2019

ANNUAL REPORT

Bonfiglioli
Forever Forward

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Bonfiglioli
Forever Forward

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THE WORLD OF BONFIGLIOLI: A BUSINESS UNIVERSE MADE OF PEOPLE, VALUES AND HISTORY


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The Start

MESSAGE FROM THE CHAIRWOMAN

"Commenting today, in June 2020, on the 2019 financial statements is a bit like commenting on the year just ended in June 1912. In fact, 1911 was one of the last years of the Belle Époque, when, with the development of new technologies (especially electricity), a profound euphoria had transformed and improved everyday life, building new roads, sewage systems, schools, medical facilities, and public transport. The technical achievements of those years had led to the emergence of the modern civilization of machines creating widespread progress and prosperity. The mobility of people, the birth of tourism, the abundance of entertainment, events, and artistic happenings had produced a sense of joyful excitement, also supported by new scientific discoveries that made man stronger, almost a "Super Man."
On the night of April 14, 1912, something broke that unstoppable optimism: the sinking of the unsinkable Titanic, the symbol of the economic, scientific, and technical progress achieved thus far by man. And perhaps this civilization in the new millennium has been a little bit like the Titanic, convinced that it is invincible, solid, and strong thanks to the progress and wellbeing achieved in history.
What we are experiencing today is comparable to what was experienced by our fellow man in this same month in 1912. Commenting on the results of 2019 without considering today would be short-sighted.
In fact, making predictions now or even just guessing at scenarios is difficult and the result would be very unrealistic.

For our group 2019 was a year of further growth, which allowed us to set a new record of revenues combined with the completion of projects of great strategic value.

First of all, we finished the Evo production plant, and with this we closed that important, necessary but equally challenging phase that began in 2009 called "production rationalization."
We also inaugurated a further expansion of the plant in Forlì, as well as the new Bonfiglioli Mechatronic Research plant in Rovereto.
Our production infrastructure in Italy has been strengthened, accompanied by an equally important phase of international production and commercial development, supporting the fact that a presence in many markets and sectors is one of the Bonfiglioli Group's strengths.
We completed the development of many new product ranges involving all three Business Units, which will translate into the possibility to offer better solutions to our customers.
We have further invested in and supported digital transformation through the revision of many of our processes and the development of some products, aware that the Digital Revolution will impact the different business models and skills required.
At the end of 2019 we rightly celebrated these results just as news came of a mysterious virus spreading shock and death in China. No one thought this could affect Europe, America, or the whole world. Above all, no one thought or even imagined that COVID-19 could upset our work, our everyday lives, and our certainties.
I think it is unlikely that the world we knew and experienced until a few months ago will return quickly. Even when the pandemic is defeated, our everyday lives and our work will be transformed forever. However, crises are always harbingers of great transformations and new opportunities.

Personally, I want to believe that these changes will stimulate the emergence of a more sustainable and environmentally friendly world. Furthermore, I firmly believe that skills will increasingly be the key to personal and corporate success, and that they will be progressively overwhelmed by new digital technologies and will require humility and a willingness to challenge ourselves and learn new abilities.
At Bonfiglioli our commitment, determination, and enthusiasm are even greater today to continue, even at such a complex and uncertain time, to make our positive contribution to building the New Normal of our future.

Forever Forward"

OUR MISSION AND OUR VALUES

At Bonfiglioli, our everyday work is guided by four main values: challenge, respect, accountability, winning together.

We have a relentless commitment to excellence, innovation and sustainability. Our team creates, distributes and services world-class power transmission and drive solutions to keep the world in motion.

CHALLENGE

We search for limits, then overcome them through innovative ideas, cutting-edge products, and unrivaled performance.

RESPECT

We explore different cultures, religions, and experiences to turn diversity into a resource and pursue sustainable economic growth in harmony with the environment.

ACCOUNTABILITY

We put our heart into everything we do, to improve ourselves and set an example for others, because the efficiency of a team begins with that of the individuals in it.

WINNING TOGETHER

We foster talent to generate and share the knowledge that leads to success.

MILESTONES

1956
Clementino establishes Costruzioni Meccaniche Bonfiglioli

1964
Works begin at the factory in Lippo di Calderara, Bologna, Italy

1968
Tecnotrans Bonfiglioli SA is founded in Barcelona. This is the beginning of the company's international expansion

1975
Acquisition of Trasmital

1993
DNV and TÜV certifications

1995
Debut of the C, A and F series

1999
Inauguration of the plant in Chennai, India

2000
The first e-commerce system, MOSAICO, is launched

2001
Acquisition of Vectron

2002
BEST, the international network of distributors, is born

2003
Acquisition of Tecnoingranaggi
Bonfiglioli Drives is founded in Shanghai, China

2005
Bonfiglioli opens in Slovakia

2006
Bonfiglioli Turkey is born

2008
Organization by Business Units

Bonfiglioli Vietnam Ltd. is founded in Ho Chi Minh City

2009
Bonfiglioli Brazil is born

2010
Sonia Bonfiglioli takes over the Group

2011
Inauguration of the plant in Mannur, India

BMR, our mechatronics research center, is born

2012
Creation of the Electro-mobility Competence Center

2013
Bonfiglioli South East Asia opens in Singapore

2015
Acquisition of O&K Antriebstechnik Gmbh

2017
Expansion of plants in Slovakia and Pune, India

The Digital Transformation path begins

2018
New electromobility plant in Forlì, Italy

New plant in Chennai, India

2019
BMR, new plant in Rovereto, Italy

Evo, larger industrial plant in Calderara, Bologna, Italy

GLOBAL PRESENCE FOR LOCAL SUPPORT

80 COUNTRIES

40% IN ITALY
60% IN THE REST OF THE WORLD

3,780 PEOPLE

We have a network of closely interconnected sales branches and production and assembly plants throughout the world. With 20 branches, 13 plants, and over 550 distributors, we guarantee our customers the same Bonfiglioli quality standards, any place, any time. Our direct presence in every single market, our in-depth knowledge of local contexts and the needs of our customers have always been the keys to our success and a constant part of our growth strategy.

We lead the world market with complete and efficient solutions, supporting our customers with dedicated services ranging from co-engineering to after-sales service.

HEADQUARTERS

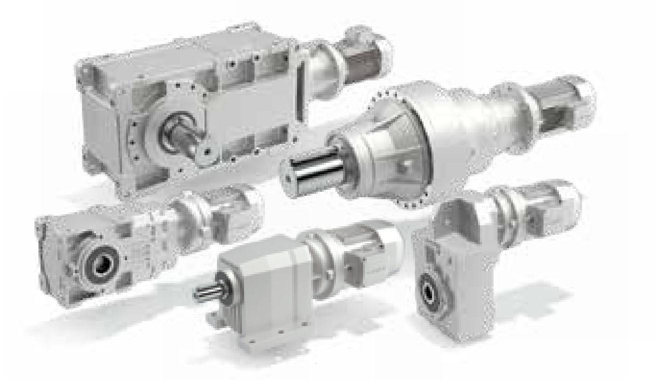
13 PRODUCTION FACILITIES

20 BRANCHES

OUR BUSINESS UNITS

Our three Business Units – Discrete Manufacturing & Process Industries, Mechatronic & Motion Systems, and Mobility & Wind Industries – embody all the know-how and experience needed to support the growth of our customers.

DISCRETE MANUFACTURING & PROCESS INDUSTRIES



The Discrete Manufacturing & Process Industries business area offers gearboxes, geared motors, and electric motors for any type of industrial application. Regardless of power requirements, our experts are able to meet the most complex demands for applications operating in any condition.

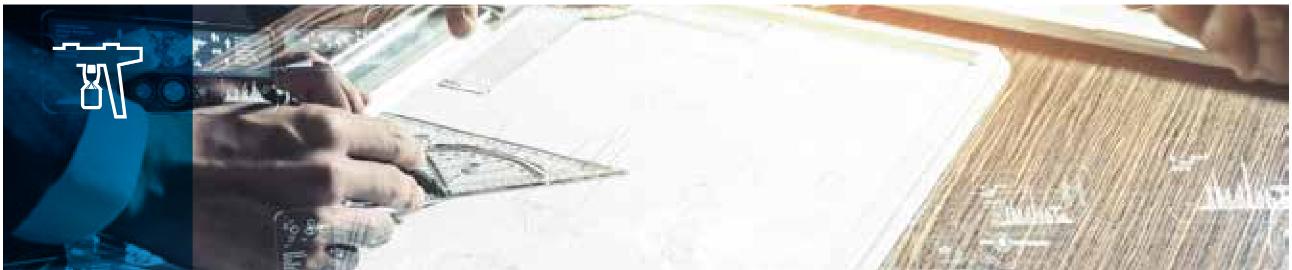
With over 60 years' experience working alongside our customers, we are now able to anticipate their needs in over 20 different sectors, with a particular focus on industrial processes and machinery for the manufacturing industry such as packaging, food and beverage, mining, logistics, and intra-logistics.

OTHER SECTORS:

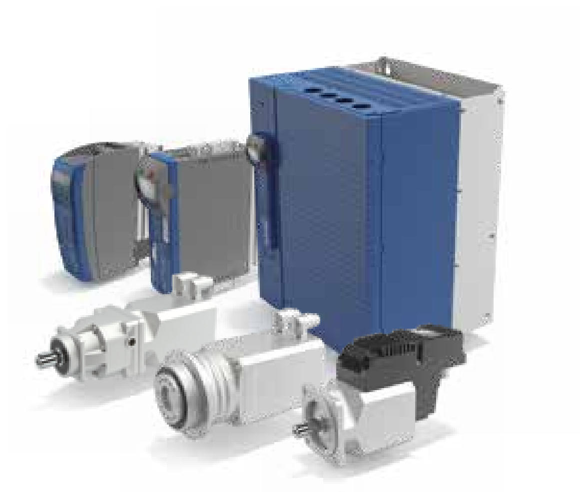
- Access control
- Asphalt & other aggregates
- Commercial HVAC & refrigeration
- Logistics & stocking systems
- Metal processing & machine tools
- Oil & gas
- Power generation
- Stone, clay & glass

KEY SECTORS WHERE WE OFFER OUR EXPERTISE

MATERIALS HANDLING	WASTE WATER TREATMENT	BIOGAS
PACKAGING	RECYCLING	FOOD, BEVERAGE, AND TOBACCO
RUBBER AND PLASTIC	MINING	METAL PROCESSING



MECHATRONIC & MOTION SYSTEMS



With complete solutions dedicated to industrial processes and automation, the Mechatronic & Motion Systems business area offers customized integrated solutions according to an Industry 4.0 approach, covering the entire transmission group: precision planetary gearboxes, servomotors, open and closed loop inverters, servo-inverters, motion controllers, and regenerative inverters.

Our experts develop solutions offering the highest level of precision, efficiency, and energy optimization for more than 20 industries including materials handling, logistics, intra-logistics, robotics, packaging, and textiles.

KEY SECTORS WHERE WE OFFER OUR EXPERTISE

- MATERIALS HANDLING
- WINCHES AND CRANES
- TEXTILES
- PACKAGING
- WOOD PROCESSING
- FOOD, BEVERAGE, AND TOBACCO
- RUBBER AND PLASTICS

MOBILITY & WIND INDUSTRIES

MOBILE SOLUTIONS

The Mobility & Wind Industries business area offers the widest range of gearboxes currently available on the market. Its portfolio includes drives for travel, slew, winch, and other possible applications. All our products are customizable to meet any need.

The Mobility & Wind Industries team is the ideal partner for the implementation of efficient, intelligent, and robust solutions dedicated to the most complex applications in construction, wind energy, logistics, agriculture, and the marine and offshore sector. For over 40 years we have been working with the world's leading OEMs.

By applying co-engineering together with the customer, we design tailor-made solutions able to meet all the needs of the market for applications for mobile and industrial machine applications.

Bonfiglioli supplies final drives with the widest torque range on the market, from 1,000 to over 3 million Nm.

KEY SECTORS WHERE WE OFFER OUR EXPERTISE

CONSTRUCTION	MINING	EARTH MOVING
AGRICULTURE	FORESTRY	DRILLING
MATERIALS HANDLING	MARINE AND OFFSHORE	ROAD CONSTRUCTION

ELECTROMOBILITY SOLUTIONS

Bonfiglioli leads the field in hybrid and electric technologies, providing more energy-efficient solutions, reducing noise and harmful emissions.

Our pioneering developments have made us a leader in sustainable technology and continue to drive us towards new horizons.

In 2018, Bonfiglioli opened a new eco-friendly production line for electromobility in Forlì, covering an area of about 10,000 square meters.

- Forklifts
- Aerial platforms
- Materials handling equipment
- Agricultural and forestry machinery
- Construction machinery
- Concrete mixers
- Lightweight vehicles
- Airport ground equipment

WIND SOLUTIONS

With a 35% market share for the supply of wind turbine gearboxes to major global players, Bonfiglioli is the undisputed leader in the wind energy sector. Four of our 13 production plants in Italy, India, China, and Brazil are dedicated to the wind turbines, to better serve local markets and major global players.

Our Yaw and Pitch drives are continuously optimized to improve turbine performance for traditional onshore applications, but also for the latest offshore applications, without increasing their weight and size and thus offering the market more competitive products.

Our team is committed to improving the end-user experience by minimizing maintenance costs and developing innovative solutions such as mechanical and electrical dual control for more accurate turbine system monitoring.

- Small wind turbines up to 200 kW
- Onshore and offshore up to 15 MW

2.

2019 HIGHLIGHTS

- Manufacturing Excellence Academy 4.0
- IoTwins, Horizon 2020
- Cooperation with Schaeffler
- Bonfiglioli and TÜV together for quality certification
- Innovation talks at Malpighi La.B
- 2019 Business Excellence Award
- Bonfiglioli-Novotic, an example of co-design

MANUFACTURING EXCELLENCE ACADEMY 4.0

The famous financial newspaper **Il Sole 24 Ore** has reviewed the **Manufacturing Excellence Academy 4.0** as one of Italy's best academies, an important award that once again underscores the high standards of excellence at the heart of our business.

"Technology, OK. But it only works because of people... Among the most complex activities was the identification and mapping of 23 specific roles within the Evo plant. Describing the "manual" for each of these positions in terms of activities but also the need for knowledge to achieve them, specially designing a training course for each figure."

(from the article in "Il sole 24 ore")

At Bonfiglioli, we believe that technology is important, even though the decisive element of the digital revolution always remains the human factor. This is why in 2018 we launched a pilot project, **Bonfiglioli Digital Re-training**, to tackle the digital change that the company is also implementing in the new Evo plant, an emblem of Industry 4.0.

The **Manufacturing Excellence Academy 4.0** was born from the success of the pilot project. As part of this project, training courses were specially designed for **23 roles**, involving over **400 people** and providing **18,000 hours of training in 2019 alone**. The people of Bonfiglioli have had the opportunity to get involved and learn more about three different topics, to better address the digital transformation.

THE 3 PILLARS OF THE MANUFACTURING EXCELLENCE ACADEMY 4.0

- **Digital:** the learning of skills related to both new technologies (such as Big Data, Dynamic Scheduling, and Digital Twin) and to more "cultural" skills, which concern mindset.
- **The roles** of the new organization to help people adjust to the changes brought by the new plant.
- **The new working method,** Bonfiglioli Production System, which supports the operation of Evo.

IoTwins
HORIZON 2020

Bonfiglioli is the leader of one of Horizon 2020's most important European projects

23 | PARTNERS

12 | TEST-BEDS

IoTwins is one of the most important European projects of Horizon 2020, the European Framework Program for Research and Innovation.

Leading the group of manufacturing partners, Bonfiglioli will experiment with new technologies for the digitalization of industrial processes and products, with 12 test platforms that will create "digital twins," i.e. virtual copies of the industrial processes used to test infrastructure management systems and tools in advance. Thanks to the digital twins, it will be possible to assess, in advance, the strengths and weaknesses of industrial processes that will then be applied to production.

Once again, innovation first, linked in this case to issues such as Big Data, Artificial Intelligence, and the Internet of Things applied to manufacturing and infrastructure. An adventure that Bonfiglioli will undertake jointly with the University of Bologna, the National Institute of Nuclear Physics, Cineca, the Emilia-Romagna Region with Art-ER, and Marposs, with a total planned investment of €20 million in order to experiment Big Data technologies and supercomputing for companies, creating models able to simulate production processes in the laboratory, detecting errors and critical issues before they enter production.

The project also includes partners of international importance such as the Fraunhofer Institute in Munich, the Technische Universitaet in Berlin, the Barcelona Supercomputer Centre, Barcelona Football Club, Thales, Siemens, the École Nationale Supérieure d'Arts et Métiers, and the Centre Techniques des Industries Mécaniques in Paris.

Being the leader of this project," said Sonia Bonfiglioli "*is a source of pride, but it also means an assumption of responsibility. We have the chance to show how valuable the ability to work in a team of international companies is, where the vision of digitalization is still focused on being at the service of people and their environment. For us, the application that will improve the performance of our products for the exploitation of wind energy underlines Bonfiglioli's attention to operating, researching and pursuing a general growth that is not "an end in itself" or "no matter what". For Bonfiglioli, social responsibility has always been an indisputable value and reference in every activity. Therefore, choosing this area of application is as much a token of digital innovation as it is a contribution to a more sustainable environment.*

COOPERATION BETWEEN BONFIGLIOLI AND SCHAEFFLER

Predictive maintenance for yaw gearboxes in wind turbines

A compact package of **Industry 4.0** solutions for azimuth drives of wind turbines is the result of a long-term development partnership between Bonfiglioli and Schaeffler.

The **Schaeffler TorqueSense** and **SmartCheck** sensors record torque, speed, vibration, and temperature information. These data are then transmitted through a gateway, combined and processed using algorithms specifically designed for this application, developed by Bonfiglioli based on over 60 years of experience and know how in gearmotors. Subsequently, the data will be made available to users on the Bonfiglioli cloud platform. The Bonfiglioli dashboard provides the operator with maintenance measures can be carried out in a load-oriented manner, the unplanned downtimes of the system can be minimized, and operating costs can even be more than halved.

The concrete data based on the example of a 2.3 megawatt wind turbine shows this, as reported by Gaetano Ciaravella, Mechatronics and IoT Manager of Bonfiglioli, during a conference:

"Currently, the availability of wind turbine usage is decreasing from 95% in the first year to 82% in the 20th year of life, with a median usage of 88.5%. At the same time, wind turbine efficiency is decreasing by about 7% per year due to lower kWh prices. Operating costs represent about 75% of the total initial investment in the 20 years of life. Approximately 50% of operating and maintenance costs are attributable to unplanned interventions. In particular, this means that for a 2.3 megawatt wind generator in 20 years, operating costs are estimated at around €1.6 million, of which up to €1.1 million are due to unscheduled repairs and maintenance. With the help of modest investments in the system resulting from the cooperation between Bonfiglioli and Schaeffler, the customer can considerably reduce operating costs."

BONFIGLIOLI AND TÜV TOGETHER FOR QUALITY CERTIFICATION

A unique certification for Bonfiglioli distributors

With over 550 partners in 80 countries around the world providing ready-to-use products and after-sales services, industrial distribution has always been a key pillar of Bonfiglioli's business model, and a key business resource to best serve its customers.

Thanks to a wide range of products and components and thanks to their technical expertise, Bonfiglioli's most qualified business partners – the BEST distributors (Bonfiglioli Excellence Service Team) – are able to assemble our products, rapidly meeting the needs of their customers, from support to start-up, after-sales service, and dedicated training.

In 2019, Bonfiglioli decided to engage further with its BEST distributors, launching an ambitious **certification plan in cooperation with TÜV, in order to offer the best to end users**.

The certification is issued by TÜV and guarantees the same high level of services for all Bonfiglioli customers who work with a BEST-certified distributor. The certification guarantees that the products and services provided fully meet Bonfiglioli's ethical, environmental, quality and safety requirements.

TÜV Italia is an independent certification, inspection, auditing, and training body that offers quality, consumption, safety, and environmental certification services. The audit carried out by the institution is based on measurable and repeatable indicators that allow a precise assessment of the competence and quality of each candidate.

The project launch in Italy ended positively, with the certification of the first four BEST Distributors:

VENETA BEARING Srl
Mestrino (PD)

Company founded in 1983 and Bonfiglioli distributor since 1992, a BEST since 2011.

INDUSTRIAL FORNITURE MORO
Ponzano Veneto (TV)

Founded in 1984 with 3 stores in the Triveneto region, a Bonfiglioli BEST since 2018.

U.T.P. S.r.l.
Gallarate (VA)

Active since 2001, Bonfiglioli BEST since 2015.

ELDI
Lanciano (CH)

For over 30 years, a company with warehouses across the Abruzzo, Marche, and Apulia regions.

TÜV SÜD

ITALY

INNOVATION TALKS AT MALPIGHI LA.B

In 2019, Malpighi La.B launched the INNOVATION TALKS initiative: meetings open to the whole city of Bologna with internationally renowned scholars, scientists, and experts to reflect on how innovation and creativity are born, also thanks to the learning of STEAM subjects (Science, Technology, Engineering, Art, Mathematics).

"Future challenges require awareness, preparation, creativity, and the ability to innovate. These are dimensions that companies seek and that must be cultivated and stimulated from the first years of training."

Sonia Bonfiglioli

The first round of seminars revolved around innovative teaching, focused on making, coding, and enabling technologies for existing technological innovations and featured international expert speakers including Sylvia Martinez, Principal Advisor at Columbia University's FabLearn Fellows, Ryan Jenkins, Co-founder of the "Wonderful Idea" Company and Carmelo Presicce, PhD student at MIT Media Lab.

"In recent years Malpighi La.B has helped to change the way we learn, making high school students passionate about new technologies, developing the taste for creating, and building projects. We would like to share this opportunity with the whole city. That is why we wanted to invite these great names in educational research."

Elena Ugolini,
Principal of Malpighi High School.

MALPIGHI LA.B

2019 BUSINESS EXCELLENCE AWARD

Sonia Bonfiglioli was awarded both the Absolute Winner and the "Growth and Sustainability" category. The Business Excellence award is a recognition for “companies that have excelled in terms of innovation, internationalization, growth, sustainability, and the management and development of human resources.” The award ceremony was held in Palazzo Mezzanotte – home of the Italian Stock Exchange. Sponsored by Borsa Italiana, the prize is now in its sixth edition, and is organized by Eccellenze d'Impresa, a cultural project born from the partnership between GEA-Consulenti di ARCA SGR FUNDS and Harvard Business Review Italia.

I am pleased and honored to receive this important award that recognizes the commitment to innovation of all people who contribute every day to the success of the company”, commented Sonia Bonfiglioli. "*I am sure that the period of transformation we are experiencing can only be tackled with a continuous and unstoppable drive for change, that we carry forward by focusing on technological and human excellence, with attention to sustainability and always remembering that innovation is made by people, for people. I therefore dedicate this award to my father, with whom it all began, and to our great family that continues to grow and achieve wonderful successes!*

BONFIGLIOLI-NOVOTIC, AN EXAMPLE OF CO-DESIGN

The Bonfiglioli-Novotic case is an example of co-design for transition towards intelligent production.

At the heart of the project is our headquarters in Rovereto – Bonfiglioli Mechatronic Research – with our **Motion Control and IIoT Research and Development teams**, where we produce precision planetary gearboxes, servomotors, and synchronous reluctance motors.

This pioneering project, in cooperation with **Novotic**, a company that works in the design, construction, and installation of automation and robotics systems for efficient, state-of-the-art production systems, is an integral part of the approach adopted in the design of the innovative plant in Rovereto, developed according to the most advanced industry 4.0 principles. The objectives of the development of the automatic assembly line for precision gearboxes include increased productivity, the standardization of production processes, and the reduction of assembly times, maintaining the key role of the assembly operator, who remains a key element in the control and supervision of processes.

An extension of the automation project includes additional tasks such as feeding the assembly line, quality control, and packaging the finished product.


CARTA
DNT 2

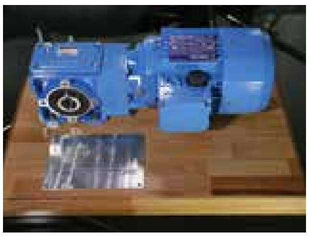
3.

BONFIGLIOLI AROUND THE WORLD, CONTINUOUS GROWTH

- EVO, the welcome day
- The new plant in Rovereto
- Opening of the headquarters in Victoria, Australia
- Bonfiglioli's new home in the UK
- R&D Test Center in India
- Best employer award for Bonfiglioli India

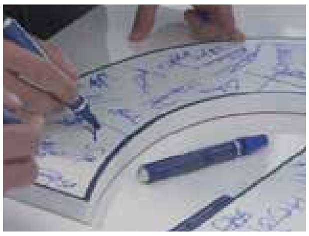
EVO,
THE WELCOME DAY

Welcome day and start of production



April 18, 2019 saw the Welcome Day being held at the new Bonfiglioli Evo plant in Calderara di Reno.

An event that involved all the workers and where everyone left their mark.



"The future is in our hands. We make the difference!"

This was the slogan printed on the celebratory T-shirt proudly worn during the event by over 400 people – our people – who are always the main focus of all of the group's development and growth strategies.

2019 also saw the start of production of the first new coaxial gearbox born in Evo.

400 | PEOPLE

sqm 35,500 | PLANT

sqm 1,700 | R&D

sqm 4,200 | D&P OFFICES

sqm 45,000 | GREEN AREA

1 M | PRODUCTS/YEAR

THE NEW PLANT IN ROVERETO

The story of Bonfiglioli's growth in Trentino continues

The growth of Bonfiglioli in Polo Meccatronica of Rovereto began in 2011, with the birth of Bonfiglioli Mechatronic Research, three employees working in just 540 square meters of office space, with a precise objective: to study a new “brushless” electric motor able to combine the mechanical excellence developed by the group in Emilia Romagna with the electronic part from Germany. The first year closed with a turnover of €328,000.
In 2012 the first production unit in the Technology Hub of Via Zeni opened: 1,740 square meters of space, and now 14 employees. The following year, in December 2013, the production plant increased to 2,200 square meters. In 2016 the number of employees rose to 63, then just one year later to 81, with a turnover of €18 million.
In 2019 the turnover exceeded €22 million, thanks to the support of almost 100 people.

In July 2018 work began on the construction of the new production plant in the expansion area of the Polo Meccatronica, intended to host all the Bonfiglioli activities including the production lines for new models of planetary gearboxes. Innovative projects will also be developed in the field of the Internet of Things.

The new 6,000 square meter plant was completed in 2019 and has clean lines and light wooden components, covering two floors: the production areas, warehouse, and logistics spaces on the ground floor, and the offices and conference rooms on the upper floor.

Close attention to environmental sustainability and energy efficiency, for a plant powered by renewable energy and certified in energy class A: there is a heat pump, a 135 kWp photovoltaic system, solar panels, a 350 kW methane gas boiler, and a rainwater recovery system, as well as a partly green roof.

2011
M²: 540 m²
EMPLOYEES: 3
TURNOVER: €328k

2012
M²: 1,740 m²
EMPLOYEES: 14
TURNOVER: €834k

2016
M²: 2,200 m²
EMPLOYEES: 63
TURNOVER: €12M

2018
M²: 6,000 m²
EMPLOYEES: 94
TURNOVER: €20M

2019
M²: 6,000 m²
EMPLOYEES: 99
TURNOVER: €22.2M

OPENING OF THE HEADQUARTERS IN VICTORIA, AUSTRALIA

Bonfiglioli has doubled the size of its Australian headquarters with the transition to a new, expanded facility (1,000 m^2) in Carrum Downs, to better serve its customers through increased stock levels as well as greater quality and efficiency.

The expansion will help Bonfiglioli to better serve major Australian industries working in the marine, water treatment, mining, waste treatment, and agriculture sectors.
Our solutions are specific to industrial and mobile equipment designed to withstand even the harsh conditions of Australian climates, which suffer from high temperature fluctuations and extreme weather conditions.

One of the main features of the new headquarters in Victoria is an area dedicated to quality control testing, which includes the ability to test larger electric motors and gearboxes than the previous facility.
Furthermore, the new facility also has a dedicated painting booth and a service area for the maintenance and reconditioning of used gearboxes.

It is with this expansion that Bonfiglioli celebrated its 30th year in Australia in 2019, confirming its position as a major supplier of helical, planetary, and worm gearmotors and inverters in the territory.

BONFIGLIOLI'S NEW HOME IN THE UK

Present in the United Kingdom for almost 40 years, the Bonfiglioli Group decided to merge the two facilities located in Warrington and Redditch and move to a brand new 26,000 square feet premises in Calver Quay Warrington.

With the aim of increasing synergies and providing better customer support with complete, integrated solutions, here the Group has joined the Mobility & Wind Industries Business Unit, specialized in agricultural, construction, wind, and marine sectors, with the Discrete Manufacturing & Process Industries Business Unit, dedicated to industrial manufacturing and process applications.

The new home, where a total of 23 people work, brings together all product assembly and storage operations, thus enabling more efficient processes.
The sales and service department is also integrated into this new facility.

With these measures the company will have greater warehouse capacity, better logistics, and an advanced IT system, thus being able to guarantee faster service.

R&D TEST CENTER IN INDIA

Bonfiglioli India's research and development center was launched in 2012 with the aim of creating innovative solutions incorporating the most advanced mechanical, electrical, and hydraulic technologies to meet the needs of the Indian market. Our Indian **R&D Test Center** employs a team of 75 engineers who continually design and develop innovative solutions for Indian and global markets.

To further improve research in the country, a new test lab was launched in 2019 to facilitate faster product development and help simulate the actual conditions in the test lab.

The test lab is able to test all ranges of Yaw and Pitch drives for the wind market and slew drives for excavators. The test lab was built based on an advanced regenerative drive concept for energy savings with a view to eco-compatibility. It also has real-time performance measurement systems, on-screen calibration, and integrated condition monitoring for active fault prediction.

Once again, serving our customers better thanks to complete, integrated solutions is the top goal for Bonfiglioli, particularly in countries like India, where we've developed great projects over many years.

BEST EMPLOYER AWARD FOR BONFIGLIOLI INDIA

With great pride for the whole Group, Bonfiglioli India received the Employer Branding Institute's award for Best Tamil Nadu Employer.

This is a virtual organization where senior HR leaders connect with each other in cyber space to share best practices in Talent Management, Development, and Innovation.

4.

INNOVATION

Product news

Energy efficiency

IIOT and product sensorization

PRODUCT NEWS

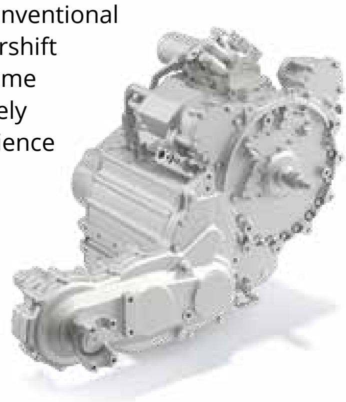
SLEW AND TRACK DRIVES FOR ELECTRIC MINI EXCAVATORS

700TE and 700CE series

Bonfiglioli is developing a range of electric gearmotors for track actuation and the rotation of mini excavators from 1 to 6 tons. A fully electric alternative to conventional gearmotors with an integrated axial piston hydraulic unit, our new gearmotors allow the machine to operate indoors, reducing noise levels and CO2 emissions to zero. Tailor made for machines from 2 to 3 tons, sizes 701TE AND 701CE boast permanent magnet motor technology including an electro-magnetic parking brake, with a design that guarantees maximum energy efficiency, compact dimensions, high power density and reduced maintenance, for a significant reduction in total cost of ownership (TCO).

CONTINUOUSLY VARIABLE MECHANICAL TRANSMISSION FOR TELEHANDLER VEHICLE

ECGenius is a mechanical transmission with continuous variation at high power density, that is efficient and economically profitable, designed specifically for telehandler vehicles, but also suitable for other construction applications.
The heart of this product is the electro-hydraulic controlled toroidal mechanical variator, with numerous patents in Europe, the United States and Asia, the result of over 15 years of development by CVTCORP, Bonfiglioli's Canadian partner for this project. Thanks to its high efficiency, EGGenius allows OEMs to obtain traction and speed performance up to 30% higher than conventional transmissions with powershift technology and, at the same time, guarantees extremely easy use and the convenience of continuously variable transmission.



