2018

AB Holding Spa

Report on operations

Report on the 2018 Financial Statements supplemented pursuant to art. 40, para. 2, letter 2-bis of Decree 127/1991

for the year from 01/01/2018 to 31/12/2018

COGENERATION WORLD

PARENT COMPANY

Company name	**AB HOLDING SPA**
Registered Offices in	ORZINUOVI, VIA CADUTI DEL LAVORO 13, BRESCIA
Share capital	€ 6,000,000.00 fully paid
Tax Code and VAT nr.	02243290984
BRESCIA Companies Register	BRESCIA nr. 02243290984
Business Register (REA) nr.	433585

CORPORATE BODIES OF THE PARENT COMPANY

BOARD OF DIRECTORS OF AB HOLDING SPA

GRAZIELLA CALZAVACCA	Chairman and Chief Executive Officer
ANGELO BARONCHELLI	Executive Director

BOARD OF STATUTORY AUDITORS

FRANCESCO DI MARZO	Chairman
DANILO POLI	Serving Auditor
MARCO ORAZI	Serving Auditor
GUALTIERO TOSONI	Alternate Auditor
DOMENICO DI MARZO	Alternate Auditor

AUDITING FIRM

BRIXIA REVISIONE SRL	Legal auditor of the accounts

Shareholders,

On behalf of the Board of Directors, the Board of Statutory Auditors and all our collaborators, we welcome you the Annual General Meeting called to approve the 2018 separate and consolidated financial statements of AB Holding SpA. Thank you for your participation.

This Meeting is being held within one hundred and eighty days of the year end, pursuant to the final paragraph of art. 2364 of the Italian Civil Code and art. 17 of the Articles of Association, because AB Holding SpA is required to prepare consolidated financial statements, pursuant to Decree 127 dated 9 April 1991.

*The financial statements presented for your approval provide a true and fair view of the economic and financial position and cash flows of the Company and the Group. The reported results confirm the satisfactory performance of the Group during the year ended 31/12/2018, with a consolidated net profit of Euro **30,856,592**, of which:*

- *attributable to the Group: Euro 30,197,111,*
- *attributable to third parties: Euro 659.481.*

***Revenues** in **2018**, Euro 206 million, were slightly greater than in the prior year, as was the **value of production** which reached Euro 229 million. This performance lays solid foundations for the future and the results to be achieved.*

The results already achieved reflect the considerable commercial efforts made in Italy and around the world in the field of cogeneration, the dedication of manufacturing and the steady growth of service activities. We strive constantly to improve our market position in an increasingly competitive environment at home and abroad.

Our current positioning derives from an ongoing commitment to the development of our business processes, covering both manufacturing and systems.

*There was a **marked increase** in **consolidated shareholders' equity during 2018**, from Euro **248 million** to Euro **278 million**. The growth of this parameter highlights the established strategy of building the financial strength of the Group, in order to support the core business.*

The AB Group principally focuses on the NGS and Biogas sectors, where we have been active for many years.

The Group continued to focus on a future strongly integrated with market trends, and a dynamic, customer-centric approach.

The AB Group retained its leadership position on the national market and, along with a continual process of internationalisation, maintained its strong roots in Italy.

The product and service level developed and continual research conducted over the years by the personnel of companies in Italy represent added value for the development of the Group's operations as a whole, now present in 17 countries through companies held by the parent company AB Holding SpA.

The involvement of the Group in market dynamics overall and its distinctive competitive factors are based on its focus on the competitive factors which "AB products" and the company can excel at.

During 2019, each of us will have to make a personal contribution to the development of the Company and the Group as a whole, with a view to "process improvement", "Industry 4.0" and "Research and development", inspired by product and process technologies that, culturally speaking, will represent the "fourth industrial revolution".

***

*The good results achieved, our broad market presence and bright future prospects are all underpinned by the certainty that we can rely on the strong commitment of all "**AB personnel**". In addition to the undoubted quality of our products, our people form an excellent young team that will drive the business forward.*

May all your endeavours be successful,

The Chairman
Graziella Calzavacca

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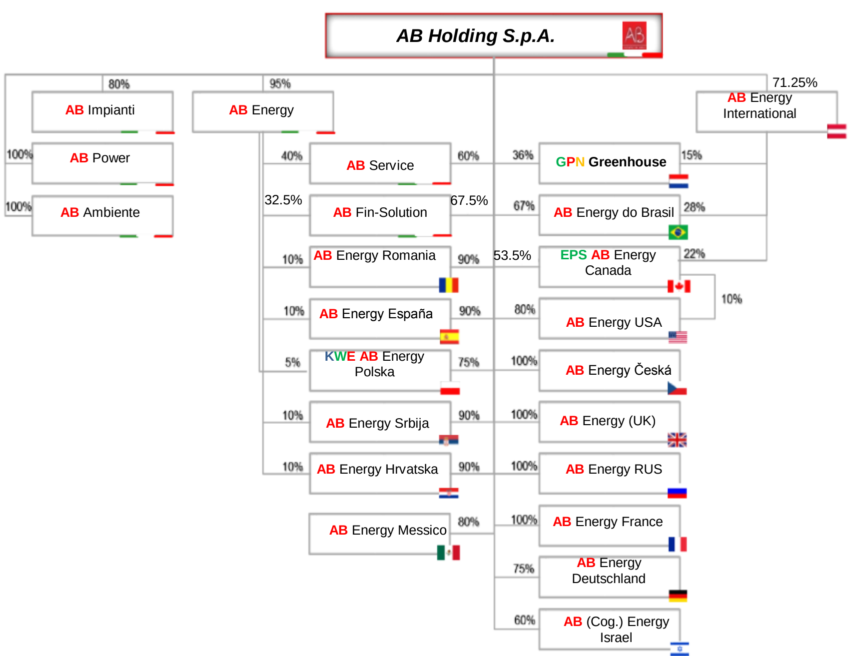
INTRODUCTION

This report is prepared pursuant to the combined provisions of art. 2428 of the Italian Civil Code and art. 40 of Decree 127/1991, as allowed by art. 40, para. 2, letter. 2-bis of the aforesaid decree. This Report covers the Group as a whole, given that the Parent Company does not operate independently, but rather holds equity investments and provides services to its subsidiaries. Accordingly, in compliance with the principles contained in art. 2428, para. 2, of the Italian Civil Code, a detailed and complete analysis consistent with the scale and complexity of the overall business is presented pursuant to art. 40 of Decree 127/1991.

This Report provides an analysis of operations, having regard for the requirements of art. 2428 of the Italian Civil Code, as amended by art. 1 of Decree 32 dated 2 February 2007, and discusses the activities of the Company and the AB Group and performance during the year, with particular reference to costs, revenues and capital investment.

Unless expressly stated otherwise, the amounts indicated in this Report are stated in whole Euro, and to facilitate understanding, the comparative data presented herein is the same as that presented in previous reports.

The Group organisation chart and list of consolidated companies as of 31/12/2018 is presented below:



COMPANY	LOCATION	TAX CODE	SHARE CAPITAL	% ABH
AB HOLDING SPA	Orzinuovi (BS)	02243290984	€ 6,000,000	Parent company
AB IMPIANTI SRL	Orzinuovi (BS)	01895490983	€ 1,000,000	80%
AB ENERGY SPA	Orzinuovi (BS)	02106060987	€ 1,000,000	95%
AB SERVICE SRL	Orzinuovi (BS)	02279020982	€ 1,000,000	60%
AB POWER SRL	Cologne (BS)	02293190985	€ 99,000	100%
AB FIN-SOLUTION SPA	Orzinuovi (BS)	02662610985	€ 2,000,000	67.50%
AB AMBIENTE SOC. AGRICOLA SRL	Orzinuovi (BS)	02632060980	€ 50,000	100%
AB ENERGY ESPANA SL	Barcelona (Spain)	B85683381	€ 30,000	90%
AB ENERGY ROMÂNIA SRL	Bucharest (Romania)	25216345	Lei 731,000	90%
KWE AB ENERGY POLSKA SP ZOO	Bielko-Biala (Poland)	9372337858	Zloty 50,000	75%
AB ENERGY SRBIJA DOO	Beograd-Novi Beograd (Serbia)	107377008	Dinars 10,266,480	90%
AB ENERGY HRVATSKA DOO	Rijeka (Croatia)	4103332347	Kuna 750,000	90%
AB ENERGY CESKA SRO	Prague (Czech Republic)	243 19 058	CZK 2,000,000	100%
AB ENERGY INTERNATIONAL GMBH	Schwaz (Austria)	ATU 67894816	€ 1,000,000	71.25%
AB GREENHOUSE POWER NETHERLANDS BV	Maasdijk (Netherlands)	NL8527.46.878.B01	€ 50,000	36%
AB ENERGY DO BRASIL LTDA.	Barueri (Brazil)	CNPJ 08.542.297/0001-29	R$ 1,001,480	67%
EPS AB Energy Canada Ltd.	Guelph - ON (Canada)	GST/HST 832149462	CAD 200,000	53.50%
AB ENERGY (UK) LTD	London (Great Britain)	GB 185213904	£ 50,000	100%
AB ENERGY DEUTSCHLAND GMBH	Mannheim (Germany)	37/007/01671	€ 500,000	75%
AB ENERGY USA LLC	Denville - NJ (USA)	320454893	$ 1,000,000	80%
A.B. ENERGY (Cogeneration) ISRAEL LTD	Yokneam (Israel)	515154482	NIS 1,400,000	60%
AB ENERGY RUS LLC	Moscow (Russia)	7743091265	RUB 5,000,000	100%
AB ENERGY FRANCE SARL	Vern-sur-Seiche (France)	FR54813789856	€ 200,000	100%
AB ENERGY MEXICO Cogeneracion S. DE R.L. DE CV	Mexico City (Mexico)	RFC AEM1511232IA	MEX 6,000,000	80%

REPORT PURSUANT TO ART. 2428 OF THE ITALIAN CIVIL CODE

As mentioned, in addition to the holding of controlling interests, the Parent Company provides them with support and services, including the leasing of property. The revenues and dividends generated derive solely from these subsidiary companies. The contents of this Report, prepared pursuant to art. 2428 of the Italian Civil Code, take these factors into account.

The results of the Parent Company were satisfactory once again, reflecting the investment policies and efforts made since the foundation of the business. In particular, the results of the policies designed to strengthen, plan, guide and organise the activities of subsidiaries show that the Group is moving in the right direction. This is evident from the income generated by the various subsidiaries.

Once again, the Parent Company has successfully coordinated the growth of the Italian and foreign companies within the Group, contributing to the development of a business plan that maintains the leading position of the Group in international markets.

The separate financial statements report a net profit of € 23,896,451 and an even stronger financial position.

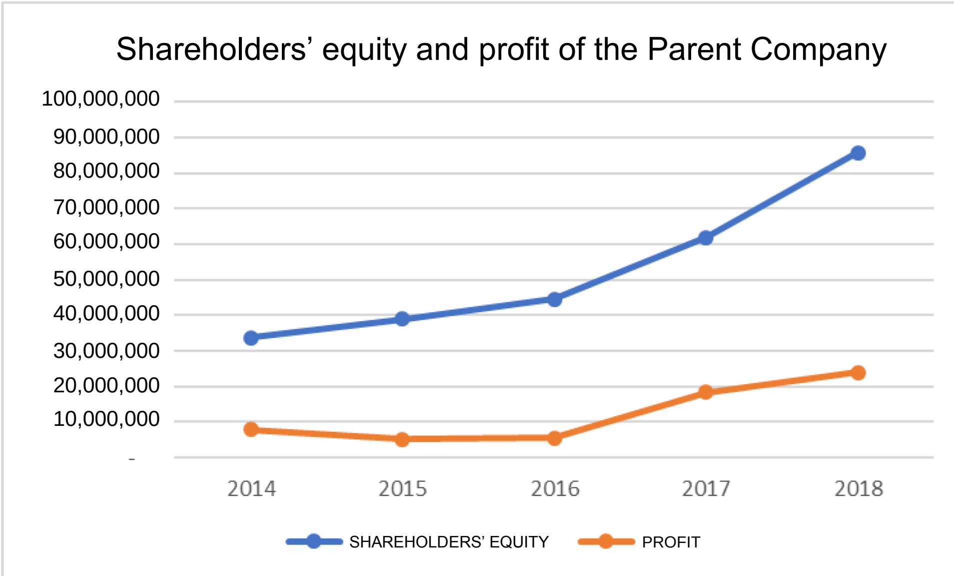
The economic results for the past three years are summarised below:

	2018	2017	2016
Diff. A-B IS	(7,730)	77,682	(579,630)
Dividends	25,450,000	19,100,000	9,200,000
Net profit	23,896,451	18,383,231	5,558,085

Pursuant to art. 2428, para. 2, of the Italian Civil Code, the various economic and financial indicators (ratios are presented later) confirm the strength of the Parent Company, which of course benefits the subsidiaries as well.

	2018	2017	2016
Financial income and charges	25,634,532	19,262,522	9,036,337

CHANGE IN SE - Profits



Reclassified Financial Position			
Intangible assets	222,025	Share capital	6,000,000
Property, plant and equipment	26,028,712	Reserves	55,835,403
Financial fixed assets	30,176,041	Net profit	23,896,451
Fixed assets	**56,426,778**	**Own funds**	**85,731,854**
Inventories	-		
Deferred liquidity	13,413,453	Provisions	7,689,659
Immediate liquidity	30,741,465	Payables >12m	2,827,565
Current assets	**44,154,918**	**Non-current liabilities**	**10,517,224**
		Payables <12m	4,332,378
		Accruals and deferrals	240
		Current liabilities	**4,332,618**
Capital invested	**100,581,696**	**Debt capital**	**100,581,696**

Description	2018	2017	2016
Primary fixed asset cover	29,305,076	10,698,244	-6,858,870
Primary fixed asset ratio	1.52	1.21	0.87
Secondary fixed asset cover	39,822,300	16,596,828	1,069,288
Secondary fixed asset ratio	1.71	1.32	1.02

Description	2018	2017	2016
Overall indebtedness ratio	0.17	0.16	0.29
Financial indebtedness ratio	0.05	0.04	0.15

Description	2018	2017	2016
Working capital	39,822,300	16,596,828	1,069,288
Working capital ratio	10.19	5.27	1.22
Treasury margin	39,822,300	16,596,828	1,069,288
Treasury ratio	10.19	5.27	1.22

The above indicates confirm the financial strength of the Parent Company, which is well capitalised and liquid.

