METAL WORK PNEUMATIC

2018

Annual Report

INDEX

METAL WORK S.p.A.
Registered office at 5/7/9 Via Segni, Concesio, Brescia, Italy
Share capital € 21,000,000 fully paid up
Brescia Trade Register no. 03472820178
Economic and Administration Index (REA) no. 404497

METAL WORK
PNEUMATIC

Corporate boards

CORPORATE BOARDS

CORPORATE BOARDS

BOARD OF DIRECTORS

Chairwoman

Donatina Dell'Anna

Vice-Chairman

Riccardo Cavagna

Executive Directors

Valentino Pellenghi
Daniele Marconi
Gianpietro Gamba

Other Board members

Fausto Rodella

Term of office: until the date of approval of the Financial Statements as at 31 December 2020

BOARD OF AUDITORS

Chairman

Dr. Renato Camodeca

Statutory auditors

Avv. Giulia Mina
Dr. Silvio Piccinelli

Deputy auditors

Dr. Riccardo Arpino

Dr. Angelo Quaglia

Term of office: until the date of approval of the Financial Statements as at 31 December 2020

INDEPENDENT AUDITORS AND CONTROLLERS

KPMG S.p.A.

Term of office: until the date of approval of the Financial Statements as at 31 December 2018

METAL WORK S.p.A.,
via Segni 5/7/9, 25062 Concesio Brescia (Italy)
Tax-payer's code, Trade Register and VAT no. 03472820178
Tel + 39 030 218711
www.metalwork.it

METAL WORK®
PNEUMATIC

Metal Work S.p.A.
Consolidated Financial Statements
as at 31/12/2018

METAL WORK PNEUMATIC

KEY BUSINESS INDICATORS

Income Statement €/1000	2018	2017	2016
Revenues from sales	193.244	180.062	161.490
Gross Operating Margin (EBITDA)	30.286	28.445	22.074
Amortisation, depreciation and write- downs	11.715	10.863	10.470
Operating income (EBIT)	18.571	17.204	11.382
Before- tax result (EBT)	15.926	15.054	9.840
Net Result (EAT)	11.632	10.799	7.146
Net cash flow	23.347	21.662	17.617

Balance Sheet €/1000	2018	2017	2016
Net current assets	55.141	54.454	52.073
Net technical non- current assets	96.922	79.080	82.465
Financial assets	3.274	2.659	450
Prov. for employee leaving ind. & other provisions	(8.370)	(8.103)	(8.071)
Net invested capital	146.967	128.090	126.917
Net financial position	63.931	52.819	57.527
Shareholders' equity	83.036	75.271	69.391

€/1000	2018	2017	2016
Investments in real estate	8.696	4.083	2.374
Investments in Technology	13.470	4.872	5.522
Information, Technology & Communication	401	599	934
Other investments	2.755	3.540	1.983
Total investments	25.322	13.094	10.813
R&D personnel expenses	1.617	1.579	1.609
of which capitalized	0	0	0

Sales by geographical area

€/1000	2018	2017	2016
Italy	88.335	83.740	75.066
Other EU countries	74.488	69.053	62.680
Asia	14.701	12.562	11.950
Latin America	4.592	4.508	3.848
North America	4.213	4.263	3.810
Non-EU countries	3.383	3.068	1.632
Oceania	3.062	2.572	2.209
Africa	470	296	295
Total	193.244	180.062	161.490
% sales in Italy on total	46%	47%	46%

€/1000		delta 2018-2017	delta 2018-2016
Italy		4.595	13.269
Export		8.587	18.485
Total		13.182	31.754
		7%	20%

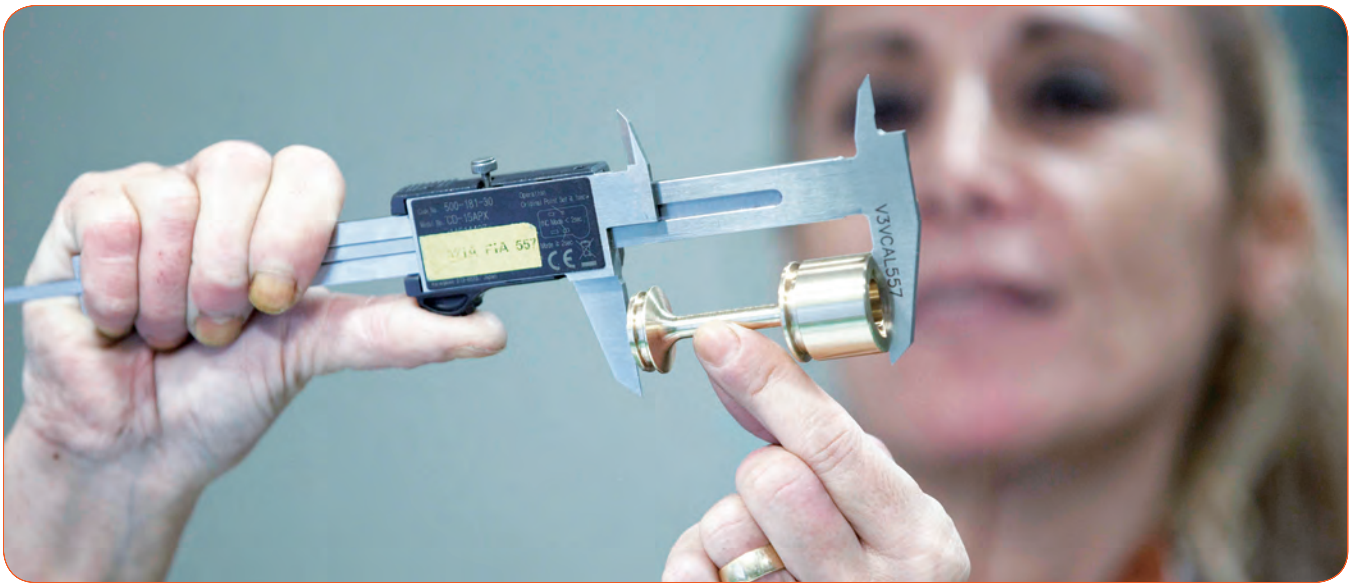
BUSINESS REPORT ISSUED
BY THE BOARD OF DIRECTORS

Metal Work is an industrial Group that specializes in the design, production and sale of components for the automation of pneumatic systems. The registered office is in Concesio, in the province of Brescia, Italy.

Metal Work manufactures fittings, air treatment units, actuators and valves, and also markets other products in the pneumatics industry. The company was established as a private limited company in 1998 and later incorporated Metal Work Service S.p.A. and Metal Fin S.p.A.

The Metal Work Group is structured as follows:

- 17 companies located mainly in northern Italy, all called P Service (with the exception of that in the province of Turin, which acts as Metal Work branch), handling the distribution of MW products in Italy;
- 15 trading companies, called Metal Work or Metal Work Pneumatic, located in the main EU countries, as well as Ukraine, Russia and Switzerland, handling the distribution of MW products in Europe;
- Metal Work Pneumatica do Brasil, the Brazilian production plant indirectly owned through a holding company, and jointly with the local management, handling the distribution of MW product on the Latin American market;
- 8 trading companies called Metal Work or Metal Work Pneumatic, located in the United States, South-East Asia, Oceania, China, South Africa and India, handling the distribution of MW products in the rest of the world;
- Eurofit S.r.l., which manufactures and distributes its own range of pipe fittings and other accessories;
- Alfa Meccanica S.r.l., which operates in industrial automation and materials handling;
- Fluid Force S.r.l., which manufactures speed regulators and hydraulic brakes;
- Assemblaggi Industriali S.r.l., Tecnopolimeri S.r.l. and Meridian S.r.l., Metal Work S.p.A.'s production satellites, which deal in the assembly of fittings, plastic moulding and mechanical turning.
- SPMC S.r.l. manufactures special machines for installation and assembling; it in turns controls DUEBI S.r.l., which makes switchboards and processes software for industrial use;
- Signal S.r.l. specialising in electronics applied to industrial automation;
- VDM S.r.l. was set up in 2018 to operate in the field of painting and surface treatment of components, of which Metal Work S.p.A. holds 51% of the share capital.



Metal Work S.p.A.
Metal Work Portugal
100 %
Metal Work Iberica 90 %
Metal Work UK 92,9 %
Metal Work Nederland 70 %
Metal Work France 89,8 %
Metal Work Deutschland 100 %
Metal Work Finland 100 %
Metal Work Sweden 100 %
Metal Work Pneumatic CZ 80 %
Metal Work Pneumatic USA 90 %
Metal Work Pneumatic Thailand 49 %
Metal Work Australia 100 %
Metal Work Pneumatic Malaysia 100 %
Metal Work Polska 97,5 %
Metal Work Ukraine 100 %
Metal Work Danmark 98 %
Metal Work Pneumatic Components (Shangai) 100 %
Metal Work Pneumatic India 99,09 %
Metal Work Pneumatic Russia 99,99 %
Metal Work Pneumatic Svizzera 100 %
Metal Work Pneumatic Indonesia 66,67 %
Metal Work Pneumatic South Africa 100 %
Metal Work Pneumatic Romania 74,63 %
99,83 %
Metal Work Participacoes Societarias
85 %
Metal Work Pneumatica Do Brasil
100 % P Service Bergamo
100 % P Service Modena
76 % P Service Oggiono
100 % P Service Milano
100 % P Service Mantova
90 % P Service Bari
100 % P Service Parma
95 % Metal Work Rivalta (TO)
90 % P Service Cremona
90 % P Service Rimini
100 % P Service Bologna
100 % P Service Toscana
96 % P Service Brescia
68 % P Service Verona
75 % P Service Vicenza
90 % P Service Treviso
95 % P Service Novara
12 %
10 %
10 %
DUEBI
51 %
51 % SPMC
70 % Alfa Meccanica
80 % Eurofit
70 % Fluid Force
51% Assemblaggi Industriali
97,5 % Meridian
70 % Tecnopolimeri
51 % VDM
36 % Signal
Industrial company subsidiaries
Invested companies
Production company pneumatics
Trading company abroad
Trading companies Italy
Other non - subsidiary industrial companies

ECONOMIC SCENARIO

In 2018 the expansion of the global economy weakened at 3.6%, falling short of expectations. The situation gradually deteriorated over the course of the year, first in the emerging countries and then even in many advanced economies. However, in the USA, GPD accelerated, partially due to the expansionary effects of the tax reform that came into force in December 2017.

Temporary factors combined with high global uncertainty, mainly due to trade tensions between the United States and China. Overall, protectionist measures led to a reversal in the trend to deregulate international trade. This affected the cost of investment and international trade, with a clear slowdown in the second half of the year.

In the United States, GDP accelerated to 2.9%, in line with the initial forecasts of the International Monetary Fund. Expansion was mainly supported by personal consumption and, in the first part of the year, production investment, driven by the tax reform that came into force in January, and high oil prices, which facilitated the build-up of capital in the oil industry. Exports contributed to growth considerably in the first half of the year, also in anticipation of the imminent introduction of tariffs as part of protectionist measures. However, in the second half, investments and exports slowed down in what had become a very uncertain climate.

In Japan the economy slowed more than expected, due to the natural disasters which hit the country in the summer. Compared with the previous year, contributions from personal consumption and investments more than halved, and exports dropped considerably, which was also due to purchasing slowing down in China. A slight recovery in growth is forecast for the year in progress.

In the United Kingdom growth dropped to 1.4% in 2018. The slowdown in the second half of the year reflected the weakness of investments due to uncertainty over Brexit, and the weakness of exports in relation to the reduction in worldwide growth and the cessation of the depreciation of the pound in the previous quarters. The risk of the United Kingdom leaving the European Union without a deal was not averted, although it became more remote over time.

In emerging and developing countries economic activity slowed down overall, with the effects of the deterioration in demand from abroad and less than favourable financial conditions felt to a varying extent from one country to another. GDP in China slowed to 6.6%, the lowest value in the last 25 years. The slowdown intensified in the second half of the year due to investment in infrastructure being curbed. The rate of consumption and added value in industry also weakened in the course of the year.

In India last year GDP accelerated to 7.4%, driven by the growth of public investment in infrastructure, which increased by more than 20%. Personal consumption also increased at a vigorous rate, bolstered by the increase in household income. The Central Bank of India increased the main refinancing operations rate from 6.0 to 6.5% between June and August, to counteract external inflation pressures linked to the increase in oil prices and the significant depreciation of the rupee.

In Brazil, GDP remained contained (at 1.1%), due to the climate of political uncertainty that continued until the presidential elections last autumn, and the financial tensions that hit the main emerging countries during the summer. In particular, the repercussions of the economic crisis in Argentina had an impact, being a market that absorbs approximately 20% of Brazilian manufacturing exports.

In Russia the economy picked up in 2018 (at 2.3%), thanks to the rise in oil prices and an acceleration of investment in infrastructure. Public finances benefited from increased revenue from the energy sector. The authorities announced additional plans for investment in infrastructure to, among other things, facilitate increased diversification of the economy, and measures to redistribute wealth to tackle poverty.

GDP growth slowed in the Eurozone and main member states, reflecting the deterioration in international trade and, in the final phase of the year, weaker domestic demand. Growth returned to more sustained levels in the first quarter of 2019, but business and household confidence indicators remain weak.

At an average of 1.9% in the Eurozone, growth slowed down compared with the previous year in the main countries. Industry felt the effects of weak international trade. In the second half of the year the automobile industry came to a standstill due to temporary factors, such as more stringent legislation on emissions coming into force, but also the downturn in global demand. The impact was felt in Germany and Italy in particular, as a result of the significant importance of the sector and the link industries.

The growth of the Italian economy lost momentum, and was considerably lower than anticipated in initial forecasts. It was slightly negative in the second half of the year. The economic downturn reflected the slowdown in exports following the standstill in the global economy and other European economies, especially Germany, in addition to the downward revision of investment plans, due to uncertainty stemming from global protectionist measures and the direction of economic policies. In the first quarter of 2019 GDP growth was slightly positive again. However, economic indicators are still weak; GDP remains considerably lower than the estimated potential.

Business weakened in all industries except farming and construction. Added value slowed in industry and services, affected by the weakness of the global trade cycle and, in the second half of the year, the uncertainty that froze national demand. It accelerated in the construction industry though, thanks to relatively robust spending dynamics for residential investment, and started to grow again in farming.

Investment growth was sustained, but was lower than that of the previous year. The recovery which commenced at the end of 2014 came to a standstill in the second half of last year, due to the economic cycle weakening and the loss of confidence in business. Investments in intellectual property products decelerated for the second consecutive year. Italy's delay in adopting and using digital technologies remains evident in comparison with other countries.

Employment increased at an average annual rate, but growth stopped in the second half of the year due to the weakness of the economy. Some signs of recovery appeared in the first quarter of 2019. The average annual rate of unemployment fell (to 10.6 % from 11.2% in 2017). The increase in labour market participation continued, especially as a result of postponing retirement age for older age groups, which has been introduced by the reforms of the last ten years.

With regard to raw materials markets, in 2018 oil prices fluctuated considerably, rising until October and reaching a maximum level of 86 dollars a barrel, then registering the most significant drop since 2016 of almost 40 dollars in the last two months of the year. The prices of other raw materials, on the rise since 2017, declined dramatically in the second half of 2018. Shares in metals dropped by approximately 20% with respect to levels at the start of the year, mainly due to weaker economic activity in China. As a result of a drop in supply following the environmental disaster in Brazil, prices bucked the trend for iron, which accounts for approximately 15% of total production in the country, the world's second largest producer.

THE INDUSTRIAL AUTOMATION MARKET AND OUR PLANS

The 2018 financial year closed with particularly brilliant results, continuing the positive trend of recent years. Consolidated sales reached 193 million Euro, and registered significant increases on the domestic and international markets.

The most recently established branches (Indonesia, Romania and South Africa) are slowly consolidating their market position, and are basically in line with our forecasts.

The branches in Russia and the Ukraine produced positive results, where Management was rotated during the previous year, and are fully meeting our expectations.

During 2018 the implementation of the new property for the branch in Thailand finally got underway, and we plan to open it in the second half of 2019.

With the aim of operating more effectively on two important markets, the United States and Germany, we continued to monitor and search for potential partners and, having identified a concrete possibility in the USA, commenced negotiations which we hope to conclude positively by the middle of 2019.

