



2018
SIT S.p.A.
Consolidated
Non-Financial Statement

(in accordance with Legislative Decree 254/2016)



Sustainability Report

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Chairman's Interview

Mr. Federico de' Stefani, with the Stock Market listing, following the Legislative Decree 254/16, SIT is required to draft a sustainability strategy and "report upon it" through a Sustainability Report. What impact will this have on SIT Group's strategies and operations?

SIT is not just the name of our company. SIT also identifies the initials of the three words of our motto: *Safety, Innovation, Technology*. Attention to safety is part of our DNA as our products are designed and developed to guarantee the control, correct regulation and safety of gas appliances, therefore making homes and workplaces more comfortable and safer. Product safety now includes *health and safety at work*, which is another cornerstone of our general and day-to-day strategic focus. One of our latest initiatives was a safety course involving approximately 400 people in Italy for a total of 3,722 training hours.

As for the other two words, *Innovation* and *Technology*, what role do they play in sustainability?

One of our business areas is Smart Gas Metering, for which we develop products to facilitate immediate control of consumption by the end-user, thus enabling more informed behaviour while reducing environmental impacts.

However, there are other concrete examples that highlight our focus on sustainability driven actions. At our Rovigo plant, for example, a new washing machine has been installed to wash die-castings with water and surfactants instead of chemical products.

We have introduced smart lighting solutions, such as LED lighting, with independent adjustment of lighting intensities, because we think that the reduction and optimization of consumption is the best way to reduce impacts and achieve sustainability.

Sustainability also comprises *Ethics* and *Business Integrity*. What concrete actions has SIT implemented on these fronts?

SIT has invested heavily in this direction - in particular in three different and complementary areas.

In 2018, we finished writing our Ethics Code, which we are also circulating to all foreign subsidiaries. The clarification of our values, of the ethical principles and rules of conduct that all internal stakeholder, including directors, statutory auditors and employees, are required to respect goes beyond the mere logic of compliance, because such values, principles and rules reflect the identity of SIT and its need to maintain consistent conduct.

In 2017, we also prepared our *Ethics Code for Third-party Suppliers and Intermediaries*, which expresses the basic principles third parties, individuals and entities must comply with in supplying the Group with goods, services or intermediary services. The company has begun to disclose the Ethics Code to suppliers: out of 1,745 recipients, 518 (30%) responded positively by sharing the document. In 2019, we expect to significantly increase this percentage of participation by suppliers.

Finally, in 2017, SIT issued its *Code of Non-Discrimination and Diversity* and *Code of Basic Working Conditions*, which formally detail our commitment to guaranteeing a workplace, across the world, free from discriminatory practices and attitudes. These codes were introduced on an entirely voluntary basis because they constitute the best practices of forward-thinking companies and are wholly consistent with the values of SIT.

***Sustainability* also means the development of Human Capital and Social Responsibility. What are the actions that SIT has implemented in this regard?**

SIT has a long tradition regarding human capital.

We begin with the *development of human capital*. In 2002, we were among the very first companies in Italy to launch an *Intellectual Capital* assessment initiative aimed at following the development of company assets over time and at monitoring the wealth of knowledge, relations and behaviours that contribute to generate value, not only for the company.

This project has since then completed its purpose, though it has taught us to manage human capital from a comprehensive viewpoint, and not only for the short term - but also for the medium to long term.

This imprinting is behind several recent policies implemented, such as our corporate employee welfare plan and long-term manager incentive plan aimed at encouraging behaviours and decisions that create sustainable value over time.

Then there is the whole theme of *human capital training*. In 2012, we launched the SIT Academy, a training initiative designed to recognize internal talent and foster its development. The initiative involved employees from all our facilities in events at our Italian, Romanian and Dutch facilities, using English as the common language for all activities. In 2018, we invested heavily in lean transformation training, involving around 60 Italian manual and administrative employees from different business areas in a total of approximately 1,330 training hours. We also initiated the lean transformation of our Romanian facility, accompanied by several training activities to be further strengthened in 2019 and 2020. Furthermore, in March 2019, we launched a Digital Culture Assessment of the knowledge and skills of employees, in order to identify training needs to be addressed from the second half of 2019.

Regarding *Social Responsibility*, for years the company has supported numerous initiatives in various fields, for example, in sport, with its contributions to the Padua Marathon and Calcio Brescello football club, in scientific research, with support for the Luca Ometto Glioblastoma Association and in music, with scholarships for the young musicians of the Orchestra of Padua and Veneto (OPV).

What role did the listing of the company play in defining and guiding its sustainability strategy?

Being listed has made us more aware of the need to be accountable to all our stakeholder in a structured and systematic way. It has given us the incentive to define goals, identify metrics, and measure the results achieved.

Another equally strategic role, however, has been played by our customers. One of the founders of our company always said the following: "Demanding customers make excellent suppliers".

It is our customers who have really stimulated and guided us in our pursuit of sustainability. We are fortunate to work with multinationals that apply highly evolved standards, that require their partners to do the same, and that have asked us to demonstrate our commitment to sustainability with concrete and measurable actions and instruments.

In short, we arrived on the stock market already prepared in this regard.

Methodological note

This document represents the first Consolidated Non-Financial Statement (hereinafter also “NFS” or “Sustainability Report”) of the SIT Group (hereinafter also “the Group” or “SIT Group”), prepared in compliance with the provisions of Articles 3 and 4 of Italian Legislative Decree 254/16 (hereinafter also the “Decree”). The NFS aims to transparently describe the initiatives and main results achieved in terms of sustainability performance during the 2018 financial year (from January 1 to December 31).

As envisaged by Art. 5 of Legislative Decree 254/16, this document is a separate report containing specific wording in order to bring it in line with the Consolidated Non-Financial Statement required by law.

To the extent necessary to guarantee an understanding of business activities, and their performance, results and impact, the Sustainability Report covers environmental, social, personnel, human rights and bribery and corruption issues relevant to the Group and identified in the materiality matrix in the chapter entitled “Sustainability for SIT Group”.

This Sustainability Report was prepared in compliance with the GRI Sustainability Reporting Standards defined in 2016 and in 2018 by the GRI - Global Reporting Initiatives, according to the “in accordance - Core” option. In addition, for the preparation of this document reference was also made to the European Commission's Guidelines on non-financial information. The “GRI Content Index”, which details the contents reported in accordance with GRI standards, can be found in the Annex of this document.

The financial reporting scope is the same as for the Group's SIT Group Consolidated Financial Statements as of December 31, 2018.

The scope of qualitative information and quantitative data regarding social and environmental aspects includes the companies consolidated line-by-line in the SIT Group's Consolidated Financial Statements as of December 31, 2018. Any changes to the above indicated perimeter are duly reported in the document, and, in any case, do not compromise the adequate representation of the business.

In order to facilitate Group data comparability and performance assessments over time, comparisons are made where possible with the 2017 reporting year. The document also includes information relating to previous reporting years still applicable at December 31, 2018.

The process of collecting data and information for this document has been managed in collaboration with the various company divisions of the SIT Group, with the aim of facilitating a clear and precise indication of the information considered significant for stakeholder in accordance with the GRI Standards' reporting principles between positive and negative aspects of balance, comparability, accuracy, timeliness, clarity and reliability.

In each chapter, it is also duly indicated where any quantitative data has been estimated. Estimates are based on the best information available or on sample surveys.

This Sustainability Report was approved by the Board of Directors of SIT S.p.A on March 22, 2019 and was subject to limited assurance (“limited assurance engagement” according to the criteria indicated by the ISAE 3000 Revised principle) by Deloitte & Touche S.p.A.. The audit was carried out according to the procedures indicated in the “Independent Auditors' Report”, included in this document.

Regarding issues provided for by Legislative Decree 254/2016, the following is a summary of planned improvement commitments for each issue topic:

Governance and Compliance

Ethics, business integrity and compliance

- By 2019, updating of the Ethics Code, and its dissemination to the entire SIT Group scope, in order to promote ethical and integrity-oriented behaviours;
- By 2020, preparation of an anti-corruption policy.
- In the two-year period 2019-2020, training activities for SIT Group personnel on the main anti-corruption issues.

Social Sustainability

Employee Health and Safety

In the period 2019-2021

- As part of the Group's policy to implement improvement actions that go beyond the requirements of current legislation, the strengthening of initiatives concerning fire risk mitigation at all of the Group's production facilities. The plan is broken down into the following phases:
 - In 2019, improvements to die-casting stations at the Rovigo 1 facility, and to warehouse areas at the SIT Romania facility.
 - In 2020, feasibility studies for improvements to the Mexican and Romanian facilities. In 2021, feasibility studies for improvements to the China, Rovigo 2 and Montecassiano facilities.

Development of Human Resources

In the period 2019-2021

- Training activities and the establishment of dedicated teams for the promotion of the culture of sustainability at the SIT Group through specific initiatives and projects.
- Implementation of a performance assessment system to form the basis of managerial incentives to promote the achievement of ever better results.
- Implementation of assessment programmes to focus and develop the potential of the company's resources and talents.

Welfare and well-being

In the period 2019-2021

- Development of actions to improve work-life balance through the digitalisation of internal processes, the launch of smart working initiatives, and the assessment of the digital propensity of personnel.
- Improvements to the work environment through the upgrading and new construction of company buildings.

Internal communication

In the period 2019-2021

- Development of internal and external communications on sustainability guidelines, goals and actions, also via the complete redesign of the company intranet.

