

OFFICINE MACCAFERRI S.P.A.

Registered office: Zola Predosa - Via J.F. Kennedy no. 10

Share Capital: € 33,400,000 fully paid-up

Bologna R.E.A. (Repertorio Economico Amministrativo,

Economic Administrative Register) no. 12901 –

Fiscal Code no. 00795700152

Sole-shareholder company pursuant to Article 2362

of the Italian Civil Code

Company subject, pursuant to Article 2497 and ff. of the Italian Civil Code,

to management and coordination by

S.E.C.I. SOCIETA' ESERCIZI COMMERCIALI INDUSTRIALI S.p.A. - Bologna -

Via degli Agresti no. 6

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AT 31 DECEMBER 2018

LAYOUT AND CONTENTS OF THE CONSOLIDATED

FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

Values in €/th.

| | 31/12/2018 | 31/12/2017 |
|-----------------------------------------------------------------------|----------------|----------------|
| ASSETS | | |
| A) Subscribed capital, unpaid: | | |
| B) Fixed assets: | | |
| I – Intangible assets: | | |
| 1) set up and expansion costs | 664 | 971 |
| 2) development costs | 725 | 151 |
| 3) industrial patent rights and rights to use intellectual properties | 141 | 209 |
| 4) concessions, licences, trademarks and similar rights | 3.555 | 3.574 |
| 5) Goodwill | 19.588 | 19.705 |
| 6) Intangible assets under development and downpayments | 4.702 | 3.251 |
| 7) other | 4.504 | 5.514 |
| Total intangible assets | 33.879 | 33.373 |
| II – Property, plant and equipment: | | |
| 1) land and buildings | 42.808 | 46.540 |
| 2) plant and machinery | 43.813 | 45.678 |
| 3) industrial and commercial equipment | 3.871 | 3.737 |
| 4) other fixed assets | 2.812 | 2.590 |
| 5) fixed assets in progress and advances | 5.431 | 4.998 |
| Total property, plant and equipment | 98.735 | 103.542 |
| III – Financial assets: | | |
| 1) investments in: | | |
| a) subsidiaries | 289 | 300 |
| b) associated companies | 67 | 769 |
| c) parent companies; | - | - |
| d) company subject to the control of the parent company | - | - |
| d bis) other companies | 121 | 135 |
| Total investments | 477 | 1.204 |
| 2) Receivables: | | |
| a) subsidiaries; | - | - |
| b) associated companies; | - | - |
| c) due from parent | | |
| - within 12 months | 22.505 | 32.000 |
| - beyond 12 months | - | - |
| Total due from parent | 22.505 | 32.000 |
| d) company subject to the control of the parent company | | |
| d bis) due from others | | |
| - within 12 months | 1.772 | |
| - beyond 12 months | 2.549 | 4.081 |
| Total due from others | 4.320 | 4.081 |
| Total receivables | 26.826 | 36.081 |
| 3) Other securities | | |
| 4) Active Financial Instruments - Derivates | | |
| Total financial assets | 27.303 | 37.285 |
| Total fixed assets | 159.917 | 174.200 |

C) Current Assets:

I - Inventories:

| | | |
|--------------------------------------------------------|----------------|---------------|
| 1) raw materials, secondary materials, and consumables | 30.969 | 29.573 |
| 2) semi-finished goods | 9.414 | 5.226 |
| 3) Work in progress on order; | - | - |
| 4) finished products and goods | 56.512 | 51.722 |
| 5) Advances paid to supplier | 4.939 | 2.674 |
| Total inventories | 101.833 | 89.195 |

II – Receivables:

| | | |
|---------------------------------|----------------|----------------|
| 1) trade receivables | | |
| - within 12 months | 110.726 | 118.450 |
| - beyond 12 months | - | - |
| Total trade receivables; | 110.726 | 118.450 |

2) receivables from subsidiaries

| | | |
|--------------------|-----|-----|
| - within 12 months | 695 | 772 |
| - beyond 12 months | - | - |

| | | |
|---------------------------------------------|------------|------------|
| Total receivables from subsidiaries; | 695 | 772 |
|---------------------------------------------|------------|------------|

4) receivables from parent

| | | |
|--------------------|-------|-------|
| - within 12 months | 6.841 | 6.016 |
| - beyond 12 months | - | - |

| | | |
|---------------------------------------|--------------|--------------|
| Total receivables from parent; | 6.841 | 6.016 |
|---------------------------------------|--------------|--------------|

5) receivables company subject to the control of the parent company

| | | |
|--------------------|-------|-------|
| - within 12 months | 2.137 | 1.984 |
| - beyond 12 months | - | - |

| | | |
|-------------------------------------------------------------------------------|--------------|--------------|
| Total receivables company subject to the control of the parent company | 2.137 | 1.984 |
|-------------------------------------------------------------------------------|--------------|--------------|

5-bis) receivables from tax authorities

| | | |
|--------------------|--------|--------|
| - within 12 months | 14.616 | 10.960 |
| - beyond 12 months | - | 643 |

| | | |
|------------------------------------------------|---------------|---------------|
| Total receivables from tax authorities; | 14.616 | 11.603 |
|------------------------------------------------|---------------|---------------|

5 ter) deferred tax assets

| | | |
|--|--------|--------|
| | 33.686 | 26.657 |
|--|--------|--------|

5 quater) receivables from other parties

| | | |
|--------------------|--------|--------|
| - within 12 months | 12.335 | 11.493 |
| - beyond 12 months | - | - |

| | | |
|---------------------------------------------|---------------|---------------|
| Total receivables from other parties | 12.335 | 11.493 |
|---------------------------------------------|---------------|---------------|

| | | |
|--------------------------|----------------|----------------|
| Total receivables | 181.035 | 176.975 |
|--------------------------|----------------|----------------|

III – Financial assets not constituting fixed assets:

| | | |
|-----------------------------------------------|----|----|
| 5) active financial instruments - derivatives | 25 | 40 |
| 6) other securities; | - | - |

| | | |
|-------------------------------------------------------------|-----------|-----------|
| Total financial assets non constituting fixed assets | 25 | 40 |
|-------------------------------------------------------------|-----------|-----------|

IV – Cash and cash equivalent:

| | | |
|-----------------------------|--------|--------|
| 1) bank and postal deposits | 55.854 | 64.125 |
| 2) cheques | 202 | 17 |
| 3) cash on hand | 66 | 1.264 |

| | | |
|---------------------------------------|---------------|---------------|
| Total cash and cash equivalent | 56.121 | 65.406 |
|---------------------------------------|---------------|---------------|

| | | |
|-----------------------------|----------------|----------------|
| Total current assets | 339.015 | 331.616 |
|-----------------------------|----------------|----------------|

D) accrued income and prepaid expenses:

| | | |
|--------------------|-------|-------|
| - accrued income | 2.867 | 2.759 |
| - prepaid expenses | 1.013 | 1.828 |

| | | |
|--------------------------------------------------|--------------|--------------|
| Total accrued income and prepaid expenses | 3.880 | 4.587 |
|--------------------------------------------------|--------------|--------------|

| | | |
|---------------------|----------------|----------------|
| TOTAL ASSETS | 502.812 | 510.402 |
|---------------------|----------------|----------------|

| | 31/12/2018 | 31/12/2017 |
|-----------------------------------------------------------------------------------|----------------|----------------|
| LIABILITIES | | |
| A) Shareholders' equity: | | |
| I – share capital | 33.400 | 33.400 |
| II - Share premium reserve | - | - |
| III – revaluation reserve | 10.641 | 10.641 |
| IV – Legal reserve | 3.494 | 3.285 |
| V - statutory reserve | - | - |
| VI - other reserves | (10.650) | 7.863 |
| VII - Reserves for hedging of expected cash flows | (5) | (11) |
| VIII - Profits (losses) carried forward | | |
| IX – net income for the year | (25.407) | 218 |
| Total shareholders' equity of the Group | 11.474 | 55.396 |
| equity attributable to non-controlling interests | 31.338 | 35.400 |
| Total shareholders' equity | 42.812 | 90.796 |
| B) Provisions for risks and charges: | | |
| 1) pension and similar provisions | 2.612 | 2.790 |
| 2) Provision for tax litigation and for deferred tax liabilities | 7.560 | 7.629 |
| 3) Fund Financial Instruments Derivatives | 953 | 69 |
| 4) Other provisions | 6.763 | 3.892 |
| Total provisions for risks and charges | 17.888 | 14.379 |
| C) employees termination indemnity | 1.165 | 1.252 |
| D) payables | | |
| 1) bond issued | | |
| - within 12 months | - | - |
| - beyond 12 months | 190.000 | 190.000 |
| Total bond issued; | 190.000 | 190.000 |
| 4) bank loan and overdraft | | |
| - within 12 months | 45.429 | 11.874 |
| - beyond 12 months | 13.743 | 12.543 |
| Total bank loan and overdraft | 59.172 | 24.417 |
| 5) loans from other lenders | | |
| - within 12 months | 3.671 | 4.242 |
| - beyond 12 months | 2.546 | 1.083 |
| Total loans from other lenders | 6.217 | 5.325 |
| 6) advances from customer | 4.727 | 11.502 |
| 7) trade payables | | |
| - within 12 months | 96.056 | 93.914 |
| - beyond 12 months | - | - |
| Total trade payables; | 96.056 | 93.914 |
| 11) payables due to parent | | |
| - within 12 months | 2.617 | 1.480 |
| - beyond 12 months | - | - |
| Total payables due to parent; | 2.617 | 1.480 |
| 11 bis) payables due to company subject of the control of the parent company | | |
| - within 12 months | 2.260 | 1.334 |
| - beyond 12 months | - | - |
| Total payables due to company subject of the control of the parent company | 2.260 | 1.334 |
| 12) tax payables | | |
| - within 12 months | 10.334 | 8.337 |
| - beyond 12 months | - | - |
| Total tax payables | 10.334 | 8.337 |
| 13) social security payables | | |
| - within 12 months | 2.002 | 1.581 |
| - beyond 12 months | - | - |
| Total social security payables | 2.002 | 1.581 |
| 14) other payables | | |
| - within 12 months | 58.449 | 58.582 |
| - beyond 12 months | - | - |
| Total other payables | 58.449 | 58.582 |
| Total payables | 431.832 | 396.472 |
| E) accrued expenses and deferred income: | | |
| - accrued expenses | 7.055 | 5.914 |
| - deferred income | 2.059 | 1.589 |
| Total accrued expenses and deferred income | 9.114 | 7.503 |
| TOTAL SHAREOLDERS' EQUITY AND LIABILITIES | 502.812 | 510.402 |

CONSOLIDATED INCOME STATEMENT

| | 31/12/2018 | 31/12/2017 |
|-------------------------------------------------------------------------------|-------------------|-------------------|
| A) Value of production: | | |
| 1) revenues from sales and services | 520.569 | 478.699 |
| 2) change in inventory of semi-finished and finished goods | 1.620 | 2.429 |
| 3) Change in work in progress on orders | - | (28) |
| 4) Increase in fixed assets from in-house works | 947 | 1.248 |
| 5) other revenues | 12.024 | 14.354 |
| Total value of production | 535.159 | 496.703 |
| B) Costs of production: | | |
| 6) Costs of raw materials, secondary materials and consumables | 305.292 | 272.941 |
| 7) Costs for services | 102.196 | 98.375 |
| 8) Costs for use of third parties assets | 6.783 | 6.681 |
| 9) Costs of personnel: | | |
| a) wages and salaries | 65.484 | 61.943 |
| b) social security contributions | 11.839 | 11.588 |
| c) employees' termination indemnity | 666 | 572 |
| d) pension and similar costs | 839 | 853 |
| e) other personnel costs | 7.435 | 8.105 |
| Total costs of personnel | 86.262 | 83.061 |
| 10) amortization, depreciations and write-down: | | |
| a) amortization of intangible assets | 6.067 | 5.731 |
| b) depreciation of property, plant and equipment | 9.870 | 10.722 |
| c) other write-down of intangible assets and property, plant and equipment | 146 | - |
| d) write-downs of receivables | 3.951 | 2.716 |
| Total amortization, depreciation and write-down | 20.033 | 19.168 |
| 11) change in inventory of raw materials, secondary materials and consumables | (12.058) | (7.806) |
| 12) Accrual of provision for risks and charges | 6.553 | 977 |
| 13) other provisions | - | - |
| 14) other operating costs | 20.600 | 2.530 |
| Total costs of production | 535.661 | 475.928 |
| Difference between value of production and costs of production | (502) | 20.774 |
| C) Financial income and charges: | | |
| 15) income from investments: | | |
| - other companies | 63 | 9 |
| 16) other financial income: | | |
| - from subsidiaries | 21 | 24 |
| - from associated companies | - | - |
| - from parent company | 3.687 | 2.967 |
| - company subject to the control of the parent company | - | - |
| - from other companies | 774 | 1.440 |
| Total other financial income | 4.483 | 4.431 |
| Total financial income | 4.546 | 4.440 |

| | | |
|------------------------------------------------------|-----------------|----------------|
| 17) interest and other financial charges: | | |
| - other companies | 19.178 | 17.749 |
| Total interest and other financial charges | 19.178 | 17.749 |
| 17 bis) gain/(losses) on exchange rate | (3.110) | (3.727) |
| Total financial income and charges | (17.742) | (17.036) |
| D) adjustments to financial assets | | |
| 18) Revaluation | | |
| a) Revaluation on equity investment; | - | 34 |
| b) Revaluation of financial assets; | - | - |
| c) Revaluation of securities held as current assets; | - | - |
| d) Revaluation of Hedging financial instruments | 208 | 188 |
| Total revaluation | 208 | 222 |
| 19) write-down | | |
| a) write-down of investments | 641 | 256 |
| b) Devaluation of financial assets; | 9.400 | - |
| c) Devaluation of securities held as current assets. | - | - |
| d) Devaluation of Hedging financial instruments | 1.296 | 732 |
| Total write-down | 11.337 | 987 |
| Total adjustments to financial assets | (11.129) | (765) |
| Profit before tax | (29.373) | 2.973 |
| 22) income and deferred taxes | | |
| - current income taxes | 6.463 | 6.123 |
| - deferred tax liabilities | (212) | 768 |
| - deferred tax assets | (8.034) | (5.572) |
| Total income and deferred taxes | (1.783) | 1.320 |
| 23) Net profit for the year | (27.590) | 1.653 |
| Attributable to non-controlling interests | 2.183 | (1.435) |
| 26) attributable to equity holders of the parent | (25.407) | 218 |

CONSOLIDATED CASH FLOW STATEMENT

Values in €/th.

