# It’s in our nature to evolve

2019

FINANCIAL REPORT

PRIMA INDUSTRIE

# 2019
# ANNUAL
# FINANCIAL REPORT

PRIMA
INDUSTRIE

**PRIMA INDUSTRIE S.p.A.**
Registered Office: Via Torino – Pianezza 36 – Collegno (TO)
Share Capital: Euro 26.208.185 fully paid-up
Company Register and VAT no 03736080015

# Messagge to the *stakeholders*

Ladies and gentlemen,
as already anticipated to you all last year, the capital goods market (derivative towards the macroeconomic evolution) has entered into a phase of contraction of the demand, typical of cyclical businesses, since mid-2018.

Also UCIMU (Association of Italian Machine Tool Manufacturers) described "*The trade war between United States and China, the crisis of some leading manufacturing sectors, first of all the automotive one, and the fires of war in hot areas of the world, make the work of manufacturing companies particularly complex and the future definitely uncertain*".

UCIMU also reported a -18% drop of orders in such segment for full year 2019. Other international associations, such as VDW in Germany and CECIMO at European level, also confirmed negative trends of around -15/-20%.

In this context, the Group recorded a turnover of €427.6 million in 2019, down 8.4%, after 5 years of continuous growth.

Such contraction (softened by the good performance of the American market and by the growth in *after-sale* revenues) is in line with what disclosed by other listed companies operating within same reference market.

The value of revenues lies within the range indicated to the market by the Board of Directors at the time of the Half-Year Financial Report at June 30, 2019 and is in line with the forecasts of the financial analysts currently covering the Company.

In terms of profitability, the EBITDA *margin* was 9.0%, also in line with the indications provided, down as against 9.7% in 2018.

Significant depreciations and write-downs were made during the year, penalizing the EBIT and the Net Result, which remains anyhow positive at € 8.8 million.

As expected, in the last quarter of the year an improvement was registered in the Net Financial Position compared to the previous quarters, when the figure was affected by a too high Net Working Capital.

The Net indebtedness at December 31, 2019 is, net of payables to leasing, equal to €68.5 million, compared to the value of €65.9 million of previous year (net of payables to leasing as well).

The overall figure, including payables from leasing, is €107.3 million, up compared to €101.7 million at January 1st, 2019, mainly for the effect of the leasing contract relating to the construction of Phase 2 of Collegno headquarters, where the ALC (Advanced Laser Center) building became operational as area dedicated to the R&D activities on laser machines and Additive Manufacturing. The last phase of construction (Phase 3) is expected to be completed by the first quarter of 2021, a date by which all the laser activities of Prima Industrie S.p.A. will be concentrated in a single location with significant efficiency advantages compared to the current situation.

The order backlog at the end of 2019 is around €142 million, in reduction compared to the beginning of the year for the reasons set out above but corresponding anyhow to almost 6 months of production (since the after-sale revenues are excluded from the figure) and definitely acceptable in recessive market conditions.

Among the most significant events of the year we wish to remind:

- March 21: the official inauguration of the new Seinäjoki facility with the presence of the Italian Ambassador in Finland, Gabriele Altana, the Speaker of the Parliament of Finland Paula Risikko and of the Major of Seinäjoki Jorma Rasinmäki. The new 20,000 sqm. facility was built-to-suit by the City Financial Office and rented to Finn-Power Oy under a nine-year contract with a redemption option exercisable at any time. The overall operating costs are lower than those of Kauhava plant while the more modern layout will allow significant improvements in efficiency.

- April 9: the increase to 19% of the participation into 3D-NT start-up, active in the Additive Manufacturing sector with metal powder laser melting technology, through the purchase of shares from other shareholders.
- May 29: the event at our HQTC (Headquarters and Technology Center) dedicated to customers of elevator sector, called “Elevate your Business”, attended by about twenty companies in the segment, from 7 countries.
- October 22 and 23: the Innovation Days event at the new Advanced Laser Center in Collegno, where the new Additive Manufacturing technologies were presented to over 200 visitors.
- October 24: celebration of the 20 years from Prima Industrie IPO, with the attendance of Borsa Italiana and several Banks and financial investors.
- November: attendance to the most important international exhibitions, Blechexpo in Stuttgart, Fabtech in Chicago and, for the first time, Formnext in Frankfurt, the most important worldwide exhibition in the new Additive Manufacturing segment.
- December: partial divestment operation of the Osai business, addressed to manufacturers of machines for working with wood, glass and marble, acquired in 2007 and considered not strategic respect to the Group current *mission*. The connected business unit, involving about 40 people and the OSAI brand, was transferred to a Newco, Osaicnc, of which Prima Electro transferred the control by selling 60% to the Chinese company Ningbo Physis Technology Co. Ltd., with predefined put/call agreements for the remaining 40%.The Group has retained all rights connected with the CNC and drives applications on the Group machines and will continue to produce the electronic systems for the internal requirement and also for Osaicnc, based on a Supply Agreement. The operation will promote a relaunch of the activity towards the market and allowed Prima Electro to get a significant disposal of intangible assets (goodwill coming from 2007 acquisition and capitalized R&D costs) also generating a plus value of €2.6 million within Prima Electro and Group financial statements.

R&D activity in 2019 involved the whole family of products of the Group with a total investment of over €23 million, in line with previous year and equal to 5.4% of total revenues.

Of such figure, only € 7.1 million were capitalized, a value much lower than amortizations and *impairment*, equal to € 9.8 million in total, generating a consequent significant reduction in intangible *assets* in financial statements at the end of the year.

Among main projects, we wish to mention the Lyrae BL 200/250, a new family of high efficiency *multiemitter diodes*. These new components will allow a very significant reduction of the costs of our Fiber Laser CF family and an increase of powers to 12kW and 15 kW. Other significant projects underway include a new family of laser cutting machines (conventionally called L1F) and a new mid-size platform (LD 811) for diversified laser processes, including Additive Manufacturing.

The beginning of the year 2020 was unfortunately harmed by COVID-19 pandemic.
Started in China in January, especially in Wuhan and in the Hubei Province, the epidemic quickly spread to the whole world, particularly impacting Italy, where restrictive decisions were taken on several occasions about the movement of people and about industrial activities and services considered non-essential. Other European countries are following Italy in the advancement of the contagion curve and containment measures. Recently, the United States of America have also taken similar decisions following the strong expansion of the pandemic.

In this situation it is impossible to make reliable forecasts about the impact of this situation on the economy even though a significant drop in GDP globally seems inevitable.

Given the general context, the year just begun will heavily engage the company in reorganization and cost reduction actions as well as a strong boost to commercial activity, as far as possible, besides the attention to *cash flow.*

The Group capital and financial structure keeps solid: however, given the result of the past year and the current uncertain picture, we believe it prudent not to distribute any dividend to Shareholders, confident that they will understand and share our conservative attitude.

Several important market researches were expecting (prior to the COVID-19 diffusion) a recovery for our segment by the end of the current year. To-date, the time of recovery is not yet known and could likely be postponed. Cyclical businesses have however shown a very strong growth in the past soon after the macroeconomic cycle inversion. We trust that this may also happen this time and that our Group will be able to return to offer to all stakeholders, employees greater economic and professional satisfactions in the near future.

In the meantime, thanking for the continued support, we invite everyone to keep the climate of trust and pride of belonging to a company that has always believed in the values of sustainability, ethics and technology which will distinguish the development prospects in the coming years.

With kind regards,

*The Chairman of the Board*
*Gianfranco Carbonato*

# INDEX

CHAPTER 1

# Prima Industrie SpA Management and Control

# Chapter 1 - Prima Industrie SpA Management and Control

## Board of Directors

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

## Internal Control Committee

| | |
|---|---|
| CHAIRMAN | Donatella Busso |
| MEMBERS | Paolo Cantarella<br>Carla Patrizia Ferrari |

## Remuneration Committee

| | |
|---|---|
| CHAIRMAN | Mario Mauri |
| MEMBERS | Paola Gatto<br>Rafic Y. Mansour |

## Operation with Related Parties Committee

| | |
|---|---|
| CHAIRMAN | Donatella Busso |
| MEMBERS | Paola Gatto<br>Marina Meliga |

## Strategic Committee

| | |
|---|---|
| CHAIRMAN | Gianfranco Carbonato |
| MEMBERS | Ezio G. Basso<br>Domenico Peiretti<br>Paolo Cantarella<br>Mario Mauri<br>Michael R. Mansour<br>Marina Meliga |

## Statutory Auditors Committee

| | |
|---|---|
| CHAIRMAN | Franco Nada |
| AUDITORS | Maura Campra<br>Roberto Petrignani |
| DEPUTY AUDITORS | Roberto Coda<br>Gaetana Laselva |

## Audit Company

PricewaterhouseCoopers S.p.A.

## Expiry of Mandates and Appointments

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

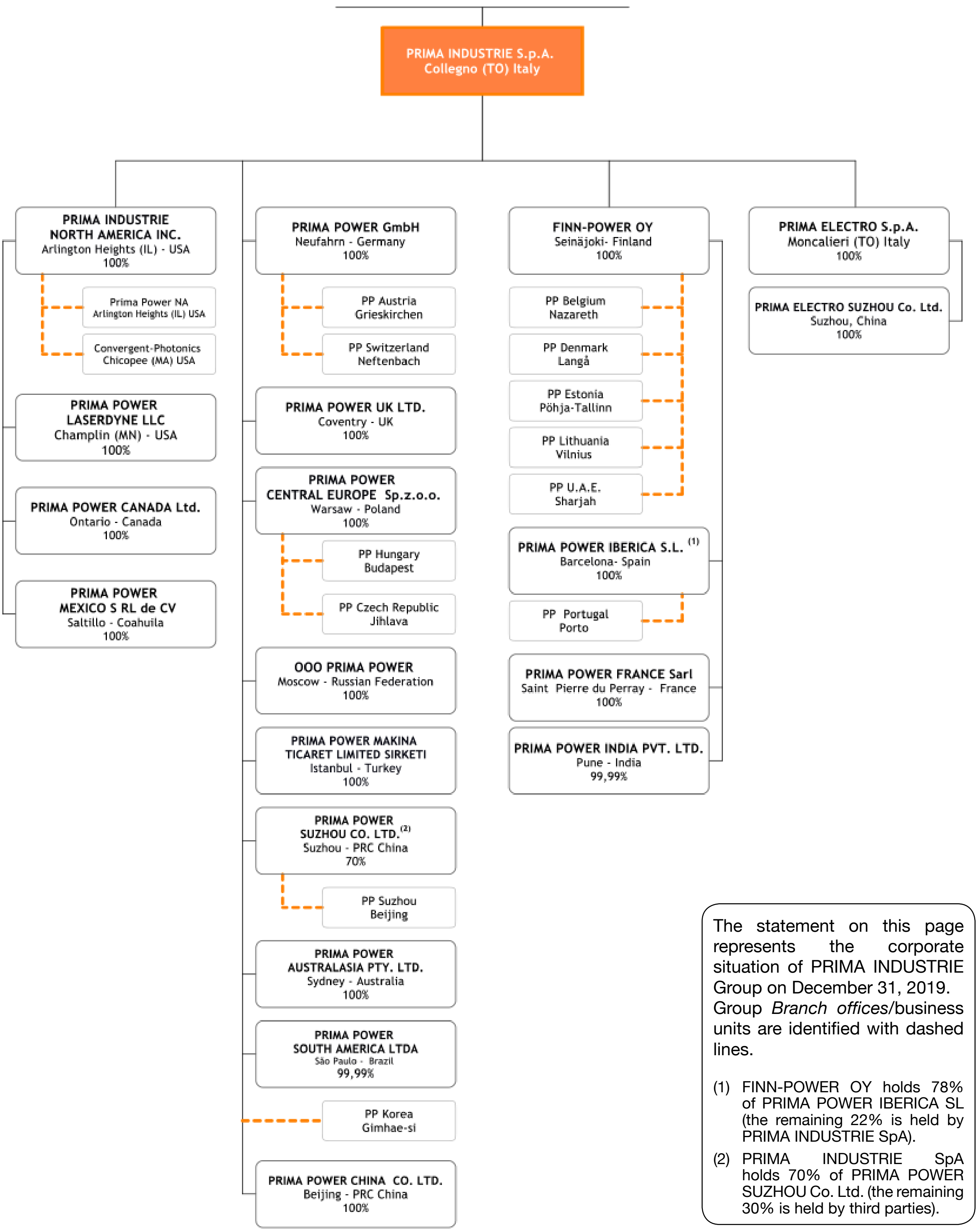
The Statutory Auditors Committee shall remain in office until the approval of 2019-2020-2021 Financial Statements.

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

CHAPTER 2

# Prima Industrie Group structure

# Chapter 2 - Prima Industrie Group structure




The statement on this page represents the corporate situation of PRIMA INDUSTRIE Group on December 31, 2019. Group *Branch offices*/business units are identified with dashed lines.

(1) FINN-POWER OY holds 78% of PRIMA POWER IBERICA SL (the remaining 22% is held by PRIMA INDUSTRIE SpA).

(2) PRIMA INDUSTRIE SpA holds 70% of PRIMA POWER SUZHOU Co. Ltd. (the remaining 30% is held by third parties).

CHAPTER 3

# Prima Industrie Group profile

# Chapter 3 - Prima Industrie Group profile

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

The PRIMA INDUSTRIE Group is present on the market over 40 years and boasts over 13,000 machines installed in more than 70 Countries and its *business* is structured in the following three divisions:

- PRIMA POWER for laser machines and sheet metal processing;
- PRIMA ELECTRO for industrial electronics and laser technologies;
- PRIMA ADDITIVE for additive manufacturing systems for metal applications.

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

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

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

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

The **PRIMA ADDITIVE** division, established in the second half of 2018 and dedicated to the design, production and sale of turnkey solutions for the main Additive Manufacturing technologies: Powder Bed Fusion – PBF and Direct Metal Deposition – DMD, and the relative support and services for its applications. The division boasts a strong team of highly specialised young experts, qualified managers and engineers. The purpose of this new division is to support the development of these new technologies and enter the market with new machine ranges. Thanks to this investment, the new activities will be focused on additive manufacturing and, more generally, the pursuit of technological innovation.
The financial and equity data of PRIMA ADDITIVE are currently negligible and do not meet the thresholds set out in IFRS 8 for disclosure purposes and therefore this division's information is, currently, aggregated to the data for PRIMA POWER Division.

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

This Company draft of Financial Statement has been approved by the Board of Directors on March 9, 2020.

CHAPTER 4

# Introduction

# Chapter 4 - Introduction

This Financial Annual Report at December 31, 2019 of PRIMA INDUSTRIE Group was prepared pursuant to article 154-ter of Leg. Decree, paragraph 5 of Consolidated Law on Finance and subsequent amendments, as well as the issuer's Regulation issued by CONSOB; it has been prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the *International Accounting Standards Board* ("IASB") recognized by the European Union and by Italian legislation and regulations

This report was approved by the Board of Directors on March 9, 2020 and is published in accordance with the provisions of article 2.2.3 of Borsa Italiana SpA Regulations applicable to issuers listed in the STAR segment.

This Financial Annual Report has been audited.

It should be noted that, to improve disclosure of its financial results, the Group has presented the income statement according to functional area, rather than by expenditure type. The cost presentation is based on cost destination and is considered more representative than expenditure type. The form chosen conforms to internal *reporting* and business management procedures and is in line with international practice within the sector in which the Group operates.

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

CHAPTER 5

# Group Management Report

# Chapter 5 - Group Management Report

## Group results summary

| VALUES IN EURO THOUSAND | DEC 31, 19 | DEC 31, 18 | VARIATIONS | % |
|---|---|---|---|---|
| ORDER INTAKE | 410,417 | 471,245 | (60,828) | -12.9% |
| BACKLOG | 142,332 | 169,367 | (27,035) | -16.0% |
| REVENUES | 427,582 | 466,932 | (39,350) | -8.4% |
| EBITDA | 38,432 | 45,059 | (6,627) | -14.7% |
| *EBITDA %* | *9.0%* | *9.7%* | *-0.7%* | - |
| EBIT | 14,391 | 28,041 | (13,650) | -48.7% |
| *EBIT %* | *3.4%* | *6.0%* | *-2.6%* | - |
| NET RESULT | 8,818 | 24,058 | (15,240) | -63.3% |
| FCF | (4,197) | (8,802) | 4,605 | 52.3% |
| NET FINANCIAL DEBT | (107,343) | (74,639) | (32,704) | -43.8% |
| HEADCOUNT | 1,781 | 1,871 | (90) | -4.8% |

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

| VALUES IN EURO THOUSAND | DEC 31, 19 | DEC 31, 18 | VARIATIONS | % |
|---|---|---|---|---|
| REVENUES AT COSTANT EXCHANGE RATES | 421,676 | 466,932 | (45,256) | -9.7% |
| EBITDA *Adj* | 41,014 | 47,904 | (6,890) | -14.4% |
| EBITDA *Adj* % | 9.6% | 10.3% | -0.7% | - |
| EBIT *Adj* | 18,610 | 32,212 | (13,602) | -42.2% |
| EBIT *Adj* % | 4.4% | 6.9% | -2.5% | - |

*( % calculated over the revenues)*
*(Performance indicators adjusted, as shown in Annex 2 of this document, correspond to the same indicators net of non-recurring items)*

## Introduction to the new IFRS 16 standard “Leases”

The figures for the year 2019 reflect the Group’s adoption of the new IFRS 16 “Leases”. The modified retrospective method was applied without *restatement* of comparative data and with the following impacts at December 31, 2019 arising from the introduction of the new accounting standard applicable from January 1, 2019:

- increased net financial indebtedness by Euro 31,235 thousand
- cancellation of lease costs of Euro 5,631 thousand
- increased amortisation of Euro 5,381 thousand
- increased financial expenses of Euro 920 thousand.

# 2019 Significant events

## Purchase of treasury stock

On April 16, 2019 the Shareholders' Meeting authorized the purchase of Prima Industrie SpA ordinary shares, in one or more times, for a period of eighteen months, for a maximum of 300,000 shares and in any case up to a maximum 300,000 shares in the portfolio, for a maximum purchase value of Euro 7.5 million, authorizing the disposal of treasury shares, in one or more times, without time limits, in the manner deemed most appropriate in the interest of the Company and in compliance with applicable law.
The scope of the authorization includes the possibility to assign the shares to service the stock incentive plans in favor of directors, employees and collaborators of the company or group companies, or the use for free assignments to the shareholders, or to service extraordinary transactions or as an instrument to support market liquidity.
Purchases will be made on regulated stock markets according to the operating procedures established in the regulations for the organization and management of the same markets according to the operating procedures established in the regulation of Borsa Italiana SpA, in compliance with art. 144 bis, paragraph 1, lett. b) of the Consob Regulation no. 11971/99 and subsequent amendments.

## Appointment of new statutory auditors committee

On April 16, 2019, the Shareholders' Meeting of Prima Industrie SpA appointed the new Statutory Auditors Committee, which it made up of Franco Nada, Chairman (elected by the minority list), Roberto Petrignani and Maura Campra; the deputy auditors elected are Gaetana Laselva e Roberto Coda; the Statutory Auditors Committee will remain in office for the financial years 2019, 2020 and 2021.

## Inauguration of new Advanced Laser Center

The new *Advanced Laser Center* (ALC) was inaugurated on October 24, 2019, during the international *Innovation Days* event dedicated to innovative technologies for additive manufacturing and sheet metal processing. The new centre covers 4000 square metres and features a new research laboratory and advanced laser production innovation systems. The building that houses the ALC was built using the latest sustainability criteria and employs geothermal systems and solar panels to minimise the environmental impact. The new site is part of a wider programme to renovate the Group's facilities which began in 2016 with the creation of the *new Headquarters and Tech Center* in Collegno, which will see completion next year with the construction of the new production plant for laser machines. The overall investment will enable Prima Industrie to increase efficiency, by bringing together the Collegno sites, improving the *customer experience* in the dedicated visitor areas and benefiting from more modern and better organised work environments.

## Prima Industrie North America

During 2019, as part of its process of streamlining the organisational structure, PRIMA INDUSTRIE SpA acquired the stake in CONVERGENT PHOTONICS from PRIMA ELECTRO SpA and the investment PRIMA POWER NORTH AMERICA Inc. from FINN-POWER OY.
The last calendar day of 2019 saw the merger of CONVERGENT PHOTONICS into PRIMA POWER NORTH AMERICA Inc., which has now been renamed to PRIMA INDUSTRIE NORTH AMERICA Inc. These transactions had no impact on consolidation, as they took place between companies which, directly and indirectly, are owned 100% by the parent PRIMA INDUSTRIE SpA.
The organisational and financial reasons for this merger can be found in the optimisation of the structure of the Prima Industrie Group, which will involve shortening the chain of monitoring investments and streamlining cash, administration and organisation and also centralising decision-making on strategic investments to the parent company. The merger is also the opportunity for an overall corporate re-organisation, aimed at improving integration of American staff.

## Sale of OSAI by Prima Electro Division

At the end of 2019, the business unit responsible for the OSAI *brand* was demerged from the PRIMA ELECTRO Division. The brand is aimed particularly at manufacturers of wood, glass and marble processing machinery, and is no longer considered strategic to the current *mission* of the PRIMA INDUSTRIE Group. The business unit had 33 employees in Italy involved in R&D, application development, after-sales technical assistance, administration and sales. Transferred assets also included customer lists and open orders, the OSAI brands, know-how for the OPENcontrol and OPENdrives products families, the service warehouse, normal working capital, 100% shares in OSAI UK, Prima Electro China, and in OSAI North America, which was set up in the US at the end of 2019, into which OSAI activities developed in Convergent-Photonics converged. As a result of this transaction, the PRIMA ELECTRO Division transferred within the consolidation area a business which generated Euro 9.6 million in revenues in 2019, and reduced its workforce by 42. The activities for the production and repair of the OSAI products were not transferred and, as part of a long-term agreement, will continue to be carried out by the PRIMA ELECTRO Division, generating expected annual revenues of approximately Euro 4 million. PRIMA ELECTRO SpA also retained all rights for the production and sale of CNCs and drives used on PRIMA INDUSTRIE Group machines. OSAI was spun off into a newly established company OSAIcnc S.r.l. on December 4, 2019 and later on December 16, 2019, 60% of the shares in the new company was sold to the Chinese company Ningbo Physis Technology Co. Ltd. The disposal of the Osai *business* led to capital gains of 2,629 entered into the consolidated statements resulting from the effect of losing control of the net business sold, including goodwill, which were deconsolidated in exchange for the fee and the *fair value* of the investment, into OSAIcnc Srl, in line with the requirements of paragraph 25 of IFRS 10 – Consolidated Financial Statements.

The remaining 40% of the investment held in OSAIcnc has been classified as a non-current asset held for sale as, in light of the sales agreement with the majority shareholder of OSAIcnc, PRIMA ELECTRO SpA has a *put option* on its entire (and no less than the entire) shareholding. At the same time, the majority shareholder was given a call option on the shareholding at the same conditions. These put and call options may be exercised in 2022 and their price will be determined based on the financial results of OSAIcnc in 2021. The agreements state that the transfer price will be based on a minimum *enterprise value* of Euro 4 million.

# Macroeconomic context

The 2019 financial year was characterised by a widespread negative mood, with a decline in most indicators related to business confidence and expectations.
The general decline seems to have been centred around global trade issues and the resulting increase in uncertainty. OECD estimates for global GDP (made prior to the COVID-19 crisis) dropped from +3.2% to +2.9% in 2019 and from 3.4% to 3% for 2020, which is the slowest rate since the financial crisis, with a continuing risk of decline.
Estimates for the Euro zone were set at +1.1% in 2019, from +1.2%, and +1% for 2020 from 1.4%. The expected USA GDP for 2019 is +2.4% down from the previous +2.8%, and +2% for 2020 which is down from +2.3%. Growth in China was down in 2019 from +6.2% to +6.1% and in 2020 from 6% to 5.7%.
For Italy, the OECD confirmed zero growth for the country in 2019, and lowered its estimate for 2020 by 0.2 percentage points from +0.4% to +0.2%.

In Germany, the international rating firms drew attention to the high risks for the German credit sector. In addition to the alert on the German banking system, another concerns the whole of Europe and relates to the automotive industry, a sector that is as strategic for Germany as it is for Italy, and has seen a fall in growth estimates for sales and profits. The main reason for the decline in estimates can be found in the downtrend on all major automotive markets, including China, which, in recent years, had led global growth. Another factor is the effects of President Trump's contentious tariff policies which slowed all international trade.

After a slowdown in growth, the world economy seemed to be headed for recovery in 2020, thanks also to the easing of trade tensions between the USA and China.
This appeared to strengthen global trade and business investments, with improvements in the US, Japan and Europe, whose economy is heavily exports-based.

This forecast, however, like all forecasts relating to the general macroeconomic environment, will be negatively affected by the spread of the COVID-19 emergency from China to numerous countries worldwide, particularly Italy.

According to Confindustria's Study Centre, a recession appears to be an inevitability for Italy in 2020. This emergency comes at a time when the Italian economy was already on the brink of recession. On the basis of the data available to date, GDP is likely to fall in the first quarter and a further sharp downturn seems highly likely in the second quarter. The impact of COVID-19 on GDP is hard to quantify and will depend on the duration and extent of the health crisis nationally and internationally.

Worldwide, even in the best hypothesis of limited outbreaks in countries outside of China, a sharp slowdown in world growth is expected for the first half of 2020, as procurement and raw material chains are hit and there will be a fall in tourism and confidence will waver. Global economic growth fell by 2.4% for the entire year, compared to an already weak 2.9% in 2019. Thus, forecasts are for a moderate 3.3% in 2021.
The growth outlook for China has been revised down drastically to below 5% this year after 6.1% in 2019.
However a wider outbreak throughout the Asia-Pacific region and the advanced economies – as has already occurred in China – could limit global growth to 1.5% this year, halving November's OECD projections for 2020. Containment measures and a drop in confidence would affect production and spending and would take some countries into recession, including Japan and the Euro zone.

Regarding the machine tool sector specifically, CECIMO, the European umbrella organisation for national machine tool manufacture associations, states that 2019 closed amid industrial and commercial uncertainty. Manufacturing and consumer spending is stagnant, whereas trade on foreign markets is under threat from political challenges, from Brexit to the US-China trade war. Furthermore, business sentiment appears to have fallen to the lowest level in several years, also as a result of strategic challenges and uncertainty within the car industry.
CECIMO internal data suggest that consumption of machine tools will decrease by -2.9% in 2019 (from Euro 16.5 billion in 2018 to 16 billion this year). This would be the first drop in consumption after seven years of constant growth.

To date, no estimates for 2020 have been circulated taking account of the downturn related to the health emergency. The previous forecasts for 2020 made by Oxford Economics showed a further decline in the consumption of machine tools within European companies, however, with a full recovery immediately afterwards, with relatively high growth rates expected for 2021 (3.9%), 2022 (3.1%) and 2023 (2.6%).

# Economic performance

The Company closed the year 2019 with a turnover of Euro 427,582 thousand, decreasing by 8.4% compared to December 31, 2018.

Here below are the main economic indicators of the Group by Division, compared with the corresponding period of the previous year.
It should be noted that the data for 2019 consider the application of the new standard IFRS16 “Leases”, adopted by the Group by applying the simplified retrospective method without *restatement* of the comparative data.

*Values in Euro thousand*

| DECEMBER 31, 2019 | REVENUES | GROSS MARGIN | GROSS MARGIN % | EBITDA | EBITDA % | EBIT | EBIT % | NET RESULT |
|---|---|---|---|---|---|---|---|---|
| PRIMA POWER | 398,629 | 86,724 | 21.8% | 33,193 | 8.3% | 15,532 | 3.9% | 7,741 |
| PRIMA ELECTRO | 51,163 | 10,713 | 20.9% | 4,392 | 8.6% | (1,989) | -3.9% | 574 |
| ELIMINATIONS | (22,210) | 384 | 1.7% | 847 | 3.8% | 848 | 3.8% | 503 |
| **GROUP** | **427,582** | **97,821** | **22.9%** | **38,432** | **9.0%** | **14,391** | **3.4%** | **8,818** |

*( % calculated over the revenues)*

*Values in Euro thousand*

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

*( % calculated over the revenues)*

*Values in Euro thousand*

| VARIATIONS | REVENUES | GROSS MARGIN | GROSS MARGIN % | EBITDA | EBITDA % | EBIT | EBIT % | NET RESULT |
|---|---|---|---|---|---|---|---|---|
| PRIMA POWER | (35,988) | (12,897) | -35.8% | (7,118) | -19.8% | (11,725) | -32.6% | (8,846) |
| PRIMA ELECTRO | (7,695) | (2,341) | -30.4% | (888) | -11.5% | (3,306) | -43.0% | (7,279) |
| ELIMINATIONS | 4,333 | 922 | 21.3% | 1,379 | 31.8% | 1,381 | 31.9% | 885 |
| **GROUP** | **(39,350)** | **(14,316)** | **-36.4%** | **(6,627)** | **-16.8%** | **(13,650)** | **-34.7%** | **(15,240)** |

*( % calculated over the revenues)*

The consolidated revenues, broken down by geographical area, as of December 31, 2019 compared with the corresponding period of the previous year are shown below:

| REVENUES | DECEMBER 31, 2019 | | DECEMBER 31, 2018 | |
|---|---|---|---|---|
| | *Euro thousand* | *%* | *Euro thousand* | *%* |
| EMEA | 262,798 | 61.5 | 293,145 | 62.8 |
| AMERICAS | 107,740 | 25.2 | 105,947 | 22.7 |
| APAC | 57,044 | 13.3 | 67,840 | 14.5 |
| **TOTAL** | **427,582** | **100.0** | **466,932** | **100.0** |

The above shows that the Group's turnover at December 31, 2019 (compared to the same period of the previous year) recorded a decline in EMEA (-10.4%) and in APAC (-15.9%) and grew slightly in AMERICAS (+1.7%).

The Group achieved consolidated revenues in EMEA for Euro 262,798 thousand; in particular, the main destination countries were Italy (18.0% of consolidated revenues), Russia and Eastern Europe (9.5% of consolidated revenues), Northen Europe (7.3% of consolidated revenues), Germany, Austria and Switzerland (7.2% of consolidated revenues), Spain and Portugal (6.9% of consolidated revenues).

The turnover portion generated by AMERICAS increased by 1.7% compared to 2018, growing from Euro 105,947 thousand to Euro 107,740 thousand.

As for APAC countries, compared to 2018 revenues decreased from Euro 67,840 thousand to Euro 57,044 thousand (-15.9%); it should be noted however, the good performance of revenues in China (9.9% of consolidated revenues).

Below is a breakdown of revenues by segment gross of inter-sector transactions:

| REVENUES | DECEMBER 31, 2019 | | DECEMBER 31, 2018 | |
|---|---|---|---|---|
| | *Euro thousand* | *%* | *Euro thousand* | *%* |
| PRIMA POWER | 398,629 | 93.2 | 434,617 | 93.1 |
| PRIMA ELECTRO | 51,163 | 12.0 | 58,858 | 12.6 |
| Inter-sector revenues | (22,210) | (5.2) | (26,543) | (5.7) |
| **TOTAL** | **427,582** | **100.0** | **466,932** | **100.0** |

As can be seen from the table above, the overall decrease in revenues is attributable both to the PRIMA POWER division for Euro 35,988 thousand, and to the PRIMA ELECTRO division for Euro 7,695 thousand.

The **cost of goods sold** at December 31, 2019 stood at Euro 329,761 thousand down Euro 25,034 thousand from December 31, 2018 (Euro 354,795 thousand).

Group **Gross Margin** at December 31, 2019 was Euro 97,821 thousand, a decrease of Euro 14,316 thousand compared to Euro 112,137 thousand in the same period of 2018; the margin accounted for 22.9% of sales and is decreasing compared to 2018 (equal to 24.0%).

The **research and development** activity carried out by the Group during the year 2019 has been comprehensively equal to Euro 23,064 thousand (of which Euro 16,095 thousand in the PRIMA POWER sector and Euro 6,969 thousand in the PRIMA ELECTRO sector) equal to 5.4% of turnover.
The capitalized share was equal to Euro 7,116 thousand (of which Euro 2,811 thousand in the PRIMA POWER sector and Euro 4,305 thousand in the PRIMA ELECTRO sector), an increase compared to Euro 6,348 thousand at December 31, 2018.
Costs sustained in research and development activities for new products proved the Group main purposes in investing for the future and improving products always in the competitiveness on the international markets. For all the capitalized development activities, the technical feasibility has been verified as well as the generation of probable future economic benefits.

During the year, the main activities of the PRIMA POWER division concerned:

- extending the 2D laser product range to include a large-scale fibre laser machine for processing medium and large metal sheets;
- developing new functions for 2D laser cutting technology (increased power, sensors, technological parameters and optical components);
- expanding the flexible warehousing system with integrated loading and unloading capabilities for the 2D laser;

- developing the loading/unloading system for a new 3D Laser machine model;
- extending the range of bending machines to include servo-electric technologies which are easy to use, ergonomic, flexible and feature innovative safety devices;
- developing a new bending solution, involving the integration of a servo-electric press brake with an automatic tool compartment;
- developing integrated solutions for the press brake;
- creating a concept for the new punching machine with even greater performance, for the high end of the market;
- developing a new additive manufacturing machine with PBF technology (Powder Bed Fusion) for the production of medium-sized components;
- developing a new additive manufacturing machine with DED-LMD technology (Direct Energy Deposition - Laser Metal Deposition) suitable for 3D productions, reprocessing and repairs.

During the year, the main activities of the PRIMA ELECTRO division concerned:
- launch of the Lyrae BL 200/250 project, the new family of high-efficiency *multiemitter diodes*;
- development of new fiber laser sources to expand the range of power.

**Net research and development costs** were Euro 25,003 thousand up Euro 829 thousand from December 31, 2018 (Euro 24,174 thousand). This item includes non capitalizable research and development costs, *Tech Center* costs and *overheads* and is disclosed net of grants (national and European) entered on an accrual basis.

**Sales and marketing expenses**, which include business structure costs such as personnel, trade fairs and events, the demo center, promotional and advertising activities and related overheads, were Euro 31,255 thousand, decreasing by Euro 250 thousand from Euro 31,505 thousand at December 31, 2018.

**General and administrative expenses**, which includes costs related to Group or Divisional management structures, Finance costs, HR, IT and overheads, were Euro 27,172 thousand, decreasing by Euro 1,245 thousand from Euro 28,417 thousand at December 31, 2018.



Group **EBITDA** at December 31, 2019 is equal to Euro 38,432 thousand, equal to 9.0% of revenues (Euro 32,801 thousand excluding the effects deriving from IFRS16 application) against Euro 45,059 thousand, equal to 9.7% of revenues of December 31, 2018.
It should be underlined that EBITDA has been affected by non-recurring costs for Euro 2,582 thousand (at December 31, 2018 these costs amounted to Euro 2,845 thousand), therefore Group's ***adjusted***(*) **EBITDA** is equal to Euro 41,014 thousand (9.6% of revenues), decreasing by Euro 6,890 thousand compared to the previous year (Euro 47,904 thousand equal to 10.3%). In particular, in the last quarter of the year ***adjusted***(*) **EBITDA** amounted to Euro 10,924 thousand (equal to 9.1% on the quarterly turnover).

Group **EBIT** at December 31, 2019 was Euro 14,391 thousand, equal to 3.4% of revenues (Euro 14,141 thousand, excluding the effects deriving from IFRS16 application) compared to Euro 28,041 thousand equal to 6.0% of revenues of the same period of the previous year.
This result is affected by:
- amortization of intangible assets of Euro 11,932 thousand (of which Euro 9,140 thousand relating to development costs and Euro 1,847 thousand relating to the trademark accounted for in the FINN-POWER Group business combination);
- depreciation of tangible assets of Euro 10,472 thousand (of which Euro 5,381 thousand relating to rights of use recognized in application of the new IFRS 16);
- the impairment of CGU PRIMA ELECTRO-BU LASER goodwill for Euro 1,014 thousand;
- the impairment of PRIMA POWER Division development project, previously capitalized, for Euro 623 thousand.

EBIT at December 31, 2019 is affected by non-recurring costs mainly relating to the mentioned impairment; consequently ***Adjusted***(*) **EBIT** amounts to Euro 18,610 thousand (4.4% of revenues), decreasing compared to

December 31, 2018 (equal to Euro 32,212 thousand). In the last quarter of the year, ***Adjusted*** (*) **EBIT** amounted to Euro 5,085 thousand (equal to 4.2% on the quarterly turnover).

The Group **EBT** at December 31, 2019 is positive for Euro 10,456 thousand (Euro 11,126 thousand excluding the effects deriving from the application of IFRS 16) compared to Euro 26,621 thousand of December 31, 2018.
It should be noted that EBT at December 31, 2018 included a capital gain deriving from the full disposal of the investment in EPS SA for Euro 7,179 thousand and non-recurring charges for Euro 1,885 thousand incurred for the refinancing of the *Bond* and the *Club Deal* loan.
The EBT of the Group at December 31, 2019 includes net costs deriving from financial management (including foreign exchange profits and losses) for Euro 6,516 thousand (as at December 31, 2018 these were equal to Euro 8,653 thousand); it should be noted that financial charges include Euro 920 thousand deriving from the application of the new accounting standard IFRS16.

| FINANCIAL RESULTS (€/000) | DEC 31, 2019 | DEC 31, 2018 |
|---|---|---|
| *Bond* expenses | (918) | (1,323) |
| *Bond* advance closing expenses | - | (1,515) |
| Loans 2018 expenses | (1,460) | (1,290) |
| *Club Deal* loan expenses | - | (94) |
| *Club Deal* advance closing expenses | - | (370) |
| Derivatives expenses (CRS) | (432) | (1,165) |
| Derivatives expenses (IRS) | (382) | (374) |
| Lease expenses | (1,238) | (292) |
| Write-down of financial receivables | (118) | (118) |
| Other financial expenses | (1,560) | (1,870) |
| **Net financial expenses** | **(6,108)** | **(8,411)** |
| Net exchange differences | (408) | (242) |
| **TOTAL** | **(6,516)** | **(8,653)** |

Exchange rate management was negative at Euro 408 thousand (Euro 242 thousand at December 31, 2018); however, it is important to point out that the management of exchange rate derivatives was negative at Euro 432 thousand.

Net result of other investments is positive by Euro 2,605 thousand and refers for Euro 2,629 thousand to the capital gain on the sale of 60% of the OSAI business (for more information about this operation, see the section “2019 Significant events”) and a write-down of the investment in Caretek Srl (held by PRIMA ELECTRO SpA) of Euro 24 thousand.

The Group **NET PROFIT** at December 31, 2019 is positive for Euro 8,818 thousand (Euro 9,316 thousand excluding the effects deriving from the application of IFRS16) against Euro 24,058 thousand at December 31, 2018 ; the Net Result ascribable to the Parent Company is Euro 9,046 thousand

Income taxes in 2019 financial year indicate a negative net balance of Euro 1,638 thousand. The balance of current and deferred taxes is Euro 1,269 thousand, IRAP is equal to Euro 56 thousand and other taxes including those relating to prior years are Euro 313 thousand.