ELECTRIC TRACK DRIVE FOR CRUSHING MACHINES

707CE, 709CE and 711CE

Our new series of track and conveyor belts drives is the perfect choice for crushing machines on construction sites, even in difficult weather conditions. The system includes a liquid-cooled permanent magnet electric motor, characterized by very high-power density and reduced dimensions. Thanks to the strong spheroidal cast iron case, the motor perfectly suits all applications in even the most critical environments. The IP67 protection level also makes it perfectly suitable to resist environmental stress and contamination such as dust, water, and more.

NEW PRECISION PLANETARY GEARBOXES FOR PALLETIZERS, AUTOMATED WAREHOUSES, PACKAGING MACHINES AND WOOD PROCESSING TQFE-TQFEK-MPE-MPEK

TQFE-TQFEK-MPE-MPEK

The four new TQFE, TQFEK, MPE and MPEK series further expand the high modularity of Bonfiglioli's Effective line, thanks to the variety of configurations and performances.

The TQFE series, characterized by a torque range of 18-155 Nm, combines an exceptionally compact size with a standardized flange interface, suitable for a wide range of applications.

The MPE series, characterized by a torque range of 5-155 Nm, combines performance and precision in a competitive product, offering a valid response to a wide variety of application requirements. The product's design ensures high compatibility for easy retrofit and a high level of freedom in project development.

NEW AGILE FOR HVAC APPLICATIONS: HEATING, VENTILATION, AIR CONDITIONING, AND REFRIGERATION

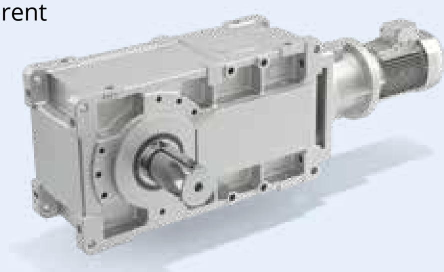
Agile

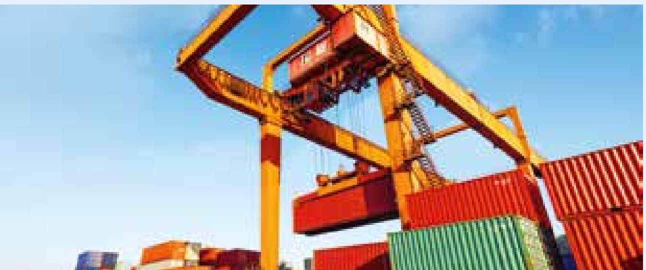
This customized version of the Agile inverter series is made to control compressors with a higher speed range for better efficiency. The new product, offering high efficiency and reduced dimensions, is designed for the refrigeration and air conditioning markets.

NEW RIGHT-ANGLE GEARBOXES SIZES FOR INDUSTRIAL APPLICATIONS IN HEAVY-DUTY SECTORS

HDO 71-95

The HDO right-angle gearboxes series has added 4 new sizes compatible with the torque range from 9,000 to 23,000 Nm, which can be connected to electric motors according to IEC and NEMA standards, maintaining interchangeability with the customer interfaces available on the other sizes. The layout is available in configurations with 2, 3 and 4 reduction stages and covers a wide range of ratios: from 6 to 500. These sizes allow for an extremely efficient and flexible product line in order to cover the multiple needs of the Heavy-Duty industry, characterized by numerous applications with very different requirements.





PRODUCT NEWS

INNOVATIVE DRIVE FOR SOLAR TRACKERS

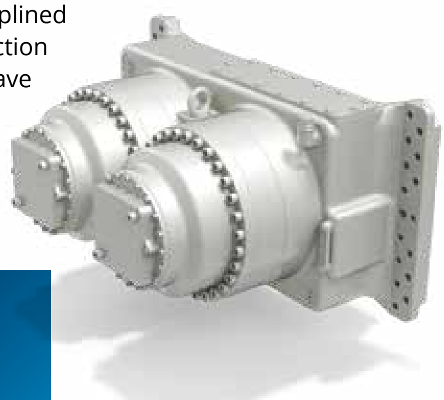
XVFL 63

In 2019, we introduced a new drive with worm gear technology and a specific integrated torque limiter for PV panel orientation in solar trackers. Our innovative solution is characterized by a multi-disc limiter system with extremely stable performance in terms of slip torque.
The solution is designed to be easily integrated into the gear unit to make the drive particularly compact. The multi-disc solution allows for a significant reduction in maintenance and makes the whole group functionally stable for over 25 years, as expected on solar trackers.

GEARBOXES FOR SHREDDING MACHINES

R316, R317 e R318

In 2019, we extended our solutions for the Recycling sector by introducing new double planetary gearbox drives. Depending on shredding needs, the new R3 Series can be made either with or without an integrated synchronization system. The range consists of three sizes that can be used on machines with powers up to 600 kW.
In addition to the typical customer interface with lobed pinions for shredding blade actuation, other flange and splined shaft connection interfaces have also been developed.



ABS DESIGN ASSESSMENT

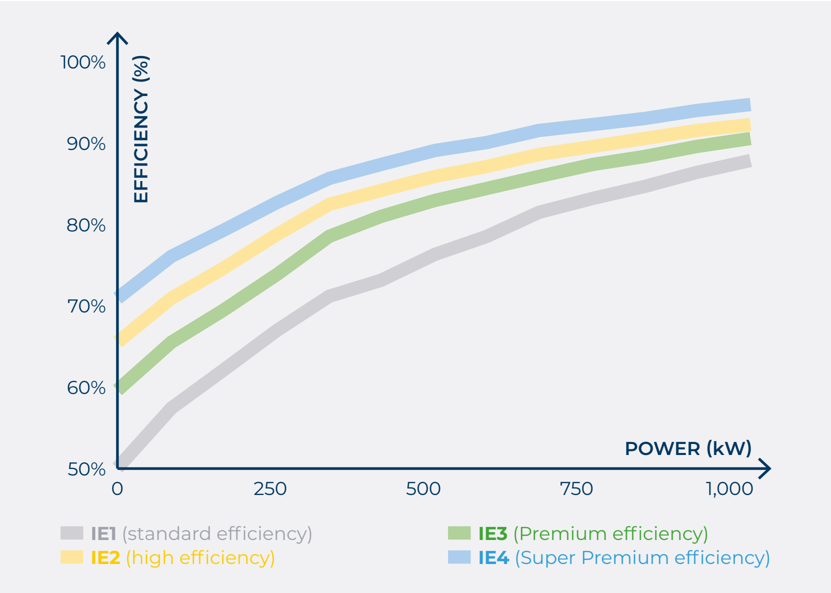
At Bonfiglioli, we have a team entirely dedicated to marine and offshore sector applications that works to find the best solutions, in terms of quality and safety, based on customer needs and in full compliance with regulations. In 2019, we reached our first important milestone in the field of naval certifications, the ABS Design Assessment of our 300 Series planetary gearboxes, specifically for applications relating to hoisting and slewing mechanism for azimuthal thrusters.
Thanks to the ABS Design Assessment of our 300 Series, the approval process for our technical solutions is faster and more effective, guaranteeing considerable savings in terms of both time and cost for all our customers.

ENERGY EFFICIENCY

Premium and Super Premium

We provide sustainable solutions for our customers with energy efficient products that reduce both operating costs and CO^2 emissions.

We look at energy efficiency from every angle, paying particular attention to the buildings and the production processes of our plants as well as the products we offer our customers.



BX SERIES

IE3 Three-phase asynchronous electric motor

The asynchronous motors of the BX series are an optimal solution in the IE3 efficiency class for a wide range of industrial applications including packaging machines, crushers and mills, primary and secondary packaging, conveyor belts and escalators.

The range is available for powers from 0.75 to 30kW both in an IEC version and a Compact version.

BSR + ACTIVE CUBE SERIES

The new range of BSR synchronous reluctance motors achieves an **IE4 efficiency class rating**, while the same size as IE2 class induction motors. Alternatively, with the same overall dimensions and efficiency rating, the motor delivers double the power of a corresponding induction motor.

To achieve these objectives, Bonfiglioli has developed two Power Drive Systems (PDS): **High Efficiency** with an IE4 efficiency class rating and **High-Power Density**. For both solutions, optimal motor control is guaranteed by the Active Cube series drives, now equipped with sensorless algorithms dedicated to optimizing the performance of this new technology.

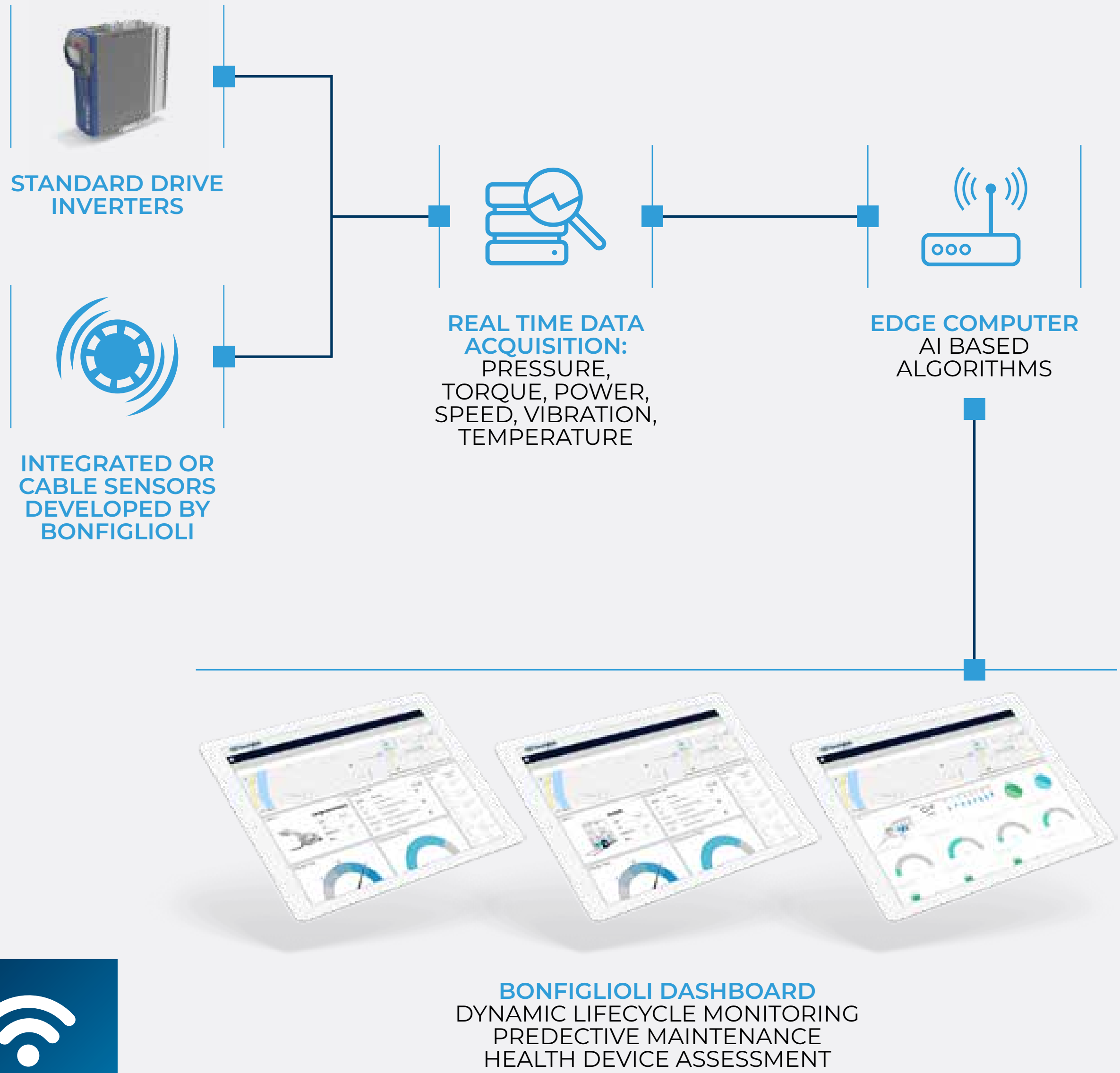
IIOT AND PRODUCT SENSORIZATION

From components to talking products

Our R&D team studies customized and ready-to-use IIoT solutions to optimize the productivity and efficiency of our customers' machines.

Thanks to the combination of Bonfiglioli's ranges of sensors, software and algorithms, we provide a platform that provides information on the use of our products, while constantly monitoring their health status and providing elements to set a predictive maintenance plan.

The solutions we have developed are suitable for a wide range of equipment, here are some examples of possible applications.

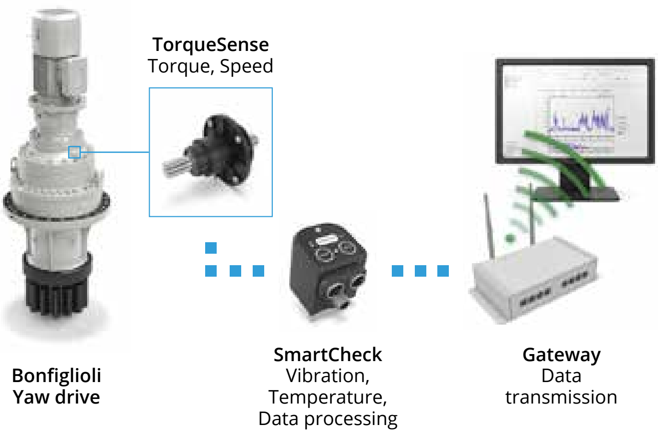


Sensorized HDO gearboxes are used for various applications in harsh environments, were lubricant inspections are difficult to handle or where monitoring of replacement lubrication conditions is essential to effectively plan maintenance activities, thus reducing the total cost of ownership.

Our **sensorized track drives** are used in applications such as medium and large hydraulic excavators. By monitoring pressure, speed, and lubricant, the end user can check the health of the system, define the correct maintenance times, and prevent unexpected failures.

Smart Yaw Drive

Bonfiglioli has developed different versions of gearboxes to control the rotation of wind turbine nacelles, integrating sensors capable of monitoring information on torque, speed, vibrations, and temperature. These data are transmitted through a gateway, combined and processed using Bonfiglioli algorithms that are subsequently published on a proprietary or customer cloud platform. The information is displayed in highly customizable dashboards that provide the operator with a clear overview of the information collected. Through controlled planning of maintenance, unexpected system downtimes can be reduced and energy production is maximized.



IOT PLATFORMS FOR AUTOMATED WAREHOUSES

Bonfiglioli has developed customized IoT platforms for fully automated warehouses, which allow precise tracking of the entire movement control chain. Thanks to sophisticated sensors and algorithms, it is possible to measure a range of data from transmissions and motors in real time, such as current, torque, power, speed, vibration or temperature, thus providing the customer with information on maintenance requirements to foresee any risk of failure. The useful life analysis for the individual components allows energy savings that optimize the process.

5.

RESPONSIBLE SUSTAINABILITY

CONTINUOUS COMMITMENT TO LOCAL COMMUNITIES

With the aim of preserving our founder's heritage and following the same path, our Chairwoman Sonia Bonfiglioli has continued and further improved the Group's mission of social responsibility by supporting different projects.

The initiatives we are involved in are mainly based on three pillars:

YOUNG PEOPLE

EDUCATION

TERRITORY DEVELOPMENT

Giving children a chance for a better future

ITALY

MUS-E Musique Europe is an European multicultural project dedicated to primary school children.
A three-year artistic journey that guide the child towards discovery of himself and others through colors, songs, dances, music and theater.

INDIA

The **boys' and girls' homes** welcome disadvantaged children, giving them the opportunity to live together in a protected environment, receive an education and acquire skills that prepare them for higher education, or give them the chance to enter the labor market.

SOUTH AFRICA

St. Mary's School in Johannesburg provides a top-class education for talented but underprivileged young girls.

VIETNAM

School in Ho Chi Minh City that provides free education for children from poor and socially deprived homes.

A bridge between school and work life

ITALY

LEONARDO COMMITTEE

Clementino Bonfiglioli Prize, named after our company's founder, awards young people who demonstrate excellence in their studies and complete a degree thesis relevant to industrial automation, power transmission and control or mechatronics.

MALPIGHI LA.B

Malpighi La.B is the robotics, IT and 3D design laboratory dedicated to Clementino Bonfiglioli and open to all students in Bologna. It is a place where they can put their skills to test, experiment and cultivate their ideas, in contact with the world of business and research.

Supporting the territory

ITALY

CINEMA MODERNISSIMO

As a Company attentive to local art and cultural heritage, Bonfiglioli contributes to the restoration of the **Cinema Modernissimo**, at Palazzo Ronzani in Bologna.

AE ASSOCIAZIONE EPILESSIA EMILIA ROMAGNA

Bonfiglioli supports the **Emilia Romagna Epilepsy Association (AEER)** in a pilot project that monitors and treats cognitive and emotional functions in young patients, from 6 to 16 years, with onset of epilepsy.

CENTRO STUDI LEONARDO MELANDRI

LEONARDO MELANDRI STUDY CENTER

The "**Leonardo Melandri Study Center**" Association was established on July 17, 2013. Without neglecting the other results obtained by Senator Leonardo Melandri at local and national level, the Association intends to honor the precious and wise contribution of ideas and organization to the establishment of the University of Bologna in Romagna, promoting its transformation into the current form of "Multicampus".

Associazione Amici del Museo

AMICI DEL MUSEO

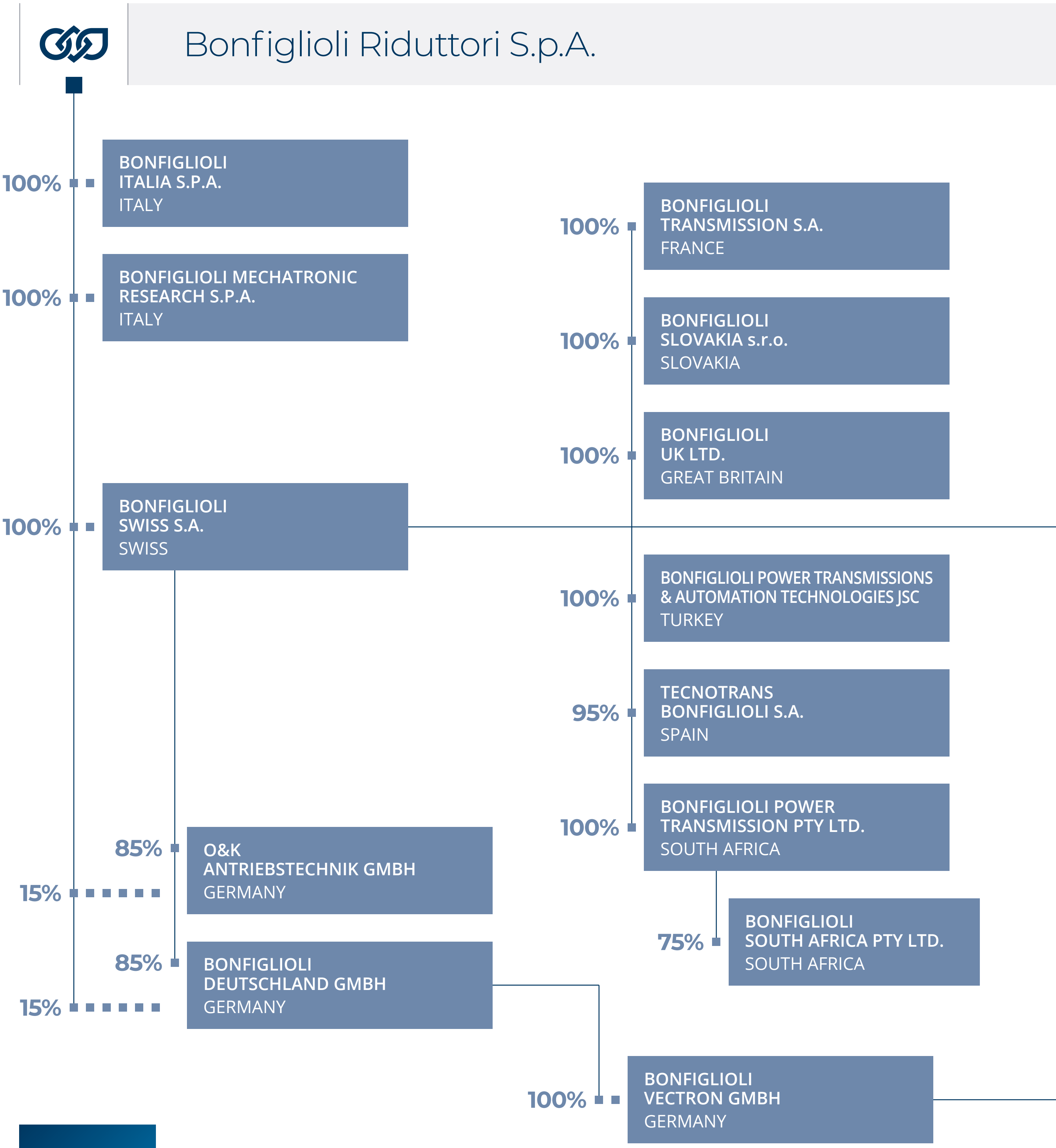
Thanks to the collaboration between small and large companies, the Association supports the museum's activities aimed at enhancing the historical-industrial culture of Bologna and consolidating the link between the production reality of our district and the world of technical training. The primary purpose of the Association is to give new life to the industrial territory by promoting development and innovation actions, and by involving the new generations in training projects aimed at relaunching technical-scientific knowledge.

6.

FINANCIAL DATA

This section has been translated into English solely for the convenience of international readers

GROUP CHART 31.12.2019



EMEA | APAC | AME

83,33% BONFIGLIOLI DRIVES (SHANGHAI) CO. LTD.
CHINA

100% BONFIGLIOLI TRADING (SHANGHAI) CO. LTD.
CHINA

100% BONFIGLIOLI TRANSMISSION (AUST.) PTY LTD.
AUSTRALIA

73,82% BONFIGLIOLI REDUTORES DO BRASIL INDUSTRIA E COMERCIO LTDA
BRAZIL

100% BONFIGLIOLI SOUTH EAST ASIA PTE LTD.
SINGAPORE

100% BONFIGLIOLI VIETNAM LTD.
VIETNAM

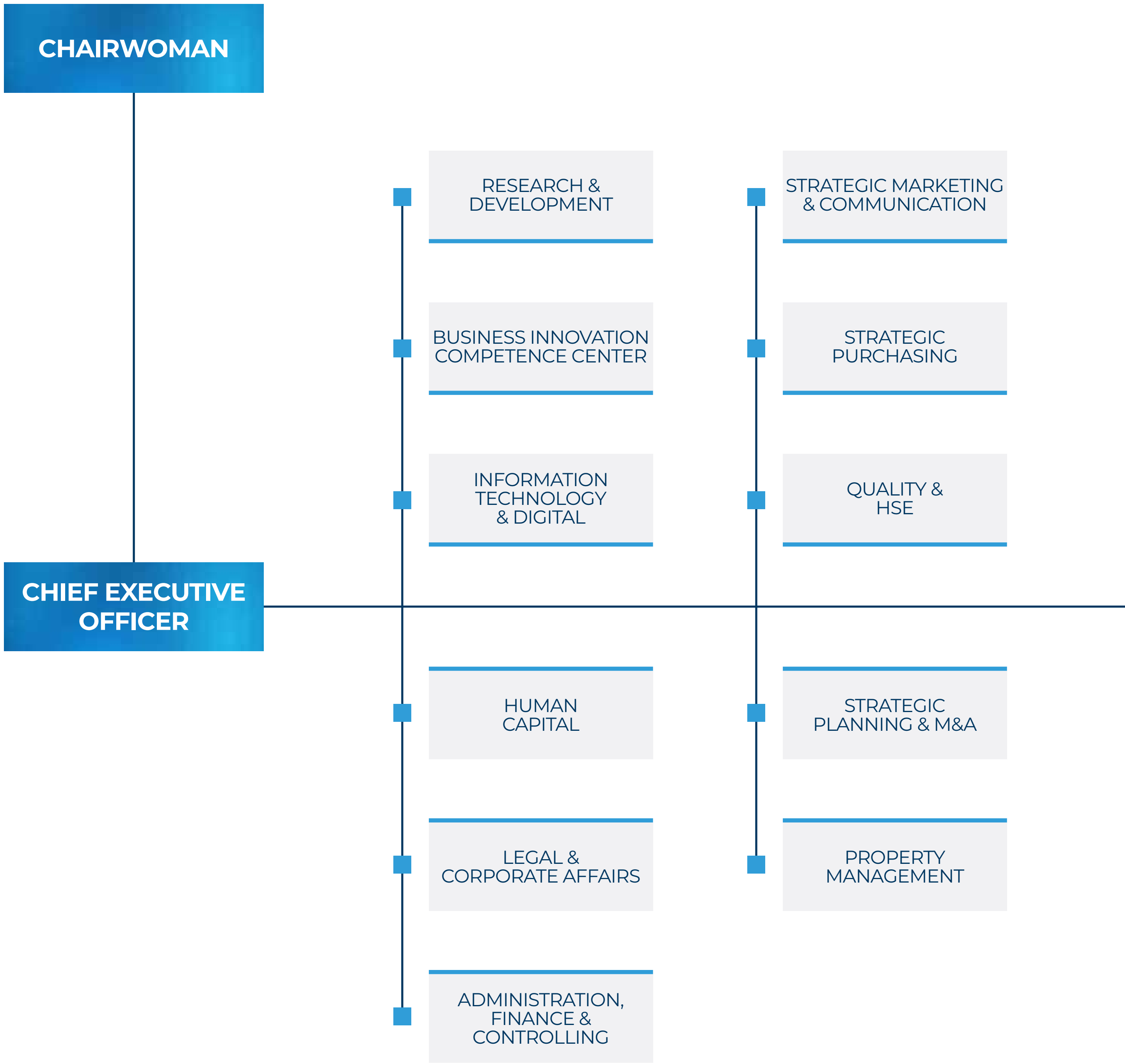
100% BONFIGLIOLI CANADA INC.
CANADA

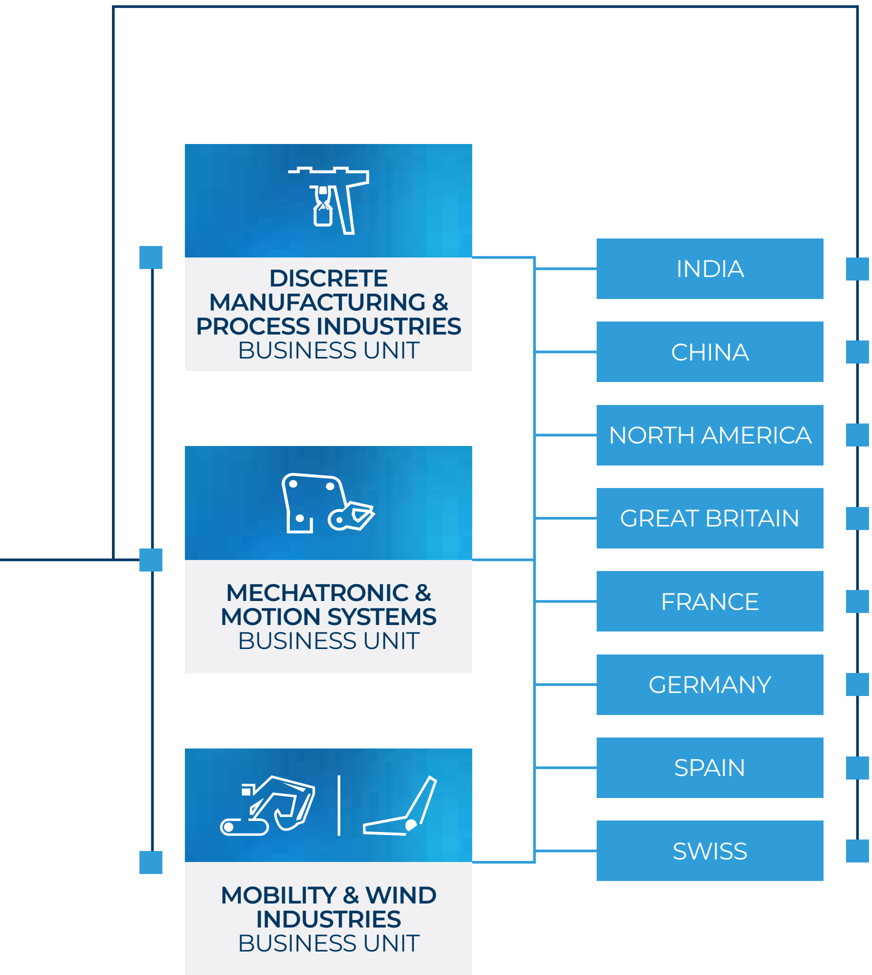
100% BONFIGLIOLI USA INC.
USA

97,52%
2,48%
BONFIGLIOLI TRANSMISSION PVT LTD.
INDIA

100% BONFIGLIOLI RENEWABLE POWER CONVERSION INDIA PVT. LTD.
INDIA

ORGANIZATION CHART





BOARD OF DIRECTORS

Chairwoman | **Sonia Bonfiglioli**
CEO | **Fausto Carboni**
Director | **Giampiero Bergami**
Director | **Luciano Bonfiglioli**
Director | **Roberto Carlo Testore**
Director | **Tommaso Tomba**
Director | **Roberto Tunioli**

STATUTORY AUDITORS

Chairman | **Alessandro Gualtieri**
Member | **Monica Marisaldi**
Member | **Biones Ferrari**

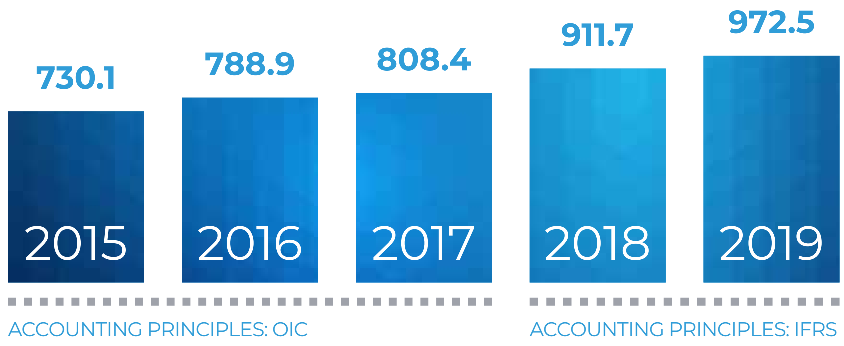
INDEPENDENT AUDITORS

EY S.p.A.

