FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

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CORPORATE BODIES

BOARD OF DIRECTORS

CHAIRMAN	MR	FILIPPO CASADIO
EXECUTIVE DIRECTOR	MR	FRANCESCO GANDOLFI COLLEONI
NON-EXECUTIVE DIRECTOR	MR	GIANFRANCO SEPRIANO
INDEPENDENT DIRECTOR	MS	FRANCESCA PISCHEDDA
INDEPENDENT DIRECTOR	MR	ORFEO DALLAGO
INDEPENDENT DIRECTOR	MS	GIGLIOLA DI CHIARA

BOARD OF STATUTORY AUDITORS

CHAIRMAN	MR	FABIO SENESE
STANDING STATUTORY AUDITOR	MR	ADALBERTO COSTANTINI
STANDING STATUTORY AUDITOR	MS	DONATELLA VITANZA
SUBSTITUTE STATUTORY AUDITOR	MR	GIANFRANCO ZAPPI
SUBSTITUTE STATUTORY AUDITOR	MS	CLAUDIA MARESCA

INDEPENDENT AUDITORS

PricewaterhouseCoopers SpA

RISK CONTROL COMMITTEE

MS GIGLIOLA DI CHIARA
MR GIANFRANCO SEPRIANO
MR ORFEO DALLAGO

REMUNERATION COMMITTEE

MS FRANCESCA PISCHEDDA
MR GIANFRANCO SEPRIANO
MR ORFEO DALLAGO

INTERNAL AUDITOR

MR FABRIZIO BIANCHIMANI

SUPERVISORY BODY

MR FRANCESCO BASSI
MR GABRIELE FANTI
MR GIANLUCA PIFFANELLI

CALLING OF ORDINARY SHAREHOLDERS' MEETING

The Shareholders are convened to the Ordinary Shareholders' Meeting, in first call on 30 April 2019 at 11 am at the registered office of the Company and, if required, in the second call scheduled for 2 May 2019, in the same location and time, in order to discuss and resolve on the following

AGENDA

- Separate financial statements as of 31/12/2018 and related reports of the Board of Directors and the Board of Statutory Auditors, and consequent resolutions;
- Presentation of the consolidated financial statements as of 31/12/2018;
- Appointment of the Board of Directors for the years 2019-2020-2021 and determination of their annual compensation;
- Remuneration report and consequent resolutions;
- Proposal for authorisation to acquire and dispose of own shares, methods of acquisition and transfer.

SHARE CAPITAL AND VOTING RIGHTS – The share capital of the Company is equal to Euro 14,626,560 and divided into 28,128,000 ordinary shares. Each ordinary share gives the right to one vote in the ordinary and extraordinary Shareholders' Meetings of the Company. As of the current date, the Company owns 1,525,288 own shares which represent 5.42% of the share capital, and whose vote is suspended in accordance with Article 2357-ter of the Italian Civil Code.

RIGHT TO ATTEND – In accordance with article 83-sexies of Italian Legislative Decree no. 58/1998, the right to attend the Shareholders' Meeting and to exercise the voting right is established by a communication addressed to the Company – made by the intermediary, in accordance with its accounting records – in the favour of the owner of voting rights and based on the evidence available at the end of the accounting day of the seventh trading day prior to the date established for the Meeting in first call; credit and debit entries made after this deadline are not applicable for determining the right to exercise the voting right in the Meeting. Those determined to be owners of Company shares only after that date will not be entitled to attend and vote in the Meeting. The Company must receive the above-mentioned communication from the intermediary at least two business days before the first call. The above does not prejudice the right to attend and vote should the Company receive the communication beyond that date but before the beginning of the Meeting in first call.

VOTING BY PROXY – Each Shareholder may appoint a proxy, in accordance with the law and in writing, by signing the proxy form issued upon request of the entitled party by qualified intermediaries or available on the website www.irce.it. The proxy can also be sent via registered mail with receipt of return to the registered office of the Company, or certified e-mail to the address ircespa-pec@legalmail.it attaching a copy of a valid identification document of the principal.

The Company has appointed as Designated Representative, in accordance with Article 135-undecies of Italian Legislative Decree no. 58/1998 (Consolidated Financial Act), Ms Stefania Salvini (lawyer), who may be appointed as proxy and receive voting instructions on the condition that she receives this proxy via registered mail with receipt of return to Studio legale Avv. Carlo Zoli, via Mengolina 18, 48018 Faenza, Italy, or certified e-mail to avvstefaniasalvini@ordineavvocatibopec.it, by the end of the second trading day prior to the date of the Meeting in first call. The proxy granted in this manner is valid only for proposals for which the principal has provided voting instructions; the principal may revoke the proxy and voting instructions before the above deadline. A proxy form is available on the website www.irce.it.

APPOINTMENT OF THE BOARD OF DIRECTORS – Shareholders holding, on aggregate, at least a 2.5% stake in the Company retain the right to present lists for the appointment of the Board of Directors. These lists must be filed at the registered office of the Company - also by means of a registered letter with receipt of return addressed to the registered office of the Company, or sent by certified email to the address ircespa-pec@legalmail.it at least twenty-five days before the date set for the first call of the Shareholders' Meeting, along with detailed information on the personal and professional characteristics of the candidates as well as declarations in which the individual candidates irrevocably accept their office, on the condition of their appointment, and certify, under their own responsibility, the inexistence of causes for ineligibility and incompatibility, and whether they meet the independence requirements as per Article 148, paragraph 3 of the Consolidated Financial Act and the Corporate Governance Code for listed companies, in addition to specifying the identity of the shareholders which presented the list and the overall percentage stake held.

QUESTIONS ON THE TOPICS ON THE AGENDA – Pursuant to Article 27-ter of Italian Legislative Decree no. 58/1998, Shareholders can submit questions on the topics on the agenda even before the Meeting via registered mail with receipt of return to the registered office of the Company or certified e-mail sent to ircespa-pec@legalmail.it. The questions, complete with the personal details of the shareholder asking the question and the certification proving the ownership of the shares, must be delivered to the Company by 10:00 am of the day prior to the date of the Meeting in first call.

ADDITIONS TO THE AGENDA — Shareholders which represent, including jointly, at least 2.5% of the share capital can request – in writing and within 10 days from the date of publication of this notice, and in compliance with the provisions of Article 126-bis of Italian Legislative Decree no. 58/1998 (Consolidated Financial Act) – to add topics to the agenda, indicating in their request any additional topics they propose. This request must be sent via registered mail with return receipt to the Registered Office of the Company or certified e-mail to the address ircespa-pec@legalmail.it. A report on the topics being proposed for discussion must be submitted, by the same deadline and in the same manner, to the Board of Directors of the Company. In addition, and in accordance with the provisions of Article 126-bis, paragraph 3, of the Consolidated Financial Act, an integration of the agenda on the part of Shareholders is not allowed for topics on which the Meeting is called upon to resolve, upon proposal of the Directors or on the basis of a project they prepare.
DOCUMENTATION – The documentation concerning the Meeting will be available to the public, within the terms established by the laws in force, at the Registered Office of the Company, at Borsa Italiana S.p.A., and on the website www.irce.it. Shareholders are entitled to obtain a copy of the filed documentation.

This notice will also be published on the website of the Company and on the newspaper "Il Giornale".

REPORT ON OPERATIONS FOR 2018

Consolidated performance for 2018

Introduction

Given the significant impact of the activities of the Parent Company IRCE S.p.A. (henceforth also referred to as the "Company") on the consolidated financial statements of the IRCE Group, this Report on Operations is drafted jointly for the separate financial statements of IRCE S.p.A. and the consolidated financial statements of the IRCE Group.

Dear Shareholders,

For the IRCE Group (hereafter also referred to as the "Group"), 2018 ended with EBIT of € 7.54 million and net profit of € 5.88 million.

In the winding wire sector, demand has slowed in the European market. This deceleration had already been noted in the first half of the year, and was partially offset by increased volumes in non-European markets. Overall sales recorded a 5% decline year on year.
In the cables sector (where Italy is the primary market), demand conditions were favourable for the first half year, which was in line with demand towards the end of 2017. However there has been a gradual slowdown in the second half of the year, with deterioration in the fourth quarter. Nonetheless, year on year sales recorded an increase of 7%.
Consolidated turnover for 2018 was € 355.40 million, in a decline of 0.5% as compared to the € 357.13 million of 2017. However, this constrained reduction is due to an increase in the average value of copper in 2018, as compared to the previous year.
Consolidated turnover without metal[1] decreased by 2.8%; the winding wire sector fell by 5.4%, while the cable sector increased by 7.3%.

In detail:

Consolidated turnover without metal (€/million)	Year 2018 Value	Year 2018 %	Year 2017 Value	Year 2017 %	Change %
Winding wires	60.25	*77.8%*	63.68	*79.9%*	*-5.4%*
Cables	17.15	*22.2%*	15.99	*20.1%*	*7.3%*
Total	77.40	*100.0%*	79.67	*100.0%*	*-2.8%*

The following table shows the changes in results compared to the previous year, including adjusted EBITDA and EBIT.

Consolidated income statement data (€/million)	Year 2018	Year 2017	Change
Turnover[2]	355.40	357.13	(1.73)
EBITDA[3]	14.96	18.44	(3.48)
EBIT	7.54	9.97	(2.43)
Profit / (loss) before tax	10.24	8.15	2.09
Profit / (loss) for the year	5.88	4.68	1.20
Adjusted EBITDA[4]	17.42	16.52	0.90
Adjusted EBIT[4]	10.00	8.05	1.95

[1] Turnover or revenues without metal corresponds to overall turnover after deducting the metal component.
[2] The item "Turnover" consists in the "Sales Revenues" as recognised in the income statement.
[3] EBITDA is a performance indicator the Group's Management uses to assess the operating performance of the company and is not an IFRS measure; IRCE SpA calculates it by adding depreciation/amortisation, provisions and write-downs to EBIT.
[4] Adjusted EBITDA and EBIT are calculated as the sum of EBITDA and EBIT and the gains/losses on copper derivatives transactions (€ +2.46 million in 2018 and € -1.92 million in 2017). These are indicators the Group's Management uses to monitor and assess its own operating performance and are not IFRS measures. Given that the composition of these measures is not regulated by the reference accounting standards, the criterion used by the Group may not be consistent with that adopted by others and therefore not comparable.

Consolidated statement of financial position data (€/million)	31.12.2018	31.12.2017	Change
Net invested capital	191.01	186.52	4.49
Shareholders' equity	131.30	132.40	(1.10)
Net financial debt[5]	59.71	54.12	5.59

As of 31 December 2018, net financial debt amounted to € 59.71 million, up from € 54.12 million as of 31 December 2017.

The consolidated equity decrease, despite the profit for the period, is mainly due to the increase (€ 4.28 million) of the negative value of the foreign currency translation reserve caused by the depreciation of the Brazilian Real, as of 31 December 2018 compared to the previous year.

Investments

Investments of the Group in 2018 amounted to € 6.45 million and were primarily related to European manufacturing plants.

Principal risks and uncertainties

The Group's principal risks and uncertainties, as well as risk management policies, are detailed below:

Market risk

The Group's activities are strongly concentrated on the European market; the risk of major contractions in demand or of worsening of the competitive scenario may significantly impact the results. To address these risks, the medium-term strategy of the Group focuses on geographic diversification in non-EU and Asian countries, with a constant recovery of margins in the Group's structure.

Risk associated with changes in financial and economic variables

- *Exchange rate risk*
  The Group primarily uses the Euro as the reference currency for its sales transactions. It is exposed to exchange rate risks in relation to its copper purchases, which it partly carries out in dollars; it hedges such transactions using forward contracts. It is also exposed to foreign currency translation risks for its investments in Brazil, the UK, India, Switzerland, Poland and China.
  As for the foreign currency translation risk, the Group believes this risk mainly concerns the investment in Brazil due to the high volatility of the Real, which affects the investment's carrying amount. During 2018, the Brazilian currency depreciated by about 12% since the beginning of the year, with a significant recovery in the last quarter.

- *Interest rate risk*
  The Group obtains short and medium/long-term bank financing at floating rates. The risk of wide fluctuations in interest rates is not considered significant and therefore the Group does not implement special hedging policies.

- *Risks related to fluctuations in prices of raw materials*
  The main raw material used by the Group is copper. The changes in its price can affect margins as well as financial requirements. In order to mitigate the potential effect on margins of changes in the

[5] Net financial debt is measured as the sum of short-term and long-term financial liabilities minus cash and financial assets, see note No. 16. It should be noted that the methods for measuring net financial debt comply with the methods for measuring the net financial position as defined by Consob Resolution no. 6064293 of 28 July 2006 and CESR recommendation of 10 February 2005.

price of copper, the Group implements a hedging policy using forward contracts on the positions generated by operating activities. The average copper price (euro per kg) for 2018 has shown an increase of 1.23% as compared to the same figure for 2017.

Financial risks

These are risks associated with financial resources.

- *Credit risk*

  There are no significant concentrations of credit risk. The Group monitors this risk using adequate assessment and lending procedures with respect to each credit position. Selected insurance policies are taken out in order to limit insolvency risk.

- *Liquidity risk*

  Based on its financial situation, the Group rules out the possibility of difficulties in meeting obligations associated with liabilities. The limited used of credit lines suggests that liquidity risk is not significant.

Outlook

The early part of 2019 seems to have confirmed the slowdown in demand on our market. It is believed that this situation is strongly affected by conditions of uncertainty due to various evolving macroeconomic factors which are negatively affecting the economic climate. In this context, the Group's strategy remains focused on technical innovation and cost reduction in order to improve competitiveness.

Information on IRCE S.p.A.'s performance

The financial statements of the parent company IRCE S.p.A. show a turnover of € 233.06 million, which is in line with the previous year results of € 233.80 million.

In the winding wire sector, sales fell compared to 2017. This showed the effects of the slowdown in European market demand (including Italy) which had already begun in the first half of the year.

Meanwhile sales in the cables sector were found to be higher than in the same period last year. After good results in the first half year, the second half year registered a contraction in demand, which was more marked in the fourth quarter.

Against this backdrop, the Group posted a profit of € 7.90 million, up from € 4.86 million in 2017.

Intra-group transactions and transactions with related parties

The transactions between the Parent Company and the subsidiaries are of a commercial and financial nature. For more details, please refer to Note 33 of the separate financial statements and to Note 31 of the consolidated financial statements.

With regard to transactions with related parties, including intra-group transactions, it should be noted that they can be classified neither as atypical nor unusual, as they are part of the normal course of business of the Group's companies and have been carried out at arm's length.

Corporate governance

IRCE S.p.A. adopts the provisions of the Corporate Governance Code published by Borsa Italiana S.p.A. as a reference for its corporate governance.

The report on corporate governance and the shareholding structure pursuant to Article 123-bis of the Consolidated Financial Act is available at **www.irce.it** – Investor Relations, in compliance with Article 89-bis of Regulation No. 11971/1999 issued by Consob. This report aims to provide the market and shareholders with a complete disclosure on the governance model chosen by the Company and its actual compliance with the provisions of the Code.

On 28/03/2008, the Company IRCE S.p.A. adopted the organisational, management and control model pursuant to Italian Legislative Decree no. 231/2001 and created the Supervisory Body, which is responsible for monitoring the operation, updating and compliance of the model.
During the year, the updating and review of the 231 Model continued; in particular, the steps concerning the development of a shared structure of macro-processes were developed, in relation to which a process was launched for harmonisation with existing procedures.

For issues regarding compliance with and interpretation of the Organisational Model, a Supervisory Body was set up when adopting the first version of the Organisational Model.

The current Supervisory Body was appointed by the Board of Directors on 5 September 2016.

Own shares and shares of the parent company

The number of own shares as of 31/12/2018 was 1,515,314, i.e. 5.39% of total shares and equal to a nominal value of €/000 788. As of 31/12/2018, the Company does not own shares in the parent company Aequafin S.p.A., nor did it trade in them during 2018.

R&D activities

Research and development activities in 2018 focused on projects to improve processes and products.
This year, expenses for development activities were recognised in the income statement, as they are not certain to be recovered in the future through future profits.

Other information

With regard to the "Conditions for the listing of shares of companies with control over companies established and regulated under the law of non-EU countries" pursuant to Articles 36 and 39 of the Regulation on Markets (Consob Resolution No. 16191/2007), the Company declares it complies with the provisions of the above-mentioned Regulation.

The attached consolidated and separate annual financial statements are audited by the company PricewaterhouseCoopers S.p.A.

The Board of Directors of IRCE S.p.A. approved the "Consolidated Non-Financial Statement", which covers environmental and social issues, as well as issues relating to staff, respect for human rights and the fight against corruption. The statement has been included in the financial statements in accordance with the provisions of Italian Legislative Decree no. 254/2016

Events after the reporting date

No significant events occurred between the end of financial year 2018 and today's date.

Dear Shareholders,

We invite you to approve the separate financial statements of IRCE S.p.A. as of 31/12/2018, reporting a profit of € 7.902.954.

We propose to approve the distribution of a € 0.05 dividend per share, to be paid out of the profit of the year, with ex-dividend date on 27 May 2019, record date on 28 May 2019, and payment date on 29 May 2019. In addition, we propose to allocate the remaining net profit after the payment of the dividends to the Extraordinary Reserve.

The Board thanks the Shareholders for their trust, all personnel for the service rendered during the year, and the Board of Statutory Auditors for the control activities carried out and the valuable advice.

Imola, 15 March 2019

On behalf of the Board of Directors

The Chairman

Mr Filippo Casadio

CONSOLIDATED NON-FINANCIAL STATEMENT PURSUANT TO ITALIAN LEGISLATIVE DECREE NO. 254/2016

1. METHODOLOGICAL NOTE

1.1. Scope and purpose

The IRCE Group falls within the scope of application of Italian Legislative Decree no. 254/2016 – issued in implementation of EU Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 – which provides for the obligation to disclose non-financial information and information on diversity by certain companies and certain large groups.

This Consolidated Non-Financial Statement (also "NFS" or "Statement"), referring to the year ended as of 31 December 2018, represents IRCE Group's commitment to report the non-financial impacts of its business, in accordance with the provisions of the Decree: IRCE has chosen to include the Statement in its 2018 Report on Operations.

1.2. Scope of the Consolidated Non-Financial Statement

The reporting scope of this Statement includes the following Companies belonging to the IRCE Group:

- IRCE S.p.A.;
- Irce Ltda;
- FD Sims Ltd;
- Smit Draad Nijmegen BV;
- Stable Magnet Wire P. Ltd;
- Isodra GmbH.

The following companies were excluded from the reporting scope:

- Isomet AG;
- DMG GmbH;
- Isolveco Srl;
- Isolveco 2 srl;
- Irce Electromagnetic wire (Jiangsu) Co. Ltd;
- Irce S.L.;
- Irce SP ZO.O.

These exclusions are due to the fact that the social, economic and environmental impacts of these companies were not considered significant given their low incidence in terms of turnover compared to the consolidated total, the limited number of employees out of the total, and the type of business (exclusively commercial, not productive). This option is envisaged by Article 4 of Italian Legislative Decree no. 254/2016, according to which the statement may exclude companies that, even if included in the accounting scope of consolidation, are not necessary to understand the Group's business, its performance and the results and impact produced by such business.

1.3. Reference guidelines and reporting process

The qualitative and quantitative information reported in the NFS are prepared according to the standards issued in 2016 by the Global Reporting Initiative, in compliance with the requirements of the Decree on the use of reporting standards issued by supranational, international or national authorities (Article 3, Paragraph 3). The level of application of GRI standards corresponds to the Referenced option (see Chapter 7 - GRI Content Index – GRI Correlation Table).

The reporting process was developed according to the following work phases:

1. Preparation and approval of the materiality analysis by representatives of the main corporate functions of the various plants (Irce Ltda; FD Sims Ltd; Smit Draad Nijmegen BV; Stable Magnet Wire P. Ltd; Isodra GmbH; IRCE S.p.A. at the Imola, Miradolo, Guglionesi and Umbertide plants);
2. Definition of the NFS content regarding material issues and the scope of reporting;
3. Start of the process for collecting non-financial data and information through the distribution of forms containing the previously selected GRI indicators to all companies included in the scope;
4. Drafting of the NFS, initial validation by the internal working group and approval by the Chairman;
5. Approval of the NFS by the Board of Directors, jointly with the Report on Operations;
6. Certification by the Independent Auditors specifically appointed for such verification (see the Audit Report).

This Consolidated Non-Financial Statement is available on the Group website under the section *Investor Relations > Financial Statements and Reports > Financial Statements as of 31 December 2018*.

1.4. Materiality Analysis

In order to define the material issues subject to reporting herein, IRCE analysed the provisions of Article 3 of Italian Legislative Decree no. 254/2016.

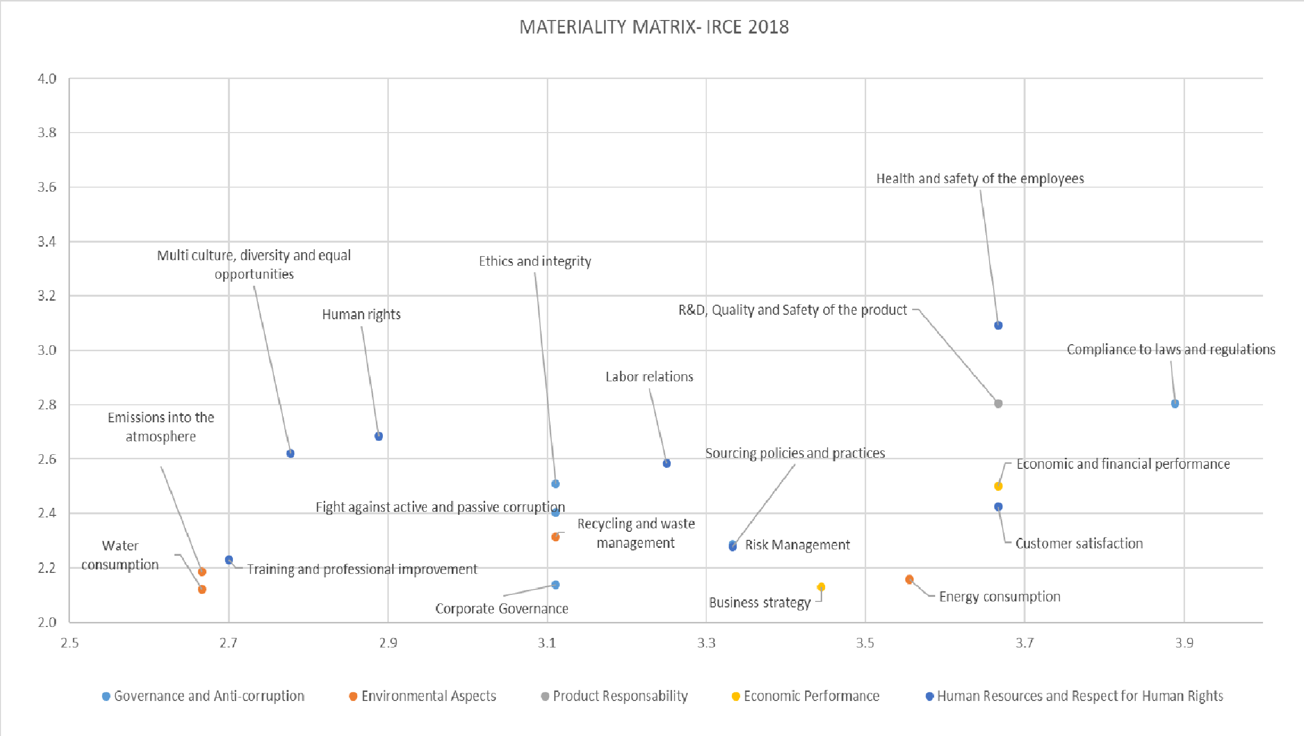
Following this analysis, IRCE defined a process - described below - aimed at identifying the most significant issues for Stakeholders and the Group, i.e. those issues which were identified as being both highly significant, and representative of the nature of IRCE's business.

The process for determining material issues was carried out through the compilation of a questionnaire and following a benchmark activity, in order to complete the materiality analysis and highlight the issues considered most significant for both the IRCE Group and its Stakeholders, as reported herein.

The materiality analysis saw direct participation from key contact staff from the main business functions of the various branches which are included in the reporting scope. These were staff who play a supporting role at a group level for the Non-Financial Statement and who were given a questionnaire concerning a series of issues classified under six macro areas: Governance and Anti-Corruption, Economic Responsibility, Product Responsibility, Environmental Aspects and Human Resources and Respect for Human Rights. For each issue, the representatives had to give a score from 1 (least relevant) to 4 (most relevant) based on their own perception and sensitivity to the topic examined, in order to highlight the issues which are most relevant for the Group.

Stakeholders were considered to be employees, shareholders, customers, suppliers, unions and local communities. It was decided that the analysis would be carried out indirectly, using a questionnaire, and asking key internal contacts to give a score from 1 to 4 for each of the issues under consideration. The scores were also based on the perceived relevance that specific Group Stakeholders assigned to each issue, according to their own personal assessment.

The materiality analysis described above allowed the most significant issues for the Group to be identified, based on those which had a score higher than what has been termed the 'defined threshold of materiality'. The issues which emerged as being material, as shown in the following chart, define the focus areas for reporting.


MATERIALITY MATRIX- IRCE 2018
Health and safety of the employees
Multi culture, diversity and equal opportunities
Ethics and integrity
Human rights
R&D, Quality and Safety of the product
Compliance to laws and regulations
Labor relations
Emissions into the atmosphere
Sourcing policies and practices
Economic and financial performance
Fight against active and passive corruption
Recycling and waste management
Risk Management
Customer satisfaction
Water consumption
Training and professional improvement
Energy consumption
Business strategy
Corporate Governance
Governance and Anti-corruption
Environmental Aspects
Product Responsability
Economic Performance
Human Resources and Respect for Human Rights

2. GOVERNANCE AND ANTI-CORRUPTION

IRCE management identified the main risks, generated or suffered, in relation to the above issues resulting from business activities, and then identified suitable prevention and mitigation measures.

Table – Material Issues

MATERIAL ISSUES	RELATED RISKS	RISK MANAGEMENT METHODS	IMPROVEMENT OBJECTIVES
▪ Corporate governance ▪ Compliance with laws and regulations ▪ Ethics and integrity ▪ Fight against active and passive corruption ▪ Risk assessment	▪ Committing corporate crimes ▪ Committing crimes relating to corruption ▪ Failed compliance or violation of reference legislation or applicable regulations ▪ Loss of certifications, approvals or authorisations to operate ▪ Loss of reputation	▪ Code of Ethics ▪ Organisation, Management and Control Model pursuant to Legislative Decree no. 231/2001 ▪ Supervisory Body ▪ Control and Risks Committee	▪ Promotion of stakeholder engagement to guarantee the most realistic and correct representation of materiality.

IRCE has adopted and implemented a business model described in the previous sections of this Report on Operations, an Organisation, Management and Control Model pursuant to Italian Legislative Decree no. 231/2001 and consequently, a supervisory board - as described in the Report on Operations and summarised below.

2.1 Corporate model

The Corporate Governance structure of the Parent Company IRCE is based on the classic model and is composed of the Shareholders' Meeting, the Board of Directors and the Board of Statutory Auditors.

The Board of Directors is composed of three to twelve members, elected by the Shareholders’ Meeting. They remain in office for a period of no more than three financial years, established at the time of nomination, and fall from office on the date of the Shareholders’ Meeting called to approve the financial statements relating to the last financial period of their office.

The Board is currently composed as follows:

- **Board of Directors of the Parent Company**: consisting of 6 members, 2 of which are women (1 chairman, 1 executive director, 1 non-executive director and 3 independent directors);
- **Remuneration Committee** (within the Board of Directors);

- **Control and Risks Committee** (within the Board of Directors).

For more information on the corporate bodies, internal committees and the internal control and risk management system, please refer to the Corporate Governance Report published on the website www.irce.it.

Governance members by gender						
Number of individuals	**2018**			**2017**		
	Men	**Women**	**Total**	**Men**	**Women**	**Total**
Board of Directors	13	2	15	13	2	15
Board of Statutory Auditors	2	1	3	2	1	3
Supervisory Board	3	-	3	3	-	3
Total	**18**	**3**	**21**	**18**	**3**	**21**

2.2 Policies, management systems and organisational models

The IRCE Group is an important multinational player in the European market, operating in the sector of winding wires and electric cables. Production takes place at four plants in Italy and five located abroad. The Group also includes five commercial subsidiaries, four of which are foreign. IRCE stands out thanks to its cutting-edge technology, advanced production and self-monitoring processes. These guarantee maximum quality and production standards.

IRCE complies with the standards of the following certifications:

- ISO 9001
- IATF 16949*
- ISO 14001**

* For the Companies IRCE S.p.A., Fd Sims Ltd and IRCE Ltda.
** Certification only present at the Imola plant (IRCE S.p.A.).

The Group also approved specific policies concerning the environment, safety and prevention of major accidents according to Seveso III Directive (Directive 2012/18/EU of 4 July 2012, implemented in Italy by Legislative Decree no. 105 of 26 June 2015).

In fulfilment of that established by art. 4 of the Corporate Governance Code, the Board of Directors established within it the Control and Risks Committee with consultation and proposing functions.

The objectives of the financial reporting process can be identified in terms of the trustworthiness, accuracy, reliability, and timely nature of the disclosures themselves. Risk management activities are an integral part of the internal control system.

IRCE has adopted and implemented a Code of Ethics, an integral part of the 231 Organisation, Management and Control Model, which contains the values as well as the moral and professional standards to be observed during the performance of all business activities.

The Code of Ethics applies to all participants in the IRCE organisation, namely: directors, auditors, managers, employees, collaborators, consultants, customers, suppliers, business partners and any parties that, directly or indirectly, permanently or temporarily, establish relationships with the Company.

The Code states that, when carrying out their activities and exercising their responsibilities, all workers must behave correctly, transparently and objectively. Moreover, the performance of all business activities must take place in compliance with applicable laws and corporate procedures, according to the criteria of diligence, honesty, collaboration, fairness and loyalty.

Any violations will be reported to the Supervisory Board and the Internal Control Bodies, and may lead to disciplinary, civil or criminal consequences.

- **Fight against active and passive corruption**

On the basis of the Code of Ethics, all Group Companies, according to the values of honesty and transparency, undertake to implement all necessary measures to prevent and avoid cases of corruption and conflict of interest.

All collaborators must know, have full awareness of and adapt their activities to the principles and directives of the Code and refrain from conduct that does not comply with the aforementioned principles, also cooperating in the assessment of any violations and reporting any information relevant for the identification of offenders.

Any collaborators who acquire knowledge of alleged non-compliant conduct are required to report information on such conduct to their superiors, and/or the Head of Human Resources of the Company, or the Supervisory Board.

All employees have the right and the duty to consult their direct superiors and/or the Head of Human Resources for any clarification regarding the interpretation and application of the principles and directives of the Code, as well as the conduct to be adopted in case of any doubts as to their correctness or compatibility with the Code itself and/or its inspiring principles.

In case of violation of the Code of Ethics, IRCE adopts disciplinary measures against those responsible for such violation, if considered necessary for the protection of corporate interest and in line with the provisions of the current regulatory framework and employment contracts, which may lead to the removal of the persons responsible from the Company, in addition to compensation for any damages deriving from the violation.

The processes/corruption offences risk matrix was used to calculate the number of activities at risk of corruption in relations with the public administration and at risk of corruption between private parties. 37 activities at risk of corruption out of 75 activities sensitive to the types of offences envisaged by the 231 model (corresponding to 49% of processes) were identified. Based on our organisational and control system, the residual risk of such offences occurring has been reduced to a low level.

- **Risk assessment**

IRCE has various risk assessment systems and contextual management methods available, each of which is related to a specific topic:

- Governance, strategy and internal control system (Corporate Governance and the Strategic Plan);
- Offences under Legislative Decree no. 231/2001 (231 Model and the Code of Ethics);
- Financial risks (as shown in the Report on Operations), subdivided as follows:
  - *Market risk;*
  - *Risks associated with changes in financial and economic variables:*
    - *Exchange rate risk;*
    - *Interest rate risk;*
    - *Risk related to fluctuations in prices of raw materials.*

  - *Specific financial risks:*
    - *Credit risk;*
    - *Liquidity risk.*
- Environment and Safety, including compliance by group companies with laws and local regulations;
- Quality, with two types of risk analysis related to process and product.

