SIT S.p.A. and subsidiaries

2017 Annual Financial Report

Contents

Directors' Report
at December 31, 2017

Financial Highlights

Operating results	2017	%	2016	%	change	change %
Revenues	323,958	100.0%	288,138	100.0%	35,820	12.40%
EBITDA [1]	44,093	13.6%	43,212	15.0%	881	2.00%
Adjusted EBITDA [2]	45,847	14.2%	44,622	15.5%	1,241	2.78%
EBITA [5]	31,446	9.7%	29,752	10.3%	1,714	5.76%
EBIT	25,171	7.8%	23,477	8.1%	1,694	7.20%
Net financial charges [6]	46,968	14.5%	19,722	6.8%	27,246	n.a.
Adjusted net financial charges [3]	15,647	4.8%	19,722	6.8%	(4,075)	-20.70%
Business combination amortisation (PPA) [4]	4,525	1.4%	4,305	1.5%	220	5.10%
Result before taxes (EBT)	(21,362)	-6.6%	5,084	1.8%	(26,446)	n.a.
Net Profit/(loss)	(23,327)	-7.2%	1,720	0.6%	(25,047)	n.a.
Adjusted Net Profit/(loss) [3]	7,994	2.5%	1,720	0.6%	6,274	365%
Group Net Profit/(loss)	(23,327)	-7.2%	1,740	0.6%	(25,067)	n.a.
Adjusted Group Net Profit [3]	7,994	2.5%	1,740	0.6%	6,254	359%

[1] EBITDA is the operating result before amortisation, depreciation and write-downs, net of the doubtful debt provision.

[2] Net of non-recurring income and charges. In 2017, non-recurring charges net of non-recurring income amounted to Euro 1,754 thousand, of which Euro 819 thousand relating to listing costs on the AIM Italia market and Euro 954 thousand for employee bonuses following the listing operation. In 2016, non-recurring charges and income amounted to Euro 1,410 thousand, of which Euro 1,128 thousand for restructuring charges and other charges and income for a total of Euro 282 thousand.

[3] Net of non-monetary and non-recurring charges attributable to the fair value accounting of the merger with SPAC Industrial Star of Italy 2 which took place on July 20, 2017. The amount of Euro 31,321 thousand, calculated as the difference at the merger date between the market value of SIT shares and the fair value of SPAC assets and liabilities, is recorded under financial charges as a contra-entry to a specific shareholders' equity reserve.

[4] Equivalent to Euro 6,275 thousand net of the deferred tax effect of Euro 1,751 thousand in 2017 and Euro 1,970 thousand in 2016.

[5] Calculated as EBIT increased by the amortisation of business combinations (PPA).

[6] Calculated in 2017 as the total of financial charges (49,759) net of 2,892 financial income and value adjustments to financial assets (101). In 2016, these were financial charges for (19,761), net of financial income for 42 and value adjustments to financial assets for (3), respectively.

(Euro thousands)

Balance sheet [7]	Notional at 31.12.2017	Notional at 31.12.2016	Change [7]	change %
Net capital employed	194,909	194,036	873	0.45%
Shareholders' Equity	(105,753)	(69,263)	36,490	52.68%
Net Financial Position	(65,105)	(124,773)	(59,668)	-47.82%
Commercial net working capital	21,889	23,185	(1,296)	-5.59%
Financial Liabilities for Performance Shares	(11,500)	-	n.a.	n.a.
Financial liabilities for Warrants	(12,551)	-	n.a.	n.a.

[7] The contribution from the merger for each of the accounts is presented below (Euro thousands): Net Capital Employed 403, Shareholders' Equity (10), Net Financial Position 50,542 and Commercial Net Working Capital (124).

(Euro thousands)

Composition net financial position (**)	**Notional at 31.12.2017**	**Notional at 31.12.2016**	**change**	**change %**
Cash and cash equivalents	(70,024)	(33,828)	(36,196)	107.00%
Other financial assets	(735)	(383)	(352)	91.91%
Short-term loans and borrowings	11,537	10,126	1,411	13.93%
Other non-current financial liabilities and derivative financial instruments	288	32,745	(32,457)	-99.12%
Medium/long-term loans and borrowings	121,060	110,056	11,004	10.00%
Other current financial liabilities and derivative financial instruments	2,979	6,057	(3,078)	-50.82%
Net financial position	**65,105**	**124,773**	(59,668)	-47.82%

(**) The Group's net financial position is calculated by not considering the financial debt for Warrants and the financial debt for Performance Shares since they are items that will not involve any financial outlay.

Key performance indicators	**2017**	**2016**
ROIC (*)	17.0%	16.1%
Commercial net working capital/Revenues	6.8%	8.0%
Net financial position(**)/ Shareholders' equity	0.6	1.8
Net financial position (**)/ Adjusted EBITDA (2)	1.4	2.8
Employees at year end	2.261	1.911

(*) ROIC is the ratio between Adjusted EBITA, calculated by adding to the EBIT the charges resulting from non-recurring transactions (see Note 2) and the amortisation derived from business combinations (PPA) and the capital employed at year-end.

General overview

According to the International Monetary Fund's estimates, global GDP grew by 3.7% in 2017, with the global economy registering a sound foundation of widespread growth and an expansionary phase driven by positive performances in Europe and Asia.

Eurozone GDP in 2017 rose 2.4% (improving on +1.7% in the previous year). The GDP growth rates for the major European nations were as follows: 2.2% in Germany, 1.7% in the United Kingdom and 1.8% in France.

In the United States, a change of tax policy – above all corporate income tax cuts – provided a boost to the country's economic growth. U.S. GDP increased by 2.3% in 2017, up from 1.6% in 2016.

In 2017, China reported a GDP growth rate of 6.9%, marking the first increase in its annual growth rate since 2010 and an improvement on the less robust performance delivered in 2016 (+6.5%).

Italian GDP expanded by 1.5% in 2017, the country's highest growth rate since 2010 (growth of 0.9% in 2016). The increase in GDP in 2017 was accompanied by the expansion of the volume of goods and services imported of 5.3% and an increase in the volume of exports of 5.4%. On the demand side, gross fixed investments increased by 3.7%, while nationwide spending by end consumers rose by 1.1%.

The heating equipment and components market saw an increase in production in 2017 (+7.5%) compared with 2016. Exports continued to account for a significant share of the market, increasing by 7.4% in 2017, with additional growth forecast in 2018. Exports are largely bound for European markets, but a considerable share is also shipped to Asian countries, and particularly China. The balance of investments in sector firms in 2017 was positive (+6.5%).

Sources: World Economic Outlook – International Monetary Fund; Il Sole 24 Ore; ISTAT; Eurostat, ANIMA – Federation of National Mechanical and Related Industries Associations

Operating performance

Introduction

SIT S.p.A (hereafter SIT, the company or the parent company) adopted the option permitted by Article 40 of Legislative Decree No. 127 of April 9, 1991, paragraph 2, as amended by Legislative Decree No. 32 of February 2, 2007, which allows companies preparing consolidated financial statements to present the consolidated Directors' Report and the parent company Directors' Report in a single document.

Significant events in the year

In order to strengthen both organic and acquisition-led development and growth, on February 24, 2017 the company - jointly with the holding company SIT Technologies S.p.A. - and Industrial Stars of Italy 2 S.p.A. (hereafter ISI2) - a SPAC listed on the AIM Italia market of the Italian Stock Exchange - and its shareholder promoters, signed a Framework Agreement concerning, among other matters (i) the merger by incorporation of ISI2 into the company (hereafter the Merger) and (ii) the consequent and simultaneous admission for trading to the AIM Italia of the new financial instruments issued by the company.

Consequently, in 2017 the company sought to achieve the targets set in the Framework Agreement, taking the measures and completing the formalities required according to the timetable established in the document, while also complying with the AIM Italia Issuers' Regulation approved and published by Borsa Italiana S.p.A.

The main steps required to implement the Merger were as follows:

i. unanimous approval of the Merger Proposal drafted in accordance with Article 2501-*ter* of the Italian Civil Code by the Extraordinary Shareholders' Meeting of May 5, 2017, following approval by the Board of Directors on March 31, 2017;
ii. the signing of the merger deed on July 13, 2017, followed by its registration with the competent offices of the Companies Register, namely that of Milan on July 13 and that of Padua on July 17, 2017;
iii. the publication of a notice on July 13, 2017 by Borsa Italiana S.p.A. regarding the admission to trading of the SIT ordinary share and warrants and the ensuing admission to trading of the SIT ordinary shares and warrants with effect from July 20, 2017;

An explanation on the Merger's accounting impact is provided in the Explanatory Notes, while the following table summarises the Merger's contribution to the SIT Group's equity and financial position at July 20, 2017.

(Euro thousands)	**at 31/12/2017**	**at 31/12/2016**	**Change**	**Of which Merger contribution**
Goodwill	78,138	78,138	-	-
Other intangible assets	73,286	80,715	(7,429)	-
Property, plant & equipment	47,778	41,913	5,865	-
Investments	54	156	(102)	-
Non-current financial assets	1,551	1,554	(3)	-
Deferred tax assets	8,742	7,505	1,237	1,161
Non-current assets	**209,549**	**209,981**	**(432)**	**1,161**
Inventories	38,130	38,490	(360)	-
Trade receivables	52,126	44,660	7,466	-
Other current assets	6,282	4,585	1,697	518
Tax receivables	3,023	2,370	653	-
Other current financial assets	735	383	352	-
Cash and cash equivalents	70,024	33,828	36,196	50,542
Current assets	**170,320**	**124,316**	**46,004**	**51,060**
Total assets	**379,869**	**334,297**	**45,572**	**52,221**
Share capital	96,149	73,579	22,570	-
Reserves	32,931	(6,056)	38,987	-
Group net profit/(loss)	(23,327)	1,740	(25,067)	(10)
Minority interest net equity	-	-	-	-
Shareholders' Equity	**105,753**	**69,263**	**36,490**	**(10)**
Medium/long-term loans and borrowings	121,060	110,056	11,004	-
Other non-current financial liabilities and derivative financial instruments	288	32,745	(32,457)	-
Provisions for risks and charges	2,897	2,679	218	-
Post-employment benefit provision	6.358	6,036	322	
Other non-current liabilities	506	5	501	-
Financial Liabilities for Performance Shares	11,500	-	11,500	-
Deferred tax liabilities	20,276	22,225	(1,949)	-
Non-current liabilities	**162,885**	**173,746**	**(10,861)**	-
Short-term loans and borrowings	11,537	10,126	1,411	-
Other current financial liabilities and derivative financial instruments	2,979	6,057	(3,078)	7,802
Trade payables	68,367	59,965	8,402	124
Other current liabilities	14,792	14,406	386	116
Financial liabilities for Warrants	12,551	-	12,551	-
Tax payables	1,005	734	271	-
Current liabilities	**111,231**	**91,288**	**19,943**	**8,042**
Total liabilities	**274,116**	**265,034**	**9,082**	**8,042**
Total Shareholders' Equity and Liabilities	**379,869**	**334,297**	**45,572**	**8,032**

Under the Framework Agreement, a series of financial transactions by SIT were established as conditions precedent to the Merger, having the dual objective of strengthening the company's financial structure and reducing the cost of financial debt.

The entire range of financial transactions described below (hereinafter, the 2017 SIT Refinancing) was finalised on July 13, 2017 alongside the merger and consists of the following:

i. the waiver by the holding company SIT Technologies S.p.A. of part of the Shareholder Loan to SIT for an amount of approximately Euro 8 million inclusive of principal, cash interest and PIK accrued to date;

ii. the single payment disbursement by BNP Paribas as the loan's agent bank of Euro 135,000 thousand, as per the contract signed on July 3, 2017 (hereinafter, Senior Facility Agreement 2017), net of upfront commissions included therein;

iii. SIT's repayment of outstanding bank debt of approximately Euro 121,279 thousand inclusive of principal, interest and commissions accrued to date;

iv. the early settlement of interest rate swap hedges in place on bank debt referred to in point iii) for a market value of Euro 1,989 thousand;

v. SIT's full repayment of the residual part of the Shareholder Loan from the holding company SIT Technologies S.p.A. of approximately Euro 26.3 million inclusive of principal, cash interest and PIK accrued to date.

The main conditions on the Senior Facility Agreement 2017, which are considered to be more advantageous in several aspects, are described below:

i. Euro 135,000 thousand, with 5 year duration, maturing June 30, 2022; repayment according to pre-established half-yearly instalments with an average duration of approx. 3.9 years;

ii. early repayment option without penalties and without collateral security;

iii. interest rate indexed to the 3 or 6 month Euribor, at the company's choice, plus a margin determined on the basis of a grid defined by the Leverage ratio trend – as described below;

iv. SIT's compliance with certain non-financial commitments substantially in line with contracts of this type such as a) periodic disclosure obligations; b) limitations - if not in the terms and conditions expressly provided for in the contract – on the possibility of execution:

extraordinary transactions, granting collateral security, transfer of its own assets, assumption of further debt and providing associated guarantees, as well as limitations relating to the issue of shares and other share transactions;

v. SIT's compliance with certain financial covenants measured every six months over a period of 12 months and calculated on the SIT's consolidated financial statements. These parameters are (a) the ratio between EBITDA and net financial charges (Interest Cover), whose value is fixed for the contract's entire duration, and (b) the ratio between the net financial debt and EBITDA (Leverage Ratio) for which a downward trend is expected in line with the loan repayment plan provided for in the contract. For both financial covenants, the indicators determining the two ratios are to be calculated on the basis of the definitions set out in the loan agreement;

vi. restrictions on the distribution of dividends by SIT that may be paid, in the absence of default events, for an annual amount equivalent to a percentage of consolidated net profit determined on the basis of the pro-forma Leverage Ratio's trend, i.e. the Leverage Ratio calculated as though the dividend had been distributed (the exception being any dividends paid during the years 2017 and 2018 for which a maximum amount for each year and cumulatively is established);

vii. certain normal obligatory early repayment conditions upon the company including (a) Change of Control, (b) the sale of all or substantially all corporate assets, and (c) the cancellation or the non-fulfilment of the conditions precedent provided in the contract;

viii. a set of statements and guarantees issued by the company for itself and the Group - normal for these types of contracts - some of which shall be renewed at each interest payment date.

On December 18, 2017, the Ordinary Shareholders' Meeting approved the translisting, i.e. the project for the admission of SIT S.p.A.'s ordinary shares and warrants to listing on the Italian Stock Exchange organised and managed by Borsa Italiana S.p.A., and possibly the STAR segment, with the consequent simultaneous exclusion from listing on the AIM Italia.

The main reasons behind the project are substantially related to the fact that the company, due to the listing of shares and warrants on the MTA, may benefit from greater visibility (both with strategic partners and institutional investors), as well as the possibility of greater share liquidity and access to a larger risk capital market in respect of AIM Italia, given the higher number of listed companies and investors active on this market.

The 2017 performance featured strong growth for production volumes, driven by the favourable international economic environment.

Particularly in the Heating sector, during the year the Chinese market became the top global market for domestic appliances sold, due to the government's "from coal to gas" incentive policies which, by 2020, seek to increase the share of energy requirements satisfied by methane gas rather than coal. In this context, SIT sales generated in the area also increased from Euro 15.0 million in 2016 to Euro 20.6 million in 2017 (+36.7%). Turkey has also seen major growth. This is due to the adoption of the European "ErP - Energy Related Product" Regulation, in addition to the localised presence of the world's leading producers of appliances, resulting in an increase of 26.6% over the previous year and generating revenues of Euro 39.6 million.

Such Chinese market growth prospects and the general Heating market performance both in Europe and in the US - in addition to Turkey as mentioned above - have prompted a series of investments targeting expanded production capacity and the maintenance of optimal plant saturation levels. The production capacity investment plan exceeding Euro 15 million was completed in 2017 for Euro 2,788 thousand, while the remaining part is planned for 2018.

The Smart Gas Metering Division also continued to acquire new orders in 2017 and consolidate its market position. In 2017, revenues amounted to Euro 49.5 million, up 31.1% on Euro 37.7 million in 2016. At the reporting date, the order portfolio stood at approximately Euro 55.2 million, of which Euro 52.3 million scheduled for delivery in 2018.

Finally, the subsidiary MeteRSit Romania S.r.l., incorporated in 2016 and with registered office in Brasov, as a meter assembly operating unit, was fully operational since the initial months of 2017, in line with company forecasts.

Sales overview

The SIT Group comprises two Divisions:

- Heating, which develops and manufactures systems for the safety, comfort and performance of gas appliances.
- Smart Gas Metering, which develops and manufactures gas meters, also with remote control, consumption measurement, reading and communication functions.

Revenues by Division

(Euro thousands)	2017	%	2016	%	change	change %
Heating	273,997	84.6%	249,790	86.7%	24,207	9.7%
Smart Gas Metering	49,459	15.3%	37,740	13.1%	11,719	31.1%
Total product revenues	323,455	99.9%	287,530	99.8%	35,925	12.5%
Revenues from services	502	0.1%	608	0.2%	(106)	-17.4%
Total revenues	**323,958**	**100%**	**288,138**	**100%**	**23,387**	**12.4%**

Product revenues by region

(Euro thousands)	2017	%	2016	%	change	change %
Italy	99,093	30.6%	83,034	28.9%	16,059	19.3%
Europe (excluding Italy)	139,343	43.1%	127,701	44.4%	11,641	9.1%
America	49,639	15.3%	47,012	16.4%	2,628	5.6%
Asia/Pacific	35,380	10.9%	29,783	10.4%	5,598	18.8%
Total product revenues	**323,455**	**100%**	**287,530**	**100%**	**35,925**	**12.5%**

Revenues for the Heating Division amount to Euro 274.0 million, growth of 9.7% or Euro 24.2 million compared to the 2016 revenues of Euro 249.8 million.

The markets reporting the highest growth are China (+36.7% or Euro 5.5 million), as a result of government "from coal to gas" incentives, Turkey (+26.6% or Euro 8.3 million), also due to the effect of adopting the "ErP - Energy Related Products" Regulation in addition to the local presence of major OEMs, and the USA (+9.0% or Euro 2.5 million).

Products with the highest growth are Mechanical Controls (+7.0% or Euro 10.6 million), Electric Fans (+35.2% or Euro 8.3 million), Integrated Systems (+36.9% or Euro 2.4 million) and Electronic Controls (+5.1% or Euro 2.3 million), all mostly for Central Heating applications.

In 2017, the Smart Gas Metering Division generated revenues of Euro 49.5 million, an increase of 31.1% compared to Euro 37.7 million in 2016. This confirms the development of the Residential Meters' roll-out and SIT's competitive position on the Italian market.

In terms of products, sales for Residential Meters amounted to Euro 46.5 million, while sales for Commercial & Industrial Meters amounted to Euro 2.8 million. In 2016, sales were Euro 36 million and Euro 1.7 million respectively. 2017 revenues were all substantially generated on the domestic market.

Operating performance

The Group's 2017 Adjusted EBITDA amounts to Euro 45.8 million, up 2.7% over 2016 (Euro 44.6 million). Adjusted EBITDA growth is weaker than that of revenues, impacted in 2017 - alongside market changes (negative for approximately Euro 1.0 million) - by extra costs and production inefficiencies due to limitations on production capacity for certain product families to meet the increased demand.

Costs for urgent transport by air were incurred, under Service Costs, to reduce delays in delivery times, in addition to production inefficiencies due to non-optimal production cycles impacting on personnel costs. Moreover, the growth in turnover on certain customers increased the value of rebates and discounts included in existing contracts.

Prudent provisions were made for quality problems against possible claims for compensation from customers and penalties for delays in deliveries.

Purchase costs of raw materials and consumables, including changes in inventories, amounted to Euro 175.5 million (54.2% of revenues, increasing from 51.7% in 2016).

Service Costs, amounting to Euro 37.6 million, account for 11.6%, in line with 2016, although including non-recurring charges of Euro 819 thousand relating to the listing on AIM Italia market.

Personnel costs amount to Euro 65.5 million, 20.2% of revenues, down on 2016 (21.4%), despite non-recurring charges of Euro 1.1 million and inefficiencies linked to the increase in volumes and limitations on production capacity.

Group EBITA was Euro 31.4 million in 2017 (Euro 29.8 million in 2016).

Group EBIT therefore increased from Euro 23.5 million in 2016 to Euro 25.2 million in 2017, after amortisation and depreciation of Euro 19.1 million, of which Euro 4.5 million on the gains allocated to Group intangible and tangible assets following the business combination (Purchase Price Allocation) consequent to the acquisition of SIT La Precisa S.p.A in 2014.

Financial charges amounted to Euro 49.8 million, of which 31.3 million were related to the merger with ISI2 S.p.A. and recognised on July 20, 2017. The charge, as better described in the explanatory notes to the financial statements, is represented by the difference between the Fair Value of the consideration received from ISI2 shareholders and the fair value of assets and liabilities acquired by SIT S.p.A., mainly cash and cash equivalents.

Financial charges include the allocation to the income statement of the residual amortised cost outstanding on loans (Euro 7.5 million) and charges for the early repayment of hedging transactions (Euro 2.0 million) which, as hedges related to the prior existing loan, were repaid at the same time. Following the activation of new lending facilities, the company entered into new interest rate swap transactions that are better described in the Explanatory Notes to the 2017 Financial Statements.

The pre-tax result was therefore a loss of Euro 21.4 million, compared to a profit of Euro 5.1 million in 2016.

The Group net result in 2017 was a loss of Euro 23.3 million (profit of Euro 1.7 million in 2016).

Cash Flow

At December 31, 2017, the net financial position (net debt) was Euro 65,105 thousand, compared to Euro 124,773 thousand at December 31, 2016, improving Euro 59,668 thousand.

The movements in the net financial position are reported below:

(Euro thousands)	2017	2016
Cash flow from current activities (A)	48,090	48,358
Cash flow generated (absorbed) from Working Capital (B)	(6,514)	1,990
Cash flow from investing activities (C)	(17,331)	(9,651)
Cash flow from operating activities [1]	**24,245**	**40,697**
Interest paid	(11,116)	(16,671)
Change in accrued interest on loans including PIK	783	1,884
Amortised cost	(7,821)	(4,613)
FV change of IRS derivatives	1,475	(164)
Change in translation reserve	(3,644)	(3,424)
Change in shareholders' equity and acquisition treasury	7,339	13,999
Merger contribution net of listing costs	48,407	-
Change in net financial position	59,668	31,708
Opening net financial position	124,773	156,481
Closing net financial position	65,105	124,773

(**) The Group's net financial position is calculated by not considering the financial debt for Warrants and the financial debt for Performance Shares since they are items that will not involve any financial outlay.

[1] For details on Cash flows from operating activities, see accounts A+B+C of the Cash flow Statement of the financial statement at December 31, 2017

As regards operating activities, cash flow of Euro 24.2 million was generated against Euro 40.7 million in 2016. The main difference lies in (i) working capital movements which absorbed in 2017 liquidity for Euro 6.5 million, mainly due to increases in trade receivables as a result of higher turnover in the final part of the year and (ii) higher investment compared to the previous year.

Among the financial management items, we indicate the effects of the early repayment of bank loans and the holding company's loans; as discussed above, this also led to the settlement of the hedging instruments in place and the closing of the residual amortised cost.

Finally, the effects are shown for the merger contribution net of listing costs and the share capital increase transactions through the waiver of the loan by the holding company SIT Technologies S.p.A.

Investments

In 2017, the SIT Group invested a total of Euro 15,705 thousand, of which Euro 12,838 thousand (81.7 % of the total) in the Heating Division and Euro 2,867 thousand (18.3% of the total) in the Smart Gas Metering Division. In 2016, these totalled Euro 9,583 thousand (therefore an increase of 63.9% in 2017), of which Euro 8,113 thousand (+58.2% in 2017) in the Heating Division and Euro 1,470 thousand (+95.1% in 2017) in the Smart Gas Metering Division.

The main 2017 Heating investment concerned plant maintenance and the renewal of die-cast moulds (Euro 6,353 thousand, equivalent to 49% of the Division's total), Euro 2,902 thousand (23% of the Division's total) for the purchase of industrial and laboratory equipment, while Euro 2,788 thousand or 22% concerned investment to increase production capacity - particularly in Italy. The remaining Euro 795 thousand or 6% of the Division's total refers to product development and customisation.

Investment in Smart Gas Metering was essentially for product development and innovation (Euro 1,754 thousand or 61% of the Division's total) and for the increase in production capacity (Euro 1,074 thousand or 38% of the Division's total) at the Italian plant for Euro 435 thousand and at the Romanian plant for Euro 639 thousand. The remaining Euro 39 thousand relate to industrial and laboratory equipment.

Research and development

In 2017, the Group incurred research and development costs for a total of Euro 9,690 thousand, equivalent to 3.0% of revenues, compared to Euro 11,074 thousand in the previous year (3.8% of revenues).

In 2017, the research and development area had an average workforce of 84, including 62 located at the Parent Company. In 2016, these numbered 85 and 64 respectively.