While this operation may not be large in structural terms, it will enable us to assess our ability to operate and integrate a subsidiary located in the USA, where significant commercial synergies are envisaged.

During the second half of 2018 we witnessed a clear trend reversal in relation to incoming orders, which meant we predicted a slowdown in business in the second half of 2018.

Unfortunately this forecast was correct, and the slowdown also continued during the initial months of the current year, leading to a forecast for 2019 with results slightly lower than in 2018.

As at 31 December 2018 the group had 237 direct sellers in its branches in Italy and abroad, and CRM reporting has enabled us to monitor the market closely with a view to implementing specific sales policies.

A total of 24,400 customers were served in 2018, 9022 of whom based in Italy.

The average sales figure for each customer encourages us to pursue a saturation policy, and demonstrates that we still have a lot of room for growth.

BUSINESS DEVELOPMENT

The consolidated financial statements closing on 31 December 2018 is the first complete year in which the new company governance, headed by the Vanda and Gino Bonatti trust, could managed the Group after the death of the company founder Erminio Bonatti.

HIGHLIGHTS

Revenues at 31 December 208 amounted to 193 million euro. Sales by the parent company Metal Work S.p.A. were highly integrated, in that 81% of products were marketed through subsidiaries serving over 35,000 active customers.

	2018	2018%	2017	2017%	2016	2016%
Revenues	193.244	100%	180.062	100%	161.490	100%
Cost of goods sold	106.621	55,2%	97.906	54,4%	90.075	55,8%
Added value	**86.623**	**44,8%**	**82.156**	**45,6%**	**71.415**	**44,2%**
Personnel expenses	56.337	29,2%	53.532	29,7%	49.289	30,5%
Gross operating margin	**30.286**	**15,7%**	**28.624**	**15,9%**	**22.126**	**13,7%**
Amortisation and depreciation	11.715	6,1%	11.420	6,3%	10.692	6,6%
Operating income	**18.571**	**9,6%**	**17.204**	**9,6%**	**11.434**	**7,1%**
Net Financial Expenses (Income)	1.888	1,0%	2.420	1,3%	1.104	0,7%
Impairment of net financial assets	757	0,4%	(270)	(0,1%)	491	0,3%
Pre-tax result	**15.926**	**8,2%**	**15.054**	**8,4%**	**9.839**	**6,1%**
Taxes for the year	4.294	2,2%	4.255	2,4%	2.693	1,7%
Net result prior to minority shareholders	**11.632**	**6,0%**	**10.799**	**6,0%**	**7.146**	**4,4%**
Minority shareholders (Profit) Loss	(1.078)	(0,6%)	(1.001)	(0,6%)	(910)	(0,6%)
Group's Profit	**10.554**	**5,5%**	**9.798**	**5,4%**	**6.236**	**3,9%**

Revenues increased y-o-y by 7.3%, equal to 13.182 thousand euro.

The cost of goods sold, totalling 106,621 thousand euro, accounted for 55.2% of revenues, compared to 55.8% in 2016.

Added value, for the amount of 86.623 thousand euro, accounted for 44,8% of revenues, compared to 45.6% in 2017.

Personnel expenses, amounting to 56,337 thousand euro, accounted for 29.2% versus 29.7% in 2017.

Gross operating margin came to 30,286 thousand euro, equal to 15.7% of sales (2017: 28,624 thousand euro, 13.7% of sales).

Gross operating margin came to 30,286 thousand euro, equal to 15.7% of sales (2017: 28,624 thousand euro, 15.9% of sales).

Amortisation, depreciation and write-downs amounted to 11,715 thousand euro (2017: 11,420 thousand euro), with an incidence of 6.1% (2017: 6.3%).

Net financial expenses totalled 1,888 thousand euro, compared to 2,420 thousand euro in 2017, with an incidence of 1%, compared to 1.3% in 2017.

Adjustments in financial assets were positive at 757 thousand euro (2017: +270 thousand euro) and relate to securities impairment losses recognised to working capital and devaluation of the shareholders' equity of the company's only associate.

The pre-tax operating result came to 11,632 thousand euro, with taxes totalling 4,294 thousand euro.

The net result, before allocation to minority interest, came to 11,632 thousand euro (2017: 10,799 thousand euro).

Net self-financing, consisting of the sum of operating income and amortisation, depreciation and allowances to the risk for contingencies, amounted to 23,347 thousand euro, equal to 12.1% of revenues.

BALANCE SHEET FIGURES

The reclassified balance sheet of the Metal Work Group's consolidated financial statements is shown in thousand euro:

	2018	2017	2016
Trade receivables	53.221	49.850	44.597
(Trade payables)	(39.066)	(39.023)	(29.313)
Closing inventories	42.909	39.638	36.650
(Other payables) Other receivables	(10.292)	(4.114)	(7.933)
Net working capital	**46.772**	**46.351**	**44.001**
Net non-current assets	96.922	79.080	82.465
Financial assets	3.274	2.659	450
Net invested capital	**146.968**	**128.090**	**126.916**
Shareholders' equity pertaining to the Group and minority interest	83.036	75.271	69.390
Net financial position	**63.932**	**52.819**	**57.526**
.. Short-term payables to banks	45.092	37.195	37.136
.. Short-term payables to other sources of finance	2.907	2.917	3.140
.. Medium/long-term payables to banks	13.027	11.131	15.847
.. Medium/long-term payables to other source of finance	14.145	15.808	16.046
.. Loans/other investment securities	(217)	(239)	(908)
.. Liquid funds invested/Other securities	(5.492)	(7.366)	(9.511)
.. Liquid funds on hand	(5.530)	(6.627)	(4.224)

The reclassified balance sheet shows that net working capital for the year increased from 46,351 thousand euro to 46,772 thousand euro, up 421 thousand euro, compared to 2017.

Non-current assets, net of amortisation and depreciation, came to 79,080 thousand euro. The net carrying value of land and buildings totalled 53,519 thousand euro.

Financial assets came to 3,274 thousand euro, compared to 2,659 thousand euro in 2016, including the equity investment in the associate Signal S.r.l.

Consolidated shareholders' equity, including the value attributed to minority interests, amounted to 83,036 thousand euro. The net financial position decreased by 11,113 thousand euro compared to 2017, negative at 63,932 thousand euro, after the distribution of 2,940 thousand euro extraordinary reserves in 2018.

The following table summarises the changes in cash flows:

	2018	2017	2016
Net financial position 1/1	**(52.819)**	**(57.526)**	**(55.908)**
Total cash flow from operating activities	22.770	20.773	17.390
Cash flow from current operations	(5.679)	(26)	(2.656)
Net cash flows from investment activities	(25.264)	(13.310)	(13.652)
Dividends	(2.940)	(2.730)	(2.700)
Total cash flow for the year	**(11.113)**	**4.707**	**(1.618)**
Net financial position 31/12	**(63.932)**	**(52.819)**	**(57.526)**

Total cash flows generated from income management for the year came to 22,770 thousand euro (2017: 20,773 thousand euro), of which 5,679 thousand euro from current management, and 25,264 thousand euro relating to investments in technical and financial assets. Net financial position, which is negative at 63,932 thousand euro, worsened by 11,113 thousand euro compared to 2017, after allocating € 2,940 thousand euro (2017: 2,730 thousand euro) to reserves.

At an equity and financial level, the leverage, which measures the ratio of net financial position to shareholders' equity, shows that the situation is under control.

	2018	2017	2016
NFP/Shareholders' equity	0,77	0,77	0,83

Net financial position is as follows:

Figures in €,000	31/12/18	31/12/17	31/12/16
Cash on hand	5.530	6.627	4.224
Closed-end funds and bonds	0	0	708
Loans due	217	238	200
Securities and other liquid funds	5.492	7.366	9.511
Total liquid funds	**11.239**	**14.231**	**14.643**
Payables to banks within 12 months	45.092	37.195	37.136
Payables to other sources of finance within 12 months	2.907	2.917	3.140
Total short-term loans	**47.999**	**40.112**	**40.276**
Payables to banks over 12 months	13.027	11.130	15.847
Payables to other sources of finance over 12 months	14.145	15.808	16.046
Long-term loans	**27.172**	**26.938**	**31.893**
Net Financial Position	(63.932)	(52.819)	(57.526)

Overall net financial position increased by over 11 million euro; the purchase of the Pedrini real estate accounted for 6,070 thousand euro. The Italian companies contributed by over 2 million euro in order to finance their growth, while Alfa Meccanica increased its indebtedness by over 1.8 million euro to fund new investments and the new building.

DESCRIPTION OF RISKS

In accordance with the provisions of art. 2428, point 6)-bis, on the use of financial instruments, the Group has for some years now had recourse to derivatives, the sole purpose being to adopt an active management of the risk associated with exchange rate fluctuations, especially for some currencies, such as €/USD, €/GBP, €/PLN, as the company exports in foreign currencies, as well as the risk associated with interest rate fluctuations, since the Group's overall long-term loans are taken out at a floating rate, and also the risk associated with the trend in the price of non-ferrous metals. All these instruments are designed to produce a benefit in economic terms whenever the hedged elements, currency or interest rates, determine a loss or an increase of charges.

In order to cover the risks arising from financial markets, the Group's objectives and policies are based on the following main guidelines:

- foreign exchange risk: by completing transactions with a low-risk profile and good flexibility in terms of overall benefit; guaranteeing an exchange rate in line with the budget value; making transactions for preset amounts, in notional terms, in relation to the value of foreign exchange exports; activating fair value hedges and not ones specific to single credits or debits, for both current and future years. As at 31.12.2018, the company did not have any currency options, and had other sales hedging transactions for 4.5 million euro (2017: not present);

- interest rate risk: by completing transactions with a limited-risk profile and good flexibility in terms of overall benefit; limiting the incidence of financial charges; making transactions for preset amounts, in notional terms, in relation to overall financial indebtedness, for each company and the Group as a whole, and not in relation to specific debts or financial transactions. As at 31.12.2018, the company had established four interest rate caps for a notional value of 11.5 million euro relating to the framework of the amortisation plans covering loans or financial lease agreements taken out by the company, and an IRS contract for 1.9 million euro;

- commodity risk: by completing transactions with a limited-risk profile, taking into account, however, that the market of commodities used (brass scrap) cannot be correlated with the market trend of the underlying activity (copper). On the date on which these financial statements were drawn up, the Group did not perform any forward purchase transaction with a view on the neutral or bearish market;

- credit risk: given that more than 80% of company sales are made through its sales organisation, thus generating a credit that is "non-insurable" by definition, the company has taken out various insurance policies hedging the risk of non-collection from customers in certain geographical areas, as well as the risk resulting from all Italian independent customers, with a credit exposure beyond a certain limit. Despite this, the credit risk is monitored at a Group level through innovative tools and systems that ensure a real-time view of the economic and financial situation of our customers.

INVESTMENTS AND R&D

R&D

In 2018, the Design Office developed various standard and customized products, for some of which a patent application was filed. These include some ranges of components for the management of fluids other than compressed air only.

We created the new Bit units in the F Series for the filtration and regulation of water pressure, which are characterised for the use of dedicated certified materials and the typical white colour of the main bodies.

In the same area, we introduced the new multi-fluid solenoid valves in the EV-Fluid series, which come with either a brass or a stainless steel body and gaskets made of different materials depending on the application. This type of solenoid valves can be used to shut off air, water or other moderately aggressive fluids.

Last but not least, with regard to contact with fluids, we developed the kits required for the use of the EB80 in work areas where there are splashes of liquids (Splash Area): with these products you can isolate the electrical part of the island from the area in contact with the fluid. They are typically used for fit the EB80 in machines and equipment installed in the Food & Beverage and the processing industry.

Again having regard to the EB80, in 2018 we developed the Multi-function Modules which, when applied to the output ports of each solenoid valve, perform the same functions as the pneumatic components: pressure and flow regulation, air shut-off, relieving and many other functions.

But the product the characterised the year 2018 most is the BOXI, i.e. a four-position solenoid valve island which, taking many of the basic features of the EB80 and using the same valves, is more lightweight, compact and offers a better price-to-quality ratio.

The success of the EB80 also led to the development of a series of exclusively electrical products, consisting of a power fieldbus terminal and the relevant input and output modules.

As regards the electric cylinders, we developed the new Series BK belt-driven axis, which features reduced dimensions, is lighter and costs less than those in the larger family, named SHAK. The eDrive, i.e. a programmable drive for stepper motors made entirely by Metal Work, was also made in 2018.

Again in 2018, we launched the Pneumatic Motion Kit line of products, which consists in ready-packed modules comprising several Metal Work products that the customer can choose and configure as part of a set of components selected from among those most commonly used on the market.

Like every year, the company invested heavily in design activities, which resulted in the creation of over 150 new new products, each conceived to meet the specific requirements of each customer.

The costs of the product design department alone, which consists of 21 units (2017: 21 units) amounted to 2.85 million euro (2017: 2.64 million euro), which reflects the company's ongoing commitment to investing in the product and pursuing continuous improvement. The costs were not capitalised during the year. In 2018, the company invested a total amount of 4.6 million euro (2017: 4,055 thousand euro), equal to 4.5% of sales (2017: 4.3%) in the research and development of new products and their engineering.

ICT

In 2018, the ICT department further focused on the optimisation of the processes handled under the SAP ECC by over 460 users in the 30 branches using the ERP system.

As part of the Industry 4.0 technology, in 2018 numerous automated warehouses were linked to the SAP ECC, each with their own Warehouse Management Systems (WMS) installed at the Group's European branches, integrated with the ERP with the aim of automating part of the logistics activities associated with material handling.

With a view to digitalisation, numerous integrations were activated with the IT systems of the main couriers used by Metal Work for deliveries to national and international customers, thus enabling the tracking function directly from SAP ECC logistics transactions.

With reference to tax compliance, the articulated application environment required to support e-invoicing in Italy was duly implemented, by accrediting the dedicated electronic channel at the Interchange System (SDI) through SAP Cloud to the management of the transactions of all the Italian branches. The entire application environment has been conceived for the automatic management of all inbound and outbound invoices (including accounting) on the ERP.

The operating project for the Group's E-commerce portal, developed by SAP Hybris with B2B logics and integrated with the SAP ECC system, was substantially completed.

In 2018 the Romanian company was started up on the SAP ECC, including the preparatory work for the start-up of 2 production companies scheduled for 1 January 2019.

In the first months of the year, activities were carried out in view of implementing an ERP SAP system also for the Group's overseas branches. The system selected, SAP Business ByDesign, is an ERP in Cloud, designed by SAP for the segment of Medium Enterprises and as a second level for the Two-Tier strategy, in order to provide a simpler ERP solution to the branches of industrial groups where the parent company already used the SAP ECC. The aim of integrating the SAP ECC with the SAP Business ByDesign is to allow the overseas branches to use the same synergies offered by the intercompany processes already adopted by the European branches, as further support of the industrial plans envisaged y the Metal Work Group. In June, the start-up of a recently incorporated foreign branch was completed on the SAP Business ByDesign.

Moreover, the infrastructure hosting the SAP ERP was completed upgraded and new tools have been activated regarding the IT security, in compliance with the GDPR which came into force in May.

It is worth noting that the company spent an overall sum of 2.55 million euro (2017: 2.3 million euro) on resources relating to ICT.

Industrialisation

The projects set up and implemented by the large-scale production department have involved the addition of new machinery, technological innovation, and above all the commencement of effective process improvement activities. New machinery was introduced in line with technological standards for lubrication systems in contact with tools and material, and equipped with automated features and devices to reduce setup operations considerably. Improved machinery communication possibilities based on Industry 4.0 principles have enabled better integration with company management software, and opened the door to remote maintenance possibilities by construction companies, reducing waiting times for direct intervention.

The need to process new products, with operations that are difficult or made with materials that are less convenient to work with than conventional materials, has led to the implementation of innovative chip breaking systems that have been tested and standardised. This has reduced the cycle time required to make items and lowered tooling costs, but most of all this has enabled a reduction in effort and less production implementation issues.

One objective achieved was the creation of a production department with single-spindle automatic lathes, with innovative dimensional control via scanning systems where process operations, setup and control are managed by the same operator.