| | For the twelve month period ended December 31, | |
|----------------------------------------------------------------------------------------------------------------|---------------------------------------------------|-----------------|
| INTERIM CONSOLIDATED CASH FLOW | 2018 | 2017 |
| <i>(Euro/000)</i> | | |
| A. Financial flows deriving from operating activities | | |
| Net Income / (Loss) for the period | (27.590) | 1.653 |
| Income tax for the year | (1.783) | 1.320 |
| Financial expenses / (financial income) | 14.695 | 13.318 |
| Losses / (gains) on exchange rate | 3.110 | 3.727 |
| (Dividends) | (63) | (9) |
| (Gains) / Losses due to assets disposal | (389) | (2.541) |
| 1. Profit (loss) before income taxes, interest, dividends and capital gains / losses on assets disposal | (12.020) | 17.468 |
| <i>Adjustments for non-cash items that had no counterpart in net working capital</i> | | |
| Accrual to provision for risk and charges | 16.122 | 4.542 |
| Depreciation and Amortization | 15.937 | 16.452 |
| Impairment on assets | 254 | (147) |
| Other accrual for non-cash items | 2.299 | (1.955) |
| Total adjustment for non-cash items | 34.611 | 18.892 |
| 2. Financial flows before changes in Net Working Capital | 22.591 | 36.360 |
| <i>Changes in Net Working Capital</i> | | |
| Decrease / (increase) of inventories | (16.291) | (11.131) |
| Decrease / (increase) of trade receivables | (12.181) | (19.288) |
| Increase / (decrease) of trade payables | 4.229 | 36.999 |
| Decrease / (increase) of other credits | (183) | (4.366) |
| Increase / (decrease) of other debts | (5.800) | 14.758 |
| Decrease / (increase) of Prepayments and accrued income | 651 | 536 |
| Increase / (decrease) of Prepaid income | 1.925 | 938 |
| Other Changes in Net Working Capital | (2.561) | 1.120 |
| Total changes in Net Working Capital | (30.212) | 19.566 |
| 3. Financial flows after changes in Net Working Capital | (7.621) | 55.926 |
| <i>Other Changes</i> | | |
| Interests paid | (13.966) | (14.002) |
| (Losses) / gains on exchange rate | (3.110) | (3.727) |
| Income taxes paid | 419 | (4.872) |
| Dividends received | 63 | 9 |
| Utilization of funds | (4.356) | (1.333) |
| 4. Total other changes | (20.949) | (23.925) |
| Net cash flow from operating activities (A) | (28.570) | 32.001 |
| B. Financial flows deriving from investment activities | | |
| <i>Tangible assets</i> | | |
| (Investments) | (10.754) | (13.239) |
| Sales price of disposal of assets | 2.606 | 17.141 |
| <i>Intangible assets</i> | | |
| (Investments) | (4.578) | (7.154) |
| Sales price of disposal of assets | 0 | 103 |
| <i>Investments</i> | | |
| (Investments) | (5.541) | (3.008) |
| Sales price of disposal of assets | 0 | 0 |
| <i>Current financial activities</i> | | |
| (Investments) | 15 | (28) |
| Sales price of disposal of assets | 0 | 0 |
| <i>Acquisition or disposal of subsidiaries or branches of businesses, net of cash acquired</i> | 0 | 0 |
| Net cash flow used in investing activities (B) | (18.251) | (6.185) |
| C. Financial flows deriving from financing activities | | |
| <i>Third parties</i> | | |
| Increase /(decrease) short terms debts vs banks | 33.634 | (6.918) |
| Proceeds from borrowing | 10.044 | 10.918 |
| Reimbursement of borrowing | (8.844) | (5.075) |
| (Increase) / Decrease short terms credits vs shareholders for financing | 9.495 | (3.000) |
| Increase / (Decrease) debts vs other financial institution | 1.046 | 216 |
| <i>Equity</i> | | |
| Subscription of equity upon payment / (Equity reimbursement) | 2.750 | 0 |
| Dividends paid | (11.951) | (2.026) |
| Total Financial flows deriving from financing activities (C) | 36.174 | (5.885) |
| Net effect of foreign currencies exchange rate and other variations | 1.362 | (1.144) |
| Change in cash and cash equivalent (A ± B ± C) | (9.285) | 18.787 |
| Cash and cash equivalent at the beginning of the period | 65.406 | 46.619 |
| Cash and cash equivalent at the end of the period | 56.121 | 65.406 |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

1) LAYOUT AND CONTENTS OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements at 31 December 2018 were prepared in accordance with the current regulations under Article 2423 and ff. of the Italian Civil Code, as interpreted by the accounting principles issued by the Italian Accounting Board (*Organismo Italiano di Contabilità*, OIC) applicable at 31 December 2018, and are made up of the Balance Sheet, the Income Statement, the Cash Flow Statement and these Notes to the Financial Statements. For any additional information on the Company's position, performance and results of operations, as a whole and in the various sectors in which it has operated, including through subsidiaries, with specific regard to costs, revenues and investments, as well as for a description of the main risks and uncertainties to which the Company is exposed, reference should be made to the report on operations.

The provisions of the Italian Civil Code are interpreted by the accounting principles published by the Italian Accounting Board (*Organismo Italiano di Contabilità*, OIC).

As regards the schedules of the financial statements, it should be noted that:

- The Balance Sheet and Income Statement schedules are those provided for in Articles 2424 and 2425 of the Italian Civil Code, respectively. The items marked by Arabic numerals and lowercase letters required by Articles 2424 and 2425 of the Italian Civil Code which are not reported have a zero balance both in the current and previous years;
- The Cash Flow Statement schedule, required by Article 2425-ter of the Italian Civil Code, has been prepared according to the indirect method and is compliant with that set out in the Italian Accounting Board principle OIC 10;
- The notes to the financial statements must describe and analyse, as well as, in some cases, make additions to, the data reported in the financial statements and provide the information required by Article 2427 of the Italian Civil Code, as well as by other provisions of Legislative Decree 139/2015 or by other laws previously in force. Furthermore, the notes provide all such additional information as may be necessary to give a true and fair view of the accounts, even if not required by specific provisions of law.

Going-concern principle and outlook

Following an initial approval of the draft 2018 financial statements, information was received about the financial position of the parent company S.E.C.I. S.p.A. (hereinafter also referred to as the "Parent Company"), which was such as to require new assessments of the actual recoverability of the receivables from the Parent Company recognised in the financial statements at 31 December 2018, as a result of reporting impairment indicators that were worse than those observed at the time of previous assessments. These receivables amount to:

- Euro 31.9 million of financial items, which were generated at the time of the bond issue launched during 2014 and which have been stated under non-current financial assets as interest-bearing financial receivables;
- Euro 7.3 million of items stated under current assets among tax "receivables from parent company". Tax receivables from parent company mainly include withholding tax credits of Euro 3.4 million and receivables arising from cumulative tax losses of Euro 3.1 million for previous years.

The Directors calculated a write-down of Euro 10 million, taking account of both the possible alternative solutions that the Parent Company is currently considering and the operations to allow third-party industrial partners to acquire capital interests aimed at strengthening the Group's growth. This write-down concerned financial receivables from Parent Company for Euro 9.4 million and tax receivables from Parent Company for Euro 0.6 million.

Since the process of analysing the outstanding debt position is still in progress on the part of S.E.C.I. S.p.A., the write-down concerned has been recognised in the accounts according to the principle of prudence inherent in their preparation and has been prepared on the basis of the best estimate made according to the information made available by the Parent Company.

In consideration of the write-down carried out for prudential purposes, the Officine Maccaferri Group reported a loss of Euro 27.6 million at 31 December 2018, which was fully attributable to the non-recurring events that are detailed in this document and to the write-down referred to above, as well as a total shareholders' equity of Euro 42.8 million.

Despite the result recorded in the 2018 financial year, it should be noted that:

- The performance of Officine Maccaferri in terms of results of operations and financial position was always positive and the Group always honoured its financial commitments on the scheduled due dates, as confirmed during 2019. A highly satisfactory operating performance was reported during 2018, with total revenues of Euro 520.6 million, up by 9% compared to 2017 and consolidated EBITDA of Euro 46.8 million, showing a significant improvement compared to the previous year;
- As already noted in this document, the final net loss recorded at the end of 2018 was due to non-recurring events that occurred during the year, in relation to which it is therefore reasonable to believe that, as such, they will not occur again in subsequent years;
- The 2018-2022 business plan, which was approved by the Board of Directors in the previous year, envisages a scenario based on the Group's internal development, as well as possible alternatives for speeding up growth through M&A operations. The performance forecast expected under the organic growth plan, which is more prudent than other development alternatives, envisages a return to profits in the short term.

As in previous years and on the basis of the information provided above, the Directors have prepared these draft financial statements on a going-concern basis, since there are no significant uncertainties in relation to this principle, after having adequately considered the risks associated with the actual occurrence of the expected future performance.

2) CONSOLIDATION PRINCIPLES

Consolidation on a line-by-line basis

All the "subsidiary" Companies of Officine Maccaferri S.p.A., as defined by Article 2359 of the Italian Civil Code, have been consolidated on a line-by-line basis.

According to this method, the book values of equity investments are written off against the full recognition of assets and liabilities, revenues and costs of the investee companies.

Any shares of equity and net profit for the year pertaining to the minority interests of the consolidated companies are recognised under an appropriate item in consolidated equity and income statement (Article 32 of Legislative Decree no. 127/1991), respectively.

The consolidation area does not include companies whose balance sheet values are individually and cumulatively insignificant with respect to the Group's consolidated financial statements, these companies being measured at cost and including those newly-acquired or established. In particular, the exclusion has concerned the following subsidiaries: Uzbekistan-Russian Joint Venture Maccaferri-Fergana LLC, Infratex Environmental Services Inc., Maccaferri du Maroc, Marita Maccaferri Marocco Sarl, Maccaferri Kazakhstan LLC, Maccaferri Ukraine LLC, Maccaferri Georgia LLC, Maccaferri Tunisie, Maccaferri de Nicaragua S.A., Maccaferri de Honduras S.A., Maccaferri de Chile Ltda.

Fixed assets consisting of equity investments in subsidiaries and associates which show an insignificant value or which were not yet fully operational at 31 December 2018 are measured at cost.

Consolidation on a proportional basis

Bekaert Maccaferri Underground Solutions BVBA, which is 50% jointly-controlled, has been consolidated on a proportional basis.

According to this method, the book values of the Group's equity investments are written off against the recognition of only the Group's share of assets, liabilities, revenues and costs of investee companies.

Consolidation Area

The Companies included in the scope of consolidation are specified below:

| NAME | CONSOLIDATION METHOD | HQ | SHARE CAPITAL | SHAREHOLDING QUOTA % | |
|------------------------------------------------------------------------------|----------------------|----------------|-------------------|----------------------|----------|
| | | | | Direct | Indirect |
| - Officine Maccaferri S.p.A. | | Italy | | | |
| - Maccaferri SA PTY LTD | Line-by-line Basis | South Africa | ZAR 58.207.900 | 100 | |
| - Maccaferri (Malaysia) SDN BHD | Line-by-line Basis | Malaysia | MYR 7.620.000 | 100 | |
| - S.A.S. France Maccaferri | Line-by-line Basis | France | € 1.000.000 | 100 | |
| - Maccaferri do Brasil Ltda | Line-by-line Basis | Brazil | BRL 120.387.988 | 99,98 | |
| - Maccaferri Inc. | Line-by-line Basis | USA | USD 8.813.725 | 100 | |
| - Maccaferri Canada LTD | Line-by-line Basis | Canada | CAD 2.262.125 | | 100 |
| - Maccaferri Gabions CIS | Line-by-line Basis | Russia | RUB 490.923.807 | 83,22 | |
| - Maccaferri Indonesia P.T. | Line-by-line Basis | Indonesia | USD 4.000.000 | 80,00 | |
| - Maccaferri Nepal PVT LTD | Line-by-line Basis | Nepal | NPR 70.196.000 | 70,00 | |
| - Maccaferri de Argentina S.A. | Line-by-line Basis | Argentina | ARS 15.137.690 | 98,00 | 2,00 |
| - Maccaferri de Centro America Ltda | Line-by-line Basis | Costarica | CRC 502.391.898 | 100 | |
| - Maccaferri LTD | Line-by-line Basis | UK | GBP 1.020.000 | 100 | |
| - Partecipazione a mezzo SIFIR S.r.l | Line-by-line Basis | Italy | € 119.000 | 100 | |
| - Maccaferri Environmental Solutions PVT Ltd | Line-by-line Basis | India | INR 1.662.059.900 | 84,27 | |
| - Maccaferri de Perú S.A.C. | Line-by-line Basis | Perù | PEN 2.774.348 | 75,00 | |
| - Maccaferri de Mexico S.A. De C.V. | Line-by-line Basis | Messico | MXN 27.369.000 | 100 | 0,002 |
| - Maccaferri de Venezuela S.A | Line-by-line Basis | Venezuela | VES 221.374 | 100 | |
| - Double Twist Products Pty Ltd | Line-by-line Basis | Botswana | BWP 3.796.000 | 70,00 | |
| - Maccaferri Gabions Central Asia | Line-by-line Basis | Kirghizistan | KGS 450.000 | | 83,22 |
| - Maccaferri Central Europe S.R.O. | Line-by-line Basis | Slovakia | € 1.040.132 | 100 | |
| - Linear Composites Ltd. | Line-by-line Basis | UK | GBP 2 | | 100 |
| - Maccaferri (Changsha) Enviro-tech Co. Ltd | Line-by-line Basis | China | CNY 56.626.246 | | 80,00 |
| - Maccaferri (Tianjin) Enviro-tech Co. Ltd | Line-by-line Basis | China | CNY 58.143.256 | | 50,01 |
| - Maccaferri (Tianjin) Fibers Co. Ltd. | Line-by-line Basis | China | CNY 52.329.975 | | 62,51 |
| - Maccaferri China (Hong Kong) | Line-by-line Basis | China | HKD 90.436.800 | 80,00 | |
| - Maccaferri Asia Ltd. | Line-by-line Basis | China | HKD 124.160.000 | 62,51 | |
| - Maccaferri Servicios S.A. de C.V. | Line-by-line Basis | Mexico | MXN 50.000 | 99,80 | 0,20 |
| - Maccaferri (IRL) Ltd. | Line-by-line Basis | Ireland | € 1 | | 100 |
| - BMD Texteis Ltda | Line-by-line Basis | Brazil | BRL 26.928.244 | | 99,98 |
| - Maccaferri de Guatemala S.A. | Line-by-line Basis | Guatemala | GTQ 703.000 | | 100 |
| - A. Bianchini Ingegniero S.A. | Line-by-line Basis | Spain | € 6.500.000 | 53,96 | |
| - Maccaferri Balkans Sh. P.K. | Line-by-line Basis | Albania | ALL 306.000.000 | 81,00 | |
| - Maccaferri Hellas Sole Partner LLC. | Line-by-line Basis | Greece | € 330.000 | 100 | |
| - Maccaferri Middle East LLC | Line-by-line Basis | Un. Arab Emir. | AED 300.000 | 49,00 | |
| - Officine Maccaferri Nigeria Ltd. | Line-by-line Basis | Nigeria | NGN 40.000.000 | 100 | |
| - Maccaferri de Colombia Ltda | Line-by-line Basis | Colombia | COP 3.081.836.546 | 99,9995 | 0,0005 |
| - Maccaferri de El Salvador S. A. de C.V. | Line-by-line Basis | El Salvador | USD 12.000 | | 100 |
| - Maccaferri Construction S.A. C. | Line-by-line Basis | Perù | PEN 500.000 | | 100 |
| - Officine Maccaferri Italia S.r.l | Line-by-line Basis | Italy | € 1.000.000 | 100 | |
| - Partecipazione tramite SIFIR S.r.l | Line-by-line Basis | France | € 37.000 | 80,00 | |
| - Partecipazione tramite SIFIR S.r.l | Line-by-line Basis | France | € 64.000 | | 80,00 |
| - Maccaferri Philippines Inc. | Line-by-line Basis | Philippines | PHP 25.000.000 | 75,00 | |
| - Maccaferri de Bolivia LTDA | Line-by-line Basis | Bolivia | BOB 21.915.054 | 99,9995 | 0,0005 |
| - Macservice Servicios de Engenharia LTDA | Line-by-line Basis | Brazil | BRL 1.936.998 | 0,077 | 100 |
| - Maccaferri de Ecuador | Line-by-line Basis | Ecuador | USD 95.000 | | 100 |
| - Servicios de Ingenieria Maccaferri SA | Line-by-line Basis | Costarica | CRC 1.000.000 | | 100 |
| - Maccaferri do Brasil Holding Participacoes Empresariais e Imobiliares LTDA | Line-by-line Basis | Brazil | BRL 19.410.000 | 51,13 | |
| - Maccaferri Deutschland GmbH | Line-by-line Basis | Germany | € 200.000 | | 100 |
| - Maccaferri Polska Sp Z.O.O. | Line-by-line Basis | Poland | PLN 90.000 | | 100 |
| - Tekno Maccaferri Cerve Teknobijleri | Line-by-line Basis | Turkey | TRY 6.000.000 | 50,00 | |
| - Maccaferri Philippine Manufacturing Inc. | Line-by-line Basis | Philippines | PHP 148.254.001 | 53,70 | |
| - Maccaferri do Brasil Incorporacoes Imobiliares Ltda | Line-by-line Basis | Brazil | BRL 100.000 | | 100 |
| - Maccaferri Industria e Comercio de Artefatos Plasticos Ltda | Line-by-line Basis | Brazil | BRL 19.612.899 | | 33,62 |
| - Maccaferri Environmental Solution D.O.O. | Line-by-line Basis | Serbia | RSD 16.650.000 | 100 | |
| - Maccaferri Magyarorszag Kft | Line-by-line Basis | Hungary | HUF 21.000.000 | | 100 |
| - Maccaferri Romania Srl | Line-by-line Basis | Romania | RON 500.000 | | 65,00 |
| - Maccaferri de Panama S.A. | Line-by-line Basis | Panama | USD 10.000 | | 100 |
| - Bekaert Maccaferri Underground Solutions BVBA | Proportional | Belgium | EUR 9.400.000 | 50,00 | |
| - Maccaferri Innovation Center Srl | Line-by-line Basis | Italy | EUR 10.000 | 100 | |
| - Maccaferri (Hangzhou) Metal works Innov-Tech Co. Ltd | Line-by-line Basis | China | CNY 27.000.000 | | 56,00 |
| - Maccaferri Manufacturing Europe S.R.O. | Line-by-line Basis | Slovakia | EUR 4.025.000 | 99,00 | 1,00 |
| - Maccaferri de Caribe SAS | Line-by-line Basis | Santo Domingo | DOP 3.810.000 | | 100 |
| - Maccaferri Manifattura Italia S.r.l | Line-by-line Basis | Italy | € 10.000 | | 100 |
| - Maccaferri Tunneling Srl | Line-by-line Basis | Italy | € 50.000 | | 100 |