(*) *Note that, as illustrated in Annex 2 to this report, the* ***adjusted*** *performance indicators are the same indicators net of non-recurring items only. For more information about the non-recurring items, see the section in the Explanatory Notes to the Financial Report.*

# Assets, liabilities and financial position

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

| VALUES EXPRESSED IN EURO THOUSAND | DEC 31, 2019 | DEC 31, 2018 | VARIATIONS |
|---|---|---|---|
| Tangible and intagible fixed assets | 105,991 | 78,716 | 27,275 |
| Goodwill | 97,894 | 103,032 | (5,138) |
| Equity investments and other non-current assets | 6,853 | 6,613 | 240 |
| Deferred tax assets | 14,671 | 11,973 | 2,698 |
| **NON-CURRENT ASSETS** | **225,409** | **200,334** | **25,075** |
| Inventories | 127,818 | 135,863 | (8,045) |
| Trade receivables | 85,406 | 110,757 | (25,351) |
| Trade payables | (81,290) | (115,141) | 33,851 |
| Advances | (34,715) | (40,545) | 5,830 |
| **OPERATING WORKING CAPITAL** | **97,219** | **90,934** | **6,285** |
| Other current assets and liabilities | (12,764) | (14,733) | 1,969 |
| Current tax assets and liabilities | 1,612 | 2,549 | (937) |
| Provisions for risks and employee benefits | (27,883) | (30,574) | 2,691 |
| Deferred tax liabilities | (5,366) | (5,333) | (33) |
| Non-current assets held for sale | 4,229 | 1,234 | 2,995 |
| **NET INVESTED CAPITAL** | **282,456** | **244,411** | **38,045** |
| **NET INDEBTEDNESS** | **107,343** | **74,639** | **32,704** |
| **SHAREHOLDER'S EQUITY** | **175,113** | **169,772** | **5,341** |
| *Stockholders' equity of the Group* | 171,981 | 166,438 | 5,543 |
| *Minority interest* | 3,132 | 3,334 | (202) |
| **LOAN SOURCES** | **282,456** | **244,411** | **38,045** |

Tangible and intangible fixed assets (other than Goodwill) of PRIMA INDUSTRIE Group increased by Euro 27,275 thousand from the previous year. Movements in the year were for:

- increases of Euro 27,066 thousand resulting from first-time application of the new IFRS 16;
- net increases of Euro 22,434 thousand (including Euro 5,972 thousand for development costs);
- sale of OSAI business for Euro 520 thousand;
- amortization and depreciation of Euro 23,027 thousand (of which Euro 5,381 thousand resulting from the application of the new IFRS 16);
- increases of Euro 1,034 thousand due to reclassification of other balance sheet items;
- positive exchange rate differences were Euro 288 thousand.

The change in goodwill is attributable to the PRIMA ELECTRO Division as a result of the *goodwill impairment* of the CGU PRIMA ELECTRO – BU Laser already recognised in the half-year report to June 30, 2019 and also due to the sale of OSAI.

Operating Working capital increased from the previous year by Euro 6,285 thousand.

At December 31, 2019 the Group's **Net Financial Indebtedness** (*) is equal to Euro 107,343 thousand, compared to Euro 74,639 thousand at December 31, 2018.

Net financial indebtedness is negatively impacted by application of the new IFRS 16, which led to an increase of Euro 27,066 thousand at January 1, 2019.

Below is a breakdown of net financial indebtedness:

| VALUES EXPRESSED IN EURO THOUSAND | DEC 31, 2019 | DEC 31, 2018 |
|---|---|---|
| NON CURRENT FINANCIAL ASSETS | (4,243) | (4,876) |
| CASH & CASH EQUIVALENTS | (55,136) | (71,078) |
| CURRENT FINANCIAL ASSETS | (532) | (367) |
| CURRENT FINANCIAL LIABILITIES | 43,326 | 35,846 |
| CURRENT LEASING LIABILITIES | 5,588 | 1,298 |
| NON CURRENT FINANCIAL LIABILITIES | 85,056 | 106,405 |
| NON CURRENT LEASING LIABILITIES | 33,284 | 7,411 |
| **NET FINANCIAL INDEBTEDNESS** | **107,343** | **74,639** |

To provide better information with regard to the net financial indebtedness at December 31, 2019, the following should be considered (including ancillary costs and accrued interest):

- the *Bond* amounts comprehensively to Euro 25,497 thousand;
- loans 2018 amount to Euro 77,659 thousand;
- payables due to leasing companies amount to Euro 38,872 thousand.

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

Net equity attributable to shareholders of the parent company increased by Euro 5,543 thousand. This increase is due to the positive effects of the results of the period (Euro 9,046 thousand), translation reserve (Euro 1,297 thousand) and the variation in the *fair value* adjustment reserve for derivatives (Euro 26 thousand), which are offset by the negative effects of the payment of a dividend (Euro 4,569 thousand) and actuarial profits on employee severance indemnities plans (Euro 257 thousand).
The equity of minority shareholders decreased by Euro 202 thousand due to the overall result for the period attributable to third parties.

(*) *Reconciliation between Group **Net Financial Indebtedness** (used as a performance indicator) and net financial position required by CONSOB Communication no. DEM/6064293 of July 28, 2006 is provided in the Explanatory Notes.*

Below is the *Cash Flow* of the PRIMA INDUSTRIE Group at December 31, 2019, compared with the corresponding period of the previous year.

| VALUES IN EURO THOUSAND | DEC 31, 2019 | DEC 31, 2018 | VARIATIONS |
|---|---|---|---|
| **Net Financial Indebtedness Opening** | **(74,639)** | **(69,632)** | **(5,007)** |
| **Financial liabilities deriving from IFRS 16 first application** | **(27,066)** | **-** | **(27,066)** |
| Cash from operating activities before TWC | 24,223 | 29,049 | (4,826) |
| Change in Trade Working Capital | (7,788) | (18,335) | 10,547 |
| **Cash from operating activities** | **16,435** | **10,714** | **5,721** |
| Investments in development costs | (5,972) | (5,431) | (541) |
| Investment in Lead Laser | - | (6,201) | 6,201 |
| Other investments | (14,660) | (7,884) | (6,776) |
| **Cash from investment activities** | **(20,632)** | **(19,516)** | **(1,116)** |
| **FREE CASH FLOW (FCF)** | **(4,197)** | **(8,802)** | **4,605** |
| Dividends | (4,569) | (4,193) | (376) |
| Treasury stock | - | (1,966) | 1,966 |
| Net financial result of investments | 2,605 | 7,233 | (4,628) |
| Net result of investments accounted for using the equity method | (24) | - | (24) |
| Other changes | - | 2,049 | (2,049) |
| **Cash from financing activities** | **(1,988)** | **3,123** | **(5,111)** |
| Net exchange differences | 547 | 672 | (125) |
| **CASH FLOW - TOTAL** | **(5,638)** | **(5,007)** | **(631)** |
| **Net Financial Indebtedness Closing** | **(107,343)** | **(74,639)** | **(32,704)** |

# Impairment test

The *impairment* test on the goodwill is an essential part of preparing the PRIMA INDUSTRIE Group's financial statements.

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

The goodwill of Euro 1,014 thousand attributable to the CGU PRIMA ELECTRO – BU LASER was fully written down as a result of the *impairmen*t test carried out for the preparation of the consolidated half-year financial statements to June 30, 2019.

# Business performance

During 2019 the Group's order acquisition (including *after-sale services*) amounted to 410.4 million euro, decreased by -12.9% compared to the 471.2 million euro at December 31, 2018.
The acquisition of orders of the PRIMA POWER sector amounted to Euro 381.3 million (including the orders acquisition of the new sector PRIMA ADDITIVE- for more details of Sector report see Chapter 8), while the PRIMA ELECTRO ones, considering the ones from customers outside the Group, amounted to Euro 29.1 million. Despite the drastic drop in orders from the whole sector and a marked slowdown in the *automotive* market, there was a good trend in orders from the *aerospace* segment and a positive trend in the *after-sales* market.
The consolidated order backlog (not including the *after-sale* service) at December 31, 2019 amounts to Euro 142.3 million (compared to Euro 169.4 million at December 31, 2018), equal to approximately 5 months of turnover. The portfolio includes Euro 136.5 million relating to the PRIMA POWER sector and Euro 5.8 million relating to the PRIMA ELECTRO sector.

# Personnel

At December 31, 2019, the Group had 1,781 employees of which 1,537 in PRIMA POWER Division and 244 in PRIMA ELECTRO Division. Compared to the December 31, 2018 there was an overall decrease of 90 employees, including 42 related to the sale of OSAI.

| VALUES EXPRESSED IN UNITS | PRIMA POWER | | PRIMA ELECTRO | | PRIMA GROUP | |
|---|---|---|---|---|---|---|
| | DEC 31, 2019 | DEC 31, 2018 | DEC 31, 2019 | DEC 31, 2018 | DEC 31, 2019 | DEC 31, 2018 |
| Production & Installation | 527 | 568 | 137 | 141 | 664 | 709 |
| Service & Spare Parts | 499 | 496 | - | 14 | 499 | 510 |
| R&D | 200 | 204 | 64 | 68 | 264 | 272 |
| Sales & Marketing | 185 | 183 | 13 | 34 | 198 | 217 |
| General & Administrative | 126 | 134 | 30 | 29 | 156 | 163 |
| **Total** | **1,537** | **1,585** | **244** | **286** | **1,781** | **1,871** |

# Operations with related parties

During the reporting period no significant operations with related parties were concluded in accordance with Article 5, paragraph 8 of the Regulations containing provisions on related parties No. 17221, issued by CONSOB on March 12, 2010. For further details of the operations carried out by the Group with related parties, refer to -Information on related parties on Explanatory Notes.

During 2019, as part of its process of streamlining the organisational structure, PRIMA INDUSTRIE SpA acquired the stake in CONVERGENT PHOTONICS from PRIMA ELECTRO SpA and the investment PRIMA POWER NORTH AMERICA Inc. from FINN-POWER OY.
The last calendar day of 2019 saw the merger of CONVERGENT PHOTONICS into PRIMA POWER NORTH AMERICA Inc., which has now been renamed to PRIMA INDUSTRIE NORTH AMERICA Inc. The merger and the related legal transactions made no impact on the consolidated financial statements, as these operations took place between already fully consolidated entities subject to the same auditing process and, moreover, with no minority interests.
The organisational and financial reasons for this merger can be found in the optimisation of the structure of the Group headed by PRIMA INDUSTRIE SpA, which will involve shortening the chain of monitoring of investments and streamlining cash, administration and organisation and also centralising decision-making on strategic investments to the parent company.

There follows a summary report of the operations (disbursements and repayments) related to intercompany loans which, pursuant to article 14, paragraph 2 of the said Regulation and article 32 of the Regulation adopted by the company with regard to related parties, are exempt from the application of the related procedure.

| VALUES EXPRESSED IN EURO THOUSAND | DEC 31, 2018 | ISSUED | REIMBUR. | DIFFERENCES ON EXCHANGE RATES | INTERESTS | DEC 31, 2019 |
|---|---|---|---|---|---|---|
| **Loans issued by Prima Industrie SpA** | | | | | | |
| Prima Power South America Ltda | 508 | - | (8) | - | 9 | 509 |
| Prima Power Laserdyne LLC | 1,755 | - | (719) | 10 | 28 | 1,074 |
| Prima Power Suzhou CO. LTD. | 2,452 | - | (290) | - | 39 | 2,201 |
| **Loans issued by Prima Power Iberica S.L.** | | | | | | |
| Prima Industrie SpA | 3,000 | - | (1,052) | - | 52 | 2,000 |
| **Loans issued by Finn-Power OY** | | | | | | |
| Prima Industrie SpA | 117 | 4,328 | (117) | - | 12 | 4,340 |
| **Loans issued by Prima Electro SpA** | | | | | | |
| Prima Industrie SpA | - | 12,285 | - | - | 33 | 12,318 |
| **Loans issued by Prima Power Central Europe Sp.z.o.o.** | | | | | | |
| Prima Industrie SpA | 3,000 | - | (1,027) | - | 66 | 2,039 |
| **Loans issued by Prima Industrie North America - Prima Power NA** | | | | | | |
| Prima Power Laserdyne LLC | 2,807 | - | (1,623) | - | 102 | 1,286 |
| Prima Industrie SpA | - | 4,451 | - | - | - | 4,451 |
| Convergent-Photonics | 5,290 | 3,116 | (187) | - | 315 | 8,534 |
| **TOTAL** | **18,929** | **24,180** | **(5,023)** | **10** | **656** | **38,752** |

# Risk management of Prima Industrie Group

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

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

## Context risk

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

Since it operates within a global competitive context, the economic and financial situation of PRIMA INDUSTRIE Group is influenced by general conditions and world economic trends. Therefore, any negative economic situation or political instability in one or several of the group's geographical markets, including reduced opportunities for access to credit, can have a significant impact on economic performance and can influence its future prospects, in the short, medium and long term.
The Group's business also depends on the performance of some commodity markets (*automotive, aerospace, home appliances,* etc.) which are historically subject to cyclical variations and uncertain future economic prospects. Any negative economic performance on one or more of these markets, regardless of overall positive developments in the global economy, may significantly affect the Group's economic and financial performance and strategic perspective in the short, medium and long term and may have a negative effect on the business conducted by the Group and on its economic and financial position.

### Risks relating to catastrophes, climate related events and pandemics

As an international industrial group, PRIMA INDUSTRIE is also exposed to the risks related to epidemics and pandemics. The recent spread of the coronavirus may negatively impact the Chinese economy and the world markets. The current COVID-19 health emergency was included in the ERM risk analysis (*Enterprise Risk Management*) to identify possible solutions to minimise the risk and promptly redirect corporate strategy. Given the severity and rapidity of the spread of the epidemic throughout the world, particularly in Italy where the Group has its headquarters and several production facilities, it is not possible to assess the possible impact of the current health crisis on individual markets, much less quantify the effects on the operational management of the PRIMA INDUSTRIE Group.

### Risks associated with new competitors entering the market

The Group's sector of industry is characterised by a high technological barrier to entry. It is therefore unlikely that a large number of new competitors will enter sector, although the spread of fibre technology has reduced barriers to entry for laser machines. However, it is possible that investors with substantial financial resources – and therefore able to attract sufficient human resources and to financially support the considerable initial investment required to become competitive in the market – may enter the market and change the competitive framework and therefore the Group's product profitability. Similarly, the Group's existing competitors can consolidate their positions through mergers, joint ventures or other forms of trade agreements. As a result, the PRIMA INDUSTRIE Group can compete with groups that have greater financial resources, are larger and with better production capacity, as well as a more diversified presence in the world able to develop greater economies of scale and aggressive pricing policies.
In addition, if the Group is unable to continue to supply its services to existing customers, ensure a high level of satisfaction or develop new products and services, to attract new customers, meet their needs, increase efficiency and reduce overheads, it may not be able to successfully compete in key markets. If the Group is unable to maintain its position in the relevant markets, this could have a negative impact on the business, results, financial condition or future prospects.

## Process risks - strategic

### Risks related to competition

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

### Risks related to technological innovation and the introduction of new products

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

### Risks related to intellectual property and know-how

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

### Risks associated with potential future acquisitions

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

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

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

### Risks related to the employment of key personnel in the Group

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

## Process risks - operating

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

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

### Risks related to dependence on suppliers and potential disruption in supply

The PRIMA INDUSTRIE Group purchases raw materials, components and services for the manufacturing and assembly of its own products from a large number of suppliers. Any delays in the delivery of raw materials and semi-finished products could lead to delays in the delivery of products to the customer; there is no certainty of recovering from the supplier possible claims for damages brought by customers, with consequent negative impact on the company. Moreover, close cooperation between manufacturers and suppliers is common in the Group's sectors and although this offers economic benefits in terms of cost reduction, it may also mean that the Group could be exposed to the difficulties experienced by suppliers, including those of a financial nature, (whether caused by internal or external factors) and this could have a negative effect on the Group.

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

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

### Risks related to the Group's production plants

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

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

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

### Risks relating to health, safety and the environment

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

### Risks related to legal issues, tax or labour law litigation

In the exercise of its business activities, the PRIMA INDUSTRIE Group may encounter legal, tax or labour law litigation. The Group adopts the necessary measures to prevent and mitigate any penalties that may result from these proceedings.
PRIMA INDUSTRIE Group is subject to changes in tax laws in the countries in which it operates. Although the Group allocates provisions, where necessary, for tax disputes, for unforeseen tax payables, it can experience a negative effect on the financial condition and results due to insufficient provisions or due to unforeseeable circumstances.

## Process risks – financial

### Liquidity risk and management of working capital

Liquidity risk is the risk that financial resources may not be sufficient to fund the financial and commercial obligations within the pre-established periods and due dates. The liquidity risk to which the group is subject may derive from late collections and, more generally, from the difficulty of obtaining loans to support operational activities within the necessary time. The cash flow, financing needs and liquidity of group companies are monitored or managed centrally under the supervision of the Group Treasury, with the aim of guaranteeing effective and efficient management of financial resources.
The Group's finished products are usually an investment for client companies, therefore their collection can also be done in quotas, with the last occurring after the machine or system has been commissioned on their premises. The period of time necessary for the production cycle and the commissioning is therefore usually much longer than that for payment of suppliers. In addition, customers often make the investment with medium to long-term financial support, which sometimes takes a long time to obtain. It is normal for the Group to have to face these needs and thus its working capital cycle may be longer and adversely affect Group liquidity. These situations create the need for the Group to have adequate lines of credit and bear the cost for their use. A difficult trend in the financial market or intrinsic difficulties by customers in raising financial funds in the short term could have a negative impact on the Group's economic and financial performance.

### Risks related to fluctuation in interest rates and exchange rates

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

## Credit risk

The Group only deals with noted and trustworthy clients; furthermore, the amount of receivables is monitored during the financial year so that the sum exposed to losses is not significant.
It should be noted that there are no significant concentrations of credit risk within the Group. The financial assets are shown in the financial statements net of the devaluation calculated on the basis of risk of non-fulfilment by the counter party, determined in consideration of the information available on the solvency of the client and possibly considering historical data.

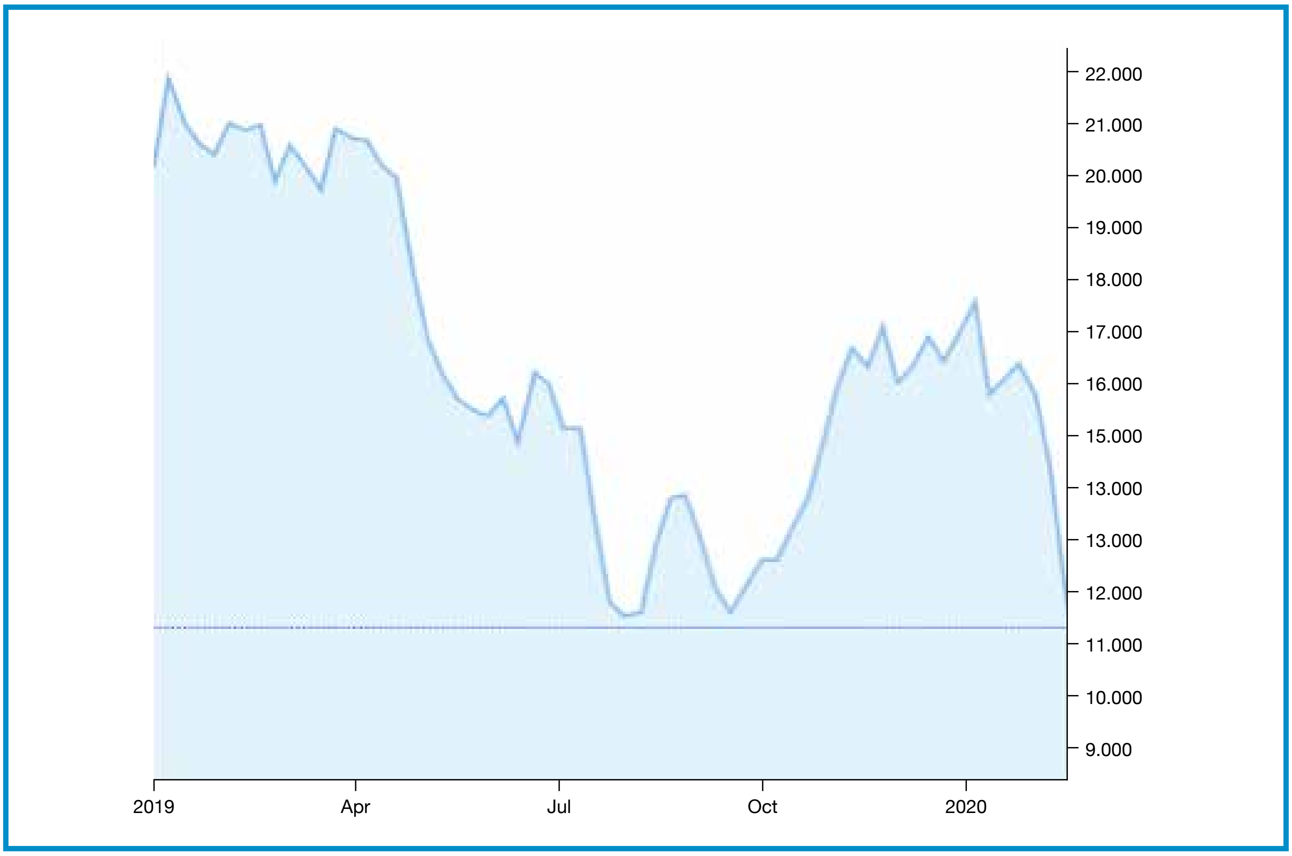
## Risks associated with financial requirements

Ordinary management of the company involves the availability of considerable financial resources to devote to working capital. Competition dynamics also involves the need for substantial financial resources to support investments in research and development of new products, as well as commercial and production investments for direct establishment in new geographical markets of interest.
In addition, as happened several times, the Group may need to consider a loan to evaluate growth opportunities through acquisitions. In line with its development strategy, the Group has credit lines and bank loans granted by major credit institutes, at a level deemed appropriate to avoid financial stress. However, even considering the recent debt renegotiation, it is not possible to rule out that market uncertainty could lead to financial stress and/or the inability to obtain sufficient resources to finance growth and investment plans.

# Stock trend and treasury stock

During 2019, PRIMA INDUSTRIE shares went from a unit value of Euro 17.34 at January 2, 2019 to Euro 16.40 per share at December 30, 2019. Within a twelve-month period of overall stability, there was an initial period of depreciation that brought the share price down to a minimum value of Euro 11.50 (August 2019). Starting from October it resumed its appreciation, returning to values above Euro 17 per share.
The maximum value of the share during the period was Euro 22.25 reached on 21 January 2019.
Lastly, after year end, the share value remained between Euro 16 and 17.5 (i.e. more or less in line with the target price *consensus* reached by financial analysts) up until the explosion of the Covid-19 emergency. From that date, when the markets underwent a significant overall downturn, the share value fell sharply, closing at Euro 12.18 on March 6, 2020.

This trend is shown in the chart below:



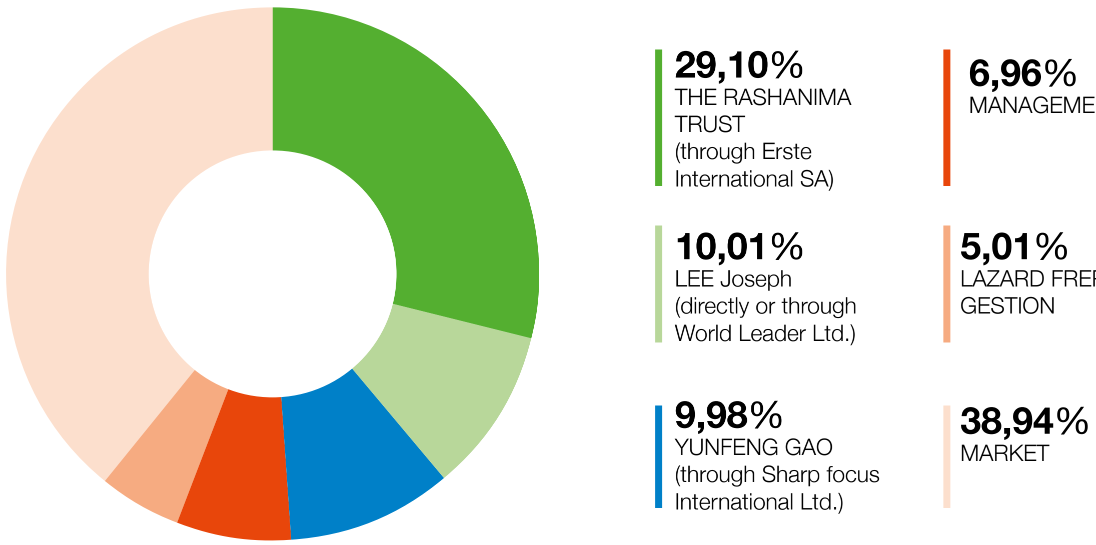

On April 16, 2019 the Shareholders' Meeting authorized the purchase of Prima Industrie SpA ordinary shares, in one or more times, for a period of eighteen months, for a maximum of 300,000 shares and in any case up to a maximum 300,000 shares in the portfolio, for a maximum purchase value of Euro 7.5 million.

As of the date of this Annual Financial Report PRIMA INDUSTRIE holds 100,000 treasury shares (0.95% of the share capital), part of which may be assigned free of charge for stock incentive plans.

# Shareholding Structure

On December 31, 2019 the share capital of PRIMA INDUSTRIE SpA amounts to Euro 26,208,185 divided into 10,483,274 ordinary shares at the nominal value of Euro 2.50 each. No classes of shares or bonds have been issued other than ordinary shares.

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




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

# Corporate Governance

The overall *corporate governance* framework of PRIMA INDUSTRIE, the system of rules and procedures that Company Boards refer to in deciding their line of conduct and in attending to their several responsibilities towards their *stakeholders*, has been defined bearing in mind the applicable standards and guidelines of the Code of Conduct approved in 2015 by the *Corporate Governance* Committee promoted by Borsa Italiana SpA, ABI, Ania, Assogestioni, Assonime, Confindustria.
Pursuant to article 123-bis of Leg. Decree no. 58/1998 (the "TUF") and to articles 89-bis and 144-decies of CONSOB's Regulation, the company annually drafts the "Report on Corporate Governance and Ownership Structure" (based on the "*comply or explain*" principle), with which it provides appropriate information on its *Corporate Governance* system. More specifically, the Report contains a general description of the system of corporate governance adopted by the Group and reports the information on the company's structure and its adherence to the Code of Conduct, including the main practices of *Governance* applied and the characteristics of its Internal Audit and Risk Management, also in relation to the financial information process.
First of all, the Report supplies a whole set of information on the company's Boards, their membership, term of office, business conduct, their powers and other information on elements that further distinguish the structure of corporate governance. It also contains information, including the personal details of company executives, along with their educational and professional profile.

The same Report, moreover, provides news on remuneration (fees) of Directors and Executives who have strategic responsibilities (also by recalling the Report on remuneration to be published in accordance with article 84-quater of the CONSOB Regulation), on the policy to apply when processing confidential information and when conducting major transactions (financial or capital) with associates, or that are atypical or unusual.
In particular, in observance of Leg. Decree no. 173/2008 which implements Directive 2006/46 as part of the legislation, the Report includes information on:

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

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

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

PRIMA INDUSTRIE SpA wholly owns certain companies that have offices in non-EU countries and are crucial to its business, pursuant to article 36 of CONSOB Regulation no. 16191/2007, as per its amendments ratified with CONSOB Resolution no. 18214/2012, concerning "Market regulation". With reference to the data available on December 31, 2019, please note that procedures have been adopted to ensure that the previously mentioned legislation is complied with and that none of the conditions stated in said article 36 subsist.

## Consolidated non-financial statement

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

The consolidated non-financial statement can be found in the "*Investors*" section of the website www.primaindustrie.com.

## Application of Legislative Decree 231/2001

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

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

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

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

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

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

## Investments made for safety in the workplaces

A total of Euro 70 thousand were spent by Prima Industrie SpA in 2019 for safety. The cost items refer to documentation, consultant services and training for safety, devices for vision protection from laser beams, personal protective equipment, signs, the creation of safe conditions in work zones and actions to improve workstation ergonomics.

# Foreseeable developments in management

After five years of growth at an average annual rate of 7.5%, the Group, which has always operated in a cyclical business, slowed down in 2019, due to several reasons that also had an impact on the global economy (trade war, sharp slowdown in the auto sector etc). In this early 2020, the context has become much more challenging due to the spread of the health emergency from COVID-19 and there are strong uncertainties about the macroeconomic *outlook* for the year. Consequently, it is now difficult to make predictions on the performance of the current year, which, before the very recent events, was expected to be a year of consolidation of the top line and, at the same time, of profitability improvement. Prima Industrie Group is therefore activating all the necessary measures to ensure the Group itself, which has also a very significant presence outside of Italy, to continue operating, combining the best protection of employee health with the needs of our customers around the world .

# Significant events occurring after financial year closing

No other significant events have taken place since the closing of the financial statements up to the date of approval of this Annual Report except for the COVID-19 emergency discussed "Risk Management of the Prima Industrie Group".

# Atypical and unusual transactions

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

# Management and coordination activities

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

# Opt-out regime

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

# Proposal to cover the loss for fiscal year 2019

Dear Shareholders,

In inviting you to approve Your Company's Financial Statements at December 31, 2019, we propose that the loss of Euro 2,164,137 be fully covered through the Extraordinary Reserve.

On behalf of the Board of Directors
Executive Chairman

Gianfranco Carbonato

CHAPTER 6

# Prima Industrie Group Consolidated Financial Statements December 31, 2019

## Accounting Tables

# Chapter 6 - Consolidated Financial Statements of Prima Industrie Group at December 31, 2019

## Consolidated statement of financial position

| VALUES IN THOUSAND EURO | NOTES | DEC 31, 2019 | DEC 31, 2018 |
|---|---|---|---|
| Property, plant and equipment | *1* | 69,180 | 36,749 |
| Intangible assets | *2* | 134,705 | 145,000 |
| Investments accounted for using the equity method | *3* | 394 | - |
| Other investments | *4* | 6,458 | 6,613 |
| Non current financial assets | *5* | 4,243 | 4,876 |
| Deferred tax assets | *6* | 14,671 | 11,973 |
| **NON CURRENT ASSETS** | | **229,651** | **205,211** |
| Inventories | *7* | 127,818 | 135,863 |
| Trade receivables | *8* | 85,406 | 110,757 |
| Other receivables | *9* | 9,298 | 8,929 |
| Current tax receivables | *10* | 8,057 | 9,667 |
| Derivatives | *11* | - | 26 |
| Financial assets | *11* | 532 | 341 |
| Cash and cash equivalents | *11* | 55,136 | 71,078 |
| **CURRENT ASSETS** | | **286,247** | **336,661** |
| **Assets held for sale** | **12** | **4,229** | **1,234** |
| **TOTAL ASSETS** | | **520,127** | **543,106** |
| Capital stock | *13* | 26,208 | 26,208 |
| Legal reserve | *13* | 5,213 | 4,992 |
| Other reserves | *13* | 68,557 | 69,154 |
| Currency translation reserve | *13* | 4,003 | 2,706 |
| Retained earnings | *13* | 58,954 | 39,322 |
| Net result | *13* | 9,046 | 24,056 |
| ***Stockholders' equity of the Group*** | | ***171,981*** | ***166,438*** |
| ***Minority interest*** | | ***3,132*** | ***3,334*** |
| **STOCKHOLDERS' EQUITY** | | **175,113** | **169,772** |
| Interest-bearing loans and borrowings | *11* | 117,740 | 113,180 |
| Employee benefit liabilities | *14* | 7,017 | 7,570 |
| Deferred tax liabilities | *15* | 5,366 | 5,333 |
| Provisions | *16* | 222 | 198 |
| Derivatives | *11* | 600 | 636 |
| **NON CURRENT LIABILITIES** | | **130,945** | **126,917** |
| Trade payables | *17* | 81,290 | 115,141 |
| Advance payments | *17* | 34,715 | 40,545 |
| Other payables | *17* | 22,061 | 23,664 |
| Interest-bearing loans and borrowings | *11* | 48,914 | 37,028 |
| Current tax payables | *18* | 6,445 | 7,117 |
| Provisions | *16* | 20,644 | 22,806 |
| Derivatives | *11* | - | 116 |
| **CURRENT LIABILITIES** | | **214,069** | **246,417** |
| **TOTAL STOCKHOLDERS' EQUITY AND LIABILITIES** | | **520,127** | **543,106** |

*Figures as at December 31, 2019 include the application of the new accounting principle IFRS 16 "Leases" adopted by the company applying the retrospective semplified approach with no restatement of comparative figures.*

# Consolidated income statement

| VALUES IN EURO THOUSAND | NOTES | DEC 31, 2019 | DEC 31, 2018 |
|---|---|---|---|
| Net revenues | *19* | 427,582 | 466,932 |
| Cost of goods sold | *20* | (329,761) | (354,795) |
| **GROSS MARGIN** | | **97,821** | **112,137** |
| Research and Development costs | *21* | (25,003) | (24,174) |
| Sales and marketing expenses | *22* | (31,255) | (31,505) |
| General and administrative expenses | *23* | (27,172) | (28,417) |
| **OPERATING PROFIT (EBIT)** | | **14,391** | **28,041** |
| Financial income | *24* | 2,241 | 4,452 |
| Financial expenses | *24* | (8,349) | (12,863) |
| Net exchange differences | *24* | (408) | (242) |
| Net result of investments accounted for using the equity method | *25* | (24) | - |
| Net result of other investments | *26* | 2,605 | 7,233 |
| **RESULT BEFORE TAXES (EBT)** | | **10,456** | **26,621** |
| Taxes | *27* | (1,638) | (2,563) |
| **NET RESULT** | | **8,818** | **24,058** |
| *- Attributable to Group shareholders* | | *9,046* | *24,056* |
| *- Attributable to minority shareholders* | | *(228)* | *2* |
| **RESULT PER SHARE - BASIC (in euro)** | *28* | ***0.86*** | ***2.30*** |
| **RESULT PER SHARE - DILUTED (in euro)** | *28* | ***0.85*** | ***2.27*** |

*Figures as at December 31, 2019 include the application of the new accounting principle IFRS 16 "Leases" adopted by the Group applying the retrospective semplified approach with no restatement of comparative figures.*

# Consolidated statement of comprehensive income

| VALUES IN EURO THOUSAND | NOTES | DEC 31, 2019 | DEC 31, 2018 |
|---|---|---|---|
| **NET RESULT (A)** | | **8,818** | **24,058** |
| Gains/ (Losses) on actuarial defined benefit plans | *13* | (339) | (50) |
| Tax effect | *13* | 82 | 12 |
| **Total other comprehensive gains/(losses) not to be classified in the Income Statement, net of tax effects (B)** | | **(257)** | **(38)** |
| Gains /(Losses) on cash flow hedges | *13* | 34 | (542) |
| Tax effect | *13* | (8) | 135 |
| Gains/(Losses) on exchange differences on translating foreign operations | *13* | 1,323 | 1,317 |
| **Total other comprehensive gains/(losses) to be classified in the Income Statement, net of tax effects (C)** | | **1,349** | **910** |
| **TOTAL COMPREHENSIVE INCOME (A) + (B) + (C)** | | **9,910** | **24,930** |
| *- Attributable to Group shareholders* | | *10,112* | *24,957* |
| *- Attributable to minority shareholders* | | *(202)* | *(27)* |

*Figures as at December 31, 2019 include the application of the new accounting principle IFRS 16 “Leases” adopted by the Group applying the retrospective semplified approach with no restatement of comparative figures.*

# Consolidated statement of changes on shareholders' equity

*from January 1, 2018 to December 31, 2018*

| VALUES IN EURO THOUSAND | CAPITAL STOCK | ADDITIONAL PAID-IN CAPITAL | TREASURY STOCK | LEGAL RESERVE | CAPITAL INCREASE - EXPENSES | STOCK GRANT RESERVE |
|---|---|---|---|---|---|---|
| **Balance as at December 31, 2017** | **26,208** | **57,507** | **-** | **4,653** | **(1,286)** | **-** |
| Impact of IFRS15 adoption | - | - | - | - | - | - |
| **Balance as at January 01, 2018** | **26,208** | **57,507** | **-** | **4,653** | **(1,286)** | **-** |
| Dividends paid | - | - | - | - | - | - |
| Purchase of Tresury stock | - | - | (1,966) | - | - | - |
| Stock grant plan | - | - | - | - | - | 13 |
| Capital stock increase in Prima Power Suzhou | - | - | - | - | - | - |
| Allocation of prior year net result | - | - | - | 339 | - | - |
| Result of comprehensive Income | - | - | - | - | - | - |
| **Balance as at December 31, 2018** | **26,208** | **57,507** | **(1,966)** | **4,992** | **(1,286)** | **13** |

*from January 1, 2019 to December 31, 2019*

| VALUES IN EURO THOUSAND | CAPITAL STOCK | ADDITIONAL PAID-IN CAPITAL | TREASURY STOCK | LEGAL RESERVE | CAPITAL INCREASE - EXPENSES | STOCK GRANT RESERVE |
|---|---|---|---|---|---|---|
| **Balance as at January 01, 2019** | **26,208** | **57,507** | **(1,966)** | **4,992** | **(1,286)** | **13** |
| Dividends paid | - | - | - | - | - | - |
| Allocation of prior year net result | - | - | - | 221 | - | - |
| Result of comprehensive Income | - | - | - | - | - | - |
| **Balance as at December 31, 2019** | **26,208** | **57,507** | **(1,966)** | **5,213** | **(1,286)** | **13** |

*The 2019 figures include the application of the new accounting principle IFRS 16 "Leases" adopted by the Group applying the retrospective semplified approach with no restatement of comparative figures as at January 1, 2019.*

| CHANGE IN THE FV OF HEDGING DERIVATIVES | OTHER RESERVES | CURRENCY TRANSLATION RESERVE | RETAINED EARNINGS | NET RESULT | STOCKHOLDERS' EQUITY OF THE GROUP | MINORITY INTEREST | STOCKHOLDERS' EQUITY |
|---|---|---|---|---|---|---|---|
| **(58)** | **13,149** | **1,360** | **27,620** | **18,515** | **147,668** | **1,286** | **148,954** |
| - | - | - | (41) | - | (41) | - | (41) |
| **(58)** | **13,149** | **1,360** | **27,579** | **18,515** | **147,627** | **1,286** | **148,913** |
| - | (4,193) | - | - | - | (4,193) | - | (4,193) |
| - | - | - | - | - | (1,966) | - | (1,966) |
| - | - | - | - | - | 13 | - | 13 |
| - | - | - | - | - | - | 2,075 | 2,075 |
| - | 6,433 | - | 11,743 | (18,515) | - | - | - |
| (407) | (38) | 1,346 | - | 24,056 | 24,957 | (27) | 24,930 |
| **(465)** | **15,351** | **2,706** | **39,322** | **24,056** | **166,438** | **3,334** | **169,772** |

| CHANGE IN THE FV OF HEDGING DERIVATIVES | OTHER RESERVES | CURRENCY TRANSLATION RESERVE | RETAINED EARNINGS | NET RESULT | STOCKHOLDERS' EQUITY OF THE GROUP | MINORITY INTEREST | STOCKHOLDERS' EQUITY |
|---|---|---|---|---|---|---|---|
| **(465)** | **15,351** | **2,706** | **39,322** | **24,056** | **166,438** | **3,334** | **169,772** |
| - | (4,569) | - | - | - | (4,569) | - | (4,569) |
| - | 4,203 | - | 19,632 | (24,056) | - | - | - |
| 26 | (257) | 1,297 | - | 9,046 | 10,112 | (202) | 9,910 |
| **(439)** | **14,728** | **4,003** | **58,954** | **9,046** | **171,981** | **3,132** | **175,113** |

# Consolidated cash flow statement

| VALUES IN EURO THOUSAND | DEC 31, 2019 | DEC 31, 2018 |
|---|---|---|
| **Net result** | **8,818** | **24,058** |
| *Adjustments (sub-total)* | *7,392* | *(13,098)* |
| Depreciation, impairment & write-off | 24,041 | 17,018 |
| Gain from sales of shares in other investments | (2,629) | (7,179) |
| Net change in deferred tax assets and liabilities | (2,764) | (1,297) |
| Change in employee benefits | 298 | (124) |
| Change in inventories | 6,450 | (22,828) |
| Change in trade receivables | 25,153 | 2,892 |
| Change in trade payables and advances | (39,391) | 1,601 |
| Net change in other receivables/payables and other assets/liabilities | (3,766) | (3,181) |
| **Cash Flows from (used in) operating activities** | **16,210** | **10,960** |
| Cash flow from investments | | |
| Acquisition of tangible fixed assets (*) | (7,727) | (7,207) |
| Acquisition of intangible fixed assets | (733) | (1,399) |
| Capitalization of development costs | (5,972) | (5,431) |
| Net disposal of fixed assets (**) | 1,805 | 205 |
| Investment in Lead Laser | - | (6,201) |
| Change in investments accounted for using the equity method | (238) | - |
| Net result of investments accounted for using the equity method | 24 | - |
| Write-off/Write-up Other Investments | 24 | (54) |
| Change in Other investments | (5) | 7,903 |
| OSAI business sale | 3,676 | - |
| **Cash Flows from (used in) investing activities** | **(9,146)** | **(12,184)** |
| Cash flow from financing activities | | |
| Change in other financial assets/liabilities and other minor items | 341 | (4,120) |
| Increases in loans and borrowings (including bank overdrafts) | 18,802 | 110,486 |
| Repayment of loans and borrowings (including bank overdrafts) | (32,520) | (100,401) |
| Repayments in financial lease liabilities | (5,802) | (1,058) |
| Dividends paid | (4,569) | (4,193) |
| Other variations | (257) | (2,032) |
| **Cash Flows from (used in) financing activities** | **(24,005)** | **(1,318)** |
| **Cash Flows from (used in) change of minority shareholders** | **-** | **2,075** |
| Foreign exchange translation differences | 999 | 1,025 |
| **Net change in cash and equivalents** | **(15,942)** | **558** |
| **Cash and equivalents beginning of period** | **71,078** | **70,521** |
| **Cash and equivalents end of period** | **55,136** | **71,078** |

