CONSOLIDATED FINANCIAL STATEMENTS
AS AND FOR THE YEARS ENDED 31 DECEMBER 2017
AND 31 DECEMBER 2018

Re-stated in accordance with IFRS and prepared for specific purposes

Contents

Consolidated financial statements

www.sicitgroup.com
https://it.linkedin.com/company/sicit-group

Statement of profit or loss and other comprehensive income

(in thousands of Euros)	Note	2018	2017
Revenue	4	**55,143**	**53,857**
Cost of sales	5	(32,953)	(29,990)
Gross operating profit		**22,190**	**23,867**
Trade costs	5	(3,404)	(2,748)
Research and development	5	(1,273)	(802)
General and administrative costs	5	(3,003)	(2,951)
Other income	6	1,626	541
Operating profit		**16,136**	**17,907**
Net financial income (expense)	7	234	(190)
Profit before tax		**16,370**	**17,717**
Income taxes	8	(4,294)	(4,805)
Profit for the year		**12,076**	**12,912**
Attributable to			
Owners of the parent		12,076	12,912
Non-controlling interests		-	-
Earnings per share			
Basic		1.443	1.543
Profit for the year		**12,076**	**12,912**
Other items of comprehensive income that will not be reclassified to profit or loss			
Remeasurements of defined benefit liability		14	1
Related tax		(3)	-
Other items of comprehensive income that are or may be reclassified subsequently to profit or loss			
Foreign operations - Foreign currency translation differences		2	(1)
Related tax		-	-
Profit for the year		**12,089**	**12,912**

Basic earnings per share are calculated on the average number of shares outstanding in the respective years, equal to 8,366,602 in both 2018 and 2017. Diluted earnings per share have not been presented in these consolidated financial statements as they are equal to basic earnings per share.

Statement of financial position

(in thousands of Euros)	Note	**31.12.18**	**31.12.17**	**1.1.17**
Goodwill		-	-	-
Intangible assets	9	259	136	114
Property, plant and equipment	10	43,253	38,225	35,064
Equity investments		-	-	-
Non-current financial assets	11	44	44	43
Deferred tax assets	12	267	166	152
Total non-current assets		**43,823**	**38,571**	**35,373**
Inventories	13	9,960	8,264	7,287
Trade receivables	14	9,787	9,534	8,676
Other assets	15	3,317	1,617	1,346
Cash and cash equivalents	16	15,138	15,456	12,789
Total current assets		**38,202**	**34,871**	**30,098**
Total assets		**82,025**	**73,442**	**65,471**
Share capital		8,367	8,367	8,367
Reserves and undistributed earnings		46,218	39,987	36,903
Profit for the year		12,076	12,912	9,779
Total equity attributable to the owners of the parent		**66,661**	**61,266**	**55,049**
Equity attributable to non-controlling interests		-	-	-
Total equity	17	**66,661**	**61,266**	**55,049**
Non-current financial liabilities	18	255	-	-
Employee benefits	19	264	280	382
Provisions for risks and charges	20	-	4	8
Deferred tax liabilities	12	2,338	2,344	2,349
Total non-current liabilities		**2,857**	**2,628**	**2,739**
Current financial liabilities	18	1,366	-	-
Trade payables	21	9,085	6,885	4,943
Other current non-financial liabilities	22	2,048	2,583	2,740
Employee benefits	19	8	80	-
Total current liabilities		**12,507**	**9,548**	**7,683**
Total liabilities		**15,364**	**12,176**	**10,422**
Total equity and liabilities		**82,025**	**73,442**	**65,471**

Statement of cash flows

(in thousands of Euros)	Note	**2018**	**2017**
Profit for the year		**12,076**	**12,912**
Adjustments for			
Amortisation	5	78	60
Depreciation	5	4,309	4,166
Accruals to provisions	14	119	22
Net financial income (expense)	7	(234)	190
Other non-cash items		(4)	(30)
Income taxes	8	4,294	4,805
Cash flows from operating activities before changes in net working capital		**20,638**	**22,125**
Increase in inventories	13	(1,696)	(977)
Increase in trade receivables	14	(263)	(1,077)
Increase in trade payables	21	2,200	1,942
Increase in other assets/liabilities		(3,503)	(744)
Decrease in employee benefits	19	(78)	(26)
Interest collected		129	12
Income taxes paid		(3,139)	(4,515)
Cash flows from operating activities (a)		**14,288**	**16,740**
Acquisition of property, plant and equipment;	10	(9,333)	(7,297)
Acquisition of intangible and financial assets	9	(201)	(83)
Proceeds from the sale of property, plant and equipment and intangible assets		-	-
Cash flows used in investing activities (b)		**(9,534)**	**(7,380)**
New loans	18	2,097	-
Repayments of borrowings	18	(476)	-
Dividends paid	17	(6,693)	(6,693)
Cash flows used in financing activities (c)		**(5,072)**	**(6,693)**
Total cash flows (a+b+c)		**(318)**	**2,667**
Opening cash and cash equivalents		**15,456**	**12,789**
Closing cash and cash equivalents		**15,138**	**15,456**

Statement of changes in equity

(in thousands of Euro)	Share capital	Legal reserve	Share premium reserve	Fair value reserve	Extraordinary reserve	FTA reserve	Other reserves	Profit for the year	**Total equity**	Equity attributable to non-controlling interests	**Total equity**
Balance at 01.01.17	**8,367**	**1,806**	**5,161**	**7,146**	**21,305**	**(25)**	**1,508**	**9,779**	**55,049**	**-**	**55,049**
Dividends	-	-	-	-	-	-	-	(6,693)	(6,693)	-	(6,693)
Allocation of the profit for the year	-	-	-	-	3,065	-	21	(3,086)	-	-	-
Other reclassifications	-	(133)	-	-	155	-	(22)	-	-	-	-
Profit for the year	-	-	-	-	-	-	-	12,912	12,912	-	12,912
Other changes	-	-	-	-	-	-	(2)	-	(2)	-	(2)
Other comprehensive income for the year	-	-	-	-	-	-	-	-	-	-	-
Balances at 31.12.17	**8,367**	**1,673**	**5,161**	**7,146**	**24,525**	**(25)**	**1,506**	**12,912**	**61,266**	**-**	**61,266**
Dividends	-	-	-	-	-	-	-	(6,693)	(6,693)	-	(6,693)
Allocation of the profit for the year	-	-	-	-	6,228	-		(6,228)	-	-	-
Other reclassifications	-	-	-	-	-	-	(9)	9	-	-	-
Profit for the year	-	-	-	-	-	-	-	12,076	12,076	-	12,076
Other changes	-	-	-	-	-	-	(1)	-	(1)	-	(1)
Other comprehensive income for the year	-	-	-	-	-	-	13	-	13	-	13
Balance at 31.12.18	**8,367**	**1,673**	**5,161**	**7,146**	**30,753**	**(25)**	**1,509**	**12,076**	**66,661**	**-**	**66,661**

Notes to the consolidated financial statements

1. General information

The Sicit 2000 Group (the "Group") manufactures and sells of products for the agricultural and industrial sectors, in Italy and abroad, in addition to disposing of the by-products of leather tanning companies.

The parent, Sicit Group S.p.A., (formerly Sicit 2000 S.p.A., "Sicit 2000" or the "Parent") operates from the Chiampo (VI) headquarters and the Arzignano (VI) branch.

Sicit 2000 uses a hydrolysis process to transform the processing residues and waste of leather tanning into protein hydrolysates used as biostimulants for agriculture, retardants for the gypsum industry and animal fat for industrial uses.

2. Format and content of the consolidated financial statements

The consolidated figures at 31 December 2017 and 31 December 2018, restated in accordance with the IFRS (International Financial Reporting Standards) for specific purposes ("Restated IFRS figures”), have been prepared for inclusion in the Prospectus that the company will prepare pursuant to article 94.1 and 2 of Legislative decree no. 58 of 24 February 1998 (“Consolidated finance act” or "TUF"), for the admission to trading of its ordinary shares on the Italian electronic stock exchange (“MTA”) organised and managed by Borsa Italiana S.p.A..

These Restated IFRS figures derive from the financial statements of Sicit 2000 at 31 December 2016, 31 December 2017 and 31 December 2018 prepared in accordance with Italy’s reporting standards (OIC) and the reporting packages of Sicit 2000’s subsidiaries, i.e., Sicit Commercial Consulting Shanghai LTD and Sicit USA Inc., drawn up for consolidation purposes in accordance with the Group’s accounting policies.

The Group prepared consolidated financial statements at 31 December 2017 and 31 December 2018 which already include the effects of the IFRS adoption, for the sole purpose of their inclusion in the Prospectus.

Therefore, and given the specific purposes described earlier, this document does not qualify as the Group’s first set of IFRS consolidated financial statements.

These consolidated financial statements at 31 December 2017 and 31 December 2018, prepared for the purposes described earlier and assuming that the Parent and the other consolidated companies will continue to operate as a going concern, have been drawn up pursuant to articles 2 and 3 of Legislative decree no. 38/2005 and in accordance with the IFRS issued by the International Accounting Standards Board and endorsed by the European Commission, which include the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), as well as the International Accounting Standards (IAS) and the interpretations of the Standard Interpretations Committee (SIC) still in force. For the sake of simplicity, all standards and interpretations are referred to as "IFRS".

The consolidated financial statements at 31 December 2017 and 31 December 2018 have been prepared in accordance with the IFRS applying IFRS 1 - First-time Adoption of International Financial Reporting Standards.

Following the adoption of the IFRS, the Group’s equity and profit for the year previously determined under the OIC, were adjusted. “Note 24 - IFRS transition" describes the transition criteria and includes the reconciliation schedules of the Group's equity and profit for the year for the comparative periods.

These consolidated financial statements comprise a statement of financial position, a statement of profit or loss and other comprehensive income, a statement of changes in equity, a statement of cash flows and these notes, prepared in accordance with IAS 1 - Presentation of Financial Statements and the general criterion of historical cost, except for those captions that, under IFRS, are recognised at fair value, as described in the measurement criteria of the individual captions described in note 3.

The statement of financial position classifies assets and liabilities as current and non-current. The statement of profit or loss and other comprehensive income classifies items by function. The statement of cash flows has been prepared using the indirect method. The IFRS have been applied consistently with the indications set out in the Conceptual Framework for Financial Reporting. There were no critical issues that led to departures pursuant to IAS 1.19.

All amounts are in thousands of Euros, unless otherwise indicated.

The Euro is the Parent’s functional currency as well as the presentation currency of these consolidated financial statements. For comparative purposes, each caption is accompanied by the corresponding prior year balances.

3. Accounting policies

The accounting policies set out below were applied consistently to all periods covered by these consolidated financial statements and to the opening balances of the statement of financial position as at 1 January 2017, restated in accordance with the IFRS.

For the purposes of preparing these IFRS-restated consolidated financial statements, the Group opted for the early application of the following standards endorsed by the European Commission in 2016 and 2017:

- IFRS 15 - Revenue from Contracts with Customers;
- IFRS 9 - Financial Instruments;
- IFRS 16 - Leases.

