Cembre

COSTRUZIONI ELETTROMECCANICHE BRESCIANE

2019 ANNUAL FINANCIAL REPORT

Cembre S.p.A.

Head Office: Via Serenissima 9, Brescia, Italy
Share Capital: EUR 8,840,000 (fully paid-up).
Registration no: 00541390175 (Commercial Register of Brescia)

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

CONTENTS

Report on Operations for the 2019 Financial Year

Operating Review

The Cembre Group closed 2019 with consolidated turnover up 1.5% increase, with consolidated sales reaching €146.3 million.

The trend in consolidated sales by geographical area shows a 0.9% drop in the Italian market, with sales of €58.5 million. Sales in the rest of Europe grew by 9.8% on the previous year to €68.8 million, while sales in the rest of the world were down by 15.0%, reaching €19.1 million. In 2019 sales to the Italian market represented 40.0% of the total (41.0% in 2018), sales to the rest of Europe 47.0% (43.5% in 2018) and sales in the rest of the world represented 13.0% of total sales (15.5% in 2018).

It should be noted that consolidated turnover in 2018 only partially included the figure for IKUMA KG, acquired with effect from May 1, 2018. This value amounted to €5.2 million, while in 2019, IKUMA KG's turnover included in the Group's turnover amounted to €7.3 million. Excluding the contribution of IKUMA KG, consolidated sales would have increased by 0.1%.

Sales by geographical area

(euro '000)	2019	2018	Change	2017	2016	2015	2014	2013	2012
Italy	58,469	59,023	-0.9%	55,576	49,029	48,564	44,100	39,252	41,096
Rest of Europe	68,757	62,649	9.8%	54,319	51,516	52,210	51,204	47,980	46,837
Rest of the World	19,070	22,424	-15.0%	22,742	22,060	20,603	17,601	17,315	15,966
Total	**146,296**	**144,096**	**1.5%**	**132,637**	**122,605**	**121,377**	**112,905**	**104,547**	**103,899**

During the year, the parent company Cembre S.p.A., the US company Cembre Inc. and the German company IKUMA KG recorded a decrease in their sales, while the other foreign companies of the Group saw an increase in their turnover.

Overall, the contribution of foreign subsidiaries to group turnover increased from €66.1 million in 2018 to €69.4 million in 2019, up 4.9%. Excluding IKUMA KG, the contribution by subsidiaries would have been €62.1 million, up 2.0%.

Revenues by Group company (net of intragroup sales)

(euro '000)	2019	2018	Change	2017	2016	2015	2014	2013	2012
Parent Company	76,917	77,955	-1.3%	74,966	67,134	65,725	58,554	53,814	54,861
Cembre Ltd. (UK)	19,274	18,336	5.1%	17,468	18,143	19,710	20,577	19,390	17,535
Cembre S.a.r.l. (F)	10,654	10,089	5.6%	9,502	8,976	8,677	8,354	7,763	7,615
Cembre España S.L.U. (E)	11,765	10,853	8.4%	9,549	7,979	8,200	7,016	6,139	6,363
Cembre GmbH (D)	7,893	7,745	1.9%	8,217	7,866	7,775	7,558	7,238	8,201
Cembre AS (NOR) *Liquidated in 2016*	n.a.	n.a.	n.a.	n.a.	23	1,080	960	791	985
Cembre Inc. (USA)	12,537	13,876	-9.6%	12,935	12,484	10,210	9,886	9,412	8,339
IKUMA KG (D)	7,256	5,242(*)	38.8%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total	**146,296**	**144,096**	**1.5%**	**132,637**	**122,605**	**121,377**	**112,905**	**104,547**	**103,899**

(*) in relation to IKUMA KG's revenues from sales in 2018, note that the table only includes turnover realised in the relevant period (05.01.2018-12.31.2018), while the total turnover realised by the subsidiary in 2018 was €8,549 thousand.

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

	Revenues from sales								
(euro '000)	2019	2018	Change	2017	2016	2015	2014	2013	2012
Cembre S.p.A.	108,809	109,068	-0.2%	103,476	94,650	92,616	84,903	78,100	79,487
Cembre Ltd. (UK)	21,254	20,937	1.5%	18,916	19,633	21,130	22,271	20,914	19,193
Cembre S.a.r.l. (F)	10,799	10,107	6.8%	9,509	9,006	8,680	8,423	7,815	7,623
Cembre España S.L.U. (E)	11,779	10,860	8.5%	9,554	7,980	8,216	7,019	6,145	6,727
Cembre GmbH (D)	8,012	7,947	0.8%	8,328	7,960	7,889	7,685	7,388	8,235
Cembre AS (NOR) *Liquidated in 2016*	n.a.	n.a.	n.a.	n.a.	198	1,080	960	798	1,004
Cembre Inc. (USA)	12,572	13,898	-9.5%	12,962	12,645	10,675	10,052	9,456	8,389
IKUMA KG (D)	7,274	5,242(*)	38.8%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

In 2019, Group companies reported the following results:

	Net profit								
(euro '000)	2019	2018	Change	2017	2016	2015	2014	2013	2012
Cembre S.p.A.	22,600	21,257	6.3%	24,444	15,932	14,438	12,202	8,676	9,918
Cembre Ltd. (UK)	2,062	1,926	7.1%	3,743	1,896	2,346	2,603	2,308	1,794
Cembre S.a.r.l. (F)	338	545	-38.0%	169	160	277	194	171	113
Cembre España S.L.U. (E)	443	585	-24.3%	740	(9)	414	305	230	(67)
Cembre GmbH (D)	826	239	245.6%	508	398	491	303	289	664
Cembre AS (NOR) *Liquidated in 2016*	n.a.	n.a.	n.a.	n.a.	(130)	21	69	11	76
Cembre Inc. (USA)	666	1,063	-37.3%	863	655	357	561	804	494
IKUMA KG (D)	(151)	634	-123.8%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

The increase in Cembre GmbH's net profit in 2019 is due to the accounting, under financial income from equity investments, of the 2018 profit of IKUMA KG, amounting to €634 thousand. The loss of IKUMA KG is due mainly to the increase in personnel costs, determined largely by the increase in the sales force; IKUMA KG employees rose from 18 (figure as at 12.31.2018) to 31 (figure as at 12.31.2019).

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

	Currency	Revenues from sales								
(euro '000)		**2019**	**2018**	**Change**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**
Cembre Ltd. (UK)	Gbp	18,656	18,523	0.7%	16,583	16,089	15,337	17,953	17,761	15,563
Cembre Inc. (USA)	US$	14,075	16,412	-14.2%	14,643	13,996	11,844	13,354	12,559	10,778

	Currency	Net profit								
(euro '000)		**2019**	**2018**	**Change**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**
Cembre Ltd. (UK)	Gbp	1,810	1,704	6.2%	3,281	1,554	1,703	2,098	1,960	1,455
Cembre Inc. (USA)	US$	833	1,256	-33.7%	975	725	396	746	1,067	635

To provide a better understanding of the Company's financial performance for 2019, a Reclassified Consolidated Income Statement for the previous year showing percentage changes is enclosed as Attachment 1.

Gross operating profit for the period amounted to €37,098 thousand, representing a 25.4% margin on sales, up 4.1% on 2018 when it amounted to €35,650 thousand, representing a 24.7% margin on sales. The incidence of cost of sales decreased slightly compared to 2018, from 32.6% to 32.3%, while the weight of services costs rose slightly, from 13.5% to 13.9%. The incidence of personnel costs also increased, from 27.8% to 28.5%; the average workforce rose from 743 units in 2018 (including 54 temporary workers) to 744 units in 2019 (including 35 temporary workers).

Consolidated operating profit for the period amounted to €27,181 thousand, representing a 18.6% margin on sales, down 4.6% on €28,496 thousand in 2018, when it represented a 19.8% margin on sales.

Consolidated profit before taxes amounted to €26,937 thousand, representing a 18.4% margin on sales, down 5.0% on €28,365 thousand in 2018, when it represented a 19.7% margin on sales.

Effective from January 1, 2019, the Group adopted the new IFRS 16 to account for leases and lease agreements. The application of this new standard did not have a significant impact at consolidated income statement level, involving a reduction in Group pre-tax profit of €41 thousand, due to the cancellation of lease fees, the recognition of amortisation of the right of use on leased assets and interest expense. For a more detailed description, please see the notes to the Financial Statements.

The table below summarises the main income results, net of the effects of the adoption of IFRS 16.

	2019	*%*	**2018**	*%*	***Change***
Revenues from sales and services	146,296	*100.0%*	144,096	*100.0%*	*1.5%*
Gross operating result	35,566	*24.3%*	35,650	*24.7%*	*-0.2%*
Operating result	27,097	*18.5%*	28,496	*19.8%*	*-4.9%*
Pre-tax result	26,978	*18.4%*	28,365	*19.7%*	*-4.9%*

Consolidated net profit for the year amounted to €21,690 thousand, representing a 14.8% margin on sales, down by 4.6% compared to 2018, when it amounted to €22,736 thousand and represented a 15.8% margin on sales.

The consolidated net financial position went from a positive balance of €7.5 million at December 31, 2018 to a positive balance of €5.6 million at December 31, 2019, reflecting the effects of the application of the new international accounting standard IFRS 16, which resulted in the recognition under non-current financial liabilities of €4.9 million and €1.5 million under current financial liabilities, as liabilities for leased assets, as well as the payment of dividends of €15.0 million by the Parent Company and capital expenditure of €11.7 million. Excluding the effect of IFRS 16 entries, the net financial position would have been a positive €12.0 million.

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

Investments

Capital expenditure by the Group in 2019 with regard to fixed assets, growth of amortization and depreciation, is broken down as follows:

	2019	2018	Change
Capital expenditure on intangible assets	1,057	3,151	(2,094)
Capital expenditure on property, plant and	10,609	17,775	(7,166)
Total	**11,666**	**20,926**	**(9,260)**

Note that the increase in 2018 in intangible assets included the value of the customer list from acquisition of IKUMA KG equal to €2.0 million and the value of the IKUMA KG trademark, equal to €0.5 million.

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

<u>Results of the Parent Company</u>

Results of the Parent Company for 2019 and 2018 are shown in the table below.

(euro '000)	2019	%	2018	%	Change
Revenues from sales and services	108,809	100	109,068	100	(0.2%)
Gross operating profit	30,886	28.4	29,411	27.0	5.0%
Operating profit	22,657	20.8	23,221	21.3	(2.4%)
Profit (loss) before taxes	26,750	24.6	25,897	23.7	3.3%
Net profit	22,600	20.8	21,257	19.5	6.3%

In 2019, Cembre S.p.A. received €4,281 thousand in dividends from its subsidiaries as compared with €2,683 thousand in the previous year.

Revenues from sales and services of Cembre S.p.A. were down by 0.2%, from €109,068 thousand in 2018 to €108,809 thousand in 2019. Domestic sales fell by 0.9%, sales to other European countries (excluding Italy) posted a 11.4% increase and sales in the rest of the world instead dropped by 21.7%.

Area (euro '000)	2019	2018	Change
Italy	58,469	59,023	(0.9%)
Rest of Europe	37,596	33,762	11.4%
Rest of the World	12,744	16,283	(21.7%)
Total	**108,809**	**109,068**	**(0.2%)**

Definition of alternative performance indicators

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

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

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

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

Reclassified Consolidated Statement of Financial Position

	(euro '000)	12/31/2019	12/31/2018
	Trade receivables, net	22,284	25,626
	Inventories	50,828	50,619
	Other non-financial assets	2,239	3,877
	Trade payables	(12,062)	(14,863)
	Other non-financial liabilities	(8,930)	(9,953)
A)	**Net current assets (working capital)**	**54,359**	**55,306**
	Property, plant and equipment and investment property	87,454	84,365
	Intangible fixed assets	4,442	4,257
	Goodwill	4,608	4,608
	Assets for rights of use on leased assets	6,366	-
	Deferred tax assets	3,091	2,767
	Other non-current assets	34	52
B)	**Net fixed assets**	**105,995**	**96,049**
C)	**Non-current assets available for sale**	**-**	**-**
D)	**Employee termination indemnity**	**2,356**	**2,557**
E)	**Provisions for risks and charges**	**278**	**606**
F)	**Deferred tax liabilities**	**2,856**	**2,846**
G)	**Net capital employed (A+B+C-D-E-F)**	**154,864**	**145,346**
	Sources of funds:		
H)	**Shareholders' equity**	**160,426**	**152,877**
	Long-term financial payables	4,901	1,000
	Cash and short-term financial receivables	(20,983)	(17,198)
	Short-term financial payables	10,520	8,667
I)	**Net debt/(surplus)**	**(5,562)**	**(7,531)**
J)	**Total sources of funds (H+I)**	**154,864**	**145,346**

Shareholders' equity

Consolidation adjustments determined the following differences between the Financial Statements of the Parent Company Cembre S.p.A. at December 31, 2019 and the consolidated accounts at the same date:

(euro '000)	Shareholders' equity	Net Profit
Shareholders' equity and result of the Parent Company	**138,693**	**22,600**
Book value of consolidated companies	26,714	4,703
Elimination of intra-group profits included in the value of inventories (*)	(4,555)	(614)
Cembre GmbH product warranty provision reversal (*)	23	-
Intercompany reconciliations	48	48
Cancellation of dividends	-	(4,874)
Netting of intragroup capital gains	(12)	(1)
Amortisation of customer list and IKUMA trademark (*)	(287)	(172)
Consumption surplus IKUMA warehouse (*)	(198)	-
Shareholders' equity and result of the Group	**160,426**	**21,690**

(*) Net of the related tax effect

Main risks and uncertainties

Risks connected to the economic situation

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

At global level, despite the tensions between the United States and China having abated, significant uncertainty remains, connected in particular to fresh geo-political tensions and the effects of the spread of the Coronavirus which have severely put the brake on the markets.

Economic activity in the Euro area has been slowed by the weakness of manufacturing, especially in Germany, a weakness that also impacts inflation, despite the continuous accommodating monetary policy of the ECB.

The difficulties in the manufacturing sector are also weighing heavily on Italy, which recorded almost zero growth in the second half of 2019, while employment rose slightly during the same period.

Bank of Italy projections at year-end pointed to the assumption of Italian GDP growth of 0.5% for 2020, 0.9% for 2021 and 1.1% for 2022. The recent explosion of the corona-virus epidemic in the northern regions has, however, led to a downward revision of these assumptions, in particular for 2020, for which, the latest projections of the Interim Economic Outlook of the OECD estimate Italian GDP growth of zero.

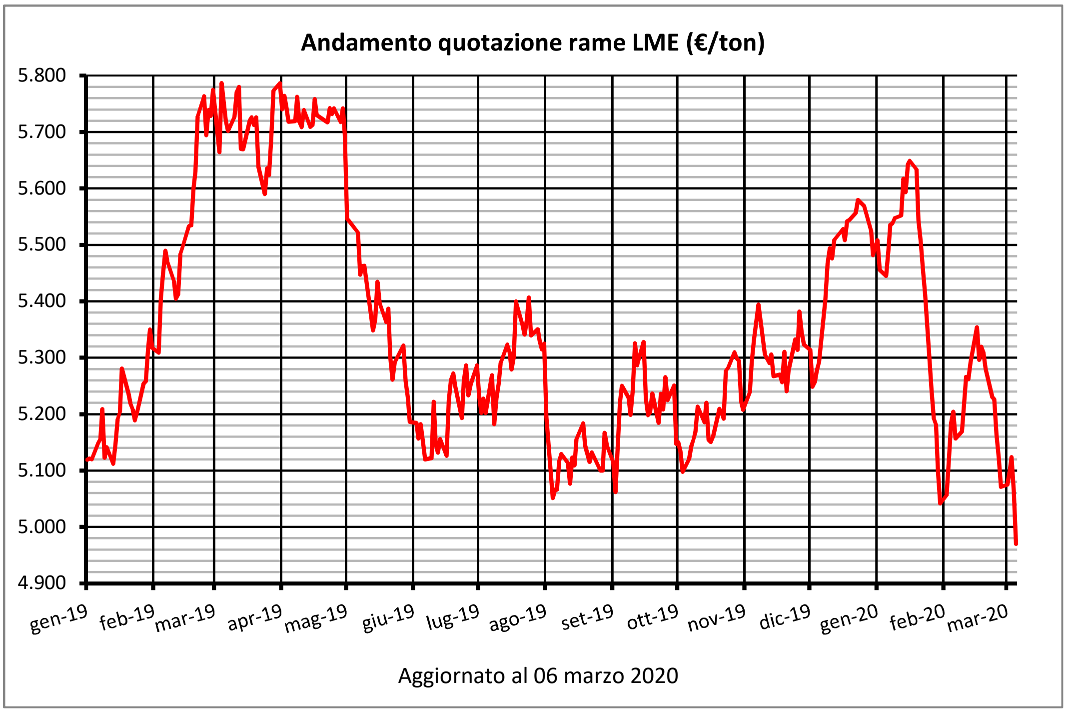
With regard to the United Kingdom's exit from the EU (Brexit), the economic impact on the activities of the Cembre Group is not expected to be significant.

The Group does not operate in market sectors particularly sensitive to the effects linked to the health emergency due to the spread of the “Coronavirus”, however, there could be indirect impacts such as, for example, supply delays or operational problems as such as to involve a slowdown in production, also in light of the recent provisions contained in the Decree Of the Presidency of the Council of Ministers of March 8, 2020. In this regard, we should stress that the Group carefully and constantly monitors the supply chain on an ongoing basis, in order to promptly identify any criticalities which, at any rate, as of today, have still not materialised. The most important raw material for Cembre, copper, is sourced habitually from European suppliers. The quantity of raw materials that the Group purchases from the Asian region and, in particular, from China - the country impacted most by the Coronavirus - is altogether marginal. We should also remember that Cembre directly produces a large part of its catalogue products in its facilities.

Unfortunately, as of today, it is not possible to estimate the economic-financial effects that the evolution of this emergency and the Government measures taken to deal with it could have in the future.

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

In 2019, after having recorded a peak in the first few months of the year, copper stood, between June and December, in the range between €5,400 and €5,100 per tonne. In March, the value stood at around €4,900/ton, after reaching €5,640/ton in the middle of January.



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

Risks connected with the market

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

Credit risk

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

Exposure to credit risk relates exclusively to trade receivables.

Liquidity risk

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

Interest rate risk

As at December 31, 2019, five fixed rate loans were taken out in the name of the Parent Company Cembre S.p.A., expiring in 2020. Owing to the nature and duration of the contracts, the interest rate risk can be considered zero.

Currency risk

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

Integrity and reputation risk

Possible illicit behaviour of employees, aimed at obtaining benefits for themselves and for the Group, can imply the risk of a loss of reputation and of sanctions against the Group. To prevent the risk of these occurrences and in line with Legislative Decree 231/2001, the Parent Company Cembre S.p.A. adopted an organisational, management and control model that identifies processes that are subject to risk and establishes the conduct that the various persons are to engage in while carrying out their tasks. The model was illustrated to employees through specific training sessions. The Parent Company constantly integrates and upgrades the model.

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

Environmental management

Cembre S.p.A. has deemed and recognised as a fundamental step in its development the creation of a harmonised Environmental Management System according to the spirit and the interpretation of the UNI EN ISO 14001: 2015 standard.

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

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

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

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

- create opportunities to protect the environment by preventing or mitigating environmental impacts,
- fulfil its compliance obligations,
- improve environmental performance,
- design and manufacture products using materials and processes that ensure the protection of the environment throughout the life of the product, from manufacturing to disposal.

Worker safety management

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

Ratios

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

Financial ratios

		12/31/2019	12/31/2018
ROE	Return on Equity	0.14	0.15
ROS	Return on Sales	0.19	0.20
ROI	Return on Investment	0.13	0.15

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

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

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

Liquidity ratios

		12/31/2019	12/31/2018
CR	Current Ratio	3.06	2.91
LR	Liquidity Ratio	1.44	1.39

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

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

Debt management ratios

		12/31/2019	12/31/2018
CI	Self-coverage of fixed assets ratio	1.56	1.64
LEV	Leverage (Gearing)	1.27	1.27
IN	Debt ratio	21.1%	21.5%

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

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

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

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

Research & Development

The total cost of activities carried out by Cembre S.p.A. for in-house research and the development of new products amounted to €587 thousand, of which €363 thousand relating to research activities, expensed to the income statement, and €224 thousand to development, capitalised under intangible assets.

External costs relating to prototypes, consulting and design amounted to €83 thousand.

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

Cable terminals

A total of 14 requests for new products were dealt with. Each study involved both new connectors and machinery for their manufacturing.

The study of the innovative range of mechanical connectors with the new snap-off screw continued, and laboratory tests continued for the validation of the solutions developed. A patent was filed relating to screw and connector compliance.

Railroad equipment

In the first half of 2019, after the official presentation during Innotrans, the Berlin exhibition dedicated to the railway sector, a drill for drilling wooden sleepers was launched on the market. This product, which is the subject of a patent, has been awarded in the UK as an innovative product and reference point for the sector.

The development and production of drills and cutters continued, respectively for the drilling of wooden sleepers and for the drilling of rails. The products, created in-house, required investments in machinery and equipment. The range was augmented by drilling jigs, adapters and clamps.

A prototype for a new battery-run hydraulic utensil for the fastening of clips used to fasten rails to sleepers was developed and delivered to the client. The subject attachment was developed by the University of Moscow for the Russian railways.

The advent of a new generation of engines with better emissions and performance, has made it possible to commence a study aimed at making both the version of drill with endothermic engine for drilling sleepers and the one used for drilling rails more eco-sustainable.

Following the increase in demand in the market for battery-powered drills for rail drilling, the production process for these drills was revised in order to improve efficiency.

Three separate projects were launched for the creation of battery-powered utensils to simplify some manual railway maintenance activities.

Tools

A total of 5 requests for new products were dealt with.