Heating Division

SIT's research and development activity particularly focuses on developing mechatronic solutions for the correct operation of gas-operated domestic heating appliances. Research is focused on the development of electronic and mechanical solutions that are increasingly integrated and intelligent and easy to use, while at the same time capable of maximising comfort performance by reducing energy consumption as much as possible.

From a mechanical perspective, research focuses on developing increasingly compact, integrated and more efficient products; on the electronic side, the goal is to develop more intelligent programmable microprocessor solutions that are capable of communicating with the external environment through the most modern internet of things (IOT) technologies, in order to improve performance and reduce the maintenance of components to what is strictly necessary.

In the area of product development, the Group is engaged in projects based on four pillars: (i) acquisition of new basic technologies and processes; (ii) development of new products and product platforms; (iii) operational improvement of platform products; (iv) development of new vertical solutions or customising existing products to customer needs.

Research and development is delivered through consolidated collaborations with leading universities such as the University of Padua, the University of Ferrara, the University of Parma, the Marche Polytechnic University and Italian and foreign research centres such as RAPRA, CERISE and DVGW. SIT is highly active in both the main Italian and supranational industry associations, in order to acquire greater expertise - not only on new technologies or new solutions - but also on research methodologies and on regulatory and legislative developments in Europe and globally in the fields of application of Group products.

Moving on to the main 2017 projects, research and development has followed two distinct paths: the completion of product development whose activities had already commenced in previous years and the launch of new product platforms that meet the needs of the domestic heating market in the near future.

The development of the Combustion Management System (CMS) was completed. The CMS is a control platform for high modulation condensation applications. Field applications with this innovative electronic control system, aimed at optimising combustion, have already been introduced by the end of 2017.

In Electronics, new products continue to be developed with the aim of improving SIT's presence in this sector, in particular in the form of co-development projects focusing on remote control, colour touchscreen control panels, integration of devices into BMSs (building management systems) and home automation (Amazon) systems and multiburner applications integrated with oxygen sensors.

For Fans, development in 2017 particularly concerned the improvement of the energy efficiency of a number of product families, in addition to the completion of the range with high-efficiency boiler models.

In 2017, the development of new brushless electric fans for heating and kitchen hood applications was completed, in partnership also with the Polytechnic University of Marche, the Industrial Engineering and Mathematical Sciences Department, which qualified in first position in the 2014-2020 ERDF OP tender of the Marche Region in 2015.

For the Flue System, new products were developed which extend and integrate the already highly developed existing range. In particular, the range of adapters and bends used to connect the various boiler models was expanded.

In Integrated Systems, development began on systems offering increasing synergy with electronic combustion control applications, which require a wide modulation range and an ability to regulate low input levels of gas blends with a high level of efficiency.

The developmental maintenance of the previous families of products continued, responding to the latest market demands.

Smart Gas Metering Division

In 2017, the research and development performed by MeteRSit S.r.l. focused in particular on the new residential production platform for both the Italian and international markets.

With regard to the Italian market, development extended to both point-to-point and point-multipoint communication, whilst the entire platform benefited from optimisation of component design aimed at cutting costs and improving performance in terms of reduced battery consumption, improved user interface, reduced bulk and compliance with technical requirements for 2017-2018 tenders.

In 2017 development of the product for the English market involved mechanical and plastic parts, as well as security – an additional feature that will also be extended to other markets in the future.

The evolution of the Commercial & Industrial platform benefited from the innovations introduced in the Residential segment with regard to both electronics and the plastic housing. Performance improvement and cost reduction are driving this development, which will conclude in the first half of 2018.

Special mention should be made of meter development, which focused on improving the performance of meter sensors, and in particular on reducing battery consumption and expanding the types of gases measured.

MeteRSit was also particularly active at European level, participating in committees responsible for regulatory harmonisation of meters based on thermal sensor technology.

Quality

The SIT Quality Function, in addition to ensuring the normal control and prevention on processes and products, continuously ensures that company processes are in line with the best standards in terms of quality certification and compliance with environmental certifications - including controls on hazardous substances and the sourcing of materials from war zones.

For the Heating Division, the certifications were regularly updated both in terms of ISO 9001:2015 and the ISO 14001:2015 environmental certification for those factories with significant environmental sensibility.

Monitoring by certification authorities has borne out the organisation's ability to keep product quality consistent with the international standards of reference.

Recognition of laboratory activities in accordance with the principles of the ISO 17025 standard confirm the high level of technological acumen and expertise achieved.

In Smart Gas Metering, all activities aimed at ensuring the quality of components, production processes and inspections of finished products were organised in accordance with the Group's policies, procedures and reliability standards.

In 2017 MeteRSit S.r.l. commenced production of semi-finished meters in Romania, and its Romanian plant was awarded both ISO 9001 compliance certification, including it within the scope of certification of MeteRSit S.r.l., and certification of compliance with Module D of the MID (Measuring Instruments Directive). The Audits by the certifying bodies on the ISO 9001:2008 quality system and by the accreditation bodies for the verification of the organisational and productive systems according to the MID and ATEX Directives, both in Romania and Italia, did not present any difficulties.

Human resources and organisation

Details on Group employees at year-end are reported in the following table:

	at 31/12/2017	%	at 31/12/2016	%	change
Executives	31	1%	28	2%	3
White-collar	395	17%	389	20%	6
Blue-collar	1,568	69%	1.359	71%	209
Temporary	267	12%	135	7%	132
Total	**2,261**	**100%**	**1,911**	**100%**	**350**

At 2017 year-end:

- the Smart Gas Metering Division had 123 employees, of whom 88 in Italy and 35 abroad; there were 55 in total in 2016, all in Italy;
- at Group level, employees located in Italy numbered 905 (40%), with those based in other countries numbering 1,356 (60%). In the previous year, there were 814 (43% of the total) and 1,097 (57% of the total), respectively.

At the Group level, there were 2,123 employees on average in 2017, compared to 1,950 in 2016, an increase of 173 or 8.9%.

Organisational development affected the following areas in particular in 2017:

Procurement. Following the recruitment of a new department head, the Procurement Department reorganised the general categories of goods for which each buyer is responsible to better face the challenges related to projects aimed at rationalising the supplier base in view of implementation of the Group's sourcing strategies.

Customer focus. There was a change in the senior management of the U.S. branch. The incoming executive boasts extensive experience with a major industry multinational.

Human Resources. The organisation and processes (in Italy, as well as in Romania and Mexico) were redesigned in 2017, following the turnover naturally associated with an organisational development project supported by the introduction of a new IT system dedicated to human resource administration and management.

In R&D efforts, the process of reorganising and focusing competencies that began in 2016 continued, with the centralisation in Padua of competencies relating to fan products and plans for development in this area in 2018.

Training

In 2017, various training activities were developed, focused on technical, specialist and security skills, according to the guidelines issued under the approved strategic memorandum.

Among the various courses, mention should be made of the projects launched in the area of designing the analysis of tolerance chains for products with the support of specific software. Over 30 individuals from the departments Innovation & New Product Introduction, Demand Flow Management and Quality participated in this training process.

Another training package consists of a set of safety courses intended to cover all related company needs, present and future, involving over 300 employees at the Group's Italian plants.

A part of the training provided in 2017 benefited from funding provided by Fondimpresa within the framework of a Training Plan submitted and approved on April 20, 2017 entitled "*Training to compete: company strategic competencies*".

Collectively, the employees of SIT S.p.A. and MeteRSit S.r.l. received approximately 4,600 hours of training in 2017.

Risk management policy

The effective management of risk is a key factor in maintaining the Group's value over time.

In order to optimise this value, in 2017 the Company completed the implementation of enterprise risk management within its Smart Gas Metering Division.

Enterprise Risk Management is an operating instrument which, through organisational structures and specific rules and procedures for the identification, measurement, management and monitoring of the main risks, supports correct business conduct in line with the objectives established by the Board of Directors and the undertaking of knowledgeable decisions consistent with the risk propensity, in addition to creating a greater general awareness of risks, legal compliance and company values.

A similar enterprise risk management project will extend to the Heating Division in 2018.

The monitoring, mitigation and risk management activities are implemented continuously by the various corporate bodies, in addition to the various departments in the course of operations.

The risk management activities overseen and coordinated by the Group's Governance & Legal Department are complementary to those performed by the Control and Risks Committee and the Supervisory Board.

In line with best international practice, the SIT Group adopts the following classification of risks:

- External risks;
- Strategic risks;
- Operating risks;
- Financial risks.

External risks

Country risk

Due to its international presence, the SIT Group is exposed to Country risk i.e. the risk of changes to the political and socio-economic conditions of particular regions. This risk is however mitigated by the adoption of a business diversification policy by product and region, therefore balancing the risk at Group level.

Strategic risks

Innovation

SIT is exposed to technological development risks. In order to maintain a competitive advantage, SIT invests heavily in R&D, both with regard to existing technologies and new applications (as confirmed by the major new research laboratory construction project recently introduced); the capacity to produce value depends also on the SIT Group's capacity to correctly interpret market demands and convert them into innovative and technologically reliable products which are competitively priced for the end customer.

Operating risks

The main operating risks with regard to the nature of the business are those related to the supply chain, the unavailability of production facilities, product sales, international economic conditions, workplace health and safety and the environment and, to a lesser extent, the regulatory framework in the countries in which the Group is present.

Supply Chain

The supply chain risk concerns the volatility of raw material prices (very apparent in 2017) and the dependence on strategic suppliers. In order to offset this risk, the Company has adopted a more focused policy for the identification of alternative suppliers which maintains the assessment of their financial solidity. In 2017, considerable attention continued to be devoted to contractual coverage of suppliers, enabling more transparent and clearer relationships with suppliers.

Business Interruption

For the mitigation of the risk related to the availability of production facilities and their continued operation, loss prevention activities (business continuity procedures) have been executed in order to eliminate existing risk factors in terms of the probability of occurrence and to establish protections to limit their impact. Business interruption mitigation measures were taken for the supply of components through a diversification of suppliers, the creation of consignment stocks and the use, where possible, of suppliers close to production plant.

Product quality

SIT considers of fundamental importance the risk related to the marketing of products, in terms of quality and safety. The Group has since its foundation been committed to mitigate this risk through controls on quality and processes and on suppliers, in addition to prevention of error activities. These latter were undertaken in order to prevent problems arising through utilising specific Robust Design methodologies such as Failure Mode & Effect Analysis (FMEA), Quality Function Deployment (QFD), and Advanced Product Quality Planning (APQP).

Environment, health and safety

For the SIT group, a focus on the environment and on workplace safety is a shared and central value which has guided the Group's strategic, production and organisational choices.

Over the years, the SIT Group has carried out significant human resource, organisational and technical and economic project investment, circulating a clear Environmental Policy.

The production process – both in Italy and abroad – is constantly monitored in order to minimise the environmental impact and/or risk relating to the use of products or production facilities in a way that has repercussions for humans and the environment both as regards internal working aspects and the conditions of the area surrounding operating facilities – all in strict accordance with applicable legislation.

With regard to the environmental aspect in particular, ISO 14001/2004 environmental certification was renewed for the Rovigo, Monterrey (Mexico) and Brasov (Romania) facilities in 2017. In 2017, the Rovigo facility confirmed the AIA (Integrated Environmental Authorisation) certification. For the purposes of calculating atmospheric CO2 emissions, the layout of the air conditioning and cooling systems serving the equipment and installations at the Group's Italian facilities was confirmed for the competent authorities in 2017. This monitoring will also assume increasing importance within the framework of non-financial reporting pursuant to Legislative Decree No. 254/16.

The industrial operations of SIT do not fall within the classification of dangerous industries and therefore there are no significant workplace safety problems; these situations are however duly managed in compliance with the applicable regulations (Legislative Decree 81/08 - Consolidated Safety Act). On a half-yearly basis, the Safety Plan is drawn up which describes for each Italian industrial site the activities carried out in relation to the existing regulations and establishes objectives to be achieved in the subsequent three-year period. Contemporaneously, for the Italian facilities, the Safety Audit document is also issued concerning the previous half-year.

In recent years, thanks to the continual application of increasingly modern and efficient technical safety rules, the number of accidents has been reduced. In particular, at the Rovigo facility and the Padua site, no accidents have occurred for nearly four years, while at the Macerata facility accidents have reduced approx. 90% since 2013. In particular, in 2017 the number of days of absences from the SIT Group's Italian facilities caused by accidents was the lowest of the last ten years. Accordingly, the severity index was also the lowest of the last ten years. This allows the Italian production units to request a reduction in the INAIL rate, which was attained also in 2017 and each year since 2011.

Finally, information and training is considered of extreme importance; in 2017 a number of training courses for all direct and indirect personnel were held, in compliance with the State-Regions agreement. Refresher courses on subjects such as first aid, fire prevention, etc., were held at all plants.

Legal & Compliance

SIT is exposed to the risk of delayed compliance with newly issued sector and market laws and regulations.

In order to mitigate this risk, each compliance function continuously oversees the development of the regulatory framework through ongoing legislative updating and analysis and, where necessary, utilises outside consultants.

In connection with its inclusion in the AIM market of the Italian Stock Exchange in July 2017, the SIT Group adopted a corporate governance system with roles, responsibilities and committees adequately defined in procedures and policies, as required by legislation applicable to listed companies, with the additional aim of ensuring shared strategic decisions, transparency and parity of information.

In relation to disputes, the Governance & Legal Department periodically monitors the development of potential disputes or those in place and establishes the strategy to be followed and the most appropriate management actions, involving in this regard the relevant company departments. In relation to these risks and the related economic effects, appropriate assessments are carried out together with the Finance Department.

In July 2017, the Company updated its Code of Ethics and Organisation, Management and Control Model pursuant to Legislative Decree No. 231/01 with the aim of reinforcing its policy, following its IPO, of pursuing a management style inspired by the utmost transparency and integrity, sensitive to the governance and internal control issues discussed above.

Particular attention was placed on compliance requirements, regulatory provisions and best practices, both with regards to company documents and internal and external relations.

The Supervisory Board met periodically, while the Board of Directors was informed upon their activities through the Half-Year Supervisory Body Report for 2017.

Personal data protection compliance

In relation to Legislative Decree No. 196/03 (Personal Data Protection Act), the Group companies have adopted specific and appropriate organisational and technical measures for the security of personal data, as described in the annual Personal Data Protection Code. The SIT Group launched in 2017 a project to achieve compliance with the General Data Protection Regulation, the new Regulation No 2016/679 of the European Parliament of April 27, 2016 on the protection of personal data, to be completed by May 2018.

Insurance coverage

In compliance with the Group insurance management policies, the Company, in partnership with its insurance broker, carried out an extensive assessment of the types of significant risk and the range of insurance coverage available on the market. Specifically, in coverage of all Group companies, insurance policies were signed for personal injury and/or property liability from the malfunctioning of products; the liability of Directors, Statutory Auditors, Executives and Managers; damage to company property, including damage from the interruption to production, in addition to goods, also during transport and finally injury to Employees in the exercise of their duties.

Planning and Reporting

In order to prepare accurate and reliable earnings and financial disclosure, the SAP IT system was updated both for transactional management and statutory operating reporting with the latest releases available, therefore improving the Internal Control System, in addition to the quality, timing and comparability of the data of the various consolidated entities.

Financial Risks

In relation to financial risk management, the SIT Group has issued the following Group policies:

- Foreign exchange risk management policy;
- Interest rate risk management policy.

The scope of these policies is to govern, within a shared framework, the management approach, the objectives, the roles, the responsibilities and the operating limits of the financial risk management activities.

In this regard, the Group has centralised in the parent company SIT S.p.a. the management of the financial risks of the subsidiaries, coordinating the Group processes, operating mechanisms and the relative organisational procedures.

Currency risk

The SIT Group is exposed to the risk of fluctuation of exchange rates since it operates in an international context in which transactions are undertaken in currencies other than the functional currencies of the individual investees or the Group's functional currency (the Euro). The Group's exposure to foreign exchange risk is therefore a consequence of the geographical distribution of the markets in which it sells its products, the location of its production facilities and the use of sources of procurement denominated in other currencies.

The main items of the financial statements exposed to foreign exchange risk are:

(i) Costs and revenues relating to purchases and sales of products and services transacted in a currency other than the functional currency of the investee or the Group;

(ii) Operating costs and revenues attributable to the conduct of business in countries that use currencies other than the Euro;

(iii) Trade receivables and payables referring to the deferral of payment granted in settling the transactions set out in points (i) and (ii) above and any other items of working capital denominated in currencies other than the functional currency.

(iv) Debt (or deposits) in a currency other than the functional currency. As a matter of course, the debt of investees is denominated in their functional currency. However, where debt is denominated in a currency other than the accounting currency, foreign exchange risk is managed in accordance with the guidelines of the aforementioned policy;

(v) Equity investments: Equity investments are exposed to foreign exchange translation risk as a consequence of the translation into Euro of the financial statements of investees. Given the strategic nature of the equity investments held by SIT S.p.A., it is the Group's policy not to undertake hedging of the foreign exchange risk associated with net investments in foreign operations;

(vi) Dividends: Any dividends distributed by international investees denominated in a currency other than the Euro are exposed to foreign exchange risk from the date on which they are approved until the date on which they are paid. The foreign exchange risk resulting from such exposure is managed according to the guidelines set out in the aforementioned policy.

In order to reduce foreign exchange risk at the Group level, as a matter of general policy SIT S.p.A. undertakes natural hedging, setting off opposing exposures with related risk profiles against one another.

In the Group's operations, exposure to foreign exchange risk arises annually when the prices of purchase and sale are set, which is when the exchange rates used in the budget are also determined.

The Group regularly assesses its exposure to foreign exchange risk and manages the resulting net risk through the use of derivative and non-derivative financial instruments. Such financial instruments are used solely to manage the exposure resulting from expected cash flows and assets and liabilities (hedging activities).

Speculative activity is not permitted.

Despite the existence of these policies and compliance with foreign exchange risk management procedures aimed at mitigating and hedging risk, abrupt fluctuations in exchange rates could nonetheless have an adverse impact on the SIT Group's business, financial performance, financial position, operating results and outlook.

The performances of the main market exchange rates of interest to the SIT Group are provided in the following table:

Euro/Currency	**2017**		**2016**	
	at December 31	**Average**	**at December 31**	**Average**
Mexican Peso	23.661200	21.328607	21.7719	20.667305
Argentinean Peso	22.931000	18.740841	16.748806	16.342012
Romanian Leu	4.658500	4.568789	4.539	4.490426
US Dollar	1.199300	1.129681	1.0541	1.106903
Canadian Dollar	1.503900	1.464723	1.4188	1.465878
Czech Crown	25.535000	26.325784	27.021	27.034287
Australian Dollar	1.534600	1.473167	1.4596	1.488282
Chinese Yuan	7.804400	7.629002	7.3202	7.352221

In 2017, the nature and the structure of the exposure and the Group monitoring and control policies did not change substantially compared to the previous year.

Hedging activities primarily consisted of forward purchases and sales. The values of the transactions outstanding as at the reporting date are presented in the notes.

Interest Rate Risk

The SIT Group is exposed to the risk associated with the fluctuation of market interest rates, since it has assets and liabilities that are sensitive to changes in market interest rates.

SIT management regularly assesses the exposure of the Group to interest rate risk and manages these risks also through the use of derivative financial instruments, in compliance with the company financial risk management policies. Under these policies, utilisable financial instruments (so-called plain vanilla) have been undertaken, while no type of speculative activity is permitted.

Despite the existence of these policies and compliance with the interest rate risk management procedures established in such policies, aimed at mitigating and hedging risk, abrupt fluctuations in interest rates could nonetheless have an adverse impact on the SIT Group's business, financial performance, financial position, operating results and outlook.

On July 3, 2017, SIT contracted a new loan (the Senior Financial Agreement 2017, described above) of Euro 135,000 thousand, disbursed on July 13, 2017, with a variable interest rate based on the six-month Euribor benchmark. On August 1 and 2, 2017 SIT and the banks that extended the loan, each on a proportional basis, entered into a transaction hedging against interest rate risk in the form of an interest rate swap for a total amount of Euro 124,000 thousand, or 91.85% of the underlying nominal value.

The details and values of the transactions outstanding as at the reporting date are presented in the notes.

Risk of raw material price fluctuations

The SIT Group's production costs are influenced by the prices of various raw materials, such as copper and aluminium, through both the direct purchase of the materials in question and the effect of fluctuations of the cost of purchasing such materials on the cost of purchasing components and semi-finished goods that contain significant amounts of the materials concerned.

In order to mitigate these risks, the SIT Group constantly monitors the availability of raw materials on the market and the trends in the price of such materials, with the aim of promptly identifying any shortages and taking the resultant action appropriate to ensuring the needed production capacity and keeping its production costs competitive. The Group also enters into agreements hedging against the risk of fluctuations of raw materials prices, where deemed appropriate in the light of projections.

However, there remains a possibility that a hypothetical shortage and/or material fluctuations of the price of purchasing the materials concerned could in future have an adverse effect on the Group's business, financial performance, financial position, operating results and outlook.

During 2017 the structure and nature of the exposure to the risk of fluctuation of raw materials prices and the monitoring and supervision policies adopted by the Group did not change substantially with respect to the previous year, nor are there any outstanding transactions hedging against raw materials risk set to mature within one year.

The details and fair values of the hedging transactions outstanding as at the reporting date are presented in the notes.

Credit risk

The credit risk deriving from normal Company operations with commercial counterparties is managed and controlled within the procedures for the allocation and monitoring of client credit standings, in order to ensure sales are made to reliable and solvent clients. The Parent Company coordinates the credit management process for all Group companies through periodic reporting and meetings. This process is based on available information regarding the solvency of clients in view of past performance, according to credit limits set for each client. In addition, the maturity of trade receivables is monitored on an ongoing basis throughout the year in order to anticipate and promptly intervene on credit positions which present greater risk levels.

At the reporting date, there are no significant concentrations of credit risk.

Liquidity Risk

Liquidity risk may arise from difficulties in sourcing at appropriate conditions and timeframes the funding necessary for Company and Group operations.

In relation to liquidity risk, considering the nature of the business and historic operating cash flows, the Group does not present particular risks related to the sourcing of funding.

In this regard, SIT continually monitors risks in order to offset any impacts and undertake appropriate corrective actions. The Group adopted the following policies and processes aimed at optimising the management of financial resources, reducing the liquidity risk:

- maintenance of an adequate level of liquidity;
- obtaining of adequate credit lines;
- monitoring of future liquidity conditions with the support of internal company planning processes.

The cash flows, financial requirements and availability of temporary liquidity of the Group are monitored and managed centrally by the Parent Company SIT, which carried out the Group Treasury Management and Financial Coordination to ensure an effective and efficient management of financial resources.

With regards to the new loan of Euro 135,000 thousand contracted by SIT and disbursed on July 13, 2017, as is customary in this sort of transactions, the loan agreement includes covenants based on items of the financial statements, to be verified on a semi-annual basis. Failure to comply with these covenants would trigger the acceleration clause in respect of the Company.

As at December 31, 2017 – the date of first verification – the Company was in compliance with all covenants.

Reconciliation of net equity and the net result

The reconciliation between the net equity and the net result of the Parent Company and the consolidated net equity and net result is reported below:

(Euro thousands)	Net Equity at 31/12/2017	Profit FY 2017
Statutory financial statements of the parent company	**122.434**	**(30.604)**
Difference between the carrying amount of the investments and net equity and net profit of the consolidated subsidiaries	(14,711)	8,234
Elimination of intercompany gains and losses	(2,629)	(21)
Adjustments in the financial statements of the consolidated companies in line with group accounting policies	643	(203)
Elimination dividends from investees	-	(1,549)
Other adjustments	16	816
Minority interest capital and reserves	-	-
Group & Minority int. consol. financial statements	**105,753**	**(23,327)**

Transactions with subsidiary, associate and parent companies and those under their control

SIT S.p.A. is a company incorporated in Italy at the Padua Companies Registration Office.

At December 31, 2017, the company held 64,845 treasury shares, equal to 0.27% of the share capital.

SIT S.p.A. exercises direction and coordination in accordance with Article 2497 and subsequent of the Civil Code over its Italian subsidiary. It is not subject to management and coordination, pursuant to Articles 2497 and subsequent of the Italian Civil Code, by the holding company, SIT Technologies S.p.A.

For information regarding the procedural rules applicable to related party transactions, see the procedure adopted by the Company in accordance with Article 13 of the AIM Italia Rules for Companies and Article 10 of the Regulations containing provisions relating to transactions with related parties adopted by Consob with Resolution no. 17221 of March 12, 2010, later amended by Resolution no. 17389 of June 23, 2010, published in the Corporate Governance section of the website www.sitgroup.it.

In 2017, the Parent Company carried out the following transactions with related parties and presented the following balances at the reporting date:

(Euro thousands)	Operating revenues	Operating costs	Financial income	Financial charges	Financial receivables	Financial payables	Other receivables	Other payables
Subsidiaries	**66,167**	**54,927**	**2,503**	**125**	**15,938**	**26,815**	**21,949**	**11,443**
SIT Immobiliare S.p.A.	14	-	2	-	51	-	15	-
Companies subject to the control of the holding company	**14**	-	**2**	-	**51**	-	**15**	-
SIT Technologies S.p.A.	124	100	162	3,972	674	12,220	30	-
Holding company	**124**	**100**	**162**	**3,972**	**674**	**12,220**	**30**	-

Transactions with subsidiaries, i.e. companies within the scope of consolidation, were undertaken in the normal course of the Group's business with the aim of realising possible synergies between

Group companies by integrating their production and commercial activities, as well as their administrative and financial activities.