“Note 24 - IFRS transition” describes the effects of the application of these standards.

Intangible assets and goodwill

Intangible assets are identifiable assets without physical substance, controlled by the company from which future economic benefits are expected to flow to the company, including goodwill, when acquired for consideration.

Identifiability is the possibility of distinguishing the acquired intangible asset from goodwill. This requirement is usually met when the intangible asset: (i) arises from contractual or other legal rights or (ii) is separable, i.e., is capable of being sold, transferred, leased or exchanged independently or as part of other assets. A company controls an asset if it has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits.

Patents and trademarks are recognised under intangible assets and are amortised on a straight-line basis over their estimated useful life, determined individually on the basis of their ability to generate economic benefits for the Group.

Software (including licences and costs separately identifiable as external development expenditure) are recognised under intangible assets at purchase price, including any directly attributable cost of preparing the asset for its intended use. Software and other intangible assets acquired by the Group that have a finite useful life are measured at cost, net of amortisation and accumulated impairment losses.

At least once a year, the Group checks the recoverability of the carrying amount of intangible assets with a finite useful life and of property, plant and equipment, in order to determine whether there is an indication that the assets may be impaired. If such indication exists, the carrying amount of the assets is reduced to their recoverable amount. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. To determine the value in use of an asset, the Group calculates the present value of estimated future cash flows, before tax, by applying a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised if the recoverable amount is less than the carrying amount. With the exception of goodwill impairment, when the circumstances that caused the loss cease to exist, the carrying amount of the asset is increased to its recoverable amount and shall not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset. Impairment gains are recognised immediately in profit or loss.

The annual amortisation rates used in 2018 and 2017, presented by homogeneous categories with evidence of the relative range of application, are shown in the table below:

	Amortisation rate
Patents and software	20%
Trademarks	10%
Other	10%-20%

Property, plant and equipment

Property, plant and equipment are recognised at purchase or production cost, including any directly ancillary costs and the costs directly incurred during the period of construction of the assets.

The cost of property, plant and equipment, determined as indicated above, with a finite life, is depreciated systematically each year on a straight-line basis over the assets' estimated useful life.

Where significant parts of an item of property, plant and equipment have different useful lives, these items are recognised separately. Land, whether free of construction or with civil and industrial buildings, is not depreciated as it is considered an asset with an indefinite useful life.

The annual depreciation rates used in 2018 and 2017, presented by homogeneous categories with evidence of the relative range of application, are shown in the table below:

	Depreciation rate
Buildings	7%-10%
Property, plant and equipment	10%-15%
Industrial and commercial equipment	40%
Other assets	12%-40%

Assets acquired under finance lease are initially recognised under property, plant and equipment, with a balancing entry in liabilities, at an amount equal to their fair value or, if lower, the present value of the minimum lease payments. Lease payments comprise financial expense, recognised in profit or loss, and the repayment of principal, recognised as a decrease of the financial liability.

Leased assets are depreciated over the shorter of the lease term and their useful life unless it is reasonably certain that the Group will obtain ownership of the asset at the end of the contractual period.

In the presence of specific indicators of the risk of non-recoverability of the carrying amount of property, plant and equipment, these are tested for impairment, as described in the specific section of the previous paragraph.

Property, plant and equipment are derecognised on disposal. Any gain or loss (determined as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss.

Financial instruments

The Group's financial instruments are described below.

Financial assets

Financial assets include equity investments, current securities, loans, including the positive fair value of derivatives, if any, trade receivables and other assets and cash and cash equivalents.

Specifically, cash and cash equivalents include cash, bank deposits and highly marketable securities that can be readily converted into cash and that are subject to a non-significant risk of change in value.

Current securities include securities with short-term maturities or negotiable securities that represent temporary investments of liquidity and do not meet the requirements to be classified as cash and cash equivalents. Financial assets represented by debt securities are classified and measured based on the financial asset management business model adopted by the Group, and the cash flows associated with each financial asset, as required by IFRS 9.

Financial liabilities

Financial liabilities include financial amounts due, also represented by the negative fair value of derivatives, if any, trade payables and other liabilities due after one year.

Financial liabilities are classified and measured at amortised cost, except for financial liabilities that are initially measured at fair value, e.g., those related to earn-outs from business combinations and derivatives and financial liabilities for options on non-controlling interests.

Derecognition of financial assets and financial liabilities

A financial asset or liability (or, where applicable, part of a financial asset/liability or part of a group of similar financial assets/liabilities) is derecognised when the Group has unconditionally transferred the right to receive cash flows from the asset or the obligation to make payments or meet other obligations related to the liability.

Inventories

Inventories mainly consist of raw materials, used for the production of products offered to the market, semi-finished products and finished goods produced internally or purchased for resale. They are measured at the lower of cost and net realisable value based on their sale in the ordinary course of business. Purchase cost is determined using the weighted average cost method.

It comprises the purchase price, transport and ancillary costs, other taxes and other costs directly attributable to the acquisition of materials. Returns, trade discounts, rebates and premiums are deducted in determining the costs of purchase.

The carrying amount of products that are considered difficult to place on the market because they are obsolete or slow moving is adjusted to their estimated realisable value by means of write-downs.

When the circumstances that previously caused inventories to be written down below cost no longer exist, the amount of the write-down is reversed by increasing closing inventories in accordance with the principle of prudence, only when the recovery of the value through the sale of the inventories in the short term is certain.

Trade receivables and other assets

Trade receivables and other assets arising from the Group's provision of funds, goods or services to third parties are classified as current assets except when they are due after one year, with reference to non-trade assets. Current and non-current loans, other current and non-current assets and trade receivables, except for derivatives, are measured at amortised cost, calculated using the effective interest method, if they have a fixed due date. When financial assets have no fixed due date, they are measured at cost. The amounts due after one year, which bear no interest or earn below-the-market interest, are discounted using market rates. The above financial assets are measured based on the impairment model introduced by IFRS 9, i.e., by adopting an expected credit loss approach which replaces the IAS 39 framework, typically based on the measurement of incurred losses. With respect to trade receivables, the Group adopts a simplified approach which does not provide for the recognition of periodic changes in credit risk, but requires the recognition of an expected credit loss ("ECL") calculated over the life of the receivable ("Lifetime ECL"). Specifically, the Group's policy provides for the stratification of trade receivables based on past due days and an assessment of the counterparty's solvency and applies different impairment percentages that reflect the related recovery expectations. The Group subsequently applies an analytical valuation based on the debtor's reliability and ability to pay the amounts due, for credit-impaired amounts.

Trade payables and other liabilities

Trade payables and other liabilities arising from the purchase of money, goods or services from a third-party supplier are classified as current liabilities except when they are due after one year, with reference to non-trade liabilities. Current and non-current financial liabilities, other current and non-current liabilities and trade payables are initially recognised at fair value, which usually reflects the cost of the original transaction, including transaction costs. They are subsequently measured at amortised cost, using the effective interest method, except for derivatives.

Employee benefits

Liabilities arising from short-term employee benefits, paid during the employment relationship, are recognised on an accruals basis to the extent of the amount accrued at the reporting date.

Short-term employee benefits relating to wages and salaries, social security contributions, paid annual leave not taken within twelve months of the reporting date and other fringe benefits, are paid in the year in which the employees render the related service. Post-employment benefits paid through defined benefit or defined contribution plans are recognised over the so-called vesting period.

Defined benefit plans

Defined benefit plans are based on the working life of employees and the remuneration received by employees over a pre-determined period of service. The company's obligation to fund defined benefit plans and the annual cost recognised in profit or loss are determined based on actuarial valuations using the projected unit credit method. Net cumulative actuarial gains and losses are entirely recognised in other comprehensive income in the year in which they accrue. The liability arising from post-employment benefits is recognised in the statement of financial position against defined benefit plans and represents the present value of the defined benefit obligation.

Defined contribution plans

Payments related to defined contribution plans made by the group companies are recognised in profit or loss as cost when incurred. The employees of Italian group companies are subject to defined benefit plans. Until 31 December 2006, employees' leaving entitlement (TFR) was considered a defined benefit plan. The rules governing this provision were amended by Law no. 296 of 27 December 2006 (the "2007 Finance Act") and subsequent decrees and regulations issued in early 2007. Consequently, and specifically for companies with at least 50 employees, this mechanism is now considered a defined benefit plan solely for amounts accrued before 1 January 2007 (and not yet paid at the reporting date), while for amounts accrued after that date, it qualifies as a defined contribution plan.

Provisions for risks and charges

Provisions for risks and charges are recognised when:

- there is a present (legal or constructive) obligation that arises from past events,
- it is probable that an outflow of resources will be required to settle the obligations and
- a reliable estimate of the amount of the obligation can be made.

Provisions are recognised as the best estimate of the expenditure required to settle the obligation at the end of the reporting period or to transfer it to a third party at that time.

Changes in estimates are reflected in profit or loss in the year in which the change occurred.

Revenue

Revenue is recognised on the basis of the consideration allocated to performance obligations arising from contracts with customers, as required by IFRS 15. It is recognised when the related performance obligation is satisfied, i.e., when the Group transfers control of the good or service to the customer, as follows:

- over time;
- at a point in time.

When a contract with a customer consists of more performance obligations, the Group fairy allocates the consideration.

Costs

Costs are recognised in profit or loss when they relate to goods and services consumed during the year. Personnel expense includes, in line with the substantial nature of remuneration, stock option plans assigned to employees, directors and the company's regular consultants. Costs for the study of alternative products or processes or, in any case, incurred for research or technological development are considered current costs and taken to profit or loss when incurred.

Income taxes

Income taxes are recognised based on an estimate of the tax charge to be paid, in accordance with the provisions in force applicable to each group company.

Tax liabilities are shown under current tax liabilities in the statement of financial position, net of advances paid. Any tax benefit is recognised under current tax assets.

Deferred tax assets and liabilities are calculated based on the temporary differences between the carrying amount of assets and liabilities (following the application of the measurement criteria described in Note 3 - Accounting principles) and their amount for tax purposes (following application of the tax regulations in force in the country where the subsidiaries operate) and are recognised as follows:

- deferred tax assets, only if sufficient taxable income will probably exist to recover them;
- deferred tax liabilities, where present, in any case.

In both 2017 and 2018, the Parent was part of the companies consolidated in the national tax consolidation scheme prepared by the ultimate parent Intesa Holding S.p.A..

Use of judgements and estimates

As required by the IFRS, in preparing these consolidated financial statements, management has made judgements and estimates that affect the calculation of the reported amounts of assets and liabilities and the disclosures provided in the notes thereto, including the contingent assets and liabilities at the reporting date. These estimates are mainly used to calculate depreciation and amortisation, impairment tests (including the measurement of amounts receivable), provisions, employee benefits, the fair value of financial assets and liabilities and deferred tax assets and liabilities.

Therefore, actual results may differ from these estimates. Estimates and judgements are reviewed and updated on an ongoing basis and the effects of any changes are immediately reflected in profit or loss.

Translation of foreign currency items

<u>Foreign operations</u>

The financial statements of each consolidated company are prepared using the functional currency relating to the economic environment in which each company operates. Transactions in currencies other than the functional currency are recognised at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Foreign currency differences, if any, are recognised in profit or loss. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction.

