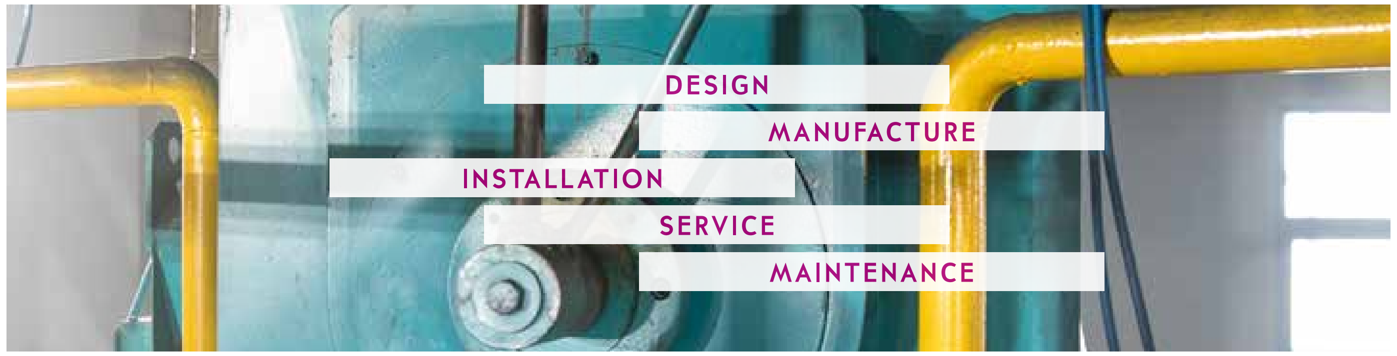
2019
FINANCIAL REPORT
#2018 Financial year

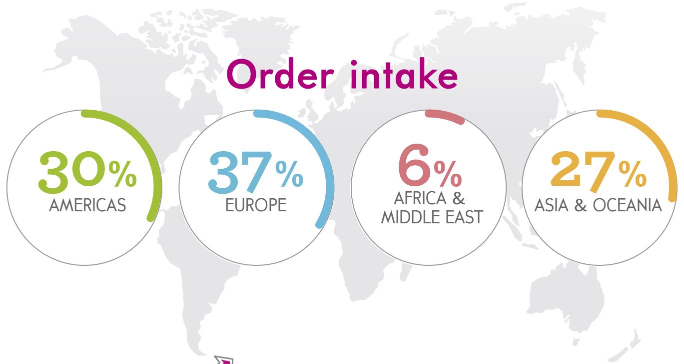
INDUSTRY CAN DO IT

An industrial engineering group, Fives designs and manufactures machines, process equipment and production lines for the world's biggest industrial groups.



An expertise at the service of many markets

AEROSPACE **ALUMINIUM** AUTOMOTIVE **CEMENT & MINERALS** CHEMICALS & PETROCHEMICALS **ENERGY** GENERAL MACHINING **GLASS** LOGISTICS **OIL&GAS** STEEL **SUGAR [...]**



€1,951 MILLION of sales

€2,003 MILLION of order intake

2,113 patents IN FORCE AND 645 PATENT FAMILIES

€34 MILLION SPENT ON R&D

45 new inventions patented IN 2018

30 research and test CENTERS

MORE THAN 100 SITES IN NEARLY 30 countries

Close to 8,700 employees

45% ARE ENGINEERS AND MANAGERS

3.41 ACCIDENT FREQUENCY RATE

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MANAGEMENT REPORT

TO THE ORDINARY GENERAL MEETING ON APRIL 5, 2019

1. FIVES GROUP ACTIVITY IN 2018

1.1. Business overview and activity

After peaking in the second half of 2017, growth of global industrial investment - the driving force of the Group's commercial activity - slowed in 2018. This was in a macroeconomic environment marked by the heightening of geopolitical tensions - notably reflected in the US sanctions policy, the beginnings of trade war between major powers - through the implementation of new customs duties, and hesitation in the financial markets - which limits some companies' financing capacities.

However, Fives managed to pass the milestone of 2 billion in orders for the second consecutive year. This performance is notably coming from the high-growth logistics sector, but also, more generally, reflecting a balanced portfolio serving diversified end markets with uncorrelated cycles, a sign of resilience in an increasingly volatile environment.

1.2. External growth

The company AddUp, a joint venture owned 50-50 by Fives and Michelin, develops and sells machines and workshops for industrial production using "metal additive manufacturing" (better known as 3D metal printing). It acquired two companies in 2018: BeAM and Poly-Shape.

BeAM offers a "direct deposition" technology which complements the AddUp offer, which until now has been focused on "powder bed" processes. Poly-Shape is an experienced "printer" with ten years of experience in developing and using machines, as well as market-leading expertise in the post-processing of manufactured parts. These acquisitions have allowed the creation of a sub-group offering a market-first comprehensive range of technologies, applications and services.

The AddUp sub-group is accounted for using the equity method.

1.3. Commercial environment by market

Logistics

The division designs automated sorting systems for postal, express courier and logistics companies, as well as e-commerce companies. It also provides automated warehouse management systems, which are aimed primarily at the distribution sector.

The logistics segment continues to grow at an exceptional pace. The increased volumes of shipped goods due to the expansion of e-commerce, and the associated handling and throughput management constraints, are supporting demand for sorting center automation. Express courier services and national postal operators are pursuing the programs launched several years ago in Europe, Japan and Northern America, while new players from the e-commerce sector such as Amazon or JD.Com are changing their business models to include merchandise warehousing and distribution downstream of their web platforms. The Group has also continued to penetrate the retailing and food industry markets in France, notably through the automation of fresh produce distribution platforms.
Against this backdrop, orders in 2018 amounted to €520 million, a 24% increase compared to 2017 (€420 million), and nearly 2.5 times the 2016 figure (€210 million).

Automotive

The division designs, manufactures and installs equipment, machining systems, automated production systems and fluid filling systems mainly aimed at the automotive industry.

In the automotive sector, commercial activity has been affected by sluggish investment in the US, symbolized by restructuring and plant closures announced by General Motors, and to a lesser extent, in China. Also in the machining systems segment, continued strategic discussions regarding the electric engine has confirmed the abrupt halt in growth in the market for combustion engine mechanical part grinding machines since 2017. However the Group's activity has remained stable, thanks to healthy investment in Europe on the one hand, and diversification to apply its grinding and automation technologies outside the automotive industry on the other hand.
Order intake for 2018 reached €328 million, a stable figure compared to 2017 (€331 million).

Aerospace and industry

The aerospace and industry division offers metal cutting and machining solutions for large complex parts, as well as composite processing machine tools, designed for the aerospace and heavy manufacturing (primarily in the mining and hydrocarbons sectors) industries. It also offers preventive and corrective industrial maintenance solutions.

In the aerospace sector, the trends seen in 2017 were confirmed. Uncertainty regarding the type of programs which could be confirmed by major manufacturers has led to multiple deferred decisions amongst their main subcontractors, both in the US and Europe. China has committed to rapid development of its own aerospace industry (identified as one of ten industrial priorities in the plan announced in 2015). It has launched several programs, but these are still insufficient for it to be considered a real player. Similarly, despite some tangible signs of recovery, the general industry segment is still well behind historic levels of activity.
In this context, order intake was €227 million, down €29 million from 2017 (€256 million).

Metals

The metals division is developing processes and supplying equipment mainly designed for aluminium production, flat steel and glass. For aluminium, the equipment and integrated solutions offered for primary aluminium are made for key manufacturing processes in the carbon, electrolysis and foundry sectors of aluminium plants. In the steel industry, the Group has both mechanical and thermal expertise and supplies steel strip processing lines as well as rolling mills and high-capacity heating furnaces. The division also offers products for the glass sector where it provides hollow glass and flat glass production lines, including all of the equipment for the melting and annealing lehr sections.

In the primary aluminium sector, the weak growth in demand outside of China, coupled with the commissioning of new smelters, tends to indicate a balance between supply and demand for the next two years. In this context, no significant project was launched in 2018. This phenomenon was accentuated by the US sanctions against Rusal, the world's leading producer, which led to a sudden stop in investment by the latter. These sanctions also pushed up aluminium prices, leading to the restarting or ramping-up of less competitive plants (similarly, on the US market, the introduction of import customs duties).
This situation has however favored service activities, with positive performance allowing the Group to record €136 million in orders. As a reminder, the 2017 figure (€342 million) included significant contracts for a new smelter in the Middle East.

In the steel sector, the revival observed in 2017 was confirmed, despite structural overcapacity. In China, there is still strong demand for high added-value steel, notably for the automotive industry, whether high-resistance light steel (sheet metal) or silicon steel (electric engines). In the US, the introduction of customs duties has revitalized the market, and several projects are planned by local producers, whose production has become more competitive. Finally, in Europe, where investment is primarily focused on seeking productivity gains, the quality of the Group's technologies has allowed it to focus on the few modernization projects being contemplated.
Orders in the steel segment amounted to €227 million, down €16 million from the previous financial year (€243 million), but they were more diverse, as over half of performance in 2017 was represented by a single contract in the United States.

For the metal segment as a whole, 2018 order intake was €363 million, a drop of €222 million from 2017 (€585 million), when significant contracts were booked.

Energy

The division designs and creates different industrial equipment in the energy sector, specifically high-performance industrial combustion systems, pipe production and finishing equipment, cryogenic equipment for hydrocarbon processing and air separation, as well as bio-energy and sugar. Moreover, on the nuclear piping segment, the Group is involved in maintenance contracts as well as some new construction projects, mostly in France.

In the energy sector (excluding nuclear), volatile petrol prices (which increased during the year before ultimately falling below $60/barrel) led manufacturers to invest cautiously. However this effect was offset by the upturn in activities linked to steel applications, on the cryogenics (air separation), combustion (improved energy performance) and pipes (welded stainless steel pipes) segments.
In the sugar segment, declining prices linked to surplus production after a bumper crop in emerging countries and the removal of quotas in Europe did not justify investment. However the Group recorded a significant against-the-trend order in Russia at the end of the year. The country is pursuing a farming self-sufficiency policy in response to sanctions.
Despite a generally sluggish oil and gas market, orders in energy (excluding nuclear) amounted to €331 million, a €23 million increase compared to 2017 (€308 million).

ORDER INTAKE BY GEOGRAPHICAL AREA

€ million	2016	2017	2018
Americas	482.0	635.6	593.6
Asia and Oceania	328.8	345.2	533.1
Europe	550.2	785.6	749.8
Middle East & Africa	104.1	350.6	126.3
Total	**1,465.1**	**2,117.0**	**2,002.8**
Contribution from mature economies	64%	67%	66%
Contribution from emerging countries	36%	33%	34%

ORDER INTAKE BY END MARKET

€ million	2016	2017	2018
Automotive	386.9	330.9	328.1
Logistics	210.0	420.3	519.6
Metals (aluminium & steel)	201.0	584.8	363.4
Energy	301.0	445.1	415.6
Cement	84.4	75.5	144.5
Aerospace and industry	266.6	255.9	227.1
Holding and operational subsidiaries	15.2	4.5	4.5
Total	**1,465.1**	**2,117.0**	**2,002.8**

In the nuclear pipes sector in France, in the context of declining orders for additional work at the Flamanville EPR, on the one hand, and no new major projects in 2018, on the other hand, commercial activity was focused on nuclear maintenance and service. Order intake was €85 million, a decline of €52 million on 2017 (€137 million).

In total, order intakes for 2018 were €416 million, €31 million below 2017 (€445 million). The decline in the nuclear segment was only partially offset by the healthy performance in other segments.

Cement

The cement division's offer ranges from supplying isolated process equipment such as burners, grinding mills, separators and filters for the cement and mineral industries to grinding shops and turnkey cement plants and associated services.

In the cement sector, the market remains weak. In a context where growth in demand is poor (under 2%), investment in emerging markets is still low, due to production overcapacity or a lack of financing. This is amplified by the recent market concentration, with new merged groups (leaders including Lafarge-Holcim) generally tending to reduce their investments. However 2018 saw two positive trends emerge: on the one hand, the installation of small grinding units in several Central and South American countries (Mexico in particular) and South-East Asia to seize local opportunities or dispose of surplus clinker; on the other hand, a return to initiatives to renew and modernize existing capacities in several mature markets in Western Europe and the US.
The order intake was €144 million, nearly two times higher than the lull observed in 2017 (€76 million).

Group activity

2. FINANCIAL PERFORMANCE

2.1. Accounting principles

The Group's consolidated financial statements were prepared in accordance with the IFRS standards.

On January 1, 2018, the Group adopted the IFRS 15 standard "Revenue from Contracts with Customers". It replaces IAS 11 "Construction contracts" and IAS 18 "Revenue", as well as their various interpretations, through an overall framework based on analysis of the transfer of control. The application of this standard has had no substantial impact on the main income statement indicators.

The Group adopted the IFRS 16 standard early on January 1, 2018. The standard amends the accounting of operating lease contracts, aligning it with financial lease contracts. The impacts on the main income statement indicators are as follows:

- EBITDA: + €16 million,
- Assets depreciation: - €15 million,
- EBIT: + €1 million,
- Financial result: - €2 million,
- Net profit: - €1 million.

As a reminder, the 2017 figures included the effects of re-assessing the earn-out liabilities recorded in connection with past acquisitions, whose impacts on the main income statement indicators were as follows:

- EBITDA and EBIT: + €29 million,
- Financial result: - €9 million (effect of accretion),
- Net profit: + €20 million.

2.2. Group Results in 2018

Sales

Sales for 2018 amounted to €1,951 million, which is a 3% increase on 2017 (€1,896 million). This increase was due to metals, executing its high opening backlog, and logistics, which sustained its dynamic growth. In contrast, cement, which only had one turnkey cement plant in progress (vs. three in 2017), as well as automotive and aerospace, whose opening backlog was lower and which experienced a less favorable market trend in 2018, had falling sales.

Gross profit

The gross profit rate for the 2018 financial year was 18.9%. It fell by two points compared to 2017 (20.9%), mainly due to difficulties encountered in the execution of certain contracts in aluminium (metals division) and automation (automotive division). Furthermore, in the nuclear sector (energy division) in France, cost overruns incurred because of the project management of the Flamanville EPR construction site clients, and their knock-on effects on other Group activities for these clients, affected this financial year's returns.

General expenses

General expenses amounted to €307 million in 2018, and remained stable compared to 2017, despite the increased sales.

Other operating income and expenses

Other operating income and expenses amounted to -€11 million in 2018. This includes a €3 million expense linked to the implementation of a share-based remuneration scheme (mostly non-cash effect, as unwinding will be via shares).

SUMMARY OF CONSOLIDATED FIGURES

€ million	2017	2018
Sales	**1,896.1**	**1,950.5**
Gross profit	395.6	367.7
General expenses	(307.2)	(306.9)
Other operating income and expenses (including employee profit-sharing and bonus schemes)	20.6	(11.4)
Profit from recurring operations (EBIT)	**86.4**	**27.3**
EBITDA	**135.0**	**94.0**
Operating profit	**84.2**	**17.9**
Net financial result	(44.1)	(3.0)
Profit before income tax	**40.1**	**14.9**
Income tax expense	(30.2)	(18.5)
Share of profit (loss) of associates	(8.0)	(16.2)
Net profit (loss)	**1.9**	**(19.9)**
Net profit (loss), Group Share	1.4	(20.5)

SALES BY END MARKET

€ million	2017	2018
Automotive	376.3	347.4
Logistics	299.8	395.9
Metals (aluminium & steel)	318.8	443.0
Energy	399.1	394.0
Cement	211.7	116.9
Aerospace and industry	278.7	251.4
Holding and sourcing. co	11.7	1.9
Total	**1,896.1**	**1,950.5**

SALES BY GEOGRAPHICAL AREA

€ million	2017	2018
Americas	561.8	586.5
Asia and Oceania	357.7	371.1
Europe	679.3	706.4
Middle East & Africa	297.3	286.5
Total	**1,896.1**	**1,950.5**
Contribution from mature economies	61%	64%
Contribution from emerging countries	39%	36%

In 2017 it was a €21 million income, including, as a reminder, an €29 million income relating to the re-assessment of earn-out liabilities recorded in connection with past acquisitions.
Excluding the effects mentioned above, this item amounted to -€8 million in 2018 and 2017.

EBITDA

The Group's EBITDA for 2018 was €94 million (4.8% of sales), compared to €135 million (7.1% of sales) in 2017, i.e. 2.3 points below.
Excluding the elements mentioned in paragraph 2.1, the EBITDA margin fell by 1.6 point.

Profit from recurring operations (EBIT)

Profit from recurring operations for 2018 was €27 million, compared to €86 million in 2017. The decline of €59 million is explained by the -€41 million fall in EBITDA, the increase of -€15 million in assets depreciation (corresponding to application of the IFRS 16 standard described in paragraph 2.1), and the non-cash expense of the share-based remuneration plan (-€3 million).

Operating profit

The Group's operating profit for 2018 was €18 million, compared to €84 million in 2017. This includes a non-current expense of €9 million mainly corresponding to cost reduction measures undertaken to improve profitability (€6 million) and the impact of the disposal of a workshop on the steel segment (€3 million).

Net financial result

Net financial result includes the cost of net financial debt, foreign exchange gains or losses (including forward points on foreign exchange derivative hedging and change in fair value of derivative instruments not eligible to hedge accounting), financial expenses relating to defined-benefit pension plans (interest cost of the obligation net of expected return on fund assets) and French long-service awards ("IDR"), as well as income from associates. It was in the red by €3 million, compared to a loss of €44 million in 2017, i.e. an improvement of €41 million.

The cost of net debt amounted to €8 million, an increase of €3 million compared to the previous financial year (€5 million) due to the impact of the application of the IFRS 16 standard described in paragraph 2.1, plus interest on an €80 million loan taken out in the second half of 2018 with the European Investment Bank (EIB) to fund the Group's research and development.

The foreign exchange result was income of €7 million compared to the €29 million expense in 2017, i.e. an improvement of €36 million. It mainly includes the effects of changes in the euro-dollar and euro-pound sterling parities on the unhedged balance (due to long maturity) of borrowings in dollars, as well as intragroup loans in foreign currencies granted by Fives:

- in US dollars to its American subsidiaries to fund the acquisitions of the subgroups Fives North American Combustion in 2008, Fives Bronx in 2010, Fives Machining Systems in 2013, and Fives Lund LLC in 2015;
- in pounds sterling to the English holding company Fives UK Holding Ltd. at the end of 2012 for its acquisition of the Group's British subsidiaries.

Due to the significant appreciation in the closing rate for the dollar as compared with the euro between December 31, 2017 and December 31, 2018, a foreign exchange gain (mostly unrealized) was recorded in 2018. In contrast, an unrealized foreign exchange loss was recorded in 2017, notably due to the significant depreciation in the closing rate of the dollar.

The other elements of the net financial result represent an expense of €2 million in 2018, compared with an expense of €10 million in 2017, i.e. an improvement of €8 million. As a reminder, an accretion expense of €9 million was recorded in 2017 following the reassessment of the earn-out liabilities.

Income tax

The total tax expense for the 2018 financial year was €19 million (including a €6 million in French corporate added Value tax (CVAE) and Italian Regional Production Tax (IRAP)), a fall of €11 million compared to 2017 (€30 million). This decline is both due to current taxes (€5 million) resulting from poorer results, and deferred tax (€7 million), mainly in the US (expense in 2017 linked to the change in tax rate, income in 2018 linked to the recognition of deferred tax assets on the deficits generated in the year).

Share of profit (loss) of associates

This line mainly corresponds to the share of the net result of the AddUp sub-group, consolidated based on the equity method. The increased momentum of this sub-group is accompanied by significant investment, which will continue for a few years (although at a slower pace) before it reaches its break-even point. Its contribution to the Group's 2018 net result is therefore a loss (-€16 million).

Net profit (loss)

Net result was a loss of €20 million, compared to a profit of €2 million in 2017.

3. GROUP FORECASTS

The Group ended 2018 with a backlog of €1,544 million, close to its historic record (over €1,550 in 2011 and 2015), and up €67 million (+5%) from 2017 (€1,477 million). This backlog gives it an excellent visibility on the activity and workload across all markets, except the aluminium segment (metals division).

The commercial prospects for 2019 seem to be contrasted. The market is still well-oriented for logistics, as well as steel and energy (excluding nuclear), and to a lesser extent cement, where the commercial pipe is starting to increase. In contrast, market trends are concerning in the automotive industry since the final quarter of 2018, whilst aerospace and aluminium are not showing any signs of recovery. The volatility of the macro-economic environment makes these prospects uncertain, despite everything; in this context, the Group continued, in early 2019, to implement savings plans to lower the break-even points of all of its divisions, except logistics which continues to strenghten to support business growth.

ORDER BOOK BY END MARKET

€ million	31.12.16	31.12.17	31.12.18
Automotive	257.0	196.9	181.6
Logistics	143.8	319.8	451.3
Metals (aluminium & steel)	186.6	438.3	361.9
Energy	175.9	215.8	239.3
Cement	249.5	113.0	137.5
Aerospace and industry	222.9	189.5	167.2
Holding and sourcing. co	11.0	3.3	5.0
Total	**1,246.7**	**1,476.6**	**1,543.8**

ORDER BOOK BY GEOGRAPHICAL AREA

€ million	31.12.16	31.12.17	31.12.18
Americas	317.0	355.8	374.5
Asia and Oceania	312.0	281.2	445.2
Europe	369.9	537.0	581.4
Middle East & Africa	247.8	302.6	142.7
Total	**1,246.7**	**1,476.6**	**1,543.8**
Contribution from mature economies	47%	59%	62%
Contribution from emerging countries	53%	41%	38%

NON-FINANCIAL INDICATORS

The Group's progress on social and environmental issues, innovation and ethics is monitored year-round for analysis and strategic purposes. Our reporting system is designed to track progress on the Group's initiatives and keep all Fives stakeholders informed of these changes.

