Cembre

COSTRUZIONI ELETTROMECCANICHE BRESCIANE

2017 ANNUAL FINANCIAL REPORT

Cembre S.p.A.

Head Office: Via Serenissima 9, Brescia, Italy
Share Capital: EUR 8,840,000 (fully paid-up).
Registration no: 00541390175 (Commercial Register of Brescia)

This document contains translations of the draft statutory annual financial statements and consolidated annual financial statements prepared in the Italian language for the purpose of the Italian law and of CONSOB regulations (CONSOB is the public authority responsible for regulating the Italian securities market)

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Report on Operations for Financial Year 2017

Operating Review

The Cembre Group closed 2017 reporting an 8.2% increase in turnover on 2016, with consolidated sales reaching €132.6 million.

In 2017 sales in Italy grew by 13.4% to €55.6 million. Sales in the rest of Europe grew by 5.4% on the previous year to €54.3 million while sales in the rest of the World were 3.1% higher than in the previous year, reaching €22.7 million. In 2017 sales to Italian market represented 41.9% of the total (40% in 2016), sales to the rest of Europe 41% (42% in 2016) and sales in the rest of the world represented 17.1% of total sales (18% in 2016).

Sales by geographical area

(€'000)	2017	2016	Change	2015	2014	2013	2012	2011	2010	2009	2008
Italy	55,576	49,029	13.4%	48,564	44,100	39,252	41,096	44,834	41,450	30,783	41,100
Rest of Europe	54,319	51,516	5.4%	52,210	51,204	47,980	46,837	43,857	40,284	35,694	42,249
Rest of the World	22,742	22,060	3.1%	20,603	17,601	17,315	15,966	14,337	12,200	9,507	10,939
Total	**132,637**	**122,605**	**8.2%**	**121,377**	**112,905**	**104,547**	**103,899**	**103,028**	**93,934**	**75,984**	**94,288**

In 2017 the parent company and its foreign subsidiaries registered an increase in turnover measured in euro, with the exception of UK subsidiary Cembre Ltd. that continues to be affected by the weakness of the British pound. As a result, though registering a 3.1% increase in sales in pound terms for the year, the subsidiary registered in fact a 3.7% decline in sales measured in euro.

Overall, the contribution of foreign subsidiaries to group turnover increased from €55.5 million in 2016 to €57.7 million in 2017, up 4%.

Revenues by Group company (net of intragroup sales)

(€'000)	2017	2016	Change	2015	2014	2013	2012	2011	2010	2009	2008
Parent company	74,966	67,134	11.7%	65,725	58,554	53,814	54,861	58,834	54,279	40,740	52,422
Cembre Ltd. (UK)	17,468	18,143	-3.7%	19,710	20,577	19,390	17,535	13,920	11,845	10,626	12,374
Cembre S.a.r.l. (F)	9,502	8,976	5.9%	8,677	8,354	7,763	7,615	7,606	6,407	6,224	6,477
Cembre España S.L.U.(E)	9,549	7,979	19.7%	8,200	7,016	6,139	6,363	7,151	8,309	7,681	11,518
Cembre GmbH (D)	8,217	7,866	4.5%	7,775	7,558	7,238	8,201	7,815	6,368	5,264	5,358
Cembre AS (NOR) *Liquidated in 2016*	n.a.	23	n.a.	1,080	960	791	985	859	1,014	713	762
Cembre Inc. (USA)	12,935	12,484	3.6%	10,210	9,886	9,412	8,339	6,843	5,712	4,736	5,377
Total	**132,637**	**122,605**	**8.2%**	**121,377**	**112,905**	**104,547**	**103,899**	**103,028**	**93,934**	**75,984**	**94,288**

In 2017, Group companies reported the following results, before the consolidation:

	Sales										
(€'000)	**2017**	**2016**	**Change**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**
Parent company	103,476	94,650	9.3%	92,616	84,903	78,100	79,487	80,777	72,986	56,546	75,461
Cembre Ltd. (UK)	18,916	19,633	-3.7%	21,130	22,271	20,914	19,193	16,093	13,356	11,807	13,727
Cembre S.a.r.l. (F)	9,509	9,006	5.6%	8,680	8,423	7,815	7,623	7,634	6,413	6,255	6,511
Cembre España S.L.U.(E)	9,554	7,980	19.7%	8,216	7,019	6,145	6,727	7,155	8,309	7,683	11,518
Cembre GmbH (D)	8,328	7,960	4.6%	7,889	7,685	7,388	8,235	7,981	6,390	5,319	5,369
Cembre AS (NOR) *Liquidated in 2016*	n.a.	198	n.a.	1,080	960	798	1,004	893	1,014	713	767
Cembre Inc. (USA)	12,962	12,645	2.5%	10,675	10,052	9,456	8,389	6,856	5,744	4,810	5,383

	Net profit										
(€'000)	**2017**	**2016**	**Change**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**
Parent company	24,444	15,932	53.4%	14,438	12,202	8,676	9,918	10,226	9,870	4,762	9,306
Cembre Ltd. (UK)	3,743	1,896	97.4%	2,346	2,603	2,308	1,794	1,266	883	895	632
Cembre S.a.r.l. (F)	169	160	5.6%	277	194	171	113	100	63	379	289
Cembre España S.L.U. (E)	740	(9)	n.a.	414	305	230	(67)	(120)	273	516	770
Cembre GmbH (D)	508	398	27.6%	491	303	289	664	621	364	255	302
Cembre AS (NOR) *Liquidated in 2016*	n.a.	(130)	n.a.	21	69	11	76	22	157	84	114
Cembre Inc. (USA)	863	655	31.8%	357	561	804	494	320	224	186	337

The strong increase in net profit of the UK subsidiary is due to the £1,928 thousand (€2,231 thousand) capital gain on the sale to the parent company of shares held by the UK subsidiary in other group companies. For more detailed information see the section on Related Parties in the present document where changes in the Group holding structure are described.

For a more direct evaluation of the effect of foreign exchange translations, we include below sales figures of companies operating outside the euro area in the respective currency.

	Currency	Sales										
('000)		**2017**	**2016**	**Change**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**
Cembre Ltd. (UK)	Gbp	16,583	16,089	3,1%	15,337	17,953	17,761	15,563	13,967	11,457	10,509	10,931
Cembre AS (NOR) *Liquidated in 2016*	Nok	*n.a.*	1,844	*n.a.*	9,669	8,021	6,231	7,508	6,962	8,115	6,226	6,311
Cembre Inc. (USA)	US$	14,643	13,996	4,6%	11,844	13,354	12,559	10,778	9,543	7,615	6,709	7,917

	Currency	Net Profit										
('000)		2017	2016	Change	2015	2014	2013	2012	2011	2010	2009	2008
Cembre Ltd. (UK)	Gbp	3,281	1,554	111.1%	1,703	2,098	1,960	1,455	1,098	758	798	503
Cembre AS (NOR) *Liquidated in 2016*	Nok	n.a.	(1,207)	n.a.	186	576	82	567	169	1,257	734	941
Cembre Inc. (USA)	US$	975	725	34.5%	396	746	1,067	635	446	297	260	496

To provide a better understanding of the Company's financial performance for 2017, a Reclassified Consolidated Income Statement for the years ended December 31, 2017 and 2016 showing percentage changes is enclosed as Attachment 1.

Gross operating profit for 2017 amounted to €33,434 thousand, representing a 25.2% margin on sales, up 11.4% on 2016 when it amounted to €30,025 thousand, representing a 24.5% margin on sales. The cost of goods sold as a percentage of total sales was in line with the previous year, while the cost of services as a percentage of sales grew by half a percentage point from 12.6% to 13.1%. Personnel costs as a percentage of sales declined instead from 28.9% to 28.1% despite the increase in the average number of employees from 672 (including 50 employees on short-term contracts) in 2016 to 689 (including 39 employees on short-term contracts) in 2017. Consolidated operating profit for 2017 amounted to €27,036 thousand, representing a 20.4% margin on sales, up 12.2% on €24,095 thousand in 2016, when it represented a 19.7% margin on sales.

Consolidated profit before taxes amounted in 2017 to €26,575 thousand, representing a 20.0% margin on sales, up 10.5% on €24,059 thousand in 2016, when it represented a 19.6% margin on sales.

On December 22, 2017 Cembre S.p.A. reached an agreement with Tax Authorities on the application of the Patent Box Regime, as a result of which a total tax benefit of €3,902 thousand was recorded for the 2015, 2016 and 2017 financial years.

Benefiting from the above non-recurrent tax gain, consolidated net profit for the year amounted to €22,727 thousand, representing a 17.1% margin on sales, up 34.3% on 2016, when it amounted to €16,927 thousand and represented a 13.8% margin on sales.

Net of said tax benefit, net profit would have amounted to €18,825 thousand, representing a 14.2% margin on sales and an 11.2% increase on 2016.

The net financial position declined from a surplus of €26.7 million at December 31, 2016 to a surplus of €20.2 million at the end of December 2017. Further detail is provided in the notes.

Capital expenditure

In 2017 capital expenditure, gross of depreciation and divestments, amounted to €12.8 million, up from €7.6 million in the previous year, and consisted, among other things, of new machinery acquired by the Parent company for €4.8 million. More detail is provided in the notes under Property, plant and equipment.

Results of the parent company

Results of the parent company for 2017 and 2016 are shown in the table below.

(€'000)	**2017**	**%**	**2016**	**%**	**Change**
Sales	103,476	100	94,650	100	9.3%
Gross operating profit	26,859	26.0	24,462	25.8	9.8%
Operating profit	21,248	20.5	19,389	20.5	9.6%
Pre-tax profit	26,600	25.7	21,789	23.0	22.1%
Net profit	24,444	23.6	15,932	16.8	53.4%

As previously indicated, net profit of the parent company benefited from a non-recurrent tax gain of €3,902 thousand on the application of the Patent Box Regime for years 2015-2017. Net of said tax benefit, net profit would have amounted to €20,542 thousand, representing a 19.9% margin on sales and a 28.9% increase on 2016.

Sales revenues grew by 9.3% from €94,650 thousand in 2016 to €103,476 thousand in 2017. Domestic sales grew by 13.4%, sales to other European countries posted a 5.6% increase and sales in the rest of the World a 3.8% increase.

(€'000)	**2017**	**2016**	**Change**
Italy	55,576	49,029	13.4%
Rest of Europe	31,641	29,956	5.6%
Rest of the World	16,259	15,665	3.8%
Total	**103,476**	**94,650**	**9.3%**

In 2017 the parent company received €5,315 thousand in dividends from its subsidiaries as compared with €2,349 in the previous year.

<u>Definition of alternative performance indicators</u>

In compliance with Consob Communication DEM/6064293 dated July 28, 2007, below we define alternative performance indicators used in the present document to illustrate the financial and operating performance of the Group.

Gross operating profit (EBITDA): defined as the difference between sales revenues and costs for materials, of services received, and the net balance of operating income and charges. It represents the profit before depreciation, amortization and write-downs, financial flows and taxes.

Operating profit (EBIT): defined as the difference between gross operating profit and the value of depreciation, amortization and write-downs. It represents the profit achieved before financial flows and taxes.

Net financial position: represents the algebraic sum of cash and cash equivalents, financial receivables and current and non-current financial debt.

Reclassified Consolidated Statement of Financial Position

	(€'000)	Dec. 31, 2017	Dec. 31, 2016
	Trade receivables, net	26,520	24,885
	Inventories	41,673	38,796
	Other non-financial assets	4,764	1,410
	Trade payables	(14,581)	(13,306)
	Other non-financial liabilities	(7,794)	(7,593)
A)	**Net current assets (working capital)**	**50,582**	**44,192**
	Property, plant and equipment and investment property	73,208	67,945
	Intangible assets	1,867	1,350
	Prepaid taxes	2,294	2,502
	Other non-current assets	51	54
B)	**Net non-current assets**	**77,420**	**71,851**
C)	**Non-current assets available for sale**	**-**	**-**
D)	**Employee termination indemnity**	**2,664**	**2,618**
E)	**Provisions for risks and charges**	**448**	**421**
F)	**Deferred taxes**	**2,047**	**2,043**
G)	**Net capital employed (A+B+C-D-E-F)**	**122,843**	**110,961**
	Sources of funds:		
H)	**Shareholders' Equity**	**143,075**	**137,627**
	Cash and short-term financial receivables	(20,232)	(26,709)
	Short-term financial debt	-	43
I)	**Net debt/(surplus)**	**(20,232)**	**(26,666)**
J)	**Total sources of funds (H+I)**	**122,843**	**110,961**

Shareholders' Equity

Consolidation adjustments determined the following differences between the Financial Statements of the parent company at December 31, 2017 and the consolidated accounts at the same date:

(€'000)	Shareholders' Equity	Net Profit
Parent company's financial statements	**122,989**	**24,444**
Book value of consolidated companies	23,549	3,823
Elimination of intra-group profits included in the value of inventories (*)	(3,472)	325
Currency translation differences from elimination of intragroup balances	-	1
German subsidiary product warranty provision reversal (*)	22	1
Netting of intragroup dividends (**)	-	(5,866)
Netting of intragroup capital gains	(13)	(1)
Consolidated Financial Statements	**143,075**	**22,727**

(*) Net of the related tax effect

(**) Includes currency translation differences amounting to €430 thousand.

Main risks and uncertainties

<u>Risks connected to the economic situation</u>

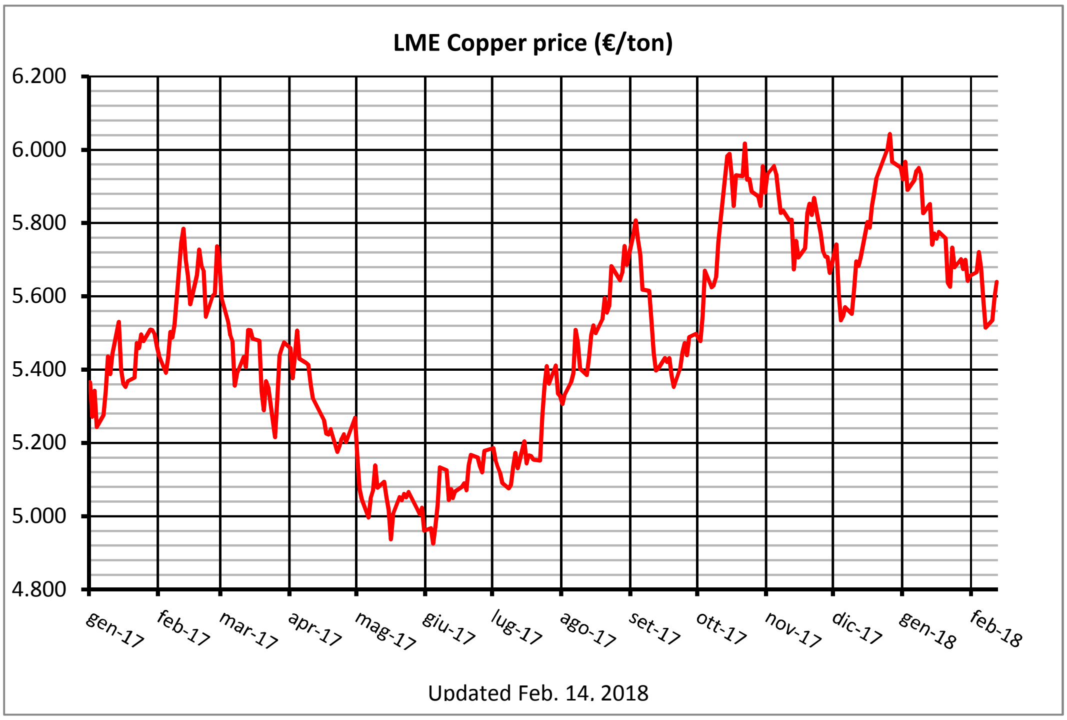
The economic and financial situation of the Group is influenced by macroeconomic factors such as changes in the Gross Domestic Product, consumer and business confidence, changes in interest rates and the cost of raw materials.

In 2017 the World economy continued to grow steadily, despite a weak inflation, while the euro area growth prospects have improved further and the risk of deflation has disappeared. Prices remain however low, due mainly to the limited wage growth in many economies of the euro zone. Despite having recalibrated its action, the ECB continues to maintain a very expansive monetary policy, awaiting a stable return of inflation to levels close to 2%.

The Italian economy accelerated in the second half of 2017, driven in equal terms by domestic demand, in particular for capital goods, and by foreign demand. Employment has grown steadily throughout the year – although remaining below pre-crisis levels – and in the last part of 2017 hours worked per worker have also increased. Credit to the private sector increased, confirming renewed confidence of businesses and families.

Projections of the Bank of Italy for the Italian economy for 2018 are for a GNP growth of 1.4% while for years 2019-2020 growth is expected to average 1.2% (*Source: Economic Bulletin of the Bank of Italy*).

Copper continues to represent the main raw material used in Cembre's production process and the price of the commodity is thus constantly monitored.



In 2017, the price of fluctuated widely, particularly in the second half of the year. Currently (Mid-February) the value hovers around €5,600/ton, down from over €6,000/ton in late December 2017.

Thanks to its strong financial position, good competitive hedge and wide international presence, the Cembre Group is confident about the future and feels it is in a position to take advantage of opportunities that may arise and to react to possible changes in the economic scenario that may develop in the next months.

Risks connected with the market

The Group protects its market position by pursuing ongoing innovation, the widening of the product range, the launch of lower cost products and by introducing into production processes the most advanced methods and machinery, while implementing focused marketing policies with the help of its foreign subsidiaries.

Credit risk

Cembre and its subsidiaries focused over time on a careful selection of customers, managing prudently sales to those that do not possess an adequate credit standing. The Group has accrued a provision for doubtful accounts and the management doubtful accounts, constantly monitoring overdues and soliciting payment when terms have expired. To further reduce this type of risk, in February 2016 the parent company stipulated a policy with a primary insurance company against commercial credit losses.

Exposure to credit risk relates exclusively to trade receivables.

Liquidity risk

Thanks to its solid financial position, the Group is not currently subject to particular liquidity risk, even in case the cash flow generated by operations should decline drastically.

Interest rate risk

At December 31, 2017 Cembre had no loans outstanding.

Currency risk

Despite its strong international presence, the Group does not have a significant exposure to currency risk, as it operates almost entirely in the euro area, the currency in which its trade transactions are mainly denominated. Exposure to currency risk is basically limited to sales in US dollars and British pounds, but the size of these transactions is not significant in influencing the overall performance of the Group or its financial position.

Integrity and reputation risk

Possible illicit behavior of employees, aimed at obtaining benefits for themselves and for the Group, can imply the risk of a loss of reputation and of sanctions against the Group. To prevent the risk of these occurrences and in line with Legislative Decree 231/2001, the Company adopted an organizational, management and control model that identifies processes that are subject to risk and establishes the conduct that the various persons involved are to keep in carrying out their tasks. The model was illustrated to employees through specific training sessions. The Company constantly integrates and upgrades the model.

Further information on main risks and uncertainties is contained in the notes.

Environmental management

Cembre S.p.A. has deemed and recognized as a fundamental step in its development the creation of a harmonized Environmental Management System according to the spirit and the letter of the UNI EN ISO 14001 standard.

To this end, a demanding project had been undertaken that involved all the functions and all the company processes: from the engineering and design phase, to the choice of materials and processes used, to the careful and conscious management of the production phases.

The project was extended to subsidiary Cembre Ltd. (UK), representing the second production site of the Cembre Group; thus the certification of the Environmental Management System according to the ISO 14001: 2015 standard now extends to both Cembre S.p.A. and Cembre Ltd.

The certification of the Environmental Management System of the Group's production sites allows us to ensure the application of common, shared and environmentally friendly behavioral guidelines.

Through the implementation of operating procedures strictly in line with regulations regarding environmental protection and the application of principles for sustainable development Cembre can:

• create opportunities to protect the environment by preventing or mitigating environmental impacts,

• fulfill its compliance obligations,

• improve environmental performance,

• design and manufacture products using materials and processes that ensure the protection of the environment throughout the life of the product, from manufacturing to disposal.

Worker safety management

In 2012 Cembre S.p.A. obtained the certification of its worker health and safety management system according to the OHSAS 18001: 2007 standard.

Ratios

To provide a better understanding of results of the Group, we provide below the value of some ratios commonly used in financial statement analysis.

Financial ratios

		Dec. 31, 2017	Dec. 31, 2016
ROE	Return on Equity	0.16	0.12
ROS	Return on Sales	0.20	0.20
ROI	Return on Investment	0.16	0.15

ROE (Return on Equity): is the ratio between net profit and Shareholders' Equity. It is an index of the profitability of capital invested, used to compare the investment in the company with investments of a different nature on a yield basis.

ROS (Return on Sales): is calculated as the ratio between operating profit and net revenues. It indicates profitability as a proportion of revenues, or the ability to generate profit from the purchase-manufacturing-resale cycle.

ROI (Return on Investment): is the ratio between capital employed (total assets net of investments in non-operating assets, which for the Group do not exist). It indicates the ability of the company to generate profits through operating activities.

Liquidity ratios

		Dec. 31, 2017	Dec. 31, 2016
CR	Current Ratio	4.17	4.38
LR	Liquidity Ratio	2.30	2.53

CR: it is computed by dividing current assets by current liabilities. It indicates the ability of the company to face current liabilities with current assets. A value above 2 signals an optimal situation.

LR: it is computed by dividing the sum of current and deferred liquidity by current liabilities, and is used to assess the firm's ability to pay off current liabilities. A value above 1 signals an ideal liquidity position.

Debt management ratios

		Dec. 31, 2017	Dec. 31, 2016
CI	Equity to fixed assets ratio	1.91	1.99
LEV	Leverage (Gearing)	1.19	1.19
IN	Debt ratio	16.1%	15.9%

CI: it is computed by dividing Shareholders' Equity by Fixed Assets and it indicates the ability of the company's equity to cover its investment needs. A value above 1 signals an optimal situation.

LEV (Leverage): it is computed by dividing capital employed by the Shareholders' Equity and it represents the degree of debt of the company. The higher the ratio, the higher the riskiness of the company. A value between 1 and 2 represents equilibrium in the sources of funds.

IN: it is computed by dividing the sum of current and non-current liabilities by capital employed and it indicates the percentage share of funds provided by third parties in financing the company. A value below 50% indicates an adequate financial structure.

Research & Development

The total cost of activities carried out by the parent company for in-house research and the development of new products amounted in 2017 to €650 thousand, of which €368 thousand relating to research activities, expensed in the year, and €282 thousand to development, capitalized under intangible assets.

Costs relating to prototypes, consulting and design amounted to €164 thousand.

In 2017, six industrial patent applications were filed.

Below we include an overview of projects carried out in the year.

Cable terminals

A total of 26 requests for new products were followed up. Each study involved both new connectors and machinery for their manufacturing.

Work on the widening of the range of mechanical locking connectors continued.

Six new product requests for AR rails electrical connectors have been fulfilled while the development of a rail connector specific for the New York City Transit Authority (New York Subway) is underway.

Railroad equipment

Tools and accessories for the drilling, cutting and fastening of rails to sleepers were developed.

A prototype of a new machine for drilling wooden sleepers has been developed and produced.

A prototype for a new battery-run hydraulic utensil for the fastening of clips used to fasten rails to sleepers was developed and manufactured. The utensil features a particular configuration developed by the University of Moscow for the Russian railways. The device has been patented.

A new trolley designed to be used in conjunction with both our impact wrench and our sleeper drill has been developed. This new machine contains a series of innovations both in terms of ergonomic design and functionality that allows to make its use more practical. The device has been patented.

Tools

A new battery-operated hydraulic pump for the operation of insulated cable cutters was developed. The pump features an innovative wireless remote control that ensures the full safety of the operator in case of the erroneous cutting of a live wire.

Alongside the pump, three cutter heads able to communicate to the machine – and thus to the operator through a wireless connection – the completion of the cut, were developed. This improves the safety of the operator that is no longer required to approach the dangerous zone to verify that the operation has been completed. The project has been patented.

New battery-run utensils for the crimping of terminals and the shearing of electric cables were developed. These feature strong innovations as the use of smart technology (already introduced with the B500 utensil), by-linear ergonomic design (reducing operator fatigue during use), and the smart release (which is the only system for the automatic completion of the job that allows visual verification of the effective crimping of the cable currently available). The project is covered by two separate patents.

A new battery-run pump derived from the B68 pump and able to move hydraulic heads that fold and expand multilayer pipes of different sizes has been developed. The pump was developed in cooperation with a major international manufacturer of plumbing equipment.

Cable marking

A total of 40 requests for new products relating to flat labels for the marking of cables were followed up. Studies included also the related manufacturing tools.

A project relating to the widening and updating of the range of thermal transfer printers is currently underway.

Related parties

Transactions concluded between the parent company and its subsidiaries in 2017 are summarized in the table below:

(€)	Receivables	Payables	Revenues	Purchases
Cembre Ltd.	449	4	7,863	308
Cembre S.a.r.l.	420	-	4,859	5
Cembre España S.L.U.	133	4	4,763	4
Cembre Inc.	921	-	6,839	26
Cembre GmbH	450	4	4,898	89
TOTAL	**2,373**	**12**	**29,222**	**432**

Revenues include, in addition to the sale of products, revenues from the charging to subsidiaries of the respective shares of costs incurred for information technology services and royalties for the use of the Cembre trademark, totaling in 2017 to €495 thousand, in addition to €102 thousand in transport costs.

No loans or financing were extended between Group companies in 2017.

Cembre S.p.A. leases property for a cumulative annual rent of €528 thousand from Tha Immobiliare S.p.A., with registered office in Brescia, owned by Anna Maria Onofri, Giovanni Rosani and Sara Rosani, Directors of Cembre S.p.A. Invoices issued in the year relating to the above contracts were all paid in full.

Cembre Ltd. leases an industrial building from Borno Ltd., a company controlled by Lysne S.p.A., for an annual rent of £123 thousand (equal to €141 thousand). Such amount is in line with market conditions.

