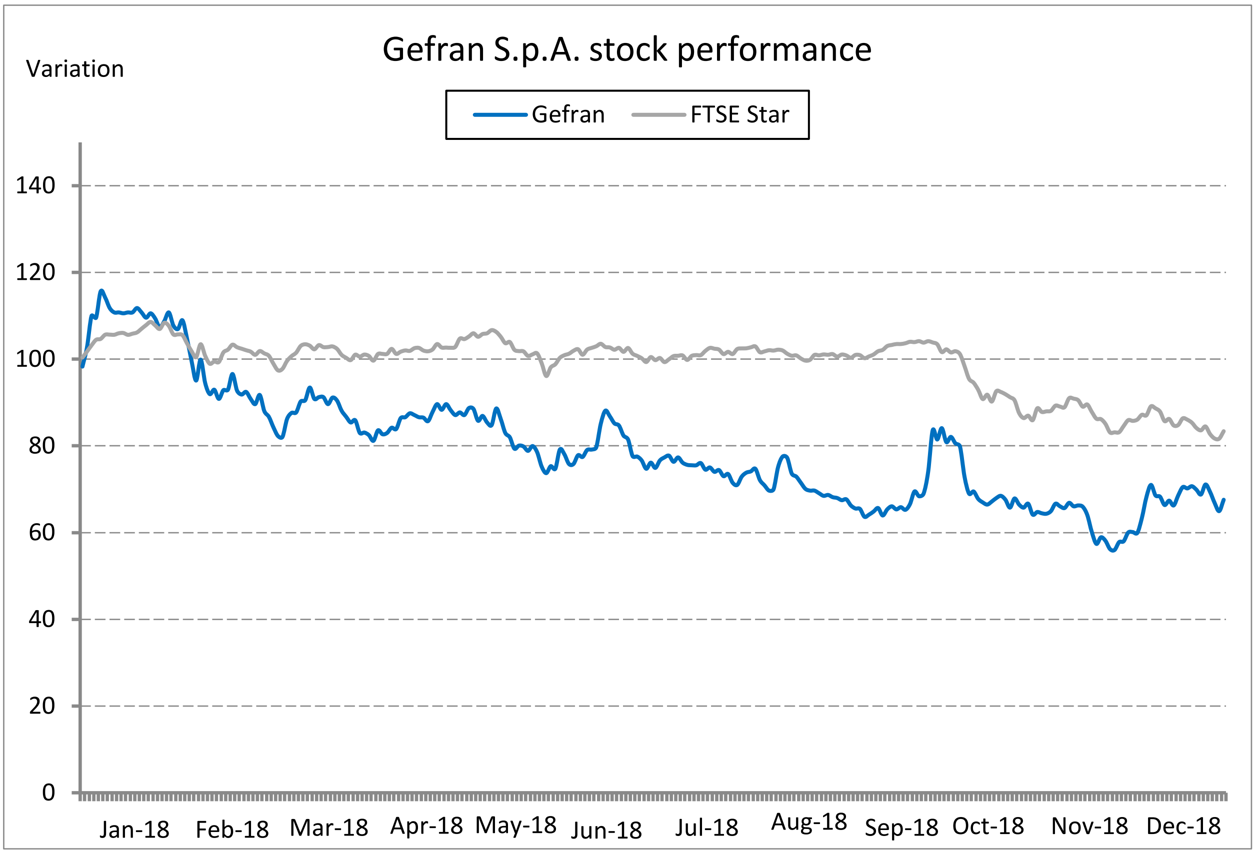
STRUCTURE OF SHARE CAPITAL				
Type of shares	**No. of shares**	**% of share capital**	**Listed**	**Rights and obligations**
Ordinary shares	14,400,000	100	STAR	ordinary

Gefran S.p.A. shareholder structure

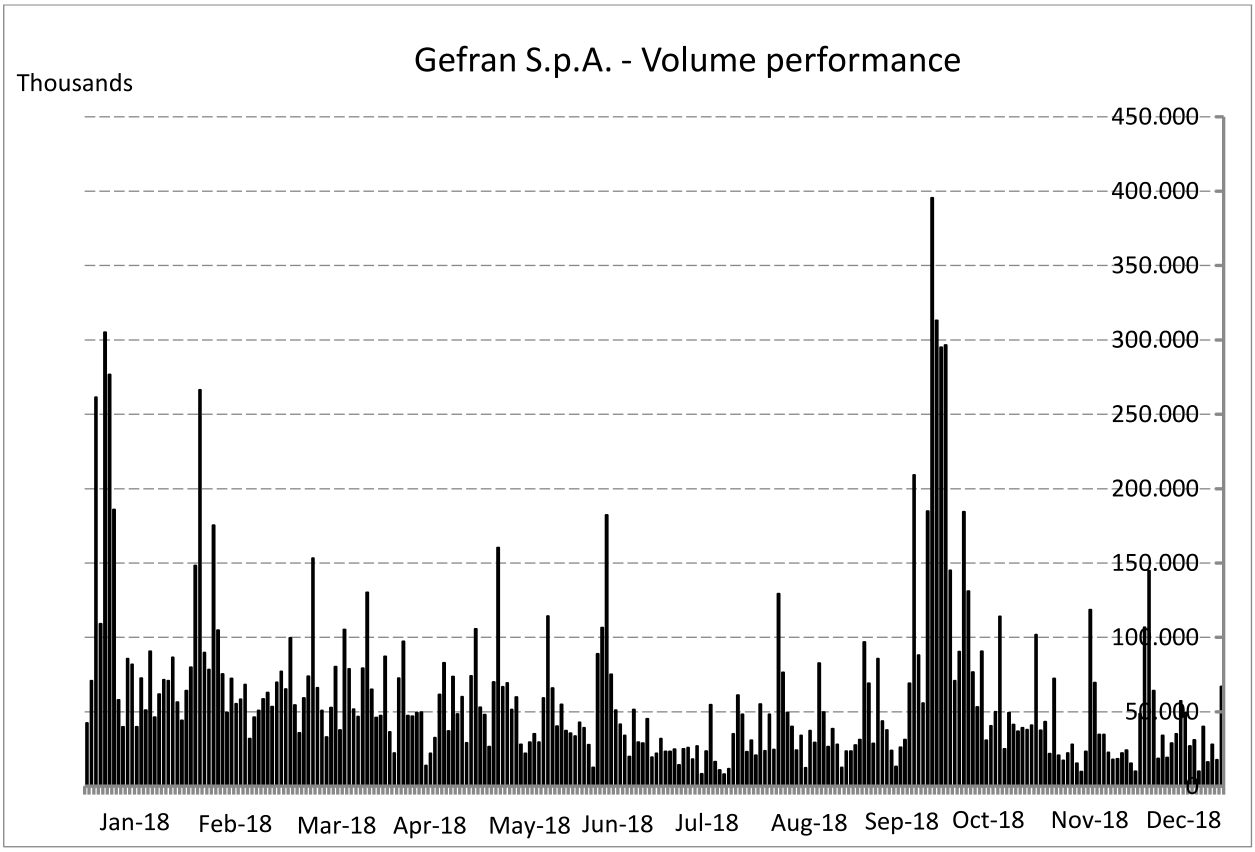


Gefran S.p.A. has been listed on the Italian Stock Exchange since 9 June 1998, and since 2001, it has been part of the FTSE Italia STAR segment, dedicated to companies with small and medium-sized capitalisations that meet specific requirements relating to transparency, liquidity and corporate governance.

The performance of the company's share in 2018 was affected by the overall trend on financial markets, resulting in shrinkage of volumes and of average value compared to the previous year.



Minimum value (21 November): EUR 5.56 – Maximum value (8 January): EUR 11.48 – Average price: EUR 7.87



5. GEFRAN CONSOLIDATED RESULTS

5.1. CONSOLIDATED INCOME STATEMENT OF THE QUARTER

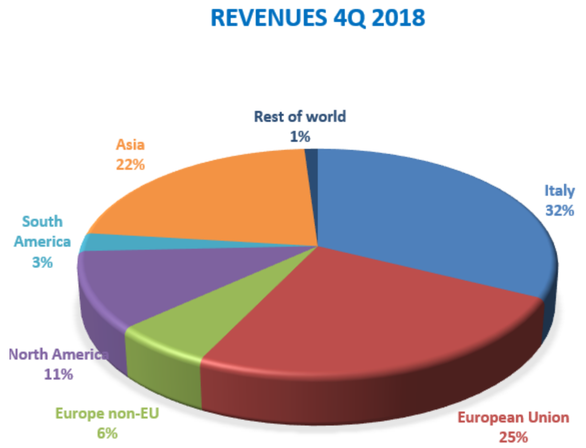
	(EUR / 000)	Q4 2018 Excl. non rec.	Q4 2018 Incl. non rec.	Q4 2018 Total	Q4 2017 Excl. non rec.	Q4 2017 Incl. non rec.	Q4 2017 Total	Change 2018-2017 Value Excl. non rec.	Change 2018-2017 %
a	Revenues	34,491	0	34,491	34,488	0	34,488	3	0.0%
b	Increases for internal work	526		526	187		187	339	181.3%
c	Consumption of materials and products	12,585		12,585	11,578		11,578	1,007	8.7%
d	Added value (a+b-c)	22,432	0	22,432	23,097	0	23,097	(665)	-2.9%
e	Other operating costs	5,839		5,839	5,617		5,617	222	4.0%
f	Personnel costs	11,964	0	11,964	12,004	0	12,004	(40)	-0.3%
g	EBITDA (d-e-f)	4,629	0	4,629	5,476	0	5,476	(847)	-15.5%
h	Depreciation, amortisation and impairment	1,614		1,614	2,587		2,587	(973)	-37.6%
i	EBIT (g-h)	3,015	0	3,015	2,889	0	2,889	126	4.4%
l	Gains (losses) from financial assets/liabilities	328		328	(1,238)		(1,238)	1,566	126.5%
m	Gains (losses) from shareholdings valued at equity	(10)		(10)	173		173	(183)	-105.8%
n	Profit (loss) before tax (i±l±m)	3,333	0	3,333	1,824	0	1,824	1,509	82.7%
o	Taxes	(626)		(626)	(1,229)		(1,229)	603	49.1%
p	Result from operating activities (n±o)	2,707	0	2,707	595	0	595	2,112	355.0%
q	Net profit (loss) from assets held for sale	0		0	187		187	(187)	-100.0%
r	Group net profit (loss) (p±q)	2,707	0	2,707	782	0	782	1,925	246.2%

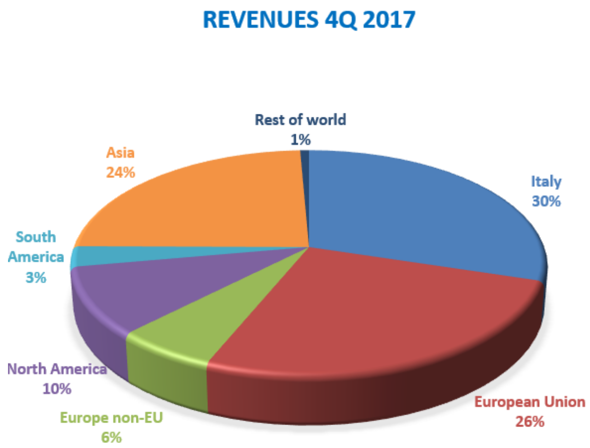
Revenues in the fourth quarter of 2018 amounted to EUR 34,491 thousand, in line with the fourth quarter of 2017, when they amounted to EUR 34,488 thousand.

New orders received in the fourth quarter of 2018, amounting to Euro 31,223 thousand, were down over the same quarter in the previous year (-5.1%), confirming the initial signals of a slowdown that appeared in the third quarter of 2018.

The following table shows revenues by geographical region:

(EUR / 000)	Q4 2018 value	Q4 2018 %	Q4 2017 value	Q4 2017 %	Change 2018-2017 value	Change 2018-2017 %
Italy	11,146	32.3%	10,271	29.8%	875	8.5%
European Union	8,582	24.9%	9,125	26.5%	(543)	-6.0%
Europe non-EU	2,086	6.0%	2,129	6.2%	(43)	-2.0%
North America	3,809	11.0%	3,373	9.8%	436	12.9%
South America	901	2.6%	1,010	2.9%	(109)	-10.8%
Asia	7,611	22.1%	8,344	24.2%	(733)	-8.8%
Rest of the World	356	1.0%	236	0.7%	120	50.8%
Total	**34,491**	**100%**	**34,488**	**100%**	**3**	**0.0%**





Breakdown by **geographic area** reveals significant growth in North America (12.9%) and in Italy (+8.5%), with a drop in revenues in European Union countries (-6%), in Asia (-8.8%) and in South America (-10.8%). The latter has been penalised by negative exchange rates, without which the comparison would show growth (+4.2%).

The table below shows the breakdown of revenues by business area in the fourth quarter of 2018 and a comparison with the same period of the previous year:

(EUR / 000)	Q4 2018		Q4 2017		Change 2018-2017	
	value	%	value	%	value	%
Sensors	14,893	43.2%	15,101	43.8%	(208)	-1.4%
Automation components	9,201	26.7%	9,259	26.8%	(58)	-0.6%
Motion control	11,667	33.8%	11,330	32.9%	337	3.0%
Eliminations	(1,270)	-3.7%	(1,202)	-3.5%	(68)	5.7%
Total	**34,491**	**100%**	**34,488**	**100%**	**3**	**0.0%**

The breakdown of **revenues by business area** reveals growth over the same period in 2017 particularly in the motion control business (+3%), compensating for a drop in revenues in the sensors business (-1.4%) and the automation components business (-0.6%).

EBITDA amounted to EUR 4,629 thousand in the fourth quarter (EUR 5,476 thousand in the fourth quarter of 2017), equal to 13.4% of revenues (15.9% in 2017), EUR 847 thousand lower than in the same period in the previous year. The decrease is essentially attributable to increased operating costs and greater allocation of funds for impairment of inventories.

EBIT for the fourth quarter of 2018 was positive at EUR 3,015 thousand or 8.7% of revenues, compared to an EBIT of EUR 2,889 thousand or 8.4% of revenues in the fourth quarter of 2017, an increase of EUR 126 thousand.

Net financial income in the fourth quarter of 2018 amounted to EUR 328 thousand, primarily representing income from positive exchange rate differences totalling EUR 334 thousand, generated by appreciation of the Indian rupee (EUR 143 thousand), the Real (EUR 108 thousand), and the Turkish Lira (EUR 86 thousand). These may be compared with financial charges in the fourth quarter of 2017 totalling EUR 189 thousand, including EUR 110 thousand attributable to negative impact on currency transactions. The fourth quarter of 2017 also saw financial charges due to late payment of international taxes totalling EUR 1,049 thousand.

Taxes in the fourth quarter of 2018 were negative by EUR 626. In the fourth quarter of 2017, they were negative by EUR 1,229 thousand, including EUR 1,839 thousand in foreign taxes payable on previous years; without this component taxes would have been positive at EUR 610. The change is primarily a result of entry of deferred taxes and negative taxes totalling EUR 279 thousand in the fourth quarter of 2018 and positive taxes totalling EUR 998 thousand in the same period in the previous year.

Group net profit was EUR 2,707 thousand, compared with a profit of EUR 782 thousand in the same period of 2017.

5.2. CONSOLIDATED INCOME STATEMENT YEAR-TO-DATE

The main income statement items and comments are shown below.

		31 December 2018			31 December 2017			Change 2018-2017	
	(EUR / 000)	Excl. non rec.	Incl. non rec.	Total	Excl. non rec.	Incl. non rec.	Total	Value Excl. non rec.	%
a	Revenues	135,571	0	135,571	128,639	0	128,639	6,932	5.4%
b	Increases for internal work	1,425		1,425	610		610	815	133.6%
c	Consumption of materials and products	47,242		47,242	43,745		43,745	3,497	8.0%
d	Added value (a+b-c)	89,754	0	89,754	85,504	0	85,504	4,250	5.0%
e	Other operating costs	23,799		23,799	22,165		22,165	1,634	7.4%
f	Personnel costs	45,897	0	45,897	43,979	(321)	44,300	1,918	4.4%
g	EBITDA (d-e-f)	20,058	0	20,058	19,360	321	19,039	698	3.6%
h	Depreciation, amortisation and impairment	6,315		6,315	7,890		7,890	(1,575)	-20.0%
i	EBIT (g-h)	13,743	0	13,743	11,470	321	11,149	2,273	19.8%
l	Gains (losses) from financial assets/liabilities	(501)		(501)	(2,400)		(2,400)	1,899	79.1%
m	Gains (losses) from shareholdings valued at equity	(55)		(55)	156		156	(211)	-135.3%
n	Profit (loss) before tax (i±l±m)	13,187	0	13,187	9,226	321	8,905	3,961	42.9%
o	Taxes	(4,161)		(4,161)	(2,228)		(2,228)	(1,933)	-86.8%
p	Result from operating activities (n±o)	9,026	0	9,026	6,998	321	6,677	2,028	29.0%
q	Net profit (loss) from assets held for sale	(875)		(875)	187		187	(1,062)	-567.9%
r	Group net profit (loss) (p±q)	8,151	0	8,151	7,185	321	6,864	966	13.4%

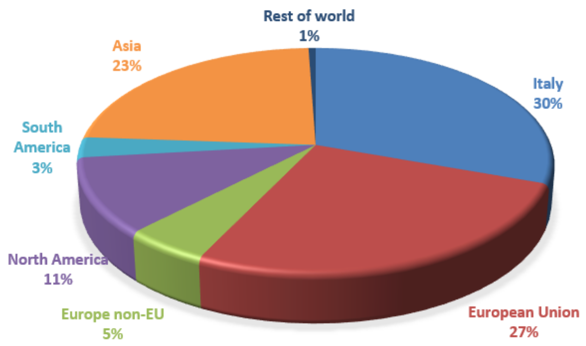
Revenues at 31 December 2018 equalled EUR 135,571 thousand, as compared to EUR 128,639 thousand in the first half of 2017, up by EUR 6,932 thousand (+5.4%). This growth is significant, and extends to the Group's most representative sectors, registering good performance in plastic and mobile hydraulics applications and in heat treatments, generated primarily by original equipment manufacturers (OEMs).

New orders during the year rose by around 3% from the figure in the same period of 2017, and the order book also rose by around 2.2% compared with the end of December 2017. But if we look at the trend for the various quarters of 2018, it will be clear that order collection has slowed down, to the point that -1.1% less orders were received in the third quarter than the previous quarter, -13.1% less than the second quarter, and -16.7% less than the first quarter in the year.

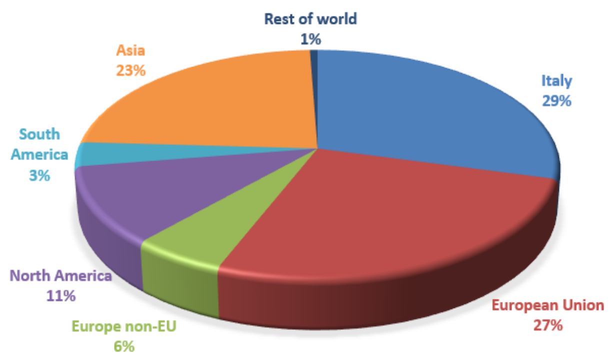
The following table shows revenues by geographical region:

(EUR / 000)	31 December 2018		31 December 2017		Change 2018-2017	
	value	%	value	%	value	%
Italy	41,305	30.5%	37,593	29.2%	3,712	9.9%
European Union	36,205	26.7%	34,397	26.7%	1,808	5.3%
Europe non-EU	6,972	5.1%	7,199	5.6%	(227)	-3.2%
North America	14,757	10.9%	14,068	10.9%	689	4.9%
South America	3,959	2.9%	4,392	3.4%	(433)	-9.9%
Asia	31,621	23.3%	30,237	23.5%	1,384	4.6%
Rest of the World	752	0.6%	753	0.6%	(1)	-0.1%
Total	**135,571**	**100%**	**128,639**	**100%**	**6,932**	**5.4%**

REVENUES UP TO 31ST DECEMBER 2018



REVENUES UP TO 31ST DECEMBER 2017



The breakdown of revenues by **geographical region** reveals significant growth in Italy (+9.9%), in Asia (+4.6%) and in the European Union (+5.3%), thanks to the positive trend in the sectors the Gefran Group serves. The American market reveals more limited growth (+1.4%) due to the unfavourable exchange rate.

Revenues by business area at 31 December 2018 and a comparison with the previous year are shown below.

(EUR / 000)	31 December 2018		31 December 2017		Change 2018-2017	
	value	%	value	%	value	%
Sensors	61,893	45.7%	58,437	45.4%	3,456	5.9%
Automation components	37,475	27.6%	35,743	27.8%	1,732	4.8%
Motion control	41,740	30.8%	38,675	30.1%	3,065	7.9%
Eliminations	(5,537)	-4.1%	(4,216)	-3.3%	(1,321)	31.3%
Total	**135,571**	**100%**	**128,639**	**100%**	**6,932**	**5.4%**

The breakdown of **revenues by business area** in the year 2018 reveals growth in all sectors: revenues from the sensors business grew by EUR 3,456 thousand (+5.9%), revenues from automation components grew by EUR 1,732 thousand (+4.8%), and the motion control business grew by EUR 3,065 thousand (+7.9%), continuing the positive trend which began in the fourth quarter of 2017.

Increases for internal work at 31 December 2018 came to EUR 1,425 thousand, compared with EUR 815 thousand at 31 December 2017. The item mainly represents the share of development costs incurred in the period and capitalised, worth EUR 1,201 thousand (EUR 585 thousand in 2017). For more information on research and development, the reader is referred to section 9 of this Report.

Added value was EUR 89,754 thousand at 31 December 2018 (EUR 85,504 thousand at 31 December 2017), equivalent to 66.2% of revenues (66.5% in 2017). The EUR 4,250 thousand increase over the previous year was mainly due to an increase in sales volumes.

Other operating costs at 31 December 2018 totalled EUR 23,799 thousand, resulting in an absolute value EUR 1,634 thousand higher than in 2017. These include greater variable industrial costs of production borne in response to growing revenues, as well as use of more resources in advertising and trade fair projects. The parent company's new governance begun in April 2018 also added to the increased cost of services.

Personnel costs were EUR 45,897 thousand at 31 December 2018 (33.9% of revenues), compared with EUR 44,300 thousand at 31 December 2017 (34.4% of revenues). The increased cost reflects the addition of new resources to the Group, as revealed by the increase in the average number of Group employees from 731 as of 31 December 2017 to 771 at the end of 2018, in line with the plan of investment in human capital launched at the end of 2017.

EBITDA for 2018 was positive at EUR 20,058 thousand (EUR 19,039 thousand in 2017) and amounted to 14.8% of revenues (the same percentage as in 2017), an increase over the previous year of EUR 1,019 thousand in absolute value and 5.4 percentage points. This growth is largely due to increased revenues resulting in greater added value.

Depreciation, amortisation and impairment totalled EUR 6,315 thousand at 31 December 2018, compared with a value of EUR 7,890 thousand at 31 December 2017, when it included impairment of assets to adjust their carrying value to their fair value.

EBIT as of 31 December 2018 was positive at EUR 13,743 thousand (10.1% of revenues), as compared with an EBIT of EUR 11,149 thousand in the year 2017, which included adaptation of buildings to fair value, given concrete form in a EUR 1,916 thousand write-down.

Charges from financial assets/liabilities at 31 December 2018 were EUR 501 thousand (EUR 2,400 thousand at 31 December 2017), and include:

- financial income of EUR 180 thousand (EUR 125 thousand in 2017);
- financial charges consequent upon the Group's indebtedness, equal to Euro 387 thousand, down Euro 113 thousand since 2017. The change is a result of reduction of loans and of average spread;
- the negative result of exchange rate differences, equal to EUR 372 thousand (positive by EUR 334 thousand in the fourth quarter of 2018 only), as compared with the result of the year 2017, which was also negative, by EUR 976 thousand (including EUR 866 thousand in the fourth quarter of 2017);
- financial charges due to late payment of taxes abroad totalling EUR 78 thousand (EUR 1,049 thousand in 2017).

Charges from shareholdings valued at equity were EUR 55 thousand, down from 31 December 2017, when they registered gains amounting to EUR 156 thousand.

The balance of **taxes** was negative by EUR 4,161 thousand and is composed of:

- negative current taxes of EUR 2,632 thousand (negative by EUR 2,228 thousand at 31 December 2017); the fiscal burden for the year reflects the positive results achieved by the Parent Company and subsidiaries;

- deferred tax assets and liabilities had a negative balance of EUR 1,529 thousand (as compared to a positive balance of EUR 1,839 thousand at 31 December 2017); this item primarily reflects the release to the income statement of deferred tax assets entered as tax losses to reflect the positive result of the period.

In the year 2017 taxes on previous years were entered, worth a total of EUR 1,839 thousand.

The **result from operating activities** at 31 December 2018 was positive and amounted to EUR 9,026 thousand, compared with a positive figure of EUR 6,677 thousand in 2017. This growth is due to increased revenues resulting in greater added value.

Losses from assets held for sale as of 31 December 2018 amounted to EUR 875 thousand, as a result of the complete write-off of assets pertaining to know-how in the photovoltaic business line, which had been the subject of negotiations for sale. When the potential buyers announced that they did not intended to exercise their purchase option, the directors opted to write the asset off entirely.

Group net profit at 31 December 2018 was EUR 8,151 thousand, compared with a net profit of EUR 6,864 in the first nine months of 2017, EUR 1,287 thousand higher, only partly offset by the decrease in the value of assets held for sale.

5.3. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The Gefran Group's reclassified consolidated balance sheet at 31 December 2018 is shown below.

GEFRAN GROUP	31 December 2018		31 December 2017	
(EUR / 000)	value	%	value	%
Intangible assets	12,376	16.0	12,605	16.9
Tangible assets	38,955	50.4	35,563	47.6
Other non-current assets	9,801	12.7	11,733	15.7
Net non-current assets	61,132	79.0	59,901	80.2
Inventories	22,978	29.7	20,264	27.1
Trade receivables	29,808	38.5	29,386	39.3
Trade payables	(20,731)	(26.8)	(19,029)	(25.5)
Other assets/liabilities	(9,027)	(11.7)	(9,554)	(12.8)
Working capital	23,028	29.8	21,067	28.2
Provisions for risks and future liabilities	(1,674)	(2.2)	(1,752)	(2.3)
Deferred tax provisions	(627)	(0.8)	(647)	(0.9)
Employee benefits	(4,524)	(5.8)	(5,092)	(6.8)
Invested capital from operations	77,335	100.0	73,477	98.4
Invested capital from assets held for sale	-	-	1,214	1.6
Net invested capital	**77,335**	**100.0**	**74,691**	**100.0**
Shareholders' equity	72,814	94.2	69,911	93.6
Non-current financial payables	11,864	15.3	13,933	18.7
Current financial payables	10,817	14.0	14,999	20.1
Financial liabilities for derivatives	28	0.0	76	0.1
Financial assets for derivatives	(19)	(0.0)	(56)	(0.1)
Non-current financial assets	(126)	(0.2)	(166)	(0.2)
Cash and cash equivalents and current financial receivables	(18,043)	(23.3)	(24,006)	(32.1)
Net debt relating to operations	4,521	5.8	4,780	6.4
Total sources of financing	**77,335**	**100.0**	**74,691**	**100.0**

Net **non-current assets** at 31 December 2018 were EUR 61,132 thousand, compared with EUR 59,901 thousand at 31 December 2017. The main changes were as follows:

- intangible assets registered an overall decrease of EUR 229 thousand. This includes increases for new investments (EUR 761 thousand) and the capitalisation of development costs (EUR 1,202 thousand), as well as decreases due to amortisation for the period (EUR 2,319 thousand) and the effect of positive exchange rate differences on goodwill and other intangible assets (EUR 108 thousand);
- tangible assets increased by EUR 3,392 thousand compared with 31 December 2017. Investments in the year 2018 amounted to EUR 7,475 thousand, partially offset by depreciation of EUR 3,996 thousand in the period, plus the EUR 8 thousand negative impact of exchange rate differences and EUR 42 thousand in net decreases due to disposals;

- other non-current assets totalled EUR 9,801 thousand at 31 December 2018 (EUR 11,733 thousand at 31 December 2017), a decrease of EUR 1,932 thousand. This change is primarily attributable to the EUR 1,655 thousand decrease in deferred tax assets and adaptation of the value of equity investments entered at fair value, down EUR 216 thousand.

Working capital was EUR 23,028 thousand at 31 December 2018, compared with EUR 21,067 thousand at 31 December 2017, an overall increase of EUR 1,961 thousand. The main changes were as follows:

- inventories changed from EUR 20,264 thousand at 31 December 2017 to EUR 22,978 thousand at 31 December 2018; the EUR 2,714 thousand increase is attributable to the increase in raw materials stocks in response to growth of revenues and the increase in stocks of semi-products to respond to customers' requirements;
- trade receivables amount to EUR 29,808 thousand, EUR 422 thousand higher than on 31 December 2017; the drop in the average number of collection days permitted partial absorption of the increase in receivables due to growth of revenues;
- trade payables amounted to EUR 20,731 thousand, an increase of EUR 1,702 thousand over 31 December 2017, reflecting the increase in purchases both of materials for inventory stocks and for technical investments in the year 2018;
- other net assets and liabilities were negative by EUR 9,027 thousand at 31 December 2018, down by EUR 527 thousand compared to 31 December 2017, when they amounted to EUR 9,554 thousand. They include payables to employees and social security institutions and receivables and payables for direct and indirect taxes. The reduction relates to the payment of foreign taxes for previous years.

Provisions for risks and future liabilities were EUR 1,674 thousand, a decrease of EUR 78 thousand from 31 December 2017. These include provisions for legal disputes in progress and miscellaneous risks. The change is substantially due to movements in the product guarantee fund, use of funds allocated in previous years and release of excess.

Employee benefits totalled EUR 4,524 thousand, down EUR 568 thousand over the value at 31 December 2017.

Shareholders' equity at 31 December 2018 amounts to EUR 72,814 thousand, as compared to EUR 69,911 thousand at 31 December 2017, an increase of EUR 2,903 thousand: the positive result in the period, equal to EUR 8,151 thousand, was absorbed by distribution of EUR 5,040 thousand in dividends in the month of May 2018 and negative adaptation of reserves for valuation at fair value worth EUR 201 thousand.

The table below shows a reconciliation between the Parent Company's shareholders' equity and result for the period and those of the consolidated financial statements:

(EUR / 000)	31 December 2018 Shareholders' equity	31 December 2018 Result for the period	31 December 2017 Shareholders' equity	31 December 2017 Result for the period
Parent Company shareholders' equity and operating result	**63,760**	**7,630**	**61,398**	**8,448**
Shareholders' equity and operating result of the consolidated companies	52,737	3,183	34,729	160
Elimination of the carrying value of consolidated investments	(45,662)	0	(28,577)	390
Goodwill	3,738	0	3,717	0
Elimination of the effects of transactions conducted between consolidated companies	(1,759)	(2,662)	(1,356)	(2,134)
Group share of shareholders' equity and operating result	**72,814**	**8,151**	**69,911**	**6,864**
Minorities' share of shareholders' equity and operating result	0	0	0	0
Shareholders' equity and operating result	**72,814**	**8,151**	**69,911**	**6,864**

Net financial position as of 31 December 2018 was negative and equal to EUR 4,521 thousand, in line with the figure at the end of 2017, when it was negative by 4,780 thousand. It breaks down as follows:

(EUR / 000)	31 December 2018	31 December 2017	Changes
Cash and cash equivalents and current financial receivables	18,043	24,006	(5,963)
Current financial payables	(10,817)	(14,999)	4,182
Financial liabilities for derivatives	(28)	(76)	48
Financial assets for derivatives	19	56	(37)
(Debt)/short-term cash and cash equivalents	**7,217**	**8,987**	**(1,770)**
Non-current financial assets	126	166	(40)
Non-current financial payables	(11,864)	(13,933)	2,069
(Debt)/medium-/long-term cash and cash equivalents	**(11,738)**	**(13,767)**	**2,029**
Net financial position	**(4,521)**	**(4,780)**	**259**

Net financial debt comprises short-term cash and cash equivalents of EUR 7,217 thousand and medium/long-term debt of EUR 11,738 thousand.

Two new loans were taken out during the fourth quarter of 2018 totalling EUR 5,000 million, both at variable rates, with a spread of less than 1% and without financial covenants.

The change in net financial position is mainly due to the positive cash flow from typical operations (EUR 18,992 thousand), partially mitigated by technical investments in the half (EUR 9,438 thousand), by distribution of dividends (EUR 5,040 thousand), and by payment of taxes (EUR 3,744 thousand).

The Gefran Group's **consolidated cash flow statement** at 31 December 2018 showed a positive net change in cash at hand of EUR 5,963 thousand, compared with a negative change of EUR 3,529 thousand in 2017.

The change was as follows:

(EUR / 000)	**31 December 2018**	**31 December 2017**
A) Cash and cash equivalents at the start of the period	24,006	20,477
B) Cash flow generated by (used in) operations in the period	18,992	21,424
C) Cash flow generated by (used in) investment activities	(9,353)	(5,352)
D) Free cash flow (B+C)	9,639	16,072
E) Cash flow generated by (used in) financing activities	(15,504)	(11,848)
F) Cash flow from continuing operations (D+E)	(5,865)	4,224
G) Cash flow from assets held for sale	0	0
H) Exchange rate translation differences on cash at hand	(98)	(695)
I) Net change in cash at hand (F+G+H)	(5,963)	3,529
J) Cash and cash equivalents at the end of the period (A+I)	18,043	24,006

The cash flow from operations in 2018 came to a positive balance of EUR 18,992 thousand; specifically, operations in 2018, net of the effect of provisions, amortisation and depreciation and financial items, generated cash of EUR 21,269 thousand (EUR 25,458 at 31 December 2017), while the increase in working capital in the same period generated a negative cash flow of EUR 3,900 thousand (as compared to a positive cash flow of EUR 384 thousand in 2017).

Technical investments absorbed EUR 9,411 thousand in cash, a rise of EUR 3,770 thousand compared with EUR 5,641 thousand at 31 December 2017.

Free cash flow (operating cash flow excluding investment activities) was positive at EUR 9,639 thousand, compared with an again positive figure of EUR 16,072 thousand in 2017, a decrease therefore of EUR 6,433 thousand mainly due to the additional investments made and the performance of working capital.

Financing activities absorbed a total of EUR 15,504 thousand in cash, principally due to repayment of instalments due on outstanding loans (EUR 9,462 thousand), payment of the Parent Company's dividends due on the results achieved (EUR 5,040 thousand), payment of taxes (EUR 3,744 thousand, of which EUR 1,781 thousand was for foreign taxes for previous years) and a reduction in short-term debt (EUR 1,789 thousand), partly offset by a new loan of EUR 5,000 thousand.

In the year 2017, financing activities had absorbed cash totalling EUR 11,848 thousand, due to repayment of instalments due on outstanding loans (EUR 9,507 thousand), the early repayment of three loans (EUR 4,000 thousand), the reduction of short-term debt (EUR 5,987 thousand) and the payment of dividends (EUR 3,600 thousand), offset by two new loans taken out (EUR 11,000 thousand).

6. INVESTMENTS

Gross technical **investments** made in 2018 amounted to EUR 9,438 thousand (EUR 5,641 thousand at 31 December 2017) and related to:

- investment of EUR 2,623 thousand in production and laboratory plant and equipment in the Group's Italian factories, investment of EUR 519 thousand in the Chinese factory and investment of EUR 218 thousand in the factories of other Group subsidiaries;
- investment of EUR 2,917 thousand in work on the industrial buildings containing the Group's Italian plants, including EUR 1,399 invested in the Parent Company’s historic premises in Via Sebina in Provaglio d’Iseo and EUR 1,227 thousand invested in the Gerenzano facility; investment in buildings owned by other Group subsidiaries totalling EUR 403 thousand, including EUR 290 thousand invested in the US subsidiary;
- investments related to the renewal of electronic office machines and IT system equipment in the Parent Company amounting to EUR 549 thousand and EUR 151 thousand in the Group’s subsidiaries;
- investments in miscellaneous equipment in the Group’s subsidiaries amounting to EUR 95 thousand;
- capitalisation of costs incurred in the period for new product development, totalling EUR 1,202 thousand;
- purchases of patents totalling EUR 107 thousand, including EUR 102 thousand for a patent;
- other investments in intangible assets totalling EUR 654 thousand, for management software licences and SAP ERP development.

The investments are summarised below by type:

(EUR / 000)	**at 31 December 2018**	**at 31 December 2017**
Intangible assets	1,963	959
Tangible assets	7,475	4,682
Total	9,438	5,641

The investments are summarised by business area below:

(EUR / 000)	**Sensors**	**Automation components**	**Motion control**	**Total**
Intangible assets	581	639	743	1,963
Tangible assets	3,676	1,764	2,035	7,475
Total	4,257	2,403	2,778	9,438

The investments are summarised below on the basis of geographical region:

Geographical region	31 December 2018 intangible assets and goodwill	31 December 2018 tangible assets	31 December 2017 intangible assets and goodwill	31 December 2017 tangible assets
(EUR / 000)				
Italy	1,948	6,148	938	4,372
European Union	12	60	4	66
Europe non-EU	0	116	7	8
North America	0	354	4	37
South America	3	215	3	136
Asia	0	582	4	62
Rest of the World	0	0	-1	1
Total	1,963	7,475	959	4,682

7. ASSETS HELD FOR SALE

The net loss from assets held for sale in the first nine months of 2018 is EUR 875 thousand, including 1,214 thousand due to write-downs of assets with EUR 339 thousand in positive items. This represents the write-off of assets pertaining to know-how in the photovoltaic business, in relation to which negotiations had been under way for sale. When the potential buyers announced that they did not intended to exercise their purchase option, the directors opted to write the asset off entirely.

8. RESULTS BY BUSINESS AREA

The following sections comment on the performance of the individual business areas.

To ensure correct interpretation of figures relating to the individual activities, it should be noted that:

- the business represents the sum of revenues and related costs of the Parent Company Gefran S.p.A. and of the Group subsidiaries;
- the figures for each business are provided gross of internal trade between different businesses;
- the central operations costs, which pertain to Gefran S.p.A., are fully allocated to the businesses, where possible, and quantified according to actual use; they are otherwise divided according to economic-technical criteria.

8.1. SENSORS

Strategy

Sales development on world markets will be conducted on several levels in 2019: on one hand, in continuity with previous years, we will continue to identify significant opportunities in industrial applications other than our traditional ones, also through strategic partnership agreements; and on the other hand, in "historic" sectors (builders and users of plastics processing machinery), in addition to offering new products and innovative solutions on the existing market, we will be conducted commercial development in application niches the company does not yet serve. Lastly, we expect to concentrate major commercial investment in China and Southeast Asia, where we believe it may be possible to acquire market shares (in both traditional sectors and adjacent sectors of industry) with an increased presence in the area.

Our sales development strategy is supported by an ambitious product development plan begun in 2018 (to be continued in 2019) involving complete renewal of our range of contactless position sensors and continuing evolution of the company's manufacturing capabilities (in terms of volumes of production, efficiency and quality of production) supported by a specific investment plan.

The cornerstones of the growth strategy continue to be:

- Technological leadership to enable growth in mature markets;
- Knowledge of industrial processes to grow in emerging markets, supported by local producers to guarantee sufficient customer service levels;
- Extending the product range to tackle applications related to the plastics industry;
- Control of production processes and continued research on constructive means to achieve innovative effectiveness and efficiency.

The efficacy and distinctive character of these cornerstones is emphasised by the results achieved by the sensors business in 2018, and they will be further reinforced in 2019 with a number of organisational changes and an important investment plan.

In addition to this, constant monitoring of levels of customer satisfaction and of the technical know-how of our sales force are considered essential for maintaining and improving the competitiveness of the business. For these reasons, the lean projects the company has implemented in previous years continued in 2018 with a focus on technical assistance services for customers. With the goal of facilitating the choice of products for users less experienced in sensors, we now offer an innovative online product selection and configuration tool. The company has also introduced an e-learning platform in which it is posting content for training sales staff all over the world.

Key events

In order to support the growth of volumes expected in the years to come, in 2018 the company prepared and approved a plan, to be implemented in the years to come, expanding the amount of space dedicated to production of sensors (including renovation of a building already owned by the Group) and redesign of plant layouts with the goal of optimising the flow of materials during product assembly and making it more efficient.

In order to support the growth of the sensors business in North America in the years to come, in 2018 the company identified a new building in which to transfer its production and sales facilities, currently located in Winchester. The size and structure of the building will make an important contribution to improving the company's image and presence and the growth of its business in the country.

Summary results

The table below shows the key economic figures.

(EUR / 000)	**31 December 2018**	**31 December 2017**	**Change 2018 - 2017 value**	**%**	**Q4 2018**	**Q4 2017**	**Change 2018 - 2017 value**	**%**
Revenues	**61,893**	**58,437**	3,456	5.9%	**14,893**	**15,101**	(208)	-1.4%
EBITDA	**18,439**	**16,295**	2,144	13.2%	**3,948**	**4,032**	(84)	-2.1%
% of revenues	*29.8%*	*27.9%*			*26.5%*	*26.7%*		
EBIT	**15,930**	**13,223**	2,707	20.5%	**3,296**	**3,025**	271	9.0%
% of revenues	*25.7%*	*22.6%*			*22.1%*	*20.0%*		

The breakdown of sensors business revenues by geographical region is as follows:

(EUR / 000)	**31 December 2018**		**31 December 2017**		**Change 2018 - 2017**	
	value	**%**	**value**	**%**	**value**	**%**
Italy	13,494	21.8%	12,395	21.2%	1,099	8.9%
Europe	21,978	35.5%	19,826	33.9%	2,152	10.9%
America	10,306	16.7%	10,138	17.3%	168	1.7%
Asia	15,874	25.6%	15,839	27.1%	35	0.2%
Rest of the World	241	0.4%	239	0.4%	2	0.8%
Total	**61,893**	**100%**	**58,437**	**100%**	**3,456**	**5.9%**

Business performance

Business revenues at 31 December 2018 were EUR 61,893 thousand, an increase of EUR 3,456 thousand (5.9%) compared with the year 2017. An increase was registered in all geographic regions; in terms of product lines, excellent results were achieved in Pressure (Industrial and Melt at high temperatures), driven by the excellent performance of the Gefran Group's principal market.

New orders in the year 2018, amounting to EUR 60,865 thousand, showed a +2.2% increase over 2017, when they amounted to EUR 59,549 thousand; the order backlog as of 31 December 2018 had dropped by around 9.4% since the end of 2017 as a result of improvement of the capacity and productive efficiency of our plants.

In the fourth quarter of 2018 revenues amounted to EUR 14,893 thousand, down 1.4% over the same period in 2017, when they came to EUR 15,101 thousand.

EBITDA was EUR 18,439 thousand as at 31 December 2018, an increase of EUR 2,144 thousand (+13.2%) compared to the year 2017, when it was EUR 16,295 thousand. The improvement in EBITDA can be attributed to increased volumes and higher margins, only partially offset by the increase in operating costs reflecting investments made to support future growth.

EBIT at 31 December 2018 was EUR 15,930 thousand, equal to 25.7% of revenues, compared to an EBIT of EUR 13,223 thousand in the year 2017 (22.6% of revenues), an increase of EUR 2,707 thousand (+20.5%).

Comparing the figures by quarter, EBIT in the fourth quarter of 2018 came to EUR 3,296 thousand, corresponding to 22.1% of revenues, compared with an EBIT of EUR 3,025 thousand, equal to 20% of revenues, in the same period in 2017.

Investments

The Group invested EUR 4,257 thousand in the sensors business in the year 2018, including investments in intangible assets totalling Euro 581 thousand, primarily regarding research and development of new products and the purchase of patents.

Investments in tangible assets amounted overall to EUR 3,676 thousand, EUR 2,597 thousand of which were invested by the Parent Company, mainly for the purchase of production equipment to increase production capacity and efficiency (EUR 1,426 thousand), and for upgrading buildings (EUR 834 thousand), with investment of EUR 136 thousand in purchases of technical equipment; investment in the Group’s subsidiaries totalled EUR 1,079 thousand, mostly relating to installation of new production lines or the expansion of existing lines (EUR 585 thousand).

8.2. AUTOMATION COMPONENTS

Strategy

In the year 2019 commercial development of markets will focus primarily on Europe (Italy, France and Germany), the United States and Brazil, where resources will focus exclusively on increasing business by identifying significant opportunities in industrial applications other than those traditionally served by the Gefran Group. The goal in other countries will be maintaining our current market share through follow-up with existing customers.

Business development is supported by a product range that has been consolidated and enriched with advanced new functions in 2018, to be officially launched on the market in 2019.

On the production processes front, in 2019 investments will continue in new machinery and in software, with the aim of automating manufacturing processes from a smart factory perspective.

Due to the nature of our product, in the "heart" of machinery and plant automation processes, we consider it essential, in order to acquire new business opportunities, to add to the technical know-how of our sales force and make it easy for prospective customers to identify the best products for their needs. This is the philosophy behind investment in development of an e-learning platform and an innovative online product selection and configuration tool.

Key events

In 2018 we continued to work on reorganisation of internal processes with projects ("lean" work sites) aimed at constantly seeking more efficient solutions offering a better response to the needs of customers and the market.

In commercial terms, we began work on a project for setting up sales task forces in a number of countries where we aim to acquire new market shares.

Summary results

The table below shows the key economic figures.

(EUR / 000)	**31 December 2018**	**31 December 2017**	**Change 2018-2017 value**	**%**	**Q4 2018**	**Q4 2017**	**Change 2018 - 2017 value**	**%**
Revenues	**37,475**	**35,743**	1,732	4.8%	**9,201**	**9,259**	(58)	-0.6%
EBITDA	**3,326**	**3,667**	(341)	-9.3%	**609**	**518**	91	17.6%
% of revenues	*8.9%*	*10.3%*			*6.6%*	*5.6%*		
EBIT	**1,360**	**1,330**	30	2.3%	**123**	**(250)**	373	149.2%
% of revenues	*3.6%*	*3.7%*			*1.3%*	*-2.7%*		

The breakdown of automation components business revenues by geographic region is as follows:

(EUR / 000)	31 December 2018		31 December 2017		Change 2018-2017	
	value	%	value	%	value	%
Italy	19,947	53.2%	17,338	48.5%	2,609	15.0%
Europe	10,402	27.8%	10,247	28.7%	155	1.5%
America	3,479	9.3%	4,016	11.2%	(537)	-13.4%
Asia	3,435	9.2%	3,947	11.0%	(512)	-13.0%
Rest of the World	212	0.6%	195	0.5%	17	8.7%
Total	**37,475**	**100%**	**35,743**	**100%**	**1,732**	**4.8%**

Business performance

Revenues totalled EUR 37,475 thousand at 31 December 2018, up 4.8% over the year 2017. The improvement was due to the increase in revenues on Italian markets (+15%), only partially offset by the contraction recorded in America and in Asia (-13% in both areas).

New orders as of 31 December 2018 totalled EUR 32,197 thousand, down -3.5% over the previous year; the order backlog, at EUR 3,757 thousand, was also lower than on 31 December 2017 (-12.3%).

In the fourth quarter of 2018 revenues amounted to EUR 9,201 thousand, in line with the last quarter of 2017 (-0.06%), when they came to EUR 9,259 thousand.

EBITDA at 31 December 2018 was positive by EUR 3,326 thousand (8.9% of revenues), down by EUR 341 thousand compared with the year 2017 (-9.3%). Greater volumes of sale did not permit complete absorption of increased operating costs in the business line.

EBIT was positive in 2018 at EUR 1,360 thousand, in line with the figure for the previous year, when it was EUR 1,330 thousand.

Comparison by quarters reveals that EBIT was positive in the fourth quarter of 2018 by EUR 123 thousand. This may be compared with a negative EBIT of EUR 250 thousand in the same period in 2017. The improvement is primarily a result of greater margins on sales.

Investments

Investment in 2018 totalled EUR 2,403 thousand, EUR 639 thousand of which was invested in intangible assets (including EUR 445 thousand for capitalisation of the cost of development of a new range of power regulators and controllers) while EUR 1,764 thousand was invested in tangible assets, including EUR 1,446 thousand invested in the company’s Italian premises, primarily to permit completion of production lines and greater automation of the project begun in 2017, installation of new lines for new product ranges, and adaptation of buildings.

8.3. MOTION CONTROL

Strategy

The motion control business is broken down into three sections: drives for industrial applications, for non-industrial lifting and for custom applications.

During 2018 a strategic policy was identified to increase the proportion of revenues from custom projects, which ensure stable volumes over time and greater manufacturing efficiency. This policy will be maintained in 2019, with the additional goal of renewing the existing order portfolio in non-industrial lifting.

In the non-industrial lifting sector, thanks to the Gefran brand's reputation and popularity, commercial activities will be concentrated on consolidating its presence in the geographical regions already controlled and, at the same time, on developing regions that are not yet fully mature, but which have great potential.

In the industrial sectors, the focus will be on plastic and metal applications, where Gefran's characteristic application know-how means that it can offer customers dedicated and specific solutions, thanks to the wide range of inverters available with various power levels and dedicated technologies.

Key events

2018 saw the successful completion of investment in adaptation of buildings and renewal of the company's production lines, particularly for manufacture of custom products and improvement of the productivity of standard lines.

Two specific applications were created for Metal, in collaboration with key players in the industry in Italy.

Summary results

The table below shows the key economic figures.

(EUR / 000)	31 December 2018	31 December 2017	Change 2018-2017 value	Change 2018-2017 %	Q4 2018	Q4 2017	Change 2018 - 2017 value	Change 2018 - 2017 %
Revenues	**41,740**	**38,675**	3,065	7.9%	**11,667**	**11,330**	337	3.0%
EBITDA	**(1,707)**	**(923)**	(784)	-84.9%	**72**	**926**	(854)	-92.2%
% of revenues	*-4.1%*	*-2.4%*			*0.6%*	*8.2%*		
EBIT	**(3,547)**	**(3,404)**	(143)	-4.2%	**(404)**	**114**	(518)	-454.4%
% of revenues	*-8.5%*	*-8.8%*			*-3.5%*	*1.0%*		

The breakdown of revenues by geographical region is as follows:

(EUR / 000)	31 December 2018		31 December 2017		Change 2018-2017	
	value	%	value	%	value	%
Italy	13,202	31.6%	11,854	30.7%	1,348	11.4%
Europe	10,968	26.3%	11,614	30.0%	(646)	-5.6%
America	4,930	11.8%	4,399	11.4%	531	12.1%
Asia	12,341	29.6%	10,489	27.1%	1,852	17.7%
Rest of the World	299	0.7%	319	0.8%	(20)	-6.3%
Total	**41,740**	**100%**	**38,675**	**100%**	**3,065**	**7.9%**

Business performance

Revenues totalled EUR 41,740 thousand at 31 December 2018, up EUR 3,065 thousand (+7.9%) compared with 2017. Growth was concentrated in Asia (+17.7%), Italy (+11.4%) and America (+12.1%), mainly thanks to products for lift applications and custom products. Sales in Europe dropped (-5.6%).

New orders and the order backlog in 2018 reveal a significant increase over the previous year, EUR 3,876 thousand and EUR 1,779 thousand respectively; orders for custom projects contribute to this growth.

In the fourth quarter of 2018 revenues amounted to EUR 11,667 thousand, 3% higher than in the same period in 2017, when they came to EUR 11,330 thousand.

EBITDA at 31 December 2018 was negative at EUR 1,707 thousand (-4.1% of revenues). This may be compared with a negative figure of EUR 923 thousand (-2.4% of revenues) for the previous year. Though revenues have grown since 2017, lower margins and greater costs do not permit improvement of EBITDA over the previous year.

At 31 December 2018 EBIT was negative by EUR 3,547 thousand, down by EUR 143 thousand compared with a negative EBIT of EUR 3,404 thousand in 2017.

In the comparison by quarters, the EBIT of the motion control business for the fourth quarter of 2018 is negative by EUR 404 thousand (-3.5% of revenues), compared with an EBIT in the same period in 2017 which was positive by EUR 114 thousand (+1% of revenues), a drop of EUR 518 thousand, partly due to increased allocation to the provision for inventory write-down registered in the fourth quarter of the current year.

Investments

Investments in 2018 amount to EUR 2,778 thousand, including EUR 2,035 thousand for tangible assets, primarily dedicated to installation of new assembly lines, in addition to adaptation of the Gerenzano plant in response to greater volumes of production for custom projects.

Increases in intangible assets amounted to EUR 743 thousand and concerned the capitalisation of development costs (EUR 476 thousand) relating to new products for the industrial sector and the lifting sector.

9. RESEARCH AND DEVELOPMENT

The Gefran Group invests significant financial and human resources in product research and development. In 2018, about 5% of revenues were invested in these activities, considered to be strategic to maintain the products' high level of technology and innovation and ensure the level of competitiveness required by the market.

Research and development is concentrated in Italy, in the laboratories in Provaglio d'Iseo and Gerenzano. It is carried out within the technical department, with a separation between research and development into new products and production engineering aimed at improving existing products with new innovations.

The cost of technical personnel involved in the activities, consultancy and materials used is fully charged to the income statement, except for costs capitalised for the year that meet the requirements of IAS 38. Costs identified for capitalisation according to the above requirements are indirectly suspended by a revenue entry under a specific income statement item: *"Increases for internal work"*.

In the **sensors** business, research focused on the following products:

- melt sensors: the future increasingly lies in knowing how to produce GREEN sensors that use NaK and oil as transmission fluids and in the IMPACT line, where measurements are made without using any filling fluid. Further improvements were made to the properties of primary measurement elements, integrating Thick Film transduction technology into these sensors to permit better performance combined with more efficient production, as well as improved process control;
- magnetostrictive sensors: development of the new HYPERWAVE line of magnetostrictive sensors was finalised, releasing it on the market in January 2019. Drawing on the performance of a new sensitive element and a set of configurations optimising the price to performance ratio, the HYPERWAVE series qualifies the product for success in new, broader market sectors;
- pressure sensors: automation and improvement of production processes, in terms of both the technology of construction of primary elements and sensor assembly and calibration, continued with the goal of guaranteeing a rapid response to the demands of the market, also in view of a significant increase in volumes;
- force sensors for electrical machinery for injection of plastic materials: work on development of products for measurement of force in so-FEMs (Full Electric Machines) is oriented toward introduction of advanced wireless signal transmission and communication technology (Industry 4.0), which offers superior benefits for product users. These are innovative products made using an important set of technical skills combining the company's legacy of know-how with the most recent trends in communication technologies. Dedicated new calibration and control devices were also designed and launched, permitting a better response to the demands of the market;
- wirewound position sensors: efforts to achieve dependability and safety in sensor design for applications in Mobile Hydraulics have led to development of solutions involving use of contactless transduction technologies using the "HALL" effect which guarantee maintenance of metrological properties over time.

In the field of **automation components**, research and development in instrumentation has focused on development of products with advanced features that conform to the requirements of the "AMS2750E" (Aerospace Material Specification) standard.

For the power controller range, work focused on:

- development of products featuring predictive diagnostics and reduced energy consumption (Industry 4.0), with a view to developing products which are ethically sustainable and in the vanguard in terms of energy efficiency and tracking and anticipating the growing focus on environmental issues;
- development of regulation algorithms, specifically required by the automotive glass market;
- development of products planned and qualified in accordance with SCCR 100kA UL508 certification.

Development activities in the **motion control** business focused on both the standard product ranges (industrial and non-industrial lifting) and on custom projects. Specifically:

- the industrial lines have seen implementation of new application functions, primarily for the metal sector;
- non-industrial lifting lines have required development of software and HW solutions responding to specific demands on the market;
- development of a new solution for the metals industry;
- study of a water treatment function (solar pumps).

The R&D area, working in concert with Purchasing Management, also began work on projects aiming to identify new solutions in response to the contingent difficulty obtaining electronic components on the market, with the goal of guaranteeing that customers have access to quality products while decreasing exposure to the risk of similar situations beyond our control.

Work continued on the "I-MECH" project set up by the European Community and co-financed by the Italian Ministry of Education, Universities and Research, for research and innovation in Motion Control applied to Mechatronics solutions. The first plenary session meeting was held in the Gerenzano plant, and work is currently under way on definition and development of the project.

10. ENVIRONMENT, HEALTH AND SAFETY

“Gefran promotes sustainable growth geared towards respect for the environment and public health, developing management systems that comply with the laws in force and pursuing continuous improvement in environmental performance”.

(from the Gefran Group “Code of Ethics and Conduct”).

In 2018, Gefran continued with its commitment to promote initiatives and activities for protection of the environment as a primary asset and of the health and safety of all staff.

Though Gefran is not considered a high energy consumer, an audit and analysis of the company’s energy consumption, made possible by installation of monitoring systems, identified the areas that consume the greatest amount of energy. An “energy efficiency plan” was therefore implemented, with a new campaign for replacement of old fluorescent tube light fixtures with new LED lights in the Parent Company’s plants. The energy efficiency plan will see complete replacement of all light fixtures within the year 2020.

As in previous years, in 2018 the Group confirmed its commitment to separate collection of wastes for recycling on all its premises. In the Group’s Italian premises in particular, once again this year the information regarding waste disposal and its complete independence from the services provided by the various municipalities involved led to recovery of the variable portion of solid urban waste disposal taxes.

A health and safety education campaign began which will continue in the year 2019 for all Gefran S.p.A. employees. Gefran has appointed an external team of professionals, making the most of this opportunity for education and using it as an opportunity to experiment with active teaching methods, with the goal of ensuring virtuous behaviour on the part of individuals and thereby improving the company’s organisation.

Gefran's commitment to protection of its employees’ health also resulted in the purchase of live-saving defibrillators, which have been installed on the premises of the Parent Company’s production plants, and renovation of areas used by production staff during shift changes.

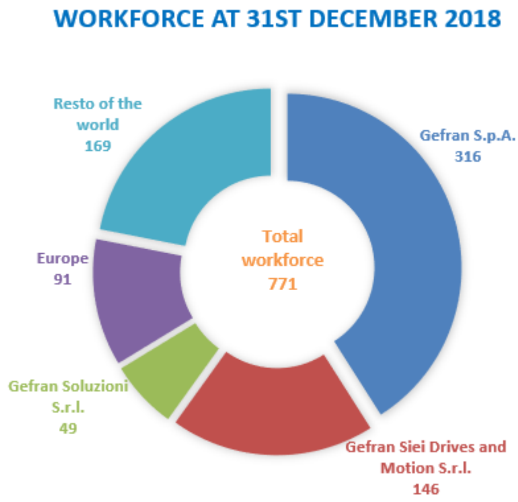
11. HUMAN RESOURCES

Workforce

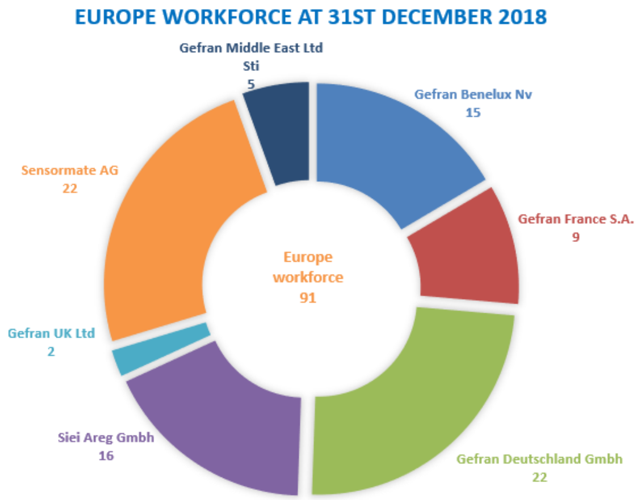
As of 31 December 2018, the Group's workforce numbered 771, an increase of 41 compared with 31 December 2017.

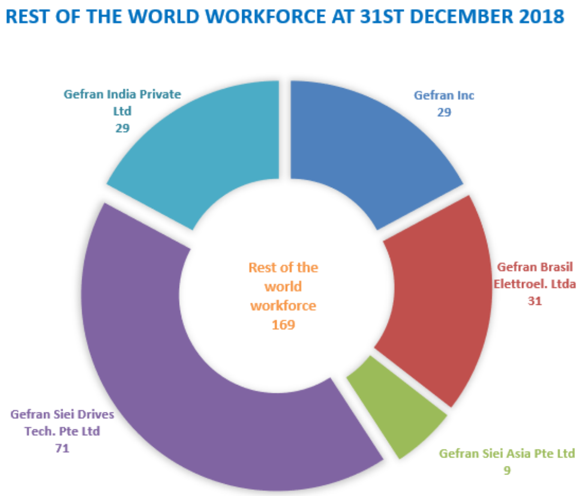
The change is characterised by an overall turnover rate within the Group of 21.1%, which breaks down as follows in the year 2018:

- 96 people joined the Group, including 19 manual workers, 76 clerical staff and 1 manager/executive;
- 55 people left the Group, including 12 manual workers, 40 clerical staff and 3 managers/executives.



The figures above do not take into account movement of employees from Gefran S.p.A to the newly established Gefran Drives and Motion S.r.l. as a result of contribution of the company branch. 3 executives left the company as a result of changes to the Parent Company's governance in the month of April 2018.





Personnel movements in the Group's international subsidiaries are attributable to normal turnover and to the organisational changes underway as a result of development of skills to support the growth of the business.

Organisation and industrial relations

Gefran is adopting organisation models oriented toward customers and the market and supporting them with ongoing innovation and improvement projects regarding not only the product and the process but development of talent, organisational evolution and the quality of labour.

The company focused on innovation in production processes in the Group's plants in 2018 with lean production projects and work sites, skill mapping and development plans, and investment in redefining production layout and equipment.

As part of the Group's strategy of making the most of its resources, all workers were surveyed in 2018, increasing engagement and offering the company important information on their specific needs. In view of the results obtained, a study was begun aimed at reconciliation of working hours through processes leading to a high level of multitasking, setting up a joint focus team including department heads, workers and trade union representatives, with a mandate to explore non-standard, flexible working hours, probing workers' opinions on these issues and coming up with proposals. The team's work led to identification of "win-win" solutions responding to both the need for flexibility in production and the need for reconciliation of work and private life.

This innovative organisational experience, conducted under the guidance of experts from Politecnico di Milano, is of particular interest for two reasons. First of all, in terms of content: working hours, often the subject of negotiation in industrial relations during application of contractual institutions, turned out to offer a lever of great interest with important connotations for organisation and development, integrating personnel management with production management. Secondly, in terms of method, involving systematic resort to various forms of direct participation. These forms are identified in the availability of bonuses which are not subject to taxes or contributions, which are still frequently considered abstract methods that are impractical in the context of production in Italy.

Training and development

The company is all about people, and professional development is an essential factor in responding to the risk of losing talent, know-how, and skills, and therefore opportunities and competitiveness; aware of this, the company has implemented a series of initiatives.

Plans for engaging people and ensuring their fidelity range from welfare to international mobility, customised training and professional development plans and *FLY*, Gefran's Talent Academy, organised in a close partnership with universities; all these initiatives were launched and continued in the 2016-2018 three-year period to reinforce employer branding and the employee experience. These results have earned Gefran a mention as an example of excellence on radio programmes (RTL) and national television broadcasts (RAI3), and won the company the prestigious Best Job award (presented by the German Economic Institute); the company also received a visit from Senate Labour Commission.

FLY, Gefran's Talent Academy, completed its first year training new university graduates in 2018.

In response to the success of the *FLY* project, and in order to maximise the efficacy of the arrival of new employees in the company, professional development days were held focusing on aspects of behaviour specifically focusing on the context of Gefran: orientation toward customer relations and dialogue, teamwork, problem-solving in complex situations, the challenges of meeting targets and the satisfaction of achieving results.

At the end of each day, an on-the-job training session was held in which a remote tutor provided appropriate tools for putting the skills learned in the classroom into practice and using them in the field.

At the same time, the heads of key company departments implemented actions for orientation of new university graduates in Gefran viewed as a “Corporate System”.

The process concluded with a contest in which the young people were divided into two teams and competed to present original ideas aimed at implementing an innovative communications plan for informing university students about the Talent Academy.

Gefran decided to proclaim both of the teams winners, integrating the winning project with an equally valid idea presented by the other team, allocating a budget and helping the kids implement their plan, which has now become a concrete company project included in the Group’s strategic plan. The key goal of the project is strengthening Gefran’s ties with the universities, with an innovative approach developed by young talents in Gefran and intended for students about to join the labour market.

In the wake of the success of the first *FLY* Talent Academy project, more recent graduates have been accepted in an organised fashion under the plan. In 2019 we will continue training programmes focusing on certain aspects of behaviour identified as important by the company. The programme will also include an initial assessment conducted through an Assessment Centre, employing an evaluation method focusing on soft skills and involving a team of people in a process including interviews, team dynamics and individual and group exercises. This process offers a particularly effective way of speeding up participants’ acquisition of professional attitudes, analysing training requirements and setting up group professional development programmes.

Gefran continues to invest in professional development through numerous initiatives, including multi-level participation in events oriented toward issues such as digitalisation and innovation, registration with EMBA (at Politecnico di Milano) and Specialised Master's Programmes (at Oxford University and Politecnico di Milano), and partnerships with universities for working on special projects specifically focusing on issues related to Industry 4.0, such as *Smart Processes for a Smarter Factory* .

The company also promoted actions supporting management figures in a specific business unit directly accountable for strategy in order to consolidate the company’s vision, facilitate sharing of targets and identify the most efficient ways of achieving true team integration.

The company continues to implement career paths custom-tailored to suit to employees’ potential and particular qualities with the aim of achieving professional growth. Assessment plans are prepared based on seniority levels, for which development plans are defined.

This year once again saw the promotion of role consultancy for people who require assistance redefining their role in the company, for instance following a change in their assigned tasks. Role consultancy offers employees assistance with their personal and professional growth through recognition of their latent potential. It achieves improved planning (personal self-realisation and efficacy of professional action) through an improved ability to understand and have an impact on one’s position and the relationships it involves.

Courses open to all employees continued in 2018, including language courses (English, French, German and Spanish) and instruction in effective communication skills.

The Company constantly offers opportunities to students, school-leavers and new university graduates. It has a number of partnerships in place with universities and secondary schools, and offers curricular and extra-curricular apprenticeships and school/work agreements and opportunities for students to begin work in the areas they have studied, leading to possible employment compatibly with the company’s capacity and the talent demonstrated.

All new employees go through a special induction process to help them become familiar with processes, products/services and people in their own department and in interdependent functions.

The presence of four different generations in the company, including two analogical native and two digital native generations, requires a special focus on appreciation of their different characteristics and integration of their apparently very different but actually complementary approaches. Analogical natives have a library of experiences, in-depth vertical knowledge of issues and an analytic approach, while digital natives express a multicultural spirit and an ability to process large quantities of information and to create multicultural networks.

One of the tools we use is Reverse Mentoring, a set of programmes and initiatives designed to enhance the abilities not only of young workers but also of more experienced (senior) workers through a reciprocal exchange of skills, know-how, approaches and points of view. Through focus groups, laboratories, and "four-handed" project management, we implement reciprocal transmission in which both parties learn from one another by comparing two different models of the world.

MBO system

The MBO System is a fundamental instrument for the company workforce to focus on achievement of strategic results, with the goal of obtaining maximum involvement and accountability of staff with respect to their responsibilities. The process begins with definition of the Group's strategic objectives, which are translated into operating targets for the business line and/or company area, down to the individual objectives of people in various positions. It is managed organically and in an integrated way in order to guarantee consistency between the objectives assigned to the different areas and share responsibilities for objectives common to two or more functions.

The golden rule chosen for assigning individual employees' objectives is the "S.M.A.R.T." (Specific, Measurable, Achievable, Relevant, Time-related) principle, and all employees have shared with their managers objectives that are:

- specific;
- measurable;
- achievable (challenging but realistic);
- relevant, from an organisational viewpoint, i.e. consistent with the company's mission.

Gefran has introduced mechanisms for the possible return, even in part, of payments already paid under the MBO system. This tool enables the company to take back amounts already paid when the objectives achieved are not confirmed in the following quarter or when negative assessments are made after the event of how the results were achieved (system known as claw-back).

12. STRATEGY

The year that has just ended was a very positive one for the Gefran Group in a number of ways: revenues and margins earned were higher than in 2017, and the year saw plenty of investment in production and technological product innovation, as well as in internal organisation, aimed at building the Gefran of the future. The drive toward digitalisation, dialogue with universities, and numerous projects begun and implemented in 2018 have allowed the Group to achieve a level of excellence and competitiveness in the field.

In 2019 the company will continue its investment plan with renewed vigour, including redevelopment and purchase of buildings to contain new production lines. Growth in volumes, the need to contain delivery lead times, and the resulting higher level of quality are the factors guiding investment in new production lines in 2019.

In addition, investment in product research and development will continue with a view to achieving environmental sustainability and technological innovation in response to the growing demands of the market and of global digitalisation.

The projects underway focusing on human capital will continue in 2019 with the goal of supporting growth on the markets, adding new skills partly deriving from the Industry 4.0 revolution, ensuring generational turnover and avoiding loss of know-how which would be difficult to make up for.

Projects supporting the development and growth of the group externally are not being considered at present but should not be excluded if they are consistent with the strategic guidelines and compatible with the organisational structure.

13. MAIN RISKS AND UNCERTAINTIES TO WHICH THE GEFRAN GROUP IS EXPOSED

In the normal course of its business, the Gefran Group is exposed to various financial and non-financial risk factors, which, should they materialise, could have a significant impact on its economic and financial situation.

Analysis of risk factors and assessment of their impact is the pre-requisite for creation of value in the organisation. The ability to handle risk properly helps the Company approach strategic decisions and policies conscientiously and confidently, and helps prevent a negative impact on corporate and business targets.

The Group adopts specific procedures to manage the risk factors that could influence its results.

On 13 February 2008, the Board of Directors voted to adopt an Organisation, Management and Control model (the "Organisational Model") to prevent the offences under Legislative Decree 231/01 from being committed.