FINANCIAL HIGHLIGHTS

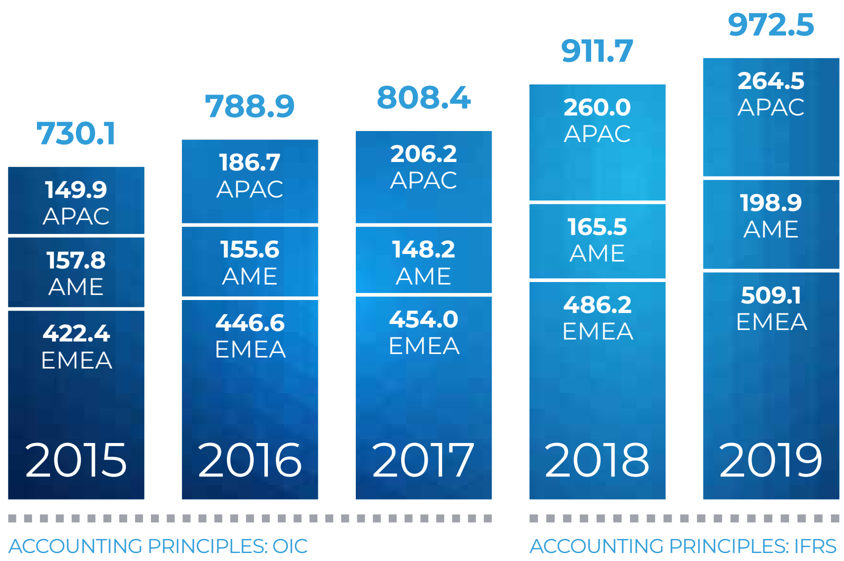
Group Sales

(euro / million)



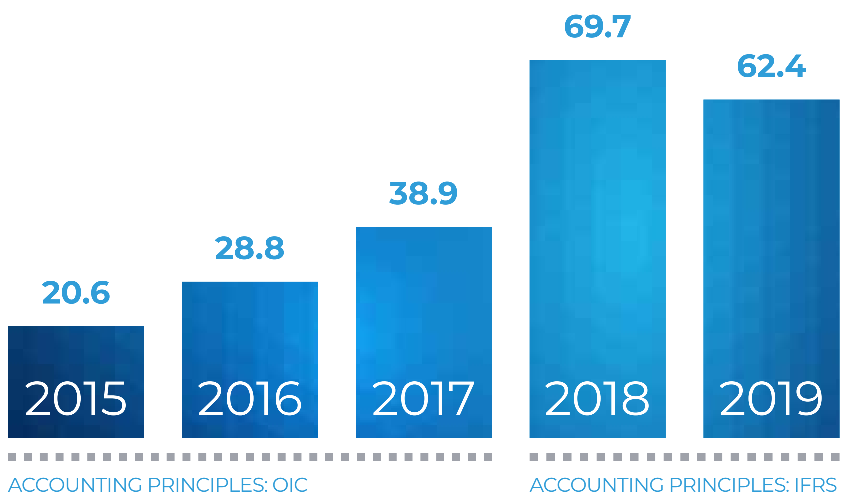
Sales by geographical area

(euro / million)



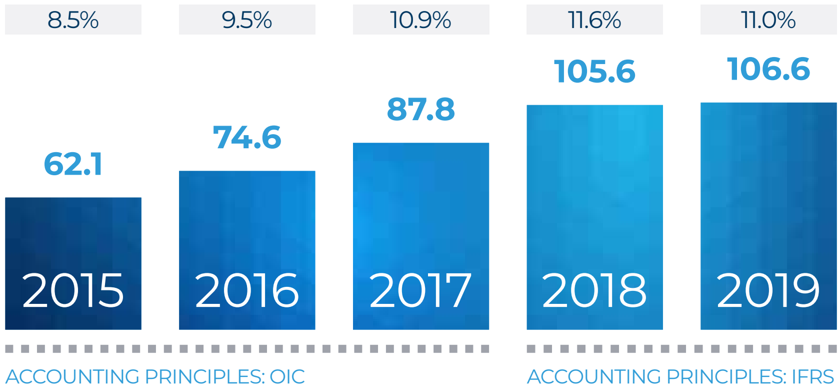
Net Capital Expenditure

(euro / million)



EBITDA

(euro / million - % on turnover)

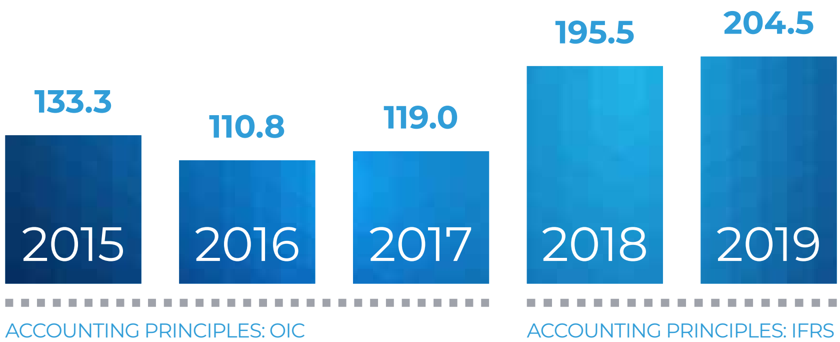


Group Shareholders' Equity

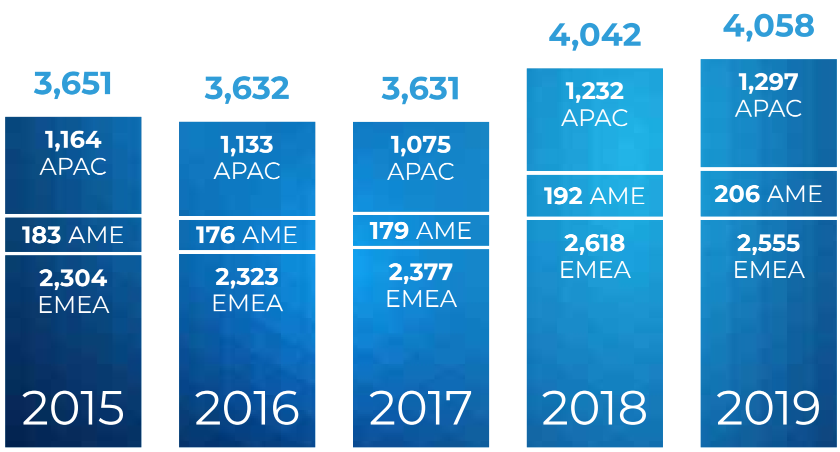
(euro / million)

Net Cash Position (NCP)

(euro / million)



Number of Employees



7.

MANAGEMENT REPORT

This section has been translated into English solely for the convenience of international readers


BOARD > INCOME
WEEKLY
MONTHLY
M$
1M$
MONDAY
TUESDAY
TOTAL INCOME
37.91%
LINE ITEMS
16.15 M$
SHIPPING
0.15 M$
TAXES
0%
TOTAL
16.3 M$

FOREWORD

This management report accompanies the Consolidated Financial Statements of the Bonfiglioli Group as of December 31, 2019 consisting of the financial statements and related illustrative notes and drafted in accordance with International Accounting Standards (IAS and IFRS) issued or revised by the International Accounting Standard Board (IASB) and approved by the European Union. IFRS also includes all revised International Accounting Standards ("IAS") and all interpretations of the International Financial Reporting Interpretations Committee (IFRIC).
Unless otherwise indicated, data are shown in Euro/millions.

ECONOMIC SITUATION

In 2019, the world economy saw a slowdown in the growth rate, falling from 3.7% in 2018 to 3%, which is the worst result since the 2008/2009 crisis.
In particular, the weakness that began at the end of 2018 continued through the first half of 2019, characterized by the contraction of manufacturing and global investments.
The decline in global trade in goods and services – which increased by only 1% compared to +3.7% in the previous year – and the general slowdown in industrial activity were decisive: this was negatively affected by the "trade war" between the United States and China (which is expected to subside after the United States and China reached a first trade agreement last December, preliminary of broader discussions on economic relations between the two countries), as well as the persistence throughout 2019 of the situation of uncertainty regarding the implementation of Brexit.
Among advanced economies, after the contraction of the first six months, trade grew again moderately in the third and fourth quarters of 2019, supported by a normalization of imports into the United Kingdom and an increase in imports into the EU member states of Central and Eastern Europe.
Among emerging economies, while stabilizing in the last quarter of the year, the downward trend continued due to the slowdown in the economies of China and India and the political turbulence in Latin America.
In the United States (+2.4%) growth was driven by strong labor market developments, good consumption trends and favorable financial conditions, while investments – with the exception of residential housing – continued to fall.
In China, economic activity showed a slowing trend (+6.1%, compared to 6.6% of GDP of previous year), mainly driven by weaker net exports compared to previous years, exacerbated by the trade dispute with the United States. The economic slowdown was also influenced in general by the Chinese government's strategy of rebalancing the economy to the detriment of public investments, which were lower than expected. In this regard, the implementation of the structural reforms undertaken by the government aims to lead to an orderly transition towards a more moderate growth path, less dependent on investments and exports.
In the United Kingdom, the negative trend in the growth rate continued (+1.2% compared to 1.4% in the previous year) mainly due to the feared risk of a disorderly Brexit. After falling in the second quarter (-0.2% compared to the corresponding period), real GDP grew in the second half of the year, driven by consumptions growth, in light of a stronger real wage growth in 2019.
In the Eurozone, the slowdown in economic activity continued (+1.2% compared to 1.9% in the previous year, with a steadily decreasing trend in the last two years), slowed in particular by the weakness of manufacturing and the difficult world trade situation, which penalized the contribution of external trade.
The sharp slowdown of German industry (+0.5%), the traditional driver of the European economy, with manufacturing output declining by more than 3 percentage points, and in particular, the negative contribution of the crisis in the automotive industry, had a particularly negative impact.

For Italy, 2019 was a year of zero growth with strongly recessive dynamics, particularly in the manufacturing sector where the fourth quarter of 2019 recorded the sixth consecutive decline, with volumes collapsing by almost five percentage points compared to the same period of the previous year.
Recent events related to the COVID-19 pandemic will have a negative impact on global economic and productive growth. Indeed, in recent weeks the most industrialized areas of the planet have been affected and the pandemic's repercussions, of historical importance, and according to recent projections, more severe than the 2008-2009 crisis, are being assessed by analysts but are still difficult to quantify given the ongoing evolution of events.
For the moment, the economic impacts are already evident for the Chinese economy, the first nation to have faced the epidemic, which hit record lows in the first two months of 2020, with industrial production marking the greatest fall of the last 30 years (-14%).
Among the possible scenarios, a first one from Cerved (which predicts an end to the emergency in May 2020) foresees significant impacts on world economies and import-export activities, with a significant decrease in the turnover of Italian companies in 2020 but a rapid recovery in 2021, which would boost the values beyond the 2019 level. The impacts would be particularly severe in sectors such as aviation, tourism and automotive with more than a quarter of lost turnover, despite other sectors such as e-commerce or medical devices benefiting from the situation.
If the emergency had to extend throughout 2020, even forecasting a recovery in the following year that could be sufficient to return to 2019 values, the impacts on the economy and in particular the aforementioned sectors (which would lose at least half of their volumes) could be extremely serious.
Much will depend on the ability of national and supranational organizations to take effective public actions (such as the recent decisions of the Governing Council of the ECB and the Federal Reserve on new quantitative easing measures or the use – under discussion – of the ESM or specific bond issues in the Eurozone) and provide appropriate support measures for households and businesses in order to avoid a long recession and a feared related financial crisis.

CONSOLIDATION AREA

As of December 31st, 2019, the consolidation area includes, along with the parent company, 23 controlled companies representing the following manufacturing and industrial organization:

- 14 production plants (4 in Italy, 3 in India, 2 in Germany and 1 each in China, the United States, Brazil, Slovakia and Vietnam) covering various areas of the extensive Bonfiglioli product range;
- directly controlled commercial companies in 15 countries, covering development, marketing and sales, logistics, customization and final assembly of the Group's products, pre-sales and after-sales assistance and customer support.

With reference to the consolidation area, following changes took place, as more detailed in the Illustrative Notes:

- the incorporation in April 2019 of the company "Bonfiglioli Swiss SA," 100% owned by the Parent Company;
- capital increase transactions of Bonfiglioli Swiss SA completed during the second half of 2019 through the contribution in kind of share investments at Fair Market Value (FMV) by the Parent Company.

ANALYSIS OF 2019 RESULTS

The Consolidated Income Statement reclassified by destination and the Consolidated Statement of Financial Position reclassified according to Capital employed and Funds with respect to the Group's last two years of operations are shown below.
The layouts presented hereunder show figures in millions of euros and in percentage, as well as the main economic-financial indicators.

	VALUES		% OF TURNOVER	
Reclassified income statement	2019	2018	2019	2018
TURNOVER	**972.5**	**911.7**	**100.0%**	**100.0%**
COST OF SALES	(758.0)	(694.5)	(77.9)%	(76.2)%
GROSS MARGIN	**214.5**	**217.2**	**22.1%**	**23.8%**
STRUCTURAL AND OPERATING EXPENSES	(152.7)	(152.1)	(15.7)%	(16.7)%
EBIT	**61.7**	**65.1**	**6.3%**	**7.1%**
Financial income and expenses	(6.3)	(6.0)	(0.6)%	(0.7)%
Exchange rate differences	(1.0)	(1.0)	(0.1)%	(0.1)%
Dividends, income and charges from security valuation	0.3	0.3	0.0%	0.0%
EBT	**54.7**	**58.4**	**5.6%**	**6.4%**
Current taxes	(14.0)	(17.7)	(1.4)%	(1.9)%
Deferred taxes	(3.5)	0.9	(0.4)%	0.1%
CONSOLIDATED NET INCOME	**37.1**	**41.6**	**3.8%**	**4.6%**
Minority	(0.4)	(0.2)	(0.0)%	(0.0)%
NET GROUP INCOME	**36.7**	**41.3**	**3.8%**	**4.5%**

	VALUES		% OF TURNOVER	
	2019	2018	2019	2018
PERSONNEL COSTS	**(181.3)**	**(171.1)**	**(18.6)%**	**(18.8)%**
AMORTIZ., DEPREC., IMPAIRMENTS AND PROVISIONS	**(44.9)**	**(40.5)**	**(4.6)%**	**(4.4)%**
EBITDA	**106.6**	**105.6**	**11.0%**	**11.6%**

	VALUES		ROTATION (*)	
STATEMENT OF FINANCIAL POSTION	2019	2018	2019	2018
Net working capital	263.9	247.0	98	98
Fixed assets	331.9	306.6	123	121
Other invested capital	(58.4)	(60.2)	(22)	(24)
Minority	(1.8)	(1.3)	(1)	(1)
CAPITAL EMPLOYED	**535.6**	**492.2**	**198**	**194**
Group Shareholders' Equity	331.1	296.6	122	117
Net Cash Position (NCP)	204.5	195.5	76	77
FUNDS	**535.6**	**492.2**	**198**	**194**

(*) average turnover rotation days (base 360)

TURNOVER BY GEOGRAPHIC AREA	VALUES 2019	VALUES 2018	% OF TURNOVER 2019	% OF TURNOVER 2018
EMEA	509.1	486.2	52.3%	53.3%
AME	198.9	165.5	20.5%	18.2%
APAC	264.5	260.0	27.2%	28.5%
TOTAL TURNOVER	**972.5**	**911.7**	**100.0%**	**100.0%**

INDICATORS	2019	2018	DESCRIPTION
ECONOMIC			
Net ROE	11.1%	13.9%	(Net profit/Shareholders' equity)
ROI	11.5%	13.2%	(EBIT/Capital employed)
ROS	6.3%	7.1%	(EBIT/Turnover)
EBITDA/Net financial charges	17.0	17.6	
EQUITY AND STRUCTURE			
Primary structural balance ratio	1.0	1.0	(Shareholders' equity/ Fixed assets)
Financial indebtedness ratio	0.6	0.7	(NCP/Shareholders' equity)
NCP/EBITDA ratio	1.9	1.9	(NCP/EBITDA)
Shareholders' equity tangibility ratio	0.9	0.8	(Equity-Intangible assets/Equity)
OTHER			
Average number of employees	4091	3899	Annual average
Turnover per employee	238	234	Data in thousands of Euro

During 2019, having unified the activities of the two plants in Vignola and Calderara di Reno in one plant, the transition of the entire production to the EVO plant was completed, which thus became the new "home" for the D&P Business Unit dedicated to industrial power drives. With its 58,000 square meters indoors (and just as much green areas and yards), EVO is the largest gearmotor plant in Italy. Totally digitized and lean, it has a production capacity of over one million units per year all based on IoT, interconnections, total integration of the supply chain, predictive maintenance with big data, as well as green and sustainable technologies for zero impact on the local community.

Moreover, during the year the Australian subsidiary completed the expansion of its headquarters in Victoria, moving to a new and larger factory in Carrum Downs, near Melbourne, in order to offer a better service to its customers through higher stock levels and an increase in quality and efficiency. With its improved quality control, testing and production expertise, the new structure can house twice the stock levels of the previous structure.

In cooperation with other important companies in the region, in June 2019 Bonfiglioli contributed to the creation of Capo D ("Community of Companies for Equal Opportunities"), a network contract that aims to promote equal opportunities in the workplace, with the objective of maintaining high attention on these issues, creating opportunities for comparison and networking between the participating companies and the context of the local community, to develop synergies and common projects.

Also in July 2019, with the aim of increasing synergies and providing better customer support, the relocation of Bonfiglioli UK Ltd. to a brand new 2,500 square meters facility in Warrington was completed, bringing together the D&P and M&W BUs in a single plant. This new location for the UK subsidiary will bring together all product assembly and storage operations, thus enabling more efficient processes to better serve the market.

In October 2019 the Group received another important award. Bonfiglioli Riduttori won the Eccellenze d'Impresa award, sponsored by the Italian Stock Exchange for companies that stand out for innovation, internationalization, growth, sustainability, and the management and development of human resources. The Bonfiglioli Group was awarded both in the Absolute Winner and in the "Growth and Sustainability" category.

2019 was a record year for Bonfiglioli in China with sales over of CNY 1 billion, the best financial performance since its establishment. Thanks to its commitment to the market and local community, the Chinese government has given Bonfiglioli Drives Shanghai prestigious awards.

Last but not least, the Manufacturing Excellence Academy 4.0 was born from the success of the Digital Retraining pilot project. As part of this project, training courses were specially designed for 23 roles, involving over 400 people and providing 19,000 hours of training only in 2019. Bonfiglioli people had the opportunity to get involved and learn more about several topics to better face up digital transformation. The digital training process has been recognized as a training program by the Emilia-Romagna region. In February 2020 the Bonfiglioli Manufacturing Excellence Academy 4.0 was also recognized as one of Italy's best academies in the guide written by Il Sole 24 Ore.

The Group turnover (i.e. revenues from sales and services) in 2019 recorded a 6.7% increase compared to the previous financial year (972.5 M€ compared to 911.7 M€ in 2018) thanks to the particularly positive performance of the M&W Business Unit.
The Consolidated Income Statement shows a Group EBITDA of 106.6 M€, equivalent to 11.0% of turnover, an improvement on the previous year (+1.0 M€) in absolute value with a slight decrease in percentage terms (-0.6%).
The analysis of the various components shows that:

- Cost of sales for 2019 came to 77.9% of turnover. The decrease in marginality compared to 2018 (-1.7%) is mainly due to the dynamics of the product mix, which saw an increase in turnover of M&W products with lower marginality;
- Structural and operating expenses grew in absolute figures by 0.6 M€ despite recording an improvement in percentage of turnover (15.7% compared to 16.7% last year);
- Total cost of labor rose from 171.1 M€ to 181.3 M€, with a slight improvement in terms of percentage of turnover (18.6% compared to 18.8% last year);
- Amortization, depreciation and other provisions increased in absolute value compared to the previous year (44.9 M€ compared to 40.5 M€ in 2018), despite a slight increase in percentage of turnover (4.6% compared to 4.4% last year);
- The net financial charges in absolute value recorded a slight increase (6.3 M€ compared to 6 M€ last year), with the percentage of turnover remaining substantially unchanged (0.6% in 2019 compared to 0.7% in 2018);
- Exchange rate dynamics led to losses of 1 M€, a value in line with the previous year both in absolute terms and in terms of impact on turnover (0.1%).

With regard to the Group's assets and liabilities, Net Working Capital rose in absolute value from 247 M€ to 263.9 M€ while remaining substantially unchanged in terms of rotation on sales (98 average days of rotation).
The Net Cash Position (NCP) recorded an increase in absolute value of indebtedness (from 195.5 M€ in December 2018 to 204.5 M€ in December 2019), while the leverage, i.e. the ratio between NCP and EBITDA, remained at 1.9, in line with 2018.

Net investments amount to 62.4 M€ (of which 1.7 M€ related to rights to use). Details are given below:

VALUES IN M€	2019	2018
Land and buildings	22.6	17.2
Plant and machinery	20.3	24.5
Equipment	11.2	12.1
Other assets	5.9	5.1
Assets under construction	(1.5)	3.8
Tangible assets	**58.5**	**62.7**
Licenses, trademarks, patents	3.3	2.4
Other	0.6	4.4
Intangible assets	**3.9**	**6.8**
Total Investments	**62.4**	**69.5**

The Group's main investments for 2019 are described below:

- Investments in land and buildings mainly concerned the parent company (13.5 M€, net of an additional 10.8 M€ under construction at the end of 2018) of which 12.6 M€ relating to the construction of the EVO plant. Further investments were made for the new leased plant of Bonfiglioli UK in Warrington (2.2 M€) and by Tecnotrans Bonfiglioli (1.5 M€) for the purchase of property land for the new plant in Castellbisbal (Barcelona). With regard to the Parent Company, it has to be noted that, as part of the production reorganization of the D&P BU, during the year the Vignola plant was sold as it was no longer strategic for the Group, with a net book value of 5.1 M€, aligned with the market value.
- Investments in plant, machinery and equipment primarily concerned the Parent Company (16.4 M€) for the purchase of machinery and equipment related to the upgrading of the EVO plant in Calderara di Reno (7 M€) and the Forlì plant (9.4 M€). Further investments were made in the plants in Rovereto (3.3 M€, mainly related to the adaptation of existing production lines and the implementation of new automatic and semi-automatic lines), Slovakia (4.2 M€), Vietnam (2.4 M€) and India (2.9 M€).
- Investments in other assets, including 1.6 M€ for right to use and other tangible assets (IFRS 16) mainly concerning the Parent Company (3.3 M€).
- Investments for tangible assets in progress, gross of the reclassification for the completion of fixed assets under construction in 2018, mainly concerned the Parent Company (5.0 M€) and the Indian (3.8 M€) and Chinese (1 M€) subsidiaries.
- Investments in licenses, trademarks and patents mainly cover the purchase of enterprise software by the parent company (1.9 M€ net of an additional 1.2 M€ already made at the end of 2018).
- Investments in other assets in progress, gross of the completion of those in development at the end of 2018, mainly related to development expenses of Bonfiglioli Vectron GmbH (1.8 M€).

ALTERNATIVE PERFORMANCE MEASURES

In order to ensure a better understanding and assessment of the Group's performance, some alternative performance indicators (APMs) have been used in the preceding paragraphs that are not defined as accounting measures under IFRS (non-GAAP measures). These indicators also represent the tools that help the directors to identify operational performance and make decisions about investments, resources allocation, and other operational decisions.
Following points enable a correct interpretation of the abovementioned APMs:

(i) These indicators are calculated exclusively using the Group's historical data only and are not indicative of the future performance of the Group itself.
(ii) The APMs are not required by IFRS and, although they are derived from the Group's consolidated financial statements, they are not subject to audit.
(iii) The APMs should not be considered as a substitute of the indicators provided for by the IFRS.
(iv) The APMs are to be read together with the Group's financial information taken from Bonfiglioli Group's consolidated financial statements.
(v) The definitions of the indicators used by the Group and not deriving from reference accounting standards may not be the same as those adopted by other Groups and therefore they are not comparable with them.
(vi) The APMs used by the Group are applied with continuity and uniformity of definition and representation for all the periods for which financial information is included in these Financial Statements.

The following is the description of the main indicators utilised, where not already illustrated in the Consolidated Financial Statements:

- Net cash position (net financial debt): allows a better assessment of the Group's overall level of indebtedness.
- Net working capital, fixed assets and net invested capital: allow a better assessment of the ability to meet short-term trade commitments and the consistency between the structure of capital employed and sources of financing.

RISK MANAGEMENT

Following is an analysis of the main risks the Group is exposed to, these risks related to events capable of producing negative effects on the pursuit of the company's objectives and that could therefore restrict the creation of value.

RISKS CONNECTED WITH GENERAL ECONOMIC CONDITIONS

The economic and financial standing of the Group, as well as its assets and liabilities, are influenced by a number of factors that make up the macro-economic picture in the various countries the Group operates in: increase or decrease in GDP, consumer and business confidence, currency and interest rate fluctuations, cost of raw materials, etc.

RISKS CONNECTED WITH THE MARKET SECTORS SERVED

The Group works in many markets, divided into three Business Units: Industrial (D&P), Automation (M&M) and Mobile & Wind (M&W). Each business is followed by dedicated organizations, i.e. Business Units, which are responsible for developing products and customer bases for the sectors concerned.
The wide range of markets served and applications supplied has always provided refuge from economic slumps by allowing the Group to balance the product offering of sectors in decline with those in growth and vice versa. The Group is still exposed to financial and systemic crises, such as the world economic crisis of 2008/2009 or the current global health crisis linked to the COVID-19 pandemic.

RISKS CONNECTED WITH FINANCIAL RESOURCE REQUIREMENTS

Group performance depends among other things on its ability to meet the needs arising from maturing debts and scheduled investments through cash flows coming from operations, available liquidity, the renewal or refinancing of bank loans, and, if necessary, recourse to other sources of funds. In order to keep the Net Cash Position under constant check and to monitor the business's short-term capacity to meet its commitments, short-term and mid-term cash flow estimates were drawn up in order to make the most appropriate decisions.

CREDIT RISK

Credit risk is represented by the Group's exposure to potential losses that may stem from customers' failure to meet their obligations.
Customer credit risk is constantly monitored with the use of information and customer assessment procedures, and this type of risk has historically been very low.

RISKS CONNECTED WITH EXCHANGE AND INTEREST RATE FLUCTUATIONS

As it operates in many markets around the world, the Group is naturally exposed to exchange rate fluctuations, linked mainly to the geographical distribution of production and sales that generate import/export flows in currencies different from those of the production countries. In particular, the Group is exposed through its exports from the Eurozone to the areas of the US Dollar, GB Pound, Australian Dollar, Chinese Yuan and other minor currencies. With regard to incoming flows, risks concern imports from Japan in Yen and, for those companies based in India, Vietnam, Singapore, Turkey, Brazil and South Africa, by imports of goods from countries having strong currencies (euros and USD).
The risk of interest rate fluctuations derives from medium/long term debts at variable interest rates.
In keeping with its risk management policies, the Group tries to hedge risks deriving from exchange and interest rate fluctuations through the purchase of derivative financial instruments similar in duration to the risk to be covered. During the year, the Group also renewed its Management Procedure for Hedging Foreign Exchange and Interest Rates in line with the evolution of these risks.

RISKS CONNECTED WITH THE USE OF DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses financial instruments hedging the interest rate and exchange rate risks stated above to minimize operational import-export risks and to stabilize expected financial flows for interest on medium/long terms debt. The companies in the Group do not use speculative derivative financial instruments.

RISKS CONNECTED WITH EMPLOYMENT RELATIONS

In the various countries that the Group operates in, employees are protected by laws and by collective labor contracts that provide them with guarantees through local and national representatives. Employees are entitled to be consulted on specific matters, including the downsizing or closure of departments or reductions in the workforce. These laws and collective labor contracts applicable to the Group could affect the flexibility with which it redefines or strategically repositions its activities.

RISKS CONNECTED WITH COMPETITION

The macroeconomic recession of recent years has had the effect of making consumption less predictable in almost all sectors that the Group's products are used in (manufacturing and construction in particular), thereby changing the overall value of the available market and increasing competition. The success of the Group is therefore also dependent on its ability to maintain and increase its market share, perhaps expanding into new sectors and emerging countries.

RESEARCH AND DEVELOPMENT

Expenditures in 2019 in the area of Research and Development totaled around 15.4 M€ at a Group level. To this must be added the costs capitalized by Bonfiglioli Vectron for a total of 1.8 M€.
A breakdown of the main development projects is given below.

APPLICATIONS IN THE EARTH MOVING, CONSTRUCTION AND MINING SECTOR

In the construction machinery sector, the development of mechanical drives for tele handler applications continues, with a particular focus on the American market: the new products are based on the principle of the mechanical toroidal variator, for which a license agreement with a North American technology partner was signed in 2018.
In the earthmoving and mining machinery sector, the expansion and renewal of the O&K Antriebstechnik range of slew drives has reached the experimental validation phase, with the aim of exploiting the reliability and the multi-year experience of the German company in synergy with the technology and competitiveness of the Bonfiglioli Trasmital product.
Finally, the development of integrated hydraulic motors continues, both for closed and open circuit applications for small and medium compact track loaders and self-propelled crushers. The drivers of development remain studies of solutions aimed at minimizing overall dimensions and increasing power density, including through the reduction of mechanical and hydraulic losses.

APPLICATIONS IN THE AGRICULTURAL SECTOR

In the agricultural sector, research continues into new solutions offering further benefits in terms of axial dimensions of the complete gearmotor unit. This requirement goes in the direction of increasing productivity, as it actually increases performance in terms of tons of product per total hectare of land.
Prototyping and development also continue, aimed at introducing these solutions with an integrated hydraulic motor, in a sector that has always been dominated by plug-in solutions.

APPLICATIONS IN THE ELECTROMOBILITY SECTOR

In the logistics and material handling sector, the development of an extensive range of integrated traction systems consisting of compact planetary drives and electric motors continues in line with market trends that increasingly promote electric motors at the expense of classic diesel or LPG internal combustion engines. Specifically, a product suitable for wheel applications for electric forklifts up to a maximum weight of 46 tons is being validated, which includes a compact electric motor with IPM permanent magnet technology and dynamic service and parking brake functions.
In parallel, the development of drives with integrated low-voltage asynchronous electric motor for the translation of electric platforms characterized by a very high reduction ratio and gears with toothed gears optimized for quietness and efficiency, to allow the electric motor to work at high rpm thus optimizing efficiency and minimizing overall dimensions.
In the construction machinery sector, customized solutions have been developed for large electric or hybrid self-propelled crushers, where the liquid-cooled permanent magnet electric motor has been integrated into a robust cast iron casing that ensures reliable use in heavy-duty environments from the point of view of mechanical stresses and external agents.
Finally, prototyping and vehicle validation for fully electric solutions for the rotation and travel drives for compact mini-excavators up to 4 tons were started.

APPLICATIONS IN THE MARINE AND WIND GENERATOR SECTOR

In the Marine and Offshore market, the process of type approval certification was completed with the certification body ABS for planetary products in the 300 series. This is a very important milestone that required major standardization and revision of calculation methodologies as well as detailed documentation.
A new range of planetary drives dedicated specifically to winch applications is also being developed. The products are characterized by a modular structure that will meet the very stringent requirements of this market in terms of flexibility and level of service, guaranteeing product reliability and certification requirements.
In the wind turbine sector, the project to renew the entire range of planetary drives for blade rotation and turret

rotation is nearing completion. This includes both the development of new sizes needed to supply compact and optimized solutions for specific applications and the exploitation of synergies with components and sub-assemblies used in other product ranges in order to guarantee reliability and service levels in an increasingly global and competitive market.
The range of electric motors has expanded to include additional sizes and versions of internal permanent magnet synchronous motors (IPM), synchronous reluctance motors and high efficiency asynchronous motors, intended for integration in the drives to control both the blade pitch and the shuttle orientation.

INDUSTRIAL APPLICATIONS

Development in the industrial drive sector remain focused on renewing the light-duty ranges for those market sectors where high efficiency and reliability are required, and on optimizing the heavy-duty product range.
In fact, the industrialization of the new line of coaxial drives has begun, consisting of six new sizes designed with a highly modular architecture and aimed at facilitating large-scale automatic assembly.
In the Heavy Duty sector, the completion of the HDO and HDP product range continues. This has been extended to include new engine configurations and versions to improve thermal performance, including the possible implementation of forced cooling accessories.
The development of new products for the renewable energy sector is also continuing, concerning the orientation of photovoltaic panels in large installation and research activities related to innovative products for escalator handling using direct drive solutions completely integrated in the structure and characterized by high reliability and compactness, while at the same time meeting the requirements of quietness and transmission regularity.
In the recycling sector, various drive application opportunities have been addressed with a new double planetary drive concept developed for shredding machines with a power of more than 500 kW.
With regard to the development of electric motors for industrial operating machinery, an important project for the renewal of the current range of electric motors compliant with the IE3 efficiency class is nearing completion, aiming to improve energy performance, integrate the electric motors to their referred gear motors in terms of design and mechanics, making the various options available modular and at the same time reducing costs through the optimization of magnetic material use.
The new series of IE3 motors has also been extended in terms of power, and will expand Bonfiglioli's range on the market with high-efficiency solutions for power ratings from 0.12 to 30 kW.
Development also continues on the new range of electric motors in the IE4 efficiency class, exploiting both permanent magnet and synchronous reluctance technologies, aiming to optimize acceleration performance in terms of maximum accelerating inertia, reducing noise and bringing the design and new modular options in line with the new IE3 range.

CROSS-CUTTING RESEARCH INTO PRODUCTS, DIGITIZATION AND IOT SYSTEMS

Also in 2019, the digitization of Bonfiglioli products focused on the development of the system architecture for the application of predictive and prognostic diagnostics and related algorithms through the preparation of fully sensor-equipped products that have been installed in some specific pilot applications, including the drives for controlling the shuttle orientation on wind turbines, the conveyor drive systems in the mining sector and some traction and steering systems for electrical applications for counterbalanced forklifts.
In particular, in the Wind sector, several sensor-equipped Yaw drives have been installed in some wind farms. Using the cloud platform set up in these units, Bonfiglioli is collecting a large amount of data used for experimental validation of diagnostic models and predictive maintenance currently under development.
The IoTwins project is also part of the Wind sector, funded by the European Community as part of the Horizon 2020 program for which Bonfiglioli acts both as coordinator of an important consortium of 25 companies, universities and international research centers, and leader of an experimental project that aims to develop a scalable modular platform for predictive maintenance of wind turbines based on artificial intelligence models.
In the specific field of artificial intelligence, a project has been launched at the Mechatronic Research and Development Center in Rovereto to develop predictive maintenance algorithms for industrial drives and electric motors.