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

The loan extended by the Parent Company to the subsidiary MeteRSit S.r.l. with a nominal value as at the reporting date of Euro 7,500 thousand within the framework of an interest-free line of credit of a total of Euro 15,000 thousand represents an exception. It should be noted that this loan has been accounted for in the separate financial statements of the Parent Company according to the amortised cost method, which involves recognising an implicit interest rate.

Reference should be made to the Explanatory Notes for further details on inter-company transactions.

Turning to transactions with related parties:

- The Company's operating revenues generated on transactions with SIT Immobiliare S.p.A. and SIT Technologies S.p.A. refer to advice and counsel provided by the Company in financial, administrative, tax and management control matters under a service agreement.
- The Company's costs in respect of SIT Technologies S.p.A. refer primarily to the recharge of costs incurred by SIT Technologies within the framework of the annual management of the Shareholders' Loan (such as legal fees, trustee's fees, principal paying agent's fees, and similar items). This Shareholders' Loan was repaid in full in the course of the year within the framework of the 2017 SIT Refinancing previously disclosed.
- Financial charges paid to the holding company, SIT Technologies S.p.A., refer mainly to interest charges accrued on the Shareholders' Loan, of which Euro 1,565 thousand of amortised cost recognised in the 2017 income statement due to the early repayment of the said Loan in 2017 within the framework of the broader 2017 SIT Refinancing previously disclosed.
- The financial payables of Euro 12,220 thousand due to the holding company, SIT Technologies S.p.A., consist of the value of the Performance Shares of Euro 11,500 thousand and the value of the SIT Warrants held by the said parent company of Euro 720 thousand. Both of these financial liabilities have been designated at fair value as at December 31, 2017, as described in further detail in the Explanatory Notes.

- The financial receivables claimed by the Parent Company from SIT Immobiliare S.p.A. and SIT Technologies S.p.A. refer to the outstanding balance as at the reporting date of a line of credit extended by the Company to the two parties concerned in the amounts of Euro 500 thousand and Euro 1 million, respectively, intended in both cases to finance the two companies' normal operations.

Finally, the Parent Company, SIT Immobiliare S.p.A., SIT Technologies S.p.A. and MeteRSit S.r.l. participate in the national tax consolidation procedure for 2016-2018. The parties to this procedure, which is governed by Legislative Decree No. 344 of December 12, 2003, and in particular by Articles 117 to 129 of the Consolidated Income Tax Law, are SIT Technologies S.p.A. as the consolidating entity and the other companies as consolidated entities, as approved by their respective governing bodies.

Performance of the subsidiary companies

Business sector: Heating

SIT S.p.A. (Padua). The company operates in the sector for the design, manufacturing and sale of gas safety and control systems for domestic heating appliances and industrial ovens. Revenues totalled Euro 234,804 thousand, while the company reported a net loss of Euro 30,604 thousand.

SIT Controls B.V. (Netherlands). The company produces electronic safety and control boards for heating appliances for the European market and, in particular, condensing boilers for the Central Heating market. Revenues in the year totalled Euro 31,385 thousand, with a net profit of Euro 2,058 thousand.

SIT Controls Deutschland GmbH (Germany). The group company, held indirectly by SIT S.p.a., is a commercial company operating principally in Germany. Revenues in the year totalled Euro 1,622 thousand. The net profit was Euro 539 thousand.

SIT Controls CR s.r.o. (Czech Republic). The group company, held indirectly by SIT S.p.A., is engaged in the promotion of Group products in Eastern Europe. Revenues in the year totalled Euro 1,234 thousand. The net profit was Euro 311 thousand.

SIT Romania S.r.l. (Romania). The company, indirectly held by SIT S.p.A., is located in Brasov and assembles mechanical controls and integrated gas systems. Revenues in the year totalled Euro 57,485 thousand. The net profit was Euro 1,772 thousand.

SIT Manufacturing N.A.S.A. de C.V. (Mexico). The company, held indirectly by SIT S.p.A., produces and sells mechanical controls, sensors and accessories for the North and South American and local markets. Revenues in the year totalled Euro 47,151 thousand. The net profit was Euro 2,851 thousand.

SIT de Monterrey Manufacturing N.A.S.A. de C.V. (Mexico). The company, held indirectly by SIT S.p.A., reported revenues in the year of Euro 3,090 thousand. The net profit was Euro 2 thousand.

SIT Controls U.S.A., Inc. (USA). The subsidiary is involved in the sale of Group products in the United States. Revenues in the year totalled Euro 2,257 thousand. A net loss of Euro 33 thousand was reported in the year.

SIT Controls Canada, Inc. (Canada). The company, held indirectly by SIT S.p.A., reported in the year revenues of Euro 302 thousand and a net profit of Euro 113 thousand.

SIT Gas Controls Pty Ltd (Australia). The subsidiary is a commercial company involved in the sale and distribution of gas controls on the Australian market. Revenues in the year totalled Euro 6,943 thousand. The net profit was Euro 203 thousand.

SIT (Shanghai) Trading Co., Ltd (China). The company sold Group products on the Chinese market; these operations concluded in 2014 and the company is in liquidation. The loss in the year was Euro 36 thousand.

Sit Manufacturing Suzhou Co, Ltd (China). The company, located in Suzhou, China, principally produces mechanical controls for the local market. The range integrates with third party products and those of other Group companies. The company reports revenues of Euro 22,189 thousand, with a net profit of Euro 717 thousand.

Sit (Argentina). The company was incorporated in 2013 to manage the import into the country of group products. The company reports total revenues of Euro 37 thousand and a net profit of Euro 2 for the year.

Business sector: Smart Gas Metering

MeteRSit S.r.l. (Padua). The company, of which SIT S.p.A. holds 100%, is involved in the design, production and sale of new generation gas meters (smart gas meters). The company in 2017 reported revenues of Euro 61,134 thousand and a net profit of Euro 23 thousand.

Metersit Romania S.r.l. (Brasov). The company, indirectly held by SIT S.p.A., was incorporated on November 15, 2016 and produces components for new generation gas meters (smart gas meters). The company reports revenues of Euro 11,536 thousand, with a net profit of Euro 108 thousand.

Subsequent events and outlook

Following the resolution passed by the Company's Shareholders' Meeting on December 18, 2017 regarding the plan to obtain listing on the MTA market operated by Borsa Italiana S.p.A., the necessary preliminary activities were begun and remain ongoing.

In terms of business performance, there continue to be excellent prospects for both the Heating market - where for the time being demand is still robust on emerging markets - and the Smart Gas Metering market, where the existing order backlog is sufficient for most of the current year.

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The Board of Directors of SIT S.p.A. proposes to the Shareholders' Meeting:

- to use part of the "Share premium reserve" of Euro 18,379,907 to increase the legal reserve pursuant to Article 2430 of the Italian Civil Code to one-fifth of share capital;
- to use part of the "Incorporated fair value reserve" of Euro 28,402,429 to cover the loss for the year;
- to use part of the "Incorporated fair value reserve" of Euro 2,672,042 to increase the Warrant reserve by Euro 2,672,042;
- to use the remainder of the "Incorporated fair value reserve" of Euro 246,098 to decrease losses carried forward;
- to release Euro 121,331 from the IAS/IFRS first-time adoption reserve to decrease losses carried forward;
- to carry forward the residual loss for 2017 of Euro 2,201,307;
- to distribute a dividend of Euro 0.25 per share, for a total of Euro 5,985,566 as at today's date, drawing on the extraordinary reserve and part of the capital payments reserve.

As our mandate has concluded, we thank the Board of Statutory Auditors and the employees of the company for the hard work undertaken in the fulfilment of their duties.

Padua, March 20, 2018

The Chairman of the Board of Directors

Federico de Stefani

Financial Statements

at December 31, 2017

BALANCE SHEET

(Euro thousands)	Note	at 31/12/2017	at 31/12/2016	
Goodwill	1	78,138	78,138	
Other intangible assets	1	73,286	80,715	
Property, plant & equipment	2	47,778	41,913	
Investments	3	54	156	
Non-current financial assets	4	1,551	1,554	(1)
Deferred tax assets	5	8,742	7,505	
Non-current assets		**209,549**	**209,981**	
Inventories	6	38,130	38,490	
Trade receivables	7	52,126	44,660	
Other current assets	8	6,282	4,585	
Tax receivables	9	3,023	2,370	
Other current financial assets	4	735	383	(1)
Cash and cash equivalents	10	70,024	33,828	
Current assets		**170,320**	**124,316**	
Total assets		**379,869**	**334,297**	
Share capital	11	96,149	73,579	
Reserves	12	32,931	(6,056)	
Group net profit/(loss)		(23,327)	1,740	
Minority interest net equity		-	-	
Shareholders' Equity		**105,753**	**69,263**	
Medium/long-term loans and borrowings	13	121,060	110,056	
Other non-current financial liabilities and derivative financial instruments	14	288	32,745	
Provisions for risks and charges	15	2,897	2,679	
Post-employment benefit provision	16	6,358	6,036	
Other non-current liabilities	17	506	5	
Financial liabilities for Performance Shares	18	11,500	-	
Deferred tax liabilities	19	20,276	22,225	
Non-current liabilities		**162,885**	**173,746**	
Short-term loans and borrowings	20	11,537	10,126	
Other current financial liabilities and derivative financial instruments	21	2,979	6,057	
Trade payables	22	68,367	59,965	
Other current liabilities	23	14,792	14,406	
Financial liabilities for Warrants	24	12,551	-	
Tax payables		1,005	734	
Current liabilities		**111,231**	**91,288**	
Total liabilities		**274,116**	**265,034**	
Total Shareholders' Equity and Liabilities		**379,869**	**334,297**	

The changes to the 2016 consolidated financial statement values presented for comparative purposes against the filed 2016 consolidated financial statements were as follows:
-(1) Reclassification for Euro 215 thousand from "Non-current financial assets" to "Other current financial assets".

INCOME STATEMENT

(Euro thousands)	Note	2017	2016	
Revenues from sales and services	**25**	**323,958**	**288,138**	
Raw materials, ancillaries, consumables and goods	26	176,274	149,437	(2)
Change in inventories	26	(733)	(347)	(2)
Service costs	27	37,583	33,534	
Personnel expense	28	65,491	61,624	(3)
Depreciation, amortisation and write-downs	29	19,045	19,977	(3)
Provisions	30	885	281	
Other charges (income)	31	242	155	(3)
EBIT		**25,171**	**23,477**	
Investment income/(charges)		-	-	
Financial income	32	2,892	42	
Financial charges	33	(49,759)	(19,761)	
Net exchange gains (losses)	34	435	1,329	
Impairments on financial assets		(101)	(3)	
Profit(loss) before taxes		**(21,362)**	**5,084**	
Income taxes	35	(1,965)	(3,364)	
Net profit/(loss)		**(23,327)**	**1,720**	
Minority interest result		-	**(20)**	
Group net profit/(loss)		**(23,327)**	**1,740**	
Earnings per share				
basic (*)		(1.1570)	0.1013	
diluted (*)		(1.1570)	0.1013	

The changes to the 2016 consolidated financial statement values presented for comparative purposes against the filed 2016 consolidated financial statements were as follows:

-(2) The account “Raw materials, ancillaries, consumables and goods" in the financial statements filed at December 31, 2016 also included "Changes in inventories" which, in 2017, the company decided to show separately for the sake of clarity; therefore, for comparative purposes, the value is also shown for the year 2016 through reclassification;

-(3) With respect to the version filed, the account "Other charges (income)” does not include the amounts relating to the reversal of provisions (write-down of inventories, employee benefits and doubtful debt provision) which were more correctly reclassified with the respective provisions.

(*) The methods of calculating the basic earnings (loss) per share and the diluted earnings (loss) per share are defined by IAS 33 – Earnings per Share. The basic earnings (loss) per share is defined as the ratio between the Group’s net result or the result of operating activities in the pertinent year attributable to the holders of ordinary capital instruments and the weighted average number of ordinary shares outstanding during the period (20,161,306 shares in 2017 and 17,182,380 shares in 2016).
Diluted earnings (loss) per share correspond to the basic loss. The antidilutive effects linked to additional ordinary shares that would be outstanding in the event of the conversion of all ordinary shares with potential dilutive effect deriving from warrants and Performance Shares were not considered, as required by IAS 33.

COMPREHENSIVE INCOME STATEMENT

(Euro thousands)	**2017**	**2016**
Net Profit/(loss)	**(23,327)**	**1,720**
Other comprehensive income statement items which may be subsequently reclassified to the profit/(loss) for the year, net of taxes		
Net change in cash flow hedge reserve	1,466	(164)
Income taxes	(352)	(44)
Total unrealised financial asset gains/(losses)	**1,114**	**(208)**
Translation of financial statements in currencies other than the Euro	(3,644)	(3,424)
Total other comprehensive income statement items which may be subsequently reclassified to the profit/(loss) for the year, net of taxes	**(2,530)**	**(3,632)**
Other comprehensive income statement items which may not be subsequently reclassified to the profit/(loss) for the year, net of taxes:		
Unrealised actuarial gains/(losses)	18	(228)
Income taxes	(5)	47
Total unrealised actuarial gains/(losses)	**13**	**(181)**
Total other comprehensive income statement items which may not be subsequently reclassified to the profit/(loss) for the year, net of taxes	**13**	**(181)**
Total other comprehensive income/(expense) for the year, net of taxes	**(2,517)**	**(3,813)**
Total comprehensive income/(expense)	**(25,844)**	**(2,093)**
Total comprehensive income/(expense) for the year attributable to:		
Parent company shareholders	(25,844)	(2,073)
Minority shareholders	-	(20)

CASH FLOW STATEMENT

(Euro thousands)	**2017**	**2016**
Net Profit/(loss)	(23,327)	1,720
Accessory acquisition costs	-	-
Amortisation & Depreciation	18,922	19,735
Non-cash adjustments	3,662	3,820
Income taxes	1,965	3,364
Net financial charges	46,868	19,719
CASH FLOW FROM CURRENT ACTIVITIES (A)	**48,090**	**48,358**
Changes in assets and liabilities:		
Inventories	421	654
Trade receivables	(7,590)	(292)
Trade payables	8,939	9,079
Other assets and liabilities	(4,805)	(4,178)
Income taxes paid	(3,479)	(3,273)
CASH FLOW GENERATED (ABSORBED) FROM CHANGES IN WORKING CAPITAL (B)	**(6,514)**	**1,990**
CASH FLOW FROM OPERATING ACTIVITIES (A+B)	**41,576**	**50,348**
Investing activities:		
Investments in property, plant & equipment	(16,107)	(8,220)
Other changes in property, plant & equipment	399	445
Investments in intangible assets	(1,628)	(1,267)
Other changes in intangible fixed assets	-	5
Investments in financial assets	-	(122)
Other changes in financial assets	5	8
Acquisition or sale of subsidiaries or business units net of cash and cash equivalents	-	(500)
CASH FLOW FROM INVESTING ACTIVITIES (C)	**(17,331)**	**(9,651)**
CASH FLOW FROM OPERATING & INVESTING ACTIVITIES (A + B + C)	**24,245**	**40,697**
Financing activities:		
Interest paid	(11,116)	(13,121)
Repayment of non-current financial payables	(126,333)	(10,400)
Increase (decrease) current financial payables	(2,025)	(982)
New loans	132,206	22,161
Shareholder loans	(24,541)	(25,000)
(Increase) decrease in financial receivables from holding company	(361)	(145)
(Increase) decrease in financial receivables from companies under control of holding company	19	(70)
Treasury shares	(661)	-
Change in translation reserve	(3,644)	(3,424)
Liquidity from merger	48,407	-
CASH FLOW FROM FINANCING ACTIVITIES (D)	**11,951**	**(30,981)**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (A + B + C + D)	**36,196**	**9,716**
Cash & cash equivalents at beginning of the year	**33,828**	**24,112**
Increase/(decrease) in cash and cash equivalents	36,196	9,716
Cash & cash equivalents at end of the year	**70,024**	**33,828**

Financial Statements

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Share premium reserve	Treasury shares reserve	Legal reserve	Other reserves								Profits/(losses) carried forward		Net profit/(loss) for the year	Group shareholders' equity	Minority interest Capital & Reserves	Total Group and Minority Interest Shareholders' Equity
					Translation differences of foreign currencies	Cash Flow Hedge Reserve	Capital payments	Actuarial reserve	Extraordinary reserve	Exchange gains reserve	Performance Share Reserve	Acquisition fair value reserve	Retained earnings unavail. art. 2359-bis c.c.	Retained earnings (accum. losses)				
December 31, 2015	**73,579**	**-**	**-**	**-**	**(733)**	**(1,748)**	**-**	**-**	**(1,635)**	**-**	**-**	**-**	**-**	**(12,138)**	**432**	**57,757**	**98**	**57,855**
Allocation of the 2015 result	-	-	-	-	-	-	-	-	-	-	-	-	-	432	(432)	-	-	-
Total 2016 comprehensive income	**-**	**-**	**-**	**-**	**(3,424)**	**(208)**	**-**	**(181)**	**-**	**-**	**-**	**-**	**-**	**-**	**1,740**	**(2,073)**	**(20)**	**(2,093)**
Share capital increase	-	-	-	-	-	-	13,999	-	-	-	-	-	-	-	-	13,999	-	**13,999**
Dividends distributed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
					-													
Transactions between shareholders	-	-	-	-		-	-	-	-	-	-	-	-	(422)	-	(422)	(78)	**(500)**
Other movements	-	-	-	-	-	-	-	(320)	322	-	-	-	-	-	-	2	-	**2**
Reclassifications	-	-	-	-	-	-	-	-	-	-			-	-	-	-	-	-
December 31, 2016	**73,579**	**-**	**-**	**-**	**(4,157)**	**(1,956)**	**13,999**	**(501)**	**(1,313)**	**-**	**-**	**-**	**-**	**(12,128)**	**1,740**	**69,263**	**-**	**69,263**

	Share capital	Share premium reserve	Treasury shares reserve	Legal reserve	Other reserves								Profits/(losses) carried forward		Net profit/(loss) for the year	Group shareholders' equity	Minority interest Capital & Reserves	Total Group and Minority Interest Shareholders' Equity
					Translation differences of foreign currencies	Cash Flow Hedge Reserve	Capital payments	Actuarial reserve	Extraordinary reserve	Warrant Reserve	Performance Share Reserve	Acquisition fair value reserve	Retained earnings unavail. art. 2359-bis c.c.	Retained earnings (accum. losses)				
December 31, 2016	**73,579**	**-**	**-**	**-**	**(4,157)**	**(1,956)**	**13,999**	**(501)**	**(1,313)**	**-**	**-**	**-**	**-**	**(12,128)**	**1,740**	**69,263**	**-**	**69,263**
Allocation of the 2016 result	-	-	-	850	-	-	-	-	2,804	-	-	-	-	(1,914)	(1,740)	-	-	-
Total 2017 comprehensive income	**-**	**-**	**-**	**-**	**(3,644)**	**1,114**	**-**	**13**	**-**	**-**	**-**	**-**	**-**	**-**	**(23,327)**	**(25,844)**	**-**	**(25,844)**
Transactions between shareholders - Merger	22,570	30,335	-	-	-	-	8,000	-	-	-	-	31,321	-	(914)	-	91,312	-	**91,312**
IPO Costs at net equity	-	(1,595)	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,595)	-	(1,595)
					-													
Transactions between shareholders - Merger	-	-	-	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Other movements	-	-	-	-	9	-	-	-	(8)	(15,223)	(11,500)	-	-	-	-	(26,722)	-	**(26,722)**
Acquisition of treasury shares	-	-	(661)	-	-	-	-	-	-	-	-	-	-	-	-	(661)	-	**(661)**
Reclassifications	-	-	-	-	-	-	-	-	8	-	-	-	-	(8)	-	-	-	-
December 31, 2017	**96,149**	**28,740**	**(661)**	**850**	**(7,792)**	**(842)**	**21,999**	**(488)**	**1,491**	**(15,223)**	**(11,500)**	**31,321**	**-**	**(14,964)**	**(23,327)**	**105,753**	**-**	**105,753**

Notes to the financial statements

at December 31, 2017

GENERAL INFORMATION

The SIT Group is headed by the parent company SIT S.p.A. (hereinafter, the parent company, SIT or the company), based in Padua and whose shares are listed on the AIM Italia market managed by Borsa Italiana S.p.A. The company is registered with the Trade Register of Padua at No. 04805520287 with registered office in Viale dell'Industria No. 31/33, Padua (PD).

The Group develops, manufactures and sells safety, control and comfort systems and high-performance gas equipment, principally for domestic use such as boilers, stoves, and water heaters, in addition to gas meters, equipped also with remote control, consumption measurement, reading and communication functionalities.

These financial statements were approved by the Board of Directors on March 20, 2017 and authorised for publication. The financial statements are subject to the approval of the Shareholders' Meeting.

In 2017, the merger (hereinafter, the Merger) between SIT S.p.A. and Industrial Stars of Italy 2 S.p.A. (hereinafter, ISI2 or ISI2 S.p.A.), a SPAC (Special Purchase Acquisition Company) listed on the AIM Italia market of Borsa Italiana S.p.A., was finalised as follows:

- On February 24, 2017, SIT, SIT Tech and Federico de' Stefani (in the capacity, respectively, of a SIT and SIT Tech shareholder), ISI2 and Giober, Spaclab and Spaclab 2 (in the capacity of ISI2 Company Promoters) signed the Framework Agreement ("Framework Agreement"), with which they set out, in a binding manner, the times, terms and means for execution of the merger between SIT S.p.A. and ISI2 S.p.A.;
- The Merger proposal, together with its annexes pursuant to law, was approved by SIT and ISI2's administrative bodies on March 31, 2017;
- The SIT and ISI2 Shareholders' Meetings made a decision on the Merger and associated transactions on May 5, 2017.

The Merger between Sit S.p.A. and ISI2 S.p.A. was therefore effective on July 20, 2017 with the simultaneous start of trading of the company's ordinary shares and warrants on the AIM Italia market managed by Borsa Italiana S.p.A.

With the merger by incorporation of ISI2 S.p.A. (listed non-operating company) into SIT S.p.A. (listed operating company), the former shareholders of ISI2 became the minority shareholders of

SIT S.p.A. with effect starting from July 20, 2017. In the merger, SIT was therefore considered as the acquirer and ISI2 as the acquiree, according to IFRS 3 guidelines.

Under the stated Framework Agreement, a series of financial transactions by SIT were established as conditions precedent to the Merger, having the dual objective of strengthening the company's financial structure and reducing the cost of financial debt. This series of transactions (hereinafter, SIT 2017 Refinancing) has taken place and is fully described and available in the Directors' Report.

BASIS OF PREPARATION

The consolidated financial statements of the SIT Group at December 31, 2017 were prepared in accordance with the international accounting standards (IFRS/IAS) issued by the International Accounting Standards Board (IASB) and adopted by the European Union, including all interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

The consolidated financial statements comprise:

- the Consolidated balance sheet classified by current and non-current assets and liabilities based on their realisation or settlement within the normal operating cycle, not more than 12 months subsequent to the reporting date;
- the Consolidated income statement which classifies costs and revenues by nature, which is considered a better representation of the Group performance than a segment breakdown.
- the Consolidated comprehensive income statement;
- the Consolidated cash flow statement prepared in accordance with the indirect method;
- the statement of changes in Consolidated shareholders' equity;

and corresponding Explanatory Notes containing the disclosure required by applicable legislation and by the reference international accounting standards.

The consolidated financial statements were prepared under the historic cost convention, except for derivative financial instruments, financial liabilities for warrants and performance shares which were recognised at fair value.

These consolidated financial statements are presented in Euro, the functional currency of the parent company and all amounts are rounded to thousands of Euro, except where otherwise indicated.

The financial statements used for the consolidation were prepared at December 31, 2017 by the Boards of Directors of the individual consolidated companies, adjusted, where necessary, in accordance with the accounting standards and policies adopted by the Group.

The consolidated financial statements fulfil the requirement for a true and fair view of the balance sheet, financial position, income statement and cash flows of the Group, in compliance with the general principles of going concern, the accruals concept, reliable presentation, correct classification, prohibition of offsetting and comparability of information.

The accounting standards and policies applied for the preparation of the consolidated financial statements at December 31, 2017 are the same as those adopted for the consolidated financial statements at December 31, 2016. It should be noted that reclassifications and changes to data presented at December 31, 2016 were made in order to ensure a better portrayal and interpretation of data.

The SIT Group consolidated financial statements were audited by the company EY S.p.A.