Initiatives in support of local communities

In the period 2019-2021

- Organization and promotion of activities at SIT Group facilities involving the families of employees.
- Promotion, via specific policies, of initiatives throughout the SIT Group in support of non-profit and sports associations.
- Support communication with local communities through the use of social networks.

Product Sustainability

Responsible supply chain management

In the period 2019-2020

- By 2020, completion of suppliers' undersigning of the Supplier Ethics Code (at least direct suppliers) in both the Heating and Metering Divisions.
- In order to offer customers products that meet the most stringent safety standards at an international level, SIT undertakes to regularly update a restricted substances list, going beyond mandatory RoHS and Reach regulations by integrating additional requirements deriving from specific market needs.

Environmental Sustainability

Reductions in emissions of hazardous and environment-impacting substances

In the period 2019-2021

- Feasibility studies, in all Group plants, for actions to reduce the uses and emissions of hazardous and environment-impacting substances. The plan is broken down into the following phases:
 - In 2019, reduction in the use of tetrachloroethylene in mechanical processes at the Rovigo 1 facility, by replacing washing equipment using modified alcohol.
 - In 2019, replacement of hydrogen with nitrogen use in the mechanical workshop treatment of aluminium components.
 - In 2020 and 2021, completion of feasibility studies in the remaining facilities of the Group.
- Feasibility studies and possible implementation of separate waste collection at all Group sites.

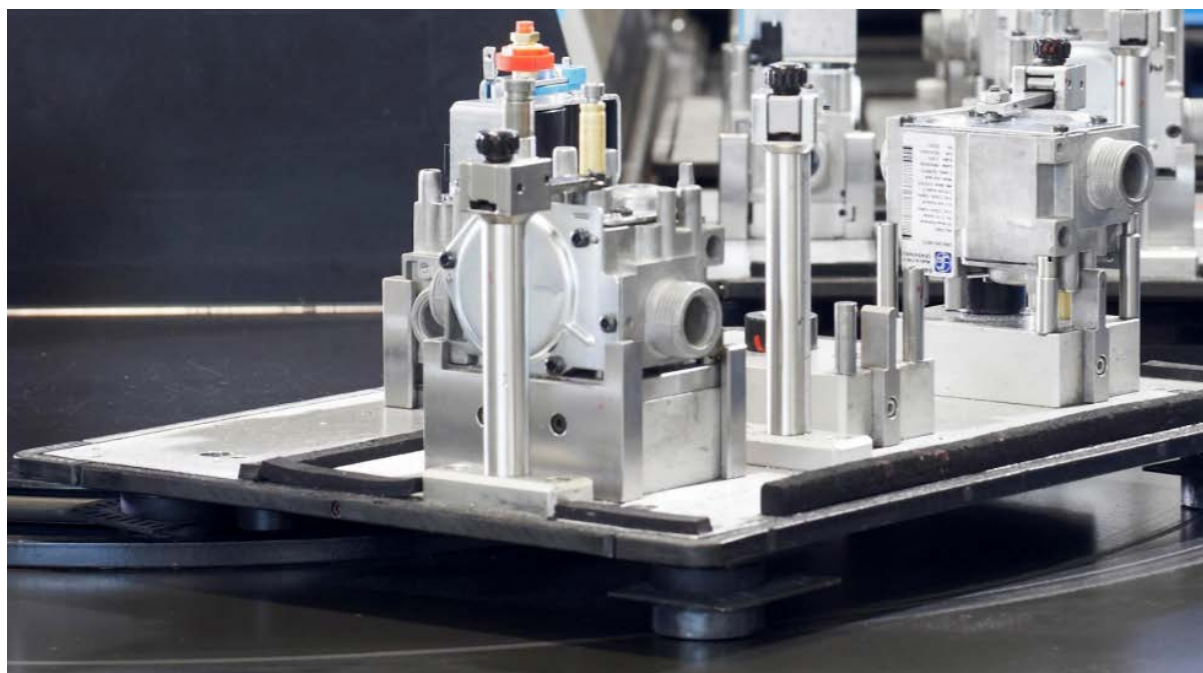
The Non-Financial Statement will be published annually.

The Sustainability Report is also available on SIT's website www.sitgroup.it, in the "Investor Relations" section. For more information on SIT Group's social responsibility policies and the information contained in this document, write to the email address: sustainability@sitgroup.it.

The SIT Group

Group profile

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



The head office is located in Padua, Italy, where SIT La Precisa was founded in 1953 by brothers Pierluigi and Giancarlo de' Stefani. SIT Group has approximately two thousand direct employees across 8 production sites, one logistics hub and 23 sales offices in Europe, America, Asia and Australia, 60% of whom employed outside of Italy.

Representative offices and sales branches are located across Europe, America, Asia and Oceania.

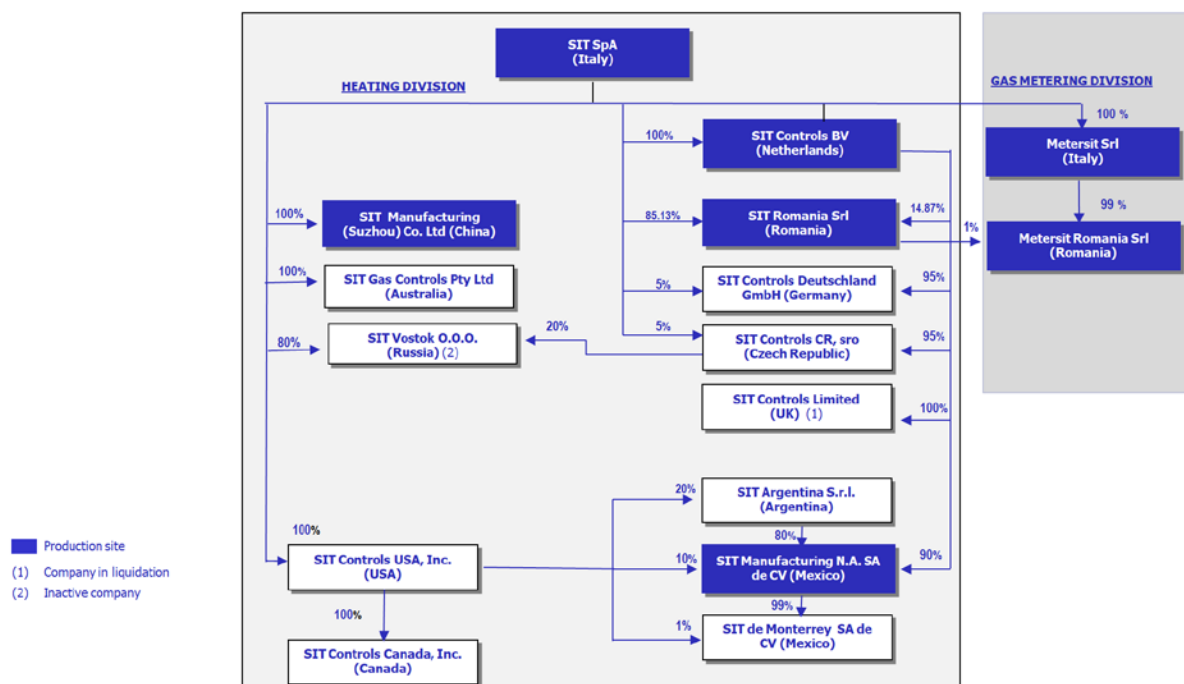
Production and applied research facilities are located in Italy (in Padua, Rovigo and Macerata), the Netherlands (Hoogeveen), Romania (Brasov), Mexico (Monterrey) and China (Suzhou).

The Group is a shining example of an enterprise that, over the years, has acquired an effective managerial and international structure, and is now listed on the Italian Stock Exchange.

In addition to significant quality, innovation, know-how investments, product range expansions and new market acquisitions, key factors in the SIT Group's development as a leading operator in its field include continuous improvements and increasing automation in facilities, machinery, structures and the organization of production processes.

All this has created and continues to create positive effects not only for production efficiency and the reduction of energy consumption and waste, but also for workplace health, safety and ergonomics.

As of December 31, 2018, the Group comprises the parent company SIT S.p.A. and its subsidiaries. The subsidiaries are consolidated under the line-by-line method, which provides for the full inclusion of all of the financial statement line items, without considering the shareholding. The company SIT Controls (UK) Limited, with registered office in the United Kingdom, was excluded from the consolidation scope, as in liquidation.



Global presence¹



14 Commercial offices

8 Production-commercial offices

1 Commercial Logistics hub

4 R&D Centres

9 Commercial production agents/distributors

¹ Agents and distributors are not considered within the perimeter of the data and information in this document.

The SIT Group operates through two business divisions:



Heating Division

Specialised in the production of components and systems for the control, regulation and safety of gas-based domestic heating and cooking and catering equipment and home appliances.



Mechanical controls

SIT is a world leader in the production of multi-functional valves for the control, regulation and safety of gas-powered appliances (stoves, boilers, fireplaces, water heaters, catering appliances, etc.).



Electronic controls

SIT electronic control systems are subdivided into three main lines:

- Control and regulation systems for household and catering appliances and cooking equipment.
- Single flame controls
- Devices for remote home comfort control.



Heating and home appliance fans

Two product lines:

- For the supply of combustion air in premixed and atmospheric gas boilers;
- For domestic cooker hoods.



Integrated combustion control systems

Combustion control systems for condensing boilers and heat and energy co-generation appliances, developed to guarantee superior performance.



