

UMBRAGROUP S.P.A.Registered office in VIA VALTER BALDACCINI, 1 - PACIANA LOCALITY - 06034 FOLIGNO (PG) Share capital Euro 11,302,500.00
fully paid-in**Consolidated financial statements at 31/12/2017**

Balance Sheet - Assets	31/12/2017	31/12/2016
A) Subscribed capital unpaid (of which called up)		
B) Fixed assets		
<i>I. Intangible assets</i>		
1) Set-up and expansion costs		
2) Development costs	70	31
3) Patents and intellectual property rights	840	878
4) Concessions, licenses, trademarks & sim. rights		
5) Goodwill	286	
6) Assets in progress and payments on account	1,541	274
7) Other	1,281	1,371
	<u>4,018</u>	<u>2,554</u>
<i>II. Property, plant & equipment</i>		
1) Land and buildings	24,473	25,943
2) Plant and machinery	17,966	16,160
3) Industrial and commercial equipment	2,211	1,869
4) Other assets	47	71
5) Assets in progress and payments on account	2,587	1,567
	<u>47,284</u>	<u>45,610</u>
<i>III. Financial assets</i>		
2) Receivables		
d-bis) others		
- due within one year		
- due beyond one year	52	50
	<u>52</u>	<u>50</u>
	52	50
3) Other securities		
4) Derivative financial instruments - assets		76
	<u>52</u>	<u>126</u>
Total fixed assets	51,354	48,290

C) Current assets*I. Inventories*

1) Raw materials, ancillaries and consumables		9,181	9,689
2) Work in progress and semi-finished goods		16,154	15,236
3) Contract work in progress			
4) Finished products and goods		8,244	8,927
5) Advances			
		33,579	33,852

II. Receivables

1) Customers			
- due within one year	18,334		19,361
- due beyond one year			
		18,334	19,361
4) Parent companies			
- due within one year	2,090		487
- due beyond one year			
		2,090	487
5) Companies subject to control of parent companies			
- due within one year	261		136
- due beyond one year			
		261	136
5-bis) Tax receivables			
- due within one year	1,663		1,905
- due beyond one year			
		1,663	1,905
5-ter) Deferred tax assets			
- due within one year	1,662		2,125
- due beyond one year			
		1,662	2,125
5-quater) Others			
- due within one year	8,482		5,512
- due beyond one year			
		8,482	5,512
		32,492	29,526

III. Current financial assets

4) Other investments		8	9
5) Derivative financial instruments - assets		326	
		334	9

IV. Cash and cash equivalents

1) Bank and postal deposits		68,931	38,918
2) Cheques on hand			
3) Cash in hand and similar		10	18
		68,941	38,936

Total current assets	135,346	102,323
D) Prepayments and accrued income	2,251	1,843
Total assets	188,951	152,456

Balance Sheet - Liabilities	31/12/2017	31/12/2016
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A) Shareholders' Equity		
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<i>I. Share capital</i>		11,303	11,303
<i>II. Share premium reserve</i>		4,948	4,948
<i>III. Revaluation reserve</i>		3,741	3,741
<i>IV. Legal reserve</i>		2,261	2,142
<i>V. Statutory reserves</i>			
<i>VI. Other reserves, separately indicated</i>			
Extraordinary reserve	33,451		22,290
Merger reserve	596		596
Unrealised exchange gains reserve			33
Other reserves			
Capital grants reserve (article 55 of Tax Code)	171		171
Non distributable reserve as per article 2426	31		212
Euro conversion reserve	(91)		980
9) Reserve for gains from sale of treasury shares	145		
		34,303	24,282
<i>VII. Cash flow hedge reserve</i>		(15)	(73)
<i>VIII. Retained earnings</i>		12,784	9,898
<i>IX. Net profit for the year</i>		16,687	16,775
<i>X. Negative reserve for treasury shares in portfolio</i>		(6,245)	(6,164)
Total group shareholders' equity		79,767	66,852
-) Capital and reserves attributable to non-controlling interests		143	
-) Minority interest profit/(loss)		46	
Total minority interest shareholders' equity		189	

Total consolidated shareholders' equity	79,956	66,852
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B) Provisions for risks and charges		
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1) Pension and similar obligations		37	
2) Taxes, including deferred tax liabilities		1,580	1,743
3) Derivative financial instruments - liabilities		21	2,590
4) Others		321	319
5) Provisions for risks and charges			
Total provisions for risks and charges		1,959	4,652

C) Post-employment benefits		3,452	3,510
D) Payables			
4) Bank payables			
- due within one year	18,800		14,405
- due beyond one year	44,692		25,837
		63,492	40,242
5) Other lenders			
- due within one year	13		131
- due beyond one year	4,304		4,281
		4,317	4,412
6) Advances			
- due within one year	325		41
- due beyond one year			
		325	41
7) Trade payables			
- due within one year	20,144		18,393
- due beyond one year			
		20,144	18,393
11) Payables to parent companies			
- due within one year	213		1,395
- due beyond one year			
		213	1,395
11-bis) Payables to companies subject to the control of parent companies			
- due within one year	3,166		2,214
- due beyond one year			
		3,166	2,214
12) Tax payables			
- due within one year	1,346		1,268
- due beyond one year	14		46
		1,360	1,314
13) Social security institutions			
- due within one year	2,151		2,061
- due beyond one year	26		89
		2,177	2,150
14) Other payables			
- due within one year	3,232		3,309
- due beyond one year			
		3,232	3,309
Total payables		98,426	73,470
E) Accrued liabilities and deferred income		5,158	3,972
Total liabilities		188,951	152,456

Income Statement	2017	2016
A) Value of production		
1) Revenues from sales and services	170,083	165,975
2) Changes in inventory of work-in-progress, semi finished & finished products	844	848
3) Changes in contract work-in-progress		
4) Increase in internal work capitalised	135	16
5) Other revenue and income showing separately capital grants:		
- miscellaneous	1,039	1,504
- operating grants	2,162	1,174
	3,201	2,678
Total value of production	174,263	169,517
B) Costs of production		
6) Raw materials, ancillaries, consumables and goods	42,667	44,501
7) Services	42,958	39,012
8) Rent, leasing and similar costs	3,229	2,430
9) Personnel costs		
a) Salaries and wages	42,000	39,872
b) Social security charges	9,433	8,978
c) Post-employment benefits	1,792	1,764
d) Pension and similar obligations	5	
e) Other costs	2,369	2,039
	55,599	52,653
10) Amortisation, depreciation and write-downs		
a) Amortisation of intangible assets	720	713
b) Depreciation of property, plant and equipment	5,146	4,579
d) Write-down of current receivables and cash and cash equivalents	94	17
	5,960	5,309
11) Change in inventories of raw materials, ancillaries, consumables and goods	345	66
12) Provisions for risks	2	7
14) Other operating charges	930	1,101
Total costs of production	151,690	145,079

Difference between value and costs of production (A-B)	22,573	24,438
C) Financial income and charges		
15) other income with separate indication of income from subsidiaries and associates and income from parent companies and companies under the control of these latter:		
- from subsidiaries		
- from associated companies		
- from parent companies		
- from companies subject to control of parent companies		
- other	42	89
	<u>42</u>	<u>89</u>
	42	89
	<u>42</u>	<u>89</u>
15) Interest and other financial charges with separate indication of income from subsidiaries and associates and income from parent companies and companies under the control of these latter:		
- other	1,213	1,315
	<u>1,213</u>	<u>1,315</u>
	1,213	1,315
17-bis) Exchange gains and losses	(1,634)	290
Total financial income and charges	(2,805)	(936)
D) Adjustment to financial assets		
18) Revaluations:		
d) of derivative financial instruments	2,770	1,615
e) of financial assets - centralised treasury management		
f) using equity method		
	<u>2,770</u>	<u>1,615</u>
19) Write-downs:		
d) of derivative financial instruments		901
		<u>901</u>
Total adjustment of financial assets	2,770	714
Result for the year before taxes (A-B±C±D±E)	22,538	24,216
20) Income tax, including deferred tax income/charge		
Current taxes	5,449	6,901
Prior year taxes	(37)	(164)
Deferred tax income & charges	393	704
Income (charges) from the tax consolidation /tax transparency regime		
	<u>5,805</u>	<u>7,441</u>
23) Net profit for the year	16,733	16,775
-) Group net profit	16,687	16,775
-) Minority interest profit/(loss)	46	

Chairman of the Board of Directors
Antonello Marcucci

Companies Office Registration No.: 02016930543
Economic and Administrative Register No.: 174039

UMBRAGROUP S.P.A.

Registered office in VIA VALTER BALDACCINI, 1 - PACIANA LOCALITY - 06034 FOLIGNO (PG) - Share capital Euro
11,302,500.00 fully paid-in

Consolidated Cash Flow Statement at 31/12/2017 (indirect method)

In Euro thousands

Description	31/12/2017	31/12/2016
A) Cash flow from operating activities (indirect method)		
Net profit for the year	16,733	16,775
Income taxes	5,805	7,441
Interest charges/(income)	1,171	1,226
(Dividends)	-	
(Gains)/losses on sale of assets	21	(125)
1) Profit (loss) for the year before taxes, interest, dividends and gains/losses from disposals	23,730	25,317
Non-cash adjustments not impacting working capital		
Provisions	2,481	4,531
Amortisation & depreciation	5,866	5,292
Impairments	(2)	17
Adjustments to non-cash financial instrument assets and liabilities	(2,756)	(755)
Other non-cash increases/(decreases)	553	(2,261)
Total non-cash adjustments not impacting working capital	6,142	6,824
2) Cash flow before working capital changes	29,872	32,141
Change in net working capital		
Decrease/(Increase) in inventories	273	(975)
Decrease/(Increase) in trade receivables	902	(640)
Increase/(Decrease) in trade payables	2,703	2,630
Decrease/(Increase) in prepayments and accrued income	(408)	(1,004)
Increase/(Decrease) in accrued liabilities and deferred income	1,186	366
Other Decreases/(Other Increases) in working capital	(5,619)	200
Total changes in working capital	(963)	577
3) Cash flow after working capital changes	28,909	32,718
Other adjustments		
Interest received/(paid)	(1,126)	(1,226)
(Income taxes paid)	(5,123)	(6,170)
Dividends received	-	
(Utilisation of provisions)	(2,614)	(3,044)
Other receipts/(payments)	-	
Total other adjustments	(8,863)	(10,440)
Cash flow from operating activities (A)	20,046	22,278
B) Cash flow from investing activities		
Property, plant & equipment		
(Investments)	(8,167)	(8,894)
Divestments	20	125
Intangible assets		
(Investments)	(2,212)	(909)
Divestments	30	
Financial assets		
(Investments)	-	22

Divestments	-	(76)
Current financial assets		
(Investments)	(28)	(3,039)
Divestments	1	
(Acquisition of subsidiaries net of cash and cash equivalents)		
(Disposal of subsidiaries net of cash and cash equivalents)		
Cash flow from investing activities (B)	(10,356)	(12,771)
C) Cash flow from financing activities		
Third party funds		
Increase/(Decrease) in short-term bank payables	-	2,524
New loans	41,000	19,620
(Repayment of loans)	(17,750)	(16,349)
Own funds		
Paid-in share capital increase	146	-
(Repayment of share capital)		-
Disposal/(Acquisition) of treasury shares	(81)	-
(Dividends and advances on dividends paid)	(3,000)	(5,000)
Cash flow from financing activities (C)	20,315	795
Increase (decrease) in cash and cash equivalents (A ± B ± C)	30,005	10,302
Currency effect on cash and cash equivalents		28
Opening cash and cash equivalents		
Bank and postal deposits	38,918	28,583
Cheques		
Cash in hand and similar	18	23
Total opening cash and cash equivalents	38,936	28,606
Of which not freely utilisable		
Cash and cash equivalents at the end of the year		
Bank and postal deposits	68,931	38,918
Cheques		
Cash in hand and similar	10	18
Total closing cash and cash equivalents	68,941	38,936
Of which not freely utilisable		
Acquisition or disposal of subsidiaries		
Total fees paid or received		
Part of fees in cash and cash equivalents		
Cash and cash equivalents acquired or disposed through acquisition/disposal of subsidiaries		
Carrying amount of assets/liabilities acquired or disposed of		

Chairman of the Board of Directors
Antonello Marcucci

UMBAGROUP S.P.A.

A company under the management and direction of POLISCOM SRL

Registered office in VIA VALTER BALDACCINI, 1 - PACIANA INDUSTRIAL ZONE - 06034 FOLIGNO (PG)

Share capital Euro 11,302,500.00 fully paid-in

Directors' Report on the Consolidated Financial Statements at December 31, 2017

(in Euro/000)

Dear Shareholders,

A strong net profit of Euro 16,687 thousand is reported for 2017 - slightly reducing on Euro 16,775 thousand (-0.5%) in the previous year - after amortisation and depreciation of Euro 5,866 thousand, provisions of Euro 94 thousand and current and deferred taxes totalling Euro 5,805 thousand.

(Euro thousands)

Description	2017	2016	2015
Net Profit	16,687	16,775	12,209
Amortisation	720	713	717
Depreciation	5,146	4,579	3,922
Provisions	94	17	300
Cash flow	22,647	22,084	17,148

Change of company name

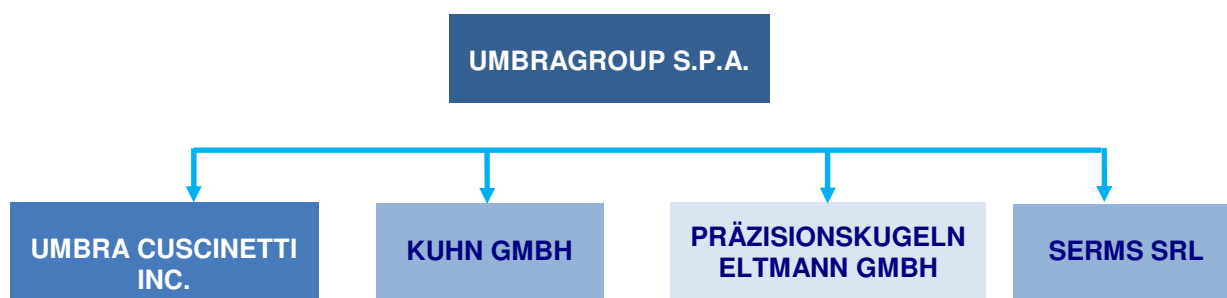
On May 29, 2017, the extraordinary shareholders' meeting approved the change of the company name from Umbra Cuscinetti S.p.A. to UMBAGROUP S.p.A. from January 1, 2018.

This change is strategic in acknowledging the company's international vocation which has long entailed the inclusion of the word 'Group' in corporate communications promoting the UmbraGroup "brand". The name UmbraGroup perfectly reflects Umbra's new culture and particularly two strategic business approaches: the unity of the Group and the fact that the name Umbra, followed by the word Cuscinetti, is no longer representative of the specific characteristics of the sectors in which the Group operates. The name Umbra is a tribute to the glorious past which we are associated with, while the inclusion of "Group" in the company name encapsulates a solid group going forward with the right credentials to play a leading role on the global market, focused on increasingly challenging goals and ensuring growth and development.

Operating conditions and developments

In accordance with Article 2428, the company operates from the registered office in Foligno, with secondary offices also in Foligno and at the Albanella (SA) research centre.

UmbraGroup S.p.A. directly controls the following companies involved in complementary and support activities to the Group's core business.



Company Umbra Cuscinetti Inc.

Holding 100%

Direct control

Activities - Production and Sale of aeronautic components and maintenance services

Kuhn GmbH

Holding 100%

Direct control

Activities - Production and Sale of ballscrews for industrial applications

Präzisionskugeln Eltmann GmbH

Holding 100%

Direct control

Activities - Production and Sale of ball bearings

Company Serms Srl

Holding 52%

Direct control

Activities – materials testing

The Group structure did not change during the year.

The acquisition of 52% of Serms S.r.l., a company with a strong track record in materials testing, was closed on May 26, 2017 in view of achieving significant synergies.

Company	Overseas City or State	Share capital	Net Equity share	Net Profit/ Loss share	% Held	Carrying amount
Umbra Cuscinetti Inc.	USA	589	7,956	526	100	4,922
Präzisionskugeln Eltmann GmbH	Germany	100	6,048	1,494	100	100
Kuhn GmbH	Germany	782	7,516	649	100	459
Serms Srl	Italy	16	204	50	52	365

In Euro thousands

Structure and Governance model

At December 31, 2017, the Group comprised 4 direct subsidiaries and the parent company UmbraGroup S.p.A., which have demonstrated continual growth and development.

The parent company has a traditional governance system comprising the Shareholders' Meeting, the Board of Directors and the Board of Statutory Auditors in an oversight role.

The audit is carried out by the independent audit firm Ernst & Young.

The Board of Directors is granted broad strategic decision-making powers over the company and the Group and for corporate governance and the management of the internal control procedures. Its functions include the setting of the

type and level of risk compatible with the strategic objectives, with their assessments also including all risks considered significant with regard to the sustainability of operations over the medium/long-term.

The Board of Directors has internally set up the Remuneration and Appointments Committee and a Strategic Committee, while the company has also adopted an Organisational Model in accordance with Legislative Decree 231/2001, which includes the appointment of a Supervisory Board.

The Remuneration and Appointments Committee, comprising three directors, of which two independent and non-executive, expresses opinions and draws up proposals for the Board of Directors with regard in particular to the remuneration policies and the incentive plans of the Executive Directors and senior managers.

The Strategic Committee, comprising three members (the Chairman, the Chief Executive Officer and an Independent Director), performs an exploratory role, drawing up proposals, recommendations and opinions to facilitate more informed Board decision-making.

The Board of Statutory Auditors, comprising three Statutory Auditors and two Alternate Auditors, verifies compliance with law and the By-laws, with the principles of correct administration and in particular the adequacy of the organisation, administration and accounting structure adopted by the company and its correct functioning and the adequacy of the internal control system.

Finally, the Supervisory Board, comprising two members, verifies the efficacy of the organisation, management and control model approved by UmbraGroup S.p.A.. In particular, the Supervisory Board controls the procedures for the prevention of the following sustainability-related offenses: offenses in violation of workplace health and safety rules, environmental offenses and offenses against the individual.

Operating performance

Economic overview

The economic recovery could enter its ninth year in 2018. However, the attitude towards the new year must remain vigilant and shaped by a certain degree of wariness.

This year, only three percent of the world's countries were in recession, the lowest level of recent years. Developed and emerging nations surprised the markets with positive economic data, and in 2017, for the first time in ten years, corporate earnings grew at double-digit rates simultaneously in the United States, Europe, the emerging markets, Japan and China.

We do not expect to see adverse factors such as higher inflation or a more restrictive interest rate policy by central banks. In the near future, three of the big five central banks will need to increase rates, but the increases will be moderate. Bond-repurchase stimulus packages may continue in 2018 in Europe and Japan. On the other hand, the beginning of the end of ultra-accommodative monetary policy is already here. It will be interesting to see the change of leadership at the ECB in 2019, whereas the Federal Reserve is not expected to implement radical changes in U.S. monetary policy.

The dollar is not projected to depreciate further, inasmuch as the point of maximum divergence has been reached. This is also due to the fact that economic growth in the Eurozone surprised on the upside. In addition, the EU's approval rating among its citizens has improved and its political scenario is generally more stable than in the United States.

The most important trends in bond markets are in corporate bonds, particularly bonds in U.S. dollars, which offer better yields than bonds in euro, even after hedging costs. Emerging market bonds are also very attractive, offering equally high yields due to support from strong fundamentals, sound growth and low inflation.

A strong economic performance is expected to be mirrored in bullish stock markets. The upwards momentum will continue next year, driven by positive earnings forecasts.

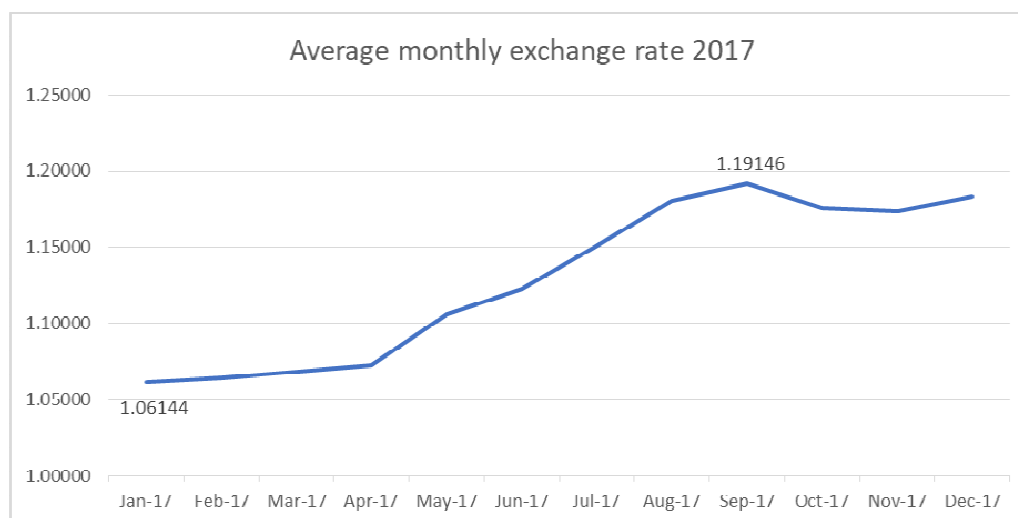
In 2018, the greatest impetus will come from the technology sector, emerging markets, Japan and Europe. In addition to the strong demand for technology stocks, the financial sector is expected to be the number-two performer in 2018. In the United States, it is expected that regulations will be pared back, interest rates will rise and dividends will increase. In Europe, consolidation continues apace and restructuring efforts will bear fruit. Exchanges are not expected to offer returns with low volatility like in 2017.

This period could come to an end as a result of unexpected inflation figures, disappointing growth in China or the scuttling of tax reform plans in the United States. Investors currently have a strong risk appetite. Accordingly, in 2018 we may see sudden liquidations of risk positions. The markets have now reached the later stages of the economic cycle, and diversifying investments is now particularly important.