The principal economic indicators for the three-year period 2016-2018 are presented below:

Description	2018	2017	2016
Gross operating margin	1,248,161	1,041,516	426,517
EBITDA (after provisions)	**1,248,161**	**1,041,516**	**426,517**
Operating result	242,613	290,696	- 365,801
Normalised EBIT	**25,644,186**	**19,351,474**	**8,717,857**
EBIT	**24,065,228**	**18,429,164**	**5,801,717**
Pre-tax result	24,047,844	18,417,894	5,540,567
Net profit	23,896,451	18,383,231	5,558,085

NOTE: The operating result includes ancillary activities

Certain **non-financial indicators** relevant to the Parent Company are also presented:

Average number of employees

2018	2017	2016	2015	2014
123	91	84	75	69

Pursuant and with specific reference to arts. 2435-bis, para. 7, and 2428, para. 3, points 3 and 4, of the Italian Civil Code, it is confirmed that:

1) the company has not carried out any R&D activities;
2) relations with subsidiaries, associates and their subsidiaries are described in the section of this Report on the consolidated financial statements;

3) It is further confirmed that:
   - the company does not hold any treasury shares, whether directly or indirectly;
   - the company does not hold any shares or quotas in parent companies, whether directly or indirectly;
   - during the year, the company did not purchase or sell any treasury shares, or shares or quotas in parent companies, whether directly or via trust companies or other intermediaries.

Finally, it is noted that the risks and uncertainties to which the company is exposed are principally attributable to the results generated by Group companies, especially those registered in other countries.

In this regard, the company has established adequate provisions for equity investments in relation to those subsidiaries that report negative equity. See the explanatory notes to the separate financial statements for further information.

1. ANALYSIS OF GROUP PERFORMANCE

1.1. Introduction

As usual, before describing the economic and financial position, it will be useful to illustrate the macroeconomic situation and the market conditions in which the Company and the Group operate.

1.1.1 Macroeconomic situation[1]

The **global economy** continued to grow, however prospects for world trade weakened. Numerous risk factors impacted the expansion of the international economy.

The International Monetary Fund slightly revised its forecast for world GDP, for both 2019 and 2020, downwards. The main reason for this revision of global growth is due to the negative effects of an increase in rates in the United States and China, the weaker performance of some economies, particularly in Asia and Europe, and the weakening of financial markets.

Although growth in the world economy has continued in the last few months, prospects for global trade have worsened, after the slowdown in the first half of 2018. Signs of a cyclical deterioration in many advanced and emerging economies have also emerged.

Economic uncertainties have had an impact on international financial markets, with a downturn in long-term returns and fall in share prices. Global prospects have been affected by risks relative to the negative outcome of trade deals between the United States and China, the possible worsening of financial tensions in emerging countries and Brexit procedures.

Considering the above, and with poorer prospects for world trade, the Governing Council of the ECB has confirmed it will maintain a high monetary stimulus.

Activity in the **Euro area** slowed down, partly due to temporary factors, but also to a decline in the expectations of businesses and the weakness of foreign demand. In November, industrial production fell significantly in all main economies. In autumn, inflation decreased

[1] Principal sources: Bank of Italy Economic Bulletin 1/2018; International Monetary Fund (IMF) assessments - January; ENEA quarterly bulletin.

due to the trend of energy commodity prices. The Governing Council of the European Central Bank (ECB) also confirmed its intention of maintaining a considerable accommodating monetary policy in the long term.

With its January update, the IMF revised its estimates for growth in the euro area downwards, with growth standing at +1.8% at the end of 2018, and estimated to be +1.6% for 2019, 0.3 percentage points down on forecasts of the previous autumn.

Washington economists have estimated a drop in the growth of GDP in 2019 for all main euro area countries, and in particular: Spain, Germany, France and Italy.

In the fourth quarter of 2018, the European labour market continued to improve, with an increase in employment (+0.2% compared to the previous quarter) and an unemployment rate at an all-time low for recent years (8.1% in October, stable compared to the previous month).

In the first quarter of 2019, industrial production is expected to remain steady, followed by an upturn, albeit minor, in the first half of the year. The economy in the euro area should increase slightly, with a steady growth in GDP in the first three quarters considered.

Based on IMF estimates, growth in **Italy** amounted to +1.0% in 2018, while growth estimated for 2019 is +0.6%, 0.4 percentage points down on October estimates, due to a weak domestic demand and higher borrowing costs. Based on the latest information from the specialist press, this forecast could be revised downwards.

According to the IMF, besides lowering the average growth rate estimated for this year, a stagnating economy in the second half of 2018 will have practically no drag-over impact on next year. Yields on government bonds have remained high and expectations for economic growth have worsened.

According to a recent economic survey of the Bank of Italy, conducted together with Il Sole 24 Ore, the investment plans of industries and service companies in 2019 will be more restricted, due to political and economic uncertainty and trade tensions. Based on assessments made by businesses, the weak growth in investments will continue during 2019. Companies are less optimistic about developments in their own demand and the economic situation in general compared to surveys conducted in September 2018.

As regards foreign markets, the trend of Italian exports was still favourable in the second half of the year. The slowdown in global trade did however affect future evaluations of businesses regarding foreign orders. The cash balance is still extremely positive. In fact Italy's net debt position with foreign countries fell at the end of September to just over 3% of the GDP. At the end of September 2018, net debt positions of foreign countries with Italy totalled 54.7 billion (3.1% of the GDP), falling by nearly 32 billion compared to the previous quarter. The improvement is attributable to the cash surplus (15.1 billion) and decrease in the market value of portfolio liabilities 18.4 billion) due to falling share prices and, in particular, of government bonds.

As regards the **energy market** and in particular the Italian market, according to a preliminary estimate from ENEA, primary energy consumption in 2018 was equal to approximately 171.5 Mtep, up by around one percentage point compared to 2017. Over the last four years, a different dynamic has taken place, compared to the steady, long-term trend of a reduction in consumption, which began even before the economic crisis.

In 2018, the increase in energy demand was in line with the growth in the economy, therefore the energy intensity of the GDP was basically unchanged, confirming a stability emerging in 2017 after the decreases of previous years.

Demand for electricity is based on a very moderate growth trend (+0.4% in 2018). Compared to record levels in 2008, demand is lower by around 5%, picking up from the figure of -9% in early 2015.

In the electricity generation sector, natural gas recorded a significant change, down by approximately 2 Mtep compared to 2017 (over 8% less), after the recovery in the last three years, but still benefits from economic factors. The strong increase in the price of gas for most of the year, together with a reduction in the impact of thermal power generation on the market, and on the gas market in particular, decreased plant profitability, with a decline of 53% in the clean spark spread (to 5.4 €/MWh).

Renewable electricity sources increased, producing 95 TWh of electricity (+12%), thanks to hydropower generation picking up from the record lows of 2017. For the first time, production from intermittent renewable sources fell (-1.3 TWh, over 3% less compared to the previous year), above all due to a lower solar energy production (nearly 5% less).

Italy's emission trend at 2030 differs from European targets, as set out in the recent National Integrated Energy and Climate Plan, and in order to shift towards the target indicated in the Plan, a few key variables must decrease considerably compared to figures recorded in the previous decade.

As regards **financial and currency markets**, long- term rates of main advanced economies, after the increase recorded at the start of October, have started to fall again, with the uncertainty over prospects for world economic growth. The fall in share prices has been stronger, in a context marked by considerable volatility. Since the end of the third quarter, share prices in all main advanced economies have fallen on average by around 11%.

The Euro depreciated against the dollar and main trade partners (in actual nominal terms) by around 2%. Net positions in the Euro against the Dollar of non-trade operators point to markets expecting a further weakening in the Euro.

Besides the global uncertainty factors already indicated, the risks of a downturn in growth are related to any new increase in sovereign yields, a quicker decline in private sector loan conditions and a further slowdown in the business community's investment appetite. A stronger decrease in tensions concerning yields of government bonds could instead promote quicker rates of growth.

The Governing Council of the ECB has, however, underlined the importance of a broad-ranging monetary stimulus to support price trends in the mid term, and in this respect, it has announced that it intends re-investing the entire capital repaid on securities maturing in the APP, for a long period of time after the first increase in official rates, and in any case for a period that is necessary to maintain a high level of monetary accommodation.

According to the expectations of the Council, benchmark interest rates will stay at current levels, at least until the summer 2019, and in any case until necessary. Overall, loan conditions are relaxed. Interest rates on loans are only slightly higher than May 2018, before tensions on the government bonds market occurred.

However, the continually high level of sovereign yields and cost of bank funding will continue to push up the cost of credit. In the latest surveys, businesses have reported less favourable loan conditions.

Once again, **future prospects** suggest that the world economy will continue to recover, although this might be affected by heightened geopolitical tensions and uncertainties about the stability of economic policies, which could have an adverse impact on the international trade of the principal economic powers, such as: the United States, Russia and China.

According to OECD forecasts, in 2019, world GDP should increase by 3.5%, two tenths less than the figure predicted in September 2018.

The revision reflects a slight deterioration in prospects for the Euro area, Japan and main emerging economies, plus the already expected slowdown in the United States, also due to the gradual reduction in the expansionary effects of the tax stimulus.

In 2019, trade slowed down further compared to the 2017-2018 period. The risks for the global economy's prospects are high. The start of negotiations between the United States and China eased concerns over the possibility of new protectionist measures affecting international trade in the next few months.

Uncertainty over future economic relations between the United Kingdom and European Union is still high, following the British Parliament voting against the agreement reached in November 2018 by the government.

Forecasts for the Italian economy presented in the Bank of Italy's Bulletin 1-2019 update the scenario formulated on the basis of previous information available at the end of November 2018. Since then, economic data have been disseminated on international trade, economic activity and opinions of businesses in Italy and the euro area, which overall represent a change in the global and Italian economy that is less favourable than previously suggested.

The scenario presented assumes international trade reflecting commercial tensions affected by even the most modest prospects for economic growth in China and a less favourable trend of foreign business orders.

An increase in Italy's foreign demand of just over 3% in 2019, and around 3.5% on average over the next two years is expected, weighted by destination market.

1.1.2 2018 results

Turning to examine the results for the year, greater emphasis will be placed on the Group in order to provide a broader and more complete view of the overall situation. Unless specified otherwise, the data reflects the consolidated totals: "Group+NCIs".

Analysis of the consolidated data for the year ended 31/12/2018 shows:

- a slight decrease in revenues with respect to the prior year, reaching about 206 ML € (-2.90% on 2017, -0.93% on 2016);
- an increase in the value of production to about 229 ML € (+3.35% on 2017, +4.16% on 2016), which is one of the best results in the history of the AB Group.

	2018	2017	2016
Revenues (A1)	205,632,553	211,586,170	207,549,171
Value of production (A)	229,167,568	221,739,703	220,023,538

Contract work in progress, semi-finished products and finished products total about 54.8 ML € at 31 December 2018, up considerably from 37.2 ML € at the end of the prior year.

The substantial order backlog at the reporting date, combined with the contract work already in progress at 31 December 2018, provides a sound basis for the continuity of production.

The principal economic indicators are shown below, noting the high values reached in recent years.

Description	2018	2017	2016
Gross operating margin	52,682,575	60,374,406	54,750,385
EBITDA (after provisions)	**50,966,294**	**57,708,574**	**52,113,617**
Operating result	40,479,703	48,529,487	44,321,553
Normalised EBIT	**44,527,627**	**48,450,798**	**49,533,608**
EBIT	**44,527,627**	**48,450,798**	**49,530,101**
Pre-tax result	42,994,857	47,568,682	49,050,028
Net profit	30,856,592	34,624,426	34,697,752

The performance of EBITDA and EBIT is mainly due to the decrease in the volume of revenues, offset however by a very high production value.

The positive cash flows generated in recent years once again enabled the Parent Company to collect substantial dividends from subsidiaries during 2018.

Consolidated corporate policy avoids the payment of dividends to the shareholders of AB Holding SpA and, once again, this restrictive pay-out policy has further capitalised the Parent Company and facilitated the expansion of the Group as a whole.

The changes in shareholders' equity are analysed below:

EQUITY	2018	2017	2016
TOTAL EQUITY (Group+NCIs)	278,229,368	247,922,775	215,547,642
inc.: GROUP EQUITY	**263,468,513**	**233,271,401**	**201,177,722**
TOTAL PROFIT (Group+NCIs)	30,856,592	34,624,426	34,697,752
inc.: GROUP PROFIT	**30,197,111**	**33,093,746**	**34,203,262**

1.1.3 Markets in which the Group operates

Commercial performance during 2018 was satisfactory. As in the past, the Group continued to negotiate and sign contracts with Italian and international customers for the manufacture of new plants, several of which are very significant in terms of their scale and strategic importance.

In addition to the substantial sales made as usual in the Italian market, the contracts signed with the other AB Group companies in Europe and elsewhere in the world were also significant.

Further details are provided in:

- the explanatory notes, which analyse revenues by geographical area, and in the chart presented below;
- the section of this Report entitled "Non-financial performance indicators", with regard to the number of contracts managed during 2018.

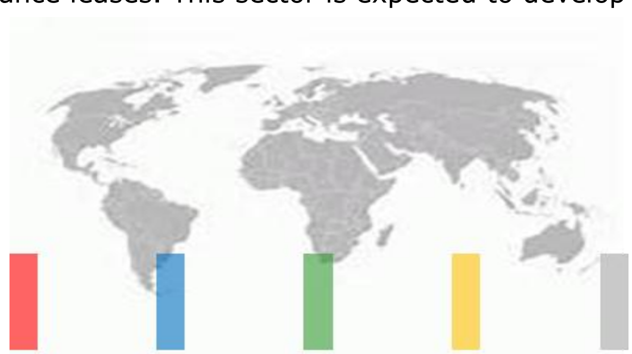
The Italian Market

The AB Group is currently the Italian leader in the production/sale of "cogeneration plant", with a significant share of the market for the products and services offered.

Despite revenues decreasing compared to the previous year, the business comprising plant maintenance services (Service) continues to grow via the signature of new maintenance contracts, in addition to those signed in prior years, and those that will become effective in the new year. See the following charts for a clearer picture.