For consolidation purposes, the financial statements of consolidated companies with functional currencies other than the Euro are translated by applying the exchange rate at the reporting date to assets and liabilities and consolidation adjustments, and the average exchange rates for the year to profit or loss (when they approximate the exchange rates at the date of the respective transactions) or for the period of consolidation, if lower. Foreign currency differences are recognised directly in other comprehensive income and reclassified to profit or loss when control over the investment is lost, therefore, upon deconsolidation.

<u>Foreign currency transactions</u>

Foreign currency transactions are translated into the functional currency of each group company at the exchange rates at the dates of the transactions.

Monetary items denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary items that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in profit or loss.

However, exchange differences arising from the translation of the following items are recognised in other comprehensive income for cash flow hedges to the extent that the hedges are effective.

Measurement of fair value and fair value hierarchy

The Group applies the following criteria to all transactions or balances (financial or non-financial) for which a standard requires or permits fair value measurement and which fall under the scope of IFRS 13:

- identification of a unit of account, i.e., the level at which an asset or a liability is aggregated or disaggregated in an IFRS for recognition purposes;
- identification of the principal market (or, in the absence thereof, of the most advantageous market) for the asset or liability. In the absence of evidence to the contrary, the market in which the company would normally enter into a transaction to sell the asset or to transfer the liability is presumed to be the principal market or, in the absence of a principal market, the most advantageous market;
- definition, for non-financial assets, of the highest and best use: in the absence of evidence to the contrary, the highest and best use coincides with the current use of the asset;
- definition of the most appropriate valuation techniques for estimating fair value: these techniques maximise the use of observable inputs which market participants would take into account in determining the price of the asset or liability;
- determination of the fair value of the assets, as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date;
- inclusion of a non-performance risk in the measurement of assets and liabilities, specifically, financial instruments, determination of an adjustment factor in the measurement of fair value to include the credit valuation adjustment (CVA), in addition to the debit valuation adjustment (DVA).

On the basis of the data used for fair value measurement, the following fair value hierarchy was identified to classify assets and liabilities measured at fair value or for which fair value is disclosed in the notes to the financial statements:

- level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- level 2: inputs other than quoted prices included within Level 1, such as, for example: i) quoted prices for similar assets or liabilities in active markets; ii) quoted prices for identical or similar assets or liabilities in markets that are not active; iii) other observable inputs (interest rates, implied volatilities and credit spreads);
- level 3: unobservable inputs used to measure fair value to the extent that observable inputs are not available. The unobservable inputs reflect the assumptions that market participants would use when pricing the asset or liability.

Reference should be made to the notes to the individual financial statements captions for a definition of the fair value hierarchy level used to classify the individual instruments measured at fair value or for which fair value is disclosed in the notes to the consolidated financial statements.

No transfers between the different levels of the fair value hierarchy took place during the year.

For medium/long-term financial instruments, other than derivatives, where market prices are not available, fair value is determined by discounting expected cash flows, using the interest rate curve at the reference date and considering the counterparty risk for financial assets and its credit risk for financial liabilities.

Basis of consolidation

In addition to the Parent, the consolidation scope includes the companies over which SICIT 2000 S.p.A. directly or indirectly exercises control, either by holding the majority of the votes exercisable at shareholders' meetings (also taking into account the potential voting rights deriving from immediately exercisable options), or as a result of other facts or circumstances that (even regardless of the extent of the investment) attribute power over the company, exposure or the right to variable returns on the investment in the company and the ability to use the power over the company to influence the returns on the investment. Subsidiaries are consolidated on a line-by-line basis and are as follows:

(in local currency. Amounts in thousands)	Registered office	Currency	Share capital	Equity 31.12.2017	Equity 31.12.2018	% of investment
Sicit Group S.p.A. (formerly Sicit 2000)	Italy	Euro	8,367	61,728	66,838	Parent
Sicit Commercial Consulting Shanghai Ltd.	China	CNY	219	17	5	100%
Sicit USA Inc.	USA	USD	2	n.a.	540	100%

Companies are excluded from the consolidation scope from the date on which the Group loses control. When control is lost, the Group eliminates the assets and liabilities of the subsidiary, any non-controlling interests and the other equity items related to subsidiaries. Gains or losses arising from losing control are recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value on the date control is lost.

Each subsidiary consolidates its figures, also based on the reporting packages prepared for this purpose, at the reporting date and in compliance with the IFRS, as follows:

- the reporting packages prepared for consolidation purposes in functional currencies other than the Euro are translated applying the methodology already described in Note 3 - Translation of foreign currency items;
- intragroup items, including the reversal of any unrealised gains and losses, are eliminated, recognising the related deferred tax effects;
- intragroup dividends and the related allocation to opening equity reserves are eliminated;
- the carrying amount of investments in companies included in the consolidation scope and the corresponding portions of equity is eliminated; positive or negative differences arising from the relevant captions (assets, liabilities and equity) are allocated, calculated at the time of acquisition of the investment and subsequently taking into account subsequent changes. After acquiring control, any purchases of shares from non-controlling investors, or transfers to them that do not result in the loss of control over the company, are recognised as transactions carried out with owners in their capacity as owners and the related effects are taken directly to equity. As a result, any differences between the change in equity attributable to non-controlling interests and the cash and cash equivalents exchanged are recognised under changes in equity attributable to the owners of the parent.

The exchange rates applied during the year to translate the reporting packages prepared in a functional currency other than the Euro are those published by the Bank of Italy and shown below:

	Average exchange rate		Closing rate for	
	2018	2017	31.12.18	31.12.17
CNY	7.710	7.710	7.875	7.800
USD	1.181	-	1.145	-

At 31 December 2018, the consolidation scope changed compared to that at 31 December 2017 due to the incorporation of Sicit USA Inc., in order to optimise the distribution of the Group's products on the North American market. Sicit USA Inc. is based in Larchmont, New York, USA.

Notes to the statement of profit or loss and other comprehensive income

4. Revenue

The Group's revenue for 2018 amounts to Euro 55.1 million, up by Euro 1.3 million on 2017 (Euro 53.9 million or 2.4%). It may be broken down as follows:

			Change	
(in thousands of Euro)	**2018**	**2017**	**2018-2017**	**%**
Products for agriculture	30,156	28,002	2,153	*7.7%*
Retardants for plasters	15,423	15,152	271	*1.8%*
Fat	6,656	7,889	(1,233)	*(15.6%)*
Other products	1,039	1,094	(55)	*(5.0%)*
Total revenue from sales	**53,273**	**52,137**	**1,136**	***2.2%***
Services for the collection of raw materials	1,870	1,720	150	*8.7%*
Total revenue	**55,143**	**53,857**	**1,286**	***2.4%***

Sales of products for agriculture amount to Euro 30.2 million and are up by Euro 2.2 million, accounting for 55% of revenue. The increase on 2017 (Euro 2.2 million or 7.7%) is due to the higher volumes sold to European and APAC customers. Sales of retardants for plasters amount to Euro 15.4 million (28% of the total), slightly up on 2017 (Euro 0.3 million or 1.3%) due to higher volumes in Northern Europe, Eastern Europe and the Middle East. Sales of fat, amounting to Euro 6.7 million, are down by 15.6% due to the effect of the negative trend of the product listing on the Milan Stock Exchange, compared to a 14% increase in volumes in 2018 on 2017. Sales of other products can be considered residual.

The slight increase in revenue from services for the collection of raw materials (Euro 1.9 million, up by Euro 150 thousand on 2017) is mainly due to the different mix of raw materials collected. Sicit collects by-products of animal origin and other residues from leather processing from its customers. These disposal activities are charged to customers at rates that vary according to the quantity and type of material collected.

Revenue by geographical segment

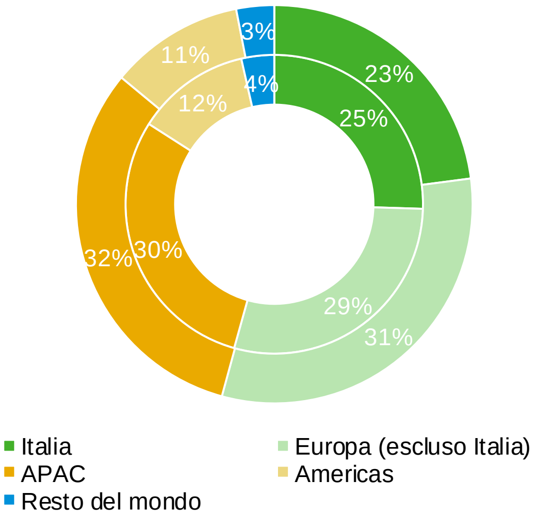
Revenue from the sale of products by geographical segment may be analysed as follows:

			Change	
(in thousands of Euro)	**2018**	**2017**	**2018-2017**	**%**
Italy	13,977	15,774	(1,797)	*(11.4%)*
Europe (excluding Italy)	15,723	14,209	1,514	*10.7%*
APAC	15,645	14,267	1,378	*9.7%*
Americas	5,626	5,722	(96)	*(1.7%)*
Rest of the world	2,302	2,166	136	*6.3%*
Total	**53,273**	**52,137**	**1,136**	***2.2%***

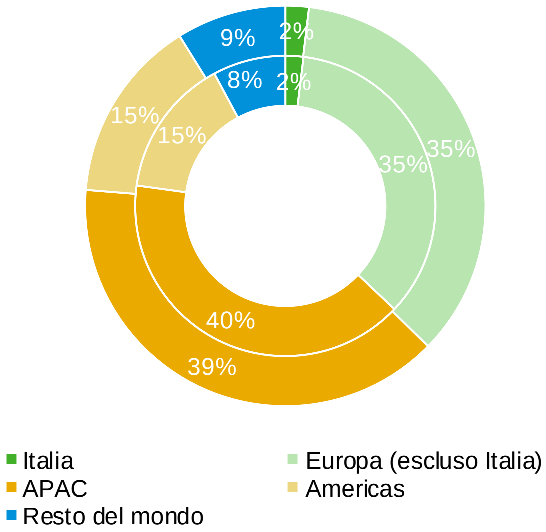
Collection services are provided entirely in Italy.

The trend in products for agriculture and retardants for plasters by geographical segment is as follows:

Products for agriculture



Retardants for plasters



Notes: outer ring year 2018, inner ring year 2017

5. Operating costs

In 2018, operating costs total Euro 40.6 million, up by Euro 4.1 million on 2017 (Euro 36.5 million or 11.3%). Operating costs, classified by function, are as follows:

			Change	
(in thousands of Euro)	**2018**	**2017**	**2018-2017**	**%**
Cost of sales	32,953	29,990	2,963	*9.9%*
Trade costs	3,404	2,748	656	*23.9%*
Research and development	1,273	802	471	*58.7%*
General and administrative costs	3,003	2,951	52	*1.8%*
Total	**40,633**	**36,491**	**4,142**	***11.4%***

Cost of sales includes production-related costs. In 2018, costs amount to Euro 33 million, up by Euro 3 million on 2017 (Euro 30 million or 9.9%) mainly due to the higher sales volumes of products for the agriculture and retardants for the gypsum industry. The higher proportion of cost of sales to revenue in 2018 (59.8%) compared to 2017 (55.7%) is mainly attributable to the decrease in revenue from the sale of fat, while the unit cost of other products sold did not change significantly.