This model was subsequently updated in light of changes to the law mentioned above. The Organisational Model was updated under a resolution passed by the Board of Directors on 13 November 2018, based on the Confindustria Guidelines, in response to the need for continuous update of the corporate governance system, the structure of which was based in turn on the recommendations and regulations in the ”Code of Conduct for Listed Companies” promoted by Borsa Italiana S.p.A., with which the Company complies.

The relevant corporate entities for the purposes of the internal control and risk management system have been identified:

- the **Risk Control Committee** (RCC), which has the task of supporting, with adequate preliminary investigation activity, evaluations and decisions of the Board of Directors regarding the internal control and risk management system, as well as of checking the proper application of accounting standards and their consistency for the purposes of preparing the consolidated financial statements;
- the **Executive Director in charge of the internal risk control system**, with the task of identifying the main corporate risks, implementing the risk management guidelines and checking their adequacy;
- the **Executive in charge of the financial reporting**, who has direct supervision of the control model pursuant to Law 262/2005 and of the related administrative and accounting procedures, in connection with the constant updating of the same;
- the **Internal Audit** function, with the task of checking, both continuously as well as in relation to specific requirements and in compliance with international standards, the operation and appropriateness of the internal control and risk management system, via an audit plan approved by the Board of Directors, which is based on a structured analysis of the main risks.

In recent years Gefran has progressively approached the concepts of Risk Assessment and Risk Management with the aim of developing a process of periodic risk identification, assessment and management. Starting in 2017, Gefran has taken advantage of the occasion to reinforce its governance model and implement Risk Assessment promoting proactive risk management in support of the company's principal decision-making processes, identifying any areas requiring special attention and focus.

This Risk Assessment process allows the Board of Directors and Management to evaluate risk scenarios with a potential to compromise achievement of strategic goals in an informed manner and adopt additional tools for mitigating or managing significant exposure.

Risk Assessment is extended to all types of risk/opportunity of potential significance for the Group, represented in the Risk Model - shown in the figure below - dividing internal and external risk areas characterising Gefran's business model into eight families:

- **External Risks**: risks deriving from factors beyond the company's control, such as macroeconomic context and changes in the regulatory and/or market scenario;
- **Financial Risks**: connected with the availability of funding, credit and cash management, and/or volatility of key market variables (e.g. commodity prices, interest rates, exchange rates);
- **Strategic Risks**: risks connected with the company's strategic decisions regarding product portfolio, extraordinary operations, innovation, etc. which could influence the Group's performance;
- **Governance and Integrity Risks**: risks connected with Group/Company governance or professional behaviour which is unethical, fails to conform to the company's ethical policy and could expose the Group to sanctions and undermine its reputation on the market;
- **Operative and Reporting Risks**: risks connected with the efficacy/efficiency of company processes, with negative consequences for the company's performance and operations, and/or connected with the possibility that planning, reporting and control processes may not be sufficient to assist management with strategic decision-making and/or monitoring of the business;
- **Legal and Compliance Risks**: risks pertaining to handling of legal and contractual aspects and compliance with national, international and trade rules and regulations applicable to the company.
- **IT Risks**: Risks connected with the adequacy of the company's information systems for supporting the current and/or future requirements of the business in terms of infrastructure, data integrity, access and/or availability of data and information systems;

- **Risks associated with human resources**: Risks connected with the management and development of the skills and resources necessary for the company's business (e.g. selection, training, retention, internal communications) and with trade union relations.

The eight risk families analysed are schematically represented below:

1. External Risks			
1.01	Macroeconomic context	1.02	Instability in Emerging Economies where the Group produces or sells its products
1.03	Catastrophic Events / Business Interruption	1.04	Evolution of laws, regulations and industry standards
1.05	Competition		

2. Financial Risks			
2.01	Volatility of raw materials' prices	2.02	Business / financial counterparts
2.03	Exchange rate	2.04	Interest rate
2.05	Liquidity	2.06	Availability of capital / debt-reimbursement capability

3. Strategic Risks			
3.01	Sustainability of Businesses (e.g. Motion / Automation)	3.02	Investment decisions / M&A
3.03	Product portfolio	3.04	Product / Process Innovation
3.05	Effectiveness of medium-long term strategies	3.06	Effectiveness of extraordinary transactions
3.07	Strategic planning		

4. Governance and Integrity Risks			
4.01	Resistance to change	4.02	Integrity of behaviors / frauds
4.03	Proxies and Powers	4.04	R&R (roles and responsibilities) / SoD
4.05	Management and government of foreign branches		

5. Operating and Reporting Risks			
5.01	Adequacy / saturation of production capacity	5.02	Incorrect / inefficient production planning
5.03	Obsolescence of plants / machineries	5.04	Quality of products / Recall
5.05	Storage obsolescence	5.06	Dependence on contractors / critical suppliers
5.07	Reliability of supplier portfolio	5.08	Ineffectiveness of sales channels
5.09	Pricing ineffectiveness	5.10	Budget, planning and reporting
5.11	Dependence on critical clients	5.12	Transfer Pricing
5.13	Order execution risk	5.14	Partitioning of suppliers

6. Legal and Compliance Risks			
6.01	Protection of the exclusiveness of the relationship	6.02	Litigation
6.03	Contractual Risks	6.04	Adaptation to H&S legislation
6.05	Adaptation to environmental legislation	6.06	Adaptation to labor legislation
6.07	Adaptation to 262 Italian Law / financial reporting	6.08	Adaptation to 231 Italian Law Decree / Anticorruption
6.09	Adaptation to fiscal legislation	6.10	Adaptation to privacy legislation
6.11	Adaptation to industry legislation (ex. ISO)		

7. IT Risks			
7.01	IT & Data Security (Cybersecurity and SoD)	7.02	Business Continuity / Disaster Recovery
7.03	Data & IT Governance	7.04	IT Infrastructure
7.05	Web domain		

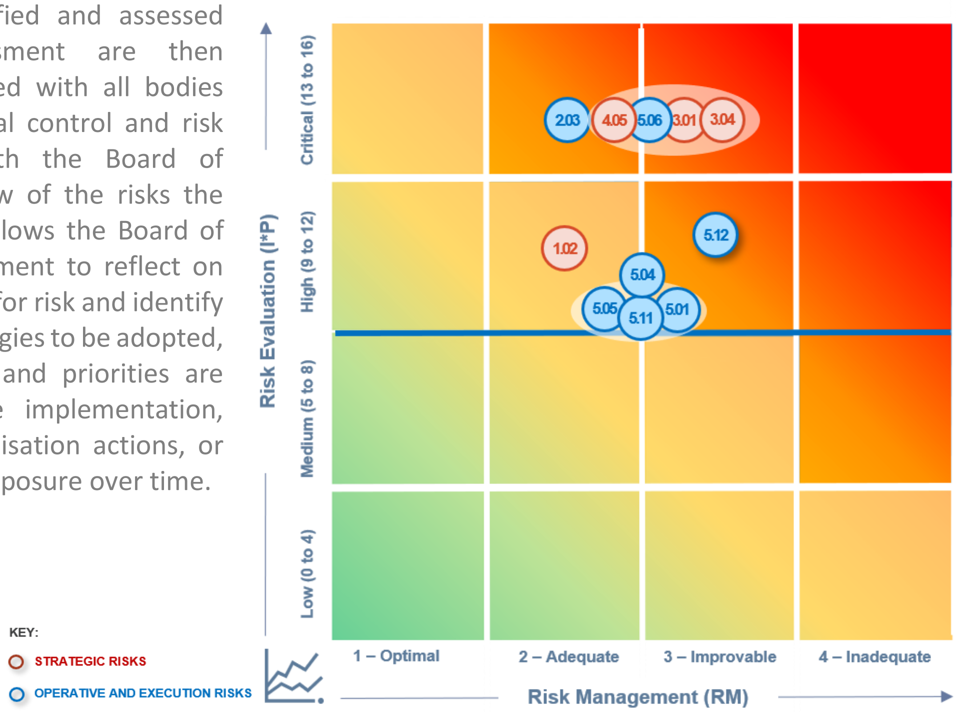
8. Risks connected to Human Resources			
8.01	Attraction and Retention	8.02	Professional development and compensation
8.03	Generational change	8.04	Industrial Relations
8.05	Dependence on key figures	8.06	Poor communication between the first managerial lines
8.07	Timeliness of communications relating to organizational changes	8.08	Average age of employees

Management involved in the Risk Assessment process must use a clearly defined shared methodology to measure and assess specific risk events in terms of the probability of them actually occurring, their impact and the degree of adequacy of the existing risk management system, according to the following definitions:

- **probability** of a certain event occurring within the time horizon of the Plan, measured on the basis of a scale from improbable/remote risk (1) to highly probable (4);
- **impact:** estimate of the average between economic-financial impact on EBIT, damage to HSE and image, and repercussions for operations, within the time range assessed, measured on the basis of a scale ranging from irrelevant (1) to critical (4);
- **level of risk management:** degree of maturity and efficiency of the company's risk management systems and processes, measured on the basis of a scale from optimal (1) to inadequate (4).

The results of measurement of risk exposure analysed are then represented in the so-called Heat Map, a 4x4 matrix which, combined with the variables in subject, provides an immediate overview of risk events considered particularly significant.

The main risks identified and assessed through Risk Assessment are then described and discussed with all bodies concerned with internal control and risk management and with the Board of Directors. The overview of the risks the Group is exposed to allows the Board of Directors and Management to reflect on the group's propensity for risk and identify risk management strategies to be adopted, or assess which risks and priorities are considered to require implementation, improvement or optimisation actions, or simple monitoring of exposure over time.



Adoption of a certain risk management strategy depends, however, on the nature of the risk event identified, and therefore, in the case of:

- **external risks beyond the Group's control**, it will be possible to implement tools supporting assessment of risk scenarios in the event that the risk should arise, defining possible plans of action for mitigation of impact (e.g. ongoing control, stress tests on the business plan, stipulation of insurance policies, disaster recovery plans, etc.);
- **risks that may be partially addressed by the Group**, it will be possible to intervene through risk transfer, monitoring of specific risk indicators, hedging, etc.;
- **internal risks that may be addressed by the Group**, as these risks are inherent in the Group's business, it will be possible to implement targeted actions for risk prevention and minimisation of impact through implementation of an appropriate internal control system with monitoring and auditing.

In 2018 the Risk Assessment process involved 13 company representatives from the Parent Company and its subsidiaries.

Based on the economic and cash flows achieved in the last few years and available funds as of 31 December 2018, there are currently no significant uncertainties that raise significant doubts as to the company's ability to continue to operate as a going concern.

External and internal risk factors are analysed below, classified according to the risk families identified above:

(a) External Risks;
(b) Financial Risks;
(c) Strategic Risks;
(d) Governance and Integrity Risks;
(e) Operative and Reporting Risks;
(f) Legal and Compliance Risks;
(g) Risks associated with human resources.

Note that, with reference to IT risk, the risk management processes currently implemented by the Group do not reveal any particular risks relating to the adequacy of information systems, in terms of infrastructure, data integrity, or the security of the systems and applications used.

13.1. EXTERNAL RISKS

Risks associated with the general economic conditions and market trends

International growth has continued in recent months, but with signs of a slowdown of cyclical deterioration in many of the advanced and emerging economies. Global prospects for growth in the current year are confirmed by the International Monetary Fund at a rate of 3.7%, while prospects for future years have been revised downwards, as have growth rates for the Eurozone. According to the International Monetary Fund's new forecasts, the Italian economy is expected to grow 0.6% in 2019.

The global economic outlook is affected by the risk of failure of trade negotiations between China and the USA, a possible worsening of financial tension in emerging nations and the form that Brexit may take.

The Gefran Group operates through subsidiaries in international markets; this widespread geographic presence enables the Group to mitigate the effects of any recessionary phases. Diversification of the markets where the Group operates and the products it offers reduces exposure to the cyclical trends of some markets. However, the possibility that these trends may have a significant impact on the Group’s operations and economic and financial situation, which at present cannot be gauged, cannot be ruled out.

Risks associated with the market structure and competitive pressure

Gefran operates on open, unregulated markets that are not protected by any tariff barriers, regulated regime or public concession. The markets are highly competitive in terms of product quality, innovation, price competitiveness, product reliability and customer service to machinery manufacturers.

The Group competes with extremely stiff competition: operators which are large groups that may have greater resources and better cost positions, both in terms of economies of scale and factor costs, enabling them to implement aggressive pricing policies.

The success of the Gefran Group’s activities derives from its capacity to focus its efforts on specific industrial sectors, concentrating on resolving technological problems and on customer service, thereby providing greater value to customers in the niche markets in which it competes.

Should the Group prove unable to develop and offer innovative and competitive products and solutions that match those supplied by its main competitors in terms of price, quality, functionality, or should there be delays in such developments, sales volumes could decline, with a negative impact on the Group’s economic and financial results.

Although the Gefran Group believes that it can adapt its cost structure if sales volumes decrease, the risk is that such a reduction in the cost structures will not be sufficiently large, quick or consistent with a possible fall in prices, thereby negatively affecting its economic and financial situation.

Risks associated with changes in the regulatory framework

Since the Group makes and distributes electronic components used in electrical applications, it is subject to numerous legal and regulatory requirements in the various countries in which it operates, and to the national and international technical standards applicable to companies operating in the same industry and to the products made and sold by the Group.

Any changes in laws or regulations could entail substantial costs to adapt the product characteristics or even temporary suspension of the sale of some products, which would affect revenues.

The Group places great importance on the protection of the environment and safety.

Its activities do not include the manufacture or processing of materials or components to an extent that would generate a significant risk of pollution or environmental damage.

The Group has introduced a series of controls and monitoring aimed at identifying and preventing any potential increase in this risk. Furthermore, it has taken out an insurance policy to cover potential liabilities arising from environmental damage to third parties.
This does not exclude the possibility of residual environmental risks which have not been adequately identified and covered.

The enactment of other regulations that apply to the Group or its products, or changes in the regulations currently in force in the sectors in which the Group operates, also internationally, could force the Group to adopt more rigorous standards or limit its freedom of action in its areas of operation. These factors could entail costs relating to adapting the production facilities or product characteristics.

Country risk

A significant portion of the Group’s production and sales activities is carried out outside the European Union, particularly in Asia, the US, Brazil and Turkey. The Group is exposed to risks relating to the global scale of its operations, including those relating to:

- exposure to local economic and political conditions;
- the implementation of policies restricting imports and/or exports;
- operating in multiple tax regimes;
- the introduction of policies limiting or restricting foreign investment and/or trade.

Unfavourable political and economic developments in the countries in which the Group operates could have a negative impact – the extent of which would vary by country – on the Group's prospects and operations, and its economic and financial results.

13.2. Financial risks

Exchange rate risk

As a global operator, the Gefran Group is exposed to market risks stemming from exchange rate fluctuations in the currencies of the various countries in which it operates.

Exposure to exchange rate risk is linked to the presence of production activities concentrated in Italy and commercial activities in various geographical regions outside the Eurozone. This organisational structure generates flows in currencies other than the currency in the place of production, mainly the US dollar, the Chinese renminbi, the Brazilian real, the Indian rupee, the Swiss franc, the Turkish lira and the UK pound; production areas in the US, Brazil, India, Switzerland and China mainly serve their local markets, with flows in the same currency.

Exchange rate risk arises when future transactions or assets and liabilities already recorded in the statement of financial position are denominated in a currency other than the functional currency of the company conducting the operation. In order to manage the exchange rate risk resulting from future commercial transactions and the recording of assets and liabilities in foreign currencies, the Group first and foremost exploits so-called natural hedging, seeking to level out the incoming and outgoing flows on all the currencies other than the Group's functional currency; furthermore, Gefran evaluates and if necessary establishes hedging transactions on the main currencies, by means of the Parent Company signing futures contracts. However, since the Company prepares its consolidated financial statements in euros, fluctuations in the exchange rates used to translate subsidiaries' accounting figures, originally expressed in local currency, may affect the Group's results and financial position.

Interest rate risk

Changes in interest rates affect the market value of the Group's financial assets and liabilities, as well as net financial charges. The interest rate risk to which the Group is exposed mainly originates from long-term financial payables. The Group is exposed almost exclusively to fluctuations in the euro rate, since bank loans have been taken out by the Parent Company Gefran S.p.A., which supports the subsidiaries' financial requirements, also through cash pooling.

These floating-rate loans expose the Company to a risk associated with interest rate volatility, known as cash flow risk. To limit exposure to this risk, the Parent Company puts in place derivative hedging contracts, specifically Interest Rate Swaps (IRS), which convert the variable rate to a fixed rate, or Interest Rate Caps (CAP), which set the maximum interest rate, thereby reducing the risk originating from interest rate volatility.

The potential rise in interest rates, from the lows reached at present, is a possible risk factor for the next few quarters, although this is limited by hedging contracts.

Risks associated with fluctuations in commodity prices

Since the Group's production mainly involves mechanical, electronic and assembly processes, exposure to energy price fluctuations is very limited.

The Group is exposed to changes in basic commodity prices (e.g. metals) to a small extent, given the product cost component related to these materials is very limited.

Risks associated with funding requirements

The Gefran Group's financial situation is subject to risks associated with the general economic environment, the achievement of objectives and trends in the sectors in which the Group operates.

Gefran's capital structure is strong; it has own funds of EUR 72.8 million versus overall liabilities of EUR 63.6 million. In 2018, the Parent Company took out a new medium- to long-term loan in the amount of EUR 5 million. With regard to existing loans, they were all negotiated at variable rates, determined by the Euribor plus a fixed spread, which in the last two years was always below 120 bps. Some of these outstanding loans, whose remaining value at 31 December 2018 was EUR 4.9 million, contain covenants. At 31 December 2018, the Group was fully in compliance with these clauses.

Liquidity risk

The Group expects to be able to continue to provide the financial resources necessary for its investment programmes and business management. The credit lines and cash on hand are sufficient in relation to the Group's operations and growth forecasts. Lines of credit granted by banks were subject to an annual review in the second half of the year, leading to the essential confirmation of the terms and conditions and amounts.

Credit risk

The Group has business relations with a large number of customers. Customer concentration is not high, since no customer accounts for more than 10% of overall revenues. Supply agreements are normally long-term, because Gefran products form part of the customer's product design, and they are incorporated into the end product and have a significant influence on its performance. In accordance with IFRS 7.3.6a, all amounts presented in the financial statements represent the maximum exposure to credit risk.

The Group grants its customers deferred payment conditions, which vary according to the market practices in individual countries. All customers' solvency is regularly monitored, and any risks are periodically covered by appropriate provisions. Despite these precautions, under current market conditions, it cannot be ruled out that some customers may not be able to generate sufficient cash flow or may lack access to sufficient sources of funding, resulting in payment delays or a failure to honour obligations.

13.3. STRATEGIC RISKS

Risks associated with the implementation of the Group's strategy

The Gefran Group's ability to improve profitability and achieve its targeted margins depends, among other things, on its success in implementing its strategy. Group strategy is based on sustainable growth, which can be achieved through investment and projects for products, applications and geographical markets, that lead to growth in profitability.

Gefran plans to implement its strategy by concentrating available resources on growing its core industrial business, favouring growth in strategic products that guarantee volumes, and in which the Group is technological and market leader. Gefran continues to make changes to its organisational structure, work processes and staff know-how to increase specialisation in research, marketing and sales by product and by application.

Given the uncertainty regarding the future macroeconomic environment, the operations described could take longer to implement than expected or may not prove fully satisfactory for the Group.

Risks connected with delays in product and process innovation

Gefran operates in a sector that is strongly influenced by technological innovation. The Group's approach to innovation is often customer-driven. Inadequate or delayed product and process innovation to anticipate and/or influence customers' demands could have negative repercussions, causing the company to miss opportunities and sacrifice market share and/or sales.

The impact of this risk would increase if one or more competitors should propose business models and/or technologies which are more innovative than Gefran's.

In order to mitigate the impact of this risk, the Gefran Group has invested in software introducing new controls in production and processes, through reorganisation of production flows, and in human resources, with the addition of specialised figures focusing on the areas of innovation and innovative technological trends.

13.4. GOVERNANCE AND INTEGRITY RISKS

Ethical risks

The Gefran Group has always been committed to applying and observing rigorous ethical and moral principles when conducting its internal and external activities, in full compliance with the laws in force and market regulations. The adoption of the Code of Ethics, the internal procedures put in place to comply with this code and the controls adopted guarantee a healthy, safe and efficient working environment for employees, and an approach intended to ensure complete respect for external stakeholders. The Group believes that ethics in business management must be pursued alongside financial growth, and the Code is therefore an explicit point of reference for everyone working with the Company.

Gefran has also effectively adopted an Organisation and Management Model pursuant to Legislative Decree No. 231/2001. The Group believes that this is not only a regulatory obligation but also a source of growth and wealth generation and has therefore fully restructured its activities and internal procedures in order to prevent the offences set out in this regulation from being committed. The Supervisory Board established by the Board of Directors performs its duties regularly and professionally, guaranteed by the presence of an internal company officer and an external professional with excellent knowledge of administration and control systems.

The Group conducts the bulk of its business with private customers, which do not directly or indirectly belong to government organisations or public agencies, and rarely takes part in public tenders or subsidised projects. This further limits the risks of reputational or economic damage resulting from unacceptable ethical conduct.

13.5. OPERATIVE AND REPORTING RISKS

Risks associated with relations with suppliers

The Group purchases raw materials and components from a large number of suppliers and depends on services and products supplied by other companies outside the Group.

Conversely, electronic components, particularly microprocessors, power semi-conductors and memory chips, are purchased from leading global producers. Although these suppliers are reliable, it cannot be ruled out that problems they could encounter - in terms of quality, availability or delivery times - could have a detrimental effect on the Group’s operations and results, at least in the short term, until the supplier can be replaced, or the product modified.

Risks associated with product development, management and quality

The Group’s value chain covers all activities, including R&D, production, marketing, sales and technical support. Defects or errors in these processes may cause product quality problems that could potentially affect the Group’s results and financial position.

In line with the practices of many operators in the sector, Gefran has taken out insurance policies that it considers sufficient to protect itself from the risks resulting from this liability. Furthermore, it has set up a specific product warranty provision to meet these risks, in line with the volume of activities and the historical occurrence of these phenomena.

However, should the insurance cover and risk provisions prove inadequate, the Group's results could be negatively affected. In addition, the Group's involvement in this type of dispute and any ruling against it therein could expose the Group to reputational damage, which also has potential consequences for the Group's results and financial position.

Risks associated with operations at industrial facilities

Gefran is an industrial group, so it is potentially exposed to the risk of production stoppages at one or more of its plants, due, for example, to machinery breakdowns, revocation or disputes regarding permits or licences from public authorities (e.g. following changes in the law), strikes or manpower shortages, natural disasters, major disruptions to the supply of raw materials or energy, sabotage or attack.

There have been no significant interruptions of activity in recent years. However, future interruption cannot be ruled out, and if it occurs for lengthy periods, the Group's results and financial position could be negatively affected if the damage exceeds the amount currently covered by insurance policies.

Gefran has also implemented a disaster recovery system designed to restore the systems, data and infrastructure necessary for the Company's operations in the event of a serious emergency, in order to mitigate its possible impact.

Moreover, periodic oscillation of demand, making effective production planning difficult, and demand in excess of its productive capacity could cause Gefran to miss out on opportunities and/or lose sales.

To mitigate this risk, Gefran has come up with plans for investment in plant and machinery, aiming for digitalisation, expansion and reorganisation of its productive spaces and hiring of new employees. If necessary, moreover, the company can shift production to another plant thanks to use of the same bill of materials and uniform production processes.

13.6. LEGAL AND COMPLIANCE RISKS

Legal risks and product liability

Within the scope of Gefran's core business, the manufacture and sale of products may give rise to issues linked to defects and consequent liability in respect of its customers or third parties. Like other operators in the industry, the Group is therefore exposed to the risk of product liability litigation in the countries in which it operates.

In line with the practices of many operators in the sector, Gefran has taken out insurance policies that it considers sufficient to protect itself from the risks resulting from this liability. It has also set up a specific provision against these risks.

However, should the insurance cover and risk provisions prove inadequate, the Group's results could be negatively affected. In addition, the Group's involvement in this type of dispute and any ruling against it could expose the Group to reputational damage, which also has potential consequences for the Group's results and financial position.

Risks associated with intellectual property rights

Although the Group considers it has adopted an appropriate system to protect its intellectual property rights, it cannot be ruled out that it may encounter difficulties defending these rights.

Furthermore, the intellectual property rights of third parties could inhibit or limit the Group's capacity to introduce new products onto the market. These events could have a negative impact on the development of activities and the Group's results and financial position.

13.7. RISKS ASSOCIATED WITH HUMAN RESOURCES

Risks associated with human resources

Relations with employees are governed by law, collective agreements and supplementary company agreements, particularly in Italy.

The Group's success depends to a large extent on the ability of its executive directors and other managers to manage the Group and its Sectors effectively, and on the quality, technical and managerial ability and motivation of its human resources, also with the aim of attracting and retaining talent and skills; initiatives such as FLY and WELLFRAN were started in 2017 with this goal in mind.

14. SIGNIFICANT EVENTS DURING THE YEAR

- On 24 April 2018, the Ordinary Shareholders' Meeting of Gefran S.p.A. voted to:

    - Approve the Financial Statements for the financial year 2017 and distribute a dividend of EUR 0.35 per share;
    - Appoint the following as members of the Board of Statutory Auditors for the three-year period 2018–2020: Marco Gregorini (Chairman), Roberta Dell'Apa and Primo Ceppellini;
    - Appoint Ennio Franceschetti as Honorary Chairman;
    - Authorise the Board of Directors to purchase up to a maximum of 1,440,000 own shares for a period of 18 months from the date of the Shareholders' Meeting.

    The shareholders also expressed a favourable opinion of the general Group remuneration policy adopted by Gefran, pursuant to Article 123-*ter* of the TUF.

- The Gefran S.p.A. Board of Directors, meeting at the end of the annual meeting, appointed Maria Chiara Franceschetti as Chairman of the Board of Directors and Giovanna Franceschetti and Andrea Franceschetti as Vice Chairmen. Alberto Bartoli continues as the Group's Chief Executive Officer.

- On 2 May 2018 Christian Pampallona joined the Gefran Group as General Manager of the Motion Control Business Unit.

- On 4 July 2018 the new company Gefran Drives and Motion Srl was established, 100% owned by Gefran S.p.A..

- On 1 October 2018 Gefran S.p.A. contributed the company branch which it owns in Gerenzano, concerned with research and development, production and sale of drives, to Gefran Drives and Motion S.r.l. The contribution includes property, assets and liabilities with a net asset value of EUR 17,075 thousand.

15. SIGNIFICANT EVENTS AFTER YEAR END

On 23 January 2019 Gefran Soluzioni S.r.l., a Gefran S.p.a. subsidiary, purchased 100% of the shares in Elettropiemme S.r.l. for a payment of EUR 900 thousand, paid on that date, without resort to loans. The company was owned by Ensun S.r.l., which was 50% owned by Gefran S.p.A..

16. OUTLOOK

The world economy has continued to grow in recent months, but there have been signs of cyclical deterioration in many of the advanced and emerging economies; the prospects for world trade continue to worsen following the slowdown at the beginning of last year. Uncertainty regarding the economic outlook has had repercussions for global financial markets, resulting in a drop in long-term performance and falling share prices. The global economic outlook is affected by the risk of failure of trade negotiations between China and the US, a possible worsening of financial tension in emerging nations and the form that Brexit may take.

According to the International Monetary Fund's new forecasts, the Italian economy is expected to grow 0.6% in 2019, rather than 1% as originally estimated. The forecasts for the following year remain unvaried, with GDP expected to grow at 0.9%.

On the same occasion, the IMF confirmed its estimate for global economic growth in 2018 at 3.7%, but revised its forecasts for 2019 and 2020 downwards, to 3.5% and 3.6% respectively.

The revision was influenced not only by the slowdown in the German economy (slashing its forecast GDP growth for 2019 from 0.6% to 1.3%), but also the sudden slowdown in Italy.

The IMF revised its forecast for GDP growth in the Eurozone in 2019 to 1.6% (-0.3 percentage points). China is a different matter, expected to growth 6.2% (forecast unchanged), while the USA will grow 2.5% in 2019, as forecast in October.

The beginning of the year 2019 appears to be characterised by a widespread climate of uncertainty in all the areas the Group serves. Sales largely held their ground in the first two months of the year, with insignificant decreases in the order portfolio for the months to come. In general, the first half is expected to be more reflective, and the second livelier.

The next three years will see even more incisive investment, primarily with a view to supporting the expected growth in revenues and making production processes more efficient.

In addition to technical investment, the Group will continue to hire new qualified employees, particularly in the technical and sales areas.

In the absence of unforeseeable events, and in the presence of a market characterised by uncertainty, the Gefran Group expects to exceed the previous year’s positive results in terms of revenues, with margins in line with the previous year’s or slightly lower, also as a result of the above-mentioned investment.

17. OWN SHARES

In 2018, the Parent Company Gefran S.p.A. purchased own shares following the guidelines set out in the plan approved by the Shareholders' Meeting of 24 April 2018, which authorised the purchase and sale of own shares up to the maximum legal limit of 10% of issued shares, for a period of 18 months from the date of the Shareholders' Meeting.

As of 31 December 2018, Gefran S.p.A. held 27,220 shares (0.19% of the total) with an average carrying value of EUR 5.7246 per share, all purchased in the fourth quarter of 2018. As of the date of this report the situation was unchanged.

Brokerage on Gefran's shares by Intermonte takes place regularly.

18. DEALINGS WITH RELATED PARTIES

During its meeting on 12 November 2010, the Gefran Board of Directors approved the "*Regulation for transactions with related parties*" in application of Consob resolution No. 17221 dated 12 March 2010. The regulation was published in the "*Governance*" section of the company's web site, available at https://www.gefran.com/it/governance.

The procedure in question was updated by the Board of Directors on 3 August 2017 to bring the content in line with current regulations, specifically the entry into force of the "Market Abuse" regulation, EU 596/2014.

The regulation is based on the following general principles:

- ensuring the essential and procedural transparency and probity of transactions with related parties;
- providing directors and statutory auditors with an appropriate assessment, decision-making and control tool regarding transactions with related parties.

The regulation is structured as follows:

- **First section**: definitions (related parties, significant and insignificant transactions, intercompany, ordinary, of negligible amount, etc.).
- **Second section**: procedures to approve significant and insignificant transactions, exemptions.
- **Third section**: disclosure obligations.

See paragraph 40 of the Notes to the Consolidated Financial Statements for details on transactions with related parties.

19. DISCLOSURE SIMPLIFICATION

On 1 October 2012, the Gefran S.p.A. Board of Directors voted to use the option to provide simplified disclosure pursuant to article 70, paragraph 8, and article 71, paragraph 1-*bis*, of Consob Regulation 11971/1999 as amended.

20. PROVISIONS UNDER ARTICLES 15 AND 18 OF THE CONSOB REGULATION ON MARKETS

With reference to the "conditions for listing of shares of parent companies of companies established and regulated by laws of countries not belonging to the European Union" as set out in Articles 15 and 18 of the Consob Regulation on Markets, note that the following subsidiaries fall under Article 36: Gefran Siei Asia PTE Ltd (Singapore), Gefran Siei Drives Technology Co Ltd. (China), Gefran Deutschland GmbH and Siei Areg GmbH (Germany), Gefran Inc. (U.S.A.), Gefran India Ltd (India), Gefran Soluzioni S.r.l. (Italy), Sensormate AG (Switzerland) and Gefran Drives and Motion S.r.l. (Italy).

The Group also made the adjustments necessary to meet the conditions set out under paragraph 1 of the aforementioned Article 18, and there are procedural provisions in place designed to ensure they are maintained.

Provaglio d'Iseo, 14 March 2019

For the Board of Directors

Chairman	Chief Executive Officer
Maria Chiara Franceschetti	**Alberto Bartoli**

CONSOLIDATED FINANCIAL STATEMENTS

1. STATEMENT OF PROFIT/(LOSS) FOR THE YEAR

(EUR / 000)	*Notes*	Year-to-date at 31 December 2018	2017
Revenues from product sales	*29*	135,126	127,463
of which related parties:	*40*	*48*	*164*
Other revenues and income	*30*	445	1,176
of which non-recurring:	*11*	*0*	*0*
Increases for internal work	*14.15*	1,425	610
TOTAL REVENUES		**136,996**	**129,249**
Change in inventories	*19*	2,839	(531)
Costs of raw materials and accessories	*31*	(50,081)	(43,214)
Service costs	*32*	(23,302)	(21,646)
of which related parties:	*40*	*(323)*	*(180)*
Miscellaneous management costs	*34*	(786)	(786)
Other operating income	*34*	236	570
Personnel costs	*33*	(45,897)	(44,300)
of which non-recurring:	*11*	*0*	*(321)*
Impairment/reversal of trade and other receivables	*19*	53	(303)
Amortisation	*35*	(2,319)	(2,324)
Depreciation	*35*	(3,996)	(5,566)
EBIT		**13,743**	**11,149**
of which non-recurring:	*11*	*0*	*(321)*
Gains from financial assets	*36*	1,536	1,622
Losses from financial liabilities	*36*	(2,037)	(4,022)
(Losses) gains from shareholdings valued at equity	*37*	(55)	156
PROFIT (LOSS) BEFORE TAX		**13,187**	**8,905**
of which non-recurring:	*11*	*0*	*(321)*
Current taxes	*38*	(2,632)	(4,067)
Deferred tax assets and liabilities	*38*	(1,529)	1,839
TOTAL TAXES		**(4,161)**	**(2,228)**
PROFIT (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS		**9,026**	**6,677**
of which non-recurring:	*11*	*0*	*(321)*
Net profit (loss) from assets held for sale	*22*	(875)	187
NET PROFIT (LOSS) FOR THE YEAR		**8,151**	**6,864**
of which non-recurring:	*11*	*0*	*(321)*
Attributable to:			
Group		8,151	6,864
Third parties		0	0

Earnings per share *(Euro)*	*note*	Year-to-date at 31 December 2018	2017
Basic earnings per ordinary share	*25*	0.57	0.48
Diluted earnings per ordinary share	*25*	0.57	0.48

2. STATEMENT OF PROFIT/(LOSS) FOR THE YEAR AND OTHER ITEMS OF COMPREHENSIVE INCOME

(EUR / 000)	*note*	Year-to-date at 31 December	
		2018	**2017**
PROFIT (LOSS) FOR THE YEAR		**8,151**	**6,864**
Items that will not subsequently be reclassified in the statement of profit/(loss) for the period			
- revaluation of employee benefits: IAS 19	*26*	192	50
- overall tax effect	*26*	(41)	60
Items that will or could subsequently be reclassified in the statement of profit/(loss) for the period			
- conversion of foreign companies' financial statements	*24*	18	(1,951)
- equity investments in other companies	*24*	(213)	49
- fair value of cash flow hedging derivatives	*24*	12	204
Total changes, net of tax effect		**(32)**	**(1,588)**
Comprehensive result for the period		**8,119**	**5,276**
Attributable to:			
Group		8,119	5,276
Third parties		0	0

3. STATEMENT OF FINANCIAL POSITION

(EUR / 000)	*notes*	31 December 2018	31 December 2017
NON-CURRENT ASSETS			
Goodwill	*13*	5,868	5,753
Intangible assets	*14*	6,508	6,852
Property, plant, machinery and tools	*15*	38,955	35,563
of which related parties:	*40*	*919*	*168*
Shareholdings valued at equity	*16*	1,016	1,071
Equity investments in other companies	*17*	1,790	2,006
Receivables and other non-current assets	*18*	83	89
Deferred tax assets	*38*	6,912	8,567
Non-current financial assets	*23*	126	166
TOTAL NON-CURRENT ASSETS		**61,258**	**60,067**
CURRENT ASSETS			
Inventories	*19*	22,978	20,264
Trade receivables	*19*	29,808	29,386
of which related parties:	*40*	*-*	*55*
Other receivables and assets	*20*	3,561	4,859
Current tax receivables	*21*	1,510	668
Cash and cash equivalents	*23*	18,043	24,006
Financial assets for derivatives	*23*	19	56
TOTAL CURRENT ASSETS		**75,919**	**79,239**
ASSETS HELD FOR SALE	**22**	**0**	**1,214**
TOTAL ASSETS		**137,177**	**140,520**
SHAREHOLDERS' EQUITY			
Share capital	*24*	14,400	14,400
Reserves	*24*	50,263	48,647
Profit/(loss) for the year	*24*	8,151	6,864
Total Group Shareholders' Equity		**72,814**	**69,911**
Shareholders' equity of minority interests	*24*	-	-
TOTAL SHAREHOLDERS' EQUITY		**72,814**	**69,911**
NON-CURRENT LIABILITIES			
Non-current financial payables	*23*	11,864	13,933
Employee benefits	*26*	4,524	5,092
Non-current provisions	*27*	250	279
Deferred tax provisions	*38*	627	647
TOTAL NON-CURRENT LIABILITIES		**17,265**	**19,951**
CURRENT LIABILITIES			
Current financial payables	*23*	10,817	14,999
Trade payables	*19*	20,731	19,029
of which related parties:	*40*	*313*	*90*
Financial liabilities for derivatives	*23*	28	76
Current provisions	*27*	1,424	1,473
Current tax payables	*21*	1,653	2,502
Other payables and liabilities	*28*	12,445	12,579
TOTAL CURRENT LIABILITIES		**47,098**	**50,658**
TOTAL LIABILITIES		**64,363**	**70,609**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**137,177**	**140,520**

4. CONSOLIDATED CASH FLOW STATEMENT

(EUR / 000)	*note*	**31 December 2018**	**31 December 2017**
A) CASH AND CASH EQUIVALENTS AT THE START OF THE PERIOD		**24,006**	**20,477**
B) CASH FLOW GENERATED BY (USED IN) OPERATIONS IN THE PERIOD:			
Net profit (loss) for the period	*25*	8,151	6,864
Depreciation/amortisation	*35*	6,315	7,890
Provisions (Releases)	*19,26,27*	2,732	4,614
Capital (gains) losses on the sale of non-current assets	*34*	8	(34)
Impairment of assets held for sale	*22*	1,214	(187)
Net result from financial operations	*36.37*	556	2,244
Taxes	*38*	2,293	4,067
Change in provisions for risks and future liabilities	*26.27*	(1,097)	(2,126)
Change in other assets and liabilities	*20.28*	1,191	(453)
Change in deferred taxes	*38*	1,529	(1,839)
Change in trade receivables	*19*	(651)	222
of which related parties:	*40*	*55*	*59*
Change in inventories	*19*	(4,956)	(2,443)
Change in trade payables	*19*	1,707	2,605
of which related parties:	*40*	*223*	*44*
TOTAL		**18,992**	**21,424**
C) CASH FLOW GENERATED BY (USED IN) INVESTMENT ACTIVITIES			
Investments in:			
- Property, plant & equipment and intangible assets	*14.15*	(9,411)	(5,641)
of which related parties:	*40*	*(919)*	*(168)*
- Equity investments and securities	*16.17*	0	136
- Financial receivables	*18*	6	59
Disposal of non-current assets	*14.15*	52	94
TOTAL		**(9,353)**	**(5,352)**
D) FREE CASH FLOW (B+C)		**9,639**	**16,072**
E) CASH FLOW GENERATED BY (USED IN) FINANCING ACTIVITIES			
New financial payables	*23*	5,000	11,000
Repayment of financial payables	*23*	(9,462)	(13,507)
Increase (decrease) in current financial payables	*23*	(1,789)	(5,987)
Taxes paid	*38*	(3,744)	(1,903)
Interest (paid)	*36*	(1,491)	(520)
Interest received	*36*	691	125
Sale (purchase) of own shares	*24*	(156)	1,129
Change in shareholders’ equity reserves	*24*	487	1,415
Dividends paid	*24*	(5,040)	(3,600)
TOTAL		**(15,504)**	**(11,848)**
F) CASH FLOW FROM CONTINUING OPERATIONS (D+E)		**(5,865)**	**4,224**
G CASH FLOW FROM OPERATING ASSETS HELD FOR SALE	*22*	-	-
H) Exchange rate translation differences on cash at hand		(98)	(695)
I) NET CHANGE IN CASH AT HAND (F+G+H)		**(5,963)**	**3,529**
J) CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (A+I)		**18,043**	**24,006**

5. STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(EUR / 000)	*Note*	Share capital	Capital reserves	Consolidation reserve	Other reserves	Retained profit /(loss)	*overall EC reserves* Fair value measurement reserve	Currency translation reserve	Other reserves	Profit/(loss) for the year	Group Total shareholders' equity	Shareholders'equity of minority	Total shareholders' equity
Balances at 1 January 2017		14,400	21,926	11,022	9,555	1,706	(65)	5,076	(661)	3,948	66,908	0	66,908
Allocation of 2016 profit													
- Other reserves and provisions	*24*			(4,094)		8,042				(3,948)	0		0
- Dividends	*24*					(3,600)					(3,600)		(3,600)
Income/(expenses) recognised at equity	*24.26*			1,278			254		110		1,642		1,642
Change in translation reserve	*24*							(1,951)			(1,951)		(1,951)
Other changes	*24*			(1,235)	696	587					48		48
2017 profit	*24.25*									6,864	6,864		6,864
Balances at 31 December 2017		14,400	21,926	6,971	10,251	6,735	189	3,125	(551)	6,864	69,911	0	69,911
Allocation of 2017 profit													
- Other reserves and provisions	*24*			(1,583)		8,448				(6,864)	0		0
- Dividends	*24*					(5,040)					(5,040)		(5,040)
Income/(expenses) recognised at equity	*24.26*			(21)			(201)		151		(71)		(71)
Change in translation reserve	*24*							18			18		18
Other changes	*24*			1	(156)						(155)		(155)
2018 profit	*24.25*									8,151	8,151		8,151
Balances at 31 December 2018		14,400	21,926	5,368	10,095	10,143	(12)	3,143	(400)	8,151	72,814	0	72,814

SPECIFIC EXPLANATORY NOTES TO THE ACCOUNTS

1. General information

Gefran S.p.A. is incorporated and located at Via Sebina 74, Provaglio d'Iseo (BS).

On 14 March 2019, the consolidated financial statements of the Gefran Group for the year ending 31 December 2018 were approved by the Board of Directors, which authorised their publication.

The Group's main activities are described in the Report on Operations.

2. Form and content

The consolidated financial statements of the Gefran Group were prepared in accordance with the International Financial Reporting Standards adopted by the European Union.

They comprise the financial statements of Gefran S.p.A., of its subsidiaries and of the direct and indirect affiliates, approved by their respective Boards of Directors. The consolidated companies adopted international accounting standards, with the exception of a number of companies whose financial statements were restated for the Group's consolidated financial statements to bring them into line with IAS/IFRS standards.

The official audit of the consolidated financial statements was carried out by PricewaterhouseCoopers S.p.A.

These consolidated financial statements are presented in euro (EUR), the functional currency of most Group companies. Unless otherwise stated, all amounts are expressed in thousands of euros.

3. Accounting schedules

The Gefran Group has adopted:

- a statement of financial position, according to which assets and liabilities are separated into current and non-current categories;
- a statement of profit/(loss) for the year, in which costs are categorised by nature;
- a statement of profit/(loss) for the year and other items of comprehensive income, which shows income and charges posted directly to shareholders' equity, net of tax effects;
- a cash flow statement prepared using the indirect method, through which pre-tax profit is shown net of the effects of non-monetary transactions, any deferral or provision of previous or future operating collections or payments, and revenue or cost items relating to cash flows resulting from investments or financial activities.

With reference to Consob resolution 15519 of 27 July 2006, amounts referring to transactions with related parties and non-recurring items are shown separately from the relevant items in the statement of financial position and income statement.

4. Consolidation principles

Subsidiaries are consolidated on a line-by-line basis when the Group has control over them. It only has control if all the following three conditions are met:

- it has power over an investee company (whether this power is actually exercised or not);
- it has exposure or a right to variable returns from the investee company;
- it is able to use its power over the investee company to influence the returns generated thereby.

The results of subsidiaries acquired or sold over the year are included in the consolidated income statement as from the actual acquisition date or until the date they are sold.

Companies controlled jointly with other partners and associated companies, or in any event subject to significant influence are carried at equity.

The main principles adopted are the same for all companies in the scope of consolidation, and the related income statements and statements of financial position were all drawn up as of 31 December 2018; in addition, all financial statements have been approved by the respective Boards of Directors.

The main criteria adopted in line-by-line consolidation are listed below.

Gains from transactions between subsidiaries not yet realised, as well as receivables, payables, costs and revenues between consolidated companies, are eliminated.

The dividends paid by consolidated companies are eliminated from the income statement and added to earnings from previous years, if and to the extent that they are taken from them.

The portions of shareholders' equity and profits (losses) pertaining to minority interests are shown respectively in a specific item under shareholders' equity, separately from Group shareholders' equity, and in a specific item in the income statement.

Assets held for sale, the sale of which is highly likely in the next 12 months, are classified in accordance with IFRS 5, provided that the other conditions set out therein are met; therefore, once consolidated on a line-by-line basis, the related assets are classified in a single item, *"Assets held for sale"*, the related liabilities are recorded under liabilities in a single line of the statement of financial position, and the related margin is shown under *"Net profit (loss) from assets held for sale"* in the income statement.

Profits and losses from intercompany transactions valued at equity are eliminated in proportion to the Group's percentage interest in the associate, except in cases where unrealised losses are evidence of a loss in value of the transferred asset.

Changes in equity interests that do not involve a loss of control or relate to investee companies already subject to control are treated as equity transactions (according to the entity control method) and therefore classified under shareholders' equity.

5. Change in the scope of consolidation

The scope of consolidation as of 31 December 2018 differs with respect to that of 31 December 2017 in that, on 18 June 2018, the Parent Company Gefran S.p.A. completed the closure of the Spanish branch, which was no longer operative. The establishment of the new company Gefran Drives and Motion S.r.l., 100% owned by Gefran S.p.A., changed the perimeter but not the scope of consolidation, as the new company's assets, liabilities and business were contributed by Gefran S.p.A..

6. Valuation criteria

The consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) as approved by the European Union.

With reference to Consob Communication DEM/11070007 of 5 August 2011, it is also noted that the Group does not hold in its portfolio any bonds issued by central or local governments or government agencies, and is therefore not exposed to risks generated by market fluctuations. The consolidated financial statements were prepared using the general historic cost criterion, adjusted as required for the valuation of certain financial instruments.

With reference to Consob Communication 0003907 of 19 January 2015, note 13 "Goodwill and other intangible assets with an indefinite life" includes the required information, and specifically the references to the external information and the sensitivity analysis.

With reference to Consob Communication 0092543 dated 3 December 2015, it is hereby revealed that in the Report on operations the guidelines of the ESMA (ESMA/2015/1415) were followed with regard to the information aimed at ensuring the comparability, reliability and comprehensibility of the Alternative Performance Indicators.

With reference to Consob Communication 0007780 of 28 January 2016, we note that the impact of market conditions on the information in the financial statements was included in the Directors' Report on Operations. We also note that the application of IFRS 13 "Fair value measurement" does not involve significant changes to items in the financial statements for Gefran.

The most significant accounting standards adopted by the Gefran Group are summarised in this section.

Segment reporting

The primary segment reporting format chosen by the Gefran Group is by line of business. The accounting standards used for reporting segment information in the notes are consistent with those used for preparing the Annual financial report. The information provided in the primary segment reporting format relates to revenues, EBITDA and EBIT, and the assets and liabilities of each business line.

The secondary segment reporting format, as required by IFRS 8, is by geographical region; this format shows revenues based on the location of activities for each business line. In the Gefran Group, the location of activities broadly coincides with location by customer.

Revenues

According to IFRS 15, revenues are acknowledged up to an amount reflecting the payment the entity expects to be entitled to in exchange for the transfer of assets; no distinctions are made between the sale of goods and of services.

The new principle, which replaced all the current requirements of the IFRS for acknowledgement of revenues, was adopted by the Group without any impact resulting from the change in this principle.

Revenues are acknowledged when the company fulfils an obligation (to sell goods or provide services), transferring goods or services, which are considered to have been transferred from the time at which the customer takes over control of the goods or services.

When the result of the contract cannot be reliably measured, the revenue is recognised only to the extent that the costs incurred are recoverable.

Interest income

This is recorded as financial income for interest income accrued during the year, using the effective interest rate method, which is the rate that discounts expected future cash flows according to the expected life of the financial instrument, added to the net value of the financial assets reported in the financial statements.

Dividends

Dividends are recognised when the shareholders' right to receive payment arises, i.e. on the date of the Shareholders' Meeting resolution.

Government grants

Government grants are recorded at fair value when there is a reasonable expectation that they will be received and that all the conditions relating thereto have been met.

When funding is related to cost components (e.g. contributions to expenditure), it is recognised as revenues but broken down systemically over several accounting periods so that the revenues match the costs they are meant to offset. When funding is related to an asset (e.g. grants for plant and equipment), the fair value is temporarily recorded under long-term liabilities, and gradually released to the income statement on a straight-line basis over the expected useful life of the asset concerned.

Costs

Costs for the period are recorded on an accruals basis and recognised net of returns, discounts and allowances.

Financial charges

Financial charges are recorded in the income statement when they are incurred, in accordance with the reference accounting treatment set forth in IAS 23.

Income tax

Income tax for the period is calculated using an estimate of taxable income. The amount owed to the tax authorities is recorded under tax payables. Taxes paid in excess of the amount due are posted to tax receivables.

Current income taxes relating to items posted directly to shareholders' equity are reported directly in shareholders' equity and not in the income statement.

Deferred tax assets and liabilities are determined in relation to timing differences between the consolidated values of the asset and the liability and those recognised for tax purposes in the annual financial statements of the consolidated companies. Deferred tax assets are recognised when it is probable that sufficient taxable income is available to allow these assets to be used. Deferred tax liabilities are recognised for all taxable timing differences.

Earnings per share

Basic earnings per ordinary share are calculated by dividing the Group's profit (loss) attributable to ordinary shares by the weighted average number of ordinary shares outstanding during the period, excluding own shares.

For the purposes of calculating the diluted earnings (loss) per ordinary share, the weighted average of outstanding shares is adjusted in line with the assumption that all potential shares resulting from the conversion of bonds or the assignment of options will be subscribed. The Group's net profit is also adjusted to take into account the impact of these operations, net of taxes.

Tangible assets

Tangible assets are recognised at purchase cost, including ancillary costs. The cost of tangible assets is adjusted for depreciation on the basis of a systematic plan, taking into account the remaining possibility of economic use of the assets and also considering their physical wear and tear. Tangible assets are depreciated on a monthly basis from the time of entry into operation until they are sold or derecognised in the financial statements. If significant parts of tangible assets in use have different useful lives, the components identified are recognised and depreciated separately.

At the time of sale or when no future economic benefits are expected from the use of an asset, it is derecognised in the financial statements, and any gain or loss (calculated as the difference between the selling price and the carrying value) is recognised in the income statement in the year of derecognition.

Costs for maintenance and ordinary repairs are charged to the income statement in the year in which they are incurred. Extraordinary maintenance costs that entail significant and tangible improvements to plant production capacity or safety or their economically useful lives are capitalised.

Research and development costs

Research costs are charged to the income statement at the time that they are incurred. Development costs incurred for a specific project are capitalised when all the following conditions are met:

- technical feasibility;
- intention to complete, use or sell the asset;
- ability to use or sell the asset;
- probable future economic benefits;
- availability of sufficient resources;
- ability to reliably measure the cost attributable to the intangible asset.

Capitalised development costs are amortised on a systematic basis from the start of production and throughout the estimated life of the product. The carrying value of development costs is reviewed so as to carry out a fairness analysis (so-called *"impairment* test") for the purpose of detecting any loss in value when an impairment indicator raises doubts regarding the possibility of recovering the carrying value. All other development costs are recognised in the income statement when they are incurred.

Business combinations and goodwill

Business combinations are reported using the *acquisition method*, based on which the identifiable assets, liabilities and contingent liabilities of the acquired company that meet the reporting conditions under IFRS

3, are recognised at their current values on the acquisition date. Deferred taxes are then allocated on the adjustments made to the previous carrying values to align them with the present value. Given its complexity, the application of the acquisition method involves an initial provisional phase in which the current values of the assets, liabilities and contingent liabilities acquired are determined, in order to allow the transaction to be recorded in the consolidated financial statements for the year in which the combination occurred. This initial recognition is completed and adjusted within twelve months of the acquisition date. Changes to the initial consideration due to events or circumstances occurring after the acquisition date are recognised in the statement of profit (loss) for the year.

Goodwill is recognised as the difference between:

- the sum of the consideration transferred, the amount of minority interests (valued combination by combination, or at fair value or in proportion to the amount of identifiable net assets attributable to minorities), the fair value of previously held interests in the acquiree, recognising any resulting gain or loss in the statement of profit (loss) for the period;
- the net value of the identifiable acquired assets and the identifiable assumed liabilities.

The costs connected to the combination are not included in the consideration transferred and are therefore recognised in the statement of profit (loss) for the year. If, when the process of determining the present value of the assets, liabilities and contingent liabilities has been completed, this amount exceeds the acquisition cost, the excess is immediately credited to the income statement.

Goodwill is periodically reviewed to check the prerequisites for recoverability, through a comparison with the fair value or with future cash flows from the underlying investment. For the purposes of the comparative analysis, goodwill acquired in a business combination is allocated, at the acquisition date, to the Group’s individual cash-generating units, or to the groups of cash-generating units expected to benefit from the synergies of combination, regardless of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which goodwill is allocated:

- represents the smallest identifiable group of assets generating cash inflows that are largely independent of the cash inflows from other assets or groups of assets;
- is no bigger than the operating sectors identified based on IFRS 8.

When goodwill is part of a cash-generating unit (group of cash-generating units) and a part of the assets within the unit is sold, the goodwill associated with the asset disposed of is included in the carrying value of the asset to determine the gain or loss on the disposal. Goodwill transferred under these circumstances is measured according to the relative values of the asset disposed of and the retained portion of the unit. When the disposal relates to a subsidiary, the difference between the sale price and the net assets, together with cumulative translation differences and residual goodwill, is posted to the income statement.

Asset impairment

IAS 36 requires the impairment testing of tangible and intangible assets and equity investments if there are indicators suggesting that such a problem might exist. In the case of goodwill, this test is carried out at least once a year, while intangible assets are tested whenever there are indications of impairment. The recoverability of the asset is assessed by comparing the carrying value recognised in the financial statements with the greater between the net selling price, if an active market exists, and the value in use of the asset.

Value in use is the discounted value of the expected cash flows from use of the asset, or combination of assets (cash-generating unit), as well as the value expected from disposal at the end of its useful life. The cash-generating units have been identified in line with the organisational structure and the Group’s business, as homogeneous combinations that generate independent cash flows through the continued use of the assets allocated to them.

Other intangible assets

Other intangible assets acquired or produced internally are recognised as assets in accordance with the provisions of "IAS 38 - Intangible assets", when it is probable that the asset will generate future economic benefits and when the cost of the asset can be reliably determined. Development costs are only recognised under assets if all the following conditions are met:

- technical feasibility;
- intention to complete, use or sell the asset;
- ability to use or sell the asset;
- probable future economic benefits;
- availability of sufficient resources;
- ability to reliably measure the cost attributable to the intangible asset.

The useful life of an intangible asset may be qualified as definite or indefinite. Intangible assets with definite useful lives are amortised on a straight-line basis for the duration of the expected future sales deriving from the related project (usually 5 years). The useful life is reviewed annually and any changes are applied prospectively.

Non-current assets held for sale

Non-current assets classified as held for sale are measured in accordance with IFRS 5 at the lower of their carrying value and their fair value minus selling costs. The economic effect of these assets also includes taxation.

Investments in associated companies and joint ventures

Investments in associated companies and joint ventures are valued at equity, according to which the associated company or joint venture is recognised at cost as of the acquisition date; this is subsequently adjusted by the portion pertaining to changes in its shareholders' equity. The losses of associated companies or joint ventures exceeding the interest held by the Group, including medium to long-term receivables, which effectively are part of the Group's net investment in the associated company, are not recognised, unless the Group has taken on the obligation to cover these losses.

The portions of profit (loss) resulting from the application of this consolidation method are recognised in the income statement under *"Gains (losses) from the valuation of equity investments at equity"*.

The surplus acquisition cost compared with the percentage pertaining to the Group of the current value of the associated company's identifiable assets, liabilities and contingent liabilities as of the acquisition date represents the goodwill, and continues to be included in the investment's book value. The minor value of the acquisition cost compared with the percentage pertaining to the Group of the fair value of the associated company's identifiable assets, liabilities and contingent liabilities as of the acquisition date is posted to the income statement for the year when the application process of the acquisition method is completed, or within 12 months of the acquisition.

If an associated company or joint venture recognises adjustments directly attributable to shareholders' equity and/or in the statement of comprehensive income, the Group in turn records the related portion under shareholders' equity, and where applicable, includes it in the statement of changes in shareholders' equity and/or the statement of other items of comprehensive income.

Any loss due to impairment recognised pursuant to IAS 36 is not attributable to goodwill or any asset contributing to the book value of the equity investment in the associated company, but to the value of the equity investment overall. Any reversal of value is therefore recognised fully to the extent that the recoverable value of the investment subsequently increases based on the result of the impairment test.

Inventories

Inventories are valued at acquisition or production cost and the market value, whichever is the lower. Ancillary costs are included in the acquisition cost. The following cost configuration is used:

- raw materials, consumables, products sold: weighted average cost;
- work in progress: production cost;
- finished and semi-finished products: production cost.

Production cost includes the cost of raw materials, materials, labour and all other direct production expenses, including depreciation and amortisation. Production cost does not include distribution costs. Obsolete or slow-moving inventories are written down according to the possibility of using or realising them.

Trade receivables and payables and other receivables/payables

Receivables are recognised in the financial statements at their presumed realisable value, which comprises the nominal value, adjusted if necessary by specific impairment provisions. Trade receivables have due dates that fall within normal contractual periods (30 to 120 days) and are therefore not discounted.

Regarding the introduction of IFRS 9, and particularly the new method for impairment of financial investments, starting on 1 January 2018 the Group revised its method for determination of the reserve to be used for coverage of losses on receivables, taking into account the losses expected throughout the life of the receivable, as required by the new standard, with no significant impact on the result for the period or on equity resulting from application of IFRS 9.

Receivables factored without recourse are removed from the financial statements when all the risks associated with the sale of the receivable are borne by the factoring company.

Payables are recognised at nominal value. Trade payables have due dates that fall within normal contractual periods (60 to 120 days) and are therefore not discounted.

Financial derivatives

Derivatives are classified as "Hedging transactions" if the conditions exist for the application of hedge accounting; otherwise, even if undertaken with the intention of managing risk exposure, they are recorded as "Financial assets held for trading". Financial derivatives may be recognised using the methods established for hedge accounting only when the relationship between the derivative and the hedged item is formally documented and the hedge effectiveness is high (effectiveness test). The effectiveness of hedge transactions is documented both at the start of the transaction and periodically (at least at each reporting date of the financial statements or interim statements) and measured by comparing changes in the fair value of the hedging instrument with those of the hedged item.

When hedging transactions hedge the risk of changes in the fair value of hedged instruments (fair value hedges), the derivatives are recognised at fair value and the effects are charged to the income statement. The Gefran Group does not hold derivatives of this kind.

When derivatives hedge the risk of changes in the cash flows of the hedged instruments (cash flow hedges), changes in the fair value of the derivatives are initially recorded under other items of comprehensive income and are then reclassified from shareholders' equity to profit (loss) for the period as a reclassification adjustment, in line with the economic effects of the hedged transaction. The change in fair value relating to the ineffective portion is recognised immediately in the income statement for the period. If the derivative is sold or no longer qualifies as an effective hedge against the risk for which it was initiated, or the occurrence of the underlying transaction is no longer regarded as highly probable, the portion of the cash flow hedge reserve relating thereto is immediately reversed to the income statement

The Group believes that all its existing hedges currently designated as effective hedges continue to qualify for hedge accounting under IFRS 9. As IFRS 9 does not alter the general principle on the basis of which an entity registers effective hedging, the Group has not felt any significant impact of application of this principle.

The Gefran Group uses financial derivatives such as Interest Rate Swaps (IRS) and Interest Rate Caps (CAP). Changes in the fair value of derivatives that do not qualify for hedge accounting are recognised in the income statement. Regardless of classification, all derivatives are measured at fair value using valuation techniques based on market data (such as, *inter alia*, discounted cash flow, the forward exchange rate method and the Black-Scholes formula and its developments).

Cash and cash equivalents

Cash and cash equivalents include cash on hand and demand and short-term bank deposits, which are highly liquid and subject to an insignificant risk of changes in value. They are recognised at nominal value.

Financial liabilities

Payables and financial liabilities are initially recorded at fair value, which essentially coincides with the amount to be paid, net of transaction costs. Purchases and sales of financial liabilities are recognised on the trading date, i.e. the date on which the Group committed to purchase/sell the liabilities.

Management determines the classification of financial liabilities in the categories identified at the time of their initial recognition. After initial recognition, financial liabilities are valued in relation to their classification within one of these categories. In detail it is highlighted that:

- the valuation of "Financial liabilities at fair value through profit or loss" is carried out using the market value at the close of the reporting period; in the case of unlisted instruments (e.g. financial derivatives) it is carried out using financial valuation techniques based on market data. Gains or losses arising from fair value measurement relating to assets and liabilities held for trading are recognised in the income statement.
- the valuation of “Financial liabilities valued at amortised cost”, carried out at amortised cost, in the case of instruments maturing within 12 months uses the nominal value as an approximation of amortised cost.

Payables denominated in foreign currencies are adjusted to year-end exchange rates and gains or losses resulting from the adjustment are recognised in the income statement.

The Group believes that all its existing hedges currently designated as effective hedges continue to qualify for hedge accounting under IFRS 9. As IFRS 9 does not alter the general principle on the basis of which an entity registers effective hedging, the Group has not felt any significant impact of application of this principle.

Own shares

Own shares are reported as a reduction in respect of shareholders' equity in a specific reserve. The original cost of the own shares and the income generated by any subsequent sales are recognised as changes in shareholders' equity.

Provisions for risks and future liabilities

Allocations to provisions for risks and future liabilities take place when the Group has a current obligation (legal or implicit) arising from a past event, it is probable that a financial outlay will take place to meet the obligation and a reliable estimate can be made of the obligation.

Allocations to provisions for risks and future liabilities exceeding one year are discounted only if the effect of discounting is material, at a pre-tax discount rate that reflects current market assessments of the value of money in relation to time and, if appropriate, the specific risks associated with the liability. When discounting back takes place, the increase in the provision due to the passage of time is recognised as a financial charge.

Employee benefits

The post-employment benefit reserve, which is mandatory for Italian companies pursuant to Italian Law 297/1982, is considered a defined benefit plan and is based, *inter alia*, on the working lives of employees and the remuneration earned by the employee over a predetermined period of service. The post-employment benefit reserve is calculated by independent actuaries using the "*Traditional unit credit*" method. The Company has opted to recognise all cumulative actuarial gains and losses both on first-time adoption of IFRS and subsequently.

This item is also used to recognise non-competition agreements, signed with some employees to protect the company from any competitive activities; the value of the obligation is the subject of actuarial valuation and, when first recognised, the portion of the provision determined by actuarial methods is posted to the statement of profit/(loss) for the year.

Translation of foreign companies' financial statements

The financial statements of subsidiaries, affiliates and joint ventures are prepared using the functional currency of the individual entity. The consolidated financial statements are denominated in euros, the functional currency of the Parent Company Gefran S.p.A.
The rules for the translation of the companies' financial statements denominated in currencies other than the euro are as follows:

- assets and liabilities are translated at the exchange rates at the reporting date;
- costs and revenues are translated at the average exchange rates in the period;
- the *"Currency translation reserve"* includes both the exchange rate differences resulting from the translation of economic parameters at an exchange rate other than that at closing, and those generated by translating the opening shareholders' equity at an exchange rate other than that at the close of the reporting period.

When an investment in a foreign company is disposed of, the accumulated exchange rate differences recognised in the "*Currency translation reserve*", relating to a particular foreign company, are reported in the statement of profit/(loss) for the year.

Conversion of foreign currency items

Foreign currency transactions are implemented by each entity at the conversion rate prevailing at the accounting date. Subsequently, at the time of payment or collection, the exchange rate difference arising from the time difference between the two moments is recorded and posted to the income statement.

From an equity point of view, at the close of the reporting period, receivables and liabilities arising from transactions in currencies other than the functional currency are reassessed in the company's currency, taking as benchmark the exchange rate prevailing at the reporting date. Also in this case, the exchange rate difference is posted to the income statement.

Non-monetary items denominated in foreign currencies are translated into the functional currency at the exchange rate prevailing at the transaction date, i.e. at the historical exchange rate.

7. Accounting standards, amendments and interpretations not yet applicable

As of the date of these financial statements, furthermore, the competent bodies of the European Union have not yet concluded the approval process necessary for the adoption of the following accounting standards and amendments:

- In December 2016, IASB issued IFRIC Interpretation 22 “Foreign Currency Transactions and Advance Consideration”. The amendment deals with the exchange rate to use in transactions and advance consideration paid or received in foreign currency. The amendment will be applicable from 1 January 2018.
- In May 2017, IASB issued the new standard IFRS 17 “Insurance Contracts”. The new standard will replace IFRS 4 and will be applicable from 1 January 2021.
- In June 2017, IASB published IFRIC Interpretation 23 “Uncertainty over Income Tax Treatments”, which provides information on how to recognise income taxes taking into consideration uncertainties over the tax treatment of specific situations. IFRIC 23 will come into force on 1 January 2019.

The Group will adopt the new standards, amendments and interpretations, based on the expected date of application, and will assess their potential impact, when these have been approved by the European Union.

8. Application of new standard IFRS 16 as of 1 January 2019

As of the date of these financial statements, the competent European Union bodies have not yet concluded the approval process necessary for the adoption of the accounting standard IFRS 16, “Leasing”.

This new standard will replace the current IAS 17. The main change concerns the recognition in the accounts by the lessees which, on the basis of IAS 17, were obliged to make a distinction between a finance lease (recognised in accordance with the discounted cash flow method) and an operating lease (recognised on a straight-line basis). With IFRS 16, the accounting treatment of operating leases will be placed on the same footing as finance leases. This standard will be applicable from 1 January 2019. Early application will be possible if IFRS 15 “Revenue from Contracts with Customers” is jointly adopted.

The Group has decided to apply the new standard starting on 1 January 2019, on the basis of what is known as the *modified retrospective approach,* in which the value of the assets is equal to the value of the financial liabilities; moreover, as permitted by the IASB, practical expedients have been used such as exclusion of contracts with a residual duration of less than 12 months or contracts for which the fair value of the asset is calculated to fall under the conventional threshold of 5 thousand American Dollars (modest unitary value).

In the second quarter of 2018 the company set up a team to analyse the various technological solutions available for prompt, correct implementation of this principle, selecting the one best suited to the Group's requirements and subsequently calculating its economic and financial impact.

In the fourth quarter of 2018, after completing development of the software application, the company conducted a detailed analysis of all the contracts signed by all Group companies in effect as of 31 December 2018.

190 active contracts were analysed, for rental of vehicles, machinery, industrial equipment and electronic office machines, as well as rental of real estate; on the basis of the value and duration described above, as of 1 January 2019 119 of these are subject to application of IFRS 16; of the 71 contracts excluded from the perimeter of application, 63 contracts had a duration of less than 12 months, while for the remaining 8 contracts, the fair value calculated for the asset which is the subject of the contract is of modest unitary value.

The assets which are the subject of these contracts were entered:

- under non-current tangible assets, under "*Usage rights*";
- in Net Financial Position, the corresponding financial payable will give origin to "*Financial payables for leasing under IFRS 16*" classified as either current (within the year) or non-current (beyond the year).

In assessment of the fair value and useful lifespan of the assets which are the subject of the contracts subject to application of IFRS 16, the following factors were taken into consideration:

- the amount of the periodic lease or rental fee, as defined in the contract and revalued where applicable;
- initial accessory costs, if specified in the contract;
- final restoration costs, if specified in the contract;
- the number of remaining instalments;
- implicit interest, where not stated in the contract, is estimated on the basis of the average rates for the Group's debt.

The impact of application of the principle, described in detail in the paragraphs below, was assessed with application of the interest rates in effect on 31 December 2018.

The value of "*Usage rights*" calculated as of 1 January 2019 is EUR 2,254 thousand, broken down as follows:

(EUR / 000)	**1 January 2019**
Buildings	1,121
Vehicles	1,011
Electronic office machines	-
Machinery and equipment	122
Total usage rights	**2,254**

Moreover, the value of "*Financial payables for leasing under IFRS 16*" totalling EUR 2,254 thousand may be broken down as follows by due date:

(EUR / 000)	**1 January 2019**
Current financial payables	1,035
Non-current financial payables	1,219
Net financial debt	**2,254**

Analysis of the impact of IFRS 16 was completed with assessment of changes in the statement of consolidated profit/(loss) for the year, considering the entire useful lifespan of the contracts analysed.

With reference to the year 2019 only, the item *"Depreciation of usage rights",* included under "*Depreciation*", will increase by a total of EUR 836 thousand, as shown below:

(EUR / 000)	**31 December 2019**
Buildings	381
Vehicles	405
Electronic office machines	-
Machinery and equipment	50
Total depreciation	**836**

"Service costs", which included all leasing and rental fees until 2018, will decrease by a total of EUR 873 thousand.

"Losses from financial liabilities", which will include the more specific item *"Interest on financial debts for leasing under IFRS 16",* will increase by a total of EUR 26 thousand.

The effects of application of IFRS 16 on the consolidated financial statements are shown below, and specifically:

- the consolidated statement of financial position showing values as of 1 January 2019 only;
- the statement of consolidated profit/(loss) for the year shows the values for all years included in the useful lifespan of contracts in effect as of 31 December 2018, in which "Service costs" will be reduced (shown in the statement with a positive sign), while "Depreciation" and "Losses from financial liabilities" will be increased (shown in the statement with negative signs).