3) CHANGE IN THE CONSOLIDATION AREA

The following changes occurred in the course of 2018:

- Deconsolidation of the Portuguese company Santos Mouta Porto and of the Belgian companies Maccaferri b.v.b.a., which were wound up during 2018;
- Increase in the stake held by Officine Maccaferri S.p.A. in subsidiary Partecipazione a mezzo SIFIR S.r.l., from 80% to 100%;
- Increase in the stake held indirectly by Officine Maccaferri S.p.A., through Officine Maccaferri Italia S.r.l., in Maccaferri Tunnelling S.r.l., from 80% to 100%;
- Increase in the stake held Officine Maccaferri S.p.A. in subsidiary Maccaferri SA PTY LTD, from 56.2% to 100%. During the year, SIMEST (Società Italiana per le Imprese all'estero) and the parent company S.E.C.I. S.p.A. mutually acknowledged, in fact, the exercise of the right of option granted to both counterparties free of charge, for the sale (SIMEST) and purchase (S.E.C.I. S.p.A.) of the equity investments previously held by SIMEST. Subsequently the parent company Officine Maccaferri S.p.A. proceeded with the acquisition of the equity investment from the parent company S.E.C.I. S.p.A..

It should be noted that SIMEST joined the shareholding structure of some Group companies in order to support their own growth plans and those of their subsidiaries. Below are the companies in which SIMEST holds investments, with the related ownership percentage, as well as the year in which it became a shareholder:

- Maccaferri Balkans Sh P.K: during the year SIMEST and the parent company S.E.C.I. S.p.A. mutually acknowledged the exercise of the right of option granted to both counterparties free of charge, for the sale (SIMEST) and purchase (S.E.C.I. S.p.A.) of the equity investments previously held by SIMEST; these investments were in the possession of the parent company S.E.C.I. S.p.A. at the end of the year;
- Maccaferri Asia Ltd for 37.49% (down by 4.98% compared to 42.47% in 2011 after the capital

increase subscribed in 2014 by Officine Maccaferri S.p.A. only); it should be noted that SIMEST's entry into Maccaferri Asia Ltd.'s shareholding structure entailed the latter acquiring two companies in the Tianjin industrial district from Officine Maccaferri S.p.A.; accordingly, the percentage of consolidation of these companies fell from 100% to 62.51% in the case of Maccaferri (Tianjin) Fibers Co. Ltd. and from 80% to 50.01% in the case of Maccaferri (Tianjin) Enviro-Tech Co. Ltd.. In this case too, nevertheless, we continued to consolidate the company on a line-by-line basis since it is still controlled *de facto* by the Maccaferri Group;

- Maccaferri do Brasil Holding Participacoes Empresariais e Imobiliarias LTDA for 48.87% (up by 0.13% compared to 48.74% in 2011 following a further capital increase carried out in 2012);
- Maccaferri Gabions CIS (Russia) for 16.78% (down by 28.56% compared to 45.34% in 2012 after the capital increase subscribed in 2014 by Officine Maccaferri S.p.A. only);
- Maccaferri Philippine Manufacturing Inc. for 46.30% (from 2013);
- Maccaferri Environmental Solutions PVT Ltd: SIMEST proceeded with a partial subscription to a capital increase resolved by the parent company, thus reaching to hold a stake of 7.26% during the year.

It should be noted that the contractual term of SIMEST's investment is 8 years, at the end of which the parent company S.E.C.I. S.p.A. is to buy back its stake.

In addition to the information provided above, it should be noted that the South Korean company SUN-B Maccaferri Co. Ltd. was excluded from the consolidation area, given the impossibility of obtaining the information required for consolidation (under Article 28 of Legislative Decree 127/91) in a timely fashion.

4) REPORTING DATE AND FINANCIAL STATEMENTS USED FOR CONSOLIDATION

The consolidated financial statements have been prepared on the basis of the accounts approved by the shareholders' meetings or, in their absence, on the basis of the draft accounts approved by the Boards of

Directors, reported at 31 December 2018. There are no differences in the reporting dates of the accounts of the Group companies. If the end date of the financial year of a consolidated company is different from the reporting date of the consolidated financial statements, this company is consolidated based on an interim annual report, relating to the date of the consolidated annual financial statements.

5) CONSOLIDATION CRITERIA AND TECHNIQUES

Below are the main consolidation criteria adopted:

- The book values of consolidated investees are written off against their equity on the date on which they were first consolidated and the resulting differences, if negative, are allocated to a specific provision for risks if attributable to the risk of future losses; otherwise they are allocated to consolidated equity under "*Consolidation reserve*". Positive differences arising on first consolidation are allocated to the consolidated financial statements and, if possible, to the asset items of the companies included in the consolidation area; any additional residual difference is entered under an appropriate asset item named "*Goodwill*"; on the other hand, if the difference is not attributable to a higher value of the investee company, it is taken to profit or loss.
- The shares of equity pertaining to the minority interests of the consolidated companies are recognised separately under an appropriate equity item named "*Minority interests' capital and reserves*", whereas the minority interests' share of net result of these companies is shown separately under item "*Profit (loss) for the year attributable to minority interests*" in the consolidated income statement;
- Reciprocal accounts payable and receivable and costs and revenues among consolidated companies and the effects of all significant transactions carried out among them have been written off, net of their tax effect.

Translation into Euro of the financial statements of foreign Companies

The financial statements of foreign subsidiaries are converted into Euro adopting the exchange rates prevailing on the reporting date for the balance sheet, while the income statements have been converted using the average rates for the period. Exchange differences arising from the translation of opening equity at

the rates prevailing at year-end and from the translation of income statements at the average rates for the period have been accounted for under equity.

Below are the exchange rates used:

| Currency | Exchange rate 2018 | | Exchange rate 2017 | |
|-----------------|---------------------------|-------------------------------------------|---------------------------|-------------------------------------------|
| | As of December 31 | Average exchange rate for the year | As of December 31 | Average exchange rate for the year |
| AED | 4,205 | 4,3371 | 4,4044 | 4,14753 |
| ALL | 123,53 | 127,62 | 133,58 | 134,114 |
| ARS | 43,1593 | 32,9094 | 22,931 | 18,7408 |
| BOB | 7,912 | 8,1604 | 8,2872 | 7,8061 |
| BRL | 4,444 | 4,3085 | 3,9729 | 3,6054 |
| BWP | 12,2591 | 12,0301 | 11,8158 | 11,6838 |
| CAD | 1,5605 | 1,5294 | 1,5039 | 1,4647 |
| CLP | 794,37 | 756,94 | 737,29 | 732,607 |
| COP | 3721,81 | 3486,74 | 3580,19 | 3336,1675 |
| CRC | 694,7746 | 681,4441 | 682,8454 | 641,234 |
| DOP | 57,5242 | 58,3906 | 57,7931 | 53,6286 |
| EUR | 1 | 1 | 1 | 1 |
| GBP | 0,89453 | 0,88471 | 0,88723 | 0,87667 |
| GTQ | 8,8523 | 8,8793 | 8,8106 | 8,30372 |
| HKD | 8,9675 | 9,2559 | 9,372 | 8,8045 |
| HUF | 320,98 | 318,8897 | 310,33 | 309,1933 |
| INR | 79,7298 | 80,7332 | 76,6055 | 73,5324 |
| KGS | 79,977 | 81,2745 | 83,0486 | 77,8627 |
| KRW | 1277,93 | 1299,07 | 1279,61 | 1276,74 |
| MXN | 22,4921 | 22,7054 | 23,6612 | 21,3286 |
| MYR | 4,7317 | 4,7634 | 4,8536 | 4,8527 |
| NGN | 350,9425 | 360,9013 | 367,0458 | 350,9375 |
| NPR | 127,5677 | 129,1767 | 122,5688 | 117,6518 |
| PEN | 3,863 | 3,8793 | 3,8854 | 3,68329 |
| PHP | 60,113 | 62,2101 | 59,795 | 56,9734 |
| PLN | 4,3014 | 4,2615 | 4,177 | 4,257 |
| RMB | 7,8751 | 7,8081 | 7,8044 | 7,629 |
| RON | 4,6635 | 4,654 | 4,6585 | 4,5688 |
| RSD | 118,3109 | 118,2365 | 118,6386 | 121,3561 |
| RUB | 79,7153 | 74,0416 | 69,392 | 65,9383 |
| TRY | 6,0588 | 5,7077 | 4,5464 | 4,1206 |
| USD | 1,145 | 1,181 | 1,1993 | 1,1297 |
| VES | 729,8027 | 56.933,48 | 11,978 | 11,2827 |
| ZAR | 16,4594 | 15,6186 | 14,8054 | 15,049 |

6) ACCOUNTING POLICIES

General policies

The accounting policies adopted, which have remained unchanged compared to the previous year, comply with the regulations in force, as interpreted by the accounting principles prepared by the Italian Accounting Board and applicable from time to time. The items have been measured according to the principles of prudence and accruals, as well as on a going concern basis, while taking account of the economic function of any asset or liability item concerned, according to the principle of substance over form.

Accounting standards and policies have been applied uniformly to all consolidated companies. The accounting policies adopted in the consolidated financial statements are those used by the Parent Company Officine Maccaferri S.p.A. and comply with the regulations in force, as interpreted by the accounting principles prepared by the Italian Accounting Board and applicable from time to time.

The principles adopted allow a clear, true and updated view of the Company's financial position, results of operations and cash flows.

It should be noted that the corporate reorganisation procedure aimed at making the parent company Officine Maccaferri S.p.A. a "pure holding company" was completed during 2018, as also described in the notes to the separate financial statements of the parent company Officine Maccaferri S.p.A.. For the purposes of clarity and comparability of the information provided, receivables from the parent company S.E.C.I. S.p.A. were reclassified from item "II – 4) Receivables from parent companies stated in current assets" to item "III – Non-current financial assets– 2 c Receivables from parent companies".

For more details, reference should be made to the relevant paragraph reported in these notes to the financial statements.

Exceptions

There are no exceptions to the accounting policies laid down in the legislation governing annual and consolidated financial statements in either the present or past year's financial statements.

The most significant accounting principles and policies adopted to prepare the consolidated financial statements at 31 December 2018 in compliance with Article 2426 of the Italian Civil Code are described below:

Below are the most significant standards and policies:

INTANGIBLE ASSETS

These are entered at purchase or production cost, including additional charges, and are stated net of amortisation made during the years and charged directly to each item.

Start-up and expansion costs, as well as long-term development costs, have been stated among assets and are amortised over a period of 5 financial years.

Industrial patent and intellectual property rights, licences, concessions and trademarks are amortised at an annual rate of 20% or 33.33%.

Goodwill and consolidation differences are recognised under the appropriate asset item and are amortised over their useful life, which has been estimated upon initial recognition, considering the period in which the economic benefits connected with goodwill will arise. Pursuant to Article 12, paragraph 2, of Legislative Decree 139/2015, the Company has opted for maintaining the criteria previously in force for the calculation of amortization for any goodwill that arose before 1 January 2016 (the useful life was generally estimated as twenty years in view of the lasting nature of business operations undertaken by the Group).

It should be noted that the Company only applies the amortised cost method to payables that arose after the financial year commencing on 1 January 2016; it therefore continues to classify additional costs to loans among "other" intangible assets and to amortise these costs in accordance with the previously applicable Italian Accounting Board principle OIC 24.

Start-up, expansion and development costs have been stated among assets with the consent of the Board of Statutory Auditors.

In accordance with the provisions of the Italian Accounting Board principle OIC 9 "Permanent impairment losses", if there is evidence of a permanent impairment loss, regardless of any amortisation already accounted for, the value of the fixed asset is written down accordingly. If the indications of impairment no

longer exist in subsequent financial years, the original value is reinstated, as adjusted by amortisation only. Intangible assets are measured by making explicit reference to the contribution they give to future results of operations, as well as to their expected useful life and, insofar as it can be determined, to their market value for the purposes of detecting any possible impairment loss and any consequent write-down.

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Property, plant and equipment are accounted for at purchase, construction or contribution cost, including additional charges (if any) and are recognised net of related depreciation funds.

Pursuant to and for the purposes of Article 10 of law 72 of 19 March 1983, as referred to by subsequent revaluation laws, it should be noted that monetary revaluation for assets that are still the property of the Company has been reported below in these notes to the financial statements.

They are depreciated on a straight-line basis applying such rates as are considered to represent their residual useful life. The depreciation period counts from the financial year in which the asset comes into service, during which the above-mentioned rates are reduced by half. The rates applied are reported in the section relating to the notes commenting on assets. Capital assets whose cost is lower than Euro 516.46 are charged to profit or loss in the financial year in which they have been acquired on the basis of their useful life.