The outlook for 2018 is "positive but vigilant".

In 2017, the US Dollar, after opening the year at 1.0385 on January 3, lost ground against the Euro - reaching a maximum on September 8 at 1.206.

The exchange rate at December 31, 2017 was 1.1993, with an average for the twelve months of 1.1293.



Average Value: 1.1293

Average Minimum Value: 1.06144: 01/2017

Average Maximum Value: 1.19146: 09/2017

The table below presents the average 2017 rates and the December 31, 2017 rates for the most significant Group currencies, in addition to the percentage change against the Euro compared to the average and year-end rates for 2016.

	Age. ex. rates			Year-end rates		
	2017	2016	Change on 2016	31/12/2017	31/12/2016	Change on 2016
	:1 Euro	:1 Euro	%	:1 Euro	:1 Euro	%
US Dollar (USD)	1.129	1.107	-2.0%	1.199	1.054	-13.8%
Canadian Dollar (CAD)	1.464	1.466	0.1%	1.504	1.419	-6.0%
Australian Dollar (AUD)	1.473	1.488	1.0%	1.535	1.460	-5.1%
UK Sterling (GBP)	0.876	0.819	-6.9%	0.887	0.856	-3.6%
Swiss Franc (CHF)	1.112	1.090	-2.0%	1.170	1.074	-9.0%

The Plan will consolidate the UmbraGroup's leadership in the steel balls sector and drive growth in the electromechanical actuators sector (EMA). Its focus is upon growth, profitability and cash generation.

A CAGR is forecast over the coming four-year period of 3.77%, with Group EBITDA to reach Euro 37,529 by 2020 (+26.2% on 2016).

The forecasts were made taking account of medium/long-term general economic forecasts and expected aeronautic and industrial sector development.

Earnings should remain at the excellent levels of the last two years, despite investments (Euro 35,519 under the 2017-2020 plan) to develop opportunities presented by the market and to boost competitiveness through efficiency.

The maintenance of a solid financial structure shall be the cornerstone of the new Plan, in order to improve earnings. Cash generation (pre-dividend cash flows) is a lynchpin for the development of the approved Plan. The growth forecast in the plan does not take into consideration any acquisitions.

Serms Srl

On May 26, 2017, UmbraGroup S.p.A. acquired control of 52% of the company Serms Srl.

Founded in 2004 as a University of Perugia spin-off to transfer the highly innovative skills developed by its academic partners to the business world, Serms has since its creation stimulated and strengthened the cultural exchange

between the academic and industrial spheres - ultimately broadening on a consistent basis the range and quality of services offered. Serms today operates on a national and international level and can offer its customers a wide range of services for the environmental testing of mechanical, aeronautic, automotive, marine and industrial design.

Long-Term Incentive Authorisation

On May 29, 2017, the shareholders' meeting of the parent company approved the company's plan for the allocation of shares reserved for persons instrumental to the achievement of the company's strategic objectives. The plan provides for the free allocation of treasury shares held in portfolio to beneficiaries, subject to the achievement of economic and financial objectives set out in the 2018-2020 Plan.

Corporate organisation

In 2017, the Board of Directors of the parent company was reduced to 7 members following the resignation of two board members. There are currently two independent directors on the Board of Directors: Andrea Sasso, Chief Executive Officer of iGuzzini Illuminazioni and Donatella Busso, Associate Professor in the Department of Management at the University of Turin, with position in listed and unlisted companies.

Paris Le Bourget Trade Fair

The 52nd Le Bourget International Exhibition dedicated to the aeronautic sector was held in Paris from June 19, 2017 to June 25, 2017. This event is the largest world fair that takes place every two years in Paris and is now considered to be a meeting place for the major players in the sector.

UMBRAGROUP attended with its own stand at the Umbro Aeronautical Hub.

Umbra 45 Years

The Parent Company celebrated 45 years in 2017.

On this occasion, an international football tournament was organised as a symbolic event of the Umbra celebrations at which - going beyond business - sporting experiences and new human relationships were shared.

Leading world players took to the field: Airbus, Boeing, British Airways, FLOG di Leonardo, Lufthansa, Mechanical Nova and Umbra with the Italian and German companies. The FLOG di Leonardo team competed in the final against Umbra. The latter won and celebrated the victory - marking an additional goal of these 45 years.

Two dinners were also organised: a gala dinner and a final dinner which were attended by all Group employees and their families with approximately 2,100 people in attendance.

Opening of the Experimental Engineering Laboratory

The Experimental Engineering Laboratory was opened during the 45th year celebration. The Laboratory seeks new solutions and to guarantee, through specific tests, the responsiveness of Umbra solutions to clients' stringent requirements.

Suppliers' Meeting

The 26th suppliers' meeting was held at the company's offices on November 10, 2017. The meeting served as a forum for sharing experiences and airing issues relating to the supply chain, while also building a real sense of partnership.

Acquisition of treasury shares

Between January 1, 2017 to December 31, 2017, acquisition transactions of 550 treasury shares were made at an average price of Euro 512.62, together with sales transactions of 1,155 treasury shares, in view of the exercise of stock options. At December 31, 2017, the parent company holds 34,933 treasury shares, comprising 10.20% of the share capital.

Operating performance

Aerospace Line

The civil aviation market is expected to grow over the next ten years, with a cyclical decline forecast in 2021 and 2022 and a recovery of production levels from 2023. Passenger traffic and cargo traffic are forecast to rise constantly. The foremost industry analysts estimate that approximately 16,000 commercial aircraft will be manufactured in 2018-2026.

Airbus and Boeing will dominate the market, with an approximately 94.9% share of all medium-to-large commercial aircraft produced in the coming years. In the next few years, Boeing and Airbus will switch to mass production – involving constantly increasing volumes each year – of the platforms developed over the last five to six years, such as the A320Neo and A330Neo (Airbus), and the B737Max and B777X (Boeing). High-volume programmes such as the Boeing B787 and Airbus A350 are also expected to reach full production. To date, they both have an order backlog that covers their aircraft production for approximately nine years.

The current low cost of fuel works to the disadvantage of investments in new, more fuel-efficient aircraft and provides an incentive for airlines to continue to operate older, less efficient models. This is the main cause of the slowing intake of new aircraft orders over the past two years. On the other hand, the current order intake level, which is considered “more reasonable and sustainable” than in 2013-2015, assuages concerns of the bursting of the “bubble” in the commercial aircraft market – a “bubble” that may analysts had imagined when they saw Airbus and Boeing's production volumes rise significantly in recent years, and not always in a manner consistent with the actual state of the world economy. This consideration soothes participants in the aviation market and financial analysts, who forecast constant growth (aside from the inevitable cyclical downturns) and margins spread throughout the entire supply chain.

Industrial Line

In the fourth quarter of 2017, the preliminary figures prepared by the UCIMU Business Research & Culture Centre pointed to a 21.5% increase on the same period of 2016. The overall result was driven by strong foreign orders (up 6.2% on October-December 2016) and by the Industry 4.0 plan - particularly the accelerated depreciation schemes.

At the domestic level, Italian machine tool manufacturers reported an 86.2% increase in order intake compared with the fourth quarter of 2016. On an annual basis, the total index increased by 13.7% compared with 2016, whereas foreign orders were up by 4.7%, making up for all the ground lost in the previous year.

In addition, according to the most recent survey (by UCIMU for the period October - December 2017) of order intake, the orders received will have a direct impact on GDP in 2018, which is also looking to be a favourable year in the light of the measures announced by public authorities.

Bearings Line

In 2017 there was a significant increase in bearings for both automotive and industrial applications, as also borne out by the increase in business with one of the world's foremost manufacturers (Schaeffler Group), which posted revenues of Euro 14 billion, compared with Euro 13.3 billion in the previous year.

The industrial bearing market has resumed growth, owing in particular to industrial applications in the segments power transmission (such as electric motors, hydraulics and transmissions), offroad (agricultural engineering and machine manufacturing) and raw materials (extraction and processing of raw materials), which drove the double-digit growth rate.

The fastest growth was seen in the regions of Greater China (+24.1%) and Asia Pacific (+5.6%), whereas growth in the USA amounted to 4.6%.

Umbragroup reported 16.5% growth in 2017. Please note that bearing volumes are included in the Industrial Line.

Key Operating Results

In 2017 volumes were up by 2.5% on the previous year.

In the industrial segment, growth amounted to 10.2%, buoyed by rising bearing volumes, which registered were up by 16.5%.

The EMA line posted a 12.3% increase in volumes on the previous year, whereas the Aeronautical line recorded a slight decline of 5% on the previous year. The slight decline in the revenues of the Aeronautics line was also due to the unfavourable EUR/USD exchange rate performance, which entailed a 2% reduction in volumes expressed in USD. It should be noted that the result was adversely affected by a change in the mix, higher labour cost levels and higher lease payments.

The net financial position at December 31, 2017 was a cash position of Euro 5,449 thousand, improving Euro 6,755 thousand on the previous year.

The 2017 highlights follow:

(Euro thousands)

	2017	2016	Cge.	Cge. %
Revenues	170,083	165,975	4,108	2.5%
Value of Production	174,263	169,517	4,746	2.8%
Value added	80,884	79,966	918	1.1%
EBITDA	28,533	29,747	(1,214)	-4.1%
EBIT	22,573	24,438	(1,865)	-7.6%
EBITDA / VP	16.4%	17.5%		
EBIT / VP	13.0%	14.4%		
Net Profit	16,687	16,775	(88)	-0.5%
Capital Employed	188,951	152,456	36,495	23.9%
Total investments	9,936	9,815	121	1.2%
Net working capital	28,577	28,076	501	1.8%
Net capital employed	74,507	68,158	6,349	9.3%
Source of funds	74,507	68,158	6,349	9.3%
Free cash flow	9,690	9,507	183	1.9%
Net Financial Position	5,449	(1,306)	6,755	-517.2%

The company's *alternative performance indicators* are defined as follows:

Net working capital: the difference between current assets and current liabilities (excluding cash and cash equivalents, financial payables and provisions for risks and charges).

Net capital employed: fixed assets and net working capital.

Net Financial Position (NFP): the difference between cash and cash equivalents and current and non-current financial payables.

Sources of funding: the net financial position, net equity and current liabilities.

The income statement in addition presents interim margins as follows:

Value of production: the sum of revenues from sales and services, other operating revenues, the increase in internal work capitalised and changes in inventories of semi-finished and finished products.

Value added: margin attained as the difference between revenues net of premiums and consumables, services and outsourcing costs. The added value in fact measures the wealth generated by the company in the year against that distributed.

EBITDA: the difference between revenues from sales and consumables, service costs, personnel costs and net operating income/charges. It represents the margin before amortisation, depreciation, financial management (financial income/charges) and income taxes. EBITDA so defined is not recognised under Italian GAAP and therefore the measurement criteria employed by UmbraGroup Spa may differ from those of other companies and is therefore not comparable.

EBIT: the difference between EBITDA and amortisation, depreciation and write-downs. It represents the margin before financial management and income taxes.

The above indicators are not governed by the company's accounting standards.

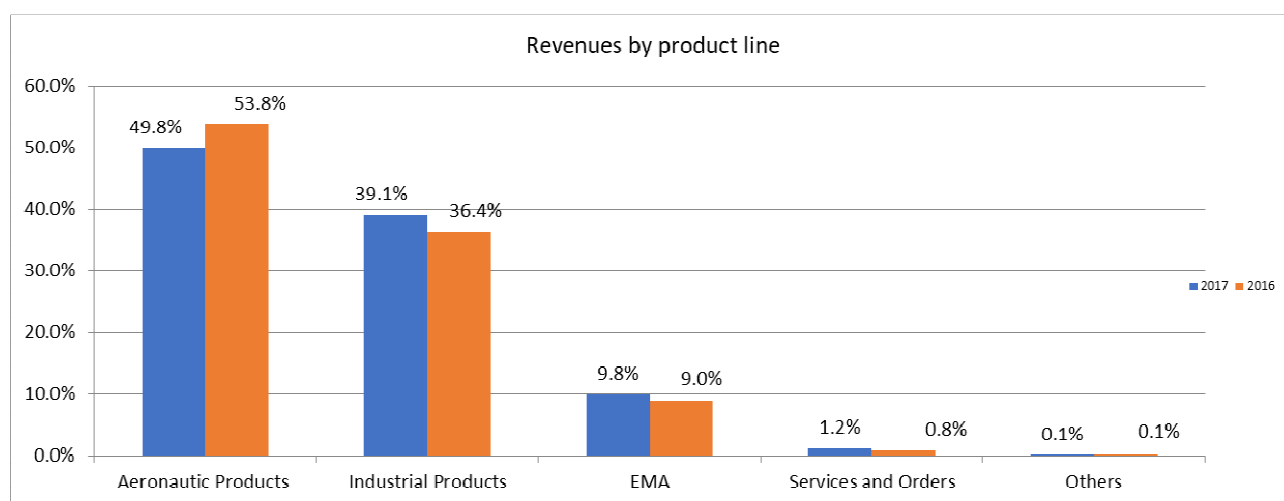
Free cash flow: a cash flow measure indicating the company's self-funding, calculated from cash flow generated from operations, adjusted for net interest paid and cash flow absorbed from investments, net of income from fixed asset disposals.

Revenues

Revenues from sales and services amount to Euro 170,083 thousand, compared to Euro 165,975 thousand in 2016 (+2.5%). The value of production is Euro 174,263 thousand, compared to Euro 169,517 thousand in 2016 (+2.8%).

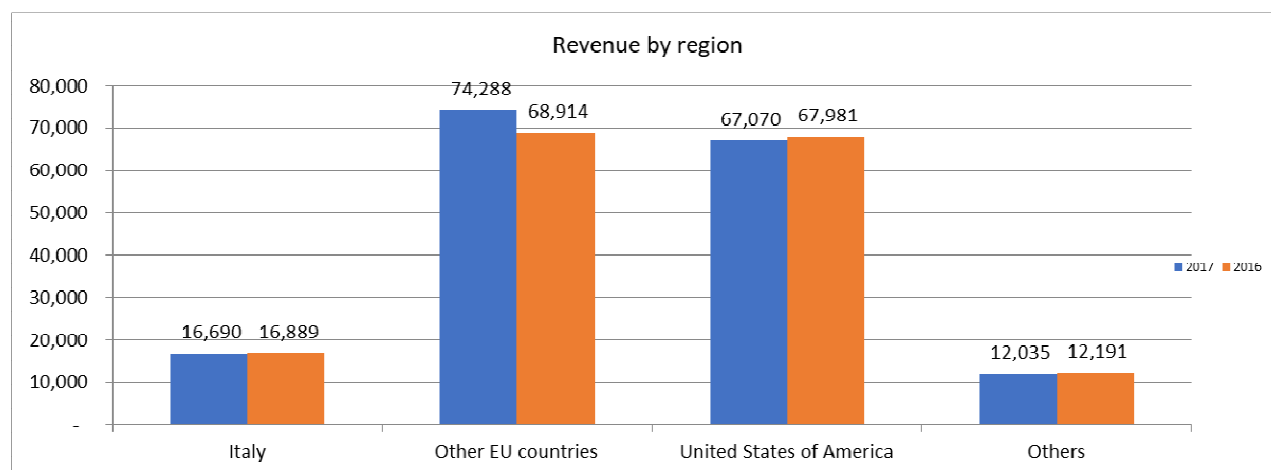
Revenues by business line and the change on the previous year are outlined in the table below.

	2017	2016	Cge.	Cge. %
Aeronautic Products	84,780	89,260	(4,480)	-5.0%
Industrial Products	66,508	60,375	6,133	10.2%
EMA	16,712	14,876	1,836	12.3%
Services & orders	1,993	1,353	640	47.3%
Others	90	111	(21)	-18.9%
TOTAL	170,083	165,975	4,108	2.5%



Sales by region

The table below outlines changes in sales by each area.



The United States is the Group's number-two market after Europe. It posted a slight decline of 1.3%, mainly due to the effects of the fluctuation of the euro/dollar exchange rate.

The 7.8% growth in the Eurozone is tied to the increased volumes of the Bearings line.

The following table presents the revenues and EBITDA of the subsidiaries (in thousands of Euro) and also in percentage terms.

		2017	2016	Currency	Cge.	Cge. %
Umbra Cuscinetti Inc						
	Revenues	33,329	33,225	USD	104	0.3%
	EBITDA	1,385	2,387	USD	(1,002)	-42.0%
	%	4.2%	7.2%			
Kuhn GmbH						
	Revenues	6,197	6,376	Euro	(179)	-2.8%
	EBITDA	1,116	1,163	Euro	(47)	-4.1%
	%	18.0%	18.2%			
PKE GmbH						
	Revenues	20,178	18,827	Euro	1,351	7.2%
	EBITDA	2,348	1,891	Euro	457	24.2%
	%	11.6%	10.0%			
Serms Srl						
	Revenues	512		Euro		
	EBITDA	160		Euro		
	%	31.3%				

Costs

The core operational costs are as follows:
(Euro thousands)

	2017	% Revenue	2016	% Revenue	Cge.	Cge. %
Raw Materials and production components	42,667	25.1%	44,501	26.8%	(1,834)	-4.1%
Service costs	42,958	25.3%	39,012	23.5%	3,946	10.1%
Rent, lease and similar costs	3,229	1.9%	2,430	1.5%	799	32.9%
Personnel costs	55,599	32.7%	52,653	31.7%	2,946	5.6%
Total Costs	144,453	84.9%	138,596	83.5%	5,857	4.2%
Amortisation & Depreciation	5,866	3.4%	5,292	3.2%	574	10.8%
Provisions & Write-downs	94	0.1%	17	0.0%	77	452.9%

Against increased production volumes of 2.8%, total **operating costs** on the previous year rose Euro 5,857 thousand (+4.2%). Raw materials, ancillary and consumables decreased 4.1%, while services rose 10.1% - mainly concerning direct production services.

Leasing costs increased Euro 799 thousand (+32.9%).

This increase is in turn attributable to the new investments made under finance lease contracts, which had an adverse effect on EBITDA of 0.5 percentage points.

Personnel costs totalled Euro 55,599 thousand (+5.6% on Euro 52,653 thousand in 2016). They accounted for 32.7% of revenues, while in 2016 accounting for 31.7% (+1%).

Personnel costs, as in previous years, were impacted by the application of better conditions for employees of the parent company than under the National Metalwork industry contract, with the issue of a 14th month, a production bonus and a significant MBO for managers, which in 2017 resulted in Euro 3,384 thousand of additional charges and accounted for 9.0% of total parent company personnel costs.

Amortisation and depreciation totalled Euro 5,866 thousand, compared to Euro 5,292 thousand in the previous year (3.4% of Revenues, 3.2% in 2016).

Write-downs and provisions amounted to Euro 94 thousand and refer to trade receivables.

The financial performance follows:

	2017	% Revenues	2016	% Revenues	Cge	Cge %
Interest and other financial charges	(1,213)	-0.7%	(1,315)	-0.8%	102	-7.7%
Other financial Charges/(Income)	42	0.0%	89	0.1%	(47)	-53.0%
<i>Net Financial Charges</i>	(1,171)	-0.7%	(1,225)	-0.7%	54	-4.4%
Exchange Losses/(Gains)	(1,634)	-1.0%	290	0.2%	(1,924)	-664.1%
Adjust. to financial assets/liabilities	2,770	1.6%	714	0.4%	2,056	288.0%

Net financial charges in 2017 were Euro 1,171 thousand, of which financial charges of Euro 1,213 thousand and financial income of Euro 42 thousand. It will be appropriate to note that net financial charges remained constant as a percentage of sales revenues compared with 2016 at 0.7%.

Income taxes and net result

The 2017 **net profit was Euro 16,687 thousand** (Euro 16,775 thousand in 2016, -0.5% on the previous year), after ordinary amortisation and depreciation of Euro 5,866 thousand (Euro 5,292 thousand in 2016) and **income taxes** (current and deferred) of Euro 5,805 thousand (Euro 7,441 thousand in 2016).

EBIT was Euro 22,573 thousand, reducing Euro 1,865 thousand (-7.6% on 2016).

Operating cash flow (Net Result, Amortisation and Depreciation and Provisions) were Euro 22,647 thousand, increasing on the previous year 2.5%.

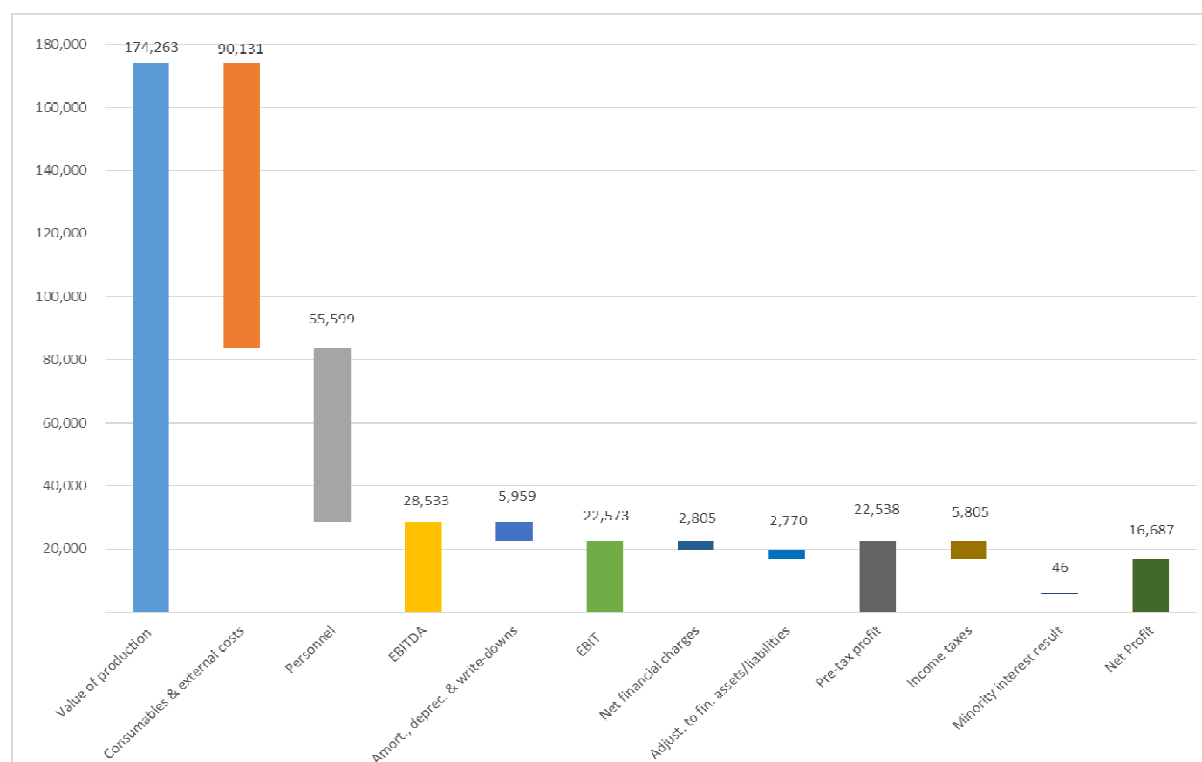
The **Tax rate** reduced from 30.7% in 2016 to 25.8% in 2017; this reduction principally follows the new IRES rate for the parent company of 24%, compared to 27.5% at January 1, 2017, and lower IRES thanks to the accelerated depreciation benefits and the ACE effect.

