ANNUAL REPORT 2018

brembo

#brembo

A chequered flag waving at the finish line, smiles and embraces on the podium. Every victory is a measure of our performance: a visible sign of our deep passion, commitment and constant striving towards innovation, our ability to listen to and work with others, the safety of our vehicles and our constant drive to overcome our limits.

This year, we have selected a series of evocative motorbike racing images to illustrate our Annual Financial Report.
From the more traditional and thrilling Formula 1 to the more recent and sustainable Formula E, from the MotoGP to the SuperBike Championship, together with NASCAR, WRC, Motocross and other categories of motor sports, racing has always been in Brembo’s DNA.


04
SUOMY
GIVI

ANNUAL REPORT 2018


5
HUBLOT
Ray-Ban
ups
Lenovo

Calling of the General Shareholders' Meeting

The Shareholders are convened to the Ordinary and Extraordinary Shareholders' Meeting to be held at the Company offices at Viale Europa 4 (Gate 1 entrance), 24040 Stezzano (Bergamo) on **18 April 2019 at 10:30a.m. CET, in single calling,** to resolve on the following

Agenda

Ordinary Session

1. Presentation of the Financial Statements of Brembo S.p.A. for the year ended 31 December 2018, with the Directors' Report on Operations, the Statutory Auditors' Report, the Independent Auditors' Report and the Attestation of the Manager in Charge of the Company's Financial Reports. Related and ensuing resolutions..
2. Allocation of profit for the year. Related and ensuing resolutions.
3. Presentation of the Consolidated Financial Statements of the Brembo Group for the year ended 31 December 2018, with the Directors' Report on Operations, the Statutory Auditors' Report, the Independent Auditors' Report and the Attestation of the Manager in Charge of Company's Financial Reports.
4. Presentation of the Disclosure of Non-Financial Information of the Brembo Group for the year ended 31 December 2018, according to Legislative Decree No. 254/2016.
5. Presentation of the Remuneration Report of Brembo S.p.A. Resolutions pursuant to Article 123-*ter* of TUF.
6. Authorisation for the buy-back and disposal of own shares. Relevant and ensuing resolutions.

Extraordinary Session

1. Renewal of the granting to the Board of Directors of the power to increase share capital, excluding option rights, pursuant to Articles 2443 and 2441, paragraph 4, sentence 2, of the Italian Civil Code. Amendment to Article 5 of the By-laws. Ensuing resolutions.
2. Proposed amendment to Article 6 of the By-laws to introduce the increased voting rights mechanism. Relevant and ensuing resolutions.

Stezzano, 4 March 2019

On behalf of the Board of Directors

The Chairman
Alberto Bombassei

Letter from the Chairman

Shareholders,
In the reporting year, the global economy continued to grow, albeit more slowly than expected. The International Monetary Fund then revised global GDP forecasts down slightly for both 2019 and 2020.
The main reason for this revision of global growth had to do with the adverse effects of the higher tariffs raised in the United States and China, the weaker performances of several economies (particularly in Asia and Europe), and less robust financial markets.

Within this especially complex economic scenario, 2018 was a year of continuity for Brembo.
In fact, 2018 results confirmed the effectiveness of the strategic plans for business growth, consolidation and sustainability that Brembo has conceived and implemented in recent years.
The Group's total revenues reached €2,640 million, up by 7.2% on the previous year (+9.6% on a like-for-like exchange rate basis).
Gross operating income was €500.9 million, up by €20.9 million compared to 2017.
Net result was €238.3 million, down 9.5% compared to the previous year.
Attention should also be drawn to net financial debt, which amounted to €136.9 million, down considerably (by nearly €104 million from 30 September to 31 December 2018).

All the Group's business segments grew, with the exception of the racing sector, which declined by 2.1%.
Car applications increased by 6.7% compared to the previous year, while applications for motorbike and commercial vehicles grew by 9.7% and 12.8%, respectively.

At geographical level, and in Europe in particular, growth was reported by Germany (+5.3%), the United Kingdom (+7.9%) and France (+34.4%) compared to 2017, whereas Italy showed a slight decline of 3.2%. Sales in North America (the USA, Canada and Mexico) — always one of the Group's key markets — closed 2018 up by 3.9% (+8.2% on a like-for-like exchange rate basis), whereas the South American market (Argentina and Brazil) declined by 11.4%, despite growing by 16.8% on a like-for-like exchange rate basis.

Results on the main Asian markets were excellent. In China — which remains the world's number-one car market — Brembo grew by 12.0% (+14.6% on a like-for-like exchange rate basis), and in India by 17.7% (+29.2% on a like-for-like exchange rate basis). By contrast, Japan declined by 7.4% (-6.8% on a like-for-like exchange rate basis).

Brembo's 2018 operating results demonstrate — despite the severe uncertainty that began to weigh on the global automotive industry near year-end — the Group's ability to pursue its growth objectives thanks to its comprehensive planned investments in technology, processes, products and, above all, people.

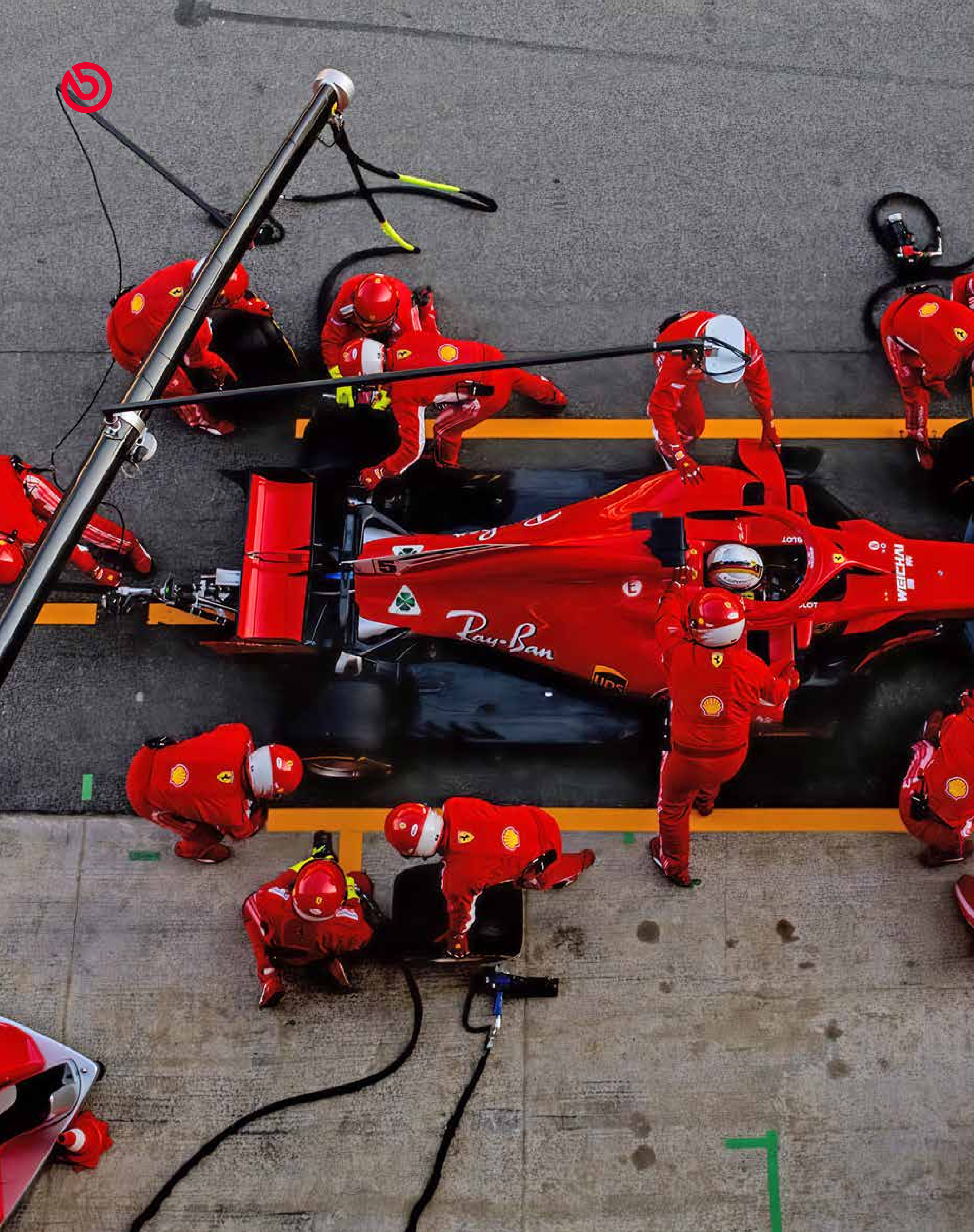
The determination to rise to the new challenges and constant changes the Group faces in its business with new ideas — and the ability to turn them into best-in-class applications on ever tighter schedules — has always been one of the strengths of Brembo and of all those who work with it worldwide, who are characterised by a high level of education.
In fact, one quarter of those who work at Brembo hold a university degree, and most of them has a degree in engineering or another scientific or technical discipline.
Brembo now benefits from the daily efforts of over 10,600 staff — almost 800 more than in the previous year — spread across 15 countries in three continents.

The Group's new production hubs — including the Nanjing plant, which is already operating and will be inaugurated in the first half of 2019 — are scaling up to full operation as planned. Within the framework of a local-based organisation, its facilities will ensure that Brembo is able to meet the needs of its clients where they operate, while also retaining strong competitive adaptability against the background of the frequent changes in global economic and legislative scenarios.

The production performance of the Group's new plants in China, the United States and Poland, together with its constant striving for innovation, enable it to take a determined approach to facing the complex scenarios seen in today's automotive industry, where the rise of electric vehicles, the drive to reduce emissions and self-driving vehicles will play an increasingly significant role.

This year Brembo is once again publishing its Consolidated Disclosure of Non-Financial Information, a detailed report describing the strategies and actions implemented by the Group and the results achieved in the pursuit of sustainable economic growth, together with a reduced environmental and social footprint of its business.
We therefore look to the current year with confidence, while remaining vigilant for clear negative signs from the global economy and politics.
Trusting in our resources and strengths, we are certain that we have laid a sound, lasting foundation for meeting the challenges that lie ahead of us as effectively as possible.

The Chairman
Alberto Bombassei


Ray-Ban

#teamworking

Tactics and synergy. A common way of thinking for a shared goal. It all begins with teamwork.

Formula 1 Championship
2018

Company Officers

The General Shareholders' Meeting of the Parent Brembo S.p.A. of 20 April 2017 confirmed the number of Board members at 11 and appointed the Board of Directors for the three-year period 2017-2019, i.e., until the General Shareholders' Meeting called to approve the Financial Statements for the year ending 31 December 2019.

Composition of the Board of Directors, Board Committees and main Governance functions

Board of Directors

Chairman	Alberto Bombassei (1) (9)
Executive Deputy Chairman	Matteo Tiraboschi (2) (9)
Chief Executive Officer and General Manager	Andrea Abbati Marescotti (3) (9)
Directors	Valerio Battista (4) (10) Cristina Bombassei (5) (9) Barbara Borra (4) Giovanni Canavotto (6) Laura Cioli (4) Nicoletta Giadrossi (4) (7) Umberto Nicodano (8) Gianfelice Rocca (4)

Board of Statutory Auditors (11)

Chairwoman	Raffaella Pagani (7)
Acting Auditors	Alfredo Malguzzi Mario Tagliaferri
Alternate Auditors	Myriam Amato (7) Marco Salvatore

Independent Auditors

EY S.p.A. (12)

Manager in Charge of the Company's Financial Reports

Andrea Pazzi [13]

Committees

Control, Risks & Sustainability Committee [14]	Laura Cioli **(Chairwoman)** Barbara Borra Nicoletta Giadrossi
Remuneration & Appointments Committee	Barbara Borra **(Chairwoman)** Nicoletta Giadrossi Umberto Nicodano
Supervisory Committee	Alessandro De Nicola **(Chairman)** [15] Laura Cioli Alessandra Ramorino [16]

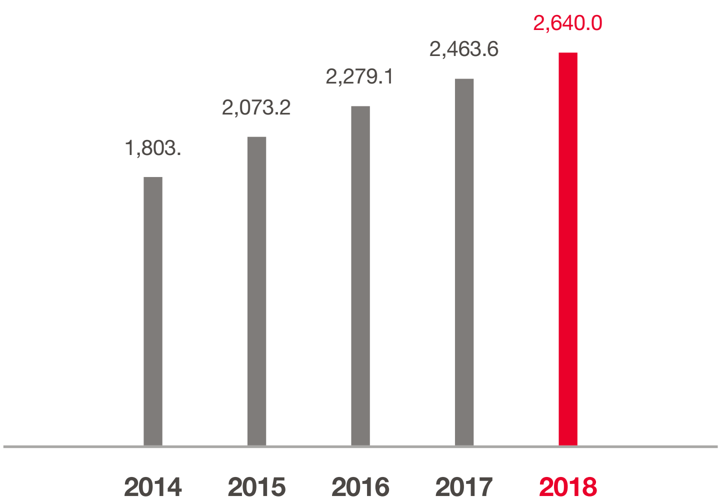
(1) The Chairman is the Company's legal representative and has powers of ordinary management, within the limits of the law.
(2) The Executive Deputy Chairman is the Company's legal representative; the Board of Directors granted him special powers to manage the Company.
(3) The Board of Directors granted the Chief Executive Officer and General Manager special powers to manage the Company, as well as powers, pursuant to Article 2381 of the Italian Civil Code, with reference to occupational health and safety (as per Legislative Decree No. 81/2008, as amended by Legislative Decree No. 106/2009), environmental protection and waste management.
(4) Independent and Non-executive Directors pursuant to Article 148, paragraph 3, of TUF (as required by Articles 147-*ter*, paragraph 4, and 147-*quater* of TUF) and Article 2.2.3, paragraph 3, of the Rules of Borsa Italiana S.p.A. and the Corporate Governance Code of Brembo S.p.A. (Article 3.C.1).
(5) The Director also holds the position of Executive Director in charge of the Internal Control and Risk Management System, as well as of Chief CSR Officer.
(6) Executive Director also holding the position of System Division Chief Operating Officer.
(7) Candidate for the position of Director proposed by a group of minority shareholders and elected by the Shareholders' Meeting/Statutory Auditor elected from a minority list.
(8) Non-executive Director.
(9) Executive Directors.
(10) This Director also holds the position of Lead Independent Director.
(11) This Board holds the role of Internal Control & Audit Committee pursuant to Article 19 of Legislative Decree No. 39/2010.
(12) The Shareholders' Meeting held on 23 April 2013 assigned the mandate until the approval of the 2021 Financial Statements.
(13) Appointed by the Board of Directors on 5 March 2018, pursuant to Article 27-*bis* of the By-laws. The appointment remains valid until the expiry of the current Board of Directors' term of office, i.e., until the General Shareholders' Meeting approving the Financial Statements for the year ending 31 December 2019.
(14) This Committee also acts as the Related Party Transactions Committee.
(15) Private practice lawyer - Senior Partner of Orrick Italian offices.
(16) Chief Internal Audit Officer.

Brembo S.p.A.

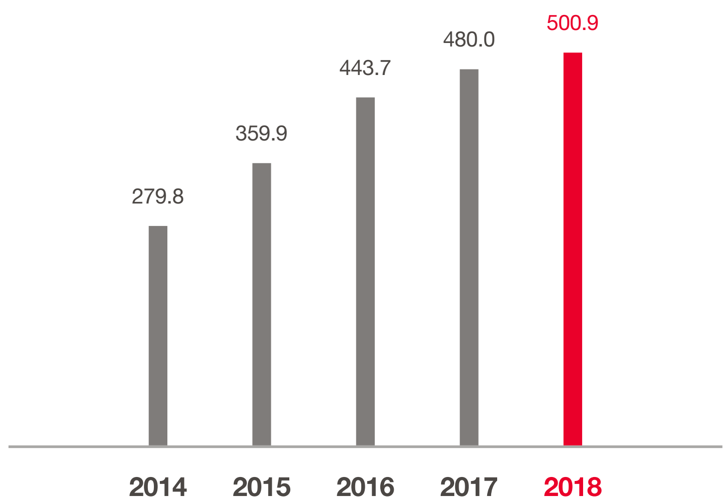
Registered offices: CURNO (BG) – Via Brembo 25
Share capital: €34,727,914.00 – Bergamo Register of Companies
Tax code and VAT Code No. 00222620163

Summary of Group Results

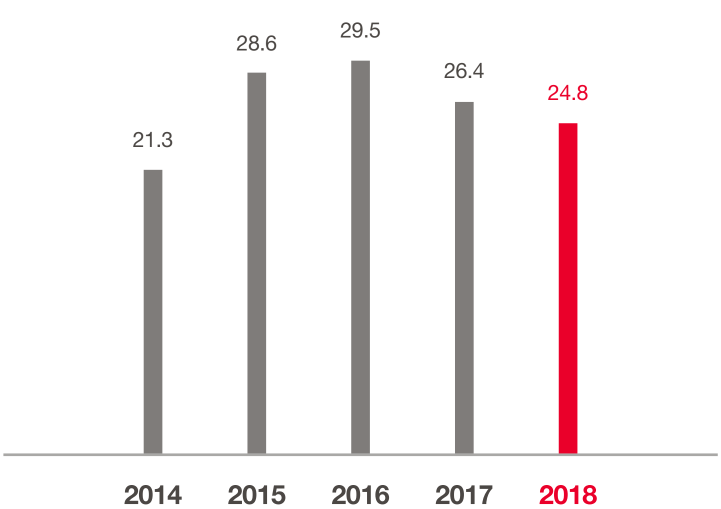
Revenue from contracts with customers
(euro million)



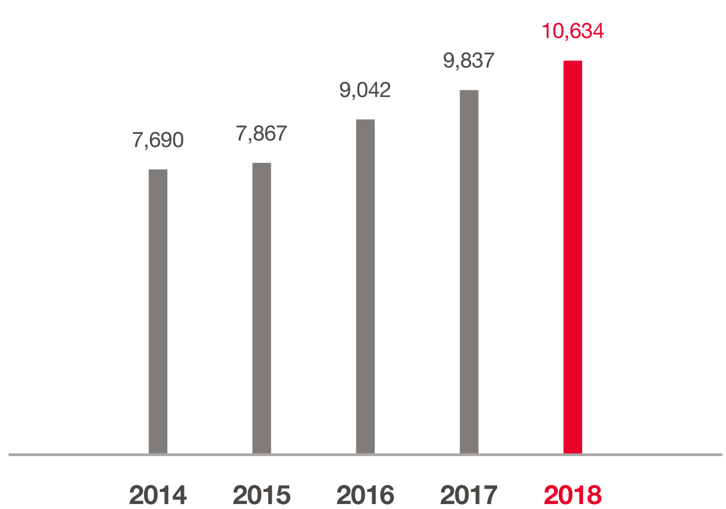
Gross operating income
(euro million)



ROI
(percentage)



Personnel at end of year
(No.)



Economic results

(euro thousand)	31.12.2014	31.12.2015	31.12.2016	31.12.2017	31.12.2018	% 2018/2017
Revenue from contracts with customers	1,803,335	2,073,246	2,279,096	2,463,620	2,640,011	*7.2%*
Gross operating income	279,800	359,919	443,714	479,963	500,885	*4.4%*
% on revenue from contracts with customers	*15.5%*	*17.4%*	*19.5%*	*19.5%*	*19.0%*	
Net operating income	178,449	251,282	327,464	346,262	345,064	*-0.3%*
% on revenue from contracts with customers	*9.9%*	*12.1%*	*14.4%*	*14.1%*	*13.1%*	
Result before taxes	164,916	243,499	312,208	335,537	325,357	*-3.0%*
% on revenue from contracts with customers	*9.1%*	*11.7%*	*13.7%*	*13.6%*	*12.3%*	
Net result for the year	129,054	183,962	240,632	263,428	238,349	*-9.5%*
% on revenue from contracts with customers	*7.2%*	*8.9%*	*10.6%*	*10.7%*	*9.0%*	

Financial results

(euro thousand)	31.12.2014	31.12.2015	31.12.2016	31.12.2017	31.12.2018	% 2018/2017
Net invested capital (1)	839,510	878,569	1,110,693	1,310,818	1,392,874	*6.3%*
Equity	536,330	687,547	882,310	1,064,437	1,228,822	*15.4%*
Net financial debt (1)	270,387	160,688	195,677	218,597	136,911	*-37.4%*

Personnel and investments

(euro thousand)	31.12.2014	31.12.2015	31.12.2016	31.12.2017	31.12.2018	% 2018/2017
Personnel at end of year (No.)	7,690	7,867	9,042	9,837	10,634	*8.1%*
Turnover per employee	234.5	263.5	252.1	250.4	248.3	*-0.9%*
Investments	126,776	155,908	263,570	360,684	287,738	*-20.2%*

Main ratios

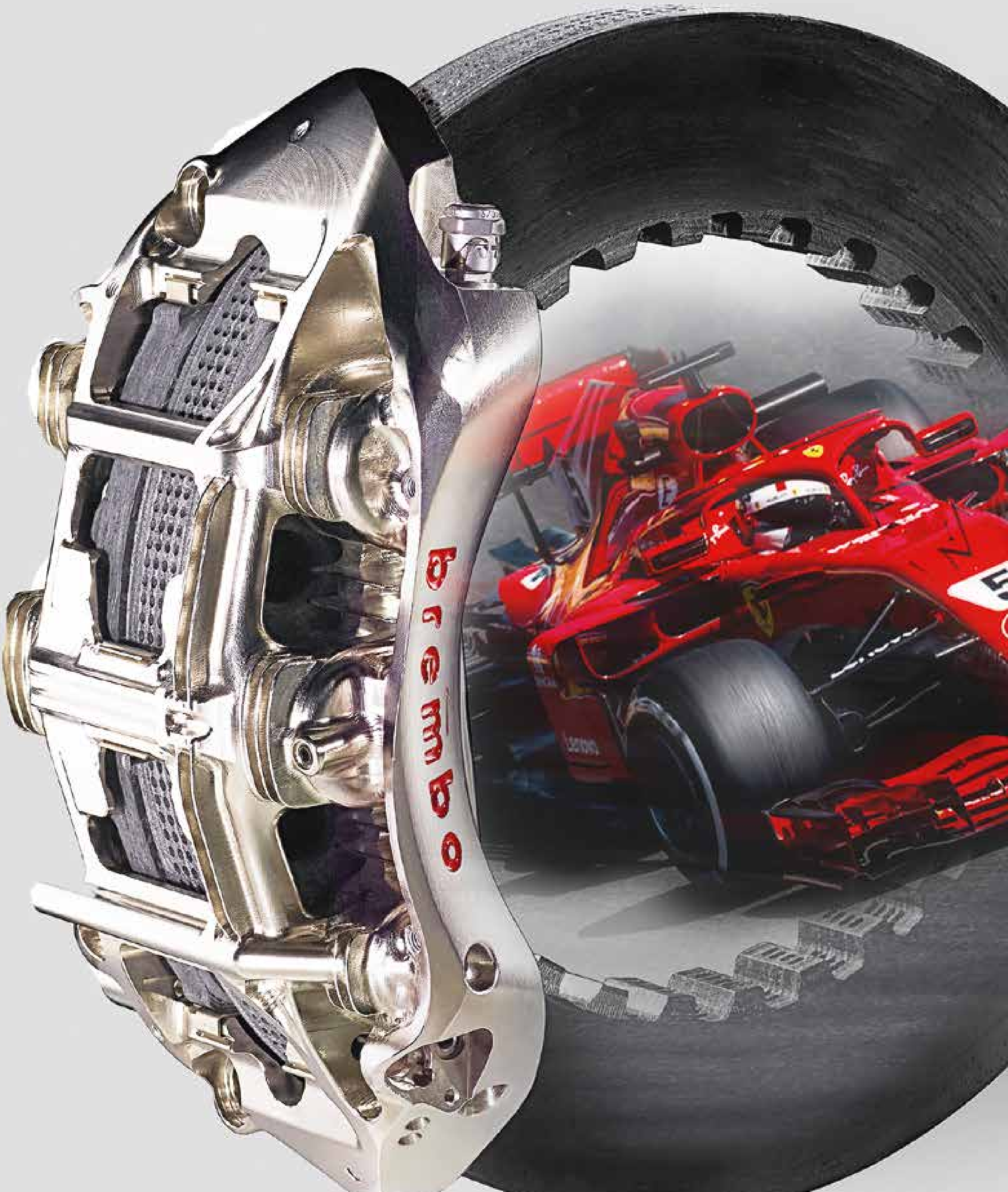
(euro thousand)	31.12.2014	31.12.2015	31.12.2016	31.12.2017	31.12.2018	
Net operating income/Revenue from contracts						
with customers	9.9%	12.1%	14.4%	14.1%	13.1%	
Income before taxes/Revenue from contracts with customers	9.1%	11.7%	13.7%	13.6%	12.3%	
Investments/ Revenue from contracts with customers	7.0%	7.5%	11.6%	14.6%	10.9%	
Net financial debt/Equity	50.4%	23.4%	22.2%	20.5%	11.1%	
Adjusted net interest expense(*)/						
Revenue from contracts with customers	0.7%	0.6%	0.4%	0.4%	0.5%	
Adjusted net interest expense (*)/Net operating income	7.1%	4.9%	3.0%	2.7%	4.0%	
ROI (2)	21.3%	28.6%	29.5%	26.4%	24.8%	
ROE (3)	24.0%	27.0%	27.5%	25.2%	19.7%	

(1) A breakdown of these items is provided in the Statement of Financial Position included in this Directors' Report on Operations.

(2) Net operating income / Net invested capital x annualisation factor (days in the year/days in the reporting period).

(3) Net income (loss) before minority interests / Equity x annualisation factor (days in the year/days in the reporting period).

(*) This item does not include exchange gains and losses.


brembo

Directors' Report on Operations

Formula 1 brake system
2018 Championship

Brembo and the Market

Macroeconomic context

In order to better assess Brembo's performance in 2018, an analysis of the worldwide macroeconomic scenario is given here below, with particular reference to the markets in which the Group operates.

The global economy continues to grow, albeit more slowly than estimated in October. The IMF (International Monetary Fund) has estimated GDP (gross domestic product) growth of +3.7% in 2018, in line with its October forecast. It has instead revised GDP growth slightly downwards to +3.5% in 2019 and to +3.6% in 2020, or by 0.2 and 0.1 percentage points, respectively, on the October estimates, thus aligning its forecasts with the growth seen in 2018. According to the January 2019 update to the World Economic Outlook published by the IMF, the main reason for the revision of global growth relates to the negative effects of tariff increases enacted in the United States and China, the weaker performances of several economies (particular in Asia and Europe) but also weakening financial market sentiment, as well as a contraction in Turkey now projected to be deeper than anticipated.

In its January update the IMF also revised its growth projections downwards for the **Eurozone**, which reported +1.8% in 2018 and estimated growth of +1.6% in 2019 — 0.3 percentage points below last autumn's forecast. The Washington-based economists revised down GDP growth forecasts for 2019 in all major Eurozone countries, particularly Spain (+2.2%), Germany (+1.3%), France (+1.5%) and Italy (+0.6%) – lower percentages than estimated in the October report due to the weakening of some economies, and particularly Germany, Italy and France. In the United States, growth amounted to +2.9% in 2018. Growth forecasts for 2019 remain unchanged at +2.5%, whereas growth is expected to slow slightly in 2020 (+1.8%). In the Eurozone Economic Outlook, the economists at the Eurostat confirm that in the fourth quarter of 2018 GDP increased in the Euro Area at a lower rate than in the previous quarter (+0.2% versus +0.4%). The slowdown was the result of the decreases witnessed in Germany (-0.2%) and Italy (-0.1%). The contraction in Germany was due in part to the temporary decline in the German automotive industry, which had an adverse impact on the contribution of foreign demand to growth in the Eurozone, whereas in Italy all components of domestic demand weakened. Spain showed stabilisation of its rate of growth (+0.6%), whereas the pace of growth quickened in France (+0.4%). The slowdown in the Eurozone was anticipated by the performance of the ESI (Economic Sentiment Indicator), which has been falling since the end of 2017 (although essentially stable in November). Weak industrial production growth continued in October (+0.2% versus +0.1% in the third quarter), driven by the production of capital goods (+1.0%). In the first quarter of 2019, industrial production is expected to stabilise, followed by a recovery in the first half of the year (+0.2% for both the first and second quarters of 2019). Over the forecasting horizon, the Eurozone's economy is expected to expand slightly, with constant GDP growth in the three quarters considered (+0.3%). The job market continued to improve in the fourth quarter of 2018, with an increase in employment (+0.2% on the previous quarter), and the lowest unemployment rate of recent years (8.1% in October, stable compared to the previous month). The current level of production capacity utilisation in the manufacturing sector remained high, suggesting a more robust recovery of investments in the coming months following on the slight increase in the fourth quarter of the year (+0.2%). Gross fixed investments will increase in early 2019 (+0.5%) and then slow in the second and third quarters of 2019 (+0.4%).

According to the details of the IMF's estimates, growth in **Italy** was +1.0% in 2018 and is estimated to amount to +0.6% in 2019, 0.4 percentage points below the October estimates, due to weak domestic demand and higher borrowing costs.

This forecast is not entirely aligned with the figure cited by the Italian government in its update to its economic and finance document (DEF), which estimates an increase in GDP of +1.0% in 2019, in line with 2018. According to the IMF, in addition to decreasing the estimated average growth for this year, the stagnation of economic activity in the second half of 2018 entails an essentially nil knock-on effect in the coming year. This is in addition to the persistently high levels of government bond yields and deteriorating expectations regarding economic growth and international trade. These adverse factors are only partly offset by the recent fall in the oil and fuel prices, which result in greater purchase power for households and lower costs for businesses.

Turning to the **U.S.** situation, the IMF expects that growth estimates in the United States will remain unchanged: after peaking at 2.9% in 2018, GDP growth is set to decline to 2.5% in 2019 and then to soften further to 1.8% in 2020 with the unwinding of fiscal stimulus and as the federal funds rate temporarily overshoots the neutral rate of interest. Nevertheless, the projected pace of expansion is above the US economy's estimated potential growth rate in both years. Strong domestic demand growth will support rising imports and contribute to a widening of the US current account deficit. The growth expectations for the United States have also been confirmed by the European Commission, whose experts, however, foresee a possible downwards revision of growth rates due to the presence of increasing risks, such as tighter financial conditions, unfavourable changes in trade policy and a sharp tightening in fiscal policy in 2020.

The **Japanese economy** continued to recover, consolidating growth throughout the country at about 0.9% in 2018. According to the most recent update to the World Economic Outlook, the growth rate is expected to rise to 1.1% in 2019, 0.2 percentage points above the October forecast. The growth of the Japanese economy is expected to moderate in 2020 to around 0.5%. The preliminary reading of the PMI prepared by Markit/Nikkei showed that it closed the month of December down slightly to 52.6 points from 52.9 points at the end of September.

The BRIC economies (Brazil, Russia, India and China) are continuing to grow, albeit less robustly than estimated in October. The Chinese economy will slow due to the combined influence of tighter financial conditions and growing tensions surrounding trade tariffs. Growth in **China** amounted to 6.6% in 2018 and is expected to decline to 6.2% in 2019. Attention should be drawn to the Caixin manufacturing PMI, which in December fell by 0.5 percentage points to 49.7, indicating a slight worsening of operating conditions. According to the IMF's estimates, the **Indian economy** is poised to pick up in 2019, benefiting from lower oil prices and eased inflation pressures. The **Russian economy** continues to recover, growing by 1.7% in 2018, with GDP growth in 2019 estimated at 1.6%. The slowing growth was due to the lower price of oil expected in the near term. **Brazil,** which has emerged definitively from the profound depression of 2015-2016, grew by 1.3% in 2018. In the January update to the WEO, the growth forecast for 2019 was revised up by 0.1 percentage points to 2.5%.

Turning to commodities trends, the average price of oil increased from August 2018 to December 2018 to 68.58 dollars a barrel. In the last update to the World Economic Outlook published in January, IMF economists revised downwards the average prices of the three oil benchmarks — UK Brent, Dubai Fateh and West Texas Intermediate (WTI) — forecasting a price of 58.95 dollars a barrel at the end of 2019 and of 58.74 dollars a barrel at the end of 2020, with a decrease of -9.63% compared to year-end 2018.

Currency markets

The **U.S. dollar** began 2018 by depreciating slightly against the euro compared to year-end 2017, followed by a lateral phase (January to April), during which rates fluctuated between 1.22 and 1.25. From May on, the U.S. currency began to appreciate rapidly, reaching 1.13 around August. The dollar then entered another lateral phase within the range of 1.18 to 1.13, reaching a low of 1.1261 on 13 November, below the annual average rate of 1.18149. At the end of the period, the currency stood at 1.145.

Turning to the currencies of the other major markets in which Brembo operates at the commercial and industrial level, the **pound sterling** closed a year marked by strong volatility: it opened 2018 by appreciating slightly and then entered a phase of lateral movement, during which it fluctuated until March within a range of 0.87 to 0.89. It then appreciated rapidly to 0.8628 on 17 April. In the following months, it depreciated sharply, bringing the rate to an annual high of 0.9068 on 28 August. The subsequent phase of severe volatility returned the pound sterling to around 0.87, after which it went on to end the year with further depreciation, driving the rate above the average for the period of 0.884747. At the end of the period, the currency stood at 0.89453.

The **Polish zloty** began 2018 by depreciating constantly against the euro, climbing to 4.3915 on 3 July. In the second half of the year, the currency reversed course, appreciating again to around 4.25 in mid-August, after which it moved laterally within a range of 4.35 to 4.25 until the end of the reporting period. At the end of the period, the currency stood at 4.3014, value above the annual average rate of 4.260575.

The **Czech koruna** began 2018 by appreciating sharply, driving the rate to a low of 25.192 on 2 February. In the following months, it continued to depreciate rapidly against the euro, driving the rate to a high of 26.073 on 3 July. In the second half of the year, the currency appreciated markedly until October, after which it reversed direction sharply until the end of the year. At the end of the period, the currency stood at 25.724, above the annual average rate (25.643155).

The **Swedish krona** began 2018 by depreciating sharply against the euro, driving the exchange rate above 10.60 in early May. It then fluctuated within a range of 10.30 to 10.40, after which it depreciated, bringing the rate to a high of 10.6923 on 29 August. In the following months, it reversed trend, appreciating against the euro and ending the year at levels near the average for the period of 10.256743. At the end of the period, the currency stood at 10.2548.

In Asia, the **Japanese yen** opened the year in a phase of lateral movement within the range of 134 to 137 and then proceeded to appreciate in first few months of the year to around 130. After lateral fluctuation and considerable volatility, the exchange rate fell to a low of 125.67 on 15 August. In the final months of the year, following further depreciation to 132, it then recovered to the levels of the low for the year near the end of the period. At the end of the period, the currency stood at 125.85, below the year average rate of 130.409562.

The **Chinese yuan/renminbi** began 2018 with lateral movement within the range of 7.90 to 7.70 until the end of April. Then, as a result of growing trade tensions, the currency underwent swift, decisive appreciation, driving the rate to a low of 7.4174 on 29 May, to then abruptly reverse direction, climbing to a high of 8.0958 on 25 September. In the fourth quarter, the currency appreciated slightly, ending the year at around the average for the period of 7.807350. At the end of the period, the currency stood at 7.8751.

The **Indian rupee** began the year by reaching a low for the period of 76.0215 on 9 January. The currency then depreciated, returning to the range of 78 to 81, remaining in this lateral phase until August. In the following months, the rupee depreciated sharply, driving the rate to a high for the period of 85.7615 on 11 October. In the final months of the year, the currency then appreciated once more to 79, ending the year at around the period average of 80.727734. At the end of the period, the currency stood at 79.7298.

In the Americas, the **Brazilian real** opened 2018 by depreciating sharply and steadily against the euro, reaching 4.60 in early June. It then entered a highly volatile phase, within a range of 4.60 to 4.35. Near the end of July, it then depreciated rapidly once again, bringing the rate to a high for the period of 4.8942 on 17 September. The Brazilian real then reversed course, appreciating sharply to 4.20 near the end of October. The real then gave ground again in the final two months of the year, depreciating once more to close at 4.4440, above the annual average rate of 4.30873.

The **Mexican peso** began the year with lateral movement within a range of 23.50 to 22.50 until the end of the first quarter. It then appreciated slightly against the euro, reaching 22.20 in early April, when it sharply reversed direction, bringing the exchange rate to a high for the period of 24.3141 on 13 June. After this peak, the Mexican peso appreciated swiftly and decisively until mid-August, when the rate reached a low for the year of 21.3613. After a volatile period in September and October, it then depreciated once more, ending the year at near the average rate for the period of 22.716019. At the end of the period, the currency stood at 22.4921.

The **Argentine peso** opened the period at its low for the year of 22.124. The currency then depreciated gradually and constantly to a high for the period of 47.8342 on 1 October, due in part to the interest rate increase announced by the country's central bank. The currency then reversed course, returning to around 40 in early November, to close the year with further slight depreciation.
At the end of the period, the currency stood at 43.1593, well above the average rate for the period (32.908882).

Finally, the **Russian rouble** began the reporting period by appreciating against the euro, reaching its low for the year of 68.0535 on 9 January. It then reversed direction, retreating to around 80 in mid-April. The rouble then appreciated sharply to 72, remaining within the range 72-74 until early August, when it began to depreciate once more against the euro, bringing the exchange rate to a high for the period of 81.2688 on 10 September. The currency then entered a new period of volatility, appreciating against the euro to around 74, to then conclude the year by giving ground again, remaining far above the annual average rate of 74.055072. At the end of the period, the currency stood at 79.7153.

MotoGP Championship
2018

Group activities and reference market

Brembo is the world leader and acknowledged innovator of the brake disc technology for automotive vehicles. It currently operates in 15 countries on 3 continents, through its production and business sites, and employs over 10,000 people worldwide. Manufacturing plants are located in Italy, Poland (Czestochowa, Dąbrowa Górnicza, Niepołomice), the United Kingdom (Coventry), the Czech Republic (Ostrava-Hrabová), Germany (Meitingen), Mexico (Apodaca and Escobedo), Brazil (Betim), Argentina (Buenos Aires), China (Nanjing, Langfang), India (Pune) and the United States (Homer). Other companies located in Spain (Zaragoza), Sweden (Göteborg), Germany (Leinfelden-Echterdingen), China (Qingdao), Japan (Tokyo) and Russia (Moscow) carry out distribution and sales activities.
Brembo's reference market is represented by the most important manufacturers of cars, motorbikes, commercial vehicles and racing cars and motorbikes. Constant focus on innovation, as well as technological and process development — factors that have always been fundamental to Brembo's philosophy — have earned the Group a strong international leadership position in the research, design and production of high-performance braking systems for a wide range of road and racing vehicles. Brembo operates in both the original equipment market and the aftermarket. Brembo's range of products for car and commercial vehicle applications includes brake discs, brake calipers, the side-wheel module and, increasingly often, the complete braking system, including integrated engineering services. All of these back the development of new models produced by vehicle manufacturers. In addition to brake discs and brake calipers, motorbike manufacturers are also offered brake master cylinders, light-alloy wheels and complete braking systems. In the car aftermarket, Brembo offers in particular brake discs, in addition to pads, drums, brake shoes, drum-brake kits and hydraulic components: a vast and reliable range of products allows the company to meet the needs of nearly all European vehicles.
In 2018, Brembo's consolidated net sales amounted to €2,640,011 thousand, up 7.2% compared to €2,463,620 thousand in 2017.

Information on the performance of the individual applications and their related markets — as available to the Company — is provided under the following headings.

Passenger Cars

The global light vehicle market closed 2018 with an overall sales decrease of 0.5% compared to 2017. This represented the first decline of global sales on an annual basis since 2010.
The Western European market (EU15+EFTA) closed the reporting year with vehicle registrations down by 0.8% compared to 2017. Among the main markets, France and Spain were the only two countries that closed 2018 with a sales increase: France grew by 3.0% and Spain by 7.0%. Sales declined in all other countries compared to 2017: Germany declined by -0.2%, Italy by -3.1% and the United Kingdom by -6.8%. The trend was instead positive in Eastern Europe (EU12), with car registrations up 8.0% compared to 2017. In Russia, registrations of light vehicles showed positive signs for the second year in a row and closed 2018 with a 12.8% increase in sales compared to the previous year.
In 2018, sales of light vehicles in the United States grew by 0.6% overall compared to 2017. In Brazil and Argentina, sales showed a positive trend for the second consecutive year, closing 2018 with an overall increase of 7.1%.
With reference to Asian markets, China closed 2018 on a negative trend, after years of growth: sales of light vehicles declined by -3.1% compared to 2017; nevertheless, China remained the number-one market in the world. Japan recorded a positive trend, ending 2018 with a 0.8% increase in sales.
Within this scenario, Brembo's net sales of car applications in 2018 amounted to €2,018,391 thousand, accounting for 76.5% of the Group's turnover, up by 6.7% compared to 2017.

Motorbikes

Europe, the United States and Japan are Brembo's three most important markets in the motorbike sector.
In Europe — where the top motorbike markets are Italy, Germany, France, Spain and the UK — registrations rose by 9.0% overall in 2018 compared to 2017. All the main European markets closed 2018 with an increase over the previous year. With regard to displacements, Brembo's target (over 500cc) grew by 3.0% compared to 2017. Instead, ATVs (All Terrain Vehicles, quadricycles for recreation and work) declined by 14.0%.
In the United States, registrations of motorbikes, scooters and ATVs (All Terrain Vehicles, quadricycles for recreation and work) decreased by 2.7% overall in 2018 compared to 2017. ATVs alone declined by 2.9%, whereas motorbikes and scooters together reported a -2.7% downtrend.
In 2018, the Japanese market, considering displacements over 50cc overall, reported a 5.0% increase, whilst the Indian market (motorbikes and scooters together) rose by 13.0%.
In Brazil, registrations grew by 10.0% overall compared to 2017. Against this background, Brembo's net sales of motorbike applications amounted to €248,940 thousand in 2018, up 9.7% compared to €226,858 thousand for 2017.

Commercial and Industrial Vehicles

In 2018, the European commercial vehicles market (EU+EFTA) — Brembo's reference market — showed a 3.2% increase in registrations, thus reporting growth for the sixth year in a row.
In Europe, sales of light commercial vehicles (up to 3.5 tonnes) increased by 3.1% overall compared to the same period of 2017. Among the first five European markets by sales volume, three closed 2018 with an uptrend compared to the previous year (Germany: +5.4%; Spain: +7.8%; France: +4.6%), whereas a decline was reported by Italy (-6.0%) and the United Kingdom (-1.3%). In Eastern European countries, this segment grew by 10.2% over 2017.
In Europe, the segment of medium and heavy commercial vehicles (over 3.5 tonnes) rose by 3.5% compared to the previous year. Among the first five European markets by sales volume, growth was recorded in Italy (+5.1%), France (+8.1%) and Germany (+2.9%), whereas sales decreased in Spain (-2.0%) and the United Kingdom (-4.0%). In Eastern Europe, sales of commercial vehicles over 3.5 tonnes improved by 7.9% compared to the previous year.
In 2018, Brembo's net sales of applications in this segment amounted to €255,191 thousand, up by 12.8% compared to €226,134 thousand for 2017.

Racing

In the racing sector, where Brembo has maintained undisputed supremacy for years, the Group operates through three leading brands: Brembo Racing, braking systems for race cars and motorbikes; AP Racing, braking systems and clutches for race cars; Marchesini, magnesium and aluminium wheels for racing motorbikes.
In 2018, Brembo's net sales of applications in this segment amounted to €116,696 thousand, down by 2.1% compared to €119,254 thousand for 2017.

#speed

Only at full speed do you really feel the air against you. Then comes that special thrill you feel when you know you can count on perfect braking performance.