3. HUMAN RESOURCES AND RESPECT FOR HUMAN RIGHTS

Table – Material Issues

MATERIAL ISSUES	RELATED RISKS	RISK MANAGEMENT METHODS	IMPROVEMENT OBJECTIVES
▪ Diversity and equal opportunity ▪ Respect for human rights ▪ Health and safety of employees ▪ Professional training and growth ▪ Industrial relations	▪ Damage and/or injuries due to incompetence and negligence ▪ Risk of discrimination and unequal treatment ▪ Increase in the number of injuries ▪ Increase in work-related stress	▪ Code of Ethics ▪ Organisation, Management and Control Model pursuant to Legislative Decree no. 231/2001 ▪ Supervisory Body ▪ Safety systems in the workplace ▪ IRCE S.p.A., internal union representation	▪ Development by the Parent Company of coordination and supervision of training activities, in order to identify the training needs of each employee category and raise awareness about training ▪ Development and scaling up of initiatives concerning prevention, awareness and employees' health protection

3.1 Policy and management model

People represent an important and central resource for the IRCE Group.

The Group is committed to the implementation of programmes that protect the health and safety of its workers and focuses on programmes for professional growth, guaranteeing equal opportunity and lack of discrimination.

IRCE is dedicated to improving the workplace and systematically identifies and assesses potential risks for workers and parties involved, defining suitable prevention measures.

Plant operators are the main representatives with respect to risk prevention and are responsible for developing and implementing the Policy for accident prevention, for regularly checking the state of implementation of the Safety Management System adopted and for achieving the objectives set.

All workers are informed, trained and prepared to operate with full knowledge of the potential risks involved in their activities.

The IRCE Group's philosophy aims to pursue excellent performance in an environment where individual satisfaction and wellbeing is a priority, since high retention rates are believed to be crucial for the achievement of corporate objectives.

3.2 Non-financial results and indicators

- **Characteristics and breakdown (Diversity and equal opportunity)**

As of 31 December 2018, the IRCE Group counted a total of 649 employees; nearly all of them were hired with a permanent employment contract, confirming the Group's commitment to fostering stable and long-lasting relationships with its employees.

Total number of employees broken down by type of contract (permanent or fixed-term employment) and gender

Type of contract	2018			2017		
	Men	Women	Total	Men	Women	Total
Permanent	568	75	**643**	587	51	**638**
Fixed-term	4	2	**6**	12	3	**15**
Total	**572**	**77**	**649**	**599**	**54**	**653**

In cases where production activities typically focus on production and shift work, 88% of the staff shown are male.

The IRCE Group's geographic distribution sees 59% of them employed in Italy, 16% in the Netherlands, 15% in Brazil, 5% in the UK, 4% in India and 2% in Germany.

Total number of employees broken down by type of contract (full-time and part-time) and gender

Type of contract	2018			2017		
	Men	Women	Total	Men	Women	Total
Full-time	567	48	**615**	594	25	**619**
Part-time	5	29	**34**	5	29	**34**
Total	**572**	**77**	**649**	**599**	**54**	**653**

Number of employees broken down by function and gender

Job category	2018			2017		
	Men	Women	Total	Men	Women	Total
Executives	11	1	12	13	1	14
Function managers	21	1	22	19	-	19
White collars	59	46	105	73	35	108
Blue collars	481	29	510	494	18	512
Total	**572**	**77**	**649**	**599**	**54**	**653**

Number of external staff broken down by job category and gender						
Job category	**2018**			**2017**		
	Men	**Women**	**Total**	**Men**	**Women**	**Total**
Workers from external agencies	28	13	**41**	31	14	**45**
Others	-	-	**-**	-	-	**-**
Total	**28**	**13**	**41**	**31**	**14**	**45**

Percentage of total employees covered by collective bargaining agreements		
Number of employees	**2018**	**2017**
Total number of employees	649	653
Total number of employees covered by collective bargaining agreements	623	629
Total %	**96.0%**	**96.3%**

- **Human rights**

The protection of human rights is an important issue for IRCE, and this importance is evidenced in the company's Code of Ethics; it is in part related to the other issues addressed herein, such as health and safety and contractual fairness.

People are a crucial element for company operations; for this reason, the IRCE Group gives great importance to personal dignity, protection of moral integrity, tolerance, transparency and, in general, the fundamental rights of every individual.

- **Health and safety of employees**

The health and safety of employees is a priority for the Group, and the adequacy of the working environment and equipment, staff training and preparation and everything necessary for compliance with safety requirements are crucial.

The risk assessment document in which risks are identified and assessed in terms of probability and severity is regularly updated. It is the Group's policy to carry out regular meetings on safety.

In terms of injury rates, in 2018 injuries were 35, up from 17 in 2017 but in line with the previous years.

Lost days (employees)						
Number of days	**2018**			**2017**		
	Men	**Women**	**Total**	**Men**	**Women**	**Total**
Lost days due to injury	471	8	479	166	1	167

Injury rates	2018	2017
Severity *(number of lost days for workplace injuries/total number of hours worked) x 1,000*	0.40	0.15
Frequency *(number of injuries/total number of hours worked) x 1,000,000*	32.30	15.62

Injury rates, although increasing, are in line with the previous years.

- **Professional training and growth**

The IRCE Group's objective is to pursue the development of employee skills in line with the corporate strategy. Training activities involved both employees and external workers.

The Group follows integrated training programmes concerning the environment, safety, accident risk and the training of new employees.

Hours of annual training for employees and external workers		
	2018	**2017**
Total hours of training provided to internal and external workers	2,777	3,551
Average hours of training per worker	**4.0**	**5.1**

- **Industrial relations**

The IRCE Group does not oppose or discriminate against joint union representation. IRCE entertains relations with public authorities, trade associations and unions, in order to improve company operations and establish methods of cooperation for mutual benefit.

The companies IRCE S.p.A., FD Sims and Smit Draad all have internal union representatives. Information sessions are regularly held with these representatives to discuss business performance and address matters of mutual interest.

4. ENVIRONMENTAL ASPECTS

The relevant issues in terms of environmental management are summarised in the table below, together with the main risks identified by IRCE. The following pages describe the policies, the management model and the results achieved.

Table – Material Issues

MATERIAL ISSUES	RELATED RISKS	RISK MANAGEMENT METHODS	IMPROVEMENT OBJECTIVES
▪ Energy consumption ▪ Water consumption ▪ Waste management ▪ Emissions to air	▪ Difficulties regarding continuous electricity supply ▪ Air, soil and water pollution	▪ Code of Ethics ▪ Organisation, Management and Control Model pursuant to Legislative Decree no. 231/2001 ▪ IRCE S.p.A. Imola plant ISO 14001 ▪ ISO 14001 environmental management system	▪ To increase awareness and attention regarding responsible resource management with respect for the environment

4.1 Policy and management model

IRCE has organised an environmental management system based on the ISO 14001 guidelines and ensures the compliance of management with current environmental regulations.

In addition to falling within the scope of application of Italian Legislative Decree no. 81/2008, as subsequently amended, on workplace health and safety, IRCE S.p.A also falls within the scope of application of Italian Legislative Decree no. 105/2015, since the plant in Imola (BO) contains and uses substances and preparations (paints and solvents) classified as hazardous and exceeding the thresholds indicated in the Decree.

Activities with a significant accident risk are identified in Seveso III Directive (Directive 2012/18/EC of 4 July 2012, implemented in Italy by Legislative Decree no. 105 of 26 June 2015) through a simple mechanism that takes into account the inherent danger of the substances and preparations produced, used, handled or stored at the plant, including those that may be generated in case of accident, and the amounts of the same, making it mandatory for operators of the aforementioned activities to submit to the competent authorities documents certifying the performance of appropriate risk assessment.

All Group Companies cooperate through the adoption of responsible and environmentally friendly conduct, in line with the parent company's management system, in order to reduce the external impact of their activities.

The Group is committed to using products and processes that save resources and minimise the environmental impact.

4.2 Non-financial results and indicators

- **Energy consumption**

For the transformation of energy consumption into Giga joules (GJ), conversion factors taken from current technical literature were adopted.

Energy Consumption					
	Unit	2018		2017	
		Total	Total GJ	Total	Total GJ
Natural Gas	**m^3**	2,051,614	**72,081**	1,983,070	**69,673**
Diesel	**l**	524,760	**18,866**	455,207	**16,366**
LPG	**tonnes**	85.23	**3,933**	51.13	**2,359**
Renewable electricity	**kWh**	0	**0**	0	**0**
Non-renewable electricity	**kWh**	122,465,059	**440,874**	124,100,240	**446,761**

The percentage of total energy consumption out of the total consumption of raw materials are in line with the previous year: 7.32 GJ/Ton in 2018 and 7.38 GJ/Ton in 2017.

Also in 2018, IRCE S.p.A. has developed various energy saving projects for the Imola and Umbertide plants, obtaining energy savings certificates (ESC).

- **Water consumption**

Water consumption (m^3)			
Resource	**Unit**	**2018**	**2017**
Surface water (lake, river, other)	**m^3**	4,109	4,380
Groundwater (aqueduct)		59,791	67,196
Rain water		7,719	8,000
Other		13,794	12,291
Total		**85,413**	**91,867**

During 2018, the most important project which took place was at the Imola plant, where a water recovery system was installed for the cutting fluid baths, so that the water could be reused in the water-cooling circuits.

- **Recycling and waste management**

The IRCE Group aims to reduce and correctly manage the waste it produces. Also in 2018, the main projects for correct waste management that IRCE has invested in include:

- use of materials/processes that reduce waste production;
- training and involvement of all staff to raise awareness about environmental programmes;
- careful selection of environmental suppliers.

WASTE (tonnes)						
Type of waste	2018			2017		
	Hazardous	Non-hazardous	Total	Hazardous	Non-hazardous	Total
Re-use	-	2.3	**2.3**	-	2.0	**2.0**
Recycling	50.6	3,194.3	**3,244.9**	19.6	3,094.2	**3,113.7**
Composting	-	39.0	**39.0**	-	51.0	**51.0**
Recovery (also of energy)	15.4	667.8	**683.2**	33.5	660.9	**694.4**
Incineration	-	0.5	**0.5**	-	0.5	**0.5**
Deep well injection	-	-	**-**	-	-	**-**
Landfill	13.1	95.6	**108.6**	0.7	44.6	**45.3**
On-site storage	-	-	**-**	-	-	**-**
Other	278.6	10.1	**288.7**	179.5	18.7	**198.2**
Total	**357.6**	**4,009.6**	**4,367.1**	**233.3**	**3,871.9**	**4,105.2**

From the data shown in the above table, it follows that the majority of waste disposed in 2018 was destined for recycling (74.3%) and recovery (15.6%).

- **Emissions to air**

CO_2 emissions resulting from consumption are shown in the previous section.
The IRCE Group calculates its 'carbon footprint' in terms of CO_2 emissions, reporting on:

- direct GHG emissions (*Scope 1*), resulting from the use of fuels in operating company-owned or fully managed plant and equipment
- Indirect emissions (*Scope 2*) resulting from externally supplied energy consumed at all establishments (electricity).

Direct GHG emissions (Scope 1)					
	Unit	2018		2017	
		Total	tCO2e	Total	tCO2e
Emissions from natural gas consumption	**m³**	2,051,614	**4,199**	1,983,070	**4,058**
Emissions from fuel oil consumption	**l**	524,760	**1,410**	455,207	**1,224**
Emissions from LPG consumption	**GJ**	3,933	**258**	2,359	**155**

Indirect GHG emissions *(Scope 2)*					
	Unit	2018		2017	
		Total	tCO2e	Total	tCO2e
Electricity	**kWh**	122,465,059	**4,048,695**	124,100,238	**4,102,754**

Scope 2 emissions have been calculated in accordance with the location-based method provided in "GHG Protocol Scope 2 Guidance – An amendment to the GHG Protocol Corporate Standard" (2015).

Sources used for the calculation of emissions are:
- Department for Environment, Food and Rural Affairs (DEFRA)
- ISPRA Report for 2017 - Atmospheric emission factors for CO_2 and other greenhouse gases in the electrical industry

5. PRODUCT RESPONSIBILITY

The relevant issues in terms of product management are summarised in the table below, together with the main risks identified by IRCE's Management. The following pages describe the policies, the management model and the results achieved.

Table – Material Issues

MATERIAL ISSUES	RELATED RISKS	RISK MANAGEMENT METHODS	IMPROVEMENT OBJECTIVES
▪ Research, development and product quality ▪ Customer satisfaction	▪ Possible delayed and/or inadequate response to customer returns and expected satisfaction levels ▪ Non-compliance of product information ▪ Loss of reputation ▪ Possible problems arising from after-sales service	▪ ISO 9001 Quality management system	▪ Improve complaints management ▪ Increase resources dedicated to research and development

5.1 Policy and management model

IRCE is a leading European industrial group, with two areas of business:

- winding wires for electrical machines;
- insulated electrical cables for energy transmission.

Winding wires for electrical machines are used in a wide range of applications such as engines and electric generators, transformers, inductors and relays.

Electric wires are used in the installation of electric systems in civil and industrial buildings and for the supply and connection of electrical equipment.

The IRCE Group fosters relationships with strategic suppliers, with the intent of jointly building a common organisational process based on sustainability throughout the production chain. IRCE Group's suppliers procure the main raw materials needed for the production processes: copper, aluminium, and various chemicals. The Group is committed to achieving environmental and social targets, also selecting qualified suppliers and suitable materials.

5.2 Non-financial results and indicators:

- **Research and development and product quality**

The IRCE Group has an important internal R&D office, which constantly focuses on activities for:

- the improvement of product performance and production processes;
- the development of innovative products and technologies;
- the development of customised products made upon specific customer request.

In 2018, no market withdrawal was reported in relation to the safety and quality of the products and services offered by the Companies belonging to the IRCE Group.

In total, 73,200 tonnes of raw materials (copper, aluminium and insulating materials) were used in 2018, slightly increasing from 72,500 tonnes in 2017

- **Customer satisfaction**

IRCE monitors customer satisfaction using two types of indicators:

  - External: for each individual customer, represented by the vendor rating issued by the same;
  - Internal: related to the monitoring of waste and returns, non-quality costs and customer complaints.

The IRCE Group's quality and service are considered top tier on the market, i.e. at the highest levels in the sector. The scorecards of major customers revealed ratings and assessments which placed IRCE in the top supplier bracket, particularly in the automotive industry.

6. ECONOMIC PERFORMANCE

With regard to issues concerning the policies, management models and risks related to economic aspects, please refer to the information provided in the financial statements of the IRCE Group.

As specific non-financial information, the following table shows the value added reclassified income statement, for the entire financial consolidation scope:

Economic value generated and distributed		
Amounts in €/000	**31.12.2018**	**31.12.2017**
Revenues	355,404	357,126
Other income	1,001	692
Financial income	3,743	1,682
Profit/loss from the sale of tangible and intangible assets		
Total economic value generated by the Group	**360,148**	**359,500**
Operating costs	309,092	307,611
Financial charges	1,084	2,734
Personnel costs	32,357	31,763
Remuneration to lenders		
Dividends paid to shareholders		
Remuneration of the Public Administration**		
Taxes	4,391	3,544
External largesse		
Result attributable to non-controlling interests	(25)	(77)
Total economic value distributed by the Group	**346,900**	**345,574**
Bad debts	353	194
Write-downs		
Exchange rate differences	(39)	683
Adjustments to tangible and intangible assets	0	1,531
Adjustments to financial assets	0	79
Depreciation/amortisation	6,855	6,395
Provisions	203	358
Retained earnings/losses	5,876	4,685
Economic value retained by the Group	**13,248**	**13,926**

7. GRI STANDARDS CORRELATION TABLE

GRI Standard Title	GRI disclosure number	GRI Disclosure Title	Page number/Notes	Omissions
GRI 102: General Disclosures 2016 - Organisational Profile	**102-1**	Name of organisation	1	
	102-8	Information on employees and other workers	20-21-22	
GRI 102: General Disclosures 2016 - Ethics and integrity	**102-16**	Values, principles, standards and norms of behaviour	16-17-18	
GRI 102: General Disclosures 2016 - Governance	**102-18**	Governance structure	16-17-18	
GRI 102: General Disclosures 2016 - Reporting practice	**102-45**	Entities included in the consolidated financial statements	13	
	102-46	Defining report content and topic boundaries	14	
	102-47	List of material topics	14-15	
	102-55	GRI content index	29	
	102-56	External assurance	Report on operations	
GRI 103: Management approach 2016	**103-1**	Explanation of the material topic and its boundary	13	
	103-2	The management approach and its components	16-17-19-20-23-26-27	
GRI 201: Economic performance 2016	**201-1**	Direct economic value generated and distributed	28	
GRI 205: Anti-corruption 2016	**205-3**	Confirmed incidents of corruption and actions taken	18	
GRI 301: Materials 2016	**301-1**	Materials used by weight or volume	27 (partial coverage)	
GRI 302: Energy 2016	**302-1**	Energy consumption within the organisation	24	
GRI 303: Water 2016	**303-1**	Water withdrawal by source	24	
GRI 305: Emissions	**305-1**	Direct (Scope 1) GHG emissions	25	
	305-2	Energy indirect (Scope 2) GHG emissions	26	
GRI 306: Effluents and waste 2016	**306-2**	Waste by type and disposal method	25	
GRI 403: Occupational Health and Safety 2016	**403-2**	Types of injury and rates of injury, occupational diseases, lost days and absenteeism, and number of work-related fatalities	21-22	
GRI 404: Training and education 2016	**404-1**	Average hours of training per year per employee	22	
GRI 405: Diversity and equal opportunity 2016	**405-1**	Diversity of governance bodies and employees	17	
GRI 406: Non-discrimination 2016	**406-1**	Incidents of discrimination and corrective actions taken	No cases of discrimination in the two-year reference period	
GRI 412: Human rights assessment 2016	**412-2**	Employee training on human rights policies or procedures	21	
GRI 416: Customer Health and Safety 2016	**416-2**	Incidents of non-compliance concerning the health and safety impacts of products and services	21-22	

CONSOLIDATED FINANCIAL STATEMENTS OF THE IRCE GROUP AS OF 31 DECEMBER 2018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(In Euro)

ASSETS	Notes	31.12.2018	31.12.2017
NON-CURRENT ASSETS			
Intangible assets	1	127,491	347,598
Property, plant and equipment	2	48,595,984	50,766,941
Equipment and other tangible assets	2	1,427,154	1,537,464
Assets under construction and advances	2	2,399,588	2,211,025
Non-current financial assets and receivables	3	111,850	120,767
Non-current tax receivables	4	811,582	811,582
Deferred tax assets	5	1,879,382	1,661,765
TOTAL NON-CURRENT ASSETS		**55,353,031**	**57,457,142**
CURRENT ASSETS			
Inventories	6	95,785,674	82,376,132
Trade receivables	7	70,214,345	89,473,689
Receivables due from others	8	4,039,416	2,602,975
Current financial assets	9	589,977	13,180
Cash and cash equivalents	10	7,019,127	7,752,434
TOTAL CURRENT ASSETS		**177,648,539**	**182,218,410**
TOTAL ASSETS		**233,001,570**	**239,675,552**

SHAREHOLDERS' EQUITY AND LIABILITIES	Notes	31.12.2018	31.12.2017
SHAREHOLDERS' EQUITY			
SHARE CAPITAL	11	14,626,560	14,626,560
RESERVES	11	111,168,471	113,437,366
RESULT FOR THE PERIOD	11	5,875,885	4,685,238
TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO SHAREHOLDERS		**131,670,916**	**132,749,164**
SHAREHOLDERS' EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		**(375,091)**	**(350,085)**
TOTAL SHAREHOLDERS' EQUITY		**131,295,825**	**132,399,079**
NON-CURRENT LIABILITIES			
Non-current financial liabilities	12	17,032,831	11,966,839
Deferred tax liabilities	5	704,309	254,630
Provisions for risks and charges	13	1,893,027	2,337,016
Provisions for employee benefits	14	5,312,834	5,719,819
TOTAL NON-CURRENT LIABILITIES		**24,943,001**	**20,278,304**
CURRENT LIABILITIES			
Current financial liabilities	15	49,995,296	50,678,998
Trade payables	16	16,212,015	24,687,869
Tax payables	17	1,025,696	1,518,262
(of which: related parties)		*185,668*	-
Social security contributions	18	1,964,232	2,099,038
Other current liabilities	19	7,565,505	8,014,002
TOTAL CURRENT LIABILITIES		**76,762,744**	**86,998,169**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**233,001,570**	**239,675,552**

The effects of related party transactions on the consolidated statement of financial position are reported in Note 33 "Related party disclosures".

CONSOLIDATED INCOME STATEMENT

(In Euro)

	Notes	31.12.2018	31.12.2017
Sales revenues	20	355,403,851	357,125,758
Other income	21	1,001,081	692,250
TOTAL REVENUES		**356,404,932**	**357,818,008**
Costs for raw materials and consumables	22	(284,742,756)	(281,001,093)
Change in Inventories of work in progress and finished goods		5,612,839	7,202,961
Costs for services	23	(28,768,259)	(32,579,888)
Personnel costs	24	(32,356,876)	(31,762,991)
(of which: non-recurring)	39	*(943,964)*	-
Depr./amort. and impairment of tangible and intangible assets	25	(6,855,200)	(7,926,450)
Provisions and write-downs	26	(556,076)	(552,503)
Other operating costs	27	(1,194,118)	(1,232,511)
EBIT		**7,544,486**	**9,965,533**
Write-down of equity investments		-	(78,901)
Financial income/(charges)	28	2,697,360	(1,735,089)
PROFIT BEFORE TAX		**10,241,846**	**8,151,543**
Income taxes	29	(4,390,967)	(3,543,575)
PROFIT FOR THE PERIOD		**5,850,879**	**4,607,968**
Loss for the period attributable to non-controlling interests		25,006	77,270
PROFIT FOR THE PERIOD ATTRIBUTABLE TO SHAREHOLDERS		**5,875,885**	**4,685,238**

Earnings/(loss) per share (EPS)			
- basic EPS for the year attributable to shareholders of the parent company	30	0.221	0.175
- diluted EPS for the year attributable to shareholders of the parent company	30	0.221	0.175

The effects of related party transactions on the consolidated income statement are reported in Note 33 "Related party disclosures".

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	31.12.2018	31.12.2017
€/000		
RESULT OF THE GROUP AND NON-CONTROLLING INTERESTS	**5,851**	**4,608**
Translation difference on financial statements of foreign companies	(4,281)	(6,597)
Total items of the statement of comprehensive income that will not be subsequently reclassified to profit/(loss) for the period	**(4,281)**	**(6,597)**
Re-determination of defined-benefit plans	294	153
Income taxes	(62)	(43)
Total items of the statement of comprehensive income that will not be subsequently reclassified to profit/(loss) for the period	**232**	**110**
Total comprehensive profit (loss) for the period, net of taxes	**1,802**	**(1,879)**
Attributable to:		
Shareholders of the Parent Company	**1,827**	**(1,802)**
Minority shareholders	**(25)**	**(77)**

With regard to the items of the statement of comprehensive income, please refer to note 12.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital		Other reserves			Ret a ined earnings								
€/000	Share capital	Own shares	Share premium reserve	Own shares (shares premium)	Other reserves	Foreing currency reserve	Legal reserve	Extraordinary reserve	Reserve IAS 19	Unidivided profit	Result for the period	Total	Minority interest	Total shareholders' equity
Balance as of 31 december 2016	**14,627**	**(734)**	**40,539**	**258**	**45,924**	**(11,746)**	**2,925**	**32,809**	**(1,414)**	**13,727**	**55**	**136,970**	**266**	**137,236**
Restatement								**(982)**		**(402)**	**(233)**	**(1,617)**	**(539)**	**(2,156)**
Balance as of 31 december 2016 - Restated	**14,627**	**(734)**	**40,539**	**258**	**45,924**	**(11,746)**	**2,925**	**31,827**	**(1,414)**	**13,327**	**(178)**	**135,352**	**(273)**	**135,081**
Result for the period											4,685	4,685	(77)	4,608
Other comprehensive profit / (loss)						(6,597)			110			(6,487)		(6,487)
Total profit / (loss) from statement of comprehensive income						**(6,597)**			**110**		**4,685**	**(1,802)**	**(77)**	**(1,879)**
Allocation of the result of the previous year								1,251		(1,429)	178			
Dividends								(801)				(801)		(801)
Balance as of 31 december 2017	**14,627**	**(734)**	**40,539**	**258**	**45,924**	**(18,343)**	**2,925**	**32,277**	**(1,304)**	**11,897**	**4,685**	**132,749**	**(350)**	**132,400**
Principles Change (IFRS 15)*								(1,322)				(1,322)		(1,322)
Balance as of 01 January 2018	**14,627**	**(734)**	**40,539**	**258**	**45,924**	**(18,343)**	**2,925**	**30,955**	**(1,304)**	**11,897**	**4,685**	**131,427**	**(350)**	**131,077**
Result for the period											5,876	5,876	(25)	5,851
Other comprehensive profit / (loss)						(4,281)			232			(4,049)		(4,049)
Total profit / (loss) from statement of comprehensive income						**(4,281)**			**232**		**5,876**	**1,827**	**(25)**	**1,802**
Allocation of the result of the previous year								4,864		(181)	(4,685)	(2)		
Dividends								(1,333)				(1,333)		(1,333)
Sell/purchase own shares		(54)		(194)								(248)		(248)
Balance as of 31 december 2018	**14,627**	**(788)**	**40,539**	**64**	**45,924**	**(22,624)**	**2,925**	**34,486**	**(1,071)**	**11,714**	**5,876**	**131,671**	**(375)**	**131,296**

With regard to the items of consolidated shareholders' equity, please refer to note 12.

*With effect from 1 January 2018, the company adopted IFRS 15, choosing not to restate the comparative figures for 2017, as allowed by the standard. The effects of application of the new standard are detailed in the paragraph "Accounting standards".

CONSOLIDATED STATEMENT OF CASH FLOWS	Notes	31.12.2018	31.12.2017
€/000			
OPERATING ACTIVITIES			
Profit / (Loss) for the year		**5,876**	**4,685**
Adjustments for:			
Depreciation/amortisation	25	6,855	6,395
Write-down of goodwill		-	1,531
Net change in (assets) / provision for deferred tax (assets)/liabilities	5	744	767
Capital (gains)/losses from the realisation of fixed assets		69	(54)
(Profit)/loss on unrealised exchange rate differences		(35)	262
Current taxes	29	3,750	2,820
Financial (income)/charges	28	(2,658)	1,052
Operating profit/(loss) before changes in working capital		**14,600**	**17,458**
Taxes paid		(4,172)	(1,237)
Financial charges paid	28	(1,084)	(2,734)
Financial income received	28	3,743	1,682
Decrease/(increase) in inventories	6	(12,516)	(9,947)
Change in trade receivables	7	15,128	(15,452)
Change in trade payables	16	(8,476)	346
Net change in current assets and liabilities for the period		(2,115)	1,644
Net change in non-current assets and liabilities for the period		662	(413)
Exchange rate difference on translation of financial statements in foreign currency		(2,542)	(4,343)
CASH GENERATED FROM OPERATING ACTIVITIES		**3,228**	**(12,996)**
INVESTING ACTIVITIES			
Investments in intangible assets	1	(75)	(154)
Investments in tangible assets	2	(6,372)	(5,709)
Consideration received for the sale of tangible and intangible assets		347	69
CASH GENERATED FROM/USED IN INVESTING ACTIVITIES		**(6,100)**	**(5,794)**
FINANCING ACTIVITIES			
Increases in financing	12	9,452	3,011
Decreases in financing		(4,386)	(5,012)
Net change in short-term financial payables	15	(684)	20,363
Exchange rate difference on translation of financial statements in foreign currency		(233)	726
Change in current financial assets	9	(577)	531
Change in non-controlling interests		(25)	(77)
Change in foreign currency translation reserve and other effects on equity	11	232	110
Dividends paid		(1,333)	(802)
Management of own shares (sales-purchases)		(247)	-
CASH GENERATED FROM/USED IN FINANCING ACTIVITIES		**2,199**	**18,850**
NET CASH FLOW FOR THE PERIOD		**(673)**	**57**
CASH BALANCE AT THE BEGINNING OF THE PERIOD	10	7,752	7,776
COMPREHENSIVE NET CASH FLOW FOR THE PERIOD		(673)	57
Exchange rate difference		(60)	(80)
CASH BALANCE AT THE END OF THE PERIOD	10	7,019	7,752

ACCOUNTING STANDARDS AND EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

GENERAL INFORMATION

These annual consolidated financial statements as of 31 December 2018 were authorised for publication by the Board of Directors of IRCE S.p.A. (henceforth also referred to as the "Company") on 15 March 2019.
The IRCE Group owns nine manufacturing plants and is one of the major players in the European winding wire industry, as well as in the Italian electrical cable sector.
Italian plants are located in the towns of Imola (Bologna), Guglionesi (Campobasso), Umbertide (Perugia) and Miradolo Terme (Pavia), while foreign operations are carried out by Smit Draad Nijmegen BV in Nijmegen (NL), FD Sims Ltd in Blackburn (UK), IRCE Ltda in Joinville (SC – Brazil), Stable Magnet Wire P.Ltd in Kochi (Kerala – India), Isodra GmbH in Kierspe (D), and IRCE Electromagnetic wire (Jiangsu) Co. Ltd. in Haian (China).
The distribution network consists of agents and the following commercial subsidiaries: Isomet AG in Switzerland, DMG GmbH in Germany, Isolveco Srl and Isolveco 2 Srl in Italy, IRCE S.L. in Spain, and IRCE SP.ZO.O in Poland.

BASIS OF PREPARATION

The annual financial statements for the year 2018 were prepared in accordance with the IFRSs (International Financial Reporting Standards) issued by the IASB (International Accounting Standards Board) and endorsed by the European Union. The term IFRS also refers to all revised International Accounting Standards ("IAS") and all interpretations of the International Financial Reporting Interpretations Committee (IFRIC), including those previously issued by the Standing Interpretations Committee (SIC).

The consolidated financial statements are drafted in Euro and – in order to facilitate their interpretation – all amounts in the explanatory notes are rounded to the nearest thousand, unless otherwise specified.

The formats used for the consolidated financial statements of the IRCE Group have been prepared in accordance with the provisions of IAS 1. In particular:

- the statement of financial position was drafted by presenting current and non-current assets, and current and non-current liabilities, as separate classifications;
- the income statement was drafted by classifying the items by nature;
- the statement of cash flows was drafted, in accordance with IAS 7, by classifying cash flows during the period into operating, investing and financing activities. Cash flows from operating activities were presented using the indirect method.

BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Parent Company IRCE S.p.A. and those of the subsidiaries, prepared as of 31 December 2018. The financial statements of the subsidiaries were prepared by adopting the same accounting standards used by the parent company. The main consolidation criteria adopted in drafting of the consolidated financial statements are as follows:

- Subsidiaries are companies over which the Company has the right to exercise, directly or indirectly, control, as defined by IFRS 10 - "Consolidated financial statements". In particular, control exists when the controlling entity simultaneously holds decision-making power over the investee company; has the right to take part in or is exposed to the variable (positive and negative) results of the investee company; has the ability to exercise power over the investee company in such a way as to affect its profits.
- Consolidation of the subsidiaries was implemented by means of the line-by-line method; this technique consists in incorporating all financial statement items for their global amounts, regardless of the percentage of ownership of the Group. Any non-controlling interest is recorded separately in the Statement of Financial Position and Income Statement when determining Shareholder's Equity and the Group's result for the period.

- The carrying amount of equity investments was eliminated against the relevant assets acquired and liabilities assumed.
- All intra-group balances and transactions, including any unrealised gains arising from transactions between Group companies, are eliminated in full.
- With regard to the foreign currency translation of the financial statements of companies with functional currencies other than the one used for the consolidated financial statements, the amounts in the statement of financial position and income statement of all Group companies reported in functional currencies other than the one used for the consolidated financial statements (Euro) are translated as follows:
  - the assets and liabilities in each reported Statement of financial position are translated using the exchange rates at the reporting date;
  - the revenues and costs in each income statement are translated using the average exchange rates for the period;
  - all resulting exchange rate differences are recognised in a specific item of shareholders' equity (foreign currency translation reserve).

Non-controlling interests represent that part of profits or losses and of net assets that are not owned by the Shareholders of the Parent Company.

The following table shows the list of companies included in the scope of consolidation as of 31 December 2018:

Company	% of investment	Registered office	Currency	Share capital	Consolidation
Isomet AG	100%	Switzerland	CHF	1,000,000	line by line
Smit Draad Nijmegen BV	100%	Netherlands	€	1,165,761	line by line
FD Sims Ltd	100%	UK	£	15,000,000	line by line
Isolveco Srl	75%	Italy	€	46,440	line by line
DMG GmbH	100%	Germany	€	255,646	line by line
IRCE S.L.	100%	Spain	€	150,000	line by line
IRCE Ltda	100%	Brazil	BRL	157,894,223	line by line
ISODRA GmbH	100%	Germany	€	25,000	line by line
Stable Magnet Wire P.Ltd.	100%	India	INR	165,189,860	line by line
IRCE SP.ZO.O	100%	Poland	PLN	200,000	line by line
Isolveco 2 Srl	100%	Italy	€	10,000	line by line
Irce Electromagnetic wire (Jiangsu) Co. Ltd	100%	China	CNY	7,738,500	line by line

In 2018, the companies Isolveco 2 srl and Irce Electromagnetic wire (Jiangsu) Co. were set up, both 100% owned by the Parent Company IRCE SpA.

