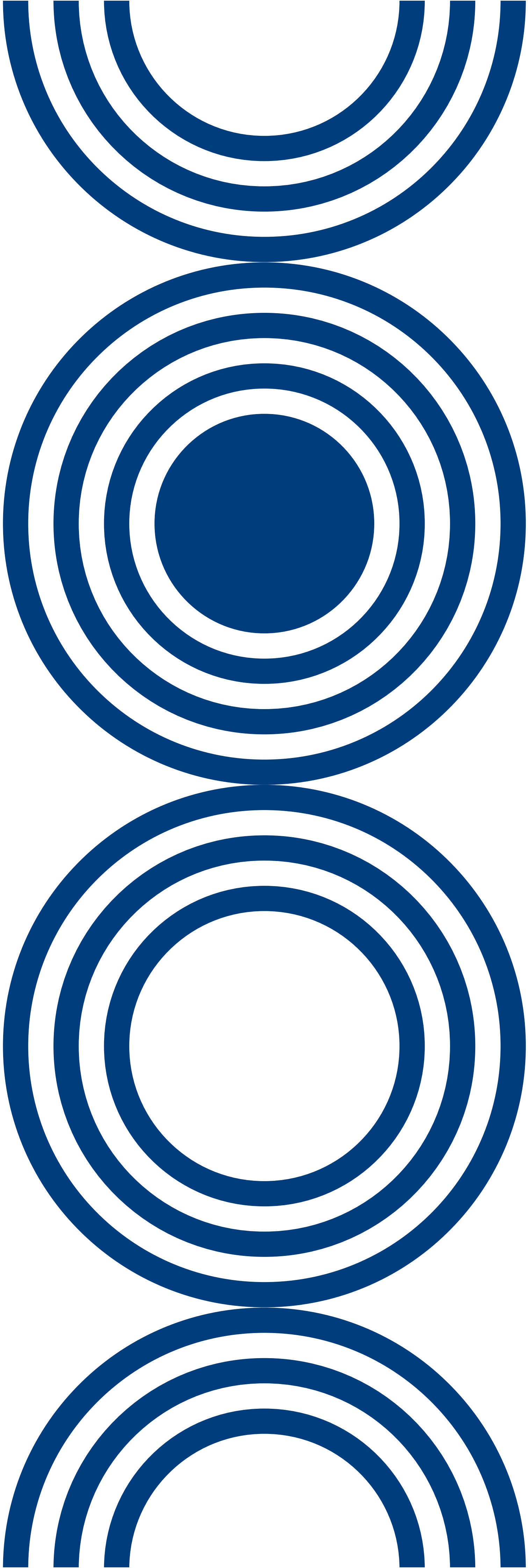
# ANNUAL FINANCIAL REPORT

year ended 31 December

# 2019



**C.L.N. COILS LAMIERE NASTRI S.P.A.**
Corso Susa, 13/15 • 10040 Caselette (TO) • Italy
Fully Paid-up Share Capital Euro 235.000.000 i.v.
R.E.A. n. 400722 C.C.I.A.A. TO
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# LETTER TO THE SHAREHOLDERS

**Dear Shareholders,**

throughout 2019, we have gradually witnessed the signals of a macroeconomic and sector-specific contraction as already foreshadowed in 2018. Such contraction has also affected the consolidated results of the Group, which has recorded a net revenue of 1,553.2 million euros, with an overall reduction by 6.3% compared to 2018 (a reduction by 3.8%, with the same scope of consolidation). The contraction in sales revenue was recorded specifically in Italy, Germany, and France. A significant share of the reduced sales volume is related to the deconsolidation of a subsidiary, indeed in France, occurring throughout the 2019 fiscal year.

Thanks to a careful business management, the operating margin on turnover has remained essentially stable, though suffering a contraction in absolute terms compared to the previous fiscal year. In fact, excluding the impact of the introduction, in 2019, of the new accounting standard IFRS 16, the Group's 2019 Adjusted EBITDA amounted to 133.7 million euros (8.60% of net revenue, compared to 8.63% in 2018).

Despite a macroeconomic scenario distinguished by strong uncertainty, in 2019 we have continued to make significant investments in favor of the growth of our main customers. In particular, our most relevant investments were focused on Germany and South Africa, in the scope of a strategic plan for modernization and development of advanced components and the introduction of innovative technology.

As far as 2020 goes, starting in March the Group's economic and financial trends have suffered the shock of the COVID-19 global pandemic, which has caused extended periods of plant lockdown. Our country – much like other great world economies – has been hit by an epochal health crises, whose full picture of consequences on the lives of all citizens, society, and the economy will only be clear at the end of the current emergency phase. Entire manufacturing sectors, including the automotive sector, have been strongly affected by the ongoing situation, in that the virus containment measures adopted by governments have led to the full shutdown of production plants.

This Annual Financial Report is thus presented for approval in a greatly critical moment in the global economic and financial system, in the hope that the recent slowdown in infection rate in Europe, along with the economic measures to support production activity that are currently being implemented by governments of advanced economies, may favor a gradual return to regular operating conditions.

# CORPORATE BODIES

As at December 31, 2019, the Corporate Bodies were constituted as follows.

| | |
|---|---|
| **Board of Directors** | |
| CHAIRMAN | Aurora Magnetto |
| MANAGING DIRECTORS AND CEOs | Aurora Magnetto |
| | Gabriele Perris Magnetto |
| DIRECTOR WITH SPECIAL APPOINTMENTS | Vincenzo Perris |
| DIRECTORS | Gianni Coda |
| | Ramesh Kumar Kothari |
| | Matthieu Jehl |
| | Paul Brettnacher |
| | Hervè Guyot |
| | Gerard Dupouy |
| | Beatrice Perris Magnetto |
| | Raffaella Perris Magnetto |
| **Board of Auditors** | |
| CHAIRMAN | Paolo Burlando |
| STATUTORY AUDITORS | Gianmarco Amico di Meane |
| | Mauro Messi |
| SUBSTITUTE AUDITORS | Alessandra Odorisio |
| | Riccardo Ronchi |

**Auditing Company**

PricewaterhouseCoopers S.p.A.

# SUMMARY OF GROUP RESULTS

## Net Results

| €/000 | Fiscal year as at December 31 2019 | 2018 | Change | % |
|---|---|---|---|---|
| **Revenue from sales of parts and components** | **1,553,257** | **1,657,929** | **(104,672)** | **-6.3%** |
| **Adjusted EBITDA (*)** | **145,206** | **143,112** | **2,095** | **1.5%** |
| *as a percentage of revenue* | *9.3%* | *8.6%* | | |
| **Adjusted EBIT (**)** | **40,033** | **55,516** | **(15,483)** | **-27.9%** |
| *as a percentage of revenue* | *2.6%* | *3.3%* | | |
| **Result before income tax** | **(9,660)** | **7,295** | **(16,955)** | **-232.4%** |
| *as a percentage of revenue* | *-0.6%* | *0.4%* | | |
| **Net results from continuing operations** | **(15,696)** | **245** | **(15,941)** | **-6518.4%** |
| *as a percentage of revenue* | *-1.0%* | *0.0%* | | |
| **Net results from discontinued operations** | **-** | **-** | | |
| **Net result for the year** | **(15,696)** | **245** | **(15,941)** | **-6518.4%** |

*(*) Gross Operating Margin minus restructuring costs and certain specific non-recurring income and expenses*
*(**) Net Operating Margin minus restructuring costs and certain specific non- recurring income and expenses*

## Financial Position

| €/000 | Fiscal year as at December 31 2019 | 2018 | Change | % |
|---|---|---|---|---|
| **Net Invested Capital** | **604,315** | **569,977** | **34,337** | **6.0%** |
| **Net Equity** | **208,862** | **231,515** | **(22,653)** | **-9.8%** |
| **Net Financial Position** | **395,453** | **338,462** | **56,990** | **16.8%** |

## Staff and Main Indicators

| €/000 | Fiscal year as at December 31 2019 | 2018 | Change | % |
|---|---|---|---|---|
| **Staff at the end of the period (n°)** | **7,305** | **7,719** | **(414)** | **-5.4%** |
| **Net Financial Debt/Net Equity** | **1.9** | **1.5** | **0.4** | **29.5%** |
| **Net Financial Debt/Adjusted EBITDA** | **2.7** | **2.4** | **0.4** | **15.2%** |
| ***ROCE (%) before tax (*)*** | **6.6%** | **9.7%** | **-3.1%** | **-32.0%** |

*(*) Adjusted EBIT/Net Invested Capital*

| | 2019 | 2018 |
|---|---|---|
| REVENUE €/000 | 1,553,257 | 1,657,929 |
| ADJUSTED EBITDA €/000 | 145,206 | 143,112 |
| ROCE % | 6.6% | 9.7% |
| NET INVESTED CAPITAL €/000 | 604,315 | 569,977 |
| NET EQUITY €/000 | 208,862 | 231,515 |
| NET FINANCIAL POSITION €/000 | 395,453 | 338,462 |

# MANAGEMENT REPORT

# 1

# CLN GROUP AND THE MARKET

## MACROECONOMIC SCENARIO

According to data published by the International Monetary Fund (IMF) in January 2020, world Gross Domestic Product (GDP) has recorded a 2.9% growth in 2019, with a decline compared to both the previous year and to the October forecast.

The world economy has thus continued to grow at lower rates compared to previous forecasts. Forecasts for the world economy in 2020 and 2021 were in fact adjusted downward to +3.3% and +3.4% respectively. The main reason behind this adjustment may be, in particular, the negative influence of uncertainty distinguishing emerging markets, along with social tension, such as the trade wars between the United States and China.

The Eurozone also showed signs of slowdown, recording +1.2% at the end of 2019. This may be ascribed to a weakening of certain economies, and in particular Germany – recording a contraction in manufacturing activity at the end of 2019 – and Spain – due to a steeper decline than expected in terms of both domestic demand and export.

According to IMF estimates, Italy has recorded a +0.2% growth in 2019. The slowdown in world trade is caused by the aforementioned trade wars between the U.S.A. and China, which continue to generate uncertainty even among Italian businesses, with a consequent reduction in export and investments.

Economic progress in "BRICS" economies – Brazil, Russia, India, and China – has continued, though to a minor extent compared to the October forecasts. In particular, in 2019 Russia has recorded a 1.1% increase in GDP, with the slow growth negatively affected by a poor wage growth, an increase in taxes, and a reduction in revenue from oil sales.

Brazil has continued its recovery (+1.2%) – even thanks to a new pension reform and the recovery of the mining sector – while China recorded a slightly worse performance compared to the previous year (+6.1% versus +6.6% in 2018), due to the joint effect of more strict financial conditions and of tension concerning tariffs.

Finally, in terms of the currency market – namely, currency most closely linked to the Group's operations – a slight revaluation of both the Polish Złoty (+1% compared to the end of the 2018 fiscal year) and the South African Rand (+4% compared to 2018) have been recorded. Oppositely, the Brazilian Real (-1.6% compared to the 2018 end-of-year result) and the Turkish Lira (-10% compared to the past year) have recorded a devaluation, and the Argentine Peso has collapsed (-56% compared to 2018).

## GROUP ACTIVITY AND REFERENCE MARKETS

### Group Activity

CLN has been operating in the steel sector since 1948 and, in over 70 years, the Group has managed to consolidate its presence as an integrated supplier leading the global market for metal processing/forming as well as assembly of components for the automotive industry through its MA and MW divisions, and the European market for steel cold rolling and distribution.

Today the Group operates – by means of its divisions and companies – in the following sectors:
**Metalforming:** stamping, roll forming, and assembly of metal components for the automotive market; die design and manufacturing; component testing.
**Wheels:** engineering and manufacturing of steel wheels for passenger cars and light commercial vehicles; wheel marketing for the aftermarket sector; wheel validation through functional testing, material analysis, and metrological analysis.
**Steel:** manufacturing and distribution of flat steel products.

The two divisions operating in the metal automotive components sector increasingly represent the Group's core business.

**MA** – the Automotive Metal Components division – is one of the main global suppliers of metal parts – stamped or roll-formed components (external and structural), and components for propulsion/powertrain systems – for any type of passenger car and light/heavy commercial vehicle in the world automobile industry. It is present in Europe, South Africa, and South America.

**MW** – the Steel Wheels division – is a market leader in the sector of steel wheel manufacturing for all types of vehicles (passenger cars and light commercial vehicles), supplying clients with complete solutions for engineered wheels, from the design phase to the choice of materials and manufacturing process. It has facilities in Europe, Russia, and South Africa.

Moreover, the Group operates in the high carbon flat steel processing (cold re-rolled sheet steel and alloys) sector within the European market. It operates in the flat steel processing sector as well as in supply from service centers through its minority, thus non-consolidated shareholdings in the ArcelorMittal CLN group. The companies related to cold steel re-rolling and supply have reported, in the past few years, to the **SSC** division.

Moreover, at the end of 2019, the cold re-rolling activities have been transferred, in the scope of focusing CLN Group activity on its core business – the automotive sector – and gradually decommissioning its non-core operations.

In an external and internal scenario of growing awareness-raising on topics related to corporate social responsibility, the CLN Group has launched a conscious process of practical actions, including the commitment to the United Nations Global Compact, intended to translate values such as ethics, integrity, responsibility towards the environment, society as a whole, and people into initiatives inspired by continuous improvement and prevention in manufacturing processes, based upon the fundamental principles of minimum environmental impact and resource optimization. Last but not least, the Group has always committed to and adopted a responsible behavior towards health and safety at the workplace, considered one of the corporate priorities.

The Group has confirmed its constant commitment towards:

- affirming its industrial presence in countries considered geographically strategic, as proven by recent activity launched in new geographic areas;
- developing new products using the most innovative steels;
- strengthening and consolidating long-term relationships with its customers.


*Data referring to C.L.N S.p.A. and its subsidiaries.*

Finally, the Group continues to prove its constant pursuit of technological innovation through its Corporate Capital Venture program. The program includes investment plans involving start-ups that are in close cooperation with scientific and technological parks, business incubators, and universities in sectors particularly relevant to the Group such as automotive engineering, robotics, environmental sustainability, and social responsibility.

## REFERENCE MARKETS

The Group's main reference market is represented by manufacturers of passenger cars and light commercial vehicles (OEMs). MA and MW Divisions operate on this market in their capacity as direct suppliers of components mainly made of steel. A smaller portion of the production is also targeted towards the so-called aftermarket, mainly represented by steel wheels.

In 2019, the number of new passenger car and light commercial vehicle registrations globally decreased for the second consecutive year since 2009, by about 1.2% compared to the previous year (85.0 million registrations considering the 54 main markets). The number grew by 1.2% (17.4 million registrations) in Europe, while the sector continued its considerable recovery in Brazil with a 7.6% growth (2.7 million registrations). A 2% contraction was recorded in both Japan (5.1 million) and Russia (1.8 million). To a lesser extent, the U.S.A. also recorded a decline (-1.2%, 17.1 million registrations). A heavily negative trend has instead continued in China (-10.7%, 25.1 million registrations).

In Europe, the Group's main market, registrations slightly grew in Italy by +0.6% (2.1 million registrations), whilst a substantial growth was recorded in France by +2.3% (2.7 million) and Germany by +5.1% (3.9 million). Oppositely, registrations declined in the United Kingdom by -1.7% (2.7 million) and Spain by -4.1% (1.5 million).

In addition to the automotive market, as mentioned, the Group is active in steel distribution and, until December 2019, it was active in cold re-rolling.

World steel production increased by 3.5% in 2019, compared to the previous year (about 1.85 billion tons produced), thanks to the continuous strong growth recorded by China, which alone has contributed to 52% of such global growth.

In terms of actual steel consumption, in 2019 a 1.1% growth is estimated, though more limited compared to the 2018 increase (+2.8%). This is once again strongly affected by the Chinese market, which has remained stable compared to the previous year, given the domestic crisis of certain emerging markets which have caused a strong reduction in steel demand.

In Europe, the price of main steel products has drastically fallen in 2019, though still much higher than the historic low touched between the end of 2015 and the first trimester of 2016: average flat steel product prices have recorded a 15% reduction in 2019 compared to the same values in 2018.

# REVENUE BY GEOGRAPHICAL AREA AND DIVISION

| **Revenue by Geographical Area** *€/000* | **2019** | | **2018** | | **Change** | **%** |
|---|---|---|---|---|---|---|
| **Italy** | **366,577** | **23.6%** | **402,876** | **24.3%** | **(36,299)** | **-9.0%** |
| France | 332,347 | 21.4% | 362,140 | 21.8% | (29,793) | -8.2% |
| Poland | 185,397 | 11.9% | 181,372 | 10.9% | 4,025 | 2.2% |
| Germany | 187,895 | 12.1% | 206,145 | 12.4% | (18,250) | -8.9% |
| Spain | 63,093 | 4.1% | 70,921 | 4.3% | (7,828) | -11.0% |
| Czech Rep. and Slovak Rep. | 61,708 | 4.0% | 65,966 | 4.0% | (4,258) | -6.5% |
| Romania | 26,513 | 1.7% | 35,305 | 2.1% | (8,792) | -24.9% |
| United Kingdom | 21,981 | 1.4% | 16,684 | 1.0% | 5,297 | 31.7% |
| Serbia | 2,108 | 0.1% | 2,962 | 0.2% | (854) | -28.8% |
| Turkey | 914 | 0.1% | 789 | 0.0% | 125 | 15.8% |
| Other European countries | 56,443 | 3.6% | 61,243 | 3.7% | (4,800) | -7.8% |
| **Total - Europe** | **1,304,976** | **84.0%** | **1,406,403** | **84.8%** | **(101,427)** | **-7.2%** |
| South Africa | 226,764 | 14.6% | 231,329 | 14.0% | (4,565) | -2.0% |
| Russia | 16,999 | 1.1% | 15,230 | 0.9% | 1,769 | 11.6% |
| China | 775 | 0.0% | 2,030 | 0.1% | (1,255) | -61.8% |
| Brazil | 1,008 | 0.1% | 1,185 | 0.1% | (177) | -15.0% |
| India | 513 | 0.0% | 589 | 0.0% | (76) | -12.8% |
| Rest of the world | 2,222 | 0.1% | 1,163 | 0.1% | 1,059 | 91.1% |
| **Total outside of Europe** | **248,281** | **16.0%** | **251,526** | **15.2%** | **(3,245)** | **-1.3%** |
| **Total Revenue** | **1,553,257** | **100.0%** | **1,657,929** | **100.0%** | **(104,672)** | **-6.3%** |

| **Revenue by Division** *€/000* | **2019** | | **2018** | | **Change** | **%** |
|---|---|---|---|---|---|---|
| MA Division – Automotive | 1,200,749 | 77.1% | 1,277,948 | 77.1% | (77,199) | -6.0% |
| MW Division – Wheels | 216,076 | 13.1% | 217,144 | 13.1% | (1,068) | -0.5% |
| SSC Division – Service Centers | 153,355 | 10.9% | 181,005 | 10.9% | (27,650) | -15.3% |
| Eliminations | (16,923) | -1.1% | (18,168) | -1.1% | 1,245 | -6.9% |
| **Total Revenue** | **1,553,257** | **100.0%** | **1,657,929** | **100.0%** | **(104,672)** | **-6.3%** |

# CONSOLIDATED RESULTS

The following paragraphs present the economic and financial data of the Group as at December 31, 2019. The results were drafted following international accounting standards (IFRS) and presented in reclassified format. For further details on the results recorded by each division, please refer to the explanatory document on operating sectors included in the Notes to the Consolidated Financial Statements.

It is hereby reported that the **introduction of the new IFRS 16 accounting standard** for operating leases has made a strong impact on the Group's 2019 consolidated income statement and balance sheet results.

In particular, due to the IFRS 16 adoption, the Group's 2019 fiscal year economic results include: an increase in Adjusted EBITDA, amounting to EUR 11,555 thousand; a greater depreciation on leased assets booked as "Property, plants, and equipment", amounting to EUR 10,414 thousand; and an increase in net financial expenses, amounting to EUR 2,136 thousand. The overall impact on the consolidated Net result is thus a EUR 737 thousand decrease, net of the related tax effect (EUR 258 thousand).

Moreover, the accounting effects of the new IFRS 16 on the financial results are represented by: an increase in Net Invested Capital amounting to EUR 40,301 thousand; an increase in Net Financial Debt amounting to EUR 41,047 thousand; and an overall reduction in Net Equity amounting to EUR 745 thousand.

# ECONOMIC RESULTS

| *€/000* | Fiscal year as at December 31 2019 | 2018 | Change | % |
|---|---|---|---|---|
| **Revenue from sales of parts and components** | **1,553,257** | **1,657,929** | **(104,672)** | **-6.3%** |
| ***Adjusted EBITDA (*)*** | **145,206** | **143,112** | **2,095** | **1.5%** |
| Depreciation, amortization, and impairment losses | (105,174) | (87,596) | (17,578) | 20.1% |
| ***Adjusted EBIT (**)*** | **40,033** | **55,516** | **(15,483)** | **-27.9%** |
| Net financial expenses | (32,505) | (32,466) | (40) | 0.1% |
| Restructuring costs and non-recurring items | (3,979) | (4,928) | 949 | -19.3% |
| Results from investments | (13,208) | (10,827) | (2,381) | 22.0% |
| **Result before income tax** | **(9,660)** | **7,295** | **(16,955)** | **-232.4%** |
| Income tax | (6,036) | (7,050) | 1,014 | -14.4% |
| **Net result from continuing operations** | **(15,696)** | **245** | **(15,941)** | **-6,518.4%** |
| Net result from discontinued operations | - | - | - | |
| **Net result for the fiscal year** | **(15,696)** | **245** | **(15,941)** | **-6,518.4%** |
| *Results attributable to:* | | | | |
| *- Group* | *(17,687)* | *(3,375)* | *(14,312)* | *424.1%* |
| *- Non-controlling interest* | *1,991* | *3,619* | *(1,628)* | *-45.0%* |

*(*) Gross Operating Margin minus restructuring costs and certain specific non-recurring expenses and income*

*(**) Net Operating Margin minus restructuring costs and certain specific non-recurring expenses and income*

**Statement of reconciliation between the Gross Operating Income and Adjusted EBITDA (*)**

| *€/000* | Fiscal year as at December 31 2019 | 2018 | Change | % |
|---|---|---|---|---|
| **Gross Operating Income** | **141,227** | **138,183** | **3,044** | **2.2%** |
| Costs for corporate restructuring | 4,383 | 3,605 | 779 | 21.6% |
| Other non-recurring net costs (revenue) | (404) | 1,323 | (1,728) | -130.6% |
| ***Adjusted EBITDA*** | **145,206** | **143,112** | **2,095** | **1.5%** |

*(*) Adjusted EBITDA is a "Non-GAAP" indicator. The Group's calculation method may differ from methods used by other groups/companies.*

The 2019 **Revenue from sales of parts and components** amounted to EUR 1,553,257 thousand, with an overall 6.3% reduction compared to 2018 (a 3.8% decline, scope of consolidation remaining equal). At a geographic level, a contraction in sales volume has been recorded, in particular, in Italy (-9.0%), Germany (-8.9%), and France (-8.2%), where nevertheless a significant share of the reduced sales volume is related to the deconsolidation of the subsidiary UM Corporation S.A.S., occurred throughout the 2019 fiscal year.

In 2019, the Group's Adjusted EBITDA has remained essentially stable in comparison with its turnover, though recording a contraction in absolute terms compared to the previous fiscal year. Excluding the impact of the IFRS 16 adoption, in 2019 the **Adjusted EBITDA** amounted to EUR 133,652 thousand (8.60% of net revenue), compared to the EUR 143,112 thousand (8.63% of net revenue) recorded in the previous fiscal year.
Given the benefit of IFRS 16 accounting related to the transfer of lease payments recorded by Group companies – amounting to EUR 11,555 thousand – the total Adjusted EBITDA amounted to EUR 145,206 thousand (9.35% of net revenue).

The Group's **Adjusted EBIT** amounted to EUR 40,033 thousand, with a decline compared to the 2018 result (EUR 55,516 thousand), and influenced by amortization amounting to EUR 105,174 thousand – of which EUR 10,414 thousand ascribable to the impact of IFRS 16 – which was greater than the previous fiscal year (EUR 87,596 thousand) due to the recent implementation of a depreciation plan on new investments.

The total amount of **net financial expenses** was EUR 32,505 thousand, of which EUR 2,136 thousand ascribable to the implementation of IFRS 16. Net of such impact, financial expenses amounted to Eur 30,370 thousand, thus recording a significant improvement compared to the previous fiscal year (EUR 32,466 thousand).

During 2019, the Group has incurred **in restructuring costs and other non-recurring expenses** amounting to EUR 3,979 thousand (EUR 4,928 thousand in 2018). The item includes EUR 4,383 thousand (EUR 3,605 thousand in 2018) in restructuring costs, and EUR 404 thousand (EUR 1,323 thousand in 2018) in other non-recurring net items.

The impact of **results from investments** in non-controlled companies was negative by EUR 13,208 thousand (net devaluations by EUR 10,827 thousand in 2018). This value mainly includes the pro rata calculation of the negative results achieved by the joint venture ArcelorMittal CLN Distribuzione Italia S.r.l., as well as the losses recorded by the Group's non-consolidated companies operating in South America and the adjustment to the fair value of Topy Industries Ltd. shares.

In 2019, **Income taxes** amounted to EUR 6,036 thousand (EUR 7,050 thousand in 2018), including a positive tax effect on lease accounting in accordance with IFRS 16, amounting to EUR 258 thousand.

The **Net result** for the fiscal year is negative by EUR 15,696 thousand. The component attributable to the Group is negative by EUR 17,687 thousand.

# STATEMENT OF FINANCIAL POSITION

| *€/000* | Fiscal year as at December 31 2019 | 2018 | Change | % |
|---|---|---|---|---|
| Inventory | 150,663 | 198,460 | (47,798) | -24.1% |
| Trade Receivables | 57,945 | 112,774 | (54,829) | -48.6% |
| Trade Payables | (374,826) | (393,025) | 18,199 | -4.6% |
| Net contract assets (liabilities) | 16,666 | 561 | 16,104 | 2868.7% |
| Other net receivables and payables | (71,283) | (101,121) | 29,838 | -29.5% |
| **Net Working Capital** | **(220,835)** | **(182,351)** | **(38,485)** | **21.1%** |
| | | | | |
| Tangible and Intangible Fixed Assets | 746,300 | 693,948 | 52,352 | 7.5% |
| Equity Investments | 112,181 | 105,900 | 6,281 | 5.9% |
| Other non-current receivables and payables | (3,984) | (33,697) | 29,713 | -88.2% |
| **Fixed Assets** | **854,497** | **766,151** | **88,345** | **11.5%** |
| | | | | |
| Provisions | (36,439) | (38,922) | 2,483 | -6.4% |
| Net deferred taxes | 5,257 | 782 | 4,475 | 572.2% |
| Assets and liabilities held for sale | 1,835 | 24,316 | (22,481) | -92.5% |
| **Net Invested Capital** | **604,315** | **569,977** | **34,337** | **6.0%** |
| | | | | |
| Net Equity for the Group | 200,043 | 195,194 | 4,849 | 2.5% |
| Minority Interest | 8,819 | 36,321 | (27,502) | -75.7% |
| **Total Net Equity** | **208,862** | **231,515** | **(22,653)** | **-9.8%** |
| | | | | |
| **Net Financial Position** | **395,453** | **338,462** | **56,991** | **16.8%** |

The Group's Statement of Financial Position represents a reclassified view of the financial statements shown in the following pages. In particular, the Net Financial Position is composed of current and non-current borrowings due to banks and other lenders, cash and cash equivalents, financial receivables and assets included among other financial assets.