IMSA WeatherTech SportsCar Championship
2018


Mustang Sampling
WeatherTech
5
P

Sales Breakdown by Geographical Area and Application

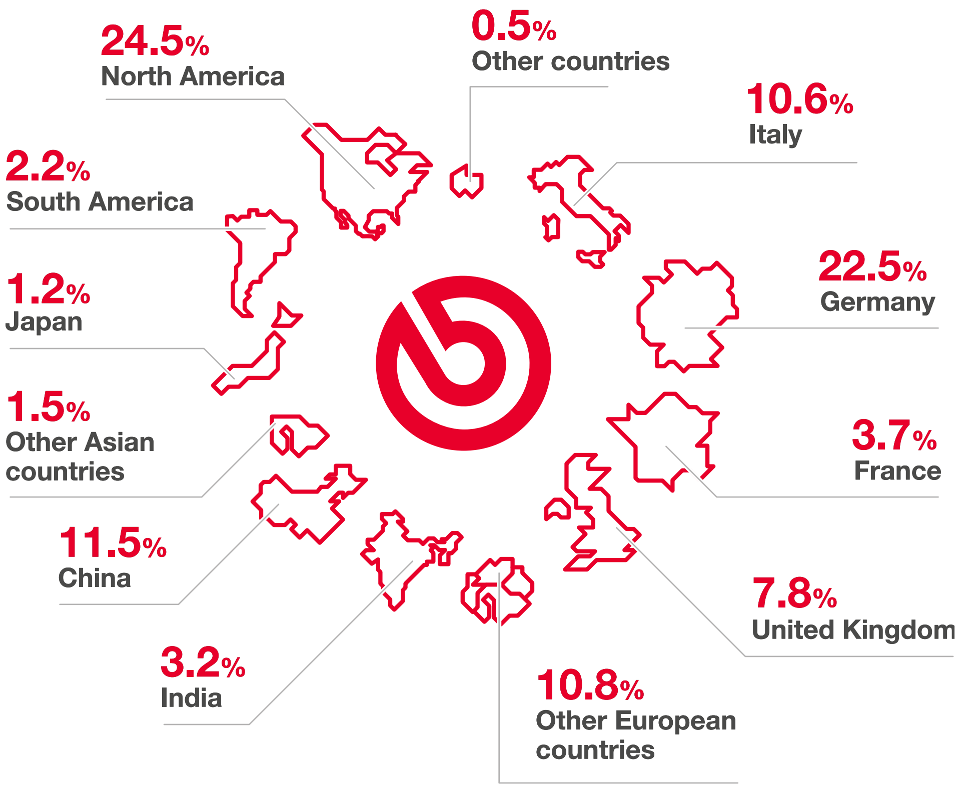
Geographical area

(euro thousand)	31.12.2018	%	31.12.2017	%	Change	%
Italy	279,964	*10.6%*	289,182	*11.7%*	(9,218)	*-3.2%*
Germany	595,659	*22.5%*	565,645	*23.0%*	30,014	*5.3%*
France	99,105	*3.7%*	73,738	*3.0%*	25,367	*34.4%*
United Kingdom	207,336	*7.8%*	192,164	*7.8%*	15,172	*7.9%*
Other European countries	284,060	*10.8%*	232,633	*9.4%*	51,427	*22.1%*
India	83,504	*3.2%*	70,957	*2.9%*	12,547	*17.7%*
China	303,603	*11.5%*	271,155	*11.0%*	32,448	*12.0%*
Japan	32,361	*1.2%*	34,951	*1.4%*	(2,590)	*-7.4%*
Other Asian countries	38,503	*1.5%*	26,973	*1.1%*	11,530	*42.7%*
South America (Argentina and Brazil)	58,354	*2.2%*	65,893	*2.7%*	(7,539)	*-11.4%*
North America (USA, Mexico and Canada)	645,247	*24.5%*	621,314	*25.3%*	23,933	*3.9%*
Other countries	12,315	*0.5%*	19,015	*0.7%*	(6,700)	*-35.2%*
Total	**2,640,011**	***100.0%***	**2,463,620**	***100.0%***	**176,391**	***7.2%***

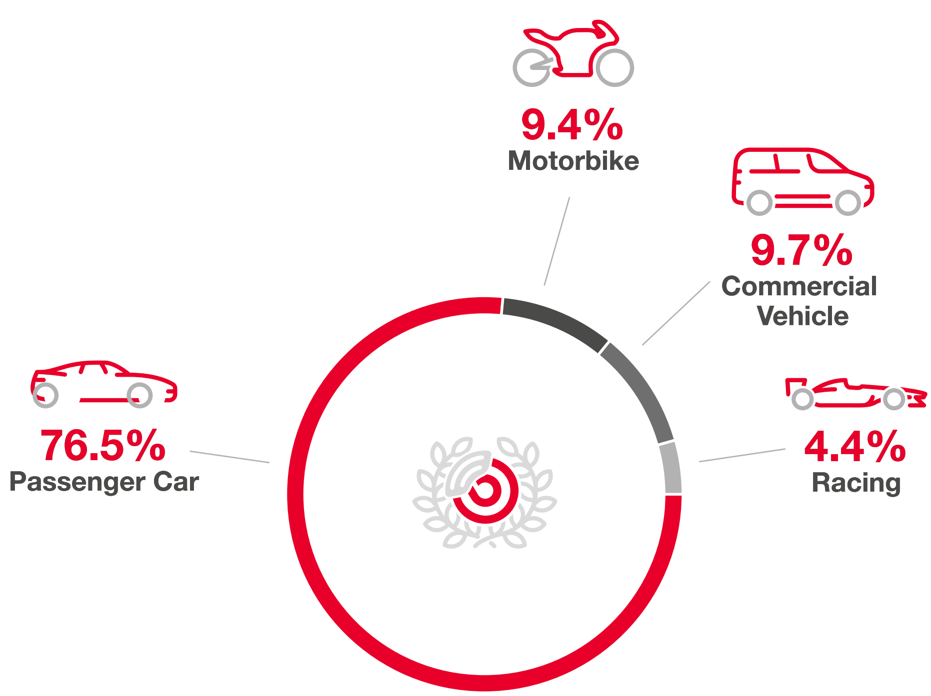
Application

(euro thousand)	31.12.2018	%	31.12.2017	%	Change	%
Passenger Car	2,018,391	*76.5%*	1,890,990	*76.8%*	127,401	*6.7%*
Motorbike	248,940	*9.4%*	226,858	*9.2%*	22,082	*9.7%*
Commercial Vehicle	255,191	*9.7%*	226,134	*9.2%*	29,057	*12.8%*
Racing	116,696	*4.4%*	119,254	*4.8%*	(2,558)	*-2.1%*
Miscellaneous	793	*0.0%*	384	*0.0%*	409	*106.5%*
Total	**2,640,011**	***100.0%***	**2,463,620**	***100.0%***	**176,391**	***7.2%***

Sales breakdown by geographical area (percentage)



Sales breakdown by application (percentage)



Brembo's Consolidated Results

Consolidated statement of income

(euro thousand)	31.12.2018	31.12.2017	Change	%
Revenue from contracts with customers	**2,640,011**	**2,463,620**	**176,391**	***7.2%***
Cost of sales, operating costs and other net charges/income*	(1,690,010)	(1,560,843)	(129,167)	*8.3%*
Income (expense) from non-financial investments	16,190	13,236	2,954	*22.3%*
Personnel expenses	(465,306)	(436,050)	(29,256)	*6.7%*
GROSS OPERATING INCOME	**500,885**	**479,963**	**20,922**	***4.4%***
% on revenue from contracts with customers	*19.0%*	*19.5%*		
Depreciation, amortisation and impairment losses	(155,821)	(133,701)	(22,120)	*16.5%*
NET OPERATING INCOME	**345,064**	**346,262**	**(1,198)**	***-0.3%***
% on revenue from contracts with customers	*13.1%*	*14.1%*		
Net interest income (expense) and interest income (expense) from investments	(19,707)	(10,725)	(8,982)	*83.7%*
RESULT BEFORE TAXES	**325,357**	**335,537**	**(10,180)**	***-3.0%***
% on revenue from contracts with customers	*12.3%*	*13.6%*		
Taxes	(83,881)	(67,637)	(16,244)	*24.0%*
RESULT BEFORE MINORITY INTERESTS	**241,476**	**267,900**	**(26,424)**	***-9.9%***
% on revenue from contracts with customers	*9.1%*	*10.9%*		
Minority interests	(3,127)	(4,472)	1,345	*-30.1%*
NET RESULT	**238,349**	**263,428**	**(25,079)**	***-9.5%***
% on revenue from contracts with customers	*9.0%*	*10.7%*		
Basic and diluted earnings per share (euro)	**0.73**	**0.81**		

* The item is obtained by adding the following items of the Consolidated Statement of Income: "Other revenues and income", "Costs for capitalised internal works", "Raw materials, consumables and goods" and "Other operating costs".

Confirming the sales uptrend also for 2018, the Group recorded a positive sales performance. Net sales in 2018 amounted to €2,640,011 thousand, up 7.2% compared to the previous year.

Nearly all applications contributed to revenue growth. Car applications, which accounted for 76.5% of Group's sales, closed the reporting period with a 6.7% increase. A very positive performance was also reported by the applications for commercial vehicles (+12.8%), followed by the motorbike segment (+9.7%), whereas the racing segment declined by 2.1%.

At the geographical level, and with specific reference to Europe, Germany recorded a 5.3% increase compared to 2017. France and the United Kingdom reported growth (+34.4% and +7.9%, respectively), whereas Italy declined by 3.2%. In North America (USA, Mexico and Canada), sales rose by +3.9%, whereas South America showed an 11.4% decrease. In the Far East, Brembo recorded a positive performance in China (+12.0%) and India (+17.7%), whereas Japan declined by 7.4% compared to the previous year.

In 2018, the **cost of sales and other net operating costs** amounted to €1,690,010 thousand, with a ratio of 64.0% to sales, in line with the 63.4% figure for the previous year. Within this item, costs for capitalised internal works included in intangible assets amounted to €25,339 thousand compared to €24,219 thousand for 2017.

Income (expense) from non-financial investments amounted to €16,190 thousand and was attributable to the effects of valuing the investment in the BSCCB Group using the equity method (€13,236 thousand in 2017).

Personnel expenses for 2018 amounted to €465,306 thousand, with a 17.6% ratio to sales, in line with the previous year (17.7%). At 31 December 2018, workforce numbered 10,634 (9,837 at 31 December 2017). The increase in the Group's workforce (+797 people) was attributable to the need to manage the increased level of production, the full operational phase entered by the more recent plants, the inauguration of new production hubs and the upgrade of those already existing.

Gross operating income for 2018 was €500,885 thousand compared to €479,963 thousand in the previous year, with a ratio to sales of 19.0% (19.5% in 2017).

Net operating income amounted to €345,064 thousand (13.1% of sales), compared to €346,262 thousand (14.1% of sales) in 2017, after depreciation, amortisation and impairment losses of property, plant and equipment and intangible assets of €155,821 thousand, compared to depreciation, amortisation and impairment losses amounting to €133,701 thousand in 2017.

Net interest expense amounted to €19,941 thousand (€10,913 thousand in 2017) and consisted of net exchange losses of €6,202 thousand (net exchange losses of €1,596 thousand in 2017) and other net interest expense of €13,739 thousand (€9,317 thousand in 2017).

Net interest income from investments amounted to €234 thousand (€188 thousand in 2017) and was mainly attributable to the effects of valuing investments in associates using the equity method.

Result before taxes was positive at €325,357 thousand, down by 3.0% compared to €335,537 thousand for the previous year. Estimated taxation amounted to €83,881 thousand, with a tax rate of 25.8% compared to 20.2% for 2017.

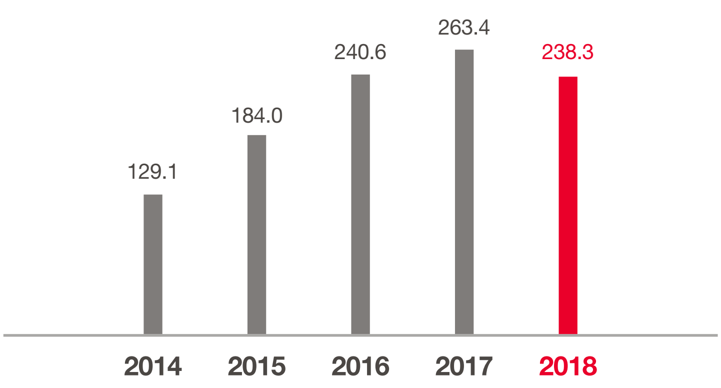
The **Group's net result** was €238,349 thousand, down 9.5% compared to €263,428 thousand for the previous year.

Balance sheet

(euro thousand)	31.12.2018	31.12.2017	Change
Property, plant and equipment	1,041,442	933,774	107,668
Intangible assets	209,139	194,585	14,554
Net financial assets	47,754	41,069	6,685
Other receivables and non-current liabilities	62,597	41,723	20,874
(a) Fixed capital	**1,360,932**	**1,211,151**	**149,781**
			12.4%
Inventories	342,037	311,116	30,921
Trade receivables	407,414	375,719	31,695
Other receivables and current assets	72,132	80,455	(8,323)
Current liabilities	(736,932)	(601,050)	(135,882)
Provisions / deferred taxes	(52,709)	(66,573)	13,864
(b) Net working capital	**31,942**	**99,667**	**(67,725)**
			68.0%
(c) NET INVESTED CAPITAL (a)+(b)	**1,392,874**	**1,310,818**	**82,056**
			6.3%
(d) Equity	**1,228,822**	**1,064,437**	**164,385**
(e) Employees' leaving entitlement and other personnel provisions	**27,141**	**27,784**	**(643)**
Medium/long-term financial debt	207,444	321,658	(114,214)
Short-term net financial debt	(70,533)	(103,061)	32,528
(f) Net financial debt	**136,911**	**218,597**	**(81,686)**
			37.4%
(g) COVERAGE (d)+(e)+(f)	**1,392,874**	**1,310,818**	**82,056**
			6.3%

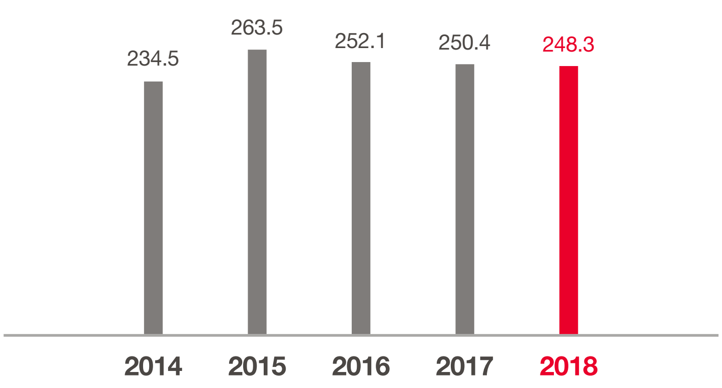
Net result

(euro million)



Turnover per employee

(euro thousand)



The Group's Statement of Financial Position reflects reclassifications of consolidated accounting statements, as described in the following pages. In detail:

- "Net financial assets" include the following items: "Investments" and "Other financial assets";
- the item "Other receivables and non-current liabilities" is made up of the following items: "Receivables and other non-current assets", "Deferred tax assets" and "Other non-current liabilities";
- "Net financial debt" includes current and non-current payables to banks and other financial liabilities, net of cash and cash equivalents and current financial assets.

Net invested Capital at 31 December 2018 amounted to €1,392,874 thousand, up by €82,056 thousand compared to €1,310,818 thousand at 31 December 2017.

Net financial debt for 2018 amounted to €136,911 thousand compared to €218,597 thousand at 31 December 2017. Net financial debt decreased by €81,686 thousand in the year, mainly due to the combined effect of the following factors:

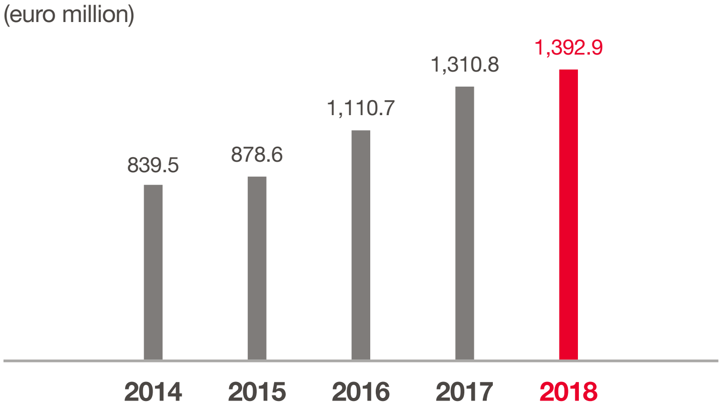
- the positive effect of gross operating income of €500,885 thousand, with a €53,683 thousand increase in working capital;
- net investments in property, plant, equipment and intangible assets totalling €285,575 thousand;
- the Parent's payment of the approved dividends in the amount of €71,541 thousand;
- payment of taxes totalling €77,602 thousand;
- dividends received by the associate BSCCB S.p.A. amounting to €11,000 thousand.

The Explanatory Notes to the Consolidated Financial Statements provide detailed information on the financial position and its assets and liabilities items.

24 Hours of Le Mans
2018

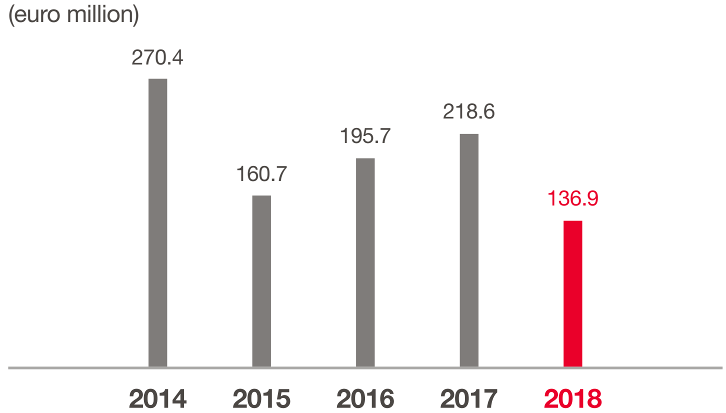
Net invested capital

(euro million)



Net financial debt

(euro million)



Statement of cash flows

(euro thousand)	31.12.2018	31.12.2017
NET FINANCIAL POSITION AT BEGINNING OF YEAR (*)	**(218,597)**	**(195,677)**
Net operating income	**345,064**	**346,262**
Depreciation, amortisation and impairment losses	155,821	133,701
Gross operating income	**500,885**	**479,963**
Investments in property, plant and equipment	(250,447)	(326,658)
Investments in intangible assets	(37,291)	(34,026)
Investments in financial assets	(1,350)	0
Disposals	2,163	4,444
Net investments	**(286,925)**	**(356,240)**
Change in inventories	(27,311)	(31,154)
Change in trade receivables	(30,666)	(16,702)
Change in trade payables	96,347	41,860
Change in other liabilities	6,270	16,087
Change in receivables from others and other assets	6,881	(15,671)
Translation reserve not allocated to specific items	2,162	(11,009)
Change in working capital	**53,683**	**(16,589)**
Change in provisions for employee benefits and other provisions	(4,975)	8,801
Operating cash flows	**262,668**	**115,935**
Interest income and expense	(19,384)	(10,302)
Current taxes paid	(77,602)	(70,336)
Dividend paid in the year to minority shareholders	(800)	0
Interest (income)/expense from investments, net of dividends received	(5,110)	(7,196)
Dividends paid in the year	(71,541)	(65,037)
Net cash flows	**88,231**	**(36,936)**
Effect of translation differences on net financial position	(6,545)	14,016
NET FINANCIAL POSITION AT END OF YEAR (*)	**(136,911)**	**(218,597)**

(*) See Note 13 of the explanatory notes to the consolidated financial statements for a reconciliation with financial statements data.

Alternative Performance Measures

Brembo's Directors have identified some alternative performance measures ("APMs") in the previous paragraphs, in order to provide a better understanding of the Brembo Group's operating and financial performance. These indicators are also tools that help the Directors to identify operating trends and take decisions about investments, allocation of resources and other operating decisions.

The following points enable a correct interpretation of the above-mentioned APMs:

1. these indicators are constructed starting from the Group's historical data only and are not indicative of the Group's future performance;
2. the APMs are not laid down by the IFRS and are not subject to audit, although they are taken from the Group's Consolidated Financial Statements;
3. the APMs must not be considered to replace the indicators provided for by the IFRS;
4. the APMs are to be read together with the Group's financial information, taken from the Brembo Group's Consolidated Financial Statements;
5. the definitions used by the Group may not match those adopted by other companies/groups, and therefore they are not comparable, since they are not derived from reference accounting standards;
6. the APMs used by the Group are applied on an ongoing basis and are consistently defined and represented for all the periods for which financial information is included in these Financial Statements.

The APMs indicated below have been selected and represented in the Directors' Report on Operations since the Group maintains that:

– Net Financial Debt, combined with other indicators such as Investments/Revenue from contracts with customers, Net Financial Debt/Equity, Net interest expense (less exchange gains or losses)/Revenue from contracts with customers and Net interest expense (less exchange gains or losses)/Net operating income, allow a better assessment of the overall level of debt, capital solidity and debt payment capacity;
– Net Working Capital, Fixed Capital and Net Invested Capital allow a better assessment of both the ability to meet short-term trade commitments through current trade assets, and the consistency between the structure of the use and that of the sources of financing over time;
– Gross Operating Income (EBITDA) and Net Operating Income (EBIT), combined with other relative profitability indicators, allow changes in operating performance to be illustrated and provide useful information on the Group's capacity to sustain the debt; these indicators are also commonly used by analysts and investors in the sector to which the Group belongs, to evaluate company performance.

#adrenaline

A neurotransmitter also known as epinephrine. Adrenaline is what keeps us going. Both those of us who design our brake systems. And those of us who use them.

Formula 3 Championship
2018

Group Structure

Brembo S.p.A.

- **100%** **Ap Racing Ltd.** Coventry, UK
- **100%** **Brembo Czech S.r.o.** Ostrava-Hrabová, Czech Republic
- **100%** **Brembo Deutschland GmbH** Leinfelden-Echterdingen - Germany
- **100%** **Brembo Poland Spolka Zo.o.** Dąbrowa Górnicza - Poland
- **100%** **Brembo Scandinavia A.B.** Göteborg, Sweden
- **100%** **Brembo Russia Llc.** Moscow, Russia
- **100%** **La.Cam (Lavorazioni Camune) S.r.l.** Stezzano - Italy
- **68%** **Corporacion Upwards 98 S.A.** Zaragoza - Spain
- **50%** **Brembo SGL Carbon Ceramic Brakes S.p.A.** Stezzano - Italy
  - **100%** **Brembo SGL Carbon Ceramic Brakes GmbH** Meitingen - Germany
- **30%** **Innova Tecnologie S.r.l.** In liquidazione, Almenno San Bartolomeo - Italy
- **20%** **Petroceramics S.p.A.** Milan, Italy
- **10%** **International Sport Automobile S.A.R.L.** Levallois Perret - France
- **3.29%** **E-Novia S.p.A.** Milan, Italy

- **100%** **Brembo Japan Co. Ltd.** Tokyo, Japan
- **100%** **Qingdao Brembo Trading Co. Ltd.** Qingdao - China
- **100%** **Brembo Nanjing Brake Systems Co. Ltd.** Nanjing - China
- **99.99%** **Brembo Brake India Pvt. Ltd.** Pune - India
  - **40%** (Brembo (Nanjing) Automobile Components Co. Ltd.)
- **60%** **Brembo (Nanjing) Automobile Components Co. Ltd.** Nanjing - China
- **66%** **Brembo Huilian (Langfang) Brake Systems Co. Ltd.** Langfang - China
- **1.20%** **Fuji Co.** Shizuoka, Japan

- **100%** **Brembo North America Inc.** Wilmington, Delaware - USA
  - **51%** (Brembo Mexico S.A. De C.V.)
- **49%** **Brembo Mexico S.A. De C.V.** Apodaca - Mexico
- **99.99%** **Brembo Do Brasil Ltda.** Betim - Brazil
  - **1.38%** (Brembo Argentina S.A.)
- **98.62%** **Brembo Argentina S.A.** Buenos Aires - Argentina

This table complies with Article 125 of Consob Resolution No. 11971 dated 14 May 1999.


Red Bull
KTM
84
MOTOREX

Brembo Worldwide

Brembo S.p.A.'s headquarters are located in Italy, Curno (Bergamo).

Ap Racing Ltd.

Brembo Deutschland GmbH
Brembo SGL Carbon Ceramic Brakes GmbH

Brembo S.p.A.
La.Cam S.r.l.
Brembo SGL Carbon Ceramic Brakes S.p.A.
Petroceramics S.p.A.

Brembo North America Inc.

Corporacion Upwards 98 S.A.

Brembo Mexico S.A. de C.V.

Brembo do Brasil Ltda.

Brembo Argentina S.A.

15 Countries worldwide

19 Production sites

5 Research & Development centres


Brembo Scandinavia A.B.
Brembo Poland Spolka Zo.o.
Brembo Russia Llc.
Brembo Czech S.r.o.
Brembo Japan Co. Ltd.
Brembo Brake India Pvt. Ltd.
Brembo Nanjing Brake Systems Co. Ltd.
Brembo Huilian (Langfang) Brake Systems Co. Ltd.
Brembo Nanjing Automobile Components Co. Ltd.
Qingdao Brembo Trading Co. Ltd.
Production sites
Commercial sites
Research & Development centres

#beauty

Those who choose our discs and Calipers know. It is thanks to performance that beauty becomes a value. Pure and without compromise.

Ferrari Challenge Championship
2018


ADLER
44

Performance of Brembo Companies

The following figures were taken from the accounting situations and/or draft financial statements prepared by the companies in accordance with IAS/IFRS and approved by the respective Boards of Directors.

Brembo S.p.A.

Curno (Italy)

Activities: analysis, design, development, application, production, assembly and sale of braking systems, light alloy castings for various sectors, including the car and motorbike industries.

The year 2018 closed with net sales amounting to €961,679 thousand, up 7.0% compared to €899,126 thousand in 2017.
The item "Other revenues and income" amounted to €54,988 thousand in 2018 compared to €46,139 thousand in 2017, whereas capitalised development costs for the year totalled €21,325 thousand.
Gross operating income went from €144,267 thousand (16.0% of sales) in 2017 to €181,251 thousand (18.8% of sales) in 2018, whereas net operating income, after depreciation, amortisation and impairment losses of property, plant, equipment and intangible assets amounting to €46,720 thousand, closed at €134,531 thousand compared to €105,126 thousand for the previous year.
Net interest expense from financing activities amounted to €6,634 thousand compared to €2,755 thousand for 2017.
Income from investments amounted to €46,024 thousand and was mainly attributable to the distribution of dividends by some subsidiaries.
In the reporting year, net income amounted to €114,106 thousand, compared to €149,484 thousand in 2017.
At 31 December 2018, workforce numbered 3,181, increasing by 106 compared to 3,075 at the end of 2017.

Companies Consolidated on a Line-by-Line Basis

AP Racing Ltd.

Coventry (United Kingdom)

Activities: production and sale of braking systems and clutches for road and racing vehicles.

AP Racing is the market leader in the production of brakes and clutches for racing cars and motorbikes.
The company designs, assembles and sells cutting-edge, high-tech products throughout the world for the main F1, GT, Touring and Rally teams. It also produces and sells original equipment brakes and clutches for prestige car manufacturers.
Net sales amounted to GBP 50,577 thousand (€57,165 thousand) in 2018, compared to GBP 51,960 thousand (€59,305 thousand) in 2017. In the reporting year, net income amounted to GBP 4,701 thousand (€5,314 thousand), compared to GBP 5,158 thousand (€5,887 thousand) in 2017.
At 31 December 2018, workforce numbered 140, eight more than at the end of 2017.

Brembo Argentina S.A.

Buenos Aires (Argentina)

Activities: production and sale of brake discs for the original equipment market.

In 2011, Brembo acquired a 75% stake in the company based in Buenos Aires. Under the agreement, Brembo exercised an option right on the remaining 25% in 2013; therefore, the company is currently fully owned by the Brembo Group.
Net sales for the reporting year amounted to ARS 449,470 thousand (€13,658 thousand), with a net loss of ARS 109,556 thousand (€3,329 thousand). In 2017, net sales amounted to

ARS 387,023 thousand (€20,698 thousand) and net loss to ARS 66,110 thousand (€3,536 thousand).
At 31 December 2018, workforce numbered 87, 18 fewer than at 31 December 2017.
It should be noted that Argentina was classified as a hyperinflationary economy with effect from 1 July 2018. The Group has estimated the impact of the adjustment of carrying amounts in accordance with the applicable accounting standard: the subsidiary had total assets of €4.7 million at 31 December 2018 and the main line items are property, plant and equipment, trade receivables, inventory and trade payables. The total effect of the adjustment of property, plant and equipment was estimated at €1.3 million, whereas working capital items did not undergo material changes since they were already carried at near their current values. Given the entirely negligible effects on the Brembo Group's Consolidated Financial Statements (€1,041.4 million), the standard IAS 29 – *Financial Reporting in Hyperinflationary Economies* was not applied. The Group will periodically assess the possible future application of the Standard on the basis of the materiality of the effects of adjustment.

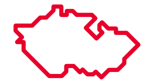
Brembo Brake India Pvt. Ltd.

Pune (India)

Activities: development, production and sale of braking systems for motorbikes.

The company is based in Pune, India, and was originally set up in 2006 as a joint venture held in equal stakes by Brembo S.p.A. and the Indian company Bosch Chassis Systems India Ltd. Since 2008, the company has been wholly owned by Brembo S.p.A.
In 2018, net sales totalled INR 7,868,762 thousand (€97,473 thousand), with a net income of INR 735,152 thousand (€9,107 thousand). In 2017, net sales amounted to INR 5,947,766 thousand (€80,924 thousand), with a net income of INR 525,242 thousand (€7,146 thousand).
At 31 December 2018, workforce numbered 336, compared to 303 at 31 December 2017.

Brembo Czech S.r.o.

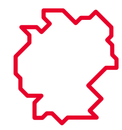


Ostrava-Hrabová (Czech Republic)

Activities: casting, production and sale of braking systems for cars.

The company was formed in 2009 and started its production activity in 2011. It carries out the casting, processing and assembly of brake calipers and other aluminium components.
In 2018, net sales amounted to CZK 7,507,481 thousand (€292,767 thousand) compared to CZK 7,612,030 thousand (€289,132 thousand) in 2017, closing the year with a net income of CZK 10,117 thousand (€395 thousand) compared to a net income of CZK 275,725 thousand (€10,473 thousand) in 2017.
At 31 December 2018, workforce numbered 980, unaltered from the previous year.

Brembo Deutschland GmbH



Leinfelden – Echterdingen (Germany)

Activities: purchase and resale of vehicles, technical and sales services, as well as promotion of the sale of car brake discs.

The company, which is 100% owned by Brembo S.p.A., was formed in 2007. It specialises in buying cars for tests and encouraging and simplifying communications between Brembo and its German customers in the various phases of project planning and management. It also promotes the sale of brake discs for the car aftermarket only.
At 31 December 2018, net sales amounted to €1,975 thousand (€1,898 thousand for 2017), with a net income of €501 thousand (€378 thousand for 2017).
At 31 December 2018, workforce numbered eight, increasing by one compared to the same date of the previous year.

Brembo Do Brasil Ltda.

Betim (Brazil)

Activities: production and sale of brake discs for the original equipment market.

The company is headquartered in Betim, Minas Gerais, and specialises in the manufacturing and sales of car brake discs in the South American OEM market.
Net sales for 2018 amounted to BRL 181,506 thousand (€42,125 thousand), with a net income of BRL 3,843 thousand (€892 thousand). In 2017, net sales amounted to BRL 153,481 thousand (€42,585 thousand), with a net loss of BRL 12,417 thousand (€3,445 thousand).
At 31 December 2018, workforce numbered 232, compared to 227 at the same date of the previous year.

Brembo Huilian (Langfang) Brake Systems Co. Ltd.

Langfang (China)

Activities: casting, production and sale of brake discs for the original equipment market.

In 2016, Brembo S.p.A. acquired a 66% stake in Brembo Huilian (Langfang) Brake Systems Co. Ltd. (formerly Asimco Meilian Braking Systems (Langfang) Co. Ltd.), a Chinese company that owns a foundry and a plant for the manufacturing of cast-iron brake discs. This company supplies local car manufacturers, mainly including joint ventures among Chinese firms and European and U.S. top players. The remaining 34% of the share capital continued to be owned by the public company Langfang Assets Operation Co. Ltd., controlled by the Municipality of Langfang. The consideration for the transaction amounted to CNY 580,060 thousand (approximately €79.6 million).
Net sales amounted to CNY 612,809 thousand (€78,491 thousand) in 2018, compared to CNY 604,968 thousand (€79,325 thousand) in 2017. In the reporting year, net income amounted to CNY 67,979 thousand (€8,707 thousand), compared to CNY 96,628 thousand (€12,670 thousand) in 2017.
At 31 December 2018, workforce numbered 670, increasing by one compared to the end of 2017.

Brembo Japan Co. Ltd.

Tokyo (Japan)

Activities: sale of braking systems for the racing sector and original equipment for cars.

Brembo Japan Co. Ltd. is Brembo's commercial company that handles the Japanese racing market. Through the Tokyo office, it provides primary technical support to the OEM customers in the area. It also renders services to the other Group companies operating in Japan.
Net sales amounted to JPY 697,899 thousand (€5,352 thousand) in 2018, compared to JPY 634,566 thousand (€5,010 thousand) in 2017. Net income for the reporting year was JPY 95,894 thousand (€735 thousand), compared to JPY 94,513 thousand in 2017 (€746 thousand).
At 31 December 2018, workforce numbered 18, unchanged compared to the figure at the end of 2017.

Brembo México S.A. de C.V.

Apodaca (Mexico)

Activities: production and sale of car brake discs for original equipment and the aftermarket; casting, production and sale of braking systems for cars and commercial vehicles.

As a result of the merger with Brembo México Apodaca S.A. de C.V. in 2010, the company is now 51% owned by Brembo North America Inc. and 49% owned by Brembo S.p.A.
In 2018, net sales amounted to USD 220,460 thousand (€186,595 thousand), with a net income for the year of USD 3,684 thousand (€3,118 thousand).
In 2017, net sales amounted to USD 169,627 thousand (€150,208 thousand), with a net income of USD 6,646 thousand (€5,885 thousand).
At 31 December 2018, workforce numbered 957, compared to 719 at the end of 2017.

Brembo (Nanjing) Automobile Components Co. Ltd.

Nanjing (China)

Activities: casting, production and sale of braking systems for cars and commercial vehicles.

The company, which is 60% owned by Brembo S.p.A. and 40% owned by Brembo Brake India PVT. Ltd., was set up in April 2016 and carries out casting, processing, assembly and sales of braking systems for cars and commercial vehicles.
At 31 December 2018, net sales amounted to CNY 579,540 thousand (€74,230 thousand), with a net loss of CNY 22,043 thousand (€2,823 thousand). In 2017, net loss was CNY 38,604 thousand (€5,062 thousand).
At 31 December 2018, workforce numbered 303, compared to 138 in 2017.

Brembo Nanjing Brake Systems Co. Ltd.

Nanjing (China)

Activities: development, casting, production and sale of OEM brake discs for cars and braking systems for cars and commercial vehicles.

The company, a joint venture between Brembo S.p.A. and the Chinese group Nanjing Automobile Corp., was formed in 2001. Brembo Group acquired control over the company in 2008. In 2013, Brembo Group acquired full control from the Chinese partner Donghua Automotive Industrial Co. Ltd.
On 1 July 2017, the merger of Brembo Nanjing Foundry Co. Ltd. into Brembo Nanjing Brake Systems Co. Ltd. became effective. The transaction aimed at developing an integrated industrial hub, including foundry and manufacture of brake discs for the car OEM.
At 31 December 2018, net sales amounted to CNY 1,241,966 thousand (€159,077 thousand) and net income was CNY 81,793 thousand (€10,476 thousand); in 2017, net sales amounted to CNY 1,368,290 thousand (€179,414 thousand) and net income was CNY 91,342 thousand (€11,977 thousand).
Workforce numbered 632 at 31 December 2018, compared to 588 at the end of 2017.

Brembo North America Inc.

Wilmington, Delaware (Usa)

Activities: development, casting, production and sale of brake discs for car original equipment and the aftermarket, and braking systems for cars, motorbikes and the racing sector.

Brembo North America Inc. is based in Homer, Michigan. It produces and sells OEM and aftermarket brake discs, as well as high-performance car braking systems. In 2010, a Research and Development Centre was opened at the facility in Plymouth (Michigan) to develop and market new solutions in terms of materials and designs for the U.S. market.
Net sales for 2018 amounted to USD 490,484 thousand (€415,140 thousand) compared to net sales amounting to USD 476,694 thousand (€422,121 thousand) for the previous year.
Net income was USD 50,134 thousand (€42,433 thousand) at 31 December 2018, compared to net income of USD 46,503 thousand (€41,180 thousand) for 2017.
At the end of the year, workforce numbered 723, a decrease of one compared to the end of 2017.

Brembo Poland Spolka Zo.o.

Dąbrowa-Górnicza (Poland)

Activities: development, casting, production and sale of brake discs and braking systems for cars and commercial vehicles.

The company produces OEM braking systems for cars and commercial vehicles in the Częstochowa plant. In the Dąbrowa-Górnicza plant, it has a foundry for the production of cast-iron discs destined for use in its own production plant or by other Group companies. The Niepołomice plant processes steel disc hats to be assembled onto the light discs manufactured at the Group's plants located in China, the United States, and in the Dąbrowa-Górnicza plant as well.
Net sales amounted to PLN 2,137,006 thousand (€501,577 thousand) in 2018, compared to PLN 1,835,490 thousand (€431,240 thousand) in 2017. Net income at 31 December 2018 was PLN 335,532 thousand (€78,753 thousand), compared to a net income of PLN 390,644 thousand (€91,780 thousand) for the previous year.
At the end of the year, workforce numbered 2,085, compared to 1,866 at the end of 2017.

Brembo Russia Llc.

Moscow (Russia)

Activities: promotion of the sale of car brake discs.

Founded in July 2014, the Moscow-based company is wholly owned by Brembo S.p.A. It deals with promoting the sale of car brake discs for the aftermarket only.
In the year, the company reported net sales amounting to RUB 50,151 thousand (€677 thousand) compared to RUB 38,377 thousand (€582 thousand) in 2017; net income was RUB 19,219 thousand (€260 thousand) compared to RUB 15,481 thousand (€235 thousand) at 31 December 2017.
At the end of the year, workforce numbered three, one more compared to the end of 2017.

Brembo Scandinavia A.B.

Göteborg (Sweden)

Activities: promotion of the sale of car brake discs.

The company promotes the sale of brake discs for the car sector, destined exclusively for the aftermarket.
Net sales for the reporting year amounted to SEK 9,423 thousand (€919 thousand), with a net income of SEK 4,566 thousand (€445 thousand), compared to net sales of SEK 3,487 thousand (€362 thousand) and net loss of SEK 1,412 thousand (€147 thousand) for 2017.
At 31 December 2018, workforce numbered one, unchanged compared to the same date of the previous year.

Corporación Upwards ‘98 S.A.

Zaragoza (Spain)

Activities: sale of brake discs and drums for cars, distribution of the brake shoe kits and pads.

The company carries out sales activities exclusively for the aftermarket.
Net sales for 2018 amounted to €29,843 thousand, compared to €29,421 thousand in 2017. Net income was €2,422 thousand, compared to €2,389 thousand in 2017.
Workforce numbered 71 at 31 December 2018, compared to 73 at the end of 2017.

La.Cam (Lavorazioni Camune) S.r.l.

Stezzano (Italy)

Activities: precision mechanical processing, lathe work, mechanical component production and similar activities, on its own account or on behalf of third parties.

The company was incorporated by Brembo S.p.A.in 2010. In the same year, it leased from an important Group’s supplier two companies specialising in processing aluminium, steel and cast-iron pistons for brake calipers intended for use in the car, motorbike and industrial vehicle sectors, and in the production of other types of components, including small high-precision metallic parts and bridges for car brake calipers, as well as aluminium caliper supports for the motorbike sector, chiefly produced for the Brembo Group. In 2012, La.Cam. acquired the business units of both companies.
In 2018, net sales, which were mainly to Brembo Group companies, amounted to €44,209 thousand compared to €41,766 thousand in 2017. Net income for 2018 was €1,414 thousand, compared to a net income of €2,348 thousand at the end of 2017.
At 31 December 2018, workforce numbered 180, compared to 183 for the previous year.

Qingdao Brembo Trading Co. Ltd.
Qingdao (China)

Activities: logistics and marketing activities in the economic and technological development hub of Qingdao.

Formed in 2009 and fully controlled by Brembo S.p.A., the company carries out logistics and marketing activities within the Qingdao technological hub for the aftermarket only.
Net sales for 2018 amounted to CNY 275,267 thousand (€35,257 thousand), compared to CNY 258,178 thousand (€33,853 thousand) for the previous year. Net income for the year was CNY 10,627 thousand (€1,361 thousand), up compared to CNY 9,997 thousand (€1,311 thousand) for 2017.
Workforce numbered 27 at 31 December 2018, unchanged compared to the same date of 2017.

Companies Valued Using the Equity Method

Brembo SGL Carbon Ceramic Brakes S.p.A.
Stezzano (Italy)

Activities: design, development, production and sale of carbon ceramic brake discs.

As a result of the joint venture agreements finalised in 2009 between Brembo and SGL Group, the company is 50% owned by Brembo S.p.A. and in turn controls 100% of the German company Brembo SGL Carbon Ceramic Brakes GmbH. Both companies carry out design, development, production and sale of braking systems in general, and particularly of OEM carbon ceramic brake discs for top-performance cars, as well as research and development activities concerning new materials and applications.
Net sales at 31 December 2018 were €55,888 thousand, compared to €52,844 thousand at 31 December 2017. Net income for the year was €24,079 thousand, compared to net income of €23,461 thousand for 2017.
Workforce numbered 144 at 31 December 2018, eight more than at the end of 2017.

Brembo SGL Carbon Ceramic Brakes GmbH
Meitingen (Germany)

Activities: design, development, production and sale of carbon ceramic brake discs.

The company was formed in 2001. In 2009, in executing the joint venture agreement between Brembo and SGL Group, Brembo SGL Carbon Ceramic Brakes S.p.A. acquired 100% of the company.
Net sales for 2018 amounted to €133,606 thousand, up compared to €109,484 thousand for the previous year. At 31 December 2018, net income totalled €22,973 thousand, compared to a net income of €17,829 thousand for the previous year.
At 31 December 2018, workforce numbered 398, compared to 347 at the end of 2017.

Petroceramics S.p.A.
Milan (Italy)

Activities: research and development of innovative technologies for the production of technical and advanced ceramic materials, geomaterial processing and rock mass characterisation.

Brembo S.p.A. acquired 20% of this company by subscribing a capital increase in 2006.
Net sales for 2018 amounted to €2,664 thousand, with a net income of €1,080 thousand. In 2017, net sales were €2,426 thousand and net income amounted to €885 thousand.

Investments

In 2018, Brembo's investment management policy continued to develop along the lines that have been followed until today, aiming to strengthen the Group's presence both in Italy and, above all, internationally. The most significant investments were concentrated in Italy (30.0%), Poland (27.8%), North America (19.1%) and China (15.2%).