Consolidated statement of financial position

(EUR / 000)	Consolidated 1 January 2019	IFRS 16	Consolidated 1 January 2019 with IFRS16
NON-CURRENT ASSETS			
Goodwill	5,868		5,868
Intangible assets	6,508		6,508
Property, plant, machinery and tools	38,955	2,254	41,209
Shareholdings valued at equity	1,016		1,016
Equity investments in other companies	1,790		1,790
Receivables and other non-current assets	83		83
Deferred tax assets	6,912		6,912
Non-current financial assets	126		126
TOTAL NON-CURRENT ASSETS	**61,258**	**2,254**	**63,512**
CURRENT ASSETS			
Inventories	22,978		22,978
Trade receivables	29,808		29,808
Other receivables and assets	3,561		3,561
Current tax receivables	1,510		1,510
Cash and cash equivalents	18,043		18,043
Financial assets for derivatives	19		19
TOTAL CURRENT ASSETS	**75,919**	**0**	**75,919**
ASSETS HELD FOR SALE	**0**		**0**
TOTAL ASSETS	**137,177**	**2,254**	**139,431**
SHAREHOLDERS' EQUITY			
Share capital	14,400		14,400
Reserves	50,263		50,263
Profit/(loss) for the year	8,151		8,151
Total Group Shareholders' Equity	**72,814**	**-**	**72,814**
Shareholders' equity of minority interests			
TOTAL SHAREHOLDERS' EQUITY	**72,814**	**0**	**72,814**
NON-CURRENT LIABILITIES			
Non-current financial payables	11,864	1,219	13,083
Employee benefits	4,524		4,524
Non-current provisions	250		250
Deferred tax provisions	627		627
TOTAL NON-CURRENT LIABILITIES	**17,265**	**1,219**	**18,484**
CURRENT LIABILITIES			
Current financial payables	10,817	1,035	11,852
Trade payables	20,731		20,731
Financial liabilities for derivatives	28		28
Current provisions	1,424		1,424
Current tax payables	1,653		1,653
Other payables and liabilities	12,445		12,445
TOTAL CURRENT LIABILITIES	**47,098**	**1,035**	**48,133**
TOTAL LIABILITIES	**64,363**	**2,254**	**66,617**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**137,177**	**2,254**	**139,431**

Consolidated statement of profit/(loss) for the year

(EUR / 000)	2019	2020	2021	2022	2023	2024	2025	2026
Revenues from product sales								
Other revenues and income								
Increases for internal work								
TOTAL REVENUES	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Change in inventories								
Costs of raw materials and accessories								
Service costs	873	663	386	234	86	33	33	(0)
Miscellaneous management costs								
Other operating income								
Personnel costs								
Impairment/reversal of trade and other receivables								
Amortisation								
Depreciation	(836)	(663)	(375)	(227)	(83)	(31)	(31)	(6)
EBIT	**37**	**(1)**	**11**	**7**	**3**	**1**	**1**	**(7)**
Gains from financial assets								
Losses from financial liabilities	(26)	(15)	(7)	(3)	(1)	(1)	(0)	0
(Losses) gains from shareholdings valued at equity								
PROFIT (LOSS) BEFORE TAX	**11**	**(16)**	**4**	**4**	**2**	**1**	**1**	**(7)**
Current taxes								
Deferred tax assets and liabilities								
TOTAL TAXES	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
PROFIT (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	**11**	**(16)**	**4**	**4**	**2**	**1**	**1**	**(7)**
Net profit (loss) from assets held for sale								
NET PROFIT (LOSS) FOR THE YEAR	**11**	**(16)**	**4**	**4**	**2**	**1**	**1**	**(7)**

9. Main decisions in the application of accounting standards and uncertainties in making estimates

In drafting the financial statements and the explanatory notes to the accounts, in accordance with the IAS/IFRS principles, the Group makes use of estimates and assumptions to assess certain items. These are based on historical experience and uncertain but realistic assumptions, assessed regularly and, if necessary, updated, with effect on the income statement for the period and for future periods. The uncertainty inherent in these assessment estimates may lead to misalignment between the estimates made and the actual effects of the estimated events on the financial statements.

Below are the processes that require management to perform assessment estimates, and with regard to which a change in the underlying conditions could have a significant impact on the consolidated financial data:

<u>Provision for inventory write-down</u>

Inventories are stated as the lower between the cost of purchase (measured using the weighted average cost method) and the net realisable value. The provision for inventory write-down is necessary in order to adjust the value of inventories to the estimated realisable value: inventory composition is analysed for slow-moving stocks, with the aim of assessing a provision that reflects any obsolescence of same.

Provision for doubtful receivables

The provision for doubtful receivables reflects management's estimates regarding the recoverability of receivables from customers. Management's assessment is based on experience and on an analysis of situations with a known or probable risk of non-collection.

Regarding the introduction of IFRS 9, and particularly the new method for impairment of financial investments, starting on 1 January 2018 the Group revised its method for determination of the reserve to be used for coverage of losses on receivables, taking into account the losses expected throughout the life of the receivable, as required by the new standard, with no significant impact on the result for the period or on equity resulting from application of IFRS 9.

Goodwill and intangible assets with a finite life

These are periodically subject to evaluation through the impairment test, with the aim of determining their present value and accounting for any differences in value; for details, see the specific sections of the notes to the financial statements.

Employee benefits and non-competition agreements

The provision for the post-employment benefit reserve and the provision for non-competition agreements are posted to the financial statements and annually reviewed by external actuaries, taking into account assumptions regarding the discount rate, inflation and demographic assumptions; for details, see the specific section of the notes to the financial statements.

Deferred tax assets

The recoverability of deferred tax assets is periodically evaluated, based on the results achieved and on the business plans prepared by management.

Current and non-current provisions

Provisions are made for risks of a legal and fiscal nature to represent the risk of a negative outcome. The amount of the provisions posted to the financial statements in relation to these risks represents management's best estimate at that time. This estimate entails the adoption of assumptions that depend on factors that may change over time and that could, therefore, have a significant effect on the current estimates made by management in preparing the Group's consolidated financial statements.

10. Financial instruments: supplementary disclosure pursuant to IFRS 7

The Group’s activities are exposed to different types of risk: market risk (including exchange rate risks, interest rate risks and price risks), credit risk and liquidity risk. The Group’s risk management strategy focuses on the market unpredictability and is intended to minimise the potential negative impact on the Group’s results. Certain types of risk are mitigated through the use of derivatives. Coordination and monitoring of the main financial risks are centralised in the Group's Finance and Administration Department, as well as in the Purchasing function as regards price risk, in close partnership with the Group's operating units. Risk management policies are approved by the Group's Administration, Finance and Controlling Department, which provides written guidelines for the management of the risks listed above and the use of financial derivatives and other financial instruments. As part of the sensitivity analyses described below, the effect on the net profit figure and on shareholders’ equity is determined gross of the tax effect.

Exchange rate risks

The Group is exposed to the risk of fluctuations in exchange rates in relation to commercial transactions and cash held in currencies other than the euro, the Group's functional currency. Around 26% of sales are denominated in a different currency. Specifically, the Group is most exposed to the following exchange rates:

- EUR/USD representing about 8%, primarily in relation to the commercial relations of the Parent Company Gefran S.p.A. and its subsidiaries Gefran Inc. (operating in the United States), Gefran Siei Drives Technology and Gefran Siei Asia (operating on the Asian market);
- EUR/RMB to the tune of 9%, mainly related to the Chinese operating company Gefran Siei Drives Technology;
- the remainder is divided between EUR/BRL, EUR/GBP, EUR/CHF, EUR/INR and EUR/TRL.

The sensitivity to a hypothetical and unexpected change of the exchange rates of 5% and 10% in the fair value of the financial statement assets and liabilities is shown below:

Description	31 December 2018		31 December 2017	
(EUR / 000)	-5%	+5%	-5%	+5%
Chinese renminbi	4	(4)	(2)	2
US dollar	1	(1)	4	(4)
Total	5	(5)	2	(2)

Description	31 December 2018		31 December 2017	
(EUR / 000)	-10%	+10%	-10%	+10%
Chinese renminbi	8	(7)	(4)	4
US dollar	3	(2)	9	(8)
Total	11	(9)	5	(4)

The sensitivity to a hypothetical and unexpected change of the most significant exchange rates of 5% and 10% in the fair value of the net profit for the period is shown below:

Description	31 December 2018		31 December 2017	
(EUR / 000)	-5%	+5%	-5%	+5%
Chinese renminbi	(40)	36	(155)	140
US dollar	61	(55)	64	(58)
Total	21	(19)	(91)	82

Description	31 December 2018		31 December 2017	
(EUR / 000)	-10%	+10%	-10%	+10%
Chinese renminbi	(84)	68	(326)	267
US dollar	128	(105)	136	(111)
Total	44	(36)	(190)	156

The sensitivity to a hypothetical and unexpected change of the most significant exchange rates of 5% and 10% in the fair value of the shareholders' equity is shown below:

Description	31 December 2018		31 December 2017	
(EUR / 000)	-5%	+5%	-5%	+5%
Chinese renminbi	510	(461)	1,957	748
US dollar	400	(362)	112	(485)
Total	910	(823)	2,069	263

Description	31 December 2018		31 December 2017	
(EUR / 000)	-10%	+10%	-10%	+10%
Chinese renminbi	1,076	(880)	2,662	226
US dollar	844	(691)	460	(743)
Total	1,920	(1,571)	3,122	(517)

Interest rate risk

The interest rate risk to which the Group is exposed mainly originates from long-term financial payables with variable interest rate. Variable rate loans expose the Group to a risk associated with interest rate volatility (cash flow risk). The Group uses derivatives to hedge its exposure to interest rate risk, entering into Interest Rate Swap (IRS) and Interest Rate Cap (CAP) contracts.

The Group's Administration and Finance Department monitors exposure to interest rate risk and proposes appropriate hedging strategies to contain exposure within the limits defined and agreed in the Group's policies, using derivatives when necessary.

The table below shows a sensitivity analysis of the impact that an interest rate increase/decrease of 100 basis points would have on the consolidated net profit/(loss), comparing interest rates at 31 December 2018 and 31 December 2017, while keeping other variables unchanged.

(EUR / 000)	31 December 2018		31 December 2017	
	-100	100	-100	100
EUR	(2)	(62)	40	(124)
Total	**(2)**	**(62)**	**40**	**(124)**

The potential impacts shown above are calculated with reference to the net liabilities that account for the most significant portion of the Group's debt on the reporting date of the financial statements, and measuring, on this amount, the effect on net financial charges resulting from the change in interest rates on an annual basis.

The net liabilities considered in this analysis include floating-rate financial receivables and payables, cash and cash equivalents and financial derivatives, the value of which is affected by interest rate fluctuations.

The table below shows the carrying value at 31 December 2018, broken down by maturity, of the Group's financial instruments exposed to the interest rate risk:

Floating rate	<1 year	1-5 years	>5 years	Total
(EUR / 000)				
Loans due	7,069	11,864	-	18,933
Other accounts payable	21	-	-	21
Account overdrafts	3,727	-	-	3,727
Cash pooling current account overdrafts	-	-	-	-
Leases	-	-	-	-
Total liabilities	**10,817**	**11,864**	**-**	**22,681**
Cash in current accounts	18,011	-	-	18,011
Other cash	-			-
Cash in cash pooling current accounts	-	-	-	-
Total assets	**18,011**	**-**	**-**	**18,011**
Total floating rate	**7,194**	**(11,864)**	**-**	**(4,670)**

Unlike net financial position figures, the amounts shown in the table above do not include the fair value of derivatives (negative at EUR 9 thousand), cash on hand (positive at EUR 32 thousand) or deferred financial income (positive at EUR 126 thousand).

Liquidity risk

Prudent management of the liquidity risk arising from the Group's normal operations requires an appropriate level of cash on hand and short-term securities to be maintained, as well as the availability of funds obtainable through an appropriate amount of committed credit lines.

The Group's Administration and Finance Department monitors forecasts on the use of the Group's liquidity reserves based on expected cash flows. The table below shows the amount of liquidity reserves available on the reference dates:

Description	31 December 2018	31 December 2017	Change
(EUR / 000)			
Cash and cash equivalents	32	94	(62)
Cash in bank deposits	18,011	23,913	(5,902)
Term deposits – less than 3 months	-	-	-
Total liquidity	**18,043**	**24,007**	**(5,964)**
Multiple mixed credit lines	16,799	15,283	1,516
Cash flexibility credit lines	5,360	8,835	(3,475)
Invoice factoring credit lines	11,583	12,604	(1,021)
Total credit lines available	**33,742**	**36,722**	**(2,980)**
Total liquidity available	**51,785**	**60,729**	**(8,944)**

Note that the decrease in the value of lines of credit available pertains to the closure of two bank accounts in the year of 2018, resulting in closure of the corresponding lines of credit.

To complete disclosure on financial risks, the table below shows a reconciliation of financial asset and liability classes, as identified in the Group's statement of financial position, and the types of financial assets and liabilities identified on the basis of IFRS 7 requirements:

	Level 1	Level 2	Level 3	Total
(EUR / 000)				
Available-for-sale assets valued at fair value:				
Shareholdings valued at fair value with a balancing item in other overall profit/(loss)	346	-	1,444	1,790
Hedging transactions	-	19	-	19
Total assets	**346**	**19**	**1,444**	**1,809**
Hedging transactions	-	(28)	-	(28)
Foreign exchange forward transactions	-	-	-	-
Total liabilities	**-**	**(28)**	**-**	**(28)**

Level 1: Fair values represented by the prices - listed in active markets (unadjusted) - of financial instruments identical to those being valued that may be accessed at the measurement date. These prices are defined as mark-to-market inputs as they provide a fair value measurement based directly on official market prices, therefore without the need for any modification or adjustment.

Level 2: Fair values determined using evaluation techniques based on variables that may be observed in active markets, which in this case include the evaluation of interest rate hedging and of foreign exchange hedging. As with the Level 1 inputs, the reference value is mark-to-market, i.e. the evaluation method whereby the value of a financial instrument or contract is systematically adjusted according to the current market prices.

Level 3: Fair values determined using evaluation techniques based on variables that may not be observed, and in particular the values of equity investments in other companies that are not listed on international markets, the overall value of which has not changed compared to 31 December 2017.

Below is a reconciliation of financial asset and liability classes, as identified in the Group's statement of financial position, and the types of financial assets and liabilities identified on the basis of IFRS 7 requirements, for the year 2017:

	Level 1	Level 2	Level 3	Total
(EUR / 000)				
Available-for-sale assets valued at fair value:				
Shareholdings valued at fair value with a balancing item in other overall profit/(loss)	562	-	1,444	2,006
Hedging transactions	-	56	-	56
Total assets	**562**	**56**	**1,444**	**2,062**
Hedging transactions	-	(76)	-	(76)
Foreign exchange forward transactions	-	-	-	-
Total liabilities	**-**	**(76)**	**-**	**(76)**

Credit risk

The Gefran Group deals mainly with known and reliable customers. The Group's credit policy is to subject customers who require extended payment terms and new customers to credit checks. In addition, receivables are monitored over the year to reduce late payments and prevent significant losses.

The Group has adopted a policy of monitoring outstanding receivables, a measure made necessary given the possible deterioration of certain receivables, the decline in credit rating reliability and the lack of liquidity on the market. The impairment process conducted on the basis of the Group's procedures requires receivables to be written down by a percentage which depends on the time range of the outstanding receivable, in view of past experience in specific lines of business and geographical regions, as required by IFRS 9.

Below are the values of gross trade receivables at 31 December 2018 and 31 December 2017:

(EUR / 000)	**Total value**	**Not overdue**	**Overdue by up to 2 months**	**Overdue by 2 to 6 months**	**Overdue by 6 to 12 months**	**Overdue by more than 12 months**	**Receivables individually written down**
Gross trade receivables at 31 December 2018	32,214	26,652	2,752	494	61	914	1,341
Gross trade receivables at 31 December 2017	32,288	26,159	2,457	691	32	634	2,315

The Gefran Group has established formal procedures for customer credit and credit collection through the credit department and in partnership with leading external law firms. All the procedures put in place are intended to reduce credit risk. Exposure to other forms of credit, such as financial receivables, is constantly monitored and reviewed monthly or at least quarterly, in order to determine any losses or recovery-associated risks.

Risk of change in raw material prices

The Group's exposure to price risk is minimal. Purchases of materials and components subject to fluctuations in raw material prices are not significant. The purchase costs of the main components are usually set with counterparts for the full year and reflected in the budget. The Group has in place structured and formalised governance systems that it uses to regularly analyse its margins. Commercial operations are coordinated by business area, so as to monitor sales and manage discounts.

Fair value of financial instruments

All the Group's financial instruments are recorded in the financial statements at fair value. The amount of financial liabilities valued at amortised cost is considered close to the fair value on the reporting date.

The table below summarises the Group's net financial position, comparing fair value and book value:

(EUR / 000)	carrying value 31 December 2018	carrying value 31 December 2017	fair value 31 December 2018	fair value 31 December 2017
Financial assets				
Cash and cash equivalents	32	93	32	93
Cash in bank deposits	18,011	23,913	18,011	23,913
Securities held for trading	-	-	-	-
Financial assets for derivatives	19	56	19	56
Non-current financial assets	126	166	126	166
Total financial assets	**18,188**	**24,228**	**18,188**	**24,228**
Financial liabilities				
Current portion of long-term debt	(7,069)	(9,462)	(7,069)	(9,462)
Short-term bank debt	(3,727)	(5,490)	(3,727)	(5,490)
Financial liabilities for derivatives	(28)	(76)	(28)	(76)
Factoring	(21)	(39)	(21)	(39)
Leasing	-	-	-	-
Other financial payables	-	(8)	-	(8)
Non-current financial debt	(11,864)	(13,933)	(11,864)	(13,933)
Total financial liabilities	**(22,709)**	**(29,008)**	**(22,709)**	**(29,008)**
Total net financial position	**(4,521)**	**(4,780)**	**(4,521)**	**(4,780)**

11. Non-recurring income (charges)

There were no non-recurring income or charges in the year 2018, unlike 2017, when a total of EUR 321 thousand in non-recurring charges were entered due to employee costs incurred by the subsidiaries Gefran Deutschland Gmbh and Gefran France to complete the restructuring process begun in the year 2016.

12. Information by business area

Primary segment – sector of activity

The organisational structure of the Gefran Group is divided into three areas of activity: sensors, automation components and motion control. The economic trends and the main investments are covered in the Report on Operations.

Figures by business area

	(EUR / 000)	Sensors	Automation components	Motion control	Eliminations	Not divided	31 December 2018
a	Revenues	61,893	37,475	41,740	(5,537)		135,571
b	Increases for internal work	469	462	494	-		1,425
c	Consumption of materials and products	14,710	13,536	24,533	(5,537)		47,242
d	**Added value (a+b-c)**	**47,652**	**24,401**	**17,701**		**-**	**89,754**
e	Other operating costs	11,047	5,806	6,946	-		23,799
f	Personnel costs	18,166	15,269	12,462	-		45,897
g	**EBITDA (d-e-f)**	**18,439**	**3,326**	**(1,707)**		**-**	**20,058**
h	Depreciation, amortisation and impairment	2,509	1,966	1,840	-		6,315
i	**EBIT (g-h)**	**15,930**	**1,360**	**(3,547)**		**-**	**13,743**
l	Gains (losses) from financial assets/liabilities					(501)	(501)
m	Gains (losses) from shareholdings valued at equity					(55)	(55)
n	**Profit (loss) before tax (i±l±m)**	**15,930**	**1,360**	**(3,547)**		**(556)**	**13,187**
o	Taxes					(4,161)	(4,161)
p	**Result from operating activities (n±o)**	**15,930**	**1,360**	**(3,547)**		**(4,717)**	**9,026**
q	Net profit (loss) from assets held for sale					(875)	(875)
r	**Group net profit (loss) (p±q)**	**15,930**	**1,360**	**(3,547)**		**(5,592)**	**8,151**

	(EUR / 000)	Sensors	Automation components	Motion control	Eliminations	Not divided	31 December 2017
a	Revenues	58,437	35,743	38,675	(4,216)		128,639
b	Increases for internal work	71	387	152	-		610
c	Consumption of materials and products	14,193	12,516	21,251	(4,216)		43,745
d	Added value (a+b-c)	44,315	23,614	17,576		-	85,504
e	Other operating costs	10,636	5,407	6,123	-		22,165
f	Personnel costs	17,384	14,540	12,376	-		44,300
g	EBITDA (d-e-f)	16,295	3,667	(923)		-	19,039
h	Depreciation, amortisation and impairment	3,072	2,337	2,481	-		7,890
i	EBIT (g-h)	13,223	1,330	(3,404)		-	11,149
l	Gains (losses) from financial assets/liabilities					(2,400)	(2,400)
m	Gains (losses) from shareholdings valued at equity					156	156
n	Profit (loss) before tax (i±l±m)	13,223	1,330	(3,404)		(2,244)	8,905
o	Taxes					(2,228)	(2,228)
p	Result from operating activities (n±o)	13,223	1,330	(3,404)		(4,472)	6,677
q	Net profit (loss) from assets held for sale					187	187
r	Group net profit (loss) (p±q)	13,223	1,330	(3,404)		(4,285)	6,864

Intersegment sales are booked at transfer prices, which are broadly in line with market prices.

Statement of financial position figures by business area

(EUR / 000)	Sensors	Automation components	Motion control	Not divided	31 December 2018	Sensors	Automation components	Motion control	Not divided	31 December 2017
Intangible assets	7,408	2,341	2,627		12,376	7,465	2,600	2,540		12,605
Tangible assets	11,667	11,503	15,785		38,955	9,736	10,793	15,034		35,563
Other non-current assets				9,801	9,801				11,733	11,733
Net non-current assets	**19,075**	**13,844**	**18,412**	**9,801**	**61,132**	17,201	13,393	17,574	11,733	59,901
Inventories	6,040	4,014	12,924		22,978	5,112	3,642	11,510		20,264
Trade receivables	10,205	7,828	11,775		29,808	10,860	8,004	10,522		29,386
Trade payables	(6,780)	(5,827)	(8,124)		(20,731)	(6,505)	(5,388)	(7,136)		(19,029)
Other assets/liabilities	(3,803)	(3,020)	(2,311)	107	(9,027)	(3,746)	(2,663)	(2,476)	(669)	(9,554)
Working capital	**5,662**	**2,995**	**14,264**	**107**	**23,028**	5,721	3,595	12,420	(669)	21,067
Provisions for risks and future liabilities	(973)	(72)	(469)	(160)	(1,674)	(933)	(66)	(449)	(304)	(1,752)
Deferred tax provisions				(627)	(627)				(647)	(647)
Employee benefits	(1,247)	(1,742)	(1,535)		(4,524)	(1,369)	(1,895)	(1,828)		(5,092)
Invested capital from operations	**22,517**	**15,025**	**30,672**	**9,121**	77,335	20,620	15,027	27,717	10,113	73,477
Invested capital from assets held for sale	-	-	-	-	-	-	-	-	1,214	1,214
Net invested capital	**22,517**	**15,025**	**30,672**	**9,121**	**77,335**	20,620	15,027	27,717	11,327	74,691
Shareholders' equity				**72,814**	**72,814**				69,911	69,911
Non-current financial payables				11,864	11,864				13,933	13,933
Current financial payables				10,817	10,817				14,999	14,999
Financial liabilities for derivatives				28	28				76	76
Financial assets for derivatives				(19)	(19)				(56)	(56)
Non-current financial assets				(126)	(126)				(166)	(166)
Cash and cash equivalents and current financial receivables				(18,043)	(18,043)				(24,006)	(24,006)
Net debt relating to operations	-	-	-	**4,521**	**4,521**	-	-	-	4,780	4,780
Total sources of financing	-	-	-	**77,335**	**77,335**	-	-	-	74,691	74,691

Secondary segment - revenues by geographic region

Geographical region	31 December 2018	31 December 2017	Change	%
(EUR / 000)				
Italy	41,018	36,925	4,093	11.1%
European Union	36,188	34,295	1,893	5.5%
Europe non-EU	6,960	7,181	(221)	-3.1%
North America	14,712	13,775	937	6.8%
South America	3,959	4,392	(433)	-9.9%
Asia	31,537	30,142	1,395	4.6%
Rest of the World	752	753	(1)	-0.1%
Total	**135,126**	**127,463**	**7,663**	**6.0%**

Secondary segment - investments by geographic region

Geographical region	31 December 2018		31 December 2017	
	intangible assets and goodwill	tangible assets	intangible assets and goodwill	tangible assets
(EUR / 000)				
Italy	1,948	6,148	938	4,372
European Union	12	60	4	66
Europe non-EU	0	116	7	8
North America	0	354	4	37
South America	3	215	3	136
Asia	0	582	4	62
Rest of the World	0	0	-1	1
Total	1,963	7,475	959	4,682

Secondary segment - non-current assets by geographical region

Geographical region	31 December 2018	31 December 2017	Change	%
(EUR / 000)				
Italy	46,277	45,562	715	1.6%
European Union	2,295	2,345	(50)	-2.1%
Europe non-EU	2,443	2,507	(64)	-2.6%
North America	4,105	3,761	344	9.1%
South America	486	367	119	32.4%
Asia	5,652	5,525	127	2.3%
Rest of the World	0	0	0	n.s.
Total	**61,258**	**60,067**	**1,191**	**2%**

13. Goodwill

"*Goodwill*" totalled EUR 5,868 thousand as at 31 December 2018, an increase of EUR 115 thousand compared to 31 December 2017, entirely due to the effect of exchange rates, as shown below:

(EUR / 000)	31 December 2017	Increases	Decreases	Exchange rate differences	31 December 2018
Gefran France SA	1,310	-	-	-	1,310
Gefran India	41	-	-	(1)	40
Gefran Inc.	2,448	-	-	116	2,564
Sensormate AG	1,954	-	-	-	1,954
	5,753	-	-	115	5,868

The goodwill acquired following business combinations was allocated to specific CGUs for the purpose of impairment testing.

The carrying values of goodwill are shown below.

Description	Year	Goodwill France	Goodwill India	Goodwill USA	Goodwill Switzerland	Total
(EUR / 000)						
Sensors	2018	1,310	-	2,564	1,954	5,828
	2017	1,310	-	2,448	1,954	5,712
Motion Control	2018	-	40	-	-	40
	2017	-	41	-	-	41
Total	**2018**	**1,310**	**40**	**2,564**	**1,954**	**5,868**
	2017	**1,310**	**41**	**2,448**	**1,954**	**5,753**

In examining the possible impairment indicators and in developing its valuations, management also took into account, among other things, the relation between the market capitalisation and the carrying value of the Group shareholders' equity, which was very positive at 31 December 2018.

As part of the analysis on the recoverability of the values of goodwill, in accordance with the main instructions of IAS 36, the values in use in the Group and in the CGU mentioned above, at which the tested assets were allocated, were determined. This exercise was based on the forecast cash flows discounted back, produced by the CGUs subject to analysis, appropriately discounted back by means of the rates which reflect the risk.

Goodwill relating to the France, USA and Switzerland CGUs has been assigned to the sensors business unit, that relating to the India CGU to the drive business unit. For impairment testing purposes, all goodwill is examined on the basis of data from the specific CGUs, which corresponds to the subsidiary companies operating in the aforesaid geographic regions.

The main assumptions used in conducting the impairment tests are set out in the table below.

Description	Net invested capital 31/12/2018	Net invested capital 31/12/2017	Explicit forecast	WACC (%)	Value in use 31/12/2018	Risk free (%)	Risk premium (%)	Theoretical tax rate (%)
(EUR / 000)								
Consolidated	78,038	74,691	2019 - 2021	11.5%	171,806	3.0%	7.4%	27.1%

Description	Net invested capital 31/12/2018	Net invested capital 31/12/2017	Explicit forecast	WACC (%)	Value in use 31/12/2018	Risk free (%)	Risk premium (%)	Theoretical tax rate (%)
(EUR / 000)								
France	1,310	1,310	2019 - 2021	8.4%	5,667	0.7%	7.1%	25.0%
India	40	41	2019 - 2021	13.7%	889	7.4%	9.1%	30.0 %
USA	2,563	2,448	2019 – 2021	7.8%	38,123	2.7%	6.0%	21.0%
Switzerland	1,954	1,954	2019 – 2021	7.7%	5,263	-0.2%	7.1%	16.0%
Total	**5,867**	**5,753**						

When determining the value in use, the specific cash flows relating to the period 2019 - 2021 were considered, deriving from the Group Plan, along with the terminal value, which represents the ability to generate cash flows beyond the explicit forecast time scale.

The main assumptions that management used to calculate the value in use regard the discount rate (WACC) and the long-term growth rate (*g*), as well as the cash flows deriving from the Group Plan.

The rate used for discounting the future cash flows is the weighted average cost of capital (Weighted Average Cost of Capital or WACC), which is calculated as the weighted average of the cost of own capital and the cost of third-party capital, net of the tax effects.

When calculating the same, market parameters are used such as the Beta, a factor which expresses the risk which characterises the particular business with respect to the financial market in general, and the related financial structure taken from calculations developed by Professor Damodaran, one of the leading experts in business valuations globally.

The return on risk-free assets was benchmarked to the yield on government bonds of countries in which the Group and the CGUs operate.

The premium for the market risk represents the additional return required by a risk-averse investor, compared with the return that can be obtained from risk-free assets: it is attributable to the difference between the long-term normalised return of the share market and the risk-free assets rate.

In order to establish the terminal value, the long-term growth rate of the cash flows adopted has been defined in relation to the expected levels of inflation in the various geographic areas in which the Group operates, making reference to estimates of international bodies.

WACC decreased between 2018 and 2017 due to the increase in premiums for market risk and in the risk-free interest rate, both attributable to trends on financial markets and the overall uncertainty of the global financial situation.

An impairment test sensitivity analysis shows that the break-even WACC, i.e. the discount rate that would bring the value in use into line with the net invested capital value, is 20.1%, significantly higher than the current discount rate.

The recoverable amount of goodwill was determined according to the calculation of the value in use, which used projections of the three-year cash flow based on the 2019 - 2021 Plan, approved by management. The impairment test of the above assets did not reveal any lasting loss of value.

The following is a sensitivity analysis showing the "*g*" and "WACC" break-even rates in a "steady case" scenario:

Description *(EUR / 000)*	**"g" rate %**	**WACC %**	**A**	**B**
Goodwill - STEADY CASE				
France	1.9%	8.4%	-40%	30%
India	4.0%	13.7%	-11%	43%
USA	2.1%	7.8%	-70%	35%
Switzerland	1.0%	7.7%	-8%	13%

A = g rate % break-even point with unchanged WACC

B = WACC % of break-even point with stable *g* rate

Having taken into account that the realisation of the Plan implies a number of elements of uncertainty, even if the impairment tests would make it possible to deem both the value of the Group's consolidated figures and the book value of the goodwill recorded in the financial statements reasonable, with a good degree of confidence, steps were taken to carry out stress test activities.

In this scenario, a "worst case" version was prepared, in which deterioration of added value was assumed consistently with each company's performance on the market, and the growth rate was zeroed in nominal terms (negative in real terms in the presence of inflation), both for Consolidated figures and for goodwill.

In the case of the impairment test on the Group Consolidated figures, the break-even WACC would be equal to 20.1%, still higher than the discount rate used. Also in the "*worst case*" impairment activities of the four sets of goodwill, the break-even WACCs would be higher than the respective discount rates, and specifically France 30%, India 43%, USA 35% and Switzerland 13%.

The above analyses show that, both under stable conditions and in situations worse than those forecast, the recoverable amount of goodwill is not critical, also considering the change in the discount rate and the growth rate.

However, the directors will systematically monitor final income statement and statement of financial position data of the CGUs to assess the need to adjust forecasts and promptly reflect any further write-downs.

14. Intangible assets

"Intangible assets" exclusively comprise assets with a finite life, and decreased from EUR 6,852 thousand at 31 December 2017 to EUR 6,508 thousand at 31 December 2018. The changes during the period are shown below:

Historical cost	31 December 2017	Increases	Decreases	Reclassifications	Exchange rate differences	31 December 2018
(EUR / 000)						
Development costs	17,760	71	-	40	-	17,871
Intellectual property rights	6,787	254	(17)	87	(12)	7,099
Assets in progress and payments on account	372	1,429	(18)	(136)	-	1,647
Other assets	9,384	209	-	46	(5)	9,634
Total	34,303	1,963	(35)	37	(17)	36,251

Accumulated depreciation	31 December 2017	Increases	Decreases	Reclassifications	Exchange rate differences	31 December 2018
(EUR / 000)						
Development costs	13,489	1,503	-	27	-	15,019
Intellectual property rights	6,032	327	(17)	-	(9)	6,333
Other assets	7,930	489	-	(27)	(1)	8,391
Total	27,451	2,319	(17)	-	(10)	29,743

Net value	31 December 2017	31 December 2018	Changes
(EUR / 000)			
Development costs	4,271	2,852	(1,419)
Intellectual property rights	755	766	11
Assets in progress and payments on account	372	1,647	1,275
Other assets	1,454	1,243	(211)
Total	6,852	6,508	(344)

The table of changes relating to 2017 follows:

Historical cost	31 December 2016	Increases	Decreases	Reclassifications	Exchange rate differences	31 December 2017
(EUR / 000)						
Development costs	16,716	479	-	565	-	17,760
Intellectual property rights	1,669	127	(3)	5,045	(51)	6,787
Assets in progress and payments on account	836	248	-	(712)	-	372
Other assets	7,404	105	-	1,908	(33)	9,384
Total	26,625	959	(3)	6,806	(84)	34,303

Accumulated depreciation	31 December 2016	Increases	Decreases	Reclassifications	Exchange rate differences	31 December 2017
(EUR / 000)						
Development costs	11,981	1,508	-	-	-	13,489
Intellectual property rights	736	326	(3)	5,008	(34)	6,032
Other assets	5,648	490	-	1,799	(7)	7,930
Total	18,365	2,324	(3)	6,807	(41)	27,451

Net value	31 December 2016	31 December 2017	Change
(EUR / 000)			
Development costs	4,735	4,271	(464)
Intellectual property rights	933	755	(178)
Assets in progress and payments on account	836	372	(464)
Other assets	1,756	1,454	(302)
Total	8,260	6,852	(1,408)

Development costs include the capitalisation of costs incurred for the following activities:

- EUR 634 thousand relating to new lines for mobile hydraulics, melt sensors, pressure transducers (KS) and contactless linear position transducers (MK–IK and RK);
- EUR 1,302 thousand for component lines for the new range of regulators and static units, GF Project VX, G Cube Performa and G Cube Fit;
- EUR 916 thousand relating to the new range of lift inverters.

These assets are estimated to have a useful life of five years.

Intellectual property rights exclusively comprise the costs incurred to purchase the company IT system management programs and the use of licences for third-party software. These assets have a useful life of three years.

Assets in progress and payments on account include payments on account made to suppliers to purchase software programs and licences expected to be delivered during the next year, and purchase of patents for technologies currently being developed. This item also includes EUR 1,219 thousand in development costs, EUR 373 thousand of which pertain to the automation components business, EUR 282 thousand to the sensors business and EUR 564 thousand to the motion control business, the benefits of which will not be reflected in the income statement until subsequent years, which have not therefore been amortised.

The item **other assets** includes almost all the costs incurred by the Parent Company Gefran S.p.A. to implement ERP SAP/R3, Business Intelligence (BW), Customer Relationship Management (CRM) and management software in previous years and in the current year. These assets have a useful life of five years.

The increases in historical value of the *"Intangible assets"*, amounting to EUR 1,963 thousand in 2018, include EUR 1,253 thousand linked to the capitalisation of internal costs (EUR 594 thousand in 2017).

15. Property, plant, machinery and tools

"*Property, plant, equipment and tools*" increased from EUR 35,563 thousand at 31 December 2017 to EUR 38,955 thousand at 31 December 2018. The changes are shown in the table below:

Historical cost	31 December 2017	Increases	Decreases	Reclassifications	Exchange rate differences	31 December 2018
(EUR / 000)						
Land	4,503	-	-	-	11	4,514
Industrial buildings	39,541	1,549	(97)	42	6	41,041
Plant and machinery	37,825	2,185	(1,791)	1,827	(38)	40,008
Industrial and commercial equipment	19,764	602	(1,300)	221	(10)	19,277
Other assets	7,858	791	(1,733)	39	3	6,958
Assets in progress and payments on account	1,940	2,348	-	(2,166)	9	2,131
Total	111,431	7,475	(4,921)	(37)	(19)	113,929

Accumulated depreciation	31 December 2017	Increases	Decreases	Reclassifications	Exchange rate differences	31 December 2018
(EUR / 000)						
Industrial buildings	19,000	1,049	(97)	-	1	19,953
Plant and machinery	31,463	1,830	(1,771)	-	(15)	31,507
Industrial and commercial equipment	18,443	765	(1,300)	-	(9)	17,899
Other assets	6,962	352	(1,711)	-	12	5,615
Total	75,868	3,996	(4,879)	-	(11)	74,974

Net value	31 December 2017	31 December 2018	Change
(EUR / 000)			
Land	4,503	4,514	11
Industrial buildings	20,541	21,088	547
Plant and machinery	6,362	8,501	2,139
Industrial and commercial equipment	1,321	1,378	57
Other assets	896	1,343	447
Assets in progress and payments on account	1,940	2,131	191
Total	35,563	38,955	3,392

By contrast, the table of changes relating to 2017 follows:

Historical cost	31 December 2016	Increases	Decreases	Reclassifications	Exchange rate differences	31 December 2017
(EUR / 000)						
Land	4,535	-	-	-	(32)	4,503
Industrial buildings	39,826	74	(2)	25	(382)	39,541
Plant and machinery	37,336	1,976	(1,301)	298	(484)	37,825
Industrial and commercial equipment	19,488	489	(207)	61	(67)	19,764
Other assets	8,171	319	(428)	23	(227)	7,858
Assets in progress and payments on account	531	1,824	(7)	(404)	(4)	1,940
Total	109,887	4,682	(1,945)	3	(1,196)	111,431

Accumulated depreciation	31 December 2016	Increases	Decreases	Reclassifications	Exchange rate differences	31 December 2017
(EUR / 000)						
Industrial buildings	16,313	2,836	(2)	-	(147)	19,000
Plant and machinery	31,518	1,597	(1,281)	5	(376)	31,463
Industrial and commercial equipment	17,906	790	(193)	-	(60)	18,443
Other assets	7,219	343	(409)	(3)	(188)	6,962
Total	72,956	5,566	(1,885)	2	(771)	75,868

Net value	31 December 2016	31 December 2017	Change
(EUR / 000)			
Land	4,535	4,503	(32)
Industrial buildings	23,513	20,541	(2,972)
Plant and machinery	5,818	6,362	544
Industrial and commercial equipment	1,582	1,321	(261)
Other assets	952	896	(56)
Assets in progress and payments on account	531	1,940	1,409
Total	36,931	35,563	(1,368)

Note that during 2017, impairments of EUR 1,916 thousand were made for loss of value of buildings. These assets were not subject to any impairment in 2018, while fluctuations in exchange rates had a negative impact of EUR 8 thousand.

The biggest changes during the year related to:

- investment of EUR 2,623 thousand in production plant and equipment in the Group's Italian plants, and of EUR 737 thousand in other subsidiaries;
- investments to upgrade the industrial buildings of the Group’s Italian plants, which totalled approximately EUR 2,917 thousand, and EUR 403 thousand in other subsidiaries;
- investments related to the renewal of electronic office machines and IT equipment in the Parent Company amounting to EUR 549 thousand.

Mortgages on owned buildings amounted to around EUR 36 million, for bank loans relating to property in Provaglio d'Iseo. This obligation was extinguished on 1 October 2018.

The increases in the historical value of *“Intangible assets”*, amounting to EUR 7,475 thousand in 2018, include EUR 172 thousand linked to the capitalisation of internal costs (EUR 16 thousand in 2017).

16. Shareholdings valued at equity

Description		31 December 2018	31 December 2017	Change
(EUR / 000)				
Ensun S.r.l.	*Shareholding*	*50.00%*	*50.00%*	
Via Stacca, 1	Investment value	1,451	1,451	0
Rodengo Saiano (BS)	Adjustment provision	(501)	(518)	17
	Net value	950	933	17
Axel S.r.l.	*Shareholding*	*15.00%*	*15.00%*	
Via Dandolo, 5	Investment value	137	137	0
Varese (VA)	Adjustment provision	(71)	1	(72)
	Net value	66	138	(72)
Total		1,016	1,071	

Changes in the adjusted provision pertain to the results achieved by the corresponding companies.

17. Equity investments in other companies

"*Equity investments in other companies*" totalled EUR 1,790 thousand, representing a change of EUR 216 thousand compared with the figure at 31 December 2017. The balance breaks down as follows:

(EUR / 000)	Shareholding	31 December 2018	31 December 2017	Change
Colombera S.p.A.	16.56%	1,416	1,416	0
Woojin Plaimm Co Ltd	2.00%	159	159	0
Inn. Tec.Srl	n.a.	0	0	0
UBI Banca S.p.A.	n.s.	203	203	0
Other	-	28	28	0
Adjustment provision	-	(16)	200	(216)
Total		1,790	2,006	(216)

The equity investments in Colombera S.p.A. and those summarised under the item "Other" are valued at cost, as specified in note 11 "*Financial instruments: disclosures pursuant to IFRS 7*".

Equity investments are classed as held for sale and are recognised at fair value, derived from the stock market quotation, for Woojin Machinery Co. Ltd. (Seoul Stock Exchange) and for UBI Banca S.p.A. (Italian Stock Exchange).

The adjustment provision is due to the fair value adjustment and breaks down as follows:

(EUR / 000)	Shareholding	31 December 2018	31 December 2017	Change
Colombera S.p.A.	16.56%			0
Woojin Plaimm Co Ltd	2.00%	147	345	(198)
Inn. Tec.Srl	n.a.			0
UBI Banca S.p.A.	n.s.	(163)	(145)	(18)
Other	-			0
Total		(16)	200	(216)

18. Receivables and other non-current assets

"*Receivables and other non-current assets*" are made up of guarantee deposits paid over by Group companies and show a balance of EUR 83 thousand, compared with EUR 89 thousand last year.

Description	**31 December 2018**	**31 December 2017**	**Change**
(EUR / 000)			
Guarantee deposits	83	89	(6)
Total	**83**	**89**	**(6)**

19. Net working capital

Net working capital totalled EUR 32,055 thousand, compared to EUR 30,621 thousand on 31 December 2017, and breaks down as follows:

(EUR / 000)	**31 December 2018**	**31 December 2017**	**Change**
Inventories	22,978	20,264	2,714
Trade receivables	29,808	29,386	422
Trade payables	(20,731)	(19,029)	(1,702)
Net amount	**32,055**	**30,621**	**1,434**

Please see the Report on Operations for more details on net working capital.

The value of "Inventories" on 31 December 2018 is equal to EUR 22,978 thousand, up by EUR 2,714 thousand over 31 December 2017.

The balance breaks down as follows:

(EUR / 000)	**31 December 2018**	**31 December 2017**	**Changes**
Raw materials, consumables and supplies	13,648	12,095	1,553
Provision for impairment of raw materials	*(2,903)*	*(3,406)*	503
Work in progress and semi-finished products	7,598	7,406	192
Provision for impairment of work in progress	*(710)*	*(1,280)*	570
Finished products and goods for resale	6,944	7,802	(858)
Provision for impairment of finished products	*(1,599)*	*(2,353)*	754
Total	**22,978**	**20,264**	**2,714**

The increase in inventories is attributable to the increase in raw materials stocks in response to growth of revenues and the increase in stocks of semi-products in response to customers' requirements.

The economic impact of the increased inventories amounts to EUR 2,839 thousand, as the average exchange rate for the period is used for the economic reporting of events.

The obsolescence and slow moving inventories fund was adjusted according to need in 2018, through specific provisions of EUR 2,114 thousand not including amounts released (as compared to EUR 2,940 thousand in 2017). Movements in 2018 are shown below:

(EUR / 000)	31 December 2017	Provisions	Uses	Releases	Exchange rate differences	31 December 2018
Provision for inventory write-down	**7,039**	**2,293**	**(3,891)**	**(179)**	**(50)**	**5,212**

"*Trade receivables*" amount to EUR 29,808 thousand, as compared to EUR 29,386 thousand at 31 December 2017, an increase of EUR 422 thousand, primarily due to increased revenues in the period; they may be broken down as follows:

(EUR / 000)	31 December 2018	31 December 2017	Change
Receivables from customers	32,214	32,288	(74)
Provision for doubtful receivables	*(2,406)*	*(2,902)*	496
Net amount	**29,808**	**29,386**	**422**

This includes receivables subject to recourse factoring which the Parent Company has transferred to a leading factoring company for a total amount of EUR 36 thousand (EUR 44 thousand at 31 December 2017).

Receivables were adjusted to their estimated realisable value through a specific provision for write-down of doubtful receivables, calculated on the basis of an examination of individual debtor positions and taking into account past experience in each specific line of business and geographical region, as required by IFRS 9. The provision as at 31 December 2018 represents a prudential estimate of the current risk, and registered the following changes:

(EUR / 000)	31 December 2017	Provisions	Uses	Releases	Exchange rate differences	31 December 2018
Provision for doubtful receivables	**2,902**	**535**	**(409)**	**(588)**	**(34)**	**2,406**

Changes in the provision at 31 December 2017 were by contrast as follows:

(EUR / 000)	31 December 2016	Provisions	Uses	Releases	Exchange rate differences	31 December 2017
Provision for doubtful receivables	**4,384**	**313**	**(1,632)**	**(10)**	**(154)**	**2,902**

The value of use of the fund includes amounts covering losses on unrecoverable receivables. The Group monitors the situation of the receivables most at risk and initiates the appropriate legal action. The book value of trade receivables is considered to approximate to their fair value.

There is no significant concentration of sales to individual customers: this phenomenon remains below 10% of Group revenues.

"*Trade payables*" came to EUR 20,731 thousand compared with EUR 19,029 thousand at 31 December 2017.

It breaks down as follows:

(EUR / 000)	31 December 2018	31 December 2017	Change
Payables to suppliers	16,793	15,528	1,265
Payables to suppliers for invoices to be received	3,544	3,158	386
Payments on account received from customers	394	343	51
Total	**20,731**	**19,029**	**1,702**

The increase in trade payables is attributable to the increase in investments made in 2018 and to the increase in purchases of materials for both inventories and services.

20. Other receivables and assets

"*Other assets*" totalled EUR 3,561 thousand, compared with EUR 4,859 thousand at 31 December 2017. The item breaks down as follows:

Description	31 December 2018	31 December 2017	Change
(EUR / 000)			
Insurance	24	19	5
Rents and leasing	13	14	(1)
Services and maintenance	324	461	(137)
Receivables from employees	35	40	(5)
Advance payments to suppliers	201	251	(50)
Other tax receivables	1,752	2,696	(944)
Other	1,212	1,378	(166)
Total	**3,561**	**4,859**	**(1,298)**

The decrease is mainly related to the VAT receivable, included in "Other tax receivables"; the carrying value of "Other current assets" is considered to be approximately the fair value.

21. Current tax receivables and payables

At 31 December 2018 "*Current tax receivables*" amounted to EUR 1,510 thousand, higher than the amount at 31 December 2017 of EUR 668 thousand. The balance breaks down as follows:

Description	31 December 2018	31 December 2017	Change
(EUR / 000)			
IRES (corporate income tax)	250	-	250
IRAP (regional production tax)	487	-	487
Foreign tax receivables	773	668	105
Total	**1,510**	**668**	**842**

The balance of *"Current tax payables"* totalled EUR 1,653 thousand at 31 December 2018, down by EUR 849 thousand compared to the balance of EUR 2,502 thousand at 31 December 2017, and breaks down as follows:

Description	31 December 2018	31 December 2017	Change
(EUR / 000)			
IRES (corporate income tax)	548	287	261
IRAP (regional production tax)	491	104	387
Foreign tax payables	614	2,111	(1,497)
Total	**1,653**	**2,502**	**(849)**

The decrease in foreign tax payables is attributable to the taxes booked in the last quarter of 2017 for taxes on previous years, paid in the first quarter of 2018.

22. Operating assets held for sale

"*Operating assets held for sale*" include assets related to the photovoltaic business know-how, in relation to which the terms of the sale were being established. Net profit (loss) from assets held for sale in the first half of 2018 was negative by a total of EUR 875 thousand, and included EUR 1,214 thousand in impairment and the corresponding taxes, positive by EUR 339 thousand. This represents the write-off of assets pertaining to know-how in the photovoltaic business, in relation to which negotiations had been under way for sale. When the potential buyers announced that they did not intended to exercise their purchase option, the directors opted to write the asset off entirely.

23. Net financial position

The table below shows a breakdown of the net financial position:

(EUR / 000)	31 December 2018	31 December 2017	Change
Cash and cash equivalents and current financial receivables	18,043	24,006	(5,963)
Financial assets for derivatives	19	56	(37)
Non-current financial assets	126	166	(40)
Non-current financial payables	(11,864)	(13,933)	2,069
Current financial payables	(10,817)	(14,999)	4,182
Financial liabilities for derivatives	(28)	(76)	48
Total	**(4,521)**	**(4,780)**	**259**

The following table breaks down the net financial position by maturity:

(EUR / 000)	31 December 2018	31 December 2017	Change
A. Cash on hand	26	34	(8)
B. Cash in bank deposits	18,017	23,972	(5,955)
D. Cash and cash equivalents (A) + (B)	**18,043**	**24,006**	**(5,963)**
Financial liabilities for derivatives	(28)	(76)	48
Financial assets for derivatives	19	56	(37)
E. Fair value hedging derivatives	(9)	(20)	11
F. Current portion of long-term debt	(7,069)	(9,462)	2,393
G. Other current financial payables	(3,748)	(5,537)	1,789
H. Total current financial payables (F) + (G)	**(10,817)**	**(14,999)**	**4,182**
I. Total current payables (E) + (H)	**(10,826)**	**(15,019)**	**4,193**
J. Net current financial debt (I) + (D)	**7,217**	**8,987**	**(1,770)**
L. Non-current financial assets	**126**	**166**	**(40)**
M. Non-current financial debt	**(11,864)**	**(13,933)**	**2,069**
N. Net financial debt (J) + (L) + (M)	**(4,521)**	**(4,780)**	**259**
of which to minorities:	*(4,521)*	*(4,780)*	*259*

Net financial position at 31 December 2018 is negative by EUR 4,521 thousand, a slight improvement over 31 December 2017, when it was negative by EUR 4,780 thousand.

The change in net financial position is mainly due to the positive cash flow from typical operations (EUR 18,988 thousand), partially mitigated by technical investments (EUR 9,438 thousand), by distribution of dividends (EUR 5,040 thousand), and by payment of taxes (EUR 3,744 thousand).

Please see the Report on Operations for further details on changes in financial operations during the year.

Free cash flow was positive by EUR 9,610 thousand, compared to a positive flow of EUR 15,982 thousand in 2017. The decrease is attributable to increased investment in the year 2018.

Cash and cash equivalents amounted to EUR 18,043 thousand at 31 December 2018, compared with EUR 24,006 thousand at 31 December 2017.

It breaks down as follows:

(EUR / 000)	31 December 2018	31 December 2017	Change
Cash in bank deposits	18,011	23,913	(5,902)
Cash	26	34	(8)
Other cash	6	59	(53)
Total	**18,043**	**24,006**	**(5,963)**

The technical forms used as at 31 December 2018 are shown below:

- maturities: payable on presentation;
- counterparty risk: deposits are made care of leading banks;
- country risk: deposits are held in countries in which Group companies have their registered offices.

Current financial payables decreased by EUR 4,182 thousand at 31 December 2018 compared with 2017, and break down as follows:

(EUR / 000)	31 December 2018	31 December 2017	Change
Current portion of debt	7,069	9,462	(2,393)
Current overdrafts	3,727	5,490	(1,763)
Factoring	21	39	(18)
Other payables	-	8	(8)
Total	**10,817**	**14,999**	**(4,182)**

"Factoring", which decreased by EUR 18 thousand over the amount in 2017, comprises payables to factoring companies, for the payment extension period following the original maturity of payables with certain suppliers, for which the Parent Company has accepted non-recourse assignment.

Bank overdrafts at 31 December 2018 totalled EUR 3,727 thousand, compared to a balance at 31 December 2017 of EUR 5,490 thousand. The item relates almost entirely to Gefran S.p.A. and has the following characteristics:

- for use of credit lines payable on demand, the overall annual interest rate is in the annual 2.5%-5.7% range;
- for use of credit facilities on trade receivables, repayable on the maturity of these receivables, the overall annual interest rate is in the 0.5%-1.0% range.

Non-current financial payables break down as follows:

Bank	31 December 2018	31 December 2017	Change
BNL	-	666	(666)
Banca Pop. Sondrio	-	195	(195)
Banca Pop. Emilia Romagna	255	1,272	(1,017)
Mediocredito	1,000	3,000	(2,000)
Unicredit	3,600	4,800	(1,200)
BNL	3,000	4,000	(1,000)
Banca Pop. Emilia Romagna	4,009	-	4,009
Total	**11,864**	**13,933**	**(2,069)**

The loans listed in the table are all floating-rate contracts entered into by Gefran S.p.A., and have the following characteristics:

Bank	Amount disbursed (€/000)	Signing date	Balance at 31 December 2018	Of which within 12 months	Of which beyond 12 months	Interest rate	Maturity	Repayment method
BNL	EUR 3,000	19/12/2014	667	667	-	Euribor 6m + 1.35%	18/12/2019	half-yearly
Banca Pop. Sondrio	EUR 3,000	23/12/2014	195	195	-	Euribor 3m + 2.00%	22/12/2018	quarterly
Banca Pop. Emilia Romagna	EUR 4,000	06/08/2015	1,271	1,016	255	Euribor 3m + 1.25%	03/02/2020	quarterly
Mediocredito	EUR 10,000	07/08/2015	3,000	2,000	1,000	Euribor 3m + 1.35%	30/06/2020	quarterly
Unicredit	EUR 6,000	14/11/2017	4,800	1,200	3,600	Euribor 3m + 0.90%	30/11/2022	quarterly
BNL	EUR 5,000	23/11/2017	4,000	1,000	3,000	Euribor 3m + 0.85%	23/11/2022	quarterly
Banca Pop. Emilia Romagna	EUR 5,000	28/11/2018	5,000	991	4,009	Euribor 3m + 0.75%	30/11/2023	quarterly
Total			**18,933**	**7,069**	**11,864**			

Note that on 1 October 2018, when the Centrobanca loan was paid off, the mortgage of EUR 36 million on the buildings in Provaglio d'Iseo was cancelled.

Three of the loans listed above are governed by covenants, specifically:

a) the EUR 3,000 thousand BNL loan taken out on 19 December 2014 and falling due in 2019 is subject to two financial covenants:

- consolidated net financial debt to equity ratio of ≤ 0.7;
- Shareholders' Equity and Total Consolidated Assets > 30%.

If both ratios are exceeded, the lending bank will have the right to request early repayment.

b) the Banca Popolare Emilia Romagna loan of EUR 4,000 thousand, taken out on 6 August 2015, is subject to the financial covenant:

- consolidated net financial debt to EBITDA ratio of ≤ 3.5.

If the ratio is exceeded, the lending bank will have the right to request early repayment.

c) the Mediocredito loan of EUR 10,000 thousand, taken out on 7 August 2015, is subject to the financial covenants:

- consolidated net financial debt to equity ratio of ≤ 0.7;
- consolidated net financial debt to EBITDA ratio of ≤ 3.5.

A number of outstanding loan contracts include other covenants, in line with market practices, that place limits on the possibility of issuing new real guarantees and conducting extraordinary transactions.

The Administration, Finance and Controlling Director is responsible for checking these contractual restrictions every quarter: the ratios calculated on the data at 31 December 2018 are fully observed and the loans have been distributed in the table of the maturities according to the forms originally envisaged by the agreements.

Management considers that the credit lines currently available, as well as the cash flow generated by current operations, will enable Gefran to meet its financial requirements resulting from investment activities, working capital management and repayment of debt at its natural maturity.

Financial assets for derivatives totalled EUR 19 thousand at 31 December 2018 and consist of the positive fair value recorded at the year-end of certain CAP contracts entered into by the Parent Company to hedge interest rate risks. **Financial liabilities for derivatives** totalled EUR 28 thousand, owing to the negative fair value of certain IRS contracts, also entered into by the Parent Company to hedge interest rate risks.

To mitigate the financial risk associated with floating-rate loans, which could arise in the event of an increase in the Euribor, the Group decided to hedge its variable rate loans through *Interest Rate Cap contracts*, as set out below:

Bank *(Euro/000)*	**Notional principal**	**Signing date**	**Notional as at 31 December 2018**	**Derivative**	**Fair Value at 31 December 2018**	**Long position rate**	**Short position rate**
BNL	EUR 3,000	19/12/2014	667	CAP	0	Strike Price 0.20%	Euribor 6m
Unicredit	EUR 6,000	14/11/2017	4,800	CAP	10	Strike Price 0%	Euribor 3m
BNL	EUR 5,000	23/11/2017	4,000	CAP	9	Strike Price 0%	Euribor 3m
Total financial assets for derivatives – interest rate risk					**19**		

The Group has also taken out IRS (Interest Rate Swap) contracts, as set out in the table below:

Bank (Euro/000)	**Notional principal**	**Signing date**	**Notional as at 31 December 2018**	**Derivative**	**Fair Value at 31 December 2018**	**Long position rate**	**Short position rate**
Banca Pop. Emilia Romagna	EUR 4,000	01/10/2015	1,271	IRS + Floor	(16)	Fixed 0.15%	Euribor 3m
Intesa	EUR 10,000	05/10/2015	3,000	IRS	(12)	Fixed 0.16%	Euribor 3m
Total financial liabilities for derivatives – interest rate risk					**(28)**		

At 31 December 2018, no derivatives have been taken out to hedge exchange rate risk.

All the contracts described above are booked at fair value:

	at 31 December 2018		**at 31 December 2017**	
(EUR/000)	**Positive fair value**	**Negative fair value**	**Positive fair value**	**Negative fair value**
Interest rate risk	19	(28)	56	(76)
Total cash flow hedge	**19**	**(28)**	**56**	**(76)**

All derivatives were tested for effectiveness, with positive outcomes.

In order to support its operations, the Group has various credit lines granted by banks and other financial institutions available, mainly in the form of invoice factoring credit lines, cash flexibility and mixed credit lines for a total of EUR 37,489 thousand. Overall use of these lines at 31 December 2018 totalled EUR 3,746 thousand, with a residual available amount of EUR 33,742 thousand.

No fees are due in the event that these lines are not used.

24. Shareholders’ equity

Consolidated *“Shareholders’ equity”* breaks down as follows:

(EUR / 000)	**31 December 2018**	**31 December 2017**	**Change**
Portion pertaining to the Group	72,814	69,911	2,903
Portion pertaining to minority interests	-	-	-
Net amount	**72,814**	**69,911**	**2,903**

The Group’s portion of Shareholders’ Equity at 31 December was EUR 72,814 thousand, up by EUR 2,903 thousand over 31 December 2017. The most significant changes pertained to the positive annual result, amounting to EUR 8,151 thousand, partially absorbed by distribution of dividends on the 2017 annual result totalling EUR 5,040 thousand.

In consideration of the result for the year, the Board of Directors proposed, subject to approval of the shareholders’ meeting, to pay a dividend of EUR 0.32 per unrestricted share.

Share capital was EUR 14,400 thousand, divided into 14,400,000 ordinary shares, with a nominal value of EUR 1 each.

At 31 December 2018, Gefran S.p.A. held 27,220 shares (0.2% of the total), whereas on 31 December 2017 it did not hold any own shares.

The company owns some of its own shares, and this situation remained the same as of 31 December 2018.

The Company has not issued convertible bonds.

The type and purpose of the equity reserves can be summarised as follows:

- the share premium reserve, amounting to EUR 19,046 thousand, which is a capital reserve that includes the amounts received by the Company for the issue of shares at a price higher than their nominal value;
- the legal reserve, amounting to EUR 2,880 thousand, which is populated by the mandatory allocation of an amount not less than one-twentieth of annual net profits, until an amount equal to one-fifth of the share capital has been reached (which has already occurred);
- share fair value measurement reserve (negative by EUR 15 thousand), which includes effects of the measurement of shares at fair value recognised directly under shareholders’ equity;
- the cash flow hedge reserve, which includes effects recognised directly under shareholders’ equity deriving from the measurement at fair value of financial derivatives to hedge cash flows from changes in interest rates and exchange rates, and is positive at EUR 3 thousand;
- the extraordinary reserve (EUR 9,255 thousand), which is recognised under “other reserves”;
- the merger surplus reserve (EUR 858 thousand), which was set up in 2006 after the merger by incorporation of Siei S.p.A. and Sensori S.r.l. and is included under "other reserves";
- the reserve for conversion to IAS/IFRS (EUR 137 thousand), which is included under “other reserves”;
- the employee benefits valuation reserve pursuant to IAS 19, which is negative at EUR 422 thousand and is included under “other reserves”;
- Reserves for own shares in portfolio, which are deducted from the Company's shareholders' equity (EUR 156 thousand) and are classed under "other reserves".

For details on the changes in equity reserves during the year, see the schedule showing changes in shareholders' equity.

Changes in the “Reserve for the measurement of securities at fair value” are shown in the table below:

(EUR / 000)	**31 December 2018**	**31 December 2017**	**Change**
Balance at 1 January	198	151	47
UBI Banca S.p.A. shares	(18)	16	(34)
Woojin Plaimm Co Ltd shares	(198)	33	(231)
Tax effect	3	(2)	5
Net amount	**(15)**	**198**	**(213)**

Changes in the *“Reserve for the measurement of derivatives at fair value”* are shown in the table below.

(EUR / 000)	**31 December 2018**	**31 December 2017**	**Change**
Balance at 1 January	(9)	(216)	207
Change in fair value of derivatives	15	204	(189)
Tax effect	(3)	3	(6)
Net amount	**3**	**(9)**	**12**

25. Earnings per share

Basic and diluted earnings per share are shown in the table below:

	2018	**2017**
Basic earnings per share		
- Profit (loss) for the period pertaining to the Group *(EUR /000)*	8,151	6,864
- Average No. of ordinary shares *(No./000,000)*	14.40	14.36
- Basic earnings per ordinary share	0.566	0.478
Diluted earnings per share		
- Profit (loss) for the period pertaining to the Group *(EUR/000)*	8,151	6,864
- Average no. of ordinary shares *(no./000,000)*	14.40	14.36
- Basic earnings per ordinary share	0.566	0.478
Average number of ordinary shares	**14,395,463**	**14,362,101**

26. Employee benefits

Liabilities relating to *"Employee benefits"* decreased by EUR 120 thousand and changed as follows:

Description	31 December 2017	Increases	Decreases	Discounting	Other changes	Exchange rate differences	31 December 2018
(EUR / 000)							
Post-employment benefits	4,419	99	(353)	(118)	-	1	4,048
Non-competition agreements	673	-	(89)	(108)	-	-	476
Total	**5,092**	**99**	**(442)**	**(226)**	**0**	**1**	**4,524**

Changes relating to 2017 were as follows:

Description	31 December 2016	Increases	Decreases	Discounting	Other changes	Exchange rate differences	31 December 2017
(EUR / 000)							
Post-employment benefits	5,212	71	(815)	(48)	-	(1)	4,419
Non-competition agreements	-	357	(8)	324	-	-	673
Total	**5,212**	**428**	**(823)**	**276**	**0**	**(1)**	**5,092**

The item mainly comprises the post-employment benefits reserve for employees of the Group's Italian companies. The change during the year was due to an increase of EUR 99 thousand, resulting from disbursements to employees of EUR 353 thousand and from the discounting of the liability existing at 31 December 2018 pursuant to IAS, which was positive and equal to EUR 118 thousand (interest costs of EUR 19 thousand and actuarial gains of EUR 99 thousand).

"*Non-competition agreements*" refer to the amount of the obligation to certain employees, all of Italian subsidiaries, who have signed such agreements to protect the company from any competitive activities. The effect of time-discounting of this obligation is positive, by EUR 108 thousand, as a result of interest cost (EUR 10 thousand) and actuarial gain (EUR 118 thousand).

Pursuant to IAS 19, the post-employment benefit reserve and the non-competition agreements were valued using the "benefits accrued" method on the basis of the "Projected unit credit" (PUC) criterion.

The post-employment benefit reserve valuation breaks down as follows:

- projection to the time of payment of post-employment benefit already accrued as of 31.12.2006 and revalued as of the valuation date, for each employee;
- determination, for each employee, of probabilized payment of the above post-employment benefit which must be made by the company if the employee leaves the company due to dismissal, resignation, inability, death, or retirement, or in response to requests for advance payment;
- time-discounting of each probabilized payment as of the valuation date.

In greater detail, the technical foundations employed are:

Demographic assumptions	Managers	Non-managers
Probability of death	ISTAT 2014 Mortality tables	ISTAT 2014 Mortality tables
Probability of inability	INPS tables divided by age and gender	INPS tables divided by age and gender
Probability of retirement	100% upon reaching AGO requirements	100% upon reaching AGO requirements

Hypothetical turnover and advances	**Managers**	**Non-managers**
Probability of advances:	2.1%	2.1%
Probability of resignation - up to 50 years of age - subsequently	 4.0% Nil	 2.0% Nil

Financial assumptions	**Managers**	**Non-managers**
Discount rate	1.57%	1.57%
Annual inflation rate	1.5%	1.5%
Annual rate of increase of post-employment benefit	2.625%	2.625%

However, this is the method applied to valuing non-competition agreements:

- projection for each employee as of the valuation date, of non-competition agreements already set aside and future quotas of non-competition agreements which will be accrued up to the date of payment;
- determination, for each employee, of probabilized payment of post-employment benefit that would have to be paid by the company in the event that the employee should be dismissed or retire;
- time-discounting of each probabilized payment as of the valuation date.

In greater detail, the technical foundations employed are:

Demographic assumptions	
Probability of death	RG48 mortality tables published by General State Accounting Department
Probability of retirement	100% upon reaching AGO requirements
Probability of voluntary resignation of Executives and Management	4.00% up to age 50 0.005% after age 50

Financial assumptions	
Real annual increase	1.5%
Annual time-discount rate	1.57%
Annual inflation rate	1.5%

The sensitivity analysis carried out on the assumptions of 1% and 0.5% changes in the discount rate used is shown below:

Description	**31 December 2018**		**31 December 2017**	
(EUR / 000)	-1.0%	1.0%	-1.0%	1.0%
Post-employment benefit reserve	(377)	368	(461)	413
Non-competition agreements	(13)	13	(32)	29
Total	(390)	381	(493)	442

Description	31 December 2018		31 December 2017	
(EUR / 000)	-0.5%	0.5%	-0.5%	0.5%
Post-employment benefit reserve	(184)	189	(224)	212
Non-competition agreements	(7)	6	(16)	15
Total	(191)	195	(240)	227

27. Current and non-current provisions

"Non-current provisions" decreased by EUR 29 thousand compared with 31 December 2017, and break down as follows:

(EUR / 000)	31 December 2017	Provisions	Uses	Releases	Exchange rate differences	31 December 2018
Gefran S.p.A. risk provisions						
- for legal disputes	74	-	-	(74)	-	-
- other provisions	85	-	-	-	-	85
Gefran Brasil risk provisions						
- for legal disputes	3	-	-	(3)	-	-
Gefran France risk provisions						
- for restructuring	2	62	-	-	-	64
Gefran GmbH risk provisions						
- for restructuring	111	-	(111)	-	-	-
Gefran Inc risk provisions						
- for restructuring	-	17	(17)	-	-	-
Sensormate risk provisions						
- for restructuring	-	98	-	-	3	101
Gefran Siei Drives Technology risk provisions						
- for restructuring	4	-	(4)	-	-	-
Total	**279**	**177**	**(132)**	**(77)**	**3**	**250**

The item *"Legal disputes"* includes the provisions made for liabilities related to the settlement of pending disputes regarding claims from customers, some employees and distributors.

"Current provisions" totalled EUR 1,424 thousand at 31 December 2018, down by EUR 49 thousand compared with 31 December 2017, and break down as follows:

(EUR / 000)	31 December 2017	Provisions	Uses	Releases	Exchange rate differences	31 December 2018
FISC	155	28	(114)	-	-	69
Product warranty	1,293	722	(409)	(278)	2	1,330
Other provisions	25	-	-		-	25
Total	**1,473**	**750**	**(523)**	**(278)**	**2**	**1,424**

The item refers to envisaged charges for repairs on products under warranty, equal to EUR 1,330 thousand, increased by EUR .... thousand over 31 December 2017; at year-end, the adequacy of the provision was checked, with a positive outcome.

The *"FISC"* item mainly includes contractual treatments existing at the German subsidiaries Gefran Deutschland GmbH and Siei Areg.

28. Other payables and liabilities

"*Other payables and liabilities*" at 31 December 2018 came to EUR 12,445 thousand, compared with EUR 12,579 thousand at 31 December 2017. It breaks down as follows:

(EUR / 000)	31 December 2018	31 December 2017	Change
Payables to personnel	6,161	5,856	305
Social security payables	2,995	2,753	242
Accrued interest on loans	10	40	(30)
Payables to directors and statutory auditors	458	290	168
Other accruals	980	1,696	(716)
Other payables for taxes	1,502	1,531	(29)
Other current liabilities	339	413	(74)
Total	**12,445**	**12,579**	**(134)**

The item *"Other accruals"* is down by EUR 716 thousand over 31 December 2017 due to interest on foreign taxes pertaining to previous years, set aside in the fourth quarter of 2017 and paid in the first quarter of 2018.