The **Net Invested Capital** as at December 31, 2019 amounted to EUR 604,315 thousand, including tangible fixed assets amounting to EUR 40,045 thousand and deferred tax assets amounting to EUR 356 thousand, in accordance with the adoption of the new IFRS 16 accounting standard. Notwithstanding such impact, the Net Invested Capital recorded amounted to EUR 564,013 thousand, with a contraction compared to the previous fiscal year (EUR 569,977 thousand).

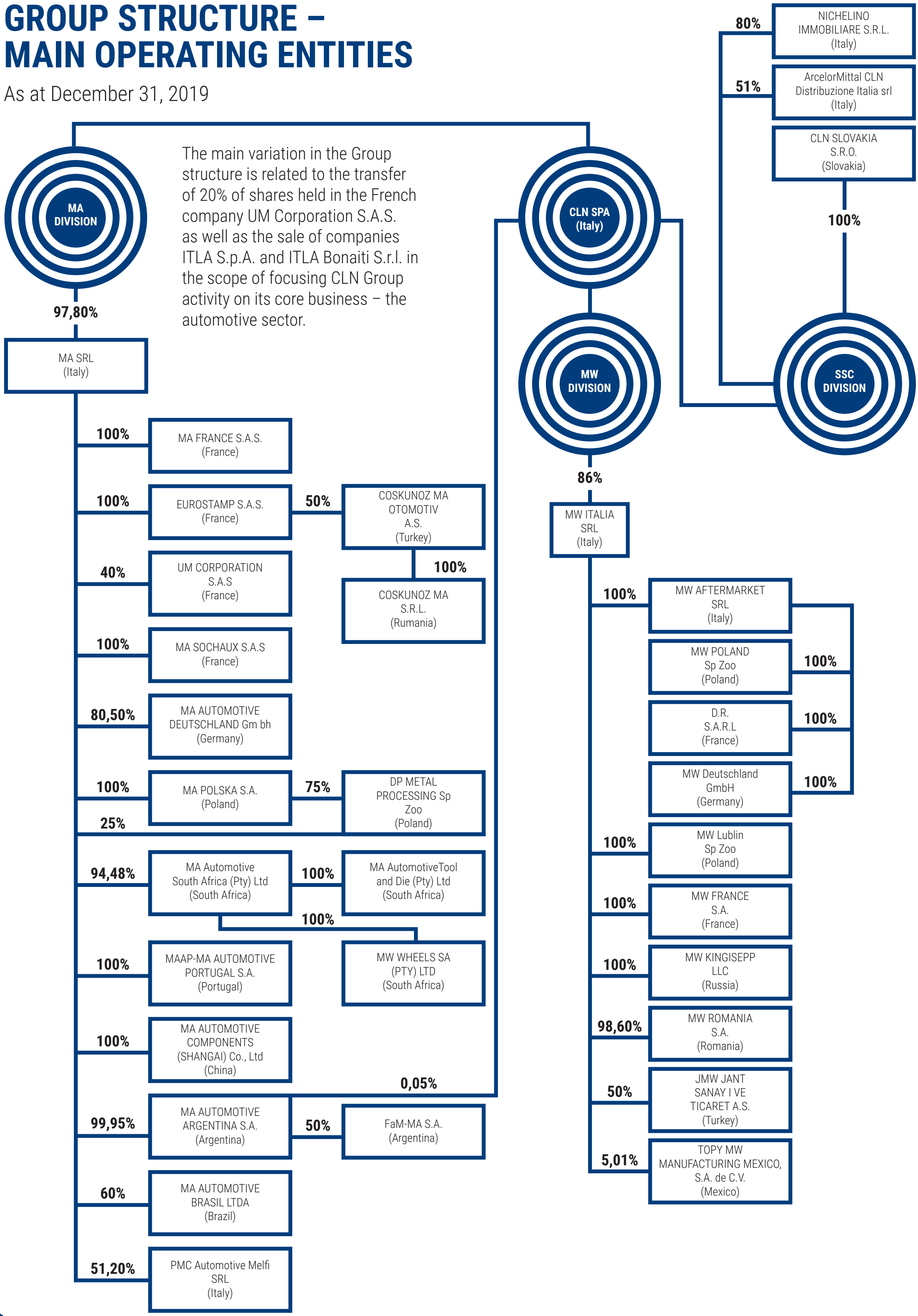
The **Net Financial Position** as at December 31, 2019 amounted to EUR 395,453 thousand, and includes financial debts due to IFRS 16 adoption amounting to EUR 41,047 thousand.

The **Total Net Equity** amounted to EUR 208,862 thousand, with the Group share amounting to EUR 200,043 thousand. The decrease in Total Net Equity compared to the previous fiscal year is mainly ascribable to the Net Result of the year and the deconsolidation of certain subsidiaries throughout 2019.

# GROUP STRUCTURE – MAIN OPERATING ENTITIES

As at December 31, 2019

The main variation in the Group structure is related to the transfer of 20% of shares held in the French company UM Corporation S.A.S. as well as the sale of companies ITLA S.p.A. and ITLA Bonaiti S.r.l. in the scope of focusing CLN Group activity on its core business – the automotive sector.



# INFORMATION CONCERNING RISKS AND UNCERTAINTIES

Given the nature of its activity, the Group is exposed to certain risks, subdivided in financial risks and business risks as outlined below.

## FINANCIAL RISKS
### COVID-19 Pandemic

At the beginning of 2020, the World Health Organization (WHO) has revealed the spread of the COVID-19 infection in China – in particular in the Wuhan district – and subsequently declared the virus outbreak as a Public Health Emergency of International Concern. In the month of February 2020, the spread of the virus has been recorded in Europe and in America. This has led – in the subsequent months of March and April – to a generalized state of lockdown.

Italy, which has been the first European country to be struck by the pandemic, and is still one of the most affected today, has adopted particularly restrictive measures to contain the spread of the virus, including a suspension of production activity.

The Group is exposed to risks consequent to the COVID-19 pandemic along with any other viruses. The most significant risk is, in particular, the occurrence of periods of prolonged shutdown of its plants, thus the impossibility to conduct its business, with inevitable economic and financial repercussions.

With particular reference to the ongoing COVID-19 pandemic, the Group has promptly adopted all the necessary pandemic prevention, control, and containment measures at all its facilities: starting in March, all the plants in which the Group operates have been subjected to periods of lockdown, which have differed from country to country. Depending on the national reopening phase, all the necessary measures against the spread of the virus and to protect the health of the Group's employees and cooperators are being implemented (changes in plant lay-out, sanitation of the facilities, Personal Protective Equipment, hygiene and social distancing rules, extended smart working, etc.).

The modes and terms of a return to social life and business activity vary from country to country and remain uncertain in Latin America, while in Europe a restart phase is already partially underway.

### Credit risk

The Group is exposed to credit risk deriving from its commercial activities with clients. The risk is represented by effects that could potentially emerge should one of the counterparties not be able to fulfill its obligations either temporarily or definitively.

Moreover, the main clients of the Group are motor vehicle manufacturers (OEMs), of which information concerning economic/financial trends and ratings supplied by the main agencies is readily available. The Group also adopts specific commercial policies aimed at monitoring the solvency of smaller clients and implements operations for the transfer of receivables from factoring companies based upon agreements without recourse, thereby transferring the related risk.

### Liquidity risk

The liquidity risk concerns the availability of financial resources and access to the credit market.

The main internal factors affecting the liquidity status of the CLN Group are, on the one hand, the resources generated and absorbed by operational management and, on the other hand, those allocated to investments aimed at productive and strategic development, and to debt service. The Group constantly monitors the trend of its liquid assets, financial flows (final and forecast), and lines of credit available by means of treasury reports.

A significant external factor that can influence the Group's availability of adequate financial resources is the trend of credit markets at a national and supranational level.

Lastly, among the factors that may affect the Group's liquidity risk, one must also consider the impacts on the financial situation of the previously described COVID-19 pandemic.

## Risk of fluctuations in exchange rates

The CLN Group is exposed to financial risk deriving from variation in exchange rates, which occurs when operating in an international context in which commercial and financial transactions may be denominated in a currency other than the accounting currency. This risk can also derive from conversion into Euros of individual balance sheets drawn up in foreign currency by the consolidated companies. These oscillations may significantly influence the Group's operating and financial results.

The main exchange rates against the Euro representing a risk for the Group are the following currencies: the Polish Złoty, the South African Rand, the Romanian Leu, the Brazilian Real, the Argentine Peso, the Russian Ruble and the Turkish Lira.

## Risk of interest rate fluctuations

A significant portion of the medium-long term borrowings subscribed by the Group is repaid at variable rates, which in certain cases are linked to trends in specific financial parameters. Moreover, the Group regularly transfers receivables (with and without recourse) deriving from its commercial activity and avails itself of other forms of short-term borrowing. Therefore, variations in the levels of market interest rates influence the level of the Group's net financial expenses.

## Risk of variation in the revenue mix between countries with different tax regimes

The Group operates in countries with different tax regimes: income tax rates indicatively vary from 16% in Romania, to 19% in Poland, an up to 33% in France. In other countries, including Italy, the option of using tax losses from previous fiscal years to compensate current taxable income is available. With consolidated results before tax being equal, a mix of geographic origins of such results can lead to a significant change in tax burden and, therefore, affect the fiscal year result.

## Risk of failure to observe financial covenants on medium/long-term loans

The Group has subscribed certain loan agreements conditional to the compliance with financial covenants (ratio between Net Financial Position and Adjusted EBITDA, ratio between Net Financial Position and Net Equity, ratio between Adjusted EBITDA and Net Financial Expenses, ratio between financial debt of subsidiaries and total consolidated assets). Failure to observe such contractual covenants may lead to a request for early repayment of the remaining debt unless otherwise agreed with the lending entities.

It is stated that, as at December 31, 2019, the financial covenants have been observed in full.

## BUSINESS RISKS

## Global economy and *automotive* market trends

More than 90% of the Group's revenue is directly or indirectly dependent on global vehicle manufacturers. The automotive market follows cyclical fluctuations caused by factors such as general economy trends, growth or decrease in Gross Domestic Product, interest rates, fuel prices, consumer loyalty, etc.

These factors imply that fluctuations – even significant ones – in the automotive market and consequently the Group's market are hard to predict.

This has been witnessed throughout the crisis that hit world economies between 2008 and 2014. Furthermore, about 85% of the Group's sales revenue is achieved in Europe. Europe proved to be particularly vulnerable during the years of the economic crisis: the sovereign debt crisis and austerity measures introduced in order to mitigate its effects have given rise to a situation of recession, followed by stagnation, from which the countries of the Eurozone have only recently started to recover.

The situation has been aggravated by specific tensions concerning Great Britain's exit from the European Union, the negative effects of the increase in customs duties between the United States and China, and finally the interruption of production activity linked to the previously described COVID-19 emergency.

## Fluctuations in market shares of clients and supplied models

In addition to the general automotive market trends, the Group is exposed to specific risk linked to the success of the models/platforms produced by its clients, which may have a positive or negative multiplying effect on the general market trend.

## Steel price trends

The cost of raw material affects the Group's comprehensive turnover by about 70%. The steel market has been historically characterized by high volatility.

Such volatility mainly lies in the cyclic nature of the main steel distribution sectors, above all the automotive and construction sectors.
Another element of volatility may also lie in the implementation of protectionist strategies by certain countries, as recently demonstrated by the introduction of tariffs by the United States and China.

For the MA and MW Divisions, raw material price fluctuations are normally transferred to the client, while for the SSC division sudden price changes may expose the Group to sales margin risks.

## Presence in foreign countries and emerging countries

About 76% of the Group's sales revenue is achieved outside of Italy: of this percentage, almost one-fourth is ascribed to emerging countries (South Africa in particular). Business activities conducted overseas are subject to risks such as exposure to local economic and political conditions, implementation of restrictive policies regarding import and/or export, and subjection to multiple tax regimes.

With regard to emerging countries, the Group operates directly in South Africa and Russia and, by means of joint ventures, in Argentina and Brazil.

Negative developments in the economies and political systems of such countries, such as possible decreases in public investments on infrastructure or lack of adequate supply of gas and electricity, may represent an additional factor or risk for the Group.

## Risk of production interruption

The Group's profitability depends on its ability to promptly supply clients with specific products manufactured at its facilities. The Group is therefore subject to the risk of interruptions in production, for reasons that may vary from mechanical line faults to union-related tensions, up to the most remote events such as environmental disasters, wars, and terrorist attacks.

In order to mitigate the risk of interruptions linked to production plant faults, the Group applies maintenance policies aimed at identifying any possible anomalies.

Finally – as previously outlined – following the outbreak of pandemics, periods of prolonged shutdown of plants may occur, thus leading to the impossibility to continue production activity, with inevitable economic and financial repercussions.

## High level of competition

The market of vehicle component supplies for OEMs is characterized by a highly competitive nature, with regard to the production of both wheels and stamped components. The Group is in competition with a high number of competitors that have very diverse degrees of financial and industrial strength. Some of them have dominant positions in certain areas, while others are facing intense restructuring and reorganization processes. In certain emerging countries, new players are appearing on the stage, which could further increase the level of competition.

This is one of the reasons that lead clients to ask for progressive price reductions during the lifecycle of the manufactured models.

The level of competition and discounts granted to clients may reduce the Group's profitability, should they not be absorbed by means of constant improvement in production efficiency.

## Client *outsourcing* policies

Both the wheel and stamped parts manufacturing markets are strongly affected by outsourcing policies adopted by OEMs.

For every facility/model, the outsourcing decisions taken by OEMs are subject to the availability of internal production capacity, perception of the strategic relevance of certain components over others, financial availability, production costs, quality and delivery times, as well as existing technical skills. The OEM choices/strategies determine the size of current/ potential markets for all suppliers of automotive components.

## Risks related to joint venture agreements

The Group is pursuing a policy of search for joint venture opportunities and alliances in order to achieve production verticalization, loyalty marketing, commercial expansion, capital commitment optimization and risk reduction, particularly concerning risks deriving from entry into developing countries. These agreements are at times established through the acquisition of majority shareholdings, but also equal or minority shareholdings. The achievement of such objectives, which is the motivation for stipulating such agreements, is influenced by multiple factors. Among the main factors there are relations with respective partners, a shared vision of future strategies to pursue, as well as technical and financial issues, along with local regulations.

The Group's main joint ventures were created with Unipres in France and Brazil, Coşkunöz and Jantsa in Turkey, and Topy in Mexico. As of 2015, the distribution of steel in Italy is managed in partnership with ArcelorMittal.

## Competition from alternative materials to steel

The Group's business mainly depends on the use of steel in components for the automotive industry. The growing use of alternative materials – in particular aluminum for wheels and plastic for certain assembled components – may be a factor of risk for the Group.

## Risk in the development of new products and production sites

The launch of new programs and the introduction of new production technologies (first of all automation and electric propulsion) and new sites entail risks deriving from initial production inefficiency, functioning of production equipment, initial manufacturing quality, and adequate personnel training.

## Product quality

An eventual quality fault in the items supplied to clients could lead to significant costs for indemnity and reprocessing. The Group considers the quality of its products a priority and is committed, for this purpose, to mitigate such risk as much as possible by means of robust quality assurance actions concerning the materials and manufacturing processes used.

## Environment, Health and Safety

The Group is required to comply with a wide range of standards and regulations concerning the environment as well as health and safety at the workplace.
Such norms differ from country to country and are increasingly strict.
The costs of compliance with such standards and payment for any fines in case of failure to adapt to the required standards are growingly high. Failure to observe the standards also leads to the risk of civil and criminal actions, as well as the withdrawal of production authorizations.

## Concentration of clients

Approximately 84% of the Group's sales revenue is ascribed to its seven main clients (OEMs). Although such level of concentration is rather common in the sector, the eventual loss of one of the clients or a significant sales volume reduction could give rise to profitability losses.

In order to mitigate such risk, the Group constantly monitors the levels of customer satisfaction, and shares development programs and opportunities for present and future cooperation with them.

### Costs related to plant shutdown

As recently demonstrated by the COVID-19 emergency, should the Group be forced to interrupt its production plants, the related interruption costs would be substantial.
For this reason, the capacity utilization of the different facilities is constantly monitored and eventually re-balanced by means of commercial actions and/or production relocation.

### Acquisitions and divestment in operating activities

In the past, the Group has carried out strategic acquisitions and divestment in production activities, and this might happen again in the future. In particular, acquisitions may entail risks concerning return on investment, obtainment of sufficient financial coverage, and diversion of management from recurring activities, as well as worsening of the Group's net financial position and its working cash flow.

In order to mitigate such risk, every eventual strategic acquisition undergoes preliminary screenings at a commercial, productive, and financial level.

### Legal & Compliance

Finally, the Group is exposed to the risk of failing to promptly respond to changes in standards and regulations issued in the markets and countries in which it operates.

## RISK MANAGEMENT SYSTEM

Efficient risk management is key to the successful achievement of the Group's short and medium/long-term objectives. For this purpose, and in order to constantly improve its internal auditing system, in the past few years the Group has engaged in a project to redefine its Enterprise Risk Management (ERM) system.

The ERM system consists of all organizational structures, rules, and procedures aimed at identifying, measuring, managing, and monitoring the main enterprise risks, allowing the Group to make educated decisions in line with its risk propensity.

In particular, in 2019 the Group has continued to undertake internal audit and risk management (SCI-GR) system development and standardization activity, with the end purpose of redefining and/or updating certain key corporate procedures, implementing the latter within the Group subsidiaries, and subsequently creating an Internal Audit department progressively appointed to the supervision of compliance with such procedures.

## RESEARCH AND DEVELOPMENT

The Group – internally and through cooperation with external institutions – conducts extensive research and development activity on products as well as manufacturing processes and methods. In particular, these activities concern the following sectors:

### Material selection: Material selection mainly concerns the development of solutions to optimize product weights and performances, as well as reducing costs.

The MA Division constantly researches technological solutions to reduce component mass through a focused use of materials, in cooperation with suppliers (steel and aluminum manufacturers working for the automotive sector), car manufacturers, and academia.

The performance of state-of-the-art materials is tested by selecting – from the corporate portfolio – components with the most criticalities in terms of formability.

Similarly, the MW Division works with the main steel suppliers to test new material types able to improve forming processes and reduce wheel thickness – and subsequently their weight – thus aiding a minimization in fuel consumption and optimization of vehicle dynamics

As well as research in new generation steels, the company also investigates alternative materials including, in particular, aluminum (sheet and die-cast) and CFRP (Carbon Fiber Reinforced Plastic).

In the scope of new generation steels, the Group's TO PROVE LAB laboratory has made full use of the new testing machine for fatigue testing of materials, including a special testing tool (patented jointly by MW and a main steel manufacturer) that simulates the standard geometric configurations of wheels.

In order to boost its material analysis capacity, the company has introduced a large amount of devices, including:

- an optical microscope for micrographic analysis – upon polishing and chemical attack – of steel or aluminum alloy microstructures;
- a scanning electron microscope (SEM), which is an essential tool for micro-structural analysis thanks to its magnification between 10X and 30,000X. It allows the study of surfaces (topography and fracture analysis), and moreover its combination with the EDX microprobe makes it possible to identify the chemistry of incredibly small "volumes" (with orders of magnitude in microns), i.e. inclusions, phases, and superficial coatings;
- a tensile testing machine, for the static mechanical development of flat materials (steel and aluminum) in accordance with automotive standards, along with bending resistance tests;
- a bulk elemental analysis device. This device (also known as a quantometer) allows quick and precise measurement of the chemical composition of small samples from components, sheet metal, etc.;
- a reticulation device that allows – upon suitable preparation of the sheet metal (a grid is formed, made of equidistant reference points) and deforming of the same (stamping, profiling, etc.) to measure the plastic deformation (plastic strain paths) of each reference point, by means of photogrammetry. Such deformations are compared with the forming limit curve in order to quantify the stamping safety limit;
- a testbed for fatigue testing of components in 1:1 scale (i.e. shift forks). We have set up a testbed that replicates the real-life operation of components.

### Optimization of production processes: The optimization of production processes is carried out by means of research for new production techniques aimed at improving performance in terms of efficiency, workload, and safety.

With regard to the MA Division, activities are mainly focused on the constant development of the roll forming process, with the recent implementation of grade MS1500 steel (martensitic steel with an ultimate tensile strength of 1500 MPa) component serial manufacturing, and the introduction of hot forming processes (hot stamping/press hardening of steel) at the Group facilities, which allow the manufacture of high-resistance parts with complex shapes and reduced geometric tolerances. The facility in Tychy, Poland, is the first in which such processes are in the launch phase. The machine line is equipped with state-of-the-art technology that allows constant monitoring of process parameters. A system of thermographic cameras and pyrometers allows an initial "real time" product inspection, guaranteeing that the latter has reached the necessary temperature for a successful heat treatment. The site is also equipped with a material testing lab for manufacturing quality assurance (mechanical properties, hardness and

microhardness, metallography).
Development activities related to the hot forming process are constantly targeted towards optimization of process parameters, in order to satisfy quality requirements and at the same time reduce process time and minimize equipment wear.

The MW Division has launched a wide range of activities at its production plants, entailing numerous years of testing and subsequent implementation:

- measurement of finished products and semi-components (discs/rims) with contactless solutions for lab activities and for 100% production management: this solution was activated over the year 2018 in terms of production testing at the company MWK (Russia). Two additional machines for contactless run-out testing have been installed and are in operation for the management of the 2019 serial production at MW France;

- in 2019, we have further developed a concept design and prototype of specific equipment for the optimization of raw material requirements for styled rims (X-Free and SFF) at MW Romania and MW France;

- implementation of the "prep-line" for Line 3 at MW Lublin (Poland), with consequent increases in productivity and efficiency, wheel size, and range of materials handled;

- new electric motor solution – to replace a hydraulic motor – for three flow-forming machines at MW France, in order to improve process performance, reduce maintenance interruptions related to hydraulic solutions, and reduce operating and management complexity;

- implementation and serial production start-up of a new rim-disk assembly line (robot system for the recognition, orientation, and positioning of the rim and disk): this project has been launched in 2019 at MW France;

- additional improvement and implementation of a new stamping sequence (heat transfer press) for styled wheel (SFF) discs at MW Romania: improvement of the capacity and efficiency; replacement and setup time reduction compared to the manual press cycle; optimization of raw material;

- development and implementation, throughout 2019, of a new TOP COAT system in combination with a new warehouse dedicated to management of finished products at MW Romania. Main goals of the project: increase in TOP COAT output; increased efficiency; potential to coat different wheel types; quicker and more efficient color switch; new management lay-out for the cataphoresis coating line upstream to the TOP COAT system. The line shall be in operation starting in Q1/2020;

- automation of the robotized disc forming system and placement in crate line at MW Lublin (Poland);

- development, throughout 2019, of a new blanking line – including a coil-straightener and feeder – at MW Lublin, in order to increase production output and efficiency of disc forming lines. The line shall be in operation starting in Q1/2020;

- implementation of the MW4500 heat transfer press at MW Lublin, in order to increase production output and efficiency of forming lines. Development throughout 2019 with the goal to reach operation starting in Q1/2020;

- implementation and full operation of the rim flow-forming modules (2 modules) at JMW (Turkey).

## New product concepts: New product concepts include solutions aimed at specific applications by product type (i.e. multi-material solutions, components for electric vehicles, etc.).

The MA Division has continued its research and development activity involving "fully-electric" city vehicles, subscribing to various projects funded in the context of EU programs including: HORIZON 2020 ("DEMOBASE", "AVANGARD") and RFCS (S4 EV - Steel Solutions for Safe and Smart Structures of Electric Vehicles).

These projects involve international-level teams of partners in the industrial, academic, and startup worlds. Their aims are:

- the design and manufacture of a modular vehicle with various chassis configurations (DEMOBASE);

- the definition of a business case including the industrialization (AVANGARD) of a network of micro-factories, linked together by means of state-of-the-art Industry 4.0 systems.

The activity performed is focused on passive vehicle safety, low environmental impact, high recyclability, and circular economy, by means of the top manufacturing processes. The MA Division is involved in developing various body and panel components, including new elements specific to electric vehicles (i.e. battery holders). It is also involved in testing and simulation of innovative components (i.e. tubular wheel hub) as well as the definition of industrial aspects. 1:1 scale, fully functioning vehicles have already been manufactured and have undergone "full vehicle" crash tests (compliant to NCAP), showing excellent passive safety results, in line with the numerical simulation model.

MA Division is involved in the EU-funded project called "Steel S4 EV" (RFCS program) with the aim to make vehicles lighter by means of high-resistance steels (DP 600 to DP 1200 steel tubes), duly selected by the MA Division for the different implementations on the body. In this case the team – also including industrial partners, academia, and labs specialized in welding – works in close cooperation to refine the welding process used, taking into account the technological parameters, material alterations, and the respect of vehicle safety requirements and environmental impact (Life Cycle Assessment - LCA).

Aiming to increase business opportunities and improve the quality of customer-oriented services, the technical area of the MA Division continues its Product Engineering department activity. The department, combined with the established Process Engineering department, cooperates with clients in product design, allowing an early assessment of the implementation solutions that are most compatible with the available technologies and proposed materials. In this context, the Product Engineering team has developed a number of vehicle body designs, also introducing new steel types and experimenting alternative materials. In this scope, the department is performing a technical-economic feasibility study for a structural car frame sub-group (rocker panel), designed using multiple materials (steels reinforced with carbon fiber composite material), in order to improve performance-to-mass ratio.

International partners have been identified to define the concept design, manufacture the prototypes, calculate the business case, and hypothesize on a production line. Subsequently, the prototypes have undergone experimental testing, thanks to which Material Cards have been created so that the MA Division may design and resize the components in a virtual environment. Moreover, the technology used (stamping) and the type of carbon fiber used (thermoplastic) make the process certainly swifter than tradition carbon fiber processing technologies.

The Product Engineering team is also involved in the development and optimization of battery holders. We may currently offer to our customers a proprietary ArcelorMittal concept to whose development the MA Division has contributed to as a partner. Such concept design has been developed by applying high-strength materials (MS1500) as well as roll forming technology. Moreover, the MA Division has autonomously developed – as an alternative to the steel battery holder – an aluminum concept design with the same dimensions and performance in order to assess the advantages and disadvantages of the two solutions. Research concerning this strategic component is currently underway, and new partnerships for its development are being assessed.

As for research projects, the Product Engineering department is currently working on DEMOBASE. More specifically, it is developing the front and rear doors. The aim is create fully functioning doors and the related prototypes, using an innovative tubular structure design in order to minimize investment.

Thanks to close cooperation with the main manufacturers of steel (carbon and stainless steels), the MA Division is considering the applicability of such materials to the production of prototypes and archetypes of structural vehicle components.

More specifically, indirect and direct cold stamping tests have been performed using steels with a mechanical resistance up to 1500/1700 MPa. As for stainless steels, indirect and direct hot stamping tests have been performed using martensitic stainless steels with resistances above 1200 MPa.
As for aluminum alloys, the tests were focused on 7XXX (Al-Zn) alloy classes.
Thanks to their advanced mechanical properties, the latter may be comparable to the UHSS (Ultra High Strength Steels) class for steels. A number of tests are underway to establish the actual formability as a function of the process utilized (bending, roll forming, crash forming, etc.).

For both materials, the field activity was combined with accurate simulation testing, performed jointly with the manufacturers' R&D departments.