Trade costs include variable and fixed sales and marketing expenses. In 2018, trade costs amount to Euro 3.4 million, up on 2017 (Euro 2.8 million or 23.9%) mainly due to higher direct sales costs (such as transport) and higher internal personnel expense.

Research and development expenditure refers to product and process development costs. In 2018, it amounts to Euro 1.3 million, up by Euro 0.5 million on 2017 (Euro 0.8 million) as a result of new hires and the studies carried out in technical collaboration with research institutes and universities.

General and administrative costs amount to Euro 3 million in 2018, unchanged compared to the previous year.

The table below shows operating costs broken down by nature:

(in thousands of Euro)	2018	2017	Change 2018-2017	%
Material consumption	9,595	9,570	25	*0.3%*
External services	19,287	16,187	3,100	*19.2%*
Wages and salaries	6,918	6,034	884	*14.7%*
Other costs	446	474	(28)	*(5.9%)*
Amortisation and depreciation	4,387	4,226	161	*3.8%*
Total	**40,633**	**36,491**	**4,142**	***11.4%***

Personnel expense increased mainly due to the effect of the rise in the average number of employees in 2018 (108) compared to 2017 (97).

Costs for external services (Euro 19.3 million in 2018, Euro 16.2 million in 2017) increased due to higher sales volumes in the year.

6. Other income

Other income amounts to Euro 1.6 million in 2018 (Euro 0.5 million in 2017) and breaks down as follows:

(in thousands of Euro)	2018	2017	Change 2018-2017	%
Grants related to income	345	286	59	*20.6%*
Gains on the sale of assets	4	30	(26)	*(86.7%)*
Services to related companies	126	126	-	*0.0%*
Sale of EU allowances	1,008	-	1,008	*0.0%*
Total	**1,626**	**541**	**1,085**	***200.6%***

Grants related to income essentially include the tax asset of the Parent for research and development activities carried out during the year, classified under other income in accordance with IAS 20.

Services to related companies refer to the use of laboratory equipment offered to other subsidiaries of the ultimate parent Intesa Holding.

Revenue from the sale of EU allowances (Euro 1 million in 2018) refers to the European Emissions Allowances accumulated and not used in prior years and sold in 2018.

7. Financial income and charges

Net financial income amounts to Euro 0.2 million in 2018 compared to net financial charges of Euro 0.2 million in 2017. It can be broken down as follows:

(in thousands of Euro)	2018	2017	Change 2018-2017	%
Financial charges				
Bank interest income	140	12	128	*> 1*
Bank interest expense	(11)	-	(11)	*> 1*
Interest expense on employee benefit plans	(4)	(5)	1	*0.0%*
Net foreign exchange gains (losses)	109	(197)	306	*0.0%*
Total	**234**	**(190)**	**424**	***n.a.***

Net foreign exchange gains (losses) originate mainly from exchange differences on receivables in US dollars.

8. Income taxes

Income taxes, divided between current and deferred, are made up as follows:

(in thousands of Euro)	**2018**	**2017**	**Change 2018-2017**	**%**
Current taxes	4,403	4,824	(421)	*(8.7%)*
Deferred taxes	(109)	(19)	(90)	*473.7%*
Total	**4,294**	**4,805**	**(511)**	***(10.6%)***

The Group's effective tax rate in 2018 was 26.2%, down slightly from 27.1% in 2017, mainly due to the higher tax-deductible depreciation and amortisation charge on investments covered by the "Industry 4.0" plan (Law no. 205/2017).

Note 12 - Deferred tax assets and liabilities provides an analysis of and changes in deferred taxation.

Notes to the statement of financial position

9. Intangible assets

At 31 December 2018, they amount to Euro 0.3 million (Euro 0.1 million at 31 December 2017). The following table summarises the changes in 2017 and 2018:

(in thousands of Euro)	Patents and software	Trademarks	Other	Assets under development and payments on account	Total
Balance at 1.1.17	**72**	**42**	**-**	**-**	**114**
of which: acquisition cost	*1,397*	*3,727*	*-*	*-*	*5,124*
of which: accumulated amortisation	*(1,325)*	*(3,685)*	*-*	*-*	*(5,010)*
Increases	52	4	22	4	82
Amortisation	(50)	(8)	(2)	-	(60)
Divestments	-	-	-	-	-
Reclassifications	-	-	-	-	-
Balance at 31.12.17	**74**	**38**	**20**	**4**	**136**
of which: acquisition cost	*1,449*	*3,731*	*22*	*4*	*5,206*
of which: accumulated amortisation	*(1,375)*	*(3,693)*	*(2)*	*-*	*(5,070)*
Increases	46	19	127	11	203
Amortisation	(54)	(9)	(15)	-	(78)
Divestments	(2)	-	-	-	(2)
Reclassifications	4	-	-	(4)	-
Balance at 31.12.18	**68**	**48**	**132**	**11**	**259**
of which: acquisition cost	*1,497*	*3,750*	*149*	*11*	*5,407*
of which: accumulated amortisation	*(1,429)*	*(3,702)*	*(17)*	*-*	*(5,148)*

In 2017 and 2018, Patents and software increased following the purchase of software licenses and the extension of a patent already owned.

In 2018, Trademarks increased following the extension of proprietary trademarks abroad.

The increase in "Other” intangible assets in 2018 mainly refers to the capitalisation of expenses incurred to obtain the authorisation to use "Calcium Lysine" in accordance with the Reach (Registration, Evaluation, Authorisation and Restriction of Chemicals) regulation.

10. Property, plant and equipment

At 31 December 2018, they amount to Euro 44,063 thousand. The following table summarises the changes that occurred during the year:

(in thousands of Euro)	Land and buildings	Property, plant and equipment	Industrial and commercial equipment	Other assets	Assets under construction and payments on account	Total
Balance at 1.1.17	**20,852**	**12,006**	**117**	**265**	**1,824**	**35,064**
of which: acquisition cost	*32,719*	*47,894*	*2,168*	*1,890*	*1,824*	*86,495*
of which: accumulated depreciation	*(11,867)*	*(35,888)*	*(2,051)*	*(1,625)*	*-*	*(51,431)*

(in thousands of Euro)	Land and buildings	Property, plant and equipment	Industrial and commercial equipment	Other assets	Assets under construction and payments on account	Total
Increases	789	2,696	65	875	2,903	7,328
Depreciation	(1,378)	(2,452)	(83)	(253)	-	(4,166)
Divestments	-	-	-	(1)	-	(1)
Reclassifications	1,797	27	-	-	(1,824)	-
Balance at 31.12.17	**22,060**	**12,277**	**99**	**886**	**2,903**	**38,225**
of which: acquisition cost	*35,305*	*50,617*	*2,233*	*2,764*	*2,903*	*93,822*
of which: accumulated depreciation	*(13,245)*	*(38,340)*	*(2,134)*	*(1,878)*	-	*(55,597)*
Effects of IFRS 16 at 1.1.18	60	-	-	37	-	97
Increases	2,154	6,065	194	69	758	9,240
Depreciation	(1,316)	(2,439)	(156)	(398)	-	(4,309)
Divestments	-	-	-	-	-	-
Reclassifications	-	2,620	-	-	(2,620)	-
Balance at 31.12.18	**22,958**	**18,523**	**137**	**594**	**1,041**	**43,253**
of which: acquisition cost	*37,519*	*59,302*	*2,427*	*2,870*	*1,041*	*103,159*
of which: accumulated depreciation	*(14,561)*	*(40,779)*	*(2,290)*	*(2,276)*	-	*(59,906)*

The increases in 2017 and 2018 mainly refer to the investments made by the Parent in the Chiampo (VI) and Arzignano (VI) production sites. In particular:

The most significant increases made in 2017 relate to:

- Land and buildings: first phase of the expansion of the Chiampo production site for Euro 0.8 million (in addition to reclassifications from assets under construction for Euro 1.8 million),
- Plant and machinery: completion of the trimming plant at Arzignano for Euro 1.2 million, and completion of some micro-filtration plants for finished goods at Arzignano for Euro 0.6 million, other investments for ordinary replacements for Euro 0.9 million,
- Other assets: investments in new equipment for chemical and agronomic analysis laboratories for Euro 0.5 million, in addition to ordinary spare parts for Euro 0.3 million,
- Advances of Euro 2.9 million for the expansion of microfiltration plants and fat filtration plants, which became operative in 2018.

The most significant increases in 2018 relate to:

- Land and buildings: completion of the expansion of the Chiampo production site for Euro 1.4 million and equalisation charges paid for industrial land already owned in Arzignano for Euro 0.8 million,
- Plant and machinery: completion of the expansion of the hydrolysate production lines (from trimmings) in Chiampo for approximately Euro 4 million, plants for the reduction of environmental emissions in Chiampo for Euro 1 million and other minor projects and ordinary replacements for Euro 1.1 million;
- Advances of Euro 0.8 million for the launch of the installation of the cogeneration plant in Arzignano (Euro 0.3 million) and the treatment of semi-finished products and raw materials in Arzignano (Euro 0.5 million) which became operative in 2019.

The effects resulting from the application of IFRS 16, as from 1 January 2018, are as follows:

(in thousands of Euro)	Land and buildings	Property, plant and equipment	Industrial and commercial equipment	Other assets	Assets under construction and payments on account	Total
Balance at 1.1.18	**60**	**-**	**-**	**37**	**-**	**97**

Increases	-	-	-	-	-	-
Reclassifications	-	-	-	-	-	-
Balance at 31.12.18	**45**	**-**	**-**	**20**	**-**	**65**

11. Non-current financial assets

This caption comprises investments in other companies, including:

- UTIAC for Euro 42 thousand (equal to 3.35% of the share capital) and,
- other companies for Euro 2 thousand (% of share capital not significant).

Equity investments are measured at fair value through profit or loss (FVTPL), as required by IFRS 9.

12. Deferred taxes assets and liabilities

They are broken down by nature and are as follows:

	Tax base at			Tax effect at		
(in thousands of Euro)	**31.12.18**	**31.12.17**	**1.1.17**	**31.12.18**	**31.12.17**	**1.1.17**
Deferred tax liabilities						
Amortisation/depreciation differences	126	237	237	(30)	(57)	(57)
Exchange gains (unrealised)	2	-	22	-	-	(5)
Revaluation of land	8,268	8,196	8,196	(2,308)	(2,287)	(2,287)
Total deferred tax liabilities	**8,396**	**8,433**	**8,455**	**(2,338)**	**(2,344)**	**(2,349)**
Deferred tax assets						
Deteriorated loans and assets	(178)	(77)	(94)	43	19	22
Employee bonuses	(515)	(456)	(393)	123	110	95
Provisions for employee benefits	(11)	(27)	(28)	4	6	8
Amortisation/depreciation differences	(92)	(100)	(98)	22	24	23
Exchange losses (unrealised)	-	(25)	-	-	6	-
Provisions for risks and charges	-	(4)	(8)	-	1	2
Other costs with deferred tax effect	-	-	(10)	-	-	2
Reversal of intragroup profit margins	(268)	-	-	75	-	-
Total deferred tax assets	**(1,064)**	**(689)**	**(631)**	**267**	**166**	**152**

Deferred tax liabilities on the revaluation of land were recognised following the monetary revaluation carried out in 2008 pursuant to Law decree no. 185/2008 without tax effects.