	2017	2016	Change
Rent paid by the parent company to Tha Immobiliare	528	528	-
Rent paid by UK subsidiary to Borno Ltd.	141	98	43
TOTAL	**669**	**626**	**43**

The increase in rent paid by Cembre Ltd. is due to the lease, starting from July 1, 2016, of a further portion of the industrial building owned by Borno Ltd. used by the subsidiary to expand its production activities.

Detail of compensation received by directors and statutory auditors is provided in the notes.

With reference to assets and liabilities relating to subsidiaries shown above, we confirm that transactions with the same and with related parties fall within the scope of normal operating activities.

On June 23, 2017, the parent company acquired from its UK subsidiary Cembre Ltd. (of which it holds the entire capital stock) shares held by the latter in other Group companies (i.e. a 29% share in Cembre Inc. (USA), a 5% share in Cembre Sarl (F), a 5% share in Cembre España (E) and a 5% share in Cembre GmbH (D). The operation did not have any effect on the consolidation area as the parent company already controlled – either directly or indirectly – all of its subsidiaries, and the reorganization of the ownership structure was only aimed at streamlining the governance of the Group which previously involved Cembre Ltd. in most operations.

Furthermore, given the general uncertainty regarding the UK after the decision to exit the European Union and doubts about the future access to the common market of UK based companies and the application of EU norms within the country, the reorganization carried out is in line with Cembre's strategy to continue to monitor closely risks incurred by the Group and its Shareholders.

The Board of Directors of the parent company resolved the purchase of the shares from the UK subsidiary to take place at their net equity value at December 31, 2016, setting the following transfer prices:

Cembre Inc.	US$ 2,211,721
Cembre Sarl	€ 153,411
Cembre España SLU	€ 355,360
Cembre GmbH	€ 270,674

We note that, pursuant to article 9 of the Related Parties Procedure (RPP) adopted by Cembre in compliance with Consob Regulation no. 17221/2010, as subsequently amended, and of article 14 of said Regulation, the provisions of the Regulation and of the RPP do not apply – among other things – to transactions with or between subsidiaries whenever among the subsidiaries involved there do not exist interests that may be classified as "significant" with regard to other related parties of the parent company. In this regard, no interests classifiable as "significant" in this respect have been deemed to exist.

Absence of control and coordination

Despite the fact that article 2497-*sexies* of the Italian Civil Code states that “it is presumed that, unless otherwise proved, the direction and coordination activities of companies is exercised by the company or entity that is required to consolidate the same in its accounts or that, in any case, controls the former company pursuant to article 2359 (of the Italian Civil Code)”, Cembre S.p.A. believes to be operating in full autonomy from its parent Lysne S.p.A.. In particular, as a non-exhaustive example, the Company manages autonomously its own treasury and relationships with its customers and suppliers, and does not make use of any service provided by its parent company.

Relationships with parent company Lysne S.p.A. are limited to the normal exercise of shareholders' rights on the part of the parent.

Companies incorporated under the laws of States that are not part of the European Union

In 2017 Cembre S.p.A. controlled only one company incorporated under the laws of States that are not part of the European Union, subsidiary Cembre Inc., incorporated in the US.

The company deems the administrative, accounting and reporting systems currently in use to be adequate in supplying regularly its management and the company's independent auditors with the operating and financial information necessary for the preparation of the Consolidated Financial Statements.

The accounts prepared by said foreign subsidiary and used in the preparation of the consolidated financial statements, are audited and made available to the public, as provided by current regulations.

Cembre S.p.A. is active in ensuring an adequate flow of information from said subsidiary to its independent auditors and believes the current communication process in place with the independent auditors to be effective.

Cembre S.p.A. holds Cembre Inc.'s By-laws, the composition and the respective powers of the boards the subsidiary, while it has issued directives ensuring the timely disclosure of any change or amendment to the above.

Own shares and shares of parent companies

The Shareholders' Meeting of April 20, 2017 resolved the start of a campaign for the acquisition of own shares aimed at providing the Company with strategic investment opportunities. At December 31, 2017, the number of own shares held by Cembre S.p.A. was 284,657, corresponding to 1.67% of the capital stock.

Ownership Structure and Corporate Governance

In compliance with norms contained in article 123-*bis* of Legislative Decree 58, dated February 24, 1998 (*Testo Unico* Consolidated Finance Act), we refer to the Report on

Corporate Governance which, in addition to providing a general description of corporate governance and of risk management and internal control procedures, contains information regarding the ownership structure of the Company, the adoption of the Code of Conduct and the observance of the resulting commitments. Said Report is available in the Investor Relations section of the Group's institutional website (www.cembre.it).

Consolidated non-financial declaration

The Consolidated non-financial declaration (*Dichiarazione consolidata di carattere non finanziario*) issued pursuant to the provisions of Legislative Decree no. 254 of December 30, 2016, constitutes a separate report, available in the "Investor Relations" section of the www.cembre.it website, under Reports and Financial Statements.

Subsequent events

No other event having significant effects on Cembre's financial or operating performance occurred after December 31, 2017.

Outlook

Positive economic forecasts for the World economy and sales growth in the first weeks of 2018 lead the Group to expect its turnover to grow on 2017 both in the domestic and international markets.

Proposal for the Allocation of the Company's Net Profit

In order to complete the Company's planned investments and to benefit from self-financed growth, it is advisable that at least a portion of net profit generated be retained. In seeking the approval for our actions by submitting to you the present Financial Statements and Report on Operations, we also invite you, in view of the fact that the legal reserve has already reached 20% of the share capital, to approve our proposed allocation of net profit for 2017, amounting to €24,444,345.32 (rounded off to €24,444,345) as follows:

- €0.80 to be distributed to each of the Company's 16,715,343 shares entitled to dividends (keeping into account of 284,657 treasury shares held), for a total of

€13,372,274.40, with May 7, 2018 as the ex-dividend date, May 8, 2018 as the record date pursuant to article 83-terdecies of *TUF* (Finance Act) and May 9, 2018 as the payment date;

- the remainder, amounting to €11,072,070.92, to the extraordinary reserve:
- noting that, keeping into account the program for the acquisition of own shares currently underway, (i) the total amount of the dividend distributed could vary with the number of shares entitled to a dividend at the date of the Shareholder's Meeting resolution, and (ii) additional own shares acquired after the date of the Shareholders' Meeting resolution allocating net profit held by the Company at the record date will not be entitled to the distribution of a dividend and the corresponding share of net profit will be accrued to the extraordinary reserve.

Attachments

The present Report on Operations includes the following attachments:

Attachment 1	Comparative Consolidated Income Statement for the year ended December 31, 2017.
Attachment 2	Corporate Boards.

Brescia, March 13, 2018

THE CHAIRMAN AND MANAGING DIRECTOR
OF CEMBRE S.P.A.

Giovanni Rosani

Attachment 1 - Report on Operations of the Group

Comparative Consolidated Income Statement

(€ '000)	2017	% of sales	2016	% of sales	Change
Revenues from sales and services provided	132.637	100,0%	122.605	100,0%	8,2%
Other revenues	653		681		-4,1%
Other non recurring revenues	502		-		
TOTAL REVENUES	**133.792**		**123.286**		8,5%
Cost of goods and merchandise	(47.487)	-35,8%	(40.953)	-33,4%	16,0%
Change in inventories	3.630	2,7%	235	0,2%	1444,7%
Cost of services received	(17.368)	-13,1%	(15.453)	-12,6%	12,4%
Lease and rental costs	(1.598)	-1,2%	(1.536)	-1,3%	4,0%
Personnel costs	(37.251)	-28,1%	(35.484)	-28,9%	5,0%
Other operating costs	(1.198)	-0,9%	(1.151)	-0,9%	4,1%
Increase in assets due to internal construction	939	0,7%	1.138	0,9%	-17,5%
Write-down of receivables	(7)	0,0%	(43)	0,0%	-83,7%
Accruals to provisions for risks and charges	(18)	0,0%	(14)	0,0%	28,6%
GROSS OPERATING PROFIT	**33.434**	25,2%	**30.025**	24,5%	11,4%
Property, plant and equipment depreciation	(5.814)	-4,4%	(5.394)	-4,4%	7,8%
Intangible asset amortization	(584)	-0,4%	(536)	-0,4%	9,0%
OPERATING PROFIT	**27.036**	20,4%	**24.095**	19,7%	12,2%
Financial income	86	0,1%	24	0,0%	258,3%
Financial expenses	(35)	0,0%	(93)	-0,1%	-62,4%
Foreign exchange gains (losses)	(512)	-0,4%	33	0,0%	
PROFIT BEFORE TAXES	**26.575**	20,0%	**24.059**	19,6%	10,5%
Benefit from application of Patent Box Regime to previous years	2.279		-		
Income taxes	(6.127)	-4,6%	(7.132)	-5,8%	-14,1%
NET PROFIT	**22.727**	17,1%	**16.927**	13,8%	34,3%

Attachment 2 – Report on Operations

CORPORATE BOARDS

Board of Directors

Giovanni Rosani	Chairman and Managing Director
Anna Maria Onofri	Vice Chairman
Sara Rosani	Director
Giovanni De Vecchi	Director
Aldo Bottini Bongrani	Director
Fabio Fada	Independent Director
Giancarlo Maccarini	Independent Director
Paolo Giuseppe La Pietra	Independent Director

Board of Statutory Auditors

Fabio Longhi	Chairman
Andrea Boreatti	Permanent Auditor
Rosanna Angela Pilenga	Permanent Auditor
Maria Grazia Lizzini	Substitute Auditor
Gabriele Baschetti	Substitute Auditor

Independent Auditors

PricewaterhouseCoopers S.p.A.

The above list is updated at March 13, 2018.

The Board of Directors and Board of Statutory Auditor's term expires with the approval of the Financial Statements at December 31, 2017.

The Chairman holds by statute (article 18) powers of legal representation of the Company. The Board of Directors conferred to the Chairman and Managing Director Giovanni Rosani all the ordinary management powers not specifically reserved to it by law, including exclusive powers over the organization, management and monitoring of the internal control system.

In case of absence or impediment of the Chairman and Managing Director Giovanni Rosani, Vice Chairman and Managing Director Anna Maria Onofri holds all ordinary management powers not reserved to the Board by law, with the exception of the appointment of professionals. All Managing Directors must keep the Board of Directors informed of all relevant transactions concluded in the context of their mandate. The Board of Directors has approved rules that define which particularly relevant transactions may be concluded exclusively by the same.

Consolidated Financial Statements at December 31, 2017

Consolidated Statement of Financial Position

ASSETS	Notes	Dec. 31, 2017		Dec. 31, 2016	
(euro '000)			*of which: related parties*		*of which: related parties*
NON CURRENT ASSETS					
Tangible assets	*1*	72.082		66.298	
Investment property	*2*	1.126		1.647	
Intangible assets	*3*	1.867		1.350	
Other investments		10		10	
Other non-current assets		41		44	
Deferred tax assets	*11*	2.294		2.502	
TOTAL NON-CURRENT ASSETS		**77.420**		**71.851**	
CURRENT ASSETS					
Inventories	*4*	41.673		38.796	
Trade receivables	*5*	26.520		24.885	
Tax receivables	*6*	4.299		850	
Other receivables	*7*	465		560	
Cash and cash equivalents		20.232		26.709	
TOTAL CURRENT ASSETS		**93.189**		**91.800**	
NON-CURRENT ASSETS AVAILABLE FOR SALE		**-**		**-**	
TOTAL ASSETS		**170.609**		**163.651**	

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	Dec. 31, 2017		Dec. 31, 2016	
(euro '000)			*of which: related parties*		*of which: related parties*
SHAREHOLDERS' EQUITY					
Capital stock	*8*	8.840		8.840	
Reserves	*8*	111.508		111.860	
Net profit		22.727		16.927	
TOTAL SHAREHOLDERS' EQUITY		**143.075**		**137.627**	
NON-CURRENT LIABILITIES					
Non-current financial liabilities		-		-	
Employee termination indemnity and other personnel benefits	*9*	2.664	184	2.618	176
Provisions for risks and charges	*10*	448	-	421	150
Deferred tax liabilities	*11*	2.047		2.043	
TOTAL NON-CURRENT LIABILITIES		**5.159**		**5.082**	
CURRENT LIABILITIES					
Current financial liabilities		-		-	
Liabilities on derivative instruments		-		43	
Trade payables	*12*	14.581	-	13.306	16
Tax payables		268		921	
Other payables	*13*	7.526	200	6.672	-
TOTAL CURRENT LIABILITIES		**22.375**		**20.942**	
LIABILITIES ON ASSETS HELD FOR DISPOSAL		**-**		**-**	
TOTAL LIABILITIES		**27.534**		**26.024**	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**170.609**		**163.651**	

Consolidated Financial Statements at December 31, 2017

Statement of Consolidated Comprehensive Income

(euro '000)	Notes	2017	of which: related parties	2016	of which: related parties
Revenues from sales and services provided	14	132.637		122.605	
Other revenues	15	653		681	
Non recurring other revenues	15	502		-	
TOTAL REVENUES		**133.792**		**123.286**	
Cost of goods and merchandise		(47.487)		(40.953)	
Change in inventories	4	3.630		235	
Cost of services received	16	(17.368)	(665)	(15.453)	(666)
Lease and rental costs	17	(1.598)	(669)	(1.536)	(626)
Personnel costs	18	(37.251)	(335)	(35.484)	(300)
Other operating costs	19	(1.198)		(1.151)	
Increase in assets due to internal construction		939		1.138	
Write-down of receivables		(7)		(43)	
Accruals to provisions for risks and charges	20	(18)		(14)	
GROSS OPERATING PROFIT		**33.434**		**30.025**	
Property, plant and equipment depreciation	1-2	(5.814)		(5.394)	
Intangible asset amortization	3	(584)		(536)	
OPERATING PROFIT		**27.036**		**24.095**	
Financial income	21	86		24	
Financial expenses	21	(35)		(93)	
Foreign exchange gains (losses)	29	(512)		33	
PROFIT BEFORE TAXES		**26.575**		**24.059**	
Benefit from the application of Patent Box Regime on previous years	22	2.279		-	
Income taxes	22	(6.127)		(7.132)	
NET PROFIT FROM ORDINARY ACTIVITIES		**22.727**		**16.927**	
NET PROFIT FROM ASSETS HELD FOR DISPOSAL		**-**		**-**	
NET PROFIT		**22.727**		**16.927**	
Items that will not be reclassified to profit and loss					
Gains (losses) from discounting of Employees' Termination Indemnity	9	38		(95)	
Income tax relating to items that will not be reclassified	9	(9)		23	
Items that may be reclassified subsequently to profit and loss					
Conversion differences included in equity		(934)		(1.718)	
COMPREHENSIVE INCOME	23	**21.822**		**15.137**	
BASIC AND DILUTED EARNINGS PER SHARE	24	**1,36**		**1,00**	

Consolidated Financial Statements at December 31, 2017

Consolidated Statement of Cash Flows

	2017	2016
€ '000		
A) CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	**26.709**	**26.709**
B) CASH FLOW FROM OPERATING ACTIVITIES		
Net profit for the period	22.727	16.927
Depreciation, amortization and write-downs	6.398	5.930
(Gains)/Losses on disposal of assets	(535)	(25)
Net change in Employee Severance Indemnity	46	1
Net change in provisions for risks and charges	27	(23)
Operating profit (loss) before change in working capital	**28.663**	**22.810**
(Increase) Decrease in trade receivables	(1.635)	1.487
(Increase) Decrease in inventories	(2.877)	395
(Increase) Decrease in other receivables and deferred tax assets	(3.146)	(25)
Increase (Decrease) of trade payables	2.019	1.022
Increase (Decrease) of other payables, deferred tax liabilities and tax payables	205	(235)
Change in working capital	**(5.434)**	**2.644**
NET CASH FLOW (USED IN)/FROM OPERATING ACTIVITIES	**23.229**	**25.454**
C) CASH FLOW FROM INVESTING ACTIVITIES		
Capital expenditure on fixed assets:		
- intangible	(1.101)	(553)
- tangible	(11.732)	(7.059)
Proceeds from disposal of tangible, intangible, financial assets		
- tangible	1.644	219
Increase (Decrease) of trade payables for assets	(744)	631
NET CASH FLOW (USED IN)/FROM INVESTING ACTIVITIES	**(11.933)**	**(6.762)**
D) CASH FLOW FROM FINANCING ACTIVITIES		
(Increase) Decrease in other non current assets	3	(34)
Increase (Decrease) in derivative instruments	(43)	43
Change in reserves	(4.540)	(863)
Dividends distributed	(11.834)	(7.820)
NET CASH FLOW (USED IN)/FROM FINANCING ACTIVITIES	**(16.414)**	**(8.674)**
E) INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (B+C+D)	**(5.118)**	**10.018**
F) Foreign exchange differences	(1.388)	(1.039)
G) Discounting of Employee Termination Indemnity	29	(72)
I) CASH AND CASH EQUIVALENTS AT END OF THE PERIOD (A+E+F+G+H)	**20.232**	**35.616**
Assets available for sales included above	-	-
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	**20.232**	**35.616**

CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	**20.232**	**35.616**
Liabilities on derivative instruments	-	(43)
NET CONSOLIDATED FINANCIAL POSITION	**20.232**	**35.573**

INTERESTS PAID IN THE PERIOD	**-**	**-**

BREAKDOWN OF CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		
Cash	51	44
Banks	20.181	26.665
	20.232	**26.709**

Consolidated Financial Statements at December 31, 2017

Statement of Changes in the Consolidated Shareholders' Equity

(€ '000)	Balance at December 31, 2016	Allocation of previous year net profit	Other changes	Comprehensive income of the period	Balance at December 31, 2017
Capital stock	**8.840**				**8.840**
Share premium reserve	**12.245**				**12.245**
Legal reserve	**1.768**				**1.768**
Reserve for own shares	**(863)**		(4.540)		**(5.403)**
Suspended-tax revaluation reserve	**585**				**585**
Other suspended-tax reserves	**68**				**68**
Other reserves	**22.378**	995		561	**23.934**
Conversion differences	**(631)**			(1.495)	**(2.126)**
Extraordinary reserve	**68.194**	4.098	(9)		**72.283**
Reserve for FTA	**3.715**				**3.715**
Reserve for discounting of Employee Termination Indemnity	**4**		9	29	**42**
Merger surplus reserve	**4.397**				**4.397**
Retained earnings	**-**				**-**
Net profit	**16.927**	(16.927)		22.727	**22.727**
Total Shareholders' Equity	**137.627**	**(11.834)**	**(4.540)**	**21.822**	**143.075**

(€ '000)	Balance at December 31, 2015	Allocation of previous year net profit	Other changes	Comprehensive income of the period	Balance at December 31, 2016
Capital stock	**8.840**				**8.840**
Share premium reserve	**12.245**				**12.245**
Legal reserve	**1.768**				**1.768**
Reserve for own shares	**-**		(863)		**(863)**
Suspended-tax revaluation reserve	**585**				**585**
Other suspended-tax reserves	**68**				**68**
Other reserves	**20.895**	1.495		(12)	**22.378**
Conversion differences	**1.075**			(1.706)	**(631)**
Extraordinary reserve	**61.576**	6.618			**68.194**
Reserve for FTA	**3.715**				**3.715**
Reserve for discounting of Employee Termination Indemnity	**76**			(72)	**4**
Merger surplus reserve	**4.397**				**4.397**
Retained earnings	**-**				**-**
Net profit	**15.933**	(15.933)		16.927	**16.927**
Total Shareholders' Equity	**131.173**	**(7.820)**	**(863)**	**15.137**	**137.627**

Notes to the Consolidated Financial Statements at December 31, 2017

I. CORPORATE INFORMATION

Cembre S.p.A. is a joint-stock company with registered office in Brescia, Via Serenissima 9. The company is listed in the Italian Market of Shares (MTA) managed by Borsa Italiana S.p.A.

Cembre S.p.A. and its subsidiaries (hereinafter referred to jointly as "the Cembre Group" or "the Group") are active primarily in the manufacturing and sale of electrical connectors and related tools.

The publication of the Consolidated Financial Statements of Cembre for the year ended December 31, 2017 was authorized by a resolution of the Board of Directors dated March 13, 2018.

Cembre S.p.A. is controlled by Lysne S.p.A., a holding company based in Brescia, that does not direct or coordinate its subsidiary.

II. FORM AND CONTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The present Consolidated Financial Statements at December 31, 2017 were prepared under the International Financial Reporting Standards (IFRS) adopted by the European Union and the related implementation regulations issued in application of article 9 of Legislative Decree no. 38/2005.

Principles adopted in the preparation of the Consolidated Financial Statements are those formally approved by the European Union as at December 31, 2017.

The consolidated financial statements were prepared in the expectation of the continuation of the Group's activities.

With the exception of those items for which international accounting principles provide for a different valuation, the consolidated financial statements were prepared in accordance with the historical cost principle.

Unless otherwise indicated, figures reported in the financial statements and the related notes are expressed in thousands of euro.

The table that follows contains a list of international accounting principles and interpretations approved by the IASB that became effective in 2017, which were taken into account, where applicable, in the preparation of the present Consolidated Financial Statements.

	Effective from
Amendments to IFRS 12 *Income Taxes – Recognition of deferred tax assets for unrealized losses*	January 1, 2017
Amendments to IAS 7 *Cash Flow Statement – Disclosures*	January 1, 2017
Amendments to IAS 12– *Disclosure of Interests in Other Entities*	January 1, 2017

The above changes did not result in relevant changes in the financial statements of the Cembre Group.

Future changes in accounting principles

The following updates of IFRS have been already approved by the European Union and will become effective in future financial years:

New and revised Principles	Effective from
Amendments to IFRS 4 – *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*	January 1, 2018
IFRS 15 – *Revenue from Contracts with Customers*	January 1, 2018
IFRS 9 – *Financial Instruments (revised)*	January 1, 2018
IFRS 16 – *Leases*	January 1, 2019

The adoption of IFRS 9 will not have material effects on the Group's financial statements. The new impairment method provided for by the standard – which introduces the concept of expected loss in place of the incurred loss concept envisaged by IAS 39 – will not in fact result in changes in the amount of receivables recorded in the financial statements by the Company as accruals to the provision for doubtful accounts already include the application to uninsured non-problematic receivables of a percentage write-down factor calculated on the basis of past insolvencies and expected future defaults. With the exception of Cembre Gmbh which already uses a calculation method consistent with IFRS

9, the application of the principle to subsidiaries' receivables from third parties will result in a €120 thousand increase in the provision for doubtful accounts.

The Group resolved, upon first application of the standard, to restate the 2017 financial statements applying IFRS 9 retroactively, thus providing a meaningful comparison with figures for the current year.

Due to the type of sale contracts currently underwritten by the Company, the application of IFRS 15 will not result in significant changes.

The adoption of IFRS 16 will necessarily entail the introduction of software dedicated to the management of leasing contracts and their accounting under the standard. Cembre is evaluating offers for software packages available on the market for their introduction in 2018.

The following updates of IFRS (already approved by the IASB), interpretations and amendments are in the process of being incorporated into European Union regulations:

New and revised Principles	**Effective from**
IFRS 17 – *Insurance Contracts*	January 1, 2021

Changes in Accounting Principles	**Effective from**
IFRIC 22 – *Foreign Currency Transactions*	January 1, 2018
IFRIC 23 – *Uncertainty over Income Tax Treatments*	January 1, 2019
Amendments to IFRS 2 *Share-based Payment – Classification and Measurement of Share-based Payment Transactions*	January 1, 2018
Annual Improvements to IFRS standard 2014-2016 Cycle	January 1, 2018
Amendments to IAS 40 *Investment Property – Transfers of investment property*	January 1, 2018
Amendments to IFRS 9 – *Prepayment features with negative compensation*	January 1, 2019
Amendments to IAS 28 – Investments in Associates and Joint-Ventures	January 1, 2019

The Cembre Group will evaluate in the next months the possible effects of the adoption of the new principles.

Principles of consolidation

The Consolidated Financial Statements of the Cembre Group include the statutory accounts at December 31 of every year of Cembre S.p.A. and of its subsidiaries. Accounting principles adopted in the preparation of the financial statements of subsidiaries are consistent with those of the parent company.

The financial statements of consolidated subsidiaries are consolidated under the line-by-line method, thus including all items, irrespective of the share held by the Group, of the elimination of intragroup transactions and of unrealized gains on transactions with third parties.

The book value of investments is netted against the related share in the shareholders' equity of consolidated companies, attributing to assets and liabilities the respective current value at the time control was acquired and recording contingent liabilities, where appropriate. Where positive, the residual amount is recorded among non-current assets as goodwill. Negative residual differences are recorded in the income statement.

All subsidiaries are wholly-owned and in no case therefore have minority interests been recorded.

The following companies were consolidated at December 31, 2017:

	% held
Cembre Ltd. (UK)	100%
Cembre S.a.r.l. (France)	100%
Cembre España S.L.U. (Spain)	100%
Cembre Gmbh (Germany)	100%
Cembre Inc. (US)	100%

The consolidation perimeter changed from the previous year due to the winding up of Norwegian subsidiary Cembre AS concluded in December 2016.

On June 23, 2017, the parent company acquired from its UK subsidiary Cembre Ltd. (of which it holds the entire capital stock) shares held by the latter in other Group companies (i.e. a 29% share in Cembre Inc. (USA), a 5% share in Cembre Sarl (F), a 5% share in Cembre España (E) and a 5% share in Cembre GmbH (D). The reorganization of the ownership structure was aimed at streamlining the governance of the Group which previously involved Cembre Ltd. in most operations.

Translation of financial statements expressed in currencies other than the euro

The functional and reporting currency of the Group is the euro.

Financial statements denominated in functional currencies other than the euro are translated according to the following criteria:

- assets and liabilities are translated at the exchange rate applicable at the date of the financial statements;
- income statement items are translated at the average exchange rate for the year;
- foreign-exchange translation differences are recorded in a specific Shareholders' Equity reserve.