## Additional Information to the Consolidated Statement of Cash-Flow

| VALUES IN EURO THOUSAND | DEC 31, 2019 | DEC 31, 2018 |
|---|---|---|
| Taxes paid | 4,396 | 3,187 |
| Interests paid | 3,922 | 5,719 |

*Figures as at December 31, 2019 include the application of the new accounting principle IFRS 16 "Leases" adopted by the Group applying the retrospective semplified approach with no restatement of comparative figures.*

(*) *Not included leases and included assets held for sale.*

(**) *Included assets held for sale.*

# Consolidated statement of financial position pursuant to Consob n. 15519 of July 27, 2006

| VALUES IN THOUSAND EURO | NOTES | DEC 31, 2019 | OF WHICH RELATED PARTIES | DEC 31, 2018 | OF WHICH RELATED PARTIES |
|---|---|---|---|---|---|
| Property, plant and equipment | *1* | 69,180 | - | 36,749 | - |
| Intangible assets | *2* | 134,705 | - | 145,000 | - |
| Investments accounted for using the equity method | *3* | 394 | *394* | - | - |
| Other investments | *4* | 6,458 | - | 6,613 | *180* |
| Non current financial assets | *5* | 4,243 | - | 4,876 | - |
| Deferred tax assets | *6* | 14,671 | - | 11,973 | - |
| **NON CURRENT ASSETS** | | **229,651** | | **205,211** | |
| Inventories | *7* | 127,818 | - | 135,863 | - |
| Trade receivables | *8* | 85,406 | *2,040* | 110,757 | *72* |
| Other receivables | *9* | 9,298 | *59* | 8,929 | - |
| Current tax receivables | *10* | 8,057 | - | 9,667 | - |
| Derivatives | *11* | - | - | 26 | - |
| Financial assets | *11* | 532 | - | 341 | - |
| Cash and cash equivalents | *11* | 55,136 | - | 71,078 | - |
| **CURRENT ASSETS** | | **286,247** | | **336,661** | |
| **Assets held for sale** | **12** | **4,229** | **-** | **1,234** | **-** |
| **TOTAL ASSETS** | | **520,127** | | **543,106** | |
| Capital stock | *13* | 26,208 | - | 26,208 | - |
| Legal reserve | *13* | 5,213 | - | 4,992 | - |
| Other reserves | *13* | 68,557 | - | 69,154 | - |
| Currency translation reserve | *13* | 4,003 | - | 2,706 | - |
| Retained earnings | *13* | 58,954 | - | 39,322 | - |
| Net result | *13* | 9,046 | - | 24,056 | - |
| ***Stockholders' equity of the Group*** | | ***171,981*** | **-** | ***166,438*** | **-** |
| ***Minority interest*** | | ***3,132*** | **-** | ***3,334*** | **-** |
| **STOCKHOLDERS' EQUITY** | | **175,113** | | **169,772** | |
| Interest-bearing loans and borrowings | *11* | 117,740 | - | 113,180 | - |
| Employee benefit liabilities | *14* | 7,017 | - | 7,570 | - |
| Deferred tax liabilities | *15* | 5,366 | - | 5,333 | - |
| Provisions | *16* | 222 | - | 198 | - |
| Derivatives | *11* | 600 | - | 636 | - |
| **NON CURRENT LIABILITIES** | | **130,945** | | **126,917** | |
| Trade payables | *17* | 81,290 | *94* | 115,141 | - |
| Advance payments | *17* | 34,715 | - | 40,545 | - |
| Other payables | *17* | 22,061 | *519* | 23,664 | *850* |
| Interest-bearing loans and borrowings | *11* | 48,914 | - | 37,028 | - |
| Current tax payables | *18* | 6,445 | - | 7,117 | - |
| Provisions | *16* | 20,644 | - | 22,806 | - |
| Derivatives | *11* | - | - | 116 | - |
| **CURRENT LIABILITIES** | | **214,069** | | **246,417** | |
| **TOTAL STOCKHOLDERS' EQUITY AND LIABILITIES** | | **520,127** | | **543,106** | |

*Figures as at December 31, 2019 include the application of the new accounting principle IFRS 16 "Leases" adopted by the Group applying the retrospective semplified approach with no restatement of comparative figures.*

# Consolidated income statement pursuant Consob n.15519 of July 27, 2006

| VALUES IN EURO THOUSAND | NOTES | DEC 31, 2019 | OF WHICH RELATED PARTIES | DEC 31, 2018 | OF WHICH RELATED PARTIES |
|---|---|---|---|---|---|
| Net revenues | *19* | 427,582 | *6,901* | 466,932 | *24* |
| Cost of goods sold | *20* | (329,761) | *(130)* | (354,795) | *(122)* |
| **GROSS MARGIN** | | **97,821** | **-** | **112,137** | **-** |
| Research and Development costs | *21* | (25,003) | *60* | (24,174) | 73 |
| Sales and marketing expenses | *22* | (31,255) | *(58)* | (31,505) | - |
| General and administrative expenses | *23* | (27,172) | *(1,388)* | (28,417) | *(1,363)* |
| **OPERATING PROFIT (EBIT)** | | **14,391** | **-** | **28,041** | **-** |
| ***of which: non recurring items*** | | ***(4,219)*** | | ***(4,171)*** | |
| Financial income | *24* | 2,241 | - | 4,452 | - |
| Financial expenses | *24* | (8,349) | - | (12,863) | - |
| Net exchange differences | *24* | (408) | - | (242) | - |
| Net result of investments accounted for using the equity method | *25* | (24) | *(24)* | - | |
| Net result of other investments | *26* | 2,605 | - | 7,233 | *7,179* |
| **RESULT BEFORE TAXES (EBT)** | | **10,456** | | **26,621** | |
| ***of which: non recurring items*** | | ***(1,732 )*** | **-** | ***1,059*** | |
| Taxes | *27* | (1,638) | - | (2,563) | - |
| **NET RESULT** | | **8,818** | | **24,058** | |
| *- Attributable to Group shareholders* | | *9,046* | **-** | *24,056* | **-** |
| *- Attributable to minority shareholders* | | *(228)* | **-** | *2* | **-** |
| **RESULT PER SHARE - BASIC (in euro)** | ***28*** | ***0.86*** | | ***2.30*** | |
| **RESULT PER SHARE - DILUTED (in euro)** | ***28*** | ***0.85*** | | ***2.27*** | |

*Figures as at December 31, 2019 include the application of the new accounting principle IFRS 16 “Leases” adopted by the Group applying the retrospective semplified approach with no restatement of comparative figures.*

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

| VALUES IN EURO THOUSAND | DEC 31, 2019 | OF WHICH RELATED PARTIES | DEC 31, 2018 | OF WHICH RELATED PARTIES |
|---|---|---|---|---|
| **Net result** | **8,818** | | **24,058** | |
| *Adjustments (sub-total)* | *7,392* | - | *(13,098)* | - |
| Depreciation, impairment & write-off | 24,041 | - | 17,018 | - |
| Gain from sales of shares in other investments | (2,629) | - | (7,179) | *(7,179)* |
| Net change in deferred tax assets and liabilities | (2,764) | - | (1,297) | - |
| Change in employee benefits | 298 | - | (124) | - |
| Change in inventories | 6,450 | - | (22,828) | - |
| Change in trade receivables | 25,153 | *(1,968)* | 2,892 | *92* |
| Change in trade payables and advances | (39,391) | *94* | 1,601 | - |
| Net change in other receivables/payables and other assets/liabilities | (3,766) | *(390)* | (3,181) | *(703)* |
| **Cash Flows from (used in) operating activities** | **16,210** | | **10,960** | |
| Cash flow from investments | | | | |
| Acquisition of tangible fixed assets (*) | (7,727) | - | (7,207) | - |
| Acquisition of intangible fixed assets | (733) | - | (1,399) | - |
| Capitalization of development costs | (5,972) | - | (5,431) | - |
| Net disposal of fixed assets (**) | 1,805 | - | 205 | - |
| Investment in Lead Laser | - | - | (6,201) | |
| Change in investments accounted for using the equity method | (238) | *(238)* | - | - |
| Net result of investments accounted for using the equity method | 24 | *24* | - | - |
| Write-off/Write-up Other Investments | 24 | - | (54) | - |
| Change in Other investments | (5) | - | 7,903 | *7,903* |
| OSAI business sale | 3,676 | - | - | - |
| **Cash Flows from (used in) investing activities** | **(9,146)** | | **(12,184)** | |
| Cash flow from financing activities | | | | |
| Change in other financial assets/liabilities and other minor items | 341 | - | (4,120) | - |
| Increases in loans and borrowings *(including bank overdrafts)* | 18,802 | - | 110,486 | - |
| Repayment of loans and borrowings *(including bank overdrafts)* | (32,520) | - | (100,401) | - |
| Repayments in financial lease liabilities | (5,802) | - | (1,058) | - |
| Dividends paid | (4,569) | - | (4,193) | - |
| Other variations | (257) | - | (2,032) | - |
| **Cash Flows from (used in) financing activities** | **(24,005)** | | **(1,318)** | |
| **Cash Flows from (used in) change of minority shareholders** | **-** | | **2,075** | |
| Foreign exchange translation differences | 999 | | 1,025 | |
| **Net change in cash and equivalents** | **(15,942)** | | **558** | |
| **Cash and equivalents beginning of period** | **71,078** | | **70,521** | |
| **Cash and equivalents end of period** | **55,136** | | **71,078** | |

# Additional Information to the Consolidated Statement of Cash-Flow

| VALUES IN EURO THOUSAND | DEC 31, 2019 | | DEC 31, 2018 | |
|---|---|---|---|---|
| Taxes paid | 4,396 | - | 3,187 | - |
| Interests paid | 3,922 | - | 5,719 | - |

*Figures as at December 31, 2019 include the application of the new accounting principle IFRS 16 "Leases" adopted by the Group applying the retrospective semplified approach with no restatement of comparative figures.*

(*) *Not included leases and included assets held for sale.*
(**) *Included assets held for sale.*

CHAPTER 7

# Description of Accounting Principles

# Chapter 7 - Description of Accounting Principles

## Consolidation Principles

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

***(a) Subsidiaries***

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

***(b) Affiliates and joint ventures***

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

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

# Accounting standards applied

## Standards to apply when drafting the consolidated financial statements

The consolidated Financial statements for 2019 were drafted in accordance with the International Accounting Standards ("IFRS") issued by the *International Accounting Standards Board* ("IASB") and approved by the European Union, as well as the measures issued to implement the article 9 of Leg. Decree no. 38/2005.
IFRS refer to all the main International Accounting Standards ("IAS") reviewed and to all the interpretations given by the International *Financial Reporting Interpretations Committee* ("IFRIC"), formerly known as *Standing Interpretations Committee* ("SIC").
The financial statements are drafted based on the principle of historical cost, except for those financial assets which have been listed at their fair value. The Group has applied accounting principles that are coherent with those applied in previous years, with the exception of amendments to standards and interpretations effective from January 1, 2019.

### Going concern

The consolidated financial statements at December 31, 2019 were prepared on the basis of the going-concern principle, as it is reasonable to expect that PRIMA INDUSTRIE will continue its business in the foreseeable future. In particular, the value of the order backlog, the rebalanced relationship between risk capital and debt capital, the rescheduling of medium to long-term bank debt, the availability of sufficient credit lines, are the main factors taken into consideration to ascertain that, at the current time, there are no doubts about the Group's prospects of remaining in business.

### Financial Statements

The Group presents the income statement according to functional areas, otherwise referred to as "cost of goods sold". This cost analysis is based on cost destination and is considered more representative than expenditure type. The form chosen conforms to internal *reporting* and *business* management procedures and is in line with international practice within the sector in which the Group operates.

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

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

a) for the Consolidated Balance Sheet, the format used distinguishes the assets and liabilities between "current" (i.e. receivable or payable in 12 months) and "non-current" (i.e. receivable or payable after 12 months);
b) for the Consolidated Income Statement, the format used distributes costs according to their kind; the Global Consolidated Income Statement includes, besides the Profit in the year as listed in the Consolidated Income Statement, the other variations to the Net Equity that do not refer to transactions with Shareholders;
c) for the Variations to the Net Equity, the format used reconciles the opening and closing of every entry in both the current year and the previous one;

d) for the Financial Account, the so-called "indirect" method was chosen, whereby the net financial flow of company business is determined by adjusting the profit and loss, because of the effects of:
   - non-monetary elements such as amortisation and depreciation;
   - variations of inventory, receivables and payables generated by company business;
   - other elements whose financial flows are generated by investments and financings.

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

## Stake acquisitions and goodwill

### Stake acquisitions

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

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

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

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

All loss of value is identified by comparing the book value of the cash-generating unit and its recoverable value, determined according to the methods described in paragraph "Loss of asset value". If the value recoverable by a cash-flow generating unit is less than the book value attributed to it, the relative loss of value is reported in the statement. This loss of value is not restored, even if the reasons that have generated it fall short.
If goodwill has been allocated to a cash-flow generating unit and the entity dismisses part of the assets of that unit, the goodwill associated to the dismissed asset must be included in the book value of the asset when determining the profit or loss deriving from the dismissal. Goodwill associated to the dismissed asset must be determined on the basis of the values afferent to the dismissed assets and to the part withheld by the cash-flow generating unit.

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

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

## Loss of asset value (*"Impairment"*)

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

## Tangible assets

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

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

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

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

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

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

Leases bestow exclusive use of an identified or identifiable asset, providing the substantive right to all the financial benefits deriving from its use for a defined period of time in exchange for a fee, in accordance with IFRS 16.

These leases are recognised in the balance sheet as "right-of-use" assets and as a liability measured at the present value of the lease payments. The "right of use" is depreciated on a straight-line basis over the term of the lease, or the relevant financial-technical useful life, if shorter.
At the commencement date of the lease, defined as the date on which the lessor makes the underlying asset available to the lessee, the cost value of the "right-of-use" asset comprises:

- the amount of the initial valuation of the lease liability;
- any lease payments made at or before the commencement date;
- any initial direct costs incurred by the lessee;
- any costs, estimated and discounted, to be incurred at the time of vacating facilities, offset against a specific provision in the liabilities where there are obligations to dismantle, remove assets and restore sites.

The amount of the initial valuation of the lease liability referred to in a) above includes the following:

- fixed payments;
- variable payments that depend on an index or a rate;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option;
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The following lease asset categories qualify for this method of recognition:

- buildings;
- vehicles;
- office equipment.

The Group avails itself of the option provided for in IFRS 16 – Leases to recognise as a cost, on an accrual basis, leases that are i) short term (i.e. less than 12 months), ii) for low-value underlying assets (i.e. less than Euro 5,000 when new).

The lease liability is recognised at the commencement date of the lease and is equal to the present value of the lease payments.

The present value of the lease payments is measured using the interest rate implicit in the lease, or, if that rate cannot be readily determined, the lessee's incremental borrowing rate. The incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

After the commencement date, the lease liability is measured using the amortised cost method; subsequently, the liability may be restated (i.e. the lease cash flows are revised as a result of the original contractual terms) or revised (i.e. changes to the subject matter or consideration not provided for in the original contractual terms) with adjustments to the "right of use".

# Intangible Assets

## Assets with indefinite useful life

***(a) Goodwill***

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

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

## Assets with finite useful life

***(b) Software***

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

***(c) Research & Development costs***

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

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

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

***(d) Trademark***

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

***(e) Other intangible assets***

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

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

## Financial Instruments

### Presentation

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

### Evaluation

Stakes in other companies and stakes in joint ventures included among non-current financial assets are entered as described in the following paragraph "Consolidation principles".

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

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

### Hedging instruments

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

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

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

- *Cash-flow hedge*. If a hedging instrument is chosen to cover the exposure to unstable future cash flows of an asset or liability listed in the financial statements or of an expected and highly probable transaction that could affect the Profit & Loss, the effective share of the profit or loss for the hedging instrument is reported in Other total profits/(losses). The cumulated profit or loss are written off the Other total profits/(losses) and entered in the Income Statement in the same period in which the correlated economic effect of the hedged transaction is reported. The profit or loss associated to a hedge (or part of one) that has become obsolete are immediately entered in the Profit & Loss. If a hedging instrument or a hedge report are closed, but the hedged transaction has not yet been concluded, the cumulated profit and loss, hitherto entered in the Other total profits/(losses), are reported in the Income Statement with regards to the reported economic effects of the hedged transaction. If the hedged transaction is no longer presumed probable, the profits or losses as yet not accrued and suspended in the Other total profits/(losses) are immediately reported in the Profit & Loss.

- *Fair value hedge*. If a hedging instrument is designated to hedge the exposure to variations of the *fair value* of an asset or liability in the financial statements that are attributable to a particular risk which may affect the Income Statement, the profit or loss deriving from subsequent evaluations of the *fair value* of the hedging instrument are reported in the Profit & Loss. The profit or loss on the hedged item is attributable to the hedged risk, modifying the book value of that item, and is reported in the Profit & Loss.
- *Hedge of a net investment*. If a hedging instrument is designated to hedge a net investment in an offshore company, the effective share of profit or loss on the hedging instrument is reported in Other total profits/(losses). The cumulated profit or loss are written off from the Net Equity and entered in the Income Statement on the date in which the offshore asset is dismissed.

## Financial Liabilities

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

## Loans

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

## Inventory

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

## Receivables and other credits

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

experience, external indicators and forecasts. Specific measurements are made on individual credit positions in certain categories of loans subject to particular elements of risk.

## Credit Transfers

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

## Cash and cash equivalents

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

## Assets for sale

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

## Share Capital

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

## Current and deferred taxes

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

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

Deferred taxes are not accounted for:

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

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

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

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

## Employee benefits

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

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

***(a) Pension plans***

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

Plans of fixed benefits are pension liabilities that define the amount of the pension benefit owed to the worker on the date the employment relation is ended; this amount depends on several factors, such as age, years of service and wage.

Fixed-contribution plans are pension plans for which the Group pays a fixed amount to a separate entity. The Group is in no way implicitly required by law to pay additional sums, should the activities in service of the plan prove insufficient to pay off benefits owed to employees for their current service and for services provided hitherto. The plans described here were recorded in accordance with the provisions of IAS 19.

***(b) Benefits paid to employees who attain seniority status***

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

***(c) Incentives, bonuses and profit-sharing agreements***

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

## Provisions for risks and charges

Provisions to cover risks and charges are accounted for when:

- the Group is faced with a legal or implicit obligation as result of previous events;
- a deployment of resources to cover the obligation and its amount is probable;
- its amount is reliably determinable.

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

## Revenue recognition

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

The Group recognises revenues according to IFRS 15 – Revenues from Contracts with Customers, which introduced a reference framework for the recognition and measurement of revenues for the faithful representation of the process of transferring goods and services to customers for an amount that reflects the amount expected in exchange for them. This standard is applied using a model made up of the five following stages:

- Identification of the contract with the customer: the parties approve the contract, which has commercial substance, and identify their respective rights and obligations. The contract must be legally binding, must identify the right to receive goods and/or services, the consideration and the payment terms;
- Identification of the performance obligations of the contract, i.e. promises to transfer separate goods and services.
- Determination of the *transaction price*: this is the total consideration contracted with the counterparty over the duration of the contract.
- Allocation of the price to the various *performance obligations*: in proportion to the respective stand-alone *selling prices* determined from the list prices.
- Recognition of revenue subject to fulfilment of performance obligations.

***(a) Sale of goods***

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

***(b) Service provision***

Income for provided services are accounted for based on their progress in the business year they are rendered.

## Distributions of Dividends

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

## Profit per Share

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

## Public Contributions

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

## Currency conversions

All values are rounded to the nearest Euro.

***(a) Functional currency and listing currency***

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

***(b) Assets, liabilities and transactions in foreign currencies***

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

***(c) Group companies***

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

## Fair Value

The *fair value* of financial instruments exchanged on an active market is determined on the basis of market prices on the closing date of the financial statements. The market price used as reference for financial assets held by the Group is the current price of sale (or price of purchase for financial liabilities).
The *fair value* of financial instruments exchanged on an active market is determined by a whole set of estimating techniques and assumptions, based on the market conditions existent on the closing date of the financial statements. For medium and long-term liabilities, the prices of similar financial instruments exchanged are compared, while the financial flows are updated for other categories of financial instruments.
The *fair value* of IRS is determined by updating the estimated cash flow deriving from the latter on the closing date.
For credits, it is presumed that the nominal value net of any adjustments made to account for their collectability is close to the *fair value*. For the purpose of the required information provided in this report, the *fair value* of financial liabilities is determined by updating cash flow generated by contracts at an interest rate approximating the market rate the Group applies to fund its business.

# Discretional assumptions and significant accounting estimates

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

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

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

***Goodwill recovery***

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

***Research and development costs***

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

***Prepaid and deferred taxes***

Deferred tax receivables and payables entered in the financial statements are determined by applying the difference between the statutory value and the fiscally recognised value of the various assets and liabilities, the tax rates that are presumed to apply in the various countries in the year the temporary differences are expected to fall short. Prepaid taxes relating to fiscal losses reportable in following years are entered in the financial statements only if and to the extent that the management expects the concerned company to generate a fiscal profit in those years, such as to allow their absorption.
If arising circumstances after the estimates are made induce management to modify those evaluations, i.e. the rate used in calculating the deferred taxes has changed, the items entered in the financial statements are accordingly adjusted.

***Inventory Provision***

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

***Credit impairment***

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

***Employee Benefits***

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

# Variations to accounting principles

## Accounting principles and interpretations transposed by the European Union and applicable from January 1, 2019

In accordance with the requirements of IAS 8 (*Accounting principles, changes in accounting estimates and errors*), the IFRS in force at January 1, 2019 are indicated and briefly illustrated below.

### IFRS 16 – Leases

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

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

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

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

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

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

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

exercise of extension and early termination options.

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

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

Following is a summary of how adoption of the new standards affected consolidated financial statements.

| VALUES EXPRESSED IN EURO THOUSAND | DEC 31, 2018 | IFRS16 EFFECT | JAN 01, 2019 |
|---|---|---|---|
| Non current assets | 205,211 | 27,066 | 232,277 |
| Current assets | 336,661 | - | 336,661 |
| Assets held for sale | 1,234 | - | 1,234 |
| **Total Assets** | **543,106** | **27,066** | **570,172** |
| Net Equity | 169,772 | - | 169,772 |
| Non current liabilities | 126,917 | 22,824 | 149,741 |
| Current liabilities | 246,417 | 4,242 | 250,659 |
| **Total Liabilities** | **543,106** | **27,066** | **570,172** |

At December 31, 2019 the Group recorded Euro 30,565 thousand in Rights of use after disclosure of Euro 5,381 thousand in amortisation and Euro 31,235 thousand in financial liabilities (including Euro 26,835 thousand classified as long-term). During the quarter, Euro 920 thousand of financial charges were recorded in the income statement.

### IFRIC 23 – Uncertainty over Income Tax Treatments (Reg. EU No 2018/1595)

The interpretation clarifies how to reflect uncertainty for accounting in income taxes in the event that the tax treatment on a specific transaction is unclear. The interpretation clarifies that tax treatment uncertainties should only be reflected in the financial statements, if the entity is likely to pay or recover the amount in question.

### Amendments to IFRS 9 – Financial Instruments – Prepayment features with negative compensation (Reg. EU No 2018/498)

The changes clarify the classification of certain financial assets that are repayable in advance.

### Amendments to IAS 28 – Long-term interests in Associates and Joint Ventures (Reg. EU No 2019/237)

This document amendment clarifies the need for application of IFRS 9, including *impairment*-related requirements, to other long-term interests in associates and joint ventures to which the equity method is not applied.

### Improvements to IFRSs (2015-2017 Cycle) (Reg. EU No 2019/412)

The amendments concern the following principles:

- IFRS 3, when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business;
- IFRS 11, when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business;
- IAS 12, an entity shall recognise the income tax consequences of dividends consistently with the transactions that generated the distributable profits; the entity must disclose the related income tax consequences in profit or loss, other comprehensive income or equity, depending on where the entity recognised the originating transactions;
- IAS 23, to the extent that an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate shall be the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period.

### Amendments to IAS 19 (Regulation (EU) No 2019/402)

The amendments specify that when an entity recalculates its net benefit liability (asset) determined after a plan amendment, curtailment or settlement, it should use updated actuarial assumptions to determine the current service cost and net interest for the remainder of the annual reporting period.

The adoption of these amendments and interpretations, with the exception of the principles of IFRS 16, did not affect the consolidated half-year financial statements to December 31, 2019.

## Accounting Principles and interpretations issued by IASB and transposed by the European Union

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

### Amendments to IAS 1 and IAS 8

On November 29, 2019 the European Commission issued Regulation No 2019/2104 harmonising the document "Amendments to IAS 1 and IAS 8: definition of material". The definition of material was integrated with the concept of "obscure" information, that is, information that is communicated in a way that would have a similar effect for users of financial statements to omitting or misstating that information.
The amended IAS 1 states that "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity". This amendment led to the transposition of the new definition of material in IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, IAS 10 – Events After the Reporting Period, IAS 34 – Interim Financial Reporting, IAS 37 – Provisions, Contingent Liabilities and Contingent Assets.

### Amendments to References to the Conceptual Framework in IFRS Standards

On November 29, 2019 the European Commission issued Regulation No 2019/2075 harmonising the document "Amendments to the Conceptual Framework in IFRS". The changes are intended to update the existing references to the previous "systematic framework" into different international standards and their interpretations, replacing them with references to the revised "Conceptual Framework".

Neither of the amendments described above, applicable from financial years beginning on or after January 1, 2020, will have a significant impact on the financial statements.

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

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

- IFRS 17 – Insurance Contracts, issued on May 18, 2017 and applicable to annual reporting periods beginning on or after January 1, 2021, regulates the accounting treatment of insurance contracts issued and reinsurance contracts held.
- Amendments to IFRS 3 – Business Combinations, issued 22 October 2018, are intended to clarify in practical terms whether a transaction should be accounted for as a business combination or as an asset acquisition. This amendment is applicable to reporting periods beginning on or after January 1, 2020.
- Amendments to IFRS 9, IAS 39 and IFRS 7- Interest Rate Benchmark Reform, issued September 26, 2019. The aim of these amendments is to avoids entities having to discontinue hedges as a result of uncertainties resulting from the IBOR reform introduced by the *European Financial Benchmark Regulation*. In particular it addresses concerns regarding an inability to meet the specific accounting requirements for hedging transactions in the periods before the transition. These amendments are applicable to reporting periods beginning on or after January 1, 2020.

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

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

## CHAPTER 8

# Explanatory Notes to Consolidated Financial Statements December 31, 2019

# Chapter 8 - Explanatory notes to the Consolidated Financial Statements at December 31, 2019

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

## Sector report

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

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

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

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

The PRIMA ADDITIVE Division, established in the second half of 2018 and dedicated to the design, production and sale of turnkey solutions for the main Additive Manufacturing technologies: Powder Bed Fusion (PBF) and Direct Metal Deposition (DMD), and the related support and services. The division boasts a strong team of highly specialised young experts, qualified managers and engineers. The purpose of this division is to support the development of these new technologies and enter the market with new machine ranges. Thanks to this investment, the new activities will be focused on additive manufacturing and, more generally, the pursuit of technological innovation.
The financial and equity data of PRIMA ADDITIVE are currently negligible and do not meet the thresholds set out in IFRS 8 for disclosure purposes. Therefore, for the time being, the division's information will be aggregated to the data for PRIMA POWER.

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

The figures Financial year 2019 take account of the Group's adoption of the new IFRS 16 "*Leases*". The modified retrospective method was applied without *restatement* of comparative data.

| VALUES IN EURO THOUSAND | PRIMA POWER DEC 31, 2019 | PRIMA POWER DEC 31, 2018 | PRIMA ELECTRO DEC 31, 2019 | PRIMA ELECTRO DEC 31, 2018 | ELIMINATION DEC 31, 2019 | ELIMINATION DEC 31, 2018 | PRIMA INDUSTRIE GROUP DEC 31, 2019 | PRIMA INDUSTRIE GROUP DEC 31, 2018 |
|---|---|---|---|---|---|---|---|---|
| Net revenues | 398,629 | 434,617 | 51,163 | 58,858 | (22,210) | (26,543) | 427,582 | 466,932 |
| Cost of goods sold | (311,905) | (334,996) | (40,450) | (45,804) | 22,594 | 26,005 | (329,761) | (354,795) |
| **GROSS MARGIN** | **86,724** | **99,621** | **10,713** | **13,054** | **384** | **(538)** | **97,821** | **112,137** |
| Research and Development costs | (19,986) | (18,604) | (5,391) | (5,570) | 374 | - | (25,003) | (24,174) |
| Sales and marketing expenses | (28,966) | (29,207) | (2,289) | (2,299) | - | 1 | (31,255) | (31,505) |
| General and administrative expenses | (22,240) | (24,553) | (5,022) | (3,868) | 90 | 4 | (27,172) | (28,417) |
| **OPERATING PROFIT (EBIT)** | **15,532** | **27,257** | **(1,989)** | **1,317** | **848** | **(533)** | **14,391** | **28,041** |
| Net financial expenses | (5,131) | (7,803) | (977) | (608) | - | - | (6,108) | (8,411) |
| Net exchange differences | (347) | (307) | (61) | 65 | - | - | (408) | (242) |
| Net result of investments accounted for using the equity method | (24) | - | - | - | - | - | (24) | - |
| Net result of other investments | - | - | 2,605 | 7,233 | - | - | 2,605 | 7,233 |
| **RESULT BEFORE TAXES (EBT)** | **10,030** | **19,147** | **(422)** | **8,007** | **848** | **(533)** | **10,456** | **26,621** |
| Taxes | (2,289) | (2,560) | 996 | (154) | (345) | 151 | (1,638) | (2,563) |
| **NET RESULT** | **7,741** | **16,587** | **574** | **7,853** | **503** | **(382)** | **8,818** | **24,058** |
| *- Attributable to Group shareholders* | *7,969* | *16,585* | *574* | *7,853* | *503* | *(382)* | *9,046* | *24,056* |
| *- Attributable to minority shareholders* | *(228)* | *2* | *-* | *-* | *-* | *-* | *(228)* | *2* |

| VALUES IN EURO THOUSAND | PRIMA POWER DEC 31, 2019 | PRIMA POWER DEC 31, 2018 | PRIMA ELECTRO DEC 31, 2019 | PRIMA ELECTRO DEC 31, 2018 | ELIMINATION DEC 31, 2019 | ELIMINATION DEC 31, 2018 | PRIMA INDUSTRIE GROUP DEC 31, 2019 | PRIMA INDUSTRIE GROUP DEC 31, 2018 |
|---|---|---|---|---|---|---|---|---|
| Property, plant and equipment | 55,275 | 26,514 | 13,905 | 10,235 | - | - | 69,180 | 36,749 |
| Intangible assets | 121,443 | 127,531 | 13,474 | 20,482 | (212) | (3,013) | 134,705 | 145,000 |
| Investments accounted for using the equity method | 394 | - | - | - | - | - | 394 | - |
| Other investments | 17,353 | 17,485 | 49 | 73 | (10,944) | (10,945) | 6,458 | 6,613 |
| Non current financial assets | 2,728 | 3,362 | 1,515 | 1,515 | - | (1) | 4,243 | 4,876 |
| Deferred tax assets | 9,957 | 8,024 | 4,413 | 3,415 | 301 | 534 | 14,671 | 11,973 |
| Other non current assets | - | - | - | - | - | - | - | - |
| **NON CURRENT ASSETS** | **207,150** | **182,916** | **33,356** | **35,720** | **(10,855)** | **(13,425)** | **229,651** | **205,211** |
| Inventories | 103,473 | 113,682 | 25,404 | 24,085 | (1,059) | (1,904) | 127,818 | 135,863 |
| Trade receivables | 80,310 | 104,760 | 14,991 | 15,411 | (9,895) | (9,414) | 85,406 | 110,757 |
| Other receivables | 7,497 | 7,516 | 1,797 | 1,410 | 4 | 3 | 9,298 | 8,929 |
| Current tax receivables | 7,253 | 5,964 | 1,217 | 4,275 | (413) | (572) | 8,057 | 9,667 |
| Derivatives | - | 26 | - | - | - | - | - | 26 |
| Financial assets | 9,066 | 5,631 | - | - | (8,534) | (5,290) | 532 | 341 |
| Cash and cash equivalents | 52,611 | 68,940 | 2,525 | 2,138 | - | - | 55,136 | 71,078 |
| **CURRENT ASSETS** | **260,210** | **306,519** | **45,934** | **47,319** | **(19,897)** | **(17,177)** | **286,247** | **336,661** |
| **Assets held for sale** | **229** | **1,234** | **4,000** | **-** | **-** | **-** | **4,229** | **1,234** |
| **TOTAL ASSETS** | **467,589** | **490,669** | **83,290** | **83,039** | **(30,752)** | **(30,602)** | **520,127** | **543,106** |
| **STOCKHOLDERS' EQUITY** | **148,902** | **144,858** | **38,180** | **40,188** | **(11,969)** | **(15,274)** | **175,113** | **169,772** |
| Interest-bearing loans and borrowings | 107,958 | 107,402 | 18,239 | 11,068 | (8,457) | (5,290) | 117,740 | 113,180 |
| Employee benefit liabilities | 5,333 | 5,111 | 1,685 | 2,459 | (1) | - | 7,017 | 7,570 |
| Deferred tax liabilities | 3,541 | 3,582 | 1,825 | 1,863 | - | (112) | 5,366 | 5,333 |
| Provisions | 222 | 197 | - | - | - | 1 | 222 | 198 |
| Derivatives | 600 | 636 | - | - | - | - | 600 | 636 |
| **NON CURRENT LIABILITIES** | **117,654** | **116,928** | **21,749** | **15,390** | **(8,458)** | **(5,401)** | **130,945** | **126,917** |
| Trade payables | 79,995 | 109,218 | 11,224 | 15,325 | (9,929) | (9,402) | 81,290 | 115,141 |
| Advance payments | 34,232 | 40,017 | 171 | 216 | 312 | 312 | 34,715 | 40,545 |
| Other payables | 19,232 | 20,704 | 2,829 | 2,961 | - | (1) | 22,061 | 23,664 |
| Interest-bearing loans and borrowings | 41,080 | 29,616 | 7,867 | 7,412 | (33) | - | 48,914 | 37,028 |
| Current tax payables | 6,550 | 7,006 | 315 | 691 | (420) | (580) | 6,445 | 7,117 |
| Provisions | 19,944 | 22,206 | 955 | 856 | (255) | (256) | 20,644 | 22,806 |
| Derivatives | - | 116 | - | - | - | - | - | 116 |
| **CURRENT LIABILITIES** | **201,033** | **228,883** | **23,361** | **27,461** | **(10,325)** | **(9,927)** | **214,069** | **246,417** |
| **TOTAL STOCKHOLDERS' EQUITY AND LIABILITIES** | **467,589** | **490,669** | **83,290** | **83,039** | **(30,752)** | **(30,602)** | **520,127** | **543,106** |

# Prima Power

Revenues for the PRIMA POWER division decreased by 8.3% from the previous year. The division achieved excellent revenues in Italy (16.2% of the division's revenues), in Northern Europe (7.8%), Germany, Austria and Switzerland (7.5%) in Spain and Portugal (7.4%). Sales in NAFTA countries account for 26.2% of the division's revenues, whereas China accounts for 10.0%.

EBIT at December 31, 2019 amounts to Euro 15,532 thousand and had decreased by Euro 11,725 thousand; this result is affected by amortization and *impairment* for Euro 17,661 thousand, of which Euro 6,727 thousand related to amortization of development costs and to the amortization relating to Trademark registration recognised in the business merger of the FINN-POWER Group equal to Euro 1,847 thousand.

It should be specified that EBIT at December 31, 2019 is affected by non-recurring events of Euro 3,205 thousand and relate mainly to Euro 1,452 thousand for restructuring/reorganisation costs, Euro 1,130 thousand for legal/ tax litigation costs and penalties from customers and Euro 623 thousand *impairment* on development costs. At December 31, 2018, non-recurring events were Euro 3,529 thousand.

# Prima Electro

Revenues in the PRIMA ELECTRO division are decreased by Euro 7,695 thousand from December 31, 2018 (equal to -13.1%). EBIT was negative at Euro 1,989 thousand and decreased by Euro 3,306 thousand compared to the previous year. This result is affected by Euro 2,846 thousand for amortization of tangible assets, Euro 2,520 thousand for amortization of intangible fixed assets and the aforementioned *impairment* of CGU PRIMA ELECTRO – BU Laser *goodwill* for Euro 1,014 thousand.

# Consolidated financial position

## 1. Property, plant and equipment

Property, plant and equipment on December 31, 2019 are equal to Euro 69,180 thousand an increase of Euro 32,431 thousand compared with December 31, 2018.

For further details, see the table below.

| PROPERTY, PLANT AND EQUIPMENT | LAND AND BUILDING | PLANTS AND MACHINERY | INDUSTRIAL AND COMMERCIAL EQUIPMENT | OTHER TANGIBLE FIXED ASSETS | FIXED ASSETS UNDER CONSTRUCTION | TOTAL |
|---|---|---|---|---|---|---|
| **Net value as at December 31, 2017** | **24,979** | **3,145** | **3,326** | **2,522** | **1,655** | **35,628** |
| **Movements 2018** | | | | | | |
| Increases | 141 | 2,029 | 1,200 | 2,780 | 1,210 | 7,360 |
| Disinvestments | (61) | (490) | (61) | (1,337) | (138) | (2,087) |
| Utilization of accumulated depreciation | 61 | 443 | 59 | 1,319 | - | 1,882 |
| Depreciation | (1,116) | (768) | (1,403) | (1,242) | - | (4,529) |
| Reclassifications with tangible fixed assets | 991 | 88 | 273 | 94 | (1,446) | - |
| Reclassifications with Assets held for sale | (1,531) | - | - | - | - | (1,531) |
| Differences on exchange rates | 2 | (6) | 63 | (21) | (12) | 26 |
| **Net value as at December 31, 2018** | **23,466** | **4,441** | **3,457** | **4,115** | **1,269** | **36,749** |
| **Movements 2019** | | | | | | |
| Rights of use derived from the first application of IFRS16 | 21,514 | 818 | 225 | 4,509 | - | 27,066 |
| Increases | 7,017 | 2,832 | 1,764 | 4,534 | 379 | 16,526 |
| Disinvestments | (291) | (390) | (100) | (945) | (39) | (1,765) |
| Utilization of accumulated depreciation | 40 | 224 | 96 | 608 | - | 968 |
| Depreciation | (3,945) | (1,236) | (1,598) | (3,693) | - | (10,472) |
| Reclassifications with tangible fixed assets | 320 | - | 330 | 104 | (754) | - |
| Reclassifications with intangible fixed assets | - | - | - | - | (61) | (61) |
| Differences on exchange rates | 78 | 4 | 30 | 51 | 6 | 169 |
| **Net value as at December 31, 2019** | **48,199** | **6,693** | **4,204** | **9,283** | **800** | **69,180** |
| ***Of which Rights of use derived from the first application of IFRS16*** | | | | | | |
| Increases derived from the first application of IFRS16 | 21,514 | 818 | 225 | 4,509 | - | 27,066 |
| Increases | 6,819 | 34 | - | 2,560 | - | 9,413 |
| Disinvestments | (238) | (18) | - | (297) | - | (553) |
| Depreciation | (2,851) | (187) | (82) | (2,261) | - | (5,381) |
| Differences on exchange rates | 10 | - | - | 10 | - | 20 |
| **Total Rights of use** | **25,254** | **647** | **143** | **4,521** | **-** | **30,565** |

This increase includes Euro 30,565 thousand for rights of use recorded for first application of the new IFRS 16, net of Euro 5,381 thousand of depreciation.
The remaining increases equal to Euro 7,113 thousand, relate mainly to Industrial and commercial equipment and Other assets (which include electronic office machinery, furniture, vehicles).