ASSESSMENT CRITERIA AND ACCOUNTING STANDARDS APPLIED

Below is a brief description of the most significant accounting standards and assessment criteria used in preparing the Consolidated Financial Statements.

Foreign currency translation of financial statement items

The consolidated financial statements are presented in Euro, which is the presentation currency adopted by the Group. Each entity of the Group determines its functional currency, which is used to measure the items in the individual financial statements. Foreign currency transactions are initially recognised at the spot exchange rate (referring to the functional currency) at the date of the transaction. Monetary assets and liabilities, denominated in foreign currency, are translated into the functional currency at the spot exchange rate at the reporting date. All exchange rate differences are recognised in the income statement. Non-monetary items measured at their historical cost in a foreign currency are translated using the spot exchange rates at the date of the initial recognition of the transaction. Non-monetary items measured at fair value in a foreign currency are translated using the spot exchange rate at the measurement date.

The subsidiaries using a functional currency other than the Euro are listed in the following table:

Isomet AG	Swiss Franc
FD Sims LTD	British Pound
IRCE LTDA	Brazilian Real
Stable Magnet Wire Private Limited	Indian Rupee
IRCE SP.ZO.O	Polish Zloty
IRCE Electromagnetic wire Co.Ltd	Chinese Renminbi

At the reporting date, the assets and liabilities of these subsidiaries are translated into Euro at the spot exchange rate at that date, and their income statement is translated using the average exchange rate for the year. The exchange rate differences arising on the translation are directly recognised in shareholders' equity and separately reported in the foreign currency translation reserve.

Tangible assets

Tangible assets are measured at their purchase cost after deducting discounts and rebates, or at the construction cost, including directly attributable costs less any accumulated depreciation and accumulated impairment losses.
The carrying amount of tangible assets is tested for impairment if events or changes in circumstances indicate that it might be impaired. If there is any such indication, and the asset's carrying amount exceeds its recoverable amount, the asset is written down to this lower value. The recoverable amount of tangible assets is the higher of net price to sell and value in use.
The capitalisation of costs related to the expansion, renovation or improvement of the structural elements owned or leased from third parties is exclusively carried out to the extent that they meet the requirements for separate classification as an asset or part of an asset by applying the "component approach" criterion.
On disposal, or when no future economic benefits are expected from the use of an asset, this is derecognised from the financial statements and any gain or loss (calculated as the difference between the disposal value and the carrying amount) is recognised in profit or loss in the year the asset is derecognised.
Land, including that ancillary to buildings, is not depreciated.
Assets under construction and advances paid for the acquisition of tangible assets are measured at cost. Amortisation begins from the time when the asset is available and ready for use, and assets are allocated to a specific category from that same date.

Depreciation was calculated on the basis of rates that were deemed representative of the estimated useful life of the relevant tangible assets. The rates applied on an annual basis by Group companies are included in the following ranges:

Buildings	3.0% - 10.0%
Plant and equipment	5.0% - 17.5%
Industrial and commercial equipment	25.0% - 40.0%
Other assets	12.0% - 25.0%

Intangible assets

Intangible assets are recognised under assets, in accordance with the provisions of IAS 38 (Intangible Assets) when it is probable that the use of the asset will generate future economic benefits and when the cost of the asset can be determined in a reliable manner.
Intangible assets which are acquired separately are initially capitalised at cost while those which are acquired through business combination transactions are capitalised at their fair value on their acquisition date. After initial recognition, intangible assets are measured at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangible assets, with the exception of development costs, are not

capitalised and are recognised in profit or loss as incurred. The Group capitalises development costs only when it is likely that they will be recovered. The useful life of intangible assets is either finite or indefinite. Intangible assets with a finite useful life are amortised over their useful life and tested for impairment whenever there is an indication of a potential impairment loss. The amortisation period and the amortisation method applied are reviewed at the end of each financial year or more frequently, if necessary. Changes in the expected useful life, or in the manner the Group obtains the future economic benefits associated with the intangible asset, are recognised by modifying the amortisation period or the amortisation method and treated as changes in accounting estimates. The amortisation charges for intangible assets with finite useful lives are recognised in profit or loss within the cost category that is consistent with the function of the intangible asset. Gains or losses arising from the disposal of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the intangible asset, and are recognised in profit or loss when the fixed asset is disposed of.

A description of intangible assets and the amortisation method used is shown in the following table.

Asset	Useful life	Rate	Internally produced or acquired	Impairment test
Patent and intellectual property rights	Finite	50%	Acquired	Review of the amortisation method at each reporting date and impairment test if indicators of impairment exist
Concessions and licenses	Finite	20%	Acquired	Review of the amortisation method at each reporting date and impairment test if indicators of impairment exist
Trademarks and similar rights	Finite	5.56%	Acquired	Review of the amortisation method at each reporting date and impairment test if indicators of impairment exist
Smit Draad Nijmegen BV's goodwill	Indefinite	n/a	Acquired	Tested for impairment

The amortisation rates for intangible assets were determined as a function of their specific residual useful lives and are reviewed at each reporting date.

Business combinations and goodwill

According to the provisions of IFRS 3, subsidiaries acquired by the Group are accounted for by applying the purchase method, under which:
- the acquisition cost is the fair value of the assets, considering any issue of equity instruments, as well as assumed liabilities;
- the excess of the acquisition cost over the fair value of the Group's interest in the net assets is recognised as goodwill;
- if the acquisition cost is less than the fair value of the Group's interest in the net assets of the acquiree, the difference is directly recognised in profit or loss.

Goodwill and, more generally, assets with an indefinite useful life are not amortised but allocated to the Cash Generating Units (CGUs) and tested for impairment on an annual basis, or more frequently, if events or changes in circumstances indicate that it may be impaired, in accordance with the provisions of IAS 36 Impairment of Assets. After initial recognition, goodwill and assets with an indefinite useful life are measured at cost less any accumulated impairment losses.

Impairment of (tangible and intangible) assets with a finite useful life.

Assets with finite useful life falling within the scope of application of IAS 36 are tested for impairment whenever indicators of impairment exist.
To that end, both internal and external information sources are considered. In regard to the first category (internal sources) the following information is considered: obsolescence or physical damage to the asset; any significant changes in the use of the asset; and the economic performance of the asset as compared to expectations. In regard to external sources, the following information is considered: market price trends for the asset; any changes in technology, markets or laws; the trend in market interest rates or the cost of capital used for valuing investments; and market capitalisation below the net asset carrying amounts for the entity.
In this case, the net carrying amount of the assets is compared with the estimated recoverable amount and, if the former is higher, they are written down.

An asset's recoverable amount is shown as whichever is the higher of an asset's fair value (net of associated disposal costs) and its value in use (meaning present value of estimated future cash flows to be derived from the asset). In determining the value in use, the expected future cash flows are discounted using a pre-tax discount rate that reflects current market assessments of the value of money (relating to the period of investment) and risks specific to the asset.
In order to verify the presence of impairment, intangible and tangible assets are grouped at the level of the smallest separately identifiable cash generating unit. Impairment for a CGU is first attributed to reducing the carrying amount of any goodwill attributed to the asset, and subsequently to reducing other assets. This must be done in proportion to their carrying amount and the limits of the asset's associated recoverable value.
If the assumptions underlying a previous write-down no longer apply, the carrying value is reinstated with an entry to the relevant income statement. This is done within the limits of the net carrying value that the asset would have had, if it had not been written down and the related amortisation had been applied.

Use of estimates

The drafting of the financial statements in accordance with the IFRS requires the use by the Management of estimates and assumptions, which influence the value of assets and liabilities recorded in the statement of financial position as well as in the disclosures published in the explanatory notes regarding potential assets and liabilities at the reporting date, and the revenues and costs for the period.
These estimates are based on experience and on other factors considered relevant. The effective results could thus differ from those estimated. The estimates are revised on a regular basis and the effects of each change to the same are reflected in the income statement of the period in which the estimate is revised.
The most significant accounting principles that require greater subjectivity by directors when preparing estimates are described below:

a. Measurement of receivables. Trade receivables are adjusted using the relevant bad debt provision to take into account their recoverable amount. The determination of the amount of write-downs requires the directors to make subjective measurements based on the documentation and information available, including the creditworthiness of the client as well as past experience and historical trends;
b. Measurement of inventories. Inventories showing obsolescence are periodically valued and written down if the net realisable value of the same is lower than the carrying amount. Write-downs are calculated on the basis of assumptions and estimates made by the Management, based on the experience of the same and the historical results achieved. Furthermore, the price of copper as listed on the main stock exchange for non-ferrous metals (the London Metal Exchange) has been shown to be subject to fluctuations, which are sometimes significant. Therefore, there is a risk that a prolonged downward trend in the price for copper after the balance sheet closing date could lead to a potential risk in that the realisable value of the copper on hand in the warehouse inventory may be lower than the value entered on the balance sheet. In such a situation, the company must therefore proceed with a corresponding devaluation of raw materials, works in progress, and finished goods. To this end, the Directors of IRCE S.p.A. have carried out a specific analysis to confirm whether any conditions exist for devaluing the 'Copper Component' of inventories. This analysis has taken into account, amongst other things: the process for determining the corresponding sales of Copper Components; the price of copper available up to a date near the time when the consolidated financial statements are submitted for approval; commitments and sales orders in place as at the close of the financial year using a fixed

price for copper; and the expected performance of copper prices in the months following the approval of the consolidated financial statements.

c. Recoverability of deferred tax assets. Deferred tax assets are measured on the basis of expected taxable income in future years. The measurement of this expected taxable income depends on factors that may vary over time and have significant effects on the measurement of deferred tax assets;
d. Pension plans. The Group companies participate in pension plans in various countries. The current value of liabilities for retirement benefits depends on a series of factors that are determined using actuarial techniques based on certain assumptions, which concern the discount rate, the expected return on plan assets, the rates of future salary increases, as well as mortality and resignation rates. Any changes to the aforementioned assumptions could have significant effects on the liabilities for retirement benefits;
e. Measurement of provisions for risks. The determination of the provisions allocated requires the directors to make subjective measurements based on the documentation and information available on potential liabilities.
f. Asset impairments: assets are written down whenever events or changes in circumstances cause the company to consider that the carrying value on the balance sheet may not be recoverable. Events which may lead to an asset devaluation may include changes to industrial plans, variations in market prices, or reduced plant utilisation. The decision about whether to proceed with a devaluation (and of what size) depends on management's assessment of complex and highly uncertain factors. This includes items such as future price trends; the impact of inflation and technological improvements on the cost of production; production profiles; and supply and demand conditions. Impairment is determined by comparing the original book value with the associated recoverable value, as represented by the greater of fair value (net of disposal costs) or the value in use as determined by discounting the expected cash flows deriving from the use of the asset. The expected cash flows are quantified in the light of information available at the time the estimate is made, and are based on subjective assessments on the trend in future variables, such as prices, costs, demand growth rates, and production profiles. The cash flows are then discounted using a rate which takes into account the inherent risk for the asset in question.
g. Business combinations: entering transactions for business combinations requires that the difference between the acquisition cost and net book value be allocated against the assets and liabilities acquired by the company. For the majority of assets and liabilities, allocation of the difference is undertaken by recognising assets and liabilities at fair value. The unallocated amount is recognised as goodwill (if positive) or charged to the income statement (if negative). During the allocation process, the Group makes use of the information available, and — for the more important business combinations — external valuations.
h. Useful life of tangible and intangible assets with a finite useful life: depreciation and amortisation are calculated based on the useful life of the asset. The useful life is determined at the time the asset is entered to the balance sheet. Assessment of the duration of useful life is based on historical experience; market conditions; and expectations of future events that could affect that useful life, including technological changes. As a result, it is possible that the actual useful life may differ from the estimated useful life.

Financial assets

At the time of their initial recognition, financial assets must be classified into one of the three categories described below, on the basis of the following elements:

- the entity's business model for management of financial assets; and
- the cash flow characteristics of the contractual terms of the financial asset.

Financial assets are subsequently derecognised only if the transfer of ownership has also transferred substantially all of the associated risks and rewards belonging to said asset. On the other hand, whenever a significant part of the risks and rewards belonging to the financial asset being transferred have been retained, then that asset will continue to be recognised, even if legal ownership of said asset has effectively been transferred.

Financial assets measured at amortised cost

Included in this category are financial assets which satisfy both of the following conditions:

- the financial asset is held according to a business model whose objectives are achieved by collecting the contractual cash flows ('Hold to Collect' business model); and
- the contractual terms of the financial asset provide that as at a certain date, cash flows be represented solely by payments of principal and interest on the amount of capital to be returned (the test known as the 'SPPI test' has been satisfied).

Upon initial recognition, these assets are accounted for at fair value, including costs or revenues for the transaction which are directly attributable to said instrument. After initial recognition, the financial assets in question are valued at amortised cost, using the effective interest rate method. The amortised cost method is not used for assets, which are valued at historical cost, where it is considered that the short duration makes the effect of applying the discounting approach negligible. This applies to those assets which do not have a defined maturity, and revocable loans.

Financial assets measured at fair value with an impact on overall profitability

Included in this category are financial assets which satisfy both of the following conditions:

- the financial asset is held according to a business model whose objectives are achieved by either collecting the contractual cash flows or by selling the financial asset ('Hold to Collect and Sell' business model); and
- the contractual terms of the financial asset provide that as at a certain date, cash flow be represented solely by payments of principal and interest on the amount of capital to be returned (the test known as the 'SPPI test' has been satisfied).

Included in this category are equity interests which do not qualify as subsidiaries, associated companies or jointly controlled entities, and which are not held in order to trade. Furthermore, the company must have exercised the option to designate their measurement at fair value with an impact on overall profitability.

Upon initial recognition, these assets are accounted for at fair value, including costs or revenues for the transaction which are directly attributable to said instrument. After initial recognition, equity interests (other than interests in subsidiaries, associated companies or jointly controlled entities) are measured at fair value and amounts are entered and offset against net equity (Statement of Comprehensive Income). These amounts may not subsequently be transferred to the income statement, even if ownership of the asset itself is transferred. The only component that is entered to the income statement for the equity securities in question, are those amounts which represent the associated dividends.

For equity securities included in this category which are not listed on an active market, historical cost is used as an estimate of fair value only if no other method applies, and is limited to a small number of circumstances. Or rather, measurement at historical cost is only done when the most recent information for measuring fair value is insufficient, or where there is a wide range of possible fair value measurements and historical cost represents the best estimate of fair value among such a range.

Financial assets measured at fair value with an impact on the income statement

Classified in this category are those financial assets which are not classified as 'Financial assets measured at amortised cost' or 'Financial assets measured at fair value with an impact on overall profitability'.

Included in this category are financial assets which are held for trading, and derivative contracts which cannot be classified as hedging (which are shown as assets if the fair value is positive, or as liabilities if the fair value is negative).

Upon initial recognition, financial assets measured at fair value with an impact on the income statement are entered at fair value, without considering transaction costs or proceeds which are directly attributable to said instrument. On subsequent reporting dates, these assets are assessed at fair value and the impact of valuations is charged against the income statement.

Impairment of financial assets

In accordance with the arrangements of IFRS 9, the Group uses a simplified approach for estimating full lifetime expected credit losses for financial instruments. This approach takes into consideration the company's historical experience with credit losses, and is adjusted on the basis of specific outlook factors depending on the nature of the Group's receivables and the economic context.

In summary, the Group measures the expected losses for financial assets in a way that reflects:

- an objective amount which is weighted on the basis of likelihood, as established by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information (which is available without undue cost or effort as at the balance sheet date) about past events, current conditions and forecasts of future economic conditions.

Financial assets are credit-impaired when one or more events have occurred which will have a negative impact on future estimated cash flows for the financial asset. Evidence that the financial asset has been credit-impaired includes observable data in relation to one or more of the following events (it is possible that the company may not be able to identify one individual event, and so the impairment of financial assets may be due to the combined effect of several events):

a) significant financial difficulty of the issuer or borrower;
b) a breach of contract, such as a default or past-due event;
c) for economic or contractual reasons relating to the borrower's financial difficulty, the lender granting the borrower a concession that would not have been otherwise considered by the lender;
d) it is probable that the borrower will enter bankruptcy or other financial reorganisation procedures;
e) the disappearance of an active market for the financial asset because of financial difficulty; or
f) the purchase or origination of a financial asset at a deep discount that reflects incurred credit losses.

For financial assets that have been accounted for using the amortised cost method, when an impairment has been identified then the amount of that impairment is measured as the difference between the carrying amount of the asset and the present value of expected future cash flows (discounted on the basis of the original effective interest rate). This amount will be recognised in the income statement.

Inventories

Inventories are measured at the lower of cost and net realisable value.

The costs incurred are recognised as follows:

1. Raw materials: average weighted purchase cost, including transportation expenses and customs clearance.
2. Finished and semi-finished goods and work in progress: direct cost of materials and labour costs plus a share of the indirect costs and production overheads defined on the basis of normal production capacity. In greater detail, the metal which represents the most significant cost for work in progress, semi-finished goods and finished goods, is assessed separately to the other components (handling and other raw materials).

The presumed net realisable value for metal is confirmed separately to the other components, inasmuch as it is subject to separate negotiation at the time of sale.

Cash and cash equivalents

Cash and cash equivalents include cash on hand as well as demand and short-term bank deposits recognised at their nominal amounts; in the latter case, the original maturity shall not exceed three months.

Financial liabilities and trade payables

Financial liabilities and trade payables are recognised when the Group becomes party to the relevant contractual clauses. They are initially measured at fair value, adjusted for costs which are directly attributable to the transaction. They are subsequently valued at amortised cost, using the effective interest rate method.
Financial liabilities are derecognised when the contractual rights over the related cash flows expire, or when the financial liability is transferred along with substantially all the risks and rewards which come from responsibility for said liability.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset are extinguished;
- the Group retains the right to receive cash flows from the asset but has assumed the contractual obligation to pay them in full without delay to a third party;
- the Group has transferred the right to receive cash flows from the asset and (a) has substantially transferred all the risks and rewards of ownership of the financial asset or (b) has not substantially transferred nor retained all the risks and rewards of the asset but has transferred control.

In cases where the Group transferred its rights to receive cash flows from an asset and has not substantially transferred nor withheld all the risks and rewards or has not lost control over the asset, this is recognised in the financial statements of the Group to the extent of the latter's continuing involvement in the asset. The continuing involvement – which takes the form of guaranteeing the transferred asset – is measured at the lower of the initial carrying amount of the asset and the maximum amount of the consideration that the Group could be required to pay.

In cases where the continuing involvement takes the form of an option that is issued and/or acquired with respect to the transferred asset (including cash-settled options, or similar options), the extent of the Group's involvement corresponds to the amount of the transferred asset which the Group may buy back; however, in the case of a put option which is issued on an asset that is measured at fair value (including the options settled in cash or with similar provisions), the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the exercise price of the option.

Financial liabilities

A financial liability is derecognised when the obligation underlying the liability is settled, cancelled or discharged.

If an existing financial liability is replaced by another from the same lender – and with substantially different terms – or if the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, recognising any differences between the carrying amounts through profit or loss.

Provisions for risks and charges

Provisions for risks and charges include provisions arising from present obligations (legal or constructive) as a result of past events and for which an outflow of resources is probable. Changes in estimates are reflected in the income statement for the period in which the change occurs. If the effect of discounting the value of money is material, the provisions are discounted using a pre-tax discount rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision that arises from the passage of time is recognised as a financing cost.

Employee Benefits

Employee benefits substantially include provisions for employee termination indemnities of the Group's Italian companies as well as provisions for retirement benefits plans. Italian Law no. 296 of 27 December 2006 "2007 Budget Law" introduced significant changes to the allocation of quotas of the employee termination indemnities. Up until 31 December 2006, employee termination indemnities were part of post-employment benefit plans of the "defined benefit plans" type, and were measured, in accordance with IAS 19, by independent actuaries using the projected unit credit method. This calculation consists in estimating the amount of the benefit an employee will receive on the estimated date of termination of the work relationship by using demographical and financial assumptions. The amount determined in this manner is discounted and recalculated on the basis of the accrued service as a proportion of the total length of service and represents a reasonable estimate of the benefits each employee has already earned for past service.
Following the occupational pension reform, the provisions for employee termination indemnities – for the amounts accruing from 1 January 2007 – should be considered essentially comparable to a "defined contribution plan". More specifically, these changes gave employees the opportunity to choose how to allocate their accruing employee termination indemnities: in companies with more than 50 employees, employees can decide to transfer the accruing employee termination indemnities into pre-defined pension schemes or keep them with the company, which will transfer them to INPS (Italy's social security institute).
In summary, following the occupational pension reform and with regard to the employee termination indemnities accrued before 2007, the Group actuarially measured them without including the component referring to future salary increases. The benefits subsequently accrued were instead recognised in accordance with the methods for defined contribution plans.

Derivative financial instruments

The Group used derivative financial instruments such as forward contracts for the purchase and sale of copper and aluminium in order to hedge against its exposure to the risk of changes in raw material prices as well as forward contracts for currency purchases.
Any gains or losses arising from changes in the fair value of derivatives, which are outstanding as of the reporting date and do not qualify for hedge accounting, are recognised directly in the income statement.

The fair value of forward contracts for the sale of copper outstanding as of the reporting date is determined on the basis of forward prices of copper with reference to the maturity dates of contracts outstanding as of the reporting date.
For the purposes of hedge accounting, hedges are classified as:

- fair value hedges against the risk of changes in the fair value of an underlying asset or liability; or a firm commitment (except for currency risk); or
- cash flow hedges against the exposure to changes in cash flows that are attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction;
- hedges of a net investment in a foreign operation (net investment hedge).

At the inception of a hedge, the Group formally designates and documents the hedging relationship to which it intends to apply hedge accounting as well as its risk management objectives and the pursued strategy. The documentation includes the identification of the hedging instrument as well as of the hedged item or transaction, the nature of the risk, and how the company intends to measure the effectiveness of the hedge in offsetting the exposure to changes in the fair value of the hedged item or cash flows attributable to the hedged risk.

These hedges are expected to be highly effective in offsetting the exposure of the hedged item to changes in the fair value or cash flows attributable to the hedged risk. The measurement of the effectiveness of these hedges is conducted on an ongoing basis during the years in which they have been designated.

Own shares

If the company reacquires its own shares, these are deducted from shareholders' equity. In particular, they are measured at their nominal amount in the "Own shares" reserve and the excess of the purchase amount over the nominal amount is accounted for as a deduction from "Other reserves". The purchase, sale, issue or cancellation of equity instruments does not result in the recognition of any gain or loss in the income statement, but is rather recognised directly as a change in shareholders' equity.

Recognition of revenues

Recognition of revenues

Revenues from contracts with customers are recognised when the following conditions are met:

- a contract with a customer has been identified;
- the contractual performance obligations have been identified;
- the price has been determined;
- the price has been allocated to the individual performance obligations contained in the contract;
- the contractual performance obligations have been satisfied.

The Group recognises revenue from contracts with customers at a point in time, or over time, when performance obligations are fulfilled by transferring the promised goods or services to the customer (namely, the asset). The asset is transferred at a point in time, or over time, when the customer obtains control of the asset.
The Group transfers control of the goods or services over time (and thus fulfils the performance obligations and recognises the revenue over time) if the situation satisfies one of the following criteria:

- the customer simultaneously receives and consumes all of the benefits deriving from the entity's performance over time, as and when the entity performs;
- the Group's performance creates or enhances an asset (for example, works in progress) that the customer controls over time, as and when the asset is created or enhanced; or
- the Group's performance does not create an asset with an alternative use for the Group, and the Group has an enforceable right to payment for performance completed up to the date under consideration.

If the performance obligation is not satisfied over time, it is satisfied at a point in time. In such a situation, the Group recognises revenue at the time when the customer obtains control of the promised asset.

The Group allocates the contractual price to the individual performance obligations by reference to the relative standalone selling prices (SSP) for the individual performance obligations. When there is no SSP, the Group estimates the SSP using an adjusted market assessment approach. In this case, the Group uses judgement to determine the performance obligation, variable consideration and allocation of the transaction price.

Dividends

Dividends are recognised as at the date of the Shareholders' Meeting when the resolution establishing the right to receive payment was passed.
Dividends approved at the Shareholders' Meeting are shown as movements in equity for the financial year in which they were approved.

Costs

Costs are recognised on an accrual basis. Research, advertising and promotional costs are recognised in the income statement in the year in which they are incurred.

Financial income and charges

Financial income and charges are recognised immediately in the income statement.

Earnings per share

As required by IAS 33, the Group presents on the face of the income statement basic and diluted earnings per share for profit or loss from continuing operations attributable to the ordinary equity holders of the parent entity. The information is presented only on the basis of the consolidated data, in accordance with the requirements of the aforementioned IAS.

Basic earnings per share are calculated by dividing the profit or loss attributable to the ordinary equity holders of the parent entity by the weighted number of ordinary shares outstanding during the period, excluding own shares. The weighted average of the shares was applied retroactively for all previous years.

Income taxes

Current taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to tax authorities. The tax rates and tax laws used to calculate the amount are those that have been enacted or are expected to apply as of the reporting date.

Deferred tax assets and liabilities

Deferred tax assets and liabilities are calculated using the so-called liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when deferred tax liabilities arise from the initial recognition of goodwill or of an asset or liability in a transaction which is not a business combination and which, at the time of the transaction itself, affects neither accounting profit nor taxable profit/loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except when:

- the deferred tax asset for the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction which is not a business combination and which, at the time of the transaction itself, affects neither accounting profit nor taxable profit;
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are recognised only to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognised deferred tax assets are reviewed on an annual basis at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax assets to be recovered.

Deferred tax assets or liabilities relating to items recognised directly in equity are recognised directly in equity and not in the income statement.

RECENTLY ISSUED ACCOUNTING STANDARDS

Accounting standards, amendments and interpretations that are not yet applicable and not adopted early by the Company

Furthermore, as at the date of these Consolidated Financial Statements, the European Union competent bodies have not yet completed the approval process required for the adoption of the following accounting standards and amendments:

Accounting standard/amendment	Endorsed by the EU	Effective date
IFRS 17 Insurance Contracts	NO	Annual periods beginning on or after 1 January 2021
Annual Improvements to IFRS Standards 2015-2017 Cycle	NO	Annual periods beginning on or after 1 January 2019
Amendments to IAS 19: Plan Amendment, Curtailment or Settlement	NO	Annual periods beginning on or after 1 January 2019
Amendments to References to the Conceptual Framework in IFRS Standards	NO	Annual periods beginning on or after 1 January 2020
Amendment to IFRS 3 Business Combinations	NO	Annual periods beginning on or after 1 January 2020
Amendments to IAS 1 and IAS 8: Definition of Material	NO	Annual periods beginning on or after 1 January 2020

Accounting Standards, Amendments and Interpretations Endorsed by the EU but not yet Implemented

As at the date of these Financial Statements, the European Union competent bodies have completed the approval process required for the adoption of the following accounting standards and amendments, not adopted in advance by the IRCE Group:

IFRS 16 "Leases"	On 13 January 2016, the IASB published IFRS 16 "Leases" (hereinafter, "IFRS 16"), which replaces IAS 17 "Leasing" and the related interpretations. IFRS 16 eliminates the distinction between operating and finance leases for the purposes of drafting the financial statements of lessees; for lease contracts with a duration of more than 12 months, the recognition of an asset – representing the right to use – and of a liability – representing the obligation to make the payments under the contract – is required. Instead, lessors continue to classify leases as operating or finance in the preparation of financial statements. IFRS 16 reinforces disclosure requirements for both lessees and lessors. The provisions of IFRS 16 are effective as of 1 January 2019. As at the balance sheet date, the Group had commitments relating to non-cancellable operating leases for an amount of approximately € 0.3 million. In regard to these commitments, the Group expects to recognise a leasing liability of € 0.3 million.
Amendment to IFRS 9 "Prepayment Features with Negative Compensation"	On 12 October 2017, the IASB issued an amendment to IFRS 9 to address some concerns about the applicability and classification of IFRS 9 "Financial Instruments" in relation to particular financial assets with a prepayment option. Furthermore, the IASB clarified certain aspects of accounting for financial liabilities following these changes. The IFRS 9 amendment provisions are effective for financial years beginning on or after 1 January 2019. The Company does not believe that there will be any financial or capital impact applicable to the arrangements which result from this standard entering into force.
IFRIC 23 "Uncertainty over Income Tax Treatments"	On 7 June 2017, the IASB issued IFRIC 23 "Uncertainty over Income Tax Treatments" which contains guidance in relation to accounting for tax assets and liabilities (current and/or deferred) for income tax where there is uncertainty over the treatment of tax legislation. IFRIC 23 arrangements are effective for financial years beginning on or after 1 January 2019.
Amendment to IAS 28 "Long-term Interests in Associates and Joint Ventures"	On 12 October 2017, the IASB issued an amendment to IAS 28 to clarify that the application of IFRS 9 "Financial Instruments" for long-term interests in subsidiaries or joint ventures also applies where that interest forms part of investments in such entities but the net equity method was not applied. IAS 28 Amendment provisions are effective for financial years beginning on or after 1 January 2019.

First Application of New Financial Standards

a) IFRS 15: Revenue from Contracts with Customers

On 1 January 2018, IFRS 15 "Revenue from Contracts with Customers" entered into force. The Group has decided to apply this standard retroactively, in accordance with the relevant transitional provisions. The Group has therefore recognised the cumulative effect of the initial application of the standard as an adjustment to the opening balance of retained earnings for the initial year of application. As a consequence, the 2017 comparative financial year has not been restated.

With reference to the IRCE Group, the new IFRS 15 regarded the accounting for sales of packaging with right of return that can be exercised by the customer within 12 months of delivery, with a negative impact on opening shareholders' equity as of 1 January 2018 of €/000 1,322.

The effect on the financial statements as of 1 January 2018 is shown below:

€/000

Statement of Financial Position (extract)	Amounts without adoption of IFRS 15	Increase/(decrease)	01/01/2018
Inventories	82,376	893	83,269
Deferred tax assets	1,661	512	2,173
Trade receivables	89,473	(4,131)	85,342
Effect on assets		**(2,726)**	
Extraordinary reserve	32,277	(1,322)	30,955
Provision for future charges	2,337	(1,404)	933
Effect on liabilities and shareholders' equity		**(2,726)**	

b) IFRS 9 – Financial Instruments

The Group adopted the new financial standard IFRS 9 – Financial Instruments with effect from 1 January 2018. The adoption of IFRS 9 did not have any impact on the Group's equity and result, nor did the new classification model lead to changes in the criteria for measuring financial assets and liabilities.

DERIVATIVE INSTRUMENTS

The Group uses the following type of derivative instruments:

- Derivative instruments related to copper forward transactions with maturity after 31 December 2018. The Group entered into sale contracts to hedge against price decreases relating to the availability of raw materials, and purchase contracts to prevent price increases relating to sale commitments with fixed copper values. The fair value of forward contracts outstanding at the reporting date is determined on the basis of forward prices of copper and aluminium with reference to the maturity dates of contracts outstanding at the reporting date. These transactions do not qualify as hedging instruments for the purposes of hedge accounting.

A summary of derivative contracts related to commodity for forward sales and purchases outstanding at 31 December 2018 is shown below:

Measurement unit of the notional amount	Notional amount with maturity within one year net tonnes	Notional amount with maturity after one year	Result with fair value measurement as of 31/12/2018 €/000
Copper	600	0	295

- Derivative instruments related to USD and GBP forward purchase and sale contracts with maturity after 31 December 2018. These transactions do not qualify as hedging instruments for the purposes of cash flow hedge accounting.

