INNOVATION IS LOOKING BEYOND

2018

FINANCIAL ANNUAL REPORT

PRIMA INDUSTRIE


BEYOND

2018 FINANCIAL ANNUAL REPORT

PRIMA INDUSTRIE

PRIMA INDUSTRIE SpA
Registered Office: Via Antonelli 32 – Collegno (TO)
Share Capital: Euro 26.208.185 fully paid-up
Company Register and VAT no 03736080015

Shareholders' meeting

The Ordinary Shareholders' meeting call is available on the company website (www.primaindustrie.com), convened at Studio Notarile Associato Nardello Stefani Marcoz, Corso Duca degli Abruzzi n.18, Torino on April 15, 2019, at 9.30 am (1st call), on April 16, 2019 (2nd call) at 11.00 am c/o Prima Industrie Headquarters in Via Torino-Pianezza n. 36, Collegno (TO), to resolve on the following:

Agenda

1. 2018 Annual Report and relevant documents: consequent resolutions. Examination of 2018 Group Consolidated Annual Report and Sustainability Report. Destination of net income and dividend distribution;
2. Report on the Remuneration ex Article 123-ter of TUF;
3. Appointment of the Statutory Auditors Committee and of its President and determination of relevant remuneration for the whole mandate 2019-2020-2021;
4. Resolutions concerning the authorization to purchase and dispose of treasury stock pursuant to articles 2357 and 2357-ter of the Civil Code, subject to the revocation of the shareholders' resolution of April 20, 2018.

It is expected, as from now, in consideration of the company shareholding structure, that the Shareholders' Meeting will likely meet and resolve on April 16, 2019.

Entitlement to attend

Qualification to attend the Shareholders' meeting is granted to those who will own voting rights at the end of the date of April 4, 2019 (record date) and for whom the Company has received relevant communication issued by the authorized intermediaries, according to their accounting records.
Shareholders qualified to enter the meeting may be represented through proxy conferred according to law provisions. The proxy form is available on the company website (www.primaindustrie.com) and will be forwarded to those who will require it over the phone to number 011-41031 (select #4).

Documentation

The Shareholders' meeting call, available on the company website (www.primaindustrie.com) includes in detail all information and instructions on the Shareholders' rights (questions to ask, integration of the agenda, deposit of lists for the appointment of the Statutory Auditors Committee).
The reports and the proposals on the items in agenda are available at the company registered office, on the aforementioned company website as well as on the authorized storage site 1Info (www.1Info.it) within respective terms stated by current rulings and will be delivered to those who will require them.

The Chairman of the Board of Directors
Gianfranco Carbonato

Message to our *stakeholders*

Ladies and Gentlemen,
after a good start, 2018 has evolved into a turbulent year as a consequence of various international topics such as the trade war between USA and China, the economic slowdown in Europe and other issues in specific countries such as Italy, UK, Turkey etc.

In terms of industries, the automotive market (which in 2017 represented 25% of PRIMA revenues) was also impacted by no growth in China after 30 years and by the uncertainties driven by the technological evolution of whole the sector towards new products and new business models. In this difficult scenario, our Group has shown a good level of resilience thanks to the broad geographical presence, due to the variety of industries served and to our continuous investments in innovation.

We are consequently pleased to report a further record year in our history, with revenues up 3.9% to Euro 467 million (+6% growth, at constant exchange rates), EBITDA adjusted at 10.3%, EBIT adjusted at 6.9% and Net Profit up 28.9% to Euro 24.1 million.

Net profit was improved by the sale of the entire stake held by Prima Electro S.p.A. in EPS and impacted by one-off expenses for the renewal of the Bond and M/L term bank loans, the impairment of some assets and other non-recurring items.

Cash generated in the period was absorbed by the investment for the acquisition of 19% of the Chinese company Lead Laser Cangzhou, by the buy-back of 100 thousand shares, by the needs deriving from investments, above all in research and development, to support the Group evolution and the increase in working capital to support the high year-end backlog. As a consequence, the NFP at December 31, 2018 was equal to Euro 74.6 million, showing a moderate increase compared to Euro 69.6 million in the previous year.

Backlog at the end of the year was at Euro 170 million (not including, as usual, after sale services), thanks to the solid order intake which, notwithstanding a slowdown in China and in the automotive market, reached Euro 471 million during the year.

The year 2018 has been rich with events and activities, in particular:

- On January 25, the merger of Finn-Power Italia into Prima Industrie was completed, allowing simplification of Group organization and cost synergies.
- On February 20, a new Euro 25 million per 7 year bond was signed after early reimbursement of previous Euro 40 million bond, allowing significant savings on fixed interest rates and extended terms of reimbursement.
- On June 15, the acquisition of 19% of Lead Laser Cangzhou, through Prima Power Suzhou (in cooperation with our partner Leeport) with an option to buy up an additional 41% stake within Spring 2020.
- On June 26, the inauguration of Prima Power GmbH new facility in Munich took place, leading to an improved presence in our second largest market in Europe.
- On October 3, our Headquarters and Tech Center hosted the first *Innovation Day event*, attended by over 160 visitors, among whom customers, University and Research Centers and a high number of international media representatives, coming from 20 different countries. The event was focused on Aerospace applications and Additive Manufacturing and was also the occasion to officially launch the new third division of the Group (Prima Additive).
- On October 23 through 26 we attended Euroblech 2018 in Hannover, Germany, where in an impressive 1400 sqm booth we exhibited the whole range of our new and innovative products.
- 10 years after the acquisition of Finn-Power Group, in November Finn-Power OY completed its relocation into the brand new 20.000 sqm facility in Seinäjoki,

Finland. The new location, already operating, was officially inaugurated on March 21, 2019.

- On December 17 the participation of Prima Industrie to the Competence Center in Torino (in cooperation with Torino University and Polytechnic) was signed. On January 11, 2019 the same was signed in Milano.

R&D activity was intense, as usual, in 2018 with an investment of 5.1% of our consolidated revenues. Among various activities it is worth mentioning Laser Sharp and Combi Sharp, two new laser products particularly destined to emerging markets, the successful installation of our first additive machines, the extension of our CF fiber laser line up to 10kW and the completion of development of Lyrae 100, our multiemitter diode unit, which production has started at the end of the year.

The above picture looks quite positive but appears contradictory with the evolution of our share price and market cap, which has been heavily impacted by the volatility of technological stocks in all world markets and, in addition, by lower confidence of international investors into the Italian market following the recent political evolution in our country.
In January our stock has only partially recovered part of the about 50% loss suffered during the year, even if it still looks very far from a fair evaluation, as also confirmed by analysts' recent research reports.

We wish anyhow to confirm to our Shareholders our warmest thanks for their support and confidence and we are pleased to inform that we shall propose to increase by 10% the dividend for the year 2018, i.e. from Euro 0.40 to Euro 0.44 per share.

In a year made turbulent by the appearance of several international problems and by the slowdown of some markets, the Group has achieved the best results of its history, thanks to its good level of resilience related to its wide geographical presence, to the widespread industries served and to high technological level. The year 2019 looks today more uncertain because of the complex macroeconomic context. The Group is committed to increase efficiency and to control costs in order to improve margins, also leveraging on the investments made in recent years.

We also express our warmest and sincere thanks to all our employees and stakeholders for confirming their support and commitment to our efforts in order to create a sustainable Company and a better future for all.

Yours sincerely,

Gianfranco Carbonato
Chairman of the Board

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Prima Industrie SpA Management and Control

Chapter 1 - Prima Industrie SpA Management and Control

Board of Directors

EXECUTIVE CHAIRMAN	Gianfranco Carbonato
MANAGING DIRECTORS	Ezio G. Basso Domenico Peiretti
INDEPENDENT DIRECTORS	Donatella Busso Paolo Cantarella Carla Patrizia Ferrari Paola Gatto Mario Mauri Marina Meliga
OTHER DIRECTORS	Rafic Y. Mansour Michael R. Mansour

Internal Control Committee

CHAIRMAN	Donatella Busso
MEMBERS	Paolo Cantarella Carla Patrizia Ferrari

Remuneration Committee

CHAIRMAN	Mario Mauri
MEMBERS	Paola Gatto Rafic Y. Mansour

Operations with Related parties Committee

CHAIRMAN	Donatella Busso
MEMBERS	Paola Gatto Marina Meliga

Strategic Committee

CHAIRMAN	Gianfranco Carbonato
MEMBERS	Ezio G. Basso Domenico Peiretti Paolo Cantarella Mario Mauri Michael R. Mansour Marina Meliga

Statutory Auditors Committee

CHAIRMAN	Franco Nada
AUDITORS	Maura Campra Roberto Petrignani
DEPUTY AUDITORS	Roberto Coda Gaetana Laselva

Audit Company

PricewaterhouseCoopers S.p.A.

Expiry of Mandates and Appointments

The Board of Directors shall remain in office until the approval of 2019 Financial Statements.

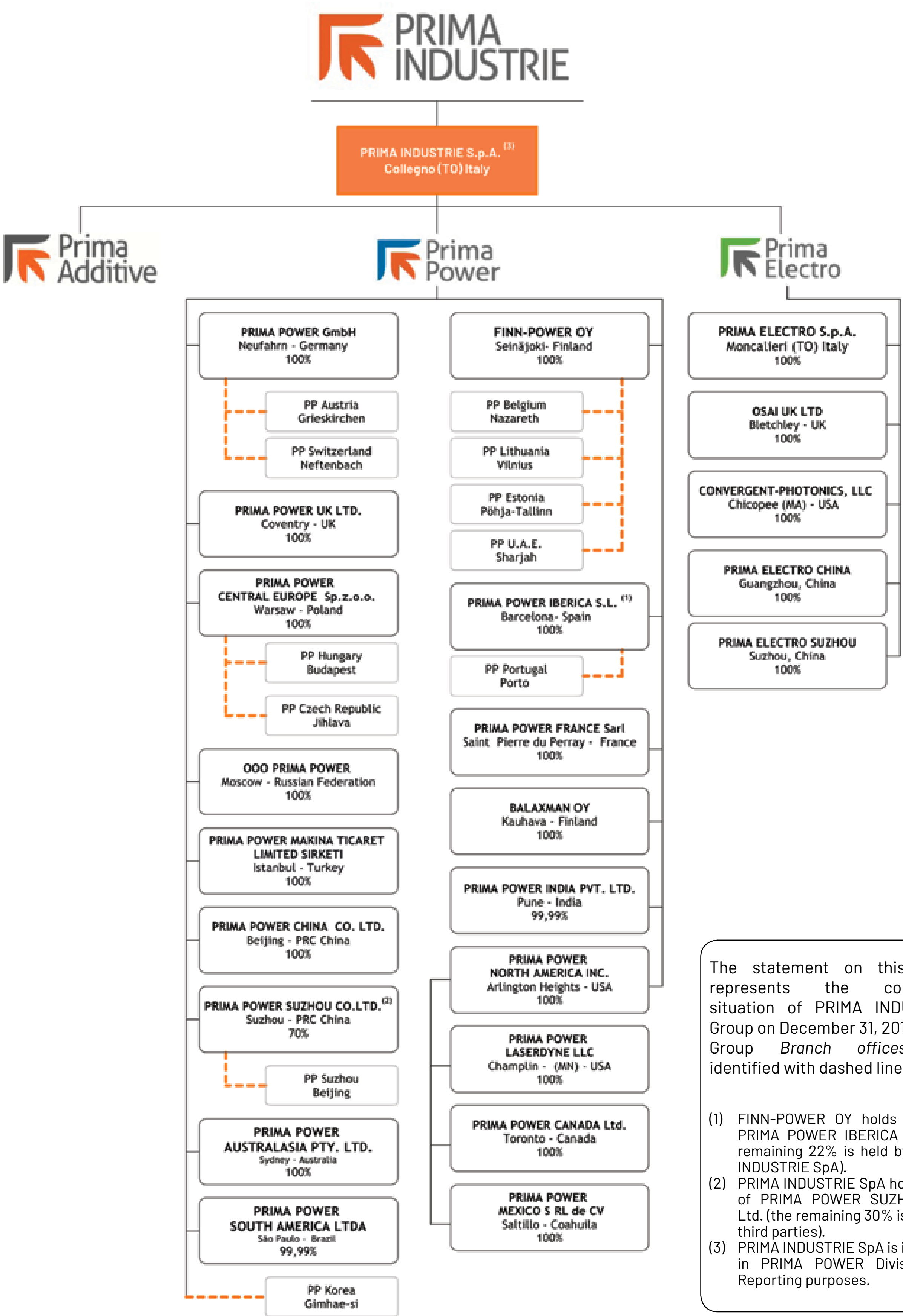
The Statutory Auditors Committee shall remain in office until the approval of 2018 Financial Statements.

The Audit Company was appointed by the Stockholders's Meeting held on April 11, 2017 for the period 2017-2025.

2

Prima Industrie Group Structure

Chapter 2 - Prima Industrie Group Structure



The statement on this page represents the corporate situation of PRIMA INDUSTRIE Group on December 31, 2018.
Group *Branch offices* are identified with dashed lines.

(1) FINN-POWER OY holds 78% of PRIMA POWER IBERICA SL (the remaining 22% is held by PRIMA INDUSTRIE SpA).
(2) PRIMA INDUSTRIE SpA holds 70% of PRIMA POWER SUZHOU Co. Ltd. (the remaining 30% is held by third parties).
(3) PRIMA INDUSTRIE SpA is included in PRIMA POWER Division for Reporting purposes.

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Prima Industrie Group Profile

Chapter 3 - Prima Industrie Group Profile

The PRIMA INDUSTRIE Group is a market leader in the development, manufacture and sale of laser systems for industrial applications and of machines to process sheet metal, besides in the fields of industrial electronics and laser sources. The Parent Company PRIMA INDUSTRIE SpA, established in 1977 and listed in the Italian Stock Exchange since 1999 (currently MTA - STAR segment), designs and manufactures high-power laser systems for cutting, welding and surface treatment of three-dimensional (3D) and flat (2D) components, panel bending and bending machines.

The PRIMA INDUSTRIE Group is present on the market over 40 years and boasts over 13,000 machines installed in more than 70 Countries and its *business* is structured in the following three divisions:
- PRIMA POWER for laser machines and sheet metal processing;
- PRIMA ELECTRO for industrial electronics and laser technologies;
- PRIMA ADDITIVE for additive manufacturing systems for metal applications.

The **PRIMA POWER** division includes the design, manufacture and sale of:
- cutting, welding and punching machines for three-dimensional (3D) and two-dimensional (2D) metallic components;
- sheet metal processing machines that use mechanical tools (punchers, integrated punching and shearing systems, integrated punching and laser cutting systems, panel bending, bending machines and automated systems).

This division owns manufacturing plants in Italy (PRIMA INDUSTRIE SpA), in Finland (FINN-POWER OY), in the United States (PRIMA POWER LASERDYNE Llc), in China (PRIMA POWER SUZHOU Co. Ltd.) and has direct sales and customer service facilities in France, Switzerland, Spain, Germany, the United Kingdom, Belgium, Poland, Czech Republic, Lithuania, Hungary, Russia, Turkey, USA, Canada, Mexico, Brazil, China, India, South Korea, Australia and the United Arab Emirates.

The **PRIMA ELECTRO** division includes the development, construction and sale of electronic power and control components, and high-power laser sources for industrial applications, intended for the machines of the Group and third customers. The division has manufacturing plants in Italy (PRIMA ELECTRO SpA) and in the United States (CONVERGENT - PHOTONICS Llc), as well as sales & marketing facilities in the United Kingdom and China.

The **PRIMA ADDITIVE** division develops, manufactures and sells additive manufacturing solutions with Powder Bed Fusion and Laser Metal Deposition technologies.

It is important to state that during 2018 the Group presented its new brand PRIMA ADDITIVE, which is focused on turnkey additive manufacturing solutions, with Metal Powder Bed and Direct Deposition technologies, and the relative support and services for its applications. PRIMA ADDITIVE thus becomes the Group's third division, joining PRIMA POWER and PRIMA ELECTRO. The new division boasts a strong team of highly specialised young experts, qualified managers and engineers. The purpose of this new division is to support the development of these new technologies and enter the market with new machine ranges. Thanks to this investment, the new activities will be focused on additive manufacturing and, more generally, the pursuit of technological innovation. The new division was designed with completely new spaces and a new building that is under construction at the HQTC in Collegno.

The financial and equity data of PRIMA ADDITIVE are currently negligible and do not meet the thresholds set out in IFRS 8 for disclosure purposes. Therefore, for 2018, the division's information will be aggregated to the data for PRIMA POWER.

Over 40 years after its establishment, the mission of the PRIMA INDUSTRIE Group continues to be that of systematically expanding its range of products and services and to continue to grow as a global supplier of laser systems and sheet metal processing systems for industrial applications, including industrial electronics, markets that demand top-range technology and where growth rates are quite good, though in the presence of a cyclical context.

This Company draft of Financial Statement has been approved by the Board of Directors on March 1, 2019.

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Introduction

Chapter 4 - Introduction

This Financial Annual Report at December 31, 2018 of PRIMA INDUSTRIE Group was prepared pursuant to article 154-ter of Leg. Decree, paragraph 5 of Consolidated Law on Finance and subsequent amendments, as well as the issuer's Regulation issued by CONSOB; it has been prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the *International Accounting Standards Board* ("IASB") recognized by the European Union and by Italian legislation and regulations.

This report was approved by the Board of Directors on March 1, 2019 and is published in accordance with the provisions of article 2.2.3 of Borsa Italiana SpA Regulations applicable to issuers listed in the STAR segment.

This Financial Annual Report has been audited.

It should be noted that, to improve disclosure of its financial results, the Group has presented the income statement according to functional area, rather than by expenditure type.

The Group presents the income statement according to functional area otherwise referred to as "Cost of Sales"; this cost presentation is based on cost destination and is considered more representative than expenditure type. The form chosen conforms to internal *reporting* and business management procedures and is in line with international practice within the sector in which the Group operates.

"Cost of sales" includes costs relating to the functional areas that participated directly or indirectly to the generation of revenues with the sale of goods and services. It includes all costs for materials, processing and overheads directly attributable to production.

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Group Management Report

Chapter 5 - Group Management Report

Group results summary

Key performance indicator ("KPI")

VALUES IN EURO THOUSAND	DECEMBER 31, 2018	DECEMBER 31, 2017	VARIATIONS	%
ORDER INTAKE	471,245	480,640	(9,395)	-2.0%
BACKLOG	169,367	169,865	(498)	-0.3%
REVENUES	466,932	449,503	17,429	3.9%
EBITDA	45,059	43,178	1,881	4.4%
EBITDA %	*9.7%*	*9.6%*	*0.1%*	-
EBIT	28,041	26,296	1,745	6.6%
EBIT %	*6.0%*	*5.9%*	*0.1%*	-
NET RESULT	24,058	18,668	5,390	28.9%
FCF	(8,802)	21,878	(30,680)	-140.2%
NFP	(74,639)	(69,632)	(5,007)	-7.2%
HEADCOUNT	1,871	1,781	90	5.1%

(% calculated over the revenues, headcount expressed in units)

VALUES IN EURO THOUSAND	DECEMBER 31, 2018	DECEMBER 31, 2017	VARIATIONS	%
REVENUES AT COSTANT EXCHANGE RATES	476,553	449,503	27,050	6.0%
EBITDA *Adj*	47,904	45,063	2,841	6.3%
EBITDA *Adj* %	10.3%	10.0%	0.3%	-
EBIT *Adj*	32,212	28,205	4,007	14.2%
EBIT *Adj* %	6.9%	6.3%	0.6%	-

(% calculated over the revenues)

For the indices definition, see Annex 2 "Non – GAAP performance indicators".

2018 significant events of the period

Merger of Finn-Power Italia Srl into Prima Industrie SpA

With notary's deed of January 25, 2018, with legal effect from February 1, 2018, FINN-POWER ITALIA Srl was merged into PRIMA INDUSTRIE SpA (100% shareholding), with accounting and tax effect backdated to January 1, 2018. The organisational and financial reasons for this merger can be found in the optimisation of the structure of the PRIMA INDUSTRIE Group, which will involve shortening the chain of monitoring of investments and streamlining cash, administration and organisation and also centralising decision-making on strategic investments to the parent company.

The merger will also be the opportunity for an overall corporate re-organisation, aimed at improving integration of Italian sales and after-sales, and the running of the two Italian production plants, not to mention lowering costs.
As a simplified merger in accordance Article 2505 of the Italian Civil Code, with PRIMA INDUSTRIE SpA controlling 100% of FINN-POWER ITALIA Srl, it was submitted to the decision of the Board of Directors of PRIMA INDUSTRIE SpA, in observance of the provisions of Article 22 of the Company's articles of association.

Sale of participation in Electro Power Systems SA

On January 24, 2018 PRIMA ELECTRO SpA has been signed an agreement with a company belonging to the ENGIE Group (one of the largest global utilities based in Paris) for the sale of the entire stake held in ELECTRO POWER SYSTEMS SA ("EPS"), a company operating in the *energy storage* systems listed at the Euronext stock market in Paris.
The agreement was also signed with the other main shareholders of EPS and with the management of the company for the acquisition of the majority stake of EPS. The transaction took place on the basis of an evaluation of Euro 9.5 per share and was followed by the filing of a mandatory Public Purchase Offer at the same price.
The completion and settlement of the transaction has been took place during the first quarter of 2018, generating a capital gain of about Euro 7.2 million for PRIMA INDUSTRIE Group.

Issue of a bond loan

On February 9, 2018 the Board of Directors of PRIMA INDUSTRIE SpA resolved to issue a 7-year non-convertible, fixed rate, bond loan for a total of Euro 25 million. The bond is to be placed with approved Italian and/or foreign investors residing in the European Economic Area, with the exception of those in the USA. Even after issue, the bond may only be circulated among these approved investors. The bonds have a minimum denomination of 100,000 Euro and pay a fixed annual coupon of 3.5%. The bond issue, which will be governed by English law, will expire in February 2025. PRIMA INDUSTRIE SpA does not intend to request that the bond be traded in a trading establishment.

Refinancing of medium/long-term debt

During the first quarter of 2018, PRIMA INDUSTRIE SpA completed the refinancing of the main medium/long-term debt operations, by taking out – in addition to the new bond – new five-year loans (mean rate 1.70%) with BNL, MPS, BPM, UNICREDIT and INTESA for a total of Euro 90 million, with separate amortisation plans, the last instalment of which will be due on March 31, 2023 (hereinafter referred as "2018 Loans").
Furthermore, during the first quarter of 2018, the main financing transactions signed in 2015, the *Club Deal* signed in Italy with Unicredit, Intesa and BNL, were fully repaid on March 14, 2018 and the bond was fully repaid on March 28, 2018. The so-called *Finnish Loan* signed in Finland with Nordea & Danske had already been repaid at the end of 2017.
Thanks to these transactions, the Group has obtained an average extension of more than three years on its medium/long-term loans, at a weighted average annual interest rate of approximately 2.10%, that is, 1.60% lower than the previous rate of approximately 3.70%.

2018 – 2020 share incentive plan

On April 20, 2018, the Shareholders' Meeting approved the Management Incentive Plan, previously approved by the Board of Directors on March 16, 2018, based on the free assignment, subject to the achievement of predefined company targets, of financial instruments pursuant to art. 114 bis of T.U.F; the Plan represents an incentive, loyalty and *retention* tool for managers who contribute most to the development of the Company and the Group.

Assignment of a power of attorney to the Board of Directors to carry out a capital increase within the limits of 10% of the share capital

On April 20, 2018, the extraordinary Shareholders' Assembly assigned all relevant powers to the Board of Directors, for a period of five years from the date of the resolution, the right pursuant to Article 2443 of the Italian Civil Code, with any inherent power, to increase the paid share capital, in one or more times, separately and also in multiple tranches, through the issuance of ordinary shares with the exclusion of option rights within the limits of 10% of the share capital existing at the time the proxy is exercised, pursuant to art. 2441, paragraph 4, second sentence of the Italian Civil Code, thus modifying Article 5 of the Company By-Laws.

Assignment of a power of attorney to the Board of Directors to proceed with a share capital free increase for the 2018–2020 share based incentive plan

On April 20, 2018 the extraordinary Shareholders' Meeting assigned rights to the Board of Directors, pursuant to Article 2443 of the Italian Civil Code, for the five-year period from the date of the present resolution, the right to increase the share capital free of charge even in several tranches, to service the implementation of the "2018-2020 Share Based Incentive Plan", for a maximum amount of Euro 337,500 (to be fully attributed to capital) corresponding to maximum 135,000 ordinary shares, with the same characteristics as those outstanding, regular entitlement, by assigning the corresponding maximum amount of profits and/or reserves of profits resulting from the last financial statements approved pursuant to Article 2349 of the Italian Civil Code, under the terms and conditions and according to the procedures set out in the "2018-2020 Share Based Incentive Plan", thereby modifying Article 5 of the Company By-laws. The maximum dilutive effect on shareholders deriving from the capital increase to service the Plan, in the case of all the shares being assigned, is equal to 1.29%.

Purchase of treasury stock

On April 20, 2018 the Shareholders' Meeting authorized the purchase, in one or more times, for a period of eighteen months, of ordinary shares of PRIMA INDUSTRIE SpA for a maximum number of shares equal to 300,000, or for a maximum purchase value equal to Euro 12 million, authorizing the disposal of treasury shares, in one or more times, without time limits, in the manner deemed most appropriate in the interest of the Company and in compliance with applicable law.
The scope of the authorization includes the possibility to assign the shares to service the stock incentive plans in favor of directors, employees and collaborators of the company or group companies, or the use for free assignments to the shareholders, or to service extraordinary transactions or as an instrument to support market liquidity. Purchases will be made on regulated stock markets according to the operating procedures established in the regulations for the organization and management of the same markets according to the operating procedures established in the regulation of Borsa Italiana SpA, in compliance with art. 144 bis, paragraph 1, lett. b) of the Consob Regulation no. 11971/99 and subsequent amendments. During the last quarter of 2018, 100,000 shares were purchased with a value of Euro 1,966 thousand.

Acquisition of 19% stake in the company Cangzhou Lead Laser

Prima Industrie SpA through its subsidiary Prima Power Suzhou Co. Ltd, of which it holds 70%, has signed on June 15, 2018 an agreement, subject to conditions that occurred in early July, for the acquisition of a 19% stake in the Chinese company Cangzhou Lead Laser Technology Co. Ltd. (Lead Laser); the total counter value is approximately 50 million Renminbi.

The agreement provides the non-binding option for the Group to acquire, by 2020, an additional 41% of Laser Lead capital at predefined conditions.

The transaction is aimed at increasing the Group's market share in the Chinese market of 2D laser machines, the largest in the world in terms of size and growth rate.
The *closing* of the transaction, with payment and transfer of shares, has been completed on July 17, 2018.

New Technology Center in Germany

At the end of June, PRIMA POWER officially opened the new headquarters of the German subsidiary PRIMA POWER GmbH in Neufahrn, near Munich.
The new location features a large Show Room and well organized areas dedicated to demonstrations, applications, cycle time studies, training, and conferences.
PRIMA POWER moved its German headquarters from Frankfurt to Munich in order to be nearer its customers. Munich is a more central position for German-speaking countries and the engineering industry in that region. Furthermore, it is an international hub that is well connected to most European countries. The new location is in the heart of the D-A-CH area (Germany, Austria,Switzerland) which is strategic for the Group, as it represents the second most important market in Europe after Italy, with 5% of revenues and an installed base of over 1,000 machines.

Establishment of Prima Electro Suzhou

September 2018 saw the set-up of the Chinese company PRIMA ELECTRO SUZHOU, fully controlled by PRIMA ELECTRO SpA, with headquarters in Suzhou. The company's first business aim is the production and sale of electronic products for the Asian market, particularly medium-power inverters. Business will then extend to the production and sale of fiber light sources for the local market. The company's operations started at the beginning of 2019 with the hiring of 7 employees.

New Brand Prima Additive

During the Innovation Day event, at Prima Industrie Headquarters and Tech Center in Collegno (Torino), the Group presented its new Prima Additive brand focusing on turnkey solutions for Metal Powder Bed and direct metal deposition technologies, as well as application support and global service. Prima Additive becomes the third Division of the Group and adds to Prima Power and Prima Electro. The new Division is becoming operative with a group of young, highly specialized and skilled managers and engineers, which will soon have a new home currently under construction, close to the HQTC.

Macroeconomic context

In the last two years (2017 and 2018) the world economy has grown by 3.7% annually, net of inflation, with the most advanced countries, led by the USA, recording +2.5%, and emerging countries close to +5%. These results are supported by the excellent (and ongoing) performance of south east Asian countries, particularly China and India.

The Monetary Fund expects a slowdown in 2019, and all observers are wondering whether a new world economic crisis is lurking. World economic trends show signs of slowing down, particularly in the Eurozone and China, along with a less reassuring geopolitical climate.

However, the slowdown in growth is currently no cause for concern and is mainly the result of less boisterous international trade, partly owing to the Trump administration's customs policies. Forecasts indicate a downturn in the event of an escalation in the trade war between the US and China.

In the US, the slowdown is still not in sight. The American economy ended 2018 with growth of close to 3% from the previous year and inflation at around 2%. The accelerated growth recorded in 2018 compared to previous years (on average 2.2%) is largely due to the fiscal impulse in a context of expansive monetary policy and financial conditions. With the reduced contribution of fiscal policy, the transition of monetary policy to a neutral phase and the curbing of duties, mark the start of a period of slowdown which should lead to a progressive reduction in growth. The forecasts of the Intesa Sanpaolo Research Department are for a gradual slide in quarterly growth, after which annual GDP should fall from 2.9% in 2018, to 2.5% in 2019 and to 1.9% in 2020. 2019 will be a transition year for economic policies, from a phase of expansion to one that is neutral or potentially restrictive. The cycle's evolution in 2019-2020 will depend on decisions concerning rates, on the one hand, and on public spending and duties, on the other.

In the Eurozone, 2019 could feature several turning points: a turning point in the cycle of expansion phase, a return to growth and a more decisive increase in inflation from the middle of the year; and also a turning point with the first rise in interest rates on deposits. Moreover, by the end of this year, the European institutions will have undergone their own change, with the renewal of the European Parliament, the EU Commission and with the end of Draghi's mandate at the end of October. Added to this is the total lack of clarity on Brexit, which could lead to a contraction in trade with the United Kingdom, at least in the short to medium term.

It is clear that the peak in this cycle of expansion is now behind us and that GDP growth forecasts have been reduced. Considering the estimates of Intesa Sanpaolo, the Eurozone's GDP in 2019 should reach a maximum of 1.5% and in 2020, with a further slowdown in momentum, around 1.4%. While expansion appears to be coming to an end, there are no short term expectations of a setback in the Eurozone economy, since the fundamentals of domestic demand remain greatly supportive.

China's growth rates are at their lowest and in 2019 trade tensions between the US and China seem likely to continue, but are only part of a deeper conflict, which, together with Brexit, will be a source of uncertainty.

Emerging markets could be redeemed in 2019. The global liquidity squeeze and trade tensions will not help. However, if the Federal Reserve decides to suspend its crackdown in June 2019, the dollar is likely to be weakened. This would ease pressure on emerging markets. These markets are likely already assessing the worst-case scenario, as both shares and currencies have seen significant declines. However, macroeconomic developments will be important and another round of monetary and fiscal impulse from China may be needed to encourage investors to return to the region. This would help reduce the fear of a collapse in global trade like the one seen in 2007-2008. On the other hand, even if

US-China trade slows down, there is no reason to expect a real contraction of global trade, unless there is a global escalation of the trade war between the two countries.

The UCIMU (Italian Association of Machine Tool Manufacturers) index of machine tool orders is stationary and in the fourth quarter of 2018 recorded -0.2% compared to the same period of the previous year. In absolute terms, the index stood at 161.6 (base 100 in 2010).

The overall result was determined by the positive response of foreign orders, and by a decrease in orders from Italian manufacturers on the domestic market, which is nevertheless still lively.

In particular, foreign orders went up by 2.4% from October-December 2017. In absolute terms, the index stood at 141.7.

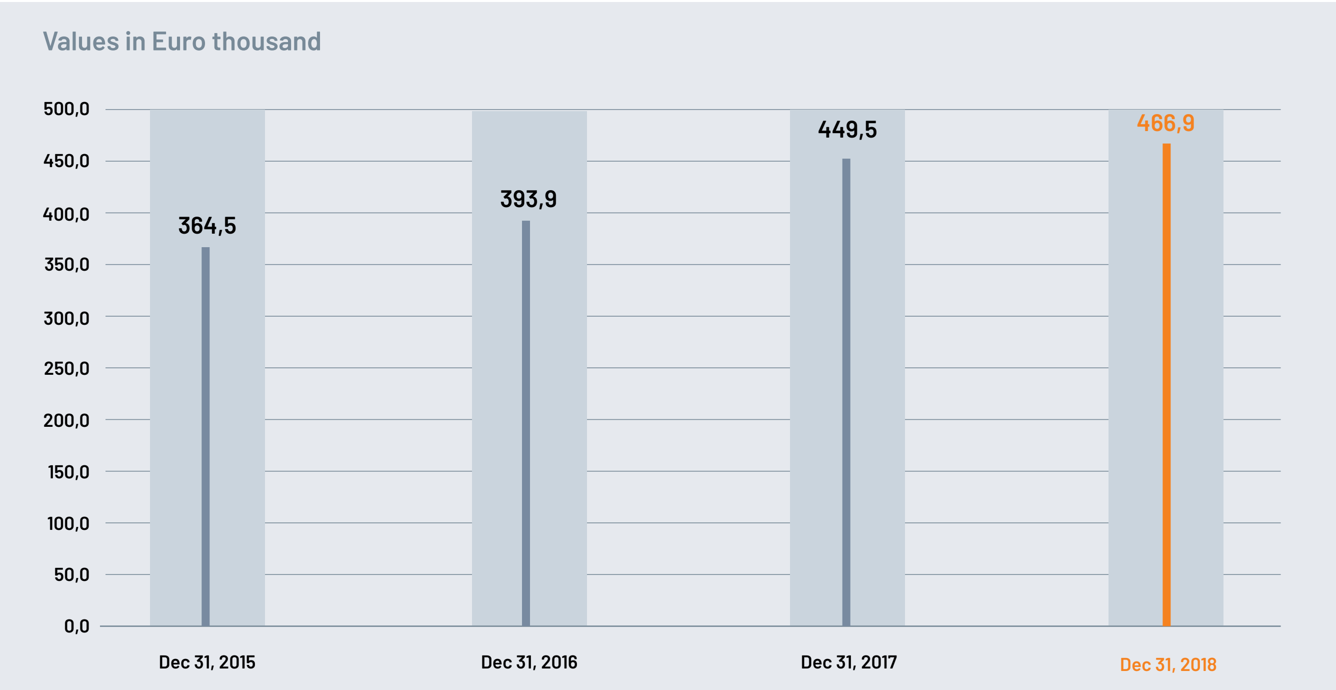
On the domestic market, Italian machine tool manufacturers recorded a 6.3% drop in orders intake compared to the fourth quarter of 2017. In absolute terms, the index stood at 267.4. This is the best result ever recorded (compared to the same quarter) with the exception of the record fourth quarter of 2017. While it is clear that Italy is going through a period of slowdown, it is also important to consider the leaps and bounds in Italian acquisitions of machine tools in recent years.

On an annual basis, the total UCIMU index remains close to the 2017 level (-0.8%). Foreign orders went up by 5.2%, whereas domestic orders fell by 11.5%.

Economic performance

The Company closed the year 2018 with a turnover of Euro 466.932 thousand, growing by 3.9% over 2017. At constant exchange rates, growth would have been 6%.

The trend of revenue growth is confirmed giving rise, over the last 3 years, to a CAGR of 8.6% (as shown in the graph below).



Group's profitability was influenced in 2018 by a product mix where machines destined to the sheet metal fabrication sector prevailed over the machines destined to the automotive industry.

In addition, the performance was affected by some non-recurring costs, which penalized EBIT for Euro 4,171 thousand, and mainly refer to professional consultancies related to extraordinary events (including M&A), to the relocation of the Finnish plant, to the restructuring of the German subsidiary (which in total affect EBITDA for Euro 2,845 thousand) and the impairment of a building (Euro 681 thousand) and of development costs previously capitalized (Euro 645 thousand).

The consolidated net result instead benefited from non-recurring income (equal to Euro 7,179 thousand) related to the sale of the entire investment held by PRIMA ELECTRO SpA in the EPS company, which have more than balanced non-recurring financial costs (equal to Euro 1,885 thousand) related to the refinancing of the bond and the medium-term bank debt.

Here below are the main economic indicators of the Group by Division, compared with the corresponding period of the previous year:

Values in euro thousand

DECEMBER 31, 2018	REVENUES	GROSS MARGIN	GROSS MARGIN %	EBITDA	EBITDA %	EBIT	EBIT %	NET RESULT
PRIMA POWER	434,617	99,621	22.9%	40,311	9.3%	27,257	6.3%	16,587
PRIMA ELECTRO	58,858	13,054	22.2%	5,280	9.0%	1,317	2.2%	7,853
ELIMINATIONS	(26,543)	(538)	-2.0%	(532)	-2.0%	(533)	-2.0%	(382)
GROUP	**466,932**	**112,137**	**24.0%**	**45,059**	**9.7%**	**28,041**	**6.0%**	**24,058**

(% calculated over the revenues)

Values in euro thousand

DECEMBER 31, 2017	REVENUES	GROSS MARGIN	GROSS MARGIN %	EBITDA	EBITDA %	EBIT	EBIT %	NET RESULT
PRIMA POWER	423,118	97,054	22.9%	41,137	9.7%	27,574	6.5%	18,045
PRIMA ELECTRO	52,325	9,778	18.7%	2,167	4.1%	(1,166)	-2.2%	839
ELIMINATIONS	(25,940)	(283)	-1.1%	(126)	-0.5%	(112)	-0.4%	(216)
GROUP	**449,503**	**106,549**	**23.7%**	**43,178**	**9.6%**	**26,296**	**5.9%**	**18,668**

(% calculated over the revenues)

Values in euro thousand

VARIATIONS	REVENUES	GROSS MARGIN	GROSS MARGIN %	EBITDA	EBITDA %	EBIT	EBIT %	NET RESULT
PRIMA POWER	11,499	2,567	22.3%	(826)	-7.2%	(317)	-2.8%	(1,458)
PRIMA ELECTRO	6,533	3,276	50.1%	3,113	47.7%	2,483	38.0%	7,014
ELIMINATIONS	(603)	(255)	-42.3%	(406)	-67.3%	(421)	-69.8%	(166)
GROUP	**17,429**	**5,588**	**32.1%**	**1,881**	**10.8%**	**1,745**	**10.0%**	**5,390**

(% calculated over the revenues)

The consolidated revenues, broken down by geographical area, as of December 31, 2018 compared with the corresponding period of the previous year are shown below:

REVENUES	DECEMBER 31, 2018		DECEMBER 31, 2017	
	Euro thousand	%	*Euro thousand*	%
EMEA	293,145	62.8	242.240	53.9
AMERICAS	105,947	22.7	118,016	26.3
APAC	67,840	14.5	89,247	19.8
TOTAL	**466,932**	**100.0**	**449,503**	**100.0**

The above shows that the Group's turnover for the year 2018 (compared to 2017) records a significant increase in EMEA (+21.0%); on the other hand a decrease has been recorded both in AMERICAS (-10.2%) and in APAC (-24.0%).

The Group achieved consolidated revenues in EMEA for Euro 293,145 thousand; in particular, good results has been reached in Italy (18.4% of consolidated revenues), in Northen Europe (10.1% of consolidated revenues), in Russia and Eastern Europe (in total 8.7% of consolidated revenues), in Spain (5.1% of consolidated revenues) and in Germany (4.6% of consolidated revenues).

The turnover portion generated by AMERICAS decreased compared to 2017, from Euro 118,016 thousand to Euro 105,947 thousand (-10.2%). This decrease is exclusively attributable to the automotive sector, while the sheet metal fabrication has continued to grow. It should be noted that at constant exchange rates the turnover in the AMERICAS area would have been only 5.9% lower than last year.

As for APAC countries revenues decreased compared to 2017 moving from Euro 89,247 thousand to Euro 67,840 thousand (-24.0%); this decrease mainly refers to a slowdown in China, whose revenues went from Euro 63,856 thousand at December 31, 2017 to Euro 45,485 thousand at December 31, 2018. The drop in China is also mainly relating to the slowdown of the *automotive* sector.

The breakdown of revenues by segment, before inter-sector items, is as follows:

REVENUES	DECEMBER 31, 2018		DECEMBER 31, 2017	
	Euro thousand	%	*Euro thousand*	%
PRIMA POWER	434,617	93.1	423,118	94.1
PRIMA ELECTRO	58,858	12.6	52,325	11.6
Inter-sector revenues	(26,543)	(5.7)	(25,940)	(5.7)
TOTAL	**466,932**	**100.0**	**449,503**	**100.0**

The above shows that the overall growth in revenues relates to both PRIMA POWER division (Euro 11,499 thousand) and PRIMA ELECTRO division (Euro 6,533 thousand). The revenue growth of PRIMA ELECTRO division is mainly due to sales of DOTS products, especially to the supply of orbital welding systems (for the oil & gas sector).

The **cost of sales** at December 31, 2018 stood at Euro 354,795 thousand up Euro 11,841 thousand from December 31, 2017 (Euro 342,954 thousand).

Group **Gross Margin** at December 31, 2018 was Euro 112,137 thousand, an increase of Euro 5,588 thousand compared to Euro 106,549 thousand in the same period of 2017; the margin accounted for 24.0% of sales and was up slightly from the year 2017 (23.7%).

The **research and development** activity carried out by the Group during the year 2018 has been comprehensively equal to Euro 23,843 thousand (of which Euro 16,542 thousand in the PRIMA POWER sector and Euro 7,301 thousand in the PRIMA ELECTRO sector) equal to 5.1% of turnover.
The capitalized share was equal to Euro 6,348 thousand (of which Euro 3,317 thousand in the PRIMA POWER sector and Euro 3,031 thousand in the PRIMA ELECTRO sector), a reduction compared to Euro 7,134 thousand at December 31, 2017.
Costs sustained in research and development activities for new products proved the Group main purposes in investing for the future and improving products always in the competitiveness on the international markets. For all the capitalized development activities, the technical feasibility has been verified as well as the generation of probable future economic benefits.

During the fiscal year the main research and development activities of the PRIMA POWER division were:
- extension of the 2D product line with an entry-level model mainly destined to the lower-end market;
- development of new functions for 2D Laser cutting technology (increased power, sensors, technological parameters and optical components);
- expansion of the range of options and automation for a new 3D Laser machine model;
- development of functions within Industry 4.0 dedicated to 2D and 3D Laser machines and panel bending machines;

- development of a new series of panel bending machines with faster, quieter servo-electric technologies and lower energy consumption;
- development of a robotic integration for panel bending machines;
- development of a new entry-level punching machine and lasers and expansion of the flexible storage systems range;
- Additive Manufacturing activities;

During the fiscal year the main activities carried out by the PRIMA ELECTRO division concerned:
- continuation of development activities of optoelectronic power components for fiber laser sources application to;
- development of new fiber laser sources to expand the range of power.

Net research and development costs were Euro 24,174 thousand up Euro 2,219 thousand from December 31, 2017 (Euro 21,955 thousand). This item includes non capitalizable research and development costs, *Tech Center* costs and *overheads* and is disclosed net of grants (national and European) entered on an accrual basis.

Sales and marketing expenses, which include business structure costs such as personnel, trade fairs and events, the demo center, promotional and advertising activities and related overheads, were Euro 31,505 thousand, up Euro 1,555 thousand from Euro 29,950 thousand at December 31, 2017.

General and administrative expenses, which includes costs related to Group or Divisional management structures, Finance costs, HR, IT and overheads, were Euro 28,417 thousand, up Euro 69 thousand from Euro 28,348 thousand at December 31, 2017.

Group **EBITDA** at December 31, 2018 stood at Euro 45,059 thousand (9.7% of revenues) and was up Euro 1,881 thousand from December 31, 2017 (Euro 43,178 thousand, 9.6% of revenues).
EBITDA at December 31, 2018 includes net non-recurring costs of Euro 2,845 thousand (Euro 1,885 thousand at December 31, 2017), therefore the adjusted Group EBITDA was Euro 47,904 thousand (10.3% of revenues) and was up Euro 2,841 thousand from December 31, 2017 (Euro 45,063 thousand, 10.0% of revenues). In particular, in the last quarter of the year, **adjusted EBITDA** was Euro 16,630 thousand (11.2% of turnover for the quarter).

The Group's **EBIT** at December 31, 2018 is equal to Euro 28,041 thousand (6.0% of revenues) and is up Euro 1,745 thousand compared to December 31, 2017 (Euro 26,296 thousand, equal to 5.9% of revenues). This result was affected by the amortization of intangible assets for Euro 11,163 thousand, of tangible fixed assets for Euro 4,529 thousand and impairment of Euro 1,326 thousand. With regard to the amortization of intangible assets, these mainly refer to amortization of development costs (Euro 8,463 thousand) and amortization relating to the trademark registered as part of the business combination of the FINN-POWER Group, amounting to Euro 1,823 thousand.
EBIT at December 31, 2018 was affected by non-recurring impairment costs related to a building (classified under non-current assets held for sale) amounting to Euro 681 thousand and previously capitalised development costs of Euro 645 thousand; as a consequence, *adjusted* EBIT amounted to Euro 32,212 thousand (6.9% of revenues), up by 14.2% compared to December 31, 2017 (equal to Euro 28,205 thousand). In the last quarter the *adjusted* EBIT amounted to Euro 12,638 thousand (equal to 8.5% on the quarterly turnover).

The **EBT** of the Group at December 31, 2018 is positive for Euro 26,621 thousand and is up by Euro 4,769 thousand compared to December 31, 2017 (equal to Euro 21,852 thousand). The EBT of the Group includes net expenses from financial management (including profits and losses on exchange rates) for Euro 8,653 thousand (at December 31, 2017 they were equal to Euro 7,000 thousand).

Financial expenses also include Euro 1,885 thousand of costs due to the advanced closing of *Bond* and *Club Deal* loan for the debt refinancing, with the aim of extending the maturities by approximately 3 years and reducing the interest rate by around 2%.

FINANCIAL RESULTS (€/000)	DECEMBER 31, 2018	DECEMBER 31, 2017
Bond	(1,323)	(2,419)
Bond - adv. Closing costs	(1,515)	-
Club Deal	(94)	(1,089)
Club Deal - adv. Closing costs	(370)	-
Loans 2018	(1,290)	-
Finnish Loan	-	(563)
Finnish Loan - adv. Closing costs	-	(126)
Derivate expenses (CRS)	(1,165)	2,500
Derivates expenses (IRS)	(374)	(82)
Devaluation of financial receivables	(118)	-
Other financial expenses	(2,162)	(2,248)
Net financial expenses	**(8,411)**	**(4,027)**
Net exchange differences	(242)	(2,973)
TOTAL	**(8,653)**	**(7,000)**

Exchange rate management was negative at Euro 242 thousand (Euro 2,973 thousand at December 31, 2017); however, it is important to point out that the management of exchange rate derivatives was negative at Euro 1,165 thousand.

Net result of other investments were Euro 7,233 thousand and include Euro 54 thousand value reinstatement recovered from the Caretek shareholding (19.3% stake held by PRIMA ELECTRO SpA) and Euro 7,179 thousand from capital gains on the sale of all shares in EPS SA (already classified among "Non-current assets held for sale"). For more information about this operation, see the section "2018 Significant events of the period."

Group's **NET RESULT** at December 31, 2018 is positive for Euro 24,058 thousand (positive for Euro 18,668 thousand at December 31, 2017); while the Net Result attributable to parent company amounts to Euro 24,056 thousand. Income taxes in 2018 financial year indicate a negative net balance of Euro 2,563 thousand. The balance of current and deferred taxes is Euro 2,272 thousand, IRAP is equal to Euro 353 thousand and other taxes including those relating to prior years are positive for Euro 62 thousand.

Assets, liabilities and financial position

The reclassified balance sheet of PRIMA INDUSTRIE Group is shown below.