The HR (social indicators) and Innovation reports are scoped in line with the financial consolidation process. Health, Safety, Ethics and Environmental data, on the other hand, are based on headcount and activity criteria which may lead to differences in scope.

SOCIAL INDICATORS

	2016	2017	2018	The Americas	France	Europe excl. France	Asia and Africa (*)
Employees	8,365	8,666	**8,658**	1,913	4,324	1,336	1,085
Workforce at year-end from acquisitions completed in the year	60	0	**0**	0	0	0	0
Workforce at year-end of companies entering the consolidated scope	7	228	**0**	0	0	0	0
Number of new hires (all types of contracts)	961	976	**1,140**	387	483	147	123
Workforce by gender							
Percentage of men	84%	85%	**84%**	87%	84%	85%	81%
Percentage of women	16%	15%	**16%**	13%	16%	15%	19%
Percentage of engineers and managers among women	39%	40%	**41%**	34%	50%	20%	38%
Share of women in management - total	**14%**	**14%**	**16%**				
Share of women among CEOs	1%	1%	**1%**				
Share of women on Management Committees	16%	14%	**14%**				
Share of women managers who report directly to a Management Committee member	14%	15%	**17%**				
Number of nationalities	60	63	**70**				
Employees by category							
Engineers or managers	44%	45%	**45%**	44%	47%	32%	56%
Technicians, designers and supervisors	25%	26%	**25%**	15%	32%	23%	16%
Staff	11%	10%	**10%**	14%	5%	17%	12%
Operators	18%	17%	**17%**	25%	11%	24%	15%
Alternates	2%	2%	**3%**	2%	4%	3%	0%
Employees by age range							
Under 20	0%	0%	**0%**	0%	0%	0%	0%
From 20 to 29	13%	13%	**14%**	15%	13%	12%	15%
From 30 to 39	27%	27%	**27%**	18%	29%	23%	43%
From 40 to 49	25%	25%	**25%**	19%	27%	28%	26%
From 50 to 59	27%	26%	**26%**	28%	27%	30%	12%
60 and more	8%	8%	**8%**	20%	4%	7%	4%
Employees by length of service							
Under 5 years	37%	38%	**42%**	45%	39%	39%	50%
5 to 10 years	24%	23%	**21%**	16%	23%	20%	25%
11 to 15 years	11%	10%	**11%**	7%	13%	11%	13%
16 to 20 years	8%	8%	**8%**	4%	10%	8%	4%
21 to 25 years	6%	5%	**5%**	5%	5%	8%	4%
26 to 30 years	6%	6%	**5%**	6%	6%	7%	2%
31 to 35 years	3%	3%	**3%**	4%	3%	4%	1%
36 to 40 years	4%	4%	**3%**	6%	3%	2%	1%
41 years and more	2%	2%	**2%**	6%	0%	1%	1%
Employees by region							
Americas	22%	21%	**22%**				
France	51%	52%	**50%**				
Europe (excluding France)	15%	15%	**15%**				
Asia and Africa (including the Middle-East and Australia)	12%	12%	**13%**				

Non-financial indicators

	2016	2017	2018	The Americas	France	Europe excl. France	Asia and Africa (*)
Employees by business sector							
Aluminium	10%	10%	**10%**				
Steel	9%	8%	**7%**				
Cement	7%	6%	**6%**				
Energy	27%	26%	**26%**				
Logistics	7%	10%	**11%**				
Automotive	18%	18%	**19%**				
Aerospace and industry	19%	18%	**18%**				
Others	4%	4%	**3%**				
Skills and mobility management							
% of employees reviewed by the CEDRE** career management committee	56%	50%	**63%**				
% of employees receiving regular appraisal interview	69%	64%	**77%**				
% of employees having attended at least one training course	73%	77%	**74%**				
Number of employee shared between the companies	164	129	**85**				
Number of people who underwent a starter interview***	454	528	**618**				

* Including the Middle-East and Australia
** CEDRE: Career management committee (Human resources evaluation and development committee)
*** Starter interviews: Assimilation reports completed 6 to 18 months after new hires arrive

The Group workforce numbered 8,658 employees at end 2018, confirming a stabilization that began a few years ago.

The proportion of women fell slightly in 2017 but recovered in 2018 to match the level of preceding years. With gender balance within the Group remaining a strategic priority, the number of women in management posts has increased by two points in relation to 2017.
The high number of long-term contracts hires in 2018 reflects the departures registered in the year, significantly increasing the proportion of employees with less than 5 years' length of service. HR processes like the Starter interviews were directly impacted by this level of recruitment, with an increase of nearly 20% in the number of appointments organized.

Digitalization of HR process, mainly thanks to the set-up of Fives&Me, the fully digital HR management system, in almost all Group entities, has increased the number of employees attending an annual appraisal interview in 2018, as well as the numbers reviewed by CEDRE.

Employee qualification levels are ensured with training initiatives, with 74% of colleagues receiving training in 2018, mainly on trade techniques, but also in safety, one of the Group's major priorities.

INNOVATION INDICATORS

	2016	2017	2018
R&D expenditure in millions of Euros	36.7	34.9	34.1
Breakdown of R&D expenditure			
Costs of patents and trademarks	9%	9%	**8%**
Standard design and formalization of know-how	11%	9%	**8%**
Continuous improvement of products and processes	21%	23%	**25%**
Development of new products and processes	46%	44%	**43%**
Research and radical innovation activities	13%	15%	**17%**
Patents and trademarks			
Number of patents and patents applications in force	2,032	2,160[1]	**2,113**
Number of patent families in force	611	624[1]	**645**
Number of first patents applications (new patented inventions)	45	44[1]	**45**
Number of first patents applications relating to equipment energy and environmental performance	7	7	**7**
% of these patents relating to equipment energy and environmental performance	16%	13%	**16%**
Number of "product" trademarks registered or being registered	126	134	**132**
Number of R&D and test centers			
Number of research and test centers[2] *France: 17, Americas: 6, Europe (excl. France): 5, Asia: 2*	29	29	**30**

1 On reprocessing 2017 data for patent requests made in 2017 but completed in 2018.
2 Including all subsidiaries conducting their own R&D product testing in dedicated locations.

The Group's Research & Development effort was generally at the same level in 2018 as for the previous two years, as the figures show.

The proportion of the R&D budget dedicated to developing new products/processes remained stable whilst the budget allocated to radical research and innovation increased by 2%, which underlines the Group's intention to offer innovative and high performance technical solutions to its clients.

The rate of patent registration requests has been very consistent over these last 3 years. In 2018 there were 45 new inventions for which a patent request was made, with a major contribution from Fives Stein Metallurgical Technology Shanghai (15).

The Group has launched an initiative to formalize the innovation process with the aim of improving its efficiency. The aim is to ensure the portfolio of R&D activity is well positioned in terms of market relevance, economic performance and speed to market for new products and services.

The indicators used in past years for the eco-design program and Fives Innovation Awards are no longer appropriate. Remaining constant for 3 years, they no longer make it possible to illustrate the progress achieved in these areas.

INTRODUCTION TO THE DATA BY SITE AND TO THE STATISTICS ON ENVIRONMENT / HEALTH & SAFETY / ETHICS

Corporate Social Responsibility (CSR) reporting covered all sites with an average workforce of 10 or more in 2018, as well as all sites with an industrial activity.

In 2018, the changes to the scope were due to several factors:
– The integration of Fives Syleps, a company in the logistics sector acquired in 2017.
– Subsidiaries added and removed, finishing with a positive balance of 2 entities. The additions arise both from a wish to isolate entities that have distinct operational activities - for easier oversight, and from a growth in activities that has brought two subsidiaries, in Spain and Thailand, into the CSR reporting scope. Those removed were the result of transfers, liquidations and mergers.

CSR CROSS-SECTIONAL INDICATORS

	2016	2017	2018	The Americas	France	Europe excl. France	Asia and Africa (*)
Number of subsidiaries included in the scope of the CSR report	64	68	**72**	19	20	15	18
Subsidiaries acquired in n-1 that entered the CSR scope in n	*7*	2	***2***	0	2	0	0
Subsidiaries integrated into the CSR scope	*-2*	2	***2***	0	0	1	1
Total number of sites	**102**	**100**	**105**	**21**	**42**	**19**	**23**
Industrial sites	41	44	**44**	12	17	8	7
Offices	32	29	**31**	5	11	6	9
Combined sites, test centers and regional facilities	29	27	**30**	5	14	4	7
Management system							
Number of sites with ISO 9001 certification	69	71	**71**	12	31	17	11
Number of sites with pending ISO 9001 certification	4	1	**1**	0	0	0	1
Health, Safety and Environment community							
Number of Group HSE representatives	60	67	**75**				
Number of Group HSE auditors	21	21	**25**				
Number of Group HSE audits conducted	18	13	**6**				

* Including the Middle-East and Australia

The Group HSE community continues to gain strength, with the arrival of 8 additional employee in 2018, because of Safety being promoted as a priority for the Group.

ETHICS INDICATORS

	2016	2017	2018
Code of conduct			
Number of languages into which the Group Code of conduct has been translated	13	13	**13**
% of companies to which the Code of conduct has been distributed	97%	93%	**85%**
% of employees accounted for by these companies	94%	94%	**82%**
% of subsidiaries that hold an annual presentation of the Code of conduct involving at least 25% of the workforce	22%	23%	**32%**

The Code of conduct is the main tool for dialog with all employees in terms of ethics. Changes to distribution of the Code of conduct - from 93% of companies in 2017 to 85% in 2018 - are due to the integration of new subsidiaries which have not immediately included the Fives Code of conduct in their internal processes. The reduction is further explained by a number of companies leaving the Group.

However, the increase of 9 points of the number of companies delivering Code of conduct presentations demonstrates a real educational drive in the Group.

In 2018, Fives appointed a Group Compliance Officer to implement and manage the Group compliance system, focusing in particular on fight against corruption, compliance with competition law, ethics, whistleblowing, customs and dual-use supervision.

In 2019, new indicators will be defined to track and measure the actions taken (supervision mechanisms, training, whistleblowing system, etc.).

HEALTH & SAFETY INDICATORS

	2016	2017	2018
Number of industrial sites	**41**	44	**44**
Number of sites with safety certification*	**29**	29	**28**
Number of sites engaged in safety certification	5	6	**2**
Percentage of industrial sites with safety certification	32%	34%	**32%**
Percentage of subsidiaries with a written and distributed Health & Safety Policy	89%	87%	**88%**
Number of FTE1 Health and Safety in the Group	61.3	68.6	**79.3**
Accident statistics (employees + temporary employees)			
Number of severe accidents**	7	3	**1**
Number of which were fatal	0	0	**0(1[2])**
Number of lost-time accidents (≥ 1 day)	**64**	59	**57**
Percentage of lost-time accidents occurring on client/sub-contractor sites	23%	15%	**30%**
Percentage of lost-time accidents occurring in workshops	64%	80%	**63%**
Percentage of lost-time accidents occurring in offices	9%	3%	**7%**
Percentage of lost-time accidents occurring on business trips	3%	9%	**0%**
Lost-time accident frequency rate (Number of lost-time accidents (≥ 1 day) x 1,000,000 / Number of hours worked)	4.26	3.74	**3.41**
Severity rate (Number of lost-time accidents (≥ 1 day) x 1,000 / Number of hours worked)	0.166	0.151	**0.122**

1 FTE: Full-Time Equivalent
2 One fatal accident involving a subcontractor in Algeria
* OHSAS 18001 or French MASE("Manuel d'Amélioration Sécurité des Entreprises") certification (Corporate Safety Improvement Manual), French safety management system
** Severe accidents: accidents which could have severe reversible or irreversible consequences, or which could cause death (monitored from January 2015)

Continuing the progress made in 2017, the Group's accident performance improved notably in 2018 for Fives' employee and its temporary staff. In this population, the lost-time accident frequency rate achieved a historic low, with the number of severe accidents significantly reduced. However, Fives deplores a fatal accident involving a subcontractor working on a cement plant construction site in Algeria.

In contrast to past years, the percentage of lost-time accidents in our workshops has fallen, from 80% in 2017 to 63% in 2018. Specific actions continue to be put in place in workshops to make significant progress, at both field and management level. The implementation of the Group Safety Golden Rules in our operations since 2016 is bearing fruit in 2018; the accident severity rate is historically low.

2018 saw the implementation of the Safety Ambition 2018-2020 that was defined in 2017. The planned actions at Group, Business Unit and company level are steadily being rolled out by operational personnel and managed by the leadership teams. This program is designed to:
- reinforce all Group tools and systems defined in recent years (such as the Group Safety Golden Rules, the Field Safety Observation and Dialog (FSOD) visits for management, accident communication management, activity safety procedures, etc.)
- directly address current Fives issues such as the high number of accidents at our workshops or the potential severity of the accidents at our sites
- collectively and individually involve all actors (Fives staff, temporary workers, subcontractors, etc.)
- improve and entrench the monitoring and steering of actions and performance at all levels of Fives' organization

The progressive deployment of this program across all operations will allow the Group to improve its safety culture and its practices, and as a result continue to reduce the frequency rate and severity of accidents.

Non-financial indicators

ENVIRONMENTAL INDICATORS

	2016	2017	2018	The Americas	France	Europe excl. France	Asia and Africa (*)
Number of sites with ISO 14001 certification (all types of sites)	42	46	**46**	12	17	11	6
ISO 14001 certification for industrial sites							
Number of industrial sites	41	44	**44**	12	17	8	7
Number of industrial sites with ISO 14001 certification	30	35	**33**	10	12	8	3
Number of sites with ISO 14001 certification in progress	6	1	**1**	0	1	0	0
% of industrial sites with ISO 14001 certification	73%	80%	**75%**	83%	71%	100%	43%
ISO 14001 certification for other types of sites (offices, combined sites, test centers, regional facilities)							
Number of non-industrial sites with ISO 14001 certification	12	11	**13**	2	5	3	3
% of non-industrial sites certified	20%	20%	**21%**	10%	12%	16%	13%
Environmental management system							
% of sites that have written and distributed an Environment policy	71%	72%	**65%**	13%	29%	17%	13%
Number of FTE** Environment staff in the Group	21.1	20.7	**22.9**	5.0	9.7	4.3	3.9
Energy consumption in GWh							
Electricity consumption in GWh	66.3	65.8	**66.0**	27.5	23.5	7.1	7.9
Natural gas and heating oil consumption in GWh	65.7	66.2	**64.7**	35.2	19.3	9.2	0.9
Total energy consumption in GWh	131.9	132.0	**130.6**	62.7	42.8	16.4	8.8
Energy consumption in €000							
Electricity consumption in €000	6,243	6,000	**6,115**	2,224	2087	822	982
Natural gas and heating oil consumption in €000	2,064	2,059	**1,805**	502	828	433	42
Total energy consumption in €000	8,307	8,059	**7,920**	2,726	2,916	1,254	1024
Water consumption							
Water consumption (industrial sites) in m^3	97,405	94,823	**89,014**	29,587	30,287	13,609	15,431
Water consumption (industrial sites) in €000	261	252	**247**	115	83	38	11

* including the Middle-East and Australia
** FTE: Full-Time Equivalent

Since Fives committed to reducing its environmental footprint by supporting its production sites towards ISO 14001 certification in 2012, the number of certified sites in the Group has more than doubled from 18 in 2012 to 46 in 2018.

2018 was a pivotal year for the ISO 14001 transition to the 2015 version: all 46 ISO 14001 certified sites shifted successfully to the new version of the standard before the September 2018 deadline, and were thus able to maintain their certification.

This year, two ISO 14001-certified industrial sites were removed from the scope: Bar le Duc, in France (transfer of Fives Stein Manufacturing), and Livonia, in the United States (left by Fives Cinetic Corp). This has led to a slight reduction in the proportion of ISO 14001 certified industrial sites, particularly since the companies most recently acquired by the Group (Daisho and Fives Syleps, added to the CSR reporting scope in 2017 and 2018) have not yet obtained this certification.

As every year, the Group's energy and water consumption was affected by changes in the scope of consolidation, changes in the level of activity of companies, as well as changes in the climate for energy. Work was carried out with the subsidiaries in 2018 to define relevant energy indicators to better monitor the Group's energy consumption. This has highlighted an improvement in the Group's energy efficiency in recent years: energy consumption per hour worked has risen from 8.3 in 2017 to 7.8 in 2018.

More and more companies are spontaneously taking an interest in the issue of energy efficiency, and are implementing actions to reduce their consumption. In total, 30% of Group sites implemented actions in 2018, while less than 20% carried out energy audits.

The Group intends to take this further in 2019: targets for reducing energy consumption will be set up based on the most energy-intensive sites and on feedback from the companies that already have action plans in place.

Corporate governance

CORPORATE GOVERNANCE

On December 20, 2018, Fives was transformed from a Public Limited Company with Executive Board and Supervisory Board (SA) to a Simplified Joint-Stock Company (SAS).

Fives is still chaired by Frédéric Sanchez (previously Chairman of the Executive Board of the Company in its previous form), supported by a Deputy Chief Executive Officer, Martin Duverne (previously Member of the Executive Board of the Company in its previous form), under the control of a Supervisory Committee.

SENIOR MANAGEMENT

Senior Management is represented by a Chairman assisted by a Deputy Chief Executive Officer.

The Chairman represents Fives with third parties, and has the broadest possible powers to act on behalf of Fives in any circumstance within the remit of the corporate purpose, excluding the powers expressly granted by law and the articles of association to the shareholders and Supervisory Committee.

The Deputy Chief Executive Officer assists the Chairman. He has the same powers with regards to third parties as the Chairman, and he is bound by the same limitations of powers as the latter.

Composition of Senior Management

Frédéric Sanchez, 59 years old, Chairman & Chief Executive Officer. Appointed to this role on December 20, 2018, for an unlimited term.

Martin Duverne, 62 years old, Deputy Chief Executive Officer. Appointed to this role on December 20, 2018, for an unlimited term.

THE SUPERVISORY COMMITTEE

The Supervisory Committee is Fives' statutory body. Its main duties are as follows:

- Reading the quarterly report prepared by the Chairman on the Fives Group's operations;
- It checks and verifies the Company's annual consolidated and company accounts which are presented to it by the Chairman, and where applicable the Deputy Chief Executive Officers, within four (4) months after the end of the financial year; if it so wishes, it presents its observations on the Chairman's management report and the annual consolidated and company accounts to the shareholders;
- It rules on requests for prior approval regarding decisions and operations which it receives;
- It can, if it wishes, decide to create specific committees which are responsible for studying questions submitted by itself or the Chairman for their opinion; In this context, an Audit Committee was created;
- It can also, within its remit, tackle any question relating to Fives and its Subsidiaries, carry out any verifications and inspections at any time as it deems necessary, and it can also ask for documents to be sent to it at its request and in due time which it deems necessary to fulfill its role.

It meets at least four times a year.

Composition of the Supervisory Committee

Philippe Reichstul, 70 years old, Chairman member of the Supervisory Committee.
Appointed on December 20, 2018, his term of office will expire at the end of the General Meeting called to approve the 2020 financial statements.

François Dufresnes, 58 years old, member of the Supervisory Committee.
Appointed on December 20, 2018, his term of office will expire at the end of the General Meeting called to approve the 2020 financial statements.

Dominique Gaillard, 59 years old, member of the Supervisory Committee.
Appointed on December 20, 2018, his term of office will expire at the end of the General Meeting called to approve the 2020 financial statements.

Pierre Heinrichs, 40 years old, member of the Supervisory Committee.
Appointed on December 20, 2018, his term of office will expire at the end of the General Meeting called to approve the 2020 financial statements.

Heyoung H Lee Bouygues, 47 years old, member of the Supervisory Committee.
Appointed on December 20, 2018, her term of office will expire at the end of the General Meeting called to approve the 2020 financial statements.

Antonio Marcegaglia, 55 years old, member of the Supervisory Committee.
Appointed on December 20, 2018, his term of office will expire at the end of the General Meeting called to approve the 2020 financial statements.

Jean-Georges Malcor, 62 years old, member of the Supervisory Committee.
Appointed on December 20, 2018, his term of office will expire at the end of the General Meeting called to approve the 2020 financial statements.

Laurence Parisot, 60 years old, member of the Supervisory Committee.
Appointed on December 20, 2018, her term of office will expire at the end of the General Meeting called to approve the 2020 financial statements.

The Fives managing bodies are assisted with their decision-making by operational bodies, including a Senior Executive Committee supported by an Executive Committee, Country Coordination and Steering Committees and a Foresight Committee.

SENIOR EXECUTIVE COMMITTEE

Reporting to the Chairman of Fives, the Senior Executive Committee:
- rules on the Group's cross-business policies and defines its priorities,
- manages operational and organizational matters common to Divisions and Business Units,
- makes budget-related decisions,
- and considers the Group's structural and strategic changes.