Depreciation in the year totalled Euro 10,472 thousand, while exchange rate differences had a positive impact of Euro 169 thousand.

## 2. Intangible assets

The intangible assets on December 31, 2019 are equal to Euro 134,705 thousand and decreased by Euro 10,295 thousand compared with December 31, 2018.

For more details, refer to the table below.

| INTANGIBLE ASSETS | GOODWILL | DEVELOPMENT COSTS | OTHER INTAGLIBLE ASSETS | TOTAL |
|---|---|---|---|---|
| **Net value as at December 31, 2017** | **102,911** | **35,099** | **11,593** | **149,603** |
| **Movements 2018** | | | | |
| Increases/(decreases) | - | 5,431 | 1,399 | 6,830 |
| Depreciation | - | (8,463) | (2,700) | (11,163) |
| *Impairment* | - | (645) | - | (645) |
| Differences on exchange rates | 121 | 258 | (4) | 375 |
| **Net value as at December 31, 2018** | **103,032** | **31,680** | **10,288** | **145,000** |
| **Movements 2019** | | | | |
| Increases/(decreases) | - | 5,972 | 733 | 6,705 |
| Depreciation | - | (9,140) | (2,792) | (11,932) |
| *Impairment* | (1,014) | (623) | - | (1,637) |
| Reclassifications with others items | - | 1,034 | 61 | 1,095 |
| OSAI business sale | (4,162) | (520) | - | (4,682) |
| Differences on exchange rates | 38 | 109 | 9 | 156 |
| **Net value as at December 31, 2019** | **97,894** | **28,512** | **8,299** | **134,705** |

The most significant item is represented by Goodwill, which on December 31, 2019 amounts to Euro 97,894 thousand.

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

| CASH GENERATING UNIT | BOOK VALUE GOODWILL DECEMBER 31, 2019 | BOOK VALUE GOODWILL DECEMBER 31, 2018 |
|---|---|---|
| PRIMA POWER | 97,741 | 97,708 |
| PRIMA ELECTRO - BU Electronics | 153 | 4,316 |
| PRIMA ELECTRO - BU Laser | - | 1,008 |
| **TOTAL** | **97,894** | **103,032** |

## Prima Power

At December 31, 2019, the recoverable value of the cash generating unit underwent an impairment test to ascertain any loss in value. This involved a comparison of the book value of the unit (including goodwill) and its value in use, that is the present value of the expected future cash flows from its continuous use and from its disposal at the end of its useful life.

The value in use was determined by discounting the cash flows in the PRIMA POWER segment business plan approved by the Board of Directors of PRIMA INDUSTRIE SpA and concerning the period January 1, 2020 – December 31, 2022. The assumptions in the cash flow forecast in the explicit projection period were based on prudential finding and use realistic and achievable future expectations. In order to determine the value in use of the CGU, the sum of the explicit projection cash flows, discounted by 3 years, and a terminal value were considered, to determine the criteria for discounting the perpetual annuity. The discount rate applied to future cash flows was 7.82% post-tax (at December 31, 2018 the *post-tax* was 8.44%), calculated in consideration of the sector in which the CGU operates, the countries in which the CGU is expected to achieve the planned results, the fully operational debt structure and the current economic situation. For cash flows of financial years after the explicit projection period, a growth rate of 0.5% (the same used in previous years) was assumed, in line with growth expectations. Determination of the value-in-use using the process illustrated led to a recoverable value above the book value of the cash-flow generating unit, making it possible to avoid any reductions in the value of goodwill allocated to the PRIMA POWER segment.
With respect to the basic assumptions described above, an analysis of sensitivity was made of the results with respect to the WACC, the growth rates (g) and the forecast results. In particular, even with significant increases on the cost of capital and setting to zero the perpetuity growth rate (g), the values of use show no impairment losses. Considering a growth rate (g) of zero, the WACC (*post-tax*) that would make the recoverable value of the CGU equal to its book value would be 14.0%.
A sensitivity test was also performed with forecast results lower than those reflected in the 2020 - 2022 plan. If revenues forecasted for 2020 were reduced by 5% (and likewise EBITDA) and the percentage growth rates were maintained for the following years, hence even (with a *post-tax* WACC of 7.82% and growth rate of 0.5%) the values of use would not show impairment losses. Considering a growth rate (g) of 0.5% and a WACC of 7.82%, a 13% reduction in future revenues (with percentage growth maintained at the same rates in the subsequent years) would make the recoverable value of the CGU the same as its book value.
It should be emphasised that the data for this sensitivity study refers to a theoretical year that has some limitations. Indeed, in the reference *industry*, the greater the revenue contractions, the higher the growth rates during the positive phase of the cycle. Hence a 13% reduction in revenues, keeping the growth rates constant in the following years (i.e. no recovery of the percentage loss of revenues during the five-year period), would mean either a contraction in the machine tools market during the next cycle or a loss in market share for the PRIMA POWER segment. Neither of these events appears likely at the moment.

At the end of the test, the value-in-use of the PRIMA POWER CGU at December 31, 2019 is greater than its book value of around Euro 165 million.

## Prima Electro - Bu Electronics

The change in the value of the goodwill allocated to the BU ELECTRONICS refers to the sale of OSAI by the PRIMA ELECTRO Division.

## Prima Electro - Bu Laser

With regard to the CGU Prima Electro - BU Laser, the Group management identified several *impairment* indicators – albeit in the context of a full write-down of goodwill in the interim consolidated financial statements at June 30, 2019 – which made it necessary to repeat the test for the annual statements, including a rapid change in the world outlook, a fall in orders and current competition dynamics.

The value in use was determined by discounting the cash flows in the PRIMA POWER ELECTRO BU ELECTRONICS business plan approved by the Board of Directors of PRIMA ELECTRO SpA and concerning the period January 1, 2020 – December 31, 2024. The assumptions in the cash flow forecast in the explicit projection period were based on prudential finding and use realistic and achievable future expectations. In order to determine the value in use of the CGU, the sum of the explicit projection cash flows, discounted by 5 years, and a terminal value were considered, to determine the criteria for discounting the perpetual annuity. The discount rate applied to future cash flows was 7.82% (*post-tax*), calculated in consideration of the sector in which the CGU operates, the countries in which the CGU is expected to achieve the planned results, the fully operational debt structure and the current economic situation. For cash flows of financial years after the explicit projection period, a growth rate of 0.5% (the same used in previous years) was assumed, in line with recent market valuations.
Determination of value in use using the above process led to a recoverable value that was higher than the book value of the cash generating unit, making it possible not to make any reduction to the value of the goodwill assigned to the PRIMA ELECTRO BU ELECTRONICS segment.
In terms of the basic assumptions described above, a sensitivity analysis of the results was also carried out in relation to the WACC, the growth rate (g) and the forecast results. Specifically, even with significant increases in the cost of capital and the zeroing of the perpetuity growth rate (g), the values in use show no impairment losses. Indeed fact, assuming a growth rate (g) of zero, the (*post-tax*) WACC that would make the recoverable value of the CGU equal to its book value would be 10.0%.
A sensitivity analysis was also carried out with expected results lower than forecast in the 2020 - 2024 plan. If the revenues forecast for 2020 were to be lower by 5% (and consequently EBITDA) and the percentage growth rates for subsequent financial years remain unchanged, in this case, too (with a *post-tax* WACC of 7.82% and a growth rate of 0.5%), the values in use would not lead to impairment losses. Considering a growth rate (g) of 0.5% and a *post-tax* WACC of 7.82%, a reduction in future revenues of about 7.0% (with percentage growth rates in subsequent years remaining unchanged and with a cost structure consistent with turnover levels), would make the recoverable value of the CGU equal to its book value.

At the end of the test at December 31, 2019, the value in use of the CGU was higher than its book value.

## Other intangible fixed assets

As can be deduced from the year’s progression, most increases in 2019 were due to the capitalisation of development costs.
Considering the *business* of PRIMA INDUSTRIE SpA (and by all other Group companies) having a high technological content, it is absolutely essential to have constant investment in research and development activities. The Group continued to invest significantly in the development of its products, in order to retain a competitive advantage and be ready in this stage of reference market recovery.

The capitalisation of development costs has been carried out by the PRIMA INDUSTRIE Group where there are the conditions set out in IAS 38. For all the development activities of capitalised new projects, the technical feasibility has been verified as well as the generation of probable future economic benefits. The capitalised costs

on development projects are monitored individually and measured in terms of the economic benefits expected from the time of their implementation. The costs capitalised on projects where the technical feasibility is uncertain or no longer strategic are assigned to the Income Statement. The rate applied for the number of hours of internal development reflects the cost of industrial man-hours.
There was an *impairment* of Euro 623 thousand on the development costs previously capitalized by Prima Power Laserdyne, Finn-Power OY and Prima Industrie SpA.

It should be noted that the "Other intangible fixed assets" category contains the trademark deriving from the *Purchase Price Allocation* of FINN-POWER OY occurred in 2008. The net values of the FINN-POWER trademark at December 31, 2019 is equal to Euro 5,725 thousand.
The "FINN-POWER" trademark has been defined an asset with finite life, as we consider that its use for business and production purposes will be limited in time to 15 years, and consequently it is subject to the depreciation process.

## 3. Investments accounted for using the equity method

The shareholding in 3D NT held by PRIMA INDUSTRIE SpA was valued using the equity method, since further shares were acquired during the year 2019 which, when added to those already held at December 31, 2018, take the overall stake to 19.9%. Thus, given the increased investment and the greater technical collaboration, the conditions are in place to change the valuation method starting 2019.

The value at December 31, 2019 of shareholdings valued using the equity method was Euro 394 thousand. The following changes were seen during the period:

- Euro 180 thousand relate to the reclassification of the item "Other Investments"
- Euro 138 thousand relate to the purchase of a further stake;
- Euro 100 thousand in increased share capital which took place in October 2019 and
- a loss of Euro 24 thousand.

## 4. Other Investments

The total value of Other Investments at December 31, 2019 is Euro 6,458 thousand and which is down from December 31, 2018. The decrease of Euro 155 thousand relates mainly to the reclassification of the stake in 3D NT, which is classified among the Shareholdings valued using the equity method, the write-down on the stake in Caretek held by Prima Electro SpA and to positive exchange rate differences for the stake in Lead Laser held by Prima Power Suzhou.

Consequently this heading on December 31, 2019 is composed of:

- Caretek Srl: Euro 49 thousand (investment equal to 19.3% held by PRIMA ELECTRO SpA);
- Fimecc OY: Euro 50 thousand (investment equal to 2.4% held by FINN-POWER OY);
- Härmämedi OY: Euro 25 thousand (investment equal to 8.3% held by FINN-POWER OY);
- Lamiera Servizi Srl: Euro 11 thousand (investment equal to 19% held by PRIMA INDUSTRIE SpA);
- Prima Power Sheet Metal Solution: Euro 41 thousand (investment equal to 19% held by PRIMA INDUSTRIE SpA);
- Lead Laser: Euro 6,244 thousand (investment equal to 19% held by PRIMA POWER SUZHOU);
- other minor investments: Euro 38 thousand.

## 5. Non- current financial assets

This item at December 31, 2019 amounted to Euro 4,243 thousand and refers to:

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

## 6. Deferred tax assets

Tax assets for deferred taxes were Euro 14,671 thousand, increasing from the previous financial year of Euro 2,698 thousand.

| DEFERRED TAX ASSETS | DEC 31, 2019 | DEC 31, 2018 |
|---|---:|---:|
| **Opening balance** | **11,973** | **11,340** |
| Increase | 3,793 | 2,258 |
| Decrease | (1,204) | (1,750) |
| Differences on exchange rates | 109 | 125 |
| **Closing balance** | **14,671** | **11,973** |

Below is the breakdown of Tax assets for deferred taxes at December 31, 2019.

| DEFERRED TAX ASSETS | DEC 31, 2019 | DEC 31, 2018 |
|---|---:|---:|
| Provisions for risks and other liabilities | 4,546 | 4,512 |
| Inventories | 3,257 | 3,606 |
| Tax losses carried forward | 4,955 | 2,357 |
| Employee benefits | 738 | 658 |
| Non-current tangible/intangible assets/Leases | 190 | - |
| Trade receivables | 209 | 208 |
| Other | 776 | 632 |
| **TOTAL** | **14,671** | **11,973** |

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

## 7. Inventories

The following table shows the composition of inventories at December 31, 2019 and December 31, 2018.

| INVENTORIES | DEC 31, 2019 | DEC 31, 2018 |
|---|---|---|
| Raw materials | 42,603 | 48,907 |
| Semi-finished goods | 24,260 | 25,996 |
| Finished goods | 70,787 | 69,370 |
| (Inventory provisions) | (9,832) | (8,410) |
| **TOTAL** | **127,818** | **135,863** |

The net value of inventories on December 31, 2019 shows an decrease equal to Euro 8,045 thousand compared with December 31, 2018.

The inventory provisions during the year 2019 were subject to the following movements.

| INVENTORY PROVISIONS | DEC 31, 2019 |
|---|---|
| **Value as at December 31, 2018** | **(8,410)** |
| Provisions | (2,617) |
| Utilizations | 751 |
| OSAI business sale | 512 |
| Differences on exchange rates | (68) |
| **Value as at December 31, 2019** | **(9,832)** |

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

## 8. Trade Receivables

Net trade receivables at December 31, 2019 amounted to Euro 85,406 thousand a decrease of Euro 25,351 thousand compared to December 31, 2018.

| TRADE RECEIVABLES | DEC 31, 2019 | DEC 31, 2018 |
|---|---|---|
| Receivables from customers | 89,572 | 114,238 |
| Bad Debt Reserve | (4,166) | (3,481) |
| **TOTAL** | **85,406** | **110,757** |

The Bad Debt Reserve during the year 2019 were subject to the following movements.

| BAD DEBT RESERVE | |
|---|---|
| **Value as at December 31, 2018** | **(3,481)** |
| Provisions | (1,281) |
| Utilizations | 313 |
| OSAI business sale | 289 |
| Differences on exchange rates | (6) |
| **Value as at December 31, 2019** | **(4,166)** |

In application of the new IFRS 9, the Group measures trade receivables according to *expected credit loss*. The Group has adopted a simplified approach, therefore the provisions for doubtful accounts reflects expected losses based on the life of the receivable. In determining these provisions, the Group referred to historical experience, external indicators and forecasts.
Specific measurements were made on individual credit positions in certain categories of loans subject to particular elements of risk.

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

| RECEIVABLES BY MATURITY | DEC 31, 2019 |
|---|---|
| Due to expire | 50,201 |
| Expired 0 - 180 days | 24,743 |
| Expired 180 - 365 days | 6,671 |
| Expired over 1 year | 7,957 |
| **TOTAL** | **89,572** |

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

## 9. Other receivables

Other current receivables at December 31, 2019 were Euro 9,298 thousand and increased from the previous year by Euro 369 thousand. Here is a breakdown of Other Receivables compared with the previous year.

| OTHER RECEIVABLES | DEC 31, 2019 | DEC 31, 2018 |
|---|---|---|
| Advances payments to suppliers | 5,679 | 4,391 |
| Contribution to be received for R&D projects | 1,059 | 2,105 |
| Prepayments and accrued income | 1,682 | 1,651 |
| Other receivables | 719 | 552 |
| Advances to employees | 159 | 230 |
| **TOTAL** | **9,298** | **8,929** |

Receivable research and development grants, down by Euro 1,046 thousand from the previous year, are for projects financed by the European Community, the Ministry of Economic Development and the Regione Piemonte to be paid to PRIMA INDUSTRIE SpA and PRIMA ELECTRO SpA.
Accrued income and prepaid expenses mainly include portions of costs (such as insurance, leasing fees, fees for information system and/or software licences) regarding subsequent financial years for which the financial outlay had already been made at December 31, 2019.

## 10. Current tax receivables

The heading amounts to Euro 8,057 thousand at December 31, 2019 and decreased by Euro 1,610 thousand compared to December 31, 2018.

| CURRENT TAX RECEIVABLES | DEC 31, 2019 | DEC 31, 2018 |
|---|---|---|
| VAT receivables | 2,663 | 4,646 |
| Direct tax advances | 2,168 | 1,331 |
| Tax credit for R&D | 2,151 | 2,561 |
| Receivables towards tax authorities | 970 | 1,048 |
| Other receivables for minor tax assets | 59 | 47 |
| Withholding taxes | 46 | 34 |
| **TOTAL** | **8,057** | **9,667** |

The tax receivable amounting to Euro 970 thousand refers to a submission of claims for IRES reimbursement (IRAP deductions for IRES purposes for the years 2007-2011) which arose in February 2013.

## 11. Net Indebtedness

On December 31, 2019 the net financial position(*) of the Group was negative for an amount of Euro 111,586 thousand increasing of Euro 32,071 thousand compared to December 31, 2018 (negative for Euro 79,515 thousand). The net financial position takes account of the new IFRS 16 accounting standard according to which, at January 1, 2019, debt was increased to Euro 27,066 thousand. At December 31, 2019, this debt amounted to Euro 31,235 thousand.

For a better understanding of the variation in the net financial position achieved during fiscal year 2019, refer to the consolidated cash flow statement of the period.

As required by the Consob communication No. DEM/6064293 of July 28, 2006, the net financial position at December 31, 2019 and December 31, 2018 is shown in the following table, determined with the indicated criteria in the CESR (*Committee of European Securities Regulators*) Recommendations of February 10, 2005 “Recommendations for the uniform activation of the European Commission Regulation on Information Sheets” and quoted by Consob itself.

| | NET FINANCIAL POSITION | DEC 31, 2019 | DEC 31, 2018 | VARIATIONS |
|---|---|---|---|---|
| A | CASH | 55,136 | 71,078 | (15,942) |
| B | OTHER CASH AND CASH EQUIVALENTS | - | - | - |
| C | SECURITIES HELD FOR TRADING | - | - | - |
| **D** | **CASH ON HAND (A+B+C)** | **55,136** | **71,078** | **(15,942)** |
| **E** | **CURRENT FINANCIAL RECEIVABLES** | **532** | **367** | **165** |
| F | CURRENT BANK DEBTS | 4,141 | 2,718 | 1,423 |
| G | CURRENT PART OF NON-CURRENT INDEBTEDNESS | 35,250 | 30,474 | 4,776 |
| H | BOND ISSUED | 691 | 693 | (2) |
| I | OTHER CURRENT FINANCIAL DEBTS | 8,832 | 3,259 | 5,573 |
| **J** | **CURRENT FINANCIAL INDEBTEDNESS (F+G+H+I)** | **48,914** | **37,144** | **11,770** |
| **K** | **NET CURRENT FINANCIAL INDEBTEDNESS (J-D-E)** | **(6,754)** | **(34,301)** | **27,547** |
| L | NON-CURRENT BANK DEBTS | 53,059 | 72,818 | (19,759) |
| M | BOND ISSUED | 24,806 | 24,762 | 44 |
| N | OTHER NON-CURRENT FINANCIAL DEBTS | 40,475 | 16,236 | 24,239 |
| **O** | **NON-CURRENT FINANCIAL INDEBTEDNESS (L+M+N)** | **118,340** | **113,816** | **4,524** |
| **P** | **NET FINANCIAL POSITION (K+O)** | **111,586** | **79,515** | **32,071** |

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

| | DEC 31, 2019 | DEC 31, 2018 |
|---|---|---|
| Net financial position com. CONSOB n. DEM/6064293 | 111,586 | 79,515 |
| Term deposit Smilla | (4,233) | (4,233) |
| Deposit Prima Power Suzhou | - | (633) |
| Loan Caretek | (10) | (10) |
| **Net financial indebtedness** | **107,343** | **74,639** |

## Liquidity

Cash and cash equivalents amount to Euro 55,136 thousand and consist of:

- bank deposits for Euro 55,099 thousand and
- cash for Euro 37 thousand.

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

## Current financial receivables

The current financial receivables amount to Euro 532 thousand and include:

- Euro 526 thousand deposit owned by PRIMA POWER SUZHOU;
- receivables from the company Lamiera Servizi of Euro 6 thousand, a subsidiary of PRIMA INDUSTRIE SpA for 19%;

## Bonds issued

Debt to bondholders amount comprehensively to Euro 25,734 thousand, inclusive of accrued and unpaid interests amounting to Euro 734 thousand. Debt refers exclusively to the *Bond* issued during the first quarter of 2018 and expiring on February 9, 2025. The net debt accounted for in the financial statements amounts to Euro 25,497 thousand. The transactions costs incurred at the issuing of the bond were accounted for in reduction of financial debt.

The long term debt amounts to Euro 24,806 thousand beyond 12 months.

## Indebtedness with banks

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

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

At December 31, 2019, the BNL 2017/2022 loan amounted comprehensively to Euro 14,006 thousand, inclusive of accrued and unpaid interests amounting to Euro 6 thousand. The net debt accounted for in the financial statements amounts to Euro 13,953 thousand and the accessory charges incurred at the issuing of the loan are accounted.

The BNL 2017/2022 loan is for Euro 10,978 thousand expiring beyond 12 months.

(*) *Reconciliation between Group net financial position required by CONSOB Communication no. DEM/6064293 of July 28, 2006 and net financial debt (used as a performance indicator) is provided in a specific table in this Explanatory Note.*

At December 31, 2019, the MPS 2018/2023 loan amounted comprehensively to Euro 12,900 thousand, the net debt in the financial statements is equal to Euro 12,880 thousand and includes accessory charges incurred at the time the loan was issued.

The MPS 2018/2023 loan is for Euro 6,488 thousand expiring beyond 12 months.

At December 31, 2019, the BPM 2018/2022 loan amounted comprehensively to Euro 15,667 thousand, the net debt in the financial statements is equal to Euro 15,603 thousand and includes accessory charges incurred at the time the loan was issued.

The BPM 2018/2022 loan is for Euro 11,300 thousand expiring beyond 12 months.

At December 31, 2019, the UNICREDIT 2018/2022 loan amounted comprehensively to Euro 19,666 thousand, the net debt in the financial statements is equal to Euro 19,566 thousand and includes accessory charges incurred at the time the loan was issued.

The UNICREDIT 2018/2022 loan is for Euro 11,053 thousand expiring beyond 12 months.

At December 31, 2019, the INTESA 2018/2023 loan amounted comprehensively to Euro 15,722 thousand, inclusive of accrued and unpaid interests amounting to Euro 55 thousand. The net debt accounted for in the financial statements amounts to Euro 15,657 thousand and the accessory charges incurred at the issuing of the loan are accounted.

The INTESA 2018/2023 loan is for Euro 8,295 thousand expiring beyond 12 months.

Non-current bank debts of Euro 4,345 thousand are included among other bank loans and mainly refer to loans taken out by the two Italian companies PRIMA INDUSTRIE SpA and PRIMA ELECTRO SpA. Non-current bank debts include an interest rate swap (IRS – Interest Instalments Swap) which fair value is equal to Euro 600 thousand.

Current bank debt (including the current portion of non-current indebtedness) includes the short-term portion of the BNL 2017/2022 loans for Euro 2,975 thousand, MPS 2018/2023 loans for Euro 6,393 thousand, BPM 2018/2022 loans for Euro 4,303 thousand, UNICREDIT 2018/2022 loans for Euro 8,513 thousand and the INTESA 2018/2023 loans for Euro 7,362 thousand, in addition to *bank overdrafts* for Euro 4,141 thousand and other bank loans for Euro 5,704 thousand.

## Other financial debts

The Other financial debts amount comprehensively to Euro 49,307 thousand (of which current for Euro 8,832 thousand).

The other financial debts include:

- debts for financial lease amounting to Euro 38,871 thousand (of which current for Euro 5,588 thousand);
- other financial debts for Euro 10,436 thousand (of which current for Euro 3,244 thousand); such debts refer mainly to government loans and to some research grants received by PRIMA INDUSTRIE SpA as project leader, which will soon be distributed among all project partners.

## Financial indicators (*"Covenants"*)

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

The table below details the *ratios* applicable as at December 31, 2019 and for the following measurement periods.

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

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

(*) *for MPS's loan the parameter is < 3.5.*
(**) *covenant applicable only to BPM and MPS loans (for MPS this parameter is <2.0).*

The *covenants* measured on the consolidated financial statements at December 31, 2019 are met.

## Cash flow hedging instruments and accounting for related transactions

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

IFRS 9 classifies, derivatives, which the Group uses only as hedging instruments and not for speculative investment, as assets/liabilities to be measured at *fair value*.

When defining risk management strategies and objectives, transactions require the following characteristics to qualify as a hedging relationship:

- the existence of an economic relationship between the hedged item and the hedging instrument such that the related changes in value would be offset, without this being affected by the counterparty credit risk;
- a hedging relationship that coincides with the entity's risk management objectives, which should be rebalanced where necessary. Any changes to the entity's risk management objectives, or any lapse in the conditions for qualification as hedge transactions, or any rebalancing operations will lead to partial or total discontinuation of the hedge.

At December 31, 2019 the Group holds several derivatives non-current liabilities of which *fair value* is equal to Euro 600 thousand.

***Derivatives non current liabilities***

| TYPE | COMPANY | COUNTERPARTY | EXPIRY DATE | REFERENCE NOTIONAL | MTM DEC 31, 2019 |
|---|---|---|---|---|---|
| IRS - Hedge accounting | Prima Industrie SpA | BNL | Dec 19, 22 | €17,000 | € 116 |
| IRS - Hedge accounting | Prima Industrie SpA | BPM | Dec 31,22 | €20,000 | € 201 |
| IRS - Hedge accounting | Prima Industrie SpA | Unicredit | Dec 31, 22 | €22,222 | € 149 |
| IRS - Hedge accounting | Prima Industrie SpA | Intesa Sanpaolo | March 31, 23 | €15,000 | € 134 |
| | | | | **TOTAL** | **€ 600** |

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

The IFRS 7 classification has the following hierarchy:

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

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

| VALUES IN EURO THOUSAND | DEC 31, 2018 | IFRS16 FIRST ADOPTION | VARIATIONS FROM CASH FLOW | VARIATIONS NOT IN CASH | | | DEC 31, 2019 |
|---|---|---|---|---|---|---|---|
| | | | | ISSUES | EXCHANGE RATE EFFECT | FAIR VALUE | |
| Financial debts | 116,044 | - | (13,758) | - | - | - | 102,286 |
| Bond issued | 25,455 | - | 42 | - | - | - | 25,497 |
| Leasing | 8,709 | 27,066 | (5,802) | 8,855 | 43 | - | 38,871 |
| Derivatives | 752 | - | - | - | - | (152) | 600 |
| **TOTAL** | **150,960** | **27,066** | **(19,518)** | **8,855** | **43** | **(152)** | **167,254** |

## Breakdown of financial payables by expiration and interest rate

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

### Current financial payables

| CURRENT BANK DEBTS | EFFECTIVE INTEREST RATE | EXPIRY | DEC 31, 2019 |
|---|---|---|---|
| Bank overdrafts | N/A | Sight | 4,065 |
| Bank interests | N/A | N/A | 76 |
| **TOTAL** | | | **4,141** |

| CURRENT PART OF NON-CURRENT INDEBTEDNESS | EFFECTIVE INTEREST RATE | EXPIRY | DEC 31, 2019 |
|---|---|---|---|
| Unicredit 2018/2022 | Euribor 6m + 1.85% | Dec 31, 2022 | 8,513 |
| MPS 2018/2023 *revolving* | Euribor 6m + 1.75% | June 30, 2023 | 4,993 |
| BPM 2018/2022 | Euribor 6m + 1.80% | Dec 31 ,2022 | 4,303 |
| Intesa 2018/2023 *revolving* | Euribor 6m + 1.45% | March 31, 2023 | 4,015 |
| Intesa 2018/2023 | Euribor 6m + 1.25% | March 31, 2023 | 3,347 |
| BNL 2017/2022 | Euribor 6m + 1.55% | Dec 19, 2022 | 2,975 |
| Banco do Brasil | 1.70% | Sept 30, 2020 | 1,669 |
| MPS 2018/2023 | Euribor 6m + 1.45% | June 30, 2023 | 1,400 |
| Banco BPM | Euribor 3m + 1.55% | March 31, 2023 | 1,298 |
| Banca d'Alba | Euribor 3m + 1.20% | Dec 31, 2021 | 1,004 |
| UBI | 1.30% | Nov 09, 2020 | 764 |
| CR Savigliano | Euribor 6m + 1.5% | June 30, 2021 | 669 |
| Banca Unicredit/Sace | Euribor 3m + 1.80% | June 30, 2020 | 300 |
| **TOTAL** | | | **35,250** |

| BOND ISSUED | EFFECTIVE INTEREST RATE | EXPIRY | DEC 31, 2019 |
|---|---|---|---|
| Bond | 3.5% | Feb 28, 2025 | 691 |
| **TOTAL** | | | **691** |

| OTHER CURRENT FINANCIAL DEBTS | EFFECTIVE INTEREST RATE | EXPIRY | DEC 31, 2019 |
|---|---|---|---|
| Avangard | N/A | N/A | 1,609 |
| Smilla | 0.50% | Dec 31, 2025 | 1,015 |
| BCC | Euribor 3m + 1.30% | June 30, 2020 | 339 |
| MISE | 0.448% | Nov 26, 2023 | 175 |
| UBI | 0.50% | June 03, 2026 | 106 |
| Leasing | N/A | N/A | 5,588 |
| **TOTAL** | | | **8,832** |

**Non-current financial payables**

| NON-CURRENT BANK DEBTS | EFFECTIVE INTEREST RATE | EXPIRY | DEC 31, 2019 |
|---|---|---|---|
| BPM 2018/2022 | Euribor 6m + 1.80% | Dec 31, 2022 | 11,300 |
| Unicredit 2018/2022 | Euribor 6m + 1.85% | Dec 31, 2022 | 11,053 |
| BNL 2017/2022 | Euribor 6m + 1.55% | Dec 19, 2022 | 10,978 |
| Intesa 2018/2023 | Euribor 6m + 1.25% | Mar 31, 2023 | 8,295 |
| MPS 2018/2023 | Euribor 6m + 1.45% | June 30, 2023 | 6,488 |
| Banco BPM | Euribor 3m + 1.55% | March 31, 2023 | 2,989 |
| Banca d'Alba | Euribor 3m + 1.20% | Dec 31, 2021 | 1,017 |
| Derivative - IRS | N/A | N/A | 600 |
| CR Savigliano | Euribor 6m + 1.5% | June 30, 2021 | 339 |
| **TOTAL** | | | **53,059** |

| BOND ISSUED | EFFECTIVE INTEREST RATE | EXPIRY | DEC 31, 2019 |
|---|---|---|---|
| Bond | 3.5% | Feb 28, 2025 | 24,806 |
| **TOTAL** | | | **24,806** |

| OTHER NON-CURRENT FINANCIAL DEBTS | EFFECTIVE INTEREST RATE | EXPIRY | DEC 31, 2019 |
|---|---|---|---|
| Smilla | 0.50% | Dec 31, 2025 | 5,165 |
| Smilla | Euribor 6m + 3.5% | Dec 31, 2025 | 847 |
| UBI | 0.50% | June 03, 2026 | 649 |
| MISE | 0.448% | Nov 26, 2023 | 531 |
| Leasing | N/A | N/A | 33,283 |
| **TOTAL** | | | **40,475** |

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

| VALUES EXPRESSED IN EURO THOUSAND | 2020 | 2021 | 2022 | 2023 ONWARDS | TOTAL |
|---|---|---|---|---|---|
| CURRENT BANK DEBTS | 4,141 | - | - | - | 4,141 |
| CURRENT PART OF NON-CURRENT INDEBTEDNESS | 35,250 | - | - | - | 35,250 |
| OTHER CURRENT FINANCIAL DEBTS | 8,832 | - | - | - | 8,832 |
| NON-CURRENT BANK DEBTS (*) | - | 25,195 | 21,564 | 5,700 | 52,459 |
| BOND ISSUED | 691 | (44) | (46) | 24,896 | 25,497 |
| OTHER NON-CURRENT FINANCIAL DEBTS | - | 6,744 | 5,434 | 28,297 | 40,475 |
| **TOTAL** | **48,914** | **31,895** | **26,952** | **58,893** | **166,654** |

(*) *excluding the fair value of derivatives*

## 12. Assets held for sale

At December 31, 2019, the value of non-current assets held for sale is Euro 4,229 thousand and increased by Euro 2,995 thousand from the previous financial year; these are the changes:

- sale of a building in Brescia and one of the properties under construction near Mantua, both owned by the parent company Prima Industrie SpA, for a total value of Euro 1,005 thousand;
- the investment for Euro 4,000 thousand in OSAIcnc held by Prima Electro SpA is classified under this item; for more information on this transaction, see the section “2019 Significant events” in the Group Management Report.

## 13. Net equity

### Capital stock

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

### Legal reserve

This item amounts to Euro 5,213 thousand and has increased as a result of the allocation of the mandatory share of the profit accrued in 2018.

## Other reserves

The item Other Reserves has a value of Euro 68,557 thousand and is made up as follows:

- Share Premium Reserve: Euro 57,507 thousand;
- Treasury Stock purchase reserve: negative for Euro 1,966 thousand;
- Share capital increases: this was negative at Euro 1,286 thousand and represents the costs incurred for share capital increases (e.g. bank charges, legal and administrative advice fees, etc.).
- Fair value adjustment reserve: this was negative at Euro 439 thousand and consists of the portion directly entered as net assets, net of taxes, of the market value of derivative contracts hedging exchange rate fluctuation.
- Stock Grant reserve: Euro 13 thousand.
- Other Reserves: Euro 14,728 thousand.

## Currency translation reserve

The currency translation reserve has a positive value of Euro 4,003 thousand and has increased over the previous financial year by Euro 1,297 thousand.

## Retained earnings

This amount, which is positive for Euro 58,954 thousand and includes the results of previous years of consolidated companies as well as the change in the area of consolidation and the capital losses/gains generated as a result of the acquisition or transfer of treasury shares and the effect of actuarial profits/losses net of taxes on severance indemnities for employees. In addition, the amounts relative to differences in accounting methods on the date of IAS/IFRS transition are also included; these refer to adjustments on balances within financial statements drafted in accordance with Italian accounting principles.

## Profit for the year

This item includes the profit for the year, totalling Euro 9,046 thousand (Euro 24,056 thousand on December 31, 2018) attributable to the majority shareholders of the parent company.

## Minority shareholders equity

This item is positive for Euro 3,132 thousand (on December 31, 2018 it was Euro 3,334 thousand) and decreased by Euro 202 thousand compared to the previous financial year. The changes in Net Equity attributable to minority shareholders refer to the overall result for the period.

## Comprehensive income

Overall income for the period is Euro 9,910 thousand and include:

- Profit for the period is Euro 8,818 thousand;
- Currency translation reserve: positive for Euro 1,323 thousand (of which Euro 1,297 thousand refer to the majority shareholders and Euro 26 thousand to minority shareholders);
- Reserve for *fair value* adjustment of derivatives: positive for Euro 26 thousand (net of a tax effect of Euro -8 thousand);
- Effect of actuarial profit/losses on employee severance indemnities according to the application of IAS 19 *revised:* negative for Euro 257 thousand (net of a tax effect of Euro + 82 thousand).

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

Pursuant to the CONSOB Communication of July 28, 2006, the following table illustrates the connection between the result for the year 2019 and the Group's shareholders' equity at December 31, 2019 with the same values of the parent company PRIMA INDUSTRIE SpA.

| RECONCILIATION BETWEEN NET RESULT AND SHAREHOLDERS' EQUITY OF THE PARENT COMPANY AND RELATED GROUP VALUES | SHAREHOLDERS' EQUITY AS AT DEC 31, 2019 | NET RESULT AS AT DEC 31, 2019 | SHAREHOLDERS' EQUITY AS AT DEC 31, 2018 | NET RESULT AS AT DEC 31, 2018 |
|---|---|---|---|---|
| **PRIMA INDUSTRIE S.p.A. Separate Financial Statements** | **96,149** | **(2,164)** | **102,919** | **4,424** |
| Accounting for shareholders' equity and income from subsidiaries | 249,937 | 14,987 | 245,924 | 26,253 |
| Accounting Goodwill including share allocated on Trade Mark and Customer List | 14,049 | (1,394) | 15,467 | (1,823) |
| Elimination of values of consolidated shareholdings in PRIMA INDUSTRIE S.p.A. Financial Statements | (184,311) | - | (186,695) | 5,479 |
| Elimination of infragroup income included in stock and fixed assets | (8,834) | 1,610 | (10,315) | (1,493) |
| Elimination of depreciation/revaluation of consolidated shareholdings | 7,127 | 8,110 | 1,630 | 248 |
| Elimination of dividends paid between subsidiaries | - | (12,222) | - | (9,817) |
| Net result of investments accounted for using the equity method | (24) | (24) | - | - |
| Tax effect on consolidation adjustments | 803 | (48) | 816 | 985 |
| Other consolidate entries | 217 | (37) | 26 | (198) |
| **PRIMA INDUSTRIE Group Financial Statements** | **175,113** | **8,818** | **169,772** | **24,058** |

## 14. Employee benefit liabilities

The item Employees benefits liabilities is equal to Euro 7,017 thousand on December 31, 2019, in decrease compared with December 31, 2018 of Euro 553 thousand; this item includes:

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

The table below compares the items in question.

| EMPLOYEE BENEFITS | DEC 31, 2019 | DEC 31, 2018 |
|---|---|---|
| Severance indemnity fund | 4,282 | 5,115 |
| Fidelity premium and other pension funds | 2,735 | 2,455 |
| **TOTAL** | **7,017** | **7,570** |

The table below shows a Severance Indemnity operation.

| SEVERANCE INDEMNITY FUND | 2019 | 2018 |
|---|---|---|
| **Opening balance** | **5,115** | **5,330** |
| Severance indemnity paid out during the period | (285) | (316) |
| Actuarial gains/losses | 154 | 44 |
| Financial expenses | 60 | 57 |
| Other variations | (762) | - |
| **Closing balance** | **4,282** | **5,115** |

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

| ACTUARIAL HYPOTHESES | DEC 31, 2019 | DEC 31, 2018 |
|---|---|---|
| Annual discount rate | 0.37% - 0.77% | 1.13% - 1.57% |
| Annual inflation rate | 1.00% | 1.50% |
| Annual Severance fund increase rate | 2.25% - 2.5% | 2.63% - 3.0% |

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

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

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

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

## 15. Deferred Tax Liabilities

The Deferred Tax Liabilities are equal to Euro 5,366 thousand, increased by Euro 33 thousand compared with December 31, 2018.

| DEFERRED TAX LIABILITIES | DEC 31, 2019 | DEC 31, 2018 |
|---|---|---|
| **Opening balance** | **5,333** | **5,997** |
| Increase | 958 | 171 |
| Decrease | (983) | (919) |
| Differences on exchange rates | 58 | 84 |
| **Closing balance** | **5,366** | **5,333** |

The composition of the deferred tax liabilities on December 31, 2019 and on December 31, 2018 is shown below.

| DEFERRED TAX LIABILITIES | DEC 31, 2019 | DEC 31, 2018 |
|---|---|---|
| Non-current tangible/intangible assets/Leases | 5,077 | 5,213 |
| Trade receivables/payables and other entries | 289 | 120 |
| **TOTAL** | **5,366** | **5,333** |

It should be noted that the deferred tax liabilities on the trademark deriving from the company merger of the FINN-POWER Group amount to Euro 1,632 thousand.

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

## 16. Provisions

The provisions for liabilities and charges are equal to Euro 20,866 thousand and decreased by Euro 2,138 thousand compared with December 31, 2018; Non-current provisions refer exclusively to the agent client indemnity provision and amounts comprehensively to Euro 222 thousand.