VALUES EXPRESSED IN EURO THOUSAND	DECEMBER 31, 2018	DECEMBER 31, 2017	VARIATIONS
Tangible and intagible fixed assets	78,716	82,320	(3,604)
Goodwill	103,032	102,911	121
Equity investments and other non-current assets	6,613	365	6,248
Deferred tax assets	11,973	11,340	633
NON-CURRENT ASSETS	**200,334**	**196,936**	**3,398**
Inventories	135,863	113,035	22,828
Trade receivables	110,757	113,649	(2,892)
Trade payables	(115,141)	(110,465)	(4,676)
Advances	(40,545)	(43,620)	3,075
OPERATING WORKING CAPITAL	**90,934**	**72,599**	**18,335**
Other current assets and liabilities	(14,733)	(16,931)	2,198
Current tax assets and liabilities	2,549	3,308	(759)
Provisions for risks and employee benefits	(30,574)	(32,440)	1,866
Deferred tax liabilities	(5,333)	(5,997)	664
Non-current assets held for sale	1,234	1,111	123
NET INVESTED CAPITAL	**244,411**	**218,586**	**25,825**
NET INDEBTEDNESS	**74,639**	**69,632**	**5,007**
SHAREHOLDER'S EQUITY	**169,772**	**148,954**	**20,818**
Stockholders' equity of the Group	166,438	147,668	18,770
Minority interest	3,334	1,286	2,048
LOAN SOURCES	**244,411**	**218,586**	**25,825**

Tangible and intangible fixed assets (other than Goodwill) of PRIMA INDUSTRIE Group decreased by Euro 3,604 thousand from the previous year. Movements in the year were for:

- net increases of Euro 13,985 thousand in the period (Euro 5,431 thousand for development costs net of tax credits of the two Italian companies);
- amortization and depreciation accounted for Euro 16,337 thousand (of which Euro 9,105 thousand for development costs);
- reclassification of Euro 1,531 thousand under Non-current assets held for sale;
- positive exchange rates of Euro 279 thousand.

The change in Goodwill is attributable to the only currency adjustment.

Investments and other non-current assets increased by Euro 6,248 thousand, mainly as a result of:

- the purchase (through PRIMA POWER SUZHOU) of 19% in the Chinese company Lead Laser for Euro 6,201 thousand;
- recovery of the value of the stake in Caretek Srl (held by PRIMA ELECTRO SpA) by Euro 54 thousand.

Operating Working capital increased from the previous year to support the high orders intake at the end of the year and investments in research and development.

At December 31, 2018, the Group's net financial position was equal to Euro 74,639 thousand, compared to Euro 69,632 thousand on December 31, 2017. The net financial position detail is shown as follows.

VALUES EXPRESSED IN EURO THOUSAND	DEC 31, 2018	DEC 31, 2017
NON CURRENT FINANCIAL ASSETS	(4,876)	-
CASH & CASH EQUIVALENTS	(71,078)	(70,521)
CURRENT FINANCIAL ASSETS	(367)	(849)
CURRENT FINANCIAL LIABILITIES	37,144	42,525
NON CURRENT FINANCIAL LIABILITIES	113,816	98,477
NET INDEBTNESS	**74,639**	**69,632**

To provide better information with regard to the net financial position at December 31, 2018, the following should be considered (including ancillary costs and accrued interest):

- the *Bond* amounts comprehensively to Euro 25,455 thousand;
- loans 2018 amount to Euro 83,100 thousand;
- payables due to leasing companies (almost exclusively of a property nature) amount to Euro 8,709 thousand.

For more details on the net financial position, see Note 10 - Net Financial Position.

Net equity attributable to shareholders of the parent company increased by Euro 18,770 thousand. This increase is due to the positive effects of the results of the period (Euro 24,056 thousand), translation reserve (Euro 1,346 thousand) and the effect of the stock grant plan (Euro 13 thousand), which were offset by the dividend payment (Euro 4,193 thousand), the purchase of treasury shares (Euro 1,966 thousand), the variation in the fair value adjustment reserve for derivatives (Euro 407 thousand), actuarial profits on employee severance indemnities plans (Euro 38 thousand) and the retroactive redetermination of the effects of adoption of IFRS15 on shareholders' equity (Euro 41 thousand).
The equity of minority shareholders increased by Euro 2,048 thousand, owing to the increased capital in PRIMA POWER SUZHOU (Euro 2,075 thousand) and the overall result for the period (Euro -27 thousand) attributable to third parties.

Below is the *Cash Flow* of the PRIMA INDUSTRIE Group at December 31, 2018, compared with the corresponding period of the previous year.

VALUES IN EURO THOUSAND	DECEMBER 31, 2018	DECEMBER 31, 2017	VARIATIONS
Net Indebtness Opening	**(69,632)**	**(84,215)**	**14,583**
Cash from operating activities before TWC	29,049	34,969	(5,920)
Change in Trade Working Capital	(18,335)	(139)	(18,196)
Cash from operating activities	**10,714**	**34,830**	**(24,116)**
Investments in development costs	(5,431)	(6,843)	1,412
Investments in Lead Laser	(6,201)	-	(6,201)
Other investments	(7,884)	(6,109)	(1,775)
Cash from investment activities	**(19,516)**	**(12,952)**	**(6,564)**
FREE CASH FLOW (FCF)	**(8,802)**	**21,878**	**(30,680)**
Dividends	(4,193)	(3,145)	(1,048)
Treasury stock	(1,966)	-	(1,966)
Net financial result of investments	7,233	2,556	4,677
Other changes	2,049	-	2,049
Cash from financing activities	**3,123**	**(589)**	**3,712**
Net exchange differences	672	(6,706)	7,378
CASH FLOW - TOTAL	**(5,007)**	**14,583**	**(19,590)**
Net Indebtness Closing	**(74,639)**	**(69,632)**	**(5,007)**

Impairment test

The impairment test on the goodwill is an essential part of preparing the PRIMA INDUSTRIE Group's financial statements. To enable users of the financial statements to understand the entire asset measurement process (the underlying assumptions, the estimation method, the parameters used, etc.), the following notes to the consolidated financial statements (see Note 2 – Intangible assets) will provide a broad explanation of the directors' assessments and assumptions on this matter. The methodological approach and the assumptions underlying the impairment test on goodwill were approved independently by the directors of PRIMA INDUSTRIE before approval of these financial statements.

It should be note that no losses have emerged from the impairment test carried out.

Business performance

During 2018 the order acquisition (including *after-sale service*) amounted to Euro 471.2 million, decreased of -2% compared to Euro 480.6 million at December 31, 2017. The acquisition of orders of the PRIMA POWER sector amounted to Euro 438 million (including the orders acquisition of the new sector PRIMA ADDITIVE - for more details of Sector report see Chapter 8), while the PRIMA ELECTRO ones, considering the ones from customers outside the Group, amounted to Euro 33.2 million.

The consolidated order backlog (not inclusive of the *after-sale service*) at December 31, 2018 amounts to Euro 169.4 million (compared to Euro 169.9 million at December 31, 2017). The portfolio includes Euro 161.2 million relating to the PRIMA POWER sector and Euro 8.2 million relating to the PRIMA ELECTRO sector.

Personnel

At December 31, 2018, the Group had 1,871 employees of which 1,585 in PRIMA POWER Division and 286 in PRIMA ELECTRO Division. Compared to December 31, 2017 the employee numbers increased by 90.

VALUES EXPRESSED IN UNITS	PRIMA POWER		PRIMA ELECTRO		PRIMA GROUP	
	DEC 31, 2018	DEC 31, 2017	DEC 31, 2018	DEC 31, 2017	DEC 31, 2018	DEC 31, 2017
Production & Installation	568	547	141	128	709	675
Service & Spare Parts	496	476	14	15	510	491
R&D	204	190	68	67	272	257
Sales & Marketing	183	168	34	35	217	203
General & Administrative	134	128	29	27	163	155
Total	**1,585**	**1,509**	**286**	**272**	**1,871**	**1,781**

For a better comprehension, the 2017 figures have been re-exposed

Operations with related parties

During the reporting period no significant operations with related parties were concluded in accordance with Article 5, paragraph 8 of the Regulations containing provisions on related parties No. 17221, issued by CONSOB on March 12, 2010. For further details of the operations carried out by the Group with related parties, refer to -Information on related parties on Explanatory Notes.
There follows a summary report of the operations (disbursements and repayments) related to intercompany loans which, pursuant to article 14, paragraph 2 of the said Regulation and article 32 of the Regulation adopted by the company with regard to related parties, are exempt from the application of the related procedure.

VALUES EXPRESSED IN EURO THOUSAND	DECEMBER 31, 2017	ISSUED (*)	REIMBURSEMENTS	DIFFERENCES ON EXCHANGE RATES	INTERESTS	DECEMBER 31, 2018
Loans issued by Prima Industrie SpA						
Prima Electro SpA	810	-	(814)	-	4	-
Prima Power South America Ltda	-	500	-	-	8	508
Prima Power Laserdyne LLC	1,680	-	-	44	31	1,755
Prima Power Suzhou CO. LTD.	3,221	4,000	(4,838)	-	69	2,452
Loans issued by Prima Power Iberica S.L.						
Prima Industrie SpA	4,000	3,000	(4,027)	-	27	3,000
Loans issued by Finn-Power OY						
Prima Industrie SpA	5,074	-	(5,000)	-	43	117
Loans issued by Prima Power Central Europe Sp.z.o.o.						
Prima Industrie SpA	-	3,000	(1)	-	1	3,000
Loans issued by Prima Power North America						
Prima Power Laserdyne LLC	3,880	-	(1,228)	-	155	2,807
Convergent-Photonics LLC	-	5,240	(36)	-	86	5,290
TOTAL	**18,665**	**15,740**	**(15,944)**	**44**	**424**	**18,929**

(*) Loans to Prima Power Laserdyne LLC and Convergent-photonics LLC have been issued in dollars

Management of the risks for Prima Industrie Group

The *Risk Model* of PRIMA INDUSTRIE Group, based on reference standards adapted to the Group's specific risk categories, involves the mapping of risks by categories identified according to the nature of the risks. Following the business acquisitions of the recent past, this model is reconsidered concurrently with the required organisational changes that are the result of the integration process that is underway. These updates are aimed at the reallocation of risk maps based on their category: context risk, process risk (in turn divided into strategic, operational and financial).
Generally, the PRIMA INDUSTRIE Group operates within a very dynamic market and hence faces multiple risks as it conducts business. Therefore, in addition to the risks described below, further risks and uncertainties may arise of which the Group currently has no knowledge or which are not currently considered important.

Below is a brief description of the main risks to which the Group is exposed.

Context risk

Risks associated with general economic conditions and the cyclical nature of the reference commodity markets

Since it operates within a global competitive context, the economic and financial situation of PRIMA INDUSTRIE Group is influenced by general conditions and world economic trends. Therefore, any negative economic situation or political instability in one or several of the group's geographical markets, including reduced opportunities for access to credit, can have a significant impact on economic performance and can influence its future prospects, in the short, medium and long term.

The Group's business also depends on the performance of some commodity markets (*automotive, aerospace, home appliances,* etc.) which are historically subject to cyclical variations and uncertain future economic prospects. Any negative economic performance on one or more of these markets, regardless of overall positive developments in the global economy, may significantly affect the Group's economic and financial performance and strategic perspective in the short, medium and long term and may have a negative effect on the business conducted by the Group and on its economic and financial position.

Risks associated with new competitors entering the market

The Group's sector of industry is characterised by a high technological barrier to entry. It is therefore unlikely that a large number of new competitors will enter sector, although the spread of fibre technology has reduced barriers to entry for laser machines. However, it is possible that investors with substantial financial resources – and therefore able to attract sufficient human resources and to financially support the considerable initial investment required to become competitive in the market – may enter the market and change the competitive framework and therefore the Group's product profitability. Similarly, the Group's existing competitors can consolidate their positions through mergers, joint ventures or other forms of trade agreements. As a result, the PRIMA INDUSTRIE Group can compete with groups that have greater financial resources, are larger and with better production capacity, as well as a more diversified presence in the world able to develop greater economies of scale and aggressive pricing policies.

In addition, if the Group is unable to continue to supply its services to existing customers, ensure a high level of satisfaction or develop new products and services, to attract new customers, meet their needs, increase efficiency and reduce overheads, it may not be able to successfully compete in key markets. If the Group is unable to maintain its position in the relevant markets, this could have a negative impact on the business, results, financial condition or future prospects.

Risks associated with financial requirements

Ordinary management of the company involves the availability of considerable financial resources to devote to working capital. Competition dynamics also involves the need for substantial financial resources to support investments in research and development of new products, as well as commercial and production investments for direct establishment in new geographical markets of interest.

In addition, as happened several times, the Group may need to consider a loan to evaluate growth opportunities through acquisitions. In line with its development strategy, the Group has credit lines and bank loans granted by major credit institutes, at a level deemed appropriate to avoid financial stress. However, even considering the recent debt renegotiation, it is not possible to rule out that market uncertainty could lead to financial stress and/or the inability to obtain sufficient resources to finance growth and investment plans.

Risks related to the employment of key personnel in the Group

The PRIMA INDUSTRIE Group includes some key figures who, through their experience in the industry and deep knowledge of the Group's business, gained thanks to their long relationship with the Group, have contributed decisively to its success. The Group's future results depend in part on the skills and involvement of key figures.
The Group's ability to attract and retain qualified personnel is one of the elements that contribute to certain results. If one or more key figures stops working with the Group and the latter were unable to attract additional qualified personnel, there is a risk that it might not be able to replace them quickly with equally qualified people who are capable of providing, even in the short term, the same contribution, with consequent negative effects on business and on the Group's economic and financial position.

Process risks - strategic

Risks related to competition

The market in which PRIMA INDUSTRIE Group operates is characterised by strong competition and a high rate of technological innovation. In light of this, the Group's activities are particularly focused on research and development and introducing new technologically advanced products to meet market demand. However, there is no certainty that these activities will enable the Group to maintain and/or improve its competitive position, even in the face of the possibility of more innovative competing products. In this case, the Group's assets, operating profitability and financial position can be adversely affected. Notwithstanding the existence of patents and other forms of intellectual property protection on which the Group relies, there is the possibility that competitors might develop (without infringing the Group's intellectual property) similar products or technologies or create alternative ones, with lower costs and greater quality or with a higher level of functionality. This could have negative effects on the Group's competitiveness, with a consequent negative impact on its economic and financial position.

Risks related to technological innovation and the introduction of new products

The business of PRIMA INDUSTRIE Group heavily features research and development and the introduction of new technologically advanced products. Any delay in the introduction of new products, in the context of a dynamic and competitive market, is likely to damage the Group's strategy, with negative effects on profitability and financial standing.

Risks related to intellectual property and know-how

The PRIMA INDUSTRIE Group owns a number of patents and other intellectual property. In addition, the Group cannot guarantee that any required or planned patent, in the new technological development plans, will be granted in each country in which it is needed or is expected to be granted. External parties may infringe the Group's patents and/or intellectual property rights and it may not be able to counter such violations. Consequently, if the Group is unable to protect its intellectual property, it may not be able to benefit from the technological progress achieved, leading to lower future results, and a worsening of the Group's competitive position.
In parallel, the Group cannot rule out the possibility of infringing patents or other intellectual property rights of third parties, which could result in a ban on use of the technologies involved or alteration of production processes or the payment of compensation.
The PRIMA INDUSTRIE Group cannot guarantee protection of its trade secrets, or that third parties will not develop the same or similar know-how independently. Any delivery and production restrictions or production interruptions due to patent infringement, or the subsequent acquisition of corresponding licences, may have an important adverse effect on the Group's business and results.

Risks associated with potential future acquisitions

The PRIMA INDUSTRIE Group evaluates the opportunity to improve its business operations by carrying out efficiency drives or expanding its product range. As a result, the Group has achieved, and may in the future perform, acquisitions or strategic partnerships or other significant operations. These operations could result in a further rise in debt and/or other liabilities that could have an adverse effect on the Group's economic and financial position.

Risks associated with the Group's presence on international markets and new emerging markets

In recent years, the PRIMA INDUSTRIE Group has developed an extensive geographical organisation and today has sufficient commercial coverage of emerging markets. The management of an international organisation requires strong management and significant financial resources. The presence of international markets involves additional risks such as changing market conditions, trade barriers, differences in taxation, restrictions on foreign investment and civil disorder. As a result, these international risks may have adverse effects on business.
In recent years, the Group has expanded its presence geographically into emerging markets. Maintaining market share in these emerging markets could require investments in financial, trade and technical terms; if these are missing the market share held by the company could be reduced, with negative impacts on overall economic performance.

Process risks - operating

Risks associated with possible defects in products sold by the Group and related to the timing of deliveries to customers

The PRIMA INDUSTRIE Group manufactures and markets products with high technological content. A significant portion of the products sold is represented by new or newly designed products, which, due to their complexity, can present quality issues and require long installation times. Any defects in products may require extraordinary maintenance and entail contractual liabilities, as well as having a negative impact on the Group's image.
In this regard, it should be noted that both divisions of the PRIMA INDUSTRIE Group consider continuous quality improvement a primary goal. In this respect, the two divisions have formed autonomous organisations aimed at continuous quality control, while each production plant has local units that operate according to the principles of quality defined by the respective division. Furthermore, products are put into production upon receipt of the customer order provided with all the technical specifications. Any situations where production is concentrated at particular times of the year can lead to difficulties in delivery times agreed with the customer resulting in potential compensation claims for damages.

Risks related to dependence on suppliers and potential disruption in supply

The PRIMA INDUSTRIE Group purchases components from a large number of suppliers and relies on services and products provided by external companies. Possible dependence on manufacturers of fibre laser sources (currently only a few parties), will be mitigated by the industrialisation of our laser with fibre technology. Close cooperation between manufacturers and suppliers is common in the Group's sectors and although this offers economic benefits in terms of cost reduction, it may also mean that the Group could be exposed to the difficulties experienced by suppliers, including those of a financial nature, (whether caused by internal or external factors) and this could have a negative effect on the Group. Orders for the purchase of raw materials and semi-finished components from suppliers are planned according to specific workflow rules for the provision of components to the production lines of the production plants. Any delays in the delivery of raw materials and semi-finished products could lead to delays in the delivery of products to the customer; there is no certainty of recovering from the supplier possible claims for damages brought by customers, with consequent negative impact on the company.

Risks related to possible injury caused by the Group's products

The PRIMA INDUSTRIE Group's products are used by customers for cutting, welding and bending metal components and, although highly automated, they need the assistance of the customer's personnel, who are subject to certain risks related to the production processes. Consequently, any injury to the customer's personnel, not entirely covered by insurance, may have a negative effect on the Group's economic and financial position.

Risks related to the Group's production plants

The Group's production facilities are currently located in four countries and are subject to operational risks, including production risks such as equipment failure, failure to comply with current regulations, revocation of permits and licences, labour shortages or work interruptions, natural disasters, sabotage, attacks or disruptions to raw material supplies. Any interruption of work in production facilities, caused by these or other events, can have a negative impact on the Group's economic and financial position.

Risks associated with IT system failures, network outages and breaches in data security

The PRIMA INDUSTRIE Group is subject to IT system failures, power failures and violations of data security, which can adversely affect the Group. The Group depends on technology to maintain and improve the efficiency and effectiveness of its operations and to interface with their customers, and to maintain the accuracy and efficiency of reporting and internal audits. IT system errors can cause erroneous transactions, process inefficiencies, can impede the production or shipment of products and the loss of or damage to intellectual property through security breach. The Group's IT systems can also be penetrated by external parties intent on extracting information.

Risks relating to health, safety and the environment

The PRIMA INDUSTRIE Group is subject to regulations regarding health, safety and the environment in the countries in which it operates. Failure to comply with these rules as a result of operating processes not suitably monitored or, particularly in new markets, an inadequate assessment of these requirements can expose the Group to risks with significant impacts on the Group's economic, equity and financial situation and its reputation. In order to reduce this risk, it should be noted that the Group will adopt systems to manage health, safety and the environment aimed at ensuring compliance with local regulations.

Risks related to legal issues, tax or labour law litigation

In the exercise of its business activities, the PRIMA INDUSTRIE Group may encounter legal, tax or labour law litigation. The Group adopts the necessary measures to prevent and mitigate any penalties that may result from these proceedings.
PRIMA INDUSTRIE Group is subject to changes in tax laws in the countries in which it operates. Although the Group allocates provisions, where necessary, for tax disputes, for unforeseen tax payables, it can experience a negative effect on the financial condition and results due to insufficient provisions or due to unforeseeable circumstances.
It is noted that the U.S. company PRIMA POWER LASERDYNE, indirectly 100% owned by PRIMA INDUSTRIE SpA (through FINN-POWER Oy and PRIMA POWER NORTH AMERICA Inc.) received a Federal Grand Jury subpoena in 2017 requesting information relating to certain of PRIMA POWER LASERDYNE's exports and related activities since 2011. PRIMA POWER LASERDYNE, with the support of the Law Firms appointed to assist the Company on this matter, is in the process of responding to the subpoena and cooperating with the Government's investigation. During the year, activities continued, without significant or substantive changes, therefore the information currently available is not enough to assess the possible impact of this issue. Legal costs incurred so far have been regularly charged to PRIMA POWER LASERDYNE income statements.

Process risks – financial

Liquidity risk and management of working capital

Liquidity risk is the risk that financial resources may not be sufficient to fund the financial and commercial obligations within the pre-established periods and due dates. The liquidity risk to which the group is subject may derive from late collections and, more generally, from the difficulty of obtaining loans to support operational activities within the necessary time. The cash flow, financing needs and liquidity of group companies are monitored or managed centrally under the supervision of the Group Treasury, with the aim of guaranteeing effective and efficient management of financial resources.

The Group's finished products are usually an investment for client companies, therefore their collection can also be done in quotas, with the last occurring after the machine or system has been commissioned on their premises. The period of time necessary for the production cycle and the commissioning is therefore usually much longer than that for payment of suppliers. In addition, customers often make the investment with medium to long-term financial support, which sometimes takes a long time to obtain. It is normal for the Group to have to face these needs and thus its working capital cycle may be longer and adversely affect Group liquidity. These situations create the need for the Group to have adequate lines of credit and bear the cost for their use. A difficult trend in the financial market or intrinsic difficulties by customers in raising financial funds in the short term could have a negative impact on the Group's economic and financial performance.

Risks related to fluctuation in interest rates and exchange rates

The PRIMA INDUSTRIE Group uses various forms of financing to cover the financial requirements of its business. Changes in interest rate levels can therefore lead to increases or decreases in the financing cost. In order to manage risks related to fluctuations in interest rates on financing transactions, the Group may use, if necessary, financial hedge instruments. Despite this, sudden fluctuations in interest rates could have a negative impact on the economic and financial results due to higher interest expense on the Net Financial Position part not promptly hedged by derivatives. It should be specified that the Group's current Net Financial Position includes a seven-year non-convertible bond whose interest rate is fixed, so it is not exposed to interest rate changes. Moreover, since the PRIMA INDUSTRIE Group operates on a world-scale and with subsidiaries in many countries of the world, the impact of the fluctuation of the different currencies in which are denominated the Group's financial statements may determine relevant economic and financial consequences; to cope with this financial risk, the Group has a hedging policy through the use of derivative instruments.

Credit risk

The Group only deals with noted and trustworthy clients; furthermore, the amount of receivables is monitored during the financial year so that the sum exposed to losses is not significant.

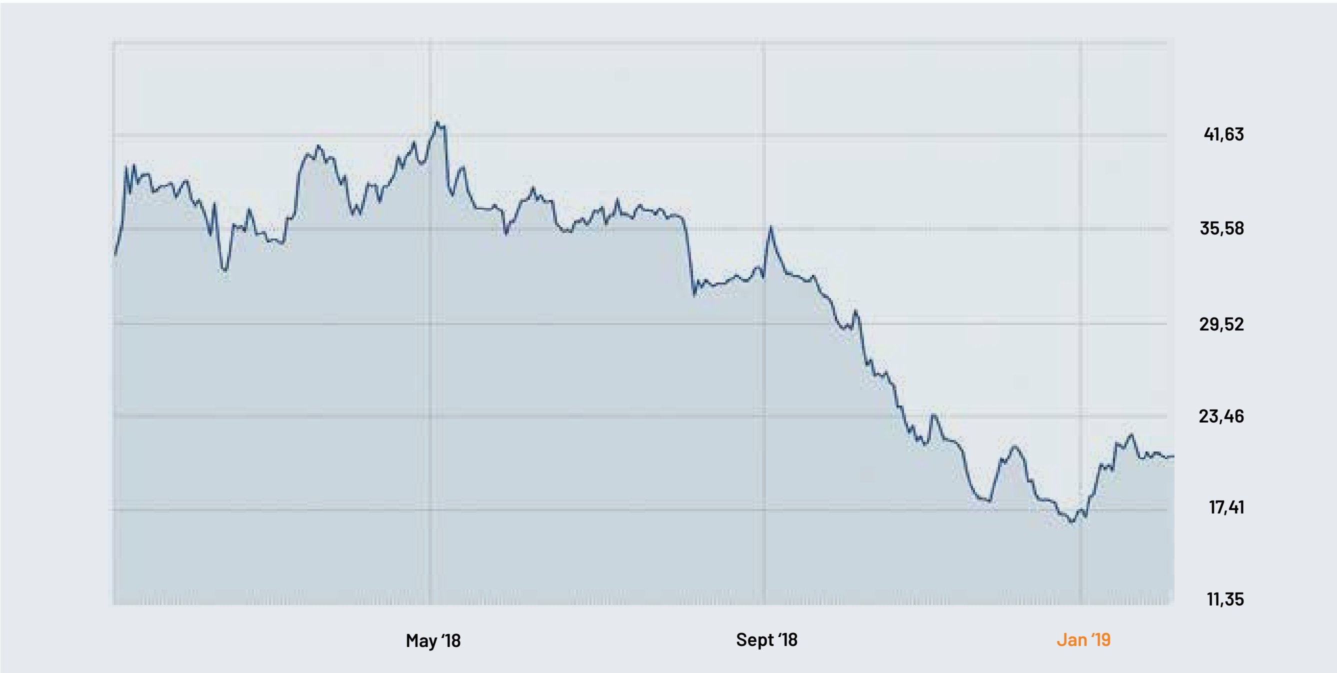
It should be noted that there are no significant concentrations of credit risk within the Group. The financial assets are shown in the financial statements net of the devaluation calculated on the basis of risk of non-fulfilment by the counter party, determined in consideration of the information available on the solvency of the client and possibly considering historical data.

Stock trend and treasury stock

During 2018, PRIMA INDUSTRIE shares went from a unit value of Euro 33.81 at January 2, 2018 to Euro 17.20 per share at December 28, 2018. This was a 49% decrease over the period, in line with stock market trends affected by the high degree of geopolitical uncertainty.

The maximum value of the shares was Euro 42.5 (May 3, 2018), while the minimum value reached was Euro 16.54 on December 21, 2018. Finally, after the close of the year, shares recovered part of the loss in value, although if it remained at values still far from the 2018 highs and the *target price* indications of financial analysts.

This trend is shown in the chart below:

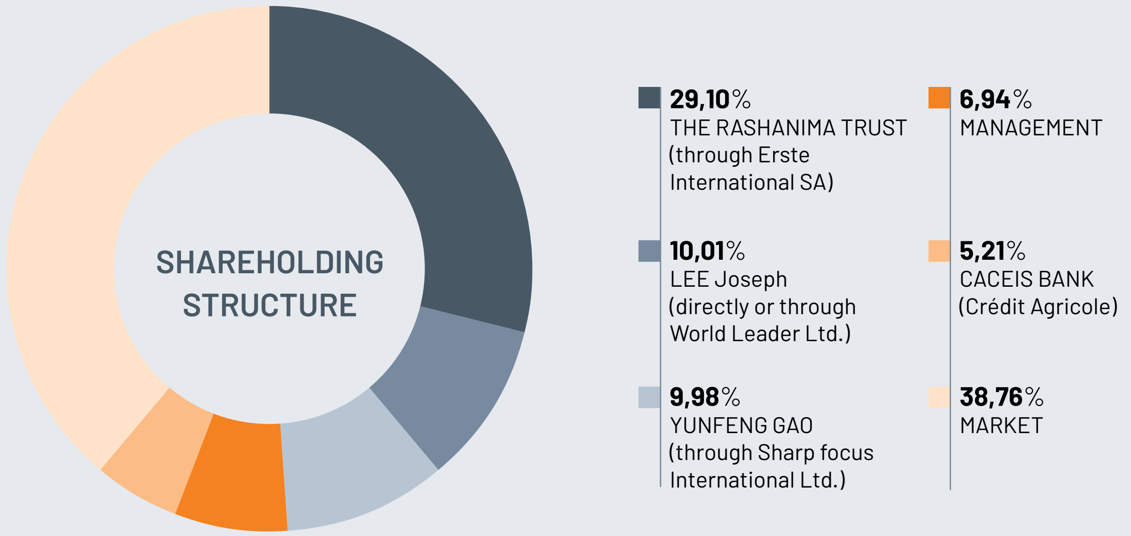


On April 20, 2018 the Shareholders' Meeting authorized the purchase, in one or more times, for a period of eighteen months, of ordinary shares of PRIMA INDUSTRIE SpA. As of the date of this Annual Financial Report PRIMA INDUSTRIE holds 100,000 treasury shares (0.95% of the share capital), part of which may be assigned free of charge for stock incentive plans.

Shareholding structure

On December 31st, 2018, the share capital of Prima Industrie SpA amounts to Euro 26,208 thousand divided into 10,483,274 ordinary shares at the nominal value of 2.50 Euro each. No classes of shares or bonds have been issued other than ordinary shares.

In the light of the results of the shareholders diary after the payment of the last dividend and from subsequent communications carried out between the company and the overseeing authority, the most up-to-date share structure is as follows:



Pursuant to the combined provisions of article 1, paragraph 1, sub-paragraph w-quarter 1) of Legislative Decree no. 58/1998 and article 117, paragraph 1 of the Issuers CONSOB Regulation 11971/1999, significant investments are the investment of those who participate in the Issuer's share capital with a share of over 5%, as the Issuer is defined as SME.

Corporate governance

The overall *corporate governance* framework of PRIMA INDUSTRIE, the system of rules and procedures that Company Boards refer to in deciding their line of conduct and in attending to their several responsibilities towards their stakeholders, has been defined bearing in mind the applicable standards and guidelines of the Code of Conduct approved in 2015 by the *Corporate Governance* Committee promoted by Borsa Italiana SpA, ABI, Ania, Assogestioni, Assonime, Confindustria.

Pursuant to article 123-bis of Leg. Decree no. 58/1998 (the "TUF") and to articles 89-bis and 144-decies of CONSOB's Regulation, the company annually drafts the "Report on Corporate Governance and Ownership Structure" (based on the "*comply or explain*" principle), with which it provides appropriate information on its *Corporate Governance* system. More specifically, the Report contains a general description of the system of corporate governance adopted by the Group and reports the information on the company's structure and its adherence to the Code of Conduct, including the main practices of *Governance* applied and the characteristics of its Internal Audit and Risk Management, also in relation to the financial information process.

First of all, the Report supplies a whole set of information on the company's Boards, their membership, term of office, business conduct, their powers and other information on elements that further distinguish the structure of corporate governance. It also contains information, including the personal details of company executives, along with their educational and professional profile.

The same Report, moreover, provides news on remuneration (fees) of Directors and Executives who have strategic responsibilities (also by recalling the Report on remuneration to be published in accordance with article 84-quater of the CONSOB Regulation), on the policy to apply when processing confidential information and when conducting major transactions (financial or capital) with associates, or that are atypical or unusual.

In particular, in observance of Leg. Decree no. 173/2008 which implements Directive 2006/46 as part of the legislation, the Report includes information on:

a) the corporate governance practices actually applied by the company, independently of the obligations imposed by legislation or regulations;
b) the main features of the Risk management and Internal audit system, involving the financial information process (consolidated as well);
c) regulations by which Shareholders' Assemblies are held, the Assembly's principal powers, shareholders' rights and the terms for their exercise;
d) the line-up of members and business method of Company Boards and their committees.

Furthermore, the Report incorporates the amendments introduced by Legislative Decree no. 254 of December 30, 2016 to Article 123-bis of the Consolidated Law on Finance, requiring issuers to include in their corporate governance reports "a description of the diversity policies applied regarding the structure of the administrative, management and auditing bodies in relation to aspects such as age, gender and training/professional courses taken, with a description of the objectives, implementation methods and results of said policies".

The Report is a separate document from the Financial Statements and can be viewed by Shareholders on the company's website (www.primaindustrie.com) each year, along with the documentation submitted to the Assembly for the approval of the financial statements.

PRIMA INDUSTRIE SpA wholly owns certain companies that have offices in non-EU countries and are crucial to its business, pursuant to article 36 of CONSOB Regulation no. 16191/2007, as per its amendments ratified with CONSOB Resolution no. 18214/2012, concerning "Market regulation". With reference to the data available on December 31, 2018, please note that procedures have been adopted to ensure that the previously mentioned legislation is complied with and that none of the conditions stated in said article 36 subsist.

Consolidated non-financial statement

As a public interest entity, starting from the financial year 2017, PRIMA INDUSTRIE SpA draws up and presents consolidated non-financial statements, in the form of a separate report, as required by art. 5 of Legislative Decree 254/2016 "Context of the statement and disclosure regime" concerning the disclosure of non-financial information and information on diversity by certain companies and large groups. Annexed to the non-financial statement is the report of the independent auditor appointed in accordance with article 3, paragraph 10 of the aforesaid Legislative Decree 254/2016.
The consolidated non-financial statement can be found in the "Investors" section of the website *www.primaindustrie.com*.

Application of Legislative Decree 231/2001

The Issuing Party has adopted an Organisation, management and control model, as required by Leg. Decree no. 231/2001.

The Organisation, Management and Control Model responds to the following requirements:

- it describes the contents and aims of Decree no. 231/01;
- it lists and describes Presumed breaches, identifies the "Sensitive Areas" in which they may occur and arranges "Protocols" to regulate corporate operational procedures and re-conduct the risk of their perpetration below an acceptable threshold set by the company (Sensitive Areas and Protocols document);
- it applies the Company Code of Ethics, sensitising all recipients to its diligent compliance;
- it defines the criteria for appointing members to the Supervisory Board ("SB"), their tasks and responsibilities, and the method to use when reporting presumed breaches to the Model;
- it structures an integrated audit system meant to check that the Model is indeed applied and efficient (duty of the Supervisory Board);
- it stresses the need for training and briefing sessions to increase awareness of the Model and of its related documents in all of its recipients;
- it adopts a System of Administrative Fines for negligent conduct (Model breach).

The Model is reviewed from time to time to take account of the changing legislative framework, of changes to the company's organisational structure and/or of any imperfections of the Model in its day-by-day application.

The task of monitoring the correct application and observance of the Organisation Model, including revising its contents, is entrusted to the Supervisory Board, which answers to the Board of Directors and Board of Auditors.

On April 11, 2017, the Board of Directors also appointed the new Supervisory Board, consisting of two members of the Statutory Auditors Committee and the head of Internal Auditing, who will remain in office until approval of the financial statements for the financial year 2019.

Investments made for safety in the workplaces

A total of Euro 39 thousand were spent by Prima Industrie SpA in 2018 for safety. The cost items refer to documentation, consultant services and training for safety, devices for vision protection from laser beams, personal protective equipment, signs, the creation of safe conditions in work zones and actions to improve workstation ergonomics.

Foreseeable developments in management

In a year made turbulent by the onset of several international problems and the slowdown of a number of markets, the Group has achieved the best results in its history, thanks to its sharp resilience linked to its wide geographical reach, the variety of industries served and high technological standard. The current global macroeconomic environment makes 2019 appear more uncertain. The Group's commitment is focused on increasing efficiency and controlling costs in order to improve profitability, thanks also to investments made in recent years.

Significant events occurring after financial year closing

There were no significant events subsequent to the financial statements closing and until the date of approval of this Annual Financial Report.

Atypical and unusual transactions

Pursuant to CONSOB Bulletin of July 28, 2006 no. DEM/6064296, we wish to specify that in the examined period, the Group has not engaged in transactions defined as atypical or unusual in the Bulletin.

Management and coordination activities

Prima Industrie SpA is not subject to management and coordination by other companies or entities and decides which general or operative course of action to take in full independence.

Opt-out regime

The Board of Directors of Prima Industrie has resolved on November 12, 2012, in accordance with Consob Resolution no. 18079 of January 20, 2012, to subscribe to the opt-out regimen referred to in articles 70, paragraph 8 and 71, paragraph 1-bis of the Regulation, therefore choosing to avail itself of the right to waiver the obligation of publishing documents describing its mergers, demergers, share capital increases by contributions in kind, purchases and transfers.

Net result allocation

Ladies and Gentlemen,

We hope you are in favour of the Company's return, after some years, to the risk capital policy and invite you to approve the draft financial statements of your Company on December 31, 2018, which closes with a net profit of Euro 4,423,969 and:

- to allocate to the Legal Reserve a portion of the above net profit, amounting to Euro 221,198;
- to allocate the remaining Euro 4,202,771 of the aforesaid profits, as well as Euro 365,870 of previous profits not distributed and set aside to the Extraordinary Reserve, to ordinary dividends of the unit value of Euro 0.44 for each of the shares in circulation at the time of the ex-dividend date, excluding treasury stocks held in portfolio on that date. The total value of the dividends, taking into account the shares in circulation at March 1, 2019 (number 10,383,274), is estimated at Euro 4,568,641.

On behalf of the Board of Directors
Executive Chairman

Gianfranco Carbonato

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Consolidated Financial Statements of Prima Industrie Group December 31, 2018

Accounting tables

Chapter 6 - Consolidated Financial Statements of Prima Industrie Group at December 31, 2018

Consolidated statement of financial position

VALUES IN THOUSAND EURO	NOTES	DECEMBER 31, 2018	DECEMBER 31, 2017
Property, plant and equipment	1	36,749	35,628
Intangible assets	2	145,000	149,603
Other investments	3	6,613	355
Non current financial assets	4	4,876	10
Deferred tax assets	5	11,973	11,340
NON CURRENT ASSETS		**205,211**	**196,936**
Inventories	6	135,863	113,035
Trade receivables	7	110,757	113,649
Other receivables	8	8,929	8,019
Current tax receivables	9	9,667	9,380
Derivatives	10	26	58
Financial assets	10	341	791
Cash and cash equivalents	10	71,078	70,521
CURRENT ASSETS		**336,661**	**315,453**
Assets held for sale	11	**1,234**	**1,111**
TOTAL ASSETS		**543,106**	**513,500**
Capital stock	12	26,208	26,208
Legal reserve	12	4,992	4,653
Other reserves	12	69,154	69,312
Currency translation reserve	12	2,706	1,360
Retained earnings	12	39,322	27,620
Net result	12	24,056	18,515
Stockholders' equity of the Group		***166,438***	***147,668***
Minority interest		***3,334***	***1,286***
STOCKHOLDERS' EQUITY		**169,772**	**148,954**
Interest-bearing loans and borrowings	10	113,180	98,396
Employee benefit liabilities	13	7,570	7,694
Deferred tax liabilities	14	5,333	5,997
Provisions	15	198	172
Derivatives	10	636	80
NON CURRENT LIABILITIES		**126,917**	**112,339**
Trade payables	16	115,141	110,465
Advance payments	16	40,545	43,620
Other payables	16	23,664	24,951
Interest-bearing loans and borrowings	10	37,028	42,525
Current tax payables	17	7,117	6,072
Provisions	15	22,806	24,574
Derivatives	10	116	-
CURRENT LIABILITIES		**246,417**	**252,207**
TOTAL STOCKHOLDERS' EQUITY AND LIABILITIES		**543,106**	**513,500**

Consolidated income statement

VALUES IN EURO THOUSAND	NOTES	DICEMBER 31, 2018	DICEMBER 31, 2017 (*)
Net revenues	*18*	466,932	449,503
Cost of goods sold	*19*	(354,795)	(342,954)
GROSS MARGIN		**112,137**	**106,549**
Research and Development costs	*20*	(24,174)	(21,955)
Sales and marketing expenses	*21*	(31,505)	(29,950)
General and administrative expenses	*22*	(28,417)	(28,348)
OPERATING PROFIT (EBIT)		**28,041**	**26,296**
Financial income	*23*	4,452	2,760
Financial expenses	*23*	(12,863)	(6,787)
Net exchange differences	*23*	(242)	(2,973)
Net result of other investments (**)	*24*	7,233	2,556
RESULT BEFORE TAXES (EBT)		**26,621**	**21,852**
Taxes	*25*	(2,563)	(3,184)
NET RESULT		**24,058**	**18,668**
- Attributable to Group shareholders		*24,056*	*18,515*
- Attributable to minority shareholders		*2*	*153*
RESULT PER SHARE - BASIC (in euro)	***26***	***2.30***	***1.77***
RESULT PER SHARE - DILUTED (in euro)	***26***	***2.27***	***1.77***

(*) For a better comprehension, the 2017 figures have been re-exposed
(**) It must be outlined that this figure includes a financial gain deriving from EPS SA sale of share. In the Balance Sheet the EPS SA investment was classified in the Assets held for sale.

Consolidated statement of comprehensive income

VALUES IN EURO	NOTES	DICEMBER 31, 2018	DICEMBER 31, 2017
NET RESULT (A)		**24,058**	**18,668**
Gains/ (Losses) on actuarial defined benefit plans	*12*	(50)	55
Tax effect	*12*	12	(14)
Total other comprehensive gains/(losses) not to be classified in the Income Statement, net of tax effects (B)		**(38)**	**41**
Gains /(Losses) on cash flow hedges	*12*	(542)	5
Tax effect	*12*	135	(1)
Gains/(Losses) on exchange differences on translating foreign operations	*12*	1,317	(5,566)
Total other comprehensive gains/(losses) to be classified in the Income Statement, net of tax effects (C)		**910**	**(5,562)**
TOTAL COMPREHENSIVE INCOME (A) + (B) + (C)		**24,930**	**13,147**
- Attributable to Group shareholders		*24,957*	*13,073*
- Attributable to minority shareholders		*(27)*	*74*

Consolidated statement of changes in shareholders' equity

From January 1, 2017 to December 31, 2017

VALUES IN EURO THOUSAND	CAPITAL STOCK	ADDITIONAL PAID-IN CAPITAL	TREASURY STOCK	LEGAL RESERVE	CAPITAL INCREASE - EXPENSES	STOCK GRANT RESERVE	CHANGE IN THE FV OF HEDGING DERIVATIVES
Balance as at Jan 1, 2017	**26,208**	**57,507**	**-**	**4,565**	**(1,286)**	**-**	**(63)**
Dividends paid	-	-	-	-	-	-	-
Allocation of prior year net result	-	-	-	88	-	-	-
Result of comprehensive Income	-	-	-	-	-	-	5
Balance as at Dec 31, 2017	**26,208**	**57,507**	**-**	**4,653**	**(1,286)**	**-**	**(58)**

From January 1, 2018 to December 31, 2018

VALUES IN EURO THOUSAND	CAPITAL STOCK	ADDITIONAL PAID-IN CAPITAL	TREASURY STOCK	LEGAL RESERVE	CAPITAL INCREASE - EXPENSES	STOCK GRANT RESERVE	CHANGE IN THE FV OF HEDGING DERIVATIVES
Balance as at Dec 31, 2017	**26,208**	**57,507**	**-**	**4,653**	**(1,286)**	**-**	**(58)**
Impact of IFRS15 adoption	-	-	-	-	-	-	-
Balance as at Jan 1, 2018	**26,208**	**57,507**	**-**	**4,653**	**(1,286)**	**-**	**(58)**
Dividends paid	-	-	-	-	-	-	-
Purchase of Tresury stock	-	-	(1,966)	-	-	-	-
Stock grant plan	-	-	-	-	-	13	-
Capital stock increase in Prima Power Suzhou	-	-	-	-	-	-	-
Allocation of prior year net result	-	-	-	339	-	-	-
Result of comprehensive Income	-	-	-	-	-	-	(407)
Balance as at Dec 31, 2018	**26,208**	**57,507**	**(1,966)**	**4,992**	**(1,286)**	**13**	**(465)**

OTHER RESERVES	CURRENCY TRANSLATION RESERVE	RETAINED EARNINGS	NET RESULT	STOCKHOLDERS' EQUITY OF THE GROUP	MINORITY INTEREST	STOCKHOLDERS' EQUITY
14,581	**6,849**	**19,277**	**10,102**	**137,740**	**1,212**	**138,952**
(3,145)	-	-	-	(3,145)	-	(3,145)
1,670	-	8,344	(10,102)	-	-	-
43	(5,489)	(1)	18,515	13,073	74	13,147
13,149	**1,360**	**27,620**	**18,515**	**147,668**	**1,286**	**148,954**

OTHER RESERVES	CURRENCY TRANSLATION RESERVE	RETAINED EARNINGS	NET RESULT	STOCKHOLDERS' EQUITY OF THE GROUP	MINORITY INTEREST	STOCKHOLDERS' EQUITY
13,149	**1,360**	**27,620**	**18,515**	**147,668**	**1,286**	**148,954**
-	-	(41)	-	(41)	-	(41)
13,149	**1,360**	**27,579**	**18,515**	**147,627**	**1,286**	**148,913**
(4,193)	-	-	-	(4,193)	-	(4,193)
-	-	-	-	(1,966)	-	(1,966)
-	-	-	-	13	-	13
-	-	-	-	-	2,075	2,075
6,433	-	11,743	(18,515)	-	-	-
(38)	1,346	-	24,056	24,957	(27)	24,930
15,351	**2,706**	**39,322**	**24,056**	**166,438**	**3,334**	**169,772**

Consolidated cash flow statement

VALUES IN EURO THOUSAND	DECEMBER 31, 2018	DECEMBER 31, 2017 (*)
Net result	**24,058**	**18,668**
Adjustments (sub-total)	***(13,098)***	***13,139***
Depreciation, impairment & write-off	17,018	16,882
Gain from sales of shares in other investments (**)	(7,179)	(2,560)
Net change in deferred tax assets and liabilities	(1,297)	(2,128)
Change in employee benefits	(124)	(406)
Change in inventories	(22,828)	(14,474)
Change in trade receivables	2,892	(25,272)
Change in trade payables and advances	1,601	39,608
Net change in other receivables/payables and other assets/liabilities	(3,181)	1,489
Cash Flows from (used in) operating activities	**10,960**	**31,807**
Cash flow from investments		
Acquisition of tangible fixed assets (***)	(7,207)	(5,449)
Acquisition of intangible fixed assets	(1,399)	(641)
Capitalization of development costs	(5,431)	(6,843)
Net disposal of fixed assets	205	100
Investment in Lead Laser	(6,201)	-
Write-off/Write-up Other Investments	(54)	5
Change in Other investments (****)	7,903	2,622
Cash Flows from (used in) investing activities	**(12,184)**	**(10,206)**

Consolidated cash flow statement (continued)

VALUES IN EURO THOUSAND	DECEMBER 31, 2018	DECEMBER 31, 2017 (*)
Cash flow from financing activities		
Change in other financial assets/liabilities and other minor items	(4,120)	(1,089)
Increases in loans and borrowings *(including bank overdrafts)*	110,486	33,615
Repayment of loans and borrowings *(including bank overdrafts)*	(100,401)	(38,323)
Repayments in financial lease liabilities	(1,058)	(603)
Dividends paid	(4,193)	(3,145)
Other variations	(2,032)	41
Cash Flows from (used in) financing activities	**(1,318)**	**(9,504)**
Cash Flows from (used in) change of minority shareholders	**2,075**	**-**
Foreign exchange translation differences	1,025	(4,256)
Net change in cash and equivalents	**558**	**7,841**
Cash and equivalents beginning of period	**70,521**	**62,680**
Cash and equivalents end of period	**71,078**	**70,521**

ADDITIONAL INFORMATION TO THE CONSOLIDATED STATEMENT OF CASH-FLOW

VALUES IN EURO THOUSAND	DECEMBER 31, 2018	DECEMBER 31, 2017 (*)
Taxes paid	3,187	6,512
Interests paid	5,719	5,081

(*) For a better comprehension, the 2017 figures have been re-exposed.
(**) The gain is relevant to EPS SA sale for share, this investment was classified in the Assets held for Sale.
(***) Not included financial lease.
(****) Included investments that were classified in the Assets held for sale.