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

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

The project for a new hydraulic head was developed, to be used for the exploration of potentially under-voltage cables, before proceeding with the cutting procedure. This project, at the request of the UK market, is subject to a patent.

The new patented battery-powered hydraulic pump was officially presented at Innotrans and is currently in the pre-production phase.

Two new utensils were designed for compression, one manual and one battery-powered hydraulic, which will enable production to be insourced.

Cable marking

A total of 27 requests for new products relating to flat labels for the marking of cables were dealt with. Studies also included the related manufacturing tools.

The most substantial project concerns the expansion and updating of the range of thermal transfer printers, both for less frequent use, and high marking volumes.

Pressfit

Six new product requests for products for the plumbing and heating sector were dealt with.

At the ISH trade fair in Frankfurt, prototypes of two new tools that are being developed were presented: a pump to which heads with different functions can be connected and equipment, known as "chains", for the radial compression of hydraulic connections above 40 mm nominal diameter.

The new pump is designed to be lightweight, easy to transport and with a simple and intuitive user interface.

The "chains" under development are for nominal diameters 42 and 54 and are subject to patent. Both allow a homogeneous compression along the circumference of the fitting, improving the seal of the hydraulic system.

Transactions with subsidiaries, parent companies and related parties

As at December 31, 2019, transactions concluded between the parent company and its subsidiaries show the data indicated below:

	Receivables	Payables	Revenues	Costs
Cembre Ltd.	566	89	8,813	677
Cembre S.a.r.l.	363	11	5,683	32
Cembre España S.L.	890	8	7,155	41
Cembre GmbH	364	1	4,151	145

Cembre Inc.	597	-	6,517	91
IKUMA KG	58	57	222	111
Total	**2,838**	**166**	**32,541**	**1,097**

With reference to assets and liabilities relating to subsidiaries shown above, we confirm that transactions with the same and with related parties fall within the scope of normal operating activities. Revenues include, in addition to those from the sale of products, income deriving from charge-backs of services in the field of Information Technology, royalties for the use of the Cembre trademark and charge-backs of sales costs and transport costs. By contrast, these costs include charge-backs relating to costs for commercial activities performed by the subsidiaries on behalf of Cembre S.p.A..

Cembre S.p.A. signed leases with "Tha Immobiliare S.p.A.", with registered office in Brescia, and capital subdivided between Anna Maria Onofri, Giovanni Rosani and Sara Rosani, members of the Board of Directors of Cembre S.p.A..

Invoices issued in the year relating to the above contracts were all paid in full.

Cembre Ltd. leases an industrial building from Borno Ltd., a company controlled by Lysne S.p.A. (holding company of Cembre S.p.A).

The following is a summary of the amounts reported in the financial statements relating to the above contracts.

	Assets	Non-current liabilities	Current liabilities	Amortisation	Interest expense
Leased assets from THA - Cembre S.p.A.	3,740	2,783	472	495	73
Leased assets from Borno - Cembre Ltd	1,035	795	121	122	13

Cembre GmbH has recorded €1,487 thousand under its liabilities, relating to the discounted value of the residual debt to the former owners and directors of IKUMA. The discounted non-current portion of this debt amounts to €989 thousand.

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

Absence of control and coordination

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

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

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

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

In 2019 Cembre S.p.A. controlled only one company incorporated under the laws of States that are not part of the European Union, subsidiary Cembre Inc., incorporated in the US.

The company deems the administrative, accounting and reporting systems currently in use to be adequate in supplying regularly its management and the company's independent auditors with the operating and financial information necessary for the preparation of the Consolidated Financial Statements.

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

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

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

Own shares and shares of parent companies

At December 31, 2019, the number of own shares held by Cembre S.p.A. was 280,041, corresponding to 1.65% of the capital stock. In 2019, no changes took place.

Ownership Structure and Corporate Governance

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

Consolidated non-financial declaration

The Consolidated non-financial declaration (Dichiarazione consolidata di carattere non finanziario) issued pursuant to the provisions of Legislative Decree no. 254 of December 30, 2016, constitutes a separate report, available in the "Investor Relations" section of the www.cembre.it website, under "Reports and Financial Statements".

Subsequent events

No event having significant effects on the Group's financial position or operating performance occurred after December 31, 2019.

Outlook

In consideration of the uncertainty of the current economic situation, making forecasts is extremely difficult. With regard to the United Kingdom's exit from the EU (Brexit), the economic impact on the activities of the Cembre Group is not expected to be significant.

The Group does not operate in market sectors particularly sensitive to the effects linked to the health emergency due to the spread of the "Coronavirus", however, there could be indirect impacts such as, for example, supply delays or operational problems as such to involve a slowdown in production, also in light of the recent provisions contained in the Decree Of the Presidency of the Council of Ministers of March 8, 2020. In this regard, we should stress that the Group carefully monitors the supply chain on an ongoing basis, in order to promptly identify any criticalities which, at any rate, as of today, have still not materialised. The most important raw material for Cembre, copper, is sourced habitually from European suppliers. The quantity of raw materials that the Group purchases from the Asian region and, in particular, from China - the country impacted most by the Coronavirus - is altogether marginal. We should also remember that Cembre directly produces the bulk of its catalogue offering in its facilities.

Unfortunately, as of today, it is not possible to estimate the economic-financial effects that the evolution of this emergency and the Government measures taken to deal with it could have in the future.

Proposal for the Allocation of the Net Profit

In order to complete the planned investments and to benefit from self-financed growth, it is advisable that at least a portion of net profit generated be retained. In seeking the approval for our actions by submitting to you the present Financial Statements and Report on Operations, we also invite you, in view of the fact that the legal reserve has already reached 20% of the share capital, to approve our proposed allocation of net profit, amounting to €22,599,654.38 (rounded off to €22,599,654) as follows:

- €0.90 to be distributed to each of the Company’s 16,719,959 shares entitled to dividends (taking into account the 280,041 treasury shares held), for a total of €15,047,963.10, with June 1, 2020 as the ex-dividend date, June 2, 2020 as the record date pursuant to article 83-terdecies of Legislative Decree 58/1998, and June 3, 2020 as dividend payment date;
- the remainder, amounting to €7,551,691.28, to the extraordinary reserve;
- noting that, keeping into account the program for the acquisition of own shares currently under way, (i) the total amount of the dividend distributed could vary with the number of shares entitled to a dividend at the date of the Shareholder’s Meeting resolution, and (ii) additional own shares acquired after the date of the Shareholders’ Meeting resolution allocating net profit held by the Company at the record date will not be entitled to the distribution of a dividend and the corresponding share of net profit will be accrued to the extraordinary reserve.

Attachments

This document includes the following attachments:

Attachment 1 Comparative Consolidated Income Statement for the year ended December 31, 2019.

Attachment 2 Composition of corporate boards.

Brescia, March 11, 2020

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

Giovanni Rosani

Attachment 1 to the Report on Operations for 2019

Comparative Consolidated Income Statement

(euro '000)	2019	%	2018	%	Change
Revenue from contracts with customers	146.296	*100,0%*	144.096	*100,0%*	*1,5%*
Other revenues and income	1.027		874		*17,5%*
Total Revenues	**147.323**		**144.970**		*1,6%*
Cost of goods and merchandise	(47.165)	*-32,2%*	(53.653)	*-37,2%*	*-12,1%*
Change in inventories	(217)	*-0,1%*	6.637	*4,6%*	*-103,3%*
Cost of services received	(20.263)	*-13,9%*	(19.421)	*-13,5%*	*4,3%*
Non-recurring cost of services	-	*0,0%*	(411)	*-0,3%*	*-100,0%*
Lease and rental costs	(263)	*-0,2%*	(1.644)	*-1,1%*	*-84,0%*
Personnel costs	(41.693)	*-28,5%*	(39.989)	*-27,8%*	*4,3%*
Other operating costs	(1.628)	*-1,1%*	(1.685)	*-1,2%*	*-3,4%*
Increase in assets due to internal construction	1.055	*0,7%*	958	*0,7%*	*10,1%*
Impairment losses on contract assets	(28)	*0,0%*	(89)	*-0,1%*	*-68,5%*
Accruals to provisions for risks and charges	(23)	*0,0%*	(23)	*0,0%*	*0,0%*
Gross operating result	**37.098**	*25,4%*	**35.650**	*24,7%*	*4,1%*
Tangible asset depreciation	(7.613)	*-5,2%*	(6.393)	*-4,4%*	*19,1%*
Intangible asset amortization	(856)	*-0,6%*	(761)	*-0,5%*	*12,5%*
Depreciation of right of use assets	(1.448)	*-1,0%*	-		
Operating result	**27.181**	*18,6%*	**28.496**	*19,8%*	*-4,6%*
Financial income	7	*0,0%*	8	*0,0%*	*-12,5%*
Financial charges	(170)	*-0,1%*	(57)	*0,0%*	*198,2%*
Foreign exchange gains (losses)	(81)	*-0,1%*	(82)	*-0,1%*	*-1,2%*
Pre-tax result	**26.937**	*18,4%*	**28.365**	*19,7%*	*-5,0%*
Income taxes	(5.247)	*-3,6%*	(5.629)	*-3,9%*	*-6,8%*
Net profit for the period	**21.690**	*14,8%*	**22.736**	*15,8%*	*-4,6%*

Attachment 2 to the Report on Operations for 2019

CORPORATE BOARDS

Board of Directors

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

Board of Statutory Auditors

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

Independent Auditors

EY S.p.A.

The above list is updated at March 11, 2020.

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

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

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

Consolidated Financial Statements at December 31, 2019

Consolidated Statements of Financial Position

ASSETS	Notes	Dec. 31, 2019		Dec. 31, 2018	
(euro '000)			*of which: related parties*		*of which: related parties*
NON CURRENT ASSETS					
Tangible assets	***1***	86.430		83.294	
Investment property	***2***	1.024		1.071	
Intangible assets	***3***	4.442		4.257	
Goodwill	***4***	4.608		4.608	
Right of use assets	***5***	6.366	4.158	-	
Other investments		10		10	
Other non-current assets	***6***	1.013		1.522	
Deferred tax assets	***15***	3.091		2.767	
TOTAL NON-CURRENT ASSETS		**106.984**		**97.529**	
CURRENT ASSETS					
Inventories	***7***	50.828		50.619	
Trade receivables	***8***	22.284		25.626	
Tax receivables	***9***	843		2.035	
Other receivables	***10***	1.396		1.842	
Cash and cash equivalents		20.983		17.198	
TOTAL CURRENT ASSETS		**96.334**		**97.320**	
NON-CURRENT ASSETS HELD FOR DISPOSAL		**-**		**-**	
TOTAL ASSETS		**203.318**		**194.849**	

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	Dec. 31, 2019		Dec. 31, 2018	
(euro '000)			*of which: related parties*		*of which: related parties*
SHAREHOLDERS' EQUITY					
Capital stock	***11***	8.840		8.840	
Reserves	***11***	129.896		121.302	
Net profit	***11***	21.690		22.736	
TOTAL SHAREHOLDERS' EQUITY		**160.426**		**152.878**	
NON-CURRENT LIABILITIES					
Non-current financial liabilities	***12***	4.901	3.578	1.000	
Other non-current payables	***16***	989	989	1.480	1.480
Employee termination indemnity and other personnel benefits	***13***	2.356	96	2.557	278
Provisions for risks and charges	***14***	278	100	606	50
Deferred tax liabilities	***15***	2.856		2.846	
TOTAL NON-CURRENT LIABILITIES		**11.380**		**8.489**	
CURRENT LIABILITIES					
Current financial liabilities	***12***	10.520	593	8.667	
Trade payables	***17***	12.062		14.863	
Tax payables		309		2.367	
Other payables	***18***	8.621	498	7.585	498
TOTAL CURRENT LIABILITIES		**31.512**		**33.482**	
LIABILITIES ON ASSETS HELD FOR DISPOSAL		**-**		**-**	
TOTAL LIABILITIES		**42.892**		**41.971**	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**203.318**		**194.849**	

Consolidated Financial Statements at December 31, 2019

Statement of Consolidated Comprehensive Income

(euro '000)	Notes	2019	of which: related parties	2018	of which: related parties
Revenues from contracts with customers	19	146.296		144.096	
Other revenues	20	1.027		874	
TOTAL REVENUES		**147.323**		**144.970**	
Cost of goods and merchandise		(47.165)		(53.653)	
Change in inventories		(217)		6.637	
Cost of services received	21	(20.263)	(980)	(19.421)	(889)
Non-recurring cost of services		-		(411)	
Lease and rental costs	22	(263)		(1.644)	(674)
Personnel costs	23	(41.693)	(859)	(39.989)	(890)
Other operating costs	24	(1.628)		(1.685)	
Increase in assets due to internal construction		1.055		958	
Impairment losses on contract assets		(28)		(89)	
Accruals to provisions for risks and charges	25	(23)		(23)	
GROSS OPERATING PROFIT		**37.098**		**35.650**	
Tangible asset depreciation	1-2	(7.613)		(6.393)	
Intangible asset amortization	3	(856)		(761)	
Depreciation of right of use assets	5	(1.448)	(617)	-	
OPERATING PROFIT		**27.181**		**28.496**	
Financial income	26	7		8	
Financial expenses	26	(170)	(86)	(57)	
Foreign exchange gains (losses)		(81)		(82)	
PROFIT BEFORE TAXES		**26.937**		**28.365**	
Income taxes	27	(5.247)		(5.629)	
NET PROFIT FROM ORDINARY ACTIVITIES		**21.690**		**22.736**	
NET PROFIT FROM ASSETS HELD FOR DISPOSAL		**-**		**-**	
NET PROFIT		**21.690**		**22.736**	
Items that will not be reclassified to profit and loss					
Gains (losses) from discounting of Employees' Termination Indemnity	28	(29)		91	
Income tax relating to items that will not be reclassified	28	7		(22)	
Items that may be reclassified subsequently to profit and loss					
Conversion differences included in equity	28	827		251	
COMPREHENSIVE INCOME	28	**22.495**		**23.056**	
BASIC AND DILUTED EARNINGS PER SHARE	29	**1,30**		**1,36**	

Consolidated Financial Statements at December 31, 2019

Consolidated Statement of Cash Flows

	2019	2018
€ '000		
A) CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	**17.198**	**20.232**
B) CASH FLOW FROM OPERATING ACTIVITIES		
Net profit for the period	21.690	22.736
Depreciation, amortization and write-downs	9.917	7.154
(Gains)/Losses on disposal of assets	(20)	(42)
Net change in Employee Termination Indemnity	(201)	(107)
Net change in provisions for risks and charges	(328)	158
Operating profit (loss) before change in working capital	**31.058**	**29.899**
(Increase) Decrease in trade receivables	3.342	894
(Increase) Decrease in inventories	(209)	(8.946)
(Increase) Decrease in other receivables and deferred tax assets	1.291	414
Increase (Decrease) of trade payables	(416)	(2.863)
Increase (Decrease) of other payables, deferred tax liabilities and tax payables	(1.012)	2.957
Change in working capital	**2.996**	**(7.544)**
NET CASH FLOW (USED IN)/FROM OPERATING ACTIVITIES	**34.054**	**22.355**
C) CASH FLOW FROM INVESTING ACTIVITIES		
Capital expenditure on fixed assets:		
- intangible	(1.057)	(3.151)
- tangible	(10.609)	(17.775)
- goodwill	-	(4.608)
Proceeds from disposal of tangible, intangible, available-for-sale financial assets		
- intangible	16	-
- tangible	135	243
Increase (Decrease) of trade payables for assets	(2.385)	3.145
NET CASH FLOW (USED IN)/FROM INVESTING ACTIVITIES	**(13.900)**	**(22.146)**
D) CASH FLOW FROM FINANCING ACTIVITIES		
(Increase) Decrease in other non current assets	509	(1)
(Increase) Decrease in other non current payables	(491)	-
Increase (Decrease) in bank payables	(630)	9.667
Repayment of leasing liabilities	(1.407)	-
Change in reserves	101	371
Dividends distributed	(15.048)	(13.373)
NET CASH FLOW (USED IN)/FROM FINANCING ACTIVITIES	**(16.966)**	**(3.336)**
E) INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (B+C+D)	**3.188**	**(3.127)**
F) Foreign exchange conversion differences	619	24
G) Discounting of Employee Termination Indemnity	(22)	69
G) CASH AND CASH EQUIVALENTS AT END OF THE PERIOD (A+E+F+G)	**20.983**	**17.198**
Of which: assets held for disposal	-	-
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	**20.983**	**17.198**

	2019	2018
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	**20.983**	**17.198**
Current financial liabilities	(10.520)	(8.667)
Non current financial liabilities	(4.901)	(1.000)
NET CONSOLIDATED FINANCIAL POSITION	**5.562**	**7.531**

	2019	2018
INTERESTS PAID IN THE PERIOD	**(135)**	**5**

BREAKDOWN OF CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		
Cash	14	12
Bank deposits	20.969	17.186
	20.983	**17.198**

Consolidated Financial Statements at December 31, 2019

Statement of Changes in the Consolidated Shareholders' Equity

(€ '000)	Balance at December 31, 2018	Allocation of previous year net profit	Other changes	Dividends	Comprehensive income of the period	Balance at December 31, 2019
Capital stock	**8.840**					**8.840**
Share premium reserve	**12.245**					**12.245**
Legal reserve	**1.768**					**1.768**
Reserve for own shares	**(5.283)**					**(5.283)**
Suspended-tax revaluation reserve	**585**					**585**
Other suspended-tax reserves	**68**					**68**
Other reserves	**22.753**	1.479			(458)	**23.774**
Conversion differences	**(2.413)**				1.285	**(1.128)**
Extraordinary reserve	**83.356**	6.209				**89.565**
Reserve for FTA	**3.715**					**3.715**
Reserve for discounting of Employee Termination Indemnity	**111**				(22)	**89**
Merger surplus reserve	**4.397**					**4.397**
Stock options reserve	**-**		101			**101**
Retained earnings	**-**					**-**
Net profit	**22.736**	(7.688)		(15.048)	21.690	**21.690**
Total Shareholders' Equity	**152.878**	**-**	**101**	**(15.048)**	**22.495**	**160.426**

(€ '000)	Balance at December 31, 2017	Allocation of previous year net profit	Other changes	Dividends	Comprehensive income of the period	Balance at December 31, 2018
Capital stock	**8.840**					**8.840**
Share premium reserve	**12.245**					**12.245**
Legal reserve	**1.768**					**1.768**
Reserve for own shares	**(5.403)**		120			**(5.283)**
Suspended-tax revaluation reserve	**585**					**585**
Other suspended-tax reserves	**68**					**68**
Other reserves	**23.934**	(1.719)			538	**22.753**
Conversion differences	**(2.126)**				(287)	**(2.413)**
Extraordinary reserve	**72.283**	11.073				**83.356**
Reserve for FTA	**3.715**					**3.715**
Reserve for discounting of Employee Termination Indemnity	**42**				69	**111**
Merger surplus reserve	**4.397**					**4.397**
Retained earnings	**-**					**-**
Net profit	**22.727**	(9.354)		(13.373)	22.736	**22.736**
Total Shareholders' Equity	**143.075**	**-**	**120**	**(13.373)**	**23.056**	**152.878**

Notes to the Consolidated Financial Statements at December 31, 2019

I. CORPORATE INFORMATION

Cembre S.p.A. is a joint-stock company with registered office in Brescia, Via Serenissima 9. The company is listed on the MTA (screen-based equities market) managed by Borsa Italiana S.p.A.

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

The publication of the Consolidated Financial Statements of Cembre for the year ended December 31, 2019 was authorised by a resolution of the Board of Directors dated March 11, 2020.

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

II. FORM AND CONTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The present Consolidated Financial Statements at December 31, 2019 were prepared under the International Financial Reporting Standards (IFRS) adopted by the European Union and the related implementation regulations issued in application of article 9 of Legislative Decree no. 38/2005.

Principles adopted in the preparation of the Financial Statements are those formally approved by the European Union as at December 31, 2019.

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

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

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

The table that follows contains a list of international accounting principles and interpretations approved by the IASB that became effective in 2019, which were taken into account, where applicable, in the preparation of the present Financial Statements.

Description	Effective from
IFRS 16 – *Leases*	January 1, 2019
IFRIC 23 – Uncertainty over Income Tax Treatments	January 1, 2019
Amendments to IFRS 9 – Prepayment features with negative compensation	January 1, 2019
Amendments to IAS 19 - Changes of defined-benefit plans	January 1, 2019
Amendments to IAS 28 – Long-term interests in Associates and Joint-Ventures	January 1, 2019
Annual Improvements to IFRS standard 2015-2017 Cycle	January 1, 2019

Transition to IFRS 16

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

The incremental borrowing rate (IBR) was calculated in three steps: first, the risk-free rate for bonds issued in the countries in which the Cembre Group's subsidiaries operate was identified as the reference rate; then, using the Bloomberg platform, the spread applicable to the Cembre Group was determined, based on the liabilities as at September 30, 2019 (equal to 0.48%); lastly, the incremental interest rate was calculated by applying the Group spread to the risk-free rates of the individual countries. The same incremental interest rate was applied for similar contracts.

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

At December 31, 2019 the following contracts fall under the scope indicated by the standard:

	Motor vehicles	Buildings
Cembre S.p.A.	40	7
Cembre Ltd.	8	2
Cembre S.a.r.l.	10	-
Cembre España SLU	15	-
Cembre Inc.	-	3
IKUMA KG	3	1
Cembre GmbH	7	-
Total	**83**	**13**

Contracts expiring within 12 months of the date of first-time application of the standard, or with a term of less than or equal to 12 months were excluded from application of the standard, as were leases with a value of less than €5,000 thousand. Therefore, based on duration, 42 vehicle contracts and, based on value, 4 contracts for photocopying machines, were excluded.