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS EFFECTIVE FROM JANUARY 1, 2017

The new international accounting standards and the amendment of existing standards, whose application is mandatory from January 1, 2017, are reported below:

- Amendments to *IAS 12 – Income taxes.* The IASB published some amendments to the accounting standard. The document “Recognition of Deferred Tax Assets for Unrealised Losses” (Amendment to IAS 12) clarifies the calculation of deferred tax assets on debt instruments measured at fair value.
- Amendments to *IAS 7 - Cash Flow Statement.* On January 29, 2016, the IASB published an amendment to the accounting standard concerning "The Disclosure Initiative" for better disclosure on the movement of financial liabilities.
- IFRS 2014-2016 Annual Improvements Cycle - on December 8, 2016, the IASB issued some minor amendments to *IFRS 12 (Disclosure of interests in other entities)*. The annual improvements dealt with the consistencies within IFRS and clarifications of a technological nature, which are not urgent but which were discussed by the IASB during the planning cycle.

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS EFFECTIVE FROM JANUARY 1, 2018

The new international accounting standards and the amendment of existing standards, introduced in 2016, whose application is mandatory from January 1, 2018, are reported below:

- IFRS 15 "*Revenue from contracts with customers*": the amendment to this standard improves the accounting of revenues and therefore, overall, the comparability of revenues in the financial statements.
- IFRS 9 "*Financial instruments*": the introduction of this new standard improves financial disclosure on financial instruments, dealing with problems arising during the financial crisis. In particular, IFRS 9 responds to the call for transition to a more prudent model for the recognition of expected losses on financial assets.
- *IFRS 2 – "Share-based payments":* on June 21, 2016, the IASB published the amendments to the accounting standard, with the aim of clarifying how to account for certain types of share-based payment transactions. The amendments concern: (i) the effects of "vesting conditions" and "non-vesting conditions" with regard to the valuation of cash-settled share-based payments; (ii) share-based payment transactions with a net settlement function for withholding tax obligations (iii) an amendment to the terms and conditions of a share-based payment that changes the transaction's classification from cash settlement to paid-in share capital. Amendments are applicable from January 1, 2018; earlier application is permitted but the Group will adopt these amendments prospectively from January 1, 2018. No substantial differences are expected from the application of these amendments on the consolidated financial statements or supplementary information.
- *Improvements to IFRS accounting standards* - The series of improvements, issued in December 2016, concerned the elimination of short-term exemptions provided for *First Time Adoption* by *IFRS 1*, the classification and measurement of equity investments valued at fair value and recognised in the income statement in accordance with IAS *28 - Investments in Associates and Joint Venture,* and clarification on the scope of disclosures required by IFRS 12 – Disclosure of Interests in Other Entities. The application of the introduced amendments is obligatory for financial years ending after January 1, 2017 and January 1, 2018.

The company has not opted for earlier application; no substantial differences are expected from the application of the revised accounting standards on the net result or shareholders' equity.

As regards IFRS 15, the Group expects to apply the new accounting standard as from the mandatory effective date. In the second half of 2017, the Group completed an assessment on the impact of the new accounting standard and evaluated whether to proceed to full or modified retrospective application. The Group also analysed possible impacts in terms of disclosures and, therefore, on systems, internal control, policies and procedures necessary for the collection and presentation of all information. This analysis was based on currently available information and may be subject to changes on the basis of additional information which may become available in 2018.

However, given that the type of business primarily involves the sale of goods and the recognition of revenues at a given time, there were no important impacts from an accounting perspective, nor significant implementation difficulties in amending the disclosure.

The Group analysed the following aspects in the process of evaluating the impact of the new IFRS 15 accounting standard:

- Variable consideration: most customer contracts include a right of return, trade discounts, volume-based discounts or cash discounts. The Group currently recognises revenues from the sale of goods at the fair value of the consideration received or is to be received, net of adjustments for returns, trade discounts, volume discounts and cash discounts. These types of revenue adjustments generate what the IFRS 15 defines as variable consideration, which must be estimated at the revenue's date of recognition. IFRS 15 requires that the variable consideration's initial estimate is limited to prevent the over-recognition of revenues. The Group is of the opinion that the amounts' variable component is marginal.

- Right of return: according to IFRS 15, the amount received from the customer is variable since the contract allows the customer to return the products. The company has decided to use the statistical method to value the goods that will be returned as it is considered to be the best method to estimate the amount of the variable consideration which the Group is entitled to. In defining the amount of the variable consideration that can be included in the transaction price, the Group applied IFRS 15 requirements in limiting the estimates of the variable consideration and has concluded that it will not be necessary to make any adjustment for 2017 since it is not considered significant.

- Guarantees given for obligations: in its contracts with customers, the Group normally provides guarantees for general repairs and does not provide extended guarantees.
- Customer advances: generally, the Group only receives short-term advances from its customers. These advances are included among other current liabilities.

The following should be noted as regards the application of the accounting standard IFRS 9 "Financial Instruments":

- the valuation of all financial assets currently accounted for fair value is expected to continue. The Group intends to retain holdings in third-party companies in its portfolio in the near future. In recent years, impairment losses have been recorded for these holdings. To date, their value is not substantial and, therefore, the application of IFRS 9 will not have any significant impacts.
- IFRS 9 requires the Group to record expected losses on all trade receivables on an annual basis. The Group, which expects to apply the simplified approach, is not expecting significant impacts on its shareholders' equity since trade receivables are largely from counterparties that historically have good credit standing, while still retaining the possibility of carrying out a more-detailed analysis that considers all useful supporting information, without excluding historic or forecasting elements.
- The Company considers that all existing hedges which are designated as effective hedges shall continue to qualify for hedge accounting in accordance with IFRS 9. IFRS 9 does not change the general principle on whose basis an entity accounts for effective hedges and therefore significant impacts are not expected from application of the standard. Possible changes related to the accounting of financial instruments in the company's possession will be evaluated in more detail in future.

The company does not expect substantial differences in its financial statements from the application of the classification and valuation requirements envisaged by IFRS 9 and will adopt the new accounting standard from the effective date without restating comparative information.

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS EFFECTIVE FROM JANUARY 1, 2019 OR SUSBEQUENTLY

In 2016, IFRS 16 was introduced, with mandatory application from January 1, 2019: The new standard proposes substantial changes to the accounting treatment of leasing agreements in the financial statements of the lessee, introducing a criterion based on the control (right of use) of an asset to distinguish leasing contracts from service contracts. The IASB expects that the standard will be applied for years commencing from January 1, 2019, permitting early application for enterprises applying IFRS 15 “Revenue from contracts with customers”.

No substantial differences on the net result and shareholders’ equity is expected from the application of this accounting standard.

ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ENDORSED BY THE RELEVANT EUROPEAN UNION BODIES

At the date of authorisation of these consolidated financial statements, the competent bodies of the European Union have not yet completed the endorsement process relating to the new standards and amendments applicable to the financial statements for years that commence from January 1, 2018 onwards:

- *IFRIC “Interpretation 22 Foreign Currency Transactions and Advance Consideration”*: provides indications on how an entity should determine the date of a transaction, and consequently, the exchange rate to be utilised concerning operations in foreign currencies concerning payments made or received in advance. The amendments apply from January 1, 2018. In June 2017, the IASB published IFRIC 23 “Uncertainty over income tax treatments” which clarifies the application of the requirements for recognition and measurement established in IAS 12 “Income Taxes” when uncertainties exist on tax treatment. The amendments will be applicable from periods beginning January 1, 2019.
- Amendments to *IFRS 9 - Prepayment Features With Negative Compensation* (applicable as from financial years ending after January 1, 2019). This allows companies to measure specific prepayments on financial assets through the so-called negative compensation at amortised cost or at fair value from "other comprehensive income" in the case where a specific condition

is met, rather than at the fair value of the income statement. The impacts of these amendments on the consolidated financial statements are currently under evaluation.

- In February 2018, the IASB issued amendments to *IAS 19 - Plan Amendment, curtailment or settlement* which specifies how companies should determine the pension payable when changes to a given pension plan occur. *IAS 19 "Employee Benefits"* specifies how a company should account for a defined benefit pension plan. When a change is made to a plan, an adjustment, a reduction or a regulation, IAS 19 requires that the net defined benefit asset or liability is to be re-measured. The changes require a company to use the updated assumptions from this recalculation to determine the cost of the current service and the net interest for the remainder of the reference period after the plan is changed. The amendments will enter into force from January 1, 2019. The impacts of these amendments on the consolidated financial statements are currently under evaluation.
- Amendments to *IAS28 - Long-term interests in associates and joint ventures* (applicable as from financial years ending after January 1, 2019). This clarifies how the entity should use IFRS 9 to represent long-term interests in an associate company or joint venture, for which the equity method is not applied. The impacts of these amendments on the consolidated financial statements are currently under evaluation.
- Amendments to *IAS 40 - Investment property.* The amendments clarify when an entity should transfer the ownership, including of properties under construction or development, into or out of the category "Investment property". It clarifies that a change in the intended use does not occur due to a simple change in management's intentions.
- Improvements to IFRS - in December 2017, the IASB also issued Annual Improvements to IFRS 2015-2017, a series of amendments to IFRS in response to issues raised, mainly: (I) to *IFRS 3 - Business Combinations*, clarifying how a company must re-measure holdings, previously held in a joint operation, once control of the business is obtained; (II) to *IFRS 11 – Joint Arrangements*, for which a company does not re-value holdings previously held in a joint operation when it obtains joint control of the activity, (III) to *IAS 12 - Income Tax*, which clarifies that the impact on income tax deriving from dividends (that is, the distribution of profits) should be recognised in the income statement, regardless of how the tax arises; (IV) and to *IAS 23 – Financial Charges*, which clarifies that a company is to treat as part of a general debt any debt originally

assumed for the development of an asset when this asset is ready for its intended use or for sale. The changes shall be effective from January 1, 2019.

No significant impact is expected on the consolidated financial statements from the application of the amendments and interpretations to the accounting standards.

IFRS 17 - Insurance contracts and amendments to *IFRS 9 -Financial Instruments with IFRS 4 Insurance Contracts* are excluded from the list since these accounting standards do not pertain to the activity carried out by the Group.

The Company will adopt these new standards, amendments and interpretations, according to the scheduled application date and will evaluate the potential impacts, where they have been approved by the European Union.

DISCRETIONAL VALUATIONS AND SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the consolidated financial statements and Explanatory Notes in application of international accounting standards (IAS/IFRS) requires Directors to make estimates and assumptions which, in certain circumstances, are based on historic data and may affect the values expressed in the financial statements. Assumptions deriving from estimates are revised periodically and the related effects are reflected in the income statement in the period in which they occur.

The principal assumptions utilised in the estimation processes and the sources of uncertainty, for which significant adjustments to the carrying amount of the assets and liabilities may emerge in the future, are summarised below.

Doubtful debt provision

The doubtful debt provision reflects the estimate of expected losses on trade receivables recognised to the financial statements and not covered by any insurance. It is determined on the basis of past experience or on the basis of the analysis and considerations made in relation to the credit quality.

Impairment of non-financial assets

The Group reviews, at each year-end, if indicators highlight a long-term impairment for all of the non-financial assets. If there is an impairment loss, the accounting value is aligned to its recoverable amount. Goodwill and the other intangible assets with indefinite useful life annually undergo an impairment test. The recoverable value of non-current assets is normally based on the value in use, considering the present value of expected financial cash flows from continuous use of the asset. The review therefore involves also the choice of an adequate discounting rate for the calculation of the present value of expected cash flows. Further details are reported at Note 1.

Development Costs

Development costs are capitalised in accordance with the accounting policy outlined in the section below. The initial capitalisation of costs in strictly related to the project's technical and economic feasibility opinion. The Directors are therefore required to draw up the assumptions relating to the expected future cash flows from the assets, the discount rate to be applied and the periods of the expected benefits. Further details are reported at Note 1.

Deferred tax assets

Deferred tax assets are recognised in accordance with IAS 12. A discretional valuation is required by the Directors to establish the amount of the deferred tax assets which may be recorded. They must estimate the probable timeframe and amount of future assessable income, in addition to a planning strategy for future taxes. The carrying amount of deferred tax assets is reported at Note 5.

Provisions for risks and charges

The Directors make estimates for inventory obsolescence and other risks and charges provisions. In particular, against the various disputes involving the Group, the Directors have made estimates and assumptions in determining the level of probability of a liability arising within the Group and, where the risk is considered probable, in determining the amount of the provision against the risks identified.

Employee benefits

The carrying amount of defined benefit plans is calculated utilising actuarial valuations, which require the consideration of statistical hypothesis concerning discount rates, the expected return on assets, future salary increases, mortality rates and future pension increases. The Group considers the estimated rates used by the actuaries for the valuation at the year-end reasonable, but does not exclude that significant future changes in the rates may have considerable impacts on the liability recognised in the financial statements. Further details are reported at Note 16.

Guarantee provisions

The Group makes provisions for the expected cost of product guarantees. Management establishes these provisions based on historic information concerning the frequency and the average cost of guaranteed products.

ACCOUNTING POLICIES

The main accounting policies adopted in the preparation of the consolidated financial statements at December 31, 2017 are disclosed below.

CONSOLIDATION PRINCIPLES

The consolidation scope includes the Parent Company SIT S.p.A. and the companies in which SIT S.p.A. holds, directly or indirectly, a majority stake or majority voting rights, or where it has the power to determine - also through contracts - the financial and operating policies.

The Group exercises control when it is exposed to or has the right to variable income streams, based on the relationship with the investee, and, at the same time, has the capacity to affect such income streams through the exercise of power over the investee.

Specifically, the Group controls an investee if, and only if, the Group has:

- the power over the investment entity (or holds valid rights which confer it the current capacity to control the significant activities of the investment entity);
- the exposure or rights to variable returns deriving from involvement with the investment entity;
- the capacity to exercise its power on the investment entity to affect its income streams.

Generally, there is presumption that the majority of the voting rights results in control. In support of this presumption and when the Group holds less than the majority of the voting rights (or similar rights), the Group shall consider all the facts and significant circumstances to establish whether control of the investment entity exists, including:

- contractual agreements with other holders of voting rights;
- rights deriving from contractual agreements;
- voting rights or potential voting rights of the Group.

The Group reconsiders if it has control of an investee if the facts and circumstances indicate that there have been changes in one or more of the three significant elements for the definition of control. The consolidation of a subsidiary begins when the Group obtains control and ceases when the Group loses this control. The assets, liabilities, revenues and costs of the subsidiary acquired or sold during the year are included in the consolidated financial statements at the date in which the Group obtains control until the date in which the Group no longer exercises control.

The profit/(loss) and each of the other comprehensive income statement items are allocated to the shareholders of the parent company and minority shareholders, even if this implies that the minority shareholder investments have a negative balance. Where necessary appropriate adjustments are made to the financial statements of the subsidiaries, in line with the accounting policies of the Group. All assets and liabilities, shareholders' equity, revenues and costs, and inter-company cash flows relating to transactions between entities of the Group are completely eliminated on consolidation.

Changes in the holdings of subsidiaries which do not result in the loss of control are recognised under equity.

If the Group loses control of a subsidiary, it must eliminate the relative assets (including goodwill), liabilities, minority interests and other equity items, while any gain or losses are recorded in the income statement. Any holding maintained must be recorded at fair value.

The companies included in the consolidation scope are as follows:

Company	Country	Registered Office	Currency	Share capital (in units of local currency)	% held
SIT S.p.A.	Italy	Padua	EUR	96,149,519	100
MeteRSit S.r.l.	Italy	Padua	EUR	1,129,681	100
S.C. MeteRSit Romania S.r.l.	Romania	Brasov	RON	2,231,650	100
Sit Controls BV	Netherlands	Hoogeveen	EUR	46,000	100
SIT Gas Controls Pty Ltd	Australia	Mulgrave	AUD	100,000	100
SIT Controls USA Inc.	USA	Charlotte	USD	50,000	100
SIT Controls Deutschland GmbH	Germany	Arnsberg	EUR	51,129	100
SIT Controls CR, S.r.o.	Czech. Rep.	Brno	CSK	1,500,000	100
SIT Manufacturing N.A. Sa de CV	Mexico	Monterrey	MXN	172,046,704	100
SIT de Monterrey N.A. SA de CV	Mexico	Monterrey	MXN	50,000	100
SIT Controls Canada Inc.	Canada	Ontario	CAD	1	100
Sit Vostok O.O.O.in liquidation	Russia	Moscow	RUB	2,597,000	100
SIT Shanghai Trading Co. Ltd in liquidation	China	Shanghai	EUR	100,000	100
S.C. SIT Romania S.r.l.	Romania	Brasov	EUR	2,165,625	100
SIT Manufacturing (Suzhou) Co. Ltd	China	Suzhou	EUR	2,600,000	100
SIT Argentina S.r.l.	Argentina	Santa Fe	ARS	90,000	100

Merger Accounting Treatment

The Merger, although between two legal entities, is not considered a “business combination” in accordance with IFRS 3 as ISI2 for accounting purposes was not considered a “business”. ISI2, in fact, simply held liquidity and the status of listed company and the only transactions taken by the company concerned liquidity management.

The Merger’s main objective has been to support and accelerate the Group’s growth process, both through the listing on the AIM Italia market and through the contribution of new financial resources. In fact, in parallel with the Merger, ISI2 shareholders handed over their ISI2 shares and received SIT S.p.A shares in return. SIT S.p.A. shareholders in turn acquired a service or the status of listed company in addition to liquidity.

The Merger, which does not qualify as a business combination but rather as reverse acquisitions involving a non-trading shell company, was accounted for on the basis of the provisions of IFRS 2 - Share-based payments for equity-settled share-based payment. Essentially, the best estimate for the goods and services received from SIT (mainly liquid assets and the status of listed company) is considered to be the Fair Value of the equity previously held by ISI2 S.p.A. shareholders, measured at the date of the shares’ effective exchange. Given that the status of listed company does not meet the requirements set out in IAS 38 for the recognition of an intangible asset, the difference between the fair value of the consideration received by ISI2 shareholders and the fair value of the assets and liabilities acquired by SIT S.p.A. (mainly liquidity) was recorded in the income statement under financial charges.

This amount of Euro 31,321 thousand was calculated as the difference between the market value of SIT S.p.A. shares at July 20, 2017 assigned to former ISI2 shareholders, and the fair value of ISI2 assets and liabilities on the same date re-calculated on the basis of international accounting standards.

Simultaneously with the Merger, SIT S.p.A. issued 5,350,000 Warrants, subject to admission to trading on the AIM Italia, of which 2,525,000 were Swap Warrant, 2,525,000 Supplemental Warrants and 300,000 New Warrants. The Warrant Regulations allow their holders to convert the warrants from the month following their admission to trading on the AIM Italia and within a period of 5 years from admission; moreover, pursuant to Art. 3.2 of the Warrant Regulations, should the average monthly price be higher than Euro 13.00 per Ordinary Share, an acceleration condition occurs (to be notified to the market by the Issuer) for which the deadline for the exercise of the warrants is 30 days from this notification.

SIT S.p.A. also issued 250,000 Performance Shares held by SIT Tech S.p.A., convertible into Ordinary Shares at the ratio of: (i) 1 to 5 and/or (ii) 1 to 1, under the terms and conditions set out in relation to the earn-out maturity regulated by the Framework Agreement.

The Warrant Regulation provides for their regulation on a net share settled basis, which means that the holder will receive a number of shares equal to the ratio between: (Average Monthly Price - Strike Price) / (Average Monthly Price - Subscription price), with a subscription price of Euro 0.10 per share.

The Articles of Associations provide that the number of allocated Performance Shares is exercised in a quantity that varies based on the achievement of specific corporate objectives.

According to applicable accounting standards (IAS/IFRS) "a contract that will be settled through a variable number of the entity's own shares, whose value is equal to a fixed amount or an amount based on changes in an underlying variable, is a financial asset or a financial liability. When a financial asset or financial liability is initially recognised, an entity shall measure it at its Fair Value. The profit (or loss) arising from a change in the Fair Value of a financial asset or financial liability that is not part of a hedging relationship must be recognised to the income statement". Therefore, for accounting purposes, market warrants and performance shares were recognised as financial liabilities; initially recorded at their Fair Value at July 20, 2017 without any economic effect.

Subsequent changes in the Fair Value that determine the financial liability's variation in value were adjusted by recording them in the income statement under financial charges.

Below are the accounting effects of the merger between SIT S.p.A. and ISI2 S.p.A.:

(Euro thousands)	**at 20/07/2017**
Goodwill	-
Other intangible assets	-
Property, plant & equipment	-
Equity investments	-
Non-current financial assets	-
Deferred tax assets	1,161
Non-current assets	**1,161**
Inventories	-
Trade receivables	-
Other current assets	518
Tax receivables	-
Other current financial assets	-
Cash and cash equivalents	50,542
Current assets	**51,060**
Total assets	**52,221**
Share capital	-
Reserves	-
Net result	(10)
Minority interest net equity	-
Shareholders' Equity	**(10)**
Short-term loans and borrowings	-
Other current financial liabilities and derivative financial instruments	7,802
Trade payables	124
Other current liabilities	116
Tax payables	-
Current liabilities	**8,042**
Total liabilities	**8,042**
Total Shareholders' Equity and Liabilities	**8,032**
Total Net assets acquired	**44,189**

Acquired assets mainly refer to cash and cash equivalents, advances to suppliers of commercial nature and deferred tax assets. Acquired liabilities are payables to professionals, both for social security and commercial elements.

Fair Value of the consideration (monetary values in Euro thousands)	
Total Net assets acquired (A)	**44,189**
Total Fair Value of the consideration (B)	**75,510**
Cost of the acquisition of the service (A-B)	**31,321**

The differential, amounting to Euro 31,321 thousand, between the market value at July 20, 2017 of SIT S.p.A. shares allocated to former ISI2 shareholders and the Fair Value of ISI2's assets at the same date, was recorded under financial charges.

CONSOLIDATION METHOD

The subsidiaries are consolidated on a line-by-line method, which provides for the full inclusion of all of the financial statement line items, without considering the shareholding.

The foreign companies are consolidated utilising the financial statements reports prepared in accordance with those utilised by the Parent Company and as per common accounting policies.

The book value of equity investments is eliminated against the parent's share of the subsidiary's net equity, recognizing to the individual assets and liabilities their present value at the date of control acquisition. Any positive difference is recorded in the non-current asset account "Goodwill". The share of equity and results attributable to minority interests are recorded separately in the balance sheet and income statement respectively.

In the preparation of the consolidated financial statements all balances and transactions between Group companies and unrealised gains and losses on inter-company transactions are eliminated.

Translation of accounts in foreign currencies: Group companies

The financial statements of the Group companies included in the consolidated financial statements are presented in the functional currency of the main markets in which they respectively operate. At the reporting date, the assets and liabilities of the companies whose functional currency is not the Euro are converted into the preparation currency of the Group consolidated financial statements currency at the exchange rate at that date. The income statement accounts are converted at the average exchange rate, as such is considered representative of the average of the exchange rates at the dates of the individual transactions. The differences deriving from the adjustment of opening shareholders' equity to the exchange rates at the end of the period and the differences deriving from the different methods used for the translation of the result are recorded to the comprehensive income statement. On the sale of a net investment in a foreign operation, the items in the comprehensive income statement relating to this foreign operation are recorded in the income statement.

The goodwill arising from the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation are recorded as assets and liabilities of the foreign operation and therefore are recorded in the functional currency of the foreign operation and translated at the exchange rate at the reporting date.

The table below presents the exchange rates utilised for the conversion of the financial statements in currencies other than the Group functional currency (Euro).

Euro/Currency	2017		2016	
	at December 31, 2017	2017 average	at December 31, 2016	2016 average
Mexican Peso	23.661200	21.328607	21.7719	20.667305
Argentinean Peso	22.931000	18.740841	16.748806	16.342012
Romanian Leu	4.658500	4.568789	4.539	4.490426
US Dollar	1.199300	1.129681	1.0541	1.106903
Canadian Dollar	1.503900	1.464723	1.4188	1.465878
Czech Crown	25.535000	26.325784	27.021	27.034287
Australian Dollar	1.534600	1.473167	1.4596	1.488282
Chinese Yuan	7.804400	7.629002	7.3202	7.352221

Translation of accounts in foreign currencies: transactions and balances

Foreign currency transactions are initially recorded in the functional currency, applying the exchange rate at the transaction date.

Monetary assets and liabilities in foreign currencies are translated to the functional currency at the exchange rate at the reporting date.

Exchange rate differences realised or arising on the translation of monetary items are recorded in the income statement, with the exception of monetary items which hedge a net investment in a foreign operation. These differences are recorded in the comprehensive income statement until the sale of the net investment, and only then is the total amount reclassified to the income statement. The income taxes attributable to the exchange differences on the monetary items are also recorded in the comprehensive income statement.

Non-monetary items, measured at historical cost in foreign currency, are translated using the exchange rates on the date the transaction was first recorded.

Business combinations and Goodwill

Business combinations, whereby control of a company/entity is acquired, are accounted for in accordance with the purchase method, meaning that the assets and liabilities acquired are initially measured at their market value on the acquisition date. The difference between the cost of acquisition and the Group's share of net assets acquired is attributed to specific assets and liabilities to the extent of their acquisition date fair value; any remaining difference is allocated to goodwill, if positive, and to the income statement if negative. The cost of acquisition is determined on the basis of the acquisition date fair value of the assets transferred, the liabilities assumed, the equity instruments issued and any other related amount.