A team was set up to improve processes, made up of business engineers specially qualified to use Kaizen tools who, through a general action plan agreed with the management team, were given the power to accelerate the changes required to achieve significant improvements in production departments.

The extension of TPM concepts continued at greater speed in the chip removal department, with the aim of maintaining satisfactory plant operating conditions, reducing faults, decreasing setup time, and increasing quality. A significant number of personnel were involved, with the formation of teams to identify sources of fouling and hard-to-access points using rigorous methods, eliminate these sources, and create cleaning, lubrication, inspection and tightening standards, to improve machine reliability and increase production availability. In some machines and critical processes we focused on achieving quality and understanding standards using SMED and TWI methodology. By mapping personnel skillsets it was possible to organise a training plan, with the aim of increasing the number of operators able to carry out a certain task, or increasing the number of tasks an operator can carry out, reducing training time required significantly.

Analysing assembly department workflows to understand how to organise line side inventory, supermarket inventory, and requests to the central warehouse, enabled us to introduce Mizusumashi, one of the most effective means of creating internal logistics flows.

The effort made available by these improvement processes determined the need to forecast the amount required at the strategic design phase. Kaizen became integrated Kaizen - therefore not just a route to efficiency based on the collaboration of operators rigorously applying methods, but also a way of freeing up personnel to drive other improvement actions, or to be trained to cover new or unstaffed roles that are created.

A specific intermediate training plan was drawn up in conjunction with the HR department for a good number of operators, and an advanced training plan for company employees whose education cannot be furthered through their everyday tasks.

With regard to AGV and cobotic systems, the operational and safety characteristics, and potential improvements have been investigated, with a view to planning their implementation at the start of next year.

Company Wide Quality Control:

The Group continued to promote Kaizen activities (continuous improvement) in 2018. This method, the basic point of which is the involvement of all the employees, leads the entire organisation to operate daily in pursuing the goal of eliminating waste in all areas of business activity. All this means the continuous search for improvement through little and great changes at all levels. Every improvement activity concerning a specific area or process is called a “construction site” and requires the creation of an inter-departmental team of people who analyzed the problem on the spot and come to create new standards or improve existing ones.

As in previous years, in 2018 all newly hired employees attended classroom communication training courses aimed at enhancing interpersonal relations and teamwork. The course is organised by an occupational psychologist specialising in behavioural training issues. This allowed all the employees to acquire knowledge for the practical application of methods that are the base of continuous individual continuous improvement through teamwork.

Metal Work continued to further strengthen the structure of its management systems for which it has obtained certification for several years now, namely ISO 9001:2015 for quality, ISO 14001:2004 for the environment, while the occupational health and safety system was certified to the new ISO 45001:2018, standing among one of the first companies in Italy (Metal Work S.p.A. had been certified to OHSAS 18001 since 2007). A new policy for the environmental and safety has been developed to highlight the issues that most involve the personnel (at all levels), that attach increasing importance to training, to spread the culture of health and safety in the workplace, by consulting and encouraging the participation of personnel.

The “risk-based thinking” is a concept adopted as a tool to face any challenges and changes while minimizing and, as far as possible, eliminating risks, turning them into opportunities, so as to achieve increasingly ambitious goals. The Life Cycle Assessment (LCA) , i.e. the standard life cycle of Metal Works products, was also established. This tool, which is required by the standard, is used to analyze the environmental impact of a product, an activity or a process throughout all the phases of its life, by quantifying the use of resources (such inputs as energy, raw materials, water, etc.) and emissions into the environment (into air, water and soil) associated with a product/process.

In particular, the ISO 9001 Quality System was also extended to most of the Italian and foreign subsidiaries, according to a matrix scheme that provides for the supervision of individual external operating systems directly by the Group’s Quality Management. The three systems have successfully passed the periodical annual audit by the German certifying body DEKRA. Two more companies, Metal Work Pneumatic U.S.A. and Metal Work in the Czech Republic, have been included in the matrix.

SHARE CAPITAL AND TREASURY SHARES

Pursuant to art. 2428 of the Italian Civil Code, as at 31/12/2018 Metal Work S.p.A.'s share capital amounted to € 21,000,000 euro, the same as that for the previous year.

The share capital is made up of 21,000,000 shares of a face value of € 1 each, 97% held by Metal Work Holding S.p.A.

During the year the company did not hold nor transacted treasury shares or shares of parent companies, neither directly or indirectly through an intermediary or a trust company.

OUTLOOK

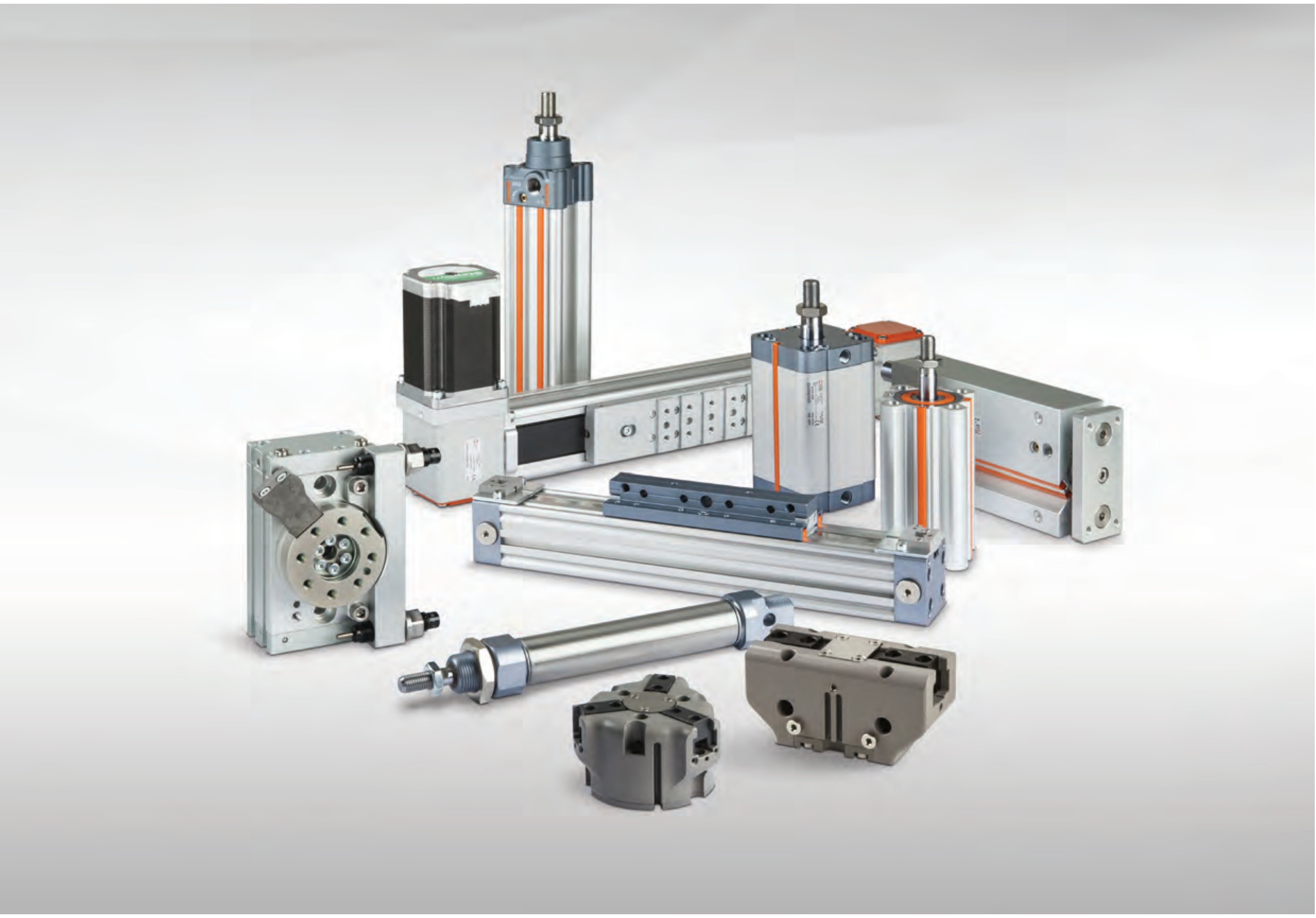
At the date on which this report was prepared, a slowdown in the demand for our products is substantially confirmed by the downward trend of the macroeconomic indices. We feel that, should the economic scenario deteriorate further, it will not be possible to conform the favourable trend of the economic indices of the last three financial years.

Concesio, 28 maggio 2019

The Board of Directors

Chairwoman	Sig.ra Donatina Dell'Anna
Vice-Chairman	Sig. Riccardo Cavagna
Board member	Sig. Gianpietro Gamba
Board member	Sig. Daniele Marconi
Board member	Sig. Valentino Pellenghi
Board member	Sig. Fausto Rodella

CONSOLIDATED FINANCIAL STATEMENTS
AND EXPLANATORY NOTES



ASSETS		31/12/2018		31/12/2017
B) Non-current assets				
I - Intangible assets				
1 Incorporation and extension costs	16.165		18.682	
2 Research, Development and Publicity Costs	1.255.589		1.418.555	
3 Patent rights and intellectual property rights	682.480		358.331	
4 Concessions, licences, trademarks and similar rights	1.185.071		1.491.919	
5 Goodwill	680.646		909.633	
6 Work in progress & down payments	1.800		1.800	
7 Others	304.758		281.176	
Total Intangible assets		**4.126.509**		**4.480.096**
II - Tangible assets				
1 Land & buildings	53.518.897		46.806.624	
2 Plant & machinery	28.680.582		22.546.828	
3 Industrial and commercial equipment	6.397.243		5.718.613	
4 Other assets	2.228.993		2.114.307	
5 Work in progress & advances	1.970.058		1.893.143	
Total Tangible assets		**92.795.773**		**79.079.515**
III – Long-term financial assets				
1 Investments in:				
a) Subsidiaries	180.710		0	
b) Associates	1.042.185		1.002.646	
d-bis) Other companies	38.149	1.261.044	8.149	1.010.795
2 Accounts receivable:				
d-bis) From others				
Less than 12 months	423.160		0	
Over 12 months	1.127.903	1.551.063	1.072.043	1.072.043
3 Other securities:		217.418		238.499
4 Derivatives receivable:		461.940		538.244
Total long-term financial assets		**3.491.465**		**2.859.581**
TOTAL NON-CURRENT ASSETS (B)		**100.413.747**		**86.419.192**
C) Current assets				
I - Inventories				
1. Raw materials, supplies & consumables	6.338.909		6.406.657	
2. Work-in-progress & Semi-finished products	8.132.384		7.458.861	
4. Finished products and goods	28.175.875		25.513.354	
5. Down payments	262.067		259.244	
Total inventories		**42.909.235**		**39.638.116**
II – Accounts receivable				
1) Trade receivables				
Less than 12 months	53.220.710		49.850.008	
Over 12 months	0	53.220.710	0	49.850.008
4) From parent companies				
Less than 12 months	4.935.921		2.810.786	
Over 12 months	0	4.935.921	0	2.810.786

ASSETS		31/12/2018		31/12/2017
5 bis) Tax assets				
Less than 12 months	5.665.629		5.107.861	
Over 12 months	0	5.665.629	0	5.107.861
5 ter) Prepaid taxes				
Less than 12 months	1.267.786		1.046.164	
Over 12 months	2.471.460	3.739.246	2.233.339	3.279.503
5 quater) From others				
Less than 12 months	1.820.655		1.922.034	
Over 12 months	0	1.820.655	0	1.922.034
Total accounts receivable		**69.382.161**		**62.970.192**
III - Financial assets other than non-current assets				
6) Other securities	5.491.879		7.365.819	
Total Financial assets other than non-current assets		**5.491.879**		**7.365.819**
IV – Cash and cash equivalents				
1) Bank and postal deposits	5.463.230		6.585.780	
3) Cash on hand	66.914		41.637	
Total cash and cash equivalents		**5.530.144**		**6.627.417**
TOTAL CURRENT ASSETS (C)		**123.313.419**		**116.601.544**
D) Prepayments and accrued income		864.871		907.613
TOTALE ATTIVO		**224.592.037**		**203.928.349**

LIABILITIES		31/12/2018		31/12/2017
A) Shareholders' equity				
I – Share capital	21.000.000		21.000.000	
II – Share premium reserve	19.324.088		19.324.088	
IV – legal reserve	2.200.000		1.800.000	
VI – Other reserves				
- Currency translation reserve	(1.212.687)		(1.070.959)	
- Group's consolidation reserve	3.144.882		3.284.290	
- Other reserves	8.332.242		3.792.413	
VIII - Profit (losses) to be brought forward	14.236.399		12.317.982	
IX - Profit(loss) for the year	10.554.030		9.798.246	
TOTAL SHAREHOLDERS' EQUITY (A)		**77.578.954**		**70.246.060**
MINORITY SHAREHOLDERS' EQUITY AND RESERVES		**5.457.355**		**5.025.093**
Total shareholders' equity and minority shareholders' equity and reserves		**83.036.309**		**75.271.153**
B) Provision for contingent liabilities and charges				
1) - Provision for retirement and similar benefits	419.162		547.633	
2) - for taxes	1.505.589		1.180.772	
4) - others	465.381		645.257	
TOTAL PROVISION FOR CONTINGENT LIABILITIES AND CHARGES (B)		**2.390.132**		**2.373.662**

LIABILITIES		31/12/2018		31/12/2017
C) Provision for employees' severance pay		**5.980.446**		**5.729.112**
D) Debts and other liabilities				
4) Bank borrowings				
Less than 12 months	45.092.188		37.195.483	
Over 12 months	13.026.797	58.118.985	11.130.357	48.325.840
5) Borrowings from other lenders				
Less than 12 months	2.906.503		2.917.389	
Over 12 months	14.145.181	17.051.684	15.807.502	18.724.891
6) Down payments				
Less than 12 months	308.723		371.086	
Over 12 months	0	308.723	0	371.086
7) Trade creditors				
Less than 12 months	38.514.710		38.509.223	
Over 12 months	0	38.514.710	0	38.509.223
10) Payables to associates				
Less than 12 months	551.960		514.153	
Over 12 months	0	551.960	0	514.153
11) Payables to parent companies				
Less than 12 months	2.532.337		261.615	
Over 12 months	0	2.532.337	0	261.615
12) Taxation				
Less than 12 months	4.885.029		3.441.083	
Over 12 months	0	4.885.029	0	3.441.083
13) Social security contributions				
Less than 12 months	3.127.712		2.849.845	
Over 12 months	0	3.127.712	0	2.849.845
14) Others				
Less than 12 months	6.395.142		5.665.044	
Over 12 months	218.000	6.613.142	404.660	6.069.704
TOTAL DEBTS AND OTHER LIABILITIES (D)		**131.704.282**		**119.067.440**
E) Accruals and deferred income		**1.480.868**		**1.486.982**
TOTAL LIABILITIES		**224.592.037**		**203.928.349**

INCOME STATEMENT		31/12/2018		31/12/2017
A) PRODUCTION VALUE				
1) Revenue from goods sold and services rendered		193.244.233		180.062.172
2) Changes on stocks of work-in-progress, semi-finished products and finished products		1.461.014		348.337
4) Increase in Non-current assets from internal work		300.260		339.408
5) Other revenue and income:				
Contributions in trading account	245.148		249.284	
Others	1.771.480	2.016.628	1.769.056	2.018.340
Total production value (A)		**197.022.135**		**182.768.257**
B) PRODUCTION COSTS				
6) For raw materials, supplies, consumables and goods		60.382.531		54.867.888
7) For services		45.427.449		41.088.661
8) For hire, purchase and leasing charges		2.982.057		2.971.559
9) For personnel				
A) Salaries and wages	40.328.931		38.717.901	
B) Social security contributions	10.706.315		10.290.415	
C) Provision for employees' severance pay	1.778.075		1.710.002	
D) Provision for retirement benefits and similar rights	0		134.847	
E) Other personnel costs	3.523.601	56.336.922	2.679.040	53.532.205
10) Depreciation, amortisation & write-downs				
A) Amortisation of Intangible assets	1.944.774		1.599.943	
B) Depreciation of tangible assets	9.361.613		9.262.921	
D) Provision for doubtful accounts current assets and cash on hand	409.117	11.715.504	556.638	11.419.502
11) Changes in stocks of raw materials, supplies, consumable and goods		(1.138.886)		(2.143.188)
12) Provision for contingent liabilities		152.394		376.743
13) Other provisions		0		1.292
14) Other charges		2.591.865		3.449.259
Total production costs (B)		**178.449.836**		**165.563.921**
Difference between production value and costs (a - b)		**18.572.299**		**17.204.336**
C) FINANCIAL INCOME AND EXPENSES				
15) Investment income:				
from subsidiary and associates	0		18.633	
From others	78.845	78.845	46.616	65.249
16) Other financial income:				
c) from current assets securities other than non-current assets		8.124		129.528
d) d) income other than previous items				
- from others	214.268	214.268	109.399	109.399
17) Interest and other financial charges:				
From others	1.537.475	1.537.475	1.510.474	1.510.474