The application of this standard did not generate any significant effects at consolidated income statement level, involving a reduction in Group pre-tax profit of €41 thousand, as the joint result of the following entries:

- reversal of lease fees of €1,532 thousand;
- recognition of amortisation for leasing activities amounting to €1,448 thousand;
- recognition of lease interest expense of €125 thousand.

At balance sheet level, the application of the aforementioned standard involved the recognition of the following items:

- non-current assets for leasing of €6,366 thousand;
- non-current financial liabilities of €4,901 thousand;
- current financial liabilities of €1,483 thousand;

- reversal of prepaid expenses for €23 thousand.

The table below summarises the main income results, net of the effects of the adoption of IFRS 16.

	2019	*%*	2018	*%*	*Change*
Revenues from sales and services	146,296	*100.0%*	144,096	*100.0%*	*1.5%*
Gross operating result	35,566	*24.3%*	35,650	*24.7%*	*-0.2%*
Operating result	27,097	*18.5%*	28,496	*19.8%*	*-4.9%*
Pre-tax result	26,978	*18.4%*	28,365	*19.7%*	*-4.9%*

Standards issued but not yet entered into force

The standards and interpretations that, at the date of drafting of the Group's consolidated financial statements, had already issued but had still not entered into force are outlined below. The Group intends to adopt these standards and interpretations, if applicable, when they enter into force:

Definition	Effective from
IFRS 17 – Insurance Contracts	January 1, 2021
Amendments to references to the Conceptual Framework in the IFRS Standards	January 1, 2020
Amendments to IFRS 3 - *Definition of a business*	January 1, 2020
Amendments to IAS 1 and IAS 8 - *Definition of material*	January 1, 2020

Principles of consolidation

The Consolidated Financial Statements of the Cembre Group include the statutory accounts at December 31 of every year of Cembre S.p.A. and of its subsidiaries. The financial statements of the subsidiaries used in the consolidation were prepared by adopting, for the close of each financial year, the same accounting standards of the Parent Company.

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

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

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

The scope of consolidation did not change with respect to December 31, 2018.

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

Company	Registered office	Share capital	Share held at 12/31/2019	Share held at at 12/31/2018
Cembre Ltd	Sutton Coldfield (Birmingham - UK)	GBP 1,700,000	100%	100%
Cembre Sarl	Morangis (Paris - France)	EURO 1,071,000	100%	100%
Cembre España SLU	Torrejón de Ardoz (Madrid -Spain)	EURO 2,902,000	100%	100%
Cembre GmbH	Munich (Germany)	EURO 10,112,000	100%	100%
Cembre Inc.	Edison (New Jersey, US)	US$ 1,440,000	100%	100%
IKUMA Gmbh & Co. KG	Weinstadt (Germany)	EURO 40,000	100% (*)	100% (*)
IKUMA Verwaltungs GmbH	Weinstadt (Germany)	EURO 25,000	100% (*)	100% (*)

(*) fully held via Cembre GmbH

We should report that, in the 2018 financial statements, the data of the subsidiaries IKUMA GmbH & Co. KG and IKUMA Verwaltungs Gmbh were only partially included, as they were acquired with effect from May 1, 2018.

Translation of financial statements expressed in currencies other than the euro

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

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

- assets and liabilities are translated at the exchange rate applicable at the date of the financial statements;
- Income Statement items are translated at the average exchange rate for the year;

- foreign-exchange translation differences are recorded in a specific Shareholders' Equity reserve.

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

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

Currency	Exchange rate at Dec. 31, 2019	Average exchange rate for 2019
British pound	0.85080	0.87777
US dollar	1.12340	1.11004

III. CONSOLIDATION PRINCIPLES AND VALUATION CRITERIA

Form of the financial statements

The financial statements are prepared as follows:

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

Financial Statements forms are unchanged from previous year.

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

Property, plant and equipment

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

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

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

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

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

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

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

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

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

Leased assets

The Group evaluates, when a contract is signed, whether it can be classified as a lease, or:

- whether it confers the right of exclusive use of an asset;
- whether a period is identified in which the right of use can be exercised;

- whether a consideration for use of said right has been set.

The assets identified in this way are recognised at cost, inclusive of all initial direct expenses, and are amortised on a straight-line basis from the date of effectiveness until the end of the useful life of the asset underlying the contract, or, if before, until the expiry of the lease.

At the same time as the recognition under assets of the right of use, the Group books the present value of payments due under lease payables, including the price of any purchase option. The value of the liabilities is reduced due to the payments made and may change depending on changes in the contractual terms.

The discount rate used to determine the value of the liabilities is the incremental borrowing rate.

Leases with a duration of less than or equal to 12 months have been excluded from application of the standard, as have low value leases. The associated fees, therefore, are booked as costs over the duration of the lease.

Investment property

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

Intangible assets

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

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

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

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

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

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

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

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

Whenever there exists such an indication and the book value of the asset exceeds its realisable value, the assets are written-down to their expected realisable value.

Goodwill

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

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

Financial assets

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

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

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

Financial assets held to maturity

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

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

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

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

Loans extended and receivables

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

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

Financial assets available for sale

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

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

Loss in value of financial assets

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

Treasury shares

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

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

Inventories

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

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

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

Receivables and payables

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

Cash and cash equivalents

Cash and cash equivalents are recorded at face value.

Loans

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

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

Translation of amounts denominated in currencies other than the Euro

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

At the date of the financial statements, monetary assets and liabilities denominated in currencies other than the Euro – consisting of cash on hand or assets and liabilities to be received or paid out, whose amount is set and may be determined – are translated into

Euro at the exchange rate at the date of the financial statements, recording in the income statement the currency translation difference.

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

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

Provisions for risks and charges

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

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

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

Employee benefits

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

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

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

Share-based payments

The Group records, starting from the grant date, the present value of the rights of exercise of the share purchase option. The allocation occurs periodically, over the entire vesting period set forth in the plan.

The fair value measurement of the options takes account of some actuarial variables according to the method set forth in IFRS 2: the risk-free return curve, the annual volatility of the yield of Cembre’s share calculated over the last 3 years, the annual dividend rate, the value of the share price at the grant date.

The allocation is accounted for under personnel costs with an undistributable reserve as contra-item called Stock options reserve.

Elimination of financial assets and liabilities

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

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

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

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

Loss in value of non-financial assets

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

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

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

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

Revenues

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

Disposal of assets

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

Services rendered

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

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

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

Interest

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

Dividends

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

Grants

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

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

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

Financial charges

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

Cost of goods purchased and services received

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

Income taxes (current, prepaid and deferred)

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

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

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

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

Earnings per share

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

Use of estimates

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

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

Provision for inventory depreciation

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

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

Provision for doubtful accounts

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

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

Retrievable value of non-current assets

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

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

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

Post-retirement benefits

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

In 2019, based on past turnover experience, the probability of a Cembre S.p.A.'s employee terminating his or her employment for causes other than death is the following:

Male	6.18%
Female	4.46%

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

Discounting rate	0.77%
Yearly inflation rate	1.00%
Yearly real increase in retributions	1.00%

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

Recoverability of deferred tax assets

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

Potential liabilities

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

IV. SEGMENT INFORMATION

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

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

2019	ITALY	EUROPE	REST OF WORLD	Intragroup elimination	TOTAL
Revenues					
Sales to customers	76,916	56,843	12,537		146,296
Sales to other Group	31,893	2,257	35	(34,185)	-
Revenues by sector	108,809	59,100	12,572	(34,185)	146,296
Operating profit by sector	21,560	4,743	878		27,181
Costs/income not assigned					-
Operating profit					27,181
Financial income (expense)					(244)
Income taxes					(5,247)
Net profit					21,690

2018	ITALY	EUROPE	REST OF WORLD	Intragroup elimination	TOTAL
Revenues					
Sales to customers	77,955	52,264	13,877		144,096
Sales to other Group	31,113	2,827	21	(33,961)	-
Revenues by sector	109,068	55,091	13,898	(33,961)	144,096
Operating profit by sector	22,172	4,948	1,376		28,496
Costs/income not assigned					-
Operating profit					28,496
Financial income (expense)					(131)
Income taxes					(5,629)
Net profit					22,736

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

	2019	2018
Italy	58,469	59,023
Europe	68,757	62,649
Rest of the world	19,070	22,424
	146,296	**144,096**

The breakdown of assets and liabilities is shown below:

12/31/2019	**ITALY**	**EUROPE**	**REST OF WORLD**	**TOTAL**
Assets and Liabilities				
Segment assets	149,552	42,142	9,571	201,265
Unassigned assets				2,053
Total assets				**203,318**
Segment liabilities	34,511	9,728	925	45,164
Unassigned liabilities				(2,272)
Total liabilities				**42,892**
Other segment information				
Capital expenditure:				
- Property, plant and equipment	9,730	754	125	10,609
- Intangible assets	1,041	16	-	1,057
Total investments				**11,666**
Depreciation and amortisation:				
- Property, plant and equipment	(6,779)	(738)	(96)	(7,613)
- Intangible assets	(601)	(250)	(5)	(856)
- leased assets	(850)	(378)	(220)	(1,448)
Total amortisation				**(9,917)**
Accruals to provision for employee benefits	900	93	-	**993**
Average no. of employees	485	226	33	**744**

12/31/2018	**ITALY**	**EUROPE**	**REST OF WORLD**	**TOTAL**
Assets and Liabilities				
Segment assets	142,125	41,709	8,494	192,328
Unassigned assets				2,521
Total assets				**194,849**
Segment liabilities	35,117	8,153	-	43,270
Unassigned liabilities				(1,299)
Total liabilities				**41,971**
Other segment information				
Capital expenditure:				
- Property, plant and equipment	16,793	830	152	17,775
- Intangible assets	674	2,465	12	3,151
Total investments				**20,926**
Depreciation and amortisation:				
- Property, plant and equipment	(5,600)	(708)	(85)	(6,393)
- Intangible assets	(588)	(170)	(3)	(761)
Total amortisation				**(7,154)**
Accruals to provision for employee benefits	897	-	-	**897**
Average no. of employees	495	214	34	**743**

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plant and Machinery	Equipment	Other assets	Leased assets	Work in progress	Total
Historical cost	49,851	70,512	12,952	8,536	77	3,482	145,410
FTA Revaluation	5,921	-	-	-	-	-	5,921
Revaluations for tax purposes	934	43	-	-	-	-	977
Accumulated amortization	(13,305)	(40,698)	(9,026)	(5,947)	(38)	-	(69,014)
Balance at 12/31/2018	**43,401**	**29,857**	**3,926**	**2,589**	**39**	**3,482**	**83,294**
Increases	1,322	6,385	374	1,038	-	1,490	10,609
Currency translation differences	120	68	-	20	-	-	208
Amortisation	(1,174)	(4,880)	(714)	(798)	-	-	(7,566)
Net divestments		(43)	(2)	(37)	-	(33)	(115)
Reclassifications	215	2,513	146	169	(39)	(3,004)	-
Balance at 12/31/2019	**43,884**	**33,900**	**3,730**	**2,981**	**-**	**1,935**	**86,430**

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

The Group’s capital expenditure in 2019 amounted to €10,609 thousand, related primarily to the Parent Company.

Investments in buildings include €783 thousand, relating to the renovation of the historical Brescia headquarters building and the construction of the new cafeteria, and €566 thousand for the completion of the new industrial building. Expenditure on equipment amounted to €1,337 thousand and also consisted primarily of the renovation of the Brescia headquarters (€657 thousand), while investment in production machinery amounted to €4,627 thousand. Advances paid for assets to be delivered in 2020 amounted to €1,006 thousand – a large part of which are due to advances paid on completion of renovation of the central offices – while a total of €485 thousand was invested by the Parent Company in the creation of dies and equipment under construction.

Investments made by foreign subsidiaries include €435 thousand spent by Cembre Ltd., predominantly on plant and equipment and in fitting out the new offices.

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

2. INVESTMENT PROPERTY

	Land and buildings	Plant and Machinery	Other assets	Total
Historical cost	1,714	263	5	1,982
Accumulated amortization	(650)	(256)	(5)	(911)
Balance at 12/31/2018	**1,064**	**7**	**-**	**1,071**
Amortisation	(45)	(2)	-	(47)
Balance at 12/31/2019	**1,019**	**5**	**-**	**1,024**

The balance at December 31, 2019 consists only of the building located in Calcinate (Bergamo) owned by Cembre S.p.A. and whose fair value is in line with its book value.

3. INTANGIBLE ASSETS

	Development costs	Patents	Software	Trademarks	Other	Work in progress	Total
Historical cost	2,052	697	5,532	495	2,043	70	10,889
Accumulated amortization	(1,444)	(577)	(4,388)	(33)	(190)	-	(6,632)
Balance at 12/31/2018	**608**	**120**	**1,144**	**462**	**1,853**	**70**	**4,257**
Increases	230	78	638	-	-	110	1,056
Currency translation differences	-	-	1	-	-	-	1
Amortisation	(229)	(123)	(245)	(50)	(209)	-	(856)
Net divestments	(16)	-	-	-	-	-	(16)
Reclassifications	-	-	24	-	-	(24)	-
Balance at 12/31/2019	**593**	**75**	**1,562**	**412**	**1,644**	**156**	**4,442**

Intangible fixed assets refer almost entirely to the Parent Company Cembre S.p.A.. Software increases include the costs of implementing the new system for managing the product design and prototyping process and the program for the management of e-billing. With regard to Development costs, reference should be made to the Directors' Report on Operations.

4. GOODWILL

	12/31/2019	12/31/2018	Change
Goodwill	4,608	4,608	-

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

At December 31, 2019, in order to assess the consistency of the goodwill value recognised in the financial statements, an impairment test was conducted on the net capital employed of subsidiary IKUMA. The objective of the analysis was to verify that the recoverable value of the net capital employed of IKUMA was not lower than the book value recognised in the Consolidated Financial Statements.

The estimate of recoverable value was made by using the discounted cash flow method in its unlevered version, applied to the 2020-2022 economic and financial plan of the CGU (Cash Generating Unit) identified for IKUMA.

The analysis produced the following results:

	Recoverable value	Book value	Difference
IKUMA/Goodwill CGU	9,323	8,747	576

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

The WACC, namely the weighted average cost of capital, used to measure the cash flows was equal to 7.69%, while the long-term growth rate G was assumed to be equal to 1.6%. The Group presumed growth in IKUMA KG turnover of 30.7% in the 2020-2022 period, connected in particular with the expansion in the company's product catalogue and strengthening of the sales structure through the hiring of the new sales force. Over the term of the plan, provision is also made for an improvement in inventory turnover rates, by aligning them to those of the Group, and a gradual reduction in financial debt.

Sensitivity Analysis

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

Value of goodwill

Recoverable value

		Long-term growth rate G				
		0.60%	**1.10%**	**1.60%**	**2.10%**	**2.60%**
WACC	**6.69%**	9,495	10,309	11,284	12,471	13,949
	7.19%	8,724	9,408	10,215	11,180	12,357
	7.69%	8,062	8,645	9,323	10,122	11,079
	8.19%	7,489	7,989	8,566	9,238	10,030
	8.69%	6,987	7,421	7,918	8,489	9,155

Difference of recoverable value - book value

		Long-term growth rate G				
		0.60%	**1.10%**	**1.60%**	**2.10%**	**2.60%**
WACC	**6.69%**	748	1,563	2,537	3,724	5,202
	7.19%	(23)	661	1,468	2,434	3,610
	7.69%	(684)	(102)	576	1,375	2,332
	8.19%	(1,258)	(757)	(180)	492	1,284
	8.69%	(1,760)	(1,325)	(829)	(257)	408

5. RIGHT OF USE - LEASED ASSETS

This item was accounted for in 2019, in accordance with IFRS 16. The gross value of the right of use amounts to €7,818 thousand, while the value of the accumulated amortisation amounts to €1,452 thousand. Please refer to the paragraph "Transition to IFRS 16" of Chapter II. Form and content" for further details.

6. OTHER NON-CURRENT ASSETS

	12/31/2019	12/31/2018	Change
Guarantee deposits	24	42	(18)
Guarantee loan	989	1,480	(491)
Total	**1,013**	**1,522**	**(509)**

The item "Guarantee loan" includes the discounted value of the non-current portion of the sum deposited with the notary public upon acquisition of IKUMA KG. This amount was deposited in order to cover the debt to the Company's sales personnel and administrators, recognized under "Other non-current debt", the payment of which is linked to compliance with certain contractual clauses effective in future years. The actuarial effect of this sum amounts to €11 thousand as at December 31, 2019.

7. INVENTORIES

	12/31/2019	12/31/2018	Change
Raw materials	12,432	12,593	(161)
Work in progress and semi-finished goods	12,697	12,252	445
Finished goods	25,699	25,774	(75)
Total	**50,828**	**50,619**	**209**

The value of finished goods is adjusted to its presumed realisable value through a provision for slow-moving stock amounting to €4,539 thousand. Changes in the provision in 2019 are shown in the table that follows:

	2019	2018
Balance at January 1	**3,996**	**3,070**
Accruals	497	991
Uses	-	(97)
Currency translation differences	46	32
Balance at December 31	**4,539**	**3,996**

Accruals primarily regarded inventories of Cembre Inc. (€148 thousand) and Cembre SLU (€88 thousand).

8. TRADE RECEIVABLES

	12/31/2019	12/31/2018	Change
Nominal receivables due from customers	22,757	26,183	(3,426)
Provision for bad debts	(473)	(557)	84
Total	**22,284**	**25,626**	**(3,342)**

Nominal trade receivables by geographical area are shown in the following table.

	12/31/2019	12/31/2018	Change
Italy	10,648	13,350	(2,702)
Europe	10,460	10,649	(189)
North America	1,203	1,326	(123)
Oceania	133	460	(327)
Middle East	82	132	(50)
Far East	151	137	14
Africa	80	129	(49)
Total	**22,757**	**26,183**	**(3,426)**

Average collection time shortened from 60 days in 2018 to 52 days in 2019.

Changes in the provision for bad debts are shown in the table that follows:

	2019	2018
Balance at January 1	**557**	**841**
Accruals	37	89
Uses	(41)	(111)
Releases	(81)	(262)
Currency translation differences	1	-
Balance at December 31	**473**	**557**

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

Year	Not matured	0-90 days	91-180 days	181-365 days	Over one year	Under litigation	Total
2019	19,011	3,029	387	75	181	74	**22,757**
2018	23,001	2,558	148	97	308	71	**26,183**

9. TAX RECEIVABLES

	12/31/2019	12/31/2018	Change
Tax receivables	843	2,035	(1,192)

The item mainly includes tax receivables for surplus advance payments made. In 2018, the item included the credit recognised by the Parent Company and relating to the application of the Patent Box regime; in 2019, this credit was used to directly offset tax payables.

10. OTHER ASSETS

	12/31/2019	12/31/2018	Change
Receivables from employees	60	65	(5)
VAT and other indirect taxes receivable	75	339	(264)
Advances to suppliers	456	737	(281)
Other	805	701	104
Total	**1,396**	**1,842**	**(446)**

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

11. SHAREHOLDERS’ EQUITY

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

At December 31, 2019, Cembre S.p.A. held 280,041 treasury shares, corresponding to 1.65% of its capital stock. Against these shares the Company recorded €5,283 thousand in a specific equity reserve under liabilities.

On the fiftieth anniversary of the foundation of the company, the shareholders' meeting approved an incentive plan targeted at company executives and middle managers, which provides for the annual assignment of rights to purchase ordinary Cembre S.p.A. shares and will last until 2025. Following the adoption of this plan, in compliance with the provisions of IFRS 2, a Stock Options Reserve was recognised, representative of the debt to beneficiaries of the plan itself, assuming the attainment of the performance targets established and continuity of the work relationship. This reserve amounts to €101 thousand. Please refer to Note 35 for further details.

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

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

Item "Other reserves" is made up as follows:

	12/31/2019	**12/31/2018**
Elimination of investments in subsidiaries	22,791	23,079
Elimination of unrealized intra-group profits in stock	(3,939)	(3,471)
German subsidiary product warranty provision reversal	22	22
Cancellation of dividends	4,909	3,134
Intragroup reconciliations and gains	(9)	(11)
Total	**23,774**	**22,753**

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

12. CURRENT AND NON-CURRENT FINANCIAL LIABILITIES

	Effective interest rate %	Term ending	12/31/2019	12/31/2018
Bank loans				
Cembre S.p.A.				
Non-current portion				
Banca Intesa contract 68407	0.05	Apr-20	-	1,000
Total non-current portion			**-**	**1,000**
Leasing liabilities - Non-current portion				
Cembre S.p.A.			3,348	-
Cembre Ltd.			800	-
Cembre Sarl			55	-
Cembre España SLU			8	-
Cembre GmbH			84	-
Cembre Inc.			507	-
IKUMA KG			99	-
Total non-current portion			**4,901**	**-**
NON-CURRENT FINANCIAL LIABILITIES			**4,901**	**1,000**
Bank loans				
Cembre S.p.A.				
Current portion				
Banca Intesa contract 33439	0.04	Oct-19	-	6,667
Banca Intesa contract 68407	0.05	Apr-20	1,000	2,000
Unicredit contract 53429	0.18	Feb-20	1,000	-
Unicredit contract 53452	0.18	Feb-20	1,000	-
Unicredit contract 53454	0.18	Mar-20	1,000	-
BNL contract 98375	0.05	Sept-20	5,000	-
Total current portion			**9,000**	**8,667**
Bank overdrafts				
(on presentation of customer bills)				
Cembre S.p.A.	0.2	On request		
Unicredit			31	-
Total			**31**	**-**
Bank charges			**6**	**-**
Leasing liabilities - Current portion				
Cembre S.p.A.			868	-
Cembre Ltd.			142	-
Cembre Sarl			82	-
Cembre España SLU			41	-
Cembre GmbH			56	-
Cembre Inc.			202	-
IKUMA KG			92	-
Total current portion			**1,483**	**-**
CURRENT FINANCIAL LIABILITIES			**10,520**	**8,667**

At the date of drafting of this document, the contracts expiring in February were reimbursed.