It also manages unforeseen events with a potentially significant impact on the Group's operations, as well as crises or emergency situations.

It meets at least once every six weeks.

Composition of the Senior Executive Committee

Frédéric Sanchez, 59, years old, Chairman & Chief Executive Officer
Martin Duverne, 62 years old, Deputy Chief Executive Officer
Alain Cordonnier, 58 years old, Deputy General Manager, Head of the Cement & Minerals division
Denis Hugelmann, 60 years old, Deputy General Manager, Head of the Aerospace & Industries, Automotive and Additive Manufacturing divisions
Guillaume Mehlman, 54 years old, Deputy General Manager, Head of the Steel & Glass division
Denis Mercier, 59 years old, Deputy General Manager
Luigi Russo, 45 years old, Deputy General Manager, Head of the Logistics division
Suresh Abye, 40 years old, Chief Financial Officer
Céline Morcrette, 40 years old, Head of Human Resources

THE EXECUTIVE COMMITTEE

The priority for the Executive Committee is to implement decisions taken by the Senior Executive Committee and to assess the relevance and effectiveness of cross-business policies on the basis of feedback about their application. It exchanges information and shares experience between its members, further strengthening the cross-business effectiveness of the Group's actions.

It meets at least four times a year.

Composition of the Executive committee

Frédéric Sanchez, 59 years old, Chairman & Chief Executive Officer
Martin Duverne, 62 years old, Deputy Chief Executive Officer
Alain Cordonnier, 58 years old, Deputy General Manager, Head of the Cement & Minerals division
Denis Hugelmann, 60 years old, Deputy General Manager, Head of the Aerospace & Industries, Automotive and Additive Manufacturing divisions
Guillaume Mehlman, 54 years old, Deputy General Manager, Head of the Steel & Glass division
Denis Mercier, 59 years old, Deputy General Manager
Luigi Russo, 45 years old, Deputy General Manager, Head of the Logistics division
Suresh Abye, 40 years old, Chief Financial Officer
Céline Morcrette, 40 years old, Head of Human Resources

Xavier Becquey, 49 years old, Head of the Combustion Business Unit
Raphaël Constantin, 49 years old, Head of the Grinding | Ultra Precision Business Unit
Frédéric Thrum, 47 years old, Head of the Cryogenics | Energy and Sugar | Bioenergy Business Units
Hugues Vincent, 63 years old, Head of the Aluminum Division

Daniel Brunelli-Brondex, 58 years old, Country Director - India
Sylvain Dulude, 56 years old, Country Director - North America
Frédéric Renaud, 66 years old, Country Director - Italy
Michelle XY Shan, 53 years old, Country Director - China

Hervé Boillot, 49 years old, Head of Mergers & Acquisitions
Jean-Marie-Caroff, 57 years old, Head of International Development
Arnaud Lecœur, 48 years old, General Counsel
Yannick Leprêtre, 49 years old, Head of Innovation

Corporate governance

THE COUNTRY COORDINATION AND STEERING COMMITTEES

These committees are responsible, by geographic area, for the implementation of the cross-business policies set by the Senior Executive Committee, and adapting them where appropriate to the specifics of each country, while encouraging synergies between subsidiaries in the same country that may belong to different Business Units.

These committees are also vectors for exchanges of best practice and information (about the Group, the country, etc.) between subsidiaries in a given geographic area. They are also responsible for drawing senior management's attention to specific country issues.

They bring together the Chief Executive Officers of the subsidiaries in the relevant country, as well as local operational directors, according to the issue to be addressed. They are chaired by the country directors. These meetings are always attended by a member of the Senior Executive Committee.

They meet three or four times a year.

THE FORESIGHT COMMITTEE

This committee is a way of involving young or future leaders in the life of the Group, asking them to contribute to Group strategy on issues put to them by the Senior Executive Committee, but also to identify difficulties, unsatisfied needs and other issues arising from feedback on the ground.

It can look into special cases or issues and assemble proposals to improve the Group's effectiveness and the way it operates. It is chaired by the Fives Chairman or a member of the Senior Executive Committee.

The Foresight Committee is not a permanent body, but its members are appointed for a given period by the Group Chairman on recommendations made by the Senior Executive Committee.

THE COUNTRY DIRECTOR

All Group Companies operating in the same country (or region) form part of a matrix structure reporting to a Country Director, whose tasks include:
- supporting the Group's business activity in the country which they supervise;
- chairing the corresponding Country Coordination and Steering Committee (where appropriate);
- acting as the initial point of contact for Fives' central functional departments;
- coordinating the community of local functional department representatives, in collaboration with the Fives functional departments, taking local issues into consideration;
- ensuring that Fives instructions and directives are understood and followed and, where applicable, informing Fives of any application issues;
- supporting Fives in the process of integrating newly acquired subsidiaries;
- managing Fives' relationships with local stakeholders, and coordinating the relationship between these stakeholders and national Group companies;
- making suggestions for synergies between countries.

THE AUDIT COMMITTEE

This committee was created by the Supervisory Committee.

Its general role is to assist the Supervisory Committee to monitor issues relating to the preparation and verification of financial and accounting information, and more specifically:
- the process of preparing financial information;
- the effectiveness of the internal control and risk management systems;
- the verification of corporate accounts and consolidated accounts by statutory auditors.

It meets at least four times a year.

Composition of the Audit Committee

Dominique Gaillard, Chairman of the Audit Committee.
François Dufresne, member of the Audit Committee.
Pierre Heinrichs, member of the Audit Committee.
Laurence Parisot, member of the Audit Committee.

INTERNAL CONTROL

The internal control procedures applied within the Group are intended:
- to ensure that management actions and the conduct of transactions, as well as the conduct of the Group employees, comply with applicable laws and regulations, the guidelines issued by the Group's governing bodies and its values, standards and internal rules, and
- to ensure that the accounting, financial and management information provided to the Group's governing bodies gives a fair and accurate picture of the Group's activities and position.

With the prevention and management of the risks deriving from the Group's activities and the conduct of its staff, the Group's organization is based on:
- the quality, personal involvement and accountability of management teams at each Group company;
- Coordination by Business Units and/or Division;
- the implementation, as part of concerted action by all Group companies, of Directives. These Directives are a major risk management tool and provide the basis for the internal limitations set by the Boards of Directors (or equivalent bodies) of Group companies on the powers of their Chief Executive Officers (or equivalent position).

Every material binding offer is subjected to an in-depth review intended to avoid exposure to risks that could have a significant adverse effect on the financial outcome of the proposed contract or an adverse impact on the business or reputation of the company in a given business sector or geographic region.

Similarly, each material contract in progress is reviewed in detail at least once each quarter by the main managers of each Group company so as to make a detailed assessment of contract progress, review the technical, financial and contractual issues involved, and make any relevant decisions.

With regard to the preparation and processing of accounting and financial information, internal control is based on:
- implementing professional accounting and financial procedures throughout the Fives group by building on the experience of its staff;
- uniform guidelines, accounting methods and consolidation rules;
- a common integrated consolidation and management application, thus ensuring the consistency of accounting data and management information.

EXTERNAL CONTROL

The Company's Statutory Auditors are:
- **Ernst & Young et Autres**, represented by Pierre Jouanne, reappointed on June 28, 2018.
- **Deloitte & Associés**, represented by Pascal Colin, reappointed on June 28, 2018.

Their terms of office will expire at the end of the General Meeting called to approve the 2023 financial statements.

As part of their legal assignment, the statutory auditors carry out a limited review of the half-yearly consolidated financial statements and a complete audit of the annual company and consolidated financial statements. The company and consolidated financial statements have, to date, been approved without qualifications.

FINANCIAL AND LEGAL INFORMATION

FINANCIAL INFORMATION

Share capital

On December 31, 2018, Fives had a share capital of €102,723,764, composed of 2,185,612 fully paid-up shares with a par value of €47 each. The shares are registered shares.
There are no other securities giving access to the capital.

Changes in the share capital

In 2018 the share capital was not subject to any changes.

Share ownership

Fives' main shareholder at December 31, 2018 was Novafives, which held 99.99 % of the share capital.

Stock options and allocation of bonus shares

The company had not put in place any stock option plan or allocation of bonus shares as at December 31, 2018.

Dividends / Distribution of reserves

No dividends were paid in 2016, 2017 and 2018.

LEGAL INFORMATION

Company name and registered office

Fives, 3 rue Drouot, 75009 Paris

Legal form

Simplified joint stock company (Société par Actions Simplifiée) since December 20, 2018.

Term

The term of the company is set at January 1, 2039, unless the company is wound-up early or the term is extended.

Trade and companies registry

Paris Trade Register no. 542 023 841

Financial year

January 1 to December 31.

Purpose (summary of Article 2 of the Memorandum and Articles of Association)

The Company's object is, directly or indirectly, in France and abroad, all engineering activities in the areas of industry and in particular in the areas linked to the production and to the use of energy, the production of aluminum, cement, glass, steel, sugar and chemical products, the manufacturing industry (automotive, aeronautics, logistics, etc.) and, in this context, all activities relating to the design, development and completion of projects of all kinds in the form of the provision of services, design offices and engineering advice as well as the design, development and acquisition of all property rights, processes and all industrial manufacturing resources, entering into all licensing agreements or any agreements relating to these assets.

Appropriation of income (summary of Article 27 of the Memorandum and Articles of Association)

A sum corresponding to at least five percent (5%) of the annual profit, less any deferred losses, shall be allocated to the legal reserve. This allocation is no longer mandatory when the legal reserve reaches a tenth of the share capital; it becomes mandatory once more if, for whatever reason, the legal reserve falls below this amount.

The balance, plus retained earnings, if any, forms the distributable earnings.

This profit is available to the shareholders who have the sole authority to decide how to allocate it. As such, the shareholders may appropriate all or some of this profit to transfer it to all of the general and specific reserves, carry it forward, or distribute it among the shareholders, in compliance with articles L. 232-11 et seq. of the French Code of Commerce. The balance, if any, is allocated to the sole shareholder or, if there is more than one shareholder, is shared by decision of the shareholders subject to the quorum and majority requirements stipulated in Article 23 of the Memorandum and Articles of Association, in proportion to the number of shares held by each of them.

In addition, the shareholders, in accordance with the conditions stipulated in Article 23 of the Memorandum and Articles of Association and in accordance with articles L. 232-11 et seq. of the French Code of Commerce, may decide to distribute sums deducted from the reserves available to the Company, specifically indicating the reserve items from which the sums are to be deducted. However, the dividends are deducted as a priority from the profits of the current fiscal year.

After the financial statement approval process, losses, if any, are recorded in the balance sheet in a separate account and carried forward, to offset against future profits until exhausted.

Each shareholder's share of the profit and their contribution to the losses is proportional to their portion of the share capital.

Conditions governing General Meetings (summary of Articles 21, 22 and 23 of the Memorandum and Articles of Association)

A shareholder consultation may be conducted at the initiative of the Chairman of the Company, one of the Deputy CEOs, if appointed, the Supervisory Committee or one or more shareholders holding (individually or together) over 50% of the Company's share capital.

Collective decisions result from (i) a general meeting, (ii) a written consultation or (iii) a private agreement expressing the consent of all the shareholders. However, a shareholders' meeting is mandatory for the annual financial statements approval process.

The meeting is chaired by the Chairman; failing that, the members shall elect a chair for the meeting. The meeting chair appoints the secretary for the meeting who may be a shareholder or a third party.

The shareholders' decisions, whether they are a private agreement, resulting from a written consultation or a general meeting, are recorded in the minutes noted in a numbered and initialed register, kept in compliance with the procedures specified in articles R. 225-22 and R. 225-49 of the French Code of Commerce (by reference to article R. 225-106 of the French Code of Commerce).

Each shareholder may participate in all collective decisions whatever they are, in person or through the representative of their choice, and has as many votes as they have shares, without limits.

Unless unanimity is required, the shareholders' decisions are only valid if the shareholders present or represented hold over half of the Company's voting shares.

The shareholders' collective decisions are decided unanimously when required by law, and in particular for decisions to adopt or modify statutory clauses establishing:
– temporary inalienability of shares;
– the exclusion of a shareholder; and
– any other operation that increases the shareholders' liability.

The other collective decisions are adopted by a simple majority of the votes of shareholders who are present or represented.

Legal documents

All legal documents relating to the company and notably the Memorandum and Articles of Association, minutes of General Meetings and Statutory Auditors' reports may be consulted by the shareholders at the company's registered office.

Consolidated financial statements at December 31, 2018

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CONSOLIDATED INCOME STATEMENT

In thousands of euros	Notes	2018	2017
Sales	6.2	**1,950,511**	**1,896,053**
Cost of sales		(1,582,799)	(1,500,474)
Gross profit		**367,712**	**395,579**
Selling expenses		(115,469)	(113,436)
Administrative expenses		(167,600)	(166,129)
Research and development expenses	6.4	(23,833)	(27,621)
Employee profit sharing and bonus schemes		(2,725)	(4,320)
Other operating income and expenses	6.5	(8,659)	24,877
Amortization of intangible assets related to acquisitions	6.6	(22,109)	(22,510)
Profit from recurring operations		**27,317**	**86,440**
Restructuring costs	6.7	(5,617)	(1,253)
Impairment of fixed assets		(1,528)	(548)
Gain (loss) on disposals and acquisition costs	6.8	(2,246)	(472)
Operating profit		**17,926**	**84,167**
Cost of net financial debt	6.9	(8,228)	(4,843)
Other financial income and expense	6.9	5,179	(39,206)
Net financial income (expense)		**(3,049)**	**(44,049)**
Profit (loss) before income tax		**14,877**	**40,118**
Income tax expense	6.10	(18,534)	(30,198)
Share of profit (loss) of associates	6.11	(16,243)	(8,037)
Profit (loss) for the year		**(19,900)**	**1,883**
Attributable to owners of the Group		(20,483)	1,352
Attributable to non-controlling interests		583	531

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In thousands of euros	Notes	2018	2017
Profit (loss) for the year		**(19,900)**	**1,883**
Foreign currency translation differences		4,651	(19,237)
TOTAL Items subsequently recycled through profit and loss		**4,651**	**(18,517)**
Actuarial gains (losses)	6.21	(924)	(289)
Deferred tax on actuarial gains and losses		448	(233)
Net change in fair value of financial assets		(881)	1 172
Deferred tax on net change in fair value of financial assets		278	(452)
Share of net profit or loss of associates		(63)	
TOTAL Items that may not be recycled through profit and loss		**(666)**	**(522)**
Total comprehensive income		**(15,915)**	**(17,156)**
Attribuable to:			
- Owners of the Group		(17,235)	(17,015)
- Non-controlling interests		(844)	(141)

CONSOLIDATED BALANCE SHEET

ASSETS

In thousands of euros	Notes	Dec. 31, 2018	Dec. 31, 2017
Goodwill	6.12	249,251	241,355
Intangible assets	6.13	84,539	103,181
Property, plant and equipment	6.14	216,770	179,277
Non-current financial assets	6.15	60,678	28,584
Deferred tax assets	6.10	36,006	32,229
Non-current assets		**647,244**	**584,626**
Inventories and work in progress	6.16	192,145	181,574
Contract assets	6.17	155,007	145,355
Trade receivables	6.18	406,719	423,145
Other current assets	6.19	110,527	91,531
Current financial assets	6.15	5,024	6,578
Current tax assets		5,557	11,409
Cash and cash equivalents	6.20	148,006	129,969
Current assets		**1,022,985**	**989,561**
Held-for-sale assets		37	
Total assets		**1,670,266**	**1,574,187**

SHAREHOLDERS' EQUITY AND LIABILITIES

In thousands of euros	Notes	Dec. 31, 2018	Dec. 31, 2017
Share capital		102,724	102,724
Share premium and reserves		313,420	314,782
Foreign currency translation reserve		20,164	15,086
Profit (loss) attributable to owners of the Group		(20,483)	1,352
Shareholders' equity attributable to owners of the Group		**415,825**	**433,944**
Non-controlling interests		9,626	9,607
Shareholders' equity	6.22	**425,451**	**443,551**
Non-current provisions	6.23	59,555	64,360
Non-current financial debt	6.24	117,775	46,645
Other non-current liabilities	6.25	13,264	8,511
Deferred tax liabilities	6.10	7,822	9,573
Non-current liabilities		**198,416**	**129,089**
Current provisions	6.23	73,718	79,209
Current financial debt	6.24	90,986	86,538
Contract liabilities	6.17	328,307	318,352
Trade and related payables		375,737	349,137
Current tax liabilities		7,440	10,879
Other current liabilities	6.25	170,211	157,432
Current liabilities		**1,046,399**	**1,001,547**
Total shareholders' equity and liabilities		**1,670,266**	**1,574,187**

CONSOLIDATED CASH FLOW STATEMENT

In thousands of euros	Notes	2018	2017
Cash and cash equivalents at January 1		127,461	119,590
Operating activities			
Profit (loss) for the year		(19,900)	**1,883**
Adjustments for:			
Change in non-current provisions		(3,948)	(8,161)
Amortization, depreciation and impairment		65,726	49,133
Net (gain) / loss on disposals of assets and acquisition costs		3,355	472
Profit of equity-accounted associates		16,243	8,037
Other non-cash income and expense items		(3,607)	16,458
Income tax expense		18,534	30,198
Cost of net financial debt		8,228	4,843
Operating cash flow before change in working capital and income tax		84,631	102,863
Change in working capital	6.21	30,181	24,839
Income tax paid		(17,605)	(35,604)
Net cash provided by operating activities		97,207	**92,098**
Investing activities			
Acquisitions of property, plant and equipment and intangible assets		(27,893)	(29,017)
Disposals of property, plant and equipment and intangible assets		1,906	2,474
Change in financial assets		(51,045)	(18,141)
Acquisitions of subsidiaries after deduction of acquired cash		(4,558)	(25,770)
Net cash used in investing activities		(81,590)	**(70,454)**
Financing activities			
Dividends paid to owners of non-controlling interests		(730)	(1,047)
Net increase in borrowings		15,722	1,848
Net interest paid		(7,600)	(5,452)
Net interest received		1,063	1,119
Net cash provided by / (used in) financing activities		8,454	**(3,532)**
Effect of exchange rate fluctuations		(4,605)	(10,241)
Net increase in cash and cash equivalents		19,466	**7,871**
Cash and cash equivalents at December 31	6.21	146,927	**127,461**

Consolidated financial statements at December 31, 2018

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

In thousands of euros	Share capital	Premiums, retained earnings and reserves	Actuarial gains (losses) on pensions	Foreign currency translation reserve	Financial assets - fair value reserve	Equity attributable to owners of the Group	Non-controlling interests	Total equity
Shareholders' equity at January 1, 2017	**102,724**	**318,685**	**(10,879)**	**33,643**	**850**	445,023	**10,805**	455,828
Profit (loss) for the year		1,352				1,352	531	1,883
Other comprehensive income			(530)	(18,557)	720	(18,367)	(672)	(19,039)
Profit (loss) and other comprehensive income		**1,352**	**(530)**	**(18,557)**	**720**	(17,015)	**(141)**	(17,156)
Dividends paid							(1,047)	(1,047)
Change in consolidation scope		(23)	23					
Change in carrying amount of obligation to purchase non-controlling interests		5,939				5,939		5,939
Other changes		(3)				(3)	(10)	(13)
Shareholders' equity at December 31, 2017	**102,724**	**325,950**	**(11,386)**	**15,086**	**1,570**	433,944	**9,607**	443,551

In thousands of euros	Share capital	Premiums, retained earnings and reserves	Actuarial gains (losses) on pensions	Foreign currency translation reserve	Financial assets - fair value reserve	Equity attributable to the owners of the Group	Non-controlling interests	Total equity
Shareholders' equity at January 1, 2018	**102,724**	**325,950**	**(11,386)**	**15,086**	**1,570**	433,944	**9,607**	443,551
Profit (loss) for the year		(20,483)				(20,483)	583	(19,900)
Other comprehensive income			(567)	4,418	(603)	3,248	261	3,509
Profit (loss) and other comprehensive income		**(20,483)**	**(567)**	**19,504**	**(603)**	(17,235)	**844**	(16,391)
Dividends paid							(730)	(730)
Changes in consolidation scope		(2,384)	(35)	661		(1,758)	(95)	(1,853)
Share-based payment		2,561				2,561		2,561
Change in carrying amount of obligation to purchase non-controlling interests		(1,683)				(1,683)		(1,683)
Other changes		(4)				(4)		(4)
Shareholders' equity at December 31, 2018	**102,724**	**303,957**	**(11,988)**	**20,165**	**967**	415,825	**9,626**	425,451

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL PRESENTATION

Fives (hereinafter Fives or "the Company") is a private limited liability company (Société par Actions Simplifiée) incorporated in France and subject to all French legislation governing commercial companies, in particular the legal provisions of the French Commercial Code. Formerly a public limited company (Société Anonyme) with a Management Board and a Supervisory Board, the Company became a private limited liability company following a decision of the shareholders at their Extraordinary General Meeting held on December 20, 2018. The registered office is located at 3 rue Drouot, 75009 Paris, France.

The consolidated financial statements of the Company comprise the financial statements of companies over which the Company has direct or indirect exclusive control, which are fully consolidated, and the financial statements of companies over which the Company exercises significant influence (associates), which are accounted for using the equity method. The single economic entity is referred to as "the Group".