	2017	2016	Cge.	Cge. %
Current taxes	5,448	6,901	(1,453)	-21.1%
Prior year taxes	(37)	(164)	127	-77.4%
Deferred Tax Charge	394	704	(310)	-44.0%
Total Income Taxes	5,805	7,441	(1,636)	-22.0%
Profit before taxes	22,538	24,216	(1,678)	-6.9%
Tax Rate	25.8%	30.7%		

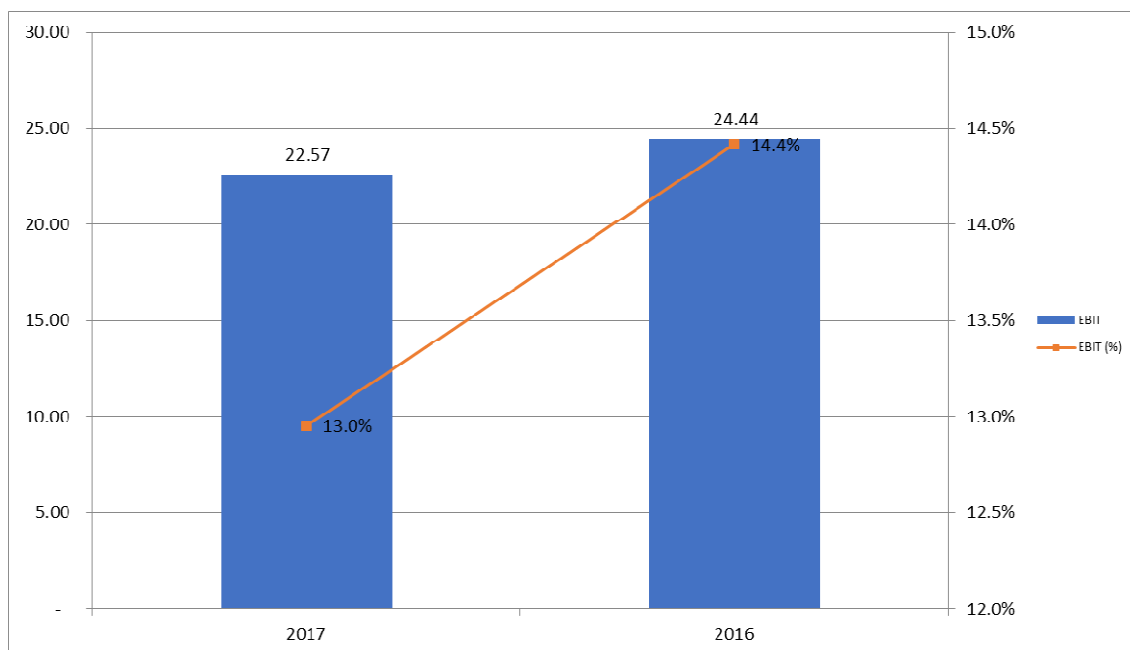
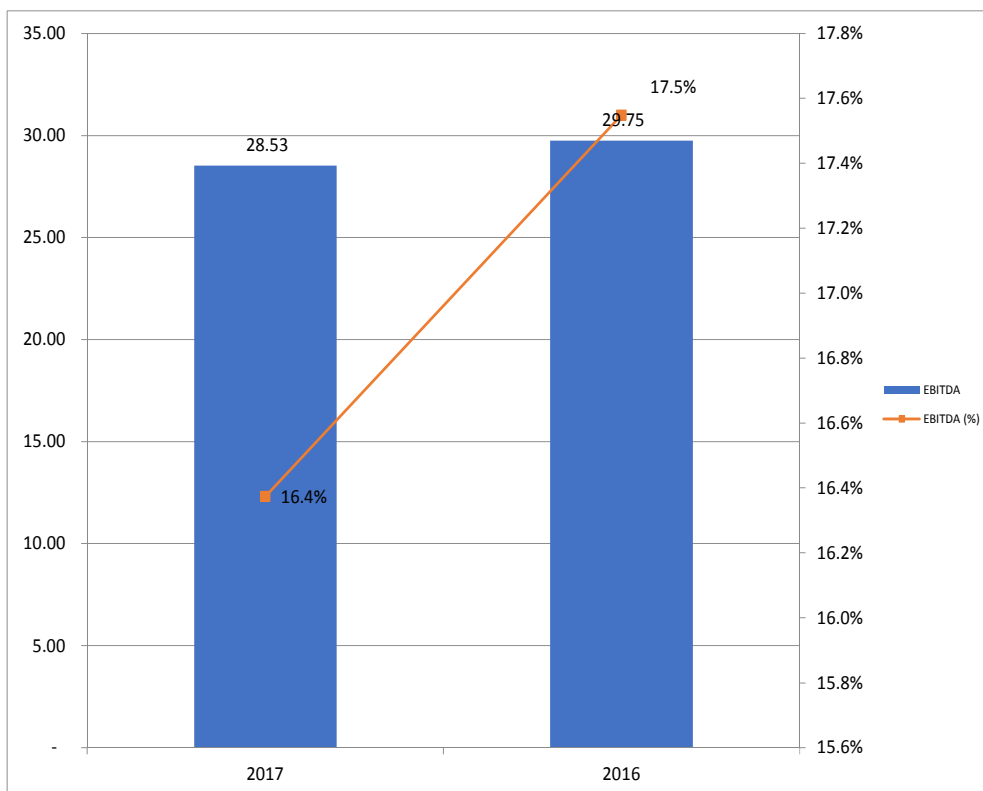
The reclassified income statement follows:
(Euro thousands)

	2017	2016	Changes	Cge. %
Value of production	174,263	169,517	4,746	2.8%
Consumables & external costs	90,131	87,117	(3,014)	-3.5%
Personnel costs	55,599	52,653	(2,946)	-5.6%
% on value of production	31.9%	31.1%	0.8%	
EBITDA	28,533	29,747	(1,214)	-4.1%
% on value of production	16.4%	17.5%	-1.2%	
Provisions & Write-downs	94	17	(77)	-452.9%
Amortisation & Depreciation	5,866	5,292	(574)	-10.8%
Operating profit – EBIT	22,573	24,438	(1,865)	-7.6%
% on value of production	13.0%	14.4%	-1.5%	
Financial income	42	89	(47)	-53.0%
Financial charges	(1,213)	(1,315)	102	-7.7%
Exchange gains and losses	(1,634)	290	(1,924)	-664.1%
Net financial charges	(2,805)	(936)	(1,869)	199.8%
% on value of production	-1.6%	-0.6%	-1.1%	
Group net profit	19,768	23,502	(3,734)	-15.9%
Adjust. to financial assets/liabilities	2,770	714	2,056	
% on value of production	1.6%	0.4%	1.2%	
Result before taxes	22,538	24,216	(1,678)	-6.9%
% on value of production	12.9%	14.3%	-1.4%	
Income taxes	(5,805)	(7,441)	1,636	-22.0%
Minority interest result	(46)	-	-	
Net Profit	16,687	16,775	(88)	-0.5%

The 2017 results are presented in the following graph:
(Euro thousands)



The following graph outlines the EBITDA and EBIT performance for 2017 and 2016, and as a percentage of the Value of Production.



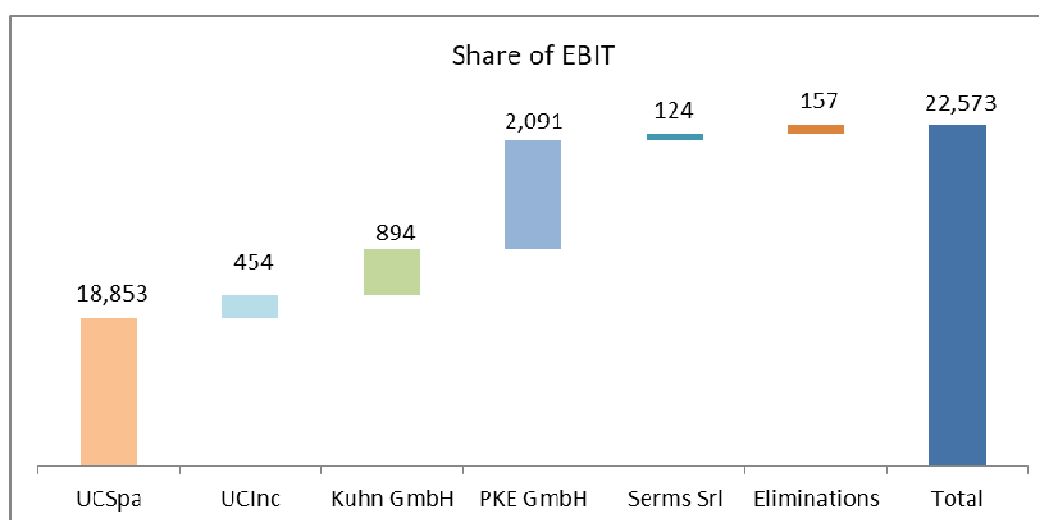
Adjusted EBITDA

Considering the new domestic rules introduced by Legislative Decree 130/2015 which transposed Directive 2013/34/EC, with the application of the new standard OIC 12 concerning the retroactive application of extraordinary item reclassification, for comparative purposes only the Adjusted EBITDA is reported with particular indication of the extraordinary asset and liability items.

	2017		2016	
EBITDA	28,533	100%	29,747	100%
<i>Prior year income</i>	494		832	
Adjustments to prior year costs and revenues	494		832	
Rebates and rounding income	-		-	
Total extraordinary income	494	1.7%	832	2.8%
<i>Prior year charges</i>			522	
Adjustments to prior year costs and revenues	677		522	
Rebates and rounding charges	-		-	
Total extraordinary charges	677	2.4%	522	1.8%
Adjusted EBITDA	28,716		29,437	
EBITDA Margin	16.4%		17.5%	
EBITDA Margin Adjusted	16.5%		17.4%	

The following table outlines EBIT by company:
(Euro thousands)

	2017	2016	Cge. %
UmbraGroup Spa	18,853	20,311	-7.2%
Umbra Cuscinetti Inc.	454	1,479	-69.3%
Kuhn GmbH	894	924	-3.2%
PKE GmbH	2,091	1,674	24.9%
Serms Srl	124		
Total	22,416	24,388	-8.1%
Inter-company eliminations	157	50	212.0%
Consolidated EBIT	22,573	24,438	-7.6%



The performance is summarised by the following indicators:

	2017	2016
ROE	20.9%	25.1%
ROS	13.3%	14.7%
ROI	11.9%	16.0%
Ebitda Margin	16.4%	17.5%

The ROE (Return on Equity) is the ratio between the net result (NR) and the closing net equity (NE). The ROS (Return on sales) is the ratio between the operating result (OR) and Revenues. The ROI (Return on investments) is the ratio between the operating result (OR) and the Net capital employed (NCE). The EBITDA margin is the ratio between EBITDA and the Value of Production (VP).

Equity and financial position

Compared to December 31, 2016, **Capital employed** increased Euro 36,495 thousand (+23.9%).
The macro accounts reporting the greatest changes were:

- a. **Fixed assets:** changes related to investments and amortisation and depreciation as per the Annexes to the Explanatory Notes; the net increase was Euro 3,064 thousand (+6.3%);
- b. **Inventories:** the item stood at Euro 33,579 thousand, down by Euro 273 thousand on the previous year;
- c. **Trade receivables:** these amount to Euro 18,595 thousand, accounting for 10.9% of revenues; they decreased on 2016 (revenue percentage of 11.7%);
- d. **Receivables - Others:** the item increased by Euro 4,276 thousand. This increase is chiefly due to the rise in tax receivables relating to the tax consolidation position in respect of the parent company and the increase in receivables for R&D grants of which the company is a beneficiary;
- e. **Current liquidity:** the account increased Euro 30,330 thousand;
- f. **Post-employment benefit provision and provisions for risks and charges:** this item declined by Euro 2,751 thousand; this was mainly due to the measurement of foreign exchange hedging instruments, which in 2017 involved a release from the provision due to the fair-value accounting change recorded at year-end, as included in item D.18 of the income statement;
- g. **Short-term trade payables:** the account increased 13.1% on the previous year.

The reclassified balance sheet is presented according to the financial criterion.
(Euro thousands)

Assets	2017	2016
Liquid assets	137,597	104,166
- Current liquidity	69,275	38,945
- Trade Receivables	18,595	19,497
- Other Receivables	16,148	11,872
- Final inventories	33,579	33,852
Fixed assets	51,354	48,290
- Intangible assets	4,018	2,554
- Property, plant & equipment	47,284	45,610
- Financial assets	52	126
Capital Employed	188,951	152,456
Liabilities	2017	2016
Short-term trade payables	23,310	20,607
Other Payables	16,782	20,593
Short-term financial payables	18,800	14,405

Medium/Long-term financial payables	44,692	25,837
Post-Employment Benefit Provision and Provisions for Risks and Charges	5,411	8,162
Own Funds	79,767	66,852
- Capital and reserves attributable to non-controlling interests	189	-
Sources of Capital Employed	188,951	156,456

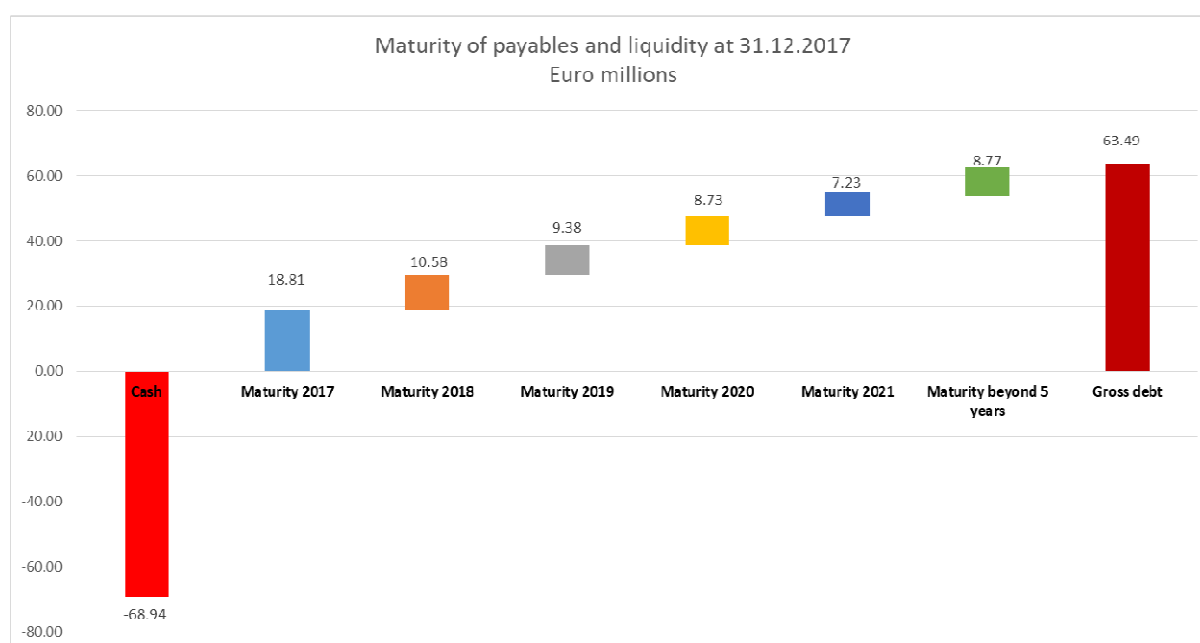
	2017	2016
Client days outstanding	40	43
Supplier days outstanding	95	86
Inventory rotation	206	200

The **net financial position** in 2017 of a cash position of Euro 5,449 thousand improved Euro 6,755 thousand on the end of 2016, confirming the strong generation of cash from operating activities.

Description	31/12/2017	31/12/2016
Bank Deposits	(68,931)	(38,918)
Cash	(10)	(18)
Current loans and borrowings	18,800	14,405
Short-term Net Financial Position	(50,141)	(24,531)
Non-current loans and borrowings	44,692	25,837
Medium/long-term Net Financial Position	44,692	25,837
Total	(5,449)	1,306

In particular, bank payables (current and non-current) at December 31, 2017 amounted to Euro 63,492 thousand (Euro 40,242 thousand in 2016), increasing on the previous year Euro 23,250 thousand and more than offsetting the increased liquidity (+77.1%).

Cash and cash equivalents and financial payables by maturity are respectively presented at December 31, 2017.



The changes were as follows:
(Euro thousands)

Equity and financial position	2017	2016	Changes
Net trade receivables	18,595	19,497	
Other receivables	16,148	11,872	
Inventories	33,578	33,852	
Current financial assets	334	9	
Current non-financial liabilities	(40,078)	(37,154)	
A) Net Working Capital	28,577	28,076	501
Receivables beyond 12 months	52	50	
Financial Instruments - Assets	-	76	
Intangible assets	4,018	2,554	
Tangible assets	47,284	45,610	
Long-term non-financial liabilities	(14)	(46)	
B) Net Fixed assets	51,340	48,244	3,096
C) Post-employment benefit provision and other provisions	(3,452)	(3,510)	58
D) Provision for Risks and Charges	(1,959)	(4,652)	2,693
E) Capital employed net of current liabilities (A+B+C+D)	74,507	68,158	6,349
Financed by:			
Short-term debt	18,800	14,405	
Financial payables – Medium-term	44,692	25,837	
Cash & cash equivalents and short-term current	(68,941)	(38,936)	
F) Net financial position	(5,449)	1,306	(6,755)
H) Shareholders' Equity	79,956	66,852	13,104
I) Total (F+H) as in E	74,507	68,158	6,349

(Funding)/Liquidity generated by:	
Change in net working capital	501
Change in Net Fixed assets	3,096
Change in M/LT non-financial liabilities, Tax provision	2,751
Sub-total	6,349
Change in shareholders' equity	13,104
Total	(6,755)

Net Working Capital at December 31, 2017 increased Euro 501 thousand (+1.8%); **Net Fixed Assets** rose Euro 3,096 thousand (+6.4%); the movement in **Shareholders' Equity** relates to the net profit of Euro 16,687 thousand and reduced Euro 3,000 thousand due to the issue of dividends to shareholders.

For further details, reference should be made to the Explanatory Notes.

The balance sheet is summarised by the following financial and equity indicators (in Euro thousands):

	2017	2016
Total Payables	98,426	73,470
Current Assets	135,346	102,323
Current ratio	1.894	1.439
Acid-test ratio	2.519	2.150
Net Financial Position	5,449	(1,306)
Shareholders' Equity	79,956	66,852
Shareholders' Equity / Total Assets	0.42	0.44
NFP / SE	NA	0.02
Debt ratio	1.00	1.14
NFP / EBITDA	NA	0.04
EBITDA/Net interest	23.52	22.63

The current ratio, calculated as the ratio between current assets excluding inventory and current liabilities, is 1,894 (up on 2016). The acid-test ratio, calculated as the ratio between current assets and current liabilities, is 2,519 (increasing on 2016).

The **debt ratio** is the ratio between Net Capital Employed and Net Equity and shows the amount of investment made against the capital conferred (Net Equity). The debt ratio reduced on 2016.

The NFP/Shareholders' Equity ratio, calculated as the ratio between the net financial position at year-end and total Shareholders' Equity, was not calculable due to the positive NFP.

Since the company has a positive net financial position (net cash), the ratio of **NFP to EBITDA** cannot be calculated.

Investments

Investments were principally made in the following areas during the year:

(Euro thousands)

Property, plant & equipment	2017	2016
Land and buildings	172	52
Plant and machinery	4,714	6,261
Industrial and commercial equipment	985	1,030
Other assets	13	29
Assets under development and payments on account	2,283	1,534
Total	8,167	8,906

Intangible assets	2017	2016
Development costs	105	-
Software licenses	353	524
Goodwill	357	-
Assets in progress and advances	1,267	274
Other intangible assets	128	111
Total	2,210	909

It should also be noted that investments under lease contracts amounted to Euro 4,785 thousand.

The movements in Intangible and Tangible Assets are reported upon in the Explanatory Notes. Financial assets for financial years 2017 and 2016 are reported below.

Financial assets	2017	2016
Other receivables	52	50

Human Resources and Organisation

Umbra Group S.p.A. places the individual at the centre of its operations. For a business in which expertise is a fundamental factor for success, human resources are the key to establishing a competitive advantage. Our human resource policies are built around respect for the individual and their personal and professional development, in addition to improving quality of life.

To achieve this objective, we are determined to attract, train, develop, retain and reward top talent throughout their careers.