Consolidated statement of financial position

pursuant to Consob N.15519 of July 27, 2006

VALUES IN THOUSAND EURO	NOTES	DECEMBER 31, 2018	*OF WHICH RELATED PARTIES*	DECEMBER 31, 2017	*OF WHICH RELATED PARTIES*
Property, plant and equipment	*1*	36,749	-	35,628	-
Intangible assets	*2*	145,000	-	149,603	-
Other investments	*3*	6,613	*180*	355	*180*
Non current financial assets	4	4,876	-	10	-
Deferred tax assets	5	11,973	-	11,340	-
NON CURRENT ASSETS		**205,211**		**196,936**	
Inventories	*6*	135,863	-	113,035	-
Trade receivables	7	110,757	*72*	113,649	*164*
Other receivables	*8*	8,929	-	8,019	-
Current tax receivables	*9*	9,667	-	9,380	-
Derivatives	*10*	26	-	58	-
Financial assets	*10*	341	-	791	-
Cash and cash equivalents	*10*	71,078	-	70,521	-
CURRENT ASSETS		**336,661**		**315,453**	
Assets held for sale	*11*	**1,234**	-	**1,111**	*727*
TOTAL ASSETS		**543,106**		**513,500**	

Consolidated statement of financial position

pursuant to Consob N.15519 of July 27, 2006 (continued)

VALUES IN THOUSAND EURO	NOTES	DECEMBER 31, 2018	*OF WHICH RELATED PARTIES*	DECEMBER 31, 2017	*OF WHICH RELATED PARTIES*
Capital stock	*12*	26,208	-	26,208	-
Legal reserve	*12*	4,992	-	4,653	-
Other reserves	*12*	69,154	-	69,312	-
Currency translation reserve	*12*	2,706	-	1,360	-
Retained earnings	*12*	39,322	-	27,620	-
Net result	*12*	24,056	-	18,515	-
Stockholders' equity of the Group		***166,438***	-	***147,668***	-
Minority interest		***3,334***	-	***1,286***	-
STOCKHOLDERS' EQUITY		**169,772**		**148,954**	
Interest-bearing loans and borrowings	*10*	113,180	-	98,396	-
Employee benefit liabilities	*13*	7,570	-	7,694	-
Deferred tax liabilities	*14*	5,333	-	5,997	-
Provisions	*15*	198	-	172	-
Derivatives	*10*	636	-	80	-
NON CURRENT LIABILITIES		**126,917**		**112,339**	
Trade payables	*16*	115,141	-	110,465	-
Advance payments	*16*	40,545	-	43,620	-
Other payables	*16*	23,664	*850*	24,951	*1,553*
Interest-bearing loans and borrowings	*10*	37,028	-	42,525	-
Current tax payables	*17*	7,117	-	6,072	-
Provisions	*15*	22,806	-	24,574	-
Derivatives	*10*	116	-	-	-
CURRENT LIABILITIES		**246,417**		**252,207**	
TOTAL STOCKHOLDERS' EQUITY AND LIABILITIES		**543,106**		**513,500**	

Consolidated income statement

pursuant to Consob N. 15519 of July 27, 2006

VALUES IN EURO THOUSAND	NOTES	DICEMBER 31, 2018	*OF WHICH RELATED PARTIES*	DICEMBER 31, 2017 (*)	*OF WHICH RELATED PARTIES*
Net revenues	*18*	466,932	*24*	449,503	*270*
Cost of goods sold	*19*	(354,795)	*(122)*	(342,954)	-
GROSS MARGIN		**112,137**		**106,549**	
Research and Development costs	*20*	(24,174)	*73*	(21,955)	-
Sales and marketing expenses	*21*	(31,505)	-	(29,950)	-
General and administrative expenses	*22*	(28,417)	*(1,363)*	(28,348)	*(2,263)*
OPERATING PROFIT (EBIT)		**28,041**	-	**26,296**	-
of which: non recurring items		***(4,171)***		***(1,908)***	
Financial income	*23*	4,452	-	2,760	-
Financial expenses	*23*	(12,863)	-	(6,787)	-
Net exchange differences	*23*	(242)	-	(2,973)	-
Net result of other investments (**)	*24*	7,233	*7,179*	2,556	*2,560*
RESULT BEFORE TAXES (EBT)		**26,621**		**21,852**	
of which: non recurring items		***1,059***	**-**	**521**	
Taxes	*25*	(2,563)	-	(3,184)	-
NET RESULT		**24,058**		**18,668**	
- Attributable to Group shareholders		*24,056*	-	*18,515*	-
- Attributable to minority shareholders		*2*	-	*153*	-
RESULT PER SHARE - BASIC (in euro)	**26**	**2.30**		**1.77**	
RESULT PER SHARE - DILUTED (in euro)	**26**	**2.27**		**1.77**	

(*) For a better comprehension, the 2017 figures have been re-exposed
(**) It must be outlined that this figure includes a financial gain deriving from EPS SA sale of share. In the Balance Sheet the EPS SA investment was classified in the Assets held for sale.

Consolidated cash flow statement
pursuant to Consob N. 15519 of July 27, 2006

VALUES IN EURO THOUSAND	DECEMBER 31, 2018	*OF WHICH RELATED PARTIES*	DECEMBER 31, 2017 (*)	*OF WHICH RELATED PARTIES*
Net result	**24,058**		**18,668**	
Adjustments (sub-total)	***(13,098)***	**-**	***13,139***	**-**
Depreciation, impairment & write-off	17,018	-	16,882	-
Gain from sales of shares in other investments (**)	(7,179)	*(7,179)*	(2,560)	*(2,560)*
Net change in deferred tax assets and liabilities	(1,297)	-	(2,128)	-
Change in employee benefits	(124)	-	(406)	-
Change in inventories	(22,828)	-	(14,474)	-
Change in trade receivables	2,892	*92*	(25,272)	*(113)*
Change in trade payables and advances	1,601	-	39,608	-
Net change in other receivables/payables and other assets/liabilities	(3,181)	*(703)*	1,489	*778*
Cash Flows from (used in) operating activities	**10,960**		**31,807**	
Cash flow from investments				
Acquisition of tangible fixed assets (***)	(7,207)	-	(5,449)	-
Acquisition of intangible fixed assets	(1,399)	-	(641)	-
Capitalization of development costs	(5,431)	-	(6,843)	-
Net disposal of fixed assets	205	-	100	-
Investment in Lead Laser	(6,201)		-	
Write-off/Write-up Other Investments	(54)		5	
Change in Other investments (****)	7,903	*7,906*	2,622	*852*
Cash Flows from (used in) investing activities	**(12,184)**		**(10,206)**	

Consolidated cash flows statement

pursuant to Consob N. 15519 of July 27, 2006 (continued)

VALUES IN EURO THOUSAND	DECEMBER 31, 2018	*OF WHICH RELATED PARTIES*	DECEMBER 31, 2017 (*)	*OF WHICH RELATED PARTIES*
Cash flow from financing activities				
Change in other financial assets/liabilities and other minor items	(4,120)	-	(1,089)	-
Increases in loans and borrowings *(including bank overdrafts)*	110,486	-	33,615	-
Repayment of loans and borrowings *(including bank overdrafts)*	(100,401)	-	(38,323)	-
Repayments in financial lease liabilities	(1,058)	-	(603)	-
Dividends paid	(4,193)	-	(3,145)	-
Other variations	(2,032)	-	41	-
Cash Flows from (used in) financing activities	**(1,318)**		**(9,504)**	
Cash Flows from (used in) change of minority shareholders	**2,075**		**-**	
Foreign exchange translation differences	1,025		(4,256)	
Net change in cash and equivalents	**558**		**7,841**	
Cash and equivalents beginning of period	**70,521**		**62,680**	
Cash and equivalents end of period	**71,078**		**70,521**	

ADDITIONAL INFORMATION TO THE CONSOLIDATED STATEMENT OF CASH-FLOW

VALUES IN EURO THOUSAND	DECEMBER 31, 2018		DECEMBER 31, 2017 (*)	
Taxes paid	3,187	-	6,512	-
Interests paid	5,719	-	5,081	-

(*) *For a better comprehension, the 2017 figures have been re-exposed.*
(**) *The gain is relevant to EPS SA sale for share, this investment was classified in the Assets held for Sale.*
(***) *Not included financial lease.*
(****) *Included investments that were classified in the Assets held for sale.*

7

Description of Accounting Principles

Chapter 7 - Description of Accounting Principles

Consolidation Principles

The consolidated financial statements include the financial statements of PRIMA INDUSTRIE SpA (the parent company) and its subsidiaries at December 31 of every year. The financial statements of the subsidiaries are prepared applying the same accounting standards as the parent company; any corrections for consolidation are made to harmonise the items that are affected by application of different accounting standards. All infra-group balances and transactions, including any profits not realised deriving from relations engaged in between companies in the Group, are entirely eliminated. The profits and losses not realised with affiliates are eliminated for the part pertaining to the Group. Any losses not realised are eliminated with the exception of the case in which they are representative of impairments.
The subsidiaries are fully consolidated from the date of acquisition, i.e. from the date on which the Group acquires control, and cease to be consolidated at the date on which control is transferred outside the Group. Minority interests represent the part of profits or losses and net assets not held by the Group, and are reported in a separate item in the Income Statement, and in the Income Statement, and in the balance sheet among the elements of net equity, separately from the Group's net equity.

(a) Subsidiaries

All companies, including any vehicle-company, in which the Group has the capacity to control the financial and operating choices, are defined as subsidiary companies. Generally, control is presumed to exist if the Group holds more than half of the voting rights, also via Para-corporate agreements or potential voting rights. Subsidiaries are consolidated at the time in which the Group is capable of exercising control and are de-consolidated when this control ceases.
The Group records acquisitions of controlling shareholdings by means of the acquisition method.
The acquisition cost is the sum of the price paid and any potential accessory charges.
Identifiable and acquired assets and liabilities are initially booked within the consolidated financial statements at the fair value, determined on the date of acquisition.
The excess cost with respect to the investment quota of the fair value of net assets acquired is capitalised as goodwill among intangible assets, if positive; if negative, it is immediately entered to the Income Statement.
The costs, income, receivables, payables and profits/losses realised among companies belonging to the group are eliminated. Where necessary, the accounting principles of the Subsidiaries are amended to bring them into line with those of the parent company.

(b) Affiliates and joint ventures

Affiliated companies are those in which the Group exercises considerable influence but no form of control. Significant influence is presumed in the case that more than 20% of voting rights are held; this threshold is reduced to 10% for listed companies. Affiliated companies are initially recorded at cost and then accounted for, using the equity method.
Joint Ventures are companies subject to joint control. They are booked in accordance with the provisions of IFRS 11.
Group equity investment in affiliated companies and joint ventures includes goodwill, as recorded at the time of acquisition and net of any potentially accumulated value losses.
The Group's Income Statement reflects the applicable share of the affiliated company and joint venture's result. If the affiliated company or the joint venture records an adjustment with a direct effect on net equity, the Group determines the portion that applies to it, reflecting such change in the Net Equity statement of change.
Booking the quota of a loss from an affiliated company or joint venture within the Group's accounts includes a limit relative to the zeroing out of the investment value; additional loss quotas are entered under the liabilities if the Group has assumed obligations or has implemented payments on behalf of the affiliated company or joint venture.

(c) Other enterprises
Investments in which the Group does not exercise control, significant influence or joint control are initially recorded at fair value.
In accordance with IFRS 9, these investments are subsequently valued at fair value with effects on the income statement. This is unless they are irrevocably selected as equity investments valued at fair value with effects recorded in the statement of comprehensive income, in accordance with the option provided for in the same standard.
The choice of valuation method for these investments is made selectively for each shareholding.
The valuation at cost of a minority shareholding is permitted in certain cases where the cost is an adequate estimate of the fair value.

Accounting standards applied

Standards to apply when drafting the consolidated financial statements

The consolidated Financial statements for 2018 were drafted in accordance with the International Accounting Standards ("IFRS") issued by the *International Accounting Standards Board* ("IASB") and approved by the European Union, as well as the measures issued to implement the article 9 of Leg. Decree no. 38/2005.
IFRS refer to all the main International Accounting Standards ("IAS") reviewed and to all the interpretations given by the International *Financial Reporting Interpretations Committee* ("IFRIC"), formerly known as *Standing Interpretations Committee* ("SIC").
The financial statements are drafted based on the principle of historical cost, except for those financial assets which have been listed at their fair value. The Group has applied accounting principles that are coherent with those applied in previous years, with the exception of amendments to standards and interpretations effective from January 1, 2018.

Going concern

The consolidated financial statements at December 31, 2018 were prepared on the basis of the going-concern principle, as it is reasonable to expect that PRIMA INDUSTRIE will continue its business in the foreseeable future. In particular, the value of the order backlog, the rebalanced relationship between risk capital and debt capital, the rescheduling of medium to long-term bank debt, the availability of sufficient credit lines, are the main factors taken into consideration to ascertain that, at the current time, there are no doubts about the Group's prospects of remaining in business.

Financial statements

Since 2017, the Group has presented the income statement according to functional area, otherwise referred to as "at cost of the sale". This cost analysis is based on cost destination and is considered more representative than expenditure type. The form chosen conforms to internal reporting and business management procedures and is in line with international practice within the sector in which the Group operates.

"Cost of the sale" includes costs relating to the functional areas that participated directly or indirectly to the generation of revenues with the sale of goods and services. It includes all costs of materials, processing and overheads directly related to production.

The Group has opted to use the formats described hereinafter in drafting its Financial Statements:
a) for the Consolidated Balance Sheet, the format used distinguishes the assets and liabilities between "current" (i.e. receivable or payable in 12 months) and "non-current" (i.e. receivable or payable after 12 months);
b) for the Consolidated Income Statement, the format used distributes costs according to their kind; the Global Consolidated Income Statement includes, besides the Profit in the year as listed in the Consolidated Income Statement, the other variations to the Net Equity that do not refer to transactions with Shareholders;

c) for the Variations to the Net Equity, the format used reconciles the opening and closing of every entry in both the current year and the previous one;
d) for the Financial Account, the so-called "indirect" method was chosen, whereby the net financial flow of company business is determined by adjusting the profit and loss, because of the effects of:
   - non-monetary elements such as amortisation and depreciation;
   - variations of inventory, receivables and payables generated by company business;
   - other elements whose financial flows are generated by investments and financings.

Please note, furthermore, that with reference to CONSOB Resolution no. 15519 of July 27, 2006 concerning the format of financial statements, specific supplementary versions have been added for the Income Statement and for the Balance Sheet, which particularly stress those relations with associates and non-recurrent transactions that are most significant, in order to make the financial statements more readily comprehensible.

Stake acquisitions and goodwill

Stake acquisitions

Stake acquisitions are entered using the acquisition method (in accordance with the guidelines of IFRS3). The amount paid for a purchased stake is calculated as the sum of the amount transferred at its *fair value* on the date of the acquisition with any minority stake already held in the purchased company. For all stake acquisitions, the buyer must enter any minority stake in the purchased company at its *fair value*, or proportionately to the share of the minority stake under the identifiable net assets of the purchased company. Costs of acquisition are covered and classified as administrative expenses.

All potential purchase prices must be listed by the buyer at their *fair value* on the date of acquisition.

In the case of the acquisition of companies, the identifiable assets, liabilities and potential liabilities acquired are recorded at their fair value on the date of acquisition. The positive difference between the acquisition cost and the Group's share in the current value of these assets and liabilities is classified as goodwill and entered in the financial statements as an intangible asset. Any negative difference ("negative goodwill") is recognised in the income statement at the time of acquisition.
After its initial recognition, goodwill is not subject to amortisation and is decreased by any accumulated impairment losses, as determined below. Goodwill relating to investments in subsidiaries and joint ventures is included in the carrying amount of those companies.
Goodwill recoverability is analysed on a yearly basis or more frequently, if events or changes of circumstance lead to presumable loss of value. In order to audit the actual loss of value, goodwill acquired as part of a stake acquisition is allocated on the date of the acquisition to the Group's single cash-flow generating units, or to the groups of cash-flow generating units that are expected to benefit of the purchase's synergies, independently of whether other assets or liabilities of the purchased company have been assigned to those units or unit groupings.

Every unit or unit group to which goodwill is allocated:
- represents the lowest level within the Group at which goodwill is monitored for internal management purposes; and
- is not more than the divisions identifiable from the Group's industry-related information.

All loss of value is identified by comparing the book value of the cash-generating unit and its recoverable value, determined according to the methods described in paragraph "Loss of asset value". If the value recoverable by a cash-flow generating unit is less than the book value attributed to it, the relative loss of value is reported in the statement.

This loss of value is not restored, even if the reasons that have generated it fall short.
If goodwill has been allocated to a cash-flow generating unit and the entity dismisses part of the assets of that unit, the goodwill associated to the dismissed asset must be included in the book value of the asset when determining the profit or loss deriving from the dismissal. Goodwill associated to the dismissed asset must be determined on the basis of the values afferent to the dismissed assets and to the part withheld by the cash-flow generating unit.

If the initial values of an acquired stake are incomplete on the closing date of the financial statements, the Group reports the temporary values of those incomplete elements in its consolidated financial statements. Said temporary values are adjusted in the period they are measured, to account for new information received on facts and circumstances on the date of the acquisition which, if known, would affect the value of the assets and liabilities recognised to that date.

Transactions by which the parent purchases or transfers a minority stake that do not affect its control over the subsidiary are classified as transactions with shareholders and therefore, their effects must be entered in the Net Equity: there will be no adjustments to goodwill and profit/loss reported in the Income Statement.

Loss of asset value (*"Impairment"*)

Permanent assets whose value does not depreciate are annually audited to establish their recovery ("impairment") and whenever there is reason to believe their book value has suffered loss.
Assets that do depreciate are "impairment" tested only if there is reason to believe that their book value has decreased. Value recoverability is calculated for goodwill purchased and allocated throughout the business year, at the end of the year the latter was purchased and allocated.
In order to verify its recoverability, goodwill is allocated on the date of its acquisition to the unit or group of cash-generating units that benefit of the acquisition.
The amount depreciated because of "impairment" is calculated as the difference between the asset's book value and its recoverable value, determined as the price of sale net of transaction costs and its expendable value, either of which is higher, or the current value, in other words, of the estimated financial flows gross of taxes, applying a discount rate that reflects current market cash value and risks that are specific to the asset. The loss because of a drop in value is at first attributed to the book value of the goodwill allocated to the unit (or unit group) and only later to the other unit assets, proportionately to their book value, up to the amount of the recoverable value of permanent assets. A loss of value is entered if the recoverable value is less than the book value. When a loss of asset value other than goodwill subsequently falls short or decreases, the book value of that asset or cash-flow generating unit is increased to the new estimated recoverable value and cannot exceed the value that would have been determined if no loss due to the drop had been reported. The restored loss of value is entered immediately in the Income Statement.

Tangible Assets

All categories of tangible assets, including real estate investments, are listed in the financial statements at their historical cost, minus the amortisation and "impairment", except for land, which is entered at its historical cost, minus any "impairment". The cost includes all expenses that are directly attributable to the purchase.

Costs incurred after the asset is purchased are accounted for as an increase of the historical value or listed separately, only if it is likely that it will generate future economic benefits and their cost is reliably quantifiable.

Amortisation of tangible assets is calculated with the linear method, to distribute the residual book value over the asset's estimated economic-technical lifespan.

Special maintenance costs capitalised as increase of an already existent asset are depreciated based on the residual lifespan of that asset or, if less, in the interim period from the date of service to the next scheduled maintenance.

The residual value and lifespan of tangible assets are reviewed and modified if necessary, on the closing date of the financial statements.

Capital gains or losses from transfers of tangible assets are entered in the Income Statement and are determined by comparing their book value to the price of sale.

Assets held by virtue of financial lease agreements that basically transfer all risks and benefits tied with the asset to the Group, are entered as Group assets at their fair value or, if less, at the current value of the minimum lease fees due. The lease fee is divided into taxable amount and interest share, determined by applying a fixed interest rate to the residual debt.

The financial debt with leasing companies is entered among the short-term liabilities (current amount) and among the long-term liabilities (amount to be reimbursed after year-end). Interest costs are attributed to the Income Statement for the entire contract term. The leased asset is entered among the tangible assets and is depreciated based on its estimated economic-technical lifespan.
Leased assets over which the lessor essentially preserves all risks and benefits tied thereto are classified as business leases. Costs of business leases are reported in the Income Statement over the term of the leasing agreement.

Real estate investments made in the prospect of collecting rental fees are entered at their book value, net of amortisation and losses due to cumulated reduction in value.

Intangible Assets

Assets with indefinite useful life

(a) Goodwill

Goodwill deriving from stake acquisitions is initially entered at its book value on the date of the acquisition.
Goodwill generated by the acquisition of a stake in subsidiaries is included among intangible assets. Goodwill generated by the acquisition of a stake in associates and joint ventures is included in the stake's value.
Goodwill is not depreciated, but audited to identify any loss of value, on a yearly basis or even more often, if specific events or changed circumstances give reason to believe that it may have lost value. After its first entry, goodwill is evaluated at the cost net of any cumulated loss of value. On the date on which control over a formerly purchased company is transferred, the capital gain or loss from the transfer takes account of the corresponding residual value of the previously entered goodwill.

Intangible assets with indefinite useful lives are not depreciated, but are annually or even more frequently (whenever there is reason to believe the asset has lost value) subjected to an *impairment* test to identify any reduction in value.

Assets with finite useful life

(b) Software

Software licences are capitalised at their cost of purchase and the cost to put them in service, and are depreciated based on their estimated lifespan.
Costs associated to development and software program maintenance are considered operating costs and therefore attributed to the Income Statement according to their category.

(c) Research & Development costs

R&D costs are entered in the Income Statement in the business year they are incurred.
R&D costs relating to specific projects are capitalised if the following conditions are met:

- the costs can be reliably determined;
- the technical feasibility of the projects, the forecasted volumes and prices indicate that the costs sustained as part of R&D activities will generate economic benefits in the future.

R&D costs attributed to Income Statement over the course of previous years are not post-capitalised, if at a later date the requirements are met.
Capitalised R&D costs are depreciated from the date the product is sold, based on the period in which they are estimated to generate economic benefits (max. 8 years). R&D costs that do not fit the above conditions are charged to Income Statement in the year they were incurred.

(d) Trademark

Trademarks are considered perishable assets. In accordance with IAS 38, these assets are depreciated using a method that estimates when the future economic benefits yielded by the asset are presumed to be consumed.

(e) Other intangible assets

Other intangible assets purchased separately are capitalised at their cost, while those purchased as part of a stake are capitalised at their fair value identified on the date of the acquisition.
After their first entry, intangible assets with finite useful life are entered at their cost, minus amortisation and "impairment"; intangible assets with indefinite useful life are instead entered at their cost, minus "impairment" only.

Intangible assets are annually subjected to an "impairment *test*", whenever there are reasons to caution its performance; this analysis can be conducted on the individual intangible asset or on a cash-flow generating unit of assets. The lifespan of other intangible assets is reviewed on an annual basis: any changes, where plausible, are reported in statements.

Financial Instruments

Presentation

The financial instruments held by the Group are included in the financial statement entries described below.
The entry "Stakes and other non-current financial assets" includes stakes in other companies, stakes in *joint ventures* and other non-current financial assets.
Current financial assets include receivables and cash and cash equivalents. More specifically, the entry "Cash and cash equivalents" includes bank deposits.
Financial liabilities refer to financial debts, include debts for advance payments on orders or on credit transfers, as well as other financial liabilities (which include the negative fair value of hedging instruments), payables and other debts.

Evaluation

Stakes in other companies and stakes in joint ventures included among non-current financial assets are entered as described in the following paragraph "Consolidation principles".
IFRS 9 identifies the following categories of financial assets, classified according to the following aspects: a) the business model adopted to manage the financial assets, and b) the characteristics of the contractual cash flows generated by them:

- Financial assets measured at amortised cost (AC): these assets are part of a hold-to-collect business model and generate contractual cash flows in the form of principal and interest.

- Financial assets measured at fair value with changes in fair value recorded in the statement of comprehensive income (FVOCI): these assets are part of a hold-to-collect-and-sell business model and generate contractual cash flows in the form of principal and interest.
- Financial assets measured at fair value with changes in fair value through profit or loss (FVPL): this category has a residual nature and includes all financial assets other than those measured at amortised cost and at fair value with changes in fair value entered in the profit and loss account, including minority interests, as well as financial assets that do not pass the SPPI test, including non-hedging derivatives and investments other than those measured using the equity method.
- Any minority shareholdings, irrevocably selected as FVOCI financial instruments without "recycling" at the time of initial recognition. In the context of this option, contrary to what generally occurs in the FVOCI category: 1) gains and losses recognised as OCI are not subsequently transferred to the income statement, although the cumulative gain or loss may be transferred to shareholders' equity; 2) equity instruments categorised as FVOCI according to this option are not subject to impairment accounting; 3) dividends are still recognised in the income statement, unless they clearly represent a recovery of part of the investment cost.

Hedging instruments

Coherently with the contents of IFRS 9, hedging instruments can be entered according to hedge accounting methods only when:

- the formal designation and the documentation of the hedge are available on the starting date of the hedge;
- it is presumed that the hedge is highly effective;
- its effectiveness can be reliably measured; and
- the hedge itself is highly effective during the various accounting periods for which it is designated.

All hedging instruments are measured at their fair value, as established by IFRS 9.
When hedging instruments qualify for *hedge accounting*, they are entered in statements as follows:

- *Cash-flow hedge*. If a hedging instrument is chosen to cover the exposure to unstable future cash flows of an asset or liability listed in the financial statements or of an expected and highly probable transaction that could affect the Profit & Loss, the effective share of the profit or loss for the hedging instrument is reported in Other total profits/(losses). The cumulated profit or loss are written off the Other total profits/(losses) and entered in the Income Statement in the same period in which the correlated economic effect of the hedged transaction is reported. The profit or loss associated to a hedge (or part of one) that has become obsolete are immediately entered in the Profit & Loss. If a hedging instrument or a hedge report are closed, but the hedged transaction has not yet been concluded, the cumulated profit and loss, hitherto entered in the Other total profits/(losses), are reported in the Income Statement with regards to the reported economic effects of the hedged transaction. If the hedged transaction is no longer presumed probable, the profits or losses as yet not accrued and suspended in the Other total profits/(losses) are immediately reported in the Profit & Loss.
- Fair value *hedge*. If a hedging instrument is designated to hedge the exposure to variations of the fair value of an asset or liability in the financial statements that are attributable to a particular risk which may affect the Income Statement, the profit or loss deriving from subsequent evaluations of the fair value of the hedging instrument are reported in the Profit & Loss. The profit or loss on the hedged item is attributable to the hedged risk, modifying the book value of that item, and is reported in the Profit & Loss.
- *Hedge of a net investment*. If a hedging instrument is designated to hedge a net investment in an offshore company, the effective share of profit or loss on the hedging instrument is reported in Other total profits/(losses). The cumulated profit or loss are written off from the Net Equity and entered in the Income Statement on the date in which the offshore asset is dismissed.

Financial Liabilities

Financial liabilities encompass financial debts, which include debts for advance payments on orders or on transfers of credits, as well as other financial liabilities, including hedging instruments and liabilities against assets entered in the scope of financial leasing agreements.
Financial liabilities are classified under the following two categories in accordance with IFRS 9: 1) financial liabilities measured at amortised cost using the effective interest rate ("AC") method; 2) financial liabilities measured at fair value with changes in fair value through profit or loss ("FVPL"), which in turn are classified under the two subcategories Held for Trading and FVPL at inception. Most of the Group's financial liabilities are in the first category.

Loans

Loans are initially entered in the financial statements at their *fair value*, net of any accessory charges. After their first entry, they are accounted for on the basis of the depreciated cost criteria. Any difference between the collected financing net of any accessory charges and the amount reimbursed is entered in the Income Statement according to its item category, based on the effective interest method. Financings are listed among short-term liabilities, unless the Group does not enjoy unconditional right to defer them to a more than twelve months after the closing date of the financial statements.

Inventory

Inventories are entered at their cost or net price of sale, whichever is the least, with the latter consisting in the standard price applied to customers as part of the company's business, net of variable sale expenses. The cost is determined using the weighted average cost method.
The costs of finished and semi-finished products include design, commodities, cost of direct labour, other direct costs and other indirect costs that can be allocated to production based on a normal manufacturing capacity and to their stage in production. This cost configuration does not include financial charges.
Calculations include provision to cover depreciation of commodities, finished products, spare parts and other supplies considered obsolete or with a slow rotation, taking account of their expected future use and their price of sale.

Receivables and other credits

Receivables are initially entered at their *fair value* and subsequently quantified at their depreciated cost by applying the effective interest method, net of impairment, to account for receivables that prove uncollectable.
The receivables are written down according expected losses model provided for in IFRS 9. Specifically, trade receivables are written down using a simplified approach, which estimates the expected loss over their entire life. The estimate is mainly made by determining the average expected non-collectability, based on historical experience, external indicators and forecasts. Specific measurements are made on individual credit positions in certain categories of loans subject to particular elements of risk.

Credit Transfers

Transferred credits are cancelled from the company's assets following factoring transactions if and only if the risks and benefits that come with their ownership have all been transferred to the beneficiary. The receivables with or without recourse that do not meet the aforementioned requirement remain in the company's financial statements, although they have been legally ceded; a financial liability of the same amount is entered in the consolidated financial statements as debts for advance payments on credit transfers. Profits and losses from the transferred assets are only reported when those assets have been cancelled from the Group's Balance Sheet.

Cash and cash equivalents

Cash and cash equivalents include cash, bank deposits instantly available and overdraft allowances on bank accounts and other liquid investments collectable within three months. Bank overdrafts are entered in the financial statements among short-term financings.

Assets for sale

The entry "Assets for sale" include non-current assets (or groups of dismissed assets) whose book value will be largely recovered through their sale (as opposed to their continued use). Assets for sale are entered at the least between the net book value and the *fair value* net of costs of sale and they are not subject to amortisation.

Share Capital

Ordinary shares are classified in the Net Equity.
Accessory charges directly linked to issued shares or to options are entered in the Net Equity, subtracted from cash payments. When the Group purchases parent shares (treasury shares), the price paid net of all directly attributed accessory charges is subtracted from the Group's Net Equity, until the treasury shares are either cancelled or sold.

Current and deferred taxes

The income tax burden for the year is determined according to the legislation in force and at the date of closure of the financial statements. Income tax is reflected in the Income Statement. In particular as regards the three Italian companies, it is highlighted that the national consolidated taxation regime is in force, in accordance with article 117/129 of the Consolidation Act on Income Tax (TUIR).

Deferred taxes are calculated on all temporary differences between the fiscal value and book value of assets and liabilities listed in the financial statements.

Deferred taxes are not accounted for:

- on goodwill deriving from stake acquisitions;
- on the initially entered asset and liability deriving from a transaction other than a stake acquisition and that does not affect either the operating profit calculated in the financial statements or the taxable income.

Deferred taxes are calculated using tax rates and applying the laws issued or essentially issued on the closing date of the financial statements, and that are expected to be applied upon reversal of the temporary differences that have led to their entry in the first place.

Prepaid tax receivables are entered in the financial statements only if it is likely that when the temporary differences are reversed, a taxable income will be generated that is sufficient to compensate the credit. Prepaid tax receivables are reviewed at the end of every business year and if need be reduced, to the extent that it is improbable that sufficient taxable income will be available in the future, so that part or all the credit can be used.

Deferred taxes are also calculated on temporary differences that originate on stakes in subsidiaries, associates and JV's, except when the reversal of those differences can be contained by the Group and it is likely that they will not occur in the near future. Deferred taxes on components reported directly in the Net Equity are likewise directly attributed to the Net Equity.

Employee benefits

On June 16, 2011, the IASB issued an amendment to "IAS 19 - Employee Benefits", which modifies the rules for the recognition of fixed benefits plans and of *terminations benefits*. The main changes concern the recognition in the balance sheet of the deficit or surplus of the plan, the introduction of the net financial burden and the classification of net financial expenses. In particular:

- Recognition of the deficit or surplus of the plan: the amendment eliminates the option to defer actuarial gains and losses with the "corridor method" and it requires the recognition directly in Other overall gains (losses) and the recognised in the Income Statement of costs related to past service;
- Net financial burden: the net financial burden is composed of financial costs calculated on the present value of liabilities for fixed benefits plans, financial gains from the valuation of plan's assets and financial income or expenses arising from any limits to the recognition of the surplus of the plan. The net financial burden is determined using for all of these components the discount rate used for the measurement of the fixed benefits plans at the beginning of the period;
- Classification of net financial expenses: net financial expenses will be recognised among the financial income (expense) in the Income Statement.

(a) Pension plans

On December 31, 2006, Severance Pay (TFR) of Italian companies was considered a plan of fixed benefits. The legislation applying to the liability was modified by Law of December 27, 2006, no. 296 ("Financial Law 2007") and the subsequent Decrees and Regulations issued in the first months of 2007. In light of those amendments, and with reference in particular to companies with at least 50 employees, Severance Pay is now considered a plan of fixed benefits only for shares accrued before January 1, 2007 (and resulting as unpaid in the financial statement), while shares accrued at a later date can be assimilated to a fixed contributions plan.

Plans of fixed benefits are pension liabilities that define the amount of the pension benefit owed to the worker on the date the employment relation is ended; this amount depends on several factors, such as age, years of service and wage.
Fixed-contribution plans are pension plans for which the Group pays a fixed amount to a separate entity. The Group is in no way implicitly required by law to pay additional sums, should the activities in service of the plan prove insufficient to pay off benefits owed to employees for their current service and for services provided hitherto.
The plans described here were recorded in accordance with the provisions of IAS 19.

(b) Benefits paid to employees who attain seniority status

Certain Group companies pay their employees benefits after a set number of years in service (seniority status).
The benefits described here were recorded in accordance with the provisions of IAS 19.

(c) Incentives, bonuses and profit-sharing agreements
The Group enters a cost and a debt in view of liabilities that originate for bonuses, employee incentives and profit-sharing agreements, which are calculated with a formula that accounts for profits attributable to shareholders (given their due adjustments). The Group enters a liability under a listed fund only if the event is likely to occur, if contractually due, or in view of a procedural custom that infers an implicit obligation.

Provisions for risks and charges

Provisions to cover risks and charges are accounted for when:
- the Group is faced with a legal or implicit obligation as result of previous events;
- a deployment of resources to cover the obligation and its amount is probable;
- its amount is reliably determinable.

Restructuring provisions include both liabilities deriving from early retirement incentives and penalties tied to terminated leasing agreements. No provisions are accounted for risks and charges in view of future operating losses. Provisions entered in the financial statements are the best updated estimates made by Directors in identifying the costs (amount) the Group will be called to incur on the closing date to extinguish the obligation.

Revenue recognition

Revenues are recorded net of VAT, returns, discounts and transactions between Group companies.

The Group recognises revenues according to IFRS 15 – *Revenues from Contracts with Customers*, which introduced a reference framework for the recognition and measurement of revenues for the faithful representation of the process of transferring goods and services to customers for an amount that reflects the amount expected in exchange for them. This standard is applied using a model made up of the five following stages:
- Identification of the contract with the customer: the parties approve the contract, which has commercial substance, and identify their respective rights and obligations. The contract must be legally binding, must identify the right to receive goods and/or services, the consideration and the payment terms;
- Identification of the performance obligations of the contract, i.e. promises to transfer separate goods and services.
- Determination of the transaction price: this is the total consideration contracted with the counterparty over the duration of the contract.
- Allocation of the price to the various performance obligations: in proportion to the respective stand-alone selling prices determined from the list prices.
- Recognition of revenue subject to fulfilment of performance obligations.

(a) Sale of goods
With regard to the sale of laser systems, sheet metal working machines and components, the Group recognises revenue when it transfers control of the goods to its customers. This generally coincides with the time when the Group obtains the right to receive payment and with the transfer of the material possession of the goods, which includes the transfer of the significant risks and benefits of ownership. The Group considers a warranty extension beyond normal market conditions as a performance obligation that should be recorded separately.

(b) Service provision
Income for provided services are accounted for based on their progress in the business year they are rendered.

Distributions of Dividends

Dividends distributed among shareholders generate a debt on the date their distribution is approved by the Shareholders' Assembly.

Profit per Share

Basic profit per share is calculated by dividing the Group's Net Profit by the weighted average value of shares in circulation during the business year. In order to calculate profit by single share, the average weighted value of circulating shares is modified on the assumption that all shares with a potentially diluting effect will be converted. The Group's Net Profit too, is adjusted to account for the effects (net of taxes) of the conversion of potentially diluting shares issued by subsidiaries.

Public Contributions

Public contributions are entered in the financial statements at their *fair value* only if it is reasonably certain they will be paid and the Group has satisfied all the requirements established by the conditions to obtain them. Revenues from Public Contributions are recorded in the Income Statement if the costs for which they were granted are actually incurred.

Currency conversions

(a) Functional currency and listing currency
Financial statements of subsidiaries, associates and joint ventures are drafted applying their functional currency, i.e. the currency widely used in their chief area of business. The currency used by the PRIMA INDUSTRIE Group for financial statement entries is the Euro.

(b) Assets, liabilities and transactions in foreign currencies
Transactions in a foreign currency are initially reported at the exchange rate applicable on the date of the transaction. Assets and liabilities in a foreign currency are converted to Euros using the exchange rate applicable on the closing date of the financial statements. All currency exchange differences are reported in Profit & Loss.

(c) Group companies
On the closing date of the financial statements, the assets and liabilities of Group companies in a foreign currency are converted to Euros at the exchange rate applicable on said date. Their entry in the Income Statement is converted applying the average exchange rate for the year. Currency exchange differences are directly reported in Net Equity and are listed separately in the "Currency conversion Reserve", until dismissal of the subsidiary.

Fair Value

The *fair value* of financial instruments exchanged on an active market is determined on the basis of market prices on the closing date of the financial statements. The market price used as reference for financial assets held by the Group is the current price of sale (or price of purchase for financial liabilities).
The *fair value* of financial instruments exchanged on an active market is determined by a whole set of estimating techniques and assumptions, based on the market conditions existent on the closing date of the financial statements.

For medium and long-term liabilities, the prices of similar financial instruments exchanged are compared, while the financial flows are updated for other categories of financial instruments.
The *fair value* of IRS is determined by updating the estimated cash flow deriving from the latter on the closing date. For credits, it is presumed that the nominal value net of any adjustments made to account for their collectability is close to the *fair value*. For the purpose of the required information provided in this report, the fair value of financial liabilities is determined by updating cash flow generated by contracts at an interest rate approximating the market rate the Group applies to fund its business.

Discretional assumptions and significant accounting estimates

Drafting the financial statements calls upon the management to make a series of subjective assumptions and estimates drawing from past experience.
Application of those estimates and assumptions affects the amount of assets and liabilities entered in the Balance Sheet, as well as the costs and income reported in the Income Statement. Actual results may differ (even substantially) from the estimated amounts, considering the natural uncertainty that surrounds the assumptions and underlying conditions.

More specifically, taking account of the uncertainty that persists in certain markets and the economic-financial context in which the Group operates, it cannot be excluded that in the next business year, results will be different from our estimates and that adjustments (even significant) to the book value of the given entries may therefore prove necessary, which cannot presently be either estimated or forecasted. The financial statement items concerned by this condition of uncertainty are credit impairment and warehouse depreciation, non-current assets (tangible and intangible assets), pension liabilities and other benefits accrued after the employment relation and deferred tax receivables.

What follows is a summary of the main evaluation process and key assumptions made as part of that process that may significantly affect the amounts reported in the consolidated financial statements or that involve a risk of ensuing adjustments to the book value of the assets and liabilities in the year following the one balanced in the financial statements.

Goodwill recovery

The impairment test of the goodwill took place in the value in use configuration, determined with reference to the value of the income flows, discounted to the WACC, for the explicit period 2019-2021, increased by the terminal value. This exercise did not highlight the need to make write-downs to the carrying amount of goodwill.
Recoverability considerably depends on the discount rate used as part of updated cash-flow models, including cash flow expected in the future and the rate of growth used for extrapolation. The key assumptions made in determining recovery for the several cash-flow generating units (CGU), including a sensitivity analysis, are described in detail in Note 2 – Intangible assets.

Research and development costs

Research and development costs that meet the requirements for capitalisation are recorded under Intangible Fixed Assets. The average life of research and development projects is estimated at a maximum of 8 years, which is the average period in which the products are estimated to generate cash flows for the Group.

Prepaid and deferred taxes

Deferred tax receivables and payables entered in the financial statements are determined by applying the difference between the statutory value and the fiscally recognised value of the various assets and liabilities, the tax rates that are presumed to apply in the various countries in the year the temporary differences are expected to fall short. Prepaid

taxes relating to fiscal losses reportable in following years are entered in the financial statements only if and to the extent that the management expects the concerned company to generate a fiscal profit in those years, such as to allow their absorption.
If arising circumstances after the estimates are made induce management to modify those evaluations, i.e. the rate used in calculating the deferred taxes has changed, the items entered in the financial statements are accordingly adjusted.

Inventory Provision
In determining inventory provision, Group companies make a series of estimates on the future requirement for various types of products and materials shared, based on their production plans and previous experience with customer demand. If those estimates prove inaccurate, the obsolescence reserves will be adjusted and will consequently affect the Profit & Loss.

Credit impairment
Provisions for credit impairment are determined based on an analysis of individual credit items and in light of past experience with credit collection and customer relations. If the economic and financial conditions of an important customer suddenly worsen, it may call for the need to adjust credit impairment, consequently having negative effects in terms of profit.

Employee Benefits
Several Group companies (particularly in Italy, Germany and France) have legally or contractually required plans for employee benefits that are paid after the employment relation ends. To calculate the amount entered in the financial statements, actuarial estimates are required that duly consider a series of assumptions on such parameters as annual inflation rates, increase in salaries, annual personnel turnover rate and a set of other variables. A variation in these parameters calls for a readjustment of the actuarial estimates and, consequently, of the amounts reported in the financial statements.

Variations to accounting principles

Adoption of IFRS 9 and IFRS 15

IFRS 9 Financial Instruments

The new "IFRS 9 – Financial Instruments" accounting standard came into force on January 1, 2018, replacing "IAS 39 – Financial Instruments: Recognition and Measurement" and makes important changes to the previous guide on the classification and measurement of financial assets, introducing an "*expected credit loss*" model for the impairment of financial assets.

Specifically, IFRS 9 introduces the following:
a) Classification and measurement
IFRS 9 classifies financial assets into three main categories: 1) amortized cost (AC), 2*) Fair Value Through Other Comprehensive Income* (FVTOCI), 3) *Fair Value Through Profit or Loss* (FVTPL). Classification within the three categories is based on *business model* (i.e. "*hold to collect*" / "*hold to collect and sell*") and the characteristics of the cash flows (i.e. "*principal / principal + interest*").
The Group identified no significant impacts at December 31, 2018 resulting from application of the classification and measurement requirements of IFRS 9.

b) Impairment

The new requirements for *impairment* set out in IFRS 9 are based on an *Expected Credit Loss* ("ECL") model and replace the loss model of IAS 39. The expected loss model applies to debt instruments (such as bank deposits, loans, debt securities and trade receivables) recognised at AC or FVTOCI, plus lease receivables, contract assets and financial guarantee contracts not valued at FVTPL.

For contract assets relating to IFRS 15 and trade receivables, the Group applies a simplified model for recognizing expected losses over the life of the asset, since these items have no significant financing component.

c*) Hedge accounting*

The new rules introduced by IFRS 9 for the recognition of hedging assets have introduced no significant elements but have provided for a greater link between the substance of risk management operations and their recognition. The new model makes application of *Hedge Accounting* simpler, allowing entities to apply hedging operations on a larger scale.

The Group has established that all existing hedging relationships that are currently designated as effective hedges should continue to qualify for hedge accounting in accordance with IFRS 9.

Since IFRS 9 does not change the general principle whereby an entity recognizes effective hedging relationships, application of the requirements of IFRS 9 for the definition of hedges has not had a significant impact on the Group's financial statements.

IFRS 15 – Revenue from Contracts with Customers

The new IFRS 15 - "Revenue from contracts with customers" and the related "Clarifications to IFRS 15 Revenues from contracts with customers" (hereafter "IFRS 15") replace the previous IAS 18 "Revenue", IAS 11 " Construction Contracts" and various interpretations concerning revenue.

The new accounting standard provides for recognition of revenues based on the following five steps:

- identification of the contract with the customer;
- identification of *performance obligations*, i.e. contractual commitments to supply goods and/or services to the customer;
- determination of transaction price;
- allocation of the transaction price to the *performance obligation*, based on the *stand-alone* sale price of each good or service; and
- recognition of revenue with the *performance obligation* is satisfied.

Application of the new standard to the sale of goods (laser systems, sheet metal processing and components machines) had no impact.

These revenues were therefore recognized under the definitions set out according to the new "*at point in time*" principle of IFRS 15. As a result of the adoption of IFRS 15, the Group identified a *performance obligation* in the warranty extension period on machinery compared to normal conditions, to be accounted for separately.

On the basis of the analyses carried out by the Group on other types of revenue (provision of services, dividends), application of the standard had no impact on shareholders' equity at December 31, 2017 and December 31, 2018.

As provided for in IFRS 15, the Group has elected to recognise the effect of retrospective restatement of the values in the shareholders' equity at January 1, 2018, having regard to the cases existing on that date, without restating the previous years presented for comparison.

Following is a summary of how adoption of the new standards affected opening balances at January 1, 2018; there is no effect on the net financial position:

VALUES IN € THOUSAND	REPORTED JAN 1, 2018	IMPACT IFRS 15	RESTATED JAN 1, 2018
Non current assets	196,936	16	196,952
Current assets	315,453	-	315,453
Assets held for sale	1,111	-	1,111
Total Assets	**513,500**	**16**	**513,516**
Net Equity	148,954	(41)	148,913
Non current liabilities	112,339	-	112,339
Current liabilities	252,207	57	252,264
Total Liabilities	**513,500**	**16**	**513,516**

Accounting principles and interpretations approved by the European Union in force from January 1, 2018

In accordance with the requirements of IAS 8 (*Accounting policies, changes in accounting estimates and errors*), the IFRS in force at January 1 ,2018 are indicated and briefly illustrated below.

IFRIC 22 – Foreign Currency Transactions with Advance Consideration

This interpretation refers to transactions in foreign currencies where a company recognises a non-monetary asset or liability arising from the payment or collection of an advance before the company recognizes the related asset, cost or revenue.

Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions

The amendments concern:

- the methods for calculating the fair value of share-based payment transactions settled in cash on the measurement date (i.e. on the grant date, at the end of each accounting period and on the settlement date), which must be take account of market conditions (e.g. a share price target) and non-vesting conditions;
- the accounting treatment of equity-settled share-based payment transactions in which the entity acts as a withholding agent for the employee's tax liabilities (withholding tax);
- recording changes in the terms and conditions that determine the change in classification from "cash-settled" share-based payments to "equity-settled" share-based payments.

Amendments to IAS 40 – Investment Property

The amendments made to the standard provide clarification on changes of use that lead to an asset being qualified, or not, as an investment property.

Improvements to IFRSs (2014-2016 Cycle)

The amendments concern IFRS 1 – *First-time adoption of the International Financial Reporting Standards*, IFRS 12 – *Disclosure of Interests in Other Entities* and IAS 28 – *Interests in Associates and Joint Ventures*.

The adoption of these amendments and interpretations did not affect the consolidated financial statements at December 31, 2018.

Accounting principles and interpretations issued by IASB and transposed by the European Union

At the date of this Annual Report, the following principles have been issued by the IASB and incorporated by the European Union:

IFRS 16 – Leases

On January 13, 2016, the IASB issued "IFRS 16 – Leases" that is intended to replace "IAS 17 – Leases", and interpretations of "IFRIC 4 Determining whether an Arrangement contains a Lease", "SIC-15 Operating Leases-Incentives" e "SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease". The new standard, that the Group will apply starting from January 1, 2019, provides a new definition of lease and introduces a criterion based on control (right of use) of an asset to distinguish leasing contracts from service contracts, identifying as discriminants: the identification of the asset, the right to replace it, the right to obtain substantially all of the economic benefits deriving from the use of the asset and the right to manage the use of the asset underlying the contract. Moreover, the standard establishes a single recognition and measurement model of lease contracts for the lessee providing for the recognition of the leased asset also operating under assets against a financial liability. On the contrary, the standard does not include significant changes for lessors.

The Group finalized the preliminary assessment of impacts arising from the application of the new standard at the transition date (January 1, 2019). Such assessment has been declined in different phases, including the complete mapping of the contracts potentially suitable to contain a lease and the analysis of the same in order to understand the main clauses relevant for IFRS 16 purposes. With this regard, the Group has made use for all contracts of the practical expedient available on transition to apply the requirements of the standard only to contracts identified as leases in accordance with IAS 17 and IFRIC 4.