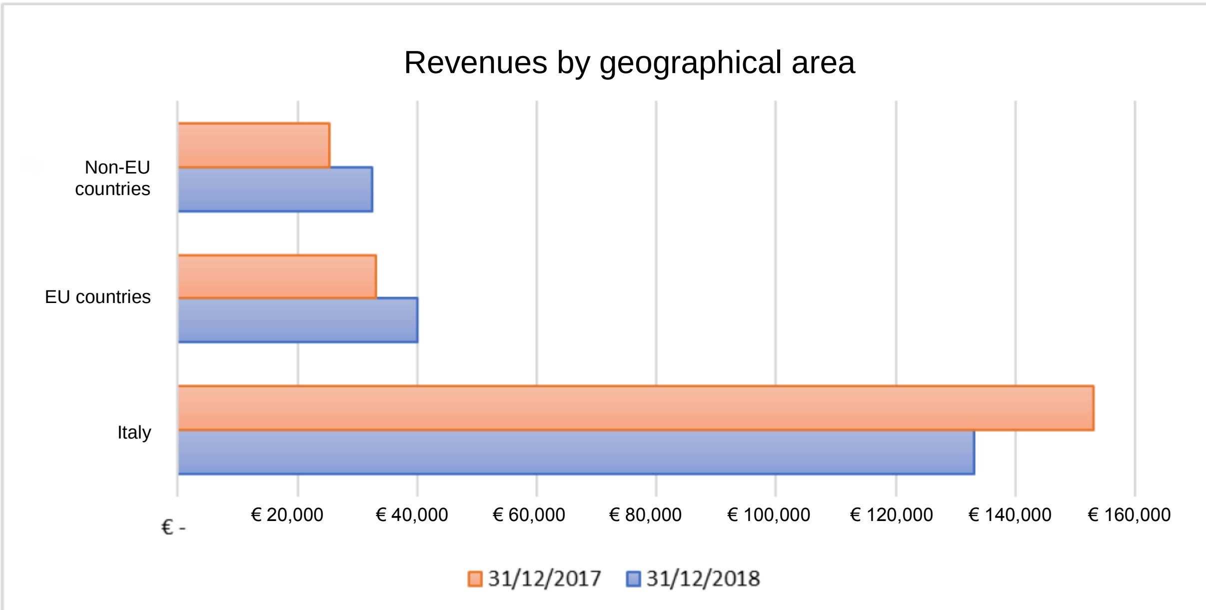
There was also further investment during 2018 in contracts for rental installations, being those operated under ordinary rather than finance leases. This sector is expected to develop further in the coming years.

The Foreign Market

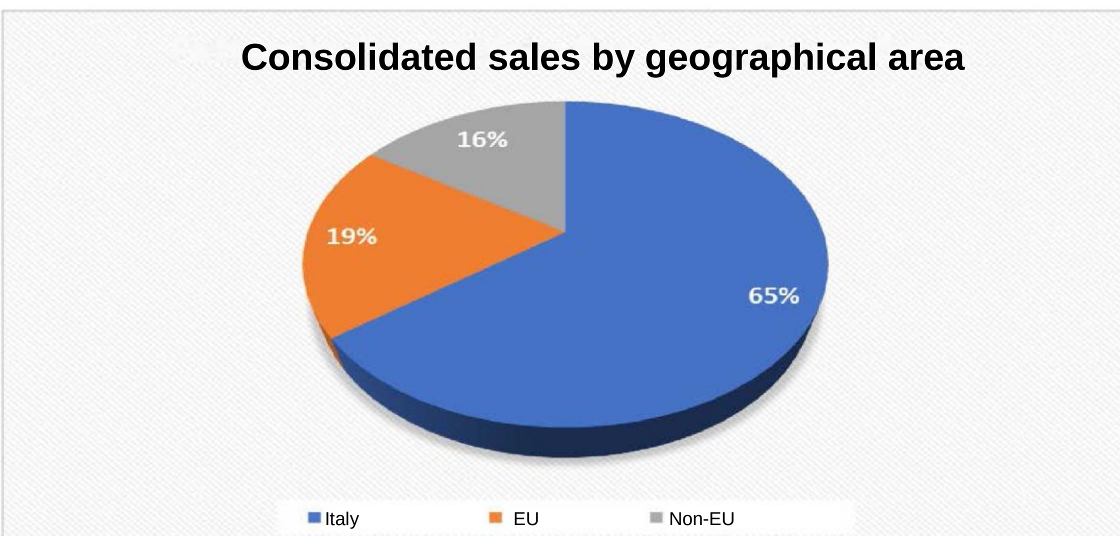


Revenues from the Foreign Market were up compared to 2017, generating 35% of total Group turnover. In terms of size, Europe in the primary market. Significant sales effort, as evidenced by the orders obtained during 2018, will help to consolidate the stable presence of the AB Group in international markets.

The following chart highlights the trend in **revenues by Geographical area**:



Consolidated sales by geographical area in 2018 are broken down in the next graph.



Italy and the European area will continue to play an important role in the coming year. During 2018, in addition to Italy, **17 foreign markets** were served (see the company organisation chart presented earlier). Nationally and internationally, the AB brand is known for high quality, efficiency and the ability to understand the needs of customers.

As in prior years, the AB Group has maintained the important **development and update of two digital channels: "Biogas Channel"** and **"Cogeneration Channel"**, which have already been active for three years. These activities are supported by a presence on the principal social media channels, which facilitate the interface and communications with the external market.

In addition, events were organised during the year dedicated to the world of cogeneration, in order to increase end-user awareness about the technical characteristics of AB products and the world of cogeneration as a whole.

1.2 General characteristics of the AB Group

1.2.1 Range of products and services offered

a) INDUSTRIAL INSTALLATIONS

The principal activity of the Group is the contract manufacture of "industrial installations in general" and "cogeneration" installations in particular, being plant for the combined generation of electricity and thermal (hot and/or cold) energy.

The ECOMAX® range comprises generation solutions available in modular packages organised into six product lines, making the AB range the most complete and defining in the global cogeneration market. All product lines in the ECOMAX® range confirm the key principles of the product designed and developed by AB, which specific characteristics depending on the sector of application:

NATURAL GAS	SECTORS:	Manufacturing - Foods - Beverages - Paper industry - Ceramics and brick industry - Chemical industry - Pharmaceutical industry - Dairy industry - Cheese industry - Metal processing - Plastics - Textiles	Commercial - Data processing centres - Business centres - Hospitals/hotels - Remote district heating - Remote district cooling	Greenhouses
BIOGAS	SECTORS:	Agriculture Landfill/organic waste collection Waste of animal origin WWT (waste water treatment)		
SPECIAL GASES	SECTORS:	Oil exploration and production (APG) Coal mining		

Historically, the Group has also designed and produced civil and industrial electrical installations for end-customers, including:

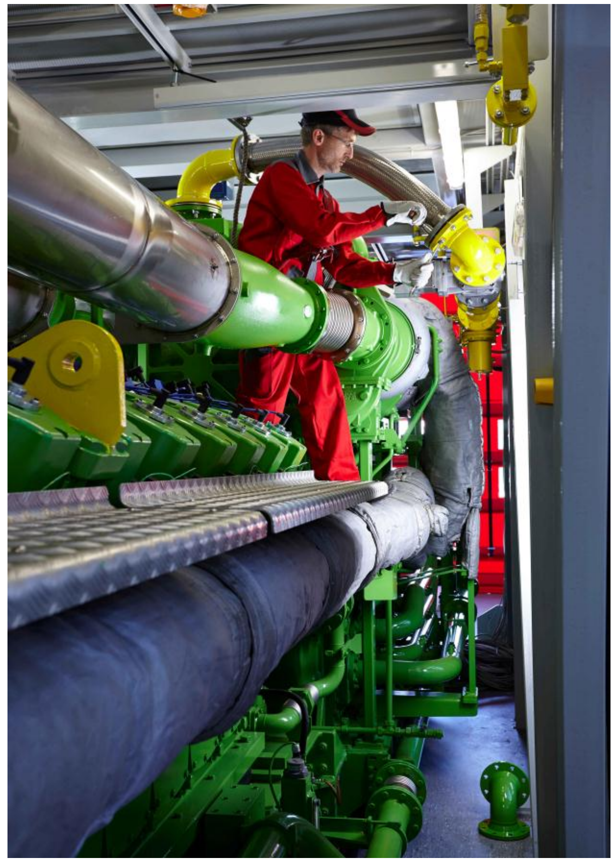
- maintenance and repair of civil and industrial electrical installations;
- manufacture of installations for buildings (electrical installations, plumbing and complementary construction work);
- production of automation software.

b) SERVICES

Services represent another key, related activity, comprising the management and maintenance of industrial installations in the energy sector. Services are principally provided for the installations sold, under long-term contracts (usually over the useful lives of the internal combustion engines that are part of the installations).

The principal services provided, as described in "UNI EN 13306:2003", comprise:

- ROUTINE PREVENTIVE and SCHEDULED MAINTENANCE: maintenance carried out at predetermined intervals (in the circumstances, about every 2,000 hours) or on the basis of predetermined criteria, with a view to reducing the probability of faults or deterioration in the performance of the engine, all in compliance with the manufacturer's manual;



- PREDICTIVE (CYCLIC) MAINTENANCE: maintenance carried out at specified time intervals (in the circumstances, on reaching a "total number of hours": 10,000 - 20,000 – 30,000 – 40,000 – 50,000) or after predetermined cycles of usage, without previous condition investigation, all in compliance with the manufacturer's manual;
- CORRECTIVE MAINTENANCE OR UNFORESEEABLE SPECIAL MAINTENANCE, action taken to restore the functioning of machines following stoppages and/or accidental faults;
- REMOTE SUPPORT, performance of plant checks via remote access to verify functioning and take initial corrective action.

c) OTHER ACTIVITIES

The Group is also active in the following sectors via three dedicated companies:

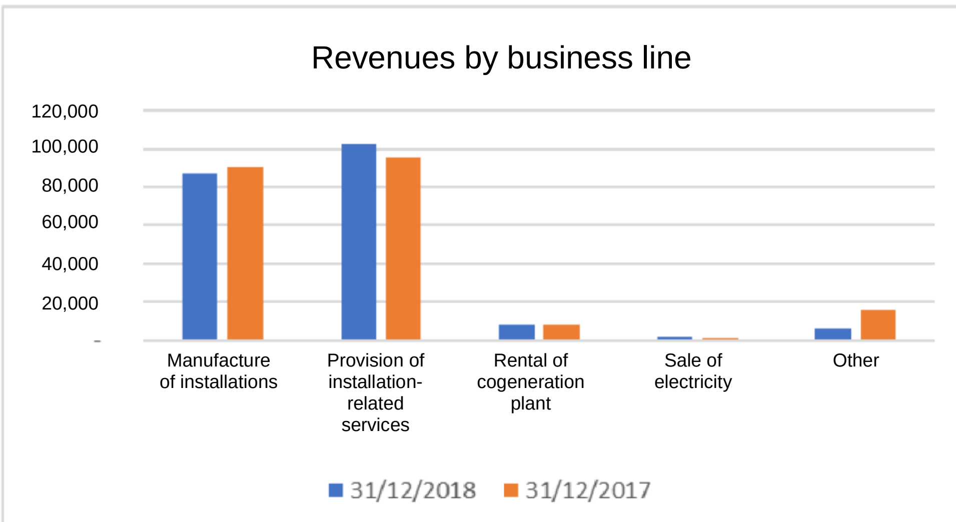
- Rental *activities:* rental of installations under operating leases;
- Agricultural activities and activities related to the production of energy from biomass*:* production of agricultural products and production of energy from the biogas generated by their anaerobic fermentation;
- Production of electric panels.

The overall importance of the various activities is evidenced by the following summary breakdown of consolidated revenues by macro sector:

(table below)

Revenues by business line (000)	31/12/2018
Manufacture of installations	86,834
Provision of installation-related services	102,456
Rental of cogeneration plant	8,365
Sale of electricity	1,565
Other	6,413
TOTAL (A1 CE)	**205,633**

The change in revenues by business line between 2017 and 2018 is analysed below:

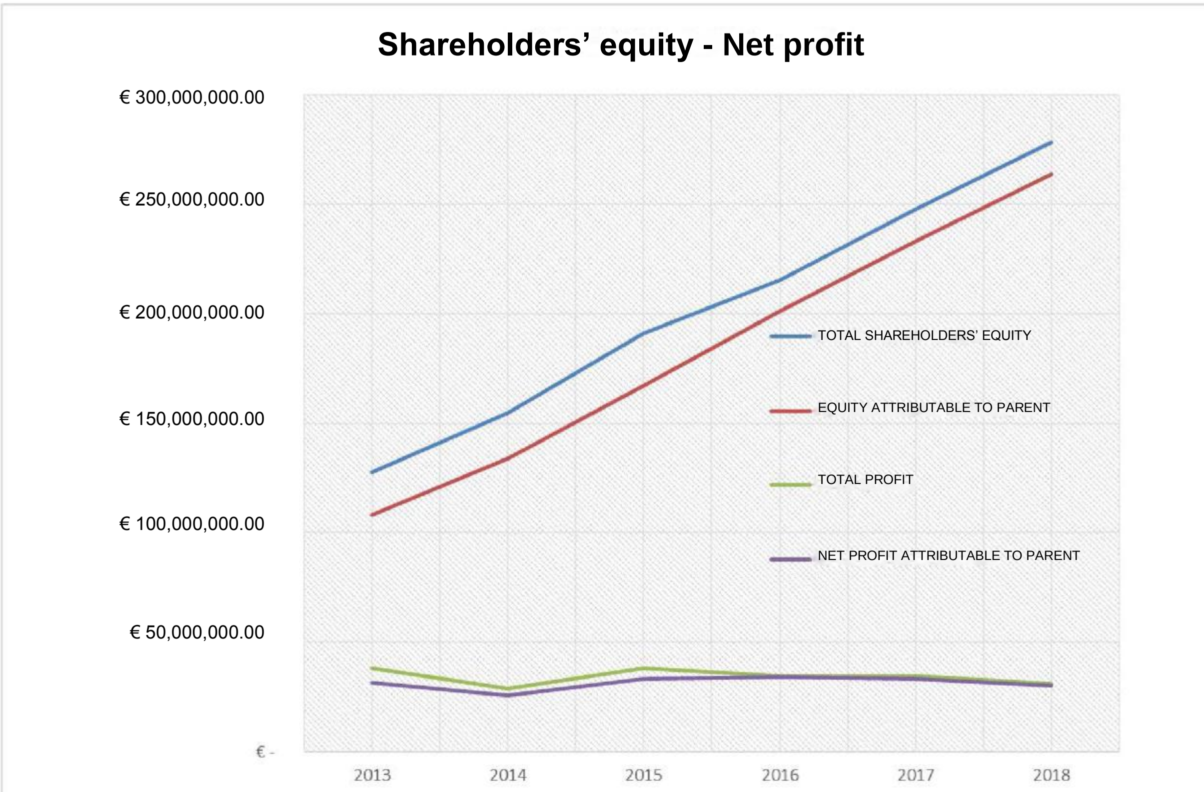


1.2.2 Background and overall results

In recent years, the AB Group has achieved and maintained a leadership position in the production of cogeneration installations ranging from 100kWe to 4,000 kWe. The AB brand is known in the marketplace for quality and efficiency, enabling the Group to obtain highly satisfactory results even when the macroeconomic conditions were challenging, as described earlier.

The Group is financially sound. The good economic-financial results generated in recent years have enabled pursuit of the capitalisation policy implemented throughout the Group. Shareholders' equity amounts to € 278,229,368 at the reporting date, inclusive of the net profit generated during the year.