General workforce details follow:

Workforce at 31.12.2017

Reference date 31/12/2017	Executives	White-collar & Managers	Blue-collar	Temporary	Total 2017	Total 2016
UGS	10	239	466	23	738	704
KUHN	1	10	36	0	47	45
PKE	3	16	85	8	112	104
UCI	3	69	53	5	130	111
SERMS SRL	-	5	-	-	5	-
UMBRA GROUP	17	339	640	36	1,032	964

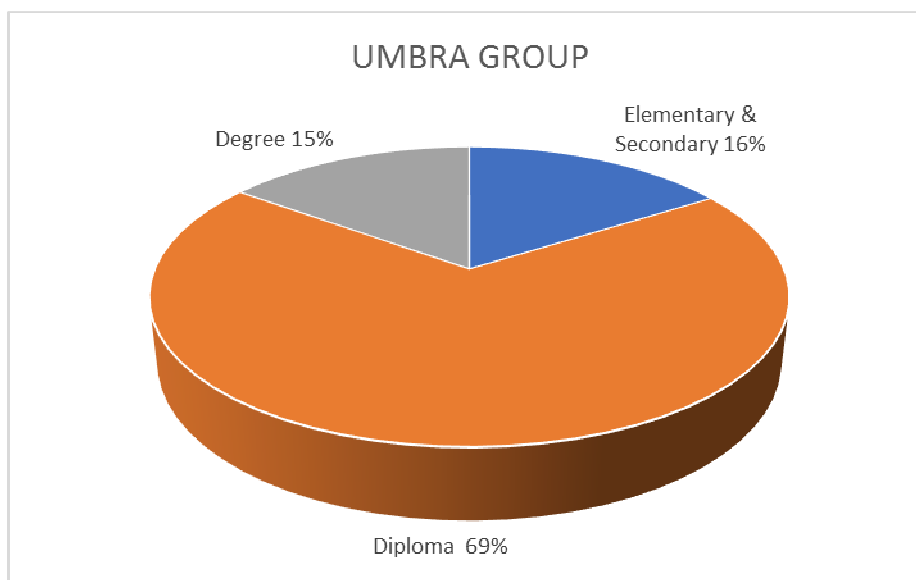
Average age and years in the service

Reference date 31/12/2017	Average age		Years in service	
	Direct	Indirect	Direct	Indirect
UGS	43.7	43.4	14.4	14.5
KUHN	41.0	40.0	11.0	10.0
PKE	44.0	47.0	19.0	24.0
UCI	41.0	42.0	5.2	4.2
SERMS SRL	-	36.4	-	3.2
UMBRA GROUP	42.4	41.7	12.4	11.2

1.1 Workforce by qualification

Due to the differences between the education systems of the various countries, educational qualifications are classified as follows:

- Elementary and Secondary: those who did not go on to university education;
- Diploma (Higher Education): those who undertook a university education or studies which permitted direct entry into a profession (e.g. surveyor diploma);
- Degree: Includes all those undertaking university or post-university (e.g. Masters) studies.



2017 Training & Development Strategy

In January 2017 the company implemented new management software in support of all HR processes: INAZ HR. The new tool will permit the implementation of a process of planning needs, monitoring and supervising training and distinguishing more clearly between training methods (in the classroom, coaching, etc.) and on-the-job training.

The key points of the 2017 Training & Development Strategy were:

- Deeper aeronautical culture – more in-depth knowledge of aviation laws and regulations;
- Adaptation of company processes to the new version of the ISO 9001/EN9100:2015 standard;
- Consolidation of the leadership chain;
- Spread of the lean six sigma method;
- Improved proficiency in English and German.

Total training hours numbered 13,546, as follows:

Category	No. UmbraGroup S.p.A. participants	UmbraGroup S.p.A. training hours
Executives	10	694
Managers	12	575
White-collar	152	7,290
Blue-collar	205	3,515
Total	379	12,074

Category	No. of PKE GmbH participants	PKE GmbH training hours
Executives	-	-
White-collar	2	40
Blue-collar	6	550
Total	8	590

Category	No. of KUHN GmbH participants	KUHN GmbH training hours
Executives	1	16
White-collar	8	152
Blue-collar	6	144
Total	15	312

Category	No. of Umbra Cuscinetti Inc. participants	Umbra Cuscinetti Inc. training hours
Executives	7	7
White-collar	74	210
Blue-collar	75	360
Total	156	577

Category	No. of UMBRA GROUP participants	UMBRA GROUP training hours
Executives	11	710
Managers & White-collar	174	8,057
Blue-collar	395	4,779
Total	580	13,546

The total number of interns was 100, taken in collaboration with schools, Universities and other Training Agencies. The objective is to give young people the opportunity to join the workplace environment, while helping the company to execute projects requiring the contribution of temporary workers and widening the scope of potential personnel when employment opportunities arise.

Type Intern	No. Interns	Average intern duration (Days)	Average hours
School-work alteration	64	20	162
Curricular	12	69	555
Degree thesis	13	245	1,965
Post-Graduate	11	176	1,411
Total Interns 2017	100	510	4,094

We are convinced that only by constantly investing in human resources and ongoing professional development is it possible to achieve genuine leadership ability and style, by honing a sense of self-awareness, personal vision and an ability to lead winning teams.

Company welfare

In recent years, the legislative framework has been reinforced by an increasing emphasis on the integration of company welfare into remuneration policies, in both collective and company bargaining. UmbraGroup is working towards this goal, in order to achieve increasing integration of its welfare policies into its employee remuneration package framework, and it is currently assessing the adoption of a welfare services platform.

In 2017 UmbraGroup also revised the supplementary health insurance policy with UniSalute covering all employees. The “Umbragroup” Plan provides complete coverage both for the worker and their financially-dependent family, guaranteeing coverage for medical visits, orthodontic services and hospital admittance.

Supplier Relations

The optimisation of costs, procurement efficiency, the protection of local interests, adequate supplier remuneration and the meeting of payment deadlines are elements which are a feature of UmbraGroup S.p.A.'s supply chain sustainability, consolidating over time fair dealings with suppliers, based on trust, transparency and facilitating the creation of long-term value.

Social Responsibility

In 2017 UmbraGroup remained committed to supporting both the local and international community.

Its first important contribution was a donation to the projects pursued by the Valter Baldaccini Foundation, of which UmbraGroup is a founding partner.

Another contribution – to both the local community and its employees – was the Mens'ANT project, focusing on the importance of nutrition to physical well-being and a balanced diet, thus also driving an improvement in work performance. Mens'ANT is also part of the larger ANT project in support of ODO, involving access to a nutritionist for patients suffering from terminal diseases as part of home cancer care. The project is to continue with a focus on company meal service. The big-picture objective is for everyone to introduce these sound dietary habits in their family lives as well, thereby contributing to the spread of healthful nutrition in the local community.

The total amount donated was Euro 85,000.

Project	Cost in Euro
Umbria - ANT nutrition project	13,000
ODO ANT Project	7,000
VB Foundation	65,000
TOTAL	85,000

Sponsorships and charitable donations

Over time, UmbraGroup has sought to focus its sponsorship activities on important social and educational projects for the local community, particularly its youngest members.

The most important of these is sport, which is the first forum for socialisation and development of cognitive abilities and social skills. Sport is an opportunity to measure up against others, push one's limits, challenge one's peers, develop a spirit of sacrifice and team spirit, and get into the habit of helping others and working together towards a common goal. The sponsorship of the associations ASD Spello, ASD Cannara and Atletica Winner is an example of this. Another sport-related endeavour is the sponsorship of fencing champion Andrea Santarelli, a Foligno-native athlete who has dedicated himself to a discipline that demands precision, concentration, a focus on goals and strategy – much like the company's business.

In this case as well, the contribution was intended to benefit those on the margins of society or whose health is at risk. Examples include the support given to the associations Avanti Tutta, to fight cancer, and Cinthi, to create a short film dedicated to children suffering from Down's syndrome.

Another area of activity focused on respecting the environment and multiculturalism as part of the project “A Screw Loose for the Environment. Let's Talk About Sustainability”, which this year received an important contribution from the Retake Association, which enabled the revitalisation of two neighbourhoods in Rome and Milan suffering from urban decay as part of the “Shared Gardens” initiative.

Finally, literature was the focus of the convention "Reading, A Nasty Habit: How to Fall Into it at School", a one-day event involving the participation of writers from all of Italy specialising in various types of writing, aimed at benefiting the local community.

Other minor sponsorship projects benefited local magazines and other activities relating to the guidelines set out above.

Valter Baldaccini Foundation

It was a very intense year for the Valter Baldaccini Foundation, which carried out significant projects at both the local and international levels.

First of all, support for locally based initiatives in Kenya and Burkina Faso continues. Since 2007 we have supported 119 children, enabling them to study in a healthy setting, from both a moral and environmental standpoint. The Foundation aims to continue this project in collaboration with the local chapter of the Focolare Movement – a guarantee that the funds provided will be put to good use.

In Kosovo, the Foundation ensured the continuing support from friends and employees of Umbra in the form of donations to the "Casa Caritas Umbria" in Leskoc, inaugurated on October 24, 2014. Last year, the managers of the home for needy families purchased a plot of land on which to build a farm with working space where young Kosovans can begin to integrate themselves into the working world. The Foundation contributed to the project by purchasing ten dairy cows, a milking machine and a pasteurisation machine, allowing the farm to begin to operate in earnest.

In other international efforts, the Valter Baldaccini Foundation provided the Per Sophia Foundation with two scholarships for study at the Sophia University Institute.

The project aims to support the cultural development and contribute to the education of two deserving students, one from Mexico and the other from Egypt, who would not otherwise have been able to continue their studies due to economic hardship.

Turning back to Italy, a donation was made to the Seraphic Institute of Assisi to support its invaluable efforts benefiting children suffering from severe disabilities, and in particular to fund the installation of a Snoezelen Environment dedicated to sensory stimulation. Through its activities, the Institute gives the gift of hope to a large number of families from all of Italy.

Another important project at the local level – considering its participants, among other reasons – is "Family and Work" in partnership with the Diocesan Caritas. Its goal is to provide work placement programmes for ten families from the greater Foligno area experiencing severe economic hardship. The donation involved the participation of the Valter Baldaccini Foundation, the City of Foligno, the Foligno Diocesan Caritas and the Arca del Mediterraneo Foundation. A process of inclusion and integration into the workplace was launched, involving the renovation of public spaces in the City of Foligno, in addition to services through the Diocesan Caritas organisation.

The idea is to forge an increasingly close partnership between these important players in the Foligno community to make a major contribution locally.

The Foundation published the first report on its activities in 2016, the full version of which is available from the website www.fondazionevb.org.

Projects	Description	Amount	Area
Burkina Faso	Distance support	€ 1,000	International
Serafico - Stanza Snoezelen	Purchase of following equipment: waterbed, hammock and music cushions	€ 5,000	Local
Kenya	Distance support	€ 9,000	International
Caritas Foligno	Provision of work grants for families in the region in difficulty	€ 10,000	Local
Scholarship	Allocation scholarships	€ 15,000	International
Caritas Kosovo	Purchase of a milking machine and ten dairy cows	€ 25,000	International
Total		€ 65,000	

Ethics Code

The Ethics Code is the document in which UmbraGroup lays down the system of rules and values that ensures that it performs its role responsibly, while also emphasising its commitments to its internal and external stakeholders.

The Code, approved by the Parent Company in 2014, was extended to all Italian and international subsidiaries in January 2018. It is divided into seven sections, the contents of which apply to the boards, management, employees and independent contractors of group companies.

Environment, Safety and Health

The main results for 2017 and the projects in development were:

Safety indicators

Organisation	No. of accidents	No. of employees	No. of accidents/1,000 employees
UmbraGroup S.p.A.	16	707	22.6
Umbra Cuscinetti Inc.	2	118	8.5
Kuhn GmbH	-	45	-
PKE GmbH	4	104	38.5
Serms Srl	-	5	-

UMBRAGROUP S.p.A.

In 2017, 16 accidents occurred, of which one commuting, for a total of 274 lost days. All accidents involved workers based at the facility located on Via Valter Baldaccini. The frequency and gravity ratios (number and gravity of accidents) decreased on 2016.

In November, TÜV Italia carried out an audit for maintenance of the BS OHSAS 18001 and UNI EN ISO 14001 compliant integrated management system. The audit was passed, confirming both the certification for the Foligno sites and the Albanella research centre. From a management standpoint, the budget called for the completion of at least 60 corrective, preventive and improvement measures: this target was reached and exceeded at 63.

At the level of environmental indicators, against an approximately 4% increase in the units produced:

- well water usage: + 17% (more than process efficiency, this figure clearly reflects the particularly arid climate);
- total waste generated: -1.13%;
- hazardous waste: +18% (increase due to sharp rise in bearing production waste sludge and the concurrent stoppage of the briquetting machine);
- potable water use: +5%.

In 2017 UmbraGroup incurred total expenses relating to its Environment, Health and Safety area of Euro 658,711, of which investments of Euro 202,325.31 (including atmospheric emission reduction systems).

The above amount breaks down as follows:

- Environment Area: Euro 357,850, including investments of Euro 164,883;
- Worker Health and Safety Area: Euro 300,861.67, including investments of Euro 37,442.

Employee health projects were launched, including the project "Learning Proper Movement" involving the collaboration of a personal trainer aimed at preventing muscle and joint problems (planned to last five years, for an annual investment of Euro 19,500). In addition, during examinations by the company physician, in addition to other parameters, such as blood pressure and general state of health, employees' body mass and waste sizes were measured to assess the efficacy of dietary interventions. Signs of obesity were identified in 45% of cases.

UmbraGroup's commitment to health, safety and the environment focuses on sustainable growth: UmbraGroup has been certified compliant with the standards ISO 14001 and OHSAS 18001 since 2012.

The severity index has fallen by 40% over the last five years.

Investments in worker health and safety training and improvement amounted to approximately Euro 300,000, or 3,697 hours, in 2017.

The improvements observed with regard to the environment are shown below:

- a constant reduction of the waste produced and an increase in the amount recycled: in the last five years, we have increased the percentage of waste recycled from 52% to 74%;

- no waste water discharge: over the last three years, the company has purchased water purification systems (at a cost of Euro 120,000 each) that can be used to re-use 95% of industrial waste water;
- investments in technologies aimed at improving environmental performance in 2017: Euro 165.000.

In the work environment, the installation of the LED-lighting system in all company areas, from production to offices, was completed in 2017 for a total investment of approximately Euro 300,000. In addition, all areas of the work space are climate-controlled, in both summer and winter. The company canteen, which also includes outdoor seating, day and night, serves around 550 meals a day.

The company contributes to training new generations of workers through initiatives such as:

- "A Screw Loose for the Environment": this project involves 33,000 pupils from 1,500 classes throughout Italy who receive environmental education;
- "Italy Loves Safety": within a community that institutions entities and organisations throughout Italy aimed at spreading a culture of safety, 20 children of employees and 50 kids from the Foligno children's library took part in a game dedicated to risk prevention in situations from daily life.

Präzisionskugeln Eltmann GmbH

There were four accidents in 2017.

The company passed the ISO 14001 maintenance audit without any non-conformity.

Umbra Cuscinetti Inc

The US subsidiary's policy is that "No task is so important that we cannot protect ourselves, our associates or the environment."

There were two accidents in 2017, one followed by an absence from work and another by a change of duties. 28 accidents were avoided and 2 best practices implemented. The company is considering whether to implement an environment management system compliant with the ISO 14001 standard. We at Umbra have signalled our willingness to support them.

Kuhn GmbH

No accidents occurred in 2017.

No other noteworthy aspects were reported.

SERMS Srl

The company, acquired by UMBRAGROUP S.p.A. in 2017, has an internal head of the prevention and protection service, despite its limited number of employees. The company is properly structured, with a system of delegated authority relating to worker health, safety and environment responsibilities.

Management and coordination

As per Article 2497 bis, paragraph 5, the company is subject to the management and coordination of Poliscom Srl, with registered office in Perugia, Via G.B. Pontani, 10, Perugia Companies Registration Office No. 2778900544, Economic and Administrative Index No. 240425. The financial highlights for Poliscom Srl from the last approved financial statements (2016) follows.

Poliscom Srl	Amount
Revenues	-
Financial income	2,815,935
Net Profit	2,896,690
Shareholders' Equity	19,623,243
Total Assets	30,063,834

Transactions with subsidiary, associate, holding and related companies

Transactions with the parent company under the Tax Consolidation are reported below.

Company	Receivable s	Payables
Poliscom Srl	2,090	213

The company undertakes transactions with the following related company controlled by the parent company Poliscom Srl:

1. AMCO Srl - Foligno – PG.

These are commercial transactions, are part of ordinary operations and are regulated at market conditions, i.e. the conditions that would be applied between two independent parties and are undertaken in the interests of the company.

Commercial transactions are summarised below:
(Euro thousands)

Company	Trade receivable s	Trade payables	Sales	Components and treatments purchased	Other
AMCO Srl	261	3,166	132	6,241	124

Subsequent events

The transition to the new Dynamics 365 information system took place on January 1, 2018. Umbra, the FIRST in Italy on Microsoft Cloud ERP! UmbraGroup is at the highest level of Cloud technology with the new D365FFO management tool. Through the partnership with Concert, which has supported the project's implementation, the company now has the innovative Cloud platform which makes it even more competitive on the market. The Group Program Manager of the Microsoft headquarters in Redmond (Seattle) is congratulated on the excellent job done.

The closing of the acquisition of Linear Motion LLC (Thomson Aerospace & Defense) took place on March 26, 2018. This company is located in the United States and is the sector's absolute pioneer through the invention of recirculating ballscrews - a sector in which the UmbraGroup is world leader with over 60% market share. The acquisition involves a company of about 180 personnel and an approximate turnover of USD 40 million. The acquisition was formalised through a holding company established in the State of WA - USA with the aim of concluding acquisitions in the USA.

Outlook

UmbraGroup expects to continue to reinforce its leadership position on the recirculating ballscrew market, improving its revenue performance, on the strength of its recent acquisition and order backlog, which is expected to come to around Euro 205 million. We expect not only to continue to grow, but also to further improve profitability and all performance indicators.

Principal risks and uncertainties

On the basis of the disclosure required by Article 2428 of the Civil Code, paragraph 2 No. 6 *bis*, the Group operates in a highly dynamic market and consequently is faced with a multitude of business risks. Value creation is therefore not possible without undertaking risks. The management of risks is therefore an integral part of company operations.

Risk management fosters awareness in company decision-making, reduces the volatility of results against objectives and is key to creating a competitive advantage.

Group operations are exposed to a range of risks, including: market risk (including price risk, currency risk and interest rate risk), credit risk and liquidity risk.

Market risk

Market risk concerns the possibility that changes in exchange rates, interest rates or raw material prices (brass, aluminium, steel, stainless steel and cast iron) may impact the value of assets, liabilities or expected cash flows.

Price risk

Raw material prices depend on a broad range of factors which are difficult to predict and largely may not be controlled by the company. Although historically the company has not encountered particular difficulties in acquiring adequate amounts of and appropriate quality raw materials, it may not be discounted that difficulties may arise in terms of supply, resulting in increased costs with impacts on company results.

Interest rate risk

The company is exposed to fluctuating interest rates on funding operations, payables and bank loans and on leasing contracts.

The fixed rate Group level debt at December 31, 2017 was approx. 75.3% of total financial debt; for the management of variable rate debt, interest rate swap derivatives are utilised; 15.7% of total financial debt is hedged through IRS's.

Currency risk

The Group is exposed to fluctuations in the exchange rates of the currencies in which sales transactions are executed (principally US Dollars). In 2017, 43% of total Group revenues were in USD (at the average exchange rate for the year). This risk is in addition to the possibility that the Euro value of revenues reduces following unfavourable exchange rate movements, impacting the achievement of the desired margin.

In order to contain the currency risk from commercial operations, the company undertakes derivative contracts to fix in advance the conversion rate, or a preset range of conversion rates, at future dates.

Forward contracts are undertaken on the basis of the budget and such hedges conclude on the expected payment date of the relative sales invoices.

Liquidity risk

The company manages liquidity risk through close control of the operating working capital components and in particular trade receivables and trade payables.

The company is committed to strong cash generation to meet supplier payments, without therefore compromising short-term treasury equilibrium and avoiding current liquidity difficulties.

Credit risk

Company credit risk represents the exposure to potential losses deriving from the non-compliance with obligations by counterparties.

The company generally favours consolidated ongoing commercial relationships. According to company policy, customers that request payment extensions are subject to a credit rate check, both using information which may be sourced from specialised agencies and from observation and analysis of existing client data. Moreover, the collection of receivables is constantly monitored during the year in order to ensure timely action and to reduce the risk of losses.

For the treatment of derivative financial instruments, reference should be made to the Explanatory Notes.

Information in accordance with Article 2428 of the Civil Code

The most critical research and development operations in 2017 by the parent company are outlined below, which continued to focus and strengthen research around three main pillars:

1. "More electric aircraft"
2. "Energy"
3. "Automation".

With regards to "More electric aircraft" research, participation in European programmes with leading aeronautic enterprises continued (such as Airbus, Leonardo etc.), which published European Union co-funded calls as part of the JTI Clean Sky initiative to develop cutting-edge technologies which go beyond state of the art technology.

Umbra's main areas of development in 2017 focused on electric landing gear, electric motors substituting conventional power and primary surface actuators.

Industrial relationships for the projects presented were developed and continue to consolidate with sector leaders (Airbus, Leonardo, Piaggio, etc), already direct clients and with whom business volumes may be expanded.

For "Energy" research, development focused on regeneration from linear drive systems.

In this regard, the challenge continues to be the creation of high impact innovation which attracts energy business for Umbra which currently is relatively marginal.

One of the most interesting applications is the conversion of sea energy. In this regard, the main difference compared to “More electric aircraft” is the substantial absence of integrator clients. Umbra has significant capabilities and expertise to bring to the market a difficult product to be installed in a hostile environment such as the sea. The regeneration sector includes also the development of shock absorbers for the transport sector (which will be of particular importance for competition vehicles and for electric vehicles).

Another important area on which Umbra research is focusing is the production of renewables and their storage, with this programme part of the three-year plan research funding of the national electric system.

In automation research, a project funded by the Region of Umbria under the complex projects programme was launched in 2017.

This instrument may improve process automation and therefore streamline the production lines.

Also in relation to Article 2428 of the Civil Code, we outline research and development costs also for the purposes of applying Law 808/85 and subsequent amendments.

