2018 ANNUAL FINANCIAL REPORT

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CHAIRMAN'S LETTER

Dear Shareholder,

Almost two years since our Stock Market listing, in 2018 record revenues and earnings were once again delivered. These results underscore the strength of our strategic decisions and the financial solidity of SIT.

SIT in fact in 2018 reported consolidated revenues of Euro 359.7 million, with organic growth of 11% on 2017, Adjusted EBITDA of Euro 50.6 million (+9.1%) and a Net Profit of Euro 24.3 million.

Both business divisions contributed to these strong results.

The Heating Division (sales of Euro 287 million) reported growth of 4.7%, driven by strong performances on the European and American markets (respectively +6.5% and +11.3% on the previous year). China however reported a slowdown due to the suspension of the government incentive plan ("coal to gas policy"), which was fully operational in 2017 and which we expect to be re-introduced in 2019.

The Smart Gas Metering Division (sales of Euro 72.1 million) reported growth of 45.9% on 2017, enabling us to consolidate our strong competitive position on the Italian market. The Smart Meters business for the Group represents a major growth driver considering that, in the period 2013-2018, we have overseen extraordinary sales figures with compound annual growth of 70.5%.

After this extraordinary growth phase, all developed organically, in the near future we expect growth at more contained levels and our operations will feature improved margins and cash flow optimisation.

Global competitivity

Recent years have been crucial also in consolidating our approach to the global market, with our strategy focusing on continental industrial platforms which bring us as close as possible to the customer.

An investment plan was launched (approx. Euro 30 million) in order to both boost and streamline global production capacity, which in 2018 centred on developing the Rovigo facility and creating an integrated logistics hub in Italy. These investments are generating tangible benefits for the supply chain and therefore delivering customer service improvements.

We continue to place great important on innovation focused on the development of electronic and mechanical solutions that are increasingly integrated, intelligent, able to communicate with the external environment through the most modern internet of things technology (IOT), easy to use and, at the same time capable of maximising comfort performance while reducing energy consumption as much as possible. An ever-sharper focus has, in addition, been placed on using future energy sources such as hydrogen.

<u>SIT on the capital markets</u>

The past year also marked our arrival on the main market on the Italian Stock Exchange. Our transfer to the main index allows us to access a larger capital market with a wider range of domestic and international investors.

This step supports the further strengthening of SIT's top management team, particularly in terms of dealing with major international customers. We have put in place a modern and effective governance structure, with a refreshed management team featuring individuals of proven experience and with a focus on digitalisation. This new team is fully up and running in support of our company's continued growth.

<u>Sustainability</u>

On joining the main index, we began to report upon our approach to sustainability in an organised and systematic manner. These issues however have always been part of the SIT Group's DNA: one needs only to consider that our products combine safety, energy savings and respect for the environment. We highlight in this regard that since 2018 we have set and shared ongoing improvement targets for a balanced approach to the economic, environmental and social aspects related to operations and - reflecting the developing culture and awareness around the importance of acting sustainably - we have sought to incorporate these aspects into the Group managers' MBO's.

The Future

We are confident that our investment plan - together with streamlining measures - will further boost profitability.

We have closely focused on acquisition-led development to grow further, assessing mid-size competitors both in the Heating and Smart Gas Metering segments. Since our foundation we have successfully integrated businesses across the globe which have acted as a driver for the technological development of our business.

In terms of organic growth, the Smart Gas Metering division is working to tap into opportunities on international markets after the first tender won in India.

We look to the coming year with confidence, safe in the knowledge that over recent years we have built a solid foundation for long-term development, which we will be further driven by significant amounts of commitment and capital.

Federico de' Stefani

Chairman & Chief Executive Officer

CORPORATE INFORMATION

Parent Company Registered Office

Sit S.p.A.

Viale dell'Industria, 31/33

35129 Padua – Italy

www.sitgroup.it

Parent Company Legal Details

Share capital approved Euro 96,151,884.90

Share Capital subscribed and paid-in Euro 96,151,884.90

Tax and Padua Companies Registration Office No. 0485520287

Operating branches

Viale dell'Industria, 31 – 35129 Padua – Italy

Viale A. Grandi, 6 – 45100 Rovigo – Italy

Viale A. Grandi, 11 – 45100 Rovigo – Italy

Via Grazia Deledda 10/12 - 62010 Montecassiano - Italy

SIT and subsidiaries

DIRECTORS' REPORT

COMPOSITION OF THE CORPORATE BOARDS

Board of Directors***

Federico de Stefani	*Chairman and Chief Executive Officer*
Chiara de Stefani	*Director*
Attilio Francesco Arietti	*Director*
Fabio Buttignon	*Director*
Giovanni Cavallini	*Director*
Bruno Pavesi	*Director*
Franco Stevanato**	*Independent Director*
Antonio Campo Dall'Orto**	*Independent Director*
Bettina Campedelli **	*Independent Director and "Lead Independent Director"*

Board of Statutory Auditors

Saverio Bozzolan	*Chairman*
Ivano Pelassa	*Statutory Auditor*
Loredana Anna Conidi	*Statutory Auditor*
Giulia Chiarella	*Alternate Auditor*
Barbara Russo	*Alternate Auditor*

Independent Audit Firm

Deloitte & Touche S.p.A.

Internal Control, Risks and Sustainability Committee

Bettina Campedelli **	Chairperson
Chiara de' Stefani	Member
Franco Stevanato **	Member

Related Parties Committee

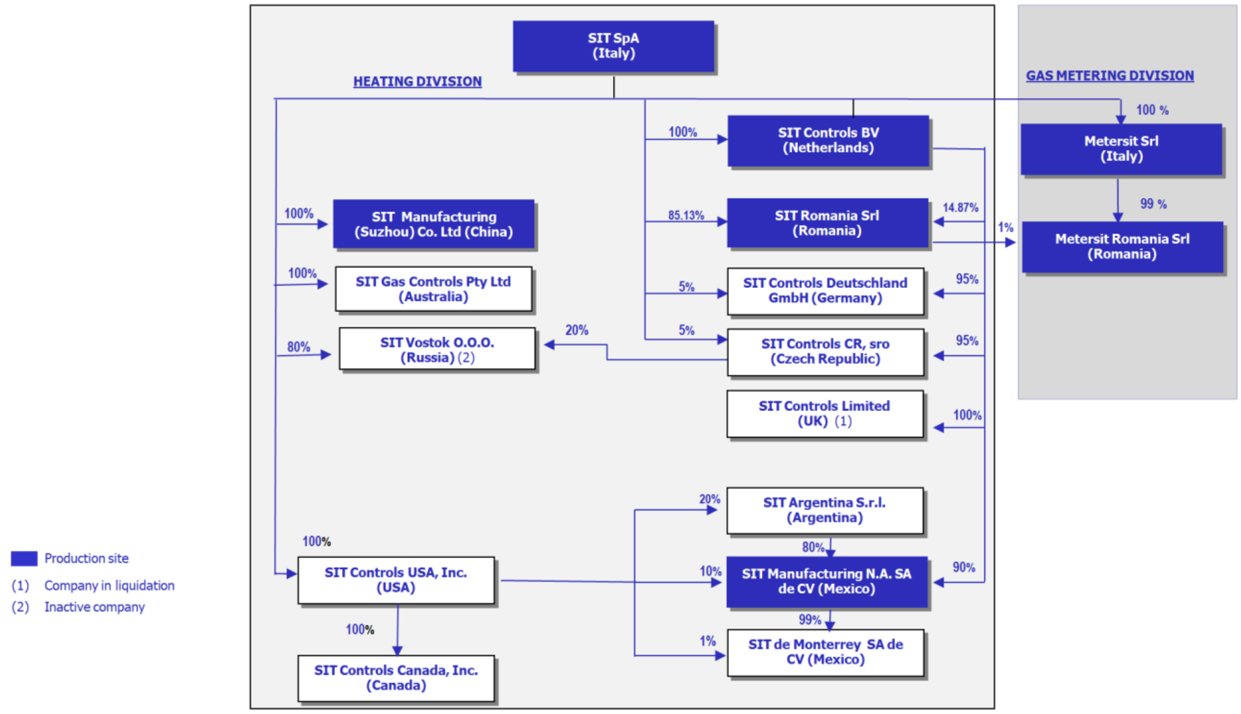
Bettina Campedelli **	Chairperson
Giovanni Cavallini	Member
Franco Stevanato**	Member

Remuneration Committee

Antonio Campo Dall'Orto **	Chairman
Chiara de' Stefani	Member
Franco Stevanato**	Member

* The Board of Directors and the Board of Statutory Auditors were appointed by the Shareholders' Meeting of July 10, 2017 and remain in office until the approval of the 2019 Annual Accounts. The Director Bettina Campedelli and the Director Antonio Campo Dall'Orto were co-opted to the Board of Directors on October 17, 2018 and will remain in office until the next Shareholders' Meeting. The Statutory Auditor Anna Loredana Conidi and the Alternate Auditor Barbara Russo were appointed by the Shareholders' Meeting of April 26, 2018 and remain in office until the approval of the 2019 Annual Accounts.
** Independent directors
*** In relation to the nature of the powers conferred, reference should be made to the Governance Report

GROUP STRUCTURE



The SIT Group

The SIT Group develops and manufactures instruments for the measurement of consumption and the safety, comfort and performance of domestic gas appliances.

The Group comprises two divisions:

- Heating: manufactures and distributes components and systems for the control, regulation and safety of gas-based domestic heating and cooking and catering equipment and home appliances.
- Smart Gas Metering: manufactures and distributes smart gas meters which more accurately measure consumption and feature control and safety (including remote) functionality.

The Group operates in the Heating sector through the following companies:

- SIT S.p.A;
- SIT Controls B.V. (Netherlands);
- SIT Controls Deutschland GmbH (Germany);
- SIT Controls CR s.r.o. (Czech Republic);
- SIT Romania S.r.l. (Romania);
- SIT Manufacturing N.A.S.A. de C.V. (Mexico);
- SIT de Monterrey S.A de C.V. (Mexico);
- SIT Controls U.S.A. Inc. (USA);
- SIT Controls Canada Inc. (Canada);
- SIT Gas Controls Pty Ltd. (Australia);
- SIT Manufacturing Suzhou Co. Ltd (China);
- SIT (Argentina) S.r.l.

SIT Vostok O.O.O., with registered office in Russia, is inactive and SIT Controls (UK) Limited, with registered office in the United Kingdom, is in liquidation. SIT (Shanghai) Trading Co. Ltd, with registered office in China, completed the necessary procedures for liquidation in September 2018.

The Group operates in the Smart Gas Metering segment through Metersit and Metersit Romania S.r.l.

SIT exercises management and co-ordination activities over the subsidiaries directly and indirectly held.

FINANCIAL HIGHLIGHTS

The following tables report the adjusted figures and performance indicators not expressly used by international accounting standards IFRS, whose definitions and calculation methods are described in the paragraph below.

(Euro thousands)

Operating results	2018	%	2017	%	change	change %
Revenue from contracts with customers	359,688	100.0%	323,958	100.0%	35,730	11.0%
EBITDA	43,821	12.2%	44,093	13.6%	(272)	-0.6%
Adjusted EBITDA	50,579	14.1%	46,347	14.3%	4,233	9.1%
EBITA	30,230	8.4%	31,446	9.7%	(1,216)	-3.9%
EBIT	23,955	6.7%	25,171	7.8%	(1,216)	-4.8%
Adjusted EBIT	30,713	8.5%	27,424	8.5%	3,289	12.0%
Financial charges	4,798	1.3%	49,759	15.4%	(44,961)	-90.4%
Financial income	13,285	3.7%	2,892	0.9%	10,393	359.4%
Business combination amort. (PPA) (1)	4,524	1.3%	4,524	1.4%	-	0.0%
Result before taxes (EBT)	32,072	8.9%	(21,362)	-6.6%	53,434	-250.1%
Net profit/(loss) for the year	24,265	6.7%	(23,327)	-7.2%	47,592	-204.0%
Adjusted net profit for the year	19,582	5.4%	14,806	4.6%	4,776	32.3%

(1) Euro 6,275 thousand, net of the deferred tax effect of Euro 1,751 thousand in 2018 and Euro 1,970 thousand in 2017.

The table below illustrates a reconciliation of the non-recurring items, reclassified by nature:

	2018		2017	
Non-recurring charges and income	**EBITDA**	**Net Profit**	**EBITDA**	**Net Profit**
	43,821	**24,265**	**44,093**	**(23,327)**
Personnel expense (1)	2,694	1,942	-	-
Listing charges	2,404	1,733	1,769	1,275
Accrual to product warranty provision (2)	617	445	-	-
Charges from merger with ISI2	492	492	-	-
Chairman’s extraordinary emolument	254	183	500	361
Other	298	215	(16)	(11)
Total non-recurring operating charges (income)	**6,758**	**5,010**	**2,253**	**1,625**
Adjusted EBITDA	**50,579**	**-**	**46,347**	**-**
Effect deriving from merger with ISI2	-	-	-	31,321
Financial charges concerning refinancing transaction	-	-	-	7,218
Change fair value on Performance Shares	-	(2,463)	-	-
Change fair value on Warrants	-	(7,229)	-	(2,031)
Non-recurring net financial charges (income)	**-**	**(9,692)**	**-**	**36,509**
Adjusted net profit for the year	**-**	**19,582**	**-**	**14,806**

(1) Personnel expense include the settlement and incentive costs for the mutual resolution of employment of the general manager, including legal expenses.

(2) The account Product warranty provision includes the adjustment to the product warranty provision relating to the Smart Gas Metering Division, as described further in the Explanatory Notes.

(Euro thousands) Balance Sheet	31/12/2018	31/12/2017	Change	change %
Net capital employed	208,025	194,909	13,116	6.7%
Shareholders' Equity	125,403	105,753	19,650	18.6%
Net Financial Debt	(71,334)	(65,105)	(6,229)	9.6%
Net trade working capital	29,473	21,889	7,584	34.6%
Financial Liabilities for Performance Shares	(8,260)	(11,500)	3,240	-28.2%
Financial liabilities for Warrants	(3,028)	(12,551)	9,523	-75.9%

(Euro thousands) Composition of net capital employed	31/12/2018	31/12/2017
Intangible assets	144,250	151,424
Property, plant & equipment	65,169	47,778
Financial assets	54	54
Non-current financial assets	1,544	1,551
Fixed assets (A)	**211,017**	**200,807**
Inventories	52,230	38,130
Trade receivables	52,038	52,126
Trade payables	(74,795)	(68,367)
Current assets and liabilities	(10,529)	(6,492)
Net Working Capital (B)	**18,944**	**15,397**
Long-term liabilities and assets and provisions (C)	**(21,936)**	**(21,295)**
Net capital employed (A + B + C)	**208,025**	**194,909**

(Euro thousands) Summary of net financial position items	31/12/2018	31/12/2017
Cash and cash equivalents	(55,494)	(70,024)
Other current financial assets	(97)	(735)
Short-term loans and borrowings	16,257	11,537
Other current financial liabilities and derivative financial instruments	5,228	2,979
Medium/long-term loans and borrowings	104,730	121,060
Other non-current financial liabilities and derivative financial instruments	710	288
Net financial position	**71,334**	**65,105**

(Euro thousands) Summary of net trade working capital items	31/12/2018	31/12/2017
Inventories	52,230	38,130
Trade receivables	52,038	52,126
Trade payables	(74,795)	(68,367)
Net trade working capital	**29,473**	**21,889**

Key performance indicators	31/12/2018	31/12/2017
ROIC (1)	17.8%	17.0%
Net trade working capital/Revenues	8.2%	6.8%
Net financial position/Shareholders' equity	0.57	0.62
Net financial position/Adjusted EBITDA	1.41	1.42

(1) ROIC is the ratio between Adjusted EBITA and Capital Employed at year-end.

Alternative performance indicators

In application of Consob Communication of December 3, 2015, which enacts in Italy the guidelines on Alternative Performance Indicators (API) issued by the European Securities and Markets Authority (ESMA), the criteria utilised for their calculation are illustrated below.

These indicators describe the economic/financial performances of the Group on the basis of indices not expressly contained within IFRS (International Financial Reporting Standard) and adjusted by the effects of non-recurring items. It is considered that these indicators ensure a better comparability over time of results, although they do not replace the results determined by the application of international accounting standards IFRS described in the Explanatory Notes. We list below the principal API's presented in the Directors' Report and a summary description of their relative composition, as well as the reconciliation with the corresponding official figures:

- EBITDA is the operating result before amortisation, depreciation and write-downs, net of the doubtful debt provision;
- Adjusted EBITDA is the EBITDA net of non-recurring transactions or rather all those atypical, unusual or transactions which do not repeat frequently in the normal course of business activities, undertaken with related or third parties, which may have a significant impact on the financial results of the Group. For further information, reference should be made to the table on non-recurring income and charges;
- EBITA is the operating result, net of amortisation on the gains allocated to Group intangible assets following the business combination (Purchase Price Allocation or PPA) consequent to the acquisition of SIT La Precisa S.p.A in 2014.
- Adjusted EBIT is defined as the operating result, net of non-recurring income and charges. For further information, reference should be made to the table on non-recurring income and charges;
- The Group and Sit S.p.A.'s net financial position is calculated by not considering the financial debt for Warrants and the financial debt for Performance Shares, as items that will not involve any financial outlay;
- Adjusted financial charges: financial charges net of non-recurring transactions. For further information, reference should be made to the table on non-recurring income and charges;

- Adjusted net result is the net result for the period, net of non-recurring transactions and the relative fiscal effect. For further information, reference should be made to the table on non-recurring income and charges.

GENERAL OVERVIEW

Global GDP grew 3.7% in 2018. Following the slight slowdown in the first half of 2018, the global economy weakened further towards the end of the year. The main cause stems from the trade tensions which have created uncertainty and impacted investment, particularly in areas with close links to the United States and China. The central banks have gradually eased the levels of liquidity injected into economies, with market volatility on the rise and the level of capital which had supported the growth of the emerging economies gradually receding.

The US economy saw growth of 2.9% in 2018, a 13-year high and improving on the previous year's 2.2% growth. This was particularly supported by a 3.4% increase in federal spending.

China - at the centre of the trade tensions with the US - reported GDP growth of 6.6% annually, the lowest figure recorded since 1990.

Eurozone GDP in 2018 rose 1.8% (deteriorating on +2.4% in the previous year). Among Europe's main economies, we highlight GDP growth in Germany and France of 1.5% and in the United Kingdom of 1.4%.

The Italian economy grew 0.9% on the previous year. Domestic demand volumes rose 3.4% in terms of gross fixed investment and 0.5% for domestic end-consumption. In terms of trade, goods and service exports improved 1.9% and imports were up 2.3%.

Mechanical sector investment in Italy was up 6.9% in 2018, with exports expanding 2.3% on 2017. Production levels have remained buoyant over recent years, rising 2.4% on the previous year. Enterprise Plan 4.0 (Piano Impresa 4.0.) has certainly acted as a driver[1].

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

ECONOMIC 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 permits 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

On November 28, 2018, trading began of SIT's ordinary shares and warrants on the main index of the Italian Stock Exchange (Mercato Telematico Azionario) ("MTA")), organised and managed by Borsa Italiana. Trading began following communication No. 0485808/18 of November 22, 2018 in which the Stock Market regulator - CONSOB approved the information prospectus and the motions issued by the Italian Stock Exchange on November 20 and 26, 2018 with which it approved respectively the admission for trading of the shares and of the warrants of the Company and the commencement date of trading.

This process completes the transfer from the AIM Italia market to the MTA market which the company began following approval by the Shareholders' Meeting of December 18, 2017, with the objective to provide greater visibility (both for strategic partners and institutional investors) and to improve the share's liquidity and access to a broader equity market considering the greater number of listed companies and investors active on this market.

On August 7, 2018, SIT and Mr. Fulvio Camilli, until that date chief executive officer and general manager of the company, reached a settlement involving the immediate and consensual resolution of employment as general manager and of the relationships arising from the offices held by Mr. Fulvio Camilli at the company and at the subsidiaries of the SIT Group, with the simultaneous signing of a settlement agreement as per Article 2113 of the Civil Code.

Subsequently, during 2018, a new orgnisational structure was Introduced with direct reporting to the Chief Executive Officer, Federico de' Stefani (in addition to the staff function managers of the Governance & Legal Services Department, the Administration, Finance and Control Department and the Human Resource Department), the Chief Operating Officer, the Chief Product Officer and the Chief Customer Officer.

On the business performance front, the year 2018 again saw strong growth in revenues compared to the previous year with the Group reporting growth of 11.0% (+12.0% at same exchange rates).

Heating growth was 4.7%, supported by the European and American markets and was substantially across all of the main product families. During the year, the investment programme was completed in order to increase the production capacity and remove the principal bottlenecks which in the second part of 2017 and the first half of 2018 negatively impacted the division's performance. These investments, amounting to approx. Euro 13.3 million, were completed and entered into full production on schedule in the third quarter of 2018.

The activities surrounding the construction of the Rovigo logistics hub and the consequent bringing in-house of warehousing and shipping, previously managed by an outside specialist, followed the plan with the start-up of the new unit in the third quarter of the year.

The Smart Gas Metering Division also continued to acquire new orders in 2018 and consolidate its market position. In 2018, revenues amounted to Euro 72.1 million, up 45.9% on Euro 49.5 million in 2017. At the reporting date, the order portfolio stood at approximately Euro 44.4 million, scheduled for delivery in 2019.

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)	2018FY	%	2017FY	%	change	change %
Heating	287,001	79.8%	273,997	84.6%	13,004	4.7%
Smart Gas Metering	72,147	20.1%	49,459	15.3%	22,688	45.9%
Total product revenues	359,148	99.8%	323,456	99.8%	35,692	11.0%
Other revenues	540	0.2%	502	0.2%	38	7.6%
Total revenues	**359,688**	**100%**	**323,958**	**100%**	**35,730**	**11.0%**

Revenue by region

(Euro thousands)	2018FY	%	2017FY	%	change	change %
Italy	126,131	35.1%	99,294	30.7%	26,837	27.0%
Europe (excluding Italy)	148,425	41.3%	139,467	43.1%	8,958	6.4%
The Americas	55,277	15.4%	49,819	15.4%	5,458	11.0%
Asia/Pacific	29,855	8.3%	35,378	10.9%	(5,523)	-15.6%
Total revenues	**359,688**	**100%**	**323,958**	**100%**	**35,730**	**11.0%**

Revenues for 2018FY were Euro 359.7 million, with organic growth of 11.0% (Euro 35.7 million) on 2017FY (Euro 324.0 million).

Heating Division sales amounted to Euro 287.0 million, up 4.7% on the previous year, thanks to the European and American market performances which respectively grew 6.5% and 11.3%, with the latter up 15.8% at same exchange rates.

On the American market - which represents approx. 20% of divisional core sales - the improvement follows increased Storage Water Heating market share thanks to the renewal of a long-term contract with one of the Group's main customers. In Europe, Turkey which represents 13.5% of divisional core sales, is down 3.1% vs 2017FY after regulatory changes (E.r.P - Energy Related Products directive adoption), gave a boost to last year sales; sales growth was reported in the Netherlands (+Euro 4.5 million), Russia (+Euro 3.4 million) and Italy (+Euro 2.4 million) - respectively up 26.9%, 36.7% and 4.5% on the previous year due to the increase in volumes and market share.

China (6.1% of core division sales) saw sales decline 18.7% as the government incentive plan ("coal to gas policy"), fully effective in 2017, was temporarily suspended for a large part of 2018.

Products with the highest growth are Electric Fans (+16.7% or Euro 5.3 million), Mechanical Controls (+3.1% or Euro 5.0 million) and Electronic Controls (+4.4% or Euro 2.1 million). At segment application level, while the Central Heating segment was substantially in line with the previous year (approx. 62.7% of core division sales), we report growth in Storage Water Heating (+26.7%, 7.7% of core division sales) due to the afore-mentioned growth on the American market and the good performance of Direct Heating (+3.2%).

In relation to the principal clients of the Group's Heating Division, we report that currently 40.4% of annual revenues are with the leading 5 clients - with which the Group has consolidated long-term commercial relationships.

In 2018, the Smart Gas Metering Division generated revenues of Euro 72.1 million, an increase of 45.9% compared to Euro 49.5 million in 2017. 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 69.7 million (96.7% of total sales), while sales for Commercial & Industrial Meters amounted to Euro 1.8 million. In 2017, sales were Euro 46.5 million (93.9% of total sales) and Euro 2.8 million respectively. 2018 revenues were all substantially generated on the domestic market.

In relation to the principal clients of the Metering Division, we report that currently 72.3% of annual revenues are with the leading 3 clients, against particularly the high concentration amongst the principal players in the gas distribution sector.

Economic performance

The 2018 Adjusted EBITDA amounted to Euro 50.6 million, up 9.1% over 2017 (Euro 46.3 million). Adjusted EBITDA improved in the second part of the year as accelerated capex plan was deployed and became effective while negotiation and streamlining of operations were introduced.

The Adjusted EBITDA margin decreased from 14.3% in 2017 to 14.1% in 2018, due to the additional costs deriving from the production capacity limits reached by the Heating Division in the initial part of the year and due to the additional accrual for risks and warranty provision in the Smart Gas Metering Division in line with the significant growth of the meter installed base.

Purchase costs of raw materials and consumables, including changes in inventories, amounted to Euro 194.3 million (54.0% of revenues, substantially in line with 54.2% in 2017).

Service Costs, amounting to Euro 44.5 million, account for 12.4% of revenues compared to 11.6% in 2017 and include non-recurring charges respectively of Euro 2.6 million and Euro 819 thousand, mainly relating to the transition to the MTA market and the listing on the AIM Italia market.

Personnel expense of Euro 73.7 million accounted for 20.5% of revenues (20.2% in the previous year), increasing Euro 8.2 million and includes non-recurring charges of Euro 2.7 million.

Group EBITA was Euro 30.2 million in 2018, compared to Euro 31.4 million in 2017.

2018 Adjusted EBIT of Euro 30.7 million, compared to Euro 27.4 million in 2017, increasing 12.0% in comparison to a revenue increase of 11.0%.

Group EBIT therefore decreased from Euro 25.2 million in 2017 to Euro 24.0 million in 2018, after amortisation and depreciation of Euro 20.0 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 4.8 million. Financial income of Euro 13.3 million relates respectively for Euro 9.5 and 3.2 million to the change in the market value of the Warrants and the Performance Shares issued by the Company.

Adjusted net financial charges total Euro 4.3 million, reducing over 50% versus Euro 8.7 million in 2017, due to the new post-listing funding structure.

Adjusted net profit, calculated net of non-recurring charges and income (both operating and financial) and net of the tax effects, amounting to Euro 19.6 million, was up 32.3% versus the previous year, with the margin increasing from 4.6% to 5.4%.

2018 net profit was Euro 24.3 million.

Cash Flow performance

The net debt at December 31, 2018 was Euro 71,334 thousand, compared to Euro 65,105 thousand at December 31, 2017, increasing Euro 6,230 thousand.

The movements in the net financial position are reported below:

(Euro thousands)	**2018**	**2017**
Cash flow from current activities (A)	48,138	48,090
Cash flow generated (absorbed) from Working Capital (B)	(15,056)	(6,514)
CASH FLOW FROM OPERATING ACTIVITIES (A + B)	**33,082**	**41,576**
Cash flow from investing activities (C)	(29,867)	(17,331)
CASH FLOW FROM OPERATING & INVESTING ACTIVITIES (A + B + C)	**3,215**	**24,245**
Interest paid	(3,657)	(11,116)
Change in accrued interest on loans including PIK	13	783
Amortised cost	(559)	(7,821)
FV change of derivatives	(368)	1,475
Change in translation reserve	1,201	(3,644)
Change in shareholders' equity and acquisition treasury	(89)	7,339
Merger contribution net of listing costs	-	48,407
Dividends	(5,986)	-
Change in net financial position	**(6,230)**	**59,668**
Opening net financial position	**65,105**	**124,773**
Closing net financial position	**71,335**	**65,105**

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

Operating cash flows were impacted by the increase in working capital, which in 2018 absorbed Euro 15,056 thousand, compared to Euro 6,514 thousand in the previous year. This change is mainly due to inventory, which increased Euro 14.2 million compared to the end of 2017, a date on which the exceptional level of market demand resulted in an extremely low level of inventory.

Operating cash flows after investing activities amounted to Euro 3,215 thousand, compared to Euro 24,245 thousand in the previous year. This follows the increase in investments in 2018 to Euro 29,867 thousand (Euro 17,331 thousand in 2017). As further described below, the main one-off investments concerned the Heating Division, with production capacity expanded by approx. 30%, alongside the improvements at the Rovigo facility where the residual production activity at Padua was also concentrated, in addition to logistics hub insourcing, previously managed by a third-party provider.

Among the financing activity cash flows, we indicate the reduction in interest payments as a result of the financial restructuring carried out in 2017, the year in which the bank loans and the parent company’s loans were repaid early, leading to the settlement of the hedging instruments in place and the reversal of the residual amortised cost.

Investments

In 2018, the SIT Group invested a total of Euro 30,663 thousand, of which Euro 28,078 thousand (91.6 % of the total) in the Heating Division and Euro 2,585 thousand (8.4% of the total) in the Smart Gas Metering Division. In 2017, these totalled Euro 15,705 thousand (therefore an increase of 95.2% in 2018), of which Euro 12,838 thousand (+118.7% in 2018) in the Heating Division and Euro 2,867 thousand (-9.9% in 2018) in the Smart Gas Metering Division.

In the Heating Division, the principal investments in 2018 related to the increase in production capacity (Euro 13,257 thousand equal to 47.2%), in particular in Italy (Euro 9,750 thousand) and the plant maintenance and the renewal of die-cast moulds (Euro 5,918 thousand, equivalent to 21.1% of the Division's total).

In addition, Euro 4,322 thousand (15.4% of the Division's total) was invested in industrial buildings which principally concerned the production sites at Rovigo (where the building was acquired and entered into service for the new logistics hub and work commenced for the construction of the new workshop).

Euro 2,614 thousand (9.3% of the Division's total) refers to the acquisition of industrial and laboratory equipment, while the remainder (Euro 1,968 thousand, equal to 7% of the Division's total) refers to investments for product development and customisation.

Investment in Smart Gas Metering was essentially for the increase in production capacity (Euro 1,108 thousand or 42.9% of the Division's total) at the Italian plant for Euro 760 thousand and at the Romanian plant for Euro 347 thousand. The remainder refers to industrial and laboratory equipment for Euro 1,007 thousand (39.0% of the Division's total) and product development and innovation (Euro 470 thousand, 18.2% of the Division's total).

RESEARCH, DEVELOPMENT AND QUALITY CONTROL

In 2018, the Group incurred research and development costs for a total of Euro 10,804 thousand compared to Euro 9,690 thousand in the previous year, equivalent to 3.0% of revenues in both years.

In 2018, the research and development area had an average workforce of 93, including 65 located at the Parent Company. In 2017, these numbered 84 and 62 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, while at the same time capable of maximising comfort performance by reducing energy consumption, thereby permitting its clients the possibility to offer better services while guaranteeing faster time to market.

From a mechanical perspective, research focuses on utilising increasingly more evolved instruments, also applying artificial intelligence to develop more compact, integrated and efficient products; on the electronic side, the goal is to develop more intelligent programmable microprocessor solutions that are capable of communicating with the surrounding 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 2018 projects, research and development concentrated on the one hand on the completion of product development whose activities had already commenced in previous years and on the other on the launch of new product platforms that meet the needs of the domestic heating market in the near future.

Development of the new "stepper" technology valve for the Combustion Management System (CMS) applications concluded, in completion of the control platform for high-modulation condensation applications introduced in previous years and which now boasts a major boost in performance, as a more compact product in response to market demands and reducing the use of materials and installation space required.

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 (integration with Amazon Alexa and Google Home) systems and multiburner applications integrated with oxygen sensors.

Ventilation operations in 2018 focused on developing the key components (motors, fluid dynamics and controls) in order to create a new platform capable of improving energy efficiency and cutting volumes.

For smoke discharge systems 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.

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

Smart Gas Metering Division

Smart Gas Metering Division research and development in 2018 involved the entire existing product range and the production of meters for the overseas market.

In particular, the residential range was extended with the development and introduction of gauges of up to G1.6 and the creation of a "G4 extended" integrated product which covers in a single meter gauges G1.6, G2.5 and G4.

In the final quarter of 2018, the research phase of a new range of residential meters began. This will satisfy the mechanical demands of all the main global markets (wheelbases from 110 to 250 mm), with the modular approach making the development and adaptation to specific local electronic and communication requirements easier.

Operations on creating the U6 meter for the UK market were stepped up. The entire mechanical aspect was designed and industrialised. Electronic hardware development has concluded and the testing phase was underway by the reporting date. Certification activities have been planned (MID, RED and CPA). The U6 meter, boasting a very high security level in response to UK market demand, may be used as a "premium" model also on other markets where these requirements are mandatory.

The range of commercial and industrial (C&I) meters has improved by leveraging on synergies with the second generation of domestic meters. On this new platform, the U25 and U40 gauges for the UK market were also developed and certified (MID and AtEx). Feasibility studies also began on the G40 meter which will complete the range of C&I meters by the end of 2019.

In terms of the meteorological aspect, development focused on testing the new high-performance sensor which will cut consumption and, as an option, extend the range of gas types measured.

New communication technologies were monitored. Particularly, the NB-IoT technology was developed and will enter production in the first half of 2019. This technology - particularly suited for low-power applications such as smart metering - will be available on networks across the world in partial substitution of the GPRS protocol.

The company, through the subsidiary Metersit, was also particularly active at European level, participating in committees responsible for the regulatory harmonisation of meters based on thermal sensor technology and work groups dedicated to the use of hydrogen by distribution networks.

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.

The Smart Gas Metering division in 2018 updated both its ISO 9001 and ISO 14001 compliance to the 2015 version, while also confirming the Product Quality Warranty Certifications (Module D of MID Directive 2014/32/EC and Annex IV of the Atex Directive 2014/34/EC) for its Production plant.

In October, the subsidiary Metersit successfully completed the Final Certification Audit for ISO 27001 compliance (Information Security Management). This step is considered key as we approach major overseas markets for which data management (such as both HW and SW project data, meter data, cryptographic keys and others) is required for the acceptance of smart products.

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.

HUMAN RESOURCES AND ORGANISATION

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

	2018 average	%	31/12/2018	%	2017 average	%	31/12/2017	%
Executives	33	1%	34	2%	30	1%	31	1%
White-collar	417	17%	431	19%	394	19%	395	17%
Blue-collar	1,676	68%	1,554	69%	1,462	69%	1,568	69%
Temporary	347	14%	231	10%	237	11%	267	12%
Total	2,473	100%	**2,250**	**100%**	2,123	100%	**2,261**	**100%**

At 2018 year-end:

- the Smart Gas Metering Division had 125 employees, of whom 73 in Italy and 52 abroad; there were 123 in total in 2017, of which 88 in Italy;
- at Group level, employees located in Italy numbered 944 (42%), with those based in other countries numbered 1,306 (58%). In the previous year, there were 905 (40% of the total) and 1,356 (60% of the total), respectively.

At Group level, there were 2,473 employees on average in 2018, compared to 2,123 in 2017, an increase of 350 or 16.5%.

On August 7, 2018, SIT and Mr. Fulvio Camilli, until that date chief executive officer and general manager of the company, reached a settlement involving the immediate and consensual resolution of employment as general manager and of the relationships arising from the offices held by Mr. Fulvio Camilli at the company and at the subsidiaries of the SIT Group, with the simultaneous signing of a settlement agreement as per Article 2113 of the Civil Code. For further details, reference should be made to that described previously.

Subsequently, during 2018, a new organisational structure was implemented with direct reporting to the Chief Executive Officer, Federico de' Stefani (in addition to the staff function managers of the Governance & Legal Services Department, the Administration, Finance and Control Department and the Human Resource Department), the Chief Operating Officer, the Chief Product Officer and the Chief Customer Officer.

This structure was put in place - among other reasons - in view of recent market developments (impacted by greater environmental volatility and the need to improve therefore the company's reaction time to market changes) and as part of the company strategy (with an ever-increasing focus on emerging market presence and improving product innovation delivery timeframes).

The Chief Operating Officer oversees production and process technologies, the facilities, internal and external logistics and sales, while at SIT also acts as the operations areas interface with customer incoming logistics, in addition to the procurement, quality and IT system areas.

The Chief Product Officer oversees the Research and Development area and Cost-cutting and strategic procurement, in addition to the newly-created strategic marketing area.

The Chief Customer Officer oversees the Group sales department.

These roles cover both Group divisions (Heating and Smart Gas Metering), overseeing global co-ordination and management.

The Digital Transformation Manager also reports directly to the Chief Executive Officer, heading the unit dedicated to the design and management of the digital transformation and of Group operating processes. This role identifies the opportunities created by the latest digital and IT technologies and supports the Group's reshaping of operating processes and mechanisms.

The company has also set up an Internal Auditor function to align with best market practices, hiring an employee with specific internal control experience at leading audit firms and listed companies. This position directly reports to the Board of Directors.

This organisation was put in place to meet the challenges arising externally and on the customer and procurement market, in order to create synergies and mutual support among the Group's two divisions, while also maintaining autonomy and operational independence.

SIT's new logistics hub at Rovigo started up in August 2018, bringing logistics in-house, having previously been fully outsourced. Concluding with the signing of an agreement in the Veneto Region in July 2018, this operation resulted in the direct hiring at the new logistics hub of about 20 new employees.

Also on the production front, in November 2018 a trade union agreement was signed in Padua for the transfer of the offices at the historic Padua headquarters to the Rovigo site. This transfer was in support of the Group's manufacturing growth plan and to develop operating synergies with the die-casting and mechanical processing production units located at Rovigo.

On April 26, 2018, the Board of Directors of Sit approved the Long-Term Incentive plan for employees of the Company and its subsidiaries who hold the most important strategic roles within the Group.

This plan provides for the assignment of a maximum number of 312,000 shares which will mature in the three-year period 2018-2020 on the basis of specific conditions such as:

- return on the Group share;
- achievement of the cumulative performance results, calculated on the basis of the consolidated industrial plans of the Group, during the vesting period indicated;
- continuation of employment for a pre-determined period at the assignment date.

The structure of the L.T.I. plan aligns over the medium/long-term the interests of the various stakeholders, in particular those of the shareholders and top or strategic managers. This initiative had major organisational implications for the SIT Group as the number of beneficiary employees is particularly high and involves those both in Italy and overseas.