In Italy, on 13 February 2018 Chairman Alberto Bombassei laid the first brick of the building in Curno that will house the new Carbon Factory. The new building has been designed in view of progressively verticalising — within a single production facility adjacent to Brembo's current hub — the entire development, processing and production process for raw components used in carbon-fibre discs and pads for racing applications. Brembo's Carbon Factory will produce semi-finished carbon-carbon discs and pads — to be distinguished from the carbon-ceramic discs intended for high-performance street vehicles manufactured in Stezzano (Italy) and Germany — for equipping the cars and motorbikes used by the racing teams in all major motor competitions, starting with F1 and MotoGP. The building occupies an area of approximately 7,000 square metres, in addition to the 10,000 square metres of green space, parking and logistics and storage areas planned as part of the project. Construction work was completed in 2018 and full operation is expected to be reached by the end of 2019.
Other investments in Italy were directed primarily at purchases of plant, machinery and equipment to increase the production automation level, as well as €21,325 thousand spent on development costs.

As part of its strategy of consolidation and development at the global level, Brembo continued to invest in North America, its preferred industrial hub for expanding on the North American market. In Escobedo (Mexico), in an area adjoining the new plant for processing and assembling brake calipers, construction work for another cast-iron foundry was completed; it extends over 25,000 square metres and, when fully operational, it will have a casting capacity of approximately 100,000 tonnes a year. The products manufactured in the new plant are destined to leading European, American and Asian OEMs with production plants in Mexico.

Again as part of its international expansion strategy, in 2018 Brembo completed the investment plan worth about €100 million launched in 2016 and aimed to build a new aluminium caliper production complex in Nanjing, China, close to the existing plant. The new production hub, which will be cutting-edge in terms of process integration and automation, covers about 40,000 square metres; once fully operational, it will have a casting capacity of more than 15 thousand tonnes and a production capacity of more than 2 million pieces a year, including calipers and spindles. The products manufactured in the new plant are destined to leading European, American and Asian OEMs with production plants in China.

In Eastern Europe, Brembo completed its plan to expand the production hub in Dąbrowa Górnicza (Poland), launched in 2016. This plan calls for the construction of a third foundry line and new mechanical processing lines extending over an indoor area of additional 22,000 square metres. This new facility, which will entail an increase in casting capacity of 100,000 tonnes a year once fully operational, produces both "grey" cast iron (used for brake discs) and "spheroidal" cast iron (used for calipers intended for light commercial vehicles), in response to the constant increase in demand for brake discs and floating calipers in Europe.

Group's total investments undertaken in 2018 at all operations amounted to €287,737 thousand, of which €250,447 thousand was invested in property, plant and equipment and €37,290 thousand in intangible assets.


DUCATI
NetApp
FLEX-BOX
valsir
SKF
GIVI
Unibat
cefla
PittaRosso
DUCATI
alpinestars
UnipolSai
FLEX-BOX
LEON CUPRA
ADVANCE
riello


brembo

#design

Lines and forms capable of creating a unique, unmistakable style. For us, design always means innovation.

MotoGP brake system
2018

Research and Development

The developments in transport vehicles inform Brembo's R&D activity, which has always focused on designing the best brake system for the vehicles of tomorrow.
The main themes of today's vehicle trends are the switch to electric, autonomous driving capability, reduced emissions and environmental impact, connectivity and overall affordability. Each component of the brake system — from calipers to discs, from pads to suspensions, all the way to control units — complements the others in the optimisation of the braking function, which Brembo constantly seeks to perfect, not only in terms of pure performance, but also of comfort, duration, aesthetics and environmental sustainability.

Since 2000, Brembo has been conducting specific research on mechatronic products, which are increasingly widespread in the automotive sector, thus honing skills that have now been applied to systems such as electric parking brakes and brake-by-wire systems for years.
Since the market requires constantly shorter time to market, the Group is also strongly committed to implementing cutting-edge simulation methods, in which new virtual reality and augmented reality technologies are increasingly applied, in addition to designing uniform development processes at Brembo's Technical Centres based in Italy, North America, China, India and Poland.

In 2018, R&D activities mainly focused on the following aspects.

With regard to **cast-iron discs**, the simulation method was consolidated, so as to be able to identify more accurate parameters capable of improving the comfort level offered by a brake system, as early as the design phase. This methodology is now used in all new development projects, providing access to a database that can be used to refine calculation results even further.
Cooperation with various entities also continued in investigating simulation methods tied to system comfort and disc fluid-dynamics, with a focus on air flow within the entire wheel-side unit.
At the same time, studies were continued in partnership with European universities and research centres to constantly optimise cast-iron disc products and processes, resulting in improvements that will be incorporated into normal application development for the world's major vehicle manufacturers.

According to precise guidelines applied throughout the automotive sector and all of Brembo's development activities, considerable attention is paid to new solutions that are able to reduce disc weight, as a lower weight translates into lower vehicle fuel consumption, and consequently a smaller environmental impact (reduced CO_2 emissions).
Work on discs for heavy commercial vehicles — an application segment which is of particular interest to Brembo — continued with a focus on improving performance. Development activities therefore intensified with customers, also outside Europe, to be finalized by 2019 with the acquisition of further market shares.
In car applications, after having worked with a major German customer to develop the concept for the light brake disc currently installed in its entire platform of core vehicles, Brembo was also selected as the supplier of brake discs for the entire next generation of vehicles within this platform. Application studies are still underway and will be completed in the next two-year period.
Thanks to the introduction of the light discs, a reduction in weight of up to 15% compared to a traditional discs is now guaranteed by combining two different materials (cast iron for the braking ring and a thin steel laminate for the disc hat). This solution has also been successfully tested by other important manufacturers and will begin to be used in some of their new models already this year.
Brembo also forged ahead its activity dedicated to product and process optimisation for co-cast discs aimed at improving thermal-mechanical and fluid-dynamic performance, reducing mass and applying new innovative aesthetic solutions. Following the completion of Brembo's concept approval phase for this

solution, the new disc was presented to potential clients in view of the development of future applications.
In addition, work proceeded on researching, developing and testing unconventional solutions — also resulting in the filing of several patent applications — to be applied to cast-iron brake discs or the next generation of "light" discs, with a focus on the study of shapes, materials, technologies and surface treatments capable of meeting the needs of the next generation of electric vehicles and conquering new segments of the market.
These new solutions, which aim to reduce environmental impact (lower emissions of CO_2, fine particulates and wheel dust) and improve aesthetics and corrosion resistance, have met with strong interest among Brembo's main clients, with whom the first application studies were started throughout 2018.
In the reporting year, the Technical Development Centres at the Group's U.S. and Chinese facilities also continued to undergo constant upgrade, thus allowing Brembo to acquire valuable orders within local markets and increasingly act as a strategic supplier of brake discs to major global players.

The plan to create **motorbike** discs made from composite material for on-road use continued, involving the definition of usage limits and perfecting mechanical processing. New braking ring sizes were defined and new samples are being prepared. The specific friction material remains to be developed. This process will be planned taking account of the availability of braking rings in their final sizes.

Application projects for the new mid-range master cylinder are in the prototype preparation stage. A specific design that combines the brake cylinder and clutch was created and approved by the main client. Prototype testing is expected to begin in the first half of 2019.

Testing of the prototypes for rear master cylinder with integrated microswitch was successfully completed. The concept has been validated and is ready to be presented to clients for specific developments.
Planning of prototypes for Brembo Brake India's new range of calipers is currently under way. The prototyping process will pursue the twofold aim of technically validating products and making the components available for presenting the new design to clients. Production of the new disc CBS/disc application was started for an Indian client, whereas the development phase of the H-CBS actuator for the drum/disc in a scooter configuration was postponed to the first-half of 2019.

The first phase of testing of new disc materials designed to reduce weight was completed and bench testing yielded positive results. Braking ring sizes are also being defined for the second phase of the prototyping and testing process.
Development work on the hat/braking ring configuration for the new low-vibration brake disc concept was postponed to the first half of 2019.
A new entry-level caliper design is currently undergoing vehicle testing. Main tests are expected to be completed in the first half of 2019.
Preparation of the Brake by Wire Moto demonstrator continued according to plan.
A new friction material technology for motorbike applications is being evaluated. Prototypes are available and will undergo bench testing in the first half of 2019.
A new version of the feeling setting for off-road motorbike cylinder levers was configured: prototypes will be available in the first half of 2019.
The new dynamometer test bench at Brembo Brake India is fully operational.
Development of the innovative brake concept for high-performance motorbikes, currently suspended due to overlap with other projects, will need to be replanned.

Regarding the **racing** world, the Carbon/Carbon brake system for racing applications project (F1, LMP1 – Le Mans Prototype 1, IRL – Indy Racing League, and Super-Formula) includes three distinct areas, whose activities were further ongoing throughout 2018 and will continue in the years to come:

- the fine tuning of disc production (with very interesting results in qualitative terms) and the stabilisation/improvement of Carbon/Carbon pad performance. This area of production technology development and improvement has also seen the introduction into service of the first needle punching machine for constructing preforms starting from carbon fibres (Curno plant). Once the fine tuning phase was completed, preforms dedicated to the various categories (Super-Formula, Formula E and F1) made their début in early 2018;
- development of the new systems (on the basis of the F1 disc) for the other categories as well, and launch of research activities on the F1 disc's architectures and fibres;
- launch of development of the new F1 systems for the 2019 season, and discs in particular.

Attention is also beginning to be shifted to the changes that will be introduced to the F1 championships. Important rule changes (starting with larger wheel rims) that will have a significant impact on the brake system are planned beginning in 2021.

Specific projects involving a F1 client are in progress, extending to all components of the brake system. The 2019 systems are being defined also with another F1 client, including development of a new brake-by-wire system even more integrated than the current one. The brake system currently consists of two separate master cylinders (and/or in some cases of a tandem cylinder) and a brake-by-wire actuator. The new system integrates the tandem master cylinder and the rear BBW system into a single structure, with a considerable reduction in weight. This will be the base technological solution for an important F1 team.
A new brake caliper concept will also be introduced to the vehicles of three F1 teams for use in races in 2019. The new caliper, which provides very high braking efficiency, is equipped with devices capable of significantly reducing residual torque generated by the braking system to almost half of the previous year.

As regards the simulation field, testing is continuing of new calculation methodologies for the structural part and thermal properties of the disc, for the thermoelastic and fatigue calculation, as well as for integrating the same calculation within the customer wheel unit — in other words, mechanical and thermal calculations with computational fluid dynamics (CFD) solutions.

In the MotoGP class of motorbike applications, new systems are now available to all clients, including a new brake caliper, used only by few teams until mid-2018. This caliper ensures amplified force, and has an anti-drag system and a valve that reduces piston knock-off in the event of wobble.

In the superbike category, a new caliper with amplified force and anti-drag system made its competition début. Instead of a carbon/carbon structure, it uses a steel disc and traditional pads. In the coming months it will be assessed how best to adapt this caliper concept to applications for on-road replacement parts.

At OE development level, mention should be made of another work carried out with AP Racing on road systems dedicated to OE customers with strong sporting features. The work started with the dimensioning and thermal simulation of the system (in the same ways as with racing cars) and ended with Brembo's new Carbo-Ceramic disc (CCMR) entering into production. The first discs from this new project were approved in early 2018 by the development team and the client, which confirmed the SOP (start of production) in the second half of 2018. The new vehicle to be equipped with this new carbon-ceramic system is the McLaren P15, also known as the McLaren Senna, which has already entered production.
Brembo also continued its valuable partnership with several Italian universities, including the Milan Polytechnic and the University of Padua, in pursuit of important goals in various areas of technical development.
Brembo has been certified by the EASA as a qualified developer and designer of complete brake systems and by the Italian Civil Aviation Authority (ENAC) to produce front and rear wheels.
As part of these efforts, Brembo renewed its participation in the CS2 project (financed by Clean Sky 2) and is managing the ongoing orders on the basis of its agreements with clients. Since several projects acquired were postponed by clients during the year, Brembo is assessing all appropriate actions to ensure that the aeronautical project does not dilute the Group's results.

Due to the extensive experience it has gained over the years, **Brembo Friction** may now be considered a well-established, stable reality, focused on continuous improvement. Friction materials – increasingly flexible and designed to meet individual clients' various needs – represent a specific, reactive response made possible by the synergistic efforts by the Research and Development Department and all of Brembo's other Departments. High-performance brake pads designed for applications involving the use of cast-iron and carbon-ceramic discs are now developed using increasingly sophisticated techniques.
In the OE market, many of the most demanding automotive firms have chosen Brembo Friction for its high-end applications, reaffirming their confidence in Brembo pads — a proof that commitment and attention for the product lead to excellent results.
All main markets — including the European one, which is very demanding when it comes to performance, and markets that are more demanding in terms of comfort, such as the U.S. and Asia — can now benefit from Brembo's know-how on Cu-free materials, i.e., copper-free friction materials.
The ongoing innovative drive has made it possible to develop specific friction materials for pairing with very light discs with very high thermal and mechanical resistance: this is the case

of the German market, which demands Cu-free materials for carbon-ceramic discs coated with Si-SiC (silicon-silicon carbide).
To meet these increasingly stringent needs, in early 2018 a statistical model (DOE) was introduced to identify the main categories of materials on which to concentrate with the aim of optimising the friction material's chemical and physical properties and thus of obtaining the best response in terms of performance and comfort.

The development of environmentally friendly friction materials, with an increasingly lower environmental impact (for example,

World SBK Championship
2018

reduced emissions of greenhouse gases such as CO_2), reflects the ever growing environmental focus of global research.
This particular focus on the environment is the source of projects such as COBRA and LIBRA. Born of an important partnership between Italcementi, Istituto Mario Negri and the consulting firm PNO Italia, the COBRA project (part of the European Life+ programme) concluded after completing its objective of developing a technology capable of replacing the phenolic binders, typically used in friction materials, with innovative cement-based components. During the development of this project, materials equivalent to those traditionally used were successfully formulated to meet the performance requirements imposed by racing applications — notoriously stringent in the area of friction materials. Exceeding the goals set by the European ECE Regulation 90 represented a significant technical result that confirms the validity of this new class of materials. Major car and motorbike brands are currently considering whether to adopt COBRA pads for their applications in the development stage. Brembo already has a press based on ad-hoc technology for producing these pads, enabling it to meet potential demand from clients on a pre-industrial prototyping scale. The current pre-engineering phase will be followed by synergistic work with individual clients to meet their specific demands, in view of further process optimisation, with the aim of ensuring the product offers optimal performance and comfort. From the perspective of the environmental footprint, the introduction of a cement binder proved a decisive step towards a potential reduction of volatile organic compound (VOC) emissions, as effectively shown in laboratory testing.
The LIBRA project was launched in 2015 with the aim of eliminating steel backing plates from brake pads, replacing it with a high-performance composite material. The advantages are clear: from a lighter weight for the individual piece (and the resulting decrease in weight of the brake system) to a reduction of the time needed to produce each pad. As soon as the end of the first year of research and development, results were very positive and confirmed the project’s validity in terms of competitiveness and innovation. In 2017, a U.S. automotive giant requested the use of parking pads with backing plates made from a composite material, a further sign of the important, innovative nature of the LIBRA project’s revolutionary technology. The first OTOP (Off Tool Off Process) production lots have been delivered to the client, therefore closing the product development phase. The automatic press to be used for mass production, expected to occur in 2019, was installed at the end of 2018.

In early 2018 — following the excellent results achieved in the previous LowBraSys and Rebrake projects — the Ecopad project was launched in collaboration with the University of Trento and KTH of Stockholm. This new project seeks to produce pads using the new Cu-free materials capable of maintaining excellent performance along with certified reduced emissions.

With reference to the **Car and Commercial Vehicle Division**, the goal of using the braking system to help reduce vehicle consumption and resultant CO_2 emissions and particulates is being pursued through the development of new solutions. In detail, the use of methodologies to minimise caliper mass for the same performance, the improvement of caliper functionality by defining new characteristics for the pairing of seal and piston and optimisation of a new-concept pad sliding system continue to feature among the main areas of development. An application development is also in progress and may conclude by first half of 2019, with the award of a share of business relating to a fully electric vehicle platform created by a major German manufacturer.
The product and process improvement work is constantly ongoing in the same way as the search for solutions to reduce mass, increase performance and improve styling. In this regard, in addition to other activities, application development is also in progress for a new caliper, specifically designed for high-performance cars, with the goal of considerably reducing track operating temperatures, and thus of increasing system performance. This new caliper is expected to enter into production in the third quarter of 2019.
The conquest of new market segments is being pursued also through the study of new types of brake caliper. A first new caliper type entered into mass production in late 2018 with a major German client, whereas a second type has reached and successfully completed the concept approval phase.
In 2016, Brembo had started the small-series production of a caliper produced using thixotropic aluminium alloys, i.e., at a lower temperature than casting. This process, for which Brembo has filed a patent application, is known as “BSSM” (Brembo Semi-Solid Metal casting) and offers a reduction in weight of 5 to 10%, depending on caliper geometry, without any decrease in performance. Concept approval is currently underway, whereas start of production for the first vehicles will take place in late 2022.
Brembo’s first mechatronic products, namely various configurations of electric parking brakes, already approved

in-house both for cars and commercial vehicles, are being promoted with Brembo's customers.

In detail, Brembo has been selected by a major U.S. customer to supply a caliper with integrated electric parking brake for electric vehicles.

In commercial vehicle applications, Brembo has developed, and continues to develop, mechatronic parking solutions for vehicles up to 7.5 tonnes. The SOP for these vehicles is expected in mid- 2019.

With regard to next-generation electric-drive vehicles, brake systems will change considerably in the coming years, above all as regards braking management and the interface with the vehicle. Brake-by-wire systems, which Brembo has long been studying, have now reached a high level of performance and functionality. The industrialisation and planning phase for the start of production has begun and could be realised as soon as several customers confirm their interest at a contractual level.

The ongoing evolution of simulation methodologies is focused on aspects linked to brake system comfort and caliper functionality. Brembo's current objective is to develop the simulation capacity for the latest brake system component not yet simulated: friction material. From this standpoint, the ability to rely on the Brembo Friction project represents a strength for the Group, which can position itself as a supplier of complete brake systems. On the other hand, the development of a methodology for simulating caliper functionality is aimed at establishing, during the design stage, the caliper characteristics that influence the car's pedal feel.

Advanced R&D activities constantly monitor the evolution of vehicles, which can be summarised in a few general trends: electrification, advanced driver assistance systems (ADASs), autonomous driving, low environmental impact, and connectivity. The high level of integration will bring the brake system into dialogue with other vehicle systems, such as electric traction motors and new suspension/steering concepts. Such integration will allow for increased active safety and the optimisation of functions, such as regenerative braking.

Brembo is continuing to develop and refine a new brake-by-wire system, whose peculiarity lies in its "decentralised" architecture, in which each wheel side has its own electromechanical actuator for generating and controlling the required braking force. This architecture is proving ideally suited to future vehicles with high-level autonomous driving capability.

Furthermore, developments involving intelligent system integration continued, particularly with electric-drive systems and the associated next-generation architecture. In this area, it was important for Brembo to participate in the EU-Live project, which was carried out by a European consortium and funded by the Horizon 2020 project, completed in 2018. Brembo's role in this project consisted of designing and realising the integration of the brake into an oscillating arm, with an electric-drive motor, intended for a four-wheel vehicle specifically designed for future urban mobility.

Mechatronics and system integration entail the development of new components for Brembo's products, including sensors, mechanisms and electric motors. Brembo is therefore coordinating a group of companies based in the Lombardy region within the framework of the funded project "Inproves", with the aim of creating brushless motors based on permanent magnets offering very high levels of performance, specifically designed for the brakes of the future.

In addition, Brembo continued to conduct R&D activities in cooperation with international universities and research centres with the aim to constantly seek out new solutions to apply to brake discs and calipers, in terms of new materials, innovative technologies and mechanical components. The need to reduce product weight is leading the research function to evaluate the use of unconventional materials, such as technopolymers or reinforced light metal alloys, to produce structural components. These partnerships also extend to methodological activities relating to development, involving the creation and use of increasingly sophisticated simulation and calculation tools.

The LowBraSys project — funded by the European Union as part of its Horizon 2020 programme with the aim of proving that fine particle emissions can be reduced — will continue until March 2019. This project's theme is key to the sustainability of Brembo's products.

#innovation

It is a creed, a mission. Innovating. Without ever stopping. It is an inescapable part of our DNA.

Risk Management Policy

Effective risk management is a key factor in maintaining the Group’s value over time. In this regard, within the framework of its Corporate Governance system, the Group has defined Brembo’s Internal Control and Risk Management System (ICRMS) in compliance with the principles set out in Article 7 of the Corporate Governance Code of listed companies promoted by Borsa Italiana S.p.A. (hereafter referred to as “Corporate Governance Code”) and, more generally, with national and international best practices.

This system represents the set of organisational structures, rules and procedures that allows the main business risks within the Group to be identified, measured, managed and monitored, while helping the company to be run in a manner that is sound, correct and consistent with the objectives defined by the Board of Directors, and favouring the adoption of informed decisions consistent with the risk profile, as well as dissemination of a proper understanding of risks, lawfulness and corporate values.

The Board of Directors is tasked with defining the general guidelines of the ICRMS, so that the main risks pertaining to Brembo S.p.A. and Group subsidiaries are properly identified, as well as adequately measured, managed and monitored. It shall also set criteria to ensure that such risks are compatible with sound and proper management of the Company. The Board of Directors is aware that the control processes cannot provide absolute assurances that the company objectives will be achieved and the intrinsic risks of business prevented; however, it believes that the ICRMS may reduce and mitigate the likelihood and impact of risk events associated with wrong decisions, human error, fraud, violations of laws, regulations and company procedures, as well as unexpected events. The ICRMS is therefore subject to regular examination and controls, taking account of developments in the Company’s operations and reference context, as well as national and international best practices.
The Board of Directors has identified[1] the other main corporate committees/functions relevant for risk management purposes, by defining their respective duties and responsibilities within the ICRMS scope. More specifically:

- the Control, Risks and Sustainability Committee, tasked with supporting the Board of Directors on internal control, risk management and sustainability issues;
- the Executive Director with responsibility for the Internal Control and Risk Management System, tasked with identifying the main corporate risks by executing risk management Guidelines and verifying their adequacy;
- the Managerial Risk Committee responsible for identifying and weighing the macro-risks and working with the system parties to mitigate them;
- the Risk Manager, tasked with ensuring, together with the management, that the main risks relating to Brembo and its subsidiaries are correctly identified, adequately measured, managed, monitored, and integrated within a corporate governance system consistent with the strategic objectives.

Risks are monitored at meetings held on at least a monthly basis, where results, opportunities and risks are analysed for each business unit and geographical region in which Brembo operates. The meetings also focus on determining the actions required to mitigate any risks. Brembo’s general risk-management policies and the bodies charged with risk evaluation and monitoring are included in the Corporate Governance Manual, in the Risk Management Policy and Procedure, in the Organisational, Management and Control Model (as per Italian Legislative Decree No. 231/2001) and in the reference layout for preparing accounting documents (as per Article 154-*bis* of TUF), to which the reader is referred.
The Executive Director with responsibility for the Internal

1 In this regard, see the following documents published on Brembo’s website in *Investor Relations/Corporate Governance/Principles and Codes* section: Corporate Governance Manual, Organisation, Management and Control Model, the Brembo Group’s Reference Layout for preparing accounting documents, Guidelines for the Risk Control and Management System.

Control and Risk Management System fully enforces the risk management guidelines based on principles of prevention, cost effectiveness and ongoing improvement, as approved by the Board of Directors. In order to provide the organisation with the instruments for defining the risk categories to which attention should be drawn, Brembo has developed a model which identifies and classifies risk classes by type, based on the managerial level or corporate function from which they originate or that is responsible for monitoring and managing them.

The Internal Audit function evaluates the effectiveness and efficiency of the overall Internal Control and Risk Management System on a regular basis and reports the results to the Chairman, the Executive Deputy Chairman, the Chief Executive Officer, the Board of Statutory Auditors, the Control, Risks & Sustainability Committee and the Supervisory Committee of Brembo S.p.A. with reference to specific risks connected with compliance with Legislative Decree No. 231/2001. On an annual basis at least, it also reports to the Board of Directors.

The first-tier family risks based on the risk management policy are:

a. External risks;
b. Strategic risks;
c. Operating risks;
d. Financial risks.

Brembo's top risks for each of the above-mentioned risk families are discussed below. The order in which they are discussed does not imply classification in terms of probability of occurrence or possible impact.

External risks

Country risk

Based on its international footprint, Brembo is exposed to the country risk, which is however mitigated by the adoption of a policy of business diversification by product and geographical area, so that the risk can be balanced at Group level.

In addition, Brembo constantly monitors the development of political, financial and security risks associated with countries in which the general political and economic climate and tax system could prove unstable in the future, so as to take any measures suited to mitigating the potential risks.

Strategic risks

Innovation

Brembo is exposed to risks associated with the evolution of technology, in other words, the risk that competing products will be developed that are technically superior because they are built based on innovative technologies. In order to maintain its competitive edge, Brembo invests sizeable resources in R&D, conducting applied and basic research on both existing and newly applied technologies, such as mechatronics. For additional information, see the "Research and Development" section in this Directors' Report on Operations. Product and process innovations — those currently being used, as well as those that may be used for production in the future — are patented to protect the Group's technological leadership.

Market

Brembo targets the Luxury and Premium segments of the automotive sector and, in terms of geography, generates most of its sales from mature markets (Europe, North America and Japan). In order to mitigate the risk of segment/market saturation in the countries where it operates, the Group has long ago implemented a strategy aimed at diversifying into other geographical areas and is gradually broadening its product range, also by focusing on the mid-premium segment.

Investments

Investments in certain countries may be influenced by major modifications of the local regulatory framework, which could result in changes in the economic conditions existing at the time of the investment. For this reason, before investing in foreign countries, Brembo assesses the country risk carefully in the short, medium and long term. In general, M&A activities are accurately coordinated in all their aspects in order to mitigate any investment risks.

Corporate Social Responsibility

Brembo continues to engage in ongoing development aimed at strengthening its Sustainability Model and fulfilling its legal non-financial disclosure requirements under Legislative Decree No. 254/2016. With support from a specialised consulting firm, Brembo updated its sustainability risk assessment system, using measurement criteria in line with the Group's risk management methodology.

Brembo manages the risks linked to climate change, as well as the increase in regulatory requirements regarding a reduction

in greenhouse gas emissions and, more generally, the growing pressure being applied by civil society and the end consumer to the development of products and industrial processes with a lower environmental impact.
Brembo considers the risk arising from the use of resources, such as water, with reference to all production sites, particularly those located in geographical areas marked by water scarcity; it also pays equal attention to risks linked to the pollution of waterbodies due to any contamination.
Safety in the workplace and aspects affecting individual development, inclusion and celebration of diversity are fundamental issues for the Group, and the relevant risks are assessed and managed by the competent functions.

In addition, Brembo's supply chain is becoming more and more globalised and strategic; therefore, suppliers are required to operate in accordance with the sustainability standards identified by the Group. Moreover, considering that potential risk factors exist within the supply chain, Brembo is implementing numerous measures aimed at all its suppliers, both in Italy and abroad, to promote the safeguard of the environment and ensure appropriate working conditions with a view to continuous improvement.

Operating risks

The main operating risks inherent in the nature of the business are associated with the supply chain, the unavailability of production facilities, product marketing, international economic conditions, issues involving health, job safety and the environment and, to a lesser extent, the regulatory framework of the countries in which the Group operates.

Supply Chain

Supply chain risk manifests as the volatility of raw material prices and dependence on strategic suppliers, which could jeopardise the company's production process and ability to fill orders from clients in a timely manner by suddenly suspending supply arrangements. To mitigate this risk, the Purchasing Department identifies alternate suppliers to ensure the availability of critical materials (supplier risk management programme). The supplier selection process, including an assessment of suppliers' financial solidity — an aspect that has taken on growing importance in the current scenario — has been reinforced. By diversifying its sources, Brembo can also reduce its risk exposure to price increases (a risk that is however partially offset by reflecting price increases in sales prices).

Business Interruption

With reference to the risk of operational downtime at production facilities and continuity of operation, the company reinforced its risk mitigation process, through the planning of loss prevention engineering on the basis of U.S. NFPA (National Fire Protection Association) standards. The aim of this process was to eliminate risk factors in terms of probability of occurrence and to implement protective measures aimed at limiting the impact of this risk, thereby constantly enhancing the current operating continuity levels of the Group's production facilities.

Product Quality

Brembo considers the risk relating to the marketing of its products, in terms of their quality, safety and traceability, to be of fundamental importance. The Group has always been committed to mitigating this risk through robust quality controls. As part of this process, it has instituted a worldwide Supplier Quality Assurance function, specifically dedicated to quality control of components that do not meet Brembo's quality standards, in addition to constantly optimising its Failure Mode & Effect Analysis (FMEA).

Information Technology

Brembo attaches much importance to the operating continuity of its IT systems. In this regard, it has implemented risk mitigation measures aimed at guaranteeing network connectivity and data availability and safety, while also ensuring compliance with the European data protection regulation (GDPR) and the national laws applicable in each EU member country. These issues are growing in importance in light of the start of the Group's smart factory (Industry 4.0) process.

Environment, Safety and Health

The Group's primary risks relating to health, job safety and the environment can be of the following types:
- inadequate protection of employee health and safety, which can lead to serious accidents or work-related illnesses;
- environmental pollution resulting from sources such as uncontrolled emissions, inadequate waste disposal or the spreading of dangerous substances onto the ground;
- partial or non-compliance with laws and regulations governing the sector, also in light of the changing legal framework of some countries.

The occurrence of these could result in substantial criminal and/or administrative penalties or pecuniary fines against Brembo. Furthermore, in particularly serious cases, the actions of public entities in charge of assessing the situation could interfere with Brembo's normal production activities, even causing production lines to halt or forcing the production facility to close. Brembo manages this type of risk by carrying out ongoing and systematic evaluations of its exposure to specific risks and reducing or eliminating those considered unacceptable. This procedure is organised within a Management System (which is compliant with international ISO 14001 and OHSAS 18001 standards and certified by an independent body) that covers job health and safety, as well as environmental aspects.
Brembo therefore implements all the activities necessary to allow it to effectively monitor and manage these aspects while scrupulously complying with applicable laws.

Some examples of activities that are currently underway include the definition and yearly review of:

- "Management Plans" for Safety and the Environment that define the objectives to be achieved;
- "Supervisory Plans", which list all the activities to be carried out under the laws governing the sector or regulations imposed by the Group (e.g., authorisation renewals, periodic controls, reports to public entities, etc.);
- "Audit Plans", which monitor the extent to which the System is being applied and encourage continuous improvement.

In summary, although accidents and mistakes can happen, the Group has implemented systematic rules and management procedures that allow it to minimise the number of accidents, as well as the impact they may have. A clear-cut assignment of responsibility at all levels, the presence of independent internal control bodies that report to the company's highest officers and the application of the highest international management standards are the best way to guarantee the company's commitment to health, job safety and the environment.
The internationalisation strategies and, particularly, international industrial footprint development have also highlighted the need to strengthen operational management able to operate locally and communicate effectively with the functional departments of Business Units and Central Functions, in order to improve the efficiency and effectiveness of the quality system and the capacity of production processes.

Legal & Compliance

Brembo is exposed to risks arising from the failure to rapidly comply with changing laws and new regulations in the sectors and markets in which it operates. To mitigate this risk, each compliance function stays abreast of the relevant legal and regulatory developments, with the assistance of outside consultants, where necessary, through a constant process of legal and regulatory updates and research.
With regard to compliance risk on issues related to workers' health and safety and environmental protection, and in light of the complexity and lack of clarity of the applicable laws and regulations, and the uncertain and often lengthy period of time needed to obtain the necessary authorisations and patents, the Group relies on specific functions, such as the Health & Safety function and the Energy & Environment Department (see Operating Risks – Environment, Safety and Health section), tasked with handling the related complexities.
With reference to other compliance risks, reference should be made to the Corporate Governance and Ownership Structure Report available on Brembo's website (www.brembo.com, *Company, Corporate Governance, Corporate Governance Reports* section).
Among compliance-related risks, attention should be drawn to the risk associated with breaches of national, international and industry regulations, and unethical professional behaviour in breach of the Company's ethics policy that expose it to vicarious administrative liability, in addition to undermining the Group's reputation on the market. Such risk may be broken down into three levels:

1. risk arising from Legislative Decree No. 231/2001, applicable to Brembo S.p.A. and the Group's Italian companies, and the possible attribution of liability to the Parent for predicate offences committed outside Italy;
2. risk arising from local statutes concerning the liability of companies, as applicable to each subsidiary;
3. risk arising from extra-territorial statutes concerning the liability of companies (such as the FCPA and Bribery Act) applicable to both Brembo S.p.A. and its subsidiaries.

The risk deemed most significant for the Group at a theoretical level relates to the case indicated in point 2 above, for the following reasons:

- different regulations for each country, based on different legal systems, often presenting complexities and interpretative challenges;

- a lack, in other legal orders, of a system of exemption from liability similar to the one in force in Italy;
- failure by subsidiaries to provide information to, and communicate with, the Parent in a consistently timely manner;
- the strategic importance of certain local markets;
- cultural diversity and possible critical issues in the management of local personnel.

The probability that liability for offences committed outside Italy may be ascribed to the Parent is regarded as remote in light of the connection criteria set forth in the Italian Penal Code. However, it is theoretically plausible that a top manager or employee of Brembo S.p.A. might take action outside Italy in the context of his or her duties to the Parent or an international subsidiary. In the matter of corruption involving public officials, given the nature of its business, the Brembo Group does not engage in dealings with government officials, except in managing permits (such as building permits). As a result, offence-risk opportunities are considered to be very limited.
The mitigating measures taken by the Group are regarded as sufficient to significantly reduce its exposure to cases of risk and are aimed at ensuring the global spread of a culture of compliance through the establishment of specific principles of ethics and conduct, in addition to constant monitoring of legal changes, through implementation of the following:

- mapping (and periodic updates) by the Legal & Corporate Department of statutes that provide for administrative liability for companies in effect in all foreign countries in which the Group operates;
- reporting to the Country Committees of subsidiaries through a specific monitoring system on the main issues of concern in the areas of compliance, governance, legal/contracts and litigation;
- adoption and implementation (through training sessions) of a multiple-tier compliance system;
  - Brembo’s Corporate & Compliance Tools (such as, for example, the Code of Ethics, the Anti-Bribery Code, the operating procedures applicable pursuant to Legislative Decree No. 231/2001, the authorisation matrices, etc.), disseminated and applied worldwide, laying down ethical and behavioural guidelines for managing stakeholder relations, including in light of the extraterritorial application of certain statutes such as the FCPA (USA) and Bribery Act (UK);
  - the launch of specific compliance programmes at the local level, so as to check the adequacy of measures aimed at preventing the commission of offences;
  - the Brembo Compliance Guidelines and Group Policies and Procedures issued by the Parent and disseminated and applied worldwide;
  - the 231 Model, prepared by the Parent pursuant to Legislative Decree No. 231/2001, from which the Brembo Compliance Guidelines disseminated throughout the Group have been drawn and that the management deems adequate and capable of effectively preventing offences.

With reference to litigation, the Legal & Corporate Department periodically monitors the progress of existing and potential litigations and determines the strategy to be applied and the most appropriate steps to take in managing them, involving specific corporate functions, when needed. The Administration and Finance Department is responsible for the recognition of the appropriate checks or impairment losses in connection with such risks and their economic effects.

Planning and Reporting

The same ERP (Enterprise Resource Planning) software has been implemented at nearly all Group companies in order to prepare accurate and reliable financial reporting for the Group, while also improving the Internal Control and Risk Management System and the quality, timeliness and comparability of the data provided by the various consolidated companies.

Financial risks

In conducting its business, the Brembo Group is exposed to various financial risks, including market, commodities, liquidity and the credit risks. Financial risk management is the responsibility of the Parent’s Treasury & Credit Department, which, together with the Group’s Finance Department, evaluates the main financial transactions and related hedging policies.

Market risk

Interest Rate Risk Management

Since the Group’s financial debt is partly subject to variable interest rates, it is exposed to the risk of interest-rate fluctuations. To partially reduce this risk, the Group has entered into several medium/long-term fixed rate loan agreements accounting for approximately 43% of gross financial position.
The objective is to eliminate the variability of the borrowing costs associated with a portion of debt and benefit from fixed rates.

The Group's Central Treasury & Credit Department constantly monitors rate trends in order to evaluate in advance the need for any changes to the financial indebtedness structure.

Exchange Rate Risk Management

Since Brembo operates in international markets, it is exposed to exchange rate risks. To mitigate this risk, the Group uses natural hedging (offsetting receivables and payables) and hedges only net positions in foreign currency, using mostly, and where advisable, forward contracts in order to reduce exchange rate risk exposure.

Commodity risk

The Group is exposed to changes in prices of main raw materials and commodities. In 2018, no specific hedging transactions were undertaken. However, it should be recalled that existing contracts with major customers provide for automatic periodic adjustment on the basis of commodities prices.

Liquidity risk

Liquidity risk can arise from Brembo's inability to obtain the financial resources necessary to guarantee its operations. The Central Treasury & Credit Department implements the main measures indicated below in order to minimise such risk:

- it constantly assesses financial requirements to ensure that appropriate measures are taken in a timely manner (obtaining additional credit lines, capital increases, etc.);
- it obtains adequate credit lines;
- it optimises liquidity, where feasible, through cash-pooling arrangements;
- it ensures that the composition of net financial debt is adequate for the investments carried out;
- it ensures a proper balance between short- and medium-/long-term debt.

Credit risk

Credit risk is the probability that a customer or one of the parties to a financial instrument will cause a financial loss by failing to perform an obligation. Exposure to credit risk arises, in particular, in relation to trade receivables. In this sense, it should be noted that the parties with whom Brembo has commercial dealings are primarily leading car and motorbike makers with a high credit standing. The current macroeconomic context has made continuous credit monitoring increasingly important, so that situations where there is a risk of insolvency or late payment can be anticipated.

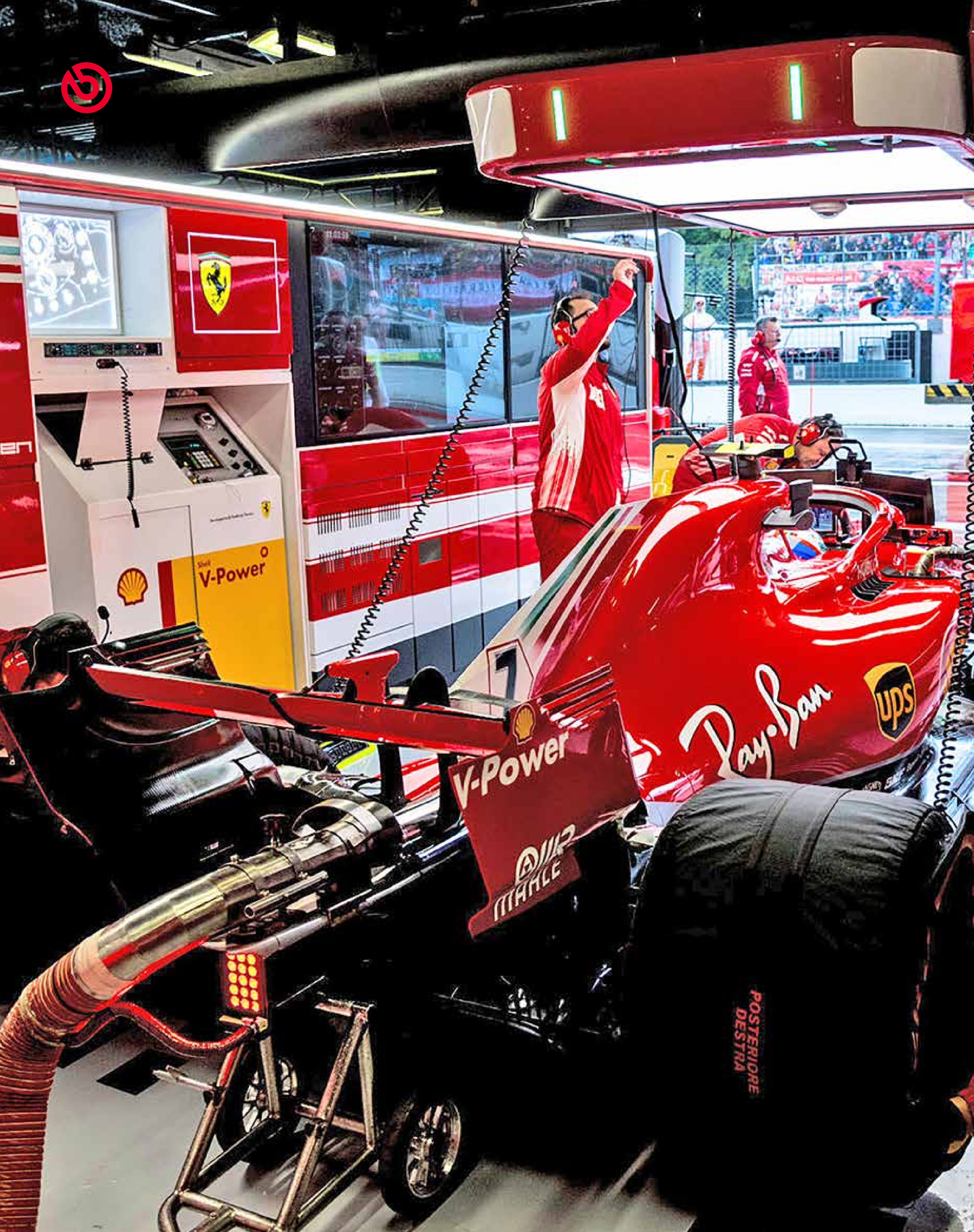
Risk management process: risk financing

Following on from the above mitigation measures, and in order to minimise the volatility and financial impact of any detrimental event, under its Risk Management Policy, Brembo has provided for the residual risks to be transferred to the insurance market, provided that they are insurable.

Brembo's changing needs through the years have been specifically reflected in its insurance coverage, which has been optimised to significantly decrease the company's exposure, especially with regard to possible damages arising from the manufacturing and sale of its products. This has been achieved through risk management, aimed at identifying and analysing the most critical areas, such as the risks associated with countries whose laws are particularly detrimental for manufacturers of consumer goods.

All Brembo Group companies are currently covered against the following strategic risks: property all risks, general liability, general product liability, product recall. Additional coverage has been arranged locally based on the specific requirements of local legislation or collective labour contracts and/or corporate agreements or regulations.

Insurance analysis and transfer of the risks to which the Group is exposed are conducted in collaboration with an insurance broker, which supports this process with its international organisation and is responsible for the compliance and management of Group insurance programmes at global level.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#knowinghowtolisten

In our genetic make-up, sensitivity and intuition become the ability to listen to others. Symbiosis and a unique ability to fully enter the mindsets of others.

Human Resources and Organisation

In 2018, Brembo implemented the necessary organisational changes in accordance with the market situation, evolution of the business, ongoing innovation and growth.

In light of the increasingly international dimension of its business structure, and with the aim of reinforcing and structuring its various logistical processes through their integration and optimisation, at the central level the Systems Division created its own Logistics Department, which reports directly to the Division's Chief Operating Officer and Chief Manufacturing Officer. With this division, in light of the growing complexity of innovation within the market scenario, the role of Advanced Projects Planning Manager was also created with the mission of further reinforcing the organisational structures responsible for implementing company strategies relating to Advanced Projects (i.e., projects that introduce innovative technical solutions based on new technological processes). In the case of the Discs Division, a revision of the European platforms was launched with the aim of achieving greater efficacy in developing increasingly complex projects. In the second half of the year, the Performance Group also consolidated its organisation with regard to managing product development processes, adopting an approach with project management as its focal point and introducing platforms that guide these processes. The Performance Group also revised its organizational structure in its Technical and Innovation area, combining the Innovation and R&D and Brembo Performance Technical Department functions into a single area with the aim of improving the coverage and efficacy of the relevant processes, in accordance with its new organisation based on project management.