DEVELOPMENT AND OPTIMIZATION OF PRODUCT DEVELOPMENT SUPPORT PROCESSES

The product development procedure unification project launched following the unification of the R&D structure was completed in 2019. This involved a major overhaul of internal processes in order to adapt them to the needs of the individual Business Units, at the same time bringing them into compliance with the international APQP (Advance Product Quality Planning) standards.

Again, with reference to the PLM (Product Lifecycle Management) system, the new unified processes relating to product change management (Engineering change request) and release of technical documentation (Engineering change notice) have also been extended to all branches in order to obtain a single coding and management system for all technical documentation and standardized project specifications for the entire group.
Finally, a product configurator upgrade project was launched, which thanks to a completely renewed new user interface will allow to select the product or the solution starting from the application requirements, will provide advanced research filters and assess the available ranges, and provide automatic access to customized technical product documentation.

AUTOMATION

In 2019 the R&D department continued to study new strategies and mathematical models for monitoring the working conditions of drives and motion control. The activities include the implementation of hardware-in-the-loop simulation systems and their use for the evaluation and tuning of inverter performance. An important objective is the prediction of the useful life of the product and the prevention of faults and malfunctions starting from the internal components of the inverters to extend the evaluation to the entire chain of motion control, including motors and drives. As regards the modeling and control of electric motors, the main objective was to improve the control strategies of synchronous and asynchronous motors. In particular, digital twins of the processes to be controlled are being used in order to stimulate control and regulation under very different operating conditions, which are not always feasible with physical systems. The resulting algorithms will be programmed into the firmware of the next series of inverters and servo drives.
In 2019 a new 15 kW variant of the Agile product series was developed and presented to the market at the SPS trade fair in Nuremberg. The new 15kW inverter extends the power range of the existing Agile series and sets new standards for the HVACR industry (heating, ventilation, air conditioning, refrigeration).
In 2019 the R&D department continued work on the development of three new series of inverters and servo drives. The most important objective of this project is the consolidation of the existing business and access to new applications, particularly in the Motion Control market segment, through the improvement and renewal of technologies, the optimization and simplification of customized solutions and the introduction of advanced functional safety functions in accordance with the latest safety requirements for industrial machines. The product functions also respond to new market needs such as energy efficiency, energy recovery with re-injection into the power grid, and the Industrial Internet of Things (IIoT).
The innovative motor / inverter / drive package developed in recent years for synchronous reluctance motor technology was presented and rewarded during SPS Italia 2019.

DIGITAL&IT (INFORMATION TECHNOLOGY)

2019 was a year of great news and significant changes on Bonfiglioli’s IT & Digital front.
The main areas of innovation concerned:

- Cybersecurity: massive boost of the global capacity to counter cyber threats throughout the group worldwide;
- The application of innovative technologies to the new EVO production plant in Calderara di Reno;
- Cloud shift: evolution of the technological infrastructure and further advances in the shift of application workloads to public clouds (Microsoft Azure and AWS Amazon Web Services);
- Project management: adoption of new project management techniques and tools;
- Project financing: participation in European and Italian funding initiatives to support activities, in particular on the digital front.

CYBERSECURITY

In 2019 Bonfiglioli suffered a cyber attack by foreign hackers for the purpose of extortion. A ransomware (that is a malicious software that encrypts files making them inaccessible without a decryption key that is provided in exchange for payment of a ransom) injected by exploiting an operating system vulnerability of a server and the compromise of a remote control account on an Australian computer in the network but out of the domain caused a number of disruptions for some days during the week of June 11-15, particularly on servers and computers with more obsolete operating systems and therefore more exposed to infection by the malicious software.

During the attack (on the night of the same day that the attack occurred) Bonfiglioli distributed a cutting-edge Israeli security detection & response endpoint called Cynet that it had tested in previous weeks, able to counter not only malware and recognized viruses but also intercept and block suspicious behaviors in the computers it is installed on which may be an indication of malicious actions by hackers.

This made it possible to confine the effects of the ransomware and eradicate its root causes from every PC in the Bonfiglioli network.

Once the threat was contained and eliminated, organizational actions were taken to raise the level of protection (e.g. separation of domain administrators' accounts which were previously unique into distinct roles between user computers and servers in order to reduce the negative effects of a possible administrator password crack).

Finally, it is worth mentioning that since July, 11 sites considered most critical for their economic importance in the entire network of Bonfiglioli plants and subsidiaries have been experimenting an advanced network traffic sniffing solution called Darktrace, which, using machine learning algorithms, is able to identify traffic situations that may be suspicious at a network level and not at individual endpoints.

With this technology, Bonfiglioli defeated a second attack in September 2019 even before it began. This had no substantial effect but rather proved the effectiveness of the new defensive tool.

Also in 2019 a specific IT Security Manager role was created in the organization to ensure the proper level of professional management of this issue.

EVO

In May 2019 the new EVO production plant was inaugurated in Calderara di Reno. This required a total investment of 60 M€, half of which covered the traditional real estate portion. Approximately 30 M€ were allocated to technology to make Evo the new archetype of Bonfiglioli's modern industrial plant.

Also in terms of information technology, many initiatives marked the inauguration of EVO:

- Adoption and customization of a powerful new warehouse management system to address sophisticated handling needs, picking optimization and efficiency of operations not possible with the software used up to that point.
- Cutting-edge WiFi: aware that the need for factory mobility and flexibility based on wireless connectivity will grow, the WiFi network was implemented using Meraki equipment and controllers that ensure load balancing and roaming when moving between access points.

CLOUD SHIFT

The evolution of the technological infrastructure took concrete form in the renewal of the Group's main Data Center, an area where the adoption of hyper-conversive solutions was consolidated, while initiatives were taken to transfer the main workloads to the Cloud.

Towards the end of the year, the Data warehouse migration process was completed, confirming the adoption of an innovative cloud-based solution (Snowflake) thus achieving a significant increase in performance together with a concrete improvement in the ability to manage computational load fluctuations. The solution adopted is the enabling platform for BI Self-Service processes, which will be implemented at a Corporate level from 2020.

During the year, the Product Selector application was also released, based on the SAP Hybris solution, also implemented in the Cloud environment. This step represents a first important milestone in Bonfiglioli's e-Commerce process activation roadmap.

PROJECT MANAGEMENT

In 2019, the application of agile design methods began in a structured manner. This methodology was developed around 2000 and is used mainly for software development that consists in defining minimum viable product (MVP) objectives to be achieved in a tight time frame with a dedicated full-time working group in pre-arranged time intervals and with the coordination of a special project leader called a scrum master.

Its adoption by Bonfiglioli was facilitated by the support of specialists from Boston Consulting Group (BCG) who helped Bonfiglioli try out this methodology in a first wave of projects (January-March 2019).

The main tangible result is that of accelerating the cooperation of interdisciplinary functional teams, thus favoring the prompt achievement of challenging objectives for implementing minimal but functional solutions responding to needs that are difficult to solve and sometimes even complex to formulate.

PROJECT FINANCING

In 2019 Bonfiglioli increased its partnerships with research institutes and universities to support R&D and Digital innovation, both with the contribution of experience and expertise available in the academic world and at the same time taking advantage of the funding available for this purpose both in Europe and Italy.
In the European context Bonfiglioli proposed itself for the first time as Coordinator of a Horizon 2020 project (IoTwins Project), which was officially approved and funded by the European Commission in June 2019.
Until 2022 Bonfiglioli will be the leader of a consortium involving 23 partner organizations, including industrial and service companies, research institutes and universities in 8 European countries. The funding obtained amounts to a total of 16.4 M€, which will cover 82% of the total estimated costs (20 M€). The project research is focused on creating an Industrial IoT (IIoT) platform that will exploit Big Data and artificial intelligence to simulate the operation of plants and infrastructure through the creation of “Digital Twins.” The platform will be tested and validated in 12 applications in the areas of production optimization, infrastructure management, testing of new business models, and replicability for SMEs. Bonfiglioli’s participation in the IoTwins project offers many opportunities: Bonfiglioli will have the chance to acquire know-how and start new partnerships for the development of digital and IoT solutions thanks to its inclusion in a network of European organizations representing excellence in research and industry. Partner organizations include major industrial players such as Siemens, universities and research institutes including the Institute of Nuclear Physics and the Fraunhofer Institut. The Barcelona Football Club is one of the end users. In parallel, Bonfiglioli itself will play the role of end user in the project as the leader of one of the 12 pilots, which aims to develop a predictive maintenance system for the Bonfiglioli product range for wind power applications.

At a national level, in 2019 Bonfiglioli intensified its relations with the University of Bologna and the Ministry of Economic Development (MISE), thanks to its participation in two initiatives:

- **Digital@Bonfiglioli Project**
  In 2019 Bonfiglioli Riduttori S.p.A. won a call for tenders published by MISE for a design proposal that is part of the many initiatives planned and in part already implemented by the company in order to achieve the complete digital transformation of the group. For the implementation of these activities over the next three years, Bonfiglioli will receive funding of 2.6 M€, which is 26% of the total project costs (9.9 M€).

- **“Bi-Rex” Industry 4.0 Competence Center:**
  BI-REX is a public-private consortium founded in Bologna in 2018. The aim of BI-REX is to fully exploit the know-how of the Emilia-Romagna High Tech network (industrial research laboratories, infrastructure, Digital Innovation Hubs) but with a national and international implementation plan.
  The establishment of the consortium has allowed the creation of a partnership of 57 players, including universities, research centers, and 45 companies to support companies and in particular small and medium enterprises to start to adopt the enabling technologies of Industry 4.0.
  In October 2019 BI-REX launched the first calls for proposals relating to the areas covered by the consortium’s research, for a total of 16 projects open to applications both from organizations participating in the consortium and from outside.

QUALITY, SAFETY, HEALTH AND ENVIRONMENT

In 2019 the Quality Management System certification according to standard ISO 9001:2015 was assessed, extending and consolidating the Risk-Based Thinking approach.
The BDS and BIT plants have earned certification for their safety and environmental management systems according to the new ISO14001:2015 and OHSAS 18001 standards.
In terms of company KPIs, the use of the Group Scorecard is now consolidated in such a way as to make the data easily available and monitorable. Further quality and service level indicators related to customer performance (Customer quality and service) are also being defined.
A major boost was given to the creation of a system to identify and monitor the costs associated with non-quality and the new product development methodology (APQP) also went live in order to integrate and optimize the different development phases.
In terms of supplier quality, cooperation continued with the Purchasing function to optimize a Group Vendor List and consolidate a stronger supplier base. In particular, work was carried out to optimize the supplier base in China and India, where selections of local suppliers that can be used globally started following the logic of the global strategy. Work was also done on the selection and development of suppliers as part of the CVT project and for automotive applications within the electro mobility project (Ducato Elettrico).
Following the creation of the "BEST" technical specification which identifies Bonfiglioli's requirements for the qualification and subsequent certification of the distribution chain, several distributors were certified, with the involvement of an accredited third party.
Efforts continued to audit production processes and define standards valid at a Group level, as well as support to plants in the installation of new production platforms/production lines using methods such as Internal PPAP.
Also worthy of note is the performance of customer ppm (Parts Per Million), which continued the downward trend, settling at -5%, compared with the previous year.

HUMAN RESOURCES

In 2019 the Bonfiglioli Group continued its investment in human capital with an increase in resources, from 4,042 at the end of 2018 to 4,058 in 2019 (numbers including temporary workers). The distribution of resources was marked by an increase in China, India, and the United States, with consolidation in Italy in line with business strategies. The Group's workforce consists of 1,615 resources in Italy and 2,443 abroad, of which 1,587 in production companies and 856 in sales branches. The Bonfiglioli Group's mix of internal resources is mainly made up of professionals linked to the creation of products/solutions (68%) and research (6%).
In 2019 we welcomed 559 new people worldwide. Talent Acquisition has led to the hiring of 104 people in Italy alone, of which about 30% in the Research & Development and Information Technology areas, confirming the important investment that the company is making in the digital transformation and technological development of our products.
In 2019 we confirmed our presence at the most prestigious Italian universities, participating in 11 events including nine Career Days. These include the speech held at the Faculty of Engineering of the University of Bologna, where we had the opportunity to share with the students of the "Employability" course some suggestions on how to approach the working world, with a particular focus on the importance of cross-cutting skills.
These moments gave us the opportunity to consolidate our relationship with universities and to meet many talented youth, nine of whom had the chance to develop their thesis on important corporate projects and to start a professional career in the company.

In addition, the work-study project with schools continues, allowing us to welcome 20 young people from the local region and thus contribute to their growth.
In line with last year's Training activities, equally important targets were achieved in 2019: the year ended with the involvement of 700 people for more than 12,000 total hours of training provided. The focus in 2019 was mainly on Digital Mindset, with the aim of supporting the development of a winning approach to better face future challenges. 2019 was also the year of consolidation and worldwide expansion of our model.
January 2019 saw the start of the Manufacturing Excellence Academy 4.0, based on the Digital Re-Training pilot program. "Bonfiglioli Digital Re-training" was launched to tackle digital change resulting from the great investment in the new EVO plant. The Manufacturing Excellence Academy 4.0 represents its evolution. It has allowed us to develop specific training courses for 23 roles, involve about 400 people, and provide about 19,000 hours of training in 2019 alone. Bonfiglioli's people were the focus of the training delivered: they had the opportunity to get involved in three areas that we believe represent the winning key to tackling digital transformation. The first area regards the learning of technical skills related to the new technologies introduced (such as Big Data, Dynamic Scheduling and Digital Twin) and what we have called "cultural" skills, which concern mindset. The second area focuses on the role of the new organization to accompany people in the changes that the new plant has brought. Finally, the third outlines the new working method, the Bonfiglioli Production System, which defines the operation of the new EVO plant.
Last year we continued the Change to EVO project, which allowed us to launch various activities, including the involvement of all our people and initiatives to measure their effectiveness. These communication and engagement activities included dedicated events such as Roadshows and Welcome days organized to disseminate the objectives and activities planned in the EVO plant and to reaffirm the centrality of our people. Given the complexity of the project we decided to measure ourselves through the construction of a dashboard of more than 40 indicators, which has become a key tool for monitoring the operation of the plant, considering both impacts on people and performance.
2019 was also a particularly intense year for industrial relations, which played a central role in the birth of the new EVO production plant. In fact, a series of innovative and frontier agreements were stipulated to assist in the integration of people into the new facilities and to facilitate their work.
The process of strengthening a sustainable system of industrial relations continued by holding 74 trade union meetings on four levels of negotiation, structured to deal with certain issues in an in-depth and dedicated manner.
The great success of the "B-Welfare" program continued in 2019, with almost total participation and the inclusion of additional services designed to meet people's real needs.

BUSINESS OUTLOOK

Orders in the first two months of the new year have decreased compared to the same period of the previous year (-2%). In terms of consolidated turnover for the first two months of 2020, a decrease of 7% was recorded compared to the same period of the previous year, also following the COVID-19 effects on the Chinese market.
The recent events connected with the COVID-19 epidemic make it difficult to forecast what will happen in the coming months. As a result of these events, several companies and activities of the Group have recently been affected by restrictive measures put in place by national governments that have led to a reduction in non-essential production and trade.
At the time of writing, the Fitch agency has cut global GDP growth estimates for 2020 to +1.3% from +2.5% forecast in December and compared to +2.7% in 2019. "The global health crisis sparked by the outbreak of the coronavirus is taking an extraordinarily heavy toll on the world economy. The level of world GDP is falling and for all intents and purposes we are in global recession territory," explained the agency in its quarterly Global Economic Outlook. Fitch also forecast a 2% drop in Italian GDP in 2020 due to the impact of the coronavirus epidemic. The agency had previously predicted growth of 0.4%. In the March Global Economic Outlook Fitch stressed that measures taken to

combat the epidemic are “likely to have a profound economic impact in the near term particularly on non-essential consumer spending.” The agency expects the economy to contract by 0.9% in the first quarter and 2.4% in the second. There is no doubt that this pandemic, which is still in a highly expansive phase at global level, is causing and will continue to cause a slowdown in the Group’s business, as well as changing scenarios in the supply chain and the general economic context, which will have to be assessed separately.
In view of this, Bonfiglioli has become fully aware of the situation and is implementing all kinds of measures to predict and manage the situation in the best way possible, trying to minimize the impact of this serious crisis. Among the actions taken, the highest priority was given to cash monitoring, implementing all the actions necessary to reduce expenses and non-strategic investments and to correctly manage working capital, ensuring the maintenance of financial commitments with suppliers as “we are all gears of the same system.”
As necessary, and while aware of the daily changes in variables, alternative prospective scenarios are being prepared in order to constantly monitor the Group’s performance.
Bonfiglioli’s business model consists of a high level of geographical, production, assembly, product and sector diversification that makes it possible to significantly limit the problems of production, supply and market decline compared to other businesses that are similar to ours.
Finally, we would like to point out that for Bonfiglioli people are the priority, so now more than ever any regulations and recommendations by recognized national and international institutions are strictly applied for the health and safety of our employees.

FURTHER INFORMATION

OWN SHARES

The parent company does not hold and has never held own shares, nor does it hold stakes or shares in controlling companies.

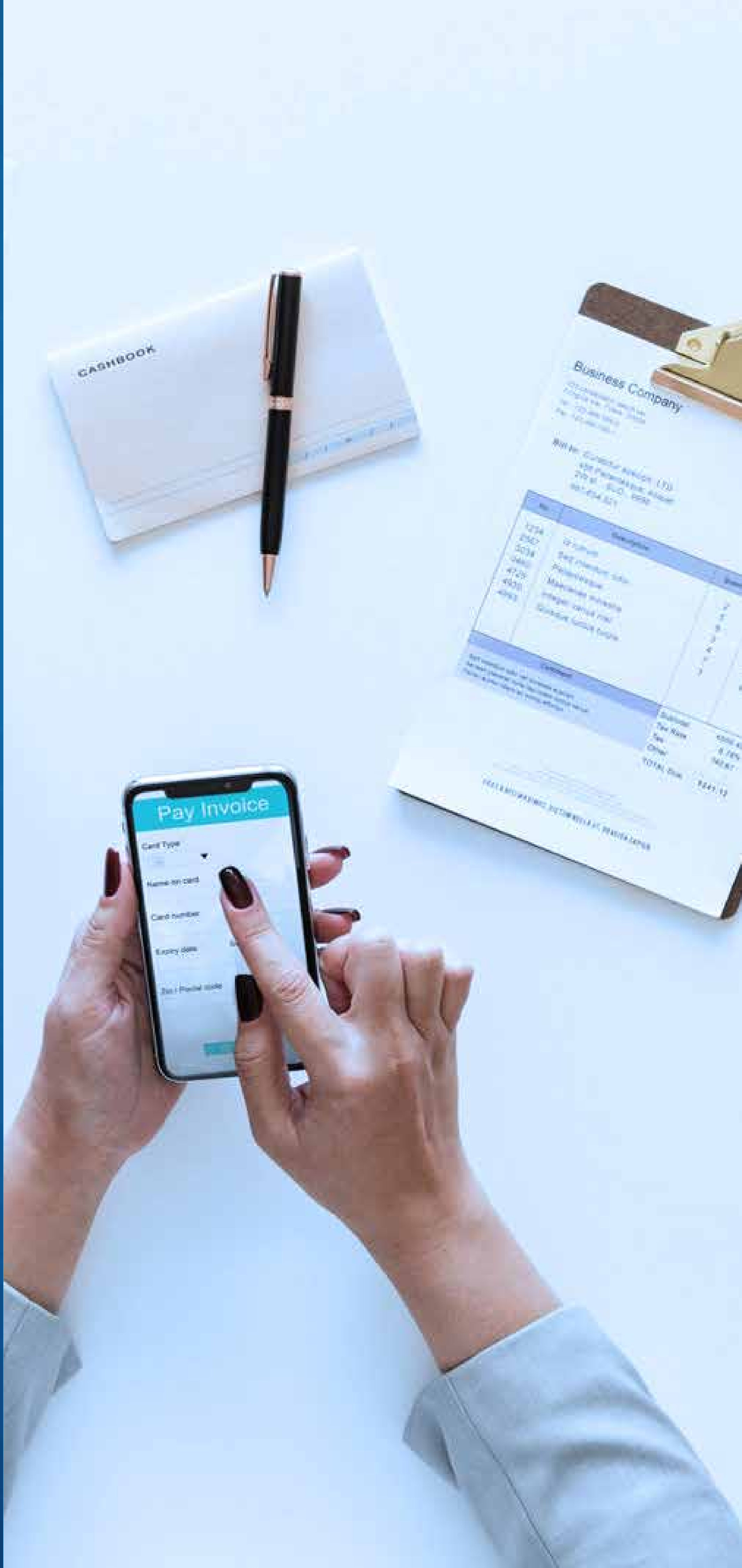
Calderara di Reno (Bologna), March 31, 2020
for The Board of Directors

The Chairwoman
Sonia Bonfiglioli

8.

CONSOLIDATED FINANCIAL STATEMENT AS OF 31.12.2019

This section has been translated into English solely for the convenience of international readers


CASHBOOK
Business Company
Pay Invoice

CONSOLIDATED FINANCIAL STATEMENT AS OF 31.12.2019

(EURO THOUSAND)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

ASSETS	Note	31.12.2019	31.12.2018	01.01.18
NON CURRENT ASSETS				
Tangible Assets	1	282,319	255,160	223,842
Development Costs	2	1,088	1,632	2,176
Other Intangible Assets	2	48,411	49,756	47,070
Share Investments	3	64	55	80
Other non current financial assets	5	545	291	-
Deferred Tax Assets	6	32,423	35,799	35,417
Other non current receivables and assets	10	6,167	6,092	6,390
TOTAL NON CURRENT ASSETS		**371,017**	**348,785**	**314,975**
CURRENT ASSETS				
Inventory	7	256,350	263,542	214,670
Trade Receivables	8	210,140	199,561	184,600
Current derivatives	4	88	210	153
Corporate Tax receivables	9	4,111	2,784	2,601
Other current receivables and assets	10	20,365	13,308	11,337
Cash and cash equivalents	11	52,617	38,534	28,307
TOTAL CURRENT ASSETS		**543,671**	**517,939**	**441,668**
TOTAL ASSETS		**914,688**	**866,724**	**756,643**

EQUITY AND LIABILITIES	Note	31.12.2019	31.12.2018	01.01.2018
GROUP EQUITY				
Share Capital	12	50,000	50,000	50,000
Reserves	12	128,658	122,355	115,274
Retained Earnings (Losses) carried forward	12	115,741	82,984	72,517
Group' Income (Loss)	12	36,742	41,310	23,454
TOTAL GROUP EQUITY		**331,141**	**296,649**	**261,245**
TOTAL MINORITY INTERESTS		1,757	1,305	2,329
TOTAL EQUITY		**332,898**	**297,954**	**263,574**
NON CURRENT LIABILITIES				
Non current borrowings	13	154,172	118,867	116,602
Non current derivatives	4	-	980	283
Non current provisions	14	36,322	34,302	33,824
Non current employee benefit obligation	15	18,716	18,427	19,027
Deferred Tax liabilities	6	12,955	13,323	13,874
Other non current payables and liabilities	17	3,538	938	3,101
TOTAL NON CURRENT LIABILITIES		**225,703**	**186,837**	**186,711**
CURRENT LIABILITIES				
Current borrowings	13	103,471	115,464	65,764
Current derivatives	4	1,729	28	142
Current provisions	14	122	-	609
Current employee benefit obligation	15	1,109	1,173	1,590
Trade payables	16	202,574	216,057	178,389
Corporate tax payables	9	1,213	2,239	1,346
Other current payables and liabilities	17	45,869	46,972	58,518
TOTAL CURRENT LIABILITIES		**356,087**	**381,933**	**306,358**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**914,688**	**866,724**	**756,643**

CONSOLIDATED FINANCIAL STATEMENT AS OF 31.12.2019

(EURO THOUSAND)

CONSOLIDATED INCOME STATEMENT

	Note	31.12.2019	31.12.2018
Revenues from sales and services	18	972,498	911,710
Material costs	19	(569,754)	(518,695)
Payroll costs	20	(181,349)	(171,144)
Services, leases and rentals	21	(135,942)	(131,202)
Revenues from internal projects costs capitalized	22	1,775	2,212
Other operating income	23	24,974	18,232
Other operating costs	24	(5,610)	(5,497)
GROSS OPERATING PROFIT (EBITDA)		**106,592**	**105,616**
Depreciation and impairment	25	(37,554)	(35,306)
Bad Debt Provision		(469)	(2,968)
Other risks provisions		(6,838)	(2,259)
OPERATING PROFIT (EBIT)		**61,731**	**65,083**
Financial income and (costs)	26	(6,266)	(5,989)
Foreign exchange gain and (losses)	27	(1,036)	(1,015)
Investments' income and (costs)	28	254	300
PROFIT BEFORE TAX		**54,683**	**58,379**
Taxes	29	(17,538)	(16,820)
CONSOLIDATED INCOME (LOSS)		**37,145**	**41,559**
Minority		(403)	(249)
GROUP' INCOME (LOSS)		**36,742**	**41,310**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	31.12.2019	31.12.2018
CONSOLIDATED INCOME (LOSS)	**37,145**	**41,559**
Actuarial gain (losses) on employee benefit obligations	(1,269)	(177)
Tax effect	346	60
Items that will not be reclassified to income statement	**(923)**	**(117)**
Foreign exchange currency conversion reserve variation	1,101	(3,906)
Reserve for hedging derivatives variation	(524)	(680)
Tax effect	126	163
Items that may be reclassified to income statement	**703**	**(4,423)**
CONSOLIDATED COMPREHENSIVE INCOME	**36,925**	**37,019**
Minority	(403)	(249)
GROUP' INCOME (LOSS)	**36,522**	**36,770**

CONSOLIDATED CASH FLOW AS OF 31.12.2019

(EURO THOUSAND)

		31.12.2019	31.12.2018
A.	**Opening Cash and Cash Equivalents**	**38,534**	**28,307**
B.	**OPERATING ACTIVITIES**		
	Group' Income (Loss)	36,742	41,310
	Minority	403	249
	Depreciation and impairment	37,554	35,306
	Bad Debt Provision	469	2,968
	Other risks provisions	6,838	2,259
	Interests	6,266	5,989
	Current and deferred taxes	17,538	16,820
	Cash flow before operative capital employed variation	**105,810**	**104,901**
	Trade receivables variation	(10,251)	(19,182)
	Inventory variation	8,659	(49,768)
	Trade payables variation	(13,675)	38,076
	Derivatives FMV variation	445	9
	Risks Provision variation	(4,696)	(2,390)
	Employee benefit obligations variation	(697)	(837)
	Current and deferred taxes variation	(1,001)	(278)
	Current taxes paid	(15,882)	(16,765)
	Other assets and liabilities variation	(7,600)	(15,310)
	Interests paid	(6,436)	(6,355)
B.	**Cash flow originating from (used for) operating activities**	**54,676**	**32,101**

		31.12.2019	31.12.2018
C.	**INVESTING ACTIVITIES**		
	CAPEX	(62,418)	(69,687)
	Share' investments	(9)	25
C.	**Cash flow originating from (used for) investing activities**	**(62,427)**	**(69,662)**
D.	**FINANCING ACTIVITIES**		
	Third-party funding		
	Borrowings Variation	(23,457)	47,773
	New Loans	42,867	18,976
	Loans Extinction	(20,441)	(14,784)
	New bonds	24,343	-
	Own funds		
	Dividends paid	(2,012)	(1,256)
	Dividends paid to minority	-	(211)
	Minority interests variation	49	(1,062)
	Other variations (Derivatives/DBO/Others)	(19)	(407)
D.	**Cash flow originating from (used for) financing activities**	**21,330**	**49,029**
E.	**CASH FLOW FOR THE YEAR (B+C+D)**	**13,579**	**11,468**
F.	**Exchange rate variation on Opening Cash and Cash equivalents**	**504**	**(1,241)**
G.	**Closing Cash and Cash equivalents (A+E+F)**	**52,617**	**38,534**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(EURO THOUSAND)

	SHARE CAPITAL	REVALUATION RESERVE	LEGAL RESERVE	HEDGING RESERVE	IAS19 RESERVE	FTA RESERVE	CURRENCY CONVERSION RESERVE
Balance as of January 1st 2018	**50,000**	**40,096**	**6,000**	**(228)**	**-**	**(8,818)**	**(7,212)**
Previous year result allocation			629				
Dividends' distribution							
IFRS9 Derivatives Reserve variation				(517)			
IAS19 Reserve varation					180		
Currency conversion Reserve variation							(3,906)
Minority acquisition							
Others							
Income (loss) for the year							
Closing at 31/12/2018	**50,000**	**40,096**	**6,629**	**(745)**	**180**	**(8,818)**	**(11,118)**
Previous year result allocation			426				
Dividends' distribution							
IFRS9 Derivatives Reserve variation				(398)			
IAS19 Reserve varation					(923)		
Currency conversion Reserve variation							1,101
Others					1	(1)	
Income (loss) for the year							
Closing at 31/12/2019	**50,000**	**40,096**	**7,055**	**(1,143)**	**(742)**	**(8,819)**	**(10,017)**

OTHER RESERVES	RETAINED EARINGS (LOSSES)	NET INCOME (LOSS)	GROUP EQUITY	MINORITY NET INCOME (LOSS)	MINORITY RESERVES	MINORITY INTERESTS	CONSOLIDATED EQUITY
85,436	**72,517**	**23,454**	**261,245**	**942**	**1,387**	**2,329**	**263,574**
11,945	10,880	(23,454)	-	(942)	942	-	-
(1,250)	(6)		(1,256)		(211)	(211)	(1,467)
			(517)			-	(517)
			180			-	180
			(3,906)		(94)	(94)	(4,000)
	(406)		(406)		(968)	(968)	(1,374)
	(1)		(1)			-	(1)
		41,310	41,310	249		249	41,559
96,131	**82,984**	**41,310**	**296,649**	**249**	**1,056**	**1,305**	**297,954**
8,097	32,787	(41,310)	-	(249)	249	-	-
(2,000)	(12)		(2,012)			-	(2,012)
			(398)			-	(398)
			(923)			-	(923)
			1,101		49	49	1,150
	(18)		(18)			-	(18)
		36,742	36,742	403		403	37,145
102,228	**115,741**	**36,742**	**331,141**	**403**	**1,354**	**1,757**	**332,898**

9.

ILLUSTRATIVE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF 31/12/2019

This section has been translated into English solely for the convenience of international readers

FOREWORD

Bonfiglioli is an Italian family-run business with a global presence. The three business units: Discrete Manufacturing & Process Industries, Mechatronic & Motion Systems and Mobility & Wind Industries, embody all the skills and experience needed to support customers' growth. With its worldwide network, the Group can support customers anywhere, anytime. "We design, manufacture and distribute effective, tailored solutions for all types of applications in industrial automation, mobile machinery and wind energy. Our solutions are based on a wide range of products, including gearmotors, drive systems, planetary gearboxes and inverters. Bonfiglioli solutions impact all aspects of daily life, from the food we consume, to the roads we drive on, the clothes we wear, and the light that illuminates our homes. Our solutions keep the world in motion."

The consolidated financial statements of the Bonfiglioli Group as of December 31, 2019 were prepared in accordance with European Regulation 1606/2002, in compliance with the International Financial Reporting Standards (IFRS) in force on December 31, 2019, issued by the International Accounting Standard Board (IASB) and adopted by European Community Regulations. IFRS also includes all revised International Accounting Standards ("IAS") and all interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

The financial statements at December 31, 2019 are the Bonfiglioli Group's first financial statements drafted in accordance with IFRS (transition date January 1, 2018). In drafting all the financial statements up to December 31, 2018, the Group has in fact followed the provisions of the Italian Civil Code and reference accounting standards prepared by the Italian Accounting Body (OIC). The Notes on the first application of the IFRS are shown in the Appendix (Annex A).

In addition to these Illustrative Notes, the consolidated financial statements include the following documents:

- Statement of financial position
- Income Statement
- Statement of Comprehensive income
- Cash flow statement
- Statement of changes in equity

Illustrative Notes include the reconciliation statement between the Parent Company's equity and net result of the financial year and the same items of the consolidated financial statements. In order to disclose further information regarding the variation of the Net Cash Position of the Group, the consolidated cash flow statement has also been additionally annexed to this Illustrative Notes (Annex B) on a voluntary basis.