Below are the depreciation rates used:

| Category | Rate |
|------------------------------------------------|-------------------|
| Properties | 3,00% |
| Light constructions | 10,00% |
| Plant and machinery | 6,67% - 10% - 20% |
| Industrial equipment | 10% - 20% |
| Other assets: | |
| Office furniture and equipment | 12% |
| Electromechanical and electronic machines | 20% - 33,33% |
| Motor vehicles and means of internal transport | 10% - 20% |
| Cars | 25,00% |

Non-value increasing maintenance and repair costs are charged to profit or loss in the financial year in which they are incurred.

If there is evidence of a permanent impairment loss, regardless of any depreciation already accounted for, the value of the fixed asset is written down accordingly. If the indications of impairment no longer exist in subsequent financial years, the original value is reinstated, as adjusted by depreciation only.

NON-CURRENT FINANCIAL ASSETS

Investments in subsidiaries, which are not included in the consolidation area, and in other companies are valued at purchase or subscription cost and related additional charges, as reduced in case of permanent impairment losses. This lower value is not maintained if the reasons for the adjustment made no longer exist.

Investments in associates are valued at equity, except for the joint venture Bekaert Maccaferri Underground Solutions BVBA, which has been consolidated on a proportional basis.

Investments in other companies are valued at purchase cost.

The remaining non-current financial assets are recognised at cost, reduced to their presumed realisable value if lower.

INVENTORIES

Inventories of raw and secondary materials, and finished products are recognised at the lower of purchase or manufacturing cost and the realisable value that can be inferred from market trends; raw materials are in any case stated at purchase cost when the latter is remunerated by the market price of the finished product. The cost is determined according to the weighted average cost method.

Work in progress is stated on the basis of the costs incurred during the year.

If the value is not recoverable, a "provision for inventory obsolescence" is set aside to take account of goods for which the realisable value is expected to be less than cost. The realisable value is calculated taking account of both manufacturing costs (if any) still to be incurred and direct selling costs.

The original cost of inventories that were possibly written down in previous financial years must be reinstated if the reasons no longer exist which made it necessary to reduce their value down to realisable value.

RECEIVABLES

Receivables are recognised according to the amortised cost method, taking account of the time value and their presumed realisable value.

Specifically, the value upon initial recognition consists of the face value of the receivable, net of any and all premiums, discounts and rebates and including costs (if any) directly attributable to the transaction that generated the claim. Transaction costs, commissions earned and expense (if any) and any difference between the value upon initial recognition and face value at maturity are included in the calculation of the amortised cost using the effective interest method.

An appropriate provision for bad debts has been set aside against any possible risk of insolvency, the

fairness of which in relation to doubtful debts is checked periodically, and, in any case, at the end of each financial year, taking account of both cases of uncollectibility that have already occurred or are likely to occur, and general economic and sector conditions and country risk.

If the application of the amortised cost method and/or discounting-back is found to be immaterial, for the purposes of giving a true and fair view of the Company's financial position and results of operations, receivables are still recognised at their presumed realisable value. This case occurred, for example, when receivables with a maturity of within twelve months or, with reference to the amortised cost method, when transaction costs, commissions and any other difference between the value upon initial recognition and at maturity are of an insignificant amount or, again, in the case of discounting-back, when an interest rate that can be inferred from contract terms and conditions is applied which is not significantly different from the market interest rate.

Receivables have been adjusted at their presumed realisable value through the recognition of a provision for bad debts.

Receivables for deferred tax assets measure the amount of tax on temporary differences between accounting data and the corresponding values for tax purposes. There are reasons to believe that there is reasonable certainty that taxable income of not less than the amount of temporary tax differences that led to the recognition of deferred tax assets will arise in subsequent financial years.

CURRENT FINANCIAL ASSETS

Current financial assets are valued at the lower of historical cost and market value.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are stated at nominal value and are not encumbered or subject to restrictions.

ACCRUALS AND DEFERRALS

Accrued income and prepaid expenses, as well as accrued expenses and deferred income, exclusively include income and expenses earned or incurred during the financial year but to be collected or paid in subsequent months, and income and expenses collected or paid within the reporting date of the financial position but pertaining to subsequent financial periods. In any case these items only include shares of income and expenses spread over two or more financial periods whose amounts vary according to time.

PROVISIONS FOR RISKS AND CHARGES

Provisions for risks and charges are set aside to cover losses or liabilities whose existence is either certain or probable but whose amount and timing could not be determined on the reporting date of the financial position.

These provisions have been measured according to general principles of prudence and accruals and no provisions for general risks without any economic reason have been set aside.

The provisions reflect the best possible estimate based on the elements available at the reporting date of the financial position.

STAFF SEVERANCE PAY FOR SUBORDINATE EMPLOYMENT (TFR)

The staff severance pay (TFR, *Trattamento di Fine Rapporto*) consists of the actual debt accrued to employees in accordance with law and the applicable labour agreements, considering any form of continuing remuneration.

The provision corresponds to the total indemnities accrued to employees at the reporting date of the financial statements, net of any advance paid, and is equal to the amount that should have been paid to employees in the event of the employment contract being terminated on that date.

PAYABLES

Payables are recognised according to the amortised cost method, taking account of the time value. Specifically, the value upon initial recognition consists of the nominal value of the payable, net of transaction

costs and of any and all premiums, discounts and rebates directly arising from the transaction that generated the debt. Transaction costs, commissions earned and expense (if any) and any difference between the value upon initial recognition and nominal value at maturity are included in the calculation of the amortised cost using the effective interest method.

If the application of the amortised cost method and/or discounting-back is found to be immaterial, for the purposes of giving a true and fair view of the Company's financial position and results of operations, payables are still recognised at their nominal value

DERIVATIVES

Derivatives are entered at fair value corresponding to market value, if any, or to the value resulting from valuation models and techniques that are such as to ensure a reasonable approximation to market value. Financial instruments for which it has not been possible to use these methods are valued at their purchase price.

Current values are charged to balance sheet assets, under the specific item of non-current financial assets or current assets according to their allocation, or to liabilities under the specific item of provisions for risks and charges.

Cash flow hedge derivatives are stated against an entry under equity reserves, or, through profit or loss for any ineffective portion.

Any changes in the fair value of derivatives that are speculative and are used to hedge the price of an underlying (fair value hedge) are recognised through profit or loss.

RECOGNITION OF REVENUES AND INCOME, COSTS AND CHARGES

Revenues from sales of goods are recognised on an accruals basis when both the following conditions are fulfilled: the production process of goods or services is completed and the exchange has already taken place, i.e. the title to ownership has been transferred substantially and not formally. In the case of the sale of goods, this moment coincides with the shipment or delivery of personal property. Revenues from services are recognised as at the date when the provision is completed, or, as at the date of accrual of fees for those regulated by contracts subject to periodic payments.

Revenues from sales are recognised net of returned goods, discounts, rebates and premiums, as well as of any tax directly attributable to the sale of goods or the provision of services and any adjustments to revenues accrued during the year are taken as a direct reduction in revenues.

Purchase costs are recognised on an accruals basis. Costs for raw and secondary materials, consumables and goods for resale include any additional purchase costs (transport, insurance, loading and unloading, etc.) if they are included by the supplier in the purchase price of the same; otherwise, they are stated separately under costs for services according to their nature.

Revenues and income, costs and charges relating to transactions carried out in foreign currency are calculated at the exchange rate prevailing on the date on which the transaction has been completed, as adjusted by the coverage exchange rate, if applicable.

Dividends are recognised when, as a result of the resolution passed by the investee company to distribute profits or reserves (if any), the investing company accrues the right to their collection. Dividends are recognised as financial income, regardless of the nature of the reserves being distributed. The investing company assesses whether, following the distribution, the recoverable value of the investment has not decreased to such an extent as to make it necessary to recognise an impairment loss.

TAXES

Each consolidated Company makes appropriations for taxes according to the matching principle. They, therefore, consist of:

- provisions set aside for taxes paid or to be paid for the financial year, as determined according to the rates and rules currently in force;
- the amounts of deferred tax assets or liabilities in relation to temporary differences that emerged or were reversed during the financial year.

Deferred tax assets and liabilities are recognised through profit or loss according to the matching principle.

Deferred tax assets are allocated when there is a reasonable certainty of the availability of sufficient future taxable income for them to be recovered. Deferred tax liabilities are recognised under liabilities unless its recognition is considered unlikely.

Deferred tax assets and liabilities are also recognised in relation to consolidation adjustments.

TRANSLATION OF TRANSACTIONS IN FOREIGN CURRENCY

Receivables and payables originally denominated in a foreign currency are stated at rates prevailing on the date on which they arose, are adjusted at the exchange rates prevailing on the reporting date. The differences arising from the translation of the various receivables and payables are credited/debited to the income statement as financial items.

Current assets and liabilities, as well as non-current financial receivables, are recognized at the spot rate prevailing on the reporting date. Gains and losses arising from the translation of receivables and payables are credited and debited, respectively, to the item 17**bis** Foreign exchange gains and losses in the Income Statement.

Exchange differences arising when accounts receivable and accounts payable are settled in a foreign currency are charged to the Income Statement for the year.

Fixed assets in foreign currencies are stated at the exchange rate at the time of their purchase or adjusted at a lower value applying on the reporting date for the period only if the negative changes have entailed a permanent impairment loss of the fixed assets.

Breakdown of items in the financial statements:

ASSETS

A) SUBSCRIBED CAPITAL UNPAID

No receivables from shareholders for capital payments still due had been recognised on the reporting date.

B) FIXED ASSETS

I - INTANGIBLE ASSETS

The changes in intangible assets that occurred during the year are summarised in the table attached at the foot of these notes to the financial statements.

Concessions, licenses and trademarks recorded a total increase of Euro 742 thousand, gross of amortisation, which mainly related to the capitalisation of rights for the use of software and related implementation costs incurred by Officine Maccaferri S.p.A. (Euro 0.2 million) and CRM costs incurred by subsidiary S.A.S. France Maccaferri (Euro 0.2 million).

Goodwill recorded an increase equal to Euro 2,149 thousand, gross of amortisation, which was due to Officine Maccaferri Italia S.r.l.'s acquisition of 20% of the quota capital of Maccaferri Tunnelling S.r.l. for Euro 2,014 thousand and to Officine Maccaferri S.p.A.'s acquisition of 20% of the quota capital of Partecipazione a mezzo SIFIR S.r.l. for Euro 135 thousand.

Fixed assets under development showed an increase of about Euro 3,219 thousand and mainly relate to the capitalisation of development costs (Euro 1.5 million) and to the SAP and CRM projects being implemented by Officine Maccaferri S.p.A..

The increase in other intangible assets was equal to Euro 0.5 million, an amount of Euro 0.2 million of which relates to leasehold improvements on the part of Maccaferri Tunnelling S.r.l..

II - PROPERTY, PLANT AND EQUIPMENT

The changes in property, plant and equipment that occurred during the year are summarised in the table attached at the foot of these notes to the financial statements.

The main changes in the year concerned the following categories:

- **Land and Buildings**: the increase of Euro 0.1 million mainly related to improvements to buildings carried out by the Indian subsidiary Maccaferri Environmental Solutions PVT Ltd and by the companies in the LATAM countries.

The decreases, net of the respective depreciation fund, mainly concerned the sale of a manufacturing plant located in San Polo D'Enza, which is the property of subsidiary Partecipazione a mezzo SIFIR S.r.l. (Euro 1,439 thousand) and to minor disposals for the remaining amount of Euro 35 thousand.

- **Plant, Machinery**: the main increases related to the following items:
 - Euro 1,157 thousand due in particular to the purchase of equipment for the production of geosynthetics (Euro 0.5 million) for the plant located in Ranjangaon (India) and the purchase of machinery for the Double Twist line (Euro 0.3 million) on the part of Maccaferri Environmental Solutions PVT Ltd.;
 - Euro 865 thousand for the purchase of specific machinery on the part of Maccaferri Tunnelling S.r.l.;
 - Euro 630 thousand for the purchase of specific machinery (Polimac extruders) on the part of Maccaferri de Mexico S.A. De C.V. and Maccaferri Inc.;
 - Euro 429 thousand for the purchase of machinery used for the control of the galvanisation line and the purchase of machinery supporting the Double Twist production line on the part of Maccaferri do Brasil Ltda;
 - Euro 319 thousand for the purchase of spare parts for machinery on the part of Linear Composites Ltd.;
 - Euro 203 thousand for the purchase of new machinery, and related installation costs, for the

Kikkonet production on the part of subsidiary Maccaferri (Malaysia) SDN BHD.

No significant decreases were recorded during the year.

- **Industrial and business equipment:** the increases of Euro 219 thousand mainly concern the other industrial equipment and relate, in particular, to the purchase of equipment used for the production of containments welded wire mesh gabions lined in geotextile (Defencell) on the part of Maccaferri Manifattura Italia S.r.l. and the purchase of accessories supporting the production of gabion baskets on the part of Maccaferri Tunneling S.r.l..
- **Other property, plant and equipment:** the increases concerned equipment for logistics, equipment for offices and corporate machines. The main increases were recorded by the companies in the Asia region and by Officine Maccaferri S.p.A..
- **Fixed assets under construction and advances:** the increases mainly concerned as follows:
 - Euro 2,294 thousand for investments aimed at increasing the production capacity of galvanised wire on the part of subsidiary A. Bianchini Ingegniero S.A.;
 - Euro 1,194 thousand for resale equipment intended to be sold to some affiliates, after maintenance work, on the part of the parent company Officine Maccaferri S.p.A..

Decreases amounted to Euro 502 thousand and fully related to the disposal of machinery on the part of the parent company Officine Maccaferri S.p.A..

Furthermore, it should be noted that the advances relating to prepayments for works expected on the property of the Bellizzi plant were written down in full (Euro 146 thousand) during the year since at present they are regarded as not feasible.

Depreciation was calculated on the basis of the estimated rates in relation to the useful life of the assets, consistent at Group level.

III - NON-CURRENT FINANCIAL ASSETS

Below is the breakdown of non-current financial assets:

| | 31/12/2018 Euro/000 | 31/12/2017 Euro/000 | Variation |
|---------------------------|------------------------|------------------------|----------------|
| <u>Investments</u> | | | |
| - Investments in: | | | |
| Subsidiaries | 289 | 300 | (11) |
| Associated companies | 67 | 769 | (701) |
| Other companies | 121 | 135 | (14) |
| <u>Receivables</u> | | | |
| - Receivables: | | | |
| Parent | 22.505 | 32.000 | (9.495) |
| Others | 4.320 | 4.081 | 240 |
| Total | 27.303 | 37.285 | (9.982) |

For the breakdown of equity investments, reference should be made to the statement attached to these notes to the financial statements.

The value of equity investments in subsidiaries was substantially in line with that posted in the previous year: the decrease of Euro 11 thousand was attributable for Euro 21 thousand to a negative effect due to the translation into Euro of the investments held through the consolidated companies which have an accounting currency other than Euro, which was partially offset by the acquisition of the newly-established investee Marita Maccaferri Marocco Sarl (Euro 10 thousand).

The decrease in equity investments in associates was fully attributable to the full write-down of SUN-B Maccaferri Co. Ltd (at a relevant value of Euro 701 thousand at the reporting date for the 2017 financial year), a company which had been consolidated at Equity until the previous year.