In the various Group companies, at Brembo North America new plant managers were appointed at the cast-iron foundries in the United States and Mexico. In China, the country HR Department — which is responsible for managing the human resources of all Chinese companies based in the country — was reinforced, and, again in China, the new Country HSE Director and the new China Country Quality Director also joined the Group during the year. Lastly, in Europe, a new Managing Director was appointed at AP Racing.

In 2018, training was focused on designing, planning and

Formula E Championship
2018-2019

holding courses aimed at providing Group personnel with the skills and knowledge they need to be increasingly capable of anticipating industry's requests, market trends and the organisation's needs.

Within the training and development catalogue, numerous skills were addressed in a series of new courses: change management, systems thinking, celebration of individual diversity and the Enterprise Leadership model, which after being implemented for the first line of management, the HR professional family and new executives, is now also being extended to middle management.

Ongoing courses include Knowledge Management, designed to offer our professionals and managers — identified as having critical knowledge — the tools they need to become in-house trainers, and Finance for Non-finance People, which is structured on three levels. These two courses continue to represent a key element of the global training catalogue.

The most important project — from both a qualitative and a quantitative standpoint — is the Hub for LifeLong Learning launched in Italy. Created in response to contractual training obligations in the mechanical engineering sector, in 2018 the Hub provided classroom sessions for all personnel on corporate content and subjects relating to Industry 4.0, for a total of 12 hours. This formula is based in large part on ongoing training as a strategic tool for the Company and its People. The planning of the 2019 Hub, which will have the same impact, will represent the natural continuation of the programme just concluded.

The Manufacturing Academy — a full-fledged company manufacturing training school — is among the technical-specialist training projects that continue to meet with interest and draw people from all around the world into the classroom. The Academy offers a wide array of workshops revolving around the Digital Factory, constantly updated to cover new technologies and knowledge. Run by in-house trainers and supported by the expertise of university professors, with the aim of ensuring that the Group enjoys a productive exchange with the research community, the Academy has already been launched in Poland, the Czech Republic and China. Considerable training in Industry 4.0 skills, both from the catalogue and of an ad-hoc nature, was provided in 2018. The pilot course for the Brembo Production Development System was managed by internal teachers certified by the Brembo Academy — the entity responsible for in-house training at the Company — with the aim of explaining and spreading Brembo's method for managing R&D projects, with a specific focus on mechatronic projects.

The two e-learning training projects for the Group's resources are the Code of Ethics and Data Classification and Projection — projects that have met with a positive response. At the end of 2018, another new, totally customised e-learning course was launched on the subject of data protection under the new GDPR rules.

2018 also saw the achievement of the goal of transitioning to ISO 9001-2015, which allows the Brembo Academy to certify its training offerings. This fundamental step recently allowed the Company to obtain accreditation for its training services from the Region of Lombardy.

Within the larger framework of the consolidated Talent Management System, worth of mention is also the further increase in the spread of the individual performance management system, the Brembo Yearly Interview, which covered 74% of Brembo's global population in 2018 (73% in 2017), in addition to the consolidation of the Performance Management and Succession Planning tools and processes.

Finally, the first half of 2018 also marked the conclusion of the periodic Engagement Survey directed at the entire Brembo Group. Launched in December 2017, its results were excellent in terms of both the response rate of 74.15% (69.10% in the previous 2014 edition) and the engagement index, which reached 77.40% (76.23% in 2014).

Environment, Safety and Health

Brembo's commitment to environmental sustainability and safety continues to be an increasingly strategic and essential factor for developing the Group's business.

Environment and Energy

In 2018, Brembo began to implement the programme inspired by the internally designed environmental sustainability process involving initiatives in various areas, each of which was developed to integrate environmental objectives into the Group's business model.

This process seeks above all to raise awareness among all Brembo's People of the consequences of decisions and actions in pursuit of the Group's environmental goals. With a view to strengthening this awareness, a specific training programme designed during the reporting year will be launched in 2019.

The new Environmental Management and Energy System successfully completed certification by a third-party authority, which issued a consolidated Group certificate referring to all plants.

The new management system introduces requirements common to all plants, focused on preventing risks of an environmental nature — including those relating to climate change and water management — moving past the concept of compliance with the requirements of local legislation, which nonetheless remains a fundamental element to ensure at all sites. The system also seeks to involve the entire supply chain in the process of preventing risks and reducing environmental impacts.

Within the framework of the decarbonisation of production processes, in 2018 Brembo's plants developed improvement projects capable of reducing CO_2 by 1.7%.

In order to support the identification of areas with margins for improvement, an energy monitoring platform capable of providing real-time and past consumption data for all plants was introduced. Alongside the progressive introduction of renewable energy into its mix of sources, which brought the share of renewables to 20% in 2018, Brembo reduced its CO_2 emissions by 7% overall compared with 2015, in line with the process of achieving a 19% reduction in CO_2 by 2025 compared with 2015 levels.

In the management of water risk, Brembo is committed to developing and implementing measures aimed at minimising water consumption in its production processes.

Workplace safety

In 2018, Brembo achieved its best result of all time in terms of the severity and frequency of accidents in proportion to the number of employees. This result, achieved across all plants and divisions, was facilitated by a series of initiatives at both the local and Group level.

The certification audit process for the Management System continued in 2018, carried out by a single third-party company, with the aim of ensuring uniformity of application of the System and the use of a single evaluation approach.

Since Brembo believes that the compliance of all its facilities with local legislation must represent a fundamental principle, a single, independent third-party entity was also appointed in this case to conduct audits with annual frequency. All the findings of the third-party audit (of a legislative and systemic nature) were monitored by Corporate Health & Safety function.

All the points of attention identified in the course of such audits (non-compliance or simple observations) were developed into plans and actions for improvement at the various plants.

Each facility designed and implemented specific improvement plans aimed at achieving the targets set in terms of safety KPIs (severity index and frequency index).


Store
5
MAHLE
Lenovo

In particular, the target-setting system includes:

Corporate H&S targets

Annual accident severity index targets are set at the level of the production facility, Operations Department, Division or Business Unit and Group. The target of zero accidents resulting in total or event partial permanent disability was also added in 2018.
These targets are revised annually, on the basis of the results achieved in previous years, with the aim of constantly improving H&S performance.
The accident frequency index KPI, which will be included in the targets for 2019, was also monitored in 2018.

Plant H&S targets

Each plant then sets its own specific targets on the basis of its performance in the previous year, feedback from the risk assessment process and the targets set at the Group level. These specific targets are periodically monitored as part of the review by Plant Management.

Several important, centrally planned initiatives common to all facilities were also carried out in parallel:

1. Communication campaign

The communication campaign began in earnest with signs posted in the various departments aimed at disseminating the safety principles identified by the plants in question.
The campaign, which focused on Brembo People, features six key safety principles, identified as priorities by all countries in internal workshops.

2. Best Practices

Another preventive tool on which Brembo focused its efforts in 2018 is the spread of the best practices that have been successfully tested by one of the Group's facilities.
The plant that has come up with and implemented an idea that resulted in heightened safety levels shares its insight through the company Intranet. The other facilities analyse the suggestion, and assess and plan how to implement the proposed improvement.
After being assessed by an ad-hoc committee, some of these best practices may become new Brembo safety standards, and their implementation may thus become mandatory at all Group plants.

3. Ten Life-Saving Behaviours

In 2018, Brembo identified the "Ten Life-Saving Behaviours" based on a series of workshops organised in all geographical areas where Brembo has its plants, with the participation of the entire company organisation.
This process resulted in a list of ten safety principles that direct personnel and all visitors to Brembo facilities must adopt to ensure increasingly safe work environments. Practising all Ten Life-Saving Behaviours will also support the spread of a stronger safety culture.

4. Training

In general, the following are held:

- courses required by applicable legislation;
- professional refresher courses for individuals involved in HS matters;
- courses deemed necessary on the basis of the conclusions reached in risk assessments by the individual plants: where risk containment measures also include training as an aspect of risk mitigation, a specific course is organised for all operators exposed to this risk;
- courses based on the identified training needs of the various company units (bottoms-up);
- courses supporting initiatives planned at the Group level, such as the course "Ten Life Saving Behaviours", the machine safety course (CMSE - Certified Machinery Safety Expert) and the course on ergonomics, aimed at increasing the ergonomic competencies of personnel responsible for designing new systems, so that they are optimised from an ergonomic standpoint as soon as they are installed;
- ISO 45001 course: in 2018, Brembo begun the process that is to result in an update of the current management system in view of compliance with the new ISO 45001 standard, which will replace the current OHSAS 18001 standard in the next three years. The activities implemented on this issue may be summarised as follows:
  - organisation of a training course that will explore the principles and new features of the ISO 45001 standard;
  - execution of a gap analysis that identifies the gaps between the management system currently in use and the upcoming system, which must be compliant with the ISO 45001 standard;
  - definition of the design of the new system's structure.

5. Cast-Iron Foundries Safety Improvements

An initiative was launched to improve the specific safety conditions of cast-iron foundries. This initiative entailed a dedicated workshop involving representatives from all foundries from the HSE, maintenance and technology areas, during which the main areas with room for further improvement were identified and analysed in order to raise safety levels at all cast-iron foundries worldwide: the intrinsic safety of systems and processes, behaviour-based safety (LOTO) and safety in respect of specific risks (confined spaces).

Off-Road SCORE Championship
2018

Related Party Transactions

In compliance with Consob Regulation adopted with Resolution No. 17221 of 12 March 2010, as amended, Brembo S.p.A. adopted the Related Party Transactions Procedure. The procedure was approved by the Board of Directors of Brembo S.p.A. during the meeting held on 12 November 2010, after receiving the favourable opinion of the Audit & Risk Committee, which also acts as Related Party Transactions Committee since it meets the requirements set out by the above-mentioned regulations. The procedure aims to ensure the full transparency and propriety of Related Party Transactions and has been published in the Corporate Governance section of the Company's website.

In 2013, on the basis of a favourable opinion from the Audit & Risk Committee, the Board of Directors unanimously resolved not to proceed with amendments to the Related Party Procedure of Brembo S.p.A., partly in light of the efficacy shown in applied practice and partly because it had already been revised in previous years. The Board thus deemed already adopted both the contents of the Recommendation and the wishes expressed by Consob regarding the first revision of the procedure.
The update to the Related Party Transactions Procedure incorporating the changes relating solely to organisational matters pertaining to the Company's Administration and Finance Department was approved by resolution of the Board of Directors of 10 May 2016, and with the favourable, unanimous opinion of the Audit & Risk Committee.

Detailed information on the Company's Related Party Transactions is provided in the Explanatory Notes to the Consolidated Financial Statements. During the reporting period, no atypical or unusual transactions were carried out with Related Parties. Furthermore, commercial transactions with Related Parties, also other than the Group companies, were carried out at fair market conditions. The financing transactions undertaken during the year with Related Parties are also discussed in Explanatory Notes to the Consolidated Financial Statements.

Formula 3 Championship
2018

Further Information

Significant events during the year

The General Shareholders' Meeting of the Parent Brembo S.p.A. held on 20 April 2018 approved the Financial Statements for the financial year ended 31 December 2017, allocating the net income for the year amounting to €149,484 thousand as follows:

- to the Shareholders, a gross ordinary dividend of €0.22 per ordinary share outstanding, excluding own shares;
- the remaining amount carried forward.

Plans for the buy-back and sale of own shares

The General Shareholders' Meeting held on 20 April 2018 passed a new plan for the buy-back and sale of own shares with the following objectives:

- undertaking any investments, directly or through intermediaries, including aimed at containing abnormal movements in stock prices, stabilising stock trading and prices, supporting the liquidity of Company's stock on the market, so as to foster the regular conduct of trading beyond normal fluctuations related to market performance, without prejudice in any case to compliance with applicable statutory provisions;
- carrying out, in accordance with the Company's strategic guidelines, share capital transactions or other transactions which make it necessary or appropriate to swap or transfer share packages through exchange, contribution, or any other available methods;
- buying back own shares as a medium-/long-term investment.

The maximum number of shares that may be purchased is 8,000,000 that, with the 8,735,000 own shares already held (2.616% of share capital), represents 5.012% of the Company's share capital. Own shares shall be purchased and sold up to a maximum of €144 million:

- at a minimum price which must be no lower than the closing price of the shares during the trading session on the day before each transaction is undertaken, reduced by 10%;
- at a maximum price which must be no greater than the closing price of the shares during the trading session on the day before each transaction is undertaken, increased by 10%.

The authorisation to buy back own shares is valid for a period of 18 months from the date of the resolution by the General Shareholders' Meeting.
Brembo has neither bought nor sold own shares in 2018.

Opt-Out from the obligations to publish disclosure documents

The Company has adopted the opt-out system envisaged by Article 70, paragraph 8, and Article 71, paragraph 1-*bis*, of the Rules for Issuers (Board's Resolution dated 17 December 2012), thus opting out from the obligation to publish the required disclosure documents in the case of significant mergers, de-mergers, capital increase by way of contributions in kind, acquisitions and disposals.

Subsidiaries formed under and governed by the laws of countries not belonging to the European Union – obligations under Articles 36 and 39 of market regulations

In accordance with the requirements of Articles 36 and 39 of the Market Regulations (adopted with Consob Resolution No. 16191 of 29 October 2007 and amended with Resolution No. 16530 of 25 June 2008), Brembo Group identified six subsidiaries based in four countries not belonging to the European Union that are of significant importance, as defined under paragraph 2 of the same Article 36, and therefore fall within the scope of application of the Regulations.

Brembo Group believes that its current administrative, accounting and reporting systems are adequate to ensure that the Parent's management and auditing firm receive any information regarding Statement of Income, Statement of Financial Position and Cash Flow figures, as necessary for preparing the consolidated financial statements.

For all companies included in the consolidation area, the Parent Brembo S.p.A. already has a copy of the By-laws and the composition and powers of the Corporate Bodies.

Reconciliation statement of Brembo S.p.A.'s equity/result with consolidated equity/result

The reconciliation of Equity and Result for the year, as reported in the Parent's Financial Statements, and the Equity and Result for the year recognised in the Consolidated Financial Statements reveals that the Group's Equity at 31 December 2018 was €676,813 thousand higher than the figure reported in the Brembo S.p.A. Financial Statements. Consolidated Net Result for the year, amounting to €238,349 thousand, was €124,243 thousand higher than that of Brembo S.p.A.

Economic results

(euro thousand)	Net income 2018	Equity at 31.12.2018	Net income 2017	Equity at 31.12.2017
Brembo S.p.A.	**114,106**	**522,267**	**149,484**	**479,616**
Consolidation adjustments:				
Equity of consolidated companies and allocation of their result	158,369	999,862	180,296	879,656
Goodwill and other allocated surplus	0	50,599	0	51,278
Elimination of intra-Group dividends	(42,075)	0	(72,330)	0
Book value of consolidated shareholdings	0	(401,448)	(53)	(392,789)
Valuation of shareholdings in associate companies/ JVs measured using the equity method	5,326	16,226	7,373	10,963
Elimination of intra-Group income	(434)	(6,073)	617	(5,491)
Other consolidation adjustments	6,184	47,389	2,513	41,204
Equity and result for the year attributable to minority interests	(3,127)	(29,742)	(4,472)	(27,625)
Total consolidation adjustments	**124,243**	**676,813**	**113,944**	**557,196**
GROUP CONSOLIDATED EQUITY AND RESULT	**238,349**	**1,199,080**	**263,428**	**1,036,812**

Foreseeable Evolution

In a complex market scenario, Brembo believes that it may confirm volumes and profitability consistent with those achieved in the year for which the Financial Statements have just been approved.

MXGP Motocross Championship
2018

#trust

The unshakable certainty of being able to rely blindly on someone. In the daily flow and when you need to go further. Much further.

Ferrari Challenge Championship
2018


SINGHA
ADLER
13
AUTOROPA
PIRELLI
IVECO
brembo

Corporate Governance and Ownership Structure Report

Brembo S.p.A.’s Corporate Governance and Ownership Structure Report pursuant to Article 123-*bis* of the Consolidated Law on Finance presented in an individual report, separate from the Directors’ Report on Operations, has been published at the same time as the latter and is available on Brembo’s website (www.brembo.com, *Company, Corporate Governance, Corporate Governance Reports* section).

Consolidated Disclosure of Non-Financial Information

The Consolidated Disclosure of Non-Financial Information for 2018 pursuant to Legislative Decree No. 254/2016 presented in an individual report, separate from the Directors’ Report on Operations, has been published at the same time as the latter and is available on Brembo’s website (www.brembo.com, in the *Sustainability, Report and Presentations* section).

Information About the Brembo S.p.A. Dividend Proposal

To conclude the description of the performance of the Brembo Group for the year ended 31 December 2018, based also on the examination of our Report concerning the Consolidated Financial Statements of the Brembo Group and the separate Financial Statements of Brembo S.p.A., in which we outlined the guidelines and operations, we submit for your approval our proposal for distributing Brembo S.p.A.'s net income amounting to €114,106,469.15, as follows:

- to the Shareholders, a gross ordinary dividend of €0.22 per ordinary share outstanding, excluding own shares (payment as of 22 May 2019, ex-coupon date 20 May 2019, and record date 21 May 2019);
- the remaining amount carried forward.

Stezzano, 4 March 2019

On behalf of the Board of Directors

The Executive Deputy Chairman
Matteo Tiraboschi

Formula E Championship
2018-2019

Brembo S.p.A. Stock Performance

After several years of significant growth in stock value, the Brembo stock closed 2018 at €8.89, down 29.8% compared to year-start.

The stock reached a high for the period of €13.60 on 22 May and a low of €8.84 on 27 December 2018.

During the same period, the FTSE MIB index (to which Brembo has belonged since 2 January 2017) and the BBG EMEA Automobiles Parts index dropped by 16.2% and 33.9%, respectively.

In 2018, the intensification of international trade tensions had an adverse impact on global trade, business confidence levels and manufacturing activity, particularly in the automotive sector. This was reflected in Brembo's stock performance, above all in the second half of the year.

However, the value of the Brembo stock has started to grow again compared to 31 December 2018, rising to €10.32 on 25 January 2019.

An overview of stock performance of Brembo S.p.A. is given below, compared with that of the previous year.

(euro thousand)	31.12.2018	31.12.2017
Share capital (euro)	34,727,914	34,727,914
No. of ordinary shares	333,922,250	333,922,250
Equity (excluding net income for the year) (euro)	408,160,135	330,131,986
Net income for the year (euro)	114,106,469	149,484,042
Trading price (euro)		
Minimum	8.84	11.83
Maximum	13.60	15.10
Year end	8.89	12.67
Market capitalisation (euro million)		
Minimum	2,952	3,950
Maximum	4,541	5,042
Year end	2,969	4,231
Gross dividend per share	0.22 (*)	0.22

(*) To be approved by the Shareholders' Meeting convened on 18 April 2019.

Further information and updates regarding stock performance and recent corporate information are provided on Brembo's website at www.brembo.com – *Investors* section
Investor Relations Manager: Laura Panseri

Monster Energy NASCAR Cup Series
2018


brembo
alpinestars
SKF
valsir
PittaRosso
GIVI
Unibat
cefla

Palmares 2018

MotoGP brake system
2018 Championship

Palmares - Brembo Brake systems

Cars

"Open wheels" Championships

Formula 1 (calipers)	
Drivers' Championship	Lewis Hamilton
Constructors' Championship	Mercedes AMG Petronas Motorsport
GP2/Formula 2 (calipers and master cylinders)	
Drivers' Championship	George Russell
Constructors' Championship	Carlin Motorsport
GP3	
Drivers' Championship	Anthoine Hubert
Constructors' Championship	ART Grand Prix
European F3	
Drivers' Championship	Mick Schumacher
Constructors' Championship	Prema Theodore Racing
Super Formula	
Drivers' Championship	Naoki Yamamoto
Constructors' Championship	Team Kondō Racing/Dallara - Toyota

"Covered wheels" Championships

Le Mans 24 Hours	
LMP1	Sébastien Buemi, Kazuki Nakajima, Fernando Alonso - Toyota Gazoo Racing
LMP2	Nicolas Lapierre, Pierre Thiriet, André Negrão - Signatech Alpine Matmut
GT PRO	Michael Christensen, Kévin Estre, Laurens Vanthoor - Porsche GT Team
GT AM	Matt Campbell, Christian Ried, Julien Andlauer - Dempsey Proton Racing Porsche 911 RSR
Blancpain GT Series	
Drivers' Championship	Raffaele Marciello
Constructors' Championship	AKKA ASP Mercedes GT

IMSA WeatherTech SportsCar Championship	
Class Prototype	Eric Curran, Felipe Nasr - Cadillac, Whelen Engineering Racing
Class Prototype Challenge	Kris Wright - Extreme Speed Motorsports
Class GTLM	Jan Magnussen, Antonio Garcia - Corvette Racing
Class GT Daytona	Bryan Sellers, Madison Snow - Paul Miller Racing
Pirelli World Challenge GT Series	
GT SprintX Champions	Toni Vilander, Miguel Molina - R. Ferri Motorsports
GTS	James Sofronas - GMG Racing
SCORE International Overall & Trophy Truck Class	
Drivers' Championship	Rob MacCachren - Ford F150 Trophy Truck
SCORE International Tecate SCORE Baja 1000	
Drivers' Championship	Cameron Steele - Desert Assasins team

Rally Championships

WRC	
Drivers' Championship	Sebastian Ogier, Julien Ingrassia - Ford RS Msport
WRC2	
Drivers' Championship	Jan Kopecký - Skoda Fabia R5
Constructor's Championship	Skoda Motorsport
WTCR	
Drivers' Championship	Gabriele Tarquini - BRC Racing Team
Constructors' Championship	MRacing - YMR Team

Motorbikes

Motorbike Championship

MotoGP	
Riders’ Championship	Marc Marquez - #93 Repsol Honda Team
Constructors’ Championship	Repsol Honda Team
Moto2	
Riders’ Championship	Francesco Bagnaia - #42 Sky Racing Team VR 46
Constructors’ Championship	Kalex
Moto3	
Riders’ Championship	Jorge Martín - #88 Gresini Racing Team
Constructors’ Championship	Gresini Racing Team

SBK World Championships

WSBK World Superbike	
Riders’ Championship	Jonathan Rea - #33 Kawasaki Racing Team
Constructors’ Championship	Kawasaki
World Superstock 1000	
Riders’ Championship	Markus Reiterberger - BMW S1000RR
SuperSport 600	
Riders’ Championship	Sandro Cortese - Yamaha YZF-R6
SuperSport 300	
Riders’ Championship	Ana Carrasco - Kawasaki ParkinGO Team
MotoAmerica Superbike	
Riders’ Championship	Cameron Beaubier - Yamaha YZF-R6

Off-road Championship

Motocross	
MXGP	Jeffrey Herlings - Red Bull KTM Factory Racing
MX2	Jorge Prado - Red Bull KTM Factory Racing
Trial	
Trial and X-Trial	Toni Bou - Montesa - HRC
Rally Raid	
Dakar	Matthias Walkner - Red Bull KTM Factory Racing

Palmares - Marchesini Wheels

Motorbikes

World SBK championships

World Superbike	
Riders' Championship	Jonathan Rea - Kawasaki Racing Team
FIM EWC	
Riders' Championship	Freddy Foray, Josh Hook, Alan Techer
Constructors' Championship	TSR Honda France

World SBK Championship
2018

Palmares - AP Racing 2018

Cars

"Open wheels" Championships

Formula 1 (clutches)	
Drivers' Championship	Lewis Hamilton
Constructors' Championship	Mercedes AMG Petronas Motorsport
Indycar (clutches)	
Drivers' Championship	Scott Dixon
Constructors' Championship	Chip Ganassi Racing
Indy 500 (clutches)	
Drivers' Championship	Will Power
Constructors' Championship	Penske Racing
European F3 Championship (clutches)	
Drivers' Championship	Mick Schumacher
Constructors' Championship	Prema Theodore Racing

NASCAR (no clutches)	
NASCAR Monster Energy Series	
Drivers' Championship	Joey Logano
Constructors' Championship	Penske Racing
Xfiniti Series	
Drivers' Championship	Tyler Reddick
Constructors' Championship	JR Motorsport

"Covered wheels" Championships

Le Mans 24 Hours	
LMP1 (clutches)	Sébastien Buemi, Kazuki Nakajima, Fernando Alonso - Toyota Gazoo Racing
LMP2	Nicolas Lapierre, Pierre Thiriet, André Negrão - Signatech Alpine Matmut
GT PRO (no clutches)	Michael Christensen, Kévin Estre, Laurens Vanthoor - Porsche GT Team
IMSA	
GTLM Class	Jan Magnussen, Antonio Garcia - Corvette Racing - C7R
ELMS	
LMP2 (no clutches)	Roman Rusinov, Andrea Pizzitola, Jean-Eric Vergne - G Drive Racing - Oreca 07 - Gibson
Blancpain GT Series	
Endurance	
Drivers' Championship	Yelmer Buurman, Maro Engel, Luca Stolz, Christian Engelhart
Constructors' Championship	Black Falcon - Mercedes AMG GT3
Overall (endurance and sprint)	
Drivers' Championship	Raffaele Marciello
Constructors' Championship	AKKA ASP - Mercedes AMG GT3
Touring Car	
British	
Drivers' Championship	Colin Turkington - Team BMW
Constructors' Championship	Team BMW
DTM	
Drivers' Championship (no clutches)	Gary Paffett - Team HWA
Australian V8 Supercar	
Drivers' Championship	Scott Mclaughlin - Shell V-Power - Ford Falcon
Constructors' Championship	Red Bull Holden Racing Team - Holden Commodore
WTCR (clutches)	
Drivers' Championship	Gabriele Tarquini - BRC Racing Team
Constructors' Championship	MRacing - YMR Team

European TCR	
Drivers' Championship	Mikel Azcona
Constructors' Championship	PCR Sport - Seat
UK TCR	
Drivers' Championship	Daniel Lloyd
Constructors' Championship	West Coast Racing - VW
Japanese Super GT	
Class 500 (no clutches)	
Drivers' Championship	Jenson Button, Naoki Yamamoto
Constructors' Championship	Raybrig NSX - GT
Class 300	
Drivers' Championship	Haruki Kurosawa, Naoya Gamou
Constructors' Championship	K2, R&D Leon Racing - CVSTOS AMG

Rally Championships

WRC (clutches)	
Drivers' Championship	Sebastian Ogier, Julien Ingrassia - Ford RS Msport
FIA Rally Raid	
Drivers' Championship	Kuba Przygoński - Attiyah-Mini All4 Racing X-Raid

68
PRO
Ford
Powered by
EcoBoost
PRO
68

brembo
enel
BOSS
Julius Bär
Allianz

Consolidated Financial Statements 2018

Formula E brake system
2018-2019 Championship

Consolidated Financial Statements at 31 December 2018

Consolidated Statement of Financial Position

Assets

(euro thousand)	Notes	31.12.2018	*of which with related parties*	31.12.2017	*of which with related parties*	Change
NON-CURRENT ASSETS						
Property, plant, equipment and other equipment	1	1,041,442		933,774		107,668
Development costs	2	73,304		61,323		11,981
Goodwill and other indefinite useful life assets	2	82,722		82,837		(115)
Other intangible assets	2	53,113		50,425		2,688
Shareholdings valued using the equity method	3	39,564		34,300		5,264
Other financial assets (including investments in other companies and derivatives)	4	8,190	*5,675*	6,769	*5,659*	1,421
Receivables and other non-current assets	5	2,981		3,832		(851)
Deferred tax assets	6	62,711		57,818		4,893
TOTAL NON-CURRENT ASSETS		**1,364,027**		**1,231,078**		**132,949**
CURRENT ASSETS						
Inventories	7	342,037	*9*	311,116	*9*	30,921
Trade receivables	8	407,414	*1,970*	375,719	*1,371*	31,695
Other receivables and current assets	9	72,132	*10*	80,455	*3*	(8,323)
Current financial assets and derivatives	10	307		296		11
Cash and cash equivalents	11	345,117		300,830		44,287
TOTAL CURRENT ASSETS		**1,167,007**		**1,068,416**		**98,591**
TOTAL ASSETS		**2,531,034**		**2,299,494**		**231,540**

Equity and liabilities

(euro thousand)	Notes	31.12.2018	*of which with related parties*	31.12.2017	*of which with related parties*	Change
GROUP EQUITY						
Share capital	12	34,728		34,728		0
Other reserves	12	108,784		112,838		(4,054)
Retained earnings/(losses)	12	817,219		625,818		191,401
Net result for the year	12	238,349		263,428		(25,079)
TOTAL GROUP EQUITY		**1,199,080**		**1,036,812**		**162,268**
TOTAL MINORITY INTERESTS		**29,742**		**27,625**		**2,117**
TOTAL EQUITY		**1,228,822**		**1,064,437**		**164,385**
NON-CURRENT LIABILITIES						
Non-current payables to banks	13	205,872		319,314		(113,442)
Other non-current financial payables and derivatives	13	1,572		2,344		(772)
Other non-current liabilities	14	3,095		19,927	*5,915*	(16,832)
Non-current provisions	15	15,500		39,613		(24,113)
Provisions for employee benefits	16	27,141	*4,445*	27,784	*3,697*	(643)
Deferred tax liabilities	6	23,705		24,716		(1,011)
TOTAL NON-CURRENT LIABILITIES		**276,885**		**433,698**		**(156,813)**
CURRENT LIABILITIES						
Current payables to banks	13	273,328		194,220		79,108
Other current financial payables and derivatives	13	1,563		3,845		(2,282)
Trade payables	17	566,737	*28,201*	470,390	*9,859*	96,347
Tax payables	18	6,003		9,719		(3,716)
Current provisions	15	13,504		2,244		11,260
Other current payables	19	164,192	*12,209*	120,941	*3,164*	43,251
TOTAL CURRENT LIABILITIES		**1,025,327**		**801,359**		**223,968**
TOTAL LIABILITIES		**1,302,212**		**1,235,057**		**67,155**
TOTAL EQUITY AND LIABILITIES		**2,531,034**		**2,299,494**		**231,540**

Consolidated Statement of Income

(euro thousand)	Notes	31.12.2018	*of which with related parties*	31.12.2017	*of which with related parties*	Change
Revenue from contracts with customers	20	**2,640,011**	***471***	**2,463,620**	***5,208***	**176,391**
Other revenues and income	21	34,607	*3,611*	24,150	*3,294*	10,457
Costs for capitalised internal works	22	25,339		24,219		1,120
Raw materials, consumables and goods	23	(1,262,994)	*(93,974)*	(1,177,255)	*(71,019)*	(85,739)
Income (expense) from non-financial investments	24	16,190		13,236		2,954
Other operating costs	25	(486,962)	*(8,271)*	(431,957)	*(6,144)*	(55,005)
Personnel expenses	26	(465,306)	*(8,496)*	(436,050)	*(8,894)*	(29,256)
GROSS OPERATING INCOME		**500,885**		**479,963**		**20,922**
Depreciation, amortisation and impairment losses	27	(155,821)		(133,701)		(22,120)
NET OPERATING INCOME		**345,064**		**346,262**		**(1,198)**
Interest income	*28*	*57,963*		*46,307*		*11,656*
Interest expense	*28*	*(77,904)*		*(57,220)*		*(20,684)*
Net interest income (expense)	28	(19,941)	*38*	(10,913)	*(255)*	(9,028)
Interest income (expense) from investments	29	234		188		46
RESULT BEFORE TAXES		**325,357**		**335,537**		**(10,180)**
Taxes	30	(83,881)		(67,637)		(16,244)
RESULT BEFORE MINORITY INTERESTS		**241,476**		**267,900**		**(26,424)**
Minority interests		(3,127)		(4,472)		1,345
NET RESULT FOR THE YEAR		**238,349**		**263,428**		**(25,079)**
BASIC/DILUTED EARNINGS PER SHARE (euro)	31	**0.73**		**0.81**		

Consolidated Statement of Comprehensive Income

(euro thousand)	31.12.2018	31.12.2017	Change
RESULT BEFORE MINORITY INTERESTS	**241,476**	**267,900**	**(26,424)**
Other comprehensive income/(losses) that will not be subsequently reclassified to income/(loss) for the year			
Effect of actuarial income/(loss) on defined benefit plans	(494)	3,672	(4,166)
Tax effect	70	(662)	732
Effect of actuarial income/(loss) on defined benefit plans, for companies valued using the equity method	(62)	(42)	(20)
Total other comprehensive income/(losses) that will not be subsequently reclassified to income/(loss) for the year	**(486)**	**2,968**	**(3,454)**
Other comprehensive income/(losses) that will be subsequently reclassified to income/(loss) for the year:			
Change in translation adjustment reserve	(4,264)	(23,704)	19,440
Total other comprehensive income/(losses) that will be subsequently reclassified to income/(loss) for the year	**(4,264)**	**(23,704)**	**19,440**
COMPREHENSIVE RESULT FOR THE YEAR	**236,726**	**247,164**	**(10,438)**
Of which attributable to:			
- Minority Interests	*2,917*	*3,228*	*(311)*
- the Group	*233,809*	*243,936*	*(10,127)*

24 Hours of Le Mans
2018

Consolidated Statement of Cash Flows

(euro thousand)	31.12.2018	31.12.2017
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (*)	**155,973**	**63,929**
Result before taxes	**325,357**	**335,537**
Depreciation, amortisation/impairment losses	155,821	133,701
Capital gains/losses	(3,319)	(968)
Income/expense from investments, net of dividends received	(5,326)	(7,373)
Financial portion of provisions for defined benefits and payables for personnel	539	600
Long-term provisions for employee benefits	2,628	2,194
Other provisions net of utilisations	(3,315)	10,776
Cash flows generated by operating activities	**472,385**	**474,467**
Current taxes paid	(77,602)	(70,336)
Uses of long-term provisions for employee benefits	(4,288)	(4,169)
(Increase) reduction in current assets:		
inventories	(27,311)	(31,154)
financial assets	(55)	101
trade receivables	(30,666)	(16,702)
receivables from others and other assets	6,925	(15,723)
Increase (reduction) in current liabilities:		
trade payables	96,347	41,860
payables to others and other liabilities	9,225	17,099
Translation differences on current assets	2,630	(11,663)
Net cash flows from/(for) operating activities	**447,590**	**383,780**

(euro thousand)	31.12.2018	31.12.2017
Investments in:		
intangible assets	(37,291)	(34,026)
property, plant and equipment	(250,447)	(326,658)
financial assets (shareholdings)	(1,350)	0
Price for disposal or reimbursement value of fixed assets	5,482	5,412
Net cash flows from/(for) investing activities	**(283,606)**	**(355,272)**
Dividends paid in the year	(71,541)	(65,037)
Dividend paid to minority shareholders in the year	(800)	0
Change in fair value of derivatives	814	556
Loans and financing granted by banks and other financial institutions in the year	7,864	210,251
Repayment of long-term loans and other financing	(56,555)	(93,578)
Net cash flows from/(for) financing activities	**(120,218)**	**52,192**
Total cash flows	**43,766**	**80,700**
Translation differences on cash and cash equivalents	(3,868)	11,344
CASH AND CASH EQUIVALENTS AT END OF YEAR (*)	**195,871**	**155,973**

(*) See Note 11 of the Explanatory Notes to the Consolidated Financial Statements for a reconciliation with financial statements data.

Formula E Championship
2018-2019

Consolidated Statement of Changes in Equity

(euro thousand)	Share capital	Other reserves: Reserves	Other reserves: Treasury shares	Retained earnings (losses)
Balance at 1 January 2017	**34,728**	**149,195**	**(13,476)**	**446,834**
Allocation of profit for the previous year				175,595
Payment of dividends				
Reclassification		(421)		421
Components of comprehensive income:				
Effect of actuarial income/(loss) on defined benefit plans				3,010
Effect of actuarial income/(loss) on defined benefit plans, for companies valued using the equity method				(42)
Change in translation adjustment reserve		(22,460)		
Net result for the year				
Balance at 1 January 2018	**34,728**	**126,314**	**(13,476)**	**625,818**
Allocation of profit for the previous year				191,887
Payment of dividends				
Components of comprehensive income:				
Effect of actuarial income/(loss) on defined benefit plans				(424)
Effect of actuarial income/(loss) on defined benefit plans, for companies valued using the equity method				(62)
Change in translation adjustment reserve		(4,054)		
Net result for the year				
Balance at 31 December 2018	**34,728**	**122,260**	**(13,476)**	**817,219**

Net result for the year	Group equity	Result of Minority Interests	Share capital and reserves of Minority Interests	Equity of Minority Interests	Equity
240,632	**857,913**	**2,363**	**22,034**	**24,397**	**882,310**
(175,595)	**0**	(2,363)	2,363	**0**	**0**
(65,037)	**(65,037)**			**0**	**(65,037)**
	0			**0**	**0**
	3,010			**0**	**3,010**
	(42)			**0**	**(42)**
	(22,460)		(1,244)	**(1,244)**	**(23,704)**
263,428	**263,428**	4,472		**4,472**	**267,900**
263,428	**1,036,812**	**4,472**	**23,153**	**27,625**	**1,064,437**
(191,887)	**0**	(4,472)	4,472	**0**	**0**
(71,541)	**(71,541)**		(800)	**(800)**	**(72,341)**
	(424)			**0**	**(424)**
	(62)			**0**	**(62)**
	(4,054)		(210)	**(210)**	**(4,264)**
238,349	**238,349**	3,127		**3,127**	**241,476**
238,349	**1,199,080**	**3,127**	**26,615**	**29,742**	**1,228,822**

Formula 3 Championship
2018


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MotoGP Championship
2018

Explanatory Notes to the Consolidated Financial Statements at 31 December 2018

Brembo's Activities

In the vehicle industry components sector, the Brembo Group is active in the research, design, production, assembly and sale of disc braking systems, wheels and light alloy and metal casting, in addition to mechanical processes in general.
The extensive product range consists of high-performance brake calipers, brake discs, wheel-side modules, complete braking systems and integrated engineering services, supporting the development of new models placed on the market by vehicle manufacturers. Brembo's products and services are used in the automotive industry, for light commercial and heavy industrial vehicles, motorbikes and racing competitions.
Manufacturing plants are located in Italy, Poland (Częstochowa, Dąbrowa Górnicza, Niepołomice), the United Kingdom (Coventry), the Czech Republic (Ostrava-Hrabová), Germany (Meitingen), Mexico (Apodaca and Escobedo), Brazil (Betim), Argentina (Buenos Aires), China (Nanjing, Langfang), India (Pune) and the United States (Homer). Other companies located in Spain (Zaragoza), Sweden (Göteborg), Germany (Leinfelden-Echterdingen), China (Qingdao), Japan (Tokyo) and Russia (Moscow) carry out distribution and sales activities.

Form and Content of the Consolidated Financial Statements

Introduction

The Consolidated Financial Statements of the Brembo Group for the year ended 31 December 2018 have been prepared in accordance with the provisions of European Regulation No. 1606/2002 and the IFRS effective at 31 December 2018, issued by the International Accounting Standard Board (IASB) and adopted by EC Regulations. IFRS means all international accounting standards and all interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC).
The Consolidated Financial Statements include the Consolidated Statement of Financial Position, the Consolidated Statement of Income, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Cash Flows, the Consolidated Statement of Changes in Equity, and these Explanatory Notes, in accordance with IFRS requirements.
On 4 March 2019, the Board of Directors approved the Consolidated Annual Report and requested that it be made available to the public and Consob, within the terms and according to the procedures provided for by applicable laws and regulations.

Basis of Preparation and Presentation

The Consolidated Financial Statements were prepared on the basis of draft Financial Statements for the year ended 31 December 2018, prepared by the Boards of Directors, or, when available, of Financial Statements approved at the Shareholders' Meetings of the relevant consolidated companies, appropriately adjusted to align them with Group classification criteria and accounting standards.
The Consolidated Financial Statements have been prepared in accordance with the general principle of providing a true and fair presentation of the Group's assets and liabilities, financial position, statement of income results and cash flows, based on the following general assumptions: going concern, accrual accounting, consistency of presentation, materiality and aggregation, prohibition of offsetting and comparative information.
The administrative period and the closing date for preparing the Consolidated Financial Statements correspond to the ones for the Financial Statements of the Parent and all the consolidated companies. The Consolidated Financial Statements are presented in euro, which is the functional currency of the Parent, Brembo S.p.A., and all amounts are rounded to the nearest thousand unless otherwise indicated.

The Consolidated Financial Statements provide comparison figures for the previous year. When applying an accounting standard or retroactively recognising an adjustment, or reclassifying financial statement items, the Group includes an additional column showing the Statement of Financial Position for the first comparison year.

The Group made the following choices in relation to the presentation of the Financial Statements:

- for the Consolidated Statement of Financial Position, there is separate disclosure of the current and non-current assets and the current and non-current liabilities. Current assets, which include cash and cash equivalents, are those assets which will be realised, sold or consumed within the Group's normal operating cycle; current liabilities are obligations that will be liquidated within the Group's normal operating cycle or within twelve months of the close of the accounting period;
- in the Consolidated Statement of Income, expense and income items are stated based on their nature;
- the Statement of Comprehensive Income has been reported in a separate statement;
- for the Consolidated Statement of Cash Flows, the indirect method was used, as indicated in IAS 7.

The Financial Statements presented herein comply with Consob resolution No. 15519 of 27 July 2006.

Discretionary Valuations and Significant Accounting Estimates

Preparing financial statements in compliance with the applicable accounting standards requires management to make estimates that may have a significant effect on the items reported in the accounts. Estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the current circumstances and given the information available at the reporting date. Actual results may differ from these estimates. Estimates and associated assumptions are reviewed on an ongoing basis. Revisions of estimates are recognised in the period in which such estimates are revised. Management's decisions that have a significant impact on the financial statements and estimates, and have a significant risk of material adjustments to the book value of assets and liabilities in the next accounting period, are discussed in the notes to the individual financial statement entries.

The main estimates are used to recognise the capitalisation of development costs, recognition of taxes (including the estimate of any tax liabilities associated with tax litigation, underway or that is likely to occur), impairment of non-financial assets and the actuarial assumptions used in the valuation of defined benefit plans. Other estimates relate to provisions for contingencies, inventory obsolescence, useful lives of certain assets, the recognition of lease contracts and the determination of the fair value of financial instruments, including derivatives.

In particular, the following items should be noted:

– Capitalisation of development costs: the initial capitalisation is based on management's judgment about the technical and economic feasibility of the project, usually when the project has reached a certain phase of the development plan. The project's expected future cash flows, the discount rates to be applied and the periods in which expected benefits will be generated are taken into consideration to determine the amounts to be capitalised. Further information is given in Note 2 of these Explanatory Notes;
– Recognition of taxes: deferred tax assets are recognised for all unused tax losses, to the extent that it is considered probable that there will be sufficient future taxable profit against which the loss can be utilised. Deferred tax liabilities for taxes on non-distributed profits of subsidiaries, associates or joint ventures are not recognised to the extent that it is considered probable that they will not be distributed in the foreseeable future. Therefore management has to make a significant estimate to determine the amount of deferred tax assets that can be recognised and deferred tax liabilities that it is possible not to recognise, based on the amount of future taxable profit, when it will be achieved and tax planning strategies. In light of the wide range of international commercial relations, the long-term nature and the complexity of current contractual agreements, any differences between actual results and formulated hypothesis, or future changes of those assumptions, may require future adjustments to previously recognised income taxes and expenses. Further information is given in Note 6 of these Explanatory Notes;
– Impairment of non-financial assets: an impairment loss occurs when the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount, which is the greater of its fair value less costs to sell and its value in use. Value in use is calculated according to a discounted cash flow model. Recoverable amount is highly dependant on the discount rate used in the discounted cash flow model, the expected future cash flows and the growth rate used for extrapolation; The key assumptions used to determine the recoverable amounts of the various cash-generating units, including a sensitivity analysis, are described in detail in Note 2 hereto;
– Actuarial assumptions used in the measurement of defined benefit plans: the cost of defined benefit pension plans and other post-employment medical care and the present value of the defined benefit obligation are determined according to an actuarial assessment. The actuarial assessment requires the use of various assumptions, which may differ from actual future developments. Such assumptions include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the assessment and its long-term nature, such estimates are extremely sensitive to changes in assumptions. All assumptions are reviewed annually. Further information is given in Note 16 of these Explanatory Notes.