In 2017, the company, having undertaken in previous years research and development programmes which have delivered benefits as per Law 808/85, in accordance with regulations applied for the reimbursement under the “Flight Controls positioning and locking Linear actuator for the EH101 helicopter” programme.

Treasury shares

At December 31, 2017, the parent company holds 34,933 treasury shares, comprising 10.20% of the share capital.

During the year, treasury share purchases and sales were made.

These treasury shares are to be allocated in part to the stock option plan approved by the Shareholders’ Meeting of May 27, 2016.

The company has not held and does not hold, neither directly or indirectly, parent company shares. The company does not hold treasury shares through trust companies or nominees.

We outline in detail below the direct holding of treasury shares.

Description	Number held	Nominal value	Share capital (%)
Treasury shares	34,933	Euro 33.00	10.20

Tax consolidation participation

The company exercised for 2017, in continuance since 2009, the national tax consolidation option with the parent company Poliscom Srl.

Legislative Decree 231/01

The company adopted an Organisational Model in 2014 modelled on its specific needs, setting out a complete system of internal control and organisation in order to ensure legality, correctness and transparency in the conducting of business, in addition to the protection of Umbra Group S.p.A. from liability under Legislative Decree No. 231/01, and therefore in protection of all company interest holders.

The Supervisory Board comprises the Attorney Cristiana Buchetti as Chairperson and Mr. Daria Pinotti.

On January 29, 2018, the company's Board of Directors approved, lastly, amendments to the Organisation, Management and Control Model relating to and flowing from the significant revision of the organisational structure (with particular regard to the sales area) and company decision-making structure (modification of the system of powers of attorney); the extension to the entire Group of the Ethics Code already adopted by UmbraGroup S.p.A., in its new version; the adoption of a new disciplinary and penalty system punishing breaches of the Organisational Model; the inclusion in the predicate offences contemplated in Legislative Decree No. 231/2011 of the offence of “corruption between private parties” set out in the amended version of Art. 2635 of the Italian Civil Code, offences relating to illegal immigration set out in Art. 12, paragraphs 3, 3-bis and 3-ter of Legislative Decree No. 286 of July 25, 1998 (consolidated act on immigration and the condition of foreigners) and the offences of racism and xenophobia set out in Art. 3, paragraph 3-bis, of Law No. 654 of October 13, 1975 (ratification and implementation of the international treaty on the elimination of all forms of racial discrimination).

These consolidated financial statements, comprising the Comprehensive income statement, the consolidated balance sheet, the statement of changes in shareholders' equity and the cash flow statement, present a true and fair view of the financial position and results of the company and of the cash flows, and correspond to the underlying accounting records of the parent company and the companies included in the consolidation.

Chairman of the Board of Directors
Antonello Marcucci

Foligno, April 27, 2018

UMBRA GROUP S.P.A.

A company under the management and direction of Poliscom Srl
Registered office in Via Valter Baldaccini, 1 – Paciana Locality – 06034 Foligno PG
Share capital Euro 11,302,500 fully paid-in

Notes to the consolidated financial statements at December 31, 2017

In Euro thousands

Explanatory Notes - first part

Dear Shareholders,

These financial statements, presented for your examination and approval, report a net profit of Euro 16,687 thousand, - 0.5% on Euro 16,775 thousand in 2016.

Change of company name

On May 29, 2017, the extraordinary shareholders' meeting of the parent company approved the change of the company name from Umbra Cuscinetti S.p.A. to UMBRA GROUP S.p.A. from January 1, 2018.

This change is strategic in acknowledging the company's international vocation which has long entailed the inclusion of the word 'Group' in corporate communications promoting the UmbraGroup "brand". The name UmbraGroup perfectly reflects Umbra's new culture and particularly two strategic business approaches: the unity of the Group and the fact that the name Umbra, followed by the word Cuscinetti, is no longer representative of the specific characteristics of the sectors in which the Group operates. The name Umbra is a tribute to the glorious past which we are associated with, while the inclusion of "Group" in the company name encapsulates a solid group going forward with the right credentials to play a leading role on the global market, focused on increasingly challenging goals and ensuring growth and development.

Group activities and significant events

The Group operates in the mechanical sector and particularly is engaged in the manufacturing of industrial bearings, industrial operating machinery components and aeronautic market products.

Significant events in the year*Approval 2017 – 2020 Industrial Plan*

On January 27, 2017, the Board of Directors of Umbra Cuscinetti S.p.A., now UmbraGroup, approved the new Group Industrial Plan for the 2017-2020 period.

The Plan will consolidate the UmbraGroup's leadership in the steel balls sector and drive growth in the electromechanical actuators sector (EMA). Its focus is upon growth, profitability and cash generation.

A CAGR is forecast over the coming four-year period of 3.77%, with Group EBITDA to reach Euro 37,529 by 2020 (+26.2% on 2016).

The forecasts were made taking account of medium/long-term general economic forecasts and expected aeronautic and industrial sector development.

Earnings should remain at the excellent levels of the last two years, despite investments (Euro 35,519 under the 2017-2020 plan) to develop opportunities presented by the market and to boost competitiveness through efficiency.

The maintenance of a solid financial structure shall be the cornerstone of the new Plan, in order to improve earnings. Cash generation (pre-dividend cash flows) is a lynchpin for the development of the approved Plan. The growth forecast in the plan does not take into consideration any acquisitions.

Serms Srl

On May 26, 2017, UmbraGroup S.p.A. acquired control of 52% of the company Serms Srl.

Founded in 2004 as a University of Perugia spin-off to transfer the highly innovative skills developed by its academic partners to the business world, Serms has since its creation stimulated and strengthened the cultural exchange between the academic and industrial spheres - ultimately broadening on a consistent basis the range and quality of services offered. Serms today operates on a national and international level and can offer its customers a wide range of services for the environmental testing of mechanical, aeronautic, automotive, marine and industrial design.

Long-Term Incentive Authorisation

On May 29, 2017, the shareholders' meeting of UmbraGroup S.p.A. approved the company's plan for the allocation of shares reserved for persons instrumental to the achievement of the company's strategic objectives. The plan provides for the free allocation of treasury shares held in portfolio to beneficiaries, subject to the achievement of economic and financial objectives set out in the 2018-2020 Plan.

Corporate organisation

In 2017, the Board of Directors of UmbraGroup S.p.A. was reduced to 7 members following the resignation of two board members. There are currently two independent directors on the Board of Directors: Andrea Sasso, Chief Executive Officer of iGuzzini Illuminazioni and Donatella Busso, Associate Professor in the Department of Management at the University of Turin, with position in listed and unlisted companies.

Paris Le Bourget Trade Fair

The 52nd Le Bourget International Exhibition dedicated to the aeronautic sector was held in Paris from June 19, 2017 to June 25, 2017. This event is the largest world fair that takes place every two years in Paris and is now considered to be a meeting place for the major players in the sector.

UMBRA GROUP attended with its own stand at the Umbro Aeronautical Hub.

Umbra – 45 Years

The Parent Company celebrated 45 years in 2017.

On this occasion, an international football tournament was organised as a symbolic event of the Umbra celebrations at which - going beyond business - sporting experiences and new human relationships were shared.

Leading world players took to the field: Airbus, Boeing, British Airways, FLOG di Leonardo, Lufthansa, Mechanical Nova and Umbra with the Italian and German companies. The FLOG di Leonardo team competed in the final against Umbra. The latter won and celebrated the victory - marking an additional goal of these 45 years.

Two dinners were also organised: a gala dinner and a final dinner which were attended by all Group employees and their families with approximately 2,100 people in attendance.

Opening of the Experimental Engineering Laboratory

The Experimental Engineering Laboratory was opened during the 45th year celebration. The Laboratory seeks new solutions and to guarantee, through specific tests, the responsiveness of Umbra solutions to clients' stringent requirements.

Suppliers' Meeting

The 26th suppliers' meeting was held at the parent company's offices on November 10, 2017. The meeting served as a forum for sharing experiences and airing issues relating to the supply chain, while also building a real sense of partnership.

Acquisition of treasury shares

Between January 1, 2017 to December 31, 2017, acquisition transactions of 550 treasury shares were made at an average price of Euro 512.62, together with sales transactions of 1,155 treasury shares, in view of the exercise of stock options. At December 31, 2017, the parent company holds 34,933 treasury shares, comprising 10.20% of the share capital.

Basis of preparation

The consolidated financial statements comprising the balance sheet, the income statement and the explanatory notes were prepared in accordance with Article 29 of Legislative Decree 127/91, as reported in these Explanatory Notes, prepared in accordance with Article 38 of the same Decree. Where necessary, Italian GAAP have been applied and, in their absence, the accounting standards recommended by the IASB and approved by Consob.

In addition to the various appendices as required by law, reconciliation schedules are also included of the net result and equity of the parent company and of the consolidated financial statements.

The consolidated financial statements present the previous year figures for comparative purposes.

The present notes to the financial statements disclose the data and information required by Article 38 of the decree.

The basis of preparation and the accounting policies of the financial statements at December 31, 2017 take account of the new developments introduced into domestic law by Legislative Decree 139/2015, transposing Directive 2013/34/EC. Italian GAAP were amended by Legislative Decree 139/2015.

Consolidation scope and methods

The consolidated financial statements are based on the financial statements of UMBRAGROUP S.P.A.(parent company) and the companies in which the parent company directly or indirectly holds a controlling interest. The financial statements of companies included in the consolidated financial statements are incorporated on a line-by-line basis.

The list of these companies is provided as an attachment.

No exclusions were made based on dissimilarity.

No companies were consolidated proportionally.

For the consolidation, the statutory financial statements of the individual companies were used, already approved by the respective Shareholders' Meetings and reclassified and adjusted in line with the accounting standards and policies adopted by the Group.

Basis of Consolidation

The carrying value of investments in consolidated companies is eliminated against the corresponding fraction of net equity. The differences arising from the elimination are allocated to the individual balance sheet items which justify them and the balance, if positive, will be entered in an asset account called "goodwill", unless it must be fully or partially charged to the income statement in item B14. The amount recorded under assets is amortised over the period provided for in the first paragraph, no. 6 of Article 2426. If negative, the difference is allocated, where possible, to the deduction of assets recorded at values higher than their recoverable value and liabilities recorded at a value lower than their repayment value. The residual negative difference is recorded in the net equity account "Consolidation reserve" or in a specific "Consolidated risk and future charges provision" in accordance with the criteria of Article 33, paragraph 3 of Legislative Decree 127/91.

The provision is used in subsequent years in order to reflect the assumptions made at the time of its estimate on purchase.

The minority interests' share in equity is shown separately in the consolidated balance sheet. Their portion of the results for the year is likewise shown separately in the consolidated profit and loss account.

Transactions and balances between consolidated companies are fully eliminated.

Gains and losses from transactions between consolidated companies not arising through transactions with third parties are eliminated.

The conversion of overseas subsidiary company and associate company financial statements was undertaken by using:

- The reporting balance sheet date exchange rate for assets and liabilities;
- The average exchange rate for income statement items.

The net effect of the translation of the investee financial statements to the financial statements currency is recorded in the "Euro conversion reserve".

For the translation of financial statements in foreign currencies, the following rates were applied:

Currency	at 31/12/2017	Currency year average
US Dollar	1.1993	1.1297

Accounting policies

The accounting policies for the consolidated financial statements at December 31, 2017 are those utilised for the statutory financial statements of the parent company which prepares the consolidated financial statements and do not differ from those used in the prior year consolidation, in particular with regards to the measurement and continuity of these policies.

The financial statement accounts have been measured according to the prudence and accruals concepts and on a going concern basis.

In applying the materiality principle, the obligations in terms of recognition, measurement, presentation and disclosure were not observed where not assisting the presentation of a true and fair view.

In particular, the accounting policies adopted in the preparation of the financial statements are as follows:

Fixed assets

Intangible assets

They are stated at historical cost, net of accumulated amortisation charged directly to the individual items.

Formation, start-up and similar costs and research, development and advertising costs with long-term use are recorded as assets, with the prior approval of the Board of Statutory Auditors and are amortised over a period of three years.

Industrial patent and intellectual property rights are amortised at an annual rate of 20%.

Leasehold improvements, not separable from assets and therefore without independent functionality, are recognised at purchase cost and amortised in accordance with the duration of the contract.

Intangible assets are written-down when there is a permanent impairment in their value. Where in subsequent years the reasons for the write-down no longer exist, the original value is restored, adjusted only for amortisation.

The presence of intangible asset impairments was assessed. This assessment did not indicate the existence of potential intangible asset impairments.

The account also includes the consolidation difference corresponding to the excess of the acquisition cost with respect to the part of the shareholders' equity of consolidated companies. The consolidation difference is amortised over a period of 5 years from the date of acquisition, on the basis of the residual possible use.

Property, plant & equipment

They are recorded at purchase cost and adjusted by the accumulated depreciation provision.

The amount stated in the financial statements includes incidental costs and costs incurred for the use of the asset, reducing the cost for significant commercial and cash discounts.

Depreciation recorded in the income statement has been calculated in consideration of the use, intended purpose and economic-technical duration, on the basis of the residual possible useful life.

The rates used by the parent company, which have not been amended on the previous year and reduced by half in the year of entry into service of the asset, are as follows:

- land and buildings: 3%
- plant and machinery: 10% – 17.5%
- equipment: 25% - 30%
- EDP: 20%
- office furniture and fittings: 12%
- motor vehicles 25%

Tangible assets are written-down when there is a permanent impairment in their value. Where in subsequent years the reasons for the write-down no longer exist, the original value is restored, adjusted only for depreciation.

Ordinary maintenance costs are fully charged to the income statement. Incremental maintenance costs are attributed to the asset concerned and depreciated over the residual useful life of the asset.

Parent company property, plant and equipment were revalued on the basis of: Law 342 of December 21, 2000 (Plant and Machinery) and Law 185 of November 29, 2008 (Land and Buildings). No assets were discretionarily or voluntarily revalued and the asset values were determined objectively on the basis of their use.

The presence of tangible asset impairments was assessed.
This assessment did not indicate the existence of potential tangible asset impairment.

Finance leases

Finance leases are recorded in the financial statements in accordance with the equity method, recording the lease instalment payments as per the accruals concept. The Notes to the financial statements provide the additional information required by legislation relating to finance lease contracts in accordance with the finance method. For finance leases deriving from a lease back operation, the gains arising are recorded in the income statement in accordance with the accruals concept, recording deferred income in the balance sheet and a gradual allocation of the income to the income statement, based on the duration of the lease finance contract.

Receivables

With regards to receivables recognised before the financial year beginning January 1, 2016, these are indicated at realisable value as, in accordance with OIC 15, it was decided not to apply the amortised cost criterion as the effects would be irrelevant.

For this reason, no discounting of receivables with maturity of less than 12 months was undertaken.

There are no receivables arising in the present year with maturity of greater than 12 months.

The nominal value is adjusted by means of a doubtful debt provision which takes account of the impairment indicators. Receivables are cancelled from the financial statements when the contractual rights upon cash flows deriving from the receivable lapse or where all of the risks relating to the receivable subject to collection are transferred.

Payables

With regards to payables recognised before the financial year beginning January 1, 2016, these are recorded at nominal value as, in accordance with OIC 19, it was decided not to apply the amortised cost criterion and discounting.

The amortised cost criterion was not applied as the effects are irrelevant for the presentation of a true and fair view. Payables are therefore recorded at their nominal value.

Payables with maturity of less than 12 months were not discounted as the effects were considered irrelevant.

Accruals and deferrals

These are recorded according to the accruals concept.

The conditions which determined the original recording of long-term accruals and deferrals are verified, adopting appropriate changes where necessary.

Inventories

Inventories were measured as per paragraph 9) of Article 2426 of the Civil Code, restated in OIC 13, and are recognised at the lower between purchase cost according to the weighted average cost method and realisable value. Finished products and products being processed are valued at the effectively incurred industrial production cost.

Obsolete and slow-moving inventories are indirectly written down through the creation of an appropriate obsolescence provision established on the basis of their possibility for utilisation or disposal.

Treasury shares

Treasury shares are recorded as a reduction of equity.

The recognition of treasury shares and the effects from any future sales shall be recorded as shareholders' equity movements.

Derivative financial instruments

Financial instruments are utilised by the Group to hedge risks from bank debt interest rate movements and to hedge exchange rate fluctuations.

Derivative financial instruments, even if incorporated into other financial instruments, were initially recognised when the company acquired the associated rights and obligations; their valuation was made at fair value both at the initial recognition date and at each closing date of the financial statements. Changes in fair value compared to the previous year relating to hedging derivatives were recognised in the financial statements in a special equity reserve. This reserve is recorded through the income statement for the amount and over the same time period corresponding to the occurrence or changes in the cash flows of the instrument hedged or on the occurrence of the operation hedged. The hedged items were measured in line with the derivative hedging instrument.

Derivative financial instruments with a positive fair value were recorded in the balance sheet assets. Their classification in fixed or current assets depends on the nature of the instrument itself:

- A derivative financial instrument designated as a hedge for cash flows or the fair value of an asset follows the classification of the hedged asset under current or fixed assets;
- A derivative financial instrument designated as a hedge for cash flows and the fair value of a liability within the financial year, a firm commitment or a highly probable forecast transaction, is classified under current assets;
- A derivative financial instrument designated as a hedge for cash flows and the fair value of a liability beyond the financial year, is classified under fixed assets;
- A non-hedging derivative financial instrument is classified under current assets in the next financial year.

Derivative financial instruments with negative fair value were recorded in the balance sheet under provisions for risks and charges.

Derivative financial instruments, except as discussed below, were valued as hedges when a close and documented correlation between the characteristics of the instrument or the hedged transaction was detected from the outset.

For the valuation of simple hedging transactions, the simplified method was adopted for derivative financial instruments that have very similar characteristics to those of the hedged item, with reference to the maturity, nominal value, settlement dates and underlying variables. These were applied in line with market conditions.

As per OIC 29, the effects of accounting standard changes were calculated retrospectively, recognising the cumulative effect from the change to the measurement criteria to opening shareholders' equity at January 1, 2016, retained earnings or a differing item of shareholders' equity where more appropriate, net of deferred taxes.

For comparative purposes, the company, with regard only to derivative contracts considered as hedges, adjusted the opening shareholders' equity of the previous year as if the new accounting standard had been applied. With regard however to derivative contracts not considered as hedges, as per OIC 29 - Section 19, as calculating the effects relating to the previous year was excessively onerous, the company limited itself to applying the new accounting standard to the carrying amount of assets and liabilities at the beginning of 2016 and adjusting the corresponding opening shareholders' equity for 2016.

In particular, the company subscribed a number of derivative financial instruments to hedge interest rate movements on its debt and the exchange rate on sales made in US Dollars.

The company has undertaken derivative financial contracts exclusively for hedging purposes, as the company's financial management policy does not permit the undertaking of financial instruments for speculative purposes.

For derivatives relating to interest rate risk on projected cash flows, although undertaken for hedging purposes, the company decided not to apply hedge accounting.

Derivative financial instruments which satisfy the requirements of OIC 32 were recognised as per hedge accounting. With reference to non-hedging derivative financial instruments, variations in the financial instruments' fair value are recognised in the income statement in the year of reference.

The derivatives utilised are Over the Counter (OTC) instruments traded bilaterally with market counterparties.

Provisions for risks and charges

Provisions for risks and charges are recorded in respect of certain or probable losses or payables, the amount or due date of which could not be determined at the reporting date.

These provisions have been measured in accordance with the prudence and accruals concepts and no provision has been made for matters without any economic justification.

The contingent liabilities reflected in these provisions are probable and may be estimated with reasonable accuracy.

Post-employment benefit provision

This provision represents the actual liability towards employees under applicable law and labour agreements.

It corresponds to the total indemnities accrued in favour of employees at December 31, 2006, net of advances paid, and is equal to the amount payable to staff in the event of the termination of the employment contract as at this date.

The provision does not include indemnities matured from January 1, 2007, allocated to supplementary pensions as per Legislative Decree No. 252 of December 5, 2005 (or transferred to the INPS treasury fund).

Income taxes

Income taxes are recorded in accordance with the accruals principle; therefore, they include:

- the provisions for taxes paid or to be paid for the year, in accordance with the income tax rates and regulations in force;
- the amount of deferred tax income and charges in relation to timing differences arising and reversed in the year.

Since 2009, the company and the parent company POLISCOM SRL have chosen the national tax consolidation option (Article 117 and subsequent Pres. Decree No. 917/76), permitting IRES to be calculated on a tax base representing the aggregate of the taxable income and tax losses of the individual companies.

Transactions, plus reciprocal responsibilities and obligations between the consolidating and consolidated companies, are defined in the consolidation agreement.

The tax payable is recognised under Tax Payables in terms of IRAP and Payables to subsidiaries for IRES, all net of payments on account, withholding taxes and in general tax credits.

The current IRES charge is calculated on an estimate of the taxable income and tax losses of the parent company and the subsidiary taking part in the tax consolidation, net of payments on account, withholding taxes and tax credits of these companies. Tax liabilities are offset by the amounts due from the consolidated company to the consolidating company for the current tax on income transferred under the tax consolidation.

Deferred tax assets & liabilities

Deferred tax assets and liabilities have been calculated on the basis of tax rates expected for the periods in which the timing differences will reverse. They are calculated on the basis of temporary differences between the tax value of assets and liabilities and their relative book value.

Deferred tax liabilities are recognised under provisions for risks and charges, while deferred tax assets are recognised and indicated separately to the account 4ter - Deferred tax assets.

Deferred tax assets are recognised only where a reasonable probability of recovery exists and on the basis of expected future tax rate movements.

Deferred tax assets and liabilities have been calculated on the basis of tax rates expected for the periods in which the timing differences will reverse.

Deferred tax assets and liabilities on IRES corporation tax arise from timing differences between the carrying amount of assets and liabilities determined in accordance with the financial reporting criteria set out by the Italian civil code and their tax base.

Current and deferred IRAP regional tax is determined exclusively with reference to the company.

Revenue recognition

Revenues from the sale of products are recognised on the transfer of the related risks and benefits, which normally takes place when the goods are shipped or delivered.

Revenues of a financial nature and revenues from services are recognised on an accruals basis.