Fume exhaust kits

Horizontal and vertical flue systems, extensions, bends of various angles, and adapters.



Atmosphere analyser pilots

Also called Oxygen Depletion Systems (ODS), these are safety devices used to monitor oxygen in the device's installation environment.



Thermocouples

Temperature sensitive devices that monitor the presence of flames in burners.

Market application

DOMESTIC APPLIANCES



Boilers



Water heaters



Instantaneous Water heaters



Fireplaces



Space heaters



Pellet stoves

PROFESSIONAL COOKING AND CATERING



Commercial ovens
Fryers
Hoods

The SIT Group company MeterRSit specializes in the development, production and distribution of latest generation, smart and remotely controllable gas meters for gas distribution companies. These products improve the way gas is measured, sold and used, therefore improving the transparency of relations between utility companies and end customers.

Smart electronic meters are indeed a key element of new systems. By improving consumption awareness, they allow end customers to optimize their own energy use and actively participate in the energy market.

The gas meters can be managed remotely and directly provide consumption measurements in the m^3 standard.

The range:

- Residential market: max. capacity $10 \text{ m}^3/\text{h}$
- Commercial and industrial market: max. capacity $40 \text{ m}^3/\text{h}$



Market application



Highlights 2018



360M€
Revenues



29
Millions of products
every year



2,019
Employees



**Approx. 10.8
M€***

Investments in R&D
(3% of revenues)



66 countries served
commercially



8
Production sites



75
Patents granted**



1
Logistics hub



61%
Female personnel

*The data regarding R&D investments includes expenditure and depreciation in the reporting year.

**All patent families for which the first filing was granted are considered.

Values of the SIT Group

The SIT Group has always based its business on eight core values.



Every day, the company carries out its activities and pursues its goals with these guiding values always in mind. The eight values are also outlined in various documents the Group has subscribed to over the years: the Ethics Conduct; the Code of Basic Working Conditions; the Code of Non-Discrimination and Diversity; and the **Code of Conduct for Suppliers and Third- party Intermediaries**.

History

- 1953** Pierluigi and Giancarlo de' Stefani found SIT La Precisa, a precision mechanics company, in Padua, Italy.
- 1974** Continuous growth leads to the opening of the **first foreign branch** in the Netherlands. Other European branches soon follow in the UK, France, Turkey, Poland, Germany, and the Czech Republic.
- 1983** SIT goes global with direct operations, starting in Australia with a **branch in Melbourne**.
- 1989** The expansion continues with the opening of a **branch in the United States**. SIT sells its first **electronic board** for gas appliances.
- 1997** Direct operations begin in China with the opening of a **branch in Shanghai**.
- 1999** SIT acquires ENCON, a Dutch manufacturer of **electronic boards** for gas appliances.
- 2000** **New production facilities** open in Monterrey, Mexico, and Shanghai, China.
- 2001** SIT acquires OMVL, an Italian company operating in the car systems market.
- 2002** **OP Controls**, an Italian company active in the field of gas control systems, merges with SIT.
- 2003** SIT opens a **branch in Argentina**.
- 2004** SIT acquires **Natalini**, an Italian manufacturer of fans and exhaust kits for boilers
- 2005** Expansion of the Rovigo production site to 17,000 square meters.
- 2006** A **new SIT production plant** opens in Brasov, Romania.
- 2009** **MeterSit** is born, a company offering gas distribution companies a new generation of remote-controlled meters.
Expansion of the Hoogeveen production site in the Netherlands.
- 2012** New production plant in Suzhou, China.
- 2013** **Expansion** of the production site in Brasov, Romania.
- 2014** **SIT La Precisa** merges with the Italian subsidiaries Gasco, Imer and Natalini to become **SIT S.p.A.**
- 2016** **MeterSit** opens an office in **Romania** to accelerate market growth for remote-controlled gas meters.

- 2017** July 20: **SIT joins AIM Italia** in a business combination with the SPAC² INDSTARS 2 through the merger by incorporation of INDSTARS 2 into SIT, and the subsequent listing of SIT ordinary shares and warrants.
- 2018** SIT transfers from the **AIM Italia Market** to the main market (MTA) of Borsa Italiana (Italian Stock Exchange)
The new **Rovigo Logistics Hub** opens.

² Special Purpose Acquisition Company

Risk Management

In 2017 and 2018, SIT Group progressively undertook an Enterprise Risk Management process, as an integral part of its Internal Control and Risk Management System, initially concerning the Metering Division, and then the Heating Division.

The adoption of this operating instrument particularly responds to the objective to increasingly make knowledgeable decisions in line with the propensity to risk, to create greater awareness around risks, legality and company values and, finally, to protect and increase the value of the enterprise by supporting, through appropriate structures and targeted rules and procedures, transparent and correct business conduct which is in line with the objectives set by the Board of Directors.

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

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

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

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

SIT Group has identified the following risks related to sustainability issues, classifiable as operational risks, and also related to the issues provided for by Legislative Decree 254/2016 and to the associated mitigation methods:

Environmental impact risk

The main environment-impacting risks are potential inefficiencies in managing energy consumption, water resources, waste and discharges, as well as the possibility of industrial accidents.

Regarding energy consumption, inefficient use of energy sources (gas and electricity) may lead to an increase in atmospheric CO₂ emissions. As for the management of waste, discharges and water resources, risks are connected to the potential impact of pollution on the local area.

Guidelines and risk management and mitigation methods

In order to mitigate environmental risks, SIT Group continuously monitors its processing activities for issues, such as production circuit water leaks or improper disposal of hazardous waste, both in Italy and abroad, with the most rigorous observance of applicable regulations. Monitoring takes place according to control plans, with analyses carried out by external laboratories which issue specific test reports certifying compliance with the limits set by applicable regulations. Checks are performed on industrial water discharges, atmospheric emissions, external noise levels, and the sorting of waste. The facilities in Rovigo (Italy), Brasov (Romania) and Monterrey (Mexico) have all been certified to

environmental standard ISO 14001:2015³, which involves all levels of the organization in guaranteeing and constantly improving environmental conditions in the contexts in which it operates, in terms of both pollution prevention and compliance with industry regulations. Furthermore, the Rovigo die-casting plant has attained renewal of its Integrated Environmental Authorization, in accordance with the Integrated Pollution Prevention and Control (IPPC) Directive.

The Group's production facilities have implemented organizational controls and specific internal procedures for preventive actions, the monitoring the specific environmental aspects, and actions aimed at managing any environmental emergencies.

The Group is also engaged in energy saving initiatives through investments and plant maintenance consistent with energy saving policies.

Risk regarding the failure to protect workplace health and safety

Safety is one of the founding values of SIT Group in the conception and development of its products, and in the performance of its activities. For this reason, risks associated with the safety of users and workers, and with accidental events, such as fires or floods, are constantly identified and monitored.

Guidelines and risk management and mitigation methods

Workplace safety aspects are regularly managed in compliance with applicable regulations in the various countries in which SIT Group operates. In particular, the Safety Plan is prepared half-yearly which describes for each Italian industrial site the activities carried out in relation to the existing regulations and establishes objectives to be achieved in the subsequent three-year period. Contemporaneously, for the Italian facilities, the Safety Audit document is also issued concerning the previous half-year.

The SIT Group is committed to the continual application of increasingly modern and efficient technical safety rules, with the objective to reduce accident levels.

Much importance is given to accident prevention through the regular workplace safety training and refresher courses for workers.

Risks concerning a failure to respect human rights

Risk factors in this category are linked to the possibility of directly or indirectly violating the inalienable human rights of employees, suppliers or customers.

Guidelines and risk management and mitigation methods

To address such risks, in addition to the Group defining a Code of Conduct, in September 2017, the Board of Directors approved a **Code of Non-Discrimination and Diversity** and a **Code of Basic Working Conditions**, which have been circulated to all employees and published on the Intranet and on the corporate website. Furthermore, in its qualification process, SIT Group requires suppliers to subscribe to its **Code of Conduct for Suppliers and Third-party Intermediaries**.

³ It should be noted that MeterSIT's facilities were upgraded to the ISO 14001:2015 certification in 2018.

Bribery and corruption risk

The possibility of ethically improper conduct by employees, suppliers or customers, with particular reference to corruption, represents one of the risks most central to the attention of the Group's control processes. It is a firm belief of the Group that a business model oriented to compliance with the entire regulatory reference framework supports the achievement of significant economic results destined to last over time.

Guidelines and risk management and mitigation methods

In this regard, SIT S.p.A and MeterSit S.r.l have adopted an organisation, management and control model as per Legislative Decree 231/2001. With this model, the company intends to implement an organizational system aimed at preventing offences through the identification of sensitive activities and the establishment of specific rules of conduct, such as those enshrined in the Ethics Code, to which employees are strictly bound. Furthermore, in compliance with the provisions of recent regulations on the subject of "whistleblowing", two channels, one traditional and the other electronic mail, have been made available to the recipients of the aforementioned model to allow reporting to a Supervisory Body of any encountered irregularities.

Regarding the subject in question and the Group's foreign companies, reference is made to applicable regulations in the various countries.

Sustainability for the SIT Group

Approach to sustainability

Aware of the growing importance of sustainability and its impact on local areas and communities, the Group has made a commitment to sustainability with a view to guaranteeing continuous improvements in the management of economic, environmental and social aspects.

Each Group company pursues the goal of creating value for all stakeholder, combining economic performance with quality products and attention to social and environmental sustainability.