Below a brief overview of the short-term.

| CURRENT PROVISIONS | WARRANTY PROVISIONS AND COMPLETION PROJECT | OTHERS PROVISIONS | TOTAL |
|---|---|---|---|
| **Value as at December 31, 2017** | **23,247** | **1,327** | **24,574** |
| Allocations | 14,834 | 89 | 14,923 |
| Utilizations in the period | (16,337) | (546) | (16,883) |
| Exchange rate differences | 201 | (9) | 192 |
| **Value as at December 31, 2018** | **21,945** | **861** | **22,806** |
| Allocations | 14,558 | 260 | 14,818 |
| Utilizations in the period | (16,628) | (529) | (17,157) |
| Exchange rate differences | 181 | (4) | 177 |
| **Value as at December 31, 2019** | **20,056** | **588** | **20,644** |

Current provisions mainly relate to product warranties (equal to Euro 13,644 thousand) and to the best estimate of costs still to be incurred for the completion of certain activities ancillary to the sale of machinery already sold (equal to Euro 6,412 thousand). The warranty provision relates to the provisions for technical interventions on the Group's products and is considered appropriate in comparison to the warranty costs which have to be provided for.
The other provisions amounting to Euro 588 thousand refer to legal, fiscal procedures and other disputes; these provisions represent the best estimate by management of the liabilities which must be accounted for with regard to legal, fiscal proceedings occasioned during normal operational activity with regard to dealers, clients, suppliers or public authorities.

## 17.Trade payables, advance payments and other payables

The value of payables decreased compared to December 31, 2018 by Euro 33,851 thousand.
The advance payments heading decreased compared to December 31, 2018 and is equal to Euro 34,715 thousand; it has to be noted that this item contains both the advance payments on orders relating to machines which have not yet been delivered, as well as those generated by the application of the IFRS 15 accounting principle relating to machines already delivered, but not yet accepted by the end client and therefore not recognized as revenue.
Other payables decreased to December 31, 2018 by Euro 1,603 thousand and includes social security and welfare payables, payables due to employees, accruals and deferrals and other minor payables.

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

| TRADE, ADVANCES AND OTHER PAYABLES | DEC 31, 2019 | DEC 31, 2018 |
|---|---|---|
| Trade payables | 81,290 | 115,141 |
| Advances | 34,715 | 40,545 |
| Other payables | 22,061 | 23,664 |
| **TOTAL** | **138,066** | **179,350** |

## 18. Current tax payables

Tax payables for current taxes on December 31, 2019 amounts to Euro 6,445 thousand which results in a decrease of Euro 672 thousand compared with December 31, 2018.

The breakdown of tax liabilities is shown below.

| CURRENT TAX PAYABLES | DEC 31, 2019 | DEC 31, 2018 |
|---|---|---|
| Payables for VAT | 3,153 | 3,072 |
| Payables for income taxes | 1,818 | 2,292 |
| Payables for withholding tax | 1,401 | 1,437 |
| Other minor payables | 73 | 316 |
| **TOTAL** | **6,445** | **7,117** |

# Consolidated income statement

As already mentioned previously, the Group presents the income statement by "functional area". In accordance with paragraph 104 of "IAS 1 – Presentation of Financial Statements", personnel costs amount to Euro 112,284 thousand (Euro 111,977 thousand at December 31, 2018). At December 31, 2019, amortization/depreciation and *impairment* were Euro 24,041 thousand (at December 31, 2018 these were Euro 17,018 thousand). It should be noted that the amortization of development costs was Euro 9,140 thousand, while those deriving from the application of the new IFRS16 principle amount to Euro 5,381 thousand.

## 19. Net revenues

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

## 20. Cost of goods sold

"Cost of goods sold" includes costs relating to the functional areas involved directly or indirectly in the generation of revenues with the sale of goods or services. Therefore this item includes the production or purchase cost of products and goods sold. It also includes all costs for materials, processing and overheads directly attributable to production. Furthermore, it contains write-downs on inventories, provisions to cover warranty costs on sold goods, transport and insurance costs incurred for deliveries to customers and sales commissions to agents or third-party distributors. The cost of sales at December 31, 2019 stood at Euro 329,761 thousand down Euro 25,034 thousand from December 31, 2018; the main components include materials (Euro 185,672 thousand), processing and outsourcing (Euro 19,404 thousand).

## 21. Research and development costs

This item includes non-capitalizable research and development costs, *Tech Center* costs and *overheads* and is disclosed net of grants (national and European) entered on an accrual basis. Net research and development costs at December 31, 2019 were Euro 25,003 thousand, up Euro 829 thousand from the previous year; public grants accounted for Euro 2,159 thousand.

## 22. Sales and marketing expenses

This item includes, for allocation, business structure costs such as personnel, trade fairs and events, the demo center, promotional and advertising activities and related overheads.
Sales and marketing costs in 2019 were Euro 31,255 thousand, against Euro 31,505 thousand in 2018.

## 23. General and administrative expenses

This item includes all costs related to Group or Divisional management structures, Finance costs, HR, IT and overheads. General and administration costs were Euro 27,172 thousand in 2019, down from December 31, 2018 (Euro 28,417 thousand).

## 24. Financial Income and expenses

The financial income and expenses of the year 2019 shows a negative result of Euro 6,516 thousand.

| FINANCIAL RESULTS | DEC 31, 2019 | DEC 31, 2018 |
|---|---|---|
| Financial income | 2,241 | 4,452 |
| Financial expenses | (8,349) | (12,863) |
| **Net financial expenses** | **(6,108)** | **(8,411)** |
| Net exchange differences | (408) | (242) |
| **Total Financial Results** | **(6,516)** | **(8,653)** |

Financial income at December 31, 2019 includes earnings of Euro 1,823 thousand from the management of foreign exchange derivatives. It should be noted that financial expenses at December 31, 2019 include Euro 920 thousand deriving from the application of the new IFRS16 principle
Financial expenses include Euro 918 thousand related to Bond and Euro 1,460 thousand related to the loans issued on 2018.
It should be noted that financial expenses as at December 31, 2018 include non-recurring charges due to the full early repayment of the Bond for Euro 1,515 thousand and the Club Deal loan for Euro 370 thousand.

In 2019, net interest of Euro 3,922 thousand was paid.

## 25. Net result from investments accounted for using the equity method

The net result from shareholdings valued using the equity method presented is negative by Euro 24 thousand and concerns the related 3D NT.

## 26. Net result of other investments

The net result of other investments is positive at Euro 2,605 thousand and refers to the gains deriving from the sale of OSAI by the Prima Electro Division for Euro 2,629 thousand and to the write-down of shares in Caretek Srl (held by PRIMA ELECTRO SpA) by Euro 24 thousand.

## 27. Current and deferred taxes

Income tax for the year 2019 showed a net negative balance of Euro 1,638 thousand. The balance of current and deferred taxes is negative by Euro 1,269 thousand, IRAP is equal to Euro 56 thousand and other taxes, including those relating to prior years, are negative for Euro 313 thousand

| TAXES | 2019 | 2018 |
|---|---|---|
| Current income taxes (including tax consolidation for Italian Companies) | (3,874) | (3,559) |
| IRAP (Regional Trade tax) | (56) | (353) |
| Deferred tax | 2,605 | 1,287 |
| Taxes relating to previous year | (299) | 84 |
| Other taxes | (14) | (22) |
| **TOTAL** | **(1,638)** | **(2,563)** |

In 2019, current taxes (including IRAP) of Euro 4,396 thousand were paid.

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

| CURRENT INCOME TAXES | 2019 | 2018 |
|---|---|---|
| Current tax on theoretical income (excluding regional trade tax IRAP) | (3,722) | (7,210) |
| Permanent changes | 4,115 | 2,034 |
| Temporary changes | (1,648) | (394) |
| Utilization/Surplus losses | (2,643) | 2,342 |
| Other differences | 24 | (331) |
| **CURRENT INCOME TAXES** | **(3,874)** | **(3,559)** |

## 28. Result per Share

The earnings per share December 31, 2019, positive by 0.86 Euro (positive by 2.30 Euro on December 31, 2018) is calculated by dividing the profits attributable to the shareholders of the parent company by the average number of ordinary shares in circulation during the financial year.

| RESULT PER SHARE - BASIC | DEC 31, 2019 | DEC 31, 2018 |
|---|---|---|
| Net Result attributable to Group shareholders (Euro/000) | 9,046 | 24,056 |
| Weighted average number of ordinary shares | 10,467,500 | 10,467,500 |
| Result per share (Euro) | 0.86 | 2.30 |

Diluted earnings per share at December 31, 2019 were positive for Euro 0.85 (positive for Euro 2.27 at December 31, 2018), calculated by dividing the result attributable to the shareholders of the Parent Company by the weighted average number of shares in circulation, adjusted to take account of the effects of all potential ordinary shares with a diluting effect. Shares linked to the stock grant plan were considered to have a potential diluting effect.

| RESULT PER SHARE - DILUTED | DEC 31, 2019 | DEC 31, 2018 |
|---|---|---|
| Net Result attributable to Group shareholders (Euro/000) | 9,046 | 24,056 |
| Weighted average number of ordinary shares | 10,467,500 | 10,467,500 |
| Weighted average number of ordinary shares adjusted | 10,606,434 | 10,617,500 |
| Result per share (Euro) | 0.85 | 2.27 |

# Information on transparency and public funds

In accordance with article 1, paragraphs 125-129 of Italian Law no. 124/2017 as amended by Decree Law no. 113/2018 on "Security" and Decree Law no. 135/2018 on "Simplification", we disclose the information regarding subsidies, contributions, paid assignments and any kind of economic advantages granted to the Italian companies of the PRIMA INDUSTRIE Group in the financial year 2019 by public authorities and a number of similar bodies with which they have economic relations.

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

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

*Values espressed in Euro thousand*

| BENEFICIARY | SUPPLYING AUTHORITY | DESCRIPTION | AMOUNT RECEIVED |
|---|---|---|---|
| Prima Industrie SpA | Ministry of Economic Development | Tax credit for R&D | 1,391 |
| Prima Industrie SpA | European Union | R&D subsidy | 3,122 |
| Prima Industrie SpA | Piedmont Region | R&D subsidy | 190 |
| Prima Electro SpA | Piedmont Region | R&D subsidy | 965 |
| Prima Electro SpA | Ministry of Economic Development | Tax credit for R&D | 1,140 |
| **Total** | | | **6,808** |

The information regarding subsidies, contributions, paid assignments and any kind of economic advantages granted to the Italian companies of the PRIMA INDUSTRIE Group in the financial year 2019 is shown below.

*Values espressed in Euro thousand*

| BENEFICIARY | SUPPLYING AUTHORITY | DESCRIPTION | AMOUNT DUE |
|---|---|---|---|
| Prima Industrie SpA | Ministry of Economic Development | Tax credit for R&D | 1,337 |
| Prima Industrie SpA | European Union | R&D subsidy | 1,122 |
| Prima Industrie SpA | Piedmont Region | R&D subsidy | 93 |
| Prima Electro SpA | Piedmont Region | R&D subsidy | 287 |
| Prima Electro SpA | European Union | R&D subsidy | 248 |
| Prima Electro SpA | Ministry of Economic Development | Tax credit for R&D | 782 |
| **Total** | | | **3,869** |

# Guarantees granted, commitments and other potential liabilities

The situation of the guarantees granted and commitments made by the Group at December 31, 2019 is shown below.

| VALUES EXPRESSED IN EURO THOUSAND | DEC 31, 2019 | DEC 31, 2018 |
|---|---|---|
| Guarantees granted | 35,147 | 45,538 |
| Commitments to leasing companies | 1,566 | 1,373 |
| **TOTAL** | **36,713** | **46,911** |

At December 31, 2019 the guarantees granted by PRIMA INDUSTRIE Group amounted to Euro 35,147 thousand and refer to guarantees to trade counterparties and sureties to credit institutions.
"Commitments to leasing companies" refer to repurchase agreements for sales made through financial intermediaries.
The PRIMA INDUSTRIE Group, in addition to probable liabilities for which provisions have been allocated in the related risks provisions, does not have potential liabilities, as described in IAS 37, to be indicated.

# Information on related parties

Below is information on related parties with regard to the bodies for the administration, control and strategic management of the Leeport Group and the companies 3D-NT and Rodstein.
The LEEPORT Group sells industrial machinery worldwide and is considered a related party as chairman and CEO Lee Joseph acquired more than 10% of shares in PRIMA INDUSTRIE SpA in 2019.
3D-NT and Rodstein are considered related parties since several people with managerial or partner roles in PRIMA INDUSTRIE SpA are involved in the said companies.

| OPERATIONS WITH RELATED PARTIES | ADMINISTRATIVE, CONTROL BOARDS AND STRATEGIC MANAGEMENT | LEEPORT | 3D-NT | RODSTEIN | TOTAL |
|---|---|---|---|---|---|
| RECEIVABLES AS AT Jan 01, 2019 | - | - | 72 | - | 72 |
| **RECEIVABLES AS AT Dec 31, 2019** | **-** | **1,993** | **106** | **-** | **2,099** |
| PAYABLES AS AT Jan 01, 2019 | 850 | - | - | - | 850 |
| **PAYABLES AS AT Dec 31, 2019** | **519** | **94** | **-** | **-** | **613** |
| **REVENUES Jan 01, 2019 - Dec 31, 2019** | **-** | **6,885** | **90** | **-** | **6,975** |
| **COSTS Jan 01, 2019 - Dec 31, 2019** | **1,504** | **76** | **-** | **10** | **1,590** |
| ***VARIATIONS IN RECEIVABLES*** | | | | | |
| Jan 01, 2019 - Dec 31, 2019 | - | 1,993 | 34 | - | 2,027 |
| ***VARIATIONS IN PAYABLES*** | | | | | |
| Jan 01, 2019 - Dec 31, 2019 | (331) | 94 | - | - | (237) |

# Management of Financial risks

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

The PRIMA INDUSTRIE Group is mainly exposed to the following categories of risk:
- Interest rate risk
- Exchange rate risk
- Credit risk
- Liquidity risk

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

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

## Interest rate risk

The debit position towards the credit system and capital markets can be negotiated at a fixed or variable rate.
Variations of interest rate in the market generate the following categories of risk:
- an increase in market interest rates exposes to the risk of greater financial burdens to be paid on the quota of variable interest rate debits;
- a decrease in market interest rates exposes to the risk of excessive financial burdens to be paid on the quota of fixed interest rate debits.

In particular, the strategies adopted by the Group to confront these risks are as follows:
- Interest rate ⟶ Management/Hedging

Exposure to interest rates is by nature structural, in that the net financial position generates net financial burdens subject to the volatility of interest rates, according to the contractual conditions established with the financing party. Consequently, the identified strategy is of Management/Hedging and is confirmed by:
- Continuous *Monitoring* of the exposure to interest rate risks;
- *Hedging* activity through derivative financial instruments.

## Exchange rate risk

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

In particular, the strategies primarily adopted by the Group to confront these risks are as follows:
- Exchange rate ⟶ Management/Hedging

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

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

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

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

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

## Credit risk

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

## Liquidity risk

The liquidity risk represents the risk that financial resources are not sufficient to fund the financial and commercial obligations within the pre-established periods and due dates.
The risk of liquidity to which the group is subject may emerge from late payments on its sales and more generally from the difficulty of obtaining financing to support operational activities in the time necessary. Cash flows, financing needs and the liquidity of the Group's companies are monitored or managed centrally under the control of the Group Treasury, with the aims of guaranteeing effective and efficient management of financial resources.
The Group operates with the aim of carrying out collection operations on the various financial markets with varied techniques, with the aim of guaranteeing a correct level of liquidity both current and future. The strategic aim is to ensure that at any moment the group has sufficient credit lines to service financial due dates over the following twelve months.
The current difficult market environment whether operational or financial requires particular attention to the management of liquidity risks and, in this sense, particular attention is given to those actions aimed at generating financial resources through operational management and the maintenance of an adequate level of available liquidity.

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

# Significant not recurring items

The table below summarises non-recurring items that have had a negative impact on the Income Statement in 2019 for a total of Euro 1,732 thousand.

| SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS (VALUES EXPRESSED IN EURO THOUSAND) | GROSS MARGIN | RESEARCH AND DEVELOPMENT COSTS | SALES AND MARKETING EXPENSES | GENERAL AND ADMINISTRATIVE EXPENSES | FINANCIAL INCOME AND EXPENSES | TOTAL AS AT DEC 31, 2019 | TOTAL AS AT DEC 31, 2018 | VARIATION BETWEEN 2019 AND 2018 |
|---|---|---|---|---|---|---|---|---|
| Actions of reorganization/ Restructuring | (377) | (400) | (464) | (211) | - | (1,452) | (1,160) | (292) |
| Legal/fiscal disputes and penalties from customers | (629) | - | (1) | (500) | - | (1,130) | (1,685) | 555 |
| *Impairment* of intangible fixed assets | - | (623) | - | - | - | (623) | (645) | 22 |
| *Impairment* of tangible fixed assets | - | - | - | - | - | - | (681) | 681 |
| *Impairment* of Goodwill | - | - | - | (1,014) | - | (1,014) | - | (1,014) |
| **EBIT** | **(1,006)** | **(1,023)** | **(465)** | **(1,725)** | **-** | **(4,219)** | **(4,171)** | **(48)** |
| Advance *Bond* and *Club Deal* & Finnish loan expenses | - | - | - | - | - | - | (1,885) | 1,885 |
| Devaluation of financial receivable | - | - | - | - | (118) | (118) | (118) | - |
| Write-up of investment in Caretek | - | - | - | - | - | - | 54 | (54) |
| Write-down of investment in Caretek | - | - | - | - | (24) | (24) | - | (24) |
| Gain on business OSAI sale of PRIMA ELECTRO Division | - | - | - | - | 2,629 | 2,629 | - | 2,629 |
| Gain from sales of shares in EPS SA | - | - | - | - | - | - | 7,179 | (7,179) |
| **EBT** | **(1,006)** | **(1,023)** | **(465)** | **(1,725)** | **2,487** | **(1,732)** | **1,059** | **(2,791)** |

Non-current costs which negatively impacted EBIT by a total of Euro 4,219 thousand mainly relate to the cost of restructuring/reorganising several Group companies (including Prima Industrie SpA, Prima Power GmbH, Prima Power France and Finn-Power OY), consultation fees relating to extraordinary events and penalties from customers. Legal disputes include the legal advice received for the PRIMA POWER LASERDYNE subpoena. To this end we remind you that, in 2017, the American company PRIMA POWER LASERDYNE received a subpoena from the Federal Grand Jury, demanding information about a number of exports and related activities from 2011 onwards. With the support of the law firms charged with assisting the company on this issue, PRIMA POWER LASERDYNE promptly responded to the requests set out in the subpoena and was immediate in its response to cooperate actively with the government authorities. The company was recently informed by its legal team that the criminal investigation (subpoena) was closed with no charges, fines or penalties brought against the company. These values were also affected by the Euro 1,014 thousand goodwill impairment of the PRIMA ELECTRO BU-Laser CGU and Euro 623 thousand from several previously capitalised development projects for PRIMA POWER Division.

The gains from the sale of OSAI impacted EBT by Euro 2,629 thousand.

# Transactions deriving from atypical and/or unusual business

Pursuant to CONSOB Bulletin of July 28, 2006, we wish to specify that in 2019, the Group conducted no atypical and/or unusual business, as per its definition in the Bulletin itself, which states that atypical and/or unusual business are those transactions which, given their importance/relevance, nature of the counterparties, transaction scope, method in determining the price of transfer and time frame (close to closing date), could lead to doubts on: the accuracy/completeness of the information in the financial statements, conflicts of interest, protection of company wealth and protection of minority shareholders.

Signature of the Executive Chairman

# Consolidated financial statements at December 31, 2019 declaration

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

1. The undersigned Gianfranco Carbonato (Executive Chairman) and Davide Danieli (Manager responsible for drafting company accounting documents) of Prima Industrie SpA certify that, taken account of article 154-bis, paragraphs 3 and 4, of Leg. Decree of February 24, 1998, no. 58:
   - the company's business is compliant with the given requirements and
   - the administrative and accounting procedures have been effectively applied in drafting the consolidated financial statements over the course of 2019.
2. That no significant facts have emerged regarding thereto
3. Said signees furthermore certify that:

   3.1 the consolidated financial statements:

   a) is drafted in conformity with the applicable international accounting standards commonly used in the European Community, pursuant to (CE) Regulation no. 1606/2002 of the European Parliament and Council of July 19, 2002;

   b) truthfully represent the figures in the accounting books and ledgers;

   c) is suitable to provide a truthful and faithful representation of the capital, economic and financial position of the Corporation and of the group of companies included in the consolidation.

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

Date: March 9, 2020

Signature of the Executive Chairman

Signature of the Manager responsible for drafting the Company accounting documents

CHAPTER 9

# Prima Industrie SpA Financial Statements December 31, 2019

# Chapter 9 - Prima Industrie SpA financial statements at December 31, 2019

## Statement of financial position

| VALUES IN THOUSAND EURO | NOTES | DEC 31, 2019 | DEC 31, 2018 |
|---|---|---|---|
| Property, plant and equipment | *1* | 30,341 | 18,889 |
| Intangible assets | *2* | 9,557 | 11,500 |
| Investment in subsidiaries | *3* | 179,841 | 163,227 |
| Investments in associates | *4* | 418 | - |
| Other investments | *5* | 60 | 235 |
| Financial assets non current | *6* | 2,728 | 3,228 |
| Deferred tax assets | *7* | 5,274 | 3,860 |
| **NON CURRENT ASSETS** | | **228,219** | **200,939** |
| Inventories | *8* | 37,870 | 44,913 |
| Trade receivables | *9* | 70,378 | 75,704 |
| Other receivables | *10* | 4,599 | 4,493 |
| Current tax receivables | *11* | 5,066 | 5,148 |
| Derivatives | *12* | - | 26 |
| Financial assets current | *6* | 3,790 | 4,339 |
| Cash and cash equivalents | *13* | 10,180 | 27,926 |
| **CURRENT ASSETS** | | **131,883** | **162,549** |
| Assets held for sale | *14* | 229 | 1,234 |
| **TOTAL ASSETS** | | **360,331** | **364,722** |
| Capital stock | *15* | 26,208 | 26,208 |
| Legal reserve | *15* | 5,213 | 4,992 |
| Other reserves | *15* | 68,590 | 68,993 |
| Retained earnings | *15* | (1,698) | (1,698) |
| Net result | *15* | (2,164) | 4,424 |
| **STOCKHOLDERS' EQUITY** | | **96,149** | **102,919** |
| Interest-bearing loans and borrowings | *16* | 108,979 | 106,262 |
| Employee benefit liabilities | *17* | 4,553 | 4,522 |
| Deferred tax liabilities | *18* | 1,270 | 1,317 |
| Provisions | *19* | 7,350 | 1,827 |
| Derivatives | *12* | 600 | 636 |
| **NON CURRENT LIABILITIES** | | **122,752** | **114,564** |
| Trade payables | *20* | 69,863 | 82,568 |
| Advance payments | *20* | 6,462 | 10,120 |
| Other payables | *20* | 8,883 | 8,427 |
| Interest-bearing loans and borrowings | *16* | 46,732 | 35,377 |
| Current tax payables | *21* | 2,162 | 2,597 |
| Provisions | *19* | 7,328 | 8,034 |
| Derivatives | *12* | - | 116 |
| **CURRENT LIABILITIES** | | **141,430** | **147,239** |
| **TOTAL STOCKHOLDERS’ EQUITY AND LIABILITIES** | | **360,331** | **364,722** |

*Figures as at December 31, 2019 include the application of the new accounting principle IFRS 16 “Leases” adopted by the company applying the retrospective semplified approach with no restatement of comparative figures.*

# Income statement

| VALUES IN THOUSAND EURO | NOTES | DEC 31, 2019 | DEC 31, 2018 (*) |
|---|---|---|---|
| Net revenues | *22* | 186,978 | 224,778 |
| Cost of goods sold | *23* | (163,544) | (195,203) |
| **GROSS MARGIN** | | **23,434** | **29,575** |
| Research and Development costs | *24* | (8,702) | (7,402) |
| Sales and marketing expenses | *25* | (7,793) | (8,514) |
| General and administrative expenses | *26* | (8,190) | (9,555) |
| **OPERATING PROFIT (EBIT)** | | **(1,251)** | **4,104** |
| Financial income | *27* | 2,483 | 4,729 |
| Financial expenses | *27* | (6,756) | (11,771) |
| Dividends and adjustments on investments value | *27* | 1,952 | 6,567 |
| Net exchange differences | *27* | (19) | 410 |
| **RESULT BEFORE TAXES (EBT)** | | **(3,591)** | **4,039** |
| Taxes | *28* | 1,427 | 385 |
| **NET RESULT** | | **(2,164)** | **4,424** |

*Figures as at December 31, 2019 include the application of the new accounting principle IFRS 16 “Leases” adopted by the company applying the retrospective semplified approach with no restatement of comparative figures.*

(*) *For a better comprehension, the 2018 figures have been re-exposed.*

# Comprehensive income statement

| VALUES IN THOUSAND EURO | NOTES | DEC 31, 2019 | DEC 31, 2018 |
|---|---|---|---|
| **NET RESULT (A)** | | **(2,164)** | **4,424** |
| Gains/ (Losses) on actuarial defined benefit plans | *15* | (89) | (46) |
| Tax effect | *15* | 21 | 12 |
| **Total other comprehensive gains/(losses) not to be classified in the Income Statement, net of tax effects (B)** | | **(68)** | **(34)** |
| Gains /(Losses) on cash flow hedges | *15* | 34 | (542) |
| Tax effect | *15* | (8) | 135 |
| Gains/(Losses) on exchange differences on translating foreign operations for Branch Office Korea | *15* | 5 | - |
| **Total other comprehensive gains/(losses) to be classified in the Income Statement, net of tax effects (C)** | | **31** | **(407)** |
| **TOTAL COMPREHENSIVE INCOME (A) + (B) + (C)** | | **(2,201)** | **3,983** |

*Figures as at December 31, 2019 include the application of the new accounting principle IFRS 16 “Leases” adopted by the company applying the retrospective semplified approach with no restatement of comparative figures.*

# Statement of changes in shareholders' equity

| VALUES IN THOUSAND EURO | CAPITAL STOCK | ADDITIONAL PAID-IN CAPITAL | TREASURY STOCK | LEGAL RESERVE | CAPITAL INCREASE - EXPENSES |
|---|---|---|---|---|---|
| **Balance as at Dec 31, 2017** | **26,208** | **57,507** | **-** | **4,653** | **(1,286)** |
| Allocation of prior year net result | - | - | - | 339 | - |
| Purchase of Tresury stock | - | - | (1,966) | - | - |
| Stock grant plan | - | - | - | - | - |
| Dividends paid | - | - | - | - | - |
| Merger surplus | - | - | - | - | - |
| Result of comprehensive Income | - | - | - | - | - |
| **Balance as at Dec 31, 2018** | **26,208** | **57,507** | **(1,966)** | **4,992** | **(1,286)** |
| Allocation of prior year net result | - | - | - | 221 | - |
| Dividends paid | - | - | - | - | - |
| Result of comprehensive Income | - | - | - | - | - |
| **Balance as at Dec 31, 2019** | **26,208** | **57,507** | **(1,966)** | **5,213** | **(1,286)** |

*The 2019 figures include the application of the new accounting principle IFRS 16 "Leases" adopted by the company applying the retrospective semplified approach with no restatement of comparative figures as at January 1, 2019.*

| STOCK OPTION RESERVE | FV DERIVATES ADJUSTMENT RESERVE | OTHER RESERVES | RETAINED ERNINGS | NET RESULT | EQUITY |
|---|---|---|---|---|---|
| **-** | **(58)** | **13,444** | **(1,698)** | **6,771** | **105,541** |
| - | - | 6,432 | - | (6,771) | - |
| - | - | - | - | - | (1,966) |
| 13 | - | - | - | - | 13 |
| - | - | (4,193) | - | - | (4,193) |
| - | - | (459) | - | - | (459) |
| - | (407) | (34) | - | 4,424 | 3,983 |
| **13** | **(465)** | **15,190** | **(1,698)** | **4,424** | **102,919** |
| - | - | 4,203 | - | (4,424) | - |
| - | - | (4,569) | - | - | (4,569) |
| - | 26 | (63) | - | (2,164) | (2,201) |
| **13** | **(439)** | **14,761** | **(1,698)** | **(2,164)** | **96,149** |

# Cash flow statement

| VALUES IN THOUSAND EURO | DEC 31, 2019 | DEC 31, 2018 (*) |
|---|---|---|
| **Net result** | **(2,164)** | **4.424** |
| ***Adjustments (sub-total)*** | ***5,937*** | ***(4,989)*** |
| Depreciation, impairment and adjustments on investments value | 13,125 | 6,167 |
| Net change in deferred tax assets and liabilities | (1,461) | (402) |
| Change in employee benefits liabilities | 31 | (17) |
| Change in inventories | 7,043 | (8,220) |
| Change in trade receivables | 5,326 | (1,360) |
| Change in trade payables and advances | (16,363) | 3,433 |
| Net change in other receivables/payables and other assets/liabilities | (1,764) | (4,590) |
| **Cash Flows from (used in) operating activities (A)** | **3,773** | **(565)** |
| **Cash flow from investments** | | |
| Increase of tangible fixed assets (**) | (2,570) | (1,188) |
| Increase of intangible fixed assets | (500) | (778) |
| Capitalization of development costs | (1,362) | (1,887) |
| Net disposal of fixed assets (***) | 1,038 | - |
| Capital Increase PRIMA POWER SUZHOU | - | (4,838) |
| Variations in investments in associates | (238) | - |
| Variations in Other investments | (5) | (2) |
| **Cash Flows from (used in) investing activities (B)** | **(3,637)** | **(8,693)** |
| **Cash flow from financing activities** | | |
| Change in financial receivables and other financial assets | 1,051 | (1,064) |
| Change in other non current financial liabilities and other minor items | (100) | 296 |
| Increases in loans and borrowings | 18,314 | 112,541 |
| Repayment of loans and borrowings | (30,714) | (98,258) |
| Repayments in financial lease liabilities | (1,801) | (619) |
| Dividends paid | (4,569) | (4,193) |
| Other net equity variations | (63) | (2,093) |
| **Cash Flows from (used in) financing activities (C)** | **(17,882)** | **6,610** |
| **Net change in cash and equivalents (D=A+B+C)** | **(17,746)** | **(2,648)** |
| **Cash and equivalents beginning of period (E)** | **27,926** | **25,243** |
| **Cash and equivalents deriving from merger with FINN-POWER ITALIA srl (F)** | **-** | **5,331** |
| **Cash and equivalents end of period (G=D+E+F)** | **10,180** | **27,926** |

## Additional Information to the Statement of Cash-Flow

| VALUES IN EURO | DEC 31, 2019 | DEC 31, 2018 (*) |
|---|---|---|
| Taxes paid | 167 | 495 |
| Interests paid | 2,753 | 4,868 |

*Figures as at December 31, 2019 include the application of the new accounting principle IFRS 16 "Leases" adopted by the company applying the retrospective semplified approach with no restatement of comparative figures.*

*(*) For a better comprehension, the 2018 figures have been re-exposed.*
*(**) Not included leases and included assets held for sale.*
*(***) Included assets held for sale.*

# Statement of financial position pursuant to Consob n.15519 of July 27, 2006

| VALUES IN THOUSAND EURO | NOTES | DEC 31, 2019 | OF WHICH RELATED PARTIES | DEC 31, 2018 | OF WHICH RELATED PARTIES |
|---|---|---|---|---|---|
| Property, plant and equipment | *1* | 30,341 | - | 18,889 | - |
| Intangible assets | *2* | 9,557 | - | 11,500 | - |
| Investment in subsidiaries | *3* | 179,841 | *179,841* | 163,227 | *163,227* |
| Investments in associates | *4* | 418 | *418* | - | - |
| Other investments | *5* | 60 | - | 235 | *180* |
| Financial assets non current | *6* | 2,728 | - | 3,228 | *500* |
| Deferred tax assets | *7* | 5,274 | - | 3,860 | - |
| **NON CURRENT ASSETS** | | **228,219** | | **200,939** | |
| Inventories | *8* | 37,870 | - | 44,913 | - |
| Trade receivables | *9* | 70,378 | *45,357* | 75,704 | *34,674* |
| Other receivables | *10* | 4,599 | *59* | 4,493 | *164* |
| Current tax receivables | *11* | 5,066 | - | 5,148 | - |
| Derivatives | *12* | - | - | 26 | - |
| Financial assets current | *6* | 3,790 | *3,784* | 4,339 | *4,215* |
| Cash and cash equivalents | *13* | 10,180 | - | 27,926 | - |
| **CURRENT ASSETS** | | **131,883** | | **162,549** | |
| Assets held for sale | *14* | 229 | - | 1,234 | - |
| **TOTAL ASSETS** | | **360,331** | | **364,722** | |
| Capital stock | *15* | 26,208 | - | 26,208 | - |
| Legal reserve | *15* | 5,213 | - | 4,992 | - |
| Other reserves | *15* | 68,590 | - | 68,993 | - |
| Retained earnings | *15* | (1,698) | - | (1,698) | - |
| Net result | *15* | (2,164) | - | 4,424 | - |
| **STOCKHOLDERS' EQUITY** | | **96,149** | | **102,919** | |
| Interest-bearing loans and borrowings | *16* | 108,979 | *16,613* | 106,262 | - |
| Employee benefit liabilities | *17* | 4,553 | - | 4,522 | - |
| Deferred tax liabilities | *18* | 1,270 | - | 1,317 | - |
| Provisions | *19* | 7,350 | - | 1,827 | - |
| Derivatives | *12* | 600 | - | 636 | - |
| **NON CURRENT LIABILITIES** | | **122,752** | | **114,564** | |
| Trade payables | *20* | 69,863 | *28,580* | 82,568 | *25,909* |
| Advance payments | *20* | 6,462 | - | 10,120 | - |
| Other payables | *20* | 8,883 | *536* | 8,427 | *682* |
| Interest-bearing loans and borrowings | *16* | 46,732 | *8,886* | 35,377 | *6,466* |
| Current tax payables | *21* | 2,162 | - | 2,597 | - |
| Provisions | *19* | 7,328 | - | 8,034 | - |
| Derivatives | *12* | - | | 116 | - |
| **CURRENT LIABILITIES** | | **141,430** | | **147,239** | |
| **TOTAL STOCKHOLDERS' EQUITY AND LIABILITIES** | | **360,331** | | **364,722** | |

*Figures as at December 31, 2019 include the application of the new accounting principle IFRS 16 "Leases" adopted by the company applying the retrospective semplified approach with no restatement of comparative figures.*

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

| VALUES IN THOUSAND EURO | NOTES | DEC 31, 2019 | OF WHICH RELATED PARTIES | DEC 31, 2018 (*) | OF WHICH RELATED PARTIES |
|---|---|---|---|---|---|
| Net revenues | *22* | 186,978 | *94,952* | 224,778 | *101,501* |
| Cost of goods sold | *23* | (163,544) | *(39,413)* | (195,203) | *(50,038)* |
| **GROSS MARGIN** | | **23,434** | - | **29,575** | - |
| Research and Development costs | *24* | (8,702) | *(374)* | (7,402) | *(16)* |
| Sales and marketing expenses | *25* | (7,793) | *1,133* | (8,514) | *831* |
| General and administrative expenses | *26* | (8,190) | *384* | (9,555) | *559* |
| **OPERATING PROFIT (EBIT)** | | **(1,251)** | | **4,104** | |
| ***of which: non recurring items*** | | ***(949)*** | | ***(1,387)*** | |
| Financial income | *27* | 2,483 | *458* | 4,729 | *452* |
| Financial expenses | *27* | (6,756) | *(148)* | (11,771) | *(71)* |
| Dividends and adjustments on investments value | *27* | 1,952 | *1,952* | 6,567 | *6,567* |
| Net exchange differences | *27* | (19) | - | 410 | - |
| **RESULT BEFORE TAXES (EBT)** | | **(3,591)** | | **4,039** | - |
| ***of which: non recurring items*** | | ***(7,298)*** | | ***(3,756)*** | |
| Taxes | *28* | 1,427 | - | 385 | - |
| **NET RESULT** | | **(2,164)** | | **4,424** | |

*Figures as at December 31, 2019 include the application of the new accounting principle IFRS 16 "Leases" adopted by the company applying the retrospective semplified approach with no restatement of comparative figures.*

*(*) For a better comprehension, the 2018 figures have been re-exposed.*

# Cash flow statement pursuant to Consob n.15519 of July 27, 2006

| VALUES IN THOUSAND EURO | DEC 31, 2019 | OF WHICH RELATED PARTIES | DEC 31, 2018 (*) | OF WHICH RELATED PARTIES |
|---|---|---|---|---|
| **Net result** | **(2,164)** | - | **4,424** | - |
| ***Adjustments (sub-total)*** | ***5,937*** | - | ***(4,989)*** | - |
| Depreciation, impairment and adjustments on investments value | 13,125 | *6,231* | 6,167 | *366* |
| Net change in deferred tax assets and liabilities | (1,461) | - | (402) | - |
| Change in employee benefits liabilities | 31 | - | (17) | - |
| Change in inventories | 7,043 | - | (8,220) | - |
| Change in trade receivables | 5,326 | *(10,683)* | (1,360) | *(17,274)* |
| Change in trade payables and advances | (16,363) | *2,671* | 3,433 | *8,749* |
| Net change in other receivables/payables and other assets/liabilities | (1,764) | *(251)* | (4,590) | *(546)* |
| **Cash Flows from (used in) operating activities (A)** | **3,773** | | **(565)** | |
| **Cash flow from investments** | | | | |
| Increase of tangible fixed assets (**) | (2,570) | - | (1,188) | - |
| Increase of intangible fixed assets | (500) | - | (778) | - |
| Capitalization of development costs | (1,362) | - | (1,887) | - |
| Net disposal of fixed assets (***) | 1,038 | - | - | - |
| Capital Increase PRIMA POWER SUZHOU | - | - | (4,838) | *(4,838)* |
| Variations in investments in associates | (238) | *(238)* | - | - |
| Variations in Other investments | (5) | - | (2) | - |
| **Cash Flows from (used in) investing activities (B)** | **(3,637)** | | **(8,693)** | |
| **Cash flow from financing activities** | | | | |
| Change in financial receivables and other financial assets | 1,051 | *931* | (1,064) | *997* |
| Change in other non current financial liabilities and other minor items | (100) | - | 296 | - |
| Increases in loans and borrowings | 18,314 | *4,613* | 112,541 | *(2,945)* |
| Repayment of loans and borrowings | (30,714) | *(2,196)* | (98,258) | - |
| Repayments in financial lease liabilities | (1,801) | - | (619) | - |
| Dividends paid | (4,569) | - | (4,193) | - |
| Other net equity variations | (63) | - | (2,093) | - |
| **Cash Flows from (used in) financing activities (C)** | **(17,882)** | | **6,610** | |
| **Net change in cash and equivalents (D=A+B+C)** | **(17,746)** | | **(2,648)** | |
| **Cash and equivalents beginning of period (E)** | **27,926** | | **25,243** | |
| **Cash and equivalents deriving from merger with FINN-POWER ITALIA srl (F)** | **-** | | **5,331** | |
| **Cash and equivalents end of period (G=D+E+F)** | **10,180** | | **27,926** | |

## Additional information to the statements Cash-Flow

| VALUES IN EURO | DEC 31, 2019 | DEC 31, 2018 (*) |
|---|---|---|
| Taxes paid | 167 | 495 |
| Interests paid | 2,753 | 4,868 |

*Figures as at December 31, 2019 include the application of the new accounting principle IFRS 16 "Leases" adopted by the company applying the retrospective semplified approach with no restatement of comparative figures.*

(*) *For a better comprehension, the 2018 figures have been re-exposed.*
(**) *Not included leases and included assets held for sale.*
(***) *Included assets held for sale.*

CHAPTER 10

# Description of Accounting Principles

# Chapter 10 - Description of Accounting Principles

## Company information

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

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

The company can also provide industrial services of a technical, managerial and organisational nature in the production of capital goods and industrial automation.
Its main activity is focused in the field of laser cutting and welding machines for two-dimensional (2D) and three-dimensional applications (3D), panel and bending machines. Since 2018 financial year, the company has developed, produced and sold additive manufacturing solutions with Powder Bed Fusion and Laser Metal Deposition technologies.