The Group's companies design and supply process equipment and turnkey production lines and plant facilities for major industrial players worldwide. The Group is uniquely positioned due to its command of proprietary technologies and its expertise in engineering and complex project management.

The consolidated financial statements have been prepared under the responsibility of the CEO, who approved them on March 21, 2019. They will be final when approved by the shareholders at their General Meeting on April 5, 2019.

The main accounting methods used to prepare the consolidated financial statements are described hereafter.

2. ACCOUNTING POLICIES

2.1. Statement of compliance

The consolidated financial statements of Fives for the reporting period ended December 31, 2018 have been prepared in accordance with the international standards issued by the International Accounting Standards Board (IASB) and adopted by the European Union at December 31, 2018. The international standards comprise International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and SIC and IFRIC interpretations.

The following standards are mandatory for the Group for financial years beginning on or after January 1, 2018:

- IFRS 9 "Financial Instruments" will replace IAS 39 "Financial Instruments" for financial years beginning on or after January 1, 2018;
- IFRS 15 "Revenue from Contracts with Customers" will replace IAS 18 "Revenue", IAS 11 "Construction Contracts" and IFRIC 13 "Customer Loyalty Programmes" for financial years beginning on or after January 1, 2018;
- Amendment to IFRS 15 "Revenue from Contracts with Customers" for financial years beginning on or after January 1, 2018. This amendment provides clarification on the identification of service obligations, on the distinction between agent and principal, on licenses for intellectual property, and on transition requirements;
- Amendment to IFRS 12 "Disclosure of Interests in Other Entities" for financial years beginning on or after January 1, 2018. This amendment clarifies the disclosure requirements that apply to interests classified as held for sale or discontinued operations;
- Amendment to IFRS 2 "Share-based Payment" for financial years beginning on or after January 1, 2018. This amendment provides clarification on the measurement of cash-settled share-based payment transactions and the reclassification of a share-based payment transaction from cash-settled to equity-settled;
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" for financial years beginning on or after January 1, 2018. This interpretation of IAS 21 "The Effects of Changes in Foreign Exchange Rates" clarifies accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.

The Group has elected to apply the following standard early:

- IFRS 16 "Leases", which replaces IAS 17 "Leases". Although IFRS 16 is effective for financial years beginning on or after January 1, 2019, the Group has elected to apply it early, as of January 1, 2018.

The impacts of adopting IFRS 9, 15 and 16 are presented in note 2.2. The other standards do not have any effect on the Group's financial statements.

The Group has elected to not apply the following amendment and interpretation early:

- Amendment to IFRS 9 "Financial Instruments" for financial years beginning on or after January 1, 2019. This amendment clarifies the classification and recognition of financial instruments that have prepayment features with negative compensation.
- IFRIC 23 "Uncertainty over Income Tax Treatments" clarifies the method for recognizing and measuring uncertainties in income taxes, assuming that the tax authority will examine all the uncertainties reported based on all information available.

The Group is currently assessing these changes, but dœs not expect any significant impact on the financial statements.

All the IFRS adopted by the European Union are available for viewing on the European Commission's website at the following address:
http://data.europa.eu/eli/reg/2008/1126/2018-01-01

2.2. Changes in standards

The new standards adopted by the European Union with a potential impact on the Group's financial statements and which are mandatory for financial years beginning on or after January 1, 2018 or for which early implementation is permitted are as follows:

First-time adoption of IFRS 9

As of January 1, 2018, IFRS 9 "Financial Instruments" will replace IAS 39 "Financial Instruments".

The new standard sets forth new principles in terms of:

- Classification and measurement of financial instruments: the main change for the Group concerns the classification of equity investments previously accounted for as available for sale. When acquiring equity investments, the Group has the irrevocable choice to measure them at fair value through profit or loss or through other comprehensive income. With regard to financial assets held at January 1, 2018, the Group has elected to measure them at fair value through other comprehensive income. Consequently, gains and losses generated by equity investments will never be recycled through profit or loss. Equity investments are henceforth presented at fair value – with no mention of impairment – on the balance sheet.
- Impairment due to the credit risk of financial assets: it introduces a single, forward-looking model, based on expected credit losses. Given the Group's customers' profiles, the period over which the Group is exposed to credit risk and its credit risk management policy (payment arrangements, insurance and warranties), the Group believes that expected credit losses are insignificant. Consequently, no impairment has been recognized.
- Hedge accounting: IFRS 9 aims to align hedge accounting with the entity's risk management activities. While there is no impact on the financial statements, applying this principle should facilitate documentation of the Group's hedging operations.

First-time adoption of IFRS 15

The Group has applied IFRS 15 "Revenue from Contracts with Customers" since January 1, 2018. The standard replaces IAS 11 "Construction Contracts" and IAS 18 "Revenue" and the associated interpretations, and introduces an overall framework based on an analysis of the transfer of control.

Group performance obligations

The Group no longer distinguishes between construction contracts and contracts for the sale of goods and services, but determines the performance obligations contained in each contract.

For each performance obligation, revenue is recognized on a percentage-of-completion basis if one of the following three criteria is met:

- The customer receives the benefits of the Group's performance obligation (for example, maintenance services) as the service is performed;
- The customer owns and controls the asset for which the Group has a performance obligation (for instance, equipment retrofit);
- The Group's performance obligation dœs not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date (contract to create specific equipment).

In each of the above cases, the transfer of control takes place over time as the service is rendered.
If none of the criteria are met, the client will only obtain control at a point in time, generally upon completion of the performance obligation.

The main types of performance obligation within the Group are as follows:

- Provision of turnkey production assemblies or sub-assemblies: percentage-of-completion revenue recognition;
- Production of key process equipment: revenue recognition using the percentage-of-completion or the completed-contract method, depending on alternative use and contract conditions;
- Industrial services: spare parts, maintenance, training, machine upgrades, and removals/relocations. Revenue recognition is either based on the percentage-of-completion or the completed-contract method.

The Group recognizes most of its revenue using the percentage-of-completion method as its solutions are highly customized.
In general, identifying performance obligations and determining their sales price do not require significant judgment.
The warranties granted to customers generally reflect market standards and are not distinct services. Consequently, they are not accounted for as performance obligations, but are recognized in accordance with IAS 37.

Order book

The Group uses the term "order book" to refer to all remaining performance obligations. No exception is made for short-term contracts.

A contract is added to the order book as soon as it becomes enforceable. The transaction price included in the order book is the most probable amount of consideration the Group expects to receive less any variable consideration that is not reasonably certain.

Revenue and cost recognition

- For performance obligations under the completed-contract method, the Group recognizes revenue upon transfer of control. For standard production equipment, control is generally transferred upon transfer of the risks and rewards of ownership.
- For performance obligations under the percentage-of-completion method, the Group determines the stage of completion applicable to each contract by measuring the costs incurred to date over estimated costs at completion. The latter are reassessed at each reporting date.

Completed work that has not yet been invoiced to the customer is presented on the balance sheet under the line item "Contract assets".

Progress billings relating to work where control has not yet been transferred are presented under the line item "Contract liabilities".

When estimated total contract costs exceed the expected sales price, a loss at completion is recognized.

Transition arrangements and impact on the financial statements
The Group has elected to use the full retrospective transition method, applying the option relating to completed contracts. The Group has not restated profit or shareholders' equity for 2017 as a result of applying IFRS 15.

The main impact of IFRS 15 is on the presentation of the balance sheet:
– Contract liabilities include all contractually due invoices relating to contracts where the control of goods or services has not yet been transferred:
  - Progress billings exceeding completed work for performance obligations recognized on a percentage-of-completion basis: no impact;
  - Advances and progress payments for performance obligations recognized on a completed-contract basis, previously recorded under "Other current liabilities". As a result of the application of IFRS 15, €46.7 million have been reclassified on the comparative balance sheet at December 31, 2017.
– The Group records invoices issued but subject to customer acceptance under "Contract assets". These amounts were previously recorded under trade receivables. As a result of the reclassification, "Contract assets" reported on the comparative balance sheet at December 31, 2017 increased by €15.5 million, with a corresponding decrease in trade receivables.

First-time adoption of IFRS 16
The Group opted for the early application of IFRS 16 as of January 1, 2018.

IFRS 16 "Leases" introduces significant changes in accounting for leases, primarily for lessees. The standard provides a single accounting model for lessees, without any distinction between operating and finance leases. A right-of-use asset is recognized and depreciated over the useful life of the leased assets. The carrying amount of the right-of-use asset is equal to the carrying amount of the lease liability plus the initial direct costs and the rehabilitation costs that are not dependent on use. The lease liability is equal to the sum of the lease payments discounted using the implicit interest rate of the lease contract (if it can be readily determined) or the lessee's incremental borrowing rate.

The Group has elected to apply the following exemptions permitted by IFRS 16:
– The Group dœs not apply IFRS 16 to leases with a term of under 12 months or to low-value leased assets;
– The Group has also decided not to remeasure finance lease assets and liabilities at the first-time adoption date.

The main impacts on the balance sheet at January 1, 2018 are as follows:
– Right-of-use assets: €46.5 million, presented under property, plant and equipment;
– Lease liabilities: €46 million, presented under loans and borrowings and lease liabilities.

If the Group had not adopted IFRS 16, the income statement for financial year 2018 would have differed as follows:

Profit (loss) from recurring operations: :	-€1.3 million
Net financial income:	+€2.2 million
Profit (loss):	+€0.6 million

2.3. Basis of preparation of the consolidated financial statements

The Group's consolidated financial statements have been prepared using historical costs, with the exception of financial assets and liabilities stated at fair value (excluding trade payables and receivables, and other held-to-maturity financial assets).

2.4. Presentation of financial statements

In accordance with IAS 1 "Presentation of Financial Statements", current and non-current items are presented separately in the consolidated balance sheet. Generally, assets expected to be realized and liabilities due for settlement in the operating cycle or within twelve months after the reporting date are classified as current. Other assets and liabilities are classified as non-current.

2.5. Consolidation methods

Subsidiaries are companies that are controlled by the Group. They are fully consolidated. The Group exercises control when it has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect the amount of the returns. In assessing control, the Group takes into consideration all potential voting rights that are exercisable at the reporting date, including those held by another party.

Associates are entities in which the Group has significant influence but not control over the financial and operating policies. Significant influence is presumed when the Group holds 20% or more of the voting power of the entity. Associates are accounted for using the equity method. Investments in associates are initially recognized at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets in the investee, less any impairment losses.

Companies are consolidated on the basis of their separate financial statements at December 31, restated to comply with Group accounting principles. All transactions between consolidated companies are eliminated.

The list of subsidiaries and associates is provided in note 6.32.

2.6. Significant estimates and judgments

The preparation of the consolidated financial statements requires Group and division management to use judgments, estimates and assumptions, including expectations of future events, which affect the reported amounts of certain financial statement items.

These assessments and estimates are reviewed at each reporting date and the underlying assumptions are adjusted, where appropriate, based on actual results, experience and any other relevant factors given the economic circumstances. The effects of such adjustments are recognized when made.

The items reported in the Group's future financial statements may differ from current estimates due to changes in the assumptions made and economic circumstances at the reporting date.

Consolidated financial statements at December 31, 2018

The main assumptions relating to future events and other sources of estimation uncertainty at the reporting date that may have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities are presented below.

Recognition of revenue and profit from performance obligations under the percentage-of-completion method and related provisions
The Group recognizes several performance obligations based on the percentage-of-completion method.

Revenue and profit are recognized on the basis of estimated contract revenue and costs at completion, which are reviewed regularly as contract work is performed.

If the contract review reveals a negative profit margin at completion, any expected loss on incomplete work is recognized immediately.

Total expected revenue and costs reflect management's most reliable estimate of the expected future economic benefits and obligations arising from the contract.

Estimates of provisions for litigation
The Group regularly identifies and analyzes ongoing litigation and assesses any provisions required, where appropriate, based on the most reliable estimate of the outflow of economic benefits required to settle such obligations at the reporting date.

These estimates take into account information available and the range of possible outcomes.

Impairment of non-financial assets
Goodwill and other intangible assets with indefinite useful lives are tested for impairment at least once a year and whenever there is an indication of impairment.

Other amortizable intangible assets and depreciable property, plant and equipment are tested for impairment when there is an indication that their carrying amount may exceed their recoverable amount.

In assessing value in use, management estimates the future cash flows that the entity expects to obtain from the asset or cash generating unit, and applies an appropriate discount rate to calculate their present value.

Deferred tax assets
Deferred tax assets relating to tax losses carried forward are recognized to the extent of the following two criteria: (i) the net amount of deferred tax liabilities for temporary differences and (ii) the probability that future taxable profit will be available against which the benefits of the tax losses can be utilized. To determine the amount of deferred tax assets to be recognized, management is required to estimate the amount and probability of future taxable profit.

Employee benefits
Costs relating to defined benefit plans are estimated using the actuarial valuation method. Actuarial valuations are based on assumptions with regard to the discount rate, salary increases, mortality and pension increases.

The value of retirement benefit plans other than those in France entailing lump-sum payments on retirement are appraised by external actuaries.

Due to the long-term nature of these plans, there is significant uncertainty with regard to the estimates.

2.7. Foreign currency transactions

Transactions denominated in foreign currencies are translated at the exchange rates effective at the transaction dates. In accordance with IAS 21 on "Effects of Changes in Foreign Exchange Rates", monetary items are translated using the closing rate effective at the reporting date. The corresponding foreign currency translation gains or losses are recognized in net financial income and expense.

2.8. Translation of the financial statements of entities outside the eurozone

The Group's financial statements are presented in euros, which is the parent company's reporting and functional currency. All financial data is rounded to the nearest thousand euros.

An entity's functional currency is the currency used in the primary economic environment in which it operates. In the majority of cases, the functional currency is the local currency.

However, an entity may use a functional currency that differs from the local currency if its main transactions are denominated in a foreign currency.

The financial statements of foreign entities whose functional currency is not the euro are translated into euros as follows:
– balance sheet items are translated into euros using the exchange rate effective at the reporting date;
– income statement and cash flow items are translated using the average exchange rate for the reporting period;
– foreign currency translation differences are recognized directly in equity in the line item "Foreign currency translation reserve".

2.9. Segment information

The operating segments chosen to present reportable segment information have been identified on the basis of the internal management reports used by the Chairman to allocate resources and assess performance. There are no aggregated operating segments.

The Chairman is the Group's Chief Operating Decision Maker (CODM), as defined in IFRS 8.

The methods used to measure each segment's performance (KPIs) for the purposes of the internal management report are the same as those used to prepare the consolidated financial statements.

Operating segment information is presented in note 6.1.

2.10. Business combinations and goodwill

In accordance with IFRS 3, business combinations are accounted for using the acquisition method. Under this method, upon the initial consolidation of an entity over which the Group has acquired exclusive control:
- the identifiable assets acquired and liabilities assumed are measured at their fair value at the acquisition date (except for deferred tax assets and liabilities and assets and liabilities relating to employee benefits, which are measured and recognized in accordance with IAS 12 "Income Taxes" and IAS 19 "Employee benefits", respectively);
- non-controlling interests are measured either at fair value (full goodwill) or at the proportionate share of the acquiree's identifiable net assets (partial goodwill). The accounting policy choice is made on a transaction-by-transaction basis.

At the first consolidation date, goodwill is measured as the difference between:
- the fair value of the consideration transferred;
- the proportionate share in the net amount of identifiable assets acquired and liabilities assumed at the acquisition date, measured at fair value.

Where appropriate, measuring non-controlling interests at fair value results in the recognition of full goodwill, as goodwill is adjusted to reflect the amount attributable to non-controlling interests.

The purchase price must be finalized and allocated within 12 months of the acquisition date.

In the event of a bargain purchase where the consideration paid is lower than the fair value of the net assets acquired and liabilities assumed, the resulting gain is recognized directly in the income statement in the line item "Other operating income and expense".

Goodwill is not amortized. In accordance with IAS 36 "Impairment of Assets", goodwill is tested for impairment at least once a year and more frequently if there is an indication of impairment.

The methods used to test for impairment are described in note 2.15.

In addition, the following principles apply to business combinations:
- Goodwill is allocated to each cash-generating unit likely to benefit from the business combination as of the acquisition date;
- Contingent consideration in a business combination is recorded at fair value as of the acquisition date and any subsequent adjustment occurring after the purchase price allocation period is recognized in the income statement;
- Acquisition-related costs are recognized as expenses when incurred, under "gains or losses on disposals and acquisition costs" on the income statement;
- Any acquisition or disposal of ownership interests that dœs not affect control subsequent to a business combination is accounted for as an equity transaction and recognized directly in equity, in accordance with IFRS 10;
- In the event of the acquisition of additional ownership interests in an associate without obtaining control, the Group maintains the assets acquired and liabilities assumed previously at their carrying amount in the consolidated financial statements;
- In the event that control is obtained in a step acquisition, the cost of the business combination includes the previously held equity interest in the acquiree remeasured at its acquisition-date fair value.

2.11. Research and development costs

Research and development costs are expensed in the period they are incurred.

Expenditure on development activities is only capitalized if the following criteria required by IAS 38 are met:
- the product or process has been clearly identified and the associated costs can be measured reliably;
- the product is technically feasible;
- the resources required to complete development are available;
- there is a market for the product, or the product will be used internally;
- the product will generate future economic benefits for the Group either through its sale or internal use.

No development costs were capitalized in the reporting periods presented, as the development projects under way did not meet all the conditions.

The Group has tax credits relating to its subsidiaries' research activities, including research tax credits in France and the United States. The tax credits, which are calculated on the basis of research and development costs, are accounted for as grants and recognized in profit from recurring operations in the line item "Research and development costs". They are recognized in accordance with IAS 20 "Grants".

2.12. Intangible assets

Separately acquired intangible assets are recognized at their acquisition cost.

Software and IT licenses are amortized on a straight-line basis over their expected useful lives (generally between one and 10 years).

Intangible assets (technologies, brands, customer relationships and order book) acquired as part of business combinations are reported on the balance sheet at fair value, which is determined on the basis of external valuations for the most significant assets and internal appraisals for other assets. The valuation process is performed in accordance with generally accepted accounting principles, based on the income approach. Intangible assets are amortized on a straight-line basis over their useful lives, including, where appropriate, any period of protection provided by law or regulations. Their estimated useful lives generally range from five to ten years.

Allowances for amortization of intangible assets acquired as part of a business combination are shown under "Amortization of intangible assets related to acquisitions" in the consolidated income statement.

2.13. Property, plant and equipment

Property, plant and equipment are measured at acquisition cost. A depreciation schedule is established for each depreciable asset over its useful life, defined as the period during which the Group expects to draw future economic benefits from its use. In the case of buildings and certain heavy equipment, if several significant components of these assets bring the company economic benefits at different rates, then each component is recognized separately and given its own depreciation schedule. The straight-line depreciation method is generally used.

The useful lives are generally the following:
- Main structure of buildings (shell and brickwork), depending on the type of construction: 30 to 50 years;
- Facades, roofing and secondary construction: 20 to 30 years;
- Technical and general improvements: 15 to 20 years;
- Fixtures and fittings: 10 to 15 years;
- Heavy industrial equipment, depending on the type of machinery: 10 to 25 years;
- Other components and light industrial equipment, machinery and tools: 5 to 15 years.

2.14. Leases

Leases of property, plant and equipment for a period over 12 months are recorded on the balance sheet under "Property, plant and equipment" and a right-of-use asset is recognized. The carrying amount of the right-of-use asset is equal to the carrying amount of the lease liability plus the initial direct costs and the rehabilitation costs that are not dependent on use. The lease liability is equal to the sum of the lease payments discounted using the implicit interest rate of the lease contract (if it can be readily determined) or the lessee's incremental borrowing rate.

The lease liability may be remeasured in the event of changes to the following:
- Lease term;
- Whether or not the lessee is reasonably certain to exercise an option;
- Future lease payments resulting from a change in an index or rate used to determine those payments when the adjustment is in effect.

Interest expense for the period is recognized under "Cost of net financial debt".

Right-of-use assets are depreciated on a straight-line basis over the minimum lease term, taking into account the acquisition, renewal or cancellation options that the lessee is practically certain to exercise given the characteristics of the asset and market conditions.

2.15. Impairment of property, plant and equipment, intangible assets and goodwill

The carrying amount of non-current assets (excluding financial assets) is reviewed using impairment testing to identify any impairment losses:
- for intangible assets with indefinite useful lives and goodwill, impairment testing is performed at each reporting date, or more frequently when there is an indication of impairment;
- for all other assets, impairment testing is performed whenever there is an indication of impairment.

The indicators that trigger impairment testing are external and include factors such as market value and significant changes in the company's business environment.

Cash Generating Units (CGUs) are homogeneous groups of assets that generate cash inflows. The recoverable amount of a CGU or group of CGUs is based on its value in use.

Goodwill is tested for impairment at the level of the groups of CGUs representing each operating segment.

Value in use for the Group corresponds to the value of the expected future economic benefits arising from the use of the groups of CGUs. It is measured by discounting the expected future cash flows of each group of CGUs.

The discounted future cash flows are determined on the basis of management's economic assumptions and operating forecasts in accordance with the following principles:
- the cash flows (pretax) are derived from the business plan;
- the discount rate is determined by an independent expert;
- the terminal value is calculated by summing the discounted cash flows to infinity, on the basis of a normative cash flow and perpetual growth rate. The growth rate reflects the potential expansion of markets in which the Group operates and the Group's competitive position.

Details of the assumptions used are provided in note 6.12.