Through the Sustainability Report, the Group intends to transparently inform stakeholders of its commitment to holding a social and participative role in relation to local areas and communities, its human resources and environmental impacts deriving from its activities.

In the preparation of the Sustainability Report, in addition to its own activities, SIT Group has carefully considered the interests and expectations of stakeholders. In order to systematically and comprehensively select topics to report on in this document, in 2018, the Group identified the most pertinent stakeholder categories for the Group, and defined a materiality matrix for the aspects and expectations most relevant to the Group and to the stakeholders respectively. The results of this materiality analysis (relevant topics and stakeholders) were approved by the Board of Directors,

Stakeholder engagement

A rigorous sustainability strategy requires the identification of stakeholder through their relevance to the organization. SIT Group identified stakeholder categories through an analysis of various companies operating in the reference industrial sector. The Group selected stakeholder by considering its business activities and social role in the countries in which it operates.

Significant stakeholder were thus identified to include: shareholders, investors, lenders, customers, employees, consultants, governments, public administrations, institutions, regulators, suppliers, subcontractors, commercial partners, trade unions, local communities, wider communities, the media, universities, research centres, and trade associations. Following identification of the stakeholder, the SIT Group proceeded to rank them according to their dependence and influence on the Group.



During the year, the Group engages its stakeholder through various engagement activities in order to assess their expectations. The main opportunities to meet with the various categories of stakeholder are presented below.

Stakeholder	Engagement activities
Shareholders, investors and lenders	Periodic financial disclosure; Institutional communications (e.g. website, investor relations); Market communications (e.g. regular conference calls, national and international roadshows); Periodic meetings (Shareholders' Meeting)
Customers	Regular meetings (e.g. visits to customers, discussions on technical projects, celebration of shared goals achieved); Sector trade fairs; Audits at SIT Group facilities; Continuous dialogue via the corporate website and magazine; Training workshops on Group products; Invitations to corporate events.
Governments, public administrations, institutions and regulators	Discussion meetings with representatives of local institutions; Participation in regulatory committees at a European and national level.
Trade associations	Participation in rules committees, seminars, conferences; Discussions on market trends and emerging needs;
Universities and research centres	Collaborations on innovation projects and research into new materials; Internships for students.
Suppliers, subcontractors and commercial partners	Periodic meetings; Quality audits and assessments.
Local community and society	Participation in events promoted by local associations; Projects supporting social initiatives.
Employees and collaborators	New employee insertion programme; Training on workplace safety and professional skills development; Job postings to promote internal mobility and professional growth; Company intranet; In-house magazine to promote internal communications; Engagement initiatives for continuous improvements to the work environment (e.g. 5S method); Welfare plans; Company events.
Trade unions	Meetings for the presentation of business plans and joint reviews, and for the stipulation of new agreements.
Media	Institutional website; Media invitations to public events organized by the Group (e.g. inaugurations, anniversaries); Press releases.

Materiality Analysis

The Group identified a list of sustainability topics by analysing the reports of various sector competitors and best sector practice, relevant studies and publications, and those topics referred to in Legislative Decree 254/16 and European Commission guidelines.

Following this analysis, 19 social, environmental, economic and governance topics were identified as relevant to the Group and to stakeholder. The process was conducted according to the indications of the Global Reporting Initiative (GRI) Sustainability Reporting Standards.

The topics were organized into 3 macro categories: Economic Responsibility, Governance and Risk and Compliance; Environmental Responsibility; and Social Responsibility.

Economic, Governance, Risk & Compliance Performances	Economic performance	Market presence	Corporate Governance	Compliance with laws and regulations
	Research & Develop.	Ethics and business integrity	Risk Management	Relations with Public Institutions
Environmental Responsibility	Effluents and waste		Emissions	
		Water resources		Energy consumption
Social Responsibility	Product quality and safety	Management and development of human resources		Local community commitment
	Diversity, equal opportunities and non-discrimination	Employee Health and Safety	Responsible supply chain management	Welfare and well-being

Governance and compliance

Corporate Governance

The organizational and governance structure of the Group has evolved over time in keeping with its global development.

With the entry on the “Mercato Telematico Azionario” (MTA) of the Italian Stock Exchange in November 2018, the SIT Group adopted its own corporate governance system with roles, responsibilities and committees defined in procedures and policies, as required by legislation applicable to listed companies.

SIT S.p.A.’s Corporate Governance System comprises the following corporate boards:

- the Board of Directors, appointed by the Shareholders’ Meeting, plays a fundamental role in setting and pursuing the Company’s and Group’s strategic objectives;
- The Board of Statutory Auditors, also appointed by the Shareholders’ Meeting, performs a supervisory role.
- The Shareholders’ Meeting considers motions on the matters reserved to it in accordance with law and the By-Laws.

The audit of accounts was awarded to an independent audit firm, appointed by the Shareholders’ Meeting on the reasoned opinion of the Board of Statutory Auditors.

The Board of Directors

The Board of Directors was appointed by the Shareholders’ Meeting on July 10, 2017 and will remain in office until the approval of the 2019 Annual Accounts. In 2018, the Board of Directors co-opted two new independent directors. The Board of Directors is comprised of:

Name	Role	Independence (Article 148 para. 3 CFA)
Federico de Stefani	Chairman & Chief Executive Officer	
Chiara de Stefani	Director	
Bruno Pavesi	Director	
Giovanni Cavallini	Director	
Attilio Francesco Arietti	Director	
Fabio Buttignon	Director	
Bettina Campedelli	Director	x
Antonio Campo dall’Orto	Director	x
Franco Stevanato	Director	x

Members of the Board of Directors (%)						
	<30		30-50		>50	
	2017	2018	2017	2018	2017	2018
Age	-		51.4%	11.1%	48.6%	88.9%

Members of the Board of Directors (%)				
	Male		Female	
	2017	2018	2017	2018
Gender	88.9%	77.8%	11.1%	22.2%

The Board of Directors has created three committees:

- The **Control, Risks and Sustainability Committee** supports the evaluations and decisions of the Board of Directors concerning the Internal Control and Risk Management System, in addition to those concerning the approval of the relative periodic financial statement and non-financial statement in accordance with the Leg. Decree 254/2016. The Control, Risks and Sustainability Committee is composed of three Non-Executive Directors, the majority of whom Independent. The Chairman of the Control, Risks and Sustainability Committee is chosen from among the independent directors. The independence requirements are those outlined in the Self-Governance Code for listed companies in its latest version. In addition to the independence requirements, the other requirements for appointment are professional competence in the undertaking of the duties of the Committee. Responsibility for sustainability issues was assumed by the Committee from November 2018.
- **The Related Parties Committee** comprises three non-executive directors, the majority of whom independent. The Committee provides a non-binding opinion to the Board of Directors on the interests of the Company to undertake transaction with Related Parties, as well as of the benefits and substantial correctness of the relative conditions.
- **The Remuneration Committee** comprises three non-executive directors, the majority of whom independent. The Committee assists the Board of Directors through investigative, proposal and consultation duties, for the evaluations and decisions concerning the remuneration policy of directors and senior executives.

The Board of Statutory Auditors

The current Boards of Statutory Auditors, consisting of three statutory auditors and two alternate auditors, were appointed by the SIT S.p.A. Shareholders' Meetings of July 10, 2017 and April 26, 2018. The Board remains in office until the Shareholders' Meeting for the approval of the 2019 Annual Accounts.

Policies

In order to adapt the Corporate Governance System to laws and regulations applicable to companies with listed shares, the Board of Directors adopted the following policies:

- *Related Parties Transactions Policy*: Governs the approval and execution of transactions between the company (directly or through subsidiaries) and “related parties” in accordance with the policy (Article 4). In particular, the policy defines the methods with which the transactions must be classified and analysed.
- *Insider Information management, processing and communication policy*: Establishes the principles and rules to which Group companies must comply in the internal management, processing and external disclosure of inside information as per Article 7 of EU Regulation 596/2014.
- *Internal Dealing Policy*: Governs, inter alia, the mandatory disclosures of Covered Persons (i.e. those who, by virtue of their positions in the Group, have significant decision-making power or significant knowledge of corporate strategies) to be submitted to the Italian Securities and Exchange Commission, Consob, and to the company, in relation to transactions involving company shares, bonds or debt securities by the Covered Persons or persons closely related to them, should the total amount exceed a certain threshold within the calendar year.
- *Policy for the maintenance and updating of the Insider Register*. The Policy ensures maximum confidentiality of Inside Information. To this end, the policy governs the establishment and maintenance by the company of the Insider Register, in which all those who have access to such information are registered.

Relations with shareholders

In accordance with the recommendations at application criterion 9.C.1 of the Self-Governance Code, the Board of Directors has appointed at the company an Investor Relator to manage shareholders relations.

Ethics, business integrity and compliance

Ethics and business integrity

The Group supports and promotes all actions aimed at guaranteeing the performance of internal operating activities and external business relations according to the principles of ethics and integrity.

One of the SIT Group's unalienable principles is compliance with the Laws and Regulations in force in all of the countries in which it operates. In the performance of their duties, all those who work in the name and on behalf of SIT are required to adopt a conduct based on transparency and moral integrity, according to the applicable social, economic, political and cultural contexts, and, in particular, to the principles of honesty, fairness and good faith.

The SIT Group is well aware of the risks and consequences of violations of mandatory rules and governance and of potential associated judicial and administrative sanctions and reputational damage deriving from inappropriate or illicit conduct by its employees, consultants and collaborators.