The revenues and income, costs and charges related to transactions in foreign currencies are recorded at the exchange rate when the transaction took place.

Capital grants and operating grants

Capital grants are recognised on the formal approval of the proposed Entity and are gradually recognised to the income statement on the basis of the useful life of the asset subject to the grant. Grants, recognised to account A.5, are accrued to subsequent years through the recognition of deferred income. depreciation is calculated on the gross cost of the assets and other revenues and income are recognised to the income statement on an accruals basis.

Operating grants are recognised on the formal approval of the proposed Entity and are recognised to the income statement on an accruals basis in accordance with Article 2426 of the Civil Code.

Translation of foreign currency balances

Receivables and payables originally in foreign currencies, recorded using the exchange rates in force on the date on which they arose, are aligned to the exchange rates at the balance sheet date on the basis of the Bank of Italy figures.

In particular, assets and liabilities which comprise monetary items in foreign currencies are recognised at the exchange rate at the reporting date and the relative exchange gains and losses are respectively credited and debited to the Income Statement at account 17 *bis* Exchange gains and losses.

Any net gain deriving from the adjustment of foreign currency amounts at year-end are included in the result for the year and, on the approval of the financial statements and consequent allocation of the result to the legal reserve, are recorded, for the part not absorbed by any losses for the year, in a non-distributable reserve until their subsequent realisation.

However, non-monetary assets and liabilities in foreign currencies are recorded at the exchange rate at the moment of their purchase or at a lower rate at the year-end only if the negative changes have resulted in a permanent impairment in the value of the fixed assets.

Guarantees, commitments and contingent liabilities

Commitments, not recorded in the balance sheet, represent obligations assumed by the company with third parties deriving from legal obligations with certain obligations but not yet carried out by either party. Commitments include those whose execution and relative amount are certain (e.g. forward sales and purchase contracts) and those whose execution is certain but the relative amount is not certain (e.g. contracts with price revision clauses). Commitments are reported at the nominal value deriving from the relative documentation.

Exceptions

There were no exceptional cases requiring exemptions as per Article 2423, paragraph 5 of the Civil Code.

Intangible assets

Balance at 31/12/2017	Balance at 31/12/2016	Changes
4,018	2,554	1,464

A breakdown follows:

Description	31/12/2016	Increases	Amortisation	Decreases	31/12/2017
Development	31	105	66	-	70
Industrial patent rights	878	353	363	28	840
Goodwill	-	357	71	-	286
Assets in progress and advances	274	1,267	-	-	1,541
Other	1,371	130	220	-	1,281
Total	2,554	2,212	720	28	4,018

Intangible assets amount to Euro 4,018 thousand, reporting a net increase of Euro 1,464 thousand. Amortisation in the year amounted to Euro 720 thousand. In addition, increases for investments principally refer to the Software account for Euro 353 thousand and to Development costs for Euro 105 thousand.

Development costs include costs related to prototypes preceding production or utilisation, as per OIC 24. For the capitalised costs, the technical feasibility and the generation of future economic benefits were verified. They are amortised on a straight-line basis over three years.

The Investments in progress account principally contains all the expenses incurred for the implementation of the new AX365 management system which was completed in early 2018; at December 31, 2017, this amounted to Euro 1,522 thousand.

The Goodwill account refers to what was recognised following the acquisition of Serms Srl shareholding; this account will be amortised over a period of 5 years.

Movements from one account to another

It was not considered appropriate to carry out a reclassification of intangible assets in the financial statements at December 31, 2017 with respect to the previous financial statements, in order to provide a more transparent and correct accounting representation.

Write-downs and reversals of impairment losses carried out during the year

With reference to intangible assets, it was not necessary to carry out write-downs or reversals of impairment losses.

Property, plant & equipment

Balance at 31/12/2017	Balance at 31/12/2016	Changes
47,284	45,610	1,674

A breakdown follows:

Description	31/12/2016	Increases	Depreciation	Reclassifications	Other changes	31/12/2017
Land and buildings	25,943	172	1,016	254	(880)	24,473
Plant and machinery	16,160	4,714	3,510	947	(345)	17,966
Industrial and commercial equipment	1,869	985	590	-	(53)	2,211
Other assets	71	13	30	-	(7)	47
Assets in progress and payments on account	1,567	2,283	-	(1,220)	(43)	2,587
Total	45,610	8,167	5,146	(19)	(1,328)	47,284

Property, plant and equipment amount to Euro 47,284 thousand, reporting a net increase of Euro 1,674 thousand. Depreciation in the year totalled Euro 5,146 thousand. The most significant increases concerned the Plant and machinery account for Euro 4,714 thousand.

The Land and Buildings category includes land for Euro 2,467 thousand.

As per OIC 16, we report that the majority of the land at company offices was acquired separately from the buildings and have not been subject to depreciation since purchase as considered to having maintained their value. Only part of the land, amounting to Euro 100 thousand and relating to the specific cost of the area on purchase, has been separated. No depreciation has been applied since 2007 to these latter.

Plant and machinery amount to Euro 17,966 thousand, reporting a net increase of Euro 1,806 thousand. Depreciation in the year totalled Euro 3,510 thousand. The most significant increases concerned test benches and automatic production cycle plant.

Industrial and commercial equipment amounted to Euro 2,211 thousand, reporting a net increase of Euro 342 thousand. Depreciation in the year totalled Euro 590 thousand. The main increases concerned control instruments and industrial production equipment.

Other assets comprise motor vehicles for Euro 38 thousand.

The account Fixed assets in progress and advances principally include advances to suppliers for the purchase of automatic plants for Euro 398 thousand relating to the Parent Company, Euro 1,598 thousand relating to the American subsidiary Umbra Cuscinetti Inc. and Euro 499 relating to the German subsidiary Kuhn GmbH.

Write-downs and reversals of impairment losses in the year

With reference to tangible assets, it was not necessary to carry out write-downs or reversals of impairment losses.

Total revaluations of fixed assets at year-end

In accordance with Article 10, Law No. 72/1983, the following property, plant and equipment upon which monetary revaluations were made and exceptions to statutory accounting policies were recognised to the company's financial statements at December 31, 2017.

As highlighted in the introduction to these Explanatory Notes, property, plant and equipment were revalued on the basis of special laws and in particular Law 342 of December 21, 2000 limited to plant and machinery and according to Law 185 of November 29, 2008 with regard to Land and Buildings; no discretionary or voluntary revaluations were made, with the revaluations, within the maximum limit of the value in use of the asset, objectively determined.

Description	Legal revaluations	Economic revaluations	Total revaluations
Land and buildings	3,857	-	3,857
Plant and machinery	3,936	-	3,936
Total	7,793	-	7,793

As required by the OIC 16 accounting standard, the net effect of the revaluation was posted in the equity reserve under the account A.III "Revaluation reserve".

Finance leases

The Group has 19 finance lease contracts in place, 4 of which were concluded in the same year.

In compliance with the indications provided by OIC 12, the table below outlines the effects that would have occurred on net equity and profit through recording the leases under the finance method compared to the method of charging the periodic instalments directly to the income statement.

ASSETS**A) Contracts in course**

a1) Value of assets under leases at the end of the previous year:	
of which gross value	9,975
of which accumulated depreciation	3,411
of which adjustments	
of which write-backs	
Total	6,564
a2) assets acquired in the year	4,785
a3) assets redeemed in the year	21
a4) depreciation in the year	1,563
a5) adjustments	
a6) asset write-backs	
a7) Value of assets under leases at the end of the year:	
of which gross value	14,739
of which accumulated depreciation	4,974
of which adjustments	
of which write-backs	
Total	9,765
a8) reversal of prepayments on finance leases	

B) Assets redeemed

b1) difference in value of assets redeemed, in accordance with the finance method, compared to the net book value at the end of the year

C) LIABILITIES

c1) implicit payables at the end of the previous year:	
of which due within one year	987
of which due between 1 & 5 years	4,590
of which due beyond 5 years	
Total	5,577
c2) implicit payables arising in the year	4,785
c3) reductions for repayment of capital	2,531
c4) reductions for redemptions in the year	
c5) implicit payables at the end of the year:	
of which due within one year	1,584
of which due between 1 & 5 years	6,246
of which due beyond 5 years	

Total	7,831
c6) reversal of prepayments on finance lease charges	1,102
D) gross effect at end of year (A+B-C)	831
E) net tax effect	(252)
D) effect on closing shareholders' equity	579
INCOME STATEMENT	
Reversal of finance lease charges	1,985
Depreciation on contracts in course	1,563
Depreciation on assets redeemed	
Recording of finance charges on leasing operations	161
Adjustments / write-backs on leased assets	
Effect on pre-tax result	260
Recording of the tax effect	(75)
Effects on net result	185

Financial assets

Investments

List of companies consolidated line-by-line as per Article 26 of Legislative Decree No. 127/91 at December 31, 2017

Company	City (if in Italy) or overseas state	Tax. No. (for Italian businesses)	Share capital in Euro	Last year profit (loss) in Euro	Shareholders' equity in Euro	Holding in Euro	Holding in percentage	Book value
Umbra Cuscinetti Inc.	USA		589	526	7,956	7,956	100	4,922
Präzisionskuge In Eltmann GmbH	Germany		100	1,494	6,048	6,048	100	100
Kuhn GmbH	Germany		782	649	7,516	7,516	100	459
Serms Srl	Italy	01310710551	16	50	393	204	52	365
Total								5,847

Receivables

A breakdown follows:

Description	31/12/2016	Increases	Decreases	31/12/2017
Others	50	2	-	52
Total	50	2	-	52

Non-current receivables of Euro 52 thousand were recognised to the financial statements concerning amounts paid as deposits.

Current assets**Inventories**

Balance at 31/12/2017	Balance at 31/12/2016	Changes
33,579	33,852	(273)

The accounting policies adopted are unchanged from the previous year and are described in the first part of the present Notes.

Description	31/12/2016	Increases	Decreases	Consolidation adjustments	31/12/2017
Raw material, ancillaries and consumables	9,689	-	361	(147)	9,181
Work-in-progress and semi-finished goods	15,236	918	-	-	16,154
Finished products and goods	8,927	-	594	(89)	8,244
Total	33,852	918	955	(236)	33,579

	31/12/2017	31/12/2016	Changes
Raw material, ancillaries and consumables	9,943	10,498	(555)
Work-in-progress and semi-finished goods	17,496	16,613	883
Finished products and goods	9,566	10,371	(805)
Inventory obsolescence provision	(3,427)	(3,631)	204
	33,579	33,852	(273)

The inventory obsolescence provision at December 31, 2017 of Euro 3,427 thousand reports the following movements in the year:

Description	Amount
Inventory obsolescence provision at 31/12/2016	3,631
Utilisation of the inventory obsolescence provision in the year	(227)
Accrual to the inventory obsolescence provision in the year	41
Other changes	(18)
Balance of inventory obsolescence provision at 31/12/2017	3,427

The utilisation for Euro 227 thousand relates mainly to a scrappage operation at year-end by the parent company for Euro 178 thousand.

The accrual for Euro 41 thousand follows the assessment on the absorption by the market of slow moving products.

Other changes of Euro 18 thousand related to the exchange adjustment on the obsolescence provision of the US subsidiary.

Current receivables

A maturity analysis of consolidated accounts receivable, after the elimination of inter-company items, is presented below.

Description	Within one year	Beyond one year	Beyond 5 years	Total	Of which sale back commitments
Trade customers	18,334			18,334	
Parent companies	2,090			2,090	
Companies subject to control of the parent	261			261	
Tax receivables	1,663			1,663	
Deferred tax assets	1,662			1,662	
Others	8,482			8,482	
	32,492			32,492	

The company has chosen the option to not utilise the amortised cost criterion and to not discount receivables as the accounting policies adopted do not provide for the discounting of receivables with maturity of less than 12 months; to not discount receivables in the case in which the effective interest rate does not significantly differ from market interest rates; to not apply the amortised cost criterion for receivables with maturity of less than 12 months and finally to not apply the amortised cost criterion in the case in which settlement costs, commissions and any other difference between the initial value and the value at maturity is minimal.

On the basis of these policies, the receivables were valued at their estimated realisable value.

The breakdown of the main receivable items is presented below.

The net value of **trade receivables** was Euro 18,334 thousand, decreasing Euro 1,027 thousand on December 31, 2016; the account includes bank drafts presented by the parent company to be deposited at Credit Institutions for Euro 732 thousand. The adjustment of foreign currency items converted by the parent company at the year-end exchange rate resulted in the realisation of an exchange loss of Euro 105 thousand.

Trade receivables concern ordinary sales operations and are from Italian and overseas clients.

:

- for IRES taxes of Euro 486 thousand concerning the repayment request presented by this latter as Consolidating company and on behalf of the Consolidated company UmbraGroup S.p.A., excess taxes paid by this latter for tax periods preceding financial year 2012, and in particular for years 2009, 2010 and 2011, due to the non-deduction of IRAP relating to personnel and similar expenses, recognised, from financial year 2012, by Article 2, paragraphs 1 to 1-ter of Legislative Decree 6.12.2011 No. 201, converted into Law No. 214 of 27.12.2011;
- For IRES taxes of Euro 1,603 thousand concerning the position of 2017 income taxes, as discussed below.

	Amount
IRES transferred to tax consolidation	(3,551)
Withholding taxes transferred to tax consolidation	5
Advances paid and prior receivables	5,149
	1,603

Receivables from companies under the control of parent companies for Euro 261 thousand relate to trade receivables from the company AMCO Srl.

Tax receivables principally include:

- the VAT receivable for Euro 1,524 thousand, concerning the annual receivable from the December settlement carried forward by the parent company;
- Tax receivables for Euro 47 thousand for the Parent Company's IRAP, determined as follows:

	Amount
Advances paid on IRAP	883
Current IRAP	(836)
IRAP receivable	47

Deferred tax assets of Euro 1,662 thousand relate to temporarily deductible differences of the Group, of which Euro 1,272 thousand relating to the parent company and Euro 390 thousand concerning the subsidiaries.

Description	Total
Balance at 31/12/2016	2,125
Utilisation in the year	(957)
Provision for the year	533
Exchange adjustments	(39)
Balance at 31/12/2017	1,662

Other receivables at December 31, 2017, amounting to Euro 8,482 thousand, are as follows:

Description	Amount
Advances to employees	29
Advances to suppliers	36
Social security institutions	29
PON 01_02886 Grant	445
ASTIB Grant	1,928
Reprise – Clean Sky Grant	245
We Back 598 Grant Umbria Region	326
TVB Grant	465
AG2 Grant	183
EMA 4Flight Grant	113
Fase Lag Grant	100
Valema Grant	88
Genera Grant	729
Pro Ema Grant	916
Diprovel Grant	288
IMARE Grant	331
Other Receivables	52
Without recourse factored receivables	2,178
	8,482

The amount of Euro 445 thousand, relating to the grant for the research and training project presented in accordance with Ministerial Decree No. 593/2000, concerns the receivable from the Ministry for Education, the Universities and Research (Total grant of Euro 3,157 thousand - Amount received Euro 2,712 thousand).

The amount of Euro 1,928 thousand relates to the receivable from the European Union, through the Clean Sky 2 programme, for the European research project called ASTIB (Total grant Euro 2,565 thousand - Amount received Euro 638 thousand).

The amount of Euro 245 thousand relates to the receivable from the European Union for a European research project called Reprise – Clean Sky 2 (Total grant Euro 545 thousand - Amount received Euro 300 thousand).

The amount of Euro 326 thousand relates to the receivable from the Umbra Region for the European research project called We Back 598 (Total grant Euro 326 thousand - No amount received).

The amount of Euro 465 thousand relates to the receivable from the Ministry for Economic Development (CSEA) for the

European research project called TVB (Total grant Euro 465 thousand - No amount received).

The amount of Euro 183 thousand relates to the receivable from the European Union for the European research project called AG2 co-ordinated by the Italian Aerospace Research Centre (Total grant Euro 183 thousand - No amount received).

The amount of Euro 113 thousand relates to the receivable from the European Union for a European research project called Ema 4Flight coordinated by the Fundacion Tecnalia Research & Innovation (Total grant Euro 450 thousand - Amount received Euro 337 thousand).

The amount of Euro 100 thousand relates to the receivable from the European Union for a European research project called Fase Lag (Total grant Euro 401 thousand - Amount received Euro 301 thousand).

The amount of Euro 88 thousand relates to the receivable from the European Union for a European research project called Valema and coordinated by GMV SAU (Total grant Euro 171 thousand - Amount received Euro 82 thousand).

The amount of Euro 729 thousand relates to the receivable from the Ministry for Economic Development for the European research project called Genera (Total grant Euro 729 thousand - No amount received).

The amount of Euro 916 thousand relates to the receivable from the Umbria Region for the European research project called Pro Ema (Total grant Euro 916 thousand - No amount received).

The amount of Euro 288 thousand relates to the receivable from the Ministry for Economic Development for the European research project called Diprovel co-ordinated by Costruzioni Motori Diesel S.p.A. (Total grant Euro 288 thousand - No amount received).

The amount of Euro 331 thousand relates to the receivable from the Ministry for Economic Development for the European research project called Imare co-ordinated by Costruzioni Motori Diesel S.p.A. (Total grant Euro 331 thousand - No amount received).

The without recourse receivables factored have been placed with the factoring companies Eurofactor and SG Factoring - for receivables factored but not yet settled at December 31, 2017. The adjustment of foreign currency items at the year-end exchange rates resulted in gains of Euro 214 thousand.

Trade receivables are adjusted to reflect their estimated realisable value through a doubtful debt provision and whose movements were as follows:

Description	Total
Balance at 31/12/2016	925
Utilisation in the year	(60)
Provision for the year	94
Exchange adjustments	(9)
Balance at 31/12/2017	950

Utilisations in the year relate to certain losses.

Current financial assets

Change in current financial assets

Balance at 31/12/2017	Balance at 31/12/2016	Changes
334	9	325

	Opening balance	Changes in the year	Closing balance
Other current investments	9	(1)	8
Current derivative financial instruments - Assets	-	326	326
Total current financial assets	9	325	334

Securities are recognised at acquisition cost, including accessory charges.

The amount presented concerns ordinary Unicredit Spa shares.

With reference to derivative financial instruments not held as fixed assets for Euro 247 thousand relating to the Parent Company, these are financial instruments such as options on foreign currency for which hedge accounting was not applied.

The residual amount of Euro 79 thousand refers to the hedging of the exchange rate relating to the American subsidiary's loan.

Cash and cash equivalents

Balance at 31/12/2017	Balance at 31/12/2016	Changes
68,941	38,936	30,005

Description	31/12/2016	Increases	Decreases	31/12/2017
Bank and postal deposits	38,918	30,013	-	68,931
Cash in hand and similar	18	-	8	10
Total	38,936	30,013	8	68,941

The account reflects the balance of cash and cash equivalents on hand at year-end.

Prepayments and accrued income

Balance at 31/12/2017	Balance at 31/12/2016	Changes
2,251	1,843	408

They relate to income and charges accounted for on an accruals basis, irrespective of the date of payment or receipt. At December 31, 2017, there were no prepayments and accrued income with a duration exceeding five years, except for those relating to the Parent Company's leasehold contract for which the amount with a duration of over five years amounts to Euro 127 thousand.

The breakdown of the account is as follows.

Description	Amount
Misc. Revenues	17
Insurance premiums	124
Leasing Fees	1,601
Misc. Costs	509
Total	2,251

Explanatory Notes - Liabilities and Shareholders' Equity

Shareholders' Equity

Reconciliation between net result and net equity as reported in the parent company and consolidated financial statements

A reconciliation follows of consolidated net equity and the result for the year ended December 31, 2017 with the amounts reported in the parent company financial statements:

	Shareholders' Equity	Net Result
Net equity and net result for the year as reported in the parent company financial statements	64,222	13,837
Adjustments in compliance with accounting standards	(79)	110
Elimination of book values of consolidated holdings:		
a) difference between book value and pro-quota net equity	13,159	
b) pro-quota results of investees	2,719	2,719
c) gains/losses attributed at the acquisition date of the investees	286	(72)
d) consolidation differences		
Elimination of the effects of transactions between consolidated companies	(540)	93
Net equity and net result pertaining to Group	79,767	16,687
Net equity and net result pertaining to minority interests	189	46
Consolidated net equity and net result	79,956	16,733

Statement of changes in consolidated net equity

UMBRAGROUP SPA												
STATEMENT OF CHANGES IN NET EQUITY												
FOR YEARS ENDED 31.12.2016 & 31.12.2017												
In Euro thousands												
DESCRIPTION	SHARE CAPITAL	SHARE PREMIUM RESERVE	REVALUATION RESERVE	LEGAL RESERVE	CAPITAL GRANTS	OTHER RESERVES	HEDGE RESERVE	TRANSLATION RESERVE	RETAINED EARNINGS (ACC. LIAB)	NET PROFIT (LOSS)	NEGATIVE TREAS. SHARES RESERVE	TOTAL
BALANCE AT DECEMBER 31, 2015	11,303	4,948	3,741	1,676	171	23,367	(145)	667	7,018	12,209	(6,164)	58,791
ALLOCATION 2015 NET PROFIT												
- To Reserves				466		3,863			2,880	(7,209)		-
- Dividends										(5,000)		(5,000)
TRANSLATION RESERVE CHANGE								313				313
OTHER CHANGES						(4,099)	72					(4,027)
2016 NET PROFIT										16,775		16,775
DECEMBER 31, 2016	11,303	4,948	3,741	2,142	171	23,131	(73)	980	9,898	16,775	(6,164)	66,852
ALLOCATION 2016 NET PROFIT												
- To Reserves				119		10,770			2,886	(13,775)		-
- Dividends										(3,000)		(3,000)
TRANSLATION RESERVE CHANGE								(1,071)				(1,071)
OTHER CHANGES						322	58				(81)	299
2017 NET PROFIT										16,687		16,687
BALANCE AT DECEMBER 31, 2017	11,303	4,948	3,741	2,261	171	34,223	(15)	(91)	12,784	16,687	(6,245)	79,767
NET EQUITY AND NET RESULT PERTAINING TO MINORITY INTERESTS												189
GROUP & MIN. INTEREST CONSOLIDATED NET EQUITY												79,956

Changes in cash flow hedge reserve

The movements in the cash flow hedge reserve were as follows:

	Cash flow hedge reserve
Opening balance	(73)
Changes in the year	
Decreases due to fair value changes	(13)
Release to the income statement	46
Closing balance	(15)

In order to partially limit the risk linked to the variability of interest rates, the Parent Company has proceeded to ensure IRS for medium and long-term loan transactions. This is better described at the end of these Explanatory Notes in the section where information relating to the fair value of derivative financial instruments is provided, as required by Art. 2427-bis, first paragraph, no. 1 of the Civil Code.