Change in Accounting Standards and Disclosures

The valuation and measurement criteria used are based on IFRS in force as of 31 December 2018 and endorsed by the European Union.
The Group applied IFRS 15 and IFRS 9 for the first time. The impact and nature of the changes occurred following the adoption of these new accounting standards are illustrated below. Several other amendments and interpretations were applied for the first time in 2018, but they did not have any impact on the Group's Consolidated Financial Statements.

IFRS 9 – *Financial Instruments*

In July 2015, the IASB issued the final version of IFRS 9 – *Financial Instruments* which supersedes IAS 39 – *Financial Instruments: Recognition and Measurement*, and all previous versions of IFRS 9. IFRS 9 combines all aspects relating to financial instrument reporting: classification and measurement, impairment and hedge accounting. The standard is effective for the annual periods starting on 1 January 2018. With the exception of hedge accounting (which applies, except for a few cases, prospectively), the principle has to be applied retrospectively, but it is not mandatory to provide comparative information. The Group adopted the new standard from the date it entered into force.

a) Classification and valuation

The application of the classification and valuation requirements specified in IFRS 9 had no significant impacts on the Group's financial statements. Other financial assets, as well as trade receivables, are held for collection on the contractual due dates and are expected to generate cash flows consisting solely of capital and interest receipts. The Group will therefore continue to measure them in accordance with IFRS 9.

b) Impairment losses

IFRS 9 requires the Group to record expected impairment losses for all its own obligations, loans and trade receivables, on an annual basis or based on the residual term. The Group, which adopts the simplified approach, had no significant impacts on its equity given that its trade receivables are largely due from counterparties with a high credit rating (leading car manufacturers). With particular reference to these receivables, the Group confirms its policy regarding the provision for bad debts since the criterion applied adequately incorporates the expected credit losses. It should also be noted that the Group makes use of an internal rating system to evaluate certain suitably identified counterparties. This system analyses the last three financial statements available adding in predictive default indices.

c) Hedge accounting

The Group maintains that all existing hedges currently designated as effective hedges will continue to qualify for hedge accounting in accordance with IFRS 9. Given that IFRS 9 does not alter the general principle whereby an entity recognises effective hedges, the Group had no significant impacts from application of the standard. The Group assessed in detail the possible changes regarding the reporting of the time value of options, forward points and difference between the interest rates for two currencies. In its financial statements, the Company valued all the instruments at fair value; as a result, the gains and losses arising from the fair value measurement are immediately recognised in the Statement of Income. The Group uses derivatives to hedge against the exchange risk and, where applicable, the interest rate risk. If the Company decides to designate a new hedge accounting derivative, this will be disclosed in the financial statements, designating the hedge as effective.

IFRS 15 – *Revenue from Contracts with Customers*

IFRS 15 was issued in May 2014 and introduces a new five-step model that applies, with limited exceptions, to all revenue from contracts with customers. IFRS 15 provides for revenue to be measured for an amount that reflects the consideration to which the entity claims entitlement in exchange for transferring the goods or services to the customer. The new standard, which replaced all the current requirements set out in IFRS standards on revenue recognition, was adopted by the Group starting on 1 January 2018, with modified retrospective application.
The process of assessing the effects of the new Standard led to the identification of the following general contract categories: sale of brake systems, equipment, study and design activities, and royalties.

Brake systems

The application of the new Standard had no impacts on contracts with customers in which the sale of the brake system is the sole obligation ("at a point in time"), since revenue will be recognised when control of the asset is transferred to the customer, which generally coincides with the moment of delivery (the warranties set out in the contracts are also general and not extended and, as a result, the Group expects that they will continue to be accounted for in accordance with IAS 37). The Group's order backlog also includes supply contracts, nomination letters and supply orders for brake systems that, according to commercial practice and the typical nature of the sector, effectively qualify as contracts in which the obligation is resolved over time: in this case, the Group applies the "right to invoice" expedient in calculating the portion of the contractual obligation satisfied as at the date concerned and the related revenues to be recognised in the Statement of Income.

Equipment

The Group supplies equipment sold separately from the brake systems; this becomes the full property of the customer, which acquires control over it and the capacity to use it, at the time it is delivered and invoiced.

Study and design activities

The Group recognises revenue from its own customers for contributions to development activities of brake systems that mirror the characteristics required by the customer itself. The services requested by the customer may regard primary product development, in which case the revenue is suspended until the development process is completed and then is recognised over the useful life of the product to which the contribution refers (the time horizon is estimated at an average of five years), or the customer may request only development following primary development, in which case the revenue is recognised when control (along with the risks/rewards) is transferred to the customer, i.e., upon invoicing to the customer.

Royalties

Royalties are invoiced in accordance with contractual conditions and the related revenue is recognised on an accrual basis.
According to the Group's analyses of this type of contract, the application of the Standard had no material impact on the Group's equity at 31 December 2017 and 31 December 2018.

Illustrated below are accounting standards and interpretations already issued but not yet in force as at the date these Consolidated Financial Statements were prepared. The company intends to adopt these standards and interpretations, where applicable, on the date they will enter into force.

IFRS 16 – *Leases*

IFRS 16 was published in January 2016 and replaces IAS 17, IFRIC 4, SIC-15 and SIC-27. IFRS 16 defines the principles for recognising, measuring, presenting and reporting leasing contracts. It requires lessees to recognise all leasing contracts in the financial statements on the basis of a single accounting model similar to that used to recognise finance leases that were governed by IAS 17. The standard provides for two exemptions for lessees' recognition of leasing contracts: low-value assets (e.g., personal computers) and short-term leasing contracts (e.g., lease terms of 12 months or less). On the leasing contract start date, the lessee will recognise a liability for payments of rental fees specified in the leasing contract and an asset representing the right to use the underlying asset for the period of the contract. Lessees will have to recognise separately the interest paid on the leasing liability and amortisation of the right to use the asset. Lessees will also have to re-measure the leasing liability when certain events happen (e.g., a change in leasing contract conditions, a change in future lease payments caused by a change in an index or rate used to determine those payments). The lessee will generally recognise the re-measured amount of the leasing liability as an adjustment to the right to use the asset. The reporting system provided for in IFRS 16 will remain substantially unchanged for lessors who will continue to classify all leases using the same classification principle as in IAS 17, distinguishing operating leases and finance leases.

IFRS 16 entered into force for years starting 1 January 2019 or thereafter with full retrospective or modified application. Early adoption is allowed, but not before the entity has adopted IFRS 15. The Group plans to apply the new standard from the mandatory effective date, using the modified retrospective method, option B, without restating contracts already in place at 1 January 2019 and not applying the standard to low-value and short-term assets.

The Group has carried out a detailed analysis of the impacts of IFRS 16: the effect from the application of the new Standard on Net Invested Capital and Net Financial Position (net present value of future rental fees) amounts to €178,754 thousand. This value differs from the operating lease value indicated in note 13 of the Explanatory Notes (€231,820 thousand) due to the discounting of future flows (applying an average weighted discount rate of 2.82%, using the "incremental borrowing" criterion), as well as of the service component not covered by this standard, and that of low value and short-term leases.

The related reconciliation is shown below:

Operating leases as at 31 December 2018	231,820
Short-term leases	(3,122)
Low-value leases	(11,819)
Service component	(2,743)
Undiscounted leases as at 1 January 2019	**214,136**
Impact resulting from discounting as per IFRS16	(35,382)
Discounted leases as at 1 January 2019 (IFRS16)	**178,754**

#result

Some say that victory is not important, but it is the only thing that matters. Yes, we too have embraced this way of thinking.

24 Hours of Le Mans
2018

Other standards or amendments are summarised in the following table:

Description	Endorsed at the reporting date	Expected date of entry into force
Amendments to IFRS 10 and IAS 28: *Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture* (issued in September 2014)	NO	not defined
Annual Improvements to IFRS Standards 2015-2017 Cycle (issued in December 2017)	NO	1 January 2019
IAS 28: *Long-term Interests in Associates and Joint Ventures*	YES	1 January 2019
IFRS 9: *Prepayment Features with Negative Compensation*	YES	1 January 2019
IAS 19: *Plan Amendment, Curtailment or Settlement*	YES	1 January 2019
IFRIC 23: *Uncertainty over Income Tax Treatments* (issued in June 2017)	YES	1 January 2019
Amendments to References to the Conceptual Framework in IFRS Standards (issued in March 2018)	YES	1 January 2020
Amendment to IFRS 3: *Business Combinations* (issued in October 2018)	NO	1 January 2020
Amendments to IAS 1 and IAS 8: *Definition of Material* (issued in October 2018)	NO	1 January 2020
IFRS 17: *Insurance Contracts* (issued in May 2017)	NO	1 January 2021

The Group did not opt for early adoption of new standards, interpretations or amendments that have been issued but have not entered into force yet.

Consolidation Criteria

The Consolidated Financial Statements include the Financial Statements of the Parent, Brembo S.p.A., at 31 December 2018, and the Financial Statements of the companies controlled by Brembo S.p.A. pursuant to IFRS 10. Control arises when the Group is exposed, or has rights, to variable returns from its involvement with the investee and at the same time has the ability to influence those returns through its power over the said investee.

Specifically, the Group controls an investee if, and only if, the Group has:
- power over the investee (i.e., existing rights that give the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee;
- ability to exert power over the investee to influence the amount of the investor's returns.

It is generally presumed that the majority of voting rights confers control. In support of this assumption, where the Group holds less than the majority of voting rights (or similar rights), the Group considers all facts and circumstances relevant to determining whether it controls the investee, including:
- contractual agreements with other vote-holders;
- rights under contractual agreements;
- the Group's actual and potential voting rights.

The Group reconsiders whether it controls an investee if the facts and circumstances indicate that there have been changes in one or more of the three factors relevant to determining control. A subsidiary begins to be consolidated when the Group obtains control of it and ceases to be consolidated when the Group loses control. The assets, liabilities, revenues and costs of a subsidiary acquired or disposed of during the year are included in the Consolidated Financial Statements from the date the Group obtains control until the date the Group no longer controls the company.

Income (loss) for the year and other comprehensive income components are allocated to the shareholders of the Parent and minority interests, even if this results in a negative balance for the minority interests. Where necessary, the appropriate adjustments are applied to the financial statements of subsidiaries, so as to ensure compliance with the Group's accounting policies. All intra-group assets and liabilities, equity, revenues, costs and cash flows relating to transactions between Group entities are completely eliminated during the consolidation process.

Changes in percent interests in a subsidiary that do not entail a loss of control are recognised at equity.

If the Group loses control of a subsidiary, it eliminates the related assets (including goodwill), liabilities, minority interests and other components of equity, while any profit or loss is recognised in the Statement of Income. The residual interest, if any, is measured at fair value.

Consolidation Area

The list of consolidated subsidiaries, associates and joint ventures that are accounted for using the equity method, along with information regarding their registered offices and the percentage of capital held, is included in the paragraph "Information About the Group" of these Explanatory Notes. No corporate transactions impacting the Group consolidation area were performed in 2018.

Accounting Standards and Valuation Criteria

Business Combinations and Goodwill

Business combinations (established after the date of transition to IFRS) are accounted for using the purchase accounting method envisaged by IFRS 3.
The value of the entity included in the business combination is the sum of the fair value of the assets acquired and liabilities assumed, including contingent liabilities.
The cost of a business combination is identified as the fair value, at the date control is obtained, of the assets acquired, liabilities assumed and equity instruments issued for the purposes of the combination. That cost is then compared with the fair value of the identifiable assets, liabilities and contingent liabilities upon acquisition. Any excess of cost of the acquisition over the Group's share of the fair value of the identifiable assets, liabilities and contingent liabilities upon acquisition is recognised as goodwill. Any negative differences are charged directly to the Statement of Income. If the initial cost of a business combination can only be determined provisionally, adjustments to the initial provisional values must be made within twelve months of the acquisition date. Minority interests are recognised on the basis of the fair value of the net assets acquired. If a business combination involves more than one transaction, with successive share purchases, each transaction is treated separately using the cost of the transaction and fair value information on the assets, liabilities and contingent liabilities at the date of each transaction to determine the amount of any differences. When control of a company is obtained through a subsequent share purchase, the previously held interests are accounted for based on the fair value of identifiable assets, liabilities and contingent liabilities at the date control is acquired.
The acquiree measures contingent consideration at fair value at acquisition date. The change in fair value of contingent consideration classified as an asset or liability, in that it is a financial instrument falling within the scope of IFRS 9, must be recognised in profit or loss or in Other Comprehensive Income. If the additional consideration is not within the scope of IFRS 9, it is measured in accordance with the relevant IFRS. If the contingent consideration

is classified as an equity instrument, the original amount is not remeasured and its subsequent settlement is recognised in equity.
Goodwill is initially recognised at cost, as the difference of the aggregate of the value of the consideration transferred and the amount attributed to minority interests compared to net identifiable assets acquired and liabilities assumed by the Group. If the consideration is lower than fair value of net assets of the acquired subsidiary, the difference is recognised in profit or loss.
After initial recognition, goodwill is measured at cost less any impairment losses. For the purposes of impairment testing, goodwill acquired in a business combination is allocated from the acquisition date to each of the Group's cash-generating units that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree have been assigned to those units.
If goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal. The goodwill associated with the operation disposed of is measured on the basis of the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Equity Investments in Associates and Joint Ventures

An associate is a company over which the Group exercises significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, without exercising control or joint control over the investee.
A joint venture is a joint arrangement whereby the parties that have joint control have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control, which exists only when decisions about the relevant activities require the unanimous consent of all parties sharing control.
Considerations used to determine significant influence or joint control are similar to those required to determine control of subsidiaries.
The Group's equity investments in associates and joint ventures are accounted for using the equity method. Under the equity method, an equity investment in an associate or a joint venture is initially recognised at cost. The carrying amount is increased or decreased to recognise the investor's share of the investee's profit or loss realised after the acquisition date. The goodwill related to the associate or joint venture is included in the carrying amount of the investment and is not tested separately for impairment.
The Statement of Income reflects the Group's share of the profits or losses of the associate or joint venture. All changes in Other Comprehensive Income relating to such investees have been presented in the Group's Statement of Other Comprehensive Income. In addition, when an associate or a joint venture recognises a change directly in equity, the Group recognises its share of that change, where applicable, in its Statement of Changes in Equity. Unrealised gains and losses on transactions between the Group and associates or joint ventures are eliminated in proportion to the interest held in the associates or joint ventures.
The aggregate share of the net result of associates and joint ventures attributable to the Group is recognised in the Statement of Income and represents the income or loss after taxes and the amounts attributable to the other shareholders of the associate or joint venture.
The financial statements of associates and joint ventures are prepared at the same reporting date as the Group's Financial Statements. Where necessary, such financial statements are adjusted to bring them into line with the Group's accounting standards.
Once the equity method has been applied, at each reporting date the Group assesses whether there is objective evidence that the investments in the associates or joint ventures have become impaired. In such cases, the Group calculates the amount of the loss as the difference between the recoverable amount of the associate or

joint venture and the carrying amount of the investment in its financial statements, and then accounts for that difference in the Statement of Income.
When significant influence over an associate or joint control of a joint venture is lost, the Group measures and recognises the residual investment at fair value. The difference between the carrying amount of the investment at the date significant influence or joint control is lost and the fair value of the residual investment and consideration received is recognised in the Statement of Income.

Conversion of Items Denominated in Foreign Currencies

Conversion of the Financial Statements of Foreign Companies

The financial statements of the Group Companies included in the Consolidated Financial Statements are denominated in the currency used in the primary market in which they operate (functional currency). The Group Consolidated Financial Statements are denominated in euro, which is the functional currency of the Parent Brembo S.p.A.
At year end, the assets and liabilities of subsidiaries, associate companies and joint ventures whose functional currency is not the euro are translated into the currency used to prepare the consolidated Group accounts at the exchange rate prevailing at that date. Statement of Income items are translated at the average exchange rate for the period (as it is considered to represent the average of the exchange rates prevailing on the dates of the individual transactions). The differences arising from the translation of initial equity at end-of-period exchange rates and the differences arising as a result of the different method used for translating the result for the period are recognised under a specific heading of equity. If consolidated foreign companies are subsequently sold, accumulated conversion differences are recognised in the Statement of Income.

The following table shows the exchange rates used in the translation of financial statements denominated in currencies other than the Group's functional currency (euro).

Euro against other currencies	31.12.2018	2018 average	31.12.2017	2017 average
U.S. Dollar	1.145000	1.181490	1.199300	1.129283
Japanese Yen	125.850000	130.409562	135.010000	126.654565
Swedish Krona	10.254800	10.256743	9.843800	9.636873
Polish Zloty	4.301400	4.260575	4.177000	4.256310
Czech Koruna	25.724000	25.643155	25.535000	26.327176
Mexican Peso	22.492100	22.716019	23.661200	21.327801
Pound Sterling	0.894530	0.884747	0.887230	0.876145
Brazil Real	4.444000	4.308730	3.972900	3.604102
Indian Rupee	79.729800	80.727734	76.605500	73.498019
Argentine Peso	43.159300	32.908882	22.931000	18.698455
Chinese Renminbi	7.875100	7.807350	7.804400	7.626438
Russian Rouble	79.715300	74.055072	69.392000	65.887664

Transactions in Currencies Other than the Functional Currency

Transactions in currencies other than the functional currency are initially converted into the functional currency using the exchange rate prevailing at the date of the transaction. At the closing date of the accounting period,

monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency at the exchange rate prevailing at that date. Exchange differences arising from such translation are recognised in the Statement of Income.
Non-monetary assets and liabilities denominated in currencies other than the functional currency that are carried at cost are translated using the exchange rate prevailing at the transaction date, while those carried at fair value are translated using the exchange rate prevailing on the date the fair value is determined.

Property, Plant, Equipment and Other Equipment

Recognition and measurement

Property, plant, equipment and other equipment are recognised at cost, net of the related accumulated depreciation and any impairment loss. The cost includes the purchase or production price and direct costs incurred for bringing the asset to the location and condition necessary for it to be capable of being operated; interest expense is also included, where applicable under IAS 23.
Subsequent to initial recognition, the asset continues to be carried at cost and depreciated based on its remaining useful life net of any impairment in value, taking into account any residual value.
Land, including land linked to buildings, is recognised separately and is not depreciated since it is regarded as having an indefinite useful life.

Subsequent costs

Costs for improvements and transformations that increase the value of assets (i.e., they result in probable future economic rewards that can be reliably measured) are recognised in the assets section of the Statements of Financial Position as increases to the assets in question or as separate assets. Costs are written off in the year in which they are incurred, where they relate to maintenance or repair and do not lead to any significant and measurable increase in productive capacity or in the useful life of the relevant asset.

Depreciation

Depreciation represents the economic and technical loss of value of the asset and is charged from when the asset is available for use; it is calculated using the straight-line method based on the rate considered representative of the useful life of the asset.

The range of expected useful lives of property, plant and equipment used for calculating depreciation is reported below:

Category	Useful life
Land	Indefinite
Buildings	10 - 35 years
Plant and machinery	5 - 20 years
Industrial and commercial equipment	2.5 - 10 years
Other assets	4 - 10 years

The residual values, useful lives and depreciation methods applied to property, plant and equipment are reviewed at the end of each year and prospectively corrected, where appropriate. Useful lives are unchanged compared to the previous year.

Leases
Assets held under finance leases (where the Group assumes substantially all the risks and rewards of ownership) are recognised and recorded at the inception of the lease under property, plant and equipment at the lower of fair value of the leased asset or the present value of the lease payments. The corresponding liability to the lessor is recorded under financial debt. The methods used to calculate depreciation and the subsequent valuation of the asset are consistent with those used for directly owned assets. Finance leases where the lessor retains substantially all the risks and rewards incident to ownership are classified as operating leases. Lease payments are recognised in the Statement of Income on a straight-line basis over the lease term.

Leasehold improvements
Improvements to third-party assets that can be considered fixed assets are capitalised to the appropriate asset category and depreciated over the shorter of their useful life or the lease term.

Development Costs and Other Intangible Assets

The Group recognises intangible assets when the following conditions are met:
- the asset is identifiable, or separable, or can be separated or removed from the entity;
- the asset is controlled by the Group, meaning that the company has the power to obtain future economic rewards from the asset;
- it is probable that the Group will enjoy future rewards attributable to the asset.

Intangible assets are initially measured at cost; subsequent to initial recognition, they are carried at cost less amortisation (except for goodwill and other intangible assets with indefinite useful lives), which is calculated using the straight-line method (beginning on the date the assets are available for use) over their useful lives, and net of any impairment losses, taking into account any residual value. The useful life of assets is reviewed periodically.

An intangible asset generated in the development phase of an internal project is recognised as asset if the Group can demonstrate:
- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and the ability to use or sell it;
- how the intangible asset will generate probable future economic rewards;
- the availability of adequate resources to complete the development;
- the ability to measure reliably the expenditure attributable to the intangible asset during its development;
- the ability to use the intangible asset generated.

Development costs are recognised in the Statement of Income. Similarly, in the case of externally acquired intangibles that qualify as research and development costs, only the costs attributable to the development phase are recognised as assets, provided that the above requirements are met.
Such costs are capitalised under “Development costs” and amortised when the development phase is concluded and the asset developed generates economic rewards. In the period in which internal development costs that can be capitalised are incurred, these costs are excluded from the Statement of Income item “Increase on internal works capitalised” and recognised in the item “Costs for capitalised internal works”.

The range of expected useful lives of intangible fixed assets used for calculating amortisation is reported below:

Category	Useful life
Development costs	3 - 5 years
Goodwill and other fixed assets with indefinite useful lives	Indefinite
Industrial patents and similar rights	5 - 10 years
Other intangible assets	3 - 5 years

The residual values, useful lives and amortisation methods applied to intangible assets are reviewed at the end of each year and prospectively corrected, where appropriate. Useful lives are unchanged compared to the previous year.

Impairment of Non-Financial Assets

Goodwill, intangible assets with an indefinite life and development costs underway are systematically tested for impairment at least once a year, and whenever there are any indications of impairment.
Property, plant and equipment, as well as intangible assets that are subject to depreciation and amortisation are tested for impairment whenever indications of impairment arise.
Write-downs correspond to the difference between the carrying value and recoverable value of the assets in question. The recoverable value is the greater of the fair value of an asset or cash-generating unit less the costs of disposal and the value in use, determined as the present value of estimated future cash flows. The value in use is defined as the cash flows expected to arise from the use of an asset, or the sum of the cash flows in the case of more cash-generating units. The expected future cash flows are measured using the unlevered discounted cash flows method and each group of assets is discounted to the present value using the WACC method (weighted average cost of capital). If the recoverable amount is less than the carrying amount, the carrying amount is reduced to the recoverable amount, and, as a general rule, the impairment loss is recorded in the Statement of Income.
When the impairment loss of an asset (except for goodwill) is subsequently reversed, the carrying value of the asset (or cash-generating unit) is increased to the new estimate of recoverable value, without exceeding the value prior to write-down.

Inventories

Inventories of raw materials and finished products are stated at the lower of cost of acquisition or market value and the corresponding presumable net realisable value estimated from market trends.
The purchase cost includes costs incurred to bring each asset to the place it is stored. Manufacturing costs of finished products and semi-finished goods include direct costs and a portion of indirect costs that can be reasonably attributed to the products based on normal exploitation of the production capacity; interest expense is excluded. Work in progress is valued at production costs for the year, based on the progress report.
The cost of inventories of raw materials, finished goods, goods for resale and work-in-progress is calculated using the weighted mean cost method.

For raw materials, ancillaries and consumables, the presumable net realisable value corresponds to the replacement cost. For finished products and semi-finished goods, the presumable net realisable value corresponds to the estimated sales price in the ordinary course of business, less the estimated costs of completion and costs to sell.
Inventories that are obsolete or characterised by a long turnover period are written down on the basis of their possible useful life or realisable value, by creating a special provision for inventory adjustment.

Cash and Cash Equivalents

Cash and cash equivalents include cash balances, unrestricted deposits and other treasury investments with original maturities of up to three months.
A treasury investment is considered as availability, when it is instantly convertible to cash with minimal risk of any fluctuation in value and, further, it is intended to meet short-term cash requirements and is not held as an investment.
For purposes of the Statement of Cash Flows, cash balances are stated net of bank overdrafts at the end of the period.

Provisions

Provisions include certain or probable costs of a specific nature, the amount or settlement date of which could not be determined at year end.
A provision is recognised when:

- there is a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources will be required to settle the obligation;
- a reliable estimate can be made of the amount of the obligation.

Provisions are recognised at the present value of the expected expenditure required to settle the obligation in question. Where the Group expects some or all of the expenditure required to settle a provision to be reimbursed, such as for the case of insured risks, the reimbursement is treated as a separate asset and is recognised when, and only when, it is virtually certain that the reimbursement will be received. In this case, the expense relating to the provision is presented in the Statement of Income net of the amount recognised for the reimbursement.
Provisions are periodically updated to reflect changes in cost estimates, timing and present value, if any; revisions to estimates are recognised under the same heading of the Statement of Income under which the original provision was recognised and in the Statement of Income of the period in which the change is made. When provisions are discounted to present value, the change resulting from the passage of time or interest rate fluctuations is recognised under “Net interest income (expense)”.

Any provisions for restructuring costs are recognised when the company involved has approved a formal detailed plan and communicated it to the parties concerned.

Provisions for product warranty costs are recognised when products are sold. Initial recognition is based on historical experience. The initial estimate of the costs of warranty work is reviewed annually.


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Employee Benefits

The difference between defined contribution plans, wholly unfunded defined benefit plans, wholly or partly funded defined benefit plans and other forms of long-term benefits is reported below.

Defined contribution plans

Defined contribution plans are post-employment benefit plans under which a company pays contributions to an insurance company or pension fund and has no legal or constructive obligation to pay further contributions if, when the benefit right matures, the fund does not have sufficient assets to pay all benefits relating to employee service in the current or prior periods.
These contributions, which are paid for the services rendered by employees, are recognised in the same accounting period in which the services are rendered.

Defined benefit plans and other long-term benefits

Defined benefit plans are post-employment benefit plans that entail a future obligation for the company. The company assumes actuarial and investment risks in relation to the plan.
To determine the present value of its obligations relating to such plans and the related service costs, the Group uses the “Projected Unit Credit Method”.
This actuarial calculation method requires the use of unbiased and mutually compatible actuarial assumptions about demographic variables (mortality rate and employee turnover rate) and financial variables (discount rates and future increases in salary and benefits). When a defined benefit plan is wholly or partly funded by contributions paid either into a fund that is legally separate from the company or to an insurance company, any plan assets are measured at fair value. The obligation is therefore stated net of the fair value of the plan assets that will be used to directly meet such obligation.
Remeasurements, which include actuarial gains and losses, any changes in the effect of the assets ceiling (excluding net interest) and return on plan assets (excluding net interest) are recognised immediately in the Statement of Financial Position, debiting or crediting retained earnings through Other Comprehensive Income in the period in which they occur. Remeasurements are not reclassified through profit or loss in the following years.
Other long-term benefits refer to employee benefits other than post-employment benefits. They are accounted for in the same manner as defined benefit plans.

Own Shares

Own shares reacquired are recognised at cost and are deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, or cancellation of the company’s own shares. The difference between the carrying amount and the consideration, in case of reissue, is recognised in the share premium reserve.

Government Grants

Government grants are recognised at fair value, when there is reasonable assurance that all necessary conditions attached to them have been satisfied and the grants will be received.
Grants received in recognition of specific expenses are recognised as liabilities and credited to the Statement of Income on a systematic basis over the periods necessary to match the grant income with the related expenditure.

Grants received for defined assets that are recognised as fixed assets are accounted for as non-current liabilities and credited to the Statement of Income in relation to the period in which depreciation or amortisation is charged for the relevant assets.

Fair Value Measurement

The Group measures financial instruments, such as derivatives, at fair value at the end of each financial period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value measurement assumes a sale of the asset or transfer of the liability taking place:

- in the principal market for the asset or liability; or
- in the absence of a principal market, the most advantageous market for the asset or liability.

The principal or most advantageous market must be accessible to the Group.

Fair value measurement takes into account the characteristics of the asset or liability being measured that market participants would consider when pricing the asset or liability, assuming that market participants act with the aim of best satisfying their economic interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic rewards by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques appropriate to the circumstances and for which sufficient data for fair value measurement are available, thus maximising the use of observable inputs and minimising the use of unobservable inputs.

All assets and liabilities, the fair value of which has been measured or recognised in the financial statements, are categorised based on the fair value hierarchy, as described below:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 - inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 - measurement techniques whereby inputs are unobservable inputs for the asset or liability.

The fair value measurement is categorised in its entirety in the hierarchy level of the lowest level input that has been used for the measurement.

For assets and liabilities that are measured at fair value on a recurring basis, the Group determines whether shifts have occurred between hierarchy levels and revises the categorisation (based on the lowest level input that is significant to the entire fair value measurement) at the end of each financial period.

Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

Financial assets are initially recognised at their fair value, plus ancillary costs. Upon initial recognition, financial assets are classified, depending on their nature, in the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans, receivables and financial assets available for sale.
Loans and receivables (the category of greatest significance for the Group) are non-derivative financial assets, with fixed or determinable payments, that are not quoted in an active market. After initial recognition, such financial assets are measured at amortised cost, using the effective interest rate method, less impairment losses. Amortised cost is calculated by including any discounts, premiums or fees and/or costs, which are an integral part of the effective interest rate. The effective interest rate is recognised as interest income in the Statement of Income. Impairment losses are recognised in the Statement of Income as interest expense. This category normally includes trade and other receivables.
When accounting for financial assets measured at amortised cost, the Group first assesses whether impairment exists for each financial assets that are individually significant, and collectively for financial assets that are not individually significant. The carrying amount of an asset is reduced by recognising a write-down provision, and the amount of the loss is recognised in the Statement of Income. Loans and the associated write-down provisions are derecognised when there is no realistic prospect that they may be recovered in future and the guarantees have been enforced or transferred to the Group. If, in a subsequent year, the amount of an estimated impairment loss increases or decreases because of an event occurring after the impairment is recognised, the previously recognised impairment loss is increased or decreased by adjusting the provision.
Financial assets are removed from the Statement of Financial Position when the right to receive cash flows ceases, the Group transfers the right to receive cash flows from the asset to a third party, or the Group assumes a contractual obligation to pay them in full and without delay, and (1) it has transferred substantially all of the risks and rewards of ownership of the financial asset, or (2) it has neither transferred nor retained substantially all of the risks and rewards of the asset, but has transferred control of the asset.
Where the Group has transferred the rights to receive the cash flows from an asset, or has entered into a contractual arrangement whereby it retains its contractual right to receive the cash flows from the asset, but assumes a contractual obligation to pay cash flows to one or more beneficiaries (pass-through arrangement), it evaluates the extent to which it has retained the risks and rewards of ownership.
Equity investments in other entities are measured at fair value; when the fair value cannot be reliably determined, equity investments are measured at cost adjusted for impairment.

Financial liabilities

Upon initial recognition, financial liabilities are classified among financial liabilities at fair value through profit or loss, loans and financing or derivatives designated as hedging instruments. All financial liabilities are initially recognised at fair value, in addition to directly attributable transaction costs, in the cases of loans, financing and payables. The Group’s financial liabilities extend to trade payables and other payables, loans and financing, including account overdrafts, guarantees issued and derivative financial instruments.
Loans and payables (the category of greatest significance for the Group) are measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the Statement of Income when the liability is extinguished, as well as through the amortisation process.

Amortised cost is calculated by including the discount or premium, as well as costs and fees, which are an integral part of the effective interest rate. Amortisation at the effective interest rate is included among interest expense in the Statement of Income, on the basis of their classification.
Financial guarantees issued are contracts that require a payment to reimburse the holder of a debt instrument for a loss incurred by the holder due to default by the debtor on payment at the contractual due date. When the Group issues financial guarantees, the financial guarantee contracts are initially recognised as liabilities at fair value, plus the transaction costs directly attributable to issuing the guarantee. The liability is then measured at the greater of the best estimate of the outlay required to meet the guaranteed obligation at the reporting date and the initially recognised amount, less cumulative amortisation.
A financial liability is derecognised when the obligation underlying the liability is extinguished, cancelled or discharged. Where one existing financial liability is replaced by another attributable to the same borrower with substantially different conditions, or the conditions of an existing liability are substantially modified, such exchange or modification is accounted for by derecognising the original liability and recognising a new liability, with any differences between carrying amounts recognised in the Statement of Income.

Offsetting of Financial Instruments

A financial asset and a financial liability may be set off against one another, and the net balance presented in the Statement of Financial Position, if there is a legally enforceable right to set off the recognised amounts and the entity intends either to settle on a net basis or realise the asset and settle the liability simultaneously.
Loans, payables and other financial and/or trade liabilities with a fixed or determinable maturity are initially recognised at fair value, net of the transaction costs. After initial recognition, these payables are evaluated using the criterion of amortised cost at the effective interest rate.
Long-term debts for which an interest rate is not specified are recognised by discounting future cash flows at market rate, if the increase in payables arises from the passage of time, with subsequent recognition of interest through profit or loss, in item “Net interest income (expense)”.
A financial liability is derecognised when the obligation underlying the liability is extinguished, cancelled or discharged.

Derivatives

Derivatives, including embedded derivatives separated from their host contracts, are initially recognised at fair value. Derivatives are classified as hedging instruments when the relationship between the derivative and the object of the hedge is formally documented and the degree of coverage, which is periodically checked, is high.
When hedging derivatives hedge the risk of changes in the fair values of the hedged instruments, they are recognised at fair value through profit or loss. Accordingly, the hedged instruments are adjusted to reflect changes in fair value associated with the hedged risk.
When derivatives hedge the risk of changes in the cash flows of the hedged instruments (cash flow hedges), the hedges are designated on the basis of the exposure to changes in cash flows attributable to risks that may influence profit or loss at a later date. Such risks are generally associated with a recognised asset or liability (such as future payments of variable-rate debt).
The effective portion of the change in the fair value of the part of derivative contracts designated as hedges in accordance with the requirements of IFRS 9 is recognised in the Statement of Comprehensive Income (hedging reserve). That reserve is then released to the profit or loss when the hedged transaction is recognised in Statement of Income.

By contrast, the ineffective portion of the change in fair value, along with the entire change in the fair value of derivatives not designated as hedges or that do not meet the requirements presented in IFRS 9, is recognised directly in profit or loss.

Revenue from Contracts with Customers, Other Revenues and Income

Revenues from contracts with customers are recognised in the Statement of Income for an amount that reflects the consideration to which the entity claims entitlement in exchange for transferring the control of the goods or services to the customer.
Revenues are recognised net of sales returns, discounts, allowances and taxes that are directly associated with the sale of the product or provision of the service.

Sales of goods and services are recognised at the fair value of the consideration received when the following conditions are met:

- the risks and rewards associated with ownership of the good are substantially transferred;
- the revenue amount can be measured reliably;
- it is probable that the economic rewards arising from the sale will flow to the company;
- the costs incurred or that will be incurred can be measured reliably.

Revenues on the sale of equipment and study and design services to customers may be recognised as follows:

a) recognition of the full amount in a single instalment when the risks and rewards associated are transferred, if it is assessed as a separate contract from subsequent supply;
b) recognition of the amount through an increase in sales price of the products created, over a variable period of time in relation to the number of products sold, if it is assessed as a contract to be combined with the subsequent supply ("multiple element arrangement").

Interest Income (Expense)

Interest income/expense is recognised as interest income/expense after being measured on an accrual basis.

Income Taxes

Current tax assets and liabilities are measured as the amount that is expected to be recovered from or paid to the taxation authorities. The tax rates and laws used to calculate that amount are those enacted, or substantially enacted, at the reporting date in the countries in which the Group operates and generates its taxable income. Management periodically assesses the position assumed in the income tax return, where tax laws are subject to interpretation, and recognises provisions, where appropriate.

Deferred tax assets and liabilities are recognised in order to reflect the temporary differences between the value attributed to an asset/liability for tax purposes and that attributed based on the accounting standards applied at the reporting date. They are measured using the tax rates that are expected to apply in the year when the assets will be realised or the liabilities will be settled, based on prevailing tax rates or those already enacted or substantially enacted at the reporting date.

Deferred tax assets are recognised for all deductible temporary differences, unused tax credits and unused tax losses eligible to be carried forward, to the extent it is probable that sufficient future taxable income will be available to permit the use of the deductible temporary differences, unused tax credits and unused tax losses carried forward, except for the cases of:

- the deferred tax asset related to the deductible temporary differences arises from initial recognition of an asset or liability in a transaction other than a business combination that does not affect accounting or taxable income at the time of the transaction;
- deductible temporary differences related to equity investments in subsidiaries, associates and joint ventures. In this case deferred tax assets are recognised solely to the extent it is probable that they will be reversed in the foreseeable future and there will be sufficient taxable income to permit such temporary differences to be recovered.

The carrying amounts of deferred tax assets are reviewed at each reporting date and reduced to the extent it is no longer probable that there will be sufficient future taxable income to permit all or part of the credit concerned to be used. Unrecognised deferred tax assets are reviewed at each reporting date and are recognised to the extent it has become probable that taxable income will be sufficient to permit such deferred tax assets to be recovered.

Deferred tax liabilities are recognised on all taxable temporary differences, with the following exceptions:

- the deferred tax liabilities arise from the initial recognition of goodwill or an asset or liability in a transaction other than a business combination that does not affect accounting or taxable income at the time of the transaction;
- reversal of the taxable temporary differences related to equity investments in subsidiaries, associates and joint ventures may be controlled, and it is probable that it will not occur in the foreseeable future.

Tax balances (current and deferred) attributable to amounts recognised directly in equity are also recognised directly in equity.
Current and deferred tax assets and liabilities are offset only when the legal right of offset exists; such amounts are recognised as receivables or payables in the Statement of Financial Position.

Dividends

Dividends are recognised when the shareholders' right to receive payment is established under local law.
The Parent recognises a liability to account for the distribution to its shareholders of cash or non-cash assets once the distribution has been appropriately authorised and is no longer at the company's discretion. Under current Italian company law, a distribution is authorised when it has been approved by the shareholders. The corresponding amount is recognised directly in equity.

Group Activities, Segments and Further Information

Segment Report

Based on the IFRS8 definition, an operating segment is a component of an entity:
1. that engages in business activities from which it may earn revenues and incur expenses;
2. whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
3. for which discrete financial information is available.

In light of such definition, the Brembo Group's operating segments are five Divisions/Business Units: Discs, Systems, Motorbikes, Performance Group, After Market.
Each Division/Business Unit Director reports to the top management and periodically discusses with them operating activities, financial statements results, forecasts or plans.

The Group thus aggregated the operating segments as follows for the purposes of financial reporting:
1. Discs – Systems – Motorbikes
2. After market – Performance Group.

The segments that are included in each aggregate are similar in terms of:
a) the nature of products (braking systems);
b) the nature of production processes (melting process, subsequent processing for finishing and assembly);
c) the type of customers (manufacturers for Group 1 and distributors for Group 2);
d) the methods used to distribute the products (targeted to manufacturers for Group 1 and through distribution chains for Group 2);
e) the economic characteristics (gross manufacturing margin percentage for Group 1 and gross operating income for Group 2).

Transfer prices applied to transactions between segments for the exchange of goods and services are settled according to usual market conditions.

In light of the requirements of IFRS 8 in terms of revenues earned from major customers, where a single customer is defined as all companies that belong to a given Group, Brembo had three customers in 2018 who accounted for over 10% of consolidated net revenues. None of the single car manufacturers comprising such groups exceeded this limit.

The following table shows segment information on sales of goods and services and results at 31 December 2018 and 31 December 2017:

	Total		Discs/Systems/Motorbikes		After Market / Performance Group		Interdivision		Non-segment data	
(euro thousand)	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Sales	2,678,684	2,483,639	2,325,955	2,149,471	354,231	335,100	(3,002)	(3,042)	1,500	2,110
Allowances and discounts	(31,749)	(26,519)	(2,733)	(465)	(29,012)	(26,056)	0	0	(4)	2
Net sales	**2,646,935**	**2,457,120**	**2,323,222**	**2,149,006**	**325,219**	**309,044**	**(3,002)**	**(3,042)**	**1,496**	**2,112**
Transport costs	24,153	23,814	18,470	18,889	5,680	4,925	0	0	3	0
Variable production costs	1,662,987	1,528,758	1,457,780	1,330,182	204,876	199,331	(3,002)	(3,042)	3,333	2,287
Contribution margin	**959,795**	**904,548**	**846,972**	**799,935**	**114,663**	**104,788**	**0**	**0**	**(1,840)**	**(175)**
Fixed production costs	364,861	333,766	344,449	316,182	18,876	16,957	0	0	1,536	627
Production gross operating income	**594,934**	**570,782**	**502,523**	**483,753**	**95,787**	**87,831**	**0**	**0**	**(3,376)**	**(802)**
BU personnel costs	172,858	154,322	109,134	100,235	47,647	41,045	0	0	16,077	13,042
BU gross operating income	**422,076**	**416,460**	**393,389**	**383,518**	**48,140**	**46,786**	**0**	**0**	**(19,453)**	**(13,844)**
Costs for Central Functions	93,735	94,878	69,844	68,034	11,707	10,615	0	0	12,184	16,229
OPERATING INCOME (LOSS)	**328,341**	**321,582**	**323,545**	**315,484**	**36,433**	**36,171**	**0**	**0**	**(31,637)**	**(30,073)**
Extraordinary costs and revenues	19,864	18,664	0	0	0	0	0	0	19,864	18,664
Financial costs and revenues	(20,772)	(12,026)	0	0	0	0	0	0	(20,772)	(12,026)
Income (expense) from investments	16,406	13,413	0	0	0	0	0	0	16,406	13,413
Non-operating costs and revenues	(18,482)	(6,096)	0	0	0	0	0	0	(18,482)	(6,096)
Result before taxes	**325,357**	**335,537**	**323,545**	**315,484**	**36,433**	**36,171**	**0**	**0**	**(34,621)**	**(16,118)**
Taxes	(83,881)	(67,637)	0	0	0	0	0	0	(83,881)	(67,637)
Result before minority interests	**241,476**	**267,900**	**323,545**	**315,484**	**36,433**	**36,171**	**0**	**0**	**(118,502)**	**(83,755)**
Minority interests	(3,127)	(4,472)	0	0	0	0	0	0	(3,127)	(4,472)
NET RESULT	**238,349**	**263,428**	**323,545**	**315,484**	**36,433**	**36,171**	**0**	**0**	**(121,629)**	**(88,227)**

A reconciliation between the annual Consolidated Financial Statements and the above information is provided below:

(euro thousand)	31.12.2018	31.12.2017
REVENUE FROM CONTRACTS WITH CUSTOMERS	**2,640,011**	**2,463,620**
Scrap sales (in the segment report they are subtracted from "Variable production costs")	(17,577)	(15,668)
Differences between internal and statutory reports relating to developments activities	18,151	5,761
Capital gains on sale of equipment (in the Consolidated Financial Statements they are included in "Other revenues and income")	3,807	1,549
Effect of adjustment of transactions among consolidated companies	138	184
Miscellaneous recharges (in the Consolidated Financial Statements they are included in "Other revenues and income")	2,149	3,070
Other	256	(1,396)
NET SALES	**2,646,935**	**2,457,120**

(euro thousand)	31.12.2018	31.12.2017
NET OPERATING INCOME	**345,064**	**346,262**
Differences between internal and statutory reports relating to developments activities	6,460	(6,688)
Other differences between internal and statutory reports	(264)	92
Income (expense) from non-financial investments	(16,190)	(13,236)
Claim compensation and subsidies	(7,648)	(6,539)
Capital gains/losses on disposal of assets (in the segment report they are included in "Non-operating costs and revenues")	(364)	202
Different classification of banking expenses (in the segment report they are included in "Financial costs and revenues")	850	1,123
Other	433	366
OPERATING RESULT	**328,341**	**321,582**

The breakdown of Group sales by geographic area of destination and by application is provided in the Directors' Report on Operations.