The following table shows the trend in net profit and shareholders' equity over the past six years:



From inception, the AB Group has grown by implementing suitable policies for the steady capitalisation of the business and the development of the organisation. These have made it possible to tackle effectively the instability of the global economy in recent years and, in particular, the fragility of the Eurozone and the Italian economy in particular.

1.2.3 General situation & operations in the past year

Over time, the AB Group has accumulated the financial resources and equity needed to tackle changes in the cogeneration markets in Italy and abroad, where the conditions are more complex.

As in the prior year, exports during 2017 were marked by the successful completion of various new jobs and contracts, enabling the Group to accumulate ever greater experience of working on an international scale. Further major contracts will be completed during 2018. The installations produced or nearing completion for end customers in North America, Brazil and the principal European countries, such as the United Kingdom and Germany, stand out in terms of both volume and power.

Beyond the quality of the management and strategic planning implemented in recent years, the good results achieved are once again attributable to the outstanding professionalism of Group personnel.

1.2.3.1 Corporate transactions

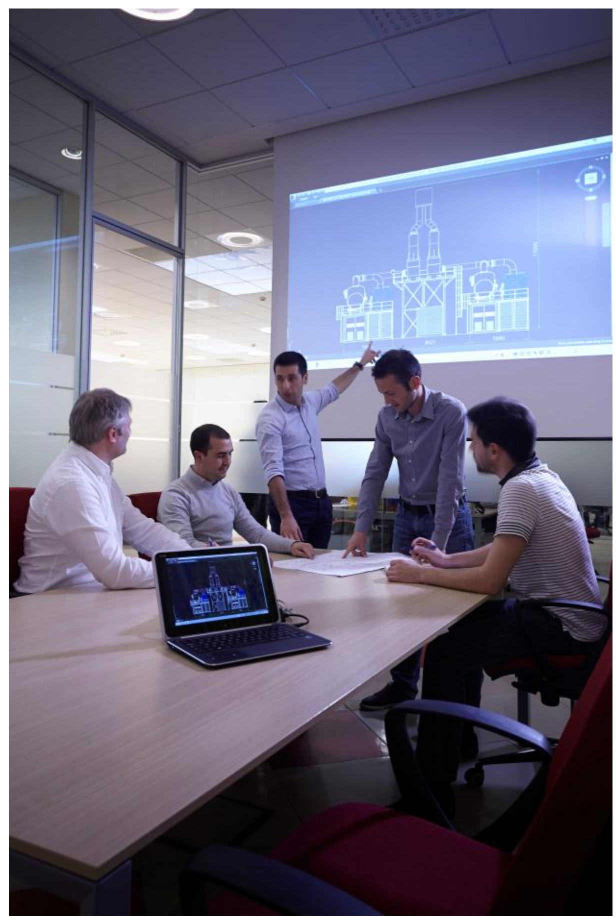
There were no significant changes at corporate level during 2018.

1.2.3.2 Analysis of operations by activity

The general situation is analysed briefly below by **internal macro area**, highlighting the principal growth strategies adopted in 2018.

PRODUCTION-DESIGN ACTIVITIES

Consistent with established Group policies for internal activities, management implements the following guidelines:



1. DEVELOPMENT OF OPERATIONAL SOFTWARE
Many companies continue to implement the SAP system, not only for accounting purposes, but also with regard to the control of operations. A roll-out plan for the extension of this system to all companies included within the scope of consolidation continued.

2. EFFICIENCY AND EFFECTIVENESS
The installations have reached maximum efficiency in terms of reliability, but further improvements are sought, especially in terms of cost.

The Group pursues the following ongoing objectives:

- product diversification;
- expansion and evolution of competitive scenarios and dynamics;

- management of the organisational complexity deriving from the global markets and risk management;
- constant improvement of such parameters as "rapidity of response" (speed) and efficiency;
- development of processes for the sharing of information.

These objectives have been pursued by assigning human and economic resources to projects regarding new products, the re-engineering of Ecomax components, the development of new product lines, the reorganisation of processes in the areas of engineering, production and administration. Not least, constant efforts have been made to improve the tools used to manage commercial activities.

COMMERCIAL ACTIVITIES

Commercial activities strive to maintain the levels of excellence for which the Group has become renowned. In this light, the key strategic actions taken or continued during 2018 included:

- Steady improvement of the **IT systems that support the activities** of each team (e.g. CRM system);
- Continuous development of the **corporate web channels** in order to improve communi-cations and disseminate the culture of each sector;
- Continuation of the **training activities** that support the development of personnel;
- Provision of **technical-commercial support** across all commercial organisations within the AB Group in Italy and abroad, drawing on the approach and experience accumulated in the Italian market over the years.

The Group is present in 18 countries throughout the world (including Italy) and, in recent years, activities have been consolidated via this direct presence in the various markets.

Consistent with the long-term business plan, the AB Group continues to focus on the needs of customers while also seeking to improve organisational and commercial efficiency. At the same time, the Group strives to optimise the monitoring of and control over business risks.

SERVICE ACTIVITIES

With regard to Services in Italy and abroad, the improvement in results reflects steady expansion of the number of installations with maintenance contracts. The installations have reached maximum efficiency in terms of reliability, but further improvements are sought for the benefit of customers.

Beyond the quality of the strategic planning implemented in recent years, the good results achieved are undoubtedly attributable to the outstanding professionalism of all personnel active in this business segment.

As in prior years, the AB Service organisation at the various Group companies has continued to implement the following policies:

1) increase in employment;
2) investment in new structures;
3) collaboration among Group companies.

This business has also been exceptionally and heavily involved in the major maintenance programmes that have been implemented.

RENTAL ACTIVITIES

Following the new contracts signed in 2018, numerous AB FIN-SOLUTION installations, with a total power output of over 60 MW, have been rented to end-customers under operating leases.

These leases are limited to the Italian market at the moment.

***

The massive **INVESTMENT** made in prior years by both the manufacturing companies and the Parent Company, in terms of the purchase and construction of operating assets (production locations, machinery and equipment), have made it possible to maintain production capacity at a good level. The statement of cash flows highlights that investment in intangible assets and property, plant and equipment totalled about Euro 10.6 million in 2018.

All this investment was financed by the positive cash flows generated by ordinary operations, with extremely limited recourse to external finance.

Consistent with prior years, significant efforts have been made to pursue ECONOMIES OF SCALE.

This is reflected in the concentration of certain administrative functions within the Parent

Company, with the consequent outsourcing by subsidiaries of services that are not part of their core businesses. More complete information is provided in section 3.2.

As is readily apparent, the incidence of PAYROLL COSTS is greater than this past, having risen by 12.68% with respect to 2017.

This reflects the increasing size of the Group. Further details are presented in section 1.6 below.

Payroll costs are analysed below:

	2018	2017	2016
PAYROLL COSTS	€ 45,568,099	€ 40,439,153	€ 37,922,540

The key effort has been to ensure *"organic"* growth in all internal sectors of the business. During 2018, the Group continued to invest heavily (economic resources and time) in the internal organisation and the training of personnel, in part by recourse to external consultants.

1.2.4 Tax position

The incidence of taxation on the final result is stable at about 1/3rd of the pre-tax profit. At Group level, 2018 income taxes were 28.2% of the pre-tax result, compared with 27.2% in 2017 and 29.3% in 2016. The effects on income earned in Italy of the so-called "Super depreciation" were positive.

The tax charge on the profits of AB Service is influenced by the non-deductible (disallowed) provisions recorded (for maintenance work) and, therefore, by the subsequent non-taxable releases from those provisions when the related work is carried out, as well as by the non-deductibility of payroll costs for IRAP purposes.

The tax status of all Group companies is normal: all tax charges for the year have been paid.

The accounting records also confirm the proper payment of value-added tax and foreign equivalents, as well as of all withholding taxes and other taxes and levies.

1.3. Performance indicators

The performance indicators provide an understanding of the situation, performance and operating results of the Group.

The following indicators are considered:

- financial performance indicators;
- non-financial performance indicators.

NB: *The consolidated indicators have been calculated on an aggregate basis (Group+NCIs).*

1.3.1 Financial performance indicators

The financial performance indicators are calculated using the information reported in the financial statements and comprise:

- operational indicators;
- economic indicators;
- financial indicators;
- financial strength indicators;
- solvency (or liquidity) indicators.

A key characteristic of these financial performance indicators is that they are fairly standard: in fact, the definitions of such parameters as operating result or net profit are based on regulatory requirements, specifically because of the external importance of the financial reports used for their calculation.

Lastly, it is useful to clarify that the doctrine usually divides reporting parameters into margins (absolute amounts) and ratios (relative values) but, often in practice, both types of indicator are referred to as "**indices**"; accordingly, for ease of understanding, this document will adopt the terminology commonly used in practice.

1.3.1.1 - Operational indicators

The following table summarises indicators derived from the general ledger that enhance the information already contained in the financial statements.

Analysis of the changes in these indicators highlights the continued health of the principal generators of income, especially revenues from sales and services, as well as the increase in the value of production, which was about Euro 3.6 million greater than in 2017.

Description	**2018**	**2017**	**2016**
Revenues from sales and services	205,632,553	211,586,170	207,549,171
Value of operational production	**223,553,588**	**219,904,895**	**213,373,539**
Value of production	229,167,568	221,739,703	220,023,538
Results before taxation	**42,994,857**	**47,568,682**	**49,050,028**
Net profit	30,856,592	34,624,426	34,697,752

The main income statement sub-totals are shown below. EBITDA, stated after the provisions reported in the financial statements, remains significant:

Description	2018	2017	2016
Gross operating margin	52,682,575	60,374,406	54,750,385
EBITDA (after provisions)	**50,966,294**	**57,708,574**	**52,113,617**
Operating result	40,479,703	48,529,487	44,321,553
Normalised EBIT	**44,527,627**	**48,450,798**	**49,533,608**
EBIT	**44,527,627**	**48,450,798**	**49,530,101**

1.3.1.2 - Economic indicators

The following table summarises some of the main economic indicators used to measure economic performance. The data confirms the stable ability of the Group to earn income, even considering the marked increase in the denominators due to the increased capitalisation of the Group.

Description	2018	2017	2016
ROE - (Return on Equity)	11.09%	13.97%	16.10%
Average ROE, net	11.73%	14.94%	17.06%
ROI - (Return on Investment)	9.25%	12.89%	12.93%
ROS - (Return on Sales)	19.69%	22.94%	21.35%

Description of the above indices:

ROE (standard) - *(Return on Equity)*

Summary indicator of the profitability of a business, *ROE* is defined as the relationship between:

Net result for the year
Shareholders' equity

It represents the percentage remuneration of the risk capital contributed by the shareholder (own capital). This parameter summarises the overall profitability of the business, deriving from its operating, financial, non-recurring and fiscal activities.

Average ROE, net - *(Return on Equity)*

Summary indicator of the profitability of a business, *ROE* is defined as the relationship between:

Net result for the year
Average shareholders' equity for the year

This represents the remuneration of the risk capital contributed by the shareholders (own capital) as a percentage of average shareholders' equity during the year (for simplicity, the average of opening and closing shareholders' equity).

ROI - *(Return on Investment)*

ROI (Return on Investment), is defined as the relationship between:

Operating result
Total investment in operating assets during the year

It represents the profitability of operating activities, measuring the ability of the business to generate profits from the transformation of inputs into outputs.

ROS - *(Return on Sales)*

ROS (Return on Sales), is defined as the relationship between:

Operating result
Revenues from sales and services

This is the parameter most frequently used to analyse the operations of the business or the sector, representing the percentage incidence of the operating result on revenues (or, sometimes, the value of production). In substance, it indicates the incidence of the principal factors of production (materials, personnel, depreciation, other costs) on revenues.

1.3.1.3 - Financial indicators

In order to check on the ability of the company to meets its commitments, it is necessary to examine its financial strength. For this purpose, the statutory statement of financial position is reclassified into a "financial" format.

This format is presented below:

(table below)

Reclassified Financial Position			
Intangible assets	3,712,752	Share capital	6,000,000
Property, plant and equipment	69,552,625	Reserves	241,372,776
Financial fixed assets	10,419,868	Net profit	30,856,592
Fixed assets	**83,685,245**	**Own funds**	**278,229,368**
Inventories	124,032,087		
Deferred liquidity	79,343,049	Provisions	15,397,862
Immediate liquidity	150,722,167	Payables >12m	14,510,319
Current assets	**354,097,303**	**Non-current liabilities**	**29,908,181**
		Payables <12m	128,268,038
		Accruals and deferrals	1,376,961
		Current liabilities	**129,644,999**
Capital invested	**437,782,548**	**Debt capital**	**437,782,548**

This schedule shows how consolidated equity easily covers the fixed assets reported in the statement of financial position, and that current assets are almost triple current and non-current liabilities.

1.3.1.4 - Financial strength indicators

Financial strength is analysed to determine the ability of the Group to maintain its financial equilibrium over the medium-long term.
This ability depends on:

- how medium/long-term applications of funds are financed;
- the composition of the sources of funds.

In relation to the first aspect, the timing of the recovery of investments must be correlated "logically" with the timing of the recovery of the related funding. The most useful indicators of this correlation are presented below:

Description	2018	2017	2016
Primary fixed asset cover	194,544,123	164,262,762	132,754,733
Primary fixed asset ratio	3.32	2.96	2.60
Secondary fixed asset cover	224,452,304	189,152,883	159,491,575
Secondary fixed asset ratio	3.68	3.26	2.93

The above results highlight the financial strength of the Group.

In relation to the second aspect, being the composition of the sources of funds, the following are useful indicators:

Description	2018	2017	2016
Overall indebtedness ratio	0.57	0.52	0.59
Financial indebtedness ratio	0.05	0.06	0.08

The sources of external indebtedness were repaid on schedule during 2018.
Some loans were taken out with banks.
Despite this, as reflected in the NFP and statement of cash flows, the external indebtedness of the Group as of 31/12 is low compared with the amount of shareholders' equity. This means that there is ample scope for future growth and possible future investment.

Description of the above indices:

Primary fixed asset cover is an indicator of correlation that is calculated as the difference between:

Own funds - Fixed assets

The Secondary fixed asset ratio is calculated as the ratio between:

Own funds
Fixed assets

Secondary fixed asset cover is an indicator of correlation that is calculated as the difference between:

(Own funds + Non-current liabilities) - Fixed assets

The Secondary fixed asset ratio is calculated as the ratio between:

Own funds + Non-current liabilities
Fixed assets

The Overall indebtedness ratio is calculated as the ratio between:

Non-current liabilities + Current liabilities
Own funds

The Financial indebtedness ratio is calculated as the ratio between:

Loans
Own funds

1.3.1.5 - Solvency (or liquidity) indicators

Liquidity is analysed in order to determine the ability of the Group to maintain its financial equilibrium in the short term, i.e. to satisfy expected short-term outflows (current liabilities) using existing (immediate) liquidity and the inflows expected in the short term (deferred liquidity).