INCOME STATEMENT		31/12/2018		31/12/2017
17bis) Exchange gains and losses		(651.872)		(1.213.596)
Total financial income and expenses (15 + 16 - 17 +/- 17 bis)		**(1.888.110)**		**(2.419.894)**
D) ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS				
18) Re-valuations :				
b) long-term financial assets				
other than equity investments	37.019		2.646	
c) securities in current assets				
other than equity investments	1.858		322.516	
d) financial derivatives	0	38.877	0	325.162
19) Write-downs				
c) securities in current assets				
other than Non-current assets	796.456		55.637	
d) Financial derivatives	0	796.456	0	55.637
Total extraordinary gains and losses (18-19)		**(757.579)**		**269.525**
PROFIT/ (LOSS) BEFORE TAXATION (A - B +/- C +/- D)		**15.926.610**		**15.053.967**
20) Current, deferred and prepaid income tax		4.294.102		4.255.126
21) Result for the year, including the portion pertaining to minority interests		**11.632.508**		**10.798.841**
22) PORTION OF PROFIT (LOSS) pertaining to minority interests		**1.078.478**		**1.000.595**
23) NET PROFIT (LOSS) FOR THE YEAR		**10.554.030**		**9.798.246**

CASH FLOWS STATEMENT	DEC-18	DEC-17
A. Cash flows generated by operating activities (indirect method)		
Profit (loss) for the year	10.554.030	9.798.246
Income taxes	4.294.102	4.255.126
Interest expenses (interest income)	1.966.955	2.485.143
(Dividends)	(78.845)	(65.249)
(Capital gains)/capital losses from the sale of assets	0	(25.330)
1. Profit (loss) for the year before income taxes, interest, dividends and capital gains/losses from the sale of assets	**16.736.242**	**16.447.936**
Adjustments for non-cash items that had no contra-entry in net working capital		
Allocations to provisions	152.394	378.035
Non-current asset amortisation and depreciation	11.306.387	10.862.864
Write-downs (Revaluations) for impairment losses	0	0
Other adjustments for non-cash items	757.579	(269.525)
2. Cash flow before changes in net working capital	**28.952.602**	**27.419.310**
Changes in net working capital		
Decrease/(increase) in inventories	(3.271.119)	(2.987.628)
Decrease/(increase) in trade receivables, subsidiaries and associates	(5.495.837)	(5.893.773)
Decrease/(increase) in tax assets and other receivables	(456.389)	(211.423)
Decrease/(increase) in prepaid tax assets	(459.743)	555.795
Increase/(decrease) in trade payables, subsidiaries and associates	2.314.016	9.172.045
Increase/(decrease)in tax liabilities, social security and other liabilities	2.416.377	(550.195)

CASH FLOWS STATEMENT	DEC-18	DEC-17
Decrease/(increase) in prepaid expenses and accrued income	42.742	837.231
Increase/(decrease) in accrued expenses and deferred income	(6.114)	(5.330)
Net change in provision for contingencies and charges	(135.924)	(641.541)
Net change in employee-leaving indemnity	251.334	175.140
Other changes in net working capital	(62.363)	(43.381)
3. Cash flow after changes in net working capital	**24.089.582**	**27.826.250**
Other adjustments		
Interest received/(paid)	(1.806.825)	(2.412.368)
(Income taxes paid)	(4.294.102)	(4.255.126)
Dividends received	78.845	65.249
(Utilisation of provisions)	0	0
4. Cash flow after other adjustments	**(6.022.082)**	**(6.602.245)**
Cash flow from operating activities (A)	*18.067.500*	*21.224.005*
B. Cash flows generated by investment activities		
Tangible assets		
(Investments)	(23.357.871)	(11.675.937)
Realizable price of divestments	280.000	592.277
Intangible assets		
(Investments)	(1.591.187)	(848.074)
Realizable price of divestments	0	0
Financial assets		
(Investments)	(594.865)	(1.378.843)
Realizable price of divestments	0	0
Financial assets other than Non-current assets		
(Investments)	0	0
Realizable price of divestments	1.079.342	2.412.038
Acquisition or transfer of subsidiaries or business units net of cash	0	0
Cash flows generated by investment activities (B)	*(24.184.581)*	*(10.898.540)*
C. Cash flows generated by funding activities		
Loan capital		
Increase (decrease) in financial liabilities	2.346.808	(846.701)
Opening of loans	16.525.000	12.027.000
Loan repayment	(10.912.000)	(16.372.000)
Equity		
Capital increase to be paid	0	0
Transfer (purchase) of treasury shares	0	0
Dividends and advances on dividends paid	(2.940.000)	(2.730.000)
Cash flows generated by funding activities (C)	**5.019.808**	**(7.921.701)**
Increase (decrease) in cash and cash equivalents (A ± B ± C)	**(1.097.273)**	**2.403.764**
Cash and cash equivalents – opening balance	6.627.417	4.223.653
Cash and cash equivalents – closing balance	5.530.144	6.627.417
Increase (decrease) in cash and cash equivalents	(1.097.273)	2.403.764

Structure and contents of the Consolidated Financial Statements

To the shareholders,

The Metal Work Group's consolidated financial statements as at 31.12.2018, submitted for your approval have been prepared in accordance with Legislative decree no. 127/1991 (Chapter III), implementing the VII EEC Directive. They have been drawn up by Metal Work S.p.A., the parent company of the industrial branch of the larger Group headed by Metal Work Holding S.p.A. The company is required to draw up Consolidated Financial Statements pursuant to article 27, subsection 3, of Legislative Decree no. 127/1991.

The cash flow statement shows the plus and minus changes in cash flows in the reporting year, using the indirect method, according to the layout envisaged in the accounting standard OIC 10.

The figures in the balance-sheet, the income statement and the cash flow statement are expressed in euros, without decimals, while the figures in the explanatory notes are expressed in thousands of euro, unless specified otherwise.

Items with amounting to zero in the current and the previous year are not reported in the financial statements.

If the information required by specific provisions of law is not sufficient to give a true and correct representation, supplementary information deemed necessary for the purpose is provided. In particular, the following information was provided in the Explanatory Notes in tabular form:

- the statement reconciling the Parent's shareholders' equity and the operating result and the shareholders' equity and the operating result of consolidated financial statements;

- the statement of changes in consolidated net shareholders' equity accounts.

As for the Group's activities and the relations with associates, parent companies, companies under common control and other correlated parties, reference is made to the Business Report prepared by the Parent's directors in support of these consolidated financial statements.

Events of significance occurring after the closing date and the overall amount of commitments, guarantees and potential liabilities not emerging from the balance-sheet are reported in specific paragraphs in this Explanatory Notes.

Metal Work S.p.A., the parent company, is in turn controlled by Metal Work Holding S.p.A., with registered office in Concesio, which prepares the consolidated financial statements of the largest number of companies to which the Metal Work Group belongs. These consolidated financial statements are made available at the company's registered office.

No exceptional events occurred such as to involve derogations to the application of regulations governing consolidated financial statements aimed at providing the required true and fair representation. There were no exceptional events that determined a change to the assessment criteria compared to the previous year, thus no recourse was made to the provisions under art. 2423-bis, subsection 2, of the Italian Civil Code.

Figures for the previous year have been included for comparative purposes. In accordance with article 2423 of the Italian Civil Code, we note that the balance sheet and income statement drawn up pursuant to articles 2424 and 2425 of the Italian Civil Code and amended in accordance with the provisions of article 2, subsection 1, of Legislative decree no. 127/91, along with the statement of changes in the financial position, provide the information necessary to give a true and fair view of the Group's financial position and operating results.

The consolidated financial statements have been audited by KPMG S.p.A. pursuant to art. 2409-bis of the Civil Code.

Details of the Group and consolidated holdings

The Metal Work Group's consolidated financial statements include the financial statements of Metal Work S.p.A. (hereinafter also referred to as the 'Parent') and those of the subsidiaries in which the Parent has a majority take pursuant to art. 26 of Legislative Decree no. 127/91.

As at 31 December 2018, the companies included in the scope of consolidation using the integral method in accordance with art. 38, subsection 2, letter a), of Legislative Decree no. 127/91 were the following:

	Company	Registered office	Share capital in currency	% held as at 31/12/18
1	P Service S.r.l	Brescia	150.000 €	96,00%
2	P Service S.r.l	Oggiono (LC)	99.000 €	76,00%
3	P Service S.r.l	Arcore (MB)	99.000 €	100,00%
4	P Service S.r.l	Verdellino(BG)	99.000 €	100,00%
5	P Service S.r.l	Bologna	50.000 €	100,00%
6	P Service S.r.l	Cremona	90.000 €	90,00%
7	P Service S.r.l	Modena	50.000 €	100,00%
8	P Service S.r.l	S.Pietro Mosezzo (NO)	50.000 €	95,00%
9	P Service S.r.l	Parma	99.000 €	100,00%
10	P Service S.r.l	Coriano (RN)	99.000 €	90,00%
11	P Service S.r.l	Paese (TV)	80.000 €	90,00%
12	P Service S.r.l	Marano (VI)	99.000 €	75,00%
13	P Service S.r.l	S.Giorgio di Mantova (MN)	90.000 €	100,00%
14	P Service S.r.l	Verona	50.000 €	68,00%
15	P Service S.r.l	Corato	25.000 €	90,00%
16	Metal Work S.r.l.	Rivalta (TO)	99.000 €	95,00%
17	P Service S.r.l	Prato	90.000 €	100,00%
18	Eurofit S.r.l.	Cazzago S.Martino (BS)	100.000 €	80,00%
19	Alfa Meccanica S.r.l.	Treviolo (BG)	33.000 €	70,00%
20	Meridian S.r.l.	Cazzago S.Martino (BS)	80.000 €	97,50%
21	Assemblaggi Ind.li S.r.l.	Concesio (BS)	80.000 €	51,00%
22	Tecnopolimeri S.r.l.	Concesio (BS)	80.000 €	70,00%
23	Fluid Force S.r.l.	Bedizzole (BS)	50.000 €	70,00%
24	Spmc S.r.l.	Concesio (BS)	18.368 €	51,00%
25	VDM S.r.l.	Concesio (BS)	25.500 €	51,00%
26	Metal Work UK Ltd	Milton Keynes	£60.000	92,90%
27	Metal Work France S.a.r.l.	Saint Thibault des Vignes	300.000 €	89,98%
28	Metal Work Deutschland Pneumatic Gmbh	Landsberg	600.000 €	100,00%
29	Metal Work Nederland B. V.	Ede	150.000 €	70,00%
30	Metal Work Sverige AB	Vellinge	300.000 kr	100,00%
31	Metal Work Iberica S.A.	Barberà del Valles	600.000 €	90,00%
32	Metal Work Danmark A/S	Greve	kr 1.000.000	98,00%
33	Metal Work Pneumatic (Thailand) Company Ltd	Nonthaburi	THB 1.000.000	49,00%
34	Metal Work Pneumatic U.S.A. Inc.	Arlington Texas	$200.000	90,00%
35	Metal Work Pneumatic (M) Sdn Bhd	Selangor	R250.000	100,00%
36	Metal Work Polska Sp. Z o.o.	Poznan	200.000 zł	97,50%
37	Metal Work Finland Ltd	Jarvenpaa	70.000 €	100,00%
38	LLC Metal Work Ukraine	Kiev	UAK 3.500.000	100,00%
39	Metal Work Pneumatic Australia Pty. Limited	Dandenong South	$19,00	100,00%
40	Metal Work Pneumatic Components (Shangai) Ltd	Shangai	YUN 5.925.177	100,00%
41	Metal Work Partecipacoes Societarias Ltda	San Leopoldo	R$ 24.000.000	99,83%
42	Metal Work Pneumatic India Private Ltd	Bangalore	IDR 11.055.050	99,99%
43	Metal Work Pneumatik Gmbh	Frauenfeld	CHF 100.000	100,00%
44	Metal Work Pneumatic CZ s.r.o.	Ostrava	CZK 2.000.000,00	80,00%
45	O.O.O. Metal Work Pneumatik	Mosca	RUR 32.000.000	100,00%
46	PT Metal Work Pneumatic	Tangerang	INR 7.870.800.000	67,00%
47	Metal Work Pneumatic South Africa (Pty) Ltd	Durban	ZAR 7.250.000	100,00%
48	Metal Work Pneumatic Srl	Timis	500.000 RON	74,63%

During the year, the scope of consolidation changed as follows:

- the purchase of 2% of the shares in Metal Work UK Ltd.'s share capital;
- the acquisition, during set up, of 51% of the shares VDM S.r.l.'s share capital.

The equity investments listed above are held directly by Metal Work S.p.A. without the intervention of trust companies or intermediaries. Metal Work Iberica S.A. holds in turn 100% of Metal Work Portugal Lda and is fully incorporated in the scope of consolidation; Metal Work Partecipacoes Societarias Lda holds 85% of the shares in Metal Work Pneumatica do Brasil Lda and is fully incorporated in the scope of consolidation.

Metal Work Pneumatic Thailand Co. is considered a subsidiary despite a 49% direct holding in the share capital, due to existing contractual and statutory constraints.

No companies have been consolidated using the proportional method in accordance with article 37 of Legislative decree no. 127/91.

Pursuant to article 39,subsection 3, of Legislative decree no. 127/91, it should be noted that in the course of the year there were no changes in the general makeup of the companies included in the scope of consolidation.

The date of reference of the consolidated financial statements and the closing data of the financial statements to be included in the scope of consolidation coincide with those of the Parent and most of the companies included scope of consolidation, namely the subsidiary Metal Work Pneumatic India Private, which closes the financial statements as at 31 March, was included in the scope of consolidation on the basis of the interim annual financial statements referring to the date of the consolidated financial statements.

Disclosure on the presentation of true and fair Financial Statements

The format of the financial statements is that required by Legislative Decree no. 127/91. They have been drawn up in a clear manner and truthfully represent the overall financial position and results of the companies included in the scope of consolidation.

Consolidation criteria and method

The consolidated financial statements have been prepared on the basis of financial statements approved at annual general meetings or by the governing bodies of consolidated companies, adjusted, where necessary, in order to align them with the Group's accounting standards or on the basis of financial information (so-called 'reporting package') made available by the consolidated companies and prepared in accordance with Parent's instructions.

The accounting policies adopted in the preparation of consolidated financial statements are those adopted by the Parent when preparing its financial statements or those adopted by most of the consolidated companies, subject to the principle of valuation of equity investments in associates using the equity method instead of the cost method and the accounting processing of leased financial assets, as illustrated below in these explanatory notes.

The items under assets and liabilities of the same or similar denomination and contents, appearing in the financial statements of Group companies and intended to be included in the same items of the consolidated financial statements are valued according to the same criteria.

In the consolidated financial statements, the figures under assets, liabilities, revenues and charges and cash flows of companies that are directly or indirectly controlled by the Parent are consolidated according to the line-by-line consolidation method.

Subsidiaries have been consolidated on a line-by-line basis. This method involves the application of the following criteria:

a) the book value of individual consolidated equity investments is written off against the corresponding portion of Shareholders' equity (net of minority interests), while all their assets and liabilities as well as associated income and charges are included;
b) intra-group payables, receivables and all transactions are written off;
c) income and losses from commercial and financial intra-group transactions are written off, net of deferred and prepaid taxes;
d) income and expenses relating to intra-group transactions are written off;
e) the greater value paid for the equity investments compared with the Shareholders' equity of the subsidiary at the acquisition date is stated in a special item under assets called "Goodwill", where it is not possible to allocate such value to a specific item under the assets of the company included in the consolidation scope;
f) amortisation of the "Goodwill" under assets;
g) when a company is first consolidated, the lower of equity investments in that company and the same company's Shareholders' equity is recorded under "Consolidation reserve" as part of the consolidated shareholders' equity.