Training

The annual training plan ensures that all company employees are equipped with technical, specialist and safety skills.

We highlight particularly the lean manufacturing skills courses among our projects, which globally involved approx. 90 blue-collar and white-collar employees across various departments, for a total of approx. 1,350 training hours.

Workplace safety training in 2018 involved 550 staff, for a total of 3,760 hours. A further key training course was provided in-house, initiated in 2017, in continued support of training on the use of new IT tools introduced by the company. This training in 2018 involved approx. 490 employees at all levels. Company mission awareness training was also organised, focused on the main products and markets and involving approx. 480 employees, for a total of 2,750 training hours.

More than 12,100 training hours were delivered to SIT and Metersit employees. At Group level, 51 thousand hours of training were provided, more or less doubling the previous year’s total.

RISK MANAGEMENT POLICY

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

In this context, in 2018 the utilisation was consolidated of Enterprise Risk Management as 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.

With the objective in mind of protecting and growing the value of the company, together with the need for greater transparency and risk management according to scientifically-structured methods involving the adoption of shared and internationally recognised approaches, the company in 2018 began an Enterprise Risk Management process, involving also the Heating Division and following the completion of a similar project in 2017 at the Smart Gas Metering Division.

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 Sustainability 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

The SIT Group operates in a highly-competitive market featuring significant product technological innovation and competing with major multinational groups.

SIT is therefore exposed to risks related to technological evolution and its capacity to correctly interpret market demands and convert them into innovative and technologically reliable products which are competitively priced for the end customer. In order to maintain a competitive advantage, SIT invests heavily in R&D, both with regard to existing technologies and new applications. The major recent project involving the construction of new research laboratories and the partnerships with leading universities are driven by this reality.

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 and those related to IT systems, the quality, the security and the commercialisation of the products, international economic conditions, workplace health and safety, the environment and the regulatory framework in the countries in which the Group is present.

SUPPLY CHAIN

Supply chain risks arise from the potential procurement difficulties for certain components amid possible increased global demand. The company has closely assessed the possibility of fixing the procurement of these components to offset this risk. SIT in addition continued in 2018 to pursue a contractual coverage policy with suppliers in order to enable more transparent and clearer relationships with suppliers. The company's requirement for Suppliers and third-party intermediaries to comply with its Ethics Code falls within this Policy. Finally, the policy of identifying alternative suppliers in order to offset business interruption risks from supply concentration was stepped up.

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.

In terms however of service interruption risk linked to IT system performance following the occurrence of natural catastrophic events or hacking, the Group updated its anti-virus software in order to fend off cyber-attacks and strengthen its firewall network. Vulnerability assessments and penetration tests are also carried out regularly. Last but not least, the servers were transferred to specialised centres to offset the risk of data loss and removal on the one hand and, on the other to guarantee quick and certain timeframes for recovery and restart where incidents occur.

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 internal production processes and on suppliers, in addition to prevention of errors. These latter were undertaken to order to anticipate 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 security

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.

In terms of environment matters, in 2018 the ISO 14001/2004 environmental certificate was renewed for the Brasov (Romania) and Monterrey (Mexico) facilities. Renewal of this certificate and Integrated Environmental Authorisation was obtained for the Rovigo facilities in 2018. At these facilities, 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 by the competent authorities (ISPRA) in 2018. This monitoring will also assume, for all of the facilities of the Group, increasing importance within the framework of non-financial reporting pursuant to Legislative Decree No. 254/16, with the preparation of its first report for the year 2018.

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. This allows the Italian production units to request a reduction in the INAIL rate, which was attained also in 2018 and each year since 2011.

In 2018, the collation of safety and environmental information from all Group companies was completed. In this regard, an audit plan of the production sites was also introduced and the initial audits carried out.

In recent years, by order of the Municipality of Padua and in agreement with the local control authorities and after verifying the state of the asbestos at the SIT facility in Padua, actions were undertaken to completely remove this material.

Finally, information and training is considered of extreme importance; in 2018 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.

Alongside the listing on the main segment of the Italian Stock Exchange on November 28, 2018, SIT completed the structuring of its corporate governance in line with applicable regulations, both in terms of roles, responsibilities and committees and with regards to procedures and policies, in order to also ensure the taking of 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.

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 2018.

PERSONAL DATA PROCESSING COMPLIANCE

In the past, the Group companies have adopted specific and appropriate organisational and technical measures for the security of personal data based on Legs. Decree 196/03 (Personal data protection act), as described in the annual Personal Data Protection Code. In 2018, the SIT Group advanced further the project (begun in 2017) to align 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, adjusting policies, procedures, instruments and internal and external documents.

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

The Group through its operating activities is exposed to financial risks, in particular:

- Market risk, with particular reference to (i) currency risk deriving from operations and transactions in currencies other than the functional currency of the companies and of the Group; (ii) interest rate risk deriving from fluctuations in market interest rates; (iii) price risk deriving from changes in market prices of certain raw materials utilised by the Group in its production processes;
- Credit risk, concerning commercial transactions with its customers;
- Liquidity risk, related to the availability of financial resources and access to the credit market;

In relation to market risk, the SIT Group has issued the following Group policies approved by the Board of Directors of the Company:

- Foreign exchange risk management policy;
- Group Interest rate risk management policy;
- Company Policy to manage Group liquidity.

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.

In 2018, the nature and the structure of the exposure and the Group monitoring and control policies did not change substantially compared to the previous year.

The table below shows the value in Euro thousands, at the average exchange rate for the year, respectively of revenues and purchase cost of raw materials, consumable materials and goods, broken down by currency.

Total revenues by currency

(Euro thousands)	2018	% revenue	2017	% revenue
EUR	280,767	78.1%	244,297	75.4%
USD	52,361	14.6%	47,329	14.6%
CNY	16,427	4.6%	20,333	6.3%
AUD	5,823	1.6%	6,943	2.1%
MXN	3,266	0.9%	3,882	1.2%
GBP	980	0.3%	1,115	0.3%
Other	64	0.0%	59	0.3%
Total	**359,688**	**100%**	**323,958**	**100%**

Total raw materials, ancillaries, consumables and goods by currency

(Euro thousands)	2018	% Purchases	2017	% Purchases
EUR	150,275	72.1%	121,141	68.7%
USD	46,026	22.1%	44,335	25.2%
CHF	7,020	3.4%	5,029	2.9%
CNY	2,638	1.3%	3,887	2.2%
RON	2,123	1.0%	1,098	0.6%
MXN	373	0.2%	740	0.4%
AUD	33	0.0%	36	0.0%
Other	5	0.0%	8	
Total	**208,493**	**100%**	**176,274**	**100%**

During 2018, in line with the Company Policy on currency risk management of the Group, the company undertook financial hedging operations principally against net exposures in ADU, GBP and CHF. In relation to the exposure in CNY, given the significant variance of the revenues on the Chinese market compared to budget, the hedging operations were extended to the following year also in consideration of the reasonable exchange rate offered on the market.

The currency hedging transactions at the reporting date and their fair values are shown in the Explanatory Notes.

The Group net debt is entirely in Euro, while the breakdown of the amounts held in non-restricted bank current accounts in foreign currencies is shown in the table below:

(in Euro thousands)	31.12.2018
Currency	
Euro	40,327
US Dollar	13,037
Chinese Yuan	1,002
Australian Dollar	581
Other currencies	466
Total	**55,413**

With reference to these accounts in the financial statements, the potential loss deriving from a hypothetical unfavourable change in the exchange rate of the Euro equal to 10% would have a negative effect of Euro 1,509 thousand, without considering in this sensitivity analysis the effect of the hedging.

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 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.

At the reporting date, the Group has only one loan for a nominal capital amount of Euro 122,850 thousand. This loan provides for a variable interest rate indexed to the Euribor at 6 months. The Company has undertaken interest rate swap for a total amount of Euro 112,840 thousand, or 91.9% of the underlying nominal value.

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

Sensitivity Analysis.

At parity of other conditions, the effects deriving from a hypothetical increase of 100 basis points of the variable interest rate would result in an increase in financial charge for SIT for the year 2018 of Euro 109 thousand, taking into account the hedging in the period. The same simulation for the previous year, also taking into account the hedging in place, would have resulted in an increase in financial charges of Euro 1,044 thousand.

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 2018 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. The financial hedging operations in the year related to the purchase of copper and represented approx. 9.2% of the total purchases of copper in the 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.

For further information on the composition of receivables, reference should be made to Note 7.

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.

As is customary in transactions of this sort, the aforementioned SIT 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. The financial covenants in this contract are (i) ratio between net financial position and EBITDA and (ii) ratio between EBITDA and net financial charges, all amounts to be calculated in accordance with the definitions within the contract.

As at December 31, 2018, the Company was in compliance with all covenants.

FINANCIAL HIGHLIGHTS OF THE PARENT COMPANY

The Parent Company Sit S.p.A. operates in the sector for the design, manufacturing and sale of gas safety and control systems for domestic heating appliances and industrial ovens.

In 2018 the principal corporate events related to:

- The transition process of SIT’s ordinary shares and warrants to the main index of the Italian Stock Exchange (Mercato Telematico Azionario) (“MTA”)) organised and managed by Borsa Italiana concluded in November, as previously described. This operation is within the wider context to provide greater visibility (both for strategic partners and institutional investors) and to improve the share’s liquidity and access to a broader equity market.
- The mutual resolution of the employment contract of the General Manager and Chief Executive Officer of the Company Mr. Fulvio Camilli on August 7, 2018.
- The introduction of a new orgnisational structure was implemented with direct reporting to the Chief Executive Officer, Federico de’ Stefani (in addition to the staff function managers of the Governance & Legal Services Department, the Administration, Finance and Control Department and the Human Resource Department), the Chief Operating Officer, the Chief Product Officer and the Chief Customer Officer.
- In 2018 the Group acquired 11,283 treasury shares amounting to Euro 91 thousand, for the purposes of the stock option plan, which were allocated to some executives and employees of the Company and subsidiaries to subscribe to shares of the company.
- In 2018 the new logistic hub at Rovigo was inaugurated.

The net financial position at December 31, 2018 was Euro 88,484 thousand (Euro 80,614 thousand at December 31, 2017). The breakdown of the net financial position is shown below:

(Euro thousands)		
Summary of net financial position items[(1)]	**31/12/2018**	**31/12/2017**
Non-current financial assets (receivables from subsidiaries)	-	(6,738)
Other current financial assets	(16,148)	(9,935)
Cash and cash equivalents	(51,113)	(64,497)
Medium/long-term loans and borrowings	104,730	121,060
Other non-current financial liabilities and derivative financial instruments	710	288
Short-term loans and borrowings	16,197	11,476
Other current financial liabilities and derivative financial instruments	34,108	28,960
Net financial position	**88,484**	**80,614**

The Parent Company undertakes a role of financial coordination on behalf of the subsidiaries of the Group. With some Italian and overseas companies, it provides a centralised treasury including through a cash pooling system provided by primary banks. With each of these companies it has one or more inter-company current accounts through which the financial transactions are settled. Within the provision of these services at December 31, 2018, the account Other current financial assets (see table above) includes current financial receivables for Euro 16,051 thousand relating to the loans granted to the subsidiaries. The account Other current financial liabilities and derivative financial instruments includes Euro 33,152 thousand relating to the inter-company treasury balances.

Revenues in the year amounted to Euro 251,903 thousand compared to Euro 234,804 thousand in the previous year. Revenues include sales to third parties and sales of products and components to group companies, in addition to royalties invoiced by the 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 company.

The purchase costs net of the change in inventories amounted to Euro 141,259 thousand accounting for approx. 56.1% of revenues substantially in line with the previous year.

Service Costs, amounting to Euro 36,770 thousand, account for 14.6% of revenues compared to 13.4% in 2017 and include non-recurring charges respectively of Euro 2.6 million and Euro 819 thousand mainly relating to the transition to the MTA market and the listing on the AIM Italia market.

Financial income amounts to Euro 14,171 thousand compared to Euro 3,442 thousand in the previous year. The account includes the effect of non-recurring income relating to the change in the fair value of Warrants and Performance Shares, totalling Euro 12,753 thousand, as further described in the Explanatory Notes.

The company reported a profit of Euro 17,575 thousand compared to a loss of Euro 30,604 thousand in 2017.

During the year, the company distributed dividends to shareholders totalling Euro 5,986 thousand.

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 31/12/2018	Profit FY 2018
Statutory financial statements of the parent company	**134,014**	**17,575**
Difference between the carrying amount of the investments and net equity and net profit/(loss) of the consolidated subsidiaries[1]	(5,214)	12,903
Elimination of intercompany gains and losses	(3,127)	(495)
Adjustments in the financial statements of the consolidated companies in line with group accounting policies	(326)	(975)
Elimination dividends from investees	-	(4,707)
Other adjustments	56	(36)
Minority interest capital and reserves	-	-
Group & Minority int. consol. financial statements	**125,403**	**24,265**

(1) This difference includes the originally recognised PPA

Inter-company and related party transactions

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

SIT 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.

The transactions with related parties, including inter-company transactions, are not atypical or unusual and form part of the ordinary business activities of the companies of the Group.

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 capital 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.

The Board of Directors of SIT approved a related parties transaction policy, in application of legislation enacting European community provisions and Article 10 of the Regulations 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.

Reference should be made to the Explanatory Notes for details of the transactions with parent companies and companies subject to the control of this latter, related party transactions and inter-company transactions.

We report that on January 15, 2018, the Board of Directors, subject to the positive completion of the procedure by the Related Parties Committee, approved the allocation to the Chairman and the Chief Executive Officer Federico de Stefani of an extraordinary gross variable emolument, quantifiable in a range between Euro 1.3 million and Euro 2.6 million, which matures in line with the achievement of the objectives to be calculated based on the performance of SIT in 2017, 2018 and 2019. The emolument shall be calculated based on a component related to the performance of the SIT share price in the period under consideration and of a corrective amount related to the company performance. While reference should be made to the Explanatory Notes for the method of the calculation of these components, we indicate that in 2018 the cost matured was Euro 254 thousand recognised under non-recurring service costs which increases the current liability at December 31, 2018 totalling Euro 754 thousand.

In addition, during 2018, non-recurring costs were incurred for Euro 2,452 thousand relating to the provision of a leaving incentive and settlement with the General Manager and Chief Executive Officer Mr. Fulvio Camilli.

Simultaneous to the merger operation in 2017, SIT S.p.A. issued 5,350,000 Warrants of which 300,000 New Warrants assigned to the holding company Sit Technologies S.p.A., whose conversion is governed by the Warrant Regulation, as described in the Explanatory Notes.

Within this operation, SIT S.p.A. also issued 250,000 Performance Shares held by the holding company Sit Technologies 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 at maturity regulated by the Framework Agreement. Reference should be made to the Explanatory Notes for further details.

Finally, SIT Immobiliare S.p.A., SIT Technologies S.p.A. and MeteRSit S.r.l. elected to participate in the national tax consolidation procedure for 2016-2018. The parties to this scheme, 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 Immobiliare S.p.A. as the consolidating entity and the other companies as consolidated entities, as approved by their respective governing bodies.

Treasury Shares

At December 31, 2018, the company held 76,128 treasury shares without nominal value, equal to 0.32% of the share capital, of which 11,283 acquired in the year.

Performance of the Group 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 in the year amounted to Euro 251,903 thousand compared to Euro 234,804 thousand in the previous year. The company reported a profit of Euro 17,575 thousand compared to a loss of Euro 30,604 thousand in 2017.

SIT Controls B.V. (Netherlands). The company designs and produces electronic safety and control boards for heating appliances and, in particular, condensing boilers for the Central Heating market. Revenues amounted to Euro 36,431 thousand, compared to Euro 31,385 thousand in the previous year. The company reported a profit of Euro 6,423 thousand compared to a profit of Euro 2,058 thousand in 2017.

SIT Controls Deutschland GmbH (Germany). The company acts as an agent promoting the sales of Group products with clients and in the general region. Revenues amounted to Euro 1,551 thousand, compared to Euro 1,622 thousand in the previous year. The company reported a profit of Euro 516 thousand compared to a profit of Euro 539 thousand in 2017.

SIT Controls CR s.r.o. (Czech Republic). The company acts as an agent promoting the sales of Group products with clients and in the general region. Revenues amounted to Euro 1,482 thousand, compared to Euro 1,234 thousand in the previous year. The company reported a profit of Euro 658 thousand compared to a profit of Euro 311 thousand in 2017.

SIT Romania S.r.l. (Romania). The company is engaged in the production, assembly and testing of mechanical controls, electric fans and integrated domestic gas equipment control systems. Revenues amounted to Euro 62,300 thousand, compared to Euro 57,485 thousand in the previous year. The company reported a profit of Euro 2,045 thousand, compared to a profit of Euro 1,772 thousand in 2017.

SIT Manufacturing N.A.S.A. de C.V. (Mexico). The company produces and sells mechanical controls, sensors and accessories for gas-based appliances, prevalently for the North and South American and local markets. Revenues amounted to Euro 51,549 thousand, compared to Euro 47,151 thousand in the previous year. The company reported a profit of Euro 3,117 thousand compared to a profit of Euro 2,851 thousand in 2017.

SIT de Monterrey Manufacturing N.A.S.A. de C.V. (Mexico). The company provides personnel for the direct parent company SIT Manufacturing N.A.S.A. de C.V. (Mexico). Revenues amounted to Euro 3,825 thousand compared to Euro 3,090 thousand in the previous year. The company reported a profit of Euro 15 thousand compared to a profit of Euro 2 thousand in 2017.

SIT Controls U.S.A., Inc. (USA). The company acts as an agent promoting the sales of Group products with clients and in the general region. Revenues amounted to Euro 2,461 thousand, compared to Euro 2,257 thousand in the previous year. The company reported a profit of Euro 602 thousand, compared to a loss of Euro 33 thousand in 2017.

SIT Controls Canada, Inc. (Canada). The company acts as an agent promoting the sales of Group products with clients and in the general region. Revenues amounted to Euro 265 thousand, compared to Euro 302 thousand in the previous year. The company reported a profit of Euro 84 thousand, compared to a profit of Euro 113 thousand in 2017.

SIT Gas Controls Pty Ltd (Australia). The subsidiary is a commercial company involved in the sale and distribution of gas controls on the Australian and neighbouring markets. Revenues amounted to Euro 5,823 thousand, compared to Euro 6,943 thousand in the previous year. The company reported a profit of Euro 186 thousand, compared to a profit of Euro 203 thousand in 2017.

Sit Manufacturing Suzhou Co, Ltd (China). The company produces and sells mechanical control boards for heating applications in particular for the local Central Heating market. Revenues amounted to Euro 18,294 thousand compared to Euro 22,126 thousand in the previous year. The company reported a profit of Euro 296 thousand compared to a profit of Euro 669 thousand in 2017.

SIT Argentina (Argentina). The company manages the import into the country of group products. Revenues amounted to Euro 22 thousand, compared to Euro 37 thousand in the previous year. The company reported a loss of Euro 91 thousand, compared to a profit of Euro 2 thousand in 2017.

Business sector: Smart Gas Metering

MeteRSit S.r.l. (Padua). The company designs, manufactures and distributes new generation gas meters (smart gas meters). Revenues amounted to Euro 99,547 thousand, compared to Euro 61,134 thousand in the previous year. The company reported a profit of Euro 745 thousand, compared to a profit of Euro 23 thousand in 2017.

Metersit Romania S.r.l. (Brasov). The company manufactures and assembles new generation gas meters (smart gas meters). Revenues amounted to Euro 29,665 thousand, compared to Euro 11,535 thousand in the previous year. The company reported a profit of Euro 1,043 thousand, compared to a profit of Euro 108 thousand in 2017.

SUBSEQUENT EVENTS AND OUTLOOK

The strong outlook for the Smart Gas Metering segment is confirmed for 2019, supported also by the major order backlog while, for the Heating Division, volumes are expected to contract slightly on the previous year, partly due to general economic developments.

In this overall environment and in the absence of significant changes in the general economy, the Group expects to substantially maintain similar revenue and margin levels.

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In accordance with the provisions of IAS 1, simultaneous to the authorisation of the publication of the separate financial statements, the Board of Directors of SIT S.p.A. proposes to the Shareholders' Meeting:

- to use part of the profit for the year, equal to Euro 470, to increase the legal reserve pursuant to Article 2430 of the Italian Civil Code; thus, reaching one-fifth of the share capital;
- to use part of the profit for the year, equal to Euro 9,512,926, to increase the Warrant reserve;
- to use part of the profit for the year, equal to Euro 3,240,000, to increase the performance shares reserve;
- to use part of the profit for the year, equal to Euro 55,073, to make available the IAS/IFRS first-time application reserve;
- to distribute a dividend of Euro 0.28 per share, for a total of Euro 6,690,308, utilising the residual Euro 4,766,919 of the profit for the year and for the difference, part of the capital payments reserve.

Padua, March 22, 2019

The Chairman of the Board of Directors

(Mr. Federico de' Stefani)

CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2018

FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

(Euro thousands)	**Note**	**31/12/2018**	**31/12/2017**
Goodwill	1	78,138	78,138
Other intangible assets	1	66,111	73,286
Property, plant & equipment	2	65,169	47,778
Investments in other companies	3	54	54
Non-current financial assets	4	1,544	1,551
Deferred tax assets	5	7,482	8,742
Non-current assets		**218,498**	**209,549**
Inventories	6	52,230	38,130
Trade receivables	7	52,038	52,126
Other current assets	8	9,102	6,282
Tax receivables	9	3,565	3,023
Other current financial assets	4	97	735
Cash and cash equivalents	10	55,494	70,024
Current assets		**172,526**	**170,320**
Total assets		**391,024**	**379,869**
Share capital	11	96,152	96,149
Total Reserves	12	4,986	32,931
Net profit/(loss)		24,265	(23,327)
Minority interest net equity		-	-
Shareholders' Equity		**125,403**	**105,753**
Medium/long-term loans and borrowings	13	104,730	121,060
Other non-current financial liabilities and derivative financial instruments	14	710	288
Provisions for risks and charges	15	4,492	2,897
Post-employment benefit provision	16	5,908	6,358
Other non-current liabilities	17	758	506
Financial instruments for Performance Shares		0	11,500
Deferred tax liabilities	18	18,260	20,276
Non-current liabilities		**134,858**	**162,885**
Short-term loans and borrowings	19	16,257	11,537
Other current financial liabilities and derivative financial instruments	20	5,228	2,979
Trade payables	21	74,795	68,367
Other current liabilities	22	17,088	14,792
Short-term financial instruments for Performance Shares	23	8,260	0
Financial instruments for Warrants	24	3,028	12,551
Tax payables	25	6,107	1,005
Current liabilities		**130,763**	**111,231**
Total Liabilities		**265,621**	**274,116**
Total Shareholders' Equity and Liabilities		**391,024**	**379,869**

CONSOLIDATED INCOME STATEMENT

(Euro thousands)	Note	2018	2017
Revenues from sales and services	**26**	**359,688**	**323,958**
Raw materials, ancillaries, consumables and goods	27	208,493	176,274
Change in inventories	27	(14,139)	(733)
Service costs	28	44,462	37,583
Personnel expense	29	73,677	65,491
Depreciation, amortisation and write-downs	30	20,024	19,045
Provisions	31	2,062	885
Other charges (income)	32	1,154	242
EBIT		**23,955**	**25,171**
Investment income/(charges)		(78)	-
Financial income	33	13,286	2,892
Financial charges	34	(4,798)	(49,759)
Net exchange gains (losses)	35	(292)	435
Impairments on financial assets		-	(101)
Profit/(loss) before taxes		**32,072**	**(21,362)**
Income taxes	36	(7,807)	(1,965)
Net profit/(loss) for the year		**24,265**	**(23,327)**
Minority interest result		-	-
Group net profit/(loss)		**24,265**	**(23,327)**

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

(Euro thousands)	**2018**	**2017**
Net Profit/(loss)	**24,265**	**(23,327)**
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	(230)	1,466
Income taxes	55	(352)
Total unrealised financial asset gains/(losses)	**(175)**	**1,114**
Translation of financial statements in currencies other than the Euro	1,338	(3,644)
Total other comprehensive income statement items which may be subsequently reclassified to the profit/(loss) for the year, net of taxes	**1,163**	**(2,530)**
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)	143	18
Income taxes	(34)	(5)
Total unrealised actuarial gains/(losses)	**109**	**13**
Total other comprehensive income statement items which may not be subsequently reclassified to the profit/(loss) for the year, net of taxes	**109**	**13**
Total other comprehensive income/(expense) for the year, net of taxes	**1,272**	**(2,517)**
Total comprehensive income/(expense)	**25,537**	**(25,844)**
Total comprehensive income/(expense) for the year attributable to:		
Parent company shareholders	25,537	(25,844)
Minority shareholders	-	-

CONSOLIDATED CASH FLOW STATEMENT

(Euro thousands)	Note	2018	2017
Net profit/(loss)		24,265	(23,327)
Amortisation & depreciation	30	19,866	18,922
Non-cash adjustments		4,610	3,662
Income taxes	36	7,807	1,965
Net financial charges/(income)		(8,410)	46,868
CASH FLOW FROM CURRENT ACTIVITIES (A)		**48,138**	**48,090**
Changes in assets and liabilities:			
Inventories	6	(14,205)	421
Trade receivables	7	(70)	(7,590)
Trade payables	21	6,428	8,939
Other assets and liabilities		(3,212)	(4,805)
Income taxes paid		(3,997)	(3,479)
CASH FLOW GENERATED (ABSORBED) FROM CHANGES IN WORKING CAPITAL (B)		**(15,056)**	**(6,514)**
CASH FLOW FROM OPERATING ACTIVITIES (A + B)		**33,082**	**41,576**
Investing activities:			
Investments in property, plant & equipment		(28,703)	(16,107)
Other changes in property, plant & equipment		106	399
Investments in intangible assets		(1,277)	(1,628)
Other changes in financial assets		7	5
CASH FLOW FROM INVESTING ACTIVITIES (C)		**(29,867)**	**(17,331)**
CASH FLOW FROM OPERATING & INVESTING ACTIVITIES (A + B + C)		**3,215**	**24,245**
Financing activities:			
Interest paid		(3,657)	(11,116)
Repayment of non-current financial payables	20	(12,150)	(126,333)
Increase (decrease) current financial payables		2,211	(2,025)
New loans		-	132,206
Shareholder loans		-	(24,541)
(Increase) decrease in financial receivables from holding company	4	674	(361)
(Increase) decrease in financial receivables from companies under control of holding company	4	51	19
Dividend payments	12	(5,986)	-
Paid-in share capital increase	11	2	-
Change in translation reserve	12	1,201	(3,644)
Liquidity from merger		-	48,407
CASH FLOW FROM FINANCING ACTIVITIES (D)		**(17,745)**	**11,951**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (A + B + C + D)		**(14,530)**	**36,196**
Cash & cash equivalents at beginning of the year		**70,024**	**33,828**
Increase/(decrease) in cash and cash equivalents		(14,530)	36,196
Cash & cash equivalents at end of the year		**55,494**	**70,024**

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

	Share capital	Share premium reserve	Treasury shares reserve	Legal reserve	Other reserves									Retained earnings/(accumulated losses)		Net profit/(loss)	Group shareholders' equity	Minority interest Capital & Reserves	Total Group and Minority Interest Shareholders' Equity
					Translation differences of foreign currencies	L.T.I. Reserve	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**	**0**	**0**	**0**	**(4.157)**	**0**	**(1.956)**	**13.999**	**(501)**	**(1.313)**	**0**	**0**	**0**	**0**	**(12.128)**	**1.740**	**69.263**	**0**	**69.263**
Allocation of the 2016 result	0	0	0	850	0	0	0	0	0	2.804	0	0	0	0	(1.914)	(1.740)	0	**0**	**0**
Total 2017 comprehensive income	**0**	**0**	**0**	**0**	**(3.644)**	**0**	**1.114**	**0**	**13**	**0**	**0**	**0**	**0**	**0**	**0**	**(23.327)**	**(25.844)**	**0**	**(25.844)**
Transactions between shareholders - Merger	22.570	30.335	0	0	0	0	0	8.000	0	0	0	0	31.321	0	(914)	0	91.312	0	**91.312**
IPO Costs at net equity	0	(1.595)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	(1.595)	0	**(1.595)**
Transactions between shareholders - Merger	0	0	0	0		0	0	0	0	0	0	0	0	0	0	0	0	0	**0**
Other movements	0	0	0	0	9	0	0	0	0	(8)	(15.223)	(11.500)	0	0	0	0	(26.722)	0	**(26.722)**
Acquisition of treasury shares	0	0	(661)	0	0	0	0	0	0	0	0	0	0	0	0	0	(661)	0	**(661)**
Reclassifications	0	0	0	0	0	0	0	0	0	8	0	0	0	0	(8)	0	0	0	**0**
December 31, 2017	**96.149**	**28.740**	**(661)**	**850**	**(7.792)**	**0**	**(842)**	**21.999**	**(488)**	**1.491**	**(15.223)**	**(11.500)**	**31.321**	**0**	**(14.964)**	**(23.327)**	**105.753**	**0**	**105.753**
Allocation of the 2017 result	0	(18.380)	0	18.380	0	0		0		2.804	2.672	0	(31.321)	0	2.518	23.327	0	**0**	**0**
Total 2018 comprehensive income	**0**	**0**	**0**	**0**	**1.338**	**0**	**(175)**	**0**	**109**	**0**	**0**	**0**	**0**	**0**	**0**	**24.265**	**25.537**	**0**	**25.537**
Transactions between shareholders	3	0	0	0	0	0	0	0	0	0	10	0	0	0	0	0	13	0	**13**
Assignment L.T.I. to employees	0	0	0	0	0	175	0	0	0	0	0	0	0	0	0	0	175	0	**175**
Dividends	0	0	0	0	0	0	0	(3.182)	0	(2.804)	0	0	0	0	0	0	(5.986)	0	**(5.986)**
Other movements	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2	0	2	0	**2**
Acquisition of treasury shares	0	0	(91)	0	0	0	0	0	0	0	0	0	0	0	0	0	(91)	0	**(91)**
Reclassifications	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	**0**
Balance at December 31, 2018	**96.152**	**10.360**	**(752)**	**19.230**	**(6.454)**	**175**	**(1.017)**	**18.817**	**(379)**	**1.491**	**(12.541)**	**(11.500)**	**0**	**0**	**(12.444)**	**24.265**	**125.403**	**0**	**125.403**

For further details on the breakdown of shareholders' equity, reference should be made to Notes 11 and 12 of the Explanatory Notes.

SIT and subsidiaries

EXPLANATORY NOTES

GENERAL INFORMATION

SIT S.p.A. (hereinafter, the Parent Company, SIT or the Company), based in Padua and whose shares are listed on the MTA market managed by the Italian Stock Exchange. The company is entered in the Companies Register of Padua at No. 04805520287 with registered office in Viale dell'Industria No. 31/33, Padua (PD).

The Company 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.

These financial statements were approved by the Board of Directors on March 22, 2019 and authorised for publication on the website www.sitgroup.it by April 2, 2019. The financial statements are subject to the approval of the Shareholders' Meeting.

In 2017, the merger between SIT S.p.A. and Industrial Stars of Italy 2 S.p.A. (ISI2 or ISI2 S.p.A.), a SPAC (Special Purchase Acquisition Company) listed on the AIM Italia market of the Italian Stock Exchange. The merger was 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 the Italian Stock Exchange. 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.. In the merger, SIT was therefore considered as the acquirer and ISI2 as the acquiree.

Simultaneously, the refinancing took place which resulted in the early repayment of the bank loan and of the shareholder loan to the Company and the provision of the new nominal bank loans of Euro 135 million currently held by the Company.

On November 28, 2018 trading began of SIT's ordinary shares and warrants on the main index of the Italian Stock Exchange (Mercato Telematico Azionario) ("MTA")) organised and managed by Borsa Italiana. Trading began following communication No. 0485808/18 of November 22, 2018 in which the Stock Market regulator - CONSOB approved the information prospectus and the provisions issued by the Italian Stock Exchange on November 20 and 26, 2018 with which it approved respectively the admission for trading of the shares and of the warrants of the Company and the commencement date of trading.

For further information on the effects of the non-recurring significant operations on the 2018 income statement, reference should be made to the Directors' Report.

SIT S.p.A. decided that it would apply the option as per Article 70, paragraph 8 and Article 71, paragraph 1-*bis* of Consob Regulation No. 11971/99 (and thereafter) and, therefore, that it would employ the exemption from publication of a disclosure document concerning significant merger, spin-off, and share capital increase operations through conferment of assets in kind, acquisitions and sales.

DRAFTING CRITERIA

The consolidated financial statements of the SIT Group at December 31, 2018 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 type, 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, 2018 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, 2018 are the same as those adopted for the consolidated financial statements at December 31, 2017.

The SIT Group consolidated financial statements were audited by the company Deloitte & Touche S.p.A..

New accounting standards and interpretations effective from January 1, 2018

The accounting standards and policies adopted for the preparation of the consolidated financial statements at December 31, 2018 do not differ from those used to prepare the financial statements at December 31, 2017 (to which reference should be made for further details).

The new international accounting standards and the amendment of existing standards, introduced in 2017, whose application is obligatory 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.

  In particular, IFRS 15 Revenue from contracts with customers introduces a new five stage model to be applied to contracts with customers. IFRS 15 provides for the recognition of revenues for an amount which reflects the payment which the entity considers to have the right to in exchange for the transfer of goods or services to the customer. The Group applied the new standard from the mandatory efficacy date, with retrospective application. The new standard replaces the current requirements of IFRS in terms of revenue recognition. Sales revenues are recognised by the Group on the transfer of the asset to the customer, i.e. when the customer acquires control of the asset. Revenues are recognised net of returns, discounts and allowances.

From the analysis carried out on contracts in place at the reporting date, no significant impacts from adoption of the new standard IFRS 15 emerged in terms of the accounting methodologies applied to revenues by SIT.

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 usually 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.

- **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.

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

- The Group continues to measure at fair value all financial assets presently recognised at fair value and has maintained in portfolio the investments in third party companies for 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 did not have any impacts in this regard.
- IFRS 9 requires the Group to record expected losses on all trade receivables on an annual basis. The Group does not indicate any impacts from application of the new standard as trade receivables are largely from parties of good credit standing.
- All existing hedges which are designated as effective hedges 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 there were no impacts from application of the standard.

- **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-settled to equity-settled. 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.
- 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.

Amendments to IAS 40 - Investment property. The amendments clarify when an entity should move a property, including property 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

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 amendments is obligatory for financial years ending after January 1, 2017 and January 1, 2018.

New accounting standards and interpretations effective from January 1, 2019

IFRS16 - Leases

On January 13, 2016, the IASB published the new standard IFRS 16 - Leases, which replaces IAS 17 – Leases, as well as the interpretations IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The obligatory application of the standard is from January 1, 2019, which 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. Key elements are distinguished such as the identification of the asset, the right of replacement of the asset, the right to obtain substantially all the economic benefits from the use of the asset and, lastly, the right to use the asset underlying the contract.

At the initial date of the leasing contract, the lessee records a liability against the lease payments (i.e. the leasing liability) and an asset which represents the right of use of the underlying asset for the duration of the contract (i.e. the right of use). Lessees must record separately the interest expense on the leasing liability and the amortisation on the right of use. The standard contains two exemptions for recognition by lessees: leasing of "low value" assets (for example, personal computers) and short-term lease contracts (leasing contracts for a period below or equal to 12 months).

The lessees must also reconsider the amount of the leasing liability on the occurrence of certain events (for example, a change in the duration of the lease, a change in future lease payments deriving from a change in an index or interest rate utilised to determine these payments). In general, the lessee will record the difference in the amount of the leasing liability as an adjustment to the right of use.

TRANSITION TO IFRS 16

The Group decided to adopt IFRS 16 as per the "modified retrospective method" which provides for the application of the standard to contracts at January 1, 2019 where:

- The duration of the contract is intended as the expected residual duration;
- The discount rate applied is calculated at the date January 1, 2019;
- The cumulative effects at the date of the contract up to January 1, 2019 are recorded under shareholders' equity and it is not necessary to restate the year 2018.

The Group will avail of the exemptions permitted by the standard on leasing contracts whereby the lease contract expires within 12 months from the initial application date and on leasing contracts where the underlying asset has a low value. The Group has undertaken leasing contracts for some office equipment (for example, personal computers, printers and photocopiers) which are considered as insignificant value. For such contracts, the introduction of IFRS 16 will not entail the recognition of the financial liability associated with the lease and relevant right of use. Rather, the lease payments will be taken to the income statement on a straight-line basis over the term of the relevant contracts.

We present below a summary of the estimate of the balance sheet effects deriving from the adoption of the new standard:

(Euro thousands)	
Reconciliation IAS 16	**1.1.2019**
Operating lease commitments	9,764
Finance leases at December 31, 2018	-
Effect relating to contracts classified as short-term leases	10
Effect relating to contracts classified as low value assets	202
Effect relating to the service component included in the lease contract	-
Other	-
Gross value of the liability deriving from operating lease contracts	**9,977**
Discounting	2,715
Liability deriving from operating lease contracts	**7,260**
Present value of the finance leases at December 31, 2018	0
Liabilities for operating lease contracts against the first application of IFRS 16	**7,262**

A summary of the estimated effects deriving from the adoption of the new standard on opening shareholders' equity at January 1, 2019 is shown below:

(Euro thousands)	
Shareholders' Equity	**1.1.2019**
Assets	**7,277**
Patents and intellectual property rights	1,843
Land and buildings	3,135
Other assets	2,299
Liabilities	**7,130**
Leasing liabilities	7,003
Deferred tax liabilities	59
Trade and other payables	69
Net impact on shareholders' equity	**147**

As previously indicated, the figures shown represents the maximum total effect on the assets, liabilities and shareholders' equity and this quantitative information could be subject to further changes in 2019.

New accounting standards, interpretations and improvements

The new international accounting standards and the amendment of existing standards, whose application is obligatory from January 1, 2019, are reported below:

- 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 relation to the improvements to IFRS we report that the IASB also issued the Annual Improvements to IFRS 2015-2017, a series of amendments to IFRS in response to issues raised, mainly:

- 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;
- 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,
- 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;
- to IAS 23 – Borrowing costs, 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.

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:

- 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.

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 relative 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, 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.

Share-based payments

Estimating the fair value of the share-based payments requires the utilisation of the most appropriate valuation model, based on the terms and conditions on which these instruments were granted. Also required to be identified are the data used in the valuation technique amongst which the assumed estimated exercise period of the options, volatility and share return.