At the time at which a foreign subsidiary is disposed of, accumulated foreign-exchange differences recorded under Shareholders' Equity relating to the same are taken to the Income Statement.

Exchange rates applied in the translation of financial statements of subsidiaries are shown in the table below (expressed in currency/€).

Currency	Exchange rate at Dec. 31, 2017	Average exchange rate for 2017
British pound	0.88723	0.87667
US dollar	1.19930	1.12968

III. CONSOLIDATION PRINCIPLES AND VALUATION CRITERIA

Form of the financial statements

The financial statements are prepared as follows:

- current and non-current assets and liabilities are reported separately in the Consolidated Statement of Financial Position;
- the analysis of costs in the Statement of Consolidated Comprehensive Income is carried out based on the nature of the same;

- the Consolidated Statement of Cash Flows is prepared by applying the indirect method.

Financial Statements forms are unchanged from previous year.

Finally, with reference to CONSOB Regulation no. 15519 dated July 27, 2006, the Financial Statements include a separate reporting of amounts pertaining to related parties, where significant.

Property, plant and equipment

Property, plant and equipment is recorded at the historical cost and reported net of accumulated depreciation and losses in value. Ordinary maintenance and repair costs are not capitalized, and are charged to the income statement in the year in which they are incurred.

Depreciation commences when the asset is available for use and is calculated on a straight line basis over the estimated residual useful life of the asset, taking into account its residual value. Depreciation rates applied reflect the useful life generally attributed to the various classes of assets and are summarized below:

- Buildings and light installations:	2% – 10%
- Plant and machinery:	5% – 25%
- Industrial and commercial equipment:	6% – 25%
- Other assets:	6% – 33%

Land has an undetermined useful life and is therefore not subject to depreciation.

The book value of property, plant and equipment is subjected to an impairment test whenever events or changes occurred indicate that the book value of the same can no longer be retrieved in line with the depreciation schedule originally set. Whenever there exists such an indication, the assets or cash generating units are written down to reflect their expected realizable value.

The residual value of assets, their useful life and methods applied are reviewed annually and adjusted, where necessary, at the end of each year.

Tangible assets are eliminated from the Balance Sheet at the time of their sale or when there no longer exists the expectation of future economic benefits from their use or disposal. Losses and gains (calculated as the difference between net revenues from the disposal and the book value of the asset) are recorded in the Income Statement in the year in which they are disposed of.

Leased assets

Assets held under a financial lease, through which all risks and benefits relating to ownership are transferred to the Group, are recorded under assets at the lower of their current value and the present value of minimum lease payments due according to the contract, including the bullet payment due at the end of the lease to exercise the purchase option.

The liability corresponding to the lease contract is recorded under financial liabilities.

Leased assets are classified under the respective category among property, plant and equipment, and depreciated over the shorter period between the term of the lease and the expected residual useful life of the asset.

Lease contracts in which the lessor holds all risks and enjoys all benefits deriving from the leased asset are classified as operating leases and recorded as costs in the Income Statement over the term of the contract.

Investment property

Assets that cease to be used in the context of the Group’s ordinary operations but possess all the characteristics set forth in IFRS 5 to be included among non-current assets available for sale, are classified among Investment property and continue to be amortized as if they were still included among Property, plant and equipment.

Intangible assets

Intangible assets are recorded under assets, as provided by IAS 38 (Intangible assets), whenever it is probable that future economic benefits are generated through use and when the cost of the intangible asset can be determined in a reliable manner.

Intangible assets acquired separately are initially capitalized at cost, while those acquired through mergers are capitalized at their fair value at the time of acquisition.

With the exception of development costs, assets generated internally are not recorded as intangible assets.

After the initial recording, intangible assets are carried in the balance sheet at cost, net of accumulated amortization calculated on a straight-line basis over their expected useful economic life, and of write-downs carried out as a result of durable losses in value. Intangible assets having an indefinite useful life are not amortized and subjected periodically to an impairment test to assess possible loss in value.

The useful life generally attributed to the various classes of assets is the following:

- concessions and licenses:	5 to 10 years
- software licenses	3 to 5 years
- patents	2 years
- development costs:	5 years
- trademarks:	10 to 20 years

Amortization commences when the asset is available for use, that is, when it is in a position and in the necessary condition to operate in the manner intended by management.

The book value of intangible assets is subjected to an impairment test whenever events or changes occurred indicate that the book value of the same can no longer be retrieved in line with the amortization schedule originally set. Whenever there exists such an indication and the book value of the asset exceeds its realizable value, the value of the asset is written-down to its expected realizable value.

Financial assets

Financial assets are initially recorded at cost, inclusive of accessory purchase costs, representing the fair value of the price paid. After the initial recording, financial assets are valued in accordance with their final purpose as described below.

Financial assets valued at fair value, whose change is recorded in the Income Statement

These are financial assets held for trading purposes, acquired for the purpose of obtaining a profit from short-term fluctuations in price. Unless specifically designated as effective hedge, derivatives are classified as financial assets held for trading purposes. Gains and losses on financial assets held for trading purposes are recorded in the income statement.

Financial assets held to maturity

Financial assets other than derivatives that generate fixed financial flows or flows that may be determined and have a set maturity, are classified as Financial assets held to maturity when the Group intends to and is capable of holding them to maturity.

Financial assets that the Group decides to hold for an indefinite period of time do not fall under this category.

After their initial recording, long-term financial investments held to maturity, such as bonds, are accounted for at the amortized cost, using the effective rate of interest method, are discounted to their present value.

The amortized cost is calculated keeping into account discounts and premiums, amortized over the term of the financial asset.

Loans extended and receivables

Loans and receivables are non-derivative financial assets providing for fixed payments or payments that may be determined, not listed on an active market. Such assets are recorded at the amortized cost using the actual discount rate method. Gains and losses are recorded in the Income Statement whenever loans extended and receivables are eliminated from the accounts or they experience losses in value, together with the related amortization.

Financial assets available for sale

Financial assets available for sale include financial assets that do not fall under the above categories. After the initial recording, these are accounted for at fair value, while gains and losses are recorded under a specific Shareholders' Equity reserve until the assets are sold or a loss in value is ascertained. In such case, gains and losses accrued are charged to the income statement.

In the case of securities widely traded on a regulated market, the fair value is determined with reference to the listed price at the closing of trading on the date of the financial statements. In the case of financial assets for which there does not exist an active market, the fair value is determined through valuation techniques based on the price recorded in recent transactions between unrelated parties or on the basis of the current market value of a similar instrument, or on discounted cash flows or option pricing models. Investments in other companies fall in this category.

Loss in value of financial assets

The Group verifies at least yearly the possible loss in value of individual financial assets. These are recorded only at the time when there exists objective evidence, at the occurrence of one or more events, that the asset has experienced a loss of value with respect to its initial recorded value.

Treasury shares

Treasury shares are recorded as a reduction of Shareholders' Equity in a specific reserve.

The purchase, sale, issue or cancellation of treasury shares held does not determine the recording of any gain or loss in the Income Statement.

Inventories

Inventories are valued at the lower of cost and their expected realizable value, represented by their normal sale price, net of completion and selling costs.

The cost of inventories includes the acquisition cost, the transformation cost and other costs incurred to take inventories to their current location and state.

The cost of inventories is determined under the weighted-average method, inclusive of the cost of beginning inventories. Provisions for slow-moving stock are accrued for finished products, materials and other supplies, keeping into account their expected useful life and retrievable value.

Receivables and payables

Receivables are recorded initially at fair value and subsequently carried at the amortized cost, written-down in case of loss in value. Payables are normally valued at the amortized cost, adjusted under exceptional conditions for changes in value.

Cash and cash equivalents

Cash and cash equivalents are recorded at face value.

Loans

Loans are initially recorded at cost, corresponding to the fair value of the amount received, net of accessory costs.

After the initial recording, loans are valued at the amortized cost, using the effective interest method.

Translation of amounts denominated in currencies other than the euro

Transactions denominated in currencies other than the euro are initially accounted for in euro at the exchange rate at the date of the transaction. Currency translation differences arising at the time at which foreign currency receivables are collected and payables are paid out, are recorded in the income statement.

At the date of the financial statements, monetary assets and liabilities denominated in currencies other than the euro – consisting of cash on hand or assets and liabilities to be received or paid out, whose amount is set and may be determined – are translated into euro at the exchange rate at the date of the financial statements, recording in the income statement the currency translation difference.

Non-monetary items denominated in currencies other than the euro are translated into euro at the exchange rate at the time of the transaction, representing the historical exchange rate.

Functional currencies adopted by Group companies correspond to the currencies of the respective county in which subsidiaries are based.

Provisions for risks and charges

Provisions for risks and charges are accrued against known liabilities, whose existence is certain or probable, but whose amount and expiration cannot be determined at the date of the financial statements. Accruals are made when the existence of a current obligation, legal or implicit, deriving from a past event, the fulfillment of which is expected to require the use of resources whose amount can be reliably estimated, is probable.

Provisions are valued at the fair value of liabilities. When the financial effect and the timing of the cash outflow can be estimated in a reliable manner, provisions include the interest component, recorded in the Income Statement among financial income (expense).

Provisions accrued are reviewed at each accounting date and adjusted to bring them into line with the best estimate available to date.

Employee benefits

Under IAS 19, and before the reform introduced by the 2007 Budget Law, the Employee Severance Indemnity was classified among defined benefit plans and was therefore subject to actuarial adjustments.

Employee termination indemnities accrued up to December 31, 2006, continue to be accounted for as defined benefit plans, while those accrued from January 1, 2007 are accounted for in two different ways:

- where the individual employee has opted for complementary pension funds, employee termination indemnities accrued after January 1, 2007 and until the time at which the choice is made by the employee, are accounted for as a defined benefit plan. Subsequently they are accounted for as a defined contribution plan;
- where the individual employee has opted for accumulation with the treasury fund of the national social security agency (INPS), indemnities accrued after January 1, 2007 are accounted for as a defined contribution plan.

Elimination of financial assets and liabilities

Financial assets are eliminated when the Group ceases to hold rights to receive financial flows deriving from the same or when such rights are transferred to another entity, that is when risks and benefits of the financial instrument cease to have an effect on the financial position and operating performance of the Group.

A financial liability is written-off exclusively when the related obligation is cancelled, fulfilled or expired. Any material change in the contractual terms relating to the liability result in its cancellation and in the recording of a new liability. Any difference between the book value and the amount paid to extinguish the liability is recorded in the Income Statement.

Revenues

Revenues are valued at the current value of the amount received or receivable.

Disposal of assets

The revenue is recognized when the Company has transferred the risks and benefits connected with the ownership of the good, and ceases to exercise the activity associated with ownership and the actual control over the asset sold.

Services rendered

Revenues are recorded based on the stage of completion of the operation at the date of the financial statements. When the result of the service rendered cannot be reliably estimated, revenues are recorded only to the extent of retrievable costs.

The stage of completion is determined by valuing work carried out or by determining the proportion between costs incurred and total estimated costs to completion.

Interest

Interest is recorded in the period in which it accrues, using the effective interest method.

Dividends

Dividends are recorded when the right of shareholders to receive them arises.

Grants

Grants are recorded at fair value when there exists a reasonable certainty that that the same will actually be received and the company meets the conditions for the entitlement to the grant.

Grants linked to cost components (operating grants) are recorded under “other revenues” and amortized over several years so that revenues match the costs they are intended to compensate.

The fair value of grants linked to assets (e.g. grants on the purchase of plant and equipment or grants for capitalized development costs), is suspended under long-term liabilities and released to the income statement under “other revenues” over the useful life of the asset to which it relates, thus in the period over which the depreciation expense relating to the asset is charged to the income statement.

Financial charges

Financial charges are recorded as a cost in the period in which they accrue. In accordance with IAS 23, financial charges incurred in the acquisition of significant assets (qualifying assets) are capitalized.

Cost of goods purchased and services received

The cost of goods purchased and services received is recorded in the income statement based on the accrual method.

Income taxes (current, prepaid and deferred)

Current taxes are determined based on a realistic estimate of the tax expense for the period in accordance with applicable tax regulations in the respective countries.

The Group records deferred and prepaid taxes arising from temporary differences between the book value of assets and liabilities and the related values reported for tax purposes, in addition to differences in the value of assets and liabilities generated by consolidation adjustments.

Prepaid taxes are recorded only where there exists reasonable certainty of their retrieval through future profits within the term in which tax benefits are enjoyed. Deferred tax assets are recorded also where there exist deductible losses or tax credits, whenever it is deemed probable that sufficient future profits will be generated in the medium-term (3 to 5 years).

Financial derivatives

Derivative financial instruments are valued at market value (*fair value*). A derivative financial instrument can be acquired for trading or hedging purposes.

Gains and losses on financial instruments acquired for trading purposes are charged to the income statement.

Derivatives acquired for hedging purposes may be accounted for under the hedge accounting method – offsetting the recording of the derivative in the income statement with adjustments to the value of assets and liabilities hedged – only when derivatives meet specific criteria.

Hedge derivatives are classified as “fair value hedges” when they are acquired to hedge against the risk of fluctuations in the market value of an underlying asset or liability or the risk of fluctuations in the financial flows deriving from the same, both in the case of existing assets and liabilities or those deriving from a future transaction.

In the case of fair value hedges, gains and losses on the restatement of the market value of a derivative instrument are taken to the income statement.

With regard to the hedging of financial flows, gains and losses on the hedge instrument are recorded under Shareholders’ Equity when they relate to the portion of the hedge considered effective, while the portion not hedged is recorded in the income statement.

Earnings per share

Earnings per share are calculated by dividing consolidated net profit by the weighted average number of shares in circulation for the period.

Fully diluted earnings per share (calculated by subtracting from consolidated net profit the cost of converting all stock options into ordinary shares) are obtained by adjusting the number of shares in circulation assuming the exercise of stock options having a diluting effect.

Use of estimates

In accordance with IAS/IFRS, the Group made use of estimates and assumptions based on prior experience and other factors deemed determinant, but not certain. Actual data could therefore differ from estimates and projections made.

Estimated data is reviewed periodically and adjustments made to the same are taken to the Income Statement for the period in which the review takes place in case the review affect only one period, or, subsequent accounting periods in case it affects also the same.

Below we describe review processes and key assumptions used by management in applying accounting principles.

Provision for inventory depreciation

The provision for inventory depreciation is accrued to bring the book value of inventories into line with their expected realizable value.

Management reviews the composition of inventories with particular reference to slow moving stock to determine the amount to be accrued prudentially to reflect the obsolescence of stocks.

Provision for doubtful accounts

The provision for doubtful accounts reflects management estimates regarding losses on trade receivables.

Losses on trade receivables expected by the Group are based on past experience on similar portfolios of receivables, current overdues vs. historical overdues, losses and collections, the close monitoring of credit risk and credit worthiness of customers, in addition to projections on economic and market conditions.

Retrievable value of non-current assets

Non-current assets include property, plant and equipment, intangible assets, investments and other financial assets.

Whenever circumstances so require, the management reviews periodically the book value of non-current assets held and used by the Group, in addition to assets to be disposed of. Such activity is carried out using estimates of expected cash flows from the sale of the asset and of adequate discount rates used in calculating the present value of the same.

Whenever the book value of a non-current asset experiences a loss in value, the Company records a write-down equal to the difference between the book value of the asset and its retrievable value either through use or disposal of the same.

Post-retirement benefits

In the estimation of post-retirement benefits the Group makes use of traditional actuarial techniques based on stochastic simulations of the "Monte Carlo" type. Assumptions made relate to the discount rate and the annual inflation rate. Actuarial advisors of the Group make also use of demographic projections based on current mortality rates, employee disablement and resignation rates observed in Parent Company Cembre S.p.A..

In 2017, based on past turnover experience, the probability of a Cembre S.p.A.'s employee terminating his or her employment for causes other than death is the following:

Male	6.18%
Female	4.46%

Assumptions regarding the discounting and inflation rates were:

Discounting rate	1.30%
Yearly inflation rate	1.50%
Yearly real increase in retributions	1.00%

Expected advances to be paid out are 5% per year and each advance corresponds to 70% of the accrued indemnity.

Retrievability of deferred tax assets

The Group evaluates the possibility to retrieve deferred tax assets on the basis of profits and expected future market conditions in view of current sale contracts and ability of expected future profits to offset tax credits, in addition to the expected variance of the same.

Potential liabilities

In carrying out its activity, management consults with its legal and tax advisors and experts. The Group ascertains a liability arising from litigation whenever it deems probable that a financial outlay will be made in the future and when the amount of resulting losses can be reasonably estimated. In case a financial outlay becomes possible but its amount cannot be determined, such occurrence is reported in the notes.

IV. SEGMENT INFORMATION

IFRS 8 requires segment information to be supplied using the same elements on which management bases internal reporting.

Cembre adopted as its primary reporting focus information by geographical area based on the location in which the operations of the company are based or the production process takes place. As the Cembre Group operates in a single segment denominated "Electric connectors and related tools", items based on this element are not usually utilized for the purposes of internal reporting.

2017	Italy	Rest of Europe	Rest of World	Elimination of intragroup	TOTAL
Revenues					
Sales to customers	74,967	44,735	12,935		132,637
Sales to other Group companies	28,510	1,571	27	(30,108)	-
Revenues by sector	103,477	46,306	12,962	(30,108)	132,637
Operating profit by sector	21,694	3,866	1,476		27,036
Overhead costs not assigned					-
Operating profit					27,036
Financial income (expense)					(461)
Income taxes					(3,848)
Net profit					22,727

2016	Italy	Rest of Europe	Rest of World	Elimination of intragroup	TOTAL
Revenues					
Sales to customers	67,134	42,987	12,484		122,605
Sales to other Group companies	27,516	1,791	161	(29,468)	-
Revenues by sector	94,650	44,778	12,645	(29,468)	122,605
Operating profit by sector	20,146	2,960	989		24,095
Overhead costs not assigned					-
Operating profit					24,095
Financial income (expense)					(36)
Income taxes					(7,132)
Net profit					16,927

As the distribution of sales by geographical area is different from that of the related Group activities, a breakdown of sales by geographical area of customers is shown below.

	2017	2016
Italy	55,576	49,029
Europe	54,319	51,516
Rest of World	22,742	22,060
	132,637	**122,605**

The breakdown of assets and liabilities is shown below:

Dec. 31, 2017	Italy	Rest of Europe	Rest of World	TOTAL
Assets and Liabilities				
Assets of the sector	131,553	34,646	7,892	174,091
Unassigned assets				(3,482)
Total assets				**170,609**
Liabilities of the sector	23,536	3,907	113	27,556
Unassigned liabilities				(22)
Total liabilities				**27,534**
Other information by sector				
Capital expenditure:				
- Property, plant and equipment	10,824	856	52	11,732
- Intangible assets	1,097	2	2	1,101
Total investments				**12,833**
Depreciation and amortization:				
- Property, plant and equipment	(5,039)	(677)	(98)	(5,814)
- Intangible assets	(571)	(12)	(1)	(584)
Accruals to provision for employee benefits	(880)	(94)	-	**(974)**
Average no. of employees	473	188	28	**689**

Dec. 31, 2016	Italy	Rest of Europe	Rest of World	TOTAL
Assets and Liabilities				
Assets of the sector	124,666	34,636	8,157	167,459
Unassigned assets				(3,808)
Total assets				**163,651**
Liabilities of the sector	22,010	3,633	402	26,045
Unassigned liabilities				(21)
Total liabilities				**26,024**
Other information by sector				
Capital expenditure:				
- Property, plant and equipment	6,707	331	21	7,059
- Intangible assets	545	8	-	553
Total investments				**7,612**
Depreciation and amortization:				
- Property, plant and equipment	(4,559)	(719)	(116)	(5,394)
- Intangible assets	(517)	(19)	-	(536)
Accruals to provision for employee benefits	(858)	(35)	-	**(893)**
Average no. of employees	453	195	24	**672**

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

1. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plant and machinery	Equipment	Other assets	Leased assets	Work in progress	Total
Historical cost	43,003	56,572	12,448	7,455	37	1,636	121,151
Revaluation FTA of IFRS	5,921	-	-	-	-	-	5,921
Revaluations for tax purposes	934	43	-	-	-	-	977
Accumulated depreciation	(11,323)	(36,046)	(8,700)	(5,657)	(25)	-	(61,751)
Bal. at Dec. 31, 2016	**38,535**	**20,569**	**3,748**	**1,798**	**12**	**1,636**	**66,298**
Increases	1,193	5,362	659	655	-	3,869	11,738
Currency translation differences	(92)	(40)	(1)	(23)	-	-	(156)
Depreciation	(991)	(3,510)	(649)	(595)	(6)	-	(5,751)
Net divestments	-	(16)	(10)	(12)	-	(7)	(45)
Reclassifications	40	856	282	(2)	-	(1,178)	(2)
Bal. at Dec. 31, 2017	**38,685**	**23,221**	**4,029**	**1,821**	**6**	**4,320**	**72,082**

	Land and buildings	Plant and machinery	Equipment	Other assets	Leased assets	Work in progress	Total
Historical cost	42,781	54,765	11,766	8,174	37	1,075	118,598
Revaluation FTA of IFRS	5,921	-	-	-	-	-	5,921
Revaluations for tax purposes	936	50	-	-	-	-	986
Accumulated depreciation	(10,548)	(34,983)	(8,456)	(6,064)	(19)	-	(60,070)
Bal. at Dec. 31, 2015	**39,090**	**19,832**	**3,310**	**2,110**	**18**	**1,075**	**65,435**
Increases	859	3,996	833	410	-	961	7,059
Currency translation differences	(433)	(225)	-	(18)	-	-	(676)
Depreciation	(981)	(3,128)	(561)	(650)	(6)	-	(5,326)
Net divestments	-	(85)	(51)	(58)	-	-	(194)
Reclassifications	-	179	217	4	-	(400)	-
Bal. at Dec. 31, 2016	**38,535**	**20,569**	**3,748**	**1,798**	**12**	**1,636**	**66,298**

Capital expenditure in 2017 amounted to €11,738 thousand and related primarily to the parent company.

Expenditure on buildings consisted primarily in the renovation of the ground floor of the historical headquarters building in Brescia, completed in the year for €806 thousand, and the start of construction of a new industrial building that will host the packaging department, whose cost amounted in 2007 to €235 thousand. Expenditure on equipment amounted to €541 thousand and also consisted primarily in the conclusion of the mentioned renovation work (€251 thousand), while investment in production machinery amounted to €4,509 thousand. Expenditure for the manufacturing of dies amounted to

€534 thousand. Advances paid for assets to be delivered in 2018 amounted to €3,498 thousand – a large part of which are due to advances paid on the new industrial building under construction – while expenditure in dies and equipment under construction by the parent company amounted to €371 thousand.

Investments made by foreign subsidiaries include €708 thousand spent by Cembre Ltd. on plant and equipment, while the Spanish subsidiary invested €103 thousand in the renewal of the motor vehicle fleet.

Item Land and buildings includes the €5,921 thousand revaluation made upon the first-time application of international accounting principles (IAS).

2. INVESTMENT PROPERTY

	Land and buildings	Plant and Machinery	Other assets	Total
Historical cost	2,430	278	5	2,713
Accumulated amortization	(810)	(252)	(4)	(1,066)
Balance at Dec. 31, 2016	**1,620**	**26**	**1**	**1,647**
Depreciation	(54)	(9)	-	(63)
Net divestments	(458)	-	-	(458)
Balance at Dec. 31, 2017	**1,108**	**17**	**1**	**1,126**

In 2017, the Group concluded the sale of the building located in Coslada (Madrid, Spain) which accounts for the net divestments in the table above. The sale generated a capital gain of €502 thousand recorded under Other non-recurrent income.

The balance at December 31, 2017 consists therefore only of the building located in Calcinate (Bergamo) owned by the parent company, whose market value is in line with its book value.

3. INTANGIBLE ASSETS

	Development costs	Patents	Software	Other int. assets	Work in progress	Total
Historical cost	1,586	389	4,554	78	30	6,637
Accumulated amortization	(939)	(328)	(3,992)	(28)	-	(5,287)
Balance at Dec. 31, 2016	**647**	**61**	**562**	**50**	**30**	**1,350**
Increases	282	252	474	-	91	1,099
Amortization	(266)	(95)	(207)	(16)	-	(584)
Reclassifications	-	-	30	-	(28)	2
Balance at Dec. 31, 2017	**663**	**218**	**859**	**34**	**93**	**1,867**

4. INVENTORIES

	Dec. 31, 2017	Dec. 31, 2016	Change
Raw materials	9,672	8,597	1,075
Work in progress and semi-finished goods	11,486	10,238	1,248
Finished goods	20,515	19,961	554
Total	**41,673**	**38,796**	**2,877**

The value of finished goods inventories is adjusted to its expected realizable value through a provision for slow-moving stock amounting approximately to €3,070 thousand. Changes in the provision in 2017 are shown in the table that follows:

	2017	2016
Balance at January 1	**2,729**	**2,177**
Accruals	678	714
Uses	(244)	(116)
Currency translation differences	(93)	(46)
Balance at December 31	**3,070**	**2,729**

Accruals regarded primarily inventories of the US subsidiary (€144 thousand), the Spanish subsidiary (€247 thousand) and the parent company (€142 thousand).

5. TRADE RECEIVABLES

	Dec. 31, 2017	Dec. 31, 2016	Change
Gross trade receivables	27,361	26,063	1,298
Provision for doubtful accounts	(841)	(1,178)	337
Total	**26,520**	**24,885**	**1,635**

Trade receivables by geographical area

	Dec. 31, 2017	Dec. 31, 2016	Change
Italy	14,488	14,103	385
Europe	10,021	9,452	569
North America	1,664	1,704	(40)
Oceania	211	152	59
Middle East	234	206	28
Far East	607	261	346
Africa	136	185	(49)
Total	**27,361**	**26,063**	**1,298**

Average collection time shortened from 70 days in 2016 to 68 days in 2017.