The Group has elected to adopt IFRS 16 under the Modified Retrospective approach. In particular, for lease contracts previously classified as operating, the Group will recognize a financial liability and a right of use equal to the present value of future lease payments remaining at the transition date, discounted using for each contract the incremental borrowing rate applicable at the transition date.

In adopting IFRS 16, the Group intends to apply the exemption granted by the standard in relation to short-term leases for all the asset categories. Likewise, the Group will apply the exemption granted by the standard as regards the lease contracts for which the underlying asset is configured as a low-value asset (for the purposes of this determination, the Group considered the assets underlying the contract of leases that do not exceed, when new, a value of approximately Euro 5 thousand). The contracts for which the exemption can be applied mainly concern computers, telephones and tablets, printers, other electronic devices, furniture and furnishings. For these contracts, the introduction of IFRS 16 will not entail the recognition of the lease financial liability and of the related right of use, but the lease payments will be recognised as an expense on a straight-line basis over the lease term.

Moreover, the Group will also apply, for all the asset categories, the exemption granted by the standard in relation to the possibility of not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement in determining the financial liability of the lease and the related right of use.

With reference to the transition rules, the Group will make use of the following practical expedients available if the modified retrospective transition method is chosen:

- classification of contracts expiring within 12 months from the transition date as a short term lease. For these contracts the lease payments will be recognized as an expense on a straight-line basis;

- exclusion of initial direct costs from the measurement of the right of use as of January 1, 2019;
- use of hindsight at the transition date for the determination of the lease term, with particular reference to the exercise of extension and early termination options.

The transition to IFRS 16 introduces some elements of professional judgment that involve the definition of some accounting policies and the use of assumptions and estimates in relation to the lease term and the definition of the discount rate. The main ones are summarized below:

- the Group decided not to apply IFRS 16 for contracts containing a lease whose underlying asset is an intangible asset;
- *lease term*: the Group analyzed all the lease contracts, defining the lease term for each of them, given by the "non-cancellable" period together with the effects of any extension or early termination clauses whose exercise was deemed reasonably certain. Specifically, for buildings this evaluation considered the specific facts and circumstances of each asset. With regard to the other categories of assets, mainly company cars and equipment, the Group generally considered as unlikely that it will exercise any clauses of extension or early termination in consideration of the practice usually followed by the Group;
- definition of the discount rate: the Group elected to adopt the incremental borrowing rate in order to determine the financial liability relating to lease contracts. This rate, diversified according to the country and the reference currency of the lease contract, represents the interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

As at December 31, 2018, the Group has non-cancellable operating lease commitments of approx. Euro 32.6 million. A preliminary assessment indicates that approx. Euro 31.7 million of these arrangements relate to leases other than short-term leases and leases of low value assets; in respect of all these leases the Group will recognise a right-of-use asset of Euro 27.4 million and a corresponding lease liability of approx. Euro 27.4 million

Amendments to IFRS 9 – Financial Instruments – Prepayment features with negative compensation

The changes clarify the classification of certain financial assets that are repayable in advance. These changes are applicable from January 1, 2019.

IFRIC 23 – Uncertainty over Income Tax Treatments

The interpretation clarifies how to reflect uncertainty for accounting in income taxes in the event that the tax treatment on a specific transaction is unclear. The provisions introduced by this interpretation are applicable from January 1, 2019.

The Group is currently analysing these amendments and interpretations and assessing whether their adoption will have a significant impact on the consolidated financial statements, with the exception of those arising from application of IFRS 16 – *Leasing*, described above.

Accounting principles and interpretations issued by IASB and not yet transposed by the European Union

At the date of this Annual Report, the following new principles and interpretations have been issued by the IASB but have not been transposed into European Union law:

- IFRS 17 *Insurance Contracts*, issued on May 18, 2017, the standard regulates the accounting treatment of insurance contracts issued and reinsurance contracts held.

- Amendments to IAS 28 "Long-term interests in Associates and Joint Ventures" which clarifies that an entity that applies IFRS 9 to long-term interests in an associate or joint venture that is part of its net investment in the associate or joint venture. These changes are applicable from January 1, 2019.
- Improvements to IFRSs (2015-2017 Cycle) – Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23, all applicable from January 1, 2019.
- Amendments to IAS 19 – *Employee Benefits* – The amendments specify that when an entity recalculates its net benefit liability (asset) determined after a plan amendment, curtailment or settlement, it should use updated actuarial assumptions to determine the current service cost and net interest for the remainder of the annual reporting period. These changes are applicable from January 1, 2019.
- Amendment of references to the IFRS Conceptual Framework in current standards to align quotations and references to the document itself in the updated version. These changes are applicable from January 1, 2020.
- Amendments to IFRS 3 – *Business Combinations*. These amendments are intended to clarify the definition of "business" in practical terms, to facilitate the entity's determination of whether it has acquired an asset or a group of assets. These changes are applicable from January 1, 2020.
- Amendments to IAS 1 and IAS 8: *Definition of material*. The amendments are intended to clarify the definition of material and align the definition used in the Conceptual Framework with the one used in the standards themselves. These changes are applicable from January 1, 2020.

The Group is currently analysing these standards and assessing whether their adoption will have a significant impact on the consolidated financial statements.

The Group will adopt these new principles, amendments and interpretations from their date of application.

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Explanatory Notes to Prima Industrie Group Consolidated Financial Statements December 31, 2018

Chapter 8 - Explanatory Notes to the Consolidated Financial Statements at December 31, 2018

The data shown in the explanatory notes, if not shown otherwise, are expressed in Euro thousand.

Sector report

In accordance with IFRS 8, and in line with the Group's management and control model, the Group's management has identified PRIMA POWER and PRIMA ELECTRO as the operating divisions that are subject to sector reports.

The PRIMA POWER Division includes the design, manufacture and sale of:

- laser machines to cut, weld and punch metallic components, three-dimensional (3D) and two-dimensional (2D), and
- sheet metal processing machines that use mechanical tools (punchers, integrated punching and shearing systems, integrated punching and laser cutting systems, panel bending, bending machines and automated systems).

The PRIMA ELECTRO Division includes the development, construction and sale of electronic power and control components, and hi-power laser sources for industrial applications, intended for the machines of the Group and third customers.

It is important to state that during fourth quarter of 2018 the Group presented its new brand PRIMA ADDITIVE, which is focused on turnkey additive manufacturing solutions, with Metal Powder Bed and Direct Deposition technologies, and the relative support and services for its applications. PRIMA ADDITIVE thus becomes the Group's third division, joining PRIMA POWER and PRIMA ELECTRO. The new division boasts a strong team of highly specialised young experts, qualified managers and engineers. The financial and equity data of PRIMA ADDITIVE are currently negligible and do not meet the thresholds set out in IFRS 8 for disclosure purposes. Therefore, for 2018, the division's information will be aggregated to the data for PRIMA POWER.

The following tables show the financial information directly attributable to PRIMA POWER and PRIMA ELECTRO Divisions, as described above.

	PRIMA POWER		PRIMA ELECTRO		ELIMINATION		PRIMA INDUSTRIE GROUP	
VALUES IN EURO THOUSAND	DEC 31, 2018	DEC 31, 2017	DEC 31, 2018	DEC 31, 2017	DEC 31, 2018	DEC 31, 2017	DEC 31, 2018	DEC 31, 2017
Net revenues	434,617	423,118	58,858	52,325	(26,543)	(25,940)	466,932	449,503
Cost of goods sold	(334,996)	(326,064)	(45,804)	(42,547)	26,005	25,657	(354,795)	(342,954)
GROSS MARGIN	**99,621**	**97,054**	**13,054**	**9,778**	**(538)**	**(283)**	**112,137**	**106,549**
Research and Development costs	(18,604)	(17,102)	(5,570)	(5,012)	-	159	(24,174)	(21,955)
Sales and marketing expenses	(29,207)	(27,227)	(2,299)	(2,686)	1	(37)	(31,505)	(29,950)
General and administrative expenses	(24,553)	(25,151)	(3,868)	(3,246)	4	49	(28,417)	(28,348)
OPERATING PROFIT (EBIT)	**27,257**	**27,574**	**1,317**	**(1,166)**	**(533)**	**(112)**	**28,041**	**26,296**
Net financial expenses	(7,803)	(3,524)	(608)	(503)	-	-	(8,411)	(4,027)
Net exchange differences	(307)	(2,852)	65	(121)	-	-	(242)	(2,973)
Net result of other investments	-	-	7,233	2,556	-	-	7,233	2,556
RESULT BEFORE TAXES (EBT)	**19,147**	**21,198**	**8,007**	**766**	**(533)**	**(112)**	**26,621**	**21,852**
Taxes	(2,560)	(3,153)	(154)	73	151	(104)	(2,563)	(3,184)
NET RESULT	**16,587**	**18,045**	**7,853**	**839**	**(382)**	**(216)**	**24,058**	**18,668**
- Attributable to Group shareholders	*16,585*	*17,892*	*7,853*	*839*	*(382)*	*(216)*	*24,056*	*18,515*
- Attributable to minority shareholders	*2*	*153*	*-*	*-*	*-*	*-*	*2*	*153*

VALUES IN EURO THOUSAND	PRIMA POWER DEC 31, 2018	PRIMA POWER DEC 31, 2017	PRIMA ELECTRO DEC 31, 2018	PRIMA ELECTRO DEC 31, 2017	ELIMINATION DEC 31, 2018	ELIMINATION DEC 31, 2017	PRIMA INDUSTRIE GROUP DEC 31, 2018	PRIMA INDUSTRIE GROUP DEC 31, 2017
Property, plant and equipment	26,514	26,995	10,235	8,632	-	1	36,749	35,628
Intangible assets	127,531	132,525	20,482	20,073	(3,013)	(2,995)	145,000	149,603
Other investments	17,485	11,281	73	19	(10,945)	(10,945)	6,613	355
Non current financial assets	3,362	-	1,515	10	(1)	-	4,876	10
Deferred tax assets	8,024	8,053	3,415	2,921	534	366	11,973	11,340
NON CURRENT ASSETS	**182,916**	**178,854**	**35,720**	**31,655**	**(13,425)**	**(13,573)**	**205,211**	**196,936**
Inventories	113,682	95,716	24,085	18,687	(1,904)	(1,368)	135,863	113,035
Trade receivables	104,760	106,973	15,411	15,598	(9,414)	(8,922)	110,757	113,649
Other receivables	7,516	6,599	1,410	1,416	3	4	8,929	8,019
Current tax receivables	5,964	7,606	4,275	2,186	(572)	(412)	9,667	9,380
Derivatives	26	58	-	-	-	-	26	58
Financial assets	5,631	1,602	-	-	(5,290)	(811)	341	791
Cash and cash equivalents	68,940	68,052	2,138	2,469	-	-	71,078	70,521
CURRENT ASSETS	**306,519**	**286,606**	**47,319**	**40,356**	**(17,177)**	**(11,509)**	**336,661**	**315,453**
Assets held for sale	**1,234**	**384**	**-**	**727**	**-**	**-**	**1,234**	**1,111**
TOTAL ASSETS	**490,669**	**465,844**	**83,039**	**72,738**	**(30,602)**	**(25,082)**	**543,106**	**513,500**
STOCKHOLDERS' EQUITY	**144,858**	**132,101**	**40,188**	**31,688**	**(15,274)**	**(14,835)**	**169,772**	**148,954**
Interest-bearing loans and borrowings	107,402	90,720	11,068	7,676	(5,290)	-	113,180	98,396
Employee benefit liabilities	5,111	5,117	2,459	2,576	-	1	7,570	7,694
Deferred tax liabilities	3,582	4,311	1,863	1,793	(112)	(107)	5,333	5,997
Provisions	197	172	-	-	1	-	198	172
Derivatives	636	80	-	-	-	-	636	80
NON CURRENT LIABILITIES	**116,928**	**100,400**	**15,390**	**12,045**	**(5,401)**	**(106)**	**126,917**	**112,339**
Trade payables	109,218	105,954	15,325	13,356	(9,402)	(8,845)	115,141	110,465
Advance payments	40,017	43,167	216	453	312	-	40,545	43,620
Other payables	20,704	21,928	2,961	3,039	(1)	(16)	23,664	24,951
Interest-bearing loans and borrowings	29,616	32,506	7,412	10,879	-	(860)	37,028	42,525
Current tax payables	7,006	6,011	691	481	(580)	(420)	7,117	6,072
Provisions	22,206	23,777	856	797	(256)	-	22,806	24,574
Derivatives	116	-	-	-	-	-	116	-
CURRENT LIABILITIES	**228,883**	**233,343**	**27,461**	**29,005**	**(9,927)**	**(10,141)**	**246,417**	**252,207**
TOTAL STOCKHOLDERS' EQUITY AND LIABILITIES	**490,669**	**465,844**	**83,039**	**72,738**	**(30,602)**	**(25,082)**	**543,106**	**513,500**

Prima Power

Revenues for the PRIMA POWER division increased by 2.7% from the previous year. The division achieved excellent revenues in Italy (17.1% of the division's revenues), in Northern Europe (10.8%), Spain (5.5%) and Germany (4.9%). Sales in NAFTA countries account for 23.6% of the division's revenues, whereas China accounts for 9.7%.

EBIT at December 31, 2018 amounts to Euro 27,257 thousand and had decreased by Euro 317 thousand; this result is affected by amortization and impairment for Euro 13,054 thousand, of which Euro 6,757 thousand related to amortization of development costs and to the amortization relating to Trademark registration recognised in the business merger of the FINN-POWER Group equal to Euro 1,823 thousand.

It should be specified that EBIT at December 31, 2018 is affected by non-recurring events of Euro 3,529 thousand and relate mainly to Euro 1,160 thousand for restructuring/reorganisation costs, Euro 1,685 thousand for legal/tax litigation costs and penalties from customers and Euro 681 thousand impairment on a building. At December 31, 2017, non-recurring events were Euro -2,632 thousand.

Prima Electro

Revenues in the PRIMA ELECTRO division went up Euro 6,533 thousand from December 31, 2017. For the PRIMA ELECTRO division, growth was due to sales of DOTS products, particularly the supply of orbital welding systems (for the oil & gas industry). EBIT was positive at Euro 1,317 thousand and increased by Euro 2,483 thousand compared to the previous year. This result is affected by Euro 1,561 thousand for amortization of tangible assets, Euro 2,402 thousand for amortization and impaiment of intangible fixed assets (of which Euro 1,705 thousand for development costs). It is important to note that EBIT to December 31, 2018 is affected by non-recurring events of Euro 645 thousand related to impairment of a number of development costs. Non-recurring events at December 31, 2017 were positive for Euro 723 thousand.

Consolidated financial position

1. Property, plant and equipment

The tangible fixed assets on December 31, 2018 are equal to Euro 36,749 thousand an increase of Euro 1,121 thousand compared with December 31, 2017.

For more details, refer to the table below.

PROPERTY, PLANT AND EQUIPMENT	LAND AND BUILDING	PLANTS AND MACHINERY	INDUSTRIAL AND COMMERCIAL EQUIPMENT	OTHER TANGIBLE FIXED ASSETS	FIXED ASSETS UNDER CONSTRUCTION	TOTAL
Net value as at December 31, 2016	**25,420**	**2,975**	**3,456**	**2,742**	**687**	**35,281**
Movements 2017						
Increases	837	895	1,491	1,178	1,168	5,569
Disinvestments	-	(450)	(307)	(737)	-	(1,494)
Utilization of accumulated depreciation	-	425	277	692	-	1,394
Depreciation	(1,001)	(812)	(1,389)	(1,184)	-	(4,386)
Impairment	-	-	-	-	(23)	(23)
Reclassifications with tangible fixed assets	5	147	2	-	(154)	-
Reclassifications with intangible assets	-	-	-	(73)	-	(73)
Differences on exchange rates	(282)	(35)	(204)	(96)	(23)	(640)
Net value as at December 31, 2017	**24,979**	**3,145**	**3,326**	**2,522**	**1,655**	**35,628**
Movements 2018						
Increases	141	2,029	1,200	2,780	1,210	7,360
Disinvestments	(61)	(490)	(61)	(1,337)	(138)	(2,087)
Utilization of accumulated depreciation	61	443	59	1,319	-	1,882
Depreciation	(1,116)	(768)	(1,403)	(1,242)	-	(4,529)
Reclassifications with tangible fixed assets	991	88	273	94	(1,446)	-
Reclassifications with Assets held for sale	(1,531)	-	-	-	-	(1,531)
Differences on exchange rates	2	(6)	63	(21)	(12)	26
Net value as at December 31, 2018	**23,466**	**4,441**	**3,457**	**4,115**	**1,269**	**36,749**

The increases for the year amounted to Euro 7,360 thousand and net disposals amounted to Euro 205 thousand. As can be seen in the table above, the most significant increases in the year relate to Industrial and commercial equipment and Other assets (which include electronic office machinery, furniture, vehicles).

Depreciation in the year totalled Euro 4,529 thousand, while exchange rate differences had a positive impact of Euro 26 thousand.

The table below shows the net book value of tangible fixed assets acquired through financial leasing.

	DEC 31, 2018	DEC 31, 2017
Land and Building	9,449	9,529
Plants and Machinery	443	605
Industrial and Commercial equipment	13	22
Other tangible fixed assets	830	729
TOTAL	**10,735**	**10,885**

2. Intangible assets

The intangible assets on December 31, 2018 are equal to Euro 145,000 thousand and decreased by Euro 4,603 thousand compared with December 31, 2017.

For more details, refer to the table below.

INTANGIBLE ASSETS	GOODWILL	DEVELOPMENT COSTS	OTHER INTAGLIBLE ASSETS	TOTAL
Net value as at December 31, 2016	**103,262**	**37,536**	**14,915**	**155,713**
Movements 2017				
Increases/(decreases)	-	6,843	641	7,484
Depreciation	-	(8,488)	(3,984)	(12,472)
Reclassifications with tangible fixed assets	-	-	73	73
Differences on exchange rates	(351)	(792)	(52)	(1,195)
Net value as at December 31, 2017	**102,911**	**35,099**	**11,593**	**149,603**
Movements 2018				
Increases/(decreases)	-	5,431	1,399	6,830
Depreciation	-	(8,463)	(2,700)	(11,163)
Impairment	-	(645)	-	(645)
Differences on exchange rates	121	258	(4)	375
Net value as at December 31, 2018	**103,032**	**31,680**	**10,288**	**145,000**

The most significant item is represented by Goodwill, which on December 31, 2018 amounts to Euro 103,032 thousand. Goodwill accounted for refers to the larger value paid with respect to the fair value of the net assets acquired.

The table below shows the book value of the goodwill allocated to each of the Cash Generating Units (CGU).

CASH GENERATING UNIT	BOOK VALUE GOODWILL DECEMBER 31, 2018	BOOK VALUE GOODWILL DECEMBER 31, 2017
PRIMA POWER	97,708	97,633
PRIMA ELECTRO - BU Electronics	4,316	4,316
PRIMA ELECTRO - BU Laser	1,008	962
TOTAL	**103,032**	**102,911**

Prima Power

At December 31, 2018, the recoverable value of the cash generating unit underwent an impairment test to ascertain any loss in value. This involved a comparison of the book value of the unit (including goodwill) and its value in use, that is the present value of the expected future cash flows from its continuous use and from its disposal at the end of its useful life.

The value in use was determined by discounting the cash flows in the PRIMA POWER segment business plan approved by the Board of Directors of PRIMA INDUSTRIE SpA and concerning the period January 1, 2019 – December 31, 2021. The assumptions in the cash flow forecast in the explicit projection period were based on prudential finding and use realistic and achievable future expectations. In order to determine the value in use of the CGU, the sum of the explicit projection cash flows, discounted by 3 years, and a terminal value were considered, to determine the criteria for discounting the perpetual annuity. The discount rate applied to future cash flows was 8.44% post-tax (at December 31, 2017 the post-tax was 7.80%), calculated in consideration of the sector in which the CGU operates, the countries in which the CGU is expected to achieve the planned results, the fully operational debt structure and the current economic situation. For cash flows of financial years after the explicit projection period, a growth rate of 0.5% (the same used in previous years) was assumed, in line with growth expectations. Determination of the value-in-use using the process illustrated led to a recoverable value above the book value of the cash-flow generating unit, making it possible to avoid any reductions in the value of goodwill allocated to the PRIMA POWER segment.
With respect to the basic assumptions described above, an analysis of sensitivity was made of the results with respect to the WACC, the growth rates (g) and the forecast results. In particular, even with significant increases on the cost of capital and setting to zero the perpetuity growth rate (g), the values of use show no impairment losses. Considering a growth rate (g) of zero, the WACC (*post-tax*) that would make the recoverable value of the CGU equal to its book value would be 24.0%.
A sensitivity test was also performed with forecast results lower than those reflected in the 2019 - 2021 plan. If revenues forecasted for 2019 were reduced by 5% (and likewise EBITDA) and the percentage growth rates were maintained for the following years, hence even (with a *post-tax* WACC of 11.04% and growth rate of 0.5%) the values of use would not show impairment losses. Considering a growth rate (g) of 0.5% and a WACC of 11.04%, a 20% reduction in future revenues (with percentage growth maintained at the same rates in the subsequent years) would make the recoverable value of the CGU the same as its book value.
It should be emphasised that the data for this sensitivity study refers to a theoretical year that has some limitations. Indeed, in the reference *industry*, the greater the revenue contractions, the higher the growth rates during the positive phase of the cycle. Hence a 20% reduction in revenues, keeping the growth rates constant in the following years (i.e. no recovery of the percentage loss of revenues during the five-year period), would mean either a contraction in the machine tools market during the next cycle or a loss in market share for the PRIMA POWER segment. Neither of these events appears likely at the moment.

At the end of the test, the value-in-use of the PRIMA POWER CGU at December 31, 2018 is greater than its book value of around Euro 200 million.

Prima Electro - BU Electronics

The value in use was determined by discounting the cash flows in the PRIMA POWER ELECTRO BU ELECTRONICS business plan approved by the Board of Directors of PRIMA ELECTRO SpA and concerning the period January 1, 2019 – December 31, 2023. The assumptions in the cash flow forecast in the explicit projection period were based on prudential finding and use realistic and achievable future expectations. In order to determine the value in use of the CGU, the sum of the explicit projection cash flows, discounted by 5 years, and a terminal value were considered, to determine the criteria for discounting the perpetual annuity. The discount rate applied to future cash flows was 9.64% (post-tax), calculated in consideration of the sector in which the CGU operates, the countries in which the CGU is expected to achieve the planned results, the fully operational debt structure and the current economic situation. For cash flows of financial years after the explicit projection period, a growth rate of 0.5% (the same used in previous years) was assumed, in line with recent market valuations.
Determination of value in use using the above process led to a recoverable value that was higher than the book value of the cash generating unit, making it possible not to make any reduction to the value of the goodwill assigned to the PRIMA ELECTRO BU ELECTRONICS segment.
In terms of the basic assumptions described above, a sensitivity analysis of the results was also carried out in relation to the WACC, the growth rate (g) and the forecast results. Specifically, even with significant increases in the cost of capital and the zeroing of the perpetuity growth rate (g), the values in use show no impairment losses. Indeed fact, assuming a growth rate (g) of zero, the (post-tax) WACC that would make the recoverable value of the CGU equal to its book value would be 50.0%.
A sensitivity analysis was also carried out with expected results lower than forecast in the 2019 - 2023 plan. If the revenues forecast for 2019 were to be lower by 5% (and consequently EBITDA) and the percentage growth rates for subsequent financial years remain unchanged, in this case, too (with a post-tax WACC of 13.16% and a growth rate of 0.5%), the values in use would not lead to impairment losses. Considering a growth rate (g) of 0.5% and a post-tax WACC of 13.16%, a reduction in future revenues of about 30% (with percentage growth rates in subsequent years remaining unchanged and with a cost structure consistent with turnover levels), would make the recoverable value of the CGU equal to its book value.

At the end of the test at December 31, 2018, the value in use of the CGU was approximately Euro 30 million higher than its book value.

Prima Electro - BU Laser

The value in use was determined by discounting the cash flows in the PRIMA ELECTRO BU LASER business plan approved by the Board of Directors of PRIMA ELECTRO SpA and concerning the period January 1, 2019 – December 31, 2023. The assumptions in the cash flow forecast in the explicit projection period were based on prudential finding and use realistic and achievable future expectations. In order to determine the value in use of the CGU, the sum of the explicit projection cash flows, discounted by 5 years, and a terminal value were considered, to determine the criteria for discounting the perpetual annuity. The discount rate applied to future cash flows was 8.44% (post-tax), calculated in consideration of the sector in which the CGU operates, the countries in which the CGU is expected to achieve the planned results, the fully operational debt structure and the current economic situation. For cash flows of financial years after the explicit projection period, a growth rate of 0.5% (the same used in previous years) was assumed, in line with recent market valuations.
Determination of value in use using the above process led to a recoverable value that was higher than the book value of the cash generating unit, making it possible not to make any reduction to the value of the goodwill assigned to the PRIMA ELECTRO BU LASER segment.

In terms of the basic assumptions described above, a sensitivity analysis of the results was also carried out in relation to the WACC, the growth rate (g) and the forecast results. Specifically, even with significant increases in the cost of capital and the zeroing of the perpetuity growth rate (g), the values in use show no impairment losses. Indeed fact, assuming a growth rate (g) of zero, the (post-tax) WACC that would make the recoverable value of the CGU equal to its book value would be 11.8%.
A sensitivity analysis was also carried out with expected results lower than forecast in the 2019- 2023 plan. If the revenues forecast for 2019 were to be lower by 5% (and consequently EBITDA) and the percentage growth rates for subsequent financial years remain unchanged, in this case, too (with a post-tax WACC of 10.14% and a growth rate of 0.5%), the values in use would not lead to impairment losses. Considering a growth rate (g) of 0.5% and a post-tax WACC of 10.14%, a reduction in future revenues of about 5.0% (with percentage growth rates in subsequent years remaining unchanged and with a cost structure consistent with turnover levels), would make the recoverable value of the CGU equal to its book value.

At the end of the test at December 31, 2018, the value in use of the CGU was higher than its book value.

Other intangible fixed assets

As can be deduced from the year's progression, most increases in 2018 were due to the capitalisation of development costs.
Considering the *business* of Prima Industrie SpA (and by all other Group companies) having a high technological content, it is absolutely essential to have constant investment in research and development activities. The Group continued to invest significantly in the development of its products, in order to retain a competitive advantage and be ready in this stage of reference market recovery.

The capitalisation of development costs has been carried out by the PRIMA INDUSTRIE Group where there are the conditions set out in IAS 38. For all the development activities of capitalised new projects, the technical feasibility has been verified as well as the generation of probable future economic benefits. The capitalised costs on development projects are monitored individually and measured in terms of the economic benefits expected from the time of their implementation. The costs capitalised on projects where the technical feasibility is uncertain or no longer strategic are assigned to the Income Statement. The rate applied for the number of hours of internal development reflects the cost of industrial man-hours.
There was an impairment of development costs previously capitalized for Euro 645 thousand.

It should be noted that the "Other intangible fixed assets" category contains the trademark deriving from the Purchase Price Allocation of FINN-POWER OY occurred in 2008. The net values of the FINN-POWER trademark at December 31, 2018 is equal to Euro 7,572 thousand.

The "FINN-POWER" trademark has been defined an asset with finite life, as we consider that its use for business and production purposes will be limited in time to 15 years, and consequently it is subject to the depreciation process.

3. Other Investments

Other investments at December 31, 2018 were Euro 6,613 thousand and had increased by Euro 6,258 thousand from December 31, 2017, this was due to:

- the acquisition by PRIMA POWER SUZHOU of the stake in Lead Laser for Euro 6,201 thousand;
- recovery value of Caretek Srl investment (held by PRIMA ELECTRO SpA) for Euro 54 thousand.

Consequently this heading on December 31, 2018 is composed of:

- Caretek Srl: Euro 73 thousand (investment equal to 19.3% held by PRIMA ELECTRO SpA);
- Fimecc OY: Euro 50 thousand (investment equal to 2.4% held by FINN-POWER OY);
- Härmämedi OY: Euro 25 thousand (investment equal to 8.3% held by FINN-POWER OY);
- Lamiera Servizi Srl: Euro 11 thousand (investment equal to 19% held by PRIMA INDUSTRIE SpA);
- 3D NT: Euro 180 thousand (investment equal to 15% held by PRIMA INDUSTRIE SpA);
- Prima Power Sheet Metal Solution: Euro 41 thousand (investment equal to 19% held by PRIMA INDUSTRIE SpA);
- Lead Laser: Euro 6,201 thousand (investment equal to 19% held by PRIMA POWER SUZHOU);
- other minor investments: Euro 32 thousand.

4. Non-current financial assets

This item at December 31, 2018 amounted to Euro 4,876 thousand and refers to:

- a time deposit as guarantee for a loan granted by Cassa Depositi e Prestiti and Mediocredito Italiano (known as "Smilla Loan") for Euro 4,233 thousand;
- Euro 633 thousand deposit owned by PRIMA POWER SUZHOU;
- a loan issued by PRIMA ELECTRO SpA to Caretek Srl of Euro 10 thousand.

5. Deferred tax assets

Tax assets for deferred taxes were Euro 11,973 thousand, increasing from the previous financial year of Euro 633 thousand.

DEFERRED TAX ASSETS	DECEMBER 31, 2018	DECEMBER 31, 2017
Opening balance	**11,340**	**11,555**
Increase	2,258	2,882
Decrease	(1,750)	(2,423)
Differences on exchange rates	125	(674)
Closing balance	**11,973**	**11,340**

Below is the breakdown of Tax assets for deferred taxes at December 31, 2018.

DEFERRED TAX ASSETS	DECEMBER 31, 2018	DECEMBER 31, 2017
Provisions for risks and other liabilities	4,512	4,525
Inventories	3,606	2,979
Tax losses carried forward	2,357	1,890
Employee benefits	658	710
Trade receivables	208	286
Other	632	950
TOTAL	**11,973**	**11,340**

Deferred taxes are recorded in the financial statements only if the conditions for their recovery exist. The assessment of the recoverability of deferred tax assets takes account of expected profitability in future years. Deferred taxes on tax losses carried forward were entered recognised in relation to the likelihood of future taxable income against which they can be recovered. Considering the above, there were no elements that might change the previous assessments on the recoverability of deferred taxes.

6. Inventories

The following table shows the composition of inventories at December 31, 2018 and December 31, 2017.

INVENTORIES	DECEMBER 31, 2018	DECEMBER 31, 2017
Raw materials	48,907	38,434
Semi-finished goods	25,996	24,223
Finished goods	69,370	58,043
(Inventory provisions)	(8,410)	(7,665)
TOTAL	**135,863**	**113,035**

The net value of inventories on December 31, 2018 shows an increase equal to Euro 22,828 thousand compared with December 31, 2017.

The inventory provisions during the year 2018 were subject to the following movements.

INVENTORY PROVISIONS	INVENTORY PROVISIONS DECEMBER 31, 2018
Value as at December 31, 2017	**(7,665)**
Provisions	(1,271)
Utilizations	601
Differences on exchange rates	(75)
Value as at December 31, 2018	**(8,410)**

Appropriations during the period mainly occurred after the sale of assets for which provisions had previously been set aside or because estimated expected losses were updated.

7. Trade Receivables

Net trade receivables at December 31, 2018 amounted to Euro 110,757 thousand a decrease of Euro 2,892 thousand compared to December 31, 2017.

TRADE RECEIVABLES	DECEMBER 31, 2018	DECEMBER 31, 2017
Receivables from customers	114,238	117,032
Bad Debt Reserve	(3,481)	(3,383)
TOTAL	**110,757**	**113,649**

The Bad Debt Reserve during the year 2018 were subject to the following movements.

BAD DEBT RESERVE	EURO THOUSAND
Value as at December 31, 2017	**(3,383)**
Provisions	(746)
Utilizations	618
Differences on exchange rates	30
Value as at December 31, 2018	**(3,481)**

In application of the new IFRS 9, the Group measures trade receivables according to expected credit loss. The Group has adopted a simplified approach, therefore the provisions for doubtful accounts reflects expected losses based on the life of the receivable. In determining these provisions, the Group referred to historical experience, external indicators and forecasts.

Specific measurements were made on individual credit positions in certain categories of loans subject to particular elements of risk.

Below is a breakdown of trade receivables (inclusive of the bad debt reserve) by due date.

RECEIVABLES BY MATURITY	EURO THOUSAND
Due to expire	60,116
Expired 0 - 180 days	40,399
Expired 180 - 365 days	6,115
Expired over 1 year	7,608
TOTAL	**114,238**

The high average credit standing of customers and the lack of a significant concentration of receivables reduce credit risk and means the provisions for doubtful accounts are sufficient. Specifically, the recoverability of receivables and any need to write down receivables are the result of a process involving the subjective judgement of the Group. The factors considered mainly concern the creditworthiness of the counterparty, technical components (such as any design changes and/or delays in execution), the amount and the timing of expected future payments and any actions taken or to be taken to recover the receivables.

8. Other receivables

Other current receivables at December 31, 2018 were Euro 8,929 thousand and increased from the previous year by Euro 910 thousand. Here is a breakdown of Other Receivables compared with the previous year.

OTHER RECEIVABLES	DECEMBER 31, 2018	DECEMBER 31, 2017
Advances payments to suppliers	4,391	2,833
Contribution to be received for R&D projects	2,105	2,438
Prepayments and accrued income	1,651	1,492
Other receivables	552	980
Advances to employees	230	276
TOTAL	**8,929**	**8,019**

Receivable research and development grants, down by Euro 333 thousand from the previous year, are for projects financed by the European Community, the Ministry of Economic Development and the Regione Piemonte to be paid to PRIMA INDUSTRIE SpA and PRIMA ELECTRO SpA.
Accrued income and prepaid expenses mainly include portions of costs (such as insurance, leasing fees, fees for information system and/or software licences) regarding subsequent financial years for which the financial outlay had already been made at December 31, 2018.

9. Current tax receivables

The heading amounts to Euro 9,667 thousand at December 31, 2018 and increased by Euro 287 thousand compared to December 31, 2017.

CURRENT TAX RECEIVABLES	DECEMBER 31, 2018	DECEMBER 31, 2017
VAT receivables	4,646	5,762
Tax credit for R&D	2,561	1,001
Direct tax advances	1,331	1,497
Receivables towards tax authorities	1,048	1,048
Other receivables for minor tax assets	47	62
Withholding taxes	34	10
TOTAL	**9,667**	**9,380**

The tax receivable amounting to Euro 1,048 thousand refers to a submission of claims for IRES reimbursement (IRAP deductions for IRES purposes for the years 2007-2011) which arose in February 2013.

10. Net Indebtedness

On December 31, 2018 the net indebtedness of the Group was negative for an amount of Euro 79,515 thousand, increasing of Euro 9,883 thousand compared to the previous financial year (negative for Euro 69,632 thousand). For a better understanding of the variation in the net indebtedness achieved during the year 2018, refer to the consolidated cash flow statement of the period.

Shown below the information required by the Consob communication No. DEM/6064293 of July 28, 2006:

NET INDEBTNESS		DECEMBER 31, 2018	DECEMBER 31, 2017	VARIATIONS
A	CASH	71,078	70,521	557
B	OTHER CASH AND CASH EQUIVALENTS	-	-	-
C	SECURITIES HELD FOR TRADING	-	-	-
D	**CASH ON HAND (A+B+C)**	**71,078**	**70,521**	**557**
E	**CURRENT FINANCIAL RECEIVABLES**	**367**	**849**	**(482)**
F	CURRENT BANK DEBTS	2,718	6,192	(3,474)
G	CURRENT PART OF NON-CURRENT INDEBTEDNESS	30,474	31,295	(821)
H	BOND ISSUED	693	867	(174)
I	OTHER CURRENT FINANCIAL DEBTS	3,259	4,171	(912)
J	**CURRENT FINANCIAL INDEBTEDNESS (F+G+H+I)**	**37,144**	**42,525**	**(5,381)**
K	**NET CURRENT FINANCIAL INDEBTEDNESS (J-D-E)**	**(34,301)**	**(28,845)**	**(5,456)**
L	NON-CURRENT BANK DEBTS	72,818	47,355	25,463
M	BOND ISSUED	24,762	39,733	(14,971)
N	OTHER NON-CURRENT FINANCIAL DEBTS	16,236	11,389	4,847
O	**NON-CURRENT FINANCIAL INDEBTEDNESS (L+M+N)**	**113,816**	**98,477**	**15,339**
P	**NET FINANCIAL INDEBTEDNESS (K+O)**	**79,515**	**69,632**	**9,883**

Reconciliation with the Group's net debt shown in the Management Report is as follows:

	DEC 31, 2018	DEC 31, 2017
Net financial indebtedness com. CONSOB n. DEM/6064293	79,515	69,632
Term deposit Smilla	4,233	-
Deposit Prima Power Suzhou	633	-
Loan Caretek	10	-
Net Financial Indebtedness	**74,639**	**69,632**

Liquidity

Cash and cash equivalents amount to Euro 71,078 thousand and consist of:

- bank deposits for Euro 71,023 thousand and
- cash for Euro 55 thousand.

For more details on cash and cash equivalents, see the Consolidated Cash Flow Statement.

Current financial receivables

The current financial receivables amount to Euro 367 thousand and include:

- Euro 217 thousand deposit owned by PRIMA POWER SUZHOU;
- receivables from the company Wuhan Unity deriving from the sale by Prima Industrie SpA of the last 5% of the investment in Shanghai Unity Prima amounting to Euro 118 thousand;
- currency rate swaps for Euro 26 thousand;
- receivables from the company Lamiera Servizi of Euro 6 thousand, a subsidiary of Prima Industrie SpA for 19%.

Bonds issued

In order to better understand the changes in debenture bonds, it should be noted that in the first quarter of 2018, PRIMA INDUSTRIE SpA issued a new 7-year non-convertible fixed rate bond with a fixed annual coupon of 3.5%. The total amount was for Euro 25 million and the previous loan of Euro 40 million taken out in the first quarter of 2015 was fully repaid.

Debt to bondholders amounts comprehensively to Euro 25,734 thousand, inclusive of accrued and unpaid interests amounting to Euro 734 thousand. Debt refers exclusively to the *Bond* issued during the first quarter of 2018 and expiring on February 9, 2025. The net debt accounted for in the financial statements amounts to Euro 25,455 thousand. The transactions costs incurred at the issuing of the bond were accounted for in reduction of financial debt.

The long term debt amounts to Euro 24,762 thousand beyond 12 months

Indebtedness with banks

In order to better understand the changes in bank debt, it should be noted that during the first quarter of 2018, PRIMA INDUSTRIE SpA completed the refinancing of the main medium/long-term debt operations, by taking out – in addition to the new bond – new five-year loans (mean rate 1.70%) with BNL, MPS, BPM, UNICREDIT and INTESA for a total of Euro 90 million, with separate amortisation plans, the last instalment of which will be due on June 30, 2023.

Furthermore, during the first quarter of 2018, the main financing transactions signed in 2015, the *Club Deal* signed in Italy with Unicredit, Intesa and BNL, were fully repaid on March 14, 2018. The so-called *Finnish Loan* signed in Finland with *Nordea* & *Danske* had already been repaid at the end of 2017.

The main figures included in the indebtedness with banks are the 2018 Loans:

- BNL 2017/2022
- MPS 2018/2023
- BPM 2018/2022
- UNICREDIT 2018/2022
- INTESA 2018/2023

At December 31, 2018, the BNL 2017/2022 loan amounted comprehensively to Euro 17,007 thousand, inclusive of accrued and unpaid interests amounting to Euro 7 thousand. The net debt accounted for in the financial statements amounts to Euro 16,928 thousand and the accessory charges incurred at the issuing of the loan are accounted.

The BNL 2017/2022 loan is for Euro 13,953 thousand expiring beyond 12 months.

At December 31, 2018, the MPS 2018/2023 loan amounted comprehensively to Euro 9,300 thousand, the net debt in the financial statements is equal to Euro 9,272 thousand and includes accessory charges incurred at the time the loan was issued.
The MPS 2018/2023 loan is for Euro 7,881 thousand expiring beyond 12 months.

At December 31, 2018, the BPM 2018/2022 loan amounted comprehensively to Euro 20,000 thousand, the net debt in the financial statements is equal to Euro 19,890 thousand and includes accessory charges incurred at the time the loan was issued.

The BPM 2018/2022 loan is for Euro 15,599 thousand expiring beyond 12 months.

At December 31, 2018, the UNICREDIT 2018/2022 loan amounted comprehensively to Euro 22,222 thousand, the net debt in the financial statements is equal to Euro 22,070 thousand and includes accessory charges incurred at the time the loan was issued.

The UNICREDIT 2018/2022 loan is for Euro 16,562 thousand expiring beyond 12 months.

At December 31, 2018, the INTESA 2018/2023 loan amounted comprehensively to Euro 15,038 thousand, inclusive of accrued and unpaid interests amounting to Euro 38 thousand. The net debt accounted for in the financial statements amounts to Euro 14,941 thousand and the accessory charges incurred at the issuing of the loan are accounted.

The INTESA 2018/2023 loan is for Euro 11,598 thousand expiring beyond 12 months.

Non-current bank debts of Euro 6,589 thousand are included among other bank loans and mainly refer to loans taken out by the two Italian companies PRIMA INDUSTRIE SpA and PRIMA ELECTRO SpA. Non-current bank debts include an interest rate swap (IRS – Interest Instalments Swap) which fair value is equal to Euro 636 thousand at December 31, 2018.

Current bank debt (including the current portion of non-current indebtedness) includes the short-term portion of the BNL 2017/2022 loans for Euro 2,975 thousand, MPS 2018/2023 loans for Euro 1,391 thousand, BPM 2018/2022 loans for Euro 4,291 thousand, UNICREDIT 2018/2022 loans for Euro 5,508 thousand and the INTESA 2018/2023 loans for Euro 3,343 thousand, in addition to *bank overdrafts* of Euro 2,602 thousand and other bank loans of Euro 12,966 thousand. Non-current bank debts also include a currency rate swap (CRS) which fair value is equal to Euro 116 thousand at December 2018.

Other financial debts

The Other financial debts amount comprehensively to Euro 19,495 thousand (of which current for Euro 3,259 thousand).

The other financial debts include:

- debts for financial lease amounting to Euro 8,709 thousand (of which current for Euro 1,298 thousand);
- other financial debts for Euro 10,786 thousand (of which current for Euro 1,961 thousand); such debts refer mainly to government loans.

Financial indicators (*"Covenants "*)

The BNL, Intesa, Unicredit, BPM, MPS loan agreements and the *Bond* require compliance with certain economic and financial ratios (*covenants*) for their entire period of duration and with variable values in the different measurement periods.

The table below details the *ratios* applicable as at December 31, 2018 and for the following measurement periods.

BNL, INTESA, UNICREDIT, BPM, MPS	
EBITDA(*)/Consolidated Net Financial costs ratio not less than:	*4.25 for the duration of the loan, to be calculated at June 30 and at December 31 of each year*
Net Financial Indebtedness/Consolidated EBITDA (*) ratio not more than (**):	*3.00 for the duration of the loan, to be calculated at June 30 and at December 31 of each year*
Net Financial Indebtedness/Consolidated Shareholders's Equity rario not higher than (***):	*1.50 for the duration of the loan, to be calculated at June 30 and at December 31 of each year*

BOND	
EBITDA(*)/Consolidated Net Financial costs ratio not less than:	*3.50 for the duration of the loan, to be calculated at June 30 and at December 31 of each year*
Net Financial Indebtedness/Consolidated EBITDA(*) ratio not more than:	*4.00 for the duration of the loan, to be calculated at June 30 and at December 31 of each year*
Net Financial Indebtedness/Consolidated Shareholders's Equity rario not higher than:	*1.50 for the duration of the loan, to be calculated at June 30 and at December 31 of each year*

(*) net of non recurring costs
(**) for MPS's loan the parameter is 3.50
(***) covenant only applicable to the BPM loan

The *covenants* measured on the consolidated financial statements at December 31, 2018 are met.

Cash flow hedging instruments and accounting for related transactions

In accordance with policy, PRIMA INDUSTRIE Group uses financial instruments to hedge foreign exchange fluctuations, with reference to USD, RMB and GBP transactions.

Coherently with the contents of IFRS9, hedging instruments can be entered according to hedge accounting methods only when:

- the formal designation and the documentation of the hedge are available on the starting date of the hedge;
- it is presumed that the hedge is highly effective;
- its effectiveness can be reliably measured; and
- the hedge itself is highly effective during the various accounting periods for which it is designated.

All hedging instruments are measured at their fair value, as established by IFRS9.
At December 31, 2018 the Group holds several derivative financial instruments for an overall negative value of Euro 726 thousand, of which Euro 26 thousand are current assets, Euro 636 thousand are non-current liabilities and Euro 116 thousand are current liabilities.

Derivatives current assets

TYPE	COMPANY	COUNTERPARTY	EXPIRY DATE	REFERENCE NOTIONAL	MTM DEC 31, 18
CRS - Non hedge accounting	Prima Industrie SpA	Intesa Sanpaolo	June 26, 2019	$1,000	€ 9
CRS - Non hedge accounting	Prima Industrie SpA	MPS	September 20, 2019	$2,000	€ 17
				TOTAL	**€ 26**

Derivatives non current liabilities

TYPE	COMPANY	COUNTERPARTY	EXPIRY DATE	REFERENCE NOTIONAL	MTM DEC 31, 18
IRS - Hedge accounting	Prima Industrie SpA	BNL	December 19, 2022	€17,000	€ 120
IRS - Hedge accounting	Prima Industrie SpA	BPM	December 31, 2022	€20,000	€ 223
IRS - Hedge accounting	Prima Industrie SpA	Unicredit	December 31, 2022	€22,222	€ 155
IRS - Hedge accounting	Prima Industrie SpA	Intesa Sanpaolo	March 31, 2023	€15,000	€ 138
				TOTAL	**€ 636**

Derivatives current liabilities

TYPE	COMPANY	COUNTERPARTY	EXPIRY DATE	REFERENCE NOTIONAL	MTM DEC 31, 18
CRS - Non hedge accounting	Prima Industrie SpA	Intesa Sanpaolo	September 20, 2019	$1,000	€ 7
CRS - Non hedge accounting	Prima Industrie SpA	BNL	March 29 , 2019	$2,000	€ 33
CRS - Non hedge accounting	Prima Industrie SpA	BNL	June 28, 2019	$1,000	€ 30
CRS - Non hedge accounting	Prima Industrie SpA	MPS	March 27, 2019	$2,000	€ 21
CRS - Non hedge accounting	Prima Industrie SpA	MPS	June 26, 2019	$2,000	€ 20
CRS - Non hedge accounting	Prima Industrie SpA	MPS	June 26, 2019	$1,000	€ 2
CRS - Non hedge accounting	Prima Industrie SpA	MPS	March 20, 2019	¥2,000	€ 3
				TOTAL	**€ 116**

IFRS 7 requires the classification of financial instruments at fair value to be determined on the basis of the quality of the input sources used in their valuation.

The IFRS 7 classification has the following hierarchy:

- Level 1: fair value determined according to unadjusted prices in active markets for identical assets or liabilities;
- Level 2: fair value determined according to inputs other than quoted market prices included within Level 1 but which are either directly or indirectly observable. This category includes the instruments the Group uses to hedge risks arising from interest rate and exchange rate fluctuations;
- Level 3: fair value determined according to valuation models whose inputs are not based on observable inputs ("unobservable inputs"). There are no financial instruments valuated in this.

VALUES EXPRESSED IN EURO THOUSAND	LEVEL 1	LEVEL 2	LEVEL 3
Assets valuated at fair value	-	26	-
Other Assets	-	-	-
TOTAL ASSETS	**-**	**26**	**-**
Liabilities valuated at fair value	-	752	-
Other Liabilities	-	-	-
TOTAL LIABILITIES	**-**	**752**	**-**

Asset required by the amendment to IAS 7, the following table shows the changes in liabilities arising from loan activities, whether arising from changes in cash flows or changes not in cash.