For share-based payments settled by cash, it is necessary to remeasure the liability at the end of each reporting period and until the settlement date, recording each fair value change in the income statement. This requires a re-examination of the estimates utilised at the end of each reporting period.

For the share-based payments with employees, the Group utilises the Montercarlo simulation model for the plans with employees. The assumptions used for the estimate of the fair value of the share-based payments are shown in Note 38.

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 guarantees.

ACCOUNTING POLICIES

The main accounting policies adopted in the preparation of the consolidated financial statements at December 31, 2018 are disclosed below.

Basis of Consolidation

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	96,151,921	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 Republic	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

Consolidation method

The subsidiaries are consolidated under the 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 prepared in accordance with those utilised by the Parent Company and as per common accounting policies.

The carrying amount of investments is eliminated against the corresponding share of the equity of the subsidiaries, allocating to the individual assets and liabilities their present value at the date of the acquisition of control. 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 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 on 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	2018			
	31.12.2018	2018 average	31.12.2017	2017 average
Mexican Peso	22.4921	22.7054	23.6612	21.3286
Argentinean Peso	43.1593	32.9094	22.9310	18.7408
Romanian Leu	4.6635	4.6540	4.6585	4.5688
US Dollar	1.1450	1.1810	1.1993	1.1297
Canadian Dollar	1.5605	1.5294	1.5039	1.4647
Czech Crown	25.7240	25.6470	25.5350	26.3258
Australian Dollar	1.6220	1.5797	1.5346	1.4732
Chinese Yuan	7.8751	7.8081	7.8044	7.6290

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.

Valuation at fair value

The Group values financial instruments, such as derivatives, performance shares and warrants at fair value at year-end.

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 at their fair value at the designation date.

Fair value is the price that would be received for the sale of an asset, or that would be paid to transfer a liability in an arm's length transaction at the measurement date under the following conditions:

- there exists a principal market of the asset or liability and it is accessible for the group;
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or liability is measured adopting the assumptions which market operators would utilise in the determination of the price of the asset or liability, assuming they act to best satisfy their economic interests.

All the assets and liabilities for which the fair value is measured or stated in the financial statements are categorised based on the fair value hierarchy, as described below:

- Level 1 - prices listed (not adjusted) on active markets for identical assets or liabilities which the entity can access at the measurement date;
- Level 2 - inputs other than listed prices included in Level 1, directly or indirectly observable for the asset or the liability;
- Level 3 - measurement techniques for which the input data are not observable for the asset or for the liability.

The fair value measurement is classified entirely in the same fair value hierarchical level in which the lowest hierarchical input level utilised for the measurement is classified.

For the assets and liabilities recognised in the financial statements at fair value on a recurring basis, the Group assesses whether there have been transfers between the hierarchy levels, reviewing the classification (based on the lowest input level, which is significant for the fair value measurement in its entirety) at each reporting date.

Business combinations and goodwill

The business combinations, in which the control of a company/entity is acquired, are recorded applying the purchase method, whereby the assets and liabilities acquired are initially measured at their market value at the acquisition date. The difference between the acquisition cost and the Group share of equity is allocated to specific statement of financial position items to the extent of their present value at that date; any residual excess, if positive, is allocated to goodwill and if negative is recognised to the income statement. The acquisition cost is based on the fair value, at the purchase date, of assets sold, of liabilities incurred and of capital instruments issued, and any other accessory charges.

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. Any goodwill at the acquisition date is allocated to each cash generating unit (hereafter CGU) expected to benefit from the synergies deriving from the combination. Any loss in value is identified by means of valuations 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 "impairments" section.

If the recoverable value of the cash generating unit is less than the attributed carrying amount, the loss in value is recorded. This loss is not restated if the elements that generated it no longer exist. Where the goodwill is allocated to a CGU and the Group disposes of a part of the assets of this unit, account must be taken of goodwill for the calculation of 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 development.

Subsequent to the initial recording, the development costs are valued at cost less amortisation or accumulated 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 are reviewed annually in order to record any impairment, when the asset is still not in use, or with greater frequency when there are indicators of a possible impairment. Any impairments 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 established and it is probable that usage 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 supporting their classification as 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 impairments established according to the means indicated in the "Impairments" section below. Amortisation, which begins when the intangible asset is available for use, 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 historic 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 a qualifying asset shall be capitalised 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; the useful life 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 indication of this type and in the case where the carrying amount exceeds the realisable value, the assets must be written down to their recoverable value.

The impairments 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 sale's 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 related to the ownership of an asset to the Group, are capitalised under property, plant & equipment at the commencement 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 a similar amount, which is progressively reduced based on the repayment of the capital portion included in the contractual instalments.

Lease payments should be apportioned between the finance charge and the capital portion so as to produce a constant periodic rate of interest on the remaining balance of the liability. Financial expenses are charged to the income statement. The depreciation policy applied is the same as that for property, plant & equipment.

Leases in which the lessor substantially retains all of the typical risks and rewards of ownership 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 account 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 amid indicators that such a loss may exist. In assessing whether there are any indicators that an asset with definite useful life may be impaired, an entity shall consider internal and external information sources. Relating 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.

Independently of whether there are internal or external reductions in value, intangible assets with indefinite useful life and goodwill are subject at least annually to an impairment test, 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 has incurred a loss in value and 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 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 following a restatement shall not exceed the carrying amount that would have been determined (net of write-downs or amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A restated amount is recorded as income in the income statement, except when the asset is recorded as a revalued amount, in which case the restatement is treated as an increase of the revaluation. After the recording of the amount restated, 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 recognised to the income statement, 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.

AFS financial assets includes 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 AFS financial assets 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 AFS financial assets 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 in relation to their presumed utilisation or future realisable value. The write-downs made are restored in future years 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.

Loss in value 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.

AFS financial assets

The Group assesses at each reporting date whether there is objective evidence that asset or a group of AFS 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 losses in value 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 be accounted for 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.

Treasury shares

Treasury shares acquired are recorded at cost and as a reduction of shareholders' equity. The purchase, sale or cancellation of treasury shares does not give rise to any profit or loss in the income statement. The difference between the purchase price and the payment received, in the case of reissue, is recorded in the share premium reserve.

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.

For the risks for which the recognition of a liability is considered possible, relative disclosure is made and no provision is recorded.

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 pre-chosen 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. The gains and losses deriving from the actuarial calculation of the defined benefit plans (Post-employment provision) was entirely recorded to the comprehensive income statement.

Share-based payments

Equity-settled share-based payment transactions

A number of strategic Group employees receive part of their remuneration in the form of share-based payments, with these employees therefore providing services in exchange for shares (“capital instrument regulated transactions”).

The cost of the equity-based transactions is determined by the fair value at the assignment date utilising an appropriate valuation method, as illustrated in greater detail in Note 38.

This cost, together with the corresponding increase in shareholders’ equity, is recorded under personnel expense over the period in which the performance and/or service conditions are satisfied. The cumulative costs relating to these operations at each balance sheet date until the maturity date are compared to the maturity date and to the best estimates available of the number of participating instruments which will effectively mature. The cost or revenue recorded in the income statement for the year represents the change of the cumulative cost recorded at the beginning and at the end of the year.

The service or performance conditions are not taken into consideration when the fair value of the plan is defined at the assignment date. Account however is taken of the probability that these conditions will be satisfied in calculating the best estimate of the number of equity instruments which will mature. The service conditions are reflected in the fair value at the assignment date. Any other condition related to the plan, which is not a service obligation, is not considered as a maturation condition. The non-maturation conditions are reflected in the fair value of the plan and result in the immediate recording of the plan cost, unless there are also service or performance conditions.

No cost is recorded for the rights which do not mature as the performance and/or service conditions are not satisfied. When the rights include a market condition or a non-maturation condition, these are treated as if they independently mature from the fact that the market conditions or the other non-maturation conditions to which they are subject are complied with or otherwise, provided that all the other performance and/or service conditions are satisfied.

If the conditions of the plan are modified, the minimum cost to be recorded is the fair value at the allocation date in the absence of changes to the plan, in the presumption that the original conditions of the plan were satisfied. In addition, a cost will be recorded for all changes which result in an increase in the total fair value of the payment plan, or which is in any case favourable for employees; this cost is measured with reference to the date of the change. When a plan is cancelled by the entity or by the counterparty, any remaining element of the fair value of the plan is expensed immediately in the income statement.

The effect of the dilution of the options not yet exercised is reflected in the calculation of the diluted earnings per share (further details provided at Note 37).

Cash-settled transactions.

With reference to operations settled by cash a corresponding liability at their fair value is recorded. The fair value of the liability is calculated initially and recalculated at each reporting date until the settlement date, and the changes in the fair value are recorded under service costs (See Note 28). This fair value is expensed in the period until the maturation. The fair value is measured using a binominal formula, as explained in detail in Note 38.

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

This includes all the accounts of a financial nature recorded in the income statement in the period, including interest expense matured on financial debt (mainly on bank overdrafts, medium/long-term loans), the changes in the fair value of financial liabilities (Performance Shares and Warrants), the currency gains and losses, gains and losses from derivative financial instruments (in accordance with the accounting criteria previously defined) and the interest expense deriving from the accounting treatment of the employee provisions (IAS 19).

Interest income and charges are recorded in the income statement in the period when incurred/matured.

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 are 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 including all beneficiaries of rights which potentially have a dilutive effect 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.

COMMENTS ON THE MAIN ITEMS OF THE CONSOLIDATED BALANCE SHEET

Non-current assets

Note 1: Goodwill and Other intangible assets

(Euro thousands)	Balance at Dec. 31, 17	Increases	Disposals	Amortisation	Other movements	Balance at Dec. 31, 18
Goodwill	**78,138**	-	-	-	-	**78,138**
Development Costs	447	-	-	(286)	-	161
Patent rights	19,359	330	(4)	(3,224)	43	16,504
Concessions, licences and trademarks	19,633	1	-	(1,204)	-	18,430
Other Intangible assets	33,382	396	-	(3,735)	204	30,247
Assets in progress and advances	465	550	-	-	(247)	769
Advances to suppliers of intangible assets	-	-	-	-	-	-
Total other intangible assets	**73,286**	**1,277**	**(4)**	**(8,448)**	**0**	**66,111**

GOODWILL

The account totals Euro 78,138 thousand at December 31, 2018 and was recognised following the acquisition of the Group company SIT La Precisa S.p.A. on May 2, 2014. 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 of May 2014, 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 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 18,430 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 merger of the company SIT La Precisa S.p.A. on May 2, 2014; these values were calculated with the support of an independent experts' valuation report.

Changes in the financial year are mainly related to amortisation.

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, 2018 amounted to Euro 29,409 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.

IMPAIRMENT TEST

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 Cash Generating Unit's - 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, 2018 compared to December 31, 2017. To determine the recoverable value, goodwill is allocated to the Heating CGU for Euro 60,931 thousand and the Smart Gas 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 65,843 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 22, 2019. On December 17, 2018 the Board of Directors approved the 2019 Budget respectively of the Smart Gas Metering CGU and the Heating CGU; on March 19, 2019, the Board of Directors of Metersit S.r.l., parent company of the Smart Gas Metering business, approved the financial projections utilised for the impairment test of the Smart Gas Metering CGU in support and updating the assumptions included in the above-mentioned Budget.

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 Discounted Cash Flow - DCF method, by discounting the operating cash flow at a discounted rate representative of the cost of capital.

For this purpose, we report that on the preparation of the financial statements, the Heating Division does not have an updated business plan which reflects the current performance of some markets, especially the Chinese market. Therefore, it is considered appropriate to calculate the value in use through the application of the DCF method on three explicit years and on a terminal value based on the assumptions described below.

The three explicit years of projections are based on the 2019 Budget approved by the Board of Directors on December 17, 2018. In particular, the explicit horizon includes the inert value of EBITDA, while the income tax is calculated based on the assumptions utilised for the 2019 Budget and on a notional basis for the two subsequent years. The value of the investments in the Budget is adjusted to include only those for maintenance, excluding therefore the investments of development and increase in capital employed whose payback is expected from the subsequent year of the Budget. The change in the working capital is adjusted to include the adjustments to the assumptions on investments.

In relation to the construction of the perpetual cash flows for the calculation of the so-called terminal value, the assumptions related to some normalisation assumptions of the 2019 Budget. In particular, the impact of external effects were eliminated, not repeatable on a continual basis; included were the effects of some actions initiated in the Budget year which would have continual economic effects in terms of carry-over on the following years; finally, non-recurring income and costs contained in the Budget were eliminated.

Capex includes only those investments in the 2019 Budget with a purpose of maintaining the net capital employed at the date of the financial statements.
The value of income taxes was calculated on a notional basis utilising the nominal tax rate.
The growth rate (g) is prudently assumed as equal to zero.
The Heating CGU's WACC was estimated by assuming:

- a risk-free rate equal to the average of the risk-free rates of the principal Heating markets in which the Group operates; in particular, for each country the MAX was utilised (2.5%, government yield 10Y; IRS 10Y+CDS 10Y; country risk premium Damodoran);
- a beta unlevered coefficient for a value of 0.88 estimated on the basis of a panel of comparable listed companies operating in the Heating sector.
- an equity risk premium of 6.39%, 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 2018);
- 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 IRS 10Y at 31/12/2018, 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.

The discount rate utilised (WACC) is 8.98% and reflects at the reporting date estimates of the market valuation and the cost of money and takes account of the specific and sector risk.

Considering the assumptions described, at the reporting date the recoverable value of the net capital employed 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.

The results were subject to sensitivity analysis, in order to establish how the result of the valuation process may change based on the key assumptions such as the discount rate applied to the cash flows and EBITDA included in the terminal cash flows.

In particular, 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 is 10.39%, while achieving the same EBITDA result included in the terminal cash flows it must reduce by 11.21%.

Following these analyses, the Directors therefore considered that the discounted cash flows would absorb normal changes in the parameters of the commonly used sensitivity analyses.

The estimate of the recoverable value of the CGU requires discretionary interpretation and the use of estimates by management. The circumstances and events which could give rise to an impairment of the capital employed 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.

The cash flows utilised for the calculation of the recoverable value includes the projections formulated by management of the Company and of the subsidiary which is in line with the strategic guidelines contained in the plan taking into consideration the most recent evolution of the Italian market and the competitive positioning of the subsidiary on this market, as well as the most recent developments on the UK and Indian markets. These projections were approved by the Board of Directors on March 19, 2019.

The projections are based on three explicit years deriving from the forecast in the 2019 Budget approved by the Board of Directors of December 17, 2018 and from the so-called terminal value. In particular on the explicit horizon is taken the inert value of EBITDA as per the Budget while the income tax is calculated based on the assumptions utilised for the 2019 Budget and on a notional basis for the two subsequent years.

The value of the investments is equal to that outlined in the Budget and is based on the need to develop the new product platform to permit the entry into foreign markets with the necessary flexibility of the product range and price competitivity. The change in working capital is also assumed constant, given the absence of a growth factor (g) in the explicit time period.

In relation to the construction of the perpetual cash flows for the calculation of the so-called terminal value the assumptions related to (i) the revenue growth assumptions, (ii) the EBITDA margin and (iii) the maintenance capex. In particular, revenues reflect actual revenues in 2017-2018 to take into account the state of advancement of the roll-out plan on the Italian market; the effects of the ARERA (669/2018) regulation recently issued concerning replacement obligations in Italy until 2023; market assumptions on the mere replacement of the "meter park" in Italy when fully operational; impact of the methanation projects on foreign market such as India; updates in relation to the best estimates on the principal foreign markets such as UK and Germany; entry onto other minor markets.

In relation to the EBITDA margin forecasts, the earnings of the terminal year, are prudently based on a lower value both in relation to the 2019 Budget and in relation to the last year of the plan approved, as they are considered sustainable when fully operational.

The value of the investments is estimated as maintenance level while income taxes are calculated on a notional basis.

The growth rate (g) is prudently assumed as equal to zero.

The WACC utilised for the discounting was determined as follows:

- a risk-free rate equal to the average of the risk-free rates of the principal Smart Gas Metering markets in which the Group operates; in particular for each country the MAX was utilised (2.5%, government yield 10Y; IRS 10Y+CDS 10Y; country risk premium Damodoran);
- a beta unlevered coefficient for a value of 1.09 estimated on the basis of the operating sector;

- an equity risk premium of 6.23%, equivalent to the average of the market's risk premium in the main countries where the Smart Gas Metering CGU is active (source: Pablo Fernandez, Alberto Ortiz and Isabel F. Acin, IESE Business School 2018);
- an additional risk premium for the calculation of the cost of own capital (Ke) equivalent to 2%;
- a cost of debt calculated on the basis of IRS 10Y at 31/12/2018, 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 the sector.

The discount rate utilised (WACC) of 10.94% reflects at the reporting date estimates of the market valuation and the cost of money and takes account of the specific and sector risk.

Considering the assumptions described, at the reporting date the recoverable value of the net capital employed of the Smart Gas Metering CGU is higher than the net carrying amount and therefore there are no indications of any impairment.

The results were subject to sensitivity analysis, in order to establish how the result of the valuation process may change based on the key assumptions such as the discount rate applied to the cash flows and EBITDA included in the terminal cash flows.

In particular, the indifference of the WACC, or the rate at which, all other conditions being equal, the Smart Gas Metering CGU recoverable amount assumes a value equal to its carrying amount is 14.25% while achieving the same EBITDA result included in the terminal cash flows it must reduce by 22.76%.

Following these analyses, the Directors therefore considered that the discounted cash flows would absorb normal changes in the parameters of the commonly used sensitivity analyses.

The estimate of the recoverable value of the capital employed of the Smart Gas Metering CGU requires discretionary interpretation and the use of estimates by management. The circumstances and events which could give rise to an impairment in the value of the investment were monitored constantly by the company.

Note 2: Property, plant & equipment

The movements in property, plant and equipment in 2018 are summarised below.

(Euro thousands)	Historical cost at Dec. 31, 17	Accumulated depreciation at Dec. 31, 17	Balance at Dec. 31, 17	Historical cost at Dec. 31, 18	Accumulated depreciation at Dec. 31, 18	Balance at Dec. 31, 18
Land and buildings	33,786	(18,180)	15,606	36,483	(19,227)	17,256
Plant and machinery	113,783	(97,172)	16,611	129,704	(102,418)	27,286
Industrial and commercial equipment	70,203	(64,703)	5,500	74,646	(67,123)	7,522
Other assets	6,723	(5,615)	1,107	7,553	(6,074)	1,480
Assets in progress and advances	8,954	-	8,954	11,624	-	11,624
Total property, plant and equipment	**233,449**	**(185,670)**	**47,778**	**260,010**	**(194,842)**	**65,169**

The following tables outline the changes in the historic cost and accumulated depreciation in 2018 by category.

HISTORIC COST

(Euro thousands)	Historical cost at Dec. 31, 17	Increases	Disposals	Other movements	Translation difference	Historical cost at Dec. 31, 18
Land & Buildings	33,786	2,466	(22)	73	179	36,483
Plant and machinery	113,783	13,580	(401)	2,372	370	129,704
Industrial and commercial equipment	70,203	5,236	(2,294)	1,442	59	74,646
Other assets	6,723	704	(72)	166	33	7,553
Assets in progress and advances	8,954	6,717	-	(4,054)	7	11,624
Total property, plant and equipment	**233,449**	**28,703**	**(2,789)**	**0**	**648**	**260,010**

The increases in the year include the purchases of property, plant and equipment in the year. 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 in the year are due to disposals and sales of property, plant and equipment, largely already depreciated.

Other movements include amounts which at December 31, 2017 were in progress and which in 2018 became fixed assets to be depreciated.

ACCUMULATED DEPRECIATION

(Euro thousands)	Provision at Dec. 31, 17	Depreciation	Disposals	Other movements	Translation difference	Balance at Dec. 31, 18
Acc. Deprec. Land & Buildings	(18,180)	(951)	22	-	(117)	(19,227)
Acc. Deprec. Plant and machinery	(97,172)	(5,346)	410	-	(310)	(102,418)
Acc. Deprec. Industrial and commercial equipment	(64,703)	(4,621)	2,253	-	(52)	(67,123)
Acc. Deprec. Other assets	(5,615)	(500)	71	-	(30)	(6,074)
Total accumulated depreciation	**(185,670)**	**(11,417)**	**2,755**	**0**	**(510)**	**(194,842)**

Property, plant and equipment were depreciated at December 31, 2018 at the following rates:

	Rate
Land and buildings	52.70%
Plant and machinery	78.96%
Industrial & commercial equipment	89.92%
Other assets	80.41%

Note 3: Investments

The following table reports the movements in 2018 in investments.

(Euro thousands)

Investments	Balance 31/12/2017	Increases in the year	Decreases in the year	Other changes	Balance 31/12/2018
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.	(502)	-	-	-	(502)
Total investments	**54**	**0**	**0**	**0**	**54**

Note 4: Current and non-current financial assets

The breakdown of financial assets at December 31, 2018 is as follows:

(Euro thousands)

Current and non-current financial assets	Dec 31, 18	Dec 31, 17
Guarantee deposits	210	217
Restricted deposit account	1,325	1,325
Other receivables	9	9
Receivables from subsidiaries	-	-
Non-current financial assets	**1,544**	**1,551**
Financial receivables from holding company	-	-
Receivables from holding company	-	674
Receivables from companies subject to control of holding company	-	51
Financial receivables from companies under control of holding company	-	-
Derivative financial instruments	97	10
Other current financial assets	**97**	**735**

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 HOLDING COMPANY

At December 31, 2018, the loan to the holding company SIT Technologies S.p.A. was entirely repaid. The financial receivable at December 31, 2017, amounting to Euro 674 thousand, was part of a credit line granted at 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

At December 31, 2018 the loan to the holding company SIT Immobiliare S.p.A. was entirely repaid. The financial receivable at December 31, 2017, amounting to Euro 51 thousand, was part of a credit line granted at 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.

DERIVATIVE FINANCIAL INSTRUMENTS

In 2018 the parent company undertook hedging contracts against currency risk. These contracts satisfy the IFRS 9 hedging requirements for application of hedge accounting and therefore the financial assets were recognised at fair value with provisioning to a relative net equity reserve, net of the relative tax effect.

The features and the fair value of the current portion of the derivative financial instruments at December 31, 2018 are summarised below:

(Euro thousands)

Transaction type	Currency	Currency amount	Currency value	Value date	Maturity date	Spot rate	Forward rate	Fair Value 31.12.2018
forward sales	AUD	(1,650,000)	EUR	13/11/2018	29/03/2019	1.5668	1.583394	33
forward sales	AUD	(1,650,000)	EUR	13/11/2018	28/06/2019	1.5668	1.593950	33
forward sales	GBP	(200,000)	EUR	09/11/2018	29/03/2019	0.8742	0.879079	6
forward sales	GBP	(200,000)	EUR	09/11/2018	28/06/2019	0.8742	0.882460	6
forward sales	GBP	(200,000)	EUR	13/11/2018	30/09/2019	0.8712	0.883046	6
forward purchases	USD	2,500,000	EUR	24/12/2018	31/01/2019	1.1469	1.150781	5
forward sales	USD	(2,500,000)	EUR	31/12/2018	28/02/2019	1.1401	1.146195	9
Total								**97**

Note 5: Deferred tax assets

A breakdown of temporary differences and the consequent deferred tax assets at December 31, 2018 and at December 31, 2017 is reported below, based on the type of temporary differences, applying respectively a tax rate of 24% for IRES and 3.9% for IRAP:

Balance at December 31, 2018

(Euro thousands)	Temporary Diff. IRES	Temporary Diff. IRAP	Tax effect IRES	Tax effect IRAP
Employee provisions	1,832	1,823	440	71
Other risk and charges provisions	1,552	1,552	373	61
Employee benefits	324	-	78	-
Write-down of inventories	1,998	1,640	505	64
Maintenance difference	45	-	11	-
Deprec. suspended on revaluations	171	171	41	7
Amortisation of intangible assets	9	9	2	-
Tax losses	7,614	-	1,828	-
Non-deductible interest	6,535	-	1,568	-
Other & overseas	2,641	50	825	2
Inter-company transactions	3,908	3,908	942	150
Cash Flow Hedge Reserve	1,421	-	341	-
Unrealised foreign exchange losses	648	-	156	-
Reversal of formation and start-up costs	64	64	15	2
Total	**28,762**	**9,217**	**7,125**	**357**

Balance at 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**

The recognition of the deferred tax assets was made against an assessment on the reasonable recovery in future years.

Current assets

Note 6: Inventories

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

(Euro thousands)	Dec 31, 18	Dec 31, 17
Raw materials, ancillary and consumables	27,549	19,428
Work-in-progress and semi-finished goods	8,907	8,050
Finished products and goods	15,741	10,627
Advances to suppliers	33	25
Inventories	**52,230**	**38,130**

The movements in the inventory obsolescence provision were as follows:

(Euro thousands)	Dec 31, 18
Obsolescence provision 31/12/2017	(2,180)
Utilisation in the year	387
Allocation in the year	(493)
Other movements	-
Obsolescence provision 31/12/2018	**(2,286)**

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, 18	Dec 31, 17
Trade receivables	52,826	52,917
Trade receivables from holding company	29	28
Trade receivables from subsidiaries	-	-
Current trade receivables	**52,855**	**52,945**
Doubtful debt provision	(817)	(819)
Trade receivables	**52,038**	**52,126**

TRADE RECEIVABLES

These refer to direct commercial transactions which the Group undertakes with customers and is net of without recourse receivable factoring totalling approx. Euro 13,129 thousand, respectively by the Parent Company and by Metersit S.r.l.

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 817 thousand, with the movements in 2018 reported in the following table:

(Euro thousands)	Dec 31, 18
Doubtful debt provision 31/12/2017	(819)
Utilisation in the year	188
Allocation in the year	(186)
Doubtful debt provision 31/12/2018	**(817)**

The maximum exposure to the credit risk at the reporting date is the book value of each credit class. The Group did not receive guarantees on receivables.

The table below shows the exposure to the credit risk on trade receivables:

(Euro thousands)

Trade receivables	Current	< 30 days	30-60 days	> 61 days	Total
December 31, 2018					
Trade receivables	44,408	4,662	1,340	2,328	52,737
December 31, 2017					
Trade receivables	48,566	3,503	1,024	1,825	54,918

Note 8: Other current assets

The account is broken down as follows:

(Euro thousands)	Dec 31, 18	Dec 31, 17
Tax receivables	6,648	3,910
Advances	651	562
Prepayments and accrued income	1,537	1,434
Other receivables	71	152
Other tax receivables	-	-
Employee receivables	24	35
Social security institution receivables	171	46
Receivables from holding company for tax consolidation	0	143
Other current assets	**9,102**	**6,282**

TAX RECEIVABLES

The breakdown is as follows:

(Euro thousands)	Dec 31, 18	Dec 31, 17
VAT receivables	4,142	2,231
Withholding taxes	2,464	1,619
Income tax receivables	42	60
Total tax receivables	**6,648**	**3,910**

Receivables for withholding taxes of Euro 2,464 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.

The increase in tax receivables for VAT reflects the increase in purchase volumes during the year.

ACCRUED INCOME AND PREPAYMENTS

At December 31, 2018, accrued income and prepayments were mainly related to prepayments on fees, rental and insurance premiums, as well as fees for maintenance and repair materials.

Note 9: Tax receivables

Tax receivables were as follows:

(Euro thousands)	Dec 31, 18	Dec 31, 17
IRES receivables as per Legs. Decree 201/2012	1,481	1,481
IRES receivables	2,021	1,417
IRAP receivables	-	54
Other current taxes	63	71
Tax receivables	**3,565**	**3,023**

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, 18	Dec 31, 17
Cash in hand and similar	21	24
Bank and postal deposits	55,473	70,000
Cash and cash equivalents	**55,494**	**70,024**

Cash and cash equivalents relate to current accounts and cash in hand at the reporting date.

Consolidated shareholders' equity

The changes are reported in the statement of changes in consolidated shareholders' equity, to which reference should be made. The following comments relate to the principal accounts and changes.

Note 11: Share capital

The share capital, subscribed and paid-in, amounted at December 31, 2018 to Euro 96,152, comprising 24,007,465 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	23,757,465	98.96%	MTA Italy
Performance Shares	250,000	1.04%	Non-listed

The increase in share capital from Euro 96,149 thousand at December 31, 2017 to Euro 96,152 thousand at December 31, 2018 derives from the issue of 24,014 ordinary shares following the request for the exercise of 108,167 SIT Warrants received at the end of 2017 and 5,000 SIT Warrants received during 2018. The company executed the merger between SIT S.p.A. and Industrial Stars of Italy 2 S.p.A. by providing a divisible share capital increase for a maximum total amount of Euro 153,438, 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.

Note 12: Reserves

A breakdown follows:

(Euro thousands)	Dec 31, 18	Dec 31, 17
Share premium reserve	10,360	28,740
Capital payments reserve	18,817	21,999
Total capital reserves	**29,177**	**50,739**
Legal reserve	19,230	850
Treasury shares reserve	(752)	(661)
Cash Flow Hedge reserve	(1,017)	(842)
Actuarial reserve	(379)	(488)
Extraordinary reserve	1,491	1,491
Translation reserve	(6,454)	(7,792)
LTI Reserve	175	
Incorporated Fair Value Reserve		31,321
Warrant Reserve	(12,541)	(15,223)
Performance Shares Reserve	(11,500)	(11,500)
Retained earnings (accum. losses)	(12,444)	(14,964)
Total profit reserves	**(24,191)**	**(17,808)**
Total reserves	**4,986**	**32,931**

SHARE PREMIUM RESERVE

The share premium reserve decreased during the year by Euro 18,380 thousand, bringing it to a total amount of Euro 10,360 thousand.

This decease derives from its utilisation to increase the legal reserve so as to reach one-fifth of the Share Capital, following the Shareholders' Meeting of April 26, 2018.

CAPITAL PAYMENTS RESERVE

The decrease in the capital payments reserve entirely relates to the distribution of dividends for Euro 3,181 thousand to the holding company Sit Technologies S.p.A. following the Shareholders' Meeting of April 26, 2018, reducing this reserve to Euro 18,817 thousand.

LEGAL RESERVE

The legal reserve increased Euro 18,380 thousand following the Shareholders' Meeting of April 26, 2018 deriving from the transfer from the share premium reserve.

TREASURY SHARES RESERVE

Under the SIT 2017 Refinancing operation, 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 661 thousand in shareholders' equity through the entry of a specific item with a negative balance.

In 2018, the Group acquired 11,283 treasury shares amounting to Euro 91 thousand, for the purposes of the stock option plan, which were allocated to some executives and employees to subscribe to shares of the company.

LONG TERM INCENTIVE PLAN RESERVE

The long-term incentive plan (L.T.I.) reserve was utilised to record the value of the share-based payments in favour of employees and key executives, settled with capital securities, which constitutes part of their remuneration. For further details, reference should be made to Note 38.

CASH FLOW HEDGE RESERVE

The cash flow hedge reserve is recorded as a negative value of Euro 1,017 thousand, net of the Euro 321 thousand tax effect. This reserve derives from the Fair Value valuation of hedging derivatives in application of IAS 39.

EXTRAORDINARY RESERVE

The extraordinary reserve remains unchanged following the distribution of dividends of Euro 2,804 thousand as approved by the Shareholders' Meeting of April 26, 2018.

INCORPORATED FAIR VALUE RESERVE

As illustrated, the incorporation di Industrial Stars of Italy2 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 2017, in execution of the transactions for the merger with Industrial Star of Italy2, SIT S.p.A. issued 5,350,000 warrants 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. The Warrant Reserve, equivalent to a negative value of Euro 12,541 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. From November 28, 2018, following the transition process to the main index the Warrants are traded on the MTA (Mercato Telematico Azionario) Market organised and managed by Borsa Italiana and, simultaneously, were excluded from trading on the AIM Italia.

PERFORMANCE SHARES RESERVE

As part of the incorporation of the SPAC Industrial Star of Italy 2, 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. In 2018 the corresponding financial liability was adjusted to Fair Value at the reporting date. Further details on this account is presented in Note No. 23 on Financial Liabilities for Performance Shares.

RETAINED EARNINGS (ACCUM. LOSSES)

At December 31, 2018, the account is negative for Euro 12,444 thousand, against a negative value of Euro 14,964 at December 31, 2017. The net decrease of Euro 2,520 relates to the positive amount of Euro 2,518 thousand in allocation of a portion of the 2017 result.

Non-current liabilities

Note 13: Medium/long-term loans and borrowings

As at December 31, 2018, 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 refinancing operation in 2017 alongside the incorporation of the SPAC Industrial Stars of Italy 2. The financial liability is measured using the amortised cost criterion.

The main conditions on the Senior Facility Agreement 2017 are the following:

- 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;
- early repayment option without penalties and without collateral security;
- 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. The average interest margin in 2018 was 1.88%.

In accordance with normal loan contract terms, the 2017 SFA provides, in addition to that described above, for a series of commitments by the company such as a prohibition on undertaking further debts and to provide negative pledges. Reference should be made to the Directors' Report for further details on the financial covenants contained in the contract.

The residual nominal amount at December 31, 2018 totals Euro 122,850 thousand, of which the non-current portion Euro 105,975 thousand and the current portion Euro 16,875 thousand.

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

At December 31, 2018 the account exclusively includes the Fair Value of the derivative financial instruments.

(Euro thousands)	Dec 31, 18	Dec 31, 17
Derivative financial instruments - Non-current	710	288
Other non-current financial liabilities and derivative financial instruments	**710**	**288**

DERIVATIVE FINANCIAL INSTRUMENTS - NON-CURRENT

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, 2018 are summarised below:

(Euro thousands)

Transaction type	Currency	Beginning date	Maturity	Fixed rate	Notional 31.12.2018	Fair Value 31.12.2018
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.41%	64,974	(414)
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.40%	47,866	(296)
Total					**112,840**	**(710)**

A breakdown of the non-current portion of interest rate swap hedges that made up the account at December 31, 2017 is presented below

(Euro thousands)

Transaction type	Currency	Beginning date	Maturity	Fixed rate	Notional 31.12.2017	Fair Value 31.12.2017
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.41%	71,400	(174)
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.40%	52,600	(115)
Total					**124,000**	**(288.21)**

Note 15: Provisions for risks and charges

The changes to the account were as follows:

(Euro thousands)

	Dec 31, 17	Provisions	Utilisations	Reclassifications	Dec 31, 18
Agents indemnity provision	122	17	-	-	139
Other risks provision	2,201	1,722	(968)	(62)	2,893
Product warranty provision	363	590	-	-	953
Other taxes provision	211	492	(136)	(60)	507
Total provisions for risks & charges	**2,897**	**2,821**	**(1,104)**	**(122)**	**4,492**

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 1,294 thousand to hedge the risks over ongoing disputes with the Parent Company's customers, whose risk of loss is highly probable;
- Euro 1,316 thousand refers to the subsidiary Metersit S.r.l. to cover risks on the reasonable estimate of the potential penalties matured based on contractual provisions due to delays in the supply of products to the principal clients of the company. The amount also includes the best estimate of the dismantling costs in future years of the batteries inserted in the meters sold up to the reporting date. The provision takes into account the discounting of cash flows, utilising a pre-tax discount rate.

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.

The increase in the year includes the provision of Euro 528 thousand in the subsidiary Metersit S.r.l. based on a reasonable estimate of the replacement costs of the meters sold at the reporting date, covered by warranty. The estimate was calculated applying a percentage based on an assessment and analysis of returns for defects.

OTHER TAXES PROVISION

The provision includes Euro 492 thousand accrued in 2018 against a potential liability relating to the VAT receivable of the company following the incorporation of SPAC Industrial Star of Italy 2. In 2018 this provision was utilised for Euro 136 thousand due to the agreement of a settlement procedure assessment. Based on the agreement reached with the Tax Authorities, the company made the payment of sums due for higher taxes, penalties and interest.

Note 16: Post-employment benefit provision

The movements in the account in the year to December 31, 2018 and to December 31, 2017 were as follows:

(Euro thousands)	Dec 31, 18	Dec 31, 17
Net liabilities for employee defined benefits	5,769	5,957
Liabilities for retention or other	139	401
Net liabilities for employee defined benefits	**5,908**	**6,358**

The movements in post-employment benefits were as follows:

(Euro thousands)	Dec 31, 18	Dec 31, 17
Post-em. bens. at beginning of year	5,957	5,944
Payments in the year	(190)	(112)
Current service cost	66	66
Interest cost	76	77
Actuarial gains	(140)	(18)
Post-em. bens. at end of year	**5,769**	**5,957**

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

Defined benefit plans	Dec 31, 18	Dec 31, 17
Annual discount rate	1.57%	1.30%
Annual inflation rate	1.50%	1.50%
Annual increase in post-employment benefit	2.65%	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 758 thousand and relates to a Euro 754 thousand provision for the extraordinary variable bonus granted to the Chairman and Chief Executive Officer in execution of the contractual provisions defined in the listing operation. This was correlated to the Group's future results measured in terms of the equity value's increase over 2017, 2018 and 2019. For further information, reference should be made to Note 38.

Note 18: Deferred tax liabilities

A breakdown of temporary differences and the consequent deferred tax liabilities at December 31, 2018 and at December 31, 2017 is reported below, based on the type of temporary differences, applying respectively a tax rate of 24% for IRES and 3.9% for IRAP.

Balance at December 31, 2018

(Euro thousands)	Temporary Diff. IRES	Temporary Diff. IRAP	Tax effect IRES	Tax effect IRAP
Tax on business combinations	63,437	63,438	15,220	2,478
Accelerated depreciation	378	0	91	0
Finance Leases	1,056	1,056	254	41
Capitalisation research & development expenses	161	0	37	0
Unrealised for. exchange gains/losses	389	0	94	0
Amortised cost	0	0	0	0
Other	351	0	31	0
Derivative financial instruments	51	51	12	2
Total	**65,823**	**64,545**	**15,739**	**2,521**

Balance at 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**

Current liabilities

Note 19: Short-term loans and borrowings

The breakdown is as follows:

(Euro thousands)	Dec 31, 18	Dec 31, 17
Utilisation short-term lines	60	66
Current portion of loans	16,197	11,458
Current financial charges	-	13
Short-term loans and borrowings	**16,257**	**11,537**

CURRENT PORTION OF LOANS

At December 31, 2018, the account includes the current share of the bank loan (Senior Financial Agreement 2017) referred to in Note No. 13. In accordance with normal loan contract terms, the 2017 SFA provides for a series of commitments by the company such as prohibition to assume further debts and to provide negative pledges. Reference should be made to the Directors' Report for further details on the financial covenants contained in the contract.