Statement of Financial Position data at 31 December 2018 and 31 December 2017 are provided in the tables below:

	Total		Discs/Systems/Motorbikes		After Market / Performance Group		Interdivision		Non-segment data	
(euro thousand)	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Property, plant and equipment	1,041,442	933,774	980,727	888,880	38,927	30,834	5	5	21,783	14,055
Intangible assets	135,835	133,262	111,952	109,938	17,988	18,629	0	0	5,895	4,695
Financial assets and other non-current assets/liabilities	71,060	48,641	0	0	0	0	0	0	71,060	48,641
(a) Total fixed assets	**1,248,337**	**1,115,677**	**1,092,679**	**998,818**	**56,915**	**49,463**	**5**	**5**	**98,738**	**67,391**
Inventories	341,797	311,096	255,337	231,351	86,460	79,745	0	0	0	0
Current assets	483,653	459,221	363,674	346,095	53,081	49,594	(15,152)	(50,801)	82,050	114,333
Current liabilities	(740,799)	(604,227)	(503,325)	(483,005)	(89,245)	(69,311)	15,152	50,801	(163,381)	(102,712)
Provisions for contingencies and charges and other provisions	(41,982)	(53,844)	0	0	0	0	0	0	(41,982)	(53,844)
(b) Net working capital	**42,669**	**112,246**	**115,686**	**94,441**	**50,296**	**60,028**	**0**	**0**	**(123,313)**	**(42,223)**
NET INVESTED OPERATING CAPITAL (a+b)	**1,291,006**	**1,227,923**	**1,208,365**	**1,093,259**	**107,211**	**109,491**	**5**	**5**	**(24,575)**	**25,168**
Extraordinary components	101,868	82,895	53	53	0	0	(4)	17,762	101,819	65,080
NET INVESTED CAPITAL	**1,392,874**	**1,310,818**	**1,208,418**	**1,093,312**	**107,211**	**109,491**	**1**	**17,767**	**77,244**	**90,248**
Group equity	1,199,080	1,036,812	0	0	0	0	0	0	1,199,080	1,036,812
Minority interests	29,742	27,625	0	0	0	0	0	0	29,742	27,625
(d) Equity	**1,228,822**	**1,064,437**	**0**	**0**	**0**	**0**	**0**	**0**	**1,228,822**	**1,064,437**
(e) Provisions for employee benefits	**27,141**	**27,784**	**0**	**0**	**0**	**0**	**0**	**0**	**27,141**	**27,784**
Medium/long-term financial debt	207,444	321,658	0	0	0	0	0	0	207,444	321,658
Short-term financial debt	(70,533)	(103,061)	0	0	0	0	0	0	(70,533)	(103,061)
(f) Net financial debt	**136,911**	**218,597**	**0**	**0**	**0**	**0**	**0**	**0**	**136,911**	**218,597**
(g) COVERAGE (d)+(e)+(f)	**1,392,874**	**1,310,818**	**0**	**0**	**0**	**0**	**0**	**0**	**1,392,874**	**1,310,818**

The following should be noted in regard to the non-segment data:

- intangible assets mainly consist of development costs;
- financial assets are not allocated; they mainly refer to the value of shareholdings in associates, joint ventures and other companies;
- current assets and liabilities mainly consist of trade receivables and payables;
- provisions for contingencies and charges and other provisions are not allocated.

#performance

Victories on every track. Applause and trophies. This is the tangible aspect of performance. And a list of titles that grows year after year, day after day.

Formula 1 Championship
2018

Financial Risk Management

The Brembo Group is exposed to market, commodity, liquidity and credit risk, all of which are tied to the use of financial instruments.
Financial risk management is the responsibility of the central Treasury & Credit Department of Brembo S.p.A., which, together with the Finance Department, evaluates the main financial transactions and related hedging policies.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices resulting from shifts in exchange rates, interest rates and equity security prices.

Interest Rate Risk

Interest rate risk applies to variable-rate financial instruments recognised in the Statement of Financial Position (particularly short-term bank loans, other loans, leases, bonds, etc.) that are not hedged by other financial instruments.
In order to fix the financial burden relating to a part of its debt, Brembo has primarily entered into fixed-rate financing contracts. However, the company continues to be exposed to interest-rate risk due to the fluctuation of variable rates.
A sensitivity analysis was performed to analyse the effects of a change in interest rates of +/- 50 base points compared to the rates at 31 December 2018 and 31 December 2017, with other variables held constant. The potential impacts were calculated on the variable-rate financial liabilities at 31 December 2018. The aforementioned change in interest rates would result in a higher (or lower) annual net pre-tax expense of approximately €879 thousand (€1,500 thousand at 31 December 2017), gross of the tax effect.
The average weekly gross financial debt was used to provide the most reliable information possible.

Exchange Rate Risk

Brembo deals in international markets with currencies other than the euro and is therefore exposed to exchange rate risk.
To mitigate this risk, Brembo uses natural hedging (offsetting receivables and payables) and hedges only net positions in foreign currency, using mostly short-term financing denominated in the currency to be hedged, in order to offset any unbalances; currency forward contracts are also used to hedge this risk category.
A sensitivity analysis is provided below to illustrate the effects on pre-tax result arising on a positive (negative) change in exchange rates.
Starting with the exposures at 31 December 2017 and 2018, a change calculated as the standard deviation of the exchange rate with respect to the average exchange rate was applied to the average exchange rates for 2017 and 2018 to measure exchange rate volatility.

	31.12.2018			31.12.2017		
(euro thousand)	Change %	Effect of increase exchange rate	Effect of decrease exchange rate	Change %	Effect of increase exchange rate	Effect of decrease exchange rate
EUR/CNY	1.88%	(38.3)	39.7	2.84%	0.2	(0.2)
EUR/GBP	1.02%	0.2	(0.2)	2.31%	2.4	(2.5)
EUR/JPY	1.86%	38.4	(39.9)	4.24%	16.4	(17.9)
EUR/PLN	1.41%	5.7	(5.9)	1.19%	(32.2)	33.0
EUR/SEK	1.98%	6.3	(6.6)	1.50%	(6.8)	7.0
EUR/USD	3.11%	(21.8)	23.2	4.53%	(7.3)	7.9
EUR/INR	2.54%	0.0	0.0	3.56%	0.5	(0.6)
EUR/CZK	0.85%	0.5	(0.5)	2.02%	0.1	(0.1)
EUR/CHF	1.73%	0.0	0.0	3.49%	6.1	(6.5)
EUR/RUB	4.14%	8.5	(9.3)	3.47%	0.0	0.0
PLN/CNY	2.31%	12.9	(13.5)	3.57%	0.4	(0.4)
PLN/EUR	1.42%	(535.4)	550.8	1.18%	(150.6)	154.2
PLN/GBP	1.53%	0.1	(0.1)	2.75%	(1.3)	1.4
PLN/JPY	3.11%	1.2	(1.3)	4.74%	0.1	(0.1)
PLN/USD	4.42%	(19.7)	21.5	5.14%	84.9	(94.1)
PLN/CZK	0.81%	0.0	0.0	1.71%	0.3	(0.3)
PLN/CHF	2.75%	7.4	(7.8)	4.06%	199.2	(216.0)
GBP/EUR	1.02%	13.2	(13.5)	2.30%	2.7	(2.8)
GBP/USD	3.62%	5.3	(5.7)	2.92%	2.7	(2.8)
GBP/AUD	1.82%	(1.2)	1.2	2.80%	0.7	(0.7)
USD/CNY	3.90%	(1.9)	2.0	1.92%	(2.7)	2.8
USD/EUR	3.08%	(71.3)	75.8	4.58%	(116.3)	127.4
USD/MXN	3.55%	61.7	(66.2)	5.58%	17.3	(19.3)
BRL/EUR	5.74%	20.6	(23.2)	5.68%	38.8	(43.5)
BRL/JPY	7.01%	0.6	(0.7)	2.46%	0.0	0.0
BRL/USD	8.21%	(22.8)	26.9	2.23%	(2.2)	2.3
JPY/EUR	1.84%	2.7	(2.8)	4.27%	3.2	(3.5)
JPY/USD	2.10%	0.4	(0.4)	1.58%	0.7	(0.7)
CNY/EUR	1.91%	132.4	(137.5)	2.88%	209.9	(222.4)
CNY/JPY	2.49%	0.0	0.0	2.14%	(0.1)	0.1
CNY/USD	3.91%	(52.7)	57.0	1.93%	(107.9)	112.1
INR/EUR	2.50%	(0.4)	0.4	3.58%	(9.4)	10.1
INR/JPY	3.48%	34.9	(37.4)	1.48%	8.8	(9.1)
INR/USD	4.67%	(6.6)	7.3	1.87%	9.6	(10.0)
CZK/EUR	0.85%	57.2	(58.2)	2.02%	197.2	(205.3)
CZK/GBP	1.14%	(0.3)	0.3	3.98%	(3.9)	4.2
CZK/PLN	0.81%	2.5	(2.6)	1.70%	6.4	(6.6)
CZK/USD	3.89%	(15.9)	17.2	6.40%	20.1	(22.8)
ARS/BRL	19.15%	116.0	(171.0)	5.08%	38.6	(42.7)
ARS/EUR	23.31%	135.6	(218.1)	9.79%	70.8	(86.2)
ARS/USD	26.05%	58.3	(99.3)	5.40%	2.7	(3.0)

Commodity Risk

The Group is exposed to changes in prices of main raw materials and commodities. In 2018, no specific hedging transactions were undertaken. However, it should be recalled that existing contracts with major customers provide for automatic periodic adjustment on the basis of commodities prices.

Liquidity Risk

Liquidity risk can arise from a company's inability to obtain the financial resources necessary to guarantee Brembo's operation.

To mitigate liquidity risk, the Treasury & Credit area:

- constantly assesses financial requirements to ensure the appropriate measures are taken in a timely manner (obtaining additional credit lines, capital increases, etc.);
- obtains adequate credit lines;
- ensures the appropriate composition of net financial debt, i.e., investments are financed with medium- to long-term debt (as well as with equity), and net working capital requirements are financed using short-term credit lines;
- includes the Group companies in cash pooling structures to optimise any excess liquidity of participating companies.

The following table provides information on payables, other payables and derivatives broken down by maturity. The maturities are determined based on the period from the reporting date to the expiry of the contractual obligations. The amounts shown in the table reflect undiscounted cash flows.

For fixed- and variable-rate financial liabilities, both principal and interest were considered for the different maturity periods; for variable-rate liabilities, the rate at 31 December 2018 plus the relevant spread was used.

(euro thousand)	Carrying value	Contractual cash flows	Within 1 year	From 1 to 5 years	Beyond 5 years
Non-derivative financial liabilities					
Short-term credit lines and bank overdrafts	149,246	149,246	149,246	0	0
Payables to banks (loans and bonds)	329,954	338,017	128,025	209,992	0
Payables to other financial institutions	2,227	2,252	692	1,530	30
Finance leases	94	94	76	18	0
Trade and other payables	587,470	587,470	587,470	0	0
Derivative financial liabilities					
Derivatives	814	814	814	0	0
Total	**1,069,805**	**1,077,893**	**866,323**	**211,540**	**30**

Some of the Group's loan agreements require the satisfaction of financial covenants and the obligation for the Group to meet certain financial ratio levels.

In detail, the following covenants and relevant maximum thresholds are to be complied with:

- Net financial debt/Gross operating income <3.5;
- Net financial Debt/Equity ≤1.7.

If the covenants are not met, the financial institutions can request early repayment of the relevant loan.
The values of these covenants are monitored at the end of each quarter, and at 31 December 2018 the Group had complied with the covenants in question by a considerable margin. It is not expected that the entry into force of the new standard IFRS 16 with effect from 1 January 2019, as described in further detail in the section of these Notes Changes in accounting standards and disclosures, will result in breach of these covenants.
Management believes that currently available lines of credit, apart from the cash flow generated by current operations, will allow Brembo to meet its financial requirements arising from investing activities, working capital management, and the payment of payables at their natural maturities.
In further detail, at 31 December 2018, unused bank credit facilities were 75% (a total of €596 million in credit facilities were available).

Credit Risk

Credit risk is the risk that a customer or one of the parties to a financial instrument will cause a financial loss by failing to perform an obligation. Exposure to credit risk for the Group arises mainly in relation to trade receivables. Most parties with which the Group does business are leading car and motorbike manufacturers with high credit standings.
The Group evaluates the creditworthiness of all new customers using assessments from external sources and then assigns a credit limit.

Fair Value Measurement

To complete the disclosure of financial risks, the following information is provided:

a) the fair value hierarchy for the Group's assets and liabilities:

	31.12.2018			31.12.2017		
(euro thousand)	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets (liabilities) measured at fair value						
Forward contracts denominated in foreign currency	0	(814)	0	0	0	0
Total financial assets (liabilities) measured at fair value	**0**	**(814)**	**0**	**0**	**0**	**0**
Assets (liabilities) for which fair value is indicated						
Current and non-current payables to banks	0	(320,669)	0	0	(363,458)	0
Other current and non-current financial liabilities	0	(2,193)	0	0	(2,740)	0
Total assets (liabilities) for which fair value is indicated	**0**	**(322,862)**	**0**	**0**	**(366,198)**	**0**

b) a reconciliation between the classes of financial assets and liabilities identified in the Group's Statement of Financial Position and the types of financial assets and liabilities identified based on the requirements of IFRS 7:

	Carrying value		Fair value	
(euro thousand)	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Available-for-sale financial assets	**1,657**	**307**	**1,657**	**307**
Loans, receivables and financial liabilities valued at amortised costs:				
Current and non-current financial assets (excluding derivatives)	6,840	6,758	6,840	6,758
Trade receivables	407,414	375,719	407,414	375,719
Loans and receivables	51,410	62,171	51,410	62,171
Cash and cash equivalents	345,117	300,830	345,117	300,830
Current and non-current payables to banks	(479,200)	(513,534)	(484,246)	(519,524)
Other current and non-current financial liabilities	(2,321)	(6,189)	(2,321)	(6,189)
Trade payables	(566,737)	(470,390)	(566,737)	(470,390)
Other current liabilities	(164,192)	(120,941)	(164,192)	(120,941)
Other non-current liabilities	(3,095)	(19,927)	(3,095)	(19,927)
Derivatives	**(814)**	**0**	**(814)**	**0**
Total	**(403,921)**	**(385,196)**	**(408,967)**	**(391,186)**

The approach used to calculate fair value is the present value of the future cash flows expected to derive from the instrument being measured, determined by discounting the scheduled instalments at a rate equal to the forward rate curve applicable to each account payable. In detail:

- loans, payables to other lenders and intercompany loans with a duration of more than 12 months were measured at fair value determined by applying the forward rates curve to the residual duration of the loan;
- receivables, trade payables, held-to-maturity financial assets, payables and receivables to and from banks due within 12 months were measured at their carrying amounts, inasmuch as this is believed to approximate fair values;
- finance leases were valued at cost, as they are outside the scope of IFRS 9;
- the fair value of derivatives was determined on the basis of valuation techniques that take into account market parameters other than the prices of the financial instrument.

Related Parties

The Group carries out transactions with parents, subsidiaries, associates, joint ventures, directors, key management personnel and other related parties. The Parent Brembo S.p.A. is a subsidiary of Nuova FourB S.r.l., which holds 53.523% of its share capital. Brembo did not engage in dealings with its parent in 2018, except for the dividend distribution.

Information pertaining to the fees paid to Directors, Statutory Auditors and General Manager (position held by the Chief Executive Officer) of Brembo S.p.A. and of other Group companies and additional information required is reported below:

(euro thousand)	31.12.2018 Directors	31.12.2018 Auditors	31.12.2017 Directors	31.12.2017 Auditors
Emoluments for the office held	2,090	196	2,120	203
Participation in committees and specific tasks	155	0	167	0
Salaries and other incentives	6,627	0	6,835	0

The item “Salaries and other incentives” includes the estimate of the cost of the 2016-2018 plan reserved for the company’s top managers and accrued in 2018, remuneration paid as salaries for the employee function and provisions for bonuses still to be paid.

The following table provides a summary of related party transactions with reference to balances of the Statement of Financial Position and Statement of Income:

(euro thousand)	31.12.2018						31.12.2017					
		Related Parties						Related Parties				
a) Weight of transactions or positions with related parties on items of the Statement of Financial Position	Carrying value	Total	Other*	Joint ventures	Associates	%	Carrying value	Total	Other*	Joint ventures	Associates	%
Other financial assets (including investments in other companies and derivatives)	8,190	5,675	0	0	5,675	69.3%	6,769	5,659	0	0	5,659	83.6%
Inventories	342,037	9	0	9	0	0.0%	311,116	9	0	9	0	0.0%
Trade receivables	407,414	1,970	6	1,891	73	0.5%	375,719	1,371	13	1,290	68	0.4%
Other receivables and current assets	72,132	10	10	0	0	0.0%	80,455	3	3	0	0	0.0%
Other non-current liabilities	(3,095)	0	0	0	0	0.0%	(19,927)	(5,915)	(5,915)	0	0	29.7%
Provisions for employee benefits	(27,141)	(4,445)	(4,445)	0	0	16.4%	(27,784)	(3,697)	(3,697)	0	0	13.3%
Trade payables	(566,737)	(28,201)	(4,291)	(23,592)	(318)	5.0%	(470,390)	(9,859)	(4,740)	(4,626)	(493)	2.1%
Other current payables	(164,192)	(12,209)	(12,082)	(127)	0	7.4%	(120,941)	(3,164)	(3,037)	(127)	0	2.6%

	31.12.2018						31.12.2017					
		Related Parties						Related Parties				
b) Weight of transactions or positions with related parties on items of the Statement of Income	Carrying value	Total	Other*	Joint ventures	Associates	%	Carrying value	Total	Other*	Joint ventures	Associates	%
Revenue from contracts with customers	2,640,011	471	1	465	5	0.0%	2,463,620	5,208	4,616	587	5	0.2%
Other revenues and income	34,607	3,611	20	3,420	171	10.4%	24,150	3,294	38	3,090	166	13.6%
Raw materials, consumables and goods	(1,262,994)	(93,974)	(233)	(93,342)	(399)	7.4%	(1,177,255)	(71,019)	(39)	(70,427)	(553)	6.0%
Other operating costs	(486,962)	(8,271)	(6,323)	(830)	(1,118)	1.7%	(431,957)	(6,144)	(4,858)	(355)	(931)	1.4%
Personnel expenses	(465,306)	(8,496)	(8,495)	(1)	0	1.8%	(436,050)	(8,894)	(8,894)	0	0	2.0%
Net interest income (expense)	(19,941)	38	22	0	16	-0.2%	(10,913)	(255)	(260)	0	5	2.3%

* Other related parties include key management personnel of the entity and other related parties.

Sales of products, supply of services and the transfers of fixed assets between Group companies were carried out at prices reflecting fair market conditions. The trading volumes reflect the internationalisation process aimed at constantly improving both operating and organisational standards and optimising synergies within the company. From a financial standpoint, the subsidiaries operate independently, although some benefit from various forms of centralised financing. Since 2008, a zero-balance cash-pooling system has been effective, with Brembo S.p.A. as the pool leader. In 2013, an additional cash pooling arrangement was put in place, denominated in CNY, with Brembo Nanjing Brake Systems Co. Ltd. as pooler and Brembo (Nanjing) Automobile Components Co. Ltd., Qingdao Brembo Trading Co. Ltd. and Brembo Huilian (Langfang) Brake Systems Co. Ltd. (formerly Asimco) as participants. The cash pooling is entirely based in China, and Citibank China is the service provider.

Information About the Group

The key figures of Group companies are commented upon in the section of the Directors' Report on Operations "Group Structure" and "Performance of Brembo companies".

COMPANY	HEADQUARTERS		SHARE CAPITAL		STAKE HELD BY GROUP COMPANIES	
Brembo S.p.A.	Curno (Bergamo)	Italy	Eur	34,727,914		
AP Racing Ltd.	Coventry	United Kingdom	Gbp	135,935	100%	Brembo S.p.A.
Brembo Deutschland GmbH	Leinfelden-Echterdingen	Germany	Eur	25,000	100%	Brembo S.p.A.
Brembo North America Inc.	Wilmington, Delaware	USA	Usd	33,798,805	100%	Brembo S.p.A.
Brembo Czech S.r.o.	Ostrava-Hrabová	Czech Republic	Czk	605,850,000	100%	Brembo S.p.A.
La.Cam (Lavorazioni Camune) S.r.l.	Stezzano (Bergamo)	Italy	Eur	100,000	100%	Brembo S.p.A.
Qingdao Brembo Trading Co. Ltd.	Qingdao	China	Cny	1,365,700	100%	Brembo S.p.A.
Brembo Japan Co. Ltd.	Tokyo	Japan	Jpy	11,000,000	100%	Brembo S.p.A.
Brembo Poland Spolka Zo.o.	Dąbrowa Górnicza	Poland	Pln	144,879,500	100%	Brembo S.p.A.
Brembo Scandinavia A.B.	Göteborg	Sweden	Sek	4,500,000	100%	Brembo S.p.A.
Brembo Nanjing Brake Systems Co. Ltd.	Nanjing	China	Cny	492,030,169	100%	Brembo S.p.A.
Brembo Russia L.L.C.	Moscow	Russia	Rub	1,250,000	100%	Brembo S.p.A.
Brembo Argentina S.A.	Buenos Aires	Argentina	Ars	62,802,000	98.62%	Brembo S.p.A.
					1.38%	Brembo do Brasil Ltda.
Brembo Mexico S.A. de C.V.	Apodaca	Mexico	Usd	20,428,836	49%	Brembo S.p.A.
					51%	Brembo North America Inc.
Brembo (Nanjing) Automobile Components Co. Ltd.	Nanjing	China	Cny	235,194,060	60%	Brembo S.p.A.
					40%	Brembo Brake India Pvt. Ltd.
Brembo Brake India Pvt. Ltd.	Pune	India	Inr	140,000,000	99.99%	Brembo S.p.A.
Brembo do Brasil Ltda.	Betim	Brazil	Brl	159,136,227	99.99%	Brembo S.p.A.
Corporacion Upwards 98 S.A.	Zaragoza	Spain	Eur	498,043	68%	Brembo S.p.A.
Brembo Huilian (Langfang) Brake Systems Co. Ltd.	Langfang	China	Cny	170,549,133	66%	Brembo S.p.A.
Brembo SGL Carbon Ceramic Brakes S.p.A.	Stezzano (Bergamo)	Italy	Eur	4,000,000	50%	Brembo S.p.A.
Petroceramics S.p.A.	Milan	Italy	Eur	123,750	20%	Brembo S.p.A.
Brembo SGL Carbon Ceramic Brakes GmbH	Meitingen	Germany	Eur	25,000	100%	Brembo SGL Carbon Ceramic Brakes S.p.A.

Independent Auditors' Fees

Details on the fees paid to the independent audit firm and other companies within its network pursuant to Article 149-*duodecies* of the Implementation Rules of Italian Legislative Decree No. 58 of 24 February 1998 are provided below:

(euro thousand)	31.12.2018	31.12.2017
Independent Auditors' fees for the provision of audit services:		
- to the Parent Brembo S.p.A.	240	225
- to the subsidiaries (services provided by the network)	401	414
Independent Auditors' fees for the provision of auditing services for issuing attestation:		
- to the Parent Brembo S.p.A.	56	56
- to the subsidiaries (services provided by the network)	5	0
Fees of entities belonging to the Independent Auditors' network for the provision of services:		
- other services rendered to subsidiaries	5	6

Commitments

The Group had no commitments at the closing date of the 2018 Financial Statements.

Position or Transactions from Atypical and/or Unusual Operations

Pursuant to Consob Notice No. 6064293 dated 28 July 2006, it is hereby specified that during 2018 the company did not carry out any atypical and/or unusual transactions, as defined by the said Notice.

Government grants – Information pursuant to Article 1, paragraphs 125-129 of Law No. 124/2017

In the light of the interpretation provided by Assonime in its Circular No. 5 of 22 February 2019, the obligations to disclose and publish government grants established by Article 1, paragraphs 125-129 of Law No. 124/2017, as also governed by the subsequent Security Decree-Law (No. 113/2018) and Simplification Decree-Law (No. 135/2018), which introduced a series of disclosure and publication obligations for entities that engage in economic relations with the public administration, with effect from the 2018 financial statements, are not believed to apply in the following cases:

– subsidies, grants and economic advantages of all kinds the benefits of which are accessible to all undertakings that meet certain conditions on the basis of predetermined general criteria (for example, measures provided for in ministerial decrees aimed at specific sectors of industry and intended to finance activities relating to research and development projects);

– general measures accessible to all undertakings and that are part of the general structure of the system of reference established by the government (for example, the ACE (economic growth aid) mechanism aimed at encouraging the reinvestment of profits);
– European/international public resources;
– interprofessional funds for financing training courses, considering that the funds are financed by the beneficiary undertakings' own contributions and are required to meet specific management criteria intended to ensure transparency (for example, training courses financed by Fondimpresa).

In light of the above, the Group has analysed its situation and decided to disclose the sums it received by way of grants disbursed by the following in 2018 in this section:
– the Region of Lombardy for the call for bids "Research and Innovation Agreements", Resolution of the Regional Council No. 5245 of 31/5/2016, as amended, Research and Innovation Project INPROVES ID 241363, for the benefit of Brembo S.p.A. in the total amount of €646 thousand;
– CSEA Cassa per i Servizi Energetici e Ambientali for energy-intensive undertakings, for the benefit of La.Cam S.r.l. in the total amount of €20 thousand.

Significant Events After 31 December 2018

No significant events occurred after the end of 2018 and up to 4 March 2019.

IMSA WeatherTech SportsCar Championship
2018

Analysis of each item

Statement of Financial Position

1. Property, Plant, Equipment and Other Equipment

The changes in property, plant and equipment are shown in the table below and described in this section.

(euro thousand)	Land	Buildings	Plant and machinery	Industrial and commercial equipment	Other assets	Assets in course of construction and payments on account	Total
Historical cost	27,730	285,872	977,772	192,684	43,304	75,117	**1,602,479**
Accumulated depreciation	0	(82,799)	(572,277)	(162,600)	(34,815)	0	**(852,491)**
Write-down provision	0	(351)	(2,428)	0	0	(277)	**(3,056)**
Balance at 1 January 2017	**27,730**	**202,722**	**403,067**	**30,084**	**8,489**	**74,840**	**746,932**
Changes:							
Translation differences	(515)	(7,329)	(11,506)	26	(321)	(2,857)	**(22,502)**
Reclassification	0	2,752	45,520	3,372	4,965	(56,854)	**(245)**
Acquisitions	3,496	8,435	81,599	18,305	3,465	211,358	**326,658**
Disposals	0	(25)	(3,841)	(768)	388	0	**(4,246)**
Depreciation	0	(12,850)	(81,928)	(14,369)	(3,262)	0	**(112,409)**
Impairment losses	0	(344)	17	5	0	(92)	**(414)**
Total changes	**2,981**	**(9,361)**	**29,861**	**6,571**	**5,235**	**151,555**	**186,842**
Historical cost	30,711	289,384	1,065,152	211,914	49,006	226,781	**1,872,948**
Accumulated depreciation	0	(95,446)	(630,358)	(175,259)	(35,282)	0	**(936,345)**
Write-down provision	0	(577)	(1,866)	0	0	(386)	**(2,829)**
Balance at 1 January 2018	**30,711**	**193,361**	**432,928**	**36,655**	**13,724**	**226,395**	**933,774**
Changes:							
Translation differences	308	1,182	(1,194)	(257)	(74)	847	**812**
Reclassification	0	81,362	92,084	4,576	6,873	(194,108)	**(9,213)**
Acquisitions	282	27,929	120,745	17,899	8,206	75,386	**250,447**
Disposals	0	(4)	(1,029)	(768)	(238)	(99)	**(2,138)**
Depreciation	0	(15,122)	(96,259)	(16,657)	(4,202)	0	**(132,240)**
Total changes	**590**	**95,347**	**114,347**	**4,793**	**10,565**	**(117,974)**	**107,668**
Historical cost	31,301	398,384	1,261,071	227,951	63,210	108,796	**2,090,713**
Accumulated depreciation	0	(109,663)	(711,554)	(186,503)	(38,921)	0	**(1,046,641)**
Write-down provision	0	(13)	(2,242)	0	0	(375)	**(2,630)**
Balance at 31 December 2018	**31,301**	**288,708**	**547,275**	**41,448**	**24,289**	**108,421**	**1,041,442**

In 2018, investments were made in tangible fixed assets amounting to €250,447 thousand, including €75,386 thousand on fixed assets in course of construction.
As already noted in the Report on Operations, the Group continued its international development programme. This involved significant investments in Italy, North America, Poland, and China.
Net disposals amounted to €2,138 thousand and refer to the normal cycle of machinery replacement, as it becomes unusable in production processes.
Total depreciation charges for 2018 amounted to €132,240 thousand (€112,409 thousand in 2017).
As stated in the Report on Operations, it bears recalling that the effects of the application of IAS 29 – Financial Reporting in Hyperinflationary Economies on the Argentine subsidiary's fixed assets are to be considered immaterial to the Brembo Group. Accordingly, the value of the assets of Brembo Argentina S.A. carried in the consolidated financial statements does not reflect the revaluation of the assets concerned.

The following is a breakdown by category of the net carrying value of owned assets and assets held under finance lease:

	31.12.2018		31.12.2017	
(euro thousand)	Leased	Not leased	Leased	Not leased
Land	0	31,301	0	30,711
Buildings	0	288,708	0	193,361
Plant and machinery	0	547,275	0	432,928
Industrial and commercial equipment	0	41,448	0	36,655
Other assets	1,919	22,370	547	13,177
Assets in course of construction and payments on account	0	108,421	0	226,395
Total	**1,919**	**1,039,523**	**547**	**933,227**

Formula 3 Championship
2018

2. Intangible Assets (Development costs, Goodwill and Other Intangible Assets)

Changes in intangible assets are shown in the table below and described in this section.

(euro thousand)	Development costs	Goodwill A	Intangible assets with indefinite useful lives B	Sub-total A+B	Industrial patents and similar rights C	Other intangible assets D	Total other intangible assets C+D	Total
Historical cost	**137,593**	99,560	1,429	**100,989**	31,267	116,557	**147,824**	**386,406**
Accumulated amortisation	**(87,881)**	0	0	**0**	(27,403)	(67,859)	**(95,262)**	**(183,143)**
Write-down provision	**(388)**	(12,106)	(3)	**(12,109)**	(503)	0	**(503)**	**(13,000)**
Balance at 1 January 2017	**49,324**	**87,454**	**1,426**	**88,880**	**3,361**	**48,698**	**52,059**	**190,263**
Changes:								
Translation differences	**(264)**	(6,019)	(24)	**(6,043)**	17	(2,435)	**(2,418)**	**(8,725)**
Reclassification	**0**	0	0	**0**	147	(50)	**97**	**97**
Acquisitions	**24,033**	0	0	**0**	2,741	7,252	**9,993**	**34,026**
Disposals	**0**	0	0	**0**	(24)	(174)	**(198)**	**(198)**
Amortisation	**(10,482)**	0	0	**0**	(1,128)	(7,981)	**(9,109)**	**(19,591)**
Impairment losses	**(1,288)**	0	0	**0**	1	0	**1**	**(1,287)**
Total changes	**11,999**	**(6,019)**	**(24)**	**(6,043)**	**1,754**	**(3,388)**	**(1,634)**	**4,322**
Historical cost	**159,845**	93,118	1,404	**94,522**	34,167	120,134	**154,301**	**408,668**
Accumulated amortisation	**(98,134)**	0	0	**0**	(28,550)	(74,824)	**(103,374)**	**(201,508)**
Write-down provision	**(388)**	(11,683)	(2)	**(11,685)**	(502)	0	**(502)**	**(12,575)**
Balance at 1 January 2018	**61,323**	**81,435**	**1,402**	**82,837**	**5,115**	**45,310**	**50,425**	**194,585**
Changes:								
Translation differences	**162**	(111)	(4)	**(115)**	(11)	(228)	**(239)**	**(192)**
Reclassification	**0**	0	0	**0**	29	1,032	**1,061**	**1,061**
Acquisitions	**25,467**	0	0	**0**	4,910	6,914	**11,824**	**37,291**
Disposals	**0**	0	0	**0**	(25)	0	**(25)**	**(25)**
Amortisation	**(10,323)**	0	0	**0**	(1,249)	(8,097)	**(9,346)**	**(19,669)**
Impairment losses	**(3,325)**	0	0	**0**	(587)	0	**(587)**	**(3,912)**
Total changes	**11,981**	**(111)**	**(4)**	**(115)**	**3,067**	**(379)**	**2,688**	**14,554**
Historical cost	**182,299**	92,911	1,401	**94,312**	39,008	127,840	**166,848**	**443,459**
Accumulated amortisation	**(108,607)**	0	0	**0**	(29,737)	(82,909)	**(112,646)**	**(221,253)**
Write-down provision	**(388)**	(11,587)	(3)	**(11,590)**	(1,089)	0	**(1,089)**	**(13,067)**
Balance at 31 December 2018	**73,304**	**81,324**	**1,398**	**82,722**	**8,182**	**44,931**	**53,113**	**209,139**


Red Bull
MOTOREX
KTM

#safety

It is the cornerstone of research and innovation. Without safety, even performance would lose its way.

MXGP Motocross Championship
2018

Development costs

The item “Development costs” includes costs for development, internal and external, for a gross historical cost of €182,299 thousand. During the reporting year, this item changed due to higher costs incurred in 2018 for development orders received both during the year and in previous years, for which additional development costs were incurred; amortisation amounting to €10,323 thousand was recognised for development costs associated with products that have already entered production.
The gross amount includes development activities for projects underway totalling €39,988 thousand. The total amount of costs for capitalised internal works charged to the Statement of Income in the item “Costs for capitalised internal works” during the year amounted to €25,339 thousand (€24,219 thousand in 2017).
Impairment losses totalled €3,325 thousand and are recognised in the Statement of Income under “Amortisation, depreciation and impairment losses.” Impairment losses refer to development costs incurred mainly by the Parent, Brembo S.p.A., in relation to projects that, consistent with the desire of the customer or Brembo, were not completed or underwent changes in terms of their end destination.

Goodwill

The item “Goodwill” arose from the following business combinations:

(euro thousand)	31.12.2018	31.12.2017
Discs - Systems - Motorbikes:		
Brembo North America Inc. (Hayes Lemmerz)	14,907	14,233
Brembo Mexico S.A. de C.V. (Hayes Lemmerz)	907	866
Brembo Nanjing Brake Systems Co. Ltd.	889	897
Brembo Brake India Pvt. Ltd.	8,259	8,596
Brembo Huilian (Langfang) Brake Systems Co. Ltd.	42,751	43,138
After Market – Performance Group:		
Corporacion Upwards'98 (Frenco S.A.)	2,006	2,006
Ap Racing Ltd.	11,605	11,699
Total	**81,324**	**81,435**

The change compared to 31 December 2017 was attributable to the change in consolidation differences.

CGUs are typically identified as the business being acquired and therefore tested for impairment. If the asset being tested for impairment refers to businesses operating in multiple business lines, it is attributed to all business lines in existence at the date of acquisition; this approach is consistent with valuations carried out at the acquisition date, which are typically based on the estimated recoverable amount of the entire investment.
The main assumptions used to determine the value in use of other cash-generating units relate to the discount rate and growth rate. Specifically, calculations used cash-flow projections for the 2019-2021 period covered by the corporate business plans. Cash flows for subsequent years were extrapolated using a prudential steady 1-1.5% medium- to long-term growth rate (1-1.5% in 2017), on a case by case basis. The Group’s discount rate (Group WACC) used was 8.54% (8.0% in 2017), which reflected the current market assessments of the time value of money and the risks specific to the asset in question. The previously mentioned impairment tests did not indicate the need to recognise any impairment loss in the reporting year.
In the event of a change in the WACC from 8.54% to 9.04% and the growth rate from 1.0% to 0.5% (or from 1.5% to 1.0%), no previously unimpaired goodwill would have become impaired.

In the event of a sales volume decrease that, depending on the CGU reference market, has been estimated in the range from -5% to -20%, no previously unimpaired goodwill would have become impaired.
The changes in the WACC, growth rate and sales volumes described above are deemed reasonable. In this respect, only changes beyond reasonable levels would have resulted in impairment.

Intangible assets with indefinite useful lives

This item includes €1,030 thousand related to the Villar trademark, owned by the subsidiary Corporacion Upwards '98 S.A., and for the remaining part, amounting to €368 thousand, the value of the trademark LF of Brembo Huilian (Langfang) Brake Systems Co. Ltd.
For information concerning impairment-testing methods, the reader is referred to the above discussion relating to goodwill. The impairment tests did not detect any impairment losses.

Other intangible assets

Acquisitions of "Other intangible assets" totalled €11,824 thousand and refer for €4,910 thousand to the filing of specific patents and trademarks, and for the remaining amount mainly to the share of the investment for the reporting year associated with the development of new features regarding the new ERP (Enterprise Resource Planning) system within the Group and the acquisition of other IT applications.

3. Shareholdings Valued Using the Equity Method (Associates and Joint Ventures)

This item includes the Group's share of equity in companies that are valued using the equity method. The following table shows all relevant movements:

(euro thousand)	31.12.2017	Write-ups/ Write-downs	Dividends	Other changes	31.12.2018
Brembo Group SGL Carbon Ceramic Brakes	33,701	16,190	(11,000)	(62)	38,829
Petroceramics S.p.A.	599	216	(80)	0	735
Total	**34,300**	**16,406**	**(11,080)**	**(62)**	**39,564**

It should be noted that the impact on the Statement of Income of shareholdings valued using the equity method refers to two items: "Income (expense) from non-financial investments", attributable to the effect of the valuation using the equity method of the BSCCB Group, and "Interest income (expense) from investments", attributable to the valuation of associates using the equity method.

The following is a breakdown of the assets, liabilities, costs and revenues referring to joint ventures and associates.

Joint Ventures

(euro thousand)	Brembo Group SGL Carbon Ceramic Brakes 31.12.2018	31.12.2017
Revenue from contracts with customers	**182,114**	**156,863**
Other revenues and income	2,292	2,026
Costs for capitalised internal works	106	0
Raw materials, consumables and goods	(55,105)	(49,106)
Other operating costs	(39,106)	(34,359)
Personnel expenses	(40,354)	(34,221)
GROSS OPERATING INCOME	**49,947**	**41,203**
Depreciation, amortisation and impairment losses	(5,880)	(4,692)
NET OPERATING INCOME	**44,067**	**36,511**
Net interest income (expense)	(114)	(68)
RESULT BEFORE TAXES	**43,953**	**36,443**
Taxes	(11,893)	(10,165)
NET RESULT FOR THE YEAR	**32,060**	**26,277**
% ownership	50%	50%
Other consolidation adjustments	160	97
GROUP NET RESULT	**16,190**	**13,236**
Property, plant, equipment and other equipment	46,818	38,147
Development costs	106	0
Other intangible assets	413	327
Other financial assets (including investments in other companies and derivatives)	131	131
Deferred tax assets	2,317	2,551
TOTAL NON-CURRENT ASSETS	**49,785**	**41,156**
Inventories	20,845	17,837
Trade receivables	29,337	10,868
Other receivables and current assets	5,941	5,098
Cash and cash equivalents	12,513	31,192
TOTAL CURRENT ASSETS	**68,636**	**64,995**
TOTAL ASSETS	**118,421**	**106,151**
Share capital	4,000	4,000
Other reserves	21,883	20,422
Retained earnings/(losses)	18,411	15,719
Net result for the year	32,060	26,277
TOTAL EQUITY	**76,354**	**66,418**
Other non-current liabilities	850	671
Non-current provisions	3,883	2,759
Provisions for employee benefits	3,917	3,600
TOTAL NON-CURRENT LIABILITIES	**8,650**	**7,030**

(euro thousand)	Brembo Group SGL Carbon Ceramic Brakes 31.12.2018	31.12.2017
Current payables to banks	1,014	1
Trade payables	20,206	20,867
Tax payables	4,109	5,736
Other current payables	8,088	6,099
TOTAL CURRENT LIABILITIES	**33,417**	**32,703**
TOTAL LIABILITIES	**42,067**	**39,733**
TOTAL EQUITY AND LIABILITIES	**118,421**	**106,151**
% ownership	50%	50%
Goodwill	1,033	1,033
Other consolidation adjustments	(381)	(541)
CARRYING VALUE OF GROUP SHAREHOLDING	**38,829**	**33,701**

Associates

	Petroceramics S.p.A. 31.12.2018	31.12.2017
Revenue from contracts with customers	2,664	2,426
NET RESULT FOR THE YEAR	**1,080**	**885**
% ownership	20%	20%
GROUP NET RESULT	**216**	**177**
Total current assets	3,748	3,320
Total non-current assets	588	577
Total current liabilities	477	745
Total non-current liabilities	184	156
TOTAL EQUITY	**3,675**	**2,996**
% ownership	20%	20%
CARRYING VALUE OF GROUP SHAREHOLDING	**735**	**599**

4. Other Financial Assets (Including Investments in Other Companies and Derivatives)

This item is broken down as follows:

(euro thousand)	31.12.2018	31.12.2017
Shareholdings in other companies	1,657	307
Receivables from associates	5,676	5,659
Other	857	803
Total	**8,190**	**6,769**

The item "Shareholdings in other companies" mainly includes the 10% interest in International Sport Automobile S.a.r.l., the 1.20% interest in Fuji Co., and the 3.29% interest in E-novia S.p.A. (2.38% at 31 December 2017), to which the €1,350 thousand increase refers due to the subscription of a capital increase).

The item "Receivables from associates" includes the receivable deriving from the loan granted by Brembo S.p.A. to Innova Tecnologie S.r.l. in liquidazione, in which Brembo S.p.A. holds a 30% interest. The loan, the nominal amount of which is €9 million, was recognised for €5,676 thousand following the settlement agreement reached in 2016 with the majority shareholder of Innova Tecnologie S.r.l. in liquidazione, Impresa Fratelli Rota Nodari S.p.A. and Innova Tecnologie S.r.l. in liquidazione. According to this agreement, the residual portion of this loan is to be paid following the sale to third parties of the property owned by Innova Tecnologie S.r.l. in liquidazione in an amount equal to the company's net assets at the end of the liquidation procedure, without prejudice to the majority shareholder's liability for any deficit up to the maximum amount already agreed between the parties. Including the receivable among "Non-current assets", it is however deemed that there are no elements hindering the recovery of the residual value.

"Other" includes interest-free security deposits for utilities and car rental agreements.

5. Receivables and Other Non-Current Assets

This item is broken down as follows:

(euro thousand)	31.12.2018	31.12.2017
Receivables from others	2,886	3,762
Income tax receivables	61	37
Non-income tax receivables	34	33
Total	**2,981**	**3,832**

The item "Receivables from others" includes the amount related to contributions towards a client for the acquisition of a ten-year exclusive supply arrangement, which was released to the Statement of Income in accordance with the supply schedule for the client, which began in late 2014.

Income tax receivables mostly refer to applications for tax refunds.