The consolidation difference has not been offset, neither implicitly nor explicitly, with the consolidation reserve; considering that no unfavourable economic results are expected, the decreased carrying value of equity has never been attributed to the consolidation provision for future risks and charges.

The associated companies have been consolidated using the equity method. The main criteria adopted for the application of said method contemplate:

a) the maintenance in the Consolidated Financial Statements of the "equity interest" item relating the associates included in the scope of consolidation;
b) the adaptation of the equity interest value to the adjusted portion of the associate's shareholders' equity, with reference to the Financial Statements ended on 31.12.2018.

Disclosure on accounting standards and valuation criteria

The financial statements of the subsidiaries have been drawn up using the same accounting policies applied by the parent company.

The assessment criteria used to value the various items comply with article 2426 of the Italian Civil Code. The criteria used to value the items in the consolidated financial statements are substantially the same as those applied in the previous year, taking into account the novelties introduced by Legislative Decree 139/2015, and we give our approval thereto. The various items of the financial statements were assessed in accordance with the general principles of prudence and accrual, on a going-concern basis; the items were measured and reported taking into consideration the substance of the transaction or contract, where compatible with the provisions of the Italian Civil Code and the Italian Accounting Standards Setter (OIC).

Pursuant to article 2423-ter of the Italian Civil Code, it must be noted that no balance sheet or income statement items have been grouped together.

The consolidated financial statements were prepared in line with the following principles, which were also used to prepare the statutory financial statements of the individual consolidated companies:

the principle of prudence, i.e. entering at the reporting date only the profits realised and all the risks pertaining to the year, even when they arise after the closing date;

the going-concern principle, i.e. the assumption, implicit in the accounting and valuation policies adopted, that the company will continue to operate normally in the future.
the accrual principle, whereby the effects of transactions and events are allocated to the year to which they pertain and not necessarily to the year in which the movements take place.

The assumptions of consistency in the evaluation, relevance and comparability of information have also been complied with.

In application of the above-mentioned assumptions:

- the valuation of the elements making up the individual items under assets and liabilities took place separately to avoid that the plus-value of some items could offset the minus-value of others. In particular, profits were included only if realized by the closing date of the financial year, while risks and losses pertaining to the financial year were taken into account, even if known after the closing date;
- income and charges pertaining to the financial year were taken into account regardless of the date of collection or payment. Accrual is the method of accounting in which all income and expenses are recognised on the income statement at the time they are earned or occurred for the purpose of determining the operating result of the year;
- the directors made a prospective assessment of the company's capacity to set up an efficient economic complex intended to generate income for a foreseeable time, covering a period of at least twelve months from the reference reporting date. The assessment did not identify any significant uncertainties regarding this capacity;
- the identification of rights, obligations and conditions was based on the contractual terms of transactions and their comparison with the provisions of the accounting standards to ascertain the correctness of the entry or the write-off of balance sheet or income statement items;
- the assessment criteria did not change compared to the previous year in order to obtain a homogeneous measurement of the company's results over the years.

Valuation criteria

Intangible assets

Intangible assets are stated at acquisition or production cost, including directly related charges, while those received are shown at their expert appraisal value. They are shown net of amortisation, which is charged on a straight-line basis in accordance with their residual income-generating potential. More specifically, intangible assets are amortised using the same criteria used in the previous year.

Incorporation and extension costs	5 years
Patent rights and intellectual property rights	3-5 years
R&D costs	4 years
Trademarks	10-20 years
Consolidation difference	10 years
Goodwill	10 years
Other intangible assets	5 years or over the residual duration of the underlying contract

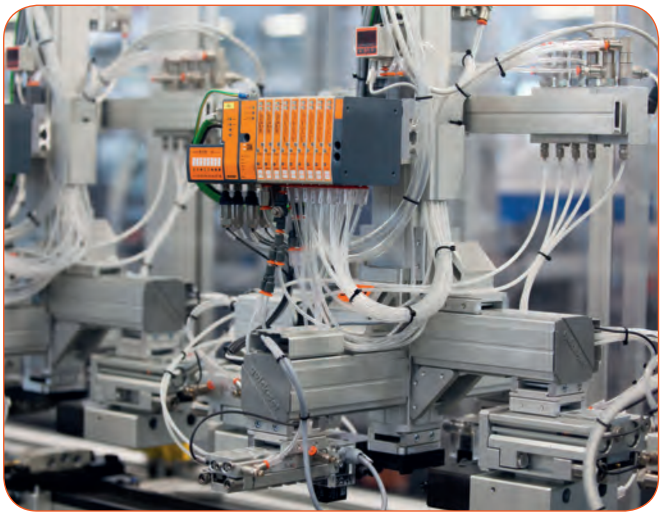
Tangible assets

Tangible assets are stated at acquisition or production cost, including directly related charges and any monetary revaluations made in accordance with the applicable law. Tangible assets received upon conferral are shown at their expert appraisal value. No value of tangible assets was found to be considerably below the carrying value.

Depreciation allowances recognised to the income statement have been calculated in a systematic, constant way on the basis of the rates deemed representative of the expected useful life of the assets.

The following table details the depreciation rates applied by the Group, which remained unchanged compared to the previous year.

Asset	Rate
Buildings	3%
Specific and generic plant	10%
Ordinary and automatic machinery	10%
Equipment	20% - 25%
Moulds	18%
Gauges / Tools	25%
Electronic machinery	20% - 25%
Ordinary office equipment	10% - 12%
Vehicles	25%
Means of transport	20%
Furniture	10% - 12%
Telephone systems	20%



Tangible assets acquired under finance lease contracts are stated in accordance with IAS 17, at the purchase cost paid by the lease company, depreciated in line with the rate applicable to each asset. On the other hand, the amount payable to the lease company equal to the principal amount of future lease instalments is recorded under "Borrowings from other lenders". Depreciation and financial charges are recognised to the income statement in place of the instalments paid.

At each reporting reference date the company assesses whether there are any signs of a permanent impairment of tangible and intangible assets. If such evidence exists, the carrying amount of assets is reduced to its recoverable value, intended as the greater of the fair value less any selling costs and its value-in-use.

If the recoverable value of each asset cannot be estimated, the company estimates the recoverable value of the cash-generating unit (CGU) to which that asset belongs. The value-in-use of an asset is calculated by determining the current value of expected future cash flows, by applying a discount rate that reflects the current market monetary valuation and the specific risks associated to the asset. A permanent impairment is recognised if the recoverable value is less than the net carrying amount.

Any write-downs due to impairment are reinstated if the reasons that justified it no longer exist. The reinstatement cannot exceed the value that would have been determined if no impairment had been recognised. No reinstatement is made on goodwill and deferred charges.

Financial assets

Financial assets, which mainly consist of securities and minority interests, are recognised at the acquisition cost, adjusted as required in the case of lower realisable value or permanent impairment losses.

Inventories

Inventories are valued at the lower of acquisition or production cost and realisable value based on market trends (i.e. the replacement value of raw materials or net market value of finished products). The cost of convenience goods was determined using the LIFO method with annual increases. The value of the closing stock of the subsidiaries that distribute Metal Work products is net of the contribution margin made by the parent company on the products in stock. The fiscal effect of this adjustment has been duly noted in the provision for "Prepaid taxes".

For internally-developed goods, the cost of manufacture includes the cost of raw materials, components, energy, direct labour costs and production and industrial overheads, for the portions allocated to products. For semi-finished products and work in progress, the cost of manufacture is determined on the basis of the production stage achieved.

Financial assets other than non-current assets

Securities listed under assets that are held as short-term investments are valued at the lower of purchase or subscription cost and the market value at the reporting date. The write-downs to adjust the cost to the market value are allocated to a provision for losses on securities, which is deducted from their carrying value.

Receivables

Receivables entered in the balance sheet reflect the right to demand, at an identified or identifiable maturity, fixed or determinable monetary amounts to be collected from customers or other entities. Receivables are carried at amortised cost, taking account of the time factor and estimated realisable value.

Discounts and rebates of a financial nature that did not contribute to determine the estimated realisable value as they could not be foreseen at the time of the initial recognition of the asset are recognised at the time of collection as financial charges.

The amortised cost method is not applied to cases where its effects are insignificant, generally for short-term receivables or when transaction costs, commissions paid by the parties and any other difference between initial value and expiration date of the credit are of little significance.

Trade receivables maturing at more than 12 months from initial recognition, bearing no interest or bearing contractual interests significantly different from the market interest rates, are initially recognised at the value calculated by discounting future cash flows at the market interest rate. Any difference between the initial recognised value of the so-determined receivable and the value at maturity must be recognised in the income statement as financial income over the duration of the credit, using the effective interest rate method.

With reference to the estimated realisation value, the carrying amount of receivables is adjusted through an impairment allowance to take into account of any probable impairment loss. In this regard, specific indicators, experience and any other useful element evidencing a probable impairment loss are taken into account. The provision for doubtful debts is estimated by analysing each receivable of significance and at a portfolio level for the remaining receivables, determining the losses that are expected on existing receivables at the reporting date.

Payables

Payables are liabilities of a determined and certain existence that represent obligations to pay fixed or determinable monetary amounts to lenders, suppliers and other entities. Payables originating from purchases of goods are recognised on completion of their production process and when the substantial transfer of title has occurred, taking as a benchmark the transfer of risks and benefits. Payables relating to services are recognised when the services are received, i.e. when the service has been provided. Payables relating to funding and those arising for reasons other than the acquisition of goods and services are recognised when the obligation for the company to pay the other party occurs. Payables for down payments from customers are recognised when the right to receive the down payment arises.

Payables are carried at amortised cost, taking account of the time factor.

Payables are initially recognised at the nominal value net of premiums, discounts and rebates that had been agreed contractually or granted and are subsequently valued at their nominal value plus interest expense calculated at the nominal interest rate, after deducting any principal sum and interest paid.

Discounts and rebates of a financial nature that did not contribute to determine the initial carrying value as they could not be foreseen at the time of the initial recognition of the liability are recognised at the time of payment as financial income.
Transaction costs, initial commissions paid and received, expense and issuance allowances and any other difference between the initial value and the nominal value at maturity are included in the calculation of the amortised cost, using the effective

interest method, according to which the interest rate is calculated at the time of initial recognition of the liability and maintained in subsequent assessments, except in the case of contractually floating interest rates that are adjusted to market rates.

In the event of early redemption, the difference between the residual carrying amount of the liability and the reimbursement is recognised in the income statement, under financial income/expense.

Trade payables maturing at more than 12 months from initial recognition, bearing no interest or bearing contractual interests significantly different from the market interest rates, and the associated costs are initially recognised at the value calculated by discounting future cash flows at the market interest rate. Any difference between the initial recognised value of the so-determined payable and the value at maturity is recognised in the income statement as financial expense over the duration of the debt, using the effective interest rate method.

The amortised cost method is not applied to cases where its effects are insignificant, generally for short-term payables or when transaction costs, commissions paid by the parties and any other difference between initial value and expiration date of the debt are of little significance.

Foreign currency items

Receivables and payables expressed in a foreign currency are recognised on the basis of the rate effective on the date on which the transactions were performed or, if not available, that of the previous day. Any exchange differences in collecting credits and paying debts in foreign currency are recognised in the income statement. At the end of the year, figures expressed in currencies other than the euro were adjusted directly on the reporting date as regards current assets and liabilities, and any differences were recognised in income items of a financial nature. In accordance with the provisions of legislative decree no. 6/2004, these positive or negative components are recognised in the income statement, under item c-17bis) – exchange gains (losses).

Forward transactions in a foreign currency are valued at the lesser of the cost paid and the market value on the reporting date; therefore, net losses are recognised in the income statement, whereas net gains are deferred and recorded when they are realised.

Cash and cash equivalents

They represent the positive balance of bank and postal accounts, cheques, cash and other monetary values on hand at the reporting date. Bank and postal accounts and cheques are valued at their estimated realisable value, cash on hand and revenue stamps at their nominal value, while foreign currency cash and cash equivalents are valued at the exchange rate prevailing at the reporting date.

Prepayments and accruals

Prepayments and accruals are valued according to the accrual principle, sharing common income and charges over two or more years according to the cost/income matching principle. At the end of each financial year, the Company verifies that the conditions that led to the recognition of the prepayment or accrual have been complied with and, if necessary, the required adjustments have been made.

Taxes

Following the tax reform introduced with legislative decree no. 344 of 12/12/2003, the parent company and Italian associates renewed their option for the consolidation national tax procedure, governed by article 117 and subsequent articles of Presidential Decree 917/86, preparing a suitable holding regulation subscribed by the parties. The option envisages that the parent company, Metal Fin S.p.A., operates as the consolidating company, whereas Metal Work S.p.A. and the Italian subsidiaries having the requisites provided by art. 120 of Presidential Decree 917/86 shall be treated as consolidated companies. The exercise of this option is correctly reflected in the accounting records.

Current income taxes for the year are calculated on the basis of a realistic estimate of the amount due in accordance with current tax laws.

The Regional Business Tax (IRAP) and other taxes on foreign companies' income continue to be recognised under "tax liabilities" if the amounts due exceed the advances paid, otherwise under "tax assets".

Deferred income taxes for the year are calculated on temporary differences between carrying equity values and the corresponding values recognised for tax purposes. Specifically, deferred taxes receivable are recognised under assets if the company is reasonably certain of their future recovery. Deferred tax liabilities are recognised in the provision for contingent liabilities and charges. Prepaid taxes receivable and deferred tax liabilities are not offset against each other.

Taxes on consolidated companies' shareholder equity reserves are recognised at the time when they are expected to be distributed, or used, and such distribution will give rise to a tax charge.

Provision for contingent liabilities and charges

The provision for contingent liabilities and charges covers certain or probable losses or payables of a determined nature, whose amount or date of occurrence is undetermined at the reporting date.

Employee severance indemnity

This provision encompasses the indemnities accrued in favour of employees as at 31.12.2017, taking account of the revaluation for the year. The allowances allocated to the provision are calculated on the basis of the seniority matured by each employee on the reporting date, in compliance with the applicable laws and labour agreements and regulations, including supplementary social security contributions. Taxes paid pursuant to Act no. 662/96 and Act no. 47/2002 are recognised in deduction of said provision.

Financial derivatives

Financial derivatives are valued at fair value at each reporting date and are classified in the balance sheet under specific items in current assets or non-current assets (for hedging non-current assets or liabilities falling due at more than 12 months) in the event of positive fair value, or in provisions for contingent liabilities and charges in the event of negative fair value.

Compared to the previous year, changes in the fair value of derivatives that do not meet the requirements to qualify as hedging transactions are recognised in specific income statement items. Hedging transactions put in place by the Company relate to financial derivatives that have characteristics similar to those of the hedged element and the financial derivative is normally stipulated at market conditions on the date of initial recognition. The accounting model envisaged for so-called simple hedging is hence applied.

More specifically, in the case of cash flow hedging, changes in the fair value of the hedging instrument are fully recognised in the appropriate equity reserve, without the need to calculate how much of the hedge is ineffective and is to be recognised in the income statement. Amounts (gains or losses) accumulated in the equity reserve are reclassified in the income statement in the same year or in the years on which future hedged cash flows have an effect on the operating result.