13. EMPLOYEE TERMINATION INDEMNITY AND OTHER RETIREMENT BENEFITS

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

Employee termination indemnities accrued at December 31, 2019 was discounted on the basis of an evaluation made by a registered actuary, in accordance with current regulations.

	2019	2018
Opening balance	**2,557**	**2,664**
Accruals	992	897
Uses	(875)	(394)
Social security (INPS) treasury provision	(382)	(550)
Actuarial effect	64	(60)
Closing balance	**2,356**	**2,557**

Total termination indemnities accrued with INPS' treasury account as at December 31, 2019 amount to €7,350 thousand.

14. PROVISIONS FOR RISKS AND CHARGES

Changes in the year are shown in the table below.

	Supplementary customer allowances	Directors' variable compensation	Employee incentives	Total
At December 31, 2018	**155**	**50**	**401**	**606**
Accruals	23	50		73
Releases	-	-	(401)	(401)
At December 31, 2019	**178**	**100**	**-**	**278**

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

The provision for employee incentives includes amounts allocated for the benefit of sales personnel that will be paid out upon the achievement of objectives set out in the sales development plan. Given the expected results were not achieved, the provision was released.

15. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities at December 31, 2019 are summarised as follows:

	12/31/2019	12/31/2018
Deferred tax assets		
Elimination of unrealized intra-group profits in stock	1,766	1,524
Write-down of inventories	633	517
Provision for French personnel costs	121	99
Consulting capitalized by Cembre GmbH	127	130
Provision for doubtful accounts of the Parent Company	84	88
Differences on amortisation and depreciation of Parent Company	245	205
Other	115	204
Gross deferred tax assets	**3,091**	**2,767**
Deferred tax liabilities		
Average cost valuation of inventories by the Parent Company	(384)	(326)
Accelerated depreciation	(208)	(164)
Elimination of German subsidiary product warranty provision	(10)	(10)
Reversal of land depreciation	(24)	(24)
Revaluation of land	(1,652)	(1,652)
Discounting of employee termination indemnity	41	26
Discounting of the Cembre GmbH guarantee loan	(4)	(7)
Allocation of IKUMA investment purchase price	(615)	(689)
Gross deferred tax liabilities	**(2,856)**	**(2,846)**
Net deferred tax assets (liabilities)	**235**	**(79)**

16. OTHER NON-CURRENT PAYABLES

	12/31/2019	12/31/2018	Change
Payable to IKUMA Directors	989	1,480	(491)

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

17. TRADE PAYABLES

	12/31/2019	12/31/2018	Change
Trade payables	11,953	14,773	(2,820)
Advances	109	90	19
Total	**12,062**	**14,863**	**(2,801)**

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

	12/31/2019	12/31/2018	Change
Italy	10,118	13,068	(2,950)
Europe	1,794	1,653	141
North America	17	39	(22)
Other	24	13	11
Total	**11,953**	**14,773**	**(2,820)**

18. OTHER PAYABLES

The item "Other payables" may be broken down as follows:

	12/31/2019	12/31/2018	Change
Payables to employees	2,376	2,027	349
Employee withholding taxes payable	1,112	1,208	(96)
VAT and similar foreign taxes payable	900	631	269
Commissions payable	382	394	(12)
Payable to Statutory Auditors	31	19	12
Payables to Directors	22	14	8
Social security payables	2,770	2,670	100
Payables for sundry taxes	162	34	128
Payable to IKUMA Directors	498	498	0
Other	515	338	177
Deferrals	(147)	(248)	101
Total	**8,621**	**7,585**	**1,036**

The item "Payables to IKUMA directors" includes the value of the current portion of the management bonus and non-competition bonus provided for in the purchase contract, to be paid in 2020.

19. REVENUE FROM CONTRACTS WITH CUSTOMERS

In 2019, revenues grew by 1.5% on the previous year. A total of 40.0% of Group sales were represented by Italy (0.9% less than in 2018), while sales in the rest of Europe represented 47.0% of total sales (up 9.8% on the previous year). Sales to the rest of the World decreased by 15.0%, representing 13.0% of total sales. Further detail is provided in the Report on Operations.

20. OTHER REVENUES

Other operating revenues are made up as follows:

	2019	2018	Change
Capital gains	78	51	27
Use and release of funds	48	263	(215)
Insurance damages	58	41	17
Reimbursements	456	365	91
Other	105	131	(26)
Operating grants	282	23	259
Total	**1,027**	**874**	**153**

“Reimbursements” relate primarily to transport costs charged to customers, while “use and release of funds” regard adaptation of the provision for doubtful accounts taxed by Cembre S.p.A. In relation to operating grants, it should be specified, pursuant to art. 1, paragraph 125, of Law 124/2017 (Compliance with transparency and disclosure obligations), in 2019, grants amounting to €106 thousand were obtained from the “Fondo Formazienda” fund for training courses provided to Parent Company personnel and grants of €163 thousand were obtained from the European Union for participation in the European Sharework Project, for the creation of a system of interaction between operators and robots in the production process, in which Cembre participates in collaboration with another 14 international partners (7 companies, 6 research institutes, 1 standardisation body).

21. COST OF SERVICES

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

	2019	2018	Change
Subcontracted work	4,078	4,184	(106)

Electricity, heating and water	1,735	1,665	70
Transport of goods sold	2,569	2,361	208
Fuel	539	432	107
Travelling expenses	1,155	1,137	18
Maintenance and repair	2,243	2,213	30
Consulting	1,741	1,736	5
Advertising and promotion	581	755	(174)
Insurance	699	916	(217)
Boards' compensation	1,036	941	95
Postage and telephone	394	376	18
Commissions	977	957	20
Security and cleaning	609	577	32
Bank services	200	181	19
Other	1,707	990	717
Total	**20,263**	**19,421**	**842**

The increase in the residual item "Other" is mainly due to: the costs incurred for the events organised in conjunction with the celebrations for the fiftieth anniversary of the foundation of Cembre S.p.A., amounting to €225 thousand, partly due to more training provided to employees of the Parent Company for €90 thousand and, in part to the costs incurred for the recruitment of new personnel for €140 thousand.

22. LEASES AND RENTALS

The item is broken down as follows:

	2019	2018	Change
Rent and related costs	15	910	(895)
Vehicle leasing	248	734	(486)
Total	**263**	**1,644**	**(1,381)**

The changes are due to the application of new IFRS 16 which involved the cancellation of fees totalling €1,532 thousand.

23. PERSONNEL COSTS

Personnel costs are broken down as follows:

	2019	2018	Change
Wages and salaries	31,945	30,548	1,397
Social security contributions	7,780	7,200	580
Employee termination indemnity	1,257	1,259	(2)
Retirement benefits	305	157	148

Other costs	406	825	(419)
Total	**41,693**	**39,989**	**1,704**

Wages and salaries include €1,618 thousand relating to the cost of personnel on short-term contracts, mainly incurred by the parent company (€1,480 thousand).

Average number of employees by category:

	2019	2018	Change
Managers	16	14	2
White collars	346	338	8
Blue collars	347	337	10
Outsourced personnel	35	54	(19)
Total	**744**	**743**	**1**

Average number of employees by Group company:

	Managers	White collars	Blue collars	Short-term personnel	Total 2019	Total 2018	Change
Cembre S.p.A.	7	214	231	33	485	495	(10)
Cembre Ltd.	3	29	76	-	108	106	2
Cembre Sarl	1	19	7	-	27	27	-
Cembre España SLU	1	31	11	1	44	42	2
Cembre Inc.	1	25	7	-	33	34	(1)
IKUMA KG	2	16	8	-	26	19	7
Cembre GmbH	1	12	7	1	21	20	1
Total	**16**	**346**	**347**	**35**	**744**	**743**	**1**

24. OTHER OPERATING COSTS

The item is broken down as follows:

	2019	2018	Change
Sundry taxes	759	809	(50)
Losses on receivables	53	26	27
Capital losses	60	95	(35)
Donations	35	31	4
Other	721	724	(3)
Total	**1,628**	**1,685**	**(57)**

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

25. ACCRUALS TO PROVISIONS FOR RISKS AND CHARGES

The item is broken down as follows:

	2019	2018	Change
Customer indemnities	23	23	-

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

26. FINANCIAL INCOME (EXPENSE)

	2019	2018	Change
Interest earned on bank account balances	5	6	(1)
Other financial income	2	2	-
Total financial income	**7**	**8**	**(1)**
Loans and bank overdrafts	(10)	(5)	(5)
Financial charges on discounting of Employee Termination Indemnity	(35)	(30)	(5)
Lease financial charges	(125)	-	(125)
Other financial charges	-	(22)	22
Total financial expense	**(170)**	**(57)**	**(113)**
Total financial income (expense)	**(163)**	**(49)**	**(114)**

27. INCOME TAXES

Income taxes are composed as follows:

	2019	2018	Change
Current taxes	(7,515)	(7,948)	433
Deferred taxes	321	512	(191)
Patent Box Benefit	1,744	1,810	(66)
Extraordinary income	203	(3)	206
Total	**(5,247)**	**(5,629)**	**382**

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

	2019		2018	
	Amount	%	Amount	%
Profit before taxes	26,937		28,365	
Theoretical tax expense	**7,516**	27.90%	**7,914**	27.90%
Effect of non-deductible charges	2,121	7.87%	1,420	5.01%
Effect of untaxed income and deductions	(1,913)	-7.10%	(1,638)	-5.77%
Effect of different taxable IRAP	(276)	-1.02%	75	0.26%
Other deductions	(8)	-0.03%	(15)	-0.05%
Patent Box	(1,744)	-6.47%	(1,810)	-6.38%

Extraordinary income	(203)	-0.75%	3	0.01%
Effect of other foreign tax rates	(246)	-0.91%	(320)	-1.13%
Total income taxes	**5,247**	19.48%	**5,629**	19.84%

At December 31, 2019, there were no temporary differences and loss carry-forwards on which no deferred tax assets or liability had been recorded.

Deferred tax assets and liabilities are made up as follows:

	2019	2018
Elimination of unrealized intra-group profits in stock	242	181
Provision for doubtful accounts of the Parent Company	(4)	(62)
Discounting of the Cembre Gmbh guarantee loan	3	(7)
Average cost valuation of inventories by the Parent Company	(58)	(85)
Accelerated depreciation	(44)	(5)
Write-down of inventories	116	147
Discounting of employee termination indemnity	8	7
Provision for French personnel costs	22	(1)
Differences on amortization and depreciation of Parent Company	40	24
Elimination of German subsidiary product warranty provision	-	1
Allocation of IKUMA investment purchase price	74	134
Consulting capitalized by Cembre GmbH	(3)	130
Other	(75)	48
Prepaid/deferred taxes for the period	**321**	**512**

28. COMPREHENSIVE INCOME

The Cembre Group uses a single table to report its comprehensive income. In particular, the economic effects recorded directly under Shareholders' Equity are reported separately and result in an increase or decrease of net profit for the period. At December 31, 2019, the changes relate only to foreign exchange translation differences arising upon consolidation on the translation into Euro of the financial statements of subsidiaries operating outside the Euro zone, to the effect of the discounting of Employee Termination Indemnities.

29. EARNINGS PER SHARE (BASIC AND DILUTED)

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

	2019	2018
Consolidated net profit	21,690	22,735
No. of ordinary shares ('000)	16,720	16,720
Basic and diluted earnings per share	**1.30**	**1.36**

30. DIVIDENDS

On May 8, 2019 the Company distributed (with ex-dividend date May 6) a dividend on net profit for the year ended December 31, 2018, amounting to €15,048 thousand, equivalent to €0.90 for each share entitled to dividends.

	2019	2018
Resolved and paid in the year: Balance due for 2018 dividend: €0.90 (2017: €0.80)	15,048	13,372
Proposal submitted to the Shareholders' Meeting (not recorded as liability at December 31) Balance due for 2019 dividend: €0.90 (2018: €0.90)	15,048	15,048

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

31. COMMITMENTS AND RISKS

	12/31/2019	12/31/2018	Change
Sureties and guarantees given	1,070	779	291

Commitments at December 31, 2019 included guarantees granted by the Parent Company to the Municipality of Brescia amounting to €352 thousand, to guarantee urban development works and as a result of the renovation of the entrance and company car park and €226 thousand in guarantees given to the Brescia Customs Authorities. The residual guarantees relate to guarantees for supplies granted to electrical and railway companies.

32. NET FINANCIAL POSITION

The net financial position of the Group amounted, at the end of the period, to a positive €5,562 thousand, down on December 31, 2018 due to new accounting of leasing payables, investments made in the period and the effect of the payment of dividends for 2018. Excluding the effect of IFRS 16 entries, the net financial position would have been a positive €11,946 thousand.

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

		12/31/2019	12/31/2018
A	Cash	14	12
B	Bank deposits	20,969	17,186
C	**Cash and cash equivalents (A+B)**	**20,983**	**17,198**
D	**Financial receivables**	**-**	**-**
E	Current bank debts	(9,037)	(8,667)
F	Current financial leasing liabilities	(1,483)	-
G	**Current financial debt (E+F)**	**(10,520)**	**(8,667)**
H	**Net current financial position (C+D+G)**	**10,463**	**8,531**
I	Non-current bank debts	-	(1,000)
J	Non-current financial leasing liabilities	(4,901)	-
K	**Non-current financial indebtedness (I+J)**	**(4,901)**	**(1,000)**
L	**Net financial position (H+K)**	**5,562**	**7,531**

33. RELATED PARTIES

Among assets leased to Cembre S.p.A. by third parties are an industrial building adjacent to the Company’s registered office measuring a total of 5,960 square meters on three floors, in addition to the Monza, Padua and Bologna sales offices. These properties are owned by "Tha Immobiliare S.p.A.", a company with registered office in Brescia, whose capital is held by Giovanni Rosani and Sara Rosani, members of the Board of Directors of the Parent Company Cembre S.p.A.; the interest for the company can be seen in the prospect of continuity and in the reduction of the risks of termination of the lease contract. At the year end, all amounts due to Tha Immobiliare had been settled.

Cembre Ltd. leases an industrial building from Borno Ltd., a company controlled by Lysne S.p.A. (holding company of Cembre S.p.A.).

The following is a summary of the amounts reported in the financial statements relating to the above contracts.

	Assets	Non-current liabilities	Current liabilities	Amortisation	Interest expense
Leased assets from THA - Cembre S.p.A.	3,740	2,783	472	495	73
Leased assets from Borno - Cembre Ltd	1,035	795	121	122	13

Cembre GmbH has recorded €1,487 thousand under its liabilities, relating to the discounted value of the residual debt to the former owners and directors of IKUMA. The discounted non-current portion of this debt amounts to €989 thousand. Cembre S.p.A. does not have direct relationships with the parent company Lysne S.p.A. of any other nature than that of the exercise of shareholders' rights on the part of the parent. Lysne S.p.A. does not carry out any management or coordination activity with respect to Cembre S.p.A.

Boards' compensation

In 2019, compensation for the Board of Directors and the Board of Statutory Auditors, net of social security contributions, amounted to:

	Board of Statutory Auditors	Directors
Emoluments as directors and auditors of Cembre S.p.A.	87	514
Remuneration as employees	-	660
Non-monetary benefits	-	20

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

Consistent with its remuneration policy, the Company introduced a variable compensation based on medium- and long-term objectives for its Chairman and Managing Director. This remuneration will be paid out in 2021 contingent on the achievement of objectives set for financial years 2018-2020 by the Board of Directors, upon proposal by the Appointments and Remuneration Committee. The total amount allocated amounts to €100 thousand (€50 thousand per year).

The Directors of IKUMA KG received €310 thousand in remuneration during the period May-December.

34. SHARE-BASED PAYMENTS

The Parent Company Cembre S.p.A. established the incentive plan known as "Premio Carlo Rosani per i 50 anni della Fondazione della Società" (Carlo Rosani Prize for the 50th anniversary of the foundation of the Company), intended for executives and middle managers who have an employment contract with the company.

The plan, approved by the shareholders' meeting on April 18, 2019, provides for the attribution, by the company, of rights to acquire ordinary Cembre shares, and will last until 2025.

The rights granted under the plan can only be assigned to the beneficiaries identified, to this end, by the Board of Directors, based on the prior opinion of the Appointments and Remuneration Committee and in compliance with the Incentive Plan Regulation.

The rights will be assigned annually, free of charge, in the plan duration period, following the Board's approval of the company's consolidated financial statements. The beneficiaries will be attributed, for each annual assignment, the following rights: 2,000 for those in the position of executive and 500 for middle managers. The exercise price of the aforementioned rights is €10 per share. As of today, based on the beneficiaries identified by the Board of Directors, provision is made for the assignment of a total maximum number of 132,000 shares for the entire duration of the plan.

The assignment of the rights to the beneficiaries is subject to the verification of the following performance conditions:

- growth must be recorded in the gross operating profit of the Cembre Group in the reference year (i.e. the year prior to the assignment year) compared to the previous year;
- the gross operating profit of the Cembre Group in the reference year must be higher than the minimum values reported in the Incentive Plan Regulation.

The assignment of the rights to the beneficiaries is also subject to the following additional conditions, to be verified in relation to the individual beneficiary:

- existence of an employment contract with the position of executive or middle manager;
- solely for recipients in the position of middle manager, provision of work activities to the company for an average of 40 hours per week;
- in compliance with the prohibition on the transfer of the regulation, from the second assignment date, maintenance of ownership of the shares acquired under the plan,

and nonetheless, a number of Cembre shares at least equal to the total number of rights exercised under the plan.

35. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

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

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

Risks connected with the market

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

Interest rate risk

As at December 31, 2019, as detailed in Note 12, five fixed rate loans were taken out in the name of the Parent Company Cembre S.p.A., expiring in 2020. Owing to the nature and duration of the contracts, the interest rate risk can be considered zero.

Currency risk

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

Exposure to currency risk is determined mainly by sales in US dollars and British pounds. The entity and volume are not such as to have a significant impact on the Group’s results.

In addition to currency risk, the Group is also exposed to currency translation risk. As described in the consolidation principles section, in fact, financial statements of consolidated companies prepared in currencies other than the Euro are translated into Euro at the exchange rate published on the Internet site of the Ufficio Italiano Cambi.

In the table that follows we report the economic effect of possible fluctuations in exchange rates for main financial figures of consolidated companies operating outside the euro area.

	Currency	Change exchange rate	Change Shareholders'	Change Turnover	Change Profit before
Cembre Ltd.	GBP	5% / -5%	596/(596)	933/(933)	112/(112)
Cembre Inc.	USD	5% / -5%	454/(454)	704/(704)	53/(53)

At December 31, 2019, the effect of foreign-exchange transactions is negative by €81 thousand.

Liquidity risk

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

Credit risk

The Group's exposure to credit risk relates exclusively to trade receivables.

As shown in Note 8, none of the areas in which the Group operates poses relevant credit risks.

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

36. SUBSEQUENT EVENTS

No event having significant effects on the Group's financial position or operating performance occurred after December 31, 2019.

Brescia, March 11, 2020

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

Giovanni Rosani

Sede:
Via Serenissima, 9
25135 Brescia
Tel.: 030 3692.1
Telefax: 030 3365766
www.cembre.com
E-mail: Info@cembre.com

Cembre

Attestation in respect of the Consolidated financial statements

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

The undersigned Giovanni Rosani and Claudio Bornati, in their position as Managing Director and Manager responsible for the preparation of financial reports of Cembre S.p.A., respectively, pursuant to Article 154-bis, paragraphs 3 and 4 of Legislative Decree No.58/1998, certify that internal controls over financial reporting in place for the preparation of 2019 consolidated financial statements and during the period covered by the report, were:

• adequate to the Company structure, and

• effectively applied during the process.

The undersigned officers certify that this 2019 consolidated financial statements:

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

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

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

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

Brescia, March 12, 2020

Chairman and Managing Director	Manager responsible for the preparation of financial reports
signed by: Giovanni Rosani	*signed by:* Claudio Bornati

EY S.p.A.
Corso Magenta, 29
25121 Brescia

Tel: +39 030 2896111
Fax: +39 030 295437
ey.com

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

To the Shareholders of
Cembre S.p.A.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Cembre Group (the Group), which comprise the consolidated statement of financial position as at December 31st 2019, and the consolidated statement of comprehensive income, statement of changes in the consolidated shareholder's equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31st 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005.

Basis for Opinion

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

Key Audit Matters

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

We identified the following key audit matters:

Key Audit Matter	Audit Response
Valuation of the goodwill related to IKUMA CGU	
The consolidated financial statements as of December 31, 2019 include goodwill balance for € 4,6 million entirely related to the IKUMA Cash Generating Unit (CGU). The processes and the valuation techniques adopted by management to determine the	Our audit procedures in response to the key audit matter included, among others: • Gained an understanding of the relevant controls over the process for determining the recoverable amounts within the goodwill impairment test.

EY S.p.A.
Sede Legale: Via Lombardia, 31 - 00187 Roma
Capitale Sociale Euro 2.525.000,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584 - numero R.E.A. 250904
P.IVA 00891231003
Iscritta al Registro Revisori Legali al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998
Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

A member firm of Ernst & Young Global Limited

recoverable value of the CGU, in terms of value in use, are based on complex assumptions that, by their nature, involve management judgement, particularly for the estimating forecast cash flows included in the business plan, the normalized cash flows used to calculate the terminal value and the growth and discount rates applied. Considering the level of management judgement and complexity of the assumptions adopted in the assessment of the recoverable amount of goodwill, we determined that this area represents a key audit matter. The goodwill required disclosures are reported in note 4 “Goodwill” paragraph “Goodwill” of the consolidated financial statements as of December 31, 2019.	• Assessed the correctness of the perimeter considered in the identification of the CGU. • Assessed the reasonableness of the forecasted cash flows • Assessed the coherence of the forecasted cash flows adopted for the CGU and the business plan for the period 2020-2022. • Assessed the long period growth rate and discount rate assumed by management. In performing our audit procedures, we involved EY internal valuation specialists who performed an independent recalculation and a sensitivity analysis of main assumptions, in order to determine any significant impacts on the valuation of the recoverable amount. Lastly, we evaluated the appropriateness of the disclosure included in the consolidated financial statements as of December 31, 2019.