Note 20: Other current financial liabilities and derivative financial instruments

A breakdown follows:

(Euro thousands)	Dec 31, 18	Dec 31, 17
Factoring payables	4,373	2,158
Derivative financial instruments (current portion)	855	821
Other current financial liabilities and derivative financial instruments	**5,228**	**2,979**

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 variable rate bank loan (Senior Financial Agreement 2017) undertaken in 2017.

At December 31, 2018

(Euro thousands)

Transaction type	Currency	Beginning date	Maturity	Fixed rate	Notional 31.12.2018	Fair Value 31.12.2018
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.41%	64,974	(412)
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.40%	47,866	(298)
Total					**112,840**	**(710)**

Balance at December 31, 2017

(Euro thousands)

Transaction type	Currency	Beginning date	Maturity	Fixed rate	Notional 31.12.2017	Fair Value 31.12.2017
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.41%	71,400	(477)
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.40%	52,600	(345)
Total					**124,000**	**(821)**

During 2018, the Parent Company entered into currency and commodity hedging contracts. These contracts do not satisfy the IFRS 9 hedging requirements for application of hedge accounting and, therefore, the financial payable was recorded based on the fair value through profit or loss, net of the relative tax effect. The features and the fair value of the current portion of the derivative financial instruments at December 31, 2018 are summarised below:

Transaction type	Beginning date	Maturity	Fixed price USD/MT	Quantity MT 31.12.2018	Fair Value 31.12.2018
Commodity Swap on LME Copper Grade A	01/05/2018	31/12/2018	7,152.00	10	(9)
Total				**10**	**(9)**

Transaction type	Currency	Currency amount	Currency value	Value date	Maturity date	Spot rate	Forward rate	Fair Value 31.12.2018
forward sales	CNY	(15,000,000)	EUR	27/07/2018	29/07/2019	7.9160	8.221354	(44)
forward sales	CNY	(9,000,000)	EUR	01/11/2018	31/01/2019	7.9270	8.023036	(17)
forward sales	CNY	(9,000,000)	EUR	01/11/2018	28/02/2019	7.9270	8.050765	(18)
forward sales	CNY	(7,500,000)	EUR	26/11/2018	29/03/2019	7.9002	8.018729	(9)
forward sales	CNY	(7,500,000)	EUR	26/11/2018	30/04/2019	7.9002	8.047145	(9)
forward sales	CNY	(10,000,000)	EUR	27/11/2018	31/05/2019	7.8971	8.068268	(13)
forward sales	CNY	(9,900,000)	EUR	24/12/2018	30/08/2019	7.8945	8.075296	(4)
forward sales	CNY	(10,000,000)	EUR	24/12/2018	30/09/2019	7.8945	8.097861	(4)
forward purchases	USD	1,000,000	EUR	02/11/2018	30/04/2019	1.1326	1.150906	(5)
forward sales	USD	(2,500,000)	EUR	24/12/2018	31/01/2019	1.1470	1.151329	(6)
forward sales	USD	(2,500,000)	EUR	24/12/2018	29/03/2019	1.1469	1.156798	(6)
forward purchases	USD	500,000	EUR	31/12/2018	21/06/2019	1.1401	1.156932	(2)
Total								**(135)**

The commodity contracts at December 31, 2017 were as follows

Transaction type	Beginning date	Maturity	Fixed price USD/MT	Quantity MT 31.12.2017	Fair Value 31.12.2017
Commodity Swap on LME Copper Grade A	01/05/2018	31/12/2018	7,152.00	80	8
Total				**80**	**8**

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)	31/12/2017	Receivable waiver	Reimbursements /settlements	Reclass.	Fair Value Changes	Change in amortised cost	31/12/2018
Bank payables - non-current portion of loans	122,850	-	-	-16,875	-	-	105,975
Bank payables - non-current portion amortised cost	-1,790	-	-	-	-	545	-1.245
Total bank payables - non-current portion loans	**121,060**	**0**	**0**	**-16,875**	**0**	**545**	**104,730**
Shareholder loans - non-current portion of loans	-	-	-	-	-	-	-
Shareholder loan - amortised cost	-	-	-	-	-	-	-
Derivative financial instruments - non-current portion	288	-	-	-	422	-	710
Total other non-current financial liabilities and derivative financial instruments	**288**	**-**	**-**	**-**	**422**	**-**	**710**
Total non-current financial liabilities	**121,348**	**0**	**0**	**-16,875**	**422**	**545**	**105,440**
Bank payables - current portion of loans	12,150	-	-12,150	16,875	-	-	16,875
Bank payables - current portion amortised cost	-692	-	-	-	-	13	-678
Total bank payables - current portion of loans	**11,458**	**-**	**-12,150**	**16,875**	**-**	**13**	**16,197**
Shareholder loan - current portion of loans	-	-	-	-	-	-	-
Derivative financial instruments - current portion	821	-	-	-	34	-	855
Total other current financial liabilities and derivative financial instruments	**821**	**-**	**-**	**-**	**34**	**-**	**855**
Total current financial liabilities	**12,280**	**0**	**-12,150**	**16,875**	**34**	**13**	**17,051**

In relation to the hierarchical positioning of the fair value of the derivative instruments in place (IRS, currencies and commodities) those described above are classified as level 2. There were no transfers between Level 1 and Level 2 during the year.

Note 21: Trade payables

At December 31, 2018, trade payables were broken down as follows:

(Euro thousands)	Dec 31, 18	Dec 31, 17
Trade payables	74,795	68,367
Trade payables to holding company		
Trade payables	**74,795**	**68,367**

The table below summarises the financial liabilities maturity of the Group on the basis of the contractual payments not discounted.

(Euro thousands)

Trade payables	Current	< 30 days	30-60 days	> 61 days	Total
December 31, 2018					
Trade payables	58,211	12,920	2,284	1,381	74,795
December 31, 2017					
Trade payables	59,683	2,765	1,331	1,608	65,387

TRADE PAYABLES

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 losses of Euro 33 thousand.

Note 22: Other current liabilities

A breakdown follows:

(Euro thousands)	Dec 31, 18	Dec 31, 17
Other payables	952	1,035
Customer advances	2,287	1,860
Current remuneration payables	2,118	2,153
Deferred remuneration payables	3,318	2,811
Payables to social security institutions	2,688	2,631
Retention fund, MBO and PDR	2,728	2,476
Deferred income	33	67
Substitute tax payables	1,766	1,214
VAT payables	1,198	545
Payables to holding company for tax consolidation	-	-
Other current liabilities	**17,088**	**14,792**

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 2018 salaries, paid in January 2019.

DEFERRED REMUNERATION PAYABLES

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

RESULT BONUSES

The account relates to the estimate of 2018 bonuses, to be paid in 2019.

Note 23: Financial Liabilities for Performance Shares

In 2017, in relation to the merger between SIT S.p.A. and Industrial Stars of Italy 2 S.p.A., 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 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 within 60 (sixty) business days from the final approval of the Board of Directors of the consolidated financial statements as of December 31, 2018.

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, 2018 amounted to Euro 8,260 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, 2018 (Euro 8.3 million).

The difference between the value of financial liabilities at December 31, 2017 of Euro 11,500 thousand and of financial liabilities at the reporting date was recognised to the income statement.

Note 24: Financial liabilities for Warrants

SIT S.p.A. has issued 5,350,000 Warrants admitted to trading on the AIM Italia and now traded on the MTA 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, 2018 amounted to Euro 3,028 thousand, representing the Fair Value 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, 2018 were adjusted to Fair Value, recognising the differential between the date of December 31, 2017 (Euro 2.40) and the price at the reporting date (Euro 0.58) to the income statement under financial income for Euro 9,513 thousand.

Note 25 - Income tax payables

The amount of 6,107 thousand principally relates to:

- Euro 4,131 thousand as the net payable 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.
- Euro 2,003 thousand payable for direct income taxes in the year.

NOTES TO THE MAIN CONSOLIDATED INCOME STATEMENT ACCOUNTS

Note 26: Revenue from sales and services

Revenues from sales and services are comprised as follows:

(Euro thousands)	**2018**	**2017**
Revenues from product sales	359,148	323,456
Revenues from services	540	502
Revenues from sales and services	**359,688**	**323,958**

REVENUES FROM PRODUCT SALES

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

(Euro thousands)	2018	2017
Heating	287,001	273,996
Smart Gas Metering	72,147	49,459
Total revenues from sales and services	**359,148**	**323,455**

Group revenues by region were as follows:

(Euro thousands)	2018	2017
Italy	126,048	99,093
Foreign EU	97,495	89,075
Foreign Non-EU	135,605	135,287
Total revenues from sales and services	**359,148**	**323,455**

Note 27: Raw materials, ancillaries, consumables and goods

The breakdown of the account in 2018 and 2017 was as follows:

(Euro thousands)	2018	2017
Purchases of ancillary materials	4,141	3,310
Purchases of raw materials, semi-finished & packaging	176,399	144,079
Finished products purchases	22,255	23,925
Purchases of consumable materials	6	33
Purchases of goods	38	30
Maintenance and repair materials	2,132	1,751
Other purchases	2,206	1,880
Duties on purchases	1,316	1,266
Raw materials, ancillaries, consumables and goods	**208,493**	**176,274**
Changes in inventories of raw materials, ancillaries, consumables and goods	(6,082)	(2,553)
Change in inventories of finished & semi-finished products and goods	8,057	(1,820)
Change in inventories	**(14,139)**	**(733)**
Total cost of raw materials, ancillaries, consumables and goods	**194,354**	**175,541**

Note 28: Service costs

The composition of the account is as follows:

(Euro thousands)	2018	2017
Rent, hire and leases	2,405	2,165
Outsourcing	9,192	7,424
Transport	7,755	6,568
Commissions	308	459
Legal, administrative and other	4,504	2,916
Insurance	1,056	966
Management services	1,825	1,866
Maintenance & repair expenses	3,103	2,630
Utilities	4,971	4,745
Personnel expense	1,877	1,517
Cleaning and security	862	772
Advertising, marketing, and sponsorship	721	715
Directors, statutory & independent auditor fees	2,027	1,940
Travel and accommodation	1,130	988
Bank charges & commissions	306	328
Other services	1,183	768
Listing charges	1,237	816
Service costs	**44,462**	**37,583**

OUTSOURCING

Outsourcing increased Euro 1,768 thousand compared to the previous year. As a percentage of revenue, these costs increased from 2.3% in 2017 to 2.6% in 2018.

TRANSPORT

Transport costs increased Euro 1,187 thousand compared to the previous year and accounted for 2.2% of revenues compared to 2.0% in the previous year.

LEGAL, ADMINISTRATION AND OTHER CONSULTANCY

Legal, administration and other consultancy increased Euro 1,588 thousand compared to the previous year related to the legal and technical consultancy in the translisting to the MTA.

DIRECTORS, STATUTORY & INDEPENDENT AUDITOR FEES

The account increased Euro 87 thousand, including Euro 254 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 in 2018 on a half-yearly basis.

LISTING COSTS

The listing costs concern non-recurring costs strictly related to the translisting process from the AIM market to the MTA Italia market in November 2018.

Note 29: Personnel expense

Personnel expense is shown below:

(Euro thousands)

Personnel expense	**2018**	**2017**
Wages and salaries	48,748	43,487
Social security charges	11,448	12,080
Temporary personnel	10,067	6,831
Post-employment benefits	2,507	2,351
Other costs	907	742
Personnel expense	**73,677**	**65,491**

The average number of personnel in 2018 and 2017 was as follows:

Employees	**2018**	**2017**
Executives	33	30
White-collar	417	394
Blue-collar	1,676	1,462
Temporary	347	237
Total employees	**2,473**	**2,123**

The account includes non-recurring costs for Euro 2.5 million relating to the leaving incentive and settlement following the termination of employment of the General Manager and for Euro 250 thousand bonuses issued following the successful conclusion of the listing process.

Note 30: Depreciation, amortisation and write-downs

The breakdown is as follows:

(Euro thousands)

Depreciation, amortisation and write-downs	**2018**	**2017**
Amortisation of intangible assets	8,449	9,022
Depreciation of property, plant and equipment	11,417	9,900
Total depreciation and amortisation	**19,866**	**18,922**
Write-down of current receivables	158	123
Write-down of non-current receivables	-	-
Write-down of intangible assets	-	-
Total write-downs	**158**	**123**
Depreciation, amortisation and write-downs	**20,024**	**19,045**

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

Note 31: Provisions

In 2018 provisions totalled Euro 1,718 thousand and were stated net of utilisations of Euro 1,104 thousand. The gross provisions mainly refer to:

- Euro 360 thousand on probable risks of the Parent Company for which it is not possible to establish a certain amount, concerning product quality against reimbursement requests from a number of clients;
- Euro 492 thousand against a potential liability relating to the VAT receivable of the holding company following the incorporation of SPAC Industrial Star of Italy 2 in November 2017;
- Euro 528 thousand for the product warranty provision against potential interventions on meters sold up to the reporting date by the subsidiary Metersit S.r.l.;
- Euro 747 thousand of future charges which the subsidiary Metersit S.r.l. may incur for the dismantling of the batteries inserted in meters; and
- Euro 569 thousand possible penalties matured in the year for delays in deliveries to the principal clients of the Smart Gas Metering Division.

Note 32: Other charges (income)

The account is broken down as follows:

(Euro thousands)

Other charges (income)	**2018**	**2017**
Misc. recoveries	403	709
Prior year income	460	84
Gains on fixed assets	75	113
Utilisation of provisions	-	-
Grants	433	155
Other revenues	(7)	38
Other income	**1,364**	**1,099**
Misc. taxes & non-deductible costs	367	467
Losses on fixed assets	6	45
Associations	172	207
Prior year charges	305	104
Losses on receivables	8	-
IMU Property tax	125	119
Misc. reimbursements	436	46
Other charges	1,099	353
Other charges	**2,518**	**1,341**
Other charges (income)	**1,154**	**242**

Other charges in 2018 increased Euro 1,177 thousand (+8.8%). The increase is due to non-recurring charges for Euro 675 thousand, of which Euro 492 thousand relating to the provision for potential liabilities related to the VAT receivable already described in Note 15, and Euro 145 thousand for environmental charges accrued by the Romanian subsidiary.

Note 33: Financial income

In 2018, this amounted to Euro 13,286 thousand and was broken down as follows:

(Euro thousands)

	2018	2017
Interest income on bank accounts	197	25
Other interest income	34	171
Interest income from Group companies	10	14
Profits on derivative financial instruments	291	10
Adjustment to fair value of financial liabilities	12,754	2,672
Financial income	**13,286**	**2,892**

INTEREST INCOME FROM GROUP COMPANIES

This concerns loans granted to SIT Technologies S.p.A. and SIT Immobiliare S.p.A., as part of the centralised financial coordination and treasury services provided by the Company.

PROFITS ON DERIVATIVE FINANCIAL INSTRUMENTS

The amount relates to the mark to market of the derivative contracts on foreign currencies, which do not comply with the company’s formal hedging policy.

ADJUSTMENT TO FAIR VALUE OF FINANCIAL LIABILITIES

This concerns the adjustment to the Fair Value of 5,224,733 SIT Warrants not yet exercised at December 31, 2018 and of the Performance Shares held by the holding company SIT Technologies S.p.A..; the Fair Value of the Warrants was established utilising level 1 of the hierarchy as the Warrants are listed on an active market. The Fair Value of the Performance Shares was calculated by utilising level 2 of the hierarchy for the Warrants as the calculation is based on an observable component and a measurable component.

Note 34: Financial charges

Financial charges consist of:

(Euro thousands)

Financial charges	2018	2017
Financial charges on hedging contract differences	831	2,452
Interest charges to holding company	-	3,921
Interest and other bank charges	2,751	11,715
Interest charges to third parties	737	350
Losses on derivative financial instruments	479	-
Merger fair value	-	31,321
Financial charges	**4,798**	**49,759**

FINANCIAL CHARGES ON HEDGING CONTRACTS

The account refers to the differential matured in 2018 relating to the interest rate risk contracts (IRS) on the loan contracts (Senior Facility Agreement of 2017). The change with the previous year principally concerns charges incurred for the early settlement of interest rate hedges as part of the SIT 2017 Refinancing.

INTEREST CHARGES TO HOLDING COMPANY

The change is due to the early settlement of the Shareholder Loan in 2017 as part of the overall SIT 2017 Refinancing.

INTEREST AND OTHER BANK CHARGES

The amount of Euro 2,751 thousand mainly relates to financial charges on loans (Senior Facility Agreement of 2017) including the relative effect of the application of the amortised cost method. The costs incurred in the previous year, amounting to Euro 11,715 thousand, include the effects deriving from the settlement of the loans within the SIT 2017 Refinancing in addition to the portion of the amortised cost on the new SFA 2017 loan.

LOSSES ON DERIVATIVE FINANCIAL INSTRUMENTS

The amount relates to the mark to market of the derivative contracts on foreign currencies and raw materials, which do not comply with the company's formal hedging policy.

EFFECT FROM RECOGNITION OF THE MERGER TRANSACTION

In 2017, as an effect of the merger between SIT S.p.A. and ISI2 S.p.A. 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 35: Net exchange gains (losses)

Net exchange gains of Euro 292 thousand are comprised as follows:

(Euro thousands)

Exchange gains and losses	2018	2017
Realised exchange gains	8,009	10,451
Realised exchange losses	(8,901)	(10,377)
Unrealised exchange gains	1,228	1,650
Unrealised exchange losses	(629)	(1,289)
Net exchange gains and losses	**(292)**	**435**

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 36: Income taxes

The breakdown of Income taxes in 2018 and 2017 was as follows:

(Euro thousands)

Income taxes	2018	2017
Current income taxes	8,769	4,227
Deferred tax charges	(2,037)	(1,939)
Deferred tax income	1,314	(457)
Other	(239)	134
Income taxes	**7,807**	**1,965**

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

Reconciliation effective tax charge	2018	2017
Result before taxes	**32,071**	**(21,362)**
Adjustments for items not subject to taxation		**31,321**
Adjusted pre-tax profit	**32,071**	**9,958**
Theoretical IRES in Italy 24.0%	**(7,697)**	**(2,390)**
Tax effect non-deductible costs	(703)	(503)
Tax effect on higher deductible costs	1,063	1,509
Tax effect on non-assessable income	336	3
Adjustments for prior period taxes	155	42
Tax credits	32	24
Other	(72)	222
Difference the tax rate on foreign entities	(41)	(117)
Theoretical IRAP at 3.9%	**(1,140)**	**(985)**
IRAP deferred tax charge	282	250
IRAP deferred tax income	(22)	(19)
Tax at effective rate	**(7,807)**	**(1,965)**
Effective tax rate	**24.3%**	**19.7%**

Note 37: Earnings per share

The basic earnings per share is calculated by dividing the profit attributable to the ordinary shareholders of the parent company by the average weighted number of ordinary shares outstanding during the year.

The diluted earnings per share is calculated by dividing the profit attributable to the ordinary shareholders of the parent company by the average weighted number of ordinary shares outstanding during the year and the potential shares deriving from the exercise of all convertible bonds.

Information is shown below for the calculation of the basic and diluted earnings per share:

(Euro thousands)

Profit attributed to the ordinary shareholders of the Parent Company	**31.12.2018**	**31.12.2017**
Profit/(loss) attributed to the ordinary shareholders of the Parent Company	24,265	(23,327)
Dilution effect deriving from potential ordinary shares	(9,692)	n.a.
Total profit/(loss) attributed to the ordinary shareholders of the Parent Company	**14,572**	**(23,327)**

(Euro thousands)

Earnings per share	**31.12.2018**	**31.12.2017**
Weighted average number of ordinary shares, excluding treasury shares, to calculate basic earnings per share	23,939,484	20,161,306
Dilution effects for Warrants	546,054	n.a.
Dilution effects for Performance Shares	1,000,000	n.a.
Weighted average number of ordinary shares due to dilution effect	25,485,539	n.a.
Basic earnings per share	**1.0136**	**(1.1570)**
Diluted earnings per share	**0.5718**	**(1.1570)**

Note 38: Share-based payments

At December 31, 2018, the company holds 76,128 treasury shares, of which 11,283 were acquired in 2018 in order to service the long-term incentive plan for employees and/or collaborators of the company and/or subsidiary companies, in order to incentivise achievement of the medium-term plan, as further described in Note 12.

At the date of the present financial statements, there are two stock-option plans which provide for payments to identified parties, based on the value of the share price. The table below shows the economic effects deriving from these instruments:

(Euro thousands)

Costs deriving from share-based payment transactions	**2018**	**2017**
Costs from equity-settled share-based payment transactions	175	-
Costs from cash-settled share-based payment transactions	254	500
Total costs deriving from share-based payment transactions	**429**	**500**

The two plans contain different features, as further described in the paragraphs below.

EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

On April 26, 2018, the Board of Directors of Sit S.p.A. approved the Long-Term Incentive plan for employees of the Company and its subsidiaries who hold key strategic roles within the Group.

This plan provides for the assignment of a maximum number of 312,000 shares which will mature in the three-year period 2018-2020 on the basis of specific conditions such as:

- return on the Group share;
- achievement of the cumulative performance results, calculated on the basis of the consolidated industrial plans of the Group, during the vesting period indicated;
- continuation of employment for a pre-determined period at the assignment date;

On October 8, 2018, the Board of Directors of Sit S.p.A. approved the assignment to employees specifically identified. The following table illustrates the number and average weighed exercise price (PMPE) of the options during the year:

(Euro thousands)

	2018		2017	
	No. options	**Weighted average price**	**No. options**	**Weighted average price**
Outstanding at January 1	**-**	**-**	**-**	**-**
Assigned during the year	212,359	0.8244	-	-
Cancelled during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at December 31	**212,359**	**0.8244**	**-**	**-**
Exercisable at December 31	**-**	**-**	**-**	**-**

The options will be exercisable if the average of the official stock exchange price in the period between November 1, 2020 and April 30, 2021 is above Euro 13.00; if this price is below Euro 13.00, no option will be converted into shares.

The fair value of the options assigned is measured at the assignment date utilising the Monte-Carlo simulation model, taking into account the terms and conditions on which the options were granted. The model simulates the total return per share, taking into account historical dividends and expected dividends, the volatility of the price of the shares of the Group and of its competitors in order to forecast the yield of the shares.

The table below provides information utilised in the model for the plan adopted for the year December 31, 2018:

Assumptions for the measurement of the plan fair value	2018
Weighted fair value at the measurement date	9.8
Dividend yield (%)	2.7
Expected volatility (%)	20.0
Interest free risk rate (%)	1.0
Expected useful life of the options (in years)	3.5
Model adopted	Monte - Carlo

The expected volatility reflects the assumptions that the historical volatility is indicative of future trends which may not coincide with the actual outcome.

The expected useful life of the options is based on historical data and is not necessarily indicative of possible exercise profiles.

CASH-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

On January 15, 2018, the Board of Directors, subject to the positive completion of the procedure by the Related Parties Committee, approved the allocation to the Chairman and the Chief Executive Officer Federico de Stefani of an extraordinary gross variable emolument, quantifiable in a range between Euro 1.3 million and Euro 2.6 million, which matures in line with the achievement of the objectives to be calculated based on the performance of SIT in 2017, 2018 and 2019.

The emolument which mature by the Chairman and Chief Executive Officer must be calculated based on two components:

- Theoretical emolument related to the official maximum monthly average price (calendar) of the shares of SIT during the period between May 1, 2019 and April 30, 2020, based on a substantial linear progression in values, between a minimum of Euro 10 (equal to the admission price to trading of the Ordinary Shares of SIT on the AIM Italia) and a maximum of Euro 20, which gives the right to receive respectively, a minimum Euro 1.3 million and a maximum Euro 2.6 million; if this price is lower than Euro 10, no bonus will be due;

- Corrective related to the company performance (substantially the Equity Value); in relation to this the conversion mechanism of the Performance Shares is utilised and the effective emolument due will be fixed applying to the amount of the theoretical emolument the conversion percentage of the Performance Shares, which is related to the Equity Value in 2018 and 2019 (expressed as a fixed multiple of EBITDA less the net financial position, NFP) compared to a target value.

The table below provides information utilised in the model for the plan adopted for the year December 31, 2018:

Assumptions for the measurement of the plan fair value	2018
Weighted fair value at the measurement date	12
Dividend yield (%)	3
Expected volatility (%)	20
Interest free risk rate (%)	1
Expected useful life of the options (in years)	2
Model adopted	Monte - Carlo

The emolument will be paid in May 2020 on the completion of the verification procedure and following final approval by the Board of Directors of the consolidated financial statements as of December 31, 2018 and, where applicable, as of December 31, 2019.

OTHER INFORMATION

Disclosure by operating segment

Income Statement

2018

(Euro thousands)	Heating	Smart Gas Metering	Eliminations	Consolidated
Revenue from sales and services	289,271	72,189	(1,772)	359,688
Operating costs	(266,891)	(70,614)	1,772	(335,733)
EBIT	22,380	1,575	-	23,955

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

Balance Sheet

2018

(Euro thousands)	Heating	Smart Gas Metering	Eliminations	Consolidated
Assets	345,235	61,461	(15,645)	391,051
Liabilities	244,796	36,497	15,645	265,647
Shareholders' Equity	100,439	24,964	-	125,404

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

Related party transactions

Regarding the procedural rules applicable to related party transactions, see the policy adopted by the Company in accordance with Article 10 of the Regulations 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. Reference should be made to the Directors' Report for further information.

Transactions with holding companies and with subsidiaries of this latter

In addition to inter-company transactions, the principal transactions of SIT with related parties are those undertaken with the holding company SIT Technologies S.p.A and its subsidiary SIT Immobiliare S.p.A. whose balances at the reporting date are shown in the table below.

December 31, 2018	Revenues	Costs	Financial income	Financial charges	Financial receivables	Financial liabilities	Other receivables	Other payables
SIT Immobiliare S.p.A.	14	0	1	0	0	0	16	0
Companies subject to the control of the holding company	**14**	**0**	**1**	**0**	**0**	**0**	**16**	**0**
SIT Technologies S.p.a.	24	0	3,795	0	0	8,434	56	4,131
Holding company	**24**	**0**	**3,795**	**0**	**0**	**8,434**	**56**	**4,131**

The SIT'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 financial income from the holding company SIT Technologies S.p.A. mainly refers to the change in the fair value of the SIT Warrants and of the Performance Shares held by this latter.

The financial payables of Euro 8,434 thousand due to the holding company, SIT Technologies S.p.A., consist of the value of the Performance Shares of Euro 8,260 thousand and the value of the SIT Warrants held by the said parent company of Euro 173 thousand. Both of these financial liabilities have been designated at fair value as at December 31, 2018, as described in further detail in the notes.

Finally, SIT Immobiliare S.p.A., SIT Technologies S.p.A. and MeteRSit S.r.l. elected to participate in the national tax consolidation procedure for 2016-2018. The parties to this scheme, 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 Immobiliare S.p.A. as the consolidating entity and the other companies as consolidated entities, as approved by their respective governing bodies. At December 31, 2018 the payable of SIT with SIT Technologies S.p.A. amounts to Euro 4,131 thousand.

Related party transactions

As illustrated in the table below, we also report in 2018 SIT incurred costs for consultancy totalling Euro 36.5 thousand with a company in which a shareholder is a member of the Board of Directors of SIT.

(Euro thousands)	Revenues	Costs	Financial income	Financial charges	Financial receivables	Financial payables	Other receiv.	Other payables
Oaklins Arietti S.r.l	-	-	-	-	-	-	44.5	44.5
Transactions with other related parties	**-**	**-**	**-**	**-**	**-**	**-**	**44.5**	**44.5**

We report that on January 15, 2018, the Board of Directors, subject to the positive completion of the procedure by the Related Parties Committee, approved the allocation to the Chairman and the Chief Executive Officer Federico de Stefani of an extraordinary gross variable emolument, quantifiable in a range between Euro 1.3 million and Euro 2.6 million, which matures in line with the achievement of the objectives to be calculated based on the performance of SIT in 2017, 2018 and 2019. The emolument shall be calculated based on a component related to the performance of the SIT share price in the period under consideration and of a corrective amount related to the company performance. While reference should be made to Note 38 for the method of the calculation of these components, we indicate that in 2018 the cost matured was Euro 254 thousand recognised under non-recurring service costs which increases the current liability at December 31, 2018 totalling Euro 754 thousand.

In addition, during 2018, non-recurring costs were incurred for Euro 2,452 thousand relating to the provision of a leaving incentive and settlement with the General Manager and Chief Executive Officer Mr. Fulvio Camilli.

Intercompany transactions

The transactions carried out by the Parent Company with subsidiaries 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 2018, the Parent Company carried out the following transactions with subsidiaries and presented the following balances at the reporting date:

2018	Revenues	Costs	Financial income	Financial charges	Financial receivables	Financial payables	Other receivables	Other payables
SIT Gas Controls Pty Ltd (Australia)	2,311	0	0	1	0	69	501	0
SIT (Shanghai) Trading Co. Ltd. (China)	0	0	3	0	0	0	0	0
SIT Manufacturing (Suzhou) Co.Ltd (China)	11,948	1,760	37	0	1,942	0	10,920	2,223
SIT Controls CR, sro (Czech Republic)	9	1,246	121	0	0	617	8	596
SIT Controls Deutschland GmbH (Germany)	188	1,270	100	0	0	398	56	444
Sit Manufacturing N.A. SA de CV (Mexico)	20,423	1,534	0	344	0	16,296	8,474	122
SIT Controls BV - (Netherlands)	4,268	2,513	104	0	2,500	3,253	2,052	829
SIT Romania Srl (Romania)	30,884	54,275	138	20	4,500	4,642	5,560	7,911
MeteRSit Romania Srl (Romania)	7	0	0	0	0	0	7	0
SIT Controls U.S.A. Inc. (USA)	20	160	0	15	0	1,550	17	64
MeteRSit S.r.l. (Italy)	1,765	34	578	1	7,109	6,328	1,966	41
Subsidiaries	**71,823**	**62,792**	**1,081**	**381**	**16,051**	**33,153**	29,561	**12,230**

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. As illustrated in the Directors` Report 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.

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:

(Euro thousands)	2018	2017
Director fees	1,151	1,314
Statutory auditor fees	112	135
Total	**1,263**	**1,449**

Director fees includes the provision made for the above-stated extraordinary variable bonus assigned to the Executive Chairman under the Framework Agreement for Euro 254 thousand.

The Group paid to the audit firm and its relative network, subsequent to its qualification as an EIP, total fees of Euro 280 thousand as follows:

(Euro thousands)	2018
Fees paid to the audit firm of the parent company for audit services	138
Fees paid to companies of the same network of the audit firm (audit investee companies)	142
Total	**280**

Relating to the period prior to the qualification as an EIP fees were recognised for audit services for Euro 297 thousand, certification services for Euro 29 thousand and other services for Euro 40 thousand.

Guarantees, commitments and off-balance sheet contingent liabilities

The off-balance sheet commitments of the Parent Company at December 31, 2018 were as follows.

(Euro thousands)	2018	2017
Other unsecured guarantees	45,903	41,674
Secured guarantees	-	-
Total guarantees	**45,903**	**41,674**

Other unsecured guarantees

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

(Euro thousands)	2018	2017
In the interest of subsidiaries	45,055	35,041
In own interest	848	6,633
Total other guarantees	**45,903**	**41,674**

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 9,178 thousand co-obligations with the subsidiary MeteRSit S.r.l., while the remaining amount concerns guarantees exclusive to the Parent Company.

The guarantees issued in its own interest are predominantly (Euro 694 thousand) in favour of the Tax Agency for VAT receivables offset as part of the Group declaration.

Secured guarantees

At the reporting date the company did not provide any secured guarantees.

Off-balance sheet transactions

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.

The above-stated agreements may entirely be classified as part of "normal industrial, commercial and financial transactions", considering the size and the organisational complexity of SIT S.p.A. 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.

Financial risk management and financial instruments recognised at Fair Value

The Group through its operating activities is exposed to financial risks, in particular:

- Market risk, with particular reference to (i) currency risk deriving from operations and transactions in currencies other than the functional currency of the companies and of the Group; (ii) interest rate risk deriving from fluctuations in market interest rates; (iii) price risk deriving from changes in market prices of certain raw materials utilised by the Group in its production processes;

- Credit risk, concerning commercial transactions with its customers;
- Liquidity risk, related to the availability of financial resources and access to the credit market;

In relation to market risk, the SIT Group has issued the following Group policies approved by the Board of Directors of the Company:

- Foreign exchange risk management policy;
- Group Interest rate risk management policy;
- Company Policy to manage Group liquidity.

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 are described in the relative section of the Directors' Report, to which reference should be made.

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 currency hedging transactions at the reporting date are presented in Note 4 and Note 20.

We report that the hedging operations in AUD and GBP, in addition to being substantially undertaken for hedging purposes, complied with the formal requirements to be designated as "hedges" in accordance with the underlying accounting standards; the hedging operations in USD and CNY, as not complying with these formal requirements, were not designated as "hedges" in accordance with the applicable accounting standards and therefore the result matured in 2018 was recognised to the income statement.

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.

At the reporting date the Group has only one significant loan for a nominal capital amount of Euro 122,850 thousand. This loan provides for a variable interest rate indexed to the Euribor at 6 months. The Company has undertaken interest rate swap for a total amount of Euro 112,840 thousand, or 91.9% of the underlying nominal value.

The details and fair values of the hedging transactions outstanding as at the reporting date are presented in Notes 14 and 20 respectively for the non-current and current portions.

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.

During 2018 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. The financial hedging operations in the year related to the purchase of copper and represented approx. 9.2% of the total purchases of copper in the year.

The details and fair values of the hedging transactions outstanding as at the reporting date are presented in the Note 20.

Financial instruments recognised at Fair Value

IFRS 13 defines the following three hierarchical fair value levels to which reference should be made for the measurement of financial instruments recorded in the balance sheet:

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

With regards to the financial instruments recognised to the financial statements at Fair Value at December 31, 2018, the following table outlines the type of instrument, its value at the reporting date and the fair value hierarchy utilised:

(in thousands of Euro)

Transaction type	Value at 31.12.2018	Valuation criterion	Level 1	Level 2	Level 3
SIT Warrants	(3,028)	Fair Value	(3,028)		
Performance Shares	(8,260)	Fair Value		(8,260)	
Interest Rate Swap	(1,421)	Fair Value		(1,421)	
Forex Forward	(38)	Fair Value		(38)	
Commodity Swaps	(9)	Fair Value		(9)	

In 2018, there were no transfers between the various levels of fair values indicated in IFRS 13.

A similar table is reported for financial instruments recognised to the financial statements at Fair Value at December 31, 2017:

Transaction type	Value at 31.12.2017	Valuation criterion	Level 1	Level 2	Level 3
SIT Warrants	(12,551)	Fair Value	(12,551)		
Performance Shares	(11,500)	Fair Value		(11,500)	
Interest Rate Swap	(1,110)	Fair Value		(1,110)	
Forex Forward	1	Fair Value		1	
Commodity Swaps	8	Fair Value		8	

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	as
Fondirigenti G.Taliercio	8	Loan recognised for training plan FDIR 16030 activity expenses
Fondimpresa - Rome	141	Reimbursement relative quota of fondimpresa training plan code 171590 and code 214925
Tre P Engineering S.r.l	80	Grant on EXTRA_Flux stoichiomEtric gas burner cookTop E-FESTO project. Decree 167 15/06/17 BALANCE
CSEA - Cash for energy and	188	Energivore 2014 company contribution
Veneto Region	0	Financing initiative tender to support the local Polesine production basin
Total	**417**	

Subsequent events after year-end

There are no subsequent events to report.

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Padua, March 22, 2019

The Chairman of the Board of Directors

(Mr. Federico de' Stefani)

DECLARATION ON THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO CONSOB ISSUERS' REGULATION NO. 11971

Declaration on the Consolidated Financial Statements pursuant to Article 81-ter of Consob Regulation No. 11971 of May 14, 1999 and subsequent amendments and supplements

The undersigned Federico de’ Stefani, Chairman and Chief Executive Officer, and Paul Fogolin, Executive Officer for Financial Reporting, of Sit S.p.A., declare, and also in consideration of Article 154-bis, paragraphs 3 and 4 of Legislative Decree No. 58 of February 24, 1998:

- the adequacy in relation to the business operations and
- The application of the administrative and accounting procedures for the compilation of the consolidated financial statements for the period January - December 2018.

In addition, we declare that the consolidated financial statements:

- correspond to the underlying accounting documents and records;
- were prepared in accordance with International Financial Reporting Standards adopted by the European Union through Regulation (EC) No. 1606/2002 of the European Parliament and the Council of July 19, 2002 and also in accordance with Article 9 of Legislative Decree 38/2005 and provide a true and fair representation of the balance sheet, financial position and results of the company and of the consolidated companies.
- the Directors’ Report includes a reliable analysis on the performance and operating result, as well as the situation of the issuer and of the companies included in the consolidation, together with a description of the principal risks and uncertainties to which they are exposed.

Padua, March 22, 2019

The Chief Executive Officer	The Executive Office for Financial Reporting
Federico de’ Stefani	Paul Fogolin

INDEPENDENT AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR'S REPORT
PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010
AND ARTICLE 10 OF THE EU REGULATION 537/2014

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 S.p.A.(the "Company") and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2018, the consolidated statement of profit and loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

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 SIT S.p.A. in accordance with the ethical requirements applicable under Italian law to the audit of the financia statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Impairment test of goodwill relating to Heating and Smart Gas Metering CGUs	
Description of the key audit matter	The consolidated financial statements as at December 31, 2018 include a goodwill amounted to Euro 78 million allocated to the Heating Cash Generating Unit for Euro 61 million and to the Smart Gas Metering Cash Generating Unit for Euro 17 million. Goodwill, as provided by "IAS 36 Impairment of assets", is not amortized, but is subjected to the impairment test at least annually by comparing the recoverable value of the CGUs - determined according to the value in use method - and the carrying amount, which takes into account both goodwill and other tangible and intangible assets allocated to the CGUs. The impairment tests were approved by the Board of Directors on March 22, 2019. The Management evaluation process is complex and it is based on assumptions regarding, among other things, the expected cash flows from the CGUs and the determination of appropriate discount rates (WACC). These assumptions are influenced by future expectations and market conditions. As a result of the impairment tests no impairment losses were recognized. In consideration of the relevance of the amount of goodwill, the subjectivity of the estimates relating to the determination of the expected cash flows attributable to the CGUs and of the key variables of the impairment model, we have considered the impairment test of the goodwill allocated to the aforementioned CGUs a key audit matter of the Group's financial statements. The note 1 shows the information on goodwill, including a sensitivity analysis that illustrates the effects of the changes in the key variables used in the impairment tests.
Audit procedures performed	As part of our audit we have, among other things, carried out the following procedures, also taking advantage of the support of experts: • examination of the methods used by the Management to determine the value in use of the Heating and Smart Gas Metering CGUs, analyzing the methods and assumptions used by the Management for the development of the impairment tests; • understanding of the main controls put in place by Management on the process of carrying out the impairment tests; • analysis of the reasonableness of the main assumptions adopted for the formulation of expected cash flow also through analysis of sector data and obtaining information from the Management; • analysis of actual data with respect to the original plans to assess the nature of the deviations and the reliability of the plan preparation process; • assessment of the reasonableness of discount rates (WACC); • verification of the mathematical accuracy of the models used to determine the value of use of the CGUs; • verification of the correct determination of the carrying amount of the CGUs;

- verification of the sensitivity analysis prepared by the Management;
- analysis of the adequacy and compliance of the information provided in the consolidated financial statements on the impairment tests with respect to the provisions of IAS 36.