Considering that the recovery of investments must be correlated "logically" with the timing of the recovery of the related funding, the most useful indicators of this correlation are presented below:

Description	2018	2017	2016
Working capital	224,452,304	189,152,883	159,491,575
Working capital ratio	2.73	2.82	2.59
Treasury margin	100,420,217	92,441,138	72,958,949
Treasury ratio	1.77	1.89	1.73

The level of working capital is considerable.

The treasury margin is positive. For a better understanding of the treasury margin and ratio, it is confirmed that the inventories excluded from the related calculations comprise:

- **contract work in progress and semi-finished products** (about € 54.8 ML), which will mostly be completed the following year and, therefore, give rise to trade receivables;
- **raw materials, finished products and goods for resale** (about € 65.4 ML), including engines that will be used in the new year;
- **advances** to suppliers (about € 3.3 ML).

Inventories total almost € 123.6 ML, most of which can be considered "current".

<u>Description of the above indices:</u>

Working capital is an indicator of correlation that is calculated as the difference between:

Current assets - Current liabilities

The Working capital ratio is calculated as the ratio between:

Current assets
Current liabilities

The Treasury margin is an indicator of correlation that is calculated as the difference between:

(Deferred liquidity + Immediate liquidity) - Current liabilities

The Treasury ratio is calculated as the ratio between:

(Deferred liquidity + Immediate liquidity)
Current liabilities

1.3.1.6 - Net financial position

The Net Financial Position (NFP) is an indicator of the real indebtedness of the business. The overall NFP at year end is significantly positive, in line with the prior year.

(*table below*)

AB HOLDING GROUP
CALCULATION OF NET FINANCIAL POSITION figures (*1000)

		2018		2017	
A)	**Liquid funds and near liquid funds (<3 months)**	150,722		114,386	
	Liquid funds, (cash, bank, cheques)		150,722		114,386
	Readily saleable financial assets		-		-
B)	**Current financial assets (<12 months)**	2,000		7,004	
	Other current financial assets		2,000		7,004
	Current accrued income and prepaid expenses (financial)		-		-
C)	**Non-current financial assets (>12 months)**	0		0	
	Non-current financial receivables		-		-
	TOTAL FINANCIAL ASSETS (A+B+C)	**152,722**		**121,390**	
D)	**Current financial liabilities (<12 months)**	9,141		9,744	
	Bank overdrafts		-		-
	Current financial payables		7,895		8,452
	Due to shareholders - current		-		-
	Due to leasing companies		1,158		1,158
	Due to other lenders - current		87		133
	Current accrued expenses and deferred income (financial)		-		-
E)	**Non-current financial payables (>12 months)**	12,709		7,807	
	Due to banks		11,324		5,263
	Due to shareholders - non-current		-		-
	Due to other lenders		-		-
	Due to leasing companies		1,385		2,544
	TOTAL FINANCIAL PAYABLES (D+E)	**21,851**		**17,551**	
	TOTAL NFP	***130,872***		***103,839***	
	NET FINANCIAL POSITION (NFP) - CURRENT				
	NFP Ist LEVEL	A-D	€ 141,581	A-D	€ 104,642
	NFP IInd LEVEL	A+B-D	€ 143,581	A+B-D	€ 111,646
	NET FINANCIAL POSITION (NFP) - NON-CURRENT				
	NFP Ist LEVEL	A-D-E	€ 128,872	A-D-E	€ 96,835
	NFP IInd LEVEL	A+B-D-E	€ 130,872	A+B-D-E	€ 103,839
	TOTAL NFP	A+B+C-D-E	€ 130,872	A+B+C-D-E	€ 103,839

The **statement of cash flows** is presented below using the "OIC model":

AB HOLDING GROUP STATEMENT OF CASH FLOWS	2017	2016
A. CASH FLOWS FROM OPERATING ACTIVITIES (INDIRECT METHOD)		
Net profit (loss) for the year	34,624,426	34,697,752
Income taxes	12,944,256	14,352,276
Interest expense/(income)	(210,441)	354,519
(Dividends)	0	0
Capital (gains)/losses on the disposal of assets	183,834	(377,535)
1. Profit (loss) for the year before income taxes, interest, dividends and disposal gains/losses	**47,542,075**	**49,027,012**
Adjustments for non-monetary items without effect on operating capital		
Provisions for risks	26,885,914	18,360,287
Depreciation and amortisation	7,649,949	6,868,771
Impairment write-downs	0	0
Other adjustments for non-monetary items	(2,350)	3,468
2. Cash flows before changes in operating capital	**82,075,588**	**74,259,538**
Changes in operating capital		
Decrease/(increase) in inventories	(10,700,177)	(1,688,538)
Decrease/(increase) in trade receivables	4,543,094	(3,680,950)
Increase/(decrease) in trade payables	1,895,276	5,952,742
Decrease/(increase) in accrued income and prepaid expenses	162,322	(632,690)
Increase/(decrease) in accrued expenses and deferred income	25,595	952,391
Other changes in operating capital	(28,379,116)	(42,615,950)
3. Cash flows after changes in operating capital	**49,622,582**	**32,546,543**
Other adjustments		
Interest collected (paid)	(156,808)	(171,219)
(Income taxes paid)	15,945,845	14,293,137
Dividends collected	0	0
(Utilisation of provisions)	(22,742,313)	(20,269,577)
4. Cash flows after other changes	**42,669,306**	**26,398,883**
CASH FLOWS FROM OPERATING ACTIVITIES (A)	**42,669,306**	**26,398,883**
B. CASH FLOWS FROM INVESTING ACTIVITIES		
Property, plant and equipment		
(Investment)	(10,220,969)	(14,165,144)
Disposal proceeds	1,752,395	1,046,792
Intangible assets		
(Investment)	(255,477)	(279,709)
Disposal proceeds	0	0
Financial fixed assets		
(Investment)	0	0
Disposal proceeds	0	0
Current financial assets		
(Investment)	(2,640,000)	(6,640,000)
Disposal proceeds	7,004,175	2,995,825
Purchase or disposal of subsidiaries or lines of business, net of liquid funds		
Purchase or disposal of subsidiaries or lines of business, net of liquid funds	0	(11,761,181)
CASH FLOWS FROM INVESTING ACTIVITIES (B)	**(4,359,876)**	**(28,803,417)**
C. CASH FLOWS FROM FINANCING ACTIVITIES		
Third-party funds		
Increase (decrease) in amounts due to banks - current	0	0
Arrangement of loans	7,000,000	12,995,171
Repayment of loans	(11,924,977)	(7,968,169)
*Own funds **		
Capital increases for payment	0	0
Sale (purchase) of treasury shares	0	0
Dividends (and advance dividends) paid	(2,300,000)	(800,000)
** Group+NCIs in consolidated financial statements*		
CASH FLOWS FROM FINANCING ACTIVITIES (C)	**(7,224,977)**	**4,227,002**
INCREASE (DECREASE) IN LIQUID FUNDS (A ± B ± C)	**31,084,453**	**1,822,468**
LIQUID FUNDS AS OF 1 JANUARY 2017	**83,301,106**	**81,478,638**
LIQUID FUNDS AS OF 31 DECEMBER 2017	**114,385,559**	**83,301,106**

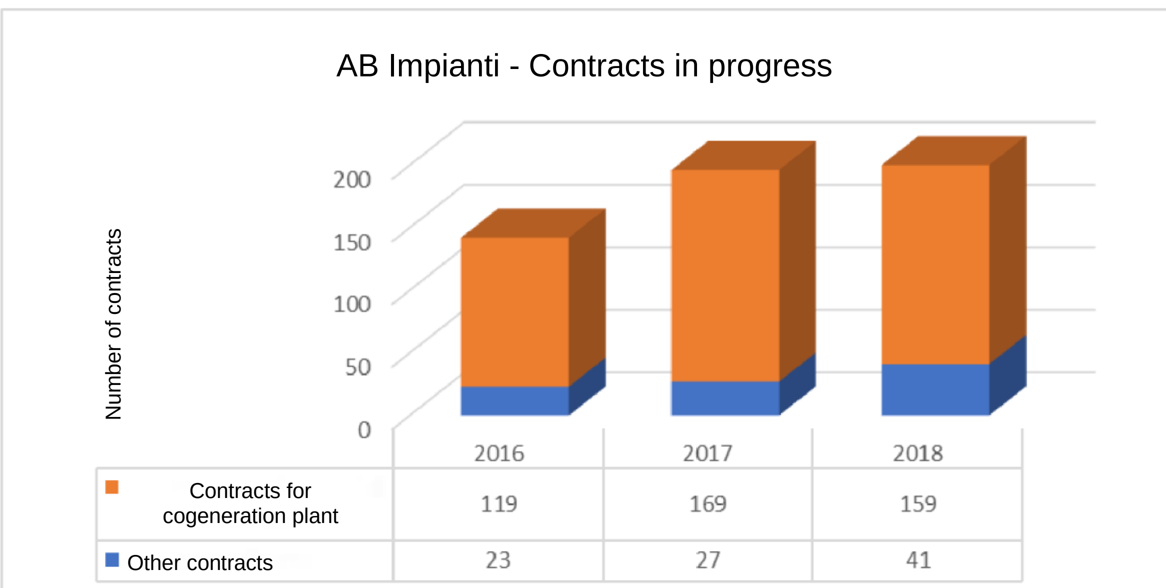
1.3.2 Non-financial performance indicators

The non-financial performance indicators provide quantitative, non-monetary, information. Their purpose is to analyse in greater detail the results of operations, by monitoring factors that influence the economic-financial results. The principal advantage of these indicators with respect to the financial indicators is their ability to highlight performance trends, especially over the long term.

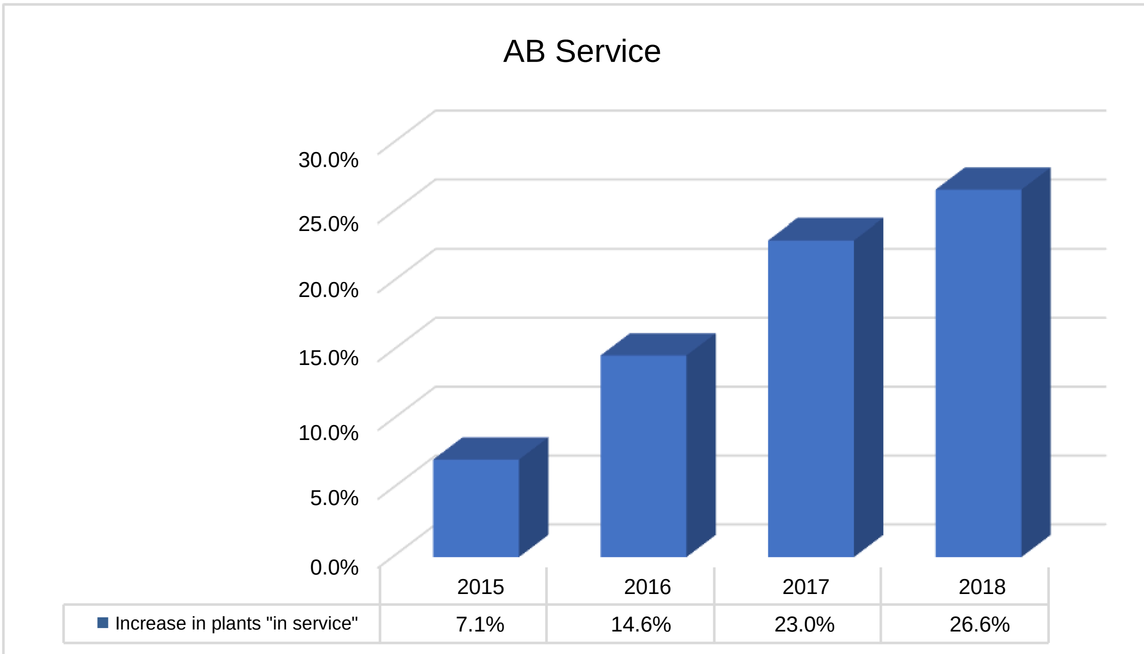
By contrast with the financial indicators, for which generally-accepted parameters exist, there are no applicable standards and precise rules for the non-financial indicators; accordingly, these have been chosen with reference to the characteristics of the Group and its business lines.

In particular, the following NON-financial indicators have been selected:

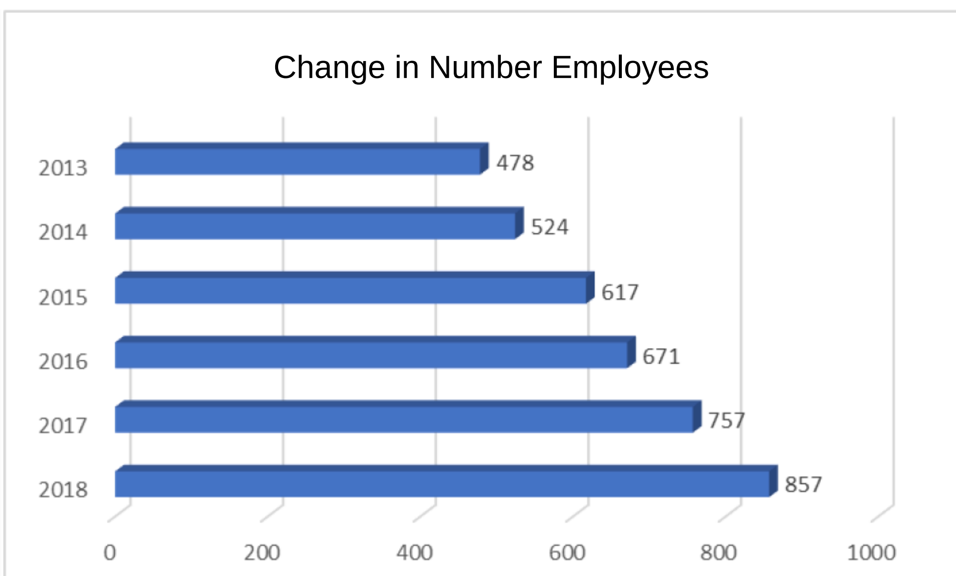
1) trend in the number of AB Impianti contracts for cogeneration installation "in progress" (at 31/12):



2) trend in the number of engines covered by the Service business in Italy (at 31/12);



3) trend in employment: trend in the number of employees (at 31/12):



See the section on "Information about employment" for further details about the composition of personnel, employee turnover, training and safety.

The data provided is merely indicative of the trend in numbers (e&oe).