In the scope of the MW Division, upon having consolidated the flow-forming process for the manufacture of rims (Flow-Type2) at the French plant, the company has continued to produce styled wheels with large ventilation holes (named "X-Free"), combinable with embedded aesthetic discs made of plastic material. Throughout 2019, the manufacture of "X-Free" wheels has been extended to different MW Division plants: MW France, MW Lublin, MW Romania, and JMW. It is worth highlighting, in particular, the development and implementation of flow-forming technology for a major OEM client at JMW (Turkey). Moreover, in 2019 the Group has significantly developed its large wheel (18", 19", 20") manufacturing output, in particular at the MW Lublin plant (Poland). Important flow-formed wheel designs are being developed at the various plants, and at MW Lublin and JMW in particular.

In the scope of product innovation, MW continues to pursue research projects in the following fields:

- styled wheels with complex-shape discs made of stamped steel sheet, for improved aesthetics without the need for plastic discs; in parallel – through cooperation with a number of top steel manufacturers – research is being carried out on new high-formability steels with advanced mechanical properties;

- wheels made of non-metallic materials (composites with a polymer matrix and reinforcement fibers) for a new generation of products, granting a considerable mass reduction and aesthetics comparable to that of aluminum alloy wheels;

- sheet aluminum wheels, with the aim to further reduce mass;

- "hybrid" aluminum-steel wheels; two different products are under development:

    - one with the traditional sheet steel disc joined to a die-cast aluminum disc, with the aim to compete with the style of a traditional aluminum wheel (low-pressure die casting), but with a cost and mass comparable to the lightest steel wheels.

    - one with the sheet steel disc joined to an sheet aluminum disc, with the aim to reduce the weight of the steel wheel (which is already – as said – lighter than traditional aluminum wheels).

These innovation projects have already led to the registration of numerous patents – some of which in cooperation with leading OEMs – in terms of both new products and new manufacturing processes.

### New simulation procedures: These mainly include analyses with the end purpose of improving efficiency and accuracy of simulation systems, in both the product design and stamping phases.

The MA Division has completed a project in collaboration with the Turin Polytechnic to assess the most widely used pressing simulation software in the automotive sector, and is currently performing a series of in-house tests to improve compliance with the simulation results.

Moreover, it has conducted a series of virtual simulation studies of the technologies implemented at its plants – in order to best understand the issues that arise throughout manufacturing processes, in particular throughout continuous wire welding, roll forming, crash forming (a type of stamping) – as well as thermal analyses. The welding simulation has allowed an understanding of how certain parameters – such as geometry and/or material choice – and features of the welding process are decisive factors in the final tensile characteristics of the component manufactured, with a crucial effect on fatigue resistance, in terms of both wear and durability. The ongoing research on the roll forming process is revealing a series of issues in terms of understanding material behavior in its deformation as it passes through the various rolling stations, and how such behavior affects the characteristics of the final product. Simulations of the crash forming process have been performed, with the aim to fine-tune – initially in a virtual environment – the manufacture of components made of a high-performance material that poses a number of forming issues (MS1700, tensile strength: 1700MPa). Product development studies have also been carried out to suggest new implementations of high-resistance steels – such as the martensitic MS15000 – on components for which both the performance and technological feasibility have been jointly tested.

The MW Division has continued its research projects in cooperation with the Turin Polytechnic, including the new project with the Mechanical Engineering Department with the aim to upgrade the simulation methods in the wheel design phase. This project will have a three-year duration and will allow the introduction of new analysis methods as well as new software to improve the solidity of product design, with numerous benefits to the subsequent industrialization phase in terms of fine-tuning time and cost reduction.

The activity performed thus far has concerned the wheel-tire interface (with the external cooperation of the Fraunhofer Institute for Industrial Mathematics in Kaiserslautern, Germany) and the correlation between new virtual and experimental methodologies. Moreover, it is worth mentioning the creation of a three-party consortium in France (involving MWF, a prominent French university, and a technology transfer company) with the aim to develop innovative products and processes.
The consortium has been granted funding from the European Union and the Hauts-de-France region.

The MW Division continues – in cooperation with the TO PROVE LAB – to fine-tune a series of activities with the purpose of defining new testbed specifications and methods, to be shared with customers for the approval of vehicle safety components.

The above items comprise the basis of the Group's strategy, which is aimed at the consolidation of partnerships and cooperation projects with suppliers, clients, universities, and research centers, in order to create synergies and new development opportunities.

# ENVIRONMENT, HEALTH, AND SAFETY

## Environment

The Group' production involves a wide range of metal manufacturing processes performed at its plants. Such processes require – to different extents – the use of factors of production as well as natural and energy resources, thus causing environmental impact.

The Group is aware that value creation, supported by a favorable and socially responsible growth, shall include environmental protection as a key factor to promote in the general approach to corporate activity. Environmental integrity and the safeguard of those providing their labor to the Group facilities are considered essential values by corporate management and all of its employees in carrying out each of their duties, each with their own skillset.

In accordance with the pursuit of such values and goals, the Group carries out its activities in full compliance with current legislation and standards, and – moreover – commits to promote continuous improvement and prevention initiatives related to its manufacturing processes.

This includes the development and implementation of methods based – as much as possible – upon the fundamental principles of maximum reduction of environmental impact and optimization of resources.

In this scope, it is important to underline the Group's constant monitoring of:

1. Energy efficiency: in 2019, the Group's energy consumption was about 1.4 million GJ, broken down as follows:

2. Emissions management: in 2019, direct and indirect greenhouse gas emissions have amounted to 29,201 metric tons of carbon dioxide equivalent, with a reduction of about 4.0% compared to 2018.

3. Water management: in 2019, the Group has used 542 thousand m3 (over 19 million ft3) of water, with a 6% reduction compared to 2018.

4. Scrap and waste management: steel, which is by far the raw material most utilized by the Group, is the most recyclable (100%) and recycled material in the world, due to the fact that it is one of only few materials that does not lose its properties once it is recycled. This is one of the reasons why the percentage of scrap and waste recycled by the Group has amounted to about 95%.

| GRI Disclosure 302-1 | | | |
|---|---|---|---|
| (GJ) | **2017** | **2018** | **2019** |
| Electrical energy consumption | 875,484 | 884,826 | 845,706 |
| Fuel consumption | 502,540 | 494,135 | 519,407 |
| **Total energy consumption** | **1,378,024** | **1,378,962** | **1,365,113** |

## Health and Safety

The topic of health and safety at the workplace is the Group's main priority.
To promote occupational health and safety requires the introduction of suitable measures and positive actions to ensure that employees may fully exercise their duties.

The activities performed by the Group for such purpose, managed locally by Safety Managers present at each of the plants, are focused on:

- guaranteeing the observance of regulatory provisions regarding health and safety, and promoting initiatives based upon a process of continuous improvement and prevention;
- defining and implementing plans of action as well as maintenance and control strategies in the scope of risk prevention;
- continuously improving corporate performance and constantly monitoring risks deriving from work activities;
- providing corporate management with an efficient and effective management system that allows a consistent process of identification and solution of emerging issues, as well as an orderly flow of information that suitably supports decision-making and operational responsibilities;
- boosting personnel involvement, motivation, and awareness;
- contributing to improve levels of occupational health and safety;
- improving internal and external corporate image, in order to earn trust of customers, suppliers, and control entities/authorities;
- gradually reducing costs of occupational health and safety.

The continuous monitoring of Health and Safety indicators and the definition of challenging goals allows an assessment of Group performance, and the identification of eventual actions for improvement.

The effort by CLN Group management to achieve and maintain such results is also highlighted by a continuous improvement and constant identification of new tools to implement.

Training and worker involvement are considered fundamental aspects for the creation of a strong and solid safety culture focused on risk awareness and on participation in safety-related activities. The aim is to spread a proactive and participatory approach. In 2019, about 45 thousand hours of training concerning the environment and occupational health and safety were provided. Every day and at all plants the employees take part in '5 minutes for safety', a field-training session calling the attention of workers on specific topics.

Finally, we should highlight that 64% of the Group plants have achieved OHSAS 18001 certification, and the aim is to reach 80% in the short term.

| | 2017 | 2018 | 2019 |
|---|---|---|---|
| **Frequency Rate** | | | |
| (n° accidents/n° hours worked) | 3.70 | 3.26 | 3.25 |
| **Gravity Rate** | | | |
| (n° days of absence due to injury/n° hours worked) | 0.11 | 0.11 | 0.12 |

# OTHER INFORMATION

## SIGNIFICANT EVENTS OCCURRED THROUGHOUT THE FISCAL YEAR

### MARCH 2019

The **CLN Group** and Shell Energy Italia have announced an agreement for the combined supply of natural gas and voluntary carbon offset credits.
Thanks to this agreement, the CLN Group will certify the compensation of CO2 emissions deriving from the use of natural gas in the industrial processes carried out in Italy. By means of the voluntary carbon offset credits, the CLN Group will take part in the development of forest conservation initiatives that contribute to the natural absorption of CO2 in the atmosphere.

### APRIL 2019

The **TO PROVE LAB** has been officially assigned the KBA-P 00107-19 certificate as a technical service company by Kraftfahrt-Bundesamt (KBA), the German federal authority for motor vehicles. The certificate proves TO PROVE LAB's compliance with EN ISO/IEC 17025:2005 and 17020:2012 standards – as per accreditation n° 1553 issued by ACCREDIA – and certifies the lab as a technical service company for categories A, B, and D: wheels and special wheels.

This certification assigned by the German authority is added to all the certifications achieved in the past, and once again proves the independent nature of our laboratory.

The **South African MA** company has officially introduced a new stamping line. The 5-station stamping line is a G1 line with a 2400T press: it will be dedicated to the cold forming of components for a new BMW model.

### MAY 2019

The transfer of 20% of the shares held by the Group in **UM Corporation S.A.S.** was concluded. Following such operation, the French company – whose share capital the Group now holds 40% of – is no longer consolidated with the "Full consolidation method", but with the "Equity method".

**MW** has taken part in the 2019 edition of Autopromotec, a main international event that brings together all the product supply chains in the automotive aftermarket, which has taken place at the Bologna trade fair from May 22 to 26. **TO PROVE LAB** was also among exhibitors, fresh of its new KBA certification.

### JUNE 2019

Over the month of June, the company has delisted from the Irish Stock Exchange the bond loan issued in 2015 and maturing in 2022. Such operation has implied the loss of Public Interest Entity status by CLN S.p.A.

## JULY 2019

Throughout 2019, the Group has continued preliminary implementation activity related to the newborn **MA Automotive Portugal SA**, with an investment project that involves the construction of a new plant located in Valença (Portugal).
The plant will be erected by recovering an existing construction at the same industrial site.
The plant conducted by MA Automotive Portugal SA will be dedicated to the manufacture and supply of structural metal components for motor vehicles in line with the latest trends in the sector, with a special focus on vehicle weight reduction and conversion to electric mobility.In order to develop such components, the plant will be provided with the most innovative manufacturing technology, including cold forming and robotic welding units.
The activity – which has begun in the second semester of 2019 – should reach full working capacity throughout 2021.

## NOVEMBER 2019

In order to focus more on its main assets, the sub-holding company MA S.r.l. has sold 50% of its shares held in the joint venture **Beijing Shougang MA Metal Co.**, Ltd. to Shape/NetShape China Auto Parts Co., Ltd., a company based in the People's Republic of China and belonging to the U.S. group led by Shape Corp., a global component supplier specialized in safety parts for passenger vehicles and commercial vehicles.

Following a long and complicated negotiation, **CLN Slovakia** has been successfully named as a supplier in the ŠKODA AUTO Steelpooling project by the ŠKODA procurement committee.

## DECEMBER 2019

On December 19, 2019, CLN S.p.A. has completed its disposal of shares held in the subsidiary **ITLA S.p.A.** (and with it, the indirect subsidiary **ITLA Bonaiti S.r.l.**), thus abandoning the cold re-rolling sector. The disposal operation has been performed within the greater scope of focusing CLN Group activities on its core business – the automotive sector – and gradually decommissioning its non-core operations.

Finally, within the scope of its corporate and venture capital activities, the CLN Group has initiated investments in **Remat** is a startup company that is developing a circular economy initiative for the polyurethane supply chain in the Piedmont region.
By means of innovative technology, it gives a second life to polyurethane from recycling of both domestic and company waste. By using secondary raw material (SRM), Remat produces innovative products for construction and furnishings.

## SIGNIFICANT EVENTS OCCURRED AFTER THE FISCAL YEAR

### JANUARY 2020

Starting on January 1, 2020, the lease agreement between MA S.r.l. (in the capacity as tenant) and the Extraordinary Administration of Blutec S.p.A. for the so-called **“Metallic” business unit** owned by the latter has become effective. Such branch essentially comprises a plant located in Atessa (Chieti) and mainly involved in production for the customer Sevel. Upon termination of the agreement, a property auction procedure for the purchase of the “Metallic” business unit is planned, which MA S.r.l. has committed to take part in.

### MARCH 2020

As previously mentioned, in the initial months of 2020, a pandemic caused by the virus named COVID-19 has rapidly developed across the world. The World Health Organization (WHO) has officially recognized such pandemic on March 11, 2020.

Upon facing the health emergency, the Group has started – in the second half of March – to gradually shut down its facilities in order to comply with the containment measures adopted by the different countries. Such shutdowns have continued in April, during which every facility has been affected by near-full interruption.

The economic and financial effects of the pandemic are indeed significant, but have not caused changes in the 2019 fiscal year results, in that the triggering event has occurred in 2020. Generally speaking, the impact may be summarized as follows:

- 36% reduction in Group revenue (scope of consolidation remaining equal) as at April 2020 compared to the same time in 2019;
- 25/30% estimated reduction in Group revenue in 2020 compared to the previous year, consistent with the consensus estimate of European automotive market contraction;
- reduction in operating cash flow, which may cause financial criticalities throughout 2020;
- need to source integrating funds to respond to such financial criticalities;
- expected worsening of the main financial indicators (mainly due to expected contraction of Adjusted EBITDA and increase in Net Financial Debt).

## RELATIONS WITH RELATED PARTIES

For quantitative and qualitative information on the relations with Related Parties, please refer to the Notes to the Financial Statements.

## BUSINESS OUTLOOK

The predictable evolution of CLN Group management throughout 2020 is strictly related to the effects of the previously described COVID-19 global pandemic that has developed in the first few months of the year. Entire manufacturing sectors, including the automotive sector, have been strongly affected by the ongoing situation, in that virus containment measures adopted by the various governments have led to the full shutdown of production plants.

Following such pandemic, in the first 4 months of 2020 demand for new Passenger Cars in the European Union has fallen by 38.5% compared to the previous year. From January to April 2020, registrations have halved in 3 out of 4 main EU markets: -50.7% in Italy, -48.9% in Spain, and -48.0% in France, whilst in Germany the demand has fallen by 31.0%.

Our hope is that the recent slowdown of infections in Europe, along with measures to support manufacturing activity which are being implemented by governments in advanced economies, may favor a gradual return to normal operating conditions.

May 27th, 2020

The Board of Directors
**The Chairman**
Aurora Magnetto

# CONSOLIDATED FINANCIAL STATEMENTS

# 2

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| *€/000* | | Fiscal Year as at December 31 2019 | 2018 | Change |
|---|---|---|---|---|
| **ASSETS** | Nota | | | |
| **Non-current assets** | | | | |
| Intangible assets | 8.1 | 16,732 | 22,346 | (5,614) |
| Property, plants, and equipment | 8.2 | 729,568 | 671,602 | 57,966 |
| Investments and other financial assets | 8.3 | 113,115 | 107,029 | 6,086 |
| Other non-current receivables and assets | 8.4 | 11,347 | 2,464 | 8,883 |
| Deferred tax assets | 8.5 | 50,904 | 45,789 | 5,115 |
| **Total non-current assets** | | **921,666** | **849,231** | **72,435** |
| **Current assets** | | | | |
| Inventory | 8.6 | 150,663 | 198,460 | (47,798) |
| Trade receivables | 8.7 | 57,945 | 112,774 | (54,829) |
| Other current receivables and assets | 8.8 | 83,005 | 66,270 | 16,734 |
| Contract assets | 8.6 | 16,666 | 561 | 16,104 |
| Cash and cash equivalents | 8.9 | 125,411 | 163,037 | (37,627) |
| **Total current assets** | | **433,690** | **541,103** | **(107,413)** |
| Disposal groups (assets) classified as held for sale | 8.10 | 1,835 | 60,879 | (59,044) |
| **TOTAL ASSETS** | | **1,357,191** | **1,451,214** | **(94,022)** |
| Share capital | 8.11 | 235,000 | 235,000 | - |
| Other reserves | 8.11 | 59,048 | 55,149 | 3,899 |
| Retained earnings (accumulated deficit) | 8.11 | (94,005) | (94,956) | 951 |
| **Net Equity attributable to the Group** | **8.11** | **200,043** | **195,194** | **4,849** |
| Net Equity of non-controlling interests | 8.11 | 8,819 | 36,321 | (27,502) |
| **TOTAL NET EQUITY** | **8.11** | **208,862** | **231,515** | **(22,653)** |
| **LIABILITIES** | | | | |
| **Non-current liabilities** | | | | |
| Post-employment benefits | 8.12 | 28,626 | 28,735 | (109) |
| Provisions for risks and charges | 8.13 | 7,812 | 10,187 | (2,374) |
| Non-current borrowings | 8.14 | 403,883 | 322,777 | 81,107 |
| Deferred tax liabilities | 8.15 | 45,647 | 45,007 | 640 |
| Other non-current liabilities | 8.16 | 15,331 | 36,161 | (20,830) |
| **Total non-current liabilities** | | **501,300** | **442,866** | **58,433** |
| **Current liabilities** | | | | |
| Current borrowings | 8.14 | 140,652 | 195,399 | (54,747) |
| Trade payables | 8.17 | 374,826 | 393,025 | (18,199) |
| Current tax liabilities | 8.18 | 1,124 | 5,143 | (4,019) |
| Other current liabilities | 8.19 | 130,427 | 146,702 | (16,276) |
| **Total current liabilities** | | **647,030** | **740,269** | **(93,239)** |
| Disposal groups (liabilities) classified as held for sale | 8.10 | - | 36,563 | (36,563) |
| **TOTAL NET EQUITY AND LIABILITIES** | | **1,357,191** | **1,451,214** | **(94,022)** |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| *€/000* | Note | Fiscal Year as at December 31 2019 | 2018 | Change |
|---|---|---|---|---|
| Net revenue from contracts with customers: | | | | |
| **Revenue from sales of parts and components** | **9.1** | **1,553,257** | **1,657,929** | **(104,672)** |
| Revenue from sales of tooling | 9.1 | 60,989 | 91,827 | (30,837) |
| Other operating income | 9.2 | 130,247 | 147,405 | (17,157) |
| Raw material consumables and goods | 9.3 | (1,078,849) | (1,180,444) | 101,594 |
| Personnel expenses | 9.4 | (322,036) | (338,560) | 16,524 |
| Other operating costs | 9.5 | (202,380) | (239,973) | 37,593 |
| **Gross Operating Income** | | **141,227** | **138,183** | **3,044** |
| Depreciation, amortization, and impairment losses | 9.6 | (105,174) | (87,596) | (17,578) |
| **Net Operating Income** | | **36,054** | **50,588** | **(14,534)** |
| Financial income | 9.7 | 23,754 | 12,671 | 11,083 |
| Financial expenses | 9.8 | (56,259) | (45,136) | (11,123) |
| Results from investments | 9.9 | (13,208) | (10,827) | (2,381) |
| **Result before income tax** | | **(9,660)** | **7,295** | **(16,955)** |
| Income tax | 9.10 | (6,036) | (7,050) | 1,014 |
| **Net Result from continuing operations (A)** | | **(15,696)** | **245** | **(15,941)** |
| *Discontinued operations (B)* | | - | - | - |
| **Results for the year (A+B)** | | **(15,696)** | **245** | **(15,941)** |
| **Results attributable to:** | | | | |
| *- Group* | | *(17,687)* | *(3,375)* | *(14,312)* |
| *- Non-controlling interests* | | *1,991* | *3,619* | *(1,628)* |
| **Components of the comprehensive income statement which will not be subsequently reclassified in the income statement** | | | | |
| Profits (losses) from defined-benefit plans | | (1,020) | - | (1,020) |
| **Total of the components of the statement of comprehensive income which will not be subsequently reclassified in the income statement** | | **(1,020)** | **-** | **(1,020)** |
| **Components of the comprehensive income statement which may be subsequently reclassified in the income statement** | | | | |
| Differences deriving from currency translation of financial statements of foreign companies, including ones valued using the Equity Method | | 3,424 | (16,012) | 19,435 |
| Portion of Other profits (losses) of companies valued using the Equity Method | | 1,544 | 399 | 1,145 |
| Profits (losses) on cash flow hedge instruments | | 4 | 12 | (8) |
| **Total of the components of comprehensive income which may be subsequently reclassified in the income statement** | | **4,971** | **(15,601)** | **20,572** |
| **Total of Other comprehensive profits (losses), net of tax effect (C)** | | **3,951** | **(15,601)** | **19,552** |
| **Total comprehensive net profit for the fiscal year (A)+(B)+(C)** | | **(11,745)** | **(15,356)** | **3,611** |
| **Comprehensive net profit attributable to:** | | | | |
| *- Group* | | *(13,827)* | *(18,574)* | *4,747* |
| *- Non-controlling interests* | | *2,082* | *3,218* | *(1,136)* |

# CONSOLIDATED CASH FLOW STATEMENT

| *€/000* | Fiscal Year as at December 31<br>2019 | 2018 | Change |
|---|---|---|---|
| Results before income tax | (9,660) | 7,295 | (16,955) |
| *Adjustment for:* | | | |
| Depreciation, amortization, and impairment losses | 105,174 | 87,596 | 17,578 |
| Results from investments | 13,208 | 10,827 | 2,381 |
| (Gain) Losses on disposal of fixed assets | (5,211) | (3,454) | (1,757) |
| Change in Post-Employment Benefits | 1,126 | (243) | 1,368 |
| Change in Provisions for Risks and Charges | (2,281) | (3,874) | 1,592 |
| *Change in Net Working Capital* | | | |
| Inventory and contract assets/liabilities | (5,393) | (19,859) | 14,467 |
| Trade receivables and other receivables | 20,255 | 19,193 | 1,062 |
| Trade payables and other payables | 3,068 | 51,037 | (47,969) |
| Non-monetary effects of IFRS 16 adoption | (9,419) | - | (9,419) |
| **Cash Flow generated from operations** | **110,867** | **148,518** | **(37,652)** |
| **Income Tax paid** | **(9,617)** | **(13,329)** | **3,713** |
| **Net Cash Flow from operating activities (A)** | **101,250** | **135,189** | **(33,939)** |
| Equity Investments (net of disposals) | 585 | 1,365 | (780) |
| Acquisition of intangible fixed assets | (3,709) | (3,442) | (267) |
| Acquisition of tangible fixed assets | (142,439) | (116,119) | (26,320) |
| Disposal of tangible fixed assets | 2,906 | 7,715 | (4,809) |
| Disposal groups (assets) classified as held for sale | 14,950 | 15,502 | (552) |
| **Net cash flow absorbed by investing activities (B)** | **(127,707)** | **(94,979)** | **(32,728)** |
| Dividends cashed-in (paid) | 511 | (774) | 1,285 |
| Changes in non-current financial assets | 195 | 3,386 | (3,191) |
| Proceeds from banks and other financial institutions | 244,886 | 94,500 | 150,386 |
| Repayment of long-term borrowings | (235,866) | (116,624) | (119,242) |
| **Net Cash Flow from financing activities (C)** | **9,726** | **(19,512)** | **29,238** |
| **Total Cash Flow (A+B+C)** | **(16,732)** | **20,698** | **(37,429)** |
| **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FISCAL YEAR** | **163,037** | **145,635** | **17,402** |
| Change in scope of consolidation | (21,022) | (2,184) | (18,838) |
| Exchange rate differences on cash and cash equivalents | 127 | (1,112) | 1,238 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR** | **125,411** | **163,037** | **(37,627)** |

# CONSOLIDATED STATEMENT OF CHANGES IN NET EQUITY

| €/000 | Share capital | Other reserves | Reserve for profits carried forward | Net Equity of the Group | Minority interests in Net Equity | Total Net Equity |
|---|---|---|---|---|---|---|
| **Balance as at December 31, 2017** | **235,000** | **70,361** | **(94,290)** | **211,071** | **32,974** | **244,045** |
| **Net profit for the 2018 fiscal year (A)** | **-** | **-** | **(3,375)** | **(3,375)** | **3,619** | **245** |
| *Other components of the comprehensive income statement* | | | | | | |
| Profits (losses) from remeasurement of defined benefit plans | - | - | - | - | - | - |
| Differences deriving from currency translation of financial statements of foreign companies | | (15,610) | | (15,610) | (402) | (16,012) |
| Profits (losses) on cash flow hedge instruments | | 399 | | 399 | | 399 |
| **Total other components of the comprehensive income statement (B)** | **-** | **(15,211)** | **-** | **(15,211)** | **(402)** | **(15,613)** |
| **Comprehensive net profit for the 2018 fiscal year (A+B)** | **-** | **(15,211)** | **(3,375)** | **(18,586)** | **3,218** | **(15,368)** |
| *Transactions with shareholders* | | | | | | |
| Changes in scope of consolidation | | | - | - | - | - |
| Share capital increase | | | - | - | - | - |
| Effects of first IFRS 9 implementation | | | 5,133 | 5,133 | - | 5,133 |
| Other transactions | | | (2,424) | (2,424) | 129 | (2,295) |
| **Balance as at December 31, 2018** | **235,000** | **55,150** | **(94,956)** | **195,194** | **36,321** | **231,515** |
| **Net profit for the 2019 fiscal year (A)** | **-** | **-** | **(17,687)** | **(17,687)** | **1,991** | **(15,696)** |
| *Other components of the comprehensive income statement* | | | | | | |
| Profits (losses) from remeasurement of defined benefit plans | | (983) | - | (983) | (37) | (1,020) |
| Differences deriving from currency translation of financial statements of foreign companies | | 3,333 | | 3,333 | 90 | 3,424 |
| Profits (losses) on cash flow hedge instruments | | 1,548 | | 1,548 | | 1,548 |
| **Total other components of the comprehensive income statement (B)** | **-** | **3,898** | **-** | **3,898** | **53** | **3,951** |
| **Comprehensive net profit for the 2019 period (A+B)** | **-** | **3,898** | **(17,687)** | **(13,789)** | **2,044** | **(11,744)** |
| *Transactions with shareholders* | | | | | | |
| Changes in scope of consolidation | | | 19,294 | 19,294 | (29,394) | (10,100) |
| Share capital increase | | | - | - | | - |
| Other transactions | | | (656) | (656) | (152) | (808) |
| **Balance as at December 31, 2019** | **235,000** | **59,048** | **(94,005)** | **200,043** | **8,819** | **208,862** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. GENERAL INFORMATION

C.L.N. S.p.A. (hereinafter "the Company" or "CLN") and its subsidiaries (hereinafter "CLN Group" or "the Group") operate in a number of steel industry sectors – mainly the automotive sector – with its processes ranging from component stamping and assembly to manufacturing of steel wheels for every vehicle type. CLN has been operating in the steel sector since 1948. Today the Group – with all its divisions and companies – is an integrated organization, mainly operating in and leading the following sectors:

- **Metalforming:** stamping, roll forming, and assembly of metal components for the automotive market; die design and manufacturing; component testing.
- **Wheels:** engineering and manufacturing of steel wheels for passenger cars and light commercial vehicles; wheel marketing for the aftermarket sector; wheel validation through functional testing, material analysis, and metrological analysis.
- **Steel:** manufacturing and distribution of flat steel products.