As regards the nature of the activities conducted by the Group and related performance, please refer to the Management Report.

All figures in this financial statements and related Illustrative Notes are expressed in thousands of Euros (K€), unless otherwise indicated.

FORM AND CONTENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements include the financial statements of the companies of the Bonfiglioli Group, namely the Parent Company Bonfiglioli Riduttori S.p.A and the Italian and foreign subsidiaries in which the company either directly or indirectly exercises management and control pursuant to full IFRS 10.

The financial statements of the Group Companies utilized for the line-by-line consolidation were approved by the

shareholders' meetings of the individual companies concerned, suitably modified wherever necessary to unify them with the accounting principles adopted by the Group, which comply with the financial principles imposed by law. If the relative financial statements had not yet been approved by the respective shareholders' meetings when the consolidated financial statements were drawn up, the draft financial statements prepared for approval by the respective Boards of Directors were utilized.
If the financial year of companies closes on a date other than December 31, interim financial statements were drawn up as of December 31 utilizing the Group accounting principles.
The subsidiaries included in the consolidation area on December 31, 2019 are as follows:

NAME	Country	Cur-rency	Share Capital	Shareholding	
				31/12/19	31/12/18
Bonfiglioli Riduttori S.p.A.	Italy	€	50,000,000	Parent Company	
Bonfiglioli Swiss S.A.	Switzerland	CHF	25,100,000	100%	-
Bonfiglioli Italia S.p.A. sole shareholder	Italy	€	16,000,000	100%	100%
Bonfiglioli Mechatronic Research S.p.A sole share holder	Italy	€	3,500,000	100%	100%
Bonfiglioli U.K. Ltd (*)	Great Britain	GBP	200,000	100%	100%
Bonfiglioli Deutschland GmbH (*)	Germany	€	3,000,000	100%	100%
Bonfiglioli Vectron Gmbh (**)	Germany	€	500,000	100%	100%
O&K Antriebstechnik GmbH (*)	Germany	€	1,000,000	100%	100%
Bonfiglioli Transmissions Sa (*)	France	€	1,900,000	100%	100%
Bonfiglioli Slovakia Sro (*)	Slovakia	€	14,937,264	100%	100%
Tecnotrans Bonfiglioli Sa (*)	Spain	€	2,175,000	95%	95%
Bonfiglioli Power Transmission Jsc (*)	Turkey	TRY	8,000,000	100%	100%
Bonfiglioli U.S.A. Inc. (*)	U.S.A.	USD	4,000,000	100%	100%
Bonfiglioli Canada Inc. (*)	Canada	CAD	2,000,000	100%	100%
Bonfiglioli Redutores do Brasil Ltda	Brazil	BRL	55,000,000	73.82%	73.82%
Bonfiglioli Power Transmission Pty Ltd (*)	South Africa	ZAR	64,001	100%	100%
Bonfiglioli South Africa Pty Ltd (***)	South Africa	ZAR	8,000,000	75%	75%
Bonfiglioli Transmission Pvt Ltd (****)	India	INR	1,281,818,180	100%	100%
Bonfiglioli Renewable Power Conversion India Pvt Ltd. (*****)	India	INR	350,000,000	100%	100%
Bonfiglioli Drives (Shanghai) Co. Ltd	China	USD	30,000,000	83.33%	83.33%
Bonfiglioli Trading (Shanghai) Co. Ltd (******)	China	CNY	1,500,000	83.33%	83.33%
Bonfiglioli Vietnam Ltd (*)	Vietnam	USD	17,000,000	100%	100%
Bonfiglioli South East Asia Pte Ltd (*)	Singapore	SGD	4,150,000	100%	100%
Bonfiglioli Transmission (Aust) Pty Ltd	Australia	AUD	11,000,000	100%	100%

(*) Subsidiary indirectly controlled through Bonfiglioli Swiss SA
(**) Subsidiary indirectly controlled through Bonfiglioli Deutschland GmbH
(***) Subsidiary indirectly controlled through Bonfiglioli Power Transmission Pty Ltd
(****) Owned 2.48% by Bonfiglioli Vectron GmbH
(*****) Subsidiary indirectly controlled through Bonfiglioli Vectron GmbH
(******) Subsidiary indirectly controlled through Bonfiglioli Drives (Shanghai) Co. Ltd

With reference to the changes made during the year, we draw your attention to the following events:

- in order to better manage different management roles and strengthen the Group's international profile, Bonfiglioli Swiss SA, based in Lugano, was incorporated in April 2019. The company has adopted the Euro as its functional currency. The new entity was created with the aim of streamlining the management of foreign subsidiaries through actions aimed at monitoring foreign exchange hedging policies, credit control, international M&A transactions, and, in general, the efficiency of the Group's treasury.
- during the second half of 2019, the Parent Company completed capital increase transaction of the company Bonfiglioli Swiss SA through the contribution in kind of share investments, valued at Fair Market Value (FMV) as detailed below:

NAME	Country	Percentage transferred
Bonfiglioli U.K. Ltd	Great Britain	100%
Bonfiglioli Deutschland GmbH	Germany	85%
O&K Antriebstechnik GmbH	Germany	85%
Bonfiglioli Transmissions Sa	France	100%
Bonfiglioli Slovakia Sro	Slovakia	100%
Tecnotrans Bonfiglioli Sa	Spain	95%
Bonfiglioli Power Transmission Jsc	Turkey	100%
Bonfiglioli U.S.A. Inc.	U.S.A.	100%
Bonfiglioli Canada Inc.	Canada	100%
Bonfiglioli Power Transmission Pty Ltd	South Africa	100%
Bonfiglioli Vietnam Ltd	Vietnam	100%
Bonfiglioli South East Asia Pte Ltd	Singapore	100%

CONSOLIDATION AREA CHANGES

With respect to the Consolidated Financial Statement of 31.12.2018, no consolidation area changes occurred.

DRAFTING PRINCIPLES

As this is the first year of preparation of the consolidated financial statements in compliance with the IFRS, the consolidated financial statements provide comparative information with the previous year and, with reference to the Statement of financial position, also with respect to January 1, 2018.

With reference to the financial statements, the following choices have been made:

- The Statement of financial position separately outlines assets and liabilities according to the liquidity criterion (current and non current). Current assets and liabilities are those intended to be realized or extinguished during the following 12 months after the end of the financial year.
- The Income Statement shows costs and revenues based on their nature.

- The Statement of Comprehensive Income (OCI) is presented in a separate statement.
- The Cash Flow is presented using the "indirect method."

Where permitted, it was considered appropriate to omit items with zero balance for the periods presented.
The Statement of financial position provides a separate information of equity and minority interests.

CHANGE IN ACCOUNTING PRINCIPLES AND NOTES

The evaluation and measurement criteria are based on the IFRS standards in force on December 31, 2019 and approved by the European Union. The following main changes in accounting policies occurred with reference to the 2019 financial year. Several other amendments and interpretations apply for the first time in 2019, but have no impact on the Group's consolidated financial statements. The Group has not adopted any other principle, interpretation or modifications published but not yet in force.

IFRS 16: LEASES

IFRS 16 replaced IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 contains the principles for the recognition, measurement, presentation and disclosure of lease agreements and requires the lessee to recognize most leases in the financial statements.
Accounting for the lessor under IFRS 16 remains mostly unchanged compared to IAS 17. The lessee will continue to classify leases either as operating or financial following principles similar to those included in IAS 17 above. IFRS 16 therefore has no impact on the accounting for leases in which the Group is the lessor.
The Group applied IFRS 16 for the first time, using the full retrospective method, on the transition date of January 1, 2018. The impact and nature of the changes following the adoption of this new accounting standard are described in the Notes relating to the first application of the IFRS, in the Appendix.
The Group has chosen to use the exemption provided for contracts that, on the date of effect, have a duration of 12 months or less and do not contain purchase options (short-term leases) and whose underlying asset is of low value (low value lease).

IFRIC INTERPRETATION 23: UNCERTAINTY ABOUT INCOME TAX TREATMENT

The Interpretation defines the accounting treatment of income taxes when the tax treatment involves uncertainties that affect the application of IAS 12 and does not apply to taxes that are not within the scope of IAS 12, nor does it specifically include requirements relating to interest or fines due to uncertain tax treatment. The Interpretation specifically addresses the following points:

- If an entity considers uncertain tax treatment separately
- The entity's assumptions about the examination of tax treatment by the tax authorities
- How an entity determines taxable profit (or tax loss), tax base, unused tax losses, unused tax credits and tax rates
- How an entity deals with changes in facts and circumstances.

The Group defines whether to consider any uncertain tax treatment separately or together with other (one or more) uncertain tax treatments and uses the approach that allows the best prediction of the resolution of uncertainty.
The Group applies a significant judgment in identifying uncertainties regarding the tax treatment of income taxes. Given that the Group operates in a complex multinational environment, it has assessed whether the interpretation may have had an impact on its consolidated financial statements.
At the time the interpretation was adopted, the Group examined the existence of uncertain tax positions, particularly with regard to transfer pricing policy. The Company and its subsidiaries have several intra-group transactions in relation to which the Group considers adopting a transfer pricing policy in accordance with the arm's length principle. While considering the fact that various tax jurisdictions may have different interpretations about the actual

consistency with the arm's length principle of the transfer pricing policy applied with reference to the various types of intra-group transactions carried out between the entities of the Bonfiglioli Group, it is considered unlikely that the current transfer pricing policy will not be accepted by the various local tax authorities. The interpretation, therefore, had no impact on the consolidated financial statements of the group.

AMENDMENTS TO IFRS 9: PREPAYMENTS FEATURES WITH NEGATIVE COMPENSATION

Under IFRS 9, a debt instrument may be measured at amortized cost or fair value in the comprehensive income statement, provided that the contracted cash flows are "solely principal and interest payments on the reference amount" (the SPPI criterion) and the instrument is classified in the appropriate business model. The amendments to IFRS 9 clarify that a financial asset exceeds the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and regardless of which party pays or receives reasonable compensation for the early termination of the contract. These amendments therefore had no impact on the consolidated financial statements of the Group.

AMENDMENTS TO IAS 19: PLAN AMENDMENT, CURTAILMENT OR SETTLEMENT

Amendments to IAS 19 lay down the accounting rules in the event of a change, reduction or settlement of the plan during the reporting period. The amendments specify that when a change, reduction or settlement of the plan occurs during the period, an entity is required to determine the cost of the service for the remainder of the period following the change, reduction or settlement of the plan, using the reference actuarial assumptions to remeasure the net liability (asset) for benefits defined to reflect the benefits offered by the plan and plan activities after that event.

An entity is also required to determine the net interest for the period remaining after the change, reduction or settlement of the plan: the net defined liability (asset) for defined benefits reflecting the plan benefits and plan activities after that event; and the discount rate used to reset the net liability (asset) for the defined benefits.

These changes did not have any impact on the consolidated financial statements as the Group did not record any changes, reductions or settlements of plans during the reporting period.

AMENDMENTS TO IAS 28: LONG-TERM INTERESTS IN ASSOCIATES AND JOINT VENTURES

The amendments specify that an entity applies IFRS 9 for long-term investments in an associate or joint venture, for which the equity method is not applied but which, in substance, form part of the net investment in the associate or joint venture (long-term interests).

This clarification is relevant because it implies that the expected loss model of IFRS 9 applies to such long-term investments.

The amendments also clarify that, when applying IFRS 9, an entity shall not take into account any losses of the associate or joint venture or any impairment of the investment recognized as adjustments to the net investment in the associate or joint venture arising from the application of IAS 28 Investments in Associates and Joint Ventures.

These changes had no impact on the consolidated financial statements, as the Group does not hold investments in associates and joint ventures.

ANNUAL IMPROVEMENTS 2015-2017 CYCLE

- **IFRS 3: BUSINESS COMBINATION**

  The amendments clarify that when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination that took place in several stages, including the remeasurement at fair value of the investment previously held in the assets and liabilities of the joint operation. In doing so, the buyer revaluates the interest previously held in the joint operation. An entity applies those changes to business combinations for which the acquisition date coincides with or is after the first period beginning on or after January 1, 2019, with the permitted early application.

  This amendment therefore had no impact on the consolidated financial statements of the Group as no business combination in which joint control was obtained occurred.

- **IFRS 11: JOINT ARRANGEMENTS**

  An entity that participates in a joint operation without having joint control could obtain joint control of the joint operation if its activity constitutes a business as defined in IFRS 3. The amendments clarify that the interests previously held in this joint operation are not remeasured. An entity applies those amendments to transactions in which it has joint control from the beginning of the reporting period on or after January 1, 2019, subject to permitted earlier application.

This amendment therefore had no impact on the consolidated financial statements of the Group as no business combination in which joint control was obtained occurred.

- **IAS 12: INCOME TAX**

  The amendments make it clear that the effects of taxes on dividends are linked to past transactions or to the events that generated distributable profits rather than distributions to shareholders. Therefore, an entity recognizes the income tax effects of dividends in profit or loss of the year, other comprehensive income or equity consistent with the way the entity has previously recognized such past transactions or events.

  An entity applies these changes for financial years beginning on or after January 1, 2019, and early application is permitted. When an entity applies these changes for the first time, it applies them to the effects of taxes on dividends recognized from the beginning of the first financial year. Since the current practice of the Group is in line with these amendments, the Group has not recorded any impact resulting from these amendments on its consolidated financial statements.

- **IAS 23: BORROWING COSTS**

  The amendments clarify that an entity treats as non-specific financing any financing that from the outset aimed to develop an asset, where all actions necessary to prepare that asset for use or sale are completed. An entity applies those changes to financial charges incurred from the beginning of the financial year in which the entity applies those changes for the first time. An entity applies these changes for financial years beginning on or after January 1, 2019, and early application is permitted.

  Since the current practice of the Group is in line with these amendments, the Group has not recorded any impact resulting from these amendments on its consolidated financial statements.

CONSOLIDATION PROCEDURE

In preparing the financial statements for the consolidated companies, the net assets method is used (line-by-line), consisting in recording all the items under assets and liabilities and in the income statement in their entirety.

Pursuant to IFRS 3, business combinations are accounted based on the purchase accounting method. The acquirer must identify the date of acquisition, i.e. the date on which it actually gains control of the acquiree. The value of the company being aggregated is the sum of the fair value of assets and liabilities acquired, as well as the potential liabilities assumed. This value is compared with the book value of the consolidated investments. Any positive difference between the purchase cost of the investment and the fair value of the acquired company is recognized as goodwill. If the difference is negative, it is recorded in the income statement. Changes in the interests held in a subsidiary that do not result in the loss of control are accounted for in equity.

The results achieved following initial consolidation were entered in a specific item of consolidated equity denominated "Retained earnings and losses carried forward."

Any profits and losses that have yet to be realized in relation to third parties deriving from transactions between Group companies were eliminated, as well as the items that give rise to payables, receivables, costs and revenues.

The dividends distributed by the Companies within the Group were canceled.

The portions of shareholders' equity and profit due to minority shareholders of the consolidated subsidiaries were deducted from the Group portions and recorded separately under specific items of consolidated equity and in the income statement.

The financial statements of foreign companies were converted to euros, applying the year-end exchange rate for all assets and liabilities and the average exchange rate calculated over the full 12 months for items in the income statement. The items of equity existing at the date of initial consolidation are converted at the exchange rates effective at that date, while subsequent changes are converted at the historic exchange rates effective at the date of the relative transactions. Conversion differences arising both from the conversion of equity items to the year-end rates with respect to the historic rates, and existing between the average exchange rates and year-end exchange

rates for the income statement, are recorded in a specific item of consolidated equity denominated "Currency conversion reserve".
The exchange rates utilized for companies operating outside the euro area are as follows:

COMPANY	Currency	ER 31.12.2019	2019 ER AVERAGE	ER 31.12.2018	2018 ER AVERAGE
Bonfiglioli U.K. Ltd	GBP	0.8508	0.87777	0.89453	0.88471
Bonfiglioli Canada Inc.	CAD	1.4598	1.4855	1.5605	1.5294
Bonfiglioli USA Inc.	USD	1.1234	1.1195	1.145	1.181
Bonfiglioli Transmission (Aust) Pty Ltd	AUD	1.5995	1.6109	1.622	1.5797
Bonfiglioli Power Transmission Pty Ltd	ZAR	15.7773	16.1757	16.4594	15.6186
Bonfiglioli Transmission Pvt Ltd	INR	80.187	78.8361	79.7298	80.7332
Bonfiglioli Renewable Power Conversion India Pvt Ltd	INR	80.187	78.8361	79.7298	80.7332
Bonfiglioli Drives Shanghai Co. Ltd.	CNY	7.8205	7.73550	7.8751	7.8081
Bonfiglioli Trading Shanghai Co. Ltd	CNY	7.8205	7.73550	7.8751	7.8081
Bonfiglioli Power Trasmission JSC	TRY	6.6843	6.35780	6.0588	5.7077
Bonfiglioli Redutores Do Brasil Ltda	BRL	4.5157	4.41340	4.444	4.3085
Bonfiglioli South East Asia Pte Ltd	SGD	1.5111	1.52730	1.5591	1.5926
Bonfiglioli Vietnam Ltd	VND	26,033.0	26,003.00784	26,547.0	27,180.28235

There are no companies consolidated using the Net Equity Method.

VALUATION CRITERIA

In drafting the consolidated financial statements and applying the IFRS, the directors have acted in order to represent the Group's situation clearly, truthfully and fairly. In particular:

- valuation of the items of the financial statements was carried out in accordance with the general principles of prudence and on an accrual basis in a prospective of on-going business, as well as considering the substance of the transaction or of the agreement;
- account was taken of the risks and losses relating to the year, even when such risks and losses became known after the end of the year;
- the statements refer exclusively to profits realized at the closing date of the financial year;
- income and expenses are considered to be relative to the year irrespective of the effective collection or payment dates;
- dissimilar components covered by single items have been valued separately;
- no exceptional cases occurred that justified a departure from legislative provisions.

Specifically, the valuation criteria adopted in the preparation of the financial statements are as specified below.

PROPERTY, PLANT, MACHINERY AND OTHER TANGIBLE ASSETS

Property, plant, equipment and other tangible assets are recognized at cost, net of the related depreciation and any impairment losses, in accordance with IAS 16 and IAS 36. Land and buildings are assets that can be separated and treated separately for accounting purposes, even when acquired together.

Acquisition costs mainly include the purchase price (including import duties and non-recoverable taxes, after deduction of trade discounts and discounts) or production costs and all costs directly attributable to bringing the good to the place and in the conditions necessary for its operation.
Where the conditions are met and it is possible to make a reliable estimate, the costs of dismantling and removing an asset and restoring the site where it is located must be capitalized together with the related asset and depreciated over the residual life of the asset. The related obligation to dismantle, remove and restore items of property, plant and equipment shall be recognized as a provision in accordance with IAS 37.
Subsequent costs for improvements and repairs are included in the book amount of the asset or recognized as separate assets only when they meet its definition and it is probable that the future economic benefits associated with the item will flow into the company and when the cost can be measured reliably, with appropriate review and adjustment to the useful life of the asset. Otherwise, these costs must be recognized in the income statement in the period in which they are incurred.
Depreciation is calculated using the straight-line method over the estimated residual useful life of the asset, on a daily basis (pro rata temporis).
The technical useful life of tangible assets on the basis of which the depreciation process is determined are included in the following ranges:

CATEGORIES	USEFUL LIFE
Land	Indefinite
Buildings	10 - 50 years
Plant and Machinery	4 - 10 years
Industrial and commercial equipment	3 - 10 years
Other assets	3 - 10 years
Assets in progress and advances	No depreciation
Rights to use on tangible assets	Based on the duration of the contract
Leasehold improvements	Useful life of the asset and the duration of the contract, whichever is shorter

The depreciation of an asset starts when it is available for use, i.e. when it is in the place and conditions necessary for its operation. Depreciation of an asset ceases on the date the asset is eliminated or on the date the asset is classified as held for sale, whichever is earlier. Therefore, depreciation does not cease when the asset becomes inactive or is retired from active use unless the asset is fully depreciated.

RIGHT TO USE (LEASED ASSETS)

IFRS 16 makes no distinction for the lessee between operating and financial leases and therefore applies to all leases with the exemption for contracts that, on the date of effect, have a duration of 12 months or less and do not contain purchase options (short-term leases) and whose underlying asset is of low value (low value lease).
The following are excluded from the scope of IFRS 16:

- Lease agreements to explore for or use minerals, oil, natural gas and similar non-regenerative resources.
- Lease of biological assets within the scope of IAS 41.
- Service concession agreements under IFRIC 12.
- Intellectual property licenses granted by a lessor under IFRS 15.
- Rights held by lessees under licensing agreements under IAS 38 for items such as films, video recordings, plays, manuscripts, patents and copyrights.

A lease is defined as a contract, or part of a contract, which gives the lessee control and the right to use an asset for a period in return for remuneration. Control is transmitted where the customer has both the right to direct the use of the identified good and to obtain substantially all the financial benefits from such use.
However, if a supplier has a substantial right of substitution during the period of use a customer does not have control over the identified asset. A supplier's right of substitution is considered substantial only if the supplier has the practical ability to replace the asset during the period of use and is the party that will benefit financially from the substitution.

IFRS 16 requires lessees to account separately for the various elements of the contract: a lease contract and a service contract. Lessors must allocate the consideration in accordance with IFRS 15.
At the beginning of the lease, the lessee must account for the right to use the asset against the related financial liability as an asset. The right to use is measured at cost and consists of the initial lease liability plus any payment made to the lessor in advance or at the date of signature (net of any lease incentives received), in addition to the initial estimate of restoration costs and any initial direct costs incurred by the lessee. The lessee recognizes the restoration costs as a provision in accordance with IAS 37. Initial direct costs are defined as incremental costs of obtaining a lease that would not have been incurred if the lease had not been obtained.
The lease liability is initially measured at the current value of the lease payments during the term of the contract that are not paid at the date of signature. The discounted rate used by the lessee is the interest rate implicit in the lease if this can be easily determined. If this rate cannot be easily determined, the lessee must use its own incremental borrowing rate. The incremental borrowing rate is the interest rate that a lessee would have to pay to borrow – on a similar term and with a similar security – the funds necessary to obtain an asset of similar value to the right to use in a similar economic environment.
After the commencement of the lease, the lessee measures the asset at cost, net of accumulated depreciation and any impairment losses, in accordance with IAS 16 and IAS 36.
The right to use the asset is amortized for the shortest period between the duration of the lease and the useful life of the right to use the asset, unless there is a transfer of ownership or an option to purchase, which the lessee is reasonably certain to exercise at the end of the lease period. In this case the lessee amortizes the right to use the asset for the estimated residual useful life of the underlying asset.
The lessee must remeasure the book amount of the lease liability to reflect any changes in the lease or fixed lease payments that are substantially revised. Redetermination of the lease liability takes place if the cash flow changes with respect to the original terms and conditions of the lease. Amendments that were not part of the original terms and conditions of the lease are amendments to the lease.
Any remeasurement of the lease liability shall entail a corresponding adjustment of the right to use the asset. If the book value is already reduced to zero, the residual adjustment is recognized in the income statement.
If the lease change increases the scope of the lease by adding the right to use multiple underlying assets and the increase in the lease fee is commensurate, the change is accounted for as a separate lease.

DEVELOPMENT COSTS

An intangible asset arising from the development (or the development phase of an internal project) shall be recognized as an intangible asset if, in addition to meeting the general requirements for recognition and initial measurement of an intangible asset, the entity can demonstrate the following:

- The intention to complete the intangible asset and to use or sell it.
- The technical feasibility of completing the intangible asset so that it is available for use or sale.
- Its ability to use or sell the intangible asset.
- How the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the production of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- Its ability to reliably measure the expenses attributable to the intangible asset during its development.

Research expenses (or expenses for the research phases of an internal project) cannot be capitalized as Intangible Assets and must be entered in the Income Statement when they are incurred.
In accordance with IAS 38, development costs are capitalized in the relevant item and subject to amortization only when the development phase is completed and the developed project begins to generate economic benefits. Until that date, they are classified as assets under construction even if generated internally, in which case they are also suspended in the income statement as increases in assets for internal works, or through the expenditure of external costs.

GOODWILL

In accordance with IFRS 3, the allocation of any goodwill arising from acquisitions of cash generating units (CGUs) should be determined on the basis of an assessment of the individual CGUs or groups of CGUs that should benefit from business combination synergies. These CGUs should represent the lowest level at which goodwill is monitored for internal management purposes and should not be greater than an operating segment as defined in IFRS 8.

INTANGIBLE ASSETS

Intangible assets are recognized at cost.
An intangible asset shall be considered to have an indefinite useful life when, based on an analysis of all relevant factors, there is no foreseeable limit to the period during which the asset is expected to generate net financial flows for the entity.
In accordance with IAS 38 and IAS 36, an intangible asset with a defined useful life is measured at cost net of the related amortization provision and any impairment losses, and amortized on a straight-line basis over its useful life on a daily basis (pro rata temporis). Amortization starts when the asset is in the place and in the necessary conditions for its operation and ceases on the date the asset is eliminated or on the date the asset is classified as held for sale, whichever is earlier.
The amortization of an intangible asset with a defined useful life does not cease when the intangible asset is no longer used, unless that asset has been fully amortized or classified as held for sale.
An intangible asset with an indefinite useful life is measured at cost net of any accumulated impairment losses and is not amortized.
The useful lives of intangible assets, on the basis of which the amortization process is determined, are included in the following ranges:

CATEGORIES	USEFUL LIFE
Development costs	5 years or life cycle of the developed products
Goodwill and other indefinite useful life intangible assets	Indefinite
Patents and rights to use intellectual property	3 – 20 years
Concessions, licenses, trademarks and similar rights	3 – 20 years
Customer List	15 – 20 years
Assets in progress and advances	No depreciation
Other intangible assets	Specific by case

IMPAIRMENT

In accordance with IAS 36, goodwill, intangible assets with an indefinite useful life and ongoing development costs are subject to systematic impairment testing at least annually. Tangible assets and other intangible assets with a defined useful life are subject to impairment tests if indicators of impairment emerge.
Impairments are the difference between the book value and the recoverable amount of an asset. The recoverable amount is the greater of the fair value of an asset or CGU, less costs of sale, and its value in use. The value in use is the sum of the cash flows expected from the use of an asset or their sum in the case of multiple CGUs. For the cash flow approach, the unlevered discounted cash flows method is used and the discount rate is determined for each group of assets according to the WACC (weighted average cost of capital) method. If the recoverable value is lower than the book value, the loss in value is recorded in the income statement, unless it is restored in the event of subsequent revaluation, within the limits of the initially recorded value. Restoration is not allowed for impairment losses accounted for with regard to Goodwill.

EQUITY INVESTMENTS

In accordance with IFRS 9, equity investments are measured at fair value. When fair value cannot be reliably determined, investments are measured at cost adjusted for impairment and are subject to impairment testing, where impairment indicators have been identified. If the aforementioned loss in value is no longer considered lasting following positive performance of the company, the investment is revalued up to the purchase or subscription cost.

FINANCIAL DERIVATIVES

Derivatives are financial instruments and are classified under current and non-current assets (positive fair value) or liabilities (negative fair value) depending on their contractual maturity. Non-current amounts with a maturity of more than five years must be detailed separately.
In accordance with IFRS 9, derivatives, including embedded derivatives that are separated from the main contract, are initially accounted for at fair value.

Derivatives are classified as hedging instruments when the relationship between the derivative and the hedged item is formally documented and the effectiveness of the hedge – verified periodically – is high.
When hedging derivatives hedge the risk of changes in the fair value of the hedged instruments (fair value hedge), they are entered at fair value through profit or loss. For consistency, the hedged instruments are adjusted to reflect the changes in fair value associated with the hedged risk.
When derivatives hedge the risk of changes in the cash flows of the hedged instruments (cash flow hedges), the hedged risk is the volatility in future cash flows that will affect the income statement. To the extent that the hedge is effective, changes in the fair value of the derivative are in this case deferred to a "Hedging Reserve (OCI)" in equity and reverted to the income statement in the period in which the hedged transaction affects the income statement.
The ineffective part of the change in fair value, as well as the entire change in fair value of derivatives that are not designated as hedging derivatives or that do not meet the requirements of IFRS 9, is accounted for directly in the income statement.

FINANCIAL ASSETS

In accordance with IFRS 9, financial assets are classified as current assets, except where the contractual maturity at the reporting date exceeds 12 months, in which case they are classified as non-current assets and are initially recognized at fair value plus ancillary charges. Non-current financial assets include long-term financial receivables and other long-term securities, other long-term investments, callback capital and non-callback capital.
At the time of first recognition, according to the cases and characteristics of the contractual cash flows of financial assets, financial assets are classified based on subsequent measurement methods, i.e. amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVPL).
For the purposes of subsequent measurement, financial assets are classified into four categories: (i) Financial assets at amortized cost (debt instruments), (ii) Financial assets at fair value through profit or loss with reclassification of cumulative gains and losses (debt instruments), (iii) Financial assets at fair value through profit or loss without reclassification of cumulative profits and losses at disposal (equity instruments) and (iv) Financial assets at fair value through profit or loss.
Financial assets measured at amortized cost, which represent the main category for the Group, are subsequently measured at amortized cost using the effective interest method, net of any value adjustments. They are classified as current assets, except where the contractual maturity at the reporting date exceeds 12 months, in which case they are classified as non-current assets.
If in subsequent periods the conditions that led to an impairment loss cease to exist, the book value of the asset in question shall be restored to the net book value that the asset would have had in the absence of an impairment loss, using the amortized cost method.
Financial assets are removed from the financial statements when the right to receive liquidity has ceased, the Group has transferred to a third party the right to receive cash flows from the asset or has assumed the contractual obligation to pay them in full and without delay and (1) has substantially transferred all the risks and rewards of ownership of the financial asset, or (2) has not transferred or substantially retained all the risks and benefits of the asset, but has transferred control of it. In cases where the Group has transferred the rights to receive cash flows from an asset or has entered into an agreement under which it retains the contractual rights to receive cash flows from the financial asset but assumes a contractual obligation to pay cash flows to one or more beneficiaries (pass-through), it shall assess whether and to what extent it has retained the risks and benefits inherent in their possession.
For financial assets at amortized cost, gains and losses are recognized in the income statement when the asset is de-recognized, modified or revalued. In the case of assets recognized as FVOCI at the time of de-recognition, the cumulative change in fair value recognized in the OCI is reclassified to the income statement, while for investments in equity securities the profits and losses obtained on these financial assets are never reverted to the income statement. Dividends are recognized as financial income in the income statement when the right to payment has been resolved, except when the Group benefits from such income as recovery of part of the cost of the financial asset, in which case such profits are recognized in the OCI.

DEFERRED TAXES

In accordance with IAS 12, deferred tax assets and liabilities are calculated on all temporary differences that arise between the taxable amount of an asset or liability and its relative book value.
Deferred tax assets are recognized only if it is probable that in subsequent financial years sufficient taxable profits will be generated for the realization of these deferred taxes. The book value of deferred tax assets is reviewed at

each financial statement date and reduced to the extent that it is no longer probable that sufficient taxable amounts will be available in the future to allow all or part of this receivable to be used. Unrecognized deferred tax assets are reviewed at each financial statement date and are recognized to the extent that it becomes probable that taxable income will be sufficient to allow the recovery of such deferred tax assets.
Deferred tax assets and liabilities are calculated using the tax rates that, on the date of closure of the financial statements, are expected to be applied in the years in which the related temporary differences will be reversed.

INVENTORIES

In accordance with IAS 2, inventories are valued in accordance with the general principle of the lower between purchasing cost and market value:

- Raw materials are valued using the FIFO method.
- Work in progress is valued according to the stage of completion reached on the basis of the cost of materials, labor, industrial depreciation and indirect production costs.
- Semi-finished and finished products are valued using the FIFO method on the basis of the cost of materials, labor, industrial depreciation and other production costs.
- Obsolete or slow-moving materials and products are valued according to their estimated useful life or future market value by means of an entry under impairment provisions.

Infra-group profits present within the inventories of the consolidated companies are eliminated.