			VARIATIONS NOT IN CASH			
VALUES IN EURO THOUSAND	DECEMBER 31, 2017	VARIATIONS FROM CASH FLOW	ISSUES	EXCHANGE RATE EFFECT	FAIR VALUE	DECEMBER 31, 2018
Financial debts	90,743	25,230	-	71	-	116,044
Bond issued	40,600	(15,145)	-	-	-	25,455
Leasing	9,578	(1,058)	153	36	-	8,709
Derivatives	80	-	-	-	672	752
TOTAL	**141,001**	**9,027**	**153**	**107**	**672**	**150,960**

Breakdown of financial payables by expiration and interest rate

The following table lists the breakdown of financial payables to banks and other lenders (and, for the purposes of providing a framework for the data exposed in the financial statements, includes payables for leases, factoring and payables to banks for derivatives) by expiration and interest rate.

Current financial payables

CURRENT BANK DEBTS	EFFECTIVE INTEREST RATE	EXPIRY	DECEMBER 31, 2018
Bank overdrafts	N/A	Sight	2,602
Derivative - CRS	N/A	N/A	116
TOTAL			**2,718**

CURRENT PART OF NON-CURRENT INDEBTEDNESS	EFFECTIVE INTEREST RATE	EXPIRY	DECEMBER 31, 2018
Unicredit 2018/2022	Euribor 6m + 1,85%	December 31, 2022	5,508
Banco BPM 2018/2022	Euribor 6m + 1,80%	December 31, 2022	4,291
ICBC	1,75%	January 4, 2019	4,034
Banca Intesa 2018/2023	Euribor 6m + 1,25%	March 31, 2023	3,343
BNL 2017/2022	Euribor 6m + 1,55%	December 19, 2022	2,975
Banco BPM	Euribor 3m + 1,40%	September 30, 2019	1,910
Banco BPM	Euribor 3m + 1,50%	September 30, 2019	1,520
Banco BPM	Euribor 3m + 1,30%	September 30, 2019	1,516
MPS 2018/2023	Euribor 6m + 1,45%	June 30, 2023	1,391
Banca d'Alba	Euribor 3m + 1,20%	December 31, 2021	990
Banco do Brasil	1,70%	September 30, 2020	838
UBI	1,30%	November 9, 2020	755
CR Savigliano	Euribor 6m + 1,5%	June 30, 2021	659
Banca Unicredit/Sace	Euribor 3m + 1,80%	June 30, 2020	597
Banca Sella	Euribor 3m + 1,70%	June 24, 2019	147
TOTAL			**30,474**

BOND ISSUED	EFFECTIVE INTEREST RATE	EXPIRY	DECEMBER 31, 2018
Bond	3,5%	February 28, 2025	693
TOTAL			**693**

OTHER CURRENT FINANCIAL DEBTS	EFFECTIVE INTEREST RATE	EXPIRY	DECEMBER 31, 2018
BCC	Euribor 3m + 1,30%	June 30, 2020	671
Smilla	0,50%	December 31, 2025	1,009
MISE	0,448%	November 26, 2023	175
UBI	0,50%	June 3, 2026	106
Financial leasing	N/A	N/A	1,298
TOTAL			**3,259**

Non-current financial payables

NON-CURRENT BANK DEBTS	EFFECTIVE INTEREST RATE	EXPIRY	DECEMBER 31, 2018
Unicredit 2018/2022	Euribor 6m + 1,85%	December 31, 2022	16,562
Banco BPM 2018/2022	Euribor 6m + 1,80%	December 31, 2022	15,599
BNL 2017/2022	Euribor 6m + 1,55%	December 19, 2022	13,953
Banca Intesa 2018/2023	Euribor 6m + 1,25%	March 31, 2023	11,598
MPS 2018/2023	Euribor 6m + 1,45%	June 30, 2023	7,881
Banco do Brasil	1,70%	September 30, 2020	2,498
Banca d'Alba	Euribor 3m + 1,20%	December 31, 2021	2,020
CR Savigliano	Euribor 6m + 1,5%	June 30, 2021	1,007
UBI	1,30%	November 9, 2020	764
Banca Unicredit/Sace	Euribor 3m + 1,80%	June 30, 2020	300
Derivative - IRS	N/A	N/A	636
TOTAL			**72,818**

BOND ISSUED	EFFECTIVE INTEREST RATE	EXPIRY	DECEMBER 31, 2018
Bond	3,5%	February 28, 2025	24,762
TOTAL			**24,762**

OTHER NON-CURRENT FINANCIAL DEBTS	EFFECTIVE INTEREST RATE	EXPIRY	DECEMBER 31, 2018
Smilla	0,50%	December 31, 2025	6,178
Smilla	Euribor 6m + 3,5%	December 31, 2025	847
UBI	0,50%	June 3 ,2026	755
MISE	0,448%	November 26, 2023	706
BCC	Euribor 3m + 1,30%	December 31, 2025	339
Financial leasing	N/A	N/A	7,411
TOTAL			**16,236**

The following table shows the temporal distribution of payments of financial payables.

VALUES EXPRESSED IN EURO THOUSAND	2019	2020	2021	2022 ONWARDS	TOTAL
CURRENT BANK DEBTS (*)	2,602	-	-	-	2,602
CURRENT PART OF NON-CURRENT INDEBTEDNESS	30,474	-	-	-	30,474
OTHER CURRENT FINANCIAL DEBTS	3,259	-	-	-	3,259
NON-CURRENT BANK DEBTS (*)	-	22,720	23,879	25,583	72,182
BOND ISSUED	693	(43)	(44)	24,849	25,455
OTHER NON-CURRENT FINANCIAL DEBTS	-	2,777	2,354	11,105	16,236
TOTAL	**37,028**	**25,454**	**26,189**	**61,537**	**150,208**

(*) excluding the fair value of derivatives

It should be noted that current bank debts refers to *bank overdrafts*.

11. Assets held for sale

At December 31, 2018, the value of non-current assets held for sale is Euro 1,234 thousand and increased by Euro 123 thousand from the previous financial year; these are the changes:

- the sale of the stake in EPS (at December 31,2017 held by PRIMA ELECTRO SpA at 10.1%) for Euro 727 thousand;
- reclassification of Euro 1,531 thousand for a property in the province of Brescia (at December 31, 2017 it was disclosed under Land and buildings); during 2018, the value of the building was reduced by Euro 681 thousand to bring it to its *fair value* that at December 31, 2018 is equal to Euro 850 thousand.

This item includes Euro 384 thousand for a number of properties under construction owned by the parent company PRIMA INDUSTRIE SpA in Mantua, Italy. The first property unit was sold in the first quarter of 2019.

All assets classified in this category are available for immediate sale, an event that is very likely since the Management has engaged in a divestment programme.

12. Net equity

Capital stock

The Share Capital amounts to Euro 26,208 thousand (divided into 10,483,274 ordinary shares with a par value of 2.50 Euro each).

Legal reserve

This item amounts to Euro 4,992 thousand and has increased as a result of the allocation of the mandatory share of the profit accrued in 2017.

Other reserves

The item Other Reserves has a value of Euro 69,154 thousand and is made up as follows:

- Share Premium Reserve of Euro 57,507 thousand;
- Treasury Stock purchase reserve: Euro -1,966 thousand;
- Share capital increases: this was negative at Euro 1,286 thousand and represents the costs incurred for share capital increases (e.g. bank charges, legal and administrative advice fees, etc.).
- Fair value adjustment reserve: this was negative at Euro 465 thousand and consists of the portion directly entered as net assets, net of taxes, of the market value of derivative contracts hedging exchange rate fluctuation.
- Stock Grant reserve: Euro 13 thousand.
- Other Reserves: Euro 15,351 thousand.

Currency translation reserve

The currency translation reserve has a positive value of Euro 2,706 thousand and has increased over the previous financial year by Euro 1,346 thousand.

Retained earnings

This amount, which is positive for Euro 39,322 thousand and includes the results of previous years of consolidated companies as well as the change in the area of consolidation and the capital losses/gains generated as a result of the acquisition or transfer of treasury shares and the effect of actuarial profits/losses net of taxes on severance indemnities for employees. In addition, the amounts relative to differences in accounting methods on the date of IAS/IFRS transition are also included; these refer to adjustments on balances within financial statements drafted in accordance with Italian accounting principles.

Profit for the year

This item includes the profit for the year, totalling Euro 24,056 thousand (Euro 18,515 thousand on December 31, 2017) attributable to the majority shareholders of the parent company.

Minority Shareholders equity

This item is positive for Euro 3,334 thousand (on December 31, 2017 it was Euro 1,286 thousand) and increased by Euro 2,048 thousand compared to the previous financial year. The changes in Net Equity attributable to minority shareholders refer to the overall result for the period and to the capital increase of PRIMA POWER SUZHOU.

Comprehensive income

Overall income for the period is Euro 24,930 thousand and include:

- Profit for the period is Euro 24,058 thousand;
- Currency translation reserve: positive for Euro 1,317 thousand (of which Euro 1,346 thousand refer to the majority shareholders and Euro -29 thousand to minority shareholders);
- Reserve for *fair value* adjustment of derivatives: negative for Euro 407 thousand (net of a tax effect of Euro +135 thousand);
- Effect of actuarial profit/losses on employee severance indemnities according to the application of IAS 19 *revised:* negative for Euro 38 thousand (net of a tax effect of Euro + 12 thousand).

Connection between result and shareholders' equity of the parent Company and the same values for the Group

Pursuant to the CONSOB Communication of July 28, 2006, the following table illustrates the connection between the result for the year 2018 and the Group's shareholders' equity at December 31, 2018 with the same values of the parent company Prima Industrie SpA.

RECONCILIATION BETWEEN NET RESULT AND SHAREHOLDERS' EQUITY OF THE PARENT COMPANY AND RELATED GROUP VALUES	SHAREHOLDERS' EQUITY AS AT DECEMBER 31, 2018	NET RESULT AS AT DECEMBER 31, 2018	SHAREHOLDERS' EQUITY AS AT DECEMBER 31, 2017	NET RESULT AS AT DECEMBER 31, 2017
PRIMA INDUSTRIE S.p.A. Separate Financial Statements	**102,919**	**4,424**	**105,541**	**6,771**
Accounting for shareholders' equity and income from subsidiaries	245,924	26,253	234,164	19,639
Accounting Goodwill including share allocated on Trade Mark and Customer List	15,467	(1,823)	17,327	(3,180)
Elimination of values of consolidated shareholdings in PRIMA INDUSTRIE S.p.A. Financial Statements	(186,695)	5,479	(200,780)	1,976
Elimination of infragroup income included in stock and fixed assets	(10,315)	(1,493)	(8,750)	(1,349)
Elimination of depreciation/revaluation of consolidated shareholdings	1,630	248	1,382	1,496
Elimination of dividends paid between subsidiaries	-	(9,817)	-	(7,671)
Tax effect on consolidation adjustments	816	985	(198)	998
Other consolidate entries	26	(198)	268	(12)
PRIMA INDUSTRIE Group Financial Statements	**169,772**	**24,058**	**148,954**	**18,668**

13. Employee benefit liabilities

The item Employees benefits liabilities is equal to Euro 7,570 thousand on December 31, 2018, in decrease compared with December 31, 2017 of Euro 124 thousand; this item includes:

- the Severance Indemnity (TFR) recognised by Italian companies for employees;
- a loyalty premium recognised by the parent company and by PRIMA ELECTRO for their own employees;
- a pension fund recognised by PRIMA POWER GmbH and by PRIMA POWER France Sarl to their employees;
- a liability for employee benefits in recorded by Prima Industrie SpA for its *branch office* in South Korea.

The table below compares the items in question.

EMPLOYEE BENEFITS	DECEMBER 31, 2018	DECEMBER 31, 2017
Severance indemnity fund	5,115	5,330
Fidelity premium and other pension funds	2,455	2,364
TOTAL	**7,570**	**7,694**

The table below shows a Severance Indemnity operation.

SEVERANCE INDEMNITY FUND	2018	2017
Opening balance	**5,330**	**5,694**
Severance indemnity paid out during the period	(316)	(381)
Actuarial gains/losses	44	(44)
Financial expenses	57	61
Closing balance	**5,115**	**5,330**

The main actuarial hypotheses used to estimate the final liabilities deriving from employee benefits are as follows.

ACTUARIAL HYPOTHESES	DECEMBER 31, 2018	DECEMBER 31, 2017
Annual discount rate	1.13% - 1.57%	0.88% - 1.92%
Annual inflation rate	1.50%	1.5% - 2.0%
Annual Severance fund increase rate	2.63% - 3.0%	2.0% - 2.63%

The following demographic hypotheses have been used for Severance Indemnity only:

- probability of death as defined by the Italian State Treasury RG48;
- the probability of disability, divided by gender, adopted in the INPS model for all the projections to 2010;
- retirement age, the first retirement requisite of Compulsory General Insurance;
- probability of leaving for causes other than death, with different frequency depending on the company;
- for the probability of advances an annual rate of 3.0% was supposed.

Furthermore, a sensitivity analysis was carried out for severance indemnities alone, which showed an insignificant impact with a change in the following variables:

- Discount rate +0.50%/-0.50%
- Inflation rate +0.25%/-0.25%
- Turnover rate +2.00%/-2.00%.

14. Deferred Tax Liabilities

The Deferred Tax Liabilities are equal to Euro 5,333 thousand, in decrease compared with December 31, 2017 of Euro 664 thousand.

DEFERRED TAX LIABILITIES	DECEMBER 31, 2018	DECEMBER 31, 2017
Opening balance	**5,997**	**8,341**
Increase	171	746
Decrease	(919)	(2,738)
Differences on exchange rates	84	(352)
Closing balance	**5,333**	**5,997**

The composition of the deferred tax liabilities on December 31, 2018 and on December 31,2017 is shown below.

DEFERRED TAX LIABILITIES	DECEMBER 31, 2018	DECEMBER 31, 2017
Non-current tangible/intangible assets/Financial leases	5,213	5,726
Trade receivables/payables and other entries	120	246
Employee benefits	-	25
TOTAL	**5,333**	**5,997**

It should be noted that the deferred tax liabilities on the trademark deriving from the company merger of the FINN-POWER Group amount to Euro 2,158 thousand.

Deferred tax liabilities were not recorded on undistributed profit reserves of subsidiaries.

15. Provisions

The provisions for liabilities and charges are equal to Euro 23,004 thousand and decreased by Euro 1,742 thousand compared with December 31, 2017; Non-current provisions refer exclusively to the agent client indemnity provision and amounts comprehensively to Euro 198 thousand.

Below a brief overview of the short-term.

CURRENT PROVISIONS	WARRANTY PROVISIONS	COMPLETION PROJECT AND OTHERS PROVISIONS	TOTAL
Value as at December 31, 2016	**10,769**	**7,655**	**18,424**
Allocations	9,791	10,913	20,704
Utilizations in the period	(7,563)	(6,148)	(13,711)
Exchange rate differences	(500)	(343)	(843)
Value as at December 31, 2017	**12,497**	**12,077**	**24,574**
Allocations	6,442	8,481	14,923
Utilizations in the period	(5,235)	(11,648)	(16,883)
Exchange rate differences	123	69	192
Value as at December 31, 2018	**13,827**	**8,979**	**22,806**

Current provisions mainly relate to product warranties (equal to Euro 13,827 thousand) and to the best estimate of costs still to be incurred for the completion of certain activities ancillary to the sale of machinery already sold (equal to Euro 8,118 thousand). The warranty provision relates to the provisions for technical interventions on the Group's products and is considered appropriate in comparison to the warranty costs which have to be provided for.
The other provisions amounting to Euro 861 thousand refer to legal, fiscal procedures and other disputes; these provisions represent the best estimate by management of the liabilities which must be accounted for with regard to legal, fiscal proceedings occasioned during normal operational activity with regard to dealers, clients, suppliers or public authorities.

16. Trade payables, advance payments and other payables

The value of payables increased compared to December 31, 2017 by Euro 4,676 thousand.
The advance payments heading decreased compared to December 31, 2017 and is equal to Euro 40,545 thousand; it has to be noted that this item contains both the advance payments on orders relating to machines which have not yet been delivered, as well as those generated by the application of the IFRS 15 accounting principle relating to machines already delivered, but not yet accepted by the end client and therefore not recognized as revenue.
Other payables decreased to December 31, 2017 by Euro 1,287 thousand and includes social security and welfare payables, payables due to employees, accruals and deferrals and other minor payables.

For greater detail on the subject, see the table below.

TRADE, ADVANCES AND OTHER PAYABLES	DECEMBER 31, 2018	DECEMBER 31, 2017
Trade payables	115,141	110,465
Advances	40,545	43,620
Other payables	23,664	24,951
TOTAL	**179,350**	**179,036**

17. Current tax payables

Tax payables for current taxes on December 31, 2018 amounts to Euro 7,117 thousand which results in a increase of Euro 1,045 thousand compared with December 31, 2017.

The breakdown of tax liabilities is shown below.

CURRENT TAX PAYABLES	DECEMBER 31, 2018	DECEMBER 31, 2017
Payables for VAT	3,072	3,032
Payables for income taxes	2,292	1,144
Payables for withholding tax	1,437	1,566
Other minor payables	316	330
TOTAL	**7,117**	**6,072**

Consolidated income statement

As already mentioned previously, the Group presents the income statement by "functional area". In accordance with paragraph 104 of "IAS 1 – Presentation of Financial Statements", personnel costs amount to Euro 111,977 thousand (Euro 111,167 thousand at December 31, 2017). At December 31, 2018, amortization/depreciation and *impairment* were Euro 17,018 thousand (at December 31, 2017 these were Euro 16,882 thousand). It should be noted that the amortization of intangible assets was Euro 11,163 thousand (of which Euro 8,463 thousand was for development costs and Euro 1,823 thousand for trademarks).

18. Net revenues

Revenues from sales and services have already been dealt with in chapter 5 of this document: "Group Management Report" in the paragraph entitled "Economic performance".

19. Cost of goods sold

"Cost of sales" includes costs relating to the functional areas involved directly or indirectly in the generation of revenues with the sale of goods or services. Therefore this item includes the production or purchase cost of products and goods sold. It also includes all costs for materials, processing and overheads directly attributable to production. Furthermore, it contains write-downs on inventories, provisions to cover warranty costs on sold goods, transport and insurance costs incurred for deliveries to customers and sales commissions to agents or third-party distributors. The cost of sales in 2018 stood at Euro 354,795 thousand up Euro 11,841 thousand from December 31, 2017; the main components include materials (Euro 236,522 thousand), processing and outsourcing (Euro 23,468 thousand).

20. Research and development costs

Research and development activities carried out by the Group in 2018 amounted to a comprehensive Euro 23,843 thousand. The research and development item, shown in the income statement at December 31, 2018, amounted to Euro 24,174 thousand up Euro 2,219 thousand from the previous year; this item is shown at net of capitalization of research and development costs of Euro 6,348 thousand, grants (national and European) for Euro 2,450 thousand

and Tech Center costs and overheads and positive tax receivables for Euro 983 thousand. This item also includes amortisation and impairment of Euro 10,114 thousand.

21. Sales and marketing expenses

This item includes, for allocation, business structure costs such as personnel, trade fairs and events, the demo center, promotional and advertising activities and related overheads.
Sales and marketing costs in 2018 were Euro 31,505 thousand, against Euro 29,950 thousand in 2017.

22. General and administrative expenses

This item includes all costs related to Group or Divisional management structures, Finance costs, HR, IT and overheads.
General and administration costs were Euro 28,417 thousand in 2018, up from December 31, 2017 (Euro 28,348 thousand).

23. Financial Income and expenses

The financial income and expenses of 2018 shows a negative result of Euro 8,653 thousand.

FINANCIAL MANAGEMENT	DECEMBER 31, 2018	DECEMBER 31, 2017
Financial income	4,452	2,760
Financial expenses	(12,863)	(6,787)
Net financial expenses	**(8,411)**	**(4,027)**
Net exchange of transactions in foreign currency	(242)	(2,973)
Total Financial Management	**(8,653)**	**(7,000)**

Financial income at December 31, 2018 includes earnings of Euro 4,271 thousand from the management of foreign exchange derivatives.
Financial expenses include Euro 2,838 thousand related to Bond and Euro 1,290 thousand related to the loans issued on 2018.
It should be noted that financial expenses as at December 31, 2018 include non-recurring charges due to the full early repayment of the Bond for Euro 1,515 thousand and the Club Deal loan for Euro 370 thousand.

In 2018, net interest of Euro 5,719 thousand was paid.

24. Net result of other investments

The net profit from other investments is positive by Euro 7,233 thousand and include Euro 54 thousand value reinstatement recovered from the Caretek investment (19.3% stake held by PRIMA ELECTRO SpA) and Euro 7,179 thousand from capital gains on the sale of all shares in EPS SA (already classified among "Non-current assets held for sale"). For more information on this transaction, see the section "2018 Significant events of the period" in the Management Report.

25. Current and deferred taxes

Income tax for the year 2018 showed a net negative balance of Euro 2,563 thousand. The balance of current and deferred taxes is negative by Euro 2,272 thousand, IRAP is equal to Euro 353 thousand and other taxes, including those relating to prior years, are positive by Euro 62 thousand.

TAXES	2018	2017
Current income taxes (including tax consolidation for Italian Companies)	(3,559)	(5,142)
IRAP (Regional Trade tax)	(353)	(602)
Deferred tax	1,287	2,693
Taxes relating to previous year	84	(58)
Other taxes	(22)	(75)
TOTAL	**(2,563)**	**(3,184)**

In 2018, current taxes (including IRAP) of Euro 3,187 thousand were paid.

The reconciliation of the tax expenses recorded in the consolidated financial statements and the theoretical tax expenses, based on the theoretical tax rates in force in the countries where Group companies operate, is as follows:

CURRENT INCOME TAXES	2018	2017
Current tax on theoretical income (excluding regional trade tax IRAP)	(7,210)	(7,726)
Permanent changes	2,034	2,685
Temporary changes	(394)	(1,883)
Utilization/Surplus losses	2,342	1,676
Other differences	(331)	106
CURRENT INCOME TAXES	**(3,559)**	**(5,142)**

26. Result per Share

The earnings per share December 31, 2018, positive by 2.30 Euro (positive by 1.77 Euro on December 31, 2017) is calculated by dividing the profits attributable to the shareholders of the parent company by the average number of ordinary shares in circulation during the financial year.

RESULT PER SHARE - BASIC	DEC 31, 2018	DEC 31, 2017
Net Result attributable to Group shareholders (Euro/000)	24,056	18,515
Weighted average number of ordinary shares	10,467,500	10,483,274
Result per share (Euro)	2.30	1.77

Diluted earnings per share at December 31, 2018 were positive for Euro 2.27 (positive for Euro 1.77 at December 31, 2017), calculated by dividing the result attributable to the shareholders of the Parent Company by the weighted average number of shares in circulation, adjusted to take account of the effects of all potential ordinary shares with a diluting effect. Shares linked to the stock grant plan were considered to have a potential diluting effect.

RESULT PER SHARE - DILUTED	DEC 31, 2018	DEC 31, 2017
Net Result attributable to Group shareholders (Euro/000)	24,056	18,515
Weighted average number of ordinary shares	10,467,500	10,483,274
Weighted average number of ordinary shares adjusted	10,617,500	10,483,274
Result per share (Euro)	2.27	1.77

Information on transparency and public funds

In accordance with article 1, paragraphs 125-129 of Italian Law no. 124/2017 as amended by Decree Law no. 113/2018 on "Security" and Decree Law no. 135/2018 on "Simplification", we disclose the information regarding subsidies, contributions, paid assignments and any kind of economic advantages granted to the Italian companies of the PRIMA INDUSTRIE Group in the financial year 2018 by public authorities and a number of similar bodies with which they have economic relations.

The entities identified as sources of the funds that are the subject of the disclosure are:

- The public administrations and the entities referred to in Article 2-bis of Legislative Decree no. 33 of 14 March 2013;
- Companies controlled, in law or in fact, directly or indirectly, by public administrations, including companies with shares listed on regulated markets and their subsidiaries;
- Publicly owned companies, including those issuing shares listed on regulated markets and their subsidiaries.

BENEFICIARY	SUPPLYING AUTHORITY	DECSRIPTION	AMOUNT RECEIVED
Values expressed in Euro thousand			
Prima Industrie SpA	Ministry of Economic Development	Tax credit for R&D	517
Prima Industrie SpA	European Union	R&D subsidy	770
Prima Electro SpA	Piedmont Region	R&D subsidy	1,102
Prima Electro SpA	European Union	R&D subsidy	575
Prima Electro SpA	Ministry of Economic Development	Tax credit for R&D	521
Prima Electro SpA	Ministry of Labour and Social affairs	Higher Education subsidy	12
Total			**3,497**

In addition, the two Italian companies received the following loans in 2018:

- loan granted by Cassa Depositi e Prestiti for the Smilla project, for a total of Euro 7,620 thousand (of which Euro 4,911 thousand by PRIMA INDUSTRIE SpA and Euro 2,709 thousand by PRIMA ELECTRO SpA);
- last instalments of Euro 106 thousand f the loan granted by MISE to PRIMA ELECTRO SpA.

The information regarding subsidies, contributions, paid assignments and any kind of economic advantages granted to the Italian companies of the PRIMA INDUSTRIE Group in the financial year 2018 is shown below.

BENEFICIARY	SUPPLYING AUTHORITY	DESCRIPTION	AMOUNT DUE
Values expressed in Euro thousand			
Prima Industrie SpA	Ministry of Economic Development	Tax credit for R&D	1,391
Prima Industrie SpA	European Union	R&D subsidy	704
Prima Industrie SpA	Piedmont Region	R&D subsidy	249
Prima Electro SpA	Piedmont Region	R&D subsidy	1,061
Prima Electro SpA	European Union	R&D subsidy	143
Prima Electro SpA	Ministry of Economic Development	Tax credit for R&D	1,160
Prima Electro SpA	Ministry of Labour and Social affairs	Higher Education subsidy	12
Total			**4,720**

Guarantees granted, commitments and other potential liabilities

The situation of the guarantees granted and commitments made by the Group at December 31, 2018 is shown below.

VALUES EXPRESSED IN EURO THOUSAND	DECEMBER 31, 2018	DECEMBER 31, 2017
Guarantees granted	45,538	59,371
Commitments to leasing companies	1,373	1,548
Other commitments and significant contracts rights	32,595	11,805
TOTAL	**79,506**	**72,724**

At December 31, 2018 the guarantees granted by PRIMA INDUSTRIE Group amounted to Euro 45,538 thousand and refer to guarantees to trade counterparties and sureties to credit institutions.
“Commitments to leasing companies” refer to repurchase agreements for sales made through financial intermediaries.
“Other Commitments and significant contract rights” refer mainly to rents on buildings, rentals and operating leases.
The PRIMA INDUSTRIE Group, in addition to probable liabilities for which provisions have been allocated in the related risks provisions, does not have potential liabilities, as described in IAS 37, to be indicated.

Information on related parties

Below is information on related parties with regard to the bodies for administration, control, strategic management and the companies EPS, 3D-NT and Rodstein.
3D-NT is a start up in the field of additive manufacturing, and specifically metal powder bed technology. PRIMA INDUSTRIE SpA acquired a 15% stake in the start-up in May 2017, which is considered a related party since several people with managerial or partner roles in PRIMA INDUSTRIE SpA are involved in the said company.
RODSTEIN is a Finnish company that develops and produces busbars. It is considered a related party since several people with managerial roles in PRIMA INDUSTRIE SpA are involved in the said company.

OPERATIONS WITH RELATED PARTIES	ADMINISTRATIVE, CONTROL BOARDS AND STRATEGIC MANAGEMENT	EPS	3D-NT	RODSTEIN	TOTAL
RECEIVABLES AS AT January 1, 2018	-	160	4		164
RECEIVABLES AS AT December 31, 2018	**-**	**-**	**72**		**72**
PAYABLES AS AT January 1, 2018	1,553	-	-		1,553
PAYABLES AS AT December 31, 2018	**850**	**-**	**-**		**850**
REVENUES Jan 1, 2018 - Dec 31, 2018	**-**	**-**	**106**		**106**
COSTS Jan 1, 2018 - Dec 31, 2018	**1,453**	**-**	**-**	**40**	**1,493**
VARIATIONS IN RECEIVABLES					
Jan 1, 2018 - Dec 31, 2018	-	(160)	68	-	(92)
VARIATIONS IN PAYABLES					
Jan 1, 2018 - Dec 31, 2018	(703)	-	-	-	(703)

Management of financial risks

The Group's financial instruments, aimed at financing the operational activity, include bank loans, the financial leasing contracts and factoring, cash and short-term bank deposits. There are then other financial instruments, such as commercial payables and receivables, deriving from the operational activity.

The PRIMA INDUSTRIE Group is mainly exposed to the following categories of risk:

- Interest rate risk
- Exchange rate risk
- Credit risk
- Liquidity risk

The Group has adopted specific *policies* with the aim of correctly managing the risks mentioned, in order to safeguard its own activity and capacity to create value for shareholders and for all the Stakeholders.

The Group's objectives and politics for management of the above risks is detailed below.

Interest rate risk

The debit position towards the credit system and capital markets can be negotiated at a fixed or variable rate.

Variations of interest rate in the market generate the following categories of risk:

- an increase in market interest rates exposes to the risk of greater financial burdens to be paid on the quota of variable interest rate debits;
- a decrease in market interest rates exposes to the risk of excessive financial burdens to be paid on the quota of fixed interest rate debits.

In particular, the strategies adopted by the Group to confront these risks are as follows:

- Interest rate ⟶ Management/Hedging

Exposure to interest rates is by nature structural, in that the net financial position generates net financial burdens subject to the volatility of interest rates, according to the contractual conditions established with the financing party. Consequently, the identified strategy is of Management/Hedging and is confirmed by:

- Continuous *Monitoring* of the exposure to interest rate risks;
- *Hedging* activity through derivative financial instruments.

Exchange rate risk

The debit position towards the banking system and the capital market, as well as towards other creditors, can be expressed in one's own account currency (Euro), or in other currencies on account. In this case, the financial burden of the debit in currency is subject to the interest rate risks, not of the European market, but of the market of the chosen currency.
The attitude and strategy to follow concerning risk factors are determined by the plurality of elements which concerned both the characteristics of the reference market and their impact on the company balance sheet results. Indeed, four possible strategic and distinctive areas for the operational management of individual risk factors can be identified:

- "Avoid" strategy (Avoidance)
- Acceptance
- Management/Hedging
- "Market Intelligence" (Speculation)

In particular, the strategies primarily adopted by the Group to confront these risks are as follows:

- Exchange rate ⟶ Management/Hedging

Exposure to exchange rate risks deriving from financial factors is currently contained, in that the company does not take on financing in currency different from the Europe, with the exception of some financing of the U.S. subsidiaries, for which the U.S. dollar is the reference currency.

In relation to the commercial transactions, on the other hand, at Group level there exists a certain exposure to exchange rate risk, because the fluctuations of purchase in U.S. dollars of the parent company PRIMA INDUSTRIE SpA, of FINN-POWER OY and of PRIMA ELECTRO SpA are not sufficient to balance the fluctuations of sales carried out in U.S. dollars and because the Group also works with other currencies different from the Euro.

The Group has recently provided itself with guidelines for managing the foreign exchange risk in the major currencies in which it operates (mainly the US dollar and Chinese Renminbi). The goal is to cover the budget results from the exchange risk, through the subscription of hedging derivatives. This hedging is managed by the parent company PRIMA INDUSTRIE SpA.

The Group carries out monitoring to reduce such exchange risks even using covering instruments.

With regard to account currencies different from the U.S. dollar and Chinese Renminbi not hedged by ad hoc derivatives, the risk management strategy is one of acceptance, both because they normally deal with sums of modest value and because of the difficulty of finding suitable covering instruments.

Credit risk

The Group only deals with known and trustworthy clients; furthermore, the amount of credit is monitored during the financial year so that the sum exposed to losses is not significant.
For this purpose, with regards to PRIMA INDUSTRIE, a Group credit management unit has been set up.
It should be noted that there are no significant concentrations of credit risk within the Group. The financial activities are shown in the balance sheet net of the write-downs calculated on the basis of risk of non-fulfilment by the counter party, determined in consideration of the information available on the solvency of the client and eventually considering historical data.
In compliance with CONSOB Communication DEM/RM 11070007 of August 5, 2011, we inform you that the PRIMA INDUSTRIE Group holds no bonds issued by central and local governments nor by government bodies, and has granted no loans to these institutions.

Liquidity risk

The liquidity risk represents the risk that financial resources are not sufficient to fund the financial and commercial obligations within the pre-established periods and due dates.
The risk of liquidity to which the group is subject may emerge from late payments on its sales and more generally from the difficulty of obtaining financing to support operational activities in the time necessary. Cash flows, financing needs and the liquidity of the Group's companies are monitored or managed centrally under the control of the Group Treasury, with the aims of guaranteeing effective and efficient management of financial resources.

The Group operates with the aim of carrying out collection operations on the various financial markets with varied techniques, with the aim of guaranteeing a correct level of liquidity both current and future. The strategic aim is to ensure that at any moment the group has sufficient credit lines to service financial due dates over the following twelve months.
The current difficult market environment whether operational or financial requires particular attention to the management of liquidity risks and, in this sense, particular attention is given to those actions aimed at generating financial resources through operational management and the maintenance of an adequate level of available liquidity.

Therefore, the group has arranged to address the requirements emerging from financial payable due dates and from the investments, through the fluctuations caused by operational management, available liquidity, use of credit lines, the renewing of bank loans and eventual recourse to other forms of provision of a non-ordinary nature.

Significant not recurring items

The table below summarises non-recurring items that have had a positive impact on the Income Statement in 2018 for a total of Euro 1,059 thousand.

SIGNIFICANT NON-RECURRENT EVENTS AND TRANSACTIONS (VALUES EXPRESSED IN EURO THOUSAND)	GROSS MARGIN	RESEARCH AND DEVELOPMENT COSTS	SALES AND MARKETING EXPENSES	GENERAL AND ADMINISTRATIVE EXPENSES	FINANCIAL INCOME AND EXPENSES	NET RESULT OF INVESTMENTS	TOTAL AS AT DEC 31, 2018	TOTAL AS AT DEC 31, 2017	VARIATION 2018 VS 2017
M&A/Actions of reorganization/ Restructuring	(578)	(5)	(303)	(274)	-	-	(1,160)	(1,125)	(35)
Legal/fiscal disputes and penalties from customers	(511)	-	(17)	(1,157)	-	-	(1,685)	(1,504)	(181)
Other minor events	-	-	-	-	-	-	-	744	(744)
Impairment of tangible fixed assets	-	-	-	(681)	-	-	(681)	(23)	(658)
Impairment of intangible fixed assets	-	(645)	-	-	-	-	(645)	-	(645)
EBIT	**(1,089)**	**(650)**	**(320)**	**(2,112)**	**-**	**-**	**(4,171)**	**(1,908)**	**(2,263)**
Advance Bond and Club Deal & Finnish loan expenses	-	-	-	-	(1,885)	-	(1,885)	(126)	(1,759)
Devaluation of financial receivable	-	-	-	-	(118)	-	(118)	(5)	(113)
Write-up of investment in Caretek	-		-	-	-	54	54	-	54
Gain from sales of shares in EPS SA	-	-	-	-	-	7,179	7,179	2,560	4,619
EBT	**(1,089)**	**(650)**	**(320)**	**(2,112)**	**(2,003)**	**7,233**	**1,059**	**521**	**538**

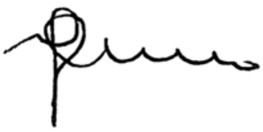
Non-current costs which negatively impacted EBIT by a total of Euro 4,171 thousand mainly relate to consultants' fees and extraordinary events (including M&A), relocation of the Finnish plant and renovations at the German branch. Legal disputes include the legal advice received for the PRIMA POWER LASERDYNE subpoena. At this purpose it should be noted that the U.S. company PRIMA POWER LASERDYNE received a Federal Grand Jury subpoena in 2017 requesting information relating to certain of PRIMA POWER LASERDYNE's exports and related activities since 2011. PRIMA POWER LASERDYNE, with the support of the Law Firms appointed to assist the Company on this matter, is in the process of responding to the subpoena and cooperating with the Government's investigation. During the year, activities continued, without significant or substantive changes, therefore the information currently available is not enough to assess the possible impact of this issue. EBIT was also negatively impacted by the Euro 681 thousand impairment of the building in the province of Brescia, which is classified as a non-current asset held for sale, and several development costs for the PRIMA ELECTRO division, amounting to Euro 645 thousand.

EBT was negatively affected by the costs involved in the early repayment of the bond and the Club Deal loan, which took place as part of the refinancing of the medium to long-term loan. This produced capital gains from the full sale of the shareholding in EPS.

Transactions deriving from atypical and/or unusual business

Pursuant to CONSOB Bulletin of July 28, 2006, we wish to specify that in 2018, the Group conducted no atypical and/or unusual business, as per its definition in the Bulletin itself, which states that atypical and/or unusual business are those transactions which, given their importance/relevance, nature of the counterparties, transaction scope, method in determining the price of transfer and time frame (close to closing date), could lead to doubts on: the accuracy/completeness of the information in the financial statements, conflicts of interest, protection of company wealth and protection of minority shareholders.

Signature of the Executive Chairman



Consolidated Financial Statements at December 31, 2018 Declaration

PURSUANT TO ARTICLE 81-TER OF CONSOB REGULATION NO. 11971 OF MAY 14, 1999 AND ITS SUBSEQUENT AMENDAMENTS AND INTEGRATIONS

1. The undersigned Gianfranco Carbonato (Executive Chairman) and Davide Danieli (Manager responsible for drafting company accounting documents) of Prima Industrie SpA certify that, taken account of article 154-bis, paragraphs 3 and 4, of Leg. Decree of February 24, 1998, no. 58:
   - the company's business is compliant with the given requirements and
   - the administrative and accounting procedures have been effectively applied in drafting the consolidated financial statements over the course of 2018.
2. That no significant facts have emerged regarding thereto
3. Said signees furthermore certify that:

   3.1 the consolidated financial statements:

   a) is drafted in conformity with the applicable international accounting standards commonly used in the European Community, pursuant to (CE) Regulation no. 1606/2002 of the European Parliament and Council of July 19, 2002;
   b) truthfully represent the figures in the accounting books and ledgers;
   c) is suitable to provide a truthful and faithful representation of the capital, economic and financial position of the Corporation and of the group of companies included in the consolidation.

   3.2 the Report of the Board of Directors includes a reliable analysis of company business trends and results, as well as of the position of the Corporation and of the group of companies included in the consolidation, along with the description of the chief risks and uncertainties to which they are exposed.

Date: March 1, 2019

Signature of the Executive Chairman

Signature of the Manager responsible for drafting the Company accounting documents

9

Prima Industrie SpA Financial Statements December 31, 2018

Chapter 9 - Prima Industrie SpA Financial Statements at December 31, 2018

Statement of financial position

VALUES IN THOUSAND EURO	NOTES	DECEMBER 31, 2018	DECEMBER 31, 2017
Property, plant and equipment	1	18,889	14,278
Intangible assets	2	11,500	9,666
Investment in subsidiaries	3	163,227	171,937
Other investments	4	235	232
Financial assets non current	5	3,228	-
Deferred tax assets	6	3,860	2,590
NON CURRENT ASSETS		**200,939**	**198,703**
Inventories	7	44,913	25,462
Trade receivables	8	75,704	57,181
Other receivables	9	4,493	2,657
Current tax receivables	10	5,148	2,008
Derivatives	11	26	57
Financial assets current	5	4,339	6,503
Cash and cash equivalents	12	27,926	25,243
CURRENT ASSETS		**162,549**	**119,111**
Assets held for sale	13	1,234	-
TOTAL ASSETS		**364,722**	**317,814**
Capital stock	14	26,208	26,208
Legal reserve	14	4,992	4,653
Other reserves	14	68,993	69,607
Retained earnings	14	(1,698)	(1,698)
Net result	14	4,424	6,771
STOCKHOLDERS' EQUITY		**102,919**	**105,541**
Interest-bearing loans and borrowings	15	106,262	89,939
Employee benefit liabilities	16	4,522	3,635
Deferred tax liabilities	17	1,317	885
Provisions	18	1,827	1,472
Derivatives	11	636	80
NON CURRENT LIABILITIES		**114,564**	**96,011**
Trade payables	19	82,568	58,293
Advance payments	19	10,120	5,538
Other payables	19	8,427	7,973
Interest-bearing loans and borrowings	15	35,377	35,812
Current tax payables	20	2,597	3,126
Provisions	18	8,034	5,520
Derivatives	11	116	-
CURRENT LIABILITIES		**147,239**	**116,262**
TOTAL STOCKHOLDERS' EQUITY AND LIABILITIES		**364,722**	**317,814**

Income statement

VALUES IN THOUSAND EURO	NOTES	DECEMBER 31, 2018	DECEMBER 31, 2017 (*)
Net revenues	21	224,778	153,465
Cost of goods sold	22	(195,203)	(128,371)
GROSS MARGIN		**29,575**	**25,094**
Research and Development costs	23	(7,402)	(4,271)
Sales and marketing expenses	24	(8,514)	(6,288)
General and administrative expenses	25	(9,555)	(8,075)
OPERATING PROFIT (EBIT)		**4,104**	**6,460**
Financial income	26	11,662	8,237
Financial expenses	26	(12,137)	(6,560)
Net exchange differences	26	410	(525)
RESULT BEFORE TAXES (EBT)		**4,039**	**7,612**
Taxes	27	385	(841)
NET RESULT		**4,424**	**6,771**

(*) For a better comprehension, the 2017 figures have been re-exposed

Comprehensive income statement

VALUES IN THOUSAND EURO	NOTES	DECEMBER 31, 2018	DECEMBER 31, 2017
NET RESULT (A)		**4,424**	**6,771**
Gains/ (Losses) on actuarial defined benefit plans	*14*	(46)	56
Tax effect	*14*	12	(14)
Total other comprehensive gains/(losses) not to be classified in the Income Statement, net of tax effects (B)		**(34)**	**42**
Gains /(Losses) on cash flow hedges	*14*	(542)	5
Tax effect	*14*	135	(1)
Gains/(Losses) on exchange differences on translating foreign operations for Branch Office Korea	*14*	-	1
Total other comprehensive gains/(losses) to be classified in the Income Statement, net of tax effects (C)		**(407)**	**5**
TOTAL COMPREHENSIVE INCOME (A) + (B) +(C)		**3,983**	**6,818**

Statement of changes in shareholders' equity

VALUES IN THOUSAND EURO	CAPITAL STOCK	ADDITIONAL PAID-IN CAPITAL	TREASURY STOCK	LEGAL RESERVE	CAPITAL INCREASE - EXPENSES
Balance as at Dec 31, 2016	**26,208**	**57,507**	**-**	**4,565**	**(1,286)**
Allocation of prior year net result	-	-	-	88	-
Dividends paid	-	-	-	-	-
Result of comprehensive Income	-	-	-	-	-
Balance as at Dec 31, 2017	**26,208**	**57,507**	**-**	**4,653**	**(1,286)**
Allocation of prior year net result	-	-	-	339	-
Purchase of Tresury stock	-	-	(1,966)	-	-
Stock grant plan	-	-	-	-	-
Dividends paid	-	-	-	-	-
Merger surplus	-	-	-	-	-
Result of comprehensive Income	-	-	-	-	-
Balance as at Dec 31, 2018	**26,208**	**57,507**	**(1,966)**	**4,992**	**(1,286)**

	STOCK GRANT RESERVE	FV DERIVATIVES ADJUSTMENT RESERVE	OTHER RESERVES	RETAINED ERNINGS	NET RESULT	EQUITY
	-	**(63)**	**14,877**	**(1,698)**	**1,758**	**101.868**
	-	-	1,670	-	(1,758)	-
	-	-	(3,145)	-	-	(3,145)
	-	5	42	-	6,771	6,818
	-	**(58)**	**13,444**	**(1,698)**	**6,771**	**105,541**
	-	-	6,432	-	(6,771)	-
	-	-	-	-	-	(1,966)
	13	-	-	-	-	13
	-	-	(4,193)	-	-	(4,193)
	-	-	(459)	-	-	(459)
	-	(407)	(34)	-	4,424	3,983
	13	**(465)**	**15,190**	**(1,698)**	**4,424**	**102,919**

Cash flow statement

VALUES IN THOUSAND EURO	DECEMBER 31, 2018	DECEMBER 31, 2017
Net result	**4,424**	**6,771**
Adjustments (sub-total)	(5,355)	5,690
Depreciation & impairment	5,801	3,285
Net change in deferred tax assets and liabilities	(402)	(220)
Change in employee benefits liabilities	(17)	(143)
Change in inventories	(8,220)	(1,017)
Change in trade receivables	(1,360)	(13,914)
Change in trade payables and advances	3,433	13,827
Net change in other receivables/payables and other assets/liabilities	(4,590)	3,872
Cash Flows from (used in) operating activities (A)	**(931)**	**12,461**
Cash flow from investments		
Increase of tangible fixed assets (*)	(1,188)	(1,061)
Increase of intangible fixed assets	(778)	(364)
Capitalization of development costs	(1,887)	(1,803)
Acquisition of investment in FINN-POWER ITALIA	-	(13,548)
Capital Increase PRIMA POWER SUZHOU	(4,838)	-
Devaluation PRIMA POWER SOUTH AMERICA Ltda	358	315
Devaluation PRIMA POWER AUSTRALASIA	8	11
Devaluation PRIMA POWER Gmbh	-	1,306
Variations in Other investments	(2)	(220)
Cash Flows from (used in) investing activities (B)	**(8,327)**	**(15,364)**

Cash flow statement (continued)

VALUES IN THOUSAND EURO	DECEMBER 31, 2018	DECEMBER 31, 2017
Cash flow from financing activities		
Change in financial receivables and other financial assets	(1,064)	2,183
Change in other non current financial liabilities and other minor items	296	(951)
Increases in loans and borrowings	112,541	32,246
Repayment of loans and borrowings	(98,258)	(9,527)
Repayments in financial lease liabilities	(619)	(161)
Dividends paid	(4,193)	(3,145)
Other net equity variations	(2,093)	44
Cash Flows from (used in) financing activities (C)	**6,610**	**20,689**
Net change in cash and equivalents (D=A+B+C)	**(2,648)**	**17,786**
Cash and equivalents beginning of period (E)	**25,243**	**7,457**
Cash and equivalents deriving from merger with FINN-POWER ITALIA srl (F)	**5,331**	**-**
Cash and equivalents end of period (G=D+E+F)	**27,926**	**25,243**

(*) included assets held for sales

ADDITIONAL INFORMATION TO THE STATEMENT OF CASH-FLOW

VALUES IN EURO	DECEMBER 31, 2018	DECEMBER 31, 2017
Taxes paid	495	289
Interests paid	4,868	3,623

Statement of financial position

pursuant to Consob N.15519 of July 27, 2006

VALUES IN THOUSAND EURO	NOTES	DECEMBER 31, 2018	*OF WHICH RELATED PARTIES*	DECEMBER 31, 2017	*OF WHICH RELATED PARTIES*
Property, plant and equipment	*1*	18,889	-	14,278	-
Intangible assets	*2*	11,500	-	9,666	-
Investment in subsidiaries	*3*	163,227	*163,227*	171,937	*171,937*
Other investments	*4*	235	*180*	232	*180*
Financial assets non current	*5*	3,228	*500*	-	-
Deferred tax assets	*6*	3,860	-	2,590	-
NON CURRENT ASSETS		**200,939**		**198,703**	
Inventories	*7*	44,913	-	25,462	-
Trade receivables	*8*	75,704	*34,674*	57,181	*18,371*
Other receivables	*9*	4,493	*164*	2,657	*160*
Current tax receivables	*10*	5,148	-	2,008	-
Derivatives	*11*	26	-	57	-
Financial assets current	*5*	4,339	*4,215*	6,503	*5,712*
Cash and cash equivalents	*12*	27,926	-	25,243	-
CURRENT ASSETS		**162,549**		**119,111**	
Assets held for sale	*13*	1,234	-	-	-
TOTAL ASSETS		**364,722**		**317,814**	

Statement of financial position
pursuant to Consob N.15519 of July 27, 2006 (continued)

VALUES IN THOUSAND EURO	NOTES	DECEMBER 31, 2018	*OF WHICH RELATED PARTIES*	DECEMBER 31, 2017	*OF WHICH RELATED PARTIES*
Capital stock	*14*	26,208	-	26,208	-
Legal reserve	*14*	4,992	-	4,653	-
Other reserves	*14*	68,993	-	69,607	-
Retained earnings	*14*	(1,698)	-	(1,698)	-
Net result	*14*	4,424	-	6,771	-
STOCKHOLDERS' EQUITY		**102,919**		**105,541**	
Interest-bearing loans and borrowings	*15*	106,262	-	89,939	*1,500*
Employee benefit liabilities	*16*	4,522	-	3,635	-
Deferred tax liabilities	*17*	1,317	-	885	-
Provisions	*18*	1,827	-	1,472	-
Derivatives	*11*	636	-	80	-
NON CURRENT LIABILITIES		**114,564**		**96,011**	
Trade payables	*19*	82,568	*25,909*	58,293	*18,131*
Advance payments	*19*	10,120	-	5,538	-
Other payables	*19*	8,427	*682*	7,973	*1,232*
Interest-bearing loans and borrowings	*15*	35,377	*6,466*	35,812	*7,911*
Current tax payables	*20*	2,597	-	3,126	-
Provisions	*18*	8,034	-	5,520	-
Derivatives	*11*	116		-	-
CURRENT LIABILITIES		**147,239**		**116,262**	
TOTAL STOCKHOLDERS' EQUITY AND LIABILITIES		**364,722**		**317,814**	

Income statement
pursuant to Consob N.15519 of July 27, 2006

VALUES IN THOUSAND EURO	NOTES	DECEMBER 31, 2018	*OF WHICH RELATED PARTIES*	DECEMBER 31, 2017 (*)	*OF WHICH RELATED PARTIES*
Net revenues	*21*	224,778	*101,501*	153,465	*59,632*
Cost of goods sold	*22*	(195,203)	*(50,038)*	(128,371)	*(27,819)*
GROSS MARGIN		**29,575**	**-**	**25,094**	**-**
Research and Development costs	*23*	(7,402)	*(16)*	(4,271)	*(101)*
Sales and marketing expenses	*24*	(8,514)	*831*	(6,288)	*1,084*
General and administrative expenses	*25*	(9,555)	*559*	(8,075)	*(712)*
OPERATING PROFIT (EBIT)		**4,104**		**6,460**	
of which: non recurring items		***(1,387)***		***(55)***	
Financial income	*26*	11,662	*7,385*	8,237	*5,626*
Financial expenses	*26*	(12,137)	*(437)*	(6,560)	*(1,826)*
Net exchange differences	*26*	410	-	(525)	-
RESULT BEFORE TAXES (EBT)		**4,039**		**7,612**	**-**
of which: non recurring items		***(3,756)***		***(1,687)***	
Taxes	*27*	385	-	(841)	-
NET RESULT		**4,424**		**6,771**	

(*) For a better comprehension, the 2017 figures have been re-exposed

Cash flow statement

pursuant to Consob N.15519 of July 27, 2006

VALUES IN THOUSAND EURO	DECEMBER 31, 2018	*OF WHICH RELATED PARTIES*	DECEMBER 31, 2017	*OF WHICH RELATED PARTIES*
Net result	**4,424**	**-**	**6,771**	**-**
Adjustments (sub-total)	(5,355)	-	5,690	-
Depreciation & impairment	5,801	-	3,285	-
Net change in deferred tax assets and liabilities	(402)	-	(220)	-
Change in employee benefits liabilities	(17)	-	(143)	-
Change in inventories	(8,220)	-	(1,017)	-
Change in trade receivables	(1,360)	*(17,274)*	(13,914)	*(431)*
Change in trade payables and advances	3,433	*8,749*	13,827	*6,596*
Net change in other receivables/payables and other assets/liabilities	(4,590)	*(546)*	3,872	*382*
Cash Flows from (used in) operating activities (A)	**(931)**		**12,461**	
Cash flow from investments				
Increase of tangible fixed assets (*)	(1,188)	-	(1,061)	-
Increase of intangible fixed assets	(778)	-	(364)	-
Capitalization of development costs	(1,887)	-	(1,803)	-
Acquisition of investment in FINN-POWER ITALIA	-	-	(13,548)	*(13,548)*
Capital Increase PRIMA POWER SUZHOU	(4,838)	*(4,838)*	-	-
Devaluation PRIMA POWER SOUTH AMERICA Ltda	358	*358*	315	*315*
Devaluation PRIMA POWER AUSTRALASIA	8	*8*	11	*11*
Devaluation PRIMA POWER Gmbh	-	-	1,306	*1,306*
Variations in Other investments	(2)	-	(220)	*180*
Cash Flows from (used in) investing activities (B)	**(8,327)**		**(15,364)**	

Cash flow statement
pursuant to Consob N.15519 of July 27, 2006 (continued)

VALUES IN THOUSAND EURO	DECEMBER 31, 2018	*OF WHICH RELATED PARTIES*	DECEMBER 31, 2017	*OF WHICH RELATED PARTIES*
Cash flow from financing activities				
Change in financial receivables and other financial assets	(1,064)	*997*	2,183	*2,183*
Change in other non current financial liabilities and other minor items	296	-	(951)	-
Increases in loans and borrowings	112,541	*(2,945)*	32,246	*5,325*
Repayment of loans and borrowings	(98,258)	-	(9,527)	-
Repayments in financial lease liabilities	(619)	-	(161)	-
Dividends paid	(4,193)	-	(3,145)	-
Other net equity variations	(2,093)	-	44	-
Cash Flows from (used in) financing activities (C)	**6,610**		**20,689**	
Net change in cash and equivalents (D=A+B+C)	**(2,648)**		**17,786**	
Cash and equivalents beginning of period (E)	**25,243**		**7,457**	
Cash and equivalents deriving from merger with FINN-POWER ITALIA srl (F)	**5,331**		**-**	
Cash and equivalents end of period (G=D+E+F)	**27,926**		**25,243**	

(*) included assets held for sales

ADDITIONAL INFORMATION TO THE STATEMENT OF CASH-FLOW

VALUES IN EURO	DECEMBER 31, 2018	DECEMBER 31, 2017
Taxes paid	495	289
Interests paid	4,868	3,623

10

Description of Accounting Principles

Chapter 10 - Description of Accounting Principles

Company information

Prima Industrie SpA (the "company") is incorporated under Italian law and is the parent company which holds, directly or indirectly through other companies, shares in the capital of the PRIMA INDUSTRIE Group. The company is headquartered in Collegno (TO), Italy.