1.4. Information about principal risks and uncertainties

This part of the Report describes the risks that might impede the creation of value, being possible events that would have an adverse impact on the pursuit of Group objectives.

The analysis distinguishes financial risks from non-financial risks, having regard for their sources. These risks are grouped into two macro categories: risks with internal sources and those with external sources, depending on whether they are inherent to the operational processes of the AB Group or derive from external factors.

1.4.1 Non-financial risks

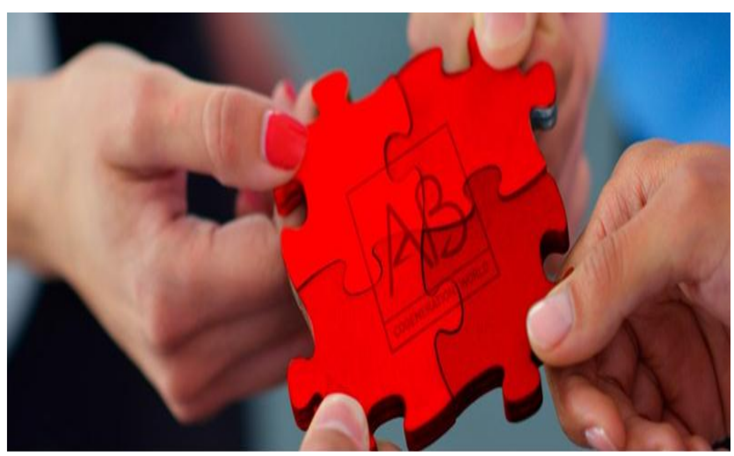
The following non-financial indicators are considered:

ASSESSMENT OF INTERNAL ORGANISATIONAL RISKS:
No organisational risks have been identified. In particular:

- the organisation has clear roles and responsibilities;
- the human resources employed in the management and control of processes have adequate skills and experience;
- an organisation, management and control model has been adopted pursuant to Decree 231/2001. The Supervisory Body is actively checking and updating this model;
- an "Organisation & Continuous Improvement" function has been created at Corporate level in order to align Group processes and procedures with best practices.

With regard to data management, there are a number of theoretical, albeit unlikely, risks linked to:

- the accidental loss of data and information consequent to the use of IT support. The company uses the IT networks and security processes organised and managed by the *"AB IT team"*. At Group level, data is backed-up daily under the supervision of an IT manager, an IT security manager and a network administrator;



- the dissemination, accidental or otherwise, of data protected by the privacy regulations. As regards privacy laws, based on new provisions introduced by Regulation (EU) No 2016/679 (General Data Protection Regulation "GDPR"), implemented by Italian Legislative Decree no. 101/2018 published in the Gazzetta Ufficiale of 4 September 2018, AB Impianti Srl has adopted the Group procedure "PR_038 PR_038 - Modello Organizzativo – Trattamento Dati Personali" (Organisational Model - Personal Data Processing) published by AB Holding SpA.

ASSESSMENT OF MARKET RISKS:

The Group is not exposed to concentrations of business with customers (which are diversified overall, although individual companies may have concentrations) or suppliers (despite the partnership relationship with preferential suppliers).

The competition risks are not unusual in each sector, with the Group able to compete - now and in the future - on quality and, to the extent possible, on price too.

"Theoretical" risks, whose probability cannot be assessed, do exist however regarding possible regulatory changes in the energy sector.

These include, by way of example:

- new aspects concerning incentives for biogas plants up to maximum capacities of 300 Kw, introduced by the 2018 Budget (Law no. 145 of 30 December 2018);
- recent measures adopted by ARERA (the new regulatory authority for energy, grids and the environment) in Decision 921/2017/R/eel dated 28 December 2017, which governs the new operational procedures for the recognition of assistance to businesses that are heavy consumers of electricity, as defined in the Ministerial Decree dated 21 December 2017 with effect from 1 January 2018. By contrast with the previous system, the new system makes it possible to deduct charges linked to the support provided to assisted businesses directly from electricity invoices.

SAFETY RISKS:

Safety risks represent an important matter for the Group, whose core business is the production and installation of cogeneration plant.

The risk assessments are amended whenever there are significant changes in the workplaces; in particular, updated risk assessment documents (DVR) have been prepared for:

- Via Gianni Agnelli 9 – Orzinuovi;

- Via Roma 60 – Villachiara;

the principal production locations throughout the Group.

All requirements regarding workplace safety and the containment of injury risks are monitored constantly and supervised closely, even at the foreign locations where the Group is present. This work is performed by specialist personnel and external consultants, who are coordinated by the "Health and Safety" function within the Parent Company. The safety of personnel is one of the core reference values adopted by the Group as a whole.

The installation of plants requires the opening of work sites. A risk assessment is carried out for each work site, in collaboration with the Safety Coordinators appointed by the customer or by the plant safety managers, resulting in the preparation of a specific Operational Safety Plan.

When necessary in order to further reduce the level of risk, a combined assessment of interference risks (DUVRI) is also agreed with the customer.

These documents are distributed to all AB Impianti personnel and to any sub-contractors that are affected and involved.

The appointed Protection and Prevention Department Manager (RSPP) is an employee of AB Holding SpA. This person provides safety-related services and organises suitable training courses.

In addition to the RSPP, the safety department also has three Protection and Prevention Operators who assist with all regulatory compliance work and internal procedures covering safety and the environment.

Environmental risk are discussed later in this Report.

Specific training is provided to all personnel: a detailed training plan is created for each employee, depending on the role performed and duties carried out.

1.4.2 Financial risks

Pursuant to art. 40, point 1 of Decree 127/1991, it is confirmed that all Group companies make borrowing and investment decisions based on prudent criteria that limit the risks. No purely speculative transactions have been arranged.

During 2018, AB Holding Spa invested some of its liquidity in **financial instruments** to diversity risk and increase returns.

Specifically:

COUNTERPARTY	TYPE OF INVESTMENT	AMOUNT	DATE SUBSCRIBED	No. of quotas	ISIN	COUPONS
UBI BANCA	BOND	€ 1,000,000.00	26/09/2018	10,000	IT0005342099	SIX MONTHLY 1.3% ANNUAL
ICCREA BANCA	BOND	€ 1,000,000.00	25/09/2018	10,000	IT0005344913	SIX MONTHLY 2-2% 3 YEARS 3% ANNUAL 2 YEARS
ALLIANZ BANK	LIFE INSURANCE POLICY	€ 2,000,000.00	03/11/2018			VITARIV (80%) - BEST AL (20%)
TOTAL		**€ 4,000,000.00**				

The first two products are bonds not subject to a fixed coupon.

The Allianz policy combines two products - Vitariv - Allianz’s established separate management product offering a stable return over time and a diversified portfolio of financial assets (mainly bonds and government bonds), with the aim of minimising risk and offering stable returns in the long term - and a stock fund with investments in companies that have an excellent standing.

***

The exposure of the Group to the principal risks is analysed below, taking into account the use of financial instruments:

PRICE RISK:

As the products sold are not listed on markets, their prices vary in accordance with normal competitive dynamics. Customer decisions about purchasing a cogeneration plant are directly linked to changes in the prices of electricity, thermal energy and gas.

CREDIT RISK:

Given the number of contracts signed, the receivables reported in the financial statements are spread across a large number of customers (more than 700): ignoring intercompany transactions, no individual customer positions exceed 10% of total receivables.

The ability of customers to meet their payment deadlines is diminishing, partly due the difficulties faced in collecting their own receivables, especially in the agricultural sector. For the most part, customers are honouring the numerous rescheduling agreements reached during 2018.

LIQUIDITY RISK:

There is no liquidity risk at this time. The Group is completely liquid. See the section of this Report on the various liquidity indicators for an overall assessment of the general financial situation. Recourse to ordinary lines of credit is limited to the arrangement of facilities for the issue of commercial guarantees and loans.

Group companies partner with leading domestic and international banks. The pro-active collaborative relations established are beneficial to all parties.

Borrowing from the banking system amounts to € 19.2 ML as of 31/12/2018, down from € 13.7 ML at the end of 2017. Over the year, two new loans were taken out for a total of € 7 ML by AB Impianti (3 ML from BNL and 4 ML from UBI), both at a fixed rate with extremely favourable conditions (rate below 0.20%).

In addition, the theoretical outstanding principal on plant leasing (not motor vehicles) transactions and other loans outstanding, classified as "Due from other lenders" totals € 2.6 ML compared with € 3.8 ML at the end of the prior year.

EXCHANGE RISK:

The Group worked in twelve currencies other than the Euro during 2018. These are indicated below, comparing the exchange rates at the end of 2017 and 2018 so that the extent of any fluctuations can be assessed:

Currency	Country/Ref.	Rate 31/12/2018	Rate 31/12/2017
Lei (LEU)	Romania	4.6635	4.6585
Zloty (PLN)	Poland	4.3014	4.177
Dinar (RSD)	Serbia	118.3109	118.6386
Kuna (HRK)	Croatia	7.4125	7.44
Corona (CZK)	Czech Republic	25,724	25.535
Canadian Dollar (CAD)	Canada	1.5605	1.5039
United States Dollar (USD)	United States	1.1450	1.1993
Mexican Peso (MXP)	Mexico	22.4921	23.6612
Brazilian Real (BRL)	Brazil	4.4440	3.9729
Russian Rouble (RUB)	Russia	79.7153	69.3920
Pound Sterling (GBP)	United Kingdom	0.8831	0.8831
Israeli Shekel (ILS)	Israel	4.2972	4.1635

Exchange-rate fluctuations during 2018 reduced the carrying amount of net assets by about € 0.17 ML. The net exchange losses recognised in the income statement (also not yet realised) amounted to € 1.3 ML in 2018.

As of 31/12/2018, no Group companies hold any derivative products for the purpose of hedging exchange risk.

The commercial impact of exchange risk will presumably increase in future, given the international expansion of the Group.

Derivative instruments may be used in the coming years to arrange specific hedges.

INTEREST-RATE RISK:
Interest-rate risk is linked to the following changes, which are mainly tied to movements in the indexation parameters (EURIBOR, ECB etc.):

- changes in current account conditions (deposit rate/overdraft rate/rate on invoice advances/rate for discounting with recourse);
- changes in the instalments payable on floating-rate leasing contracts: an increase in the parameters increases the instalments and vice versa;
- changes in the instalments payable on floating-rate loans: an increase in the parameters increases the instalments and vice versa.

Excluding the FX effect, the net adverse results of financial management during 2018 were contained to € - 0.65 ML.
Given this and considering any hedges arranged, the consolidated income statement is unlikely to be affected significantly by any future rate shocks (significant increases in short-term rates).

1.4.3 Risk management and reduction policies

Group management seeks to reduce the risks to which Group companies are exposed.
The majority of the policies adopted in this regard have already been described.

This section describes the principal insurance coverage arranged by the Parent Company, in a Group context, in order to safeguard the consolidated net worth.
In particular, an international insurance programme has been in force since 2014. To the extent possible, the master policies arranged by the Parent Company cover all Group companies, which are in any case covered by local insurance.

The principal master coverage is described below:

- LIABILITY INSURANCE: Group companies are generally covered against third-party liability, employee liability and product liability with an Allianz Global Corporate Specialty SE policy (AGCS Allianz group);
- INSURANCE (INVOICE VALUE) FOR GOODS TRANSPORTED BY LAND, AIR OR SEA: Group companies are generally covered for the transportation of goods worldwide using any means of transport;
- PROPERTY INSURANCE: Group companies are generally covered for direct material losses caused to buildings, machinery and goods;
- D&O INSURANCE: the majority of Group companies are covered for the third-party liability of their directors and other corporate bodies.

1.5. Information about environmental impact

In order to understand the situation, the following summary analysis covers the environmental aspects addressed by the Group, with particular regard for the operating conditions in which activities are carried out and their environmental impact.

Further information will be provided if, in future, the Group has a concrete, tangible and significant impact on the environment that might affect its economic and financial position.

Firstly, the core business of the Group is to manufacture industrial installations that have a positive impact on the environment.

With respect to separate generation, cogeneration (production of both electricity and thermal energy) results in an overall saving of resources.

Usually, especially for the larger installations, customers must first obtain a series of authorisations. These certainly include those relating to atmospheric emissions.

No damage was caused to the environment during 2018 and there are no penalties pending for environmental crimes.

The manufacturing companies use various plant-machinery that generate *atmospheric emissions* and must be authorised. Further details are provided in the reports on operations prepared by the individual subsidiaries.

1.6. Information about employment

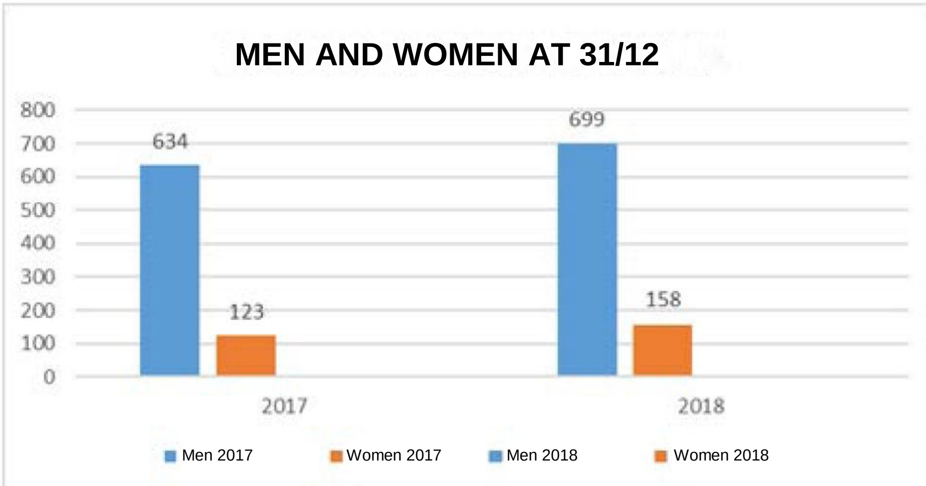
On this point, the purpose of the information provided is to help understand the nature of the relationship between the Group and its collaborators.

With reference to the persons who collaborate with the Group in various ways, the quantitative and qualitative information provided covers, in particular, the following aspects:

1) composition of employment;
2) turnover;
3) training;
4) occupational health and safety.

Composition of employment

The Group employs 857 persons at year end (699 men and 158 women), compared with 757 the previous year.