The company subscribed to derivative financial instruments to perform interest rate risk hedging transactions on its bank debt for loans with medium and long-term repayment.

The company has undertaken derivative financial contracts exclusively for hedging purposes, as the company's financial management policy does not permit the undertaking of financial instruments for speculative purposes.

The derivatives utilised are Over the Counter (OTC) instruments traded bilaterally with market counterparties.

The account *Cash Flow Hedge reserve*, negative for Euro 15 thousand, reflects the recognition of the fair value of interest rate hedges for which hedge accounting has been applied.

For derivative Euro/USD interest rate hedge contracts, although undertaken for hedging purposes, the company decided not to apply hedge accounting.

Other net equity accounts

The following complementary information regarding the revaluation reserves is provided:

Reserves	Monetary revaluations	Non-monetary revaluations
Revaluation reserve Law 185/2008	3,741,072	

The shareholders' equity contains the following reserves:

Reserves or other provisions, which in the event of distribution, form assessable income of the company, independent of the period of formation.

Reserves	Amount
Revaluation reserve Law 185/2008	3,741,072
	3,741,072

Reserves or other provisions, which in the event of distribution, do not form assessable income for shareholders, independent of the period of formation.

Reserves	Amount
Share premium reserve	4,947,500
	4,947,500

Reserves incorporated in the share capital

The share capital does not include reserves which in the case of distribution would contribute to the assessable income of the company or of shareholders.

Negative reserve for acquisition of treasury shares

In application of the new accounting standards, treasury shares were recognised to the financial statements as a direct reduction of shareholders' equity. The account "Negative reserve for treasury shares held in portfolio" represents 34,933 treasury shares with a nominal value of Euro 33.00, with an average carrying value of Euro 178.76.

The movement of treasury shares is as follows:

Description	31/12/2016	Increases	Decreases	31/12/2017
UMBAGROUP S.P.A.	6,163,887	281,944	201,127	6,244,704

Treasury shares were acquired in previous years and in 2017 in accordance with Shareholder Meeting motions.

In 2017, 550 treasury shares were acquired at the value of Euro 512.62.

In accordance with the provisions of law this shareholding is within the limit set by Articles 2357 and 2357 bis of the Civil Code.

The decrease relates to the sale of 1,155 treasury shares at the value of Euro 300 for a total value of Euro 347 thousand; the capital gain realised was recorded in a special equity reserve.

Provisions for risks and charges

The breakdown of the account is as follows.

Description	31/12/2016	Increases	Decreases	Consolidation adjustments	31/12/2017
Pension and similar provisions	-	37	-	-	37
Taxation, including deferred taxes	1,743	650	764	(49)	1,580
Derivative financial instruments – Liabilities	2,590	-	2,569	-	21
Others	319	2	-	-	321
Total	4,652	689	3,333	(49)	1,959

The account **Post-employment benefit provisions and similar obligations** refers to the subsidiary Serms Srl and relates to the severance indemnity granted to the Chairman of this company's Board of Directors.

Deferred tax liabilities include probable taxes for Euro 30 thousand.

Initially the provision was established in 2014 for Euro 375 thousand in relation to a tax audit by the Umbria Section of the Tax Agency on tax years 2011 and 2012.

In 2016, a settlement was reached concerning the assessment issued by the Perugia section of the Tax Agency with the payment of Euro 133 thousand, utilising the provision which was reversed for Euro 222 thousand with recognition to the income statement at account D.20 - Prior year taxes.

The remaining part of the provision of Euro 30 thousand remains in place against a dispute with the Tax Agency, Perugia section, relating to the above-stated audit which successfully concluded at second level although with judgement still pending. The dispute relates to the propriety of the interest recharged to the German subsidiary PKE GmbH in relation to the inter-company loan issued in 2011 and repaid in 2015.

Tax provisions also include Deferred tax liabilities of Euro 1,550 thousand concerning temporary assessable differences. For a description of these amounts, reference should be made to the final paragraph of the present notes.

Derivative Financial Instruments - liabilities for Euro 21 thousand include the fair value at December 31, 2017 of interest rate derivatives on medium/long-term loans of the parent company.

Other provisions for risks and charges are broken down as follows.

Description	Amount
Legal expenses provision	285
Product warranty provision	36
Total	321

Other provisions totalling Euro 321 thousand at December 31, 2017 relate for Euro 285 thousand to the legal expenses provision against a commercial dispute concerning the parent company and for Euro 36 thousand the product warranty provision of the German subsidiary PKE GmbH.

Post-employment benefit provision

The breakdown of the account is as follows.

Description	31/12/2016	Increases	Decreases	31/12/2017
Post-employment benefit provision - movements in the year	3,510	1,792	1,850	3,452

This provision reflects the Group's liability to all employees as of December 31, 2017, net of advance payments made. This provision represents the actual liability towards employees under applicable law and labour agreements. It corresponds to the total indemnities accrued in favour of employees at December 31, 2006, net of advances paid, and is equal to the amount payable to staff in the event of the termination of the employment contract as at this date. The provision does not include indemnities matured from January 1, 2007, allocated to supplementary pensions as per Legislative Decree No. 252 of December 5, 2005 (or transferred to the INPS treasury fund). The provision refers to the Parent Company and to the subsidiary Serms Srl.

Payables

Consolidated payables, after the elimination of inter-company balances, are valued at their nominal value and break down as follows:

Description	Total	Within one year	Beyond one year	Of which over 5 years
Bank payables	63,492	18,800	44,692	8,768
Other lenders	4,317	13	4,304	3,123
Advances	325	325		
Trade payables	20,144	20,144		
Payables to parent companies	213	213		
Companies subject to control of holding companies	3,166	3,166		
Tax payables	1,360	1,346	14	
Payables to social security institutions	2,177	2,151	26	
Other payables	3,232	3,232		
Total	98,426	49,390	49,036	11,891

Bank payables at December 31, 2017 of Euro 63,492 thousand include loans and reflect the effective payable for capital.

Bank payables due within one year exclusively include the capital portion of loans due within twelve months.

Loans outstanding at December 31, 2017 are outlined below.

Banco Popolare EIB Loan: On January 22, 2014, the parent company drew down a loan for Euro 2,500 thousand; the loan, issued by Banca Popolare, concerns funds made available by the European Bank; the loan has a grace period until December 15, 2014 and is repayable in 8 half-yearly instalments in arrears concluding on December 15, 2018 at a variable half-yearly interest rate according to the Euribor at six months plus by a spread; the residual payable at December 31, 2017 is Euro 625 thousand.

The company hedged the variable Loan condition through an IRS with a cap of 1% until maturity.

BNL Loan: On September 15, 2014, the parent company drew down a loan for Euro 7,500 thousand; the loan is issued in two tranches, the first on September 15, 2014 and the second on October 22, 2014, has a grace period until April 22, 2015 and is repayable in 8 half-yearly instalments in arrears concluding on April 22, 2019 according to a variable half-yearly interest rate on the basis of the Euribor at six months plus a spread; the residual payable at December 31, 2017 is Euro 2,813 thousand.

The covenants on the loan and the relative value at December 31, 2017, whose non-compliance results in resolution, were as follows:

	Covenants	31.12.2017
Net Financial Position / Net Equity	< = 1.5	0.1
Net Financial Position / EBITDA	< = 3.5	0.2

These covenants concern the consolidated financial statements.

Unicredit Loan: On December 22, 2014, the parent company drew down a loan for Euro 7,000 thousand; the loan is repayable in 16 quarterly instalments in arrears concluding on December 31, 2018 with variable quarterly interest on the basis of the Euribor at three months plus a spread; the residual payable at December 31, 2017 is Euro 1,750 thousand. This Loan was in part undertaken for the advance settlement of the previous Loan with the same institution at December 31, 2013 to facilitate its replacement at conditions reflecting new market realities.

The company hedged the variable Unicredit Loan condition through an IRS with a cap of 0.22% until maturity.

Casse di Risparmio dell'Umbria – Intesa Group Loan: On July 28, 2016, the parent company drew down a loan for Euro 3,000 thousand; the loan is repayable in 3 half-yearly instalments in arrears concluding on January 28, 2018 with variable quarterly interest on the basis of the Euribor at three months plus a spread; the residual payable at December 31, 2017 is Euro 1,001 thousand.

Casse di Risparmio dell'Umbria – Intesa Group Loan: On May 24, 2016, the parent company drew down a loan for Euro 7,000 thousand; the loan is repayable in 10 half-yearly instalments in arrears concluding on May 24, 2021 with variable half-yearly interest on the basis of the Euribor at six months plus a spread; the residual payable at December 31, 2017 is Euro 4,911 thousand.

The covenants on the loan and the relative value at December 31, 2017, with non-compliance of at least two of the above-indicated parameters resulting in an increase in the spread, were as follows:

	Covenants	31.12.2017
EBITDA / Financial charges	> =4.5	24.9
Net Financial Position / Net Equity	< = 1.2	NA
Net Financial Position / EBITDA	< = 3.0	NA

These covenants concern the consolidated financial statements.

The company hedged the variable condition on the above loan through an IRS with a maximum cost of 0.45% until maturity.

Banco Popolare Loan: On November 7, 2016, the parent company drew down a loan of Euro 5,000 thousand; the loan has a grace period until December 31, 2016 and is repayable in 14 half-yearly instalments in arrears concluding on December 31, 2023 at a fixed interest rate; the residual payable at December 31, 2017 is Euro 4,304 thousand, of which Euro 733 thousand maturing beyond 5 years.

Banca Popolare di Ancona Loan: On November 17, 2016, the parent company drew down a loan of Euro 5,000 thousand; the loan is repayable in 28 quarterly instalments in arrears concluding on November 17, 2023 at a fixed interest rate; the residual payable at December 31, 2016 is Euro 4,304 thousand, of which Euro 733 thousand maturing beyond 5 years.

The covenants on the loan and the relative value at December 31, 2017, with non-compliance of at least one of the above-indicated parameters resulting in an increase in the spread, were as follows:

	Covenants	31.12.2017
EBITDA / Financial charges	> =4.0	29.0
Net Financial Position / Net Equity	< = 1.5	0.1
Net Financial Position / EBITDA	< = 2.5	0.3

These covenants concern the statutory financial statements.

Credit Agricole - Cariparma Loan: On January 16, 2017, the parent company drew down a loan of Euro 5,000 thousand; the loan is repayable in 28 quarterly instalments in arrears concluding on March 31, 2024 at a fixed interest rate; the residual payable at December 31, 2017 is Euro 4,464 thousand, of which Euro 893 thousand maturing beyond 5 years. The covenants on the loan and the relative value at December 31, 2017, with non-compliance of just one of the above-indicated parameters resulting in an increase in the spread, were as follows:

	Covenants	31.12.2017
Net Financial Position / Net Equity	< = 1.5	0.1
Net Financial Position / EBITDA	< = 3.5	0.2

These covenants concern the consolidated financial statements.

Unicredit Loan: On February 23, 2017, the parent company drew down a loan for Euro 5,000 thousand; the loan is repayable in 20 quarterly instalments in arrears concluding on February 28, 2022 at a fixed interest rate; the residual payable at December 31, 2017 is Euro 4,250 thousand.

Intesa SanPaolo Loan: On March 28, 2017, the parent company drew down a loan of Euro 10,000 thousand; the loan is repayable in 14 half-yearly instalments in arrears concluding on March 28, 2024 at a fixed interest rate; the residual payable at December 31, 2017 is Euro 9,305 thousand, of which Euro 2,193 thousand maturing beyond 5 years.

BNP Paribas Loan: On March 31, 2017, the company drew down a loan of Euro 7,000 thousand; the loan is repayable in 28 quarterly instalments in arrears concluding on March 31, 2024 at a fixed interest rate; the residual payable at December 31, 2017 is Euro 6,270 thousand, of which Euro 1,281 thousand maturing beyond 5 years.

The covenants on the loan and the relative value at December 31, 2017, whose non-compliance triggers the acceleration clause, were as follows:

	Covenants	31.12.2017
Net Financial Position / EBITDA	< = 3.0	0.2

These covenants concern the consolidated financial statements.

Mediocredito Loan: On September 29, 2017, the company drew down a loan of Euro 10,000 thousand; the loan is repayable in 14 half-yearly instalments in arrears concluding on September 29, 2024 at a fixed interest rate; the residual payable at December 31, 2017 is Euro 10,000 thousand, of which Euro 2,936 thousand maturing beyond 5 years.

The covenants on the loan and the relative value at December 31, 2017, with non-compliance of at least one of the above-indicated parameters resulting in an increase in the spread, were as follows:

	Covenants	31.12.2017
EBITDA / Gross Financial Charges	> 4.5	24.3
Net Financial Position / Net Equity	< 1.2	NA
Net Financial Position / EBITDA	< 3	NA

These covenants concern the consolidated financial statements.

Banca Popolare di Spoleto Loan: On November 21, 2017, the parent company drew down a loan for Euro 4,000 thousand; the loan is repayable in 20 quarterly instalments in arrears concluding on December 10, 2022 at a fixed interest rate; the residual payable at December 31, 2017 is Euro 4,000 thousand.

It should be noted that during 2017 the Parent Company fully repaid the loan signed on December 1, 2011 with BNP Paribas on its natural maturity, for funds made available by the European Investment Bank and assisted by the SACE, for an original amount of Euro 10,000 thousand.

The outstanding loans drawn down by the US subsidiary Umbra Cuscinetti Inc. at December 31, 2017 are reported below.

BNP Paribas Loan: the loan, drawn down by the US subsidiary Umbra Cuscinetti Inc. on September 15, 2014 for an amount of USD 3,000 thousand, with a grace period until March 15, 2015, is repayable in 8 half-yearly instalments maturing on March 15, 2019 with interest based on the Libor at six months plus a spread; the residual payable at December 31, 2017 is USD 1,125 thousand.

This loan is subject to the same covenants concerning the Consolidated Financial Statements outlined for the previous loan drawn down by the parent company at the same date.

Bank of America Loan: the loan, drawn down by the US subsidiary Umbra Cuscinetti Inc. on August 1, 2016 for an amount of USD 3,464 thousand, is repayable in 84 monthly instalments concluding on August 1, 2023 with interest based on the Libor at one month plus a spread; the residual payable at December 31, 2017 is USD 3,232 thousand. The company has hedged the interest rate through an IRS with a maximum guaranteed rate of 2.9875%.

The covenants on the loan and the relative value at December 31, 2017, whose non-compliance results in resolution, were as follows:

	Covenants	31.12.2017
Debt Service Coverage Ratio	> 1.2	1.15

These covenants concern the Financial Statements of the US subsidiary.

JP Morgan Chase Loan: the loan, drawn down by the US subsidiary Umbra Cuscinetti Inc. on July 29, 2016 for an amount of USD 1,587 thousand, is repayable in 60 monthly instalments concluding on July 29, 2021 with interest based on the Libor at one month plus a spread; the residual payable at December 31, 2016 is USD 1,158 thousand.

The covenants on the loan and the relative value at December 31, 2017, whose non-compliance results in resolution, were as follows:

	Covenants	31.12.2017
Funded Debt to EBITDA	< = 3.5	4.21
Debt Service Coverage Ratio	> 1.2	0.81

These covenants concern the Financial Statements of the US subsidiary.

The outstanding loans drawn down by the German subsidiary PKE GmbH at December 31, 2017 are reported below.

Kreissparkasse Loan: the loan, drawn down by the German subsidiary PKE GmbH on June 30, 2015 for an amount of Euro 1,400 thousand, is repayable in quarterly instalments from September 30, 2015 and concluding on June 30, 2022 at a fixed interest rate; the residual payable at December 31, 2016 is Euro 900 thousand.

The amortised cost was not applied to loans drawn down in 2017 considering the immateriality of the settlement costs incurred, which were therefore accrued according to the loan duration.

In addition, the interest rate applied is in line with market conditions.

Payables to other lenders comprise:

- Payable to the Ministry for Production Activities (former Ministry for Industry) for Euro 3,994 thousand relating to research and development projects for an electromechanical actuator for the Agusta – Westland helicopter and the VRS A380. The loan, issued in a number of tranches, carries a zero-interest rate. In 2017, the company received Euro 38 thousand and continued repayments on the Agusta – Westland project; in 2017, Euro 26 thousand was repaid.
- Payable to the Ministry for Education, the Universities and Research for Euro 323 thousand relating to the subsidised loan for the DM38703 Research project activities. The subsidised loan instalments mature in January and July of each year; the final instalment is scheduled for January 1, 2021.

Advances for Euro 325 thousand refer to the advance payments received from customers relating to goods and services not yet supplied.

Trade payables amount to Euro 20,144 thousand and increased Euro 1,751 thousand on the previous year. They are recognised net of commercial discounts; cash discounts are however recognised on payment. The nominal value of these payables was adjusted, on recognition of returns or premiums (adjustment to invoicing), to the amount agreed with the counterparty.

Payables to parent companies for Euro 213 thousand concerns payables relating to tax advantages arising from the tax consolidation.

Payables to companies subject to the control of parent companies for Euro 3,166 thousand relate to trade payables

for supplies made to the company AMCO Srl.

Tax payables amount to Euro 1,360 thousand, increasing Euro 46 thousand on the previous year; the account includes only definite tax liabilities, as the liabilities for probable income taxes or where the amount or the date of payment is uncertain, or deferred tax liabilities, are recorded in the account B2 under liabilities (tax provisions).

This account principally comprises:

- Tax payables for withholding taxes of the parent company of Euro 843 thousand;
- Tax payables suspended following the earthquake of September 26, 1997 of Euro 46 thousand, of which Euro 14 thousand maturing beyond one year;
- Income tax payables of Euro 141 thousand relating to the German subsidiary PKE GmbH;
- VAT payables of Euro 30 thousand relating to the German subsidiary PKE GmbH;
- Income tax payables of Euro 101 thousand relating to the German subsidiary Kuhn GmbH;
- Income tax payables of Euro 64 thousand relating to the US subsidiary Umbra Cuscinetti Inc.;

The tax payables account did not change significantly.

Payables to social security institutions amount to Euro 2,177 thousand, increasing Euro 27 thousand on the previous year; this account principally concerns parent company payables due at year-end to these institutions relating to the charge upon the company and employees for December salaries and payables suspended following the 1997 earthquake due from June 2009, as per Article 2, paragraph 109 of Law No. 244 of December 24, 2007 (the "2008 Finance Law") and Article 2 of Legislative Decree No. 61 of April 8, 2008, converted by Law No. 103 of June 6, 2008, of which Euro 26,172 thousand due beyond twelve months.

Other payables of Euro 3,232 thousand principally include:

- employee payables for salaries accrued and not yet settled of Euro 1,853 thousand, of which Euro 179 thousand concerning the parent company and Euro 1,674 thousand relating to the subsidiaries;
- payables to employees for vacation days due for Euro 442 thousand concerning the parent company;
- director and statutory auditor payables for remuneration of Euro 157 thousand;
- payables to the partners of the ASTIB research project for Euro 304 thousand;
- other payables for Euro 473 thousand.

The company has chosen the option to not utilise the amortised cost criterion and to not discount payables as the accounting policies adopted do not provide for the discounting of payables with maturity of less than 12 months, to not discount payables in the case in which the effective interest rate does not significantly differ from market interest rates, to not apply the amortised cost criterion for payables with maturity of less than 12 months and finally to not apply the amortised cost criterion in the case in which settlement costs, commissions and any other difference between the initial value and the value at maturity is minimal.

Under these policies, payables are therefore recognised at nominal value.

Accrued liabilities and deferred income

Balance at 31/12/2017	Balance at 31/12/2016	Changes
5,158	3,972	1,186

The account relates to costs and revenues recorded in accordance with the accruals principle.

At December 31, 2017, there was deferred income with a duration exceeding five years for a total amount of Euro 499 thousand relating to a contribution in the account for plant regulated by Law 488/92, III and V Call and pertaining to the Parent Company.

The breakdown of the account is as follows.

Description	Amount
Insurance premiums	49
Grants received	4,962
Current account interest	68
Other	79
Total	5,158

Explanatory Notes - Income Statement

Value of production

2017	2016	Changes
174,263	169,517	4,746

The **Value of production** amounts to Euro 174,263 thousand, up Euro 4,746 thousand on the previous year.

Description	2017	2016	Changes
Revenues from sales and services	170,083	165,975	4,108
Changes in inventories	844	848	(4)
Increase in internal work capitalised	135	16	119
Other revenue and income	3,201	2,678	523
	174,263	169,517	4,746

Sales revenues amount to Euro 170,083 thousand, increasing Euro 4,108 thousand on the previous year.

Revenues by company and the consolidation adjustments are presented below.

Description	UmbraGroup S.p.A.	Umbra Cuscinetti Inc.	PKE GmbH	Kuhn GmbH	Serms Srl	Consolidation adjustments	31/12/2017
Revenue from sales	125,322	29,503	20,178	6,197	513	(11,630)	170,083

Other revenues and income total Euro 3,201 thousand, up Euro 523 thousand.

The account comprises:

- Grants for plant of Euro 40 thousand;
- Operating grants of Euro 2,122 thousand;
- Gains on asset disposals of Euro 20 thousand;
- Third party Indemnities and Compensation of Euro 49 thousand;
- Recharges for seconded personnel of Euro 113 thousand;
- Prior year cost and revenue adjustments of Euro 380 thousand;
- Other revenues of Euro 477 thousand.

There were no recorded revenues of an exceptional amount or proportion.

Revenues breakdown

The breakdown of the account is as follows.