Accounting treatment of Warrants on shares and Performance Shares (hereinafter also "Financial Instruments")

Description of the key audit matter	As part of the reorganization of the corporate structure that took place in the previous year, the parent company SIT S.p.A. issued n. 5.350.000 Warrants convertible into Ordinary Shares according to the terms and conditions provided by the Warrants Regulation. Furthermore, in 2017, the Company converted 250,000 Ordinary Shares owned by the parent company into the same number of Performance Shares, convertible into Ordinary Shares under the terms and conditions provided for by the Corporate by-laws. In 2017, the Financial Instruments were recognized, in accordance with the applicable accounting standards, at the date of initial recognition as financial liabilities determined on the basis of the fair value derived from market prices, with the contra-entry to the items of the shareholders' equity Warrant Reserve and Performance Shares Reserve, and with recognition in the statement of profit and loss of the subsequent changes in fair value. The adjustment of the financial liabilities to the fair value based on market prices as at 31 December 2018 led to the recognition in the income statement of a financial income of approximately Euro 13 million. In consideration of the characteristics of the Financial Instruments and the relevance of the accounting effects on the consolidated financial statements as at 31 December 2018, we have considered the valuation and the accounting of the Warrants and Performance as a key audit matter of the consolidated financial statements of the SIT Group. The notes 23 and 24 to the statement of financial position and the note 33 to the statement of profit and loss provide information on the Financial Instruments.
Audit procedures performed	As part of our audits we have, among other things, carried out the following procedures, also taking advantage of the support of experts: • examination of the documentation governing the Financial Instruments: Warrant Regulation, Corporate by-laws, Shareholders 'Agreement and Resolutions of the Shareholders' Meeting, for the purpose of understanding the nature, characteristics and the timing of the conversion; • verification of the adequacy of the accounting principles applied for the valuation and representation of the transactions described above; • analysis of the reasonableness of the assumptions made by the Company's Management regarding the methods and timing of conversion of Performance Shares into Ordinary Shares; • verification of the fair value used with respect to the market quotations referable to the Financial Instruments at the valuation date; • analysis of the adequacy and compliance of the information provided in the consolidated financial statements with the reference accounting standards.

Other information

The consolidated financial statements of the SIT Group for the year ended on December 31, 2017 have been audited by another auditor who, on April 9, 2018, expressed an unmodified opinion on these financial statements.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The Directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Company or the termination of the business or have no realistic alternatives to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the 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 exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain 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.

- Obtain 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate 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.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The Shareholders' Meeting of SIT S.p.A. has appointed us on April 26, 2018 as auditors of the Company for the years from December 31, 2018 to December 31, 2026.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14 paragraph 2 (e) of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98

The Directors of SIT S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and the ownership structure of SIT Group as at December 31, 2018, including their consistency with the related consolidated financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and the ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98, with the consolidated financial statements of SIT Group as at December 31, 2018 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and some specific information contained in the report on corporate governance and the ownership structure are consistent with the consolidated financial statements of SIT Group as at December 31, 2018 and are prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the Group and of the related context acquired during the audit, we have nothing to report.

Statement pursuant to art. 4 of the Consob Regulation for the implementation of Legislative Decree 30 December 2016, no. 54

The Directors of SIT S.p.A. are responsible for the preparation of the non-financial statement pursuant to Legislative Decree 30 December 2016, no. 254.

We verified the approval by the Directors of the non-financial statement.

Pursuant to art. 3, paragraph 10 of Legislative Decree 30 December 2016, no. 254, this statement is subject of a separate attestation issued by us.

DELOITTE & TOUCHE S.p.A.

Signed by
Gianna Adami
Partner

Padova, Italy
April 2, 2019

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

SEPARATE FINANCIAL STATEMENTS AT DECEMBER 31, 2018

FINANCIAL STATEMENTS

BALANCE SHEET

(Euro)	Notes	December 31, 18	December 31, 17
Goodwill	1	85,087,912	85,087,912
Other intangible assets	1	28,646,471	31,692,698
Property, plant & equipment	2	47,095,876	33,060,510
Investments	3	76,441,885	76,398,958
Non-current financial assets	4	1,379,168	8,121,858
Deferred tax assets	18	4,426,932	6,146,365
Non-current assets		**243,078,244**	**240,508,301**
Inventories	5	21,003,599	16,274,192
Trade receivables	6	51,925,476	50,759,301
Other current assets	7	5,797,477	4,414,966
Tax receivables	8	1,492,844	1,648,492
Other current financial assets	9	16,148,017	9,934,962
Cash and cash equivalents	10	51,113,062	64,497,349
Current assets		**147,480,475**	**147,529,262**
Total assets		**390,558,719**	**388,037,563**
Share capital	11	96,151,921	96,149,519
Total Reserves	12	20,287,014	56,888,165
Net profit/(loss)		17,575,389	(30,603,736)
Shareholders' Equity		**134,014,324**	**122,433,948**
Medium/long-term loans and borrowings	13	104,730,079	121,059,973
Other non-current financial liabilities and derivative financial instruments	14	710,381	288,214
Provisions for risks and charges	15	2,201,561	2,092,975
Post-employment benefit provision	16	5,455,315	5,953,335
Other non-current liabilities	17	754,000	502,345
Financial instruments for Performance Shares	23	0	11,500,000
Deferred tax liabilities	18	9,007,979	9,927,690
Non-current liabilities		**122,859,315**	**151,324,532**
Short-term loans and borrowings	19	16,197,122	11,476,367
Other current financial liabilities and derivative financial instruments	20	34,107,536	28,960,065
Trade payables	21	56,442,728	50,954,963
Other current liabilities	22	11,405,069	10,336,329
Short-term financial instruments for Performance Shares	23	8,260,000	0
Financial instruments for Warrants	24	3,027,733	12,551,359
Tax payables	25	4,244,892	0
Current liabilities		**133,685,080**	**114,279,083**
Total Liabilities		**256,544,395**	**265,603,615**
Total Shareholders' Equity and Liabilities		**390,558,719**	**388,037,563**

INCOME STATEMENT

(in Euro)	Notes	2018	2017
Revenues from sales and services	**26**	**251,903,066**	**234,804,022**
Raw materials, ancillaries, consumables and goods	27	145,980,998	132,377,022
Change in inventories	27	(4,721,721)	(363,978)
Service costs	28	36,770,314	31,554,400
Personnel expense	29	47,201,562	43,567,874
Depreciation, amortisation and write-downs	30	11,811,500	10,733,093
Provisions for risks	31	359,010	746,989
Other charges (income)	32	414,959	(78,147)
EBIT		**14,086,444**	**16,266,769**
Investment income/(charges)	33	223,338	1,911,856
Financial income	34	14,170,854	3,441,546
Financial charges	35	(5,036,644)	(49,846,629)
Net exchange gains (losses)	36	58,516	(129,582)
Impairments on financial assets	37	(310)	(2,233,793)
Profit (loss) before taxes		**23,502,198**	**(30,589,833)**
Income taxes	38	5,926,810	13,903
Net profit/(loss)		**17,575,389**	**(30,603,736)**

OTHER COMPREHENSIVE INCOME STATEMENT

(Euro)	**2018**	**2017**
Net profit/(loss)	**17,575,389**	**(30,603,736)**
Other comprehensive income statement items which may be subsequently reclassified to the profit/(loss) for the year, net of taxes		
Change in Cash Flow Hedge reserve	(259,485)	1,465,658
Income taxes	60,272	(351,758)
Total other comprehensive income statement items which may be subsequently reclassified to the profit/(loss) for the year, net of taxes	**(199,213)**	**1,113,900**
Other comprehensive income statement items which may not be subsequently reclassified to the profit/(loss) for the year, net of taxes		
Unrealised actuarial gains	132,896	25,560
Income taxes	(31,895)	(6,135)
Total other comprehensive income statement items which may not be subsequently reclassified to the profit for the year, net of taxes	**101,001**	**19,425**
Total other comprehensive income/(expense) for the year, net of taxes	**(98,213)**	**1,133,325**
Total comprehensive income/(expense)	**17,477,176**	**(29,470,411)**

CASH FLOW STATEMENT

(Euro)	**Notes**	**2018**	**2017**
Net profit/(loss)		17,575,389	(30,603,736)
Amortisation & Depreciation	30	11,643,432	10,713,093
Non-cash adjustments		1,968,488	5,081,118
Income taxes	38	5,926,810	13,903
Net financial charges	34-35	(9,134,210)	46,405,083
(Dividends)	33	(220,624)	(1,911,856)
CASH FLOW FROM CURRENT ACTIVITIES (A)		**27,759,285**	**29,697,604**
Changes in assets and liabilities:			
Inventories	5	(4,545,702)	122,203
Trade receivables	6	(1,334,243)	(4,970,049)
Trade payables	21	5,487,765	8,718,059
Other assets and liabilities		(2,338,197)	(3,470,646)
Income taxes paid		(636,623)	(463,942)
CASH FLOW GENERATED (ABSORBED) FROM CHANGES IN WORKING CAPITAL (B)		**(3,367,000)**	**(64,375)**
CASH FLOW FROM OPERATING ACTIVITIES (A + B)		**24,392,285**	**29,633,229**
Investing activities:			
Investments in property, plant & equipment		(21,806,574)	(12,563,542)
Other changes in property, plant & equipment		193,568	362,752
Investments in intangible assets		(959,103)	(723,394)
Other changes in financial assets		4,297	5,380
CASH FLOW FROM INVESTING ACTIVITIES (C)		**(22,567,812)**	**(12,918,803)**
CASH FLOW FROM OPERATING & INVESTING ACTIVITIES (A + B + C)		**1,824,473**	**16,714,425**
Financing activities:			
Interest paid		(3,335,955)	(10,985,940)
Paid-in share capital increase	11	2,404	222
(Decrease) in bank borrowings	20	(12,150,000)	(126,000,000)
Increase (decrease) in short-term bank payables		-	(199)
Increase in bank loans, net of accessory charges		-	132,205,956
Increase (decrease) loan from subsidiaries		-	(24,540,537)
(Increase) decrease in financial receivables from holding company	9	674,386	(361,263)
(Increase) decrease in financial receivables from companies under control of holding company	9	50,912	19,088
(Increase)/decrease in loans to subsidiaries	9	295,262	-
Change in current accounts with subsidiaries	9	6,332,399	(10,117,076)
(Increase)/decrease in other financial payables		(1,222,264)	(342,142)
Contribution of liquidity from merger		-	48,407,770
Sale/(Acquisition) of treasury shares	12	(90,961)	(660,679)
Dividends received	33	220,624	21,949,881
Dividend payments	12	(5,985,566)	-
CASH FLOW FROM FINANCING ACTIVITIES (D)		**(15,208,759)**	**29,575,083**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (A + B + C + D)		**(13,384,286)**	**46,289,508**
Cash & cash equivalents at beginning of the year		**64,497,348**	**18,207,840**
Increase/(decrease) in cash and cash equivalents		(13,384,286)	46,289,508
Cash & cash equivalents at end of the year		**51,113,062**	**64,497,348**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Euro)							DETAIL OF OTHER RESERVES										
IFRS standards	**Share capital**	**Share premium reserve**	**Legal reserve**	**Share capital increase**	**Treasury Shares reserve**	**FTA Reserve**	**Cash Flow Hedge Reserve (4)**	**Actuarial Reserve**	**Extra. reserve**	**Reserve for FV ISI2**	**Warrant Reserve**	**Performance Shares Reserve**	**L.T.I. Reserve**	**Total Other Reserves**	**Retained earnings/accum. losses**	**Net profit (loss)**	**Shareholders' Equity**
December 31, 2016	73,579,000	0	0	13,999,429		(1,634,834)	(143,325)	(151,379)	0	0	0	0	0	(294,704)	(13,077,490)	17,000,134	89,571,536
Allocation of 2016 result			850,007			268,684			2,803,953					2,803,953	13,077,490	(17,000,134)	(0)
2017 Result	-	-	-	-	-	-	-	-	-	-	-	-		0		(30,603,736)	(30,603,736)
Other comprehensive profits (losses):																	
Cash flow hedge closures	-	-	-	-	-	1,813,920	143,325	-	-	-	-	-		143,325	-	-	1,957,245
New cash flow hedges	-	-	-	-	-	-	(843,345)	-	-	-	-	-		(843,345)	-	-	(843,345)
Cash flow hedges	-	-	-	-	-	1,813,920	(700,020)	-	-	-	-	-		(700,020)	-	-	1,113,900
Adjustment post-em. bens.	-	-	-	-	-	19,425	-	-	-	-	-	-		0	-	-	19,425
Comprehensive profit	**-**	**-**	**-**	**-**	**-**	**1,833,346**	**(700,020)**	**-**	**-**	**-**	**-**	**-**		**(700,020)**	**-**	**(30,603,736)**	**(29,470,411)**
Share capital increase	22,570,297	30,335,423	-	-	-	-	-	-	-	-	-	-		-			52,905,720
Merger Effect ISI2	-	-	-	-	-	-	-	-	-	31,320,569	-	-		31,320,569	(913,832)		30,406,737
SIT Warrants	222										(15,223,401)	-		(15,223,401)	-	-	(15,223,179)
Performance Shares	-	-	-	-	-	-	-	-	-	-	-	(11,500,000)		(11,500,000)	-	-	(11,500,000)
IPO Costs to NE		(1,595,959)															(1,595,959)
Acquisition of treasury shares	-	-	-	-	(660,679)	-	-	-	-	-	-	-		-	-	-	(660,679)
Waiver Shareholder SIT Technologies S.p.A.	-	-	-	8,000,182	-	-	-	-	-	-	-	-		-	-	-	8,000,182
December 31, 2017	**96,149,519**	**28,739,464**	**850,007**	**21,999,611**	**(660,679)**	**467,196**	**(843,345)**	**(151,379)**	**2,803,953**	**31,320,569**	**(15,223,401)**	**(11,500,000)**	**0**	**6,406,397**	**(913,832)**	**(30,603,736)**	**122,433,948**
Allocation of 2017 result	-	(18,379,907)	18,379,907	-	-	(121,331)	-	-	-	(31,320,569)	2,672,042	-	-	(28,648,527)	(1,833,878)	30,603,736	-
Dividend Approval	-	-	-	(3,181,612)	-	-	-	-	(2,803,953)	-	-	-	-	(2,803,953)	-	-	(5,985,566)
2018 Result	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	17,575,389	17,575,389
Other comprehensive profits (losses):																	
Cash flow hedges	-	-	-	-	-	-	(199,213)	-	-	-	-	-	-	(199,213)	-	-	(199,213.46)
Adjustment post-em. bens.	-	-	-	-	-	101,001	-	-	-	-	-	-	-	-	-	-	101,001
Comprehensive profit	**-**	**-**	**-**	**-**	**-**	**101,001**	**(199,213)**	**-**	**-**	**-**	**-**	**-**	**-**	**(199,213)**	**-**	**17,575,389**	**17,477,175.72**
Share capital increase warrant exercise	2,401	-	-	-	-	-	-	-	-	-	10,700	-	-	10,700	-	-	13,101
Acquisition of treasury shares	-	-	-	-	(90,961)	-	-	-	-	-	-	-	-	-	-	-	(90,961)
Assignment L.T.I. to employees	-	-	-	-	-	-	-	-	-	-	-	-	166,626	166,626	-	-	166,626
	96,151,921	**10,359,557**	**19,229,914**	**18,817,999**	**(751,640)**	**446,866**	**(1,042,559)**	**(151,379)**	**0**	**0**	**(12,540,659)**	**(11,500,000)**	**166,626**	**(25,067,971)**	**(2,747,710)**	**17,575,389**	**134,014,323**

For further details on the breakdown of shareholders' equity, reference should be made to Notes 11 and 12 of the Explanatory Notes.

EXPLANATORY NOTES

GENERAL INFORMATION

SIT S.p.A. (hereinafter, the Parent Company, SIT or the Company), based in Padua and whose shares are listed on the MTA market managed by the Italian Stock Exchange. The company is entered in the Companies Register of Padua at No. 04805520287 with registered office in Viale dell'Industria No. 31/33, Padua (PD).

The Company 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.

These financial statements were approved by the Board of Directors on March 22, 2019 and authorised for publication. The financial statements are subject to the approval of the Shareholders' Meeting.

In 2017, the merger between SIT S.p.A. and Industrial Stars of Italy 2 S.p.A. (ISI2 or ISI2 S.p.A.), a SPAC (Special Purchase Acquisition Company) listed on the AIM Italia market of the Italian Stock Exchange. The merger was 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 the Italian Stock Exchange. 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.. In the merger, SIT was therefore considered as the acquirer and ISI2 as the acquiree.

Simultaneously, the refinancing took place which resulted in the early repayment of the bank loan and of the shareholder loan to the Company and the provision of the new nominal bank loans of Euro 135 million currently held by the Company.

On November 28, 2018 trading began of SIT's ordinary shares and warrants on the main index of the Italian Stock Exchange (Mercato Telematico Azionario) ("MTA")) organised and managed by Borsa Italiana. Trading began following communication No. 0485808/18 of November 22, 2018 in which the Stock Market regulator - CONSOB approved the information prospectus and the provisions issued by the Italian Stock Exchange on November 20 and 26, 2018 with which it approved respectively the admission for trading of the shares and of the warrants of the Company and the commencement date of trading.

For further information on the effects of the non-recurring significant operations on the 2018 income statement, reference should be made to the Directors' Report.

SIT S.p.A. decided that it would apply the option as per Article 70, paragraph 8 and Article 71, paragraph 1-*bis* of Consob Regulation No. 11971/99 (and thereafter) and, therefore, that it would employ the exemption from publication of a disclosure document concerning significant merger, spin-off, and share capital increase operations through conferment of assets in kind, acquisitions and sales.

DRAFTING CRITERIA

The SIT separate financial statements at December 31, 2018 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 financial statements of the company comprise:

- the 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 income statement which classifies costs and revenues by type, which is considered more representative than a breakdown by operating segment; The presentation reflects the internal reporting systems of the Group's business;
- a comprehensive income statement;
- a cash flow statement drawn up according to the indirect method;
- the statement of changes in shareholders' equity;

and corresponding explanatory notes containing the disclosure required by applicable legislation and by the reference international accounting standards.

These 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.

The separate financial statements are denominated in Euro, the company's functional currency in accordance with Article 5, paragraph 2 of Legislative Decree No. 38 of February 28, 2005 and in compliance with IAS 1.

The accounting standards and policies applied for the preparation of the separate financial statements at December 31, 2018 are the same as those adopted for the separate financial statements at December 31, 2017.

The separate financial statements were audited by the company Deloitte & Touche S.p.A..

New accounting standards and interpretations effective from January 1, 2018

The accounting standards and policies adopted for the preparation of the separate financial statements at December 31, 2018 do not differ from those used to prepare the financial statements at December 31, 2017 (to which reference should be made for further details).

The new international accounting standards and the amendment of existing standards, introduced in 2017, whose application is obligatory 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.

  In particular, IFRS 15 Revenue from contracts with customers introduces a new five stage model to be applied to contracts with customers. IFRS 15 provides for the recognition of revenues for an amount which reflects the payment which the entity considers to have the right to in exchange for the transfer of goods or services to the customer. The company applied the new standard from the mandatory efficacy date, with retrospective application. The new standard replaces the current requirements of IFRS in terms of revenue recognition. Sales revenues are recognised by the company on the transfer of the asset to the customer, i.e. when the customer acquires control of the asset. Revenues are recognised net of returns, discounts and allowances.

  From the analysis carried out on contracts in place at the reporting date, no significant impacts from adoption of the new standard IFRS 15 emerged in terms of the accounting methodologies applied to revenues by SIT.

  The company 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 company 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 company 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 company is entitled to. In defining the amount of the variable consideration that can be included in the transaction price, the company 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 2018 since it is not considered significant.

- Guarantees given for obligations: In its contracts with customers, the company normally provides guarantees for general repairs and usually does not provide extended guarantees.

- Customer advances: generally, the company only receives short-term advances from its customers. These advances are included among other current liabilities.

- **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.

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

  - The company continues to measure at fair value all financial assets presently recognised at fair value and has maintained in portfolio the investments in third party companies for 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 did not have any impacts in this regard.

  - IFRS 9 requires the company to record expected losses on all trade receivables on an annual basis. The company does not indicate any impacts from application of the new standard as trade receivables are largely from parties of good credit standing.

  - All existing hedges which are designated as effective hedges 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 there were no impacts from application of the standard.

- **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-settled to equity-settled. Amendments are applicable from January 1, 2018; earlier application is permitted but the company will adopt these amendments prospectively from January 1, 2018. No substantial differences are expected from the application of these amendments on the separate financial statements or supplementary information.

- 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.

  Amendments to IAS 40 - Investment property. The amendments clarify when an entity should move a property, including property 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

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 amendments are obligatory for financial years ending after January 1, 2017 and January 1, 2018.

New accounting standards and interpretations effective from January 1, 2019

IFRS16 - Leases

On January 13, 2016, the IASB published the new standard IFRS 16 - Leases, which replaces IAS 17 – Leases, as well as the interpretations IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The obligatory application of the standard is from January 1, 2019, which 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. Key elements are distinguished such as the identification of the asset, the right of replacement of the asset, the right to obtain substantially all the economic benefits from the use of the asset and, lastly, the right to use the asset underlying the contract.

At the initial date of the leasing contract, the lessee records a liability against the lease payments (i.e. the leasing liability) and an asset which represents the right of use of the underlying asset for the duration of the contract (i.e. the right of use). Lessees must record separately the interest expense on the leasing liability and the amortisation on the right of use. The standard contains two exemptions for recognition by lessees: leasing of "low value" assets (for example, personal computers) and short-term lease contracts (leasing contracts for a period below or equal to 12 months).

The lessees must also reconsider the amount of the leasing liability on the occurrence of certain events (for example, a change in the duration of the lease, a change in future lease payments deriving from a change in an index or interest rate utilised to determine these payments). In general, the lessee will record the difference in the amount of the leasing liability as an adjustment to the right of use.

TRANSITION TO IFRS 16

The company decided to adopt IFRS 16 as per the "modified retrospective method" which provides for the application of the standard to contracts at January 1, 2019 where:

- The duration of the contract is intended as the expected residual duration;
- The discount rate applied is calculated at the date January 1, 2019;
- The cumulative effects at the date of the contract up to January 1, 2019 are recorded under shareholders' equity and it is not necessary to restate the year 2018.

The Company will avail of the exemptions permitted by the standard on leasing contracts whereby the lease contract expires within 12 months from the initial application date and on leasing contracts where the underlying asset has a low value. The company has undertaken leasing contracts for some office equipment (for example, personal computers, printers and photocopiers) which are considered as insignificant value. For such contracts, the introduction of IFRS 16 will not entail the recognition of the financial liability associated with the lease and relevant right of use. Rather, the lease payments will be taken to the income statement on a straight-line basis over the term of the relevant contracts.

We present below a summary of the estimate of the balance sheet effects deriving from the adoption of the new standard:

Reconciliation IAS 16	**1.1.2019**
Operating lease commitments	7,523,528
Finance leases at December 31, 2018	-
Effect relating to contracts classified as short-term leases	-
Effect relating to contracts classified as low value assets	159,096
Effect relating to the service component included in the lease contract	-
Other	-
Gross value of the liability deriving from operating lease contracts	**7,682,624**
Discounting	1,991,294
Liability deriving from operating lease contracts	**5,691,330**
Present value of the finance leases at December 31, 2018	0
Liabilities for operating lease contracts against the first application of IFRS 16	**5,691,330**

A summary of the estimated effects deriving from the adoption of the new standard on opening shareholders’ equity at January 1, 2019 is shown below:

Shareholders’ Equity	**1.1.2019**
Assets	**5,752,650**
Patents and intellectual property rights	1,842,595
Land and buildings	2,318,668
Other assets	1,591,387
Liabilities	**5,602,882**
Leasing liabilities	5,521,661
Deferred tax liabilities	64,446
Trade and other payables	16,775
Net impact on shareholders’ equity	**149,768**

As previously indicated, the figures shown represents the maximum total effect on the assets, liabilities and shareholders' equity and this quantitative information could be subject to further changes in 2019.

New accounting standards, interpretations and improvements

The new international accounting standards and the amendment of existing standards, whose application is obligatory from January 1, 2019, are reported below:

- 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 relation to the improvements to IFRS we report that the IASB also issued the Annual Improvements to IFRS 2015-2017, a series of amendments to IFRS in response to issues raised, mainly:

- 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;
- 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,
- on IAS 12 - Income taxes, which clarifies that the impact relating to income taxes from dividends (i.e. the distribution of profits) should be recognised to the income statement, independently of how the tax arises;
- to IAS 23 – Borrowing costs, 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.

Accounting standards and interpretations not yet endorsed by the relevant European union bodies

At the date of authorisation of these separate 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, 2019 onwards:

- 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 separate 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 separate financial statements are currently under evaluation.

No significant impact is expected on the separate 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 company.

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 separate 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 relative 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, analysis and considerations made in relation to the credit quality.

Impairment of non-financial assets

The Company 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 19.

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 company, the Directors have made estimates and assumptions in determining the level of probability of a liability arising within the company 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 company 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 company 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 guarantees.

ACCOUNTING POLICIES

The main accounting policies adopted in the preparation of the separate financial statements at December 31, 2018 are disclosed below.

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.

Valuation at fair value

The Group values financial instruments, such as derivatives, performance shares and warrants at fair value at year-end.

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 at their fair value at the designation date.

Fair value is the price that would be received for the sale of an asset, or that would be paid to transfer a liability in an arm's length transaction at the measurement date under the following conditions:

- there exists a principal market of the asset or liability and it is accessible for the group;
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or liability is measured adopting the assumptions which market operators would utilise in the determination of the price of the asset or liability, assuming they act to best satisfy their economic interests.

All the assets and liabilities for which the fair value is measured or stated in the financial statements are categorised based on the fair value hierarchy, as described below:

- Level 1 - prices listed (not adjusted) on active markets for identical assets or liabilities which the entity can access at the measurement date;
- Level 2 - inputs other than listed prices included in Level 1, directly or indirectly observable for the asset or the liability;
- Level 3 - measurement techniques for which the input data are not observable for the asset or for the liability.

The fair value measurement is classified entirely in the same fair value hierarchical level in which the lowest hierarchical input level utilised for the measurement is classified.

For the assets and liabilities recognised in the financial statements at fair value on a recurring basis, the Group assesses whether there have been transfers between the hierarchy levels, reviewing the classification (based on the lowest input level, which is significant for the fair value measurement in its entirety) at each reporting date.

Business combinations and goodwill

The business combinations, in which the control of a company/entity is acquired, are recorded applying the purchase method, whereby the assets and liabilities acquired are initially measured at their market value at the acquisition date. The difference between the acquisition cost and the Group share of equity is allocated to specific statement of financial position items to the extent of their present value at that date; any residual excess, if positive, is allocated to goodwill and if negative is recognised to the income statement. The acquisition cost is based on the fair value, at the purchase date, of assets sold, of liabilities incurred and of capital instruments issued, and any other accessory charges.

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. Any goodwill at the acquisition date is allocated to each cash generating unit (hereafter CGU) expected to benefit from the synergies deriving from the combination. Any loss in value is identified by means of valuations 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 "impairments" section.

If the recoverable value of the cash generating unit is less than the attributed carrying amount, the loss in value is recorded. This loss is not restated if the elements that generated it no longer exist. Where the goodwill is allocated to a CGU and the Group disposes of a part of the assets of this unit, account must be taken of goodwill for the calculation of 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 development.

Subsequent to the initial recording, the development costs are valued at cost less amortisation or accumulated 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 are reviewed annually in order to record any impairment, when the asset is still not in use, or with greater frequency when there are indicators of a possible impairment. Any impairments identified are recognised to the income statement.

Other intangible assets

Other intangible assets, acquired separately and held by the company, are recognised to assets at acquisition cost where the cost may be reliably established and it is probable that usage 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 supporting their classification as 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 impairments established according to the means indicated in the "Impairments" section below. Amortisation, which begins when the intangible asset is available for use, 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	Amortisation rate
Patents	10.00
Licenses	33.33
Brands	5.6 - 10.00
Other deferred costs	20.00 - on the basis of the contractual duration

Property, plant & equipment

Property, plant & equipment are recognised at historic 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 a qualifying asset shall be capitalised 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; the useful life 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 indication of this type and in the case where the carrying amount exceeds the realisable value, the assets must be written down to their recoverable value.

The impairments 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 sale's price and book value) is charged to the income statement in the year of its elimination.

Leased assets

As per IAS/IFRS, finance lease contracts, which transfer substantially all the risks and rewards related to the ownership of an asset, are capitalised under property, plant & equipment at the commencement 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 a similar amount, which is progressively reduced based on the repayment of the capital portion included in the contractual instalments.

Lease payments should be apportioned between the finance charge and the capital portion so as to produce a constant periodic rate of interest on the remaining balance of the liability. Financial expenses are charged to the income statement. The depreciation policy applied is the same as that for property, plant & equipment.

Leases in which the lessor substantially retains all of the typical risks and rewards of ownership 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 subsidiaries and associates

Investments in subsidiaries and associates are recognised at acquisition or subscription cost, including accessory charges, adjusted for any impairments. Any positive difference, arising on purchase, between the acquisition cost and the fair value of the share of net equity of the investment is included in the carrying value of the investment.

Investments are subject to impairment tests where indicators of such are identified. Where an impairment loss exists, it is recognised through the income statement. Where the share of losses pertaining to the company in the investment exceeds the carrying value of the investment, and the company has an obligation to cover such losses, the investment is written down and the share of further losses is recorded as a provision under liabilities. Where an impairment loss is subsequently reversed, this is recognised through the income statement within the limit of the original recognition value.

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 account 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 amid indicators that such a loss may exist. In assessing whether there is any indicators that an asset with definite useful life may be impaired, an entity shall consider internal and external information sources. Relating 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.

Independently of whether there are internal or external reductions in value, intangible assets with indefinite useful life and goodwill are subject at least annually to an impairment test, 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 has incurred a loss in value and 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 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 following a restatement shall not exceed the carrying amount that would have been determined (net of write-downs or amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A restated amount is recorded as income in the income statement, except when the asset is recorded as a revalued amount, in which case the restatement is treated as an increase of the revaluation. After the recording of the amount restated, 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 company 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 recognised to the income statement, 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.

AFS financial assets includes 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 AFS financial assets 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 AFS financial assets 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 in relation to their presumed utilisation or future realisable value. The write-downs made are restored in future years 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 company retains the right to receive cash flows from the asset, but has a contractual obligation to pay them fully and without delay to a third party;

- The company 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.

Whenever the Company has transferred all the rights to receive the financial flows of an asset and has not substantially transferred or withheld all of the risks and rewards or has not lost control, the asset is recorded in the financial statements of the Company 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 company could be required to pay, whichever is less.

Loss in value of financial assets

The company 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 company 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 company. 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.

AFS financial assets

The company assesses at each reporting date whether there is objective evidence that asset or a group of AFS 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 losses in value 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 company 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 company 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 be accounted for 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.

Treasury shares

Treasury shares acquired are recorded at cost and as a reduction of shareholders' equity. The purchase, sale or cancellation of treasury shares does not give rise to any profit or loss in the income statement. The difference between the purchase price and the payment received, in the case of reissue, is recorded in the share premium reserve.

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.

For the risks for which the recognition of a liability is considered possible, relative disclosure is made and no provision is recorded.

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 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, 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 pre-chosen 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. The gains and losses deriving from the actuarial calculation of the defined benefit plans (Post-employment provision) was entirely recorded to the comprehensive income statement.

Share-based payments

Equity-settled share-based payment transactions

A number of strategic Group employees receive part of their remuneration in the form of share-based payments, with these employees therefore providing services in exchange for shares (“capital instrument regulated transactions”).

The cost of the equity-based transactions is determined by the fair value at the assignment date utilising an appropriate valuation method, as illustrated in greater detail in Note 39.

This cost, together with the corresponding increase in shareholders' equity, is recorded under personnel expense over the period in which the performance and/or service conditions are satisfied. The cumulative costs relating to these operations at each balance sheet date until the maturity date are compared to the maturity date and to the best estimates available of the number of participating instruments which will effectively mature. The cost or revenue recorded in the income statement for the year represents the change of the cumulative cost recorded at the beginning and at the end of the year.

The service or performance conditions are not taken into consideration when the fair value of the plan is defined at the assignment date. Account however is taken of the probability that these conditions will be satisfied in calculating the best estimate of the number of equity instruments which will mature. The service conditions are reflected in the fair value at the assignment date. Any other condition related to the plan, which is not a service obligation, is not considered as a maturation condition. The non-maturation conditions are reflected in the fair value of the plan and result in the immediate recording of the plan cost, unless there are also service or performance conditions.

No cost is recorded for the rights which do not mature as the performance and/or service conditions are not satisfied. When the rights include a market condition or a non-maturation condition, these are treated as if they independently mature from the fact that the market conditions or the other non-maturation conditions to which they are subject are complied with or otherwise, provided that all the other performance and/or service conditions are satisfied.

If the conditions of the plan are modified, the minimum cost to be recorded is the fair value at the allocation date in the absence of changes to the plan, in the presumption that the original conditions of the plan were satisfied. In addition, a cost will be recorded for all changes which result in an increase in the total fair value of the payment plan, or which is in any case favourable for employees; this cost is measured with reference to the date of the change. When a plan is cancelled by the entity or by the counterparty, any remaining element of the fair value of the plan is expensed immediately in the income statement.

Cash-settled transactions.

With reference to operations settled by cash a corresponding liability at their fair value is recorded. The fair value of the liability is calculated initially and recalculated at each reporting date until the settlement date, and the changes in the fair value are recorded under personnel costs (See Note 17). This fair value is expensed in the period until the maturation. The fair value is measured using a binominal formula, as explained in detail in Note 39.

Revenue recognition

Revenues are recognised to the income statement according to the accruals principle and to the extent that it is probable that the company 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 company to receive payment arises, which in general corresponds to the moment at which the Shareholders' Meeting approves distribution.

Financial income and charges

This includes all the accounts of a financial nature recorded in the income statement in the period, including interest expense matured on financial debt (mainly on bank overdrafts, medium/long-term loans), the changes in the fair value of financial liabilities (Performance Shares and Warrants), the currency gains and losses, gains and losses from derivative financial instruments (in accordance with the accounting criteria previously defined) and the interest expense deriving from the accounting treatment of the employee provisions (IAS 19).

Interest income and charges are recorded in the income statement in the period when incurred/ matured.

Current taxes

Income taxes include all the taxes calculated on the assessable income of the company. 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 net equity or to the comprehensive income statement, in line with the item to which they refer.

The company 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 and diluted earnings per share

As per IAS 33, as the company belongs to a Group which prepares the consolidated financial statements and therefore provides disclosure upon the earnings per share and the diluted earnings per share in the notes to the consolidated financial statements, the company does not provide disclosure regarding such in the notes to the separate financial statements.

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.

COMMENTS ON THE MAIN ITEMS OF THE BALANCE SHEET

Non-current assets

Note 1: Goodwill and Other intangible assets

	Balance at Dec. 31, 17	Increases	Disposals	Amortisation	Other movements	Balance at Dec. 31, 18
Goodwill	**85,087,912**	**-**	**-**	**-**	**-**	**85,087,912**
Development Costs	447,299	-	-	(286,121)	-	161,178
Patent rights	13,417,810	186,106	(3,779)	(1,833,071)	36,000	11,803,065
Concessions, licences and trademarks	16,523,249	1,135	-	(1,012,805)	-	15,511,579
Intangible assets in progress	222,030	376,292	-	-	(201,750)	396,572
Other intangible assets	1,082,310	395,571	-	(869,554)	165,750	774,077
Total other intangible assets	**31,692,698**	**959,104**	**(3,779)**	**(4,001,551)**	**-**	**28,646,471**
Total goodwill and other intangible assets	**116,780,610**	**959,104**	**(3,779)**	**(4,001,551)**	**-**	**113,734,383**

GOODWILL

These amount to Euro 85,088 thousand at December 31, 2018 and were recognised following the merger by incorporation into SIT S.p.A. of SIT La Precisa S.p.A. and the Italian companies operating in the Heating Division controlled by it, Gasco S.r.l., Imer S.p.A., LN 2 S.r.l., SIT Sensori S.r.l. and Estate S.p.A. in December 2014, as part of a corporate restructuring. This account has not changed on December 31, 2017.

DEVELOPMENT COSTS

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

PATENTS AND INTELLECTUAL PROPERTY RIGHTS

These include the non-patented technical-productive and technological know-how concerning the Heating Division identified and valued, as part of the 2014 merger, for an original amount of Euro 17,114 thousand, to which a portion of the merger deficit was allocated on the basis of an independent expert's estimate. The residual value of the non-patented technical-productive and technological know-how at December 31, 2018 was Euro 11,074 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 15,512 thousand mainly concerns the allocation to the brand of an original amount of Euro 19,520 thousand, corresponding to a portion of the merger deficit from the 2014 merger, on the basis of an independent expert's opinion. The residual value of the SIT brand and of the related brands at December 31, 2018 was Euro 15,480 thousand.

Changes in the financial year are mainly related to amortisation.

OTHER INTANGIBLE ASSETS

This account includes other long-term charges which were capitalised. In particular, this principally includes costs incurred for the introduction of the SAP operating system. This project had already been initiated in previous years at SIT La Precisa S.p.A., before its incorporation through the December 2014 merger.

IMPAIRMENT TEST

The goodwill recognised as part of the 2014 merger outlined above, 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.