A summary of derivative contracts related to USD forward purchases and sales outstanding at 31 December 2018 is shown below:

Measurement unit of the notional amount	Notional amount in foreign currency with maturity within one year	Notional amount with maturity after one year	Result with fair value measurement as of 31/12/2018 €/000
USD	13,201	0	(28)
GBP	6,000	0	(36)
Total			(64)

FINANCIAL INSTRUMENTS BY CATEGORY

Here below is the breakdown of financial instruments referring to the items of the financial statements:

As of 31 December 2018 - €/000	Amortised cost	FV with a balancing entry in the income statement	FV with a balancing entry in equity	Total
Non-current financial assets				
Non-current tax receivables	812			812
Non-current financial assets and receivables	-			112
Current financial assets				
Trade receivables	70,214			70,214
Current financial assets	295	295		590
Cash and cash equivalents	7,019			7,019

As of 31 December 2017 - €/000	Amortised cost	FV with a balancing entry in the income statement	FV with a balancing entry in equity	Total
Non-current financial assets				
Non-current tax receivables	812			812
Non-current financial assets and receivables	59			121
Current financial assets				
Trade receivables	89,474			89,474
Current financial assets	13			13
Cash and cash equivalents	7,752			7,752

As of 31 December 2018 - €/000	Amortised cost	FV with a balancing entry in the income statement	FV with a balancing entry in equity	Total
Non-current financial liabilities				
Financial payables	17,033			17,033
Current financial liabilities				
Trade payables	16,212			16,212
Other payables	10,555			10,555
Financial payables	49,931	64		49,995

As of 31 December 2017 - €/000	Amortised cost	FV with a balancing entry in the income statement	FV with a balancing entry in equity	Total
Non-current financial liabilities				
Financial payables	11,967			11,967
Current financial liabilities				
Trade payables	24,688			24,688
Other payables	11,631			11,631
Financial payables	49,824	855		50,679

FAIR VALUE

A comparison between the carrying amount of financial instruments held by the Group and their fair value did not yield significant differences in value.
IFRS 13 defines the following three levels of fair value for measuring the financial instruments recognised in the statement of financial position:

- Level 1: quoted prices in active markets.
- Level 2: market inputs other than Level 1 inputs that are observable, either directly (i.e. prices) or indirectly (i.e. derived from prices).
- Level 3: inputs not based on observable market data.

The following tables show the assets and liabilities that are measured at fair value as of 31 December 2017 and as of 31 December 2018 broken down by level of fair value hierarchy (€/000):

2017	Level 1	Level 2	Level 3	Total
Liabilities:				
Derivative financial instruments	-	(855)	-	(855)
Total liabilities	-	(855)	-	(855)

2018	Level 1	Level 2	Level 3	Total
Assets:				
Derivative financial instruments	-	295		295
AFS	-	-		-
Total assets	-	295		295
Liabilities:				
Derivative financial instruments	-	(64)	-	(64)
Total liabilities	-	(64)	-	(64)

During the year, there were no transfers between the three fair value levels specified in IFRS 7.

SEGMENT REPORTING

IFRS 8 defines an operating segment as follows. An operating segment is a component of an entity:
a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
b) whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
c) for which discrete financial information is available.
With regard to the two types of products sold, IRCE S.p.A.'s management only monitors the breakdown of revenues between winding wires and cables. Unallocated balance refers to revenues from the sale of other materials and services that cannot be classified within the two types of products sold.

Revenues are then analysed by geographical area (revenues from Italian customers, EU customers excluding Italy, and non-EU customers).

The winding wire segment supplies manufacturers of electric motors and generators, transformers, relays and solenoid valves.

The cable segment supplies the following industries: construction, civil and industrial engineering (cabling), and consumer durables (electrical devices).

€/000	2018				2017			
	Winding wires	Cables	Not allocated	Total	Winding wires	Cables	Not allocated	Total
Revenues	290,021	65,353	30	355,404	296,287	60,822	16	357,126

€/000	2018				2017			
	Italy	EU (excluding Italy)	Non-EU	Total	Italy	EU (excluding Italy)	Non-EU	Total
Revenues	125,807	148,374	81,223	355,404	122,614	155,638	78,873	357,126

COMMENT ON THE MAIN ITEMS OF THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

1. OTHER INTANGIBLE ASSETS

This item refers to intangible assets from which future economic benefits are expected.

The changes in their net carrying amount are shown below:

€/000	Patent and intellectual property rights	Licenses, trademark similar rights and other multi-year charges	Assets under development	Goodwill	Total
Net carrying amount as of 31/12/2016	79	29	189	1,531	1,828
Changes during the period					
. Investments	153	1	-	-	154
. Effect of exchange rates	(5)	(2)	-	-	(7)
. Reclassifications	-	-	-	-	-
. Write-downs	-	-	-	(1,531)	(1,531)
. Depreciation/amortisation	(91)	(5)	-	-	(96)
Total changes	57	(6)	-	(1,531)	(1,480)
Net carrying amount as of 31/12/2017	136	23	189	-	348
Changes during the period					
. Investments	70	5	-	-	75
. Effect of exchange rates	(4)	(2)	-	-	(6)
. Reclassifications	4	-	-	-	4
. Write-downs	-	-	(189)	-	(189)
. Depreciation/amortisation	(100)	(4)	-	-	(104)
Total changes	(30)	(1)	(189)	-	(221)
Net carrying amount as of 31/12/2018	106	22	-	-	127

2. TANGIBLE ASSETS

€/000	Land	Buildings	Plant and equipment	Industrial and commercial equipment	Other assets	Assets under construction and advances	Total
Net carrying amount as of 31/12/2016	11,855	17,022	23,750	777	432	4,177	58,014
Changes during the period							
. Investments	-	282	2,455	586	319	2,067	5,709
. Effect of exchange rates	(239)	(828)	(1,803)	(18)	-	(5)	(2,893)
. Reclassifications	-	19	3,978	39	(8)	(4,028)	-
. Divestments	-	-	(3,002)	(328)	(302)	-	(3,632)
. Depreciation related to disposals	-	-	2,988	327	302	-	3,617
. Depreciation of the period	-	(1,232)	(4,479)	(421)	(167)	-	(6,299)
Total changes	(239)	(1,759)	137	185	144	(1,966)	(3,498)
Net carrying amount as of 31/12/2017	11,616	15,263	23,887	962	576	2,211	54,516

€/000	Land	Buildings	Plant and equipment	Industrial and commercial equipment	Other assets	Assets under construction and advances	Total
Net carrying amount as of 31/12/2017	11,616	15,263	23,887	962	576	2,211	54,516
Changes during the period							
. Investments	-	47	4,418	252	146	1,509	6,372
. Effect of exchange rates	(1)	(259)	(1,177)	(4)	3	(2)	(1,440)
. Reclassifications	-	-	1,198	92	-	(1,294)	(4)
. Divestments	-	-	(585)	(82)	(238)	(24)	(929)
. Depreciation related to disposals	-	-	379	82	198	-	659
. Depreciation of the period	-	(1,086)	(5,105)	(393)	(167)	-	(6,751)
Total changes	(1)	(1,298)	(872)	(53)	(58)	189	(2,093)
Net carrying amount as of 31/12/2018	11,615	13,965	23,015	909	518	2,400	52,423

Investments amounted to some € 6.37 million and were primarily related to European manufacturing plants.

Divestments refer primarily to machinery no longer in use and depreciated in full, while reclassifications of assets under construction refer to machinery purchased in the previous years.

3. NON-CURRENT FINANCIAL ASSETS AND RECEIVABLES

Non-current financial assets and receivables are broken down as follows:

€/000	31/12/2018	31/12/2017
- Equity investments in other companies	112	62
- Other receivables	-	59
Total	112	121

The item "equity investments in other companies" refers to a shareholding held in the Indian subsidiary Stable Magnet Wire P. Ltd in a dormant company.

4. NON-CURRENT TAX RECEIVABLES

This item, equal to €/000 812, refers to the tax credit relative to the IRES (corporate income tax) reimbursement claim for 2007-2011, in compliance with Article 2, paragraph 1-quater, of Italian Law Decree no. 201/2011, of the Parent Company IRCE S.p.A.

5. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are broken down as follows:

€/000	31/12/2018	31/12/2017
- Deferred tax assets	1,879	1,662
- Deferred tax liabilities	(704)	(255)
Total deferred tax assets (net)	1,176	1,407

The changes for the period are shown below:

€/000	31/12/2018	31/12/2017
Deferred tax assets (net) as of 1 January	1,407	2,174
IFRS 15	511	-
Exchange rate differences	24	(166)
Effect on income statement	(704)	(558)
Effect on shareholders' equity	(62)	(43)
Deferred tax assets (net) as of 31 December	1,176	1,407

Here below is the breakdown of deferred tax assets and liabilities and the relevant changes for the period, without considering the offsetting of items within the same fiscal jurisdiction:

€/000	31/12/2018	IFRS 15	31/12/2017
- Depreciation/amortisation IRCE LTDA	-		53
- Allocations to Provisions for risks and charges	536		483
- Allocations to the taxed Bad debt provision	236		239
- Tax losses which can be carried forward	309		567
- Intra-group margin	58		59
- Allocations to the Provision for inventory obsolescence	751		751
- Isomet AG Reserve	219		235
- IFRS 15	476	511	-
- Other	88		64
Total	2,673	511	2,451

Tax losses that can be carried forward refer to the subsidiary IRCE Ltda for €/000 85 and to the subsidiary FD Sims Ltd for €/000 224 and can be carried forward indefinitely.
With effect from 1 January 2018, the Group adopted IFRS 15, choosing not to restate the comparative figures for 2017, as allowed by the standard. The effects of application of the new standard are detailed in the paragraph "Accounting standards".

The Group also recorded tax losses carried forward for €/000 1,541, for which no deferred tax assets were recorded as of 31 December 2018.

The table below shows the changes in deferred tax assets during 2017 and 2018:

	Taxed provisions	**IFRS 15**	**Tax losses carried forward**	**Other**	**Total**
balances as of 01/01/2017	1,423		1,732	683	3,839
effect on income statement	50		(1,022)	(255)	(1,227)
effect on shareholders' equity				(40)	(40)
exchange rate difference			(143)	23	(120)
balances as of 31/12/2017	1,473		567	411	2,451
IFRS 15		511			511
effect on income statement	50	(35)	(292)	(15)	(292)
effect on shareholders' equity				(40)	(40)
exchange rate difference			34	9	43
balances as of 31/12/2018	1,523	476	309	365	2,673

The effects on shareholders' equity refer to changes in the actuarial reserve as per IAS 19.

Deferred tax assets were recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts and to the extent that it is probable that taxable profit will be available against which these differences can be utilised.

Deferred tax liabilities are broken down as follows:

Deferred tax liabilities - €/000	31/12/2018	31/12/2017
- Depreciation/amortisation	36	42
- IAS capital gains on buildings	97	97
- IAS capital gains on land	413	413
- Effect of application of IAS 19	22	3
- Effect of tax depreciation of the Isomet AG building	225	239
- Effect of tax inventory difference of Isomet AG	259	250
- Effect of tax depreciation of Smit Draad Nijmegen	23	-
- Effect of tax inventory difference of Smit Draad Nijmegen	422	-
Total	1,497	1,044

The table below shows the changes in deferred tax liabilities during 2017 and 2018:

	Depreciation/ amortisation	**IAS capital gain on land and building**	**ISOMET AG**	**Simit Draad BV**	**Effect of IAS 19**	**Other**	**Total**
balances as of 01/01/2017	56	510	563	533	-	3	1,665
effect on income statement	(14)		(120)	(533)		(3)	(670)
effect on shareholders' equity					3		3
exchange rate difference			46				46
balances as of 31/12/2017	42	510	489	-	3	-	1,044
effect on income statement	(6)		(24)	445	(3)		412
equity effect					22		22
exchange rate difference			19				19
balances as of 31/12/2018	36	510	484	445	22	-	1,497

The effects on shareholders' equity refer to changes in the actuarial reserve as per IAS 19.

6. INVENTORIES

Inventories are broken down as follows:

€/000	31/12/2018	31/12/2017
- Raw materials, ancillary and consumables	37,269	28,541
- Work in progress and semi-finished goods	11,110	12,260
- Finished products and goods	51,218	44,485
- Provision for write-down of raw materials	(2,876)	(1,982)
- Provision for write-down of finished products and goods	(935)	(928)
Total	95,786	82,376

Recognised inventories are not pledged nor used as collateral.
The provision for write-downs corresponds to the amount that is deemed necessary to hedge existing inventory obsolescence risks calculated by writing down slow moving packages and finished products.
Inventories were also written down by €/000 344 to their estimated realisable value, which is lower than their average weighted cost.

The table below shows the changes in the provision for write-down of inventories during 2018:

€/000	31/12/2017	Allocations	Uses	31/12/2018
Provision for write-down of raw materials	1,982	992	(98)	2,876
Provision for write-down of finished products and goods	928	207	(200)	935
Total	2,910	1,199	(298)	3,811

7. TRADE RECEIVABLES

€/000	31/12/2018	31/12/2017
- Customers/Bills receivable	70,963	90,299
- Bad debt provision	(748)	(825)
Total	70,214	89,474

The balance of receivables due from customers is entirely composed of receivables due within the next 12 months.
The reduction in trade receivables is connected to revenue performance and a reduction in raw material prices, as detailed in the report on operations.

The table below shows the changes in the bad debt provision during 2017 and 2018:

€/000	31/12/2016 Restated	Allocations	Uses	31/12/2017
Bad debt provision	1,026	358	(559)	825

€/000	31/12/2017	Allocations	Uses	31/12/2018
Bad debt provision	825	134	(211)	748

8. RECEIVABLES DUE FROM OTHERS

The item is broken down as follows:

€/000	31/12/2018	31/12/2017
- Accrued income and prepaid expenses	146	136
- Receivables due from social security institutions	84	161
- Other receivables	1,481	2,138
- VAT receivables	2,328	168
Total	4,039	2,603

The item "Other receivables" is mainly linked to a bonus to be received on energy consumption for the year 2017, assigned by the Authority for electricity with the authorisation from the Ministry of Economic Development to the parent company IRCE S.p.A.
The increase in "VAT receivables" is related to the increase in VAT receivables for the parent company IRCE S.p.A., along with an increase in tax receivables for Brazilian PIS, COFINS and ICMS taxes, which are classified under the item VAT receivables for the Brazilian subsidiary IRCE Ltda.

9. CURRENT FINANCIAL ASSETS

€/000	31/12/2018	31/12/2017
- Mark to Market copper forward transactions	295	-
- Guarantee deposits	295	13
Total	590	13

The item "Mark to Market copper forward transactions" refers to the Mark to Market (fair value) of derivative contracts for the forward purchase and sale of copper on the LME outstanding as of 31/12/2018 of the parent company IRCE S.p.A.

10. CASH AND CASH EQUIVALENTS

This item includes bank deposits, cash and cash equivalents.

€/000	31/12/2018	31/12/2017
- Bank and postal deposits	6,158	7,736
- Cash and cash equivalents	861	16
Total	7,019	7,752

Outstanding bank and postal deposits are not subject to constraints or restrictions.

11. SHAREHOLDERS' EQUITY

Share capital

The share capital is composed of 28,128,000 ordinary shares worth € 14,626,560. The shares are fully subscribed and paid up and bear no rights, privileges or restrictions as far as dividend distribution and capital distribution, if any, are concerned.
In the year 2018, a dividend of €/000 1,333 (€ 0.05 per share) was distributed.

Here below is the breakdown of reserves:

€/000	31/12/2018	31/12/2017
- Own shares (share capital)	(788)	(734)
- Share premium reserve	40,539	40,539
- Own shares (share premium)	64	258
- Other reserves	45,924	45,924
- Foreign currency translation reserve	(22,624)	(18,343)
- Legal reserve	2,925	2,925
- Extraordinary reserve	34,486	32,277
- IAS 19 reserve	(1,071)	(1,304)
- Undistributed profits	11,714	11,897
Total	111,168	113,437

Own shares

This reserve refers to the par value and share premium of own shares held by the Company; they are recognised as a deduction from shareholders' equity.
Own shares as of 31 December 2018 amounted to 1,515,314 and corresponded to 5.39% of the share capital.

The number of shares outstanding at the beginning and at the end of the last two years is shown below:

Thousands of shares	
Balance as of 01/01/2017	**26,716**
Share buyback	-
Balance as of 31/12/2017	**26,716**
Share buyback	(104)
Balance as of 31/12/2018	**26,612**

Share premium reserve

This item refers to the higher issue value compared to the par value of IRCE S.p.A. shares issued at the time of the share capital increase when the Company was first listed on the stock exchange in 1996.

The item "Other reserves" refers mainly to:

- Merger surplus reserve (due to cancellation) which arose in the year 2001 following the merger of IRCE Cavi S.p.A. and Isolcable S.r.l. into IRCE S.p.A., amounting to €/000 6,621.
- Reserve of profits to be re-invested in Southern Italy totalling €/000 201.
- FTA reserve, which represents the offsetting item for all adjustments made to the financial statements in order to comply with IAS/IFRS as of 1 January 2004 (transition year), amounting to €/000 16,772.
- Revaluation reserve, as per Italian law no. 266/1995, amounting to €/000 22,328.

Foreign currency translation reserve

This reserve represents the value accounting differences which result from the foreign currency translation of the financial statements of the foreign subsidiaries Isomet AG, FD Sims Ltd, IRCE Ltda, Stable Magnet Wire P.Ltd, IRCE SP.ZO.O and IRCE Electromagnetic wire Co. Ltd by using the official exchange rate as of 31 December 2018.

Extraordinary reserve

The extraordinary reserve consists mainly of retained earnings of the Parent Company.

IAS 19 reserve

This reserve includes actuarial gains and losses accumulated as a result of the application of IAS 19 Revised. The change in the reserve is as follows:

balance as of 01/01/2017	(1,414)
Actuarial valuation	153
Tax effect on actuarial valuation	(43)
balance as of 31/12/2017	(1,304)
Actuarial valuation	294
Tax effect on actuarial valuation	(62)
balance as of 31/12/2018	(1.071)

Undistributed profits

The reserve for undistributed profits primarily refers to the subsidiaries' retained earnings.

The distribution of the reserves and profits of subsidiaries is not planned.

Profit for the year

The profit attributable to the Group, net of the portion attributable to non-controlling interests, totalled €/000 5876 (€/000 4,685 as of 31 December 2017).

SHAREHOLDERS' EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

Capital and reserves attributable to non-controlling interests

This amount refers to the portion of shareholders' equity of investees consolidated using the line-by-line method attributable to non-controlling interests.

Losses attributable to non-controlling interests

This represents the portion of loss for the year of investees consolidated using the line-by-line method attributable to non-controlling interests.

12. NON-CURRENT FINANCIAL LIABILITIES

€/000	Currency	Rate	Company	31/12/2018	31/12/2017	Due date
Banco Popolare	EUR	Floating	IRCE S.p.A	-	442	2019
Banco Popolare	EUR	Floating	IRCE S.p.A.	4,375	-	2023
Banca di Imola	EUR	Floating	IRCE S.p.A.	1,260	2,514	2020
CARISBO	EUR	Floating	IRCE S.p.A.	4,000	6,000	2020
Mediocredito Italiano	EUR	Floating	IRCE S.p.A.	5,077	-	2025
Banco Popolare	EUR	Floating	Isomet AG	2,321	3,011	2021
Total				17,033	11,967	

The table below shows the changes in non-current financial liabilities during 2018:

€/000	Rate	31/12/2017	Increase	Decrease	31/12/2018
Banco Popolare	IRCE S.p.A.	442	-	(442)	-
Banco Popolare	IRCE S.p.A.	-	4,375	-	4,375
Banca di Imola	IRCE S.p.A.	2,514	-	(1,254)	1,260
CARISBO	IRCE S.p.A.	6,000	-	(2,000)	4,000
Mediocredito Italiano	IRCE S.p.A.	-	5,077	-	5,077
Banco Popolare	Isomet AG	3,011	-	(690)	2,321
Total		11,967	9,452	(4,386)	17,033

Covenants

- Medium to long term financing totalling € 10 million was granted on 25 September 2015 by Carisbo S.p.A. This financing provides for repayment of capital in eight half-yearly instalments, for a fixed amount of € 1 million each, with the loan maturing on 25 September 2020. Financial covenants in the contract require compliance with a debt to equity ratio of not more than 0.65 (net financial position over net assets), and a debt coverage ratio of not less than 2.5 (adjusted EBITDA over financial charges), calculated on a consolidated basis and audited annually.
- Medium to long term financing totalling € 6 million was granted on 30 January 2018 by Mediocredito Italiano S.p.A. This financing provides for repayment of capital in thirteen half-yearly instalments, for a fixed amount of € 461,500 each, with the loan maturing on 30 January 2025. Financial covenants in

the contract require compliance with a debt to equity ratio of not more than 0.65 (net financial position over net assets), and a debt coverage ratio of not less than 2.5 (adjusted EBITDA over financial expenses), calculated on a consolidated basis and audited annually.

For the financial year ended 31 December 2018, the covenants were honoured.

13. PROVISIONS FOR RISKS AND CHARGES

Provisions for risks and charges are broken down as follows:

€/000	31/12/2017	Effect of IFRS 15	Allocations	Uses	31/12/2018
Provisions for risks and disputes	2,071	(1,404)	1,354	(422)	1,599
Provision for severance payments to agents	266	-	36	(8)	294
Total	2,337	(1,404)	1,390	(430)	1,893

The item 'Provisions for risks and disputes' refers to provisions of €/000 795 made by Dutch subsidiary Smit Draad Nijmegen BV for corporate restructuring costs, and provisions of €/000 356 for staff sick leave costs (again in reference to Dutch subsidiary Smit Draad Nijmegen BV). Both these items are classified in the income statement under personnel costs. The remaining €/000 203 relates to various disputes for parent company IRCE S.p.A. and subsidiary Isolveco SrL.
The item "Effect of IFRS 15" of €/000 1,404 refers to the reduction of the Parent Company IRCE SpA's provision for the risk of capital losses in relation to returns of packaging, since it was no longer needed following application of the new accounting standard.
Provision for severance payments to agents refers to allocations made for severance payments relating to outstanding agency contracts.

14. PROVISIONS FOR EMPLOYEE DEFINED BENEFITS

The table below shows the changes in the Provision for employee defined benefits.

€/000	31/12/2018	31/12/2017
Employee benefits provision as of 01/01	5,720	6,027
Financial charges	51	50
Actuarial (gains)/losses	(294)	(153)
Service cost	175	184
Payments	(386)	(288)
Effect of exchange rates	47	(100)
Provision for employee benefits as of 31/12	5,313	5,720

The Provision includes €/000 4,146 related to the Parent Company IRCE S.p.A., €/000 1,096 related to the subsidiary ISOMET AG, €/000 65 related to the subsidiary Isolveco SRL, and €/000 6 related to the subsidiary Isolveco 2 SRL.
The Provision for employee benefits is part of the defined benefit plans.
In order to determine the relevant liability, the Company used the Projected Unit Credit (PUC) cost method, which consists in the following:

- it projected up to the estimated future payment date the employee termination indemnity (TFR) accrued by each employee and reassessed as of the date of the financial statements;

- it calculated the probability-based TFR payments that the company will have to make in the event that the employee leaves the company following dismissal, resignation, disability, death and retirement, as well as in the event of advance payment requests;
- it discounted each probability-based payment at the measurement date.

Here below are the demographic assumptions used by the actuary in measuring the provision for employee benefits:

- death: RG48 mortality tables issued by the State General Accounting Department;
- disability: INPS tables based on age and gender;
- pension: 100% on reaching the requirements of the general compulsory insurance (AGO, Assicurazione Generale Obbligatoria).

For the Parent Company IRCE SpA, the following technical-economic assumptions were made:

	31/12/2018	31/12/2017
Annual discount rate	1.13%	0.88%
Annual inflation rate	1.50%	1.50%
Annual rate of increase of employee termination indemnities	2.625%	2.625%

The IBOXX Corporate AA index with a 7-10 year duration as of the measurement date was used as a benchmark for the discount rate.
The annual rate of increase of employee termination indemnities is equal to 75% of inflation, plus 1.5 percentage points.

Here below are the disclosures required by IAS 19
Sensitivity analysis of IRCE S.p.A.'s main measurement parameters:

€/000	DBO change as of 31/12/2017
Inflation rate +0.25%	4,199
Inflation rate -0.25%	4,093
Discount rate +0.25%	4,062
Discount rate -0.25%	4,233
Turnover rate +1%	4,124
Turnover rate -1%	4,170

Service cost: 0.00
Duration of the plan: 8.9
Sensitivity analysis of ISOMET AG's main measurement parameters:

€/000	DBO change as of 31/12/2017
Inflation rate -0.25%	1,122
Inflation rate +0.25%	1,068
Discount rate -0.25%	921
Discount rate +0.25%	1,258
Turnover rate -0.25%	1,153
Turnover rate +0.25%	1,038

2018 service cost with +0.25% discount rate: €/000 136
2018 service cost with +0.25% turnover rate: €/000 149

Duration of the plan: 17.5.

15. CURRENT FINANCIAL LIABILITIES

Financial liabilities are broken down as follows:

€/000	31/12/2018	31/12/2017
- Payables due to banks	49,931	49,824
- Mark to Market Derivatives	64	855
Total	49,995	50,679

The item "Mark to Market Derivatives" refers to the Mark to Market (Fair Value) measurement of USD and GBP forward contracts outstanding as of 31/12/2018 of the Parent Company IRCE S.p.A.

With regard to financial liabilities, the overall **net financial position** of the Group, calculated in accordance with the provisions of Consob Communication 6064293 dated 28 July 2006 and CESR recommendation dated 10 February 2005, was as follows:

€/000	31/12/2018	31/12/2017
Cash	7,019	7,752
Other current financial assets*	295*	13
Liquid assets	**7,314**	**7,765**
Current financial liabilities	(49,995)	(49,914)*
Net current financial debt	**(42,681)**	**(42,149)**
Non-current financial liabilities	(17,033)	(11,967)
Non-current financial debt	**(17,033)**	**(11,967)**
Net financial debt	**(59,714)**	**(54,116)**

* These items differ from the corresponding items of the statement of financial position, since the fair value measurement of copper forward contracts is not included.

16. TRADE PAYABLES

Trade payables are all due in the next 12 months.
As of 31/12/2018 they totalled €/000 16,212, compared to the €/000 24,688 as of 31/12/2017.
Trade payables decreased mainly due to the lower amount of copper purchased in the last months of the year.

17. TAX PAYABLES

The item is broken down as follows:

€/000	31/12/2018	31/12/2017
- Payables due for income taxes	1,026	1,518
Total	1,026	1,518

18. SOCIAL SECURITY CONTRIBUTIONS

This item, equal to €/000 1,964 as of 31/12/2018, primarily referred to IRCE S.p.A.'s payables for social security contributions due to INPS.

19. OTHER CURRENT LIABILITIES

Other payables are broken down as follows:

€/000	31/12/2018	31/12/2017
- Payables due to employees	3,668	3,598
- Deposits received from customers	1,617	1,743
- Accrued liabilities and deferred income	353	343
- Other payables	861	795
- VAT payables	590	1,082
- Employee IRPEF (personal income tax) payables	477	453
Total	7,566	8,014

"Deposits received from customers" refers to deposits for packages which will be credited back to customers when they return the packages.

COMMENT ON THE MAIN ITEMS OF THE CONSOLIDATED INCOME STATEMENT

20. SALES REVENUES

These refer to revenues from the sale of goods, net of returns, rebates and the return of packages. Consolidated turnover in 2018, equal to €/000 355,404, was down 0.48% compared to the previous year (€/000 357,126). For additional details, refer to the previous paragraph on segment reporting.

21. OTHER INCOME

Other income was broken down as follows:

€/000	31/12/2018	31/12/2017	change
- Increases in internally generated fixed assets	217	189	28
- Capital gains on disposals of assets	23	60	(37)
- Insurance reimbursements	54	27	27
- Contingent assets	50	71	(21)
- Other revenues	657	345	312
Total	1,001	692	309

22. COSTS FOR RAW MATERIALS AND CONSUMABLES

This item, equal to €/000 284,743, includes costs incurred for the acquisition of raw materials, of which the most significant are those represented by copper, insulating materials and materials for packaging and maintenance, net of the change in inventories (€/000 7,883).

23. COSTS FOR SERVICES

These include costs incurred for the supply of services pertaining to copper processing as well as utilities, transportation, commercial and administrative services, and the costs for the use of third-party goods, as detailed below:

€/000	31/12/2018	31/12/2017	change
- External processing	5,283	5,397	(114)
- Utility expenses	10,960	14,212	(3,252)
- Maintenance	1,834	1,797	37
- Transportation expenses	4,757	4,791	(34)
- Payable fees	303	256	47
- Compensation of Statutory Auditors	68	74	(6)
- Other services	5,250	5,776	(526)
- Costs for the use of third-party goods	313	277	36
Total	28,768	32,580	(3,812)

The item "other services" includes primarily technical, legal and tax consulting fees as well as insurance and business expenses.

The saving in "Utility expenses" was due to lower costs incurred by the Parent Company IRCE S.p.A. for energy consumption, thanks to contributions for energy-intensive businesses. As from 1 January 2018, a new incentive system in favour of energy-intensive businesses has come into force (Ministerial decree of 21 December 2017), where the facilitation conditions and means of application are redefined. The contribution envisages a saving directly on the supplier's invoice, with the annulment of the ASOS (General costs in support of renewable energy and CHP) component on the invoice.

24. PERSONNEL COSTS

Here below is the breakdown of personnel costs:

€/000	31/12/2018	31/12/2017	change
- Salaries and wages	21,728	22,029	(301)
- Social security charges	5,694	5,581	113
- Retirement costs for defined-contribution plans	1,470	1,441	29
- Other costs	3,465	2,712	753
Total	32,357	31,763	594

The item "Other costs" includes costs for temporary work, contract work, and the compensation of Directors; the item also includes €/000 944 in relation to corporate restructuring programme costs for Dutch subsidiary Smit Draad Nijmegen BV.

The Group's average number of personnel for the year and the current number at year-end is shown below:

Personnel	2018 Average	31/12/2018	31/12/2017
- Executives	23	23	22
- White collars	162	159	168
- Blue collars	545	541	534
Total	730	723	724

The average number of employees is calculated according to the Full-Time Equivalent method and includes both internal and external (temporary and contract) staff.

Personnel is classified according to the type of employment contract.

25. DEPRECIATION/AMORTISATION AND IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS

Here is the breakdown of depreciation/amortisation:

€/000	31/12/2018	31/12/2017	change
- Amortisation of intangible assets	104	96	8
- Depreciation of tangible assets	6,751	6,299	452
- Write-down of goodwill of Smit Draad Nijmegen BV	-	1,531	(1,531)
Total amortisation/depreciation and write-downs	6,855	7,926	(1,071)

26. PROVISIONS AND WRITE-DOWNS

Provisions and write-downs are broken down as follows:

€/000	31/12/2018	31/12/2017	change
- Write-downs of receivables	134	195	(61)
- Credit losses	219	-	219
- Provisions for risks	203	358	(155)
Total provisions and write-downs	556	553	3

27. OTHER OPERATING COSTS

Other operating costs are broken down as follows:

€/000	31/12/2018	31/12/2017	change
- Non-income taxes and duties	904	800	104
- Capital losses and contingent liabilities	124	107	17
- Other costs	166	326	(160)
Total	1,194	1,233	(39)

The item 'Non-income taxes and duties' mainly consists of non-deductible taxes for Brazilian subsidiary IRCE Ltda.

28. FINANCIAL INCOME AND CHARGES

Financial income and charges are broken down as follows:

€/000	31/12/2018	31/12/2017	change
- Other financial income	3,742	1,682	2,060
- Interest and other financial charges	(1,084)	(2,734)	1,650
- Foreign exchange gains/(losses)	39	(683)	722
Total	2,697	(1,735)	4,432

Here below is the breakdown of "Other financial income":

€/000	31/12/2018	31/12/2017	change
- Interest income from banks	5	5	-
- Interest income on receivables due from customers	4	5	(1)
- Income from LME derivatives	2,456	-	2,456
- Other financial income	1,277	1,672	(395)
Total	3,742	1,682	(2,060)

The item "Income from LME derivatives" refers to the closing and Mark to Market (fair value) measurement of copper derivative contracts of the parent company IRCE S.p.A.

"Other financial income" refers mainly to the Brazilian subsidiary IRCE LTda and concerns interest income on extended payment terms granted to customers due to the use of factoring.

Here below is the breakdown of "Interest and other financial charges":

€/000	31/12/2018	31/12/2017	change
- Interest expense for short-term payables	22	70	(48)
- Interest expense for medium to long-term payables	121	90	31
- Sundry interest expense	853	610	243
- Bank fees and expenses	88	49	39
- Charges on LME derivatives	-	1,915	(1,915)
Total	1,084	2,734	(1,650)

The item "Sundry interest expense" refers primarily to the charges related to the non-recourse discount of IRCE Ltda trade receivables and to the interest cost deriving from discounting the Employee Termination Indemnity, pursuant to IAS 19, of the parent company IRCE S.p.A.