TRADE RECEIVABLES

Trade receivables arise when an entity supplies goods or services to its customers. Trade receivables are non-derivative financial assets with fixed or determinable payments that are not listed on an active market. Receivables arising from transactions with parties other than customers or not arising from the supply of goods or services fall within the definition of Other receivables and assets.
Trade receivables are recognized when all revenue recognition requirements are met in accordance with IFRS 15 and included below in the Revenue Recognition section.
In accordance with IFRS 9, trade receivables are initially recognized at fair value, which is the value of the receivable arising from the agreement between the seller and the buyer net of any trade discounts and volume reductions allowed. They are classified as current assets, except where the contractual maturity at the reporting date exceeds 12 months, in which case they are classified as non-current assets with a separate entry for receivables due after five years.
Trade receivables are subsequently measured at amortized cost using the effective interest method, net of any provisions for impairment losses. Short-term trade receivables are not discounted if the effect of discounting is negligible.
A specific provision for bad debts has been established to cover possible insolvency risks. The amount of the doubtful items is verified periodically and – in any case – at the end of each year, taking into account both the insolvencies that have already occurred or are considered probable and general economic, industry and country risk conditions.

CURRENT TAXES (RECEIVABLES OR PAYABLES)

These represent the amounts of income tax receivable from, or payable to, the tax authorities in accordance with the annual tax return filed or to be filed at the end of the reporting period, recognized in accordance with IAS 12.

CASH AND CASH EQUIVALENTS

In accordance with IAS 7, cash and cash equivalents are cash balances and short-term cash investments (maturity not exceeding three months) that are highly liquid, readily convertible into cash and subject to negligible risk of changes in value.

OTHER RECEIVABLES AND ASSETS

Other receivables and assets mainly include tax receivables other than those relating to income tax, security or guarantee deposits, receivables from employees and social security institutions, refunds to be received and accruals and deferrals. They are classified as current assets, except where the contractual maturity at the reporting date exceeds 12 months, in which case they are classified as non-current assets. Receivables must be shown net of any provisions for bad debts, and non-current amounts due beyond five years must be indicated separately.
Other receivables and assets are initially recorded at fair value and subsequently recorded at amortized cost using the effective interest method net of any value adjustments.

If in subsequent periods the conditions that led to an impairment loss cease to exist, the book value of the asset in question shall be restored to the net book value that the asset would have had in the absence of an impairment loss, using the amortized cost method. Other receivables and assets are not discounted if the effect of the discount is insignificant or if they are expected to be realized within 12 months.

BORROWINGS

Loans include amounts due to a creditor connected to a cash transfer agreement that provides a repayment under the terms of the agreement, usually with interest for its use, and must be classified according to their maturity as current or non-current liabilities. Loans are classified as current unless the company has an unconditional right to defer settlement of the obligation for at least 12 months after the financial statement date. The portion of long-term loans due within 12 months is considered current. Non-current amounts due beyond five years must be detailed separately.

In accordance with IFRS 9, loans are initially recognized at fair value, net of transaction costs directly attributable to the issuance of the financial liability. After the initial valuation, financial payables must be valued at amortized cost using the effective interest method. The amortized cost is calculated net of adjusted transaction costs over the life of the liability so that the book value at maturity is the amount repayable at maturity.

The financial liability is settled when the underlying obligation is discharged or canceled by the counterparty. If a financial liability is settled, it must be recognized and the entity must recognize in profit or loss any difference arising between the book value of the settled financial liability and the consideration paid.

An exchange between an existing borrower and a debt instrument lender with substantially different terms should be accounted for as the repayment of the original financial liabilities and recognition of new liabilities. Similarly, a material change in the term of an existing financial liability or part of it should be accounted for as repayment of the original financial liability and recognition of the new financial liability.

The terms are substantially different if the discounted current value of the cash flow under the new terms, including any commissions paid, is at least 10% different from the discounted current value of the remaining cash flow of the original financial liability.

If it is a repayment, any costs or commissions incurred are recognized as part of the profit or loss on repayment. Otherwise, they adjust the book value of the liability and are amortized based on the residual maturity of the modified liability.

RESERVES FOR RISKS AND CHARGES

Reserves for risks and charges consider the provisions allocated to cover losses, or payables of a given nature and certain or probable existence, for which however the exact amount or contingency date was not known at year-end. In accordance with IAS 37, the allocations reflect the best possible estimation of the relative amounts based on available information. Provisions must be classified according to their maturity as current or non-current liabilities. Non-current amounts due beyond five years must be detailed separately.

PROVISIONS FOR EMPLOYEE BENEFITS

In accordance with IAS 19R, the accounting treatment of employee benefits varies depending on whether they relate to defined contribution plans or defined benefit plans.

- **DEFINED CONTRIBUTION PLANS**

  Defined contribution plans are post-employment benefit plans under which the company makes payments to an insurance company or pension fund and will have no legal or implied obligation to make further contributions if, at vesting, the fund does not hold sufficient assets to pay all employee benefits relating to service in the current or prior financial years. In other words, the company does not maintain actuarial risk (that the benefits will be lower than expected) or investment risk (that the assets invested will be insufficient to meet the expected benefits) with respect to the plan. These contributions are accounted for as a cost in the relevant period and the related liability must be classified under Other payables and liabilities.

- **DEFINED BENEFIT PLANS**

  Defined benefit plans are formalized post-employment benefit programs that constitute a future obligation for the company, which bears the actuarial and investment risks related to the plan. Such plans must be recorded in this section, net of any plan assets, and classified at maturity as current or non-current liabilities. Non-current amounts due beyond five years must be detailed separately.

  Accounting for defined benefit plans requires that the following steps be undertaken separately for each plan:

- determine the current value of the defined benefit obligation (DBO) and the current cost of the service using the projected unit credit method;
- use actuarial techniques (using mutually compatible demographic and financial assumptions) to make a reliable estimate of the amount of benefits obtained in exchange for services in current and previous financial years;
- measure the fair value of any plan assets;
- determine the total amount of actuarial profits and losses and recognize them in equity in a specific reserve;
- determine the effect of any changes to the plan when they occur.

TRADE PAYABLES

Trade payables are those arising from the normal business of the company and refer to invoices already received, as well as those to be received, net of any credit notes received or to be received (for returns and billing adjustments). Trade payables are generally classified as current liabilities because they are assumed to be extinguished in the normal course of operations within 12 months of the financial statement date. Trade payables due beyond 12 months are recognized as non-current liabilities.
In accordance with IFRS 9, trade payables are initially recognized at fair value, which is the value of the consideration payable as determined by the agreement between the company and the supplier. In determining fair value on initial recognition, the amount of any trade discounts and volume reductions must be taken into account.
Trade payables are subsequently measured at amortized cost using the effective interest method. Short-term trade payables are not discounted if the effect of discounting is negligible. The same cancellation rules described for the Loans item are adopted.

OTHER PAYABLES AND LIABILITIES

Other payables and liabilities mainly include tax receivables other than those relating to income tax, security or guarantee deposits, payables from employees and social security institutions, refunds to be received and accruals and deferrals. They are classified as current liabilities, except where the contractual maturity at the reporting date exceeds 12 months, in which case they are classified as non-current liabilities. Non-current amounts due beyond five years must be detailed separately.
Other payables and liabilities are initially recorded at fair value and subsequently recorded at amortized cost using the effective interest method. Other payables and liabilities are not discounted if the effect of discounting is negligible. Other long-term employee benefits, other than post-employment benefits, are accounted for under this item and recognized in accordance with IAS 19R.

REVENUE RECOGNITION

In accordance with IFRS 15, revenues from contracts with customers are recognized on the basis of the following 5 steps: (i) identification of the contract with the customer; (ii) identification of the contractual commitments (performance obligations) to be transferred to the customer in exchange for the consideration; (iii) identification of the consideration of the contract; (iv) allocation of the consideration to the individual performance obligations; (v) recognition of the revenue when the related performance is satisfied. Revenues from the sale of goods and services are recognized in the income statement "at a point in time," when the Group has fulfilled its obligations under the contract with customers and has transferred the risks and benefits of ownership of the goods to the buyer, for an amount that reflects the consideration to which the company expects to be entitled in exchange for the transfer of control of goods or services to the customer net of directly related returns, discounts, premiums, rebates and taxes.
Sales are recorded at the fair value of the consideration agreed to for the sale of goods or services when the following conditions are met:
- the substantial transfer of the risks and benefits associated with ownership of the goods has taken place, which generally occurs at the time of shipment or at the time of receipt;
- the value of revenues is reliably determined;
- it is likely that the economic benefits from the sale will be enjoyed by the company;
- the costs incurred or to be incurred are reliably determined.

Other revenues and income are recognized on an accruals basis.

COST RECOGNITION

Costs are recorded when they refer to goods and services sold or consumed during the financial year or by systematic allocation or when their future usefulness cannot be identified.

ENTRIES POSTED IN FOREIGN CURRENCY

Transactions in foreign currency are converted into euro at the exchange rates on the transaction dates. Exchange rate gains and losses incurred at the time of collection of receivables and settlement of payables in foreign currency are recorded in the income statement under financial income and costs.
Receivables and payables existing at year-end expressed in currencies other than euro were converted at the exchange rates effective at year-end.

FAIR VALUE

IFRS 13 defines the following three levels of fair value that the measurement of financial instruments recognized in the balance sheet relate to:

- Level 1: quotations recorded on an active market.
- Level 2: inputs other than quoted prices referred to in the previous point that can be observed directly (prices) or indirectly (derived from prices) on the market.
- Level 3: inputs that are not based on observable market data.

The following are the assets and liabilities that are measured at fair value by hierarchical level of fair value measurement:

DESCRIPTION	31.12.2019			31.12.2018			01.01.2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Share investments	-	-	64	-	-	55	-	-	80
Current financial derivatives	-	88	-	-	210	-	-	153	-
Non current financial derivatives	-	-	-	-	(980)	-	-	(283)	-
Current financial derivatives	-	(1,729)	-	-	(28)	-	-	(142)	-
Non current borrowings	-	-	(3,600)	-	-	-	-	-	-
Current borrowings			(3,947)	-	-	(7,547)	-	-	(3,947)
Other current liabilities (purchase of share investments)	-	-	-	-	-	(640)	-	-	(20,550)
Total	**-**	**(1,641)**	**(7,483)**	**-**	**(798)**	**(8,132)**	**-**	**(272)**	**(24,417)**

USE OF SIGNIFICANT ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements and related notes in application of IFRS requires Management to make estimates and assumptions that have an effect on the values of revenues, costs, assets and liabilities in the financial statements and on the disclosure of potential assets and liabilities at the date of the financial statements. Estimates are based on valuations and past experience as well as on assumptions that are valued on a case-by-case basis according to the specific circumstances. The final results may therefore differ from these estimates. Estimates and assumptions are reviewed periodically and the effects of each change are immediately reflected in the income statement. Below are the main items of the financial statements affected by the use of accounting estimates and the cases that involve a component of judgment by the management.

IMPAIRMENT OF NON-FINANCIAL ASSETS

An impairment occurs when the book value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value minus sales costs and its value in use. The book value of non-current assets is subject to periodic review whenever circumstances or events require more frequent verification. The recoverable amount of a non-current asset is based on estimates and assumptions used to determine cash flows and the discount rate applied.

TAXES

Deferred tax assets are recognized to the extent that it is probable that in the future there will be a taxed profit that will allow them to be used. Relevant estimation by the management is required to determine the amount of tax assets that can be recognized on the basis of future taxable profits, the timing of their occurrence and the tax planning strategy. The consolidated financial statements include deferred tax assets related to the recognition of previous tax losses and deferred tax deductible income components, for an amount whose recovery in future years is considered highly probable by the management.

RESERVES FOR RISKS AND CHARGES

Provisions for risks and charges are calculated using valuations and estimates based on historical experience and assumptions that are deemed to be reasonable and realistic in light of the relevant circumstances.

ACTUARIAL ASSUMPTIONS USED IN THE VALUATION OF DEFINED BENEFIT PLANS

The cost of defined benefit pension plans and other post-employment benefits and the current value of the defined benefit obligation are determined using actuarial valuations. Actuarial valuation requires the elaboration of various assumptions that may differ from the effects of future developments including: the determination of the discount rate, future wage increases, mortality rates and future pension increases. Due to the complexity of the assessment and its long-term nature, these estimates are extremely sensitive to changes in assumptions. All assumptions are reviewed annually.

COMMENTS ON THE SINGLE ITEMS OF THE FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

1. PROPERTY, PLANT, MACHINERY AND OTHER TANGIBLE ASSETS

DESCRIPTION	01.01.2018	INCREASES	DECREASES
HISTORIC COST			
- Land and buildings	146,193	13,099	-
- Right to use land and buildings	41,040	1,462	(38)
- Plant and machinery	219,773	18,874	(9,270)
- Right to use plant and machinery	8,049	193	(810)
- Industrial and commercial equipment	104,803	11,963	(2,353)
- Other tangible assets	26,315	3,129	(426)
- Right to use other tangible assets	3,124	1,852	(131)
- Tangible assets in progress and advances	16,255	12,717	-
Total (A)	**565,552**	**63,289**	**(13,028)**
ACCUMULATED DEPRECIATION			
- Land and buildings	40,500	6,562	-
- Right to use land and buildings	4,602	3,812	(24)
- Plant and machinery	184,760	8,787	(9,229)
- Right to use plant and machinery	3,765	684	(810)
- Industrial and commercial equipment	87,357	7,526	(2,089)
- Other tangible assets	20,502	1,915	(384)
- Tangible assets in progress and advances	224	1,285	(116)
Total (B)	**341,710**	**30,571**	**(12,652)**
NET VALUES			
- Land and buildings	105,693	6,537	-
- Right to use land and buildings	36,438	(2,350)	(14)
- Plant and machinery	35,013	10,087	(41)
- Right to use plant and machinery	4,284	(491)	-
- Industrial and commercial equipment	17,446	4,437	(264)
- Other tangible assets	5,813	1,214	(42)
- Right to use other tangible assets	2,900	567	(15)
- Tangible assets in progress and advances	16,255	12,717	-
Total (A-B)	**223,842**	**32,718**	**(376)**

The column “other changes” mainly includes reclassifications connected with the completion of assets in progress at year-end or the transfer of ownership of assets that were in right of use at the end of the previous year, as well as exchange differences.
During the year, the Group made investments mainly related to the purchase of land and buildings (12.6 M€) and plant, machinery and equipment (7 M€), related to the new EVO plant, as well as machinery and equipment to upgrade the Forlì plant (9.4 M€). The remaining increase in plant, machinery and equipment incurred during the year refers to investments in assets made by other Group companies. For a detailed analysis of the investments made during the year we refer you to the Management Report.

OTHER CHANGES	31.12.2018	INCREASES	DECREASES	OTHER CHANGES	31.12.2019
533	159,825	15,374	(8,576)	13,413	180,036
(249)	42,215	2,947	(4,254)	(2,141)	38,767
7,995	237,372	19,421	(2,569)	1,074	255,298
(3,158)	4,274	51	(114)	36	4,247
(108)	114,305	11,038	(1,781)	345	123,907
(6)	29,012	4,376	(1,345)	244	32,287
(24)	4,821	2,030	(453)	(164)	6,234
(9,017)	19,955	10,842	-	(12,396)	18,401
(4,034)	**611,779**	**66,079**	**(19,092)**	**411**	**659,177**
(1,905)	45,157	4,143	(3,490)	936	46,746
(28)	8,362	3,937	(2,731)	(891)	8,677
1,389	185,707	10,523	(2,362)	(85)	193,783
(2,069)	1,570	644	(73)	36	2,177
(268)	92,526	8,520	(1,644)	13	99,415
(132)	21,901	2,412	(1,050)	59	23,322
3	1,396	1,552	(175)	(35)	2,738
(3,010)	**356,619**	**31,731**	**(11,525)**	**33**	**376,858**
2,438	114,668	11,231	(5,086)	12,477	133,290
(221)	33,853	(990)	(1,523)	(1,250)	30,090
6,606	51,665	8,898	(207)	1,159	61,515
(1,089)	2,704	(593)	(41)	-	2,070
160	21,779	2,518	(137)	332	24,492
126	7,111	1,964	(295)	185	8,965
(27)	3,425	478	(278)	(129)	3,496
(9,017)	19,955	10,842	-	(12,396)	18,401
(1,024)	**255,160**	**34,348**	**(7,567)**	**378**	**282,319**

2. DEVELOPMENT COSTS AND OTHER INTANGIBLE ASSETS

DEVELOPMENT COSTS	01.01.2018	INCREASES	DECREASES
HISTORIC COST (A)	**2,719**	**-**	**-**
ACCUMULATED AMORTIZATION (B)	**543**	**544**	**-**
NET VALUES (A-B)	**2,176**	**(544)**	**-**

OTHER INTANGIBLE ASSETS	01.01.2018	INCREASES	DECREASES
HISTORIC COST			
- Patents and rights to use intellectual properties	40,073	2,221	(468)
- Concession, licenses, trademarks and similar rights	16,728	26	-
- Customer List	17,657	-	-
- Other intangible assets	463	8	(1)
- Assets in progress and advances	2,387	4,532	-
Total (A)	**77,308**	**6,787**	**(469)**
ACCUMULATED AMORTIZATION			
- Patents and rights to use intellectual properties	25,954	2,420	(467)
- Concession, licenses, trademarks and similar rights	2,274	818	-
- Customer List	1,766	883	-
- Other intangible assets	244	70	(1)
- Assets in progress and advances	-	-	-
Total (B)	**30,238**	**4,191**	**(468)**
NET VALUES			
- Patents and rights to use intellectual properties	14,119	(199)	(1)
- Concession, licenses, trademarks and similar rights	14,454	(792)	-
- Customer List	15,891	(883)	-
- Other intangible assets	219	(62)	-
- Assets in progress and advances	2,387	4,532	-
Total (A-B)	**47,070**	**2,596**	**(1)**

Intangible assets do not include assets with an indefinite useful life.
The column “other changes” mainly includes reclassifications related to the completion of assets in development at year-end and exchange differences.
For an analysis of the investments made during the year we refer you to the Management Report.

DEVELOPMENT COSTS

This item includes costs for the “SMART GEARBOX” product development project co-financed by the Province of Trento, incurred by the subsidiary “Bonfiglioli Mechatronic Research SpA” to realize high efficiency mechatronic systems, amortized over 5 years.

IFRS 3 BUSINESS COMBINATION

In December 2015, the Group performed the acquisition of 55% of the German company O&K Antriebstechnik Gmbh. As required by IFRS 3, based on the total purchase cost and in relation to the fair value of the assets acquired, a total of 30.4 M€ was determined, given by the difference between the acquisition price, already inclusive of the price relating to the exercise of the option on the remaining 45% acquired during 2018 at 17 M€, and the equity

OTHER CHANGES	31.12.2018	INCREASES	DECREASES	OTHER CHANGES	31.12.2019
-	**2,719**	**-**	**-**	**-**	**2,719**
-	**1,087**	**544**	**-**	**-**	**1,631**
-	**1,632**	**(544)**	**-**	**-**	**1,088**

OTHER CHANGES	31.12.2018	INCREASES	DECREASES	OTHER CHANGES	31.12.2019
131	41,957	1,882	(50)	1,436	45,225
-	16,754	74	-	-	16,828
-	17,657	-	-	-	17,657
(34)	436	-	(5)	(155)	276
(93)	6,826	1,956	(499)	(1,270)	7,013
4	**83,630**	**3,912**	**(554)**	**11**	**86,999**
(67)	27,840	3,050	(50)	69	30,909
-	3,092	821	-	-	3,913
-	2,649	883	-	-	3,532
(20)	293	36	(4)	(91)	234
-	-	489	(489)	-	-
(87)	**33,874**	**5,279**	**(543)**	**(22)**	**38,588**
198	14,117	(1,168)	-	1,367	14,316
-	13,662	(747)	-	-	12,915
-	15,008	(883)	-	-	14,125
(14)	143	(36)	(1)	(64)	42
(93)	6,826	1,467	(10)	(1,270)	7,013
91	**49,756**	**(1,367)**	**(11)**	**33**	**48,411**

of the acquired Company. This value net of deferred taxes of 15.4 M€ has been entirely allocated to the following intangible assets with a finite useful life (20 years):

- Technology recorded under intellectual property rights for 12.1 M€ (the net book value as of 31.12.2019 amounts to 9.7 M€)
- Trademark for 16 M€ (net book value as of 31.12.2019 amounts to 12.8 M€)
- Customer list for 17 M€ (the net book value as of 31.12.2019 amounts to 14.1 M€).

The useful life was reviewed during IFRS Adoption and on an annual basis without requiring the need to make changes to the rates that, where necessary, must be made with prospective application, nor were any impairment indicators identified.

ASSETS IN PROGRESS AND ADVANCES

The following are the assets in progress related to development projects that have been subject to impairment testing, as required by IAS 36:

- "BPD" project for the construction of a new generation inverter by the company "Bonfiglioli Vectron GmbH": capitalized costs as of 31.12.2019 amounting to 4.9 M€. The project in question, for which a cost ceiling of 6.7 M€

is envisaged, will be completed in 2020 and the subsidiary plans to start amortization in 2021 in connection with the start of sales of the new product. The company identified the cash-generating unit (CGU) in the business under development and used the related business plan prepared according to the product maturity cycle (10 years) to define the expected cash flows. The WACC discount rate used of 6.56% was specially calculated for the company by a certified external professional and reflects the current market valuation of the money and risks specific to the asset in question. The impairment test carried out during the year did not reveal the need to make any write-downs.

- "CVT" project connected to the exclusive license agreement that will involve Bonfiglioli USA Inc. and CVT Corp. in the development of new solutions that will use the technology patented by the partner. Development costs were capitalized in 2018 for 1.8 M€ (2.0 MUSD) and the subsidiary expects to start amortization in 2020 concurrent with the start of sales of the new product. The company identified the cash-generating unit (CGU) in the business under development and used the related business plan prepared according to the product maturity cycle (7 years) to define the expected cash flows. The WACC discount rate used of 7.57% was specially calculated for the company by a certified external professional and reflects the current market valuation of the money and risks specific to the asset in question. The impairment test carried out during the year did not reveal the need to make any write-downs.

With regard to the development costs of 0.5 M€ capitalized at the end of 2018, by the subsidiary "Bonfiglioli Mechatronic Research S.p.A." for the new project aimed at the creation of an IoT (Internet of Things) industrial platform, after updating the project's calendar the company has decided to stop capitalization, considering the accounting of project costs in the income statement to be more prudent.

3. SHARE INVESTMENTS

DESCRIPTION	01.01.2018	INCREASES	DECREASES	31.12.2018	INCREASES	DECREASES	31.12.2019
Share investments in other companies	80	1	(26)	55	9	-	64
Total	**80**	**1**	**(26)**	**55**	**9**	**-**	**64**

For 10 K€, this is a 50% stake held by the subsidiary O&K in Grumento, owner of the leased building and listed among the rights to use in accordance with IFRS 16, and for the remaining are consortium quotas held by the Parent Company and the Indian subsidiary.

4. FINANCIAL DERIVATIVES

DESCRIPTION	31.12.2019	31.12.2018	01.01.2018	CHANGE 2019	CHANGE 2018
Non current positive derivatives	-	-	-	-	-
Current positive derivatives	88	210	153	(122)	57
Total (A)	**88**	**210**	**153**	**(122)**	**57**
Non current negative derivatives	-	980	283	(980)	697
Current negative derivatives	1,729	28	142	1,701	(114)
Total (B)	**1,729**	**1,008**	**425**	**721**	**583**
Total (A-B)	**(1,641)**	**(798)**	**(272)**	**(843)**	**(526)**

Postive financial derivatives refer to the total balance of positive fair value of derivatives connected with the purchase/ sale of forward currency in place at the end of the financial year. The item can be broken down as follows:

	Notional	31.12.2019	Notional	31.12.2018	Notional	01.01.2018
USD sales	USD 6,705,000	42	-	-	USD 1,500,000	40
GBP sales	GBP 246,000	6	GBP 1,135,000	6	GBP 911,000	3
AUD sales	AUD 677,000	-	AUD 5,279,000	82	AUD 5,832,000	110
CNY sales	CNY 50,740,000	28	CNY 8,200,000	9	-	-
EUR purchase	EUR 1,000,000	11	EUR 200,000	16	-	-
JPY purchase	JPY 75,918,000	1	JPY 305,961,140	97	-	-
Total		**88**		**210**		**153**

Negative financial derivatives refer to the total balance of negative fair value of derivatives connected with purchase/ sale of forward currency and Interest Rate Swaps in place at the end of the financial year. The item can be broken down as follows:

	Notional	31.12.2019	Notional	31.12.2018	Notional	01.01.2018
GBP sales	GBP 1,160,000	14	-	-	GBP 633,000	2
AUD sales	AUD 5,724,000	42	-	-	AUD 427,000	2
CNY sales	-	-	CNY 43,800,000	23	-	-
JPY purchase	JPY 854,467,720	139	-	-	JPY 788,557,337	77
EUR purchase	EUR 1,698,000	9	EUR 700,000	4	EUR 2,000,000	61
CNY purchase	CNY 19,640,000	21	-	-	-	-
IRS Bonfiglioli Riduttori	EUR 82,000,000	1,504	EUR 75,000,000	980	EUR 75,000,000	278
IRS Tecnotrans	-	-	EUR 67,316	1	EUR 208,877	5
Total		**1,729**		**1,008**		**425**

5. OTHER FINANCIAL ASSETS

DESCRIPTION	31.12.2019	31.12.2018	01.01.2018	CHANGE 2019	CHANGE 2018
Other non current financial assets	545	291	-	254	291
Other current financial assets	-	-	-	-	-
Total	**545**	**291**	**-**	**254**	**291**

These are dividends accrued by the subsidiary O&K Antriebstechnik GmbH from the investee company Grumento which, in accordance with the contract ruling the transaction, will be paid at the end of the lease of the building and the related ownership transfer.

6. DEFERRED TAXES

DESCRIPTION	31.12.2019	31.12.2018	01.01.2018	CHANGE 2019	CHANGE 2018
Deferred tax assets (A)	32,423	35,799	35,417	(3,376)	382
Deferred tax liabilities (B)	12,955	13,323	13,874	(368)	(551)
Total (A-B)	**19,468**	**22,476**	**21,543**	**(3,008)**	**933**

Details of the changes are outlined below:

DESCRIPTION	Deferred Tax assets		Deferred Tax liabilities	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Opening balance	35,799	35,417	(13,323)	(13,874)
DTL provision/reversal	-	-	706	80
DTA provision/reversal	(4,240)	837	-	-
OCI taxes	472	223	-	-
Other changes	392	(678)	(338)	(471)
Closing balance	**32,423**	**35,799**	**(12,955)**	**(13,323)**

The items relating to deferred taxes reflect the taxes on temporary differences between the book values of consolidated assets and liabilities and their values recognized for tax purposes. Deferred tax assets mainly relate to taxed funds and unrealized intra-group profits, while deferred tax liabilities mainly relate to the capitalization of development costs and the accounting for amortization and depreciation at a higher rate than what is allowed in the financial statements. Defeffed tax assets on carried forward losses have been recorded only when it can be demonstrated that they are recoverable in the future. Deferred taxes have been recorded using the tax rates that are expected to be applied in the years in which the related temporary differences will be reversed.
Details are given below of the assets and liabilities the main temporary differences relate to:

DESCRIPTION	31.12.2019			31.12.2018		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Property, plant and machinery	2,098	(3,596)	(1,498)	2,669	(4,180)	(1,511)
Intangible assets	2,792	(13,981)	(11,189)	3,327	(14,115)	(10,788)
Inventory	13,787		13,787	15,317		15,317
Trade receivables	2,459		2,459	3,506		3,506
Provisions for risks	6,897		6,897	6,149		6,149
Provisions for employee benefits	2,613		2,613	2,227		2,227
Payables to employees	2,188		2,188	2,752		2,752
Carried forward losses	2,068		2,068	2,688		2,688
Other	2,229	(87)	2,142	2,207	(72)	2,135
Reclassification for reporting	(4,706)	4,706	-	(5,045)	5,045	-
Total	**32,425**	**(12,958)**	**19,467**	**35,797**	**(13,322)**	**22,475**

7. INVENTORY

DESCRIPTION	31.12.2019	31.12.2018	01.01.2018	CHANGE 2019	CHANGE 2018
Raw materials, supplies and consumables	35,882	38,906	30,687	(3,024)	8,219
Work in progress and semifinished goods	100,122	108,585	83,700	(8,463)	24,885
Finished goods and goods for resale	120,119	115,685	99,625	4,434	16,060
Advances	227	366	658	(139)	(292)
Total	**256,350**	**263,542**	**214,670**	**(7,192)**	**48,872**

The net realizable value is estimated taking into account the market price in the ordinary course of business, from which completion costs and sales costs are deducted.
The foregoing amounts are net of the obsolete stocks provision, made up as follows:

OBSOLESCENCE RESERVE	31.12.2019	31.12.2018	01.01.2018	CHANGE 2019	CHANGE 2018
Raw materials, supplies and consumables	5,247	6,366	6,758	(1,119)	(392)
Work in progress and semifinished goods	14,784	16,252	16,093	(1,468)	159
Finished goods and goods for resale	8,899	10,663	11,111	(1,764)	(448)
Total	**28,930**	**33,282**	**33,962**	**(4,352)**	**(680)**

Changes in the obsolescence reserve are shown below:

	31.12.2019	31.12.2018
Opening balance	33,282	33,962
Increases	2,360	1,814
Decreases	(6,617)	(2,219)
Other changes	(95)	(276)
Closing balance	**28,930**	**33,282**

The decreases during the year mainly refer to the efficiency in stocks implemented by the Parent Company as part of the rationalization of the D&P BU plants through the disposal of the Vignola plant and the transfer and concentration of production at the EVO plant in Calderara.

8. TRADE RECEIVABLES

DESCRIPTION	31.12.2019	31.12.2018	01.01.2018	CHANGE 2019	CHANGE 2018
Trade receivables	234,628	230,491	214,234	4,137	16,257
Bad debt reserve	(20,650)	(24,783)	(24,286)	4,133	(497)
Advances from customers	(3,838)	(6,147)	(5,348)	2,309	(799)
Total	**210,140**	**199,561**	**184,600**	**10,579**	**14,961**

Changes in bad debt reserve are shown below:

	31.12.2019	31.12.2018
Opening balance	24,783	24,286
Increases	469	2,968
Decreases	(4,590)	(2,125)
Other changes	(12)	(346)
Closing balance	**20,650**	**24,783**

Decreases for the year for 2.4 M€ refer to the use of the reserve to close old unrecoverable receivables mainly from the Chinese, Brazilian and Spanish branches and for 2.2 M€ to the release of the reserve in line with collections related to specific positions.

Breakdown of trade receivables by geographical area:

	31.12.2019	31.12.2018	01.01.2018	2019%	2018%	01.2018 %
AME (America)	36,950	27,254	19,563	17.6%	13.7%	10.6%
APAC (Asia - Pacific)	50,469	52,486	46,552	24.0%	26.3%	25.2%
EMEA (Europe - Middle East - Africa)	122,721	119,821	118,485	58.4%	60.0%	64.2%
Total	**210,140**	**199,561**	**184,600**	**100.0%**	**100.0%**	**100.0%**

9. CURRENT TAXES

DESCRIPTION	31.12.2019	31.12.2018	01.01.2018	CHANGE 2019	CHANGE 2018
Corporate tax receivables (A)	4,111	2,784	2,601	1,327	183
Corporate tax payables (B)	1,213	2,239	1,346	(1,026)	893
Total (A-B)	**2,898**	**545**	**1,255**	**2,353**	**(710)**

These represent the amounts of income tax receivable from or payable to the tax authorities in accordance with the annual tax return filed or to be filed at the end of the reporting period.

10. OTHER RECEIVABLES AND ASSETS

DESCRIPTION	31.12.2019	31.12.2018	01.01.2018	CHANGE 2019	CHANGE 2018
Tax receivables	5,306	5,384	5,752	(78)	(368)
Other receivables	861	708	638	153	70
Other non current receivables and assets (A)	**6,167**	**6,092**	**6,390**	**75**	**(298)**
Tax receivables	16,592	10,876	7,589	5,716	3,287
Other receivables	1,381	1,264	2,930	117	(1,666)
Prepaid expenses and accrued income	2,392	1,168	818	1,224	350
Other current receivables and assets (B)	**20,365**	**13,308**	**11,337**	**7,057**	**1,971**
Total (A+B)	**26,532**	**19,400**	**17,727**	**7,132**	**1,673**

A breakdown is given below:

TAX RECEIVABLES	31.12.2019	31.12.2018	01.01.2018
Direct taxes for reimbursement	78	767	773
Indirect taxes	5,165	4,570	4,979
Indirect taxes for reimbursement	25	47	-
Other taxes for reimbursement	38	-	-
Total non current tax receivables (A)	**5,306**	**5,384**	**5,752**
Direct taxes	2,654	1,594	337
Direct taxes for reimbursement	90	33	31
Indirect taxes	11,883	8,062	3,532
Indirect taxes for reimbursement	1,147	506	3,556
Other taxes	115	12	10
Other taxes for reimbursement	703	669	123
Total current tax receivables (B)	**16,592**	**10,876**	**7,589**
Total tax receivables (A+B)	**21,898**	**16,260**	**13,341**

Medium-long term indirect tax receivables whose use has been estimated beyond the financial year but within five years relate mainly to the Brazilian subsidiary, for which the group has already completed the procedures for using the receivable due from the local authorities.
The increase in current indirect taxes mainly refers to the VAT receivable accumulated by the Parent Company as a result of the substantial investments made in the expansion of the Calderara plant and the renewal of the machinery, for which appropriate actions were taken for utilization and reduction during 2020.