This verification was carried out subjecting the net capital employed resulting from the separate financial statements of SIT S.p.A. with regards to the Heating CGU to an impairment test.

The established carrying amount, including the goodwill and other intangible assets, was compared with the recoverable amount (i.e. the value in use), which in the absence of a reliable market value of SIT S.p.A. was calculated according to the discounted cash flow (DCF) method.

For this purpose, we report that on the preparation of the financial statements, the Heating Division does not have an updated business plan which reflects the current performance of some markets, especially the Chinese market. Therefore, it is considered appropriate to calculate the value in use through the application of the DCF method on three explicit years and on a terminal value based on the assumptions described below.

The three explicit years of projections are based on the 2019 Budget approved by the Board of Directors on December 17, 2018. In particular, the explicit horizon includes the inert value of EBITDA, while the income tax is calculated based on the assumptions utilised for the 2019 Budget and on a notional basis for the two subsequent years. The value of the investments in the Budget is adjusted to include only those for maintenance, excluding therefore the investments of development and increase in capital employed whose payback is expected from the subsequent year of the Budget. The change in the working capital is adjusted to include the adjustments to the assumptions on investments.

In relation to the construction of the perpetual cash flows for the calculation of the so-called terminal value, the assumptions related to some normalisation assumptions of the 2019 Budget. In particular, the impact of external effects was eliminated, not repeatable on a continual basis; included were the effects of some actions initiated in the Budget year which would have continual economic effects in terms of carry-over on the following years; finally, non-recurring income and costs contained in the Budget were eliminated.

Capex includes only those investments in the 2019 Budget with a purpose of maintaining the net capital employed at the date of the financial statements.

The value of income taxes was calculated on a notional basis utilising the nominal tax rate.

The growth rate (g) is prudently assumed as equal to zero.

The WACC of the legal entity SIT SpA was estimated by assuming:

- a risk-free rate equal to the average of the risk-free rates of the principal Heating markets in which the Group operates; in particular, for each country the MAX was utilised (2.5%, government yield 10Y; IRS 10Y+CDS 10Y; country risk premium Damodoran);
- a beta unlevered coefficient for a value of 0.88 estimated on the basis of a panel of comparable listed companies operating in the Heating sector.

- an equity risk premium of 6.39%, 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 2018);
- 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 IRS 10Y at 31/12/2018, 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.

The resulting discount rate (WACC) of 8.98% reflects at the reporting date estimates of the market valuation and the cost of money and takes account of the specific and sector risk.

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

The results were subject to sensitivity analysis, in order to establish how the result of the valuation process may change based on the key assumptions such as the discount rate applied to the cash flows and EBITDA included in the terminal cash flows.

In particular, the indifference of the WACC, or the rate at which, all other conditions being equal, the recoverable amount of the net capital employed of SIT S.p.A concerning the Heating CGU assumes a value equal to its carrying amount, is 10.16%, while achieving the same EBITDA result included in the terminal cash flows it must reduce by 9.57%.

Following these analyses, the Directors therefore considered that the discounted cash flows would absorb normal changes in the parameters of the commonly used sensitivity analyses.

The estimate of the recoverable value of the CGU requires discretionary interpretation and the use of estimates by management. The circumstances and events which could give rise to an impairment of the capital employed of SIT SpA concerning the Heating CGU were monitored constantly by the company.

Note 2: Property, plant & equipment

The movements in property, plant and equipment in 2018 are summarised below.

	Historical cost at Dec. 31, 17	Accumulated depreciation at Dec. 31, 17	Balance at Dec. 31, 17	Historical cost at Dec. 31, 18	Accumulated depreciation at Dec. 31, 18	Balance at Dec. 31, 18
Land and buildings	28,237,599	(15,109,007)	13,128,592	30,414,284	(15,708,378)	14,705,905
Plant and machinery	89,753,660	(83,015,305)	6,738,355	102,851,642	(85,699,983)	17,151,659
Industrial and commercial equipment	64,349,425	(60,206,184)	4,143,241	67,411,434	(61,722,668)	5,688,765
Other assets	4,395,039	(3,663,545)	731,494	4,671,934	(3,765,840)	906,094
Assets in progress and advances	8,318,828	-	8,318,828	8,643,452	-	8,643,452
Total property, plant and equipment	**195,054,551**	**(161,994,041)**	**33,060,510**	**213,992,745**	**(166,896,869)**	**47,095,876**

The following tables outline the changes in the historic cost and accumulated depreciation in 2018 by category.

HISTORIC COST

	Balance at at Dec. 31, 17	Increases for the year	Disposals for the year	Reclassifications	Balance at at Dec. 31, 18
Land and buildings	28,237,600	2,148,534	(21,650)	49,800	30,414,284
Plant and machinery	89,753,659	11,455,592	(498,154)	2,140,544	102,851,641
Industrial and commercial equipment	64,349,425	3,838,292	(2,285,362)	1,509,078	67,411,433
Other assets	4,395,039	340,109	(63,215)	-	4,671,934
Assets in progress and advances	8,318,828	4,024,047	-	(3,699,422)	8,643,453
Total property, plant and equipment - historic cost	**195,054,551**	**21,806,574**	**(2,868,380)**	**-**	**213,992,745**

The increases in the year include the acquisition of property, plant and equipment, while the reclassification column includes Assets in progress and Advances to suppliers for assets entering into use in 2018.

In particular, acquisitions in the year refer principally to plant and machinery (both new and the extraordinary maintenance of existing plant), necessary to boost production capacity, for the development and manufacturing of new products, in addition to the improvement of efficiency and production technologies. At the Rovigo facility, a building was acquired for the new logistics hub and work commenced for the construction of the new workshop.

The decreases in the year are due to disposals and sales of property, plant and equipment, largely already completely depreciated; this particularly concerns moulds becoming obsolete and no longer utilisable for production.

The value of land at December 31, 2018 was Euro 4,958 thousand and increased on the previous year by Euro 336 thousand due to the acquisition of the area allocated for the new Rovigo logistics hub.

ACCUMULATED DEPRECIATION

	Balance at at Dec 31, 17	Increases for the year	Uses for the year	Balance at at Dec 31, 18
Land & Buildings	(15,109,007)	(621,021)	21,650	(15,708,378)
Plant and machinery	(83,015,304)	(3,094,572)	409,893	(85,699,983)
Industrial and commercial equipment	(60,206,184)	(3,760,778)	2,244,294	(61,722,668)
Other assets	(3,663,545)	(165,509)	63,215	(3,765,840)
Total property, plant and equipment - acc. dep.	**(161,994,040)**	**(7,641,880)**	**2,739,052**	**(166,896,869)**

The revaluations included in the values of tangible assets recognised to the present separate financial statements are presented below.

	Law 72/83	Law 413/91	Merger revaluation 1989	Reval. From 2008 merger	L.2/2009	Total
Land & Buildings	504,587	427,918	1,986,325	3,313,100	2,306,930	8,538,860
Plant, machinery & equipment	200,532	-	5,602,138	-	-	5,802,670
Other assets	-	-	54,378	-	-	54,378
Total	**705,119**	**427,918**	**7,642,841**	**3,313,100**	**2,306,930**	**14,395,908**

Property, plant and equipment were depreciated at December 31, 2018 at the following rates:

	Rate
Land & Buildings	51.65%
Plant and machinery	83.32%
Industrial and commercial equipment	91.56%
Other assets	80.61%

Note. 3: Investments

The following table reports the movements in 2018 in investments.

	Balance at Dec 31, 17	Increases for the year	Decreases for the year	Other changes	Balance at Dec 31, 18
INVESTMENTS:					
IN SUBSIDIARIES					
SIT Gas Controls Pty Ltd (Australia)	1,263,326	1,725	-	-	1,265,051
SIT Controls U.S.A. Inc. (USA)	4,554,921	10,536	-	-	4,565,457
SIT Controls BV - (Netherlands)	35,532,015	6,413	-	-	35,538,428
SIT Controls Deutschland GmbH (Germany)	2,970	232	-	-	3,202
SIT Controls CR, sro (Czech Republic)	2,169	182	-	-	2,351
SIT Vostok O.O.O. - Russia	71,232	-	-	-	71,232
SIT Romania S.r.l. - Romania	2,691,125	3,289	-	-	2,694,414
SIT Manufacturing (SUZHOU) Co.Ltd (China)	2,600,000	3,863	-	-	2,603,863
MeteRSit S.r.l. (Italy)	29,663,813	16,997	-	-	29,680,810
SIT Vostok O.O.O. doubtful debt provision	(37,000)	-	-	-	(37,000)
Total investments in subsidiaries	**76,344,571**	**43,236**	**-**	**-**	**76,387,808**
IN OTHER COMPANIES					
CONAI consortium	146	-	-	-	146
Società Garanzia Marche	129	-	-	-	129
Consorzio regionale garanzia	129	-	-	-	129
Confidi	77	-	-	-	77
Consorzio Vera Energia	258	-	(258)	-	-
Immobiliare Golf Montecchia	28,405	-	-	-	28,405
Fondazione ABO in liquidation	6,000	-	-	-	6,000
Italmed Llc.	378,025	-	-	-	378,025
Cyrus Intersoft Inc.	365,677	-	-	-	365,677
Infracom S.p.A.	521,420	-	-	-	521,420
SAPI immobiliare	4,132	-	-	(52)	4,080
Immobiliare Polesana (formerly IMER)	1,034	-	-	-	1,034
1 Fondazione ABO in liq. write-down prov.	(6,000)	-	-	-	(6,000)
Italmed Llc. write-down prov.	(378,025)	-	-	-	(378,025)
Cyrus Intersoft Inc. write-down prov.	(365,677)	-	-	-	(365,677)
Infracom S.p.A. write-down prov.	(501,343)		-	-	(501,343)
Total investments in other companies	**54,387**	**-**	**(258)**	**(52)**	**54,077**
TOTAL INVESTMENTS	**76,398,958**	**43,237**	**(258)**	**(52)**	**76,441,885**

The increase of investments in subsidiaries of Euro 43 thousand concerns the employee incentive plan (L.T.I.), as outlined in the Directors' Report.

Company	City or State	Share capital in Euro	Last year profit (loss) in Euro	Shareholders' equity in Euro	Holding in Euro	% Holding	Book value or corresponding receivable
SIT Gas Controls Pty Ltd (Australia)	Melbourne (Australia)	61,652	185,703	1,941,068	1,941,068	100%	1,265,051
SIT Controls U.S.A. Inc. (USA)	Charlotte (USA)	3,631,441	602,032	4,252,402	4,252,402	100%	4,565,457
SIT Controls BV - (Netherlands)	Hoogeveen (Netherlands)	46,000	6,422,783	33,504,931	33,504,931	100%	35,538,428
SIT Controls Deutschland GmbH (Germany)	Arnsbert (Germany)	51,000	515,800	955,800	47,790	5%	3,202
SIT Controls CR, sro (Czech Republic)	Brno (Czech Republic)	41,627	657,622	1,428,938	71,447	5%	2,351
SIT Vostok O.O.O. - Russia	Moscow	32,641	-	17,387	13,910	80%	34,232
SIT Romania Srl - Romania	Brasov (Romania)	1,993,771	2,044,918	9,616,807	8,186,788	85%	2,694,414
SIT Manufacturing (SUZHOU) Co.Ltd (China)	Suzhou (China)	2,654,012	296,161	594,818	594,818	100%	2,603,863
MeteRSit S.r.l. (Italy)	Italy	1,129,681	744,764	1,587,661	1,587,661	100%	29,680,810
Total							**76,387,808**

Following the merger at the end of 2014, on the basis of an independent expert's opinion, part of the positive merger difference was allocated to increase the value of the Investments held. The deficit of Euro 14,750 thousand so allocated decreased at December 31, 2018 due to the cancellation of the investment in the company SIT (Shanghai) Trading Co. Ltd. – China, wound up in 2018.

Therefore, the deficit at December 31, 2018 was allocated as follows compared to the year ended December 31, 2017:

	Dec 31, 18	Dec 31, 17
SIT Gas Controls Pty Ltd (Australia)	178,000	178,000
SIT (Shanghai) Trading Co. Ltd. – (China) Ltd. – China	0	17,550
SIT Romania Srl – Romania	872,000	872,000
MeteRSit S.r.l. (Italy)	13,682,537	13,682,537
Total	**14,732,537**	**14,750,087**

As a result of this recognition, a temporary assessable difference was generated which required at December 31, 2018 the recognition of deferred taxes of Euro 177 thousand.

In addition, in the financial statements at December 31, 2018, the value of some investments acquired by SIT S.p.A. through the incorporation of SIT La Precisa S.p.A. in December 2014 is inclusive of the allocation of a portion of the positive merger difference from a merger executed in 2008 by SIT La Precisa S.p.A. with the then holding company Findest Technologies S.p.A..

This allocation is broken down as follows:

	Dec 31, 18
SIT Gas Controls Pty Ltd (Australia)	825,300
SIT Controls U.S.A. Inc. (USA)	4,508,700
SIT Controls BV - (Netherlands)	6,641,600
Total	**11,975,600**

The figures of the subsidiaries (result and net equity) entirely concern the financial statements at December 31, 2018, prepared by the respective Boards of Directors and not yet approved.

The company carried out a financial analysis to verify indicators of impairment or long-term losses in value, identifying some investments on the basis of differentials against the share of net equity, on which impairment tests are carried out.

The company therefore subjected to recoverability tests the carrying amount of the following investments at December 31, 2018:

- MeteRSit S.r.l.
- SIT Controls BV
- SIT Manufacturing (Suzhou) Co. through iGuzzini Lighting China Co. Ltd.

Impairment tests were submitted for the approval of the Board of Directors on March 22, 2019.

METERSIT S.R.L

With regards to the carrying amount of the investments in subsidiaries, MeteRSit S.r.l. presents a negative difference between its net equity and its carrying amount at December 31, 2018 of Euro 28,093 thousand.

In order to verify the recoverability of the value of the investment in MeteRSit S.r.l., in accordance with IAS 36, the recoverable value of the investment 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. The analysis was conducted with regards to the Cash Generating Unit or CGU of the Smart Gas Metering Division, as representative of the value of the investment. The cash flows utilised for the calculation of the recoverable value includes the projections formulated by management of the Company and of the subsidiary which is in line with the strategic guidelines contained in the plan taking into consideration the most recent evolution of the Italian market and the competitive positioning of the subsidiary on this market, as well as the most recent developments on the UK and Indian markets. These projections were approved by the Board of Directors on March 19, 2019.

In particular on the explicit horizon is taken the inert value of EBITDA as per the Budget while the income tax is calculated based on the assumptions utilised for the 2019 Budget and on a notional basis for the two subsequent years. The value of the investments is equal to that outlined in the Budget and is based on the need to develop the new product platform to permit the entry into foreign markets with the necessary flexibility of the product range and price competitivity. The change in working capital is also assumed constant, given the absence of a growth factor (g) in the explicit time period.

In relation to the construction of the perpetual cash flows for the calculation of the so-called terminal value the assumptions related to (i) the revenue growth assumptions, (ii) the EBITDA margin and (iii) the maintenance capex. In particular, revenues reflect actual revenues in 2017-2018 to take into account the state of advancement of the roll-out plan on the Italian market; the effects of the ARERA (669/2018) regulation recently issued concerning replacement obligations in Italy until 2023; market assumptions on the mere replacement of the "meter park" when fully operational; impact of the methanation projects on foreign market such as India; updates in relation to the best estimates on the principal foreign markets such as UK and Germany; entry onto other minor markets.

In relation to the EBITDA margin forecasts, the earnings of the terminal year, are prudently based on a lower value both in relation to the 2019 Budget and in relation to the last year of the plan approved, as they are considered sustainable when fully operational.

The value of the investments is estimated as maintenance level while income taxes are calculated on a notional basis. No growth (g) factor is established.

The WACC for the discounting was determined as follows:

- a risk-free rate equal to the average of the risk-free rates of the principal Smart Gas Metering markets in which the Group operates; in particular, for each country the MAX was utilised (2.5%, government yield 10Y; IRS 10Y+CDS 10Y; country risk premium Damodoran);
- a beta unlevered coefficient for a value of 1.09 estimated on the basis of the operating sector;
- an equity risk premium of 6.23%, equivalent to the average of the market's risk premium in the main countries where the Smart Gas Metering CGU is active (source: Pablo Fernandez, Alberto Ortiz and Isabel F. Acin, IESE Business School 2018);
- an additional risk premium for the calculation of the cost of own capital (Ke) equivalent to 2%;

- a cost of debt calculated on the basis of IRS 10Y at 31/12/2018, 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 the sector.

The discount rate utilised (WACC) of 10.94% reflects at the reporting date estimates of the market valuation and the cost of money and takes account of the specific and sector risk.

Considering the assumptions described, at the reporting date the recoverable value of the MeteRSit S.r.l. investment is higher than the net carrying amount and therefore there are no indications that the investment may have incurred an impairment.

The results were subject to sensitivity analysis, in order to establish how the result of the valuation process may change based on the key assumptions such as the discount rate and EBITDA included in the terminal cash flows.

In particular, the indifference of the WACC, or the rate at which, all other conditions being equal, the recoverable amount of the investment in Metersit S.p.A assumes a value equal to its carrying amount is 12.11%, while achieving the same EBITDA result included in the terminal cash flows it must reduce by 9.44%.

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

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

SIT CONTROLS BV

With regards to the investee SIT Controls BV - (Netherlands), a negative differential between its net equity and its carrying amount at December 31, 2018 of Euro 2,033 thousand emerged. In the absence of a reliable market value for SIT Controls BV, 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 and the consideration of a surplus asset from the constant dividend flows of the subsidiaries, discounted at a discounted rate equal to the cost of own capital.

At the preparation date of these financial statements, the company availed of historic economic-financial figures until the 2018 financial statements. Management drew up an impairment test on the basis of the 2016-2018 three-year figures, considering such as a reasonable estimate of the future results of the investee, utilising firstly the income method and in support the finance method on the basis of inert projections on the same 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 earnings and the discount rate (WACC) were established net of the tax effect. The discount rate utilised of 9.73% reflects at the reporting date estimates of the market valuation and the cost of money and takes account of the specific and operating sector risk of the investee.

The WACC was estimated assuming:

- a risk-free rate equal to the average of the risk-free rates of the principal markets in which the company operates; in particular, for each country the MAX was utilised (2.5%, government yield 10Y; IRS 10Y+CDS 10Y; country risk premium Damadoran);
- a beta unlevered coefficient for a value of 1.09 estimated on the basis of the company's operating sector;
- an equity risk premium of 5.96%, equivalent to the average of the market's risk premium in the main countries where the company is active (source: Pablo Fernandez, Alberto Ortiz and Isabel F. Acin, IESE Business School 2018);
- 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 IRS 10Y at 31/12/2018, 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 SIT Controls BV investment is higher than the net carrying amount and therefore there are no indications that the investment may have incurred an impairment.

The results were subject to sensitivity analysis, in order to establish how the result of the valuation process may change based on the key assumptions such as the discount rate and the terminal cash flows.

In particular, the increase in the discount rate at which, all other conditions being equal, the recoverable amount of the investment in SIT Controls BV assumes a value equal to its carrying amount is 71.88%, while achieving the same result the terminal cash flows must reduce by 40.23%.

Following these analyses, the Directors therefore considered that the discounted cash flows would absorb normal changes in the parameters of the commonly used sensitivity analyses.

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

SIT MANUFACTURING (SUZHOU) CO. LTD.

Looking finally to the investee SIT Manufacturing (SUZHOU) Co. Ltd (China), a negative difference between its net equity and carrying amount at December 31, 2018 of Euro 2,009 thousand emerges.

For the verification of the recoverability of the value of the investment in SIT Manufacturing (SUZHOU) Co. Ltd, as per IAS 36, the recoverable amount of the investment 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 preparation date of these financial statements, the company availed of historic economic-financial figures until the 2018 financial statements. Management drew up an impairment test on the basis of the 2018 data, utilising firstly the income method, which in the presence of operating investments equivalent to depreciation and amortisation and zero variations in working capital, yields the same result as the Discounted Cash Flow financial method.

For the calculation of the value in use of the investment, it was taken into account that this company should ideally be broken down into two business units: one concerning distribution and one concerning manufacturing. The assumption for the determination of the earnings utilised for the impairment test was as follows:

- distribution segment utilises the Actual 2018 figures.
- manufacturing segment assumes an increase in volumes of approx. 50% over 2018. This increase corresponds to the unsaturated production capacity in 2018, which is expected to be employed over the medium/long-term in relation to Chinese market growth expectations impacted by a postponement on the original assumptions included in the plan.

EBITDA on the basis of the earnings flows is obtained applying a remuneration target on the manufacturing segment in line with the benchmarks utilised for the transfer price policy of the Group, which guarantees the local manufacturing segment (through royalty mechanisms and TP compensation) minimum earnings levels.

The operating profit and the discount rate (WACC) were established net of the tax effect. The discount rate utilised of 9.58% reflects at the reporting date estimates of the market valuation and the cost of money and takes account of the specific and operating sector risk of the investee.

The WACC was estimated assuming:

- a risk-free rate equal to the average of the risk-free rates of the principal markets in which the company operates; in particular, for each country the MAX was utilised (2.5%, government yield 10Y; IRS 10Y+CDS 10Y; country risk premium Damadoran);
- a beta unlevered coefficient for a value of 0.88 estimated on the basis of a sample of comparable companies;
- an equity risk premium of 6.3%, equivalent to the average of the market's risk premium in the main countries where the company is active (source: Pablo Fernandez, Alberto Ortiz and Isabel F. Acin, IESE Business School 2018);
- 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 IRS 10Y at 31/12/2018, 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 SIT Manufacturing (Suzhou) Co. Ltd. is higher than the net carrying amount and therefore there are no indications that the investment may have incurred an impairment.

The results were subject to sensitivity analysis, in order to establish how the result of the valuation process may change based on the change to the key assumptions such as the discount rate and EBITDA included in the terminal cash flows.

In particular, the indifference of the WACC, or the rate at which, all other conditions being equal, the recoverable amount of the investment in SIT Manufacturing (Suzhou) Co. Ltd. assumes a value equal to its carrying amount is 21.01%, while achieving the same EBITDA result included in the terminal cash flows it must reduce by 42.24%.

Following these analyses, the Directors therefore considered that the discounted cash flows would absorb normal changes in the parameters of the commonly used sensitivity analyses.

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

Note 4: Non-current financial assets

The breakdown of non-current financial assets at December 31, 2018 is as follows:

	Dec 31, 18	**Dec 31, 17**
Guarantee deposits	170,589	174,751
Restricted deposit account	1,199,958	1,200,093
Other receivables	8,621	8,621
Receivables from subsidiaries	-	6,738,393
Non-current financial assets	**1,379,168**	**8,121,859**

The main accounts are commented upon below.

RESTRICTED DEPOSIT ACCOUNT

It was established as collateral in guarantee of a long-term bank loan issued in the interest of MeteRSit S.r.l. in favour of a client of the latter as part of a supply tender awarded in 2014.

FINANCIAL RECEIVABLES FROM SUBSIDIARIES

The receivable from the subsidiary MeteRSit S.r.l. was reclassified to current financial assets and concerns a non-interest-bearing loan issued for a nominal amount at the balance sheet date of Euro 7,500 thousand, as part of a total credit line of Euro 15,000 thousand. The balance sheet value is stated according to the amortised cost method, calculated through discounting the receivable at an annual implied rate of 5.5%.

Current assets

Note 5: Inventories

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

	Dec 31, 18	Dec 31, 17
Raw materials, ancillary and consumables	7,620,105	6,663,634
Work-in-progress and semi-finished goods	7,518,446	5,338,089
Finished products and goods	5,832,095	4,247,201
Advances to suppliers	32,953	25,268
Inventories	**21,003,599**	**16,274,192**

The movements in the inventory obsolescence provision were as follows:

	Dec 31, 18
Obsolescence provision 31/12/2017	1,643,619
Utilisation in the year	(315,945)
Allocation in the year	132,240
Obsolescence provision 31/12/2018	**1,459,914**

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 6: Trade receivables

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

	Dec 31, 18	Dec 31, 17
Trade receivables	23,097,480	29,509,990
Trade receivables from holding company	28,685	27,655
Trade receivables from subsidiaries	29,534,815	21,948,937
Current trade receivables	**52,660,979**	**51,486,582**
Doubtful debt provision	(735,504)	(727,281)
Trade receivables	**51,925,476**	**50,759,301**

TRADE RECEIVABLES

These concern direct commercial transactions undertaken by the company 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 736 thousand, with the movements in 2018 reported in the following table:

	Dec 31, 18
Doubtful debt provision 31/12/2017	727,281
Utilisation in the year	(159,845)
Allocation in the year	168,068
Doubtful debt provision 31/12/2018	**735,504**

The balance of receivables from customers is net of a without recourse receivable factoring transaction totalling approx. Euro 9,902 thousand.

Trade receivables include receivables in foreign currency and are therefore stated in the financial statements and in the above table net of the relative unrealised exchange differences, which amount overall to Euro 0.2 million (exchange gains).

TRADE RECEIVABLES FROM HOLDING COMPANY

This concerns receivables relating to financial, administrative and tax consultancy carried out by the company for the holding company.

TRADE RECEIVABLES FROM SUBSIDIARIES

The breakdown by investee is presented below:

	Opening balance	Changes in the year	Closing balance
SIT Gas Controls Pty Ltd (Australia)	671,253	(170,008)	501,245
SIT Controls U.S.A. Inc. (USA)	92,785	(75,965)	16,820
SIT Controls BV - (Netherlands)	1,778,474	273,591	2,052,065
SIT Controls Deutschland GmbH (Germany)	38,009	18,431	56,440
SIT Controls CR, sro (Czech Republic)	17,735	(10,035)	7,700
SIT Romania S.r.l. – Romania	5,894,158	(333,934)	5,560,224
METERSIT Romania Srl – Romania	14,099	(6,636)	7,463
SIT Manufacturing (SUZHOU) Co.Ltd (China)	5,010,535	5,909,581	10,920,116
Sit Manufacturing N.A. SA de CV (Mexico)	7,721,622	752,595	8.474.217
MeteRSit S.r.l. (Italy)	710,267	1,228,260	1,938,527
Total receivables from subsidiaries	**21,948,937**	**7,585,878**	**29,534,815**

Trade receivables from subsidiaries concern the sale of semi-finished products and components to the industrial subsidiaries and finished products to commercial subsidiaries, in addition to royalties and other services, with all transactions carried out on an arm's length basis.

These include in addition payables in foreign currency, which are therefore stated in the financial statements and in the above table net of the relative unrealised exchange differences, which overall amount to Euro 142 thousand (exchange losses).

Note 7: Other current assets

The account is broken down as follows:

	Dec 31, 18	Dec 31, 17
Tax receivables	4,519,607	2,951,535
Advances	348,487	218,449
Prepayments and accrued income	794,905	981,727
Other receivables	47,181	51,935
Employee receivables	14,391	34,674
Other receivables from subsidiaries	27,022	-
Investments in companies in liquidation	-	128,130
Social security institution receivables	45,884	45,884
Receivable from holding company for tax consolidation	-	2,632
Other current assets	**5,797,477**	**4,414,966**

TAX RECEIVABLES

The breakdown is as follows:

	Dec 31, 18	Dec 31, 17
VAT receivables	2,134,901	1,316,181
Withholding taxes	2,351,232	1,585,142
Income tax receivables	33,474	50,212
Total tax receivables	**4,519,607**	**2,951,535**

Receivables for withholding taxes of Euro 2,351 thousand mainly relate to royalties invoiced by the 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 SIT S.p.A..

ACCRUED INCOME AND PREPAYMENTS

At December 31, 2018, accrued income and prepayments were comprised as follows:

	Balance at Dec 31, 18				Balance at Dec 31, 17
	Within one year	Beyond one year	Duration beyond 5 years	Total	Total
Accrued financial charges	6,006	-	-	6,006	0
Total accrued income	**6,006**	**-**	**-**	**6,006**	**0**
Prepaid financial charges	20,853	-	-	20,853	23,822
Prepayments on fees, rental & insurance premiums	522,662	79,744	-	602,406	722,922
Other prepayments	163,947	1,693	-	165,640	234,983
Total prepayments	**707,462**	**81,437**	**-**	**788,899**	**981,727**
Total accrued income and prepayments	**713,468**	**81,437**	**-**	**794,905**	**981,727**

INVESTMENTS IN COMPANIES IN LIQUIDATION

The account concerns the investment in the subsidiary SIT (Shanghai) Trading Co. Ltd. – China, placed into liquidation in 2017, which completed all of the requirements necessary for liquidation in September 2018.

Note 8: Tax receivables

Tax receivables were as follows:

	Dec 31, 18	Dec 31, 17
IRES receivables as per Legs. Decree 201/2012	1,481,437	1,481,437
IRES receivables	-	140,610
IRAP receivables	-	26,445
Other tax receivables	11,407	-
Tax receivables	**1,492,844**	**1,648,492**

The balance of Euro 1,481 thousand relates to the IRES tax reimbursement requested by the companies incorporated 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 9: Other current financial assets

A breakdown of other current financial assets follows:

	Dec 31, 18	Dec 31, 17
Current loans from subsidiaries	16,050,845	9,200,000
Receivables from holding companies	-	674,386
Receivables from companies subject to control of holding company	-	50,912
Derivative financial instruments	97,172	9,664
Other current financial assets	**16,148,017**	**9,934,962**

LOANS TO SUBSIDIARIES

The company carries out financial coordination for the subsidiaries and Group treasury services. This account concerns funding operations through credit lines agreed in the undertaking of these activities and comprises (i) a loan to the subsidiary SIT Romania S.r.l. (Romania) of Euro 4,500 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 7,500 thousand and with maturity of May 31, 2019. The interest matured until December 31, 2018 was entirely collected in the year; (ii) a loan to the subsidiary SIT Controls BV (Netherlands), equal to Euro 2,500 thousand, as part of an interest bearing credit line, at Euribor at 3 months with a zero floor, plus 3% annual margin, granted for a total amount of Euro 7,000 thousand, with maturity on December 31, 2018. The interest matured until December 31, 2018 was entirely collected in the year, with the loan fully repaid in January 2019; (iii) a loan to the subsidiary SIT Manufacturing (Suzhou) Co.Ltd. (China), granted for a total amount of Renminbi 15,000 thousand, equal to Euro 1,905 thousand, with maturity of August 1, 2019 and at a 4.5% annual rate. The payment of interest is fixed to the maturity of the loan. The interest matured until December 31, 2018 is recognised on an accruals basis to the income statement for the year; (iv) a non-interest-bearing loan to the subsidiary MeteRSit S.r.l. issued for a nominal value at the balance sheet date of Euro 7,500 thousand as part of an overall credit line of Euro 15,000 thousand. The balance sheet value is stated according to the amortised cost method, calculated through discounting the receivable at an annual implied rate of 5.5%.

FINANCIAL RECEIVABLES FROM HOLDING COMPANY

The loan to the holding company SIT Technologies S.p.A. was fully repaid in the year.

FINANCIAL RECEIVABLES FROM COMPANIES CONTROLLED BY THE HOLDING COMPANY

The loan to the company SIT Immobiliare S.p.A. was repaid during the year.

DERIVATIVE FINANCIAL INSTRUMENTS

The company signed, in accordance with the Group currency risk management policy, currency hedging derivatives on a portion of the sales forecast for 2019 in AUD and GBP.

The characteristics and the relative Fair Value at December 31, 2018 is presented below:

Transaction type	Currency	Currency amount	Currency value	Value date	Maturity date	Spot rate	Forward rate	Fair Value 31.12.2018
forward sales	AUD	(851,400)	EUR	13/11/2018	29/03/2019	1.5668	1.583394	17,082
forward sales	AUD	(851,400)	EUR	13/11/2018	28/06/2019	1.5668	1.593950	16,999
forward sales	GBP	(200,000)	EUR	09/11/2018	29/03/2019	0.8742	0.879079	5,576
forward sales	GBP	(200,000)	EUR	09/11/2018	28/06/2019	0.8742	0.882460	5,509
forward sales	GBP	(200,000)	EUR	13/11/2018	30/09/2019	0.8712	0.883046	6,230
Total								**51,397**

Additional currency derivative contracts are in place, which were undertaken in accordance with the Group currency risk management policy, although formally are not designated as hedges in accordance with the applicable accounting standards.

The characteristics and the relative Fair Value at December 31, 2018 is presented below:

Transaction type	Currency	Currency amount	Currency value	Value date	Maturity date	Spot rate	Forward rate	Fair Value 31.12.2018
forward sales	AUD	(798,600)	EUR	13/11/2018	29/03/2019	1.5668	1.583394	16,023
forward sales	AUD	(798,600)	EUR	13/11/2018	28/06/2019	1.5668	1.593950	15,945
forward purchases	USD	2,500,000	EUR	24/12/2018	31/01/2019	1.1469	1.150781	4,792
forward sales	USD	(2,500,000)	EUR	31/12/2018	28/02/2019	1.1401	1.146195	9,015
Total								**45,774**

Note 10: Cash and cash equivalents

	Dec 31, 18	Dec 31, 17
Cash in hand and similar	11,426	14,954
Bank and postal deposits	51,101,636	64,482,395
Total cash and cash equivalents	**51,113,062**	**64,497,349**

Cash and cash equivalents relate to current accounts and cash in hand and similar at December 31, 2018.

The account includes cash in foreign currencies which, at the December 31, 2018 exchange rate, had a value of Euro 5 thousand.

Shareholders’ Equity

Shareholders’ equity at December 31, 2018 amounts to Euro 134,014,324, increasing Euro 11,580,376 on Euro 122,433,948 at December 31, 2017. The changes are reported in the statement of changes in shareholders’ equity, to which reference should be made.

The following comments relate to the principal accounts and changes.

Note 11: Share capital

The share capital, subscribed and paid-in, amounted at December 31, 2018 to Euro 96,151,921, comprising 24,007,465 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	23,757,465	98.96%	MTA Italy
Performance Shares	250,000	1.04%	Non-listed

The increase in share capital from Euro 96,149,519 thousand at December 31, 2017 to Euro 96,151,921 thousand at December 31, 2018 derives from the issue of 24,014 ordinary shares following the request for the exercise of 108,167 SIT Warrants received at the end of 2017 and 5,000 SIT Warrants received during 2018. The company, as part of the operations related to the incorporation of the SPAC Industrial Stars of Italy 2, executed a divisible share capital increase for a maximum total amount of Euro 153,438, 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.

Note 12: Reserves

The availability and distributability of shareholders’ equity is outlined in the following table:

(in Euro)	Amount	Possibility of use	Quota available	Summary of utilisations made in the three previous years		Notes	Composition of reserves
Nature/description				**To cover losses**	**For other reasons**		
SHARE CAPITAL	96,151,921						
CAPITAL RESERVES							
Share premium reserve	10,359,557	(1)(2)	-				(a)

Capital payments reserve	18,817,999	(1)(2)(3)	18,817,999			(a)
TOTAL CAPITAL RESERVES						
Legal reserve	19,229,914	(2)				(b)
Treasury shares reserve	(751,640)					(a)/(b)
First time application IAS/IFRS reserve	446,866	(2)		2,173,101	II	(b)
Cash Flow Hedge Reserve	(1,042,559)					(b)
Actuarial reserve - Employee benefits	(151,379)			-		
Warrants Reserve	(12,540,659)					
Performance Shares Reserve	(11,500,000)					
LTI Reserve	166,626		166,626			(b)
Retained earnings (accum. losses)	(2,747,710)					
Result 2018	17,575,389		17,575,389			
TOTAL	134,014,325		36,560,014			
NON-DISTRIBUTABLE AMOUNT			12,914,104		I	
RESIDUAL DISTRIBUTABLE AMOUNT			23,645,910			

(1) For share capital increase
(2) To cover losses
(3) For distribution to shareholders

(a) capital reserves
(b) retained earnings

(I) In accordance with Article 2426, first paragraph, number 5) of the Civil Code, as the company capitalised development cost for an amount of Euro 161,178, net of amortisation, until completion of the amortisation process, dividends may be distributed only where residual sufficient available reserves exist to cover the amount of non-amortised costs.
The 2018 net profits are in addition non-distributable, which shall be allocated to the performance share reserve for Euro 3,240,000 and to the Warrant reserve for Euro 9,512,926.
(II) The first-time application IAS/IFRS reserve at December 31, 2018 comprises:
- positive reserves of Euro 1,062,918, of which Euro 339,947 concerning the capitalisation of development costs and Euro 722,970 concerning the application of the finance method to leased assets.
- negative reserves for Euro 616,052, of which Euro 578,821 concerning the application of the amortised cost and Euro 37,231 concerning the valuation of the liabilities for Post-employment benefits.
In compliance with the content of the Operating guidelines for accounting management of the rules on the distribution of profits and reserves as per Legislative Decree No. 38 of February 28, 2005, the utilisation of the reserves for a total of Euro 2,173,101 concern:
- recovery of the negative reserve for Euro 278,020 relating to employee benefits;
- recovery of the negative reserve for Euro 425,421 concerning the reversal of start-up and expansion costs;
- recovery of the positive reserve for Euro 1,071,932 relating to the capitalisation of development costs;
- recovery of the negative reserve for Euro 747,925 relating to the application of the amortised cost;
- complete recovery of the negative reserve concerning the valuation of hedging derivatives for Euro 1,730,384;
- recovery of the positive reserve concerning the application of the finance method to leased assets for Euro 58,048.

SHARE PREMIUM RESERVE

The share premium reserve decreased during the year by Euro 18,379,907, bringing it to a total amount of Euro 10,359,557.

This decease derives from its utilisation to increase the legal reserve so as to reach one-fifth of the Share Capital, following the Shareholders' Meeting of April 26, 2018.

CAPITAL PAYMENTS RESERVE

The decrease in the capital payments reserve entirely relates to the distribution of dividends for Euro 3,181,612, following the Shareholders' Meeting of April 26, 2018, reducing this reserve to Euro 18,817,999.

LEGAL RESERVE

The legal reserve increased Euro 18,379,907 thousand following the Shareholders' Meeting of April 26, 2018, deriving from the provision of a portion of the share premium reserve.

TREASURY SHARES RESERVE

In 2017, as part of the SIT 2017 Refinancing operation, the company purchased 317,000 redeemable shares, 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.

In 2018, the company acquired 11,283 treasury shares, amounting to Euro 90,961, for the purposes of the stock option plan, which were allocated to some executives and employees to subscribe to shares of the company.

LONG TERM INCENTIVE PLAN RESERVE

The long-term incentive plan (L.T.I.) reserve was utilised to record the value of the share-based payments in favour of employees and key executives, settled with capital securities, which constitutes part of their remuneration. For further details, reference should be made to the Directors' Report and Note 39.