Changes in 2018 and 2017 were as follows:

(in thousands of Euro)	**Balance at 31.12.18**	**Increases**	**Uses**	**Balance at 31.12.17**	**Increases**	**Uses**	**Balance at 1.1.17**
Deferred tax liabilities							
Amortisation/depreciation differences	(30)	(30)	57	(57)	(57)	57	(57)
Exchange gains (unrealised)	-	-	-	-	-	5	(5)
Revaluation of land	(2,308)	(21)		(2,287)	-	-	(2,287)
Total deferred tax liabilities	**(2,338)**	**(51)**	**57**	**(2,344)**	**(57)**	**62**	**(2,349)**
Deferred tax assets							
Loss allowance	43	43	(19)	19	19	(22)	22
Liabilities for employee bonuses	123	123	(110)	110	110	(95)	95
Provisions for employee benefits	4	-	(2)	6	-	(1)	8
Amortisation/depreciation differences	22	22	(24)	24	24	(23)	23

Exchange losses (unrealised)	-	-	(6)	6	6	-	-
Provisions for risks and charges	-	-	(1)	1	1	(2)	2
Other costs with deferred tax effect	-	-	-	-	-	(2)	2
Reversal of intragroup profit margins	75	75	-	-	-	-	-
Total deferred tax assets	**267**	**263**	**(162)**	**166**	**160**	**(145)**	**152**

13. Inventories

At 31 December 2018, inventories amount to Euro 10 million and are made up as follows:

(in thousands of Euro)	**31.12.18**	**Change 2018**	**31.12.17**	**Change 2017**	**1.1.17**
Raw materials and spare parts	1,858	53	1,805	781	1,024
Semi-finished products and work in progress	2,310	351	1,959	797	1,162
Finished goods	5,792	1,292	4,500	(601)	5,101
Total inventories	**9,960**	**1,696**	**8,264**	**977**	**7,287**

The inventories of the subsidiary Sicit USA Inc. are held by third party companies, which are US leaders in logistics operations.
The increases recorded in 2017 (Euro 1.0 million) and 2018 (Euro 1.7 million) are mostly related to the higher sales volumes of the year.
Given the high turnover of raw materials and the low risk profile linked to the age of finished goods and semi-finished products (all produced in the year and with a shelf life ranging between 3 and 5 years), no allowance for inventory write-down was recognised.

14. Trade receivables

At 31 December 2018, this caption totals Euro 10 million, including a loss allowance of Euro 0.2 million. There are no amounts due after 5 years. Trade receivables at 31 December 2018 and 31 December 2017 are broken down as follows:

(in thousands of Euro)	**31.12.18**	**Change 2018**	**31.12.17**	**Change 2017**	**1.1.17**
Italy	4,542	813	3,729	228	3,501
Abroad	5,263	(497)	5,760	687	5,073
Related companies	51	-	51	(51)	102
Invoices to be issued	173	56	117	(1)	118
Gross trade receivables	**10,029**	**372**	**9,657**	**863**	**8,794**
Loss allowance	(242)	(119)	(123)	(5)	(118)
% of gross trade receivables	*(2.4%)*		*(1.3%)*		*(1.3%)*
Total trade receivables	**9,787**	**253**	**9,534**	**858**	**8,676**

The loss allowance was calculated on the basis of the estimated recoverability through an analysis of the individual items, the information available on the potential losses expected at the reporting date and also considering the insurance policy against the risk of insolvency of customers, taken out with a leading company operating in the credit insurance sector.

The increase in gross receivables in 2017 (Euro 0.9 million) and in 2018 (Euro 0.4 million) is due to the rise in revenue for the year. DSO (calculated on the basis of revenue for the last quarter) number approximately

78 at 31 December 2018. They are substantially in line with 31 December 2017 (76 days).

Gross trade receivables by past due brackets are as follows:

		Past due days				
(in thousands of Euros)	Not yet due	1-60	61-180	181-360	Over 360	**Total**
At 31 December 2017	9,070	378	103	20	86	9,657
At 31 December 2018	8,764	934	82	214	35	10,029

15. Other current assets

Other current assets amount to Euro 3.3 million at 31 December 2018 (Euro 1.6 million at 31 December 2017). The nature and the changes in 2018 and 2017 are as follows:

(in thousands of Euro)	**31.12.18**	**Change 2018**	**31.12.17**	**Change 2017**	**1.1.17**
Tax benefits	488	408	80	(1)	81
Other tax assets	1,913	664	1,249	420	829
Advances to suppliers	560	450	110	(85)	195
Prepayments and accrued income	55	(16)	71	(13)	84
Other assets	301	194	107	(50)	157
Total other current assets	**3,317**	**1,700**	**1,617**	**271**	**1,346**

At 31 December 2018, tax benefits include tax advances and Euro 0.4 million for the tax consolidation scheme in place with the ultimate parent Intesa Holding S.p.A..

Other tax assets (Euro 1.9 million at 31 December 2018) mainly include the VAT asset and the assets for R&D grants. They are up on the previous years as a result of higher investments in non-current assets in 2018 and 2017 which offset the rise in VAT assets.

Advances to suppliers mostly include the advances to service providers pending completion of the service due.

16. Cash and cash equivalents

Cash and cash equivalents amount to Euro 15.1 million at 31 December 2018 (Euro 15.5 million at 31 December 2017) and mainly relate to bank current accounts. Cash on hand and at bank accounts are not subject to currency restrictions.

(in thousands of Euro)	**31.12.18**	**Change 2018**	**31.12.17**	**Change 2017**	**1.1.17**
Bank current accounts	15,129	(307)	15,436	2,652	12,784
Cash on hand	9	(11)	20	15	5
Total cash and cash equivalents	**15,138**	**(318)**	**15,456**	**2,667**	**12,789**

For an analysis of the generation and use of cash flows during the year, reference should be made to the statement of cash flows.

17. Equity

Equity attributable to the owners of the parent at 31 December 2018 amounts to Euro 66.6 million (Euro 61.3 million at 31 December 2017). The main changes in 2018 and 2017, shown in detail in the statement of changes in equity, relate to:

- the profit for the year attributable to the owners of the parent amounting to Euro 12.9 million in 2017 and Euro 12.1 million in 2018;
- the distribution of dividends for 2016 and 2017 amounting to Euro 6.3 million in both 2017 and 2018.

All consolidated companies are wholly owned and there are no non-controlling investors who have rights to the equity attributable to the owners of the parent.

Share capital

At 31 December 2018, the fully subscribed and paid in share capital of the SICIT 2000 Group amounts to Euro 8,366,602, divided into 8,366,602 ordinary shares, with a unit value of Euro 1. There were no changes in share capital in 2017.

Reserves

At 31 December 2018, the legal reserve amounts to Euro 1.7 million, unchanged from 31 December 2017. It was set up using prior year profits.

The share premium reserve amounts to Euro 5.2 million, unchanged from 31 December 2017. It was set up when the share capital increase was approved on 30 April 2001.

The revaluation reserve amounts to Euro 7.1 million, unchanged from 31 December 2017, and is composed of:

- Euro 1.5 million pursuant to Law no. 488/2001 for the merger of Sala Giuseppe e C. S.r.l in 2007, and
- Euro 5.6 million pursuant to Law decree no. 185/2008 for the revaluation of land in 2008.

The extraordinary reserve amounts to Euro 30.8 million at 31 December 2018 (Euro 24.5 million at 31 December 2017). It was set up following the allocation of undistributed profits.

Other reserves amount to Euro 1.5 million at 31 December 2018, in line with the previous year. They include the reserve pursuant to Law no. 266/2005 which was set up following the realignment of the tax amounts and the carrying amounts of certain assets in 2005.

The FTA reserve amounts to Euro -25 thousand at 31 December 2018 and 31 December 2017. It was set up to include the differences between the carrying amounts and the amounts restated in accordance with IFRS at 1 January 2017.

18. Financial liabilities

At 31 December 2018, current and non-current financial liabilities consist of one unsecured loan agreement signed in 2018 with Banco BPM and the lease liabilities recognised in accordance with IFRS 16.

(in thousands of Euro)	31.12.18	Change 2018	31.12.17	Change 2017	1.1.17
Non-current financial liabilities					
Unsecured loan	223	223	-	-	-
Financial liabilities (IFRS 16)	32	32	-	-	-
Total non-current financial liabilities	**255**	**255**	**-**	**-**	**-**
Non-current financial liabilities					
Unsecured loan	1,333	1,333	-	-	-
Financial liabilities (IFRS 16)	33	33	-	-	-
Total current financial liabilities	**1,366**	**1,366**	**-**	**-**	**-**

The loan will be repaid in 18 monthly instalments of Euro 111 thousand, starting from 30 November 2018. The interest rate applied is equal to the 3-month Euribor plus a 0.7 spread.

The loan is not subject to compliance with financial covenants and no derivatives were entered into to hedge the interest rate risk which, given the short-term nature of the loan (18 months), is considered not significant.

Net financial position in accordance with ESMA Recommendation of 20 March 2013

The table below shows the net financial position, as required by Consob Communication DEM/6064293 of 28 July 2006, which refers to the Recommendation of the European Securities and Markets Authority - ESMA of 20 March 2013, which does not provide for the deduction of non-current financial assets from financial debt.

(in thousands of Euro)	**31.12.18**	**31.12.17**
A Cash and cash equivalents	(15,138)	(15,456)
B Other cash items	-	-
C Securities held for trading	-	-
D Liquidity	**(15,138)**	**(15,456)**
E Current loans	-	-
F Current bank loans and borrowings	-	-
G Current portion of debt	1,333	-
H Other current loans and borrowings	33	
I Current financial debt (F+G+H)	**1,366**	**-**
J Net current financial debt (I+E+D)	**(13,772)**	**(15,456)**
K Non-current bank loans and borrowings	223	-
L Bonds issued	-	-
M Other non-current liabilities	32	-
N Non-current financial indebtedness (K+L+M)	**255**	**-**
O Net financial indebtedness (J+N) with ESMA Recommendation	**(13,517)**	**(15,456)**

19. Provisions for employee benefits

The composition of and changes in provisions for employee benefits are shown in the table below:

	Post-employment benefits	
(in thousands of Euros)	**2018**	**2017**
Opening balance	**360**	**380**
Included in the profit for the year		
Current service cost	-	-
Gain from past service cost	-	-
Net financial charges	4	5
	364	**385**
Included in other comprehensive income		
Actuarial loss/(gain) from:		

- demographic assumptions	-	-
- financial assumptions	(8)	-
- assumptions based on past experience	(6)	(1)
	(14)	**(1)**
Other		
Benefits paid	(77)	(24)
Closing balance	**272**	**360**
- of which: non-current portion	264	280
- of which: current portion	8	80

The liability relates exclusively to the post-employment benefits (TFR) of the Parent. Under national legislation, it accrues based on the service provided and is paid when the employee leaves the company.