Goodwill impairment cannot be reversed. Impairment losses are recognized on the income statement in the line item "Impairment of fixed assets".

2.16. Financial assets (excluding derivative instruments)

Initial measurement

Financial assets and liabilities are initially measured at fair value, which is generally the acquisition cost.

Classification and measurement at the reporting date

Financial assets (excluding derivative hedging instruments) are classified under one of the following categories in the balance sheet:

Category	Measurement	Recognition of change in value
Loans and receivables	Amortized cost	N/A
Held-to-maturity financial assets	Amortized cost	N/A
Financial assets held for trading	Fair value	Income statement
Other financial assets	Fair value	Shareholders' equity (or Income statement)

Loans, receivables and held-to-maturity financial assets

Loans, receivables and held-to-maturity financial assets are measured and recognized at amortized cost less any impairment losses at the transaction date. They include receivables from associates, loans for social housing, and guarantees and sureties given.

Financial assets held for trading

This category of assets includes:
- Assets held for trading, which were purchased by the company in order to generate short-term profit;
- Derivative instruments that are not designated as hedging instruments.

Marketable securities, such as money market funds and mutual funds are measured at fair value at the reporting date on the basis of their latest quoted market price or net asset value. Any changes in their fair value are recognized in net financial income or expense.

Other financial assets

Equity investments that are not held for trading are measured at fair value, with the Group irrevocably opting to measure them either through equity (without the possibility of subsequently recycling them through profit or loss in the event of disposal) or profit or loss.

Fair value is based on quoted market prices, when available. When quoted market prices are not available, the Group determines fair value through valuation methods such as over-the-counter transactions, discounted cash flow analysis or revalued net assets.

2.17. Financial liabilities (excluding derivative instruments)

Loans and borrowings

Loans and borrowings are initially recognized under financial liabilities at fair value, which corresponds to their issue price net of any transaction costs incurred.

Subsequently, the difference between the net carrying amount initially recognized and the redemption value is amortized on an actuarial basis using the effective interest rate method. The effective interest rate is the rate that exactly discounts the cash flows associated with the loans and borrowings to the net carrying amount at initial recognition.

Compound financial instruments

The measurement of debt or equity components is performed on the basis of analyses of the intrinsic nature of each security issued.

When the analyses result in the separation of the equity and liability components, the liability component is initially recognized at the fair value that the liability would have without the option to convert or redeem the instrument as equity. The equity component is initially recognized as the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the liability. Directly-attributable transaction expenses are allocated to the liability and equity components proportionally to their initial carrying amount.

After initial recognition, the liability component of the compound instrument is measured at amortized cost using the effective interest rate method. The equity component of the compound financial instrument is not remeasured after initial recognition.

Earn-out clauses

Earn-out liabilities arising from acquisitions of equity investments are measured at their acquisition-date fair value. They are remeasured at each reporting date, and any change in fair value is recognized either in operating profit or net financial income or expense according to whether it results from an operating event or from the time value of money. Earn-out liabilities are recognized in the line items «other non-current liabilities» and «other current liabilities» on the balance sheet.

Commitments to purchase non-controlling interests

Commitments to purchase non-controlling interests are measured at fair value. Changes in the fair value of the commitments are recognized directly in equity. Commitments to purchase non-controlling interests are recognized in the line items «other non-current liabilities» and «other current liabilities» on the balance sheet.

2.18. Derivative instruments

The Group uses derivative instruments to hedge its exposure to market risk. Foreign exchange risk is hedged by currency forward sales and purchases, and by insurance contracted with the French export credit insurance company Bpifrance Assurance Export (formerly Compagnie française d'assurance pour le commerce extérieur – COFACE) for French subsidiaries.

To cover its exposure to interest rate risk, the Group primarily uses swaps that change floating rate debt to fixed rate debt.

Derivative financial instruments are measured at fair value. Fair value is provided by the financial institutions that are counterparties to transactions for interest rate derivatives or calculated using standard valuation methods under market conditions at the reporting date for foreign exchange derivatives. Changes in the fair value of derivative instruments are recognized in the income statement, except for the effective portion of derivatives eligible for cash flow hedge accounting, which is recognized in equity.

Derivative instruments eligible for hedge accounting

The Group uses the criteria set forth in IFRS 9 to assess whether a derivative instrument qualifies for hedge accounting:
– the hedging relation is clearly identified and documented at the inception date of the hedging instrument;
– hedging relation effectiveness is demonstrated at the inception of the hedge and at each reporting date prospectively.

The majority of derivatives used by Fives qualify as hedging instruments.

Fair value hedges

Fair value hedges cover exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment to acquire or sell an asset. Changes in the fair value of the hedged item attributable to the hedged risk adjust the carrying amount of the hedged item and are recognized in the income statement. The ineffective portion of the hedge is recognized in operating income and expense or financial income and expense according to the nature of the hedged item; the forward point adjustment is always recognized in net financial income or expense.

Fair value hedging is used to account for foreign exchange hedges.

Cash flow hedges

Cash flow hedges cover highly probable forecast transactions (forecast cash flows) that have not yet been invoiced. If they fulfill the criteria to qualify for cash flow hedge accounting, the changes in cash flows generated by the hedged item are offset by the changes in value of the hedging instrument.

The cumulative changes in fair value of the effective portion are recognized as a component of equity and the cumulative changes in fair value of the ineffective portion (corresponding to an "overhedge" where changes in the fair value of the hedging instrument are greater than changes in the fair value of the hedged item) are recognized in earnings. When the hedged cash flows occur, the amounts recognized in equity are transferred to the income statement, matching the cash flows from the hedged item.

Cash flow hedging is used to account for interest rate hedges.

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Derivative instruments not eligible for hedge accounting

Changes in the fair value of derivatives that are not eligible for hedge accounting are recorded directly in net financial income or expense.

Such instruments include derivative financial instruments that are used as economic hedges, but which have not been or are no longer documented as hedge accounting relationships.

2.19. Order book

The Group uses the term "order book" to refer to all remaining performance obligations resulting from implemented contracts. No exception is made for short-term contracts.

A contract is added to the order book as soon as its terms (purpose, amount, timing) are known and the contract becomes enforceable for both parties. The transaction price included in the order book is the most probable amount of consideration the Group expects to receive less any variable consideration that is not reasonably certain.

At December 31, 2018, the Group's order book mainly contained orders of less than 15 months.

2.20. Revenue

The Group identifies the performance obligations contained in each contract. A contract contains several performance obligations if those obligations are separately identifiable (may be purchased separately) and distinct within the context of the contract (in the Group's case: subject to distinct deliveries).

For each performance obligation, revenue is recognized on a percentage-of-completion basis if one of the following three criteria is met:
– The customer receives the benefits provided by the Group's performance (for example, maintenance services) as the service is performed;
– The customer owns and controls the asset for which the Group has a performance obligation (for instance, equipment retrofit);
– The Group's performance obligation dœs not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date (contract to create specific equipment).

In each of the above cases, the transfer of control takes place over time, as the service is rendered.

If none of the criteria is met, the client will only obtain control at a point in time, generally upon at completion of the performance obligation.

The main types of performance obligation within the Group are as follows:
– Provision of turnkey production assemblies or sub-assemblies: percentage-of-completion revenue recognition;
– Production of key process equipment: revenue recognition using the percentage-of-completion or completed-contract method, depending on alternative use and contract conditions;
– Industrial services: spare parts, maintenance, training, machine upgrades, and removals/relocations. Revenue recognition is either based on the percentage-of-completion or completed-contract method.

The Group recognizes most of its revenue using the percentage-of-completion method as its solutions are highly customized.

In general, identifying performance obligations and determining their sales price do not require significant judgment.

Revenue and cost recognition

– For performance obligations under the completed-contract method, the Group recognizes revenue upon transfer of control. With regard to standard production equipment, control is generally transferred upon transfer of the risks and rewards of ownership.

– For performance obligations under the percentage-of-completion method, the Group determines the stage of completion applicable to each contract by measuring the costs incurred to date over estimated costs at completion. The latter are reassessed at each reporting date. 100% completion stage is recognized upon provisional acceptance (or equivalent event) for contracts involving integrated systems subject to overall performance obligations. A provision is recognized for any remaining expenses that may be incurred to secure full acceptance. A contingency provision is recognized for future warranty costs.

Late performance penalties are recognized as a reduction in revenue. Losses at completion are recognized for their full amount if they are probable.

2.21. Contract assets and liabilities

For each contract recognized on a percentage-of-completion basis, the Group determines the accumulated amount of costs incurred at the reporting date, plus profit recognized less progress billings and any losses at completion recognized. If the amount is positive, it is recorded as an asset under "Contract assets". If it is negative, it is recorded as a liability under "Contract liabilities".

Advances and progress payments for ongoing contracts recognized on a completed-contract basis are recorded as liabilities under "Contract liabilities".

When estimated total contract costs exceed the expected sales price, a loss at completion is recognized, initially as a reduction in contract assets and subsequently as a provision.

2.22. Inventories and work in progress (excluding contract assets and liabilities)

Inventories and work in progress (excluding contract assets and liabilities) are measured at their acquisition cost, using the weighted average cost method, or production cost.

An impairment loss is recognized, when appropriate, to reduce their carrying amount to their probable net realizable value.

2.23. Cash and cash equivalents

Cash and cash equivalents are composed of immediately available cash and short-term investments. Cash and cash equivalents comprise bank balances, cash on hand, demand deposits, short-term investments that are subject to an insignificant risk of change in value and money market funds.

2.24. Provisions

In accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", provisions are recognized when the Group has a legal or constructive present obligation toward a third party as a result of a past event, which will probably result in an outflow of resources embodying economic benefits without any associated consideration. The amount of provisions recognized corresponds to the best estimate of the outflow of resources that will probably be required to settle the obligation.

Obligations relating to construction contracts in progress are included in the measurement of profit at completion and are recorded in the line items "Contract assets" or "Contract liabilities".

Upon contract at completion, the obligations are recognized as separate line items under "Current provisions".

Obligations resulting from transactions other than construction contracts are recognized directly under provisions if they meet the above-mentioned criteria.

If the time value of money is significant, the provisions are measured at their present value.

Known litigation and claims that could affect the Group's companies were examined at the reporting date. The provisions judged necessary were recognized to cover the associated risks, on the advice of legal counsel.

Provisions are described in note 6.23.

2.25. Retirement benefits

In accordance with local law and practices, the Group participates in retirement plans in the countries in which it operates. For basic retirement plans and other defined contribution plans, the Group expenses the contributions payable when they are due and dœs not recognize any provisions, as its commitments do not extend beyond the contributions paid.

For defined benefit plans, the provisions are determined in the following manner:

- The actuarial valuation method used is the Projected Unit Credit Method, which assumes that each period of service gives rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The calculations include assumptions regarding mortality, employee turnover and salary increase rates, as appropriate;
- Actuarial gains or losses net of deferred tax are recognized immediately in other comprehensive income, with an offsetting entry in shareholders' equity, in accordance with IAS 19 "Employee Benefits".

The expense for the year relating to current and past service cost (in the event of plan amendments) and gains or losses on plan curtailments or settlements is recognized in operating profit.

The interest cost, net of the expected return on plan assets, is recognized in net financial income or expense.

2.26. Provisions for long-service awards

Provisions for long-service awards are calculated by combining all award levels, in accordance with IAS 19. The provision is measured for all current employees at the reporting date, based on actuarial assumptions with regard to factors such as seniority, life expectancy and employee turnover. The effects of changes in actuarial assumptions are recognized in the income statement.

2.27. Share-based payments

Certain Group employees are entitled to share-based payments. The Group determines whether to opt for a cash or equity settlement for each share-based payment transaction.

In equity-settled transactions, the services giving rise to share-based payments are recognized under personnel expenses (in the line item "Other operating income and expenses") at the fair value of the equity instruments at grant date, with an offsetting entry in consolidated reserves over the equity instruments' vesting period. Unvested share-based payment transactions are not recognized.

In cash-settled transactions, the services giving rise to share-based payments are recognized under personnel expenses (in the line item "Other operating income and expenses") at the financial instruments' fair value at the reporting date, with an offsetting entry in liabilities ("Other liabilities" / "Other non-current liabilities") over the vesting period. Unvested financial instruments are not recognized.

The quantitative impacts for financial year 2018 are described in note 6.5.

2.28. Income tax

Income tax includes current tax expense (income) and deferred tax expense (income), calculated in compliance with the legal provisions of the country where the income is taxed.

Current and deferred taxes are recognized in profit and loss, or shareholders' equity if the taxes are related to items recognized directly in shareholders' equity. The effects of changes in tax rates are recorded in shareholders' equity or in the income statement for the year the change is enacted or substantively enacted, according to the initial recognition method used for deferred taxes.

Current tax expense (income) is the estimated tax due for the period's taxable income, determined by the tax rate adopted at the reporting date.

Treatment of French value-added business tax (CVAE) and Italian production tax (IRAP)

For the Group, the value added base used to calculate CVAE for French companies and IRAP for Italian companies is an intermediary aggregate of net income. Consequently, CVAE and IRAP are accounted for in the same way as corporate income tax.

Treatment of tax credits relating to research and intellectual property

The Group analyses each scheme to determine if it can be assimilated to a grant, and recognized in profit from recurring operations in accordance with IAS 20, or to a tax deduction in relation to intellectual property, and recognized in income tax in accordance with IAS 12.

Deferred taxes

Deferred taxes are recognized based on temporary differences between the carrying amount and tax bases of assets and liabilities, and for tax losses carried forward. No deferred tax is recognized for temporary differences generated by:

- goodwill that is not tax-deductible;
- the initial recognition of an asset or liability in a transaction that is not a business combination, which has no impact on accounting profit or taxable profit (tax loss) at the transaction date;
- investments in subsidiaries, joint ventures and associates if the Group controls the date at which the temporary differences reverse and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets are recognized only if the company's medium-term earnings forecasts provide reasonable assurance that they can be used to offset future liabilities. Deferred tax liabilities are factored into the amount recognized. The Group ensures that the forecasts used for the recognition of deferred tax assets and liabilities and those used for impairment tests are consistent.

Deferred tax assets and liabilities are offset if the entity has a legal right to offset current tax assets and liabilities and if the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

3. SIGNIFICANT EVENTS OF THE PERIOD

Global industrial capex, the main driver of the Group's business performance, slowed down in 2018 in a macrœconomic climate marked by a resurgence in geopolitical tension. This was reflected in US sanctions policy, the burgeoning trade war between major global powers with the implementation of new customs duties, and growing concern in the financial markets, which hindered the financing capacity of certain players.

Despite this, the Group's order intake exceeded €2 billion for the second consecutive year, mainly due to strong growth in the logistics sector and a balanced, diversified customer portfolio. Consequently, the Group's order book amounted to €1,543 million at year-end, close to its record high of €1,556 million, and providing it with excellent business visibility for 2019.

However, despite revenue growth, profit for 2018 decreased. Difficulties encountered in the execution of contracts in the Metals, Automotive and Energy segments adversely affected profitability.

4. YEAR-ON-YEAR COMPARABILITY

4.1. Finalization of Fives Syleps' opening balance sheet

The Group has finalized the measurement of the assets and liabilities of Fives Syleps and its subsidiary Fives Syleps Robotics, acquired in July 2017. This resulted in an opening balance sheet adjustment, with a €0.4 million increase in goodwill and offsetting entries under "Contract assets" (-€0.5 million) and "Deferred tax assets" (+€0.1 million).

4.2. New applicable standards

The transition arrangements are described in detail in note 2.2.

The main impact of IFRS 15 is on the presentation of the balance sheet:

Advances and progress payments for performance obligations recognized on a completed-contract basis are now accounted for under "Contract liabilities". These amounts were previously recognized under "Other current liabilities". This resulted in a €46.7 million adjustment to the comparative balance sheet at December 31, 2017.

The Group recognizes invoices issued but subject to customer acceptance under "Contract assets". These amounts were previously recognized under trade receivables. This resulted in a €15.5 million increase in "Contract assets" and decrease in trade receivables on the restated comparative balance sheet at December 31, 2017.

The impacts of IFRS 16 are as follows:

The main impacts on the balance sheet at January 1, 2018 were as follows:

- Right-of-use assets: €46.5 million presented under property, plant and equipment;
- Lease liabilities: €46 million presented under loans and borrowings and lease liabilities.

If the Group had not adopted IFRS 16, the income statement for financial year 2018 would have differed as follows:

Profit (loss) from recurring operations:	-€1.3 million
Net financial income:	+€2.2 million
Profit (loss):	+€0.6 million

Likewise, operating cash flow before change in working capital and income tax would have been €15.9 million lower and net cash from financing activities higher by the same amount.

5. CONSOLIDATION SCOPE

The list of companies included in the consolidation scope at December 31, 2018 is provided in note 6.32.

5.1. Sale of Fives Stein Manufacturing

On December 31, 2018, the Group finalized the sale of Fives Stein Manufacturing, which operated a workshop in the Metals operating segment.

The sales price was €0.5 million, resulting in a capital loss of €3.4 million, which was recognized under "Gain or loss on disposals and acquisition costs".

6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in thousands of euros)

6.1. Operating segment information

The Group has identified the following operating segments:

Automotive: The division designs, manufactures and installs equipment, machining, automated production and filling systems, mainly for the automotive industry.

Logistics: The division designs automated sorting systems for logistics, express parcel, postal and e-commerce companies. It also provides automated warehouse management solutions, primarily for the distribution sector

Cement: The division's offer ranges from the supply of individual process equipment, such as industrial burners, grinding mills and material separating equipment (for cement and mineral industries), to turnkey grinding and cement units.

Energy: The division designs and manufactures various types of industrial equipment for the energy sector, in particular serving the following segments: high performance industrial combustion systems, tube manufacturing and finishing equipment, cryogenic equipment for hydrocarbon processing and air separation, biœnergy and sugar. For the nuclear piping segment, the Group mainly operates in France, providing maintenance services and building new plants.

Metals: The division develops process equipment primarily for the production of aluminium, flat steel and glass. For aluminium, the equipment covers the key primary aluminium production processes for carbon, reduction and casthouse activities. For the steel sector, drawing on dual mechanical and thermal expertise, the Group supplies mills, large capacity reheating furnaces, and steel strip processing lines. The division also serves the glass industry, with the Group supplying flat and hollow glass production lines, including all melting furnace and annealing lehr process equipment.

Aerospace and industry: The division provides large-scale complex part machining solutions and composite processing for the ærospace, mining and hydrocarbons sectors. It also offers preventive and corrective industrial maintenance solutions.

Other: Holding activities or those shared with other activities.

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Segment information

	2018	2017
Automotive	328,073	330,919
Logistics	519,563	420,307
Cement	144,491	75,529
Energy	415,653	445,113
Metals	363,425	584,753
Aerospace and industry	227,158	255,901
Other	4,477	4,433
Total order intake	**2,002,840**	**2,116,955**
Automotive	181,585	196,920
Logistics	451,294	319,761
Cement	137,546	113,004
Energy	239,294	215,843
Metals	361,846	438,314
Aerospace and industry	167,249	189,491
Other	5,045	3,250
Total order book	**1,543,860**	**1,476,583**
Automotive	347,408	376,274
Logistics	395,932	299,803
Cement	116,896	211,721
Energy	393,957	399,142
Metals	442,934	318,738
Aerospace and industry	251,465	278,676
Other	1,919	11,699
Total sales	**1,950,511**	**1,896,053**
Automotive	13,369	21,638
Logistics	31,209	26,765
Cement	4,943	18,817
Energy	(5,936)	6,565
Metals	(43)	24,534
Aerospace and industry	(10,538)	(4,375)
Other	(5,687)	(7,504)
Total profit from recurring operations	**27,317**	**86,440**
Automotive	20,671	28,074
Logistics	37,738	29,862
Cement	7,355	19,936
Energy	10,421	20,636
Metals	10,647	31,673
Aerospace and industry	5,855	10,824
Other	1,340	(5,980)
EBITDA (*)	**94,027**	**135,025**

* EBITDA is defined as profit from recurring operations excluding amortization and depreciation (see note 6.6) and equity-settled share-based payment transactions (see note 6.5)

The breakdown of assets by operating segment is as follows:

Dec. 31, 2018	Automotive	Logistics	Cement	Energy	Metals	Aero. & Industry	Other	Total
Goodwill	26,030	37,573	1,844	77,662	34,382	71,760		249,251
Intangible assets, property, plant and equipment	92,334	23,600	12,751	46,122	72,709	44,553	9,240	301,309
Total allocated assets	**118,364**	**61,173**	**14,595**	**123,784**	**107,091**	**116,313**	**9,240**	**550,560**
Other assets								1,119,706
Total assets								**1,670,266**

Dec. 31, 2017	Automotive	Logistics	Cement	Energy	Metals	Aero. & Industry	Other	Total
Goodwill	25,050	37,573	1,844	73,994	34,382	68,512		241,355
Intangible assets, property, plant and equipment	50,673	33,477	7,146	76,499	42,682	61,712	10,269	282,458
Total allocated assets	**75,723**	**71,050**	**8,990**	**150,493**	**77,064**	**130,224**	**10,269**	**523,813**
Other assets								1,050,374
Total assets								**1,574,187**

6.2. Sales

Sales comprised the following:

	2018	2017
Revenue recognized based on the percentage-of-completion method	1,512,922	1,436,925
Revenue recognized based on the completed-contract method	437,589	459,128
Total	**1,950,511**	**1,896,053**

Sales by geographical destination

	2018	2017
Europe	706,433	679,335
Africa and Middle East	286,509	297,282
Americas	586,510	561,791
Asia and Oceania	371,059	357,645
Total	**1,950,511**	**1,896,053**

Sales by geographical origin

	2018	2017
Europe	1,186,574	1,173,274
Africa and Middle East	31,043	27,556
Americas	515,041	487,394
Asia and Oceania	217,853	207,829
Total	**1,950,511**	**1,896,053**

Information on major customers

No single Group customer accounted for more than 5% of consolidated sales in the last two reporting periods.