Changes in the provision for doubtful accounts are shown in the table that follows:

	2017	2016
Balance at January 1	**1,178**	**1,378**
Accruals	8	43
Uses	(195)	(175)
Adjustments	(148)	(67)
Currency translation differences	(2)	(1)
Balance at December 31	**841**	**1,178**

Breakdown of receivables by maturity at December 31, 2017

	Not matured	0-90 days	91-180 days	181-365 days	Over one year	Under litigation	Total
2017	23,653	3,055	112	107	352	82	**27,361**
2016	22,273	3,043	100	136	436	75	**26,063**

6. TAX RECEIVABLES

	Dec. 31, 2017	Dec. 31, 2016	Change
Tax receivables	4,299	850	3,449

The amount consists prevalently of tax receivables of the parent company resulting from the agreement reached with Tax Authorities on the application of the Patent Box regime for years 2015-2017 that produced a tax gain of €934 thousand in 2015, one of €1,345 thousand in 2016 and an estimated tax gain of €1,623 thousand for 2017.

7. OTHER ASSETS

	Dec. 31, 2017	Dec. 31, 2016	Change
Receivables from employees	28	28	-
VAT and other indirect taxes receivable	37	89	(52)
Advances to suppliers	184	283	(99)
Other	216	160	56
Total	**465**	**560**	**(95)**

8. SHAREHOLDERS' EQUITY

The capital stock of the parent company amounts to €8,840 thousand, and is made up of 17 million ordinary shares of par value €0.52 each, fully underwritten and paid-up.

At December 31, 2017 the Company held 284,657 treasury shares, corresponding to 1.67% of its capital stock. Against these shares the Company recorded €5,403 thousand in a specific equity reserve under liabilities.

A reconciliation between the Shareholders' Equity and net profit of the parent company and the Consolidated Shareholders' Equity and net profit is provided in the Report on Operations.

Changes in individual components of the Consolidated Shareholders' Equity are shown in the Statement of Changes in the Consolidated Shareholders' Equity included in the Consolidated Financial Statements.

Item Other reserves is made up as follows:

	Dec. 31, 2017	Dec. 31, 2016
Elimination of investments in subsidiaries	22,070	24,581
Elimination of unrealized intra-group profit in stock	(3,796)	(4,384)
German subsidiary product warranty provision reversal	22	21
Dividends from subsidiaries	5,649	2,163
Currency translation differences on intra-group balances	(1)	-
Intra Group reconciliation and gains	(10)	(3)
Total	**23,934**	**22,378**

Upon the first-time application of IFRS, the parent company chose to adopt as inventory valuation method the average cost, in line with the rest of the Group. For this reason the consolidated *Reserve for the first-time adoption of IFRS* differs by €336 thousand from the one recorded under equity by the parent company.

9. EMPLOYEE TERMINATION INDEMNITY AND OTHER RETIREMENT BENEFITS

The item includes the Employee Severance Indemnity accrued for employees of Italian companies. Special retirement benefits, due in accordance with French regulations to persons employed in France at the time of retirement, are also included in the provision.

With the reform of employee termination indemnities, starting with January 1, 2007 Cembre S.p.A. is no longer required to accrue retirement benefits in favor of its employees in a provision, but pays out benefits accrued after such date to the INPS treasury account, unless such benefits have been destined to other pension funds by individual employees.

Employee termination indemnities accrued at December 31, 2017 was discounted on the basis of an evaluation made by a registered actuary, in accordance with current regulations.

	2017	2016
Beginning balance	**2,618**	**2,617**
Accruals	974	893
Uses	(305)	(485)
Social security (INPS) treasury account	(615)	(550)
Discounting effect	(8)	143
Closing balance	**2,664**	**2,618**

Total termination indemnities accrued with INPS' treasury account at the end of the year amount to €6,418 thousand.

10. PROVISIONS FOR RISKS AND CHARGES

Changes in the year are shown in the table below.

	Customer indemnities	Directors' variable compensation	Employee incentives	Total
At December 31, 2016	**114**	**150**	**157**	**421**
Accruals	18	-	159	177
Uses	-	(150)	-	(150)
At December 31, 2017	**132**	**-**	**316**	**448**

Variable compensation in favor of the Chairman and Managing Director contingent on the achievement of set targets for years 2014-2017, is recorded under other payables and will be paid out in 2018.

The provision for employee benefits includes amounts accrued for sales personnel that will be paid out upon the achievement of performance objectives set in the sales development plan launched by the Company.

11. DEFERRED TAX ASSETS AND LIABILITIES

	Dec. 31, 2017	Dec. 31, 2016
Deferred tax assets		
Elimination of unrealized intra-group profits in stock	1,343	1,469
Write-down of inventories	370	420
Goodwill amortization	-	3
Provision for French personnel costs	100	88
Provision for doubtful accounts of parent company	150	216
Differences on depreciation of parent company	181	148

Other	150	158
Gross deferred tax assets	**2,294**	**2,502**
Deferred tax liabilities		
Average cost valuation of inventories by the parent	(241)	(241)
Accelerated depreciation	(159)	(156)
Elimination of Cembre GmbH product warranty provision	(11)	(10)
Reversal of land depreciation	(24)	(24)
Revaluation of land	(1,652)	(1,652)
Discounting of employee termination indemnity	40	42
Currency translation differences	-	(2)
Gross deferred tax liabilities	**(2,047)**	**(2,043)**
Net deferred tax liabilities	**247**	**459**

12. TRADE PAYABLES

	Dec. 31, 2017	Dec. 31, 2016	Change
Payable to suppliers	14,538	13,281	1,257
Advances	43	25	18
Total	**14,581**	**13,306**	**1,275**

Trade payables by geographical area

	Dec. 31, 2017	Dec. 31, 2016	Change
Italy	12,701	11,515	1,186
Rest of Europe	1,786	1,674	112
America	27	21	6
Other	24	71	(47)
Total	**14,538**	**13,281**	**1,257**

13. OTHER PAYABLES

	Dec. 31, 2017	Dec. 31, 2016	Change
Payables to employees	1,904	1,694	210
Employee withholding taxes payable	1,119	1,097	22
Bonuses owed to customers	371	365	6
VAT and similar foreign taxes payable	751	670	81
Commissions payable	336	269	67
Payable to Statutory Auditors and similar foreign boards	19	19	-
Payable to Directors	200	7	193
Social security payables	2,635	2,533	102
Payable on sundry taxes	72	30	42
Other	236	157	79
Accrued liabilities	(117)	(169)	52
Total	**7,526**	**6,672**	**854**

14. REVENUES FROM SALES AND SERVICES PROVIDED

In 2017, revenues grew by 8.2% on the previous year. A total of 41.9% of Group sales were represented by Italy (13.4% more than in 2016), while sales in the rest of Europe represented 41% of total sales, (up 5.4% on the previous year). Sales to the rest of the World grew by 3.1%, representing 17.1% of total sales. Further detail is provided in the Report on Operations.

15. OTHER REVENUES

Other revenues are made up as follows:

	2017	2016	Change
Extraordinary income	144	-	144
Capital gains	38	44	(6)
Uses of provisions	4	64	(60)
Insurance damages	54	12	42
Reimbursements	271	389	(118)
Other	132	101	31
Grants	10	71	(61)
Total	**653**	**681**	**(28)**

Reimbursements relate primarily to transport costs charged to customers.

Item Other non-recurrent income includes the capital gain realized on the sale by the Spanish subsidiary in September 2017 of the building formerly hosting its headquarters located in Coslada (Madrid) amounting to €502 thousand.

16. COST OF SERVICES

	2017	2016	Change
Subcontracted work	3,198	2,600	598
Electricity, heating and water	1,530	1,435	95
Transport of goods sold	2,190	1,813	377
Fuel	410	376	34
Travelling expenses	1,128	1,197	(69)
Maintenance and repair	1,969	1,974	(5)
Consulting	1,890	1,377	513
Advertising and promotion	789	657	132
Insurance	841	825	16
Boards’ compensation	720	715	5
Postage and telephone	395	364	31
Commissions	758	531	227
Security and cleaning	564	525	39

Bank charges	160	149	11
Other	826	915	(89)
Total	**17,368**	**15,453**	**1,915**

17. LEASES AND RENTALS

	2017	2016	Change
Rent and related costs	689	660	29
Vehicle leasing	909	876	33
Total	**1,598**	**1,536**	**62**

More information on to leases stipulated with related parties is reported in note 28 below.

18. PERSONNEL COSTS

	2017	2016	Change
Wages and salaries	28.095	26.751	1.344
Social security contributions	6.966	6.764	202
Employee termination indemnity	1.210	1.176	34
Retirement benefits	397	293	104
Other costs	583	500	83
Total	**37.251**	**35.484**	**1.767**

Wages and salaries include €1,468 thousand relating to personnel on short-term contracts, of which €1,384 thousand relating to the German subsidiary and €84 thousand to the Spanish subsidiary.

Average number of employees by category

	2017	2016	Change
Managers	14	16	(2)
Administrative and commercial staff	325	296	29
Workers	311	310	1
Outsourced personnel	39	50	(11)
Total	**689**	**672**	**17**

Average number of employees by Group company

	Managers	White collars	Blue collars	Short-term personnel	Total 2017	Total 2016	Change
Cembre S.p.A.	6	200	229	38	473	453	20
Cembre Ltd.	3	39	56	1	99	98	1
Cembre Sarl	1	19	6	-	26	25	1
Cembre España S.L.U.	1	31	9	-	41	46	(5)
Cembre Inc.	2	20	6	-	28	24	4
Cembre GmbH	1	16	5	-	22	26	(4)
Total	**14**	**325**	**311**	**39**	**689**	**672**	**17**

19. OTHER OPERATING COSTS

	2017	2016	Change
Sundry taxes	729	715	14
Losses on receivables	17	20	(3)
Capital losses	14	29	(15)
Donations	35	30	5
Other	403	357	46
Total	**1,198**	**1,151**	**47**

Item *Other* consists primarily sundry expenses of the parent company.

20. ACCRUALS TO PROVISIONS FOR RISKS AND CHARGES

	2017	2016	Change
Customer indemnities	18	14	4

The customer indemnities provision amounts to €18 thousand and was accrued against possible charges in the case of termination of agency mandates.

21. FINANCIAL INCOME (EXPENSE)

	2017	2016	Change
Interest earned on bank account balances	21	23	(2)
Other financial income	65	1	64
Total financial income	**86**	**24**	**62**
Loans and bank overdrafts	-	(43)	43
Financial charges on discounting of Employee Termination Indemnity	(31)	(48)	17
Other financial charges	(4)	(2)	(2)
Total financial expense	**(35)**	**(93)**	**58**
Financial income (expense)	**51**	**(69)**	**120**

22. INCOME TAXES

Income taxes are made up as follows:

	2017	2016	Change
Current taxes	(7,539)	(7,227)	(312)
Deferred taxes	(189)	88	(277)
Benefit of Patent Box regime for 2017	1,623	-	1,623
Extraordinary items	(22)	7	(29)
Total	**(6,127)**	**(7,132)**	**1,005**

The tax benefit deriving from the application of the Patent Box regime for years 2015 and 2016 is made up as follows:

Patent Box	
Tax benefit for 2015	934
Tax benefit for 2016	1,345
	2,279

The table that follows shows a reconciliation between the theoretical tax expense, calculated at the normal tax rate of the parent company (Corporate (*IRES*) + Regional Tax on Productive Activities (*IRAP*) = 27.9%), and the actual tax expense recorded in the consolidated accounts.

	2017		**2016**	
	amount	**% tax rate**	**amount**	**% tax rate**
Profit before taxes	26,575		24,059	
Theoretical tax expense	**7,414**	27.90%	**7,555**	31.40%
Effect of non-deductible costs	2,899	10.91%	1,282	5.33%
Effect of tax-exempt income and deductions	(2,299)	-8.65%	(1,546)	-6.43%
Effect of different IRAP taxable income	(37)	-0.14%	40	0.17%
Other deductions	(7)	-0.03%	(13)	-0.05%
Patent Box 2017	(1,623)	-6.11%	-	-
Effect of change in tax rate of UK subsidiary	4	0.02%	-	-
Extraordinary items	22	0.08%	(7)	-0.03%
Effect of different foreign tax rates	(246)	-0.93%	(179)	-0.74%
Actual tax expense recorded	**6,127**	23.06%	**7,132**	29.64%

At December 31, 2017, there did not exist temporary differences and loss carry-forwards on which no deferred tax assets or liability had been recorded.

Deferred tax assets and liabilities are made up as follows:

	2017	**2016**
Elimination of unrealized intra-group profits in stock	(126)	(228)
Provision for doubtful accounts of the parent company	(66)	(12)
Differences on depreciation of US subsidiary	-	15
Average cost valuation of inventories of parent company	-	56
Accelerated depreciation	(3)	86
Write down of inventories	(50)	179
Discounting of employee termination indemnity	7	12
Provision for French personnel costs	12	11
Differences on depreciation of parent company	33	16
Other	4	(47)
Deferred tax assets and liabilities for the period	**(189)**	**88**

23. COMPREHENSIVE INCOME

The Cembre Group uses a single table to report its comprehensive income. In particular, the economic effects recorded directly under Shareholders' Equity are reported separately and result in an increase or decrease of net profit for the period.

At December 31, 2017, the changes relate only to foreign exchange translation differences arising upon consolidation on the translation into euro of the financial statements of subsidiaries operating outside the euro zone, to the effect of the discounting of Employee Termination Indemnities.

24. EARNINGS PER SHARE (BASIC AND DILUTED)

Earnings per share are calculated by dividing net profit by the weighted average number of shares in circulation for the period, excluding treasury shares held at the end of the year, amounting to 284,657.

	2017	2016
Consolidated net profit (€'000)	22,727	16,927
No. of ordinary shares ('000)	16,715	16,935
Basic and diluted earnings per share	**1.36**	**1.00**

25. DIVIDENDS

On May 10, 2017 the Company distributed (with ex-dividend date May 8) a dividend on net profit for the year ended December 31, 2016, amounting to €11,838 thousand, equivalent to €0.70 for each share entitled to dividends.

	2017	2016
Resolved and paid in the year: Balance due for 2016 dividend: €0.70 (2015: €0.46)	11,838	7,820
Proposal submitted to the Shareholders' Meeting (not recorded as liability at December 31) Balance due for 2017 dividend: €0.80 (2016: €0.70)	13,372	11,838

Proposed dividends submitted for approval to the Shareholders' Meeting amount to €0.80 per share, for a total of €13,372 thousand. This amount was not recorded as a liability.

26. COMMITMENTS AND RISKS

	Dec. 31, 2017	Dec. 31, 2016	Change
Guarantees granted	696	684	12

Commitments at December 31, 2017 included guarantees granted by the parent Company to the Brescia Municipality amounting to €352 thousand against the construction of development infrastructure in connection with the construction of new parking spaces and entrance at the Brescia main complex, and €53 thousand of guarantees given to Brescia Customs Authorities. The residual guarantees relate to guarantees for supplies granted to electrical and railway companies.

27. NET FINANCIAL POSITION

The net financial position of the Group amounted at the end of 2017 to a surplus of €20,232 thousand, declining on December 31, 2016.

At December 31, 2017, the Group had no outstanding debt involving covenants or negative pledges. Below we include the Net Financial Position of the Group, as provided by Consob in Regulation DEM/6064313 dated July 28, 2006.

		Dec. 31, 2017	Dec. 31, 2016
A	Cash	51	44
B	Bank deposits	20,181	26,665
C	**Cash and cash equivalents (A+B)**	**20,232**	**26,709**
D	**Financial receivables**	**-**	**-**
E	Payable on derivatives	-	(43)
F	**Current financial debt (E)**	**-**	**(43)**
G	**Net current financial position (C+D+F)**	**20,232**	**26,666**
H	**Non-current financial debt**	**-**	**-**
I	**Net financial position (G+H)**	**20,232**	**26,666**

28. RELATED PARTIES

The table that follows shows transactions between the parent company and its subsidiaries at December 31, 2017.

	Payables	Receivables	Revenues	Purchases
Cembre Ltd.	449	4	7,863	308
Cembre S.a.r.l.	420	-	4,859	5
Cembre España S.L.U.	133	4	4,763	4
Cembre Inc.	921	-	6,839	26
Cembre GmbH	450	4	4,898	89
Total	**2,373**	**12**	**29,222**	**432**

With reference to assets and liabilities relating to subsidiaries shown above, we confirm that transactions with the same and with related parties fall within the scope of normal operating activities. Revenues include, in addition to those from the sale of products, charges made to subsidiaries for costs relating to services provided in the field of Information Technology and royalties for the use of the *Cembre* trademark, totaling €495 thousand, in addition to €102 thousand of transport costs.

Among assets leased to Cembre by third parties are an industrial building adjacent to the Company's registered office measuring a total of 5,960 square meters on three floors, in addition to the Milan, Padua and Bologna sales offices, all of which are owned by company Tha Immobiliare S.p.A., with registered office in Brescia, controlled by Anna Maria Onofri, Giovanni Rosani and Sara Rosani, directors of Cembre S.p.A. Lease payments for 2017 amounted to €528 thousand. Rent is in line with market conditions. It is in the Company's interest to benefit from the continuity of office space reducing the risk of early termination of leases. At the end of 2017, all amounts due to Tha Immobiliare had been settled.

Cembre Ltd. leased an industrial building from Borno Ltd., a company controlled by Lysne S.p.A., for an annual rent of £123 thousand (equal to €141 thousand).

Rent paid between group companies

	2017	2016	Change
Rent paid by Cembre SpA to Tha Immobiliare	528	528	-
Rent paid by Cembre Ltd to Borno Ltd.	141	98	43
TOTAL	**669**	**626**	**43**

Cembre S.p.A. does not have direct relationships with its parent company Lysne S.p.A. of any other nature than that of the exercise of shareholders' rights on the part of the parent. Lysne S.p.A. does not carry out any management or coordination activity with respect to Cembre S.p.A.

<u>Boards' compensation</u>

In 2017, compensation for the Board of Directors and the Board of Statutory Auditors, net of social security contributions, amounted to:

	Statutory Auditors	Directors
Emoluments as directors and auditors of the parent company	84	493
Retribution as employees	-	252
Non-monetary benefits	-	13

Non-monetary benefits relate to the use of a company car and insurance policies underwritten on their behalf.

In line with the remuneration policy of the Company, variable compensation contingent on the achievement of medium-long term targets was introduced in favor of the Chairman and Chief Executive Officer for years 2014-2017. At the end of 2017, these targets were met and the resulting €200 thousand bonus was recorded under other payables and will be paid out in 2018.

29. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The Group makes very limited use of derivative instruments to hedge against interest risk and currency exposure.

The short term maturity of a large part of the financial instruments held is such that their carrying value is in line with their fair value of the same.

Risks connected with the market

The Group faces these risks with ongoing innovation, the widening of the product range, high automation and the upgrade of its production process, implementing focused marketing policies also with the help of its foreign subsidiaries.

Interest rate risk

At December 31, 2017 the Group had no loans outstanding.

Currency risk

Despite a strong international presence, the Group does not have a significant exposure to currency risk (on an operating or equity basis), as it operates mainly in the euro area, the currency in which its trade transactions are mainly denominated.

Exposure to currency risk is determined mainly by sales in US dollars and British pounds. The size of these transactions is not significant in influencing the overall performance of the Group.

In addition to currency risk, the Group is also exposed to currency translation risk. As described in the consolidation principles section, in fact, financial statements of consolidated companies prepared in currencies other than the euro are translated into euro at the exchange rate published on the Internet site of the Ufficio Italiano Cambi. In the table that follows we report the economic effect of possible fluctuations in exchange rates for main financial figures of consolidated companies operating outside the euro area.

	Currency	Exchange rate fluctuation	Effect on Shareholders' Equity	Effect on sales	Effect on pre-tax profit
Cembre Ltd.	£	5% / -5%	623/(623)	950/(950)	205/(205)
Cembre Inc.	US$	5% / -5%	342/(342)	648/(648)	43/(43)

At December 31, 2017, the effect of foreign-exchange transactions is negative by €512 thousand.

Liquidity risk

The exposure of the Group to liquidity risk is not material as its financial position is balanced. The collection and payment cycle is also in balance, as shown by the ratio of current assets to current liabilities which is considerably above 2.

Credit risk

Exposure to credit risk relates exclusively to trade receivables. As shown in note 4, none of the areas in which the Group operates poses relevant credit risks.

Operating procedures limit the sale of products or services to customers who do not possess an adequate credit profile or provide secured guarantees. Receivables matured over 12 months and those under litigation are widely covered by the provision for bad debt accrued. To further reduce this type of risk, in 2016 the parent company stipulated a policy with a primary insurance company against commercial credit losses.

Exposure to credit risk relates exclusively to trade receivables.

30. SUBSEQUENT EVENTS

No event having significant effects on the Group's financial position or operating performance occurred after December 31, 2017.

31. CONSOLIDATED COMPANIES

Companies consolidated line-by-line are:

Company	Registered office	Share capital	Share held at Dec. 31, 2017	Share held at Dec. 31, 2016
Cembre Ltd.	Sutton Coldfield (Birmingham - UK)	£ 1,700,000	100%	100%
Cembre Sarl	Morangis (Paris)	€ 1,071,000	100%	100% (*)
Cembre España S.L.U.	Torrejón de Ardoz (Madrid)	€ 2,902,000	100%	100% (*)
Cembre GmbH	Munich (Germany)	€ 1,812,000	100%	100% (*)
Cembre Inc.	Edison (New Jersey , US)	US$ 1,440,000	100%	100%(**)

* of which 5% held through Cembre Ltd.

** of which 29% held through Cembre Ltd.

The consolidation perimeter changed from the previous year due to the winding up of Norwegian subsidiary Cembre AS concluded in December 2016.

On June 23, 2017, the parent company acquired from its UK subsidiary Cembre Ltd. (of which it holds the entire capital stock) shares held by the latter in other Group companies (i.e. a 29% share in Cembre Inc. (USA), a 5% share in Cembre Sarl (F), a 5% share in Cembre España (E) and a 5% share in Cembre GmbH (D). The reorganization of the ownership structure was aimed at streamlining the governance of the Group which previously involved Cembre Ltd. in most operations.

Brescia, March 13, 2018

THE CHAIRMAN AND MANAGING DIRECTOR
OF CEMBRE S.P.A.

Giovanni Rosani

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Cembre

Attestation in respect of the Consolidated financial statements

pursuant to art 154-bis Paragraph 5, of Legislative Decree 58 dated Feb. 24, 1998 "Consolidated Law on financial intermediation regulations" and subsequent integrations and updatings

The undersigned Giovanni Rosani and Claudio Bornati, in their position as Managing Director and Manager responsible for the preparation of financial reports of Cembre S.p.A., respectively, pursuant to Article 154-bis, paragraphs 3 and 4 of Legislative Decree No.58/1998, certify that internal controls over financial reporting in place for the preparation of 2017 consolidated financial statements and during the period covered by the report, were:

• adequate to the Company structure, and

• effectively applied during the process.

The undersigned officers certify that this 2017 consolidated financial statements:

a) corresponds to the Company's evidence and accounting books and entries, and

b) was prepared in accordance with International Financial Reporting Standards, as endorsed by the European Union through Regulation (EC) 1606/2002 of the European Parliament and Counsel, dated 19 July 2002;

c) provide a fair and correct representation of the financial conditions, results of operations and cash flows of the Company and its consolidated subsidiaries.

The undersigned officers attest, also, that the report on operations includes a reliable operating and financial review of the Company and of the Group as well as a description of the main risks and uncertainties to which they are exposed.

Brescia, March 27, 2018

Chairman and
Managing Director

signed by:
Giovanni Rosani

Manager responsible for the
preparation of financial reports

signed by:
Claudio Bornati

pwc

Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the shareholders of CEMBRE SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of CEMBRE Group (the Group), which comprise the consolidated statement of financial position as of 31 december 2017, the statement of comprehensive income, statement of changes in equity, statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 december 2017, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05.

Basis for Opinion

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

Key Audit Matters

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

Key Audit Matters	*Auditing procedures performed in response to key audit matters*

Revenue recognition

Notes to the consolidated financial statements:
- *Section "III. Accounting policies - Revenues"*
- *Note 14 – Revenues from sales and services*

The Group recognised revenues for a total of Euro 132,637 thousand for FY 2017, whereof Euro 55,576 thousand generated in Italy, Euro 54,319 thousand in Europe and Euro 22,742 thousand in countries outside Europe.

As part of our audit procedures on the consolidated financial statements, the accuracy of recognition of revenues was considered a key matter on which to focus our attention. This is related to the fact that revenues are one of the major components of the consolidated income statement and therefore their incorrect recognition would lead to a material distortion of the net profit for the year.

Specifically, in consideration of the fact that part of sales are made to foreign counterparties the terms of delivery to which are not uniform, special attention was paid to the cut-off of revenues recognised on sales made in the last period of the year to foreign counterparties, these being parties resident in territories where the entities of the Group are based.

As part of our audit activities focused on the revenues area we performed procedures designed to assess the reliability of the system of internal control over the revenue cycle and specific auditing procedures designed to verify the accuracy of recognition of revenues. Therefore, we understood and evaluated the procedure for the sales cycle including in our analysis the adequacy of the information system in place. We then tested the actual operating effectiveness of relevant controls over the revenue recognition process, including those relating to operating effectiveness, of IT systems and applications used. Moreover, we performed comparative analyses and tests of detail, on a sample basis, including requests to a sample of debtors for confirmation of transactions and/or balances, in order to verify the accuracy of recognition of revenues and any bonuses.

With reference to the specific risk of error in accounting for revenues in accordance with the accrual basis of accounting, in addition to the above we verified the accuracy of cut-off by testing transactions on dates close to the balance sheet date, paying special attention to transactions with foreign counterparties.