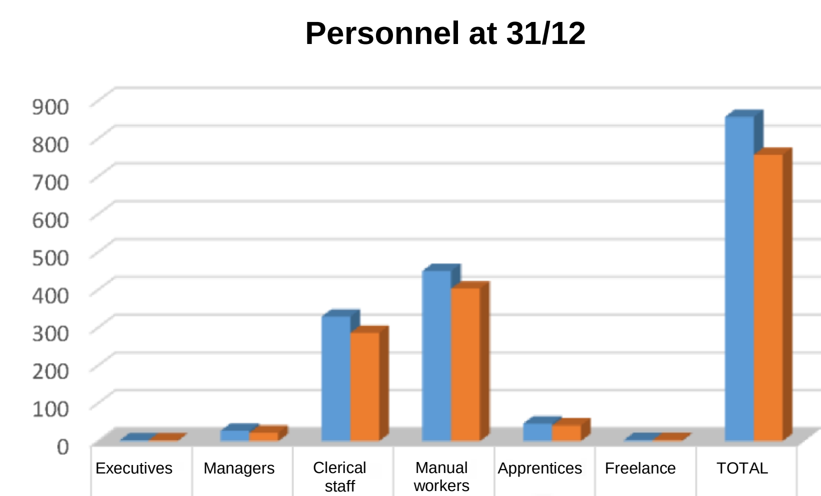
The composition of employment is analysed as follows:

1) by category,

2) by length of service,

3) by type of contract.

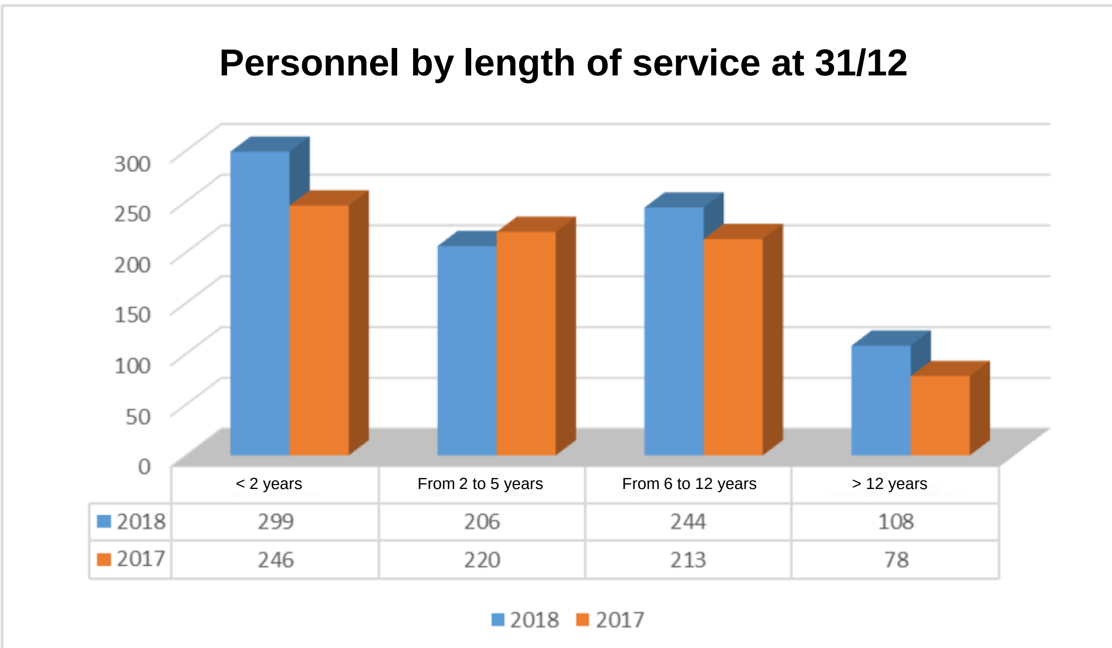
1) per position:



	Executives	Managers	Clerical staff	Manual workers	Apprentices	Freelance	TOTAL
2018	2	27	329	450	46	3	857
2017	2	22	286	403	41	3	757

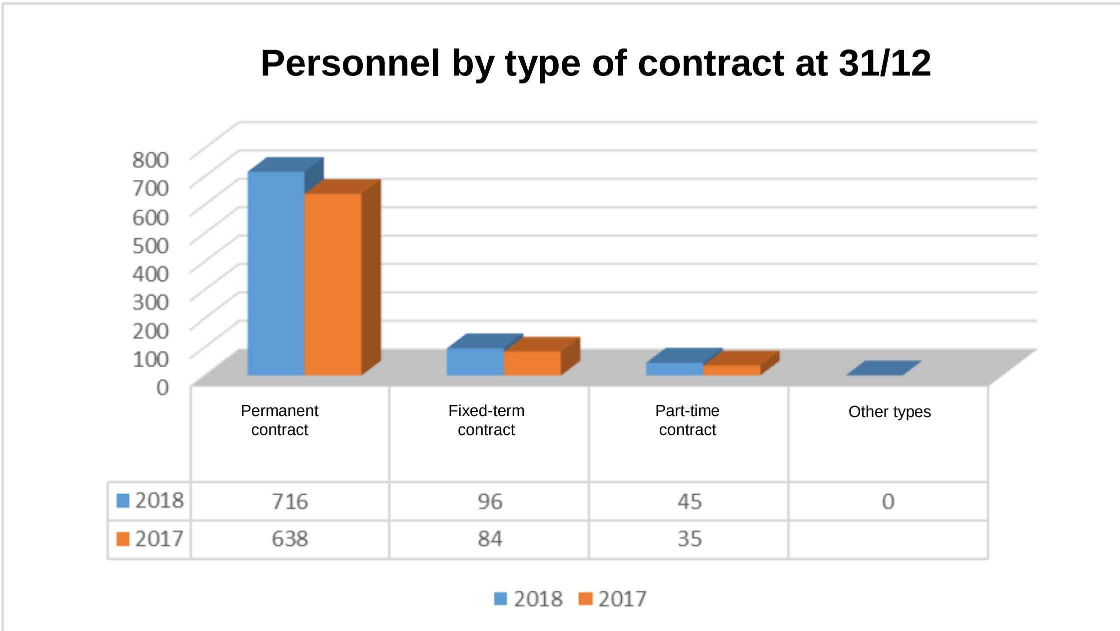
	Executives		Managers		Clerical staff		Manual workers		Other types		Apprentices	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Men (number)	2	2	21	20	213	191	430	387	3	3	30	31
Women (number)			6	2	116	95	20	16			16	10
Total	2	2	27	22	329	286	450	403	3	3	46	41

2) by length of service:



	Executives		Managers		Clerical staff		Manual workers		Other types		Apprentices	
Length of service	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
< 2 years			7	3	101	89	150	122	2	2	39	30
From 2 to 5 years	2	2	2	7	88	72	107	128			7	11
From 5 to 12 years			9	7	102	93	133	113				
> 12 years			9	5	38	32	60	40	1	1		
Total	2	2	27	22	329	286	450	403	3	3	46	41

3) by type of contract



	Executives		Managers		Clerical staff		Manual workers		Other types		Apprentices	
Contract type	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Permanent contract	2	2	26	21	275	247	369	2382	2	2	42	38
Fixed-term contract			0		28	19	64	61	1	1	3	3
Part-time contract			1	1	26	20	17	14			1	
Other types												
Total	2	2	27	22	329	286	450	450	3	3	46	41

	Executives		Managers		Clerical staff		Manual workers		Other types		Apprentices	
Other categories	2018	2017	2018	2018	2018	2017	2018	2017	2018	2017	2018	2017
TEMPORARY							47	42				

Turnover

Turnover is measured by the number of new recruits and increases and the number of leavers:

Contract type	Personnel with permanent contract				
	Situation as of 01/01/2018	Recruits and increases	Leavers, early retirement and terminations	Changes of category	Situation as of 31/12/2018
Executives	2	0	0	0	2
Managers	21	+7	-4	+2	26
Clerical staff	247	+36	-19	+16-5	275
Manual workers	328	+49	-49	+42-1	369
Apprentices	38	+19	-2	-13	42
Other types	2	0	0	0	2

Contract type	Personnel with fixed-term contract				
	Situation as of 01/01/2018	Recruits and increases	Leavers, early retirement and terminations	Changes of category	Situation as of 31/12/2018
Executives					
Managers					
Clerical staff	19	+25	-8	-8	28
Manual workers	61	+59	-19	-37	64
Apprentices	3	0	0	0	3
Other types	1	0	0	0	1

Contract type	Personnel with part-time contract				
	Situation as of 01/01/2018	Recruits and increases	Leavers, early retirement and terminations	Changes of category	Situation as of 31/12/2018
Executives					
Managers	1				1
Clerical staff	20	+3	-1	+4	26
Manual workers	14	+3			17
Apprentices	0			+1	1

	Other temporary workers				
Contract type	Situation as of 01/01/2018	Recruits and increases	Leavers, early retirement and terminations	Changes of category	Situation as of 31/12/2018
Executives					
Managers					
Clerical staff					
Manual workers	42	+59	-55		46
Other types					

Training/courses

The AB Group runs the *AB Academy* for the professional development of personnel.
The following courses were organised during 2018 in collaboration with the Parent Company:

INTERNAL COURSES:

- Business and products
- Principles of cogeneration
- Jenbacher engine
- DiaNe panel
- Supervisor PC
- NED panel
- Electric circuits
- Auxiliaries module
- Engine module
- Biogas module
- Oil module
- Synchronous and asynchronous generator
- LV circuit breakers
- MV circuit breakers
- Technical diagram (P&I)
- Industrial installations
- Use of equipment software
- ElMec: electrical course for mechanics
- Principles of thermodynamics, physical and electrical engineering
- Plant functioning logic
- Thermoreactors
- Competencies of AB Service
- AB Service course for businesses
- Ecomax: electrical and hydraulic components
- Leanox and Jenbacher engine start-up parameters
- Moris System
- Commissioning training part 1
- Commissioning training part 2
- Man engine
- Siat boilers
- Absorbers
- SME Solware
- SCR Hug Combikat
- Shell lubricating oil

- Baltimore cooling towers
- Videoendoscope IT Concepts
- SEA transformers
- Advanced Field Tech Training
- Basic Field Tech Training PW 15 access
- Soft skills empowerment: effective communication
- HR Pills: the recruitment interview
- Island Mode
- CHP applications - Landfill
- CHP applications -Biogas-
- CHP applications -cultivation and greenhouse-
- CHP applications -natural gas-
- RED update
- GE Jenbacher course
- LinkedIn
- Marketing course
- Sales Excellence

EXTERNAL COURSES:

- Professional apprenticeships - cross-functional module
- Leadership coaching
- Change management coaching

LANGUAGE COURSES

- English
- Italian

Occupational health and safety

The following statistics are provided about the number of days lost due to injury and illness:

Contract type	Days lost due to injury				
	Executives	Managers	Clerical staff	Manual workers	Other
Permanent contract				646	
Fixed-term contract			25		
Part-time contract					
Other types					

(table below)

Contract type	Days lost due to illness				
	Executives	Managers	Clerical staff	Manual workers	Apprentices
Permanent contract		58	950	3,191	163
Fixed-term contract			28	252	
Part-time contract			288	1,152	
Other types					
Other types (maternity)		222	590	13	

2. RESEARCH AND DEVELOPMENT

No R&D costs were capitalised during 2018.

Nevertheless, R&D is an inherent part of the work performed, covering both products and processes.

With particular reference to manufacturing, during 2018 the AB Group carried out a number of R&D projects that mainly targeted:

- process innovation;
- product improvements, by the addition of elements improving their operational capabilities;
- the study of new products.

These activities were mainly managed and supported by internal resources, comprising human capital and the other means and resources needed to support the related innovation and research processes.

The R&D unit employs several full-time persons with considerable technical skills, who work on a variety of topics. Some of these are closely related to cogeneration, while other address product diversification and the evolution of processes. Product development relies on the engineering structure for the development and industrialisation of new solutions.
In this regard, see also section 6 on the outlook for the future.
Where the conditions apply, after careful assessment and certification by an auditor, the development of these projects may qualify for tax credits made available by art. 3 of Decree 145 dated 23/12/2013, as amended by Law 9 dated 21 February 2014 and, subsequently, by art. 1, para. 35, of Law 190 dated 23 December 2014, and regulated by the Decree of the Ministry of the Economy and Finance dated 27 May 2015.

As regards the above, the company, with reference to the previous year ended at 31/12/2017, managed some R&D projects, focussed mainly on process innovation, product improvements, with the addition of elements improving operational capabilities and the study of new products.
Although not mandatory, main data relative to the results of R&D carried out during the year ended 31/12/2017 were reported and certified during 2018, following the end of the reporting period:

- expenditure for research, development and innovation: € 1,352,423;
- production cost: € 87,621,200;
- total production value: € 95,286,599.

The above investments enabled the company to benefit from the tax credit, pursuant to art. 3, of Decree 23/12/2013 no. 145 as amended, recognised in caption A5 of the income statement for € 458,692.
These activities were mainly managed and supported by internal resources, comprising human capital and the other means and resources needed to support the related innovation and research processes.
Investments in R&D also continued in 2018.

In addition to Engineering, the sector within AB Impianti dedicated specifically to design work, the work of the following companies is also very important:

- AB Service Srl, which provides a series of information about after-sales maintenance activities including, therefore, any non-conformities found;
- AB Ambiente Società Agricola Srl, which analyses the operation of the in-house biomass plant, thus increasing the know-how available in the agricultural field.

3. RELATIONS OF THE PARENT COMPANY WITH GROUP COMPANIES

3.1 The AB Group

The Parent Company is: **AB HOLDING SPA**, with registered offices at via Caduti del Lavoro 13, Orzinuovi, Brescia Companies Register no. 02243290984. Tax Code and VAT no. 02243290984, which directly owns the majority interest in all subsidiaries.

See the table provided in the introduction to this Report, which lists all the subsidiaries held at 31/12 - unchanged at the time of writing.

3.2 Relations with Group companies

In addition to holding the above equity investments, AB HOLDING SPA also operates in the following sectors:

- Leasing and sub-leasing of property (first asset category in the statement of financial position);
- Provision of services.

The services provided to subsidiaries on market terms during 2018 reflect the strategic coordination of Group activities. In particular, they included:

- general ledger accounting, the keeping of registers, legal books and related compliance, analysis of the financial position and cash flows, budgeting and preparation of internal reports, forecasts and actuals, analysis of costs and management control;
- preparation of payment diaries, making of payments using Internet banking and other means;

- analysis of contract management data, sales invoicing, preparation of documentation for participation in tender competitions and credit collection;
- provision of internal organisational-operational advice and management control;
- marketing and the development of commercial networks;
- management of personnel data and employment compliance;
- implementation of the HR development plan via personnel search and recruitment, the preparation of training plans and organisation of the related courses; the planning of meetings and events for the development and motivation of personnel;
- management of environmental and safety data (Decree 81/2008 and subsequent amendments);
- management of privacy data (GDPR);
- management of IT network data and advice;
- Preparation of commercial contracts for domestic and international use, coordination with external lawyers, pre-dispute activities, due diligence work and other activities in the legal field;
- office cleaning services.