The two divisions operating in the metal automotive components sector increasingly represent the Group's core business.

**MA** - the Automotive Metal Components division – is one of the main global suppliers of metal parts – stamped or roll-formed components (external and structural), and components for propulsion/powertrain systems – for any type of passenger car and light/heavy commercial vehicle in the world automobile industry. It is present in Europe, South Africa, and South America.

**MW** - the Steel Wheels division – is a market leader in the sector of steel wheel manufacturing for all types of vehicles (passenger cars and light commercial vehicles), supplying clients with complete solutions for engineered wheels, from the design phase to the choice of materials and manufacturing process. It has facilities in Europe, Russia, and South Africa.

Moreover, the Group operates in the high carbon flat steel processing (cold re-rolled sheet steel and alloys) sector within the European market. It operates and is a market leader in the flat steel p sector as well as in supply from service centers through its minority, thus non-consolidated shareholdings in the ArcelorMittal CLN group. The companies related to cold steel re-rolling and supply have reported, in the past few years, to the **SSC** division.
Moreover, at the end of 2019, the cold re-rolling activities have been transferred, in the scope of focusing CLN Group activity on its core business – the automotive sector – and gradually decommissioning its non-core operations.
C.L.N. S.p.A. is a company incorporated and based in Italy, and is organized in accordance with the legal system of the Italian Republic. The registered office of the company is at 13/15 Corso Susa, Caselette (Turin).

## 2. SUMMARY OF THE ADOPTED ACCOUNTING STANDARDS

Shown below are the main criteria and accounting standards applied when preparing and drafting the consolidated financial statements for the Group (hereinafter "Consolidated Financial Statements"). These accounting standards were applied consistently for all the fiscal years presented in this document.

## 2.1 BASIS OF PREPARATION

European Regulation (EC) n° 1606/2002 issued on July 19, 2002 introduced the obligation, starting from the 2005 fiscal year, to apply the International Financial Reporting Standards (hereinafter "IFRS") – issued by the International Accounting Standards Board ("IASB") and implemented by the European Union ("EU IFRS" or "International Accounting Standards) – in drafting consolidated financial statements of companies having equity and/or debt securities listed in one of the markets regulated by the European Community.

On July 31, 2015, CLN issued a bond worth a nominal amount of EUR 100 million – fully subscribed under private placement by Morgan Stanley in its role as sole underwriter – and listed it on the Irish Stock Exchange. In compliance with the legal provisions recalled above, CLN thus has the obligation to draft the consolidated financial statements and financial statements for the fiscal year in accordance with the EU IFRS since the fiscal year ended on December 31, 2015.

Over the month of June 2019, CLN S.p.A. has delisted from the Irish Stock Exchange the bond loan issued in 2015 and maturing in 2022. Such operation has implied the loss of Public Interest Entity status by CLN S.p.A.

Despite the legal obligation to apply IFRS standards has ceased, the company has decided to continue applying IFRS standards on a voluntary basis.

These financial statements were drawn up in compliance with the EU IFRS in force as at its approval date. EU IFRS include all the "International Financial Reporting Standards", all the "International Accounting Standards" (IAS), and all interpretations of the "International Financial Reporting Interpretations Committee (IFRIC)", formerly named "Standing Interpretations Committee (SIC)", approved and adopted by the European Union.

Furthermore, it is reported that the EU IFRS were applied in a consistent manner to all the periods presented in this document. These consolidated financial statements were drafted to the best of knowledge of the EU IFRS and considering the most suitable doctrine on the matter. Any future orientations and interpretative updates shall be reflected in subsequent fiscal years, in accordance with the procedures established by the accounting standards of reference on a case-by-case basis.

## *Going Concern*

Starting in March 2020, the Group has needed to face the outcome of the COVID-19 pandemic recognized by the World Health Organization on March 11, 2020. This has caused, among other effects:

- an extended period of manufacturing interruption between March and May at all the Group plants;

- the collapse of the automotive market in the second trimester of 2020;

- uncertainty on the automotive market recovery in the second semester of the year

The direct result of such situation on the Group is a risk of financial instability and liquidity issues throughout 2020.

The consolidated financial statements as at December 31, 2019 has been prepared on a going concern basis, despite the above mentioned risk, on the basis of the following main prerogatives.

- The Group's ability to implement flexibilization of the cost structure (cost of personnel and other operating costs in particular) and to monitor/optimize cash outflows.
- Cash and cash equivalents available as at December 31, 2019, amounting to EUR 119 million (EUR 27 million at the end of April 2020) which represent the primary source of Group funding in 2020.
- The availability of unused medium/short-term facility lines as at December 31, 2019, amounting to EUR 64 million (the amount recorded at the end of April 2020 was the same).
- The availability of unused short-term facility lines as at December 31, 2019, amounting to EUR 89 million (EUR 50 million at the end of April 2020).
- A predicted positive outcome of the ongoing negotiations with the banking system to obtain new lines of credit in Italy, France, Germany, Poland, and South Africa – guaranteed, to different extents, by the related countries. It is highlighted that the lines of credit under negotiation amount to a total of EUR 234 million, of which 15 million have already been dispensed.

- A predicted positive outcome of the ongoing negotiations with the banking system and other lenders to obtain the suspension of financial covenants until June 2021 (based upon the fact that the effects of the pandemic may translate to a failure to comply, in such time, with the parameters agreed) and for the rescheduling of repayments owed in 2020.

These consolidated financial statements were subject to approval by the Board of Directors of the Company on May 27, 2020.

## 2.2 FORM AND CONTENT OF THE FINANCIAL STATEMENTS

The Consolidated Financial Statements include the following consolidated financial information, for which the Group has made the choices described thereinafter:

**a.** the Consolidated Statement of Financial Position, which displays current and non-current assets, as well as current and non-current liabilities, separately;
**b.** the Consolidated Statement of Comprehensive Income gives a classification of costs and revenue by nature;
**c.** the Consolidated Cash Flow Statement is represented according to the indirect method.
**d.** the Consolidated Statement of Changes in Net Equity.

The Group has chosen to prepare a statement of comprehensive income that includes both the net profit for the period and changes in net equity related to economic entries classified as components of net equity by express provision of the International Accounting Standards.
The structure used, as specified above, is the one which best represents the Group's financial position, balance sheet, and cash flow situation.
These financial statements were drawn up in Euros, the Group's functional currency. The values shown in the financial statements as well as in the detailed tables included in the Notes to the Financial Statements are expressed in thousands of Euros, unless otherwise specified.
These financial statements are subject to audits by PricewaterhouseCoopers S.p.A., the auditing company for the Company and the Group.

## 2.3 SCOPE OF CONSOLIDATION AND RELATED CHANGES

These consolidated financial statements include the financial statements of the parent company C.L.N. S.p.A. and the financial statements of its subsidiaries, approved by the respective governing bodies. The financial statements have been appropriately adjusted, where necessary, in order to standardize them with the accounting principles of the parent company and with EU IFRS.

The financial statements of subsidiaries included in the Group Consolidated Financial Statements are prepared in accordance with the same accounting principles adopted by the parent company (excluding the valuation criteria for investments); eventual consolidation adjustments are applied to standardize the items affected by the use of different accounting principles. All balances and intragroup transactions – including eventual unrealized profit ascribed to the relationships between Group companies – are written off in full, with the exception of eventual amounts considered irrelevant. The Group's share of unrealized profit and losses related to associate companies is written off. Unrealized losses are written off unless they should represent losses in business value.

A list of the companies included in the scope of consolidation as at December 31, 2019 – with an indication of share capital and the method of consolidation used to prepare the consolidated financial statements for the Group – is included in annexes 1 to 4 attached to this document.

The main variations in the Group structure in 2019 are related to the transfer of 20% of shares held in the French company UM Corporation S.A.S., with the consequent deconsolidation and the sale of companies ITLA S.p.A., ITLA Bonaiti S.r.l., and ITLA Bonaiti GmbH, in the scope of further focusing CLN Group activity on its core business – the automotive sector.

It is specified that the following subsidiaries are consolidated using the net equity method rather than the full consolidation method, considering they are newly incorporated companies and/or given the intangibility of the effects the latter would generate:

- MA Automotive Argentina S.A.
- MA Automotive Components (Shangai) Co., Ltd
- Nichelino Immobiliare S.r.l.

For the same reason, the following companies are fully excluded from the consolidation:

- MA Automotive Portugal S.A.
- MA Sochaux S.a.s.
- P.I.CHI Scrl.

The scope of consolidation and criteria for the exclusion are in accordance with the guidelines of the legislation framework on financial information, and have been applied coherently.

## 2.4 PRINCIPLES OF CONSOLIDATION

The criteria adopted by the Group to define the scope of consolidation and related consolidation principles are explained below.

### Subsidiaries

Subsidiaries are companies that are controlled by the Group. The Group controls a company when it is exposed to the variability of the results achieved by such company, and has the power to affect the results by means of its power over the company. Generally speaking, the status of control is presumed when the Company holds, directly or indirectly, more than half the voting rights, also considering potentially exercisable or convertible voting rights.

All subsidiaries are consolidated using the consolidation method from the date on which control was transferred to the Group. They are instead exempted from consolidation starting from the date on which such control ceases to exist.

The Group uses the acquisition method in accounting corporate aggregations. In accordance with such method:

**a.** the amount transferred with a corporate aggregation is valued at fair value, calculated as the sum of the fair value of the transferred assets and liabilities assumed by the Group on the date of acquisition, as well as the capital instruments issued in exchange for control of the acquired company. Supplementary expenses of the transaction are included in the income statement at the time they are borne;

**b.** at the date of acquisition, the identifiable assets acquired and liabilities assumed are purchased at their fair value as at the same date. Exceptions to this are deferred tax assets and liabilities, assets and liabilities for employee benefits, liabilities or capital instruments concerning payments based on shares of the acquired company or share-based payments related to the Group issued in replacement of contracts owned by the acquired company, and the assets (or groups of assets and liabilities) up for sale which, instead, are valued according to their reference principle;

**c.** goodwill is defined as the excess of the total compensation transferred with the corporate aggregation, the value of the net equity pertaining to minority shares, and the fair value of any shares previously held in the acquired company compared to the fair value of the net assets acquired and liabilities assumed on the date of acquisition. If the value of the net assets acquired and liabilities assumed on the date of acquisition exceeds the total of the transferred compensation, the value of the net equity pertaining to minority shares, and the fair value of any shares held previously in the acquired company, such excess is recognized in the income statement immediately as income deriving from the concluded transaction;

**d.** eventual compensations subjected to conditions established by the corporate aggregation contract are estimated at fair value as at the date of acquisition, and they are included in the value of the compensations transferred within the corporate aggregation for the purposes of defining goodwill.

In the case of corporate aggregations taking place in stages, the share previously held in the acquired company is revalued at fair value as at the date of control acquisition, and any consequent profit or losses are included in the income statement.
Should the initial values of a corporate aggregation be incomplete on the date of closure of the financial statements for the year in which the corporate

aggregation took place, the Group will include in its consolidated financial statements the temporary values of the items that cannot be recorded in full. Such temporary values are adjusted during the measurement period to account for new information obtained concerning facts and circumstances that existed as at the date of acquisition and that, if known, could have affected the value of the assets and liabilities recorded on such date.

### *Joint arrangements*

The Group applies IFRS 11 when assessing joint control arrangements.
In accordance with the provisions contained in IFRS 11, a joint control agreement can be classified as both a joint operation and a joint venture depending on a substantial analysis of the parties' rights and obligations. Joint ventures are joint control agreements in which the parties, or joint venturers holding joint control, avail themselves of, among others, rights on the net assets of the agreement. Joint operations are joint control agreements attributing to the participants both rights on assets and obligations on liabilities related to such agreement. Joint ventures are booked using the net equity method; the Group does not hold shares identified, instead, as joint operations.

## Associate companies

Associate companies are ones which the Group has considerable influence on, namely when the Group's shareholdings and related voting rights are between 20% and 50%.
Shareholdings in associate companies are estimated using the equity method.
Such criterion can be described as follows:

**a.** the Group's profits and losses are booked from the date on which the notable influence or joint control began until the date on which the two end. Should a company valued using the said method record a negative net equity due to losses, the book value of its shareholdings will be written off; any excess pertaining to the Group – should it have committed to fulfilling the legal or implied obligations of the associate company, or in any case to cover the losses – is recorded as a specific provision;
**b.** unrealized profits and losses generated on operations carried out between the parent company and the associate company valued using the net equity method are written off in accordance with the value of the Group shareholdings in the associate company itself. Unrealized losses are written off, unless they should represent a loss in business value.

## Shareholdings in Other Companies

Shareholdings in "Other companies" are valued at fair value. In case of the fair value is not available or its determination is too onerous, such investments are valued at cost.

## Conversion of the financial statements of foreign companies

The financial statements of subsidiaries are drafted using the currency of the primary economic environment in which they operate. The rules for translating financial statements expressed in currencies other than the Euro are the following:

**a.** assets and liabilities are converted using the exchange rates existing as at the date of reference of the financial statements;
**b.** costs and revenue are translated at the average exchange rate for the fiscal year;
**c.** the "foreign exchange reserve" included among the items of the comprehensive income statement includes both the exchange rate difference generated by the conversion of financial values at a different exchange rate from that existent upon closure, and those generated by the conversion of net opening balances at an exchange rate different from the rate as at the closure of the accounting period;
**d.** goodwill – if existing – and fair value adjustments related to the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and converted using the exchange rate as at the closure of the accounting period.

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Exchange rates used for conversion into euros of the financial and economic values for companies having a functional currency other than the euro were the following:

| | | End-of-year Exchange Rate | | Average Exchange Rate | |
|---|---|---|---|---|---|
| *Currency* | *Nation* | **2019** | **2018** | **2019** | **2018** |
| Peso | Argentina | 67.2749 | 43.1593 | 53.8229 | 32.9094 |
| Real | Brazil | 4.5157 | 4.444 | 4.4134 | 4.3085 |
| Złoty | Poland | 4.2568 | 4.3014 | 4.2976 | 4.2615 |
| New Leu | Romania | 4.7830 | 4.6635 | 4.7453 | 4.654 |
| Renminbi | China | 7.8205 | 7.8751 | 7.7355 | 7.8081 |
| Ruble | Russia | 69.9563 | 79.7153 | 72.4553 | 74.0416 |
| Rand | South Africa | 15.7773 | 16.4594 | 16.1757 | 15.6186 |
| Yen | Japan | 121.94 | 125.85 | 122.0058 | 130.3959 |
| Turkish Lira | Turkey | 6.6843 | 6.0588 | 6.3578 | 5.7077 |
| Dinar | Serbia | 117.8319 | 118.3109 | 117.8182 | 118.2365 |

## Transactions related to minority interests

Changes in the portion of interests of a subsidiary not representing a loss of controlling power are treated as equity transactions. Therefore, for subsequent purchases related to entities for which control already exists, any positive or negative difference between the purchase cost and correspondent portion of net accounting equity is recognized directly within the Group's net equity. For partial subsidiary transfers without control loss, any capital gains/losses are booked directly in the Group's net equity.

## Put options on minority interests

Potential payments related to put options on minority interests are recorded as financial debts, as they envisage the payment of a predefined amount of cash or cash equivalents by the company, which cannot be avoided if third party shareholders decide to exercise the option assigned to them. Liabilities related to put options on minority interests are initially measured at fair value and then remeasured according to the amortized cost method, using the actual interest rate. Differences in valuations are recorded in the income statement as "Financial income and expenses".

Financial payables for put options are classified among current liabilities as "Other current payables and liabilities" should they be expected to extinguish within 12 months from the date of the financial statements; otherwise they are classified among non-current liabilities.

## Transactions in foreign currency

Transactions in currencies other than the functional currency are recorded at the exchange rate in being as at the date of the operation. Monetary assets and liabilities recorded in a currency other than the euro are subsequently adjusted at the exchange rate in being as at the fiscal year end. Differences in conversions eventually arising among commercial and financial transactions are classified in the income statement as "Financial expenses" and "Financial income".
Non-monetary assets and liabilities denominated in currencies other than the euro are recorded at historical cost, applying the exchange rate in force on the date of initial recording of the transaction.

## 2.5 VALUATION CRITERIA

The valuation criteria applied in drafting the consolidated financial statements as at December 31, 2019 correspond to the ones used in drafting the consolidated financial statements as at December 31, 2018, with the exception of the implementation – starting on January 1, 2019, of the new international accounting standard as described hereunder.

**IFRS 16 "Leases"** has been published in January 2016, and replaces IAS 17, IFRIC 4, SIC-15, and SIC-27 standards. IFRS 16 defines the standards for recording, measurement, presentation, and instruction concerning lease agreements, and requires the lessees to include all lease agreements in the financial statements on the basis of a single accounting model similar to that used to record finance leases governed by IAS 17.

The new standard provides a new definition of lease and introduces a criterion based upon control (right-of-use) over a good, to make a distinction with lease agreements for the supply of services, identifying as discriminating factors: the identification of the good, the right to replacement of the same, the right to obtain essentially all economic benefits of using the good and, finally, the right to define the use of the good subject to the agreement. The standard establishes a single model for the recognition and assessment of lease agreements by the lessee, which entails the booking of the good subject to lease (even operating lease) among assets, with a financial liability as an offsetting item. At the beginning of the lease agreement, the lessee shall record a liability – corresponding to payment of sums agreed in the agreement – and an asset representing the right-of-use over the underlying good for the duration of the agreement. Lessees shall record expenses on lease liabilities and the amortization for the right-of-use of the good separately. Lessees shall also remeasure lease liabilities upon occurrence of specific events (i.e. a change in the lease agreement conditions or a change in future lease payments following a variation in index or rate used to calculate such payments). The lessee will normally book the result of lease liability remeasurement as an adjustment to the right-of-use related to the asset. The accounting method for lessors that continue to classify all lease agreements in accordance with the IAS 17 standard – with a distinction between operating leases and finance leases – shall remain essentially unvaried.

With the standard, the lessee may benefit of two accounting exemptions related to lease agreements. The exemptions are "low-value assets" (namely, goods subject to a lease agreement of a value no greater than 5 thousand euros when new, including by way of example: personal computers, telephones, tablets, printers, and other electronic devices) and short-term leases (agreements with a term of 12 months or less). For such leases (short-term lease, low value asset) the introduction of IFRS 16 does not imply the recording of financial liability of the lease and the related right-of-use, but the lease fees are booked in the income statement on a straight-line basis for the duration of the respective agreements.

IFRS 16 is effective as of the fiscal years starting on January 1, 2019, with either a full retrospective or a modified retrospective approach.

The Group has chosen to implement the standard retrospectively, applying the cumulative effect approach to its net equity as at January 1, 2019, in accordance with paragraphs C7-C13 of IFRS 16 (Simplified Retrospective Approach). In particular, the Group has booked, in relation to the lease agreements previously classified as operating leases:

- **a.** a financial liability, amounting to the present value of future payments as at the transition date, discounted at the incremental borrowing rate applicable to each agreement as at the transition date;
- **b.** a right-of-use equal to the value of the financial liability as at the date of the transaction, net of eventual accrued liabilities/deferred income related to the lease.

Upon adopting IFRS 16, the Group has availed itself of the permitted exemption outlined in paragraph 5(a), related to short-term lease for all asset classes. Moreover, in terms of transition rules, the Group has availed itself of the following practical expedients available in case the simplified retrospective approach is chosen:

- classification of agreements whose term ends within 12 months or less of the date of transition; payments for such leases are also booked in the income statement on a straight-line basis;
- exclusion of initial direct costs from the measurement of the right-of-use as at January 1, 2019;
- use of information available at the transition date to assess the lease term, with particular reference to the exercise of extension or early termination options.

The transition to IFRS 16 has introduced certain professional judgement elements that have implied the definition of certain accounting policies and the use of assumptions and estimates in relation to the lease term and the definition of incremental borrowing rate. The main decisions are summarized as follows:

- the Group has decided to not apply IFRS 16 for agreements including a lease whose underlying asset is intangible;
- the Group has analyzed the full set of lease agreements, and has defined the respective lease terms, which include the “non-cancellable” period as well as the effects of eventual extension or early termination clauses whose exercise is considered reasonably certain. More specifically, as far as real estate goes, such assessment has considered the facts and circumstances specific to each asset. As for other categories of assets – mainly company cars and forklifts – the Group has generally deemed the exercise of eventual extension or early termination options improbable, given the praxis usually adopted by the Group;
- given that an implicit interest rate does not exist in the majority of operating leases agreed by the Group, the discount rate to apply to the value of future payments has been assessed as a risk-free rate, with terms proportional to the duration of the specific lease agreement, incremented by the Group’s credit spread.

The effects of implementing the new IFRS 16 accounting standard on the Group Consolidated Balance Sheet as at December 31, 2019, are outlined as follows.

| **Impacts on Balance Sheet** *€/000* | **2019** | | **2018** | | **Change** | **%** |
|---|---|---|---|---|---|---|
| Non-current assets: | 40,298 | 100.0% | 44,219 | 100.0% | (3,921) | -8.9% |
| *Property, plants, and equipment* | *40,045* | *99.4%* | *44,219* | *100.0%* | *(4,174)* | *-9.4%* |
| *Deferred tax assets* | *253* | *0.6%* | *-* | *0.0%* | *253* | *n.s.* |
| Current assets | 3 | 0.0% | - | 0.0% | 3 | n.s. |
| **TOTAL ASSETS** | **40,301** | **100.0%** | **44,219** | **100.0%** | **(3,918)** | **-8.9%** |
| | | | | | | |
| Net Equity | (745) | -1.8% | - | 0.0% | (745) | n.s. |
| Non-current liabilities | 32,096 | 79.6% | 35,233 | 79.7% | (3,137) | -8.9% |
| Current liabilities | 8,951 | 22.2% | 8,986 | 20.3% | (35) | -0.4% |
| **TOTAL LIABILITIES** | **40,301** | **100.0%** | **44,219** | **100.0%** | **(3,918)** | **-8.9%** |
| | | | | | | |
| **Net Invested Capital** | **40,301** | **98.2%** | **44,219** | **100.0%** | **(3,918)** | **-8.9%** |
| **Net Equity** | **(745)** | **-1.8%** | **-** | **0.0%** | **(745)** | **n.s.** |
| **Net Financial Position** | **41,047** | **100.0%** | **44,219** | **100.0%** | **(3,172)** | **-7.2%** |

The effects of implementing the new IFRS 16 accounting standard on the Group Consolidated Income Statement for the 2019 fiscal year are outlined as follows.

| **Impacts on Income Statement** *€/000* | **2019** | **2018** |
|---|---|---|
| | | |
| **Revenue from Sales of parts and components** | **-** | **-** |
| **Adjusted Ebitda** | **11,555** | **-** |
| Amortization | (10,414) | |
| **Adjusted Ebit** | **1,140** | **-** |
| Net financial expenses | (2,136) | |
| **Result before taxes** | **(995)** | **-** |
| Taxes | 258 | |
| **Net result for the fiscal year** | **(737)** | **-** |
| *Results attributable to:* | | |
| *- Group* | *(702)* | - |
| *- Non-controlling interest* | *(35)* | - |

## Goodwill and other intangible assets

Goodwill deriving from corporate aggregations is initially recorded as the cost as at the acquisition date. Goodwill is not amortized, but it does undergo impairment tests in order to identify any value reductions on an annual basis or even more frequently, if specific events or changing circumstances indicate the possibility that it has suffered a loss in value. After the initial acquisition, goodwill is valued at cost net of any eventually accumulated losses in value.
The other intangible assets consist of non-monetary elements, identifiable and intangible, controllable and able to generate future economic benefits. Such elements are acquired at purchase and/or production cost, including expenses directly attributable to preparing the asset for its use, net of accumulated amortization and any losses in value.
The other intangible assets of the Group mainly include costs for the development of new products, licenses, and patents. Development costs concerning new products in the Wheels division are only entered as assets if all the following conditions are satisfied (as per IAS 38 under "Intangible Assets"): the costs can be determined in a reliable manner; the technical feasibility of the product as well as the predicted volumes and prices indicate that the costs borne during the development phase will generate future economic benefits. Capitalized development costs include all direct and indirect costs that can be attributed directly to the development process.
Licenses and patents are recorded at purchase cost and then measured at the cost net of losses in value and accumulated amortization.
The amortization of the other intangible fixed assets begins once the asset is available for use and is systematically divided in relation to the remaining possibility of its use, namely its estimated useful life. Annual amortization rates applied vary between 10% and 20%.

## Property, plants, and equipment

Property, plants, and equipment are valued at purchase or production cost, net of accumulated depreciation and any impairment. The cost includes expenses directly borne in order to make their use possible, as well as any dismantling and removal expenses that could be borne as a consequence of contractual obligations requiring that the asset be restored to its original conditions.
The financial expenses directly attributable to the acquisition, construction, or production of an asset justifying capitalization pursuant to IAS 23 are capitalized on the asset itself as part of its cost.
Expenses borne for ordinary and/or cyclical maintenance and repair are directly booked in the income statement. Capitalization of costs related to expansion, upgrade, or improvement of the structural elements owned or used by third parties is performed within the limits established to fulfill the requirements for being separately classified as assets or part of an asset.
Improvements on third party assets include costs borne for the setup and upgrade of property controlled under conditions other than ownership.
Amortizations are calculated using the straight-line method by means of rates allowing the assets to be amortized until the end of their useful life.

The useful life estimated by the Group for each class of property, plant, and equipment is outlined below:

| | Tax rate % |
|---|---|
| Buildings | 3% - 10% |
| Forming presses | 5% - 10% |
| Plants and machinery | 6.7% - 20% |
| Industrial and commercial equipment | 6.7% - 16.7% |
| Other assets | 10% - 20% |
| Improvements on third party assets | The lower value between remaining duration of the lease agreement and useful life of improvements |

## Right-of-use

In accordance with IFRS 16, the accounting of lease liability (which does not represent a service performance) occurs by means of booking the financial and cash flow position of a financial liability, represented by the present value of future payments, with right-of-use related to the leased asset as an offsetting item.
IFRS 16 introduces the concept of right-of-use, which implies – regardless of the agreement type – booking of the same among balance sheet assets, offset by liabilities amounting to the present value of future payments.
Assets and liabilities shall be recorded at the present value of contractually owed payments, taking into account the eventual extension/termination where there is the reasonable certainty that the option will be exercised or not exercised.
The lessee shall include in the income statement the amortization for the right-of-use booked among assets, as well as interests payable resulting from financial liabilities for the lease, by means of its accounting using the amortized cost method.
For leases whose term ends within 12 months (short-term leases) and agreements in which the underlying assets are classified as low-value assets (namely, goods subject to a lease agreement of a value no greater than 5 thousand euros when new), the introduction of IFRS 16 does not imply the recording of financial liability of the lease and the related right-of-use, but the lease fees are booked in the income statement on a straight-line basis for the duration of the respective agreements.