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

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the Group's ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, management uses the going concern basis of accounting unless management either intends to liquidate CEMBRE SpA or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

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

the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

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

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Additional Disclosures required by Article 10 of Regulation (EU) No 537/2014

On 28 april 2009, the shareholders of CEMBRE SpA in general meeting engaged us to perform the statutory audit of the Company's and the consolidated financial statements for the years ending 31 december 2009 to 31 december 2017.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98

Management of CEMBRE SpA is responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the CEMBRE Group as of 31 december 2017, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the consolidated financial statements of the

CEMBRE Group as of 31 december 2017 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of CEMBRE SpA as of 31 december 2017 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Brescia, 28 march 2018

PricewaterhouseCoopers SpA

Signed by

Alessandro Vincenzi
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

REPORT OF THE BOARD OF STATUTORY AUDITORS ON THE CONSOLIDATED FINANCIAL STATEMENTS OF THE CEMBRE GROUP AT DECEMBER 31, 2017

To our Shareholders:

the Consolidated Financial Statements for the 2017 financial year delivered to the Board of Statutory Auditors within the term provided – consisting of the Consolidated Statement of Financial Position, Consolidated Statement of Comprehensive Income, Statement of Changes in the Consolidated Shareholders' Equity and of the Notes to the Consolidated Financial Statements – were prepared under International Financial Reporting Standard (IFRS) adopted by the European Union and in compliance with regulations issued to implement article 9 of Legislative Decree 38/2005, in force at December 31, 2017.

International accounting principles, amendments and interpretations issued by IASB applicable from January 1, 2017 and described in the Notes to the consolidated accounts, were employed in the preparation of the Consolidated Financial Statements. The coming into force of amendments to IFRS 12 and IAS 7 and 12 found an application in the Consolidated Accounts of the Cembre Group.

Items in the Financial Statements were recorded at the historical cost with the exception of those items for which accounting principles provide for a different valuation method.

The Consolidated Financial Statements for the 2016 financial year report a consolidated net profit of €22,727 thousand as compared with a consolidated net profit of €16,927 thousand in the previous year.

Independent Auditors PricewaterhouseCoopers S.p.A., as stated in the Auditing Report drawn up pursuant to articles 14 of Legislative Decree 39/2010 and of art. 10

of Regulation (EU) No. 537/2014 issued today, ascertained that:

- *“the Consolidated Financial Statements of the Cembre Group provide a true and correct representation of the financial condition of the Group at December 31, 2017, of its operating performance and cash flows for the 2017 financial year and are consistent with IFRS adopted by the European Union and regulations issued to implement article 9 of Legislative Decree no. 38/05”;*
- *“the Report on Operations and some specific information contained in the Report on Corporate Governance with the Consolidated Financial Statements are consistent with the Consolidated Financial Statements of the Cembre Group for the financial year closed December 31, 2017 and are prepared in compliance with applicable norms and regulations”;*
- *"with reference to the certification pursuant to art. 14, co. 2 lett. e) of Legislative Decree 39/10, issued on the basis of the knowledge and understanding of the company and the related context acquired during the audit, we have nothing to report".*

In compliance with article 41, par. 3 of Legislative Decree no. 127/91, with the exception of the issues specified below, the Consolidated Financial Statements, were therefore not audited by the Board of Statutory Auditors.

The Notes to the consolidated accounts provide a detail of Balance Sheet and Income Statement items and illustrate accounting principles, consolidation principles and valuation criteria applied in the preparation of the same, in addition to changes in accounting principles.

The consolidation area, unchanged from the previous year, the choice of consolidation principles in application of the line-by-line method, of subsidiaries to be consolidated and of procedures for the consolidation, are consistent with IFRS.

Information provided in the Report on Operations illustrates adequately the operating and financial situation of the parent company, investments made, alternative performance indicators, Shareholders' Equity, main risks and uncertainties, environmental management, worker safety, performance indicators, research, development and technological innovation activities, relationships with subsidiaries, parent companies and related parties – shown also in financial statements – and the consolidated non-financial statement, its operating performance in 2017 and the outlook for 2018 of the parent company and the Group as a whole.

The review performed shows the consistency of the Report on Operations with the Consolidated Financial Statements.

Brescia, March 28, 2018

The Board of Statutory Auditors

The Chairman

Fabio Longhi

Financial Statements at December 31, 2017

Statement of Financial Position

ASSETS	Notes	Dec. 31, 2017		Dec. 31, 2016	
(euro '000)			*of which: related parties*		*of which: related parties*
NON CURRENT ASSETS					
Tangible assets	***1***	61.848.636		56.051.379	
Investment property	***2***	1.125.532		1.179.073	
Intangible assets	***3***	1.855.139		1.331.101	
Investments in subsidiaries	***4***	12.609.981		9.851.013	
Other investments	***5***	10.333		10.333	
Other non-current assets	***6***	8.003		7.791	
Deferred tax assets	***15***	733.592		765.566	
TOTAL NON-CURRENT ASSETS		**78.191.216**		**69.196.256**	
CURRENT ASSETS					
Inventories	***7***	30.946.760		28.610.236	
Trade receivables	***8***	16.709.505		15.362.022	
Trade receivables from subsidiaries	***9***	2.373.027	2.373.027	2.381.905	2.381.905
Tax receivables	***10***	4.287.481		708.932	
Other assets	***11***	439.377		511.965	
Cash and cash equivalents		13.588.602		20.127.391	
TOTAL CURRENT ASSETS		**68.344.752**		**67.702.451**	
NON-CURRENT ASSETS AVAILABLE FOR SALE		-		-	
TOTAL ASSETS		**146.535.968**		**136.898.707**	

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	Dec. 31, 2017		Dec. 31, 2016	
			of which: related parties		*of which: related parties*
EQUITY					
Capital stock	***12***	8.840.000		8.840.000	
Reserves	***12***	89.704.298		90.116.691	
Net profit		24.444.345		15.931.868	
TOTAL SHAREHOLDERS' EQUITY		**122.988.643**		**114.888.559**	
NON-CURRENT LIABILITIES					
Non-current financial liabilities		-		-	
Employee Severance Indemnity and other personnel benefits	***13***	2.305.696	184.450	2.353.899	175.705
Provisions for risks and charges	***14***	447.892	-	421.029	150.000
Deferred tax liabilities	***15***	1.877.144		1.877.199	
TOTAL NON-CURRENT LIABILITIES		**4.630.732**		**4.652.127**	
CURRENT LIABILITIES					
Current financial liabilities		-		-	
Liabilities on derivative instruments		-		43.487	
Trade payables	***16***	13.665.062		12.320.651	
Trade payables to subsidiaries	***17***	11.819	11.819	145	145
Tax payables		-		338.230	
Other Payables	***18***	5.239.712		4.655.508	
TOTAL CURRENT LIABILITIES		**18.916.593**		**17.358.021**	
LIABILITIES ON ASSETS HELD FOR DISPOSAL		**-**		**-**	
TOTAL LIABILITIES		**23.547.325**		**22.010.148**	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**146.535.968**		**136.898.707**	

Financial Statements at December 31, 2017

Statement of Comprehensive Income

	Notes	2017		2016	
			of which: related parties		*of which: related parties*
Revenues from sales and services provided	***19***	103.476.300	28.509.756	94.649.538	27.516.298
Other revenues	***20***	1.059.173	712.098	785.692	477.145
TOTAL REVENUES		**104.535.473**		**95.435.230**	
Cost of goods and merchandise	***21***	(40.277.060)	(433.191)	(35.080.007)	(779.015)
Change in inventories	***7***	2.336.523		86.296	
Cost of services received	***22***	(12.766.571)	(664.856)	(10.723.508)	(665.660)
Lease and rental costs	***23***	(983.185)	(527.925)	(955.513)	(528.342)
Personnel costs	***24***	(25.922.580)	(335.231)	(24.642.238)	(300.397)
Other operating costs	***25***	(854.805)		(750.563)	
Increase in assets due to internal construction		809.631		1.106.158	
Accruals to provisions for risks and charges	***26***	(18.264)		(14.000)	
GROSS OPERATING PROFIT		**26.859.162**		**24.461.855**	
Tangible asset depreciation	***1-2***	(5.039.585)		(4.555.464)	
Intangible asset amortization	***3***	(571.139)		(517.237)	
OPERATING PROFIT		**21.248.438**		**19.389.154**	
Financial income	***27***	5.393.610	5.315.078	2.422.764	2.408.894
Financial expenses	***27***	(31.177)		(92.038)	
Foreign exchange gains (losses)	***28-35***	(11.114)		69.359	
PROFIT BEFORE TAXES		**26.599.757**		**21.789.239**	
Benefit from the application of Patent Box Regime on previous years	***29***	2.279.186,00		-	
Income taxes	***29***	(4.434.598)		(5.857.371)	
NET PROFIT FROM ORDINARY ACTIVITIES		**24.444.345**		**15.931.868**	
NET PROFIT FROM ASSETS HELD FOR DISPOSAL		**-**		**-**	
NET PROFIT		**24.444.345**		**15.931.868**	
Items that will not be reclassified to profit and loss					
Gains (losses) from discounting of Employees Termination Indemnity	***13***	38.522		(94.905)	
Income tax relating to items that will not be reclassified	***13***	(9.245)		22.778	
COMPREHENSIVE INCOME	***30***	**24.473.622**		**15.859.741**	
BASIC AND DILUTED EARNINGS PER SHARE		**1,46**		**0,94**	

Financial Statements at December 31, 2017

Statement of Cash Flows

	2017	2016
(euro '000)		
A) CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**20.127.391**	**11.074.009**
B) CASH FLOW FROM OPERATING ACTIVITIES		
Net profit for the year	24.444.345	15.931.868
Depreciation, amortization and write-downs	5.610.724	5.072.701
(Gains)/Losses on disposal of assets	(25.476)	(6.441)
Net change in Employee Severance Indemnity	(48.203)	(33.975)
Net change in provisions for risks and charges	26.863	(22.826)
Operating profit (loss) before change in working capital	**30.008.253**	**20.941.327**
(Increase) Decrease in trade receivables	(1.338.605)	2.274.834
(Increase) Decrease in inventories	(2.336.524)	(86.296)
(Increase) Decrease in other receivables and deferred tax assets	(3.473.987)	(164.044)
Increase (Decrease) of trade payables	2.100.376	963.376
Increase (Decrease) of other payables and deferred tax liabilities	245.919	20.725
Change in working capital	**(4.802.821)**	**3.008.595**
NET CASH FLOW (USED IN)/FROM OPERATING ACTIVITIES	**25.205.432**	**23.949.922**
C) CASH FLOW FROM INVESTING ACTIVITIES		
Capital expenditure on fixed assets:		
- intangible	(1.095.177)	(545.641)
- tangible	(10.823.701)	(6.706.294)
- financial	(2.758.968)	-
Proceeds from disposal of tangible, intangible, financial assets		
- tangible	65.876	143.392
- financial	-	293.070
Increase (Decrease) of trade payables for assets	(744.291)	631.186
NET CASH FLOW (USED IN)/FROM INVESTING ACTIVITIES	**(15.356.261)**	**(6.184.287)**
D) CASH FLOW FROM FINANCING ACTIVITIES		
(Increase) Decrease in other non current assets	(212)	(953)
Increase (Decrease) of liabilities from derivative instruments	(43.487)	43.487
Change in reserves	(4.539.903)	(862.660)
Dividends distributed	(11.833.635)	(7.820.000)
NET CASH FLOW (USED IN)/FROM FINANCING ACTIVITIES	**(16.417.237)**	**(8.640.126)**
E) INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (B+C+D)	**(6.568.066)**	**9.125.509**
F) Discounting of Employee Termination Indemnities	29.277	(72.127)
G) CASH AND CASH EQUIVALENTS AT END OF YEAR (A+E+F)	**13.588.602**	**20.127.391**
CASH AND CASH EQUIVALENTS AT END OF YEAR	**13.588.602**	**20.127.391**
Liabilities on derivative instruments	-	(43.487)
NET FINANCIAL POSITION	**13.588.602**	**20.083.904**
INTEREST PAID IN THE YEAR	**-**	**(21)**
BREAKDOWN OF CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash	9.920	5.760
Banks	13.578.682	20.121.631
	13.588.602	**20.127.391**

Financial Statements at December 31, 2017

Statement of Changes in the Shareholders' Equity

	Balance at December 31, 2016	Allocation of previous year net profit	Other movements	Comprehensive income	Balance at December 31, 2017
Capital stock	**8.840.000**				**8.840.000**
Share premium reserve	**12.244.869**				**12.244.869**
Legal reserve	**1.768.000**				**1.768.000**
Reserve for own shares	**(862.660)**		(4.539.903)		**(5.402.563)**
Suspended-tax revaluation reserve	**585.159**				**585.159**
Other suspended-tax reserves	**68.412**				**68.412**
Extraordinary reserve	**67.860.751**	4.098.233	(8.610)		**71.950.374**
Reserve for FTA	**4.051.204**				**4.051.204**
Reserve for discounting of Employee Termination Indemnity	**3.818**		8.610	29.277	**41.705**
Merger surplus reserve	**4.397.138**				**4.397.138**
Retained earnings	**-**				**-**
Net profit	**15.931.868**	(15.931.868)		24.444.345	**24.444.345**
Total Shareholders' Equity	**114.888.559**	**(11.833.635)**	**(4.539.903)**	**24.473.622**	**122.988.643**

	Balance at December 31, 2015	Allocation of previous year net profit	Other movements	Comprehensive income	Balance at December 31, 2016
Capital stock	**8.840.000**				**8.840.000**
Share premium reserve	**12.244.869**				**12.244.869**
Legal reserve	**1.768.000**				**1.768.000**
Reserve for own shares	**-**		(862.660)		**(862.660)**
Suspended-tax revaluation reserve	**585.159**				**585.159**
Other suspended-tax reserves	**68.412**				**68.412**
Extraordinary reserve	**61.242.405**	6.618.346			**67.860.751**
Reserve for FTA	**4.051.204**				**4.051.204**
Reserve for discounting of Employee Termination Indemnity	**75.945**			(72.127)	**3.818**
Merger surplus reserve	**4.397.138**				**4.397.138**
Retained earnings	**-**				**-**
Net profit	**14.438.346**	(14.438.346)		15.931.868	**15.931.868**
Total Shareholders' Equity	**107.711.478**	**(7.820.000)**	**(862.660)**	**15.859.741**	**114.888.559**

Notes to the Financial Statements of Cembre S.p.A. at December 31, 2017

I. CORPORATE INFORMATION

Cembre S.p.A. is a joint-stock company with registered office in Brescia, via Serenissima 9. The company is listed in the Italian Market of Shares (MTA) managed by Borsa Italiana S.p.A.

Cembre S.p.A. (hereinafter referred to as the "Company") is active primarily in the manufacturing and sale of electrical connectors and related tools.

The publication of the Financial Statements of Cembre S.p.A. for the year ended December 31, 2017 was authorized by a resolution of the Board of Directors dated March 13, 2018.

Cembre S.p.A. is controlled by Lysne S.p.A., a holding company based in Brescia, that does not direct or coordinate its subsidiary.

II. FORM AND CONTENT OF THE FINANCIAL STATEMENTS

The present Financial Statements at December 31, 2017 were prepared under the International Financial Reporting Standards (IFRS) adopted by the European Union and the related implementation regulations issued in application of article 9 of Legislative Decree no. 38/2005.

Principles adopted in the preparation of the Financial Statements are those formally approved by the European Union as of December 31, 2017.

Items in the Balance Sheet were recorded at the historical cost with the exception of those items for which international accounting principles provide for a different measurement.

Unless otherwise indicated, figures reported in the financial statements and the related notes are expressed in thousands of euro.

The Financial Statements at December 31, 2017 were prepared in the expectation of the continuation of the Company's activities.

The table that follows contains a list of international accounting principles and interpretations approved by the IASB that became effective from 2017, which were taken into account, where applicable, in the preparation of the present Financial Statements.

	Effective from
Amendments to IFRS 12 *Income Taxes – Recognition of deferred tax assets for unrealized losses*	January 1, 2017
Amendments to IAS 7 *Cash Flow Statement – Disclosures*	January 1, 2017
Amendments to IAS 12– *Disclosure of Interests in Other Entities*	January 1, 2017

The above changes did not find an application in the financial statements of Cembre S.p.A.

Future changes in accounting principles

The following updates of IFRS have been approved by the European Union and will become effective in future financial years:

New and revised Principles	**Effective from**
Amendments to IFRS 4 – *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*	January 1, 2018
IFRS 15 – *Revenue from Contracts with Customers*	January 1, 2018
IFRS 9 – *Financial Instruments (revised)*	January 1, 2018
IFRS 16 – *Leases*	January 1, 2019

The adoption of IFRS 9 will not have material effects on the Company's financial statements. The new impairment method provided for by the standard, which introduces the concept of expected loss in place of the incurred loss concept envisaged by IAS 39, will not in fact result in changes in the amount of receivables recorded in the financial statements by the Company as in the accrual of the provision for doubtful accounts Cembre already applies to non-problematic receivables that are not insured a percentage write-down calculated on the basis of past insolvencies and expected future defaults.

Due to the type of sale contracts currently underwritten by the Company, the application of IFRS 15 will not result in significant changes.

The adoption of IFRS 16 will necessarily entail the introduction of software dedicated to the management of leasing contracts and their accounting under the standard. Cembre S.p.A. is already evaluating offers for software packages available to be introduced in 2018.

The following updates of IFRS (already approved by the IASB), interpretations and amendments are in the process of being incorporated into European Union regulations:

New and revised Principles	Effective from
IFRS 17 – *Insurance Contracts*	January 1, 2021

Changes in Accounting Principles	Effective from
IFRIC 22 – *Foreign Currency Transactions*	January 1, 2018
IFRIC 23 – *Uncertainty over Income Tax Treatments*	January 1, 2019
Amendments to IFRS 2 *Share-based Payment – Classification and Measurement of Share-based Payment Transactions*	January 1, 2018
Annual Improvements to IFRS standard 2014-2016 Cycle	January 1, 2018
Amendments to IAS 40 *Investment Property – Transfers of investment property*	January 1, 2018
Amendments to IFRS 9 – *Prepayment features with negative compensation*	January 1, 2019
Amendments to IAS 28 – Investments in Associates and Joint-Ventures	January 1, 2019

Cembre foresees no significant impact as a result of the adoption of the above changes to and amendments to the accounting standards.

III. ACCOUNTING PRINCIPLES AND VALUATION CRITERIA

Form of the Financial Statements

The financial statements are prepared as follows:

– current and non-current assets and liabilities are reported separately in the Statement of Financial Position;

– the analysis of costs in the Statement of Comprehensive Income is carried out based on the nature of the same;

– the Statement of Cash Flows is prepared by applying the indirect method.

Financial Statements forms are not changed from previous year.

With reference to Consob Regulation no. 15519 dated July 27, 2006, the Financial Statements include a separate reporting of amounts pertaining to related parties, where significant.

Property, plant and equipment

Property, plant and equipment is recorded at the historical cost and reported net of accumulated depreciation and losses in value.

Ordinary maintenance and repair costs are not capitalized, and are charged to the income statement in the year in which they are incurred, with the exception of those that result in an extension of the useful life of the asset.

Depreciation commences when the asset is available for use and is calculated on a straight line basis over the estimated residual useful life of the asset, taking into account its residual value. Depreciation rates applied reflect the useful life generally attributed to the various classes of assets. Main depreciation rates used are:

- Buildings and light installations:	3% – 10%
- Plant and machinery:	10% – 15%
- Industrial and commercial equipment:	15% – 25%
- Other assets:	12% – 25%

Land has an undetermined useful life and is therefore not subject to depreciation.

The book value of property, plant and equipment is subjected to an impairment test whenever events or changes occurred indicate that the book value of the same can no longer be retrieved in line with the depreciation schedule originally set. Whenever there exists such an indication, the assets or cash generating units are written down to reflect their expected realizable value.

The residual value of assets, their useful life and methods applied are reviewed annually and adjusted, where necessary, at the end of each year.

Tangible assets are eliminated from the Balance Sheet at the time of their sale or when there no longer exists the expectation of future economic benefits from their use or disposal. Losses and gains (calculated as the difference between net revenues from the disposal and the book value of the asset) are recorded in the Income Statement in the year in which they are disposed of.

Leased assets

Assets held under a financial lease, through which all risks and benefits relating to ownership are transferred to the Company, are recorded under assets at the lower of their current value and the present value of minimum lease payments due according to the contract, including the bullet payment due at the end of the lease to exercise the repurchase option.

The liability corresponding to the lease contract is recorded under financial liabilities. Leased asset are classified under the respective category among property, plant and equipment, and depreciated over the shorter period between the term of the lease and the expected residual useful life of the asset.

Lease contracts in which the lessor holds all risks and enjoys all benefits deriving from the leased asset are classified as operating leases and recorded as costs in the Income Statement over the term of the contract.

Investment property

Assets that cease to be used in the context of the Company's ordinary operations but possess all the characteristics set forth in IFRS 5 to be included among non-current assets available for sale, are classified among Investment property and continue to be amortized as if they were still included among Property, plant and equipment.

Intangible assets

Intangible assets are recorded under assets, as provided by IAS 38 (Intangible assets), whenever it is probable that future economic benefits are generated through use and when the cost of the intangible asset can be determined in a reliable manner.

Intangible assets acquired separately are initially capitalized at cost, while those acquired through mergers are capitalized at their fair value at the time of acquisition.

With the exception of development costs, assets generated internally are not recorded as intangible assets.

After the initial recording, intangible assets are carried in the balance sheet at cost, net of accumulated amortization calculated on a straight-line basis over their expected useful economic life, and of write-downs carried out as a result of durable losses in value. Intangible assets having an indefinite useful life are not amortized and subjected periodically to an impairment test to assess possible loss in value.

The useful life generally attributed to the various classes of assets is the following:

- concessions and licenses:	5 to 10 years
- software licenses	3 to 5 years
- patents	2 years
- development costs:	5 years
- trademarks:	10 to 20 years

Amortization commences when the asset is available for use, that is, when it is in a position and in the necessary condition to operate in the manner intended by management.

The book value of intangible assets is subjected to an impairment test whenever events or changes occurred indicate that the book value of the same can no longer be retrieved in line with the amortization schedule originally set. Whenever there exists such an indication and the book value of the asset exceeds its realizable value, the value of the asset is written-down to its expected realizable value.

Investments in subsidiaries

Investments in subsidiaries are recorded at cost, adjusted where necessary for losses in value.

Any positive difference that emerges upon acquisition between the purchase cost and the portion of the Shareholders' Equity acquired is therefore included in the book value of the investment.

Investments in subsidiaries are subjected to an impairment test whenever indicators of a loss in value are detected. Whenever it appears that an investment in a subsidiary has experienced a loss in value, the same is recorded in the Income Statement as a write-down.

Whenever losses of a subsidiary exceed the book value of the investment, the value of the same is written-down to zero and losses exceeding such value are recorded in a specific liability provision. In case the loss is subsequently reversed or reduced, the related amount is written-up in the Income Statement to the original cost of the investment.

Financial assets

Financial assets are initially recorded at cost, inclusive of accessory purchase costs, representing the fair value of the price paid. After the initial recording, financial assets are valued in accordance with their final purpose as described below.

Financial assets valued at fair value, whose change is recorded in the Income Statement

These are financial assets held for trading purposes, acquired for the purpose of obtaining a profit from short-term fluctuations in price. Unless specifically designated as effective hedging instruments, derivatives are classified as financial assets held for trading purposes. Gains and losses on financial assets held for trading purposes are recorded in the income statement.

Financial assets held to maturity

Financial assets other than derivatives that generate fixed financial flows or flows that may be determined and have a set maturity are classified as Financial assets held to maturity when the Company intends to and is capable of holding them to maturity.

Financial assets that the Company decides to hold for an indefinite period of time do not fall under this category.

After their initial recording, long-term financial investments held to maturity such as bonds are accounted for at the amortized cost using the effective rate of interest method.

The amortized cost is calculated keeping into account discounts and premiums, amortized over the term of the financial asset.

Loans extended and receivables

Loans and receivables are non-derivative financial assets providing for fixed payments or payments that may be determined, not listed on an active market. Such assets are recorded at the amortized cost using the actual discount rate method. Gains and losses are recorded in the Income Statement whenever loans extended and receivables are eliminated from the accounts or they experience losses in value, in addition to the amortization process.

Financial assets available for sale

Financial assets available for sale include financial assets that do not fall under the above categories. After the initial recording, these are accounted for at fair value, while gains and losses are recorded under a specific Shareholders' Equity reserve until the assets are sold or a loss in value is ascertained. In such case, gains and losses accrued are charged to the income statement.

In the case of securities widely traded on a regulated market, the fair value is determined with reference to the listed price at the closing of trading on the date of the financial statements. In the case of financial assets for which there does not exist an active market, the fair value is determined through valuation techniques based on the price recorded in recent transactions between unrelated parties or on the basis of the current market value of a similar instrument, or on discounted cash flows or option pricing models. Investments in other companies fall in this category.

Loss in value of financial assets

The Company verifies at least yearly the possible loss in value of individual financial assets. These are recorded only at the time when there exists objective evidence, at the occurrence of one or more events, that the asset has experienced a loss of value with respect to its initial recorded value.

Treasury shares

Treasury shares are recorded as a reduction of Shareholders' Equity in a specific reserve.

The purchase, sale, issue or cancellation of own shares held does not determine the recording of any gain or loss in the Income Statement.

Inventories

Inventories are valued at the lower of cost and their expected realizable value, represented by their normal sale price, net of completion and selling costs.

The cost of inventories includes the acquisition cost, the transformation cost and other costs incurred to take inventories to their current location and state.

The cost of inventories is determined under the weighted-average method, inclusive of the cost of beginning inventories. Provisions for slow-moving stock are accrued for finished products, materials and other supplies, keeping into account their expected useful life and retrievable value.