Thus, all Group employees, and all those they come into contact with, for any reason, are required to comply with applicable external and internal regulations, and to behave in an appropriate manner, regardless of the role held in relation to the company.

The reference document, in this regard, is the **Ethics Code**, which enshrines the values, ethical principles and rules of conduct that bind Directors, Statutory Auditors, employees, suppliers, consultants, partners and all those who operate in the name and on behalf of SIT.

The Ethics Code may be consulted on the corporate website⁴, together with other documents, such as the Code of Basic Working Conditions, Code of Non-Discrimination and Diversity, **Code of Conduct for Suppliers and Third-party Intermediaries**, and the Organization, Management and Control Model, pursuant to Legislative Decree 231/2001⁵, guaranteeing a consolidated and formal approach to ethical and responsible business.

Although the Ethics Code cannot cover all regulations and norms in the various countries in which the Group operates, it nonetheless represents a compendium of essential rules and principles to bind and inspire all those that form part of or enter into contact with the Group.

Organisation, Management and Control Model pursuant to Leg. Decree 231/01

The Italian companies of the Group, SIT S.p.A. and MeterSIT S.r.l., have implemented an **Organization, Management and Control Model (also "the Model")** as a system of rules to prevent unlawful conduct by top management, managers, decision-makers and individuals subject to management and supervision by those in senior positions, pursuant to Legislative Decree 231/2001.

In the Model, the companies have established an organizational system to prevent offences by identifying the most sensitive activities and defining strict rules of conduct to which recipients must comply. It is a firm belief in fact of the Group that a business model oriented to compliance with the entire regulatory reference framework supports the achievement of significant economic results destined to last over time.

⁴ The Ethics Code is available on the following link: <http://www.sitgroup.it/codici-condotta-policies/>

⁵ For more information on the content of such codes and documents, refer to the chapters "SIT Group's supply chain" and "Diversity, equal opportunities and non-discrimination".

The **Supervisory Board** (also “SB”) for the Model, established in each of the two companies, has the task of: (i) Monitoring compliance with its provisions by all Recipients; (ii) Analysing and evaluating its effectiveness in preventing offences; (iii) Performing regular checks on the main actions performed in risk areas; (iv) Collecting, processing and storing all information relevant to the performance of its functions; (v) Reporting to top management any violations of the rules of conduct; and (vi) Proposing to the Board of Directors updates to the Model to accommodate changes in corporate organizational structure or in the reference regulatory framework.

For the performance of such tasks, the Supervisory Board is invested with all powers of initiative and control of all company activities and personnel, and reports to the Board of Directors through its Chairman at least annually.

Finally, the companies make two channels available, one of which electronic, and both addressed to the Supervisory Board, for Model recipients to report any observed irregularities, in accordance with the latest regulations on the subject of “Whistleblowing” (i.e. Law 179/2017, Article 6, Paragraph 2-bis).

The fight against corruption

The SIT Group has adopted a series of methods and tools for mitigating corruption risks in corporate activities that, due to their very nature, have greater exposure to such risks.

The Group has thus implemented a control and monitoring system designed to guarantee compliance with the main anti-corruption regulations at a national and international level.

Following are, by way of non-exhaustive example, the main safeguards underlying this **control and monitoring system**:

- The Ethics Code;
- The set of Group Procedures, Policies and Operative Guidelines that guide the performance of activities inherent to a particular process. These Procedures, Policies and Operative Guidelines represent direct (e.g. Procurement Procedure) or indirect (e.g. Supplier Database Management) safeguards of the control and monitoring system; The internal control system pursuant to Law 262/05;
- The Organisation, Management and Control Model pursuant to Legislative Decree 231/01;
- The configuration of information systems, with particular reference to the use of a single ERP at Group level, based on the fundamental principles of:
 - segregation of duties,
 - Automated management of the main financial transactions;
 - Management of adequate authorization profiles for payments;
- The system of Delegations and Powers that precisely defines roles and responsibilities within the corporate organizational structure.

In relation to such safeguards against corruption, the Group continues to promote and invest in initiatives aimed at making the internal control environment ever more effective, efficient and pertinent.

In the reporting year of this document, no episodes of active or passive corruption were detected within the Group.

The value chain

The Group's orientation to the pursuit of the highest ethical standards goes beyond corporate boundaries to engage all actors making up the SIT Group value chain. Regarding relations with third parties, in 2017, SIT defined a **Code of Conduct for Suppliers and Third-party Intermediaries**, which expresses the basic principles third parties, individuals and entities must comply with in supplying the Group with goods, services, or intermediary services.

For more information on the SIT Group's approach to responsible supply chain management, refer to the chapter "SIT Group's supply chain".

Relations with Public Institutions

Within the broader sphere of the relations with internal and external stakeholder, dialogue with institutions is an area of major attention and interest. The Group belongs to various associations and participates in both local and international working groups, collaborating with other sector companies to encourage innovation and the standardization of product technical standards for common general interests.

In countries where it is present and operates, in order to promote sector norms, standards and best practices, SIT Group collaborates with various national and international associations, including for example:

Main associations to which the Group belongs		
Country/continent	Association	Key objectives
Europe	AFECOR The European Control Manufacturers' Association	To guide standardization processes in order to promote consistent and commonly accepted European standards for process and combustion controls.
Europe	EHI European Heating Industry	To address the needs of the heating market from the perspective of the industry. Its scope includes the European regulatory framework, its implementation and global industry-related issues.
Europe	ECS European Committee for Standardization	To support standardization activities in a wide range of sectors, including construction, energy, the environment, health and safety, and healthcare.
Italy	Confindustria	Confindustria is the main association representing manufacturing and service businesses in Italy. It represents companies and their values in relation to institutions at all levels.
Italy	Anima - Associazioni Nazionali dell'Industria Meccanica Varia e Affine (National Associations of the Allied Mechanical Engineering Industry)	To protect and promote the mechanical engineering sectors, companies and technologies through collaboration with standardization bodies; to raise the awareness of European bodies on energy, environmental and safety issues; to establish partnerships with other associations and federations; to develop inter-associate technical, scientific and economic collaborations and synergies on national and foreign institutional, technical and regulatory round tables.
Italy	Assotermica	Within Confindustria and Anima, to represent manufacturers of equipment and components for environmental comfort, and to promote energy efficiency and environmental protection in keeping with the goals of the European Union.

Italy	CIG - Comitato Italiano Gas (Italian Gas Committee)	It is one of the Italian entities federated with the Italian National Standards Institute, UNI, in order to draft UNI's gas sector national technical standards.
Netherlands	FME CWM	FME is the Dutch employers' organisation in the technology industry.
United Kingdom	EUA - Energy and Utilities Alliance	It represents energy sector companies in terms of the future policy direction within the energy sector.
USA	American Gas Association	It brings together energy sector companies that distribute gas. Its mission is to promote the safe, reliable and efficient supply of natural gas to homes and businesses throughout the United States.
USA	AHRI - Air Conditioning Heating & Refrigeration Institute	Association of over 300 member companies that produce quality, safe, efficient and innovative equipment and components for residential, commercial and industrial air conditioning, space heating, water heating and commercial refrigeration, for sale both in North America and globally.
Australia	GAMAA - Gas Appliance Manufacturer's Association	The primary activity of GAMAA is to work with members, governments and other industry stakeholder to develop and implement workable, safe and practical standards and regulations for the gas appliance industry.
China	CGAC - China Quality Supervision and Test Center for Gas Appliance	National association for quality control and testing of gas use applications.

Regarding the Group Metering Division, MeterSIt maintains institutional and commercial relations with the main Italian gas distribution companies, and participates in both public and private tenders.

Several of these companies are public bodies, while the majority are private companies operating gas distribution services in the public interest. Whether public or private, all the companies respond to the Italian Regulatory Authority for Electricity Gas and Water, ARERA, including MeterSIt, which is committed to guaranteeing the highest standards of integrity and honesty in all its relations.

In compliance with current anti-mafia and procurement regulations, on a half-yearly (or less) basis, MeterSIt transmits to gas distribution companies mandatory penal certifications, such as those referring to criminal records, administrative sanctions and pending charges, as well as anti-mafia declarations from those holding certain positions or qualifications within MeterSIt and SIT S.p.A.

In case of any non-compliance, MeterSIt receives any notifications and reports directly from the gas distribution companies. Notifications are managed by the MeterSIt Legal Office in coordination with the SIT S.p.A. Legal Department, under the supervision of SIT Group's Legal Affairs Directorate, and in collaboration with the concerned MeterSIt departments.

Economic Sustainability

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

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

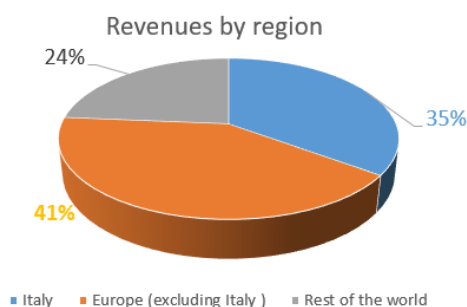
On the business performance front, the year 2018 again saw strong growth in revenues compared to the previous year with the Group reporting growth of 11.0% (+12.0% at same exchange rates).

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

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

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

In geographical terms, the Group received approximately 35%, or Euro 126.131 million, of its total turnover from Italy. Of the remaining Euro 233.557 million, around 41% and 24% are respectively attributable to the rest of Europe (excluding Italy) and the other countries in which the Group operates⁶.