## Impairment of intangible and tangible fixed assets

At least once a year, the Group assesses recoverability of the book value of intangible assets with a defined useful life and of property, plants, and equipment, in order to determine whether any indicators suggest that such assets have suffered a loss in value. If such evidence exists, the book value of the asset is reduced to the related recoverable value.
When it is not possible to estimate the recoverable value of a single asset, the Group estimates the recoverable value of the cash-flow generating unit to which the asset belongs. The recoverable value of an asset is the higher amount between its fair value net of the selling costs and its value of use. In order to determine the value of use of an asset, the Group calculates the current value of future estimated financial flows – gross of taxes – applying a discount rate – before taxes – which reflects the current market estimates of the temporal value of money and the specific risks of the activity. A loss in value is entered if the recoverable value is lower than the book value.
When the circumstances that caused the loss are no longer valid, the book value of the asset is increased up to its recoverable value.

Such value cannot be higher than the total which would have been determined if no loss due to value reduction had been identified. The recovery of a loss in value is recorded in the income statement immediately.

## Financial assets

At the time of their initial recording, financial assets shall be classified into one of the three categories outlined below based upon the following elements:

- the entity's business model for managing financial assets; and
- characteristics relating to the contractual cash flows of the financial asset.

Financial assets are only later written off if the divestiture has resulted in a substantial transfer of all the risks and benefits of the assets. On the other hand, where a significant proportion of the risks and benefits relating to the financial assets disposed has been retained, they shall continue to be shown on the balance sheet, although legally the ownership of the assets has actually been transferred.

### *a) Financial assets valued at amortized cost*

Financial assets that meet both of the following conditions are included in this category:

- the financial asset is held according to a business model whose objective is achieved through the collection of contractual cash flows ("Hold to collect" business model);

- the contractual terms of the financial asset plan, at certain dates, cash flows represented only by payments of principal and interest on the amount of principal to be repaid (the so-called "SPPI test" passed).

Upon initial recording, such assets are accounted at fair value, including transaction costs or income directly attributable to the instrument. After initial recognition, the financial assets under consideration are measured at amortized cost using the effective interest rate method. The amortized cost method is not used for assets – valued at historical cost – whose short duration renders the effect of the discount logic negligible. This also applies to assets without a defined maturity and to receivables subject to revocation.

### *b) Financial assets measured at fair value with an impact on overall profitability*

Financial assets that meet both of the following conditions are included in this category:

- the financial asset is held according to a business model whose objective is achieved either by collecting the cash flows contractually expected, or by selling the financial asset ("Hold to collect and sell" business model); and

- the contractual terms of the financial asset plan, at certain dates, cash flows represented only by payments of principal and interest on the amount of principal to be repaid (the so-called "SPPI test" passed).

This category includes equity interests, which are not held for trading purposes and which are not qualifying for control, association and joint control, which are not held for negotiation purposes, and for which the fair value designation option has been exercised with an impact on overall profitability.
At initial recognition, assets are accounted for at fair value, including transaction costs or income directly attributable to the instrument. After initial recognition, non-controlling, association and joint equity interests are measured at fair value, and amounts recorded as equity counterparts (Statement of Overall Profitability) shall not be subsequently transferred to the income statement, even in the event of a transfer. The only components relating to equity that is subject to booking in the income statement are the related dividends.
For equity securities included in this category, which are not listed on an active market, the cost criterion is used as a fair value estimate only on a residual basis and limited to few circumstances, namely where the most recent information to measure fair value is insufficient, or where there is a wide range of possible fair value measurements and the cost is the best estimate of fair value in that range.

### *c) Financial assets measured at fair value with an impact recorded in the income statement*

Financial assets other than those classified as “Financial assets valued at amortized cost” and “Financial assets measured at fair value with an impact on overall profitability” are included in this category.

Financial assets held for trading and derivative contracts that cannot be classified as hedging are included in this category (which are represented as assets if fair value is positive and as liabilities if fair value is negative). Upon initial recording, financial assets measured at fair value with an impact on the income statement are booked at fair value, without taking into account transaction costs or income directly attributable to the instrument itself. At the subsequent reference dates, they are valued at fair value and the measurement effects are recorded in the income statement.

## Trade receivables and other current and non-current assets

Trade receivables and other current and non-current receivables are defined as financial instruments mainly concerning credits from clients – not derivative and not listed on an active market – from which fixed or definable payments are expected. Trade receivables and other receivables are classified in the balance sheet among current assets, with the exception of those having a contractual maturity longer than twelve months from the date of balance sheet issuance, which are classified among non-current assets.
Such financial assets are booked as balance sheet assets once the company enters the contracts associated to the same, and they are written off from the balance sheet assets when the right to receive cash flows is materially transferred together with all the risks and benefits associated to the transferred asset.
Trade receivables and other current and non-current receivables are originally booked at their fair value, and successively at their amortized cost using the effective interest rate, adjusted for any losses in value.
Losses in value of receivables are booked in the income statement when objective evidence is found that the Group will not be able to recover the receivables on the basis of contractual terms.
The amount of the devaluation is measured as the difference between the book value of the asset and the actual value of expected future financial flows.
The value of the receivables is shown in the balance sheet net of the related loss provision.

### *Impairment of receivables*

In accordance with the requirements of IFRS 9, the Group applies the expected credit loss model for measuring the recoverability of financial assets. This model is based upon a predictive approach, which provides for the comparison of contractual cash flows in accordance with the contract and all cash flows that the Group expects to receive, discounted at the original effective interest rate.
Considering the financial assets held by the Group, the valuation model described above is applied by the Group with regard to trade receivables and other receivables.
For trade receivables, the Group adopts a simplified approach to valuation (the so-called simplified approach) which does not require the recognition of periodic changes in credit risk, but rather the accounting of an Expected Credit Loss (“ECL”) calculated on the whole life of the credit (the so-called lifetime ECL). In particular, the policy implemented by the Group provides for the stratification of trade receivables into categories on the basis of past due days and an assessment of the solvency of the counterparty. Different write-down percentages, which reflect the related recovery expectations, are applied to these categories.
Other receivables, for which the Group estimates low credit risk, are assessed using the so-called general approach. This approach includes the estimation of the ECL over a 12-month time horizon and the verification of credit risk changes with respect to the initial assessment at each reporting date. For receivables for which no significant increase in credit risk is recorded, the ECL shall continue to be measured over a 12-month period. In terms of receivables for which significant increases in credit risk are recorded, the ECL shall be measured over the full lifetime of the credit.
The introduction of new methodologies for estimating losses for impairment of financial assets did not have a significant impact on valuation processes (also in view of the fact that trade receivables are to a large extent from counterparties including leading

car manufacturers with a high credit standing). This conclusion is due to the fact that credit risk qualification factors used in IAS 39 – such as client risk, country risk, and assessments of relevant macroeconomic information – are already considered to be representative of an expected risk-based assessment methodology.
The value of the receivables is shown in the financial and cash flow position by offsetting the corresponding bad debt provisions. Write-downs accounted in accordance with IFRS 9 are recorded in the consolidated income statement by offsetting any positive effects related to write-downs or restatements, and are booked as "Impairments of financial assets".

## Inventory

Inventory of raw materials, semi-finished goods, and finished products are valued at the lower amount between cost and the net value of realization, the cost being determined with the First In-First Out method (FIFO). The valuation of Inventory includes both the direct and indirect (variable and fixed) costs of materials and work. Inventory reserves are calculated for materials, finished products, spare parts and other supplies considered obsolete or slow-moving, taking into account their expected future use and value of realization. The realizable value is the estimated price of sale during normal management, net of all costs estimated for the completion of the goods as well as selling and supply costs to be borne.

## Net assets related to contracts

Contracts related to dies/tooling are valued according to their percentage of completion based upon the ratio between job order costs borne as at the date of the financial statements and the estimate of total costs. These are shown net of down payments invoiced to clients (if lower). Eventual losses on such contracts are disclosed in the income statement at their full amount at the time they are known of.

## Derivatives

Financial derivatives are accounted in accordance with IFRS 9. At the contract date, financial derivatives are initially accounted at fair value, as financial assets measured at fair value with an impact on the income statement – when fair value is positive – or as financial liabilities measured at fair value with an impact on the income statement – when fair value is negative.
If the financial instruments are not accounted as hedging instruments, changes in fair value recognized after the first entry are treated as components of the fiscal year result. If, on the other hand, the derivatives meet the requirements to be classified as hedging instruments, subsequent changes in fair value are accounted according to specific criteria, as outlined below.

A derivative is classified as a hedge if the relationship between the hedging instrument and the hedged item is formally documented, including the risk management objectives, the strategy for hedging and the methods that will be used to verify its prospective and retrospective effectiveness. The effectiveness of each hedge shall be verified at the time of activation of each derivative both during its lifetime, and in particular at any financial statements end-of-year or interim situation. Generally, a hedge is considered to be highly "effective" if, both at the beginning and during its lifetime, changes in fair value – in the case of fair value hedge – or expected cash flows in the future – in the case of cash flow hedge – of the hedged item are substantially offset by changes in the fair value of the hedging instrument.
IFRS 9 provides for the possibility to designate the following three hedging relationships:

**a.** fair value hedge: when the hedge relates to changes in the fair value of assets and liabilities on the balance sheet, both changes in the fair value of the hedging instrument and changes in the hedge item are included in the income statement.

**b.** cash flow hedge: in the case of hedges designed to neutralize the risk of changes in cash flows arising from the future execution of bonds contractually defined at the balance sheet date, changes in the fair value of the derivative recorded after the first recognition are accounted, only for the effective share, in the comprehensive income statement and thus in a net equity reserve named "Reserve for cash flow hedging operations". When economic effects arising from the hedged item are manifest, the portion accounted in the comprehensive income statement is returned to the income statement. Where the hedge is not fully effective, the fair value change of the hedging instrument related to the ineffective portion of the hedge shall be recorded immediately in the income statement.

**c.** hedge of a net investment in a foreign operation (net investment hedge).

If audits do not confirm the effectiveness of the coverage, then hedge accounting is discontinued and the hedging derivative contract is reclassified to financial assets measured at fair value with an impact on the income statement, or to financial liabilities measured at fair value with an impact on the income statement. The hedging relationship shall also cease when:

- the derivative expires, is sold, terminated or exercised;
- the hedged item is sold, expires or is redeemed;
- the future operation hedged is no longer highly likely to be carried out.

## Determining the fair value of financial instruments

The fair value of financial instruments listed on an active market is based upon the market prices as at the date of the financial statements. The fair value of financial instruments not listed on an active market is instead determined by using valuation techniques based upon methods and assumptions related to market conditions as at the date of the financial statements.

## Operating segment information

The notice related to the segments of operation was drawn up according to the provisions of IFRS 8 "Operating Segments" standards, which prescribe the presentation of such notice in compliance with the procedures adopted by management in taking operational decisions. The identification of operating segments and the information presented are thus defined on the basis of internal reports used by management for the purposes of allocating resources to the various segments and to analyze the related performances.
IFRS 8 defines an operating segment as a component of an entity: a) that engages in business activities which it may earn revenue and bear costs from (including revenue and costs related to transactions with other components of the same entity); b) whose operating results are reviewed regularly by the entity's top decision makers, in order to establish what resources to be allocated to the segment and to assess their performance; c) for which discrete financial information is available.
The operating segments identified by management, which encompass all the main services and products supplied to clients, are the three main Divisions of the Group:

- MA Division
- MW Division
- SSC Division

## Cash and Cash Equivalents

Cash and Cash Equivalents include cash, current bank accounts, refundable deposits on demand, and other short term high-liquidity financial investments, which can be readily converted into cash or transformed into liquid assets within 90 days from the date of original acquisition, and which are subject to a non-significant risk of variation in value.

## Financial liabilities, trade payables, and other liabilities

Financial liabilities (excluding derivatives), trade payables, and other payables are initially recorded at fair value, net of directly imputed supplementary costs, and are valued thereafter at their amortized cost, applying the effective interest rate criterion. If there is a predictable change in expected cash flows, the value of the liability is recalculated to reflect such change based on the actual value of new expected cash flow and the internal return rate as initially determined.

The Group's financial liabilities include loans, bonds, commercial debts, other debts and derivatives. They are recognized, at the time of their initial accounting, at fair value net of any costs attributable to them. Subsequently, amortized cost using the effective interest method is used to measure financial liabilities, with the exception of financial derivatives (other than financial derivatives designated as effective hedging instruments) and financial liabilities designated to FVPL, which are accounted for at fair value with the changes in fair value recognized in the income statement.

Financial liabilities are classified among current liabilities unless the Group has an unconditional right to defer their payment by at least 12 months after the date of reference. Financial liabilities are removed from the financial statements upon their extinguishment and at the time the Group has transferred all the risks and charges related to such item.
Significant changes to financial liabilities giving rise to a difference of at least 10% between the actual value of the net cash flows at the new conditions and the value of the remaining cash flows of the original liability – updated with the effective interest rate of the original debt or a relevant change in the characteristics of the financial liability – lead to the extinguishment of the financial liability and the recording of a new one. Under such circumstance, any costs or expenses borne are included as part of the profits or losses related to the extinguishment, unless they are strictly related to the acquisition of the new financial liability and, therefore, amortized throughout its duration.
In case the change is instead not defined as an extinguishment, any costs or expenses borne shall modify the book value of the liability and are amortized throughout the remaining term of the adjusted liability.

## Provisions related to personnel

Provisions related to personnel include: a) defined contribution plans and b) defined benefit plans. With reference to defined contribution plans, the costs related to such plans are included in the income statement when borne.
With reference to defined benefit plans, the Group's net liabilities are determined separately for each plan, by estimating the actual value of future benefits that employees have accrued during the current fiscal year and previous years, and calculating the fair value of any assets included in the plan. The current value of the obligations is based on the implementation of actuarial methods attributing the benefit deriving from the plan to the periods in which the obligation to issue it arises (Projected Unit Credit cost method) and is based upon actuarial assumptions which are objective and mutually comparable. Assets included in the plan are recorded and valued at fair value.
Should a potential asset be established through such calculation, the amount to be credited is limited to the actual value of each economic benefit available in the form of future refunds or reductions in future contributions to the plan (asset limit).

The components of the cost of defined benefits are recorded as follows:

- costs related to provided services are booked in the income statement under "Staff costs";
- the net financial expenses on the liabilities or assets with defined benefits are included in the income statement as "Financial income (expenses)" and are calculated by multiplying the value of the net asset (liability) by the rate used to actualize the obligations, considering payments of contributions and benefits that took place throughout the period;
- the components for remeasurement of the net liability – which include actuarial profits and losses, the yield of the assets (excluding active interests recorded in the income statement), and any changes in the limit of the asset – are immediately booked as "Other comprehensive profits (losses)". Such components must not be reclassified in the income statement in a subsequent period.

## Provisions for risks and charges

Provisions for risks and charges are recorded against losses and expenses of a defined nature, of a certain or probable existence, and of which, nonetheless, the total amount and/or date of occurrence cannot be defined.
Such provisions are only recorded when there is a current obligation (legal or implicit) for future output of economic resources as a result of past events, and such output is likely to be required in order to fulfill the obligation. Such amount represents the best estimate of the charges required to extinguish the obligation.
The rate applied when determining the current value of the liabilities reflects the current market values and considers the specific risk that can be associated to each liability.
When the financial effect of time is significant and the payment dates of the obligations may be reliably predicted, the funds are estimated at the current value of the expected disbursement, using a rate that reflects market conditions, variation of the cost of money over time, and the specific risk linked to the obligation. The increase in value of the fund determined by variations in the cost of money over time is booked as a financial charge.
Risks for which the occurrence of a liability is only a possibility are indicated in a dedicated information

section concerning potential liabilities, and no provisions are made for such risks.

## Government grants

Government grants are recorded at their fair value when there is a reasonable certainty that all the conditions necessary for obtaining them are satisfied and that they shall be received. Grants received for specific expenses are recorded as liabilities and booked in the income statement using a systematic criterion in the fiscal years necessary to compare them with related expenses. Grants received for specific assets whose value is included among the fixed assets are recorded as non-current liabilities and booked in the income statement in relation to the period of amortization of the asset to which they refer.

## Assets and liabilities held for sale and discontinued operations

A non-current asset (or disposal group) should be classified as held for sale if its carrying amount will be recovered mainly through a sale transaction rather than through continuing use. The following conditions should be met for such purpose:

- the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sale of such assets;
- the sale must be highly probable;
- activities to identify a buyer must have been initiated;
- the selling price should be reasonable in relation to its fair value;
- completion of the sale must be expected within one year from the date of classification.

If a disposal group meets the previous conditions and at the same time represents an important independent business segment, a geographical area of business, or a shareholding purchased exclusively as an investment for sale, the results and the cash flows of the disposal group are shown separately within the consolidated comprehensive income statement and the consolidated cash flow statement ("Discontinued operations").
Assets held for sale and discontinued operations are valued at the lower amount between their net book value and the fair value net of the costs of sale.

## Financial reporting in hyperinflationary economies

The rate of inflation accumulated in recent years in certain countries has exceeded 100%. This situation, together with other characteristics of the economy of such regions, have led the Group to adopt – in particular for its subsidiary MA Argentina S.A. – the IAS 29 Financial Reporting in Hyperinflationary Economies accounting standard. As a result, non-monetary assets and liabilities booked in the company's financial statements were revalued in order to eliminate the distortive effects of the loss of purchasing power of the local currency.

## Recording of net revenue from contracts with customers

**Revenue from sale of parts and components:** revenue from the sale of goods are recorded in the income statement upon transfer of the risks and benefits related to the sold product to the client (recording of "point in time" revenue), which normally coincides with the delivery or shipment of the merchandise to the client. Revenue from services is recorded in the accounting period in which the services are provided. Revenue is recorded at the fair value of the received payment. It is recorded net of value added tax, expected returns, allowances, and discounts. The Group records revenue when its total amount can be reliably estimated and it is likely that the related future economic benefits will be recognized.

**Revenue from sale of tooling:** recording revenue from sale of tooling and dies represents a separate performance obligation from the sale of goods and services. Such revenue is recorded according to its percentage of completion based upon the ratio between job order costs borne as at the date of the financial statements and the estimate of total costs. These are shown net of down payments invoiced to clients (if lower). Eventual losses on such sales are disclosed in the income statement at their full amount at the time they are known of.

## Cost recognition

Costs are recognized upon acquisition of the good or service.

## Taxes

Current taxes are calculated on the basis of the taxable income for the fiscal year, applying tax rates in force as at the date of the financial statements.
Prepaid and deferred taxes are calculated taking into account all the differences arising between the fiscal value of an asset or liability and the related book value. Prepaid taxes – including those related to previous fiscal losses – on the portion not offset by deferred fiscal liabilities, are recognized to the extent in which it is likely that future taxable income will be available so that they can be recovered. Deferred and prepaid taxes are defined using the tax rates expected to be applied during the fiscal years in which the differences shall be realized or extinguished, based on the tax rates in force or substantially in force as at the date of the financial statements.

Current, deferred and prepaid taxes are entered in the income statement with the exception of those related to items directly debited or credited in the net equity, in which case the related tax effect is also directly included in the net equity. Taxes are offset when applied by the tax authority itself and there is a legal right to compensation.

## 3. Estimates and assumptions

The preparation of financial statements requires an application of accounting principles and methods that, under certain circumstances, rely on assessments and estimates based on past experience and on assumptions deemed to be reasonable and realistic at any given time depending on the particular circumstances. The application of such estimates and assumptions influences the amounts recorded in the financial statements as well as the Notes to the Financial Statements. The final results of the accounting entries to which such estimates and assumptions were applied may therefore differ from those shown in the financial statements – which report the effects and occurrence of the estimated items – due to the uncertainty characterizing the assumptions and conditions upon which such estimates are based.

The items related to the Group that require a more subjective approach upon calculating the estimates, and for which a change in the underlying conditions of the assumptions made can have a significant effect on the fiscal year results for the Group are briefly described below.

**a.** Goodwill: Pursuant to IAS 36, goodwill is not subject to amortization but to an impairment test. The impairment test is carried out through comparison of the net book value and the recoverable value of the CGU to which goodwill was allocated, determined as the greater amount between the fair value less costs of disposal and the value-in-use of the CGU. The value-in-use is determined, in turn, by applying the discounted cash flow (DCF) method, discounting the unlevered free cash flow of the CGU resulting from the business plans approved by management. The discount rate used is represented by the weighted average cost of capital (WACC) calculated with reference to the segment in which the identified CGU operates. The discount rate (WACC) used reflects market valuations of the cost of money and specific risks in the sectors of activity and geographic area of reference. For further details on Goodwill, please read section 8.1 “Intangible fixed assets”.

**b.** Bad debt provision for trade receivables: the bad debt provision reflects the administration’s best estimate of losses related to receivables from clients. Such estimate is based upon the Group’s expected losses, defined according to past experience concerning similar receivables, current and former past dues, and careful monitoring of credit quality as well as forecasts concerning economic and market conditions, considering that the trade receivables are mainly from counterparties including major car manufacturers (OEMs) with a high credit standing.

**c.** Deferred taxes: accounting for deferred taxes is done on the basis of the expected taxable income forecast for future fiscal years in favor of their recovery. The assessment of expected income for the purpose of accounting for deferred taxes depends on factors that may vary over time and have a significant impact on the potential to recover receivables on deferred taxes.

**d.** Provisions for risks and charges: provisions to counter legal and fiscal risks are recorded in case of a negative outcome of such risks. The value of the provisions recorded in the financial statements related to such risks represents the best possible estimate as at the date considered by the administration. Such estimate implies assumptions that depend on factors that may change over time, and may therefore have significant impact on the current estimates made by the administration to prepare the Group's financial statements.

**e.** Fair value of derivatives: definition of the fair value of unrecorded financial assets, such as derivatives, is done through commonly used financial valuation techniques that require basic assumptions and estimates. Such assumptions might not occur within the terms and through the procedures envisaged. Therefore, estimates made by the Group may deviate from the data in the final balance.

## 4. ACCOUNTING PRINCIPLES, AMENDMENTS, AND INTERPRETATIONS NOT YET APPLICABLE AND NOT ADOPTED BY THE GROUP IN ADVANCE

The international accounting standards, interpretations, amendments to existing accounting standards and interpretations, or specific provisions contained in the standards and interpretations approved by the IASB – with an indication of those certified or not certified for adoption in Europe as at the date of approval of this document – are shown below.

| Description | Effective date as prescribed by the principle |
|---|---|
| *IFRS 17 Insurance Contracts* | Fiscal years starting January 1, 2021 (*) |
| *Amendments to References to the Conceptual Framework in IFRS Standards* | Fiscal years starting January 1, 2020 |
| *Amendments to IFRS 3 - Definition of business* | Fiscal years starting January 1, 2020 |
| *Amendments to IAS 1 and IAS 8 - Definition of material* | Fiscal years starting January 1, 2020 |
| *Amendments to IFRS 9, IAS 39 e IFRS 7 - Interest rate benchmark reform* | Fiscal years starting January 1, 2020 |

*(*) It is reported that IASB has published – in June 2019 - an Exposure draft that includes certain changes to IFRS 17, and the postponement of the effective date of the new accounting standard to January 1, 2022. As at the reference date, changes to IFRS 17 have not yet been definitively approved by the IASB.*

It is specified that the accounting standards and/or interpretations having compulsory application for the fiscal years starting from January 1, 2020, have not been applied in advance. Eventual impacts on the Group's consolidated financial statements arising from new principles and interpretations are currently being assessed.

## 5. INFORMATION ON FINANCIAL RISK

In the context of corporate risks, the main risks identified, monitored and, inasmuch as specified hereunder, actively managed by the Group are as follows:

- market risk (defined as foreign exchange risk, interest rate risk, and risk of changes in price of certain raw materials used in production);
- credit risk (concerning both normal trade relationships with clients and loan activities);
- liquidity risk (with reference to the availability of financial resources and access to the credit market and financial instruments in general).

The Group's objective is to maintain a balanced management of its financial exposure over time, aimed at guaranteeing equilibrium between the structure of the liabilities and the composition of payable assets, and able to ensure the required operational flexibility through the liquidity generated by current operating assets as well as recourse to bank loans.

The related financial risks are managed and monitored at a central level. In particular, the main finance department has the task of assessing and approving budgeted financial demands, monitoring their performance, and implementing appropriate corrective actions where required.

The borrowing instruments mainly used by the Group are:

- medium/long-term loans to cover investments in fixed assets;
- short-term loans and use of current account lines of credit to fund the working capital.

The following section provides qualitative and quantitative descriptions of the effect of such risks on the Group.

## 5.1 MARKET RISKS

### 5.1.1 FOREIGN EXCHANGE RISK

The exposure to the risk of changes in exchange rates is related to the fact that the Group's commercial and financial activities are also conducted in currencies other than the euro. Moreover, fluctuations in exchange rates influence the consolidated results and net equity, as the financial statements of the subsidiaries are drafted in currencies other than the euro and successively converted (foreign exchange risk).

The currency conversions to which the Group is mainly exposed to are:

- Euro/Rand
- Euro/Złoty
- Euro/Brazilian Real
- Euro/Leu
- Euro/Ruble
- Euro/Argentine Peso
- Euro/Turkish Lira

The main instruments used by the Group to hedge the risk of fluctuations in exchange rates are:

**a.** Forward contracts in Poland on purchases of raw material to hedge the risk of fluctuations in the Złoty against the Euro. The main comprehensive characteristics of contracts existing as at December 31, 2019 and 2018 are shown below:

| *€/000* | **Purchases** | | **Sales** | |
|---|---|---|---|---|
| | **December 31, 2019** | **December 31, 2018** | **December 31, 2019** | **December 31, 2018** |
| Notional value in Złoty | 13,078 | 77,888 | - | - |
| Average strike price | 4.359 | 4.327 | - | - |
| Notional value in Euros | 3,000 | 18,000 | - | - |
| Fair value | (72) | (107) | - | - |

## Sensitivity Analysis related to foreign exchange risk

For the purposes of sensitivity analysis on foreign exchange risk, the foreign exchange risk and its potential effects on the Group's net profit have been analyzed. In particular, an increase (appreciation against the euro) and decrease (depreciation against the euro) equal to the percentage deviation of the average exchange rate for the current year compared to the same value for the previous year was applied to the results deriving from conversion of currencies other than the functional currency. Such change was assumed as a standard deviation for the purposes of expressing the volatility of the single currencies.

As highlighted in the table below, as at December 31, 2019, the effect of foreign exchange fluctuations amounted to EUR 1,401 thousand, or 7.2% of the consolidated results booked by the companies in foreign currency.

| | | As at December 31, 2019 | | |
|---|---|---|---|---|
| *€/000* | **Results included in the consolidation** | **Change** | **Effect of increase in exchange rate** | **Effect of decrease in exchange rate** |
| Rand (South Africa) | (4,143) | 3.6% | (148) | 148 |
| Złoty (Poland) | 23,383 | 0.8% | 198 | (198) |
| Leu (Romania) | 3,158 | 2.0% | 62 | (62) |
| Real (Brazil) | (1,443) | 2.4% | (35) | 35 |
| Ruble (Russia) | 1,608 | 2.1% | 34 | (34) |
| Renminbi (China) | (1,226) | 0.9% | (11) | 11 |
| Turkish Lira (Turkey) | 1,464 | 11.4% | 167 | (167) |
| Argentine Peso (Argentina) | (2,556) | 63.5% | (1,624) | 1,624 |
| Yen (Japan) | (680) | 6.4% | (44) | 44 |
| **Total** | **19,565** | | **(1,401)** | **1,401** |

| | | As at December 31, 2018 | | |
|---|---|---|---|---|
| *€/000* | **Results included in the consolidation** | **Change** | **Effect of increase in exchange rate** | **Effect of decrease in exchange rate** |
| Rand (South Africa) | (7,364) | 3.8% | (279) | 279 |
| Złoty (Poland) | 28,150 | 0.1% | 30 | (30) |
| Leu (Romania) | 2,800 | 1.9% | 52 | (52) |
| Real (Brazil) | (1,640) | 19.5% | (320) | 320 |
| Ruble (Russia) | 149 | 12.3% | 18 | (18) |
| Renminbi (China) | (604) | 2.3% | (14) | 14 |
| Turkish Lira (Turkey) | 1,803 | 38.5% | 694 | (694) |
| Argentine Peso (Argentina) | (3,034) | 75.6% | (2,294) | 2,294 |
| Yen (Japan) | (3,571) | 2.9% | (104) | 104 |
| **Total** | **16,689** | | **(2,216)** | **2,216** |

### 5.1.2 INTEREST RATE RISK

The Group uses external financial resources in the form of debt, and uses liquidity available in bank deposits. Changes in the levels of market interest rates affect the cost and yield of the various forms of financing and liquidity use, and therefore influence the level of the Group's financial expenses and income. Given its exposure to interest rate fluctuations in terms of measurement of financial expenses related to indebtment, the Group regularly assesses such exposure and manages it by availing itself of less onerous forms of borrowing.