Payables and receivables

Receivables are recorded initially at fair value and subsequently carried at the amortized cost, written-down in case of loss in value. Payables are normally valued at the amortized cost, adjusted under exceptional conditions for changes in value.

Cash and cash equivalents

Cash and cash equivalents are recorded at face value.

Loans

Loans are initially recorded at cost, corresponding to the fair value of the amount received, net of accessory costs. After the initial recording, loans are valued at the amortized cost, using the effective interest method.

Foreign currency translation

Transactions denominated in currencies other than the euro are initially accounted for in euro at the exchange rate at the date of the transaction. Currency translation differences arising at the time at which foreign currency receivables are collected and payables are paid out, are recorded in the income statement.

At the date of the financial statements, monetary assets and liabilities denominated in currencies other than the euro – consisting of cash on hand or assets and liabilities to be received or paid out, whose amount is set and may be determined – are translated into euro at the exchange rate at the date of the financial statements, recording in the income statement the currency translation difference.

Non-monetary items denominated in currencies other than the euro are translated into euro at the exchange rate at the time of the transaction, representing the historical exchange rate.

Provisions for risks and charges

Provisions for risks and charges are accrued against known liabilities, of certain or probable existence, whose amount and expiration cannot however be determined at the date of the financial statements. Accruals are made when the existence of a current obligation, legal or implicit, deriving from a past event, the fulfillment of which is expected to require the use of resources whose amount can be reliably estimated, is probable.

Provisions are valued at the fair value of liabilities. When the financial effect and the timing of the cash outflow can be estimated in a reliable manner, provisions include the interest component, recorded in the Income Statement among financial income (expense). Provisions accrued are reviewed at each accounting date and adjusted to bring them into line with the best estimate available to date.

Employee retirement benefits

Under IAS 19, and before the reform introduced by the 2007 Budget Law, the Employee Severance Indemnity was classified among defined benefit plans and was therefore subject to actuarial adjustments.

Employee termination indemnities accrued up to December 31, 2006, continue to be accounted for as defined benefit plans, while those accrued from January 1, 2007 are accounted for in two different ways:

- where the individual employee has opted for complementary pension funds, employee termination indemnities accrued after January 1, 2007 and until the time at which the choice is made by the employee, are accounted for as a defined benefit plan. Subsequently they are accounted for as a defined contribution plan;

- where the individual employee has opted for accumulation with the treasury fund of the national social security agency (INPS), indemnities accrued after January 1, 2007 are accounted for as a defined contribution plan.

Elimination of financial assets and liabilities

Financial assets are eliminated when the Company ceases to hold rights to receive financial flows deriving from the same or when such rights are transferred to another entity, that is when risks and benefits of the financial instrument cease to have an effect on the financial position and operating performance of the Company.

A financial liability is written-off when the related obligation is cancelled, fulfilled or expired. Any material change in the contractual terms relating to the liability result in its cancellation and in the recording of a new liability. Any difference between the book value and the amount paid to extinguish the liability is recorded in the Income Statement.

Revenues

Revenues are valued at the current value of the amount received or receivable.

Disposal of assets

The revenue is recognized when the Company has transferred the risks and benefits connected with the ownership of the good, and ceases to exercise the activity associated with ownership and the actual control over the asset sold.

Services rendered

Revenues are recorded based on the stage of completion of the operation at the date of the financial statements. When the result of the service rendered cannot be reliably estimated, revenues are recorded only to the extent of retrievable costs.

The stage of completion is determined by valuing work carried out or by determining the proportion between costs incurred and total estimated costs to completion.

Interest

Interest is recorded in the period in which it accrues, using the effective interest method.

Dividends

Dividends are recorded when the right of shareholders to receive them arises.

Grants

Grants are recorded when there exists a reasonable certainty that that the same will actually be received and the company meets the conditions for the entitlement to the grant.

Grants linked to cost components (operating grants) are recorded under “other revenues” and amortized over several years so that revenues match the costs they are intended to compensate.

The fair value of grants linked to assets (e.g. grants on the purchase of plant and equipment or grants for capitalized Development costs), is suspended under long-term liabilities and released to the income statement under “other revenues” over the useful life of the asset to which it relates, thus in the period over which the depreciation expense relating to the asset is charged to the income statement.

Financial charges

Financial charges are recorded as a cost in the period in which they accrue.

In accordance with IAS 23, financial charges incurred in the acquisition of significant assets (qualifying assets) are capitalized.

Cost of goods purchased and services received

The cost of goods purchased and services received is recorded in the income statement based on the accrual method.

Income taxes (current, prepaid and deferred)

Current taxes are determined based on a realistic estimate of the tax expense for the period in accordance with applicable tax regulations. The Company records deferred and prepaid taxes arising from temporary differences between the book value of assets and liabilities and the related amounts reported for tax purposes.

Prepaid taxes are recorded only where there exists reasonable certainty of their retrieval through future profits within the term in which tax benefits are enjoyed. Deferred tax assets are recorded also where there exist deductible losses or tax credits, whenever it is deemed probable that sufficient future profits will be generated in the medium-term (3 to 5 years).

Financial derivatives

Derivative financial instruments are valued at market value (*fair value*). A derivative financial instrument can be acquired for trading or hedging purposes.

Gains and losses on financial instruments acquired for trading purposes are charged to the income statement.

Derivatives acquired for hedging purposes may be accounted for under the hedge accounting method – offsetting the recording of the derivative in the income statement with adjustments to the value of assets and liabilities hedged – only when derivatives meet specific criteria.

Hedge derivatives are classified as “fair value hedges” when they are acquired to hedge against the risk of fluctuations in the market value of the underlying asset or liability or fluctuations in the financial flows deriving from the same, both in the case of existing assets and liabilities or those deriving from a future transaction.

In the case of fair value hedges, gains and losses on the restatement of the market value of a derivative instrument are taken to the income statement.

With regard to the hedging of financial flows, gains and losses on the hedge instrument are recorded under Shareholders’ Equity when they relate to the portion of the hedge considered effective, while the portion not hedged is recorded in the income statement.

Earnings per share

Earnings per share are determined by dividing the net profit by the weighted average number of shares in circulation during the period.

Diluted earnings per share are calculated by dividing the fully diluted net profit (net profit less the cost of converting all dilutive instruments into shares) by the fully diluted weighted average number of shares outstanding that takes into account, in addition to the number of basic shares outstanding, shares deriving from options exercisable for a profit and other dilutive securities.

Use of estimates

In the case of certain items and in accordance with IAS/IFRS, the Company made use of estimates and assumptions based on prior experience and other factors deemed determinant, but not certain. Actual data could therefore differ from estimates and projections made.

Estimated data is reviewed periodically and adjustments made to the same are taken to the Income Statement for the period in which the review takes place in case the review affect only one period, or, subsequent accounting periods in case it affects also the same. Below we describe review processes and key assumptions used by management in applying accounting principles.

Provision for inventory depreciation

The provision for inventory depreciation is accrued to bring the book value of inventories into line with their expected realizable value.

Management reviews the composition of inventories with particular reference to slow moving stock to determine the amount to be accrued prudentially to reflect the obsolescence of stocks.

Provision for doubtful accounts

The provision for doubtful accounts reflects management estimates regarding losses on trade receivables.

Losses on trade receivables expected by the Company are based on past experience on similar portfolios of receivables, current overdues vs. historical overdues, losses and collections, the close monitoring of credit risk and credit worthiness of customers, in addition to projections on economic and market conditions.

Retrievable value of non-current assets

Non-current assets include property, plant and equipment, intangible assets, investments and other financial assets. Whenever circumstances so require, the management reviews periodically the book value of non-current assets held and used by the Company, in addition to assets to be disposed of. Such activity is carried out using estimates of expected cash flows from the sale of the asset and of adequate discount rates used in calculating the present value of the same. Whenever the book value of a non-current asset experiences a loss in value, the Company records a write-down equal to the difference between the book value of the asset and its retrievable value either through use or disposal of the same.

Post-retirement benefits

In the estimation of post-retirement benefits the Company makes use of traditional actuarial techniques based on stochastic simulations of the "Montecarlo" type. Assumptions made relate to the discount rate and the annual inflation rate. Actuarial advisors of the Company make also use of demographic projections based on current mortality rates, employee disablement and resignation rates.

In 2017, based on past turnover experience, the probability of an employee terminating his or her employment for causes other than death is the following:

Male	6.18%
Female	4.46%

Assumptions regarding the discounting and inflation rates were:

Discounting rate	1.30%
Yearly inflation rate	1.50%
Yearly real increase in retributions	1.00%

Expected advances to be paid out are 5% per year and each advance corresponds to 70% of the accrued indemnity.

Retrievability of deferred tax assets

The Company evaluates the possibility to retrieve deferred tax assets on the basis of profits and expected future market conditions in view of current sale contracts and ability of expected future profits to offset tax credits, in addition to the expected variance of the same.

Potential liabilities

In carrying out its activity, management consults with its legal and tax advisors and experts. The Company ascertains a liability arising from litigation whenever it deems probable that a financial outlay will be made in the future and when the amount of resulting losses can be reasonably estimated. In case a financial outlay becomes possible but its amount cannot be determined, such occurrence is reported in the notes.

IV. NOTES TO THE FINANCIAL STATEMENTS OF CEMBRE S.P.A.

1. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plant and machinery	Equipment	Other assets	Work in progress	Total
Historical cost	40,063,549	52,389,369	11,217,953	4,461,983	1,635,575	109,768,429
Accumulated depreciation	(9,528,954)	(33,043,681)	(7,905,938)	(3,238,477)	-	(53,717,050)
Bal. at Dec. 31, 2016	**30,534,595**	**19,345,688**	**3,312,015**	**1,223,506**	**1,635,575**	**56,051,379**
Increases	1,192,827	4,760,338	630,414	370,504	3,869,619	10,823,702
Depreciation	(831,668)	(3,220,957)	(569,230)	(364,189)	-	(4,986,044)
Net divestments	-	(16,096)	(8,761)	(8,309)	(7,235)	(40,401)
Reclassifications	39,849	856,443	281,676	-	(1,177,968)	-
Bal. at Dec. 31, 2017	**30,935,603**	**21,725,416**	**3,646,114**	**1,221,512**	**4,319,991**	**61,848,636**

	Land and buildings	Plant and machinery	Equipment	Other assets	Work in progress	Total
Historical cost	39,233,627	49,421,596	10,362,939	4,300,569	1,075,222	104,393,953
Accumulated depreciation	(8,722,247)	(31,262,103)	(7,468,647)	(2,956,997)	-	(50,409,994)
Bal. at Dec. 31, 2015	**30,511,380**	**18,159,493**	**2,894,292**	**1,343,572**	**1,075,222**	**53,983,959**
Increases	836,055	3,913,854	734,472	261,133	960,780	6,706,294
Depreciation	(812,840)	(2,821,877)	(482,933)	(384,273)	-	(4,501,923)
Net divestments	-	(85,025)	(50,950)	(976)	-	(136,951)
Reclassifications	-	179,243	217,134	4,050	(400,427)	-
Bal. at Dec. 31, 2016	**30,534,595**	**19,345,688**	**3,312,015**	**1,223,506**	**1,635,575**	**56,051,379**

Capital investments made by Cembre in 2017 amounted to €10,824 thousand. Investments in buildings consisted primarily of renovation costs for the ground floor of the building hosting administrative and sales offices which amounted to €806 thousand. Equipment for the same building cost an additional 251 thousand. Expenditure on plant and equipment was strong, as customary, and amounted to €4,509 thousand. Purchases include a transfer machine for €1,133 thousand, a transfer press for €790 thousand and the purchase of three robotized machine interlocking systems for a total of €476 thousand. Investment in dies amounted instead to €649 thousand. Expenditure on equipment and dies under construction amounted to €371 thousand, while advances paid on plant and equipment to be supplied amount to €3,498 thousand; of these €2,286 thousand relate to the construction of a new industrial building that will house the packaging department.

Item “Land and buildings” includes the €5,921 thousand revaluation of land carried out upon the first-time application of international accounting principles (IAS).

A list of property, plant and equipment recorded in the Balance Sheet at December 31, 2017 and revalued in the year is provided below:

(€)	Law 576/75	Law 72/83	Law 413/91	Total
Land and buildings	-	246,245	687,441	933,686
Plant and machinery	227	42,523	-	42,751
Total	**227**	**288,768**	**687,441**	**976,437**

2. INVESTMENT PROPERTY

	Land and buildings	Plant and Machinery	Other assets	Total
Historical cost	1,713,397	277,759	5,322	1,996,478
Accumulated amortization	(562,013)	(251,530)	(3,862)	(817,405)
Balance at Dec. 31, 2016	**1,151,384**	**26,229**	**1,460**	**1,179,073**
Depreciation	(44,400)	(8,502)	(639)	(53,541)
Balance at Dec. 31, 2017	**1,106,984**	**17,727**	**821**	**1,125,532**

Awaiting for a recovery of the real estate market that would improve sale conditions, the item includes industrial buildings located in Calcinate (Bergamo) and the related plant and equipment no longer in use. The fair value of the building at December 31, 2017 is in line with its book value.

3. INTANGIBLE ASSETS

	Development costs	Patents	Software	Other intangible assets	Work in progress	Total
Historical cost	1,585,256	389,661	4,304,030	77,545	30,210	6,386,702
Accumulated amortization	(938,722)	(328,400)	(3,761,218)	(27,261)	-	(5,055,601)
Balance at Dec. 31, 2016	**646,534**	**61,261**	**542,812**	**50,284**	**30,210**	**1,331,101**
Increases	282,260	252,204	470,073	-	90,640	1,095,177
Amortization	(266,420)	(95,435)	(193,775)	(15,509)	-	(571,139)
Reclassifications	-	-	28,350	-	(28,350)	-
Balance at Dec. 31, 2017	**662,374**	**218,030**	**847,460**	**34,775**	**92,500**	**1,855,139**

4. INVESTMENTS IN SUBSIDIARIES

	Dec. 31, 2016	Changes	Write-downs	Dec. 31, 2017
Cembre Ltd.	3,437,433	-	-	3,437,433
Cembre Sarl	1,048,197	153,411	-	1,201,608
Cembre España SLU	2,760,194	355,360	-	3,115,554
Cembre GmbH	1,716,518	270,674	-	1,987,192
Cembre Inc.	888,671	1,979,523	-	2,868,194
Total	**9,851,013**	**2,758,968**	**-**	**12,609,981**

The table below shows financial highlights of subsidiaries, all of which are directly owned.

	Share Capital	Shareholders' Equity	Net Profit	% held
Cembre Ltd (Sutton Coldfield - Birmingham)	1,916,075	12,453,094	3,742,735	100
Cembre Sarl (Morangis – Paris - France)	1,071,000	3,216,989	156,777	100
Cembre España SLU (Torrejón – Madrid - Spain)	2,902,200	7,726,116	739,842	100
Cembre GmbH (Monaco - Germany)	1,812,000	5,921,686	508,197	100
Cembre Inc. (Edison - New Jersey - USA)	1,200,701	6,831,603	862,647	100

Share Capital, Shareholders' Equity and Net Profit figures above relate to the respective Financial Statements at December 31, 2017 approved by the boards of the above subsidiaries. Share Capital and Reserves originally not expressed in euro were translated at the year-end exchange rates, while Net Profit figures were translated into euro at the average exchange rate for the year.

On June 23, 2017, the parent company acquired from its UK subsidiary Cembre Ltd. (of which it holds the entire capital stock) shares held by the latter in other Group companies (i.e. a 29% share in Cembre Inc. (USA), a 5% share in Cembre Sarl (F), a 5% share in Cembre España (E) and a 5% share in Cembre GmbH (D). The reorganization of the ownership structure was aimed at streamlining the governance of the Group which previously involved Cembre Ltd. in most operations.

5. OTHER INVESTMENTS

	Dec. 31, 2017	Dec. 31, 2016	Change
Inn.tec. S.r.l.	5,165	5,165	-
Conai	59	59	-
A.Q.M. S.r.l	5,109	5,109	-
Total	**10,333**	**10,333**	**-**

Other investments consist in the equity investments in Consorzio Nazionale Imballaggi and that in Inn.tec. S.r.l., technology innovation consortium, both with registered office at the Brescia Province head office, in addition to the share held in A.Q.M. S.r.l., a consortium supplying technical services to companies.

6. OTHER NON-CURRENT ASSETS

The item consists exclusively of security deposits.

7. INVENTORIES

	Dec. 31, 2017	Dec. 31, 2016	Change
Raw materials	8,462,052	7,573,715	888,337
Work in progress and semi-finished goods	11,069,546	9,998,361	1,071,185
Finished goods	11,415,162	11,038,160	377,002
Total	**30,946,760**	**28,610,236**	**2,336,524**

The provision for inventory depreciation amounts to €1,065 thousand. The provision was charged directly to the value of finished products to bring their value into line with their expected realizable value. Changes in the provision in 2017 were as follows:

	2017	2016
Balance at January 1	**1,130,000**	**950,000**
Accruals	141,585	180,000
Uses	(206,719)	-
Balance at December 31	**1,064,866**	**1,130,000**

8. TRADE RECEIVABLES

	Dec. 31, 2017	Dec. 31, 2016	Change
Gross trade receivables	17,335,778	16,279,259	1,056,519
Provision for doubtful accounts	(626,273)	(917,237)	290,964
Total	**16,709,505**	**15,362,022**	**1,347,483**

Trade receivables by geographical area

	Dec. 31, 2017	Dec. 31, 2016	Change
Italy	14,485	14,102	383
Europe	1,582	1,331	251
North America	80	41	39
Oceania	136	185	(49)
Middle East	234	206	28
Far East	608	262	346
Africa	211	152	59
Total	**17,336**	**16,279**	**1,057**

The provision for doubtful accounts is reviewed periodically on the basis of the retrievability of the most risky exposures. Whenever bankruptcy procedures are opened, the amount receivable from the related customer is written-off.

Average collection time declined from 75 days in 2016 to 72 in 2017.

Changes in the provision are shown below.

	2017	2016
Balance at January 1	**917,237**	**1,072,772**
Accruals	-	-
Uses	(147,246)	(105,351)
Adjustment	(143,718)	(50,184)
Balance at December 31	**626,273**	**917,237**

Trade receivables by maturity at Dec. 31, 2017

	Not matured	0-90 days	91-180 days	181-365 days	Over one year	Under litigation	Total
2017	16,056	851	72	106	169	82	**17,336**
2016	15,158	619	98	116	213	75	**16,279**

9. TRADE RECEIVABLES FROM SUBSIDIARIES

Subsidiary	Dec. 31, 2017	Dec. 31, 2016	Change
Cembre Ltd. (UK)	449,211	199,683	249,528
Cembre S.a.r.l. (F)	420,058	438,149	(18,091)
Cembre España S.L.U. (S)	132,853	427,905	(295,052)
Cembre GmbH (D)	449,867	796,253	(346,386)
Cembre Inc. (US)	921,038	519,915	401,123
Total	**2,373,027**	**2,381,905**	**(8,878)**

10. TAX RECEIVABLES

	Dec. 31, 2017	Dec. 31, 2016	Change
IRES refund on IRAP	292,727	-	292,727
Tax credits on R&D contributions	3,901,915	-	3,901,915
Reimbursements	336	1,140	(804)
Total	**4,287,481**	**708,932**	**3,578,549**

With the assistance of the Tax and Corporate consultants Deloitte, on December 22, 2017 Cembre signed an agreement with Italian Tax Authorities on methods and criteria to be employed in determining for fiscal years 2015-2019 the contribution to income of intangible assets under the Patent Box tax regime.

The agreement allowed the recording of a €934 thousand tax benefit for fiscal year 2015 while the benefit recorded for 2016 and 2017 amounted respectively to €1,345 thousand and €1,623 thousand.

11. OTHER ASSETS

	Dec. 31, 2017	Dec. 31, 2016	Change
Advances to suppliers	184,207	283,008	(98,801)
Receivable from employees	23,205	24,179	(974)
Indirect taxes receivable	36,944	88,634	(51,690)
Other	195,021	116,144	78,877
Total	**439,377**	**511,965**	**(72,588)**

Item “Other” consists mainly of year-end receivables from suppliers on the achievement of supply targets for the year.

12. SHAREHOLDERS’ EQUITY

The capital stock of the parent company amounts to €8,840 thousand, and is made up of 17 million ordinary shares of par value €0.52 each, fully underwritten and paid-up.

The legal reserve amounts to 20% of the share capital.

At December 31, 2017 the Company held 284,657 treasury shares, corresponding to 1.67% of its capital stock. Against these shares the Company recorded €5,403 thousand in a specific equity reserve under liabilities.

The table that follows shows the origin, possible uses and availability for distribution of equity reserves.

Nature/description	Amount	Uses	Portion available
Share capital	8,840,000		
Equity reserves:			
Share premium reserve	12,244,869	A B C	12,244,869
Suspended revaluation reserve	585,159	A B	---
Other suspended-tax reserves	68,412	B	---
Committed reserves			
Reserve for treasury shares	(5,402,563)		---
Reserves accrued from earnings:			
Legal reserve	1,768,000	B	---
Reserve for first-time application IAS/IFRS	4,051,204	B	---
Discounting of Employee Termination Indemnities	41,705	B	---

Merger difference	4,397,137	A B C	4,397,137
Extraordinary reserve	71,950,375	A B C	71,950,375
Total	**98,544,298**		**88,592,381**
		Portion not available for distribution	662,374
		Portion available for distribution	87,930,007

Legend: A= capital increases; B= coverage of losses; C= distribution to Shareholders.

The portion not available for distribution to Shareholders consists of the unamortized balance of development costs.

13. EMPLOYEE TERMINATION INDEMNITY AND OTHER PERSONNEL PROVISIONS

Changes in the provision are shown below.

	2017	2016
Balance at January 1	**2,353,899**	**2,387,874**
Accruals	879,752	857,612
Uses	(304,615)	(484,706)
Discounting effect	(7,638)	143,401
Social Security (INPS) pension fund	(615,702)	(550,282)
Balance at December 31	**2,305,696**	**2,353,899**

With the reform of employee termination indemnities, starting with January 1, 2007, Cembre S.p.A. is no longer required to accrue retirement benefits in favor of its employees in a provision, but pays out benefits accrued after such date to the INPS treasury account, unless such benefits have been destined to other pension funds by individual employees. The amount accrued with INPS at December 31, 2017 amounts to €6,418 thousand.

Employee termination indemnities accrued at December 31, 2017 were discounted on the basis of an evaluation made by a registered actuary, in accordance with current regulations.

A fluctuation in the discounting rate used could have the following effect on the amount of benefits accrued:

Change in discounting rate	Dec. 31, 2017	Dec. 31, 2016
0.5%	2,212,839	2,254,517
-0.5%	2,414,876	2,468,511

14. PROVISIONS FOR RISKS AND CHARGES

	Customer indemnities	Directors' compensation	Employee incentives	Total
Balance at Dec. 31, 2016	**113,708**	**150,000**	**157,321**	**421,029**
Accruals	18,264	-	158,599	**176,863**
Uses	-	(150,000)	-	**(150,000)**
Balance at Dec. 31, 2017	**131,972**	**-**	**315,920**	**447,892**

In line with the remuneration policy of the Company, variable compensation based on medium-long term objectives was introduced in favor of the Chairman and Chief Executive Officer for years 2014-2017. At the end of 2017, these objectives were met and the resulting €200 thousand bonus was recorded under other payables and will be paid out in 2018.

The provision for employee benefits includes amounts accrued for sales personnel that will be paid out upon the achievement of performance objectives set in the sales development plan launched by the Company. The amount of the accrual is recorded under personnel costs.

15. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets are recorded prevalently against the provision for inventory depreciation described above, and against the discounting of employee termination indemnities, limited to the portion of the accrual that may not be deducted for tax purposes. Deferred tax liabilities are instead recorded prevalently against the revaluation of land carried out upon the first-time application of IFRS, against the valuation of inventories at the average cost (as for tax purposes these are valued at LIFO), in addition to the discounting of employee termination indemnities. Further detail is provided in the note on Income taxes.

No receivable matures beyond five years.

	Dec. 31, 2017	Dec. 31, 2016	Change
Deferred tax assets			
Write-down of inventories	268,456	284,088	(15,632)
Amortization of goodwill	-	2,713	(2,713)
Provision for bad accounts	150,306	216,084	(65,778)
Differences on depreciation	180,812	147,730	33,082

Other	134,018	114,951	19,067
Gross deferred tax assets	**733,592**	**765,566**	**(31,974)**
Deferred tax liabilities			
Average cost valuation of inventories	(241,236)	(240,655)	(581)
Reversal of land depreciation	(24,017)	(24,017)	-
Revaluation of land	(1,651,933)	(1,651,933)	-
Discounting of Employee Termination Indemnities	40,042	41,875	(1,833)
Foreign exchange differences	-	(2,469)	2,469
Gross deferred tax liabilities	**(1,877,144)**	**(1,877,199)**	**55**
Net deferred tax liabilities	**(1,143,552)**	**(1,111,633)**	**(31,919)**

There do not exist other temporary differences or accruals that can generate deferred taxes not accounted for.

16. TRADE PAYABLES TO SUPPLIERS

	Dec. 31, 2017	Dec. 31, 2016	Change
Payable to suppliers	13,622,445	12,295,579	1,326,866
Advances	42,617	25,072	17,545
Total	**13,665,062**	**12,320,651**	**1,344,411**

Trade payables to suppliers are recorded net of trade discounts. Cash discounts are instead recorded at the time of payment. The nominal value of trade payables is adjusted for returns and trade discounts (invoicing adjustments) agreed upon with the counterpart.