Income and charges

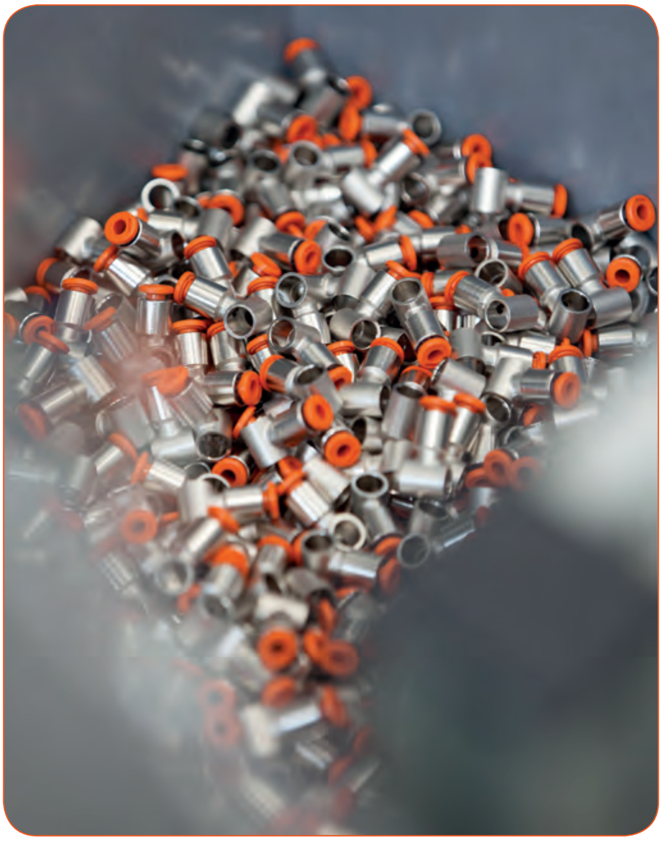
These are calculated according to the principles of prudence and accrual, taking account of all prepayments and accruals.

Income and revenues, costs and charges are stated net of returns, discounts, rebates and allowances, and net of taxes directly related to the sale of products and the provision of services.

Revenues from sales are recorded upon the transfer of title, which generally coincides with delivery or shipment. Revenues from services are recognised when the service is actually provided.

Translation of financial statements of foreign consolidated companies

The financial statements of foreign consolidated companies are translated into euro using the current exchange rate method. Assets and liabilities are thus converted at the exchange rate prevailing at the reporting date, shareholders' equity at the historical exchange rate and income statement items at the average annual exchange rate. Exchange rate differences are accounted for in the "Translation reserve" under shareholders' equity. This is also reflected in the shareholders' equity of the consolidated companies. The following table shows the average and year-end exchange rates used to convert foreign currencies.



Currency	average rate in 2018	rate as at 31.12.18	average rate in 2017	rate as at 31.12.17
Sek	10,26	10,25	9,64	9,84
Dkk	7,45	7,47	7,44	7,44
Gbp	0,88	0,89	0,88	0,89
US $	1,18	1,15	1,13	1,20
Bath	0,03	37,05	38,30	39,12
AUD	0,63	1,66	1,47	1,53
Czkr	25,65	25,72	26,33	25,54
Rublo	74,04	79,72	65,94	69,39
Zloty	4,26	4,30	4,26	4,15
Ringgit	4,76	4,73	4,85	4,85
CHF	1,155	1,127	1,110	1,170
Real	4,31	4,44	3,61	3,97
Hryvnia	32,11	31,74	30,02	33,73
Rupia Indon.	16.803	16.500	15.118	16.239
Rand Sud. Africa	15,62	16,46	15,05	14,81
Leu	4,65	4,66	4,57	4,66
Rupia India	80,73	79,79	73,53	76,61
Renminbi	7,81	7,8751	7,63	7,81

Disclosure of consolidated financial statements' specific items and relevant classification

ASSETS:

B I) Intangible assets:

Intangible assets amounted to 4,127 thousand euro (2016: 4,480 thousand euro). The following table shows the movements during the year expressed in thousands of euro.

Items	Situation in 2017			Changes during the year					
	Purchase Cost and revaluation	Accumu-lated depreciation	Net Openinig value	Net Openinig value	Acquisitions	Other mo-vements	Exchange differences	Ammortisa-tion	Net Closing value
Incorporation costs	29	10	-	19	4	-	6	12	17
Development costs	9.101	7.682	-	1.419	401	23	1	587	1.257
Patent rights and intellectual property rights	7.572	7.214	-	358	86	310	(1)	72	681
Trade marks and licences	4.495	3.003	-	1.492	764	(337)	(7)	726	1.186
Goodwill	7.493	7.489	-	4	-	-	-	4	-
Consolidation differences	6.019	5.114	-	905	-	-	-	225	680
Work in progress and advances	2	-	-	2	-	-	-	-	2
Others	2.557	2.276	-	281	349	-	(7)	319	304
	37.268	32.788	-	4.480	1.604	(4)	(8)	1.945	4.127

Development costs relate to costs sustained for the development of new products, which are expected to give positive results in forthcoming years.

Investments sustained in 2018 in Patent rights and intellectual property rights, totalling 764 thousand euro (2016: 330 thousand euro), include ones for the implementation of computer software for handling company processes, as part of an extensive IT restructuring of the entire Group.

The fully amortised Goodwill, acquired under extraordinary operations, (2017: 4 thousand euro), was recognised by the Corato-based P Service S.r.l. following the takeover of PFI S.r.l.'s industrial line of business, and by the San Pietro Mosezzo-based P Service S.r.l. in connection with the merger by incorporation of the Vigevano-based P Service S.r.l. As at 31/21/2018, the resulting goodwill at the stage of first consolidation of subsidiaries (consolidation difference) amounted to 680 thousand euro (2017: 905 thousand euro).

The table below – with figures expressed in thousands of euro – provides a temporal stratification of the net carrying value of the consolidation difference.

	from 2010 acquisizioni	from 2011 acquisizioni	from 2012 acquisizioni	from 2013 acquisizioni	from 2014 acquisizioni	from 2017 acquisizioni	Total
P Service S.r.l. con sede in Cremona	-	-	-	16	19	-	-
Spmc S.r.l.	-	-	-	47	-	-	-
Metal Work Polska sp Z.o.o.	-	-	128	-	-	-	-
Metal Work Sweden	7	26	-	-	-	-	-
Metal Work Deutschland	11	-	-	-	-	37	-
Metal Work Finland	10	-	-	-	-	46	-
P Service S.r.l. con sede in Rimini	-	-	-	-	-	-	69
P Service S.r.l. con sede in Oggiono	-	-	-	-	-	-	23
P Service S.r.l. con sede in Treviso	-	-	-	-	-	68	-
P Service S.r.l. con sede in Brescia		-	-	-	-	185	16
TOTAL	26	128	63	19	336	108	680

The increase in Other intangible assets is mainly related to upgrades and improvements on leased assets.

B II) Tangible assets:

Tangible assets came to 92,796 thousand euro (2017: 79,080 thousand euro). Investments in tangible assets in 2018 totalled 23,718 thousand euro, including down payments.

Items	Situation in 2017			Changes during the year						
	Purchase cost And revaluation	Accumulated deprecia-tion	Net opening value	Acquisi-tions	Divest-ments	Utilisation Of prov.	Other mo-vements	Exchange differences	Deprecia-tion	Net Closing value
Land and buildings	59.389	12.582	46.807	8.696	-	-	-	8	1.991	53.519
Plant and machinery	77.762	55.213	22.547	10.377	694	700	40	(14)	4.276	28.680
Industrial and commercial equipment	39.018	33.299	5.719	3.093	462	334	-	7	2.293	6.397
Other assets	10.600	8.486	2.114	944	494	484	(4)	(11)	802	2.230
Work in progress and advances	1.893	-	1.893	608	18	-	(526)	14	-	1.970
	188.662	109.580	79.080	23.718	1.668	1.518	(490)	4	9.362	92.796

Investments in land and buildings relate to the acquisition by completion Metal Work S.p.A. of the industrial premises adjacent to the company in Concesio and the construction by the Thai subsidiary of a new industrial building.

Investments in Plant and machinery, amounting to 10,377 thousand euro, mainly relate to the investment made by Metal Work S.p.A. in technological innovation under the Industry 4.0 scheme.

The investment in Industrial and commercial equipment, amounting to 3,093 thousand euro, mainly relates to dies and moulds (913 thousand euro) and industrial equipment (1,449 thousand euro) purchased by Metal Work S.p.A.

Other assets increased by 116 thousand euro compared to the previous year.

Work in progress and down payments includes advances paid by Metal Work S.p.A. as down payments for the purchase of machinery and equipment.

At the reporting date, tangible assets were not burdened by any mortgages or liens.

Assets purchased under financial lease agreements, though redeemed, were recognised in accordance with international accounting standard IAS 17. A breakdown of owned and leased assets is given in the table below.

	Gross value	Accumulated depreciation	Net value	Depreciation
Own property	164.155	105.837	58.317	6.715
Leased property				
buildings	34.898	6.679	28.220	1.403
machinery	9.691	5.401	4.290	1.243
Total	208.744	117.917	90.826	9.362

B III) Financial assets:

Equity interests in subsidiaries

Equity interests in subsidiaries, amounting to 181 thousand euro (2017: nil), relate to the stake in DUEBI S.r.l., which was taken over in the second half of the year.

Company name	Opening value	Acquisition	Closing value
DUEBI S.r.l.	-	181	181

Equity interests in associates

Equity interests in associates, amounting to 1,042 thousand euro (2017: 1,003 thousand euro) relate to the stake in Signal S.r.l.

Company name	Opening value	Acquisition	Equity evaluation	Closing value
Signal S.r.l.	1.003	-	39	1.042

Equity interest in other companies

Equity interests in other companies amounted to 38 thousand euro (2017: 8 thousand euro), with an increase of 30 thousand euro on the previous year.

Company name	Opening value	Acquisitions	Divestments	Closing value
Equity intest in other companies	8	30	-	38
Total	8	30	-	38

Accounts receivable

Other non-current receivables, totalling 1,551 thousand euro, with an increase of 479 thousand euro compared to the 31/12/2017 figure, are all collectable after the following financial year and include amounts receivable for investments of end-of-mandate indemnities covered by special insurance policies for some of the Group's delegated directors.

	31/12/2018	31/12/2017	Change
Short-term receivables from others	423	0	423
Long-term receivables from others	1.128	1.072	56
Total	1.551	1.072	479

Other securities

The item Other securities amounts to 217 thousand euro (2017: 238 thousand euro) and mainly consists of the residue from a zero-coupon bond loan.

	31/12/2018	31/12/2017	Change
Other securities	217	238	(21)
Total	217	238	(21)

Derivatives assets

Derivatives assets are carried at 462 thousand euro (2016: 538 thousand euro) and relate to cap contracts hedging the risk of rate increases resulting from loan and financial lease transactions.

	31/12/2018	31/12/2017	Change
Derivatives assets	462	538	(76)
Total	462	538	(76)

C) I) Closing inventory:

Closing inventory accounts for 42,909 thousand euro (2017: 39,638 thousand euro), up 3,271 thousand euro on the previous year, due to the increase in 2018 sales.

	2018	2017	Change
Raw materials, supplies and consumables	6.339	6.407	(68)
Work in progress and semi-finished products	8.132	7.459	673
Finished products and goods	28.176	25.513	2.663
Down payments	262	259	3
Total	42.909	39.638	3.271

Closing inventory does not include the portion of profit resulting from intercompany transactions not yet realised at the reporting date.

C) II) Receivables:

Trade receivables

Trade receivables of a commercial nature amounted to 53,221 thousand euro (2016: 49,850 thousand euro) and were entered under current assets at their nominal value, adjusted by a corresponding provision for bad debts, that was established to adjust them to their estimated realizable value.

	31/12/2018	31/12/2017	Change
Trade receivables less than 12 monts	53.221	49.850	3.371
Trade receivables over 12 monts	0	0	0
Total	53.221	49.850	3.371

This item increased by 3,371 thousand euro on the previous year, as a result of an increase in sales. The Group had no significant amounts receivable referring to one or a few customers. There were no receivables collectable after 5 years.

Accounts receivable from parent companies

Receivables from parent companies totalled 4,936 thousand euro (2016: 2,811 thousand euro) and relate to transfers from the consolidated statutory financial statements of Italian subsidiaries to Metal Work Holding S.p.A.

	31/12/2018	31/12/2017	Change
Accounts receivable from parent companies	4.936	2.811	2.125
Accounts receivable from parent companies over 12 monts	0	0	0
Total	4.936	2.811	2.125

Tax assets

This item amounted to 5,666 thousand euro (2016: 5,108 thousand euro) and comprised amounts receivable from the Inland Revenue. It also includes input VAT and credits relating to taxes levied on the group companies.

	31/12/2018	31/12/2017	Change
Tax assets	5.666	5.108	558
Total	5.666	5.108	558

Prepaid taxes

Prepaid taxes relates to temporary differences in the determination of income according to fiscal and statutory rules. Details are shown in the table below.

	31/12/2018	31/12/2017	Change
Prepaid taxes	1.268	1.047	221
Prepaid taxes over 12 months	2.471	2.233	238
Total	3.739	3.280	459

Tax losses to be brought forward includes sums allocated to cover losses incurred by some foreign subsidiaries.

	31/12/2018	31/12/2017	Change
Securities impairment losses	201	276	(75)
Tax impairment losses to be brought forward	2.428	2.160	268
Other income components deductible in subs. years	1.110	844	266
Total	3.739	3.280	459

Accounts receivable from others

Accounts receivable from others amounted to 1,821 thousand euro (2017: 1,922 thousand euro).

	31/12/2018	31/12/2017	Change
Accounts receivable from others	1.821	1.922	(101)
Total	1.821	1.922	(101)

C) III) Financial assets other than non-current assets

This item amounted to 5,492 thousand euro (2017: 7,366 thousand euro) and relates to temporary utilisation of cash in hand, valued at the average prices quoted in December.

	31/12/2018	31/12/2017	Change
Other securities	5.492	7.366	(1.874)
Total	5.492	7.366	(1.874)

C) IV) Cash and cash equivalents

Cash and cash equivalents relates to bank deposits, cash on hand and other liquid resources at the reporting date for a total amount of 5,530 thousand euro (2017: 6,627 thousand euro).

	31/12/2018	31/12/2017	Change
Bank and post office deposits	5.463	6.585	(1.122)
Cash and cash on hands	67	42	25
Total	5.530	6.627	(1.097)

D) Prepayments and accrued income:

Prepayments and accrued income are calculated on an accrual basis in order to allocate the portions of income and charges to the exact period to which they refer.

	31/12/2018	31/12/2017	Change
Prepaid expenses	345	374	(29)
Accrued income	520	534	(14)
Total	865	908	(43)

LIABILITIES:

A) Consolidated shareholders' equity:

The Group's consolidated shareholders' equity totalled 77,579 thousand euro (2017: 70,246 thousand euro). A breakdown is given in the table below.

	Shareholders' equity	31/12/2018	31/12/2017
I	Share capital	21.000	21.000
II	Share premium reserve	19.324	19.324
IV	Legal reserve	2.200	1.800
VII	Other reserves		
	Currency translation reserves	(1.212)	(1.071)
	Consolidation reserves	3.145	3.285
	Other reserves	8.332	3.792
VIII	a - Profit (loss) brough forward	14.236	12.318
IX	Group's profit (loss) for the year	10.554	9.798
	GROUP'S TOTAL SHAREHOLDERS' EQUITY	**77.579**	**70.246**
	Minority interest's profit (loss) for the year	1.078	1.001
	Minority interest's equity and reserves	4.379	4.024
	TOTAL MINORITY INTEREST'S EQUITY	**5.457**	**5.025**
	TOTAL CONSOLIDATED EQUITY	**83.036**	**75.271**

Movements in the Group's consolidated equity are detailed in the table below.

	Share capital	Share premium reserve	Legal reserve	Extraordinary reserve	Unavailable reserve	Consolidation reserve	Conversion reserve	Unall. Profits	Operating result	Total
Group's shareh.' equity as at 31/12/2016	**21.000**	**19.324**	**1.600**	**3.171**	**55**	**3.524**	**(433)**	**9.579**	**6.236**	**64.056**
Allocation of previous year's profit			200	3.264	32			2.740	(6.236)	
- distribution of reserves				(2.730)						(2.730)
- currency exchange effect							(638)			(638)
- change in the consolidation scope and others						(240)				(240)
Operating result for the year									9.798	9.798
Group's shareh.' equity as at 31/12/2017	**21.000**	**19.324**	**1.800**	**3.705**	**87**	**3.284**	**(1.071)**	**12.319**	**9.798**	**70.246**
Allocation of previous year's profit			400	7.480				1.918	(9.798)	
- distribution of reserves				(2.940)						(2.940)
- other movements				87	(87)					
- currency exchange effect							(142)			(142)
- change in the consolidation scope and others						(139)				(139)
Operating result for the year									10.554	10.554
Group's shareh.' equity as at 31/12/2018	**21.000**	**19.324**	**2.200**	**8.332**		**3.145**	**(1.213)**	**14.237**	**10.554**	**77.579**

Other changes in shareholders' equity relates to differences in the scope of consolidation.