6.3. Personnel expenses and headcount

Personnel expenses

	2018	2017
Personnel expenses	548,110	574,952
Total headcount at reporting date	8,658	8,666

Headcount at December 31

By category	2018	2017
Engineers and management	3,905	3,863
Supervisory and office staff	3,038	3,124
Other employees	1,715	1,679
Total	**8,658**	**8,666**

By type of contract	2018	2017
Permanent contracts	8,087	8,126
Fixed-term contracts	318	329
Apprenticeships and internships	253	211
Total	**8,658**	**8,666**

6.4. Research and development costs

	2018	2017
Research and development expenses, gross	(34,116)	(34,939)
Research tax credits and grants received	10,283	7,318
Total	**(23,833)**	**(27,621)**

6.5. Other operating income and expense

	2018	2017
Change in earnout liability		28,576
Share-based payment transactions		
- equity-settled share-based payment transactions	(2,514)	
- cash-settled share-based payment transactions	(300)	
Other	(5,845)	(3,699)
Total	**(8,659)**	**24,877**

In 2018, the Group granted its employees a long-term incentive plan based on parent company shares. The plan provides free and performance shares for French employees and a matching plan for foreign employees.

6.6. Amortization and depreciation included in profit from recurring operations

Profit from recurring operations includes the following amortization and depreciation items:

	2018	2017
Included in cost of sales	(17,092)	(16,985)
Included in overheads and other operating items	(24,997)	(9,090)
Amortization of intangible assets related to acquisitions	(22,109)	(22,510)
Total	**(64,198)**	**(48,585)**

Amortization and depreciation allowances arising from the adoption of IFRS 16 as of January 1, 2018 amounted to €14.7 million at December 31, 2018. They were included in overheads.

6.7. Restructuring costs

This line item includes the costs incurred as a result of the Group's cost-cutting and restructuring plans.

6.8. Gain or loss on disposals and acquisition costs

	2018	2017
Gain (loss) on disposals	(1,930)	(78)
of which: sale of Fives Stein Manufacturing (see note 5.1)	(3,245)	
current disposals	1,315	(78)
Acquisition costs	(316)	(394)
Total	**(2,246)**	**(472)**

6.9. Net financial income and expense

Cost of net financial debt

	2018	2017
Financial expenses relating to:		
- bank loans	(5,364)	(4,292)
- finance leases and lease liabilities	(2,155)	(15)
Other interest expense	(806)	(900)
Deferred transaction costs	(1,040)	(790)
Interest and related expenses	**(9,365)**	**(5,997)**
Interest and related income	**1,138**	**1,154**
Total	**(8,228)**	**(4,843)**

The line item "Deferred transaction costs" includes the transaction costs relating to the revolving credit line negotiated in 2014, and the deferred costs of the new credit line obtained in the period (see note 6.23).

As the Group used the modified retrospective method when applying IFRS 16, the line item "financial expenses relating to finance leases and lease liabilities" reflects finance leases in 2017 and all leases restated in accordance with IFRS 16 in 2018. If the Group had not adopted IFRS 16, the interest expense for 2018 would have amounted to €20 thousand.

Consolidated financial statements at December 31, 2018

Other financial income and expense

	2018	2017
Income from associates	187	176
Foreign exchange gains (losses)	7,453	(28,787)
- Foreign exchange gains (losses)	*7,695*	*(25,946)*
- Impact of forward points on changes in fair value of foreign exchange derivatives	*(242)*	*(2,841)*
Expenses for retirement and related benefits	(1,022)	(1,146)
Net financial provisions	(103)	(88)
Accretion expense	(568)	(9,224)
Other financial items	(767)	(136)
Total	**5,179**	**(39,206)**

The Group's net financial income and expense includes unrealized foreign exchange gains and losses generated by changes in EUR/USD and EUR/GBP parities on the unhedged balance (due to long maturities) of loans in US dollars contracted by Fives, and intercompany loans in foreign currencies granted by Fives:

- loans in US dollars to American subsidiaries, notably in connection with the acquisitions of the Fives Bronx, Fives Machining Systems and Fives Lund sub-groups in 2010, 2013 and 2015, respectively;
- loans in pounds sterling to Fives UK Holding Ltd, in connection with the transfer of the Group's British companies to this entity, which was initiated at the end of 2012.

Details of the loans are provided in note 6.28 in the paragraph on "Currency risk".

Accretion expense arises from remeasuring financing liabilities relating to the purchase of non-controlling interests. In 2017 accretion expenses mainly reflected the remeasurement to present value of earn-out liabilities.

6.10. Current and deferred tax

Analysis of income tax expense

	2018	2017
French value-added business tax (CVAE) and Italian production tax (IRAP)	(5,774)	(6,247)
Current tax	(17,146)	(21,108)
Subtotal current tax	**(22,920)**	**(27,355)**
Deferred tax	**4,387**	**(2,843)**
Total	**(18,534)**	**(30,198)**

Effective tax rate

	2018	2017
Profit before income tax	**14,877**	**40,118**
Parent company tax rate	*28.00%*	*34.43%*
Theoretical tax expense	(4,166)	(13,812)
Effect of:		
Tax rate differences	(1,709)	4,069
Changes in unrecognized deferred tax assets and unrecognized losses	(9,574)	(9,969)
Change in tax rate and tax base	(2,153)	(9,912)
Permanent differences and other items	3,194	3,761
Income tax expense	**(14,408)**	**(25,864)**
Effective tax rate	**96.84%**	**64.47%**
Effect of French value-added business tax (CVAE) and Italian production tax (IRAP)	(4,126)	(4,334)
Income tax expense	**(18,534)**	**(30,198)**

French companies' current tax

Fives and its French subsidiaries that are directly or indirectly more than 95%-owned are included in the tax group established on January 1, 2013 by Novafives, the parent company of Fives (detailed in note 6.32). The tax savings resulting from offsetting the taxable losses of loss-making companies with the taxable profit of profit-making companies, when calculating consolidated tax, is reported in the financial statements of Novafives. Consequently, in Fives' consolidated financial statements, the collectability of deferred tax assets is assessed individually for each company and the tax losses of the consolidated companies are not recognized.

Consolidated tax groups

The Group files consolidated tax returns in the United States and Italy. The advantage is that all member entities of the consolidated tax group are considered a single entity for tax purposes. The Group also uses the group relief mechanism in the United Kingdom, which allows the offsetting of losses and profits between companies in the same tax group in a reporting period.

Deferred tax

The offsetting methods used are described in note 2.28.

Deferred tax assets are only recognized when it is sufficiently likely that they can be used against future taxable profit.

The breakdown of deferred tax assets and liabilities is as follows:

	Dec. 31, 2017						Dec. 31, 2018	
	Deferred tax assets	Deferred tax liabilities	Change recognized in income statement	Change recognized in equity	Scope	Translation differences and other	Deferred tax assets	Deferred tax liabilities
Provisions for retirement benefits	11,550		(817)	448	(114)	(29)	11,037	
Tax loss carryforwards	15,186		7,482			1,737	24,406	
Revaluations [1]	8,290	(27,643)	1,888		(37)	(2,162)	5,239	(24,902)
Other temporary differences	21,388	(4,348)	(3,240)	278	(220)	1,070	21,954	(7,026)
Deferred tax assets (liabilities), gross	**56,414**	**(31,991)**	**5 313**	**726**	**(371)**	**616**	**62,637**	**(31,929)**
Deferred tax asset limit	(1,767)		(926)		147	23	(2,523)	
Offsetting	(22,418)	22,418					(24,107)	24,107
Deferred tax assets (liabilities), recognized	**32,229**	**(9,573)**	**4,387**	**726**	**(224)**	**639**	**36,006**	**(7,822)**
Net deferred tax	**22,656**						**28,184**	

[1] Mainly relating to remeasurements in connection with the purchase price allocation of FL Investco in 2013 and the tax amortization of goodwill in the United States

6.11. Share of profit or loss of associates

In 2016, Fives and Michelin created AddUp, a joint venture aimed at developing and marketing machines and industrial production lines worldwide, using metal additive manufacturing technology, known as metal 3D printing. Fives and Michelin each hold a 50% stake. The company is accounted for using the equity method. The start of operations required significant capital expenditure, which is set to continue (although to a lesser extent) over the next few years until the company breaks even. Consequently, as in 2017, the company's contribution to Group profit for 2018 was negative. It is presented under "Share of profit (loss) of associates".

Consolidated financial statements at December 31, 2018

6.12. Goodwill

	Dec. 31, 2017 Net	Change in consolidation scope	Transfer	Translation differences and other	Dec. 31, 2018 Net
Automotive	25,050			980	26,030
Logistics	37,573				37,573
Cement	1,844				1,844
Energy	73,994			3,668	77,662
Metals	34,382				34,382
Aerospace and industry	68,512			3,248	71,760
Total	**241,355**			**7,896**	**249,251**

In compliance with IAS 36, an impairment test was performed at December 31, 2018 on each operating segment CGU.

The following assumptions were used:
- 2019-2022 medium-term plan;
- Terminal value growth rate: 2% (identical to assumptions used in 2017 test) ;
- Discount rate: 10% (identical to assumptions used in 2017 test).

The test did not result in the recognition of impairment at December 31, 2018.

Sensitivity analysis

Aerospace and industry CGU:
- Discount rate sensitivity: a 1% increase in the discount rate would result in impairment of €12 million;
- Long-term growth rate sensitivity: a 1% growth rate would result in impairment of €7 million;
- Long-term cash flow sensitivity: a 10% decrease in long-term cash flow would result in impairment of €6 million.

Other CGUs:
- Discount rate sensitivity: a 1% increase in the discount rate would not change the conclusions of the analysis;
- Long-term growth rate sensitivity: a 1% increase in the long-term growth rate would not change the conclusions of the analysis;
- Long-term cash flow sensitivity: a 10% decrease in the long-term cash flow would not reduce the fair value of the CGUs to below their carrying amount.

6.13. Intangible assets

The analysis of changes in intangible assets was as follows:

	Dec. 31, 2018			Dec. 31, 2017		
	Gross	Accumulated amortization / Impairment	Net	Gross	Accumulated amortization / Impairment	Net
Technologies and R&D acquired	107,938	(61,679)	46,259	104,272	(49,944)	54,327
Brands acquired	25,530	(23,843)	1,687	24,532	(18,125)	6,407
Customer relationships, order book and other intangibles acquired	71,157	(57,878)	13,280	68,768	(48,409)	20,359
Concessions, patents and licenses	47,910	(33,762)	14,148	44,510	(29,586)	14,924
Other intangible assets	21,824	(12,658)	9,166	19,085	(11,921)	7,164
Total	**274,361**	**(189,821)**	**84,539**	**261,167**	**(157,986)**	**103,181**

At December 31, 2018, the analysis of changes in intangible assets was as follows:

	Gross	Accumulated amortization / Impairment	Net
Balance at December 31, 2017	**261,167**	**(157,986)**	**103,181**
Acquisitions	7,349		7,349
Deconsolidations and disposals	(855)	827	(28)
Amortization / Impairment		(27,273)	(27,273)
Reclassified items	(121)	(290)	(411)
Change in consolidation scope	(135)	83	(52)
Translation differences	6,955	(5,182)	1,773
Balance at December 31, 2018	**274,361**	**(189,821)**	**84,539**

At December 31, 2017, the analysis of changes in intangible assets was as follows:

	Gross	Accumulated amortization / Impairment	Net
Balance at December 31, 2016	**262,988**	**(148,118)**	**114,870**
Acquisitions	8,084		8,084
Deconsolidations and disposals	(1,064)	873	(191)
Amortization / Impairment		(26,173)	(26,173)
Reclassified items	(156)	(60)	(216)
Change in consolidation scope	11,750	2,697	14,447
Translation differences	(20,435)	12,795	(7,640)
Balance at December 31, 2017	**261,167**	**(157,986)**	**103,181**

6.14. Property, plant and equipment

The analysis of changes in property, plant and equipment was as follows:

	Dec. 31, 2018			Dec. 31, 2017		
	Gross	Accumulated depreciation / Impairment	Net	Gross	Accumulated depreciation / Impairment	Net
Land and developments	27,658	(225)	27,433	27,763	(226)	27,537
Buildings	156,815	(82,741)	74,074	154,788	(79,288)	75,500
Plant, equipment and machinery	188,949	(141,603)	47,347	180,268	(133,325)	46,943
Other assets	62,190	(43,873)	18,317	59,982	(42,011)	17,971
Right-of-Use assets	63,271	(17,849)	45,422	9,375	(4,621)	4,754
Assets under construction	3,918		3,918	6,268		6,268
Advances on fixed assets	260		260	304		304
Total	**503,061**	**(286,291)**	**216,770**	**438,748**	**(259,471)**	**179,277**

At December 31, 2018, the analysis of changes in property, plant and equipment was as follows:

	Gross	Accumulated depreciation / Impairment	Net
Balance at December 31, 2017	**438,748**	**(259,471)**	**179,277**
Impact of IFRS 16 at January 1, 2018	46,530		46,530
New right-of-use assets	9,473		9,473
Acquisitions	19,860		19,860
Deconsolidations and disposals	(10,459)	9,919	(540)
Depreciation / Impairment		(38,648)	(38,648)
Reclassified items	1,229	(821)	408
Change in consolidation scope	(7,199)	5,566	(1,633)
Translation differences	4,878	(2,835)	2,043
Balance at December 31, 2018	**503,061**	**(286,291)**	**216,770**

The line item "Depreciation / Impairment" includes the depreciation of right-of-use assets under lease contracts for €14.7 million, following the application of IFRS 16.

At December 31, 2017, the analysis of changes in property, plant and equipment was as follows:

	Brut	Amort. / Dépréc.	Net
Balance at December 31, 2016	**440,472**	**(255,489)**	**184,983**
Acquisitions	21,229		21,229
Deconsolidations and disposals	(8,776)	8,233	(543)
Depreciation / Impairment		(23,068)	(23,068)
Reclassified items	1,268	(145)	1,123
Change in consolidation scope	2,272	587	2,859
Translation differences	(17,717)	10,411	(7,306)
Balance at December 31, 2017	**438,748**	**(259,471)**	**179,277**

6.15. Current and non-current financial assets

The change in carrying amount of current and non-current financial assets was as follows:

	Dec. 31, 2018			Dec. 31, 2017		
	Current	Non current	Total	Current	Non current	Total
Financial assets measured at amortized cost						
Loans related to investments in associates	286	46,059	**46,345**	63	10,796	**10,859**
Other financial assets	1,838	3,429	**5,267**	1,015	3,851	**4,866**
Financial assets measured at fair value through other comprehensive income					8,534	**8,534**
Other long-term investments		8,570	**8,570**	3,592		**3,592**
Derivatives	1,675		**1,675**			
Financial assets measured at fair value through profit and loss						
Other financial assets	1,225	1,045	**2,270**	1,908	1,531	**3,439**
Equity-accounted associates		1,575	**1,575**		3,872	**3,872**
Financial assets	**5,024**	**60,678**	**65,702**	**6,578**	**28,584**	**35,162**

AddUp (see note 6.11) accounted for €45.7 million of loans related to investments in associates.
The change in gross value of other long-term investments includes an €881 thousand decrease in fair value at December 31, 2018 (€603 thousand net of tax).

At December 31, 2018, the repayment and maturity schedule for non-current financial assets (excluding other long-term investments and equity-accounted associates) was as follows:

	Dec. 31, 2018		
	Carrying amount	Between 1 and 5 years	More than 5 years
Loans related to investments in associates	46,059	35,559	10,500
Other financial assets	4,474	2,346	2,127
Total	**50,533**	**37,905**	**12,627**

6.16. Inventories and work in progress

The change in carrying amount of inventories and work in progress was as follows:

	Dec. 31, 2018			Dec. 31, 2017		
	Gross	Impairment	Net	Gross	Impairment	Net
Raw materials	75,358	(11,619)	63,739	70,960	(13,504)	57,456
Work in progress under completed-contract method	94,095	(2,015)	92,080	92,924	(3,014)	89,910
Intermediate and finished goods	45,956	(9,630)	36,326	45,782	(11,574)	34,208
Total	**215,410**	**(23,265)**	**192,145**	**209,666**	**(28,092)**	**181,574**

6.17. Contract assets and liabilities

The change in carrying amount of contract assets and liabilities was as follows:

	Dec. 31, 2018	Dec. 31, 2017
Contracts recognized on a percentage-of-completion basis		
Contract assets	155,007	145,355
Contract liabilities	(275,554)	(280,258)
Net	**(120,546)**	**(134,903)**

Contracts recognized on a completed-contract basis		
Contract liabilities	(52,753)	(38,094)

6.18. Trade receivables

Gross and net trade receivables were as follows:

	Dec. 31, 2018			Dec. 31, 2017		
	Gross	Impairment	Net	Gross	Impairment	Net
Total trade receivables	413,850	(7,131)	406,719	430,250	(7,105)	423,145
Total	**413,850**	**(7,131)**	**406,719**	**430,250**	**(7,105)**	**423,145**

Changes in the impairment of trade receivables can be analyzed as follows:

	Opening balance	Allowances	Reversals	Translation differences	Other*	Closing balance
2018	(7,105)	(1,912)	1,642	(65)	308	(7,131)
2017	(8,956)	(417)	2,021	343	(96)	(7,105)

* resulting mainly from changes in consolidation scope

At December 31, 2018, the trade receivables aging schedule was as follows:

	Total	Not overdue	Less than 30 days overdue	Between 30 days and 90 days overdue	More than 90 days overdue
2018	406,719	291,976	61,256	29,749	23,738
2017	423,145	323,281	49,937	30,174	19,753

Group policy for managing receivables risk is based on the following principles:
- Upstream risk management processes entailing the analysis of receivables risk during the project bid and selection stage;
- Specific provisions for major contracts, including the obligation to hedge risk (commercial and/or political risk) according to criteria relating to contract size, type of receivable, and country category;
- Regular monitoring of overdue payments during contract performance and early implementation of collection procedures for receivables due.

Given the nature of the Group's activities, often receivables that are still unpaid after the contractual due date have been confirmed by clients but are only paid once the requirements notified during the work acceptance inspection have been fulfilled and full acceptance has been secured. Such receivables are fully recoverable; the remaining expenses incurred to secure full acceptance are included in the calculation of the related contract's profit margin at completion.

Allowances for impairment losses are measured on a case-by-case basis taking into account collection risk.

6.19. Other current assets

The change in carrying amount of other current assets was as follows:

	Dec. 31, 2018	Dec. 31, 2017
Tax receivables	68,628	54,974
Advances and progress payments	20,301	19,787
Other receivables	12,442	7,990
Prepaid expenses	9,156	8,780
Total	**110,527**	**91,531**

6.20. Cash and cash equivalents

	Dec. 31, 2018	Dec. 31, 2017
Cash equivalents	6,531	9,999
Cash	141,475	119,970
Total cash and cash equivalents	**148,006**	**129,969**

Cash equivalents comprise money market funds, negotiable certificates of deposit and term deposits of less than three months.

Cash includes interest-bearing current accounts.

Breakdown of cash and cash equivalents per currency

	Euro	USD	GBP	CNY	JPY	CAD	Other	Total
Cash equivalents	130	3,403					2,998	6,531
Cash	77,189	9,136	1,484	18,171	26,064	1,381	8,050	141,475
Total at Dec. 31, 2018	**77,319**	**12,539**	**1,484**	**18,171**	**26,064**	**1,381**	**11,048**	**148,006**
Foreign exchange swaps	(41,081)	(17,527)		2,098	48,498	7,545	467	
Total at Dec. 31, 2018 (before swaps)	**36,238**	**(4,988)**	**1,484**	**20,269**	**74,562**	**8,926**	**11,515**	**148,006**

At December 31, 2017, the breakdown of cash and cash equivalents was as follows:

	Euro	USD	GBP	CNY	JPY	CAD	Other	Total
Cash equivalents	114	7,510			670		1,705	9,999
Cash	70,684	8,931	2,347	21,051	5,249	2,889	8,818	119,970
Total at Dec. 31, 2017	**70,798**	**16,441**	**2,347**	**21,051**	**5,919**	**2,889**	**10,523**	**129,969**
Foreign exchange swaps	(7,716)	(24,282)	(11,484)	2,197	25,185	13,618	2,482	
Total at Dec. 31, 2017 (before swaps)	**63,082**	**(7,841)**	**(9,137)**	**23,248**	**31,104**	**16,507**	**13,005**	**129,969**

Cash and cash equivalents are mainly held in major currencies and are available for use by the Group.