Goodwill represents the surplus of the acquisition cost compared to the purchaser's share of the identifiable fair value of the current and potential assets and liabilities of the entity acquired.

After initial recognition, goodwill is measured at cost less any loss in value. Subsequent to acquisition, goodwill is subject to a recoverability (impairment) analysis conducted annually or at shorter intervals in the case of events or changes occurring that could result in possible impairments. At the acquisition date the goodwill is allocated to each cash generating unit (hereafter CGU) expected to benefit from the synergies raising from the combination. Any loss in value is identified by means of valuations methods based on the ability of each CGU to produce cash flows for the purposes of recovering the part of goodwill allocated, with the methods described in the "*impairment of non-financial assets* section.

When the recoverable value of the cash generating unit is lower than the attributed carrying amount, the loss in value is recorded. This loss is not restored in case the elements that generated it no longer exist. Where the goodwill is allocated to a CGU and the Group dismisses part of the assets of this unit, the goodwill amount must be taken into consideration when calculating the disposal gain or loss.

Research and development costs

Research costs are recognised profit or loss in the year in which they are incurred. Development costs incurred in relation to a specific project are only capitalised when the technical feasibility of completing the intangible asset exists to make it available for use or sale, in addition to the ability and intention to use or sell the asset to generate future benefits demonstrating the existence of a market for the output of the intangible asset or the intangible asset itself or a utility to be used

internally and the availability of technical, financial and other types of resources suitable to complete the intangible asset's development and use or sale and the ability to reliably measure the cost attributable to its development. Capitalised development costs include only those costs that are directly attributable to the development process.

After initial recognition, the development costs shell be carried at cost less amortisation or accumulated impairment losses. Any capitalised development costs are amortised in the period in which the expected revenue from the project is generated. The carrying amount of the development costs is reviewed annually in order to record any impairment loss, when the asset is still not in use, or with greater frequency when there are indicators of a possible impairment loss. Any impairments losses identified are recognised to the income statement.

Other intangible assets

Other intangible assets, acquired separately and held by the Group, are recognised to assets at acquisition cost where the cost may be reliably measured and it is probable that usage of the asset will generate future economic benefits. The useful life is valued as indefinite or definite.

Other intangible assets with indefinite useful life are not subject to amortisation and a review is carried out each year to establish whether circumstances still supporting their classification as assets having indefinite useful life exist. In accordance with IAS 36, these assets are subject to impairment tests for any permanent value reductions.

Other intangible assets with definite useful life are recorded at acquisition or production cost, net of the relative accumulated amortisation and any impairment losses determined according to the methods indicated in the “Impairments” section below. Amortisation, which begins when the intangible asset is available for use and is calculated on a straight-line basis over the estimated useful life, which is reviewed on an annual basis. Any changes, where necessary, are reflected prospectively.

The rates used for amortisation (by category) are as follows:

Intangible assets with definite useful life	Average rate
Product development costs	Straight-line over 3 years
Licenses	Straight-line over 3 years
Leasehold improvements	Straight-line over 10 years
Brand	Straight-line over 20 years
Heating Technology	Straight-line over 12 years
Metering technology	Straight-line over 10 years
Customer List	Straight-line over 15 years

Property, plant & equipment

Property, plant & equipment are recognised at acquisition or production cost, including directly allocated accessory costs and those necessary for bringing the asset to the condition for which it was acquired, and recorded net of the relative accumulated depreciation provisions and any cumulative loss in value. If major components of tangible fixed assets have different useful lives, they are accounted for separately.

Financial charges directly attributable to the acquisition or construction of assets qualifying for capitalization shall be included as part of the cost of that asset. All other financial charges are recorded in the income statement when incurred.

The expenses incurred for the maintenance and repairs of an ordinary and/or cyclical nature are directly charged to the income statement when they are incurred.

Depreciation is calculated on a straight-line basis from the moment the asset is available for use according to the estimated useful life of the asset which is reviewed annually and any changes, where necessary, are applied prospectively.

The depreciation rates applied are as follows:

Property, plant & equipment	Rate %
Buildings	3
Light constructions	10
General plant	10
Specific plant	15.5
Kilns and accessories, production machinery	15
Various equipment and moulds	25.00 - 40.00
Motor and transport vehicles	20.00 – 25.00
Internal transport and lifting machinery	20
Furniture and fittings	12
EDP	20

The carrying amount of tangible fixed assets is tested for impairment when events or changes indicate that the carrying amount can no longer be recovered based on the current depreciation schedules. If there is an indicator of this type and in the case where the carrying amount exceeds the realisable value, the assets' value must be written down to their recoverable amount.

The impairments losses are recognised to the income statement. Such losses are restated when the reasons for their write-down no longer exist.

Upon sale or when there are no expected future economic benefits from the use of an asset, it is eliminated from the financial statements and any loss or profit (calculated as the difference between selling price and book value) is charged to the income statement in the year of its elimination.

Leased assets

Finance lease contracts, which transfer substantially all the risks and rewards incidental to the ownership of an asset to the Group, are capitalised as part of property, plant & equipment at the beginning of the lease, at the lower of the fair value of the leased asset and the present value of the minimum lease payments. A payable is recorded under liabilities for the correspondent amount and progressively reduced based on the repayment of the capital portion included in the contractual instalments.

Lease instalments are allocated to principal and interest to obtain application of a constant interest rate on the residual balance of the debt (principal). Financial charges are expensed to the income statement. The depreciation policy and rate applied are the same as those applied to property, plant & equipment.

Leases under which the lessor substantially retains all of the typical risks and rewards incident to ownership of the asset are classified as operative and the relative charges recorded as costs in the income statement on a straight-line basis over the duration of the contract.

Investments in other companies

Investments in other companies are recognised at acquisition or subscription cost, including accessory charges and reduced for any impairments. Where the reasons for the recognition of the impairment no longer exist, the investments are revalued within the limits of the write-downs, with effects recognised to the income statement. The risk deriving from any losses exceeding the net equity is recorded in a specific provision up to the amount the parent company is committed to comply with legal or implicit obligations in relation to the investee or in any case to cover the losses.

Impairment of non-financial assets

IAS 36 requires the assessment at each reporting date of impairments to tangible and intangible fixed assets when indicators that such a loss may exist. In assessing whether there are any indicators that an asset with definite useful life may suffer any impairment loss, both internal and external information sources are considered. With reference to internal sources, consideration is made of whether there have been significant changes in the use of the asset and whether the economic performance of the asset is different than expected. For external sources, consideration is taken of technological or market or regulation discontinuation which may reduce the value of the asset.

Irrespective of whether there is any indication of impairment, intangible assets with indefinite useful life and goodwill are tested at least annually for impairment, as required by IAS 36. In both cases of a verification of the carrying amount of intangible assets with definite useful life or of the carrying amount of intangible assets with indefinite useful life and goodwill, the Group makes an estimate of the recoverable value.

The impairment of goodwill is determined through a valuation of the recoverable value of the cash generating unit (or group of units) to which the goodwill is allocated.

The recoverable value is the higher between the fair value of an asset or a CGU less costs to sell and its value in use and is determined for each asset, except when the asset does not generate cash flows which are sufficiently independent from those generated from other assets or groups of assets; in this case the recoverable value of the cash generating unit to which the asset belongs is estimated. When the carrying amount of an asset or cash generating unit is higher than its recoverable value, this asset, incurring a loss in value, is consequently written down to the recoverable value. In the determination of the value in use, the estimated future cash flows are discounted at a rate that reflects the market assessment of the time value of money and the specific risks of the asset.

For the purposes of estimating the value in use, future revenue streams are obtained from the Group’s business plans, which constitute the best estimate on the forecast economic conditions over the period of the plan. The long-term growth rate used to estimate the terminal value of the asset or unit is normally lower than the average long-term growth rate for the sector, country or market and, if appropriate, may amount to zero or may even be negative. Future cash flows are estimated taking account of current conditions: the estimates therefore do not consider the benefits deriving from future restructurings for which the Company has not committed or future investments or optimisation of the assets or of the unit. Impairment losses incurred by operating assets are recorded in the income statement in the category of costs category relating to those assets.

At each reporting date, an evaluation is made of any indicators of a recovery in the loss in value previously recorded and, where these indicators exist, an estimate is made of the recoverable value. The value of an asset previously written down, except for goodwill, may be restated only if there have been changes in the estimates used to determine the recoverable amount of the asset after the last recording of an impairment loss. In this case the carrying amount after a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recorded as income in the income statement, unless the asset is carried at revalued amount, in which case the restatement is treated as a revaluation increase. After a reversal of an impairment loss is recognized, the depreciation of the asset is adjusted in future years, in order to record the adjusted book value of the asset, net of any residual value, on a straight-line basis over the useful life of the asset.

Financial assets

The financial assets are classified as follows:

- financial assets at Fair Value;
- investments held-to-maturity;
- loans and receivables;
- financial assets available-for-sale.

The classification depends on the purpose for which the asset was acquired and held. The Group classifies the asset on initial recognition, with subsequent verification at each reporting date. Financial assets are initially recognised at cost or Fair Value, which is equal to the amount paid as an advance or loan or the consideration agreed against determined services, increased by any accessory acquisition charges.

Financial assets at fair value through profit and loss, which include financial assets held-for-trading, are classified to current financial assets and measured at fair value; gains or losses from this valuation are recognised to the income statement.

Financial assets available-for-sale include equity and debt securities. The equities classified as available for sale are those which were not classified as held for trading or designated at fair value through profit or loss. After initial recognition, the financial assets available-for-sale are measured at fair value and the unrealised gains and losses are recognised under other items of the comprehensive income statement in the assets available for sale reserve, until the derecognition of the investment - when the cumulated gains and losses are recorded under other operating income or charges - or a loss in value is determined- when the cumulated loss is reversed from the reserve and reclassified in the separate income statement under financial expenses. The interest received in the period in which the financial assets available-for-sale are held are recognised under financial income utilising the effective interest rate method.

Assets held-to-maturity are classified to current financial assets where their maturity is less than 12 months, and as non-current where beyond 12 months and are subsequently valued with the amortised cost criterion. This latter is calculated using the effective interest rate method, taking account of any discounts or bonuses on acquisition to be allocated throughout the period until maturity, less any impairments.

Loans and receivables are valued at amortised cost on the basis of the effective original yield of the financial asset.

Inventories

Raw materials, ancillary and consumables and semi-finished products are measured at the lower of acquisition cost, including accessory charges, and the net realisable market value. The cost of inventories includes purchase costs and other costs incurred in bringing the inventories to their present location and condition, excluding financial charges.

The method utilised for the determination of the cost of inventories is the weighted average cost method for raw materials and consumables and finished products acquired for resale, and from the cost of materials and other direct costs incurred, taking into account the stage of completion of the production process, for the products in work-in-progress/semi-finished and finished products from production.

The net realisable value is represented by the estimated normal sales price less the estimated costs for completion and estimated costs to sell. Obsolete and/or slow-moving inventories are written down according to their expected use or future realisable value. The write-downs made are restored in subsequent periods should the reason for the write-down no longer exist.

Trade receivables and other current assets

Receivables under current assets are recorded initially at fair value, identified as the nominal value, and subsequently reduced for any impairment. The trade receivables, which mature within the normal commercial terms, are not discounted as the effect of cash flow discounting is insignificant. They are recognised at cost (identified by their nominal value), net of the relative impairment recorded to a specific provision. The estimate of the amounts considered non-recoverable are determined based on the present value of expected cash flows.

Receivables with maturities of over one year which bear no interest or an interest rate significantly lower than market rates are discounted using market rates. Trade receivables are discounted wherever payment terms are greater than the average payment term granted.

Derecognition of financial assets

A financial asset is eliminated from the financial statements when:

- the right to receive the cash flows of the asset terminate;
- the Group retains the contractual right to receive the cash flows from the asset, but assumes a contractual obligation to pay the cash flows fully and without delay to a third party;
- the Group has transferred its right to receive the cash flows from the asset and (i) has transferred substantially all of the risks and rewards of ownership of the financial asset or (ii) has not transferred or retained substantially all of the risks and rewards of the asset, but has transferred control.

Where the Group has transferred all the contractual rights to receive the cash flows from an asset and has not transferred or withheld substantially all of the risks and rewards or has not lost control, the asset is recorded in the financial statements of the Group up to the amount of its residual holding in the asset. Residual involvement that takes the form of a guarantee on the transferred asset is valued at the asset's initial book value or the maximum consideration that the Group could be required to pay, whichever is less.

Impairments of financial assets

The Group at each reporting date assesses whether a financial asset, or group of financial assets, has incurred a loss in value. A loss arises when after initial recognition one or more events occurs (when a "loss event" occurs) which has an impact on the estimated future cash flows of the financial asset or group of financial assets which may be reliably estimated. The indications of a loss in value may include when a debtor or a group of debtors are in financial difficulty, are incapable of meeting obligations, incapable or delayed in paying interest or in making important payments, where administration procedures or other financial restructurings are probable, or where observable data indicates a measurable decrease in the estimated future cash flows, such as changes in markets and economic conditions due to the emergence of a financial crisis.

Financial assets recorded at amortised cost

For the financial assets recognised at amortised cost, the Group initially assess whether a loss in value exists for each significant individual financial asset, or collectively for the financial assets not individually significant. In the absence of indications of loss in value of a financial asset valued individually, whether it is significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and this group is assessed for loss in value collectively. The assets considered individually in the determination of the loss in value, and for which a loss is recorded or maintained, are not included in the collective valuation of the loss in value.

The amount of any loss in value identified is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows (excluding the expected future losses in receivables which have not yet occurred). The present value of the cash flows is discounted at the original effective interest rate of the financial asset.

The carrying amount of the asset is reduced through the recording of a write-down provision and the amount of the loss is recorded in the separate income statement. Interest income (recorded under financial income in the separate income statement) continues to be estimated on the reduced carrying amount and is calculated applying the interest rate utilised to discount the future cash flows for the purposes of the valuation of the loss in value. The loans and the relative write-down provisions are reversed when there are no reasonable prospects of a future recovery and the guarantees have been realised and transferred to the Group. If, in a subsequent year, the amount of the estimated write-down increases or decreases based on an event after the recognition of the write-down, this write-down is increased or decreased adjusting the provision. If an asset reversed is subsequently recovered, the recovered value is credited to the company income statement as a reduction of the financial expenses.

Available-for-sale financial assets

The Group assesses at each reporting date whether there is objective evidence that asset or a group of available-for-sale assets have been impaired.

In the case of equity instruments classified as available for sale, an objective indication would include a significant or prolonged reduction in the fair value of the instrument under its cost price.

The term “significant” is assessed in relation to the original cost of the instrument and the term “prolonged” in relation to the period in which the fair value is maintained under the original cost. Where there is evidence of a reduction in value, the cumulative loss - measured as the difference between the purchase cost and the current fair value, less the losses for the reduction in value of those financial assets recorded previously in the separate income statement - is reversed from the other items of the comprehensive income statement and recorded in the separate income statement. The impairments of equity instruments are not written back to the income statement; the increases in their fair value subsequent to the reduction in value are recorded directly in the comprehensive income statement.

Determining what is meant by the term "significant" or "extended" is subject to discretional assessment. In determining it, the Group assesses, amongst other factors, the duration or the extent to which the Fair Value of a security was lower than its cost.

For debt instruments classified as available for sale, the write-down is determined in accordance with the same criteria utilised for the financial assets recorded at amortised cost. However, the amount of the write-down derives from the cumulated loss, in other words the difference between the amortised cost and the current fair value, less any loss in value on the investment previously recorded in the separate income statement.

Future interest income continues to be estimated based on the reduced carrying amount of the asset and is estimated using the interest rate utilised to discount the future cash flows for the purposes of the determination of the write-down. Interest income is recorded under financial income. If, in a subsequent period, the fair value of the debt instrument increases and the increase may be objectively correlated to an event after the write-down which was recorded in the separate income statement, this write-down is also adjusted through the separate income statement.

Trade payables and other liabilities

Trade payables, which mature within the normal commercial terms, are not discounted and are recognised at cost (identified by their nominal value). They are not discounted as the effect of the discounting of cash flows is insignificant.

Other liabilities included among current and non-current liabilities are substantially recognised at cost, corresponding to the fair value of the liabilities, net of settlement costs which may be associated with the issue of the liability. After initial recognition, the financial liabilities shall be measured at amortised cost using the original effective interest rate.

Derecognition

A financial liability is derecognised when the underlying obligation of the liability is extinguished, settled or cancelled. If an existing financial liability is replaced by another by the same lender but under substantially different conditions, or if the conditions of an existing financial liability are substantially changed, such a swap or change is treated as an elimination of the original liability and the opening of a new liability, with any differences in accounting values recorded in the separate income statement.

Cash and cash equivalents

Cash and cash equivalents include those values which are available on demand at short notice, certain in nature and with no payment expenses.

Financial liabilities

The Group does not have financial liabilities for trading purposes. All financial liabilities other than derivative instruments are initially recorded at an amount equal to the payment received or due net of transaction costs (commissions or loan charges).

Financial liabilities are measured at amortised cost, using the effective interest rate method. A financial liability is derecognised from the financial statements when the underlying liability is settled or cancelled. Where an existing financial liability is replaced by another by the same lender but under substantially different conditions, or if the conditions of an existing financial liability are substantially changed, such a swap or change is treated as an elimination of the original liability and the opening of a new liability, with any differences in accounting values recorded in the income statement.

Derivative financial instruments

Derivative financial instruments, as per the company policies approved by the Board of Directors, are exclusively used for hedging purposes, in order to reduce the foreign currency or interest rate risk. In accordance with IAS 39, financial derivatives may qualify under hedge accounting only when, at the beginning of the hedge, the following conditions are met:

- the formal allocation of the hedging instrument exists;
- documentation is available demonstrating the hedging and a high degree of efficacy;
- such efficacy can be reliably measured;

- the hedge is highly effective during the various accounting periods for which it is designated. All derivative financial instruments are measured at fair value, in accordance with IAS 39.

Derivative financial instruments are initially recognised at Fair Value.

When the hedged derivatives cover the risk of a change in the fair value of the instruments hedged (fair value hedge), these are recorded at fair value through the income statement; therefore, the hedged instruments are adjusted to reflect the changes in fair value associated with the risk covered. Where hedging derivatives relate to cash flow changes of the hedged instruments (Cash flow hedges), the changes to the fair value are recognised as a comprehensive income statement component.

If the derivative instruments do not qualify as accounting hedges, the changes in the fair values are directly recorded to the income statement.

Provisions for risks and charges

Provisions for risks and charges relate to costs and charges of a defined nature and of certain or probable existence whose amount or date of occurrence are uncertain at the reporting date. The provisions for risks and charges are recorded when a legal or implicit current obligation exists that derives from a past event and a payment of resources is probable to satisfy the obligation and the amount of this payment can be reliably estimated.

Where the expected use of resources extends beyond the subsequent year, the obligation is recognised at the present value established through discounting the expected future cash flows at a rate which takes into account the cost of money and the risk of the liability.

Contingencies for which the probability of a liability is remote are disclosed in the notes but no provision is recognized.

Post-employment benefit provision

Post-employment benefits issued at the time of or subsequent to employment are divided between defined contribution plans and defined benefit plans. For the defined contribution plans, the legal or implied obligation of an enterprise is limited to the amount of contributions to be paid. For the defined benefit plans, the obligation of the entity concerns the granting and assurance of the agreed employee plans: consequently, the actuarial and investment risks are borne by the company.

Until December 31, 2006, the Post-employment benefits for the Italian Group companies were classified as “defined benefit” type plans, with independent actuaries utilising the unitary projection method for valuing the receivable. This calculation involves an estimate of the amount of the benefit to be received by an employee at the expected employment conclusion date, utilising demographic assumptions (e.g. mortality rates and personnel rotation rates) and financial assumptions (e.g. the discount rate and future salary increase rates). This amount is discounted and reproportioned on the basis of the years of services matured compared to the total years of service.

Following the reform introduced through Law No. 296 of December 27, 2006, the Post-employment benefit of the Italian Group companies, for the portion matured from January 1, 2007, was substantially considered as classifiable as a “defined contribution plan”. In particular, these amendments introduced the option for the worker to choose the allocation of their maturing Post-employment benefit as follows: new Post-employment benefits accruing may, in companies with more than 50 employees, be channelled by the worker to selected pension forms or transferred to the INPS Treasury Fund.

In relation to the presentation in the income statement of the various cost items relating to the post-employment benefit it was decided to apply the accounting method permitted by IAS 19 which requires the separate recognition in the income statement of the cost items relating to employment services (classified under personnel expense) and net financial charges (classified under financial items), with recording of the actuarial gains and losses deriving from the measurement each year of the assets and liabilities in the comprehensive income statement. Gains and losses deriving from the actuarial calculation of the defined benefit plans (Post-employment provision) are entirely recorded to the comprehensive income statement.

Revenue recognition

Revenues are recognised to the income statement according to the accruals principle and to the extent that it is probable that the Group will receive the economic benefits associated with the sale of the assets or the provision of the service and their amount may be reliably estimated. They are recorded net of returns, discounts, rebates and taxes directly associated with the sale of the product or the provision of the service. Sales are recognised at the fair value of the consideration received for the sale of products and services, where the following conditions are met:

- the risks and benefits related with ownership of the asset/provision of the services have been transferred;

- the revenues have been reliably measured;
- it is probable that the economic benefits associated with the sale will flow to the enterprise;
- the costs incurred, or to be incurred, have been reliably measured.

Dividends

Dividends are recognised when the right of the Group to receive payment arises, which in general corresponds to the moment at which the Shareholders' Meeting approves distribution.

Financial income and charges

Financial income and charges are recognised according to the accruals principle considering the effective return/charge of the relative asset/liability.

Current taxes

Income taxes include all the taxes calculated on the assessable income of the Group. They are recognised to the income statement, except where they relate to items charged or credited directly to equity, in which case the tax effect is also recognised directly in equity.

Tax receivables and payables for the year are valued at the amount expected to be paid to / received from the tax authorities. The tax rates and regulations used to calculate such amounts are those in force at the reporting date.

Deferred taxes

Deferred tax assets/liabilities are calculated on all temporary differences between the values recorded in the financial statements and the corresponding values recognised for tax purposes.

Deferred tax liabilities are recorded on all temporary assessable differences, with the following exceptions:

- when the deferred tax liabilities derive from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, has no effects on the result in the financial statements or on the fiscal result;
- the reversal of the temporary differences, related to investments in subsidiaries, associates and joint ventures, can be controlled and it is probable that such will not occur in the foreseeable future.

Deferred tax assets are recognised on all temporary deductible differences, credits and unused fiscal losses carried forward, to the extent of the probable existence of adequate future tax profits, that can justify the use of the temporary deductible differences, credits and fiscal loses carried forward, with the following exceptions:

- when the deferred tax assets related to the temporary deductible differences derives from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, has no effects on the result in the financial statements or on the fiscal result;
- in the case of temporary differences related to investments in subsidiaries, associates and joint ventures, the deferred tax assets are only recognised to the probable extent that the temporary differences will reverse in the foreseeable future and there are sufficient assessable amounts to utilise such temporary differences.

Deferred tax assets are recorded when their recovery is considered probable, based on expected availability of future taxable income for recovery. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent it is unlikely that sufficient tax profits will be generated in the future for the utilisation of all or part of the asset. Unrecognised deferred tax assets are reviewed at each reporting date and are recognised to the extent of the probability that the tax profit is sufficient to permit such deferred tax assets to be recovered.

Deferred tax assets and liabilities are calculated on the basis of the tax rates expected to be applied in the year in which the assets are realised or the liabilities are paid, considering the rates in force and those already issued or substantially issued as of the reporting date of the financial statements.

Deferred taxes concerning items recognised outside of the income statement are also recognised outside of the income statement and therefore to equity or to the comprehensive income statement, in line with the item to which they refer.

The Group offsets deferred tax assets and deferred tax liabilities if, and only if, there is a legal right to offset current tax assets and current tax liabilities and if deferred tax assets and liabilities relate to income taxes due to the same tax authority by the same taxpayer or other taxpayers who intend to settle the current tax assets and liabilities on a net basis, or realise the asset and settle the liability simultaneously, with reference to each future period in which the assets and liabilities for deferred taxes are expected to be settled or recovered.

Earnings per share

The basic earnings per share is calculated by dividing the net profit or loss attributable to ordinary equity holders of the parent entity (the numerator) by the average weighted number of ordinary shares in circulation (the denominator) during the year. Ordinary shares that will be issued upon the conversion of a mandatorily convertible instrument are included in the calculation of basic earnings per share from the date the contract is entered into. Contingently issuable shares are treated as outstanding and are included in the calculation of basic earnings per share only from the date on which all necessary conditions have been satisfied (i.e. the events have occurred). Shares whose issue is subject only to the lapsing of time are not contingently issuable shares, as the lapsing of time is a certainty.