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

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors are responsible for assessing the Group’s ability to continue as a going concern and, when preparing the consolidated financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the consolidated financial statements on a going concern basis unless they either intend to liquidate the Parent Company Cembre S.p.A. or to cease operations or have no realistic alternative but to do so.

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

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

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

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

- we have identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- we have obtained sufficient appropriate audit evidence regarding the financial information of the entities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

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

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

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

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

Report on compliance with other legal and regulatory requirements

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

The Directors of Cembre S.p.A. are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and Ownership Structure of Group Cembre as at December 31st 2019, including their consistency with the related consolidated financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998, with the consolidated financial statements of Cembre Group as at December 31st 2019 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operations and the above-mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the consolidated financial statements of Cembre Group as at December 31st 2019 and comply with the applicable laws and regulations.

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

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

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

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

Brescia, 23 March 2020

EY S.p.A.
Signed by: Stefano Colpani, partner

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

REPORT BY THE BOARD OF STATUTORY AUDITORS
ON THE CONSOLIDATED FINANCIAL STATEMENTS OF THE CEMBRE GROUP AT DECEMBER 31, 2019

To our Shareholders:

The Consolidated Financial Statements for the 2019 financial year delivered to the Board of Statutory Auditors within the required deadline - consisting of the Consolidated Statement of Financial Position, Consolidated Statement of Comprehensive Income, Statement of Changes in the Consolidated Shareholders' Equity and of the Notes to the Consolidated Financial Statements - were prepared under the *International Financial Reporting Standards* (IFRS) adopted by the European Union and in compliance with regulations issued to implement article 9 of Legislative Decree 38/2005, in force at December 31, 2019.

The international accounting standards, amendments and interpretations issued by IASB applicable from January 1, 2019 and described in the Notes to the Consolidated Financial Statements, were applied in the preparation of the Consolidated Financial Statements. The amendments that came into force, to IFRS 9, 16, "Annual improvements to IFRS standard 2015-2017 Cycle", IFRIC 23, IAS 19 and 28, were adopted in the Consolidated Accounts of the Cembre Group. The Cembre Group chose to adopt IFRS 16 using the modified retrospective method (catch-up method).

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

The consolidated financial statements report a net profit of €21,690 thousand, compared to a consolidated net profit of €22,736 thousand in the previous year.

Independent Auditors EY S.p.A., as stated in the Auditing Report drawn up pursuant to articles 14 of Legislative Decree 39/2010 and 10 of Regulation (EU) no. 537/2014 issued on March 25, 2020, certified that:

- *"the Consolidated Financial Statements of the Cembre Group provide a true and correct representation of the financial condition of the Group at December 31, 2019, of its operating performance and cash flows for the financial year and are consistent with IFRS adopted by the European Union and regulations issued to implement article 9 of Legislative Decree no. 38/05"; Legislative Decree no. 38 of February 28, 2005;*
- "*the Report on Operations and some specific information contained in the Report on Corporate Governance with the Consolidated Financial Statements are consistent with the*

Consolidated Financial Statements of the Cembre Group for the financial year closed December 31, 2019 and are prepared in compliance with applicable norms and regulations".

- *"with reference to the certification pursuant to art. 14, paragraph 2 lett. e) of Legislative Decree 39 of January 27, 2010, issued on the basis of the knowledge and understanding of the company and the related context acquired during the audit,* we have *nothing to report".*

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

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

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

Information provided in the Report on Operations adequately illustrates the operating and financial situation of the parent company, investments made, alternative performance indicators, Shareholders' Equity, main risks and uncertainties, environmental management, worker safety, performance indicators, research, development and technological innovation activities, relationships with subsidiaries, parent companies and related parties - shown also in financial statements - and the consolidated non-financial declaration, its operating performance in 2019 and the outlook for the parent company and the Group as a whole.

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

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

- the scope of consolidation was determined correctly;
- the consolidation procedures adopted are compliant with the legal provisions and were applied correctly;
- the examination of the Report on Operations highlighted its consistency with the consolidated financial statements;
- all of the information used for the purposes of consolidation refers to the entire

administrative period of the year 2019;

- the measurement criteria are consistent with those used in the prior year.

Brescia, March 25, 2020

The Board of Statutory Auditors

The Chairman

Fabio Longhi

Financial Statements at December 31, 2019

Statements of financial position

ASSETS	Notes	Dec. 31, 2019	of which: related parties	Dec. 31, 2018	of which: related parties
NON CURRENT ASSETS					
Tangible assets	1	75.807.321		72.899.598	
Investment property	2	1.023.778		1.070.773	
Intangible assets	3	2.366.273		1.941.458	
Right of use assets	4	4.211.243	3.244.484	-	
Investments in subsidiaries	5	20.909.981		20.909.981	
Other investments	6	10.333		10.333	
Other non-current assets	7	22.789		8.003	
Deferred tax assets	17	825.524		848.600	
TOTAL NON-CURRENT ASSETS		**105.177.242**		**97.688.746**	
CURRENT ASSETS					
Inventories	8	36.063.973		35.657.164	
Trade receivables	9	12.959.332		15.617.954	
Trade receivables from subsidiaries	10	2.800.187	2.800.187	3.238.132	3.238.132
Tax receivables	11	399.705		1.912.174	
Other assets	12	332.742		917.943	
Cash and cash equivalents		15.529.281		11.240.731	
TOTAL CURRENT ASSETS		**68.085.220**		**68.584.098**	
NON-CURRENT ASSETS HELD FOR DISPOSAL		-		-	
TOTAL ASSETS		**173.262.462**		**166.272.844**	

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	Dec. 31, 2019	of which: related parties	Dec. 31, 2018	of which: related parties
EQUITY					
Capital stock	13	8.840.000		8.840.000	
Reserves	13	107.253.061		100.965.105	
Net profit	13	22.599.654		21.257.210	
TOTAL SHAREHOLDERS' EQUITY		**138.692.715**		**131.062.315**	
NON-CURRENT LIABILITIES					
Non-current financial liabilities	14	3.348.227	2.783.084	1.000.375	
Employee Severance Indemnity and other personnel benefits	15	1.925.485	98.238	2.203.655	278.402
Provisions for risks and charges	16	278.134	100.000	605.953	50.000
Deferred tax liabilities	17	2.018.984		1.976.221	
TOTAL NON-CURRENT LIABILITIES		**7.570.830**		**5.786.204**	
CURRENT LIABILITIES					
Current financial liabilities	14	9.904.960	472.104	8.667.222	
Trade payables	18	11.278.626		13.413.399	
Trade payables to subsidiaries	19	58.871	58.871	93.756	93.756
Tax payables		-		2.011.619	
Other Payables	20	5.756.460	-	5.238.329	-
TOTAL CURRENT LIABILITIES		**26.998.917**		**29.424.325**	
LIABILITIES ON ASSETS HELD FOR DISPOSAL		-		-	
TOTAL LIABILITIES		**34.569.747**		**35.210.529**	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**173.262.462**		**166.272.844**	

Financial Statements at December 31, 2019

Statement of comprehensive income

	Notes	2019		2018	
			of which: related parties		*of which: related parties*
Revenues from contracts with customers	***21***	108.808.594	31.892.618	109.067.580	31.112.671
Other revenues	***22***	1.211.689	649.027	1.474.821	904.910
TOTAL REVENUES		**110.020.283**		**110.542.401**	
Cost of goods and merchandise	***23***	(36.871.582)	(647.545)	(42.667.705)	(934.740)
Change in inventories	***8***	406.809		4.710.404	
Cost of services received	***24***	(14.798.304)	(1.119.032)	(14.349.793)	(669.288)
Lease and rental costs	***25***	(128.209)		(1.019.616)	(534.469)
Personnel costs	***26***	(27.518.499)	(859.083)	(27.549.288)	(890.224)
Other operating costs	***27***	(1.094.959)		(1.166.576)	
Increase in assets due to internal construction		894.359		934.119	
Accruals to provisions for risks and charges	***28***	(23.561)		(22.601)	
GROSS OPERATING PROFIT		**30.886.337**		**29.411.345**	
Tangible asset depreciation	***1-2***	(6.778.091)		(5.602.465)	
Intangible asset amortization	***3***	(600.798)		(587.958)	
Depreciation of right of use assets	***4***	(850.350)	(495.342)	-	
OPERATING PROFIT		**22.657.098**		**23.220.922**	
Financial income	***29***	4.285.727	4.281.460	2.689.225	2.683.185
Financial expenses	***29***	(126.417)	(73.109)	(34.995)	
Foreign exchange gains (losses)	***30***	(66.522)		21.984	
PROFIT BEFORE TAXES		**26.749.886**		**25.897.136**	
Income taxes	***31***	(4.150.232)		(4.639.926)	
NET PROFIT FROM ORDINARY ACTIVITIES		**22.599.654**		**21.257.210**	
NET PROFIT FROM ASSETS HELD FOR DISPOSAL		**-**		**-**	
NET PROFIT		**22.599.654**		**21.257.210**	
Items that will not be reclassified to profit and loss					
Gains (losses) from discounting of Employees' Termination Indemnity		(29.366)		90.603	
Income tax relating to items that will not be reclassified		7.048		(21.745)	
COMPREHENSIVE INCOME	***32***	**22.577.336**		**21.326.068**	

Financial Statements at December 31, 2019

Statement of Cash Flows

	2019	2018
A) CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	**11.240.731**	**13.588.602**
B) CASH FLOW FROM OPERATING ACTIVITIES		
Net profit for the year	22.599.654	21.257.210
Depreciation, amortization and write-downs	8.229.239	6.190.423
(Gains)/Losses on disposal of assets	37.328	(24.345)
Net change in Employee Severance Indemnity	(278.170)	(102.041)
Net change in provisions for risks and charges	(327.819)	158.061
Operating profit (loss) before change in working capital	**30.260.232**	**27.479.308**
(Increase) Decrease in trade receivables	3.096.567	226.446
(Increase) Decrease in inventories	(406.809)	(4.710.404)
(Increase) Decrease in other receivables and deferred tax assets	2.097.553	1.781.733
Increase (Decrease) of trade payables	215.126	(3.314.306)
Increase (Decrease) of other payables and deferred tax liabilities	(1.450.725)	2.109.313
Change in working capital	**3.551.712**	**(3.907.218)**
NET CASH FLOW (USED IN)/FROM OPERATING ACTIVITIES	**33.811.944**	**23.572.090**
C) CASH FLOW FROM INVESTING ACTIVITIES		
Capital expenditure on fixed assets:		
- intangible	(1.041.404)	(674.394)
- tangible	(9.730.353)	(16.793.140)
- financial	-	(8.300.000)
Proceeds from disposal of tangible, intangible, financial assets		
- intangible	15.791	117
- tangible	54.206	218.817
Increase (Decrease) of trade payables for assets	(2.384.784)	3.144.580
NET CASH FLOW (USED IN)/FROM INVESTING ACTIVITIES	**(13.086.544)**	**(22.404.020)**
D) CASH FLOW FROM FINANCING ACTIVITIES		
(Increase) Decrease in other non current assets	(14.786)	-
Increase (Decrease) in bank loans and borrowings	(630.952)	9.667.597
Repayment of lease liabilities	(821.859)	-
Change in reserves	101.028	119.878
Dividends distributed	(15.047.963)	(13.372.274)
NET CASH FLOW (USED IN)/FROM FINANCING ACTIVITIES	**(16.414.531)**	**(3.584.799)**
E) INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (B+C+D)	**4.310.869**	**(2.416.729)**
F) Discounting of employees' termination indemnities	(22.319)	68.858
G) CASH AND CASH EQUIVALENTS AT END OF THE PERIOD (A+E+F)	**15.529.281**	**11.240.731**

CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	**15.529.281**	**11.240.731**
Current financial liabilities	(9.904.960)	(8.667.222)
Non current financial liabilities	(3.348.227)	(1.000.375)
NET FINANCIAL POSITION	**2.276.094**	**1.573.134**

INTEREST PAID IN THE PERIOD	**(91.763)**	**(1.209)**

BREAKDOWN OF CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		
Cash	8.629	6.756
Banks	15.520.651	11.233.975
	15.529.281	**11.240.731**

Financial Statements at December 31, 2019

Statement of Changes in the Shareholders' Equity

	Balance at December 31, 2018	Allocation of previous year net profit	Other movements	Comprehensive income	Balance at December 31, 2019
Capital stock	**8.840.000**				**8.840.000**
Share premium reserve	**12.244.869**				**12.244.869**
Legal reserve	**1.768.000**				**1.768.000**
Reserve for own shares	**(5.282.685)**				**(5.282.685)**
Suspended-tax revaluation reserve	**585.159**				**585.159**
Other suspended-tax reserves	**68.412**				**68.412**
Extraordinary reserve	**83.022.445**	6.209.247			**89.231.692**
Reserve for FTA	**4.051.204**				**4.051.204**
Reserve for discounting of Employee Termination Indemnity	**110.563**			(22.319)	**88.244**
Merger surplus reserve	**4.397.138**				**4.397.138**
Stock options' reseve	**-**		101.028		**101.028**
Retained earnings	**-**				**-**
Net profit	**21.257.210**	(21.257.210)		22.599.654	**22.599.654**
Total Shareholders' Equity	**131.062.315**	**(15.047.963)**	**101.028**	**22.577.335**	**138.692.715**

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

Notes to the Financial Statements of Cembre S.p.A. at December 31, 2019

I. CORPORATE INFORMATION

Cembre S.p.A. is a joint-stock company with registered office in Brescia, Via Serenissima 9. The company is listed on the MTA (screen-based equities market) managed by Borsa Italiana S.p.A.

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

Publication of the Financial Statements of Cembre S.p.a. for the year ended December 31, 2019 was authorised by a resolution of the Board of Directors dated March 11, 2020.

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

II. FORM AND CONTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Financial Statements at December 31, 2019 were prepared under the International Financial Reporting Standards (IFRS) adopted by the European Union and the related implementation regulations issued in application of article 9 of Legislative Decree no. 38/2005.

Principles adopted in the preparation of the Financial Statements are those formally approved by the European Union as at December 31, 2019.

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

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

The Financial Statements at December 31, 2019 were prepared on the basis of the going concern assumption.

The table that follows contains a list of international accounting principles and interpretations approved by the IASB that became effective in 2019, which were taken into account, where applicable, in the preparation of the present Financial Statements.

Description	Effective from
IFRS 16 – *Leases*	January 1, 2019
IFRIC 23 – Uncertainty over Income Tax Treatments	January 1, 2019
Amendments to IFRS 9 – Prepayment features with negative compensation	January 1, 2019
Amendments to IAS 19 - Changes of defined-benefit plans	January 1, 2019
Amendments to IAS 28 – Long-term interests in Associates and Joint-Ventures	January 1, 2019
Annual Improvements to IFRS standard 2015-2017 Cycle	January 1, 2019

Transition to IFRS 16

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

The incremental borrowing rate (IBR) was calculated in three steps: first, the rate for BTPs issued by the Italian government was identified as the reference rate; then, using the Bloomberg platform, the spread applicable to Cembre was determined, based on the liabilities as at September 30, 2018 (equal to 0.48%); lastly, the incremental interest rate was calculated by applying the company spread to the reference rate determined for Italy. The same incremental interest rate was applied for similar contracts.

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

At December 31, 2019 the following contracts fall under the scope indicated by the standard:

	Motor vehicles	Buildings
Cembre S.p.A.	40	7

Contracts expiring within 12 months of the date of first-time application of the standard, or with a term of less than or equal to 12 months were excluded from application of the standard, as were leases with a value of less than €5,000 thousand. Therefore, based on duration, 20 vehicle contracts and, based on value, 2 contracts for photocopying machines, were excluded.

The application of this standard did not generate any significant effects at income statement level, involving a reduction in Group pre-tax profit of €28 thousand, as the joint result of the following entries:

- reversal of lease fees of €905 thousand;
- recognition of amortisation for leasing activities amounting to €850 thousand;
- recognition of lease interest expense of €83 thousand.

At balance sheet level, the application of the aforementioned standard involved the recognition of the following items:

- non-current assets for leasing of €4,211 thousand;
- non-current financial liabilities of €3,248 thousand;
- current financial liabilities of €868 thousand.
- reversal of prepaid expenses for €23 thousand.

The table below summarises the main income results, net of the effects of the adoption of IFRS 16.

	2019	%	2018	%	*Change*
Revenues from sales and services	108,808,594	*100.0%*	109,067,580	*100.0%*	*-0.2%*
Gross operating result	29,981,838	*27.6%*	29,411,345	*27.0%*	*1.9%*
Operating result	22,602,949	*20.8%*	23,220,922	*21.3%*	*-2.7%*
Pre-tax result	26,778,378	*24.6%*	25,897,136	*23.7%*	*3.4%*

Standards issued but not yet entered into force

The standards and interpretations that, at the date of drafting of the company's financial statements, had already been issued but had still not entered into force are outlined below. Cembre S.p.A. intends to adopt these standards and interpretations, if applicable, when they enter into force:

Definition	Effective from
IFRS 17 – Insurance Contracts	January 1, 2021
Amendments to references to the Conceptual Framework in the IFRS Standards	January 1, 2020
Amendments to IFRS 3 - *Definition of a business*	January 1, 2020
Amendments to IAS 1 and IAS 8 - *Definition of material*	January 1, 2020

As of today, these standards do not apply to the company.

III. CONSOLIDATION PRINCIPLES AND VALUATION CRITERIA

Form of the financial statements

The financial statements are prepared as follows:

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

Financial Statements forms are unchanged from previous year.

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

Property, plant and equipment

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

Ordinary maintenance and repair costs are not capitalised, and are charged to the income statement in the year in which they are incurred, with the exception of those that result in an increase in the useful life of the asset.

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

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

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

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

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

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

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

Leased assets

The company evaluates, when a contract is signed, whether it can be classified as a lease, or:

- whether it confers the right of exclusive use of an asset;
- whether a period is identified in which the right of use can be exercised;
- whether a consideration for use of said right has been set.

The assets identified in this way are recognised at cost, inclusive of all initial direct expenses, and are amortised on a straight-line basis from the date of effectiveness until the end of the useful life of the asset underlying the contract, or, if before, until the expiry of the lease.

At the same time as the recognition under assets of the right of use, the company books the present value of payments due under lease payables, including the price of any purchase option. The value of the liabilities is reduced due to the payments made and may change depending on changes in the contractual terms.

The discount rate used to determine the value of the liabilities is the incremental borrowing rate.

Leases with a duration of less than or equal to 12 months have been excluded from application of the standard, as have low value leases. The associated fees, therefore, are booked as costs over the duration of the lease.

Investment property

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

Intangible assets

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

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

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

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

Intangible assets having an indefinite useful life are not amortized and subjected periodically to an impairment test to assess possible loss in value.

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

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

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

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

Investments in subsidiaries

Recognised at cost, adjusted for any impairment.

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

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

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

Financial assets

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

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

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

Financial assets held to maturity

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

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

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

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

Loans extended and receivables

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

Financial assets available for sale

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

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

Loss in value of financial assets

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

Treasury shares

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

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

Inventories

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

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

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

Receivables and payables

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

Cash and cash equivalents

Cash and cash equivalents are recorded at face value.

Loans

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

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

Translation of amounts denominated in currencies other than the Euro

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

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

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

Provisions for risks and charges

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

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

Employee benefits

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

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

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

Share-based payments

The company records, starting from the grant date, the present value of the rights of exercise of the share purchase option. The allocation occurs periodically, over the entire vesting period set forth in the plan.

The fair value measurement of the options takes account of some actuarial variables according to the method set forth in IFRS 2: the risk-free return curve, the annual volatility of the yield of Cembre's share calculated over the last 3 years, the annual dividend rate, the value of the share price at the grant date.

The allocation is accounted for under personnel costs with an undistributable reserve as contra-item called the Stock options reserve.

Elimination of financial assets and liabilities

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

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

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

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

Revenues

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

Disposal of assets

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

Services rendered

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

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

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

Interest

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

Dividends

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

Grants

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

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

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

Financial charges

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

Cost of goods purchased and services received

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

Income taxes (current, prepaid and deferred)

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

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

Earnings per share

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

Use of estimates

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

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

Provision for inventory depreciation

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

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

Provision for doubtful accounts

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

The estimated provision for doubtful accounts is based on expected losses by the Company, according to past experience on similar portfolios of receivables, current past due amounts vs. historical past due amounts, losses and collections, the close monitoring of credit quality, in addition to projections on economic and market conditions.

Retrievable value of non-current assets

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

Post-retirement benefits

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

In 2019, based on past turnover experience, the probability of a company employee terminating his or her employment for causes other than death is the following:

Male	6.18%
Female	4.46%

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

Discounting rate	0.77%
Yearly inflation rate	1.00%
Yearly real increase in retributions	1.00%

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

Recoverability of deferred tax assets

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

Potential liabilities

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

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

1. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plant and Machinery	Equipment	Other assets	Work in progress	Total
Historical cost	47,059,095	65,600,288	11,904,860	5,107,583	3,481,639	133,153,465
Accumulated amortization	(11,249,752)	(37,242,825)	(8,309,851)	(3,451,439)	-	(60,253,867)
Balance at 12/31/ 2018	**35,809,343**	**28,357,463**	**3,595,009**	**1,656,144**	**3,481,639**	**72,899,598**
Increases	1,296,276	6,126,410	365,624	451,190	1,490,853	9,730,353
Amortisation	(1,033,359)	(4,584,748)	(671,086)	(441,903)	-	(6,731,096)
Net divestments	-	(42,655)	(2,498)	(13,581)	(32,800)	(91,534)
Reclassifications	215,100	2,512,686	276,714		(3,004,500)	-
Balance at 12/31/2019	**36,287,360**	**32,369,156**	**3,563,763**	**1,651,850**	**1,935,192**	**75,807,321**

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

The volume of capital expenditure by Cembre S.p.A. in 2019 amounted to €9,730 thousand. Investments in buildings mainly regarded refurbishment of the building that accommodates the Company's sales and management offices, for which €783 thousand was invested, as well as the completion of a new industrial warehouse for €566 thousand; moreover, for the same works, some €657 thousand was invested in equipment. Investments in production plant and machinery amounted to €4,627 thousand, which include the purchase of an automatic terminal board machine for €640 thousand, a shearing press for €440 thousand the purchase of a robotised cell for €325 thousand. Investment in equipment and dies under construction amounted to €485 thousand, while advances paid for the supply of fixed assets amounted to €1,006 thousand.