Trade payables by geographical area

	Dec. 31, 2017	Dec. 31, 2016	Change
Italy	12,700	11,515	1,185
Europe	894	699	195
North America	4	11	(7)
Other	24	71	(47)
Total	**13,622**	**12,296**	**1,326**

17. TRADE PAYABLES TO SUBSIDIARIES

	Dec. 31, 2017	Dec. 31, 2016	Change
Cembre Ltd (UK)	3,785	-	3,785
Cembre Sarl (F)	40	-	40
Cembre GmbH (Germany)	4,256	-	4,256
Cembre España SLU (Spain)	3,738	145	3,593
Total	**11,819**	**145**	**11,674**

18. OTHER PAYABLES

	Dec. 31, 2017	Dec. 31, 2016	Change
Payables to employees	1,603,217	1,445,775	157,442
Employee withholding taxes payable	1,015,445	991,123	24,322
Commissions payable	302,336	269,555	32,781
Payable to directors	200,000	-	200,000
Payable to Statutory Auditors	18,720	18,720	-
Social security payables	2,090,341	2,037,648	52,693
Payable on other taxes and withholding taxes	18,939	24,425	(5,486)
Other	53,905	49,554	4,351
Accrued liabilities	(63,191)	(181,292)	118,101
Total	**5,239,712**	**4,655,508**	**584,204**

Item Payable to directors consists of the bonus payable to the Managing Director as a result of the achievement of objectives set for years 2014-2017.

19. REVENUES FROM SALES AND SERVICES PROVIDED

Revenues by geographical area

	2017	2016	Change
Italy	55,576,647	49,029,174	6,547,473
Rest of Europe	31,641,021	29,955,774	1,685,247
Rest of the world	16,258,632	15,664,590	594,042
Total	**103,476,300**	**94,649,538**	**8,826,762**

Changes are commented upon in the Management Report.

20. OTHER REVENUES

	2017	2016	Change
Extraordinary gains	31,289	27,556	3,733
Insurance damages	14,031	6,683	7,348
Other reimbursements	115,577	114,115	1,462
Reimbursement of intragroup transport costs	102,367	50,404	51,963
Intercompany services and royalties	495,230	426,740	68,490
Other	298,279	88,499	209,780
Grants	2,400	71,695	(69,295)
Total	**1,059,173**	**785,692**	**273,481**

Intercompany services include prevalently information technology services, provided by the parent company’s personnel to subsidiaries. The item includes also royalties for the use of the Cembre trademark.

Grants relate almost entirely to subsidies recognized by INPS (Social Security) on the hiring of young employees.

21. COST OF RAW MATERIALS AND GOODS

	2017	2016	Change
Raw materials and goods	36,943,075	31,811,944	5,131,131
Consumables and auxiliary materials	2,966,499	2,963,595	2,904
Transport and customs	367,486	304,468	63,018
Total	**40,277,060**	**35,080,007**	**5,197,053**

22. COST OF SERVICES

	2017	2016	Change
Subcontracted work	3,193,244	2,598,375	594,869
Transport	1,233,135	947,773	285,362
Maintenance and repair	1,421,501	1,259,378	162,123
Electricity, heating and water	1,300,197	1,221,544	78,653
Consulting	1,276,947	892,771	384,176
Directors' compensation	632,498	627,714	4,784
Statutory Auditors' compensation	87,360	87,360	0
Commissions	613,075	437,658	175,417
Postage and telephone	201,761	171,205	30,556
Fuel	232,564	208,066	24,498
Travelling expenses	520,868	472,691	48,177
Insurance	379,376	354,091	25,285
Bank expenses	73,846	66,570	7,276
Personnel training	80,655	59,184	21,471
Advertising and promotion	206,180	144,755	61,425
Security and cleaning	469,161	432,040	37,121
Other	844,203	742,333	101,870
Total	**12,766,571**	**10,723,508**	**2,043,063**

23. LEASES AND RENTALS

	2017	2016	Change
Rent and related costs	547,696	557,329	(9,633)
Vehicle leasing	435,489	398,184	37,305
Total	**983,185**	**955,513**	**27,672**

Lease and rental costs are made up by rent paid on buildings leased from others and related parties, as described in the Report on Operations, and by motor vehicle lease costs. Further information on to leases stipulated with related parties is reported in note 34 below.

24. PERSONNEL COSTS

The item includes the cost of employees, inclusive of paid holidays and accruals made pursuant to current regulations and collective labor contracts. Employee termination indemnities include the accrual at December 31, 2017 inclusive of the revaluation of the provision, the amount accrued by employees terminating employment in the year, and the share borne by employees of contributions to the COMETA integrative pension fund.

	2017	2016	Change
Wages and salaries	18,930,802	17,866,565	1,064,237
Social security contributions	5,269,400	5,169,580	99,820
Employee termination indemnities	1,189,558	1,161,248	28,310
Retirement benefits	55,172	44,342	10,830
Other costs	477,648	400,503	77,145
Total	**25,922,580**	**24,642,238**	**1,280,342**

Average number of employees by category

	2017	2016	Change
Managers	6	6	-
Administrative and commercial staff	200	191	9
Workers	229	230	(1)
Outsourced personnel	38	26	12
Total	**473**	**453**	**20**

In 2017 Cembre S.p.A. employed an average of 38 persons outsourced from others for a total cost of €1,384 thousand. The amount was classified under wages and salaries.

25. OTHER OPERATING COSTS

	2017	2016	Change
Sundry taxes	454,207	408,321	45,886
Membership fees	55,402	54,323	1,079
Donations	35,000	30,067	4,933
Losses on receivables	17,205	-	17,205
Capital losses	14,123	25,444	(11,321)
Other	278,868	232,408	46,460
Total	**854,805**	**750,563**	**104,242**

Item Other consists of accessory expenses incurred for sales offices and production departments.

26. ACCRUALS TO PROVISIONS FOR RISKS AND CHARGES

	2017	2016	Change
Customer indemnities	18.264	14.000	4.264

The customer indemnities provision amounts to €18 thousand and was accrued against possible charges in the case of the termination of agency mandates.

27. FINANCIAL INCOME (EXPENSE)

	2017	2016	Change
Dividends from subsidiaries	5,315,078	2,349,480	2,965,598
Capital gains from subsidiaries	-	59,414	(59,414)
Interest earned on bank account balances	13,011	13,735	(724)
Other financial income	65,521	135	65,386
Total financial income	**5,393,610**	**2,422,764**	**2,970,846**
Financial charges on discounting of Employee Termination Indemnities	-	(43,487)	(43,487)
Other financial charges	(30,885)	(48,496)	17,611
Other charges	(292)	(55)	(237)
Total financial charges	**(31,177)**	**(92,038)**	**(26,113)**
Financial income (expense)	**5,362,433**	**2,330,726**	**3,031,707**

In 2017, Cembre S.p.A. received dividends from the following:

- French subsidiary Cembre Sarl (€93 thousand);
- UK subsidiary Cembre Ltd (£4,256 thousand, equivalent to €4,836 thousand).
- German subsidiary Cembre GmbH ($289 thousand, equivalent to €271 thousand);
- Spanish subsidiary Cembre España SLU (€115 thousand);

The French, US and Spanish subsidiaries also paid respectively €5 thousand, $119 thousand (equivalent to €110 thousand) and €6 thousand in dividends to Cembre Ltd.

28. FOREIGN-EXCHANGE GAINS (LOSSES)

	2017	2016	Change
Realized foreign exchange gains	323,895	191,729	132,166
Realized foreign exchange losses	(310,427)	(120,330)	(190,097)
Gains on foreign exchange translation	-	8,745	(8,745)
Losses on foreign exchange translation	(24,582)	(10,785)	(13,797)
Total	**(11,114)**	**69,359**	**(80,473)**

29. INCOME TAXES

	2017	2016	Change
Current corporate (IRES) taxes	(5,011,814)	(5,082,789)	70,975
Current taxes on productive activity (IRAP)	(1,000,867)	(889,905)	(110,962)
Deferred and prepaid tax assets	(22,674)	108,803	(131,477)
Benefit from Patent Box tax regime	1,622,729	-	1,622,729
Net extraordinary gains	(21,972)	6,520	(28,492)
	(4,434,598)	**(5,857,371)**	**1,422,773**

Item Benefit from Patent Box regime is made up as follows:

Patent Box	
Tax benefit for 2015	933,971
Tax benefit for 2016	1,345,215
	2,279,186

The application of the Patent Box regime for 2017 generated a €1,623 tax gain recorded as a reduction in the tax expense for 2017.

The accrual to the tax provision is made in accordance with expected taxable income, taking into account adjustments made to income reported in the statutory accounts.

The table that follows shows a reconciliation between the theoretical tax expense, calculated at the nominal tax rate, and the actual tax expense.

	IRES
Profit before taxes	26,599,757
Theoretical tax expense (24.0%)	**6,383,942**
Effect of permanent differences	(1,329,379)
Effect of temporary differences	(27,880)
Sundry deductions	(14,869)
Actual tax expense recorded	**5,011,814**

	IRAP
Gross taxable income for IRAP	47,270,400
Theoretical tax expense (3.9%)	**1,843,546**
Effect of permanent differences	20,000
Effect of temporary differences	(6,584)
Deductions for personnel	(856,095)
Actual tax expense recorded	**1,000,867**

Deferred tax assets and liabilities are made up as follows:

	2017	2016	Change
Average cost valuation of inventories	(581)	56,565	(57,146)
Accelerated depreciation	-	2,504	(2,504)
Discounting of employee termination indemnity	7,413	11,639	(4,226)
Foreign exchange translation differences	2,469	921	1,548
Amortization of goodwill	(2,713)	(4,983)	2,270
Write down of inventories	(15,632)	43,200	(58,832)
Differences on depreciation	33,082	15,884	17,198
Provision for risks	-	(53,027)	53,027
Other	(46,712)	36,100	(82,812)
Total deferred tax assets and liabilities	**(22,674)**	**108,803**	**(131,477)**

30. COMPREHENSIVE INCOME

As a result of the adoption of amendments to IAS 19, differences arising from the discounting of Employee Termination Indemnities were recorded directly under equity in a specific reserve. These amounts constitute components of Comprehensive Income and are recorded separately from the related tax effect. The net effect for 2017 is positive and amounts to €29 thousand.

31. DIVIDENDS

On May 10, 2017 the Company distributed (with ex-dividend date May 8) a dividend on net profit for the year ended December 31, 2016, amounting to €11,838 thousand, equivalent to €0.70 for each share entitled to dividends.

	2017	2016
Resolved and paid in the year: Balance due for 2016 dividend: €0.70 (2015: €0.46)	11,837,634	7,820,000
Proposal submitted to the Shareholders' Meeting (not recorded as liability at December 31) Balance due for 2017 dividend: €0.80 (2016: €0.70)	13,372,274	11,837,634

Proposed dividends submitted for approval to the Shareholders' Meeting amount to €0.80 per share, for a total of €13,372 thousand. This amount was not recorded as a liability.

32. COMMITMENTS AND RISKS

At December 31, 2017, guarantees granted by Cembre S.p.A. to third parties amounted to €696,081, as compared with €683,586 at December 31, 2016.

Commitments with third parties include guarantees granted to the Brescia Municipality amounting to €352 thousand against the construction of development infrastructure in connection with the building of new parking spaces and entrance at the Brescia main complex.

The residual part consists of €291 thousand of guarantees for supplies granted to electrical and railway companies, both Italian and foreign, and €53 thousand of guarantees given to Brescia Customs Authorities.

33. NET FINANCIAL POSITION

At December 31, 2017, the net financial position of Cembre S.p.A. amounted to a surplus of €13,589 thousand, declining on December 31, 2016. At year end, the Company did not have outstanding loans containing covenants or negative pledges.

The table that follows provides a detail of the net financial position as provided by CONSOB Regulation DEM/6064313 dated July 28, 2006.

		Dec. 31, 2017	Dec. 31, 2016
A	Cash	9,920	5,760
B	Bank deposits	13,578,682	20,121,631
C	**Cash and equivalents (A+B)**	**13,588,602**	**20,127,391**
D	Current bank debt	-	-
E	Payables on financial instruments	-	(43,487)
F	**Current financial debt (D+E)**	**-**	**(43,487)**
G	**Net current financial position (C+F)**	**13,588,602**	**20,083,904**
H	**Non-current financial debt**	**-**	**-**
I	**Net financial position (G+H)**	**13,588,602**	**20,083,904**

34. RELATED PARTIES

The table that follows shows transactions between Cembre S.p.A. and its subsidiaries in 2017, limited to sales and purchases. Debit and credit balances are shown in the related paragraphs of the present notes.

Subsidiary	Sales	Purchases
Cembre Ltd.	7,863,358	308,249
Cembre S.a.r.l.	4,859,309	5,255
Cembre España S.L.U.	4,762,561	4,386
Cembre Inc.	6,838,843	25,906
Cembre GmbH	4,897,783	89,395
TOTAL	**29,221,854**	**433,191**

Revenues include, in addition to the sale of products, revenues from the charging of costs for services provided in the field of Information Technology and royalties for the use of the *Cembre* trademark, totaling €495 thousand, in addition to €102 thousand of transport costs.

With reference to assets and liabilities relating to subsidiaries shown above and of other related parties, we confirm that transactions with the same and with related parties fall within the scope of normal operating activities.

Below we show shares held in subsidiaries at December 31, 2017.

Company	Head Office	Share capital	% held				% voting rights
			directly	indirectly	through	total	
Cembre Ltd	Sutton Coldfield (Birmingham-UK)	£ 1,700,000	100%	–	–	100%	100%
Cembre Sarl	Morangis (Paris - France)	Euro 1,071,000	100%	–	–	100%	100%
Cembre España SLU	Torrejón de Ardoz (Madrid - Spain)	Euro 2,902,200	100%	–	–	100%	100%
Cembre GmbH	Munich (Germany)	Euro 1,812,000	100%	–	–	100%	100%
Cembre Inc.	Edison (NJ- USA)	US$ 1,440,000	100%	–	–	100%	100%

All shares shown in the table above are held in full ownership.

On June 23, 2017, the parent company acquired from its UK subsidiary Cembre Ltd. (of which it holds the entire capital stock) shares held by the latter in other Group companies (i.e. a 29% share in Cembre Inc. (USA), a 5% share in Cembre Sarl (F), a 5% share in Cembre España (E) and a 5% share in Cembre GmbH (D). The reorganization of the ownership structure was aimed at streamlining the governance of the Group which previously involved Cembre Ltd. in most operations.

Among assets leased to Cembre by third parties are an industrial building adjacent to the Company’s registered office measuring a total of 5,960 square meters on three floors, in addition to the Monza, Padua and Bologna sales offices, all of which are owned by company Tha Immobiliare S.p.A., with registered office in Brescia, controlled by Anna Maria Onofri, Giovanni Rosani and Sara Rosani, directors of Cembre S.p.A. Lease payments for 2017 amounted to €528 thousand. Rent is in line with market conditions. It is in the Company’s interest to benefit from the continuity of office space reducing the risk of early termination of leases. At the end of 2017, all amounts due to Tha Immobiliare had been settled. These contracts provide for a tacit renewal clause at maturity.

	2017	2016	Change
Rent paid by Cembre SpA to Tha Immobiliare	527,925	528,342	(417)

Cembre S.p.A. does not have direct relationships with its parent company Lysne S.p.A. of any other nature than that of the exercise of shareholders’ rights on the part of the parent. Lysne S.p.A. does not carry out any management or coordination activity with respect to Cembre S.p.A.

35. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Due to its minimal exposure, Cembre S.p.A. makes very limited use of derivative instruments to hedge against interest risk and currency exposure.

Risks connected with the market

The Company faces these risks with ongoing innovation, the widening of the product range, high automation and the upgrade of its production process, implementing focused marketing policies also with the help of its foreign subsidiaries.

Interest rate risk

Cembre S.p.A. has negligible exposure to this type of risk and at December 31, 2017 it had no loans outstanding.

Currency risk

Despite a strong international presence, Cembre S.p.A. does not have a significant exposure to currency risk (on an operating or equity basis), as it operates mainly in the euro area, the currency in which its trade transactions are mainly denominated.

At December 31, 2017, the following foreign exchange positions were held:

	2017		2016	
	Original currency	**€ equivalent**	**Original currency**	**€ equivalent**
Receivables	1,104,601 US$	921,038 €	716,586 US$	679,808 €
Payables*	(68,579) US$	(57,182) €	53,290 US$	50,555 €
Payables	1,061 GBP	1,196 €	- GBP	- €
Payables	243,940 JPY	1,807 €	- JPY	- €
Current account	71,686 US$	59,774 €	742 US$	704 €

* in 2017 the item includes prevalently advances to suppliers

Amounts were translated into euro at the exchange rate applicable at December 31, 2017. The translation generated a positive €14 thousand difference with respect to the value originally booked, difference which was recorded in the income statement. In the table that follows we report the economic effect of possible fluctuations in exchange rates of the said amounts.

	Exchange rate change	Receivables *(€'000)*	Payables *(€'000)*	Bank account
2017	5%	(44)	(3)	(3)
	-5%	48	5	3
2016	5%	(32)	2	-
	-5%	36	(5)	-

As illustrated above, the size of these transactions and the resulting balances are not significant in influencing the overall performance of the Company.

Liquidity risk

The exposure of the Company to liquidity risk is not material as its financial position is balanced. The collection and payment cycle is also in balance, as shown by the ratio of current assets to current liabilities which is considerably above 2.

The breakdown of trade receivables by expiration at December 31, 2017 is shown in the table below:

(€'000)		0-30 days	31-60 days	61-90 days	91-120 days	over 120 days	TOTAL
2017	Expired	2,852	296	60	44	124	3,376
	Not expired	1,275	7,591	1,293	87	-	10,246
2016	Expired	3,493	291	66	149	80	4,079
	Not expired	1,418	5,938	749	112	-	8,217

Credit risk

Exposure to credit risk relates exclusively to trade receivables.

As shown in note 8, none of the areas in which Cembre S.p.A. operates poses relevant credit risks.

Operating procedures limit the sale of products or services to customers who do not possess an adequate credit profile or provide guarantees.

Receivables matured over 12 months and those under litigation are widely covered by the provision for doubtful accounts accrued. The parent Company stipulated since 2016 a trade insurance policy that has further reduced this type of debt.

36. SUBSEQUENT EVENTS

No event having significant effects on the Company's financial position or operating performance occurred after December 31, 2017.

Attachments

The present document contains the following attachments:

Attachment 1: Comparative Income Statement.

Attachment 2: Summary of last approved financial statements of consolidated subsidiaries.

Attachment 3: Independent Auditors' compensation.

Brescia, March 13, 2018

THE CHAIRMAN AND MANAGING DIRECTOR
OF CEMBRE S.P.A.

Giovanni Rosani

Attachment 1 – Notes to the Financial Statements of Cembre S.p.A.

Comparative Income Statement

	2017	%	2016	%	change
Revenues from sales and services provided	103.476.300	100,0%	94.649.538	100,0%	9,3%
Other revenues	1.059.173		785.692		34,8%
Total Revenues	**104.535.473**		**95.435.230**		9,5%
Cost of goods and marchandise	(40.277.060)	-38,9%	(35.080.007)	-37,1%	14,8%
Change in inventories	2.336.523	2,3%	86.296	0,1%	2607,6%
Cost of services received	(12.766.571)	-12,3%	(10.723.508)	-11,3%	19,1%
Lease and rental costs	(983.185)	-1,0%	(955.513)	-1,0%	2,9%
Personnel costs	(25.922.580)	-25,1%	(24.642.238)	-26,0%	5,2%
Other operating costs	(854.805)	-0,8%	(750.563)	-0,8%	13,9%
Increase in assets due to internal construction	809.631	0,8%	1.106.158	1,2%	-26,8%
Accruals to provisions for risks and charges	(18.264)	0,0%	(14.000)	0,0%	30,5%
Gross Operating Profit	**26.859.162**	26,0%	**24.461.855**	25,8%	9,8%
Tangible assets depreciation	(5.039.585)	-4,9%	(4.555.464)	-4,8%	10,6%
Intangible assets amortization	(571.139)	-0,6%	(517.237)	-0,5%	10,4%
Operating Profit	**21.248.438**	20,5%	**19.389.154**	20,5%	9,6%
Financial income	5.393.610	5,2%	2.422.764	2,6%	122,6%
Financial expenses	(31.177)	0,0%	(92.038)	-0,1%	-66,1%
Foreign exchange gains (losses)	(11.114)	0,0%	69.359	0,1%	-116,0%
Profit Before Taxes	**26.599.757**	25,7%	**21.789.239**	23,0%	22,1%
Benefit from the application of Patent Box Regime to previous years	2.279.186	2,2%	-	0,0%	
Income taxes	(4.434.598)	-4,3%	(5.857.371)	-6,2%	-24,3%
Net Profit	**24.444.345**	23,6%	**15.931.868**	16,8%	53,4%

Attachment 2 – Notes to the Financial Statements of Cembre S.p.A.

Summary financial data of consolidated subsidiaries
(ex article 2429 of the Italian Civil Code)

(amounts in euro)	Non-current assets	Current assets	Total assets	Shareholders' Equity	Total Liabilities	Total Liabilities and Shareholders' Equity
Cembre Ltd.	4.088.209	10.346.721	14.434.930	12.453.094	1.981.835	14.434.930
Cembre Sarl	454.803	4.443.549	4.898.352	3.126.989	1.771.363	4.898.352
Cembre España SLU	2.796.832	5.813.857	8.610.689	7.726.116	884.573	8.610.689
Cembre GmbH	2.773.879	3.932.259	6.706.138	5.921.686	784.452	6.706.138
Cembre Inc.	294.329	7.598.074	7.892.403	6.831.603	1.060.801	7.892.403

(amounts in euro)	Total revenues	Gross operating profit	Operating profit	Profit before taxes	Income taxes	Net profit (loss)
Cembre Ltd.	18.994.725	2.273.670	1.846.803	4.092.933	(350.198)	3.742.735
Cembre Sarl	9.545.579	350.446	275.701	275.641	(118.864)	156.777
Cembre España SLU	10.068.975	1.100.469	986.475	988.679	(248.837)	739.842
Cembre GmbH	8.408.066	830.708	756.900	757.140	(248.943)	508.197
Cembre Inc.	13.080.854	1.574.806	1.475.596	1.474.762	(612.115)	862.647

Figures above relate to the respective Financial Statements at December 31, 2017

The translation of amounts expressed in currencies other than the euro was carried out as described in the notes to the Financial Statements at December 31, 2017.

Attachment 3

Notes to the Financial Statements of Cembre S.p.A.

for the year ended December 31, 2017

COMPENSATION FOR AUDITING SERVICES AND SERVICES OTHER THAN AUDITING

pursuant to article 149-*duodecies* of Listed Companies Code (CONSOB)

Service	Independent auditors	Service received by	Compensation *(€'000)*
Auditing	PricewaterhouseCoopers	Cembre S.p.A.	68
Auditing	PricewaterhouseCoopers	Subsidiaries (excluding Cembre Inc.)	72
Limited Auditing of Consolidated Non-financial Declaration	PricewaterhouseCoopers	Cembre S.p.A.	17
Compliance Assessment for EU Directive 95/2014	PricewaterhouseCoopers Advisory	Cembre S.p.A.	33
Auditing	WeiserMazars	Cembre Inc.	29
Tax Advisory	WeiserMazars	Cembre Inc.	18

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Attestation in respect of the statutory financial statements

pursuant to art 154-bis Paragraph 5, of Legislative Decree 58 dated Feb. 24, 1998 "Consolidated Law on financial intermediation regulations" and subsequent integrations and updatings

The undersigned Giovanni Rosani and Claudio Bornati, in their position as Managing Director and Manager responsible for the preparation of financial reports of Cembre S.p.A., respectively, pursuant to Article 154-bis, paragraphs 3 and 4 of Legislative Decree No.58/1998, certify that internal controls over financial reporting in place for the preparation of 2017 statutory financial statements and during the period covered by the report, were:

• adequate to the company structure, and

• effectively applied during the process.

The undersigned officers certify that this 2017 statutory financial statements:

a) corresponds to the company's evidence and accounting books and entries, and

b) was prepared in accordance with International Financial Reporting Standards, as endorsed by the European Union through Regulation (EC) 1606/2002 of the European Parliament and Counsel, dated 19 July 2002;

c) provide a fair and correct representation of the financial conditions, results of operations and cash flows of the Company.

The undersigned officers attest, also, that the report on operations includes a reliable operating and financial review of the Company as well as a description of the main risks and uncertainties to which it is exposed.

Brescia, March 27, 2018

Chairman and
Managing Director

signed by:
Giovanni Rosani

Manager responsible for the
preparation of financial reports

signed by:
Claudio Bornati

Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the shareholders of CEMBRE SpA

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of CEMBRE SpA (the Company), which comprise the statement of financial position as of 31 december 2017, the statement of comprehensive income, statement of changes in equity, statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 december 2017, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05.