⁶ The Rest of the world includes the Americas and Asia/Pacific.

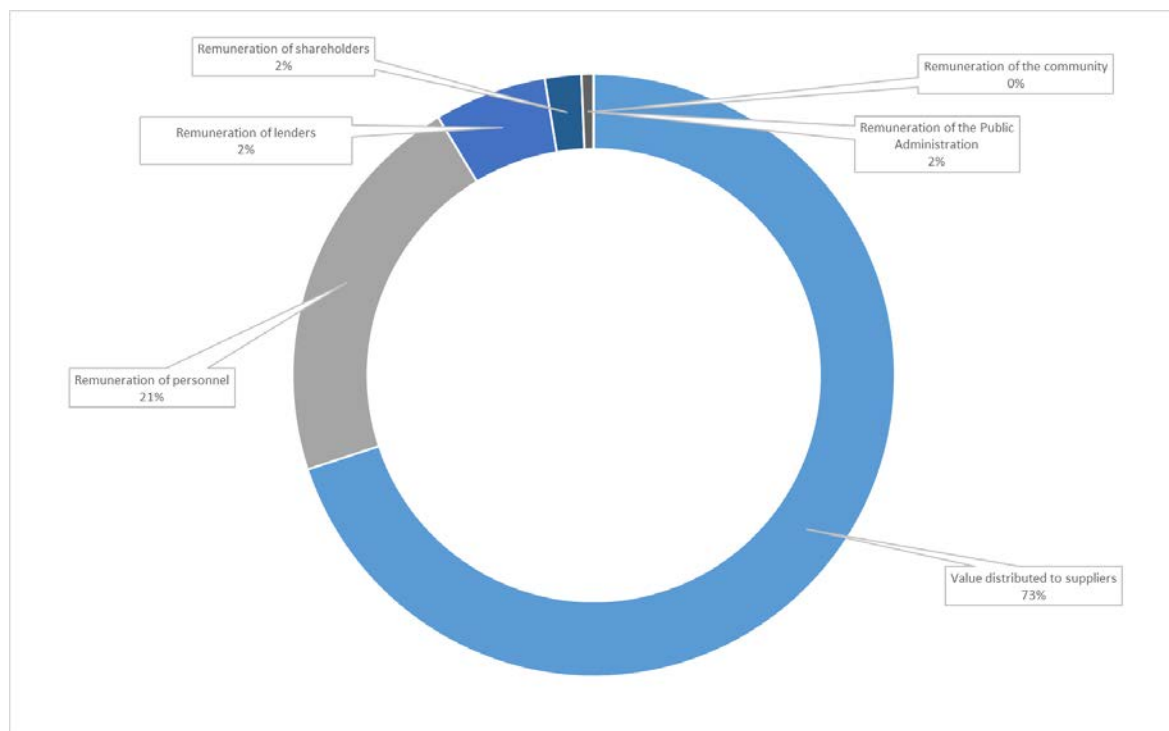
Creation of value for stakeholder

The economic value generated by the Group, and consequently distributed to stakeholder, derives from the calculation of generated and distributed value. This is determined for the reference period from the value generated from service and product sales and other income (e.g. financial income, other revenues) net of amortization and write-downs, and from the distributed value, in various forms, to Group stakeholder.

The calculation is based on the income statement used in the Group's consolidated financial statements at December 31, 2018.

Thus, in 2018, SIT Group generated an economic value amounting to Euro 385.599 million, redistributed to the communities, personnel, public administrations, suppliers and lenders.

Value distributed to the stakeholder



Economic value directly generated and distributed (in Euro thousands)	2018
(A) Economic value directly generated	385,599
(B) Economic value distributed	345,939
(A-B) Economic value withheld	39,660

Economic value distributed (in thousands of Euro)	
Personnel remuneration	73,676
Personnel expense	73,676
Remuneration of suppliers	252,948
Raw materials, ancillaries, consumables and goods	208,493
Service costs	44,455
Remuneration of lenders	4,798
Financial expenses	4,798
Remuneration of directors	6,690
Distribution of profits for the year ⁷	6,690
Remuneration of the Public Administration	7,806
Income taxes	7,806
Remuneration of the Communities	18
Donations, sponsorship and communication	18
Total economic value distributed	345,939

⁷ Proposed distribution of dividends on 2018's profit according to the financial statements approved on March 22, 2019.

Product Sustainability

Product quality and safety

In the entire history of the Group, rather than an objective to pursue, quality has been the actual starting point.

The Group has two Quality Functions, one for the Heating division and one for the Metering division, which, in addition to ensuring the normal control and prevention on processes and products, continuously ensures that company processes are in line with the best standards in terms of quality, safety and environmental certifications - including controls on hazardous substances and the sourcing of materials from war zones.

Among the first in Italy to achieve ISO 9001 Quality Certification, in 1988, the Group has, over the years, pursued steady growth aimed at adapting to and often anticipating the emerging needs of the market. In this regard, all of the Group's operating facilities are certified to ISO 9001 in its latest 2015 revision⁸.

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

In order to maintain the certifications, the Group submits to annual notified body audits of its Management System and corporate and production processes. This activity is supplemented by an internal audit regularly conducted on all corporate processes and functions, and main suppliers. In addition, the SIT Group regularly analyses all customer feedback.

All Group companies are fully supported and encouraged in maintaining the corporate Quality System, in order to ensure that they design, build, check and supply products with exactly the same degree of care, competence and dedication.

To achieve this goal, the Group promotes the continuous improvement of the Quality System and the development connected programmes, in order to optimize the control, efficiency and precision of its processes.

The commitment to investing in quality is essential in order to compete in the global market, and even more so for a Group that designs, produces and sells components and products for which safety is a fundamental element.

Quality and safety constitute the earliest stages in a product's life cycle, involving the very latest methods to improve robustness and prevent errors that might otherwise lead to higher costs if not identified in time. The Group also provides for continuous and strict controls on the safety of its products.

On an annual basis, corporate quality goals are defined and then formalized in an Annual Quality Plan. The KPIs of such goals include the quality of the finished product as perceived by customers, the efficiency of internal processes, and the performance of suppliers. During the year, performances are continuously monitored against targets in order to verify project progress and identify new actions deemed necessary.

⁸ Note that MeterSIT updated to ISO 9001:2015 in 2018.

The most relevant product quality issues regard mechanical parts, metrology, electronic boards and software.

Software quality, in particular, is managed by the Group through structured testing and validation methodologies aimed at preventing potential criticalities.

In addition to the aforementioned certifications, the Metering Division's Rovigo plant is certified to Annex IV of the "Atex Directive" as a guarantee of Production Quality Assurance regarding instruments and systems used in potentially explosive atmospheres. Furthermore, MeterSit S.r.l.'s Rovigo and Brasov plants are certified to Module D of the Measuring Instruments Directive as a guarantee of Production Quality Assurance.

Regarding mechanisms for handling complaints and notifications, the Group has an "After Sales" department which acts as the receiving point for all customer complaints. A dedicated team analyses every complaint received to verify any correlation with defects on returned products attributable to the company.

Research and Development

The SIT Group develops and manufactures high-tech systems and components. Investing in Research and Development is therefore essential to maintaining a competitive advantage over other players in a market that continually demands more innovative and highly performing products capable of guaranteeing the highest energy classes. From a manufacturing perspective, the SIT Group is also constantly engaged in research into using smaller quantities of materials, in order to make production cycles more efficient and to reduce environmental impacts. Researching new technological solutions and developing new and better performing products is therefore the best way to continue leading the market and strengthening a brand image globally recognized as a synonym for quality and innovation.

In 2018, the Group invested approximately 3% of its revenue, amounting to Euro 10.8 million, into research and development.

As of the end of 2018, the SIT Group owns⁹ 75 patents, while a further 15 are pending in 2019.

The Group has chosen to adopt a matrix management organizational structure in which specialized professionals define development processes and scout new technologies in the fields of electronics, mechanics, testing methods and technical documentation development. In particular, the Heating Division employs four platform managers for the management of all project and product development phases, from conceptualization to production.

Furthermore, demands for an increasingly reduced time-to-market requires the adoption of the latest methods and tools in order to design products faster while guaranteeing the highest standards of reliability and quality.

Our product development process follows a stage-gate methodology, characterized by the following phases:

- Concept - definition of the design and product specifications;
- Development - concept realization;
- Verification and certification - stringent product testing and controls to assess performance and behaviour under extreme conditions;
- Release and production.

The process minimizes various main risks in the development of a new product, such as incompatibility with international regulations or the quality demanded by customers, and delays in its development and production release.

Operating in an international technological context, the Group can take numerous opportunities to establish collaborations with research institutions and customers. Indeed, for years, the Group has collaborated with leading Italian universities, such as the Polytechnic University of Milan, the University of Padua and the University of Ferrara, and with leading global players in co-design and development activities.

These opportunities have allowed the Group to keep pace with global technological developments, developing and exploiting new competences and products both with and for its own customers.

Numerous research collaborations with universities are currently active on the development of innovative technologies aimed at significantly reducing energy consumption and pollution, while guaranteeing ever better temperature control comfort for users.

⁹All patent families for which the first filing was granted are considered.

Heating Division

Within the Heating division, the research is focused on the development of electronic and mechanical solutions that are increasingly integrated, intelligent, able to communicate with the external environment through the most modern internet of things technology (IOT), easy to use and, at the same time capable of maximising comfort performance while reducing energy consumption as much as possible.