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

The monetary revaluations of property, plant and equipment recognised in the Financial Statements of Cembre S.p.A. at December 31, 2019 are listed below:

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

2. INVESTMENT PROPERTY

	Land and buildings	Plant and Machinery	Other assets	Total
Historical cost	1,713,397	263,005	5,322	1,981,724
Accumulated amortization	(650,813)	(254,998)	(5,140)	(910,951)
Balance at 12/31/ 2018	**1,062,584**	**8,007**	**182**	**1,070,773**
Amortisation	(44,402)	(2,411)	(182)	(46,995)
Balance at 12/31/2019	**1,018,182**	**5,596**	**-**	**1,023,778**

Pending improvement in the market which facilitates its sale, the item includes the building in Calcinate (BG) and relative equipment, no longer used in the business activities. The fair value at December 31, 2019 is in line with its book value.

3. INTANGIBLE ASSETS

	Development costs	Patents	Software	Other int. assets	Work in progress	Total
Historical cost	2,051,183	698,296	5,259,191	77,545	69,940	8,156,155
Accumulated amortisation	(1,443,605)	(578,004)	(4,134,809)	(58,279)	-	(6,214,697)
Balance at 12/31/2018	**607,578**	**120,292**	**1,124,382**	**19,266**	**69,940**	**1,941,458**
Increases	230,327	77,807	622,870	-	110,400	1,041,404
Amortisation	(228,754)	(123,122)	(236,043)	(12,879)	-	(600,798)
Net divestments	(15,791)	-	-	-	-	(15,791)
Reclassifications	-	-	24,540	-	(24,540)	-
Balance at 12/31/2019	**593,360**	**74,977**	**1,535,749**	**6,387**	**155,800**	**2,366,273**

Investments in intangible fixed assets concerned mostly software. In particular, new SAP packages were introduced, intended for integrated management of the product design-prototyping-production process.

4. RIGHT OF USE - LEASED ASSETS

This item was accounted for in 2019, in accordance with IFRS 16. The gross value of the right of use amounts to €5,061 thousand, while the value of the accumulated amortisation amounts to €850 thousand. Please refer to the paragraph "Transition to IFRS 16" of Chapter II. Form and content for further details.

5. INVESTMENTS IN SUBSIDIARIES

	12/31/2018	Change	Write-downs	12/31/2019
Cembre Ltd.	3,437,433	-	-	3,437,433
Cembre Sarl	1,201,608	-	-	1,201,608
Cembre España SLU	3,115,554	-	-	3,115,554
Cembre GmbH	10,287,192	-	-	10,287,192
Cembre Inc.	2,868,194	-	-	2,868,194
Total	**20,909,981**	**-**	**-**	**20,909,981**

The following information is provided with regard to investments in direct subsidiaries as at December 31, 2019, expressed in Euro:

Company and registered office	Share capital capital	Shareholders' profit	Net profit	%
Cembre Ltd. (Sutton Coldfield - Birmingham)	1,998,119	13,999,800	2,062,168	100
Cembre Sarl (Morangis - Paris)	1,071,000	3,399,862	338,382	100
Cembre España SLU (Torrejon - Madrid)	2,902,200	6,578,147	443,269	100
Cembre GmbH (Monaco - Germany)	10,112,000	15,596,282	825,916	100
Cembre Inc. (Edison - New Jersey - Usa)	1,281,823	8,039,825	699,424	100

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

Cembre S.p.A. indirectly controls, through its subsidiary Cembre GmbH, the following companies:

Company and registered office	Share capital	Shareholders' equity	Net profit	% Indirect
IKUMA GmbH & Co. KG (Weinstadt - Germany)	40,000	348,743	(151,257)	100
IKUMA Verwaltungs GmbH (Weinstadt - Germany)	25,000	16,589	5,583	100

6. OTHER INVESTMENTS

	12/31/2019	12/31/2018	Change
Inn.tec. S.r.l.	5,165	5,165	-
Conai	59	59	-
A.Q.M. S.r.l.	5,109	5,109	-
Total	**10,333**	**10,333**	**-**

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

7. OTHER NON-CURRENT ASSETS

These solely include guarantee deposits.

8. INVENTORIES

	12/31/2019	12/31/2018	Change
Raw materials	10,877,625	10,953,228	(75,603)
Work in progress and semi-finished goods	12,697,235	11,934,651	762,584
Finished goods	12,489,113	12,769,285	(280,172)
Total	**36,063,973**	**35,657,164**	**406,809**

The value of finished goods was decreased to its expected realisable value through the provision for finished goods, amounting to approximately to €1,574 thousand. Changes in the provision in 2019 were as follows:

	2019	2018
Provision at January 1	**1,495,123**	**1,064,866**
Accruals	78,689	523,971
Uses	-	(93,714)
Balance at December 31	**1,573,812**	**1,495,123**

9. TRADE RECEIVABLES

	12/31/2019	12/31/2018	Change
Gross trade receivables	13,298,005	15,984,475	(2,686,470)
Provision for bad debts	(338,673)	(366,521)	27,848
Total	**12,959,332**	**15,617,954**	**(2,658,622)**

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

	12/31/2019	12/31/2018	Change
Italy	10,688	13,350	(2,662)
Europe	2,062	1,737	325
North America	102	39	63
Oceania	133	460	(327)
Middle East	82	132	(50)
Far East	151	138	13
Africa	80	128	(48)
Total	**13,298**	**15,984**	**(2,686)**

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

Average collection time shortened from 64 days in 2018 to 54 days in 2019.

The provision for doubtful accounts changed as follows:

	2019	2018
Provision at January 1	**366,521**	**626,273**
Accruals	11,955	-
Uses	(4,153)	(22,551)
Releases	(35,650)	(237,201)
Balance at December 31	**338,673**	**366,521**

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

	Not past due	1-90 days	91-180 days	181-365 days	Over one year	Under litigation	Total
2019	12,098	705	316	86	28	65	**13,298**
2018	15,080	490	130	110	103	71	**15,984**

10. TRADE RECEIVABLES FROM SUBSIDIARIES

Trade receivables from the following companies:

	12/31/2019	12/31/2018	Change
Cembre Ltd. (UK)	558,028	868,850	(310,822)
Cembre S.a.r.l. (France)	357,625	426,923	(69,298)
Cembre España SLU (Spain)	883,426	498,069	385,357
Cembre GmbH (Germany)	360,605	766,175	(405,570)
Cembre Inc. (US)	586,712	677,798	(91,086)
IKUMA KG (Germany)	53,791	317	53,474
Total	**2,800,187**	**3,238,132**	**(437,945)**

11. TAX RECEIVABLES

	12/31/2019	12/31/2018	Change
Receivables for IRES refunds on IRAP	3,394	3,394	-
Credit for excess advance payment	395,230	97,617	297,613
Patent Box receivable	-	1,810,189	(1,810,189)
Reimbursements	1,081	974	107
Total	**399,705**	**1,912,174**	**(1,512,469)**

On December 22, 2017 Cembre S.p.A., with the assistance of Studio Tributario e Societario Deloitte, signed an agreement with Agenzia delle Entrate (the Italian Revenue Service) that defines the methods and criteria for calculation of the economic contribution to the production of business income by intangible fixed assets for the purposes of the so-called "Patent Box", with regard to tax years 2015-2019.

The benefit for the year 2019 is equal to €1,744 thousand, as a direct reduction of tax payables.

12. OTHER ASSETS

	12/31/2019	12/31/2018	Change
Advances to suppliers	216,125	475,091	(258,966)
Receivables from employees	21,941	23,872	(1,931)
Receivables for indirect taxes	-	309,488	(309,488)
Other	94,676	109,492	(14,816)
Total	**332,742**	**917,943**	**(585,201)**

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

13. SHAREHOLDERS' EQUITY

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

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

At December 31, 2019, Cembre S.p.A. held 280,041 treasury shares, corresponding to 1.65% of its capital stock. Against these shares the Company recorded €5,283 thousand in a specific equity reserve under liabilities.

On the fiftieth anniversary of the foundation of the company, the Shareholders' Meeting approved an incentive plan targeted at company executives and middle managers, which provides for the annual assignment of rights to purchase ordinary Cembre S.p.A. shares and will last until 2025. Following the adoption of this plan, in compliance with the provisions of IFRS 2, a Stock Options Reserve was recognised, representative of the debt to beneficiaries of the plan itself, assuming the attainment of the performance targets established and continuity of the work relationship. This reserve amounts to €101 thousand. Please refer to Note 37 for further details.

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

Nature/description	Amount	Possibility of use	Portion available
Share capital	8,840,000		
Share capital reserves:			
Share premium reserve	12,244,869	A B C	12,244,869
Suspended-tax reserves	585,159	A B	---
Other suspended-tax reserves	68,412	B	---
Restricted reserves:			
Reserve for Treasury Shares	(5,282,684)		---
Stock options reserve	101,028		---
Profit reserves:			
Legal reserve	1,768,000	B	---
First time application of IAS/IFRS reserve	4,051,204	B	---
Discounting of employee termination indemnities	88,245	B	---
Merger differences	4,397,137	A B C	4,397,137
Extraordinary reserve	89,231,691	A B C	89,231,691
Total	**116,093,061**		**105,873,697**
		Non-distributable portion	593,360
		Residual distributable portion	105,280,337

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

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

14. NON-CURRENT AND CURRENT FINANCIAL LIABILITIES

	Effective interest rate	Term ending	12/31/2019	12/31/2018
Bank loans				
Non-current portion				
Banca Intesa contract 33439	0.04%	Oct-19	-	-
Banca Intesa contract 68407	0.05%	Apr-20	-	1,000,375
Total non-current portion			**-**	**1,000,375**
Leasing liabilities - Non-current portion			**3,348,227**	**-**
NON-CURRENT FINANCIAL LIABILITIES			**3,348,227**	**1,000,375**

	Effective interest rate	Term ending	12/31/2019	12/31/2018
Bank loans				
Current portion				
Banca Intesa contract 33439	0.04	Oct-19	-	6,667,222
Banca Intesa contract 68407	0.05	Apr-20	1,000,375	2,000,000
Unicredit contract 53429	0.18	Feb-20	1,000,000	-
Unicredit contract 53452	0.18	Feb-20	1,000,000	-
Unicredit contract 53454	0.18	Mar-20	1,000,000	-
BNL contract 98375	0.05	Sept-20	5,000,000	-
Total current portion			**9,000,375**	**8,667,222**
Bank overdrafts				
(on presentation of customer bills)				
Unicredit	0.2	On request	30,670	-
Total			**30,670**	**-**
Bank charges			**5,601**	**-**
Leasing liabilities - Current portion			**868,314**	**-**
CURRENT FINANCIAL LIABILITIES			**9,904,960**	**8,667,222**

At the date of drafting of this document, the contracts expiring in February were reimbursed.

15. EMPLOYEE SEVERANCE INDEMNITY AND OTHER PERSONNEL BENEFITS

Employee Termination Indemnity showed the following changes:

	2019	2018
Provision at January 1	**2,203,655**	**2,305,696**
Accruals	899,608	897,141
Uses	(859,576)	(389,073)
Actuarial effect	64,020	(60,570)
Social security (INPS) treasury provision	(382,222)	(549,539)
Balance at December 31	**1,925,485**	**2,203,655**

The total amount paid to the INPS treasury account at December 31, 2019 amounts to €7,350 thousand.

Employee termination indemnities accrued at December 31, 2019 were discounted on the basis of an evaluation made by a registered actuary.

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

Change in rate	12/31/2019	12/31/2018
0.5%	1,842,376	2,119,358
-0.5%	2,009,593	2,301,348

16. PROVISIONS FOR RISKS AND CHARGES

	Supplementary customer allowances	Directors' compensation	Employee incentives	Total
At December 31, 2018	**154,573**	**50,000**	**401,380**	**605,953**
Accruals	23,561	50,000	-	**73,561**
Releases	-	-	(401,380)	**(401,380)**
At December 31, 2019	**178,134**	**100,000**	**-**	**278,134**

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

The provision for employee incentives includes amounts allocated for the benefit of sales personnel that will be paid out upon the achievement of objectives set out in the sales development plan. Given the expected results were not achieved, the provision was released.

17. DEFERRED TAX ASSETS AND LIABILITIES

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

There are no receivables with maturity of over five years.

	12/31/2019	12/31/2018	Change
Deferred tax assets			
Write-down of inventories	390,603	371,718	18,885
Provision for bad debts	84,006	87,965	(3,959)
Differences on depreciation	245,096	205,039	40,057
Other	105,819	183,878	(78,059)
Gross deferred tax assets	**825,524**	**848,600**	**(23,076)**
Deferred tax liabilities			
Average cost valuation of inventories	(383,904)	(325,776)	(58,128)
Reversal of land depreciation	(24,017)	(24,017)	-
Revaluation of land	(1,651,933)	(1,651,933)	-
Discounting of employee termination indemnity	40,870	25,505	15,365
Gross deferred tax liabilities	**(2,018,984)**	**(1,976,221)**	**(42,763)**
Net deferred tax liabilities	**(1,193,460)**	**(1,127,621)**	**(65,839)**

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

18. TRADE PAYABLES

	12/31/2019	12/31/2018	Change
Trade payables	11,192,117	13,369,859	(2,177,742)
Advances	86,509	43,540	42,969
Total	**11,278,626**	**13,413,399**	**(2,134,773)**

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

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

	12/31/2019	12/31/2018	Change
Italy	10,225	13,068	(2,843)
Europe	929	273	656
North America	14	16	(2)
Other	24	13	11
Total	**11,192**	**13,370**	**(2,178)**

19. TRADE PAYABLES TO SUBSIDIARIES

The balance of trade payables is to the following subsidiaries:

	12/31/2019	12/31/2018	Change
Cembre Ltd (UK)	44,753	69,816	(25,063)
Cembre S.a.r.l. (France)	4,968	-	4,968
Cembre GmbH (Germany)	1,100	22,132	(21,032)
Cembre España S.L.U. (Spain)	8,050	1,808	6,242
Total	**58,871**	**93,756**	**(34,885)**

20. OTHER PAYABLES

The item is broken down as follows:

	12/31/2019	12/31/2018	Change
Payables to employees	1,846,457	1,721,377	125,080
Employee withholding taxes payable	1,112,011	1,071,974	40,037
Commissions payable	367,759	360,630	7,129
Payable to Statutory Auditors	31,200	18,720	12,480
Social security payables	2,203,246	2,176,623	26,623
Payable on sundry taxes and withholdings	11,655	16,503	(4,848)
VAT Payables	316,249	-	316,249
Other	59,567	62,644	(3,077)
Deferrals	(191,684)	(190,142)	(1,542)
Total	**5,756,460**	**5,238,329**	**518,131**

21. REVENUE FROM CONTRACTS WITH CUSTOMERS

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

	2019	2018	Change
Italy	58,469,050	59,022,685	(553,635)
Rest of Europe	37,595,382	33,762,011	3,833,371
Rest of the World	12,744,162	16,282,884	(3,538,722)
Total	**108,808,594**	**109,067,580**	**(258,986)**

Further details are provided in the Report on Operations.

22. OTHER REVENUES

	2019	2018	Change
Capital gains	21,919	31,507	(9,588)
Insurance reimbursements	27,941	26,526	1,415
Reimbursements	175,314	129,737	45,577
Reimbursement intragroup transport	109,245	87,856	21,389
Charge-back of intragroup costs	539,782	817,054	(277,272)
Release of provisions	23,695	237,201	(213,506)

Other	43,551	127,198	(83,647)
Operating grants	270,242	17,742	252,500
Total	**1,211,689**	**1,474,821**	**(263,132)**

The charge-back of intragroup costs predominantly regard "Information Technology" costs and sales costs incurred by Cembre S.p.A. in favour of subsidiaries. Royalties for use of the Cembre trademark are also included. In 2018, the item also included the charge-back of costs for advisory services incurred during the IKUMA acquisition process.

In relation to operating grants, it should be specified, pursuant to art. 1, paragraph 125, of Law 124/2017 (Compliance with transparency and disclosure obligations), in 2019, grants amounting to €106 thousand were obtained from the "Fondo Formazienda" fund for training courses provided to Parent Company personnel and grants of €163 thousand were obtained from the European Union for participation in the European Sharework Project, for the creation of a system of interaction between operators and robots in the production process, in which Cembre participates in collaboration with another 14 international partners (7 companies, 6 research institutes, 1 standardisation body).

23. COST OF GOODS AND MERCHANDISE

	2019	2018	Change
Raw materials and merchandise	32,954,804	38,946,863	(5,992,059)
Consumables and supplies	3,552,286	3,348,298	203,988
Transport and customs fees	364,492	372,544	(8,052)
Total	**36,871,582**	**40,667,705**	**(5,796,123)**

24. COST OF SERVICES

	2019	2018	Change
Subcontracted work	3,839,905	3,899,430	(59,525)
Transport	1,158,011	1,254,541	(96,530)
Maintenance and repair	1,722,731	1,684,218	38,513
Electricity, heating and water	1,477,883	1,393,920	83,963
Consulting	1,281,088	1,555,061	(273,973)
Directors' compensation	638,878	633,313	5,565
Payments to statutory auditors	87,360	87,360	-
Commissions	790,412	814,439	(24,027)
Postage and telephone	189,337	172,413	16,924
Fuel	255,503	252,882	2,621
Travelling expenses	556,779	541,036	15,743
Insurance	343,700	375,608	(31,908)
Bank charges	80,778	81,010	(232)

Personnel training	157,114	67,450	89,664
Advertising and trade fair displays	525,912	140,450	385,462
Security and cleaning	502,898	491,814	11,084
Other	1,190,015	904,848	285,167
Total	**14,798,304**	**14,349,793**	**448,511**

The increase in the residual item "Other" is mainly due to the costs incurred for the events organised in conjunction with the celebrations for the fiftieth anniversary of the foundation of Cembre S.p.A., amounting to €225 thousand.

25. LEASES AND RENTALS

	2019	2018	Change
Rent and related costs	3,759	554,092	(550,333)
Vehicle leasing	124,450	465,524	(341,074)
Total	**128,209**	**1,019,616**	**(891,407)**

The changes are due to the application of new IFRS 16 which involved the cancellation of fees totalling €904 thousand.

26. PERSONNEL COSTS

This item includes the entire cost for personnel, including unused holidays and provisions required by law and by the collective agreements. The employee termination indemnity at December 31, 2019 includes the cost for indemnity accrued during the year for employees who resigned and the employee portion of contribution to the COMETA supplementary pension fund.

	2019	2018	Change
Wages and salaries	20,036,356	20,012,875	23,481
Social security contributions	5,722,570	5,566,339	156,231
Employee severance indemnity	1,257,010	1,239,361	17,649
Retirement benefits	66,598	63,661	2,937
Other costs	435,965	667,052	(231,087)
Total	**27,518,499**	**27,549,288**	**(30,789)**

The reduction in the item “Other costs” is linked to the release of the “Provision for personnel incentives”, amounting to €401 thousand; for a description please see Note 16. The item also includes the allocation to the Stock options reserve, pursuant to Note 13, amounting to €101 thousand.

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

	2019	2018	Change
Managers	7	6	1
White collars	214	209	5
Blue collars	231	231	-
Outsourced personnel	33	49	(16)
Total	**485**	**495**	**(10)**

During the course of the year, Cembre S.p.A. used an average of 33 short-term staff, for a total cost of €1,480 thousand. This amount is classified under wages and salaries.

27. OTHER OPERATING COSTS

The item is broken down as follows:

	2019	2018	Change
Sundry taxes	441,531	465,788	(24,257)
Membership fees	60,573	61,175	(602)
Donations	35,000	30,000	5,000
Losses on receivables	35,157	20,113	15,044
Capital losses	59,247	90,566	(31,319)
Other	463,451	498,934	(35,483)
Total	**1,094,959**	**1,166,576**	**(71,617)**

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

28. ACCRUALS TO PROVISIONS FOR RISKS AND CHARGES

The item is broken down as follows:

	2019	2018	Change
Customer indemnities	23,561	22,601	960

The customer indemnities provision was allocated in relation to possible charges in the case of termination of agency mandates.