6. Deferred Tax Assets and Liabilities

The net balance of deferred tax assets and liabilities is broken down as follows:

(euro thousand)	31.12.2018	31.12.2017
Deferred tax assets	62,711	57,818
Deferred tax liabilities	(23,705)	(24,716)
Total	**39,006**	**33,102**

Deferred tax assets and liabilities were generated mainly due to temporary differences for capital gains with deferred taxation, other income items subject to future deductions or taxation, prior years' tax losses and other consolidation adjustments.

Movements for the year are reported in the following table:

(euro thousand)	31.12.2018	31.12.2017
Balance at beginning of year	**33,102**	**26,069**
Deferred tax liabilities generated	(401)	(7,935)
Deferred tax assets generated	18,954	20,359
Use of deferred tax assets and liabilities	(12,023)	(7,475)
Exchange rate fluctuations	(696)	2,746
Other movements	70	(662)
Balance at end of year	**39,006**	**33,102**

MotoGP Championship
2018

The nature of temporary differences that generated deferred tax assets and liabilities is detailed below:

	Assets		Liabilities		Net	
(euro thousand)	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Property, plant, equipment and other equipment	15,064	12,776	22,234	20,982	(7,170)	(8,206)
Development costs	28	28	0	0	28	28
Other intangible assets	67	67	6,715	7,283	(6,648)	(7,216)
Other financial assets	829	2,070	76	0	753	2,070
Trade receivables	5,667	5,181	21	36	5,646	5,145
Inventories	10,245	10,683	49	0	10,196	10,683
Other receivables and current assets	619	950	0	63	619	887
Financial liabilities	0	3	0	0	0	3
Other financial liabilities	498	170	11	0	487	170
Provisions	3,244	6,213	0	0	3,244	6,213
Provisions for employee benefits	10,283	8,132	1,195	1,192	9,088	6,940
Trade payables	166	222	0	0	166	222
Cash and cash equivalents	160	11	0	0	160	11
Other liabilities	15,719	9,451	1,772	1,787	13,947	7,664
Other	7,847	9,818	1,376	1,370	6,471	8,448
Tax losses	2,019	40	0	0	2,019	40
Compensation balance between deferred tax assets and liabilities	(9,744)	(7,997)	(9,744)	(7,997)	0	0
Total	**62,711**	**57,818**	**23,705**	**24,716**	**39,006**	**33,102**

The recognition of deferred tax assets was made by assessing the existence of the prerequisites for their future recovery based on updated strategic plans. In particular, it should be noted that the consolidated subsidiary Brembo Poland Spolka Zo.o. is located in a "special economic zone" and is entitled to deduct a percentage from 25% to 50% of its investments from its current taxes owed through 2026. At 31 December 2018, the company had used all the existing credit at 31 December 2017 besides the credit accrued in 2018.
Brembo Czech Sro. has two tax incentive plans, one of CZK 132.6 million (expiring in 2021) and another of CZK 63.78 million (expiring in 2029), on which the company recognised deferred tax assets equivalent to the total value that is expected to be recovered.
The company Brembo (Nanjing) Automobile Components Co. Ltd. recognised deferred tax assets on their losses for the current and previous years for a total of €2,019 thousand, basing their assessment of the satisfaction of requirements for future recoverability of such assets on updated strategic plans.

It must be pointed out that:

- unrecognised deferred tax assets of Brembo Argentina S.A. — calculated on prior years' tax losses and tax losses for the reporting year (ARS 211.38 million) eligible to be carried out for 5 years — amounted to ARS 73.98 million;
- unrecognised deferred tax assets of Brembo do Brasil Ltda. — calculated on prior years' tax losses (BRL 109.69 million) eligible to be unlimitedly carried forward — amounted to BRL 37.29 million;
- at 31 December 2018, deferred tax liabilities of €1,370 thousand were recognised on profits of subsidiaries, associates or joint ventures which the Group considers may be distributed in the foreseeable future;

- at 31 December 2018, the temporary differences between the parent's share of the net assets of the subsidiary, associate or investee company, including the book value of goodwill, and the value of the investment or shareholding (cost) (as indicated in §38 of IAS 12) amounted to €587 million and were considered to be permanently reinvested, since these provisions are used to fund current transactions and future business growth in those countries in which the same subsidiary resides; as a result, no deferred tax liability was recognised on the taxable portion of such differences.

7. Inventories

A breakdown of net inventories, which are stated net of the inventory write-down provision, is shown below:

(euro thousand)	31.12.2018	31.12.2017
Raw materials	143,184	131,668
Work in progress	68,501	63,419
Finished products	105,991	93,587
Goods in transit	24,361	22,442
Total	**342,037**	**311,116**

The change reported was due to the increase in the Group's business volumes.

Movements in the inventory write-down provision, determined in order to align the cost of inventories to their estimated realisable value, are reported in the following table:

(euro thousand)	31.12.2017	Provisions	Use/Release	Exchange rate fluctuations	Reclassification	31.12.2018
Inventory write-down provision	44,882	7,182	(10,071)	(178)	(543)	41,272

8. Trade Receivables

At 31 December 2018, the balance of trade receivables compared to the previous year was as follows:

(euro thousand)	31.12.2018	31.12.2017
Accounts receivable from customers	405,450	374,361
Receivables from associates and joint ventures	1,964	1,358
Total	**407,414**	**375,719**

The increase in trade receivables is related to the growth in business volumes.
The bad debt risk is not concentrated in any one area, as the Group has a large number of clients spread across the various geographical areas in which it operates.
Accounts receivable from customers are recognised net of the provision for bad debts, which amounted to €4,269 thousand. Movements in the provision for bad debts are shown below:

(euro thousand)	31.12.2017	Provisions	Use/Release	Exchange rate fluctuations	31.12.2018
Provision for bad debts	5,298	653	(1,668)	(14)	4,269

Brembo Group's maximum credit risk exposure is the book value of the gross financial assets recognised in the Statement of Financial Position net of any amounts offset in accordance with IAS 32 and impairment losses recognised in accordance with IFRS 9.
Brembo has no credit insurance contracts; however, its business partners are leading car and motorbike manufacturers with high credit standing.
To express the creditworthiness of financial assets the Group has elected to distinguish between clients who are listed or not listed on the stock exchange. Listed clients are those listed on a stock market, directly or indirectly controlled by a listed company or closely connected to listed companies.

(euro thousand)	31.12.2018	31.12.2017
Listed clients	305,088	295,987
Unlisted clients	106,595	85,030
Total	**411,683**	**381,017**

The following table provides details on trade receivables that have not been adjusted for impairment, broken down by maturity.

Listed clients

(euro thousand)	31.12.2018	Write-down 2018	31.12.2017	Write-down 2017
Current	285,848	0	281,483	0
Expired up to 30 days	2,585	0	2,808	0
Expired by 30 to 60 days	11,382	0	6,779	0
Expired by over 60 days	5,273	1,478	4,917	1,272
Total	**305,088**	**1,478**	**295,987**	**1,272**
% Ratio of expired receivables not written down to total exposure	*5.8%*		*4.5%*	
Total expired receivables, not written down	**17,762**		**13,232**	

Unlisted clients

(euro thousand)	31.12.2018	Write-down 2018	31.12.2017	Write-down 2017
Current	97,388	0	74,961	0
Expired up to 30 days	2,726	0	1,664	0
Expired by 30 to 60 days	1,848	0	2,053	0
Expired by over 60 days	4,633	2,791	6,352	4,026
Total	**106,595**	**2,791**	**85,030**	**4,026**
% Ratio of expired receivables not written down to total exposure	*6.0%*		*7.1%*	
Total expired receivables, not written down	**6,416**		**6,043**	

Expired receivables from listed clients mainly refer to leading car manufacturers, and almost all the related repayment plans were defined at the beginning of 2019.
With regard to the portion of expired receivables from unlisted clients, most of this amount has already been collected in the first months of 2019.

9. Other Receivables and Current Assets

This item is broken down as follows:

(euro thousand)	31.12.2018	31.12.2017
Income tax receivables	23,642	22,079
Non-income tax receivables	27,281	26,493
Other receivables	21,209	31,883
Total	**72,132**	**80,455**

The item "Income tax receivables" includes the receivable recognised by the Parent in prior years in relation to the application of an IRES refund, concerning the non-deductibility for IRAP purposes of personnel expenses, and other applications for IRES and IRAP refund totalling €4,948 thousand, beside the €7,009 thousand R&D tax credit calculated pursuant to Ministerial Decree dated 27 May 2015.

The item "Non-income tax receivables" includes mainly VAT receivables of the subsidiaries located in Poland and China associated with the significant purchases for the investments made in the reporting year.

"Other receivables" include receivables from insurance companies related to insurance refund claims underway at the reporting date, advances paid to suppliers for goods and services, and other accrued income. The decrease compared to 31 December 2017 is chiefly attributable to the collection of insurance refund claims recognised in the previous year.

10. Current Financial Assets and Derivatives

This item is broken down as follows:

(euro thousand)	31.12.2018	31.12.2017
Security deposits	303	294
Other receivables	4	2
Total	**307**	**296**

#people

We are one big team. We owe every milestone reached to the people who make up our team and their unique qualities.


brembo
Lenovo

11. Cash and Cash Equivalents

Cash and cash equivalents include:

(euro thousand)	31.12.2018	31.12.2017
Bank and postal accounts	344,985	300,664
Cash-in-hand and cash equivalents	132	166
Total cash and cash equivalents	**345,117**	**300,830**
Payables to banks: overdrafts and foreign currency advances	(149,246)	(144,857)
Cash and cash equivalents from the Statement of Cash Flows	**195,871**	**155,973**

The items listed above can be converted readily into cash and are not exposed to a significant risk that their value may change. It is deemed that the book value of cash and cash equivalents approximates the fair value at the reporting date.

It should be noted that, with regard to the amount recognised in the Statement of Cash Flows, interest paid in the year totalled €14,867 thousand (€10,587 thousand in 2017).

12. Equity

Group consolidated equity at 31 December 2018 increased by €162,268 thousand compared to 31 December 2017. Movements are given in the relevant statement.

Share capital

The Parent's subscribed and paid up share capital amounted to €34,728 thousand at 31 December 2018. It is divided into 333,922,250 ordinary shares.

The table shows the composition of the share capital and a reconciliation of the number of shares outstanding at 31 December 2018 and 31 December 2017:

(No. of shares)	31.12.2018	31.12.2017
Ordinary shares issued	333,922,250	333,922,250
Own shares	(8,735,000)	(8,735,000)
Total shares outstanding	**325,187,250**	**325,187,250**

As part of Brembo's buy-back plan, in 2018 the Company neither purchased nor sold own shares.

Other reserves and retained earnings/(losses)

The General Shareholders' Meeting of the Parent, Brembo S.p.A., held on 20 April 2018 approved the Financial Statements for the financial year ended 31 December 2017, allocating the net income for the year amounting to €149,484 thousand as follows:

- to the Shareholders, a gross ordinary dividend of €0.22 for each of the outstanding ordinary share, excluding own shares;
- the remaining amount carried forward.

Share capital and reserves of minority interests

This item changed due to dividends paid to minority shareholders, as well as to the change in consolidation differences.

13. Financial Debt and Derivatives

This item is broken down as follows:

	31.12.2018			31.12.2017		
(euro thousand)	Due within one year	Due after one year	Total	Due within one year	Due after one year	Total
Payables to banks:						
- overdrafts and advances	149,246	0	149,246	144,857	0	144,857
- loans	124,082	205,872	329,954	49,363	319,314	368,677
Total	**273,328**	**205,872**	**479,200**	**194,220**	**319,314**	**513,534**
Other financial liabilities:						
Payables to other financial institutions	749	1,572	2,321	3,845	2,344	6,189
Derivatives	814	0	814	0	0	0
Total	**1,563**	**1,572**	**3,135**	**3,845**	**2,344**	**6,189**

IMSA WeatherTech SportsCar Championship
2018

The following table provides details on loans and amounts due to other financial institutions:

(euro thousand)	Original amount	Amount at 31.12.2017	Amount at 31.12.2018	Portion due within one year	Portion due between 1 and 5 years	Portion due after 5 years
Payables to banks:						
BNL loan (€50 million)	50,000	28,529	14,275	14,275	0	0
Banca Popolare di Sondrio loan (€75 million)	75,000	74,945	74,965	18,733	56,232	0
BNL loan (€80 million)	80,000	79,879	79,927	25,002	54,925	0
Mediobanca loan (€130 million)	130,000	104,799	84,893	39,930	44,963	0
Unicredit NY loan (USD 40.3 million)	37,101	11,209	0	0	0	0
UBI loan (USD 35 million)	29,835	29,120	30,525	10,189	20,336	0
Banamex loan (USD 30 million)	25,778	24,955	26,162	4,367	21,795	0
EIB loan (€30 million, New Foundry Project)	30,000	15,241	11,431	3,810	7,621	0
Citi Nanjing loan (RMB 200 million)	26,684	0	7,776	7,776	0	0
Total payables to banks	**484,398**	**368,677**	**329,954**	**124,082**	**205,872**	**0**
Payables to other financial institutions:						
Finlombarda MIUR loan	275	101	35	35	0	0
MIUR BBW loan	2,443	903	553	365	188	0
Soft loan as per Ministerial Decree 28905	845	845	0	0	0	0
Libra loan	1,312	0	86	11	46	29
Ministerio Industria España	3,237	1,735	1,553	262	1,291	0
Langfang municipality loan	7,558	2,435	0	0	0	0
Payables for leases	207	170	94	76	18	0
Total payables to other financial institutions	**15,877**	**6,189**	**2,321**	**749**	**1,543**	**29**
Total	**500,275**	**374,866**	**332,275**	**124,831**	**207,415**	**29**

Among the major transactions finalised in the first half of 2018, mention should be made that Brembo (Nanjing) Automobile Components Co. Ltd. finalised a medium-term loan with Citibank (China) Co. Ltd. Nanjing Branch in the amount of RMB 200 million, whereas Brembo S.p.A. secured a medium-term credit facility of €100 million from BNL that had not yet been drawn down at 31 December 2018.
It should be noted that several loans require compliance with certain financial covenants. At the reporting date, all of these covenants had been met. At 31 December 2018, there was no financial debt secured by collateral.

The following table shows the structure of debt towards other lenders and loans, broken down by annual interest rate and currency:

	31.12.2018			31.12.2017		
(euro thousand)	Fixed rate	Variable rate	Total	Fixed rate	Variable rate	Total
Euro	209,691	58,047	267,738	223,315	83,691	307,006
US Dollar	0	56,687	56,687	0	65,284	65,284
Polish Zloty	74	0	74	141	0	141
Chinese Renmimbi	0	7,776	7,776	2,435	0	2,435
Total	**209,765**	**122,510**	**332,275**	**225,891**	**148,975**	**374,866**

The average variable rate applicable to the Group's debt is 2.54% and the average fixed rate is 0.64%.

The following table provides a breakdown of the Group's debt from financial leases. Instalments are given by principal and interest due.

	31.12.2018			31.12.2017		
(euro thousand)	Instalment	Interest	Principal	Instalment	Interest	Principal
Within 1 year	77	1	76	78	4	74
Between 1 and 5 years	18	0	18	98	2	96
Beyond 5 years	0	0	0	0	0	0
Total	**95**	**1**	**94**	**176**	**6**	**170**

The Group has outstanding commercial lease agreements for several of its production facilities and its headquarters. The company has concluded that all significant risks and rewards typical of the ownership of the assets have not been transferred to the Group on the basis of the contractual terms and conditions (e.g., the contractual terms do not cover most of the economic life of the commercial property, or the present value of the minimum lease instalment does not essentially correspond to the fair value of the asset). It follows that these contracts were accounted for as operating leases according to the current version of IAS 17.

The following table provides a breakdown of operating lease instalments:

(euro thousand)	31.12.2018	31.12.2017
Within 1 year	29,136	26,613
Between 1 and 5 years	79,437	77,109
Beyond 5 years	123,247	85,311
Total	**231,820**	**189,033**

The Group has carried out a detailed analysis of the impacts that the application of IFRS16 will have, with effect from 1 January 2019, on Net Invested Capital and Net Financial Position (present net value of future rental fees). This value, amounting to €178,754 thousand, differs from the value of operating leases indicated in the table shown above due to the discounting of future flows (applying an average weighted discount rate of 2.82%, using the “incremental borrowing” criterion), as well as the discounting of the service component not covered by this standard and of low value and short-term leases, as shown in the table below:

Operating leases at 31 December 2018	231,820
Short-term leases	(3,122)
Low-value leases	(11,819)
Service component	(2,743)
Undiscounted leases at 1 January 2019	**214,136**
Impact resulting from discounting as per IFRS 16	(35,382)
Discounted leases at 1 January 2019 (IFRS 16)	**178,754**

Net Financial Position

The following table shows the breakdown of the net financial position at 31 December 2018 (€136,911 thousand) and at 31 December 2017 (€218,597 thousand) based on the layout prescribed by Consob Communication No. 6064293 of 28 July 2006.

	(euro thousand)	31.12.2018	31.12.2017
A	Cash	132	166
B	Other cash equivalents	344,985	300,664
C	Derivatives and securities held for trading	0	0
D	**LIQUIDITY (A+B+C)**	**345,117**	**300,830**
E	Current financial receivables	307	296
F	Current payables to banks	149,246	144,857
G	Current portion of non-current debt	124,082	49,363
H	Other current financial debts and derivatives	1,563	3,845
I	**CURRENT FINANCIAL DEBT (F+G+H)**	**274,891**	**198,065**
J	**NET CURRENT FINANCIAL DEBT (I–E–D)**	**(70,533)**	**(103,061)**
K	Non-current payables to banks	205,872	319,314
L	Bonds issued	0	0
M	Other non-current financial debts and derivatives	1,572	2,344
N	**NON-CURRENT FINANCIAL DEBT (K+L+M)**	**207,444**	**321,658**
O	**NET FINANCIAL DEBT (J+N)**	**136,911**	**218,597**

The various components that gave rise to the change in net financial position during the current year are presented in the Statement of Cash Flows in the Report on Operations.

14. Other Non-current Liabilities

This item is broken down as follows:

(euro thousand)	31.12.2018	31.12.2017
Social security payables	0	3,402
Payables to employees	1,380	15,449
Other payables	1,715	1,076
Total	**3,095**	**19,927**

The changes in the items “Payables to employees”, “Social security payables” and “Other payables” primarily consisted of the reclassification to “Other current liabilities” of the liability associated with the 2016-2018 three-year incentive plan reserved for top managers, to be settled in 2019.

15. Provisions

This item is broken down as follows:

(euro thousand)	31.12.2017	Provisions	Use/Release	Exchange rate fluctuations	Other	31.12.2018
Provisions for contingencies and charges	11,881	11,873	(6,446)	(146)	23	17,185
Provision for product warranties	29,976	4,212	(12,472)	(39)	(9,858)	11,819
Total	**41,857**	**16,085**	**(18,918)**	**(185)**	**(9,835)**	**29,004**
of which short-term	***2,244***					***13,504***

Provisions totalled €29,004 thousand, including provision for product warranties, supplemental customer indemnities — in connection with the Italian agency contract — and the valuation of risks related to litigation underway, as well as an estimate of liabilities that could arise as a result of tax litigation underway, for which the reader is referred to Note 30 of these Explanatory Notes.

The item “Other” relates to the reduction of the obligation for risks covered by insurance policies recognised in the previous year as counter-entry to the item “Other receivables and current assets”.

16. Provisions for Employee Benefits

Group companies provide post-employment benefits through defined contribution plans or defined benefit plans. In the case of defined contribution plans, the Group companies pay contributions to public or private insurance institutes based on legal or contractual obligations or on a voluntary basis. Once such contributions have been paid, the companies have no further payment obligations.
Defined contribution plans include a plan relating to Brembo Huilian (Langfang) Brake Systems Co. Ltd and reserved for approximately 70 early retired employees, who have guaranteed monthly payments until they reach pension age.

The employees of the UK subsidiary AP Racing Ltd. have the benefit of a corporate pension plan (AP Racing Pension Scheme), which is made up of two sections: the first is a defined contribution plan for employees hired after 1 April 2001, and the second is a defined benefit plan for those already in service at 1 April 2001 (and previously covered by the AP Group Pension Fund). The defined benefit plan is funded by employer and employee contributions made to a trustee that is legally separate from the enterprise providing benefits to its employees.
Brembo Mexico S.A. de C.V., Brembo Japan Co. Ltd. and Brembo Brake India Pvt. Ltd. offer to their employees specific pension plans that qualify as defined benefit plans.
Unfunded defined benefit plans include also the “Employees’ leaving indemnity” provided by the Group’s Italian companies, in accordance with current applicable regulations.
The value of defined benefit plans is calculated on an actuarial basis using the “Projected Unit Credit Method”.
The item “Other employee provisions” also refers to other employee benefits.

Liabilities at 31 December 2018 are given in the table below:

(euro thousand)	31.12.2017	Provisions	Use/Release	Interest expense	Exchange rate fluctuations	Other	31.12.2018
Employees’ leaving entitlement	20,096	0	(1,220)	343	0	(115)	19,104
Defined benefit plans and other long-term benefits	5,322	684	(689)	196	6	609	6,128
Defined contribution plans	2,366	1,944	(2,379)	0	(22)	0	1,909
Total	**27,784**	**2,628**	**(4,288)**	**539**	**(16)**	**494**	**27,141**

Ferrari Challenge Championship
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Defined benefit plans

(euro thousand)	Unfunded Plan (Employee's leaving entitlement)		Funded Plan (Ap Racing plan)		Brembo México plan		Brembo Brake India plan		Brembo Japan plan	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
A Change in defined benefit obligation										
1. Defined benefit obligation at the end of prior year	**20,096**	**21,546**	**35,314**	**37,581**	**800**	**648**	**873**	**749**	**244**	**302**
2. Service cost:										
Current service cost	0	0	0	0	163	144	109	106	3	2
Past service cost	0	0	426	0	(17)	0	0	0	0	0
3. Interest expense	343	315	863	981	67	54	60	48	1	2
4. Cash flows:										
Benefit payments from plan	0	0	(1,651)	(761)	0	0	(1)	(11)	0	0
Benefit payments from employer	(1,220)	(1,154)	0	0	(20)	(17)	(11)	(6)	(23)	(37)
Other significant events:										
6. Remeasurements:										
Effects of changes in demographic assumptions	0	0	(211)	(661)	(72)	0	0	0	0	0
Effects of changes in financial assumptions	(115)	(611)	(2,301)	7	(100)	26	0	(33)	0	0
Effects of experience adjustments (changes occurred since the previous measurement not in line with assumptions)	0	0	635	(530)	54	19	33	76	0	0
7. Effect of changes in foreign exchange rates	0	0	(264)	(1,303)	41	(74)	(32)	(56)	17	(25)
8. Defined benefit obligations at end of year	**19,104**	**20,096**	**32,811**	**35,314**	**916**	**800**	**1,031**	**873**	**242**	**244**
B. Change in fair value of plan assets										
1. Fair value of plan assets at the end of prior year	**0**	**0**	**31,663**	**30,229**	**0**	**0**	**203**	**167**	**0**	**0**
2. Financial income	0	0	780	795	0	0	15	11	0	0
3. Cash flows:										
Total employer contributions:										
- employer contributions	0	0	575	556	0	0	77	45	0	0
- employer direct benefit payments	1,221	1,155	0	0	20	17	11	6	0	0
Benefit payments from plan	0	0	(1,651)	(761)	0	0	(1)	(11)	0	0
Benefit payments from employer	(1,221)	(1,155)	0	0	(20)	(17)	(11)	(6)	0	0
Taxes on plan assets	0	0	0	0	0	0	(2)	(1)	0	0
5. Remeasurements:										
Return on plan assets (excluding interest income)	0	0	(2,553)	1,933	0	0	0	5	0	0

(euro thousand)	Unfunded Plan (Employee's leaving entitlement)		Funded Plan (Ap Racing plan)		Brembo México plan		Brembo Brake India plan		Brembo Japan plan	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
6. Effect of changes in foreign exchange rates	0	0	(227)	(1,089)	0	0	(7)	(13)	0	0
7. Fair value of plan assets at end of period	**0**	**0**	**28,587**	**31,663**	**0**	**0**	**285**	**203**	**0**	**0**
E. Amounts recognised in the Statement of Financial Position										
1. Defined benefit obligation	19,104	20,096	32,811	35,314	916	800	1,031	873	242	244
2. Fair value of plan assets	0	0	28,587	31,663	0	0	285	203	0	0
3. Funded status	*19,104*	*20,096*	*4,224*	*3,651*	*916*	*800*	*746*	*670*	*242*	*244*
5. Net liability (asset)	**19,104**	**20,096**	**4,224**	**3,651**	**916**	**800**	**746**	**670**	**242**	**244**
F. Components of defined benefit cost										
1. Service cost:										
Current service cost	0	0	0	0	163	144	109	106	3	2
Past service cost	0	0	426	0	(17)	0	0	0	0	0
Total service costs	*0*	*0*	*426*	*0*	*146*	*144*	*109*	*106*	*3*	*2*
2. Net interest expense:										
Interest expense on defined benefit plans	343	315	863	981	67	54	60	48	1	2
Interest (income) on plan assets	0	0	(780)	(795)	0	0	(15)	(11)	0	0
Total net interest expense	*343*	*315*	*83*	*186*	*67*	*54*	*45*	*37*	*1*	*2*
3. Remeasurement on other long-term benefits	0	0	0	0	0	0	17	25	0	0
5. Defined benefit cost included in P&L	343	315	509	186	213	198	171	168	4	4
6. Remeasurements (recognised in Other Comprehensive Income):										
Effects of changes in demographic assumptions	0	0	(211)	(661)	(72)	0	0	0	0	0
Effects of changes in financial assumptions	(115)	(611)	(2,301)	7	(100)	26	0	(16)	0	0
Effects of experience adjustments (changes occurred since the previous measurement not in line with assumptions)	0	0	635	(530)	54	19	16	35	0	0
Return on plan assets (excluding interest income)	0	0	2,553	(1,933)	0	0	2	(3)	0	0
Total remeasurements included in OCI	*(115)*	*(611)*	*676*	*(3,117)*	*(118)*	*45*	*18*	*16*	*0*	*0*
7. Total defined benefit cost recognised in P&L and OCI	**228**	**(296)**	**1,185**	**(2,931)**	**95**	**243**	**189**	**184**	**4**	**4**

(euro thousand)	Unfunded Plan (Employee's leaving entitlement) 31.12.2018	Unfunded Plan (Employee's leaving entitlement) 31.12.2017	Funded Plan (Ap Racing plan) 31.12.2018	Funded Plan (Ap Racing plan) 31.12.2017	Brembo México plan 31.12.2018	Brembo México plan 31.12.2017	Brembo Brake India plan 31.12.2018	Brembo Brake India plan 31.12.2017	Brembo Japan plan 31.12.2018	Brembo Japan plan 31.12.2017
G. Net defined benefit liability (asset) reconciliation										
1. Net defined benefit liability (asset)	20,096	21,546	3,651	7,352	800	648	670	582	244	302
2. Defined benefit cost included in P&L	343	315	509	186	213	198	171	168	4	4
3. Total remeasurements included in OCI	(115)	(611)	676	(3,117)	(118)	45	18	16	0	0
4. Other significant events:										
5. Cash flows:										
Employer contributions	0	0	(575)	(556)	0	0	(77)	(45)	0	0
Employer direct benefit payments	(1,220)	(1,154)	0	0	(20)	(17)	(11)	(6)	(23)	(37)
7. Effect of changes in foreign exchange rates	0	0	(37)	(214)	41	(74)	(25)	(43)	17	(25)
8. Net defined benefit liability (asset) at the end of year	**19,104**	**20,096**	**4,224**	**3,651**	**916**	**800**	**746**	**672**	**242**	**244**
H. Defined benefit obligation										
1. Defined benefit obligation by participant status										
Actives	19,104	20,096	0	0	916	800	1,032	875	0	0
Vested deferred	0	0	18,727	21,045	0	0	0	0	0	0
Retirees	0	0	14,084	14,268	0	0	0	0	0	0
Total	**19,104**	**20,096**	**32,811**	**35,313**	**916**	**800**	**1,032**	**875**	**0**	**0**
I. Plan assets										
1. Fair value of plan assets										
Cash and cash equivalents	0	0	8	8	0	0	0	0	0	0
Equity instruments	0	0	10,154	19,401	0	0	0	0	0	0
Debt instruments	0	0	4,286	12,255	0	0	0	0	0	0
Derivatives	0	0	8,502	0	0	0	0	0	0	0
Investment funds	0	0	5,639	0	0	0	0	0	0	0
Assets held by insurance company	0	0	0	0	0	0	286	203	0	0
Total	**0**	**0**	**28,589**	**31,664**	**0**	**0**	**286**	**203**	**0**	**0**
2. Fair value of assets that have quoted market prices										
Cash and cash equivalents	0	0	8	8	0	0	0	0	0	0
Equity instruments	0	0	10,154	19,401	0	0	0	0	0	0
Debt instruments	0	0	4,286	12,255	0	0	0	0	0	0
Derivatives	0	0	8,502	0	0	0	0	0	0	0
Investment funds	0	0	5,639	0	0	0	0	0	0	0
Total	**0**	**0**	**28,589**	**31,664**	**0**	**0**	**0**	**0**	**0**	**0**

(euro thousand)	Unfunded Plan (Employee's leaving entitlement) 31.12.2018	Unfunded Plan (Employee's leaving entitlement) 31.12.2017	Funded Plan (Ap Racing plan) 31.12.2018	Funded Plan (Ap Racing plan) 31.12.2017	Brembo México plan 31.12.2018	Brembo México plan 31.12.2017	Brembo Brake India plan 31.12.2018	Brembo Brake India plan 31.12.2017	Brembo Japan plan 31.12.2018	Brembo Japan plan 31.12.2017
J. Significant actuarial assumptions										
Weighted-average assumptions to determine benefit obligations										
1. Discount rate	1.80%	1.75%	2.80%	2.50%	9.00%	8.00%	7.50%	7.50%	0.50%	0.60%
2. Rate of salary increase	0.00%	0.00%	N/A	N/A	4.50%	4.50%	9.50%	9.50%	N/A	N/A
3. Rate of price inflation	0.00%	0.00%	3.20%	3.30%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
4. Rate of expected salary increases	1.50%	1.50%	3.40%	3.30%	3.50%	3.50%	0.00%	0.00%	2.50%	2.50%
Weighted-average assumptions to determine defined benefit cost										
1. Discount rate	1.75%	1.50%	2.50%	2.70%	8.00%	8.25%	7.50%	6.90%	N/A	N/A
2. Rate of salary increase	0.00%	0.00%	N/A	N/A	4.50%	4.50%	9.50%	9.50%	N/A	N/A
3. Rate of price inflation	0.00%	0.00%	3.30%	3.50%	0.00%	0.00%	0.00%	0.00%	N/A	N/A
4. Rate of expected salary increases	1.50%	1.50%	3.30%	3.50%	3.50%	3.50%	0.00%	0.00%	N/A	N/A

By applying a uniform change in the discount rate by ± 25 basis points, the consolidated liabilities would have been respectively lower/higher by approximately €2.2 million compared to the base liabilities value of €54.1 million.

The average duration of the plans is 16.40 years.

17. Trade Payables

At 31 December 2018, trade payables were as follows:

(euro thousand)	31.12.2018	31.12.2017
Trade payables	542,827	465,271
Payables to associates and joint ventures	23,910	5,119
Total	**566,737**	**470,390**

The increase in this item related to the increase in investments and the expansion of the normal operating activities in the reporting year.

18. Tax Payables

This item reflects the net amount due for the current taxes of the Group's companies.

(euro thousand)	31.12.2018	31.12.2017
Tax payables	6,003	9,719

19. Other Current Payables

Other current payables at 31 December 2018 are given in the table below:

(euro thousand)	31.12.2018	31.12.2017
Tax payables other than current taxes	9,940	11,646
Social security payables	24,724	17,893
Payables to employees	71,101	48,369
Other payables	58,427	43,033
Total	**164,192**	**120,941**

The items "Payables to employees", "Social security payables" and "Other payables" include the reclassification from "Other non-current liabilities" of the liability for the 2016-2018 three-year incentive plan reserved for top managers, to be settled in 2019.

"Other payables" also include deferred income in the form of a public grant received by Brembo Poland Spolka Zo.o. released to the Statement of Income in accordance with the related amortisation plans to which it refers, in addition to deferred income amounting to €18,151 thousand (€5,761 thousand in 2017) in the form of grants towards brake system development activities suspended until the conclusion of the development activity and then recognised over the useful lives of the products to which the grants refer.


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Consolidated Statement of Income

20. Revenue from Contracts with Customers

As illustrated in section "Basis of Preparation and Presentation", the Group has applied the new IFRS 15 to the contracts that had not yet been completed as at 1 January 2018, using the modified retrospective method. Since the application of the new Standard had no impact on the Group's equity at 31 December 2017, the disclosure of disaggregated revenue is given here below, compared with data of the previous year, when IAS 18 was applied.

(euro thousand)	31.12.2018	31.12.2017
Revenue from sales of brake systems	2,598,590	2,418,016
Revenue from equipment	24,888	28,001
Revenue from study and design activities	15,379	16,486
Revenue from royalties	1,154	1,117
Total	**2,640,011**	**2,463,620**

The breakdown of Group sales by geographic area of destination and by application is provided in the Directors' Report on Operations.

21. Other Revenues and Income

These are made up of:

(euro thousand)	31.12.2018	31.12.2017
Miscellaneous recharges	5,616	6,193
Gains on disposal of assets	4,718	2,810
Miscellaneous grants	13,130	8,749
Other revenues	11,143	6,398
Total	**34,607**	**24,150**

The item "Miscellaneous grants" includes grants in the amount of €2,216 thousand issued by the State of Michigan to the subsidiary Brembo North America Inc. aimed at hiring resources for the new cast-iron foundry, as well as grants for research and development projects amounting to €1,939 thousand and a tax credit for research and development investment of €7,009 thousand, as already discussed in Note 9.

22. Costs for Capitalised Internal Works

This item refers to the capitalisation of development costs incurred during the year, amounting to €25,339 thousand (€24,219 thousand in 2017).

23. Cost of Raw Materials, Consumables and Goods

The item is broken down as follows:

(euro thousand)	31.12.2018	31.12.2017
Purchase of raw materials, semi-finished and finished products	1,146,629	1,070,192
Purchase of consumables	116,365	107,063
Total	**1,262,994**	**1,177,255**

24. Income (Expense) from Non-Financial Investments

Income (expense) from non-financial investments amounted to €16,190 thousand and is attributable to the effects of valuing the investment in the BSCCB Group using the equity method (€13,236 thousand in 2017).

25. Other Operating Costs

These costs are broken down as follows:

(euro thousand)	31.12.2018	31.12.2017
Transports	68,000	59,563
Maintenance, repairs and utilities	145,640	120,969
Contracted work	88,062	84,986
Rent	45,296	40,227
Other operating costs	139,964	126,212
Total	**486,962**	**431,957**

This item mainly includes the costs of travels, quality-related costs, insurance costs, as well as fees for legal, technical and commercial consulting.

26. Personnel Expenses

Breakdown of personnel expenses is as follows:

(euro thousand)	31.12.2018	31.12.2017
Wages and salaries	325,513	310,539
Social security contributions	73,734	65,446
Employees' leaving entitlement and other personnel provisions	12,462	11,685
Other costs	53,597	48,380
Total	**465,306**	**436,050**

The average number and the year-end number of Group employees by category were as follows:

	Managers	White-collar	Blue-collars	Total
2018 average	138	3,012	7,235	**10,385**
2017 average	131	2,825	6,524	**9,480**
Change	**7**	**187**	**711**	**905**
Total at 31 December 2018	139	3,114	7,381	**10,634**
Total at 31 December 2017	135	2,897	6,805	**9,837**
Change	**4**	**217**	**576**	**797**

Workforce increased by 797, as a result of the recruitment activities in Italy, North America, China and Eastern Europe to sustain the Group's growth.

27. Depreciation, Amortisation and Impairment Losses

The item is broken down as follows:

(euro thousand)	31.12.2018	31.12.2017
Amortisation of intangible assets:		
Development costs	10,323	10,482
Industrial patents and rights for original work	941	872
Licences, trademarks and similar rights	308	256
Other intangible assets	8,097	7,981
Total	**19,669**	**19,591**
Depreciation of property, plant and equipment:		
Buildings	15,122	12,850
Plant and machinery	96,259	81,928
Industrial and commercial equipment	16,657	14,369
Other property, plant and equipment	4,042	3,172
Other leased property, plant and equipment	160	90
Total	**132,240**	**112,409**
Impairment losses:		
Property, plant and equipment	0	414
Intangible assets	3,912	1,287
Total	**3,912**	**1,701**
TOTAL AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES	**155,821**	**133,701**

Comments on impairment losses are provided in the notes to the Statement of Financial Position items.

28. Net Interest Income (Expense)

This item is broken down as follows:

(euro thousand)	31.12.2018	31.12.2017
Exchange rate gains	55,467	43,145
Interest income from employee's leaving entitlement and other personnel provisions	795	795
Interest income	1,701	2,367
Total interest income	**57,963**	**46,307**
Exchange rate losses	(61,669)	(44,741)
Interest expense from employees' leaving entitlement and other personnel provisions	(1,334)	(1,395)
Interest expense	(14,901)	(11,084)
Total interest expense	**(77,904)**	**(57,220)**
TOTAL NET INTEREST INCOME (EXPENSE)	**(19,941)**	**(10,913)**

Interest expense includes the sum of €4,091 thousand relating to the tax settlement described in Note 30 of these Explanatory notes.

29. Interest Income (Expense) from Investments

An analysis of the item is provided in the comment on the Statement of Financial Position item presented in Note 3 of these Explanatory notes.

30. Taxes

This item is broken down as follows:

(euro thousand)	31.12.2018	31.12.2017
Current taxes	76,997	69,215
Deferred tax (assets) and liabilities	(6,530)	(4,949)
Prior years' taxes and other tax payables	13,414	3,371
Total	**83,881**	**67,637**

The following is a reconciliation of theoretical and actual tax burden:

(euro thousand)	31.12.2018	31.12.2017
Theoretical income taxes	69,715	76,354
Prior years' taxes and other differences	17,320	5,191
Tax incentive effects	(10,552)	(11,759)
DTL adjustment effect	0	(9,941)
Unallocated DTA effect	(659)	2,720
Current and deferred taxes (excluding IRAP)	**75,824**	**62,565**
Current and deferred IRAP	8,057	5,072
Total	**83,881**	**67,637**

The Group's actual tax rate is 25.8%, compared with a theoretical tax rate of 23.9% (at 31 December 2017: actual tax rate was 20.2%; theoretical tax rate was 24.3%)

In 2017, Brembo S.p.A. was subject to a tax audit relating to direct taxes and VAT by the Italian Revenue Agency for the years 2012, 2013 and 2014.
Following this audit, on 19 December 2017 an assessment notice was served for the year 2012, setting out irregularities relating to the transfer prices applied to intra-group transactions towards foreign subsidiaries, all of which operating in countries with ordinary tax regimes with which agreements against double taxation are in force. The same irregularities are included in the allegations relating to 2013 and 2014.
While the company is confident that it was always compliant and in good faith, in view of the high level of subjectivity involved in determining transfer prices, as in all evaluation processes, and given the uncertainty inherent in a potential tax dispute and the timescales for completing the amicable procedures for eliminating double taxation under international treaties, has decided to reach a settlement for tax year 2012 and to accept the invitation to appear for the year 2013. The total charge for the Group, inclusive of provisions for subsequent years, but net of a partial positive unilateral adjustment for the same tax periods by the foreign tax authority concerned, was €15,631 thousand.

31. Earnings per share

Basic earnings per share were €0.73 at 31 December 2018 (€0.81 at December 2017), and were calculated by dividing the net income or losses for the year attributable to holders of ordinary equity instruments of the Parent by the weighted average number of ordinary shares outstanding in 2018, amounting to 325,187,250 (2017: 325,187,250). Diluted earnings per share are identical to basic earnings per share inasmuch as no diluting transactions were undertaken.

Stezzano, 4 March 2019

On behalf of the Board of Directors

Executive Deputy Chairman

Matteo Tiraboschi

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EY S.p.A.
Viale Papa Giovanni XXIII, 48
24121 Bergamo

Tel: +39 035 3592111
Fax: +39 035 3592550
ey.com

Independent auditor's report in accordance with article 14 of Legislative Decree n. 39, dated 27 January 2010 and article 10 of EU Regulation n. 537/2014
(Translation from the original Italian text)

To the Shareholders of
Brembo S.p.A.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Brembo Group (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated income statements, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2018, and of its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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We identified the following key audit matter:

Key Audit Matter	Audit Response
Valuation of Goodwill	
As at 31 December 2018 the goodwill, included in the intangible assets, amounted to 81.3 million, and was allocated to the Cash Generating Units (CGUs) "Discs - Systems - Motorbikes" and "After Market - Performance Group" identified by the Group". The processes and methods to evaluate and determine the recoverable amount of each CGU, in terms of value in use, are based on assumptions that are in some cases complex and that, due to their nature, imply the use of judgement by Management, in particular with reference to the future cash flow forecasts in the period of the Group business plan, to the determination of the normalized cash flows used to estimate terminal value and long term growth and discount rates applied to the future cash flow forecasts. Considering the level of judgement and complexity of the assumptions applied in estimating the recoverable amount of goodwill, such as the growth forecasts and discount rates, we considered that this area represents a key audit matter. The disclosures related to the valuation of goodwill is given in note 2 - Intangible Assets (Development Costs, Goodwill and Other Intangible Assets), and in the sections "Discretionary Valuations and Significant Accounting Estimates" and "Impairment of Non-Financial Assets".	Our audit procedures in response to this key audit matter included, among others: • analysis of the procedure and of key controls implemented by the company in relation to the valuation of goodwill, considering the impairment test procedure approved by the Board of Directors; • validation of the CGUs perimeter and the allocation of the carrying value of assets and liabilities to each CGU; • analysis of the future cash flow forecasts; • assessment of the consistency of the future cash flow forecasts of each CGU with the 2019-2021Group business plan; • comparison of forecasts with previous ones and actual data; • assessing discount and long term growth rates. In performing our analysis, we involved our experts in valuation techniques, who have independently performed their own calculation and sensitivity analyses of key assumptions in order to determine which changes in assumptions could materially impact the valuation of recoverable amount. Finally, we reviewed the adequacy of the disclosures made in the explanatory notes and related to these matters.

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

The Directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

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

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

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

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

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

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

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of Brembo S.p.A., in the general meeting held on April 23, 2013, engaged us to perform the audits of the consolidated financial statements of each years ending December 31, 2013 to December 31, 2021.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Group in conducting the audit.

We confirm that the opinion on the consolidated financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) in their capacity as audit committee, prepared in accordance with article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998

The Directors of Brembo S.p.A. are responsible for the preparation of the Report on Operation and of the Report on Corporate Governance and Ownership Structure of Group as at 31 December 2018, including their consistency with the related consolidated financial statements and their compliance with the applicable laws and regulations.

Building a better working world

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998, with the consolidated financial statements of Brembo Group as at 31 December 2018 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operation and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the consolidated financial statements of Brembo Group as at 31 December 2018 and comply with the applicable laws and regulations.

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

Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated 30 December 2016

The Directors of Brembo S.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated 30 December 2016. We have verified that non-financial information have been approved by Directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated 30 December 2016, such non-financial information are subject to a separate compliance report signed by us.

Bergamo, 18 March 2019

EY S.p.A.
Signed by: Claudio Ferigo, partner

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

Attestation of the Consolidated Financial Statements Pursuant to Article 81-*ter* of CONSOB Regulation No. 11971 of 14 May 1999, as amended and extended

1. We the undersigned, Matteo Tiraboschi, in his capacity as Executive Deputy Chairman, and Andrea Pazzi, in his capacity as Manager in Charge of the Financial Reports of Brembo S.p.A., hereby declare, pursuant to the provisions of Article 154-*bis*, paragraphs 3 and 4, of Italian Legislative Decree No. 58 of 24 February 1998, that the administrative and accounting procedures for preparing the consolidated financial statements for the period from 1 January to 31 December 2018:

- are appropriate in relation to the company features; and
- have been consistently applied.