The scope of Prima Industrie SpA includes the design, manufacture and marketing of devices, instruments, machines and mechanical, electrical and electronic equipment and related programming (software) for industrial automation or in other areas where the company's technology may be usefully employed.

The company can also provide industrial services of a technical, managerial and organisational nature in the production of capital goods and industrial automation.
Its main activity is focused in the field of laser cutting and welding machines for two-dimensional (2D) and three-dimensional applications (3D), panel and bending machines.

Prima Industrie SpA, as the parent company, has also prepared the consolidated financial statements of the PRIMA Group at December 31, 2018.

Merger of Finn-Power Italia Srl into Prima Industrie SpA

With notary's deed of January 25, 2018, with legal effect from February 1, 2018, FINN-POWER ITALIA Srl was merged into PRIMA INDUSTRIE SpA (100% shareholding), with accounting and tax effect backdated to January 1, 2018. The organisational and financial reasons for this merger can be found in the optimisation of the structure of the PRIMA INDUSTRIE Group, which will involve shortening the chain of monitoring of investments and streamlining cash, administration and organisation and also centralising decision-making on strategic investments to the parent company. The merger will also be the opportunity for an overall corporate re-organisation, aimed at improving integration of Italian sales and after-sales, and the running of the two Italian production plants, not to mention lowering costs.
As a simplified merger in accordance Article 2505 of the Italian Civil Code, with PRIMA INDUSTRIE SpA controlling 100% of FINN-POWER ITALIA Srl, it was submitted to the decision of the Board of Directors of PRIMA INDUSTRIE SpA, in observance of the provisions of Article 22 of the Company's articles of association.
As a result of the aforementioned merger, the Statement of Financial position and the Income Statement of PRIMA INDUSTRIE SpA at December 31, 2018 are not comparable with those of the previous year. As a consequence, this paragraph contains a special pro-forma Income Statement and Statement of Financial Position schedules for the year ended December 31, 2017. The pro-forma schedules were prepared by aggregating the data on the financial statements of PRIMA INDUSTRIE SpA at December 31, 2017 with those of FINN-POWER ITALIA Srl, followed by pro-forma adjustments.

VALUES IN THOUSAND EURO	PRIMA INDUSTRIE SPA	FINN-POWER ITALIA SRL	ELIMINATIONS	PRIMA INDUSTRIE SPA DEC 31, 2017 PRO-FORMA	PRIMA INDUSTRIE SPA DEC 31, 2018
Property, plant and equipment	14,278	6,308	-	20,586	18,889
Intangible assets	9,666	2,935	-	12,601	11,500
Investment in subsidiaries	171,937	-	(13,548)	158,389	163,227
Other investments	232	1	-	233	235
Financial assets non current	-	-	-	-	3,228
Deferred tax assets	2,590	954	(41)	3,503	3,860
NON CURRENT ASSETS	**198,703**	**10,198**	**(13,589)**	**195,312**	**200,939**
Inventories	25,462	11,084	147	36,693	44,913
Trade receivables	57,181	18,134	(971)	74,344	75,704
Other receivables	2,657	207	-	2,864	4,493
Current tax receivables	2,008	2,511	(912)	3,607	5,148
Derivatives	57	-	-	57	26
Financial assets current	6,503	-	-	6,503	4,339
Cash and cash equivalents	25,243	5,331	-	30,574	27,926
CURRENT ASSETS	**119,111**	**37,267**	**(1,736)**	**154,642**	**162,549**
Assets held for sale	-	384	-	384	1,234
TOTAL ASSETS	**317,814**	**47,849**	**(15,325)**	**350,338**	**364,722**
Capital stock	26,208	1,500	(1,500)	26,208	26,208
Legal reserve	4,653	300	(300)	4,653	4,992
Other reserves	69,607	7,493	(7,952)	69,148	68,993
Retained earnings	(1,698)	1,309	(1,309)	(1,698)	(1,698)
Net result	6,771	2,487	(2,381)	6,877	4,424
STOCKHOLDERS' EQUITY	**105,541**	**13,089**	**(13,442)**	**105,188**	**102,919**
Interest-bearing loans and borrowings	89,939	955	-	90,894	106,262
Employee benefit liabilities	3,635	904	-	4,539	4,522
Deferred tax liabilities	885	477	-	1,362	1,317
Provisions	1,472	82	-	1,554	1,827
Derivatives	80	-	-	80	636
NON CURRENT LIABILITIES	**96,011**	**2,418**	**-**	**98,429**	**114,564**
Trade payables	58,293	22,582	(971)	79,904	82,568
Advance payments	5,538	3,813	-	9,351	10,120
Other payables	7,973	2,576	-	10,549	8,427
Interest-bearing loans and borrowings	35,812	1,269	-	37,081	35,377
Current tax payables	3,126	615	(912)	2,829	2,597
Provisions	5,520	1,487	-	7,007	8,034
Derivatives	-	-	-	-	116
CURRENT LIABILITIES	**116,262**	**32,342**	**(1,883)**	**146,721**	**147,239**
TOTAL STOCKHOLDERS' EQUITY AND LIABILITIES	**317,814**	**47,849**	**(15,325)**	**350,338**	**364,722**

VALUES IN THOUSAND EURO	PRIMA INDUSTRIE SPA	FINN-POWER ITALIA SRL	ELIMINATIONS	PRIMA INDUSTRIE SPA DEC 31, 2017 PRO-FORMA	PRIMA INDUSTRIE SPA DEC 31, 2018
Net revenues	153,465	65,628	(2,449)	216,644	224,778
Cost of goods sold	(128,371)	(56,842)	2,596	(182,617)	(195,203)
GROSS MARGIN	**25,094**	**8,786**	**147**	**34,027**	**29,575**
Research and Development costs	(4,271)	(2,862)	-	(7,133)	(7,402)
Sales and marketing expenses	(6,288)	(2,109)	-	(8,397)	(8,514)
General and administrative expenses	(8,075)	(1,612)	-	(9,687)	(9,555)
OPERATING PROFIT (EBIT)	**6,460**	**2,203**	**147**	**8,810**	**4,104**
Financial income	8,237	-	-	8,237	11,662
Financial expenses	(6,560)	(360)	-	(6,920)	(12,137)
Net exchange differences	(525)	(180)	-	(705)	410
RESULT BEFORE TAXES (EBT)	**7,612**	**1,663**	**147**	**9,422**	**4,039**
Taxes	(841)	824	(41)	(58)	385
NET RESULT	**6,771**	**2,487**	**106**	**9,364**	**4,424**

Valuation Criteria

The 2018 financial statements represent the separate financial statements of the parent company Prima Industrie SpA and have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the *International Accounting Standards Board* ("IASB") and endorsed by the European Union. The IFRS also includes all valid International Accounting Standards ("IAS") and all interpretations of the International *Financing Reporting Interpretations Committee* ("IFRIC"), previously known as the Standing Interpretations Committee ("SIC").

In compliance with European Regulation no. 1606 of July 19, 2002, starting from 2005, the PRIMA Group has adopted the International Financial Reporting Standards ("IFRS") issued by the *International Accounting Standards Board* ("IASB") in the preparation of the consolidated financial statements. Depending on the national legislation implementing that Regulation, the financial statements of the parent company Prima Industrie SpA have been prepared in accordance with these standards since 2006.

The disclosures required by IFRS 1, First Time Adoption of IFRS, regarding the effects following the transition to IFRS, was included in a specific Chapter to the Financial Statements at December 31, 2006, to which reference is made.

The financial statements are prepared in accordance to the historical cost principle, except for financial assets measured at fair value, as well as on a going concern basis. The Group has determined that there are no significant uncertainties (as defined by par. 25 of IAS 1) on business continuity.

On this issue, it is also appropriate to refer to the specific comment included in the consolidated financial statements in Chapter 7 "DESCRIPTION OF ACCOUNTING PRINCIPLES" in the section "Accounting principles applied".
The preparation of the financial statements in accordance with IFRS inevitably requires the use of accounting estimates and opinions expressed by the Directors of the company. Aspects of the financial statements that require the application of more complex estimates and greater recourse to the judgements of the Directors is provided below.
This Financial Statements are audited by *PricewaterhouseCoopers* S.p.A.

Financial statements - Format

The Company presents the income statement according to functional area otherwise referred to as "Cost of Sales", rather than by expenditure type. The cost presentation is based on cost destination and is considered more representative than expenditure type. The form chosen conforms to internal *reporting* and business management procedures and is in line with international practice within the sector in which the Group operates.

"Cost of sales" includes costs relating to the functional areas that participated directly or indirectly to the generation of revenues with the sale of goods and services. Therefore this item includes the production or purchase cost of products and goods sold. It also includes all costs for materials, processing and overheads directly attributable to production. Furthermore, it contains write-downs on inventories, provisions to cover warranty costs on sold goods, transport and insurance costs incurred for deliveries to customers and sales commissions to agents or third-party distributors.

With reference to the assets and liabilities of the balance sheet a form of presentation that distinguishes between current and non-current, as allowed by IAS 1, has been adopted. Moreover, information on the timing of liabilities is provided in the notes. The cash flow statement was prepared under the indirect method.

The Group has opted to use the formats described hereinafter in drafting its Financial Statements:

a) for the Consolidated Balance Sheet, the format used distinguishes the assets and liabilities between "current" (i.e. receivable or payable in 12 months) and "non-current" (i.e. receivable or payable over 12 months);
b) for the Consolidated Profit & Loss, the format used distributes costs according to their type; the Global Consolidated Income Statement includes, besides the Profit in the year as listed in the Consolidated Profit & Loss, the other variations to the Net Equity that do not refer to transactions with Shareholders;
c) for the Variations to the Net Equity, the format used reconciles the opening and closing of every entry in both the current year and the previous one;
d) for the Financial Account, the so-called "indirect" method was chosen, whereby the net financial flow of company business is determined by adjusting the profit and loss, because of the effects of:
   - non-monetary elements such as amortisation and depreciation;
   - variations of inventory, receivables and payables generated by company business;
   - other elements whose financial flows are generated by investments and financings.

Please note, furthermore, that with reference to CONSOB Resolution no. 15519 of July 27, 2006 concerning the format of financial statements, specific supplementary schemes have been added for the Income Statement and for the Balance Sheet, which particularly stress those relations with associates and non-recurrent transactions that are most significant, in order to make the financial statements more readily comprehensible.

Changes in accounting policies

With regard to the changes in accounting principles that took place in 2018, reference is made, as stated, in Chapter 7 of the consolidated financial statements, "DESCRIPTION OF ACCOUNTING PRINCIPLES".

Conversion of foreign currency

The financial statements have been prepared in Euro, the functional and presentation currency. Transactions in foreign currency are initially recorded at the exchange rate at the transaction date. The assets and liabilities in currencies other than the Euro are converted into Euro using the exchange rates applicable at the balance sheet date. All exchange differences are recognised in the Income Statement, provided that the accounting standards allow the revaluation in equity.

Tangibles assets

All classes of tangible assets, including investment properties, are stated at historical cost, less accumulated depreciation and impairment losses, except for land, recorded at historical cost less impairment, where applicable. Cost includes all expenses directly attributable to the acquisition.

Costs incurred after the acquisition of the asset are accounted for as an increase of their historical value or booked separately only if it is probable that they will generate future economic benefits and the costs can be measured reliably. Depreciation of tangible fixed assets is calculated using the straight-line method, in order to distribute the residual book value of its estimated economic life as follows:

- Buildings and incremental work: 33 years
- Plant and machinery 10 - 5 years
- Equipment: 4 - 5 years
- Furniture and office equipment: 9 - 5 years
- Electronic office equipment: 5 years
- Motor vehicles: 3 - 5 years

Extraordinary maintenance capitalised as an increase of an existing asset is depreciated over the remaining useful life of the asset or, if lower, during the period until the next maintenance.

The residual value and the useful life of tangible assets are reviewed and adjusted, if appropriate, at the date of the balance sheet.
The book value of tangible fixed assets is written down to its recoverable value immediately, whenever the former exceeds the latter.

Gains and losses on disposal of tangible assets are recognised in the Income Statement and are determined by comparing the carrying amount with the sale price.

Assets held under finance leases, through which all property risks and rewards are substantially transferred to the company, are recognised as Group assets at their fair value or, if lower, at the present value of minimum lease payments due for the lease. The lease fee is separated between the capital portion and the interest, which is determined by applying a fixed interest rate on outstanding debt.

Financial debt payable to the leasing company is recognised as a liability in the short term, for the current portion, and as long-term liabilities for the portion due over one year. The interest cost is recognised in the Income Statement over the term of the contract. The asset under finance leases are recognised as intangible assets and are amortised over the estimated economic-technical useful life of the asset.

Leases for which the lessor substantially preserves all the property risks and rewards are classified as operating leases. The costs of operating leases are recognised in the Income Statement over the term of the lease.

Property investments held for lease are measured at cost less accumulated depreciation and accumulated impairment losses.

Intangible Assets

Finite useful life

(a) Software

Software licences are capitalised at the cost incurred to obtain and implement them and amortised over the estimated useful life (3 to 5 years).
Costs associated with the development and maintenance of software are treated as period costs and charged to the Income Statement on an accruals basis.

(b) Research and development costs

Research costs are recognised in the Income Statement in the period in which they are incurred. Development costs incurred in relation to a specific project are capitalised if the following conditions are met:

- the costs can be measured reliably;
- the technical feasibility of the projects, the volumes and prices indicate that the costs incurred in the development phase will generate future economic benefits.

Development costs recorded in Income Statements in previous years cannot be capitalised retrospectively even if the requirements are met in the following years.
Development costs with a finite useful life are amortised starting from the date the product is commercialised, based on the period in which they are expected to produce economic benefits, in any case not more than 5 years. Development costs that do not meet these characteristics are charged to the Income Statement in the year in which they are incurred.

(c) Other intangible assets

Other intangible assets acquired separately are capitalised at cost, while those acquired through business combinations are capitalised at fair value at the acquisition date.
After initial recognition, intangible assets with finite useful life are recorded at cost, less depreciation and impairment; intangible assets with indefinite useful life are recorded at cost less impairment only.

Intangible assets generated internally are not capitalised but are recognised in the Income Statement in the year in which they were incurred.
Intangible assets with a finite useful life are verified annually for "impairment" whenever there are any reasons to justify it; such analysis can be conducted for each individual intangible asset or cash revenues generating unit. The useful lives of other intangible assets are reviewed annually: possible changes are applied prospectively, where possible.

Shareholdings in subsidiaries and associated companies

At least once a year, the management of Prima Industrie analyses Equity investments, focusing on companies whose balance sheet value is higher than the corresponding share of shareholders' equity. This difference is investigated and, where it is found to indicate a reduction in the balance sheet value of the investment, management conducts an impairment test.

Investments in other companies

Investments in which the company does not exercise control, significant influence or joint control are initially recorded at fair value.
In accordance with IFRS 9, these investments are subsequently valued at fair value with effects on the income statement. This is unless they are irrevocably selected as equity investments valued at fair value with effects recorded

in the statement of comprehensive income, in accordance with the option provided for in the same standard.
The choice of valuation method for these investments is made selectively for each investment.

Impairment of Assets

Assets with indefinite lives not subject to amortisation are tested for their recoverable value (impairment) annually and whenever there is an indication that the carrying amount may not be recoverable. Assets subject to amortisation are tested for impairment only if there is an indication that their carrying value may not be recoverable.
The amount of the impairment loss is determined as the difference between the asset's carrying amount and its recoverable amount, determined as the higher amount between the sale price net of transaction costs and its use value, that is the current value of estimated cash flows, before tax, applying a discount rate that reflects current market assessments of the time value of money and the specific risk connected to the asset. An impairment loss is recognised if the recoverable amount is less than the book value. When a loss on an asset other than goodwill is reversed or reduced, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount and cannot exceed the carrying amount that would have been determined if there had been no loss in value. The reversal of an impairment loss is recognised immediately in the Income Statement.

Financial instruments

Presentation

The financial instruments held by the Company are included in the items described below. Investments and other non-current financial assets include investments in subsidiaries and other companies as well as investments in joint ventures and other non-current assets.
Current financial assets include trade receivables and cash and cash equivalents. In particular, the item Cash and cash equivalents include bank deposits. The financial liabilities refer to financial payables, including payables for advances on orders, transfer of receivables, and other financial liabilities (which include the negative fair value of derivative financial instruments), trade payables and other payables.

Valuation

Investments in subsidiaries, associates, joint ventures and other companies included under non-current financial assets are accounted for as described in the previous paragraphs.

IFRS 9 identifies the following categories of financial assets, classified according to the following aspects: a) the business model adopted to manage the financial assets, and b) the characteristics of the contractual cash flows generated by them:

- Financial assets measured at amortised cost (AC): these assets are part of a hold-to-collect business model and generate contractual cash flows in the form of principal and interest.
- Financial assets measured at fair value with changes in fair value recorded in the statement of comprehensive income (FVOCI): these assets are part of a hold-to-collect-and-sell business model and generate contractual cash flows in the form of principal and interest.
- Financial assets measured at fair value with changes in fair value through profit or loss (FVPL): this category has a residual nature and includes all financial assets other than those measured at amortised cost and at fair value with changes in fair value entered in the profit and loss account, including minority interests, as well as financial assets that do not pass the SPPI test, including non-hedging derivatives and investments other than those measured using the equity method.

- Any minority shareholdings, irrevocably selected as FVOCI financial instruments without "recycling" at the time of initial recognition. In the context of this option, contrary to what generally occurs in the FVOCI category: 1) gains and losses recognised as OCI are not subsequently transferred to the income statement, although the cumulative gain or loss may be transferred to shareholders' equity; 2) equity instruments categorised as FVOCI according to this option are not subject to impairment accounting; 3) dividends are still recognised in the income statement, unless they clearly represent a recovery of part of the investment cost.

Derivative financial instruments

In compliance with IFRS 9, derivative financial instruments can be accounted for in accordance with the *hedge accounting* only when:

- at the beginning of the hedge, there is formal designation and documentation of the hedging relationship;
- it is assumed that the hedge is highly effective;
- effectiveness can be reliably measured and
- the hedge is highly effective throughout the financial reporting periods for which it is designated.

All derivative financial instruments are measured at fair value in accordance with IFRS 9.
When financial instruments have the characteristics to be accounted for under *hedge accounting*, the following accounting treatment applies:

- *Cash-flow hedge*. If a derivative financial instrument is designated as a hedge for the exposure to variability in future cash flows of an asset or liability recognised in the balance sheet or for a highly probable expected transaction and could affect the Income Statement, the effective portion of the gain or loss on the financial instrument is recognised in other comprehensive income / (loss). The derivative gain or loss is removed from other comprehensive income / (loss) and recognised in the Income Statement of the period in which the relative economic effect of the hedged transaction is noted. The gain or loss associated with a hedge (or part of the hedge) that has become ineffective is recognised in the Income Statement immediately. If a hedging instrument or hedge relations is completed but the hedged transaction has not yet been realised, the gains and losses accrued up to the time recorded in other comprehensive income / (loss) are recognised in the Income Statement interrelated with the detection of the economic effects of the hedged transaction. If the hedged transaction is no longer probable, the cumulative gains or losses not yet realised in other comprehensive income / (loss) are recognised immediately in the Income Statement.
- *Fair value hedge*. If a derivative financial instrument is designated as a hedge of the exposure to changes in the fair value of an asset or liability that is attributable to a particular risk and could affect the Income Statement, the gain or loss from reviewing the fair value of the hedging instrument are recognised in the Income Statement. The gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the item and are recognised in the Income Statement.
- *Hedge of a net Investment*. If a derivative financial instrument is designated as a hedge of a net investment in a foreign operation, the effective portion of the gain or loss on the derivative financial instrument is recognised in other comprehensive income / (loss). The gain or loss is removed from equity and recognised in the Income Statement at the date of disposal of the foreign asset.

Financial Liabilities

Financial liabilities include financial payables, including payables for advances on orders, transfer of receivables, and other financial liabilities, including derivative financial instruments and liabilities in respect of assets acquired under finance leases.

Financial liabilities are classified under the following two categories in accordance with IFRS 9: 1) financial liabilities measured at amortised cost using the effective interest rate ("AC") method; 2) financial liabilities measured at fair value with changes in fair value through profit or loss ("FVPL"), which in turn are classified under the two subcategories Held for Trading and FVPL at inception. Most of the Group's financial liabilities are in the first category.

Loans

Loans are recognized on the basis of the amounts collected, net of the accessory charges to the transaction.
After initial recognition, loans are recorded on the basis of amortized cost, calculated by applying the effective interest rate method.
Loans are initially recognized at fair value, net of any incidental charges.
Any difference between the proceeds net of any transaction costs and the redemption value is recognised in the Income Statement on an accrual basis at the effective interest rate method.

Inventories

Inventories are stated at the lower amount between cost and net realisable value, the latter is represented by the normal sales value during ordinary activities, less the variable costs of sale.
The cost is determined using the weighted average cost method. The cost of finished goods and semi-finished goods includes the cost of design, raw materials, direct labour, other direct costs and other indirect costs allocated to production activities based on normal production capacity and on the progress. This costing does not include interest expense.
Provision is made for materials, finished goods, spare parts and other supplies considered obsolete or slow moving, taking into account their expected future use and realisable value.
The realisable value is the estimated sale price during normal operations, net of all estimated costs for the completion of the asset and sale and distribution costs.

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method, net of the allowance to take account of their uncollectible accounts.
The receivables are written down according expected losses model provided for in IFRS 9. Specifically, trade receivables are written down using a simplified approach, which estimates the expected loss over their entire life. The estimate is chiefly made by determining the average expected non-collectability, based on historical experience, external indicators and forecasts. Specific measurements are made on individual credit positions in certain categories of loans subject to particular elements of risk.

Transfer of receivables

Receivables transferred as a result of factoring transactions are eliminated from the balance sheet assets only if the ownership risks and rewards have been substantially transferred to the concessionaire. Recourse and non-recourse receivables transferred that do not meet this requirement remain in the balance sheet of the company, although they have been legally transferred, in this case a liability of equal amount is recognised as a liability against the advance received.

Cash and cash equivalents

Cash and cash equivalents include cash, bank deposits instantly available and overdraft allowances on bank accounts and other liquid investments collectable within three months. Bank overdrafts are entered in the financial statements among short-term financings.

Assets for sale

The entry "Assets for sale" include non-current assets (or groups of dismissed assets) whose book value will be largely recovered through their sale (as opposed to their continued use). Assets for sale are entered at the least between the net book value and the fair value net of costs of sale and they are not subject to amortisation.

Share Capital

Ordinary shares are classified in the Net Equity. Accessory charges directly linked to issued shares or to options are entered in the Net Equity, subtracted from cash payments.
When the Group purchases parent shares (treasury shares), the price paid net of all directly attributed accessory charges is subtracted from the Group's Net Equity, until the treasury shares are either cancelled or sold.

Employee benefits

On June 16, 2011, the IASB issued an amendment to "IAS 19 - Employee Benefits", which modifies the rules for the recognition of fixed benefits plans and of *terminations benefits*. The main changes concern the recognition in the balance sheet of the deficit or surplus of the plan, the introduction of the net financial burden and the classification of net financial expenses. In particular:

- Recognition of the deficit or surplus of the plan: the amendment eliminates the option to defer actuarial gains and losses with the "corridor method" and it requires the recognition directly in Other overall gains (losses) and the recognised in the Income Statement of costs related to past service;
- Net financial burden: the net financial burden is composed of financial costs calculated on the present value of liabilities for fixed benefits plans, financial gains from the valuation of plan's assets and financial income or expenses arising from any limits to the recognition of the surplus of the plan. The net financial burden is determined using for all of these components the discount rate used for the measurement of the fixed benefits plans at the beginning of the period;
- Classification of net financial expenses: net financial expenses will be recognised among the financial income (expense) in the Income Statement.

(a) Pension plans

On December 31, 2006, Severance Pay (TFR) of Italian companies was considered a plan of fixed benefits. The legislation applying to the liability was modified by Law of December 27, 2006, no. 296 ("Financial Law 2007") and the subsequent Decrees and Regulations issued in the first months of 2007. In light of those amendments, and with reference in particular to companies with at least 50 employees, Severance Pay is now considered a plan exclusively for the amounts accrued before January 1, 2007 (and not adjusted in the financial statements), whereas for the amounts accrued after that date it is similar to a defined contribution plan.

Plans of fixed benefits are pension liabilities that define the amount of the pension benefit owed to the worker on the date the employment relation is ended; this amount depends on several factors, such as age, years of service and wage.
Fixed-contribution plans are pension plans for which the Company pays a fixed amount to a separate entity. The Company is in no way implicitly required by law to pay additional sums, should the activities in service of the plan prove insufficient to pay off benefits owed to employees for their current service and for services provided hitherto. The plans described here were recorded in accordance with the provisions of IAS 19.

(b) Benefits paid to employees who attain seniority status
The Company pays their employees benefits after a set number of years in service (seniority status).The benefits described here were recorded in accordance with the provisions of IAS 19.

(c) Incentives, bonuses and profit-sharing agreements
The Company enters a cost and a debt in view of liabilities that originate for bonuses, employee incentives and profit-sharing agreements, which are calculated with a formula that accounts for profits attributable to shareholders (given their due adjustments). The Company enters a liability under a listed fund only if the event is likely to occur, if contractually due, or in view of a procedural custom that infers an implicit obligation.

Provisions for liabilities and charges

Provisions for risks and charges are recognised when:
- a legal or implicit obligation arises for the company as a result of past events;
- an outflow of resources to settle the obligation and the amount thereof is probable;
- it can be determined reliably.

The restructuring provisions include both liabilities arising from the leave incentives as well as penalties related to the termination of the lease agreements. Provisions are not set aside for risks and charges in respect of future operating losses.
Provisions are measured by discounting the best estimates made by the Directors to identify the amount of costs that the Company shall bear to settle the obligation at the closing date of the balance sheet

Revenue recognition

Revenues are recorded net of VAT, returns, discounts and transactions between Group companies.

The Group recognises revenues according to IFRS 15 – *Revenues from Contracts with Customers*, which introduced a reference framework for the recognition and measurement of revenues for the faithful representation of the process of transferring goods and services to customers for an amount that reflects the amount expected in exchange for them. This standard is applied using a model made up of the five following stages:
- Identification of the contract with the customer: the parties approve the contract, which has commercial substance, and identify their respective rights and obligations. The contract must be legally binding, must identify the right to receive goods and/or services, the consideration and the payment terms;
- Identification of the performance obligations of the contract, i.e. promises to transfer separate goods and services.
- Determination of the transaction price: this is the total consideration contracted with the counterparty over the duration of the contract.

- Allocation of the price to the various performance obligations: in proportion to the respective stand-alone selling prices determined from the list prices.
- Recognition of revenue subject to fulfilment of performance obligations.

(a) Sale of goods

With regard to the sale of laser systems, sheet metal working machines and components, the Group recognises revenue when it transfers control of the goods to its customers. This generally coincides with the time when the Group obtains the right to receive payment and with the transfer of the material possession of the goods, which includes the transfer of the significant risks and benefits of ownership. The Group considers a warranty extension beyond normal market conditions as a performance obligation that should be recorded separately.

(b) Provision of services

Revenues from services are recognised based on the progress made in the period in which they are performed.

(c) Royalties

Revenues from *royalties* are recognised on an accrual basis under the agreed conditions in the underlying contracts.

Taxes

a) Current: the burden on income taxes for the year is determined in accordance with current legislation. Income taxes are recognised in the Income Statement. Concerning in particular PRIMA INDUSTRIE SpA and its subsidiaries PRIMA ELECTRO SpA, it should be noted that it is in force the tax bracket of its national consolidated business pursuant to article 117/129 of the Consolidation Act on tax on income (TUIR).

b) Deferred: Deferred tax liabilities and deferred tax assets are calculated on all temporary differences between the tax value and the book value of assets and liabilities in the financial statements of the company.

They are calculated using the tax rates and laws that have been enacted at the balance sheet date, or substantially enacted, and that are expected to be applicable at the time of the reversal of temporary differences that gave rise to the recognition of deferred tax.
The deferred tax assets on tax losses and temporary differences are recognised only if sufficient taxable income to their compensation is probable at the time of the reversal of the temporary differences. Deferred tax assets are reviewed at each financial year-end, and if necessary reduced to the extent that it is no longer probable that sufficient taxable income will become available in the future in order to allow all or part of the asset to be utilised. Deferred taxes related to items recognised directly in equity are also recognised directly in equity.

Distribution of dividends

The distribution of dividends to shareholders generates a payable at the time of approval of the Shareholders' Meeting.

Government grants

Government grants are recognised at their fair value only if there is reasonable certainty that the Company has accomplished all the requirements set by the terms of the grants. Revenues from government grants are recognised in the Income Statement based on the costs for which they were granted.

Valuation of the *fair value*

The fair value of financial instruments traded in an active market is determined based on market prices at the balance sheet date. The market price of reference for financial assets held by the Company is the current selling price (purchase price for financial liabilities).

The fair value of financial instruments that are not traded in an active market is determined using various valuation techniques and assumptions based on market conditions existing at the balance sheet date. For medium and long-term liabilities comparing prices of similar listed financial instruments, for the other categories of financial instruments cash flows are discounted.
The fair value of IRS is determined by discounting the estimated deriving cash flows at the balance sheet date. For receivables it is assumed that the nominal value net of any adjustments made to take account of their payable approximates their fair value. The fair value of financial liabilities for disclosure purposes is determined by discounting contractual cash flows at an interest rate that approximates the market rate at which the company borrows.

Financial risk factors

Concerning the management of financial risks, please refer to paragraph – Management of Financial Risks – Chapter 8 " Explanatory notes to the Consolidated Financial Statements at December 31, 2018".

Discretionary evaluations and significant accounting estimates

The preparation of financial statements requires Management to make a number of subjective assumptions and estimates based on past experience.
The application of these estimates and assumptions affects the amounts of assets and liabilities recognised in the balance sheet, as well as expenses and income recognised in the Income Statement. Actual results may differ significantly from the estimates made, in view of the natural uncertainty surrounding the assumptions and conditions on which the estimates are based.
In this context it should be noted that the situation caused by the financial and economic crisis has led to the need to make assumptions about future trends characterised by significant uncertainty, so it cannot be ruled out that there will be different results next year compared to as estimated, and which therefore might require even significant adjustments that cannot be foreseen or estimated currently, to the carrying amount of the related items. The main items affected by these situations of uncertainty are provisions for doubtful accounts receivable and inventory, non-current assets (tangible and intangible assets), pension liabilities and other post-employment benefits, deferred tax assets.

The following summarises the main evaluation process and key assumptions used in the process that can have a significant effect on the amounts recognised in the financial statements or for which there is a risk that there can be value adjustments to the carrying amount of assets and liabilities in the year following the date of the financial statements.

Recoverable amount of goodwill included in the FINN-POWER OY investment

The recoverable amount of goodwill included in the FINN-POWER OY investment has been evaluated in the context of the impairment test prepared for the CGU PRIMA POWER. The key assumptions used to define the recoverable amount of the CGU, including a sensitivity analysis, are detailed in Note 2 – Intangible Assets – Chapter 8 " Explanatory notes to the Consolidated Financial Statements at December 31, 2018".

Research and development costs

Research and development costs that meet the requirements for capitalisation are recorded under Intangible Fixed Assets. The average life of research and development projects is estimated at a maximum of 5 years, which is the average period in which the products are estimated to generate cash flows for the company.

Deferred tax assets and liabilities

Deferred tax assets and liabilities recorded in the balance sheet are determined using the differences between the accounting values and recognised for tax purposes of the various assets and liabilities at the tax rates that are assumed to be in effect in the year in which the temporary differences are expected to be less. Deferred taxes relating to tax losses carried forward to subsequent years are recognised only if and to the extent that management believes it likely that in future years the company will achieve a positive tax result such that it can be absorbed. In the event that, subsequent to the time of execution of the estimate, there are circumstances that lead to changing these estimates or the rate used for the calculation of deferred taxes, the items recorded in the financial statements will be adjusted.

Provision for inventories

In determining the provision for inventory obsolescence, the Company makes a number of estimates regarding future demand for the various types of products and materials in share, on the basis of their production plans and past experience of customer requirements. In the event that these estimates are found to be inappropriate, this will result in an adjustment to the provision for obsolescence with its impact in the Income Statement.

Provision for doubtful debts

Provisions for doubtful accounts are determined based on an analysis of the individual debtors and in the light of past experience in terms of debt and relationships with individual customers. In the event that there is an unexpected deterioration in the economic and financial conditions of a major customer, this could result in the need to adjust the allowance for doubtful accounts, with the consequent negative effects in terms of economic performance.

Employee benefits

The determination of the amount to be budgeted requires the use of actuarial estimates that take into account a number of assumptions relating to parameters such as the annual rate of inflation, wage increase, the annual rate of staff turnover and other variables. Any changes in these parameters require a readjustment of the actuarial estimates and, consequently, the amounts disclosed in the financial statements.

Variations on accounting principles

IFRS 9 Financial Instruments

The new “IFRS 9 – Financial Instruments” accounting standard came into force on January 1, 2018, replacing “IAS 39 – Financial Instruments: Recognition and Measurement” and makes important changes to the previous guide on the classification and measurement of financial assets, introducing an “*expected credit loss*” model for the impairment of financial assets.

Specifically, IFRS 9 introduces the following:

a) Classification and measurement

IFRS 9 classifies financial assets into three main categories: 1) amortized cost (AC), 2*) Fair Value Through Other Comprehensive Income* (FVTOCI), 3) *Fair Value Through Profit or Loss* (FVTPL). Classification within the three categories is based on *business model* (i.e. “*hold to collect*” / “*hold to collect and sell*”) and the characteristics of the cash flows (i.e. “*principal / principal + interest*”).

The Company identified no significant impacts at December 31, 2018 resulting from application of the classification and measurement requirements of IFRS 9.

b) Impairment

The new requirements for *impairment* set out in IFRS 9 are based on an *Expected Credit Loss* ("ECL") model and replace the loss model of IAS 39. The expected loss model applies to debt instruments (such as bank deposits, loans, debt securities and trade receivables) recognised at AC or FVTOCI, plus lease receivables, contract assets and financial guarantee contracts not valued at FVTPL.

For contract assets relating to IFRS 15 and trade receivables, the Company applies a simplified model for recognizing expected losses over the life of the asset, since these items have no significant financing component.

c*) Hedge accounting*

The new rules introduced by IFRS 9 for the recognition of hedging assets have introduced no significant elements but have provided for a greater link between the substance of risk management operations and their recognition. The new model makes application of *Hedge Accounting* simpler, allowing entities to apply hedging operations on a larger scale. The Company has established that all existing hedging relationships that are currently designated as effective hedges should continue to qualify for hedge accounting in accordance with IFRS 9.

Since IFRS 9 does not change the general principle whereby an entity recognizes effective hedging relationships, application of the requirements of IFRS 9 for the definition of hedges has not had a significant impact on the Company's financial statements.

IFRS 15 – Revenue from Contracts with Customers

The new IFRS 15 - "Revenue from contracts with customers" and the related "Clarifications to IFRS 15 Revenues from contracts with customers" (hereafter "IFRS 15") replace the previous IAS 18 "Revenue", IAS 11 " Construction Contracts" and various interpretations concerning revenue.

The new accounting standard provides for recognition of revenues based on the following five steps:

- identification of the contract with the customer;
- identification of *performance obligations*, i.e. contractual commitments to supply goods and/or services to the customer;
- determination of transaction price;
- allocation of the transaction price to the *performance obligation*, based on the *stand-alone* sale price of each good or service; and
- recognition of revenue with the *performance obligation* is satisfied.

Application of the new standard to the sale of goods (laser systems, sheet metal processing and components machines) had no impact.

These revenues were therefore recognized under the definitions set out according to the new "*at point in time*" principle of IFRS 15. As a result of the adoption of IFRS 15, the Company identified a *performance obligation* in the warranty extension period on machinery compared to normal conditions, to be accounted for separately, although determining a low value related to a limited number of transactions.

On the basis of the analyses carried out by the Company on other types of revenue (provision of services, dividends), application of the standard had no impact on shareholders' equity at December 31, 2017 and December 31, 2018.

IFRS 16 – Leases

On January 13, 2016, the IASB issued "IFRS 16 – Leases" that is intended to replace "IAS 17 – Leases", and interpretations of "IFRIC 4 Determining whether an Arrangement contains a Lease", "SIC-15 Operating Leases-Incentives" e "SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease". The new standard, that the Company will apply starting from January 1, 2019, provides a new definition of lease and introduces a criterion based on control (right of use) of an asset to distinguish leasing contracts from service contracts, identifying as discriminants: the identification of the asset, the right to replace it, the right to obtain substantially all of the economic benefits deriving from the use of the asset and the right to manage the use of the asset underlying the contract. Moreover, the standard establishes a single recognition and measurement model of lease contracts for the lessee providing for the recognition of the leased asset also operating under assets against a financial liability. On the contrary, the standard does not include significant changes for lessors.

The Company finalized the preliminary assessment of impacts arising from the application of the new standard at the transition date (January 1, 2019). Such assessment has been declined in different phases, including the complete mapping of the contracts potentially suitable to contain a lease and the analysis of the same in order to understand the main clauses relevant for IFRS 16 purposes. With this regard, the Company has made use for all contracts of the practical expedient available on transition to apply the requirements of the standard only to contracts identified as leases in accordance with IAS 17 and IFRIC 4.

The Company has elected to adopt IFRS 16 under the Modified Retrospective approach. In particular, for lease contracts previously classified as operating, the Company will recognize a financial liability and a right of use equal to the present value of future lease payments remaining at the transition date, discounted using for each contract the incremental borrowing rate applicable at the transition date.

In adopting IFRS 16, the Company intends to apply the exemption granted by the standard in relation to short-term leases for all the asset categories. Likewise, the Company will apply the exemption granted by the standard as regards the lease contracts for which the underlying asset is configured as a low-value asset (for the purposes of this determination, the Company considered the assets underlying the contract of leases that do not exceed, when new, a value of approximately Euro 5 thousand). The contracts for which the exemption can be applied mainly concern computers, telephones and tablets, printers, other electronic devices, furniture and furnishings. For these contracts, the introduction of IFRS 16 will not entail the recognition of the lease financial liability and of the related right of use, but the lease payments will be recognised as an expense on a straight-line basis over the lease term.

Moreover, the Company will also apply, for all the asset categories, the exemption granted by the standard in relation to the possibility of not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement in determining the financial liability of the lease and the related right of use.

With reference to the transition rules, the Company will make use of the following practical expedients available if the modified retrospective transition method is chosen:

- classification of contracts expiring within 12 months from the transition date as a short term lease. For these contracts the lease payments will be recognized as an expense on a straight-line basis;
- exclusion of initial direct costs from the measurement of the right of use as of January 1, 2019;
- use of hindsight at the transition date for the determination of the lease term, with particular reference to the exercise of extension and early termination options.

The transition to IFRS 16 introduces some elements of professional judgment that involve the definition of some accounting policies and the use of assumptions and estimates in relation to the lease term and the definition of the discount rate. The main ones are summarized below:

- the Company decided not to apply IFRS 16 for contracts containing a lease whose underlying asset is an intangible asset;
- *lease term*: the Company analyzed all the lease contracts, defining the lease term for each of them, given by the "non-cancellable" period together with the effects of any extension or early termination clauses whose exercise was deemed reasonably certain. Specifically, for buildings this evaluation considered the specific facts and

circumstances of each asset. With regard to the other categories of assets, mainly company cars and equipment, the Company generally considered as unlikely that it will exercise any clauses of extension or early termination in consideration of the practice usually followed by the Company;

- definition of the discount rate: the Company elected to adopt the incremental borrowing rate in order to determine the financial liability relating to lease contracts. This rate, diversified according to the country and the reference currency of the lease contract, represents the interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

As at December 31, 2018, the Company has non-cancellable operating lease commitments of approximately Euro 5.5 million. A preliminary assessment indicates that approximately Euro 5.3 million of these arrangements relate to leases other than short-term leases and leases of low-value assets; in respect of all these leases the Company will recognise a right-of-use asset of Euro 5.0 million and a corresponding lease liability of approximately Euro 5.0 million.

11

Explanatory Notes to Prima Industrie SpA Financial Statements December 31, 2018

Chapter 11 - Explanatory Notes to Financial Statements at December 31, 2018

The data shown in the explanatory note are expressed in Euro thousand.

Financial position

1. Property, plant and equipment

The following table illustrates the composition of tangible fixed assets at December 31, 2018 and at December 31, 2017, and the changes during the year.

PROPERTY, PLANT AND EQUIPMENT	LAND AND BUILDING	PLANTS AND MACHINERY	INDUSTRIAL AND COMMERCIAL EQUIPMENT	OTHER TANGIBLE FIXED ASSETS	FIXED ASSETS UNDER CONSTRUCTION	TOTAL
Net value as at December 31, 2016	**12,122**	**207**	**757**	**414**	**455**	**13,955**
Movements 2017						
Increases	219	92	510	156	184	1,161
Disinvestments	-	-	-	(24)	-	(24)
Utilization of accumulated depreciation	-	-	-	24	-	24
Depreciation	(283)	(37)	(395)	(123)	-	(838)
Reclassifications with tangible fixed assets	5	(19)	105	-	(91)	-
Differences on exchange rates	-	-	1	(1)	-	-
Net value as at December 31, 2017	**12,063**	**243**	**978**	**446**	**548**	**14,278**
Movements 2018						
Merger effect	5,889	33	166	220	-	6,308
Increases	-	158	300	13	717	1,188
Disinvestments	-	-	-	(51)	-	(51)
Utilization of accumulated depreciation	-	-	-	51	-	51
Depreciation	(573)	(51)	(562)	(168)	-	(1,354)
Reclassifications with Assets held for sale	(1,531)	-	-	-	-	(1,531)
Reclassifications with tangible fixed assets	420	(65)	183	9	(547)	-
Net value as at December 31, 2018	**16,268**	**318**	**1,065**	**520**	**718**	**18,889**

Land and buildings amounting to Euro 16,268 thousand includes:

- Land for a total value of Euro 5,687 thousand;
- Buildings with a total value of Euro 10,278 thousand. This item includes the new HQTC in Collegno, home to a large Technology Center and the Group's headquarters. Also included are the industrial plant at no. 28 Via Antonelli and the building rented by PRIMA POWER UK Ltd;
- Light constructions for Euro 303 thousand.