Basis for Opinion

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

Key Audit Matters

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

Key Audit Matters	*Auditing procedures performed in response to key audit matters*
Revenue recognition	
Notes to the financial statements: • *Section "III. Accounting policies - Revenues"* • *Nota 19 – Revenues from sales and services* The company recognised revenues for a total of Euro 103,476 thousand for FY 2017, whereof Euro 18,678 thousand from foreign debtors and Euro 29,222 thousand from group entities. As part of our audit procedures on the financial statements, the accuracy of recognition of revenues was considered a key matter on which to focus our attention. This is related to the fact that revenues are one of the major components of the income statement and therefore their incorrect recognition would lead to a material distortion of the net profit for the year. Specifically, in consideration of the fact that part of sales are made to foreign counterparties the terms of delivery to which are not uniform, special attention was paid to the cut-off of revenues recognised on sales made in the last period of the year to foreign counterparties.	As part of our audit activities focused on the revenues area we performed procedures designed to assess the reliability of the system of internal control over the revenue cycle and specific auditing procedures designed to verify the accuracy of recognition of revenues. Therefore, we understood and evaluated the procedure for the sales cycle including in our analysis the adequacy of the information system in place. We then tested the actual operating effectiveness of relevant controls over the revenue recognition process, including those relating to operating effectiveness, of IT systems and applications used. Moreover, we performed comparative analyses and tests of detail, on a sample basis, including requests to a sample of debtors for confirmation of transactions and/or balances, in order to verify the accuracy of recognition of revenues and any bonuses. With reference to the specific risk of error in accounting for revenues in accordance with the accrual basis of accounting, in addition to the above we verified the accuracy of cut-off by testing transactions on dates close to the balance sheet date, paying special attention to transactions with foreign counterparties. Moreover, we verified reconciliations of balance sheet and income statement values at the reporting date between entities of the Group.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the Company's ability to continue as a going concern and, in preparing the financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the financial statements, management uses the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing, in the terms prescribed by law, the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised our professional judgement and maintained professional scepticism throughout the audit. Furthermore:

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

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

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Additional Disclosures required by Article 10 of Regulation (EU) No 537/2014

On 28 April 2009, the shareholders of CEMBRE SpA in general meeting engaged us to perform the statutory audit of the Company's and consolidated financial statements for the years ending 31 december 2009 to 31 december 2017.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98

Management of CEMBRE SpA is responsible for preparing a report on operations and a report on the corporate governance and ownership structure of CEMBRE SpA as of 31 december 2017, including their consistency with the relevant financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the financial statements of CEMBRE SpA as of 31 december 2017 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the financial statements of CEMBRE SpA as of 31 december 2017 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Brescia, 28 march 2018

PricewaterhouseCoopers SpA

Signed by

Alessandro Vincenzi
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

<u>REPORT OF THE BOARD OF STATUTORY AUDITORS ON THE FINANCIAL STATEMENTS OF CEMBRE S.p.A.</u>

Pursuant to Article 153 of Legislative Decree 58/98 of TUF (*Testo Unico della Finanza,* Consolidated Finance Act) and of article 2429, comma 2 of the Italian Civil Code.

To our Shareholders:

pursuant to article 2429, comma 2 of the Italian Civil Code and article 153 of legislative decree no. 58/98, the Board of Statutory Auditors reports to the Shareholders' Meeting called to approve the 2015 Financial Statements on the monitoring activity carried out and on omissions and censurable facts observed, in addition to expressing a recommendation on the Financial Statements, their approval and other pertinent issues.

The Board of Statutory Auditors currently in office was appointed by the Shareholders' Meeting of April 23, 2015 pursuant to laws, regulations and by-laws relating also to balance in gender representation. The Board of Statutory Auditors' term will end with the Shareholders' Meeting called to approve the Financial Statements at December 31, 2017.

Members of the Board of Statutory Auditors complied with the limit to the number of appointments that may be held by members set by article 144-*terdecies* of the Code of Conduct of Listed Companies.

The independent auditing firm appointed as per Legislative Decree no 58/98 and Legislative Decree no 39/2010 by the Shareholders' Meeting of April 28, 2009 for financial years 2009-2017 is PricewaterhouseCoopers S.p.a. The Independent Auditors will terminate their mandate with the Shareholders' Meeting approving the financial statements for the year ended December 31, 2017.

In compliance with responsibilities assigned by article 149 of Legislative Decree no. 58/98, the Board of Statutory Auditors during year 2017:

- attended Shareholders' and Board of Directors' Meetings, obtaining from Directors adequate information on the operations of the Company and their foreseeable development, in addition to main operations, in terms of dimensions and importance, carried out by the Company and its subsidiaries;
- acquired knowledge necessary to verify compliance with the Law, the By-laws, correct management principles and the adequacy of the Company's organizational structure;
- attended, at least through its Chairman, Control and Risk Committee, Remuneration Committee and Monitoring Board's meetings;

- monitored the functioning and effectiveness of internal control systems, in addition to the adequacy of the administrative and accounting system, with particular attention to the ability of the latter to portray the operations of the Company;
- carried out the periodical exchange of information with the Company's independent auditors regarding activities carried out pursuant to article 150 of Legislative Decree 58/98, examining work carried out and receiving reports as provided by article 14 of Legislative Decree 39/2010, and of Art. 11 of EU Regulation 537/2014;
- examined the contents of the Additional Report pursuant to ex art. 11 of EU Regulation 537/2014 which was transmitted to the Board of Directors, according to art. 19 comma 1 letter a) of Legislative Decree 39/10, from the examination of which no aspects emerged that should be highlighted in this report;
- monitored the functioning of the control system on subsidiaries and the adequacy of instructions imparted to subsidiaries pursuant to article 114, paragraph 2, of Legislative Decree no. 58/98;
- acknowledged the issue of the Report on Remuneration as per ex article 123-ter of Legislative Decree 58/98 and ex article 84-*quarter* of the Consob Regulation 11971/99, without having relevant issues to report;
- monitored the implementation of corporate governance rules adopted by the Company in compliance with the Code of Conduct of Listed Companies promoted by Borsa Italiana S.p.A.;
- monitored the compliance of the internal procedure on dealings with Related Parties with the Regulation approved by CONSOB with Resolution no. 17221 of March 12, 2010 and subsequent amendments, in addition to the compliance – pursuant to article 4, paragraph 6 – of the same Regulation, keeping into account indications and guidelines provided in Communication no. DEM/10078683 of September 24, 2010;
- monitored on the financial reporting process, verifying the compliance on the part of Directors of norms inherent to the preparation, approval and publication of the accounts of Cembre S.p.A. and the consolidated accounts;
- verified that the Report of the Board of Directors on Operations for the 2017 financial year complied with applicable legislation and was consistent with resolutions adopted by the Board of Directors and events represented in the accounts of Cembre S.p.A. and the consolidated accounts;

- acknowledged the content of the Consolidated Half-year Report, without having exceptions to report, in addition to verifying that the same was published in compliance with currently applicable regulations;
- verified that the Report on Operations for the 2017 financial year was in compliance with regulations in force and conformed with the facts represented in the statutory and consolidated financial statements;
- acknowledged that the Company continued to issue on a voluntary basis Interim Reports on the 1st and 3rd Quarters within the deadlines set by the previous regulations;
- monitored compliance with the requirements established by Legislative Decree No. 254/2016 examining, inter alia, the Consolidated Non-Financial Statement, also ascertaining compliance with the guidelines for its preparation pursuant to said decree.

Since the coming into force of changes introduced to article 19 of Legislative Decree no. 39/2010 by Legislative Decree no. 135/2016 (effective from the 2017 financial year), the Board of Statutory Auditors, in its capacity as Committee for Internal Control and Audit, has also specific tasks regarding information, monitoring, control and verification as described in the new regulation, fulfilling its duties and carrying out the tasks assigned to it by said regulation.

Based on the information and data acquired during the monitoring activity carried out by the Board of Statutory Auditors as described above, no fact from which to infer the lack of compliance with the law or the Company's By-laws or such as to justify its reporting to the Monitoring Board or worth mentioning in the present Report emerged.

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With reference to the activities carried out during the year – also in compliance with the guidelines provided by CONSOB with Communication DEM / 1025564 of 6 April 2001 and subsequent amendments and additions ("Communication on the contents Report of the Board of Statutory Auditors to the Shareholders' Meeting as per Article 2429, paragraph 3, of the Italian Civil Code and 153, paragraph 1, of Legislative Decree 58/98 - Summary sheet of monitoring activities carried out by the Board of Statutory Auditors ") – we report the following.

1. With regard to the financial year that is the object of the present Report, there do not emerge transactions carried out by the Company or its subsidiaries that may be considered significant or having a relevant economic or financial impact.

All activities carried out by the Company were reported in detail in the Report on Operations.

In each case the Board of Statutory Auditors monitored and verified – based on information in its possession – that operations carried out were in compliance with the law, the Company's By-laws and correct management principles, were not manifestly imprudent, constituted a potential conflict of interest, were not in contrast with Shareholders' resolutions taken or were such as to compromise the integrity of the company's assets.

2. The Board of Statutory Auditors did not encounter any atypical or unusual transaction as defined in CONSOB's Communication DEM/6064293 dated July 28, 2006.

We acknowledge that information provided in the Report on Operations regarding events and significant operations that are not repeated frequently or atypical or unusual transactions, including those within Group companies or with related parties, is adequate.

3. Characteristics of transactions with subsidiaries, parent companies and related parties carried out by the Company and its subsidiaries in 2017, entities involved and the related economic effects, are reported in the *Related Parties* section in the Report on Operations, to which we refer.

Operations with Related Parties, defined in accordance with international accounting principles and guidelines issued by CONSOB, are regulated by an internal procedure (the "Procedure"), adopted by the Board of Directors of the Company on November 11, 2010 – in compliance with article 2391*bis* of the Civil Code and the Regulation issued by CONSOB – as last modified on March 11, 2016. The Board of Statutory Auditors examined the Procedure verifying its conformity with regulations issued by CONSOB on related parties dealings.

4. We acknowledge that Independent Auditors PricewaterhouseCoopers S.p.A. issued on March 28, 2018 two Audit Reports pursuant to article 14 of Legislative Decree no. 39/2010 and of article 10 of EU Regulation 537/2014, in which it attested that:

- the Financial Statements of Cembre S.p.A. and the Consolidated Financial Statements of the Cembre Group at December 31, 2017 provide a true and correct representation of the financial position and operating performance the income and cash flows of the Company the Group for the 2017 financial year in compliance with the International Financial Reporting Standards adopted by the European Union, as well as the provisions issued in compliance with art. 9 of Legislative Decree no. 38/2005;
- the Report on Operations and some specific information contained in the above-mentioned Report on Corporate Governance and Ownership Structure are consistent with the Financial Statements of the parent company and the Consolidated Financial Statements of the Cembre Group and that they are prepared in compliance with the law;
- the opinion on the Financial Statements and on the Consolidated Financial Statements expressed in the aforementioned Reports is in line with that indicated in the Additional

Report for the Board of Statutory Auditors, in its capacity of Committee for Internal Control and Audit, prepared pursuant to art. 11 of EU Reg. 537/2014.

Said Audit Reports of the Independent Auditors do not contain findings or exceptions made to information supplied, nor statements issued pursuant to art. 14, second paragraph, lett. d) and e) of Legislative Decree no. 39/2010.

On March 28, 2018, the Independent Auditors also:

- transmitted to the Board of Statutory Auditors in its capacity of Committee for Internal Control and Audit, the Additional Report provided for in Article. 11 of EU Reg. no. 537/2014;
- issued, pursuant to art. 3, paragraph 10 of Legislative Decree no. 254/2016 and of art. 5 of the Consob Regulation Resolution no. 20267/2018, the "Indipendent auditor's report on the consolidated non-financial statement". In their report, the Independent Auditors stated that, based on the work performed, no elements came to their attention that would suggest that the Cembre Group's Consolidated Non-financial Statement for the year ended December 31, 2017 was not drafted, in all its significant aspects, in compliance to the provisions of articles 3 and 4 of the Decree and the GRI Standards, with reference to selected GRI standards.

During the periodic meetings of the Board of Statutory Auditors with the Independent Auditors no aspect worthy of mention in the present report emerged, nor did it receive from the same information on facts deemed to be reprehensible in connection with the performance of the audit carried out.

In 2017, the Board of Statutory Auditors, in its capacity of Committee for Internal Control and Audit, has:

a. verified and monitored the independence of the Independent Auditors, pursuant to art. 19, comma 1, letter e) of Legislative Decree 39/2010, as amended by Legislative Decree no. 135 / 2016;
b. examined the transparency report and the additional report prepared by the Independent Auditors in compliance with criteria set out in EU Reg. 537/2014, noting that, based on the information acquired, no critical aspects emerged in relation to the independence of the Independent Auditors;
c. received confirmation in writing from the Independent Auditors assurance that in the period from January 1, 2017 to the date of issue of the Audit Report the same not come to be aware of any situations that could compromise its independence from Cembre pursuant to the combined provisions of Articles 6, par. 2 of EU Reg. 537/2014, paragraph 17, letter a) of

International Auditing Standard (Isa Italia) 260, 10 and 17 of Legislative Decree 39/2010, and of articles 4 and 5 of EU Reg. 537/2014;

d. discussed with the Independent Auditors risks that may compromise their independence and possible measures adopted to mitigate such risks, pursuant to art. 6, par. 2, lett. b) of the EU Reg. 537/2014.

5-6. In 2017, the Board of Statutory Auditors did not receive any report pursuant to article 2408 of the Italian Civil Code any report from or from Shareholders and other parties.

The Board is not aware of any other facts or statements to report to the Shareholders' Meeting.

7. The Board of Statutory Auditors acknowledges that, based on information provided by the Company, in 2017 no further appointments for audit services were made to Independent Auditors PriceWaterhouseCoopers S.p.A.

After the closing of financial year 2017 and more precisely at the Board of Directors' Meeting of January 19, 2018, the Company appointed PricewaterhouseCoopers S.p.A. as its "non-financial statement independent auditor" pursuant to Legislative Decree no. 254/2016 for a compensation of €17,000. The Board of Statutory Auditors confirmed the compatibility of the appointment with current norms and specifically with the provisions of article 17, paragraph 3 of Legislative Decree 39/2010, as amended by Legislative Decree no. 135/2016 and the restrictions imposed by article 5 of EU Regulation no. 537/2014 to which reference is made in the same. Based on these verifications it expressed its opinion as required by current regulations.

8. In 2017, companies belonging to the PriceWaterhouseCoopers network and WeiserMazars provided services other than audit to Cembre and its subsidiaries. The former provided Other Services for a fee of €33 thousand, while advisor WeiserMazars provided tax compliance services for a total fee of €18 thousand.

A detailed description of remuneration paid is reported by the Board of Directors in the table drawn up pursuant to art. 149-duodecies of CONSOB Regulation no. 11971 of May 14, 1999 and subsequent amendments and additions ("Regulations for the implementation of Legislative Decree No. 58 of February 24, 1998, concerning the regulation of listed companies", and the "Listed Companies' Regulation").

With the approval of the Financial Statements at 31 December 2017, the term of independent auditors PricewaterhouseCoopers S.p.A. expires. In anticipation of this, starting from May 2017, the Company, together with the Board of Statutory Auditors, carried out a procedure for the selection of a new auditor for the nine-year period 2018-2026 in compliance with the provisions of art. 16, paragraph 3, of the Delegated Regulation (EU) no. 537/2014. At the end of the selection procedure, the Board of Statutory Auditors, pursuant to art. 16, paragraph 2 of the Regulation prepared a motivated recommendation, containing two possible candidates, one of which is preferred, which was delivered to the Board of Directors on January 11, 2018. The recommendation was acquired in the proceedings at the meeting of the Board of Directors dated January 19, 2018 and will be submitted to the Shareholders' Meeting.

9. In 2017, the Board of Statutory Auditors did not express, other than the opinions reported in paragraphs 7 and 8 above, any other opinion pursuant to laws and regulations applicable.

The Board of Statutory Auditors has however expressed its opinion in all those cases in which it has been requested to do so by the Board of Directors in the context of those decisions that require the prior opinion of the Board of Statutory Auditors.

10. In general, with the end of acquiring information instrumental in carrying out its monitoring activities, in 2017 the Board of Statutory Auditors

- met six times, in compliance with the periodicity required by law, to carry out periodical checks and adopting resolutions required. Activities carried out in said meetings are documented in the related minutes. All meetings were attended by all members;
- attended all four of Board of Directors' Meetings at which Directors informed the Board of Statutory Auditors on main operations of economic and financial relevance carried out by the Company and its subsidiaries;
- attended the Shareholders' Meeting of April 20, 2017;
- met three times as a Board with the Company's independent auditors, PriceWaterhouseCoopers S.p.A. without being submitted any relevant aspects or circumstance worthy of mention in the present Report;
- attended, through it Chairman, the only meeting of the Remuneration Committee;
- attended the six meetings of the Internal Control and Risk Committee and of the Monitoring Board – of which on three occasions represented solely by its Chairman – ascertaining the adequacy of the company's structure to its size;
- the President alone also participated in the four meetings of the Technical Commission set up with the task of following the procedure leading to the appointment of the Group's independent auditor, including the analysis and evaluation of proposals received.

11. The Board of Statutory Auditors monitored on the compliance with the Law and the By-laws and the respect of correct management practices, ensuring that operations resolved and carried out by Directors were consistent with said rules and principles in addition to being inspired by rational economic principles and not manifestly imprudent or excessively risky, in contrast with resolutions taken by the Board or such as to compromise the integrity of the company’s assets;

12. The Board of Statutory Auditors acquired direct knowledge and monitored, to the extent required by our task, the adequacy of the organizational structure of the Company in relation to its size, also gathering information from persons in charge of the management of the Company, the Person in charge of Internal Audit, the Control and Risk Committee, the Monitoring Board and the Independent Auditors, with the aim of exchanging data and information.

In light of verifications carried out and the absence of critical situations, the organizational structure of the Company appears adequate to its corporate goal, the characteristics and size of the company.

13. With regard to the adequacy and effectiveness of the internal auditing and risk management system, also at the consolidated level, the Board of Statutory Auditors carried out its task through the exhaustive collection of information, by:

- reviewing the report of the Person in charge of Internal Audit on the adequacy and functioning of internal audit and risk management systems of the Company;
- attending meetings of the Internal Control and Risk Committee and of the Monitoring Board;
- reviewing the report of the Internal Control and Risk Committee on the internal audit system;
- reviewing information on measures taken and procedures adopted pursuant to Legislative Decree 231/2001 and subsequent amendments, on the administrative responsibility of organizations with regard to crimes referred to in the above legislation;
- maintaining the Environmental management system with periodical internal and external audits;
- reviewing information on monitoring activity and the implementation of corrective action devised also by seeking specific independent advice on hygiene, employee safety and the environment in general;
- reviewing the results of work carried out by the Independent auditors;
- reviewing information provided by the management and respective boards of subsidiaries, pursuant to commas 1 and 2 of article 151 of Legislative Decree 58/98;

- attesting the financial statements of the parent company pursuant to article 81-*ter* of Consob Regulation dated May 14, 1999 and subsequent amendments, underwritten by the Managing Director and Manager in charge of drafting the Company's accounts;

The Board of Statutory Auditors also interfaced with the Person responsible for Internal Audit to evaluate the audit plan and its outcome, both in its introduction phase, and in that of the review of verifications performed and the related follow-up.

The Company adopted the Organizational Model contemplated by Legislative Decree 231/2001 (the "Model 231") of which the Ethical Code is an integral part. The Model is continually updated to bring it into line with normative changes introduced over time. No changes occurred during year 2017.

The Board acknowledges that the yearly reports of the Internal Audit Department close with an overall favorable opinion of the internal control structure.

In light of the monitoring activity carried out and of the positive opinions regarding the adequacy, effectiveness and functioning of the internal control and risk management system formulated by the Internal Audit and Risk Committee and by the Board of Directors, the Board of Statutory Auditors deems, within the scope of its responsibilities, such system to be adequate.

14. The Board also monitored the ability of the managerial accounting system of the Company to represent correctly the performance of the Company through the gathering of information from the Appointed Manager and competent head of departments, the review of corporate documents and the analysis of results of work carried out by the independent auditors. In particular, the Board reports that in 2017 the Appointed Manager verified, with the help of the Internal Audit Department, the adequacy and actual application of administrative and accounting procedures as per article 154-*bis*, TUF; such activity allowed to attest that the financial statements provide a true and correct representation of the financial situation and economic performance of the Company and its subsidiaries.

In light of the monitoring activity carried out and of the positive opinion on the adequacy of the organizational, administrative and accounting structure of the Company expressed by the Board of Directors at its meeting of November 14, 2017, the Board of Statutory Auditors deems, within the scope of its responsibilities, such system to be adequate and reliable in providing a correct representation of the Company's performance.

15. The Board monitored the adequacy of instructions imparted to subsidiaries pursuant to article 114, paragraph 2, of Legislative Decree no. 58/98 and subsequent amendments, and on the correct flow of information between them, and deems the Company to be capable of complying with disclosure requirements set by Law, without exception. With reference to subsidiary Cembre Inc., incorporated in the US and therefore not operating under the laws of the EU, whose accounts are audited, we attest that the administrative, accounting and reporting systems used are adequate in providing a regular flow of operating and financial information to the company's management and Independent auditors.

16. In compliance with article 150, paragraph 3 of TUF, periodical meetings with the Independent Auditors were carried out to verify the reliability of the management and accounting system of the Company and the internal control system. No relevant aspect requiring further analysis or the existence of censurable facts emerged.

With reference to the functions assumed pursuant to article 19 of Legislative Decree 39/2010, the Board of Statutory Auditors, also in the context of meetings held with the Independent Auditors, took vision of the work plan adopted, received information on accounting principles adopted, the accounting of major operations occurred in the year, the outcome of auditing activities, fundamental issues emerged upon the independent audit relating to financial reporting, from which there did not emerge shortcomings in the internal control system and the financial reporting process.

17. The Company participates and complies with the Code of Conduct issued by the Committee for Corporate Governance of listed companies promoted by Borsa Italiana S.p.A.. The corporate governance system adopted is reported in detail in the Report on Corporate Governance and Ownership Structure for financial year 2017, approved by the Board of Directors on March 13, 2018.

In 2017 the Company updated its Code of Conduct by inserting paragraph "g" to application criterion 7.C. 2. In the section on functions assigned to the Control and Risk Committee.

In accordance with said Code of Conduct, the Board of Statutory Auditors verified during the year the correct application of criteria and procedures for determining the existence of requisites of independence applied by the Board of Directors in evaluating the independence of Non-executive Independent Directors and the respect of requisites in the composition of the Board of Directors.

The Board of Statutory Auditors verified also the existence of the same requisites of independence as for the Board of Directors for its own members and made its recommendation pursuant to the Code of Conduct that prescribes to declare individual or third party interests in specific operations carried out by the Board of Directors. In 2017, no similar situation occurred for any of the members of the Board of Statutory Auditors.

We refer to the Report on Corporate Governance and Ownership Structure for more information on the Company's corporate governance regarding which the Report on Corporate Governance and Ownership Structure has no exception to make.

18. With regard to the overall evaluation of monitoring activities carried out, the Board can attest that:

- information provided by Directors in the Report on Operations are deemed exhaustive, complete and consistent with resolutions adopted by the Board of Directors and facts represented in the Financial Statements;
- the Report on Operations includes, in addition to the Comparative Consolidated Income Statement and a list of Members of Corporate Boards, information on performance indicators, investments made, environmental management, workplace safety, research and development activities, in addition to reporting detail of main risks and uncertainties connected with the overall economic situation, the market for the Company's products, credit markets, liquidity, interest rates, exchange rates, the integrity and reputation of the Company;
- in the periodical verifications and checks we performed on the Company, we did not encounter any atypical or unusual transaction either with third parties, related parties or between Group companies;
- with regard to transactions between Group companies and those with related parties, the Report on Operations and the Notes to the accounts describe and explain exchanges of goods and services between the Company and its subsidiaries or other related parties, attesting that the same were carried out at market conditions, keeping into account the quality of goods and services exchanged;
- the Report on Remuneration as per ex article 123-ter Legislative Decree 58/98 and article 84-*quarter* of the Code of Conduct was issued without particular observations to report;
- in the field of risk management and financial instruments, the nature and amount of risks were reported;
- the Audit Report does not contain reference to lack of disclosure or related observations and proposals;
- in compliance with articles 123-*bis* of the Finance Act (Testo Unico), article 89-*bis* of CONSOB's Listed Companies Regulation, we acknowledge that, as it appears in the Report on Corporate Governance and Ownership Structure, the Cembre Group participates and complies with the Code of Conduct issued by the Committee for Corporate Governance of listed companies, as integrated and implemented, through its adoption and compliance with Regulations for STAR segment listed companies;

- the adoption of said Code was verified by the Board of Statutory Auditors and represented the subject, in its various aspects, of the Report on Corporate Governance made available to you and to which we refer.

Furthermore, the Board of Statutory Auditors verified that the Company fulfilled its obligations under Legislative Decree no. 254/2016 and that, in particular, has drafted the Consolidated Non-Financial Statement, in compliance with the provisions of art. 4 of the same decree. On this point the Board of Statutory Auditors acknowledges that the Company, possessing the necessary requirements, has availed itself of the option to be exonerated from drafting the individual non-financial statement envisaged by art. 6, 1st paragraph, of Legislative Decree no. 254/2016. The decision was accompanied by the required certifications of the Independent Auditors regarding the compliance of the information provided in the document with the provisions of the mentioned legislative decree 254/2016 with reference to the principles, methods and procedures established for their preparation, also pursuant to Consob Regulation no. 20267 of January 18, 2018.

The Board of Statutory Auditors attests also, pursuant to article 150 of Legislative Decree no. 58/98 and subsequent amendments, that no data or relevant information, omissions, censurable facts, irregularities or in any case significant events worth reporting to relevant Authorities or monitoring boards, or of mention in the present report have emerged.

19. Based on the above, in relation to monitoring activities carried out in the year, the Board of Statutory Auditors has no observation to make or proposal to formulate to the Shareholders' Meeting pursuant to article 153, paragraph 2 of Legislative Decree 58/98.

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The statutory accounts, for which we verified compliance with laws regulating its format and preparation through checks carried out by us, within the limits of our task, as provided by article 149 of Legislative Decree 58/98, and subsequent amendments – having ascertained that no waivers pursuant to article 2423 of the Italian Civil Code were exercised – and information provided by the Independent Auditors, report a net income of €24,444,345, as compared with a net income of €15,931,868 in the previous year.

The Board of Statutory Auditors therefore deems the Financial Statements at December 31, 2017 and the proposed allocation of net profit for the year submitted by the Board of Directors to be suitable to receive your approval.

With the approval of the financial statements as of December 31, 2017 the three-year term of the Board of Statutory Auditors expires. Concluding out term, we wish to express our gratitude for the ample collaboration received from the management and the administration of the

Company which allowed the Board to carry out of its task in the best of manners. We therefore thank for the trust we have been awarded and we wish the Company to continue successfully in the achievement of the important goals it has set for itself.

Brescia, March 28, 2018

The Board of Statutory Auditors

The Chairman

Fabio Longhi