29. INCOME TAXES

€/000	31/12/2018	31/12/2017	changes
- Current taxes	(3,750)	(2,820)	(930)
- Deferred tax assets/(liabilities)	(641)	(724)	83
Total	(4,391)	(3,544)	(847)

30. EARNINGS PER SHARE

As required by IAS 33, here below are the disclosures on the data used to calculate basic and diluted earnings per share.

For the purposes of calculating the basic earnings per share, the profit or loss for the period less the portion attributable to non-controlling interests was used as the numerator. In addition, it should be noted that there were no preference dividends, settlements of preference shares, and other similar effects to be deducted from the profit or loss attributable to the ordinary equity holders. The weighted average number of ordinary shares outstanding was used as the denominator; this figure was calculated by deducting the average number of own shares held during the period from the overall number of shares composing the share capital.

Basic and diluted earnings per share were equal, as there are no ordinary shares that could have a dilutive effect and no shares or warrants that could have a dilutive effect will be exercised.

	31/12/2018	31/12/2017
Net profit/(loss) for the period	5,875,885	4,685,238
Average weighted number of ordinary shares outstanding	26,612,686	26,716,226
Basic earnings/(loss) per share	0.221	0.175
Diluted earnings/(loss) per share	0.221	0.175

31. RELATED PARTY DISCLOSURES

In compliance with the requirements of IAS 24, the annual compensation received by the members of IRCE S.p.A.'s Board of Directors is shown below:

€/000	Compensation for the office held	Compensation for other tasks	Total
Directors	251	334	585

This table shows the compensation paid for any reason and in any form, excluding social security contributions.
Following the introduction of Article 123-ter of the Consolidated Financial Act, further details on these amounts are provided in the Remuneration Report, which will be made available within the time limits prescribed by the law at the registered office of the Company, as well as on the website www.irce.it.

32. COMMITMENTS

As of the reporting date there are no Group's commitments, with the exception of operating lease contracts for the amount of approximately € 0.3 million.

33. FINANCIAL RISK MANAGEMENT

The Group's principal risks and uncertainties, as well as risk management policies, are detailed below:

Market risk

The Group is strongly concentrated on the European market; the risk of major contractions in demand or of worsening of the competitive scenario may significantly impact the results. To address these risks, the medium-term strategy of the Group focuses on geographic diversification in non-EU and Asian countries, with a constant recovery of margins in the Group's structure.

Risk associated with changes in financial and economic variables

- *Exchange rate risk*
  The Group primarily uses the Euro as the reference currency for its sales transactions. It is exposed to exchange rate risks in relation to its copper purchases, which it partly carries out in dollars; it hedges such transactions using forward contracts. It is also exposed to foreign currency translation risks for its investments in Brazil, the UK, India, Switzerland, Poland and China.
  As for the foreign currency translation risk, the Group believes this risk mainly concerns the investment in Brazil due to the high volatility of the Real, which affects the investment's carrying amount. During 2018, the Brazilian currency depreciated by about 12% since the beginning of the year, with a significant recovery in the last quarter.

Here below is a sensitivity analysis that shows the hypothetical accounting effects on the Group's statement of financial position, simulating a +5% (further depreciation of the Real) -5% (recovery of the Real) change in the EUR/BRL exchange rate compared to 31 December 2018 (4.444 EUR/BRL):

Consolidated statement of financial position data €/million	31/12/2018	Change in EUR/BRL exchange rate +5% Change	-5% Change
Non-current assets	55.35	(0.65)	0.72
Current assets	177.65	(1.23)	1.36
TOTAL ASSETS	233.00	(1.88)	2.08
Total Shareholders' Equity	131.30	(1.79)	1.97
Non-current liabilities	24.94	0.00	0.00
Current liabilities	76.76	(0.09)	0.11
TOTAL LIABILITIES	233.00	(1.88)	2.08

- *Interest rate risk*
The Group obtains short and medium/long-term bank financing at floating rates. The risk of wide fluctuations in interest rates is not considered significant and therefore the Group does not implement special hedging policies.

Here below is a sensitivity analysis showing the effects on the result, simulating a +/- 25 basis points change in interest rates:

Consolidated income statement data €/million	Year 2018	Change in interest rates +25 bps Change	-25 bps Change
Turnover	355.40	-	-
EBITDA	14.96	-	-
EBIT	7.54	-	-
Net profit	5.88	(0.11)	0.11

- *Risks related to fluctuations in prices of raw materials*
The main raw material used by the Group is copper. The changes in its price can affect margins as well as financial requirements. In order to mitigate the potential effect on margins of changes in the price of copper, the Group implements a hedging policy using forward contracts on the positions generated by operating activities. The average Euro per Kg copper price for 2018 has shown an increase of 1.23% as compared to the same figure for 2017.

A sensitivity analysis is provided below which shows the effects on the turnover and profit/loss of the Group by simulating a change in the copper price of +/- 5% versus the average LME price in 2018:

Consolidated income statement data €/million	Year 2018	Change in the price of copper +5% Change	-5% Change
Turnover	355.40	13.50	(13.50)
EBITDA	14.96	3.06	(2.57)
EBIT	7.54	3.06	(2.57)

Financial risks
These are risks associated with financial resources.

- *Credit risk*
  There are no significant concentrations of credit risk. The Group monitors this risk using adequate assessment and lending procedures with respect to each credit position. Selected insurance policies are taken out in order to limit insolvency risk.

- *Liquidity risk*
  Based on its financial situation, the Group rules out the possibility of difficulties in meeting obligations associated with liabilities. The limited use of credit lines suggests that liquidity risk is not significant.

  Comparative data as of 31 December 2017 and 2018 regarding financial assets and liabilities and the composition of payables is shown below:

Consolidated financial data €/million	Cash	Finimport and self-liquidating lines	Medium to long-term loan	Total
Total assets as of 31/12/2017	7.75	108.00	11.97	127.72

Consolidated financial data €/million	Within 1 year	From 1 to 5 years	Over 5 years	Total
Financial liabilities	53.18	9.77		62.95
Commitments	0.05	0.20		0.25
Trade payables and other payables	34.29	3.46	3.43	41.18
Total debt by expiry date	87.52	13.43	3.43	104.38

Consolidated financial data €/million	Cash	Finimport and self-liquidating lines	Medium to long-term loan	Total
Total assets as of 31/12/2018	7.02	116.50	22.28	145.80

Consolidated financial data €/million	Within 1 year	From 1 to 5 years	Over 5 years	Total
Financial liabilities	53.34	19.60		72.94
Commitments	0.08	0.22		0.30
Trade payables and other payables	26.69	3.07	3.19	32.94
Total debt by expiry date	80.11	22.89	3.19	106.18

  The table does not include copper purchase commitments, as this is a commodity quoted on the LME market easily disposed of.

As of 31 December 2018, the financial statements included cash for € 7.02 million, trade receivables for € 70.21 million and inventories for € 95.79 million.

34. MANAGEMENT OF TRADE RECEIVABLES

Here below is the breakdown of receivables by internal rating.
The classification of receivables takes into account any positions subject to renegotiation.

Risk level	2018 Exposure, €/000	2017 Exposure, €/000
Low	42,691	27,073
Medium	19,720	47,557
Above-average	7,439	14,047
High	1,113	1,622
Total	70,963	90,299

Due date	2018 Exposure, €/000	2017 Exposure, €/000
Not yet due	67,713	86,342
< 30 days	1,477	1,063
31-60	416	1,078
61-90	126	68
91-120	56	39
> 120	1,175	1,709
Total	70,963	90,299

The Fair Value of trade receivables corresponds to their nominal exposure.
The bad debt provision, equal to €/000 748, refers to the range between 91-120 and > 120 days and to the above-average and high risk level.
Please note that there are no clients generating revenue for the Group that exceeds 10% of total revenue.

35. CAPITAL RISK MANAGEMENT

The primary objective in managing the Group's capital is to maintain a solid credit rating and adequate capital ratios in order to support operations and maximise shareholder value.

€/000	31/12/2018	31/12/2017
Net financial debt (A)	59,714	54,116
Shareholders' equity (B)	131,296	132,399
Total capital (A) + (B) = (C)	191,010	186,515
Gearing ratio (A) / (C)	31%	29%

36. FINANCIAL INSTRUMENTS

Here below is a comparison between the carrying amount and fair value of all the Group's financial instruments broken down by category:

€/000	Carrying amount		Fair value	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Financial assets				
Cash and cash equivalents	7,019	7,752	7,019	7,752
Other financial assets	590	13	590	13
Financial liabilities				
Current loans	49,995	50,679	49,995	50,679
Non-current loans	17,033	11,967	17,033	11,967
Other financial liabilities				

37. DISCLOSURE PURSUANT TO ARTICLE 149-DUODECIES OF CONSOB ISSUERS' REGULATIONS

The following statement, drafted in accordance with Article 149-duodecies of Consob Issuers' Regulations, shows the compensation for 2018 for auditing services and for other services, including expenses, supplied by the independent auditor or by entities belonging to its network to the Group's companies.

€/000	Entity supplying the service		Recipient	Compensation for the year 2018
Auditing services	PricewaterhouseCoopers	Euro	IRCE S.p.A	121
Auditing services	PricewaterhouseCoopers	Euro	Foreign subsidiaries	88

38. INFORMATION ON LAW NO. 124/2017

During the financial year, parent company IRCE S.p.A. received a subsidy from the Italian Government's State Aid Register in relation to the year 2016. A benefit was also received through reduced general system charges for 'energy-intensive' companies based on law no. 167/2017, with charges reduced by an amount of € 3,845,041.15 split over the manufacturing plants as follows:
IMOLA (BO) € 2,758,740
UMBERTIDE (PG) € 709,316
GUGLIONESI (CB) € 335,826
MIRADOLO TERME (PV) € 41,159

39. NON-RECURRING CHARGES

Non-recurring charges of €/000 944 related to corporate restructuring programme costs for Dutch subsidiary Smit Draad Nijmegen BV.

40. STATEMENT OF RECONCILIATION OF SHAREHOLDERS' EQUITY AND CONSOLIDATED RESULT WITH THE CORRESPONDING FIGURES OF THE PARENT COMPANY

In accordance with Consob Communication dated 28 July 2006, here below is the reconciliation between the result for the year and shareholders' equity of the Group as of 31 December 2017 and 2018 with the corresponding amounts in the Parent Company separate financial statements:

	31 december 2018		31 december 2017	
€/000	**Shareholders' equity**	**Result**	**Shareholders' equity**	**Result**
Shareholders' equity and result for the year as per the parent Company's financial statement	**149,249,941**	**7,902,954**	**144,178,440**	**4,864,229**
Cancellation of book value of consolidated equity investments				
a) difference between book value and pro-rata value of shareholders' equity	2,276,567	-	1,227,554	-
b) investees' pro-rata results	(3,354,456)	(3,354,456)	343,566	343,566
c) Goodwill	-	-	-	(1,531,387)
d) Reversal of gains / losses on foreign currency loans interco	5,256,057	57,831	5,015,667	240,39
Reversal of write-down of equity investments in subsidiaries	1,586,542	1,586,542	523,658	523,658
Reversal of provision for bad debts towards subsidiary companies	1,404,921		1,817,533	412,612
IRCE Kablo ve Tel winding up			(211,423)	(211,423)
Financial statements change in foreign currency	(22,624,294)	-	(18,343,260)	-
Write-off of capital gains from disposal of intra-group assets	(172,184)	(108,719)	(63,465)	14,288
Reversal of deferred tax	(1,540,665)	(57,923)	(1,502,944)	(12,839)
Write-off of unrealized intra-group margin	(231,516)	4,649	(236,165)	(35,125)
Group shareholders' equity and result for the year	**131,670,916**	**5,850,876**	**132,749,164**	**4,607,968**
Shareholders' equity and result for the year attributable to non-controlling interests	(375,091)	25,006	(350,085)	77,270
Consolidated shareholders' equity and net result	**131,295,825**	**5,875,885**	**132,399,079**	**4,685,238**

41. EVENTS AFTER THE REPORTING DATE

No significant events occurred between 1 January 2019 and the date of preparation of these financial statements.

Attachment 1

List of equity investments held by Directors, Statutory Auditors as well as their spouses and underage children

SURNAME AND NAME	INVESTEE COMPANY	NO. OF SHARES OWNED AS OF 31/12/2017	NO. OF SHARES ACQUIRED	NO. OF SHARES SOLD	NO. OF SHARES OWNED AS OF 31/12/2018
Casadio Filippo	IRCE S.p.A.	561,371			561,371
Gandolfi Colleoni Francesco	IRCE S.p.A.	559,371 (*) 30,000			559,371 (*) 30,000
Sepriano Gianfranco	IRCE S.p.A.	3,500			3,500
Pischedda Francesca	IRCE S.p.A.	0			0
Dallago Orfeo	IRCE S.p.A.	587,267			587,267
Gigliola Di Chiara	IRCE S.p.A.	0			0
Fabio Senese	IRCE S.p.A.	0			0
Donatella Vitanza	IRCE S.p.A.	0			0
Adalberto Costantini	IRCE S.p.A.	0			0

(*) Shares owned by his wife, Carla Casadio

Attachment 2

Certification of the annual consolidated financial statements pursuant to Article 154-bis, paragraph 5, of Italian Legislative Decree no. 58 of 24 February 1998:

We, the undersigned, Mr Filippo Casadio, Chairman, and Ms Elena Casadio, Manager responsible for preparing the corporate accounting documents of IRCE S.p.A., hereby certify, taking into account the provisions of Article 154-bis, paragraph 5, of Italian Legislative Decree No. 58 of 24 February 1998:

- the adequacy in relation to the company's characteristics, and
- the effective implementation

of the administrative and accounting procedures used to prepare the consolidated financial statements.

In addition, we hereby certify that the consolidated financial statements:

a) are consistent with accounting books and records;
b) are prepared in accordance with international accounting standards and give a true and fair view of the financial position, financial performance and cash flows of the issuer as well as of the group of companies included within the scope of consolidation; and
c) that the Report on Operations contains a reliable analysis of the information pursuant to paragraph 4, Article 154-ter of Italian Legislative Decree no. 58 of 24 February 1998.

Imola, 15 March 2019

Filippo Casadio
Chairman

Elena Casadio
Manager responsible for preparing the corporate accounting documents

IRCE S.P.A.'S FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

STATEMENT OF FINANCIAL POSITION

(In Euro)

ASSETS	Notes	31.12.2018	31.12.2017
NON-CURRENT ASSETS			
Intangible assets	1	4,000	232,638
Property, plant and equipment	2	20,083,550	18,798,652
Equipment and other tangible assets	2	834,898	896,430
Assets under construction and advances	2	2,268,614	2,054,890
Non-current financial assets and receivables	3	18,362,610	16,121,447
(of which: related parties)		*18,362,442*	*16,121,279*
Equity investments	3	75,428,418	75,358,415
Non-current tax receivables	4	811,582	811,582
Receivables for deferred tax assets	5	1,446,626	938,840
TOTAL NON-CURRENT ASSETS		**119,240,298**	**115,212,894**
CURRENT ASSETS			
Inventories	6	67,348,039	58,477,053
Trade receivables	7	44,200,660	60,429,895
Receivables due from subsidiaries	8	8,990,006	6,925,390
Receivables due from others	9	1,828,847	986,904
Current financial assets	10	589,977	13,180
Cash and cash equivalents	11	1,126,482	1,505,585
TOTAL CURRENT ASSETS		**124,084,011**	**128,338,007**
TOTAL ASSETS		**243,324,309**	**243,550,901**

SHAREHOLDERS' EQUITY AND LIABILITIES	Notes	31.12.2018	31.12.2017
SHAREHOLDERS' EQUITY			
SHARE CAPITAL	12	14,626,560	14,626,560
RESERVES	12	126,720,427	124,687,651
PROFIT FOR THE PERIOD	12	7,902,954	4,864,229
TOTAL SHAREHOLDERS' EQUITY		**149,249,941**	**144,178,440**
NON-CURRENT LIABILITIES			
Non-current financial liabilities	13	14,711,925	8,956,071
Provisions for risks and charges	14	7,631,162	8,341,069
Provisions for employee benefits	15	4,145,929	4,481,949
TOTAL NON-CURRENT LIABILITIES		**26,489,016**	**21,779,089**
CURRENT LIABILITIES			
Current financial liabilities	16	46,331,817	45,872,884
Trade payables	17	12,466,922	21,036,250
Payables due to subsidiaries	18	1,023,308	1,854,850
Tax payables	19	1,004,117	1,452,220
(of which: related parties)		*185,668*	-
Social security contributions	20	1,726,811	1,839,840
Other current liabilities	21	5,032,377	5,537,328
TOTAL CURRENT LIABILITIES		**67,585,352**	**77,593,372**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**243,324,309**	**243,550,901**

INCOME STATEMENT

(In Euro)

	Notes	31.12.2018	31.12.2017
Sales revenues	22	233,059,112	233,801,883
(of which: related parties)		*9,263,181*	*10,940,962*
Other income	23	663,637	575,622
(of which: related parties)		*166,832*	*157,038*
TOTAL REVENUES		**233,722,749**	**234,377,505**
Costs for raw materials and consumables	24	(183,929,158)	(183,560,466)
(of which: related parties)		*(1,613,149)*	*(4,974,647)*
Change in Inventories of work in progress and finished goods		2,665,716	4,537,747
Costs for services	25	(20,836,201)	(24,325,048)
(of which: related parties)		*(999,682)*	*(863,364)*
Personnel costs	26	(17,531,987)	(16,974,220)
Depreciation/amortisation	27	(2,940,072)	(2,632,420)
Provisions and write-downs	28	(229,692)	(934,924)
Other operating costs	29	(455,581)	(441,388)
EBIT		**10,465,774**	**10,046,786**
Write-down of equity investments	30	(1,586,541)	(602,559)
Financial income/(charges)	31	2,175,772	(2,197,797)
(of which: related parties)		*(83,622)*	*(84,528)*
PROFIT BEFORE TAX		**11,055,005**	**7,246,430**
Income taxes	32	(3,152,050)	(2,382,201)
PROFIT FOR THE PERIOD		**7,902,955**	**4,864,229**

STATEMENT OF COMPREHENSIVE INCOME	31.12.2018	31.12.2017
€/000		
PROFIT/(LOSS) FOR THE PERIOD	**7,903**	**4,864**
Re-determination of defined-benefit plans	93	14
Tax effect	(22)	(3)
Total other gains/(losses), net of the tax effect, that will not be subsequently reclassified to profit/(loss) for the period	**71**	**11**
Total other gains/(losses) for the period	**7,974**	**4,875**

STATEMENT OF CHANGES IN EQUITY

	Share capital		Other reserves			Ret a ined earnings					
€/000	Share capital	Own shares	Share premium reserve	Own shares (shares premium)	Other reserves	Legal reserve	Extraordinary reserve	Unidivided profit	Reserve IAS 19	Result for the period	Total
Balance as of 31 december 2016	**14,627**	**(734)**	**40,539**	**258**	**43,087**	**2,925**	**32,389**	**6,462**	**(697)**	**1,251**	**140,105**
Result for the period										4,864	4,864
Other comprehensive profit / (loss)									11		11
Total profit / (loss) from statement of comprehensive income									**11**	**4,864**	**4,875**
Allocation of the result of the previous year							1,251			(1,251)	
Dividends							(801)				(801)
Sell/purchase own shares											0
Balance as of 31 december 2017	**14,627**	**(734)**	**40,539**	**258**	**43,087**	**2,925**	**32,839**	**6,462**	**(686)**	**4,864**	**144,178**
Principles Change (IFRS 15)*							(1,322)				
Balance as of 01 January 2018	**14,627**	**(734)**	**40,539**	**258**	**43,087**	**2,925**	**31,517**	**6,462**	**(686)**	**4,864**	**142,859**
Result for the period										7,903	7,903
Other comprehensive profit / (loss)									71		71
Total profit / (loss) from statement of comprehensive income									**71**	**7,903**	**7,974**
Allocation of the result of the previous year							4,864			(4,864)	
Dividends							(1,333)				(1,333)
Sell/purchase own shares		(54)		(194)							(248)
Balance as of 31 december 2018	**14,627**	**(788)**	**40,539**	**64**	**43,087**	**2,925**	**35,047**	**6,462**	**(615)**	**7,903**	**149,250**

With regard to the items of shareholders' equity, please refer to note 12.

*With effect from 1 January 2018, the company adopted IFRS 15, choosing not to restate the comparative figures for 2017, as allowed by the standard. The effects of application of the new standard are detailed in the paragraph "Accounting standards".

STATEMENT OF CASH FLOWS	Notes	31.12.2018	31.12.2017
€/000			
OPERATING ACTIVITIES			
Profit for the year		**7,903**	**4,864**
Adjustments for:			
Depreciation/amortisation	27	2,940	2,632
Net change in (assets) / provisions for deferred tax (assets) liabilities	5	4	174
Capital (gains)/losses from the realisation of fixed assets		69	(54)
(Profit)/loss on unrealised exchange rate differences		(14)	38
Current taxes	32	3,171	2,212
Financial (income)/charges	31	(2,418)	1,920
Operating profit/(loss) before changes in working capital		**11,654**	**11,786**
Taxes paid		(3,594)	(562)
Interest paid	31	(226)	(2,129)
Interest received	31	2,644	210
Decrease/(increase) in inventories	6	(7,977)	(7,480)
Change in trade receivables	7	12,098	(12,747)
Change in trade payables	17	(8,569)	610
Net change in other current assets and liabilities for the period		(1,471)	2,101
Net change in other current assets and liabilities of the year with respect to related parties		(2,898)	(1,482)
Net change in non-current assets and liabilities for the period		358	451
Net change in non-current assets and liabilities of the year with respect to related parties		(2,310)	(4,148)
CASH GENERATED FROM OPERATING ACTIVITIES		**(291)**	**(13,390)**
INVESTING ACTIVITIES			
Investments in intangible assets	1	(8)	(87)
Investments in tangible assets	2	(4,557)	(3,540)
Consideration received for the sale of tangible and intangible assets		347	69
CASH GENERATED FROM/USED IN INVESTING ACTIVITIES		**(4,218)**	**(3,558)**
FINANCING ACTIVITIES			
Increase in financing	13	9,452	-
Decrease in financing	13	(3,696)	(5,012)
Net change in short-term financial payables	16	459	23,159
Change in current financial assets	10	(577)	531
Dividends paid		(1,333)	(802)
Changes with effects on shareholders' equity	12	72	11
Management of own shares (sales-purchases)		(247)	-
CASH GENERATED FROM/USED IN FINANCING ACTIVITIES		**4,130**	**17,886**
NET CASH FLOW FOR THE PERIOD		**(379)**	**938**
CASH BALANCE AT THE BEGINNING OF THE PERIOD	11	1,506	567
COMPREHENSIVE NET CASH FLOW FOR THE PERIOD		(379)	938
CASH BALANCE AT THE END OF THE PERIOD	11	1,127	1,506

ACCOUNTING STANDARDS AND EXPLANATORY NOTES TO THE SEPARATE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

GENERAL INFORMATION

These annual financial statements as of 31 December 2018 were authorised for publication by the Board of Directors on 15 March 2019.
IRCE S.p.A. (henceforth also referred to as the "Company") is a company incorporated under the law of the Italian Republic and has its registered office in via Lasie 12/a, Imola (Italy), Economic & Administrative Index No. 266734 BO 001785.
IRCE S.p.A. owns four manufacturing plants and is one of the major industrial players in Europe in winding wires, as well as in low-voltage electrical cables in Italy.
Its plants are located in Imola (Bologna), Guglionesi (Campobasso), Umbertide (Perugia), and Miradolo Terme (Pavia).

BASIS OF PREPARATION

The annual financial statements for the year 2018 were prepared in accordance with the IFRSs (International Financial Reporting Standards) issued by the IASB (International Accounting Standards Board) and endorsed by the European Union. The term IFRS also refers to all revised International Accounting Standards ("IAS") and all interpretations of the International Financial Reporting Interpretations Committee (IFRIC), including those previously issued by the Standing Interpretations Committee (SIC).

The formats used for the financial statements have been prepared in accordance with the provisions of IAS 1; in particular:
- the statement of financial position was drafted by presenting current and non-current assets, and current and non-current liabilities, as separate classifications;
- the income statement was drafted by classifying the items by nature;
- the statement of cash flows was drafted, in accordance with IAS 7, by classifying cash flows during the period into operating, investing and financing activities. Cash flows from operating activities were presented using the indirect method.

ASSESSMENT CRITERIA AND ACCOUNTING STANDARDS APPLIED

Below is a brief description of the most significant accounting standards and assessment criteria used in preparing the Separate Financial Statements.

Foreign currency translation of financial statement items

The functional and presentation currency adopted by IRCE S.p.A. is the Euro. The following criteria were used:
- monetary items, consisting of money held and assets or liabilities to be received or paid, were translated using the spot exchange rate at the reporting date, and the relevant exchange gains and losses were recognised in the income statement;
- non-monetary items measured at their historical cost in a foreign currency were translated using the spot exchange rate at the date on which the transaction occurred;
- fixed assets, such as loans in foreign currencies, are recognised at the spot exchange rate at their acquisition date and translated into the functional currency using the spot exchange rate at the reporting date. However, the differences deriving from these loans are not recognised in the income statement, but are directly recognised in equity until the investment is disposed of.

Tangible assets

Tangible assets are measured at their purchase cost after deducting discounts and rebates, or at the construction cost, including directly attributable costs less any accumulated depreciation and accumulated impairment losses.
At the time of the transition to the IFRSs, certain elements of the items "land and buildings" and "industrial machinery and equipment" were measured by adopting the re-determined value, which was equal to the fair value at the date of the transition to the IFRSs. This value was then used as the deemed cost at the transition date, generating an FTA – First Time Adoption reserve.
The carrying amount of tangible assets is tested for impairment if events or changes in circumstances indicate that it might be impaired. If there is any such indication, and the asset's carrying amount exceeds its recoverable amount, the asset is written down to this lower value. The recoverable amount of tangible assets is the higher of net price to sell and value in use.

Depreciation, in compliance with IFRS requests, is calculated by using the straight-line method and on the basis of rates which reflect the estimated useful life of the assets to which they refer.
Costs incurred after the acquisition are only capitalised if they result in an increase in the intrinsic future economic benefits of the asset to which they refer; if this is not the case, they are recognised as an expense when incurred.
On disposal, or when no future economic benefits are expected from the use of an asset, this is derecognised from the financial statements and any gain or loss (calculated as the difference between the disposal value and the carrying amount) is recognised in profit or loss in the year the asset is derecognised.

Land, including that ancillary to buildings, is not depreciated.

Assets under construction and advances paid for the acquisition of tangible assets are measured at cost. Amortisation begins when the asset is available and ready for use, and assets are allocated to a specific category from the same date.

Depreciation was calculated on the basis of rates that were deemed representative of the estimated useful life of the relevant tangible assets. The rates applied on an annual basis are included in the following ranges:

Buildings	3.0% - 10.0%
Plant and equipment	7.5% - 17.5%
Industrial and commercial equipment	25.0% - 40.0%
Other assets	12.0% - 25.0%

Intangible assets

Intangible assets are recognised under assets, in accordance with the provisions of IAS 38 (Intangible Assets) when it is probable that the use of the asset will generate future economic benefits and when the cost of the asset can be determined in a reliable manner.
Intangible assets which are acquired separately are initially capitalised at cost while those which are acquired through business combination transactions are capitalised at their fair value on their acquisition date. After initial recognition, intangible assets are measured at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangible assets, with the exception of development costs, are not capitalised and are recognised in profit or loss as incurred. The Company capitalises development costs only when there is reasonable certainty they will be recovered. The useful life of intangible assets is either finite or indefinite. Intangible assets with a finite useful life are amortised over their useful life and tested for impairment whenever there is an indication of a potential impairment loss. The amortisation period and the amortisation method applied are reviewed at the end of each financial year or more frequently, if necessary. Changes in the expected useful life, or in the manner the Group obtains the future economic benefits associated with the intangible asset, are recognised by modifying the amortisation period or the amortisation method and treated as changes in accounting estimates. The amortisation charges for intangible assets with finite useful lives are recognised in profit or loss within the cost category that is consistent with the function of the intangible asset.
IRCE S.p.A. did not recognise intangible assets with an indefinite useful life.

Gains or losses arising from the disposal of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the intangible asset, and are recognised in profit or loss when the fixed asset is disposed of.
A description of intangible assets and the amortisation method used is shown in the following table.

Asset	Useful life	Rate	Internally produced or acquired	Impairment test
Patent and intellectual property rights	Finite	50%	Acquired	Review of the amortisation method at each reporting date and impairment test if indicators of impairment exist
Concessions and Licenses	Finite	20%	Acquired	Review of the amortisation method at each reporting date and impairment test if indicators of impairment exist
Trademarks and similar rights	Finite	5.56%	Acquired	Review of the amortisation method at each reporting date and impairment test if indicators of impairment exist

The amortisation rates for other intangible assets were determined as a function of their specific residual useful lives and are reviewed at each reporting date.

Impairment of (tangible and intangible) assets with a finite useful life.

Assets with a finite useful life falling within the scope of application of IAS 36 are tested for impairment whenever indicators of impairment exist.
To that end, both internal and external information sources are considered. In regard to the first category (internal sources) the following information is considered: obsolescence or physical damage to the asset; any significant changes in the use of the asset; and the economic performance of the asset as compared to expectations. In regard to external sources, the following information is considered: market price trends for the asset; any changes in technology, markets or laws; the trend in market interest rates or the cost of capital used for valuing investments; and market capitalisation below the net asset carrying amounts for the entity.
In this case, the net carrying amount of the assets is compared with the estimated recoverable amount and, if the former is higher, they are written down.

An asset's recoverable amount is shown as whichever is the higher of an asset's fair value (net of associated disposal costs) and its value in use (meaning present value of estimated future cash flows to be derived from the asset). In determining the value in use, the expected future cash flows are discounted using a pre-tax discount rate that reflects current market assessments of the value of money (relating to the period of investment) and risks specific to the asset.
In order to verify the presence of impairment, intangible and tangible assets are grouped at the level of the smallest separately identifiable cash generating unit. Impairment for a CGU is first attributed to reducing the carrying amount of any goodwill attributed to the asset, and subsequently to reducing other assets. This must be done in proportion to their carrying amount and the limits of the asset's associated recoverable value. If the assumptions underlying a previous write-down no longer apply, the carrying value is reinstated with an entry to the relevant income statement. This is done within the limits of the net carrying value that the asset would have had, if it had not been written down and the related amortisation had been applied.

Use of estimates

The drafting of the financial statements in accordance with the IFRS requires the use by the Management of estimates and assumptions, which influence the value of assets and liabilities recorded in the statement of financial position as well as in the disclosures published in the explanatory notes regarding potential assets and liabilities at the reporting date, and the revenues and costs for the period.
These estimates are based on experience and on other factors considered relevant. The effective results could thus differ from those estimated. The estimates are revised on a regular basis and the effects of each change to the same are reflected in the income statement of the period in which the estimate is revised.
The most significant accounting principles that require greater subjectivity by directors when preparing estimates are described below:

a. Measurement of receivables. Trade receivables are adjusted using the relevant bad debt provision to take into account their recoverable amount. The determination of the amount of write-downs requires the directors to make subjective measurements based on the documentation and information available, including the creditworthiness of the client as well as past experience and historical trends;
b. Measurement of inventories. Inventories showing obsolescence are periodically valued and written down if the net realisable value of the same is lower than the carrying amount. Write-downs are calculated on the basis of assumptions and estimates made by the Management, based on the experience of the same and the historical results achieved. Furthermore, the price of copper as listed on the main stock exchange for non-ferrous metals (the London Metal Exchange) has been shown to be subject to fluctuations, which are sometimes significant. Therefore, there is a risk that a prolonged downward trend in the price of copper after the balance sheet closing date could lead to a potential risk in that the realisable value of the copper on hand in the warehouse inventory may be lower than the value entered on the balance sheet. In such a situation, the company must therefore proceed with a corresponding devaluation of raw materials, works in progress, and finished goods. To this end, the Directors of IRCE S.p.A. have carried out a specific analysis to confirm whether any conditions exist for devaluing the 'Copper Component' of inventories. This analysis has taken into account, amongst other things: the process for determining the corresponding sales of Copper Components; the price of copper available up to a date near the time when the financial statements are submitted for approval; commitments and sales orders in place as at the close of the financial year using a fixed price for copper; and the expected performance of copper prices in the months following the approval of the financial statements.
c. Recoverability of deferred tax assets. Deferred tax assets are measured on the basis of expected taxable income in future years. The measurement of this expected taxable income depends on factors that may vary over time and have significant effects on the measurement of deferred tax assets;
d. Pension plans. The current value of liabilities for retirement benefits depends on a series of factors that are determined using actuarial techniques based on certain assumptions, which concern the discount rate, the expected return on plan assets, the rates of future salary increases, as well as mortality and resignation rates. Any changes to the aforementioned assumptions could have significant effects on the liabilities for retirement benefits;
e. Measurement of provisions for risks. The determination of the provisions allocated requires the directors to make subjective measurements based on the documentation and information available on potential liabilities.
f. Asset impairments (including equity investments): Assets are written down whenever events or changes in circumstances cause the company to consider that the carrying value on the balance sheet may not be recoverable. Events which may lead to an asset devaluation may include changes to industrial plans, variations in market prices, or reduced plant utilisation. The decision about whether to proceed with a devaluation (and of what size) depends on management's assessment of complex and highly uncertain factors. This includes items such as future price trends; the impact of inflation and technological improvements on the cost of production; production profiles; and supply and demand conditions. Impairment is determined by comparing the original book value with the associated recoverable value, as represented by the greater of fair value (net of disposal costs) or the value in use as determined by discounting the expected cash flows deriving from the use of the asset. The expected cash flows are quantified in the light of information available at the time the estimate is made, and are based on subjective assessments on the trend in future variables, such as

prices, costs, demand growth rates, and production profiles. The cash flows are discounted using a rate which takes into account the inherent risk for the asset in question.

g. Business combinations: Entering business combination transactions requires that the difference between the acquisition cost and net carrying value be allocated against the assets and liabilities acquired by the company. For the majority of assets and liabilities, allocation of the difference is undertaken by recognising assets and liabilities at fair value. The unallocated amount is recognised as goodwill (if positive) or charged to the income statement (if negative). During the allocation process, the Company makes use of the information available, and — for the more important business combinations — external valuations.
h. Useful life of tangible and intangible assets with a finite useful life: depreciation and amortisation are calculated based on the useful life of the asset. The useful life is determined at the time the asset is entered to the balance sheet. Assessment of the duration of useful life is based on historical experience; market conditions; and expectations of future events that could affect that useful life, including technological changes. As a result, it is possible that the actual useful life may differ from the estimated useful life.