Plant and Machinery stands at Euro 318 thousand and increased during the year by Euro 191 thousand (of which Euro 158 thousand from acquisitions in the period and Euro 33 thousand from merger contributions) and decreased by Euro 116 thousand (including Euro 51 thousand amortization in the previous year and a further Euro 65 thousand reclassified under other items).

Industrial and commercial equipment stands at Euro 1,065 thousand and increased during the year by Euro 649 thousand (of which Euro 300 thousand from acquisitions in the period, Euro 183 thousand from the effect of reclassifications to other items and Euro 166 thousand from merger contributions) and decreased by Euro 562 thousand due to amortization.

The Other Assets item amounts to Euro 520 thousand and is represented mainly by:

- Electronic office equipment with a value of Euro 348 thousand;
- Office furniture, furnishings and equipment with a value of Euro 167 thousand;
- Other assets for Euro 5 thousand.

The Fixed assets in progress item relates to costs incurred for expansion activities of the new HQTC and to equipment generated internally.

All above mentioned values at December 31, 2018 are net of accumulated depreciation except for land and fixed assets in progress which are not depreciated.

2. Intangible assets

The following table illustrates the composition of intangible fixed assets at December 31, 2018 and at December 31, 2017, and the changes during the year.

INTANGIBLE ASSETS	SOFTWARE	DEVELOPMENT COSTS	OTHER INTAGLIBLE ASSETS	TOTAL
Net value as at December 31, 2016	**872**	**9,066**	**7**	**9,945**
Movements 2017				
Increases/(decreases)	340	1,804	24	2,168
Depreciation	(413)	(2,026)	(8)	(2,447)
Net value as at December 31, 2017	**799**	**8,844**	**23**	**9,666**
Movements 2018				
Merger effect	-	2,912	23	2,935
Increases/(decreases)	777	1,887	1	2,665
Depreciation	(521)	(3,220)	(25)	(3,766)
Net value as at December 31, 2018	**1,055**	**10,423**	**22**	**11,500**

The main item in intangible assets are the development costs (net value at December 31, 2018 of Euro 10,423 thousand); during 2018 this item increased by Euro 2,912 thousand due to merger, Euro 1,887 thousand due to the capitalisation of projects, and decreased by Euro 3,220 thousand due to depreciation.

3. Investments in subsidiaries

The value of equity investments at December 31, 2018 amounts to Euro 163,227 thousand and it is decreasing compared to the previous financial year by Euro 8,710 thousand.

INVESTMENT IN SUBSIDIARIES	INVESTMENT VALUE	INCREASES	INVESTMENT PROVISION	NET VALUE AT DEC 31, 2017	INCREASES	MERGER	NET VALUE AT DEC 31, 2018
FINN POWER OY	140,177	-	-	140,177	-	-	140,177
FINN-POWER ITALIA Srl	-	13,548	-	13,548	-	(13,548)	-
PRIMA ELECTRO SpA	10,945	-	-	10,945	-	-	10,945
PRIMA POWER IBERICA SL	1,441	-	-	1,441	-	-	1,441
PRIMA POWER CHINA Company Ltd	767	-	-	767	-	-	767
PRIMA POWER MAKINA TICARET LIMITED SIRKETI	540	-	-	540	-	-	540
OOO PRIMA POWER	123	-	-	123	-	-	123
PRIMA POWER CENTRAL EUROPE Spzoo	93	-	-	93	-	-	93
PRIMA POWER UK LTD	-	-	-	-	-	-	-
PRIMA POWER GmbH	1,040	-	(1,040)	-	-	-	-
PRIMA POWER SOUTH AMERICA Ltda	-	-	-	-	-	-	-
PRIMA POWER AUSTRALASIA Pty Ltd	-	-	-	-	-	-	-
PRIMA POWER SUZHOU CO LTD	4,303	-	-	4,303	4,838	-	9,141
TOTAL	**159,429**	**13,548**	**(1,040)**	**171,937**	**4,838**	**(13,548)**	**163,227**

Below are the events in 2018 which led to these changes:

- FINN-POWER ITALIA Srl with notarial deed of January 25, 2018, with legal effect from February 1, 2018, FINN-POWER ITALIA Srl was merged into PRIMA INDUSTRIE SpA (100% shareholding), with accounting and tax effect backdated to January 1, 2018. For more information on this transaction, see the section "2018 Significant events of the period" in the Group Management Report.
- PRIMA POWER SUZHOU Co. Ltd. the increase relates to a share capital increase approved in the last quarter of 2018.

The details of the cost of investments compared with the net equity pro-rata resulting from the economic-financial situation of the companies involved, in compliance with IAS/IFRS principles, is as follows:

INVESTMENT IN SUBSIDIARIES	NET VALUE AT DEC 31, 2018	EQUITY AS AT DEC 31, 2018	STAKE	EQUITY PRO-QUOTA	DIFFERENCE
FINN POWER OY	140,177	137,304	100%	137,304	(2,873)
PRIMA ELECTRO SpA	10,945	37,748	100%	37,748	26,803
PRIMA POWER IBERICA SL	1,441	7,522	22%	1,655	214
PRIMA POWER CHINA Company Ltd	767	1,176	100%	1,176	409
PRIMA POWER MAKINA TICARET LIMITED SIRKETI	540	748	100%	748	208
OOO PRIMA POWER	123	2,340	100%	2,340	2,217
PRIMA POWER CENTRAL EUROPE Spzoo	93	594	100%	594	501
PRIMA POWER UK LTD	-	1,118	100%	1,118	1,118
PRIMA POWER GmbH	-	(2,804)	100%	(2,804)	(2,804)
PRIMA POWER SOUTH AMERICA Ltda	-	(1,147)	100%	(1,147)	(1,147)
PRIMA POWER AUSTRALASIA Pty Ltd	-	(217)	100%	(217)	(217)
PRIMA POWER SUZHOU CO LTD	9,141	11,112	70%	7,778	(1,363)

The difference between the cost and the shareholders' equity of FINN-POWER OY, arsing the results of previous years as well as 2018, was significantly lower than originally recorded at the time of the acquisition of the company. Given the positive future results expected, no impairment indicators emerged for the value of the equity investment.
FINN-POWER OY in 2018 achieved an EBITDA of Euro 17,246 thousand (equal to 10.7% of revenues). Moreover, the PRIMA INDUSTRIE Group carried out the impairment test on CGU PRIMA POWER (in which the sub-group FINN-POWER is included) in the consolidated financial statements (see Note 2 - Intangible assets) from which are no indications of value impairment index emerge.

The difference between the cost and the net equity of PRIMA POWER SUZHOU was not considered a loss in the value of the shareholding, but is attributable to the fact that the company is still in the initial stages of business and the management of PRIMA INDUSTRIE SPA believes this difference will be covered over the coming years by the future profits of the Chinese company. In 2018 the company achieved a positive EBITDA equal to Euro 281 thousand.

During 2018, PRIMA POWER GMBH underwent significant changes, with its headquarters moving from Frankfurt to Munich (Neufahrn) in order to be nearer its customers. Munich is a more central position for German-speaking countries and the engineering industry in that region. Furthermore, it is an international hub that is well connected to most European countries. The D-A-CH area (Germany, Austria, Switzerland) is strategic to the Group and is one of its most important markets in Europe, accounting for 5% of total revenues and over 1000 machines installed. The new Neufahrn headquarters (1,800 m2) also includes a modern Technology Center with includes a large Show Room, and areas dedicated to demonstrations, applications, cycle time testing, where a large number of customers can attend live demonstrations of the most advanced products and technologies of the PRIMA INDUSTRIE Group for a fuller, more engaging customer experience.
In line with the growth strategy, the goal is to have a team of 70 employees at the new location by 2020. In addition to sales and services, growth is expected for staff with dedicated courses and applications to improve their status as an outstanding competence centre. The above relocation is also linked to a radical change in top management, with the aim of bringing the German subsidiary back into profit by the end of 2019.

Given the fact that:

- PRIMA INDUSTRIE SpA is not liable, on the drafting date of these financial statements, to cover losses incurred during the year,
- the results in 2018 are the product of the organisational changes already highlighted and the related non-recurring costs,
- and the forecasts for the coming years are positive,

it is not considered necessary to set up an additional provision to cover losses.

The differences in the equity investments PRIMA POWER SOUTH AMERICA Ltda and PRIMA POWER AUSTRALASIA Pty Ltd are almost entirely offset by a provision for risks of Euro 1,364 thousand (see Note 18); during the year, Euro 366 thousand was allocated to this provision.

4. Other investments

The following table illustrates the composition of other investments that at December 31, 2018 was equal to Euro 235 thousand.

OTHER INVESTMENTS	3D NT	LAMIERA SERVIZI	PRIMA POWER SHEET METAL SOLUTION	OTHER	TOTAL
December 31, 2017	**180**	**11**	**40**	**1**	**232**
Merger effect	-	-	-	1	1
Increases	-	-	-	2	2
Decreases	-	-	-	-	-
December 31, 2018	**180**	**11**	**40**	**4**	**235**

5. Financial assets

The value of Financial Assets is Euro 7,567 thousand and had increased by Euro 1,064 thousand from the previous years.

The following table illustrates the changes in Financial assets.

FINANCIAL ASSETS	LOAN TO PRIMA POWER LASERDYNE LLC	LOAN TO PRIMA POWER SUZHOU CO.LTD	LOAN TO PRIMA ELECTRO S.P.A.	LOAN TO PRIMA POWER SOUTH AMERICA LTDA	TERM DEPOSIT BANCO DO BRASIL	TERM DEPOSIT SMILLA	FINANCIAL RECEIVABLE WITH WUHAN UNITY	LOAN TO SUBSIDIARIES	TOTAL
December 31, 2017	**1,680**	**3,221**	**810**	**-**	**550**	**-**	**236**	**6**	**6,503**
Issued	-	4,000	-	500	-	2,728	-	-	7,228
Reimbursements	-	-	(814)	-	(550)	-	-	-	(1,364)
Interests	31	69	4	8	-	-	-	-	112
Conversion into Capital stock	-	(4,838)	-	-	-	-	-	-	(4,838)
Devaluations	-	-	-	-	-	-	(118)	-	(118)
Differences on exchange rates	44	-	-	-	-	-	-	-	44
December 31, 2018	**1,755**	**2,452**	**-**	**508**	**-**	**2,728**	**118**	**6**	**7,567**
of which :									
Financial assets non current	**-**	**-**	**-**	**500**	**-**	**2,728**	**-**	**-**	**3,228**
Financial assets current	**1,755**	**2,452**	**-**	**8**	**-**	**-**	**118**	**6**	**4,339**

6. Deferred tax assets

The following table shows the movement of deferred tax assets during the year 2018.

DEFERRED TAX ASSETS	DECEMBER 31, 2018	DECEMBER 31, 2017
Opening balance	**2,590**	**2,291**
Merger effect	954	-
Increase	940	567
Decrease	(624)	(268)
Closing balance	**3,860**	**2,590**

Below is the breakdown of deferred tax assets.

DEFERRED TAX ASSETS	DECEMBER 31, 2018	DECEMBER 31, 2017
Provisions for risks and other liabilities	2,137	1,524
Inventories	772	509
Tax losses carried forward	365	-
Employee benefits	419	393
Other	167	164
TOTAL	**3,860**	**2,590**

The assessment of the recoverability of prepaid tax assets takes account of expected profitability in future years.

7. Inventories

The inventories on December 31, 2018 amount to Euro 44,913 thousand, net of the obsolescence provision.

INVENTORIES	DECEMBER 31, 2018	DECEMBER 31, 2017
Raw materials	14.295	7.099
(Provision fro Raw materials)	(881)	(550)
Semi-finished goods	11.456	6.012
Finished goods	22.379	14.473
(Provision for Finished goods)	(2.336)	(1.572)
Total	**44.913**	**25.462**

During the year 2018 there was an increase of Euro 19,451 thousand both to the merger contribution and to the high order backlog at December 31, 2018, resulting in the need for procurement and ongoing work necessary to process the orders with delivery requested in the first months of 2019.

The movements of the inventories provisions that occurred during the year are provided below.

INVENTORIES PROVISIONS	RAW MATERIALS	FINISHED GOODS
Value as at December 31, 2017	**(550)**	**(1,572)**
Merger effect	(383)	(532)
Utilizations	135	123
Provisions	(83)	(355)
Value as at December 31, 2018	**(881)**	**(2,336)**

8. Trade Receivables

Trade receivables at December 31, 2018 amounted to Euro 75,704 thousand and compared to the previous financial year an increase of Euro 18,523 thousand was experienced.

TRADE RECEIVABLES	DECEMBER 31, 2018	DECEMBER 31, 2017
Receivables from customers	41,389	39,009
Bad Debt Reserve	(359)	(199)
Receivables from customers (net)	**41,030**	**38,810**
Receivables from Related Parties	34,674	18,371
Receivables from customers (net)	**75,704**	**57,181**

Trade receivables include receivables in foreign currency which relate to items denominated in US dollars, Chinese renminbi and British pounds and relate mostly to invoices issued to subsidiaries.

Given the open positions at December 31, 2018, adjustments to the exchange rate were entered correctly. Receivables in currencies other than the reference currency are converted into Euro at the effective exchange rate on the date of the financial statements closing. All exchange differences are reflected in the Income Statement.

Movements in the bad debt reserve during the considered period are as follows:

BAD DEBT RESERVE	AMOUNT
Value as at December 31, 2017	**(199)**
Merger effect	(238)
Utilizations	78
Provisions	-
Value as at December 31, 2018	**(359)**

The provision reflects the management's more accurate estimate of expected losses by Prima Industrie SpA on its receivables.

Below is a breakdown of trade receivables (including those of subsidiaries and associates and net of the bad debt reserve) divided according to expiry.

RECEIVABLES BY MATURITY	DECEMBER 31, 2018
Due to expire	58,703
Expired 0 - 180 days	10,859
Expired 180 - 365 days	2,958
Expired over 1 year	3,543
TOTAL	**76,063**

In application of the new IFRS 9, the company measures trade receivables according to expected credit loss. The company has adopted a simplified approach, therefore the provisions for doubtful accounts reflects expected losses based on the life of the receivable. In determining these provisions, the company referred to historical experience, external indicators and forecasts.

Specific measurements were made on individual credit positions in certain categories of loans subject to particular elements of risk.

9. Other receivables

Other Receivables are equal to Euro 4,493 thousand, increasing by Euro 1,836 thousand compared to the previous financial year.

The following table shows the composition of the item Other receivables.

OTHER RECEIVABLES	DECEMBER 31, 2018	DECEMBER 31, 2017
Advances payments to suppliers	2,359	956
Contribution to be received for R&D projects	1,417	1,294
Prepayments and accrued income	413	123
Security deposits	208	209
Advances to employees	19	75
Other receivables	77	-
Total	**4,493**	**2,657**

10. Current tax receivables

Current tax assets totalled Euro 5,148 thousand at December 31, 2018, compared to Euro 2,008 thousand at December 31, 2017.

Below is a summary table showing the comparison between December 31, 2018 and December 31, 2017.

CURRENT TAX RECEIVABLES	DECEMBER 31, 2018	DECEMBER 31, 2017
Tax Receivables - R&D	1,400	495
Tax Receivables - Direct taxes (IRES and IRAP)	1,123	470
VAT Receivables - Italy	1,220	-
Tax Receivables - IRES reimbursment IRAP deduction	970	970
Tax Receivables with subsidiaries	335	-
VAT Receivables - Foreign countries	47	65
Tax Receivables - Witholding taxes	25	8
Other tax receivables	28	-
Total	**5,148**	**2,008**

11. Derivatives

At December 31 , 2018 PRIMA INDUSTRIE SpA holds current active derivative financial instruments for an amount of Euro 26 thousand, non-current liabilities for Euro 636 thousand and and current liabilities for Euro 116 thousand.

Derivatives current assets

TYPE	COUNTERPARTY	EXPIRY DATE	REFERENCE NOTIONAL	MTM DEC. 31, 2018
CRS - Non hedge accounting	Intesa Sanpaolo	June 26, 2019	$1,000	€ 9
CRS - Non hedge accounting	MPS	September 20, 2019	$2,000	€ 17
			TOTAL	**€ 26**

Derivatives non current liabilities

TYPE	COUNTERPARTY	EXPIRY DATE	REFERENCE NOTIONAL	MTM DEC. 31, 2018
IRS - Hedge accounting	BNL	December 19, 2022	€17,000	€ 120
IRS - Hedge accounting	BPM	December 31, 2022	€20,000	€ 223
IRS - Hedge accounting	Unicredit	December 31, 2022	€22,222	€ 155
IRS - Hedge accounting	Intesa Sanpaolo	March 31, 2023	€15,000	€ 138
			TOTAL	**€ 636**

Derivatives current liabilities

TYPE	COUNTERPARTY	EXPIRY DATE	REFERENCE NOTIONAL	MTM DEC. 31, 2018
CRS - Non hedge accounting	Intesa Sanpaolo	September 20, 2019	$1,000	€ 7
CRS - Non hedge accounting	BNL	March 29, 2019	$2,000	€ 33
CRS - Non hedge accounting	BNL	June 28, 2019	$1,000	€ 30
CRS - Non hedge accounting	MPS	March 27, 2019	$2,000	€ 21
CRS - Non hedge accounting	MPS	June 26, 2019	$2,000	€ 20
CRS - Non hedge accounting	MPS	June 26, 2019	$1,000	€ 2
CRS - Non hedge accounting	MPS	March 20, 2019	¥2,000	€ 3
			TOTAL	**€ 116**

For the purposes of the financial statements at December 31, 2018, a valuation of outstanding derivative instruments was carried out. For more information on the derivative financial instruments of PRIMA INDUSTRIE SpA and on their disclosure method, see "Note 10 - Net Financial Position of the consolidated financial statements".

12. Cash and cash equivalents

Cash and cash equivalents at December 31, 2018 totalled Euro 27,926 thousand, against Euro 25,243 thousand at December 31, 2017 and consists of cash (including foreign currency), cheques and letters of credit. For more details on Cash and cash equivalents, see the Financial Report (for the Financial Report, see the Chapter 9 – Prima Industrie SpA - Financial Statements at December 31, 2018).

CASH AND CASH EQUIVALENTS	DECEMBER 31, 2018	DECEMBER 31, 2017
Cash and checks	15	24
Bank accounts	27,911	25,219
Total	**27,926**	**25,243**

13. Assets held for sale

At December 31, 2018, the value of non-current assets held for sale is Euro 1,234 thousand and relates to:

- Euro 1,531 thousand for a property in the province of Brescia (at December 31, 2017 it was disclosed under Land and buildings); during the first half of 2018, the value of the building was reduced by Euro 681 thousand to bring it to its fair value of Euro 850 thousand;
- Euro 384 thousand for a number of properties under construction in Mantua, Italy. The first property unit was sold in the first quarter of 2019.

Both assets were owned by the former FINN-POWER ITALIA srl.
All assets classified in this category are available for immediate sale, an event that is very likely since the Management has engaged in a divestment programme.

14. Net Equity

Capital stock

The Share Capital amounts to Euro 26,208 thousand and has remained unchanged compared with December 31, 2017.

Legal reserve

This item amounts to Euro 4,992 thousand and has increased of Euro 339 thousand as a result of the allocation of the mandatory share of the profit accrued in 2017.

Other reserves

The item "Other Reserves" has a value of Euro 68,993 thousand and is composed of:

- Share premium reserve: amounting to Euro 57,507 thousand.
- Reserve for the purchase of treasury stock: negative for Euro 1,966 thousand.
- Reserve for non-amortised development costs: Euro 10,416 thousand.
- Extraordinary reserve: Euro 5,639 thousand.
- Costs for share capital increase: negative for Euro 1,286 thousand and represents costs incurred for share capital increases (such as bank fees, legal and administrative consultant fees, etc.).
- Actuarial defined benefit plans reserve: negative for Euro 406 thousand and, in accordance with IAS 19 revised, refers to the effect of actuarial gains/losses on employee severance indemnities net of tax.
- Fair value adjustment reserve: negative for Euro 465 thousand and consists of the portion directly entered directly as net assets, net of taxes, of the market value of derivative contracts hedging exchange rate fluctuation.

- Stock Grant Reserve: equal to Euro 13 thousand.
- Merger surplus reserve of the former FINN-POWER ITALIA srl: Euro -459 thousand.

Earnings (losses) carried forward

This item was Euro -1,698 thousand. This item includes the differences in accounting methods on the date of transition to IFRS and refer to adjustments on balances within financial statements drafted in accordance with Italian accounting principles.

Comprehensive income

Net income for the period is positively affected by the allocation to the fair value adjustment reserve of Euro 407 thousand (net of Euro 135 thousand taxes). It is also affected by actuarial profit/losses on employee severance indemnities according to the application of IAS 19 revised, which were Euro 34 thousand (net of a tax effect of Euro 12 thousand).

Profit (loss) for the year

Profits for the year were Euro 4,424 thousand.
For more details on this subject, see the table of changes in equity (for changes in equity, see Chapter 9 – Prima Industrie SpA - Financial Statements at December 31, 2018).

15. Loans

The following table is a breakdown of PRIMA INDUSTRIE SpA's loan status on December 31, 2018 (in comparison with December 31, 2017).

BANK BORROWINGS AND OTHER FINANCING	DECEMBER 31, 2018	DECEMBER 31, 2017
Current		
Short-term payable for financial leasings	479	57
Short-term payable for bank loans	26,916	25,259
Short-term payable for Bond	693	867
Short-term payable for other financing	823	1,719
Short-term payable for other financing from subsidiaries	6,466	7,910
Total Current	**35,377**	**35,812**
Non-current		
Long-term payable for financial leasings	6,114	7,155
Long-term payable for bank loans	70,161	40,691
Long-term payable for Bond	24,762	39,733
Long-term payable for other financing	5,225	860
Long-term payable for loan from subsidiaries	-	1,500
Total Non-current	**106,262**	**89,939**
TOTAL	**141,639**	**125,751**

Bonds issued

In order to better understand the changes in debenture bonds, it should be noted that in the first quarter of 2018, PRIMA INDUSTRIE SpA issued a new 7-year non-convertible fixed rate bond with a fixed annual coupon of 3.5%. The total amount was for Euro 25 million and the previous loan of Euro 40 million taken out in the first quarter of 2015 was fully repaid.
Debt to bondholders amount comprehensively to Euro 25,734 thousand, inclusive of accrued and unpaid interests amounting to Euro 734 thousand. Debt refers exclusively to the *Bond* issued during the first quarter of 2018 and expiring on February 9, 2025. The net debt accounted for in the financial statements amounts to Euro 25,455 thousand. The transactions costs incurred at the issuing of the bond were accounted for in reduction of financial debt.

The long term debt amounts to Euro 24,762 thousand beyond 12 months

Indebtedness with banks

In order to better understand the changes in bank debt, it should be noted that during the first quarter of 2018, PRIMA INDUSTRIE SpA completed the refinancing of the main medium/long-term debt operations, by taking out – in addition to the new bond – new five-year loans (mean rate 1.70%) with BNL, MPS, BPM, UNICREDIT and INTESA for a total of Euro 90 million, with separate amortisation plans, the last instalment of which will be due on June 30, 2023.

Furthermore, during the first quarter of 2018, the main financing transactions signed in 2015, the *Club Deal* signed in Italy with Unicredit, Intesa and BNL, were fully repaid on March 14, 2018.
The main figures included in the indebtedness with banks are the 2018 Loans:

- BNL 2017/2022
- MPS 2018/2023
- BPM 2018/2022
- UNICREDIT 2018/2022
- INTESA 2018/2023

At December 31, 2018, the BNL 2017/2022 loan amounted to a total of Euro 17,007 thousand inclusive of accrued and unpaid interests amounting to Euro 7 thousand. The net debt in the financial statements total Euro 16,928 thousand and includes matured interest and accessory charges incurred at the time the loan was issued.

The BNL 2017/2022 loan is for Euro 13,953 thousand expiring beyond 12 months.

At December 31, 2018, the MPS 2018/2023 loan amounted to a total of Euro 9,300 thousand, the net debt in the financial statements total Euro 9,272 thousand and includes matured interest and accessory charges incurred at the time the loan was issued.

The MPS 2018/2023 loan is for Euro 7,881 thousand expiring beyond 12 months.

At December 31, 2018, the BPM 2018/2022 loan amounted to a total of Euro 20,000 thousand, the net debt in the financial statements total Euro 19,890 thousand and includes matured interest and accessory charges incurred at the time the loan was issued.

The BPM 2018/2022 loan is for Euro 15,599 thousand expiring beyond 12 months.

At December 31, 2018, the UNICREDIT 2018/2022 loan amounted to a total of Euro 22,222 thousand. The net debt in the financial statements total Euro 22,070 thousand and includes matured interest and accessory charges incurred at the time the loan was issued.

The UNICREDIT 2018/2022 loan is for Euro 16,562 thousand expiring beyond 12 months.

At December 31, 2018, the INTESA 2018/2023 loan amounted to a total of Euro 15,038 thousand, inclusive of accrued and unpaid interests amounting to Euro 38 thousand. The net debt in the financial statements total Euro 14,941 thousand and includes matured interest and accessory charges incurred at the time the loan was issued.

The INTESA 2018/2023 loan is for Euro 11,598 thousand expiring beyond 12 months.

On both the Intesa, Unicredit, BPM, MPS and BNL loans and on the bond there are *covenants* with measurements on annual and half-yearly basis; the *covenants* measured on the consolidated financial statements at December 31, 2018 have been met.

Other loans to subsidiaries accounted for Euro 6,466 thousand and were made up as follows:
- Euro 3,000 thousand to PRIMA POWER IBERICA;
- Euro 3,000 thousand to PRIMA POWER CENTRAL EUROPE;
- Euro 117 thousand to FINN-POWER OY;
- Euro 349 thousand to PRIMA POWER SUZHOU.

For more details about the Financing of PRIMA INDUSTRIE SpA, see the Management Report and the consolidated financial statements at the Note 10 - Net Financial Position.
The movements in the financial payables of Prima Industrie SpA during 2018 are illustrated below.

BANK BORROWINGS AND OTHER FINANCING - MOVEMENTS	AMOUNT
Bank borrowings and Other financing current as at Dec 31, 2017	35,812
Bank borrowings and Other financing non current as at Dec 31, 2017	89,939
Bank borrowings and Other financing as at Dec 31, 2017	**125,751**
Increases in loans and borrowings	112,541
Repayment of loans and borrowings	(98,258)
Increase/(Repayments) in financial lease liabilities	(619)
Merger effect	2,224
Bank borrowings and Other financing as at Dec 31, 2018	**141,639**
of which:	
Bank borrowings and Other financing current as at Dec 31, 2018	35,377
Bank borrowings and Other financing non current as at Dec 31, 2018	106,262
Bank borrowings and Other financing as at Dec 31, 2018	**141,639**

During 2018 financial payables increased by a total of Euro 15,888 thousand.

16. Employee Benefit Liabilities

The following table shows the composition of liabilities for employee benefits at December 31, 2018 and at the closing of the previous year.

EMPLOYEE BENEFITS	DECEMBER 31, 2018	DECEMBER 31, 2017
Severance indemnity fund	2,930	2,133
Fidelity premium	1,524	1,460
Employee benefits - *branch office* South Korea	68	42
TOTAL	**4,522**	**3,635**

The Employees' Severance Indemnity liabilities, provided by the Italian law, is accrued by employees during their working life and paid on termination of their employment. This indemnity is considered a defined benefit plan, subject to actuarial valuation with regard to future benefits and to benefits already paid.

Below the changes of the Employees' Severance Indemnity liability and of the Fidelity Premium are shown during the year 2018.

SEVERANCE INDEMNITY FUND	DECEMBER 31, 2018	DECEMBER 31, 2017
Opening balance	**2,133**	**2,301**
Merger effect	904	-
Severance indemnity paid out during the period	(192)	(140)
Actuarial gains/losses	47	(57)
Financial expenses	38	29
Closing balance	**2,930**	**2,133**

FIDELITY PREMIUM	DECEMBER 31, 2018	DECEMBER 31, 2017
Opening balance	**1,460**	**1,452**
Fidelity Premium paid out during the period	(154)	(143)
Provisions/Actuarial Adjustment	160	127
Financial expenses	58	24
Closing balance	**1,524**	**1,460**

The Fidelity Premium refers to the seniority premium for employees of the company paid at the end of 20, 30 and 35 years of service, corresponding to two gross monthly salaries.

The main hypotheses used to estimate final liabilities from employee benefits are as follows:

ACTUARIAL HYPOTHESES	DECEMBER 31, 2018	DECEMBER 31, 2017
Annual discount rate	1.57%	1.30%
Annual inflation rate	1.50%	1.50%
Annual Severance fund increase rate	2.63%	2.63%

The demographic hypotheses used for actuarial valuation include:

- probability of death as defined by the Italian State Treasury called RG48;
- the probability of disability, divided by gender, adopted in the INPS model for projections to 2010;

- retirement age, the first retirement requisite of Compulsory General Insurance;
- probability of leaving for causes other than death, with annual frequency of 0.5% ;
- probability of advances with an annual rate of 3%.

Furthermore, a sensitivity analysis was carried out for severance indemnities alone, which showed an insignificant impact with a change in the following variables:

- Discount rate +0.50%/-0.50%
- Inflation rate +0.25%/-0.25%
- Turnover rate +2.00%/-2.00%.

17. Deferred tax liabilities

The following table shows the movements of deferred tax liabilities during the years 2018 and 2017.

DEFERRED TAX LIABILITIES	DECEMBER 31, 2018	DECEMBER 31, 2017
Opening balance	**885**	**806**
Merger effect	477	-
Increase	260	316
Decrease	(305)	(237)
Closing balance	**1,317**	**885**

The composition of the Deferred tax liabilities is shown below.

DEFERRED TAX LIABILITIES	DECEMBER 31, 2018	DECEMBER 31, 2017
Non-current tangible/intangible assets/Financial leases	608	148
Trade receivables/payables and other entries	709	737
Total	**1,317**	**885**

18. Provisions

The provisions for risks and charges at December 31, 2018 amounted to Euro 9,861 thousand (of which non-current Euro 1,827 thousand).

The movements of both current and non-current provisions are shown below.

NON CURRENT PROVISIONS	CUST. AGENT. IND. PROVISION	INVESTMENT LOSSES PROVISION	TOTAL
Value as at December 31, 2016	**82**	**927**	**1,009**
Allocations	7	593	600
Exchange rate differences	-	(137)	(137)
Value as at December 31, 2017	**89**	**1,383**	**1,472**
Merger effect	82	-	82
Allocations	26	366	392
Exchange rate differences	-	(119)	(119)
Value as at December 31, 2018	**197**	**1,630**	**1,827**

CURRENT PROVISIONS	WARRANTY PROVISIONS AND PROJECT'S COMPLETION	TOTAL
Value as at December 31, 2016	**4,586**	**4,586**
Allocations	11,687	11,687
Utilizations in the period	(10,753)	(10,753)
Value as at December 31, 2017	**5,520**	**5,520**
Merger effect	1,487	1,487
Allocations	5,452	5,452
Utilizations in the period	(4,425)	(4,425)
Value as at December 31, 2018	**8,034**	**8,034**

Investment losses provision

This provision relates to the subsidiary PRIMA POWER SOUTH AMERICA Ltda for Euro 1,147 thousand, to the company PRIMA POWER GmbH for Euro 266 thousand and to the company PRIMA POWER AUSTRALASIA Pty Ltd for Euro 217 thousand. For further details on this subject see Note 3 - Investments in subsidiaries.

Agent client indemnity liability

This represents the indemnity payables accrued at year-end towards agents due for interruption of the agency relationship, in accordance with current legislation.

Provision for warranty and projects completion

This refers to provisions for the completion of ongoing projects and technical warranty on products of the company and is proportionate to the costs that must be held. Compared to 2017 they increased for a total of Euro 2,514 thousand (of which Euro 1,487 thousand due to the merger).

19. Trade payables, Advance Payments and other payables

Trade payables at December 31, 2018 amount Euro 82,568 thousand, of which 56,659 thousand due to third party suppliers and Euro 25,909 thousand due to related parties.

TRADE, ADVANCES AND OTHER PAYABLES	DECEMBER 31, 2018	DECEMBER 31, 2017
Trade payables	56,659	40,162
Trade payable owed to related parties	25,909	18,131
Trade payables	**82,568**	**58,293**
Advances from customers	10,120	5,538
Advances from customers	**10,120**	**5,538**
Social security payables	2,644	2,165
Payables with employees	3,655	3,666
Payables for dividends	-	1
Accrued expenses and deferred income	1,221	764
Other payables	225	145
Other payable owed to related parties	682	1,232
Other payables	**8,427**	**7,973**

Trade payables increased by Euro 24,275 thousand in 2018. The figure increased as a consequence of both the merger and the high orders backlog at December 31, 2018, resulting in the need to procure goods to complete the orders with delivery in the first few months of 2019.
Advances from customers are equal to Euro 10,120 thousand. This item mainly consists of advances received from customers on orders for machines not yet delivered.

Social security payables are payables to social security and welfare (especially INPS and other forms of assistance).

Payables to employees refers to salaries not yet paid and compensation matured but not yet paid for leave not taken, for production bonus and incentives matured by managers and sales personnel and for advance payment of travel expenses in account of the company for employees out for work.

Accrued expenses and Deferred Income increased from the previous year by Euro 457 thousand: this item is mainly composed of deferred income related to some facilitations on an unsecured basis for research and development and revenues from maintenance contracts relating to future years.

20. Current taxes payables

This item amounts Euro 2,597 thousand (Euro 3,126 thousand at December 31, 2017) and includes:

CURRENT TAX PAYABLES	DECEMBER 31, 2018	DECEMBER 31, 2017
Payables for IRES and IRAP	968	279
Tax payables to subsidiaries	413	1,325
Payables for withholding income taxes	1,051	707
Payables for VAT	165	667
Other tax payables	-	148
TOTAL	**2,597**	**3,126**

Income statement

As already mentioned previously, the Group presents the income statement by “functional area”. In accordance with paragraph 104 of “IAS 1 – Presentation of Financial Statements”, personnel costs amount to Euro 39,800 thousand (Euro 39,867 thousand at December 31, 2017 Pro-Forma). At December 31, 2018, amortization/depreciation and *impairment* were Euro 5,801 thousand (at December 31, 2017 Pro-Forma were Euro 4,918 thousand). It should be noted that the amortization of intangible assets was Euro 3,766 thousand (of which Euro 3,220 thousand was for development costs).

21. Net revenues

Net Revenues from sales and services are set out below divided by product/activity and by geographic area.

NET REVENUES	ITALY	%	EUROPE	%	NORTH AMERICA	%	REST OF THE WORLD	%	TOTAL
Machines	58,831	30.71%	76,132	39.73%	18,337	9.57%	38,300	19.99%	191,600
Spare parts	7,971	33.63%	9,491	40.04%	3,615	15.25%	2,624	11.07%	23,701
Services	7,184	75.80%	1,252	13.21%	251	2.65%	790	8.34%	9,477
Total	**73,986**		**86,875**		**22,203**		**41,714**		**224,778**

22. Cost of goods sold

"Cost of sales" includes costs relating to the functional areas involved directly or indirectly in the generation of revenues with the sale of goods or services. Therefore this item includes the production or purchase cost of products and goods sold. It also includes all costs for materials, processing and overheads directly attributable to production. Furthermore, it contains write-downs on inventories, provisions to cover warranty costs on sold goods, transport and insurance costs incurred for deliveries to customers and sales commissions to agents or third-party distributors; the cost of sales at December 31, 2018 stood at Euro 195,203 thousand. The main components include materials (Euro 141,335 thousand), processing and outsourcing (Euro 20,655 thousand).

23. Research and development costs

This item includes non-capitalizable research and development costs, Tech Center costs and overheads and is disclosed net of grants (national and European) entered on an accrual basis. Net research and development costs at December 31, 2018 were Euro 7,402 thousand; the impact of capitalization research and development cost accounted Euro 2,200 thousand and public grants accounted for Euro 953 thousand.

24. Sales and marketing expenses

This item includes, for allocation, business structure costs such as personnel, trade fairs and events, the demo center, promotional and advertising activities and related overheads.
Sales and marketing expenses in 2018 amounted to Euro 8,514 thousand.

25. General and administrative expenses

This item includes all costs related to Group or Divisional management structures, Finance costs, HR, IT and overheads. Overheads and administration costs were Euro 9,555 thousand.

26. Financial Income and expenses

The financial income and expenses of 2018 Financial year shows a negative result of Euro 65 thousand.

FINANCIAL MANAGEMENT	DECEMBER 31, 2018	DECEMBER 31, 2017
Interests on *Bond*	(1,323)	(2,419)
Bond - adv. Closing costs	(1,515)	-
Interests on loan *Club Deal*	(94)	(1,089)
Club Deal - adv. Closing costs	(370)	-
Loans 2018	(1,290)	-
Interests on payable for bank loans (current/non current)	(426)	(419)
Interests on loans from subsidiaries	(71)	(194)
Derivatives expenses (CRS)	(5,436)	(90)
Derivatives expenses (IRS)	(374)	(79)
Interests on financial leasing	(119)	(4)
Interests paid on employee tax benefits	(95)	(53)
Impairment of investments	(366)	(1,632)
Devaluation of financial receivable	(118)	-
Bank charges	(535)	(525)
Other financial expenses	(5)	(56)
Financial expenses	**(12,137)**	**(6,560)**
Interests income on loans to subsidiaries	452	179
Dividends	6,933	4,978
Derivatives income (CRS)	4,271	2,590
Derivatives income (IRS)	-	(4)
Bank interest income	5	3
Other financial income	1	491
Financial income	**11,662**	**8,237**
Net exchange differences	**410**	**(525)**
FINANCIAL INCOME AND EXPENSES (NET)	**(65)**	**1,152**

Financial charges include interest of Euro 2,838 thousand related to the bond and Euro 1,290 thousand related to the loans taken out in 2018.
Financial expenses at December 31, 2018 include non-recurring expenses due to the full early repayment of Euro 1,515 thousand and Euro 370 thousand and the Club Deal loan respectively.

Losses on investments of Euro 366 thousand relate to write-downs of the subsidiary PRIMA POWER SOUTH AMERICA Ltda for Euro 358 thousand and PRIMA POWER AUSTRALASIA Pty Ltd for Euro 8 thousand.
Financial income includes dividends of Euro 6,933 thousand from subsidiaries (FINN-POWER OY for Euro 6,000 thousand, PRIMA POWER CENTRAL EUROPE Sp.zoo for Euro 696 thousand, PRIMA POWER IBERICA for Euro 237 thousand) and income from foreign exchange derivatives Euro 4,271 thousand and financial income to subsidiaries of Euro 452 thousand.

27. Current and deferred taxes

The tax burden of PRIMA INDUSTRIE SpA at December 31, 2018 compared to the data of the previous year is summarised below.

TAXES	DECEMBER 31, 2018	DECEMBER 31, 2017
IRES (included the effect derived from consolidated taxation)	293	(525)
IRAP (Regional Trade tax)	(231)	(381)
Deferred tax assets	177	314
Deferred tax liabilities	44	(79)
Taxes relating to previous year	109	(167)
Other taxes	(7)	(3)
TOTAL	**385**	**(841)**

The reconciliation between the fiscal costs entered in the financial statements and the theoretical fiscal cost, calculated on the basis of the theoretical tax rates in force in Italy, is as follows:

RECONCILIATION BETWEEN ORDINARY AND THEORICAL TAX RATES	2018	2017
RESULT BEFORE TAXES	**4,039**	**7,612**
IRES rate	24.00%	24.00%
THEORICAL IRES ON INCOME	**969**	**1,827**
PERMANENT INCREASE	605	705
TEMPORARY INCREASE	3,863	5,118
PERMANENT DECREASE	(7,927)	(7,885)
TEMPORARY DECREASE	(2,488)	(2,967)
NON-DEDUCTIBLE INTEREST	1,728	470
ROL SURPLUS RECOVERED FROM ITALIAN FISCAL CONSOLIDATED	(1,041)	(414)
ACE RECOVERED FROM ITALIAN FISCAL CONSOLIDATED	-	(12)
FISCAL LOSS FROM ITALIAN FISCAL CONSOLIDATED	-	(441)
INCREASE/DECREASE	**(5,260)**	**(5,426)**
EFFECTIVE FISCAL RESULT	**(1,221)**	**2,186**
IRES rate	24.00%	24.00%
EFFECTIVE IRES ON INCOME	**(293)**	**525**

Information on the transparency of public funds

In accordance with article 1, paragraphs 125-129 of Italian Law no. 124/2017 as amended by Decree Law no. 113/2018 on "Security" and Decree Law no. 135/2018 on "Simplification", we disclose the information regarding subsidies, contributions, paid assignments and any kind of economic advantages granted to the Italian company in the financial year 2018 by public authorities and a number of similar bodies with which they have economic relations.

The entities identified as sources of the funds that are the subject of the disclosure are:

- The public administrations and the entities referred to in Article 2-bis of Legislative Decree no. 33 of March 14, 2013;
- Companies controlled, in law or in fact, directly or indirectly, by public administrations, including companies with shares listed on regulated markets and their subsidiaries;
- Publicly owned companies, including those issuing shares listed on regulated markets and their subsidiaries.

BENEFICIARY	SUPPLYING AUTHORITY	DECSRIPTION	AMOUNT RECEIVED
Values expressed in Euro thousand			
Prima Industrie SpA	Ministry of Economic Development	Tax credit for R&D	517
Prima Industrie SpA	European Union	R&D subsidy	770
Total			**1,287**

In addition, the company received the following loans in 2018:

- loan granted by Cassa Depositi e Prestiti for the Smilla project, for a total of Euro 4,911 thousand.

Here below the information regarding subsidies, contributions, paid assignments and any kind of economic advantages granted in the financial year 2018.

BENEFICIARY	SUPPLYING AUTHORITY	DECSRIPTION	AMOUNT DUE
Values expressed in Euro thousand			
Prima Industrie SpA	Ministry of Economic Development	Tax credit for R&D	1,391
Prima Industrie SpA	European Union	R&D subsidy	704
Prima Industrie SpA	Piedmont Region	R&D subsidy	249
Total			**2,344**

Guarantees granted, commitments and other potential liabilities

The guarantees granted and commitments undertaken by the company at December 31, 2018 are shown below.

GUARANTEES, COMMITMENTS AND OTHER POTENTIAL LIABILITIES	DECEMBER 31, 2018	DECEMBER 31, 2017
Guarantees granted	44,784	57,441
Other commitments and significant contracts rights	5,449	2,914
Commitments to leasing companies	1,373	1,548
TOTAL	**51,606**	**61,903**

At December 31, 2018 the guarantees granted by PRIMA INDUSTRIE SpA amounted to Euro 44,784 thousand and relate to guarantees to trade counterparties and sureties to credit institutions on behalf of Group companies.

“Commitments to leasing companies” refer to repurchase agreements for sales made through financial intermediaries. “Other Commitments and significant contract rights” refer mainly to rents on buildings, rentals and operating leases.

PRIMA INDUSTRIE SpA, in addition to probable liabilities for which provisions have been allocated in the related risks provisions, does not have potential liabilities, as described in IAS 37, to be mentioned.

Information on related parties

Relations with associated parties are generally represented by transactions with companies controlled directly or indirectly by the company regulated at market conditions considered normal in the reference market, in view of the characteristics of the assets and the services rendered.

The impact of these transactions on individual items in the 2018 Financial Statements, already highlighted in the supplementary tables of the Balance Sheet and Income Statement, drawn up in accordance with CONSOB Resolution no. 15519 of July 27, 2006, is summarised in the following table:

Related parties – financial items

COUNTERPARTY	FINANCIAL RECEIVABLES	TRADE RECEIVABLES	OTHER RECEIVABLES	FINANCIAL PAYABLES	TRADE PAYABLES AND ADVANCES	OTHER PAYABLES
PRIMA POWER GmbH	-	7,586	-	-	326	-
PRIMA POWER UK LTD	-	658	-	-	43	6
PRIMA POWER CENTRAL EUROPE Spzoo	-	1,526	-	3,000	47	-
OOO PRIMA POWER	-	56	-	-	61	-
PRIMA ELECTRO SpA	-	208	-	-	5,991	-
CONVERGENT - PHOTONICS LLC	-	31	-	-	657	-
FINN-POWER OY	-	3,317	164	117	10,338	11
PRIMA POWER IBERICA	-	3,534	-	3,000	78	-
PRIMA POWER FRANCE Sarl	-	1,602	-	-	101	-
PRIMA POWER NORTH AMERICA Inc	-	659	-	-	105	-
PRIMA POWER LASERDYNE LLC	1,755	140	-	-	619	-
PRIMA POWER SOUTH AMERICA LTDA	508	592	-	-	1	-
PRIMA POWER INDIA PVT. LTD	-	732	-	-	138	-
PRIMA POWER MAKINA TICARET LTD	-	572	-	-	17	-
PRIMA POWER SUZHOU CO. LTD	2,452	13,409	-	349	7,387	-
3D - NT	-	52	-	-		-
ADMINISTRATIVE, CONTROL BOARDS AND STRATEGIC MANAGEMENT	-	-	-	-	-	665
TOTAL	**4,715**	**34,674**	**164**	**6,466**	**25,909**	**682**

Related parties – economic items

COUNTERPARTY	REVENUES	COGS	R&D	S&M	G&A	FINANCIAL INCOME	FINANCIAL EXPENSES
PRIMA POWER GmbH	13,926	(170)	(112)	199	129	61	-
PRIMA POWER UK LTD	2,318	(188)	-	94	65	-	-
PRIMA POWER CENTRAL EUROPE Spzoo	8,989	(135)	-	106	84	699	-
OOO PRIMA POWER	4,009	(167)	-	28	81	-	-
PRIMA ELECTRO SpA	34	(14,666)	-	1	88	94	-
CONVERGENT - PHOTONICS LLC	-	(4,222)	-	-	-	31	-
FINN-POWER OY	18,832	(25,060)	-	245	456	6,044	(43)
PRIMA POWER IBERICA	16,001	(372)	-	13	57	240	(28)
PRIMA POWER FRANCE Sarl	3,328	(181)	-	134	116	19	-
PRIMA POWER NORTH AMERICA Inc	21,041	(128)	-	31	119	18	-
PRIMA POWER CANADA Ltd	717	-	-	-	-	-	-
PRIMA POWER LASERDYNE LLC	113	(1,487)	-	221	178	58	-
PRIMA POWER SOUTH AMERICA LTDA	88	(26)	-	-	10	9	(358)
PRIMA POWER INDIA PVT. LTD	299	(124)	-	(251)	19	-	-
PRIMA POWER MAKINA TICARET LTD	2,354	(43)	-	2	60	11	-
PRIMA POWER SUZHOU CO LTD	9,452	(2,987)	23	8	169	101	-
PRIMA POWER AUSTRALASIA PTY LTD	-	-	-	-	-	-	(8)
3D - NT	-	-	73	-	-		
ADMINISTRATIVE, CONTROL BOARDS AND STRATEGIC MANAGEMENT	-	(82)	-	-	(1,072)	-	-
TOTAL	**101,501**	**(50,038)**	**(16)**	**831**	**559**	**7,385**	**(437)**

In terms of the impact on the financial flows of relationships with associated parties, these were not represented in a table, since they are almost entirely linked to transactions with companies that are directly or indirectly controlled by the company, as illustrated previously. The above table does not contain items deriving from national consolidated taxation, since they do not represent actual exchanges, but rather only those originating from the financial procedures provided for in national taxation legislation (receivable to PRIMA ELECTRO SpA for Euro 335 thousand and payable to PRIMA ELECTRO SpA of Euro 413 thousand).

Significant non-recurrent events and transactions

The table below summarises non-recurring transactions that have had a negative impact on the Income Statement for a total of Euro 3,756 thousand.