PRIMA INDUSTRIE SpA, as the Parent Company, has also prepared the consolidated financial statements of the PRIMA INDUSTRIE Group at December 31, 2019

As set out in the articles of association, the term of PRIMA INDUSTRIE SpA is December 31, 2050.

## Valuation Criteria

The 2019 financial statements represent the separate financial statements of the parent company PRIMA INDUSTRIE SpA and have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the *International Accounting Standards Board* ("IASB") and endorsed by the European Union. The IFRS also includes all valid International Accounting Standards ("IAS") and all interpretations of the International *Financing Reporting Interpretations Committee* ("IFRIC"), previously known as the Standing Interpretations Committee ("SIC").

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

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

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

On this issue, it is also appropriate to refer to the specific comment included in the consolidated financial statements in Chapter 7 "DESCRIPTION OF ACCOUNTING PRINCIPLES" in the section "Accounting standards applied".

The preparation of the financial statements in accordance with IFRS inevitably requires the use of accounting estimates and opinions expressed by the Directors of the company. Aspects of the financial statements that require the application of more complex estimates and greater recourse to the judgements of the Directors is provided below.
This Financial Statements are audited by *PricewaterhouseCoopers* S.p.A.

# Financial statements - Format

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

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

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

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

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

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

## Conversion of foreign currency

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

# Tangibles assets

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

Costs incurred after the acquisition of the asset are accounted for as an increase of their historical value or booked separately only if it is probable that they will generate future economic benefits and the costs can be measured reliably.

Depreciation of tangible fixed assets is calculated using the straight-line method, in order to distribute the residual book value of its estimated economic life as follows:

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

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

The residual value and the useful life of tangible assets are reviewed and adjusted, if appropriate, at the date of the balance sheet.

The book value of tangible fixed assets is written down to its recoverable value immediately, whenever the former exceeds the latter.

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

Leases bestow exclusive use of an identified or identifiable asset, providing the substantive right to all the financial benefits deriving from its use for a defined period of time in exchange for a fee, in accordance with IFRS 16.

These leases are recognised in the balance sheet as “right-of-use” assets and as a liability measured at the present value of the lease payments. The “right of use” is depreciated on a straight-line basis over the term of the lease, or the relevant financial-technical useful life, if shorter.

At the commencement date of the lease, defined as the date on which the lessor makes the underlying asset available to the lessee, the cost value of the “right-of-use” asset comprises:

- the amount of the initial valuation of the lease liability;
- any lease payments made at or before the commencement date;
- any initial direct costs incurred by the lessee;
- any costs, estimated and discounted, to be incurred at the time of vacating facilities, offset against a specific provision in the liabilities where there are obligations to dismantle, remove assets and restore sites.

The amount of the initial valuation of the lease liability referred to in a) above includes the following:

- fixed payments;
- variable payments that depend on an index or a rate;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option;
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The following lease asset categories qualify for this method of recognition:

- buildings;
- vehicles;
- office equipment.

The company avails itself of the option provided for in IFRS 16 – Leases to recognise as a cost, on an accrual basis, leases that are i) short term (i.e. less than 12 months), ii) for low-value underlying assets (i.e. less than Euro 5,000 when new).

The lease liability is recognised at the commencement date of the lease and is equal to the present value of the lease payments.

The present value of the lease payments is measured using the interest rate implicit in the lease, or, if that rate cannot be readily determined, the lessee's incremental borrowing rate. The incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

After the commencement date, the lease liability is measured using the amortised cost method; subsequently, the liability may be restated (i.e. the lease cash flows are revised as a result of the original contractual terms) or revised (i.e. changes to the subject matter or consideration not provided for in the original contractual terms) with adjustments to the "right of use".



## Intangible Assets

### Finite useful life

***(a) Software***

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

***(b) Research and development costs***

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

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

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

***(c) Other intangible assets***

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

Intangible assets generated internally are not capitalised but are recognised in the Income Statement in the year in which they were incurred.
Intangible assets with a finite useful life are verified annually for "*impairment*" whenever there are any reasons to

justify it; such analysis can be conducted for each individual intangible asset or cash revenues generating unit. The useful lives of other intangible assets are reviewed annually: possible changes are applied prospectively, where possible.

## Shareholdings in subsidiaries, associates companies and joint venture

In the financial statements of PRIMA INDUSTRIE SpA, shareholdings in subsidiaries, associates and joint ventures are recorded at cost, including directly attributable incidental expenses, adjusted for impairment losses.
The positive difference, emerging from the purchase agreement, between the cost of acquisition and the current value of shareholders' equity in the subsidiary is hence included in the carrying amount value of the shareholding.
Where there is objective evidence of impairment, the carrying amount of the investment must be compared with its recoverable value, defined as the higher of *fair value* less costs to sell and value in use, defined as the present value of the future cash flows at the weighted average cost of capital, net of financial debt.
If there is evidence that these shareholdings have undergone a loss in value, this fact is posted as a write-down in the income statement. When the reasons for the write-downs are no longer in place, the value of the investment is reinstated within the limits of the original cost, with the effect entered in the income statement.

If share of losses in the parent exceeds the book value of the investee, the value of the stake is cleared; any further losses are entered under liability provisions, only if only if the parent company has undertaken to meet the legal, contractual or implicit obligations towards the investee company, or in all events to cover its losses.

## Investments in other companies

Investments in which the company does not exercise control, significant influence or joint control are initially recorded at *fair value*.
In accordance with IFRS 9, these investments are subsequently valued at *fair value* with effects on the income statement. This is unless they are irrevocably selected as equity investments valued at *fair value* with effects recorded in the statement of comprehensive income, in accordance with the option provided for in the same standard.
The choice of valuation method for these investments is made selectively for each investment.

## Impairment of Assets

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

# Financial instruments

***Presentation***

The financial instruments held by the Company are included in the items described below. Investments and other non-current financial assets include investments in subsidiaries and other companies as well as investments in joint ventures and other non-current assets.

Current financial assets include trade receivables and cash and cash equivalents. In particular, the item Cash and cash equivalents include bank deposits. The financial liabilities refer to financial payables, including payables for advances on orders, transfer of receivables, and other financial liabilities (which include the negative fair value of derivative financial instruments), trade payables and other payables.

***Valuation***

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

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

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

***Derivative financial instruments***

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

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

All derivative financial instruments are measured at *fair value* in accordance with IFRS 9.

When financial instruments have the characteristics to be accounted for under *hedge accounting*, the following accounting treatment applies:

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

- *Fair value hedge*. If a derivative financial instrument is designated as a hedge of the exposure to changes in the *fair value* of an asset or liability that is attributable to a particular risk and could affect the Income Statement, the gain or loss from reviewing the *fair value* of the hedging instrument are recognised in the Income Statement. The gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the item and are recognised in the Income Statement.
- *Hedge of a net Investment*. If a derivative financial instrument is designated as a hedge of a net investment in a foreign operation, the effective portion of the gain or loss on the derivative financial instrument is recognised in other comprehensive income / (loss). The gain or loss is removed from equity and recognised in the Income Statement at the date of disposal of the foreign asset.

## Financial Liabilities

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

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

## Loans

Loans are recognized on the basis of the amounts collected, net of the accessory charges to the transaction.

After initial recognition, loans are recorded on the basis of amortized cost, calculated by applying the effective interest rate method.

Loans are initially recognized at *fair value*, net of any incidental charges.

Any difference between the proceeds net of any transaction costs and the redemption value is recognised in the Income Statement on an accrual basis at the effective interest rate method.

## Inventories

Inventories are stated at the lower amount between cost and net realisable value, the latter is represented by the normal sales value during ordinary activities, less the variable costs of sale.

The cost is determined using the weighted average cost method. The cost of finished goods and semi-finished goods includes the cost of design, raw materials, direct labour, other direct costs and other indirect costs allocated to production activities based on normal production capacity and on the progress. This costing does not include interest expense.

Provision is made for materials, finished goods, spare parts and other supplies considered obsolete or slow moving, taking into account their expected future use and realisable value.

The realisable value is the estimated sale price during normal operations, net of all estimated costs for the completion of the asset and sale and distribution costs.

## Trade and other receivables

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

***Transfer of receivables***

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

## Cash and cash equivalents

This item includes cash, bank accounts, sight or demand depots and other short-term, highly liquid investments that are readily convertible to cash and which are subject to an insignificant risk of changes in value.

## Assets for sale

Non-current assets (or groups of assets) are classified as held for sale only when the sale is highly probable and the asset is available for immediate sale in its present condition. Assets held for sale include non-current assets (or disposal groups) whose carrying amount will be recovered mainly through sale rather than through continuing use. Assets held for sale are valued at the lesser of the net carrying amount and the *fair value* les costs to sell.

## Share Capital

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

## Employee benefits

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

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

***(a) Pension plans***

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

Plans of fixed benefits are pension liabilities that define the amount of the pension benefit owed to the worker on the date the employment relation is ended; this amount depends on several factors, such as age, years of service and wage.

Fixed-contribution plans are pension plans for which the Company pays a fixed amount to a separate entity. The Company is in no way implicitly required by law to pay additional sums, should the activities in service of the plan prove insufficient to pay off benefits owed to employees for their current service and for services provided hitherto. The plans described here were recorded in accordance with the provisions of IAS 19.

***(b) Benefits paid to employees who attain seniority status***

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

***(c) Incentives, bonuses and profit-sharing agreements***

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

## Provisions for liabilities and charges

Provisions for risks and charges are recognised when:

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

The restructuring provisions include both liabilities arising from the leave incentives as well as penalties related to the termination of the lease agreements. Provisions are not set aside for risks and charges in respect of future operating losses.

Provisions are measured by discounting the best estimates made by the Directors to identify the amount of costs that the Company shall bear to settle the obligation at the closing date of the balance sheet.

## Revenue recognition

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

The Company recognises revenues according to IFRS 15 – *Revenues from Contracts with Customers*, which introduced a reference framework for the recognition and measurement of revenues for the faithful representation of the process of transferring goods and services to customers for an amount that reflects the amount expected in exchange for them. This standard is applied using a model made up of the five following stages:

- Identification of the contract with the customer: the parties approve the contract, which has commercial substance, and identify their respective rights and obligations. The contract must be legally binding, must identify the right to receive goods and/or services, the consideration and the payment terms;
- Identification of the performance obligations of the contract, i.e. promises to transfer separate goods and services.

- Determination of the transaction price: this is the total consideration contracted with the counterparty over the duration of the contract.
- Allocation of the price to the various performance obligations: in proportion to the respective stand-alone selling prices determined from the list prices.
- Recognition of revenue subject to fulfilment of performance obligations.

***(a) Sale of goods***

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

***(b) Provision of services***

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

***(c) Royalties***

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

***(d) Dividends***

Dividends received by investee companies are recognised in the income statement in the year in which the right to receive payment occurs.

## Taxes

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

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

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

## Distribution of Dividends

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

## Government grants

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

## Valuation of the Fair value

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

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

## Financial risk factors

Concerning the management of financial risks, please refer to paragraph – Management of Financial Risks – Chapter 8 " Explanatory notes to the Consolidated Financial Statements at December 31, 2019".

# Discretionary evaluations and significant accounting estimates

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

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

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

The recoverable amount of goodwill included in the FINN-POWER OY investment has been evaluated in the context of the *impairment* test prepared for the CGU PRIMA POWER. The key assumptions used to define the recoverable amount of the CGU, including a sensitivity analysis, are detailed in Note 2 – Intangible Assets – Chapter 8 “ Explanatory notes to the Consolidated Financial Statements at December 31, 2019”.

### Research and development costs

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

### Provision for inventories

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

### Provision for doubtful debts

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

## Variations on accounting principles

### Accounting principles and interpretations transposed by the European Union and applicable from January 1, 2019

In accordance with the requirements of IAS 8 (*Accounting principles, changes in accounting estimates and errors*), the IFRS in force at January 1, 2019 are indicated and briefly illustrated below.

### IFRS 16 – Leases

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

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

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

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

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

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

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

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

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

Following is a summary of how adoption of the new standards affected PRIMA INDUSTRIE SpA financial statements.

| VALUES EXPRESSED IN EURO THOUSAND | DECEMBER 31, 2018 | IFRS16 EFFECT | JANUARY 01, 2019 |
|---|---|---|---|
| Non current assets | 200,939 | 4,693 | 205,632 |
| Current assets | 162,549 | - | 162,549 |
| Assets held for sale | 1,234 | - | 1,234 |
| **Total Assets** | **364,722** | **4,693** | **369,415** |
| Net Equity | 102,919 | - | 102,919 |
| Non current liabilities | 114,564 | 3,488 | 118,052 |
| Current liabilities | 147,239 | 1,205 | 148,444 |
| **Total Liabilities** | **364,722** | **4,693** | **369,415** |

At December 31, 2019 the Company recorded Euro 10,276 thousand in Rights of use after disclosure of Euro 1,383 thousand in amortisation and Euro 10,330 thousand in financial liabilities (including Euro 9,035 thousand classified as non-current liabilities). During the year, Euro 100 thousand of financial charges were recorded in the income statement relating to leases.

### IFRIC 23 – Uncertainty over Income Tax Treatments (Reg. EU No 2018/1595)

The interpretation clarifies how to reflect uncertainty for accounting in income taxes in the event that the tax treatment on a specific transaction is unclear. The interpretation clarifies that tax treatment uncertainties should only be reflected in the financial statements, if the entity is likely to pay or recover the amount in question.

### Amendments to IFRS 9 – Financial Instruments – Prepayment features with negative compensation (Reg. EU No 2018/498)

The changes clarify the classification of certain financial assets that are repayable in advance.

### Amendments to IAS 28 – Long-term interests in Associates and Joint Ventures (Reg. EU No 2019/237)

This document amendment clarifies the need for application of IFRS 9, including *impairment*-related requirements, to other long-term interests in associates and joint ventures to which the equity method is not applied.

### Improvements to IFRSs (2015-2017 Cycle) (Reg. EU No 2019/412)

The amendments concern the following principles:

- IFRS 3, when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business;
- IFRS 11, when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business;
- IAS 12, an entity shall recognise the income tax consequences of dividends consistently with the transactions that generated the distributable profits; the entity must disclose the related income tax consequences in profit or loss, other comprehensive income or equity, depending on where the entity recognised the originating transactions;
- IAS 23, to the extent that an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate shall be the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period.

### Amendments to IAS 19 (Regulation (EU) No 2019/402)

The amendments specify that when an entity recalculates its net benefit liability (asset) determined after a plan amendment, curtailment or settlement, it should use updated actuarial assumptions to determine the current service cost and net interest for the remainder of the annual reporting period.

The adoption of these amendments and interpretations, with the exception of the principles of IFRS 16, did not affect the financial statements to December 31, 2019.

### Accounting Principles and interpretations issued by IASB and transposed by the European Union

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

### Amendments to IAS 1 and IAS 8

On November 29, 2019 the European Commission issued Regulation No 2019/2104 harmonising the document “Amendments to IAS 1 and IAS 8: definition of material”. The definition of material was integrated with the concept of “obscure” information, that is, information that is communicated in a way that would have a similar effect for users of financial statements to omitting or misstating that information.
The amended IAS 1 states that “Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity”. This amendment led to the transposition of the new definition of material in IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, IAS 10 – Events After the Reporting Period, IAS 34 – Interim Financial Reporting, IAS 37 – Provisions, Contingent Liabilities and Contingent Assets.

### Amendments to References to the Conceptual Framework in IFRS Standards

On November 29, 2019 the European Commission issued Regulation No 2019/2075 harmonising the document “Amendments to the Conceptual Framework in IFRS”. The changes are intended to update the existing references to the previous “systematic framework” into different international standards and their interpretations, replacing them with references to the revised “Conceptual Framework”.

Neither of the amendments described above, applicable from financial years beginning on or after January 1, 2020, will have a significant impact on the financial statements.

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

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

- IFRS 17 – Insurance Contracts, issued on May 18, 2017 and applicable to annual reporting periods beginning on or after January 1, 2021, regulates the accounting treatment of insurance contracts issued and reinsurance contracts held.
- Amendments to IFRS 3 – Business Combinations, issued October 22, 2018, are intended to clarify in practical terms whether a transaction should be accounted for as a business combination or as an asset acquisition. This amendment is applicable to reporting periods beginning on or after January 1, 2020.
- Amendments to IFRS 9, IAS 39 and IFRS 7- Interest Rate Benchmark Reform, issued September 26, 2019. The aim of these amendments is to avoids entities having to discontinue hedges as a result of uncertainties resulting from the IBOR reform introduced by the *European Financial Benchmark Regulation*. In particular it addresses concerns regarding an inability to meet the specific accounting requirements for hedging transactions in the periods before the transition. These amendments are applicable to reporting periods beginning on or after January 1, 2020.

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

The Company is currently analysing these standards and assessing whether their adoption will have a significant impact on the Company’s Financial statements.

CHAPTER 11

# Explanatory Notes Prima Industrie SpA Financial Statements December 31, 2019

# Chapter 11 - Explanatory Notes to Financial Statements at December 31, 2019

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

# Financial position

## 1. Property, plant and equipment

The property, plant and equipment on December 31, 2019 are equal to Euro 30,341 thousand in increase of Euro 11,452 thousand compared with December 31, 2018.
This increase includes Euro 11,659 thousand for rights of use recorded for first application of the new IFRS 16, net of Euro 1,383 thousand of amortisation.

For more details see the table below.

| PROPERTY, PLANT AND EQUIPMENT | LAND AND BUILDING | PLANTS AND MACHINERY | INDUSTRIAL AND COMMERCIAL EQUIPMENT | OTHER TANGIBLE FIXED ASSETS | FIXED ASSETS UNDER CONSTRUCTION | TOTAL |
|---|---|---|---|---|---|---|
| **Net value as at December 31, 2017** | **12,063** | **243** | **978** | **446** | **548** | **14,278** |
| **Movements 2018** | | | | | | |
| Merger effect | 5,889 | 33 | 166 | 220 | - | 6,308 |
| Increases | - | 158 | 300 | 13 | 717 | 1,188 |
| Disinvestments | - | - | - | (51) | - | (51) |
| Utilization of accumulated depreciation | - | - | - | 51 | - | 51 |
| Depreciation | (573) | (51) | (562) | (168) | - | (1,354) |
| Reclassifications with Assets held for sale | (1,531) | - | - | - | - | (1,531) |
| Reclassifications with tangible fixed assets | 420 | (65) | 183 | 9 | (547) | - |
| **Net value as at December 31, 2018** | **16,268** | **318** | **1,065** | **520** | **718** | **18,889** |
| **Movements 2019** | | | | | | |
| Rights of use derived from the first application of IFRS16 | 2,554 | - | 224 | 1,915 | - | 4,693 |
| Increases | 6,320 | 1,754 | 197 | 930 | 319 | 9,520 |
| Disinvestments | - | - | (1) | (45) | - | (46) |
| Utilization of accumulated depreciation | - | - | 1 | 26 | - | 27 |
| Depreciation | (958) | (136) | (599) | (1,049) | - | (2,742) |
| Reclassifications with tangible fixed assets | 320 | - | 224 | - | (544) | - |
| **Net value as at December 31, 2019** | **24,504** | **1,936** | **1,111** | **2,297** | **493** | **30,341** |
| ***Of which Rights of use derived from the first application of IFRS16*** | | | | | | |
| Increases derived from the first application of IFRS16 | 2,554 | - | 224 | 1,915 | - | 4,693 |
| Increases | 6,234 | - | - | 751 | - | 6,985 |
| Disinvestments | - | - | - | (19) | - | (19) |
| Depreciation | (427) | - | (82) | (874) | - | (1,383) |
| **Total Rights of use** | **8,361** | **-** | **142** | **1,773** | **-** | **10,276** |

Land and buildings amounting to Euro 24,504 thousand includes:

- Land for a total value of Euro 5,687 thousand;
- Buildings with a total value of Euro 18,503 thousand. This item includes the new HQTC in Collegno, home to a large *Technology Center* (Euro 6,823 thousand), the ALC research and innovation laboratory for advanced laser systems inaugurated in October 2019 (Euro 6,322 thousand) and the production plant near Verona (Euro 2,262 thousand). Also included are the industrial plant at no. 28 Via Antonelli (Euro 612 thousand), the building rented to PRIMA POWER UK Ltd (Euro 114 thousand) and rental buildings (Euro 2,361 thousand).
- Light constructions for Euro 314 thousand.

Plant and Machinery stands at Euro 1,936 thousand and increased during the year by Euro 1,618 thousand (of which Euro 1,754 thousand from acquisitions in the period) and decreased by Euro 136 thousand due to amortization of the period.
Industrial and commercial equipment stands at Euro 1,111 thousand and increased during the year by Euro 645 thousand (of which Euro 421 thousand from acquisitions in the period and Euro 224 thousand from the effect of reclassifications to other items).

The Other Assets item amounts to Euro 2,297 thousand and is represented mainly by:

- Vehicles and other transport Euro 1,732 thousand;
- Electronic office equipment with a value of Euro 347 thousand;
- Office furniture, furnishings and equipment with a value of Euro 215 thousand;
- Other assets for Euro 3 thousand.

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

All above mentioned values at December 31, 2019 are net of accumulated depreciation except for land and fixed assets in progress which are not depreciated.



## 2. Intangible assets

The following table illustrates the composition of intangible fixed assets at December 31, 2019 and at December 31, 2018 , and the changes during the year.

| INTANGIBLE ASSETS | SOFTWARE | DEVELOPMENT COSTS | OTHER INTAGLIBLE ASSETS | TOTAL |
|---|---|---|---|---|
| **Net value as at December 31, 2017** | **799** | **8,844** | **23** | **9,666** |
| **Movements 2018** | | | | |
| Merger effect | - | 2,912 | 23 | 2,935 |
| Increases/(decreases) | 777 | 1,887 | 1 | 2,665 |
| Depreciation | (521) | (3,220) | (25) | (3,766) |
| **Net value as at December 31, 2018** | **1,055** | **10,423** | **22** | **11,500** |
| **Movements 2019** | | | | |
| Increases/(decreases) | 480 | 1,362 | 20 | 1,862 |
| Depreciation | (517) | (3,601) | (23) | (4,141) |
| Impairment | - | (11) | - | (11) |
| Reclassifications with others items | - | 347 | - | 347 |
| **Net value as at December 31, 2019** | **1,018** | **8,520** | **19** | **9,557** |

The main item in intangible assets are the development costs (net value at December 31, 2019 of Euro 8,520 thousand); during 2019 this item increased by Euro 1,362 thousand due to the capitalisation of projects, Euro 347 thousand due to reclassification and other items and decreased by Euro 3,612 thousand due to depreciation and *impairment* of the period.

## 3. Investments in subsidiaries

The value of equity investments at December 31, 2019 amounts to Euro 179,841 thousand and it is increasing compared to the previous financial year by Euro 16,614 thousand.

| INVESTMENT IN SUBSIDIARIES | INVESTMENT VALUE AT DEC 31, 2017 | INCREASES | MERGER | NET VALUE AT DEC 31, 2018 | INCREASES | NET VALUE AT DEC 31, 2019 |
|---|---|---|---|---|---|---|
| FINN POWER OY | 140,177 | - | - | 140,177 | - | 140,177 |
| PRIMA INDUSTRIE NORTH AMERICA Inc. | - | - | - | - | 16,614 | 16,614 |
| FINN-POWER ITALIA Srl | 13,548 | - | (13,548) | - | - | - |
| PRIMA ELECTRO SpA | 10,945 | - | - | 10,945 | - | 10,945 |
| PRIMA POWER IBERICA SL | 1,441 | - | - | 1,441 | - | 1,441 |
| PRIMA POWER CHINA Company Ltd | 767 | - | - | 767 | - | 767 |
| PRIMA POWER MAKINA TICARET LIMITED SIRKETI | 540 | - | - | 540 | - | 540 |
| OOO PRIMA POWER | 123 | - | - | 123 | - | 123 |
| PRIMA POWER CENTRAL EUROPE Spzoo | 93 | - | - | 93 | - | 93 |
| PRIMA POWER UK LTD | - | - | - | - | - | - |
| PRIMA POWER GmbH | - | - | - | - | - | - |
| PRIMA POWER SOUTH AMERICA Ltda | - | - | - | - | - | - |
| PRIMA POWER AUSTRALASIA Pty Ltd | - | - | - | - | - | - |
| PRIMA POWER SUZHOU CO LTD | 4,303 | 4,838 | - | 9,141 | - | 9,141 |
| **TOTAL** | **171,937** | **4,838** | **(13,548)** | **163,227** | **16,614** | **179,841** |

During 2019, as part of its process of streamlining the organisational structure, PRIMA INDUSTRIE SpA acquired the stake in CONVERGENT PHOTONICS from PRIMA ELECTRO SpA and the investment PRIMA POWER NORTH AMERICA Inc. from FINN-POWER OY.
The last calendar day of 2019 saw the merger of CONVERGENT PHOTONICS into PRIMA POWER NORTH AMERICA Inc., which has now been renamed to PRIMA INDUSTRIE NORTH AMERICA. This increase of Euro 16,614 thousand is attributable to this transaction. For more information on this transaction, see the section “2019 Significant events” in the Group Management Report.

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

| INVESTMENT IN SUBSIDIARIES | NET VALUE AS AT DEC 31, 2019 | EQUITY AS AT DEC 31, 2019 | STAKE | EQUITY PRO-QUOTA | DIFFERENCE |
|---|---|---|---|---|---|
| FINN POWER OY | 140,177 | 140,134 | 100% | 140,134 | (43) |
| PRIMA INDUSTRIE NORTH AMERICA Inc. | 16,614 | 38,395 | 100% | 38,395 | 21,781 |
| PRIMA ELECTRO SpA | 10,945 | 39,259 | 100% | 39,259 | 28,314 |
| PRIMA POWER IBERICA SL | 1,441 | 7,110 | 22% | 1,564 | 123 |
| PRIMA POWER CHINA Company Ltd | 767 | 1,149 | 100% | 1,149 | 382 |
| PRIMA POWER MAKINA TICARET LIMITED SIRKETI | 540 | 647 | 100% | 647 | 107 |
| OOO PRIMA POWER | 123 | 2,639 | 100% | 2,639 | 2,516 |
| PRIMA POWER CENTRAL EUROPE Spzoo | 93 | 694 | 100% | 694 | 601 |
| PRIMA POWER UK LTD | - | 1,196 | 100% | 1,196 | 1,196 |
| PRIMA POWER GmbH | - | (5,909) | 100% | (5,909) | (5,909) |
| PRIMA POWER SOUTH AMERICA Ltda | - | (574) | 100% | (574) | (574) |
| PRIMA POWER AUSTRALASIA Pty Ltd | - | (223) | 100% | (223) | (223) |
| PRIMA POWER SUZHOU CO LTD | 9,141 | 10,440 | 70% | 7,308 | (1,833) |

The difference between the cost and the shareholders' equity of FINN-POWER OY, arsing the results of previous years as well as 2019, was significantly lower than originally recorded at the time of the acquisition of the company. Given the positive future results expected, no impairment indicators emerged for the value of the equity investment. FINN-POWER OY in 2019 achieved an EBITDA of Euro 12,520 thousand (equal to 9.3% of revenues). Moreover, the PRIMA INDUSTRIE Group carried out the impairment test on CGU PRIMA POWER (in which the sub-group FINN-POWER is included) in the consolidated financial statements (see Note 2 - Intangible assets) from which are no indications of value impairment index emerge. Similarly, extracting the overall flows of only FINN-POWER OY from those of the CGU produced the same positive results.

The difference between the cost and the net equity of PRIMA POWER SUZHOU was not considered a loss in the value of the shareholding, but is attributable to the fact that the company is undergoing a change in *business strategy*. The company was set up to serve the mass Chinese market with products with a medium-low performance and price profile. However, in 2019 the management began a phase of technological change that led the Chinese company to sell high-tech machines both locally produced and imported from other Group companies. For this reason, also considering the recoverable value of the investment determined by the present value of cash flows net of debt, the management of PRIMA INDUSTRIE SpA deems that the said difference will be covered in future years by the future profits of the Chinese company.

The remaining differences in the investments PRIMA POWER GmbH, PRIMA POWER SOUTH AMERICA Ltda and PRIMA POWER AUSTRALASIA Pty Ltd are offset by a provision for risks of Euro 7,127 thousand (see Note 19). During the year, Euro 6,065 thousand was allocated to this fund for PRIMA POWER GmbH, Euro 163 thousand for PRIMA POWER SOUTH AMERICA and Euro 2 thousand for PRIMA POWER AUSTRALASIA.

## 4. Investments in associates

The item Investments in associates refers to the shareholding in 3D NT of 19,9% by PRIMA INDUSTRIE SpA and is equal to Euro 418 thousand.
The changes for the period concern:

- Euro 180 thousand relate to the reclassification of the item "Other Investments";
- Euro 138 thousand relate to the purchase of a further stake and
- Euro 100 thousand in increased share capital which took place in October 2019.

## 5. Other investments

The following table illustrates the composition of other investments that at December 31, 2019 was equal to Euro 60 thousand

| OTHER INVESTMENTS | 3D NT | LAMIERA SERVIZI | PRIMA POWER SHEET METAL SOLUTION | OTHER | TOTAL |
|---|---|---|---|---|---|
| **December 31, 2018** | **180** | **11** | **40** | **4** | **235** |
| Increases | - | - | - | 5 | 5 |
| Reclassification | (180) | - | - | - | (180) |
| **December 31, 2019** | **-** | **11** | **40** | **9** | **60** |

## 6. Financial assets

The value of Financial Assets is Euro 6,518 thousand and had decreased by Euro 1,049 thousand from the previous years.

The following table illustrates the changes in Financial assets.

| FINANCIAL ASSETS | LOAN TO PRIMA POWER LASERDYNE LLC | LOAN TO PRIMA POWER SUZHOU CO.LTD | LOAN TO PRIMA POWER SOUTH AMERICA LTDA | TERM DEPOSIT SMILLA | FINANCIAL RECEIVABLE WITH WUHAN UNITY | LOAN TO SUBSIDIARIES | TOTAL |
|---|---|---|---|---|---|---|---|
| **December 31, 2018** | **1,755** | **2,452** | **508** | **2,728** | **118** | **6** | **7,567** |
| Reimbursements | (719) | (290) | (8) | - | - | - | (1,017) |
| Interests | 28 | 39 | 9 | - | - | - | 76 |
| Devaluations | - | - | - | - | (118) | - | (118) |
| Differences on exchange rates | 10 | - | - | - | - | - | 10 |
| **December 31, 2019** | **1,074** | **2,201** | **509** | **2,728** | **-** | **6** | **6,518** |
| *of which :* | | | | | | | |
| **Financial assets non current** | **-** | **-** | **-** | **2,728** | **-** | **-** | **2,728** |
| **Financial assets current** | **1,074** | **2,201** | **509** | **-** | **-** | **6** | **3,790** |

## 7. Deferred tax assets

The following table shows the movement of deferred tax assets during the year 2019.

| DEFERRED TAX ASSETS | DEC 31, 2019 | DEC 31, 2018 |
|---|---|---|
| **Opening balance** | **3,860** | **2,590** |
| Merger effect | - | 954 |
| Increase | 1,818 | 940 |
| Decrease | (404) | (624) |
| **Closing balance** | **5,274** | **3,860** |

Below is the breakdown of deferred tax assets.

| DEFERRED TAX ASSETS | DEC 31, 2019 | DEC 31, 2018 |
|---|---|---|
| Provisions for risks and other liabilities | 1,901 | 2,137 |
| Inventories | 755 | 772 |
| Tax losses carried forward | 1,942 | 365 |
| Employee benefits | 454 | 419 |
| Other | 222 | 167 |
| **TOTAL** | **5,274** | **3,860** |

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

## 8. Inventories

The inventories on December 31, 2019 amount to Euro 37,870 thousand, net of the obsolescence provision decreasing by Euro 7,043 compared to the previous year.

| INVENTORIES | DEC 31, 2019 | DEC 31, 2018 |
|---|---|---|
| Raw materials | 10,286 | 14,295 |
| (Provision fro Raw materials) | (690) | (881) |
| Semi-finished goods | 8,632 | 11,456 |
| Finished goods | 22,096 | 22,379 |
| (Provision for Finished goods) | (2,454) | (2,336) |
| **Total** | **37,870** | **44,913** |

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

| INVENTORIES PROVISIONS | RAW MATERIALS | FINISHED GOODS |
|---|---|---|
| **Value as at December 31, 2018** | **(881)** | **(2,336)** |
| Utilizations | 261 | 418 |
| Provisions | (70) | (536) |
| **Value as at December 31, 2019** | **(690)** | **(2,454)** |

## 9. Trade Receivables

Trade receivables at December 31, 2019 amounted to Euro 70,378 thousand and compared to the previous financial year decrease of Euro 5,326 thousand was experienced.

| TRADE RECEIVABLES | DEC 31, 2019 | DEC 31, 2018 |
|---|---|---|
| Receivables from customers | 25,845 | 41,389 |
| Bad Debt Reserve | (824) | (359) |
| **Receivables from customers (net)** | **25,021** | **41,030** |
| Receivables from Related Parties | 45,357 | 34,674 |
| **Receivables from customers (net)** | **70,378** | **75,704** |

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

Given the open positions at December 31, 2019, adjustments to the exchange rate were entered correctly. Receivables in currencies other than the reference currency are converted into Euro at the effective exchange rate on the date of the financial statements closing. All exchange differences are reflected in the Income Statement.

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

| BAD DEBT RESERVE | AMOUNT |
|---|---|
| **Value as at December 31, 2018** | **(359)** |
| Utilizations | 33 |
| Provisions | (498) |
| **Value as at December 31, 2019** | **(824)** |

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

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

| RECEIVABLES BY MATURITY | DEC 31, 2019 |
|---|---|
| Due to expire | 30,847 |
| Expired 0 - 180 days | 18,590 |
| Expired 180 - 365 days | 10,001 |
| Expired over 1 year | 11,764 |
| **TOTAL** | **71,202** |

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

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

## 10. Other receivables

Other Receivables are equal to Euro 4,599 thousand, increasing by Euro 106 thousand compared to the previous financial year.

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

| OTHER RECEIVABLES | DEC 31, 2019 | DEC 31, 2018 |
|---|---|---|
| Advances payments to suppliers | 3,176 | 2,359 |
| Contribution to be received for R&D projects | 591 | 1,417 |
| Prepayments and accrued income | 467 | 413 |
| Security deposits | 249 | 208 |
| Advances to employees | 1 | 19 |
| Other receivables | 115 | 77 |
| **Total** | **4,599** | **4,493** |

## 11. Current tax receivables

Current tax assets totalled Euro 5,066 thousand at December 31, 2019, compared to Euro 5,148 thousand at December 31, 2018.

Below is a summary table showing the comparison between December 31, 2019 and December 31, 2018.

| CURRENT TAX RECEIVABLES | DEC 31, 2019 | DEC 31, 2018 |
|---|---|---|
| Tax Receivables - R&D | 1,347 | 1,400 |
| VAT Receivables - Italy | 1,556 | 1,220 |
| Tax Receivables - Direct taxes (IRES and IRAP) | 991 | 1,123 |
| Tax Receivables - IRES reimbursment IRAP deduction | 970 | 970 |
| Tax Receivables with subsidiaries | 89 | 335 |
| VAT Receivables - Foreign countries | 46 | 47 |
| Tax Receivables - Witholding taxes | 46 | 25 |
| Other tax receivables | 21 | 28 |
| **Total** | **5,066** | **5,148** |

## 12. Derivatives

At December 31 , 2019 PRIMA INDUSTRIE SpA holds non-current liabilities for Euro 600 thousand.

***Derivatives non current liabilities***

| TYPE | COUNTERPARTY | EXPIRY DATE | REFERENCE NOTIONAL | MTM DEC 31, 2019 |
|---|---|---|---|---|
| IRS - Hedge accounting | BNL | Dec 19, 2022 | €17,000 | € 116 |
| IRS - Hedge accounting | BPM | Dec 31, 2022 | €20,000 | € 201 |
| IRS - Hedge accounting | Unicredit | Dec 31, 2022 | €22,222 | € 149 |
| IRS - Hedge accounting | Intesa Sanpaolo | March 31, 2023 | €15,000 | € 134 |
| | | | **TOTAL** | **€ 600** |

For the purposes of the financial statements at December 31, 2019, a valuation of outstanding derivative instruments was carried out. For more information on the derivative financial instruments of PRIMA INDUSTRIE SpA and on their disclosure method, see “Note 10 - Net Financial Position of the consolidated financial statements”.

## 13. Cash and cash equivalents

Cash and cash equivalents at December 31, 2019 totalled Euro 10,180 thousand, against Euro 27,926 thousand at December 31, 2018 and consists of cash (including foreign currency), cheques and letters of credit. For more details on Cash and cash equivalents, see the Financial Report (for the Financial Report, see the Chapter 9 – Prima Industrie SpA - Financial Statements at December 31, 2019).

| CASH AND CASH EQUIVALENTS | DEC 31, 2019 | DEC 31, 2018 |
|---|---|---|
| Cash and checks | 11 | 15 |
| Bank accounts | 10,169 | 27,911 |
| **Total** | **10,180** | **27,926** |

## 14 . Assets held for sale

At December 31, 2019, the value of non-current assets held for sale is equal to Euro 229 thousand and decreased by Euro 1,005 thousand from the previous financial year following the sale of a property located in the province of Brescia and one of the properties under construction near Mantua.
All assets classified in this category are available for immediate sale, an event that is very likely since the Management has engaged in a divestment programme.

## 15. Net Equity

### Capital stock

the Share Capital amounts to Euro 26,208 thousand and has remained unchanged compared with December 31, 2018.

### Legal Reserve

This item amounts to Euro 5,213 thousand and has increased of Euro 221 thousand as a result of the allocation of the mandatory share of the profit accrued in 2018.

### Other Reserves

The item "Other Reserves" has a value of Euro 68,590 thousand and is composed of:

- Share premium reserve: amounting to Euro 57,507 thousand.
- Reserve for the purchase of treasury stock: negative for Euro 1,966 thousand.
- Reserve for non-amortised development costs: Euro 8,520 thousand.
- Extraordinary reserve: Euro 7,174 thousand.
- Costs for share capital increase: negative for Euro 1,286 thousand and represents costs incurred for share capital increases (such as bank fees, legal and administrative consultant fees, etc.).
- Actuarial defined benefit plans reserve: negative for Euro 474 thousand and, in accordance with IAS 19 revised, refers to the effect of actuarial gains/losses on employee severance indemnities net of tax.
- Fair value adjustment reserve: negative for Euro 439 thousand and consists of the portion directly entered directly as net assets, net of taxes, of the market value of derivative contracts hedging exchange rate fluctuation.
- Stock Grant Reserve: equal to Euro 13 thousand.
- Merger surplus reserve of the former FINN-POWER ITALIA srl: negative for Euro 459 thousand

### Earnings (losses) carried forward

This item was Euro -1,698 thousand. This item includes the differences in accounting methods on the date of transition to IFRS and refer to adjustments on balances within financial statements drafted in accordance with Italian accounting principles.

### Comprehensive income

Net income for the period is negatively affected by the actuarial profit/losses on employee severance indemnities according to the application of IAS 19 *revised*, which were Euro 68 thousand (net of a tax effect of Euro +21 thousand). It was positively affected by the allocation to the *fair value* adjustment reserve of Euro 26 thousand (net of Euro 8 thousand taxes) and the conversion into Euros of the *branch office* in South Korea for Euro 5 thousand.

### Profit (loss) for the year

Profits for the year were negative for Euro 2,164 thousand.
For more details on this subject, see the table of changes in equity (for changes in equity, see Chapter 9 – Prima Industrie SpA - Financial Statements at December 31, 2019).