29. FINANCIAL INCOME (EXPENSE)

	2019	2018	Change
Dividends from subsidiaries	4,281,460	2,683,185	1,598,275
Interest earned on bank account balances	2,032	3,936	(1,904)
Other financial income	2,235	2,104	131
Total financial income	**4,285,727**	**2,689,225**	**1,596,502**
Loans and bank overdrafts	(9,123)	-	(9,123)
Financial charges on discounting of Employee Termination Indemnity	(34,654)	(30,034)	(4,620)
Lease financial charges	(82,640)	-	(82,640)

Other financial charges	-	(4,961)	4,961
Total financial expense	**(126,417)**	**(34,995)**	**(91,422)**
Total financial income (expense)	**4,159,310**	**2,654,230**	**1,505,080**

During 2019, the Parent Company collected dividends from:

- Cembre Sarl for €560 thousand;
- Cembre Ltd. for £1,700 thousand, equal to €1,983 thousand;
- Cembre Inc. for $600 thousand, equal to €529 thousand;
- Cembre España SLU for €1,209 thousand;

30. FOREIGN EXCHANGE GAINS (LOSSES)

The item is broken down as follows:

	2019	2018	Change
Realised foreign exchange gains	75,957	137,414	(61,457)
Realised foreign exchange losses	(135,985)	(124,865)	(11,120)
Unrealised foreign exchange gains	-	10,121	(10,121)
Unrealised foreign exchange losses	(6,494)	(686)	(5,808)
Total	**(66,522)**	**21,984**	**(88,506)**

31. INCOME TAXES FOR THE YEAR

	2019	2018	Change
Current taxes for IRES	(5,013,574)	(5,399,129)	385,555
Current taxes for IRAP	(1,011,111)	(1,085,327)	74,216
Deferred taxes	(72,887)	37,676	(110,563)
Patent Box Benefit	1,743,870	1,810,189	(66,319)
Net extraordinary gains	203,470	(3,335)	206,805
Total	**(4,150,232)**	**(4,639,926)**	**489,694**

The application of the Patent Box regime to 2019 generated a tax benefit of €1,744 thousand, recognised as a reduction in taxes for the year.

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

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

	IRES
Profit before taxes	26,749,887
Theoretical tax expense (24.0%)	**6,419,973**
Effect of permanent differences	(1,341,022)
Effect of temporary differences	(50,507)
Various deductions	(14,869)
Total income taxes in the financial statements	**5,013,574**

	IRAP
Gross taxable IRAP	50,367,276
Theoretical tax expense (3.9%)	**1,964,324**
Effect of permanent differences	19,665
Effect of temporary differences	(23,281)
Deductions for personnel	(949,596)
Total income taxes in the financial statements	**1,011,111**

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

	2019	2018	Change
Average cost valuation of inventories	(58,128)	(84,540)	26,412
Discounting of employee termination indemnity	8,318	7,208	1,110
Write-down of inventories	18,885	103,262	(84,377)
Differences on depreciation	40,057	24,227	15,830
Other	(82,018)	(12,481)	(69,537)
Deferred tax assets and liabilities for the year	**(72,887)**	**37,676**	**(110,563)**

32. COMPREHENSIVE INCOME

Following the adoption of the changes to IAS 19, the actuarial changes to the employee termination indemnity were recognized directly in a specific reserve of shareholders' equity. These amounts constitute changes in the comprehensive income for the year and are highlighted with separate indication of the relative tax effect. The net effect for 2019 is negative and amounts to €22 thousand.

33. DIVIDENDS

On May 8, 2019 the Company distributed (with ex-dividend date May 6) a dividend on net profit for the year ended December 31, 2018, amounting to €15,048 thousand, equivalent to €0.90 for each share entitled to dividends.

	2019	2018
Resolved and paid in the year: Balance due for 2018 dividend: €0.90 (2017: €0.80	15,047,963	13,372,274
Proposal submitted to the Shareholders' Meeting (not recorded as liability at December 31) Balance due for 2019 dividend: €0.90 (2018: €0.90	15,047,963	15,047,963

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

34. COMMITMENTS AND RISKS

At December 31, 2019, guarantees granted by Cembre S.p.A. amounted to €1,070,012, compared to €778,607 at December 31, 2018.

Among the guarantees provided to third parties, mention goes to the commitments made with respect to the Municipality of Brescia, for a total of €352 thousand, to guarantee completion of the development works linked to renovation of the entrance and parking lot of the company's headquarters.

The residual portion refers to guarantees granted to Italian and foreign electrical and railway entities, to guarantee supply for €492 thousand, and guarantees granted to Dogana di Brescia (Brescia Customs Authority) for €226 thousand.

35. NET FINANCIAL POSITION

The net financial position of Cembre S.p.A. amounted at the end of 2019 to a surplus of €2,276 thousand, an increase over December 31, 2018. Excluding the effect of IFRS 16 entries, the net financial position would have been a positive €6,493 thousand.

At date of the financial statements, the Company had no outstanding debt involving covenants or negative pledges.

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

		12/31/2019	12/31/2018
A	Cash	8,629	6,756
B	Bank deposits	15,520,651	11,233,975
C	**Cash and cash equivalents (A+B)**	**15,529,280**	**11,240,731**
D	Current bank debts	(9,036,645)	(8,667,222)
E	Current lease payables	(868,314)	-
F	**Current financial debt (D+E)**	**(9,904,959)**	**(8,667,222)**
G	**Net current financial position (C+F)**	**5,624,321**	**2,573,509**
H	Non-current bank debts	-	(1,000,375)
I	Non-current lease payables	(3,348,227)	-
J	**Non-current financial indebtedness**	**(3,348,227)**	**(1,000,375)**
K	**Net Financial Position (G+I)**	**2,276,094**	**1,573,134**

36. RELATED PARTIES

The table below summarises transactions between Parent company Cembre S.p.A. and the subsidiaries in 2019, with regard to purchases and sales. For receivables/payables, see the specific paragraphs of this document.

Company	Sales	Purchases
Cembre Ltd.	8,812,786	677,413
Cembre S.a.r.l.	5,683,401	31,507
Cembre España S.L.U.	7,154,800	40,701
Cembre Inc.	6,516,786	90,997
Cembre GmbH	4,151,432	145,406
IKUMA KG	222,440	110,681
TOTAL	**32,541,645**	**1,096,705**

Revenues include, in addition to those from the sale of products, charge-backs relating to "Information technology" costs and charge-backs for sales costs incurred by the Parent Company in the interest of the subsidiaries, plus royalties for the use of the Cembre trademark, totalling €540 thousand, in addition to €109 thousand in charge-backs of transport costs.

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

The percentage stakes with regard to investments in subsidiaries at December 31, 2019 are outlined below:

Company	Registered office	Share capital	Percentage held				Percentage with voting rights
			direct	indirect	through	total	
Cembre Ltd.	Sutton Coldfield (Birmingham-GB)	GBP 1,700,000	100%	-	-	100%	100%
Cembre Sarl	Morangis (Paris - France)	Euro 1,071,000	100%	-	-	100%	100%
Cembre España SLU	Torrejón de Ardoz (Madrid -Spain)	Euro 2,902,200	100%	-	-	100%	100%
Cembre GmbH	Munich (Germany)	Euro 10,112,000	100%	-	-	100%	100%
Cembre Inc.	Edison (NJ- Usa)	US$ 1,440,000	100%	-	-	100%	100%
IKUMA GmbH & Co. KG	Weinstadt (Germany)	Euro 40,000	-	100%	Cembre GmbH	100%	100%
IKUMA Verwaltungs GmbH	Weinstadt (Germany)	Euro 25,000	-	100%	Cembre GmbH	100%	100%

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

Among assets leased to Cembre S.p.A. by third parties are an industrial building adjacent to the Company's registered office measuring a total of 5,960 square meters on three floors, in addition to the Monza, Padua and Bologna sales offices. These properties are owned by "Tha Immobiliare S.p.A.", a company with registered office in Brescia, whose capital is held by Anna Maria Onofri, Giovanni Rosani, and Sara Rosani, members of the Board of Directors of Cembre S.p.A.; the interest for the company can be seen in the prospect of continuity and in the reduction of the risks of termination of the lease contract. At the year end, all amounts due to Tha Immobiliare had been settled. Said contracts envisage an automatic renewal clause upon expiry.

A summary of the amounts reported in the financial statements relating to the above contracts is provided below:

	Assets	Non-current liabilities	Current liabilities	Amortisation	Interest expense
Leased assets from THA	3,739,825	2,783,084	472,104	495,342	73,109

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

37. SHARE-BASED PAYMENTS

Cembre S.p.A. established the incentive plan known as "Premio Carlo Rosani per i 50 anni della Fondazione della Società" (Carlo Rosani Prize for the 50th anniversary of the foundation of the Company), intended for executives and middle managers who have an employment contract with the company.

The plan, approved by the Shareholders' Meeting on April 18, 2019, provides for the attribution, by the company, of rights to acquire ordinary Cembre shares, and will last until 2025.

The rights granted under the plan can only be assigned to the beneficiaries identified, to this end, by the Board of Directors, based on the prior opinion of the Appointments and Remuneration Committee and in compliance with the Incentive Plan Regulation.

The rights will be assigned annually, free of charge, in the plan duration period, following the Board's approval of the company's consolidated financial statements. The beneficiaries will be attributed, for each annual assignment, the following rights: 2,000 for those in the position of executive and 500 for middle managers. The exercise price of the aforementioned rights is €10 per share. As of today, based on the beneficiaries identified by the Board of Directors, provision is made for the assignment of a total maximum number of 132,000 shares for the entire duration of the plan.

The assignment of the rights to the beneficiaries is subject to the following performance conditions:

- growth in the gross operating profit of the Cembre Group in the reference year (i.e. the year prior to the assignment year) compared to the previous year;
- growth in the gross operating profit of the Cembre Group in the reference year higher than the minimum values reported in the Incentive Plan Regulation.

The assignment of the rights to the beneficiaries is also subject to the following additional conditions, to be verified in relation to the individual beneficiary:

- existence of an employment contract with the position of executive or middle manager;
- solely for recipients in the position of middle manager, provision of work activities to the company for an average of 40 hours per week;

in compliance with the prohibition on the transfer of the payment, from the second assignment date, maintenance of ownership of the shares acquired under the plan, and nonetheless, a number of Cembre shares at least equal to the total number of rights exercised under the plan.

38. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

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

Risks connected with the market

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

Interest rate risk

As at December 31, 2019, as detailed in Note 14, five fixed rate loans were taken out, expiring in 2020. Owing to the nature and duration of the contracts, the interest rate risk can be considered zero.

Currency risk

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

At December 31, 2019, the following currency positions were outstanding:

	2019		**2018**	
	Original currency	**Equivalent €**	**Original currency**	**Equivalent €**
Receivables	US$ 881,957	€ 796,239	US$ 1,096,952	€958,037
Payables	US$ 22,769	€ 20,083	US$ 26,133	€ 22,823
Payables	- GBP	- €	GBP 362	€ 405
Payables	JPY 200,000	€ 1,640	JPY 200,000	€ 1,589
Current account balance in foreign currency	US$ 1,161,803	€ 1,052,840	US$ 9,696	€ 8,468

The items were converted into Euro at the exchange rate in effect on December 31, 2019 and generated, with respect to the original amount recorded, an exchange rate loss of €30 thousand, recorded in the income statement.

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

	Change in exchange rate	**Receivables**	**Payables**	**Current account**
2019	5%	(37)	1	(49)
	-5%	41	(2)	54
2018	5%	(47)	1	-
	-5%	49	(2)	-

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

Liquidity risk

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

At December 31, 2019 the breakdown in payables to suppliers based on expiry was as follows (in thousands of Euro):

		0-30	31-60	61-90	91-120	over 120	TOTAL
2019	Past due	1,074	390	483	217	683	2,847
	Falling due	2,114	5,564	11	616	40	8,345
2018	Past due	1,645	2,726	410	356	744	5,881
	Falling due	1,104	5,747	611	11	16	7,489

Credit risk

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

As shown in Note 9, none of the areas in which Cembre S.p.A. operates poses relevant credit risks.

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

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

39. SUBSEQUENT EVENTS

No event having significant effects on the Company's financial position or operating performance occurred after December 31, 2019.

Attachments

This document includes the following attachments:

Attachment 1: Comparative Income Statement;

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

Attachment 3: Compensation for auditing services and other services.

Brescia, March 11, 2020

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

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

Comparative Income Statement

	2019	%	2018	%	Change
Revenue from contracts with customers	108.808.594	100,0%	109.067.580	100,0%	-0,2%
Other revenues and income	1.211.689		1.474.821		-17,8%
Total Revenues	**110.020.283**		**110.542.401**		-0,5%
Cost of goods and merchandise	(36.871.582)	-33,9%	(42.667.705)	-39,1%	-13,6%
Change in inventories	406.809	0,4%	4.710.404	4,3%	-91,4%
Cost of services received	(14.798.304)	-13,6%	(14.349.793)	-13,2%	3,1%
Lease and rental costs	(128.209)	-0,1%	(1.019.616)	-0,9%	-87,4%
Personnel costs	(27.518.499)	-25,3%	(27.549.288)	-25,3%	-0,1%
Other operating costs	(1.094.959)	-1,0%	(1.166.576)	-1,1%	-6,1%
Increase in assets due to internal construction	894.359	0,8%	934.119	0,9%	-4,3%
Accruals to provisions for risks and charges	(23.561)	0,0%	(22.601)	0,0%	4,2%
Gross operating result	**30.886.337**	28,4%	**29.411.345**	27,0%	5,0%
Tangible asset depreciation	(6.778.091)	-6,2%	(5.602.465)	-5,1%	21,0%
Intangible asset amortization	(600.798)	-0,6%	(587.958)	-0,5%	2,2%
Depreciation of right of use assets	(850.350)	-0,8%	-		
Operating result	**22.657.098**	20,8%	**23.220.922**	21,3%	-2,4%
Financial income	4.285.727	3,9%	2.689.225	2,5%	59,4%
Financial expenses	(126.417)	-0,1%	(34.995)	0,0%	261,2%
Foreign exchange gains (losses)	(66.522)	-0,1%	21.984	0,0%	-402,6%
Profit before Taxes	**26.749.886**	24,6%	**25.897.136**	23,7%	3,3%
Income taxes for the year	(4.150.232)	-3,8%	(4.639.926)	-4,3%	-10,6%
Net profit for the year	**22.599.654**	20,8%	**21.257.210**	19,5%	6,3%

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

Summary of the key data from the last set of financial statements of subsidiaries included in the scope of consolidation pursuant to art. 2429 of the Italian Civil Code

(values in Euros)	Total non-current assets	Total current assets	Total assets	Shareholders' equity	Total liabilities	Total liabilities and shareholders' equity
Cembre Ltd	4.402.112	11.622.946	16.025.058	13.999.800	2.025.258	16.025.058
Cembre Sarl	435.755	4.436.426	4.872.181	3.279.303	1.592.878	4.872.181
Cembre España SLU	2.712.208	5.210.999	7.923.207	6.578.147	1.345.060	7.923.207
Cembre GmbH	12.499.647	5.539.683	18.039.330	15.596.282	2.443.048	18.039.330
Cembre Inc.	504.984	8.369.012	8.873.996	8.039.825	834.171	8.873.996
IKUMA GmbH & Co. KG	110.748	3.529.876	3.640.624	348.743	3.291.881	3.640.624
IKUMA Verwaltungs GmbH	-	30.500	30.500	16.589	13.911	30.500

	Total revenues	Gross operating profit	Operating profit	Profit (loss) before taxes	Income taxes	Net profit (loss) for the year
Cembre Ltd	21.518.893	3.117.056	2.647.766	2.550.101	(487.933)	2.062.168
Cembre Sarl	10.906.951	584.782	548.055	548.055	(231.330)	316.725
Cembre España SLU	11.828.264	723.960	595.974	595.649	(152.379)	443.269
Cembre GmbH	8.155.120	1.068.048	991.989	1.221.816	(395.900)	825.916
Cembre Inc.	12.793.262	963.495	863.209	862.848	(163.424)	699.424
IKUMA GmbH & Co. KG	7.274.210	(30.323)	(62.927)	(151.257)	-	(151.257)
IKUMA Verwaltungs GmbH	-	5.851	5.851	5.583	-	5.583

It should be noted that the financial statements to which said values refer are those as at December 31, 2019.

The translation of values in foreign currency was carried out according to the indications of the notes to the Consolidated Financial Statements at December 31, 2019.

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

COMPENSATION FOR AUDITING SERVICES AND OTHER SERVICES

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

Type of services	Independent Auditors	Recipient	Compensation (Euro '000)
Audit	EY	Cembre S.p.A.	54
Additional auditing activities	EY	Cembre S.p.A.	8
Limited audit, consolidated non-financial declaration	EY	Cembre S.p.A.	10
Audit	EY	Subsidiaries	90

Sede:
Via Serenissima, 9
25135 Brescia
Tel.: 030 3692.1
Telefax: 030 3365766
www.cembre.com
E-mail: Info@cembre.com

Cembre

Attestation in respect of the statutory financial statements

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

The undersigned Giovanni Rosani and Claudio Bornati, in their position as Managing Director and Manager responsible for the preparation of financial reports of Cembre S.p.A., respectively, pursuant to Article 154-bis, paragraphs 3 and 4 of Legislative Decree No.58/1998, certify that internal controls over financial reporting in place for the preparation of 2019 statutory financial statements and during the period covered by the report, were:

• adequate to the company structure, and

• effectively applied during the process.

The undersigned officers certify that this 2019 statutory financial statements:

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

b) corresponds to the company’s evidence and accounting books and entries;

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

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

Brescia, March 12, 2020

Chairman and
Managing Director

signed by:
Giovanni Rosani

Manager responsible for the
preparation of financial reports

signed by:
Claudio Bornati

EY S.p.A.
Corso Magenta, 29
25121 Brescia

Tel: +39 030 2896111
Fax: +39 030 295437
ey.com

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

To the Shareholders of
Cembre S.p.A.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Cembre S.p.A. (the Company), which comprise the statement of financial position as at December 31st 2019, and the statement of comprehensive income, statement of changes in shareholder's equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31st 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005.

Basis for Opinion

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

Key Audit Matters

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

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

The Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors are responsible for assessing the Company's ability to continue as a going concern and, when preparing the financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the financial statements on a going concern basis unless they either intend to liquidate the Company or to cease operations or have no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

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

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

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

Report on compliance with other legal and regulatory requirements

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

The Directors of Cembre S.p.A. are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and Ownership Structure of Cembre S.p.A. as at December 31st 2019, including their consistency with the related financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998, with the financial statements of Cembre S.p.A. as at December 31st 2019 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operations and the above-mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the financial statements of Cembre S.p.A. as at December 31st 2019 and comply with the applicable laws and regulations.

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

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

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

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

Brescia, 23 March 2020

EY S.p.A.
Signed by: Stefano Colpani, partner

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

REPORT BY THE BOARD OF STATUTORY AUDITORS
TO THE SHAREHOLDERS' MEETING OF CEMBRE SPA, DRAWN UP PURSUANT TO ARTICLE 153 OF LEGISLATIVE DECREE 58/98 ("TUF") AND ARTICLE 2429, PARAGRAPH TWO, OF THE ITALIAN CIVIL CODE

To our Shareholders:
Pursuant to article 2429, paragraph 2 of the Italian Civil Code and article 153 of Legislative Decree no. 58/98, the Board of Statutory Auditors reports to the Shareholders' Meeting, called to approve the Financial Statements for the year, on the monitoring activity carried out and on omissions and censurable facts observed, in addition to expressing a recommendation on the Financial Statements, their approval and other pertinent issues.

The Board of Statutory Auditors currently in office was appointed by the Shareholders' Meeting of April 26, 2018 pursuant to laws, regulations and by-laws, also with regard to balance in gender representation. The Board of Statutory Auditors' term will end with the Shareholders' Meeting called to approve the Financial Statements at December 31, 2020.
Members of the Board of Statutory Auditors have complied with the limit on the number of appointments that may be held by members, set by article 144-terdecies of the Issuers' Regulation.

The company E.Y. S.p.A. was assigned the auditing engagement pursuant to Italian Legislative Decree 58/1998 and of Italian Legislative Decree no. 39/2010 as resolved by the Shareholders' Meeting of April 26, 2018, to whose reports reference is made. The original auditing engagement has a duration of nine years and will end with the Shareholders' Meeting called to approve the Financial Statements at December 31, 2026.

During the year under review, in compliance with the responsibilities assigned by article 149 of Legislative Decree no. 58/98, the Board of Statutory Auditors:

- attended the Ordinary Shareholders' Meeting of April 18, 2019 and the meetings of the Board of Directors, obtaining from the Directors adequate information on the operations of the Company and their foreseeable development, in addition to the main transactions, in terms of size and importance, carried out by the Company and its subsidiaries;
- acquired knowledge necessary to verify compliance with the law, the by-laws, correct management principles and the adequacy of the Company's organizational structure, through the acquisition of documents and information from the managers of the

departments involved and from the periodic exchange of information with the Independent Auditors;

- attended, at least through its Chairman, the Control and Risk Committee, Appointments and Remuneration Committee and Supervisory Body’s meetings;
- monitored the functioning and effectiveness of internal control systems, in addition to the adequacy of the administrative and accounting system, with particular attention to the ability of the latter to portray the operations of the Company;
- promptly shared with the managers of the Independent Auditors key data and information for the performance of its respective duties pursuant to art. 150 of Legislative Decree 58/98, also by examining the work carried out and receiving reports as provided by article 14 of Legislative Decree 39/2010, and art. 11 of Regulation EU 537/2014;
- examined the contents of the Additional Report pursuant to art. 11 of Regulation EU 537/2014, which was transmitted to the Board of Directors pursuant to art. 19 paragraph 1 letter a) of Legislative Decree 39/10, from which no aspects emerged that should be highlighted in this report;
- monitored the functioning of the control system on subsidiaries and the adequacy of instructions imparted to subsidiaries pursuant to article 114, paragraph 2, of Legislative Decree 58/98;
- acknowledged the issue of the Report on Remuneration as per article *123-ter* of Legislative Decree 58/98 and per article *84-quarter* of the Consob Issuers’ Regulation, specifying that it is in line, as resolved by the Board of Directors on March 11, 2020, with the provisions of Legislative Decree no. 49/2019 in force, implementing Directive (EU) 2017/828. There are no particular observations to report;
- ascertained compliance of the statutory provisions with the legal and regulatory provisions;
- monitored the implementation of corporate governance rules adopted by the Company in compliance with the Corporate Governance Code of Listed Companies promoted by Borsa Italiana S.p.A.;
- monitored the compliance of the internal procedure on dealings with Related Parties with the Regulation approved by CONSOB with Resolution no. 17221 of March 12, 2010 and subsequent amendments, in addition to the compliance – pursuant to article 4, paragraph 6 – of the same Regulation, keeping into account indications and guidelines provided in Communication no. DEM/10078683 of September 24, 2010;
- monitored on the financial reporting process, verifying compliance by the Directors with norms inherent to the preparation, approval and publication of the accounts of Cembre

S.p.A. and the consolidated financial statements;

- ascertained the adequacy of the method and *impairment* process implemented in order to clarify the consistenty of the value of the goodwill and of the equity investments recorded among the assets;
- verified that the Report by the Board of Directors on Operations for the 2019 financial year complied with applicable legislation and was consistent with resolutions adopted by the Board of Directors and events represented in the accounts of Cembre S.p.A. and the consolidated financial statements;
- acknowledged the content of the Consolidated Half-year Report, without having exceptions to report, in addition to verifying that the same was published in compliance with currently applicable regulations;
- verified that the Report on Operations for the 2019 financial year was in compliance with regulations in force and conformed with the facts represented in the statutory and consolidated financial statements;
- acknowledged that the Company continued to issue on a voluntary basis Interim Reports on the first and third quarters within the deadlines set by the previous regulations;
- monitored compliance with the requirements established by Legislative Decree no. 254/2016 and examined the Consolidated Non-Financial Declaration (DNF), ascertaining compliance with the guidelines for its preparation pursuant to said decree.