The decrease in equity investments in Other Companies for Euro 14 thousand was attributable to the disposal of minor investments.

Receivables from parent companies include interest-bearing financial loans granted to the parent company S.E.C.I. S.p.A. for Euro 22,205 thousand, which, as reported in the introduction, were reclassified from "receivables from subsidiaries / parent company" among current assets to non-current financial assets for the 2017 financial year, in order to make data comparable.

"*Receivables from others*" related, for an amount of Euro 1,772 thousand, to a receivable of the Parent Company Officine Maccaferri S.p.A. from the minority shareholder of the Indian subsidiary Maccaferri Environmental Solution PVT Ltd, for the sale of a 10% minority interest of the share capital, the collection of which is expected beyond the next financial year; the remaining amount relates to guarantee deposits for Euro 2,389 thousand, of which Euro 815 thousand of the Chinese subsidiary Maccaferri Changsha and Euro 399 thousand of subsidiary Maccaferri Romania S.r.l., and to other long-term receivables, mainly recognised by the Russian subsidiary Maccaferri Gabions CIS. for Euro 159 thousand.

C) CURRENT ASSETS

I - INVENTORIES

Below is the breakdown of inventories:

| | 31/12/2018 Euro/000 | 31/12/2017 Euro/000 | Variation |
|------------------------------------------------------------------|--------------------------------------|--------------------------------------|------------------|
| Net Inventory | | | |
| Inventory: Raw Materials And Purchased Components and Consumable | 30.969 | 29.573 | 1.395 |
| Goods In Progress and Semi-finished goods | 9.414 | 5.226 | 4.188 |
| Finished Goods | 56.512 | 51.722 | 4.790 |
| Advance payments to suppliers for goods | 4.939 | 2.674 | 2.265 |
| Total | 101.833 | 89.195 | 12.638 |

Closing inventories recorded an increase for Euro 12,638 thousand; the most significant changes involved stock of raw materials (Euro 1,395 thousand), work in progress (Euro 4,188 thousand), semi-finished products and goods for resale (Euro 4,790 thousand) and advances (Euro 2,265 thousand).

Closing inventories were recognised net of a provision for write-down of Euro 1,727 thousand, which was set aside, on a prudential basis, to take account of the physiologic obsolescence of some types of products and raw materials.

II - RECEIVABLES

Receivables from customers

Trade receivables from customers are made up as follows:

| | 31/12/2018 Euro/000 | 31/12/2017 Euro/000 | Variation |
|---------------------------|--------------------------------------|--------------------------------------|------------------|
| <u>Receivables</u> | | | |
| Trade receivables | | | |
| - Within 12 months | 126.014 | 130.069 | (4.055) |
| Bad debts reserve | (15.288) | (11.619) | (3.669) |
| Total | 110.726 | 118.450 | (7.724) |

Receivables from customers related to normal sale transactions and were recognised in the consolidated financial statements, net of provisions for bad debts.

Receivables, including the provision for bad debts, decreased by Euro 4,055 thousand, mainly attributable to the Indian affiliate Maccaferri Environmental Solutions PVT Ltd for Euro 3,509 thousand.

Following the measurement of bad debts, the related provision increased by Euro 3,669 thousand, because of the net effect of accruals that amounted to Euro 8,204 thousand (including other changes that include non-recurring provisions accounted for during the year for Euro 5,214 thousand, for which reference should be made to the information reported in item B14 "other operating costs") and that mainly concerned Maccaferri Changsha for Euro 3,330 thousand, Tekno Maccaferri Cerve Teknolojilieri for Euro 1,702 thousand, Officine Maccaferri S.p.A. for Euro 700 thousand, Maccaferri do Brasil Ltda for Euro 592 thousand and Officine Maccaferri Italia S.r.l for Euro 566 thousand. The reduction in the provision for bad debts consisted of exchange rate adjustments for Euro 513 thousand, decreases for Euro 3,980 thousand (of which uses for Euro 3,289 thousand and releases of provisions for Euro 691 thousand), as it can be inferred from the table below:

| | 31/12/2017 Euro/000 | Increases Euro/000 | Other Euro/000 | Decreases Euro/000 | Exchange rate adjustment Euro/000 | Reclassification Euro/000 | 31/12/2018 Euro/000 |
|---------------------------------|------------------------|-----------------------|-------------------|-----------------------|-----------------------------------------|------------------------------|------------------------|
| Allowance for doubtful accounts | 11.619 | 2.990 | 5.214 | (3.980) | (513) | (42) | 15.288 |

The table below reports the breakdown of receivables by geographical area:

| TRADE ACCOUNT RECEIVABLES BY GEOGRAPHIC AREA | | | | | |
|----------------------------------------------|--------|--------|-----------------|-------------------------------------------------------------------------|---------|
| | Italy | Europe | Other Countries | Allowance for doubtful trade account receivables - Customer | Total |
| Trade Account Receivables | 14.261 | 13.317 | 98.436 | (15.288) | 110.726 |

Receivables from subsidiaries

Receivables from subsidiaries amounted to Euro 695 thousand and were mainly made up of receivables claimed from (unconsolidated) subsidiaries of Maccaferri Gabions CIS. Specifically, they include an amount of Euro 403 thousand claimed from Maccaferri Georgia LLC, an amount of Euro 248 thousand claimed from Maccaferri Ukraine LLC and an amount of Euro 9 thousand claimed from Maccaferri Kazakhstan LLC. In addition to the information reported above, this item includes receivables of Euro 35 thousand claimed from Infratex Environmental Services Inc., a company not included in the consolidation area.

Receivables from parent companies

Receivables from the parent company amounted to Euro 6,841 thousand and included Group tax receivables for Euro 6,657 thousand, including IRES (Corporate Income) tax credits of Euro 6,459 thousand resulting from receivables for withholding income taxes from affiliates for the payment of the Group's IRES tax and a Group's VAT credit of Euro 198 thousand. The remaining amount consisted of trade receivables (Euro 183 thousand).

It should be noted that the comparative data for the 2017 financial year have been restated following the reclassification of the interest-bearing financial loan granted to the parent company S.E.C.I. S.p.A. to non-current financial assets, as described in the related paragraph to which reference should be made.

Receivables from entities subject to the control of parent companies

These amounted to Euro 2,137 thousand and included receivables from Sebigas S.r.l. and SAPABA S.p.A., Emerray Mexico, Enerray Mexico, Enerray Usinas Fotovoltaicas Spe, Exergy S.p.A. and Union Transitoria (UTES) Argentina.

Tax receivables and deferred tax assets

Below is the breakdown of tax receivables:

| | 2018 Euro/000 | 2017 Euro/000 | Variation |
|---------------------------------------|-------------------------|-------------------------|------------------|
| <u>Credit for Income Taxes</u> | | | |
| - Short Term | 14.616 | 10.960 | 3.656 |
| - Long Term | - | 643 | (643) |
| Deferred Tax Assets | 33.686 | 26.657 | 7.029 |
| Total | 48.303 | 38.260 | 10.042 |

Both the receivable for deferred tax assets and the provision for deferred tax liabilities were adjusted at the rates prevailing on the reporting date of the consolidated financial statements.

The balance of the receivable for deferred tax assets is made up of: Euro 20,701 thousand generated by temporary differences between Group companies' statutory financial statements and their financial statements for tax purposes, about Euro 5,968 thousand due to the differences generated from bringing local financial statements into line with the Group's accounting standards, Euro 4,761 thousand due to temporary differences arising from the entries in the consolidated accounts and, finally, Euro 2,256 thousand for deferred tax assets relating to write-down of the receivable from Parent Company.

Receivables from others

Below is the breakdown of "Receivables from others":

| | 31/12/2018 Euro/000 | 31/12/2017 Euro/000 | Variation |
|--------------------------------------|------------------------|------------------------|------------|
| <u>Receivables</u> | | | |
| <u>Within 12 months</u> | | | |
| - Receivables from factor | 2.537 | 2.138 | 399 |
| - Advances to suppliers for services | 211 | 1.424 | (1.213) |
| - Other receivables | 9.587 | 7.931 | 1.656 |
| Total | 12.335 | 11.493 | 842 |

Receivables from the factor were assigned receivables that did not meet the requirements for derecognition from the financial statements, as required by the updated version of accounting principle OIC 15.

"Other Receivables" remained substantially unchanged compared to the previous year.

III - CURRENT FINANCIAL ASSETS

| | 31/12/2018 Euro/000 | 31/12/2017 Euro/000 | Variation |
|------------------------------|------------------------|------------------------|-------------|
| Active financial instruments | 25 | 40 | (14) |
| Total | 25 | 40 | (14) |

At 31 December the item included the measurement of derivatives with a positive fair value in place as at 31 December 2018.

IV - CASH AND CASH EQUIVALENTS

Below is the breakdown of cash and cash equivalents:

| | 31/12/2018 Euro/000 | 31/12/2017 Euro/000 | Variation |
|--------------------------|------------------------|------------------------|----------------|
| <u>Cash</u> | | | |
| Bank and postal deposits | 55.854 | 64.125 | (8.271) |
| Cheques | 202 | 17 | 185 |
| Cash on hand | 66 | 1.264 | (1.199) |
| | | | - |
| Total | 56.121 | 65.406 | (9.285) |

These are stated at their nominal value and consist of revenue stamps and deposits actually available and readily convertible into cash. Any interest accrued on amounts of deposits and current accounts has been accounted for on an accruals basis. The balance was due to cash surpluses arising from period-end receipts and from the seasonality of net working capital.

D) ACCRUED INCOME AND PREPAID EXPENSES

Below is the breakdown of accrued income and prepaid expenses at 31 December 2018:

| | 31/12/2018 Euro/000 | 31/12/2017 Euro/000 | Variation |
|---------------------------------------------------|------------------------|------------------------|--------------|
| <u>Accrued income and prepaid expenses</u> | | | |
| Accrued income | 2.867 | 2.759 | 108 |
| Prepaid expenses | 1.013 | 1.828 | (814) |
| Total | 3.880 | 4.587 | (707) |

Accrued income and prepaid expenses, equal to Euro 3,880 thousand, remained substantially unchanged compared to the previous year.

Accrued income, amounting to Euro 2,867 thousand, was mainly made up of income accrued but not yet invoiced at the end of the year, relating to the construction business of Maccaferri Ltd (UK) for Euro 2,287 thousand.

Prepaid expenses, amounting to Euro 1,013 thousand, was mainly made up of lease rentals relating to plants

for Euro 469 thousand and of insurance premiums of Euro 114 thousand.

There are no accruals and deferrals with a maturity of more than five years.

LIABILITIES

A) SHAREHOLDERS' EQUITY

The consolidated shareholders' equity at 31 December 2018 amounted to Euro 42,812 thousand and included "Minority interests' capital and reserves" of Euro 31,338 thousand.

Share Capital

This item, amounting to Euro 33,400 thousand, was divided into 417,500 ordinary shares with a par value of Euro 80.00 each, fully subscribed and paid up.

Revaluation Reserve

The revaluation reserve, amounting to Euro 10,641 thousand, related to the revaluation of Land and Buildings pursuant to Decree Law no. 185/2008, as converted into law no. 2 of 28 January 2009. The amount corresponds to the revaluation of land and buildings, net of the substitute tax paid.

Legal Reserve

This item was made up of the legal reserve of the Parent Company.

| | 31/12/2018 Euro/000 | 31/12/2017 Euro/000 | Variation |
|------------------------------------|--------------------------------|--------------------------------|------------------|
| <i><u>Legal reserve</u></i> | | | |
| Legal reserve | 3.494 | 3.285 | 209 |
| Total | 3.494 | 3.285 | 209 |

The change consisted of the allocation of a portion of the share of the profit for the 2017 financial year to legal reserve as per the resolution passed by the Shareholders' Meeting held on 26 April 2018.

Other reserves

Below is the breakdown of "Other reserves":

| | 31/12/2018 Euro/000 | 31/12/2017 Euro/000 | Variation |
|-------------------------------------------------------|------------------------|------------------------|-----------------|
| <u>Other Reserves (indicated separately)</u> | | | |
| Other reserves | 1.191 | 8.064 | (6.874) |
| Profits and losses carried forward | 34.407 | 38.271 | (3.864) |
| Currency Translation Reserve | (46.248) | (38.473) | (7.776) |
| Total | (10.650) | 7.863 | (18.513) |

"Other reserves" included the Reserve of Euro 4,447 thousand allocated pursuant to Article 55 of Presidential Decree no. 597/1973. The change in Other reserves, as well as in profits and losses carried forward, was due to the allocation of the result for the 2017 financial year and to the distribution of an extra-dividend of Euro 10 million resolved on 31 December 2018, as well as to the distribution of fees to the Board of Directors for Euro 750 thousand, as per the resolution passed by the Parent Company's Shareholders' Meeting on 26 April 2018.

The decrease in equity following the increase in the negative translation reserve for Euro 7,776 thousand was mainly attributable to the depreciation of the Brazilian Real, the Indian Rupee, the Russian Rouble, the Chinese Renminbi and the Argentine Peso.

Cash flow hedge reserve

| | 31/12/2018 Euro/000 | 31/12/2017 Euro/000 | Variation |
|-------------------------------------------------------|------------------------|------------------------|-----------|
| <u>Reserves for hedging expected cash flow</u> | | | |
| Reserves for hedging of expected cash flows | (5) | (11) | 7 |
| Total | (5) | (11) | 7 |

The reserve relates to the measurement of the interest rate risk hedging operation for the Caricento loan, net of related tax effect, which was carried out by parent company Officine Maccaferri S.p.A..

Net profit for the year

This item includes the result for the period.

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY – FY 2018

For the related breakdown, reference should be made to the appropriate schedule, showing the amount of equity at the end of the year.

B) PROVISIONS FOR RISKS AND CHARGES

Below is the breakdown of "Provisions for risks and charges":

| | 31/12/2017 Euro/000 | Increase Euro/000 | Decrease Euro/000 | Exchange rates Euro/000 | Other Euro/000 | 31/12/2018 Euro/000 |
|--------------------------------------------------|------------------------|----------------------|----------------------|----------------------------|-------------------|------------------------|
| 1) Pension Fund and Similar Obligations | 2.790 | 128 | (354) | 89 | (41) | 2.612 |
| 2) Fiscal contingent liabilities | 7.629 | 990 | (316) | (405) | (338) | 7.560 |
| 3) Fund Financial Instruments Derivates | 69 | 887 | - | (2) | - | 953 |
| 4) Other Reserves for Contingency or Other Costs | 3.892 | 6.260 | (3.550) | (160) | 321 | 6.763 |
| Total | 14.379 | 8.265 | (4.220) | (478) | (58) | 17.888 |

The Pension fund related to the liabilities for pension funds for some foreign affiliate companies for an amount of Euro 1,935 thousand and to the agents' termination indemnities for an amount of Euro 677 thousand.

The "*provision for taxes, including deferred taxes*" is made up of a provision for taxes of Euro 1,106 thousand (of which Euro 441 thousand for substitute taxes on dividends to be received from the parent company Officine Maccaferri S.p.A.) and deferred taxes of Euro 6,454 thousand.