During 2018, the main projects included:

- The development of an innovative Combustion Management System (CMS) valve able to significantly increase modulation ratio performance, allowing for more precise adjustments and greater energy savings;
- The development of a new ventilation architecture aimed at increasing performance while minimizing the use of space and materials;
- The development of a new valve platform for domestic boilers with a simplified and versatile architecture adaptable and customizable to various applications and markets in a shorter time and with less production investment requirements;
- Expansion of the range of adapters and bends used to connect the various boiler models.

Smart Metering Division

The Metering Division's research and development department has defined specific medium and long-term goals to focus development and resource investments on:

- The development of a mechanical and electronic modular product platform for the global market.
- The strengthening of collaboration with the Group's central strategic sourcing department in order to take advantage of all cost optimization opportunities.
- Improve the measuring sensor.
- Preliminary analysis on new measurement technologies.

In particular, 2018 saw the certification of a new domestic meter. It entered into production for foreign markets together with a new commercial and industrial sector meter platform. Development also began on a new meter to complete the Group's offer of smart meters for the commercial and industrial segment. Finally, product cost reduction activities continued, with a particular focus on the Italian domestic market.

Regarding environmental sustainability, the Metering Division's technological research in the monitoring field allows end users to benefit from a greater awareness of their own consumption, therefore empowering them in making energy savings.

SIT Group supply chain

Each SIT Group division has a Central Procurement Department for the procurement of raw materials, components, semi-finished products and services for all of the divisions' companies.

The two division departments share the goal of procuring components, materials and services at the right price, in agreed times, at a high level of quality and in compliance with criteria of ethics and sustainability.

In the pursuit of this goal, the Group strives to consolidate partnerships with its suppliers aimed at protecting supply quality and promoting safety, innovation and technological development. Such strategic partnerships are beneficial for both parties in terms of competitive advantages, proactive cooperation in resolving problems and the development of know-how and innovative solutions for market needs.

Direct materials suppliers are, in terms of both numbers and expenditure, those with the greatest impact.

Percentage of suppliers by supply type ¹⁰	2017	2018
Electromechanical and chemical	21%	24%
Electronic components	20%	19%
Metals and raw materials	28%	27%
Production site services	31%	30%

Suppliers are selected according to various criteria guaranteeing the highest standards of quality, costs and execution times.

In addition, in order to guarantee compliance with ethical standards in its supply chain, the Group has defined a **Code of Conduct for Suppliers and Third- party Intermediaries**, which expresses the basic principles third parties, individuals and entities must comply with in supplying goods or services, or brokering goods transactions between the seller and SIT S.p.A. or any of the SIT Group's subsidiaries. The Code is distributed to suppliers during the stipulation of the supply contract, and must be returned signed for acknowledgment. This Policy is available on the Group website in the "Corporate Governance" section: <http://www.sitgroup.it/codici-condotta-policies/>.

The Code's principles define the Group's commitment to operating in compliance with applicable legislation and with respect for human rights, child labour prevention, employee health and safety, environmental protection and sustainability, conflict mineral use prohibitions, conflict of interest and corruption prevention, fair competition and anti-trust measures, information confidentiality, and property rights.

The Group has defined a **Conflict Minerals Policy** in order to avoid indirect tolerance of human right violations in certain countries, thus undertaking to use and acquire only materials not containing minerals from conflict zones, such as the Democratic Republic of Congo and other countries

¹⁰ The table shows only direct materials suppliers and their share of the total number of Group suppliers.

categorized as “Covered Countries”. In particular, the Group requires its suppliers to complete a Conflict Mineral Reporting Template (CMRT) indicating the origin of the materials in their supply chain.

Furthermore, in addition to other actions implemented to protect human health and the environment, the Group has defined the standard SIT 49000000. This standard summarizes supply materials requirements, including those deriving from the REACH regulation and RoHS directive, which Group suppliers are required to comply with.

In coherence with SIT Group’s aim of being a versatile and innovative player in the global market, suppliers are required to:

- React quickly and effectively to market changes
- Maximize reliability, functionality and punctuality
- Minimise execution times
- Optimize lot sizes

As SIT Group products are extremely specific safety products, component suppliers are subjected to rigorous testing and must guarantee reliable supply standards. The Group pursues a policy aimed at guaranteeing supply continuity through the identification of multiple sources, contractual coverage, and back-up and supply interruption risk mitigation plans.

The following table indicates expenditure in the Group’s production facilities on local suppliers. Local suppliers are used most in Italy and the Netherlands, accounting for an average of 45% of expenditure. However, Romania and Mexico have low percentages of local suppliers. In particular, Romania mainly procures materials from Italy, while Mexico procures from the USA. Given the specificity of its products, the SIT Group applies a procurement strategy that favours the quality of procured materials over the geographical proximity of the supplier to production sites. It should also be noted that a high percentage of procurement for the Heating Division’s final products is intercompany, as sizeable volumes of components are manufactured directly by SIT Group companies.

Portion of spending from local suppliers¹¹	2017	2018
Italy	50%	46%
Romania	2%	2%
Netherlands	33%	35%
Mexico	3%	3%
China	19%	12%

¹¹ The percentage is calculated from expenditure on direct suppliers, considering local suppliers to be located in the same geographical region reported, in addition the calculation consider also intercompany movement. Countries with significant operations are those where the Group has production facilities.

Environmental Sustainability

The SIT Group closely focuses on protecting the collective interest and therefore considers the environment and nature as fundamental and a shared heritage to be protected and defended. The Group is committed to adopting responsible behaviour in terms of environmental protection, acting strictly in compliance with applicable environmental rules, in addition to the limit established by any authorisations and provisions received from the competent authorities and refraining from behaviour which damages the environment.

Furthermore, the Group is committed to raising the awareness of employees, consultants, collaborators and all those who operate in its name and on its behalf regarding the protection of the environment and the minimization of negative impacts.

One of the Group's two Rovigo facilities performs aluminium casting, mechanical processing, surface treatments, the electromechanical assembly of gas safety, control and regulation systems, and safety and temperature control thermo-sensitive component production. The other facilities in Rovigo, Brasov (Romania), Monterrey (Mexico) and Suzhou (China) perform the electromechanical assembly of gas safety, control and regulation systems. The Hoogeteven (Netherlands) facility produces electronic controls.

The SIT Group has established protocols to guarantee immediate action to minimize environmental impacts in potential situations of environmental emergency or major incident.

The Group has adopted an Environmental Management System (EMS). In addition, the production facilities of Rovigo (Italy), Monterrey (Mexico) and Brasov (Romania) are certified to ISO 14001:2015¹². The system defines specific monitoring and control procedures, assigns clear roles and responsibilities, and guarantees active communications with stakeholder and control bodies. The system also requires the production facilities to annually define initiatives to improve environmental performances.

In 2018, as in 2017, initiatives were implemented to reduce Group environmental impacts by eliminating the use of highly polluting materials. For example, the aluminium die-casting Rovigo facility has installed a new additional die-casting washing machine that uses water and surfactants, thereby reducing the use of tetrachloroethylene.

¹² It should be noted that MeterSIT's facilities were upgraded to the ISO 14001:2015 certification in 2018.

Energy consumption and greenhouse gas emissions

The Group is committed to improving the energy efficiency of its offices and facilities in order to reduce consumption.

For example, one of the Group's initiatives in 2018 (initiated in 2017) saw the full replacement of the Rovigo die-casting facility's lighting system with energy-saving LEDs and dimmer switches. The majority of equipment systems at both Rovigo facilities have been fitted with meters to continuously monitor electricity consumption and promptly intervene in case of any anomaly. In 2018, at the Monterrey facility, roofing renovation works were completed in order to reduce air conditioning energy consumption.

The Group uses various energy sources for the production processes and offices of its various companies and sites.

The Group facilities mainly utilise electricity and methane gas. Note that the Group did not purchase Guarantees of Origin (GO) for electricity produced from renewable sources.

Energy consumption within the organization			
	Unit	2017	2018
Natural gas	m3	2,347,066	2,441,123
Diesel	l	134,843	130,894
LPG	l	43,952	54,511
Petrol	l	79,673	84,360
Electricity purchased	kWh	26,383,154	29,673,194

Energy consumption at the organisation in GJ ¹³			
	Unit	2017	2018
Natural gas	GJ	93,987	97,754
Diesel	GJ	5,139	4,988
LPG	GJ	1,111	1,378
Petrol	GJ	2,758	2,921
Electricity purchased	GJ	94,979	106,823
Total	GJ	197,974	213,864

Compared to 2017, in 2018 energy consumption increased 8.0%. This increase is mainly due to an approximate 13% increase in the Heating Division's production volumes.

¹³ The energy consumption in GJ was calculated using DEFRA 2018 conversion coefficients, which is available for downloading from the website: <https://www.gov.uk/government/collections/government-conversion-factors-for-company-reporting>

Direct greenhouse gas emissions (Scope 1) ¹⁴			
	Unit	2017	2018
Natural gas	tCO ₂ eq	4,921	4,996
Diesel	tCO ₂ eq	351	389
LPG	tCO ₂ eq	66	83
Petrol	tCO ₂ eq	175	194
Total Scope 1	tCO₂ eq	5,513	5,662

Indirect greenhouse gas emissions (Scope 2) – Location Based ¹⁵			
	Unit	2017	2018
Electricity acquired	tCO ₂	10,082	11,029
Total Scope 2 Location based	tCO₂	10,082	11,029

Indirect greenhouse gas emissions (Scope 2) – Market Based ¹⁶			
	Unit	2017	2018
Electricity acquired from non-renewable sources	tCO ₂ eq	12,084	13,186
Total Scope 2 Market Based	tCO₂ eq	12,084	13,186

Regarding Ozone Depleting Substances (ODS)¹⁷, only the Monterrey facility keeps and uses such substances in its machinery and equipment. In particular, some equipment still uses the refrigerant gas R-22, amounting to a total of 104.5 kg in 2018, which has not, in any case, been emitted into the atmosphere, since it is contained in closed circuits that have suffered no losses.