According to article 19, paragraph 1, of Legislative Decree no. 39/2010, as amended by Legislative Decree no. 135/2016, the Board of Statutory Auditors, in its capacity as Committee for Internal Control, also carried out specific tasks regarding information, monitoring, control and verification as described in the new regulation, fulfilling its duties and carrying out the tasks assigned to it by said regulation.

Based on the information and data acquired during the monitoring activity carried out by the Board of Statutory Auditors as described above, no fact from which to infer the lack of compliance with the law or the Company's By-laws or such as to justify its reporting to the Supervisory Body or worth mentioning in the present Report emerged.

° ° ° °

With reference to the activities carried out during the year - also in compliance with the guidelines provided by CONSOB with Communication DEM/1025564 of April 6, 2001 and subsequent amendments and additions ("Communication on the contents of the Report by the Board of Statutory Auditors to the Shareholders' Meeting as per article 2429, paragraph 3, of the Italian Civil Code and 153, paragraph 1, of Legislative Decree 58/98 - Summary sheet of monitoring activities carried out by the Board of Statutory Auditors") - we report the following.

1. With regard to the financial year that is the object of the present Report, there do not emerge transactions carried out by the Company or its subsidiaries that may be considered significant or having a relevant economic or financial impact.

All activities carried out by the Company were reported in detail in the Report on Operations.

In any case, the Board of Statutory Auditors monitored and verified - based on information in its possession - that operations carried out were in compliance with the law, the Company's By-laws and correct management principles, were not manifestly imprudent, did not constitute a potential conflict of interest, were not in contrast with Shareholders' resolutions taken or were such as to compromise the integrity of the company's assets.

2. The Board of Statutory Auditors did not encounter any atypical or unusual transaction as defined in CONSOB Communication DEM/6064293 dated July 28, 2006.

We acknowledge that information provided in the Financial Report regarding events and significant operations that are not repeated frequently and atypical and/or unusual transactions, including those within Group companies or with related parties, is adequate.

3. The characteristics of transactions with subsidiaries and related parties carried out by the Company and its subsidiaries in 2019, entities involved and the related economic effects, are reported in the Related Parties section in the Report on Operations, to which we refer.

Dealings with Related Parties, defined in accordance with international accounting principles and guidelines issued by CONSOB, are regulated by an internal procedure (the "Procedure"), adopted by the Board of Directors of the Company on November 11, 2010, in compliance with article 2391 *bis* of the Italian Civil Code and the Regulation issued by CONSOB, as last modified on March 13, 2018. The Board of Statutory Auditors verified the conformity of the Procedure with regulations issued by CONSOB on related parties dealings and on their correct application.

4. We acknowledge that Independent Auditors EY S.p.A. issued on March 23, 2020 the Audit Report pursuant to article 14 of Legislative Decree no. 39/2010 and article 10 of EU Regulation 537/2014, in which it attested that:

- the Financial Statements of Cembre S.p.A. and the Consolidated Financial Statements of the Cembre Group at December 31, 2019 provide a true and correct representation of the financial position and operating performance the income and cash flows of the Company the Group for the financial year in compliance with the *International Financial Reporting Standards* adopted by the European Union, as well as the provisions issued in compliance with art. 9 of Legislative Decree no. 38 of February 28, 2005;

- the Report on Operations and some specific information contained in the above-mentioned Report on Corporate Governance and Ownership Structure are consistent with the Financial Statements of the parent company and the Consolidated Financial Statements of the Cembre SpA Group at December 31, 2019 and that they are prepared in compliance with the law;
- the opinion on the Financial Statements and on the Consolidated Financial Statements expressed in the aforementioned Report is in line with that indicated in the Additional Report for the Board of Statutory Auditors, in its capacity as Committee for Internal Control and Audit, prepared pursuant to art. 11 of Regulation EU no. 537/2014.

In its Report on the audit of the consolidated financial statements, the Independent Auditors also declared to have verified approval by the directors of Cembre S.p.A. of the Non-Financial Declaration for the year 2019.

The audit reports for the individual and consolidated financial statements illustrate the key audit matters (*KAMs*) which, based on the professional opinion of the auditors, are most significant in auditing the individual and consolidated financial statements for the year in question. In particular, EY S.p.A., for the financial statements of Cembre S.p.A. at December 31, 2019, did not identify any key aspects worthy of mention in this report.

In its Audit Reports, the Independent Auditors did not highlight any findings or emphasis of matter paragraphs, or statements issued pursuant to art. 14, paragraph 2, letters d) and e) of Legislative Decree 39/2010.

On March 23, 2020, the Independent Auditors also:

- transmitted to the Board of Statutory Auditors in its capacity of Committee for Internal Control and Audit, the Additional Report provided for in Article 11 of Regulation EU no. 537/2014 promulgated on the same date;
- issued, pursuant to art. 3, paragraph 10 of Legislative Decree 254/2016 and art. 5 of Consob Regulation Resolution no. 20267/2018, the “Independent Auditors’ report on the consolidated non-financial declaration”. In their report, the Independent Auditors stated that, based on the work performed, no elements came to their attention that would suggest that the Cembre Group's Consolidated Non-financial Declaration for the year ended December 31, 2019 was not drafted, in all its significant aspects, in compliance with the provisions of articles 3 and 4 of the Decree and the *GRI Standards* with reference to the selection of *GRI Standards* indicated in the paragraph “Methodological Note” of the Non-Financial Declaration.

During the periodic meetings of the Board of Statutory Auditors with the Independent Auditors, pursuant to art. 150, paragraph 3 of Legislative Decree no. 58/1998, no aspect worthy of mention in the present report emerged, nor did it receive from the same information on facts deemed to be reprehensible in connection with the performance of the audit carried out.

In 2019, the Board of Statutory Auditors, in its capacity as Committee for Internal Control and Audit:

a. verified and monitored the independence of the Independent Auditors, pursuant to art. 19, paragraph 1, letter e) of Legislative Decree 39/2010, as amended by Legislative Decree no. 135/2016;
b. examined the transparency report and the additional report prepared by the Independent Auditors in compliance with criteria set out in EU Reg. 537/2014, noting that, based on the information acquired, no critical aspects emerged in relation to the independence of the Independent Auditors;
c. received written confirmation on March 23, 2020 from the Independent Auditors that during the period from January 1, 2019 to the moment of issuance of the Report, they did not identify any situations that could compromise its independence from Cembre SpA pursuant to the combined provisions of articles 4, 5 and 6, par. 2 of Regulation EU no. 537/2014, par. 17, letter a) of the Auditing Principle (Isa Italia) 260, as well as 9, 9-bis, 10 and 17 of Legislative Decree no. 39/2010.
d. discussed with the Independent Auditors risks that may compromise their independence and any possible measures adopted to mitigate such risks, pursuant to art. 6, par. 2, lett. b) of Regulation EU no. 537/2014.

5-6. In 2019, the Board of Statutory Auditors did not receive any report pursuant to article 2408 of the Italian Civil Code, or any complaints from Shareholders or other parties.

The Board is not aware of any other facts or statements to report to the Shareholders' Meeting.

7. The Board monitored the nature and extent of the services other than the main auditing engagement rendered to the Company and to the other companies of the Cembre Group by EY and by the entities included in its network.

We hereby inform you that no services other than auditing were performed and that the detailed description of remuneration paid is reported by the Board of Directors in the table drawn up pursuant to art. 149-duodecies of CONSOB Regulation no. 11971 of May 14, 1999 and subsequent amendments and additions ("Regulations for the implementation of Legislative Decree No. 58 of February 24, 1998, concerning the regulation of listed companies", and the "Issuers' Regulation").

In relation to the aforementioned appointments, the Board of Statutory Auditors monitored and ascertained, also pursuant to art. 19 of Legislative Decree no. 39/2010 and art. 5 of Regulation EU no. 537/2014, compliance with the relevant regulatory provisions, as well as compatibility with the restrictions and limitations envisaged by law.

8. In 2019, the Board of Statutory Auditors, pursuant to laws and regulations, issued three opinions about added compensation in favour of the independent auditors E.Y. S.p.a. for the checks in addition to the limited review of the Non-Financial Declaration, for the preparation of the certification per art. 3 of Italian Legislative Decree no. 145/13 and for the impairment test on the value of goodwill.

The Board of Statutory Auditors has also expressed its opinion in all those cases in which it has been requested to do so by the Board of Directors in the context of those decisions that require the prior opinion of the Board of Statutory Auditors.

9. In general, with the end of acquiring information instrumental in carrying out its monitoring activities, in 2019 the Board of Statutory Auditors

- met ten times, in compliance with the frequency required by law, to carry out periodic checks and adopt the required resolutions. Activities carried out in said meetings are documented in the related minutes. All meetings were attended by all members;
- attended all four of Board of Directors' Meetings at which Directors informed the Board of Statutory Auditors on main operations of economic and financial relevance carried out by the Company and its subsidiaries;
- attended the Shareholders' Meeting of April 18, 2019;
- met twice as a Board with the Company's independent auditors, E.Y. S.p.A. without the submission of any relevant aspects or circumstance worthy of mention in the present Report;
- attended, at least through its Chairman, three meetings of the Appointments and Remuneration Committee;
- attended the six meetings of the Internal Control and Risk Committee and of the Supervisory Board – of which on four occasions represented solely by its Chairman – ascertaining the adequacy of the company's structure to its size;

10. The Board of Statutory Auditors monitored compliance with the Law and the By-laws and the respect of correct management practices, ensuring that operations resolved and carried out by Directors were consistent with said rules and principles in addition to being inspired by rational economic principles and not manifestly imprudent or excessively risky, in contrast with resolutions taken by the Board or such as to compromise the integrity of the company's assets.

The Board believes that the instruments and *governance* institutes adopted by the Company are valid to ensure respect of the principles of correct administration.

11. The Board of Statutory Auditors acquired direct knowledge and monitored, to the extent required by our task, the adequacy of the organizational structure of the Company in relation to its size, also gathering information from persons in charge of the management of the Company, the Person in charge of *Internal Audit,* the *Control and Risk Committee,* the *Supervisory Body* and the Independent Auditors, with the aim of exchanging data and information.

In light of verifications carried out and the absence of critical situations, the organizational structure of the Company appears adequate to its corporate goal, the characteristics and size of the company.

12. With regard to the adequacy and effectiveness of the internal auditing and risk management system, also at the consolidated level, the Board of Statutory Auditors carried out its task through the exhaustive collection of information, by:

- reviewing the report of the Person in charge of Internal Audit on the adequacy and functioning of internal audit and risk management systems of the Company;
- attending meetings of the Internal Control and Risk Committee and of the Supervisory Body;
- reviewing the report of the Internal Control and Risk Committee on the internal audit system;
- reviewing information on measures taken and procedures adopted pursuant to Legislative Decree 231/2001 and subsequent amendments, on the administrative responsibility of organizations with regard to crimes referred to in the above legislation;
- reviewing information on monitoring activity for hygiene, employee safety and the environment in general, and on the implementation of corrective action, also by seeking specific independent advice;
- reviewing the results of work carried out by the Independent auditors;
- reviewing information provided by the management and respective boards of subsidiaries, pursuant to commas 1 and 2 of article 151 of Legislative Decree 58/98;
- certification of the financial statements pursuant to art. 81-ter of Consob Regulation dated May 14, 1999 and subsequent amendments, underwritten by the Managing Director and Manager in charge of drafting the Company's accounts.

The Board of Statutory Auditors also interfaced with the Person responsible for *Internal Audit* to evaluate the audit plan and its outcome, both in its introduction phase, and in that of the review of verifications performed and the related follow-up.
The Board acknowledges that the yearly reports of the Internal Audit Department close with an overall favorable opinion of the internal control structure.
In light of the monitoring activity carried out and of the positive opinions regarding the adequacy, effectiveness and functioning of the internal control and risk management system formulated by the Internal Audit and Risk Committee and by the Board of Directors, the Board of Statutory Auditors deems, within the scope of its responsibilities, such system to be adequate.

13. The Board also monitored the ability of the managerial accounting system of the Company to correctly represent the performance of the Company through the gathering of information from the Appointed Manager and competent head of departments, the review of corporate documents and the analysis of results of work carried out by the independent auditors. In particular, the Board reports that in 2019 the Appointed Manager verified, with the help of the *Internal Audit* Department, the adequacy and actual application of administrative and accounting procedures as per article 154-bis, TUF; such activity allowed to attest that the financial statements provide a true and correct representation of the financial situation and economic performance of the Company and its subsidiaries.
Following acquisition of Ikuma GmbH and the related *Purchase Price Allocation,* carried out for the purposes of the Group's consolidated financial statements, an impairment test was performed on goodwill as well as on the entire equity investment, in accordance with IAS 36. The analysis was conducted by the Company and approved by the Board of Directors on February 27, 2020. The impairment procedure and its results were monitored by the Board of Statutory Auditors through participation in the meeting of the Control and Risk Committee, which examined them.

In light of the monitoring activity carried out and of the positive opinion on the adequacy of the organizational, administrative and accounting structure of the Company expressed by the Board of Directors at its meeting of March 11, 2020, the Board of Statutory Auditors deems, within the scope of its responsibilities, such system to be adequate and reliable in providing a correct representation of the Company's performance.

14. The Board monitored the adequacy of instructions imparted to subsidiaries pursuant to article 114, paragraph 2, of Legislative Decree no. 58/98 and subsequent amendments, and on the correct flow of information between them, and deems the Company to be capable of complying with disclosure requirements set by Law, without exception. With reference to subsidiary Cembre Inc., incorporated in the US and therefore not operating under the laws of the EU, whose accounts are audited, we attest that the administrative, accounting and reporting systems used are adequate in providing a regular flow of operating and financial information to the company's management and Independent auditors.

15. In compliance with article 150, paragraph 3 of TUF, periodic meetings with the Independent Auditors were carried out to verify the reliability of the management and accounting system of the Company and the internal control system. No relevant aspect requiring further analysis or the existence of censurable facts emerged.

With reference to the functions assumed pursuant to article 19 of Legislative Decree 39/2010, the Board of Statutory Auditors, also in the context of meetings held with the Independent Auditors, took vision of the work plan adopted, received information on the process for identification and measurement of risks, on the areas of attention in auditing of the individual and consolidated financial statements, on identification of the key aspects of the audit (*KAMs)* in accordance with ISA Italia 701, on the auditing strategy, on the audit findings, on the accounting principles adopted, on the accounting of major operations that occurred in the year, on the outcome of auditing activities and on the fundamental issues that emerged upon the independent audit relating to financial reporting, all of which did not reveal any shortcomings in the internal control system and in the financial reporting process.

16. The Company has adopted the Corporate Governance Code of listed companies approved by the Committee for Corporate Governance promoted by Borsa Italiana S.p.A. The corporate governance system adopted by the Company is reported in detail in the Report on Corporate Governance and Ownership Structure for financial year 2019, approved by the Board of Directors on March 11, 2020.

In accordance with the Corporate Governance Code, the Board of Statutory Auditors verified, during the year, the correct application of criteria and procedures for determining the existence of the independence requirements applied by the Board of Directors in evaluating the independence of Non-executive Independent Directors and compliance with the requirements for the composition of the Board of Directors.

In addition, the Board provided for the self-assessment of the independence of its members, upon completion of which it confirmed the existence of the requirements prescribed by law and by the aforementioned Code of Conduct. It is acknowledged that no Statutory Auditor had any interest, on his/her own behalf or on behalf of third parties, in any transaction of the Company during the year and that the members of the Board of Statutory Auditors complied with the limit on the number of appointments that may be held by members, prescribed by art.*144-terdecies* of the Issuers' Regulation.

In compliance with the provisions of the Rules of Conduct of the Board of Statutory Auditors of Listed Companies, issued by the National Institute of Chartered Accountants, the Board carried out an evaluation process. The outcomes, the assessments made and the final indications of the Board were discussed collectively and subsequently summarised in the "Report on the Self-evaluation of the Board of Statutory Auditors", delivered to the Chairman of the Board of Directors and included in the Report on Corporate Governance and Ownership Structure.

It is acknowledged that the Board of Directors, at its meeting of March 11, 2019, and the Shareholders' Meeting of April 18, 2019, subsequently revised by the Board of Directors on May 14, 2019, amended the Remuneration Policy following the establishment of the *"Carlo Rosani Award for the 50th anniversary since the foundation of the Company".* This award represents an incentive plan in accordance with art. 114-bis of Italian Legislative Decree no. 58/98 to be assigned to executives and managers of the companies of the Cembre Group, with the beneficiaries to be identified by the Board of Directors.

We refer to the Report on Corporate Governance and Ownership Structure for more information on the Company's C*orporate Governance*, with regard to which the Board has no further observations to report.

17. With regard to the overall evaluation of monitoring activities carried out, the Board can attest that:

- information provided by Directors in the Report on Operations is deemed exhaustive, complete and consistent with resolutions adopted by the Board of Directors and facts represented in the Financial Statements;
- the Report on Operations includes, in addition to the Comparative Consolidated Income Statement and a list of Members of Corporate Boards, information on performance indicators, investments made, environmental management, workplace safety, research and development activities, in addition to reporting detail of main risks and uncertainties connected with the overall economic situation, the market for the Company's products, credit markets, liquidity, interest rates, exchange rates, the integrity and reputation of the Company;
- in the periodic verifications and checks performed on the Company, we did not encounter any atypical or unusual transaction either with third parties, related parties or between Group companies;

- with regard to transactions between Group companies and those with related parties, the Report on Operations and the Notes to the financial statements describe and explain exchanges of goods and services between the Company and its subsidiaries or other related parties, attesting that the same were carried out at market conditions, keeping into account the quality of goods and services exchanged;
- the Report on Remuneration as per article 123-ter Legislative Decree 58/98 and article 84-quarter of Consob Regulation no. 11971/1999 was drawn up, verifying its compliance with the provisions of the law, without any particular observations to report;
- in the field of risk management and financial instruments, the nature and amount of risks were reported;
- the Audit Report does not contain reference to lack of disclosure or related observations and proposals;
- in compliance with articles 123-bis of the TUF and 89-bis of the Consob Issuers' Regulation, we acknowledge that, as it appears in the Report on Corporate Governance and Ownership Structure, the Cembre Group participates and complies with the Corporate Governance Code issued by the Committee for Corporate Governance of listed companies, as integrated and implemented, through its adoption and compliance with Regulations for STAR segment listed companies;
- the adoption of said Code was verified by the Board of Statutory Auditors and represented the subject, in its various aspects, of the Report on Corporate Governance, to which we refer.

Furthermore, the Board of Statutory Auditors verified that the Company fulfilled its obligations under Legislative Decree no. 254/2016 and that, in particular, has drafted the Consolidated Non-Financial Declaration, in compliance with the provisions of art. 4 of the same decree. Consequently, the Board of Statutory Auditors acknowledges that the Company, possessing the necessary requirements, has availed itself of the option to be exonerated from drafting the individual non-financial declaration, as envisaged by art. 6, paragraph 1, of Legislative Decree 254/2016. The decision was accompanied by the required certifications of the Independent Auditors regarding the compliance of the information provided in the document with the provisions of the mentioned legislative decree with reference to the principles, methods and procedures established for their preparation, also pursuant to Consob Regulation no. 20267 of January 18, 2018.

The Board of Statutory Auditors also attests, pursuant to article 150 of Legislative Decree no. 58/98 and subsequent amendments, that no data or relevant information, omissions, censurable facts, irregularities or in any case significant events worth reporting to relevant

Authorities or Supervisory Bodies, or of mention in the present report have emerged.

18. Based on the above, in relation to monitoring activities carried out in the year, the Board of Statutory Auditors has no observation to make or proposal to formulate to the Shareholders' Meeting pursuant to article 153, paragraph 2 of Legislative Decree 58/98.

° ° ° °

The statutory accounts, for which we verified compliance with laws regulating its format and preparation through checks carried out by us, within the limits of our task, as provided by article 149 of Legislative Decree 58/98, and subsequent amendments – having ascertained that no waivers pursuant to article 2423 of the Italian Civil Code were exercised – and information provided by the Independent Auditors, report a net income of €22,599,654, as compared with a net income of €21,257,210 in the previous year.

The Board of Statutory Auditors therefore deems the Financial Statements at December 31, 2019 and the proposed allocation of net profit for the year submitted by the Board of Directors to be suitable to receive your approval.

Brescia, March 25, 2020

The Board of Statutory Auditors

The Chairman

Fabio Longhi