The Provision for deferred tax liabilities was made up of:

- Euro 1,982 thousand relating to deferred tax liabilities on temporary differences arising from the annual accounts of the Group companies;
- Euro 2,448 thousand relating to adjustment differences of the annual accounts of the consolidated companies according to the Group's accounting standards;
- Euro 2,024 thousand relating to temporary differences arising from consolidation entries.

Derivative liabilities, amounting to Euro 953 thousand, includes the measurement of derivatives with a

negative fair value in place as at 31 December 2018.

The provision referred to in point 4) mainly covers future expenses and industrial and market risks which are likely to occur.

The increase includes the following non-recurring provisions for Euro 3,150 thousand for disputes pending before Italian and French courts, which arose in previous years in which the management of sales processes was not yet subject to the current strict procedures.

C) STAFF SEVERANCE PAY FOR SUBORDINATE EMPLOYMENT (TFR)

The table below shows the breakdown of this item at year-end:

| <i>T.F.R.</i> | <i>Euro/000</i> |
|----------------------------------------------------|------------------------|
| <i>As of 01.01.2018</i> | <i>1.252</i> |
| Quota accrued and allocated to the Profit and Loss | 666 |
| Net withdrawals (resignations and advances) | (638) |
| Transfer part quota ESP fund to pension funds | (114) |
| Taxation of 11% on revaluation | (1) |
| <i>As of 31.12.2018</i> | <i>1.165</i> |

The staff severance pay (TFR, *Trattamento di Fine Rapporto*) consists of the debt accrued to all employees at the reporting date of the financial position and is calculated in accordance with Article 2120 of the Italian Civil Code, as well as with the provisions prescribed by law and by the contract arrangements in force governing labour law. The balance at 31 December 2018 is stated net of advances paid on termination benefits, including the amount paid into supplementary pension funds.

D) PAYABLES

Below is the breakdown of payables:

Bonds

| | 31/12/2018 Euro/000 | 31/12/2017 Euro/000 | Variation |
|--------------|------------------------|------------------------|-----------|
| Bond issued | 190.000 | 190.000 | - |
| Total | 190.000 | 190.000 | - |

On 5 June 2014 there was a bond issue of an initial amount of Euro 200 million, bearing an interest rate of 5.75% and maturing in a single payment on 1 June 2021, except for an early repayment from 1 June 2018 onwards. Interest is payable on a six-monthly basis, accruing on 1 June and 1 December each year. During 2015, the bond debt was reduced by an amount of Euro 10 million following the repurchase of these securities and their subsequent cancellation, which was made by Parent Company Officine Maccaferri S.p.A..

Payables to banks

Payables to banks are made up as follows:

| | 31/12/2018 | | | | 31/12/2017 |
|-----------------------------------------------------|-------------------|----------------------------------|-------------------------------------------------|-----------------------------|-------------------|
| | Total Euro/000 | Due within 1 year Euro/000 | Due over 1 year - within 5 years Euro/000 | Due over 5 year Euro/000 | Total Euro/000 |
| Overdrafts, hot money, revolving credits facilities | 37.852 | 37.852 | - | | 5.911 |
| Mortgages | 21.320 | 7.577 | 13.743 | | 18.507 |
| TOTAL | 59.172 | 45.429 | 13.743 | - | 24.417 |
| Variation | 34.754 | | | | |

The increase in medium-term payables to banks was due to new loans raised during the year by the parent company and by Maccaferri Manufacturing Europe S.R.O..

Currently the main outstanding loans are the following:

- Cassa di Risparmio di Bologna: raised in 2011 and increased in 2012 for a total amount of Euro 7.6 million, with a residual debt of Euro 1.51 million, to be repaid in 2019 at 6-month EURIBOR plus

spread;

- Cassa di Risparmio di Cento: for an initial amount of Euro 1.5 million disbursed in 2012, with a residual debt of Euro 0.49 million (which was repaid for Euro 0.3 million during 2018) to be repaid in 2020 at 3-month EURIBOR rounded up to the next one-tenth plus spread;
- Banca Popolare di Vicenza for an amount of Euro 2 million disbursed in 2013, and a residual amount equal to Euro 0.56 million (which was repaid for Euro 0.35 million during 2018) to be repaid in 2020, at 3-month EURIBOR with an increase of 0.10 points plus spread;
- Banca Popolare di Milano for an amount of Euro 1.086 million disbursed in 2014, with a residual amount of Euro 0.78 million, subject to pre-amortisation until 2017, to be repaid in 2022 at 6-month index-linked EURIBOR plus spread;
- Banca Ifis for an initial amount of Euro 5 million disbursed in 2017, with a residual debt of Euro 3.1 million, to be repaid in 2021 at 3-month EURIBOR plus spread;
- CARIRA for an initial amount of Euro 3.7 million disbursed in 2016 and a residual amount of Euro 1.6 million, to be repaid in 2020 at 6-month EURIBOR plus spread;
- Slovenska' sporitel'n'a s.a for an initial amount of Euro 5 million disbursed in 2017, to be repaid in 2027 at 1-month EURIBOR plus spread, for a residual debt of Euro 4.5 million;
- Banca Ifis for an initial amount of Euro 5 million in 2018, with bullet repayment in 2020;
- Banca di Bologna for an initial amount of Euro 5 million in 2018, with a residual debt of Euro 3.8 million and repayment in 2020.

It should be noted that there are no debts backed by collaterals.

Other Financial Payables

These payables mainly related to: payables to factoring companies for Euro 3,120 thousand, and financial payables for leases and financial payables for leases for about Euro 931 thousand and other financial payables for Euro 2,166 thousand.

| | 31/12/2018 | | | | 31/12/2017 |
|---------------------------------|-----------------|--------------------------|-----------------------------------------|------------------------|-----------------|
| | <i>Total</i> | <i>Due within 1 year</i> | <i>Due over 1 year - within 5 years</i> | <i>Due over 5 year</i> | <i>Total</i> |
| | <i>Euro/000</i> | <i>Euro/000</i> | <i>Euro/000</i> | <i>Euro/000</i> | <i>Euro/000</i> |
| Other Financial Payables | 6.217 | 3.671 | 2.546 | - | 5.325 |
| Variation | 893 | | | | |

The amount of payables due to other lenders was substantially in line with the balance posted in the previous year.

Advances

This item included payables to customers for amounts paid in advance for supplies.

Payables to suppliers

The payable, equal to Euro 96,056 thousand, showed an increase of Euro 2,142 thousand compared to the previous year against a considerable increase in the business volume recorded by the Group during 2018.

Below is the breakdown of the payables by geographical area:

| TRADE PAYABLES BY GEOGRAPHICAL AREA | | | | |
|-------------------------------------|--------------|---------------|------------------------|--------------|
| | <i>Italy</i> | <i>Europe</i> | <i>Other Countries</i> | <i>Total</i> |
| <i>Trade Payables</i> | 27.138 | 22.711 | 46.206 | 96.056 |

Payables to parent companies

| | <i>31/12/2018</i> <i>Euro/000</i> | <i>31/12/2017</i> <i>Euro/000</i> | <i>Variation</i> |
|--------------------------------------|--------------------------------------|--------------------------------------|------------------|
| Account payables to parent companies | 2.617 | 1.480 | 1.137 |
| Total | 2.617 | 1.480 | 1.137 |

This item included Officine Maccaferri S.p.A.'s payables to the parent company S.E.C.I. S.p.A. for payables connected with the provision of services.

Payables to entities subject to the control of parent companies

These amounted to Euro 2,260 thousand and included payables to Seci Real Estate S.p.A., Seci Energia S.p.A., Sadam Meccanica S.r.l., Sapaba S.r.l., Enerray S.p.A., Sampingranaggi S.r.l. and Sampsistemi Extrusion S.r.l..

Tax payables

The provisions for taxes were set aside on the basis of the Company's results and tax liabilities calculated according to current rules. It is considered, with the agreement of the Company's tax advisors, that when all the various annual accounts are closed there will be no changes to the tax liabilities previously estimated or to the related provisions set aside in the financial statements.

Tax payables, equal to Euro 10,334 thousand, included a payable of Euro 3,035 thousand for the tax debt for the year, net of advances paid, a VAT debt of Euro 5,189 million, an IRAP (Regional Production Activity) tax debt of Euro 166 thousand and a residual amount of Euro 1,944 thousand relating to taxes for personnel and to be paid to the tax authorities.

Payables to social security institutions

This item, amounting to Euro 2,002 thousand, related to the Companies' shares of payables to these institutions at the end of the year.

Other payables

This item is broken down as follows:

| | 31/12/2018 Euro/000 | 31/12/2017 Euro/000 | Variation |
|---------------------------------------|------------------------|------------------------|--------------|
| <u>Sundry debts</u> | | | |
| Debts to employees | 7.096 | 4.006 | 3.090 |
| Business debts to factoring companies | 43.190 | 46.328 | (3.138) |
| Other debts | 8.163 | 8.249 | (85) |
| Total | 58.449 | 58.582 | (134) |

"*Payables to employees*" included the amounts to be paid to the personnel at 31 December 2018, including accruals to the provision for pay in lieu of leave, the share of Christmas bonuses and incentive plan performance bonuses.

"*Trade payables to factoring firms*" included trade payables relating to assignments made to factoring companies by our suppliers.

"*Other payables*" included payables to suppliers for the acquisition of fixed assets for Euro 101 thousand, payables to minority shareholders for dividends for Euro 449 thousand and sundry payables for the remaining portion.

E) ACCRUED EXPENSES AND DEFERRED INCOME

Below is the breakdown of accrued expenses and deferred income:

| | 31/12/2018 Euro/000 | 31/12/2017 Euro/000 | Variation |
|----------------------------------------------------|------------------------|------------------------|--------------|
| <u>Accrued expenses and deferred income</u> | | | |
| Accrued expenses | 7.055 | 5.914 | 1.141 |
| Deferred income | 2.059 | 1.589 | 470 |
| Total | 9.114 | 7.503 | 1.611 |

"*Accrued expenses*" included, for a total amount of Euro 965 thousand, the amount pertaining to Officine Maccaferri S.p.A. of interest accrued at year-end on medium- and long-term loans and interest expense on the bond issue, accrued in December 2018. Accrued expenses also include usufruct rights equal to Euro 457 thousand and sundry accrued expenses for the remaining portion.

COMMITMENTS, GUARANTEES AND POTENTIAL LIABILITIES NOT RESULTING FROM THE BALANCE SHEET

In accordance with Article 2427, paragraph 1, no. 9, of the Italian Civil Code, the commitments, guarantees and potential liabilities, which do not result from the balance sheet, are listed below with the most important details regarding their nature and breakdown.

| | 31/12/2018 Euro/000 | 31/12/2017 Euro/000 | Variation |
|--------------------------------------------------------------------------|------------------------|------------------------|--------------|
| Guarantees and performance bonds issued for the benefit of third parties | 16.275 | 13.965 | 2.311 |
| Total | 16.275 | 13.965 | 2.311 |

Banks for guarantees in favour of third parties: mainly consist of guarantees given to customers for supplies; this item includes an amount of Euro 8,261 thousand relating to Officine Maccaferri S.p.A., an amount of Euro 1,008 thousand relating to S.A.S. France Maccaferri, an amount of Euro 4,531 thousand relating to Maccaferri Environmental Solutions PVT Ltd and an amount of Euro 2,475 issued by Maccaferri do Brasil Ltda in favour of Enerray do Brasil.

INCOME STATEMENT

VALUE OF PRODUCTION

Revenues from sales and services

Below is the breakdown of revenues from sales of goods and the provision of services:

| REVENUES BY BUSINESS CATEGORY | 31/12/2018 Euro/000 | 31/12/2017 Euro/000 | Variation |
|-----------------------------------------------|------------------------|------------------------|---------------|
| Revenues from sales | 491.202 | 442.710 | 48.492 |
| Revenues from services | 29.367 | 35.990 | (6.623) |
| Total revenues from sales and services | 520.569 | 478.699 | 41.869 |

Revenues from sales of goods and the provision of services amounted to Euro 520,569 thousand in the current financial year, showing an increase of about 8.7% compared to the previous financial year. For more details, reference should be made to the Report on Operations.

Revenues by geographical area

| REVENUES BY GEOGRAPHICAL AREA | 31/12/2018 Euro/000 | 31/12/2017 Euro/000 | Variation |
|-------------------------------|------------------------|------------------------|---------------|
| - Italy | 69.326 | 55.295 | 14.031 |
| - European Union | 108.688 | 94.939 | 13.749 |
| - Extra UE | 342.555 | 328.465 | 14.090 |
| Total | 520.569 | 478.699 | 41.870 |

Other earnings and proceeds

This item is made up as follows:

| | 31/12/2018 Euro/000 | 31/12/2017 Euro/000 | Variation |
|-----------------|------------------------|------------------------|----------------|
| Sundry revenues | 12.024 | 14.354 | (2.331) |
| Totale | 12.024 | 14.354 | (2.331) |

Other earnings and proceeds were mainly due to the repayment of transport costs for Euro 3,925 thousand, as well as to capital gains on the disposal of property, plant and equipment and intangible assets for Euro 804 thousand and the release of funds for Euro 1,206 thousand and to other revenues for the remaining part.

During the year the Group received government grants totalling Euro 440 thousand (accounted for under other revenues stated above), an amount of Euro 208 thousand of which was paid to subsidiary Maccaferri Innovation Center (MIC) by the Autonomous Province of Bolzano for the start of some R&D projects, while the grants actually collected from this entity amounted to Euro 280 thousand.

PRODUCTION COSTS

Costs for purchases

Below is the breakdown of this item:

| | 31/12/2018 Euro/000 | 31/12/2017 Euro/000 | Variation |
|-------------------------------------|--------------------------------------|--------------------------------------|------------------|
| <u>Purchasing costs</u> | | | |
| Raw materials and marketing | 300.535 | 268.584 | 31.951 |
| Secondary materials and consumables | 4.757 | 4.357 | 400 |
| Total | 305.292 | 272.941 | 32.351 |

Costs for purchases of raw and secondary materials, consumables and goods for resale amounted to Euro 305,292 thousand, showing an increase in absolute terms, mainly as a result of an increase in value of production; in percentage terms, the impact of the cost of raw materials (including the change in inventories) on the value of production was substantially in line with the previous financial year.

Costs for services

Below is the breakdown of this item:

| | 31/12/2018 Euro/000 | 31/12/2017 Euro/000 | Variation |
|---------------------------------------------------|------------------------|------------------------|--------------|
| <u>Service costs</u> | | | |
| Shipping costs on sales | 17.317 | 15.446 | 1.872 |
| Tax, legal and administrative consulting services | 3.159 | 2.559 | 599 |
| Technical consulting services | 1.034 | 563 | 471 |
| Consulting services | 4.737 | 3.867 | 870 |
| Emoluments | 795 | 679 | 116 |
| Advertising and promotion expenses | 2.383 | 2.212 | 171 |
| Agency costs | 7.533 | 6.807 | 726 |
| Electricity, gas and water | 6.313 | 6.325 | (12) |
| Travel expenses | 7.031 | 7.233 | (202) |
| Telephone and other communication expenses | 1.341 | 1.480 | (139) |
| Bank charges | 1.413 | 1.202 | 211 |
| Insurances | 1.833 | 1.556 | 277 |
| Manufacturing costs | 1.526 | 2.744 | (1.218) |
| Maintenance Costs | 2.177 | 1.445 | 732 |
| Information technology consulting services | 2.357 | 2.667 | (310) |
| Credit management costs | 1.298 | 1.009 | 289 |
| Audit Costs | 932 | 879 | 53 |
| General security and cleaning services | 301 | 214 | 87 |
| Other | 38.715 | 39.489 | (774) |
| Total | 102.196 | 98.375 | 3.821 |

Costs for services amounted to Euro 102,196 thousand, showing an increase of 3.9% in absolute terms, mainly as a result of an increase in value of production; in percentage terms, the impact of the costs for services on the value of production was substantially in line with the previous financial year.