The following table shows the financial and demographic assumptions adopted to calculate the liability in accordance with IAS 19:

	31.12.2018	31.12.2017
Annual discount rate	1.57%	1.30%
Annual inflation rate	1.50%	1.50%
Annual rate of increase in remuneration	1.50%	1.50%
Annual turnover rate	3.00%	3.00%
Probability of request for advances	2.00%	2.00%

20. Provisions for risks and charges

Provisions for risks and charges were accrued to cover liabilities with uncertain maturity or amount at 31 December 2017. No provisions were accrued in 2018. The residual amounts accrued at 1 January 2017 (Euro 8 thousand) and 31 December 2017 (Euro 4 thousand) were paid in 2017 and 2018.

21. Trade payables

At 31 December 2018, trade payables amount to Euro 9.1 million (Euro 6.9 million at 31 December 2017) and are made up as follows:

(in thousands of Euro)	**31.12.18**	**Change 2018**	**31.12.17**	**Change 2017**	**1.1.17**
Italy	6,650	1,054	5,596	1,959	3,637
Abroad	593	124	469	60	409
Related companies	1,171	881	290	204	86
Invoices to be received	671	141	530	(281)	811
Total trade payables	**9,085**	**2,200**	**6,885**	**1,942**	**4,943**

The increase in 2017 (Euro 1.9 million) and 2018 (Euro 2.2 million) is due to both higher volumes of purchases of goods and services and higher investments of the year. DPO (calculated on the basis of the costs for the last quarter) number approximately 114 at 31 December 2018, substantially in line with 31 December 2017.

Liabilities to related companies mainly refer to Sicit Chemitech S.p.A., which carries out quality control activities for the Parent. The increases of the year relate to both higher charges and the different billing timing of the services provided by the related company.

Trade payables by past due brackets are as follows:

(in thousands of Euros)	Not yet due	Past due days 1-60	61-180	181-360	Over 360	Total
At 31 December 2017	6,415	290	25	9	146	6,885
At 31 December 2018	8,884	36	4	26	135	9,085

22. Other current non-financial liabilities

(in thousands of Euro)	**31.12.18**	**Change 2018**	**31.12.17**	**Change 2017**	**1.1.17**
Tax liabilities	13	(857)	870	(310)	1,180
Other tax liabilities	328	14	314	8	306
Liabilities to personnel	1,570	189	1,381	139	1,242
Other liabilities	4	(4)	8	4	4
Accrued expenses and deferred income	133	123	10	2	8
Total current non-financial liabilities	**2,048**	**(535)**	**2,583**	**(157)**	**2,740**

Other current non-financial liabilities amount to Euro 2 million at 31 December 2018, down by Euro 0.5 million on 31 December 2017 (Euro 2.6 million).

This caption mostly includes tax liabilities (including the liability to the ultimate parent Intesa Holding S.p.A. for the tax consolidation scheme), other tax liabilities (VAT and withholding taxes, mainly IRPEF (personal income tax), liabilities to personnel (wages and salaries, bonuses and accrued holidays), accrued expenses and deferred income.

In 2017, other liabilities decreased by Euro 0.2 million, mainly due to lower income taxes (Euro 0.3 million), partially offset by higher liabilities to personnel (Euro 0.1 million), following the increase in the average number of employees.

In 2018, the Euro 0.5 million decrease had the same drivers as in 2017: mainly lower income taxes of Euro 0.8 million and higher liabilities to personnel of Euro 0.2 million.

23. Financial instruments

The carrying amount of financial assets and liabilities at 31 December 2018 and 31 December 2017 compared with their fair value, including the related fair value hierarchy level, is shown below:

(in thousands of Euros)	Note	Carrying amount	Level 1	Level 2	Level 3
At 31 December 2018					
Financial assets measured at fair value					
Non-current financial assets	11	44	-	-	44
Financial assets not measured at fair value					
Trade receivables	14	9,787	-	-	9,787
Other current assets	15	3,317	-	-	3,317
Financial liabilities not measured at fair value					
Non-current financial liabilities	18	(255)	-	-	(255)
Current financial liabilities	18	(1,366)	-	-	(1,366)
Trade payables	18	(9,085)	-	-	(9,085)
Other current non-financial liabilities	22	(2,048)	-	-	(2,048)
At 31 December 2017					
Financial assets measured at fair value					
Non-current financial assets	11	44	-	-	44
Financial assets not measured at fair value					
Trade receivables	14	9,534	-	-	9,534
Other current assets	15	1,617	-	-	1,617
Financial liabilities not measured at fair value					
Non-current financial liabilities	18	-	-	-	-
Current financial liabilities	18	-	-	-	-
Trade payables	21	(6,885)	-	-	(6,885)
Other current non-financial liabilities	22	(2,583)	-	-	(2,583)

Other information.

24. Transition to IFRS

The accounting policies set out in the relevant section of these notes have been applied to prepare the consolidated financial statements at 31 December 2017 and 31 December 2018, restated in accordance with the IFRS for specific purposes, and to prepare the opening IFRS financial statements at 1 January 2017 (transition date).

In preparing the opening IFRS financial statements, the company adjusted the amounts previously presented in the financial statements drawn up in accordance with the OIC.

In addition, reclassifications were made with respect to the classifications provided for by the OIC in order to bring the amounts into line with the financial statement formats provided for by IAS 1. In particular, the IFRS-compliant statement of financial position provides for the break-down of captions between current and non-current, while the statement of profit or loss and other comprehensive income provides for a breakdown of items by function. The statement of cash flows was prepared using the indirect method.

As required by IFRS 1, at the transition date (1 January 2017), an opening statement of financial position was prepared in which:

- only assets and liabilities that could be recognised in accordance with the IFRS were recognised;
- assets, liabilities and equity items were reclassified based on the indications provided by the IFRS;
- the IFRS were applied to all recognised assets and liabilities.

In order to illustrate the effects of the transition on the IFRS-restated consolidated financial statements, the reconciliations required by IFRS 1.24 are provided herein. This information covers the impact of the transition, in 2017, on the financial position, financial performance and cash flows. To this end, the following documents were prepared:

- The notes concerning the rules for the first-time adoption of IFRS (IFRS 1) and other selected standards, including the directors' assumptions about the standards and interpretations in force and the accounting policies adopted to prepare the IFRS-restated consolidated financial statements at 31 December 2017 and 31 December 2018;
- The reconciliation schedules of the balance sheets as at 1 January 201 and 31 December 2017 included in the financial statements prepared in accordance with the OIC with those resulting from the application of IFRS;
- The reconciliation schedules of the profit or loss figures included in the financial statements prepared in accordance with the OIC (2017) with those resulting from the application of IFRS;
- The notes to the above reconciliation schedules.

No reconciliation schedule of the statement of cash flows for 2017 is presented because the effects of applying IFRS were not significant.

These documents, prepared solely for transition purposes for the preparation of the IFRS-restated consolidated financial statements at 31 December 2018 and 31 December 2017, are not accompanied by comparative figures and the notes thereto that would be required for a complete representation of the company's financial position and financial performance in accordance with the IFRS.

The opening statement of financial position as at 1 January 2017, the statement of profit or loss for 2017 and the statement of financial position as at 31 December 2017 have been prepared in accordance with the pronouncements of the IASB, including IAS, IFRS and the interpretations issued by the IFRIC or the previous SIC, as endorsed by the European Community.

The effect of the adjustment of the opening balances of assets and liabilities to the IFRS was reflected in the opening equity at the transition date (1 January 2017) in retained earnings, net of the tax effect.

In the transition to the IFRS, the estimates previously made in accordance with the OIC were maintained, unless the adoption of the IFRS did not require the preparation of estimates under different methods.

Reconciliations of the statement of financial position and the statement of profit or loss

(in thousands of Euros)	*Note*	OIC 31.12.16	IFRS reclassifications	IFRS adjustments	IFRS 01.01.2017	OIC 31.12.2017	IFRS reclassifications	IFRS adjustments	IFRS 31.12.2017	IFRS 01.01.2018*
Assets										
Goodwill		**-**	-	-	**-**	**-**	-	-	**-**	**-**
Intangible assets		**114**	-	-	**114**	**136**	-	-	**136**	**136**
Property, plant and equipment		**35,064**	-	-	**35,064**	**38,225**	-	-	**38,225**	**38,322**
Equity investments		**-**	-	-	**-**	**-**	-	-	**-**	**-**
Financial assets		**43**	-	-	**43**	**44**	-	-	**44**	**44**
Deferred tax assets	*r1, a1*	**-**	144	8	**152**	**-**	159	7	**166**	**166**
Total non-current assets		**35,221**	**144**	**8**	**35,373**	**38,405**	**159**	**7**	**38,571**	**38,668**
Inventories		**7,287**	-	-	**7,287**	**8,264**	-	-	**8,264**	**8,264**
Trade receivables		**8,676**	-	-	**8,676**	**9,534**	-	-	**9,534**	**9,534**
Other assets	*r2*	**1,548**	(202)	-	**1,346**	**1,846**	(229)	-	**1,617**	**1,617**
Cash and cash equivalents		**12,789**	-	-	**12,789**	**15,456**	-	-	**15,456**	**15,456**
Total current assets		**30,300**	**(202)**	**-**	**30,098**	**35,100**	**(229)**	**-**	**34,871**	**34,871**
Total assets		**65,521**	**(58)**	**8**	**65,471**	**73,505**	**(70)**	**7**	**73,442**	**73,539**
Share capital		**8,367**	-	-	**8,367**	**8,367**	-	-	**8,367**	**8,367**
Other reserves	*a1*	**36,927**	-	(24)	**36,903**	**40,013**	-	(26)	**39,987**	**39,987**
Retained earnings	*a1*	**9,779**	-	-	**9,779**	**12,910**	-	2	**12,912**	**12,912**
Total equity		**55,073**	**-**	**(24)**	**55,049**	**61,290**	**-**	**(24)**	**61,266**	**61,266**
Financial liabilities		**-**	-	-	**-**	**-**	-	-	**-**	**65**
Employee benefits	*r3, a1*	**374**	(24)	32	**382**	**329**	(80)	31	**280**	**280**
Provisions for risks and charges		**8**	-	-	**8**	**4**	-	-	**4**	**4**
Deferred tax liabilities	*r1, a1*	**2,205**	144	-	**2,349**	**2,185**	159	-	**2,344**	**2,344**
Total non-current liabilities		**2,587**	**120**	**32**	**2,739**	**2,518**	**79**	**31**	**2,628**	**2,693**
Financial liabilities		**-**	-	-	**-**	**-**	-	-	**-**	**32**
Trade payables		**4,943**	-	-	**4,943**	**6,885**	-	-	**6,885**	**6,885**
Other non-financial liabilities	*r2*	**2,942**	(202)	-	**2,740**	**2,812**	(229)	-	**2,583**	**2,583**
Employee benefits	*r3, a1*	**(24)**	24	-	**-**	**-**	80	-	**80**	**80**
Total current liabilities		**7,861**	**(178)**	**-**	**7,683**	**9,697**	**(149)**	**-**	**9,548**	**9,580**
Total liabilities		**10,448**	**(58)**	**32**	**10,422**	**12,215**	**(70)**	**31**	**12,176**	**12,273**
Total equity and liabilities		**65,521**	**(58)**	**8**	**65,471**	**73,505**	**(70)**	**7**	**73,442**	**73,539**