2. The assessment of the adequacy of the administrative and accounting procedures used in preparing the Consolidated Financial Statements at 31 December 2018 was based on a process defined by Brembo S.p.A. in accordance with the Internal Control – Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission, an internationally-accepted reference framework. Regarding this point there are no issues.

3. The undersigned further declare that:

3.1 the Consolidated Financial Statements:

a) have been prepared in accordance with applicable International Accounting Standards, as adopted by the European Union through (EC) Regulation No. 1606/2002 of European Parliament and Council on 19 July 2002;

b) reflect the accounting books and records; and

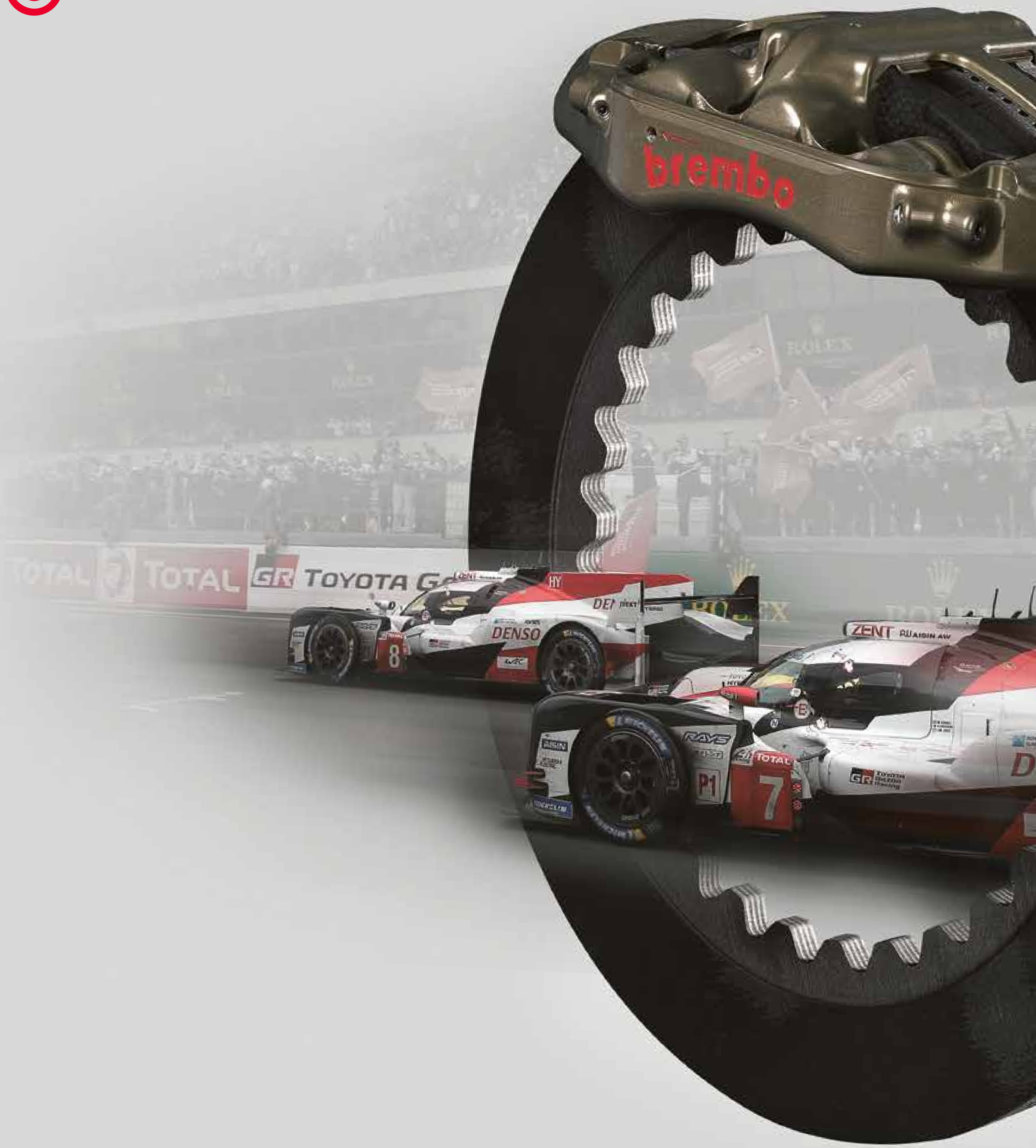
c) provide a true and fair view of the assets, liabilities, profit or loss and financial position of the issuer and the companies included in the consolidation area.

3.2 The Report on Operations includes a reliable analysis of the operating performance and results, as well as the condition of the issuer and the aggregate of the companies included in the consolidation area, along with a description of the main risks and uncertainties to which they are exposed.

4 March 2019

Matteo Tiraboschi
Executive Deputy Chairman

Andrea Pazzi
Manager in Charge of the Company's Financial Reports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Separate Financial Statements 2018

24 Hours of Le Mans brake system
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Financial Statements of Brembo S.p.A. at 31 December 2018

Statement of Financial Position of Brembo S.p.A.

Assets

(euro)	Notes	31.12.2018	*of which with related parties*	31.12.2017	*of which with related parties*	Change
NON-CURRENT ASSETS						
Property, plant, equipment and other equipment	1	184,903,798		163,036,629		21,867,169
Development costs	2	66,030,656		57,010,631		9,020,025
Other intangible assets	2	21,490,612		17,106,794		4,383,818
Shareholdings	3	353,801,527		352,340,132		1,461,395
Other financial assets (including investments in other companies and derivatives)	4	7,344,635	*5,674,980*	5,979,045	*5,659,390*	1,365,590
Receivables and other non-current assets	5	95,151		70,450		24,701
Deferred tax assets	6	15,722,119		16,524,930		(802,811)
TOTAL NON-CURRENT ASSETS		**649,388,498**		**612,068,611**		**37,319,887**
CURRENT ASSETS						
Inventories	7	121,964,714		112,752,076		9,212,638
Trade receivables	8	220,923,957	*99,336,716*	178,616,933	*65,725,277*	42,307,024
Other receivables and current assets	9	26,875,368	*10,328*	38,664,172	*3,046*	(11,788,804)
Current financial assets and derivatives	10	40,395,848	*40,331,293*	14,566,561	*14,502,005*	25,829,287
Cash and cash equivalents	11	174,530,546		159,801,961		14,728,585
TOTAL CURRENT ASSETS		**584,690,433**		**504,401,703**		**80,288,730**
TOTAL ASSETS		**1,234,078,931**		**1,116,470,314**		**117,608,617**

Equity and Liabilities

(euro)	Notes	31.12.2018	*of which with related parties*	31.12.2017	*of which with related parties*	Change
EQUITY						
Share capital	12	34,727,914		34,727,914		0
Other reserves	12	130,320,422		130,320,422		0
Retained earnings/(losses)	12	243,111,799		165,083,650		78,028,149
Net result	12	114,106,469		149,484,042		(35,377,573)
TOTAL EQUITY		**522,266,604**		**479,616,028**		**42,650,576**
NON-CURRENT LIABILITIES						
Non-current payables to banks	13	156,119,643		253,808,424		(97,688,781)
Other non-current financial payables and derivatives	13	262,691		776,303		(513,612)
Other non-current liabilities	14	0		15,350,744	*5,914,669*	(15,350,744)
Non-current provisions	15	8,660,886		31,806,042		(23,145,156)
Provisions for employee benefits	16	18,673,520	*221,073*	19,663,803	*47,267*	(990,283)
TOTAL NON-CURRENT LIABILITIES		**183,716,740**		**321,405,316**		**(137,688,576)**
CURRENT LIABILITIES						
Current payables to banks	13	103,095,976		46,007,831		57,088,145
Other current financial payables and derivatives	13	87,776,017	*86,551,162*	30,017,992	*28,944,686*	57,758,025
Trade payables	17	212,056,519	*28,570,447*	173,829,352	*22,011,561*	38,227,167
Tax payables	18	452,477				452,477
Current provisions	15	13,503,822		2,243,500		11,260,322
Other current payables	19	111,210,776	*11,926,287*	63,350,295	*2,796,720*	47,860,481
TOTAL CURRENT LIABILITIES		**528,095,587**		**315,448,970**		**212,646,617**
TOTAL LIABILITIES		**711,812,327**		**636,854,286**		**74,958,041**
TOTAL EQUITY AND LIABILITIES		**1,234,078,931**		**1,116,470,314**		**117,608,617**

Statement of Income of Brembo S.p.A.

(euro)	Notes	31.12.2018	*of which with related parties*	31.12.2017	*of which with related parties*	Change
Revenue from contracts with customers	20	**961,679,047**	***181,291,145***	**899,125,514**	***153,493,046***	**62,553,533**
Other revenues and income	21	54,987,824	*35,795,344*	46,139,319	*34,622,769*	8,848,505
Costs for capitalised internal works	22	21,325,318		21,038,200		287,118
Raw materials, consumables and goods	23	(417,933,987)	*(107,045,020)*	(407,224,279)	*(100,610,649)*	(10,709,708)
Other operating costs	24	(206,965,137)	*(18,113,039)*	(188,962,549)	*(18,885,074)*	(18,002,588)
Personnel expenses	25	(231,842,043)	*(8,507,625)*	(225,849,245)	*(8,899,042)*	(5,992,798)
GROSS OPERATING INCOME		**181,251,022**		**144,266,960**		**36,984,062**
Depreciation, amortisation and impairment losses	26	(46,720,080)		(39,141,379)		(7,578,701)
NET OPERATING INCOME		**134,530,942**		**105,125,581**		**29,405,361**
Interest income	*27*	*4,780,233*		*5,499,859*		*(719,626)*
Interest expense	*27*	*(11,414,442)*		*(8,254,729)*		*(3,159,713)*
Net interest income (expense)	27	(6,634,209)	*2,403,898*	(2,754,870)	*402,082*	(3,879,339)
Interest income (expense) from investments	28	46,024,065	*52,204,065*	78,365,942	*80,876,992*	(32,341,877)
RESULT BEFORE TAXES		**173,920,798**		**180,736,653**		**(6,815,855)**
Taxes	29	(59,814,329)		(31,252,611)		(28,561,718)
NET RESULT FOR THE YEAR		**114,106,469**		**149,484,042**		**(35,377,573)**

Statement of Comprehensive Income of Brembo S.p.A.

(euro)	31.12.2018	31.12.2017	Change
NET RESULT FOR THE YEAR	**114,106,469**	**149,484,042**	**(35,377,573)**
Other comprehensive income/(losses) that will not be subsequently reclassified to income/(loss) for the year:			
Effect (actuarial income/loss) on defined benefit plans	112,240	599,033	(486,793)
Tax effect	(26,938)	(143,768)	116,830
Total other comprehensive income/(losses) that will not be subsequently reclassified to income/(loss) for the year	**85,302**	**455,265**	**(369,963)**
COMPREHENSIVE RESULT FOR THE YEAR	**114,191,771**	**149,939,307**	**(35,747,536)**

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Statement of Cash Flows of Brembo S.p.A.

(euro)	31.12.2018	31.12.2017
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (*)	**148,138,167**	**7,133,046**
Result before taxes	**173,920,798**	**180,736,653**
Depreciation, amortisation/impairment losses	46,720,080	39,141,379
Capital gains/losses	(937,108)	50,623
Write-ups/Write-downs of shareholdings	6,180,000	2,513,051
Financial portion of provisions for payables for personnel	335,520	308,355
Other provisions net of utilisations	(8,191,897)	14,697,294
Cash flows generated by operating activities	**218,027,393**	**237,447,355**
Current taxes paid	(37,996,430)	(37,915,091)
Uses of long-term provisions for employee benefits	(1,213,563)	(1,120,991)
(Increase) reduction in current assets:		
inventories	(6,862,665)	(8,617,293)
trade receivables and receivables from other Group companies	(42,224,391)	6,306,406
receivables from others and other assets	(1,371,332)	(5,601,806)
Increase (reduction) in current liabilities:		
trade payables and payables to other Group companies	38,227,167	14,423,370
payables to others and other liabilities	19,613,521	11,380,497
Net cash flows from/(for) operating activities	**186,199,700**	**216,302,447**

(euro)	31.12.2018	31.12.2017
Investments in:		
intangible assets	(32,741,144)	(30,633,697)
property, plant and equipment	(51,579,029)	(53,317,844)
financial assets (investments)	(8,991,395)	(24,624,304)
Price for disposal, or reimbursement value of fixed tangible and intangible assets	2,789,290	442,213
Price for disposal, or reimbursement value, of fixed assets	0	5,651,314
Net cash flows from/(for) investing activities	**(90,522,278)**	**(102,482,318)**
Dividends paid in the year	(71,541,195)	(65,037,450)
Loans to Group companies and amounts payable to companies participating in the centralised treasury system	31,777,188	13,144,916
Change in fair value valuation of derivatives	814,397	556,312
Loans and financing granted by banks and other financial institutions in the year	91,741	155,844,560
Repayment of long-term loans and other liabilities	(35,583,104)	(77,323,346)
Net cash flows from/(for) financing activities	**(74,440,973)**	**27,184,992**
Total cash flows	**21,236,449**	**141,005,121**
CASH AND CASH EQUIVALENTS AT END OF YEAR (*)	**169,374,616**	**148,138,167**

(*) See Note 11 of the Explanatory Notes to the Separate Financial Statements for a reconciliation with financial statements data.

Statement of Changes in Equity of Brembo S.p.A.

		Other reserves				
(euro)	Share capital	Reserves	Treasury shares	Retained earnings (losses)	Net result for the year	Equity
Balance at 1 January 2017	**34,727,914**	**144,219,115**	**(13,475,897)**	**90,850,383**	**138,392,655**	**394,714,170**
Allocation of profit for the previous year				73,355,205	(73,355,205)	**0**
Payment of dividends					(65,037,450)	**(65,037,450)**
Reclassification (*)		(422,796)		422,796		**0**
Rounding				1		**1**
Components of comprehensive income:						
Effect of actuarial income/(loss) on defined benefit plans				455,265		**455,265**
Net result for the year					149,484,042	**149,484,042**
Balance at 1 January 2018	**34,727,914**	**143,796,319**	**(13,475,897)**	**165,083,650**	**149,484,042**	**479,616,028**
Allocation of profit for the previous year				77,942,847	(77,942,847)	**0**
Payment of dividends					(71,541,195)	**(71,541,195)**
Components of comprehensive income:						
Effect of actuarial income/(loss) on defined benefit plans				85,302		**85,302**
Net result for the year					114,106,469	**114,106,469**
Balance at 31 December 2018	**34,727,914**	**143,796,319**	**(13,475,897)**	**243,111,799**	**114,106,469**	**522,266,604**

(*) A portion of the restricted reserve Re. Article 6, paragraph 2, of Legislative Decree No. 38/2005 was reclassified under retained earnings, since it is no longer subject to non-distributability.

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#growth

Words play with emotions and nuances. Yet cold, objective numbers only speak the truth. They tell the story of our growth.

Formula E Championship
2018-2019

Statutory Auditors' Report

Statutory Auditors' Report to the Shareholders' Meeting of Brembo S.p.A. called to approve the Financial Statements for the year ended 31 December 2018, pursuant to Article 153 of Legislative Decree No. 58 of 24 February 1998

Shareholders,
In this Report, drafted pursuant to Article 153 of Legislative Decree No. 58 of 24 February 1998 (the Consolidated Law on Finance or "TUF") and in accordance with the recommendations made by Consob in Communication No. DEM/1025564 of 6 April 2001, as updated, the Board of Statutory Auditors relates the activity carried out during the year ended 31 December 2018 and until the date of this writing, in compliance with applicable legislation and also taking account of the Principles of Conduct for Boards of Statutory Auditors recommended by the Italian National Board of Certified Accountants and Auditors (CNDCEC).

Composition and functioning of the Board of Statutory Auditors

Firstly, we would like to recall that the Board of Statutory Auditors appointed on 20 April 2017 by the General Shareholders' Meeting of Brembo S.p.A. (hereinafter "Brembo") and in office for the three-year period 2017-2019, i.e., until the General Shareholders' Meeting called to approve the Financial Statements for the year ending 31 December 2019, is made up as follows[1]:

- Acting Auditors: Raffaella Pagani (Chairwoman), Alfredo Malguzzi, Mario Tagliaferri;
- Alternate Auditors: Myriam Amato, Marco Salvatore.

Pursuant to Article 144-*quinquiesdecies* of the Rules for Issuers, the list of offices held by members of the Board of Statutory Auditors at the companies set out in Book V, Title V, Chapters V, VI and VII of the Italian Civil Code, has been published by Consob on its website (www.consob.it). It bears remarking that Article 144-*quaterdecies* of the Rules for Issuers (Disclosure obligations to Consob) provides that those holding the office of member of the control body of just one issuer are not subject to the disclosure obligations imposed by that same Article and in this case are not included in the lists published by Consob.
The Company discloses the main offices held by members of its Board of Statutory Auditors in its Corporate Governance and Ownership Structure Report.
In this document, the Board of Statutory Auditors also certifies that all of its members have complied with the aforementioned Consob regulations on the "limits to the cumulation of offices".
With regard to the applicable rules of conduct for boards of statutory auditors recommended by Italy's National Council of Chartered Accountants and Accounting Experts (CNDCEC), and specifically the new provision Q.1.1 on self-assessment by the board of statutory auditors (a periodic internal assessment process regarding whether members continue to meet eligibility requirements and the propriety and efficacy of the board's functioning), it is acknowledged that the Board of Statutory Auditors has delivered the Board of Directors its first specific report of this nature (which will be continue to be provided with annual frequency). Until now, in accordance with applicable

1 The appointment was based on the two lists filed respectively by the majority shareholder Nuova FourB S.r.l. and a group of Asset Management Companies and other institutional investors (holding about 0.523 % of the share capital, overall).

legislation, the Board of Statutory Auditors' analyses of this kind were limited to verifying the composition of the control body within the framework of the annual self-assessment by company bodies. The findings of the most recent verification, on the basis of the statutory auditors' individual declarations, are presented in the 2018 Corporate Governance and Ownership Structure Report. The requirements of independence, as provided for in Article 148, paragraph 3, of TUF and Brembo's Corporate Governance Code, which is based on the Corporate Governance Code of Borsa Italiana S.p.A., integrity and professionalism pursuant to Article 148, paragraph 4, of TUF and the aforementioned limit on offices were verified. In addition to such verification, in accordance with current best practices, this year the Board of Statutory Auditors also extended its focus to the following elements of self-assessment: the ongoing professional development of its members, the conduct of meetings, participation frequency, duration and methods, time available, trust and collaboration between members, and the flow of information between the statutory auditors.
Under its responsibility, the Board of Statutory Auditors concluded that it had not identified deficiencies relating to the fitness of its members or the adequate composition and functioning of the Board.
The Board of Statutory Auditors fulfilled the supervisory duties mandated by Article 2403 of the Italian Civil Code and Article 149 of TUF, in addition to performing the supervisory functions required by Article 19 of Legislative Decree No. 39/2010, as amended by Legislative Decree No. 135/2016 (in effect from 5 August 2016), in its role as Internal Control & Audit Committee, supervising compliance with the principles of proper administration and, in particular, the suitability of the organisational, administrative and accounting structures adopted by the Company and the concrete functioning thereof, in addition to the actual implementation of the corporate governance rules set forth by relevant applicable regulations. The Board of Statutory Auditors also monitored the independence of the Independent Auditors in charge of auditing the accounts.
The information necessary to fulfil the above supervisory duties was obtained through both frequent meetings with the heads of the competent corporate entities, and in particular its control functions, and participation by the Statutory Auditors in meetings of the Board of Directors, in meetings of the governance committees formed in accordance with the Borsa Italiana Corporate Governance Code, fully adopted by Brembo (the Control, Risks & Sustainability Committee — which also acts as Related Party Transactions Committee and fulfils the duties set out in the Related Party Transactions Procedure adopted by the Committee pursuant to Article 4 of the Consob Regulation adopted by Resolution No. 17221 of 12 March 2010 and amended by Resolution No. 17389 of 23 June 2010 — and the Remuneration & Appointments Committee), as well as in meetings of the Supervisory Committee formed in accordance with Legislative Decree No. 231/2001.

The Board of Statutory Auditors:
- held 13 meetings in 2018 and attended the General Shareholders' Meeting, all meetings of the Board of Directors (eight during the year), the meetings of the Audit, Risks & Sustainability Committee (six during the year) and, through its Chairwoman, the meetings of the Remuneration & Appointments Committee (one during the year); the meetings of the Board of Statutory Auditors had an average duration of approximately three hours;
- in most cases held its meetings on the same day as those of the Audit, Risks & Sustainability Committee and the Supervisory Board, including a section on matters discussed jointly, in order to facilitate the exchange of information between parties with significant duties relating to internal controls and to make the best use of the related company personnel;
- participated, together with the Directors, in the collegial session held by the consultant tasked with the 2018 Board Performance Evaluation;
- also participated in the induction sessions organised by the Company, which in 2018 related to: remuneration policies, people strategy & future trends, cybersecurity and the GDPR Risk Matrix, organic and non-organic growth strategies and M&A transactions. The sessions were held by the executive functions relevant to the various issues.

Pursuant to Article 153 of TUF and Article 2429, paragraph 2, of the Italian Civil Code, and in accordance with Consob recommendations and based on the main information obtained in the course of the Board's performance of its duties, the following information is reported:

Supervisory activity with regard to compliance with the law, the By-laws and the Corporate Governance Code

1. Based on available information, the Board of Statutory Auditors did not detect any violations of the law or By-laws, or outwardly imprudent or risky transactions, or transactions that entail a potential conflict of interest or are in contrast with the resolutions taken by the Shareholders' Meeting, or such as to jeopardise the integrity of the Company's assets or its ability to continue to operate as a going concern.
2. The Board of Statutory Auditors constantly received from Directors, during the above-mentioned meetings, exhaustive and detailed information on business performance and foreseeable outlook, operations carried out and the most significant economic, financial and capital transactions performed by the Company and/or its subsidiaries, as well as the status of activities and strategic projects underway, on which the Board of Statutory Auditors has no particular observations to report.
3. The Board of Statutory Auditors oversaw the implementation methods of recommendations provided for by the Corporate Governance Code for Listed Companies issued by Borsa Italiana, which the Company has adopted. It also verified the compliance of Brembo's corporate governance system with the recommendations of the above-mentioned Code. Detailed information on such compliance is provided in the annual Corporate Governance and Ownership Structure Report prepared pursuant to Article 123-*bis* of TUF, approved by the Board of Directors on 4 March 2019 and published on the corporate website.
4. In respect of the changes regarding diversity introduced to the Corporate Governance Code in July 2018 by the Governance Committee, to be applied in the composition of company bodies, it is acknowledged that the Board of Directors reviewed and integrated the proposals, amending Brembo's Corporate Governance Code accordingly on 7 November 2018, thereby adapting the Code to the Company's particular characteristics, with the aim of ensuring the competence and professionalism of Directors and Statutory Auditors through an integrated approach to diversity, in accordance with the current legal obligations. The criteria adopted are illustrated in paragraphs 4.4 and 13.2 of the 2018 Corporate Governance and Ownership Structure Report.
5. The assessment as to whether the current Board of Directors met the above criteria was performed both within the framework of the Board Performance Evaluation process and during the session of the Board of Directors held on 4 March 2019, in consultation with the Remuneration & Appointments Committee at its meeting on 25 February 2019. The assessment confirmed that the size and composition of the Board of Directors were adequate and sufficient to allow it to discharge its duties effectively. The Board of Statutory Auditors verified that the assessment criteria and procedures adopted by the Board of Directors to evaluate the ongoing satisfaction of requirements by its members had been properly applied and acknowledged the various declarations rendered. The findings of this process are described in the Corporate Governance and Ownership Structure Report drafted in accordance with Article 123-*bis* of TUF.
6. The Board of Statutory Auditors was also informed of the findings of the assessments conducted jointly with the Lead Independent Director and the Independent Directors regarding the recommendations presented in the Fifth Annual Report of the Corporate Governance Committee on the application of the Borsa Italiana Corporate Governance Code (see paragraph 18 of the 2018 Corporate Governance and Ownership Structure Report).
7. The Board of Statutory Auditors was also informed of the findings of the Board Performance Evaluation 2018 conducted by a high-standing independent advisor, within the framework of which the Board of Statutory Auditors was also interviewed. The findings included a positive opinion and an excellent evaluation.

Supervisory activity on compliance with the principles of sound management and the adequacy of the organisational structure

8. During its periodic audits, the Board of Statutory Auditors met with the Manager in charge of the Company's financial reports[2], the Internal Audit Director and representatives of the Independent Auditors[3], to obtain information on the activities carried out and auditing plans. No relevant data or information have emerged that need to be highlighted herein.
   The Board of Statutory Auditors and the Audit, Risks & Sustainability Committee and the Supervisory Committee also constantly and promptly exchanged information material to the performance of their respective tasks.
9. The Board of Statutory Auditors obtained knowledge of and, within its remittance, supervised:
   - the adequacy, suitability and functioning of the organisational structure of the Company and Group, including by collecting information from the heads of company functions; the Board of Statutory Auditors has no particular remarks to relate on this subject;
   - the adequacy and functioning of the internal control system and administrative and accounting system, and the reliability of the latter in properly reporting operating events, in accordance with the principles of sound management, by obtaining information from the heads of the responsible functions and the Independent Auditors appointed to conduct auditing and by reviewing company documents; it has no particular remarks to relate on this subject;
   - the adequacy of instructions issued by the Company to its subsidiaries, as provided for by Article 114, paragraph 2, of TUF.

Particularly significant transactions - Atypical or unusual transactions - Intra-group or related-party transactions

10. In 2018, the Company did not carry out any unusual or atypical transactions with third parties, intra-group companies or related parties, nor any transaction that could have a significant impact on the Company's operating, capital or financial situation. With regard to ordinary intra-group transactions or related party transactions carried out in the period, about which the Company provided specific and detailed information in its interim financial reports (and in the Notes to the Group's Consolidated Financial Statements), the Board of Statutory Auditors acknowledges that such transactions were carried out in accordance with the Related Party Transactions Procedure adopted on 12 November 2010 (last review: 10 May 2016), pursuant to Consob Regulation adopted with Resolution No. 17221 of 12 March 2010, amended through Resolution No. 17389 of 23 June 2010). As regard these transactions' consistency and compliance with Company's interests, no critical issues arose.
11. With reference to the Related Party Transactions Procedure, we point out that, on 10 May 2017, the Board of Directors, having heard the favourable opinion of the Audit, Risks & Sustainability Committee, approved the update to the aforesaid Procedure with the aim of incorporating the changes relating solely to organisational matters pertaining to the Company's Administration & Finance Department — as the Procedure was already

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2 On 5 March 2018, the Board of Directors appointed Andrea Pazzi, already holding the position of Chief Administration and Finance Officer of Brembo S.p.A., Brembo's Manager in charge of the Company's financial reports, with effect for the purposes of the certification required in respect of the Company's separate and consolidated financial statements for the year ended 31 December 2017 and until the end of the current Board of Directors' term of office.

3 With regard to the audit appointment, it should be noted that, upon reasoned proposal submitted by the Board of Statutory Auditors, the Shareholders' Meeting of 23 April 2013 appointed the audit firm EY S.p.A. as Independent Auditors for the years 2013 to 2021.

in line with application practice. At the same time, the “threshold” for determining Low Value transactions was confirmed (€250,000.-) and the Significance Indices for the identification of Highly Significant Related Party Transactions based on the figures of the 2017 Consolidated Financial Statements approved by the General Shareholders’ Meeting of 20 April 2018 were updated.

12. No purchase or sale transactions were carried out in the context of the plan for the buy-back and disposal of own shares, authorised by the Shareholders’ Meeting held on 20 April 2018. At 31 December 2018, the Company therefore held a total of 8,735,000 own shares, representing about 2.616% of the share capital, for an overall value of €13,475,897.-.

Supervision of the financial reporting process, the non-financial disclosure process, the efficacy of internal control systems, internal auditing and risk management, statutory auditing of the annual and consolidated accounting statements

13. With reference to the financial reporting process, the Board of Statutory Auditors verified the constant updating at Group level of the set of administrative and accounting rules and procedures, aimed at controlling the process of preparation and disclosure of the financial reports and information (of the Company and consolidated), which are deemed suitable for the issuing of attestations pursuant to Article 154 of Legislative Decree No. 58/1998. The actual application and reliability of accounting and administrative procedures have been verified by the Manager in charge of the Company’s financial reports, also relying on the competent internal structures (the Internal Audit function), through a monitoring plan that covered both the control and governance environment and the key controls at the level of the relevant processes. Supervision of the proper functioning of the model to ensure compliance with Law No. 262/2005 is assured by a series of self-assessments carried out by individual process owners, in conjunction with analyses conducted by the Group’s Audit function.
14. With regard to the preparation of the Separate and Consolidated Financial Statements for the year ended 31 December 2018, the Board of Statutory Auditors acknowledges that the Board of Directors approved — independently of and prior to the approval of the said financial statements for the year ended 31 December 2018 (cf.: Bank of Italy-Consob-ISVAP Document, jointly issued on 3 March 2010) — the compliance of the impairment testing procedure with the provisions of the international accounting standard IAS 36, following the circulation thereof to the Audit, Risks & Sustainability Committee and the Board of Statutory Auditors. Information and the findings of the assessment process conducted are provided in the Explanatory Notes to the financial statements.
15. During the periodic assessments, the Board of Statutory Auditors constantly received reports on the financial situation and the loans granted to the Company by banking institutions. During the year, the Board of Directors also passed resolutions to economically and financially support some of the Group companies through their recapitalisation (Brembo Argentina S.A.) or releasing parent guarantees instrumental to the issuing of short-term credit lines (in favour of Brembo Nanjing Automobile Components Co. Ltd., Brembo Huilian (Langfang) Brake Systems Co., Ltd. and Brembo Argentina S.A.).
16. With regard to the provisions of Article 36, paragraph 1, of the Markets Regulation (Consob Resolution No. 16191 of 20 October 2007 and Article 15, paragraph 1, of that same Regulation, as amended by Consob Resolution No. 20249 of 28 December 2017, in effect from 3 January 2018), which apply to subsidiaries identified by the Company as relevant to the financial reporting control system, the Board of Statutory Auditors determined that the information flows from non-EU subsidiaries identified in accordance with the above provisions were adequate to provide the Company and Independent Auditors regularly with the statement of income, financial position and cash flow information required to prepare the Consolidated Financial Statements and permit the auditing of the annual and interim accounts. In detail, as of 31 December 2018, the Companies

to which such regulations apply are the subsidiaries indicated by Brembo as being significant for the control system and financial reporting purposes.

17. The Board of Statutory Auditors and the Audit, Risks & Sustainability Committee (on certain occasions and as a function of specific subject matter, through meetings held jointly) assessed and controlled the adequacy of the Risk Management System through:
    - quarterly meetings with the Internal Audit Director, aimed at receiving information about:
        (i) the results of the 2018 audits performed to identify and assess the main risks, check of the Internal Control System, compliance with the laws, corporate procedures and processes, as well as the implementation of the relevant improvement plans;
        (ii) the 2019-2021 Audit Plan and the 2019 Budget of the Function, deemed adequate by the Audit, Risks & Sustainability Committee and the Board of Directors with respect to the size and risk profile of the business and the Group;
    - periodic meetings with the Risk Manager to acquire information on:
        (i) the monitoring of enterprise risk management;
        (ii) updates to Brembo's Risk Report and the related action/mitigation plans periodically proposed by the management.
18. On the basis of the reviews carried out and the information received, the Internal Control & Risk Management System has been found to be adequate as a whole and suited to preventing risks and to ensuring effective application of the rules of corporate conduct. The System's organisational structure also ensures coordination of the various parties and functions involved, including through constant exchange of information between the various participants. Accordingly, there are no remarks to be submitted to the Shareholders' Meeting.
19. The Board of Statutory Auditors supervised the process of achieving compliance with Regulation (EU) No 2016/279 on data protection (GDPR) by Brembo S.p.A. and by the Group's European companies and received a copy of the DPO's Annual Report to the Board of Directors.
20. The Board of Statutory Auditors also met with the Chief Information Technologies Officer to explore the architectural and technological characteristics of the IT Disaster Recovery Plan and the results of the assessment of the IT governance system's compliance with international frameworks (Cobit/ISO) performed by Group companies.
21. The Chairwoman of the Board of Statutory Auditors was invited to attend several meetings of the Supervisory Board as per Legislative Decree No. 231/2001, so as to constantly assess the updating processes of the Organisation, Management and Control Model pursuant to the aforementioned Decree (hereinafter also "231 Model"), its functioning, suitability and effectiveness in preventing all liability in connection with the offences punishable under the said Legislative Decree through implementation of the appropriate procedures and preventative measures. The results of these activities are described in detail in the Supervisory Board's periodic reports to the Board of Directors. In general terms, the Supervisory Board confirmed the stability of the general structure of the 231 Model, including in light of the legislative changes introduced in 2018, and that the assurance/monitoring activities performed by the 231 Risk Assessment Internal Audit functions; the internal measures aimed at dissemination and training relating to 231 Model continued on an ongoing basis.
22. With regard to the obligation to draft the Disclosure of Non-Financial Information pursuant to Legislative Decree No. 254/2016, the Board of Statutory Auditors was regularly informed by the Chief CSR Officer of the materiality analysis process carried out by the Company to define areas of non-financial information of a social and environmental nature deemed important to the Group for the purposes of collecting and validating data at a global level in order to prepare the said Disclosure. In accordance with Consob Warning Notice No. 1 of 28 February 2019, following the amendment to the law introduced by Legislative Decree No. 145/2018, the Disclosure of Non-Financial Information describes, *inter alia*, the management methods for the identified.

23. The Board of Statutory Auditors was also informed of the main environmental, social and governance risk factors for 2018, identified on the basis of the update of the analysis conducted in 2017, in collaboration with a major consultancy firm, using evaluation criteria consistent with the Group's ERM model.

Remuneration of Directors and key management personnel

24. The Board of Statutory Auditors also determined the adequacy of merit and procedural indications adopted by the Remuneration & Appointments Committee (whose meetings were attended by the Chairwoman of the Board of Statutory Auditors) to define and implement medium/long-term remuneration policies. Furthermore, it expressed a favourable opinion on the annual and three-year monetary incentive policies for the Governing Body, Executive Directors and Top Managers.
25. The main aspects of the new short- and long-term remuneration policies for 2019, approved by the Board of Directors during the meeting held on 5 March 2018, having heard the opinion of the Remuneration & Appointments Committee and the Board of Statutory Auditors, are illustrated in the 2019 Remuneration Report, in accordance with Article 123-ter of TUF, which is available on Brembo's website.
26. It should be noted that, starting in 2017, a clawback clause has been included in both the short-term incentive system (MBO) and the new long-term incentive system , in accordance with the Corporate Governance Code (Article 6.C.1(f)); the clause allows the Company to request the partial or total refund of the variable components of remuneration (or to withhold deferred components of remuneration) that had been granted based on data and information which subsequently proved to be manifestly incorrect or resulting from cases of fraudulent behaviour or gross negligence on the part of the beneficiaries.

Supervision of the disclosure process regarding the independence of the Independent Auditors, with regard in particular to the provision of non-auditing services

27. The Board of Statutory Auditors met periodically with representatives of the Independent Auditors, EY S.p.A., and constantly received information concerning their work and audit plans, and the progress and results thereof. No relevant data and/or aspects deserving of mention herein were brought to light in connection with the matters in the purview of the Board of Statutory Auditors.
28. The Board of Statutory Auditors supervised compliance with the rules of procedure governing the preparation and publication of the Consolidated Financial Statements pursuant to Article 41 of Legislative Decree No. 127 of 4 April 1991 and Article 154-*ter* TUF.
29. Today, 18 March 2019, the Independent Auditors EY S.p.A. issued the reports required by Article 14 of Legislative Decree No. 39/2010 and Article 10 of Regulation (EU) No 537/2014, in which it expressed an "unmodified opinion" of the Company's Separate and Consolidated Financial Statements for the year ended 31 December 2018.
    With regard to the paragraph regarding the "key aspects of the audit", the Independent Auditors considered the measurement of shareholding, in respect of the Separate Financial Statements, and the measurement of goodwill, in respect of the Consolidated Financial Statements, to constitute material issues.
    Pursuant to Article 14, paragraph 2(e), of Legislative Decree No. 39/2010, the Independent Auditors also believe that the Directors' Report on Operations and the information contained in the Corporate Governance and Ownership Structure Report set out in Article 123-*bis*, paragraph 4, of TUF are consistent with the Company's Separate Financial Statements and Consolidated Financial Statements for the year ended 31 December 2018.
    On that same date, the Independent Auditors also provided the Company's Board of Statutory Auditors with the additional report required by Article 11 of Regulation (EU) No 537/2014 pursuant to Article 19 of

Legislative Decree No. 39/2010. As stated in the opinion on the Financial Statements, this report addresses certain matters, without contradicting the opinions in question. It bears mentioning here that, in addition to the significant matters identified as “key aspects of the audit” in the aforementioned reports on the Separate and Consolidated Financial Statements, in this report the Independent Auditors emphasise other significant, but not material risks, such as those relating to taxes, transfer pricing and the issue of revenue recognition. The report does not identify material deficiencies in the internal control system applicable to the financial reporting process of which the heads of governance activities need to be informed.

30. The Board of Statutory Auditors reported to the Board of Directors on the significant matters indicated in the Independent Auditors’ Report pursuant to Articles 14 and 16 of Legislative Decree No. 39 of 27 January 2010, as amended by Legislative Decree No. 135/2016, without seeing the need to accompany the report with its own observations. The Board of Statutory Auditors notes that it regularly monitors the ongoing improvement of the financial reporting process and that this additional report is a summary of elements already shared over time and already known to the Governing Body.
    It should be recalled that the report in question also complements the Independent Auditors’ statement of independence pursuant to Article 6, paragraph (2)(a), of Regulation (EU) No 537/2014.
    Finally, the Board of Statutory Auditors acknowledged the Transparency Report drafted by the Independent Auditors and published on its website pursuant to Article 18 of Legislative Decree No. 39/2010.
31. Lastly, on 18 March 2019, the Independent Auditors issued an ad-hoc report confirming the preparation of the Disclosure of Non-Financial Information and certification of compliance (limited negative review), expressing an unqualified opinion.
32. The Board of Statutory Auditors monitored the independence of the Independent Auditors pursuant to Article 19 of Legislative Decree No. 39/2010 and verified the nature and extent of the assignments received from Brembo S.p.A. and Group companies (based in Italy or abroad, both EU and non-EU) concerning services other than independent auditing, as described in the Notes to the Consolidated Financial Statements, pursuant to Article 149-*duodecies* of the Rules for Issuers on the disclosure of fees.
    A table summarising the tasks assigned to EY S.p.A. is set out below:

AUDIT SERVICES

(euro thousand)	31.12.2018	31.12.2017
Independent Auditors' fees for the provision of audit services:		
– to the Parent Brembo S.p.A.	240	225
– to the subsidiaries (services provided by the network)	401	414
Independent Auditors' fees for the provision of auditing services for issuing attestation:		
– to the Parent Brembo S.p.A.	56	56
– to the subsidiaries (services provided by the network)	5	0
Fees of entities belonging to the Independent Auditors’ network for the provision of services:		
— other services rendered to subsidiaries	5	6

The Board of Statutory Auditors deemed the fees for such non-auditing services (which never included those prohibited by Article 5, paragraph 1, of Regulation (EU) No 537/2014) to be appropriate to the scope and complexity of the work carried out, and hence compatible with the auditing mandate, in the absence of any anomalies impacting on the Independent Auditors’ independence criteria.

Further activity by the Board of Statutory Auditors: opinions and observations and information requested by Consob

33. The Board of Statutory Auditors provided the opinions or observations required by applicable legislation with regard to:
    (i) the appointment on 5 March 2018 by the Board of Directors of Andrea Pazzi, who already held the position as Brembo's Chief Administration and Finance Officer, as Manager in charge of preparing the Company's financial reports (see note 2) — a mandatory, but non-binding, opinion pursuant to Article 27-*bis*) of the By-laws and Article 154-*bis*, paragraph 1, of TUF;
    (ii) the remuneration policies set out in the 2019 Remuneration Report, with regard to the Group's Executive Deputy Chairman, Chief Executive Officer and top managers.
34. Finally, the Board of Statutory Auditors acknowledges that in the course of its activities, and on the basis of the information obtained, it did not identify any omissions, censurable conduct, irregularities or other material facts that would need to be reported to the Authorities or mentioned in this Report; nor were any complaints pursuant to Article 2408 of the Italian Civil Code or other similar reports received.

Proposals to the Shareholders' Meeting regarding the Financial Statements for the year ended 31 December 2018 and allocation of the profit for the year

Having acknowledged the Financial Statements for the year ended 31 December 2018, the Board of Statutory Auditors, taking account of the specific duties assigned to the Independent Auditors relating to the auditing of the accounts and verification that the Financial Statements are reliable, has no objections to the approval of the Financial Statements or to the Board of Directors' draft resolution regarding the distribution of an (ordinary) gross dividend of €0.22 per (ordinary) share outstanding and the carry forward of the residual ascertained profit for the year.

Milan, 18 March 2019

THE BOARD OF STATUTORY AUDITORS

Raffaella Pagani (Chairwoman)

Alfredo Malguzzi (Acting Auditor))

Mario Tagliaferri (Acting Auditor))


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Our successes reinforce
awareness
of our resources and abilities.
Looking towards the future is a
pleasure.

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2018-2019


Julius
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MAHLE

Attestation of the Financial Statements of Brembo S.p.A. Pursuant to Article 81-*ter* of CONSOB Regulation No. 11971 of 14 May 1999, as amended and extended

1. We the undersigned, Matteo Tiraboschi, in his capacity as Executive Deputy Chairman, and Andrea Pazzi, in his capacity as Manager in Charge of the Financial Reports of Brembo S.p.A., hereby declare, pursuant to the provisions of Article 154-*bis*, paragraphs 3 and 4, of Italian Legislative Decree No. 58 of 24 February 1998, that the administrative and accounting procedures for preparing the financial statements for the period from 1 January to 31 December 2018:

- are appropriate in relation to the company features; and
- have been consistently applied.

2. The assessment of the appropriateness of the administrative and accounting procedures used in preparing the Financial Statements at 31 December 2018 was based on a process defined by Brembo S.p.A. in accordance with the Internal Control – Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission, an internationally-accepted reference framework. Regarding this point there are no issues.

3. The undersigned further declare that:

3.1 the Financial Statements:

a) have been prepared in accordance with applicable International Accounting Standards, as adopted by the European Union through (EC) Regulation No. 1606/2002 of European Parliament and Council on 19 July 2002;

b) reflect the accounting books and records; and

c) provide a true and fair view of the assets, liabilities, profit or loss and financial position of the issuer and the companies included in the consolidation area.

3.2 The Report on Operations includes a reliable analysis of the operating performance and results, as well as the condition of the issuer and the aggregate of companies included in the consolidation area, along with a description of the main risks and uncertainties to which they are exposed.

4 March 2019

Matteo Tiraboschi
Executive Deputy Chairman

Andrea Pazzi
Manager in Charge of the Company's Financial Reports

BREMBO S.p.A.
Headquarters c/o Parco Scientifico Tecnologico Kilometro Rosso
Viale Europa, 2 - 24040 Stezzano (BG) Italy
Tel. +39 035 605.2111 - www.brembo.com
E-mail: press@brembo.it - ir@brembo.it

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