# 16. Loans

The following table is a breakdown of PRIMA INDUSTRIE SpA's loan status on December 31, 2019 (in comparison with December 31, 2018).

| BANK BORROWINGS AND OTHER FINANCING | DEC 31, 2019 | DEC 31, 2018 |
|---|---|---|
| **Current** | | |
| Short-term payable for leasing | 1,742 | 479 |
| Short-term payable for bank loans | 32,977 | 26,916 |
| Short-term payable for Bond | 691 | 693 |
| Short-term payable for other financing | 2,436 | 823 |
| Short-term payable for other financing from subsidiaries | 8,886 | 6,466 |
| **Total Current** | **46,732** | **35,377** |
| **Non-current** | | |
| Long-term payable for leasing | 14,708 | 6,114 |
| Long-term payable for bank loans | 48,452 | 70,161 |
| Long-term payable for Bond | 24,806 | 24,762 |
| Long-term payable for other financing | 4,400 | 5,225 |
| Long-term payable for loan from subsidiaries | 16,613 | - |
| **Total Non-current** | **108,979** | **106,262** |
| **TOTAL** | **155,711** | **141,639** |

## Bonds issued

Debt to bondholders amount comprehensively to Euro 25,734 thousand, inclusive of accrued and unpaid interests amounting to Euro 734 thousand. Debt refers exclusively to the *Bond* issued during the first quarter of 2018 and expiring on February 9, 2025. The net debt accounted for in the financial statements amounts to Euro 25,497 thousand. The transactions costs incurred at the issuing of the bond were accounted for in reduction of financial debt.

The long term debt amounts to Euro 24,806 thousand beyond 12 months

## Indebtedness with banks

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

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

At December 31, 2019, the BNL 2017/2022 loan amounted to a total of Euro 14,006 thousand inclusive of accrued and unpaid interests amounting to Euro 6 thousand. The net debt in the financial statements total Euro 13,953 thousand and includes matured interest and accessory charges incurred at the time the loan was issued.

The BNL 2017/2022 loan is for Euro 10,978 thousand expiring beyond 12 months.

At December 31, 2019, the MPS 2018/2023 loan amounted to a total of Euro 12,900 thousand, the net debt in the financial statements total Euro 12,880 thousand and includes matured interest and accessory charges incurred at the time the loan was issued.

The MPS 2018/2023 loan is for Euro 6,488 thousand expiring beyond 12 months.

At December 31, 2019, the BPM 2018/2022 loan amounted to a total of Euro 15,667 thousand, the net debt in the financial statements total Euro 15,603 thousand and includes matured interest and accessory charges incurred at the time the loan was issued.

The BPM 2018/2022 loan is for Euro 11,300 thousand expiring beyond 12 months.

At December 31, 2019, the UNICREDIT 2018/2022 loan amounted to a total of Euro 19,666 thousand. The net debt in the financial statements total Euro 19,566 thousand and includes matured interest and accessory charges incurred at the time the loan was issued.

The UNICREDIT 2018/2022 loan is for Euro 11,053 thousand expiring beyond 12 months.

At December 31, 2019, the INTESA 2018/2023 loan amounted to a total of Euro 15,722 thousand, inclusive of accrued and unpaid interests amounting to Euro 55 thousand. The net debt in the financial statements total Euro 15,657 thousand and includes matured interest and accessory charges incurred at the time the loan was issued.

The INTESA 2018/2023 loan is for Euro 8,295 thousand expiring beyond 12 months.

On both the Intesa, Unicredit, BPM, MPS and BNL loans and on the bond there are *covenants* with measurements on annual and half-yearly basis; the *covenants* measured on the consolidated financial statements at December 31, 2019 have been met.

Other loans to subsidiaries accounted for Euro 25,499 thousand and were made up as follows:

- Euro 12,318 thousand to PRIMA ELECTRO;
- Euro 4,450 thousand to PRIMA INDUSTRIE NORTH AMERICA–PRIMA POWER NA;
- Euro 4,340 thousand to FINN-POWER OY;
- Euro 2,039 thousand to PRIMA POWER CENTRAL EUROPE;
- Euro 2,000 thousand to PRIMA POWER IBERICA;
- Euro 350 thousand to PRIMA POWER SUZHOU.

For more details about the Financing of PRIMA INDUSTRIE SpA, see the Management Report and the consolidated financial statements at the Note 10 - Net Financial Position.

The movements in the financial payables of Prima Industrie SpA during 2019 are illustrated below.

| BANK BORROWINGS AND OTHER FINANCING - MOVEMENTS | |
|---|---|
| Bank borrowings and Other financing current as at Dec 31, 2018 | 35,377 |
| Bank borrowings and Other financing non current as at Dec 31, 2018 | 106,262 |
| **Bank borrowings and Other financing as at Dec 31, 2018** | **141,639** |
| Increases in loans and borrowings | 34,928 |
| Repayment of loans and borrowings | (30,714) |
| Increase/(Repayments) in lease liabilities | 9,858 |
| **Bank borrowings and Other financing as at Dec 31, 2019** | **155,711** |
| ***of which:*** | |
| Bank borrowings and Other financing current as at Dec 31, 2019 | 46,732 |
| Bank borrowings and Other financing non current as at Dec 31, 2019 | 108,979 |
| **Bank borrowings and Other financing as at Dec 31, 2019** | **155,711** |

Financial debt increased by Euro 14,072 thousand of which Euro 4,693 thousand resulting from first application of the new IFRS 16.

# 17. Employee Benefit Liabilities

The following table shows the composition of liabilities for employee benefits at December 31, 2019 and at the closing of the previous year.

| EMPLOYEE BENEFITS | DEC 31, 2019 | DEC 31, 2018 |
|---|---|---|
| Severance indemnity fund | 2,858 | 2,930 |
| Fidelity premium | 1,605 | 1,524 |
| Employee benefits - branch office South Korea | 90 | 68 |
| **TOTAL** | **4,553** | **4,522** |

The Employees' Severance Indemnity liabilities, provided by the Italian law, is accrued by employees during their working life and paid on termination of their employment. This indemnity is considered a defined benefit plan, subject to actuarial valuation with regard to future benefits and to benefits already paid.

Below the changes of the Employees' Severance Indemnity liability and of the Fidelity Premium are shown during the year 2019 and 2018.

| SEVERANCE INDEMNITY FUND | DEC 31, 2019 | DEC 31, 2018 |
|---|---|---|
| **Opening balance** | **2,930** | **2,133** |
| Merger effect | - | 904 |
| Severance indemnity paid out during the period | (206) | (192) |
| Actuarial gains/losses | 89 | 47 |
| Financial expenses | 45 | 38 |
| **Closing balance** | **2,858** | **2,930** |

| FIDELITY PREMIUM | DEC 31, 2019 | DEC 31, 2018 |
|---|---|---|
| **Opening balance** | **1,524** | **1,460** |
| Fidelity Premium paid out during the period | (147) | (154) |
| Provisions/Actuarial Adjustment | 171 | 160 |
| Financial expenses | 57 | 58 |
| **Closing balance** | **1,605** | **1,524** |

The Fidelity Premium refers to the seniority premium for employees of the company paid at the end of 20, 30 and 35 years of service, corresponding to two gross monthly salaries.

The main hypotheses used to estimate final liabilities from employee benefits are as follows:

| ACTUARIAL HYPOTHESES | 31/12/19 | 31/12/18 |
|---|---|---|
| Annual discount rate | 0.77% | 1.57% |
| Annual inflation rate | 1.00% | 1.50% |
| Annual Severance fund increase rate | 2.25% | 2.63% |

The demographic hypotheses used for actuarial valuation include:

- probability of death as defined by the Italian State Treasury called RG48;
- the probability of disability, divided by gender, adopted in the INPS model for projections to 2010;
- retirement age, the first retirement requisite of Compulsory General Insurance;
- probability of leaving for causes other than death, with annual frequency of 0.5% ;
- probability of advances with an annual rate of 3%.

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

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

## 18. Deferred tax liabilities

The following table shows the movements of deferred tax liabilities during the years 2019 and 2018.

| DEFERRED TAX LIABILITIES | DEC 31, 2019 | DEC 31, 2018 |
|---|---|---|
| **Opening balance** | **1,317** | **885** |
| Merger effect | - | 477 |
| Increase | 399 | 260 |
| Decrease | (446) | (305) |
| **Closing balance** | **1,270** | **1,317** |

The composition of the Deferred tax liabilities is shown below.

| DEFERRED TAX LIABILITIES | DEC 31, 2019 | DEC 31, 2018 |
|---|---|---|
| Non-current tangible/intangible assets/Leases | 612 | 608 |
| Trade receivables/payables and other entries | 658 | 709 |
| **Total** | **1,270** | **1,317** |

## 19. Provisions

The provisions for risks and charges at December 31, 2019 amounted to Euro 14,678 thousand (of which non-current Euro 7,350 thousand).

The movements of both current and non-current provisions are shown below.

| NON CURRENT PROVISIONS | CUST. AGENT. IND. PROVISION | INVESTMENT LOSSES PROVISION | TOTAL |
|---|---|---|---|
| **Value as at December 31, 2017** | **89** | **1,383** | **1,472** |
| Merger effect | 82 | - | 82 |
| Allocations | 26 | 366 | 392 |
| Exchange rate differences | - | (119) | (119) |
| **Value as at December 31, 2018** | **197** | **1,630** | **1,827** |
| Allocations | 25 | 6,230 | 6,255 |
| Utilizations in the period | - | (750) | (750) |
| Exchange rate differences | - | 18 | 18 |
| **Value as at December 31, 2019** | **222** | **7,128** | **7,350** |

| CURRENT PROVISIONS | TAXES PROVISION | PROVISION ON LEGAL CLAIMS | WARRANTY PROVISIONS AND PROJECT'S COMPLETION | TOTAL |
|---|---|---|---|---|
| **Value as at December 31, 2017** | **-** | **-** | **5,520** | **5,520** |
| Merger effect | - | - | 1,487 | 1,487 |
| Allocations | - | - | 5,452 | 5,452 |
| Utilizations in the period | - | - | (4,425) | (4,425) |
| **Value as at December 31, 2018** | **-** | **-** | **8,034** | **8,034** |
| Allocations | 115 | 15 | 4,338 | 4,468 |
| Utilizations in the period | - | - | (5,174) | (5,174) |
| **Value as at December 31, 2019** | **115** | **15** | **7,198** | **7,328** |

## Agent client indemnity liability

This represents the indemnity payables accrued at year-end towards agents due for interruption of the agency relationship, in accordance with current legislation.

## Investment losses provision

This provision relates to the company PRIMA POWER GmbH for Euro 6,331 thousand, the subsidiary PRIMA POWER SOUTH AMERICA Ltda for Euro 574 thousand and to the company PRIMA POWER AUSTRALASIA Pty Ltd for Euro 223 thousand. For further details on this subject see Note 3 - Investments in subsidiaries.

## Income tax reserve

Following an audit of the tax position for the year 2014, on November 27, 2019 the Regional Revenues Office for Piedmont - Major Taxpayers presented Prima Industrie SpA with a notice of assessment.
On December 17, 2019 the company presented a request for assessment with agreed settlement, despite deeming the findings of the Regional Revenues Office for Piedmont unfounded.
For the time being, the company has, with the advice of its consultants, set aside a provision for tax risks of to Euro 115 thousand; this amount refers to the estimated liability emerging from the audit and the possibility of settling in 2020.

## Legal disputes provision

This refers to legal disputes that arose during 2019.

## Provision for warranty and projects completion

This refers to provisions for the completion of ongoing projects and technical warranty on products of the company and is proportionate to the costs that must be held. Compared to 2018 they decreased for a total of Euro 836 thousand.

## 20. Trade payables, Advance Payments and other payables

The breakdown of trade payables, advances and other payables at December 31, 2019 and at the end of the previous year is shown in the table below.

| TRADE, ADVANCES AND OTHER PAYABLES | DEC 31, 2019 | DEC 31, 2018 |
|---|---|---|
| Trade payables | 41,283 | 56,659 |
| Trade payable owed to related parties | 28,580 | 25,909 |
| **Trade payables** | **69,863** | **82,568** |
| Advances from customers | 6,462 | 10,120 |
| **Advances from customers** | **6,462** | **10,120** |
| Social security payables | 2,093 | 2,644 |
| Payables with employees | 2,898 | 3,655 |
| Accrued expenses and deferred income | 3,156 | 1,221 |
| Other payables | 200 | 225 |
| Other payable owed to related parties | 536 | 682 |
| **Other payables** | **8,883** | **8,427** |

Trade accounts payable at 31 December 2019 amount to Euro 69,863 thousand of which Euro 41,283 thousand for third-party suppliers and Euro 28,580 thousand for related parties.
Trade payables decreased by Euro 12,705 thousand in 2019.

Advances from customers are equal to Euro 6,462 thousand. This item mainly consists of advances received from customers on orders for machines not yet delivered

Social security payables are payables to social security and welfare (especially INPS and other forms of assistance).

Payables to employees refers to salaries not yet paid and compensation matured but not yet paid for leave not taken, for production bonus and incentives matured by managers and sales personnel and for advance payment of travel expenses in account of the company for employees out for work.

Accrued expenses and Deferred Income increased from the previous year by Euro 1,935 thousand: this item is mainly composed of deferred income related to some facilitations on an unsecured basis for research and development and revenues from maintenance contracts relating to future years.

## 21. Current taxes payables

This item amounts Euro 2,162 thousand (Euro 2,597 thousand at December 31, 2018) and includes:

| CURRENT TAX PAYABLES | DEC 31, 2019 | DEC 31, 2018 |
|---|---|---|
| Payables for IRES and IRAP | 737 | 968 |
| Tax payables to subsidiaries | 412 | 413 |
| Payables for withholding income taxes | 1,013 | 1,051 |
| Payables for VAT | - | 165 |
| **TOTAL** | **2,162** | **2,597** |

# Income statement

As already mentioned previously, the Group presents the income statement by "functional area". In accordance with paragraph 104 of "IAS 1 – Presentation of Financial Statements", personnel costs amount to Euro 38,264 thousand (Euro 39,800 thousand at December 31, 2018). At December 31, 2019, amortization/depreciation and *impairment* were Euro 6,894 thousand (at December 31, 2018 were Euro 5,801 thousand). It should be noted that amortization of development costs was Euro 3,601 thousand, where as application of the new IFRS 16 was amortised at Euro 1,383 thousand.

## 22. Net revenues

Net Revenues from sales and services are set out below divided by product/activity and by geographic area.

| NET REVENUES | ITALY | % | EUROPE | % | NORTH AMERICA | % | REST OF THE WORLD | % | TOTAL |
|---|---|---|---|---|---|---|---|---|---|
| Machines | 49,355 | 32.37% | 57,294 | 37.58% | 17,140 | 11.24% | 28,676 | 18.81% | 152,465 |
| Spare parts | 8,413 | 33.54% | 9,598 | 38.26% | 4,839 | 19.29% | 2,236 | 8.91% | 25,086 |
| Services | 7,303 | 77.47% | 1,375 | 14.59% | 290 | 3.08% | 459 | 4.87% | 9,427 |
| **Total** | **65,071** | | **68,267** | | **22,269** | | **31,371** | | **186,978** |

## 23. Cost of goods sold

"Cost of goods sold" includes costs relating to the functional areas involved directly or indirectly in the generation of revenues with the sale of goods or services. Therefore this item includes the production or purchase cost of products and goods sold. It also includes all costs for materials, processing and overheads directly attributable to production. Furthermore, it contains write-downs on inventories, provisions to cover warranty costs on sold goods, transport and insurance costs incurred for deliveries to customers and sales commissions to agents or third-party distributors; the cost of sales at December 31, 2019 stood at Euro 163,544 thousand. The main components include materials (Euro 106,282 thousand), processing and outsourcing (Euro 14,250 thousand).

## 24. Research and development costs

This item includes non-capitalizable research and development costs, *Tech Center* costs and *overheads* and is disclosed net of grants (national and European) entered on an accrual basis. Net research and development costs at December 31, 2019 were Euro 8,702 thousand and are increased by Euro 1,300 thousand compared to the previous year; the impact of public grants accounted for Euro 1,215 thousand.

## 25. Sales and marketing expenses

This item includes, for allocation, business structure costs such as personnel, trade fairs and events, the demo center, promotional and advertising activities and related *overheads*.
Sales and marketing expenses in 2019 amounted to Euro 7,793 thousand against to Euro 8,514 thousand of 2018.

## 26. General and administrative expenses

This item includes all costs related to Group or Divisional management structures, Finance costs, HR, IT and overheads. Overheads and administration costs were Euro 8,190 thousand in 2019 and are decreasing compared to December 31, 2018 (equal to Euro 9,555 thousand).

## 27. Financial Income and expenses

The financial income and expenses of 2019 Financial year shows a negative result of Euro 2,340 thousand.

| FINANCIAL MANAGEMENT | DEC 31, 2019 | DEC 31, 2018 |
|---|---|---|
| Interests *on Bond* | (918) | (1,323) |
| *Bond* - adv. Closing costs | - | (1,515) |
| Interests on loan *Club Deal* | - | (94) |
| *Club Deal* - adv. Closing costs | - | (370) |
| Loans 2018 | (1,460) | (1,290) |
| Interests on payable for bank loans (current/non current) | (170) | (426) |
| Interests on loans from subsidiaries | (148) | (71) |
| Derivatives expenses (CRS) | (2,255) | (5,436) |
| Derivatives expenses (IRS) | (383) | (374) |
| Interests on leasing | (307) | (119) |
| Interests paid on employee tax benefits | (101) | (95) |
| Devaluation of financial receivable | (118) | (118) |
| Bank charges | (600) | (535) |
| Other financial expenses | (296) | (5) |
| **Financial expenses** | **(6,756)** | **(11,771)** |
| Interests income on loans to subsidiaries | 458 | 452 |
| Derivatives income (CRS) | 1,823 | 4,271 |
| Derivatives income (IRS) | 1 | - |
| Bank interest income | 3 | 5 |
| Other financial income | 198 | 1 |
| **Financial income** | **2,483** | **4,729** |
| **Dividends and adjustments on investments value** | **1,952** | **6,567** |
| **Net exchange differences** | **(19)** | **410** |
| **FINANCIAL INCOME AND EXPENSES (NET)** | **(2,340)** | **(65)** |

Financial charges include interest of Euro 918 thousand related to the Bond and Euro 1,460 thousand related to the loans taken out in 2018.
Financial expenses at December 31, 2019 include Euro 100 thousand resulting from application of the new IFRS 16 accounting standard.

Dividends and value adjustments for investments of Euro 1,952 thousand refer to write-downs for the subsidiaries PRIMA POWER GmbH for Euro 6,065 thousand, PRIMA POWER SOUTH AMERICA Ltda for Euro 164 thousand and PRIMA POWER AUSTRALASIA Pty Ltd for Euro 2 thousand and dividends from subsidiaries for Euro 8,183 thousand (FINN-POWER OY: Euro 7,500 thousand; PRIMA POWER CENTRAL EUROPE Sp.zoo: Euro 512 thousand; PRIMA POWER IBERICA: Euro 171 thousand).

## 28. Current and deferred taxes

The tax burden of PRIMA INDUSTRIE SpA at December 31, 2019 compared to the data of the previous year is summarised below.

| TAXES | DEC 31, 2019 | DEC 31, 2018 |
|---|---|---|
| IRES (*included the effect derived from consolidated taxation*) | 91 | 293 |
| IRAP (*Regional Trade tax*) | - | (231) |
| Deferred tax assets | 1,401 | 177 |
| Deferred tax liabilities | 47 | 44 |
| Taxes relating to previous year | (107) | 109 |
| Other taxes | (5) | (7) |
| **TOTAL** | **1,427** | **385** |

The reconciliation between the fiscal costs entered in the financial statements and the theoretical fiscal cost, calculated on the basis of the theoretical tax rates in force in Italy, is as follows:

| RECONCILIATION BETWEEN ORDINARY AND THEORICAL TAX RATES | 2019 | 2018 |
|---|---|---|
| **RESULT BEFORE TAXES** | **(3,578)** | **4,039** |
| *IRES rate* | 24.00% | 24.00% |
| **THEORICAL IRES ON INCOME** | **(859)** | **969** |
| PERMANENT INCREASE | 583 | 605 |
| TEMPORARY INCREASE | 8,069 | 3,863 |
| PERMANENT DECREASE | (9,101) | (7,927) |
| TEMPORARY DECREASE | (1,849) | (2,488) |
| NON-DEDUCTIBLE INTEREST | (643) | 1,728 |
| ROL SURPLUS RECOVERED FROM ITALIAN FISCAL CONSOLIDATED | 379 | (1,041) |
| FISCAL LOSS FROM ITALIAN FISCAL CONSOLIDATED | 6,519 | - |
| **INCREASE/DECREASE** | **3,957** | **(5,260)** |
| **EFFECTIVE FISCAL RESULT** | **379** | **(1,221)** |
| *IRES rate* | 24.00% | 24.00% |
| **EFFECTIVE IRES ON INCOME** | **91** | **(293)** |

# Information on the transparency of public funds

In accordance with article 1, paragraphs 125-129 of Italian Law no. 124/2017 as amended by Decree Law no. 113/2018 on “Security” and Decree Law no. 135/2018 on “Simplification”, we disclose the information regarding subsidies, contributions, paid assignments and any kind of economic advantages granted to the Italian company in the financial year 2019 by public authorities and a number of similar bodies with which they have economic relations.

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

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

*Values expressed in Euro thousand*

| BENEFICIARY | SUPPLYING AUTHORITY | DESCRIPTION | AMOUNT RECEIVED |
|---|---|---|---|
| Prima Industrie SpA | Ministry of Economic Development | Tax credit for R&D | 1,391 |
| Prima Industrie SpA | European Union | R&D subsidy | 3,122 |
| Prima Industrie SpA | Piedmont Region | R&D subsidy | 190 |
| **Total** | | | **4,703** |

Here below the information regarding subsidies, contributions, paid assignments and any kind of economic advantages granted in the financial year 2019.

*Values expressed in Euro thousand*

| BENEFICIARY | SUPPLYING AUTHORITY | DESCRIPTION | AMOUNT RECEIVED |
|---|---|---|---|
| Prima Industrie SpA | Ministry of Economic Development | Tax credit for R&D | 1,337 |
| Prima Industrie SpA | European Union | R&D subsidy | 1,122 |
| Prima Industrie SpA | Piedmont Region | R&D subsidy | 93 |
| **Total** | | | **2,552** |

# Guarantees granted, commitments and other potential liabilities

The guarantees granted and commitments undertaken by the company at December 31, 2019 are shown below.

| GUARANTEES, COMMITMENTS AND OTHER POTENTIAL LIABILITIES | DEC 31, 2019 | DEC 31, 2018 |
|---|---|---|
| Guarantees granted | 34,188 | 44,784 |
| Commitments to leasing companies | 1,566 | 1,373 |
| **TOTAL** | **35,754** | **46,157** |

At December 31, 2019 the guarantees granted by PRIMA INDUSTRIE SpA amounted to Euro 34,188 thousand and relate to guarantees to trade counterparties and sureties to credit institutions on behalf of Group companies.

“Commitments to leasing companies” refer to repurchase agreements for sales made through financial intermediaries

PRIMA INDUSTRIE SpA, in addition to probable liabilities for which provisions have been allocated in the related risks provisions, does not have potential liabilities, as described in IAS 37, to be mentioned.

# Information on related parties

Relations with associated parties are generally represented by transactions with companies controlled directly or indirectly by the company regulated at market conditions considered normal in the reference market, in view of the characteristics of the assets and the services rendered.

The impact of these transactions on individual items in the 2019 Financial Statements, already highlighted in the supplementary tables of the Balance Sheet and Income Statement, drawn up in accordance with CONSOB Resolution no. 15519 of July 27, 2006, is summarised in the following table:

## Related parties – financial items

| COUNTERPARTY | FINANCIAL RECEIVABLES | TRADE RECEIVABLES | OTHER RECEIVABLES | FINANCIAL PAYABLES | TRADE PAYABLES AND ADVANCES | OTHER PAYABLES |
|---|---|---|---|---|---|---|
| PRIMA POWER GmbH | - | 8,384 | - | - | 507 | - |
| PRIMA POWER UK LTD | - | 88 | - | - | 74 | 17 |
| PRIMA POWER CENTRAL EUROPE Spzoo | - | 2,387 | - | 2,039 | 68 | - |
| OOO PRIMA POWER | - | 620 | - | - | 2 | - |
| PRIMA ELECTRO SpA | - | 207 | - | 12,318 | 7,092 | - |
| PRIMA INDUSTRIE NORTH AMERICA -CONVERGENT - PHOTONICS | - | 39 | - | - | 471 | - |
| FINN-POWER OY | - | 2,382 | - | 4,340 | 9,785 | - |
| PRIMA POWER IBERICA | - | 3,066 | - | 2,000 | 8 | - |
| PRIMA POWER FRANCE Sarl | - | 1,972 | - | - | - | - |
| PRIMA POWER NORTH AMERICA - PRIMA POWER NA | - | 3,901 | - | 4,450 | 36 | - |
| PRIMA POWER LASERDYNE LLC | 1,074 | 378 | - | - | 920 | - |
| PRIMA POWER SOUTH AMERICA LTDA | 509 | 164 | - | - | 13 | - |
| PRIMA POWER INDIA PVT. LTD | - | 922 | - | - | 126 | - |
| PRIMA POWER MAKINA TICARET LTD | - | 1,154 | - | - | - | - |
| PRIMA POWER SUZHOU CO. LTD | 2,201 | 18,630 | - | 352 | 9,467 | - |
| PRIMA POWER CANADA Ltd | - | 820 | - | - | - | - |
| LEEPORT | - | 203 | - | - | 11 | - |
| 3D - NT | - | 40 | 59 | - | - | - |
| ADMINISTRATIVE, CONTROL BOARDS AND STRATEGIC MANAGEMENT | - | - | - | - | - | 519 |
| **TOTAL** | **3,784** | **45,357** | **59** | **25,499** | **28,580** | **536** |

## Related parties – economic items

| COUNTERPARTY | REVENUES | COGS | R&D | S&M | G&A | FINANCIAL INCOME | FINANCIAL EXPENSES | DIVIDENDS AND IMPAIRMENT OF INVESTMENTS |
|---|---|---|---|---|---|---|---|---|
| PRIMA POWER GmbH | 12,449 | (532) | (99) | 216 | 120 | 86 | - | (6,065) |
| PRIMA POWER UK LTD | 1,544 | (199) | - | 150 | 64 | - | - | - |
| PRIMA POWER CENTRAL EUROPE Spzoo | 5,514 | (93) | - | 165 | 85 | 1 | (51) | 512 |
| OOO PRIMA POWER | 4,454 | (80) | - | 67 | 82 | - | - | - |
| PRIMA ELECTRO SpA | 3 | (14,969) | (344) | - | 101 | 140 | (33) | - |
| PRIMA INDUSTRIE NORTH AMERICA -CONVERGENT - PHOTONICS | 4 | (2,120) | - | - | - | 39 | - | - |
| FINN-POWER OY | 13,615 | (17,566) | 60 | 250 | 334 | 19 | (12) | 7,500 |
| PRIMA POWER IBERICA | 13,729 | (22) | - | 7 | 76 | 5 | (52) | 171 |
| PRIMA POWER FRANCE Sarl | 4,518 | 50 | - | 126 | 68 | 21 | - | - |
| PRIMA POWER NORTH AMERICA - PRIMA POWER NA | 21,357 | (85) | - | 20 | 155 | 2 | - | - |
| PRIMA POWER CANADA Ltd | 820 | - | - | - | - | - | - | - |
| PRIMA POWER LASERDYNE LLC | 89 | (1,464) | (91) | 120 | 137 | 58 | - | - |
| PRIMA POWER SOUTH AMERICA LTDA | 117 | (68) | - | - | 16 | 8 | - | (164) |
| PRIMA POWER INDIA PVT. LTD | 222 | (38) | - | - | 20 | - | - | - |
| PRIMA POWER MAKINA TICARET LTD | 928 | (61) | - | - | 60 | 15 | - | - |
| PRIMA POWER SUZHOU CO LTD | 12,948 | (2,053) | 40 | 12 | 178 | 64 | - | - |
| PRIMA POWER AUSTRALASIA PTY LTD | - | - | - | - | - | - | - | (2) |
| LEEPORT | 2,637 | (11) | - | - | - | - | - | - |
| 3D - NT | 4 | - | 60 | - | 5 | - | - | - |
| ADMINISTRATIVE, CONTROL BOARDS AND STRATEGIC MANAGEMENT | - | (102) | - | - | (1,117) | - | - | - |
| **TOTAL** | **94,952** | **(39,413)** | **(374)** | **1,133** | **384** | **458** | **(148)** | **1,952** |

The above table does not contain items deriving from national consolidated taxation, since they do not represent actual exchanges, but rather only those originating from the financial procedures provided for in national taxation legislation (receivable to PRIMA ELECTRO SpA for Euro 89 thousand and payable to PRIMA ELECTRO SpA of Euro 412 thousand).
In addition to the above, there are also guarantees provided by the parent company to some of its subsidiaries.
Please see the Remuneration Report for matters relating reference to the remuneration of directors and statutory auditors in accordance with Article 2427, paragraph 1(16) of the Italian Civil Code.

# Significant non-recurrent events and transactions

The table below summarises non-recurring transactions that have had a negative impact on the Income Statement for a total of Euro 7,298 thousand.

Values expressed in Euro thousand

| SIGNIFICANT NON-RECURRENT EVENTS AND TRANSACTIONS | GROSS MARGIN | RESEARCH AND DEVELOPMENT COSTS | SALES AND MARKETING EXPENSES | GENERAL AND ADMINISTRATIVE EXPENSES | FINANCIAL INCOME AND EXPENSES | TOTAL AS AT DEC 31, 2019 | TOTAL AS AT DEC 31, 2018 | VARIATION BETWEEN 2019 AND 2018 |
|---|---|---|---|---|---|---|---|---|
| Actions of reorganization/ Restructuring | (233) | (400) | (51) | (59) | - | (743) | (317) | (426) |
| Legal/fiscal disputes and penalties from customers | (69) | - | - | (126) | - | (195) | (389) | 194 |
| *Impairment* | - | (11) | - | - | - | (11) | (681) | 670 |
| **EBIT** | **(302)** | **(411)** | **(51)** | **(185)** | **-** | **(949)** | **(1,387)** | **438** |
| Impairment of investments | - | - | - | - | (6,231) | (6,231) | (366) | (5,865) |
| *Bond & Club Deal* advance closing | - | - | - | - | - | - | (1,885) | 1,885 |
| Devaluation of financial receivable | - | - | - | - | (118) | (118) | (118) | - |
| **EBT** | **(302)** | **(411)** | **(51)** | **(185)** | **(6,349)** | **(7,298)** | **(3,756)** | **(3,542)** |

# Transactions deriving from atypical and/or unusual operations

In accordance with CONSOB Communication of July 28, 2006, during 2019 the company performed no atypical and/or unusual transactions, as defined by the Communication, which states that atypical and/or unusual transactions are those operations whose size/importance, nature of the counterparties, object, price transfer determination method and timing (proximity to close of the financial year) can give rise to doubts regarding: the correctness/completeness of the information in the financial statements, conflict of interests, safeguard of company assets, protection of minority shareholders.

# Net Financial Position

In accordance with CONSOB Communication no. DEM/6064293 of July 28, 2006, the table of the Net Financial Position shown above does not indicate non-current financial receivables (at December 31, 2019 they totalled Euro 2,728 thousand).

For more details on net financial position, see the following notes:

- 6 – Financial assets – loans to subsidiaries
- 13- Cash and cash equivalents
- 16 – Loans

| | NET FINANCIAL POSITION | DEC 31, 2019 | DEC 31, 2018 | VARIATIONS |
|---|---|---|---|---|
| A | CASH | 10,180 | 27,926 | (17,746) |
| B | OTHER CASH AND CASH EQUIVALENTS | - | - | - |
| C | SECURITIES HELD FOR TRADING | - | - | - |
| **D** | **CASH ON HAND (A+B+C)** | **10,180** | **27,926** | **(17,746)** |
| **E** | **CURRENT FINANCIAL RECEIVABLES** | **3,790** | **4,365** | **(575)** |
| F | CURRENT BANK DEBTS | 96 | 259 | (163) |
| G | CURRENT PART OF NON-CURRENT INDEBTEDNESS | 41,766 | 33,238 | 8,528 |
| H | BOND ISSUED | 691 | 693 | (2) |
| I | OTHER CURRENT FINANCIAL DEBTS | 4,179 | 1,303 | 2,876 |
| **J** | **CURRENT FINANCIAL INDEBTEDNESS (F+G+H+I)** | **46,732** | **35,493** | **11,239** |
| **K** | **NET CURRENT FINANCIAL INDEBTEDNESS (J-D-E)** | **32,762** | **3,202** | **29,560** |
| L | NON-CURRENT BANK DEBTS | 65,666 | 70,797 | (5,131) |
| M | BOND ISSUED | 24,806 | 24,762 | 44 |
| N | OTHER NON-CURRENT FINANCIAL DEBTS | 19,107 | 11,339 | 7,768 |
| **O** | **NON-CURRENT FINANCIAL INDEBTEDNESS (L+M+N)** | **109,579** | **106,898** | **2,681** |
| **P** | **NET FINANCIAL POSITION (K+O)** | **142,341** | **110,100** | **32,241** |

# Summary of key figures of the last Financial Statements of subsidiaries

The tables below provide a summary of the key figures of the Financial Statements of subsidiaries by segment at December 31, 2019.

## Prima Power

*Values espressed in Euro thousand*

| | FINN-POWER OY | PRIMA POWER LASERDYNE LLC | PRIMA POWER SUZHOU CO.LTD. | PRIMA INDUSTRIE NORTH AMERICA - PRIMA POWER NA | PRIMA POWER CANADA LTD. | PRIMA POWER MEXICO SRL DE CV | PRIMA POWER GMBH |
|---|---|---|---|---|---|---|---|
| NON CURRENT ASSETS | 113,686 | 4,172 | 10,126 | 4,370 | - | 5 | 3,466 |
| CURRENT ASSETS | 79,102 | 19,905 | 32,844 | 51,436 | 6,443 | 478 | 14,612 |
| ASSETS HELD FOR SALE | - | - | - | - | - | - | - |
| **TOTAL ASSETS** | **192,788** | **24,077** | **42,970** | **55,806** | **6,443** | **483** | **18,078** |
| STOCKHOLDERS' EQUITY | 140,134 | 12,566 | 10,440 | 26,940 | 2,537 | 307 | (5,909) |
| NON CURRENT LIABILITIES | 8,306 | 912 | 90 | 3,061 | - | - | 2,282 |
| CURRENT LIABILITIES | 44,348 | 10,599 | 32,440 | 25,805 | 3,906 | 176 | 21,705 |
| **TOTAL STOCKHOLDERS' EQUITY AND LIABILITIES** | **192,788** | **24,077** | **42,970** | **55,806** | **6,443** | **483** | **18,078** |

| | FINN-POWER OY | PRIMA POWER LASERDYNE LLC | PRIMA POWER SUZHOU CO.LTD. | PRIMA INDUSTRIE NORTH AMERICA - PRIMA POWER NA | PRIMA POWER CANADA LTD. | PRIMA POWER MEXICO SRL DE CV | PRIMA POWER GMBH |
|---|---|---|---|---|---|---|---|
| NET REVENUES | 134,545 | 30,639 | 28,982 | 79,344 | 3,513 | 681 | 31,096 |
| OPERATING PROFIT (EBIT) | 7,241 | 4,822 | (531) | 6,456 | 1,278 | 229 | (2,727) |
| RESULT BEFORE TAXES (EBT) | 10,525 | 4,683 | (652) | 6,547 | 1,332 | 229 | (2,933) |
| **NET RESULT** | **10,402** | **3,526** | **(758)** | **4,851** | **948** | **300** | **(2,965)** |

| PRIMA POWER IBERICA S.L. | PRIMA POWER CENTRAL EUROPE SP.Z.O.O. | OOO PRIMA POWER | PRIMA POWER FRANCE SARL | PRIMA POWER MAKINA TICARET LTD SIRTEKI | PRIMA POWER UK LTD. | PRIMA POWER INDIA PVT. LTD. | PRIMA POWER SOUTH AMERICA LTDA | PRIMA POWER CHINA CO.LTD. | PRIMA POWER AUSTRALASIA PTY. LTD. |
|---:|---:|---:|---:|---:|---:|---:|---:|---:|---:|
| 1,209 | 704 | 1,987 | 666 | 112 | 232 | 110 | 38 | - | - |
| 15,046 | 9,791 | 8,145 | 6,996 | 2,237 | 2,851 | 1,417 | 310 | 1,249 | 48 |
| - | - | - | - | - | - | - | - | - | - |
| **16,255** | **10,495** | **10,132** | **7,662** | **2,349** | **3,083** | **1,527** | **348** | **1,249** | **48** |
| 7,110 | 694 | 2,639 | (46) | 647 | 1,196 | (429) | (574) | 1,149 | (223) |
| 833 | 271 | 1,253 | 480 | 12 | 154 | 73 | 10 | - | - |
| 8,312 | 9,530 | 6,240 | 7,228 | 1,690 | 1,733 | 1,883 | 912 | 100 | 271 |
| **16,255** | **10,495** | **10,132** | **7,662** | **2,349** | **3,083** | **1,527** | **348** | **1,249** | **48** |

| PRIMA POWER IBERICA S.L. | PRIMA POWER CENTRAL EUROPE SP.Z.O.O. | OOO PRIMA POWER | PRIMA POWER FRANCE SARL | PRIMA POWER MAKINA TICARET LTD SIRTEKI | PRIMA POWER UK LTD. | PRIMA POWER INDIA PVT. LTD. | PRIMA POWER SOUTH AMERICA LTDA | PRIMA POWER CHINA CO.LTD. | PRIMA POWER AUSTRALASIA PTY. LTD. |
|---:|---:|---:|---:|---:|---:|---:|---:|---:|---:|
| 24,105 | 23,308 | 11,640 | 14,019 | 2,395 | 5,503 | 742 | 745 | - | - |
| 526 | 797 | 423 | (261) | 42 | 78 | (204) | (123) | (26) | (2) |
| 543 | 814 | 215 | (309) | (26) | 33 | (222) | (121) | (36) | (2) |
| **373** | **608** | **(26)** | **(307)** | **(33)** | **20** | **(222)** | **(164)** | **(35)** | **(2)** |

## Prima Electro

*Values espressed in Euro thousand*

| | PRIMA ELECTRO S.P.A. | PRIMA INDUSTRIE NORTH AMERICA - CONVERGENT PHOTONICS | PRIMA ELECTRO CHINA | PRIMA ELECTRO SUZHOU CO. LTD. | OSAI UK LTD. |
|---|---|---|---|---|---|
| NON CURRENT ASSETS | 33,734 | 12,005 | - | 36 | - |
| CURRENT ASSETS | 32,367 | 16,547 | - | 1,604 | - |
| ASSETS HELD FOR SALE | 4,000 | - | - | - | - |
| **TOTAL ASSETS** | **70,101** | **28,552** | **-** | **1,640** | **-** |
| STOCKHOLDERS' EQUITY | 39,259 | 11,455 | - | 42 | - |
| NON CURRENT LIABILITIES | 9,796 | 11,952 | - | - | - |
| CURRENT LIABILITIES | 21,046 | 5,145 | - | 1,598 | - |
| **TOTAL STOCKHOLDERS' EQUITY AND LIABILITIES** | **70,101** | **28,552** | **-** | **1,640** | **-** |

| | PRIMA ELECTRO S.P.A. | PRIMA INDUSTRIE NORTH AMERICA - CONVERGENT PHOTONICS | PRIMA ELECTRO CHINA | PRIMA ELECTRO SUZHOU CO. LTD. | OSAI UK LTD. |
|---|---|---|---|---|---|
| NET REVENUES | 46,197 | 14,788 | 1,288 | 1,634 | 660 |
| OPERATING PROFIT (EBIT) | 947 | (3,654) | (84) | (126) | 144 |
| RESULT BEFORE TAXES (EBT) | 1,674 | (4,183) | (95) | (137) | 126 |
| **NET RESULT** | **1,561** | **(2,975)** | **(103)** | **(137)** | **126** |

# Information pursuant to article 149-duodecies of Consob Regulation – Prima Industrie Group

The following table, drawn up in accordance with article 149-duodecies of the Consob Issuers' Regulation, presents the costs for the year 2019 included in the consolidated income statement for auditing services and for non-auditing services provided by PricewaterhouseCoopers SpA (hereinafter referred to as "PwC") and by entities belonging to his network.

*Values expressed in Euro thousand*

| AUDIT COSTS | 2019 |
|---|---|
| Parent company audit | 97 |
| Subsidiaries audit | 204 |
| Other services | 89 |
| **TOTAL** | **391** |

The following table shows the total fees owed to PwC and entities belonging to its network for the audit of the 2019 financial statements, as well as fees for 2019 for other auditing and non-auditing services provided to Group companies by PwC and the entities belonging to its network. The expenses incurred in 2019 for these services are not included.