Movements in the share capital and reserves of minority interests are detailed in the table below.

	Share capital and reserves	Result for the year	Total
Minority interests' equity as at 31/12/2017	**4.024**	**1.001**	**5.025**
Allocation of the 2016 result	1.001	(1.001)	
- Distribution of reserves	(776)		(776)
- other changes	130		130
2017 operating result		1.078	1.078
Minority interests' equity as at 31/12/2018	4.379	1.078	5.457

The following points should be noted with regard to movements in shareholders' equity.

- The share capital amounts to 21,000 thousand euro and is made up of ordinary shares of the nominal value of € 1 each.
- The legal reserve amounts to 2,200 thousand euro and movements were related to the allocation of the parent company's previous result.
- The extraordinary reserve decreased overall by 2,940 thousand euro, due to profit distribution to shareholders and increased by 7,567 thousand euro due to the allocation of the parent company's previous result.

The table below shows the reconciliation between the shareholders' equity and result for the year achieved by the parent company and the shareholders' equity and result for the year appearing in the consolidated financial statements.

	Shareholders' equity	of which result for the year
Parent company's shareholders' equity and result	58.907	8.051
Adjustments following adoption of IAS 17 for the parent company	4.552	1094
Parent company's adjusted shareholders' equity	**63.459**	**9.145**
Write-off of consolidated investment carrying amount		
Consolidation effect for the subsidiaries	10.308	6.800
Goodwill	681	(225)
Write-off of the effects of intercompany transactions		
Infra-group profits after taxation	(3.857)	(317)
Write-off of previous impairment losses/ reinstatements	6.988	320
Dividends received by associates		(5.169)
Shareholders' equity and result for the year as shown in the consolidated financial statements	77.579	10.554

B) Provisions for contingent liabilities and charges:

Liabilities include the following provisions for contingent liabilities and charges, estimated on the basis of losses and charges of a specific nature and of certain or probable existence.

	31/12/18	31/12/17	Change
Provision for end-of-mandate indemnity and similar benefits	419	547	(128)
Provision for deferred taxes	1.506	1.181	325
Other provisions for risks	465	646	(181)
Total provisions for contingencies and liabilities	2.390	2.374	16

Provision for end-of-mandate indemnity and similar benefits

This provision only refers to the end-of-mandate indemnity for the directors of some of the companies in the Group and came to 419 thousand euro.

Provision for deferred taxes

This provision, which amounted to 1,506 thousand euro, contains deferred taxes for the year relating to temporary differences between the statutory and the fiscal value attributed to the same item.

Other provisions

This item, totalling 465 thousand euro (2016: 646 thousand euro), includes a sum allocated to cover expected charges and losses not correlated with specific items under assets.

C) Provision for employee leaving indemnity

This provision, totalling 5,980 thousand euro (2016: 5,729 thousand euro), complies with current contract obligations and applicable labour regulations, and reflects the overall debt accruing for employees, net of tax paid in advance.

	31/12/18	31/12/17	Change
Prov. for employee leaving indemnity	5.980	5.729	251
Total	5.980	5.729	251

D) Accounts payable:

Bank borrowings

Details of bank borrowings are shown in the following table.

Items	Value as at 31/12/2018	Value as at 31/12/2017	Change during
Short-term borrowings from banks	31.531	27.351	
Long-term borrowings from banks			
- less than 12 monts	13.565	9.845	3.720
- over 12 monts	13.023	11.130	1.893
Total	58.119	48.326	9.793

Bank borrowings amounted to 58,119 thousand euro (2016: 48,323 thousand euro), of which 45,106 thousand euro falling due by the end of 2019 and 13,023 thousand euro after the end of 2019.
A breakdown of long/short-term borrowings is given in the table below.

Bank loans	Value as at 31/12/2017	New payments	Repayments	Value as at 31/12/2018
Mediocredito Italiano loan - Metal Work S.p.A.	2.222		1.111	1.111
SACE loan - Metal Work S.p.A.	450		450	-
Unicredit loans - Metal Work S.p.A.	7.068	2.000	2.610	6.458
Banco Popolare BPM loans - Metal Work S.p.A.	3.444	5.000	2.819	5.625
Popolare di Bergamo loan - Metal Work S.p.A.	2.266		1.124	1.142
BNL loan - Metal Work S.p.A.	556	4.525	556	4.525
Metal Work S.p.A. Central Cash Pool loan	-	5.000	-	5.000
ICCREA loan - Metal Work S.p.A.	2.045		1.015	1.030
Credem loan - Metal Work S.p.A.	1.500		372	1.128
Banco Popolare loan - P. Service S.r.l. - Brescia	375		250	125
Banco Popolare loan - Alfa Meccanica S.r.l.	427		98	329
Loan to Metal Work Nederland	250		135	115
Banco di Brescia loan - Eurofit S.r.l.	63		63	-
Other minor loans	309		309	-
Total	20.975	16.525	10.912	26.588

Long-term financial loans are not guaranteed by mortgages or lien on assets owned by the company.

The new BNL loan relates to a subsidized loan under the "Innovation Line" programme paid by Finlombarda.

No bank loans falling due beyond 5 years are recorded in the accounts.

Borrowings from other lenders

Borrowings from other lenders, totalling 17,052 thousand euro (2017: 18,725 thousand euro), comprises residual payables to leasing companies, accounted for in accordance with IAS 17. The movements are detailed in the table below.

Borrowings from other lenders	Value as at 31/12/2017	Repayment	New payments	Value as at 31/12/2018	of which falling due after 2019
Property on instrumental leasing	18.725	3.776	2.103	17.052	14.430
Total	18.725	3.776	2.103	17.052	14.430

Borrowings relating to lease transactions falling due beyond 2019 amount to 14,430 thousand euro, of which 9,329 thousand euro falling due beyond 5 years.

For an analysis of the net financial position, please refer to the business report on the reclassified balance sheet.

Down payments

This item amounted to 309 thousand euro (2017: 371 thousand euro), with a decrease of 62 thousand euro on the previous year.

Item	Value as at 31/12/2018	Value as at 31/12/2017	Change during the year
Trade payables less than 12 months	309	371	(62)
Trade payables over 12 months	-	-	-
Total	309	371	(62)

Trade payables

This item, which amounted to 38,515 thousand euro (2017: 38,509 thousand euro), represents debts connected with the core business. There were no significant amounts owed to a single supplier or a small group of suppliers.

Item	Value as at 31/12/2018	Value as at 31/12/2017	Change during the year
Trade payables less than 12 months	38.515	38.509	6
Trade payables over 12 months	-	-	-
Total	38.515	38.509	6

Payables to associates

This item, which amounted to 551 thousand euro (2017: 514 thousand euro), relates to liabilities connected with supplies received from Signal S.r.l., in which the Company acquired the equity interest in March 2017.

Item	Value as at 31/12/2018	Value as at 31/12/2017	Change during the year
Payables to associates less than 12 months	551	514	37
Payables to associates over 12 months	-	-	-
Total	551	514	37

Payables to parent companies

This item, which amounted to 2,532 thousand euro (2017: 262 thousand euro), relates to transfers deriving from tax consolidation and business transactions made by the Group companies with Metal Work Holding S.p.A..

Item	Value as at 31/12/2018	Value as at 31/12/2017	Change during the year
Payables to parent companies less than 12 months	2.532	262	2.270
Payables to parent companies over 12 months	-	-	-
Total	2.532	262	2.270

Tax liabilities

This item, which amounted to 4,885 thousand euro (2017: 3,441 thousand euro), relates to the debit position with the Inland Revenue for income taxes, VAT and withholding tax payable as a withholding agent.

Item	Value as at 31/12/2018	Value as at 31/12/2017	Change during the year
Tax liabilities less than 12 months	4.885	3.441	1.444
Tax liabilities over 12 months	-	-	-
Total	4.885	3.441	1.444

Payables to social security institutes

Social security payables, totalling 3,128 thousand euro (2017: 2,850 thousand euro), relates to sums due to the social security and welfare institutes following application of the applicable law for all employees.

Item	Value as at 31/12/2018	Value as at 31/12/2017	Change during the year
Social security contributions less then 12 months	3.128	2.850	278
Social security contributions over 12 months	-	-	-
Total	3.128	2.850	278

Sundry payables

Item	Value as at 31/12/2018	Value as at 31/12/2017	Change during the year
Sundry payables less than 12 months	6.395	5.665	730
Sundry payables over 12 months	218	405	(187)
Total	6.613	6.070	543

Sundry payables, which amounted to 6,613 thousand euro (2017: 6,070 thousand euro), mainly consist of sums owed to employees in connection with remuneration accrued and not enjoyed on the closing date, plus the sums to be paid to third parties following the purchase of interests in subsidiaries, according to the relevant purchase contracts. Long-term payables account for 218 thousand euro and relates to the acquisition of minority interests.

E) Deferred income and accrued expenses

This item was calculated on an accrual basis in order to allocate the portions of income and expenses to the exact period to which they refer, and amounted to 1,481 thousand euro (2017: 1,487 thousand euro).

Item	2018	2017	Change during the year
Deferred income	798	691	107
Accrued expenses	683	796	(113)
Total commitments and guarantees	1.481	1.487	(6)

Deferred income came to 798 thousand euro (2017: 691 thousand euro) and mainly relates to financial expenses accrued on debt positions at the end of the year.

Accrued expenses came to 798 thousand euro (2017: 796 thousand euro) and relates to tax assets for investments made by the parent company under Law no. 190/2014.

Commitments

Guarantees issued

As at 31/12/2018, the company had no commitments involving Metal Work Holding S.p.A. (2017: 23,400 thousand euro).

Analysis of the Income Statement items

Since the positive and negative components in the Income Statement have been presented in analytical form and the balance sheet has already been commented on, this section will only examine the items specified in art. 38 of Legislative Decree no. 127/91 covering explanatory notes to the consolidated financial statements.

Revenues from sales and services, art. 38, point i)

Overall sales amounted to 193,244 thousand euro (2017:180,062 thousand euro) to which 2,017 thousand euro (2017:2,018 thousand euro) other revenues and income are to be added.

Revenues by geographical area are detailed in the business report.

Financial charges, art. 38, point g)

Financial charges amounted to 1,537 thousand euro (2017: 1,510 thousand euro), of which 432 thousand euro deriving from the application of OIC 17, which covers the entry of leased assets using the financial method. The table below provides a breakdown of financial charges.

Financial charges	2018	2017
Loan interests payable	277	292
Financial expenses on lease agreements	432	455
Financial expenses of open accounts	442	351
Financial expenses for export down payments	55	51
Others	331	361
Total	1.537	1.510

Adjustments to the value of financial assets

This item was in the negative at 757 thousand euro (2017: -270 thousand euro) and relates to the valuation of securities entered under current assets for the companies included in the scope of consolidation.

In accordance with art. 38 of Italian legislative decree no. 127/91 points g) et seq., it is stated that:

- there are no financial charges recognised under assets;
- the average number of employees is detailed in the table below.

Categories	2018	2017	average 2018	average 2017
Executives	18	16	18	17
White collars	619	589	606	570
Middle managers	7	7	7	8
Blue collars	502	421	503	413
Apprentices	5	5	5	5
Total	1.151	1.038	1.139	1.013

During the year, the Group hired on average 54 people through employment agencies.

In 2018, the parent company paid fees to the board of directors for the amount of 859 thousand euro, 35 thousand euro to the board of auditors and 35 thousand euro to the auditing firm.

Taxes for the year

Taxes for the year came to 4,294 thousand euro, compared to 4,255 thousand euro in 2017. A breakdown is given in the table below.

Item in the income statement	2018	2017	Change
Current taxes	4.228	3.112	1.116
Prepaid or deferred taxes	66	1.143	(1.077)
total taxes for the year	4.294	4.255	39

Transactions with related parties

Metal Work S.p.A. has contracted out assembly activities to two small businesses, whose owners have family ties with the Chair-woman of the Board of Directors. Operations in 2018 took place under normal market conditions and the turnover is shown in the table below.

	2018	2017	Change
Montaggi Industriali di Burgio Rosa & C. S.n.c.	1.008	1.020	(12)
Lu.de.ma. di Luca Dell'Anna	321	355	(34)
Eredi Cavagna di Maria Bonatti & C.	0	54	(54)
Total	1.329	1.429	(100)

Disclosure pursuant to Act 124 of 4 August 2017

In compliance with the transparency and publicity requirements under Act no. 124 of 4 August 2017, arat. 1, subsections 125-129, it is noted that during the 2018 financial year, the parent Metal Work S.p.A. received operating grants of a total amount of 442,064 Euro, as detailed in the table below.

Payer	tax code - VAT no.	grant	reason
Fondimpresa - Via della Ferratella in Laterano, 33 - Rome	97278470584	6.300	training plan
Lombardy Government - Directorate for Research, Innovation, University, Export and Internationalisation, Piazza Città di Lomabardia, 1 - 20124 Milan	80050050154	196.916	increase in production capacity and efficiency and adaptation to Industry 4.0
Gestore dei Servizi Energetici GSE S.p.A. Viale Maresciallo Pilsudski, 92 - Rome	5754381001	238.848	energy generated by photovoltaic systms
Total		442.064	

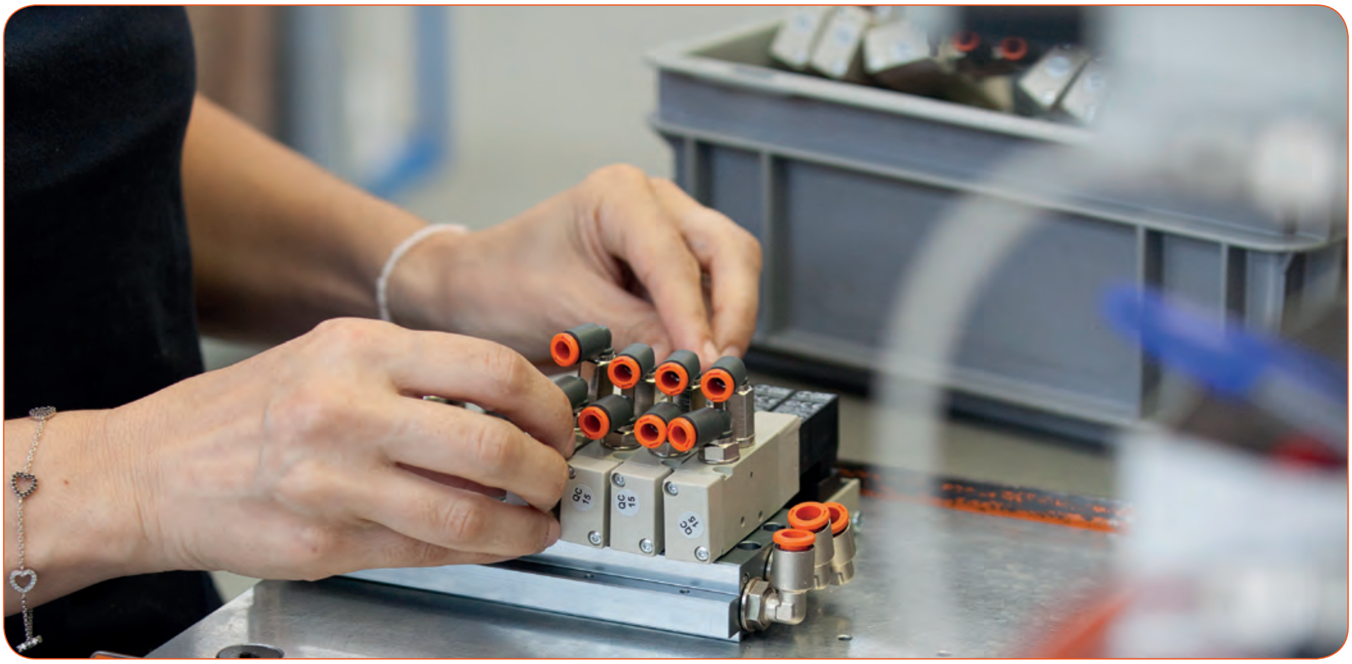
The parent Metal Work S.p.A. and the subsidiary SPMC S.r.l. received 442,000 euro and 42,000 euro, respectively, as a tax credit for R&D activities, established by decree law no. 145, art. 3, of 2013 (Research & Development act 190/2014).