The cost of bank indebtment is mainly calculated at the Euribor rate for the period plus a spread depending on the line of credit type used. The applied margins are comparable to the best market standards. In order to tackle the risk deriving from interest rate fluctuations, the Group uses derivatives – mainly interest rate swaps – with the goal of mitigating the potential effect of interest rate variability on its operating result, under economically acceptable conditions.
The main characteristics of the interest rate swaps entered into by the Group are summarized as follows:

| | As at December 31 | |
|---|---|---|
| | 2019 | 2018 |
| IRS BPM | | |
| Transaction date | - | December 11, 2014 |
| Maturity | - | June 28, 2019 |
| Notional value (€/000) | - | 882 |
| Variable interest | - | 6-month Euribor |
| Fixed interest | - | 0.13% |
| Fair value (€/000) | - | (4) |

### Sensitivity Analysis related to interest rate risk

The measurement of the Group's exposure to interest rate risk was carried out by means of a sensitivity analysis. The analysis considered current and non-current financial liabilities as well as bank deposits. In the scope of the proposed assumptions, the result before tax for the 2019 fiscal year deriving from a hypothetical change in market rates have been assessed: they reflect an appreciation and a depreciation equal to 50 bps, respectively.

The potential impacts of the sensitivity were calculated on the financial assets and liabilities at a variable rate as at December 31, 2019. Such variation in the interest rates would lead to a higher (or lower) net expense before tax equal to EUR 2,475 thousand on an annual basis.

### 5.1.3 COMMODITY RISK

The Group's exposure to risk of change in the price of commodities derives from the risk of change in the prices of certain raw materials (mainly steel) used in production. The change in the price of steel can have a significant impact on the Group's net profit, indirectly influencing the costs and profitability of the products. However, the risk may be considered as limited only to the SSC Division, in that for the other divisions, changes in the price of raw materials are usually transferred to clients by adjusting the sales pricelists.

## 5.2 CREDIT RISK

Credit risk represents the Group's exposure to potential losses deriving from non-fulfillment of obligations by counterparties.

The Group's exposure to risk concerning trade receivables is in any case limited to the solidity of its main trade counterparts, which boast a high credit rating. The Group's main clients are car manufacturers (OEMs), for which information concerning operating/ financial performance and the ratings supplied by the main agencies is readily available. The Group also adopts specific trade policies aimed at monitoring the solvency of minor customers, and implements operations for the transfer of trade receivables based on agreements without recourse, thereby transferring the related risk.

Trade receivables are recognized in the financial statements net of devaluation calculated on the basis of risk of nonfulfillment by the counterparty, which is identified upon assessment of the information available concerning customer solvency and considering historical data. Financial positions clearly showing a partial or full condition of bad debt – taking into account the eventual insurance coverage and non-performing positions – will be subject to individual mark-down. Collective provisions – which take into account historical data – are allocated to respond to credits that are not subject to individual mark-down.

## 5.3 LIQUIDITY RISK

Liquidity risk may arise with the inability to procure financial resources needed for the Group's operations.

The two main factors that can affect the Group's liquidity are:

- financial resources generated or absorbed by operating and investment activities;
- the characteristics of maturity and renewal of the financial debt.

Careful management of liquidity risk originating from normal operations implies maintaining an appropriate level of cash-on-hand, short-term securities, and availability of funds obtainable by means of a suitable amount of lines of credit. The Group's liquidity demand is monitored by the treasury department, in the scope of guaranteeing an efficient procurement of financial resources and adequate liquidity investment/return.

The Group's objective is to implement a financial structure that, in accordance with business objectives, may guarantee an adequate level of liquidity, minimizing the related opportunity cost and balancing the duration and composition of the debt.

The following table analyzes the financial liabilities (including trade payables and other payables) as recorded in the financial statements. The loans were included on the basis of the contractual maturity date on which repayment took place.

| **As at December 31, 2019** | | | | |
|---|---|---|---|---|
| *€/000* | | **Years to maturity** | | |
| | **Book balance** | **< 1** | **1 – 5** | **> 5** |
| Non-current financial liabilities | 403,883 | - | 384,048 | 19,835 |
| Current financial liabilities | 140,652 | 140,652 | | |
| Trade payables | 374,826 | 374,826 | | |
| Other current payables | 146,882 | 131,551 | 15,331 | - |
| **Total** | **1,066,243** | **647,029** | **399,379** | **19,835** |

| **As at December 31, 2018** | | | | |
|---|---|---|---|---|
| *€/000* | | **Years to maturity** | | |
| | **Book balance** | **< 1** | **1 – 5** | **> 5** |
| Non-current financial liabilities | 322,777 | - | 299,248 | 23,529 |
| Current financial liabilities | 195,399 | 195,399 | | |
| Trade payables | 393,025 | 393,025 | | |
| Other current payables | 188,005 | 151,844 | 24,282 | 11,878 |
| **Total** | **1,099,206** | **740,269** | **323,530** | **35,407** |

## 6. ESTIMATE OF FAIR VALUE

In relation to financial instruments valued at fair value, the table hereunder provides information concerning the method chosen to determine fair value. Based upon the source of available information, the applicable methods are divided into the following levels:

- Level 1: fair value determined with reference to quoted prices (not adjusted) on active markets for identical financial instruments.
- Level 2: fair value determined with valuation techniques referring to observable variables on active markets.
- Level 3: fair value determined with valuation techniques referring to non-observable market variables.

The financial instruments shown at the Group's fair value are classified under Level 2, and the general criterion used to calculate such fair value is the actual value of future cash flows predicted for the assessed instrument.

The following table represents the assets and liabilities measured at fair value as at December 31, 2019 and 2018:

| €/000 | As at December 31, 2019 | | |
|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** |
| *Derivatives (currency forward)* | | (72) | |
| *Derivatives (interest rate swap)* | | - | |
| €/000 | **As at December 31, 2018** | | |
| | **Level 1** | **Level 2** | **Level 3** |
| *Derivatives (currency forward)* | | (107) | |
| *Derivatives (interest rate swap)* | | (4) | |

It should be mentioned that trade receivables and payables have been valued at book value as the latter is deemed to be a suitable approximation of current value.

The following table outlines a breakdown of financial assets and liabilities by category as at December 31, 2019 and 2018:

| **As at December 31, 2019**<br>*€/000* | **Financial assets/ liabilities valued at fair value recorded in the income statement** | **Financial assets/ liabilities valued at fair value included in the net equity** | **Loans and credit** | **Assets available for sale** | **Liabilities valued at amortized cost** | **Other financial liabilities valued at amortized cost** |
|---|---|---|---|---|---|---|
| **Current assets** | | | | | | |
| Cash and Cash Equivalents | | | 125,411 | | | |
| Trade receivables | | | 57,945 | | | |
| Other receivables and other current assets | | | 60,268 | | | |
| Financial assets | | | 22,737 | | | |
| **Non-current assets** | | | | | | |
| Other receivables and other non-current assets | | | 11,347 | | | |
| **Current liabilities** | | | | | | |
| Trade payables | | | | | 374,826 | |
| Borrowings from banks and other lenders | | | | | 140,652 | |
| Other current payables and liabilities | | | | | 130,427 | |
| **Non-current liabilities** | | | | | | |
| Borrowings from banks and other lenders | | | | | 403,883 | |
| Other non-current payables and liabilities | | | | | 15,331 | |

| **As at December 31, 2018**<br>*€/000* | **Financial assets/ liabilities valued at fair value recorded in the income statement** | **Financial assets/ liabilities valued at fair value included in the net equity** | **Loans and credit** | **Assets available for sale** | **Liabilities valued at amortized cost** | **Other financial liabilities valued at amortized cost** |
|---|---|---|---|---|---|---|
| Current assets | | | | | | |
| Cash and Cash Equivalents | | | 163,037 | | | |
| Trade receivables | | | 112,774 | | | |
| Other receivables and other current assets | | | 50,723 | | | |
| Financial assets | | | 16,677 | | | |
| Non-current assets | | | | | | |
| Other receivables and other non-current assets | | | 2,464 | | | |
| Current liabilities | | | | | | |
| Trade payables | | | | | 393,025 | |
| Borrowings from banks and other lenders | | | | | 195,399 | |
| Other current payables and liabilities | | | | | 146,702 | |
| Non-current liabilities | | | | | | |
| Borrowings from banks and other lenders | | 4 | | | 322,777 | |
| Other non-current payables and liabilities | | | | | 36,161 | |

## 7. NOTICE ON OPERATING SEGMENTS

The identification of the operating segments and related information provided in this section is based on the elements used by management to make its operational decisions. In particular, internal accounting periodically reviewed and used by the highest-level decision makers of the Group refers to the following operating segments:

- **MA Division**, active in the processing and assembly of steel and aluminum structural parts, components, sub-groups and modules for the automotive segment.

- **MW Division**, active in the design and production of steel wheels for all types of vehicles.

- **SSC Division**, active in the processing of high-carbon flat steel products (cold re-rolled sheet steel and alloys) and in the processing of flat steel products and distribution from service centers.

The results for the operating segments are mainly measured by analyzing Revenue (Net Sales), Adjusted EBITDA and Adjusted EBIT trends. Adjusted EBITDA and Adjusted EBIT represent the gross operating margin and net operating margin respectively, before the effects of restructuring costs and of certain specific costs and revenue deemed as non-recurring, and therefore not representative of the actual profitability of the sectors.

Information concerning the operating segments – with continuing operations and discontinued operations outlined separately – is illustrated, where applicable, in the table as follows.

| | **Fiscal year ended on December 31, 2019** | | | | |
|---|---|---|---|---|---|
| *€/000* | **MA** | **MW** | **SSC** | **Eliminations and other** | **Total** |
| Net Sales | 1,200,749 | 216,076 | 153,355 | (16,923) | 1,553,257 |
| **Adjusted EBITDA** | 109,702 | 23,259 | 14,768 | (2,522) | 145,206 |
| as a percentage of revenue | 9.1% | 10.8% | 9.6% | | 9.3% |
| **Adjusted EBIT** | 33,825 | 8,678 | 1,065 | (3,535) | 40,033 |

| | **Fiscal year ended on December 31, 2018** | | | | |
|---|---|---|---|---|---|
| *€/000* | **MA** | **MW** | **SSC** | **Eliminations** | **Total** |
| Net Sales | 1,277,948 | 217,144 | 181,005 | (18,168) | 1,657,929 |
| **Adjusted EBITDA** | 102,610 | 21,684 | 22,446 | (3,628) | 143,112 |
| as a percentage of revenue | 8.0% | 10.0% | 12.4% | 20.0% | 8.6% |
| **Adjusted EBIT** | 39,716 | 6,966 | 15,493 | (6,659) | 55,516 |

Adjusted EBITDA in 2019 amounted, in total, to EUR 145,206 thousand, and includes the benefit of the IFRS 16 accounting standard in terms of the decrease of lease expenses booked by Group companies amounting to EUR 11,555 thousand in total.

# 8. NOTES TO THE STATEMENT OF FINANCIAL POSITION

## 8.1 INTANGIBLE ASSETS

Movements related to the "Intangible assets" item for the fiscal years ended on December 31, 2019 and 2018 are outlined below.

| *€/000* | **Development Costs** | **Industrial patents and intellectual property rights** | **Goodwill** | **Other intangible fixed assets** | **Intangible assets under construction** | **Total** |
|---|---|---|---|---|---|---|
| **Balance as at January 1, 2018** | **1,636** | **5,328** | **12,020** | **4,539** | **1,110** | **24,633** |
| of which: | | | | | | |
| Historical cost | 41,669 | 17,877 | 12,020 | 53,331 | 1,110 | **126,087** |
| Accumulated amortization | (40,033) | (12,549) | - | (48,792) | - | **(101,454)** |
| Increases | 152 | 844 | - | 1,288 | 1,158 | **3,442** |
| Net decreases | | | | | | |
| *- Historical cost* | - | - | - | - | - | **-** |
| *- Accumulated amortization* | - | - | - | - | - | **-** |
| *Other movements* | | | | | | |
| *- Historical cost reclassifications* | *137* | - | - | - | *(137)* | **-** |
| *- Accumulated amortization reclassifications* | - | - | - | - | - | **-** |
| *- Change in scope of consolidation* | - | *(55)* | *(2,172)* | *2,172* | - | ***(55)*** |
| *- Differences in historical cost due to exchange rates* | *(213)* | *(412)* | - | *(94)* | - | ***(719)*** |
| *- Differences in acc. amortizat. due to exchange rates* | *139* | *237* | - | *78* | - | ***454*** |
| Amortization and impairment losses | (1,571) | (2,307) | - | (1,532) | - | **(5,410)** |
| **Balance as at December 31, 2018** | **280** | **3,634** | **9,848** | **6,452** | **2,131** | **22,346** |
| *of which:* | | | | | | |
| *Historical cost* | *41,745* | *18,253* | *9,848* | *56,697* | *2,131* | ***128,675*** |
| *Accumulated amortization* | *(41,465)* | *(14,619)* | - | *(50,245)* | - | ***(106,329)*** |
| Increases | 186 | 486 | - | 2,082 | 955 | **3,709** |
| Net decreases | | | | | | |
| *- Historical cost* | - | - | - | - | - | **-** |
| *- Accumulated amortization* | - | - | - | - | - | **-** |
| *Other movements* | | | | | | |
| *- Historical cost reclassifications* | *346* | *98* | - | *301* | *(566)* | ***180*** |
| *- Accumulated amortization reclassifications* | - | - | - | - | - | **-** |
| *- Change in scope of consolidation* | - | *(73)* | *(2,188)* | *(3,045)* | - | ***(5,306)*** |
| *- Differences in historical cost due to exchange rates* | *106* | *139* | - | *39* | - | ***284*** |
| *- Differences in acc. amortizat. due to exchange rates* | *(94)* | *(110)* | - | *(34)* | - | ***(239)*** |
| Amortization and impairment losses | (579) | (1,349) | - | (2,313) | - | **(4,241)** |
| **Balance as at December 31, 2019** | **244** | **2,825** | **7,660** | **3,483** | **2,520** | **16,732** |
| of which: | | | | | | |
| Historical cost | 42,383 | 18,903 | 7,660 | 56,075 | 2,520 | **127,541** |
| Accumulated amortization | (42,138) | (16,078) | - | (52,593) | - | **(110,809)** |

The "Intangible assets" item as at December 31, 2019 amounted to EUR 16,732 thousand (EUR 22,346 thousand as at December 31, 2018), and includes:

- Development costs for new products, mainly related to the MW Division, amounting to EUR 244 thousand (EUR 280 thousand as at December 31, 2018);
- Industrial patents and intellectual property rights amounting to EUR 2,825 thousand (EUR 3,634 thousand as at December 31, 2018);
- Goodwill amounting to EUR 7,660 thousand (EUR 9,848 thousand as at December 31, 2018);
- Other intangible assets amounting to EUR 3,483 thousand (EUR 6,452 thousand as at December 31, 2018).
- Intangible assets under construction amounting to EUR 2,520 thousand (EUR 2,131 thousand as at December 31, 2018).

The decrease in Intangible assets compared to the previous fiscal year is mainly ascribed to the change in scope of consolidation (EUR 5,306 thousand) following the disposal of subsidiaries ITLA S.p.A. and ITLA Bonaiti S.r.l.

The Goodwill item (EUR 7,660 thousand) mainly derives from acquiring control of MA Polska (formerly Delfo Polska) and Nuova Sall S.r.l.. Goodwill was allocated to the operating segments or Cash Generating Units (CGUs) in relation to the operating segments where appropriate, in accordance with IAS 36. The following table highlights the allocation of goodwill by operating segment:

| *€/000* | As at December 31 | |
|---|---|---|
| | **2019** | **2018** |
| Automotive | 7,660 | 7,660 |
| SSC | - | 2,188 |
| **Total** | **7,660** | **9,848** |

Pursuant to IAS 36, goodwill is not subject to amortization but to an impairment test on an annual basis, or more frequently if specific events and circumstances – which may lead to a presumed reduction in value – occur. The impairment test is carried out through comparison of the net book value and the recoverable value of the CGU to which goodwill was allocated, determined as the greater amount between the fair value less costs of disposal and the value-in-use of the CGU. The value-in-use was determined by applying the discounted cash flow (DCF) method, discounting the unlevered free cash flow of the CGU resulting from the business plans – related to the five years following the year of reference of the impairment test – officially approved by management. The discount rate used is represented by the weighted average cost of capital (WACC) calculated with reference to the segment in which the identified CGU operates.
The discount rate (WACC) used, which reflects market valuations of the cost of money and specific risks in the sectors of activity and geographic area of reference, is estimated to be 9.18%.

With reference to fiscal years 2019 and 2018, no reductions in value of the entered goodwill emerged from the completed impairment tests.
A sensitivity analysis was performed on the results of the impairment tests, with the purpose of verifying the susceptibility to changes in the main projections upon which the estimate is based. To this end, two different scenarios were hypothesized:

- scenario 1: discount rate = 9.50%, with an increase by 50 base points compared to the basic scenario;

- scenario 2: discount rate = 10%, with an increase by 100 base points compared to the basic scenario.

The sensitivity analyses show that the test has a low sensitivity to change in the basic projections. More specifically, none of the aforementioned scenarios would lead to a loss in value of the goodwill.

Development costs mainly include costs of materials and personnel dedicated to engineering, design, and development activities aimed at the upgrade and creation of new models, mainly in the MW Division.

## 8.2 PROPERTY, PLANTS, AND EQUIPMENT

Movements related to the "Property, plants, and equipment" item for the fiscal years ended on December 31, 2019 and 2018, are outlined below:

| €/000 | Land and buildings | Plants and machinery | Industrial and commercial equipment | Other tangible assets | Tangible assets under construction | Total |
|---|---|---|---|---|---|---|
| **Balance as at January 1, 2018** | **198,652** | **353,914** | **10,914** | **4,824** | **94,713** | **663,017** |
| of which: | | | | | | |
| Historical cost | 375,557 | 1,078,701 | 106,381 | 29,489 | 94,713 | **1,684,841** |
| Accumulated depreciation | (176,905) | (724,787) | (95,467) | (24,665) | - | **(1,021,824)** |
| Increases | 23,809 | 68,026 | 6,708 | 899 | 39,507 | **138,949** |
| Net decreases | (5,481) | (1,066) | (11) | (1,157) | - | **(7,715)** |
| *- Historical cost* | *(7,141)* | *(39,105)* | *(1,654)* | *(1,169)* | - | ***(49,069)*** |
| *- Accumulated depreciation* | *1,660* | *38,039* | *1,643* | *12* | - | ***41,354*** |
| Other movements | | | | | | |
| *- Historical cost reclassifications* | *5,139* | *33,170* | *1,102* | *(21)* | *(39,452)* | ***(61)*** |
| *- Accumulated depreciation reclassifications* | - | - | *(26)* | *88* | - | ***61*** |
| *- Change in scope of consolidation due to historical cost* | *(17,965)* | *(42,000)* | *(185)* | *(542)* | *(2,512)* | ***(63,204)*** |
| *- Change in scope of consolidation due to acc. depreciation* | *7,062* | *24,425* | *173* | *393* | - | ***32,053*** |
| *- Differences in historical cost due to exchange rates* | *(3,475)* | *(15,371)* | *(1,449)* | *(93)* | *(4,275)* | ***(24,663)*** |
| *- Differences in acc. depreciation due to exchange rates* | *1,220* | *8,036* | *1,137* | *61* | - | ***10,454*** |
| Depreciation and impairment losses | (6,643) | (63,599) | (5,599) | (988) | (460) | **(77,289)** |
| **Balance as at December 31, 2018** | **202,318** | **365,535** | **12,764** | **3,464** | **87,521** | **671,602** |
| *of which:* | | | | | | |
| *Historical cost* | *375,924* | *1,083,422* | *110,903* | *28,563* | *87,521* | ***1,686,793*** |
| *Accumulated depreciation* | *(173,606)* | *(717,887)* | *(98,139)* | *(25,099)* | - | ***(1,015,191)*** |
| Impacts from IFRS 16 adoption: | | | | | | |
| - Initial balance as at December 31, 2018 | 35,565 | 5,148 | - | 3,506 | - | **44,219** |
| - Increases for agreements under IFRS 16 | 1,101 | 3,047 | - | 1,762 | - | **5,910** |
| - Foreign exchange differences | 309 | 11 | - | 10 | - | **330** |
| - Depreciation and impairments | (5,919) | (2,691) | - | (1,804) | - | **(10,414)** |
| **Final balance as at December 31, 2019** | **31,056** | **5,515** | **-** | **3,475** | **-** | **40,045** |
| Increases | 18,020 | 77,201 | 6,324 | 804 | 40,090 | **142,439** |
| Net decreases | (924) | (1,938) | (31) | (13) | - | **(2,906)** |
| *- Historical cost* | *(1,002)* | *(18,350)* | *(20,799)* | *(77)* | - | ***(40,228)*** |
| *- Accumulated depreciation* | *78* | *16,412* | *20,768* | *64* | - | ***37,322*** |
| Other movements | | | | | | |
| *- Historical cost reclassifications* | *2,677* | *13,959* | *847* | *286* | *(17,949)* | ***(180)*** |
| *- Accumulated depreciation reclassifications* | - | - | - | - | - | **-** |
| *- Change in scope of consolidation due to historical cost* | *(24,312)* | *(44,710)* | - | *(1,704)* | *(1,209)* | ***(71,936)*** |
| *- Change in scope of consolidation due to acc. depreciation* | *6,973* | *30,199* | - | *1,154* | - | ***38,326*** |
| *- Differences in historical cost due to exchange rates* | *1,717* | *7,963* | *662* | *43* | *1,582* | ***11,967*** |
| *- Differences in acc. depreciation due to exchange rates* | *(617)* | *(4,130)* | *(493)* | *(31)* | *(2)* | ***(5,274)*** |
| Depreciation and impairment losses | (20,919) | (67,453) | (5,297) | (729) | (120) | **(94,517)** |
| **Balance as at December 31, 2019** | **215,989** | **382,142** | **14,775** | **6,750** | **109,912** | **729,568** |
| *of which:* | | | | | | |
| *Historical cost* | *410,000* | *1,127,691* | *97,936* | *33,194* | *110,035* | ***1,778,855*** |
| *Accumulated depreciation* | *(194,011)* | *(745,549)* | *(83,161)* | *(26,445)* | *(122)* | ***(1,049,288)*** |

As at December 31, 2019, the "Property, plants, and equipment" item amounted to EUR 729,568 thousand (EUR 671,602 thousand as at December 31, 2018) and includes:

- EUR 215,989 thousand in land and buildings;
- EUR 382,142 thousand in plants and machinery;
- EUR 14,775 thousand in industrial and commercial equipment;
- EUR 6,750 thousand in other tangible assets;
- EUR 109,912 thousand in tangible assets under construction.

Increase for capex for the 2019 fiscal year, amounting to EUR 142,439 thousand in total, were mainly allocated to the implementation of new projects in in South Africa, Germany, Poland, France, and Italy.
The effects of applying the IFRS 16 accounting standard to leases amounted to EUR 40,045 thousand, of which 31,056 thousand related to land and buildings, EUR 5,515 thousand to plants and machinery, and EUR 3,475 thousand to industrial and commercial equipment.
A decrease in Property, plants, and equipment (EUR 33,610 thousand) due to change in scope of consolidation has been recorded as at December 31, 2019, mainly related to the transfer of subsidiaries ITLA S.p.A. and ITLA Bonaiti S.r.l.
Certain fixed assets are held by the Group on the basis of former IAS 17 finance lease agreements, as shown below:

| *€/000* | As at December 31 | | |
|---|---|---|---|
| | **2019** | **2018** | **Difference** |
| Land and buildings | 26,580 | 25,111 | 1,469 |
| Plants and machinery | 95,258 | 102,538 | (7,280) |
| Industrial and commercial equipment | 192 | 446 | (254) |
| Other tangible assets | 120 | 170 | (50) |
| **Total** | **122,150** | **128,265** | **(6,115)** |

## 8.3 INVESTMENTS AND OTHER FINANCIAL ASSETS

Details of the "Investments and financial assets" item are outlined below:

| *€/000* | As at December 31 | | |
|---|---|---|---|
| | **2019** | **2018** | **Difference** |
| Equity investments in subsidiaries | 7,688 | 3,500 | 4,188 |
| Equity investments in joint venture companies | 72,653 | 79,873 | (7,219) |
| Equity investments in associate companies | 24,091 | 14,396 | 9,695 |
| Equity investments in other companies | 7,749 | 8,132 | (383) |
| **Total Equity Investments** | **112,181** | **105,900** | **6,281** |
| Other financial assets | 935 | 1,129 | (194) |
| **Total Equity Investments and other financial assets** | **113,115** | **107,029** | **6,086** |

The increase in equity investments is mainly related to the transfer of 20% of shares held in the subsidiary UM Corporation S.A.S., which has caused deconsolidation of the latter and consequent booking under "Equity investments in associate companies", amounting to EUR 9,800 thousand.

Movements related to subsidiaries for the fiscal years ended on December 31, 2019 and 2018, are outlined as follows:

| €/000 | % | December 31, 2017 | Increases (Decreases) | Revaluations (Devaluations) | Changes in scope of consolidation | Exchange rate differences and other changes | December 31, 2018 |
|---|---|---|---|---|---|---|---|
| MA Automotive Argentina S.A. | 100.0% | 483 | 3,000 | (3,034) | - | 453 | 902 |
| CLN Serbia D.o.o. | 100.0% | - | - | (492) | - | 650 | 158 |
| Nichelino Immobiliare S.r.l. | 80.0% | 509 | - | (58) | - | (11) | 440 |
| MA Automotive Portugal S.A. | 100.0% | - | 700 | - | - | - | 700 |
| MA Component Shanghai | 100.0% | - | 1,300 | - | - | - | 1,300 |
| **Total Equity investments in Subsidiaries** | | **992** | **5,000** | **(3,584)** | **-** | **1,092** | **3,500** |

| €/000 | % | December 31, 2018 | Increases (Decreases) | Revaluations (Devaluations) | Changes in scope of consolidation | Exchange rate differences and other changes | December 31, 2019 |
|---|---|---|---|---|---|---|---|
| MA Automotive Argentina S.A. | 100.0% | 902 | 3,040 | (2,556) | - | 119 | 1,504 |
| CLN Serbia D.o.o. | 100.0% | 158 | - | (158) | - | - | - |
| Nichelino Immobiliare S.r.l. | 80.0% | 440 | 1,364 | (901) | - | - | - |
| MA Automotive Portugal S.A. | 100.0% | 700 | 4,350 | - | - | - | 5,050 |
| MA Sochaux S.A.S. | 100.0% | - | 10 | - | - | - | 10 |
| MA Component Shangai | 100.0% | 1,300 | - | (1,080) | - | - | 220 |
| **Total Equity investments in subsidiaries** | | **3,500** | **8,764** | **(4,695)** | **-** | **119** | **7,688** |

Equity investments in subsidiaries represent non-significant investments for the Group. Should they be consolidated using the full consolidation method, no significant effects on the income statement, net equity, and net financial position of the Group would be produced. Equity investments in subsidiaries are valued using the equity method.