29. Revenues from product sales

"Revenues from product sales" totalled EUR 135,126 thousand in 2018, an increase of EUR 7,663 thousand on 2017. The following table provides a breakdown of sales and service revenues by business:

Sector	31 December 2018	31 December 2017	Change	%
(EUR / 000)				
Sensors	32,596	57,787	(25,191)	-43.6%
Automation components	61,379	32,167	29,212	90.8%
Motion control	41,151	37,509	3,642	9.7%
Total	**135,126**	**127,463**	**7,663**	**6.0%**

The amount shown under total revenues includes service revenues of EUR 3,146 thousand (EUR 2,965 thousand in 2017); see the Report on Operations for comments on the performance of the various businesses and geographical regions.

30. Other operating revenues and income

"Other operating revenues and income" total EUR 445 thousand and compared with revenues of EUR 1,176 thousand in 2017, as shown in the following table:

Description	31 December 2018	31 December 2017	Change	%
(EUR / 000)				
Recovery of company canteen expenses	38	19	19	n.s.
Insurance reimbursements	19	3	16	n.s.
Rental income	146	0	146	n.s.
Fees	5	(3)	8	n.s.
Government grants	84	88	(4)	-4.5%
Other income	153	1,069	(916)	-85.7%
Total	**445**	**1,176**	**(731)**	**-62%**

The most significant changes concern "*Rent payable*", up by EUR 146 thousand, and *"Other income*", which decreased by EUR 916 thousand and includes charges for R&D developments specifically requested by customers.

31. Costs of raw materials and accessories

"Costs of raw materials and accessories" came to EUR 50,081 thousand, compared with EUR 43,214 thousand at 31 December 2017. They break down as:

Description	31 December 2018	31 December 2017	Change
(EUR / 000)			
Raw materials and accessories	50,081	43,214	6,867

This item increased 16% during the year as a result of increased revenues and inventory dynamics, already described.

32. Service costs

"Service costs" totalled EUR 23,302 thousand, an increase of EUR 21,646 thousand over the value at the end of 2017, and are broken down as follows:

Description	31 December 2018	31 December 2017	Change
(EUR / 000)			
Services	21,378	19,695	1,683
Use of third-party assets	1,924	1,951	(27)
Total	**23,302**	**21,646**	**1,656**

As stated in the three-year plan, the increase in costs reflects actions supporting growth and refers to increased variable industrial costs linked with growth in revenues and greater use of resources in advertising and trade fair projects.

The increased cost of services also includes the Parent Company's new governance, redefined in April 2018, which led to an additional EUR 361 thousand in costs as of 31 December 2018 as compared to the previous year.

33. Personnel costs

"Personnel costs" totalled EUR 45,897 thousand, up EUR 1,597 thousand compared to 31 December 2017, and are broken down as follows:

Description	31 December 2018	31 December 2017	Change
(EUR / 000)			
Salaries and wages	34,936	32,587	2,349
Social security contributions	8,546	8,592	(46)
Post-employment benefit reserve	2,014	2,484	(470)
Other costs	401	637	(236)
Total	**45,897**	**44,300**	**1,597**

The increase is attributable to the addition of new employees to support the Group's growth.

"Social security contributions" include costs for defined contribution plans for management (Previndai pension plan) amounting to EUR 57 thousand (EUR 64 thousand at 31 December 2017).

The item "Other costs", down EUR 236 thousand, includes, among other items, restructuring costs resulting from reorganisation of the Group's subsidiaries.

The average number of Group employees in 2018 is shown below:

	31 December 2018	31 December 2017	Change
Managers	16	19	(3)
Clerical staff	487	468	19
Manual workers	248	244	4
Total	**751**	**731**	**20**

The average number of employees grew by 20 over 2017; the precise number at the end of 2018 was 771, an increase of 41 over 31 December 2016. For more information, refer to the "Human Resources" section of the Report on Operations.

34. Miscellaneous management costs and operating income

The balance of *"Miscellaneous management costs"* was EUR 786 thousand, in line with the figure for 31 December 2017. The breakdown is as follows:

Description	31 December 2018	31 December 2017	Change
(EUR / 000)			
Capital losses on the sale of assets	(45)	(22)	(23)
Losses on other receivables	(88)	-	(88)
Other taxes and duties	(435)	(505)	70
Membership fees	(203)	(207)	4
Miscellaneous	(15)	(52)	37
Total	(786)	(786)	-

"Other operating income" amounted to EUR 236 thousand, compared with EUR 570 thousand in 2017. It breaks down as follows:

Description	31 December 2018	31 December 2017	Change
(EUR / 000)			
Capital gains on the sale of assets	37	56	(19)
Collection of doubtful receivables	10	22	(12)
Release of risk provisions	74	401	(327)
Miscellaneous	115	91	24
Total	236	570	(334)

The change relates to the release of provisions during previous years, totalling EUR 74 thousand at 31 December 2018 and EUR 401 in 2017.

35. Depreciation/amortisation

Depreciation and amortisation amounted to EUR 6,315 thousand, compared with EUR 7,890 thousand recorded in the same period in the previous year. These items include:

Description	31 December 2018	31 December 2017	Change
(EUR / 000)			
Amortisation	2,319	2,324	(5)
Depreciation	3,996	5,566	(1,570)
Total	6,315	7,890	(1,575)

The drop in amortisation and depreciation, which totalled EUR 1,575 thousand, is attributable in part to adjustment of the value of buildings to reflect fair value in the year 2017, amounting to EUR 1,916 thousand.

The breakdown of depreciation and amortisation by business is summarised in the table below:

Description	31 December 2018	31 December 2017	Change
(EUR / 000)			
Sensors	2,509	3,072	(563)
Automation components	1,966	2,337	(371)
Motion control	1,840	2,481	(641)
Total	6,315	7,890	(1,575)

36. Gains (losses) from financial assets/liabilities

The item had a negative balance of EUR 501 thousand; this compares with a negative balance of EUR 2,400 thousand in 2017, and breaks down as follows:

Description	31 December 2018	31 December 2017	Change
(EUR / 000)			
Cash management			
Income from cash management	59	71	(12)
Other financial income	121	54	67
Medium/long-term interest	(184)	(439)	255
Short-term interest	(15)	(25)	10
Factoring interest and fees	1	(1)	2
Other financial charges	(111)	(1,084)	973
Total income (charges) from cash management	**(129)**	**(1,424)**	**1,295**
Currency transactions			
Exchange gains	511	1,266	(755)
Positive currency valuation differences	845	231	614
Exchange losses	(1,123)	(1,618)	495
Negative currency valuation differences	(605)	(855)	250
Total other income (charges) from currency transactions	**(372)**	**(976)**	**604**
Gains (losses) from financial assets/liabilities	**(501)**	**(2,400)**	**1,899**

"*Cost of cash management*" was down by a total of EUR 1,295 thousand over the balance at the end of 2017, thanks to a reduction in interest payable as a result of the shrinkage of average spread on loans. "*Other financial charges*" in 2017 included charges on late payment of foreign taxes totalling EUR 1,049 thousand.

The balance of the differences on the currency transactions has a negative value of EUR 372 thousand, compared with a negative value of EUR 976 thousand recorded on 31 December 2017. The change is a result of dynamics in the Euro exchange rate.

37. Gains (losses) from shareholdings valued at equity

Description	31 December 2018	31 December 2017	change
(EUR / 000)			
Result of companies valued at equity	(55)	156	(211)
Total	**(55)**	**156**	**(211)**

Losses from shareholdings valued at equity were EUR 55 thousand, as compared to gains of EUR 156 thousand in the year 2017. The change pertains to the results of Axel S.r.l. and the Ensun Group.

38. Income taxes, deferred tax assets and deferred tax liabilities

The item "*Taxes*" was negative at EUR 2,228 thousand; this compares with a negative balance of EUR 835 thousand in 2017, and breaks down as follows:

(EUR / 000)	31 December 2018	31 December 2017	change
Current taxes			
IRES (corporate income tax)	(573)	(136)	(437)
IRAP (regional business tax)	(499)	(571)	72
Foreign taxes	(1,221)	(3,360)	2,139
Total current taxes	**(2,293)**	**(4,067)**	**1,774**
Deferred tax assets and liabilities			
Deferred tax liabilities	43	271	(228)
Deferred tax assets	(1,572)	1,568	(3,140)
Total deferred tax assets and liabilities	**(1,529)**	**1,839**	**(3,368)**
Total taxes	**(3,822)**	**(2,228)**	**(1,594)**
of which:			
Allocated to assets held for sale	339	-	339
Relating to the operative part	(4,161)	(2,228)	(1,933)
Total taxes	**(3,822)**	**(2,228)**	**(1,594)**

2018 current taxes decreased by a total of EUR 1,774 thousand over the previous year. The positive change is attributable to foreign taxes, which in 2017 included taxes on previous years totalling EUR 1,839 thousand, partially compensated by increased corporate income tax (Ires), attributable to entry of the Parent Company's taxable income for the purposes of Ires which can only partly be compensated by previous fiscal losses under current legislation.

Deferred taxes, which were on the whole negative by EUR 1,529 thousand, originated out of use of advance taxes entered on prior tax losses of the Parent Company and its American subsidiary.

See the Report on Operations for more details on deferred tax assets and liabilities.

The table below shows the reconciliation between recognised income taxes and theoretical taxes resulting from the application of the IRES tax rate in force during the year to pre-tax profit:

(EUR / 000)	31 December 2018	31 December 2017
Profit (loss) before tax	*13,187*	*8,905*
Gross profit (loss) from assets held for sale	*(1,214)*	*187*
Profit (loss) before tax	11,973	9,093
Theoretical income tax	(2,874)	(2,182)
Effect from use of losses carried forward	928	1,423
Rate effect for affiliates	(37)	(22)
Net effect of permanent differences	65	449
Net effect of permanent differences for affiliates	(123)	(872)
Net effect of temporary deductible and taxable differences	271	(793)
Effect of taxes from previous years	(25)	(1,499)
Current taxes	**(1,795)**	**(3,496)**
Income tax – deferred tax assets/liabilities	(1,483)	1,769
Recognised income taxes (excluding current and deferred IRAP)	**(3,278)**	**(1,727)**
IRAP - current taxes	(499)	(571)
IRAP – deferred tax assets/liabilities	(45)	70
Recognised income taxes (current and deferred)	**(3,822)**	**(2,228)**

For a greater understanding of the difference between tax charges recorded in the financial statements and the theoretical tax charge, it should be noted that the theoretical tax charge does not take IRAP into account, since this tax has a different taxable base from pre-tax profit and would therefore generate discrepancies from one year to the next. Theoretical taxes were therefore calculated solely by applying the current tax rate in Italy (IRES at 24%) to the pre-tax result.

The table below shows a breakdown of deferred tax assets and deferred tax liabilities for the year 2018:

(EUR / 000)	31 December 2017	Posted to the income statement	Recognised under shareholders' equity	Exchange rate differences	31 December 2018
Deferred tax assets					
Write-down of inventories	1,436	(313)	-	(3)	1,120
Write-down of trade receivables	417	(57)	-	(1)	359
Impairment of assets	535	-	-	-	535
Deductible losses to be brought forward	5,091	(1,237)	-	(9)	3,845
Exchange rate balance	-	4	-	-	4
Elimination of unrealised margins on inventories	444	74	-	-	518
Provision for product warranty risk	285	(3)	-	-	282
Provision for sundry risks	356	(40)	(69)	-	247
Fair value hedging	3	-	(1)	-	2
Total deferred tax assets	8,567	(1,572)	(70)	(13)	6,912
Deferred tax liabilities					
Exchange valuation differences	(10)	5	0	1	(4)
Other deferred tax liabilities	(637)	38	0	(24)	(623)
Total deferred taxes	(647)	43	-	(23)	(627)
Net total	7,920	(1,529)	(70)	(36)	6,285

The table below shows a breakdown of deferred tax assets and deferred tax liabilities for the year 2017:

(EUR / 000)	31 December 2016	Posted to the income statement	Recognised under shareholders' equity	Exchange rate differences	31 December 2017
Deferred tax assets					
Write-down of inventories	1,358	86	-	(8)	1,436
Write-down of trade receivables	362	56	-	(1)	417
Impairment of assets	-	535	-	-	535
Deductible losses to be brought forward	3,617	1,538	-	(64)	5,091
Exchange rate balance	8	(8)	-	-	-
Elimination of unrealised margins on inventories	534	(90)	-	-	444
Provision for product warranty risk	204	81	-	-	285
Provision for sundry risks	938	(630)	65	(17)	356
Fair value hedging	-	-	3	-	3
Total deferred tax assets	7,021	1,568	68	(90)	8,567
Deferred tax liabilities					
Exchange valuation differences	-	(10)	-	-	(10)
Other deferred tax liabilities	(1,005)	281	3	84	(637)
Total deferred taxes	(1,005)	271	3	84	(647)
Net total	6,016	1,839	71	(6)	7,920

39. Guarantees granted, commitments and other contingent liabilities

39.1 Guarantees granted

At 31 December 2018, the Group had granted guarantees on payables or commitments of third parties or subsidiaries totalling EUR 11,578 thousand, up over the figure for 31 December 2017, as summarised in the table below:

(EUR / 000)	31 December 2018	31 December 2017
Ubi Leasing	5,918	5,918
Banca Intesa	1,100	1,100
Banca Passadore	2,750	2,750
Banco di Brescia	790	790
Banca Pop. Emilia Romagna	1,020	-
Total	11,578	10,558

A surety in favour of UBI Leasing was issued for a total of EUR 5,918 thousand, expiring in 2029, to guarantee financial requirements for the construction of photovoltaic systems by BS Energia 2 S.r.l. The residual liability at 31 December 2018 guaranteed by this surety amounts to EUR 2,534 thousand (EUR 2,704 thousand at 31 December 2017).

The sureties issued to Banca Passadore and Banco di Brescia both cover the credit facilities of Ensun S.r.l. The residual liability at 31 December 2018 guaranteed by the Banca Passadore surety amounts to EUR 2,150 thousand (EUR EUR 2,750 thousand at 31 December 2017).

The amount of EUR 1,100 thousand in favour of Banca Intesa relates to a simple letter of patronage issued to guarantee the credit facilities of Elettropiemme S.r.l.

The surety issued to Banca Popolare Emilia Romagna in the fourth quarter of 2018, with an expiry of 18 months, worth EUR 1,020 thousand, guarantees lines of credit extended by banks to Gefran Drives and Motion S.r.l..

39.2 Legal proceedings and disputes

The Parent Company and certain subsidiaries are involved in various legal proceedings and disputes. It is, however, considered unlikely that the resolution of these disputes will generate significant liabilities for which provisions have not already been made.

39.3 Commitments

The principal contracts in effect concern rental of real estate, electronic machinery and company vehicles. At the reporting date, the payments still owed by the Group on these contracts amounted to EUR 3,624 thousand, all falling due within the next five years.

Note that this amount includes EUR 2,306 thousand pertaining to contracts subject to application of IFRS 16 starting on 1 January 2019; of these, EUR 2,254 thousand will be allocated to current and non-current financial payables, while EUR 52 thousand will be entered under financial charges in the Profit/(loss) for the period.

40. Dealings with related parties

In accordance with IAS 24, information relating to the Group's dealings with related parties in 2018 and in the previous year is provided below.

In compliance with Consob resolution no. 17221 of 12 March 2010, the Gefran S.p.A. Board of Directors has adopted the Regulations governing transactions with related parties, the current version of which was approved on 3 August 2017 and may be consulted online at https://www.gefran.com/it/governance , in the *"Governance"* area.

Transactions with related parties are part of normal operations and the typical business of each entity involved and are carried out under normal market conditions. There were no atypical or unusual transactions.

Noting that the economic and equity effects of consolidated infragroup transactions are eliminated in the consolidation process, the most significant transactions with other related parties are listed below. These dealings have no material impact on the Group's economic and financial structure. They are summarised in the following tables:

(EUR / 000)	Elettropiemme S.r.l.	Climat S.r.l.	B. T. Schlaepfer	Francesco Franceschetti Elastomeri S.r.l.	Total
Revenues from product sales					
2017	42	0	0	122	**164**
2018	48	0	0	0	**48**
Service costs					
2017	-57	-123	0	0	**-180**
2018	-118	-140	-65	0	**-323**

(EUR / 000)	Elettropiemme S.r.l.	Climat S.r.l.	B. T. Schlaepfer	Francesco Franceschetti Elastomeri S.r.l.	Total
Property, plant, machinery and tools					
2017	0	168	0	0	**168**
2018	0	919	0	0	**919**
Trade receivables					
2017	12	0	0	43	**55**
2018	0	0	0	0	**0**
Trade payables					
2017	2	88	0	0	**90**
2018	19	294	0	0	**313**

In accordance with internal regulations, transactions with related parties of an amount below EUR 50 thousand are not reported, since this amount was determined as the threshold for identifying material transactions.

With regard to dealings with subsidiaries, the Parent Company Gefran S.p.A. provided technical, administrative and management services as well as royalties to the Group's operating subsidiaries amounting to around EUR 2.7 million, governed by specific contracts.

Gefran S.p.A. provides a Group cash pooling service, partly through a "Zero Balance" service, which involves all the European subsidiaries.

None of the subsidiaries holds shares of the Parent Company or held them during the period.

In 2018, the Parent Company Gefran S.p.A. recognised dividends from subsidiaries amounting to EUR 2,294 thousand (EUR 2,443 thousand in 2017).

Members of the Board of Directors and the Board of Statutory Auditors and managers with strategic responsibilities were paid the following aggregate remuneration: EUR 447 thousand included in personnel costs and EUR 1,499 thousand included in service costs.

Persons of strategic importance have been identified as members of the executive Board of Directors of Gefran S.p.A. and of other Group companies, as well as executives with strategic responsibilities, generally identified as the General Manager of the sensors and components Business Unit and the Group's CFO.

41. Information pursuant to Article 149-*duodecies* of the Consob Issuers' Regulations

The following schedule shows fees for 2018 for auditing services and services other than auditing provided by the external auditor and entities within its network.

Description	Party that provided the service	Recipient	Fees for 2018
(EUR / 000)			
Accounts audit	PwC S.p.A.	Parent Company Gefran S.p.A.	87
	PwC S.p.A.	Subsidiaries	19
	PwC network	Subsidiaries	240
Accounts audit Non-Financial Disclosure	PwC S.p.A.	Parent Company Gefran S.p.A.	19
Certification services	PwC S.p.A.	Parent Company Gefran S.p.A.	6
Other services	PwC network	Parent Company Gefran S.p.A.	100
Total			471

42. Events after 31 December 2018

For information on operational performance in early 2019, please see the "Outlook" section.

No other significant events took place after the year-end.

43. Other information

Pursuant to Article 70, paragraph 8, and article 71, paragraph 1-*bis*, of Consob's Issuers' Regulation, the Board of Directors decided to take advantage of the option to derogate from the obligations to publish the information documents prescribed in relation to significant mergers, spin-offs, capital increases through contribution in kind, acquisitions and disposals.

Provaglio d'Iseo, 14 March 2019

For the Board of Directors

Chairman	Chief Executive Officer
Maria Chiara Franceschetti	**Alberto Bartoli**

ANNEXES

1. Consolidated income statement by quarter

	(EUR / 000)	Q1 2017	Q2 2017	Q3 2017	Q4 2017	TOT 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	TOT 2018
a	Revenues	32,278	32,772	29,101	34,488	**128,639**	34,717	35,543	30,820	34,491	**135,571**
b	Increases for internal work	168	142	113	187	**610**	365	256	278	526	**1,425**
c	Consumption of materials and products	11,121	11,446	9,600	11,578	**43,745**	11,505	12,629	10,523	12,585	**47,242**
d	Added value (a+b-c)	21,325	21,468	19,614	23,097	**85,504**	23,577	23,170	20,575	22,432	**89,754**
e	Other operating costs	5,584	5,744	5,220	5,617	**22,165**	6,065	6,308	5,587	5,839	**23,799**
f	Personnel costs	11,445	10,962	9,889	12,004	**44,300**	11,735	11,429	10,769	11,964	**45,897**
g	EBITDA (d-e-f)	4,296	4,762	4,505	5,476	**19,039**	5,777	5,433	4,219	4,629	**20,058**
h	Depreciation, amortisation and impairment	1,494	1,473	2,336	2,587	**7,890**	1,526	1,562	1,613	1,614	**6,315**
i	EBIT (g-h)	2,802	3,289	2,169	2,889	**11,149**	4,251	3,871	2,606	3,015	**13,743**
l	Gains (losses) from financial assets/liabilities	(237)	(756)	(169)	(1,238)	**(2,400)**	(319)	(91)	(419)	328	**(501)**
m	Gains (losses) from shareholdings valued at equity	(6)	(69)	58	173	**156**	(37)	(57)	49	(10)	**(55)**
n	Profit (loss) before tax (i±l±m)	2,559	2,464	2,058	1,824	**8,905**	3,895	3,723	2,236	3,333	**13,187**
o	Taxes	(751)	171	(419)	(1,229)	**(2,228)**	(1,285)	(1,397)	(853)	(626)	**(4,161)**
p	Result from operating activities (n±o)	1,808	2,635	1,639	595	**6,677**	2,610	2,326	1,383	2,707	**9,026**
q	Net profit (loss) from assets held for sale	0	0	0	187	**187**	(414)	(461)	0	0	**(875)**
r	Group net profit (loss) (p±q)	1,808	2,635	1,639	782	**6,864**	2,196	1,865	1,383	2,707	**8,151**

2. Consolidated income statement by quarter – excluding non-recurring items

	(EUR / 000)	Q1 2017	Q2 2017	Q3 2017	Q4 2017	TOT 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	TOT 2018
a	Revenues	32,278	32,772	29,101	34,488	**128,639**	34,717	35,543	30,820	34,491	**135,571**
b	Increases for internal work	168	142	113	187	**610**	365	256	278	526	**1,425**
c	Consumption of materials and products	11,121	11,446	9,600	11,578	**43,745**	11,505	12,629	10,523	12,585	**47,242**
d	Added value (a+b-c)	21,325	21,468	19,614	23,097	**85,504**	23,577	23,170	20,575	22,432	**89,754**
e	Other operating costs	5,584	5,744	5,220	5,617	**22,165**	6,065	6,308	5,587	5,839	**23,799**
f	Personnel costs	11,124	10,962	9,889	12,004	**43,979**	11,735	11,429	10,769	11,964	**45,897**
g	EBITDA (d-e-f)	4,617	4,762	4,505	5,476	**19,360**	5,777	5,433	4,219	4,629	**20,058**
h	Depreciation, amortisation and impairment	1,494	1,473	2,336	2,587	**7,890**	1,526	1,562	1,613	1,614	**6,315**
i	EBIT (g-h)	3,123	3,289	2,169	2,889	**11,470**	4,251	3,871	2,606	3,015	**13,743**
l	Gains (losses) from financial assets/liabilities	(237)	(756)	(169)	(1,238)	**(2,400)**	(319)	(91)	(419)	328	**(501)**
m	Gains (losses) from shareholdings valued at equity	(6)	(69)	58	173	**156**	(37)	(57)	49	(10)	**(55)**
n	Profit (loss) before tax (i±l±m)	2,880	2,464	2,058	1,824	**9,226**	3,895	3,723	2,236	3,333	**13,187**
o	Taxes	(751)	171	(419)	(1,229)	**(2,228)**	(1,285)	(1,397)	(853)	(626)	**(4,161)**
p	Result from operating activities (n±o)	2,129	2,635	1,639	595	**6,998**	2,610	2,326	1,383	2,707	**9,026**
q	Net profit (loss) from assets held for sale	0	0	0	187	**187**	(414)	(461)	0	0	**(875)**
r	Group net profit (loss) (p±q)	2,129	2,635	1,639	782	**7,185**	2,196	1,865	1,383	2,707	**8,151**

3. Exchange rates used to translate the financial statements of foreign companies

End-of-period exchange rates

Currency	31 December 2018	31 December 2017
Swiss franc	1.1269	1.1702
Pound sterling	0.8945	0.8872
US dollar	1.1450	1.1993
Brazilian real	4.4440	3.9729
Chinese renminbi	7.8751	7.8044
Indian rupee	79.7298	76.6055
Turkish lira	6.0588	4.5464

Average exchange rates in the period

Currency	2018	2017	Q4 2018	Q4 2017
Swiss franc	1.1549	1.1116	1.1361	1.1625
Pound sterling	0.8848	0.8762	0.8872	0.8871
US dollar	1.1815	1.1293	1.1412	1.1777
Brazilian real	4.3087	3.6041	4.3477	3.8230
Chinese renminbi	7.8074	7.6264	7.8920	7.7896
Indian rupee	80.7277	73.4980	82.2408	76.2296
Turkish lira	5.6986	4.1214	6.2815	4.4820

4. List of companies included in the scope of consolidation

Name	Registered office	Country	Currency	Share capital	Parent Company	% of direct ownership
Gefran UK Ltd	Warrington	UK	GBP	4,096,000	Gefran S.p.A.	100.00
Gefran Deutschland GmbH	Seligenstadt	Germany	EUR	365,000	Gefran S.p.A.	100.00
Siei Areg GmbH	Pleidelsheim	Germany	EUR	150,000	Gefran S.p.A.	100.00
Gefran France S.A.	Saint-Priest	France	EUR	800,000	Gefran S.p.A.	99.99
Gefran Benelux NV	Geel	Belgium	EUR	344,000	Gefran S.p.A.	100.00
Gefran Inc	Winchester	US	USD	1,900,070	Gefran S.p.A.	100.00
Gefran Brasil Elettroel. Ltda	Sao Paolo	Brazil	BRL	450,000	Gefran S.p.A.	99.90
					Gefran UK	0.10
Gefran India Private Ltd	Pune	India	INR	100,000,000	Gefran S.p.A.	95.00
					Gefran UK	5.00
Gefran Siei Asia Pte Ltd	Singapore	Singapore	EUR	3,359,369	Gefran S.p.A.	100.00
Gefran Siei Drives Tech. Pte Ltd	Shanghai	China (PRC)	RMB	28,940,000	Gefran Siei Asia	100.00
Gefran Siei Electric Pte Ltd	Shanghai	China (PRC)	RMB	1,005,625	Gefran Siei Asia	100.00
Sensormate AG	Aadorf	Switzerland	CHF	100,000	Gefran S.p.A.	100.00
Gefran Middle East Ltd Sti	Istanbul	Turkey	TRY	1,030,000	Gefran S.p.A.	100.00
Gefran Soluzioni S.r.l.	Provaglio d'Iseo	Italy	EUR	100,000	Gefran S.p.A.	100.00
Gefran Drives and Motion S.r.l.	Gerenzano	Italy	EUR	10,000	Gefran S.p.A.	100.00

5. List of companies consolidated at equity

Name	Registered office	Country	Currency	Share capital	Parent Company	% of direct ownership
Ensun S.r.l.	Brescia	Italy	EUR	30,000	Gefran S.p.A.	50
Bs Energia 2 S.r.l.	Rodengo Saiano	Italy	EUR	1,000,000	Ensun S.r.l.	50
Elettropiemme S.r.l.	Trento	Italy	EUR	70,000	Ensun S.r.l.	50
Axel S.r.l.	Dandolo	Italy	EUR	26,008	Gefran S.p.A.	15

6. List of other subsidiaries

Name	Registered office	Country	Currency	Share capital	Parent Company	% of direct ownership
Colombera S.p.A.	Iseo	Italy	EUR	8,098,958	Gefran S.p.A.	16.56
Woojin Plaimm Co Ltd	Seoul	South Korea	KRW	3,200,000,000	Gefran S.p.A.	2.00
UBI Banca S.p.A.	Bergamo	Italy	EUR	2,254,368,000	Gefran S.p.A.	n/s

CERTIFICATION OF CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ARTICLE 81-TER OF CONSOB REGULATION 11971 OF 14 MAY 1999 AS AMENDED

The undersigned **Alberto Bartoli**, in his capacity as Chief Executive Officer, and **Fausta Coffano**, in her capacity as Executive in charge of financial reporting of Gefran S.p.A. hereby certify, with due regard for the provisions of Article 154-*bis*, paragraphs 3 and 4, of Legislative Decree no. 58 of 24 February 1998:

- the adequacy, with respect to the Company's characteristics,

  and

- the effective application of the administrative and accounting procedures applied in the preparation of the consolidated financial statements in 2018.

There are no significant events to report in this regard.

They further certify that:

1. the consolidated financial statements:

- were prepared in accordance with applicable international accounting standards recognised in the European Union pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
- correspond to entries made in accounting ledgers and records;
- provide a true and accurate representation of the financial situation of the issuer and all companies included in the scope of consolidation.

2. The Report on Operations contains a reliable analysis of operating performance and results and of the condition of the issuer and all companies included in the scope of consolidation, together with a description of the main risks and uncertainties to which they are exposed.

Provaglio d'Iseo, 14 March 2019

Chief Executive Officer	Executive in charge of financial reporting
Alberto Bartoli	**Fausta Coffano**

GEFRAN GROUP CONSOLIDATED NON-FINANCIAL DISCLOSURE AS AT 31 DECEMBER 2018

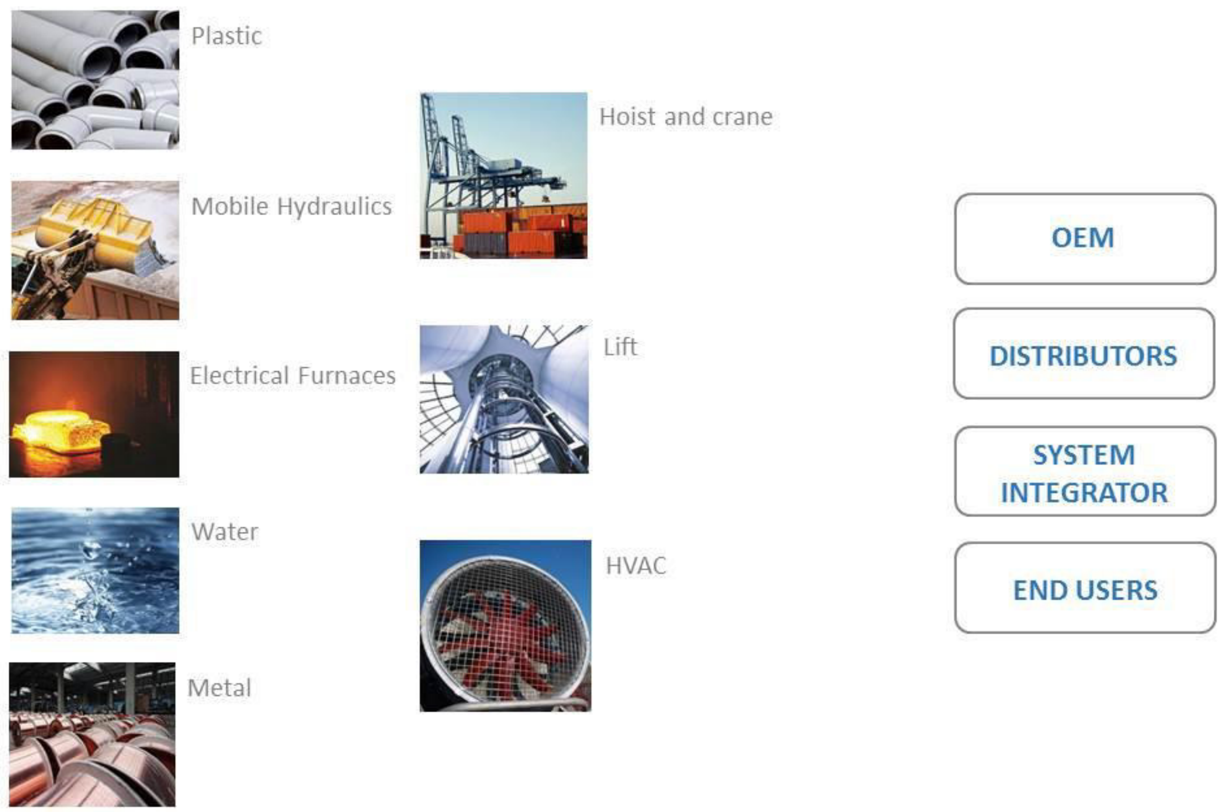
1. DESCRIPTION OF THE BUSINESS MODEL

Group profile

The Gefran Group was set up out of an entrepreneurial idea at the end of the sixties and made its mark immediately in Italy and abroad with the concept of an adjustment tool that would dictate standards in its sector. In the eighties, the company expanded its production to include sensors and then, having acquired a historic company in the electrical drives sector in the two thousands, widened its technological range. Since 1998 the Parent Company Gefran S.p.A. has been listed on the Milan Stock Exchange. In 2001 Gefran joined the new STAR (Segmento Titoli con Alti Requisiti) segment of the Telematic Stock Market, for small to mid-sized companies meeting specific requirements regarding transparency, liquidity and corporate governance. On 31 January 2005 this segment was renamed “ALL STARS”, and on 1 June 2009, following the merger of Borsa Italiana with the London Stock Exchange, it took on its current name, “FTSE Italia STAR”.

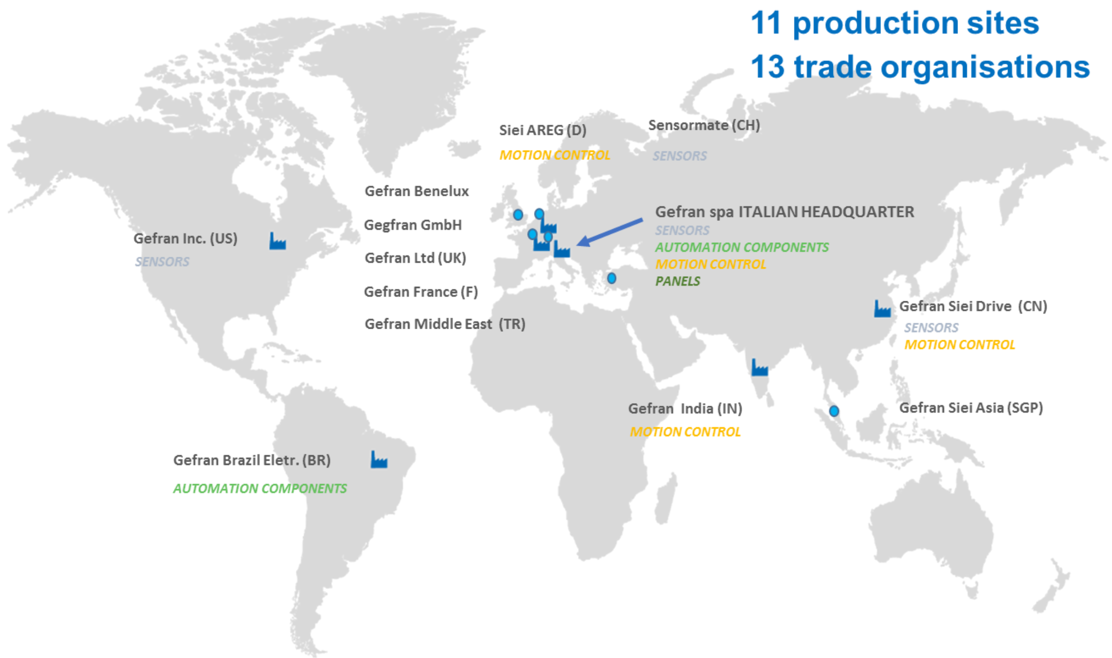
Today Gefran designs, produces and sells products in three main business lines: industrial sensors, automation components and drives for electronic control of electric motors.

The entire product range, which is unique in its breadth, quality and specialisation, provides tailored turnkey solutions in multiple automation sectors, through various channels:



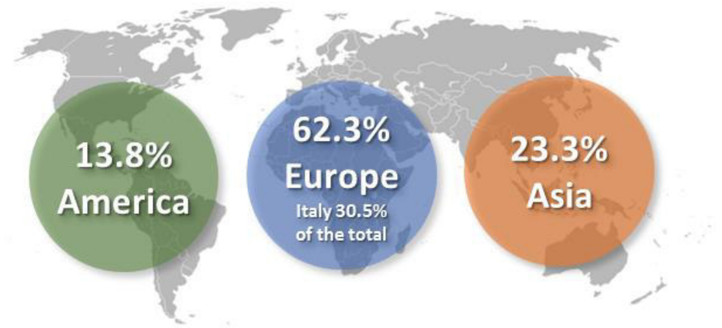
Over the years Gefran has consolidated its presence on international markets; today the Group includes 16 companies, with 11 production sites and 13 sales branches located all over the world.

A GLOBAL ORGANISATION



Market share

The Group operates in 12 countries and its products are distributed in about 80 countries all over the world; the Group operates prevalently on international markets.

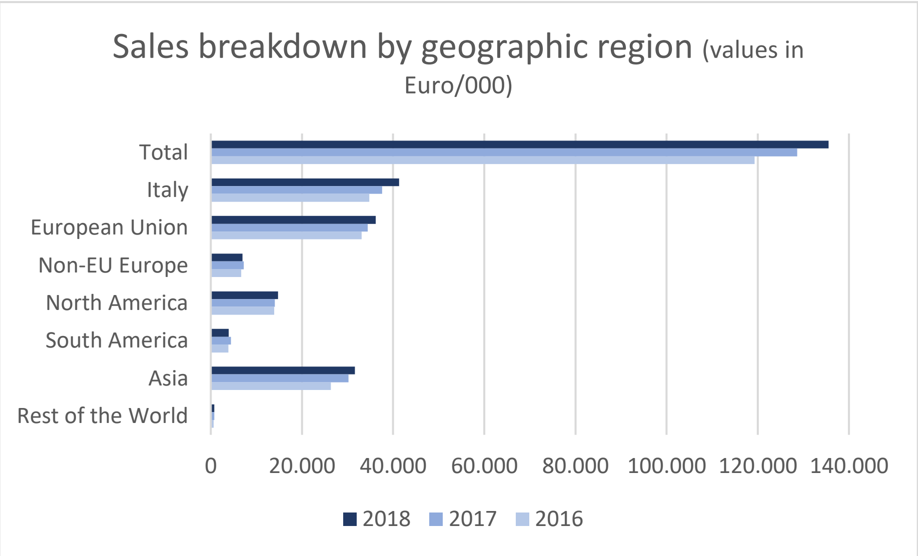


(Values in Euro/ 000)

Total Revenues 2018
135,571

Total Revenues 2017
128,639

Total Revenues 2016
119,330



Key performance indicators

KPIs - Economic indicators		2018	2017	2016
Revenues	*(EUR / 000)*	135,571	128,639	119,330
EBITDA	*(EUR / 000)*	20,058	19,039	11,324
	%	14.8%	14.8%	9.5%
EBIT	*(EUR / 000)*	13,743	11,149	5,115
	%	10.1%	8.7%	4.3%
Profit (loss) before tax	*(EUR / 000)*	13,187	8,905	4,297
Result from operating activities	*(EUR / 000)*	9,026	6,677	3,462
Profit (loss) from assets held for sale	*(EUR / 000)*	(875)	187	486
Group net profit (loss)	*(EUR / 000)*	8,151	6,864	3,948
	%	6.0%	5.3%	3.3%

KPIs - Equity and financial indicators		2018	2017	2016
Invested capital from operations	*(EUR / 000)*	77,335	73,477	78,612
Net working capital	*(EUR / 000)*	32,055	30,621	35,754
Shareholders' equity	*(EUR / 000)*	72,814	69,911	66,908
Net financial position	*(EUR / 000)*	(4,521)	(4,780)	(12,918)
Investments	*(EUR / 000)*	9,438	5,641	2,965
Operating cash flow	*(EUR / 000)*	18,992	21,424	15,449
Return on investment ROI (EBIT/net invested capital)	*%*	17.8%	15.2%	6.5%

KPIs - Human capital		2018	2017	2016
Total employees	*no.*	771	730	730
of whom Women	*no.*	238	232	236
	%	30.9%	31.8%	32.3%
of whom Men	*no.*	533	498	494
	%	69.1%	68.2%	67.7%

Group activities

Sensors

The Group offers a full range of products for measuring the four physical parameters of position, pressure, force and temperature, which are used in many industrial sectors.

Gefran stands out for its technological leadership. It produces primary components internally and boasts a comprehensive product range that is unique worldwide. In certain product families, Gefran is world leader.

The sensors business line has 4 production sites: one in Italy, at the Group's historic base at Provaglio d'Iseo (IT), whereas the others are located abroad, respectively in Winchester (US), Aadorf (CH) and Shanghai (CN).

The growth trend has been positive over the years, with double-digit growth in 2018 as compared to the 2 previous years thanks to positive performance in sectors of strategic importance for the business, particularly plastic, and strategic investment decisions. A strong focus on research and development has allowed the group to expand and complete its product range and therefore its market share. The acquisition of Sensormate A.G., a company that designs and produces a vast range of load cells and high precision extensometers, also contributed to this growth.

+5.9% 2018 vs 2017

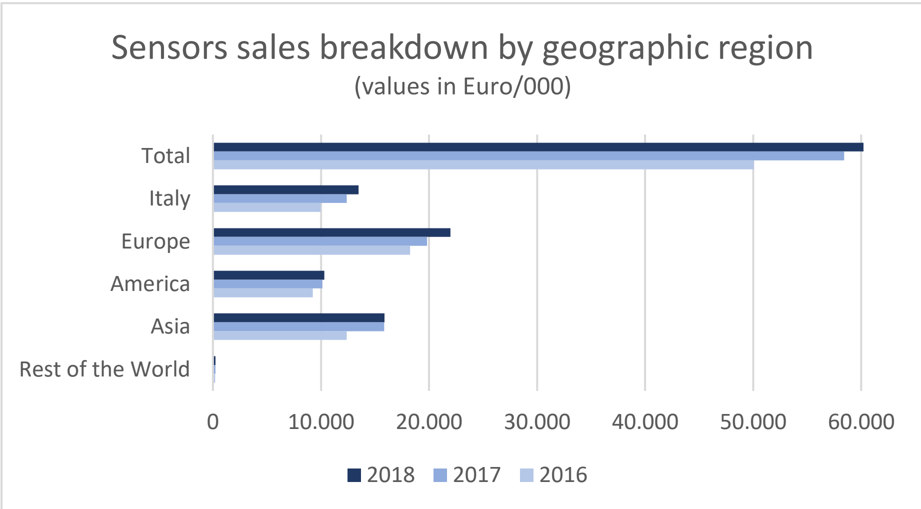
+23.6% 2018 vs 2016

(Values in Euro/ 000)

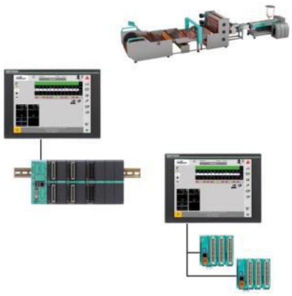
Sensors Revenues 2018
61,893

Sensors Revenues 2017
58,437

Sensors Revenues 2016
50,069



Automation components



The automation components business is divided into three product lines: instrumentation, power controllers and automation platforms (operator interfaces, PLCs and I/O modules). These components are widely used in the control of industrial processes. As well as supplying products, Gefran offers its customers the possibility of designing and supplying tailored turnkey automation solutions through a close strategic partnership during the design and production stages.

Gefran sets itself apart with its expertise in hardware and software acquired in over thirty years of experience. Gefran is one of the main Italian manufacturers in these product lines and generates around half of its sales through exports.

+4.8% 2018 vs 2017

+15.5% 2018 vs 2016

Technical and production work is primarily concentrated in Italy, in the historic premises of the Group and its subsidiary Gefran Soluzioni S.r.l., both in Provaglio d'Iseo (IT). There is also an assembly line in San Paolo (BR) serving the local market.

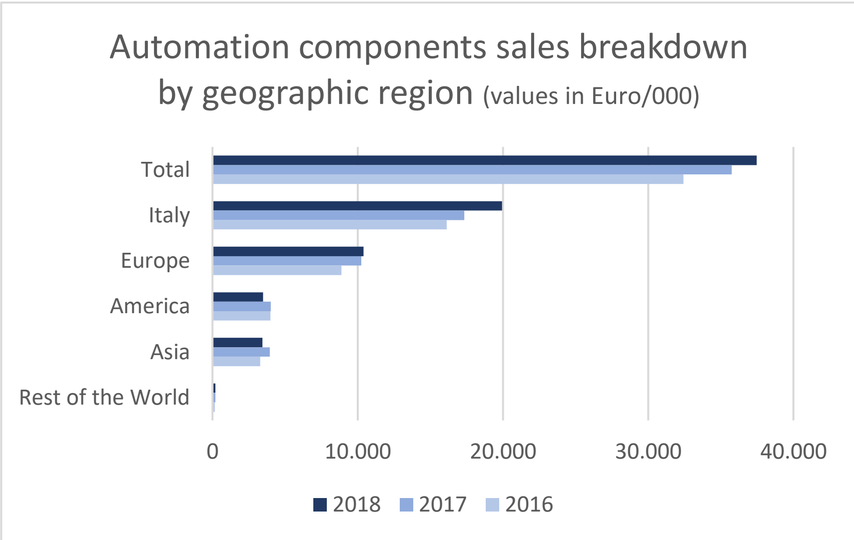
The growth of sales is primarily focused in Italy and in EU Europe.

(Values in Euro/ 000)

Automation components Revenues 2018 37,475

Automation components Revenues 2017 35,743

Automation components Revenues 2016 32,435



Motion control

The motion control business develops products and solutions to regulate speed and control AC, DC and brushless electric motors. Products (inverters, armature converters and servodrives) guarantee maximum performance in terms of system precision and dynamics. These products are used in a variety of applications, including lift control, cranes, metal rolling lines, and in paper, plastics, glass and metal processing.

Through the integration of advanced capabilities and flexible hardware and software configurations, Gefran provides advantageous solutions for customers and target markets, optimising both technology and costs.

Motion control design work is concentrated at the Gerenzano plant (IT), whereas production is distributed across various plants, with the aim of serving the regions well and fully meeting customer requirements. Motion control production plants are located in Gerenzano (IT), Pleidelsheim (DE), Pune (IN) and Shanghai (CN).

+7.9% 2018 vs 2017

+3.8% 2018 vs 2016

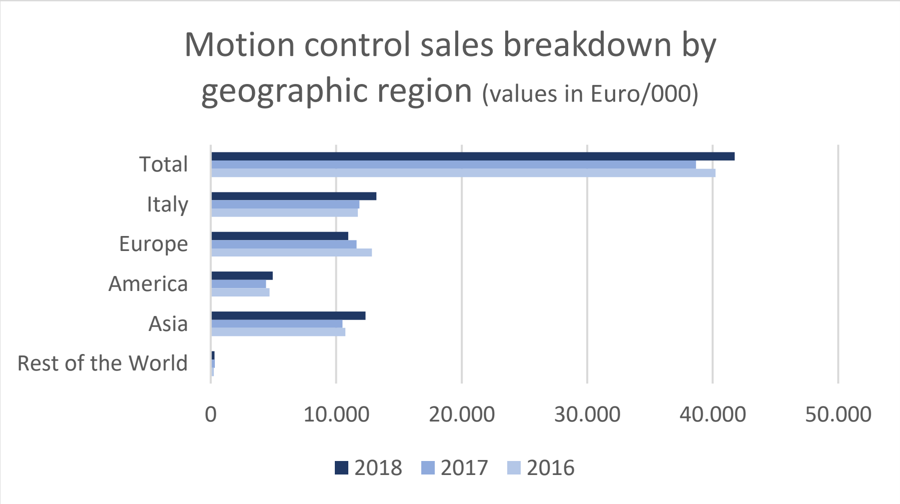
During 2017 a strategic policy was identified to increase the proportion of revenues from custom projects, which ensure stable volumes over time and more manufacturing efficiency. This helped support growth. On the whole, 2018 saw 7.9% growth in revenues over the previous year.

(Values in Euro/ 000)

Motion Control Revenues 2018
41,740

Motion Control Revenues 2017
38,675

Motion Control Revenues 2016
40,127



Group relations

Gefran encourages collaborative relations with other industrial companies in the sectors in which it operates and is a member of various sector-based associations and technical consortia, at local and international level:

- A.I.B. Associazione Industriale Bresciana (Brescia Industrial Association): this association represents industrial companies in Brescia province; it is one of the largest Italian associations of associated companies, with more than 1,200 corporate members, and is a member of the Confindustria System.
- U.N.I.V.A. Unione degli Industriali della provincia di Varese (Province of Varese Industrial Association): an independent, non-partisan, non-profit association of industrial companies, a member of the Confindustria System. The Union has 1,160 member companies with a total of about 64,600 employees. Association member companies and their representatives are required to comply with the Confindustria Code of Ethics and Charter of Values.
- A.N.I.P.L.A. Associazione Nazionale Italiana per L'Automazione (Italian National Automation Association): its aim is to encourage and spread knowledge, studies and application of automation in Italy, in its technological, economic and social aspects.
- Federazione ANIE – Assoautomazione e Ascensori (ANIE Federation - Automation Axis and Lifts): plays a leading role in technological and regulatory monitoring, promoting initiatives to standardise products and systems, taking know-how and skills into the area of the decision-making processes of standardisation agencies at all levels.
- AMAPLAST: national association for manufacturers of machines and moulds for plastics and rubber; carries out activities to promote the transformation of plastics and rubber in the Italian technology world.
- ASSONIME: represents Italian public limited companies and studies and deals with issues concerning the interests and development of the Italian economy.
- GISI Associazione Imprese Italiane di Strumentazione (Association of Italian Instrumentation Companies): brings together companies operating in the production process instrumentation and automation field, whether manufacturers or economic operators.
- PROPLAST Consortium: supports companies in the plastics sector with applied research, technological innovation and the selection and training of human resources, preparing them technically to operate in the sector.
- C.E.I. Comitato Elettrotecnico Italiano (Italian Electrotechnical Committee): publishes regulatory documents on good practice in Italy, is involved in drawing up the corresponding European and international standards, ensures that they are accepted with specific regard to European regulatory documents harmonised with EU directives and regulations, disseminates the technical and scientific culture in general and that of technical standards in particular.
- UNI Italian standardisation organisation: UNI represents Italy at the European (CEN) and global (ISO) standardisation organisations and organises the involvement of national delegations in supranational standardisation work, to promote the harmonisation of standards needed for the single market to operate, and to support and transpose the distinctive features of Italian production into technical specifications that enhance the national experience and production tradition.
- CAN in Automation (CiA): brings together at international level users and producers of the CAN (Controller Area Network) protocol, to provide a transparent platform for future developments of the CAN protocol and promote the image of CAN technology.
- PROFIBUS and PROFINET: the consortium works closely with other organisations in the automation world to promote the use of the PROFIBUS and PROFINET technologies.
- ODVA: it supports the network of technologies built on the Common Industrial Protocol (CIP™) — EtherNet/IP™, DeviceNet™, CompoNet™, and ControlNet™.
- Hart Communication Foundation: Organisation that supports and develops standards for the Hart communication protocol.

- LONMARK: promotes the dissemination of LON technology and further development of related applications.

The Group also takes part in various international protocols for industrial communication, such as:

- Ethercat;
- Ethernet IP;
- LonWorks.

The Organisational Model adopted by Gefran

In 2018 the Parent Company Gefran S.p.A. contributed a portion of its business to the newly established Gefran Drives and Motion S.r.l.. The new company corresponds to the company branch located in Gerenzano (VA) concerned with the design, production and sale of motion control products, which were the concern of Gefran S.p.A. until 30 September 2018.

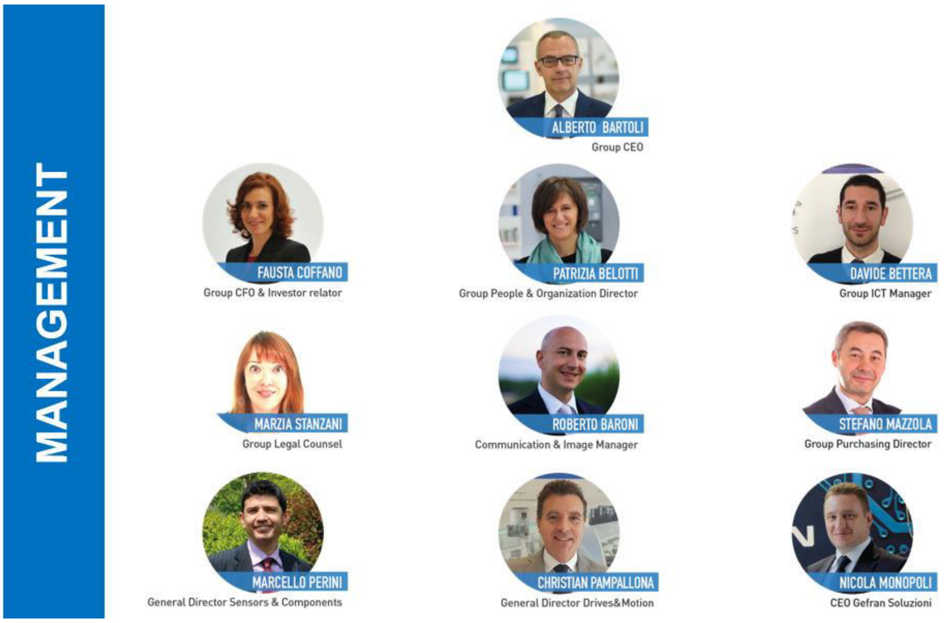
Following this contribution, as of 1 October 2018 the Parent Company Gefran S.p.A. is organised internally in two divisions (sensors and components) with the addition of centralised functions such as administration, finance, control, purchasing, legal, external relations, information systems and human resources. The work of the divisions, each of which represents a business line, is focused directly on the products of the relevant business, and includes;

- Production departments
    - R&D and design
        - Engineering
            - Production services
                - Logistics

The divisions also use specific sales structures to distribute the products, and their structure includes:

- Sales network
    - Order processing
        - Finished product warehouse

The company’s operative activities are managed by a managerial team coordinated by the Group’s CEO, represented below:



Information about the staff of the sensors and components divisions is shown together below, as they are located in the same production site.

Workforce per division		**at 31.12.2018**
Sensors Division	Production	78
	Logistics	23
	Technical	17
Components Division	Production	43
	Logistics	23
	Technical	18
Specific sales organisations	Sales and Marketing	58
	Management and services	12
Sensors and Components Divisions - Provaglio d'Iseo (BS)		**272**
Holding		44
TOTAL GEFRAN S.p.A.		**316**

On 13 February 2008, the Board of Directors voted to adopt an Organisation, Management and Control Model (the "Organisational Model") to prevent the offences under Legislative Decree 231/01 from being committed. 231/01.

This model is updated annually (most recently by effect of the 13 November 2018 resolution of the Board of Directors), in response to the evolution of the above-mentioned legislation. The Organisational Model prepared on the basis of the Confindustria Guidelines also implements the Corporate Governance rules contained in the "Code of Conduct for Listed Companies" promoted by Borsa Italiana S.p.A., with which the company complies.

The Group also has a "Code of Ethics and Conduct", updated by the Board of Directors on 11 February 2016. Through application of the "Code of Ethics and Conduct" in its own activities in full compliance with the laws in force in the countries where it operates, Gefran undertakes to comply with strict ethical and moral principles that are universally recognised:

INTEGRITY

HONESTY and PROFESSIONALISM

ENTHUSIASM e PASSION

PRACTICALITY and RELIABILITY

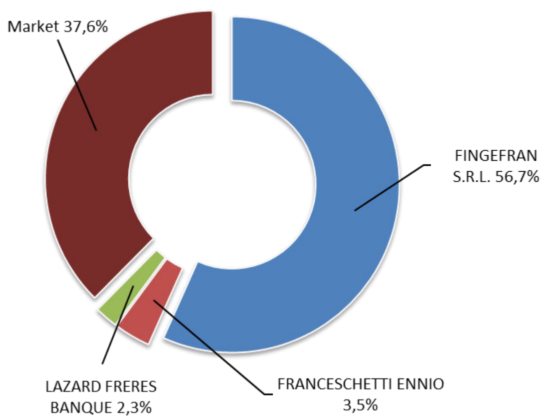
FLEXIBILITY

SUSTAINABILITY

The Group believes that ethics in business management must be pursued alongside financial growth, so the Code becomes an explicit point of reference for everyone working with the Company. Compliance with these principles is therefore a fundamental condition for starting and/or continuing collaborative relations with Gefran and the operational application of these principles is guaranteed by corporate procedures, which ensure that they are made known and disseminated. The Code of Ethics, updated whenever necessary, is available on the company's intranet and internet site, and a copy of it is given to all new employees at the time of hiring.

Anyone who becomes aware of a potential violation of the standards and principles set forth in the Code of Ethics is required to report it to the Supervisory Board by the methods specified in the Model, that is, in anonymous form, sending a report to the offices in Provaglio di Iseo or via a dedicated email address. The same channels may be used to report violations of the law and of the company's internal control principles, procedures and regulations, as stated in the "Group Whistleblowing Procedure" approved by the Board of Directors on 13 November 2018 and published on the company's website.

Gefran S.p.A. shareholder structure



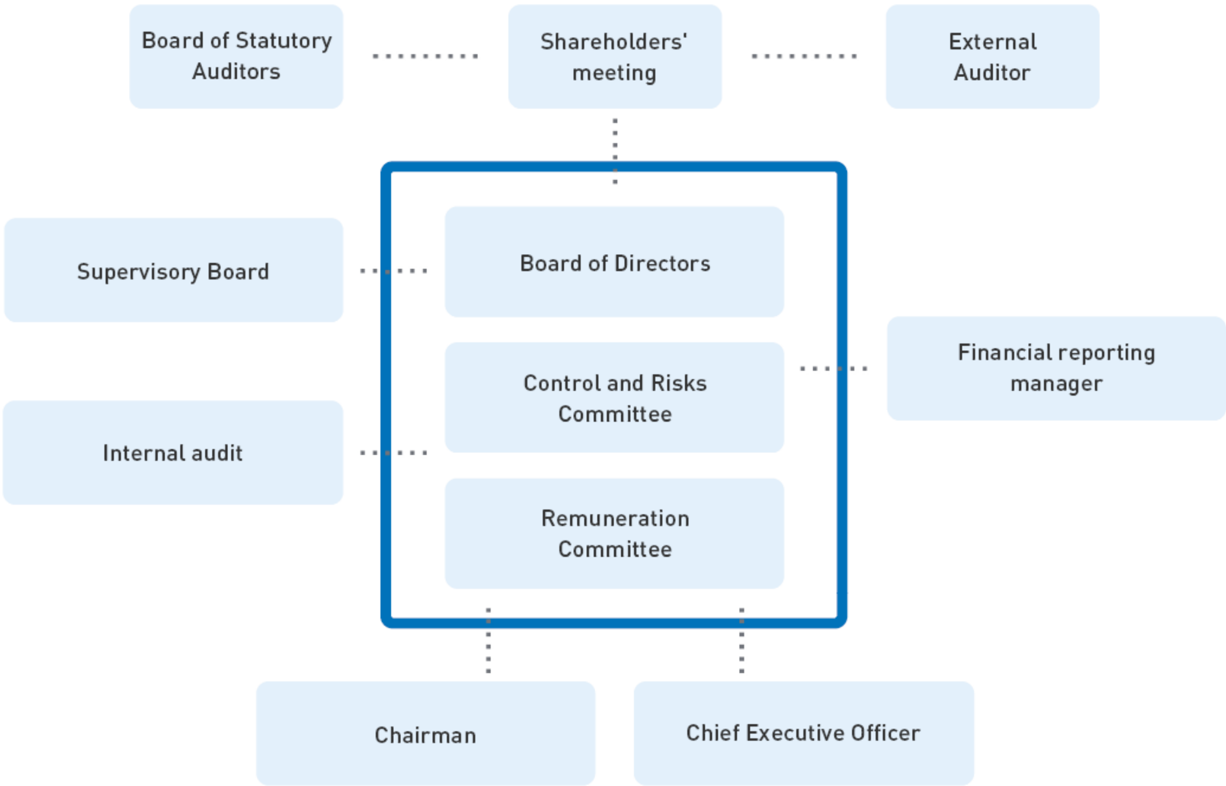
The Company has been listed on the Italian Stock Exchange since 9 June 1998, and since 2001, it has been part of the FTSE Italia STAR segment, dedicated to companies with small and medium-sized capitalisations that meet specific requirements on transparency, liquidity and corporate governance.

STRUCTURE OF SHARE CAPITAL				
Type of shares	**No. of shares**	**% of share capital**	**Listed**	**Rights and obligations**
Ordinary shares	14,400,000	100	STAR	ordinary

Administration and control activities

The Company's corporate governance structure is based on the recommendations and standards in the "Code of Conduct for Listed Companies" promoted by Borsa Italiana S.p.A., with which the Company complies, and its Organisational Management and Control Model ("Organisational Model") adopted since 2008 to prevent the offences under Legislative Decree 231/01 from being committed.

The company revised its internet site in the year 2018 with reference to this model, in order to improve the information provided on Group governance. In the Governance section at https://www.gefran.com/it/governance, readers may view complete information on the company's governance system, documents about it, and specifications regarding the composition of corporate bodies.



On 13 March 2018, pursuant to application criteria 1.C.1, letters g) and i) of the Code of Conduct, the Board of Directors gave a positive assessment of the size, composition and functioning of the Board itself and its committees, based on the results of the self-assessment questionnaire completed by the directors. Two Advisory Committees were appointed: the Control and Risks Committee, made up of three independent directors, and the Remuneration Committee, made up of two independent directors and one non-executive director.

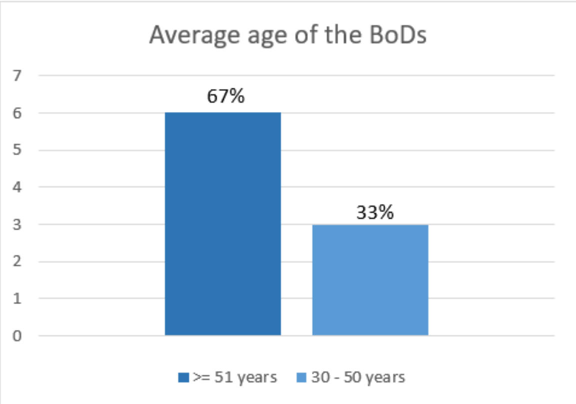
The 17 October 2017 Shareholders' Meeting resolved to amend the company's Articles of Association, establishing the new position of Honorary Chairman and providing for the possibility of appointing up to three Vice Chairmen.

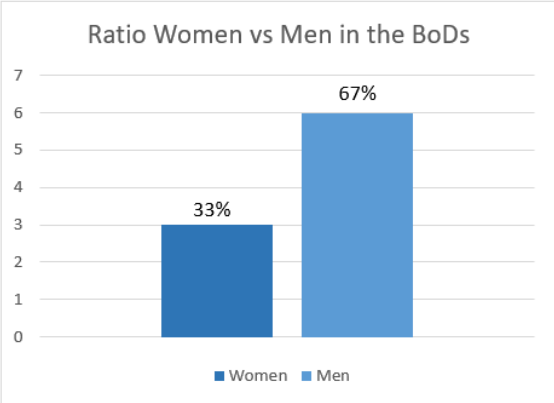
The Shareholders' Meeting held on 24 April 2018 appointed Ennio Franceschetti as Honorary Chairman of the company. The Gefran S.p.A. Board of Directors, meeting at the end of the annual meeting, appointed Maria Chiara Franceschetti as Chairman of the Board of Directors and Giovanna Franceschetti and Andrea Franceschetti as Vice Chairmen.

The **Board of Directors** currently in office is made up of 9 members (3 women and 6 men), three of whom are Independent Directors:

POSITION	MEMBERS
Honorary Chairman	Ennio Franceschetti
Chairman	Maria Chiara Franceschetti
Vice Chairman	Andrea Franceschetti
Vice Chairman	Giovanna Franceschetti
CEO	Alberto Bartoli
Director	Romano Gallus
Director	Mario Benito Mazzoleni (*)
Director	Daniele Piccolo (*)
Director	Monica Vecchiati (*)

(*) Independent directors pursuant to the Consolidated Law on Finance (TUF) and the Code of Conduct





Number of Board Meetings:

	2018	2017	2016
no. meetings	9	8	6
average attendance %	97.5%	94.5%	96.8%

Its membership is given in detail below:

Ennio Franceschetti
Honorary Chairman

Historic Group founder, Gefran S.p.A. CEO until 2004 and Chairman until 2018. Now holds the position of Honorary Chairman.

Maria Chiara Franceschetti
Chairman

With a degree in Mechanical Engineering, she joined Gefran as Head of Information Systems and later became Group HR Director. Appointed CEO in 2014, Vice Chairman in 2017 and Chairman in 2018. Currently Chairman of Fingefran S.r.l., Gefran S.p.A.'s parent company.

Alberto Bartoli
Chief Executive Officer

Graduated in Economics and Commerce at Parma University in 1983. Joined Sabaf spa as CFO in 1994, sat on its Board of Directors from 1997 to 2017, and was CEO from 2012 to 2017. Sil S.p.A. Director since 2018. Holds honorary positions in a number of Associations.

Giovanna Franceschetti
Vice Chairman

Degree in Public Relations, Masters' Degree in Business Administration. Sits on the Board of Directors of Fingefran S.r.l., Gefran S.p.A.'s parent company, and is Vice Chairman of Gefran S.p.A. in charge of public relations and sustainability. Member of the Board of Directors of Ensun S.r.l., BS Energia 2 S.r.l. and Elettropiemme S.r.l., companies in the Gefran Group. Head of Communications and Image for Gefran and Group Investor Relator from 2004 to 2018.

Andrea Franceschetti
Vice Chairman

With Gefran since 2002, holding various positions: Head of Production, Head of Central Quality and the Testing Laboratory, Export Director for South America, International Sales Director and Sales Director for the Motion Control Business Unit. Currently Chairman of the subsidiary Gefran Soluzioni S.r.l.. Also holds the position of Director in the innovative start-up Matchplat S.r.l..

Mario Benito Mazzoleni
Independent Director

Associate professor of Business Administration at Brescia University since 1992 . Dean of the School of Management and Advanced Education at the same University since 2018, member of Confindustria's Small Enterprise Scientific Committee since 2019. Sits on the Board of Directors of Quanta Risorse Umane S.p.A., of the Fonderie Group, and of AbitareIn S.p.A..

Daniele Piccolo
Independent Director

Completed his education in financial markets and marketing at prestigious international institutes. From 1982 to 2007, he held numerous positions of increasing seniority within the Credito Emiliano Group. From 2001 to 2006, he was also Chief Executive Officer of Istifid S.p.A. of Milan. From 2007 to 2015 he was Assistant General Manager of Banca Albertini Syz. From 2015 to 2017, he was General Manager of Banca Cesare Ponti S.p.A.; he is now Private Banking Manager in Northern Italy for Banca Finnat Euramerica.

Monica Vecchiati
Independent Director

She has been a chartered accountant since 1988, registered in the Order of Chartered Accountants and Expert Accountants in Rome, and is a statutory auditor, registered in the Register of Auditors since its establishment in 1995. Director, Auditor, and Member of the Supervisory Body under Law 231/2001, Co.Vi.Soc. Inspector, Mediator and Consultant for a number of companies and organisations.

Romano Gallus
Non-executive Director

Entrepreneur and founder of "GV Stamperie S.p.A.", a brass heat-moulding company in which he is Chief Executive Officer. Member of the Board of Directors of Gefran S.p.A. since 2000.

The **Control and Risks Committee** of the Board is currently made up of three independent directors (1 woman and 2 men), all accounting and financial and/or risk management experts; this membership was considered adequate by the Board of Directors, which appointed it.

POSITION	MEMBERS
Committee Chairman	Daniele Piccolo
Independent Director	Mario Benito Mazzoleni
Independent Director	Monica Vecchiati

Number of Control and Risks Committee Meetings:

	2018	2017	2016
no. meetings	5	5	5
average attendance %	93.3%	86.6%	93.3%

The **Remuneration Committee** of the Board is currently made up of three independent directors (1 woman and 2 men), all accounting and financial and/or remuneration policy experts; this membership was considered adequate by the Board of Directors, which appointed it.

On 14 March 2019 the Company's Board of Directors transformed the existing Remuneration Committee into an Appointments and Remuneration Committee, awarding it the powers identified in art. 5 of the Code of Conduct in addition to the powers it held previously.

POSITION	MEMBERS
Committee Chairman	Daniele Piccolo
Non-executive Director	Romano Gallus
Independent Director	Monica Vecchiati

Number of Remuneration Committee Meetings:

	2018	2017	2016
no. meetings	3	4	2
average attendance %	100%	100%	100%

The **Board of Statutory Auditors**, appointed by the Shareholders' Meeting on 24 April 2018, and in office until the financial statements for 2020 are approved, is made up of three standing auditors and two deputy auditors.

POSITION	MEMBERS
Chairman	Marco Gregorini
Standing Auditor	Primo Ceppellini
Standing Auditor	Roberta Dell'Apa
Deputy Auditor	Guido Ballerio
Deputy Auditor	Luisa Anselmi

Number of Board of Statutory Auditors Meetings:

	2018	2017	2016
no. meetings	8	10	13
average attendance %	91.6%	93.3%	93.3%

The **External Auditor** appointed to carry out the external audit of the consolidated and separate financial statements is a company appointed by the Shareholders' Meeting from those included in the register kept by Consob. The current external auditor is **PricewaterhouseCoopers S.p.A.**, which was appointed by the shareholders' meeting on 21 April 2016, for the financial periods from 2016 to 2024, based on a reasoned proposal by the Board of Statutory Auditors.

As set forth in Legislative Decree 231/2001, the Board of Directors has also appointed a **Supervisory Board** made up of one external member (Nicla Picchi, Chair) and an internal member (Marzia Stanzani, Head of Legal and Corporate Affairs) and provided it with regulations and suitable means to enable it to operate. The Supervisory Board may use external consultants to perform the risk assessments and the necessary audits.

The **Internal Audit function** is entrusted to Emma Marcandalli, a person from outside the company who is autonomous and independent; she was appointed by the Board of Directors on 14 February 2019, based on a favourable opinion from the Control and Risks Committee and having consulted the Board of Statutory Auditors. Protiviti S.r.l. was tasked with conducting internal audit activities.