Diluted earnings per share

Diluted earnings per share is calculated by dividing the company's net profit by the number of shares of the parent company at the financial statements' date of approval. To calculate the diluted earnings per share, shares are modified by assuming the exercise of all rights which potentially have a dilutive effect by the beneficiaries in the accounting period.

Grants

Grants from public bodies are recorded at fair value when there is a reasonable certainty that the conditions required to obtain them will be satisfied and they will be received.

Grants received against specific assets or development activities whose value is recorded under fixed assets are recognised as a direct reduction of the fixed assets and credited to the Income Statement in relation to the residual depreciation period to which the asset refers. Operating grants are fully recognised to the Income Statement at the moment in which they satisfy the conditions for their recognition.

NOTES TO THE MAIN CONSOLIDATED BALANCE SHEET ACCOUNTS

NON-CURRENT ASSETS

Note 1: Goodwill and Other intangible assets

(Euro thousands)	Balance at Dec. 31, 16	Increases	Disposals	Amortisation	Other movements	Balance at Dec. 31, 17
Goodwill	**78,138**	-	-	-	-	**78,138**
Development Costs	917	-	-	(470)	-	447
Patent rights	21,909	1,060	(55)	(3,669)	114	19,359
Concessions, licences and trademarks	20,821	17	-	(1,205)	-	19,633
Other intangible assets	36,765	212	-	(3,678)	83	33,382
Assets in progress and advances	303	331	(169)	-	-	465
Advances to suppliers of intangible assets	-	-	-	-	-	-
Total other intangible assets	**80,715**	**1,620**	**(224)**	**(9,022)**	**197**	**73,286**

- ### Goodwill

The account totals Euro 78,138 thousand at December 31, 2017 and was recognised following the acquisition of the Group company SIT La Precisa S.p.A. on May 2, 2014 (hereafter also the Business Combination). As per IFRS 3 Business combinations, on acquisition the assets and liabilities of the Group were measured at fair value at the acquisition date. The excess between the consideration of the transaction (Euro 201,553 thousand) and the fair value of the assets and liabilities acquired was allocated (where possible) to identifiable assets. The difference between the total payment of the acquisition and the fair value of the assets, liabilities and contingent liabilities acquired was recorded under goodwill as a residual amount.

- ### Development costs

The account includes product development expenses, both internal and external, on the basis of precise reporting and restated considering the economic life of the associated products as per the IAS 38 required approach.

- ### Patents and intellectual property rights

This includes the non-patented technical/production and technological know-how of the Heating and Smart Gas Metering sector identified within the Business Combination for an original amount of Euro 25,322 thousand. This corresponds to the allocation of the excess of the price paid over the consolidated net equity carrying amounts, based on an independent expert's opinion. The residual value of non-patented technology relating to the Heating and Smart Gas Metering sector at December 31, 2017 amounted to Euro 17,145 thousand.

The account in addition includes software licenses and new industrial trademark registration costs or those for the registration in new countries of existing industrial trademarks.

Changes in the financial year are mainly related to amortisation.

- **Concessions, licenses & trademarks**

The amount of Euro 19,633 thousand is mainly attributable to the value of the "SIT" and "MeteRSit" brands identified for an original total amount of Euro 23,995 thousand as part of the described merger with SIT La Precisa S.p.A. on May 2, 2014; these values were calculated with the support of an independent experts' valuation report. The residual value of the "SIT" and "MeteRSit" brands at December 31, 2017 amounted to Euro 19,595 thousand.

Changes in the financial year are mainly related to amortisation.

As part of the overall 2017 SIT Refinancing, better described in the Directors' Report, 2017 entailed the early repayment of the penalty-free Shareholder Loan, as referred to in Note No. 14, and the bond loan underwritten by the holding company SIT Technologies S.p.A, the underwriters of the guaranteed bond loan which waived the pledge registered on industrial and intellectual property rights; as a result, the company applied for cancellation which was still being finalised at the date of the financial statements.

- **Other intangible assets**

This account mainly includes the residual value of the customer relationship identified as part of the acquisition of SIT La Precisa S.p.A. on May 2, 2014, whose Fair Value was originally determined at Euro 42,690 thousand; this value was calculated on the basis of independent experts' valuation report. The customer relationship's residual value at December 31, 2017 amounted to Euro 32,253 thousand.

This account in addition includes costs incurred for the installation of the new SAP operating system, in addition to those for the acquisition of the Piteco Evolution centralised treasury operating package for a total of Euro 1,583 thousand, capitalised in previous years.

Impairment Tests

The goodwill arising from the business combination, considered as an indefinite life intangible asset, is not subject to amortisation but to an impairment test at least annually to identify any losses in value.

In order to verify any impairments to goodwill or other intangible assets, a comparison was made of the recoverable values of the two identified Group CGU's (Heating Division and Smart Gas Metering Division) with their respective carrying amounts, including allocated goodwill.

There was no change in the goodwill of Euro 78,138 thousand at December 31, 2017 compared to December 31, 2016. To determine the recoverable value, goodwill is allocated to the Heating CGU for Euro 60,931 thousand and the Metering CGU for Euro 17,207 thousand.

Based on the listing of shares at the balance sheet date, the difference between the Group's equity and market capitalisation amounts to Euro 167,157 thousand.

It should be noted that the company has never written-down goodwill in past years.

Impairment tests were submitted for the approval of the Board of Directors on March 20, 2018. On January 15, 2018 and February 16, 2018 respectively, the Board of Directors approved the 2018 Budget for the Metering CGU and the Heating CGU.

Heating Division CGU

In the absence of a reliable market value for the CGU, its recoverable amount was calculated on the basis of its value in use determined through the income method, by discounting the medium to normal operating income generated by assets at a discounted rate representative of the cost of capital. At the date of these financial statements' preparation, management carried out an impairment test based on 2018 Budget data approved by the Board of Directors on February 16, 2018, by first using the income method and then the financial method based on passive projections of the 2018 data. It should be noted that in the presence of operating investments equivalent to depreciation and amortisation and zero variations in working capital, the income method yields the same result as the Discounted Cash Flow financial method, in line with the assumptions of the passive projections. The projections based on the financial method were not submitted for the Board of Directors' approval.

The CGU's value in use was therefore determined by starting from the operating income forecast in the 2018 budget and as approved by the Board of Directors on February 16, 2018. This was suitably adjusted for non-recurring items by using the perpetual yield method and a growth rate prudently set at zero.

In particular, the operating profit and the discount rate (WACC) were established net of the tax effect. The discount rate utilised of 8.66% reflects at the reporting date estimates of the market valuation and the cost of money and takes account of the specific and sector risk.

The Heating CGU's WACC was estimated by assuming:

- a risk-free rate equivalent to the 3-month average (October-November-December) of the 10-year 2017 Rendistato[2] provided by the Bank of Italy;
- a beta unlevered coefficient for a value of 0.89 estimated on the basis of a panel of comparable listed companies operating in the Heating sector. Stock exchange prices were observed over a two-year horizon with a weekly frequency;
- an equity risk premium of 6.71%, equivalent to the average of the market's risk premium in the main countries where the Heating CGU is active (source: Pablo Fernandez, Alberto Ortiz and Isabel F. Acin, IESE Business School 2017);
- an additional risk premium for the calculation of the cost of own capital (Ke) equivalent to 1%;
- a cost of debt calculated on the basis of the 12-month average of the 10-year Euro IRS 10 at 31/12/2017, to which a spread of 2.0% is added, in line with the contractual terms and conditions set out in the Senior Facility Agreement 2017;
- a level of financial leverage (ratio between financial debt and own equity) in line with the industry average financial structure of comparable companies.

Considering the assumptions described, at the reporting date the recoverable value of the Heating CGU is higher than the net carrying amount and therefore there are no indications that goodwill or other intangible assets may have incurred impairments.

Results obtained were subjected to sensitivity tests in order to determine how the result of this valuation process may change according to the variation in the discount rate for the discounting of the WACC income flow and the *g* parameter. As regards the sensitivity analysis, it should be noted that there are no impairment loss scenarios for sensitivity parameters with a +1% / -1% range of fluctuation.

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[2] The Bank of Italy daily calculates the effective yield to maturity of a sample of fixed-rate government bonds listed on the Italian Stock Exchange's Electronic Bond Market (MOT). The average yield of this sample is called "Yield on public bonds" or "Rendistato". The basket on which the Rendistato is calculated consists of all the Multi-Year Treasury Bonds (BTP) listed on the MOT with a residual life of more than one year. BTPs indexed to Eurozone inflation are excluded.

Following these analyses, the Directors considered that the income flows projected in perpetuity would absorb normal changes in the parameters of the commonly used sensitivity analyses.

The company has also estimated the indifference of the WACC, or the rate at which, all other conditions being equal, the Heating CGU recoverable amount assumes a value equal to its carrying amount. This WACC is equal to 13.2%.

The estimate of the recoverable value of the cash generating units requires discretionary interpretation and the use of estimates by management. The circumstances and events which could give rise to an impairment in the Heating CGU were monitored constantly by the company.

Smart Gas Metering Division CGU

In the absence of a reliable market value for the CGU, the recoverable value was calculated on the basis of the value in use established according to the Discounted Cash Flow (DCF) method, discounting the operating cash flows generated at a rate representative of the cost of capital. Cash flows used for the calculation of the recoverable amount include the economic and financial forecasts formulated by Management in the 2018-2020 Smart Gas Metering Plan and used as the basis for the preparation of the test approved by the parent company's Board of Directors on March 20, 2018, which also approved the abovementioned projections.

The plan data was projected beyond the explicit horizon, on the basis of realistic scenarios and information available at the reporting date, utilising the perpetual yield method (terminal value) from 2020 with a growth rate of 1.5%, in line with inflation expectations for the main markets in which the Smart Gas Metering Division operates.

The cash flows and the discount rate (WACC) were established net of the tax effect. The discount rate utilised of 9.48% reflects at the reporting date estimates of the market valuation and the cost of money and takes account of the specific and sector risk.

The Metering CGU WACC was estimated by assuming:

- a risk-free rate equivalent to the 3-month average (October-November-December) of the 10-year 2017 Rendistato provided by the Bank of Italy;
- a beta unlevered coefficient for a value of 0.85 estimated on the basis of a panel of comparable listed companies operating in the Metering sector. Stock exchange prices were observed over a two-year horizon with a weekly frequency;

- an equity risk premium of 6.63%, equivalent to the average of the market's risk premium in the main countries where the Metering CGU is active (source: Pablo Fernandez, Alberto Ortiz and Isabel F. Acin, IESE Business School 2017);
- an additional risk premium for the calculation of the cost of own capital (Ke) equivalent to 2%;
- a cost of debt of 5.5% determined on the basis of the market rate which companies forming part of the CGU could presumably finance;
- a level of financial leverage (ratio between financial debt and own equity) in line with the industry average financial structure of comparable companies.

Considering the assumptions described, at the reporting date the recoverable value of the Metering CGU is higher than the net carrying amount and therefore there are no indications that goodwill or other intangible assets may have incurred impairments.

The percentage of value attributed to the terminal value with respect to the CGU's recoverable amount is 92%.

The results were subject to sensitivity analysis, in order to establish how the result of the valuation process may change based on a change in the growth rate considered for calculating the terminal value or in the discount rate applied to such cash flows. Based on the analyses, the Directors considered that the expected cash flows are sufficient to absorb contained changes in the parameters of commonly used sensitivity analyses, while in situations presenting changes in excess of these parameters, potential impairments were evident.

The following is highlighted as regards the sensitivity analysis:

- WACC and g sensitivity parameters with a +1% / -1% range of fluctuation;
- The test would show areas of impairment with a 1% increase in the WACC and a g rate equal to 1%.

The company has also estimated the indifference of the WACC, or the rate at which, all other conditions being equal, the Metering CGU recoverable amount assumes a value equal to its carrying amount. This WACC is equal to 10.92%.

The estimate of the recoverable value of the cash generating units requires discretionary interpretation and the use of estimates by management. The circumstances and events which could give rise to an impairment in the Metering CGU were monitored constantly by the company.

Note 2: Property, plant & equipment

The movements in property, plant and equipment in 2017 are summarised below.

(Euro thousands)	Historical cost at Dec. 31, 16	Accumulated depreciation at Dec. 31, 16	Balance at Dec. 31, 16	Historical cost at Dec. 31, 17	Accumulated depreciation at Dec. 31, 17	Balance at Dec. 31, 17
Land and buildings	33,756	(17,458)	16,298	33,786	(18,180)	15,606
Plant and machinery	109,900	(94,126)	15,774	113,783	(97,172)	16,611
Industrial and commercial equipment	67,852	(62,514)	5,338	70,203	(64,703)	5,500
Other assets	6,544	(5,736)	808	6,723	(5,616)	1,107
Assets in progress and advances	3,695	-	3,695	8,954	-	8,954
Total property, plant and equipment	**221,747**	**(179,833)**	**41,913**	**233,449**	**(185,671)**	**47,778**

The following tables outline the changes in the historic cost and accumulated depreciation in 2017 by category.

Historic cost

(Euro thousands)	Historic cost Dec. 31, 16	Increases	Disposals	Other movements	Translation difference	Historical cost at Dec. 31, 17
Land & Buildings	33,756	469	(22)	(9)	(408)	33,786
Plant and machinery	109,900	4,627	(560)	670	(854)	113,783
Industrial and commercial equipment	67,852	3,919	(2,369)	918	(117)	70,203
Other assets	6,544	489	(400)	177	(87)	6,723
Assets in progress and advances	3,695	7,216	-	(1,953)	(4)	8,954
Total property, plant and equipment	**221,747**	**16,720**	**(3,351)**	**(197)**	**(1,470)**	**233,449**

The increases in the year include the normal acquisition of property, plant and equipment and reclassifications from the accounts Assets in progress and Advances to suppliers for assets entering into use in 2017. In particular, acquisitions in the year refer principally to plant, machinery and moulds for the development and manufacturing of new products, in addition to refurbishment and efficiency and production technology improvements.

The decreases relate to normal disposals and the disposal of property, plant and equipment which had largely been depreciated, while the decreases to the account Assets in progress and Advances to suppliers relate to the amounts which at December 31, 2016 were in progress and which in 2017 became fixed assets to be depreciated and, consequently, included in the increases of the respective accounts by type.

The historic cost of land amounted to Euro 3,626 thousand in 2017, compared to Euro 3,679 thousand in 2016.

Accumulated depreciation

(Euro thousands)	Provision at Dec. 31, 16	Depreciation	Disposals	Other movements	Translation difference	Balance at Dec. 31, 17
Acc. Deprec. Land & Buildings	(17,458)	(971)	17	20	212	(18,180)
Acc. Deprec. Plant and machinery	(94,126)	(4,256)	599	-	611	(97,171)
Acc. Deprec. Industrial and commercial equipment	(62,514)	(4,396)	2,020	76	111	(64,705)
Acc. Deprec. Other assets	(5,736)	(277)	373	(66)	90	(5,615)
Total accumulated depreciation	**(179,834)**	**(9,900)**	**3,009**	**30**	**1,024**	**(185,671)**

Property, plant and equipment were depreciated at December 31, 2017 at the following rates:

	Rate
Land and buildings	53.81%
Plant and machinery	85.40%
Industrial & commercial equipment	92.17%
Other assets	83.52%

As part of the overall 2017 SIT Refinancing, better described in the Directors' Report, the bank loan referred to in Note No. 13 has been fully repaid and all associated guarantees released and cancelled. The guarantees in place up to the repayment date were: (i) A special lien pursuant to Art. 46 of Legislative Decree No. 385/1993 on part of its assets (including plant, machinery and equipment) established with deed of March 17, 2015, file no. 1.348/945; (ii) A first-level mortgage on all property owned, established with mortgage deed of March 17, 2015.

Note 3: Investments

The following table reports the movements in 2017 in the investments account.

(Euro thousands)	Balance 31/12/2016	Increases in the year	Decreases in the year	Other changes	Balance 31/12/2017
Investee					
CFM	-	-		-	-
Immobiliare Golf Montecchia	28	-	-	-	28
Fondazione ABO in liquidation	6	-	-	-	6
Italmed Llc.	378	-	-	-	378
Cyrus Intersoft Inc.	366	-	-	-	366
Infracom S.p.A.	522	-	-	-	522
SAPI immobiliare	4	-	-	-	4
Immobiliare Polesana (formerly IMER)	1	-	-	-	1
Other minor	1	-	-	-	1
Fondazione ABO in liq. write-down prov.	(6)	-	-	-	(6)
Italmed Llc. write-down prov.	(378)	-	-	-	(378)
Cyrus Intersoft Inc. write-down prov.	(366)	-	-	-	(366)
Infracom S.p.A. write-down prov.	(400)	(102)	-	-	(502)
Total investments	**156**	**(102)**		-	**54**

Note 4: Current and Non-Current Financial Assets

The breakdown of non-current financial assets at December 31, 2017 is as follows:

(Euro thousands)	Dec 31, 17	Dec 31, 16
Guarantee deposits	217	220
Restricted deposit account	1.325	1.325
Other receivables	9	9
Receivables from subsidiaries	-	-
Total other non-current financial assets	**1,551**	**1,554**
Current accounts – holding com.	-	168
Receivables from parent companies	674	145
Receivables from companies subject to control of holding company	51	70
Financial receivables from companies under control of holding company	-	-
Derivative financial instruments	10	-
Total other current financial assets	**735**	**383**

The main accounts are commented upon below.

- **Restricted deposit account**

Established, for Euro 1,325 thousand, as collateral in guarantee of the long-term bank surety, issued by the Parent Company in the interest of the subsidiary MeteRSit S.r.l. (Euro 1,200 thousand) and by MeteRSit S.r.l. (Euro 125 thousand) in favour of its clients as part of supply tenders.

- **Financial receivables from the holding company**

This account concerns a loan to the holding company SIT Technologies S.p.A. of Euro 674 thousand as part of a non-interest-bearing credit line granted at the Euribor at 3 months with zero floor, plus a 3% annual margin, for a total Euro 1,000 thousand and with maturity on revocation by the Parent Company in a single payment.

- **Financial receivables from companies controlled by the holding company**

This account concerns a loan to the company SIT Immobiliare S.p.A. of Euro 51 thousand as part of a non-interest-bearing credit line granted at the Euribor at 3 months with zero floor, plus a 3% annual margin, for a total Euro 500,000 and with maturity on revocation by the Parent Company in a single payment.

Note 5: Deferred tax assets

A breakdown of temporary differences and the consequent deferred tax assets at December 31, 2017 and at December 31, 2016 is reported below, based on the type of temporary differences, applying respectively a tax rate of 24% for IRES and 3.9% for IRAP:

December 31, 2017

(Euro thousands)	Temporary Diff. IRES	Temporary Diff. IRAP	Tax effect IRES	Tax effect IRAP
Employee provisions	1,171	1,156	281	45
Other risk and charges provisions	1,868	1,756	448	69
Employee benefits	495	-	119	-
Write-down of inventories	1,683	1,602	404	60
Maintenance difference	100	-	24	-
Deprec. suspended on revaluations	171	171	41	7
Amortisation of intangible assets	45	45	11	2
Tax losses	10,415	-	2,499	-
Non-deductible interest	11,590	-	2,781	-
Other & overseas	1,790	266	481	10
Inter-company transactions	3,646	3,646	877	139
Cash Flow Hedge Reserve	1,110	-	266	-
Unrealised foreign exchange losses	475	-	114	-
Reversal of formation and start-up costs	230	231	55	9
Total	**34,789**	**8,873**	**8,401**	**341**

December 31, 2016

(Euro thousands)	Temporary Diff. IRES	Temporary Diff. IRAP	Tax effect IRES	Tax effect IRAP
Employee provisions	1,343	838	336	33
Other risk and charges provisions	1,638	1,527	393	60
Employee benefits	504	42	121	2
Write-down of inventories	1,774	1,662	426	63
Maintenance difference	164	-	39	-
Deprec. suspended on revaluations	171	171	41	7
Amortisation of intangible assets	81	81	19	3
Tax losses	15,303	-	3,673	-
Reversal IRES rate	-	-	-	-
Other & overseas	1,620	24	482	1
Inter-company transactions	3,619	3,619	874	137
Cash Flow Hedge Reserve	2,575	-	618	-
Unrealised foreign exchange losses	250	-	60	-
Reversal of formation and start-up costs	423	423	102	15
Total	**29,465**	**8,387**	**7,184**	**321**

CURRENT ASSETS

Note 6: Inventories

Inventories, presented in the financial statements net of the obsolescence provision, are comprised as follows:

(Euro thousands)	Dec 31, 17	Dec 31, 16
Raw material, ancillaries and consumables	19,428	17,091
Work-in-progress and semi-finished goods	8,050	7,750
Finished products and goods	10,627	13,238
Advances to suppliers	25	411
Inventories	**38,130**	**38,490**

The movements in the inventory obsolescence provision were as follows:

(Euro thousands)	Dec 31, 17
Obsolescence provision 31/12/2016	**(2,246)**
Utilisation in the year	190
Allocation in the year	(128)
Other movements	4
Obsolescence provision 31/12/2017	**(2,180)**

The provision reflects the reduced value of inventories due to obsolescence, slow movement or as a result of market values below acquisition or production cost.

Note 7: Trade receivables

Trade payables and the relative doubtful debt provisions are summarised below.

(Euro thousands)	Dec 31, 17	Dec 31, 16
Trade receivables	52,917	45,586
Trade receivables from holding company	28	24
Trade receivables from subsidiaries	-	-
Total current trade receivables	**52,945**	**45,610**
Doubtful debt provision	(819)	(950)
Total net of write-downs	**52,126**	**44,660**

- **Receivables from customers**

These concern direct commercial transactions undertaken by the Group with clients. The amount is stated net of the doubtful debt provision which expresses reasonably expected losses both on the basis of prior non-collection and amounts overdue.

The doubtful debt provision amounts to Euro 819 thousand, with the movements in 2017 reported in the following table:

(Euro thousands)	Dec 31, 17
Doubtful debt provision 31/12/2016	(950)
Utilisation in the year	254
Allocation in the year	(123)
Doubtful debt provision 31/12/2017	**(819)**

The balance of receivables from customers is net of factoring of receivables without recourse for the amount totalling approx. of Euro 8,263 thousand, respectively by the Parent Company and by MeteRSit S.r.l.

Note 8: Other current assets

The account is broken down as follows:

(Euro thousands)	Dec 31, 17	Dec 31, 16
Tax receivables	3,910	2,770
Prepayments and accrued income	1,434	1,027
Supplier advances	562	358
Receivable from holding company for tax consolidation	143	108
Other receivables	233	322
Total other current assets	**6,282**	**4,585**

- **Tax receivables**

The breakdown is as follows:

(Euro thousands)	Dec 31, 17	Dec 31, 16
VAT receivables	2,231	1,458
Withholding taxes	1,619	1,235
Income tax receivables	60	77
Total tax receivables	**3,910**	**2,770**

Receivables for withholding taxes of Euro 1,619 thousand relate to overseas withholding taxes on royalties invoiced by the Parent Company to productive subsidiaries against the use of technical-productive and non-patented know-how, in addition to those of the SIT trademark, all held by the Parent Company.

- **Accrued income and prepayments**

At December 31, 2017, accrued income and prepayments were mainly related to prepayments on fees, rental and insurance premiums, as well as fees for maintenance and repair materials. Specifically, the account includes Euro 466 thousand in insurance prepayments.

- **Receivables from holding company for tax consolidation**

The balance of Euro 143 thousand is the net receivable from the involvement of the Parent Company and the subsidiary MeteRSit S.r.l. in the tax consolidation undertaken with the holding company SIT Technologies S.p.A.. The above companies in fact took part in the national tax consolidation governed by Legislative Decree No. 344 of December 12, 2003 and in particular Articles 117 to 129 of the Income Tax Law, as consolidated companies and as expressly approved by the respective Boards of Directors for the 2016-2018 three-year period and as per the tax consolidation agreement signed by the interested companies.

- **Other receivables**

Other receivables of Euro 393 thousand breakdown as follows:

(Euro thousands)	Dec 31, 17	Dec 31, 16
Other receivables	152	178
Other tax receivables	-	-
Employee receivables	35	98
Social security institution receivables	46	46
Total other receivables	**233**	**322**

Note 9: Tax receivables

Tax receivables were as follows:

(Euro thousands)	Dec 31, 17	Dec 31, 16
IRES receivables as per Legs. Decree 201/2012	1,481	1,481
IRES receivables	1,417	801
IRAP receivables	54	27
Other current taxes	71	61
Total tax receivables	**3,023**	**2,370**

The balance of Euro 1,481 thousand relates to the IRES tax reimbursement requested by the companies incorporated by the Parent Company as part of the merger of 2014 through presentation of a single application for the recovery of non-deducted IRAP concerning personnel expenses, in accordance with Article 2, paragraph 1-quater of Legislative Decree No. 201/2012.