Financial assets

At the time of their initial recognition, financial assets must be classified into one of the three categories described below, on the basis of the following elements:

- the entity's business model for management of financial assets; and
- the cash flow characteristics of the contractual terms of the financial asset.

Financial assets are subsequently derecognised only if the transfer of ownership has also transferred substantially all of the associated risks and rewards belonging to said asset. On the other hand, whenever a significant part of the risks and rewards belonging to the financial asset being transferred have been retained, then that asset will continue to be recognised, even if legal ownership of said asset has effectively been transferred.

Financial assets measured at amortised cost

Included in this category are financial assets which satisfy both of the following conditions:

- the financial asset is held according to a business model whose objectives are achieved by collecting the contractual cash flows ('Hold to Collect' business model); and
- the contractual terms of the financial asset provide that as at a certain date, cash flows be represented solely by payments of principal and interest on the amount of capital to be returned (the test known as the 'SPPI test' has been satisfied).

Upon initial recognition, these assets are accounted for at fair value, including costs or revenues for the transaction which are directly attributable to said instrument. After initial recognition, the financial assets in question are valued at amortised cost, using the effective interest rate method. The amortised cost method is not used for assets which are valued at historical cost, where it is considered that the short duration makes the effect of applying the discounting approach negligible. This applies to those assets which do not have a defined maturity, and revocable loans.

Financial assets measured at fair value with an impact on overall profitability

Included in this category are financial assets which satisfy both of the following conditions:

- the financial asset is held according to a business model whose objectives are achieved by either collecting the contractual cash flows or by selling the financial asset ('Hold to Collect and Sell' business model); and
- the contractual terms of the financial asset provide that as at a certain date, cash flow be represented solely by payments of principal and interest on the amount of capital to be returned (the test known as the 'SPPI test' has been satisfied).

Included in this category are equity interests which do not qualify as interests in subsidiaries, associated companies or jointly controlled entities, and which are not held in order to trade. Furthermore, the company must have exercised the option to designate their measurement at fair value with an impact on overall profitability.

Upon initial recognition, these assets are accounted for at fair value, including costs or revenues for the transaction which are directly attributable to said instrument. After initial recognition, equity interests (other than interests in subsidiaries, associated companies or jointly controlled entities) are measured at fair value and amounts are entered and offset against net assets (Statement of Comprehensive Income). These amounts may not subsequently be transferred to the income statement, even if ownership of the asset itself is transferred. The only component that is entered to the income statement for the equity securities in question, are those amounts which represent the associated dividends.

For equity securities included in this category which are not listed on an active market, historical cost is used as an estimate of fair value only if no other method applies, and is limited to a small number of circumstances. Or rather, measurement at historical cost is only done when the most recent information for measuring fair value is insufficient, or where there is a wide range of possible fair value measurements and historical cost represents the best estimate of fair value among such a range.

Financial assets measured at fair value with an impact on the income statement

Classified in this category are those financial assets which are not classified as 'Financial assets measured at amortised cost' or 'Financial assets measured at fair value with an impact on overall profitability'.

Included in this category are financial assets which are held for trading, and derivative contracts which cannot be classified as hedging (which are shown as assets if the fair value is positive, or as liabilities if the fair value is negative).

Upon initial recognition, financial assets measured at fair value with an impact on the income statement are entered at fair value, without considering transaction costs or proceeds which are directly attributable to said instrument. On subsequent reporting dates, these assets are assessed at fair value and the impact of valuations is charged against the income statement.

Impairment of financial assets

In accordance with the arrangements of IFRS 9, the Company uses a simplified approach for estimating full lifetime expected credit losses for financial instruments. This approach takes into consideration the company's historical experience with credit losses, and is adjusted on the basis of specific outlook factors depending on the nature of the Company's receivables and the economic context.

In summary, the Company measures the expected losses for financial assets in a way that reflects:

- an objective amount which is weighted on the basis of likelihood, as established by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information (which is available without undue cost or effort as at the balance sheet date) about past events, current conditions and forecasts of future economic conditions.

Financial assets are credit-impaired when one or more events have occurred which will have a negative impact on future estimated cash flows for the financial asset. Evidence that the financial asset has been credit-impaired includes observable data in relation to one or more of the following events (it is possible that the company may not be able to identify one individual event, and so the impairment of financial assets may be due to the combined effect of several events):

a) significant financial difficulty of the issuer or borrower;
b) a breach of contract, such as a default or past-due event;
c) for economic or contractual reasons relating to the borrower's financial difficulty, the lender granting the borrower a concession that would not have been otherwise considered by the lender;
d) it is probable that the borrower will enter bankruptcy or other financial reorganisation procedures;
e) the disappearance of an active market for the financial asset because of financial difficulties; or
f) the purchase or origination of a financial asset at a deep discount that reflects incurred credit losses.

For financial assets that have been accounted for using the amortised cost method, when an impairment has been identified then the amount of that impairment is measured as the difference between the carrying amount of the asset and the present value of expected future cash flows (discounted on the basis of the original effective interest rate). This amount will be recognised in the income statement.

Inventories

Inventories are measured at the lower of cost and net realisable value.

The costs incurred are recognised as follows:

1. Raw materials: average weighted purchase cost, including transportation expenses and customs clearance.
2. Finished and semi-finished goods and work in progress: direct cost of materials and labour costs plus a share of the indirect costs and production overheads defined on the basis of normal production capacity. In greater detail, the copper which represents the most significant cost for works in progress, semi-finished goods and finished goods, is assessed separately to the other components (materials and handling).

The presumed net realisable value for metal is confirmed separately to the other components, inasmuch as it is subject to separate negotiation at the time of sale.

Cash and cash equivalents

Cash and cash equivalents include cash on hand as well as demand and short-term bank deposits recognised at their nominal amounts; in the latter case, the original maturity shall not exceed three months.

Financial liabilities and trade payables

Financial liabilities and trade payables are recognised when the Company becomes party to the relevant contractual clauses. They are initially measured at fair value, adjusted for costs which are directly attributable to the transaction.
They are subsequently valued at amortised cost, using the effective interest rate method.
Financial liabilities are derecognised when the contractual rights over the related cash flows expire, or when the financial liability is transferred along with substantially all the risks and rewards which come from responsibility for said liability.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset are extinguished;
- the Company retains the right to receive cash flows from the asset but has assumed the contractual obligation to pay them in full without delay to a third party;
- the Company has transferred the right to receive cash flows from the asset and (a) has substantially transferred all the risks and rewards of ownership of the financial asset or (b) has not substantially transferred nor retained all the risks and rewards of the asset but has transferred control.

In cases where the Company transferred its rights to receive cash flows from an asset and has not substantially transferred nor withheld all the risks and rewards or has not lost control over the asset, this is recognised in the financial statements of the Company to the extent of the latter's continuing involvement in the asset. The continuing involvement – which takes the form of guaranteeing the transferred asset – is measured at the lower of the initial carrying amount of the asset and the maximum amount of the consideration that the Company could be required to pay.

Financial liabilities

A financial liability is derecognised when the obligation underlying the liability is settled, cancelled or discharged.

If an existing financial liability is replaced by another from the same lender – and with substantially different terms – or if the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, recognising any differences between the carrying amounts through profit or loss.

Provisions for risks and charges

Provisions for risks and charges include provisions arising from present obligations (legal or constructive) as a result of past events and for which an outflow of resources is probable. Changes in estimates are reflected in the income statement for the period in which the change occurs. If the effect of discounting the value of money is material, the provisions are discounted using a pre-tax discount rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision that arises from the passage of time is recognised as a financing cost.

Employee Benefits

Employee benefits substantially include employee termination indemnities as well as retirement funds. Italian Law no. 296 of 27 December 2006 "2007 Budget Law" introduced significant changes to the allocation of quotas of the employee termination indemnities. Up until 31 December 2006, employee termination indemnities were part of post-employment benefit plans of the "defined benefit plans" type, and were measured, in accordance with IAS 19, by independent actuaries using the projected unit credit method. This calculation consists in estimating the amount of the benefit an employee will receive on the estimated date of termination of the work relationship by using demographical and financial assumptions. The amount determined in this manner is discounted and recalculated on the basis of the accrued service as a proportion of the total length of service and represents a reasonable estimate of the benefits each employee has already earned for past service.
Following the occupational pension reform, the provisions for employee termination indemnities – for the amounts accruing from 1 January 2007 – should be considered essentially comparable to a "defined contribution plan". More specifically, these changes gave employees the opportunity to choose how to allocate their accruing employee termination indemnities: in companies with more than 50 employees, employees can decide to transfer the accruing employee termination indemnities into pre-defined pension schemes or keep them with the company, which will transfer them to INPS (Italy's social security institute).
In summary, following the occupational pension reform and with regard to the employee termination indemnities accrued before 2007, the Company actuarially measured them without including the component referring to future salary increases. The benefits subsequently accrued were instead recognised in accordance with the methods for defined contribution plans.

Derivative financial instruments

The company used derivative financial instruments such as forward contracts for the purchase and sale of copper and aluminium in order to hedge against its exposure to the risk of changes in raw material prices as well as forward contracts for currency purchases.
Any gains or losses arising from changes in the fair value of derivatives, which are outstanding as of the reporting date and do not qualify for hedge accounting, are recognised directly in the income statement.

The fair value of forward contracts for the sale of copper outstanding as of the reporting date is determined on the basis of forward prices of copper with reference to the maturity dates of contracts outstanding as of the reporting date.
For the purposes of hedge accounting, hedges are classified as:

- fair value hedges against the risk of changes in the fair value of an underlying asset or liability; or a firm commitment (except for currency risk); or
- cash flow hedges against the exposure to changes in cash flows that are attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction;
- hedges of a net investment in a foreign operation (net investment hedge).

At the inception of a hedge, the company formally designates and documents the hedging relationship to which it intends to apply hedge accounting as well as its risk management objectives and the pursued strategy. The documentation includes the identification of the hedging instrument as well as of the hedged item or transaction, the nature of the risk, and how the company intends to measure the effectiveness of the hedge in offsetting the exposure to changes in the fair value of the hedged item or cash flows attributable to the hedged risk.

These hedges are expected to be highly effective in offsetting the exposure of the hedged item to changes in the fair value or cash flows attributable to the hedged risk. The measurement of the effectiveness of these hedges is conducted on an ongoing basis during the years in which they have been designated.

Own shares

If the company reacquires its own shares, these are deducted from shareholders' equity. In particular, they are measured at their nominal amount in the "Own shares" reserve and the excess of the purchase amount over the nominal amount is accounted for as a deduction from "Other reserves". The purchase, sale, issue or cancellation of equity instruments does not result in the recognition of any gain or loss in the income statement, but is rather recognised directly as a change in shareholders' equity.

Recognition of revenues

Recognition of revenues

Revenues from contracts with customers are recognised when the following conditions are met:

- a contract with a customer has been identified;
- the contractual performance obligations have been identified;
- the price has been determined;
- the price has been allocated to the individual performance obligations contained in the contract;
- the contractual performance obligations have been satisfied.

The Company recognises revenue from contracts with customers at a point in time, or over time, when performance obligations are fulfilled by transferring the promised goods or services to the customer (namely, the asset). The asset is transferred at a point in time, or over time, when the customer obtains control of the asset.

The Company transfers control of the goods or services over time (and thus fulfils the performance obligations and recognises the revenue over time) if the situation satisfies one of the following criteria:

- the customer simultaneously receives and consumes all of the benefits deriving from the entity's performance over time, as and when the entity performs;
- the Group's performance creates or enhances an asset (for example, works in progress) that the customer controls over time, as and when the asset is created or enhanced; or
- the Company's performance does not create an asset with an alternative use for the Company, and the Company has an enforceable right to payment for performance completed up to the date under consideration.

If the performance obligation is not satisfied over time, it is satisfied at a point in time. In such a situation, the Company recognises revenue at the time when the customer obtains control of the promised asset.

The Company allocates the contractual price to the individual performance obligations by reference to the relative standalone selling prices (SSP) for the individual performance obligations. When there is no SSP, the Company estimates the SSP using an adjusted market assessment approach.
In this case, the Company uses judgement to determine the performance obligation, variable consideration and allocation of the transaction price.

Dividends

Dividends are recognised as at the date of the Shareholders' Meeting when the resolution establishing the right to receive payment was passed.
Dividends approved at the Shareholders' Meeting are shown as movements in net assets for the financial year in which they were approved.

Costs

Costs are recognised on an accrual basis. Research, advertising and promotional costs are recognised in the income statement in the year in which they are incurred.

Financial income and charges

Financial income and charges are recognised immediately in the income statement.

Income taxes

Current taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to tax authorities. The tax rates and tax laws used to calculate the amount are those that have been enacted or are expected to apply as of the reporting date.

Deferred tax assets and liabilities

Deferred tax assets and liabilities are calculated using the so-called liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.
Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when deferred tax liabilities arise from the initial recognition of goodwill or of an asset or liability in a transaction which is not a business combination and which, at the time of the transaction itself, affects neither accounting profit nor taxable profit/loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except when:

- the deferred tax asset for the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction which is not a business combination and which, at the time of the transaction itself, affects neither accounting profit nor taxable profit;
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are recognised only to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognised deferred tax assets are reviewed on an annual basis at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax assets to be recovered.
Deferred tax assets or liabilities relating to items recognised directly in equity are recognised directly in equity and not in the income statement.

RECENTLY ISSUED ACCOUNTING STANDARDS

Accounting standards, amendments and interpretations that are not yet applicable and not adopted early by the Company.

Furthermore, as at the date of these separate Financial Statements, the European Union competent bodies have not yet completed the approval process required for the adoption of the following accounting standards and amendments:

Accounting standard/amendment	Endorsed by the EU	Effective date
IFRS 17 Insurance Contracts	NO	Annual periods beginning on or after 1 January 2021
Annual Improvements to IFRS Standards 2015-2017 Cycle	NO	Annual periods beginning on or after 1 January 2019
Amendments to IAS 19: Plan Amendment, Curtailment or Settlement	NO	Annual periods beginning on or after 1 January 2019
Amendments to References to the Conceptual Framework in IFRS Standards	NO	Annual periods beginning on or after 1 January 2020
Amendment to IFRS 3 Business Combinations	NO	Annual periods beginning on or after 1 January 2020
Amendments to IAS 1 and IAS 8: Definition of Material	NO	Annual periods beginning on or after 1 January 2020

Accounting Standards, Amendments and Interpretations Endorsed by the EU but not yet Implemented

As at the date of these separate Financial Statements, the European Union competent bodies have completed the approval process required for the adoption of the following accounting standards and amendments, not adopted in advance by the Company:

IFRS 16 "Leases"	On 13 January 2016, the IASB published IFRS 16 "Leases" (hereinafter, "IFRS 16"), which replaces IAS 17 "Leasing" and the related interpretations. IFRS 16 eliminates the distinction between operating and finance leases for the purposes of drafting the financial statements of lessees; for lease contracts with a duration of more than 12 months, the recognition of an asset – representing the right to use – and of a liability – representing the obligation to make the payments under the contract – is required. Instead, lessors continue to classify leases as operating or finance in the preparation of financial statements. IFRS 16 reinforces disclosure requirements for both lessees and lessors. The provisions of IFRS 16 are effective as of 1 January 2019. As at the balance sheet date, the Company had commitments relating to non-cancellable operating leases for an amount of approximately € 0.09 million. In regard to these commitments, the Company expects to recognise a leasing liability of € 0.09 million.
Amendment to IFRS 9 "Prepayment Features with Negative Compensation"	On 12 October 2017, the IASB issued an amendment to IFRS 9 to address some concerns about the applicability and classification of IFRS 9 "Financial Instruments" in relation to particular financial assets with a prepayment option. Furthermore, the IASB clarified certain aspects of accounting for financial liabilities following these changes. The IFRS 9 amendment provisions are effective for financial years beginning on or after 1 January 2019. The Company does not believe that there will be any financial or capital impact applicable to the arrangements which result from this standard entering into force.

IFRIC 23 "Uncertainty over Income Tax Treatments"	On 7 June 2017, the IASB issued IFRIC 23 "Uncertainty over Income Tax Treatments" which contains guidance in relation to accounting for tax assets and liabilities (current and/or deferred) and income tax where there is uncertainty over the treatment of tax legislation. IFRIC 23 provisions are effective for financial years beginning on or after 1 January 2019.
Amendment to IAS 28 "Long-term Interests in Associates and Joint Ventures"	On 12 October 2017, the IASB issued an amendment to IAS 28 to clarify that the application of IFRS 9 "Financial Instruments" for long-term interests in subsidiaries or joint ventures also applies where that interest forms part of investments in such entities but the net equity method was not applied. IAS 28 amendment provisions are effective for financial years beginning on or after 1 January 2019.

First Application of New Financial Standards

c) IFRS 15: Revenue from Contracts with Customers

On 1 January 2018, IFRS 15 "Revenue from contracts with customers" entered into force. The Company has decided to apply this standard retroactively, in accordance with the relevant transitional provisions. The Company has therefore recognised the cumulative effect of the first application of the standard as an adjustment to the opening balance of retained earnings for the first year of application. As a consequence, the 2017 comparative financial year has not been restated.

With reference to the Company, the new IFRS 15 regarded the accounting for sales of packaging with right of return that can be exercised by the customer within 12 months of delivery, with a negative impact on opening shareholders' equity as of 1 January 2018 of €/000 1,322.

The effect on the financial statements as of 1 January 2018 is shown below:

€/000

Statement of Financial Position (extract)	Amounts without adoption of IFRS 15	Increase/(decrease)	01/01/2018
Inventories	58,477	893	59,370
Deferred tax assets	939	512	1,451
Trade receivables	60,430	(4,131)	56,299
Effect on assets		**(2,726)**	
Extraordinary reserve	32,839	(1,322)	31,517
Provision for future charges	8,341	(1,404)	6,937
Effect on liabilities and shareholders' equity		**(2,726)**	

d) IFRS 9 – Financial Instruments

The Company adopted the new IFRS 9 – Financial Instruments with effect from 1 January 2018. The adoption of IFRS 9 did not have any impact on the Company's equity and result, nor did the new classification model lead to changes in the criteria for measuring financial assets and liabilities.

DERIVATIVE INSTRUMENTS

The Group uses the following type of derivative instruments:

- Derivative instruments related to copper forward transactions with maturity after 31 December 2018. The Group entered into sale contracts to hedge against price decreases relating to the availability of raw materials, and purchase contracts to prevent price increases relating to sale commitments with fixed copper values. The fair value of forward contracts outstanding at the reporting date is determined on the basis of forward prices of copper and aluminium with reference to the maturity dates of contracts outstanding at the reporting date. These transactions do not qualify as hedging instruments for the purposes of hedge accounting.

A summary of derivative contracts related to commodity for forward sales and purchases outstanding at 31 December 2018 is shown below:

Measurement unit of the notional amount	Notional amount with maturity within one year net tonnes	Notional amount with maturity after one year	Result with fair value measurement as of 31/12/2018 €/000
Copper	600	0	295

Derivative instruments related to USD and GBP forward purchase and sale contracts with maturity after 31 December 2018.

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Measurement unit of the notional amount	Notional amount with maturity within one year (tonnes)	Notional amount with maturity after one year	Result with fair value measurement as of 31/12/2018 €/000
Copper	600	0	295

- Derivative instruments related to USD and GBP forward purchase and sale contracts with maturity after 31 December 2018. These transactions do not qualify as hedging instruments for the purposes of cash flow hedge accounting.

A summary of derivative contracts related to USD and GBP forward purchases and sales outstanding at 31 December 2018 is shown below:

measurement unit of the notional amount	Notional amount in foreign currency with maturity within one year	Notional amount with maturity after one year	Result with fair value measurement as of 31/12/2018 €/000
USD	13,201	0	(28)
GBP	6,000	0	(36)
Total			(64)

FINANCIAL INSTRUMENTS BY CATEGORY

Here below is the breakdown of financial instruments referring to the items of the financial statements:

As of 31 December 2018 - €/000	Amortised cost	FV with a balancing entry in the income statement	FV with a balancing entry in equity	Total
Non-current financial assets				
Non-current tax receivables	812			812
Other non-current financial assets and receivables	18,363			18,363
Current financial assets				
Trade receivables	53,191			53,191
Other current financial assets	295	295		590
Cash and cash equivalents	1,126			1,126

As of 31 December 2017 - €/000	Amortised cost	FV with a balancing entry in the income statement	FV with a balancing entry in equity	Total
Non-current financial assets				
Non-current tax receivables	812			812
Other non-current financial assets and receivables	16,121			16,121
Current financial assets				
Trade receivables	67,355			67,355
Other current financial assets	13			13
Cash and cash equivalents	1,506			1,506

As of 31 December 2018 - €/000	Amortised cost	FV with a balancing entry in the income statement	FV with a balancing entry in equity	Total
Non-current financial liabilities				
Financial payables	14,712			14,712
Current financial liabilities				
Trade payables	13,490			13,490
Other payables	7,763			7,763
Financial payables	46,268	64		45,332

As of 31 December 2017 - €/000	Amortised cost	FV with a balancing entry in the income statement	FV with a balancing entry in equity	Total
Non-current financial liabilities				
Financial payables	8,956			8,956
Current financial liabilities				
Trade payables	22,891			22,891
Other payables	8,829			8,829
Financial payables	45,018	855		45,873

FAIR VALUE

A comparison between the carrying amount of financial instruments held and their fair value did not yield significant differences in value.
IFRS 13 defines the following three levels of fair value for measuring the financial instruments recognised in the statement of financial position:

- Level 1: quoted prices in active markets.
- Level 2: market inputs other than Level 1 inputs that are observable, either directly (i.e. prices) or indirectly (i.e. derived from prices).
- Level 3: inputs not based on observable market data.

The following tables show the assets and liabilities that are measured at fair value as of 31 December 2017 and as of 31 December 2018 broken down by level of fair value hierarchy (€/000):

2017	Level 1	Level 2	Level 3	Total
Liabilities:				
Derivative financial instruments	-	(855)	-	(855)
Total liabilities	-	(855)	-	(855)

2018	Level 1	Level 2	Level 3	Total
Assets:				
Derivative financial instruments	-	295	-	295
Total assets	-	295	-	295
Liabilities:				
Derivative financial instruments	-	(64)	-	(64)
Total liabilities	-	(64)	-	(64)

During the year, there were no transfers between the three fair value levels specified in IFRS 7.

SEGMENT REPORTING

IFRS 8 defines an operating segment as follows. An operating segment is a component of an entity: a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
b) whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and c) for which discrete financial information is available.

With regard to the two types of products sold, starting from 2011 IRCE S.p.A.'s management only monitors the breakdown of revenues between winding wires and cables. Unallocated balance refers to revenues from the sale of other materials and services that cannot be classified within the two types of products sold.
Revenues are then analysed by geographical area (revenues from Italian customers, EU customers excluding Italy, and non-EU customers).

The winding wire segment supplies manufacturers of electric motors and generators, transformers, relays and solenoid valves.

The cable segment supplies the following industries: construction, civil and industrial engineering (cabling), and consumer durables (electrical devices).

€/000	2018				2017			
	Winding wires	Cables	Not allocated	Total	Winding wires	Cables	Not allocated	Total
Revenues	176,374	56,655	30	233,059	184,347	49,439	16	233,802

€/000	2018				2017			
	Italy	EU (excluding Italy)	Non-EU	Total	Italy	EU (excluding Italy)	Non-EU	Total
Revenues	126,014	87,305	19,740	233,059	122,702	91,889	19,211	233,802

COMMENT ON THE MAIN ITEMS OF THE SEPARATE STATEMENT OF FINANCIAL POSITION

1. INTANGIBLE ASSETS

This item refers to intangible assets from which future economic benefits are expected. The changes in their net carrying amount are shown below:

€/000	Patent and intellectual property rights	Licenses, trademarks, similar rights and multi-year charges	Assets under development	Total
Net carrying amount as of 31/12/2016	15	1	190	206
Changes during the period				
. Investments	86	1	-	87
. Reclassifications	-	-	-	-
. Depreciation/amortisation	(58)	(2)	-	(60)
Total changes	28	(1)	-	27
Net carrying amount as of 31/12/2017	43	-	190	233

€/000	Patent and intellectual property rights	Licenses, trademarks, similar rights and multi-year charges	Assets under development	Total
Net carrying amount as of 31/12/2017	43	-	190	233
Changes during the period				
. Investments	8	-	-	8
. Reclassifications	-	-	-	-
. Write-downs	-	-	(190)	(190)
. Depreciation/amortisation	(47)	-	-	(47)
Total changes	8	-	-	8
Net carrying amount as of 31/12/2018	4	-	-	4

On a recurring basis, the Company incurs R&D expenses that are recognised in the income statement, as they do not meet the conditions for capitalisation pursuant to IAS 38.

2. TANGIBLE ASSETS

€/000	Land	Buildings	Plant and equipment	Industrial and commercial equipment	Other assets	Assets under construction and advances	Total
Net carrying amount as of 31/12/2016 Restated	7,835	3,964	5,373	283	283	3,059	20,797
Changes during the period							
. Investments	-	277	956	389	279	1,638	3,539
. Reclassifications	-	19	2,624	-	-	(2,642)	1
. Divestments	-	-	(2,169)	(327)	(302)	-	(2,798)
. Depreciation related to disposals	-	-	2,154	327	302	-	2,783
. Depreciation of the year	-	(493)	(1,741)	(210)	(128)	-	(2,572)
Total changes	-	(197)	1,824	179	151	(1,004)	953
Net carrying amount as of 31/12/2017	7,835	3,767	7,197	462	434	2,055	21,750

€/000	Land	Buildings	Plant and equipment	Industrial and commercial equipment	Other assets	Assets under construction and advances	Total
Net carrying amount as of 31/12/2017	7,835	3,767	7,197	462	434	2,055	21,750
Changes during the period							
. Investments	-	-	2,957	212	53	1,336	4,558
. Reclassifications	-	-	880	25	-	(905)	-
. Divestments	-	-	(389)	(80)	(182)	(217)	(868)
. Depreciation related to disposals	-	-	379	80	181	-	640
. Depreciation of the year	-	(389)	(2,151)	(220)	(132)	-	(2,892)
Total changes	-	(389)	1,676	17	(81)	214	1,437
Net carrying amount as of 31/12/2018	7,835	3,378	8,873	479	354	2,269	23,187

IRCE S.p.A.'s investments amounted to € 4.56 million in 2018.

Divestments refer primarily to machinery no longer in use and depreciated in full.

3. NON-CURRENT FINANCIAL ASSETS AND RECEIVABLES AND EQUITY INVESTMENTS

€/000	31/12/2018	31/12/2017
- Non-current financial assets and receivables	18,363	16,121
- Equity investments	75,428	75,358
Total	93,791	91,479

Receivables due from subsidiaries

€/000	31/12/2018	31/12/2017
- DMG GmbH	1,706	1,707
- FD Sims Ltd	7,055	7,113
- IRCE S.L	1,588	1,582
- IRCE Ltda	15	15
- ISODRA GmbH	1,934	1,926
- ISOMET AG	602	-
- IRCE SP.ZO.O	136	68
- SMIT DRAAD	5,317	3,710
- ISOLVECO 2	10	-
Total	18,363	16,121

The receivables reported above refer to intra-group interest bearing loans.
Management has undertaken an analysis in order to verify the recoverability of the above receivables. Taking into account the expected results and provisions for the coverage of losses of subsidiaries recorded in the accounts, these receivables are entirely recoverable.

Equity investments in subsidiaries

The list of equity investments included in Attachment 2 forms part of these Explanatory Notes.

The carrying amount of the equity investments in FD Sims Ltd, IRCE Ltda, Smit Draad Nijmegen B.V. and Isomet AG was tested for impairment, after indicators of impairment were identified. This test was carried out projecting the cash flows estimated in the most recent business plan, which Management approved separately and prior to these financial statements. These business plans -which were prepared in nominal terms - were drafted over a period of five years and reflect past experience while excluding any flows deriving from restructuring, optimisation or improvements to operations.

In line with the provisions of IAS 36, the impairment test was carried out by comparing the recoverable amount of the investments net of the net financial position ("NFP") as of 31 December 2018 ("Equity Value") with the related carrying amounts for the equity investments as of 31 December 2018.

For the purposes of estimating the recoverable amount, the Equity Value of the investments was calculated using the "Discounted Cash Flow" method, which considers the cash flows from operations expected by the company based on the plans approved by management and subtracting the net financial position at the reporting date.

The discount rate used for cash flows is the Weighted Average Cost of Capital (WACC) relating to the equity investment. The method applied is the Capital Asset Pricing Model: the rate is calculated based on a mathematical model given by the sum of a risk-free asset plus a market premium risk. The market premium risk in its turn is the product of the market average risk multiplied by the specific beta for the sector.

The Company has applied a "Small Size Premium" of 1% and an execution risk of between 0% and 2% (with differentiation based on the degree to which expected results included in the plan are considered reachable).

In applying this method, the main assumptions used are the estimate of future increases in sales, the gross margin, operating costs, the growth rate of the terminal values, the investments, the changes in working capital and the weighted average cost of capital (discount rate).

The terminal value of the Cash Generating Unit (CGU) was estimated on the basis of a cash flow (equal to the normalised cash flow of the last period) discounted at growth rates (g) equal to 0.0% for FD Sims Ltd, Smit Draad Nijmegen B.V., Isomet AG and 5.0% for IRCE Ltda over an indefinite period of time. The 5-year business plans are prepared in nominal terms (including the forecast inflation rate).

The nominal WACC, net of the tax effect, used in the test was equal to 8.3% for FD Sims Ltd, 6.5% for Smit Draad Nijmegen B.V., 5.7% for Isomet AG and 13.6% for IRCE Ltda; the risk premium inherent in the cost of equity was equal to 6.6% and is common among companies in the sector, as well as the borrowing rate used. The rates used were determined by taking into account the market rates on the basis of the current economic situation. With reference to the value of equity investments shown in the financial statements, only the company FD Sims was found to have a risk profile which would entail the need for a write-down of these investments based on the results of impairment tests and sensitivity analysis carried out. The other group companies did not show a risk profile, as detailed below.

A sensitivity analysis is shown below, comparing the carrying amount of the CGU's invested capital with the corresponding Equity Value calculated on the basis of a discount rate (WACC) and a growth rate (g) half a percentage point below or above the parameters used.

FD Sims Ltd, parameters used WACC 8.3%; (g) 0.0%.