Other receivables	31.12.2019	31.12.2018	01.01.2018
Guarantee deposits	861	708	638
Non current Other receivables (A)	**861**	**708**	**638**
Guarantee deposits	61	146	267
Receivables from employees	835	635	830
Receivables from social security institutions	426	373	449
Refunds to be received	11	20	16
Other receivables	48	90	1,368
Current Other receivables (B)	**1,381**	**1,264**	**2,930**
Total Other Receivables (A+B)	**2,242**	**1,972**	**3,568**

The decrease in other receivables in 2018 is mainly connected with the receipt by subsidiary “Bonfiglioli Mechatronic Research SpA” of a receivable of 1.4 M€ from APIAE (a Trentino regional authority) pertaining to the contribution connected with the development project approved in 2012 whose costs are entered in intangible assets.
There are no receivables due beyond five years.

PREPAID EXPENSES AND ACCRUED INCOME	31.12.2019	31.12.2018	01.01.2018
Interest	777	490	298
Insurance	315	207	143
Rentals and maintenance	419	202	126
Other	881	269	251
Total accrued income and prepaid expenses	**2,392**	**1,168**	**818**

11. CASH AND CASH EQUIVALENTS

DESCRIPTION	31.12.2019	31.12.2018	01.01.2018	CHANGE 2019	CHANGE 2018
Bank deposits	52,577	38,480	28,251	14,097	10,229
Cash on hand	40	54	56	(14)	(2)
Total	**52,617**	**38,534**	**28,307**	**14,083**	**10,227**

For a complete assessment of the Group's Net Cash position, calculated as the sum of Financial Payables and Bank Payables net of non-current financial assets and Cash and cash equivalents, please refer to the detailed section on financial payables and to the cash flow statement.

12. SHAREHOLDERS' EQUITY

At 31.12.2019 the overall share capital of € 50,000,000 was represented by 50,000,000 ordinary shares with nominal value of €1 each.
It is to be noted that the top shareholder of Bonfiglioli Riduttori S.p.A. is the company BON-FI S.r.l.

RECONCILIATION STATEMENT BETWEEN SHAREHOLDERS' EQUITY AND INCOME FOR THE YEAR ENDED DECEMBER 31, 2019 OF THE PARENT COMPANY BONFIGLIOLI RIDUTTORI S.P.A.

	Result for the year	Shareholders' equity
Bonfiglioli Riduttori S.p.A. statutory financial statement	**155,540**	**357,206**
Accounting of the shareholders' equity and the results of consolidated and associated equity investments to replace book value in the financial statement of the Parent Company, net of infra-group dividends	(118,417)	(511)
Shareholders' equity and profit attributable to minority interests	(403)	(1,757)
Elimination of infragroup profits on stock	(234)	(21,215)
Reversal of extraordinary infragroup transactions (contributions/disposals)	226	(602)
Other	30	(1,980)
Consolidated financial statements	**36,742**	**331,141**

13. NET CASH POSITION AND BORROWINGS

Details of the contents and changes in the Net Cash Position are provided.

DESCRIPTION	31.12.2019	31.12.2018	01.01.2018	CHANGE 2019	CHANGE 2018
Banks and postal accounts	52,577	38,480	28,251	14,097	10,229
Cash on hand	40	54	56	(14)	(2)
Cash and cash equivalents	**52,617**	**38,534**	**28,307**	**14,083**	**10,227**
Financial receivables from other companies	545	291	-	254	291
Other non current financial assets	**545**	**291**	**-**	**254**	**291**
Payables to banks	(94,092)	(109,320)	(60,433)	15,228	(48,887)
IFRS 16 Payables	(5,216)	(5,967)	(5,154)	751	(813)
Payables to other financial institutions	(4,163)	(177)	(177)	(3,986)	-
Current borrowings	**(103,471)**	**(115,464)**	**(65,764)**	**11,993**	**(49,700)**
Bonds	(27,022)	(2,625)	(2,625)	(24,397)	-
Payables to banks	(97,654)	(80,572)	(78,376)	(17,082)	(2,196)
IFRS 16 Payables	(24,965)	(27,034)	(30,386)	2,069	3,352
Payables to other financial institutions	(4,531)	(8,636)	(5,215)	4,105	(3,421)
Non current borrowings	**(154,172)**	**(118,867)**	**(116,602)**	**(35,305)**	**(2,265)**
Net Financial Position	**(204,481)**	**(195,506)**	**(154,059)**	**(8,975)**	**(41,447)**

Details of the contents and changes in borrowings are provided.

DESCRIPTION	31.12.2019	31.12.2018	01.01.2018	CHANGE 2019	CHANGE 2018
Current bonds	-	-	-	-	-
Non current bonds	27,022	2,625	2,625	24,397	-
Bonds	**27,022**	**2,625**	**2,625**	**24,397**	**-**
Current payables to banks	94,092	109,320	60,433	(15,228)	48,887
Non current payables to banks	97,654	80,572	78,376	17,082	2,196
Payables to banks	**191,746**	**189,892**	**138,809**	**1,854**	**51,083**
Current IFRS 16 payables	5,216	5,967	5,154	(751)	813
Non current IFRS 16 payables	24,965	27,034	30,386	(2,069)	(3,352)
Payables IFRS 16	**30,181**	**33,001**	**35,540**	**(2,820)**	**(2,539)**
Current payables to other financial institutions	4,163	177	177	3,986	-
Non current payables to other financial institutions	4,531	8,636	5,215	(4,105)	3,421
Payables to other financial institutions	**8,694**	**8,813**	**5,392**	**(119)**	**3,421**
Total borrowings	**257,643**	**234,331**	**182,366**	**23,312**	**51,965**

Details of the contents and main changes in borrowings are provided.

	01.01.2018	Increases	Decreases	Other changes	31.12.2018
Parent Company	2,625	-	-	-	2,625
Bonds	**2,625**	**-**	**-**	**-**	**2,625**
Parent Company	75,097	17,890	(10,682)	285	82,590
Bonfiglioli Deutschland GmbH	2,404	-	(448)	-	1,956
Bonfiglioli Drives Shanghai Co. Ltd.	3,280	-	(1,107)	(19)	2,154
Bonfiglioli Slovakia Sro	10,278	-	(2,547)	-	7,731
Bonfiglioli Vietnam Ltd.	-	1,086	-	-	1,086
Tecnotrans Bonfiglioli SA	-	-	-	-	-
Medium/long-term borrowings	**91,059**	**18,976**	**(14,784)**	**266**	**95,517**
Overdrafts and short-term borrowings	**47,750**	**49,838**	**(3,357)**	**144**	**94,375**
Parent Company	5,792	-	(1,315)	-	4,477
O&K Antriebstechnik GmbH	16,499	272	(869)	-	15,902
Bonfiglioli Transmission Pvt Ltd	2,665	46	(516)	(84)	2,111
Bonfiglioli Vectron GmbH	6,354	83	(556)	-	5,881
Tecnotrans Bonfiglioli SA	691	-	(171)	-	520
Bonfiglioli UK ltd	257	124	(170)	(1)	210
Other subsidiaries	3,282	1,792	(1,086)	(88)	3,900
IFRS 16 loans	**35,540**	**2,317**	**(4,683)**	**(173)**	**33,001**
Parent Company	5,392	3,778	(357)	-	8,813
Bonfiglioli USA Inc.	-	-	-	-	-
Payables to other lenders	**5,392**	**3,778**	**(357)**	**-**	**8,813**
Total	**182,366**	**74,909**	**(23,181)**	**237**	**234,331**

"Bonds" includes the following items of the Parent Company:

- The debenture loan issued by the Parent Company on September 8, 2005 renewed with expiry on June 30, 2027, which is liable to interest at an annual rate of 1.63%. The foregoing loan, issued for a total of 3,750 K€, is recorded in the financial statements at the end of 2019 for 2,625 K€. The remaining payable recorded is due for 750 K€ within five years and the residual amount after five years.
- 125 MUSD shelf facility signed on January 16, 2019 by Bonfiglioli and Pricoa Capital Group through which the Bonfiglioli Group will have the right to issue Private Placements in the next three years that will be underwritten by Pricoa Capital Group. This transaction marks the first private placement for Bonfiglioli. The partnership with Pricoa adds an expert, long-term funder to the Bonfiglioli capital structure, at the same time increasing the diversification of funding to the company, which is seeing significant expansion at a global level. During 2019, a bond of 25 M€ was issued with a duration of 12 years, including 7 years of pre-amortization and 5 years of straight-line amortization with half-yearly installments, recorded in the financial statements at amortized cost for a total of 24.3 M€.

Increases	Decreases	Other changes	31.12.2019	Due within 12 months	Over 12 months Within 5 years	Beyond 5 years
24,343	-	54	27,022	-	750	26,272
24,343	**-**	**54**	**27,022**	**-**	**750**	**26,272**
40,000	(16,139)	284	106,735	15,860	79,081	11,794
-	(472)	-	1,484	498	986	-
-	(1,405)	5	754	754	-	-
-	(2,231)	-	5,500	2,230	2,629	641
1,367	(121)	18	2,350	961	1,389	-
1,500	(73)	-	1,427	293	1,134	-
42,867	**(20,441)**	**307**	**118,250**	**20,596**	**85,219**	**12,435**
6,399	**(27,166)**	**(112)**	**73,496**	**73,496**	**-**	**-**
961	(2,758)	-	2,680	1,330	1,289	61
135	(1,110)	-	14,927	945	3,735	10,247
44	(502)	(10)	1,643	502	1,141	-
115	(612)	-	5,384	593	2,296	2,495
515	(553)	-	482	158	324	-
2,114	(139)	71	2,256	170	554	1,532
1,306	(2,396)	(1)	2,809	1,518	1,291	-
5,190	**(8,070)**	**60**	**30,181**	**5,216**	**10,630**	**14,335**
-	(177)	-	8,636	4,126	726	3,784
58	-	-	58	37	21	-
58	**(177)**	**-**	**8,694**	**4,163**	**747**	**3,784**
78,857	**(55,854)**	**309**	**257,643**	**103,471**	**97,346**	**56,826**

The item "Payables to other financial institutions" includes both medium- and long-term loans received from entities other than banks (Ministry of Industry pursuant to Law 46) and the amount of the loan received from SIMEST on the capital of the Chinese (3.9 M€) and Brazilian (3.6 M€) subsidiaries, maturing respectively on 30.06.2020 and 30.06.2025.
Finally, the loans item also includes the medium-long term loan signed in 2017 by the Parent Company with a pool of banks. On the date of these financial statements this is entered with an amortized cost criterion for a total of 106.7 M€ (of which 21.2 M€ pledged).
Medium/long-term lines of credit recorded by the Parent Company have standard covenants linked to the Group EBITDA, which as of 31.12.2019 have been fully respected.

14. PROVISIONS FOR RISKS AND CHARGES

DESCRIPTION	Warranty reserve	Agents indemnity	Tax assessment reserve	Other reserves	Total
01.01.2018	**22,336**	**1,157**	**1,232**	**9,708**	**34,433**
Provisions	1,766	237	527	1,245	3,775
Uses/reversal	(2,280)	(30)	(609)	(966)	(3,885)
Other changes	(5)	-	(18)	2	(21)
31.12.2018	**21,817**	**1,364**	**1,132**	**9,989**	**34,302**
Provisions	6,534	124	117	330	7,105
Uses/reversal	(2,331)	-	(249)	(2,434)	(5,014)
Other changes	46	-	(8)	13	51
31.12.2019	**26,066**	**1,488**	**992**	**7,898**	**36,444**

Provisions for risks and charges include, in addition to the warranty reserve set aside in accordance with Group policies, the Sales Agents' indemnity set aside in accordance with the Italian agency contract, as well as the estimate of liabilities that could arise from existing tax disputes. The item Other reserves includes a provision to cover expected charges for liabilities related to restoration costs and other potential liabilities identified by several Group companies.

15. EMPLOYEE BENEFIT OBLIGATIONS

DESCRIPTION	31.12.2019	31.12.2018	01.01.2018	CHANGE 2019	CHANGE 2018
Non current employee benefit obligation	18,716	18,427	19,027	289	(600)
Current employee benefit obligation	1,109	1,173	1,590	(64)	(417)
Total	**19,825**	**19,600**	**20,617**	**225**	**(1,017)**

This item includes the "employee severance indemnity" of Italian companies, consistent with applicable legislation, and defined benefit plans following the termination of employment of all German subsidiaries and the Vietnamese, French and Turkish subsidiaries.
The amounts due beyond 5 years are 14.6 M€.

Details of the changes are given below:

	31.12.2019	31.12.2018
Opening balance	19,600	20,617
Service costs	397	411
Interest	316	306
Settlements	(1,682)	(1,482)
Actuarial changes	1,197	(247)
Exchange rate differences	(3)	(5)
Closing balance	**19,825**	**19,600**

The actuarial assumptions for the calculation of pension plans are detailed in the following table (it should be noted that for Vietnam and Turkey no actuarial appraisals have been performed since the amounts are very limited, approximately 60K€ in total):

2019	Italy	France	Germany
Discount rates	1.10%	1.02%	1.31%
Salary increase rates	2.00%	2.55%	0.40%
Inflation rates	1.00%	1.80%	0.00%

2018	Italy	France	Germany
Discount rates	1.80%	1.54%	1.53%
Salary increase rates	0.34%	2.55%	1.50%
Inflation rates	1.10%	1.80%	0.00%

By uniformly varying the discount rate by +/- 50 b.p., the consolidated liability at 31.12.2019 would have been approximately 1.4 M€ lower or higher, respectively.

16. TRADE PAYABLES

DESCRIPTION	31.12.2019	31.12.2018	01.01.2018	CHANGE 2019	CHANGE 2018
Trade payables	204,205	216,972	179,662	(12,767)	37,310
Advances to suppliers	(1,631)	(915)	(1,273)	(716)	358
Total	**202,574**	**216,057**	**178,389**	**(13,483)**	**37,668**

The breakdown of trade payables by geographical area is given below:

	31.12.2019	31.12.2018	01.01.2018	2019%	2018%	01.2018 %
AME (America)	2,927	3,517	1,460	1.4%	1.6%	0.8%
APAC (Asia - Pacific)	41,792	39,787	35,053	20.6%	18.4%	19.6%
EMEA (Europe - Middle East - Africa)	157,855	172,753	141,876	77.9%	80.0%	79.5%
Total	**202,574**	**216,057**	**178,389**	**100.0%**	**100.0%**	**100.0%**

17. OTHER PAYABLES AND LIABILITIES

DESCRIPTION	31.12.2019	31.12.2018	01.01.2018	CHANGE 2019	CHANGE 2018
Tax payables	-	-	41	-	(41)
Payables to social security institutions	625	-	-	625	-
Payables to employees	2,913	938	3,060	1,975	(2,122)
Other non current payables and liabilities (A)	**3,538**	**938**	**3,101**	**2,600**	**(2,163)**
Tax payables	11,335	9,251	6,481	2,084	2,770
Payables to social security institutions	8,932	9,706	9,037	(774)	669
Payables to employees	21,822	24,980	19,031	(3,158)	5,949
Other payables	1,036	1,305	21,921	(269)	(20,616)
Accrued expenses and deferred income	2,744	1,730	2,048	1,014	(318)
Other current payables and liabilities (B)	**45,869**	**46,972**	**58,518**	**(1,103)**	**(11,546)**
Total (A+B)	**49,407**	**47,910**	**61,619**	**1,497**	**(13,709)**

A breakdown is given below:

TAX PAYABLES	31.12.2019	31.12.2018	01.01.2018
Direct taxes	-	-	41
Total non current tax payables (A)	**-**	**-**	**41**
Direct taxes	5,350	4,676	3,545
Indirect taxes	5,127	3,921	2,671
Other taxes	858	654	265
Total current tax payables (B)	11,335	9,251	6,481
Total tax payables (A+B)	**11,335**	**9,251**	**6,522**

OTHER PAYABLES	31.12.2019	31.12.2018	01.01.2018
Advances received for public contributions	-	-	825
Payables for purchase of equity interests	-	640	20,550
Other payables	1,036	665	546
Total other current payables	**1,036**	**1,305**	**21,921**

ACCRUED EXPENSES AND DEFERRED INCOME	31.12.2019	31.12.2018	01.01.2018
Interest	687	570	744
Insurance	16	14	14
Deferred income from public contributions	1,617	893	1,090
Other	424	253	200
Total accrual expenses and deferred income	**2,744**	**1,730**	**2,048**

With reference to the deferred income from public contributions, this concerns 0.6 M€ of the deferred contribution received by “Bonfiglioli Mechatronic Research SpA” from APIAE (Trento Provincial Authority). Having opted for the “indirect” accounting method, the contribution has been recorded on an accrual basis according to the estimated useful life of the assets it refers to (five years), hence for 1/5 in “Other revenues and income” and for the residual amount deferred for competence to subsequent years through the item deferred income, to allow for a correlation between costs and revenues.

The residual amount of 1.0 M€ refers to the collection of the portion of the contribution due to the Parent Company of the total received as Coordinator of a Horizon 2020 project (IoTwins Project), which was officially approved and financed by the European Commission in June 2019. The project has a time horizon that will end in 2022, and the first accounting “checkpoint” will be performed in August 2020. It was therefore considered correct to divide the revenue from the contribution over 4 years starting from 2020, so as to ensure the best possible correlation between costs and revenues.

INCOME STATEMENT

18. REVENUES FROM SALES AND SERVICES

Revenues from sales and services were achieved in the following geographical areas:

DESCRIPTION	2019	2018	CHANGE	2019 %	2018 %
EMEA (Europe - Middle East - Africa)	509,068	486,208	22,860	52.3%	53.3%
AME (America)	198,942	165,519	33,423	20.5%	18.2%
APAC (Asia - Pacific)	264,488	259,983	4,505	27.2%	28.5%
Total	**972,498**	**911,710**	**60,788**	**100%**	**100%**

The Group revenues from sales and services in 2019 recorded an increase compared to the previous financial year of 6.7% (972.5 M€ compared to 911.7 M€ in 2018), thanks to the particularly positive performance of all the M&W Business Unit.
For more details on the Group performance, reference is made to the Management Report.

19. COST OF MATERIALS

DESCRIPTION	2019	2018	CHANGE
Purchases from thirds	561,588	568,991	(7,403)
Delta stock	8,166	(50,296)	58,462
Total	**569,754**	**518,695**	**51,059**

20. PERSONNEL COSTS

DESCRIPTION	2019	2018	CHANGE
Wages and salaries	138,632	130,111	8,521
Social contributions	36,160	34,657	1,503
Defined benefit and contribution plans costs	5,298	4,794	504
Other personnel costs	1,259	1,582	(323)
Total	**181,349**	**171,144**	**10,205**

The number of employees in the workforce during the financial year was as follows (spot and average data):

	31/12/2019	31/12/2018	2019 AVERAGE	2018 AVERAGE
Executives and managers	178	181	180	181
White collars and middle management	1,829	1,746	1,807	1,701
Direct and indirect blu collar	1,774	1,785	1,777	1,745
Temporary workers	277	330	327	272
Total	**4,058**	**4,042**	**4,091**	**3,899**

21. COSTS FOR SERVICES AND USE OF LEASED ASSETS

DESCRIPTION	2019	2018	CHANGE
Subcontracting and external operation	34,226	32,717	1,509
Transport and porterage	32,319	31,054	1,265
Maintenance and utilities	26,651	24,140	2,511
Travel, fairs and advertising	9,390	10,678	(1,288)
Consultancies	12,576	12,954	(378)
Services to employees	5,495	4,819	676
Remuneration paid to directors, statutory auditors and independent auditors	2,517	1,870	647
Other	12,768	12,970	(202)
Total	**135,942**	**131,202**	**4,740**

22. REVENUE FROM INTERNAL PROJECTS COSTS CAPITALIZED

DESCRIPTION	2019	2018	CHANGE
BPD Project Bonfiglioli Vectron Gmbh	1,775	1,723	52
IoT Project Bonfiglioli Mechatronic Research SpA	-	489	(489)
Total	**1,775**	**2,212**	**(437)**

23. OTHER OPERATING INCOME

DESCRIPTION	2019	2018	CHANGE
Scrap, sales to vendor and other minor sales	5,996	5,712	284
Transport & packaging refunds	5,535	4,535	1,000
Claims to vendor	1,042	972	70
Capital gains and contingent assets	3,459	1,432	2,027
Received grants and contributions	3,869	2,358	1,511
Reserve reversal	3,495	1,514	1,981
Insurances and other refunds	340	498	(158)
Other	1,238	1,211	27
Total	**24,974**	**18,232**	**6,742**

Grants and contributions were mainly received from the Parent Company, "Bonfiglioli Mechatronic Research S.p.A." and the Indian and Chinese subsidiaries.

24. OTHER OPERATING COSTS

DESCRIPTION	2019	2018	CHANGE
Other tax & Levy	3,376	3,295	81
Purchase of low value items	808	804	4
Association fees	374	329	45
Freegifts and donations	345	524	(179)
Capital losses and contingent liabilites	597	485	112
Other	110	60	50
Total	**5,610**	**5,497**	**113**

25. DEPRECIATION, AMORTIZATION AND IMPAIRMENTS

DESCRIPTION	2019	2018	CHANGE
Amortization of intangible assets	5,334	4,735	599
Impairment of intangible assets	489	-	489
Depreciation of tangible assets	25,538	21,926	3,612
Depreciation of right to use tangible assets	6,132	5,544	588
Impairment of tangible assets	60	2,864	(2,804)
Impairment of right to use tangible assets	1	237	(236)
Total	**37,554**	**35,306**	**2,248**

The impairment of 0.5 M€ relates to the elimination of the costs capitalized in the subsidiary Bonfiglioli Mechatronic Research SpA mentioned in intangible assets section.

26. FINANCIAL INCOME AND COSTS

DESCRIPTION	2019	2018	CHANGE
Financial income	2,038	1,643	395
Financial costs	(8,304)	(7,632)	(672)
Total	**(6,266)**	**(5,989)**	**(277)**

A breakdown is given below:

Financial income	2019	2018	CHANGE
Bank interest income	1,750	1,367	383
Commercial and other interest	288	276	12
Total	**2,038**	**1,643**	**395**

FINANCIAL COSTS	2019	2018	CHANGE
Bank interest expenses	2,572	2,320	252
Interest on bonds, loans and leases	4,073	3,427	646
Discounts, premiums and expenses on derivatives (IRS and forward contracts)	1,082	1,177	(95)
Interest on employee benefits	336	357	(21)
Other	241	351	(110)
Total	**8,304**	**7,632**	**672**

27. EXCHANGE RATE GAINS AND LOSSES

DESCRIPTION	2019	2018	CHANGE
Exchange rates gains	8,305	12,861	(4,556)
Exchange rate losses	(9,341)	(13,876)	4,535
Total	**(1,036)**	**(1,015)**	**(21)**

28. INCOME AND CHARGES FROM EQUITY INVESTMENTS

The income from equity investments wholly relate to the profits of the company Grumento posted for reasons of transparency by “O&K Antriebstechnik GmbH”.

29. TAXES

DESCRIPTION	2019	2018	CHANGE
Current taxes	13,529	17,475	(3,946)
Deferred tax asset variation	4,240	(837)	5,077
Deferred tax liabilities variation	(706)	(80)	(626)
Direct taxes related with previous years	475	262	213
Total	**17,538**	**16,820**	**718**

FURTHER INFORMATION

COMMITMENTS

DESCRIPTION	2019	2018	CHANGE
Performance Guarantee	8,925	6,952	1,973
Collateral	45,577	26,391	19,186
Total	**54,502**	**33,343**	**21,159**

The performance guarantees refer to bank guarantees issued by credit institutions on contractual commitments or debts taken on by the Group.
The collateral relates to the following:

- Collateral on tangible assets of the Indian subsidiary for 12.7 M€.
- Collateral on property as detailed below:
  - Bonfiglioli Riduttori S.p.A. for 23.6 M€
  - Bonfiglioli Deutschland GmbH for 1.5 M€
  - Bonfiglioli Slovakia Sro for 7 M€
  - Bonfiglioli Drives Shanghai Co. Ltd. for 0.7 M€

PUBLIC CONTRIBUTIONS

Pursuant to and by effect of Italian Law no. 124 of August 4, 2017 "Annual Law on the Market and Competition," the information relating to subsidies, contributions, paid appointments and economic benefits of any kind received in 2019 from national administrations or equivalent national bodies is given below.

Funding body	Recipient Company	Amount in Euro	Reason
Trentino Sviluppo SpA (Tax Code 00123240228)	Bonfiglioli Mechatronic Research Spa	72,294	Contribution for the rental of space at the Polo Meccatronica Rovereto
European Commission	Bonfiglioli Riduttori Spa	1,020,534	Horizon 2020 Project (IoTwins Project), total income in 2019 €12,289,105 (75% of the total contribution due) of which €1,020,534 for Bonfiglioli Riduttori Spa and the rest to be distributed as Coordinator to the other partner organizations.
	Total	**1,092,828**	

From a systematic interpretation of the law, the benefits for all the companies (including but not limited to fiscal measures such as hyper-depreciation, super-depreciation, school bonus and tax credits for research and development and other facilities such as the Cassa Integrazione Guadagni - redundancy fund) are not included as their advantages do not target a specific company.
In relation to the receipt of state aid which the Italian companies in the Group received during the financial year, for any matters not accurately specified in the above table, refer to the details in the National Register of State Aid.

REMUNERATION PAID TO DIRECTORS, STATUTORY AUDITORS AND INDEPENDENT AUDITORS

During the year, the following amounts were paid out as remuneration to Group Directors and auditing bodies:

DESCRIZIONE	2019	2018
Directors	1,772	1,122
Statutory auditors/Indipendent auditors	745	748
Total	**2,517**	**1,870**

TRANSACTIONS WITH RELATED PARTIES

The Group has commercial relations with B.R.T. S.p.A., owned by the shareholders and directors of Bonfiglioli Riduttori S.p.A. The company B.R.T. S.p.A. supplies spare parts for Bonfiglioli products in Italy and, partly, abroad. The business relations relate to the sale of Bonfiglioli components and products under normal market conditions.

RISK MANAGEMENT

The Group is exposed to financial risks associated with its operations:

- Sector risk, with particular reference to the market performance of the sectors relevant to the Group and the regulations in force in the different countries the Group operates in.
- Liquidity risk, with particular reference to the availability of financial resources and access to the credit market and financial instruments in general.
- Credit risk in relation to business relationships with customers.
- Market risk (mainly related to exchange and interest rates), as the Group operates internationally and is exposed to foreign exchange risk.

The Group is not exposed to significant concentrations of risk. As described in the Management Report, to which reference is made for a detailed analysis, the Group constantly monitors the financial risks it is exposed to in order to assess in advance the potential negative effects and to take appropriate action to mitigate them.

SIGNIFICANT EVENTS AFTER YEAR END

The following events occurring after the closure of the financial year are worthy of note.

In January 2020, the first use of 20 M€ was made in relation to the European Investment Bank (EIB) loan stipulated by the Parent Company in December 2019 and relating to an unsecured loan of 40 M€, equal to 50% of the costs foreseen in the four-year period 2019-2022, for investments in the development of innovative electric motors, gears, drives and power transmission solutions for wind turbines, mobile machinery and industrial and mechatronic applications, in addition to investments in machinery to be used in the new EVO plant. The period of availability of funds is one year, the duration of the loan is 7 years with 2 years of pre-amortization and 5 years of amortization in six-monthly installments.

Also in January 2020, the Parent Company finalized the preliminary contract for the sale of the Lippo land and building in Calderara di Reno, the Company's original headquarters. The sale of the properties is expected by the end of 2020.

In February 2020 the Parent Company re-negotiated the medium-long term loan signed with the banks in May 2017, increasing its total debt from about 82 M€ of residual debt to 100 M€, simplifying and improving the Group's contract by eliminating various restrictive clauses, extending the repayment period by about 2.5 years and substantially reducing the interest cost.

The recent events connected with the COVID-19 epidemic make it difficult to forecast trends for the coming months. In fact, as a result of these events several companies and activities of the Group have recently been affected by restrictive measures of national governments that have led to a reduction in non-essential production and trade.

Bonfiglioli has become fully aware of the situation and is implementing all kinds of measures to predict and manage the situation in the best way possible, trying to minimize the impact of this serious crisis. Among the actions taken, the highest priority was given to cash monitoring, implementing all the actions necessary to reduce expenses and non-strategic investments and to correctly manage working capital, ensuring the maintenance of financial commitments with suppliers as "we are all gears of the same system."

As necessary, and while aware of the daily changes in variables, alternative prospective scenarios are being prepared in order to constantly monitor the Group's performance.

Bonfiglioli's business model enjoys a high level of geographical, production, assembly, product and sector diversification that makes it possible to significantly limit the problems of production, supply and market decline compared to other businesses that are similar to ours.

Calderara di Reno (Bologna), March 31, 2020
for The Board of Directors

The Chairwoman
Sonia Bonfiglioli

ANNEX A

FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

For Bonfiglioli Group the Financial Statements as of December 31, 2019 represent the first statements prepared in accordance with IAS/IFRS (International Accounting Standards and International Financial Reporting Standards) issued by the IASB and approved by the European Union on the same date (hereinafter IFRS). The IFRS also include all revised International Accounting Standards ("IAS") and all interpretations of the International Financial Reporting Interpretations Committee (IFRIC), previously known as the Standing Interpretations Committee (SIC). In drafting all the financial statements up to December 31, 2018, the Group has in fact followed the provisions of the Italian Civil Code and the accounting standards of reference prepared by the Italian Accounting Body (OIC).

This note sets out the information required by IFRS 1, and in particular describes the impact the transition to IFRS has had on the Group's financial position. For this purpose, the following reconciliation statements have been prepared to compare the book values resulting from the application of the OIC accounting principles with those resulting from the adoption of IFRS:

1. The reconciliation of Statement of Financial Position as of January 1, 2018, the date of first application of the IFRS (the "Transition Date").
2. The reconciliation of the Statement of Financial Position as of December 31, 2018 (closing date of the last financial statements prepared in accordance with the OIC accounting principles).
3. The reconciliation of the comprehensive income statement for the year closed on December 31, 2018.
4. The statement of reconciliation of shareholders' equity as of January 1, 2018 and December 31, 2018.
5. The statement of reconciliation of the total net result for the year ended on December 31, 2018.
6. The explanatory notes for the adjustments and reclassifications included in the aforementioned reconciliation statements, which describe the significant effects of the transition with regard to both the classification of the various financial statement items and their different valuation, and therefore the consequent effects on the financial position.

The opening financial statements on the IFRS Transition Date were drafted according to the following criteria:

- All assets and liabilities whose recognition is required by IFRS have been entered.
- Assets and liabilities whose recognition is not permitted under IFRS have not been entered.
- The IFRS have been applied in the valuation of all recognized assets and liabilities.
- All adjustments resulting from the first application of the IFRS were recognized against shareholders' equity.

The International Accounting Standards require retrospective application of all the standards in force at the date of the first IFRS financial statements. For companies adopting IFRS for the first time, IFRS 1 provides some mandatory and optional exemptions to such retroactive adoption. The exemptions applicable to the Group are set out below.

a) Mandatory and optional exemptions to the full retrospective adoption of IFRS

Mandatory exemptions to full retrospective adoption of IFRS

The only mandatory exemption applicable to the Group under this transition relates to valuation estimates used in the restatement of information at the Transition Date that comply with those used in the preparation of the relevant financial statements in accordance with previous accounting standards (after adjustments necessary to reflect any differences in accounting standards).

The other mandatory exemptions prescribed by IFRS 1 have not been applied, as they relate to cases not applicable to the Group.