On 27 September 2013, based on a favourable opinion from the Board of Statutory Auditors, the Board of Directors appointed Fausta Coffano as **Executive in charge of the financial reporting**; she directly supervises the control model pursuant to Law 262/2005 and the related administrative and accounting procedures.

The activities of the various bodies and their membership are described in detail in the "*Corporate bodies"* section of the "Annual Financial Report of the Gefran Group" and in the "Report on Corporate Governance and Ownership Structure".

Risk management in the Group

In the normal course of its business, the Gefran Group is exposed to various financial and non-financial risk factors, which, should they materialise, could have a significant impact on its economic and financial situation. The Group adopts specific procedures to manage the risk factors that could influence its results.

The aforementioned "Organisational Model" is kept up to date as regulations change. On 13 November 2018 the Board passed a resolution updating the Model, adapting it in response to the new legislation that periodically adds to the list of predicate offences. The Company's corporate governance structure is based on the recommendations and regulations set out in the "Code of Conduct for Listed Companies" promoted by Borsa Italiana S.p.A., with which the Company complies.

The company has also identified the corporate bodies of significance for the purposes of the internal control and risk management system:

- the **Control and Risk Committee (RCC)**, which has the task of supporting, with adequate preliminary investigation, the evaluations and decisions of the Board of Directors regarding the internal control and risk management system, as well as of checking the proper application of accounting standards and their consistency for the purposes of preparing the consolidated financial statements;
- the **Executive Director responsible for the internal control and risk management system**, with the task of identifying the main corporate risks, implementing the risk management guidelines and checking their adequacy;
- the **Executive in charge of the financial reporting**, who has direct supervision of the control model and of the related administrative and accounting procedures pursuant to Law 262/2005, in connection with the constant updating of the same;

- the **Internal Audit function**, with the task of checking, both continuously and in relation to specific requirements and in compliance with international standards, the operation and appropriateness of the internal control and risk management system, via an audit plan approved by the Board of Directors, which is based on a structured analysis of the main risks.

The main risks, grouped into eight families, are identified and assessed through an annual risk assessment, the results of which are described and discussed with all bodies of relevance for the internal control and risk management system and with the Board of Directors.

The overview of the risks the Group is exposed to allows the Board of Directors and Management to reflect on the group's propensity for risk and identify risk management strategies to be adopted, or assess which risks and priorities are considered to require implementation, improvement or optimisation actions, or simple monitoring of exposure over time.

Relations with stakeholders and analysis of materiality

During 2017, in relation to the entry into force of the new regulatory obligations on non-financial reporting, the Group conducted an analysis of materiality, to identify and evaluate topics connected to non-financial aspects covered by this Statement. This activity identified the most relevant aspects for the Group, on which to concentrate non-financial disclosure.

In the preliminary phase of the project, managed by an internal work group, with management involvement, the available information was collected and analysed.

Analysis of information representing the Group's strategy and approach, and analysis of the context in which the Group operates, revealed a list of 20 issues which could potentially take concrete form for Gefran, as they have a direct economic, social and/or environmental impact on Gefran, in addition to the impact they might have on stakeholders' opinions and decisions.

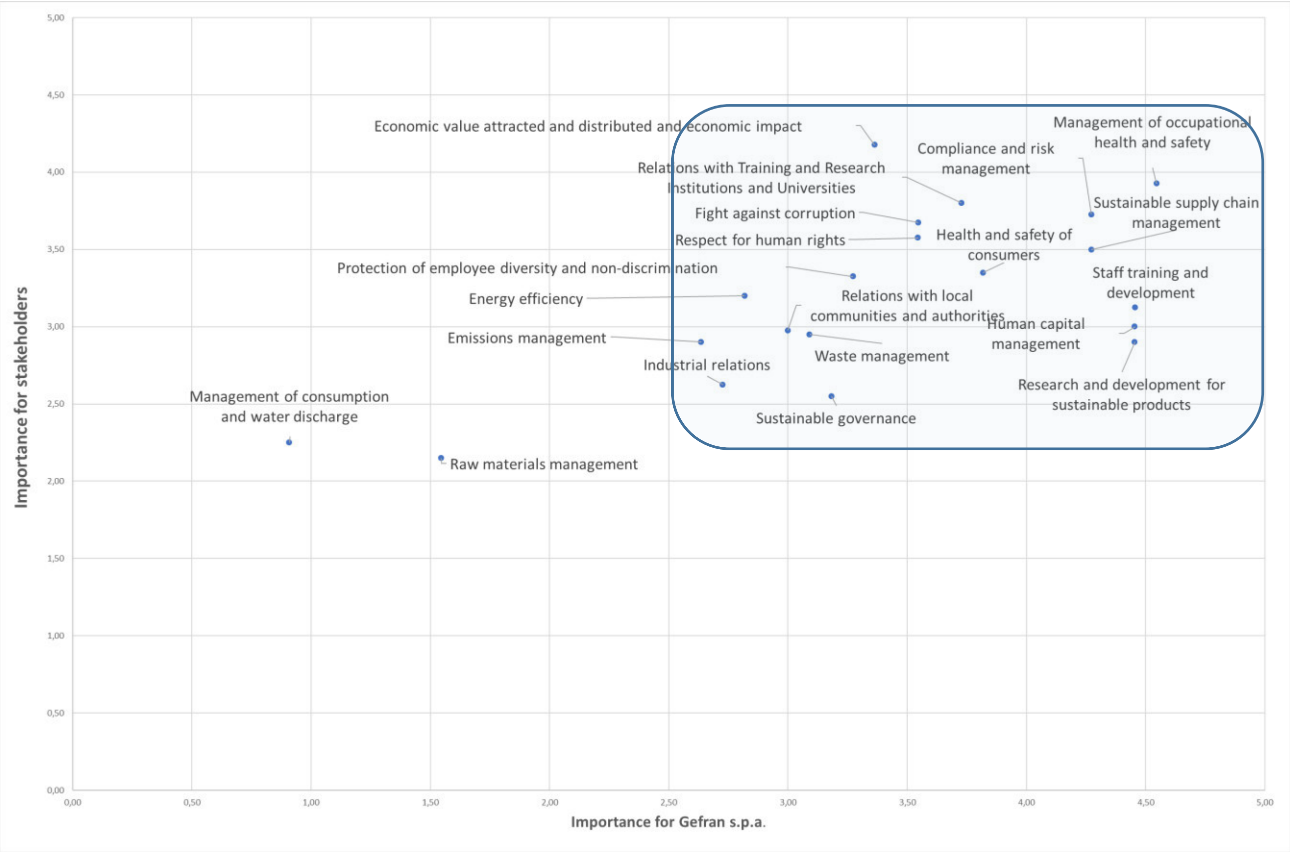
Economic	Environmental	Social – Working practices	Social – Local and international communities	Social – Product liability	Cross-functional
Economic value attracted and distributed and economic impact	Raw materials management	Human capital management	Relations with local communities and organisations	Consumer health and safety	Sustainable management of supply chain
	Energy efficiency	Industrial relations	Relations with training and research bodies and universities		Compliance and risk management
	Management of water usage and discharge	Employee health and safety management	Fight against corruption		Sustainable governance
	Emissions management	Personnel training and development			
	Waste management	Protection of employee diversity and non-discrimination			
	Research and development into sustainable products	Respect for human rights			

To produce the Gefran materiality matrix, the following categories were also identified as main stakeholders:

- Shareholders
- Employees
- Customers
- Institutions
- Suppliers
- Training and research bodies
- Local communities

During the second phase, the topics were evaluated by assigning a score to each, to gather the point of view of management and that of the main stakeholders.

Having evaluated the topics, the materiality matrix shown below was drawn up as the starting point for reporting in the 2017 Statement.



Note that: The x-axis of the materiality matrix reflects the significance of the topics for the company, whereas the y-axis represents their importance for stakeholders.

The principal Group dynamics were evaluated in 2018, revealing that no events took place that could have led to identification of new issues potentially of significance. It is therefore not considered necessary to make any changes to the materiality matrix described above, as the analysis conducted in 2017 is still considered applicable.

The topics considered most relevant, and highlighted in the matrix shown above, are those that are reported in this Statement. They can be grouped into:

- Management of environmental topics;
- Management of health and safety;
- Management of social topics;
- Management of the fight against corruption.

Gefran's Sustainable Governance Model

A company that wishes to have a global dimension must also pay attention to social and environmental matters. Protection of the people who work for it, protection of the surrounding land and synergy with the community where it is established are the foundational values for Gefran's success and growth. These principles are the cornerstones of the company's Code of Ethics whose 'Good Practices' have also won awards from the Lombardy Chambers of Commerce.

Sustainable management of the supply chain

The electronics sector in which Gefran operates has a strong technological component, which is also reflected in the supplier base, made up of large multinational groups. Most suppliers used by Gefran can be put in one of two categories:

- Suppliers of materials used in bills of materials;
- Suppliers of materials not used in bills of materials and of services.

In both cases there is a qualification process with a procedure applied in different ways depending on whether the suppliers supply raw materials or indirect materials/services.

In the first case, information is gathered on the supplier's structure through evaluation questionnaires and information from other companies. An Audit is always conducted by Quality to certify suppliers' suitability to provide specific types of supply, or if the supplier is considered to be of strategic importance because of the goods supplied. The qualification procedure is simpler for indirect materials and services, as the strategic nature and importance of suppliers is different. An exception to this is waste disposal suppliers, who are asked to produce all the documentation required under current regulations.

The market in which Gefran operates has variable demand and very quick delivery times. This, together with the fact that most Gefran production can be classified as "high mix-low volume", with many finished product codes in the catalogue, each with small recurring production volumes, means that a short supply chain is needed, which can react quickly and flexibly. This is why local suppliers are involved in drawing up specific procurement plans in order to support the variable demand in short periods of time. It is also often the case that some suppliers, thanks to their specific skills and know-how, are involved from the development phase of new products in jointly designing components and specific or custom parts.

With reference to the value of procurement expenditure, data is provided below for each of the Group's production plants, highlighting the % of expenditure from suppliers defined as "local". Local suppliers mean suppliers in the same country as the production plant.

The analysis was conducted for all the production companies, whereas for sales companies it was conducted in a marginal way, as 95% of their procurement comes from intercompany purchases and the remaining 5% from local supplies.

As a result, for the Group as a whole and limited to reporting in the area under consideration only, procurement expenditure totals EUR 74.5 million (EUR 63.3 million in 2017 and EUR 59.9 million in 2016), with local supplies accounting for 89.5% of total purchases (89.9% in 2017 and 91% in 2016).

Group procurement expenditure (Euro /.000)	**2018**	**2017**	**2016**
Group procurement expenditure	**74,490**	**63,310**	**59,883**
of which from local suppliers	66,659	56,905	54,518
% expenditure from market	89.5%	89.9%	91.0%

The increase in total expenditure may be allocated both to purchases of more materials for bills of materials in response to steady growth in sales volumes and greater resort to use of goods and services in projects, and to the investments made to support growth, in line with the plan launched at the end of 2017.

The value of expenditure on procurement in each plant is shown below.

As described above, the company Gefran Drives and Motion S.r.l. went into business on 1 October 2018, following the Parent Company Gefran S.p.A.'s contribution of its company branch in Gerenzano (VA); expenditure for procurement in the years 2016, 2017 and 2018 up to 30 September is therefore included in the figures for Gefran S.p.A. plants.

procurement expenditure (Euro /.000)	**2018**	**2017**	**2016**
Gefran S.p.A. plants (IT)	**55,220**	**49,318**	**44,745**
from the market	53,306	47,255	42,851
of which from local suppliers	47,344	42,501	37,926
% expenditure from market	88.8%	89.9%	88.5%
Gefran Drives and Motion S.r.l. plant (IT)	**4,868**	n.a.	n.a.
from the market	3,083	n.a.	n.a.
of which from local suppliers	2,762	n.a.	n.a.
% expenditure from market	89.6%	n.a.	n.a.
Gefran Soluzioni S.r.l. plant (IT)	**6,992**	**5,839**	**5,707**
from the market	3,441	2,286	1,797
of which from local suppliers	3,253	2,100	1,680
% expenditure from market	94.5%	91.9%	93.5%
Gefran Inc plant (US)	**7,167**	**7,091**	**7,671**
from the market	2,861	3,231	3,017
of which from local suppliers	2,745	3,087	2,938
% expenditure from market	95.9%	95.5%	97.4%
Gefran Brasil Eletroel. plant Ltda plant (BR)	**2,536**	**2,283**	**1,836**
from the market	1,144	1,127	985
of which from local suppliers	1,144	1,127	985
% expenditure from market	100.0%	100.0%	100.0%
Gefran Siei Drives Tech. plant Pte Ltd plant (CN)	**11,175**	**9,839**	**11,904**
from the market	4,392	3,524	6,443
of which from local suppliers	4,339	3,410	6,316
% expenditure from market	98.8%	96.8%	98.0%
Siei Areg GmbH plant (DE)	**5,654**	**5,236**	**4,008**
from the market	3,088	2,910	2,630
of which from local suppliers	2,941	2,176	2,630
% expenditure from market	95.2%	74.8%	100.0%
Sensormate AG plant (CH)	**2,634**	**2,384**	**2,269**
from the market	1,577	1,387	1,265
of which from local suppliers (*)	1,419	1,387	1,265
% expenditure from market (*)	90.0%	100.0%	100.0%
Gefran India Private Ltd plant (IN)	**5,307**	**4,229**	**3,051**
from the market	1,598	1,590	895
of which from local suppliers	712	1,117	778
% expenditure from market	44.6%	70.3%	86.9%

(*) estimate of local procurement, based on known purchasing

2. MANAGEMENT OF ENVIRONMENTAL TOPICS

2.1. RISKS AND OPPORTUNITIES

With regard to environmental aspects, the Group is continuously looking at ways to improve energy performance and protect resources, in order to encourage the reduction of greenhouse gas emissions. This is possible thanks to continuous innovation in Gefran's production and management processes and to implementation of an investment plan aimed at improving the energy efficiency of its plants.

The Group’s operational activities do not include the manufacture or processing of materials or components that could generate a significant risk of pollution or environmental damage. Gefran has implemented a series of control and monitoring activities for identifying and preventing all potential increases in this risk. To limit the risk of water pollution, for example, the company installed level sensors on tanks for collecting rinse water and condensation from compressors, and has an automatic warning system (which sends a text message to General Services operators and to the Head of Safety & Environment) when it is full. In addition to this, in terms of atmospheric emissions and the consequent risk of hazardous and/or polluting emissions, where filters are required prior to expulsion into the air, differential pressure switches are installed which visually warn (with a green or red light) of malfunctioning and/or obstruction of filters.

An insurance policy has been stipulated covering potential liabilities due to environmental damage to third parties.

New regulations that apply to the Group or its products, or changes in the regulations currently in force in the sectors in which the Group operates, including internationally, could force the Group to adopt more rigorous standards or limit its freedom of action in its areas of operation. These factors could entail costs relating to adapting the production facilities or product characteristics. To mitigate this risk, Gefran focuses its product research on analysing potential impact on environmental aspects in order to trace and anticipate trends, developing new green products which are ethically sustainability and in the vanguard in energy efficiency.

Mapping of risks and actions in the Parent Company for the purposes of mitigation

In 2015 the Parent Company Gefran S.p.A. carried out an energy audit of its plants to check, among other things, their use of energy resources; the audit revealed that the most significant data referred to electricity consumption, which accounts for over 80% of total consumption, in terms of both quantity and emissions.

It therefore identified the corporate areas where most electricity was used, and in order to implement actions to improve energy performance and reduce emissions, a consumption monitoring system was set up by installing control monitors (data loggers) in 2017. Analysis of the data gathered and the resulting graphs, and comparison with fixed reference parameters, permitted identification of critical energy points in processes and in how machines are used, and potentially inefficient machinery/equipment was identified with the aim of planning specific initiatives for improving performance.

From the monitoring carried out, it has become clear that the most significant electricity consumption is by machinery in the production departments, the cold/ventilation circuits and, in particular, lighting (over 50%). In view of this, the company has drawn up a progressive series of energy efficiency actions in these sectors, some of which have already been implemented while some are scheduled for the near future.

The main activities implemented are reported below:

- Replacement of the refrigerating unit in the Provaglio plant in Via Sebina improved the performance of the air conditioning system. The first phase took place in 2017, and the project was concluded early in 2019 with replacement of the second unit as well.

- Replacement of light fixtures began at the end of 2017 and continued in 2018 with redesign of lighting technology for the areas involved and the transition to apparatuses with LED technology and a “DALI” (Digital Addressing Lighting Interface) integrated control system. These technologies ensured that the measurements made by the data loggers recorded reductions in consumption averaging 60% to 70%, peaking at 80% in areas which had previously had particularly inefficient lighting. The areas where light fixtures were replaced in 2018 were:

  - ✓ in the Via Sebina plant: lighting in outdoor areas, technical offices, the assembly and production areas for automation components, and the SMT technological department;
  - ✓ in the Via Cave plant: lighting in outdoor areas and a number of sensor production departments (mechanical workshop, industrial pressure sensor assembly, position sensor assembly, load cell assembly);
  - ✓ in the Via Galvani plant: lighting in outdoor areas.

- A furnace in the Via Cave plant was replaced (in the thick film sensors department).

The energy audit also showed that around 15% of energy consumption is linked to thermal energy (methane gas) used almost exclusively for heating. Analysis of the existing systems revealed that it would be advisable to replace the heating units (boilers) in the plants in Via Sebina and Via Cave to achieve more energy-efficient performance. These two investments were made in 2018.

The company’s constant commitment to mitigation of the environmental risks deriving from its business is also underlined by the company's investment plan for the next three years. The principal activities planned for 2019 include:

- Replacement of the SMT welding unit in the plant in Via Sebina, purchased at the end of 2018, installation of which is due to be completed in the first half of 2019. The two existing units consume an average of 15kWh each per hour of operation, while expected consumption according to the technical specifications of the new units is less than 9kWh (-40%). Dedicated data loggers will be installed to monitor the beneficial effects, connected with the consumption measurement system. The new units will also reduce nitrogen consumption for welding from 25-29sqm/h to 9-15sqm (minim and maximum values).

- Replacement of the wave soldering machine in the plant in Via Sebina. One of the parameters taken into account in the choice of technical solution will be total electricity and nitrogen consumption.

- Continuation of the lighting redesign plan and replacement of light fixtures in various departments (warehouses in Via Sebina, warehouses and production departments in Via Cave).

- Replacement of a refrigerating unit for air conditioning in the plant in Via Cave.

Moreover, continuing to focus on energy performance and safeguarding of resources, in 2019 the company will set up a new production area in Via Galvani destined to contain mechanical processing operations for the workshop and load cell assembly. The existing building did not guarantee adequate energy performance, and so the company decided to renovate it adopting solutions offering most efficient energy performance.

2019 NEW PRODUCTION AREA Project – Via Galvani Provaglio d'Iseo

- ✓ Insulation of prefabricated constructions
- ✓ Increased daylight with "shed roof" directed toward the zenith to the north
- ✓ Installation of photovoltaic panels on shed backs, arranged toward the zenith to the south
- ✓ Artificial lighting with Dali LED technology

2020 ENERGY EFFICIENCY PROJECT – Via Cave Provaglio d'Iseo

- ✓ Insulation of external walls with ventilated façade
- ✓ Replacement of existing window frames
- ✓ Installation of sunbreak in office area
- ✓ Adaptation of façade in entrance area
- ✓ Roof insulation and refurbishing of waterproofing layer

Replacement of light fixtures in all remaining areas will be completed by 2020, and the project for improving the energy efficiency of the plant in Via Cave will also be completed, as it is also included in the 2018-2020 plan.

2.2. GEFRAN GROUP POLICIES

Gefran is committed to contribute actively to an environmental responsibility policy to reduce greenhouse gas emissions in the atmosphere, through continuous improvement of the energy efficiency of its plants and to see sustainable solutions in various areas, through practical initiatives.

The packaging used for its products is made from entirely recyclable materials and the manuals, which in the past were distributed in paper form, have been replaced since 2012 by CDs; it is estimated that this has reduced the quantity of printed pages by 45% (between 2012 and 2016).

Internally also, changes have been made gradually to processes to reduce the use of printed paper, especially with regard to information management in HR. Specifically, since 1 January 2014, all Italian employees' pay slips, which were previously printed and distributed, are now saved in a special area reserved for employees, where Single Certification forms have been filed since 2015. In addition, all supporting documents for absences or overtime and travel expenses claims, which were previously filled in on paper forms, are now tracked with special authorisation flows within the attendance management software.

The most recent initiatives undertaken include management of meetings of the company's governance bodies using digital tools. Moreover, with the entry into force of the requirement for electronic invoicing on 1 January 2019, the Group's Italian companies chose the option for optical filing of invoices payable as well (this had already been in place for invoices receivable and accounting books for some time). Both projects, continued in the last quarter of 2018, will further decrease use and disposal of paper by about 300 kg per year.

The Group's environmental focus is further confirmed by Research and Development activities with a focus on identifying "ecological" solutions for new products; for example, Impact, the melt sensor without filling fluid, which was developed from 2007 and put on the market in 2009 ahead of the European RoHS directive 2011/65/EU, which came into force in June 2011 and which since 22 July 2017 has regulated the entry on the market of industrial monitoring and control devices containing mercury. The trend toward environmental compatibility also saw expansion of the range of melt sensors with the addition of NaK sensors, filled with mixtures of sodium and potassium.

Over the years EUR 625 thousand has been invested in photovoltaic systems to produce electricity to operate the Parent Company's production plants, and specifically:

- in 2011 at Provaglio d'Iseo a 170.1 kWp system;
- in 2011 at Gerenzano three smaller systems of, respectively, 6.912 kWp, 6.912 kWp and 7.36 kWp;
- in 2013 at Provaglio d'Iseo an 89.67 kWp system;

where kWp (kilowatts peak) is the unit of measurement used in the photovoltaic sector to indicate the instant power provided by a photovoltaic cell or panel, in defined standard conditions.

Also taking into account the activities described in the previous section, the company's orientation in its work is toward optimising use of energy resources at all levels in order to reduce their environmental impact. A specific company function has been set up for this purpose, "Safety & Environment", with employees working specifically in the area of environment and energy conservation.

Its tasks include in particular:

- Complete management of industrial waste (storage and disposal), in accordance with current legislation.
- Organising the company's separate waste collection system.
- Checking workstations/chimneys for emissions into the atmosphere.
- Monitoring energy consumption.
- Collecting data on energy consumption.
- Organising training programmes promoting awareness of the issues it deals with among employees.

Safety & Environment uses professional consultants for the various areas of its work (legal formalities, personnel training and drawing up procedures for the correct handling and management of waste).

	2018	2017	2016
quantity of wastes collected for recycling (*)	123,142 kg	99,400 kg	84,650 kg
of which:			
Solid Urban Waste	21.0%	23.3%	28.8%
Paper/Card	35.5%	34.4%	39.9%
Plastic	24.4%	21.0%	20.4%
Wood	19.1%	21.3%	10.9%
quantity of Organic Solid Urban Wastes (*)	4,170 kg	3,450 kg	3,170 kg

(*) figures provided by disposal company

The Group's Italian plants have a separate waste collection system used by all employees, using different coloured containers and clear information about the type of waste to be put in each of them. Figures on the trend of separate waste collection in the plants in Provaglio d'Iseo reveal Gefran's commitment to coming up with the most sustainable solution for waste management.

Specifically, for the Group's Italian plants (the Parent Company Gefran S.p.A. and Gefran Soluzioni S.r.l. and Gefran Drives and Motion S.r.l.), a report is provided below on data relating to waste produced, drawn up by Safety & Environment, distinguishing between hazardous and non-hazardous wastes:

in kg	**2018**	**2017**	**2016**
Total waste produced	**503,407**	**373,571**	**406,605**
of which hazardous	37,124	21,481	46,160
% of total	7.4%	5.8%	11.4%
of which non-hazardous	466,283	352,090	360,445
% of total	92.6%	94.2%	88.6%

in kg, by destination	**2018**	**2017**	**2016**
Total waste to be recovered (reuse or recycle)	**347,491**	**206,355**	**153,476**
% of total	69.0%	55.2%	37.7%
of which hazardous	4,458	1,170	2,880
of which non-hazardous	343,033	205,185	150,596
Total waste to be disposed of (landfill or waste-to-energy)	**155,916**	**167,216**	**167,216**
% of total	31.0%	44.8%	41.1%
of which hazardous	32,666	20,311	20,311
of which non-hazardous	123,250	146,905	146,905

Note that in 2018, following the expansion and redevelopment of production areas, the Group disposed of all obsolete materials which were technically inadequate for the Group's current requirements. This led to an increase in the weight of wastes destined for recycling, which increased in 2018 over 2017 (+35%) and over 2016 (+24%).

The weight of wastes destined for disposal was down in 2018 over the years 2017 and 2016, in terms of both absolute value and as a percentage of total wastes. This is attributable to improvement of separate collection of wastes for recycling.

Since the year 2018 other Group companies have also begun collecting data; here are the reported figures:

in kg	**2018**
Total waste produced	**557,311**
of which hazardous	38,453
% of total	6.9%
of which non-hazardous	518,858
% of total	93.1%

Some companies were not able to report precisely (particularly Gefran Inc, Gefran India Private Ltd, Gefran Siei Asia Pte Ltd and Sensormate AG), and so estimates were made on the basis of the quantities of paper purchased and packaging consumed.

in kg, by destination	**2018**
Total waste to be recovered (reuse or recycle)	**374,092**
% of total	67.1%
of which hazardous	5,037
of which non-hazardous	369,055
Total waste to be disposed of (landfill or waste-to-energy)	**183,219**
% of total	32.9%
of which hazardous	33,416
of which non-hazardous	149,803

2.3. NON-FINANCIAL PERFORMANCE

Gefran has set up a system for reporting on energy consumption, covering all the Group's production sites:

- Gefran S.p.A., plants in Provaglio d'Iseo (BS);
- Gefran Drives and Motion S.r.l., plant in Gerenzano (VA);
- Gefran Soluzioni S.r.l. (IT);
- Gefran Inc. (US);
- Gefran Brasil Elettroel. Ltda (BR);
- Gefran Siei Drives Tech. Pte Ltd (CN);
- Siei Areg GmbH (DE);
- Sensormate AG (CH);
- Gefran India Private Ltd (IN);

and its main sales branches:

- Gefran Deutschland GmbH (DE);
- Gefran Siei Asia Pte Ltd (SG).

A number of companies have been omitted in that they are purely concerned with sales and have a limited turnover and a small number of employees, and so their impact is considered to be of marginal significance. The following are therefore excluded from the perimeter:

- Gefran UK Ltd (UK);
- Gefran France S.A.(FR);
- Gefran Benelux NV;
- Gefran Middle East Ltd Sti;

The results confirmed that the main **energy sources** used by the Group are:

- Electricity, used in production processes, for the cold/ventilation circuit and for lighting; a portion of the electricity consumed (about 3% to 4%) is self-generated, via the photovoltaic panels installed in the Parent Company Gefran S.p.A.'s plants and those of the subsidiaries Gefran Soluzioni S.r.l. and Gefran Drives and Motion S.r.l..

Electricity in GJ	**2018**	**2017**	**2016**
Self-generated electricity	839	991	933
Mains electricity	26,268	25,477	24,164
Total Electricity	**27,107**	**26,468**	**25,097**
Percentage of total energy consumption	54.8%	54%	49.5%

The increase in the amount of electricity purchased from the grid in 2018 is largely attributable to expansion of production lines; the year also saw night shifts worked in the sensors production plant in Provaglio d'Iseo.
As for self-generated electricity, one of the photovoltaic installations had to be shut down for some time in 2018 to permit renovation of the roof on the building on which it is installed. This contributed to the decrease in self-generated energy in 2018 as compared to previous years.

The method used to report figures from the subsidiary Gefran Siei Drives Tech Pte Ltd (CN) was changed in 2018, and so, to permit fair comparison, the figures for 2017 and 2016 have been modified in comparison with those published in the 2017 Declaration, updated on the basis of the new reporting methodology.

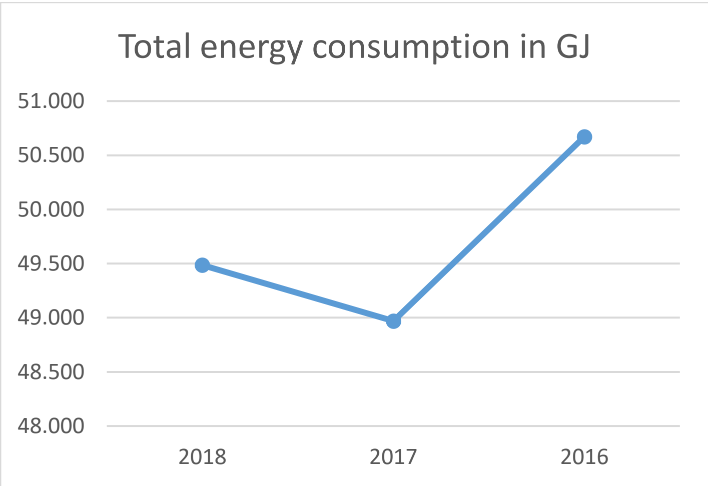
- Fuel, mainly diesel fuel for company vehicles; the diesel for "other uses" is used to supply the fire pumps and generator

Fuel in GJ	**2018**	**2017**	**2016**
Diesel for company vehicles	9,303	7,817	10,964
Diesel for other uses	45	35	18
Petrol for company vehicles	1,214	1,288	1,270
Total Fuel	**10,562**	**9,139**	**12,253**
Percentage of total energy consumption	21.3%	18.7%	24.2%

- Natural gas, used to heat the workplaces; no gas is used in the production process:

Natural gas in GJ	**2018**	**2017**	**2016**
Total Natural gas for heating	**11,818**	**13,362**	**13,321**
Percentage of total energy consumption	23.9%	27.3%	26.3%

The method used to report figures from the subsidiary Gefran Siei Drives Tech Pte Ltd (CN) was changed in 2018, and so, to permit fair comparison, the figures for 2017 and 2016 have been modified in comparison with those published in the 2017 Declaration, updated on the basis of the new reporting methodology.



+1.1% 2018 vs 2017

-2.3% 2018 vs 2016

The increase in consumption in 2018 as compared to 2017 is primarily a result of greater use of resources in view of the Group's overall growth (greater volumes of production, more human resources, larger areas used by plants).

Gefran's commitment to reduce energy consumption is revealed in the Energy Intensity indicator, calculated as the ratio between energy used and revenues, limited to the companies in the reporting scope. The indicator continues to shrink:

Energy intensity	**2018**	**2017**	**2016**
GJ over revenues	0.399	0.416	0.473

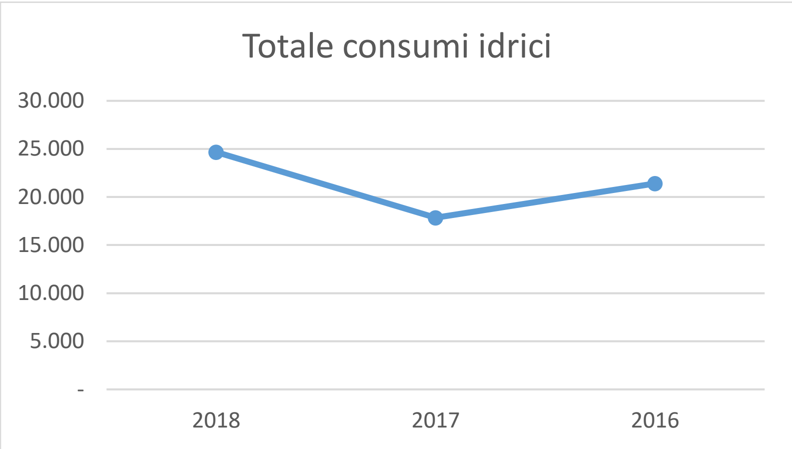
-4.1% 2018 vs 2017

-15.6% 2018 vs 2016

With regard to **water consumption**, it must be stressed that water is not used in the production processes so there are no industrial discharges; water consumption is modest, and all water is taken from the mains water supply.

in m3	**2018**	**2017**	**2016**
From mains	24,671	17,852	21,394
Total water consumption	**24,671**	**17,852**	**21,394**

Some companies were not able to report precisely (particularly Gefran India, Gefran Siei Asia and Sensormate), and so estimates were made on the basis of average consumption for employees in companies of similar size.



+38.2% 2018 vs 2017

+15.3% 2018 vs 2016

The increase in water consumption recorded in 2018 as compared to previous years is attributable to the increase in the number of Group employees and to "extraordinary" consumption linked with the dismantling of technological systems and construction sites opened for construction of new areas and renovation of a number of existing buildings. In addition to this, in 2018 a leak was discovered in a pipe in the fire-fighting system in the plant in Gerenzano (VA), which was repaired.

Energy consumption by purpose of use

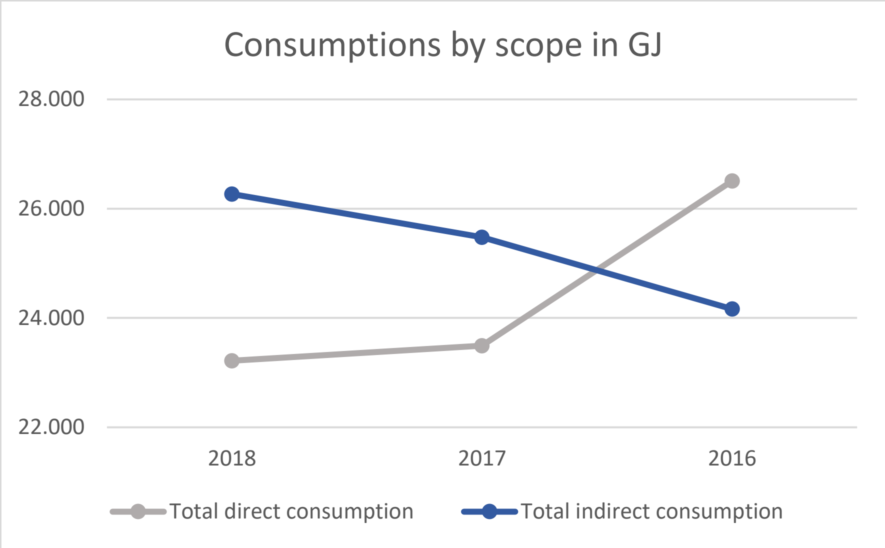
When analysing the Group's activities and the energy consumption related to these, Gefran considers *"direct"* consumption to include the use of fuel, for company vehicles and the emergency generators that are used only if there is a power cut, the electricity self-generated by the photovoltaic panels installed on the factory roofs and used to operate the systems, and the natural gas bought and used to heat the workplaces.

A summary is given in the table below:

Direct energy consumption in GJ	**2018**	**2017**	**2016**
Diesel	9,348	7,852	10,982
Petrol	1,214	1,288	1,270
Self-generated electricity	839	991	933
Natural gas	11,818	13,362	13,321
Total direct consumption	**23,219**	**23,492**	**26,507**

The Group's *"indirect"* energy consumption refers to electricity (from the mains), used mainly by the offices. *"Indirect"* consumption is summarised here:

Indirect energy consumption in GJ	**2018**	**2017**	**2016**
Mains electricity	26,268	25,477	24,164
Total indirect consumption	**26,268**	**25,477**	**24,164**

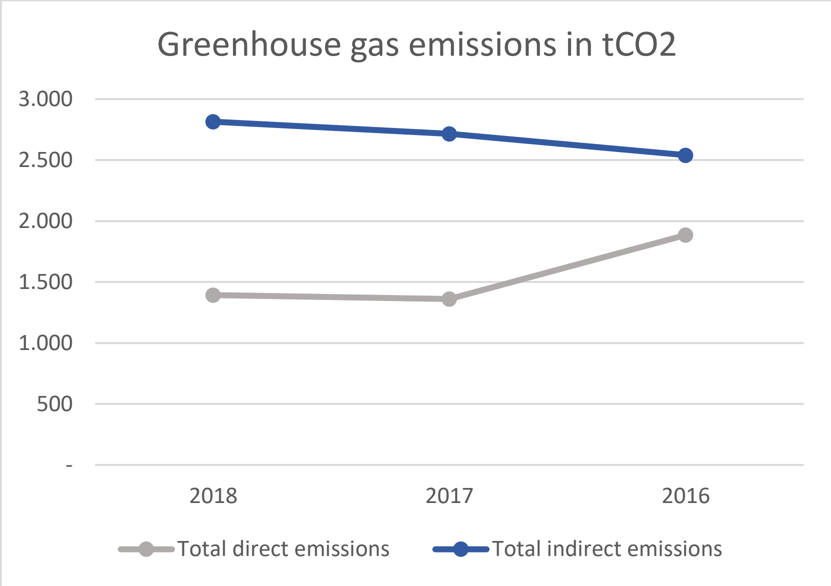


Emissions into the atmosphere

After gathering the energy consumption data, greenhouse gas emissions were calculated per purpose of use.
Greenhouse gas emissions connected to Gefran's activities arise from the direct and indirect consumption of energy, and from losses linked to the consumption of refrigerant gas (F Gas).

Emissions in tCO2	**2018**	**2017**	**2016**
Diesel for company vehicles	690	580	814
Diesel for other uses	3	3	1
Petrol for company vehicles	82	87	86
Natural gas	571	646	644
Other (F Gas)	46	45	340
Total direct emissions	**1,393**	**1,360**	**1,885**

Emissions in tCO2	**2018**	**2017**	**2016**
Mains electricity	2,815	2,714	2,541
Other (specify)	-	-	-
Total indirect emissions	**2,815**	**2,714**	**2,541**



The method used to report figures from the subsidiary Gefran Siei Drives Tech Pte Ltd (CN) was changed in 2018, and so, to permit fair comparison, the figures for 2017 and 2016 have been modified in comparison with those published in the 2017 Declaration, updated on the basis of the new reporting methodology.

The indicator of intensity of emissions in 2018, calculated as the ratio between emissions produced and the revenues of the plants reporting their emissions, is better than in the previous year and in 2016:

Emissions intensity	**2018**	**2017**	**2016**
tCO2 over revenues	0.034	0.035	0.041

-2.1% 2018 vs 2017

-17.8% 2018 vs 2016

The method used to calculate the indicator by the subsidiary Gefran Siei Drives Tech Pte Ltd (CN) was changed in 2018. A diagram for the 2018-2016 three-year period is shown below, consistently with this change.

Finally, it is estimated that, based on the yields from the photovoltaic systems installed on the roofs of the Provaglio d'Iseo and Gerenzano plants and shown in the table below, emissions not emitted into the atmosphere are equal to 84 tCO2 (99 tCO2 in 2017 and 86 tCO2 in 2016).

	2018	**2017**	**2016**
Yield of PV systems (in MWh)	233	275	239
Emissions not emitted into the atmosphere (in tCO2)	84	99	86

The reduction in yield in 2018 is attributable to extraordinary maintenance performed on the roof of the Gerenzano plant which required the installation to be turned off.

With regard to **NOx, SOx, and other significant emissions**, the values for the companies in the reporting scope are given below:

Emissions in t	**2018**	**2017**	**2016**
Emissions into the atmosphere from motor vehicles			
NOx	2.803	2.373	3.293
SO2	0.004	0.003	0.004
PM10	0.180	0.153	0.211
VOC	0.309	0.316	0.331
Emissions into the atmosphere from production processes			
VOC	0.344	0.385	0.421

3. MANAGEMENT OF HEALTH AND SAFETY

3.1. RISKS AND OPPORTUNITIES

Workers' health and safety

Risk assessment is essential to protect the health and safety of our workers.
Gefran is constantly committed to mapping the operating risks that could be manifested in the various company sectors, to define opportunities and actions to minimise them, where possible.
Accident data is periodically collected, and situations are analysed by the relevant bodies (Head of Health & Environment, Company Doctor and Employer).

The risks identified are essentially attributable to specific risks in production, logistics and/or offices:

- risk of injuries or accidents to employees at particular stages in assembly, including the risk of loads falling from high places;
- impossible or difficult access to safety devices if their location is poorly identified;
- failure to recognise hazardous substances and know what to do in the event of contamination;

and more general risks:

- risks on the way to and from work;
- risks of internal falls/slips;
- risks not specifically linked with the work environment, but correlated to the pathologies most frequently found among the European population today (according to the World Health Organisation).

Again, in the context of production and logistics, an "increased operating risk" was identified from incorrect handling of materials and their storage in inappropriate areas. Secondary risks were also identified, such as the risk that small components could get into operators' eyes when smoothing circuits.

Following this analysis, Gefran assessed whether it was appropriate to implement an internal system of best practices, for all Group companies, to disseminate and reinforce a culture of occupational health and safety which, as well as being a regulatory obligation, is an important value of corporate responsibility.

When an injury occurs, the procedure for investigating the hazardous events provides a prompt, structured response aimed at identifying, analysing and recording the basic causes of the hazardous event, so as to define corrective and preventive actions and ways to improve and prevent the event from being repeated. These may be summed up as opening an investigation in order to obtain more information on the event and reporting on the incident. These documents will be analysed in periodic safety meetings attended by the Head of Safety & Environment, the Employer, the Company Doctor and workers' representatives.

In view of the results of the investigation, additional discussions and specific training sessions will be organised focusing on use of protection equipment or the procedures to be followed.

User health and safety - Risks connected to compliance with the regulatory framework

Since the Group makes and sells electronic components used in electrical applications, it is subject to specific legal and regulatory requirements in the various countries in which it operates, and to technical standards on safety that are applicable to the products made and sold.
The Research and Development sector is therefore continually seeking to adapt product characteristics, to comply with the safety requirements of the various application sectors and to fully meet customers' needs.
This is one of the sustainable values promoted by Gefran to enable the Group to maintain and increase its market share.

User health and safety - Risks associated with product development, management and quality

The Group's value chain covers all activities, including R&D, production, marketing, sales and technical support. Defects or errors in these processes may cause product quality problems that could potentially affect users' safety, in addition to the Group's results and financial position.
The work of the Research & Development and Production Engineering teams focuses on developing and engineering products which are sustainable in terms of safety, the former through definition of technical specifications for correct product installation and the latter through analysis and identification of production procedures aimed at mitigating potential risks deriving from incorrect process management.
The customer is overseen by Marketing, which studies the customer's specific requirements and the fields of application and environments in which the products will be installed in order to guide the customer in making decisions and complying with safety protocols.

In line with the practice common among operators in the field, the company has also stipulated insurance policies considered adequate to protect against the potential economic and financial impact that would result, and has a specific product warranty provision proportionate to the volume of business and the history of phenomena.

User health and safety - Legal risks and product liability

Within the scope of Gefran's core business, the manufacture and sale of products may give rise to issues linked to defects and consequent liability in respect of its customers or third parties. Like other operators in the industry, the Group is therefore exposed to the risk of product liability litigation in the countries in which it operates.
The Quality areas in various Group plants are constantly busy analysing the components most exposed to the risk of defects. When critical problems are identified, action is promptly taken with the involvement of Procurement and Research & Development, for instance by specifically investigating the type of supply or revising the product. These actions are aimed at identifying the problem that arose and limiting the resulting risks, which could also have an impact on the products’ safety performance. If necessary, moreover, with the support of the Marketing team, a campaign may be held to obtain return of products for repair or replacement.

In line with the practices of many operators in the sector, the Company has taken out insurance policies that it considers sufficient to protect itself against the potential economic and financial impact of this liability and has also set up a specific provision for these risks.

3.2. GEFRAN GROUP POLICIES

Workers’ health and safety

From the point of view of health and safety connected to the company’s activities, the company’s general approach is to provide its employees with all the tools needed to do their work with a reasonable degree of safety, whether in the form of safety devices or constant training.

With reference to the first of these types of risk, and particularly the risk of injury to assembly workers, Gefran demonstrates awareness of this issue in implementation of its investment plan, and has obtained CE certification of two SMT production lines and the optical inspection line in its plant at Via Sebina 74. All the machines included in the 2019 investment plan will meet the requirements for CE marking. Lines incorporating machinery purchased abroad must be provided with CE certification by the supplier, while machinery built in-house will be certified by Gefran, involving its safety consultants in the design of the machinery. In this way, Gefran obtains not only CE certification of individual machines, but of the entire production line.
In the mapping of risks in the production and logistics contexts, the risk of loads falling from height was identified; following this assessment, company practices were adopted to limit this risk, such as the use of safety shoes in all production and logistics areas and restricting access to these areas for those not working there.
Workers are provided with PPE (personal protection equipment) to be used appropriately for their assigned tasks and activities and instructed in its use. To improve recognition of the obligations inherent in various different activities, in 2019 the company will begin a process of graphic identification of all workstations with symbols representing the PPE required when working on them.
In 2018 the company began a health and safety education campaign, which will continue in 2019 with the involvement of all the Parent Company's employees. This kind of work is its duty, and Gefran has chosen to have it done by a group of professionals in the field, so that the education campaign may become an opportunity to experiment with active teaching methods, intervening to change the behaviour of individuals and the corporate organisation as a whole.
To minimise the “increased operating risk” caused by the incorrect handling of materials and storing them in appropriate areas, and to reduce the possible risk of accumulation, a “lean” approach has been adopted, organising the workstations according to their specific function and clearly defining materials handling spaces and storage spaces. “Lean” reorganisation projects will continue in 2019 with the involvement of the Melt, Magnetostrictive and Load Cell assembly lines. In the latter case, the project

focuses in particular on movement of semi-products, which can weigh several kg, in safe conditions and in the most ergonomic way for workers.

To control and limit operating risks in the Group's foreign production sites, the Parent Company supervises the implementation of new lines, firstly when they are made - they are assembled in Italy following the Italian model and then sent to the overseas plants - and then in the organisation of the production process, structured using the "lean" process described above. When the lines have been implemented, Parent Company personnel check that these organisational and production principles are complied with, through periodic inspections.
2018 saw the installation of:

- a Magnetostrictive sensor assembly line in the production plant in China;
- a Power Control component testing station in the plant in Brazil.

A number of installations are also planned for 2019, for which construction of equipment is already underway:

- Melt Nak sensor filling system in the US plant;
- Force sensor testing station in the Swiss plant.

As for reduction of risks deriving from impossible or difficult access to safety devices because their location is poorly identified or from the presence of material stored in unsuitable areas, in addition to continuing education and promotion of awareness of these issues, Gefran is coming up with an internal specification using colour codes for horizontal identification and floor markings (the project is already underway and will be completed in 2019). The specification complies with the recommendations contained in standard OSHA 1910.144, but goes beyond them to supply a complete "combination of colours" which helps visually identify work areas and routes and make it immediately clear where the designated storage places are for materials, products, tools and equipment. The "combination of colours" intentionally limits the number of colours used to ensure easy learning and memorisation. It may be changed as necessary to adapt it to operative priorities, processes and the specific features of individual facilities.
Areas where safety equipment such as fire extinguishers or first aid kits are stored will be identified with the colour code red and white, while areas where hazardous materials are stored will be identified with the colour code yellow and black.

With the aim of improving recognition of hazardous substances and extending knowledge of first aid actions in the event of contamination, in 2019 we will be mapping all potentially hazardous materials in use in production areas again, eliminating unnecessary materials from all workstations and work areas and improving visual identification of the others.
The code of the hazardous substance in use will appear on each workstation, with an improved reference to the Material Safety Data Sheet (MSDS), an obligatory document reporting what to do in the event of contamination for each substance. Reading and knowledge of the MSDS document is the subject of training programmes which began at the end of 2018 and will continue into 2019.

Also with regard to the risk of internal falls/slips in plants, Gefran has implemented constant monitoring of floors and stairs, as well as entrances, where weather conditions can further increase this type of risk; this monitoring leads to work to restore safe conditions, where considered necessary. In 2018 the company improved access to the first floor of the building in Via Sebina, replacing the rubber surface of the outdoor pedestrian ramp in question with a quartz resin surface designed specifically to be non-slip in the presence of rain or ice.

Lastly, to limit risks not specifically linked with the working environment but related to the pathologies most common in today's European population (according to the World Health Organisation), Gefran has been promoting a focus on workers' health for many years, supporting initiatives which are not obligatorily required by law in the area of prevention, such as the campaign promoting optional cardiology examinations with a cardiogram for all employees over 50 held in 2017.
In the year 2018 the company decided to add semi-automatic defibrillators to the first aid equipment available in the Gefran plants in Provaglio. The defibrillator is a life-saving device capable of detecting alterations in heartbeat and delivering an electric shock to the heart when necessary. Use of the AED (automatic external defibrillator) is subject to a course in BLS-D (Basic Life Support - early Defibrillation) which provides instruction in how to treat heart attack victims with cardio-pulmonary resuscitation and defibrillation, provided to members of the emergency response teams in various compay plants.

User health and safety

The Gefran Group's mission is to support customers in improving the performance of their technological processes, by ensuring continuity and dedication and maximising sustainable value.
Thanks to its passion, energy and skills with technology and innovation, Gefran is able to provide effective, targeted responses.
Gefran owns and develops proprietary technologies that enable it to keep its promises in terms of reliability, quality and safety, thus combining the values of a family-run business with an international management structure.

One of the requirements that enables Gefran to maintain its leadership in user health and safety matters is maintaining an effective and up-to-date Quality Management System compliant with UNI EN ISO 9001:2015; its purposes are:

- to create and maintain its identity consistent with the values and mission in the Code of Ethics;
- to satisfy its customers, effectively interpreting their needs and ensuring the best service to support their use of the product;
- to develop its employees professionally;
- to promote continuous improvement in the organisation;
- to check objectives set in the quality plan are achieved;
- to develop and make products ensuring that they comply with the applicable binding regulations and those adopted voluntarily;
- to ensure that products comply with specified requirements and with the applicable binding regulations and those adopted voluntarily;
- to seek, select and develop appropriate suppliers capable of meeting the Group's requirements in terms of total cost, technological capabilities, quality and service;
- to manage any customer complaints promptly, responding with effective solutions.

With regard to user health and safety matters, in the aforementioned statement on quality policy, the Group's desire to design, develop, produce and sell only products compliant with applicable, binding regulations is clear to see.

The safety and quality of Gefran's products is considered a distinctive feature and a significant competitive lever in the market. With this aim in mind, a special working group has been set up to discern which certifications are appropriate for the various products, consistent with the approach to the core applications and geographical end markets. In addition, the processes to develop new products include analysis and identification of binding regulations and subsequent steps of certifying performance and compliance with the identified regulations.

Backing up the Group's commitment to provide cutting-edge products in terms of safety, Gefran has a number of employees who take part in the CEI technical committees, to become aware of, anticipate and influence future product standards and, where necessary, use specialist advisers working in the product certification sector.

The processes involved in the field of application of the Quality Management System are cross-functional:

1. **Strategic processes:**	2. **Operating processes:**	3. **Support processes:**
• Strategy; • Product plan approval; • Three-year plan.	• Commercial; • Innovation; • Operations; • Procurement.	• Management control; • Information systems; • Human resources; • Measurement, analysis and improvement.

For each of the processes listed above, the inputs/outputs, specific activities and responsibilities, the sequence and interactions with other processes have all been identified to ensure product quality and therefore safety:

- division management draws up the strategic plan (whether compliance with a standard impacts strategy or is a driver of it will be appropriately considered) and Top Management approves the three-year plan;
- the product manager and commercial department determine the customer's or reference market's requirements (the product requirements and binding regulations and non-mandatory certifications that are useful for competitive advantage are defined ahead of the product development process);
- R&D develops the product and certifies that it complies with all the characteristics and standards in the technical specifications put together by the product managers, including any additional certifications;
- engineering industrialises the product;
- the operations area looks after manufacturing: the necessary control points will be included in the manufacturing process to ensure compliance with the product characteristics; currently Gefran carries out production process controls on 100% of products and is moving towards including automated control steps, to eliminate the uncertainty of manual tests;

> The products made in Gefran's plants undergo the controls specified for the production cycle: when accepting the materials, during the intermediate production steps and in final testing.
> In particular, when there are safety requirements, the necessary final testing is arranged and the results are recorded in accordance with regulations.
> The controls on each product serial number are tracked.

- quality measures and analyses performance to guide continuous improvement.

As the Group believes it can create sustainable value, it is constantly looking at ways to adapt and renew its products, including with regard to safety directives. We give two significant examples of activities on this front carried out in recent years:

1. Since 22 July 2017, the RoHS directive has also applied to industrial measurement and control devices; in our case, pressure sensors for high temperatures can use mercury as a filling liquid. Gefran has responded to this by developing, since 2007, a range of products and alternative

technologies, which is now fully able to meet the common requirement to reduce the negative effects on the environment and on people.

2. Again, with the aim of providing our customers or end users with high-standard products in terms of safety, and with specific reference to the pressure sensor range, both those for high temperatures and those not, Gefran offers products certified for functional safety (PL- Performance Level and SIL- Safety Integrity Level), as well as sensors that can operate in potentially explosive areas (ATEX, EAC Ex). The automation components range also demonstrates an ongoing determination to integrate high standards for functioning and safety (such as SCCR approval under UL 508) to guarantee that users enjoy an ever-growing level of protection.

Supply chain

With regard to minerals from conflict zones (conflict minerals), Gefran is committed to responsible procurement and considers mining activities that feed conflicts as unacceptable. Gefran's commitment is in line with the activity of the Electronic Industry Citizenship Coalition® (EICC®) and Global and Sustainability Initiative (GeSI) to improve the transparency and traceability of metals in the supply chain. In this area, in the year 2014, Gefran mapped the bills of materials of Group products to identify what minerals might be present; the analysis showed that, of the four minerals covered by the regulations, tungsten is not present in the components used, whereas tantalum, gold and tin are.
As a result of this check, suppliers who might use these minerals in their production process were then identified and they were asked to certify that their supplies do not come from conflict zones.

Following this analysis, Gefran prepared ad-hoc certification for customers requesting it and published the guidelines adopted and Group policy on its official website. The documents may be found at http://www.gefran.com/it/it/pages/85-conflict-minerals.

Lastly, in the area of protection of human health and the environment from risks linked with chemical substances, Gefran is not directly affected by the obligations resulting from application of European REACH regulations as the Group:

- does not produce or import chemicals;
- does not use substances of very high concern (SVHC) in its processes;
- is a “downstream” user of chemicals but ensures that the supply chain complies with the tasks established by REACH to ensure sustainable continuity in supplies.

3.3. NON-FINANCIAL PERFORMANCE

The Group’s policies and practices, with sustainable aims in terms of health and safety, have been confirmed with the lower number of accidents in the last three-year period.
The reporting of accident data, like that on energy performance, covers all the Group’s production sites:

- Gefran S.p.A., plants in Provaglio d’Iseo (BS);
- Gefran Drives and Motion S.r.l., plants in Gerenzano (VA);
- Gefran Soluzioni S.r.l. (IT);
- Gefran Inc. (US);
- Gefran Brasil Eletroel. Ltda (BR);
- Gefran Siei Drives Tech. Pte Ltd (CN);
- Siei Areg GmbH (DE);
- Sensormate AG (CH);

- Gefran India Private Ltd (IN);

and its main sales branches:

- Gefran Deutschland GmbH (DE);
- Gefran Siei Asia Pte Ltd (SG).

However, at the moment data from the subsidiaries currently not included in the scope of reporting (Gefran Uk Ltd, Gefran France S.A., Gefran Benelux Nv, Gefran Middle East Ltd Sti) is considered negligible as they are small sales companies with limited turnover.
Data is collected on a one-off basis, with the help of the company functions that manage this type of information (HR, Safety & Environment, Employer).

The figures below represent the number of accidents on the job that took place in the last three years; note that there have been no accidents defined as "serious" or "mortal". In detail:

total accidents	**2018**	**2017**	**2016**
No. accidents	**5**	**1**	**4**
of which serious	-	-	-
% of total	0.0%	0.0%	0.0%
of which fatal	-	-	-
% of total	0.0%	0.0%	0.0%
Working days lost due to accidents	**198**	**61**	**57**

of which accidents on the way to or from work	**2018**	**2017**	**2016**
Accidents on the way to or from work	**1**	**-**	**2**
% of total	20.0%	0.0%	50.0%
Working days lost due to accidents on the way to or from work	**55**	**-**	**26**

Of the five accidents which took place in 2018:

- two took place in the plants in Provaglio d'Iseo (BS), one of which was due to incorrect handling of material leading to loss of 11 working days, while the other was due to failure to use PPE while cleaning production equipment and resulted in loss of eight working days;
- one accident took place on the way to or from work to an employee of the Parent Company, Gefran S.p.A.;
- one accident took place in the plant in Gerenzano (VA) due to improper handling of equipment during assembly of electronic boards in the PTH production department; this lead to a fracture in a finger, with loss of 53 working days;
- one accident took place in the plant in Aadorf (CH), resulting in loss of two working days, when a worker cut a hand due to failure to apply the correct procedure for handling materials.

The procedures and practices described above were begun following these accidents. Accident rates are shown below:

accident rates	2018	2017	2016
Accident frequency rate (no. accidents, excluding accidents on the way to or from work, x 1,000,000 / hours worked)	2.97	0.77	1.50
Accident severity rate (working days lost, excluding accidents on the way to or from work, x 1,000 / hours worked)	0.11	0.05	0.02

In view of the dynamics described above, the worsened frequency and gravity indicators do not affect Gefran's constantly high level of attention to Health and Safety issues, both in relation to its employees and in technologies applied to its products, making it one of the key values of corporate excellence throughout the Group.

In 2018 the company organised in-depth reporting of employees' hours of training in the area of specific Health and Safety issues. In the Group's Italian plants:

Hours of Occupational Health and Safety instruction	2018		
	W	M	T
Managers	-	-	-
Middle managers	16	90	106
Clerical staff	347	499	846
Manual workers	169	257	426
TOTAL hours in Italian plants	**532**	**846**	**1,378**

and for the overall scope of reporting as described above:

Hours of Occupational Health and Safety instruction	2018		
	W	M	T
Managers	-	1	1
Middle managers	16	140	156
Clerical staff	371	598	969
Manual workers	185	335	520
TOTAL hours in the Group	**572**	**1,074**	**1,646**

4. MANAGEMENT OF SOCIAL TOPICS

4.1. RISKS AND OPPORTUNITIES

Human capital management

The Gefran Group is founded on key values, set forth in its Code of Ethics and Code of Conduct, including protection of diversity, equal opportunities and respect for human rights.

The company addresses the market and people on a global level, and so the osmosis of experiences, international culture and ability to work alongside people from different cultures and traditions are keys to the success of company operations and competitiveness. For this to happen it is necessary to put into place systems for integration, involvement and sharing of information and experiences focusing not on achieving a sterile homogeneity or uniformity, but on the contrary, drawing on the value of heterogeneity and virtuous contamination in which everyone has a contribution to make. The company sees cultural and gender diversity and integration of unique qualities cooperating to achieve common goals as a valuable asset and strong point, an engine driving innovation and sustainable value. Gefran views diversity as a value which must be respected, and not only in relation to culture, religion and gender. The company also respects and appreciates the value of differences between generations, implementing structured reverse mentoring programmes, and of differences in lifestyle (such as different dietary habits, which the company's cafeterias respect and allow for).

The company is all about people, and professional development is an essential factor in responding to the risk of losing talent, know-how, and skills, and therefore opportunities and competitiveness. Aware of this, the company has implemented a series of initiatives. Plans for engaging people and ensuring their fidelity range from welfare (in 2017, among other initiatives, the company introduced an organisational wellness programme, called *WELLFRAN people in Gefran*) to international mobility, customised training and professional development plans and *FLY* (Gefran's Talent Academy, organised in a close partnership with universities); all these initiatives were launched and continued in the 2016-2018 three-year period to reinforce employer branding and the employee experience.

These results have earned Gefran a mention as an example of excellence on radio programmes (RTL) and national television broadcasts (RAItre), and won the company the prestigious Best Job award (presented by the German Economic Institute); the company also received a visit from Senate Labour Commission.

With a view to achieving digitalisation, and with the goal of optimising information management, the Company has set up IT platforms for analysis of CVs and is working on setting up a Group-wide database of information.

Business skills

We are now seeing the effects of the Industry 4.0 revolution. Genetic development, artificial intelligence, robotics, nanotechnologies, 3D printing and biotechnologies, to mention only a few examples, are amplifying each other's effects, bringing about change with an exponential impact. These changes also have implications for the world of work. While they bring significant benefits in terms of consumption, markets, productivity and new employment profiles, there is also a concrete risk of redundancy for people whose technical skills rapidly become obsolete. This risk is also present in the process of digitalisation of the world of work. At the World Economic Forum in 2016, these issues were addressed in relation to the Future of Labour, and an in-depth study of strategies for the workforce was published identifying sets of crucial skills and competencies that will be in demand in various industries starting in 2020.

In 2019 Gefran will launch a Group-wide training programme (*SKILLS 2020*) aimed at improving skills and competencies that the Company will need to respond to rapid change and transform risks into opportunities.

Supply chain

The main risks that the Group has identified in supply chain management concern guaranteeing continuity of supplies and reliable quality of materials.
However, at the moment Gefran is not able to fully assess the potential risk that human rights might not be fully respected in its supply chain, or that suppliers' activities may be subject to a significant risk of incidents related to employment of minors, forced labour and violations of the freedom of association and collective bargaining.
These risks are mitigated by the fact that most purchases, by value, are made from large multinational groups, and Gefran explicitly requests compliance with the Group's Code of Ethics and Conduct in its purchase conditions.

With a view to continuously improving sustainability performance, the Group has identified an opportunity to promote initiatives aimed at minimising this risk. These initiatives are described in point 4.2.

4.2. GEFRAN GROUP POLICIES

Human capital management

After formalising it in the supplementary agreement signed for the Provaglio plants, at the end of 2017 Gefran started an organisational innovation plan developing models for working hours using advanced participation methods. This project, implemented in 2018 in partnership with experts (instructors from Politecnico di Milano), took the form of a series of meetings between company representatives and workers, and concluded with administration of a questionnaire to the entire components production division. In view of the results of the questionnaire, which revealed widespread appreciation of the working hours applied, flexible working hours were implemented in a number of production departments to permit reduction of the lunch break in order to finish shifts earlier. These flexible working hours are being implemented on experimental basis, which will end in the first quarter of 2019. At the end of this stage, they will be jointly assessed with workers and any problems or further opportunities will be discussed.
The questionnaire also revealed demand among workers for increased multitasking: a structured training plan has therefore been organised which will lead to accumulation of new skills required to develop progressive convertibility of tasks, useful for both the company and the people who work for it.
In addition, for the innovative purposes of the project and for the advanced methods for involving workers in the process, it will be possible to make use of the opportunities for tax exemptions and contributions reductions offered for performance-related pay connected to the innovation actions.

FLY, Gefran's Talent Academy, completed its first year training new university graduates in 2018.
In response to the success of the *FLY* project, and in order to maximise the efficacy of the arrival of new employees in the company, professional development days were held focusing on aspects of behaviour specifically focusing on the context of Gefran: orientation toward customer relations and dialogue, teamwork, problem-solving in complex situations, the challenges of meeting targets and the satisfaction of achieving results.
At the end of each day an on-the-job training session was held in which a remote tutor provided appropriate tools for putting the skills learned in the classroom into practice and using them in the field.

At the same time, the heads of key company departments implemented actions for orientation of new university graduates in Gefran viewed as a “Corporate System”.
The process concluded with a contest in which the young people were divided into two teams and competed to present original ideas aimed at implementing an innovative communications plan for informing university students about the Talent Academy.

Gefran decided to proclaim both of the teams winners, integrating the winning project with an equally valid idea presented by the other team, allocating a budget and helping the kids implement their plan, which has now become a concrete company project included in the Group’s strategic plan. The key goal of the project is strengthening Gefran’s ties with the universities with an innovative approach developed by young talents in Gefran and intended for students about to join the labour market.

In the wake of the success of the first *FLY* Talent Academy project, more recent graduates have been accepted in an organised fashion in accordance with the three-year plan. In the new year the company will continue training programmes focusing on certain aspects of behaviour identified as important by the company. The programme will also include an initial assessment conducted through an Assessment Centre, employing an evaluation method focusing on soft skills and involving a team of people in a process including interviews, team dynamics and individual and group exercises. This process offers a particularly effective way of speeding up participants’ acquisition of professional attitudes, analysing training requirements and setting up group professional development programmes.

Gefran continues to invest in professional development through numerous initiatives, including multi-level participation in events oriented toward issues such as digitalisation and innovation, registration with EMBA (at Politecnico di Milano) and Specialised Master's Programmes (at Oxford University and Politecnico di Milano), and partnerships with universities for working on special projects specifically focusing on issues related to Industry 4.0, such as Smart Processes for a Smarter Factor .

The company also promoted actions supporting management figures in a specific division directly accountable for strategy in order to consolidate the company’s vision, facilitate sharing of targets and identify the most efficient ways of achieving true team integration.

The company continues to implement career paths custom-tailored to suit to employees’ potential and particular qualities with the aim of achieving professional growth. Assessment plans are prepared based on seniority levels, for which development plans are defined.
This year once again saw the promotion of role consultancy for people who require assistance redefining their role in the company. Role consultancy offers employees assistance with their personal and professional growth through recognition of their latent potential. It achieves improved planning (personal self-realisation and efficacy of professional action) through an improved ability to understand and have an impact on one’s position and the relationships it involves.

Courses in foreign languages continue to be held in 2018 (English, French, German and Spanish) and a course has been organised for instruction in effective communication skills.

The Company constantly offers opportunities to students, school-leavers and new university graduates. It has various collaborative ventures with universities and secondary schools. The Company offers curricular and extra-curricular apprenticeships and school/work agreements and opportunities for students to begin work in the areas they have studied, leading to possible employment compatibly with the company’s capacity and the talent demonstrated.
All new employees continue to go through a structured induction process to help them become familiar with processes, products/services and people in their own department and in interdependent functions.

The presence of four different generations in the company, including two analogical native and two digital native generations, requires a special focus on appreciation of their different characteristics and integration of their apparently very different but in actual fact complementary approaches. Analogical

natives have a library of experiences, in-depth vertical knowledge and an analytic approach, while digital natives express a multicultural spirit and an ability to process large quantities of information and to create multicultural networks.
One of the tools we use is Reverse Mentoring: a set of programmes and initiatives designed to enhance the abilities not only of young workers but also of more experienced (senior) workers through a reciprocal exchange of skills, know-how, approaches and points of view. Through focus groups, laboratories, and "four-handed" project management, we implement reciprocal transmission which is not one way, senior to junior, but allows both parties to learn from one another and compare two different models of the world.

In 2018 Group employees participated in a project for mapping the Gefran Brand Experience. Personnel at all levels were involved in this strategic project through interdepartmental workshops led by expert mentors analysing and defining the experience Gefran offers its stakeholders.

Supply chain

In its general terms and conditions of purchase, Gefran explicitly requires compliance with the "*Code of Ethics and Conduct*" used throughout the Group. However, adoption of these principles does not guarantee that the Company is able to fully assess and mitigate the potential risk that human rights may not be fully respected in its supply chain, or that suppliers' activities may be subject to a significant risk of incidents related to employment of minors, forced labour and violations of the freedom of association and collective bargaining.
This aspect has been identified as a potential area for improvement aimed at mitigating these risks, with actions in the year 2018 that will be completed in 2019:

- a special section on sustainability focusing in particular on occupational health, safety and ethics has been added to the supplier evaluation and qualification form;

- a special document entitled the "*Sustainability Pact*" has been prepared, incorporating the principles of the Global Compact pertaining to aspects of environmental, reputational and financial risk; all the company's most important suppliers, those considered critical for its business, will be asked to sign this document in 2019;

- in 2019 the Company will implement a new module in its existing "*E- Procurement*" platform permitting preliminary entry and accreditation of new suppliers, requiring explicit acceptance of the "*Sustainability Pact*" as an essential prerequisite for positive completion of the accreditation process.

Support for social activities

The Group promotes a number of social initiatives, aimed in particular at local associations established in the country; in particular, the Parent Company Gefran S.p.A. supports social initiatives and belongs to various organisations operating in the academic, educational, social and medical worlds.

Some of the main partnerships, which have developed over the years and continued in 2018, support international projects:

- **S.F.E.R.A. Onlus**: an association that encourages development, fraternity, education, responsibility and welcome, through the "Maison de Paix" project to build a multi-purpose centre for human development in the city of Kikwit, in Congo;

- **I.S.E.O. Summer School**: an academic course on matters relating to the global economy, organised by the Istituto di Studi Economici e per l'Occupazione I.S.E.O. (Institute for Studies on Economics and Employment), currently chaired by Professor Robert Solow, the winner of the 1987 Nobel Prize for Economics.

This year the company has decided to support the non-profit association S.F.E.R.A. with a new initiative involving a number of employees and an important international sporting event: Gimondi Bike. The event is organised with the goals of **having fun, competing and enjoying the natural landscape** of the area on the pathways of the Franciacorta district, the shores of Lake Iseo and the hills around the lake.
Gefran has been sponsoring the event for years, and has decided to pay for the registration fee and provide clothing bearing the Gefran logo for any employees who may wish to participate, encouraging them to participate in the sporting event in exchange for a donation to the association S.F.E.R.A Onlus.

In 2018, moreover, the Parent Company Gefran S.p.A. participated in a number of initiatives for education of youth, financing education and training on several levels.
The Company donated to **Fondazione AIB**, which operates Liceo Internazionale per l'impresa Guido Carli, an international business school, providing a scholarship to allow worthy, capable students to attend the school, which is intended for students who achieve outstanding results in secondary education and display motivation, intellectual curiosity and a willingness to put themselves on the line.

Gefran is also among the founders of **Fondazione Itis Benedetto Castelli**, a foundation which:

- proposes and manages initiatives of all kinds aimed at preserving and adding to the technical infrastructure at Istituto di Istruzione Superiore Benedetto Castelli in Brescia;
- proposes and manages initiatives of all kinds aimed at involving teachers and students from I.I.S. Castelli in improvement of the efficacy and efficiency of teaching and learning;
- promotes and manages initiatives of all kinds aimed at developing synergies between businesses and I.I.S. Castelli to help educate students in the best possible way;
- promotes initiatives of all kinds aimed at helping I.I.S. Castelli graduates find employment, also by promoting on-the-job experience opportunities.