This item includes "non-recurring" costs of Euro 0.3 million incurred by Maccaferri Southern Africa PTY LTD for a revised approach to the South African market, generated by the launch of the Local Government's 'Black Economic Empowerment (BEE)' programme, aimed at redressing inequalities between white and black people.

"Fees due to corporate bodies" for Euro 795 thousand are made up for Euro 622 thousand of costs incurred by the parent company for the fees due to corporate bodies for the functions carried out during the 2018 financial year, as required pursuant to point 16 of Article 2427 of the Italian Civil Code (Euro 578 thousand for the Board of Directors, Euro 44 thousand for the Board of Statutory Auditors). The remaining costs of

Euro 173 thousand related to the fees due to the corporate bodies of the other Group' companies.

Other costs include external manufacturing costs of Euro 29,147 thousand (down by Euro 3,341 thousand compared to the previous year) and additional purchase costs of Euro 6,805 thousand of (mainly incurred mainly in the LATAM and EMEA areas).

Personnel costs

The breakdown of these costs, which amounted to Euro 86,262 thousand, showing an increase of Euro 83,061 thousand compared to 2017, is already provided in the income statement schedule.

Below is the breakdown of changes recorded during the year in relation to the number of staff members divided by category:

| | 31/12/2017 | Reclassification | Increases | Decreases | 31/12/2018 | Average |
|-------------------|--------------|------------------|--------------|------------|--------------|--------------|
| Top Management | 83 - | 4 | 8 - | 10 | 77 | 80 |
| Employees | 1.520 | 15 | 195 - | 167 | 1.563 | 1.541 |
| Workers | 1.401 - | 104 | 129 - | 59 | 1.367 | 1.384 |
| Temporary Workers | 356 | 93 | 248 - | 152 | 545 | 450 |
| Total | 3.359 | - | 580 - | 388 | 3.551 | 3.455 |

Personnel costs for 2018 include costs for incentives and corporate restructuring totalling Euro 1,483 thousand, arising from a project to reorganise the human resources structure at a worldwide level.

Sundry operating costs

| | 31/12/2018 Euro/000 | 31/12/2017 Euro/000 | Variation |
|--------------------------|------------------------|------------------------|---------------|
| Other management charges | 20.600 | 2.530 | 18.070 |
| Total | 20.600 | 2.530 | 18.070 |

Sundry operating costs amounted to Euro 20,600 thousand and included non-recurring costs of Euro 18,869 thousand, losses on receivables for Euro 464 thousand, capital losses from the disposal of property, plant and equipment for Euro 421 thousand and other recurring costs for the remaining portion.

Non-recurring costs mainly related to:

- An amount of Euro 6,297 thousand because of a computer fraud suffered by our US-based affiliate. Officine Maccaferri has actively collaborated with the competent judicial and investigation authorities (FBI in the United States and Hong Kong Police forces) to trace the causes and identify those responsible for the incident. To date, only a small part of the subtracted sum has been recovered, but the case has not yet been resolved. This incident falls within the scope of international criminal offences, but also of a very serious breach of any internal regulation governing the management of corporate finance, since the sums were transferred without informing the parent company and completely disregarding the severe authorisation procedures underlying any financial transaction of our Group. The top management staff and the AFC management of our US affiliate have been removed from their office and the company has resumed its ordinary course of business, without any impact on its operational continuity, in direct coordination with the parent company. This event must be considered as unique and unrepeatable, also in consideration of the fact that the Group has further strengthened security and procedure control checks at all its company offices worldwide;
- Accruals of Euro 3,800 thousand to the provision for bad debts set aside for Euro 3.1 million by Maccaferri Changsha (China) following a specific debt collection audit that entailed a full review of credit lending and management procedures. The remaining amount of the provision was set aside by Officine Maccaferri S.p.A. for accounts receivable before its transformation into a pure Holding company, which took place from 1 January 2016;
- Accruals and provisions for bad debts of Euro 2,935 thousand set aside by Tekno Maccaferri Cerve Teknolojileri, based in Turkey, relating to an amount claimed from a customer resident in a neighbouring state that, due to financial difficulties, cannot make payments outside national borders;
- An amount of Euro 1,835 thousand set aside for a lawsuit involving Officine Maccaferri S.p.A., with an unexpectedly negative outcome, linked to a dispute arising from a supply dating back to more than ten years ago when the management of sales processes was not yet subject to the current strict procedures. For the purpose of understanding the total impact through profit or loss relating to this lawsuit, we must also consider an amount of Euro 1,280 stated under B12 "accrual to provision for

risks" used during the year;

- An amount of Euro 722 thousand for devaluation of some prior-year long-term contracts of the subsidiary Tekno Maccaferri Cerve Teknolojileri (Turkey).
- Costs of Euro 324 thousand relating to the winding-up of some subsidiaries.

FINANCIAL INCOME AND COSTS

Income from equity investments

This item amounted to Euro 63 thousand and included revenues from dividends received from Infratex Environmental Services Inc., based in the Philippines, which is not included in the consolidation area.

Other financial income

This item amounted to Euro 4,483 thousand and related for Euro 3,687 thousand to interest income of Officine Maccaferri S.p.A. from the parent company S.E.C.I S.p.A., which mainly accrued on the loan, whose balance at 31 December 2018 amounted to Euro 22,505 thousand, to bank interest income for Euro 178 thousand and to other interest income for Euro 618 thousand.

Interest and other financial costs

Below is the breakdown of this item:

| | 31/12/2018 Euro/000 | 31/12/2017 Euro/000 | Variation |
|----------------------------------------------------|------------------------|------------------------|--------------|
| <u>Interest and other financial charges</u> | | | |
| Interest expenses on debts to banks | 2.930 | 2.172 | 758 |
| Interest Charges on Mortgages | 656 | 569 | 87 |
| Interest expenses on debts to other financiers | 253 | 277 | (24) |
| Interest charges vs Factoring | 1.828 | 1.532 | 295 |
| Interest expenses on bonds | 10.990 | 10.925 | 65 |
| Interest expenses on other debt | 1.605 | 1.096 | 509 |
| Other financial charges | 916 | 1.177 | (261) |
| Total | 19.178 | 17.749 | 1.429 |

The total increase in interest expense was mainly due to a higher recourse to factoring and to loans.

Interest expense on other loans includes rights of usufruct due to SIMEST (Società Italiana per le Imprese all'estero).

Foreign exchange gains and losses

Net foreign exchange losses of the year amounted to Euro 3,110 thousand and arose from an average depreciation of some currencies against the Euro, in particular the Turkish Lira, the Argentine Peso, the Brazilian Real and the Indian Rupee.

VALUE ADJUSTMENTS TO FINANCIAL ASSETS

"Revaluations" include the effect of the measurement of exchange risk hedging derivatives, equal to Euro 208 thousand.

"Write-downs" amounted to Euro 11,337 thousand and mainly included the write-down of the financial receivable from the Parent Company for Euro 9,400 thousand (for more details, reference should be made to the information reported in the paragraph on the "Going-concern principle and outlook") and the effect of the measurement of exchange risk hedging derivatives for Euro 1,296 thousand.

In accordance with its internal policy, the Group does not use financial instruments for speculative purposes; below is the summary of the mark-to-market of derivatives in place at the reporting date:

| <i>Società del Gruppo</i> | <i>Contratto N.</i> | <i>Tipologia del contratto derivato</i> | <i>Finalità</i> | <i>Valuta</i> | <i>Valore nozionale</i> | <i>Rischio finanziario sottostante</i> | <i>Valuta</i> | <i>Fair Value in valuta</i> | <i>Fair Value in Euro</i> |
|-------------------------------------|---------------------|-----------------------------------------|-----------------|---------------|-------------------------|----------------------------------------|---------------|-----------------------------|---------------------------|
| Officine Maccaferri SpA | EFD138727 | FORWARD | Copertura | Euro | 3.000.000 | Rischio di tasso di cambio | Euro | - 265.919 | - 265.919 |
| Officine Maccaferri Italia Srl | EFD135935 | FORWARD | Copertura | Euro | 2.345.582 | Rischio di tasso di cambio | Euro | - 271.305 | - 271.305 |
| Officine Maccaferri Italia Srl | EFD135936 | FORWARD | Copertura | Euro | 2.872.349 | Rischio di tasso di cambio | Euro | - 258.321 | - 258.321 |
| Maccaferri Inc. | EFD133509 | FORWARD | Copertura | Euro | 861.163 | Rischio di tasso di cambio | USD | - 74.399 | - 64.977 |
| Maccaferri Canada Ltd. | EFD138385 | FORWARD | Copertura | Euro | 142.716 | Rischio di tasso di cambio | USD | - 7.235 | - 6.318 |
| Maccaferri Canada Ltd. | EFD120350 | FORWARD | Copertura | USD | 92.643 | Rischio di tasso di cambio | USD | 6.686 | 5.839 |
| Maccaferri Enviromental Solution PL | 3298531 | FORWARD | Copertura | USD | 94.118 | Rischio di tasso di cambio | INR | - 219.084 | - 2.748 |
| Maccaferri Enviromental Solution PL | 3298529 | FORWARD | Copertura | USD | 109.140 | Rischio di tasso di cambio | INR | - 254.317 | - 3.190 |
| Maccaferri Enviromental Solution PL | 3298509 | FORWARD | Copertura | USD | 81.675 | Rischio di tasso di cambio | INR | - 175.951 | - 2.207 |
| Maccaferri Enviromental Solution PL | 3298520 | FORWARD | Copertura | USD | 81.675 | Rischio di tasso di cambio | INR | - 182.873 | - 2.294 |
| Maccaferri Enviromental Solution PL | 3298513 | FORWARD | Copertura | USD | 110.160 | Rischio di tasso di cambio | INR | - 237.588 | - 2.980 |
| Maccaferri Enviromental Solution PL | 3298517 | FORWARD | Copertura | USD | 16.637 | Rischio di tasso di cambio | INR | - 37.093 | - 465 |
| Maccaferri Enviromental Solution PL | 3320653 | FORWARD | Copertura | USD | 136.620 | Rischio di tasso di cambio | INR | - 100.454 | - 1.260 |
| Maccaferri Enviromental Solution PL | 3369547 | FORWARD | Copertura | USD | 54.450 | Rischio di tasso di cambio | INR | - 14.055 | - 176 |
| Maccaferri Enviromental Solution PL | 3369543 | FORWARD | Copertura | USD | 70.673 | Rischio di tasso di cambio | INR | - 16.959 | - 213 |
| Maccaferri Enviromental Solution PL | 3369529 | FORWARD | Copertura | USD | 104.748 | Rischio di tasso di cambio | INR | - 25.734 | - 323 |
| Maccaferri Enviromental Solution PL | 3369501 | FORWARD | Copertura | USD | 149.040 | Rischio di tasso di cambio | INR | - 28.273 | - 355 |
| Maccaferri Enviromental Solution PL | 3369550 | FORWARD | Copertura | USD | 16.435 | Rischio di tasso di cambio | INR | - 4.679 | - 59 |
| Maccaferri Enviromental Solution PL | 3369548 | FORWARD | Copertura | USD | 60.500 | Rischio di tasso di cambio | INR | - 15.750 | - 198 |
| Maccaferri Enviromental Solution PL | 3289176 | FORWARD | Copertura | Euro | 1.000.000 | Rischio di tasso di cambio | INR | -2.609.847 | - 32.734 |

Write-downs of financial assets include the items referred to above, as well as the full write-down of the

equity investment held in associate SUN-B Maccaferri Co. Ltd (South Korea) for Euro 533 thousand, and the write-down of equity investments made by Maccaferri Gabions CIS in relation to its unconsolidated subsidiaries for Euro 108 thousand (Maccaferri Georgia LLC for Euro 96 thousand, Maccaferri Kazakhstan LLC for Euro 11 thousand and Maccaferri Ukraine LLC for Euro 1 thousand, respectively).

INCOME TAXES FOR THE YEAR

| | 31/12/2018 Euro/000 | 31/12/2017 Euro/000 | Variation |
|------------------------|--------------------------------------|--------------------------------------|------------------|
| <u>Taxes</u> | | | |
| Current Taxes | 6.463 | 6.123 | 339 |
| Active Deferred Taxes | (8.034) | (5.572) | (2.462) |
| Passive Deferred Taxes | (212) | 768 | (981) |
| Total | (1.783) | 1.320 | (3.103) |

This item includes the effect of the adjustment to deferred tax assets and liabilities, as well as taxes of Euro 903 thousand for previous years, mainly arising from differences in the calculation of income tax for the various Group companies.

OTHER INFORMATION**Related parties**

Reference should be made to the annexes concerning credit and debit relations with parent, subsidiary, associated companies and entities controlled by parent companies, as well as to the statements of revenues and costs realised at arm's length.

Information on the financial instruments issued by the company

As regards the share capital and the bonds, reference should be made to the items "*Share Capital*" and "*Bonds*" commented on above.

Information on auditing fees

Pursuant to Article 2427, 16-*bis* of the Italian Civil Code, the fees due to the Group's independent auditors, EY S.p.A. and to the other entities in its network, which accrued in the 2018 financial year, are summarised below:

| | 31/12/2018 Euro/000 | 31/12/2017 Euro/000 | Variation |
|---------------------------------------------------|--------------------------------------|--------------------------------------|------------------|
| <u>Auditing fees</u> | | | |
| Statutory audit of accounts of the Parent Company | 115 | 115 | - |
| Statutory audit of accounts of foreign companies | 521 | 445 | 76 |
| Total | 636 | 560 | 76 |

Subsequent events

As already detailed in the paragraph on the going-concern principle, to which reference should be made for more details, following an initial approval of the draft 2018 financial statements, information was received about the financial position of the parent company S.E.C.I. S.p.A. (hereinafter also referred to as the "Parent Company"); this information was such as to require new assessments of the actual recoverability of the receivables from the Parent Company recognised in the financial statements at 31 December 2018, as a result of reporting impairment indicators that were worse than those observed at the time of previous assessments.

The Directors calculated a write-down of Euro 10 million, taking account of both the possible alternative

solutions that the Parent Company is currently considering and the operations to allow third-party industrial partners to acquire capital interests aimed at strengthening the Group's growth.

Since the process of analysing the outstanding debt position is still in progress on the part of S.E.C.I. S.p.A., the write-down concerned has been recognised in the accounts according to the principle of prudence inherent in their preparation and has been prepared on the basis of the best estimate made according to the information made available by the Parent Company.

In addition to the above, during the first quarter of 2019, following the approval by the Turkish local antitrust authority, the parent company Officine Maccaferri S.p.A. completed the acquisition of the remaining 50% of the investment held in the Turkish subsidiary "Tekno Maccaferri Cerve Teknolojileri", which subsequently changed its name to "Maccaferri Turkey". Again during the first quarter of 2019, the Group completed the acquisition of a small group operating in the rockfall protection sector, mainly active in the Italian market.