* The balances at 1 January 2018 include the effects of applying IFRS 16. For further information, reference should be made to the note "IFRS 16"

(in thousands of Euros)	Note	IFRS 2017	IFRS reclassifications	IFRS adjustment	IFRS 2017
Revenue		**53,857**	**-**	**-**	**53,857**
Cost of sales		(29,990)	-	-	(29,990)
Gross operating profit		**23,867**	**-**	**-**	**23,867**
Trade costs		(2,748)	-	-	(2,748)
Research and development		(802)	-	-	(802)
General and administrative costs		(2,958)	-	7	(2,951)
Other income		541	-	-	541
Operating profit		**17,900**	**-**	**7**	**17,907**
Net financial expense		(185)	-	(5)	(190)
Profit before tax		**17,715**	**-**	**2**	**17,717**
Income taxes		(4,804)	-	(1)	(4,805)
Profit for the year		**12,910**	**-**	**1**	**12,912**

Notes to the adjustments resulting from the application of IFRS

a.1) Current and non-current employee benefits - Deferred tax assets

Under the OIC, employees leaving entitlement (TFR) is recognised at its nominal value calculated in accordance with the provisions of the Italian Civil Code. Conversely, under the IFRS, the TFR is considered a defined benefit plan and, therefore, it is subject to actuarial valuation, which was recognised in full at the transition date, resulting in a higher value of non-current liabilities of Euro 32 thousand at 1 January 2017 and in the recognition of deferred tax assets of Euro 8 thousand. The effect of the measurement of the TFR at 31 December 2017 in accordance with the IFRS results in higher liabilities (Euro 31 thousand) and in the recognition of higher costs in profit or loss (Euro 1 thousand, net of the tax effect).

Notes to the reclassifications resulting from the application of IFRS

r.1) Deferred tax assets - Deferred tax liabilities

This reclassification concerns the restatement of the balances of deferred tax assets and liabilities to comply with the IFRS.

r.2) Other current assets - Other non-current financial liabilities

These captions are affected by the reclassifications deriving from the amounts due from pension funds, previously included under receivables from others.

r.3) Current employee benefits - Non-current employee benefits

This is a reclassification for correct presentation of the current versus non-current portion. The overall balance of this caption is unchanged.

The effects of the early application of the two following standards are set out below.

IFRS 15

On 28 May 2014, the IASB published this standard, endorsed by the European Union on 22 September 2016, whereby companies are required to recognise revenue upon transfer of control of goods or services to customers at an amount that reflects the consideration expected to be received in exchange for those products or services. To achieve this goal, the new revenue recognition model defines a five-step process:

- identify the contract with a customer
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract;
- recognise revenue when (or as) the entity satisfies a performance obligation.

The new standard also requires additional information on the nature, amount, timing and uncertainty relating to revenue and cash flows from contracts with customers.

The Group has applied the modified retrospective approach, i.e., with cumulative effect at the date of initial application (1 January 2017).

The adoption of this standard had no significant changes in the recognition of revenue. Compared to the previous regulations and in compliance with IFRS 15, the Group recognises the sales with a right of return as a decrease in revenue (gross approach) and recognises the cost of the return as a decrease in cost sales. Furthermore, it also recognises the amount corresponding to the sale of the expected return under "Trade payables" and the amount corresponding to the cost of the returned products under "Inventories", as the right to recover the returned goods.

However, this representation had no impact on the profit for the year or on the opening equity at 1 January 2017.

IFRS 16

IFRS 16 introduces a single lessee accounting model whereby a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. There are exemptions from the application of IFRS 16 for short-term (lease term of 12 months or less) leases and leases for which the underlying asset is of low value.

For the purposes of the presentation in the IFRS-restated consolidated financial statements at 31 December 2017 and 31 December 2018, at the date of initial application, the lease liabilities were determined for an amount equal to the present value of the residual lease payments, discounted using the Group's interest rate implicit in the lease at 1 January 2018. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The definition of lease provided in IFRS 16 was applied to all contracts existing at the date of initial application, i.e., 1 January 2018.

The Group used the following practical expedients to apply IFRS 16 to leases classified as operating leases applying IAS 17 at 31 December 2017:

- it applied a single discount rate to a portfolio of leases with similar characteristics;
- it adjusted the right-of-use assets by the amount of any provision for onerous leases recognised in accordance with IAS 37 immediately before the date of initial application, as an alternative to performing an impairment review;
- it excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- it used hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

In adopting IFRS 16, the company intends to avail itself of the exemption described in IFRS 16.5(a) about short-term leases (lease term of 12 months or less) and IFRS 16.5(b) leases for which the underlying asset is of low value.

For leases that were classified as finance leases applying IAS 17, the carrying amount of the right-of-use asset and the lease liability at 1 January 2018 is the carrying amount of the lease asset and lease liability immediately before that date measured applying IAS 17.

The impact of the application of IFRS 16 on the opening statement of financial position as at 1 January 2018 is as follows:

- higher non-current assets following the recognition of right-of-use assets (Euro 97 thousand at 1 January 2018),
- higher lease liabilities of Euro 97 thousand at 1 January 2018.

The effects arising from the application of IFRS 16 are described in the column "01.01.2018" of the “Reconciliations of the statement of financial position and the statement of profit or loss”.

IFRS 9

IFRS 9 Financial Instruments, published by the IASB in July 2014 and endorsed by the European Union in November 2016, replaced, with effect from 1 January 2018, IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces new criteria for the classification and measurement of financial assets and liabilities, a new model for the calculation of impairment of financial assets and new provisions for hedge accounting.

The Group opted for the early application of IFRS 9.

A) Classification and measurement of financial instruments

<u>Financial assets</u>

Under IFRS 9, loans, receivables and debt securities recognised under financial assets are classified into the following three categories based on the cash flow characteristics of those assets (SPPI Test) and the business model with which they are managed:

- at amortised cost;
- at fair value through other comprehensive income ("FVOCI");
- at fair value through profit or loss ("FVTPL").

Embedded derivatives where the host is a financial asset within the scope of this standard are no longer separated. The hybrid instrument is instead examined for the purpose of classification as a whole.

The above categories replace the previous categories under IAS 39, i.e., held-to-maturity investments, loans and receivables, available-for-sale assets and assets measured at FVTPL.

Specifically, a financial asset is measured at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows;
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets;
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets that do not fall into the two categories above are measured at FVTPL.

The application of the new provisions on opening equity at 1 January 2017 was not significant.

With reference to equity instruments represented by interests other than those in subsidiaries, associates and joint ventures and not held for trading purposes, the Group decided not to make use of the option that allows measurement at FVOCI. Therefore, these interests are measured at FVTPL.

<u>Financial liabilities</u>

IFRS 9 essentially maintains the provisions of IAS 39 for the classification and measurement of financial liabilities, except for financial liabilities measured at FVTPL, for which fair value changes related to the own credit risk are recognised in other comprehensive income rather than in profit or loss, unless this results in an accounting mismatch.

The initial application of IFRS 9 had no impact on the Group's financial liabilities.

B) Impairment

IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" ("ECL") model. Under the new provisions, the event causing the loss (impairment trigger) needs not to occur in order to recognise the loss, rather the expected future loss is to be immediately recognised, using past and present data and the so-called forward-looking information about future circumstances.

The Group measured trade receivables using the simplified approach provided for by IFRS 9 for trade receivables that do not contain a significant financing component: specifically, a loss allowance was recognised at an amount equal to lifetime expected credit losses. This allowance, recognised from the date of initial recognition of the receivables, was determined on the basis of reasonable and supportable information that is available without undue cost or effort about past events, current conditions and forecasts of future economic conditions. This approach did not generate material differences with respect to the previous model applied by the Group, which provided for the calculation of a provision based on a specific analysis of incurred losses on existing receivables, plus an additional provision determined on the basis of past experience.

25. Financial risk management

In the ordinary course of its operations, the Group is exposed to:

- market risk, mainly changes in interest rates related to financial assets disbursed and financial liabilities assumed;
- liquidity risk, with reference to the availability of adequate funds to meet operating needs and repay the liabilities assumed;
- credit risk, associated both with ordinary trade relationships and the possibility of default by a financial counterparty.

The Group's financial risk management strategy is consistent and coherent with the corporate objectives defined by SICIT 2000's Board of Directors.

Market risk

The strategy followed for this type of risk is aimed at mitigating interest rate risk (including currency risk) and optimising the cost of debt, mainly by using own funds to satisfy financial requirements.

These risks are managed in accordance with the principle of prudence and in line with market best practices.

The main objectives of the policy are as follows:

- pursue the defence of the long-term plan scenario from the effects caused by exposure to currency and interest rate risks, avoiding recourse to the capital market for funds to meet operating requirements;
- pursue a "zero-debt" policy;
- manage transactions in currencies other than the Euro efficiently and avoid operating in situations where currency fluctuations could cause significant disadvantages.

At 31 December 2017 and 31 December 2018, the Group had no cash flow hedges in place, classified as such under IFRS 9, on its exposure to medium/long-term loans. Indeed, the risks are considered not significant in view of the duration of the loans (not exceeding 18 months).

Liquidity risk

Liquidity risk represents the risk that the available financial resources may be insufficient to settle maturing cash requirements. The Group believes that it has access to sufficient sources of financing to meet its planned financial needs, considering its cash and cash equivalents, its ability to generate cash flows and to find sources of financing in the market.

Note 18 - Financial liabilities shows the breakdown of the financial liabilities outstanding at 31 December 2017 and 31 December 2018 by due date.

At 31 December 2017 and 31 December 2018, the Group's cash and cash equivalents amount to Euro 15.5 and Euro 15.1 million, respectively. The liquidity risk was deemed remote compared with the volumes and current financial planning.

Credit risk

The Group manages credit risk mainly by using counterparties with high credit standing and does not have significant concentrations of credit risk.

Individually significant credit positions for which an expected credit loss is recognised, in compliance with IFRS 9, are individually impaired. For further information on the impairment model used, reference should be made to Note 24 - IFRS transition. For information on the loss allowance relating to trade receivables, reference should be made to Note 14 - Trade receivables.

26. Guarantees

At the reporting date, the Group did not provide guarantees either to third parties or companies or to group companies.

27. Contingent liabilities

The company examined the contracts in progress at the reporting date and did not identify any significant contingent liabilities, in addition to that described in the provisions for risks and charges.