The movements related to joint venture companies for the fiscal years ended on December 31, 2019 and 2018, are outlined as follows.
It is specified that such investments were valued using the equity method.

| €/000 | % | December 31, 2017 | Increases (Decreases) | Revaluations (Devalutions) | Changes in scope of consolidation | Exchange rate differences and other changes | December 31, 2018 |
|---|---|---|---|---|---|---|---|
| Coşkunöz MA Otomotiv A.S. | 50.0% | 3,011 | - | 1,920 | - | (1,785) | 3,146 |
| MA Automotive Brasil Ltda. | 60.0% | 7,253 | 13,761 | (1,640) | - | (1,323) | 18,051 |
| ArcelorMittal CLN S.r.l. | 51.0% | 43,535 | - | (3,246) | - | - | 40,289 |
| Jantsa-MW Turkey | 50.0% | 4,057 | - | (117) | - | (1,005) | 2,935 |
| SHOUGANG MA METAL CO. | 50.0% | 6,105 | (5,440) | (604) | - | (61) | - |
| PMC Melfi S.r.l. | 51.2% | - | 14,300 | 1,564 | - | (412) | 15,452 |
| PMC Automotive S.p.A. | 50.0% | 203 | - | 87 | - | (290) | - |
| **Total Equity investments in joint venture companies** | | **64,165** | **22,621** | **(2,036)** | **-** | **(4,877)** | **79,873** |

| €/000 | % | December 31, 2018 | Increases (Decreases) | Revaluations (Devalutions) | Changes in scope of consolidation | Exchange rate differences and other changes | December 31, 2019 |
|---|---|---|---|---|---|---|---|
| Coşkunöz MA Otomotiv A.S. | 50.0% | 3,146 | - | 1,607 | - | (389) | 4,364 |
| MA Automotive Brasil Ltda. | 60.0% | 18,051 | - | (1,443) | - | 1,292 | 17,900 |
| ArcelorMittal CLN S.r.l. | 51.0% | 40,289 | - | (7,504) | - | - | 32,785 |
| Jantsa-MW Turkey | 50.0% | 2,935 | - | (143) | - | (268) | 2,524 |
| SHOUGANG MA METAL CO. | 50.0% | - | - | (146) | - | 146 | - |
| PMC Melfi S.r.l. | 51.2% | 15,452 | - | 155 | - | (526) | 15,080 |
| PMC Automotive S.p.A. | 50.0% | - | - | - | - | - | - |
| **Total Equity investments in joint venture companies** | | **79,873** | **-** | **(7,475)** | **-** | **254** | **72,653** |

The movements related to associate companies for the fiscal years ended on December 31, 2019 and 2018, are outlined as follows. It is specified that such investments were valued using the equity method.

| *€/000* | % | December 31, 2017 | Increases (Decreases) | Revaluations (Devalutions) | Changes in scope of consolidation | Exchange rate differences and other changes | December 31, 2018 |
|---|---|---|---|---|---|---|---|
| EMARC ROMANIA S.r.l. | 49.0% | 799 | - | 98 | - | (264) | 633 |
| Cellino S.r.l. | 39.0% | 12,086 | - | 481 | - | (97) | 12,470 |
| Gianetti Ruote S.r.l. | 30.0% | 3,080 | - | (2,253) | (827) | - | - |
| O.M.V. S.p.A. | 25.0% | 1,254 | - | 38 | - | - | 1,292 |
| **Total Equity investments in associate companies** | | **17,220** | **-** | **(1,636)** | **(827)** | **(361)** | **14,396** |

| *€/000* | % | December 31, 2018 | Increases (Decreases) | Revaluations (Devalutions) | Changes in scope of consolidation | Exchange rate differences and other changes | December 31, 2019 |
|---|---|---|---|---|---|---|---|
| EMARC ROMANIA S.r.l. | 49.0% | 633 | - | 25 | - | (112) | 547 |
| UM Corporation S.A.S. | 40.0% | - | - | (90) | 10,000 | (110) | 9,800 |
| Cellino S.r.l. | 39.0% | 12,470 | - | - | - | - | 12,470 |
| O.M.V. S.p.A. | 25.0% | 1,292 | - | (17) | - | - | 1,275 |
| **Total Equity investments in associate companies** | | **14,396** | **-** | **(83)** | **10,000** | **(222)** | **24,091** |

The movements related to equity investments in other companies for the fiscal years ended on December 31, 2019 and 2018, are outlined as follows:

| *€/000* | % | December 31, 2017 | Increases (Decreases) | Revaluations (Devalutions) | Changes in scope of consolidation | Exchange rate differences and other changes | December 31, 2018 |
|---|---|---|---|---|---|---|---|
| AR MACHINE Co. | 9.8% | 557 | - | - | - | - | 557 |
| Topy Industries Ltd | 1.53% | 9,451 | - | (3,571) | - | 688 | 6,568 |
| Other companies | | 1,414 | (406) | - | - | - | 1,008 |
| **Total Equity investments in other companies** | | **11,422** | **(406)** | **(3,571)** | **-** | **688** | **8,132** |

| *€/000* | % | December 31, 2018 | Increases (Decreases) | Revaluations (Devalutions) | Changes in scope of consolidation | Exchange rate differences and other changes | December 31, 2019 |
|---|---|---|---|---|---|---|---|
| AR MACHINE Co. | 9.8% | 557 | - | - | - | - | 557 |
| Topy Industries Ltd | 1.53% | 6,568 | - | (680) | - | 189 | 6,077 |
| Other companies | | 1,008 | 151 | (277) | 277 | (44) | 1,116 |
| **Total Equity investments in other companies** | | **8,132** | **151** | **(957)** | **277** | **145** | **7,749** |

Revaluations (Devaluations) include the portion of fiscal year result of equity investments valued using the equity method, as well as the change in fair value of the investment in Topy Industries Ltd. The latter investment is related to the purchase – in 2016 – of ordinary shares from the Japanese group, occurred in parallel to the capital increase by an equal sum of shares held in MW Italia. These shares are listed on the Tokyo Stock Exchange.

Other financial assets amounted to EUR 935 thousand (EUR 1,129 thousand as at December 31, 2018), and are mainly referred to financial receivables related to certain subsidiaries.

## 8.4 OTHER NON-CURRENT RECEIVABLES AND ASSETS

The item "Other non-current receivables and assets" as at December 31, 2019, amounted to EUR 11,347 thousand (EUR 2,464 thousand as at December 31, 2018) and mainly includes receivables related to tranches to be cashed in related to the sale of ITLA S.p.A.

## 8.5 DEFERRED TAX ASSETS

"Deferred tax assets" as at December 31, 2019, amounted to EUR 50,904 thousand (EUR 45,789 thousand as at December 31, 2018). Movements for such item are outlined in subsection 8.15 – "Deferred tax liabilities" – to which reference should therefore be made.

## 8.6 INVENTORY AND CONTRACT ASSETS/LIABILITIES

Details of the "Inventory and contract assets/liabilities" item as at December 31, 2019 and 2018, are outlined as follows:

| €/000 | As at December 31<br>2019 | 2018 | Difference |
|---|---|---|---|
| Raw materials, ancillary materials, and consumables | 80,113 | 112,355 | (32,242) |
| Work in progress and semi-finished goods | 21,785 | 30,340 | (8,554) |
| Finished products and goods | 48,269 | 53,860 | (5,591) |
| Advance payments | 495 | 1,906 | (1,411) |
| **Total inventory** | **150,663** | **198,460** | **(47,798)** |
| | | | |
| Contract assets | 44,015 | 32,960 | 11,054 |
| Advance payments on contract assets | (27,349) | (32,399) | 5,050 |
| **Net contract assets/liabilities** | **16,666** | **561** | **16,104** |
| | | | |
| **Total inventory + net contract assets/liabilities** | **167,329** | **199,022** | **(31,693)** |

Net contract assets mainly include the costs for dies and tooling borne for the manufacturing of new models, net of advance payments received from customers.

The value of stock inventory is shown net of a write-down provision amounting to EUR 16,443 thousand as at December 31, 2019 (as opposed to EUR 15,365 thousand as at December 31, 2018). The provision was allocated: due to raw materials being no longer usable for current production; due to obsolete or slow-moving finished products, goods, and ancillary materials; and in order to adjust the value of inventory to market value when it has proven to be a capital loss.

The inventory write-down provision underwent the following movements during the fiscal year, and its amount at the end of the year may be considered consistent with the existing risks.

| €/000 | As at December 31<br>2019 | | 2018 | |
|---|---|---|---|---|
| | Raw materials and semi-finished goods | Finished products | Raw materials and semi-finished goods | Finished products |
| Opening inventory write down provision | 11,336 | 4,029 | 11,336 | 3,501 |
| Increases | 347 | 731 | - | 528 |
| **Closing inventory write down provision** | **11,683** | **4,760** | **11,336** | **4,029** |

## 8.7 TRADE RECEIVABLES

Trade receivables, amounting to EUR 57,945 thousand as at December 31, 2019 (EUR 112,774 thousand as at December 31, 2018), are shown net of bad debt provisions amounting to EUR 6,422 thousand (EUR 6,535 thousand as at December 31, 2018). Trade receivable movements are outlined as follows:

| €/000 | As at December 31 | |
|---|---|---|
| | 2019 | 2018 |
| **Opening bad debt provisions** | **6,535** | **5,548** |
| Increases | - | 1,000 |
| Change in exchange rates and other movements | (113) | (13) |
| **Closing bad debt provisions** | **6,422** | **6,535** |

Moreover, the trade receivables as at December 31, 2019 are shown net of items sold without recourse (factoring and securitization contracts), amounting to a total of EUR 297,308 thousand (EUR 292,959 thousand as at December 31, 2018).

For further comments concerning the quality of receivables, please refer to "Information concerning risks and uncertainties".
It should be pointed out that, as at the reference dates, the financial statements show no receivables with a maturity date after more than five years.

## 8.8 OTHER CURRENT RECEIVABLES AND ASSETS

Details of the "Other current receivables and assets" item as at December 31, 2019 and 2018, are outlined below:

| €/000 | Fiscal year ended on December 31 | | |
|---|---|---|---|
| | 2019 | 2018 | Difference |
| Current financial receivables | 22,538 | 15,332 | 7,206 |
| VAT receivables | 11,641 | 9,939 | 1,702 |
| Direct advance tax payments | 5,221 | 891 | 4,331 |
| Receivables for other taxes | 11,154 | 10,523 | 631 |
| Security deposits | - | 29 | (29) |
| Accrued income/prepaid expenses | 7,759 | 6,880 | 879 |
| Current financial assets | 200 | 216 | (16) |
| Other current receivables | 24,492 | 22,461 | 2,031 |
| **Total** | **83,005** | **66,270** | **16,734** |

Current financial receivables are mainly described as funds granted to joint control and associate companies. The funds are described in detail in the notes concerning the related parties.

## 8.9 CASH AND CASH EQUIVALENTS

Details of the “Cash and cash equivalents” item as at December 31, 2019 and 2018 are outlined below:

| €/000 | Fiscal year ended on December 31 | | |
| --- | --- | --- | --- |
| | 2019 | 2018 | Difference |
| Bank deposits | 125,361 | 161,076 | (35,715) |
| Cash on hand, cash and checks | 50 | 1,961 | (1,912) |
| **Total** | **125,411** | **163,037** | **(37,627)** |

Bank deposits (EUR 125,361 thousand) shown the current account balances held by companies with banks, and include restricted cash amounting to EUR 6,138 thousand (EUR 10,892 thousand as at December 31, 2018).

## 8.10 ASSETS AND LIABILITIES HELD FOR SALE

Show below are the comprehensive balance sheet values as at December 31, 2019 concerning assets and liabilities held for sale.

As at December 31, 2019, assets and liabilities held for sale strictly refer to the predicted transfers of certain tangible assets including a machinery owned by C.L.N. S.p.A. (EUR 1,825 thousand) and minor fixed assets (EUR 10 thousand).

| €/000 | Fiscal year ended on December 31 | | |
| --- | --- | --- | --- |
| | 2019 | 2018 | Difference |
| **ASSETS** | | | |
| Intangible assets | - | 41 | (41) |
| Property, plants, and equipment | 1,835 | 39,626 | (37,791) |
| Equity investments | - | 5,440 | (5,440) |
| Deferred tax assets | - | 219 | (219) |
| Receivables and other current assets | - | 15,553 | (15,553) |
| **Assets held for sale** | **1,835** | **60,879** | **(59,044)** |

| €/000 | Fiscal year ended on December 31 | | |
| --- | --- | --- | --- |
| | 2019 | 2018 | Difference |
| **LIABILITIES** | | | |
| Provision for Risks | - | 594 | (594) |
| Deferred tax liabilities | - | 590 | (590) |
| Non-current borrowings | - | 10,631 | (10,631) |
| Payables and other current liabilities | - | 24,748 | (24,748) |
| **Liabilities held for sale** | **-** | **36,563** | **(36,563)** |

## 8.11 NET EQUITY

The movements related to reserves in net equity are shown in the tables of the consolidated financial statements in concern.

Share capital as at December 31, 2019 amounted to EUR 235,000 thousand and is composed of 235 million ordinary shares with a EUR 1 unit value.

The detailed composition of reserves in the net equity is shown in the following table.

| €/000 | Fiscal year ended on December 31<br>2019 | 2018 | Difference |
|---|---|---|---|
| **Share capital** | **235,000** | **235,000** | **-** |
| Other reserves | | | |
| Revaluation reserve | 13,463 | 13,463 | - |
| Legal reserve | 4,364 | 4,364 | - |
| Capital account reserve | 100,000 | 100,000 | - |
| Consolidation reserve | 8,177 | 8,177 | - |
| Currency translation reserve | (69,754) | (73,087) | 3,333 |
| Hedging reserve | 3,178 | 1,630 | 1,548 |
| FTA reserve | 603 | 603 | - |
| Profits (losses) carried forward | (77,301) | (91,581) | 14,280 |
| Profits (losses) for the fiscal year | (17,687) | (3,375) | (14,313) |
| **Group Net Equity** | **200,043** | **195,194** | **4,849** |
| Minority interests | 8,819 | 36,321 | (27,502) |
| **Total Net Equity** | **208,862** | **231,515** | **(22,653)** |

The reconciliation between C.L.N. S.p.A. 2019 Net Result and Net Equity as at December 31, 2019 – highlighted in C.L.N. S.p.A. statutory Financial Statements as at the same date – and the CLN Group's corresponding Net Result and Net Equity is outlined in the following table:

| €/000 | Net Result 2019 | Net Equity as at December 31, 2019 |
|---|---|---|
| **C.L.N. S.p.A. Net Equity** | **2,528** | **244,200** |
| | | |
| Net Equity of subsidiaries directly owned by C.L.N. S.p.A. | 3,147 | 232,819 |
| Elimination of Equity investments in subsidiaries directly owned by C.L.N. S.p.A. | - | (275,440) |
| Consolidation adjustments | (21,371) | 7,283 |
| Net Result and Equity attributable to Non-controlling interests | (1,991) | (8,819) |
| **CLN Group Net equity (attributable to the owners of the parent company)** | **(17,687)** | **200,043** |

Net Equity and eliminations related to shareholdings in companies controlled directly by C.L.N. S.p.A. refer to MA S.r.l. and its subsidiaries, MW Italia S.r.l. and its subsidiaries, and CLN Slovakia S.r.o.
Consolidation adjustments mainly refer to the equity alignment of associate and joint venture companies (ArcelorMittal CLN Distribuzione Italia S.r.l.) and to the adjustments related to the sales of ITLA S.p.A. and ITLA Bonaiti S.r.l.

## 8.12 POST-EMPLOYMENT BENEFITS

The movements related to the item “Post-Employment benefits” for fiscal years ended on December 31, 2019 and 2018, are outlined below:

| *€/000* | As at December 31 | |
|---|---|---|
| | **2019** | **2018** |
| **Opening balance** | **28,735** | **28,978** |
| Current cost of work performed | 443 | 391 |
| Financial expenses | 57 | 93 |
| Benefits paid | (609) | (727) |
| **Total** | **28,626** | **28,735** |

Details of the economic and demographic projections used for actuarial assessments are outlined as follows:

| | As at December 31 | |
|---|---|---|
| | **2019** | **2018** |
| ***Main economic projections*** | | |
| Average inflation rate | 1.6% | 1.6% |
| Average actualization rate | 1.2% | 1.2% |
| ***Main demographic projections*** | | |
| Likelihood of resignation | 1.85% | 1.85% |
| Likelihood of advance payments | 4.0% | 4.0% |

## 8.13 PROVISIONS FOR RISKS AND CHARGES

Movements related to provisions for risks and charges for fiscal years ended on December 31, 2019 and 2018, are outlined below:

| *€/000* | **As at December 31, 2017** | **Provisions** | **Uses/Releases** | **Other movements** | **As at December 31, 2018** |
|---|---|---|---|---|---|
| Commercial guarantees | 645 | 8 | (6) | - | 648 |
| Tax risk provisions | 1,126 | - | (56) | - | 1,070 |
| Restructuring provisions | 3,611 | 74 | (1,209) | - | 2,476 |
| Legal risk provisions | 456 | - | (73) | - | 383 |
| Provisions for risks on subsidiaries | 2,175 | - | - | 325 | 2,500 |
| Provisions for other risks | 6,615 | 89 | (3,594) | - | 3,110 |
| **Total** | **14,629** | **172** | **(4,937)** | **325** | **10,187** |

| *€/000* | **As at December 31, 2018** | **Provisions** | **Uses/Releases** | **Other movements** | **As at December 31, 2019** |
|---|---|---|---|---|---|
| Commercial guarantees | 648 | - | (117) | - | 531 |
| Tax risk provisions | 1,070 | - | (58) | - | 1,013 |
| Restructuring provisions | 2,476 | - | (443) | - | 2,032 |
| Legal risk provisions | 383 | - | (32) | - | 352 |
| Provisions for risks on subsidiaries | 2,500 | - | (500) | - | 2,000 |
| Provisions for other risks | 3,110 | 16 | (1,147) | (92) | 1,885 |
| **Total** | **10,187** | **16** | **(2,297)** | **(92)** | **7,812** |

The item “Provisions for other risks” mainly includes commercial and environmental risks, partially related to the Purchase Price Allocation of the Condove plant, performed in previous fiscal years.

With regard to the tax audit initiated on October 5, 2017, and ended on July 20, 2018, we hereby report the following evolutions related to the parent company C.L.N. S.p.A.:

- the inspection process – with the approval of a VAT recording related to the 2014 tax year – has ended in July 2019, with the payment of EUR 7 thousand (including fines);
- with regard to the findings on direct income for the 2013 and 2014 tax years, the company – purely in the scope of a settlement – has accepted the proposal by the Agenzia delle Entrate (Italian revenue agency), thus reducing fiscal losses from the Group tax consolidation amounting to EUR 4.3 million, and paying EUR 138 thousand (including fines) in the form of IRAP (regional income tax on production activities).

The Company is awaiting the start of a formal negotiation with Agenzia delle Entrate for the 2015 and 2016 tax years.

## 8.14 BORROWINGS (CURRENT AND NON-CURRENT)

Current and non-current borrowings in the fiscal years ending on December 31, 2019 and 2018 are outlined in the table as follows.

| *€/000* | As at December 31 | | | |
|---|---|---|---|---|
| | 2019 | | 2018 | |
| | **Current** | **Non-current** | **Current** | **Non-current** |
| Medium/long-term borrowings from banks | 33,983 | 197,940 | 61,141 | 153,931 |
| Bonds | - | 49,524 | - | 99,340 |
| Payables owed to lease companies | 20,631 | 26,385 | 23,568 | 45,106 |
| Other medium/long-term loans | 7,255 | 97,938 | 20,000 | 24,395 |
| Short-term lines of credit | 69,833 | - | 90,691 | - |
| IFRS 16 operating lease debts | 8,951 | 32,096 | - | - |
| Fair value of Derivatives | - | - | - | 4 |
| **Total** | **140,652** | **403,883** | **195,399** | **322,777** |

The increase in financial borrowings as at December 31, 2019 is mainly ascribed to the adoption of the new IFRS 16 accounting standard in relation to booking of operating leases as financial debt (EUR 41,047 thousand).

As at December 31, 2019 and 2018, the Group's borrowings were presented in the following currencies:

| *€/000* | As at December 31 | |
|---|---|---|
| | **2019** | **2018** |
| Euro | 444,297 | 428,626 |
| Złoty (Poland) | 87,238 | 77,042 |
| Rand (South Africa) | 12,170 | 11,588 |
| Leu (Romania) | 830 | 920 |
| **Total** | **544,535** | **518,176** |

Over the month of June 2019, CLN S.p.A. has delisted from the Irish Stock Exchange the bond loan issued in 2015, amounting to EUR 100,000 thousand and maturing in 2022. In the scope of such operation, a EUR 50,000 thousand portion of the same instrument has been extinguished in advance. Moreover, the duration of the residual bond loan has undergone a variation, namely an extension of the repayment term until 2024.

Throughout 2019, the syndicated Club Deal loan has also undergone a renegotiation, resulting in a significant extension of the same, as well as an increase in the total amount funded (EUR 172,000 thousand). As at December 31, 2019, remaining lines of credit available amounted to EUR 40,000 thousand.

Also in 2019, the Group has used EUR 79,800 thousand of the lines of credit amounting to a total of EUR 134,000 thousand and undersigned in 2018 with the International Finance Corporation (IFC) and Cassa Depositi e Prestiti (CDP, Italian deposits and loans bank). As at December 31, 2019, remaining lines of credit related to such borrowing amounted to EUR 54,200 thousand.

The mentioned strategic funds require compliance with certain financial covenants related to “Net debt to EBITDA”, “Interest coverage ratio”, “Total subsidiary debt to total asset ratio”, and “Net debt to equity ratio”. These financial covenants must be calculated on the Group’s consolidated financial data. Failure to comply with the financial covenants could give rise to cancellation and the obligation of immediate repayment of sums funded by the Group.
As at December 31, 2019, all financial covenants have been fully complied with.

The composition of the Net Financial Position as at December 31, 2019 and 2018, is outlined below.

| *€/000* | Fiscal year ended on December 31 | |
|---|---|---|
| | **2019** | **2018** |
| **Cash and Cash Equivalents (A)** | **125,411** | **163,037** |
| Current financial receivables and other financial assets | 23,672 | 16,677 |
| Short-term borrowings from banks | (69,833) | (90,691) |
| Current part of medium/long-term borrowings from banks | (33,983) | (61,141) |
| Current part of finance lease debts | (20,631) | (23,568) |
| Current part of IFRS 16 operating lease debts | (8,951) | - |
| Current part of payables due to other lenders | (7,255) | (20,000) |
| **Current financial indebtment (B)** | **(116,980)** | **(178,723)** |
| Non-current borrowings from banks | (197,940) | (153,931) |
| Non-current finance lease debts | (26,385) | (45,106) |
| Non-current payables due to other lenders | (97,938) | (24,395) |
| Bonds | (49,524) | (99,340) |
| Non-current part of IFRS 16 operating lease debts | (32,096) | - |
| Fair value of Derivatives | - | (4) |
| **Non-current financial indebtment (C)** | **(403,883)** | **(322,777)** |
| **Net Financial Position (A+B+C)** | **(395,453)** | **(338,462)** |

The increase in net financial debt as at December 31, 2019 compared to the previous fiscal year may be partially ascribed to the adoption of the new IFRS 16 accounting standard in relation to booking of operating leases as financial debt (EUR 41,047 thousand).

## 8.15 DEFERRED TAX LIABILITIES

Movements related to fiscal years ended on December 31, 2019 and 2018, are recorded in the following tables:

| €/000 | As at December 31, 2017 | Releases/ Accruals | As at December 31, 2018 |
|---|---|---|---|
| ***Deferred tax liabilities*** | | | |
| Depreciation | 18,729 | (490) | 18,239 |
| Finance leasing | 22,560 | (636) | 21,924 |
| Other differences | 5,787 | (943) | 4,844 |
| **Total deferred tax liabilities** | **47,076** | **(2,069)** | **45,007** |
| ***Deferred tax assets*** | | | |
| Taxed provisions | 7,167 | (885) | 6,282 |
| Depreciation and finance leasing | 20,520 | (904) | 19,616 |
| Tax benefits on losses carried forward | 15,360 | 4,531 | 19,891 |
| **Total deferred tax assets** | **43,047** | **2,742** | **45,789** |

| €/000 | As at December 31, 2018 | Releases/ Accruals | As at December 31, 2019 |
|---|---|---|---|
| ***Deferred tax liabilities*** | | | |
| Depreciation | 18,239 | 992 | 19,231 |
| Finance leasing | 21,924 | (48) | 21,876 |
| Other differences | 4,844 | (304) | 4,540 |
| **Total deferred tax liabilities** | **45,007** | **640** | **45,647** |
| ***Deferred tax assets*** | | | |
| Taxed provisions | 6,282 | 1,197 | 7,479 |
| Depreciation and finance leasing | 19,616 | 2,830 | 22,446 |
| Tax benefits on losses carried forward | 19,891 | 1,088 | 20,979 |
| **Total deferred tax assets** | **45,789** | **5,115** | **50,904** |

As at December 31, 2019, prepaid tax assets included tax losses that may be carried forward amounting to EUR 20,979 thousand (EUR 19,891 thousand as at December 31, 2018). Overall, tax losses that can be carried forward by companies included within the scope of full consolidation amount to EUR 237 million (EUR 228 million as at December 31, 2018). Tax losses have mainly been recorded by Italian, French, Russian, and South African companies controlled by the Group, and the majority may be unlimitedly carried forward. The theoretical tax benefit of such losses would amount to a total of EUR 55 million as at December 31, 2019 (as opposed to EUR 58 million as at December 31, 2018), of which EUR 21 million were actually booked as at December 31, 2019 (EUR 19.9 million as at December 31, 2018). The difference of EUR 34 million (EUR 41 million as at December 31, 2018) represents the portion of tax benefit not applied (allowance).

## 8.16 OTHER NON-CURRENT LIABILITIES

Details of the "Other non-current liabilities" item as at December 31, 2019 and 2018, are outlined as follows:

| €/000 | Fiscal year ended on December 31<br>2019 | 2018 | Difference |
|---|---|---|---|
| Accrued liabilities/ deferred income | 12,273 | 6,505 | 5,768 |
| Other non-current payables | 3,058 | 29,656 | (26,598) |
| **Total** | **15,331** | **36,161** | **(20,830)** |

Other non-current liabilities have decreased mainly because of the write-off of liabilities related to the amount of put-options on minority interests in subsidiaries following deconsolidation of the same.