Category	2017	2016	Changes
Sales of goods	168,000	164,511	3,489
Sales of accessories	90	111	(21)
Services	1,993	1,353	640
Total	170,083	165,975	4,108

Category	2017	2016	Changes
Aeronautic Products	84,780	89,260	(4,480)
Industrial Products	66,508	60,375	6,133
EMA	16,712	14,876	1,836
Services & products sold	1,993	1,353	640
Others	90	111	(21)
Total	170,083	165,975	4,108

Revenues by region

The breakdown of the account is as follows.

Region	2017	2016	Changes
Italy	16,690	16,889	(199)
Other EU countries	74,288	68,914	5,374
United States of America	67,070	67,981	(911)
Other	12,035	12,191	(156)
Total	170,083	165,975	4,108

Costs of production

The breakdown of the account is as follows.

Description	2016	Increases	Decreases	Consolidation adjustments	2017
Raw materials, ancillary and goods	44,501	8,883		(10,717)	42,667
Services	39,012	5,509		(1,563)	42,958
Rent, leasing and similar costs	2,430	799			3,229
Wages and salaries	39,872	2,128			42,000
Social security charges	8,978	455			9,433
Post-employment benefits	1,764	28			1,792
Pensions and similar obligations					5
Other personnel costs	2,039	330			2,369
Amortisation	713		82	89	720
Depreciation	4,579	696		(129)	5,146
Doubtful debt provision	17	77			94
Change in inventories of raw materials	66	290		(11)	345
Risk provisions	7		5		2
Other operating expenses	1,101		171		930
Total	145,079	19,200	258	(12,331)	151,690

Raw materials, ancillaries, consumables and goods and Service costs

These are strictly correlated to the comments in the Directors' Report and the description of point A (Value of production) of the Income Statement.

Raw material costs in 2017 totalled Euro 42,667 thousand (Euro 44,501 thousand in 2016), decreasing Euro 1,834 thousand on the previous year (-4.1%).

Service costs rose Euro 3,946 thousand, +10.1% on 2016.

Rent, lease and similar costs increased Euro 799 thousand on the previous year (+32.9%), principally due to higher leasing charges on contracts regarding new investments.

Personnel costs

Personnel costs in 2017 amounted to Euro 55,559 thousand (Euro 52,653 thousand in 2016), increasing Euro 2,946 thousand (+5.6%).

The account includes all costs for personnel including increases, promotions, vacation days not taken and provisions in accordance with law and collective contractual agreements.

Other personnel costs of Euro 2,369 thousand principally include:

- Euro 751 thousand for the Parent Company's canteen costs;
- Euro 545 thousand for the cost of training;
- Euro 208 thousand for the cost of Unisalute health insurance signed by the Parent Company in favour of employees.

Description	2017	2016
Personnel costs	53,230	50,614
Other personnel costs	2,369	2,039
	55,599	52,653

Amortisation, depreciation and provisions

Category	2017	2016
Amortisation	720	713
Depreciation	5,146	4,579
Doubtful debt provision	94	17

Amortisation and depreciation is reported in the statement of Fixed Asset changes.

The doubtful debt provision refers to the nominal value of trade receivables to express their expected realisable value.

Other operating charges

The breakdown of this account is shown in the following table:

Description	2017	2016
Membership fees	162	48
Non income-based taxes and duties	441	418
Other operating charges	327	635
	930	1,101

Income and other taxes principally include Property tax (IMU) for Euro 109 thousand of the parent company and for Euro 283 thousand the US subsidiary Umbra Cuscinetti Inc.; Other operating expenses mainly concerns adjustments to parent company prior year revenues for Euro 66 thousand, Euro 134 thousand of Charitable donations and Euro 42 thousand for losses on fixed assets sold.

There were no recorded costs of an exceptional amount or proportion.

Financial income and expenses

The breakdown of the account is as follows.

	2017	2016	Changes
	(2,805)	(936)	(1,869)

The breakdown of the account is as follows.

Description	2017	2016	Changes
Other income	42	89	(47)
(Interest and other financial charges)	(1,213)	(1,315)	102
Exchange gains/(losses)	(1,634)	290	(1,924)
Total	(2,805)	(936)	(1,869)

Exchange gains/(losses) report a net loss of Euro 1,634 thousand.

Of the total amount resulting from the income statement, the non-realised currency component corresponds to a loss of Euro 135 thousand.

The non-distributable reserve is not recorded due to the valuation loss.

The following is a breakdown of the movement showing the consolidation entries of the account Interest and other financial charges.

Description	2016	Increases	Decreases	Consolidation adjustments	2017
Parent companies		26		(26)	
Interest on ordinary bank payables	5		2		3
Other financial expense	1,310		100		1,210
Total	1,315	26	102	(26)	1,213

Adjustments on financial assets

Description	2017	2016	Changes
Revaluations of derivative financial instruments	2,770	1,615	1,155
Write-downs of derivative financial instruments	-	(901)	901
Total	2,770	714	2,056

Adjustments to financial assets exclusively concern the fair value adjustment of derivative financial instruments both on their natural maturity and at year-end.

These items particularly concern positive and negative fair value changes on derivative financial instruments for which hedge accounting has not been applied.

For the changes in value for each category of derivative financial instruments referred to above, reference should be made to the information provided below as required by Art. 2427-bis, first paragraph, no. 1 of the Civil Code.

Income taxes

	2017	2016	Changes
	5,805	7,441	(1,636)

Income taxes	2017	2016	Changes
Current taxes:	5,449	6,901	(1,452)
IRES	4,613	6,028	(1,415)
IRAP	836	873	(37)
Prior year taxes	(37)	(164)	127
Deferred tax liability/(asset)	393	704	(311)
IRES	393	693	(300)
IRAP	-	11	(11)
	5,805	7,441	(1,636)

Income taxes on an accruals basis for the year were recorded.
The Tax rate was 25.8% (30.7% in 2016).

A reconciliation is provided below between the reported tax charge and the theoretical tax charge:

Reconciliation between reported and theoretical tax charge (IRES)

Description	Amount	Income taxes
Pre-tax profit	19,102	
Theoretical tax charge (%)	24	4,584,594
Temporary differences assessable in future years:		
Adjustment to foreign currency items	136	
Total	136	
Temporary differences deductible in future years:		
Directors fees to be paid	112	
Total	112	
Reversal of temporary differences from previous years		
Prior year gains	169	
Grants received	1,089	
Directors fees paid	(109)	
Inventory obsolescence provision utilisation	(178)	
Non-deductible amortisation & depreciation	1	
Total	972	
Non-reversing differences in future years		
IMU Property tax	88	
Non-deductible costs	229	
Vehicle management costs	233	
Other non-assessable income	(2,061)	
ACE Tax Break	(340)	
IRAP Deduction	(181)	
"Super Amort." Tax Break	(837)	
Other decreases	(3,469)	
Other increases	879	
Total	(5,459)	
Parent company assessable income	14,862	
Subsidiaries assessable income	3,277	
Total assessable income	18,139	
Current IRES income taxes		4,613

Determination of assessable IRAP

Description	Amount	Income taxes
Difference between value and costs of production	56,629	
Other increases	1,142	
Other decreases	(1,667)	
Deductions as per Article 11, paragraph 1, letter a) Legislative Decree 446	(34,697)	
Total	21,406	
Theoretical tax charge (%)	3.9	834
Temporary differences deductible in future years:		
Assessable IRAP	21,406	
Current IRAP income taxes		836

Deferred tax income/charges

The deferred tax charge relates to the deferred tax provision made of Euro 533 thousand.

Deferred tax liabilities are calculated based on the global allocation criteria, taking into account the cumulative amount of all of the temporary differences, based on the average expected rates in force when these temporary differences reverse.

Deferred tax assets are recorded if there is reasonable certainty that the temporary differences will reverse in future years against assessable income not lower than the differences that will be reversed.

The temporary differences that resulted in the recording of deferred tax assets and liabilities are shown in the table below together with the relative effect.

Recording of deferred tax assets and liabilities and consequent effects:

Umbragroup S.p.A.	FY 2017 Amount of temporary IRES differences	FY 2017 Tax effect IRES	FY 2017 Amount of temporary IRAP differences	FY 2017 Tax effect IRAP	FY 2016 Amount of temporary IRAP differences	FY 2016 Tax effect IRAP
Amortisation and depreciation not deducted as per Law 185/2008 (buildings revaluation)	462,813	111,075	462,813	18,050	462,813	111,075
Provision for risks and charges	284,603	68,305	284,603	11,100	284,603	68,305
Operating grants taxed on cash basis	340,305	81,673			59,596	14,303
Unrealised exchange losses	372,334	89,360			162,466	38,992
Doubtful debt provision	629,042	150,970			629,042	150,970
Inventory obsolescence provision	3,067,977	736,314			3,246,462	779,151
IRS Derivatives	19,470	4,673			99,383	23,852
Exchange derivatives					2,536,528	608,767
Total	5,176,544	1,242,370	747,416	29,150	7,480,893	1,795,415
Operating grants taxed on cash basis	2,285,668	548,560			746,894	179,254
Unrealised exchange gains	230,217	55,252			79,742	19,138
Gains	234,892	56,374			404,242	97,018
Amortisation and depreciation deducted as per Law 244/2007	41,893	10,054			41,893	10,054
Exchange derivatives	68,131	16,351				
Total	2,860,801	686,591			1,272,771	305,464
Net deferred tax liability (asset)		(555,779)		(29,150)		(1,489,951)
Fiscal losses carried forward	Amount	Tax effect	Amount	Tax effect	Amount	Tax effect
Tax rate	24				27.5	
	31/12/2017	31/12/2017	31/12/2017	31/12/2017		

Umbra Cuscinetti Inc.	Amount of temporary differences	31/12/2017 Tax effect	Amount of temporary differences	31/12/2016 Tax effect
Deferred tax income:				
Doubtful debt provision	35	8	75	25
Offsetting of provisions	24	5	268	91
Section 263a	309	68	316	108
Inventory obsolescence provision	1,309	286	152	52
Total	1,677	367	811	276
Deferred taxes:				
Amortisation & Depreciation	4,185	912	4,374	1,487
Total	4,185	912	4,374	1,487
Net deferred tax liability (asset)		545		1,211
Tax rate	21%		34	

PKE GmbH	Amount of temporary differences	31/12/2017 Tax effect	Amount of temporary differences	31/12/2016 Tax effect
Deferred tax income:				
Goodwill	70	21	79	24
Total	70	21	79	24
Tax rate	30		30	

Explanatory Notes - Other Information

Workforce

The average workforce by category of the fully consolidated companies is presented below.

Workforce	31/12/2017	31/12/2016	Changes
Executives	17	21	-4
Managers	38	37	1
White-collar	301	240	61
Blue-collar	640	657	-17
Others	36	9	27
Total	1032	964	68

Remuneration, advances and receivables granted to directors and statutory auditors and commitments undertaken on their behalf

	Directors	Statutory Auditors
Remuneration	919	45

Independent auditors' fees

In accordance with law the fees paid for services provided by the auditor are reported below:

	Amt.
Annual accounts audit	67
Total fees of the auditor or the independent audit firm	67

Off balance sheet commitments, guarantees and contingent liabilities

Pursuant to the provisions of Article 2427, first paragraph, No. 9) of the Civil Code we disclose the following information in relation to commitments, guarantees and contingent liabilities:

Description	31/12/2017
Treasury shares acquisition commitments	1,826
Commitments for USD option contracts	26,428
	28,254

Commitments undertaken by the company include:

- Share purchase commitments of Euro 1,826 thousand; this stems from options agreed by the parent company with employees on undertaking shareholdings;
- Commitments for option contracts subscribed by the Parent Company to hedge risks from Euro/USD exchange rate fluctuations for a countervalue of Euro 26,428 thousand.

Information on related party transactions

Transactions with the parent company under the Tax Consolidation are reported below.

Company	Receivables	Payables
Poliscom Srl	2,090	213

The company undertakes transactions with the following related company controlled by the parent company Poliscom Srl:

1. AMCO Srl - Foligno – PG.

These are commercial transactions, are part of ordinary operations and are regulated at market conditions, i.e. the conditions that would be applied between two independent parties and are undertaken in the interests of the company.

Commercial transactions are summarised below:

Company	Trade receivables	Trade payables	Sales	Components and treatments purchased	Other
AMCO Srl	261	3,166	133	6,241	124

Off-balance sheet agreements

(Ref. Article 2427, first paragraph, No. 22-ter of the Civil Code).

There are no off-balance sheet agreements.

Subsequent events

The transition to the new Dynamics 365 information system took place on January 1, 2018. Umbra, the FIRST in Italy on Microsoft Cloud ERP! UmbraGroup is at the highest level of Cloud technology with the new D365FFO management tool. Through the partnership with Concert, which has supported the project's implementation, the company now has the innovative Cloud platform which makes it even more competitive on the market. The Group Program Manager of the Microsoft headquarters in Redmond (Seattle) is congratulated on the excellent job done.

The closing of the acquisition of Linear Motion LLC (Thomson Aerospace & Defense) took place on March 26, 2018. This company is located in the United States and is the sector's absolute pioneer through the invention of recirculating ballscrews - a sector in which the UmbraGroup is world leader with over 60% market share. The acquisition involves a company of about 180 personnel and an approximate turnover of USD 40 million. The acquisition was formalised through a holding company established in the State of WA - USA with the aim of concluding acquisitions in the USA.

Larger/smaller undertakings preparing the financial statements

In accordance with law, the information as per Article 2427, first paragraph, No. 22 *quinquies and sexies*), of the Civil Code is disclosed.

	Larger undertaking	Smaller undertaking
Name of the company	Poliscom Srl	UmbraGroup Spa
City (if in Italy) or overseas state	Perugia	Foligno PG
Tax. No. (for Italian businesses)	02778900544	02016930543
Place of filing of the consolidated financial statements	Perugia	Perugia

The company UmbraGroup S.p.A. is controlled by Poliscom Srl, with registered office in Perugia, Via Giovanni Battista Pontani 10, which prepares the consolidated financial statements of the entire Group (the wider scope of undertakings).

The company UmbraGroup S.p.A., with registered office in Foligno, Via Valter Baldaccini 1, prepares the consolidated financial statements of the smaller scope of undertakings within the Group.

Information on derivative financial instruments as per Article 2427-bis of the Civil Code

The fair value and information (concerning the present year and the previous year) on the extent and nature of each category of derivative financial instruments issued by the company are detailed below. These are sub-divided by category taking in account the characteristics of the instruments and their purpose.

There are no contractual terms or conditions in derivative contracts that can influence the amount, maturities and certainties of future cash flows which are also guaranteed by the reliability of counterparties represented by leading banking institutions.

Instruments subscribed by the Parent Company

Derivative financial instruments with characteristics permitting accounting designation as hedging instruments

The derivative financial instruments in the following table are interest rate hedges on medium/long-term debt.

Counterparty	Type	Maturity date	Notional capital	Fair Value 31/12/2017		Fair Value 31/12/2016	
				Current portion	Non-current portion	Current portion	Non-current portion
Banco Popolare	IRS	15/12/2018	625	(6)	-	(14)	(5)
Unicredit	IRS	31/12/2018	1,750	(6)	-	(15)	(5)
Intesa San Paolo	IRS	24/05/2021	4,911	(9)	-	(13)	(1)
				(21)	-	(42)	(11)

Derivative financial instruments without characteristics permitting accounting designation as hedging instruments

The derivative financial instruments in the following table hedge cash flows in foreign currencies and in particular the US Dollar.

Amounts in Euro	Positive fair value		Negative fair value	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
US Dollar	247	-	-	2,536

Instruments subscribed by the US subsidiary Umbra Cuscinetti Inc.

Derivative financial instruments without characteristics permitting accounting designation as hedging instruments

Euro thousands	Negative fair value		Positive fair value	
	31/12/2016	31/12/2016	31/12/2017	31/12/2016
Bank of America IRS	-	-	79	75

For all derivatives, the fair value was calculated on the basis of market data.

Deferred tax assets concerning both hedging and non-hedging derivatives are reported in the previous table regarding

“Recognition of deferred tax assets and liabilities and consequent effects”.

Movements in fair value reserves were indicated previously in the comment to changes in shareholders’ equity.

Key financial highlights of the company which exercises management and coordination

The company is under the management and coordination of Poliscom Srl.

The financial highlights from the latest approved financial statements of the above company which exercises management and coordination are presented in the table below (Article 2497-bis, fourth paragraph of the Civil Code). However, the company Poliscom Srl prepares the consolidated financial statements for the entire Group.

	Latest year	Previous year
B) Fixed assets	27,059	22,113
C) Current assets	3,004	3,208
D) Prepayments and accrued income	1	
Total assets	30,064	25,321
A) Shareholders’ Equity		
Share capital	1,000	1,000
Reserves	15,727	14,020
Net profit for the year	2,897	1,707
Total shareholders’ equity	19,624	16,727
B) Provisions for risks and charges	-	6
D) Payables	10,440	8,554
E) Accrued liabilities and deferred income		34
Total liabilities	30,064	25,321

	Latest year	Previous year
A) Value of production	-	
B) Costs of production	72	83
C) Financial income and charges	2,782	1,591
Income taxes for the year	(187)	(199)
Net profit for the year	2,897	1,707

These consolidated financial statements, consisting of the balance sheet, the income statement and the explanatory notes, present a true and fair view of the equity and financial position and results for the year. They correspond with the parent company accounting records and the information transmitted by the companies included in the consolidation.

Chairman of the Board of Directors
Antonello Marcucci

UMBRAGROUP S.P.A.

Registered office in VIA VALTER BALDACCINI, 1 - PACIANA LOCALITY - 06034 FOLIGNO (PG) Share capital Euro
11,302,500.00 fully paid-in

Annex 1 to the Consolidated Financial Statements at 31/12/2017

List of companies consolidated line-by-line as per Article 26 of Legislative Decree No. 127/91 at 31/12/2017

Company	Reg. Office	Share capital		Shareholders	Hold.	Cons.
		Currency	Amount		%	%
UMBRA CUSCINETTI INC	USA	USD	9,541,712	UMBRAGROUP S.P.A.	100.0	100.0
PRAZISIONSKUGELN	GERMANY	EURO	6,048,319	UMBRAGROUP S.P.A.	100.0	100.0
ELTMANN GMBH						
KUHN PRAEZISIONSSPINDELN UND GEWINDETECHNIK GMBH	GERMANY	EURO	7,516,189	UMBRAGROUP S.P.A.	100.0	100.0
SERMS S.R.L.	ITALY	EURO	392,632	UMBRAGROUP S.P.A.	52.0	52.0

Chairman of the Board of Directors

Antonello Marcucci

UMBRAGROUP S.P.A.

Registered office in VIA VALTER BALDACCINI, 1 - PACIANA LOCALITY - 06034 FOLIGNO (PG) - Share capital Euro
11,302,500.00 fully paid-in

Annex 2 to the Consolidated Financial Statements at 31/12/2017

All amounts are expressed in thousands of Euro.

Reconciliation between net result and net equity as reported in the parent company and consolidated financial statements

A reconciliation follows of consolidated net equity and the net result for the year ended 31/12/2017 with the amounts reported in the parent company financial statements:

	Shareholders' Equity	Net Result
Net equity and net result for the year as reported in the parent company financial statements	64,222	13,837
Adjustments in compliance with accounting standards	(79)	110
Elimination of carrying amounts of consolidated investments:		
a) difference between book value and pro-quota net equity	13,159	
b) pro-quota results of investees	2,719	2,719
c) gains/losses attributed at the acquisition date of the investees	286	(72)
d) consolidation differences		
Elimination of the effects of transactions between consolidated companies	(540)	93
Net equity and net result pertaining to Group	79,767	16,687
Net equity and net result pertaining to minority interests	189	46
Consolidated net equity and net result	79,956	16,733

Chairman of the Board of Directors

Antonello Marcucci

UMBRAGROUP S.P.A.

Registered office in VIA VALTER BALDACCINI, 1 - PACIANA LOCALITY - 06034 FOLIGNO (PG) - Share capital Euro 11,302,500.00 fully paid-in

Annex 3 to the Consolidated Financial Statements at 31/12/2017

All amounts are expressed in thousands of Euro.

Statement of changes in consolidated net equity

UMBRAGROUP SPA												
STATEMENT OF CHANGES IN NET EQUITY												
FOR YEARS ENDED 31.12.2016 & 31.12.2017												
In Euro thousands												
DESCRIPTION	SHARE CAPITAL	SHARE PREMIUM RESERVE	REVALUATION RESERVE	LEGAL RESERVE	CAPITAL GRANTS	OTHER RESERVES	HEDGE RESERVE	TRANSLATION RESERVE	RETAINED EARNINGS (ACC. LIAB)	NET PROFIT (LOSS)	NEGATIVE TREAS. SHARES RESERVE	TOTAL
BALANCE AT DECEMBER 31, 2015	11,303	4,948	3,741	1,676	171	23,367	(145)	667	7,018	12,209	(6,164)	58,791
ALLOCATION 2015 NET PROFIT												
- To Reserves				466		3,863			2,880	(7,209)		-
- Dividends										(5,000)		(5,000)
TRANSLATION RESERVE CHANGE								313				313
OTHER CHANGES						(4,099)	72					(4,027)
2016 NET PROFIT										16,775		16,775
DECEMBER 31, 2016	11,303	4,948	3,741	2,142	171	23,131	(73)	980	9,898	16,775	(6,164)	66,852
ALLOCATION 2016 NET PROFIT												
- To Reserves				119		10,770			2,886	(13,775)		-
- Dividends										(3,000)		(3,000)
TRANSLATION RESERVE CHANGE								(1,071)				(1,071)
OTHER CHANGES						322	58				(81)	299
2017 NET PROFIT										16,687		16,687
BALANCE AT DECEMBER 31, 2017	11,303	4,948	3,741	2,261	171	34,223	(15)	(91)	12,784	16,687	(6,245)	79,767
NET EQUITY AND NET RESULT PERTAINING TO MINORITY INTERESTS												189
GROUP & MIN. INTEREST CONSOLIDATED NET EQUITY												79,956

Chairman of the Board of Directors

Antonello Marcucci