28. Related party transactions

All trade transactions take place on an arm's length basis, are part of the Group's ordinary business and are carried out solely in the Group's interest.
They are mainly attributable to the following transactions:

- Transactions carried out by the Sicit Group with its subsidiaries: these relate to the sale of goods and services and are part of the Group’s ordinary business. They were carried out at market conditions. Costs and revenues and the related assets and liabilities were eliminated when preparing the consolidated financial statements.
- Transactions carried out with the ultimate parent (Intesa Holding S.p.A. "IH"): Sicit 2000’s participation in Intesa Holding S.p.A.’s tax consolidation scheme ceased with the sale of Sicit 2000 S.p.A. to SprintItaly S.p.A. on 20 May 2019. The transactions carried out with Intesa Holding in 2017 and 2018 mainly refer to the balances arising from the tax consolidation scheme.
- Transactions carried out by the Sicit Group with subsidiaries of parents (related companies): these transactions mainly relate to commercial support, research and laboratory use and quality control activities (part of the cost of sales).
- Transactions carried out by other related parties: these transactions were carried out mainly with companies related to Sicit 2000 S.p.A.’s and Intesa Holding’s directors. They mainly relate to the collection of animal by-products and other leather processing waste and are part of Sicit 2000 S.p.A.’s ordinary activities. The rates applied to these related parties for the service provided are the same as those applied to other customers. Therefore, the transactions were carried out at market conditions.

No atypical or unusual related party transactions were recognised or carried out, nor were contracts entered into with a significant impact on the IFRS-restated consolidated financial statements at 31 December 2017 and 2018.

The table below shows the revenue and costs of related party transactions carried out by the Group in 2017 and 2018. The related balances relating to transactions with subsidiaries are not shown as they were eliminated upon consolidation.

(in thousands of Euros)	Ultimate parent (IH)	Related companies (IH)	Other related parties	Total	Fin. stat. caption	% of fin. stat. caption
Revenue						
Year ended 31 December 2018	-	-	452	452	55,143	*0.8%*
Year ended 31 December 2017	-	-	436	436	53,857	*0.8%*
Cost of sales						
Year ended 31 December 2018	-	(3,520)	-	(3,520)	(32,953)	*10.7%*
Year ended 31 December 2017	-	(1,890)	-	(1,890)	(29,990)	*6.3%*
Trade costs						
Year ended 31 December 2018	(5)	-	(253)	(258)	(3,404)	*7.6%*
Year ended 31 December 2017	(5)	-	(226)	(231)	(2,748)	*8.4%*
Research and development						
Year ended 31 December 2018	-	(197)	-	(197)	(1,273)	*15.5%*
Year ended 31 December 2017	-	(140)	-	(140)	(802)	*17.5%*
Other income						
Year ended 31 December 2018	-	126	-	126	1,626	*7.7%*
Year ended 31 December 2017	-	126	-	126	541	*23.3%*
Net financial income						
Year ended 31 December 2018	-	-	1	1	234	*0.4%*
Year ended 31 December 2017	-	-	1	1	(190)	*(0.5%)*
Income taxes						
Year ended 31 December 2018	(106)	-	-	(106)	(4,294)	*2.5%*
Year ended 31 December 2017	(95)	-	-	(95)	(4,805)	*2.0%*

The table below shows assets and liabilities at 31 December 2017 and 31 December 2018 arising from transactions with related parties. The related balances relating to transactions with subsidiaries are not shown as they were eliminated upon consolidation.

(in thousands of Euros)	Ultimate parent (IH)	Related companies (IH)	Other related parties	Total	Fin. stat. caption	% of fin. stat. caption
Other current non-financial liabilities						
Year ended 31 December 2018	-	-	-	-	2,048	*0.0%*
Year ended 31 December 2017	697	-	-	697	2,583	*27.0%*
Other current assets						
Year ended 31 December 2018	359	-	101	460	3,317	*13.9%*
Year ended 31 December 2017	-	-	101	101	1,617	*6.2%*
Trade receivables						
Year ended 31 December 2018	-	51	60	111	9,787	*1.1%*
Year ended 31 December 2017	-	51	55	106	9,534	*1.1%*
Trade payables						
Year ended 31 December 2018	-	1,138	58	1,196	9,085	*13.2%*
Year ended 31 December 2017	-	290	30	320	6,885	*4.6%*

29. Segment reporting

IFRS 8 requires that the notes to the financial statements include segment information presented in the same way as the internal presentation to the chief operating decision maker responsible for allocating resources and assessing the performance of the operating segments. The Group has no separate business units. Consequently, the Board of Directors takes strategic decisions on the basis of the Group's financial reporting for the entire company.

30. Significant events after the reporting date

The significant events after the reporting date include the completion of the merger (the "**merger**") of Sicit 2000 S.p.A. into SprintItaly S.p.A., a company listed on the AIM Italia segment of Borsa Italiana S.p.A.. The merger became effective for third parties on 20 May 2019.

The main steps of the transaction that led to the Merger are summarised below.

Prior to the Merger, SprintItaly was a company set up as a SPAC (special purpose acquisition company), listed on the AIM Italia segment managed by Borsa Italiana S.p.A.. Its business purpose was the research and selection of operating companies (target companies) for acquisition purposes, to be carried out through the subscription or purchase and sale of investments in the selected target company, or a combination with the target company, to which the funds raised by placing its own ordinary shares on the AIM Italia segment (a business combination) would be allocated. After researching Italian companies, with a focus on medium-sized, unlisted companies with a high growth potential, SprintItaly identified Sicit 2000 as the target company with which the business combination would be carried out.

With the aim of strengthening its development and growth path, both through internal and external actions, on 11 January 2019, Sicit 2000, together with the ultimate parent Intesa Holding S.p.A. ("Intesa Holding"), signed a framework agreement with SprintItaly to carry out the business combination, specifically through the Merger, subject to SprintItaly's acquisition of a non-controlling interest in the share capital of Sicit 2000. As a result of this transaction, ordinary Sicit Group shares and warrants are traded on the AIM Italia segment.

During the first few months of 2019, Sicit 2000, Intesa Holding and SprintItaly carried out the preliminary operations required by the framework agreement, completing the necessary deeds and fulfilments within the set deadlines. The main transactions were as follows:

i. On 1 March 2019, SprintItaly Shareholders' Meeting approved:
   a. in an ordinary session, the performance of the business combination with the favourable vote of 99.89% of those present, corresponding to 62.31% of the share capital,
   b. in an extraordinary session, the merger project, with the favourable vote of 100% of those present, corresponding to 62.38% of the ordinary share capital.
ii. On 7 May 2019, Intesa Holding and SprintItaly signed a contract for the acquisition by SprintItaly of a 43.75% investment held by Intesa Holding in Sicit 2000. The merger deed was signed on the same date.
iii. On 20 May 2019, the merger became legally effective. Since this date, ordinary SprintItaly shares and warrants, already admitted to trading on the AIM Italia segment since 19 July 2017, have been renamed from SprintItaly to Sicit Group.

As part of the framework agreement, the conditions precedent of the Merger included a series of organisational restructuring operations to be carried out by Intesa Holding and Sicit 2000, which occurred on 2 May at the same time as the signing of the merger deed, as described briefly below:

i. sale by Sicit Chemitech S.p.A. ("Chemitech"), then controlled by Intesa Holding, of certain equity investments and trademarks not related to Sicit business (Mantis Agropy S.A., Edynea trademark and domain),
ii. sale by Intesa Holding to Sicit 2000 of its investment in Chemitech;
iii. transfer of the Sicit 2000 logo from Intesa Holding to Sicit 2000;
iv. distribution by Sicit 2000 to Intesa Holding of an extraordinary dividend of Euro 11 million, already approved by Sicit 2000's shareholders.

With respect to SprintItaly which, at the date the framework agreement was signed, had available funds worth Euro 150 million raised as part of the IPO, in compliance with the framework agreement, it repaid a total of Euro 50 million to its shareholders, partly by paying ordinary SprintItaly shares for which the right of withdrawal had been exercised in relation to the Merger, pursuant to the Articles of Association and article 2437 of the Italian Civil Code (Euro 20.2 million) and, for the remaining part, by distributing the available reserves (Euro 29.8 million) in excess of the funds necessary for the business combination (i.e., Euro 100 million, of which Euro 70 million to acquire the non-controlling interest and Euro 30 million to be allocated to Sicit Group's growth and development plans).

Chiampo, 19 December 2019

The Chairman of the Board of Directors
Giuseppe Valter Peretti

KPMG

KPMG S.p.A.
Revisione e organizzazione contabile
Piazza Salvemini, 20
35131 PADOVA PD
Telefono +39 049 8249101
Email it-fmauditaly@kpmg.it
PEC kpmgspa@pec.kpmg.it

(Translation from the Italian original which remains the definitive version)

Independent auditors' report

To the board of directors of
Sicit Group S.p.A.

Opinion

We have audited the accompanying consolidated financial information restated in accordance with the International Financial Reporting Standards (IFRS) endorsed by the European Union of the Sicit 2000 Group (the "group") as at and for the years ended 31 December 2017 and 2018 (the "IFRS consolidated financial information"). This IFRS consolidated financial information has been prepared for the sole purpose of its inclusion in the prospectus prepared by Sicit Group S.p.A. (the "parent") as part of the procedure for listing its shares on the stock exchange organised and managed by Borsa Italiana S.p.A. (the "prospectus"). Its objective is to present the group's financial position as at 31 December 2017 and 2018 and its financial performance and cash flows for the years then ended in accordance with the requirements of the IFRS endorsed by the European Union, as described in the related notes.

In our opinion, the IFRS consolidated financial information gives a true and fair view of the financial position of the Sicit 2000 Group as at 31 December 2017 and 2018 and of its financial performance and cash flows for the years then ended in accordance with the basis of preparation set out in the notes.

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 "*Auditors' responsibilities for the audit of the IFRS consolidated financial information*" section of our report. We are independent of the parent in accordance with the ethics and independence rules and standards applicable in Italy to audits of IFRS consolidated financial information. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matters

Without modifying our opinion, we draw attention to the notes to the IFRS consolidated financial information, which describe its basis of preparation. The IFRS consolidated financial information has been prepared for the sole purpose of its inclusion in the prospectus and, as such, it may not be suitable for other purposes.

Responsibilities of the parent's directors for the IFRS consolidated financial information

The directors are responsible for the preparation of IFRS consolidated financial information that gives a true and fair view in accordance with the basis of preparation describes in the related notes and for such internal control as they determine is necessary to enable the preparation of IFRS consolidated financial information that is free from material misstatement, whether due to fraud or error.

Auditors' responsibilities for the audit of the IFRS consolidated financial information

Our objectives are to obtain reasonable assurance about whether the IFRS consolidated financial information as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 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 this IFRS consolidated financial information.

As part of an audit in accordance with ISA Italia and considering ESMA recommendation no. 319/2013, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the IFRS consolidated financial information, 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;
- evaluate the overall presentation, structure and content of the IFRS consolidated financial information, including the disclosures, and whether the IFRS consolidated financial information represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at the appropriate level 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.

Padua, 20 December 2019

KPMG S.p.A.

(signed on the original)

Silvia Di Francesco
Director of Audit