## 8.17 TRADE PAYABLES

The item "Trade payables" includes payables of goods and services supplied, amounting to EUR 374,826 thousand as at December 31, 2019 (EUR 393,025 thousand as at December 31, 2018).

## 8.18 CURRENT TAX LIABILITIES

"Current tax liabilities", amounting to EUR 1,124 thousand as at December 31, 2019 (EUR 5,143 thousand as at December 31, 2018), refer to payables due to the taxation authority in terms of current taxes, net of the related receivables.

## 8.19 OTHER CURRENT LIABILITIES

Details of the "Other current liabilities" item as at December 31, 2019 and 2018, are outlined as follows:

Other current liabilities have decreased in comparison with the previous fiscal year mainly because of the reduction of payables related to investments in fixed assets in being as at December 31, 2019 (EUR 16,506 thousand difference).

| €/000 | Fiscal year ended on December 31<br>2019 | 2018 | Difference |
|---|---|---|---|
| Payables related to investments and increases in fixed assets | 36,324 | 52,830 | (16,506) |
| Welfare and social security payables | 13,309 | 14,864 | (1,555) |
| Payables owed to employees/staff | 25,328 | 26,039 | (711) |
| VAT payables | 8,354 | 13,481 | (5,127) |
| Accrued liabilities/deferred income | 7,465 | 4,977 | 2,488 |
| Payables for tooling and other current liabilities | 39,647 | 34,511 | 5,137 |
| **Total** | **130,427** | **146,702** | **(16,275)** |

# 9. NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## 9.1 NET REVENUE FROM CONTRACTS WITH CUSTOMERS

Details of the “Net revenue from contracts with customers” item for the fiscal years ended on December 31, 2019 and 2018, are outlined as follows:

| €/000 | Fiscal year ended on December 31<br>2019 | 2018 | Difference |
|---|---|---|---|
| **Net revenue from contracts with customers:** | | | |
| Italy | 366,577 | 402,876 | (36,299) |
| Other EU countries | 938,399 | 1,003,527 | (65,127) |
| Non-EU countries | 248,281 | 251,526 | (3,246) |
| **Revenue from sales of parts and components** | **1,553,257** | **1,657,929** | **(104,672)** |
| | | | |
| **Revenue from sales of tooling** | **60,989** | **91,827** | **(30,837)** |

During the year 2019, changes in the scope of consolidation concerned the following companies UM Corporation S.A.S., ITLA S.p.A. and ITLA Bonaiti S.r.l.; excluding these companies, the total Net Revenues of the Group in 2019 (including those from sales of tooling), amounted to EUR 1,484,000 thousand.

## 9.2 OTHER OPERATING INCOME

Details of the "Other operating income" item for the fiscal years ended on December 31, 2019 and 2018, are outlined below:

| €/000 | Fiscal year ended on December 31 | | |
|---|---|---|---|
| | **2019** | **2018** | **Difference** |
| Scrap and waste | 86,543 | 107,419 | (20,876) |
| Rental fees | 3,183 | 2,805 | 378 |
| Release of risk provisions | 32 | 1,725 | (1,693) |
| Capital gains from disposal of fixed assets | 6,652 | 6,271 | 381 |
| Grants received | 4,502 | 3,305 | 1,197 |
| Other income | 29,335 | 25,879 | 3,456 |
| **Total** | **130,247** | **147,405** | **(17,157)** |

It is specified that Grants received as at December 31, 2019, amounted to EUR 4,502 thousand and mainly refer to grants received by customers for investments in South Africa.

## 9.3 RAW MATERIAL CONSUMABLES AND GOODS

Details of the "Raw material consumables and goods" item for the fiscal years ended on December 31, 2019 and 2018, are outlined as follows:

| €/000 | Fiscal year ended on December 31 | | |
|---|---|---|---|
| | **2019** | **2018** | **Difference** |
| Purchases of raw material, net of change in inventory | 952,716 | 1,048,321 | (95,605) |
| Purchases of consumable supplies | 79,155 | 75,996 | 3,159 |
| Goods for sale | 36,027 | 24,577 | 11,450 |
| Other purchases | 10,950 | 31,550 | (20,600) |
| **Total** | **1,078,849** | **1,180,444** | **(101,594)** |

## 9.4 PERSONNEL EXPENSES

Details of the “Personnel expenses” for fiscal years ended on December 31, 2019 and 2018, are outlined below:

| *€/000* | Fiscal year ended on December 31 | | |
|---|---|---|---|
| | **2019** | **2018** | **Difference** |
| Wages and salaries | 220,131 | 224,142 | (4,011) |
| Social charges | 45,836 | 47,620 | (1,784) |
| Staff severance indemnity | 5,040 | 5,202 | (162) |
| Cost of temporary work | 38,191 | 49,536 | (11,345) |
| Restructuring costs | 4,383 | 3,605 | 778 |
| Other costs | 8,456 | 8,455 | 1 |
| **Total** | **322,036** | **338,560** | **(16,524)** |

The following table highlights the average and year-end number of employees and collaborators by category during the 2019 and 2018 fiscal years:

| *Unit* | Fiscal year 2019 | | Fiscal year 2018 | |
|---|---|---|---|---|
| | **Average** | **Year end** | **Average** | **Year end** |
| Directors | 100 | 97 | 154 | 113 |
| Employees | 1,525 | 1,490 | 1,537 | 1,588 |
| Manual workers | 5,850 | 5,718 | 5,945 | 6,018 |
| **Total employees** | **7,475** | **7,305** | **7,636** | **7,719** |

## 9.5 OTHER OPERATING COSTS

Details of the “Other operating costs” item for the fiscal years ended on December 31, 2019 and 2018, are outlined below:

| €/000 | Fiscal year ended on December 31<br>2019 | 2018 | Difference |
|---|---|---|---|
| Transportation | 30,572 | 33,225 | (2,653) |
| Labor assigned to third parties | 35,158 | 47,010 | (11,852) |
| Maintenance services | 26,596 | 32,550 | (5,954) |
| Energy purchases | 31,157 | 30,510 | 647 |
| Rental and lease fees, under IFRS 16 implementation | 6,411 | 17,162 | (10,752) |
| Purchase of other utilities | 6,592 | 6,438 | 154 |
| Indirect taxes | 7,527 | 7,812 | (285) |
| Legal, consultancy, auditing | 5,911 | 7,107 | (1,196) |
| Travel expenses | 5,565 | 6,298 | (733) |
| Directors’ emoluments | 1,112 | 1,290 | (178) |
| Other costs for services | 45,779 | 50,570 | (4,791) |
| **Total** | **202,380** | **239,973** | **(37,593)** |

The item “Other costs for services” mainly includes costs for technical consultancy, insurance costs, bank charges, and costs for cleaning and security services, as well as costs related to the corporate canteen, telephone, and email services.

## 9.6 DEPRECIATION, AMORTIZATION, AND IMPAIRMENT LOSSES

Details of the “Depreciation, amortization, and impairment losses” item for the fiscal years ended on December 31, 2019 and 2018, are outlined below:

The increase in depreciation in 2019 compared to the previous fiscal year may be partially ascribed to the adoption of the new IFRS 16 accounting standard in relation to booking of operating leases (EUR 10,414 thousand).

| €/000 | Fiscal year ended on December 31<br>2019 | 2018 | Difference |
|---|---|---|---|
| Depreciation and impairment losses of tangible fixed assets | 101,153 | 81,388 | 19,765 |
| Amortization of intangible fixed assets | 4,020 | 6,207 | (2,187) |
| **Total** | **105,174** | **87,596** | **17,578** |

## 9.7 FINANCIAL INCOME

Details of the "Financial income" item for the fiscal years ended on December 31, 2019 and 2018, are outlined below:

| *€/000* | Fiscal year ended on December 31 | | |
|---|---|---|---|
| | **2019** | **2018** | **Difference** |
| Interest on bank accounts | 1,442 | 499 | 943 |
| Other interest and financial income | 5,709 | 4,202 | 1,507 |
| Gains on exchange rates | 16,602 | 7,970 | 8,632 |
| **Total** | **23,754** | **12,671** | **11,083** |

## 9.8 FINANCIAL EXPENSES

Details of the "Financial expenses" item for the fiscal years ended on December 31, 2019 and 2018, are outlined below:

| *€/000* | Fiscal year ended on December 31 | | |
|---|---|---|---|
| | **2019** | **2018** | **Difference** |
| Interest on bank borrowings | 18,921 | 15,849 | 3,072 |
| Interests on bonds | 3,790 | 4,861 | (1,071) |
| Interests for finance lease agreements and for factoring | 8,421 | 7,654 | 767 |
| Other financial expenses | 6,457 | 7,469 | (1,013) |
| Financial expenses for leases under adoption of IFRS 16 | 2,136 | - | 2,136 |
| Losses on exchange rates | 16,534 | 9,303 | 7,231 |
| **Total** | **56,259** | **45,136** | **11,123** |

## 9.9 RESULTS FROM INVESTMENTS

Details of the "Results from investments" item for the years ending December 31, 2019 and 2018, are outlined as follows:

| *€/000* | Fiscal year ended on December 31<br>2019 | 2018 | Difference |
|---|---|---|---|
| ArcelorMittal CLN Distribuzione Italia S.r.l. | (7,504) | (3,246) | (4,258) |
| MA Automotive Argentina S.A. | (2,556) | (3,034) | 478 |
| MA Automotive Brasil Ltda. | (1,443) | (1,640) | 197 |
| Coşkunöz MA Otomotiv A.S. Turkey | 1,607 | 1,920 | (313) |
| Jantsa MW Turkey | (143) | (117) | (26) |
| Shougang MA Metal Co., China | (146) | (604) | 458 |
| CLN Serbia D.o.o. | (157) | (492) | 335 |
| PMC Melfi S.r.l. | 155 | 1,564 | (1,409) |
| Topy Industries Ltd Japan | (680) | (3,571) | 2,891 |
| UM Corporation S.A.S. | (90) | - | (90) |
| MA Component China | (1,080) | - | (1,080) |
| Nichelino Immobiliare S.r.l. | (901) | (58) | (843) |
| Gianetti Ruote S.r.l. | - | (2,253) | 2,253 |
| Cellino S.r.l. | - | 481 | (481) |
| Other associate companies | (270) | 223 | (493) |
| **Total** | **(13,208)** | **(10,827)** | **(2,381)** |

## 9.10 INCOME TAX

Details of the "Income tax" item for the fiscal years ended on December 31, 2019 and 2018, are outlined as follows:

| *€/000* | Fiscal year ended on December 31<br>2019 | 2018 | Difference |
|---|---|---|---|
| Current income tax | 5,409 | 7,864 | (2,455) |
| IRAP (Italian regional tax on productive activities) and similar | 4,208 | 4,613 | (405) |
| Deferred taxes | (3,322) | (6,279) | 2,957 |
| Deferred taxes related to the adoption of IFRS 16 | (258) | - | (258) |
| Other taxes | - | 852 | (852) |
| **Total** | **6,036** | **7,050** | **(1,014)** |

The reconciliation between the theoretical and effective tax rate is outlined as follows:

| *€/000* | Fiscal year ended on December 31 | | |
|---|---|---|---|
| | **2019** | **2018** | **Difference** |
| **Result before income tax** | **(9,660)** | **7,295** | **(16,955)** |
| Results from investments | (13,208) | (10,827) | (2,381) |
| **Adjusted Result before income tax** | **3,548** | **18,122** | **(14,574)** |
| Theoretical income tax (*) | (887) | (4,530) | 3,643 |
| Tax not calculated on the result before tax (IRAP and similar) | (4,208) | (4,613) | 405 |
| Tax effect from permanent differences and other differences | (941) | 2,093 | (3,034) |
| **Total** | **(6,036)** | **(7,050)** | **1,014** |
| Effective tax rate | n.s. | n.s. | |

*(*) Considering an average tax rate of 25%.*

## 9.11 NON-RECURRING INCOME AND EXPENSES

Details of the "Non-recurring income and expenses" item for the fiscal years ended on December 31, 2019 and 2018, are outlined in the table below:

| *€/000* | Fiscal year ended on December 31 | | |
|---|---|---|---|
| | **2019** | **2018** | **Difference** |
| Costs for corporate restructuring | 4,383 | 3,605 | 778 |
| Other non-recurring net expenses (income) | (404) | 1,323 | (1,727) |
| **Total** | **3,979** | **4,928** | **(949)** |

In 2019 the Group has borne restructuring costs and other non-recurring net expenses amounting to EUR 3,979 thousand (as opposed to EUR 4,928 thousand as at 2018). The item includes restructuring costs amounting to EUR 4,383 thousand (EUR 3,605 thousand in 2018), as well as other non-recurring net income amounting to EUR 404 thousand.

## 10. TRANSACTIONS WITH RELATED PARTIES

Relations between the Group's companies and with other related parties are governed under market conditions. Relations between C.L.N. S.p.A. and its subsidiary and associate companies, as well as between such companies, are mainly of a commercial and financial nature.
Details of the balance sheet and income statement results concerning transactions with related parties for the fiscal year ended on December 31, 2019, are provided below:

| | Fiscal year ended on December 31, 2019 | | | | As at December 31, 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| €/000 | Sales revenue | Raw material purchase | Other operating revenue (expenses) | Financial income (expenses) | Trade Receivables | Trade Payables | Other receivables (payables) | Financial receivables (payables) |
| ArcelorMittal Group | 10 | (173,602) | 647 | - | 706 | (42,558) | 87 | - |
| ArcelorMittal CLN S.r.l. | 4,793 | (28,817) | 1,284 | 125 | 2,477 | (14,131) | 4,492 | 12,000 |
| Tamagnone S.r.l. | - | (725) | (3,844) | - | 0 | (2,139) | 243 | - |
| Cellino S.r.l. | 156 | (125) | (43) | (9) | 175 | (1,811) | (147) | - |
| Celmac | - | (408) | (669) | - | (36) | 1,250 | - | - |
| Emarc S.r.l. | - | - | - | - | 433 | (58) | - | - |
| IG Tooling & Light Engineering | - | - | - | - | - | - | 1,090 | - |
| Jantsa MW Turkey | - | (167) | 2 | - | 83 | (146) | (1,287) | - |
| MA Automotive Argentina S.A. | - | - | - | 309 | 312 | - | - | 3,040 |
| MA Automotive Brasil Ltda. | 905 | - | 478 | (104) | 221 | (18) | (1,101) | - |
| MA Automotive Portugal | 2,958 | (245) | 40 | 15 | 2,514 | (424) | 19 | 15 |
| MA Sochaux | - | - | 336 | - | 309 | - | - | - |
| Marubeni-Itochu Group | - | (6,000) | - | - | - | (1,008) | - | - |
| Nichelino Immobiliare S.r.l. | - | - | - | 113 | - | - | 16 | 2,182 |
| PMC Automotive Group | 17,050 | (14,261) | 183 | - | 3,986 | (3,125) | 616 | - |
| Prorena | - | - | - | - | - | - | 3,758 | - |
| SHL Production | - | - | 1,601 | - | 64 | (48) | - | - |
| Topy Industries Japan | - | - | - | 519 | - | - | - | - |
| Other minor parties | - | - | 88 | - | 77 | - | - | - |
| **Total related parties** | **25,873** | **(224,350)** | **102** | **970** | **11,323** | **(64,215)** | **7,785** | **17,237** |
| **Total for balance sheet items** | **1,553,257** | **(1,057,883)** | **(32,109)** | **(32,505)** | **57,945** | **(374,826)** | **94,352** | **23,672** |
| **% on the total balance sheet** | **1.7%** | **21.2%** | **-0.3%** | **-3.0%** | **19.5%** | **17.1%** | **8.3%** | **72.8%** |

Details of the balance sheet and income statement results concerning transactions with related parties for the fiscal year ended on December 31, 2018, are provided below.

| | Fiscal year ended on December 31, 2018 | | | | As at December 31, 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| *€/000* | **Sales revenue** | **Raw material purchase** | **Other operating revenue (expenses)** | **Financial income (expenses)** | **Trade Receivables** | **Trade Payables** | **Other re-ceivables (payables)** | **Financial recei-vables (payables)** |
| ArcelorMittal Group | 16 | (189,687) | 586 | - | 746 | (46,368) | (78) | - |
| ArcelorMittal CLN S.r.l. | 5,750 | (36,326) | 1,197 | 6 | 576 | (6,655) | (5,313) | - |
| Tamagnone S.r.l. | - | (993) | (4,188) | - | - | (1,817) | 262 | - |
| Cellino S.r.l. | 201 | (-) | (57) | (66) | 174 | (1,743) | - | (504) |
| Celmac | - | (396) | (728) | - | (9) | 1,149 | - | - |
| CLN Serbia D.o.o. | - | - | - | - | 771 | - | (661) | - |
| Coşkunöz MA Otomotiv A.S. | - | - | 5 | - | 5 | - | - | - |
| Emarc S.r.l. | - | - | - | - | 536 | (112) | - | - |
| FaM-MA S.A. | - | - | 2 | - | 3 | - | 829 | - |
| Gianetti Ruote S.r.l. | - | (1,717) | 10 | - | 79 | - | (3,617) | - |
| IG Tooling & Light Engineering (Pty) Ltd | - | - | - | - | - | - | 1,090 | - |
| JBM - MA Automotive Pvt Ltd | - | - | - | - | - | - | (341) | - |
| Jantsa MW Turkey | 5 | (92) | 34 | (11) | 137 | (31) | (1,287) | (11) |
| MA Automotive Argentina S.A. | - | - | - | 326 | 312 | - | - | 5,950 |
| MA Automotive Brasil Ltda. | 1,068 | - | 18 | (61) | 690 | - | (2,314) | - |
| Marubeni-Itochu Group | 342 | (21,537) | - | - | - | (4,691) | - | - |
| Nichelino Immobiliare S.r.l. | - | - | - | 84 | - | - | 1,373 | 1,650 |
| PMC Automotive Group | 20,110 | (18,680) | 38 | - | 9,938 | (9,489) | 13 | - |
| SHL Production | - | - | 1,603 | - | 259 | (9) | - | - |
| Topy Industries Japan | - | - | - | 913 | - | - | - | - |
| Other minor parties | - | - | 82 | - | 4 | - | 82 | - |
| **Total related parties** | **27,491** | **(269,427)** | **(1,398)** | **1,191** | **14,219** | **(69,767)** | **(9,963)** | **7,085** |
| **Total for balance sheet items** | **1,657,929** | **(1,180,444)** | **(741)** | **(32,465)** | **112,774** | **(393,025)** | **66,270** | **16,677** |
| **% on the total balance sheet** | **1.7%** | **22.8%** | **188.6%** | **-3.7%** | **12.6%** | **17.8%** | **-15.0%** | **42.5%** |

## 11. PAYMENTS FOR DIRECTORS AND STATUTORY AUDITORS

Details of the payments for C.L.N. S.p.A. directors and statutory auditors for the fiscal years ended on December 31, 2019 and 2018, are provided below.

| *€/000* | **Directors** | **Statutory auditors** |
|---|---|---|
| As at December 31, 2019 | 1,112 | 77 |
| As at December 31, 2018 | 1,291 | 79 |

## 12. EXTERNAL AUDITING FEES

Throughout the year 2019, the auditing firm PricewaterhouseCoopers Italia S.p.A. and its network of foreign branches has provided audit services to companies included in the scope of consolidation, generating fees amounting to EUR 860 thousand.

## 13. GUARANTEES GIVEN

The guarantees given by the Group as at December 31, 2019, amounted to EUR 4,200 thousand (as opposed to EUR 4,409 thousand in 2018) and mainly refer to bank guarantees issued in favor of joint venture companies.

**Annex 1: companies included in the consolidation using the full consolidation method**

| | Headquarters | Business purpose | Currency | Share Capital | % in CLN |
|---|---|---|---|---|---|
| **Parent Company** | | | | | |
| C.L.N. S.p.A. | Caselette (TO) | Sheet metal manufacturing and sale | Euro | 235,000,000 | |
| **Subsidiaries** | | | | | |
| C.L.N. Slovakia S.R.O. | Kosice (Slovakia) | Sheet metal manufacturing and sale | Euro | 10,000,001 | 100.00 |
| ITLA S.r.l. [*] | Oggiono (Lecco) | Holding company | Euro | 2,500,000 | 53.00 |
| ITLA BONAITI S.r.l. [*] | Oggiono (Lecco) | Steel re-rolling | Euro | 5,000,000 | 34.45 |
| MW Italia S.r.l. | Treuen (Germany) | Steel wheel manufacturing and sale | Euro | 45,348,535 | 86.00 |
| MW Aftermarket S.r.l. | Rivoli (Turin) | Steel wheel sale | Euro | 10,000 | 86.00 |
| MW France S.A. | Tergnier (France) | Steel wheel manufacturing and sale | Euro | 14,894,152 | 86.00 |
| MW Romania S.A. | Drăgășani (Romania) | Steel wheel manufacturing and sale | New Leu | 29,323,712 | 84.80 |
| MW Deutschland GmbH | Plüderhausen (Germany) | Steel wheel sale | Euro | 100,000 | 86.00 |
| D.R. S.à r.l. | Pontcharra (France) | Steel wheel sale | Euro | 50,000 | 86.00 |
| MW Kingisepp LLC | Kingisepp (Russia) | Steel wheel manufacturing and sale | Rublo | 1,768,558,574 | 86.00 |
| MW Poland Sp. z o.o. | Warsaw (Poland) | Steel wheel manufacturing and sale | Zloty | 50,000 | 86.00 |
| MW Lublin Sp. z o.o. | Lublin (Poland) | Steel wheel manufacturing and sale | Zloty | 45,888,000 | 86.00 |
| MA S.r.l. | Melfi (Potenza) | Holding company | Euro | 102,249,000 | 97.80 |
| Eurostamp S.A.S. | Villers-la-Montagne (France) | Sheet metal forming and assembly | Euro | 10,249,995 | 97.80 |
| MA France S.A.S. | Aulnay-sous-Bois (France) | Sheet metal forming and assembly | Euro | 15,000,000 | 97.80 |
| MA Automotive Deutschland GmbH | Treuen (Germany) | Sheet metal forming and assembly | Euro | 10,000,000 | 97.80 |
| IDEST S.à r.l. | Aulnay-sous-Bois (France) | Administrative and commercial services | Euro | 8,000 | 97.80 |
| Immobilière de Villers S.à r.l. | Villers-la-Montagne (France) | Real estate management | Euro | 29,510,000 | 97.80 |
| DP Metal Processing Sp. z o.o. | Tychy (Poland) | Sheet metal manufacturing and sale | Zloty | 50,000 | 97.80 |
| Zakłady Wyrobów Metalowych SHL S.A. | Kielce (Poland) | Real estate management | Zloty | 27,000,000 | 97.80 |
| MA Polska S.A. | Tychy (Poland) | Sheet metal forming and assembly | Zloty | 500,000 | 97.80 |
| MA Automotive South Africa (Pty) Ltd | Rosslyn (South Africa) | Holding company | Rand | 1,199,012,749 | 69.08 |
| MW Wheels SA (Pty) Ltd | Port Elizabeth (South Africa) | Steel wheel manufacturing and sale | Rand | 1,400 | 69.08 |
| MA Tool and Die (Pty) Ltd | Rosslyn (South Africa) | Die manufacturing | Rand | 302 | 69.08 |
| WM Automotive LLC [*] | Kingisepp (Russia) | Sheet metal forming and assembly | Rublo | 10,000 | 86.00 |

*[*] Company subject to transfer and consequent removal from the scope of consolidation as at December 31, 2019.*

***Annex 2: companies valued using the Net Equity method***

| Registered company name | Headquarters | Currency | Share Capital | % in CLN |
|---|---|---|---|---|
| ArcelorMittal CLN Distribuzione Italia S.r.l. | Caselette (Turin) | Euro | 60,010,000 | 51.00 |
| MA Automotive Brasil Ltda. | Porto Real (Brazil) | Brazilian Real | 26,741,757 | 58.68 |
| Coşkunöz MA Otomotiv A.S. | Bursa (Turkey) | New Turkish Lira | 5,850,000 | 48.90 |
| O.M.V. S.p.A. | Lesmo (Monza and Brianza) | Euro | 2,500,000 | 25.00 |
| PMC Automotive Melfi S.r.l. | Rivoli (Turin) | Euro | 4,000,000 | 50.07 |
| MA Automotive Argentina S.A. | Buenos Aires (Argentina) | Argentine Peso | 70,110,000 | 97.80 |
| FaM-MA S.A. | Cordoba (Argentina) | Argentine Peso | 100,000 | 48.90 |
| JMW JANT SANAYI VE TICARET A.S. | Umurlu. Aydin (Turkey) | New Turkish Lira | 52,200,000 | 43.00 |
| Cellino S.r.l. | Grugliasco (Turin) | Euro | 245,902 | 39.00 |
| Emarc S.r.l. | Drăgăşani (Romania) | New Leu | 90,000 | 47.92 |
| Nichelino Immobiliare S.r.l. | Caselette (Turin) | Euro | 10,000 | 80.00 |

***Annex 3: companies classified as assets and liabilities held for sale***

| Registered company name | Headquarters | Currency | Share Capital | % in CLN |
|---|---|---|---|---|
| - | | | | |
| - | | | | |

***Annex 4: companies valued using the Cost method***

| Registered company name | Headquarters | Currency | Share Capital | % in CLN |
|---|---|---|---|---|
| Etromex S. de R.L. de C.V. | San Pedro - Nuevo León (Mexico) | Mexican Peso | 32,500,000 | 17.85 |
| AR Machine Co. | Teheran (Iran) | Rial/000 | 33,000,000 | 8.60 |
| Safen Fluid & Mechanical Engineering | Turin | Euro | 12,500 | 17.20 |
| P.I.CHI S.c.r.l. | Chivasso (Turin) | Euro | 10,000 | 38.14 |
| TOPY MW MANUFACTURING MEXICO, S.A. de C.V. | Silao (Mexico) | Mexican Peso | 120,050,000 | 4.31 |
| MA Automotive Components (Shanghai) Co., Ltd | China | Renminbi | 1,300,000 | 97.80 |
| MAAP – MA Automotive Portugal S.A. | Portugal | Euro | 700,000 | 97.80 |
| ITLA BONAITI GmbH [*] | Germany | Euro | 25,000 | 34.45 |

*[*] Company subject to transfer and consequent removal from the scope of consolidation as at December 31, 2019.*

# AUDITORS' REPORTS

# 3

**INDEPENDENT AUDITOR'S REPORT IN ACCORDANCE WITH ARTICLE 14 OF LEGISLATIVE DECREE N° 39 OF 27 JANUARY 2010**

**CLN 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*

To the Shareholders of
C.L.N. SpA

## *Report on the audit of the consolidated financial statements*

### *Opinion*

We have audited the consolidated financial statements of C.L.N. SpA and its subsidiaries (the "CLN Group" or the "Group"), which comprise the statement of financial position as of 31 December 2019, the statement of comprehensive income, the cash flow statement, the statement of changes in net equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the CLN 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.

### *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 C.L.N. 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.

### *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 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.

***PricewaterhouseCoopers SpA***

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The directors are responsible for assessing the CLN 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 C.L.N. 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with 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.

## *Report on Compliance with other Laws and Regulations*

### *Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10*

The directors of C.L.N. SpA are responsible for preparing a report on operations of the Group as of 31 December 2019, including its consistency with the relevant consolidated financial statements and its 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 with the consolidated financial statements of the CLN Group as of 31 December 2019 and on its compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations is consistent with the consolidated financial statements of the CLN Group as of 31 December 2019 and is 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, 25 June 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*

*edited by*
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