Optional exemptions to full retrospective adoption of IFRS

a.1) Operating lease agreements

At the Transition Date to IFRS, the Group decided to assess whether a contract contains a lease by applying paragraphs 9-11 of IFRS 16 to the contract on the basis of the facts and circumstances prevailing on that date. The contract is or contains a lease if it gives the right to control the use of a specified asset for a period of time in return for consideration.

The Group has decided to apply the following approach to all its contracts:
a) Measure the lease liability on the IFRS Date of Transition at the current value of the remaining lease payments, discounted using the Group company's borrowing rate; and
b) measure the asset consisting of the right of use at the IFRS Transition Date at the amount of the lease liability adjusted for any deferred income or accrued income relating to the lease recognized in the statement of financial position immediately before the IFRS Transition Date.
At the IFRS Transition Date, the Group decided to apply a single discount rate to a lease portfolio with reasonably similar characteristics. In addition, the Group decided to draw on the experience gained in determining the duration of the lease in cases where the contract contains an option to extend or terminate the lease.
The Group made use of the option envisaged in IFRS 16 not to make transitional adjustments for leases whose underlying asset is of modest value. The Group also exercised the right to account for leases whose duration ends within 12 months from the Transition Date as short-term leases, recognizing payments due as costs for the year that includes the Transition Date.

a.2) Business combination
During the transition to IFRS, the Group applied IFRS 3 retrospectively to all business combinations from 12/30/2015, opting therefore to take advantage of the optional exemption provided by IFRS 1 only for prior transactions.
The Group has chosen to redetermine the business combination relating to the acquisition of 55% of the share capital of the German company O&K Antriebstechnik GmbH on 30.12.2015 in order to comply with IFRS 3. After that date, the Group did not carry out any further business combinations that required the redetermination of effects in accordance with IFRS 3.
The other optional exemptions prescribed by IFRS 1 have not been applied, as they relate to cases not applicable to the Group.

b) Preferred treatment under IFRS accounting options

The IFRS allow certain accounting options. The Group's choices are shown below:
Valuation of tangible, intangible and right-of-use assets: after initial recognition at cost, IAS 16 – Property, plant and equipment, IAS 38 – Intangible assets and IFRS 16 – Leases, provide that tangible, intangible and right-of-use assets can be measured at cost net of accumulated depreciation, amortization and impairment losses, or by periodically determining the market value and adjusting the book balance to that value (so-called "Revaluation Model"). The Group decided to maintain the cost as a criterion for the valuation of tangible, intangible and right-of-use assets.

c) Reconciliation of statement of financial position as of January 1, 2018 and December 31, 2018 and of the comprehensive income statement for the year ended on December 31, 2018

Statement of financial position as of January 1, 2018
Annex 1 shows the reconciliation between the Group's statement of financial position as of January 1, 2018 prepared in accordance with the Italian Accounting Standards (OIC) and reclassified according to the criteria chosen by the Group for the IFRS financial statements and the balance sheet prepared in accordance with the IFRS.

Statement of financial position as of December 31, 2018
Annex2 shows the reconciliation between the Group's statement of financial position as of December 31, 2018 prepared in accordance with the Italian Accounting Standards (OIC) and reclassified according to the classification criteria chosen by the Group for the IFRS financial statements and the balance sheet prepared in accordance with the IFRS.

Comprehensive income statement for the financial year ended on December 31, 2018
Annex 3 shows the reconciliation between the Group's comprehensive income statement for the year ended on December 31, 2018 prepared in accordance with Italian Accounting Principles (OIC) and reclassified according to the classification criteria chosen by the Group for the IFRS financial statements and the comprehensive income statement prepared in accordance with the IFRS.

d) Reconciliation of the shareholders' equity as of January 1, 2018 and December 31, 2018 and of the total net result for the year ended on December 31, 2018

Annex 4 shows the reconciliations between the Group's shareholders' equity as of January 1, 2018 and December 31, 2018 and the overall net result for the year ended on December 31, 2018 prepared in accordance with the Italian Accounting Standards (OIC) with the corresponding values prepared in accordance with the IFRS.

The following is a description of the main adjustments made during the transition to IFRS accounting standards.

d.1) Leases
According to Italian accounting principles, fees paid for an operating lease are entered as a cost in the income statement on an accrual basis.
According to IFRS, there is no longer a distinction between operating lease and financial lease, and at the time of entering into a lease agreement a financial liability is recognized, representing the obligation to make payments under the lease agreement, and an asset, representing the right to use the leased asset. The rent fees are posted, for the principal portion of rent as reduction of the aforementioned payable, and the interest is recorded in the income statement on an accrual basis.
The Group applied IFRS 16 to financial leases already posted applying IAS 17, recognizing a tangible fixed asset and the related financial payable. For these leases, the book value of the asset consisting of the right of use and the lease liability at the Transition Date is the same book value as the leased asset and the lease liability measured immediately before that date applying IAS 17, with the exception of the tax benefit deriving from the release of the higher IAS values that emerged on January 1, 2018 in the separate financial statements of Bonfiglioli Riduttori SpA for an effect of 558 K€ on the Group's shareholders' equity determined according to the Italian Accounting Standards (OIC) on January 1, 2018.
The adjustment relating to operating leases resulted in an increase in the item Property, plant, machinery and other tangible assets as of January 1, 2018 of 30,941 K€ and an increase in the Group's net result for the year 2018 determined according to the Italian Accounting Principles (OIC) of 110 K€, net of the related tax effect.
Please refer to the paragraph "Optional exemptions to the full retroactive adoption of IFRS" for a more detailed description of the approach applied to leases and the optional exemptions adopted by the Group.

d.2) Provision for building restoration
IAS 16 states that a company shall consider all foreseeable costs associated with a tangible asset at the time of its first recognition in the financial statements. The Company has therefore included in the financial statements the effects of contractual obligations such as, for example, the costs of dismantling and restoring leased assets, increasing the cost of recording the asset they relate to and recognizing a specific provision for the liability, in accordance with IAS 37.
This adjustment resulted in an increase in the Group's shareholders' equity determined according to the Italian Accounting Principles (OIC) of 7 K€ as of January 1, 2018 and an increase in the Group's result for 2018 determined according to the Italian Accounting Principles (OIC) of 6 K€.

d.3) Elimination of non-capitalizable start-up and expansion costs and goodwill
In accordance with IAS 38, start-up and expansion costs are recognized in the income statement when incurred. As part of the transition to IFRS, costs capitalized in previous years and in 2018 were therefore eliminated.
On the other hand, with reference to the residual value of goodwill relating to an acquisition of a business unit carried out by the Parent Company in 2015 (equal to 2.2 M€ as of January 1, 2018), the Group preferred to write-down through offset in shareholders' equity, considering it most prudent and least onerous choice, also in view of the not relevant amount.
These adjustments led to a decrease in the Group's shareholders' equity determined in accordance with Italian Accounting Principles (OIC) of 1.6 M€ at January 1, 2018, and an increase in the Group's result for 2018 determined in accordance with Italian Accounting Principles (OIC) of 0.8 M€, net of the related tax effect.

d.4) Valuation of Simest's put and call options
In accordance with the IFRS, debt was recorded for two loans obtained from Simest for an amount equal to the value of the put options exercisable in the coming years against the decrease of related minority shareholders' equity.
These adjustments led to a decrease in the minority shareholders' equity determined in accordance with Italian Accounting Principles (OIC) of 3.9 M€ at January 1, 2018 and a reduction in the minority shareholders' equity determined in accordance with Italian Accounting Principles (OIC) of 7.5 M€ at December 31, 2018.

d.5) Valuation of the minority put and call option
The contract for the acquisition of shares in the South African company Bonfiglioli Transmission PTY Ltd. provided for the right, assigned to one of the minority shareholders, to sell its share at a contractually determined fixed price.
In accordance with IFRS, as of January 1, 2018, the debt deriving from the potential exercise of the put and call option was recorded against the decrease in the related minority shareholders' equity, for a total of 1.3 M€.
Following the acquisition of the entire minority shareholding during 2018, the related effects were adjusted in accordance with the IFRS.

These adjustments led to a decrease in the Group's shareholders' equity determined in accordance with Italian Accounting Principles (OIC) of 132 K€ and a decrease in the minority shareholders' equity determined in accordance with Italian Accounting Principles (OIC) of 1.2 M€ as of January 1, 2018.

d.6) Business Combination

In December 2015 the Group entered the acquisition of 55% of the German company O&K Antriebstechnik GmbH. This transaction meets the requirements for the application of IFRS 3 ("Business Combination").
Based on the total purchase cost and in relation to the fair value of the assets acquired, a total gain of 30.4 M€ was determined, given by the difference between the acquisition price, already inclusive of the price relating to the exercise of the option on the remaining 45%, acquired during 2018 at 17 M€, and the shareholders' equity of the acquired Company. This higher value net of deferred taxes of 15.4 M€ has been entirely allocated to the following intangible assets with a finite life (20 years):

- 16.0 M€ for the Trademark
- 12.1 M€ for the Technology
- 17.7 M€ for the Customer List.

The re-opening of the Business Combination in accordance with IFRS 3 led to a decrease in the Group's shareholders' equity determined in accordance with Italian Accounting Principles (OIC) of 5.6 M€ as of January 1, 2018 and an increase in the Group's total result for 2018 determined in accordance with Italian Accounting Principles (OIC) of 2.3 M€, net of the related tax effect.

d.7) Employee benefits

According to Italian accounting principles, post-employment benefits are recognized in a special accrual fund during the period of the employees' employment relationship in accordance with applicable legislation and employment contracts.
According to the IFRS said benefits are to be distinguished in "defined contribution" plans or "defined benefit" plans. Provisions related to defined benefit plans are subject to specific valuation using actuarial techniques.
The Employee Severance Indemnity Provision (hereinafter referred to as the "TFR Provision"), which refers only to Italian companies, deserves due clarification. According to IAS 19, the TFR Provision was comparable to a defined benefit plan until December 31, 2006, to be assessed on the basis of statistical and demographic assumptions, as well as actuarial valuation methodologies. As a result of legislative changes, the TFR Provision accrued from January 1, 2007 is to be considered a defined contribution program.
Adjustments related to the actuarial valuation of defined benefit plans resulted in a reduction in the Group's shareholders' equity determined according to the Italian Accounting Principles (OIC) of 2.2 M€ as of January 1, 2018, a decrease in shareholders' equity determined according to the Italian Accounting Principles (OIC) of 1.7 M€ as of December 31, 2018, and an increase in the Group's result for 2018 determined according to the Italian Accounting Principles (OIC) of 0.6 M€, net of the related tax effect.

d.8) Other minor items

This is mainly a Future Loss provision of a total of 269 K€ relating to the Spanish subsidiary Tecnotrans Bonfiglioli SA, eliminated as IAS 27 does not provide for the recording of Future Loss provisions when eliminating consolidated investments.

e) Details of the main reclassifications that have been made to the Statement of financial position as of January 1, 2018 and December 31, 2018, as well as to the Income statement for the year 2018

Statement of financial position

Leasehold improvements

Improvements on leased assets that were classified as intangible assets applying Italian Accounting Standards (OIC) have been reclassified under "Property, plant and equipment" according to the provisions contained in the IFRS.

Deferred Tax Assets and Liabilities

In accordance with the provisions of IAS 12, deferred taxes are shown as a net balance among long-term assets/ liabilities where legally compensable.

Income Statement

Cash discounts

In application of IFRS 15, the following adjustments were made:

- The charges relating to cash discounts granted to customers, classified under the item "Financial income and charges" according to Italian Accounting Principles (OIC), have been reclassified as a deduction from the item "Revenues from sales and services", for a total of 1.3 M€ as of December 31, 2018.
- Income relating to cash discounts granted by suppliers, classified under "Financial income and charges" in accordance with Italian Accounting Principles (OIC), has been reclassified as a reduction of the item "Cost of materials", for a total of 91 K€ as of December 31, 2018.

ANNEX 1

FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF JANUARY 1, 2018

Consolidated Statement of Financial Position as of January 1, 2018 (data in K€)	Italian Accounting Principles (OIC)	IFRS ADJUSTMENTS			
		Leases	Provision for building restoration	Elimination start-up and expansion costs and goodwill	Valuation of Simest put and call options
ASSETS					
NON CURRENT ASSETS					
Tangible Assets	187,428	30,941	744		
Property investments	-				
Development Costs	2,176				
Goodwill and other indefinite useful life intangible assets	13,729			(2,226)	
Other Intangible Assets	17,400			(38)	
Share Investments	80				
Share Investments at Equity method	-				
Non current derivatives	-				
Other non current financial assets	-				
Deferred Tax Assets	38,392			631	
Other non current receivables and assets	9,169				
TOTAL NON CURRENT ASSETS	**268,374**	**30,941**	**744**	**(1,633)**	**-**
CURRENT ASSETS					
Inventory	214,670				
Trade Receivables	184,600				
Current derivatives	153				
Other current financial assets	-				
Corporate Tax receivables	2,601				
Other current receivables and assets	6,094				
Cash and cash equivalents	28,307				
TOTAL CURRENT ASSETS	**436,425**	**-**	**-**	**-**	**-**
TOTAL ASSETS	**704,799**	**30,941**	**744**	**(1,633)**	**-**

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	IFRS ADJUSTMENTS					IFRS RECLASSIFICATIONS			
	Valuation of minority put and call options	Business Combination	Employee benefits	Other Minor Items	EU IFRS accounting principles before reclassifications	Deferred tax assest and liabilities, tax receivables and payables	Leasehold improvements	Other reclassifications	EU IFRS accounting principles
				(11)	219,102		4,740		223,842
					-				-
					2,176				2,176
		(11,503)			-				-
		34,448			51,810		(4,740)		47,070
					80				80
					-				-
					-				-
					-				-
			1,057	4	40,084	(4,667)			35,417
			(2,779)		6,390				6,390
	-	**22,945**	**(1,722)**	**(7)**	**319,642**	**(4,667)**	**-**	**-**	**314,975**
					214,670				214,670
					184,600				184,600
					153				153
					-				-
					2,601				2,601
			(121)		5,973	5,364			11,337
					28,307				28,307
	-	**-**	**(121)**	**-**	**436,304**	**5,364**	**-**	**-**	**441,668**
	-	**22,945**	**(1,843)**	**(7)**	**755,946**	**697**	**-**	**-**	**756,643**

ANNEX 1

FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF JANUARY 1, 2018

Consolidated Statement of Financial Position as of January 1, 2018 (data in K€)	Italian Accounting Principles (OIC)	IFRS ADJUSTMENTS			
		Leases	Provision for building restoration	Elimination start-up and expansion costs and goodwill	Valuation of Simest put and call options
EQUITY AND LIABILITIES					
GROUP EQUITY					
Share Capital	50,000				
Reserves	124,734	558	7	(1,633)	
Retained Earnings (Losses) carried forward	71,875				
Group' Income (Loss)	23,454				
TOTAL GROUP EQUITY	**270,063**	**558**	**7**	**(1,633)**	**-**
TOTAL MINORITY INTERESTS	**7,494**				**(3,947)**
TOTAL EQUITY	**277,557**	**558**	**7**	**(1,633)**	**(3,947)**
NON CURRENT LIABILITIES					
Non current borrowings	85,391	27,264			3,947
Non current derivatives	283				
Non current provisions	33,356		737		
Non current employee benefit obligation	18,633				
Deferred Tax liabilities	7,511	(558)			
Other non current payables and liabilities	3,101				
TOTAL NON CURRENT LIABILITIES	**148,275**	**26,706**	**737**	**-**	**3,947**
CURRENT LIABILITIES					
Current borrowings	62,087	3,677			
Current derivatives	142				
Current provisions	609				
Current employee benefit obligation	1,590				
Trade payables	178,389				
Corporate tax payables	1,346				
Other current payables and liabilities	34,804				
TOTAL CURRENT LIABILITIES	**278,967**	**3,677**	**-**	**-**	**-**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**704,799**	**30,941**	**744**	**(1,633)**	**-**

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	IFRS ADJUSTMENTS					IFRS RECLASSIFICATIONS			
	Valuation of minority put and call options	Business Combination	Employee benefits	Other Minor Items	EU IFRS accounting principles before reclassifications	Deferred tax assest and liabilities, tax receivables and payables	Leasehold improvements	Other reclassifications	EU IFRS accounting principles
					50,000				50,000
	(132)	(5,643)	(2,237)	262	115,916			(642)	115,274
					71,875			642	72,517
					23,454				23,454
	(132)	**(5,643)**	**(2,237)**	**262**	**261,245**	**-**	**-**	**-**	**261,245**
	(1,218)				**2,329**				**2,329**
	(1,350)	**(5,643)**	**(2,237)**	**262**	**263,574**	**-**	**-**	**-**	**263,574**
					116,602				116,602
					283				283
				(269)	33,824				33,824
			394		19,027				19,027
		11,588			18,541	(4,667)			13,874
					3,101				3,101
	-	**11,588**	**394**	**(269)**	**191,378**	**(4,667)**	**-**	**-**	**186,711**
					65,764				65,764
					142				142
					609				609
					1,590				1,590
					178,389				178,389
					1,346				1,346
	1,350	17,000			53,154	5,364			58,518
	1,350	**17,000**	**-**	**-**	**300,994**	**5,364**	**-**	**-**	**306,358**
	-	**22,945**	**(1,843)**	**(7)**	**755,946**	**697**	**-**	**-**	**756,643**

ANNEX 2

FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2018

Consolidated Statement of Financial Position as of December 31, 2018 (data in K€)	Italian Accounting Principles (OIC)	IFRS ADJUSTMENTS			
		Leases	Provision for building restoration	Elimination start-up and expansion costs and goodwill	Valuation of Simest put and call options
ASSETS					
NON CURRENT ASSETS					
Tangible Assets	220,432	29,725	620		
Property investments	-				
Development Costs	1,632				
Goodwill and other indefinite useful life intangible assets	22,031			(1,113)	
Other Intangible Assets	27,708			(22)	
Share Investments	55				
Share Investments at Equity method	-				
Non current derivatives	-				
Other non current financial assets	291				
Deferred Tax Assets	39,712	52		317	
Other non current receivables and assets	8,903				
TOTAL NON CURRENT ASSETS	**320,764**	**29,777**	**620**	**(818)**	**-**
CURRENT ASSETS					
Inventory	263,542				
Trade Receivables	199,561				
Current derivatives	210				
Other current financial assets	-				
Corporate Tax receivables	2,784				
Other current receivables and assets	5,469				
Cash and cash equivalents	38,534				
TOTAL CURRENT ASSETS	**510,100**	**-**	**-**	**-**	**-**
TOTAL ASSETS	**830,864**	**29,777**	**620**	**(818)**	**-**

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	IFRS ADJUSTMENTS					IFRS RECLASSIFICATIONS			
	Valuation of minority put and call options	Business Combination	Employee benefits	Other Minor Items	EU IFRS accounting principles before reclassifications	Deferred tax assest and liabilities, tax receivables and payables	Leasehold improvements	Other reclassifications	EU IFRS accounting principles
					250,777		4,383		255,160
					-				-
					1,632				1,632
		(20,918)			-				-
		26,459		(6)	54,139		(4,383)		49,756
					55				55
					-				-
					-				-
					291				291
			813	2	40,896	(5,097)			35,799
			(2,811)		6,092				6,092
	-	**5,541**	**(1,998)**	**(4)**	**353,882**	**(5,097)**	**-**	**-**	**348,785**
					263,542				263,542
					199,561				199,561
					210				210
					-				-
					2,784				2,784
			(122)		5,347	7,961			13,308
					38,534				38,534
	-	**-**	**(122)**	**-**	**509,978**	**7,961**	**-**	**-**	**517,939**
	-	**5,541**	**(2,120)**	**(4)**	**863,860**	**2,864**	**-**	**-**	**866,724**

ANNEX 2

FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2018

Consolidated Statement of Financial Position as of December 31, 2018 (data in K€)	Italian Accounting Principles (OIC)	IFRS ADJUSTMENTS			
		Leases	Provision for building restoration	Elimination start-up and expansion costs and goodwill	Valuation of Simest put and call options
EQUITY AND LIABILITIES					
GROUP EQUITY					
Share Capital	50,000				
Reserves	131,633	560	7	(1,633)	
Retained Earnings (Losses) carried forward	82,748				
Group' Income (Loss)	37,380	(110)	6	815	
TOTAL GROUP EQUITY	**301,761**	**450**	**13**	**(818)**	**-**
TOTAL MINORITY INTERESTS	**8,852**				**(7,547)**
TOTAL EQUITY	**310,613**	**450**	**13**	**(818)**	**(7,547)**
NON CURRENT LIABILITIES					
Non current borrowings	86,506	24,814			7,547
Non current derivatives	980				
Non current provisions	33,965		606		
Non current employee benefit obligation	18,751				
Deferred Tax liabilities	9,919	(389)	1		
Other non current payables and liabilities	938				
TOTAL NON CURRENT LIABILITIES	**151,059**	**24,425**	**607**	**-**	**7,547**
CURRENT LIABILITIES					
Current borrowings	110,562	4,902			
Current derivatives	28				
Current provisions	-				
Current employee benefit obligation	1,295				
Trade payables	216,057				
Corporate tax payables	2,239				
Other current payables and liabilities	39,011				
TOTAL CURRENT LIABILITIES	**369,192**	**4,902**	**-**	**-**	**-**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**830,864**	**29,777**	**620**	**(818)**	**-**

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	IFRS ADJUSTMENTS					IFRS RECLASSIFICATIONS			
	Valuation of minority put and call options	Business Combination	Employee benefits	Other Minor Items	EU IFRS accounting principles before reclassifications	Deferred tax assest and liabilities, tax receivables and payables	Leasehold improvements	Other reclassifications	EU IFRS accounting principles
					50,000				50,000
	(132)	(5,643)	(2,057)	262	122,997			(642)	122,355
	(406)				82,342			642	82,984
	538	2,295	383	3	41,310				41,310
	-	**(3,348)**	**(1,674)**	**265**	**296,649**	**-**	**-**	**-**	**296,649**
					1,305				**1,305**
	-	**(3,348)**	**(1,674)**	**265**	**297,954**	**-**	**-**	**-**	**297,954**
					118,867				118,867
					980				980
				(269)	34,302				34,302
			(324)		18,427				18,427
		8,889			18,420	(5,097)			13,323
					938				938
	-	**8,889**	**(324)**	**(269)**	**191,934**	**(5,097)**	**-**	**-**	**186,837**
					115,464				115,464
					28				28
					-				-
			(122)		1,173				1,173
					216,057				216,057
					2,239				2,239
					39,011	7,961			46,972
	-		**(122)**	**-**	**373,972**	**7,961**	**-**	**-**	**381,933**
	-	**5,541**	**(2,120)**	**(4)**	**863,860**	**2,864**	**-**	**-**	**866,724**

ANNEX 3

FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

CONSOLIDATED INCOME STATEMENT AS OF DECEMBER 31, 2018

Consolidated Income Statement as of December 31, 2018 (data in K€)	Italian Accounting Principles (OIC)	IFRS ADJUSTMENTS		
		Leases	Provision for building restoration	Elimination start-up and expansion costs and goodwill
Revenues from sales and services	912,964			
Material costs	(518,786)			
Payroll costs	(171,893)			
Services, leases and rentals	(136,337)	5,179		
Revenues from internal projects costs capitalized	2,212			
Other operating income	18,331			
Other operating costs	(6,035)			
GROSS OPERATING PROFIT (EBITDA)	**100,456**	**5,179**	**-**	**-**
Depreciation and impairment	(31,862)	(4,088)	(130)	1,129
Bad Debt Provision	(2,968)			
Other risks provisions	(2,419)		160	
OPERATING PROFIT (EBIT)	**63,207**	**1,091**	**30**	**1,129**
Financial income and (costs)	(5,977)	(1,084)	(24)	
Foreign exchange gain and (losses)	(1,015)			
Investments' income and (costs)	291			
PROFIT BEFORE TAX	**56,506**	**7**	**6**	**1,129**
Taxes	(18,877)	(117)		(314)
CONSOLIDATED INCOME (LOSS)	**37,629**	**(110)**	**6**	**815**
Minority	(249)			
GROUP' INCOME (LOSS)	**37,380**	**(110)**	**6**	**815**

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	IFRS ADJUSTMENTS					
	Valuation of minority put and call options	Business Combination	Employee benefits	Cash discounts	Other minor items	EU IFRS accounting principles
				(1,254)		911,710
				91		(518,695)
			749			(171,144)
		(44)				(131,202)
						2,212
			(99)			18,232
	538					(5,497)
	538	**(44)**	**650**	**(1,163)**	**-**	**105,616**
		(360)			5	(35,306)
						(2,968)
						(2,259)
	538	**(404)**	**650**	**(1,163)**	**5**	**65,083**
			(67)	1,163		(5,989)
						(1,015)
			9			300
	538	**(404)**	**592**	**-**	**5**	**58,379**
		2,699	(209)		(2)	(16,820)
	538	**2,295**	**383**	**-**	**3**	**41,559**
						(249)
	538	**2,295**	**383**	**-**	**3**	**41,310**

ANNEX 3

FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

CONSOLIDATED INCOME STATEMENT AS OF DECEMBER 31, 2018

Consolidated Statement of Comprehensive Income as of December 31, 2018 (data in K€)	Italian Accounting Principles (OIC)	IFRS ADJUSTMENTS		
		Leases	Provision for building restoration	Elimination start-up and expansion costs and goodwill
CONSOLIDATED INCOME (LOSS)	37,629	(110)	6	815
Actuarial gain (losses) on employee benefit obligations				
Tax effect				
Items that will not be reclassified to income statement	-	-	-	-
Foreign exchange currency conversion reserve variation				
Reserve for hedging derivatives variation				
Tax effect				
Items that may be reclassified to income statement	-	-	-	-
CONSOLIDATED COMPREHENSIVE INCOME	**37,629**	**(110)**	**6**	**815**
Minority	(249)	-	-	-
GROUP' INCOME (LOSS)	**37,380**	**(110)**	**6**	**815**

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	IFRS ADJUSTMENTS						
	Valuation of minority put and call options	Business Combination	Employee benefits	Cash discounts	Other minor items	Changes in Currency conversion and Hedging reserves	EU IFRS accounting principles
	538	2,295	383	-	3	-	41,559
			(177)				(177)
			60				60
	-	**-**	**(117)**	**-**	**-**	**-**	**(117)**
						(3,906)	(3,906)
						(680)	(680)
						163	163
	-	**-**	**-**	**-**	**-**	**(4.423)**	**(4,423)**
	538	**2,295**	**266**	**-**	**3**	**(4.423)**	**37,019**
	-	-	-	-	-	-	(249)
	538	**2,295**	**266**	**-**	**3**	**(4.423)**	**36,770**

ANNEX 4

FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

RECONCILIATION OF SHAREHOLDERS' EQUITY

Reconciliation of Shareholders' Equity (data in K€)	Group Shareholders' Equity				
	January 1, 2018	Dividends distribution	Changes in Reserves	Income (Loss) for the year	December 31, 2018
OIC Shareholders' Equity	**270,063**	**(1,256)**	**(4,426)**	**37,380**	**301,761**
Leases	558		2	(110)	450
Provision for Building Restoration	7			6	13
Elimination start-up and expansion costs and goodwill	(1,633)			815	(818)
Valuation of Simest put and call options	-				-
Valuation of minority put and call options	(132)		(406)	538	-
Business Combination	(5,643)			2,295	(3,348)
Employee benefits	(2,237)		180	383	(1,674)
Other minor items	262			3	265
EU IFRS Shareholders' Equity	**261,245**	**(1,256)**	**(4,650)**	**41,310**	**296,649**

	Minority Shareholders' Equity							
	January 1, 2018	Dividends distribution	Change in Reserves	Simest Put&Call / Minority Acquisition	Income (Loss) for the year	December 31, 2018	Consolidated Shareholders' Equity	Notes
	7,494	**(300)**	**(94)**	**1,503**	**249**	**8,852**	**310,613**	
	-					-	450	d.1
	-					-	13	d.2
	-					-	(818)	d.3
	(3,947)			(3,600)		(7,547)	(7,547)	d.4
	(1,218)	89		1,129		-	-	d.5
	-					-	(3,348)	d.6
	-					-	(1,674)	d.7
	-					-	265	d.8
	2,329	**(211)**	**(94)**	**(968)**	**249**	**1,305**	**297,954**	

ANNEX B

CONSOLIDATED CASH FLOW (NCP) (K€)

	2019	2018
A. OPENING NET CASH POSITION	**(195.506)**	**(154.059)**
B. OPERATING ACTIVITIES		
Group' Income (Loss)	36.742	41.310
Minority	403	249
Depreciation and impairment	31.421	29.525
Depreciation and impairment IFRS16	6.133	5.781
Bad Debt Provision	469	2.968
Other risks provisions	6.838	2.259
Current and deferred taxes	17.538	16.820
Cash flow before operative capital employed variation	**99.544**	**98.912**
Net Working Capital variation	(17.339)	(29.133)
Derivatives FMV variation	445	9
Risks Provision variation	(4.696)	(2.390)
Employee benefit obligations variation	(697)	(837)
Current and deferred taxes variation	(1.001)	(278)
Tax paid	(15.882)	(16.765)
Other assets and liabilities variation	(5.635)	(15.382)
B. Cash flow originating from (used for) operating activities	**54.739**	**34.136**
C. INVESTING ACTIVITIES		
CAPEX	(60.738)	(67.287)
CAPEX IFRS16	(1.680)	(2.400)
Share' investments	(9)	25
C. Cash flow originating from (used for) investing activities	**(62.427)**	**(69.662)**
D. FINANCING ACTIVITIES		
Dividends	(2.012)	(1.256)
Minority dividends paid	-	(211)
Minority interests variation	49	(1.062)
Net effect of exchange rate change	1.101	(3.906)
Exchange rate (gains) losses on CAPEX	(279)	662
Exchange rate (gains) losses on CAPEX IFRS16	(127)	259
Other variations (Derivatives/DBO/Others)	(19)	(407)
D. Cash flow originating from (used for) financing activities	**(1.287)**	**(5.921)**
E. CASH FLOW FOR THE YEAR (B+C+D)	**(8.975)**	**(41.447)**
F. Closing Net Cash Position (A+E)	**(204.481)**	**(195.506)**

10.

INDEPENDENT AUDITOR'S REPORT

This section has been translated into English solely for the convenience of international readers


SIGNATURE

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Bonfiglioli Riduttori S.p.A.

Consolidated financial statements as at 31 December 2019

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010

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Building a better working world

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

To the Shareholders of
Bonfiglioli Riduttori S.p.A.

Report on the Audit of the Consolidated Financial Statements

Opinion

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

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

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

Other matters

For comparative purposes, the consolidated financial statements include the corresponding information for the prior year prepared in accordance with International Financial Reporting Standards as adopted by the European Union coming from the consolidated financial statements as at 31 December 2018 prepared in accordance with the Italian regulations governing financial statements, audited by another auditor who expressed an unmodified opinion on those statements on 12 April 2019. The explanatory note "First time adoption of international financial reporting standards (IFRS)" explains the effects of transition to IFRS as adopted by the European Union and includes the reconciliation statements required by IFRS 1.

The audit activity has been partially affected by the spreading of COVID 19 and all related measures imposed by the Italian government to protect the public health, including restrictions to all travel initiatives. Consequently, due to an objective situation of force majeure, certain audit procedures performed in accordance with the applicable auditing standards have been carried out considering (i)

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a revised organization of our employees and audit teams, based on a wide use of smart working models, and (ii) different means to connect with client management personnel and gather audit evidence, that primarily involved the use of electronic support provided through remote communication networks.

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

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

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

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

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

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

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

- we have identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to

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continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- we have evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- we have obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010

The Directors of Bonfiglioli Riduttori S.p.A. are responsible for the preparation of the Report on Operations of Bonfiglioli Group as at 31 December 2019, including its consistency with the related consolidated financial statements and its compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations, with the consolidated financial statements of Bonfiglioli Group as at 31 December 2019 and on its compliance with the applicable laws and regulations, and in order to assess whether it contains material misstatements.

In our opinion, the Report on Operations is consistent with the consolidated financial statements of of Bonfiglioli Group as at 31 December 2019 and comply with the applicable laws and regulations.

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

Bologna, 29 April 2020

EY S.p.A.
Signed by: Marco Mignani, Auditor

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

Forever Forward

We have a relentless commitment to excellence, innovation and sustainability. Our team creates, distributes and services world-class power transmission and drive solutions to keep the world in motion.

HEADQUARTERS

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