In university education, the Company signed an agreement with the **Engineering Faculty at Brescia University** supporting research in the Department of Information Technology Engineering, and in 2018 the Company offered two scholarships covering the entire three-year PhD programme. The programmes are related to Industry 4.0/IoT and development of predictive algorithms capable of determining the metrological status of sensors. The goal is to add persons with specific skills developed in-house for development of innovative industrial research projects.

Among its cultural and educational initiatives, Gefran contributed as main sponsor to **Cidneon**, an international festival of light held in Brescia in February 2018.
One of the goals of the project is to draw the attention of locals and tourists in Brescia to the Castle.

Gefran also contributed to the **International Piano Festival of Brescia and Bergamo**, one of the world's biggest piano festivals, held in the Teatro Grande in Brescia and Teatro Donizetti in Bergamo.

4.3. NON-FINANCIAL PERFORMANCE

Reporting on personnel management, gender parity, dialogue with trade unions and respect for human rights covers all companies in the Gefran Group, except where expressly indicated otherwise.

Data was collected on a one-off basis, with the help of the company functions that manage this type of information, specifically “People & Organisation”.

Breakdown of personnel, diversity and equal opportunities

As of 31 December 2018 the Group has 771 employees, 41 more than at the end of 2017 and the end of 2016.

We give the breakdown in the Group companies below:

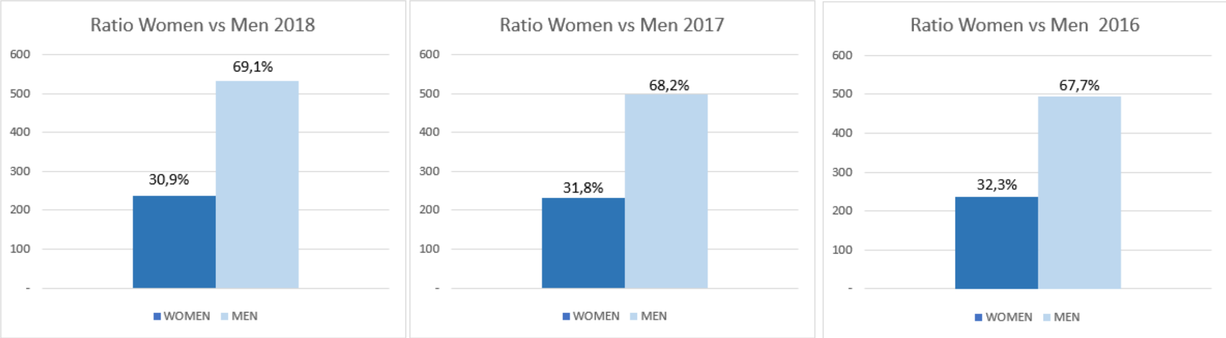
no. employees per company		2018			2017			2016		
		W	M	T	W	M	T	W	M	T
Gefran S.p.A.	Italy	129	187	316	159	287	446	159	287	446
Gefran Siei Drives and Motion S.r.l.	Italy	30	116	146	-	-	-	-	-	-
Gefran Soluzioni S.r.l.	Italy	5	44	49	4	39	43	4	39	43
Gefran Benelux NV	Belgium	4	11	15	3	11	14	3	11	14
Gefran France S.A.	France	3	6	9	2	6	8	2	7	9
Gefran Deutschland GmbH	Germany	5	17	22	5	13	18	9	14	23
Siei Areg GmbH	Germany	1	15	16	2	14	16	2	14	16
Gefran UK Ltd	UK	1	1	2	1	1	2	1	1	2
Sensormate AG	Switzerland	5	17	22	3	13	16	3	11	14
Gefran Middle East Ltd Sti	Turkey	1	4	5	-	3	3	2	3	5
Gefran Inc	US	7	22	29	8	21	29	9	20	29
Gefran Brasil Elettroel. Ltda	Brazil	8	23	31	7	21	28	6	19	25
Gefran Siei Asia Pte Ltd	Singapore	5	4	9	6	3	9	6	3	9
Gefran Siei Drives Tech. Pte Ltd	China (PRC)	31	40	71	28	42	70	27	46	73
Gefran India Private Ltd	India	3	26	29	4	24	28	3	19	22
TOTAL GROUP		**238**	**533**	**771**	**232**	**498**	**730**	**236**	**494**	**730**

Note that the company Gefran Drives and Motion S.r.l. went into business on 1 October 2018 following the Parent Company Gefran S.p.A.'s contribution of its company branch in Gerenzano (VA); employees at the Gerenzano plant are therefore included among Gefran S.p.A. employees in the years 2017 and 2016.

The breakdown by geographical region reveals that 66.3% of the Group's employees work in Italy:

breakdown by geographical region	2018			2017			2016		
	W	M	T	W	M	T	W	M	T
Italy	164	347	511	163	326	489	163	326	489
Europe	20	71	91	16	61	77	22	61	83
America	15	45	60	15	42	57	15	39	54
Asia	39	70	109	38	69	107	36	68	104
Rest of the World			-			-			-
TOTAL GROUP	**238**	**533**	**771**	**232**	**498**	**730**	**236**	**494**	**730**

The ratio of women to men reveals a slight drop in the number of women.



The breakdown of employees by age in the year 2018 reveals that about 12% of employees are under 30, more than in 2017, when they represented 9% of the total, and 2016, when they were 8% of the total, confirming the success of the *FLY* Talent Academy project, which, as described above, introduces new graduates into the company and encourages in-house professional development.
62% of the Group's employees are aged 30 to 50, while 26% are over 50.

division by age	2018			2017			2016		
	W	M	T	W	M	T	W	M	T
<= 29 years	29	64	93	22	41	63	20	39	59
30 - 50 years	162	314	476	165	328	493	83	223	306
>= 51 years	47	155	202	45	129	174	133	232	365
TOTAL GROUP	**238**	**533**	**771**	**232**	**498**	**730**	**236**	**494**	**730**
<= 29 years	4%	8%	12%	3%	6%	9%	3%	5%	8%
30 - 50 years	21%	41%	62%	23%	45%	68%	11%	31%	42%
>= 51 years	6%	20%	26%	6%	18%	24%	18%	32%	50%
TOTAL GROUP	**31%**	**69%**	**100%**	**32%**	**68%**	**100%**	**32%**	**68%**	**100%**

Analysis of contract type reveals that nearly all contracts are open-ended contracts (in 2018, 99.4% of the total, three of which were in companies operating in Italy and two in the Group's European companies).

contract type	2018			2017			2016		
	W	M	T	W	M	T	W	M	T
Open-ended	235	531	766	229	497	726	236	492	728
Fixed term	3	2	5	3	1	4	-	2	2
TOTAL GROUP	**238**	**533**	**771**	**232**	**498**	**730**	**236**	**494**	**730**

In the breakdown by job type, around 5.6% of employees, predominantly women, have part-time contracts (6.2% in 2017 and 5.3% in 2016).

job type	2018			2017			2016		
	W	M	T	W	M	T	W	M	T
No. full time employees	205	523	728	196	489	685	206	485	691
No. part-time employees	33	10	43	36	9	45	30	9	39
TOTAL GROUP	**238**	**533**	**771**	**232**	**498**	**730**	**236**	**494**	**730**

Below we show the breakdown of Group employees by job classification:

classification	2018			2017			2016		
	W	M	T	W	M	T	W	M	T
Managers	2	24	26	4	21	25	4	23	27
Middle managers	10	61	71	14	59	73	11	58	69
Clerical staff	111	310	421	101	280	381	108	274	382
Manual workers	115	138	253	113	138	251	113	139	252
TOTAL GROUP	**238**	**533**	**771**	**232**	**498**	**730**	**236**	**494**	**730**

Personnel movements

The tables below show personnel movements in Group companies:

2018 movements		No. EMPLOYEES 31.12.2017	JOINERS			LEAVERS			No. EMPLOYEES 31.12.2018
			W	M	T	W	M	T	
Gefran S.p.A.	Italy	446	5	31	36	(35)	(131)	(166)	316
Gefran Drives and Motion S.r.l.	Italy	-	30	119	149	-	(3)	(3)	146
Gefran Soluzioni S.r.l.	Italy	43	1	7	8	-	(2)	(2)	49
Gefran S.p.A. Spain branch	Italy	-	-	-	-	-	-	-	-
Gefran Benelux NV	Belgium	14	1	1	2	-	(1)	(1)	15
Gefran France S.A.	France	8	1	-	1	-	-	-	9
Gefran Deutschland GmbH	Germany	18	-	5	5	-	(1)	(1)	22
Siei Areg GmbH	Germany	16	-	1	1	(1)	-	(1)	16
Gefran UK Ltd	UK	2	-	1	1	-	(1)	(1)	2
Sensormate AG	Switzerland	16	2	6	8	-	(2)	(2)	22
Gefran Middle East Ltd Sti	Turkey	3	2	2	4	(1)	(1)	(2)	5
Gefran South Africa (Pty) Ltd	Rep. of South Africa	-	-	-	-	-	-	-	-
Gefran Inc	US	29	1	2	3	(2)	(1)	(3)	29
Gefran Brasil Elettroel. Ltda	Brazil	28	2	4	6	(1)	(2)	(3)	31
Gefran Siei Asia Pte Ltd	Singapore	9	-	2	2	(1)	(1)	(2)	9
Gefran Siei Drives Tech. Pte Ltd	China (PRC)	70	10	3	13	(7)	(5)	(12)	71
Gefran India Private Ltd	India	28	1	6	7	(2)	(4)	(6)	29
TOTAL GROUP		**730**	**56**	**190**	**246**	**(50)**	**(155)**	**(205)**	**771**

Note that, as a result of contribution of the company branch corresponding to the motion control division in Gerenzano (VA) on 1 October 2018, 147 employees left Gefran S.p.A. and joined the new company, Gefran Drives and Motion S.r.l. 30 of these are women, while 117 are men. This movement is shown in the table above.

2017 movements		No. EMPLOYEES 31.12.2016	JOINERS			LEAVERS			No. EMPLOYEES 31.12.2017
			W	M	T	W	M	T	
GEFRAN S.p.A.	Italy	446	7	17	24	(7)	(17)	(24)	446
Gefran Drives and Motion S.r.l.	Italy	-	-	-	-	-	-	-	-
Gefran Soluzioni S.r.l.	Italy	43	-	2	2	-	(2)	(2)	43
GEFRAN S.p.A. Spain branch	Italy	-	-	-	-	-	-	-	-
Gefran Benelux NV	Belgium	14	-	-	-	-	-	-	14
Gefran France S.A.	France	9	-	-	-	-	(1)	(1)	8
Gefran Deutschland GmbH	Germany	23	-	2	2	(4)	(3)	(7)	18
Siei Areg GmbH	Germany	16	1	-	1	(1)	-	(1)	16
Gefran UK Ltd	UK	2	1	-	1	(1)	-	(1)	2
Sensormate AG	Switzerland	14	1	3	4	(1)	(1)	(2)	16
Gefran Middle East Ltd Sti	Turkey	5	-	-	-	(2)	-	(2)	3
Gefran South Africa (Pty) Ltd	Rep. of South Africa	-	-	-	-	-	-	-	-
Gefran Inc	US	29	-	4	4	(1)	(3)	(4)	29
Gefran Brasil Elettroel. Ltda	Brazil	25	2	4	6	(1)	(2)	(3)	28
Gefran Siei Asia Pte Ltd	Singapore	9	1	-	1	(1)	-	(1)	9
Gefran Siei Drives Tech. Pte Ltd	China (PRC)	73	5	3	8	(4)	(7)	(11)	70
Gefran India Private Ltd	India	22	1	7	8	-	(2)	(2)	28
TOTAL GROUP		**730**	**19**	**42**	**61**	**(23)**	**(38)**	**(61)**	**730**

2016 movements		No. EMPLOYEES 31.12.2015	JOINERS			LEAVERS			No. EMPLOYEES 31.12.2016
			W	M	T	W	M	T	
GEFRAN S.p.A.	Italy	513	6	6	12	(27)	(52)	(79)	446
Gefran Drives and Motion S.r.l.	Italy	-	-	-	-	-	-	-	-
Gefran Soluzioni S.r.l.	Italy	29	2	13	15	-	(1)	(1)	43
GEFRAN S.p.A. Spain branch	Italy	5	-	-	-	(1)	(4)	(5)	-
Gefran Benelux NV	Belgium	15	-	-	-	-	(1)	(1)	14
Gefran France S.A.	France	12	-	-	-	(1)	(2)	(3)	9
Gefran Deutschland GmbH	Germany	24	-	2	2	-	(3)	(3)	23
Siei Areg GmbH	Germany	14	-	3	3	-	(1)	(1)	16
Gefran UK Ltd	UK	2	-	-	-	-	-	-	2
Sensormate AG	Switzerland	18	-	1	1	(1)	(4)	(5)	14
Gefran Middle East Ltd Sti	Turkey	5	1	1	2	-	(2)	(2)	5
Gefran South Africa (Pty) Ltd	Rep. of South Africa	2	-	-	-	(1)	(1)	(2)	-
Gefran Inc	US	32	-	3	3	(1)	(5)	(6)	29
Gefran Brasil Elettroel. Ltda	Brazil	25	2	7	9	(2)	(7)	(9)	25
Gefran Siei Asia Pte Ltd	Singapore	14	2	2	4	(2)	(7)	(9)	9
Gefran Siei Drives Tech. Pte Ltd	China (PRC)	71	9	17	26	(8)	(16)	(24)	73
Gefran India Private Ltd	India	28	3	5	8	(4)	(10)	(14)	22
TOTAL GROUP		**809**	**25**	**60**	**85**	**(48)**	**(116)**	**(164)**	**730**

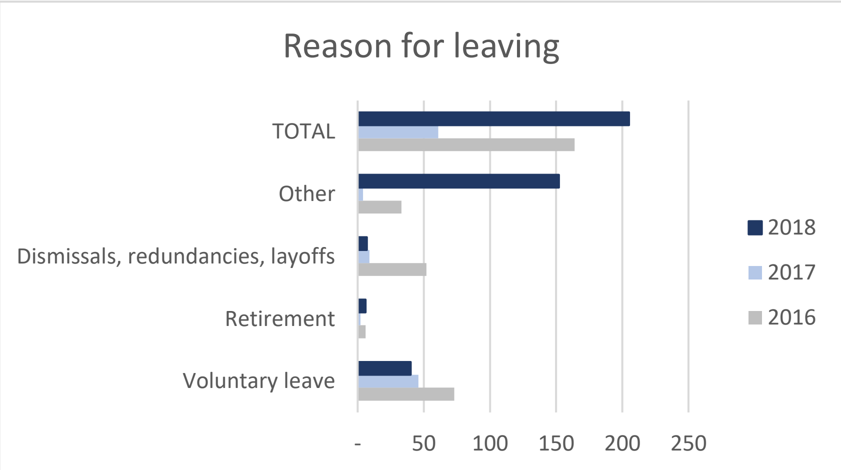
The turnover rate of leavers, calculated as the ratio between leavers and the number of employees at 31.12, is shown to be falling:

no. leavers/no. employees 31.12	2018			2017			2016		
	W	M	T	W	M	T	W	M	T
turnover rate of leavers (*)	8.4%	7.1%	7.5%	9.9%	7.6%	8.4%	20.3%	23.5%	22.5%

(*) calculated net of movement due to the contribution described above

Below we summarise the reasons for people leaving in the last three years:

reasons for leaving	2018			2017			2016		
	W	M	T	W	M	T	W	M	T
Voluntary leavers	13	27	40	17	29	46	17	56	73
Retirement	1	5	6	1	1	2	1	5	6
Dismissal	4	3	7	4	5	9	18	34	52
Other	32	120	152	1	3	4	12	21	33
TOTAL LEAVERS	**50**	**155**	**205**	**23**	**38**	**61**	**48**	**116**	**164**



"Other" reasons include termination of temporary contracts, and, in the specific case of 2018, people who left the Company as a result of Gefran S.p.A.'s contribution of a company branch to the newly established Gefran Drives and Motion S.r.l., and terminations under the restructuring plan implemented in 2016.

Gender pay ratio

The ratio between the average basic salary of women and the average basic salary of men is shown below, calculated by job classification, with reference to the Parent Company Gefran S.p.A..

Gender pay ratio Parent Company Gefran S.p.A.	2018	2017	2016
average Gefran S.p.A.	**89%**	**87%**	**95%**
Managers	109%	108%	99%
Middle managers	85%	89%	86%
Clerical staff	84%	82%	94%
Manual workers	95%	91%	98%

From the Group point of view:

gender pay ratio Group	2018	2017	2016
GROUP average	**83%**	**85%**	**91%**
Managers	109%	108%	99%
Middle managers (*)	89%	80%	90%
Clerical staff	78%	81%	87%
Manual workers	90%	91%	97%

The ratios were determined as the ratio between the gross annual average basic salary of female employees and that of male employees, in the individual Group companies, for each job classification. The Group indicators are calculated weighting the ratios of the individual companies by the number of employees in each, for each job classification, where the calculation was applicable. The Group average is determined as the average of the ratios of each job classification, weighted by number of employees, where the calculation was applicable.

(*) Note that the gender pay ratio for Middle Managers rose from 80% in 2017 to 89% in 2018 due to the contribution of to the newly established company Gefran Drives and Motion S.r.l.; the company is not included in the scope of calculation of weighted average, as it has no female Middle Managers.

Parental leave

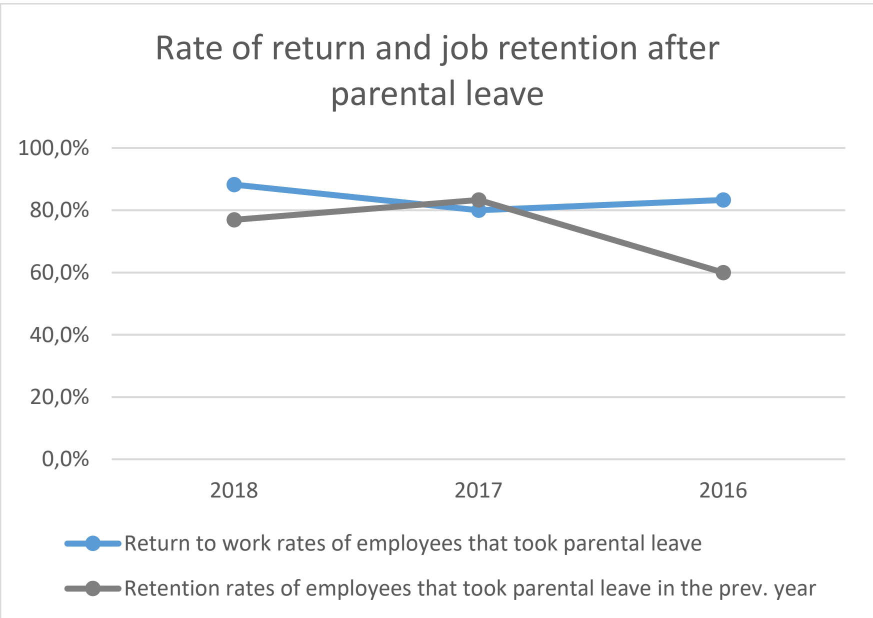
The number of Group employees who used the right to parental leave in 2018 was 17, including 10 in the Parent Company. This is compared with a figure of 10 in 2017 (7 of whom in the Parent Company) and 12 in 2016 (all in the Parent Company).

Parental leave rate		2018		
		Parent Company Gefran S.p.A.	Subsidiaries	TOTAL GROUP
Employees using the right to parental leave	**no.**	**10**	**7**	**17**
of whom returned to work after using the right to parental leave	no.	8	7	15
Rate of return after parental leave	**%**	**80.0%**	**100.0%**	**88.2%**
Employees working at Gefran 12 months after using the right to parental leave the previous year	no.	7	3	10
Rate of jobs retained after parental leave (ref. previous year)	**%**	**100.0%**	**50.0%**	**76.9%**

Parental leave rate		2017		
		Parent Company Gefran S.p.A.	Subsidiaries	TOTAL GROUP
Employees using the right to parental leave	**no.**	**7**	**3**	**10**
of whom returned to work after using the right to parental leave	no.	5	3	8
Rate of return after parental leave	**%**	**71.4%**	**100.0%**	**80%**
Employees working at Gefran 12 months after using the right to parental leave the previous year	no.	10	-	10
Rate of jobs retained after parental leave (ref. previous year)	**%**	**83.3%**	**n.a.**	**83.3%**

Parental leave rate		2016		
		Parent Company Gefran S.p.A.	Subsidiaries	TOTAL GROUP
Employees using the right to parental leave	**no.**	**12**	**-**	**12**
of whom returned to work after using the right to parental leave	no.	10	-	10
Rate of return after parental leave	**%**	**83.3%**	**n.a.**	**83.3%**
Employees working at Gefran 12 months after using the right to parental leave the previous year	no.	15	-	15
Rate of jobs retained after parental leave (ref. previous year)	**%**	**65.2%**	**0.0%**	**60.0%**

The rate of employees who took parental leave returning to work at the Group-wide level was 88.2% in 2018 (80% in 2017 and 83.3% in 2016), and the rate of jobs retained 12 months after returning to work was 76.9% in 2017 (83.3% in 2017 and 60% in 2016)).



Training

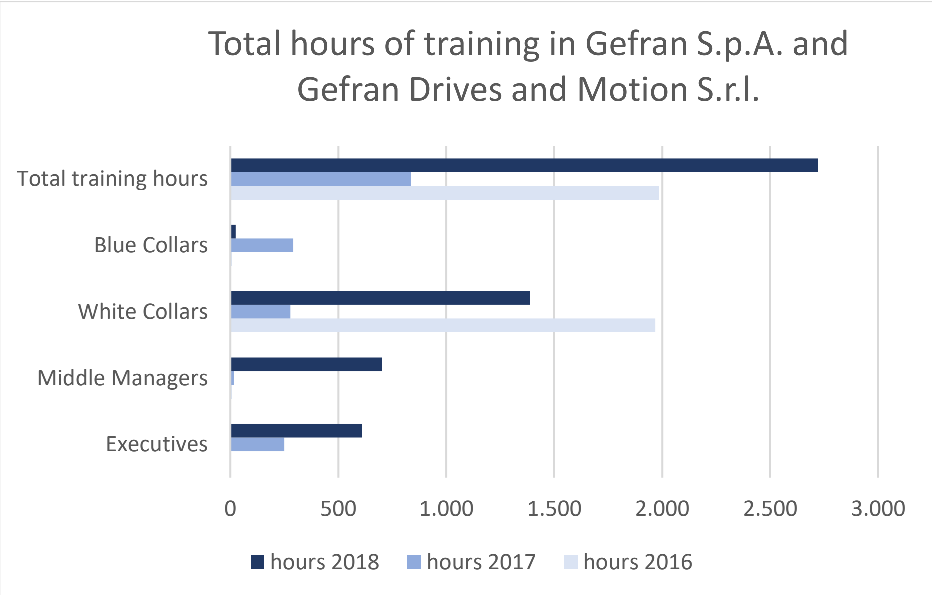
In 2018 the company conducted an in-depth survey of employees' hours of training, analysing the records of attendance and documentation supporting training initiatives held in Group companies. Training activities may be divided into two kinds:

- activities aimed at developing specific technical and professional skills: language courses, communication skills courses, technical courses focusing on specific topics;
- activities aimed at improving cross-functional skills: Executive Master Of Business Administration programme, managerial alignment on strategy, culture and organisation, and training in the *FLY TALENT ACADEMY* (customer service orientation, teamwork, problem-solving and orientation toward achieving results).

A summary of the hours of training is provided below, broken down by course type, gender and job classification. Note that in the year reported on, the Company did not keep track of activities considered "training on the job" and Health and Safety training, described in section 3.3 of this Statement.

To permit homogeneous comparison with the figures published in the 2017 Non-Financial Statement, we report on the hours performed in the 2016-2018 three-year period, with reference to the Parent Company Gefran S.p.A. and the newly established subsidiary Gefran Drives and Motion S.r.l only..

training hours	2018			2017			2016		
	W	M	T	W	M	T	W	M	T
Managers	32	576	608	-	250	250	-	-	-
Middle managers	120	582	702	-	16	16	4	4	8
Clerical staff	346	1,043	1,389	-	278	278	984	984	1,968
Manual workers	-	24	24	40	252	292	8	-	8
TOTAL TRAINING HOURS	**498**	**2,225**	**2,723**	**40**	**796**	**836**	**996**	**988**	**1,984**
AVERAGE NUMBER OF HOURS (hours/no. employees)	**3.1**	**7.3**	**5.9**	**0.3**	**2.8**	**1.9**	**6.3**	**3.4**	**4.4**



+225.7% 2018 vs 2017

+37.2% 2018 vs 2016

Below is a breakdown by type, also with reference to Gefran S.p.A. and its subsidiary Gefran Drives and Motion S.r.l.:

Technical training hours	2018			2017			2016		
	W	M	T	W	M	T	W	M	T
Managers	-	80	80	-	-	-	-	-	-
Middle managers	104	232	336	-	-	-	4	-	4
Clerical staff	212	708	920	-	112	112	28	352	380
Manual workers	-	24	24	-	-	-	8	-	8
TOTAL TECHNICAL TRAINING HOURS	**316**	**1,044**	**1,360**	**-**	**112**	**112**	**40**	**352**	**392**

Training hours on cross-functional skills development	2018			2017			2016		
	W	M	T	W	M	T	W	M	T
Managers	32	496	528	-	250	250	-	-	-
Middle managers	16	350	366	-	16	16	-	4	4
Clerical staff	134	335	469	-	166	166	956	632	1,588
Manual workers	-	-	-	40	252	292	-	-	-
TOTAL CROSS-FUNCTIONAL TRAINING HOURS	**182**	**1,181**	**1,363**	**40**	**684**	**724**	**956**	**636**	**1,592**

With reference to the Gefran Group, excluding sales companies considered of marginal significance due to their limited turnover and small number of employees (specifically Gefran Uk Ltd, Gefran France S.A. Gefran Benelux Nv and Gefran Middle East Ltd Sti), the number of hours invested in employee training in the year 2018 is reported below:

Group training hours	2018		
	W	M	T
Managers	32	958	990
Middle managers	401	1,635	2,036
Clerical staff	1,246	2,432	3,678
Manual workers	146	407	553
TOTAL TRAINING HOURS	**1,825**	**5,432**	**7,257**

AVERAGE NUMBER OF HOURS (hours/no. employees)	**8.0**	**10.6**	**9.8**

Group technical training hours	2018		
	W	M	T
Managers	-	174	174
Middle managers	152	467	619
Clerical staff	746	1,722	2,468
Manual workers	130	200	330
TOTAL TECHNICAL TRAINING HOURS	**1,028**	**2,563**	**3,591**

Group training hours on development of cross-functional skills	2018		
	W	M	T
Managers	32	784	816
Middle managers	249	1,168	1,417
Clerical staff	500	710	1,210
Manual workers	16	207	223
TOTAL CROSS-FUNCTIONAL TRAINING HOURS	**797**	**2,869**	**3,666**

Below is a breakdown by geographical region:

	2018		
	W	M	T
Italy	498	2,273	2,771
Europe	32	156	188
America	731	1,938	2,669
Asia	564	1,065	1,629
Rest of the World			-
TOTAL GROUP	**1,825**	**5,432**	**7,257**

5. MANAGEMENT OF THE FIGHT AGAINST CORRUPTION

5.1. RISKS AND OPPORTUNITIES

Risk mapping

Gefran is an industrial Group that works all over the world.
The Group conducts business in various markets, complying with the principles of honesty, transparency and integrity and in full compliance with laws in force.
In particular, Gefran fights all forms of corruption, applying Italian and international laws on the subject and voluntarily adopting ethical principles in the conduct of its affairs.

The main risk profiles linked to the Group's activity, with regard to corruption, are identified and mapped in the risk assessments carried out periodically by the Company in line with the Organisational Model referred to in Legislative Decree 231/2001.
In this context, the potential offences associated with the company’s activities and processes are identified and a risk profile is set out for each offence; this consists of the theoretical way the corruption could be committed and the impact that such conduct could have.
The analysis also highlights the protective measures that the Company has put in place to prevent these offences being committed, the assessment of the residual risk and further improvement actions that can be adopted to mitigate the risk.
With regard to the Gefran Group, the analysis showed moderate exposure to the risk of corruption, due to the characteristics of the sector in which the Group operates, typically focused on private companies with few relations with public sector bodies.
The potential risks applicable to the Group fall into the theoretical categories described below:

- Payment of cash or other benefit (including through consultants managing relations on behalf of the Company) to public officials or public service employees to:
    - obtain advantages and/or favourable treatment;
    - influence their independence of judgement and incite the body to ignore any failure to comply with the law.
- Payment of cash or other benefit to a member of the Board of Statutory Auditors or to the external auditors so that they omit to highlight records of operations that do not correspond to the truth/wrong accounting entries and/or so that they certify financial statements without the relevant requirements or without carrying out appropriate procedures. Concealment in full or in part and/or falsification by fraudulent means, of information, communications and documents that should have been provided to the Board of Statutory Auditors or the external auditors regarding the Company’s economic, equity and/or financial situation.

- Non-transparent management of monetary and financial flows, including with reference to intercompany operations, which are instrumental to setting up funds for illicit purposes, such as corruptive activities.
- Provision of gifts or other benefits that are not of modest value to private individuals (for example customers, suppliers or consultants) and/or public operators, public service employees or parties “close” to public operators, in exchange for undue advantages or favourable treatment, in situations of particular interest to the Company.
- Sponsorship of sporting or cultural initiatives that are completely or partly fictitious in order to pay private individuals sums of money in exchange for advantages and/or favourable treatment.
- Selection of candidates close to or favoured by a public official, customer or supplier in order to obtain advantages for the Company or the Group, granting of bonuses, promotions and pay increases to personnel “close” to public operators or private individuals not made in accordance with strictly meritocratic criteria, in order to obtain advantages and/or favourable treatment for the Company.
- Payment of money or other benefit to trade union representatives, in order to promote company policies (in terms of collective agreements, company agreements, internal regulations, working hours, company services, etc.) to the Company’s advantage and the Union's (and its members’) detriment.
- Payment of expense claims, in full or in part, in order to make sums of money available that can be used to bribe public operators or those close to them.
- Selection of suppliers close to or favoured by a public official in order to obtain advantages for the Company or the Group.
  Payment of money or other benefit to suppliers, in order to obtain advantages and/or favourable treatment for the Company.
- Approval of suppliers’ invoices for services that are non-existent in full or in part, thereby creating “liquidity” that can be used for corrupt purposes.
- Payment of cash or other benefit to an individual belonging to a certification body (e.g. system certification, environmental certification, quality certification, etc.), in order to induce him to grant or confirm certification even when the requirements are not met.
- In terms of management of agents and dealers, the activities could be instrumental in corruption:
  - agents close to or favoured by public operators could be selected and used, in order to obtain benefits for the Company;
  - commission higher than that actually owed or the market rate could be paid, or commission paid for non-existent services, to create liquidity to use for corrupt purposes;
  - agents could behave illegally to acquire orders from public-sector customers.

  The activity could be instrumental in corruption between private individuals if the Company bribes an agent or retailer, pushing them to breach their own official obligations so that Gefran gains economic or other advantages.
- When scouting for sales and managing them, with both public and private customers, the activity could involve the corruption of the public service official when, for example, money or another benefit is offered to the purchasing managers of a public agency, for the sole purpose of inducing them to buy the Company’s product or accept purchase conditions that are unfavourable for that agency.
- Payment of unjustifiably favourable contractual conditions (e.g. reduced considerations) or supply of more/better quality goods than that specified in the contract with the counterparty to obtain advantages and/or favourable treatment in return.
- Payment of cash or other benefit to employees of authorised waste disposal companies, to enable waste (e.g. special, hazardous, etc.) to be deposited even without the necessary authorisations or in bigger quantities than those declared.

Risk areas

With regard to corruption related to **public authorities**, all company areas are at risk where, to carry out their activities, they:

- have relations with the Public Administration or manage financial resources that could be used to give advantages and benefits to public officials (so-called “indirect risk”);
- can be involved in criminal proceedings and disputes (tax, administrative, employment law, etc.).

In particular, as a result of the risk assessment carried out in the company, the following company activities were identified as being potentially at direct risk:

1. management of relations with public-sector bodies during formalities and inspections;
2. applying for and reporting on loans and government grants;
3. relations with the judicial authorities;
4. management of relations with parties asked to release statements that can be used in criminal proceedings;
5. management of personnel in protected categories.

The principal areas potentially exposed to risk are:

- administration, Finance and Control, in the context of which it is necessary to prevent allocation of concealed sums of money or funds which could be used for the purposes of corruption;
- personnel Management, with regard to hiring of someone “close” to or favoured by a public operator;
- management of purchases of goods and services and consultancy agreements, in relation to which it is necessary to prevent suppliers from being selected for the sole purpose of supporting public operators or those close to them to obtain future benefits/advantages for the Company, or which are assigned tasks likely to conceal illegal allocation;
- management of contracts for receivables, with regard to the reverse of that which is described above.

With regard to the offences of corruption and incitement to corruption between **private individuals**, the main areas potentially at risk are those relating to:

- management of relations with the Statutory Auditors in the context of the control activities attributed to them by law;
- management of deposits and payments and of bank accounts;
- management of petty cash;
- management of gifts;
- management of sponsorships and donations;
- selection and recruitment of personnel;
- determination of pay and bonuses, promotions and pay increases;
- management of relations with trade unions;
- management of employees’ expenses claims;
- selection and qualification of suppliers and management of purchases;
- management of consultancy work and professional services;
- quality control and relations with certification bodies;
- management of relations with distributors;
- scouting for and management of sales to private customers;
- management of waste and decontamination of polluted sites.

Company areas affected by this risk are the same as those identified as being affected by risk of corruption related to public authorities, with the addition of the following:

- quality, in relations with certifying bodies;
- management/chairmanship, regarding sponsorships and donations;
- managers of prevention and protection/environmental managers, in the area of waste management and clean-up of polluted sites.

5.2. GEFRAN GROUP POLICIES

To prevent the commission of corrupt activities, the Company has adopted, in the context of the 231 Organisational Model, a Group Code of Ethics and a Procedures Manual, which contain the principles of conduct that the Company's employees, contract staff, customers and suppliers are required to comply with; there are also procedures defined in the context of the 262 model.
The procedures relevant to the topic in question are:

Organizational Model pursuant to Law 231/2001

- ✓ Procedure on inspections and visits of public authorities
- ✓ Procedure on accounting, preparation of financial statements and other related activities
- ✓ General principles for the management of relations with the board of statutory auditors and the auditing company
- ✓ Procedure for financial management and treasury
- ✓ Procedure on cash advance, reimbursement of expenses and credit card management
- ✓ Procedure for sponsorships, gifts and donations
- ✓ Procedure on HR selection and recruitment
- ✓ Procedure on the management of external assignments
- ✓ Procedure on the management of certifications
- ✓ Principles concerning crimes against industry and commerce
- ✓ Procedure for the recharge of air conditioning systems
- ✓ Procedure on the management of industrial waste

Control model pursuant to Law 262/05

- ✓ Procedure on finance and treasury
- ✓ Procedure on the management and on the administration of the personnel
- ✓ Procedure on the management of purchasing cycle
- ✓ Procedure on the management of selling cycle

Group Anti-corruption Guidelines have also been adopted; they contain an overview of typical hypothetical situations in which corruption could occur. They have been shared with all the subsidiaries, and ad-hoc training on them has been given to General Managers to show them how to deal with such situations. Any reports of violations in this area may be made via the channels identified in the Whistleblowing Procedure described above.
Monitoring of compliance with the fight against corruption is typically done during audits conducted in Italy and at the foreign sites.

5.3. NON-FINANCIAL PERFORMANCE

With regard to audits conducted in Group companies, which include checking compliance with the procedures and guidelines referred to above in the conduct of the company's activities, information is provided below on audits conducted in the last three years of the Parent Company Gefran S.p.A. and its subsidiaries, and the areas involved:

audit activity	2018	2017	2016
in the Parent Company Gefran S.p.A. (*)	8	8	13
in the Subsidiaries	5	5	4
TOTAL AUDITS	**13**	**13**	**17**

type of audit	2018	2017	2016
Administrative and Accounting Control Model under Law 262/05	2	4	7
231 Organisational Model	2	2	2
Other (**)	9	7	8
TOTAL AUDITS	**13**	**13**	**17**

(*) Audits of the Parent Company applied to centrally managed processes

(**) "Other" refers to an integrated audit (Administrative and Accounting Control Model under Law 262/05 and Organisational Model under Legislative Decree 231), IT and a "General Review" of subsidiaries.

During the audits, the following irregularities were identified, which are classified below by severity level and type, with specific reference to the corruption offences described above:

no. irregularities by severity level	2018	2017	2016
High	8	5	11
Medium	52	30	32
Low	16	16	27
TOTAL IRREGULARITIES	**76**	**51**	**70**

type of irregularity	2018	2017	2016
Related to corruption offences	-	-	-
Other	76	51	51
TOTAL IRREGULARITIES	**76**	**51**	**51**

Under its Whistleblowing Procedure, the Company has implemented various channels of communication to the Supervisory Board, through which any violations of the principles and procedures listed above can be reported; to date no reports have ever been made.

6. NOTE ON METHODOLOGY

The Gefran Group's Consolidated Non-Financial Disclosure was drawn up pursuant to Legislative Decree 254/2016 and referring to the international reporting standards issued by the Global Reporting Initiative "Sustainability Reporting Standards" in the GRI-Referenced version. The list of selected indicators is reported in the appendix to this document, in the "Table illustrating correlation with Legislative Decree 254/16". The GRI Standards state that the Statement should contain information about aspects considered material, which reflect the significant impacts for the organisation from an economic, environmental and social point of view and which can substantially influence the stakeholders' evaluations and decisions.

The process of collecting the data and information for preparing this Statement was managed in conjunction with the various company functions, in accordance with the following principles set out in the GRI Standards:

- comparability and clarity: to make the Statement usable by all stakeholders, clear and concise language was used together with tables and charts. The information in the report refers to the period between 1 January 2018 and 31 December 2018. Where possible, data relating to previous years were recorded for comparison purposes so that the trend of the Group's activities can be evaluated over several time periods. However, the absence of such a comparison is due either to the trend over the years not being important or to the impossibility of recovering information about previous years, due also to the fact that this document is the Group's first non-financial report. Finally, with regard to the quantitative information in this document for which estimates were used, this detail is appropriately indicated in the various sections;
- balance: the data and information in the Statement are represented objectively and meticulously; the indicators reflect the Group's performance in the reporting period;
- accuracy: the data and information in the Statement were checked by the respective function heads to confirm their accuracy and authenticity;
- timeliness: the Consolidated Non-Financial Disclosure will be published annually at the same time as the Annual Financial Report;
- reliability: the Consolidated Non-Financial Disclosure was drafted by an ad-hoc working group whose members were chosen from the Group's various departments and who validated the contents relating to their areas of responsibility. The final document, in its entirety, was presented and discussed by the Board of Directors.

The Consolidated Non-Financial Disclosure was reviewed by the independent external auditor PricewaterhouseCoopers S.p.A.

In general terms, the data and information in this Disclosure refer to the Companies consolidated using the line-by-line method in the Gefran Group's Annual Financial Report, at 31 December 2018.
Specifically, based on the distribution of personnel within the Gefran Group (where about 90% of the workforce is concentrated in the Group's production companies), the sales companies are excluded from the reporting scope for some aspects where, given the nature of their activities, their contribution was not significant.
Refer to Section 1 for details of the composition of the Group.

In summary, based on the information about the scope given in each section:

- for the "human resources" and "occupational health and safety" areas, all of the Group companies are included in the scope;
- for the "consumer health and safety" area, the policies and practices implemented by the production companies and the Parent Company are analysed;
- with regard to the environment, the analysis was conducted for all the production companies and two sales companies (Gefran Siei Asia Pte Ltd and Gefran Deutschland GmbH);

- the aspects about the involvement of local communities and governance were dealt with based on the initiatives/policies and practices implemented by the production companies and Corporate;
- with regard to the supply chain, the analysis was conducted for all the production companies whereas, for the sales companies, it was conducted in a marginal way, as approximately 95% of their procurement comes from intercompany purchases and the remainder from local supplies.

7. TABLE OF CORRELATION UNDER LEGISLATIVE DECREE 254

Topic of Legislative Decree 254/2016	**Environmental**			
Material topic *(from materiality matrix)*	**Energy efficiency**	**Emissions management**	**Waste management**	**Research and development for sustainable products**
Risks identified *(reference to paragraph)*	2.1	2.1	2.1	2.1
Policies put in place *(reference to paragraph)*	2.1, 2.2 The Group has not yet formally expressed its policy in this area. The Company is considering adoption of formal policies starting in the year 2019.	2.1, 2.2 The Group has not yet formally expressed its policy in this area. The Company is considering adoption of formal policies starting in the year 2019.	2.2 The Group has not yet formally expressed its policy in this area. The Company is considering adoption of formal policies starting in the year 2019.	2.2, 3.2 The Group has not yet formally expressed its policy in this area.
GRI - Referenced Topic specific standard/disclosure *(reported reference disclosure)*	*302-1: Energy consumption in the organisation* *302-3: Energy Intensity* *305-5: Reduction of greenhouse gas emissions* *303-1: Water consumption by source*	*305-1: Direct greenhouse gas emissions (Scope 1)* *305-2: Indirect greenhouse gas emissions generated by energy consumption (Scope 2)* *305-4: Carbon intensity (GHG)*	*306-2 (a, b): Total weight of wastes, according to type and method of disposal*	*103-1, 103-2 and 103-3 of the Management Approach*
Reference to paragraph	paragraph 2.3, pages 166-170	paragraph 2.3, pages 170-172	paragraph 2.2, pages 164-165	paragraph 2.2, pages 163-164
Reporting scope (*in view of the instructions provided in Legislative Decree 254/2016)*	Parent Company Gefran S.p.A., all the Group's production plants and its two main sales companies, as defined in the *"Note on Methodology"*.	Parent Company Gefran S.p.A., all the Group's production plants and its two main sales companies, as defined in the *"Note on Methodology"*.	Parent Company Gefran S.p.A., all the Group's production plants and its two main sales companies, as defined in the *"Note on Methodology"*.	Parent Company Gefran S.p.A.
Notes	The scope of reporting does not include the following foreign subsidiaries: - Gefran Uk Ltd, - Gefran France S.A., - Gefran Benelux Nv, - Gefran Middle East Ltd Sti as sales companies with a limited turnover and a small number of employees, whose impact is considered marginal.	The scope of reporting does not include the following foreign subsidiaries: - Gefran Uk Ltd, - Gefran France S.A., - Gefran Benelux Nv, - Gefran Middle East Ltd Sti as sales companies with a limited turnover and a small number of employees, whose impact is considered marginal.	The scope of reporting does not include the following foreign subsidiaries: - Gefran Uk Ltd, - Gefran France S.A., - Gefran Benelux Nv, - Gefran Middle East Ltd Sti as sales companies with a limited turnover and a small number of employees, whose impact is considered marginal.	The scope of reporting does not include subsidiaries, as Research and Development is performed exclusively by the Parent Company.
Actions				It was not possible organize a precise reporting; the products developed are described in the paragraphs related to the subject in question.

Topic of Legislative Decree 254/2016	**Pertaining to personnel**				
Material topic *(from materiality matrix)*	**Human capital management**	**Industrial relations**	**Employee health and safety management**	**Personnel training and development**	**Protection of employee diversity and non-discrimination**
Risks identified *(reference to paragraph)*	4.1	----	3.1	4.1	4.1
Policies put in place *(reference to paragraph)*	4.2 Only the Parent Company has formally expressed its policy in this area so far. The company is gradually extended the practices in place in the Parent Company to the Group as a whole. This process is currently underway.	4.2	3.2 The Group has not yet formally expressed its policy in this area.	4.2 Only the Parent Company has formally expressed its policy in this area so far. The company is gradually extended the practices in place in the Parent Company to the Group as a whole. This process is currently underway.	4.2 Group Code of Ethics and practice.
GRI - Referenced Topic specific standard/disclosure *(reported reference disclosure)*	*401-1: New hiring and staff turnover by age, gender and geographical region* *401-3 (b, c, d, e): Employees entitled to parental leave and rate of return after parental leave by gender*	*103-2 of the Management Approach*	*403-2: Type of accident and accident rate, occupational illness, days of work missed, absenteeism and number of work-related deaths, total*	*404-1: Average number of hours of training per employee, by gender and employee category* *404-2: Professional development programmes and assist the employees in the career transition phases*	*405-1: Composition of governance bodies and breakdown of employees* *405-2: Ratio between basic salary and remuneration of women compared to men* *406-1: Episodes of discrimination and actions undertaken*
Reference to paragraph	paragraph 4.3, pages 186-192	paragraph 4.2, page 182-184	paragraph 3.3, pages 178-180	paragraph 4.3, pages 193-195	paragraph 1, pages 149, 152-155 paragraph 4.3, pages 186-191
Reporting scope *(in view of the instructions provided in Legislative Decree 254/2016)*	Gefran Group, all companies consolidated by the line-by-line method, as defined in the *"Note on Methodology"*.	Parent Company Gefran S.p.A.	Including all the Group's production plants and its two main sales companies, as defined in the *"Note on Methodology"*.	Including all the Group's production plants and its two main sales companies, as defined in the *"Note on Methodology"*.	Gefran Group, all companies consolidated by the line-by-line method, as defined in the *"Note on Methodology"*.
Notes		Information not available for foreign subsidiaries. The analysis does not reveal any risks of this type.	The scope of reporting does not include the following foreign subsidiaries: - Gefran Uk Ltd, - Gefran France S.A., - Gefran Benelux Nv, - Gefran Middle East Ltd Sti as sales companies with a limited turnover and a small number of employees, whose impact is considered marginal.	The scope of reporting does not include the following foreign subsidiaries: - Gefran Uk Ltd, - Gefran France S.A., - Gefran Benelux Nv, - Gefran Middle East Ltd Sti as sales companies with a limited turnover and a small number of employees, whose impact is considered marginal.	
Actions					
Topic of Legislative Decree 254/2016	**Social**				

Material topic *(from materiality matrix)*	**Relations with local communities and organisations**	**Relations with training and research bodies and universities**	**Sustainable management of supply chain/Economic value attracted and distributed and economic impact**	**Consumer health and safety**
Risks identified *(reference to paragraph)*	-----	-----	1, 4.1	3.1
Policies put in place *(reference to paragraph)*	4.2 The Group has not yet formally expressed its policy in this area.	4.2 The Group has not yet formally expressed its policy in this area.	3.2 e 4.2 Policy has been formally expressed regarding *Conflict Minerals,* the supplier qualification process and signature of the *"Sustainability Pact"*	3.2
GRI - Referenced Topic specific standard/disclosure *(reported reference disclosure)*	*413-1 (a iv, a vii): Areas of operations with implementation of programmes for involvement, impact assessment and development of local communities*	*413-1 (a iv, a vii): Areas of operations with implementation of programmes for involvement, impact assessment and development of local communities*	*103-2 of the Management Approach* *204-1: Percentage of expenditure concentrated on local suppliers in the company's most significant operative sites* *308-2 (c): Current and potential significant forms of negative environmental impact in the supply chain and actions undertaken*	*103-1, 103-2 and 103-3 of the Management Approach*
Reference to paragraph	paragraph 4.2, pages 184-185	paragraph 1, pages 147-148 paragraph 4.2, pages 182-184	paragraph 1, pages 158-160	paragraph 3.1, pages 173-174 paragraph 3.2, pages 176-178
Reporting scope (*in view of the instructions provided in Legislative Decree 254/2016)*	Parent Company Gefran S.p.A.	Parent Company Gefran S.p.A.	Parent Company Gefran S.p.A. and all the Group's production plants, as defined in the"*Note on Methodology*"	Parent Company Gefran S.p.A. and all the Group's production plants, as defined in the *"Note on Methodology"*.
Notes	The activities in question are concentrated solely in the Parent Company Gefran S.p.A.. The analysis does not reveal any risks of this type.	The activities in question are concentrated solely in the Parent Company Gefran S.p.A.. The analysis does not reveal any risks of this type.	The scope does not include sales companies, as only about 5% of their procurement comes from local suppliers. Their impact is therefore considered marginal.	The scope does not include sales companies, as the responsibility for designing and producing a product that meets safety requirements lies with the manufacturer.
Actions				

Topic of Legislative Decree 254/2016	**Respect for human rights**	**Fight against corruption**
Material topic *(from materiality matrix)*	**Respect for human rights**	**Fight against corruption**
Risks identified *(reference to paragraph)*	4.1	5.1
Policies put in place *(reference to paragraph)*	4.2 Group Code of Ethics and practice.	5.2
GRI - Referenced Topic specific standard/disclosure *(reported reference disclosure)*	*406-1: Discriminatory incidents and corrective actions implemented* *103-1, 103-2 and 103-3 of the Management Approach*	*205-1: Activities subject to risks relating to corruption* *205-3: Incidents of corruption and actions implemented* *103-1, 103-2 and 103-3 of the Management Approach*
Reference to paragraph	paragraph 4.2, page 184	paragraph 5.1, pages 195-198 paragraph 5.3, pages 198-199
Reporting scope (*in view of the instructions provided in Legislative Decree 254/2016)*	Gefran Group, all companies consolidated by the line-by-line method, as defined in the *"Note on Methodology"*.	Gefran Group, all companies consolidated by the line-by-line method, as defined in the *"Note on Methodology"*.
Notes		
Actions		

GEFRAN S.p.A.
SEPARATE FINANCIAL STATEMENTS
AT 31 DECEMBER 2018

GEFRAN

KEY INCOME STATEMENT AND STATEMENT OF FINANCIAL POSITION FIGURES of GEFRAN S.p.A.

Gefran S.p.A. income statement highlights

(EUR / 000)	31 December 2018		31 December 2017	
Revenues	85,032	100.0%	86,032	100.0%
EBITDA	13,841	16.3%	13,991	16.3%
EBIT	8,809	10.4%	7,110	8.3%
Profit (loss) before tax	11,111	13.1%	8,372	9.7%
Result from operating activities	8,496	10.0%	8,261	9.6%
Profit (loss) from assets held for sale	(866)	-1.0%	187	0.2%
Net profit (loss)	7,630	9.0%	8,448	9.8%

Gefran S.p.A. statement of financial position highlights

(EUR / 000)	31 December 2018	31 December 2017
Invested capital from operations	81,295	81,045
Working capital	13,200	20,926
Shareholders' equity	63,760	61,398
Net financial position	(17,535)	(20,854)
Operating cash flow	14,705	11,051
Investments	7,554	5,205

ALTERNATIVE PERFORMANCE INDICATORS

In addition to the standard financial schedules and indicators required under IFRS, this document includes reclassified schedules and alternative performance indicators. These are intended to enable a better assessment of the Group's economic and financial management. However, these tables and indicators must not be considered as a substitute for those required under IFRS.

Specifically, the alternative indicators used in the notes to the income statement are:

- **Added value**: the direct margin resulting from revenues, including only direct material, gross of other production costs, such as personnel costs, services and other sundry costs;
- **EBITDA**: operating result before depreciation, amortisation and impairment. The purpose of this indicator is to present the Group's operating profitability before the main non-monetary items;
- **EBIT**: operating income before financial operations and taxes. The purpose of this indicator is to present the Group's operating profitability.

Alternative indicators used in the notes to the statement of financial position are:

- **Net non-current assets**: the algebraic sum of the following items in the statement of financial position:
    - Goodwill
    - Intangible assets
    - Property, plant, machinery and tools
    - Shareholdings valued at equity
    - Equity investments in other companies
    - Receivables and other non-current assets
    - Deferred tax assets
- **Working capital**: the algebraic sum of the following items in the statement of financial position:
    - Inventories
    - Trade receivables
    - Trade payables
    - Other assets
    - Tax receivables
    - Current provisions
    - Tax payables
    - Other liabilities
- **Net invested capital**: the algebraic sum of net fixed assets, working capital and provisions;
- **Net financial position**: the algebraic sum of the following items:
    - Medium/long-term financial payables
    - Short-term financial payables
    - Financial liabilities for derivatives
    - Financial assets for derivatives
    - Cash and cash equivalents and short-term financial receivables

REPORT ON OPERATIONS

1. GEFRAN S.p.A. RESULTS

On 1 October 2018 Gefran S.p.A. contributed its motion control business located in the plant in Gerenzano (VA) to Gefran Drives and Motion S.r.l., established in July 2018. The assets and liabilities in existence as of the contribution date and the economic result of the last quarter of 2018 are therefore reported by the new company.

The following table shows the operating results for the year, reclassified and compared with those of the previous period:

	(EUR / 000)	31 December 2018	31 December 2017	Changes 2018-2017	
				Value	%
a	Revenues	85,032	86,032	(1,000)	-1.2%
b	Increases for internal work	1,242	596	646	108.4%
c	Consumption of materials and products	31,240	30,331	909	3.0%
d	Added value (a+b-c)	55,034	56,297	(1,263)	-2.2%
e	Other operating costs	14,321	13,896	425	3.1%
f	Personnel costs	26,872	28,410	(1,538)	-5.4%
g	EBITDA (d-e-f)	13,841	13,991	(150)	-1.1%
h	Depreciation, amortisation and impairment	5,032	6,881	(1,849)	-26.9%
i	EBIT (g-h)	8,809	7,110	1,699	23.9%
l	Gains (losses) from financial assets/liabilities	2,302	1,262	1,040	82.4%
n	Profit (loss) before tax (i±l)	11,111	8,372	2,739	32.7%
o	Taxes	(2,615)	(111)	(2,504)	-2255.9%
p	Result from operating activities (n±o)	8,496	8,261	235	2.8%
q	Profit (loss) from assets held for sale	(866)	187	(1,053)	-563.1%
r	Net profit (loss) (p±q)	7,630	8,448	(818)	-9.7%

Revenues in the year amount to EUR 85,032 thousand, down EUR 1,000 thousand over the previous year, when they included EUR 7,852 thousand in product revenues from the motion control business pertaining to the fourth quarter of 2017. Without the effect of this change, revenues would have revealed considerable growth, at EUR 6,852 thousand (+8.8% over the previous year).

This growth primarily concerned the following geographical regions: Italy (EUR 1,858 thousand, equal to 5.9%), in Asia (EUR 1,276 thousand, equal to 9.4%) and the EU area (EUR 1,891 thousand, equal to 8.8%).

From the business area point of view as well, growth was widespread: sensors increased by EUR 3,264 thousand (8.8%), components by EUR 279 thousand (1.5%) and motion control by EUR 3,309 thousand (12.9%).

Added value was EUR 55,034 thousand, representing 65.6% of revenues, in line in terms of percentage of revenues. The EUR 1,263 thousand drop in absolute value is attributable to the above-mentioned contribution of assets, without which added value would have increased by EUR 2,833 thousand; the improvement is primarily attributable to increased sales volumes.

Other operating costs in the year 20178 totalled EUR 14,321 thousand, compared to EUR 13,896 thousand as of 31 December 2017, an increase of EUR 425 thousand; without taking into account the contribution of the motion control business to Gefran Drives and Motion S.r.l., the increase would be EUR 1,290 thousand (+9.9%), due to greater variable industrial production costs borne as a result of revenue growth, and greater investment of resources in advertising and trade fair projects. The parent company’s new governance begun in April 2018 also added to the increased cost of services.

Personnel costs at 31 December 2018 totalled EUR 26,872 thousand, compared to EUR 28,410 thousand in 2017, when the figure included EUR 2,284 thousand representing the cost of personnel contributed to Gefran Drives and Motion S.r.l. and EUR 587 thousand resulting from entry of non-competition agreements signed with a number of employees. Without these components, personnel costs would be EUR 1,333 thousand higher than in the previous year, as a result of the hiring of new employees under the company's investment plan, which includes investment in human capital, beginning at the end of 2017.

Amortisation and depreciation in the current year amounts to EUR 5,032 thousand, down EUR 1,849 thousand over 31 December 2017, when the figure included EUR 1,916 thousand for adaptation of the carrying value of a number of assets to their fair value and EUR 338 thousand for assets contributed. The net increase of EUR 405 thousand is a result of increased investment, particularly industrial investment, in the year 2018.

EBIT in the year 2018 was positive by EUR 8,809 thousand (10.4% of revenues) as compared with a positive EBIT of EUR 7,110 thousand in December 2017, including EUR 609 thousand representing the result of the motion control business unit in the fourth quarter; excluding this effect, the improvement in EBIT would amount to EUR 2,208 thousand, attributable to increased revenues and the resulting increase in added value.

Financial income was EUR 2,302 thousand, up EUR 1,040 thousand over the previous year. This includes dividends from equity investments amounting to EUR 2,294 thousand, compared with EUR 2,443 thousand in dividends in 2017; the year 2017 also saw impairment of shareholdings in the subsidiaries Gefran Middle East, Gefran Uk and Gefran India and revaluation of the investment in Gefran France, totalling EUR 390 thousand.

Current, deferred and prepaid **taxes** are negative by EUR 2,615 thousand, as compared to negative total taxes of EUR 111 thousand at 31 December 2017; the change is primarily due to movements in deferred taxes entered among previous tax losses, as the year 2017 saw entry of EUR 198 thousand pertaining to the last instalment of previous tax losses, while taxes totalling EUR 1,162 thousand were released to the income statement as of 31 December 2018.

The **result from operating activities** at 31 December 2018 was positive at EUR 8,496 thousand, compared with a positive result of EUR 8,261 thousand in 2017; stripping out the economic effect of contribution of the motion control business unit, which was positive by EUR 609 thousand, the result from operating activities improved by EUR 844 thousand, attributable to the increase in revenues and the corresponding added value.

Losses from assets held for sale as of 31 December 2018 amounted to EUR 866 thousand net of taxation, as a result of the complete write-off of assets pertaining to know-how in the photovoltaic business line, which had been the subject of negotiations for sale. When the potential buyers announced that they did not intended to exercise their purchase option, the directors opted to write the asset off entirely.

This figure may be compared with a profit of EUR 187 thousand in 2017, which related to the recognition of the remaining ancillary costs for the sale of the user licence and resulting release of the previous provision made based on an estimate of the necessary costs.

Annual net profit at 31 December 2018 amounted to EUR 7,630 thousand, compared with a profit of EUR 8,448 thousand in 2017. The drop in net profit is attributable to the value of the contribution in the last part of the year, worth EUR 609 thousand, and the result of assets held for sale, worth 1,053 thousand; without these factors, the net profit for of the year 2018 would have increased by EUR 844 thousand over the previous year.

Research and development costs, which are particularly substantial for Gefran S.p.A. due to the type of business it conducts, at nearly 9% of revenues, are recognised in the income statement. More specifically, the cost of technical personnel involved in the activities, consultancy and materials used is fully charged to the income statement, except for costs capitalised for the year that meet the requirements of IAS 38. Costs identified for capitalisation according to the above requirements are indirectly suspended by a revenue entry under a specific income statement item: *"Increases for internal work"*.

EUR 1,242 thousand was capitalised during 2018, in relation to projects meeting the requirements of IFRS.

Intangible assets with a finite life and equity investments in subsidiaries, for which there were impairment indicators, underwent impairment tests (presence of an adjusted provision entered in past years, local macro-economic scenario) which did not reveal a need to devalue equity investments; in the year 2017 the Group's shareholdings in a number of subsidiaries had been written down, including Gefran Middle East (EUR 1,081 thousand), Gefran India (EUR 712 thousand) and Gefran UK (EUR 597 thousand), while the shareholding in the subsidiary Gefran France was revalued by EUR 2,000 thousand.

The main items in the statement of financial position are summarised in the following table:

GEFRAN SPA	31 December 2018		31 December 2017	
(EUR / 000)	value	%	value	%
Intangible assets	4,009	4.9	5,872	7.1
Tangible assets	23,148	28.5	30,315	36.9
Other non-current assets	49,394	60.8	34,826	42.3
Net non-current assets	76,551	94.2	71,013	86.3
Inventories	5,391	6.6	11,688	14.2
Trade receivables	21,697	26.7	25,860	31.4
Trade payables	(13,888)	(17.1)	(16,622)	(20.2)
Other assets/liabilities	(5,188)	(6.4)	(5,358)	(6.5)
Working capital	8,012	9.9	15,568	18.9
Provisions for risks and future liabilities	(866)	(1.1)	(1,171)	(1.4)
Deferred tax provisions	(4)	(0.0)	(9)	(0.0)
Employee benefits	(2,398)	(2.9)	(4,356)	(5.3)
Invested capital from operations	81,295	100.0	81,045	98.5
Invested capital from assets held for sale	-	-	1,207	1.5
Net invested capital	**81,295**	**100.0**	**82,252**	**100.0**
Shareholders' equity	63,760	78.4	61,398	74.6
Non-current financial payables	11,864	14.6	13,933	16.9
Current financial payables	19,738	24.3	18,699	22.7
Financial liabilities for derivatives	28	0.0	76	0.1
Financial assets for derivatives	(19)	(0.0)	(56)	(0.1)
Non-current financial assets	(126)	(0.2)	(166)	(0.2)
Cash and cash equivalents and current financial receivables	(13,950)	(17.2)	(11,632)	(14.1)
Net debt relating to operations	17,535	21.6	20,854	25.4
Total sources of financing	**81,295**	**100.0**	**82,252**	**100.0**

Net non-current assets increased by EUR 5,538 thousand over 31 December 2017 and showed the following trends:

- tangible and intangible assets included increases for new investments of EUR 7,550 thousand, depreciation/amortisation of EUR 5,032 thousand and assets contributed to Gefran Drives and Motion S.r.l. worth EUR 11,543 thousand;
- other non-current assets changed by a total of EUR 14,568 thousand, as a result of an increase in investments in subsidiaries (EUR 17,085 thousand, referring entirely to Gefran Drives and Motion S.r.l.), minor receivables due to prepaid taxes (EUR 2,299 thousand), and the overall effect of adjustment of the value of other investments (EUR 215 thousand).

Working capital amounted to EUR 8,012 thousand, down by EUR 7,556 thousand since 31 December 2017; the changes in individual items were as follows:

- inventories as of 31 December 2018 amounted to EUR 5,391 thousand, down EUR 6,297 thousand since 31 December 2017; the decrease is a result of contribution of EUR 8,384 thousand in inventories, while the remainder is attributable to the increase in raw materials stocks in response to growth of revenues and the increase in stocks of semi-products to respond to customers' requirements;
- trade receivables totalled EUR 21,697 thousand, a decrease of EUR 4,163 thousand compared with 31 December 2017. Though trade receivables were not contributed, lower revenues in the year as a result of the contribution decreased the total amount of trade receivables;
- trade payables amounted to EUR 13,888 thousand, compared with EUR 16.62 thousand at 31 December 2017, down EUR 2,734 thousand, due to an increase in purchases for materials in inventory, services and investments by Gefran Drives and Motion S.r.l.; trade payables were not contributed;
- other net assets and liabilities were negative by EUR 5,188 thousand as of 31 December 2018 and were largely unvaried over the end of 2017 (EUR 5,358 thousand).

Provisions for risks and future liabilities were EUR 866 thousand, a decrease of EUR 305 thousand over 31 December 2017; this amount almost exclusively represents provisions contributed in October 2018 totalling EUR 269 thousand. They include provisions for legal disputes in progress and miscellaneous risks and the reduction for the year relates both to the use and the release to the income statement of the part surplus to requirements.

Employee benefits were EUR 2,398 thousand, a decrease of EUR 1,958 thousand over 31 December 2017; this amount almost exclusively represents provisions contributed in October 2018 totalling EUR 1,509 thousand.

Shareholders' equity increased by EUR 2,362 thousand compared with 31 December 2017, due to the recognition of the profit for the period (EUR 7,630 thousand) and decreased due to the payment of EUR 5,040 thousand in dividends on the 2017 profit.

Net debt at 31 December 2018 was EUR 17,535 thousand, an improvement of EUR 3,319 thousand on 31 December 2017. This change was essentially originated by the positive cash flows from normal operations (EUR 14,705 thousand) mitigated by the negative flows of technical investments (EUR 7,479 thousand) and distribution of dividends in May 2018 (EUR 5,040 thousand).

With reference to current financial payables, the updated checks on the contractual restrictions at the time of closing this Annual Financial Report at 31 December 2018 show that the ratios of all the financial covenants have been observed and accordingly the non-current financial payables are recorded in the financial statements according to their contractual maturity.

(EUR / 000)	31 December 2018	31 December 2017
A) Cash and cash equivalents at the start of the period	11,365	10,840
B) Cash flow generated by (used in) operations in the period	14,705	11,051
C) Cash flow generated by (used in) investment activities	(7,479)	(5,005)
D) Free cash flow (B+C)	7,226	6,046
E) Cash flow generated by (used in) financing activities	(8,346)	(5,521)
F) Cash flow from continuing operations (D+E)	(1,120)	525
G) Cash flow from assets held for sale	0	0
H) Net change in cash at hand (F+G)	(1,120)	525
I) Cash and cash equivalents at the end of the period (A+H)	10,245	11,365

Cash flow from operations for the period was positive at EUR 14,705 thousand and relates entirely to operations in 2018 which, net of the inflow of allocations, depreciation/amortisation and financial items, generated cash of EUR 14,010 thousand.

Technical and financial investments, net of disposals, absorbed resources of EUR 7,479 thousand compared with investments of EUR 5,005 thousand in 2017.

Free cash flow (operating cash flow excluding investment activities) was positive at EUR 7,226 thousand, compared with an again positive figure of EUR 6,046 thousand in 2017, an improvement of EUR 1,180 thousand mainly owing to the additional flows generated by operations during the period.

Financing activities absorbed cash amounting to EUR 8,346 thousand, for repayment of instalments due on outstanding loans (EUR 9,462 thousand), taking out of a new loan (EUR 5,000 thousand), distribution of dividends on the 2017 profit (EUR 5,040 thousand) and collection of dividends from subsidiaries (EUR 2,294 thousand).

2. SIGNIFICANT EVENTS DURING THE YEAR

- On 24 April 2018, the Ordinary Shareholders' Meeting of Gefran S.p.A. voted to:
    - Approve the Financial Statements for the financial year 2017 and distribute a dividend of EUR 0.35 per share;
    - Appoint the following as members of the Board of Statutory Auditors for the three-year period 2018–2020: Marco Gregorini (Chairman), Roberta Dell'Apa and Primo Ceppellini;
    - Appoint Ennio Franceschetti as Honorary Chairman;
    - Authorise the Board of Directors to purchase up to a maximum of 1,440,000 own shares for a period of 18 months from the date of the Shareholders' Meeting.

  The shareholders also expressed a favourable opinion of the general Group remuneration policy adopted by Gefran, pursuant to Article 123-*ter* of the TUF.

- The Gefran S.p.A. Board of Directors, meeting at the end of the annual meeting, appointed Maria Chiara Franceschetti as Chairman of the Board of Directors and Giovanna Franceschetti and Andrea Franceschetti as Vice Chairmen. Alberto Bartoli continues as the Group's Chief Executive Officer.

- On 2 May 2018 Christian Pampallona joined the Gefran Group as General Manager of the Motion Control Business Unit.

- The new company Gefran Drives and Motion S.r.l., 100% owned by Gefran S.p.A., was established on 4 July 2018.

- On 1 October 2018 Gefran S.p.A. contributed the company branch which it owns in Gerenzano, concerned with research and development, production and sale of drives, to Gefran Drives and Motion S.r.l. The contribution includes property, assets and liabilities with a net asset value of EUR 17,075 thousand.

3. SIGNIFICANT EVENTS AFTER YEAR END

Nothing to report

4. OUTLOOK

In the final months of 2018 there were signs of cyclical deterioration in many of the advanced and emerging economies, and the prospects for world trade continue to worsen following the slowdown at the beginning of last year. The global economic outlook is affected by the risk of failure of trade negotiations between China and the US, a possible worsening of financial tension in emerging nations and the form that Brexit may take.

According to the International Monetary Fund's new forecasts, the Italian economy is expected to grow 0.6% in 2019, and not 1% as initially estimated; the forecasts for the following year remain unvaried, with GDP expected to grow at 0.9%. The IMF has confirmed the growth rate of 3.7% for 2018, but has revised its expectations for 2019 and 2020 downwards.

In this context, Gefran is seeing signs confirming this uncertainty in the markets it serves and the geographical region it works in; its presence in different markets helps to mitigate this climate, and the sensors and automation components business lines are expected to consolidate their position in known markets and applications and to develop new products and applications in 2019.

2019 will also see the continuation of technical investment supporting growth of volumes and adapting internal processes in response to the demands of the market, product research and development and human capital.

5. OWN SHARES

In 2018 Gefran S.p.A. purchased own shares following the guidelines set out in the plan approved by the Shareholders' Meeting of 24 April 2018, which authorised the purchase and sale of own shares up to the maximum legal limit of 10% of issued shares, for a period of 18 months from the date of the Shareholders' Meeting.

As of 31 December 2018, Gefran S.p.A. held 27,220 shares (0.19% of the total) with an average book value of EUR 5.7246 per share, all purchased in the fourth quarter of 2018. As of the date of this report the situation was unchanged.

Brokerage on Gefran's shares by Intermonte takes place regularly.

6. DEALINGS WITH RELATED PARTIES

In compliance with Consob resolution no. 17221 of 12 March 2010, the Gefran S.p.A. Board of Directors has adopted the Regulations governing transactions with related parties, the current version of which was approved on 3 August 2017 and may be consulted online at www.gefran.com in the "Investor relations/ Corporate Governance" area.

Information about it is also provided in the Report on Corporate Governance and Ownership Structure.

The procedure in question was updated by the Board of Directors on 3 August 2017 to bring the content in line with current regulations, specifically the entry into force of the "Market Abuse" regulation, EU 596/2014.

See note 34 of these notes to the accounts for details of transactions with related parties.

7. ENVIRONMENT, HEALTH AND SAFETY

In 2018, Gefran continued with its commitment to promote initiatives and activities for protection of the environment as a primary asset and of the health and safety of all staff.