"g"=0.0%		WACC	
€/000	7.8%	8.3%	8.8%
Equity value	7,823	6,833	5,964
Carrying amount of equity investment	8,065	8,065	8,065
Difference between equity value and carrying amount	(242)	(1,232)	(2,101)

"g"=0.5%		WACC	
€/000	7.8%	8.3%	8.8%
Equity value	8,691	7,581	6,613
Carrying amount of equity investment	8,065	8,065	8,065
Difference between equity value and carrying amount	626	(484)	(1,452)

The results of the impairment test showed the need to adjust the amount of the equity investment shown in IRCE S.p.A.'s financial statements, since the Equity Value was lower than the carrying amount of the equity investment. Considering this along with the sensitivity analysis, the Directors have therefore resolved to align the value of equity investments with the net asset value for the company FD Sims, recording an impairment loss of €/000 940.

Smit Draad Nijmegen B.V., parameters used WACC 6.5% (g) 0.0%

(g)=0.0%		WACC	
€/000	6.0%	6.5%	7.0%
Equity value	13,737	12,262	10,999
Carrying amount of equity investment	7,273	7,273	7,273
Difference between equity value and carrying amount	6,464	4,989	3,726

(g)=0.5%		WACC	
€/000	6.0%	6.5%	7.0%
Equity value	15,080	13,375	11,933
Carrying amount of equity investment	7,273	7,273	7,273
Difference between equity value and carrying amount	7,807	6,102	4,660

As the above tables show, the CGU is not exposed to any risks that would require a write-down.

Isomet AG, parameters used WACC 5.7%; (g) 0.0%.

“g”=0.0%		WACC	
€/000	5.2%	5.7%	6.2%
Equity value	5,140	4,563	4,077
Carrying amount of equity investment	1,435	1,435	1,435
Difference between equity value and carrying amount	3,705	3,128	2,642

“g”=0.5%		WACC	
€/000	5.2%	5.7%	6.2%
Equity value	5,683	5,002	4,437
Carrying amount of equity investment	1,435	1,435	1,435
Difference between equity value and carrying amount	4,248	3,567	3,002

As the above tables show, the CGU is not exposed to any risks that would require a write-down.

IRCE Ltda, parameters used WACC 13.6%; (g) 5.0%.

(g)=5.0%		WACC	
€/000	13.1%	13.6%	14.1%
Equity value	63,017	59,793	56,925
Carrying amount of equity investment	58,466	58,466	58,466
Difference between equity value and carrying amount	4,551	1,327	(1,541)

(g)=4.5%		WACC	
€/000	13.1%	13.6%	14.1%
Equity value	61,087	58,130	55,483
Carrying amount of equity investment	58,466	58,466	58,466
Difference between equity value and carrying amount	2,621	(336)	(2,983)

(g)=5.5%		WACC	
€/000	13.1%	13.6%	14.1%
Equity value	65,202	61,662	58,535
Carrying amount of equity investment	58,466	58,466	58,466
Difference between equity value and carrying amount	6,736	3,196	69

As the above tables show, one scenario includes the possibility of impairment losses that the Directors consider entirely attributable to the negative impact of the Euro/Real exchange rate at year-end. In fact, the devaluation of the Real only led to a reduction of the carrying amount of plants and machinery in the accounts of the subsidiary since, as they have been purchased in the past from European manufacturers, it is believed they will continue to be priced in Euro. Consequently, the Directors do not see risk profiles requiring to recognise impairment losses on the equity investment, also in the light of the impairment test results.

4. NON-CURRENT TAX RECEIVABLES

This item, equal to €/000 812, refers to the tax credit relative to the IRES (corporate income tax) reimbursement claim for 2007-2011, in compliance with Article 2, paragraph 1-quater, of Italian Law Decree no. 201/2011. Lacking precise information from the taxation authorities concerning the reimbursement date, the asset has been classified as non-current.

5. DEFERRED TAX ASSETS

The item "Deferred tax assets" is the net amount of deferred tax assets less deferred tax liabilities, as shown below:

€/000	31/12/2018	31/12/2017
- Deferred tax assets	2,015	1,494
- Deferred tax liabilities	(568)	(555)
Total	1,447	939

The Company recognised deferred tax assets for the following items:

€/000	31/12/2018	IFRS 15	31/12/2017
- Allocations to Provisions for risks and charges	536		483
- Allocations to the taxed Bad debt provision	236		239
- Allocations to the Provision for inventory obsolescence	751		751
- Other	15		21
- IFRS 15	476	511	-
Total	2,015	511	1,494

The table below shows the changes in deferred tax assets during 2017 and 2018:

	Taxed provisions	IFRS 15	Other	Total
balances as of 01/01/2017	1,423		259	1,682
effects on income statement	50			50
effects on shareholders' equity			(238)	(238)
balances as of 31/12/2017	1,473		21	1,494
IFRS 15		511		511
effects on income statement	50	(35)	(6)	9
effects on shareholders' equity				
balances as of 31/12/2018	1,523	476	15	2,015

The effects on shareholders' equity refer to changes in the actuarial reserve as per IAS 19.
Deferred tax assets were recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts and to the extent that it is probable that taxable profit will be available against which these differences can be utilised.

Deferred tax liabilities are broken down as follows:

€/000	31/12/2018	31/12/2017
- Depreciation/amortisation	37	42
- IAS capital gains on buildings	413	413
- IAS capital gains on land	97	97
- Effect of application of IAS 19	22	3
Total	569	555

The table below shows the changes in deferred tax liabilities during 2017 and 2018:

	Depreciation/ amortisation	IAS capital gain on land and building	Effect of IAS 19	Total
balances as of 01/01/2017	56	510	-	569
effects on income statement	(14)			(14)
effects on shareholders' equity			3	
balances as of 31/12/2017	42	510	3	555
effects on income statement	(6)		(3)	(9)
effects on shareholders' equity			22	22
balances as of 31/12/2018	36	510	22	569

The effects on shareholders' equity refer to changes in the actuarial reserve as per IAS 19.

6. INVENTORIES

Inventories are broken down as follows:

€/000	31/12/2018	31/12/2017
- Raw materials, ancillary and consumables	28,390	21,291
- Work in progress and semi-finished goods	7,886	9,059
- Finished products and goods	34,845	31,006
- Provision for write-down of raw materials	(2,876)	(1,982)
- Provision for write-down of finished products	(897)	(897)
Total	67,348	58,477

Recognised inventories are not pledged nor used as collateral.
The provision for write-downs corresponds to the amount that is deemed necessary to hedge existing inventory obsolescence risks calculated by writing down slow-moving packages and finished products.
Inventories were also written down by €/000 228 to their estimated realisable value, which is lower than their average weighted cost.

The table below shows any changes in the provision for write-down of inventories during 2018:

€/000	31/12/2017	Allocations	Uses	31/12/2018
Provision for write-down of raw materials	1,982	992	(98)	2,876
Provision for write-down of finished products and goods	897	200	(200)	897
Total	2,879	1,192	(298)	3,773

7. TRADE RECEIVABLES

€/000	31/12/2018	31/12/2017
- Customers/Bills receivable	44,895	61,179
- Bad debt provision	(694)	(749)
Total	44,201	60,430

The balance of receivables due from customers is entirely composed of receivables due within the next 12 months.

The reduction in trade receivables is connected to revenue performance and a reduction in raw material prices, as explained in the report on operations.

The table below shows the changes in the bad debt provision during 2017 and 2018:

€/000	31/12/2016 Restated	Allocations	Uses	31/12/2017
Bad debt provision	879	164	(294)	749

€/000	31/12/2017	Allocations	Uses	31/12/2018
Bad debt provision	749	121	(177)	693

8. RECEIVABLES DUE FROM SUBSIDIARIES

The balance of trade receivables due from subsidiaries was broken down as follows:

€/000	31/12/2018	31/12/2017
- FD Sims LTD	124	226
- Isolveco SRL	1,521	1,656
- Isomet AG	2,774	1,433
- IRCE S.L	2,316	2,303
- DMG	8	8
- ISODRA GmbH	1,180	1,161
- IRCE LTDA	313	79
- Stable Magnet Wire P. Ltd.	1,588	1,458
- Smit Draad Nijmegen BV	5	6
- Isolveco 2	566	-
- Bad debt provision on receivables from Isolveco Srl	(1,405)	(1,405)
Total	8,990	6,925

€/000	31/12/2016 Restated	Allocations	Uses	31/12/2017
Bad debt provision	992	413	-	1,405

€/000	31/12/2017	Allocations	Uses	31/12/2018
Bad debt provision	1,405	-	-	1,405

On the basis of the analysis performed by management, the net value of these receivables is fully recoverable.

9. RECEIVABLES DUE FROM OTHERS

The item is broken down as follows:

€/000	31/12/2018	31/12/2017
- Accrued income and prepaid expenses	130	123
- Receivables due from INPS	-	60
- Other receivables	1,699	804
Total	1,829	987

The item "Other receivables" is mainly linked to a bonus to be received on energy consumption for the year 2017, assigned by the Authority for electricity with the authorisation from the Ministry of Economic Development.

10. CURRENT FINANCIAL ASSETS

€/000	31/12/2018	31/12/2017
- Mark to Market copper forward transactions	295	-
- Guarantee deposits	295	13
Total	590	13

The item "Mark to Market copper forward transactions" refers to the Mark to Market (fair value) of derivative forward contracts for the purchase and sale of copper outstanding as of 31/12/2018.

11. CASH AND CASH EQUIVALENTS

This item includes bank deposits, cash and cash equivalents.

€/000	31/12/2018	31/12/2017
- Bank and postal deposits	1,115	1,491
- Cash and cash equivalents	11	15
Total	1,126	1,506

Outstanding bank and postal deposits as of are not subject to constraints or restrictions.

12. SHAREHOLDERS' EQUITY

Share capital

The share capital is composed of 28,128,000 ordinary shares worth € 14,626,560.
The shares are fully subscribed and paid up and bear no rights, privileges or restrictions as far as dividend distribution and capital distribution, if any, are concerned.
In the year 2018, a dividend of €/000 1,333 (€ 0.05 per share) was distributed.

Here below is the breakdown of reserves:

€/000	31/12/2018	31/12/2017
- Own shares (share capital)	(788)	(734)
- Share premium reserve	40,539	40,539
- Own shares (share premium)	64	258
- Other reserves	43,087	43,087
- Legal reserve	2,925	2,925
- Extraordinary reserve	35,047	32,839
- IAS 19 reserve	(615)	(686)
- Undistributed profits	6,462	6,461
TOTAL	126,720	124,688

Detail of origin, availability and use of equity items:

Description	Amount	Possibility of use	Quota available	Distributable
Share capital	**14.626.560**			
Capital's reserves				
Share premium reserve	40.538.732	A,B,C	40.538.732	40.538.732
Other reserves	6.035.757	A,B,C	6.035.757	6.035.757
Total capital's reserve	**46.574.489**		**46.574.489**	**46.574.489**
Earning's reserves				
Legal	2.925.312	B	2.925.312	-
Extraordinart	35.047.471	A,B,C	35.047.471	35.047.471
IAS	5.847.255	A,B	5.847.255	1.597.853
Own shares	- 723.990	-	- 723.990	- 723.990
Cash flow hedge	-	A,B	-	-
Other reserves	585.888	A,B,C	585.888	585.888
Total earning's reserves	**43.681.935**		**43.681.935**	**36.507.222**
Reserves in tax suspension				
Other reserves	201.160	A,B,C	201.160	201.160
Reavluation n.266/2005	22.327.500	A,B,C	22.327.500	22.327.500
Reavluation		A,B	-	
Total reserves in tax suspension	**22.528.660**		**22.528.660**	**22.528.660**
Total reserves	**112.785.084**		**112.785.084**	**105.610.371**
profit 2018	**7.902.954**			
Total equity	**135.314.598**			
		Total reserves available	112.785.084	
		Quota not available for legal reserves	2.925.312	
		Quota not available IAS	4.249.402	
		Quota not available fair value land	-	
		Residual quota available	**105.610.371**	

Legend

A = capital increase; B = loss coverage; C = distributable

Note 1

The share premium reserve can be distributed having the legal reserve already reached 1/5 of the share capital

Own shares

This reserve refers to the par value and share premium of own shares held by the Company; they are recognised as a deduction from shareholders' equity.

Own shares as of 31 December 2018 amounted to 1,515,314 and corresponded to 5.39% of the share capital.

The number of shares outstanding at the beginning and at the end of the last two years is shown below:

Thousands of shares	
Balance as of 01/01/2017	**26,716**
Share buyback	-
Balance as of 31/12/2017	**26,716**
Share buyback	(104)
Balance as of 31/12/2018	**26,612**

Share premium reserve

This item refers to the higher issue value compared to the par value of IRCE S.p.A. shares issued at the time of the share capital increase when the Company was first listed on the stock exchange in 1996.

Other reserves

Other reserves refer to the following:

- Merger surplus reserve (due to cancellation) which arose in the year 2001 following the merger of IRCE Cavi S.p.A. and Isolcable S.r.l. into IRCE S.p.A., amounting to €/000 6,621.
- Reserve of profits to be re-invested in Southern Italy totalling €/000 201.
- FTA reserve, which represents the offsetting item for all adjustments made to the financial statements in order to comply with IAS/IFRS as of 1 January 2004 (transition year), amounting to €/000 13,935.
- Revaluation reserve, as per Italian law no. 266/1995, amounting to €/000 22,328.

Extraordinary reserve

The extraordinary reserve consists mainly of retained earnings.

IAS 19 reserve

This reserve includes actuarial gains and losses accumulated as a result of the application of IAS 19 Revised. The change in the reserve is as follows:

balance at 01/01/2017	(697)
Actuarial valuation	14
Tax effect on actuarial valuation	(3)
balance at 31/12/2017	(686)
Actuarial valuation	93
Tax effect on actuarial valuation	(22)
balance at 31/12/2018	(615)

Profit for the year

The profit for the year amounted to €/000 7,903 (€/000 4,864 as of 31 December 2017).

13. NON-CURRENT FINANCIAL LIABILITIES

€/000	Currency	Rate	Company	31/12/2018	31/12/2017	Due date
Banco Popolare	EUR	Floating	IRCE S.p.A.	-	442	2019
Banco Popolare	EUR	Floating	IRCE S.p.A.	4,375	-	2023
Banca di Imola	EUR	Floating	IRCE S.p.A.	1,260	2,514	2020
CARISBO	EUR	Floating	IRCE S.p.A.	4,000	6,000	2020
Mediocredito Italiano	EUR	Floating	IRCE S.p.A.	5,077	-	2025
Total				14,712	8,956	

The table below shows the changes in non-current financial liabilities during 2018:

€/000	Rate	31/12/2017	Increase	Decrease	31/12/2018
Banco Popolare	IRCE S.p.A.	442	-	(442)	-
Banco Popolare	IRCE S.p.A.	-	4,375	-	4,375
Banca di Imola	IRCE S.p.A.	2,514	-	(1,254)	1,260
CARISBO	IRCE S.p.A.	6,000	-	(2,000)	4,000
Mediocredito Italiano	IRCE S.p.A.	-	5,077	-	5,077
Total		8,956	9,452	(3,696)	14,712

<u>Covenants</u>

- Medium to long term financing totalling € 10 million was granted on 25 September 2015 by Carisbo S.p.A. This financing provides for repayment of capital in eight half-yearly instalments, for a fixed amount of € 1 million each, with the loan maturing on 25 September 2020. Financial covenants in the contract require compliance with a debt to equity ratio of not more than 0.65 (net financial position over net assets), and a debt coverage ratio of not less than 2.5 (adjusted EBITDA over financial charges), calculated on a consolidated basis and audited annually.
- Medium to long term financing totalling € 6 million was granted on 30 January 2018 by Mediocredito Italiano S.p.A. This financing provides for repayment of capital in thirteen half-yearly instalments, for

a fixed amount of € 461,500 each, with the loan maturing on 30 January 2025. Financial covenants in the contract require compliance with a debt to equity ratio of not more than 0.65 (net financial position over net assets), and a debt coverage ratio of not less than 2.5 (adjusted EBITDA over financial expenses), calculated on a consolidated basis and audited annually.

For the financial year ended 31 December 2018 the covenants were honoured.

14. PROVISIONS FOR RISKS AND CHARGES

Provisions for risks and charges are broken down as follows:

€/000	31/12/2017	Effect of IFRS 15	Allocations	Uses	31/12/2018
Provisions for risks and disputes	1,746	(1,404)	108	(97)	353
Provision for severance payments to agents	252	-	36	-	288
Provision for the coverage of losses of IRCE SL	3,380		273	-	3,653
Provision for the coverage of losses of IRCE SL	2,426		113	-	2,539
Provision for the coverage of losses of IRCE so.zo.o	67		-	-	67
Provision for the coverage of losses of Stable Magnet Wire	470		261	-	731
Total	8,341	(1,404)	791	(97)	7,631

The item "Effect of IFRS 15" of €/000 1,404 refers to the reduction of the provision for the risk of capital losses in relation to returns of packaging, since it was no longer needed following application of the new accounting standard. Please refer to paragraph "Recently Issued Accounting Standards".

Provisions for risks and disputes refer to various disputes.

Provision for severance payments to agents refers to allocations made for severance payments relating to outstanding agency contracts.

The Company has also raised a provision for the coverage of losses of some of the subsidiaries, and the related funds are shown to be equal to the negative equity in the above companies.

15. PROVISIONS FOR EMPLOYEE DEFINED BENEFITS

The table below shows the changes in the Provision for employee defined benefits.

€/000	31/12/2018	31/12/2017
Employee benefits provision as of 01/01	4,482	4,547
Financial charges	40	43
Actuarial (gains)/losses	(93)	(14)
Payments	(283)	(94)
Provision for employee benefits as of 31/12	4,146	4,482

The Provision for employee benefits is part of the defined benefit plans.

In order to determine the relevant liability, the Company used the Projected Unit Credit (PUC) cost method, which consists in the following:

- it projected up to the estimated future payment date the employee termination indemnity (TFR) accrued by each employee and reassessed as of the date of the financial statements;
- it calculated the probability-based TFR payments referred to above that the company will have to make in the event that the employee leaves the company following dismissal, resignation, disability, death and retirement, as well as in the event of advance payment requests;
- it discounted each probability-based payment at the measurement date.

Here below are the demographic assumptions used by the actuary in measuring the provision for employee benefits:

- death: RG48 mortality tables issued by the State General Accounting Department;
- disability: INPS tables based on age and gender;
- pension: 100% on reaching the requirements of the general compulsory insurance (AGO, Assicurazione Generale Obbligatoria).

In addition, the following technical-economic assumptions were made:

	31/12/2018	31/12/2017
Annual discount rate	1.13%	0.88%
Annual inflation rate	1.50%	1.50%
Annual rate of increase of employee termination indemnities	2.625%	2.625%

The IBOXX Corporate AA index with a 7-10 year duration as of the measurement date was used as a benchmark for the discount rate.

The annual rate of increase of employee termination indemnities is equal to 75% of inflation, plus 1.5 percentage points.

Here below are the disclosures required by the new IAS 19.

Sensitivity analysis of IRCE S.p.A.'s main measurement parameters:

€/000	DBO change as of 31/12/2018
Inflation rate +0.25%	4,199
Inflation rate -0.25%	4,093
Discount rate +0.25%	4,062
Discount rate -0.25%	4,233
Turnover rate +1%	4,124
Turnover rate -1%	4,170

Service cost: 0.00
Duration of the plan: 8.9

16. CURRENT FINANCIAL LIABILITIES

Financial liabilities are broken down as follows:

€/000	31/12/2018	31/12/2017
- Payables due to banks	46,268	45,018
- Mark to Market Derivatives	64	855
Total	46,332	45,873

The item "Mark to Market Derivatives" refers to the Mark to Market (Fair Value) measurement of USD and GBP forward contracts outstanding as of 31/12/2018.

With regard to financial liabilities, the **net financial position** of the Company, excluding intra-group financial receivables, calculated in accordance with the provisions of Consob Communication 6064293 dated 28 July 2006 and CESR recommendation dated 10 February 2005, was as follows:

€/000	31/12/2018	31/12/2017
Cash	1,126	1,506
Other current financial assets*	295*	13
Liquid assets	**1,421**	**1,519**
Current financial liabilities	(46,332)	(45,108)*
Net current financial debt	**(44,911)**	**(43,589)**
Non-current financial liabilities	(14,712)	(8,956)
Non-current financial debt	**(14,712)**	**(8,956)**
Net financial debt	**(59,623)**	**(52,545)**

** These items differ from the corresponding items of the statement of financial position, since the fair value measurement of copper forward contracts is not included.*

17. TRADE PAYABLES

Trade payables are due in the next 12 months.
As of 31/12/2018 they totalled €/000 12,467, compared to the €/000 21,036 as of 31/12/2017.
Trade payables decreased mainly due to the lower amount of copper purchased in the last months of the year

18. PAYABLES DUE TO SUBSIDIARIES

Trade payables due to subsidiaries were broken down as follows:

€/000	31/12/2018	31/12/2017
- DMG GmbH	99	97
- FD SIMS Ltd	5	32
- ISOLVECO Srl	-	23
- IRCE SL	122	115
- IRCE Ltda	613	1,579
- SMIT DRAAD	-	9
- ISODRA	1	-
- IRCE So.Zo.o	59	-
- ISOLVECO 2	124	-
Total	1,023	1,855

19. TAX PAYABLES

The item is broken down as follows:

€/000	31/12/2018	31/12/2017
- Payables due for income taxes	1,004	1,452
Total	1,004	1,452

20. SOCIAL SECURITY CONTRIBUTIONS

This item, equal to €/000 1,727, primarily refers to the contributions payable to INPS.

21. OTHER CURRENT LIABILITIES

Other payables are broken down as follows:

€/000	31/12/2018	31/12/2017
- Payables due to employees	2,472	2,387
- Deposits received from customers	1,617	1,743
- Accrued liabilities and deferred income	42	30
- Other payables	151	140
- VAT payables	273	784
- IRPEF (personal income tax) payables	477	453
Total	5,032	5,537

COMMENT ON THE MAIN ITEMS OF THE SEPARATE INCOME STATEMENT

22. SALES REVENUES

These refer to revenues from the sale of goods, net of returns, rebates and the return of packages. 2018 turnover, equal to €/000 233,059, reported a decrease of 0.3% compared to the previous year (€/000 233,802).
For additional details, refer to the previous paragraph on segment reporting and to the Report on Operations.

23. OTHER INCOME

Other income was broken down as follows:

€/000	31/12/2018	31/12/2017	change
- Capital gains on disposals of assets	120	60	60
- Increases in internally generated fixed assets	217	189	28
- Insurance reimbursements	48	27	21
- Contingent assets	47	71	(24)
- Other revenues	232	229	3
Total	664	576	88

24. COSTS FOR RAW MATERIALS AND CONSUMABLES

This item, equal to €/000 183,929, includes costs incurred for the acquisition of raw materials, of which the most significant are those represented by copper, insulating materials and materials for packaging and maintenance, net of the change in inventories (€/000 5,312).

25. COSTS FOR SERVICES

These include costs incurred for the supply of services pertaining to copper processing as well as utilities, transportation, commercial and administrative services, and the costs for the use of third-party goods, as detailed below:

€/000	31/12/2018	31/12/2017	change
- External processing	5,283	5,397	(114)
- Utility expenses	7,190	10,513	(3,323)
- Maintenance	674	572	102
- Transportation expenses	2,982	3,014	(32)
- Payable fees	1,237	1,092	145
- Compensation of Statutory Auditors	68	74	(6)
- Rental costs	-	20	(20)
- Other services	3,403	3,643	(240)
Total	20,836	24,325	(3,489)

The item "other services" includes primarily technical, legal and tax consulting fees as well as insurance and business expenses.

The saving in "Utility expenses" was due to lower costs incurred by the Parent Company IRCE S.p.A. for energy consumption, thanks to contributions for energy-intensive businesses. As from 1 January 2018, a new incentive system in favour of energy-intensive businesses has come into force (Ministerial decree of 21 December 2017), where the facilitation conditions and means of application are redefined. The contribution envisages a saving directly on the supplier's invoice, with the annulment of the ASOS (General costs in support of renewable energy and CHP) component on the invoice.

26. PERSONNEL COSTS

Here below is the breakdown of personnel costs:

€/000	31/12/2018	31/12/2017	change
- Salaries and wages	11,462	11,059	403
- Social security charges	3,706	3,547	159
- Retirement costs for defined contribution plans	838	811	27
- Other costs	1,526	1,557	(31)
Total	17,532	16,974	558

The item "Other costs" includes costs for temporary work, contract work, and the compensation of Directors.

The Company's average number of personnel for the year and the current number at year-end is shown below:

Personnel	2018 Average	31/12/2018	31/12/2017
- Executives	13	13	12
- White collars	94	93	97
- Blue collars	297	295	292
Total	404	401	401

The average number of employees is calculated according to the Full-Time Equivalent method and includes both internal and external (temporary and contract) staff.
Personnel is classified according to the type of employment contract.

27. DEPRECIATION/AMORTISATION

Here is the breakdown of depreciation/amortisation:

€/000	31/12/2018	31/12/2017	change
- Amortisation of intangible assets	48	60	(12)
- Depreciation of tangible assets	2,892	2,572	320
Total depreciation/amortisation	2,940	2,632	308

28. PROVISIONS AND WRITE-DOWNS

Provisions and write-downs are broken down as follows:

€/000	31/12/2018	31/12/2017	change
- Write-downs of receivables	121	164	(43)
- Write-downs of receivables due from subsidiaries	-	413	(413)
- Provisions for risks	108	358	(250)
Total provisions and write-downs	229	935	(706)

29. OTHER OPERATING COSTS

Other operating costs are broken down as follows:

€/000	31/12/2018	31/12/2017	change
- Non-income taxes and duties	308	296	12
- Capital losses and contingent liabilities	114	106	8
- Other	34	39	(5)
Total	456	441	15

30. WRITE-DOWN OF EQUITY INVESTMENTS

€/000	31/12/2018	31/12/2017	change
- IRCE SL	273	112	161
- Isodra GmbH	113	43	70
- IRCE Kablo Ve Tel Ltd	-	79	(79)
- Stable Magnet Wire P. Ltd.	261	315	(54)
- IRCE SP.ZO.O	-	54	(54)
- Fd Sims Ltd	940	-	940
Total	1,587	603	984

31. FINANCIAL INCOME AND CHARGES

Financial income and charges are broken down as follows:

€/000	31/12/2018	31/12/2017	change
- Other financial income	2,560	125	2,435
- Income from subsidiaries	84	85	(1)
- Interest and other financial charges	(226)	(2,130)	1,904
- Foreign exchange gains/(losses)	(242)	(278)	36
Total	2,176	(2,198)	4,374

Here below is the breakdown of "Other financial income":

€/000	31/12/2018	31/12/2017	change
- Interest income on receivables due from customers	4	5	(1)
- Sundry interest income	100	120	(20)
- Income from LME derivatives	2,456	-	2,456
Total	2,560	125	2,435

"Sundry interest income" refers to interest on extended payment terms granted to customers concerning the use of factoring services.

Here below is the breakdown of "Interest and other financial charges":

€/000	31/12/2018	31/12/2017	change
- Interest expense for short-term payables	14	13	1
- Interest expense for medium to long-term payables	95	90	5
- Sundry interest expense	42	45	(3)
- Bank fees and expenses	75	67	8
- Charges on derivatives	-	1,915	(1,915)
Total	226	2,130	(1,904)

The item "Sundry interest expense" includes the interest cost deriving from the discounting of the Employee Termination Indemnity pursuant to IAS 19.

32. INCOME TAXES

€/000	31/12/2018	31/12/2017	changes
- Current taxes	(3,171)	(2,212)	(959)
- Deferred tax assets/(liabilities)	19	(171)	190
Total	(3,152)	(2,383)	(769)

The numerical reconciliation between the tax charge and the product of accounting profit multiplied by the applicable tax rate is shown below:

€/000	31/12/2018	31/12/2017
Profit/(Loss) before tax	11,055	7,246
Taxes calculated with applicable IRES rate (24%)	2,653	1,739
Tax impact of non-deductible IRES costs		
Permanent changes	116	164
Temporary changes	(64)	(27)
ACE deduction	(91)	(92)
IRAP rate (effective)	557	555
Taxes related to previous years		(127)
Total	3,171	2,212

33. RELATED PARTY DISCLOSURES

The Company engages in commercial and financial transactions with its companies, as reported below:

Company €/000	Revenues	Financial Income	Cost for purchase	Costs for serivces	Financial Credits	Trade Receivables	Trade Payables
FD Sims Ltd	1,402	26	977	8	7,055	124	5
Smit Draad Nijmegen BV	3	17	8	-	5,317	5	-
Isomet AG	5,675	1	-	-	601	2,774	-
IRCE Ltda	701	-	612	-	15	313	612
Isolveco Srl	248	-	-	40	-	1,521	-
DMG Gmbh	37	6	14	445	1,706	8	99
IRCE SL	4	14	-	298	1,588	2,316	122
Stable Magnet Wire P.Ltd	656	-	-	-	-	1,588	-
ISODRA Gmbh	309	10	1	-	1,934	1,180	1
Isolveco 2 Srl	761	-	-	149	10	566	124
Irce Sp. Zo.o	-	7	-	59	136	-	59
	9,790	84	1,612	1,000	18,362	10,395	1,023

In compliance with the requirements of IAS 24, the annual compensation received by the members of the Board of Directors is shown below:

€/000	Compensation for the office held	Compensation for other tasks	Total
Directors	251	334	585

This table shows the compensation paid for any reason and in any form, excluding social security contributions.
Following the introduction of Article 123-ter of the Consolidated Financial Act, further details on these amounts are provided in the Remuneration Report, which will be made available within the time limits prescribed by the law at the registered office of the Company, as well as on the website www.irce.it.

34. MANAGEMENT OF TRADE RECEIVABLES

Here below is the breakdown of receivables by internal rating.
The reclassification of receivables takes into account any positions subject to renegotiation.

Risk level	2018 Exposure €/000	2017 Exposure, €/000
Low	15,684	13,076
Medium	20,750	32,551
Above-average	7,438	14,000
High	1,022	1,552
Total	44,894	61,179

Due date	2018 Amount €/000	2017 Amount €/000
Not yet due	43,590	57,508
< 30 days	241	1,161
31-60	-	977
61-90	41	-
91-120	-	-
> 120	1,022	1,533
Total	44,894	61,179

The Fair Value of trade receivables corresponds to their nominal exposure.
The bad debt provision, equal to €/000 693, refers to the range between 91-120 and > 120 days and to the above-average and high risk level.
Please note that there are no clients generating revenue for the Company that exceeds 10% of total revenue.

35. CAPITAL RISK MANAGEMENT

The primary objective in managing the Company's capital is to maintain a solid credit rating and adequate capital ratios in order to support operations and maximise shareholder value.

€/000	31/12/2018	31/12/2017
Net financial debt (A)	59,623	52,545
Shareholders' equity (B)	149,250	144,178
Total capital (A) + (B) = (C)	208,873	196,723
Gearing ratio (A) / (C)	28.5%	26.7%

36. FINANCIAL INSTRUMENTS

Here below is a comparison between the carrying amount and fair value of all the Company's financial instruments broken down by category:

€/000	Carrying amount		Fair value	
	2018	2017	2018	2017
Financial assets				
Cash and cash equivalents	1,126	1,506	1,126	1,506
Other financial assets	590	13	590	13
Financial liabilities				
Current loans	46,332	45,873	46,332	45,873
Non-current loans	14,712	8,956	14,712	8,956

37. DISCLOSURE PURSUANT TO ARTICLE 149-DUODECIES OF CONSOB ISSUERS' REGULATIONS

The following statement, drafted in accordance with Article 149-duodecies of the Consob Issuers' Regulations, shows the compensation relative to the year 2018 for auditing services and for other services supplied by the independent auditor or by entities belonging to its network to IRCE S.p.A.

€/000	Entity supplying the service	Compensation for the year 2018
Annual statutory audit	PricewaterhouseCoopers SpA	121

38. COMMITMENTS

As of the reporting date there are no Company's commitments, with the exception of operating lease contracts for the amount of approximately € 0.09 million.

39. INFORMATION ON LAW NO. 124/2017

During the financial year the Company received a subsidy from the Italian Government's State Aid Register in relation to the year 2016. A benefit was also received through reduced general service charges for ‘energy-intensive’ companies based on law no. 167/2017, with charges reduced by an amount of € 3,845,041.15 split over the production facilities as follows:

IMOLA (BO) € 2,758,740
UMBERTIDE (PG) € 709,316
GUGLIONESI (CB) € 335,826
MIRADOLO TERME (PV) € 41,159

40. EVENTS AFTER THE REPORTING DATE

No significant events occurred between 1 January 2019 and the date of preparation of these financial statements.