Note 10: Cash and cash equivalents

Cash and cash equivalents are presented below:

(Euro thousands)	Dec 31, 17	Dec 31, 16
Cash in hand and similar	24	22
Bank and postal deposits	70,000	33,806
Total cash and cash equivalents	**70,024**	**33,828**

Cash and cash equivalents relate to current accounts and cash in hand at the reporting date. The pledge to guarantee the bank loan referred to in Note No. 13 set up on certain SIT S.p.A. bank accounts was cancelled following this loan's full repayment in 2017. This formed part of the overall 2017 SIT Refinancing that is better described in the Directors' Report.

CONSOLIDATED SHAREHOLDERS' EQUITY

The changes are reported in the statement of changes in consolidated shareholders' equity, to which reference should be made; the principal shareholders' equity accounts and the relative changes are analysed below.

Note 11: Share capital

The share capital, subscribed and paid-in, amounted at December 31, 2017 to Euro 96,149,519, comprised of 23,983,451 shares without express nominal value. The classes of shares issued by the company are reported below.

Shares	No. Shares	% of share capital	Listing
Ordinary shares	23,733,451	98.96%	AIM Italia
Performance Shares	250,000	1.04%	Non-listed

The movement in share capital of Euro 22,570,297 is attributable to the effect of the merger between ISI2 S.p.A. and SIT S.p.A., and the requirements for the exercise of 12,100 Warrants for which the company issued 2,222 ordinary shares. The company executed the Merger by providing a divisible share capital increase for a maximum total amount of Euro 153 thousand, to be implemented through the issue of 1,534,380 SIT ordinary shares reserved for the exercise of the subscription right due to SIT Warrant holders.

Following the full repayment of the bank loan referred to in Note No. 13 as part of the overall 2017 SIT Refinancing, which is discussed in more detail in the Directors' Report, the pledge set up by the holding company SIT Technologies S.p.A on the shares held in the Parent Company was cancelled.

Note 12: Reserves

A breakdown follows:

(Euro thousands)	Dec 31, 17	Dec 31, 16
Share premium reserve	28,740	-
Capital payments reserve	21,999	13,999
Total capital reserves	**50,739**	**13,999**
Legal reserve	850	-
Treasury shares reserve	(661)	-
Cash Flow Hedge reserve	(842)	(1,956)
Actuarial reserve	(488)	(501)
Extraordinary reserve	1,491	(1,313)
Translation reserve	(7,792)	(4,157)
Incorporated Fair Value Reserve	31,321	
Warrant Reserve	(15,223)	-
Performance Shares Reserve	(11,500)	-
Retained earnings (accum. losses)	(14,964)	(12,128)
Total profit reserves	**(17,808)**	**(20,055)**

Total reserves	**32,931**	**(6,056)**

- **Share premium reserve**

The share premium reserve is the result of the company's divisible share capital increase of Euro 52,906 thousand, of which Euro 22,570 thousand a nominal share capital increase, while Euro 30,335 thousand is a decreased share premium of the share premium reserve recorded in 2017, due to listing costs of Euro 2,214 thousand, net of the Euro 619 thousand tax effect.

- **Capital payments reserve**

The capital payments reserve increased during the year by Euro 8,000 thousand, bringing it to a total amount of Euro 21,999 thousand.

This increase is related to the additional capital payment of the holding company SIT Technologies S.p.A., as a waiver of the corresponding Shareholder Loan's nominal amount. This formed part of the 2017 SIT Refinancing which is discussed in greater detail in the Directors' Report.

- **Legal reserve**

The legal reserve derives from the allocation of a portion of the profit for the year ended December 31, 2016, following the motion passed by the Shareholders' Meeting on March 23, 2017.

- **Treasury shares reserve**

Under the SIT 2017 Refinancing, which is better described in the Directors' Report, the company purchased 317,000 shares redeemable pre-grouping, held by a group of managers, for a total price of Euro 659,360, in addition to the tax effect due to the *Tobin Tax*. Pursuant to Art. 2357-*ter* of the Civil Code, the purchase led to a total reduction of Euro 660,679 in shareholders' equity through the entry of a specific item with a negative balance.

- **Cash Flow Hedge reserve**

The cash flow hedge reserve is recorded as a negative value of Euro 842 thousand, net of the Euro 266 thousand tax effect. This reserve derives from the Fair Value valuation of hedging derivatives in application of IAS 39. During the year, the reserve changed following the early termination of the interest rate hedging contracts on the Senior Facility Agreement 2014 and the conclusion of new hedging contracts (Interest Rate Swap - IRS) in view of the new loan agreement (Senior Facility Agreement 2017) which the company signed with BNP Paribas and a bank syndicate under the 2017 SIT Refinancing which is better described in the Directors' Report.

- **Extraordinary reserve**

The extraordinary reserve changed due to the allocation of a portion of the profit for the year ended December 31, 2016, following the motion passed by the Shareholders' Meeting of March 23, 2017.

- **Incorporated Fair Value Reserve**

As discussed, the Merger was accounted for on the basis of IFRS2 and the difference between the fair value of SIT S.p.A. shares received by ISI2 shareholders at July 20, 2017 and the fair value of ISI2 S.p.A. assets and liabilities at the same date of Euro 31,321 thousand was charged to the income statement with a shareholders' equity reserve counter-entry.

- **Warrant Reserve**

In implementation of the Framework Agreement described in the introduction and as part of the merger operation, SIT S.p.A. issued 5,350,000 warrants in 2017 admitted to trading on the AIM Italia. As per the Regulation, these warrants may be exercised with effect from the month following admission to trading on AIM Italia and within 5 years from admission. In 2017, Warrant holders requested to subscribe to shares against the exercise of 120,267 Warrants, with the consequent issue of 2,222 ordinary shares without nominal value in 2017 and 23,157 ordinary shares without nominal value in the first few days of 2018, in view of the time needed for the conversion operation's completion.

The Warrant Reserve, equivalent to a negative value of Euro 15,223 thousand, derives from the initial entry of the Warrants at their fair value on July 20, 2017 and by subsequent movements in connection with the Warrants' partial exercise.

- **Performance Shares Reserve**

In implementation of the Framework Agreement described in the introduction and as part of the merger operation, in 2017 SIT S.p.A. converted 250,000 ordinary shares owned by SIT Technologies S.p.A. into an equal number of particular SIT shares (Performance Shares), convertible into ordinary shares under the terms and conditions set out in the By-Laws. The performance shares reserve of Euro 11,500 thousand corresponds to the fair value recorded at year-end. There were no adjustments to the fair value of financial liabilities in 2017. Further details on this account is presented in Note No. 18 on Financial Liabilities for Performance Shares.

- **Retained earnings (accum. losses)**

At December 31, 2017, the account is negative for Euro 14,964 thousand, against a negative value of Euro 12,128 at December 31, 2016. The net negative variation of Euro 2,836 is due to:

- the positive amount of Euro 1,914 thousand in allocation of a portion of the 2016 result;
- the negative amount of Euro 384 thousand in application of IAS/IFRS to the balance sheet at June 30, 2017 of the incorporated company ISI2 S.p.A.;
- a negative amount of Euro 530 thousand concerning the loss accrued by the incorporated company ISI2 S.p.A. at June 30, 2017.

NON-CURRENT LIABILITIES

Note 13: Short-term loans and borrowings

As at December 31, 2017, short-term loans and borrowings represent the value of the new loan agreement's non-current portion (Senior Financial Agreement 2017) which the Company signed with BNP Paribas and a bank syndicate under the 2017 SIT Refinancing which is better described in the Directors' Report.

The main conditions on the Senior Facility Agreement 2017, which represent an improvement on those in place on the former repaid loan, are the following:

i. Euro 135,000 thousand, with 5 year duration, maturing June 30, 2022; repayment according to pre-established half-yearly instalments with an average duration of approx. 3.9 years;

ii. early repayment option without penalties and without collateral security;

iii. interest rate indexed to the 3 or 6 month Euribor, at the company's choice, plus a margin determined on the basis of a grid defined by the Leverage ratio trend – an indicator consisting of the ratio between the net financial position and EBITDA, as better described in the 2017 SIT Refinancing contained in the Directors' Report. The interest margin in 2017 was equivalent to 2%.

A more detailed description on the other features of the Senior Facility Agreement 2017 are available in the Directors' Report.

Note 14: Other non-current financial liabilities and derivative financial instruments

A breakdown follows:

(Euro thousands)	Dec 31, 17	Dec 31, 16
Non-current portion of loans from holding company	-	30,976
Derivative financial instruments	288	1,769
Total other non-current financial liabilities and derivative financial instruments	**288**	**32,745**

- **Non-current portion of loans from holding company**

In 2017, as part of the overall 2017 SIT Refinancing, the holding company SIT Technologies S.p.A. waived a part of the existing Shareholder Loan for an amount of Euro 8,000 thousand. The company then settled the residual part of the Shareholder Loan in advance and without penalties through liquidity from the new credit line described in Note No. 13.

- **Derivative financial instruments - non-current portion**

In 2017, as part of the overall 2017 SIT Refinancing which is better described in the Directors' Report, the company settled in advance interest rate swap (IRS) hedges in place on bank debt granted in 2014.

In August 2017, the company settled interest rate swap (IRS) hedges, in connection with the new variable rate bank loan (Senior Financial Agreement 2017). These contracts satisfy the IAS 39 hedging requirements for application of hedge accounting and therefore the financial liabilities were recognised at the fair value of the IRS contracts and with provisioning to a relative net equity reserve, net of the relative tax effect.

The features and the fair value of the non-current portion of the derivative financial instruments at December 31, 2017 are summarised below:

(Euro thousands)

Transaction type	Currency	Beginning date	Maturity	Fixed rate	Notional at 31.12.2017	Fair Value 31.12.2017
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.41%	7,200	(17.60)
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.41%	9,000	(21.79)
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.41%	4,200	(10.28)
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.41%	4,200	(10.28)
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.41%	9,000	(21.98)
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.41%	4,200	(9.98)
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.41%	9,000	(21.86)
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.41%	10,800	(26.29)
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.41%	7,800	(18.86)
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.41%	6,000	(14.59)
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.40%	4,800	(10.56)
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.40%	6,000	(13.06)

IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.40%	2,800	(6.16)
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.40%	2,800	(6.16)
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.40%	6,000	(13.18)
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.40%	2,800	(5.98)
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.40%	6,000	(13.11)
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.40%	7,200	(15.76)
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.40%	5,200	(11.31)
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.40%	4,000	(8.75)
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.40%	5,000	(10.70)
Total					**124,000**	**(288.21)**

A breakdown of the non-current portion of interest rate swap hedges that made up the account at December 31, 2016 relating to the loan that was repaid in 2017 as part of the 2017 SIT Refinancing better described in the Directors' Report is presented below:

(Euro thousands)

Transaction type	Currency	Beginning date	Maturity	Fixed rate	Notional at 31.12.2016	Fair Value 31.12.2016
IRS on TLA	Euro	30/06/2014	15/04/2019	0.54%	4,200	(16.48)
IRS on TLA	Euro	30/06/2014	15/04/2019	0.47%	3,150	(11.48)
IRS on TLA	Euro	30/06/2014	15/04/2019	0.45%	4,200	(14.99)
IRS on TLA	Euro	30/06/2014	15/04/2019	0.43%	3,150	(10.96)
IRS on TLA	Euro	30/09/2014	15/04/2019	0.31%	2,625	(7.86)
IRS on TLA	Euro	30/09/2014	15/04/2019	0.30%	1,575	(4.62)
IRS on TLA	Euro	30/09/2014	15/04/2019	0.29%	2,100	(6.12)
IRS on TLB	Euro	30/09/2014	30/06/2020	0.58%	4,000	(78.22)
IRS on TLB	Euro	30/06/2014	30/06/2020	1.00%	16,000	(483.96)
IRS on TLB	Euro	30/06/2014	30/06/2020	0.92%	12,000	(337.01)
IRS on TLB	Euro	30/06/2014	30/06/2020	0.87%	16,000	(431.02)
IRS on TLB	Euro	30/06/2014	30/06/2020	0.76%	12,000	(288.44)
IRS on TLB	Euro	30/09/2014	30/06/2020	0.58%	4,000	(77.72)
Total					**85,000**	**(1.768.88)**

Note 15: Provisions for risks and charges

The changes to the account were as follows:

	Dec 31, 16	Provisions	Utilisations	Translation differences	Dec 31, 17
Agents indemnity provision	108	14	-	-	122
Other risks provision	2,183	834	(816)	-	2,201
Product warranty provision	327	36	-	-	363
Other taxes provision	61	186	(36)	-	211
Total provisions for risks and charges	**2,679**	**1,070**	**(852)**	-	**2,897**

- **Agents' supplementary indemnity provision**

The account exclusively includes the potential liability for any indemnities due to agents in the event of end of service or for the termination of the contract not attributable to the agent, as established by Article 1751 of Civil Code and the Collective Economic Agreements.

- **Other risks provision**

This amount relates to risks concerning disputes in progress with clients and suppliers.

The following is a breakdown of the main accounts making up the provision:

- Euro 1,498 thousand to hedge the risks for ongoing disputes with the Parent Company's customers and suppliers; in particular, at the reporting date, Euro 916 thousand refers to a provision for non-recurring risks on a quality claim of the Heating Division over an electronic product provisioned in 2015;

- Euro 537 thousand to hedge the risks over ongoing disputes with MeteRsit S.r.l.'s customers and suppliers;

- The provision of Euro 79 thousand for cases concerning the Parent Company's employees.

- **Product warranty provision**

The product warranty provision reflects a reasonable estimate of the charges which the Group may incur to comply with contractual guarantees on products sold until the reporting date.

- **Other taxes provision**

The provision mainly includes the accrual made in 2017 against liabilities relating to the Tax Agency's investigation on the Parent Company over direct and indirect taxes for the 2014 tax period.

Note 16: Net liabilities for employee defined benefits

The movements in the account in the year to December 31, 2017 and to December 31, 2016 were as follows:

(Euro thousands)	Dec 31, 17	Dec 31, 16
Net liabilities for employee defined benefits	5,957	5,944
Liabilities for retention	401	92
Total net liabilities for employee benefits	**6,358**	**6,036**

The movements in post-employment benefits were as follows:

(Euro thousands)	Dec 31, 17	Dec 31, 16
Post-em. bens. at beginning of year	5,944	5,809
Payments in the year	(112)	(271)
Current service cost	66	66
Interest cost	77	115
Actuarial gains/(losses)	(18)	225
Post-em. bens. at end of year	**5,957**	**5,944**

The economic/demographic assumptions utilised for the measurement for IAS/IFRS of post-employment benefits were as follows:

Defined benefit plans	Dec 31, 17	Dec 31, 16
Annual discount rate	1.30%	1.31%
Annual inflation rate	1.50%	1.50%
Annual increase in post-employment benefit	2.63%	2.63%
Annual increase in salaries	1.00%	1.00%
Death	The RG48 mortality tables published by the General State Controller	
Disability	INPS tables by age and gender	
Retirement	100% on reaching current regulatory requirements	

The annual frequency of advance payments and company turnover were taken from the historical experience of the Group and from the frequencies of the experience of the actuarial consultant on a significant number of similar businesses.

Note 17: Other non-current liabilities

The account amounts to Euro 506 thousand and relates to a Euro 500 thousand provision for the extraordinary variable bonus granted to the Executive Chairman in execution of the provisions of the Framework Agreement described in the introduction. This was correlated to the Group's future results measured in terms of the equity value's increase over the 2017 - 2018 and 2019 period.

Note 18: Financial Liabilities for Performance Shares

In implementation of the Framework Agreement described in the introduction and as part of the merger operation, in 2017 SIT S.p.A. converted 250,000 ordinary shares owned by SIT Technologies S.p.A. into an equal number of particular SIT shares (Performance Shares), convertible into ordinary shares under the terms and conditions set out in the Articles of Association.

The performance shares are convertible into Ordinary Shares at the ratio of: (i) 1 to 5 and/or (ii) 1 to 1, under the terms and conditions set out in relation to the earn-out at maturity regulated by the By-Laws. The number of Performance Shares convertible into Ordinary Shares pursuant to the above terms will be ascertained by the Company's Related Parties Committee with the assistance and approval of the audit firm, within 60 (sixty) business days from the final approval of the Board of Directors of the consolidated financial statements as of December 31, 2018 and, where applicable, as of December 31, 2019.

For accounting purposes, Performance Shares were recognised as financial liabilities in accordance with IAS 32 and initially recorded at their fair value on July 20, 2017 without any economic impact. The account at December 31, 2017 amounted to Euro 11,500 thousand and represents the Performance Shares' Fair Value calculated by estimating the achievement, with the consolidated financial statements at December 31, 2018, of the results required for their full conversion in a 1 to 5 ratio and valuing the 1 million unissued shares to the listing value of the company's ordinary shares as at December 31, 2017 (Euro 11.5).

From the moment that the shares' market value at July 20, 2017 corresponds to the market value at December 31, 2017, the initial entry financial liability corresponds to the financial liability recognised in the financial statements at December 31, 2017 and no effects were recorded in the income statement.

Note 19: Deferred tax liabilities

A breakdown of temporary differences and the consequent deferred tax liabilities at December 31, 2017 and at December 31, 2016 is reported below, based on the type of temporary differences, applying respectively a tax rate of 24% for IRES and 3.9% for IRAP.

December 31, 2017

(Euro thousands)	Temporary Diff. IRES	Temporary Diff. IRAP	Tax effect IRES	Tax effect IRAP
Tax on business combinations	69,679	69,679	16,718	2,719
Accelerated depreciation	378	-	91	-
Finance Leases	1,100	1,100	264	43
Capitalisation research & development expenses	447	-	107	-
Unrealised for. exchange gains/losses	1,005	-	241	-
Amortised cost	-	-	-	-
Other	986	-	93	-
Total	**73,595**	**70,779**	**17,514**	**2,762**

December 31, 2016

(Euro thousands)	Temporary Diff. IRES	Temporary Diff. IRAP	Tax effect IRES	Tax effect IRAP
Tax on business combinations	75,921	75,921	18,216	2,962
Accelerated depreciation	390	-	94	-
Finance Leases	1,144	1,144	275	45
Capitalisation research & development expenses	916	-	220	-
Unrealised for. exchange gains/losses	343	-	82	-
Other	1,305	-	331	-
Total	**80,019**	**77,065**	**19,218**	**3,007**

CURRENT LIABILITIES

Note 20: Short-term loans and borrowings

The breakdown is as follows:

(Euro thousands)	Dec 31, 17	Dec 31, 16
Utilisation short-term lines	65	49
Current portion of loans	11,458	10,000
Current financial charges	13	77
Total short-term loans and borrowings	**11,537**	**10,126**

- **Current portion of loans**

At December 31, 2017, the account includes the current share of the bank loan (Senior Financial Agreement 2017) referred to in Note No. 13. At December 31, 2016, it represented the current share of the Senior Financial Agreement 2014 bank loan.

Note 21: Other current financial liabilities and derivative financial instruments

A breakdown follows:

(Euro thousands)	Dec 31, 17	Dec 31, 16
Other current payables	-	333
Current portion of loans from holding company	-	723
Factoring payables	2,158	4,195
Derivative financial instruments (current portion)	821	806
Total other current financial liabilities and derivative financial instruments	**2,979**	**6,057**

- **Derivative financial instruments - current portion**

The characteristics and fair value of the current portion of interest rate swaps undertaken, signed by the Parent Company against the new variable rate bank loan (Senior Financial Agreement 2017) undertaken in 2017.

(Euro thousands)

Transaction type	Currency	Beginning date	Maturity	Fixed rate	Notional at 31.12.2017	Fair Value 31.12.2017
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.41%	7,200	(48.34)
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.41%	9,000	(59.86)
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.41%	4,200	(28.23)
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.41%	4,200	(28.23)
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.41%	9,000	(60.36)
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.41%	4,200	(27.40)
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.41%	9,000	(60.05)
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.41%	10,800	(72.21)
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.41%	7,800	(51.81)
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.41%	6,000	(40.06)
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.40%	4,800	(31.73)
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.40%	6,000	(39.28)
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.40%	2,800	(18.53)
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.40%	2,800	(18.53)
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.40%	6,000	(39.62)
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.40%	2,800	(17.97)
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.40%	6,000	(39.41)
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.40%	7,200	(47.40)
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.40%	5,200	(33.99)
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.40%	4,000	(26.29)
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.40%	5,000	(32.17)
Total					**124,000**	**(821.45)**

A breakdown of the current portion of interest rate swap hedges that made up the account at December 31, 2016 relating to the loan that was repaid in 2017 as part of the 2017 SIT Refinancing better described in the Directors’ Report is presented below.

(Euro thousands)

Transaction type	Currency	Beginning date	Maturity	Fixed rate	Notional at 31.12.2016	Fair Value 31.12.2016
IRS on TLA	Euro	30/06/2014	15/04/2019	0.54%	4,200	(28.86)
IRS on TLA	Euro	30/06/2014	15/04/2019	0.47%	3,150	(19.70)
IRS on TLA	Euro	30/06/2014	15/04/2019	0.45%	4,200	(25.58)
IRS on TLA	Euro	30/06/2014	15/04/2019	0.43%	3,150	(18.55)
IRS on TLA	Euro	30/06/2014	15/04/2019	0.31%	2,625	(12.58)
IRS on TLA	Euro	30/06/2014	15/04/2019	0.30%	1,575	(7.33)
IRS on TLA	Euro	30/06/2014	15/04/2019	0.29%	2,100	(9.67)
IRS on TLB	Euro	30/06/2014	30/06/2020	0.58%	4,000	(31.61)
IRS on TLB	Euro	30/06/2014	30/06/2020	1.00%	16,000	(195.06)
IRS on TLB	Euro	30/06/2014	30/06/2020	0.92%	12,000	(135.88)
IRS on TLB	Euro	30/06/2014	30/06/2020	0.87%	16,000	(173.82)
IRS on TLB	Euro	30/06/2014	30/06/2020	0.76%	12,000	(116.40)
IRS on TLB	Euro	30/06/2014	30/06/2020	0.58%	4,000	(31.41)
Total					**85,000**	**(806.44)**

In 2017, the Group adopted the amendments to IAS 7. The amendments require entities to present disclosure which permits the reader of the financial statements to assess the changes to liabilities deriving from financial activities, where such relates to cash flows or non-monetary changes. These include:

(Euro thousands)	at 31/12/2016	Receivable waiver	Reimbursements / settlements	New financing	Fair Value Changes	Change in amortised cost	at 31/12/2017
Bank payables - non-current portion of loans	116,000	-	(116,000)	122,850	-	-	122,850
Bank payables - non-current portion amortised cost	(5,944)	-	-	(1,790)	-	5,944	(1,790)
Total bank payables - non-current portion loans	**110,056**	**-**	**(116,000)**	**121,060**	-	**5,944**	**121,060**
Shareholder loans - non-current portion of loans	32,541	(8,000)	(24,541)	-	-	-	-
Shareholder loan - amortised cost	(1,565)	-	-	-		1,565	-
Derivative financial instruments - non-current	1,769	-	(1,190)	-	(291)	-	288
Total other non-current financial liabilities and derivative financial instruments	**32,745**	**(8,000)**	**(25,731)**	**-**	**(291)**	**1,565**	**288**
Total non-current financial liabilities	**142,801**	**(8,000)**	**(141,731)**	**121,060**	**(291)**	**7,509**	**121,348**
Bank payables - current portion of loans	10,000	-	(10,000)	12,150		-	12,150
Bank payables - current portion amortised cost	-	-	-	(1,004)	-	312	(692)
Total bank payables - current portion of loans	**10,000**	**-**	**(10,000)**	**11,146**	-	**312**	**11,458**
Shareholder loan - current portion of loans	723	-	(723)	-		-	-
Derivative financial instruments - current portion	806	-	(799)	-	814	-	821
Total other current financial liabilities and derivative financial instruments	**1,529**	**-**	**(1,522)**	**-**	**814**	**-**	**821**
Total current financial liabilities	**11,529**	**-**	**(11,522)**	**11,146**	**814**	**312**	**12,279**

Note 22: Trade payables

At December 31, 2017, trade payables were broken down as follows:

(Euro thousands)	Dec 31, 17	Dec 31, 16
Trade payables	68,367	59,949
Trade payables to holding company	-	16
Total trade payables	**68,367**	**59,965**

- **Payables to suppliers**

These include payables in foreign currency and are therefore stated in the financial statements and in the above table net of the relative unrealised exchange differences, equating to exchange gains of Euro 183 thousand.

Note 23: Other current liabilities

A breakdown follows:

(Euro thousands)	Dec 31, 17	Dec 31, 16
Other payables	1,035	1,166
Customer advances	1,860	1,293
Current remuneration payables	2,153	2,418
Deferred remuneration payables	2,811	2,775

Payables to social security institutions	2,631	1,948
Result bonuses	2,476	2,599
Deferred income	67	94
Substitute tax payables	1,214	1,367
VAT payables	545	746
Payables to holding company for tax consolidation	-	-
Total other current liabilities	**14,792**	**14,406**

- **Other payables**

These principally includes the employee portions (canteen contribution, trade union contributions etc.) for subsequent payment to various entities and institutes.

- **Current remuneration payables**

Current remuneration payables principally include employee payables for December 2017 salaries, paid in January 2018.

- **Deferred remuneration payables**

Deferred remuneration refers to holidays and leave matured but not taken, including the relative contributions.