*Values expressed in Euro thousand*

| AUDIT COSTS | 2019 |
|---|---|
| Parent company audit | 83 |
| Subsidiaries audit | 179 |
| Other services | 60 |
| **TOTAL** | **322** |

# Statement ex art. 2427, n. 7-bis

Statement of Net Equity items broken down according to the origin, possibility of use, distribution, availability and successful use in the three previous years.

| DESCRIPTION | AMOUNT | AVAILABILITY | AMOUNT AVAILABLE | SUMMARY OF UTILIZATIONS MADE IN THE THREE-YEAR PERIOD 2017-2019 | |
|---|---|---|---|---|---|
| | | | | LOSS COVERAGE | OTHER REASONS [b] |
| **Capital stock** | **26,208** | **B** | **-** | **-** | **-** |
| **Capital stock Reserves** | | | | | |
| Additional paid-in capital [a] | 57,507 | A, B, C | 57,478 | - | - |
| Capital increase - expenses | (1,286) | - | - | - | - |
| Treasury stock | (1,966) | - | - | - | - |
| **Retained ernings** | | | | | |
| Legal reserve | 5,213 | B | - | - | - |
| Extraordinary reserve | 7,174 | A, B, C | 7,174 | - | 1,841 |
| IAS FTA reserve | (1,698) | - | - | - | - |
| IAS reserve (stock grant, TFR, derivatives) | (900) | - | - | - | - |
| Merger surplus reserve | (459) | - | - | - | - |
| Capitalized development costs reserve | 8,520 | B | - | - | - |

*Legend*
*A: to increase the Capital stock*
*B: to cover losses*
*C: to distribute to shareholders*

(a) *Unavailable portion, amounting to 29 thousand euro, refers to residual amount to be allocated to the Legal reserve up to 20% of Capital stock*
(b) *It refers to the distribution of dividends*

# Financial Statements as at December 31, 2019 Declaration

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

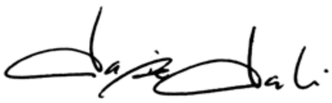
1. The undersigned, Gianfranco Carbonato (Executive Chairman) and Davide Danieli (Manager responsible for drafting company accounting documents), of Prima Industrie SpA, certify that, having taken account of the provisions of article 154-bis, paragraphs 3 and 4, of Legislative no. 58 of February 24, 1998:
   - the company's business is compliant with the given requirements and
   - the administrative and accounting procedures have been effectively applied in drafting the financial statements over the course of 2019.
2. No significant facts have emerged regarding thereto.
3. We also certify that:
   3.1 the financial statements:
      a) are drafted in conformity with the applicable international accounting standards commonly used in the European Community, pursuant to (CE) Regulation no. 1606/2002 of the European Parliament and Council of July 19, 2002;
      b) truthfully represent the figures in the accounting books and ledgers;
      c) is suitable to provide a truthful and faithful representation of the capital, economic and financial position of the company.

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

Date: March 9, 2020

Signature of the Executive Chairman

Officer in charge of preparing the financial reports



# Annexes

# Annexes

## Annex 1 – Consolidation area

| PRIMA POWER | REGISTERED OFFICE | SHARE CAPITAL | OWNERSHIP | CONSOLIDATION METHOD |
|---|---|---|---|---|
| FINN POWER OY | Nuppiväylä 7, 60100 Seinäjoki, FINLAND | € 30.000.000 | 100% | Line-by-line method |
| PRIMA POWER LASERDYNE LLC | 8600, 109th Av. North, Champlin, MN 55316, U.S.A. | USD 200.000 | 100% | Line-by-line method |
| PRIMA POWER SUZHOU Co. LTD. | 459 Xingrui Road, Wujiang Ec. & Tech. Develp. Zone, Suzhou City Jiangsu Prov. CHINA | USD 15.850.000 | 70% | Line-by-line method |
| PRIMA POWER NORTH AMERICA Inc. | 555W Algonquin Rd., Arlington Heights, IL 60005, U.S.A. | USD 10.000 | 100% | Line-by-line method |
| PRIMA POWER CANADA Ltd. | 1500 Upper Middle Rd W Suite 313, Oakville Ontario, L6M OC2, Canada | CAD 200 | 100% | Line-by-line method |
| PRIMA POWER MEXICO S DE RL DE CV | Campo Real, 121 FRACC. Valle Real, Saltillo, Coahuila C.P. 25198 MEXICO | USD 250 | 100% | Line-by-line method |
| PRIMA POWER GmbH | Am Gfild 9, 85375 Neufahrn, GERMANY | € 500.000 | 100% | Line-by-line method |
| PRIMA POWER IBERICA S.L. | C/Primero de Mayo 13-15, 08908 L'Hospitalet de Llobregat, Barcelona, SPAIN | € 6.440.000 | 100% | Line-by-line method |
| PRIMA POWER CENTRAL EUROPE Sp.z.o.o. | Ul. Holenderska 6 - 05 - 152 Czosnów Warsaw, POLAND | PLN 350.000 | 100% | Line-by-line method |
| OOO PRIMA POWER | Ordzhonikidze str., 11/A - 115419, Moscow - RUSSIAN FEDERATION | RUB 4.800.000 | 100% | Line-by-line method |
| PRIMA POWER FRANCE Sarl | Espace Green Parc, Route de Villepècle, 91280 St. Pierre du Perray, FRANCE | € 960.015 | 100% | Line-by-line method |
| PRIMA POWER MAKINA TICARET LIMITED SIRKETI | Soğanlık Yeni Mah. Balıkesir Cad. Uprise Elite Teras Evler B2 A Dubleks Gül Blok Daire: 4 Kartal – Istanbul, TURKEY | TRY 1.470.000 | 100% | Line-by-line method |
| PRIMA POWER UK LTD | Unit 1, Phoenix Park, Bayton Road, Coventry CV7 9QN, UNITED KINGDOM | GBP 1 | 100% | Line-by-line method |
| PRIMA POWER INDIA PVT. LTD. | Plot No A-54/55, H Block, MIDC, Pimpri, Pune - 411018, Maharashtra, INDIA | Rs. 7.000.000 | 99,99% | Line-by-line method |
| PRIMA POWER SOUTH AMERICA Ltda | Av Fuad Lutfalla, 1,182 – Freguesia do Ó - 02968-00, Sao Paulo BRAZIL | R$ 7.698.699 | 99,99% | Line-by-line method |
| PRIMA POWER CHINA Company Ltd. | Room 2006, Unit C, Tower 1, Wangjing SOHO, Chaoyang District, Beijing, P.R. CHINA | RMB 2.038.778 | 100% | Line-by-line method |
| PRIMA POWER AUSTRALASIA Pty. LTD. | Suite 2, First Floor, 100 Queen street, PO Box 878, Campbelltown, NSW, 2560 AUSTRALIA | A$ 1 | 100% | Line-by-line method |

| PRIMA ELECTRO | REGISTERED OFFICE | SHARE CAPITAL | OWNERSHIP | CONSOLIDATION METHOD |
|---|---|---|---|---|
| PRIMA ELECTRO S.p.A. | Strada Carignano 48/2, 10024 Moncalieri, (TO) ITALY | € 15.000.000 | 100% | Line-by-line method |
| CONVERGENT - PHOTONICS, LLC | 711 East Main Street, Chicopee, MA 01020, U.S.A. | USD 24.119.985 | 100% | Line-by-line method |
| PRIMA ELECTRO SUZHOU Co.Ltd. | 459 Xingrui Road, Wujiang Ec. & Tech. Develp. Zone, Suzhou City Jiangsu Prov. CHINA | € 200.000 | 100% | Line-by-line method |

# Annex 2 – “Non-Gaap” performance indicators

The Management of PRIMA INDUSTRIE assesses the performance of the Group and its business segments using a number of non-IFRS indices. Below are described the components of each of these indices

**ORDERS**: includes agreements entered into with customers during the reference period than can be considered part of the order books.

**BACKLOG**: this is the sum of orders from the previous period and current confirmed orders, net of revenues in the reference period.

**EBIT**: Operating Profit.

**EBITDA**: the Operating Profit, as shown in the income statement, gross of “Amortization”, “Write-downs and Impairment”. This index is also referred to as “Gross Operating Margin”.

**EBITDA *Margin***: calculated as the ratio between EBITDA and revenues.

**Adjusted EBITDA**, **EBIT and EBT** (hereinafter “*Adj*”) correspond to the same alternative performance indicators net of non-recurring items.

**FCF (*Free Cash Flow*)**: is the cash flow from operations that is available after the company has made the necessary reinvestment in new fixed assets; it is the sum of cash flow from operations and the cash flow from investments.

**Workforce**: is the number of employees on the books on the last day of the reference period.

**Net financial indebtedness** includes cash and cash equivalents, financial receivables (current and non-current), net of financial payables (current and non-current) and the fair value of derivatives. Reconciliation with the net financial position required by CONSOB Communication no. DEM/6064293 July 28, 2006 is provided in the Notes to the Consolidated Financial Statements.

**Revenues at constant exchange** rates are stated by applying the average exchange rates of the previous year to the revenues of the current year in the local currency.

# Annex 3 – currency exchange rate

The exchange rates applied in converting the financial statements to a currency other than the Euro are, for the purpose of consolidation, the following:

| | AVERAGE EXCHANGE RATE | | SPOT EXCHANGE RATE | |
|---|---|---|---|---|
| CURRENCY | 2019 | 2018 | DEC 31, 2019 | DEC 31, 2018 |
| US DOLLAR | 1.1196 | 1.1815 | 1.1234 | 1.1450 |
| CHINESE RENMINBI | 7.7339 | 7.8074 | 7.8205 | 7.8751 |
| RUSSIAN RUBLE | 72.4593 | 74.0551 | 69.9563 | 79.7153 |
| TURKISH LIRA | 6.3574 | 5.6986 | 6.6843 | 6.0588 |
| POLISH ZLOTY | 4.2975 | 4.2606 | 4.2568 | 4.3014 |
| POUND STERLING | 0.8773 | 0.8848 | 0.8508 | 0.8945 |
| BRAZILIAN REAL | 4.4135 | 4.3087 | 4.5157 | 4.4440 |
| INDIAN RUPEE | 78.8502 | 80.7277 | 80.1870 | 79.7298 |
| AUSTRALIAN DOLLAR | 1.6106 | 1.5799 | 1.5995 | 1.6220 |
| CANADIAN DOLLAR | 1.4857 | 1.5302 | 1.4598 | 1.5605 |
| MEXICAN PESO | 21.5573 | 22.7160 | 21.2202 | 22.4921 |

# Reports of the Independent Auditors and the Statutory Auditors Committee.

**INDEPENDENT AUDITOR'S REPORT IN ACCORDANCE WITH ARTICLE 14 OF LEGISLATIVE DECREE NO. 39 OF 27 JANUARY 2010 AND ARTICLE 10 OF REGULATION (EU) NO. 537/2014**

**PRIMA INDUSTRIE SPA**

**FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019**

# *Independent auditor's report*

*in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014*

To the Shareholders of
Prima Industrie SpA

## *Report on the audit of the financial statements*

### *Opinion*

We have audited the financial statements of Prima Industrie SpA (the "Company"), which comprise the statement of financial position as of 31 December 2019, the income statement, the comprehensive income statement, the statement of changes in shareholders' equity, the cash flow statement for the year then ended, and the explanatory notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2019, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05.

### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of this report. We are independent of Prima Industrie SpA pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*PricewaterhouseCoopers SpA*

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bergamo** 24121 Largo Belotti 5 Tel. 035229691 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25121 Viale Duca d'Aosta 28 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332285039 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311

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## *Key audit matters*

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

| *Key audit matters* | *Auditing procedures performed in response to key audit matters* |
|---|---|
| **Analysis of impairment indicators over investments in subsidiaries**<br><br>*Note 3 to the financial statements "Investments in subsidiaries"* | |
| The value of the "Investments in subsidiaries" as of 31 December 2019 amounted to Euro 179.8 million (representing approximately 50% of total assets), of which Euro 140.2 million related to the subsidiary Finn-Power OY, which is the most significant investment. | Our audit procedures concerned the examination and discussion with management of the financial performance of the subsidiaries, as well as the evaluation of the existence of any impairment indicators, as requested by IAS 36. |
| The management of the Company, at least annually, performs an analysis on each subsidiary, focusing on those for which the book value is higher than the corresponding amount of the shareholders' equity. If, further to such analysis, any indicator emerges that could lead to presume that an impairment loss on investments in subsidiaries exists, management performs an impairment test on them. | In the presence of indicators that could lead to the presumption of a loss in the value of the investments, we discussed with management the conclusions reached by the same following the *impairment test*, checking the reasonableness in the circumstances. We also verified the adequacy of the value adjustments relating to investments in subsidiaries. |
| Considering the relevance of the investments in subsidiaries and the inherent estimate elements influencing the management evaluations, we considered the analysis of the impairment indicators as a key audit matter. | Finally, we verified the completeness and the accuracy of the information provided in the explanatory notes. |

**Assessment of development costs recoverability**

*Note 2 to the financial statements "Intangible assets"*

Intangible assets as of 31 December 2019 include "Development costs" amounting to Euro 8.5 million and representing approximately 2% of total assets.

The management of the Company periodically monitors the development projects and the related costs, verifying their technical feasibility and the generation of probable future economic benefits expected.

Development costs are deemed as a key audit matter considering both their amount and the inherent estimate elements influencing the evaluations performed by management in relation to their recoverability.

Our audit procedures concerned the understanding of the internal control system over the capitalization process of development costs, the main development projects through meetings with technical personnel in charge of them, as well as the critical analysis of the assumptions underlying the investment recovery plans prepared by management.

Furthermore, we verified the inherence and accuracy of the capitalized development costs, their compliance with the IAS 38 requirements, as well as the completeness and accuracy of the disclosure provided in the explanatory notes.

## *Responsibilities of the directors and the board of statutory auditors for the financial statements*

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Company's ability to continue as a going concern and, in preparing the financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Company's financial reporting process.

### *Auditor's responsibilities for the audit of the financial statements*

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

As part of our audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised our professional judgement and maintained professional scepticism throughout the audit. Furthermore:

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

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

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

### *Additional disclosures required by article 10 of Regulation (EU) No. 537/2014*

On 11 April 2017, the Shareholders of Prima Industrie SpA in general meeting engaged us to perform the statutory audit of the Company's separate and consolidated financial statements for the years ending 31 December 2017 to 31 December 2025.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

## *Report on compliance with other laws and regulations*

### *Opinion in accordance with article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and article 123-bis, paragraph 4, of Legislative Decree No. 58/98*

The directors of Prima Industrie SpA are responsible for preparing a report on operations and a report on the corporate governance and ownership structure of Prima Industrie SpA as of 31 December 2019, including their consistency with the relevant financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the financial statements of Prima Industrie SpA as of 31 December 2019 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the financial statements of Prima Industrie SpA as of 31 December 2019 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Turin, 30 March 2020

PricewaterhouseCoopers SpA

*Signed by*

Piero De Lorenzi
(Partner)

*This report has been translated into English from the Italian original solely for the convenience of international readers*

**INDEPENDENT AUDITOR'S REPORT IN ACCORDANCE WITH ARTICLE 14 OF LEGISLATIVE DECREE NO. 39 OF 27 JANUARY 2010 AND ARTICLE 10 OF REGULATION (EU) NO. 537/2014**

**PRIMA INDUSTRIE GROUP**

**CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2019**

# *Independent auditor's report*

*in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014*

To the Shareholders of
Prima Industrie SpA

## *Report on the audit of the consolidated financial statements*

### *Opinion*

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

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Prima Industrie Group as of 31 December 2019, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05.

### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of this report. We are independent of Prima Industrie SpA (the "Company") pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*PricewaterhouseCoopers SpA*

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bergamo** 24121 Largo Belotti 5 Tel. 035229691 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25121 Viale Duca d'Aosta 28 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332285039 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311

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*Key audit matters*

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

| *Key audit matters* | *Auditing procedures performed in response to key audit matters* |
|---|---|
| **Assessment of the goodwill recoverability** | |
| *Note 2 to the consolidated financial statements "Intangible assets"* | |
| Intangible assets as of 31 December 2019 include "Goodwill", amounting to a total of Euro 97.9 million, representing approximately 19% of total assets, and almost wholly allocated to the Cash Generating Units ("CGU") Prima Power.<br><br>The management of the Company assesses, at least annually, the goodwill recoverability, based on the higher value between the fair value and the value in use of each CGU to which the goodwill amounts are allocated (impairment test). The value in use is determined by discounting the future cash flows expected in the plan as approved by management, as well as the related terminal value.<br><br>Goodwill is deemed as a key audit matter considering both its amount and the inherent estimate elements influencing the evaluations performed by management in relation to its recoverability.<br><br>The main estimate elements are linked to the correct definition and identification of the CGU, of future cash flows for each CGU and their discounting rates. | We analyzed the reasonableness of the considerations made by management regarding the CGU identified and on the allocation of goodwill thereto, verifying their consistency with the Group structure and with the operating segments in which it operates.<br><br>Our audit procedures also concerned the analysis of the main assumptions included in the plans of each CGU, verifying their reasonableness in consideration of the results achieved in 2019, of the order backlog as well as of the expected market development.<br><br>We analyzed the methodology and the evaluation model used by management to prepare the impairment test, including the reasonableness of the discounting rates and of the related sensitivity analyses, also involving the experts belonging to the PwC network.<br><br>Furthermore, we verified the correct allocation of the book values of assets and liabilities attributable to the individual CGUs, including the allocated goodwill, used for comparisons with the value in use. Finally, we verified the completeness and the accuracy of the information provided in the explanatory notes. |

### Assessment of development costs recoverability

*Note 2 to the consolidated financial statements "Intangible assets"*

Intangible assets as of 31 December 2019 include "Development costs" amounting to Euro 28.5 million and representing approximately 5% of total assets.

The management of the Company periodically monitors the development projects and the related costs, verifying their technical feasibility and the generation of probable future economic benefits expected.

Development costs are deemed as a key audit matter considering both their amount and the inherent estimate elements influencing the evaluations performed by management in relation to their recoverability.

Our audit procedures concerned the understanding of the internal control system over the capitalization process of development costs, the main development projects through meetings with technical personnel in charge of them, as well as the critical analysis of the assumptions underlying the investment recovery plans prepared by management.

Furthermore, we verified the inherence and accuracy of the capitalized development costs, their compliance with the IAS 38 requirements, as well as the completeness and accuracy of the disclosure provided in the explanatory notes.

## *Responsibilities of the directors and the board of statutory auditors for the consolidated financial statements*

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Group's ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate Prima Industrie SpA or to cease operations or have no realistic alternative but to do so.

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

### *Auditor's responsibilities for the audit of the consolidated financial statements*

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

As part of our audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

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

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

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

### *Additional disclosures required by article 10 of Regulation (EU) No. 537/2014*

On 11 April 2017, the Shareholders of Prima Industrie SpA in general meeting engaged us to perform the statutory audit of the Company's separate and consolidated financial statements for the years ending 31 December 2017 to 31 December 2025.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

## *Report on compliance with other laws and regulations*

### *Opinion in accordance with article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and article 123-bis, paragraph 4, of Legislative Decree No. 58/98*

The directors of Prima Industrie SpA are responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the Prima Industrie Group as of 31 December 2019, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the consolidated financial statements of the Prima Industrie Group as of 31 December 2019 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of Prima Industrie SpA as of 31 December 2019 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

### *Statement in accordance with article 4 of Consob's regulation implementing Legislative Decree No. 254 of 30 December 2016*

The directors of Prima Industrie SpA are responsible for the preparation of the non-financial statement pursuant to Legislative Decree No. 254 of 30 December 2016. We have verified that the directors approved the non-financial statement.

Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016, the non-financial statement is the subject of a separate statement of compliance issued by ourselves.

Turin, 30 March 2020

PricewaterhouseCoopers SpA

*Signed by*

Piero De Lorenzi
(Partner)

*This report has been translated into English from the Italian original solely for the convenience of international readers*

# PRIMA INDUSTRIE S.p.A.

Registered office: Via Torino-Pianezza 36, 10093 Collegno (Turin)
Share Capital Euro 26,208,185.00 (fully paid-up)
Company Register of Turin No. 03736080015
www.primaindustrie.com

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## REPORT OF THE STATUTORY AUDITORS COMMITTEE TO THE SHAREHOLDERS' MEETING CONVENED TO APPROVE THE FINANCIAL STATEMENTS TO DECEMBER 31, 2019 (in accordance with article 153 of Legislative Decree no. 58 of February 24, 1998 and article 2429 of the Italian Civil Code)

To the Shareholders of Prima Industrie SpA,

### 1. Introduction

The Board of Statutory Auditors, whose members are Franco Nada, Chairman, and statutory auditors Maura Campra and Roberto Petrignani, was appointed by the Shareholders' Meeting of Prima Industrie SpA on April 16, 2019 and will remain in office until approval of the financial statements to December 31, 2021.

The statutory audit of the financial statements was carried out by PricewaterhouseCoopers S.p.A. (hereinafter the "independent auditors"), appointed by the ordinary Shareholders' Meeting of Prima Industrie S.p.A. on April 11, 2017, on the recommendation of the Statutory Auditors Committee, for the financial years 2017-2025. The independent auditors conducts the statutory audit of the financial statements and the Group's consolidated financial statements for the nine-year period, the limited legal audit of the condensed half-year consolidated financial statements, verification of the proper keeping of the accounts and the correct recording of operations in the accounting records, as well as the statutory audit of the financial statements, the audit of the IFRS consolidation records of some of the companies directly or indirectly controlled by Prima Industrie SpA and activities related to the conformity certification for non-financial data required by the Decree transposing Directive 2014/95/EU, as well as verification of the preparation of the second section of the report referred to in Article 123ter, paragraph 4, of the Consolidated Law on Finance.

In accordance with the Code of Conduct for listed companies promoted by Borsa

Italiana SpA., the Board of Directors is made up of 11 members, including two managing directors. The Chairman holds executive powers of proxy. Of the 11 directors, 6 are independent. The Control and Risks Committee consists of three independent directors, the Related Parties Committee consists of three independent directors, the Remuneration Committee consists of three directors, two of whom are independent, and the Lead Independent Director is an independent director.

The Supervisory Board consists of two members of the Board of Auditors and the head of Group Internal Auditing and will remain in office until approval of the financial statements for the financial year 2019.

## 2. Monitoring activities

During 2019, the Board of Auditors performed the monitoring activities required by law (specifically article 149 of the Italian Consolidated Finance Law), the Rules of Conduct for the board of statutory auditors of listed companies issued by the Italian National Council of Accountants and Accounting Experts, CONSOB recommendations on company audits and the activities of the board of statutory auditors and the guidelines contained in the Code of Conduct for the corporate governance committee of companies listed with Borsa Italiana SpA, to which the Company has adhered.

2.1 During the year ended December 31, 2019, we monitored compliance with legal requirements and the articles of association and observance of the principles of proper administration.

To this end, the Board availed itself of the information flows presented by the company, considered suitable for enabling the Board to verify compliance of the organisational structure, internal procedures, company documents and resolutions of official corporate bodies, the provisions of the articles of association and applicable regulations.

For its monitoring activities, the Board of Auditors held 5 meetings.

The Board of Auditors conducted checks and received information from the managers of the various company functions. With regard to the administrative and accounting system and its suitability for proper representation of operations, the Board of Auditors has taken the necessary information not only from the company structures, but also through regular meetings with the independent auditors.

Furthermore, the Statutory Auditors Committee:

- attended the Shareholders' Meeting;
- took part in the 9 meetings of the Board of Directors, during which it was informed of the activities carried out and the transactions with most relevance to the economic, equity and financial position of the company and the Group;
- took part in the 7 meetings of the Control and Risks Committee;
- acknowledged that 2 meetings were held of the Strategies Committee;
- acknowledged that 2 meetings were held of the Remuneration Committee;
- acknowledged that 2 meetings were held of the Related Parties Committee;
- acknowledged that 1 meeting was held of the Independent Directors Committee;
- met the manager responsible for preparing the company's accounting documents (the "Financial Reporting Manager");
- had regular meetings with the Internal Auditor;
- regularly met PricewaterhouseCoopers S.p.A (PWC S.p.A), the independent auditors of the financial statements and the consolidated financial statements. (PwC S.p.A.).

With regard to the decision-making processes of the Board of Directors, the Statutory Auditors Committee monitored compliance with the principles of proper administration and the fitness of the company's administrative structure and believes that the resolutions and transactions carried out comply with the law and the articles of association and present no potential conflicts of interest, are not manifestly imprudent, risky, atypical or unusual, nor are they in conflict with the decisions of the Shareholders' Meeting or are such that they compromise the integrity of corporate assets.

2.2 The Statutory Auditors Committee gathered information periodically about the general management and outlook of the company, as well as the most significant transactions, as stated in the Management Report to which we refer you.

2.3 The Statutory Auditors Committee found no evidence of atypical and/or unusual transactions with Group companies, third parties or major transactions with related parties, finding confirmation of this in the guidelines of the Board of Directors, the independent auditors and the head of Internal Audit.

The Report on Operations drawn up by the Directors contains appropriate information on intragroup transactions or transactions with related parties, all found to be congruous, in the interest of the Company and conducted under market conditions. These are adequately described in the explanatory notes to the financial statements and we refer you to them for their characteristics and financial significance.
No particularly significant events occurred after the close of the financial year.

The Statutory Auditors Committee considers the new procedure for transactions with related parties, approved by the Board of Directors on July 31, 2019 and adopted by the company to be in compliance with the applicable regulations.

2.4 The Statutory Auditors Committee acquired information on and monitored the aspects of the organisational structure of the Company within its remit and deems them overall to be appropriate.

2.5 During the year ended December 31, 2019, the Statutory Auditors Committee issued its opinions, as required by law, and the following opinion regarding the provision of services other than auditing:
- appointment of PricewaterhouseCoopers Oy within the project involving the reorganisation of American entities.
The Statutory Auditors Committee verified the compatibility of these appointments with the limits set out in law.

The Statutory Auditors Committee acknowledges that, before approval of the draft financial statements, the Directors approved the impairment test procedure and the findings. The results of the goodwill impairment test conducted for the preparation of the consolidated half-year financial statements revealed a value loss of Euro 1,014 thousand for the CGU PRIMA ELECTRO – BU LASER.

In accordance with the provisions of the Code of Conduct, the Statutory Auditors Committee also verified:
- the proper application of the assessment criteria and procedures adopted by the Board of Directors to ascertain the independence of its members according to the criteria set out in law and in the Code of Conduct;
- the existence and continuance of the independence requirements for Statutory Auditors, according to the criteria of the Code of Conduct.

2.6 During the year ended December 31, 2019, no reports were received in relation to the provisions of Article 2408 of the Italian Civil Code, or complaints from third parties.

2.7 The Statutory Auditors Committee checked that the company has set up an internal control and risk management system, with reference to the Group, in order to enable identification, measurement, management and monitoring of the main risks.

In order to monitor the suitability of the company's internal control system, the Statutory Auditors Committee liaised and coordinated its activities with the Risk Control Committee, the Chairman of the company, the Financial Reporting

Manager, the head of the Internal Audit function and the Supervisory Board.

Furthermore, in its capacity as the Committee for Internal Control and Audit, the Statutory Auditors Committee not only set up a continuous information flow with the Control and Risk Committee, but also met regularly with the independent auditors, acknowledging the latter's certification on the absence of significant deficiencies in the internal control system in relation to the financial disclosure process.

The Company maintains strict information control over its subsidiaries in order to be able to comply with periodic disclosure obligations. In particular, subsidiaries are required to send a specific certification with the accounting or financial data for a given period.

The Statutory Auditors Committee examined the annual report of the Supervisory Board, on which it has no observations to make. The company has an Organisation and Management Model in accordance with Legislative Decree no. 231/2001 updated by resolution of the Board of Directors of June 1, 2018.

The Statutory Auditors Committee also reports that the Control and Risks Committee has operated in accordance with the provisions of the Code of Conduct. The collaboration with the Committee was productive and effective and, among other things, enabled the coordination of our respective activities and ensured joint evaluation and effective coordination of the overall internal control and risk management system.
The Statutory Auditors Committee reviewed the annual report of the Internal Audit function on the activities carried out during 2019 and made checks on the process of preparing the half-yearly financial report and the annual financial statements. Also, through regular meetings with the independent auditors, it assessed the appropriateness of the accounting standards and their uniformity for the purposes of the half-yearly financial report and the annual financial statements.

In view of the supervisory activities it conducts, and taking account of the evaluations it makes regarding the appropriateness, effectiveness and functionality of the internal control system by the Control and Risks Committee and the Board of Directors the Statutory Auditors Committee, within the bounds of its competence, considers the system to be appropriate.

2.8 The Statutory Auditors Committee monitored the suitability of the instructions provided by the company to its subsidiaries, in accordance with article 114, paragraph 2, of the Consolidated Finance Law, and the proper flow of information between them, and believes that the Company is able to comply with the disclosure requirements that are set out in law. The information flow to the central auditor, which takes place at the various levels of the corporate control chain and active throughout the year and a function of the audit of the annual and interim accounts, was considered to be effective.

2.9 The Statutory Auditors Committee monitored the company's administrative and accounting system and its reliability in correctly representing operations. It did so by obtaining information from the Financial Reporting Manager and the heads of the relevant functions and examining the documentation prepared by the company and analysing the work carried out by the independent auditors.
In particular, the Statutory Auditors Committee noted that the Financial Reporting Manager issued a statement certifying that the financial statements provide a true and fair representation of the economic, equity and financial position of the company.
Based on the information obtained, the statements made by the Financial Reporting Manager appear to be complete.
In view of the supervisory activities it conducts, and taking account of the evaluations it makes regarding the appropriateness, effectiveness and functionality of the organisational, administrative and accounting structure set up by the Board of Directors, the Statutory Auditors Committee, within the bounds of its competence, considers the system to be appropriate and reliable in its representation of operations.

2.10 During the year ended December 31, 2019, the Statutory Auditors Committee regularly met with the independent auditors PricewaterhouseCoopers S.p.A., in order to share significant data and information in accordance with Article 150, paragraph 3, of the Consolidated Law on Finance.
At these meetings, the independent auditors reported no significant events or anomalies of note.

2.11 During the aforementioned meetings with the appointed independent auditors, the Statutory Auditors Committee monitored activities as required by article 19 of Legislative Decree no. 39 of January 27, 2010. The independent auditors illustrated the quarterly controls carried out and the results, the auditing strategy, and the basic issues encountered during their audits. No critical issues emerged from these meetings that might affect the financial statements of the company.

The Statutory Auditors Committee also assessed the audit plan prepared by PricewaterhouseCoopers S.p.A., determining that it was appropriate for the characteristics and size of the Group, and it monitored the effectiveness of the statutory audit process, determining that it was conducted in accordance with the audit plan and with International Auditing Standards.

The key matters of the audit and the procedures adopted by the independent auditors were presented to the Statutory Auditors Committee and to the Control and Risks Committee, which shared them.

The report of PricewaterhouseCoopers S.p.A. on the financial statements to December 31, 2019, issued on March 30, 2020 in accordance with Articles 14 and 16 of Legislative Decree no. 39 of January 27, 2010 certifies that the financial statements provide a true and fair view of the financial position and performance of the Company at December 31, 2019, the results of its operations and its cash flows for the year, in accordance with the International Financial Reporting Standards approved by the European Union.
The aforementioned report also contains certification that the report on operations and the information required by article 123-bis, paragraph 4, of the Consolidated Finance Law presented in the report on corporate governance and ownership structure are consistent with the financial statements.

In its capacity as the Internal Control and Audit Committee, in accordance with article 19 of Legislative Decree no. 39 of January 27, 2010, the Board of Auditors also received confirmation that, on the basis of the activities carried out as part of the statutory audit, no significant deficiencies in the internal control system emerged in the financial reporting process.

As a public interest entity, Prima Industrie S.p.A. presents the non-financial statements (NFS) for the financial year 2019, in accordance with Legislative Decree 254/2016 (transposition of Directive 2014/95). These statements contain information relating to governance, the environment, employees, social aspects and non-financial risks, and were approved by the Board of Directors on March 9, 2020.
PricewaterhouseCoopers S.p.A. issued a report on the 2019 consolidated non-financial statement on March 30, 2020, in accordance with article 3, paragraph 10, of Legislative Decree no. 254/2016, without observations.
The Statutory Auditors Committee monitored the preparation of the consolidated non-financial statements and considers it to be appropriate.

2.12 In the year ended December 31, 2019, no additional assignments were given to the independent auditors PricewaterhouseCoopers S.p.A by Prima Industrie SpA, with the exception of those provided for in article 155 of Legislative Decree no. 58 of February 24, 1998, and the auditing of the cost schedules for the research and development activities of Prima Industrie SpA and Prima Electro SpA. The activities required of the independent auditors and their fees are detailed in the notes to the financial statements as follows: Audit of Parent Company Euro 83,000, Audit of Subsidiaries Euro 178,000, Other services Euro 60,000. Other services include the certificate of conformity of the consolidated non-financial statements

Considering the declaration issued by PricewaterhouseCoopers S.p.A. and the tasks assigned to that company and to the companies belonging to its network, the Statutory Auditors Committee does not consider there to be any critical issues regarding its independence.

2.13 As already stated, Prima Industrie S.p.A. adheres to the Code of Conduct of the Committee for Corporate Governance of companies listed with Borsa Italiana S.p.A., as stated in the Report on Corporate Governance and Share Ownership for the year 2019, approved by the Board of Directors on March 9, 2020 and available on the company's website. This report was prepared in accordance with the instructions contained in the Regulations for Markets organised and managed by Borsa Italiana S.p.A..

The Report describes in detail the governance system adopted by the company. This system complies with and adheres to the rules of the governance model required by the above-mentioned Code of Conduct and the principles are effectively and properly applied.

2.14 In its meeting held on March 9, 2020, the board of directors approved the Report on Remuneration Policy and the compensation in accordance with Articles 123-ter of Legislative Decree 58/1998 and 84-quater of Consob Issuers' Regulations, consisting of two sections, which will be presented at the meeting of the shareholders. The Board has no remarks to make concerning said report.

During the monitoring activities described above, no omissions, breaches or irregularities arose that was worthy of note in this report.

## 3. Subsequent events

With reference to the changes introduced by Law no. 160 of December 27, 2019 (Budget Law 2020) and its subsequent amendments, regarding the minimum representation quotas for the lesser represented gender on the corporate bodies of listed companies, the Board remarks that as of March 9, 2020, the company has aligned its articles of association with said law by resolution of the board of directors.

The Statutory Auditors Committee is bound to remark that as of the date of this Report, a major health emergency is in progress due to the spread of the COVID-19 virus (with the first outbreak seen in China in December 2019). In light of said crisis, the Italian authorities have issued regulations, reserving the right to extend as needed the restrictive nature of these regulations, which impose severe restrictions on the movement of people and bans on group meetings. The authorities have also issued strict health protocols to protect people, particularly in the workplace.
These circumstances led to the meeting of the board being held by video conference on March 9, 2020 - which, inter alia, approved the 2019 annual financial information and convened the Shareholders' Meeting on a date to be arranged according to the Decree Law of March 17, 2020 containing extraordinary provisions to allow the extension of deadlines for the approval of financial statements.
The events have meant that the Statutory Auditors Committee has had to hold "remote" meetings on pressing matters (as have the independent auditors on the final auditing procedures).
The company rapidly put in place all the necessary safeguards to protect its workforce and those designed to support the Group's capital strength and contain future economic and financial impacts, despite the objective difficulties of making quantitative forecasts of the impact of COVID-19 on the Group's economic and financial results, given the unpredictability of the crisis.

## 4. Annual Financial Statements

The Statutory Auditors Committee examined the draft statements to December 31, 2019, drawn up by the Directors in accordance with legal requirements, and as communicated to the Board of Auditors during the Board Meeting of March 9, 2020, and viewed the consolidated statements on the same date.

To the best of its knowledge, the Statutory Auditors Committee notes that no legal provisions were breached during the preparation of the financial statements.

Since it is not responsible for the statutory audit, the Statutory Auditors Committee monitored the general layout of the financial statements, their compliance with the law, their preparation and structure and have no observations to report.

The financial statement for the year ended December 31, 2019 as drawn up by Directors in compliance with statutory requirements, and as duly notified to the Statutory Auditors Committee with the detailed information in the Explanatory

Note and the Management Report, shows an operating loss of Euro 2,164,137. The Board of Directors has described in detail the year's result and the events that generated it in the Report on Operations and in the Explanatory Notes.

**5. Conclusions**

In view of the above, in consideration of the statutory audit performed by independent auditors PricewaterhouseCoopers SpA, the Statutory Auditors Committee believes that the financial statements of Prima Industrie SpA for the financial year as well as the proposal of the Board of Directors to cover the loss for the year ended December 31, 2019 can be approved.

Turin, March 30, 2020

The Statutory Auditors Committee

**(Franco Nada)**

Chairman

# PRIMA INDUSTRIE GROUP

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## REPORT OF THE STATUTORY AUDITORS COMMITTEE ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2019

To the Shareholders of Prima Industrie SpA,

The Board of Directors of your company has prepared and approved the consolidated financial statements to December 31, 2019, in accordance with Italian Legislative Decree no. 127 of April 9, 1991 and with the provisions of Article 9 of Italian Legislative Decree no. 38 of February 28, 2005, which were presented to the Board meeting on March 9, 2020.

The Group Consolidated Financial Statements include the statement by the Chairman and the Manager responsible for drafting the accounting documents pursuant to Article 154-bis of Italian Legislative Decree no. 58 of February 24, 1998.

The Consolidated Financial Statements of the Prima Industrie Group, which are available for your examination, present profits of Euro 8,818,000, of which Euro 9,046,000 are attributable to the shareholders of the parent company and Euro –228,000 to the minority shareholders and are drafted according to International Accounting Standards (IAS/IFRS).

In the course of the year, we have carried out oversight activities, and were regularly informed by the parent company's Board of Directors of major economic, financial and equity transactions, including extraordinary operations, performed as part of Group relations.

We ascertained that the transactions that were resolved and put into effect conformed to legislative requirements and to the articles of association, that they did not diverge from the resolutions of the Shareholders' Meetings, that they showed no potential conflict of interest and were based on principles of proper administration.

We paid attention to intragroup operations carried out during the year and ascertained that these were conducted legitimately.

Audits by the independent auditors, PricewaterhouseCoopers SpA reveal that the values expressed in the consolidated statements correspond to the results of the parent company, to the financial statements of the subsidiaries and to all relevant information formally passed on by them.
The Statutory Auditors Committee, therefore, did not check these financial statements, in accordance with the provisions of Article 41, paragraph 3 of Italian Legislative Decree no. 127 of April 9, 1991.

Furthermore, we obtained from the independent auditors a copy of the report on the financial statements, which it issued on March 30, 2020 in accordance with Articles 14 and 16 of Italian Legislative Decree no. 39 of 27 January 2010, with nothing of any particular significance being raised. In its own report, the independent auditors confirmed the accuracy of the Management Report in relation to the Consolidated Financial Statements of Prima Industrie SpA and the information disclosed in accordance with article 123-bis of Italian Legislative Decree no. 58 of February 24, 1998 in the report on Corporate Governance and Ownership Structure.

The area of consolidation, the principles for equity consolidation and relevant procedures were all determined in accordance with IFRS rules. The structure of the consolidated financial statements can therefore be considered technically correct and fully conformant to specific regulations.

As in previous years, the Board of Directors has drawn up a single Management Report, which contains all required information pertaining to the parent company and to individual subsidiary companies.

The report illustrates the economic, equity and financial position of all consolidated companies, their operating performance during 2019, the main risks to which the business is exposed and expected developments for 2020.

Having examined this report, we confirm that it corresponds to the Group's consolidated statement.

The Explanatory Notes contain the general drafting criteria for the Financial Statements, as well as the criteria used for assessing individual items.

For comparative purposes, the Consolidated Financial Statements also present the data corresponding to the previous year.

Based on our investigations, the Board of Statutory Auditors agrees with the content and form of the Group Consolidated Financial Statements to December 31, 2019.

Turin, March 30, 2020

The Statutory Auditors Committee

**(Franco Nada)**
<u>Chairman</u>

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