After implementing systems for monitoring and control of energy consumption in its Provaglio d'Iseo plants, the company began work on an "energy efficiency plan" with a campaign for replacement of old fluorescent tube light fixtures with new LED lighting. This policy not only saves significant amounts of energy but improves working conditions and marks another significant step toward achievement of sustainability in the Parent Company's plants.

The company also began a campaign providing instruction in the area of health and safety for all Gefran S.p.A. employs, entrusted to an external team of professionals in order to make the most of this opportunity for training.

Gefran's commitment to protection of its employees' health also resulted in the purchase of life-saving defibrillators, which have been installed on the premises of the Gefran S.p.A.'s production plants, and renovation of areas used by production staff during shift changes.

8. HUMAN RESOURCES

Gefran is adopting organisation models oriented toward customers and the market and supporting them with ongoing innovation and improvement projects regarding not only the product and the process but development of talent, organisational evolution and the quality of labour.

The company focused on innovation in production processes in the Group's plants in 2018 with lean production projects and work sites, skill mapping and development plans, and investment in redefining production layout and equipment.

As part of the Group's strategy of making the most of its resources, all workers were surveyed in 2018, increasing engagement and offering the company important information on their specific needs.

FLY, Gefran's Talent Academy, completed its first year training new university graduates in 2018. In response to the success of the *FLY* project, and in order to maximise the efficacy of the arrival of new employees in the company, professional development days were held focusing on aspects of behaviour specifically focusing on the context of Gefran: orientation toward customer relations and dialogue, teamwork, problem-solving in complex situations, the challenges of meeting targets and the satisfaction of achieving results. The process concluded with a contest in which the young people were divided into two teams and competed to present original ideas aimed at implementing an innovative communications plan for informing university students about the Talent Academy. In the wake of the success of the first *FLY* Talent Academy project, more recent graduates have been accepted in an organised fashion under the plan.

The presence of four different generations in the company, including two analogical native and two digital native generations, requires a special focus on appreciation of their different characteristics and integration of their apparently very different but actually complementary approaches. One of the tools used is Reverse Mentoring, a set of programmes and initiatives designed to enhance the abilities not only of young workers but also of more experienced (senior) workers through a reciprocal exchange of skills, know-how, approaches and points of view. Through focus groups, laboratories, and "four-handed" project management, the company implements reciprocal transmission in which both parties learn from one another by comparing two different models of the world.

9. MAIN RISKS AND UNCERTAINTIES

For information on the main risks and uncertainties faced by the Company, please see the section "Main risks and uncertainties to which the Gefran Group is exposed" in the consolidated financial statements.
With regard to risk management objectives and policies, including the hedging policy and the exposure of Gefran S.p.A. to credit, price, liquidity, interest rate and exchange rate risks, please see the full description in the comments on the financial statement items. With regard to "Financial risk management", please see note 9 of the notes to the accounts.

10. DISCLOSURE SIMPLIFICATION

On 1 October 2012, the Gefran S.p.A. Board of Directors voted to use the option to provide simplified disclosure pursuant to article 70, paragraph 8, and article 71, paragraph 1-*bis*, of Consob Regulation 11971/1999 as amended.

11. PROPOSED RESOLUTION

Dear Shareholders,
We hereby submit for your approval the annual financial statements for the period ending 31 December 2018, which show a net profit for the period of EUR 7,630,034.

Note that the legal reserve reached the limit set by the Italian Civil Code some time ago and that the available reserves amply cover the development costs recorded under non-current assets.

We therefore submit for your approval the following resolution:

"The Ordinary Shareholders' Meeting of Gefran S.p.A., having taken note of the Board of Statutory Auditors' Report and the External Auditors' Report, votes:

1. *to approve the Board of Directors' Report on Operations and the annual financial statements for the period ending 31 December 2018, which show a profit of EUR 7,630,034, as presented by the Board of Directors;*

2. *to distribute to the shareholders, by way of dividend, gross of the legal withholdings, EUR 0.32 for each of the outstanding shares (net of the own shares), using, for the necessary amount, the net profit for the year;*

3. *to allocate to Retained earnings, the amount corresponding to the portion of the net profit for the year which remains net of the distribution as per point 2."*

The dividend, in compliance with the provisions of the "Regulation of the markets organised and managed by Borsa Italiana S.p.A.", will be paid as follows: ex-dividend date 13 May 2019, in payment as from 15 May 2019.

The amount of the dividend is fully covered by the profit for the period and sufficient financial funds are already available for the payment.

Provaglio d'Iseo, 14 March 2019

For the Board of Directors

Chairman	Chief Executive Officer
Maria Chiara Franceschetti	**Alberto Bartoli**

FINANCIAL STATEMENTS OF GEFRAN S.p.A

1. STATEMENT OF PROFIT/(LOSS) FOR THE YEAR

(Euro)		Year-to-date at 31 December	
	Notes	**2018**	**2017**
Revenues from product sales	*24*	81,787,747	82,478,670
of which related parties:	*24.34*	*39,373,480*	*35,375,740*
Other revenues and income	*25*	3,244,132	3,553,510
of which related parties:	*25.34*	*2,919,735*	*2,592,470*
Increases for internal work	*10.11*	1,241,580	595,915
TOTAL REVENUES		**86,273,459**	**86,628,095**
Change in inventories	*16*	(2,086,819)	467,162
Costs of raw materials and accessories	*26*	(33,326,478)	(30,797,692)
of which related parties:	*26, 34*	*(1,774,892)*	*(1,791,268)*
Service costs	*27*	(14,318,616)	(13,831,405)
of which related parties:	*27, 34*	*103,330*	*(274,559)*
Miscellaneous management costs	*29*	(523,253)	(448,702)
Other operating income	*29*	234,007	561,452
Personnel costs	*28*	(26,872,362)	(28,410,445)
Impairment of trade and other receivables	*16*	286,954	(176,920)
Amortisation	*30*	(1,986,947)	(2,106,204)
Depreciation	*30*	(3,044,622)	(4,775,426)
EBIT		**8,808,961**	**7,109,915**
Gains from financial assets	*31*	2,768,519	2,860,944
of which related parties:	*31, 34*	*2,293,800*	*2,448,789*
Losses from financial liabilities	*31*	(466,552)	(1,209,310)
of which related parties:	*31.34*	*(2,048)*	*(194)*
Value adjustments on non-current assets	*31*	0	(389,546)
PROFIT (LOSS) BEFORE TAX		**11,110,928**	**8,372,003**
Current taxes	*32*	(1,016,066)	(495,576)
Deferred taxes	*32*	(1,598,913)	384,735
TOTAL TAXES		**(2,614,979)**	**(110,841)**
PROFIT (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS		**8,495,949**	**8,261,162**
Net profit (loss) from assets held for sale	*8*	(865,915)	187,280
NET PROFIT (LOSS) FOR THE YEAR		**7,630,034**	**8,448,442**

2. STATEMENT OF PROFIT/(LOSS) FOR THE YEAR AND OTHER ITEMS OF COMPREHENSIVE INCOME

	note	Year-to-date at 31 December 2018	2017
PROFIT (LOSS) FOR THE YEAR		**7,630,034**	**8,448,442**
Items that will not subsequently be reclassified in the statement of profit/(loss) for the period			
- revaluation of employee benefits: IAS 19	*21*	169,246	49,751
- overall tax effect	*21*	(40,619)	59,833
Items that will or could subsequently be reclassified in the statement of profit/(loss) for the period			
- equity investments in other companies	*20*	(213,003)	49,000
- fair value of cash flow hedging derivatives	*20*	12,140	204,000
Total changes, net of tax effect		**(72,236)**	**362,584**
Comprehensive result for the period		**7,557,798**	**8,811,026**

3. STATEMENT OF FINANCIAL POSITION

(Euro)	*Notes*	**31 December 2018**	**31 December 2017**
NON-CURRENT ASSETS			
Intangible assets	*10*	4,008,626	5,871,803
Property, plant, machinery and tools	*11*	23,147,574	30,315,594
of which related parties:	*34*	*918,880*	*168,315*
Equity investments in subsidiaries	*12*	42,415,960	25,330,625
Equity investments valued at purchase cost	*13*	1,587,153	1,587,153
Equity investments in other companies	*14*	1,790,264	2,005,670
Receivables and other non-current assets	*15*	-	2,800
Deferred tax assets	*32*	3,600,870	5,899,461
Non-current financial assets	*19*	126,219	166,241
TOTAL NON-CURRENT ASSETS		**76,676,666**	**71,179,347**
CURRENT ASSETS			
Inventories	*16*	5,391,338	11,688,336
Trade receivables	*16*	8,554,706	14,971,289
of which related parties:	*34*	*238*	*11,552*
Trade receivables from subsidiaries	*16*	13,142,241	10,888,421
Other receivables and assets	*17*	1,115,380	2,679,950
Current tax receivables	*18*	960,988	461,299
Cash and cash equivalents	*19*	10,245,387	11,365,199
Financial assets for derivatives	*19*	18,620	55,707
Financial receivables from subsidiaries	*19*	3,704,884	267,309
TOTAL CURRENT ASSETS		**43,133,544**	**52,377,510**
ASSETS HELD FOR SALE	*8*	**0**	**1,207,020**
TOTAL ASSETS		**119,810,210**	**124,763,877**
SHAREHOLDERS' EQUITY			
Share capital	*20*	14,400,000	14,400,000
Reserves	*20*	41,729,834	38,549,452
Profit/(loss) for the year	*20*	7,630,034	8,448,442
Total Group Shareholders' Equity		**63,759,868**	**61,397,894**
Shareholders' equity of minority interests		-	-
TOTAL SHAREHOLDERS' EQUITY		**63,759,868**	**61,397,894**
NON-CURRENT LIABILITIES			
Non-current financial payables	*19*	11,864,430	13,933,137
Employee benefits	*21*	2,397,789	4,356,205
Non-current provisions	*22*	85,000	159,000
Deferred tax provisions	*32*	3,633	8,726
TOTAL NON-CURRENT LIABILITIES		**14,350,852**	**18,457,068**
CURRENT LIABILITIES			
Current financial payables	*19*	9,189,977	13,997,759
Financial payables to subsidiaries	*19*	10,547,957	4,701,144
Trade payables	*16*	13,308,915	15,779,693
of which related parties:	*34*	*293,705*	*87,813*
Trade payables to subsidiaries	*16*	578,880	842,247
Financial liabilities for derivatives	*19*	27,650	76,101
Current provisions	*22*	781,171	1,011,944
Current tax payables	*18*	648,641	359,878
Other payables and liabilities	*23*	6,616,299	8,140,149
TOTAL CURRENT LIABILITIES		**41,699,490**	**44,908,915**
TOTAL LIABILITIES		**56,050,342**	**63,365,983**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**119,810,210**	**124,763,877**

4. CASH FLOW STATEMENT

(EUR / 000)	*note*	**31 December 2018**	**31 December 2017**
A) CASH AND CASH EQUIVALENTS AT THE START OF THE PERIOD		**11,365**	**10,840**
B) CASH FLOW GENERATED BY (USED IN) OPERATIONS IN THE PERIOD:			
Net profit (loss) for the period	*20*	7,630	8,448
Depreciation/amortisation	*30*	5,032	6,882
Provisions (Releases)	*16,21,22*	1,772	2,304
Capital (gains) losses on the sale of non-current assets	*29*	(4)	(39)
Capital (gains) losses on the sale of assets held for sale	*8*	1,201	(187)
Net result from financial operations	*31*	(2,302)	(1,262)
Taxes	*32*	681	496
Change in provisions for risks and future liabilities	*21.22*	(629)	(1,670)
Change in other assets and liabilities	*17.23*	1,807	(1,990)
Change in deferred taxes	*32*	1,599	(385)
Change in trade receivables	*16*	4,673	(2,082)
of which related parties:	*34*	*11*	*51*
Change in inventories	*16*	(4,021)	(1,983)
Change in trade payables	*16*	(2,734)	2,519
of which related parties:	*34*	*206*	*50*
TOTAL		**14,705**	**11,051**
C) CASH FLOW GENERATED BY (USED IN) INVESTMENT ACTIVITIES			
Investments in:			
- Property, plant & equipment and intangible assets	*10.11*	(7,491)	(5,262)
of which related parties:	*34*	*(919)*	*(168)*
- Equity investments and securities	*12*	(10)	136
- Financial receivables	*15*	3	55
Disposal of non-current assets	*10.11*	19	66
TOTAL		**(7,479)**	**(5,005)**
D) FREE CASH FLOW (B+C)		**7,226**	**6,046**
E) CASH FLOW GENERATED BY (USED IN) FINANCING ACTIVITIES			
New financial payables	*19*	5,000	11,000
Repayment of financial payables	*19*	(9,462)	(13,507)
Increase (decrease) in current financial payables	*19*	(6)	(1,846)
Taxes paid	*32*	(808)	(705)
Interest (paid)	*31*	(539)	(480)
Interest received	*31*	371	45
Sale (purchase) of own shares	*20*	(156)	1,129
Dividends received	*31*	2,294	2,443
Dividends paid	*20*	(5,040)	(3,600)
TOTAL		**(8,346)**	**(5,521)**
F) CASH FLOW FROM CONTINUING OPERATIONS (D+E)		**(1,120)**	**525**
G CASH FLOW FROM OPERATING ASSETS HELD FOR SALE	*8*	**-**	**-**
H) Net change in cash at hand (F+G)		**(1,120)**	**525**
I) CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (A+I)		**10,245**	**11,365**

5. STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(EUR / 000)	Note	Share capital	Capital reserves	Other reserves	overall EC reserves: Fair value measurement reserve	overall EC reserves: Other reserves	Retained profit /(loss)	Profit/(loss) for the year	Total shareholders' equity
Balances at 1 January 2017		14,400	21,926	9,557	(65)	(661)	1,706	8,196	55,059
Allocation of 2016 profit									
- Other reserves and provisions	20						8,196	(8,196)	0
- Dividends	20						(3,600)		(3,600)
Income/(expenses) recognised at equity	20				254	110			364
Other changes	20			694			433		1,127
2017 profit	20							8,448	8,448
Balances at 31 December 2017		14,400	21,926	10,251	189	(551)	6,735	8,448	61,398
Allocation of 2017 profit									
- Other reserves and provisions	20						8,448	(8,448)	0
- Dividends	20						(5,040)		(5,040)
Income/(expenses) recognised at equity	20				(201)	129			(72)
Other changes	20			(156)					(156)
2018 profit	20							7,630	7,630
Balances at 31 December 2018		14,400	21,926	10,095	(12)	(422)	10,143	7,630	63,760

SPECIFIC EXPLANATORY NOTES TO THE ACCOUNTS

1. Company information

Gefran S.p.A. is incorporated and located at Via Sebina 74, Provaglio d'Iseo (BS).

Publication of the financial statements of Gefran S.p.A. for the year ending on 31 December 2018 was authorised by resolution of the Board of Directors on 14 March 2019, and they were made available to the public on the company website www.gefran.com on 29 March 2019.

Please note that the information required pursuant to Article 123 bis of Italian Legislative Decree No. 58/1998 is contained in a separate document, the "Report on Corporate Governance and Ownership Structure", which refers for some information to the "Remuneration Report", prepared pursuant to article 123 ter of Italian Legislative Decree No. 58/1998. Both of these reports have been published in the investor relations/corporate governance section of the Company's website.

2. Form and content

The 2018 financial statements were prepared in accordance with the International Financial Reporting Standards adopted by the European Union.

The external audit of the financial statements was carried out by PricewaterhouseCoopers S.p.A.

These financial statements are presented in euros, which is also the functional currency used for the Group's consolidated financial statements. Unless otherwise indicated, all the amounts included in the notes are expressed in euros.

3. Accounting schedules

Gefran S.p.A. has used:

- a statement of financial position, according to which assets and liabilities are separated into current and non-current categories;
- a statement of profit/(loss) for the year, in which costs are categorised by nature;
- a statement of profit (loss) for the year and other items of comprehensive income, which includes charges and income recognised directly in shareholders' equity, net of tax charges;
- a cash flow statement according to the indirect method, whereby the operating result is adjusted for the effects of non-monetary transactions, any deferrals or accruals of past or future operating receipts or payments, and items of revenues or costs associated with the cash flows from investing or financing activities.

It should be noted that, with regard to Consob resolution 15519 of 27 July 2006, in the statement of financial position and the income statement, amounts for positions with related parties are shown separately from the items in question.

4. Valuation criteria

The financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) and endorsed by the European Union.

With reference to Consob Communication DEM/11070007 of 5 August 2011, it is also noted that Gefran S.p.A. does not hold in its portfolio any bonds issued by central or local governments or government agencies and is therefore not exposed to risks generated by market fluctuations. The financial statements were prepared using the general historical cost criterion, adjusted as required for the measurement of some financial instruments.

With reference to Consob Communication No. 0003907 of 19 January 2015, note 13 “Equity investments in subsidiaries” includes the required information, and specifically the references to the external information and the sensitivity analysis.

With reference to Consob Communication 0007780 of 28 January 2016, we note that the impact of market conditions on the information in the financial statements was included in the Directors’ Report on Operations. We also note that the application of IFRS 13 “Fair value measurement” does not involve significant changes to items in the financial statements for Gefran.

This section summarises the most significant measurement criteria used by the Company.

Revenues

According to IFRS 15, revenues are acknowledged up to an amount reflecting the payment the entity expects to be entitled to in exchange for the transfer of assets; no distinctions are made between the sale of goods and of services.

The new principle, which replaced all the current requirements of the IFRS for acknowledgement of revenues, was adopted by the Group without any impact resulting from the change in this principle.

Revenues are acknowledged when the company fulfils an obligation (to sell goods or provide services), transferring goods or services, which are considered to have been transferred from the time at which the customer takes over control of the goods or services.

When the result of the contract cannot be reliably measured, the revenue is recognised only to the extent that the costs incurred are recoverable.

Interest income

This is recorded as financial income for interest income accrued during the year, using the effective interest rate method, which is the rate that discounts expected future cash flows according to the expected life of the financial instrument, added to the net value of the financial assets reported in the financial statements.

Dividends

Dividends are recognised when the shareholders’ right to receive payment arises, i.e. on the date of the Shareholders’ Meeting resolution.

Costs

Costs for the period are recorded on an accruals basis and recognised net of returns, discounts and allowances.

Financial charges

Financial charges are recorded in the income statement when they are incurred, in accordance with the reference accounting treatment set forth in IAS 23.

Income tax

Income tax for the period is calculated using an estimate of taxable income. The amount owed to the tax authorities is recorded under tax payables. Taxes paid in excess of the amount due are posted to tax receivables.

Current income taxes relating to items posted directly to shareholders' equity are reported directly in shareholders' equity and not in the income statement.

Deferred tax assets and liabilities are determined in relation to timing differences between the values of assets and liabilities in the financial statements and those recognised for tax purposes. Deferred tax assets are recognised when it is probable that sufficient taxable income is available to allow these assets to be used. Deferred tax liabilities are recognised for all taxable timing differences.

Tangible assets

Tangible assets are recognised at purchase cost, including ancillary costs. The cost of tangible assets is adjusted for depreciation on the basis of a systematic plan, taking into account the remaining possibility of economic use of the assets and also considering their physical wear and tear. Tangible assets are depreciated on a monthly basis from the time of entry into operation until they are sold or derecognised in the financial statements.

If significant parts of tangible assets in use have different useful lives, the components identified are recognised and depreciated separately.

At the time of sale or when no future economic benefits are expected from the use of an asset, it is derecognised in the financial statements, and any gain or loss (calculated as the difference between the selling price and the carrying value) is recognised in the income statement in the year of derecognition.

Costs for maintenance and ordinary repairs are charged to the income statement in the year in which they are incurred.

Extraordinary maintenance costs that entail significant and tangible improvements to plant production capacity or safety or their economically useful lives are capitalised.

Research and development costs

Research costs are charged to the income statement at the time that they are incurred. Development costs incurred for a specific project are capitalised when all the following conditions are met:

- the costs can be reliably determined;
- the technical feasibility of the product can be demonstrated;

- the anticipated volumes and prices indicate that the costs incurred in the development phase will generate future economic benefits;
- adequate technical and financial resources are available to complete the development of the project.

Capitalised development costs are amortised on a systematic basis from the start of production and throughout the estimated life of the product. All other development costs are recognised in the income statement when they are incurred.

Business combinations and goodwill

Business combinations are accounted for using the *acquisition method*, whereby the identifiable assets, liabilities and contingent liabilities of the acquired company, which meet the conditions for recognition under IFRS 3, are recognised at their present value at the acquisition date. Deferred taxes are then allocated on the adjustments made to the previous carrying values to align them with the present value.

Because of its complexity, application of the acquisition method includes an initial provisional calculation of the value of the assets, liabilities and contingent liabilities acquired, to allow for a first recognition of the transaction in the financial statements for the financial year in which the business combination was carried out. This initial recognition is completed and adjusted within twelve months of the acquisition date.

Changes to the initial consideration due to events or circumstances occurring after the acquisition date are recognised in the statement of profit (loss) for the year.

Goodwill is recognised as the difference between:

- the sum of the consideration transferred, the amount of minority interests (valued combination by combination, or at fair value or in proportion to the amount of identifiable net assets attributable to minorities), the fair value of previously held interests in the acquiree, recognising any resulting gain or loss in the statement of profit (loss) for the period;
- the net value of the identifiable acquired assets and the identifiable assumed liabilities.

The costs connected to the combination are not included in the consideration transferred and are therefore recognised in the statement of profit (loss) for the year. If, when the process of determining the present value of the assets, liabilities and contingent liabilities has been completed, this amount exceeds the acquisition cost, the excess is immediately credited to the income statement.

Goodwill is periodically reviewed to check the prerequisites for recoverability, through a comparison with the fair value or with future cash flows from the underlying investment. For the purposes of the comparative analysis, goodwill acquired in a business combination is allocated, at the acquisition date, to the Group’s individual cash-generating units, or to the groups of cash-generating units expected to benefit from the synergies of combination, regardless of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which goodwill is allocated:

- represents the smallest identifiable group of assets generating cash inflows that are largely independent of the cash inflows from other assets or groups of assets;
- is no bigger than the operating sectors identified based on IFRS 8.

When goodwill is part of a cash-generating unit (group of cash-generating units) and a part of the assets within the unit is sold, the goodwill associated with the asset disposed of is included in the carrying value of the asset to determine the gain or loss on the disposal. Goodwill transferred under these circumstances is measured according to the relative values of the asset disposed of and the retained portion of the unit.

When the disposal relates to a subsidiary, the difference between the sale price and the net assets, together with cumulative translation differences and residual goodwill, is posted to the income statement.

Other intangible assets

Other intangible assets acquired or produced internally are recognised as assets in accordance with the provisions of "IAS 38 - Intangible assets", when it is probable that the asset will generate future economic benefits and when the cost of the asset can be reliably determined.

The useful life of an intangible asset may be qualified as definite or indefinite. Intangible assets with definite useful lives are amortised on a straight-line basis for the duration of the expected future sales deriving from the related project (usually 5 years). The useful life is reviewed annually and any changes are applied prospectively.

Non-current assets held for sale

Non-current assets classified as held for sale are measured in accordance with IFRS 5 at the lower of their carrying value and their fair value minus selling costs. The economic effect of these assets also includes taxation.

Equity investments in subsidiaries and affiliates

Investments in subsidiaries, affiliates and joint ventures are accounted for using the cost method.

Asset impairment

IAS 36 requires the impairment testing of tangible and intangible assets and equity investments if there are indicators suggesting that such a problem might exist. In the case of goodwill, this test is carried out at least once a year, while intangible assets are tested whenever there are indications of impairment. The recoverability of the asset is assessed by comparing the carrying value recognised in the financial statements with the greater between the net selling price, if an active market exists, and the value in use of the asset.

Value in use is the discounted value of the expected cash flows from use of the asset, or combination of assets (cash-generating unit), as well as the value expected from disposal at the end of its useful life. The cash-generating units have been identified in line with the organisational structure and the Group's business, as homogeneous combinations that generate independent cash flows through the continued use of the assets allocated to them.

Inventories

Inventories are valued at acquisition or production cost and the market value, whichever is the lower. Ancillary costs are included in the acquisition cost.

The following cost configuration is used:

- raw materials, consumables, products sold: weighted average cost;
- work in progress: production cost;
- finished and semi-finished products: production cost.

Production cost includes the cost of raw materials, materials, labour and all other direct production expenses, including depreciation and amortisation. Production cost does not include distribution costs.

Obsolete or slow-moving inventories are written down according to the possibility of using or realising them.

Trade receivables and payables and other receivables/payables

Receivables are recognised in the financial statements at their presumed realisable value, which comprises the nominal value, adjusted if necessary by specific impairment provisions. Trade receivables have due dates that fall within normal contractual periods (30 to 120 days) and are therefore not discounted.

Regarding the introduction of IFRS 9, and particularly the new method for impairment of financial investments, starting on 1 January 2018 the Group revised its method for determination of the reserve to be used for coverage of losses on receivables, taking into account the losses expected throughout the life of the receivable, as required by the new standard, with no significant impact on the result for the period or on equity resulting from application of IFRS 9.

Receivables factored without recourse are removed from the financial statements when all the risks associated with the sale of the receivable are borne by the factoring company.

Payables are recognised at nominal value. Trade payables have due dates that fall within normal contractual periods (60 to 120 days) and are therefore not discounted.

Financial derivatives

Derivatives are classified as "Hedging transactions" if the conditions exist for the application of hedge accounting; otherwise, even if undertaken with the intention of managing risk exposure, they are recorded as "Financial assets held for trading". Financial derivatives may be recognised using the methods established for hedge accounting only when the relationship between the derivative and the hedged item is formally documented and the hedge effectiveness is high (effectiveness test). The effectiveness of hedge transactions is documented both at the start of the transaction and periodically (at least at each reporting date of the financial statements or interim statements) and measured by comparing changes in the fair value of the hedging instrument with those of the hedged item.

When hedging transactions hedge the risk of changes in the fair value of hedged instruments (fair value hedges), the derivatives are recognised at fair value and the effects are charged to the income statement. Gefran does not hold derivatives of this kind.

When derivatives hedge the risk of changes in the cash flows of the hedged instruments (cash flow hedges), changes in the fair value of the derivatives are initially recorded under other items of comprehensive income and are then reclassified from shareholders' equity to profit (loss) for the period as a reclassification adjustment, in line with the economic effects of the hedged transaction. The change in fair value relating to the ineffective portion is recognised immediately in the income statement for the period. If the derivative is sold or no longer qualifies as an effective hedge against the risk for which it was initiated, or the occurrence of the underlying transaction is no longer regarded as highly probable, the portion of the cash flow hedge reserve relating thereto is immediately reversed to the income statement

It is believed that all existing hedges currently designated as effective hedges continue to qualify for hedge accounting under IFRS 9. As IFRS 9 does not alter the general principle on the basis of which an entity registers effective hedging, the Company has not felt any significant impact of application of this principle.

The Gefran S.p.A uses financial derivatives such as Interest Rate Swaps (IRS) and Interest Rate Caps (CAP). Changes in the fair value of derivatives that do not qualify for hedge accounting are recognised in the income statement. Regardless of classification, all derivatives are measured at fair value using valuation techniques based on market data (such as, *inter alia*, discounted cash flow, the forward exchange rate method and the Black-Scholes formula and its developments).

Cash and cash equivalents

Cash and cash equivalents include cash on hand and demand and short-term bank deposits, which are highly liquid and subject to an insignificant risk of changes in value. They are recognised at nominal value.

Financial liabilities

Payables and financial liabilities are initially recorded at fair value, which essentially coincides with the amount to be paid, net of transaction costs. Purchases and sales of financial liabilities are recognised on the trading date, i.e. the date on which the Company committed to purchase/sell the liabilities.

Management determines the classification of financial liabilities in the categories identified at the time of their initial recognition. After initial recognition, financial liabilities are valued in relation to their classification within one of these categories. In detail it is highlighted that:

- the valuation of "Financial liabilities at fair value through profit or loss" is carried out using the market value at the close of the reporting period; in the case of unlisted instruments (e.g. financial derivatives) it is carried out using financial valuation techniques based on market data. Gains or losses arising from fair value measurement relating to assets and liabilities held for trading are recognised in the income statement.
- the valuation of “Financial liabilities valued at amortised cost”, carried out at amortised cost, in the case of instruments maturing within 12 months uses the nominal value as an approximation of amortised cost.

Payables denominated in foreign currencies are adjusted to year-end exchange rates and gains or losses resulting from the adjustment are recognised in the income statement.

It is believed that all existing hedges currently designated as effective hedges continue to qualify for hedge accounting under IFRS 9. As IFRS 9 does not alter the general principle on the basis of which an entity registers effective hedging, the Company has not felt any significant impact of application of this principle.

Own shares

Own shares are reported as a reduction in respect of shareholders’ equity in a specific reserve. The original cost of the own shares and the income generated by any subsequent sales are recognised as changes in shareholders’ equity.

Provisions for risks and future liabilities

Allocations to provisions for risks and future liabilities take place when the Company has a current obligation (legal or implicit) arising from a past event, it is probable that a financial outlay will take place to meet the obligation and a reliable estimate can be made of the obligation.

Allocations to provisions for risks and future liabilities exceeding one year are discounted only if the effect of discounting is material, at a pre-tax discount rate that reflects current market assessments of the value of money in relation to time and, if appropriate, the specific risks associated with the liability. When discounting back takes place, the increase in the provision due to the passage of time is recognised as a financial charge.

Employee benefits and non-competition agreements

The post-employment benefit reserve, which is mandatory for Italian companies pursuant to Italian Law 297/1982, is considered a defined benefit plan and is based, *inter alia*, on the working lives of employees and the remuneration earned by the employee over a predetermined period of service. The post-employment benefit reserve is calculated by independent actuaries using the "*Traditional unit credit*" method. The Company has opted to recognise all cumulative actuarial gains and losses both on first-time adoption of IFRS and subsequently.

This item is also used to recognise non-competition agreements, signed with some employees to protect the company from any competitive activities; the value of the obligation is the subject of actuarial valuation and, when first recognised, the portion of the provision determined by actuarial methods is posted to the statement of profit/(loss) for the year.

Translation of foreign currency items

Foreign currency transactions are implemented by each entity at the conversion rate prevailing at the accounting date. Subsequently, at the time of payment or collection, the exchange rate difference arising from the time difference between the two moments is recorded and posted to the income statement.

From an equity point of view, at the close of the reporting period, receivables and liabilities arising from transactions in currencies other than the functional currency are reassessed in the company's currency, taking as benchmark the exchange rate prevailing at the reporting date. Also in this case, the exchange rate difference is posted to the income statement.

Non-monetary items denominated in foreign currencies are translated into the functional currency at the exchange rate prevailing at the transaction date, i.e. at the historical exchange rate.

5. Accounting standards, amendments and interpretations not yet applicable

Please see note 7 in the “notes to the accounts” of the consolidated financial statements for this analysis.

6. Application of new standard IFRS 16 as of 1 January 2019

As of the date of these financial statements, the competent European Union bodies have not yet concluded the approval process necessary for the adoption of the accounting standard IFRS 16, “Leasing”.

This new standard will replace the current IAS 17. The main change concerns the recognition in the accounts by the lessees which, on the basis of IAS 17, were obliged to make a distinction between a finance lease (recognised in accordance with the discounted cash flow method) and an operating lease (recognised on a straight-line basis). With IFRS 16, the accounting treatment of operating leases will be placed on the same footing as finance leases. This standard will be applicable from 1 January 2019. Early application will be possible if IFRS 15 “Revenue from Contracts with Customers” is jointly adopted.

The Group has decided to apply the new standard starting on 1 January 2019, on the basis of what is known as the *modified retrospective approach,* in which the value of the assets is equal to the value of the financial liabilities; moreover, as permitted by the IASB, practical expedients have been used such as exclusion of contracts with a residual duration of less than 12 months or contracts for which the fair value of the asset is calculated to fall under the conventional threshold of 5 thousand American Dollars (modest unitary value).

In the second quarter of 2018 the company set up a team to analyse the various technological solutions available for prompt, correct implementation of this principle, selecting the one best suited to the Group's requirements and subsequently calculating its economic and financial impact.

In the fourth quarter of 2018, after completing development of the software application, the company conducted a detailed analysis of all the contracts signed by all Group companies in effect as of 31 December 2018.

For Gefran S.p.A., 71 active contracts were analysed, for rental of vehicles, machinery, industrial equipment and electronic office machines, as well as rental of real estate; on the basis of the value and duration described above, as of 1 January 2019 44 of these are subject to application of IFRS 16; of the 27 contracts excluded from the perimeter of application, 24 contracts had a duration of less than 12 months, while for the remaining 3 contracts, the fair value calculated for the asset which is the subject of the contract is of modest unitary value.

The assets which are the subject of these contracts were entered:

- in non-current tangible assets, under "Usage rights";
- in Net Financial Position, the corresponding financial payable will give origin to "Financial payables for leasing under IFRS 16" classified as either current (within the year) or non-current (beyond the year).

In assessment of the fair value and useful lifespan of the assets which are the subject of the contracts subject to application of IFRS 16, the following factors were taken into consideration:

- the amount of the periodic lease or rental fee, as defined in the contract and revalued where applicable;
- initial accessory costs, if specified in the contract;
- final restoration costs, if specified in the contract;
- the number of remaining instalments;
- implicit interest, where not stated in the contract, is estimated on the basis of the average rates for the Group's debt.

The impact of application of the principle, described in detail in the paragraphs below, was assessed with application of the interest rates in effect on 31 December 2018.

The value of "Usage rights" calculated as of 1 January 2019 is EUR 460 thousand, broken down as follows:

(EUR / 000)	**1 January 2019**
Buildings	-
Vehicles	460
Electronic office machines	-
Machinery and equipment	-
Total usage rights	**460**

Moreover, the value of "Financial debts due to leasing under IFRS 16", equal to EUR 460 thousand, may be broken down by due date as follows:

(EUR / 000)	**1 January 2019**
Current financial debts due to leasing under IFRS16	258
Non-current financial debts due to leasing under IFRS16	202
Total financial debts due to leasing under IFRS16	**460**

Analysis of the impact of IFRS 16 was completed with assessment of changes in the statement of consolidated profit/(loss) for the year, considering the entire useful lifespan of the contracts analysed.

With reference to the year 2019 only, the item *"Depreciation of usage rights",* included under "*Depreciation*", will increase by a total of EUR 175 thousand, as shown below:

(EUR / 000)	**31 December 2019**
Buildings	-
Vehicles	175
Electronic office machines	-
Machinery and equipment	-
Total depreciation	**175**

"Service costs", which included all leasing and rental fees until 2018, will decrease by a total of EUR 177 thousand.

"Losses from financial liabilities", which will include the more specific item *"Interest on financial debts for leasing under IFRS 16",* will increase by a total of EUR 4 thousand.

The effects of application of IFRS 16 on the financial statements are shown below, and specifically:

- the statement of financial position showing values as of 1 January 2019 only;
- the statement of profit/(loss) for the year shows the values for all years included in the useful lifespan of contracts in effect as of 31 December 2018, in which "Service costs" will be reduced (shown in the statement with a positive sign), while "Depreciation" and "Losses from financial liabilities" will be increased (shown in the statement with negative signs).

Consolidated statement of financial position

(EUR / 000)	Consolidated 1 January 2019	IFRS 16	Consolidated 1 January 2019 with IFRS16
NON-CURRENT ASSETS			
Goodwill	0		-
Intangible assets	4,009		4,009
Property, plant, machinery and tools	23,148	460	23,608
Equity investments in subsidiaries	42,416		42,416
Equity investments valued at purchase cost	1,587		1,587
Equity investments in other companies	1,790		1,790
Receivables and other non-current assets	0		-
Deferred tax assets	3,601		3,601
Non-current financial assets	126		126
TOTAL NON-CURRENT ASSETS	**76,677**	**460**	**77,137**
CURRENT ASSETS			
Inventories	5,391		5,391
Trade receivables	8,555		8,555
Trade receivables from subsidiaries	13,142		13,142
Other receivables and assets	1,115		1,115
Current tax receivables	962		962
Cash and cash equivalents	10,245		10,245
Financial assets for derivatives	19		19
Financial receivables from subsidiaries	3,705		3,705
TOTAL CURRENT ASSETS	**43,134**	**0**	**43,134**
ASSETS HELD FOR SALE	**0**		**0**
TOTAL ASSETS	**119,811**	**460**	**120,271**
SHAREHOLDERS' EQUITY			
Share capital	14,400		14,400
Reserves	41,730		41,730
Profit/(loss) for the year	7,630		7,630
Total Group Shareholders' Equity	**63,760**	-	**63,760**
Shareholders' equity of minority interests			
TOTAL SHAREHOLDERS' EQUITY	**63,760**	**0**	**63,760**
NON-CURRENT LIABILITIES			
Non-current financial payables	11,864	202	12,066
Employee benefits	2,398		2,398
Non-current provisions	85		85
Deferred tax provisions	4		4
TOTAL NON-CURRENT LIABILITIES	**14,351**	**202**	**14,553**
CURRENT LIABILITIES			
Current financial payables	9,190	258	9,448
Financial payables to subsidiaries	10,548		10,548
Trade payables	13,309		13,309
Trade payables to subsidiaries	579		579
Financial liabilities for derivatives	28		28
Current provisions	781		781
Current tax payables	649		649
Other payables and liabilities	6,616		6,616
TOTAL CURRENT LIABILITIES	**41,700**	**258**	**41,958**
TOTAL LIABILITIES	**56,051**	**460**	**56,511**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**119,811**	**460**	**120,271**

Consolidated statement of profit/(loss) for the year

(EUR / 000)	2019	2020	2021	2022
Revenues from product sales				
Other revenues and income				
Increases for internal work				
TOTAL REVENUES	**0**	**0**	**0**	**0**
Change in inventories				
Costs of raw materials and accessories				
Service costs	177	161	93	35
Miscellaneous management costs				
Other operating income				
Personnel costs				
Impairment/reversal of trade and other receivables				
Amortisation				
Depreciation	(175)	(159)	(91)	(34)
EBIT	**2**	**2**	**2**	**1**
Gains from financial assets				
Losses from financial liabilities	(4)	(2)	(1)	0
(Losses) gains from shareholdings valued at equity				
PROFIT (LOSS) BEFORE TAX	**(2)**	**0**	**1**	**1**
Current taxes				
Deferred tax assets and liabilities				
TOTAL TAXES	**0**	**0**	**0**	**0**
PROFIT (LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	**(2)**	**0**	**1**	**1**
Net profit (loss) from assets held for sale				
NET PROFIT (LOSS) FOR THE YEAR	**(2)**	**0**	**1**	**1**

7. Main decisions in the application of accounting standards and uncertainties in making estimates

In drafting the financial statements and the explanatory notes to the accounts, in accordance with the IAS/IFRS principles, the Company makes use of estimates and assumptions to assess certain items. These are based on historical experience and uncertain but realistic assumptions, assessed regularly and, if necessary, updated, with effect on the income statement for the period and for future periods. The uncertainty inherent in these assessment estimates may lead to misalignment between the estimates made and the actual effects of the estimated events on the financial statements.

Below are the processes that require management to perform assessment estimates, and with regard to which a change in the underlying conditions could have a significant impact on the consolidated financial data:

<u>Provision for inventory write-down</u>

Inventories are stated as the lower between the cost of purchase (measured using the weighted average cost method) and the net realisable value. The provision for inventory write-down is necessary in order to adjust the value of inventories to the estimated realisable value: inventory composition is analysed for slow-moving stocks, with the aim of assessing a provision that reflects any obsolescence of same.

Provision for doubtful receivables

The provision for doubtful receivables reflects management's estimates regarding the recoverability of receivables from customers. Management's assessment is based on experience and on an analysis of situations with a known or probable risk of non-collection.

Regarding the introduction of IFRS 9, and particularly the new method for impairment of financial investments, starting on 1 January 2018 the Company revised its method for determination of the reserve to be used for coverage of losses on receivables, taking into account the losses expected throughout the life of the receivable, as required by the new standard, with no significant impact on the result for the period or on equity resulting from application of IFRS 9.

Goodwill and intangible assets with a finite life

These are periodically subject to evaluation through the impairment test, with the aim of determining their present value and accounting for any differences in value; for details, see the specific sections of the notes to the financial statements.

Employee benefits and non-competition agreements

The provision for the post-employment benefit reserve and the provision for non-competition agreements are posted to the financial statements and annually reviewed by external actuaries, taking into account assumptions regarding the discount rate, inflation and demographic assumptions; for details, see the specific section of the notes to the financial statements.

Deferred tax assets

The recoverability of deferred tax assets is periodically evaluated, based on the results achieved and on the business plans prepared by management.

Current and non-current provisions

Provisions are made for risks of a legal and fiscal nature to represent the risk of a negative outcome. The amount of the provisions posted to the financial statements in relation to these risks represents management's best estimate at that time. This estimate entails the adoption of assumptions that depend on factors that may change over time and that could, therefore, have a significant effect on the current estimates made by management in preparing the Company's financial statements.

8. Operating assets held for sale

"*Operating assets held for sale*" include assets related to the photovoltaic business know-how, in relation to which the terms of the sale were being established.

Net profit (loss) from assets held for sale in the first half of 2018 was negative by a total of EUR 866 thousand, and included EUR 1,201 thousand in impairment and the corresponding taxes, positive by EUR 335 thousand. This represents the write-off of assets pertaining to know-how in the photovoltaic business, in relation to which negotiations had been under way for sale. When the potential buyers announced that they did not intended to exercise their purchase option, the directors opted to write the asset off entirely.

The amount of EUR 187 thousand relates to the recognition of the remaining ancillary costs for the sale of the user licence and resulting release of the previous provision made based on an estimate of the necessary costs. The agreement royalties have not been valued, since tangible elements that enable pertinent valuations are not available.

9. Management of financial risks

The Company's activities are exposed to different types of risk: market risk (including exchange rate risks, interest rate risks and price risks), credit risk and liquidity risk. The Company's risk management strategy focuses on the markets' unpredictability and is intended to minimise the potential negative effects on Gefran S.p.A.'s results. Certain types of risk are mitigated through the use of derivatives. Coordination and monitoring of the main financial risks are centralised in the Group's Finance and Administration Department, as well as the Purchasing function as regards price risk, in close partnership with the Company's operating units. Risk management policies are approved by the Administration, Finance and Controlling Director, which provides written guidelines for the management of the risks listed above and the use of derivative and non-derivative financial instruments. As part of the sensitivity analyses described below, the effect on the net profit figure and on shareholders' equity is determined gross of the tax effect.

Exchange rate risks

Gefran S.p.A. is exposed to the risk of changes in the EUR/USD exchange rate for business transactions and cash held in a currency other than the functional currency of the Company (euro). Less than 1% of revenues is in a currency other than the functional currency.

Sensitivity to a hypothetical, unfavourable and immediate change of 5% and 10% in exchange rates, with other variables remaining unchanged, would have the following impact on the fair value of financial assets and liabilities held in USD:

Description	31 December 2018		31 December 2017	
(EUR / 000)	-5%	+5%	-5%	+5%
US dollar	(27)	25	(30)	27
Total	(27)	25	(30)	27

Description	31 December 2018		31 December 2017	
(EUR / 000)	-10%	+10%	-10%	+10%
US dollar	(58)	47	(64)	52
Total	(58)	47	(64)	52

Interest rate risk

The interest rate risk to which the Company is exposed mainly originates from long-term loans. These are floating-rate loans. Floating-rate loans expose the Company to a risk associated with interest rate volatility (cash flow risk). The Company uses derivatives to hedge its exposure to interest rate risk, stipulating Interest Rate Swap (IRS) and Interest Rate CAP contracts.

The Group's Administration and Finance Department monitors exposure to interest rate risk and proposes appropriate hedging strategies to contain exposure within the limits defined and agreed in the internal policies, using derivatives when necessary.

The table below shows a sensitivity analysis of the impact that an interest rate increase/decrease of 100 basis points would have on net operating profit (loss), comparing interest rates at 31 December 2018 and 31 December 2017, while keeping other variables unchanged.

(EUR / 000)	2018		2017	
	-100	100	-100	100
EUR	50	1	68	(6)
Total	**50**	**1**	**68**	**(6)**

The potential impacts shown above are calculated with reference to the net liabilities that account for the most significant portion of Gefran S.p.A.'s debt on the reporting date, and measuring, on this amount, the effect on net financial charges resulting from the change in interest rates on an annual basis.

The net liabilities considered in this analysis include floating-rate financial receivables and payables, cash and cash equivalents and financial derivatives, the value of which is affected by interest rate fluctuations.

The table below shows the carrying value at 31 December 2018, broken down by maturity, of the Company’s financial instruments exposed to interest rate risk:

Floating rate	<1 year	1-5 years	>5 years	Total
(EUR / 000)				
Loans due	7,069	11,864	-	18,933
Other accounts payable	20	-	-	20
Account overdrafts	2,101	-	-	2,101
Cash pooling current account overdrafts	10,548	-	-	10,548
Total liabilities	**19,738**	**11,864**	**-**	**31,602**
Cash in current accounts	10,232	-	-	10,232
Cash in cash pooling current accounts	3,705	-	-	3,705
Total assets	**13,937**	**-**	**-**	**13,937**
Total floating rate	**(5,801)**	**(11,864)**	**-**	**(17,665)**

Unlike net financial position figures, the amounts shown in the table above do not include the fair value of derivatives (negative at EUR 9 thousand), cash on hand (positive at EUR 13 thousand) or deferred financial income (positive at EUR 126 thousand).

Liquidity risk

Prudent management of the liquidity risk arising from the Company’s normal operations requires an appropriate level of cash on hand and short-term securities to be maintained, as well as the availability of funds obtainable through an appropriate amount of committed credit lines.

The Administration and Finance Department monitors forecasts on the use of the Company’s liquidity reserves based on expected cash flows. The table below shows the amount of cash reserves on the reference dates:

Description	2018	2017	Change
(EUR / 000)			
Cash and cash equivalents	13	9	4
Cash in bank deposits	10,232	11,356	(1,124)
Total liquidity	**10,245**	**11,365**	**(1,120)**
Multiple mixed credit lines	16,049	17,404	(1,355)
Cash flexibility credit lines	5,360	8,835	(3,475)
Invoice factoring credit lines	11,583	12,565	(982)
Total credit lines available	**32,992**	**38,804**	**(5,812)**
Total liquidity available	**43,237**	**50,169**	**(6,932)**

To complete disclosure on financial risks, the table below shows a reconciliation of financial asset and liability classes, as identified in the Company's statement of financial position, and the types of financial assets and liabilities identified on the basis of IFRS 7 requirements:

	Level 1	Level 2	Level 3	Total
(EUR / 000)				
Available-for-sale assets valued at fair value:				
Shareholdings valued at fair value with a balancing item in other overall profit/(loss)	346	-	1,444	1,790
Hedging transactions	-	19	-	19
Total assets	**346**	**19**	**1,444**	**1,809**
Hedging transactions	-	(28)	-	(28)
Total liabilities	**-**	**(28)**	**-**	**(28)**

Level 1: Fair values represented by the prices - listed in active markets (unadjusted) - of financial instruments identical to those being valued that may be accessed at the measurement date. These prices are defined as mark-to-market inputs as they provide a fair value measurement based directly on official market prices, therefore without the need for any modification or adjustment.

Level 2: Fair values determined using evaluation techniques based on variables that may be observed in active markets, which in this case include the evaluation of interest rate hedging and of foreign exchange hedging. As with the Level 1 inputs, the reference value is mark-to-market, i.e. the evaluation method whereby the value of a financial instrument or contract is systematically adjusted according to the current market prices.

Level 3: Fair values determined using evaluation techniques based on variables that may not be observed, and in particular the values of equity investments in other companies that are not listed on international markets, the overall value of which has not changed compared to 31 December 2017.

Below is a reconciliation of financial asset and liability classes, as identified in the Gefran S.p.A. statement of financial position, and the types of financial assets and liabilities identified on the basis of IFRS 7 requirements, for the year 2017:

	Level 1	Level 2	Level 3	Total
(EUR / 000)				
Available-for-sale assets valued at fair value:				
Shareholdings valued at fair value with a balancing item in other overall profit/(loss)	362	-	1,444	1,806
Hedging transactions	-	56	-	56
Total assets	**362**	**56**	**1,444**	**1,862**
Hedging transactions	-	(76)	-	(76)
Total liabilities	**-**	**(76)**	**-**	**(76)**

Credit risk

The Company deals mainly with known and reliable customers. Gefran S.p.A.'s credit policy is to subject customers who require extended payment terms and new customers to credit checks. In addition, receivables are monitored over the year to reduce late payments and prevent significant losses.

Gefran S.p.A. adopted a policy of monitoring outstanding receivables, a measure made necessary given the possible deterioration of certain receivables, the decline in credit rating reliability and the lack of liquidity on the market. The impairment process conducted on the basis of the Group's procedures requires receivables to be written down by a percentage which depends on the time range of the outstanding receivable, in view of past experience in specific lines of business and geographical regions, as required by IFRS 9.

Below are the values of gross trade receivables at 31 December 2018 and 31 December 2017:

(EUR / 000)	Total value	Not overdue	Overdue by up to 2 months	Overdue by 2 to 6 months	Overdue by 6 to 12 months	Overdue by more than 12 months	Receivables individually written down
Gross trade receivables at 31 December 2018	9,668	8,501	30	36	21	(23)	1,103
Gross trade receivables at 31 December 2017	16,596	14,496	353	127	2	(32)	1,649

Gefran S.p.A. has established formal procedures for customer credit and credit collection through the credit department and in partnership with leading external law firms. All the procedures put in place are intended to reduce credit risk. Exposure to other forms of credit, such as financial receivables, is constantly monitored and reviewed monthly or at least quarterly, in order to determine any losses or recovery-associated risks.

The Company has not assigned portions of its trade receivables to factoring companies, transferring the insolvency risk.

Risk of change in raw material prices

The Company's exposure to price risk is minimal. Purchases of materials and components subject to fluctuations in raw material prices are not significant. The purchase costs of the main components are usually set with counterparts for the full year and reflected in the budget.

Gefran S.p.A. has in place structured and formalised governance systems that it uses to regularly analyse its margins. Commercial operations are coordinated by business area, so as to monitor sales and manage discounts.

Fair value of financial instruments

All Gefran S.p.A.'s financial instruments are recorded in the financial statements at fair value. The amount of financial liabilities valued at amortised cost is considered close to the fair value on the reporting date.

The table below summarises Gefran's net financial position, comparing fair value and carrying value:

(EUR / 000)	carrying value 2018	carrying value 2017	fair value 2018	fair value 2017
Financial assets				
Cash and cash equivalents	13	9	13	9
Cash in bank deposits	13,937	11,623	13,937	11,623
Securities held for trading	-	-	-	-
Financial assets for derivatives	19	56	19	56
Non-current financial assets	126	166	126	166
Total financial assets	**14,095**	**11,854**	**14,095**	**11,854**
Financial liabilities				
Current portion of long-term debt	(7,069)	(9,462)	(7,069)	(9,462)
Short-term bank debt	(2,101)	(4,497)	(2,101)	(4,497)
Financial liabilities for derivatives	(28)	(76)	(28)	(76)
Factoring	(20)	(39)	(20)	(39)
Leasing	-	-	-	-
Other financial payables	(10,548)	(4,701)	(10,548)	(4,701)
Non-current financial debt	(11,864)	(13,933)	(11,864)	(13,933)
Total financial liabilities	**(31,630)**	**(32,708)**	**(31,630)**	**(32,708)**
Total net financial position	**(17,535)**	**(20,854)**	**(17,535)**	**(20,854)**

10. Intangible assets

"Intangible assets" exclusively comprises assets with a definite life, and decreased from EUR 5,872 thousand at 31 December 2017 to EUR 4,009 thousand at 31 December 2018. The changes during the period are shown below.

Historical cost	**31 December 2017**	**Increases**	**Decreases**	**Reclassifications**	**Other changes**	**31 December 2018**
(EUR / 000)						
Development costs	17,776	71	-	24	(8,044)	9,827
Intellectual property rights	5,092	172	-	82	(791)	4,555
Assets in progress and payments on account	367	1,252	(18)	(130)	(414)	1,057
Other assets	8,491	209	-	88	(424)	8,364
Total	31,726	1,704	(18)	64	(9,673)	23,803

Accumulated depreciation	**31 December 2017**	**Increases**	**Decreases**	**Reclassifications**	**Other changes**	**31 December 2018**
(EUR / 000)						
Development costs	13,498	1,404	-	19	(7,029)	7,892
Intellectual property rights	4,856	187	-	1	(744)	4,300
Other assets	7,500	395	-	-	(293)	7,602
Total	25,854	1,986	-	20	(8,066)	19,794

Net value	31 December 2017	31 December 2018	Change
(EUR / 000)			
Development costs	4,278	1,935	(2,343)
Intellectual property rights	236	255	19
Assets in progress and payments on account	367	1,057	690
Other assets	991	762	(229)
Total	5,872	4,009	(1,863)

The changes relating to 2017 are as follows:

Historical cost	31 December 2016	Increases (*)	Decreases	Reclassifications	31 December 2017
(EUR / 000)					
Development costs	16,732	479	-	565	17,776
Intellectual property rights	3,939	106	(3)	1,050	5,092
Assets in progress and payments on account	836	243	-	(712)	367
Other assets	6,477	106	-	1,908	8,491
Total	27,984	934	(3)	2,811	31,726

Accumulated depreciation	31 December 2016	Increases	Decreases	Reclassifications	31 December 2017
(EUR / 000)					
Development costs	11,990	1,508	-	-	13,498
Intellectual property rights	3,655	193	(3)	1,011	4,856
Other assets	5,296	405	-	1,799	7,500
Total	20,941	2,106	(3)	2,810	25,854

Net value	31 December 2016	31 December 2017	Change
(EUR / 000)			
Development costs	4,742	4,278	(464)
Intellectual property rights	284	236	(48)
Assets in progress and payments on account	836	367	(469)
Other assets	1,181	991	(190)
Total	7,043	5,872	(1,171)

(*) include EUR 584 thousand arising from capitalisation of internal costs.

Contribution of intangible assets pertaining to the drives business is shown in the "Other movements" column and totals EUR 1,607 thousand.

Development costs include the capitalisation of costs incurred for the following activities:

- EUR 634 thousand relating to new lines for mobile hydraulics, melt sensors, pressure transducers (KS) and contactless linear position transducers (MK–IK and RK);
- EUR 1,301 thousand for component lines for the new range of regulators and static units, GF Project VX, G Cube Performa and G Cube Fit.

These assets are considered to have a useful life of 5 years.

Intellectual property rights exclusively comprise the costs incurred to purchase the company IT system management programs and the use of licences for third-party software. These assets have a useful life of three years.

Assets in progress and payments on account include payments on account made to suppliers to purchase software programs and licences expected to be delivered during the next year, and purchase of patents for technologies currently being developed. This item also includes EUR 655 thousand in development costs, EUR 373 thousand of which pertain to the automation components business and EUR 282 thousand to the sensors business, the benefits of which will be reflected in the income statement starting in the next years, which have not therefore been amortised.

Other assets include, almost entirely, all the costs incurred to implement ERP SAP/R3, Business Intelligence (BW), Customer Relationship Management (CRM) and management software in previous years and in the current year. These assets have a useful life of five years.

The increases in historical value of *"Intangible assets"*, amounting to EUR 1,706 thousand in 2018, include EUR 1,102 thousand linked to the capitalisation of internal costs.

11. Property, plant, machinery and tools

"*Property, plant, machinery and equipment*" came to EUR 23,148 thousand, compared with EUR 30,315 thousand at 31 December 2017. The change is shown in the table below:

Historical cost	31 December 2017	Increases	Decreases	Reclassifications	Other changes	31 December 2018
(EUR / 000)						
Land	4,068	-	-	-	(1,409)	2,659
Industrial buildings	34,596	1,414	-	24	(11,601)	24,433
Plant and machinery	31,329	2,056	(1,764)	1,383	(8,761)	24,243
Industrial and commercial equipment	18,065	513	(1,284)	196	(3,374)	14,116
Other assets	4,773	539	(1,308)	30	(1,016)	3,018
Assets in progress and payments on account	1,930	1,328	-	(1,671)	(25)	1,562
Total	94,761	5,850	(4,356)	(38)	(26,186)	70,031

Accumulated depreciation	31 December 2017	Increases	Decreases	Reclassifications	Other changes	31 December 2018
(EUR / 000)						
Industrial buildings	16,920	816	(1)	-	(5,436)	12,299
Plant and machinery	26,178	1,401	(1,765)	-	(6,872)	18,942
Industrial and commercial equipment	16,944	648	(1,285)	-	(3,080)	13,227
Other assets	4,404	181	(1,308)	-	(862)	2,415
Total	64,446	3,046	(4,359)	-	(16,250)	46,883

Net value	31 December 2017	31 December 2018	Change
(EUR / 000)			
Land	4,068	2,659	(1,409)
Industrial buildings	17,676	12,134	(5,542)
Plant and machinery	5,151	5,301	150
Industrial and commercial equipment	1,121	889	(232)
Other assets	369	603	234
Assets in progress and payments on account	1,930	1,562	(368)
Total	30,315	23,148	(7,167)

Changes in tangible assets relating to 2017 were as follows:

Historical cost	31 December 2016	Increases (*)	Decreases	Reclassifications	31 December 2017
(EUR / 000)					
Land	4,068	-	-	-	4,068
Industrial buildings	34,535	37	-	24	34,596
Plant and machinery	30,495	1,872	(1,278)	240	31,329
Industrial and commercial equipment	17,813	368	(196)	80	18,065
Other assets	4,639	173	(42)	3	4,773
Assets in progress and payments on account	463	1,821	(7)	(347)	1,930
Total	92,013	4,271	(1,523)	-	94,761

Accumulated depreciation	31 December 2016	Increases	Decreases	Reclassifications	31 December 2017
(EUR / 000)					
Industrial buildings	14,230	2,690	-	-	16,920
Plant and machinery	26,178	1,271	(1,271)	-	26,178
Industrial and commercial equipment	16,458	672	(186)	-	16,944
Other assets	4,300	143	(39)	-	4,404
Total	61,166	4,776	(1,496)	-	64,446

Net value	31 December 2016	31 December 2017	Change
(EUR / 000)			
Land	4,068	4,068	-
Industrial buildings	20,305	17,676	(2,629)
Plant and machinery	4,317	5,151	834
Industrial and commercial equipment	1,355	1,121	(234)
Other assets	339	369	30
Assets in progress and payments on account	463	1,930	1,467
Total	30,847	30,315	(532)

(*) include EUR 11 thousand arising from capitalisation of internal costs.

Contribution of intangible assets pertaining to the drives business is shown in the "Other movements" column and totals EUR 9,936 thousand.

Note that during 2017, impairments of EUR 1,916 thousand were made for loss of value of buildings (no such impairment was made in 2018).

Mortgages on owned buildings amounted to around EUR 36 million, for bank loans relating to property in Provaglio d'Iseo. This obligation was extinguished on 1 October 2018.

The biggest changes during the current period related to:

- investments in plant and production equipment of EUR 2,497 thousand;
- investments to upgrade industrial buildings of approximately EUR 2,804 thousand.

The increases in historical value of the "*Property, plant, machinery and tools*", amounting to EUR 5,850 thousand in total in 2018, include EUR 140 thousand linked to the capitalisation of internal costs, primarily for the sensors business.

12. Equity investments in subsidiaries

"Equity investments in subsidiaries" amounted to EUR 42,416 thousand at 31 December 2018, up EUR 17,085 thousand on the previous year, when the balance was EUR 25,331 thousand. The balance breaks down as follows:

Description *(EUR / 000)*	**Shareholding**	**31 December 2018**	**31 December 2017**	**Change**
Gefran GmbH (Germany)	100.00%	365	365	-
Gefran Brasil Ltda (Brazil)	100.00%	2,924	2,924	-
Gefran UK Ltd (UK)	100.00%	5,141	5,141	-
Gefran Soluzioni S.r.l. (Italy)	100.00%	1,012	1,012	-
Sensormate AG (Switzerland)	100.00%	4,123	4,123	-
Gefran Benelux BVBA (Belgium)	100.00%	344	344	-
Gefran Inc. (USA)	100.00%	7,848	7,848	-
Gefran France SA (France)	99.00%	4,338	4,338	-
Siei Areg GmbH (Germany)	100.00%	1,032	1,032	-
Gefran Siei Asia Pte (Singapore)	100.00%	2,883	2,883	-
Gefran India Ltd (India)	100.00%	1,722	1,722	-
Gefran Middle East (Turkey)	100.00%	1,457	1,457	-
Gefran Drives and Motion S.r.l. (Italy)	100.00%	17,085	-	17,085
Adjustment provision		(7,860)	(7,860)	-
Total		42,416	25,331	17,085

The following is a breakdown of the adjustment provision:

Description *(EUR / 000)*	**31 December 2018**	**31 December 2017**	**Change**
Gefran Brasil Ltda (Brazil)	1,252	1,252	-
Gefran UK Ltd (UK)	4,438	4,438	-
Gefran India Ltd (India)	712	712	-
Gefran Middle East (Turkey)	1,457	1,457	-
Total	7,860	7,860	-

The EUR 17,085 thousand change pertains to Gefran Drives and Motion S.r.l., founded on 4 July 2018 with a share capital of EUR 10 thousand, to which assets and liabilities worth a total of EUR 17,075 thousand were contributed on 1 October 2018, briefly listed in the table below:

(Euro)	**31 December 2018**
Intangible assets	1,607
Property, plant, machinery and tools	9,936
Deferred tax assets	651
Inventories	8,384
Employee benefits	(1,509)
Current provisions	(269)
Other payables and liabilities	(1,725)
Total value contributed	17,075

Pursuant to IAS 36, the amount recognised in the financial statements is reviewed if any indicators of potential impairment appear.

The discount rate used for discounting cash flows (WACC) was analytically calculated on the basis of specific key assumptions.

When determining the value in use, the specific cash flows relating to the period 2019 - 2021 were considered, deriving from the Plan of the individual investment, along with the terminal value, which represents the ability to generate cash flows beyond the explicit forecast time scale.

The main assumptions that management used to calculate the value in use regard the discount rate (WACC) and the long-term growth rate (*g*), as well as the cash flows deriving from the Plan for individual subsidiaries.

The rate used for discounting future cash flows is the weighted average cost of capital (Weighted Average Cost of Capital or WACC), which is calculated as the weighted average of the cost of own capital and the cost of third-party capital, net of the tax effects.

When calculating the same, market parameters are used such as the Beta, a factor which expresses the risk which characterises the particular business with respect to the financial market in general, and the related financial structure taken from calculations developed by Professor Damodaran, one of the leading experts in business valuations globally.

The return from risk-free assets has been parameterised to the yield of the individual 10-year government securities.

The premium for market risk represents the additional return required by a risk-averse investor, compared with the return that can be obtained from risk-free assets: it is attributable to the difference between the long-term normalised return of the share market and the risk-free assets rate.

In order to establish the terminal value, the long-term growth rate of the cash flows adopted has been defined in relation to the levels of inflation expected locally, making reference to estimates of international bodies.

Further studies were conducted of equity investments for which there is an adjustment provision or there are indicators of impairment, such as the macroeconomic situation of the specific country to which they belong. Impairment tests were also subjected to stress tests.

Description	Net book value 31/12/2018	Net book value 31/12/2017	Explicit forecast	WACC (%)	Equity value 31/12/2018	Risk free (%)	Risk premium (%)	Theoretical tax rate (%)
(EUR / 000)								
Gefran Brasil	1,672	1,672	2019 - 2021	19.1%	2,010	9.2%	8.6%	34.0%
Gefran India	1,010	1,010	2019 - 2021	13.7%	1,172	7.4%	9.1%	30.0%
Gefran UK	703	703	2019 - 2021	9.0%	1,122	1.3%	7.1%	19.0%
Gefran Middle East	-	-	2019 - 2021	25.9%	16	16.0%	8.6%	22.0%

The impairment test conducted on equity investments revealed an equity value in excess of carrying value; stress tests were therefore conducted, the results of which indicated that if a variable changes, even only marginally, the test would not be passed. The existing adjustment provision was therefore confirmed.

With reference to the other equity investments in subsidiaries, the related carrying values recorded in the financial statements have been maintained.

13. Equity investments valued at purchase cost

This item amounts to EUR 1,587 thousand as of 31 December 2018, unchanged over the same date in 2017, and the balance breaks down as follows:

Description		31 December 2018	31 December 2017	Change
(EUR / 000)				
Ensun S.r.l.	*Shareholding*	*50.00%*	*50.00%*	
Via Stacca, 1	Investment value	1,466	1,466	0
Rodengo Saiano (BS)	Adjustment provision	(15)	(15)	0
	Net value	1,451	1,451	0
Axel S.r.l.	*Shareholding*	*15.00%*	*15.00%*	
Via Dandolo, 5	Investment value	136	136	0
Varese (VA)	Adjustment provision	0	0	0
	Net value	136	136	0
Total		1,587	1,587	

14. Equity investments in other companies

"*Equity investments in other companies*" totalled EUR 1,790 thousand, a decrease of EUR 216 thousand compared with the figure at 31 December 2017. The balance breaks down as follows:

(EUR / 000)	Shareholding	31 December 2018	31 December 2017	Change
Colombera S.p.A.	16.56%	1,416	1,416	0
Woojin Plaimm Co Ltd	2.00%	159	159	0
UBI Banca S.p.A.	n.s.	203	203	0
Other	-	28	28	0
Adjustment provision	-	(16)	200	(216)
Total		1,790	2,006	(216)

Equity investments are classed as held for sale and are recognised at fair value, derived from the stock market quotation, for Woojin Machinery Co. Ltd. (Seoul Stock Exchange) and for UBI Banca S.p.A. (Italian Stock Exchange). The adjustment provision is due to the fair value adjustment and breaks down as follows:

(EUR / 000)	Shareholding	31 December 2018	31 December 2017	Change
Colombera S.p.A.	16.56%			0
Woojin Plaimm Co Ltd	2.00%	147	345	(198)
UBI Banca S.p.A.	n.s.	(163)	(145)	(18)
Other	-			0
Total		(16)	200	(216)

15. Receivables and other non-current assets

"Receivables and other non-current assets" decreased by EUR 3 thousand over 31 December 2017:

Description	31 December 2018	31 December 2017	Change
(EUR / 000)			
Guarantee deposits	-	3	(3)
Total	**0**	**3**	**(3)**

16. Net working capital

Net working capital totalled EUR 13,200 thousand, compared with EUR 20,926 thousand at 31 December 2017, and breaks down as follows:

(EUR / 000)	31 December 2018	31 December 2017	Change
Inventories	5,391	11,688	(6,297)
Trade receivables	8,555	14,972	(6,417)
Trade receivables from subsidiaries	13,142	10,888	2,254
Trade payables	(13,309)	(15,780)	2,471
Trade payables to subsidiaries	(579)	(842)	263
Net amount	**13,200**	**20,926**	**(7,726)**

Net working capital generated by relations with subsidiaries totals EUR 12,563 thousand, EUR 2,517 thousand more than in 2017, while net working capital from relations with third parties totals EUR 637 thousand, as compared to EUR 10,880 thousand on 31 December 2017: the change may be attributed to contribution of inventories contributed to Gefran Drives and Motion S.r.l. totalling EUR 8,384 thousand and to the drop in trade receivables in the fourth quarter of the year as a result of reduction of the Parent Company’s revenues, as they were earned by the newly established investee company instead.

“Inventories" amounted to EUR 5,391 thousand and are made up as follows:

(EUR / 000)	31 December 2018	31 December 2017	Change
Raw materials, consumables and supplies	2,890	8,524	(5,634)
provision for impairment of raw materials	*(276)*	*(1,859)*	1,583
Work in progress and semi-finished products	2,462	4,634	(2,172)
Provision for impairment of work in progress	*(332)*	*(1,176)*	844
Finished products and goods for resale	826	2,326	(1,500)
Provision for impairment of finished products	*(179)*	*(761)*	582
Total	**5,391**	**11,688**	**(6,297)**

EUR 8,384 thousand of this reduction is due to the EUR 10,236 thousand in gross inventories contributed, while EUR 1,852 thousand is related to the corresponding provision for obsolescence and slow turnover.

Net of the effect of the transfer described above, the economic impact of the change in inventories is positive and amounts to EUR 2,087 thousand.

"Trade receivables" decreased by EUR 6,417 thousand during the year and break down as follows:

(EUR / 000)	31 December 2018	31 December 2017	Change
Receivables from customers due within 12 months	9,668	16,596	(6,928)
Provision for doubtful receivables	*(1,113)*	*(1,624)*	511
Net amount	**8,555**	**14,972**	**(6,417)**

This includes receivables assigned with recourse to a leading factoring company for EUR 26 thousand (EUR 30 thousand at 31 December 2017).

Receivables were adjusted to their estimated realisable value through a specific provision for write-down of doubtful receivables, calculated on the basis of an examination of individual debtor positions and taking into account past experience in each specific line of business and geographical region, as required by IFRS 9. The provision as at 31 December 2018 represents a prudential estimate of the current risk, and registered the following changes:

(EUR / 000)	31 December 2017	Provisions	Uses	Releases	31 December 2018
Provision for doubtful receivables	**1,624**	**202**	**(224)**	**(489)**	**1,113**

The changes in the provision for doubtful receivables relating to 2017 are as follows:

(EUR / 000)	31 December 2016	Provisions	Uses	Releases	31 December 2017
Provision for doubtful receivables	**1,469**	**177**	**(22)**	**0**	**1,624**

Decreases include the use of the provision to cover losses on unrecoverable receivables. The Company monitors the riskiest receivables and also implements specific legal measures.

The carrying value of trade receivables is considered to approximate to their fair value.