- **Payables for result bonuses**

The account relates to the estimate of 2017 bonuses, to be paid in 2018.

Note 24: Financial liabilities for Warrants

SIT S.p.A. has issued 5,350,000 Warrants admitted to trading on the AIM Italia. The Warrants may be exercised from the month subsequent to the admission of the financial instruments to trading on the AIM Italia and within 5 years from admission, according to the exercise conditions set out in the Warrant Regulation. The exercise of the Warrants supports a divisible Share capital increase for a maximum total amount of Euro 153 thousand, to be executed through the issue of 1,534,380 ordinary SIT shares.

For accounting purposes, the warrants were recognised as financial liabilities in accordance with IAS 32 and initially recorded at their Fair Value on July 20, 2017 of Euro 15,515 thousand without any economic impact. The account at December 31, 2017 amounted to Euro 12,551 thousand, representing the Fair Value of the warrants, calculated by assigning to each warrant issued and not yet exercised at the reporting date the listing price at that date.

Financial liabilities recognised at December 31, 2017 were adjusted to Fair Value, recognising the differential between the issue date price (Euro 2.90) and the price at the reporting date (Euro 2.40) to the income statement under financial income for Euro 2,672 thousand.

NOTES TO THE MAIN CONSOLIDATED INCOME STATEMENT ACCOUNTS

Note 25: Revenues from sales and services

Revenues from sales and services are comprised as follows:

(Euro thousands)	2017	2016
Revenues from product sales	323,455	287,530
Revenues from services	503	608
Total revenues	**323,958**	**288,138**

- **Revenues from product sales**

Group Revenues from product sales by segment and region are broken down as follows:

(Euro thousands)	2017	2016
Heating	273,996	249,790
Smart Gas Metering	49,459	37,740
Total revenues from sales and services	**323,455**	**287,530**

Group revenues by region were as follows:

(Euro thousands)	2017	2016
Italy	99,093	83,034
Foreign EU	89,075	85,362
Foreign Non-EU	135,287	119,134
Total revenues from sales and services	**323,455**	**287,530**

Note 26: Raw materials, ancillaries, consumables and goods

The breakdown of the account in 2017 and 2016 was as follows:

(Euro thousands)	2017	2016
Purchases of ancillary materials	3,310	3,062
Purchases of raw materials, semi-finished & packaging	144,079	114,954
Finished products purchases	23,925	27,137
Purchases of consumable materials	33	29
Purchases of goods	30	113
Maintenance and repair materials	1,751	1,573
Other purchases	1,880	1,703
Duties on purchases	1,266	866
Total raw materials, ancillaries, consumables and goods	**176,274**	**149,437**
Changes in inventories of raw materials, ancillaries, consumables and goods	(2,553)	(799)
Change in inventories of finished & semi-finished products and goods	1,820	452
Total changes in inventories	**(733)**	**(347)**
Total cost of raw materials, ancillaries, consumables and goods	**175,541**	**149,090**

Raw materials, ancillaries, consumables and goods, including changes in inventories, amounted to Euro 175,541 thousand, accounting for 54.2% of revenues, increasing on 2016 by Euro 26,451 thousand (+17.7%) and against a revenue percentage of 51.7%.

The performance benefitted both from increased production volumes and raw material and component price movements in certain goods categories.

We indicate the more than proportional increase of customs charges on purchases due to increased sales of components and finished products in China through the branch SIT Manufacturing Suzhou Co, Ltd (China).

Note 27: Service costs

The composition of the account is as follows:

(Euro thousands)	2017	2016
Rent, hire and leases	2,165	2,189
Outsourcing	7,424	6,758
Transport	6,568	5,496
Commissions	459	418
Legal, administrative and other	2,916	3,167
Insurance	966	872
Management services	1,866	1,951
Maintenance & repair expenses	2,630	2,160
Utilities	4,745	4,967
Personnel expense	1,517	934
Cleaning and security	772	801
Advertising, marketing, and sponsorship	715	564
Directors, statutory & independent auditor fees	1,940	1,188
Travel and accommodation	988	870
Bank charges & commissions	328	261
Other services	768	938
Listing charges	816	-
Total service costs	**37,583**	**33,534**

At December 31, 2017, the account increased Euro 4,049 thousand (+12.1%), with a substantially unchanged percentage on revenues.

The account includes non-recurring costs of Euro 819 thousand concerning the AIM Italia market listing.

- **Outsourcing**

The outsourcing account increased Euro 666 thousand and concerns specific works on certain products and is therefore influenced by the sales mix and not directly by the revenue performance.

- **Transport**

Transport increased Euro 1,072 thousand (+19.5%), due to - in addition to increased business volumes - also the greater need for urgent shipments by air to promptly deliver components and semi-finished products to the Group assembly facilities and finished products to customers due to production capacity limits on certain product families.

- **Maintenance & repair expenses**

Maintenance and repairs increased Euro 470 thousand, related for approx. Euro 150 thousand to software maintenance charges and for Euro 236 thousand to variable maintenance charges related to production development.

- **Personnel expense**

Personnel expenses increased Euro 583 thousand and were impacted by:

- service costs concerning temporary worker agencies for Euro 361 thousand, due to the greater number of employees obtained through this channel;

- increased recruiting costs for Euro 100 thousand due to the greater hiring activities in the year;

- increased training costs for Euro 65 thousand due to the organisation of more activities than the previous year.

- **Advertising, marketing, and sponsorship**

Advertising, marketing and sponsorship increased Euro 151 thousand due to the alternation of certain trade fair events from one year to another.

- **Directors, statutory and independent auditors**

The account increased Euro 752 thousand, including Euro 500 thousand as an extraordinary variable bonus assigned to the Executive Chairman under the Framework Agreement, in addition to the impact of the new governance bodies and the increased cost related to audit activities carried out from 2017 on a half-yearly basis.

Note 28: Personnel expense

Personnel expense is shown below:

(Euro thousands)	2017	2016
Wages and salaries	43,487	42,050
Social security charges	12,080	11,789
Temporary personnel	6,831	3,616
Post-employment benefits	2,351	2,306
Other costs	742	1,863
Total personnel expense	**65,491**	**61,624**

The average number of personnel in 2017 and 2016 was as follows:

Employees	2017	2016
Executives	30	29
White-collar	394	387
Blue-collar	1,462	1,398
Temporary	237	136
Total employees	**2,123**	**1,950**

The account includes non-recurring costs of Euro 1,003 thousand concerning bonuses issued following the successful conclusion of the listing process for Euro 954 thousand and company reorganisation incentives for Euro 49 thousand.

In 2017, personnel expenses increased Euro 3,867 thousand (+6.3%), therefore proportionally less than the revenue increase, despite the stated non-recurring charges and the inefficiencies related to increased volumes and production utilising non-optimal cycles due to the production capacity limits, thanks to the increased volume of production in low labour cost areas and the salary containment policies.

Note 29: Depreciation, amortisation and write-downs

The breakdown is as follows:

(Euro thousands)	2017	2016
Amortisation of intangible assets	9,022	9,930
Depreciation of property, plant and equipment	9,900	9,735
Total amortisation & depreciation	**18,922**	**19,665**
Write-down of current receivables	123	243
Write-down of non-current receivables	-	-
Write-down of intangible assets	-	69
Total write-downs	**123**	**312**
Total depreciation, amortisation & write-downs	**19,045**	**19,977**

For further details on amortisation and depreciation, reference should be made to the notes to intangible assets and property, plant and equipment.

Note 30: Provisions

At December 31, 2017, provisions totalled Euro 885 thousand and were stated net of utilisations of Euro 67 thousand.

Specifically, accruals were made at the Holding Company for Euro 611 thousand on probable risks for which it is not possible to establish a certain amount, concerning product quality against reimbursement requests from a number of clients, and for Euro 136 thousand against a Tax Agency assessment concerning financial year 2014 and in particular direct and indirect taxes.

Metersit S.r.l. allocated provisions of Euro 173 thousand against potential charges which the Group may incur for the fulfilment of contractual commitments on products sold by the Smart Gas Metering Division.

Note 31: Other charges (income)

The account is broken down as follows:

(Euro thousands)	2017	2016
Misc. recoveries	709	788
Prior year income	84	376
Gains on fixed assets	113	121
Grants	155	91
Other revenues	38	32
Other income	**1,099**	**1,408**
Misc. taxes & non-deductible costs	467	380
Losses on fixed assets	45	194
Associations	207	172
Prior year charges	104	167
Losses on receivables	-	96
IMU Property tax	119	115
Misc. reimbursements	46	114
Other charges	353	325
Other charges	**1,341**	**1,563**
Total other charges (income)	**242**	**155**

In 2017, Other income reduced Euro 309 (-21.9%). The principal changes relate to:

- lower prior year income of Euro 292 thousand; in particular, in 2016 Euro 104 thousand was recognised for the recovery of the solidarity contribution for the company SIT Sensori S.p.A., merged into SIT S.p.A. as part of the corporate restructuring of 2014, and Euro 75 thousand for the allocation of the production bonus recorded in 2016.

Other charges in 2017 reduced Euro 222 thousand (-14.2%). The principal changes relate to:

- a reduction in the doubtful debt provision for Euro 96 thousand following the write-off in 2016 of a number of positions considered no longer collectible;

- a decrease in asset disposal losses of Euro 149 thousand concerning unused assets.

Note 32: Financial income

In 2017, this amounted to Euro 2,892 thousand and was broken down as follows:

(Euro thousands)	2017	2016
Profits on derivative financial instruments	2,672	-
Interest income on bank accounts	25	18
Other interest income	171	24
Interest income from Group companies	14	-
Other financial income	10	-
Total financial income	**2,892**	**42**

- **Profits on derivative financial instruments**

This concerns the adjustment to the Fair Value of the 5,229,733 SIT Warrants in place and not exercised at December 31, 2017; the Fair Value was established utilising level 1 of the hierarchy as the Warrants are listed on an active market.

- **Interest income from Group companies**

These concern current loans granted to SIT Technologies S.p.A. (Italy) and SIT Immobiliare S.p.A. (Italy), as part of the centralised financial coordination and treasury services provided by the company.

Note 33: Financial charges

Financial charges consist of:

(Euro thousands)	2017	2016
Financial charges on hedging contract differences	2,452	901
Interest charges to holding company	3,921	9,650
Interest and other bank charges	11,715	8,727
Interest charges to third parties	350	483
Merger fair value	31,321	-
Total financial charges	**49,759**	**19,761**

- **Financial charges on hedging contract differences**

These principally concern charges incurred for the early settlement of interest rate hedges as part of the SIT 2017 Refinancing, described in greater detail in the Directors' Report and to which reference should be made.

- **Interest charges from holding company**

These include interest charges for Euro 2,356 thousand matured on the Shareholder Loan, as outlined at Note No. 13. The account in addition includes Euro 1,565 thousand as the amortised cost recognised to the 2017 income statement due to the early settlement of the Shareholder Loan in 2017 as part of the overall SIT 2017 Refinancing, as described in detail in the Directors' Report. We indicate that the early settlement did not attract penalties.

- **Interest and other bank charges**

The value of Euro 11,715 thousand comprises Euro 5,944 thousand concerning the recognition to the income statement of the residual amortised cost of the loans settled as part of the SIT 2017 Refinancing, Euro 312 thousand as the amortised cost accruing on the new SFA 2017 loan and Euro 4,909 thousand concerning interest accruing on loans in the year. The account in addition includes Euro 550 thousand for commissions, including Euro 349 thousand matured on the SFA 2017 from the commitments date until the issue date (ticking fee).

- **Effect from recognition of the merger transaction**

As an effect of the above-mentioned merger between SIT S.p.A. and ISI2 S.p.A. described in the introduction, the differential between the market value at July 20, 2017 of the SIT S.p.A. shares assigned to the former ISI2 S.p.A. shareholders and the Fair Value of the assets and liabilities of ISI2 S.p.A. at the same date was recognised to financial charges.

Note 34: Net exchange gains/(losses)

Net exchange gains of Euro 435 thousand are comprised as follows:

(Euro thousands)	2017	2016
Realised exchange gains	10,451	5,817
Realised exchange losses	(10,377)	(4,574)
Unrealised exchange gains	1,650	2,946
Unrealised exchange losses	(1,289)	(2,860)
Total net exchange gains	**435**	**1,329**

Unrealised exchange gains refer to the positive differences on the conversion of the receivables and payables in foreign currencies at the year-end exchange rates. Unrealised exchange losses refer to the negative differences on the conversion of the receivables and payables in foreign currencies at the year-end exchange rates.

Note 35: Income taxes

The breakdown of Income taxes in 2017 and 2016 was as follows:

(Euro thousands)	**2017**	**2016**
Current income taxes	(4,227)	(4,340)
Deferred tax charges	1,939	732
Deferred tax income	457	210
Other	(134)	34
Total income taxes	**(1,965)**	**(3,364)**

The reconciliation of the tax charge is reported in the table below:

	2017	**%**	**2016**	**%**
Result before taxes	(21,362)		5,084	
Adjustments for items not subject to taxation (non-recurring components)	31,321		-	
Adjusted pre-tax profit	9,959		5,084	
Theoretical tax	2,390	24%	1,398	27.5%
Other (*)	(1,179)	-11.8%	1,514	29.8%
Total income taxes	**1,211**	**12.2%**	**2,912**	**57.3%**
IRAP	754	7.6%	452	8.9%
Effective taxes	**1,965**	**19,7%**	**3,364**	**66.2%**

(*) Concerning principally the net tax effect of permanent differences, of foreign tax rates other than the theoretical Italian tax rates, adjustments concerning prior year taxes and the effect of the utilisation of prior year losses.

OTHER INFORMATION

Disclosure by operating segment

Income Statement

2017

(Euro thousands)	Heating	Smart Gas Metering	Eliminations	Consolidated
Revenues from sales and services	275,628	49,560	(1,230)	323,958
Operating costs	(249,691)	(50,327)	1,230	(298,787)
EBIT	25,937	(767)	-	25,171

2016

(Euro thousands)	Heating	Smart Gas Metering	Eliminations	Consolidated
Revenue from sales and services	251,206	37,767	(834)	288,138
Operating costs	(226,116)	(39,379)	834	(264,661)
EBIT	25,090	(1,612)	-	23,477

Balance Sheet

2017

(Euro thousands)	Heating	Smart Gas Metering	Eliminations	Consolidated
Assets	338,518	51,519	(10,168)	379,869
Liabilities	257,024	27,261	(10,168)	274,116
Shareholders’ Equity	81,494	24,258		105,753

2016

(Euro thousands)	Heating	Smart Gas Metering	Eliminations	Consolidated
Assets	291,216	53,048	(9,967)	334,297
Liabilities	247,118	27,883	(9,967)	265,034
Shareholders’ Equity	44,098	25,165	-	69,263

Transactions with related parties:

The transactions carried out by the Parent Company with related parties within the Group essentially concern the sale and purchase of finished products, raw materials, components and semi-finished products used in production or distributed for sale, the provision of industrial and general services, royalties against the use of particular intangible assets and the obtaining and use of funding with direct or indirect investees.

They are undertaken as part of ordinary operations and the volumes traded reflect the process underway for the ongoing improvement of operational and organisational standards, in addition to the optimisation of synergies.

In terms of the financial aspects, the subsidiaries operate independently, although the Parent Company provides centralised treasury and financial coordination for the Group companies. For these treasury services, the Parent Company operates with Group companies through one or more current accounts.

In 2017, the Parent Company carried out the following transactions with related parties and presented the following balances at the reporting date:

(Euro thousands)	Revenues	Costs	Financial income	Financial charges	Financial receivables	Financial payables	Other receivables	Other payables
SIT Gas Controls Pty Ltd (Australia)	2,815	-	4	10	0	130	671	8
SIT (Shanghai) Trading Co. Ltd. (China)	-	-	1,912	-	-	-	-	-
SIT Manufacturing (Suzhou) Co.Ltd (China)	11,775	1,815	-	-	-	-	5,011	833
SIT Controls CR, sro (Czech Republic)	19	1,034	-	-	-	2,498	18	510
SIT Controls Deutschland GmbH (Germany)	211	1,153	-	-	-	1,903	38	508
Sit Manufacturing N.A. SA de CV (Mexico)	15,730	1,527	-	103	-	17,829	7,722	128
SIT Controls BV - (Netherlands)	3,085	2,970	1	-	4,700	61	1,778	613
SIT Romania S.r.l. (Romania)	31,234	46,282	113	5	4,500	1,682	5,894	8,724
Metersit Romania S.r.l. (Romania)	14	-	-	-	-	-	14	-
SIT Controls U.S.A. Inc. (USA)	95	112	-	5	-	185	93	62
MeteRSit S.r.l. (Italy)	1,187	33	473	2	6,738	2,529	710	58
Subsidiaries	**66,167**	**54,927**	**2,503**	**125**	**15,938**	**26,815**	**21,949**	**11,443**
SIT Immobiliare S.p.A.	14	-	2	-	51	-	15	-
Companies subject to the control of the holding company	**14**	-	**2**	-	**51**	-	**15**	-
SIT Technologies S.p.A.	124	100	162	3,972	674	12,220	30	-
Holding company	**124**	**100**	**162**	**3,972**	**674**	**12,220**	**30**	-

The transactions are governed at normal market conditions, except for the loan to the subsidiary MeteRSit S.r.l. with a nominal value as at the reporting date of Euro 7,500 thousand within the framework of an interest-free line of credit of a total of Euro 15,000 thousand.

Remuneration of Directors, Statutory Auditors and Independent Audit Firm

The remuneration of the Board of Directors, Board of Statutory Auditors and the independent audit firm for services provided to the Group in the year were as follows:

(in Euro thousands)	2017	2016
Director fees	1,314	715
Statutory auditor fees	135	105
Independent audit firm fees	471	257
Total	**1,920**	**1,077**

Director fees includes the provision made for the above-stated extraordinary variable bonus assigned to the Executive Chairman under the Framework Agreement for Euro 500 thousand.

Guarantees, commitments and off-balance sheet contingent liabilities

The off-balance sheet commitments of the Parent Company at December 31, 2017 were as follows.

	2017	2016
Other unsecured guarantees	41,674	33,871
Secured guarantees	-	51,655
Total guarantees	**41,674**	**85,525**

- **Other unsecured guarantees**

Other unsecured guarantees issued by the Parent Company to third parties were as follows:

	2017	2016
In the interest of subsidiaries	35,041	25,635
In own interest	6,633	8,236
Total other guarantees	**41,674**	**33,871**

With regards to unsecured guarantees issued in the interest of subsidiaries, these were entirely issued in the interest of MeteRSit S.r.l., in favour of its client as part of Smart Gas Meter installation tenders. They concern for Euro 7,946 thousand co-obligations with the subsidiary MeteRSit S.r.l., while the remaining amount concerns guarantees exclusive to the Parent Company.

At December 31, 2017, two provisional guarantees were in place in favour of IREN S.p.A., No. 12808/8200/01087303 of Euro 178,185 and No. 12808/8200/01087306 of Euro 76,365, replaced on February 20, 2018 by definitive guarantee No. 12808/8200/01087820 of Euro 757,286 following the award of the tender.

The guarantees issued in its own interest are predominantly (Euro 6,651 thousand) in favour of the Tax Agency for VAT receivables offset as part of the Group declaration.

- **Secured guarantees**

As part of the overall 2017 SIT Refinancing, better described in the Directors' Report, 2017 entailed the early repayment of the penalty-free Shareholder Loan, as referred to in Note No. 14, and the bond loan underwritten by the holding company SIT Technologies S.p.A, the underwriters of the guaranteed bond loan which waived the pledge registered on industrial and intellectual property rights; as a result, the company applied for cancellation which was still being finalised at the date of the financial statements.

<u>**Off-balance sheet transactions**</u>

SIT S.p.A. has undertaken with its clients, suppliers, workers and sector associations and other commercial and financial partners a number of contractual agreements which establish various types of reciprocal commitments of differing durations, whose effects are recognised to the balance sheet to the extent of their compliance with the accounting standards applied, particularly with regards with the accruals principle, while future effects are obviously not recorded to the balance sheet where complying with that established by the accounting standards.

For example purposes and not to be considered exhaustive, we cite: long-term framework contracts with clients and suppliers, agreements with clients for the joint development of new products, consignment stock contracts both for purchases and sales, agency and distribution contracts and outsourcing agreements for assembly, storage, logistical management and other services.

Risk management and financial instruments recognised at Fair Value

The Company has approved the following financial risk monitoring and management policies:

- Foreign exchange risk management policy;
- Interest rate risk management policy.

The scope of these policies is to govern, within a shared framework, the management approach, the objectives, the roles, the responsibilities and the operating limits of the financial risk management activities.

These policies at the reporting date have been extensively described in the relative section of the Directors' Report, to which reference should be made.

The interest rate hedges at the reporting date are outlined at Notes 14 and 21 respectively for the non-current and current portions.

With regards to the financial instruments recognised to the financial statements at Fair Value at December 31, 2017, the following table outlines the type of instrument, its value at the reporting date and the fair value hierarchy utilised:

Transaction type	Value at 31.12.2017 (in Euro)	Measurement criterion	Level 1 (in Euro)	Level 2 (in Euro)	Level 3 (in Euro)
SIT Warrants	(12,551,359)	Fair Value	(12,551,359)		
Performance Shares	(11,500,000)	Fair Value		(11,500,000)	
Interest Rate Swap	(1,109,665)	Fair Value		(1,109,665)	
Forex Forward (1)	1,313	Fair Value		1,313	
Commodity Swap (1)	8,351	Fair Value		8,351	

Forex Forward (1) and Commodity Swaps (1) operations were not designated as "hedges" in accordance with the applicable accounting standards and therefore the result matured in 2017 was recognised to the income statement.

A similar table is reported for financial instruments recognised to the financial statements at Fair Value at December 31, 2016:

Transaction type	Value at 31.12.2016 (in Euro)	Measurement criterion	Level 1 (in Euro)	Level 2 (in Euro)	Level 3 (in Euro)
Interest Rate Swap (2)	(2,575,321)	Fair Value		(2,575,321)	
Forex Forward (1)	(74,766)	Fair Value		(74,766)	

The Interest Rate Swap (2) at December 31, 2016 was settled in advance as part of the SIT 2017 Refinancing described in the Directors' Report, to which reference should be made.

Forex Forward (1) operations were not designated as "hedges" in accordance with the applicable accounting standards and therefore the result matured in 2016 was recognised to the income statement.

For completeness, the hierarchy for the valuation of instruments recognised to the financial statements at Fair Value is reported below:

- Level 1: listed prices on active markets for identical assets or liabilities;
- Level 2: technical valuations (based on observable market data)
- Level 3: technical valuations (not based on observable market data)

For further details on identified risks, reference should be made to the Directors' Report.

Market and competition law - Law No. 124 of August 4, 2017, paragraph 125

In accordance with the disclosure obligation as per paragraph 125 of Article 1 of Law 124/2017, the grants and subventions received from the public sector are presented below:

Entity	Grants received in accordance with Law 124/2017, paragraph 125 (in Euro)	Type
Fondirigenti G.Taliercio	8,147	Loan recognised for training plan FDIR 16030 activity expenses
V.to Regional Board	25,988	Restatement of public grants project 5753/0/1/785/2015 - F.S.E. Course 2014-2020 DDR 1241 of 22/07/15
Tre P Engineering S.r.l	80,004	Grant on EXTRA_Flux stoichiomEtric gas burner cookTop E-FESTO project. Decree 167 15/06/17 Primo SAL
	167,000	Contribution POR FSER Marche
Veneto Region	346,514	decree of industry and craft department head No. 117482 and No. 116608 of 18/03/14
Total	**627,653**	

Subsequent events

No significant events subsequent to the reporting date are indicated.

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Padua, March 20, 2018

The Chairman of the Board of Directors

(Mr. Federico de’ Stefani)

Building a better working world

SIT S.p.A.

Consolidated financial statements as at 31 December 2017

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010

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Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010
(Translation from the original Italian text)

To the Shareholders of SIT S.p.A.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of SIT Group (the Group), which comprise the balance sheet as at 31 December 2017, the income statement, the comprehensive income statement, the statement of changes in shareholders' equity and the cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

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

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

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors are responsible for assessing the Group's ability to continue as a going concern and, when preparing the consolidated financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the consolidated financial statements on a going concern basis unless they either intend to liquidate the Parent Company SIT S.p.A. or to cease operations, or have no realistic alternative but to do so.

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

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

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

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

- we have identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- we have obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010

The Directors of SIT S.p.A. are responsible for the preparation of the Directors' Report of SIT Group as at 31 December 2017, including its consistency with the related consolidated financial statements and its compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Directors' Report with the consolidated financial statements of SIT Group as at 31 December 2017 and on its compliance with the applicable laws and regulations, and in order to assess whether it contains material misstatements.

In our opinion, the Directors' Report is consistent with the consolidated financial statements of SIT Group as at 31 December 2017 and comply with the applicable laws and regulations.

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

Padova, 9 April 2018

EY S.p.A.
Signed by: Stefano Marchesin, partner

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