6.21. Statement of cash flows

Cash net of bank overdrafts

	Dec. 31, 2018	Dec. 31, 2017
Cash equivalents	6,531	9,999
Cash	141,475	119,970
Total cash and cash equivalents	**148,006**	**129,969**
Bank overdrafts	(1,079)	(2,508)
Total	**146,927**	**127,461**

Working capital requirements and current provisions

			Changes	
	Dec. 31, 2018	Dec. 31, 2017	Due to business activity	Other*
Inventories and work in progress	(192,145)	(181,574)	(10,594)	23
Contract assets	(155,007)	(145,355)	(9,652)	
Trade receivables	(406,719)	(423,145)	20,040	(3,614)
Other current/non-current assets incl. in working capital	(110,836)	(91,626)	(17,829)	(1,381)
Contract liabilities	328,307	318,352	8,393	1,562
Trade and related payables	375,737	349,137	24,154	2,446
Other current/non-current liabilities incl. in working capital	175,840	159,114	19,949	(3,223)
Working capital requirements before current provisions	**15,177**	**(15,097)**	**34,461**	**(4,187)**
Current provisions	73,718	79,209	(4,281)	(1,210)
Working capital requirements	**88,895**	**64,112**	**30,180**	**(5,397)**

* resulting mainly from the application of IFRS 16, IFRS 9 adjustments to the underlying and currency translation effects.

6.22. Shareholders' equity

Financial capital management policy

The Group implements a stringent, prudent financial capital management policy to ensure satisfactory returns for shareholders.
There are no financial covenants involving the Group's consolidated equity or the equity of the parent company.

Share capital

Share capital at December 31, 2018 was divided into 2,185,612 shares with a par value of €47. The shares are fully paid either in cash or in kind. Share capital amounts to €102,723,764.

Shareholding structure

On December 21, 2017, the Group's main shareholders entered into an agreement, subject to suspensive conditions, to transfer the entire share capital and voting rights of Novafives SAS, held directly and indirectly, to a new holding company, Fives Orsay.

The transaction became effective on May 29, 2018, when approved by the competent authorities responsible for controlling market concentration and foreign investments in France.

Dividend payments

The Group did not pay out any dividends in the reporting period.

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6.23. Current and non-current provisions

	Dec. 31, 2017	Allowance	Utilization	Unutilized reversals	Translation difference	Other	Dec. 31, 2018
Warranties	42,309	21,659	(10,946)	(19,829)	575	1,618	**35,386**
Contract litigation	3,880	2,438	(785)	(667)	35	(696)	**4,205**
Future losses on contracts	1,302	2,396	(538)	(298)	4	(936)	**1,930**
Completed contract expenses	22,573	23,312	(11,711)	(8,452)	13	(1,075)	**24,660**
Other provisions - current portion	9,145	4,905	(4,436)	(1,329)	180	(928)	**7,537**
Total current provisions	**79,209**	**54,710**	**(28,416)**	**(30,574)**	**806**	**(2,017)**	**73,718**
Retirement benefits	51,502	4,343	(6,742)	(547)	311	368	**49,235**
Other post-employment benefits	6,115	702	(568)	(149)	44	(6)	**6,138**
Other provisions - non-current portion	6,743	2,255	(4,094)	(718)	25	(28)	**4,183**
Total non-current provisions	**64,360**	**7,301**	**(11,404)**	**(1,414)**	**380**	**333**	**59,555**

Current provisions

Current provisions are mainly for warranties, future losses on contracts accounted for using the completed-contract method and litigation related to completed contract.

Provisions for warranties cover the estimated future costs to be incurred over contract warranty periods, after provisional acceptance (or an equivalent event).

Point for attention regarding Fives Nordon:
Fives Nordon, a Group subsidiary, is currently working for Framatome on the Flamanville EPR reactor project as part of an ad-hoc group of jointly liable companies (groupement momentané d'entreprises solidaires or "GMES"). In addition to being technically complex, the EPR project is characterized by heavy regulatory constraints, constantly changing standards and the involvement of a wide range of entities, from industrial players to supervisory authorities.

In December 2018, the GMES received a letter from its client, Framatome, requesting that it cover the costs of correcting welding identified on the main secondary circuit at the Flamanville EPR. As the GMES believes the claim to be unsubstantiated, it sent a response to Framatome on March 4, 2019, stating that the GMES had met its obligations and had enforceable contractual provisions in its favor. It added that the client, among other shortcomings, had failed to provide the GMES with specifications which would have required compliance with more stringent rules regarding design, manufacture and maintenance. As a result, the GMES argues, it could not have taken those specifications into account when executing the welds.
Based on its technical and contractual analysis, Fives Nordon believes that Framatome's claim is unsubstantiated. Consequently, it has not recognized any provisions for this purpose in its financial statements.

Non-current provisions

Non-current provisions are mainly for restructuring, employee benefits (including Italian contractual retirement benefits (TFR) and French long-service awards) and litigation not related to contracts.

The provision for retirement obligations reflects the Group's defined benefit plans currently in place, which include:
- French and Japanese retirement benefits;
- supplementary retirement plans; the British, American, German and French pension funds have been closed to further accrual and the vested rights thereunder were frozen as of the respective closure dates.

Actuarial assumptions

Dec. 31, 2018	France	United Kingdom	United States of America	Japan	Germany	India
Discount rate	1.7%	2.9 - 3%	3.9%	0.3%	1.8%	7.3 - 7.7%
Expected return on plan assets	NA	2.9 - 3%	NA	NA	NA	7.3 - 7.5%
Salary increase rate	1.7%	NA	NA	2%	NA	5 - 8.5%

Dec. 31, 2017	France	United Kingdom	United States of America	Japan	Germany	India
Discount rate	1.5%	2.4 - 2.7%	3.3%	0.3%	1.7%	7.2 - 7.7%
Expected return on plan assets	NA	2.4 - 2.7%	NA	NA	NA	7.0 - 7.2%
Salary increase rate	1.5%	NA	NA	2%	NA	5 - 8.5%

The present value of future obligations (defined benefit obligations) amounted to €91,844 thousand at December 31, 2018. Given the fair value of all plan assets, the net obligation at December 31, 2018 totaled €49,235 thousand.

The net expense recognized for the reporting period reflects the current service cost, the interest cost of the obligation less the expected return on plan assets and the amortization of past service costs. In total, expenses and changes in provisions for retirement benefit obligations resulted in a net expense of €2,726 thousand, of which €1,704 thousand were recognized in profit from recurring operations, and €1,022 thousand were recognized in financial expense.

Net actuarial gains and losses generated during the reporting period and recognized directly in items of other comprehensive income amounted to -€924 thousand, excluding tax.

	Retirement obligations at Dec. 31, 2018						Total
	France	United States of America	United Kingdom	Eurozone	Japan	India	
CHANGE IN PRESENT VALUE OF OBLIGATION							
Present value of obligation at January 1, 2018	25,102	7,158	59,841	4,352	1,410	563	98,427
Current service cost	1,603		242	18	202	36	2,102
Interest cost	367	223	1,563	86		4	2,242
Employee contributions paid							
Plan amendments							
Plan curtailments / settlements	(361)		(242)				(603)
Newly consolidated / Deconsolidations	(577)					(0)	(577)
Benefits paid	(2,307)	(682)	(2,604)	(1,541)	(209)		(7,343)
Actuarial (gain) loss	560	(96)	(2,853)	17		12	(2,360)
Foreign exchange gains and losses and other	(5)	322	(446)	2	100	(17)	(43)
Present value of obligation at December 31, 2018	**24,382**	**6,924**	**55,501**	**2,934**	**1,504**	**598**	**91,844**
CHANGE IN FAIR VALUE OF PLAN ASSETS							
Fair value of plan assets at January 1, 2018			45,724	747		454	46,925
Net return on plan assets			(2,029)	(47)		12	(2,064)
Employer contributions paid			1,593			17	1,610
Employee contributions paid							
Plan curtailments / settlements			(242)			37	(205)
Newly consolidated / Deconsolidations							
Benefits paid			(2,604)	(700)			(3,304)
Foreign exchange gains and losses and other			(337)			(15)	(352)
Fair value of plan assets at December 31, 2018			**42,104**	**0**		**505**	**42,609**
COMPONENTS OF AMOUNTS RECOGNIZED IN THE FINANCIAL STATEMENTS							
Net obligation (obligation less plan assets)	24,382	6,924	13,397	2,934	1,504	93	49,235
Net provision recognized in the balance sheet at December 31, 2018	**24,382**	**6,924**	**13,397**	**2,934**	**1,504**	**93**	**49,235**
COMPONENTS OF NET EXPENSE RECOGNIZED FOR FINANCIAL YEAR 2018							
Current service cost	1,603		242	18	202	36	2,102
Interest cost	367	223	1,563	86		4	2,242
Expected return on plan assets			(1,208)			(12)	(1,220)
(Gain) loss on plan curtailments / settlements	(361)					(37)	(398)
Net expense recognized in the income statement for financial year 2018	**1,609**	**223**	**597**	**104**	**202**	**(9)**	**2,726**
Change in provisions for retirement and other							
Provisions recognized in the balance sheet at January 1	25,102	7,158	14,117	3,605	1,410	109	51,502
Employer contributions paid			(1,593)			(17)	(1,610)
Net expense recognized	1,609	223	597	104	202	(9)	2,726
Benefits paid directly by the employer	(2,307)	(682)		(841)	(209)		(4,039)
Newly consolidated / Deconsolidations	(577)						(577)
Net actuarial (gains) and losses	560	(96)	384	64		12	924
Foreign exchange gains and losses	(5)	322	(109)	2	100	(2)	309
Provisions recognized in the balance sheet at December 31, 2018	**24,382**	**6,924**	**13,397**	**2,934**	**1,504**	**93**	**49,235**

	Retirement obligations at Dec. 31, 2017						Total
	France	United States of America	United Kingdom	Eurozone	Japan	India	
CHANGE IN PRESENT VALUE OF THE OBLIGATION							
Present value of obligation at January 1, 2017 (restated)	24,428	8,978	60,626	3,717	1,499	508	99,756
Current service cost	1,594		244	24	193	62	2,117
Interest cost	371	281	1,658	101		31	2,442
Employee contributions paid							
Plan amendments							
Plan curtailments / settlements			(244)				(244)
Newly consolidated	1,612						1,612
Benefits paid	(2,344)	(822)	(3,068)	(133)	(150)	(18)	(6,536)
Actuarial (gain) loss	(559)	(237)	2,760	413		18	2,395
Foreign exchange gains and losses and other		(1,042)	(2,135)	230	(131)	(37)	(3,116)
Present value of obligation at December 31, 2017	**25,102**	**7,158**	**59,841**	**4,352**	**1,410**	**563**	**98,427**
CHANGE IN FAIR VALUE OF PLAN ASSETS							
Fair value of plan assets at January 1, 2017			45,765			433	46,198
Net return on plan assets			3,371			31	3,402
Employer contributions paid			1,519			39	1,558
Employee contributions paid							
Plan curtailments / settlements			(244)				(244)
Newly consolidated							
Benefits paid			(3,068)			(18)	(3,087)
Foreign exchange gains and losses and other			(1,619)	747		(30)	(902)
Fair value of plan assets at December 31, 2017			**45,724**	**747**		**454**	**46,925**
COMPONENTS OF AMOUNTS RECOGNIZED IN THE FINANCIAL STATEMENTS							
Net obligation (obligation less plan assets)	25,102	7,158	14,117	3,605	1,410	109	51,502
Net provision recognized in the balance sheet at December 31, 2017	**25,102**	**7,158**	**14,117**	**3,605**	**1,410**	**109**	**51,502**
COMPONENTS OF NET EXPENSE RECOGNIZED FOR FINANCIAL YEAR 2017							
Current service cost	1,594		244	24	193	62	2,117
Interest cost	371	281	1,658	101		31	2,442
Expected return on plan assets			(1,265)			(31)	(1,296)
(Gain) loss on plan curtailments / settlements							
Net expense recognized in the income statement for 2017	**1,965**	**281**	**638**	**125**	**193**	**62**	**3,264**
CHANGE IN PROVISIONS FOR RETIREMENT AND OTHER							
Provisions recognized in the balance sheet at January 1 (restated)	24,428	8,978	14,861	3,717	1,499	75	53,558
Employer contributions paid			(1,519)			(39)	(1,558)
Net expense recognized	1,965	281	638	125	193	62	3,264
Benefits paid directly by the employer	(2,344)	(822)		(133)	(150)		(3,449)
Newly consolidated	1,612						1,612
Net actuarial (gains) and losses	(559)	(237)	654	413		18	289
Foreign exchange gains and losses		(1,042)	(516)	(517)	(131)	(7)	(2,213)
Provisions recognized in the balance sheet at December 31, 2017	**25,102**	**7,158**	**14,117**	**3,605**	**1,410**	**109**	**51,502**

Plan assets by investment type

	2018		2017	
	Amount	%	Amount	%
Shares	34,017	79%	36,819	78%
Bonds and other debt securities	6,723	16%	7,594	16%
Money market investments	1,544	4%	2,249	5%
Diversified funds	325	1%	263	1%
Fair value of invested plan assets	**42,609**	**100%**	**46,925**	**100%**

Present value of obligation

	Dec. 31, 2018	Dec. 31, 2017
Defined benefit obligation	91,844	98,427
Fair value of invested plan assets	(42,609)	(46,925)
Present value of obligation	**49,235**	**51,502**

Sensitivity analysis

The present value of post-employment benefits is sensitive to discount rates. The following table presents the impact of a 25 basis point decrease in discount rates on the present value of the obligation:

	2018		2017	
	In thousands of euros	DBO as a %	In thousands of euros	DBO as a %
France	808	3.31%	831	3.38%
United States of America	114	1.65%	125	1.75%
United Kingdom	3,032	5.16%	2,728	4.56%
Germany	133	4.52%	131	3.02%
Japan	1	0.07%	1	0.07%
India	7	0.56%	7	0.56%

6.24. Current and non-current financial debt

	Dec. 31, 2018			Dec. 31, 2017		
	Non-current	Current	Total	Non-current	Current	Total
Bank loans	87,945	37,912	125,857	44,977	22,535	67,512
Deferred transaction costs	(1,629)		(1,629)	(896)		(896)
Lease liability	31,459	12,538	43,997	2,564	424	2,988
Other bank loans and borrowings		11,337	11,337		6,743	6,743
Accrued interest		603	603		256	256
Derivative instruments, liabilities		2,864	2,864		1,194	1,194
Other financial debt		24,653	24,653		52,878	52,878
Bank overdrafts		1,078	1,078		2,507	2,507
Total financial debt	**117,775**	**90,986**	**208,761**	**46,645**	**86,538**	**133,183**

At December 31, 2018, the line item "Bank loans" included:

- A loan drawdown under preferential conditions taken out in June 2018 with the European Investment Bank, recognized at an estimated fair value of €66.8 million.

  The loan agreement provides for an aggregate amount of €80 million and relates to the Group's Research and Development (R&D) initiatives within the European Union. It bears fixed-rate interest over 10 years and is repayable after a three-year grace period.

  In accordance with IAS 20, the difference between the principal amount of the loan and its fair value is recognized as a grant for the Group's R&D expenses and is allocated over financial years 2018-2021.
- The revolving credit line for €25 million.

Other financial debt relates to loans granted by the parent company Novafives under cash pooling arrangements.

Change in financial debt, by type

	Dec. 31, 2018	Dec. 31, 2017	Changes included in financing flows	Other changes	Breakdown of other changes: Change in accounting method	Scope	Trans-lation	IFRS 9 measure-ment effect	New Lease liability	Capitalization of interest at the effective interest rate (EIR)	Interest expense
Bank loans	125,857	67,512	55,578	2,767			2,393			374	
Deferred transaction costs	(1,629)	(896)	(1,772)	1,039			(1)				1,040
Lease liability	43,997	2,988	(14,409)	55,419			184				
Other bank loans and borrowings	11,337	6,743	4,594		46,039	(285)			9,481		
Other financial liabilities	24,653	52,878	(28,269)	44			45			(374)	373
Accrued interest	603	256	(7,600)	7,946			2				7,944
Derivative instruments, liabilities	2,864	1,194		1,671			(4)	1,675			
Bank overdrafts	1,078	2,507									
Total passifs financiers	**208,761**	**133,183**	**8,122**	**68,885**	**46,039**	**(285)**	**2,618**	**1,675**	**9,481**		**9,357**

The impacts of adopting IFRS 16 are presented in note 2.2.

Breakdown of fixed and floating rate financial liabilities (before hedging)

	Dec. 31, 2018			Dec. 31, 2017		
	Fixed rate	Floating rate	Total	Fixed rate	Floating rate	Total
Bank loans	75,076	50,781	125,857	8,716	58,796	67,512
Deferred transaction costs	(1,629)		(1,629)	(896)		(896)
Lease liability	42,495	1,502	43,997	1,201	1,787	2,988
Other bank loans and borrowings		11,337	11,337		6,743	6,743
Other financial debt		24,653	24,653		52,878	52,878
Accrued interest	603		603	256		256
Total financial debt	**116,545**	**88,273**	**204,818**	**9,277**	**120,204**	**129,481**

Breakdown of financial liabilities by currency

	Dec. 31, 2018					Dec. 31, 2017			
	EUR	USD	GBP	Other	Total	EUR	USD	Other	Total
Bank loans	71,506	40,752	6,708	6,891	125,857	7,863	51,949	7,700	67,512
Deferred transaction costs	(1,610)	(21)			(1,631)	(767)	(129)		(896)
Lease liability	33,993	4,681	754	4,569	43,997	2,555	384	49	2,988
Other financial debt	24,653				24,653	52,878			52,878
Other bank loans and borrowings	11,337				11,337	6,743			6,743
Accrued interest	409	186		9	604	97	159		256
Total financial debt	**140,288**	**45,598**	**7,462**	**11,469**	**204,818**	**69,369**	**52,363**	**7,749**	**129,481**

6.25. Other current and non-current liabilities

Other non-current liabilities

Other non-current liabilities comprised the following:

	Dec. 31, 2018	Dec. 31, 2017
Profit sharing	1,953	2,540
Amounts due on acquisitions of equity interests		3,719
Estimated earnout liability		535
Other liabilities	959	1,164
Prepaid income	10,352	553
Total	**13,264**	**8,511**

Other current liabilities

Other current liabilities comprised the following:

	Dec. 31, 2018	Dec. 31, 2017
Tax and social security payables	130,146	123,452
Amounts due on acquisitions of fixed assets	830	1,519
Amounts due on acquisitions of equity interests	6,132	136
Estimated earnout liability	596	499
Other liabilities	32,507	31,826
Total	**170,211**	**157,432**

6.26. Financial risk management

Financial risk is managed in accordance with the risk management policy established by the Group's Chairman. Each operating entity is responsible for identifying, assessing and hedging its exposure to financial risk, in compliance with Group policies.

To manage its exposure to market risk, the Group uses derivative financial instruments, which are recognized in the balance sheet at their fair value.

The fair value of derivative financial instruments recognized at the reporting date, without accounting for the immaterial discount relating to counterparty risk, comprised the following:

	Dec. 31, 2018		Dec. 31, 2017	
	Assets	Liabilities	Assets	Liabilities
Foreign exchange derivative instruments				
Fair value hedging derivative instruments	1,675	2,864	3,592	1,194
Derivative instruments not eligible for hedge accounting				

There were no interest rate hedging derivatives at December 31, 2018 or at December 31, 2017.

Liquidity risk

Fives closely monitors liquidity risk for the Group and each of its subsidiaries periodically using Group financial reporting procedures.

The following analysis concerns the contractual obligations relating to loans and borrowings, including interest payable.

Expected future cash flows are calculated on the basis of the contractual maturities of the associated financial liabilities. Future floating-rate interest payments are set on the basis of the most recent coupon for the current period and on the basis of the rates applicable at the reporting date for cash flows relating to future dates.

The future cash flows presented below have not been discounted.

	Balance sheet carrying amount	< 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	> 5 years
Non-derivative financial instruments							
Bank loans	137,194	49,249	10,270	2,804	9,988	15,174	49,710
Other financial debt	24,653	24,653					
Lease liability	43,997	12,538	8,993	6,369	4,717	4,158	7,222
Total gross non-current financial liabilities	**205,845**	**86,440**	**19,263**	**9,173**	**14,705**	**19,332**	**56,932**
Deferred transaction costs	(1,629)	(287)	(274)	(263)	(263)	(540)	
Total non-current financial liabilities	**204,216**	**86,153**	**18,988**	**8,909**	**14,442**	**18,791**	**56,932**
Interest on non-current financial liabilities		5,137	4,609	4,260	3,955	3,497	6,810

This analysis excludes financial assets such as cash and cash equivalents and trade receivables, which amounted to €148 million and €406.5 million respectively at December 31, 2018. The Group also has a revolving credit line of €115 million at its disposal until January 2024. The credit line can be drawn down freely within a limit of €50 million, above which it is subject to a quarterly leverage ratio test, which was not triggered in 2018. At December 31, 2018, €25 million of the credit line had been drawn down.

Interest rate risk

The €80 million taken out with the European Investment bank bears fixed-rate interest.

The Company's floating-rate debt of €88.3 million was lower than cash of €148 million at year end.

The floating rate debt on Fives' balance sheet comprises various tranches of external bank loans and the outstanding debt owed to Novafives under cash pooling arrangements.

The majority of cash and cash equivalents have been invested at floating rates (such as Eonia-indexed money market funds). The fixed rate instruments used are term deposits or certificates of deposit with a maximum three-month maturity.