The commercial and financial transactions between Group companies were eliminated on consolidation.

3.3 Management and coordination activities

The Italian subsidiaries are subject to management and coordination by the Parent Company:

AB HOLDING SPA, with registered offices at via Caduti del Lavoro 13, Orzinuovi, Brescia Companies Register no. 02243290984. Tax Code and VAT no. 02243290984.

Pursuant to art. 2497-bis, para. 5, of the Italian Civil Code, it is confirmed that transactions carried out as part of management and coordination activities are arranged on market terms and conditions.

The objective of these management and coordination activities is to maximise the financial results, contain operating and purchasing costs and, above all, to provide cross-functional administrative and operational services (following the *Value Chain*) that enable subsidiaries to focus on their core business activities.

3.4 Loans and reciprocal commitments

The lending positions open at group level are in line with the previous year, apart from the loan entirely repaid by AB Energy (UK) Ltd. Positions open as of 31/12/2018 are summarised below:

2018			
Creditor company	**Debtor company**	**Amount**	**Characteristics**
AB HOLDING SPA	AB AMBIENTE SOCIETA' AGRICOLA SRL	€ 3,500,000.00	Interest-free loan
AB HOLDING SPA	AB ENERGY DO BRASIL LTDA	€ 700,000.00	Interest-earning loan
AB HOLDING SPA	EPS AB ENERGY CANADA LTD	€ 355,000.00	Interest-earning loan
AB HOLDING SPA	AB GREENHOUSE POWER NETHERLANDS	€ 400,000.00	Interest-earning loan
AB HOLDING SPA	AB ENERGY USA	€ 500,000.00	Interest-earning loan
TOTAL		**€ 5,455,000.00**	

The transactions between Group companies were eliminated on consolidation. Information about all intercompany transactions, including commitments/agreement with banks, is provided in the reports and explanatory notes of individual companies, including the separate and consolidated financial statements of the Parent Company.

3.5 Related-party transactions

Considering the consolidation, the various types of related party include:

- directors and senior executives of the parent company "key management personnel";
- close family members of "key management personnel" and companies controlled by (or associated with) "key management personnel" or their close family members;

there have not been any significant transactions.

4. TREASURY AND GROUP SHARES

AB HOLDING SPA does not hold, and did not purchase or sell, any treasury shares and has not carried out any other transactions involving them during the year, whether directly or via trust companies or other intermediaries.

Subsidiaries do not hold, and did not purchase or sell during the year, any shares in the Parent Company, whether directly or via trust companies or other intermediaries.

Following the consolidation, the equity investments held by Group companies total Euro 21,655 and mainly refer to portions of Banca C.R.A. di Borgo San Giacomo (BS) SCRL

5. SIGNIFICANT SUBSEQUENT EVENTS

In the first part of the year, ordinary company operations, and financial inflows and outflows, went ahead as usual. During the period between the reporting date and the time of writing, the invoices and other payables outstanding at the reporting date have been settled normally and, in addition, production activities have continued in the usual manner.

6. OUTLOOK FOR THE FUTURE

Looking ahead, work in the coming months will focus on the following key aspects:

AB will seek to ensure that the production capacity of the Group is aligned with the development of the product range. The Group has significant resources and elements that provide a solid foundation for achieving the above objective, namely: substantial manufacturing facilities that are fully operational, advanced machinery and construction technologies, and the very significant technical and engineering skills contributed by Group personnel. Building on this, it is possible to look to the future with an eye on international expansion.

Commercial activities have generated a substantial order portfolio at the reporting date; this guarantees business continuity in the year, also considering new orders signed and at the acquisition stage arising from activities carried out by the Company in the first quarter of 2019. The cogeneration market and relative regulatory sector are developing and will develop in the near future.

The Group is considered to have all elements necessary to tackle new challenges of the market in the next few years.

With regard to "Services", a pillar of Group activities, the short-term objectives of AB may be summarised as follows:

- maintain the high qualitative level of Service activities in the Italian and international markets, where there is a growing number of installed plants;
- develop the technical and organisational model for all foreign Group companies that carry out Service activities;
- organise and develop the business structure in synergy with other AB Group companies, in order to tackle a global market that is difficult to reach and manage, while maintaining slim and efficient internal processes.

International development will continue to be the focus of future activity, as the commercial effort of the Group, as reflected in the budget, starts to place greater emphasis on other European countries and the Americas, in addition to Italy.

Core production will continue to be based in Italy.

Consistent with the action implemented in prior years, the development priorities from 2018 will include:

1 - GREATER KNOWLEDGE OF FOREIGN MARKETS

As a prior years, the AB Group produced installations for international markets during 2018, continuing to build an effective presence abroad.

Commercial activities have generated a substantial order backlog at the end of 2018 for the production of new installations; this guarantees business continuity in the new year, having regard for the new orders signed and at the acquisition stage during the early part of 2018.

Continued uncertainties about the macroeconomic situation make it even more important to focus on the containment of purchasing costs. These conditions make the purchase and use of cogeneration plant (NGS) attractive to industrial firms operating in "energivor" sectors.

The technical, operational and financial know-how involved in the management of contracts, many of which are particularly large, provides a stimulus for all sectors to refine their tools for the management of operations and risks, as they become increasingly complex.

The development of the AB Group will also come from the growth of the foreign companies formed recently by AB Holding, while maintaining the fundamental "AB culture".

2- EFFICIENCY, SYSTEMS AND SOFTWARE

It is necessary to strive for the greatest possible efficiency in a market that is becoming increasingly competitive.

In this light, a cross-functional approach has been taken to improving the efficiency of business processes.

As in the past, constant attention will be paid to the development and improvement of corporate IT systems that provide an ever more timely and reliable response to the data analysis and planning needs behind management decisions. In this context, the SAP ERP software chosen to pursue the above objectives is now fully operational in all business sectors, from logistics to administration, ensuring the integrated management of the administrative and operational processes at certain Italian and foreign companies within the Group. The process of extending this system to a larger number of Group companies is now under way. By the end of 2018, the SAP system will have been implemented at the companies located in: the United Kingdom, France, Romania, Greece and Bulgaria (the last mentioned will be formed during 2018, as discussed below).

3 - GROUP MISSION AND POLICIES

In general, the AB Group will remain focused on design work, production and maintenance services.

Given the good results achieved, the Group will continue to promote the AB brand, investing resources in marketing and advertising in the target sectors.

Management intends to continue the implementation of key operating policies:

- financial policies designed to support ordinary operations and investment activities via the self-financing generated;
- capitalisation policies, designed to strengthen the equity base (see the changes in net worth and related indicators over time).

4 - GROUP DEVELOPMENT

The international development phase has achieved the objective of opening a company in each target market.
With regard to 2018, two companies will be formed in order to address the Greek and Bulgarian markets respectively. These companies will ensure that local customers obtain adequate after-sales maintenance services.

5 - AB WAY, CORPORATE CULTURE & 231
Last but not least, management remains committed to keeping bright the values that inspire the work of the Group. The "AB Way" is not just a series of ethical and organisational principles that have been formalised and disseminated. Rather, the AB Way represents the focus of management on the development of human resources, which a key pillar sustaining the results of all Group companies and their ability to respond to market needs.

The efforts made in this regard are witnessed by the approval by **AB Holding SpA of the Organisation, Management and Control Model pursuant to Decree 231/2001**, followed later by other Group companies (e.g. AB Impianti Srl). Management intends to proceed, step by step, with assistance from the Parent Company, towards implementation of the Model at the other Italian companies that are subject to domestic legislation.

7. BUSINESS LOCATIONS

The activities of the Group are currently carried out at the following locations:

- ORZINUOVI (BS), Via Caduti del Lavoro 13 (Headquarters, offices)
- VILLACHIARA (BS), Via Roma 60 (production, warehouse, depot, offices)
- ORZINUOVI (BS), Via Caduti del Lavoro 11-17 (production, warehouse, depot, offices)
- ORZINUOVI (BS), Via G. Agnelli 9 (production, warehouse, depot, offices)
- ORZINUOVI (BS), Via Artigianato 27 (commercial and design offices)
- ORZINUOVI (BS), Via Artigianato 24 (warehouse, depot, offices)
- ORZINUOVI (BS), Via Artigianato 5 (depot)
- ORZINUOVI (BS), Via dell'Industria 6 (depot)
- ORZINUOVI (BS), Via D'Annunzio 20-22 (warehouse-depot)
- ORZINUOVI (BS), Via Del Commercio SNC (management of biomass installation)
- COLOGNE (BS), Via Corsica 21 (production, warehouse, depot, offices)
- NAPLES, Via Centro Direzionale di Napoli (offices)

- LAMEZIA TERME (CZ), Contrada Felicetta (warehouse, depot)
- CAPANNORI (LU), Via dell'Ave Maria 18 (warehouse, depot)
- CORREZZOLA (PD), Via Mira 12 (warehouse, depot)
- CARMAGNOLA (TO), Via Poirino 67 (Inventories, depot)
- BARCELONA (SPAIN), Calle Muntaner, 305 pral.2, (offices)
- RUBI (SPAIN), Carrer Doctor Ferran 18-20, Local 2, (warehouse)
- BUCHAREST (ROMANIA), Tudor Vianu, 3 etaj 3, sectoruli 1 (offices)
- MOINESTI (ROMANIA), Str. Atelierelor 47 (warehouse)
- BIELSKO-BIALA (POLAND), ul. Miedziana 38 (offices, warehouse)
- WARSZAWA (POLAND), Ul. Dzieci warszawy 23 (warehouse)
- TORUŃ (POLAND), Ul. Mazowiecka 63/65 Magazyn 2 (warehouse)
- NOVI BEOGRAD (SERBIA), Surcinski put 1nj (offices, warehouse)
- RIJEKA (CROATIA), Strossmayerova 16 (offices)
- PRAGUE (Czech. Rep.), Klimentska' 1216/46, Praga1 (offices)
- INNSBRUCK (Austria), Andreas-Hofer-Straße 43 (offices)
- MAASDIJK (Netherlands), Honderdland 305 (offices)
- SAN PAOLO (Brazil), Alameda Grajaù, 129, Sala 1002. Alphaville (local unit)
- SALVADOR (Brazil), Estr. Cia Airport km 6.5, Predio II, Sala 01, São Critovão (local unit)
- RIO GRANDE DO SUL (Brazil), ROD BR 290, km 181, Minas do Leão (local unit)
- GUELPH (Canada), 30 Fair Road Unit 2, (offices, warehouse)
- LONDON (Great Britain), One George Yard (offices)
- SPELLE (Germany), Siemensstraße 1 (offices)
- DENVILLE - NJ (USA), Address: 10 Astro Place (offices, warehouse)
- TIRAT CARMEL (Israel), Yozma 3 st. (offices)
- MOSCOW (Russian Federation), 16A Leningradskoe shosse, Building 1 (offices)
- SAN PIETROBURGO (Russian Federation), Gakkelevskaya Str (offices)
- VERN-SUR-SEICHE (France), 14 Rue du Passavent (offices, warehouse)
- MEXICO CITY (Mexico), Rio Rhin 56, Piso 2, Int.2 (offices)

Certain Group activities involve the opening of external work sites and Service activities are regularly carried out at customer locations.

Lastly, agricultural activities are carried out on land owned by the Group in several municipalities.

8. RESERVES AND REVALUATIONS – ANALYSIS OF SHAREHOLDERS' EQUITY

Consolidated shareholders' equity (GROUP+NCIs) amounts to **€ 278,229,368** as of 31/12/2018 and comprises:

SHAREHOLDERS' EQUITY	2018	2017
Share capital	6,000,000	6,000,000
Premium account	0	0
Revaluation reserves	0	0
Legal reserve	1,200,000	1,200,000
Statutory reserves	0	0
Other reserves	54,635,403	36,252,171
Reserve for cash flow hedges	0	0
Translation reserve	-54,055	95,762
Consolidation reserve	785,929	785,929
Retained earnings (accumulated losses)	170,704,125	155,843,793
Net profit (loss) for the year	30,197,111	33,093,746
Reserve for treasury shares held (-)	0	0
TOTAL EQUITY ATTRIBUTABLE TO PARENT	**263,468,513**	**233,271,401**
Capital + reserves attributable to NCIs	*14,101,374*	*13,120,694*
Net profit (loss) attributable to NCIs	*659,481*	*1,530,680*
TOTAL EQUITY ATTRIBUTABLE TO NCIS	*14,760,855*	*14,651,374*
TOTAL SHAREHOLDERS' EQUITY	**278,229,368**	**247,922,775**

The property, plant and equipment reported in the financial statements has never been revalued.

The shareholders' equity of AB Holding SpA is reconciled below with the related consolidated amount (see also the explanatory notes):

	Shareholders' equity	Results
Shareholders' equity and results reported in the financial statements of the parent company	**85,731,853**	**23,896,451**
Adjustments to apply the accounting policies (recognition of leases in accordance with IAS 17)	4,408,696	86,096
Elimination of carrying amount of consolidated investments:		
a) difference between carrying amount and equity interest	176,601,865	41,531,535
b) capital gains/losses recognised on acquisition date	-	-
c) consolidation difference	1,808,541	- 340,912
Elimination of effects of intercompany transactions	5,082,445	- 26,060
Elimination of intercompany dividends		- 34,950,000
Shareholders' equity and results attributable to owners of the parent	**263,468,510**	**30,197,111**
Shareholders' equity and results attributable to NCIs	14,760,855	659,482
Consolidated shareholders' equity and results	**278,229,364**	**30,856,592**

9. RESULTS FOR THE YEAR

The consolidated net profit for 2017 is analysed below:

	2018
GROUP PROFIT	30,197,111
NCI PROFIT	659,481
TOTAL PROFIT	30,856,592

With regard to the net profit reported by AB HOLDING SPA:

	2018
NET PROFIT OF AB HOLDING SPA	23,896,451

it is recommended to allocate the entire 2018 net profit of Euro 23,896,451 to retained earnings, as the legal reserve has already reached the established limit.

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CONCLUSION

These consolidated financial statements are subject to legal audit pursuant and consequent to art. 14 of Decree 39 dated 27 January 2010.

On behalf of the Board of Directors, the Chairman conveys sincere thanks to **everyone - all employees, directors, statutory auditors and collaborators -** who has made these important results possible through their precious contributions, passion, hard work and ethical principles.

Based on all the foregoing, the Board recommends approval of the financial statements as of 31/12/2018 and the allocation of net profit proposed above.

Place and date
ORZINUOVI (Brescia), 29 MAY 2019

For the Board of Directors of AB HOLDING SPA
The Chairman **GRAZIELLA CALZAVACCA**
The Executive Director **ANGELO BARONCHELLI**