CASH FLOW HEDGE RESERVE

The cash flow hedge reserve is recorded as a negative value of Euro 1,042,559, net of the Euro 326,592 tax effect. This reserve derives from the Fair Value valuation of hedging derivatives in application of IFRS 9.

EXTRAORDINARY RESERVE

The extraordinary reserve reduced to zero following the distribution of dividends, as approved by the Shareholders' Meeting of April 26, 2018.

WARRANT RESERVE

In 2017, in execution of the transactions for the merger with the SPAC Industrial Star of Italy 2, SIT S.p.A. issued 5,350,000 warrants 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. From November 28, 2018, following the transition process to the main index the Warrants are traded on the MTA (Mercato Telematico Azionario) Market organised and managed by Borsa Italiana and, simultaneously, were excluded from trading on the AIM Italia.

The Warrant Reserve, equivalent to a negative value of Euro 12,540,659, 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

As part of the incorporation of the SPAC Industrial Star of Italy 2, in 2017 SIT S.p.A. converted 250,000 ordinary shares held 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 11,500,000 corresponds to the fair value recorded at year-end. There were no adjustments to the fair value of financial liabilities to the income statement in 2018. For further details, reference should be made to Note 24.

RETAINED EARNINGS (ACCUM. LOSSES)

At December 31, 2018, the account is negative for Euro 2,747,710, against a negative value of Euro 913,832 at December 31, 2017. The net decrease of Euro 1,833,878 concerns the allocation of part of the 2017 net loss.

Non-current liabilities

Note 13: Medium/long-term loans and borrowings

As at December 31, 2018, short-term loans and borrowings represent the value of the loan agreement's non-current portion (Senior Financial Agreement 2017) which the Company signed with BNP Paribas and a bank syndicate under the refinancing operation alongside the incorporation of the SPAC Industrial Stars of Italy 2. The financial liability is measured using the amortised cost criterion.

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

- original amount of Euro 135,000 thousand, non-current residual amount of Euro 105,975 thousand and current amount of Euro 16,875 thousand, with 5-year duration, maturing June 30, 2022; repayment according to pre-established half-yearly instalments;
- early repayment option without penalties and without collateral security;
- interest rate indexed to the 6-month Euribor, 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. The average interest margin in 2018 was equivalent to 1.88%.

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

A breakdown follows:

	Dec 31, 18	Dec 31, 17
Derivative financial instruments - Non-current	710,381	288,214
Other non-current financial liabilities and derivative financial instruments	**710,381**	**288,214**

DERIVATIVE FINANCIAL INSTRUMENTS - NON-CURRENT

In 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 IFRS 9 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, 2018 are summarised below:

Transaction type	Currency	Beginning date	Maturity	Fixed rate	Notional 31.12.2018	Fair Value 31.12.2018
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.41%	64,974,000	(414,341)
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.40%	47,866,000	(296,040)
Total					**112,840,000**	**(710,381)**

Note 15: Provisions for risks and charges

The changes to the account were as follows:

	Dec 31, 17	Provisions	Utilisations	Dec 31, 18
Agents indemnity provision	121,576	17,514	-	139,090
Product warranty provision	258,785	-	-	258,785
Other taxes provision	136,000	492,040	(136,000)	492,040
Other risks provision	1,576,614	359,562	(624,530)	1,311,646
Total provisions for risks and charges	**2,092,975**	**869,116**	**(760,530)**	**2,201,561**

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.

PRODUCT WARRANTY PROVISION

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

OTHER TAXES PROVISION

The provision includes Euro 492 thousand accrued in 2018 against a potential liability relating to the VAT receivable of the company following the incorporation of SPAC Industrial Stars of Italy 2. In 2018 this provision was utilised for Euro 136 thousand due to the agreement of a settlement procedure assessment. Based on the agreement reached with the Tax Authorities, the company made the payment of sums due for higher taxes, penalties and interest.

OTHER PROVISIONS

Other provisions include:

- - risks provision for Euro 1,294 thousand concerns the risks over ongoing disputes, whose risk of loss is probable;
- The provision of Euro 18 thousand for cases concerning employees.

Note 16: Post-employment benefit provision

The movements in the account in the year to December 31, 2018 and to December 31, 2017 were as follows:

	Dec 31, 18	Dec 31, 17
Net liabilities for employee defined benefits	5,349,637	5,582,803
Liabilities for retention or other	105,678	370,532
Net liabilities for employee defined benefits	**5,455,315**	**5,953,335**

The movement in Net liabilities for employee benefits is presented below:

	Dec 31, 18	Dec 31, 17
Post-em. bens. at beginning of year	5,582,803	5,636,862
Payments in the year	(171,604)	(101,677)
Interest cost	71,334	73,177
Actuarial loss recognised	(132,896)	(25,560)
Post-em. bens. at end of year	**5,349,637**	**5,582,803**

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

Defined benefit plans	Dec 31, 18	Dec 31, 17
Annual discount rate	1.57%	1.30%
Annual inflation rate	1.50%	1.50%
Annual increase in post-employment benefit	2.65%	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 satisfying AGO requirements	

The annual frequency of advance payments and company turnover were taken from the historical experience of the company 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 754 thousand and relates for Euro 254 thousand to the provision for the extraordinary variable bonus granted to the Chairman and Chief Executive Officer in execution of the provisions for the incorporation of the SPAC Industrial Stars of Italy 2. 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: Deferred tax income & charges

A breakdown of temporary differences and the consequent deferred tax assets/liabilities at December 31, 2018 and at December 31, 2017 is reported below, based on the type of temporary differences, applying respectively a tax rate of 24% for IRES and 3.9% for IRAP:

DEFERRED TAX ASSET/(LIABILITY)	December 31, 2017				December 31, 2018			
	Amount of temp. diff. IRES	Amount of temp. diff. IRAP	Tax effect IRES	Tax effect IRAP	Amount of temp. diff. IRES	Amount of temp. diff. IRAP	Tax effect IRES	Tax effect IRAP
Rate			24.0%	3.90%			24.0%	3.90%
DEFERRED TAX ASSETS								
Provisions for risks and charges and employee provisions	449,452	440,532	107,868	17,181	123,948	115,028	29,748	4,486
Other provisions for risks and charges	1,868,271	1,756,479	448,385	68,503	1,552,160	1,552,160	372,518	60,534
Write-down of inventories	1,531,827	1,420,035	367,638	54,453	1,459,914	1,459,914	350,379	56,937
Maintenance difference	100,631	-	24,151	-	44,873	-	10,770	-
Unrealised exchange losses	474,665	-	113,920	-	640,777	-	153,786	-
Deprec. suspended on prop. revaluations	171,004	171,004	41,041	6,669	171,004	171,004	41,041	6,669
Amortisation of intangible assets	44,738	44,738	10,737	1,745	8,671	8,671	2,081	338
Non-deductible interest	11,589,548	-	2,781,491	-	6,534,556	-	1,568,293	-
Other	678,759	24,411	162,902	952	974,951	49,411	233,988	1,927
Deferred taxes concerning previous years tax losses	1,459,790	-	350,350	-	153,572	-	36,857	-
Deferred taxes ISI 2 on Losses	1,475,689	-	354,165	-	1,475,689	-	354,165	-
Deferred taxes ISI 2 on ACE	2,285,232	-	548,456	-	2,590,700	-	621,768	-
Amortised cost	761,607	-	182,786	-	390,996	-	93,839	-
Reversal of other intangible assets	230,838	230,838	55,401	9,003	64,147	64,147	15,395	2,502
Post-employment benefits	436,310	-	104,714	-	283,239	-	67,977	-
Derivative financial instruments	1,109,664	-	266,319	-	1,420,547	-	340,931	-
Deferred taxes ISI 2 on reversed IPO costs	242,055	242,055	58,093	9,440	-	-	-	-
TOTAL DEFERRED TAX ASSETS	**24,910,078**	**4,330,091**	**5,978,419**	**167,946**	**17,889,743**	**3,420,335**	**4,293,538**	**133,393**
DEFERRED TAX LIABILITIES								
Accelerated depreciation	(378,070)	443	(90,737)	21	(377,243)	-	(90,538)	-
Revaluation land & buildings from merger	(3,202,484)	(3,202,484)	(768,596)	(124,897)	(3,192,428)	(3,192,428)	(766,183)	(124,505)

Reval. Investments for consolidation diff.	(737,505)	-	(177,001)	-	(736,627)	-	(176,790)	-
Valuation brands and Technologies for consolidation diff.	(29,074,979)	(29,074,979)	(6,977,995)	(1,133,924)	(26,555,246)	(26,555,246)	(6,373,259)	(1,035,655)
Unrealised exchange gains	(1,000,962)	-	(240,231)	-	(388,781)	-	(93,307)	-
R&D capitalisation expenses	(447,299)	-	(107,352)	-	(161,178)	-	(38,683)	-
Finance leases	(1,100,281)	(1,100,281)	(264,067)	(42,911)	(1,056,340)	(1,056,340)	(253,522)	(41,197)
Derivative financial instruments	-	-	-	-	(51,397)	(51,397)	(12,335)	(2,004)
TOTAL DEFERRED TAXES	**(35,941,579)**	**(33,377,301)**	**(8,625,979)**	**(1,301,711)**	**(32,519,241)**	**(30,855,412)**	**(7,804,618)**	**(1,203,361)**
DEFERRED TAX ASSET/(LIABILITY) TO BALANCE SHEET TOTAL	**(11,031,500)**	**(29,047,210)**	**(2,647,560)**	**(1,133,765)**	**(14,629,498)**	**(27,435,077)**	**(3,511,079)**	**(1,069,968)**

The recognition of the deferred tax assets was made against an assessment on the reasonable recovery in future years.

Current liabilities

Note 19: Short-term loans and borrowings

The breakdown is as follows:

	Dec 31, 18	Dec 31, 17
Utilisation short-term lines	324	4,944
Current portion of loans	16,196,798	11,458,384
Current financial charges	-	13,039
Short-term loans and borrowings	**16,197,122**	**11,476,367**

CURRENT PORTION OF THE BANK LOAN

At June 30, 2018, the account includes the current share of the bank loan (Senior Financial Agreement 2017) referred to in Note 13.

Note 20: Other current financial liabilities and derivative financial instruments

A breakdown follows:

	Dec 31, 18	Dec 31, 17
Current financial payables - subsidiaries	33,151,964	26,815,396
Factoring payables	100,954	1,323,218
Derivative financial instruments (current portion)	854,618	821,451
Other current financial liabilities and derivative financial instruments	**34,107,536**	**28,960,065**

CURRENT FINANCIAL PAYABLES - SUBSIDIARIES

The balances at December 31, 2018 and December 31, 2017 concern financial transactions relating to the current accounts held by the subsidiaries with SIT S.p.A. as part of the centralised treasury services provided by SIT S.p.A. to the Group companies.

Current financial payables to subsidiaries by investee company are presented below:

	Dec 31, 18	Dec 31, 17
SIT Gas Controls Pty Ltd (Australia)	68,593	130,367
SIT Romania S.r.l. (Romania)	4,642,173	1,681,634
SIT Controls U.S.A. Inc. (USA)	1,550,206	184,643
SIT Controls BV (Netherlands)	3,252,608	60,947
SIT Controls Deutschland GmbH (Germany)	397,650	1,902,558
SIT Controls CR, sro (Czech Republic)	616,856	2,497,643
Sit Manufacturing N.A. SA de CV (Mexico)	16,295,739	17,828,501
MeteRSit S.r.l. (Italy)	6,328,139	2,529,104
Total current financial payables - subsidiaries	**33,151,964**	**26,815,396**

DERIVATIVE FINANCIAL INSTRUMENTS - CURRENT PORTION

The balance at December 31, 2018 of Euro 855 thousand concerns for Euro 710 the Interest Rate Swaps (IRS) against the variable rate bank loan (Senior Financial Agreement 2017), as outlined in greater detail at Note 14 and for Euro 145 thousand non-hedging derivative contracts as per the applicable accounting standards concerning Forex Forwards and Commodity Swaps.

The characteristics and Fair Value of the current portion of interest rate swaps are presented below:

Transaction type	Currency	Beginning date	Maturity	Fixed rate	Notional 31.12.2018	Fair Value 31.12.2018
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.41%	64,974,000	(412,138)
IRS on SFA 2017	Euro	29/12/2017	30/06/2022	0.40%	47,866,000	(298,028)
Total					**112,840,000**	**(710,167)**

The characteristics and Fair Value of the current portion of Commodity Swaps are presented below:

Transaction type	Beginning date	Maturity	Fixed price USD/MT	Quantity MT 31.12.2018	Fair Value 31.12.2018
Commodity Swap on LME Copper Grade A	01/05/2018	31/12/2018	7,152.00	10	(9,233)
Total				**10**	**(9,233)**

The characteristics and Fair Value of the current portion of Forex Forwards are presented below:

Transaction type	Currency	Currency amount	Currency value	Value date	Maturity date	Spot rate	Forward rate	Fair Value 31.12.2018
forward sales	CNY	(15,000,000)	EUR	27/07/2018	29/07/2019	7.9160	8.221354	(43,817)
forward sales	CNY	(9,000,000)	EUR	01/11/2018	31/01/2019	7.9270	8.023036	(16,983)
forward sales	CNY	(9,000,000)	EUR	01/11/2018	28/02/2019	7.9270	8.050765	(17,896)
forward sales	CNY	(7,500,000)	EUR	26/11/2018	29/03/2019	7.9002	8.018729	(8,813)
forward sales	CNY	(7,500,000)	EUR	26/11/2018	30/04/2019	7.9002	8.047145	(9,405)
forward sales	CNY	(10,000,000)	EUR	27/11/2018	31/05/2019	7.8971	8.068268	(12,514)
forward sales	CNY	(9,900,000)	EUR	24/12/2018	30/08/2019	7.8945	8.075296	(3,743)
forward sales	CNY	(10,000,000)	EUR	24/12/2018	30/09/2019	7.8945	8.097861	(3,964)
forward purchases	USD	1,000,000	EUR	02/11/2018	30/04/2019	1.1326	1.150906	(4,607)
forward sales	USD	(2,500,000)	EUR	24/12/2018	31/01/2019	1.1470	1.151329	(5,826)

forward sales	USD	(2,500,000)	EUR	24/12/2018	29/03/2019	1.1469	1.156798	(5,719)
forward purchases	USD	500,000	EUR	31/12/2018	21/06/2019	1.1401	1.156932	(1,931)
Total								**(135,218)**

The breakdown is provided below of changes to liabilities deriving from financial activities, where such relates to cash flows or non-monetary changes:

(in Euro)	31/12/2017	Receivable waiver	Reclassifications / Reimbursements	New financing	Fair Value Changes	Change in amortised cost	31/12/2018
Bank payables - non-current portion of loans	122,850,000	-	(16,875,000)	-	-	-	105,975,000
Bank payables - non-current portion amortised cost	(1,790,027)	-	-		-	545,106	(1,244,921)
Total bank payables - non-current portion loans	**121,059,973**	**-**	**(16,875,000)**	**-**	**-**	**545,106**	**104,730,079**
Shareholder loans - non-current portion of loans	-						-
Shareholder loan - amortised cost	-						-
Derivative financial instruments - non-current portion	288,214				422,167		710,381
Total other non-current financial liabilities and derivative financial instruments	**288,214**	**-**	**-**	**-**	**422,167**	**-**	**710,381**
Total non-current financial liabilities	**121,348,187**	**-**	**(16,875,000)**	**-**	**422,167**	**545,106**	**105,440,460**
Bank payables - current portion of loans	12,150,000	-	4,725,000	0	-	-	16,875,000
Bank payables - current portion amortised cost	(691,616)	-	-	-	-	13,414	(678,202)
Total bank payables - current portion of loans	**11,458,384**	**-**	**4,725,000**	**0**	**-**	**13,414**	**16,196,798**
Shareholder loan - current portion of loans	-	-		-	-	-	-
Derivative financial instruments - current portion	821,451	-		-	33,167	-	854,618
Total other current financial liabilities and derivative financial instruments	**821,451**	**-**	**-**	**-**	**33,167**	**-**	**854,618**
Total current financial liabilities	**12,279,835**	**-**	**4,725,000**	**0**	**33,167**	**13,414**	**17,051,416**

Note 21: Trade payables

At December 31, 2018, trade payables were broken down as follows:

	Dec 31, 18	Dec 31, 17
Trade payables	44,211,521	39,510,585
Trade payables to subsidiaries	12,231,207	11,444,378
Trade payables	**56,442,728**	**50,954,963**

TRADE PAYABLES TO SUBSIDIARIES

Trade payables to subsidiaries concern the purchase of semi-finished products and components, in addition to finished products, and royalties and other services, with all transactions carried out on an arm's length basis.

The value of trade payables to subsidiaries 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 8 thousand.

Trade payables to subsidiaries by individual subsidiary are presented below:

	Dec 31, 18	Dec 31, 17
SIT Gas Controls Pty Ltd (Australia)	-	7,855
SIT Controls U.S.A. Inc. (USA)	64,450	60,907
SIT Controls BV (Netherlands)	829,405	615,752
SIT Controls Deutschland GmbH (Germany)	444,310	507,621
SIT Controls CR, sro (Czech Republic)	595,778	510,045
SIT Romania S.r.l. (Romania)	7,910,959	8,723,592
Sit Manufacturing (SUZHOU) Co Ltd (China)	2,223,338	833,246
MeteRSit S.r.l. (Italy)	41,311	57,589
Sit Manufacturing N.A. SA de CV (Mexico)	121,656	127,771
Total trade payables to subsidiaries	**12,231,207**	**11,444,378**

TRADE PAYABLES

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 losses of Euro 9 thousand.

Note 22: Other current liabilities

A breakdown follows:

	Dec 31, 18	Dec 31, 17
Other payables	339,722	321,316
Customer advances	800,302	862,557
Current remuneration payables	1,511,804	1,490,936
Deferred remuneration payables	2,612,995	2,195,193
Payables to social security institutions	2,173,744	2,187,563
Retention fund, MBO and PDR	2,439,167	2,243,928
Deferred income	2,667	4,667
Substitute tax payables	1,524,668	1.030,169
Other current liabilities	**11,405,069**	**10.336.329**

OTHER PAYABLES

These principally includes the employee portions (canteen contribution, trade union contributions etc.) for subsequent payment to various entities and institutes and payables to directors and other corporate boards for amounts yet to be settled.

CURRENT REMUNERATION PAYABLES

Current remuneration payables principally include employee payables for December 2018 salaries, paid in January 2019.

DEFERRED REMUNERATION PAYABLES

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

PAYABLES TO SOCIAL SECURITY INSTITUTIONS

These include employee social security and pension deductions.

RESULT BONUSES

The account relates to the estimate of 2018 bonuses, to be paid in 2019.

Note 23: Short-term financial instruments for Performance Shares

As part of the incorporation of the SPAC Industrial Star of Italy 2, 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 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 of the company. The number of Performance Shares convertible into Ordinary Shares pursuant to the above terms will be ascertained by the Company's Related Parties Committee 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, 2018 amounted to Euro 8,260 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, 2018 (Euro 8.26).

The difference between the value of financial liabilities at December 31, 2017 of Euro 11,500 thousand and of financial liabilities at the reporting date was recognised to the income statement.

Note 24: Financial instruments for Warrants

In 2017, in execution of the transactions for the merger with the SPAC Industrial Star of Italy 2, SIT S.p.A. issued 5,350,000 warrants 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. From November 28, 2018, following the transition process to the main index the Warrants are traded on the MTA (Mercato Telematico Azionario) Market organised and managed by Borsa Italiana and, simultaneously, were excluded from trading on the AIM Italia.

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, 2018 amounted to Euro 3,028 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, 2018 were adjusted to Fair Value, recognising the differential between the date of December 31, 2017 (Euro 2.40) and the price at the reporting date (Euro 0.5795) to the income statement under financial income for Euro 9,513 thousand.

Note 25 - Income tax payables

The amount of 4,245 thousand relates to:

- Euro 4,131 thousand concerning the net payable from the company's involvement in the tax consolidation with the holding company SIT Technologies S.p.A.. The company 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 the consolidated company and as expressly approved by its Board of Directors for the 2016-2018 three-year period and as per the tax consolidation agreement signed by the interested companies.

- Euro 114 thousand concerning the IRAP payable matured on earnings in the year, net of advances paid.

NOTES TO THE MAIN INCOME STATEMENT ACCOUNTS

Note 26: Revenue from sales and services

Revenues from sales and services are comprised as follows:

	2018	2017
Revenues from product sales	238,881,872	222,292,834
Revenues from services	13,021,194	12,511,188
Revenues from sales and services	**251,903,066**	**234,804,022**

REVENUES FROM PRODUCT SALES

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

By business line	2018	2017
Mechanical controls	159,648,382	150,662,452
Electronic controls	9,195,299	9,639,999
Fans	40,057,898	22,321,372
Flue systems	21,831,827	22,321,372
Other products	8,148,466	17,347,639
Total	**238,881,872**	**222,292,834**

	2018	2017
Italy	56,161,234	49,882,457
European Union	100,744,009	96,956,227
Other countries	81,976,629	75,454,150
Total revenues	**238,881,872**	**222,292,834**

REVENUES FROM SERVICES

This account is comprised as follows:

	2018	2017
Provision of other services	4,278,974	3,383,521
Recovery of misc. expenses	964,830	948,701
Seconded personnel recharges	592,341	634,499
Royalties & TP Compensation	7,010,241	7,385,110
Commission income	174,806	159,357
Total revenue from services	**13,023,212**	**12,511,188**

PROVISION OF OTHER SERVICES

These mainly concern support services to the manufacturing companies provided by SIT S.p.A. for centralised functions carried out in the areas of quality, procurement, logistics and production planning, in addition to process engineering. They in addition concern general services such as centralised treasury, IT services and in certain cases administrative support.

RECOVERY OF MISC. EXPENSES

They mainly include recharges to third parties and other Group companies of costs incurred on their behalf.

ROYALTIES & TP COMPENSATION

They were invoiced to the subsidiaries SIT Manufacturing Na. Sa. de CV for Euro 5,364 thousand, SIT Controls BV (Netherlands) for Euro 823 thousand and SIT Manufacturing (Suzhou) Co. Ltd. (China) for Euro 823 thousand, against the use by the former of technical-productive know-how, non-patented technology, in addition to the SIT brand, all owned by the company.

Note 27: Raw materials, ancillaries, consumables and goods

The breakdown of the account in 2018 and 2017 was as follows:

	2018	2017
Purchases of ancillary materials	3,418,282	2,912,518
Purchases of raw materials, semi-finished & packaging	75,426,413	68,647,459
Finished products purchases	28,487,826	30,209,292
Purchases of goods	34,997,586	27,556,579
Maintenance and repair materials	1,568,047	1,318,984
Other purchases	1,674,188	1,355,579
Duties on purchases	408,656	376,611
Raw materials, ancillaries, consumables and goods	**145,980,998**	**132,377,022**
Changes in inventories of raw materials, ancillaries, consumables and goods	(956,470)	(725,553)
Change in inventories of finished & semi-finished products and goods	(3,765,251)	361,575
Change in inventories	**(4,721,721)**	**(363,978)**
Total cost of raw materials, ancillaries, consumables and goods	**141,259,277**	**132,013,044**

Raw materials, ancillaries, consumables and goods, including changes in inventories, amounted to Euro 141,259 thousand, accounting for 59.1% of revenues, increasing on 2017 by Euro 9,246 thousand and against a revenue percentage of 59.4%.

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

Note 28: Service costs

The composition of the account is as follows:

	2018	2017
Rent, hire and leases	1,600,597	1,406,935
Outsourcing	8,229,802	7,318,378
Transport	3,377,364	3,326,320
Commissions	2,896,505	2,584,787
Legal, administrative and other	3,291,984	2,082,441
Insurance	754,237	705,374
Management services	1,069,697	1,271,922
Maintenance & repair expenses	2,751,426	2,417,350
Utilities	4,119,213	4,004,574
Personnel expense	1,288,245	948,042
Cleaning and security	562,389	519,854
Advertising, marketing, and sponsorship	397,751	449,274
Directors, statutory & independent auditor fees	1,595,156	1,554,276
Travel and accommodation	535,457	495,514
Bank charges & commissions	225,784	257,677
Other services	515,886	427,744
Listing charges	1,237,397	816,296
Royalties charges & TP Compensation	2,321,424	967,642
Service costs	**36,770,314**	**31,554,400**

Note 29: Personnel costs

Personnel expense is shown below:

	2018	2017
Salaries and wages	31,153,539	29,175,283
Social security charges	9,043,868	9,245,590
Temporary personnel	4,876,249	3,105,536
Post-employment benefits	2,035,393	1,909,240
Other costs	92,513	132,225
Personnel expense	**47,201,562**	**43,567,874**

Average personnel over the last two years are broken down as follows:

Employees	2018	2017
Executive Managers	22	20
White-collar workers	243	233
Blue-collar workers	497	484
Temporary	139	84
Total employees	**901**	**821**

The national collective work contract applied is that for the mechanical engineering sector and for executives that applicable to industrial enterprise executives.

The account includes non-recurring costs for Euro 2.5 million relating to the issue of the leaving incentive and settlement with the General Manager and for Euro 250 thousand bonuses provisioned following the successful conclusion of the listing process.

Note 30: Depreciation, amortisation and write-downs

The breakdown is as follows:

	2018	2017
Amortisation of intangible assets	4,001,551	4,125,061
Depreciation of property, plant and equipment	7,641,881	6,588,032
Total depreciation and amortisation	**11,643,432**	**10,713,093**
Write-down of current receivables	168,068	20,000
Total write-downs	**168,068**	**20,000**
Depreciation, amortisation and write-downs	**11,811,500**	**10,733,093**

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

Note 31: Provisions for risks

At December 31, 2018, provisions of Euro 359 thousand were made 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.

Note 32: Other charges (income)

The account is broken down as follows:

	2018	2017
Misc. recoveries	191,420	459,394
Prior year income	390,381	143,918
Gains on fixed assets	65,303	56,430
Grants	417,233	138,079
Other revenues	78,901	78,448
Total other income	**1,143,238**	**876,269**
Misc. taxes & non-deductible costs	146,004	159,238
Losses on fixed assets	4,843	35,799
Associations	109,178	105,899
Prior year charges	324,021	175,003
Losses on receivables	7,640	-
IMU Property tax	125,231	118,786
Misc. reimbursements	160,055	34,986
Other charges	681,225	168,411
Total other charges	**1,558,197**	**798,122**
Other charges (income)	**414,959**	**(78,147)**

Note 33: Investment charges and (income)

The account concerns dividends approved by the subsidiaries, recognised in 2018 and particularly:

	2018	2017
Dividends from subsidiary: SIT (Shanghai) Trading Co. Ltd. – (China) Ltd. – (China)	-	(1,911,856)
Dividends from subsidiary: SIT Controls CR, sro (Czech Republic)	(120,624)	-
Dividends from subsidiary: SIT Controls Deutschland GmbH (Germany)	(100,000)	-
Other income from equity investments	(2,714)	-
Total charges and (income) from investments	**(223,338)**	**(1,911,856)**

The dividends from subsidiaries were entirely collected in 2018.

Note 34: Financial income

In 2018, these amounted to Euro 14,170,854 and were broken down as follows:

	2018	2017
Interest income on bank accounts	193,505	6,621
Other interest income	34,302	164,646
Interest income from Group companies	866,676	588,572
Profits on derivative financial instruments	323,445	9,664
Adjustment FV of financial liabilities	12,752,926	2,672,043
Financial income	**14,170,854**	**3,441,546**

INTEREST INCOME FROM GROUP COMPANIES

These concern current loans in favour of SIT Romania S.r.l. (Romania), SIT Gas Controls Pty Ltd. (Australia) and SIT Controls BV (The Netherlands), SIT Manufacturing (Suzhou) Co. Ltd. (China), SIT Technologies S.p.A. (Italy) and SIT Immobiliare S.p.A. (Italy), for a total of Euro 287 thousand; for Euro 371 thousand it concerns however the recognition to the 2018 income statement of the portion of amortised cost concerning the loan to MeteRSit S.r.l.. They include for Euro 209 thousand interest matured on current accounts with the subsidiaries held by the company as part of the centralised treasury management services.

PROFITS ON DERIVATIVE FINANCIAL INSTRUMENTS

The amount relates to the mark to market of the derivative contracts on foreign currencies, which do not comply with the formal hedging requirements of the applicable accounting standards.

ADJUSTMENT FV OF FINANCIAL LIABILITIES

This concerns the adjustment to Fair Value of the 5,224,733 SIT Warrants in place and not yet exercised at December 31, 2018, in addition to the adjustment to Fair Value of the Performance Shares held by the holding company SIT Technologies S.p.A.; the Fair Value was calculated by utilising respectively level 1 of the measurement hierarchy for the Warrants (as listed on an active market) and level 2 of the hierarchy for the Performance Shares, as the calculation of value is based on an observable component and a measurable component.

Note 35: Financial charges

Financial charges consist of:

	2018	2017
Financial charges on hedging contract differences	830,795	2,451,505
Interest charges to holding company	-	3,920,675
Interest and other bank charges	2,757,637	11,715,618
Interest charges to third parties	705,659	322,831
Interest expenses on current accounts subsidiaries	263,845	115,431
Other financial charges	48,233	-
Losses on derivative financial instruments	430,474	-
Merger fair value	-	31,320,569
Financial expenses	**5,036,644**	**49,846,629**

FINANCIAL CHARGES ON HEDGING CONTRACT DIFFERENCES

The account refers to the differential matured in 2018 relating to the interest rate risk contracts (IRS) on the loan contracts (Senior Facility Agreement of 2017). The change with the previous year principally concerns charges incurred for the early settlement of interest rate hedges as part of the 2017 Refinancing.

INTEREST AND OTHER BANK CHARGES

The amount of Euro 2,758 thousand comprises for Euro 559 thousand the portion of amortised cost accruing in the year and for Euro 2,154 thousand the interest on the Senior Facility Agreement 2017 accruing in the year. The account in addition includes Euro 45 thousand of commissions.

INTEREST EXPENSES ON CURRENT ACCOUNTS SUBSIDIARIES

They concern current accounts held by the subsidiaries at SIT S.p.A. as part of the centralised treasury management carried out on behalf of these subsidiaries.

LOSSES ON DERIVATIVE FINANCIAL INSTRUMENTS

The amount relates to the mark to market of the derivative contracts on foreign currencies and raw materials, which do not comply with the company’s formal hedging policy.

Note 36: Net exchange gains (losses)

Net exchange gains of Euro 59 thousand are comprised as follows:

	2018	2017
Realised exchange gains	1,796,652	4,229,321
Realised exchange losses	(1,589,732)	(4,626,645)
Unrealised exchange gains	55,628	802,113
Unrealised exchange losses	(204,032)	(604,371)
Net exchange gains and losses	**58,516**	**129,582**

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.

There are no significant effects on the financial statements of changes in the market exchange rates subsequent to the year-end.

Note 37: Impairments on financial assets

The account represents the write-downs recognised in 2018 and in particular:

	2018	2017
Write-down investments in third party companies	310	101,343
Write-down of eq. investments in subsidiaries	0	2,132,450
Total adjustment of financial assets	**310**	**2,233,793**

Note 38: Income taxes

The breakdown of Income taxes in 2018 and 2017 was as follows:

	2018	2017
Current income taxes	5,337,812	1,453,387
Deferred tax charges	(934,051)	(941,766)
Deferred tax income	1,762,150	(652,043)
Other	(239,101)	154,325
Income taxes	**5,926,810**	**13,903**

The IRES and IRAP rates applied by the company on estimated assessable income in the year are respectively 24% and 3.9%, for current taxes and for the calculation of deferred taxes.

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

	2018	effective tax rate %	2017	effective tax rate %
Result before taxes	**23,502,199**		**(30,589,833)**	
Adjustments for items not subject to taxation (non-recurring components)	-		31,320,569	
Adjusted pre-tax profit	23,502,199	**24%**	730,736	**24%**
Theoretical IRES charge	5,640,528		175,377	
Lower taxes:				
- dividends from investments	(50,302)		(435,903)	
- “maxiamortisation”	(477,104)		(146,594)	
- IRES deduction IRAP portion on personnel costs	(75,540)		(71,216)	
- ACE benefit and 4% Post-employment benefit provisions	(310,052)		(275,998)	
- Other	-		(426,408)	

Higher taxes:				
- provisions	118,090		32,640	
- prior year charges	77,765		-	
- other non-deductible costs	195,534		178,261	
Total income taxes (IRES)	**5,118,918**	**22%**	**(969,841)**	**-133%**
Tax credits	(11,407)		-	
Taxes for previous financial years	(128,109)		(23,939)	
Foreign tax on dividends collected	64,703		178,263	
TOTAL INCOME TAXES (IRES)	**5,044,104**	**21%**	**(815,517)**	**-112%**
IRAP	948,508		922,139	
IRAP deferred tax charge	(100,355)		(100,375)	
IRAP deferred tax income	34,553		7,656	
Total taxes recognised to the Income statement	**5,926,810**	**25.2%**	**13,903**	**1.9%**

Note 39: Share-based payments

At December 31, 2018, the company held 76,128 treasury shares, of which 11,283 were acquired in 2018 in order to service the long-term incentive plan for employees and/or collaborators of the company and/or subsidiary companies, in order to incentivise achievement of the medium-term plan.

At the date of the present financial statements, there are two stock-option plans which provide for payments to identified parties, based on the value of the share price. The table below shows the economic effects deriving from these instruments:

Costs deriving from share-based payment transactions	**2018**	**2017**
Costs from equity-settled share-based payment transactions	123,389	0
Costs from cash-settled share-based payment transactions	254,000	500,000
Total costs deriving from share-based payment transactions	**377,389**	**500,000**

The two plans contain different features, as further described in the paragraphs below.

EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

On April 26, 2018, the Board of Directors of Sit S.p.A. approved the Long-Term Incentive plan for employees of the Company and its subsidiaries who hold key strategic roles within the Group.

This plan provides for the assignment of a maximum number of 312,000 shares which will mature in the three-year period 2018-2020 on the basis of specific conditions such as:

- return on the Group share;
- achievement of the cumulative performance results, calculated on the basis of the consolidated industrial plans of the Group, during the vesting period indicated;
- continuation of employment for a pre-determined period at the assignment date;

On October 8, 2018, the Board of Directors of Sit S.p.A. approved the assignment to employees specifically identified. The following table illustrates the number and average weighed exercise price (PMPE) of the options during the year:

	2018		2017	
	No. options	**Weighted average price**	**No. options**	**Weighted average price**
Outstanding at January 1	**-**	**-**	**-**	**-**
Assigned during the year	212,359	0.8244	-	-
Cancelled during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at December 31	**212,359**	**0.8244**	**-**	**-**
Exercisable at December 31	**-**	**-**	**-**	**-**

The options will be exercisable if the average of the official stock exchange price in the period between November 1, 2020 and April 30, 2021 is above Euro 13.00; if this price is below Euro 13.00, no option will be converted into shares.

The fair value of the options assigned is measured at the assignment date utilising the Monte-Carlo simulation model, taking into account the terms and conditions on which the options were granted. The model simulates the total return per share, taking into account historical dividends and expected dividends, the volatility of the price of the shares of the Group and of its competitors in order to forecast the yield of the shares.

The table below provides information utilised in the model for the plan adopted for the year December 31, 2018:

Assumptions for the measurement of the plan fair value	**2018**
Weighted fair value at the measurement date	9.8
Dividend yield (%)	2.7
Expected volatility (%)	20.0
Interest free risk rate (%)	1.0
Expected useful life of the options (in years)	3.5
Model adopted	Monte - Carlo

The expected volatility reflects the assumptions that the historical volatility is indicative of future trends which may not coincide with the actual outcome.

The expected useful life of the options is based on historical data and is not necessarily indicative of possible exercise profiles.

CASH-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

On January 15, 2018, the Board of Directors, subject to the positive completion of the procedure by the Related Parties Committee, approved the allocation to the Chairman and the Chief Executive Officer Federico de Stefani of an extraordinary gross variable emolument, quantifiable in a range between Euro 1.3 million and Euro 2.6 million, which matures in line with the achievement of the objectives to be calculated based on the performance of SIT in 2017, 2018 and 2019.

The emolument which mature by the Chairman and Chief Executive Officer must be calculated based on two components:

- Theoretical emolument related to the official maximum monthly average price (calendar) of the shares of SIT during the period between May 1, 2019 and April 30, 2020, based on a substantial linear progression in values, between a minimum of Euro 10 (equal to the admission price to trading of the Ordinary Shares of SIT on the AIM Italia) and a maximum of Euro 20, which gives the right to receive respectively, a minimum Euro 1.3 million and a maximum Euro 2.6 million; if this price is lower than Euro 10, no bonus will be due;
- Corrective related to the company performance (substantially the Equity Value); in relation to this the conversion mechanism of the Performance Shares is utilised and the effective emolument due will be fixed applying to the amount of the theoretical emolument the conversion percentage of the Performance Shares, which is related to the Equity Value in 2018 and 2019 (expressed as a fixed multiple of EBITDA less the net financial position, NFP) compared to a target value.

The table below provides information utilised in the model for the plan adopted for the year December 31, 2018:

Assumptions for the measurement of the plan fair value	2018
Weighted fair value at the measurement date	12
Dividend yield (%)	3
Expected volatility (%)	20
Interest free risk rate (%)	1
Expected useful life of the options (in years)	2
Model adopted	Monte - Carlo

The emolument will be paid in May 2020 on the completion of the verification procedure and following final approval by the Board of Directors of the consolidated financial statements as of December 31, 2018 and, where applicable, as of December 31, 2019.

OTHER INFORMATION

Related party transactions

Regarding the procedural rules applicable to related party transactions, see the policy adopted by the Company in accordance with Article 10 of the Regulations 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. Reference should be made to the Directors' Report for further information.

Transactions with holding companies and with subsidiaries of this latter

In addition to inter-company transactions, the principal transactions of SIT with related parties are those undertaken with the holding company SIT Technologies S.p.A and its subsidiary SIT Immobiliare S.p.A. whose balances at the reporting date are shown in the table below.

December 31, 2018	Revenues	Costs	Financial income	Financial charges	Financial receivables	Financial liabilities	Other receivables	Other payables
SIT Immobiliare S.p.A.	14	0	1	0	0	0	16	0
Companies subject to the control of the holding company	**14**	**0**	**1**	**0**	**0**	**0**	**16**	**0**
SIT Technologies S.p.a.	24	0	3,795	0	0	8,434	29	4,131
Holding company	**24**	**0**	**3,795**	**0**	**0**	**8,434**	**29**	**4,131**

The SIT'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 financial income from the holding company SIT Technologies S.p.A. mainly refers to the change in the fair value of the SIT Warrants and of the Performance Shares held by this latter.