Interest rate risk is globally offset by the yield on cash invested at floating rates.

A similar position has been adopted for local bank loans, as exposure to interest rate risk is considered to be preferable to the cost of fixed-rate hedging.

Analysis of interest rate sensitivity

The Group is exposed to the risk of interest rate fluctuations on its earnings due to:
- Cash flows relating to floating-rate debt;
- Cash flows relating to floating-rate investments.

The sensitivity analysis of 2019 earnings to interest rate risk was based on the following assumptions:
- The amount of loans and borrowings at December 31, 2018 less repayments due during 2019, without additional hedging;
- Cash and cash equivalents, per currency and exchange rate, remain constant year on year;
- The Group maintains access to current accounts that do not have negative interest rates.

In a potentially negative interest rate environment, the sensitivity analysis was performed by increasing the interest rate by 1% and decreasing the rate by 1%. The analysis also factored in the contractual floors applicable to the reference interest rates on Group loans.

Based on these assumptions, the Group is not exposed to interest rate risk.

	Sensitivity analysis effect	
	- 1%	+ 1%
Floating rate debt	40	(377)
Cash invested at floating rates		1,233
Effect on profit	**40**	**856**

Currency risk

Loans and borrowings denominated in foreign currencies

The Group contracted loans and borrowings in USD to finance its acquisitions and business activities in the United States. Loans and borrowings denominated in USD, held in France, represent an exposure to currency risk of USD 20 million.

The Group initially financed the acquisition of the North American companies in euros, its reporting currency. The associated payments were refinanced by long-term loans denominated in USD contracted by the operating companies acquired or the Group's holding company in the United States.

The outstanding loan principal exposed to currency risk amounted to USD 217.8 million at December 31, 2018.

The Group's net exposure is therefore USD 197.8 million.

In December 2012, the Group began restructuring its activities in the United Kingdom by reclassifying its operating assets under a single holding company, Fives UK Holding Ltd. The latter contracted a loan from Fives to repurchase the assets. The outstanding loan principal exposed to currency risk amounted to GBP 29.6 million at December 31, 2018.

Exchange rate risk on operating profit

The Group is mainly exposed to exchange rate risk on its net sales positions arising from export contracts denominated in currencies other than the functional currency of the contracting companies.

The main currency pairs subject to exchange rate risk are EUR/USD, GBP/EUR, JPY/EUR and CNY/EUR.

The Group uses natural hedges to limit its exposure to exchange rate risk on operating profit by purchasing in the currency or currencies used for sales, on a contract by contract basis.

The net residual exchange rate risk is hedged when the risks arise, mainly through currency forwards and/or by entering into insurance contracts with the French export credit insurance company Bpifrance Assurance Export for the French subsidiaries.

Analysis of exchange risk sensitivity

This analysis excludes the effects of translating the financial statements of Group entities into the reporting currency (euros).

Exposure at December 31, 2018 of USD and GBP loans, principal and interest for 2019

Acquisition loan principal denominated in USD totaled USD 217.8 million at December 31, 2018, with 2019 interest income of USD 16.2 million, representing a total exposure of USD 234 million, or €199.2 million after translation using the exchange rate effective at the reporting date. The acquisition loans are backed by external loans with outstanding loan principal of USD 20 million and interest expense of USD 0.7 million for 2019, representing a net position of USD 20.7 million, or €18.1 million after translation using the exchange rate effective at the reporting date.

The position of the acquisition loans denominated in USD net of the external loans, including net interest, amounted to USD 207.4 million, or €181.1 million after translation using the exchange rate effective at the reporting date and deduction of hedges.

Acquisition loan principal for Fives UK Holding Ltd. amounted to GBP 29.6 million, with interest income of GBP 1.5 million for 2019, representing a total exposure of GBP 31.1 million, or €34.7 million after translation using the exchange rate effective at the reporting date.

A 10 basis point increase or decrease in the EUR/USD and/or EUR/GBP exchange rates would have the following impact on profit for 2019:

	ER-10bp	ER	ER+10bp
USD loans			
Exchange rate at Dec. 31	*1.045*	*1.145*	*1.245*
Net debt after hedging (EUR)	198.4	181.1	166.6
Effect on 2018 profit	17.3		(14.5)
GBP loans			
Exchange rate at Dec. 31	*0.795*	*0.895*	*0.995*
Net debt after hedging (EUR)	39.0	34.7	31.2
Effect on 2018 profit	4.3		(3.5)
Total effect on profit for 2018	**21.6**		**(18.0)**

Net exposure at December 31, 2018 of USD and GBP loans, estimated cash flows for 2019

Expected cash flows in 2019 relating to intercompany acquisition loans denominated in USD (interest payments and repayment of principal), and given the loan repayment schedules, amount to USD 33.3 million. In addition, repayment in 2019 of principal and interest on external loans denominated in USD amounts to USD 10.7 million.

Cash exposure on expected cash flows in USD in 2019 is therefore USD 16.6 million, or €14.5 million after translation using the exchange rate effective at the reporting date and deduction of hedges.

Expected cash flows relating to the Fives loan to Fives Holding UK in 2019 amount to GBP 3.7 million or €4.1 million after translation using the exchange rate effective at the reporting date.

Sales contracts

Foreign exchange risk on sales contracts is generally hedged by financial instruments that are eligible for fair value hedge accounting. The hedged items relating to such contracts are measured at the hedge coverage rates.

The companies regularly measure the effectiveness of their foreign exchange (currency) hedges in relation to changes in the underlying.

Credit risk

Credit risk is the risk that one party to a financial liability will cause a loss for the other party by defaulting on its obligations. The Group is exposed to credit risk in its operating activities (mainly trade receivables) and financing activities due to the deposits, foreign exchange hedges and other financial instruments contracted with banks and financial institutions.

Risks relating to trade receivables

The Group believes that there is limited risk that counterparty default could significantly affect its financial position and profit. The Group carefully manages credit risk relating to trade receivables, as detailed in note 6.18.

Risks relating to other financial assets

The Group uses derivatives solely to reduce its overall exposure to the foreign exchange risk and interest rate risk arising from its ordinary business activities. Derivative transactions are only entered into on organized markets or over-the-counter markets with leading operators.

Risks relating to cash and cash equivalents

At December 31, 2018, all cash and cash equivalents were invested through the top-ranking commercial banks that finance the Group's activities.

6.27. Value of financial assets and liabilities, by category

The valuation methods used are described in the accounting policies. With the exception of bonds, the Group did not identify any material differences between the carrying amount and market value of the financial assets and liabilities reported on the balance sheet, irrespective of the categories and levels of fair value.

The debt securities issued in 2018 are listed on the Luxembourg Stock Exchange. Their apparent value at December 31, 2018 was approximately 80% of their nominal amount.

The Group distinguishes three categories of financial instruments based on two fair value measurement methods (quoted prices and other valuation techniques):

- level 1: financial instruments with quoted prices traded in active markets;
- level 2: financial instruments the fair value of which is determined based on valuation techniques using observable inputs;
- level 3: financial instruments the fair value of which is determined using a valuation technique that is not based on or only partially based on observable market data (input based on assumptions and not on observable prices or other market data).

Available-for-sale financial assets and money market funds are classified as level one financial instruments and interest rate and exchange rate derivative instruments are classified as level two. Acquisition-related liabilities (earnout liabilities and commitments to purchase non-controlling interests) are classified as level three.

6.28. Off-balance sheet commitments

Guarantees, sureties and other

	Dec. 31, 2018	Dec. 31, 2017
Commitments given	288,817	287,074
Commitments received	59,947	65,516

Guarantees and sureties refer to commitments given or received to finance contracts in progress, and performance bonds.

Pledges

As collateral and to guarantee the obligations (i) of Novafives as Issuer of the senior secured notes dated April 26, 2018 and (ii) Novafives and Fives as borrowers under the revolving credit line agreement dated April 26, 2018, Novafives has pledged a portfolio of all the securities it holds to the note holders and revolving credit line lenders.

6.29. Related parties

Related parties mainly comprise:
- Fives' shareholders;
- associates;
- controlled entities that are not consolidated as they are not material.

There were no material transactions with related parties other than those described herein.

Remuneration of the executive officers

In 2018, the aggregate direct and indirect remuneration paid by Fives or its subsidiaries to the Chairman and members of the Group's Management Board, 18 people in total, amounted to €4,556 thousand.

6.30. Statutory audit fees

Total fees charged by the statutory auditors of Fives and its subsidiaries, as presented in the consolidated financial statements for the periods ended December 31, 2018 and 2017, amounted to:

	2018			2017		
	Statutory audit	Other work	Total	Statutory audit	Other work	Total
Deloitte	803	107	**910**	1,143	136	**1,279**
Ernst & Young	806	194	**1,000**	770	170	**940**
Other	658		**658**	461		**461**
Total	**2,267**	**301**	**2,568**	**2,374**	**306**	**2,680**

6.31. Subsequent events

No significant events have occurred since the reporting date.

6.32. Consolidated companies at December 31, 2018

Consolidated companies	Location	Consolidation method	Percentage controlling/ ownership	Percentage interest
HOLDINGS AND SUBSIDIARIES NOT ALLOCATED TO OPERATING SEGMENTS				
Fives *	Paris, France		Société Mère	
FI 2006 *	Paris, France	FC	100.00	100.00
Fives UK Holding Ltd.	United Kingdom	FC	100.00	100.00
Fives Inc.	United States	FC	100.00	100.00
Fives Italy S.r.l.	Italy	FC	100.00	100.00
Fives Engineering (Shanghai) Co., Ltd.	China	FC	100.00	100.00
Shanghai Fives Automation & Processing Equipment Co., Ltd.	China	FC	100.00	100.00
Fives Japan KK	Japan	FC	100.00	100.00
AUTOMOTIVE				
Fives Conveying *	Montévrain, France	FC	100.00	100.00
Fives Cinetic *	Héricourt, France	FC	100.00	100.00
Fives Cinetic Corp.	United States	FC	100.00	100.00
Fives Cinetic Mexico SA de CV	Mexico	FC	100.00	100.00
Fives Filling & Sealing K.K.	Japan	FC	100.00	100.00
Fives DyAG Corp.	United States	FC	100.00	100.00
Fives Filling & Sealing *	Le Bignon, France	FC	100.00	100.00
Fives Giustina S.r.l.	Italy	FC	100.00	100.00
Daisho Seiki Corporation	Japan	FC	100.00	100.00
Daisho Seiki Korea Co., Ltd.	South Korea	FC	85.46	85.46
Daisho Seiki American Corporation	United States	FC	100.00	100.00
Fives Landis Corp.	United States	FC	100.00	100.00
Fives Landis Limited	United Kingdom	FC	100.00	100.00
Fives Landis GmbH	Germany	FC	100.00	100.00
Fives Conveying Iberica	Spain	FC	100.00	100.00
LOGISTICS				
Fives Intralogistics Corp.	United States	FC	100.00	100.00
Fives Intralogistics K.K.	Japan	FC	100.00	100.00
Fives Intralogistics S.p.a.	Italy	FC	100.00	100.00
Fives Intralogistics SAS *	Grigny, France	FC	100.00	100.00
Fives Syleps	Lorient, France	FC	100.00	99.64
Fives Syleps Robotics	Lorient, France	FC	100.00	99.64
CEMENT				
Fives FCB *	Villeneuve d'Ascq, France	FC	100.00	100.00
Fives FCB Services Mexico S.A. de C.V.	Mexico	FC	99.90	99.90
Fives Pillard	Marseille, France	FC	85.18	85.18
Fives Pillard España	Spain	FC	85.18	85.18
Fives Pillard Deutschland GmbH	Germany	FC	47.50	40.46
Fives Combustion Systems Private Limited	India	FC	100.00	100.00
ENERGY				
Fives Cail *	Ronchin, France	FC	100.00	100.00
Fives Cail KCP Ltd.	India	EM	40.00	40.00
Fives Fletcher Ltd.	United Kingdom	FC	100.00	100.00
Fives Lille do Brasil Ltda.	Brazil	FC	100.00	100.00
Fletcher Smith Inc.	United States	FC	100.00	100.00
Fives North American Combustion France *	Marseille, France	FC	100.00	100.00
Fives North American Combustion Netherlands B.V.	Netherlands	FC	100.00	100.00
Fives North American Combustion Spain, S.L.	Spain	FC	100.00	100.00

Consolidated financial statements at December 31, 2018

Consolidated companies	Location	Consolidation method	Percentage controlling/ ownership	Percentage interest
Fives North American Combustion UK, Ltd.	United Kingdom	FC	100.00	100.00
Fives North American Combustion, Inc.	United States	FC	100.00	100.00
Fives North American Combustion Canada, Inc.	Canada	FC	100.00	100.00
North American Construction Services, Ltd.	United States	FC	100.00	100.00
Fives Cryo*	Golbey, France	FC	100.00	100.00
Fives Cryo (Suzhou) Co., Ltd.	China	FC	100.00	100.00
Fives Cryomec A.G.	Switzerland	FC	100.00	100.00
Fives Cryo Inc.	United States	FC	100.00	100.00
Fives Nordon *	Nancy, France	FC	100.00	100.00
Fives Itas S.p.a.	Italy	FC	100.00	100.00
Fives Bronx, Inc.	United States	FC	100.00	100.00
Fives Bronx Ltd.	United Kingdom	FC	100.00	100.00
Fives OTO S.p.a.	Italy	FC	100.00	100.00
METALS				
F.L. Métal *	Seclin, France	FC	100.00	100.00
Fives DMS *	Seclin, France	FC	100.00	100.00
Fives ST Corp.	United States	FC	100.00	100.00
Fives Keods *	Maisons-Alfort, France	FC	100.00	100.00
Fives Stein *	Maisons-Alfort, France	FC	100.00	100.00
Fives Celes *	Lautenbach, France	FC	100.00	100.00
Fives Stein Belgium	Belgium	FC	100.00	100.00
Fives Stein Bilbao	Spain	FC	100.00	100.00
Fives Stein Inc.	United States	FC	100.00	100.00
Fives Stein India Projects Private Limited	India	FC	100.00	100.00
Fives Stein Metallurgical Technology (Shanghai) Co, Ltd.	China	FC	100.00	100.00
Fives Stein Ltd.	United Kingdom	FC	100.00	100.00
Fives India Engineering & Projects Pvt. Ltd.	India	FC	100.00	100.00
Fives Solios *	Le Pecq, France	FC	100.00	100.00
PSA 2000 *	Le Pecq, France	FC	100.00	100.00
PSA 2000 Saudi Arabia Ltd.	Saudi Arabia	FC	100.00	100.00
Fives Services Gulf SPC	Bahrain	FC	100.00	100.00
Fives Solios Corp.	United States	FC	100.00	100.00
Fives Solios Inc.	Canada	FC	100.00	100.00
Fives Services Southern Africa (Proprietary) Ltd.	South Africa	FC	100.00	100.00
Fives ECL*	Ronchin, France	FC	100.00	100.00
Fives Services, Inc.	Canada	FC	100.00	100.00
Fives Services Gulf DMCC	United Arab Emirates	FC	100.00	100.00
Fives Services Australia PTY Ltd.	Australia	FC	100.00	100.00
ECL Shanghai Co., Ltd.	China	FC	100.00	100.00
AEROSPACE AND INDUSTRY				
Cincinnati Machine International, LLC	United States	FC	100.00	100.00
Fives Giddings & Lewis, LLC	United States	FC	100.00	100.00
Fives Machining Systems Inc.	United States	FC	100.00	100.00
Fives Machining Systems Korea Inc.	South Korea	FC	100.00	100.00
Fives Machining Systems (Shanghai) Co., Ltd.	China	FC	100.00	100.00
Fives Lund LLC	United States	FC	75.00	75.00
Fives Machining *	Saint-Laurent-les-Tours, France	FC	100.00	100.00
Fives Liné Machines Inc.	Canada	FC	100.00	100.00
4192567 Canada Inc.	Canada	FC	100.00	100.00

Consolidated companies	Location	Consolidation method	Percentage controlling/ ownership	Percentage interest
Sogelire Inc.	Canada	FC	100.00	100.00
Fives Maintenance *	Montévrain, France	FC	100.00	100.00
AddUp SAS	Cebezat, France	EM	50.00	50.00

* Companies included in the Novafives tax group.

FC: fully consolidated

EM: accounted for by the equity method

STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Financial year ending December 31, 2018

ERNST & YOUNG ET AUTRES
Tour First - TSA 14444
92037 Paris-La Défense Cedex
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Statutory Auditor
Member of the Versailles Regional Association

DELOITTE & ASSOCIÉS
Tour Majunga
6 place de la Pyramide
92908 Paris-La Défense Cedex
Statutory Auditor
Member of the Versailles Regional Association

To the Shareholders of the company Fives,

Opinion

In compliance with the engagement entrusted to us by your general meeting, we have audited the accompanying consolidated financial statements of Fives for the year ended December 31, 2018.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group at the end of the financial year and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for opinion

Audit Framework
We carried out our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities in relation to those standards are further described in the section "Responsibilities of statutory auditors regarding audit of the consolidated financial statements" of our report.

Independence
We conducted our audit engagement in compliance with independence rules applicable to us, for the period from January 1, 2018 to the date of our report, and specifically, we did not provide any prohibited non audit services referred to in the French Code of ethics for statutory auditors.

Justification of Assessments

In accordance with the requirements of articles L.823-9 and R.823-7 of the French Commercial Code relating to justification of our assessments, we inform you of the following assessments, 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 specific items of the consolidated financial statements.

- Goodwill are subject to impairment test according to the method described in the notes 2.6, 2.15 and 6.12 to the consolidated financial statements. We have examined the implementation of this impairment test, the estimation of the future cash flows and the assumptions made, and we have ensured that notes 2.6, 2.15 and 6.12 to the consolidated financial statements provide adequate information in this regard.
- Income or losses on construction contracts and long-term service contracts are recognized using the percentage of completion method, based on the estimated costs at completion that are reviewed periodically and regularly throughout the life of the contract following to the principles detailed in notes 2.2, 2.6, 2.19 and 2.20 to the consolidated financial statements. These estimates are made project by project under the supervision of the companies' general management. Based on the information we received, our work consisted in reviewing the processes set up, assessing the data and assumptions used as a basis for these estimates and comparing the accounting estimates of the previous periods with corresponding actual figures.
- Deferred tax assets are recognized when mid-term forecasts ensure the reasonableness of recoverability as indicated in notes 2.6 and 2.28 to the consolidated financial statements. We have examined the financial forecasts and the assumptions used, and we have ensured that notes 2.6 and 2.28 to the consolidated financial statements provide adequate information in this regard.

Specific verifications

We have also performed in accordance with professional standards applicable in France, the specific verifications required by law and regulations of the information pertaining to the Group presented in the chairman's management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Responsibilities of management and those charged with governance for the consolidated financial statements

In accordance with the IFRS standard adopted in the EU, Management is responsible for the preparation of the consolidated financial statements, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, Management is responsible for assessing the company'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 it is expected to liquidate the Company or to cease operations.

These consolidated financial statements have been approved by the chairman.

Responsibilities of statutory auditors regarding audit of the consolidated financial statements

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As specified in Article L. 823-10-1 of the French Commercial Code, our statutory audit dœs not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his 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.
- Obtains 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 internal control.
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the consolidated financial statements.
- Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein.
- Evaluates the overall presentation of the consolidated financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtains sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. The statutory auditor is responsible for the direction, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed on these consolidated financial statements.

Paris-La Défense, March 22, 2019
The Statutory Auditors

ERNST & YOUNG ET AUTRES
Pierre Jouanne

DELOITTE & ASSOCIÉS
Pascal Colin

Consolidated financial statements at December 31, 2018

RESOLUTIONS

First Resolution

The General Meeting,

- having heard the Chairman's management report and the Statutory Auditors' report on the financial statements;

- and after reviewing the company financial statements;

approves the company's financial statements for the year ended December 31, 2018 as presented to the meeting and the transactions reflected in such financial statements or described in the reports and which show a net profit of €45,605,056.63.

The General Meeting also approves the total amount of certain non-tax deductible expenses, €65,473, and the corresponding tax of €20,647.

Second resolution

Following the proposal by the Chairman, the General Meeting hereby allocates the entire annual profit of €45,605,056.63 to the balance of retained earnings, bringing it up to €283,666,620.04.

The General Meeting notes that no dividends have been distributed for the past three financial years.

Third Resolution

The General Meeting,

- having heard the Chairman's management report and the Statutory Auditors' report on the consolidated accounts as of December 31, 2018,

- and after reviewing the consolidated financial statements;

approves the consolidated financial statements for the year ended December 31, 2018 as presented to the meeting and the transactions reflected in such financial statements or described in the reports, showing net loss, Group share of €(20,483) thousand.

Fourth resolution

Having heard the Statutory Auditors' special report on regulated agreements governed by Article L. 227-10 of the French commercial code, the General Meeting approves the report and the agreements referred to in the report.

Fifth resolution

On the basis of the preceding resolutions, the General Meeting fully and unreservedly discharges the Chairman from its management duties in respect of the financial year ended December 31, 2018.

Sixth resolution

On the basis of the preceding resolutions, the General Meeting fully and unreservedly discharges the Deputy Chief Executive Officer from its management duties in respect of the financial year ended December 31, 2018.

Seventh resolution

The General Meeting grants all relevant powers to PETITES AFFICHES to perform all legal and regulatory publication formalities.

Fives

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