Management and coordination

In compliance with the regulations on "management and coordination of companies", governed by arts. 2497-bis and 2497-septies of the Italian Civil Code, a summary of the key figures (in thousands of euro) of the ordinary 2017 financial statements of Metal Work Holding S.p.A. is given below.

BALANCE SHEET	2017
ASSETS	
Non-current assets	51.142
Current assets	2.486
Prepayments and accrued income	7
Total Assets	**53.635**
LIABILITIES	
Shareholders' equity	38.582
Provision for contingent charges and liabilities	267
Provision for employees' severance pay	439
Debts and other liabilities	14.342
Accruals and defferent income	5
Total Liabilities	**53.635**

INCOME STATEMENT	2017
ASSETS	
A) Production value	2.088
B) Production costs	2.203
C) Financial income and expenses	2.507
D) Adjustements to the value of financial assets	(2.366)
Income tax	(13)
Net profit (loss) for the year	**13**



Cash flow statement

The statement of sources and utilisations highlights that:

- current asset cash flows generated by current management came to 16,736 thousand euro, compared to 16,448 thousand euro in the previous year;
- financial cash flow, prior to changes in net current assets, amounted to 28,953 thousand euro, compared to 27,419 thousand euro in the previous year;
- financial cash flow, excluding current assets, amounted to 21,224 thousand euro, compared to 27,826 thousand euro in the previous year;
- income management cash flow came to 18,067 thousand euro, compared to 21,224 thousand euro in 2017;
- investments in technical and financial assets totalled 24,184 thousand euro (2017: 10,899 thousand euro);
- reserves for 2,940 thousand euro were distributed (2017: 2,730 thousand euro);
- financing activity involved the utilisation of 5,020 thousand euro, compared to 10,794 thousand euro in the previous year;
- liquid assets increased from 6,627 thousand euro to 5,530 thousand euro, with a positive change of 1,097 thousand euro.

Events of significance occurring after the reporting date

To date, no events have occurred after 31 December 2018 of such a significance as to render the current financial position substantially different from that resulting from the balance sheet on that date or to require adjustments or supplementary notes to the financial statements.

In our opinion, the above illustration gives a true and fair representation of the economic, financial and equity situation of the Metal Work Group.

Concesio, 28 maggio 2019

The Board of Directors

Chairwoman	Sig.ra Donatina Dell'Anna
Vice-Chairman	Sig. Riccardo Cavagna
Board member	Sig. Gianpietro Gamba
Board member	Sig. Daniele Marconi
Board member	Sig. Valentino Pellenghi
Board member	Sig. Fausto Rodella

BOARD OF AUDITORS' REPORT

METAL WORK S.P.A.
REGISTERED OFFICE AT 5-7-9, VIA SEGNI, CONCESIO (BS)
SHARE CAPITAL € 21,000,000 FULLY PAID-UP
BRESCIA TRADE REGISTER NO. 03472820178

BUSINESS AND ADMINISTRATION INDEX (REA) NO. 404497

BOARD OF AUDITORS' REPORT PURSUANT TO ARTICLE 2429, SUBSECTION 2, OF THE ITALIAN CIVIL CODE

To the shareholders.

As required by art. 2429, subsection two, of the Civil Code, the Board of Auditors reports to the Board of Directors on the supervisory activities conducted during the financial year that ended on 31 December 2018 in fulfilment of the obligations provided by law, in compliance with the law and the memorandum of association, and with the principles of sound administration, the adequacy of the organisational structure of the company, within the scope of our responsibilities, the adequacy and effectiveness of the internal control and risk management system, the administrative and accounting system, its reliability to reflect the management facts correctly, as well as the procedures for effective implementation of corporate governance rules.

It should be noted that the statutory audit was assigned to the independent auditors KPMG S.p.A. by resolution passed at the annual shareholders' meeting on 27.06.2016, pursuant to art. 37 of Italian Legislative Decree no. 39/2010 for the period 2016-2018.

For further details, please refer to the business report issued by independent auditors KPMG S.p.A., issued on 12 June 2019, which did not highlight any remarks or mandatory disclosure references.

Activity performed

During the year which ended on 31 December 2018, we performed our checks and assessments in compliance with the law and the Rules of Behaviour for Boards of Auditors, recommended by the National Institute of Chartered Accounts.

During the 2018 financial year, the Board of Auditors attended the meetings held by the Board of Directors and the General Assemblies, and it ascertained that they were convened in accordance with the laws and the memorandum of association in all respects, including the correct use of powers granted to directors.

During the year, the Board of Directors met ten times; the General Assembly was convened four times in general ordinary meetings. The Board of Auditors met seven times.

With reference to our oversight activities, carried out in accordance with art. 2403, subsection 1, of the Italian Civil Code, we wish to highlight the following points:

- we ensured compliance with the law and the Memorandum of Association and observance of the principles of correct administration;

- we attended general assemblies and board meetings, which took place in accordance with the applicable statutory and legislative provisions; therefore we can provide reasonable assurance that the resolutions passed comply with the law and the Articles of Association;

- we appreciated the work performed by the administrative body as not manifestly imprudent or risky or in potential conflict of interest or such as to affect the integrity of corporate assets;

- we obtained from the directors details of the general business situation and its foreseeable evolution and of significant operations in terms of extent or features effected by the company and its subsidiaries; therefore we can provide reasonable assurance that their actions comply with the law and the Articles of Association and were not manifestly imprudent, hasty, potentially producing conflicts of interest, or in contrast with general assembly resolutions, or such as to compromise the integrity of the corporate assets;

- to our knowledge, the company did not carry out atypical or unusual transactions with any of the Metal Work group companies, correlated parties or third parties; more specifically, the transactions effected with companies belonging to the Metal Work Group are of a commercial or financial nature, and were carried out in accordance with the procedures adopted by the Board of Directors or delegated boards, which assessed their suitability and compliance with the company's actual interest;

- we examined and monitored, within the scope of our responsibilities, the adequacy of the company's organisational structure, on which matter we have no particular points to raise;

- we monitored the adequacy and effectiveness of the internal control system, intended as a set of activities performed to verify the effective observance of internal operational and administrative procedures adopted to ensure the protection of corporate assets;

- we examined and monitored the adequacy and reliability of the Company's accounting system in order to verify whether it allows a true and accurate representation of the operating facts and figures in the financial statements. In this respect, we asked and obtained all possible information from the heads of departments, performed any checks deemed necessary, by conducting a direct examination of the company documents and records;

- we maintained a constant exchange of information with KPMG S.p.A., the auditing firm appointed to perform statutory audit, and in this regard there was no data or information worthy of being highlighted in this report;

- we monitored the adequacy of the company's accounting and administrative system, and we have no issues to report in this regard.

We also wish to inform you that from the beginning of 2018 to the date of this report:

- no complaints have been received in accordance with art. 2408 of the Italian Civil Code;

- no opinions envisaged by law have been issued by the Board of Auditors;

- no critical data, information or details connected with the auditing firm's independence have emerged.

Financial statements as at 31.12.2018

With reference to the financial statements for the year ended 31 December 2018, we report the following in accordance with art. 2429, subsection two, of the Italian Civil Code.

The financial statements of Metal Work S.p.A. were submitted to us by the legal deadline and show a net profit of **€ 8,051,058**, compared to a net profit of **€ 7,879,828** in 2017. Metal Work S.p.A.'s financial statements are summarized as follows.

Balance Sheet

Description	2018	2017	Variance
NON-CURRENT ASSETS	69,314,848	56,815,642	12,499,206
CURRENT ASSETS	61,744,789	62,832,508	-1,087,719
PREPAYMENTS AND ACCRUED INCOME	5,426,280	6,043,582	-617,302
TOTAL ASSETS	136,485,917	125,691,732	10,794,185

Description	2018	2017	Variance
SHAREHOLDERS' EQUITY	58,907,387	53,796,325	5,111,062
PROVISION FOR CONTINGENT LIABILITIES AND CHARGES	598,530	655,625	-57,095
PROVISION FOR EMPLOYEES' SEVERANCE PAY	1,429,542	1,484,645	-55,103
ACCOUNTS PAYABLE	74,843,826	68,915,086	5,928,740
ACCRUALS AND DEFERRED INCOME	706,632	840,051	-133,419
TOTAL LIABILITIES	136,485,917	125,691,732	10,794,185

Income Statement

Description	2018	2017	Variance
PRODUCTION VALUE	105,833,542	97,448,930	8,384,612
REVENUE FROM GOODS SOLD AND SERVICES RENDERED	102,760,090	94,657,987	8,102,103
PRODUCTION COSTS	100,356,411	91,443,126	8,913,285
DIFFERENCE BETWEEN PRODUCTION VALUE AND COSTS (A-B)	5,477,131	6,005,804	-528,673
PROFIT/ (LOSS) BEFORE TAXATION (A-B+C+D)	9,045,352	9,391,801	-346,449
CURRENT, DEFERRED AND ADVANCED INCOME TAX	994,294	1,511,973	-517,679
NET PROFIT (LOSS) FOR THE YEAR	8,051,058	7,879,828	171,230

Within our scope of responsibility, since we were not required to conduct the statutory audit of the accounts, we monitored the general layout of the financial statements and general compliance with the law and have no particular observations to report in this regard. We also verified compliance with the provisions of law concerning the preparation of the Business Report and have no particular observations to report in this regard.

The figures concerning intangible assets are recorded in the balance sheet, where required, with our consent, pursuant to Art. 2426 of the Italian Civil Code.

To the best of our knowledge, in preparing the financial statements for the year ended 31 December 2018 the directors, did not make any exceptions to the statutory provisions pursuant to Art. 2423, subsection four, of the Italian Civil Code.

In conclusion, taking into account that from the information received from the auditing company KPMG S.p.A., which acts as Statutory Auditor, no issues or reservations emerged, given the certification report issued by KPMG on today's date, we do not find any impediment to the approval of the draft financial statements for the year ended 31 December 2018, as prepared by the Board of Directors; and we hereby express a favourable opinion regarding the proposal for the allocation of the operating result for the year.

METAL WORK PNEUMATIC

Consolidated financial statements as at 31.12.2018

The consolidated financial statements of the group were sent to us within the time required by law and show a profit attributable to the Group of **€ 10,554,030** against **€ 9,798,246** in the previous year, net of the share pertaining to minority interests.
The figures in the consolidated financial statements of Metal Work S.p.A. are shown in the table below

Consolidated Balance Sheet

Description	2018	2017	Variance
NON-CURRENT ASSETS	100.413.747	86,419.192	13.994.555
CURRENT ASSETS	123.313.419	116,601.544	6.711.875
PREPAYMENTS AND ACCRUED INCOME	864.871	907.613	-42.742
TOTAL ASSETS	224.592.037	203,928,349	20.663.688

Description	2018	2017	Variance
SHAREHOLDERS' EQUITY	77.578.954	70,2[illegible]60	7.332.894
PROVISION FOR CONTINGENT LIABILITIES AND CHARGES	5.457.355	5,025[illegible]93	432.262
PROVISION FOR EMPLOYEES' SEVERANCE PAY	2.390.132	2,37[illegible],662	16.470
DEBTS AND OTHER LIABILITIES		5,729,112	
ACCRUALS AND DEFERRED INCOME	5.980.446		251.334
ACCOUNTS PAYABLE	131.704.282	119,067,440	12.636.842
ACCRUED EXPENSES AND DEFERRED INCOME	1.480.868	1,486,982	-6.114
TOTAL LIABILITIES	224.592.037	203,92B,349	20.663.688

Income Statement

Description	2018	2017	Variance
PRODUCTION VALUE	197.022.135	182,766,33S	14.253.878
REVENUE FROM GOODS SOLD AND SERVICES RENDERED	193.244.233	180,062,172	13.182.061
PRODUCTION COSTS	178.449.836	165,561,999	12.885.915
DIFFERENCE BETWEEN PRODUCTION VALUE AND COSTS (A-B)	18.572.299	17,204,336	1.367.963
PROFIT/ (LOSS) BEFORE TAXATION (A-B+C+D+E)	15.926.610	15,053,967	872.643
CURRENT, DEFERRED AND ADVANCED INCOME TAX	4.294.102	4,255,126	38.976
NET PROFIT (LOSS) PERTAINING TO MINORITY INTERESTS	1.078.478	1,000,595	77.883
NET PROFIT (LOSS) FOR THE YEAR	10.554.030	9,798,246	755.784

Within our scope of responsibility, we monitored the general layout of the consolidated financial statements and its general compliance with the law; in this regard we have no particular observations to report. We also verified compliance with the law concerning the preparation of the Business Report and in this regard we have no particular observations to report.

We hereby acknowledge that the auditing firm KPMG SpA prepared the related report dated 12 June 2019, which proves evidence that the Metal Work Group's consolidated financial statements as at 31 December 2018 are clear and give a true and fair view of the financial performance, the operating result and cash flows. No facts of note or requests for additional information emerged from said disclosure.

Concesio, 12 June 2019

THE BOARD OF AUDITORS

Dr. Renato Camodeca	Chairman of the board of auditors
Dr. Silvio Piccinelli	Statutory auditor
Avv. Giulia Mina	Statutory auditor

INDEPENDENT AUDITORS' REPORT

KPMG

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INDEPENDENT AUDITORS' REPORT
PURSUANT TO ART. 14 OF LEGISLATIVE DECREE NO. 39 OF 27.1.2010

To the Shareholders of Metal Work S.p.A.

Report on the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Metal Work Group (the Group), which comprise the balance sheet as at 31st December 2018, the income statement and the cash flow statement for the year then ended, and the explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the consolidated financial position of the Metal Work Group as at 31 December 2018, its financial performance and its consolidated cash flows for the year then ended, in accordance with Italian laws governing the layout principles.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italy). 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 Metal Work S.p.A. in accordance with the code of ethics for professional accountants established by Italian law on financial statements auditing. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Directors and the Board of Auditors of Metal Work S.p.A. for the Consolidated Financial Statements

Directors are responsible for the preparation and fair representation of the consolidated financial statements in accordance with Italian Law governing the preparation standards and, within the terms of the law, for such internal control as directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Directors are responsible for assessing the Group's ability to continue as a going concern, the appropriateness of the use of the going-concern assumption and the adequate relevant disclosure, as applicable. Directors are also responsible for using the going-concern basis in preparing the financial statements, unless they have ascertained the existence of the conditions for the liquidation of the parent company Metal Work S.p.A. or ceased operations, or there is no realistic alternative but to do so.

The board of auditors are responsible for overseeing the Group's financial reporting process, in accordance with the provisions of law.

Independent 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 ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italy), we exercised professional judgement and maintained professional scepticism throughout the audit. We also took steps to:

- identify and assess the risks of material misstatement in the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentations, or the override of internal control.

- understand internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- evaluate the appropriateness of accounting standards used and the reasonableness of accounting estimates and related disclosures made by directors.

- conclude on the appropriateness of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, on whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to review our opinion accordingly. 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.

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

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Report on Other Legal and Regulatory Requirements

Opinion pursuant to art. 14, subsection 2, letter e) of Italian Legislative Decree no. 39/10

The directors of Metal Work S.p.A. are responsible for preparing the Metal Work Group's business report as at 31 December 2018, including consistency with the related consolidated financial statements and compliance with the law.

We performed the procedures required under audit standard (ISA Italia) no. 720B in order to express an opinion on the consistency of the business report with the consolidated financial statements of the Metal Work Group as at 31 December 2018, and on its compliance with the provision of law, as well as issue a declaration on any material error.

In our opinion, the business report is consistent with the consolidated financial statements of the Metal Work Group as at 31 December 2018, which was prepared in compliance with legal requirements.

With reference to the report issued pursuant to art. 14, subsection 2, letter e), of Legislative Decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Brescia, 12 June 2019

KPMG S.p.A.

Paolo Andreasi
Partner

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