Finally, on 10 May 2019 the Shareholders' Meeting of Officine Maccaferri S.p.A. appointed the members of the new Board of Directors. On that date, Paolo Ramadori, serving as Chief Executive Officer, left the leadership of the Group in agreement with the Company.

STATEMENT OF RECONCILIATION OF THE PARENT COMPANY'S STATUTORY FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

The statement below is a summary of the differences between the parent company's statutory financial statements and consolidated financial statements as regards the items which impact on the result for the year and on equity. All the items in this statement of reconciliation are presented net of the effect of deferred tax liabilities, which is recognised in the consolidated financial statements.

| RECONCILIATION OF SHAREHOLDERS' EQUITY AND INCOME FOR THE YEAR OF THE PARENT COMPANY WITH CORRESPONDING CONSOLIDATED FIGURES | | |
|-------------------------------------------------------------------------------------------------------------------------------------|----------------------------|----------------------------|
| | Current year | |
| | Profit Euro/000 | Equity Euro/000 |
| Shareholders' equity and profit for the year shown in the Officine Maccaferri S.p.A. separate financial statement | (7.989) | 46.548 |
| Elimination of investments in consolidated subsidiaries and of the pertaining equity and current year profit/(loss) | (4.923) | (37.437) |
| Elimination of intragroup (gain)/losses | 85 | (8.473) |
| Equity evaluation | - | - |
| Elimination of impairment of investments in consolidated subsidiaries | (1.425) | 11.394 |
| Elimination of intragroup dividends | (11.154) | (558) |
| | (12.495) | 2.362 |
| Group Shareholders' equity and profit for the year shown in the Officine Maccaferri Group consolidated financial statement | (25.407) | 11.474 |
| Attributable to non-controlling interests | (2.182) | 31.338 |
| Total equity and profit for the year shown in the Officine Maccaferri Group consolidated financial statement | (27.590) | 42.812 |

□ □ □

These consolidated financial statements, which are made up of the Balance Sheet, the Income Statement, the Notes to the financial statements and the Cash Flow Statement and are accompanied by the Report on Operations, give a true and fair view of the Group's financial position, results of operations and cash flows for the year.

for The Board of Directors

The Chairman

The Board of Statutory Auditors

SCHEDULES

- 1) STATEMENT OF CHANGES IN INTANGIBLE ASSETS FOR THE FINANCIAL YEAR ENDED 31/12/2018
- 2) STATEMENT OF CHANGES IN PROPERTY, PLANT AND EQUIPMENT FOR THE FINANCIAL YEAR ENDED 31/12/2018
- 3) STATEMENTS RELATING TO THE EQUITY INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND OTHER COMPANIES
- 4) STATEMENT OF CHANGES IN EQUITY
- 5) STATEMENTS RELATING TO RELATIONS WITH ENTITIES SUBJECT TO THE CONTROL OF PARENT COMPANIES

ATTACHMENT 2) TABLE OF VARIATIONS OF INTANGIBLE FIXED ASSETS FOR THE FINANCIAL YEAR ENDING ON 31/12/2018

| | 31/12/2017 | | | | | Current year movements | | | | | | | Exchange rates variation | Net value as of 31/12/2018 |
|--------------------------------------------------------------------|------------------|--------------|---------------------------------------|-----------|------------------|---------------------------------------|------------------|------------------------|---------------------------------------|------------------|---------------------------------------|-----------------|--------------------------|----------------------------|
| | Historical costs | Revaluations | Cumulated depreciation and impairment | Net Value | Reclass | | Increase | | Decrease | | | | | |
| | | | | | Historical costs | Cumulated depreciation and impairment | Historical costs | Internal constructions | Cumulated depreciation and impairment | Historical costs | Cumulated depreciation and impairment | Other movements | | |
| Set up and expansion costs | 1.796 | - | (825) | 971 | 2 | (1) | - | - | - | - | - | (312) | 5 | 664 |
| Development costs | 2.395 | - | (2.244) | 151 | 781 | - | 11 | - | - | (12) | 12 | (220) | 1 | 725 |
| Industrial patent rights and rights to use intellectual properties | 673 | 22 | (487) | 209 | - | (66) | 36 | - | - | - | - | (37) | (1) | 141 |
| Concessions, licenses, trademarks and similar rights | 12.702 | - | (9.128) | 3.574 | 763 | 16 | 742 | - | - | (146) | 146 | (1.510) | (80) | 3.555 |
| Goodwill | 32.745 | - | (13.041) | 19.706 | - | - | 2.149 | - | - | - | - | (2.288) | (29) | 19.588 |
| Intangible assets under development and downpayments | 3.251 | - | - | 3.251 | (1.890) | - | 1.361 | - | - | - | - | - | (33) | 4.702 |
| Other | 10.857 | - | (5.314) | 5.544 | (888) | 308 | 504 | - | - | (238) | 281 | (1.709) | (33) | 4.504 |
| Total intangible assets | 64.289 | 22 | (31,037) | 33,273 | 6,461 | 66 | 6,661 | - | - | (439) | 439 | (6,707) | (65) | 33,879 |

| ATTACHMENT 2) TABLE OF VARIATIONS OF TANGIBLE FIXED ASSETS FOR THE FINANCIAL YEAR ENDING ON 31/12/2018 | | | | | | | | | | | | | |
|--------------------------------------------------------------------------------------------------------|------------------|--------------|---------------------------------------|-----------|---------------------------------------|------------------------|---------------------------------------|------------------|---------------------------------------|------------------|-----------------|--------------------------|----------------------------|
| | 31/12/2017 | | | | | Current year movements | | | | | | Exchange rates variation | Net value as of 31/12/2018 |
| | Historical costs | Revaluations | Cumulated depreciation and impairment | Net Value | Reclass | | Increase | | Decrease | | Other movements | | |
| | | | | | Cumulated depreciation and impairment | Historical costs | Cumulated depreciation and impairment | Historical costs | Cumulated depreciation and impairment | Historical costs | | | |
| | | | | | | | | | | | | | |
| Land and buildings | 60,436 | 2,852 | (16,748) | 46,540 | 1,121 | 37 | - | 139 | (2,256) | 782 | - | (1,800) | 42,808 |
| Plants and machinery | 107,356 | - | (61,678) | 45,678 | 1,982 | 28 | - | 4,126 | (4,126) | 50 | - | (6,277) | 39,403 |
| Industrial and commercial equipment | 9,056 | - | (5,320) | 3,737 | 701 | 11 | - | 219 | (318) | 50 | - | (105) | 3,871 |
| Other fixed assets | 12,326 | - | (9,746) | 2,590 | (2) | (21) | - | 1,144 | (303) | 270 | - | (820) | 2,812 |
| Fixed assets in progress and advances | 4,998 | - | - | 4,998 | (3,769) | - | - | 4,972 | (502) | (146) | - | (122) | 5,431 |
| Total property, plant and equipment | 194,171 | 2,852 | (93,482) | 103,542 | 34 | 55 | - | 10,774 | (3,545) | 1,182 | - | (9,870) | 98,735 |

ATTACHMENT 3) TABLES RELATING TO THE INVESTMENTS IN SUBSIDIARY AND ASSOCIATED COMPANIES AND OTHER COMPANIES 31/12/2018

| Name | Country | Share capital (/000) | Ownership % | Carrying amount € /000 | |
|-------------------------------------------------------------|---------------|----------------------|-------------|------------------------|------------|
| <u>Investments in subsidiaries</u> | | | | | |
| Maccaferri Tunisie | Tunisia | TND | 1.148 | 100,00 | 1 |
| Uzbekistan-Russian Joint Venture Maccaferri-Fergana LLC | Uzbekistan | USD | 300 | 51,00 | - |
| Maccaferri Kazakhstan LLC | Kazakhstan | KZT | 6.200 | 100,00 | - |
| Maccaferri Ukraine LLC | Ucraina | UAH | 1 | 100,00 | - |
| Maccaferri Georgia LLC | Georgia | GEL | 30 | 100,00 | - |
| Maccaferri Honduras | Honduras | HNL | 1.954 | 100,00 | 69 |
| Maccaferri Nicaragua | Nicaragua | NIO | 1.572 | 100,00 | 43 |
| Maccaferri de Chile Ltda | Cile | CLP | 161.629 | 100,00 | 164 |
| Maccaferri du Maroc | Marocco | MAD | 10 | 100,00 | 3 |
| Marita Maccaferri Marocco Sarl | Morocco | MAD | 100 | 55,00 | 10 |
| | | | | | 289 |
| <u>Investments in associated and other companies</u> | | | | | |
| Consorzio tutela gabbioni | Italia | EUR | 5 | 25,00 | 3 |
| Bekaert Maccaferri Underground Solutions S.r.l. | Italia | EUR | 10 | 50,00 | 15 |
| Infratex Environmental Services Inc | Filippine | PHP | 3.045 | 40,00 | 50 |
| Other counterparties | | EUR | - | 0,00 | 121 |
| SUN-B Maccaferri Co. Ltd | Korea del Sud | KRW | 3.731.000 | 50,00 | - |
| | | | | | 188 |
| Total | | | | | 477 |

ATTACHMENT 4) TABLE OF VARIATION OF SHAREHOLDERS' EQUITY FOR THE FINANCIAL YEAR ENDING 31/12/2018

| | Share capital | Legal Reserve | Monetary revaluation reserves | Other reserves | Reserves for hedging of expected cash flows | Net income for the year | Retained earnings | Currency translation reserve | Group Equity | Equity attributable to non-controlling interest | Total Group Equity and Equity attributable to non-controlling interest |
|-------------------------------------------------------------------|---------------|---------------|-------------------------------|----------------|---------------------------------------------|-------------------------|-------------------|------------------------------|---------------|-------------------------------------------------|------------------------------------------------------------------------|
| As of 31/12/2017 | 33.400 | 3.285 | 10.641 | 8.064 | (11) | 218 | 38.271 | (38.473) | 55.396 | 35.400 | 90.796 |
| Allocation of prior year results to the reserves | - | 209 | - | 3.978 | - | (218) | (3.969) | - | - | - | - |
| Allocation of prior year results | - | - | - | - | - | - | - | - | - | - | - |
| Allocation of extraordinary reserve due to Extraordinary Assembly | - | - | - | (10.750) | - | - | - | - | (10.750) | (963) | (11.713) |
| Movements deriving from consolidation process | - | - | - | (101) | - | - | 105 | (7.776) | (7.772) | (917) | (8.689) |
| Other variations | - | - | - | - | 7 | - | - | - | 7 | - | 7 |
| Current year result | - | - | - | - | - | (25.407) | - | - | (25.407) | (2.182) | (27.589) |
| As of 31/12/2018 | 33.400 | 3.494 | 10.641 | 1.191 | (5) | (25.407) | 34.407 | (46.248) | 11.474 | 31.338 | 42.812 |

SCHEDULE 5) STATEMENTS RELATING TO RELATIONS WITH ENTITIES SUBJECT TO THE CONTROL OF PARENT COMPANIES
STATEMENT OF RECEIVABLES FROM ENTITIES SUBJECT TO THE CONTROL OF PARENT COMPANIES AT 31 DECEMBER 2018
AT 31 DECEMBER 2018

| Entities | Total |
|------------------------------------|------------------|
| SAPABA SPA | 1.589.636 |
| ENERRAY MEXICO | 26.152 |
| EXERGY S.p.A. | 62.390 |
| Enerray Usinas Fotovoltaicas Spe | 360.254 |
| Sebigas S.r.l. | 83.120 |
| Union Transitoria (UTES) Argentina | 15.018 |
| TOTAL | 2.136.570 |

STATEMENT OF PAYABLES TO ENTITIES SUBJECT TO THE CONTROL OF PARENT COMPANIES AT 31 DECEMBER 2018

| Entities | Total |
|---------------------------------|------------------|
| SAPABA SPA | 813.511 |
| SADAM SPA | 373 |
| S.E.M. Sadam Engineering e Mecc | 619.746 |
| ENERRAY S.p.A. | 18.622 |
| SECI ENERGIA S.p.A. | 6.040 |
| Samplingranaggi S.r.l. | 29.445 |
| Sampsistemi Extrusion S.r.l. | 772.309 |
| TOTAL | 2.260.046 |

STATEMENT OF REVENUES FROM ENTITIES SUBJECT TO THE CONTROL OF PARENT COMPANIES AT 31 DECEMBER 2018

| Entities | Total |
|-------------------------------------|----------------|
| SAPABA SPA | 54.079 |
| ENERRAY MEXICO | 202.490 |
| ENERRAY S.p.A. | 3.915 |
| EXERGY S.p.A. | 276.936 |
| Sebigas S.r.l. | 122.636 |
| Union Transitoria (UTES) Argentina | 64.931 |
| Infratex Environmental Services Inc | 34.611 |
| TOTAL | 759.598 |

STATEMENT OF COSTS TO ENTITIES SUBJECT TO THE CONTROL OF PARENT COMPANIES AT 31 DECEMBER 2018

| Entities | Total |
|---------------------------------------------|------------------|
| SAPABA SPA | 2.147.139 |
| S.E.M. Sadam Engineering e Meccanica S.r.l. | 1.589.741 |
| ENERRAY S.p.A. | 19.695 |
| SECI ENERGIA S.p.A. | 8.000 |
| EXERGY S.p.A. | 8.157 |
| SAMPSISTEMI S.R.L. | 29 |
| SSOLAR S.R.L. | 877 |
| Sampingranaggi S.r.l. | 24.735 |
| TOTAL | 3.798.373 |

STATEMENT OF RECEIVABLES FROM THE PARENT COMPANY AT 31 DECEMBER 2018**S.E.C.I. Società Esercizi Commerciali Industriali S.p.A.**

| | |
|------------------------------------------------------------|-------------------|
| Receivables to parent company | 69.900 |
| Receivables to parent company from invoices to be issued | 113.596 |
| Interest-bearing financial account due to parent companies | 22.505.024 |
| Receivables to parent companies for liquidation Group VAT | 197.766 |
| Receivables to parent companies for liquidation Group IRES | 6.459.471 |
| TOTAL | 29.345.757 |

STATEMENT OF PAYABLES TO THE PARENT COMPANY AT 31 DECEMBER 2018**S.E.C.I. Società Esercizi Commerciali Industriali S.p.A.**

| | |
|---------------------------------------------------------|------------------|
| Payables to parent companies | 360.063 |
| Payables to parent companies for liquidation Group IRES | 1.478.658 |
| Payables to parent companies for liquidation Group VAT | 777.841 |
| TOTAL | 2.616.562 |

STATEMENT OF REVENUES FROM THE PARENT COMPANY AT 31 DECEMBER 2018**S.E.C.I. Società Esercizi Commerciali Industriali S.p.A.**

| | service | Other revenues from recurring operation | interest | TOTAL |
|-------------------------------------------------------|----------------|-----------------------------------------|------------------|------------------|
| S.E.C.I. Società Esercizi Commerciali Industriali spa | 113.596 | 31.530 | 3.687.271 | 3.832.397 |
| TOTALE | 113.596 | 31.530 | 3.687.271 | 3.832.397 |

STATEMENT OF COSTS TO THE PARENT COMPANY AT 31 DECEMBER 2018

S.E.C.I. Società Esercizi Commerciali Industriali S.p.A.

| | Services |
|--------------------------------------------------------------|-----------------|
| S.E.C.I. Società Esercizi Commerciali Industriali spa | 752.634 |
| TOTAL | 752.634 |