Imola, 15 March 2019

On behalf of the Board of Directors

The Chairman

Mr Filippo Casadio

Attachment 1

Certification of the annual separate financial statements of IRCE S.p.A. pursuant to Article 154-bis, paragraph 5, of Italian Legislative Decree no. 58 of 24 February 1998:

We, the undersigned, Mr Filippo Casadio, Chairman, and Ms Elena Casadio, Manager responsible for preparing the corporate accounting documents of IRCE S.p.A., hereby certify, taking into account the provisions of Article 154-bis, paragraph 5, of Italian Legislative Decree no. 58 of 24 February 1998:

- the adequacy in relation to the company's characteristics, and
- the effective implementation

of the administrative and accounting procedures used to prepare the separate financial statements.

In addition, we hereby certify that the annual separate financial statements:

d) are consistent with accounting books and records;
e) are prepared in compliance with international accounting standards and give a true and fair view of the financial position, financial performance and cash flows of the Company;
f) that the Report on Operations contains a reliable analysis of the information pursuant to paragraph 4, Article 154-ter of Italian Legislative Decree no. 58 of 24 February 1998.

Imola, 15 March 2019

Filippo Casadio
Chairman

Elena Casadio
Manager responsible for preparing the corporate accounting documents

Attachment 2

List of equity investments in direct subsidiaries

The amounts referring to foreign investees have been translated into Euro using historical exchange rates. Solely for reporting purposes, in the following table, the provision for write-down of equity investments was recognised as a deduction from the carrying amount of the equity investments for which it was set aside. The provision against future losses has been set aside for those subsidiaries whose carrying value has already been written off completely.

2018 Società	Capitale sociale	Patrimonio Netto	Patrimonio Netto di competenza	Risultato di esercizio	Risultato di esercizio di competenza	Valore di carico	Fondo oneri futuri	Differenza
FD SIMS ltd	18.173.127	7.125.315	7.125.315	(856.413)	(856.413)	7.125.315		0
Smit Draad Nijmegen BV	1.165.761	7.878.497	7.878.497	(3.222.187)	(3.222.187)	7.273.000		605.497
Isomet AG	674.354	3.126.020	3.126.020	(574.603)	(574.603)	1.434.650		1.691.370
IRCE Ltda	58.809.209	37.468.952	37.468.952	2.087.760	2.087.760	58.465.925		(20.996.973)
Isolveco SRL	46.440	(1.500.362)	(1.125.272)	(100.025)	(75.019)	0		(1.125.272)
DMG Gmbh	255.646	1.455.081	1.455.081	(171.365)	(171.365)	119.526		1.335.555
IRCE SL	150.000	(3.653.406)	(3.653.406)	(273.236)	(273.236)	0	(3.653.406)	0
Stable Magnet Wire P.Ltd	2.601.531	(730.937)	(730.937)	(290.235)	(290.235)	0	(730.937)	0
Isodra Gmbh	25.000	(2.538.324)	(2.538.324)	(112.544)	(112.544)	0	(2.538.324)	0
Isolveco 2 SRL	10.000	13.354	13.354	3.354	3.354	0	0	33.354
Irce Electromagnetic wire Co.Ltd	1.000.000	885.034	885.034	(87.316)	(87.316)	1.000.000		(114.966)
Irce SP.ZO.O	48.156	(61.621)	(61.621)	4.432	4.432	0	(67.977)	6.356
Totale						75.418.416		

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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
IRCE SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of IRCE SpA (hereinafter, also the "Company" and together with its subsidiaries the "IRCE Group"), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated income statement, the consolidated statement of comprehensive income, the statement of changes in consolidated equity and the consolidated statement of cash flows for the year then ended and the 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 IRCE Group as at 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. 38/2005.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of this report. We are independent of IRCE SpA 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.

PricewaterhouseCoopers SpA

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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.

Key Audit Matters	*Auditing procedures performed in response to key audit matters*
Inventories: estimate of the net realisable value of the "copper component" *See note no. 6 to the consolidated financial statements and paragraphs "Assessment criteria and Accounting standards applied" and "Use of estimates" in the notes to the consolidated financial statements as at 31 December 2018.*	
As at 31 December 2018 the value of inventories recognized in the consolidated financial statements of the IRCE Group amounted to Euro 95.8 million, equal to 41.1% of total consolidated assets. The main raw material used by the IRCE Group in the production process is copper, whose value is the most significant component of raw materials, finished products and work in progress. When arranging the contract conditions of sale, the IRCE Group agrees with customers the mechanism for determining the consideration for sale broken down by the two components of the finished products: i) for the quantity of copper included in the finished products (i.e. "copper component"), the consideration for sale is fixed, if it is equal to the price of copper when the order is confirmed by customers or alternatively, determinable, if there is a mechanism for determining the consideration for sale linked to the trend in the copper prices in a set period of time; ii) for costs of production other than copper (i.e. "manufacturing component") a fix consideration for sale is agreed upon with the counterparty.	Our audit approach preliminarily consisted in understanding and assessing the methods, procedures and internal controls defined by the IRCE Group in order to evaluate the "copper component" of inventories applying the weighted average cost and to determine the related net realisable value. Taking account of the understanding and assessment of the aforementioned internal controls, we planned and performed tests of details on such financial statements line items. In this respect, we highlight that the tests of details on the net realisable value of the "copper component" were designed splitting inventories into homogeneous classes based on their risk profile; in particular, inventories can be grouped in the following homogeneous classes: i) commitments and sales orders in place at the balance-sheet date with a fix price of copper; ii) inventories relating to sales without a fix price of copper made in the first months of the financial year 2019; iii) inventories without commitments and sales orders with a fix price of copper which were not being sold in the first months of 2019. Regarding commitments and sales orders in place at the balance-sheet date with a fix price of copper, in order to verify the correct measurement in the financial statements of the

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For the preparation of the consolidated financial statements, the "copper component" of finished products and work in progress, valued separately from the "manufacturing component", is carried at the lower of purchase cost and net realisable value.

The price of copper quoted on the LME ("London Metal Exchange", i.e. the major market for non-ferrous metals) is subject to fluctuations, even significant; therefore, a prolonged downward trend in the copper prices after the closing date of the financial statements entails the risk that the net realisable value of copper held within inventories may be lower than its carrying amount and that the value of raw materials, finished products and work in progress needs to be written down.

When preparing the consolidated financial statements, the Directors of IRCE SpA carry out a specific analysis in order to verify if there are the conditions to write down the "copper component" of inventories, taking account, among others, the mechanism for determining the consideration for sale of the "copper component", the copper prices available until a date close to the approval of the consolidated financial statements, the commitments and sales orders in plance at the year-end with a fix price of copper, as well as the expected trend of the copper prices in the months after the approval of the consolidated financial statements.

The valuation of the "copper component" within inventories was considered of particular importance in our audit of the consolidated financial statements of the IRCE Group. It is thus a key audit matter, considering its significance and the methods to calculate the recoverable amount based on management's complex estimates regarding the future trend of copper prices.

"copper component", we obtained a detail of these commitments and sales orders from the IRCE Group showing a comparison between the weighted average cost of the "copper component" and the selling price, and we checked the mathematical accuracy of such detail, as well as the agreement, on a sample basis, of the related selling price with supporting documentation (purchase orders from customers and sales invoices).

For commitments and sales orders without a fix price of copper, whose sale was finalised in the period after the closing date of the financial statements, we obtained a detail of the sales transactions in the first months of 2019 showing, for each transaction, a comparison between the weighted average cost of the "copper component" and related selling price. We checked the mathematical accuracy of this detail and, on a sample basis, the agreement of the selling price reported in that detail with the supporting documentation (purchase orders from customers and sales invoices).

In order to assess the reasonableness of the estimate of the presumed realisable value of the "copper component" for inventories without commitments and sales orders with a fix price of copper that were not being sold in the first months of 2019 but are expected to be sold within April 2019, on the basis of the average inventory rotation of the IRCE Group, we obtained a detail of the calculation performed by the Company to determine the copper price average on the LME in the period from January to the first days of March 2019, we tested the mathematical accuracy and verified the agreement of the copper prices reported in said calculation with publicly available prices. Additionally, we compared the weighted average cost of the "copper component" as at the balance-sheet date and the copper price average above, to find whether any write-downs were to be entered in the financial statements, considering also the trend of copper prices in March 2019.

	Finally, the audit approach entailed performing sample tests on the correctness of the calculation of the weighted average cost used to value the "copper component".

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with 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. 38/2005 and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Group's ability to continue as a going concern and, 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, the directors use the going concern basis of accounting unless they either intend to liquidate IRCE SpA or to cease operations, or have no realistic alternative but to do so.

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

As part of our 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 IRCE Group's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- We concluded on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the IRCE 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 IRCE 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 IRCE Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the IRCE 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 29 April 2011, the shareholders of IRCE SpA in general meeting engaged us to perform the statutory audit of the Company's separate and consolidated financial statements for the years ending 31 December 2011 to 31 December 2019.

We declare that, in relation to the year 2018, 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. 39/2010 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/1998

The Directors of IRCE SpA are responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the IRCE Group as at 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. 58/1998, with the consolidated financial statements of the IRCE Group as at 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 IRCE Group as at 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. 39/2010, 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.

Statement in accordance with article 4 of Consob's Regulation implementing Legislative Decree No. 254 of 30 December 2016

The Directors of IRCE SpA are responsible for the preparation of the non-financial statement pursuant to Legislative Decree no. 254 of 30 December 2016.
We have verified that the directors 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 another auditor.

Bologna, 29 March 2019

PricewaterhouseCoopers SpA

Signed by

Giuseppe Ermocida
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

pwc

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
IRCE SpA

Report on the audit of the separate financial statements

Opinion

We have audited the separate financial statements of IRCE SpA (hereinafter, also the "Company"), which comprise the statement of financial position as at 31 December 2018, the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the separate financial statements give a true and fair view of the financial position of IRCE SpA as at 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. 38/2005.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the separate 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 separate financial statements of the current period. These matters were addressed in

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the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters	*Auditing procedures performed in response to key audit matters*
Recoverability of the value of the equity investment in IRCE Ltda *See Note no. 3 of the separate financial statements and paragraphs "Assessment criteria and Accounting standards applied" and "Use of estimates" in the notes to the separate financial statements at 31 December 2018.*	
As at 31 December 2018 the value of the equity investment in the subsidiary IRCE Ltda, a Brazilian company fully owned by IRCE SpA, amounted to Euro 58.5 million, equals to 24% of total assets, and was carried at cost adjusted for impairment losses. The Company performs analyses, at least annually, in order to find if there is any impairment indicators of equity investments; if such indicators are identified, it carries out impairment testing, i.e. the evaluation exercise aimed to verify if the recoverable amount of the investment is at least equal to its carrying amount, applying the Discounted Cash Flow valuation method. The determination of the recoverable amount of the investment in IRCE Lda was considered of a particular significance for the audit of the Company's separate financial statements; it is therefore a key audit matter since it is based on a complex estimate process and on the use of assumptions affected by future market trends specifically regarding future cash flows, the discount rate, the perpetuity rate of growth and the rate of exchange between the Brazilian currency and the Euro.	Our audit approach preliminarily consisted in understanding and assessing the methods and procedures defined by the Company in order to determine the recoverable amount of the investement in IRCE Ltda that were approved by the Company's Board of Directors on 15 March 2019 to comply with IAS 36 adopted by the European Union. We reviewed the reasonableness of the methods adopted and the main assumptions behind the valuation method (Discounted Cash Flow), also involving PwC network's valuation experts. Specifically, we verified the reasonableness of the discount rate and the perpetuity rate of growth compared with the generally adopted valuation practices for companies belonging to the IRCE Group's business sector. We also verified the consistency of the cash flows used in the valuation model with those in the 2019-2023 business plan prepared by the Directors of IRCE Ltda (the "Business Plan"). We analysed the reasonableness of the projected cash flows included in the Business Plan through interviews of Company's management; to do this, we carried out a critical analysis on the reasonableness of the forecasts included in the Business Plan of IRCE Ltda, with particular regard to the performance of revenues and margins. To this end, we analysed the management's forecast capacity by comparing the forecasts included in the business plans

drawn up in the last three years and the actual data, verifying also any variations between the sales turnover of IRCE Ltda in the first two months of the financial year 2019 and the 2019 budget forecasts.

Moreover, we checked the accuracy of the valuation model prepared by the Company.

Finally, we examined the disclosures provided by the Company in the financial statements in respect of the method adopted to determine the recoverable amount of the investment in IRCE Ltda, the results of the valuation and the sensitivity analysis.

Inventories: estimate of the net realisable value of the "copper component"

See note no. 6 to the separate financial statements and paragraphs "Assessment criteria and Accounting standards applied" and "Use of estimates" in the notes to the separate financial statements at 31 December 2018.

At 31 December 2018 the value of inventories recorded in the separate financial statements of IRCE SpA amounted to Euro 67.3 million, equal to 27.7% of total assets.

The main raw material used by the Company in the production process is copper, whose value is the most significant component of raw materials, finished products and work in progress.

When arranging the contract conditions of sale, the Company agrees with customers the mechanism for determining the consideration for sale broken down by the two components of the finished products: i) for the quantity of copper included in the finished products (i.e. "copper component"), the consideration for sale is fixed, if it is equal to the price of copper when the order is confirmed by customers or

Our audit approach preliminarily consisted in understanding and assessing the methods, procedures and internal controls defined by IRCE SpA in order to evaluate the "copper component" of inventories applying the weighted average cost and to determine the related net realisable value. Taking account of the understanding and assessment of the aforementioned internal controls, we planned and performed tests of details on such financial statements line items.

In this respect, we highlight that the tests of details on the net realisable value of the "copper component" were designed splitting inventories into homogeneous classes based on their risk profile; in particular, inventories can be grouped in the following homogeneous classes: i) commitments and sales orders in place at the alternatively, determinable, if there is a mechanism for determining the consideration for sale linked to the trend in the copper prices in a set period of time; ii) for costs of production other than copper (i.e. "manufacturing component") a fix consideration for sale is agreed upon with the counterparty.

For the preparation of the separate financial statements, the "copper component" of finished products and work in progress, valued separately from the "manufacturing component", is carried at the lower of purchase cost and net realisable value.

The price of copper quoted on the LME ("London Metal Exchange", i.e. the major market for non-ferrous metals) is subject to fluctuations, even significant; therefore, a prolonged downward trend in the copper prices after the closing date of the financial statements entails the risk the net realisable value of copper held within inventories may be lower than its carrying amount and that the value of raw materials, finished products and work in progress needs to be written down.

When preparing the separate financial statements, the Directors of IRCE SpA carry out a specific analysis in order to verify if there are the conditions to write down the "copper component" of inventories, taking account, among others, the mechanism for determining the consideration for sale of the "copper component", the copper prices available until a date close to the approval of the separate financial statements, the commitments and sales orders in place at the year-end with a fix price of copper, as well as the expected performance of the copper prices in the months after the approval of the separate financial statements.

The valuation of the "copper component" within inventories was considered of particular importance in our audit of the separate financial statements of IRCE SpA. It is thus a key audit matter, considering its significance and the methods to calculate the recoverable amount based on management's complex estimates

balance-sheet date with a fix price of copper; ii) inventories relating to sales without a fix price of copper made in the first months of the financial year 2019; iii) inventories without commitments and sales orders with a fix price of copper which were not being sold in the first months of 2019.

Regarding commitments and sales orders in place at the balance-sheet date with a fix price of copper, in order to verify the correct measurement in the financial statements of the "copper component", we obtained a detail of these commitments and sales orders from the Company showing a comparison between the weighted average cost of the "copper component" and the selling price, and we checked the mathematical accuracy of such detail, as well as the agreement, on a sample basis, of the related selling price with supporting documentation (purchase orders from customers and sales invoices).

For commitments and sales orders without a fix price of copper, whose sale was finalised in the period after the closing date of the financial statements, we obtained a detail of the sales transactions in the first months of 2019 showing, for each transaction, a comparison between the weighted average cost of the "copper component" and related selling price. We checked the mathematical accuracy of this detail and, on a sample basis, the agreement of the selling price reported in that detail with the supporting documentation (purchase orders from customers and sales invoices).

In order to assess the reasonableness of the estimate of the net realisable value of the "copper component" for inventories without commitments and sales orders with a fix price of copper that were not being sold in the first months of 2019 but are expected to be sold within April 2019, on the basis of the average inventory rotation of IRCE SpA, we obtained a detail of the calculation performed by the Company to determine the copper price average on the LME in the period from January to the first days of March 2019, we tested the mathematical accuracy and verified the

regarding the future trend of copper prices.	agreement of the copper prices reported in said calculation with publicly available prices. Additionally, we compared the weighted average cost of the "copper component" as at the balance-sheet date and the copper price average above, to find whether any write-downs were to be entered in the financial statements, considering also the trend of copper prices in March 2019. Finally, the audit approach entailed performing sample tests on the correctness of the calculation of the weighted average cost used to value the "copper component".

Responsibilities of the Directors and the Board of Statutory Auditors for the Financial Statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with 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. 38/2005 and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Company's ability to continue as a going concern and, 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, the directors use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

As part of our 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 the directors;
- We concluded on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 29 April 2011, the shareholders of IRCE SpA in general meeting engaged us to perform the statutory audit of the Company's separate and consolidated financial statements for the years ending 31 December 2011 to 31 December 2019.

We declare that, in relation to the year 2018, 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 separate 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. 39/2010 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/1998

The Directors of IRCE SpA are responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the IRCE Group as at 31 December 2018, including their consistency with the relevant separate 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. 58/1998, with the separate financial statements of IRCE SpA as at 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 separate financial statements of IRCE SpA as at 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. 39/2010, 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.

Bologna, 29 March 2019

PricewaterhouseCoopers SpA

Signed by

Giuseppe Ermocida
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

IRCE S.p.A.

Independent Auditors' Report
on the consolidated non-financial statement pursuant to article 3, paragraph 10 of Legislative Decree no. 254 of December 30, 2016 and of article 5 of CONSOB

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Independent Auditors' Report

on the consolidated non-financial statement pursuant to article 3, paragraph 10 of Legislative Decree no. 254 of December 30, 2016 and of article 5 of CONSOB Regulation n. 20267 of January 18 2018

To the Board of Directors of IRCE S.p.A.

Pursuant to article 3, paragraph 10, of the Legislative Decree no. 254 of December 30, 2016 ("Decree") and to article 5 of the CONSOB Regulation n. 20267 of January 18 2018, we have been engaged to perform a limited assurance engagement on the Consolidated Non-Financial Statement of IRCE S.p.A. and subsidiaries (the "Group") as of December 31, 2018 prepared in accordance with article 4 of the Decree, and approved by the Board of Directors on March 15th, 2019 (hereinafter the "NFS").

Directors' and Board of Statutory Auditors' responsibility for the NFS

The Directors are responsible for the preparation of a NFS in accordance with articles 3 and 4 of the Decree and "*Global Reporting Initiative Sustainability Reporting Standards" established by GRI - Global Reporting Initiative ("GRI Standards"), with reference to the selection of GRI Standards.*
The Directors are also responsible, within the terms established by law, for such internal control as they determine is necessary to enable the preparation of a NFS that is free from material misstatement, whether due to fraud or error.

Moreover, the Directors are responsible for the identification of the content of the NFS, within the topics specified in article 3, paragraph 1, of the Decree, taking into account the Group' business and characteristics, to the extent necessary to ensure an understanding of the Group's business, performance, results and the related impacts.

Finally, the Directors are responsible to design a business management model for the organisation of the Group's activities, as well as, with reference to the topics identified and reported in the NFS, for the policies for the identification and management of the risks generated or undertaken by the Group.

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

Auditors' independence and quality control

We are independent in compliance with the independence and all other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. Our company applies International Standard on Quality Control 1 (ISQC Italia 1) and, accordingly, maintains a system of quality control that includes directives and procedures concerning compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Auditors' responsibility

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

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

Specifically, we carried out the following procedures:

1. Analysis of relevant topics with reference to the Group's activities and characteristics disclosed in the NFS, in order to assess the reasonableness of the process in place for the selection process in the light of the provisions of article 3 of the Decree and taking into account the adopted reporting standard.
2. Analysis and assessment of the identification criteria of the consolidation area, in order to assess its compliance to the Decree.
3. Comparison of data and financial economic disclosures presented in the NFS with those included in the Group's consolidated financial statements.
4. Understanding of the following matters:
   - Business management model of the Group's activity, with reference to the management of the topics set out in article 3 of the Decree;
   - Policies adopted by the entity in connection with the topics set out in article 3 of the Decree, achieved results and related key performance indicators;
   - Main risks, generated and/or undertaken, in connection with the topics set out in article 3 of the Decree.

   With reference to these matters, we compared them with the disclosures presented in the NFS and carried out the procedures described in point 5, letter a).
5. Understanding of the processes underlying the origination, recording and management of significant qualitative and quantitative information disclosed in the NFS.

   Specifically, we carried out interviews and discussions with the management and the employees of IRCE S.p.A. We also performed limited documentary verifications, in order to gather information on the processes and procedures supporting the collection, aggregation, processing and transmittal of non-financial data and information to the department responsible for the preparation of the NFS.

   In addition, with respect to significant information, taking into consideration the Group's business and characteristics:

   - at parent company's and subsidiaries level:
     a) with regards to qualitative information included in the NFS, and specifically with reference to the business model, policies applied and main risks, we carried out interviews and gathered supporting documentation to check for consistency with available evidence.
     b) with regards to quantitative information, we carried out both analytical and limited procedures to ensure, on a sample basis, the correct aggregation of data.

c) we carried out site visits, to meet their management and gather supporting documentation with reference to the correct application of the procedures and methods used to calculate the indicators.

Conclusion

Based on the work performed, nothing has come to our attention that causes us to believe that the NFS of IRCE Group as of December 31, 2018 has not been prepared, in all material respects, in accordance with the requirements of article 3 and 4 of the Decree and the selected GRI Standards.

Bologna, March 29th, 2019

Signed by
BDO Italia S.p.A.

Alessandro Gallo
Partner

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

Irce S.p.A.

Registered office Imola (Bologna) Via Lasie 12/B

Share capital € 14,626,560.00 fully paid up

Bologna Companies' Register and Tax Code No. 82001030384 – Economic and Administrative Index (REA) No. 266734

Report of the Board of Statutory Auditors to the Shareholders' Meeting of IRCE S.p.A., pursuant to art. 153 of Italian Legislative Decree no. 58/1998 and art. 2429, paragraph 3 of the Italian Civil Code

Dear Shareholders,

the separate financial statements for the financial year ended 31 December 2018, which are submitted for the approval of the Shareholders' Meeting of this company, show a profit of € 7,902,954.

First, please note that the current Board of Statutory Auditors was appointed by the Shareholders' Meeting on 28 April 2017.

The financial statements, which the Board of Directors submitted to the Board of Statutory Auditors within the time limits prescribed by law, have been prepared in accordance with IASs/IFRSs issued by the International Accounting Standards Board (IASB) and endorsed by the European Union.

The Company's Financial Statements include the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Cash Flow Statement, and the Notes to the Financial Statements. The financial statements are supplemented with the Directors' Report on Operations, which outlines the main risks and uncertainties and the outlook of the company.

Pursuant to article 123-bis of the Consolidated Financial Act and to the of the Markets Rules organised and managed by Borsa Italiana S.p.A., the

Company has prepared the annual Report on Corporate Governance and Shareholding Structure.

During the financial year ended 31 December 2018, the Board of Statutory Auditors has carried out its supervisory activities in compliance with art. 149 of Italian Legislative Decree no. 58/1998, in accordance with the code of ethics of the Board of Statutory Auditors in companies with shares listed in regulated markets drafted by the Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili (Italian Board of Chartered Accountants and Accounting Consultants), as well as CONSOB recommendations concerning accounting audits and the activities of the Board of Statutory Auditors.

In preparing this report, we have taken into consideration CONSOB communications no. 1025564 of 6 April 2001, no. 321582 of 4 April 2003, and no. 6031329 of 7 April 2006 and the guidelines indicated in the Corporate Governance Code, which concern the content of the reports of the Board of Statutory Auditors to the shareholders' meetings of listed companies.

In particular, the Board has:

- supervised compliance with the Law and the Articles of Association as well as the principles of correct management. On the basis of the information obtained through its own supervisory activities, the Board of Statutory Auditors believes the company's operations conform to the principles of correct management, have been resolved upon and implemented in compliance with the law and the articles of association, and are in the interest of the company. Moreover, said operations do not appear to be manifestly imprudent, reckless or uninformed. They do not conflict with the resolutions passed by the shareholders' meeting, nor do they appear to compromise the integrity of the company's assets;
- attended meetings of shareholders and the Board of Directors and has obtained from the board members information on the operations and the

transactions carried out by the company and its subsidiaries that were most significant to the financial performance, financial position and cash flows;

- supervised to ensure the adequacy of the administrative-accounting system, both on the basis of direct checks and through the periodic exchange of information with the Independent Auditors, from which the Board of Statutory Auditors has not received any reports of errors as defined in art. 155, paragraph 2 of Italian Legislative Decree no. 58/1998. The Board of Statutory Auditors believes that the administrative-accounting system is essentially adequate for ensuring that the company's operations are presented fairly in the individual and consolidated financial statements;
- obtained information from the Manager responsible for preparing the corporate accounting documents in accordance with the provisions of art. 154-bis of Italian Legislative Decree no. 58/1998. Said Manager has not reported any particular or significant deficiencies in the operating and control processes such as to question the adequacy and effective implementation of administrative-accounting procedures for the purpose of presenting fairly the company's financial performance, financial position and cash flows in compliance with international accounting standards;
- liaised with members of the Control and Risks Committee established within the Board of Directors, receiving information from the professional entrusted with the internal audit function. As outlined in the Report on Corporate Governance and Shareholding Structure, in compliance with the provisions of the Corporate Governance Code, the Board of Directors assumed responsibility for the Company's internal control. The Board of Statutory Auditors attended the meetings of the Control and Risks Committee;
- gathered information about the activities carried out by the person

entrusted with the internal audit function during 2018, specifically concerning the control of the procedures under review.

- took note of the suggestions provided by the Control and Risks Committee to the Board of Directors to improve the efficiency of the internal control system, considering this a priority. In this regard, the company appointed to audit the accounts, in its periodic exchange of information with the Board of Statutory Auditors, has not reported any critical situations with reference to the internal control system, although it stressed the need for improvements;
- supervised – since the Board of Statutory Auditors is not required to carry out an analytical control of the substance of the financial statements' contents – the overall presentation of the financial statements drafted in accordance with IASs/IFRSs, as well as compliance with the law concerning their preparation and presentation, and has no remarks to make;
- obtained, during the year, information on the operations of the Supervisory Body as per the organisational, management and control model (Italian Legislative Decree no. 231/2001), as reported also in the Supervisory Body's annual report, issued on 22 February 2019;
- verified that the report on operations for 2018 complies with applicable laws and regulations, consistently with the resolutions passed by the Board of Directors and the representations in the financial statements. The Board of Statutory Auditors had no remarks to make on the consolidated half-yearly report. The half-yearly and quarterly reports have been published according to applicable laws and regulations.
- supervised the obligations concerning non-financial information pursuant to Italian Legislative Decree no. 254/2016, verifying, in particular, the proper fulfilment of the requirements in connection with the drawing up and publication of the consolidated non-financial statement by the Parent Company;

- supervised the actual functioning and the effective implementation by the Board of Directors of the procedure for the management and approval of related-party transactions adopted by resolution of 30 November 2010, pursuant to art. 2391-bis of the Italian Civil Code and art. 4 of the Regulation on related-party transactions adopted by CONSOB with resolution no. 17221 of 12 March 2010.

The Board of Statutory Auditors has noted that at the meeting of 15 March 2018, the Board of Directors, as recommended in a document dated 3 March 2010, issued jointly by the Bank of Italy/Consob/ISVAP, has certified, independently and prior to approving the draft financial statements, the compliance of impairment testing with IAS 36.

Specifically, the Company tested for impairment the amounts reported by the investees Isomet AG, FD Sims LTD, Irce Ltda and Smit Draad Nijmegen BV.

The Explanatory Notes to the Financial Statements include information on, and the results of, our assessment.

During our supervisory activity, as described above, we found no significant issues to be mentioned in this report.

The statutory audit was performed by the independent auditors PricewaterhouseCoopers S.p.A., with which the Board held periodic meetings to exchange information about the operations of the Company and its subsidiaries, also for the purposes of preparing this report by gathering information on the audit report as per articles 14 and 16 of Italian Legislative Decree no. 39/2010.

The Board of Statutory Auditors examined the PricewaterhouseCoopers S.p.A. Independent Auditors' reports dated 29 March 2019, issued pursuant to article 14 of Italian Legislative Decree no. 39/2010 and article 10 of Regulation (EU) no. 537/2014, acknowledging that, in the opinion of the independent auditors, the separate financial statements of the company and the consolidated financial statements of the group as of 31 December 2018 comply with the International Financial Reporting Standards as endorsed by the European Union and, therefore, are clear and give a true and fair view of the financial position, financial performance and cash flows for the financial year ended on said date, outlining in the same reports the key aspects of the audit that it regards as the most significant within the work carried out.

It is also the opinion of the Independent Auditors that the Report on Operations and the information as per paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b), of art. 123-bis of Italian Legislative Decree no. 58/1998 contained in the Report on Corporate Governance are consistent with the separate financial statements.

While auditing the separate and consolidated financial statements of Irce S.p.A., the Independent Auditors did not find any actions or events to be reported to the Board of Statutory Auditors.

The Board of Statutory Auditors examined the report by the Independent Auditors BDO Italia S.p.A. on the consolidated non-financial statement pursuant to article 3, par. 10, of Italian Legislative Decree no. 254/2016 and article 5 of CONSOB Regulation no. 20267, issued on 29 March 2019, acknowledging that, in the opinion of the Independent Auditors, there are no elements that suggest that the Irce Group's NFS for the year ended 31 December 2018 has not been drawn up in compliance with the requirements of articles 3 and 4 of the Decree and the GRI Standards defined by the Global Reporting Initiative in 2016.

Within the scope of its responsibility, pursuant to art. 153 of the above-mentioned Italian Legislative Decree no. 58/1998 and in accordance with Consob's resolution DEM 1025564 of 6 April 2001, the Board of Statutory Auditors also specifies that:

- it received from Board Members, during both board meetings and the meetings held on a regular basis, detailed and relevant information about the company's operations, and especially the transactions that were most significant to its financial performance, financial position and cash flows;

- the report on operations, the information supplied during the Board of Directors' Meeting, and that received by the company's management and the Independent Auditors did not reveal any atypical and/or unusual transactions, including intra-group or related party transactions;
- during the financial year, neither PricewaterhouseCoopers SpA nor other companies belonging to its network were assigned any duties other than auditing;
- during the financial year the company BDO Italia S.p.A. has been appointed Auditor in charge of preparing the consolidated non-financial statement. In this regard, it is noted that the preparation of the consolidated non-financial statement exempts the subsidiaries already included therein from the preparation of the report;
- during the financial year, the Board of Statutory Auditors did not submit any opinions or proposals in accordance with the law;
- during the financial year, the following meetings were held:
  1 Shareholders' Meeting;
  8 Meetings of the Board of Directors;
  5 Meetings of the Board of Statutory Auditors;
- during 2018 and to date, no claims were made pursuant to art. 2408 of the Italian Civil Code nor did shareholders and/or third parties submit any complaints;
- the Board of Statutory Auditors acts as the "*Internal Control and Audit Committee*", as defined in art. 19 of Italian Legislative Decree no. 39/2010; in this regard, based also on the information received from the Chairman of the Board of Directors, the members of the Control and Risks Committee, the person in charge of the internal audit function, and the Independent Auditors, the Board of Statutory Auditors confirms that the internal control system is adequate to the company's size;

- the Board also supervised the adequacy of the orders the company gave to its subsidiaries in accordance with art. 114, paragraph 2, of Italian Legislative Decree no. 58/1998, obtaining information from the Independent Auditors and the company's Directors. It found transactions with subsidiaries to be substantially adequate.

In carrying out its supervision, the Board of Statutory Auditors found no errors, omissions or irregularities to be mentioned in this Report.

The Board of Statutory Auditors does not consider it necessary to exercise the right to make proposals to the Shareholders' Meeting under art. 153 paragraph two of Italian Legislative Decree no. 58/1998.

In light of the above, the Board of Statutory Auditors gives its favourable opinion to the approval of the Financial Statements as of 31 December 2018 and has no objections to the Board of Directors' proposal concerning the allocation of the profit for the year 2018.

Bologna, 29 March 2019

THE BOARD OF STATUTORY AUDITORS

(Mr Fabio Senese)

(Mr Adalberto Costantini)

(Ms Donatella Vitanza)