SIGNIFICANT NON-RECURRENT EVENTS AND TRANSACTIONS (VALUES EXPRESSED IN EURO THOUSAND)	GROSS MARGIN	SALES AND MARKETING EXPENSES	GENERAL AND ADMINISTRATIVE EXPENSES	FINANCIAL INCOME AND EXPENSES	TOTAL AS AT DEC 31, 2018	TOTAL AS AT DEC 31, 2017	VARIATION 2018 VERSO 2017
M&A/Actions of reorganization/ Restructuring	(110)	(21)	(186)	-	(317)	(25)	(292)
Legal/fiscal disputes and penalties from customers	(389)	-	-	-	(389)	(30)	(359)
Other minor events	-	-	-	-	-	-	-
Impairment	-	-	(681)	-	(681)	-	(681)
EBIT	**(499)**	**(21)**	**(867)**	**-**	**(1,387)**	**(55)**	**(1,332)**
Impairment of investments	-	-	-	(366)	(366)	(1,632)	1,266
Bond & Club Deal advance closing	-	-	-	(1,885)	(1,885)	-	(1,885)
Devaluation of financial receivable	-	-	-	(118)	(118)	-	(118)
EBT	**(499)**	**(21)**	**(867)**	**(2,003)**	**(3,756)**	**(1,687)**	**(2,069)**

Transactions deriving from atypical and/or unusual operations

In accordance with CONSOB Communication of July 28, 2006, during 2018 the company performed no atypical and/or unusual transactions, as defined by the Communication, which states that atypical and/or unusual transactions are those operations whose size/importance, nature of the counterparties, object, price transfer determination method and timing (proximity to close of the financial year) can give rise to doubts regarding: the correctness/completeness of the information in the financial statements, conflict of interests, safeguard of company assets, protection of minority shareholders.

Net Financial Position

In accordance with CONSOB Communication no. DEM/6064293 of July 28, 2006, the table of the Net Financial Position shown above does not indicate non-current financial receivables (at December 31, 2018 they totalled Euro 3,228 thousand).

For more details on net financial position, see the following notes:

- 5 – Financial assets – loans to subsidiaries
- 11- Cash and cash equivalents
- 15 – Loans

NET INDEBTNESS		DECEMBER 31, 2018	DECEMBER 31, 2017	VARIATIONS
Values expressed in Euro thousand				
A	CASH	27,926	25,243	2,683
B	OTHER CASH AND CASH EQUIVALENTS	-	-	-
C	SECURITIES HELD FOR TRADING	-	-	-
D	**CASH ON HAND (A+B+C)**	**27,926**	**25,243**	**2,683**
E	**CURRENT FINANCIAL RECEIVABLES**	**4,365**	**6,561**	**(2,196)**
F	CURRENT BANK DEBTS	259	118	141
G	CURRENT PART OF NON-CURRENT INDEBTEDNESS	33,238	33,051	187
H	BOND ISSUED	693	867	(174)
I	OTHER CURRENT FINANCIAL DEBTS	1,303	1,776	(473)
J	**CURRENT FINANCIAL INDEBTEDNESS (F+G+H+I)**	**35,493**	**35,812**	**(319)**
K	**NET CURRENT FINANCIAL INDEBTEDNESS (J-D-E)**	**3,202**	**4,008**	**(806)**
L	NON-CURRENT BANK DEBTS	70,797	42,271	28,526
M	BOND ISSUED	24,762	39,733	(14,971)
N	OTHER NON-CURRENT FINANCIAL DEBTS	11,339	8,015	3,324
O	**NON-CURRENT FINANCIAL INDEBTEDNESS (L+M+N)**	**106,898**	**90,019**	**16,879**
P	**NET FINANCIAL INDEBTEDNESS (K+O)**	**110,100**	**94,027**	**16,073**

Summary of key figures of the last Financial Statements of subsidiaries

The tables below provide a summary of the key figures of the Financial Statements of subsidiaries by segment at December 31, 2018.

Prima Power

	FINN-POWER OY	PRIMA POWER LASERDYNE LLC	PRIMA POWER SUZHOU CO.LTD.	PRIMA POWER NORTH AMERICA INC.	PRIMA POWER CANADA LTD.	PRIMA POWER MEXICO SRL DE CV	PRIMA POWER GMBH
Values expressed in Euro thousand							
NON CURRENT ASSETS	106,744	4,055	10,647	2,291	-	6	818
CURRENT ASSETS	86,988	18,095	32,990	43,625	2,361	952	14,621
ASSETS HELD FOR SALE	-	-	-	-	-	-	-
TOTAL ASSETS	**193,732**	**22,150**	**43,637**	**45,916**	**2,361**	**958**	**15,439**
STOCKHOLDERS' EQUITY	137,304	8,881	11,112	24,745	1,470	3	(2,804)
NON CURRENT LIABILITIES	300	767	-	770	-	-	516
CURRENT LIABILITIES	56,128	12,502	32,525	20,401	891	955	17,727
TOTAL STOCKHOLDERS' EQUITY AND LIABILITIES	**193,732**	**22,150**	**43,637**	**45,916**	**2,361**	**958**	**15,439**

	FINN-POWER OY	PRIMA POWER LASERDYNE LLC	PRIMA POWER SUZHOU CO.LTD.	PRIMA POWER NORTH AMERICA INC.	PRIMA POWER CANADA LTD.	PRIMA POWER MEXICO SRL DE CV	PRIMA POWER GMBH
Values expressed in Euro thousand							
NET REVENUES	161,396	23,266	22,837	84,304	3,288	-	28,396
OPERATING PROFIT (EBIT)	13,356	2,182	(27)	8,705	819	167	(2,167)
RESULT BEFORE TAXES (EBT)	15,539	1,948	(160)	8,699	800	167	(2,285)
NET RESULT	**15,410**	**1,456**	**9**	**6,510**	**550**	**100**	**(2,255)**

PRIMA POWER IBERICA S.L.	PRIMA POWER CENTRAL EUROPE SP.Z.O.O.	OOO PRIMA POWER	PRIMA POWER FRANCE SARL	PRIMA POWER MAKINA TICARET LTD SIRTEKI	PRIMA POWER UK LTD.	PRIMA POWER INDIA PVT. LTD.	PRIMA POWER SOUTH AMERICA LTDA	PRIMA POWER CHINA CO.LTD.	PRIMA POWER AUSTRALASIA PTY. LTD.	BALAXMAN OY
109	178	720	111	97	31	40	23	-	-	-
14,675	16,854	4,746	8,819	2,351	2,729	1,250	257	1,271	50	87
-	-	-	-	-	-	-	-	-	-	-
14,784	**17,032**	**5,466**	**8,930**	**2,448**	**2,760**	**1,290**	**280**	**1,271**	**50**	**87**
7,522	594	2,340	261	748	1,118	(212)	(1,147)	1,176	(217)	87
-	7	124	73	-	-	-	500	-	-	-
7,262	16,431	3,002	8,596	1,700	1,642	1,502	927	95	267	-
14,784	**17,032**	**5,466**	**8,930**	**2,448**	**2,760**	**1,290**	**280**	**1,271**	**50**	**87**

PRIMA POWER IBERICA S.L.	PRIMA POWER CENTRAL EUROPE SP.Z.O.O.	OOO PRIMA POWER	PRIMA POWER FRANCE SARL	PRIMA POWER MAKINA TICARET LTD SIRTEKI	PRIMA POWER UK LTD.	PRIMA POWER INDIA PVT. LTD.	PRIMA POWER SOUTH AMERICA LTDA	PRIMA POWER CHINA CO.LTD.	PRIMA POWER AUSTRALASIA PTY. LTD.	BALAXMAN OY
24,154	23,657	14,026	13,179	5,414	6,639	1,506	712	31	-	-
1,180	611	912	118	338	172	9	(217)	1	(8)	(2)
1,202	757	836	80	53	127	(53)	(358)	(8)	(8)	(2)
872	**516**	**655**	**11**	**39**	**102**	**(53)**	**(358)**	**(6)**	**(8)**	**(2)**

Prima Electro

	PRIMA ELECTRO S.P.A.	CONVERGENT - PHOTONICS, LLC	PRIMA ELECTRO CHINA	PRIMA ELECTRO SUZHOU CO. LTD.	OSAI UK LTD.
Values expressed in Euro thousand					
NON CURRENT ASSETS	37,696	10,271	14	-	10
CURRENT ASSETS	33,477	14,382	1,468	102	734
ASSETS HELD FOR SALE	-	-	-	-	-
TOTAL ASSETS	**71,173**	**24,653**	**1,482**	**102**	**744**
STOCKHOLDERS' EQUITY	37,748	14,147	316	80	649
NON CURRENT LIABILITIES	8,846	6,543	-	-	-
CURRENT LIABILITIES	24,579	3,963	1,166	22	95
TOTAL STOCKHOLDERS' EQUITY AND LIABILITIES	**71,173**	**24,653**	**1,482**	**102**	**744**

	PRIMA ELECTRO S.P.A.	CONVERGENT - PHOTONICS, LLC	PRIMA ELECTRO CHINA	PRIMA ELECTRO SUZHOU CO. LTD.	OSAI UK LTD.
Values expressed in Euro thousand					
NET REVENUES	46,518	16,400	2,349	-	708
OPERATING PROFIT (EBIT)	2,631	(1,397)	(19)	(21)	95
RESULT BEFORE TAXES (EBT)	4,332	(1,533)	(26)	(22)	98
NET RESULT	**3,946**	**(1,258)**	**(36)**	**(22)**	**74**

Information pursuant to article 149-duodecies of Consob Regulation – Prima Industrie Group

The following table, drawn up in accordance with article 149-duodecies of the Consob Issuers' Regulation, presents the costs for the year 2018 included in the consolidated income statement for auditing services and for non-auditing services provided by PricewaterhouseCoopers SpA (hereinafter referred to as "PwC") and by entities belonging to his network.

AUDIT COSTS	2018
Values expressed in Euro thousand	
Parent company audit	96
Subsidiaries audit	244
Other services	235
TOTAL	**575**

The following table shows the total fees owed to PwC and entities belonging to its network for the audit of the 2018 financial statements, as well as fees for 2018 for other auditing and non-auditing services provided to Group companies by PwC and the entities belonging to its network. The expenses incurred in 2018 for these services are not included.

AUDIT FEES	2018
Values expressed in Euro thousand	
Parent company audit	83
Subsidiaries audit	218
Other services	241
TOTAL	**542**

Statement ex art. 2427, n. 7-bis

Statement of Net Equity items broken down according to the origin, possibility of use, distribution, availability and successful use in the three previous years.

DECSRIPTION	AMOUNT	AVAILABILITY	AMOUNT AVAILABLE	SUMMARY OF UTILIZATIONS MADE IN THE THREE-YEAR PERIOD 2016-2018	
				LOSS COVERAGE	OTHER REASONS [b]
Capital stock	**26,208**	**B**	**-**	**-**	**-**
Capital stock Reserves					
Additional paid-in capital [a]	57,507	A, B, C	57,257	-	-
Capital increase - expenses	(1,286)	-	-	-	-
Treasury stock	(1,966)	-	-	-	-
Retained ernings					
Legal reserve	4,992	B	-	-	-
Extraordinary reserve	5,639	A, B, C	5,639	-	2,760
IAS FTA reserve	(1,698)	-	-	-	-
IAS reserve (stock grant, TFR, derivatives)	(858)	-	-	-	-
Merger surplus reserve	(459)	-	-	-	-
Capitalized development costs reserve	10,416	B	-	-	-

Legend
A: to increase the Capital stock
B: to cover losses
C: to distribute to shareholders

(a) Unavailable portion, amounting to 250 thousand euro, refers to residual amount to be allocated to the Legal reserve up to 20% of Capital stock
(b) It refers to the distribution of dividends

Financial Statements as at December 31, 2018
Declaration

PURSUANT TO ARTICLE 81-TER OF CONSOB REGULATION NO. 11971 OF MAY 14, 1999 AND ITS SUBSEQUENT AMENDAMENTS AND INTEGRATIONS

1. The undersigned, Gianfranco Carbonato (Executive Chairman) and Davide Danieli (Manager responsible for drafting company accounting documents), of Prima Industrie SpA, certify that, having taken account of the provisions of article 154-bis, paragraphs 3 and 4, of Legislative no. 58 of February 24, 1998:
   - the company's business is compliant with the given requirements and
   - the administrative and accounting procedures have been effectively applied in drafting the financial statements over the course of 2018.
2. No significant facts have emerged regarding thereto.
3. We also certify that:
   3.1 the financial statements:
      a) are drafted in conformity with the applicable international accounting standards commonly used in the European Community, pursuant to (CE) Regulation no. 1606/2002 of the European Parliament and Council of July 19, 2002;
      b) truthfully represent the figures in the accounting books and ledgers;
      c) is suitable to provide a truthful and faithful representation of the capital, economic and financial position of the company.

   3.2 the Report of the Board of Directors includes a reliable analysis of company business trends and results, as well as of the position of the company, along with the description of the chief risks and uncertainties to which they are exposed.

Date: March 1, 2019

Signature of the Executive Chairman

Officer in charge of preparing the financial reports

Annexes

Annexes

Annex 1 – Consolidation area

PRIMA POWER	REGISTERED OFFICE	SHARE CAPITAL	OWNERSHIP	CONSOLIDATION METHOD
FINN POWER OY	Nuppiväylä 7, 60100 Seinäjoki, FINLAND	€ 30.000.000	100%	Line-by-line method
PRIMA POWER LASERDYNE LLC	8600, 109th Av. North, Champlin, MN 55316, U.S.A.	USD 200.000	100%	Line-by-line method
PRIMA POWER SUZHOU Co. LTD.	459 Xingrui Road, Wujiang Ec. & Tech. Develp. Zone, Suzhou City Jiangsu Prov. CHINA	USD 15.850.000	70%	Line-by-line method
PRIMA POWER NORTH AMERICA Inc.	555W Algonquin Rd., Arlington Heights, IL 60005, U.S.A.	USD 10.000	100%	Line-by-line method
PRIMA POWER CANADA Ltd.	390 Bay Street Suite 2800 Toronto, Ontario M5H 2Y2 CANADA	CAD 200	100%	Line-by-line method
PRIMA POWER MEXICO S DE RL DE CV	Campo Real, 121 FRACC. Valle Real, Saltillo, Coahuila C.P. 25198 MEXICO	USD 250	100%	Line-by-line method
PRIMA POWER GmbH	Am Gfild 9, 85375 Neufahrn, GERMANY	€ 500.000	100%	Line-by-line method
PRIMA POWER IBERICA S.L.	C/Primero de Mayo 13-15, 08908 L'Hospitalet de Llobregat, Barcelona, SPAIN	€ 6.440.000	100%	Line-by-line method
PRIMA POWER CENTRAL EUROPE Sp.z.o.o.	Ul. Holenderska 6 - 05 - 152 Czosnów Warsaw, POLAND	PLN 350.000	100%	Line-by-line method
OOO PRIMA POWER	Ordzhonikidze str., 11/A - 115419, Moscow - RUSSIAN FEDERATION	RUB 4.800.000	100%	Line-by-line method
PRIMA POWER FRANCE Sarl	Espace Green Parc , Route de Villepècle, 91280 St. Pierre du Perray, FRANCE	€ 960.015	100%	Line-by-line method
PRIMA POWER MAKINA TICARET LIMITED SIRKETI	Soğanlık Yeni Mah. Balıkesir Cad. Uprise Elite Teras Evler B2 A Dubleks Gül Blok Daire:4 Kartal – Istanbul, TURKEY	TRY 1.470.000	100%	Line-by-line method
PRIMA POWER UK LTD	Unit 1, Phoenix Park, Bayton Road, Coventry CV7 9QN, UNITED KINGDOM	GBP 1	100%	Line-by-line method
PRIMA POWER INDIA PVT. LTD.	Plot No A-54/55, H Block, MIDC, Pimpri, Pune - 411018, Maharashtra, INDIA	Rs. 7.000.000	99,99%	Line-by-line method
PRIMA POWER SOUTH AMERICA Ltda	Av Fuad Lutfalla, 1,182 – Freguesia do Ó - 02968-00, Sao Paulo BRAZIL	R$ 4.471.965	99,99%	Line-by-line method
PRIMA POWER CHINA Company Ltd.	Room 2006, Unit C, Tower 1, Wangjing SOHO, Chaoyang District, Beijing, P.R. CHINA	RMB 2.038.778	100%	Line-by-line method
PRIMA POWER AUSTRALASIA Pty. LTD.	Suite 2, First Floor, 100 Queen street, PO Box 878, Campbelltown, NSW, 2560 AUSTRALIA	A$ 1	100%	Line-by-line method
BALAXMAN OY	Metallitie 4, FI-62200 Kauhava, FINLAND	€ 2.523	100%	Line-by-line method

PRIMA ELECTRO	REGISTERED OFFICE	SHARE CAPITAL	OWNERSHIP	CONSOLIDATION METHOD
PRIMA ELECTRO S.p.A.	Strada Carignano 48/2, 10024 Moncalieri, (TO) ITALY	€ 15.000.000	100%	Line-by-line method
CONVERGENT - PHOTONICS, LLC	711 East Main Street, Chicopee, MA 01020, U.S.A.	USD 24.119.985	100%	Line-by-line method
PRIMA ELECTRO (CHINA) Co.Ltd.	23G East Tower, Fuxing Shangmao n.163, Huangpu Avenue Tianhe District 510620 Guangzhou P.R. CHINA	€ 100.000	100%	Line-by-line method
PRIMA ELECTRO SUZHOU Co.Ltd.	459 Xingrui Road, Wujiang Ec. & Tech. Develp. Zone, Suzhou City Jiangsu Prov. CHINA	€ 100.000	100%	Line-by-line method
OSAI UK Ltd.	Mount House - Bond Avenue, Bletchley, MK1 1SF Milton Keynes, UNITED KINGDOM	GBP 160.000	100%	Line-by-line method

Annex 2 – "non-gaap" performance indicators

The Management of PRIMA INDUSTRIE assesses the performance of the Group and its business segments using a number of non-IFRS indices. Below are described the components of each of these indices:

ORDERS: includes agreements entered into with customers during the reference period than can be considered part of the order books.

BACKLOG: this is the sum of orders from the previous period and current confirmed orders, net of revenues in the reference period.

EBIT: Operating Profit.

EBITDA: the Operating Profit, as shown in the income statement, gross of "Amortization", "Write-downs and Impairment". This index is also referred to as "Gross Operating Margin".

EBITDA *Margin*: calculated as the ratio between EBITDA and revenues.

Adjusted EBITDA, EBIT and EBT (hereinafter "*Adj*") correspond to the same alternative performance indicators net of non-recurring items.

FCF (Free Cash Flow): is the cash flow from operations that is available after the company has made the necessary reinvestment in new fixed assets; it is the sum of cash flow from operations and the cash flow from investments.

Workforce: is the number of employees on the books on the last day of the reference period.

Net financial debt includes cash and cash equivalents, financial receivables (current and non-current), net of financial payables (current and non-current) and the fair value of derivatives. Reconciliation with the net financial position required by CONSOB Communication no. DEM/6064293 of 28 July 2006 is provided in the Notes to the Consolidated Financial Statements.

Revenues at constant exchange rates are stated by applying the average exchange rates of the previous year to the revenues of the current year in the local currency.

Annex 3 – currency exchange rate

The exchange rates applied in converting the financial statements to a currency other than the Euro are, for the purpose of consolidation, the following:

	AVERAGE EXCHANGE RATE		SPOT EXCHANGE RATE	
CURRENCY	2018	2017	DECEMBER 31, 2018	DECEMBER 31, 2017
US DOLLAR	1.1815	1.1293	1.1450	1.1993
CHINESE RENMINBI	7.8074	7.6264	7.8751	7.8044
RUSSIAN RUBLE	74.0551	65.8877	79.7153	69.3920
TURKISH LIRA	5.6986	4.1214	6.0588	4.5464
POLISH ZLOTY	4.2606	4.2563	4.3014	4.1770
POUND STERLING	0.8848	0.8762	0.8945	0.8872
BRAZILIAN REAL	4.3087	3.6041	4.4440	3.9729
INDIAN RUPEE	80.7277	73.4980	79.7298	76.6055
AUSTRALIAN DOLLAR	1.5799	1.4729	1.6220	1.5346
CANADIAN DOLLAR	1.5302	1.4644	1.5605	1.5039
MEXICAN PESO	22.7160	21.3278	22.4921	23.6612

Reports of the Independent Auditors and the Statutory Auditors Committee

INDEPENDENT AUDITOR'S REPORT IN ACCORDANCE WITH ARTICLE 14 OF LEGISLATIVE DECREE NO. 39 OF 27 JANUARY 2010 AND ARTICLE 10 OF REGULATION (EU) NO. 537/2014

PRIMA INDUSTRIE SPA

FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

pwc

Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the Shareholders of
Prima Industrie SpA

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Prima Industrie SpA (the "Company"), which comprise the statement of financial position as of 31 December 2018, the income statement, the comprehensive income statement, the statement of changes in shareholders' equity, the cash flow statement for the year then ended, and the explanatory notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2018, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05.

Emphasis of matter

Without modifying our opinion, we draw attention to the "Description of Accounting Principles" paragraph of the explanatory notes to the financial statements, with reference to the non-comparability of the economic and financial data for the year 2018 with those of the previous year due to the merger by incorporation of Finn-Power Italia Srl into Prima Industrie SpA, effective from 1 February 2018 with accounting and tax effects starting from 1 January 2018.

Basis for opinion

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

PricewaterhouseCoopers SpA

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Key audit matters

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

Key audit matters	*Auditing procedures performed in response to key audit matters*
Analysis of impairment indicators over investments in subsidiaries *Note 3 to the financial statements "Investments in subsidiaries"*	
The value of the investments in subsidiaries as of 31 December 2018 amounted to Euro 163.2 million (representing approximately 45% of total assets), of which Euro 140.2 million related to the subsidiary Finn-Power OY, which is the most significant investment.	Our audit procedures concerned the examination and discussion with management of the financial performance of the subsidiaries, as well as the evaluation of the existence of any impairment indicators, as requested by IAS 36.
The management of the Company, at least annually, performs an analysis on each subsidiary, focusing on those for which the book value is higher than the corresponding amount of the shareholders' equity. If, further to such analysis, any indicator emerges that could lead to presume that an impairment loss on investments in subsidiaries exists, management performs an impairment test on them.	We discussed with management the conclusions reached by them concerning the absence of indicators that could lead to a presumption of a loss in value of the investments. Finally, we verified the completeness and the accuracy of the information provided in the explanatory notes.
Considering the relevance of the investments in subsidiaries and the inherent estimate elements influencing the management evaluations, we considered the analysis of the impairment indicators as a key audit matter.	

Key audit matters	*Auditing procedures performed in response to key audit matters*
Assessment of development costs recoverability *Note 2 to the financial statements "Intangible assets"* Intangible assets as of 31 December 2018 include "Development costs" amounting to Euro 10.4 million and representing approximately 3% of total assets. The management of the Company periodically monitors the development projects and the related costs, verifying their technical feasibility and the generation of probable future economic benefits expected. Development costs are deemed as a key audit matter considering both their amount and the inherent estimate elements influencing the evaluations performed by management in relation to their recoverability.	Our audit procedures concerned the understanding of the internal control system over the capitalization process of development costs, the main development projects through meetings with technical personnel in charge of them, as well as the critical analysis of the assumptions underlying the investment recovery plans prepared by management. Furthermore, we verified the inherence and accuracy of the capitalized development costs, their compliance with the IAS 38 requirements, as well as the completeness and accuracy of the disclosure provided in the explanatory notes.

Responsibilities of the directors and the board of statutory auditors for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Company's ability to continue as a going concern and, in preparing the financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

As part of our audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised our professional judgement and maintained professional scepticism throughout the audit. Furthermore:

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

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

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Additional disclosures required by article 10 of Regulation (EU) No. 537/2014

On 11 April 2017, the Shareholders of Prima Industrie SpA in general meeting engaged us to perform the statutory audit of the Company's separate and consolidated financial statements for the years ending 31 December 2017 to 31 December 2025.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on compliance with other laws and regulations

Opinion in accordance with article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and article 123-bis, paragraph 4, of Legislative Decree No. 58/98

The directors of Prima Industrie SpA are responsible for preparing a report on operations and a report on the corporate governance and ownership structure of Prima Industrie SpA as of 31 December 2018, including their consistency with the relevant financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the financial statements of Prima Industrie SpA as of 31 December 2018 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the financial statements of Prima Industrie SpA as of 31 December 2018 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

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

The directors of Prima Industrie SpA are responsible for the preparation of the non-financial statement pursuant to Legislative Decree No. 254 of 30 December 2016. We have verified that the directors approved the non-financial statement.

Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016, the non-financial statement is the subject of a separate statement of compliance issued by ourselves.

Turin, 22 March 2019

PricewaterhouseCoopers SpA

Signed by

Piero De Lorenzi
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

INDEPENDENT AUDITOR'S REPORT IN ACCORDANCE WITH ARTICLE 14 OF LEGISLATIVE DECREE NO. 39 OF 27 JANUARY 2010 AND ARTICLE 10 OF REGULATION (EU) NO. 537/2014

PRIMA INDUSTRIE GROUP

CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2018

pwc

Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the Shareholders of
Prima Industrie SpA

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Prima Industrie SpA and its subsidiaries (the "Prima Industrie Group" or the "Group"), which comprise the consolidated statement of financial position as of 31 December 2018, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the year then ended, and the explanatory notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2018, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05.

Basis for opinion

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

Key audit matters

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

Key audit matters	*Auditing procedures performed in response to key audit matters*
Assessment of the goodwill recoverability *Note 2 to the consolidated financial statements "Intangible assets"* Intangible assets as of 31 December 2018 include goodwill, amounting to a total of Euro 103.0 million, representing approximately 19% of total assets, and allocated to the Cash Generating Units ("CGU") below as follows: • Prima Power: Euro 97.7 million; • Prima Electro – BU Electronics: Euro 4.3 million; • Prima Electro – BU Laser: Euro 1.0 million. The management of the Company assesses, at least annually, the goodwill recoverability, based on the higher value between the fair value and the value in use of each CGU to which the goodwill amounts are allocated (impairment test). The value in use is determined by discounting the future cash flows expected in the plan as approved by management, as well as the related terminal value. Goodwill is deemed as a key audit matter considering both its amount and the inherent estimate elements influencing the evaluations performed by management in relation to its recoverability. The main estimate elements are linked to the correct definition and identification of the CGU, of future cash flows for each CGU and their discounting rates.	We analysed the reasonableness of the considerations made by management regarding the CGU identified and on the allocation of goodwill thereto, verifying their consistency with the Group structure and with the operating segments in which it operates. Our audit procedures also concerned the analysis of the main assumptions included in the plans of each CGU, verifying their reasonableness in consideration of the results achieved in 2018, of the order backlog as well as of the expected market development. We analysed the methodology and the evaluation model used by management to prepare the impairment test, including the reasonableness of the discounting rates and of the related sensitivity analyses, also involving the experts belonging to the PwC network. Furthermore, we verified the correct allocation of the book values of assets and liabilities attributable to the individual CGUs, including the allocated goodwill, used for comparisons with the value in use. Finally, we verified the completeness and the accuracy of the information provided in the explanatory notes.

Key audit matters	*Auditing procedures performed in response to key audit matters*
Assessment of development costs recoverability *Note 2 to the consolidated financial statements "Intangible assets"* Intangible assets as of 31 December 2018 include "Development costs" amounting to Euro 31.7 million and representing approximately 6% of total assets. The management of the Company periodically monitors the development projects and the related costs, verifying their technical feasibility and the generation of probable future economic benefits expected. Development costs are deemed as a key audit matter considering both their amount and the inherent estimate elements influencing the evaluations performed by management in relation to their recoverability.	Our audit procedures concerned the understanding of the internal control system over the capitalization process of development costs, the main development projects through meetings with technical personnel in charge of them, as well as the critical analysis of the assumptions underlying the investment recovery plans prepared by management. Furthermore, we verified the inherence and accuracy of the capitalized development costs, their compliance with the IAS 38 requirements, as well as the completeness and accuracy of the disclosure provided in the explanatory notes.

Responsibilities of the directors and the board of statutory auditors for the consolidated financial statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Group's ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate Prima Industrie SpA or to cease operations, or have no realistic alternative but to do so.

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

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

As part of our audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

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

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

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

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Additional disclosures required by article 10 of Regulation (EU) No. 537/2014

On 11 April 2017, the Shareholders of Prima Industrie SpA in general meeting engaged us to perform the statutory audit of the Company's separate and consolidated financial statements for the years ending 31 December 2017 to 31 December 2025.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on compliance with other laws and regulations

Opinion in accordance with article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and article 123-bis, paragraph 4, of Legislative Decree No. 58/98

The directors of Prima Industrie SpA are responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the Prima Industrie Group as of 31 December 2018, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the consolidated financial statements of the Prima Industrie Group as of 31 December 2018 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of Prima Industrie SpA as of 31 December 2018 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

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

The directors of Prima Industrie SpA are responsible for the preparation of the non-financial statement pursuant to Legislative Decree No. 254 of 30 December 2016. We have verified that the directors approved the non-financial statement.

Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016, the non-financial statement is the subject of a separate statement of compliance issued by ourselves.

Turin, 22 March 2019

PricewaterhouseCoopers SpA

Signed by

Piero De Lorenzi
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

PRIMA INDUSTRIE S.p.A.

Registered office: Via Antonelli 32, 10093 Collegno (Turin)
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Companies Register of Turin No. 03736080015
www.primaindustrie.com

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**REPORT OF THE STATUTORY AUDITORS' COMMITTEE
TO THE SHAREHOLDERS' MEETING CONVENED TO APPROVE THE FINANCIAL STATEMENTS TO
December 31, 2018
(in accordance with article 153 of Legislative Decree no. 58 of February 24, 1998 and article 2429 of the Italian Civil Code)**

To the Shareholders of Prima Industrie SpA,

1. Introduction

The Statutory Auditors' Committee, whose members are Franco Nada, Chairman, and statutory auditors Maura Campra and Roberto Petrignani, was appointed by the Shareholders' Meeting of Prima Industrie SpA on April 21, 2016 and will remain in office until approval of the financial statements to December 31, 2018.

The statutory audit of the financial statements was carried out by PricewaterhouseCoopers S.p.A. (hereinafter the "independent auditors"), appointed by the ordinary Shareholders' Meeting of Prima Industrie S.p.A. on April 11, 2017, on the recommendation of the Statutory Auditors' Committee, for the financial years 2017-2025. The independent auditors conducts the statutory audit of the financial statements and the Group's consolidated financial statements for the nine-year period, the limited legal audit of the condensed half-year consolidated financial statements, verification of the proper keeping of the accounts and the correct recording of operations in the accounting records, as well as the statutory audit of the financial statements, the audit of the IFRS consolidation records of some of the companies directly or indirectly controlled by Prima Industrie SpA and activities related to the conformity certification for non-financial data required by the Decree transposing Directive 2014/95/EU.

In accordance with the Code of Conduct for listed companies promoted by Borsa Italiana SpA., the Board of Directors is made up of 11 members, including two managing directors. The Chairman holds executive powers of proxy. Of the 11 directors, 6 are independent. The Control and Risks Committee consists of three independent directors, the Related Parties Committee consists of three independent directors, the Remuneration Committee consists of three directors, two of whom are independent, and the Lead Independent Director is an independent director.

The Supervisory Board consists of two members of the Statutory Auditors' Committee and the head of Group Internal Auditing and will remain in office until approval of the financial statements for the financial year 2019.

2. Monitoring activities

During 2018, the Statutory Auditors' Committee performed the monitoring activities required by law (specifically article 149 of the Consolidated Finance Law), the Rules of Conduct for the statutory auditors' committee of listed companies issued by the National Council of Accountants and Accounting Experts, CONSOB recommendations on company audits and the activities of the statutory auditors' committee and the guidelines contained in the Code of Conduct for the corporate governance committee of companies listed with Borsa Italiana SpA, to which the Company has adhered.

2.1 During the year ended December 31, 2018, we monitored compliance with legal requirements and the articles of association and observance of the principles of proper administration.

To this end, the Board availed itself of the information flows presented by the company, considered suitable to ensure that the Board can verify compliance of the organisational structure, internal procedures, company documents and resolutions of official corporate bodies, the provisions of the articles of association and applicable regulations.

For its audits, the Statutory Auditors' Committee held 7 meetings.

The Statutory Auditors' Committee conducted checks and received information from the managers of the various company functions. With regard to the administrative and accounting system and its suitability for proper representation of operations, the Statutory Auditors' Committee has taken the necessary information not only from the company structures, but also through regular meetings with the independent auditors.

Furthermore, the Statutory Auditors' Committee:

- attended the Shareholders' Meeting;
- took part in the 10 meetings of the Board of Directors, during which it was informed of the activities carried out the transactions with most relevance to the balance sheet, income sheet and the cash flow of the company and the Group;
- took part in 6 meetings of the Control and Risks Committee;
- was invited to and attended a meeting of the Strategies Committee;
- acknowledged that three meetings were held of the Remuneration Committee;
- acknowledged that one meeting was held of the Related Parties Committee;
- met the manager responsible for preparing the company's accounting documents (the "Financial Reporting Manager");
- had regular meetings with the Internal Auditor;
- regularly met PricewaterhouseCoopers S.p.A (PWC S.p.A), the independent auditors of the financial statements and the consolidated financial statements.

With regard to the decision-making processes of the Board of Directors, the Statutory Auditors' Committee monitored compliance with the principles of proper administration and the fitness of the company's administrative structure and believes that the resolutions and transactions carried out comply with the law and the articles of association and present no potential conflicts of interest, are not manifestly imprudent, risky, atypical or unusual, nor are they in conflict with the decisions of the Shareholders' Meeting or are such that they to compromise the integrity of corporate assets.

2.2 The Statutory Auditors' Committee gathered information periodically about the general management and outlook of the company, as well as the most significant transactions, including the merger of Finn-Power Italia Srl into Prima Industrie SpA with legal effect from February 1, 2018.

2.3 The Statutory Auditors' Committee found no evidence of atypical and/or unusual transactions with Group companies, third parties or related parties, finding confirmation of this in the guidelines of the Board of Directors, the independent auditors and the head of Internal Auditing.

The Report on Operations drawn up by the Directors contains appropriate information on intragroup transactions or transactions with related parties, all found to be congruous, in the interest of the Company and conducted under market conditions. These are adequately described in the explanatory notes to the financial statements and we refer you to them for their characteristics and financial significance.
No particularly significant events occurred after the close of the financial year.

The Statutory Auditors' Committee considers the procedure for transactions with related parties adopted by the company to be in compliance with the applicable regulations.

2.4 The Statutory Auditors' Committee acquired information on and monitored the organisational structure of the Company. The Board acknowledges the changes to the organisational structure with the appointment of Davide Danieli, former CFO of the Prima Power Division and Financial Reporting Manager, as the new

Group Chief Financial Officer. The Board considers the overall organisational structure to be adequate.

2.5 During the year ended December 31, 2018, the Statutory Auditors' Committee issued its opinions, as required by law and the following opinions regarding the provision of services other than auditing:
- appointment of Xin Bai Law Firm (part of PwC Global Network) by Prima Power Suzhou regarding the acquisition of 19% of Lead Laser (March 22, 2018);
- appointment of PwC for additional services for the Sustainability Report 2018 (October 23, 2018);
- appointment of PwC for support in the analysis and design of field service processes (November 15, 2018).
The Statutory Auditors' Committee verified the compatibility of these appointments with the limits set by law.

The Statutory Auditors' Committee acknowledges that, before approval of the draft financial statements, the Directors approved the impairment test procedure and the findings. The findings of the tests carried out on goodwill did not result in the recognition of impairment losses.

In accordance with the provisions of the Code of Conduct, the Statutory Auditors' Committee also verified:
- the proper application of the assessment criteria and procedures adopted by the Board of Directors to ascertain the independence of its members according to the criteria set out in law and in the Code of Conduct;
- the existence and continuance of the independence requirements for Statutory Auditors, according to the criteria of the Code of Conduct.

2.6 During the year ended December 31, 2018, no reports were received in relation to the provisions of Article 2408 of the Italian Civil Code, or complaints from third parties.

2.7 The Statutory Auditors' Committee checked that the company has set up an internal control and risk management system, with reference to the Group, in order to enable identification, measurement, management and monitoring of the main risks.

In order to monitor the suitability of the company's internal control system, the Statutory Auditors' Committee liaised and coordinated its activities with the Risk Control Committee, the Chairman of the company, the head of the Internal Auditing function and the Supervisory Board.

Furthermore, in its capacity as the Committee for Internal Control and Audit, Statutory Auditors' Committee not only set up a continuous information flow with the Control and Risk Committee, but also met regularly with the independent auditors, acknowledging the latter's certification on the absence of significant deficiencies in the internal control system in relation to the financial disclosure process.

The Company maintains strict information control over its subsidiaries in order to be able to comply with periodic disclosure obligations. In particular, subsidiaries are required to send a specific certification with the accounting or financial data for a given period.

The Statutory Auditors' Committee examined the annual report of the Supervisory Board, on which it has no observations to make. The company has an Organisation and Management Model in accordance with Legislative Decree no. 231/2001 updated by resolution of the Board of Directors of June 1, 2018.

The Statutory Auditors' Committee also reports that the Control and Risks Committee has operated in accordance with the provisions of the Code of Conduct. The collaboration with the Committee was productive and effective and, among other things, enabled the coordination of our respective activities and ensured joint evaluation and effective coordination of the overall internal control and risk management system.
The Statutory Auditors' Committee reviewed the annual report of the Internal

Auditing function on the activities carried out during 2018 and made checks on the process of preparing the half-yearly financial report and the annual financial statements. Also, through regular meetings with the independent auditors, it assessed the appropriateness of the accounting standards and their uniformity for the purposes of the half-yearly financial report and the annual financial statements.

In view of the supervisory activities it conducts, and taking account of the evaluations it makes regarding the appropriateness, effectiveness and functionality of the internal control system by the Control and Risks Committee and the Board of Directors, the Statutory Auditors' Committee, within the bounds of its competence, considers the system to be appropriate.

To meet the requirements of the new European privacy law (Regulation (EU) 679/2016, GDPR – General Data Protection Regulation), which came into force on May 25, 2018, the Board of Directors approved an Organisational Model relating to privacy for Prima Industrie S.p.A. and for the Group and appointed Mazars Italia S.p.A. as the Group DPO (Data Protection Officer).

2.8 The Statutory Auditors' Committee monitored the suitability of the instructions provided by the company to its subsidiaries, in accordance with article 114, paragraph 2, of the Consolidated Finance Law, and the proper flow of information between them, and believes that the Company is able to comply with the disclosure requirements that are set out in law. The information flow to the central auditor, which takes place at the various levels of the corporate control chain and active throughout the year and a function of the audit of the annual and interim accounts, was considered to be effective.

2.9 The Statutory Auditors' Committee monitored the company's administrative and accounting system and its reliability in correctly representing operations. It did so by obtaining information from the Financial Reporting Manager and the heads of the relevant functions and examining the documentation prepared by the company and analysing the work carried out by the independent auditors.

In particular, the Statutory Auditors' Committee noted that the Financial Reporting Manager issued a statement certifying that the financial statements provide a true and fair representation of the financial position, balance sheet and cash flow of the company.
Based on the information obtained, the statements made by the Financial Reporting Manager appear to be complete.
In view of the supervisory activities it conducts, and taking account of the evaluations it makes regarding the appropriateness, effectiveness and functionality of the organisational, administrative and accounting structure set up by the Board of Directors, the Statutory Auditors' Committee, within the bounds of its competence, considers the system to be appropriate and reliable in its representation of operations.

2.10 During the year ended December 31, 2018, the Statutory Auditors' Committee regularly met with the independent auditors PricewaterhouseCoopers S.p.A., in order to share significant data and information in accordance with Article 150, paragraph 3, of the Consolidated Law on Finance.

At these meetings, the independent auditors reported no significant events or anomalies of note.

2.11 During the aforementioned meetings with the appointed independent auditors, the Statutory Auditors' Committee monitored activities as required by article 19 of Legislative Decree no. 39 of January 27, 2010. The independent auditors illustrated the quarterly controls carried out and the results, the auditing strategy, and the basic issues encountered during their audits. No critical issues emerged from these meetings that might affect the financial statements of the company.

The Statutory Auditors' Committee also assessed the audit plan prepared by PricewaterhouseCoopers S.p.A., determining that it was appropriate for the characteristics and size of the Group, and it monitored the effectiveness of the statutory audit process, determining that it was conducted in accordance with the audit plan and with International Auditing Standards.

The key matters of the audit and the procedures adopted by the independent auditors were presented to the Statutory Auditors' Committee and to the Control and Risks Committee, which shared them.

The report of PricewaterhouseCoopers S.p.A. on the financial statements to December 31, 2018, issued on March 22, 2019 in accordance with Articles 14 and 16 of Legislative Decree no. 39 of January 27, 2010 – which now, in accordance with the standards of ISA Italia, also indicate the key audit matters – certifies that the financial statements provide a true and fair view of the financial position and performance of the Company at December 31, 2018, the results of its operations and its cash flows for the year, in accordance with the International Financial Reporting Standards approved by the European Union.
The aforementioned report also contains certification that the report on operations and the information required by article 123-bis, paragraph 4, of the Consolidated Finance Law presented in the report on corporate governance and ownership structure are consistent with the financial statements.

In its capacity as the Internal Control and Audit Committee, in accordance with article 19 of Legislative Decree no. 39 of January 27, 2010, the Statutory Auditors' Committee also received certification that, on the basis of the activities carried out as part of the statutory audit, no significant deficiencies in the internal control system emerged in the financial reporting process.

As a public interest entity, Prima Industrie S.p.A. presents the non-financial statements (NFS) for the financial year 2018, in accordance with Legislative Decree 254/2016 (transposition of Directive 2014/95). These statements contain information relating to governance, the environment, employees, social aspects and non-financial risks, and were approved by the Board of Directors on March 1, 2019.
PricewaterhouseCoopers S.p.A. issued a report on the consolidated non-financial statement on March 22, 2019, in accordance with article 3, paragraph 10, of

Legislative Decree no. 254/2016, without observations.
The Statutory Auditors' Committee monitored the preparation of the consolidated non-financial statements and considers it to be appropriate.

2.12 In the year ended 31 December 2018, further assignments were given to the independent auditors PricewaterhouseCoopers S.p.A by Prima Industrie SpA, in addition to those provided for in article 155 of Legislative Decree no. 58 of February 24, 1998. The activities required of the independent auditors and their fees are detailed in the notes to the financial statements as follows: Audit of Parent Company 83,000 Euros, Audit of Subsidiaries 218,000 Euros, Other services 241,000 Euros. Other services include the certificate of conformity of the consolidated non-financial statements

Considering the declaration issued by PricewaterhouseCoopers S.p.A. and the tasks assigned to that company and to the companies belonging to its network, the Statutory Auditors' Committee does not consider there to be any critical issues regarding its independence.

2.13 As already stated, Prima Industrie S.p.A. adheres to the Code of Conduct of the Committee for Corporate Governance of companies listed with Borsa Italiana S.p.A., as stated in the Report on Corporate Governance and Share Ownership for the year 2018, approved by the Board of Directors on March 1, 2019 and available on the company's website. This report was prepared in accordance with the instructions contained in the Regulations for Markets organised and managed by Borsa Italiana S.p.A..

The Report describes in detail the governance system adopted by the company. This system complies with and adheres to the rules of the governance model required by the above-mentioned Code of Conduct and the principles are effectively and properly applied.

2.13 On March 1, 2019, the Board of Directors prepared and approved the Remuneration Report, in which the Directors illustrated the principles for determining the remuneration of the members of the Board of Directors and executives with strategic responsibilities. Furthermore, the report also contains the table of remuneration paid to members of the Board of Directors, the Statutory Auditors' Committee and other executives with strategic responsibilities, as well as a schedule of their shares in the company.

During the monitoring activities described above, no omissions, breaches or irregularities arose that was worthy of note in this report.

3. Financial Statements

The Statutory Auditors' Committee examined the draft statements to December 31, 2018, drawn up by the Directors in accordance with legal requirements, and as communicated to the Statutory Auditors' Committee during the Board Meeting of March 1, 2019, and viewed the consolidated statements on the same date.

To the best of its knowledge, the Statutory Auditors' Committee notes that no legal provisions were breached during the preparation of the financial statements.

Since it is not responsible for the statutory audit, the Statutory Auditors' Committee monitored the general layout of the financial statements, their compliance with the law, their preparation and structure and have no observations to report.

The financial statement for the year ended December 31, 2018 as drawn up by Directors in compliance with statutory requirements, and as duly notified to the Statutory Auditors' Committee with the detailed information in the Explanatory Note and the Management Report, shows operating profits of 4,423,969 Euros. The Board of Directors has described in detail the year's result and the events that generated it in the Report on Operations and in the Explanatory Notes.

4. Conclusions

In view of the above, in consideration of the statutory audit performed by independent auditors PricewaterhouseCoopers SpA, the Statutory Auditors' Committee believe that the financial statements of Prima Industrie SpA for the financial year ended December 31, 2018 can be approved as well as the proposal of the Board of Directors for the allocation of profits of 4,423,969 Euros and namely, 221,198 Euros to the Legal Reserve, and 4,202,771 Euros of said profit to be distributed as an ordinary dividend, as well as 365,870 Euros of profits previously held in the Extraordinary Reserve, for a total dividend of €0.44 per share.

Collegno, March 22, 2019

The Statutory Auditors' Committee

(Franco Nada)

Chairman

(Maura Campra)

Statutory Auditor

(Roberto Petrignani)

Statutory Auditor

PRIMA INDUSTRIE GROUP

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REPORT OF THE STATUTORY AUDITORS' COMMITTEE ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

To the Shareholders of Prima Industrie SpA,

The Board of Directors of Prima your company has prepared and approved the consolidated financial statements to December 31, 2018, in accordance with Legislative Decree no. 127 of April 9, 1991 and with the provisions of Article 9 of Legislative Decree no. 38 of February 28, 2005, presented to the Board meeting on March 1, 2019.

The Group Consolidated Financial Statements include the statement by the Chairman and the Manager responsible for drafting the accounting documents pursuant to art. 154-bis of Legislative Decree no. 58 of February 24, 1998.

The Consolidated Financial Statements of the Prima Industrie Group, which are available for your examination, present profits of 24,058,000 EUR, of which 24,056,000 EUR to be allocated to the shareholders of the parent company and 2,000 EUR to be allocated to the minority shareholders and are drafted according to International Accounting Standards (IAS/IFRS).

In the course of our duties, we have carried out oversight activities, and were regularly informed by the parent company's Board of Directors of major economic, financial and equity transactions, including extraordinary operations, performed as part of Group relations.

We ascertained that transactions that were resolved and put into effect, conformed to legislative requirements and to the articles of association, that they did not diverge from the resolutions of the Shareholders' Meetings, showed no potential conflict of interest and were based on principles of proper administration.

We paid attention to intragroup operations carried out during the year and ascertained that these were conducted legitimately.

Audits by the independent auditors, PricewaterhouseCoopers SpA reveal that the values expressed in the consolidated statements conform to the results of the parent company, to the financial statements of the subsidiaries and to all relevant information formally passed on by them.
The Statutory Auditors' Committee, therefore, did not check these financial statements, in accordance with the provisions of article 41, paragraph 3 of Legislative Decree no. 127 of April 9, 1991.

Furthermore, we obtained the necessary information from the independent auditors on the statutory report, which it issued in accordance with articles 14 and 16 of Legislative Decree no. 39 of January 27, 2010, with nothing of any particular significance being raised. In its own report, the independent auditors confirmed the accuracy of the Management Report in relation to the Consolidated Financial Statements of Prima Industrie SpA and the information disclosed in accordance with article 123-bis of Legislative Decree no. 58 of February 24, 1998 in the report on Corporate Governance and Ownership Structure.

The area of consolidation, the principles for equity consolidation and relevant procedures were all determined in accordance with IFRS rules. The structure of the consolidated financial statements can therefore be considered technically correct and fully conformant to specific regulations.

As in previous years, the Board of Directors has drawn up a single Management Report, which contains all required information pertaining to the parent company and to individual subsidiary companies.
The report illustrates the economic, equity and financial position of all consolidated companies, their operating performance during 2018, the main risks to which the business is exposed and expected developments for 2019.

Having examined this report, we confirm that it corresponds to the Group's consolidated statement.

The Explanatory Notes contain the general drafting criteria for the Consolidated Financial Statements, as well as the criteria used for assessing individual items.

For comparative purposes, the Consolidated Financial Statements also present the data corresponding to the previous year.

Based on our investigations, the Statutory Auditors' Committee agrees with the content and form of the Group Consolidated Financial Statements to December 31, 2018.

Collegno, March 22, 2019

the Statutory Auditors' Committee

(Franco Nada)
Chairman

(Maura Campra)
Statutory Auditor

(Roberto Petrignani)
Statutory Auditor

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