The financial payables of Euro 8,434 thousand due to the holding company, SIT Technologies S.p.A., consist of the value of the Performance Shares of Euro 8,260 thousand and the value of the SIT Warrants held by the said parent company of Euro 173 thousand. Both of these financial liabilities have been designated at fair value as at December 31, 2018, as described in further detail in the relative notes.

Finally, SIT Immobiliare S.p.A., SIT Technologies S.p.A. and MeteRSit S.r.l. elected to participate in the national tax consolidation procedure for 2016-2018. The parties to this scheme, 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 Immobiliare S.p.A. as the consolidating entity and the other companies as consolidated entities, as approved by their respective governing bodies. At December 31, 2018 the payable of SIT with SIT Technologies S.p.A. amounts to Euro 4,131 thousand.

Related party transactions

As illustrated in the table below, we also report in 2018 SIT availed of consultancy totalling Euro 44.5 thousand with a company in which a shareholder is a member of the Board of Directors of SIT.

(Euro thousands)	Revenues	Costs	Financial income	Financial charges	Financial receivables	Financial payables	Other receivables	Other payables
Oaklins Arietti S.r.l	-		-	-	-	-	44.5	44.5
Transactions with other related parties	**-**		**-**	**-**	**-**	**-**	**44.5**	**44.5**

We report that on January 15, 2018, the Board of Directors, subject to the positive completion of the procedure by the Related Parties Committee, approved the allocation to the Chairman and the Chief Executive Officer Federico de Stefani of an extraordinary gross variable emolument, quantifiable in a range between Euro 1.3 million and Euro 2.6 million, which matures in line with the achievement of the objectives to be calculated based on the performance of SIT in 2017, 2018 and 2019. The emolument shall be calculated based on a component related to the performance of the SIT share price in the period under consideration and of a corrective amount related to the company performance. While reference should be made to Note 39 for the method of the calculation of these components, we indicate that in 2018 the cost matured was Euro 254 thousand recognised under non-recurring service costs which increases the current liability at December 31, 2018 totalling Euro 754 thousand.

In addition, during 2018, non-recurring costs were incurred for Euro 2,452 thousand relating to the provision of a leaving incentive and settlement with the General Manager and Chief Executive Officer Mr. Fulvio Camilli.

Intercompany transactions

The transactions carried out by the Parent Company with subsidiaries 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 2018, the company carried out the following transactions with subsidiaries and presented the following balances at the reporting date:

2018	Revenues	Costs	Financial income	Financial charges	Financial receivables	Financial payables	Other receivables	Other payables	
SIT Gas Controls Pty Ltd (Australia)	2,311	0	0	1	0	69	501		0
SIT (Shanghai) Trading Co. Ltd. (China)		0	0	3	0	0	0	0	0
SIT Manufacturing (Suzhou) Co.Ltd (China)	11,948	1,760	37	0	1,942	0	10,920		2,223
SIT Controls CR, sro (Czech Republic)		9	1,246	121	0	0	617	8	596
SIT Controls Deutschland GmbH (Germany)		188	1,270	100	0	0	398	56	444
Sit Manufacturing N.A. SA de CV (Mexico)	20,423	1,534	0	344	0	16,296	8,474		122
SIT Controls BV - (Netherlands)		4,268	2,513	104	0	2,500	3,253	2,052	829
SIT Romania Srl (Romania)	30,884	54,275	138	20	4,500	4,642	5,560		7,911
MeteRSit Romania Srl (Romania)		7	0	0	0	0	0	7	0
SIT Controls U.S.A. Inc. (USA)	20	160	0	15	0	1,550	17		64
MeteRSit S.r.l. (Italy)	1,765	34	578	1	7,109	6,328	1,966		41
Subsidiaries	**71,823**	**62,792**	**1,081**	**381**	**16,051**	**33,153**	29,561		**12,230**

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. As illustrated in the Directors` Report 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.

Remuneration of directors, statutory auditors and independent audit firm

The remuneration of directors and statutory auditors are composed as follows:

	2018	2017
Director fees	1,150,633	1,311,450
Statutory auditor fees	76,408	78,768
Total directors' and statutory auditors' fees	**1,227,042**	**1,390,218**

Director's remuneration in 2018 included an amount of Euro 254 thousand regarding the extraordinary variable bonus assigned to the Executive Chairman, as described in greater detail at Note 39.

The company paid to the audit firm, subsequent to its qualification as an EIP, total fees of Euro 138 thousand as follows:

	2018
Fees paid to the audit firm for audit services	110,000
Limited review of the consolidated non-financial report	28,000
Total	**138,000**

Relating to the period prior to the qualification as an EIP fees were recognised for audit services for Euro 181 thousand, certification services for Euro 29 thousand and other services for Euro 40 thousand.

Guarantees, commitments and off-balance sheet contingent liabilities

The off-balance sheet commitments at December 31, 2018 were as follows.

	2018	2017
Other unsecured guarantees	45,902,864	41,674,045
Secured guarantees	-	-
Total guarantees	**45,902,864**	**41,674,045**

Other unsecured guarantees

The breakdown of the Other unsecured guarantees given by the company to third parties is as follows:

	2018	2017
In the interest of subsidiaries	45,054,513	35,040,928
In own interest	848,351	6,633,117
Total other guarantees	**45,902,864**	**41,674,045**

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 Meters installation tenders. They concern for Euro 9,178 thousand co-obligations with the subsidiary, while the remaining amount concerns exclusive guarantees of SIT S.p.A..

The guarantees issued in its own interest are predominantly (Euro 694 thousand) in favour of the Tax Agency for VAT receivables offset as part of the Group declaration.

Secured guarantees

At the reporting date, the company did not have any secured guarantees in place.

Off-balance sheet transactions

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.

The above-stated agreements may entirely be classified as part of “normal industrial, commercial and financial transactions”, considering the size and the organisational complexity of SIT S.p.A. 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 through its operating activities is exposed to financial risks, in particular:

- Market risk, with particular reference to (i) currency risk deriving from operations and transactions in currencies other than the functional currency of the companies and of the Group; (ii) interest rate risk deriving from fluctuations in market interest rates; (iii) price risk deriving from changes in market prices of certain raw materials utilised by the Group in its production processes;
- Credit risk, concerning commercial transactions with its customers;
- Liquidity risk, related to the availability of financial resources and access to the credit market;

In relation to market risk, SIT has issued the following Group policies approved by the Board of Directors of the company for the Group:

- Foreign exchange risk management policy;
- Group Interest rate risk management policy;
- Company Policy to manage Group liquidity.

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 are described in the relative section of the Directors' Report, to which reference should be made.

Currency risk

SIT 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 currency hedging transactions at the reporting date are presented in Note 9 and Note 20.

We report that the hedging operations in AUD and GBP, in addition to being substantially undertaken for hedging purposes, complied with the formal requirements to be designated as "hedges" in accordance with the underlying accounting standards; the hedging operations in USD and CNY, as not complying with these formal requirements, were not designated as "hedges" and therefore the result matured in 2018 was recognised to the income statement.

Interest Rate Risk

SIT 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.

At the reporting date the company has only one significant loan for a nominal capital amount of Euro 122,850 thousand. This loan provides for a variable interest rate indexed to the Euribor at 6 months. The Company has undertaken interest rate swap for a total amount of Euro 112,840 thousand, or 91.9% of the underlying nominal value.

The details and fair values of the hedging transactions outstanding as at the reporting date are presented in Notes 14 and 20 respectively for the non-current and current portions.

Risk of raw material price fluctuations

SIT'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, SIT 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 company also enters into agreements hedging against the risk of fluctuations of raw materials prices, where deemed appropriate in the light of projections.

During 2018 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 company did not change substantially with respect to the previous year.

The details and fair values of the hedging transactions outstanding as at the reporting date are presented in the Note 20.

Financial instruments recognised at Fair Value

IFRS 13 defines the following three hierarchical fair value levels to which reference should be made for the measurement of financial instruments recorded in the balance sheet:

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

With regards to the financial instruments recognised to the financial statements at Fair Value at December 31, 2018, the following table outlines the type of instrument, its value at the reporting date and the fair value hierarchy utilised:

(in thousands of Euro)

Transaction type	Value at 31.12.2018	Valuation criterion	Level 1	Level 2	Level 3
SIT Warrants	(3,027,733)	Fair Value	(3,027,733)		
Performance Shares	(8,260,000)	Fair Value		(8,260,000)	
Interest Rate Swap	(1,420,548)	Fair Value		(1,420,548)	
Forex Forward	(38,046)	Fair Value		(38,046)	
Commodity Swaps	(9,232)	Fair Value		(9,232)	

In 2018, there were no transfers between the various levels of fair values indicated in IFRS 13.

A similar table is reported for financial instruments recognised to the financial statements at Fair Value at December 31, 2017:

Transaction type	Value at 31.12.2017	Valuation criterion	Level 1	Level 2	Level 3
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	1,313	Fair Value		1,313	
Commodity Swaps	8,351	Fair Value		8,351	

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	as
Fondirigenti G.Taliercio	7,845	Loan recognised for training plan FDIR 16030 activity expenses
Fondimpresa - Rome	140,712	Reimbursement relative quota of fondimpresa training plan code 171590 and code 214925
Tre P Engineering S.r.l	80,570	Grant on EXTRA_Flux stoichiomEtric gas burner cookTop E-FESTO project. Decree 167 15/06/17 BALANCE
CSEA - Cash for energy and environmental services	188,105	Energivore 2014 company contribution
Total	**417,232**	

Subsequent events after year-end

For subsequent events, reference should be made to the Directors' Report.

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In accordance with the provisions of IAS 1, simultaneous to the authorisation of the publication of these separate financial statements, the Board of Directors of SIT S.p.A. proposes to the Shareholders' Meeting:

- to use part of the profit for the year, equal to Euro 470 to increase the legal reserve pursuant to Article 2430 of the Italian Civil Code; thus, reaching one-fifth of the share capital;
- to use part of the profit for the year, equal to Euro 9,512,926, to increase the Warrant reserve;
- to use part of the profit for the year, equal to Euro 3,240,000, to increase the performance shares reserve;
- to use part of the profit for the year, equal to Euro 55,073, to make available the IAS/IFRS first-time application reserve;

- to distribute a dividend of Euro 0.28 per share, for a total of Euro 6,690,308, utilising the residual Euro 4,766,919 of the profit for the year and for the difference, part of the capital payments reserve.

Padua, March 22, 2019

The Chairman of the Board of Directors

(Mr. Federico de' Stefani)

DECLARATION ON THE SEPARATE FINANCIAL STATEMENTS PURSUANT TO CONSOB ISSUERS' REGULATION NO. 11971

Declaration on the Separate Financial Statements pursuant to Article 81-ter of Consob Regulation No. 11971 of May 14, 1999 and subsequent amendments and supplements

The undersigned Federico de' Stefani, Chairman and Chief Executive Officer, and Paul Fogolin, Executive Officer for Financial Reporting, of Sit S.p.A., declare, and also in consideration of Article 154-bis, paragraphs 3 and 4 of Legislative Decree No. 58 of February 24, 1998:

- the adequacy in relation to the business operations and
- The application of the administrative and accounting procedures for the compilation of the separate financial statements for the period January - December 2018.

We also certify that the separate financial statements:

- correspond to the underlying accounting documents and records;
- were prepared in accordance with International Financial Reporting Standards adopted by the European Union through Regulation (EC) No. 1606/2002 of the European Parliament and the Council of July 19, 2002 and also in accordance with Article 9 of Legislative Decree 38/2005 and provide a true and fair representation of the balance sheet, financial position and results of the company and of the consolidated companies.
- the Directors' Report includes a reliable analysis on the performance and operating result, as well as the situation of the issuer and of the companies included in the consolidation, together with a description of the principal risks and uncertainties to which they are exposed.

Padua, March 22, 2019

The Chief Executive Officer

Federico de' Stefani

The Executive Officer for Financial Reporting

Paul Fogolin

BOARD OF STATUTORY AUDITORS’ REPORT

SIT S.P.A.

Registered office in Padua - Viale dell'Industria No. 31

Share capital Euro 96,151,920.60 fully paid-in

Padua Companies Registration Office and Tax No.: 04805520287

Padua Economic and Administrative Index No.: 419813

*REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING

in accordance with Article 153 of Legislative Decree 58/1998 and Article 2429 of the Civil Code

Dear Shareholders,

During the year ended December 31, 2018, we performed the supervisory activities required by law (Article 2403 of the Civil Code and Article 149 of Legislative Decree 58/1998, also known as the "Consolidated Finance Act" or "CFA"), in accordance with the Standards of Conduct for Boards of Statutory Auditors of Listed Companies of the Italian Accounting Profession (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili), the Consob recommendations regarding company controls and the activities of the Board of Statutory Auditors, the provisions of the Self-Governance Code and, in our capacity as Internal Control and Audit Committee, Article 19 of Legislative Decree 39/2010, as amended by Legislative Decree 135/2016.

It should firstly be noted that on April 26, 2018 the Shareholders' Meeting of SIT S.p.A. replaced the member Mr. Alberto Bisello, who had resigned, with Ms. Loredana Anna Conidi until the date of the Shareholders' Meeting called to approve the financial statements at and for the year ending on December 31, 2019.

The Board of Statutory Auditors monitored compliance with the principles of correct administration and, in particular, the suitability of the organizational, administrative and accounting structures adopted by the company and their practical functioning, as well as the conditions of concrete implementation of the corporate governance rules provided for in applicable legislation. The Board of Statutory Auditors also reviewed the independence of the independent audit firm.

The Board of Statutory Auditors held 17 meetings in 2018. Moreover, the Board of Statutory Auditors participated:

- in the Shareholders' Meeting of April 26, 2018, in collegial form;

- Board of Directors' meetings, in collegial form, in accordance with article 149, paragraph 2, of Legislative Decree 58/98, of which 18 were held;

- in meetings of the Control, Risks and Sustainability Committee, of which there were six, in collegial form.

Statutory and By-Law oversight activities

In accordance with Article 153 CFA and Article 2429, paragraph 2, of the Civil Code, and considering the recommendations provided by Consob, we inform you of the following.

We verified compliance with the law and the By-Laws, without any observations or remarks in accordance with applicable legislation. We verified compliance with disclosure obligations concerning regulated and inside information and requests received from the supervisory authorities pursuant to Article 114 of Legislative Decree 58/1998.

We received from the directors, on at least a quarterly basis, information relating to the activities carried out and on the most significant transactions undertaken by the company and by its subsidiaries, from the standpoint of financial performance and financial position, as well as the business outlook and progress of the strategic projects initiated. On this basis, we may reasonably assure you that the actions taken and deliberated upon by the company were in compliance with the law and the company's By-laws and were not manifestly imprudent, injudicious or in conflict with the resolutions taken in shareholders meetings or such as to compromise the company's financial integrity.

A description of the main Group reorganization activities and most significant Company events in 2018, to which the Board of Statutory Auditors believes attention should be drawn, is provided below:

- the consensual termination of employment as general manager and of the relationships arising from the offices held by Mr. Fulvio Camilli at the company and at SIT Group companies on August 7, through the signing of a settlement agreement as per Article 2113 of the Civil Code;
- changes in the composition of the Board of Directors:
    - the resignation of Independent Director Mr. Marzio Saà on June 15;
    - the co-opting of Independent Director Ms. Stefania Bariatti on July 6;
    - the resignation of Executive Director Mr. Fulvio Camilli on August 7;
    - the resignation of Independent Director Ms. Stefania Bariatti on October 17;

- the co-opting of Independent Directors Ms. Bettina Campedelli and Mr. Antonio Campo dall'Orto on October 17;
  - works on production facilities, involving the construction of a new workshop (production competence center) and the development of an integrated logistics facility for components and finished products, were launched on September 28;
- the ordinary shares and warrants of SIT S.p.A. began to be traded on the Mercato Telematico Azionario (MTA), and were excluded from trading on the AIM Italia market, with effect from November 28.

Following its listing on the MTA, the Company adopted the Self-Governance Code for Listed Companies in the form and manner presented in thorough detail in the Corporate Governance and Ownership Structure Report. In particular, it bears remarking that a Remuneration Committee was formed with effect from the date of the listing, whereas the other internal committees within the Board of Directors (the Control, Risks and Sustainability Committee and the Related Parties Committee) had been formed previously and were already functioning in the course of the year.

Oversight of conformity with correct administrative principles, the suitability of the organizational, administrative and accounting structure and the suitability of the internal control and risk management system

We have investigated and verified, to the extent of our responsibility, compliance with correct administrative principles and the suitability of the Company's organizational structure and the directives issued by the company to its subsidiaries in accordance with Article 114, paragraph 2, of Legislative Decree 58/1998, through information obtained from the independent auditors.

We maintained relations with the boards of statutory auditors of the Italian subsidiaries in the interest of the reciprocal exchange of relevant data and information. No critical issues were identified as a result of the exchange of information with the boards of statutory auditors of the subsidiaries. We also reviewed and obtained information on the organizational and procedural activities undertaken as per Legislative Decree 231/2001 and, on this basis, as well as in light of the exchanges of information with internal control functions, we have nothing to relate in this report.

In 2018 the Company did not undertake any atypical and/or unusual transactions, as defined in Note 2 to Consob Communication No. DEM/1025564 of April 6, 2001. The Board of Statutory Auditors reports that management decisions were therefore inspired by the principle of proper information and reasonableness.

We have gathered evidence of the suitability of the composition, size and functioning of the Board of Directors, particularly as regards the formulation of the company's strategic guidelines, the assessment of the performance for the year, the analysis of the company's risk profile and the planning of the new organizational structure.

The Board of Statutory Auditors has supervised the circumstances of concrete implementation of the recommendations set out in the Self-Governance Code adopted by the company, with effect from the date of the listing. The Board of Statutory Auditors has reviewed the content of the Corporate Governance and Ownership Structure Report prepared in accordance with Article 123-bis CFA, approved by the Board of Directors on March 22, 2019 and available from the company's website. On March 22, 2019 the Board of Directors also examined the recommendations formulated in the annual report by the Corporate Governance Committee on the application of the Self-Governance Code.

Pursuant to Article 149, paragraph 1, letter c-*bis*, of Legislative Decree 58/1998 and the Self-Governance Code, we have verified:

- the circumstances of implementation of the corporate governance rules laid down in the aforesaid code of conduct, in respect of which we have nothing to report;
- the proper application of the criteria and procedures adopted by the Board of Directors to assess the independence of its members and other procedures of public record.

As recommended by the Rules of Conduct for Boards of Statutory Auditors of Listed Companies, the Board of Statutory Auditors has conducted a self-assessment of its composition and functioning and reported the findings to the Board of Directors.

Pursuant to section 8.C.1 of the Self-Governance Code, we also report that we have verified that the members of the Board of Statutory Auditors continued to satisfy independence requirements, in accordance with the criteria set out in the Self-Governance Code, and that we have adopted procedures aimed at ensuring an impartial, accurate assessment for each member.

The Board of Statutory Auditors has examined the contents of the Remuneration Report, which sets out a detailed account of the implementation of remuneration policies. Finally, the Board of Statutory Auditors has gathered evidence that the company processes resulting in the establishment of the company's remuneration policies – with particular regard to the remuneration criteria of the executive directors, Executive Officer Responsible and Internal Audit Manager – are consistent with the company's aims.

In 2018 the company established an Internal Audit Function and appointed an Internal Audit Manager. The Board of Statutory Auditors gave a favourable opinion of the proposal to appoint the Internal Audit Manager, with the award of the relevant powers and budget to the Function.

The Board of Statutory Auditors has verified and assessed the suitability of the Internal Control and Risk Management System through meetings, in some cases, in view of specific issues, with the Control, Risks and Sustainability Committee, as well as with the Internal Audit Manager, in order to obtain information regarding the results of the audit process. The Board of Statutory Auditors has conducted periodic exchanges of information with members of the Risk Management Function and the Internal Audit Function, with regard to the analysis and monitoring of the main company risks. In particular, meetings were held with company management regarding the methods of identifying and adopting countermeasures for the risks deemed most significant. In accordance with Legislative Decree 39/2010, the Board of Statutory Auditors has conducted specific analyses of the activities and audits performed by the Internal Audit Function, including in respect of financial reporting processes.

On April 26, 2018, the Board of Statutory Auditors, at the request of the Chairman of the Board of Directors, gave a favourable opinion of the proposed appointment of Mr. Paul Fogolin, Chief Financial Officer, as Executive Officer for Financial Reporting of SIT S.p.A. and the conferral of the relevant powers. The Board of Statutory Auditors deemed Mr. Fogolin fit to discharge this function on the basis of his professional and personal integrity.

In our role as Internal Control and Audit Committee, we have evaluated and verified the suitability of the internal control and administration and accounting systems and the reliability of this latter in correctly representing operating events by obtaining of information from the persons responsible for the various functions, examining company documents, assessing the findings of the Internal Audit Function's plan of activities and analysing the results of the work performed by the independent audit firm, in addition to supervising the activity of the person responsible for internal control. In particular, the Executive Officer for Financial Reporting, with support from the competent company functions, carried out a monitoring plan involving key controls of processes relevant to financial reporting – controls which found that the model aimed at ensuring compliance with Law 262/2005 was functioning as intended.

The Board of Statutory Auditors has verified:

- the existence of, and update process for, internal procedures relating to the main company cycles and the verification activities undertaken by internal control;
- the adoption of administrative procedures suited to providing the necessary information regarding operations and the financial performance and financial position data of companies formed and existing under the laws of non-European Union countries deemed of significant importance pursuant to Articles 36 and 39 of the Market Regulations;
- that the reporting streams from the non-EU subsidiaries are adequate for performing control activity on the annual and interim accounts, as provided for in Article 15 of the Market Regulations, adopted by Consob resolution no. 20249 of December 28, 2017.

No significant information warranting disclosure in this report has been brought to light on this point.

In respect of the reporting of non-financial information and information on the diversity of the composition of the governance, management and control bodies of large companies and groups (Legislative Decree 254 of December 30, 2016 and the Implementing Regulation adopted by Consob resolution no. 20267 of January 18, 2018), the Board of Statutory Auditors:

- verified the company's structure for discharging the obligation to prepare a non-financial report pursuant to Legislative Decree 252/2016;
- received constant information regarding the activities carried out to identify non-financial reporting areas relevant to the SIT Group to be included in the Non-Financial Report;
- observed the adoption of policies by the Board of Directors relating to sustainability topics;
- met with the independent audit firm Deloitte & Touche S.p.A., which was commissioned to conduct a limited review of the Non-Financial Report.

On the basis of the information acquired, the Board of Statutory Auditors considers that operations were carried out in accordance with the principles of correct administration and that the organizational, administrative and accounting structure that guides the financial reporting system and the internal control and risk management system are overall adequate to company needs.

The Board of Statutory Auditors have no particular observations to make with regard to the above aspects.

Oversight of the auditing of accounts

In accordance with Art. 19 of Legislative Decree 39/2010, the Board of Statutory Auditors, which is identified in that same Article as the "Internal Control and Audit Committee", carried out the prescribed supervision of the independent audit firm's activity.

Following the resolution passed by the Shareholders' Meeting held on April 26, 2018, and with effect from the date of the listing on the MTA, the audit firm Deloitte & Touche S.p.A. replaced Ernst and Young S.p.A. as the independent audit firm.

The Board of Statutory Auditors met on several occasions with the independent audit firm Deloitte & Touche S.p.A. as per Article 150 of the CFA to exchange information regarding its activity. At these meetings, the independent audit firm never indicated any facts or irregularities requiring specific reporting as per Article 155, paragraph 2, of the CFA.

On April 2, 2019, the independent audit firm, in accordance with Article 14 of Legislative Decree 39/2010 and Article 10 of Regulation (EU) No 537/2014, issued its auditors' report on the statutory financial statements and consolidated financial statements at and for the year ended December 31, 2018.

With regards to opinions and certifications, in the auditor's report the independent audit firm:

- issued an opinion to the effect that the statutory and consolidated financial statements of SIT S.p.A. provide a true and fair view of the equity and financial situation of SIT S.p.A. and of the Group at December 31, 2018, as well as of the result and cash flows for the year ending at that date, in compliance with the IASs/IFRSs adopted by the European Union and the provisions issued in implementation of Article 9 of Legislative Decree 38/2005;
- issued a conformity opinion to the effect that the directors' reports accompanying the statutory and consolidated financial statements at and for the year ended December 31, 2018 and certain specific information contained in the corporate governance and ownership structure report indicated in Article 123-bis, paragraph 4 of the CFA – responsibility for which lies with the Company's Directors – have been prepared in accordance with the law;
- declared, with regards to any material misstatements in the directors' reports, on the basis of its knowledge and understanding of the company and of the relative context, that it did not have any matters to report.

On April 2, 2019 the independent audit firm also issued its report on the consolidated non-financial report pursuant to Article 3 of Legislative Decree 254/2016 and Article 5 of Consob Regulation No. 20267 of January 18, 2018, in which it is stated that no elements have come to the attention of the said independent audit firm indicating that the consolidated non-financial report of the SIT Group relating to the year ended December 31, 2018 has not been prepared, in all material respects, in accordance with Articles 3 and 4 of the said Decree and the GRI Standards.

Finally, on April 2, 2019 the independent audit firm issued a statement regarding its independence, as required by Article 6 of Regulation (EU) No 537/2014, indicating no situations which may compromise such independence. Lastly, the Board of Statutory Auditors acknowledges the transparency report prepared by the independent audit firm and published on its website in accordance with Article 18 of Legislative Decree 39/2010.

Following the listing on the MTA, neither the independent audit firm nor other firms in its network rendered auditing services beyond the legally mandated obligations for listed companies, either to SIT S.p.A. or other SIT Group companies.

In 2018, before the listing on the MTA, the independent audit firm Deloitte & Touche was paid Euro 297 thousand for auditing services (specifically, for the auditing of the half-yearly financial report), of which Euro 181 thousand by SIT S.p.A, Euro 29 thousand for certification services, solely by SIT S.p.A., and Euro 40 thousand for other services, solely by SIT S.p.A.

None of these services are prohibited under Article 5(1) of Regulation (EU) No 537/2014. The fees, disclosed in an annex to the financial statements as required by Article 19-*duodecies* of the Issuers Regulations, were recognized to the income statement.

Taking account of the assignments awarded by SIT S.p.A. and by Group companies to Deloitte & Touche S.p.A. and its network, the Board of Statutory Auditors does not believe that there are any critical aspects with regards to the independence of Deloitte & Touche S.p.A.

The independent audit firm also confirmed for the Board of Statutory Auditors that it had not issued any opinions in accordance with the law, in the absence of the conditions for issuing such opinions.

With regard to the preparation of the statutory and consolidated financial statements, the Board of Statutory Auditors acknowledges that the Board of Directors approved the impairment procedure in accordance with the joint Bank of Italy, Consob and ISVAP Document of March 3, 2010.

On April 2, 2019 the independent audit firm presented its additional report, as required by Art. 11 of European Regulation No 537/2014, to the Board of Statutory Auditors, including:

- a declaration of independence of the independent audit firm;
- an illustration of the extent and timing of the legally required audit, description of the methodologies utilized and an indication of the overall complexity;
- an indication and assessment of the valuation methods applied to the various accounts of the statutory financial statements, without any critical issues relating to the appropriateness of the accounting standards adopted by the company;
- no doubts as to the ability of SIT S.p.A. to continue to operate as a going concern (going concern principle);
- no significant deficiencies in the internal control system with regard to the financial reporting process;
- no reports of cases of significant non-compliance with laws, regulations or provisions of the By-laws in respect of the activity of the Board of Statutory Auditors;
- no reports of limitations of auditing activity nor the existence of significant difficulties emerging from the statutory audit.

In this regard, as mandated by Art. 19 of Legislative Decree 39/2010, the Board of Statutory Auditors informed the Board of Directors thereof on April 2, 2019, without believing it necessary to accompany its report with any substantive remarks of its own.

Oversight on related party transactions

Within the framework of transactions with Group companies or related parties pursuant to Articles 2391 and 2391-bis of the Civil Code, we observed:

- the existence of inter-company transactions at the level of ordinary dealings affecting ordinary financial performance, financial position and operating results with subsidiaries, associates, the parent company or other related parties. Such dealings have been disclosed in a specific annex to the notes to the statutory and consolidated financial statements. In particular, we note that:
    - such ordinary dealings are primarily financial, commercial, service-related or consultancy-related;
    - the aforementioned transactions with subsidiaries, associates, the parent company and other related parties have been deemed at consideration fair and consistent with the Company’s interests;
- we have not observed the existence of atypical and/or unusual transactions with related parties nor transactions capable of having a significant impact on the Company’s operating results, financial position and financial performance;
- the information contained in the Directors’ report on operations and the notes to the financial statements on intra-Group transactions, transactions with related parties and atypical and/or unusual transactions is considered adequate.

On May 10, 2018, the company adopted a procedure governing transactions with related parties pursuant to Article 10 of the Regulation enacting the provisions concerning related party transactions adopted by Consob Resolution No. 17221 of March 12, 2010, subsequently amended with Resolution No. 17389 of June 23, 2010. The procedure entered into effect at the time of the listing on the MTA and was then modified on February 27, 2019 to improve its functioning.

The Board of Statutory Auditors observes that in 2018 transactions with related parties were undertaken in the company’s interest and in accordance with the Related Parties Transactions Procedure and notes that there are no elements relating to their fairness and correspondence with the company’s interests to be reported herein.

Omissions or reportable events, opinions provided and initiatives undertaken

During the year, no reports were received as per Article 2408 of the Italian Civil Code, nor were any complaints received from shareholders and/or third parties.

In 2018 the Board of Statutory Auditors issued and formulated opinions required by applicable legislation, in addition to the consultative opinions required by the Self-Governance Code and the policies and procedures adopted by the Company with regard to: (i) the remuneration policies laid down in the Remuneration Report; (ii) the appropriateness of the appointment of the executive responsible for the preparation of the accounting documents; (iii) the appropriateness of the appointment of the Internal Audit Manager; (iv) the award of the independent auditing assignment for the nine-year period 2018 - 2026; and (v) the award of an assignment to conduct a limited review of the non-financial report.

During the year, we constantly conducted the supervisory activity prescribed by Art. 149 of Legislative Decree 58/1998 and we may conclusively affirm that in the course of our activity we have not identified any irregularities, omissions or reportable events, and that we therefore do not have proposals to make to the shareholders' meeting pursuant to Article 153, paragraph 2, of Legislative Decree 58/1998.

Conclusions

The statutory financial statements of SIT S.p.A. at and for the year ended December 31, 2018 and the consolidated financial statements at and for the year ended on that same date have been drawn up in accordance with the IASs/IFRSs issued by the International Accounting Standards Board ("IASB"), pursuant to the provisions of Legislative Decree 38 of February 28, 2005 implementing Regulation (EC) No 1606/2002 of the European Parliament and the Council of July 19, 2002.

The Board of Statutory Auditors has reviewed the criteria adopted in preparing the aforementioned financial statements, with particular regard to their content and structure, scope of consolidation and uniformity of application of accounting principles, the existence of adequate disclosure on company performance and impairment tests and continuing application of the going concern principle.

As we were not required to perform analytical control of the financial statements, we verified the general preparation of the statutory and consolidated financial statements and the general conformity with the law in relation to their formation and structure, and we have no particular matters to report upon in this regard.

To our knowledge, the Directors did not make recourse to any exceptions as permitted by Article 2423, paragraph 4 of the Civil Code in the preparation of the statutory financial statements.

We have verified that the financial statements and report on operations correspond to the facts and the information which we have acquired during our work and we have no matters to report. The statutory and consolidated financial statements of SIT S.p.A. are accompanied by the prescribed report by the independent audit firm, to which we refer.

On all the above grounds, the Board of Statutory Auditors expresses a favourable opinion on the approval of the statutory financial statements at and for the year ended December 31, 2018, as presented by the Board of Directors, and agrees with the proposal presented by the Board of Directors on the allocation of the net profit for the year.

*

Padua, April 2, 2019

THE BOARD OF STATUTORY AUDITORS

Saverio Bozzolan – Chairman   Loredana Anna Conidi   Ivano Pelassa

INDEPENDENT AUDITORS' REPORT ON THE SEPARATE FINANCIAL STATEMENTS

Deloitte.

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INDEPENDENT AUDITOR'S REPORT
PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010
AND ARTICLE 10 OF THE EU REGULATION 537/2014

To the Shareholders of
SIT S.p.A.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

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

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2018, 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 and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

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 Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Deloitte.

Impairment test of goodwill relating to Heating CGU and of carrying amount of some subsidiaries	
Description of the key audit matter	The financial statements as at December 31, 2018 include a goodwill amounted to Euro 85 million allocated to the Heating Cash Generating Unit. Goodwill, as provided by "IAS 36 Impairment of assets", is not amortized, but is subjected to the impairment test at least annually by comparing the recoverable value of the CGU - determined according to the value in use method - and the carrying amount, which takes into account both goodwill and other tangible and intangible assets allocated to the CGU. In addition, the financial statements include, among others, investments booked at the historical cost reduced by any impairment losses in SIT Control BV (Euro 35.5 million), SIT Manifacturing Co. Ltd (Euro 2.6 million) and Metersit S.r.l. (Euro 29.7 million) which are also subjected to the impairment test for the purpose of verifying the recoverability of the related book values also considering the differences with respect to the relevant shareholders' equity. The impairment tests were approved by the Board of Directors on March 22, 2019. The Management evaluation process is complex and it is based on assumptions regarding, among other things, the expected cash flows from the CGU and from the subsidiaries and the determination of appropriate discount rates (WACC). These assumptions are influenced by future expectations and market conditions. As a result of the impairment tests no impairment losses were recognized. In consideration of the relevance of the amount of goodwill and of the aforementioned subsidiaries, the subjectivity of the estimates relating to the determination of the expected cash flows attributable to the CGU Heating and to the subsidiaries and of the key variables of the impairment model, we have considered the impairment test of the goodwill and of the aforementioned subsidiaries a key audit matter of the financial statements of SIT S.p.A. The notes 1 and 3 show the information on goodwill and on the subsidiaries, including a sensitivity analysis that illustrates the effects of the changes in the key variables used in the impairment tests.
Audit procedures performed	As part of our audit we have, among other things, carried out the following procedures, also taking advantage of the support of experts: • examination of the methods used by the Management to determine the value in use of the Heating CGU and of the recoverable amount of the subsidiaries, analyzing the methods and assumptions used by the Management for the development of the impairment tests; • understanding of the main controls put in place by Management on the process of carrying out the impairment tests;

- analysis of the reasonableness of the main assumptions adopted for the formulation of expected cash flow also through analysis of sector data and obtaining information from the Management;
- analysis of actual data with respect to the original plans to assess the nature of the deviations and the reliability of the plan preparation process;
- assessment of the reasonableness of discount rates (WACC);
- verification of the mathematical accuracy of the model used to determine the value in use of the CGU and the recoverable amount of the subsidiaries;
- verification of the correct determination of the carrying amount of the CGU and of the subsidiaries;
- verification of the sensitivity analysis prepared by the Management;
- analysis of the adequacy and compliance of the information provided in the financial statements on the impairment tests with respect to the provisions of IAS 36.

Accounting treatment of Warrants on shares and Performance Shares (hereinafter also "Financial Instruments")

Description of the key audit matter

As part of the reorganization of the corporate structure that took place in the previous year, the Company issued n. 5.350.000 Warrants convertible into Ordinary Shares according to the terms and conditions provided by the Warrants Regulation. Furthermore, in 2017, the Company converted 250,000 Ordinary Shares owned by the parent company into the same number of Performance Shares, convertible into Ordinary Shares under the terms and conditions provided for by the Corporate by-laws.

In 2017, the Financial Instruments were recognized, in accordance with the applicable accounting standards, at the date of initial recognition as financial liabilities determined on the basis of the fair value derived from market prices, with the contra-entry to the items of the shareholders' equity Warrant Reserve and Performance Shares Reserve, and with recognition in the statement of profit and loss of the subsequent changes in fair value.

The adjustment of the financial liabilities to the fair value based on market prices as at 31 December 2018 led to the recognition in the income statement of a financial income of approximately Euro 13 million.

In consideration of the characteristics of the Financial Instruments and the relevance of the accounting effects on the financial statements as at 31 December 2018, we have considered the valuation and the accounting of the Warrants and Performance as a key audit matter of the financial statements of SIT S.p.A.

The notes 23 and 24 to the statement of financial position and the note 34 to the statement of profit and loss provide information on the Financial Instruments.

Audit procedures performed

As part of our audits we have, among other things, carried out the following procedures, also taking advantage of the support of experts:

- examination of the documentation governing the Financial Instruments: Warrant Regulation, Corporate by-laws, Shareholders 'Agreement and Resolutions of the Shareholders' Meeting, for the purpose of understanding the nature, characteristics and the timing of the conversion;
- verification of the adequacy of the accounting principles applied for the valuation and representation of the transactions described above;
- analysis of the reasonableness of the assumptions made by the Company's Management regarding the methods and timing of conversion of Performance Shares into Ordinary Shares;
- verification of the fair value used with respect to the market quotations referable to the Financial Instruments at the valuation date;
- analysis of the adequacy and compliance of the information provided in the financial statements with the reference accounting standards.

Other information

The financial statements of the SIT Group for the year ended on December 31, 2017 have been audited by another auditor who, on April 9, 2018, expressed an unmodified opinion on these financial statements.

Responsibilities of the Directors and the Board of Statutory Auditors for the Financial Statements

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Company or for the termination of the operations or have no realistic alternative to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain 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.

- Obtain 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The Shareholders' Meeting of SIT S.p.A. has appointed us on April 26, 2018 as auditors of the Company for the years from December 31, 2018 to December 31, 2026.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

Deloitte.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14, paragraph 2 (e), of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98

The Directors of SIT S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and ownership structure of SIT S.p.A. as at December 31, 2018, including their consistency with the related financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98 with the financial statements of SIT S.p.A. as at December 31, 2018 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and information contained in the report on corporate governance and ownership structure are consistent with the financial statements of SIT S.p.A. as at December 31, 2018 and are prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the entity and of the related context acquired during the audit, we have nothing to report.

DELOITTE & TOUCHE S.p.A.

Signed by
Gianna Adami
Partner

Padova, Italy
April 2, 2019

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