"*Trade receivables from subsidiaries*" amounted to EUR 13,142 thousand compared with a balance of EUR 10,888 thousand at 31 December 2017. The item relates to receivables from the sale of products and from service contracts carried out by Gefran S.p.A. in favour of the subsidiaries. In the year 2017, EUR 1,081 thousand receivable from the subsidiary Gefran Middle East was written off. The carrying value of intercompany receivables is believed to approximate their fair value.

"Trade payables" were down EUR 2,471 thousand at 31 December 2018 over 31 December 2017, as shown below:

(EUR / 000)	31 December 2018	31 December 2017	Change
Payables to suppliers	10,900	12,955	(2,055)
Payables to suppliers for invoices to be received	2,395	2,718	(323)
Payments on account received from customers	14	107	(93)
Total	**13,309**	**15,780**	**(2,471)**

The change in trade payables is partly due to purchases of materials for inventory, services and assets pertaining to the motion control business unit contributed to Gefran Drive and Motion S.r.l..

"*Trade payables to subsidiaries*" amounted to EUR 579 thousand, compared with EUR 842 thousand at 31 December 2017. This item refers to payables from the purchases of products and services by the Parent Company.

The carrying value of trade payables and intercompany trade payables is believed to approximate their fair value.

17. Other current assets

"*Other current assets*" totalled EUR 1,115 thousand at 31 December 2018, compared with EUR 2,681 thousand at 31 December 2017. The balance breaks down as follows:

Description	31 December 2018	31 December 2017	Change
(EUR / 000)			
Services and maintenance	99	188	(89)
Receivables from employees	19	20	(1)
Bank transaction fees	126	166	(40)
Other tax receivables	180	1,459	(1,279)
Other	691	848	(157)
Total	**1,115**	**2,681**	**(1,566)**

The main change relates to the VAT tax receivables, decreased by EUR 1,279 thousand during the year; the carrying value of the item is believed to approximate its fair value.

18. Current tax receivables and payables

"*Receivables for other current assets*" totalled EUR 962 thousand at 31 December 2018, compared with EUR 461 thousand at 31 December 2017. The balance breaks down as follows:

Description	31 December 2018	31 December 2017	Change
(EUR / 000)			
IRES (corporate income tax)	143	-	143
IRAP (regional production tax)	453	-	453
Other taxes	366	461	(95)
Total	**962**	**461**	**501**

"*Current tax payables*" totalled EUR 649 thousand at 31 December 2018, as follows:

(EUR / 000)	31 December 2018	31 December 2017	Change
IRES (corporate income tax)	219	259	(40)
IRAP (regional business tax)	430	101	329
Total	**649**	**360**	**289**

IRAP (regional production tax) and IRES (corporate income tax) are recognised on taxable income, for which the prior tax losses can only be partly used, in accordance with current legislation.

19. Net financial position

The table below shows a breakdown of the net financial position:

(EUR / 000)	31 December 2018	31 December 2017	Change
Cash and cash equivalents and current financial receivables	10,245	11,365	(1,120)
Financial assets for derivatives	19	56	(37)
Non-current financial assets	126	166	(40)
Intercompany financial receivables	3,705	267	3,438
Non-current financial payables	(11,864)	(13,933)	2,069
Current financial payables	(9,190)	(13,998)	4,808
Intercompany financial payables	(10,548)	(4,701)	(5,847)
Financial liabilities for derivatives	(28)	(76)	48
Total	**(17,535)**	**(20,854)**	**3,319**

The following table breaks down the net financial position by maturity:

(EUR / 000)	31 December 2018	31 December 2017	Change
A. Cash on hand	13	9	4
B. Cash in bank deposits	10,232	11,356	(1,124)
Term deposits – less than 3 months	-	-	-
C. Securities held for trading	-	-	-
D. Cash and cash equivalents (A) + (B) + (C)	**10,245**	**11,365**	**(1,120)**
E. Current financial receivables from subsidiaries	3,705	267	3,438
F. Current financial payables to subsidiaries	(10,548)	(4,701)	(5,847)
Financial liabilities for derivatives	(28)	(76)	48
Financial assets for derivatives	19	56	(37)
G. Fair value hedging derivatives	(9)	(20)	11
H. Current portion of long-term debt	(7,069)	(9,462)	2,393
I. Other current financial payables	(2,121)	(4,536)	2,415
J. Total current financial payables (I+H)	**(9,190)**	**(13,998)**	**4,808**
L. Total current payables (F+G+J)	**(19,747)**	**(18,719)**	**4,819**
M. Net current financial debt (D+E+L)	**(5,797)**	**(7,087)**	**1,290**
N. Non-current financial assets	**126**	**166**	**(40)**
O. Non-current financial debt	**(11,864)**	**(13,933)**	**2,069**
P. Net financial debt (M+N+O)	**(17,535)**	**(20,854)**	**3,359**
of which to minorities:	*(10,692)*	*(16,420)*	*5,728*

The net debt at 31 December 2018 is equal to EUR 17,535 thousand, an improvement over 31 December 2017 of EUR 3,359 thousand. This change was essentially originated by the positive cash flows from normal operations (EUR 14,705 thousand) mitigated by the negative flows of the technical investments (EUR 7,501 thousand).

Please see the Report on Operations for further details on changes in financial operations during the year.

Cash and cash equivalents amounted to EUR 10,245 thousand at 31 December 2018, down by EUR 1,120 thousand compared with the balance at 31 December 2017:

(EUR / 000)	31 December 2018	31 December 2017	Change
Cash in bank deposits	10,232	11,356	(1,124)
Cash	13	9	4
Total	**10,245**	**11,365**	**(1,120)**

The technical forms used as at 31 December 2018 are shown below:

- maturities: payable on presentation;
- counterparty risk: deposits are made care of leading banks;
- country risk: the deposits are made in Italy.

Financial receivables from subsidiaries refer to the balances of individual debt positions of the subsidiaries, generated by cash transfers by means of the cash pooling system, and present a balance of EUR 3,705 thousand, compared with EUR 267 thousand at 31 December 2017.

In the cash flow statement and the breakdown of net financial position, this item is classed as "*Current financial payables*".

Current financial payables decreased by EUR 4,808 thousand at 31 December 2018 compared with 2017, and break down as follows:

(EUR / 000)	31 December 2018	31 December 2017	Change
Current portion of debt	7,069	9,462	(2,393)
Current overdrafts	2,101	4,497	(2,396)
Factoring	20	39	(19)
Total	**9,190**	**13,998**	**(4,808)**

The current portion of loans decreased by EUR 2,393 thousand compared to December 2017, of which EUR 9,462 thousand was for the reimbursements specified in the repayment plans of the individual loans, with an increase of EUR 7,069 thousand due to the recognition of the portions of loans whose maturity is envisaged in the next 12 months under short-term loans.

The financial covenants were checked as at 31 December 2018 and are fully compliant.

"Factoring" amounted to EUR 20 thousand and comprised payables to factoring companies, for the payment extension period from the original maturity of the payable with certain suppliers, for which the Gefran has accepted non-recourse assignment.

Bank overdrafts at 31 December 2018 totalled EUR 2,101 thousand, compared to a balance at 31 December 2017 of EUR 4,497 thousand. The item has the following characteristics:

- for use of credit lines payable on demand, the overall annual interest rate is in the annual 2.5%-5.7% range;
- for use of credit facilities on trade receivables, repayable on the maturity of these receivables, the overall annual interest rate is in the 0.05%-0.70% range.

Financial payables to subsidiaries at 31 December 2018 amounted to EUR 10,548 thousand and refer to the balance of the individual creditor positions of the subsidiaries, generated from transfers to the Parent Company of cash on hand through the cash pooling system for European subsidiaries.

In the cash flow statement and the breakdown of net financial position, this item is classed as "*Short-term financial payables*".

Non-current financial payables break down as follows:

Bank	31 December 2018	31 December 2017	Changes
Banca Pop. Emilia Romagna	4,009	-	4,009
BNL	-	666	(666)
Banca Pop. Sondrio	-	195	(195)
Banca Pop. Emilia Romagna	255	1,272	(1,017)
Mediocredito	1,000	3,000	(2,000)
Unicredit	3,600	4,800	(1,200)
BNL	3,000	4,000	(1,000)
Total	**11,864**	**13,933**	**(2,069)**

The loans listed in the table are all floating-rate contracts and have the following characteristics:

Bank	Amount disbursed (€/000)	Signing date	Balance at 31 December 2018	Of which within 12 months	Of which beyond 12 months	Interest rate	Maturity	Repayment method
BNL	EUR 3,000	19/12/2014	667	667	-	Euribor 6m + 1.35%	18/12/2019	half-yearly
Banca Pop. Sondrio	EUR 3,000	23/12/2014	195	195	-	Euribor 3m + 2.00%	22/12/2018	quarterly
Banca Pop. Emilia Romagna	EUR 4,000	06/08/2015	1,271	1,016	255	Euribor 3m + 1.25%	03/02/2020	quarterly
Mediocredito	EUR 10,000	07/08/2015	3,000	2,000	1,000	Euribor 3m + 1.35%	30/06/2020	quarterly
Unicredit	EUR 6,000	14/11/2017	4,800	1,200	3,600	Euribor 3m + 0.90%	30/11/2022	quarterly
BNL	EUR 5,000	23/11/2017	4,000	1,000	3,000	Euribor 3m + 0.85%	23/11/2022	quarterly
Banca Pop. Emilia Romagna	EUR 5,000	28/11/2018	5,000	991	4,009	Euribor 3m + 0.75%	30/11/2023	quarterly
Total			**18,933**	**7,069**	**11,864**			

Note that on 1 October 2018, when the Centrobanca loan was paid off, the mortgage of EUR 36 million on the buildings in Provaglio d'Iseo was cancelled.

Three of the loans listed above are governed by covenants, specifically:

a) the EUR 3,000 thousand BNL loan taken out on 19 December 2014 and falling due in 2019 is subject to two financial covenants:

- consolidated net financial debt to equity ratio of ≤ 0.7;

- Shareholders' Equity and Total Consolidated Assets > 30%.

If both ratios are exceeded, the lending bank will have the right to request early repayment.

b) the Banca Popolare Emilia Romagna loan of EUR 4,000 thousand, taken out on 6 August 2015, is subject to the financial covenant:

- consolidated net financial debt to EBITDA ratio of ≤ 3.5.

If the ratio is exceeded, the lending bank will have the right to request early repayment.

c) the Mediocredito loan of EUR 10,000 thousand, taken out on 7 August 2015, is subject to the financial covenants:

- consolidated net financial debt to equity ratio of ≤ 0.7;
- consolidated net financial debt to EBITDA ratio of ≤ 3.5.

A number of outstanding loan contracts include other covenants, in line with market practices, that place limits on the possibility of issuing new real guarantees and conducting extraordinary transactions.

The Administration, Finance and Control Director is responsible for checking these contractual restrictions every quarter: the ratios calculated on the data at 31 December 2018 are fully observed and the loans have been distributed in the table of the maturities according to the forms originally envisaged by the agreements.

Management considers that the credit lines currently available, as well as the cash flow generated by current operations, will enable Gefran to meet its financial requirements resulting from investment activities, working capital management and repayment of debt at its natural maturity.

Financial assets for derivatives totalled EUR 19 thousand at 31 December 2018 and consist of the positive fair value recorded at the year-end of certain CAP contracts entered into by the Parent Company to hedge interest rate risks. **Financial liabilities for derivatives** totalled EUR 28 thousand, owing to the negative fair value of certain IRS contracts, also entered into by the Parent Company to hedge interest rate risks.

To mitigate the financial risk associated with floating-rate loans, which could arise in the event of an increase in the Euribor, the Parent Company decided to hedge its floating-rate loans through CAPs (interest rate caps), as set out below:

Bank *(Euro/000)*	Notional principal	Signing date	Notional as at 31 December 2018	Derivative	Fair Value at 31 December 2018	Long position rate	Short position rate
BNL	EUR 3,000	19/12/2014	667	CAP	0	Strike Price 0.20%	Euribor 6m
Unicredit	EUR 10,000	07/08/2015	4,800	CAP	10	Strike Price 0%	Euribor 3m
BNL	EUR 6,000	14/11/2017	4,000	CAP	9	Strike Price 0%	Euribor 3m
Total financial assets for derivatives – interest rate risk					**19**		

Gefran S.p.A. has also taken out IRS (*Interest Rate Swap)* contracts, as set out in the table below:

Bank *(Euro/000)*	Notional principal	Signing date	Notional as at 31 December 2018	Derivative	Fair Value at 31 December 2018	Long position rate	Short position rate
Banca Pop. Emilia Romagna	EUR 4,000	01/10/2015	1,271	IRS + Floor	(16)	Fixed 0.15%	Euribor 3m
Intesa	EUR 10,000	05/10/2015	3,000	IRS	(12)	Fixed 0.16%	Euribor 3m
Total financial liabilities for derivatives – interest rate risk					**(28)**		

All the contracts described above are booked at fair value:

(EUR/000)	at 31 December 2018		at 31 December 2017	
	Positive fair value	Negative fair value	Positive fair value	Negative fair value
Interest rate risk	19	(28)	56	(76)
Total cash flow hedge	**19**	**(28)**	**56**	**(76)**

All derivatives were tested for effectiveness, with positive outcomes.

In order to support its current operations, Gefran has various credit lines granted by banks and other financial institutions available, mainly in the form of loans for advances on invoices, cash flexibility and mixed loans for a total of EUR 37,489 thousand. Overall use of these lines at 31 December 2018 totalled EUR 3,746 thousand, with a residual available amount of EUR 33,742 thousand.

No fees are due in the event that these lines are not used.

20. Shareholders' equity

"Shareholders' equity" at 31 December 2018 amounted to EUR 63,760 thousand, up by EUR 2,362 thousand from 31 December 2017. The main changes relate to the recognition of the profit for the year (EUR 7,630 thousand) and the payment of dividends on the 2017 profit (EUR 5,040 thousand).

Share capital was EUR 14,400 thousand, divided into 14,400,000 ordinary shares, with a nominal value of EUR 1 each.

At 31 December 2018, Gefran S.p.A. held 27,220 own shares (0.2% of the total), whereas on 31 December 2017 it did not hold any own shares.

The Company has not issued convertible bonds.

The type and purpose of the equity reserves can be summarised as follows:

- the share premium reserve, amounting to EUR 19,046 thousand, which is a capital reserve that includes the amounts received by the Company for the issue of shares at a price higher than their nominal value;
- the legal reserve, amounting to EUR 2,880 thousand, which is populated by the mandatory allocation of an amount not less than one-twentieth of annual net profits, until an amount equal to one-fifth of the share capital has been reached (which has already occurred);
- share fair value measurement reserve (negative by EUR 15 thousand), which includes effects of the measurement of shares at fair value recognised directly under shareholders' equity;

- the cash flow hedge reserve, which includes effects recognised directly under shareholders' equity deriving from the measurement at fair value of financial derivatives to hedge cash flows from changes in interest rates and exchange rates, and is positive at EUR 3 thousand;
- the extraordinary reserve (EUR 9,255 thousand), which is recognised under "other reserves";
- the merger surplus reserve (EUR 858 thousand), which was set up in 2006 after the merger by incorporation of Siei S.p.A. and Sensori S.r.l. and is included under "other reserves";
- the reserve for conversion to IAS/IFRS (EUR 137 thousand), which is included under "other reserves";
- the employee benefits valuation reserve pursuant to IAS 19, which is negative at EUR 422 thousand and is included under "other reserves".

For details on the changes in equity reserves during the year, see the schedule showing changes in shareholders' equity.

Changes in the *"Reserve for the measurement of securities at fair value"* are shown in the table below:

(EUR / 000)	**31 December 2018**	**31 December 2017**	**Change**
Balance at 1 January	198	151	47
UBI Banca S.p.A. shares	(18)	16	(34)
Woojin Plaimm Co Ltd shares	(198)	33	(231)
Tax effect	3	(2)	5
Net amount	**(15)**	**198**	**(213)**

Changes in the *"Reserve for the measurement of derivatives at fair value"* are shown in the table below.

(EUR / 000)	**31 December 2018**	**31 December 2017**	**Change**
Balance at 1 January	(9)	(216)	207
Change in fair value of derivatives	15	204	(189)
Tax effect	(3)	3	(6)
Net amount	**3**	**(9)**	**12**

Shareholder's equity breaks down as follows:

(EUR / 000)	Amount	Possibility of utilisation	Portion available
Share capital	14,400		
Capital reserves			
Share premium reserve	19,046	A-B-C	19,046
Retained earnings			
- legal reserve	2,880	B	
- extraordinary reserve	9,255	A-B-C	9,255
- IFRS conversion reserve	137		
- reserve for the measurement of securities at fair value	(15)		
- cash flow hedging reserve	3		
- IAS 19 reserve	(422)		
- own shares reserve	(156)		
- merger surplus reserve	858	A-B-C	858
- retained earnings/losses	10,144	A-B-C	10,144
- profit/(loss) for the period	7,630		
Total	**63,760**		**39,303**
Restricted portion			2,510
Residual portion available	63,760		36,793

NB: A = for capital increase, B = to cover losses, C = for distribution to shareholders

21. Employee benefits

Liabilities for *"Employee benefits"* showed the following changes:

Description	**31 December 2017**	**Increases**	**Decreases**	**Discounting**	**Other changes**	**31 December 2018**
(EUR / 000)						
Post-employment benefits	3,769	87	(260)	(114)	(1,375)	2,107
Non-competition agreements	587	-	(71)	(91)	(134)	291
Total	**4,356**	**1,039**	**(1,283)**	**(205)**	**(1,509)**	**2,398**

Changes relating to 2017 were as follows:

Description	**31 December 2016**	**Increases**	**Decreases**	**Discounting**	**Other changes**	**31 December 2017**
(EUR / 000)						
Post-employment benefits	4,513	7	(710)	(40)	-	3,769
Non-competition agreements	-	312	(7)	283	-	587
Total	**4,513**	**319**	**(717)**	**243**		**4,356**

"Post-employment benefit" comprises the post-employment benefits reserve for the Company's employees. The change during the year was due to an increase of EUR 87 thousand, resulting from disbursements to employees of EUR 260 thousand and from discounting of the liability existing at 31 December 2018 pursuant to IAS, negative by EUR 114 thousand, as a result of assessment of interest costs (totalling EUR 43 thousand) and actuarial gains (totalling EUR 71 thousand), and EUR 1,375 thousand as a result of the contribution to Gefran Drives and Motion S.r.l. (inclusive of EUR 111 thousand as a result of discounting of the payable on the basis of IAS 19).

"*Non-competition agreements*" refer to the amount of the obligation to certain employees, all of Italian subsidiaries, who have signed such agreements to protect the company from any competitive activities. The change during the year was due to disbursements to employees of EUR 71 thousand and discounting of the liability existing at 31 December 2018 pursuant to IAS, negative by EUR 91 thousand, as a result of assessment of interest costs (positive by EUR 7 thousand) and actuarial gains (negative by EUR 98 thousand), and EUR 134 thousand as a result of the contribution to Gefran Drives and Motion S.r.l. (inclusive of EUR 65 thousand as a result of discounting of the payable on the basis of IAS 19).

Pursuant to IAS 19, the post-employment benefit reserve and the non-competition agreements were valued using the "benefits accrued" method on the basis of the "Projected unit credit" (PUC) criterion.

The post-employment benefit reserve valuation breaks down as follows:

- projection to the time of payment of post-employment benefit already accrued as of 31.12.2006 and revalued as of the valuation date, for each employee;
- determination, for each employee, of probabilized payment of the above post-employment benefit which must be made by the company if the employee leaves the company due to dismissal, resignation, inability, death, or retirement, or in response to requests for advance payment;
- time-discounting of each probabilized payment as of the valuation date.

In greater detail, the technical foundations employed are:

Demographic assumptions	**Managers**	**Non-managers**
Probability of death	ISTAT 2014 Mortality tables	ISTAT 2014 Mortality tables
Probability of inability	INPS tables divided by age and gender	INPS tables divided by age and gender
Probability of retirement	100% upon reaching AGO requirements	100% upon reaching AGO requirements

Hypothetical turnover and advances	**Managers**	**Non-managers**
Probability of advances:	2.1%	2.1%
Probability of resignation		
- up to 50 years of age	4.0%	2.0%
- subsequently	Nil	Nil

Financial assumptions	**Managers**	**Non-managers**
Discount rate	1.57%	1.57%
Annual inflation rate	1.5%	1.5%
Annual rate of increase of post-employment benefit	2.625%	2.625%

However, this is the method applied to valuing non-competition agreements:

- projection for each employee as of the valuation date, of non-competition agreements already set aside and future quotas of non-competition agreements which will be accrued up to the date of payment;

- determination, for each employee, of probabilized payment of post-employment benefit that would have to be paid by the company in the event that the employee should be dismissed or retire;
- time-discounting of each probabilized payment as of the valuation date.

In greater detail, the technical foundations employed are:

Demographic assumptions	
Probability of death	RG48 mortality tables published by General State Accounting Department
Probability of retirement	100% upon reaching AGO requirements
Probability of voluntary resignation of Executives and Management	4.00% up to age 50 0.005% after age 50

Financial assumptions	
Real annual increase	1.5%
Annual time-discount rate	1.57%
Annual inflation rate	1.5%

The sensitivity analysis carried out on the assumptions of 1% and 0.5% changes in the discount rate used is shown below:

Description	**31 December 2018**		**31 December 2017**	
(EUR / 000)	-1.0%	1.0%	-1.0%	1.0%
Post-employment benefit reserve	(224)	208	(415)	371
Non-competition agreements	8	(8)	(28)	26
Total	(216)	200	(443)	397

Description	**31 December 2018**		**31 December 2017**	
(EUR / 000)	-0.5%	0.5%	-0.5%	0.5%
Post-employment benefit reserve	(112)	104	(202)	191
Non-competition agreements	4	(4)	(14)	13
Total	(108)	100	(216)	204

22. Current and non-current provisions

"Non-current provisions" amounted to EUR 85 thousand, as compared to EUR 159 thousand on 31 December 2017, and break down as follows:

Description	**31 December 2017**	**Provisions**	**Uses**	**Releases**	**Other changes**	**31 December 2018**
(EUR / 000)						
- for legal disputes	74	-	-	(74)	-	-
- other provisions	85	-	-	-	-	85
Total	**159**	**0**	**0**	**(74)**		**85**

The change pertains to release of the provision set aside in view of a legal dispute following the settlement of the dispute in favour of the Company. The item *"Other provisions"* also covers tax risks.

"Current provisions" totalled EUR 781 thousand at 31 December 2018, compared with provisions for EUR 1,012 thousand at 31 December 2017. The item breaks down as follows:

Description	31 December 2017	Provisions	Uses	Releases	Other changes	31 December 2018
(EUR / 000)						
FISC	7	4	-	-		11
Product warranty	1,005	331	(297)	-	(269)	770
Total	**1,012**	**335**	**(297)**	**0**		**781**

The item referring to envisaged charges for repairs on products under warranty has been decreased following contribution of the motion control business unit to Gefran Drives and Motion S.r.l.. Provisions during the year amounted to EUR 331 thousand, in line with the volume of revenues and the regularity with which events have historically occurred.

23. Other liabilities

"Other liabilities" at 31 December 2018 amounted to EUR 6,616 thousand and break down as follows:

Description	31 December 2018	31 December 2017	Change
(EUR / 000)			
Payables to personnel	2,934	3,980	(1,046)
Social security payables	1,755	2,306	(551)
Accrued interest on loans	40	60	(20)
Payables to directors and statutory auditors	227	160	67
Other accruals	471	138	333
Other payables for taxes	862	1,087	(225)
Other current liabilities	327	409	(82)
Total	**6,616**	**8,140**	**(1,524)**

Payables in the personnel area decreased in view of the lower cost of labour in the final quarter of the year, following the transfer of 147 employees to Gefran Drives and Motion S.r.l..

24. Revenues from sales of products and services

"Revenues" for 2018 totalled EUR 81,788 thousand, compared with EUR 82,479 thousand in 2017. The following table provides a breakdown of sales and service revenues by business and geographic region:

Sector	31 December 2018	31 December 2017	Change	%
(EUR / 000)				
Sensors	40,310	37,046	3,264	8.8%
Automation components	18,786	18,507	279	1.5%
Motion control	22,692	26,926	(4,234)	-15.7%
Total	**81,788**	**82,479**	**(691)**	**-1%**

The principal change is a result of contribution of the motion control business unit to Gefran Drives and Motion S.r.l. on 1 October 2018.

Total revenues include revenues from services provided for EUR 694 thousand (EUR 1,016 thousand in the previous year).

25. Other operating revenues and income

"*Other operating revenues and income*" amounted to EUR 3,244 thousand, an increase of EUR 309 thousand over 31 December 2017, as the following table shows:

Description	31 December 2018	31 December 2017	Change	%
(EUR / 000)				
Royalty income	156	190	(34)	-17.9%
Services to Group companies	2,520	2,201	319	14.5%
Recovery of company canteen expenses	30	34	(4)	-11.8%
Insurance reimbursements	18	3	15	500.0%
Rental income	293	147	146	99.3%
Other income	227	978	(751)	-76.8%
Total	**3,244**	**3,553**	**(309)**	**-9%**

The item "*Other income*" includes charges for R&D development specifically requested by customers, and is down EUR 751 thousand over the previous year.

26. Costs of raw materials and accessories

"*Costs of raw materials and accessories*" increased by EUR 2,529 thousand, from EUR 30,798 thousand in 2017 to EUR 33,327 thousand in 2018.

Description	31 December 2018	31 December 2017	Change
(EUR / 000)			
Raw materials and accessories	33,327	30,798	2,529

The contribution of the company branch described also had an effect on total purchases made during the year, in that goods purchased for the motion control business unit in the final quarter of 2018 were made by the newly established company Gefran Drives and Motion S.r.l..

27. Service costs

"Service costs" totalled EUR 14,319 thousand, compared with EUR 13,831 thousand in 2017, and break down as follows:

Description	31 December 2018	31 December 2017	change
(EUR / 000)			
Services	13,379	12,881	498
Use of third-party assets	940	950	(10)
Total	**14,319**	**13,831**	**488**

The increase amounts to EUR 488 thousand; without taking into account the contribution of the motion control business to Gefran Drives and Motion S.r.l., the increase would be EUR 1,290 thousand, due to greater variable industrial production costs borne as a result of revenue growth, and greater investment of resources in advertising and trade fairs. The parent company's new governance begun in April 2018 also added to the increased cost of services.

28. Personnel costs

"Personnel costs" amounted to EUR 26,872 thousand, down by EUR 1,538 thousand compared with 2017, and break down as follows:

Description	31 December 2018	31 December 2017	change
(EUR / 000)			
Salaries and wages	19,906	20,462	(556)
Social security contributions	5,526	5,910	(384)
Post-employment benefit reserve	1,436	2,038	(602)
Other costs	4	-	4
Total	**26,872**	**28,410**	**(1,538)**

The 31 December 2017 total of EUR 28,410 thousand included EUR 2,284 thousand representing the cost of personnel contributed to Gefran Drives and Motion S.r.l. and EUR 587 thousand resulting from entry of non-competition agreements signed with a number of employees. Without these components, personnel costs would be EUR 1,333 thousand higher than in the previous year, as a result of the hiring of new employees under the company's investment plan, which includes investment in human capital, beginning at the end of 2017.

"Social security contributions" include costs for defined contribution plans for management (Previndai pension plan) amounting to EUR 51 thousand (EUR 60 thousand at 31 December 2017).

The average number of employees in 2018 is shown below:

	2018	2017	Changes
Managers	13	17	(4)
Clerical staff	218	254	(36)
Manual workers	151	176	(25)
Total	**382**	**447**	**(65)**

The average number of employees was 131 people lower than in 2017, as a result of contribution of a total of 147 individuals working specifically for the motion control business unit. The exact number at the end of 2018 was 316 individuals, compared with 447 individuals at 31 December 2017.

29. Miscellaneous management costs and other operating income

"Miscellaneous management costs" presented a balance of EUR 523 thousand, compared with EUR 450 thousand in 2017, and break down as follows:

Description	31 December 2018	31 December 2017	change
(EUR / 000)			
Capital losses on the sale of assets	(40)	(17)	(23)
Losses on other receivables	(90)	-	(90)
Other taxes and duties	(252)	(278)	26
Membership fees	(141)	(155)	14
Total	(523)	(450)	(73)

"Other operating income" amounted to EUR 234 thousand, compared with EUR 561 thousand in the previous year, and breaks down as follows:

Description	31 December 2018	31 December 2017	change
(EUR / 000)			
Capital gains on the sale of assets	44	56	(12)
Collection of doubtful receivables	2	22	(20)
Release of risk provisions	74	401	(327)
Miscellaneous	114	82	32
Total	234	561	(327)

The change relates to the release of provisions during previous years.

30. Depreciation/amortisation

Description	31 December 2018	31 December 2017	change
(EUR / 000)			
Amortisation	1,987	2,106	(119)
Depreciation	3,045	4,775	(1,730)
Total	5,032	6,881	(1,849)

Amounts to EUR 5,032 thousand, down EUR 1,849 thousand over 31 December 2017, when the figure included EUR 1,916 thousand for adaptation of the carrying value of a number of assets to their fair value and EUR 338 thousand for assets contributed. The net increase of EUR 405 thousand is a result of increased investment, particularly industrial investment, in the year 2018.

31. Gains and losses from financial assets/liabilities

"Gains from financial assets" totalled EUR 2,302 thousand, versus EUR 1,262 thousand in 2017, and break down as follows:

Description	31 December 2018	31 December 2017	change
(EUR / 000)			
Cash management			
Income from cash management	12	6	6
Other financial income	50	33	17
Medium/long-term interest	(180)	(424)	244
Short-term interest	(14)	(25)	11
Interest from subsidiaries	(2)	-	(2)
Factoring interest and fees	1	(1)	2
Other financial charges	(5)	(10)	5
Total income (charges) from cash management	**(138)**	**(415)**	**277**
Currency transactions			
Exchange gains	309	347	(38)
Positive currency valuation differences	104	26	78
Exchange losses	(249)	(246)	(3)
Negative currency valuation differences	(18)	(503)	485
Total other income (charges) from currency transactions	**146**	**(376)**	**522**
Other			
Dividends from equity investments	2,294	2,443	(149)
Value adjustments of non-current assets	-	(390)	390
Total other financial income (charges)	**2,294**	**2,053**	**241**
Total	**2,302**	**1,262**	**1,040**

The item includes dividends received by Gefran Group companies totalling EUR 2,294 thousand (EUR 2,443 thousand in 2017), broken down as follows:

Company	31 December 2018	31 December 2017	change
(EUR / 000)			
Gefran Siei Asia (Singapore)	500	1,000	(500)
Gefran Inc. (USA)	894	1,018	(124)
Gefran Deutschland GmbH (Germany)	700	300	400
Siei Areg (Germany)	-	50	(50)
Gefran Benelux	200	75	125
Total	**2,294**	**2,443**	**(149)**

Medium/long-term financial charges decreased by EUR 244 thousand, mainly due to the downsizing of the medium/long-term financial debt and the reduction in the average spread.

The balance of currency transaction differences has a positive value of EUR 146 thousand, compared with a negative value of EUR 376 thousand in 2017; the change is a result of dynamics in the Euro exchange rate.

"Value adjustments of non-current assets" registered no amounts, where in 2017 this item registered EUR 390 thousand, broken down as follows:

Description	31 December 2018	31 December 2017	change
(EUR / 000)			
Gefran UK Ltd (UK)	-	(597)	597
Gefran France SA (France)	-	2,000	(2,000)
Gefran India Ltd (India)	-	(712)	712
Gefran Middle East (Turkey)	-	(1,081)	1,081
Total	**-**	**(390)**	**390**

For further details, see note 12 of these notes to the accounts.

32. Income taxes, deferred tax assets and deferred tax liabilities

"*Taxes*" were negative at EUR 2,280 thousand, compared with a positive balance of EUR 111 thousand in 2017, and break down as follows:

(EUR / 000)	31 December 2018	31 December 2017
Current taxes		
IRES (corporate income tax)	(244)	41
IRAP (regional business tax)	(437)	(537)
Total current taxes	**(681)**	**(496)**

(EUR / 000)	31 December 2018	31 December 2017
Deferred taxes		
Deferred tax liabilities	5	(6)
Deferred tax assets	(1,604)	391
Total deferred taxes	**(1,599)**	**385**
Total taxes	**(2,280)**	**(111)**
of which:		
Allocated to assets held for sale	335	-
Relating to the operative part	(2,615)	(111)
Total taxes	**(2,280)**	**(111)**

Current taxes amounted to EUR 681 thousand and were for the recognition of the IRES and RAP taxable amounts, which can be offset only in part by prior tax losses, in accordance with current legislation.

Deferred taxes and prepaid taxes present a negative balance of EUR 1,599 thousand, as compared to a positive balance of EUR 385 thousand on 31 December 2017; the change is a result of prepaid taxes entered on previous losses, in that, at the end of 2017, a positive balance of EUR 198 thousand was entered, whereas in 2018 EUR 1,162 thousand was released to the income statement.

Total taxes, equal to EUR 2,280 thousand, include EUR 2,615 thousand allocated to the operative part, while the remainder, with a positive balance of EUR 335 thousand, is allocated to the profit (loss) from assets held for sale.

The reconciliation of income taxes accounted for and theoretical taxes, resulting from the application to profit before tax of the corporate income tax rate in force (24%), is as follows:

(EUR / 000)	**31 December 2018**	**31 December 2017**
Profit (loss) before tax	*11,111*	*8,372*
Gross profit (loss) from assets held for sale	*(1,201)*	*187*
Gross profit	9,910	8,559
Theoretical income tax	(2,378)	(2,054)
Effect from use of losses carried forward	1,060	1,423
Net effect of permanent differences	701	449
Net effect of temporary deductible and taxable differences	397	(116)
Effect of taxes from previous years	(25)	339
Current taxes	**(245)**	**41**
Income tax – deferred tax assets/liabilities	(1,554)	315
Recognised income taxes (excluding current and deferred IRAP)	**(1,799)**	**356**
IRAP - current taxes	(437)	(537)
IRAP – deferred tax assets/liabilities	(44)	70
Recognised income taxes (current and deferred)	**(2,280)**	**(111)**

The net effect of permanent differences mainly refers to dividends received during the year.

Deferred tax assets and deferred tax liabilities break down as follows:

(EUR / 000)	**31 December 2017**	**Posted to the income statement**	**Recognised under shareholders' equity**	**Other changes**	**31 December 2018**
Deferred tax assets					
Write-down of inventories	1,059	(323)		(516)	220
Write-down of trade receivables	342	(90)		-	252
Impairment of assets	535	-		-	535
Deductible losses to be brought forward	3,394	(1,161)		-	2,232
Exchange rate balance	-	4		-	4
Provision for product warranty risk	280	9		(74)	215
Provision for sundry risks	286	(43)	(41)	(61)	141
Fair value hedging	3	-	(1)	-	2
Total deferred tax assets	5,899	(1,604)	(42)	(651)	3,601

(EUR / 000)	**31 December 2017**	**Posted to the income statement**	**Recognised under shareholders' equity**	**Other changes**	**31 December 2018**
Deferred tax liabilities					
Exchange valuation differences	(9)	5			(4)
Total deferred taxes	(9)	5	-	-	(4)
Net total	5,890	(1,599)	(42)	(651)	3,597

The IRES tax losses recognised among deferred tax assets refer to all tax losses and it is assumed that this amount will be recovered in the next three financial years.

Deferred tax assets and deferred tax liabilities for the year 2017 break down as follows:

(EUR / 000)	31 December 2016	Posted to the income statement	Recognised under shareholders' equity	31 December 2017
Deferred tax assets				
Write-down of inventories	1,336	(277)		1,059
Write-down of trade receivables	345	(3)		342
Impairment of assets	-	535		535
Deductible losses to be brought forward	3,197	197		3,394
Exchange rate balance	8	(8)		-
Provision for product warranty risk	199	81		280
Provision for sundry risks	361	(134)	59	286
Fair value hedging	-		3	3
Total deferred tax assets	5,446	391	62	5,899

(EUR / 000)	31 December 2016	Posted to the income statement	Recognised under shareholders' equity	31 December 2017
Deferred tax liabilities				
Exchange valuation differences	-	(6)	3	(9)
Total deferred taxes	-	(6)	3	(9)
Net total	5,446	385	65	5,890

33. Guarantees granted, commitments and other contingent liabilities

33.1. Guarantees granted

At 31 December 2018, Gefran S.p.A. had granted guarantees on the payables and commitments of third parties or subsidiaries totalling EUR 11,578 thousand, up by EUR 1,020 thousand compared with 31 December 2017, as shown in the table below:

Description	**2018**	**2017**
(EUR / 000)		
Ubi Leasing	5,918	5,918
Banca Intesa	1,100	1,100
Banca Passadore	2,750	2,750
Banco di Brescia	790	790
Banca Pop. Emilia Romagna	1,020	-
Total	**11,578**	**10,558**

A surety in favour of UBI Leasing was issued for a total of EUR 5,918 thousand, expiring in 2029, to guarantee financial requirements for the construction of photovoltaic systems by BS Energia 2 S.r.l. The residual liability at 31 December 2018 guaranteed by this surety amounts to EUR 2,534 thousand (EUR 2,704 thousand at 31 December 2017).

The sureties issued to Banca Passadore and Banco di Brescia both cover the credit facilities of Ensun S.r.l. The residual liability at 31 December 2018 guaranteed by the Banca Passadore surety amounts to EUR 2,150 thousand (EUR EUR 2,750 thousand at 31 December 2017).

The amount of EUR 1,100 thousand in favour of Banca Intesa relates to a simple letter of patronage issued to guarantee the credit facilities of Elettropiemme S.r.l.

The surety issued to Banca Popolare Emilia Romagna in the fourth quarter of 2018, with an expiry of 18 months, worth EUR 1,020 thousand, guarantees lines of credit extended by banks to Gefran Drives and Motion S.r.l..

33.2. Legal proceedings and disputes

Gefran S.p.A. is involved in various legal proceedings and disputes. It is, however, considered unlikely that the resolution of these disputes will generate significant liabilities for which provisions have not already been made.

33.3. Commitments

The principal contracts in effect concern rental of real estate, electronic machinery and company vehicles. At the reporting date, the payments still owed by the Company on these contracts amounted to EUR 1,070 thousand, all falling due within the next five years.

Note that this amount includes EUR 467 thousand pertaining to contracts subject to application of IFRS 16 starting on 1 January 2019; of these, EUR 460 thousand will be allocated to current and non-current financial payables, while EUR 7 thousand will be entered under financial charges in the Profit/(loss) for the period.

34. Dealings with related parties

In accordance with IAS 24, information relating to dealings with related parties for 2018 and the previous year is provided below.

In compliance with Consob resolution no. 17221 of 12 March 2010, the Gefran S.p.A. Board of Directors has adopted the Regulations governing transactions with related parties, the current version of which was approved on 3 August 2017 and may be consulted online at www.gefran.com in the *"Investor relations/ Corporate Governance"* area.

Transactions with related parties are part of normal operations and the typical business of each entity involved and are carried out under normal market conditions. There were no atypical or unusual transactions.

The most significant transactions with other related parties are listed below. These dealings have no material impact on Gefran S.p.A.'s economic and financial structure. They are summarised in the following tables:

(EUR / 000)	Elettropiemme S.r.l.	Climat S.r.l.	Francesco Franceschetti Elastomeri S.r.l.	Total
Revenues from product sales				
2017	41,847	0	2,027	43,874
2018	48,164	0	0	48,164
Service costs				
2017	-55,582	-123,848	0	-179,429
2018	-63,812	-140,660	0	-204,472

(EUR / 000)	Elettropiemme S.r.l.	Climat S.r.l.	Francesco Franceschetti Elastomeri S.r.l.	Total
Property, plant, machinery and tools				
2017	0	168,315	0	168,315
2018	0	918,880	0	918,880
Trade receivables				
2017	11,552	0	0	11,552
2018	238	0	0	238
Trade payables				
2017	0	87,813	0	87,813
2018	0	293,705	0	293,705

In accordance with internal regulations, transactions with related parties of an amount below EUR 50 thousand are not reported, since this amount was determined as the threshold for identifying material transactions.

Gefran S.p.A.'s relations with subsidiaries and affiliates are set out in the Company's notes to individual items in the statement of financial position and the income statement, and mainly pertain to:

- relations in connection with sales of products and services;
- service contracts (communication, legal, corporate, finance and cash, IT, product marketing, personnel management) in favour of subsidiaries;
- relations of a financial nature, represented by current account relations for cash pooling purposes.

All these relations were created in the normal course of operations, taking account of the level of service provided or received and in compliance with procedures to ensure the material correctness of the transaction.

Moreover, with regard to dealings with subsidiaries, Gefran S.p.A. provided technical, administrative and management services as well as royalties to the Group's operating subsidiaries amounting to around EUR 2.7 million, governed by specific contracts.

Gefran S.p.A. provides a Group cash pooling service, partly through a "Zero Balance" service, which involves all the European subsidiaries.

None of the subsidiaries holds shares in Gefran S.p.A. or held them during the year.

In 2018 Gefran S.p.A. recognised dividends from subsidiaries amounting to EUR 2,294 thousand (EUR 2,443 thousand in 2017).

Members of the Board of Directors and the Board of Statutory Auditors and managers with strategic responsibilities were paid the following aggregate remuneration: EUR 447 thousand included in personnel costs and EUR 1,499 thousand included in service costs.

Please note that the information required pursuant to Article 123 bis of Italian Legislative Decree No. 58/1998 is contained in a separate document, the "Report on Corporate Governance and Ownership Structure", which refers for some information to the "Remuneration Report", prepared pursuant to article 123 ter of Italian Legislative Decree No. 58/1998. Both of these reports have been published in the Company's website, section of the Governance/Meeting.

Persons of strategic importance have been identified as members of the executive Board of Directors of Gefran S.p.A. and of other Group companies, as well as executives with strategic responsibilities, generally identified as the General Manager of the sensors and components Business Unit and the Group's CFO.

35. Information pursuant to Article 149-*duodecies* of the Consob Issuers' Regulation

The following schedule shows fees for 2018 for auditing services and services other than auditing provided by the external auditor and entities within its network.

Description	Party that provided the service	Fees for 2018
(EUR / 000)		
Accounts audit	PwC S.p.A.	87
Accounts audit Non-Financial Disclosure	PwC S.p.A.	19
Certification services	PwC S.p.A.	6
Other services	PwC network	100
Total		212

36. Events after 31 December 2018

Please see the Report on Operations for the operating performance in early 2019.

37. Other information

Pursuant to Article 70, paragraph 8, and article 71, paragraph 1-*bis*, of Consob's Issuers' Regulation, the Board of Directors decided to take advantage of the option to derogate from the obligations to publish the information documents prescribed in relation to significant mergers, spin-offs, capital increases through contribution in kind, acquisitions and disposals.

Provaglio d'Iseo, 14 March 2019

For the Board of Directors

Chairman

Maria Chiara Franceschetti

Chief Executive Officer

Alberto Bartoli

CERTIFICATION OF THE FINANCIAL STATEMENTS PURSUANT TO ARTICLE 81-TER OF CONSOB REGULATION 11971 OF 14 MAY 1999 AS AMENDED

The undersigned **Alberto Bartoli**, in his capacity as Chief Executive Officer, and **Fausta Coffano**, in her capacity as Executive in charge of financial reporting of Gefran S.p.A. hereby certify, with due regard for the provisions of Article 154-*bis*, paragraphs 3 and 4, of Legislative Decree no. 58 of 24 February 1998:

- the adequacy, with respect to the Company's characteristics,

  and

- the effective application of the administrative and accounting procedures applied in the preparation of the annual financial statements in the period from 1 January 2018 to 31 December 2018.

There are no significant events to report in this regard.

They further certify that:

1. the annual financial statements at 31 December 2018 of Gefran S.p.A.:

- were prepared in accordance with applicable international accounting standards recognised in the European Union pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
- correspond to entries made in accounting ledgers and records;
- provide a true and accurate representation of the financial situation of the issuer;

2. The Report on Operations contains reliable analysis of operating performance and results and of the condition of the issuer, together with a description of the main risks and uncertainties to which it is exposed.

Provaglio d'Iseo, 14 March 2019

Legal Representative and
Chief Executive Officer

Alberto Bartoli

Executive in charge
of financial reporting

Fausta Coffano

EXTERNAL AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the shareholders of
Gefran SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Gefran Group (the Group), which comprise the statement of financial position as of 31 December 2018, the statement of profit/(loss) for the year, statement of profit/(loss) for the year and other items of comprehensive income, statement of changes in shareholders' equity, consolidated cash flow statement for the year then ended, and specific explanatory 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 of 31 December 2018, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05.

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 this report. We are independent of Gefran Group (the Group) pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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.

PricewaterhouseCoopers SpA

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www.pwc.com/it

Key Audit Matters	*Auditing procedures performed in response to key audit matters*
Recoverability of Goodwill	
Note 13 to the specific explanatory notes to the accounts "Goodwill" The carrying amount of goodwill as at 31 December 2018 is Euro 5,868 thousand (4,3% of total assets) and impairment testing is required at least once a year. Goodwill is allocated to specific Cash Generating Units (CGU) identified on a geographical basis (France, India, USA and Switzerland). The recoverability of goodwill is assessed by comparing the book value recognised in the consolidated financial statements with the value in use. Value in use is the discounted value of the expected cash flows from use of the asset (*Unlevered Discounted Cash Flows Method*). The valuation of the recoverable amount of goodwill is a key audit matter considering the significant carrying amount and the complexity of the valuation process that requires significant Management estimation, based on economic and market assumptions, including cash flow forecast and the discount rate applied.	We evaluated the allocation process of goodwill to the Cash Generating Units and we obtained an understanding of the valuation process adopted by the Group in order to determine the recoverability of the carrying amount of goodwill. We obtained and examined the impairment tests prepared by the Management of the parent Company. We analysed the main assumptions adopted focusing on revenues forecast in order to obtain evidence on the development of revenues over the period of the plan, and on the reasonableness of estimated operating costs. Experts from the PwC network have been involved to conduct a critical examination of the model used and the calculation of the Weighted average cost of capital (Wacc). In addition, in order to assess the ability of the Management to make reliable forecasts, we compared the final figures as at 31 December 2018 with the related budget data. We compared the forecasts approved by the Boards of Directors of the subsidiaries with the assumptions used in the context of the impairment tests. An independent sensitivity analysis was developed on the main assumptions underlying the impairment models, in order to assess the impact, on the results of the tests, of variations produced in the main parameters adopted. We assessed the accuracy and completeness of the disclosures in the specific explanatory notes.

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

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the

European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the Group's ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, management uses the going concern basis of accounting unless management either intends to liquidate Gefran SpA or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing, in the terms prescribed by law, 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we 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 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 evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- We concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- We 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 obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We 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 identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other 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 determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

Additional Disclosures required by Article 10 of Regulation (EU) No 537/2014

On 21 April 2016, the shareholders of Gefran SpA in general meeting engaged us to perform the statutory audit of the Company's and the consolidated financial statements for the years ending 31 December 2016 to 31 December 2024.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98

Management of Gefran SpA is responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the Gefran Group as of 31 December 2018, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the consolidated financial statements of the Gefran Group as of 31 December 2018 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of Gefran Group as of 31 December 2018 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Opinion in accordance with Article 4 of Consob Regulation implementing the Legislative Decree No. 254/16

Management of Gefran SpA is responsible for the preparation of the non-financial statement pursuant to Legislative Decree No. 254 of 30 December 2016.

We have verified that Management approved the non-financial statement.

Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016, the non-financial statement is the subject of a separate statement of compliance issued by ourselves.

Brescia, 29 March 2019

PricewaterhouseCoopers SpA

Signed by

Alessandro Mazzetti
(Partner)

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

EXTERNAL AUDITORS' REPORT ON THE CONSOLIDATED NON-FINANCIAL DISCLOSURE

GEFRAN SPA

INDEPENDENT AUDITOR'S ON THE CONSOLIDATED NON FINANCIAL STATEMENT PURSUANT TO ARTICLE 3, PARAGRAPH 10, OF LEGISLATIVE DECREE NO. 254/2016 AND ARTICLE 5 OF CONSOB REGULATION NO. 20267 OF JANUARY 2018

YEAR ENDED 31 DECEMBER 2018

Independent auditor's report on the consolidated non-financial statement

pursuant to article 3, paragraph 10, of Legislative Decree No. 254/2016 and article 5 of CONSOB Regulation No. 20267 of January 2018

To the Board of Directors of Gefran SpA

Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016 (the "Decree") and article 5 of CONSOB Regulation No. 20267/2018, we have performed a limited assurance engagement on the consolidated non-financial statement of Gefran SpA and its subsidiaries (hereafter the "Group") for the year ended 31 December 2018 prepared in accordance with article 4 of the Decree, presented in a specific section of the Annual Report, and approved by the Board of Directors on 14 March 2019 (hereafter the "NFS").

Responsibility of Management and those charged with Governance for the NFS

The Directors are responsible for the preparation of the NFS in accordance with article 3 and 4 of the Decree and with the "GRI-Sustainability Reporting Standards" defined in 2016 (hereafter the "GRI Standards"), with reference to a selection of GRI Standards, as described in the paragraph "Note on methodology" of the NFS, identified by them as the reporting standards.

The Directors are responsible, in accordance with the law, for the implementation of internal controls necessary to ensure that the NFS is free from material misstatement, whether due to fraud or unintentional errors.

Moreover, the Directors are responsible for identifying the content of the NFS, within the matters mentioned in article 3, paragraph 1, of the Decree, considering the activities and characteristics of the Group and to the extent necessary to ensure an understanding of the Group's activities, its performance, its results and related impacts.

Finally, the Directors are responsible for defining the business and organisational model of the Group and, with reference to the matters identified and reported in the NFS, for the policies adopted by the Group and for the identification and management of risks generated and/or faced by the Group.

The Board of Statutory Auditors is responsible for overseeing, in the terms prescribed by law, compliance with the Decree.

Auditor's Independence and Quality Control

We are independent in accordance with the principles of ethics and independence set out in *the Code of Ethics for Professional Accountants* published by the *International Ethics Standards Board for Accountants*, which are based on the fundamental principles of integrity, objectivity, competence and professional diligence, confidentiality and professional behaviour. Our audit firm adopts *International Standard on Quality Control 1 (ISQC Italy 1)* and, accordingly, maintains an overall quality control system which includes processes and procedures for compliance with ethical and professional principles and with applicable laws and regulations.

Auditor's responsibilities

We are responsible for expressing a conclusion, on the basis of the work performed, regarding the compliance of the NFS with the Decree and with the GRI Standards, with reference to a selection of GRI Standards. We conducted our engagement in accordance with "*International Standard on Assurance Engagements ISAE 3000* (Revised) – *Assurance Engagements Other than Audits or Reviews of Historical Financial Information"* (hereafter "ISAE 3000 Revised"), issued by the *International Auditing and Assurance Standards Board* (IAASB) for limited assurance engagements. The standard requires that we plan and apply procedures in order to obtain limited assurance that the NFS is free of material misstatement. The procedures performed in a limited assurance engagement are less in scope than those performed in a reasonable assurance engagement in accordance with ISAE 3000 Revised ("*reasonable assurance engagement*") and, therefore, do not provide us with a sufficient level of assurance that we have become aware of all significant facts and circumstances that might be identified in a reasonable assurance engagement.

The procedures performed on the NFS were based on our professional judgement and consisted in interviews, primarily with company personnel responsible for the preparation of the information presented in the NFS, analysis of documents, recalculations and other procedures designed to obtain evidence considered useful.

In particular, we performed the following procedures:

1. analysis of the relevant matters reported in the NFS relating to the activities and characteristics of the Group, in order to assess the reasonableness of the selection process used, in accordance with article 3 of the Decree and with the reporting standards adopted;
2. analysis and assessment of the criteria used to identify the consolidation area, in order to assess their compliance with the Decree;
3. comparison of the financial information reported in the NFS with that reported in the Group's Consolidated Financial Statements;
4. understanding of the following matters:
    - business and organisational model of the Group, with reference to the management of the matters specified by article 3 of the Decree;
    - policies adopted by the Group with reference to the matters specified in article 3 of the Decree, actual results and related key performance indicators;
    - main risks, generated and/or faced by the Group, with reference to the matters specified in article 3 of the Decree.

    With reference to those matters, we compared the information obtained with the information presented in the NFS and carried out the procedures described under point 5 a) below;

5. understanding of the processes underlying the preparation, collection and management of the significant qualitative and quantitative information included in the NFS. In particular, we held meetings and interviews with the management of Gefran SpA and with the personnel of Gefran Drives and Motion S.r.l. and we performed limited analysis of documentary evidence, to gather information about the processes and procedures for the collection, consolidation, processing and submission of the non-financial information to the function responsible for the preparation of the NFS.

   Moreover, for material information, considering the activities and characteristics of the Group:

   - at holding level

     a) with reference to the qualitative information included in the NFS, and in particular to the business model, the policies adopted and the main risks, we carried out interviews and acquired supporting documentation to verify their consistency with available evidence;
     b) with reference to quantitative information, we performed analytical procedures as well as limited tests, in order to assess, on a sample basis, the accuracy of consolidation of the information;

   - for the subsidiary Gefran Drives and Motion S.r.l., which was selected on the basis of its activities, its contribution to the performance indicators at a consolidated level and its location, we carried out site visits during which we met local management and gathered supporting documentation regarding the correct application of the procedures and calculation methods used for the key performance indicators.

Conclusions

Based on the work performed, nothing has come to our attention that causes us to believe that the NFS of Gefran Group as of 31 December 2018 has not been prepared, in all material respects, in compliance with articles 3 and 4 of the Decree and with the GRI Standards, with reference to a selection of GRI Standards, as described in the paragraph “Note on methodology” of the NFS.

Brescia, 29 March 2019

PricewaterhouseCoopers SpA

Signed by

Alessandro Mazzetti
(Partner)

Signed by

Paolo Bersani
(Authorised signatory)

This report has been translated from the Italian original solely for the convenience of international readers. We have not performed any controls on the NFS 2018 translation.

EXTERNAL AUDITORS' REPORT ON THE FINANCIAL STATEMENTS OF GEFRAN S.p.A.

Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the shareholders of
Gefran SpA

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Gefran SpA (the Company), which comprise the statement of financial position as of 31 December 2018, statement of profit/(loss) for the year, statement of profit/(loss) for the year and other items of comprehensive income, statement of changes in shareholders' equity, cash flow statement for the year then ended, and specific explanatory 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 of 31 December 2018, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05.

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 this report. We are independent of the Company pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

PricewaterhouseCoopers SpA

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Key Audit Matters	*Auditing procedures performed in response to key audit matters*
Recoverability of Equity investments in subsidiaries *Note 12 to the specific explanatory notes to the accounts "Equity investments in subsidiaries"* Investments in subsidiaries are accounted for using the cost method. The carrying amount as at 31 December 2018 is Euro 42,416 thousand (35,4% of total assets) and impairment testing of equity investments is required if there are indicators suggesting that such a problem might exist. The recoverability of the asset is assessed by comparing the book value recognised in the financial statements with the value in use. Value in use is the discounted value of the expected cash flows from use of the asset (*Unlevered Discounted Cash Flows Method*). The valuation of the recoverable amount of equity investments in subsidiaries is a key audit matter considering the significant carrying amount and the complexity of the valuation process that requires significant Management estimation, based on economic and market assumptions, including cash flow forecast and the discount rate applied.	We obtained an understanding of the valuation process adopted by the Company in order to determine the recoverability of the carrying amount of investments in subsidiaries and we examined the impairment tests prepared by the Management. We compared the forecasts approved by the Boards of Directors of the subsidiaries with the assumptions used in the context of the impairment tests. We analysed the main assumptions adopted focusing on revenues forecast in order to obtain evidence on the development of revenues over the period of the plan, and on the reasonableness of estimated operating costs. Experts from the PwC network have been involved to conduct a critical examination of the model used and the calculation of the Weighted average cost of capital (Wacc). In addition, in order to assess the ability of the Management to make reliable forecasts, we compared the final figures as at 31 December 2018 with the related budget data. An independent sensitivity analysis was developed on the main assumptions underlying the impairment models, in order to assess the impact, on the results of the tests, of variations produced in the main parameters adopted. We assessed the accuracy and completeness of the disclosures in the specific explanatory notes.

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

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the Company's ability to continue as a going concern and, in preparing the financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the financial statements, management uses the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing, in the terms prescribed by law, the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised our professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we 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 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 evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- We concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- We 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 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 identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other 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 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 described these matters in our auditor's report.

Additional Disclosures required by Article 10 of Regulation (EU) No 537/2014

On 21 April 2016, the shareholders of Gefran SpA in general meeting engaged us to perform the statutory audit of the Company's and consolidated financial statements for the years ending 31 December 2016 to 31 December 2024.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98

Management of Gefran SpA is responsible for preparing a report on operations and a report on the corporate governance and ownership structure of Gefran SpA as of 31 December 2018, including their consistency with the relevant financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the financial statements of Gefran SpA as of 31 December 2018 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the financial statements of Gefran SpA as of 31 December 2018 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Brescia, 29 March 2019

PricewaterhouseCoopers SpA

Signed by

Alessandro Mazzetti
(Partner)

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

BOARD OF STATUTORY AUDITORS' REPORT TO THE SHAREHOLDERS' MEETING OF GEFRAN S.p.A. PURSUANT TO ARTICLE 153 OF ITALIAN LEGISLATIVE DECREE No. 58 DATED 24 FEBRUARY 1998 (TUF) AND ARTICLE 2429.3 OF THE ITALIAN CIVIL CODE

Board of Statutory Auditors' Report to the Shareholders' Meeting of Gefran S.p.A. pursuant to article no. 153 of Legislative Decree no. 58 of 24 February 1998 (TUF) and article 2429, third paragraph, of the Italian Civil Code

Dear Shareholders,

In the year ending on 31 December 2018, we carried out supervisory activities in compliance with the Law, aligning our operations with the rules of conduct applied to the Boards of Statutory Auditors of listed companies, issued by the National Council of Chartered Accountants and Accounting Experts (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili), with the recommendations issued by the National Commission for companies and the Stock Exchange (Consob) as regards corporate auditing and the activities of the Board of Statutory Auditors as well as with the guidelines contained in the Code of Conduct issued by the Italian Stock Exchange.

As regards regulatory auditing tasks, note that pursuant to Legislative Decree no. 39 of 27 January 2010 (Legislative Decree 39/2010), they have been assigned to the external auditors PricewaterhouseCoopers SpA, appointed by the Shareholders' Meeting of 21 April 2016 for a nine-year period, from 2016 to 2024.

The Board of Statutory Auditors currently in office was appointed by the Shareholders' Meeting held on 24 April 2018.

Also pursuant to the recommendations issued by Consob with Communication DEM/1025564 of 6 April 2001, as amended, we wish to inform you and report about the following:

- We have monitored compliance with the Law and with the Articles of Association.
- We have attended the meetings of the Board of Directors and specific preparatory meetings about the agenda items, as well as the meetings held by the Control and Risk Committee and the Remuneration Committee, and we have obtained from the Directors periodic information on the general performance of the company, its anticipated evolution, as well as on the most significant business, financial and equity transactions carried out by the Company; moreover, we have ensured that the resolutions issued and implemented were compliant with the Law and the Articles of Association and that they were clearly not imprudent, risky, in potential conflict of interest and in contrast with the resolutions issued by the Shareholders' Meeting or such as to jeopardise the integrity of the company's assets. During the auditing carried out, the existence of atypical and/or unusual transactions did not emerge. In order to execute our mandate, we have analysed the information flows

originating from different corporate structures, from the Internal Audit function, outsourced, and we have also conducted auditing on the management of the company and on the external auditors.

- On 14 March 2019, in response to a proposal submitted by the Remuneration Committee, the Board of Directors approved the "Annual Remuneration Report", prepared pursuant to article 123-ter of TUF, article 84-quater of the Consob Issuers' Regulation and the provisions of article 6 of the Code of Conduct.
- We have monitored the compliance and the correct application of the "Regulations for transactions with related parties" adopted by the Board of Directors on 12 November 2010, pursuant to article 4 of the Consob Regulations, under Resolution no. 17221 of 12 March 2010, as amended.
- The Company has prepared the 2018 financial statements according to the international accounting standards (IAS/IFRS). These financial statements were submitted for an independent audit to be conducted by PricewaterhouseCoopers SpA, which issued its Report on 29 March 2019;
- The Company has also prepared the 2018 consolidated financial statements of the Gefran Group in compliance with the international accounting standards (IAS/IFRS). These financial statements were also submitted for an independent audit to be conducted by PricewaterhouseCoopers SpA, which issued its Report on 29 March 2019;
- The Company has also prepared the Non-financial Consolidated Statement as of 31/12/2018 pursuant to Legislative Decree 254/2016 and referring to the international reporting standards issued by the Global Reporting Initiative "Sustainability Reporting Standards" in the GRI-Referenced version. This Statement was also submitted for an audit to be conducted by PricewaterhouseCoopers SpA, which issued its Report on 29 March 2019;
- Starting last year, the text of the Audit Report has been profoundly revised as a result of the changes made to the audit reform implemented in the Italian legal system through Legislative Decree no. 135/2016, which amends the provisions contained in Legislative Decree no. 39/2010. The form and content of the new Report have changed, both in terms of declarations and information. With regard to opinions and declarations, the external auditors, in the financial statements audit report, have:

  - expressed the opinion that Gefran's separate and consolidated financial statements provide a truthful and correct representation of the equity and financial situation of Gefran and of the Group at 31

December 2018 and of the net result and cash flows for the year closed on that date, in accordance with the international financial reporting standards adopted by the European Union and the provisions issued pursuant to Article 9 of Legislative Decree 38/05 and Article 43 of Legislative Decree 135/15.

- expressed the opinion that the Reports on Operations accompanying the separate and consolidated financial statements as at 31 December 2018 and certain specific information contained in the "Report on corporate governance and ownership structure" specified in article 123-bis, paragraph 4, of the TUF - the responsibility for which falls to the directors - are drafted in compliance with the law.
- declared that they have nothing to report regarding any significant errors in the Report on Operations, based on the knowledge and understanding of the company and of the related context acquired in the course of the audit.

On 29 March 2019 the external auditors also submitted to the Board of Statutory Auditors the Additional Report required by Article 11 of EU Regulation no. 537/2014, which reports no significant deficiencies in the internal control system, with reference to the financial reporting process, worthy of being brought to the attention of those responsible for corporate governance.

Enclosed with the additional report, the external auditors also submitted to the Board of Statutory Auditors a declaration relating to their independence, as required by article 6 of EU regulation no. 537/2014, from which no situations emerge that could compromise their independence.

Furthermore, the Board has also taken due account of the transparency report prepared by the external auditors and published on their website pursuant to article 18 of Legislative Decree 39/2010.

Based on the activities carried out and considering the evolving nature of the Internal Control System, the Board of Statutory Auditors has expressed an assessment of the overall adequacy of the same and acknowledged, in its capacity as Internal Control and Auditing Committee, that there are no relevant findings to report to the Shareholders' meeting.

The external auditors PricewaterhouseCoopers SpA have communicated the fees for the auditing of the separate and consolidated financial statements of Gefran S.p.A. at 31 December 2018 and of the Gefran Group, as well as for limited auditing of interim reports, for the performance of control activities on the keeping of accounting records and all additional assigned tasks. The fees are broken down as follows, referencing the Directors' Report on Operations for additional details:

External audit	Pwc Spa	Parent Company	87
External audit	Pwc Spa	Subsidiaries	19
External audit	Pwc network	Subsidiaries	240
External audit Non-Financial Statement	Pwc Spa	Parent Company	19
Certification service	Pwc Spa	Parent Company	6
Other Services	Pwc network	Parent Company	100
Total Euro			471

Taking into account the tasks assigned to same and to their network by Gefran and by the Group companies, the Board of Statutory Auditors does not believe that there are any critical issues concerning the independence of the external auditors.

- Among the most relevant transactions reported for 2018, the following, referencing the Directors' Report on Operations for additional details, should be noted:
  On 24 April 2018, the ordinary Shareholders' Meeting of Gefran SpA resolved to approve the 2017 financial statements and to distribute a dividend of EUR 0.35 per share, to appoint the undersigned new members of the Board of Statutory Auditors for the three-year period 2018-2020, to appoint Ennio Franceschetti to the position of Honorary Chairman and to authorize the Board of Directors to purchase up to a maximum of 1,440,000 own shares for a period of 18 months from the date of the Shareholders' Meeting.
  The shareholders also expressed a favourable opinion of the general Group remuneration policy adopted by Gefran, pursuant to Article 123-*ter* of the TUF.
  The Gefran S.p.A. Board of Directors, meeting at the end of the annual meeting, appointed Maria Chiara Franceschetti as Chairman of the Board of Directors and Giovanna Franceschetti and Andrea Franceschetti as Vice Chairmen.
  On 2 May 2018 Christian Pampallona joined the Gefran Group as General Manager of the Motion Control Business Unit.
  On 4 July 2018 the Company Gefran Drives and Motion, 100% owned by Gefran S.p.A., was established.
  On 1 October 2018 Gefran S.p.A. contributed the company branch which it owns in Gerenzano, concerned with research and development, production and sale of drives, to Gefran Drives and

Motion S.r.l. The contribution includes property, assets and liabilities with a net asset value of EUR 17,075 thousand.

- We have acquired knowledge and we have monitored, within our area of competence, the appropriateness of the Company's organisational structure, compliance with the correct administration principles, alignment with the provisions applicable to subsidiaries pursuant to article 114, second paragraph, of the TUF, by acquiring information from the managers of the company's functions and by meeting with the external auditors.
- We have assessed and monitored the adequacy of the administrative and accounting system, as well as the reliability thereof, in correctly representing events in operation; this was accomplished by obtaining information from the Director in charge of preparing the accounting and corporate documents, by reviewing the company's documentation and by analysing the results of the work carried out by the external auditors PricewaterhouseCoopers SpA. The CEO and the Director in charge of preparing the accounting and corporate documents have declared, in an appropriate report attached to the 2018 financial statements: a) the adequacy and the actual application of the administrative accounting procedures; b) the compliance of the content of the accounting documents with international accounting standards; c) the consistency of the documents with the results of the accounting ledgers and records and their accuracy in correctly representing the equity, economic and financial position of the Company; d) that the Report on Operations provides a reliable analysis of the results of operation and of the issuer's situation, along with a description of the principal risks and uncertainties to which it is exposed. A similar declaration is attached to the consolidated financial statements of the Gefran Group.
- We have assessed and monitored the adequacy of the internal control system through: a) a review of the report from the Manager of the Internal Audit about the internal control system; b) a review of the reports from the Internal Audit as well as the reporting on the results from monitoring activities; c) the attendance at the meetings of the Control and Risk Committee and the acquisition of related documentation; d) the meetings with the Director in charge of preparing the accounting and corporate documents. Participation in the Control and Risk Committee has allowed the Board of Statutory Auditors to coordinate, together with the Committee itself, the performance of its functions in the capacity of "Internal Control and Auditing Committee" pursuant to article 19 of Legislative Decree 39/2010 and, in particular, to monitor: a) the processes related to financial reporting; b) the efficacy of the internal control system,

internal auditing and risk management; c) the regulatory auditing of the accounts; d) all aspects related to the independence of the external auditors.

- We met with the staff of the external auditors PricewaterhouseCoopers SpA, pursuant to article 150, third paragraph, of TUF and no significant data or information that needs to be included in this Report has emerged. Moreover, no significant matters nor significant deficiencies in the internal control system, with reference to the financial reporting process, have emerged during the auditing.
- We have monitored the methods applied to the enactment of the Code of Conduct adopted by the Company, in accordance with the Report on Corporate Governance and Ownership Structure approved by the Board of Directors on 14 March 2019. In particular, with reference to the specific recommendations, within the area of competence of the Board of Statutory Auditors, please be informed that:

  -we have checked the correct application of the criteria and procedures for the assessment of independence adopted by the Board of Directors;

  -as regards self-assessment of the independence requirement applied to the members of the Board of Statutory Auditors, we verified compliance with it initially, upon our appointment, and subsequently during the Board of Statutory Auditors meeting of 14 March 2019, using methods compliant with those adopted by the Directors;

  - we have observed the provisions set forth in the regulations for the management and the treatment of corporate confidential and privileged information.
- With reference to Legislative Decree no. 231 of 8 June 2001, the Company has adopted, for some time, an organisational and management model, the contents of which are compliant with the best practices. -. During the year, the Board of Statutory Auditors has always maintained a constant information flow with the members of the Supervisory Body. From the information acquired, no criticalities regarding the correct implementation of the organisational model that would need to be included in this report, have emerged.
- We have not received any complaints pursuant to article 2408 of the Italian Civil Code, nor have we any knowledge of facts or claims that need to be brought to the attention of the Shareholders' meeting.
- We have verified compliance with the laws concerning the preparation of the separate and consolidated financial statements and the Directors' Report on Operations, both directly and with the assistance of the managers of the company's functions and through information

obtained by the external auditors, and we do not have any particular observations to report.

- The members of the Board of Statutory Auditors have met the communication requirements applied to the assignment of administration and auditing of Italian corporations, within the time frames and the methods set forth in article 148-bis of TUF and the articles under Section II of Title V-bis of the already mentioned Issuers' Regulation.
- During 2018, the Board of Statutory Auditors, appointed on 24 April 2018, has met 8 times and has attended 9 meetings held by the Board of Directors, 5 meetings held by the Control and Risk Committee, and 3 meetings held by the Remuneration Committee, which became the Appointments and Remuneration Committee on 14 March 2019.

Based on its own activity and on the acquired information, the Board of Statutory Auditors has found no omissions, reprehensible facts, irregularities, or any circumstance that would require reporting to the supervisory body or mentioning in this Report.
The Board of Statutory Auditors, acknowledging the financial statements at 31 December 2018, has no objections regarding the proposal for resolutions submitted by the Board of Directors.

Provaglio d'Iseo, Italy, 29 March 2019

FOR THE BOARD OF STATUTORY AUDITORS

Marco Gregorini, Chairman