Furthermore, rules have been clearly defined for the correct operation and maintenance of equipment that might accidentally generate atmospheric emissions, with particular attention paid to the proper management of ozone depleting substances. For the purposes of calculating atmospheric CO₂ emissions, the layout of the air conditioning and cooling systems serving the equipment and installations at the Group's Italian facilities was sent the competent authorities in 2018.

¹⁴ For the calculation of Scope 1 emissions, the 2018 DEFRA conversion factors were utilised <https://www.gov.uk/government/publications/greenhouse-gas-reporting-conversion-factors-2017>. Moreover, regarding SIT Group's emissions, the consumption of hydrogen and other mixed gases, such as hydrogenated nitrogen, and mixtures of methane and argon, were not considered as they were a negligible part of the total.

¹⁵ For the calculation of the Scope 2 - Location Based emissions, the 2015-2016 International Comparisons conversion factors published by Terna were utilised.

¹⁶ For the calculation of the Scope 2 - Market Based emissions, the 2018 "Residual Mix" conversion factors of the AIB-Association of Issuing Bodies were used.

¹⁷ Substances indicated in the United Nations Environment Programme's 'Montreal Protocol on Substances that Deplete the Ozone Layer', 1987.

Emissions from Nitrogen oxides (NOx), sulfur oxides (SOx) and other significant emissions					
Unit		Italy ¹⁸		Mexico	
		2017	2018	2017	2018
NO _x	kg	3,304.64	3,709.27	352.97	132.20
SO _x	kg	-	-	4.93	4.60
Volatile Organic Compounds (VOC)	kg	131.20	143.70	-	-
Hazardous air pollutants (HAP)	kg	318.37	297.55	-	-
Particles (PM)	kg	925.95	1,321.57	612.94	641.30
Organic Compounds expressed as Total Organic Carbon	kg	1,650.17	2,097.91	-	-
CO, CO ₂ , HCT, Led	kg	-	-	935,270	1,013,230

Waste management

In order to guarantee the adequate management of waste production and disposal, the Group has defined a series of waste tracking and monitoring procedures. The final destination of waste is entrusted to a waste transport and disposal supplier, which provides for recovery or disposal as indicated in relevant supporting documentation.

As for wastewater, specific analyses are carried out according to applicable regulations in each country, and all waste is adequately catalogued. The main types of hazardous waste produced include: used oil, solvents, non-halogenated solvent mixtures, halogenated solvents (perchloroethylene and oil), activated carbon from perchloroethylene washing machines, aqueous washing solutions, degreasing waste, oil-containing metal sludge, packaging containing hazardous substance residues. The hazardous substances on the “Other” line include mainly materials deriving from maintenance work on machinery and equipment. The non-hazardous waste includes sludge from the treatment of industrial water, metal and plastic packaging, and ferrous and non-ferrous swarf.

¹⁸ The figures shown refer to all of the Group’s Italian facilities, and have been calculated by direct measurement of emissions. Disposal methods have been identified from information provided in disposal contracts.

Waste by type and disposal method ¹⁹							
	Unit	Hazardous		Non-hazardous		Total	
		2017	2018	2017	2018	2017	2018
Reuse	t	-	-	2.26	3.40	2.26	3.40
Recycling	t	21.79	32.07	397.87	581.21	419.66	613.28
Composting	t	0.15	0.22	845.46	1,230.87	845.61	1,231.09
Recovery (including energy recovery)	t	185.81	461.92	1,510.84	1,569.97	1,696.65	2,031.89
Incinerator	t	-	5.68	31.70	152.66	31.70	158.34
Landfill	t	52.87	99.93	142.46	32.87	195.33	132.80
On-site storage	t	10.70	12.56	23.46	23.17	34.16	35.73
Other	t	485.94	711.94	135.54	139.65	621.48	851.59
Total	t	757.26	1,324.32	3,089.59	3,733.80	3,846.85	5,058.12

The increase in hazardous waste from 2017 is mainly due to the increase in production volumes and to the greater amount of wastewater to be treated. In addition, part of the increase in hazardous waste comes from the new classification of aluminium foam as hazardous waste, following entry into force of EU Regulation 1179/2016 on 01/03/2018.

In 2018, SIT Romania received a fine of approximately Euro 144,000 from the Romanian Ministry of the Environment, pursuant to Law OUG 196/2005 concerning packaging management and disposal. The fine was levied for a claim that SIT Romania had not guaranteed packaging disposal traceability it had entrusted to a specialist company in the period from 2013 to 2017. SIT replaced the specialist disposal company in 2018, and, at the beginning of 2019, proceeded to pay the fine.

Responsible use of water resources

SIT Group uses and monitors the consumption of water in its production facilities and offices. In Group facilities, water is used in the production cycle mainly for civil and industrial use, such as in tumbling processes, to eliminate surface burrs from die-cast aluminium objects, and in the cooling of production machinery.

Water withdrawal by source ²⁰			
	Unit	2017	2018
Groundwater	m3	43,406.9	46,722.9
Water sourced from aqueducts	m3	95,197.0	58,587.0
Total	m3	138,603.9	105,309.9

¹⁹ The waste production data only represents waste produced by the Group's production facilities.

²⁰ The data on water withdrawal only show the waste produced in the Group's production plants.

Social Sustainability

SIT Group personnel

SIT Group strives for excellence by continuously working to improve its professionalism and the engagement of personnel at all levels. All those that contribute to the Group's activities constitute a strategic and valuable resource. For this reason, the Group is committed to guaranteeing respect for diversity, the rights of individuals, general well-being and professional growth.

The SIT Group invests in the development of people's skills on a daily basis through a variety of tools, including proactive management of internal mobility.

Characteristics of SIT employees

At December 31, 2018, SIT Group's employees numbered 2,019. The number of Group's employees and external workers in 2018 totalled 2,264.

Approximately 78% of Group employees work in offices and facilities in Italy and Romania.

Total SIT Group workforce at December 31 ²¹						
No. people	Male		Female		Total	
	2017	2018	2017	2018	2017	2018
Employees	730	781	1,264	1,238	1,994	2,019
External workers	62	69	209	176	271	245
Total	792	850	1,473	1,414	2,265	2,264

SIT Group employees by gender and contract type at December 31						
No. people	Male		Female		Total	
	2017	2018	2017	2018	2017	2018
Permanent	631	728	1,052	1,122	1,683	1,850
Temporary	99	53	212	116	311	169
Total	730	781	1,264	1,238	1,994	2,019

SIT Group employees by region and contract type at December 31									
No. people	Italy		Europe		The Americas		Asia/Pacific		Total
	2017	2018	2017	2018	2017	2018	2017	2018	2017 2018
Permanent	773	857	577	596	251	318	82	79	1,683 1,850
Temporary	14	20	297	149	-	-	-	-	311 169
Total	787	877	874	745	251	318	82	79	1,994 2,019

²¹ The total workforce reported here includes SIT Group's employees and external workers. External workers take into account interns, project-based and contracted workers. The number differs from the Consolidated Financial Statement, in which only interns are considered.

SIT Group employees by gender and type of employment at December 31						
No. people	Male		Female		Total	
	2017	2018	2017	2018	2017	2018
Full-time	722	774	1,194	1,165	1,916	1,939
Part-time	8	7	70	73	78	80
Total	730	781	1,264	1,238	1,994	2,019

SIT Group employees by region and type of employment at December 31										
No. people	Italy		Europe		The Americas		Asia/Pacific		Total	
	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
Full-time	736	821	850	720	251	318	79	77	1,916	1936
Part-time	51	56	24	25	-	-	3	2	78	83
Total	787	877	874	745	251	318	82	79	1,994	2,019

SIT Group new hired by gender and age in 2018					
	< 30	30-50	>50	Total	Rate
Male	241	145	40	426	54.5%
Female	276	317	39	632	51.1%
Total	517	462	79	1,058	52.4%
Rate	164.6%	37.7%	16.5%	52.4%	

SIT Group terminations by gender and age in 2018					
	< 30	30-50	>50	Total	Rate
Male	231	118	26	375	48.0%
Female	282	307	69	658	53.2%
Total	513	425	95	1,033	51.1%
Rate	163.4%	34.6%	19.9%	51.1%	

SIT Group new hired by gender and age in 2018 (Italy)					
	< 30	30-50	>50	Total	Rate
Male	12	38	9	59	12.2%
Female	5	22	2	29	8.1%
Total	17	60	11	88	10.5%
Rate	56.7%	10.7%	4.4%	10.5%	

SIT Group terminations by gender and age in 2018 (Italy)					
	< 30	30-50	>50	Total	Rate
Male	3	9	4	16	3.3%
Female	4	5	6	15	4.2%
Total	7	14	10	31	3.7%
Rate	23.3%	2.5%	4.0%	3.7%	

SIT Group new hired by gender and age in 2018 (Europe)					
	< 30	30-50	>50	Total	Rate
Male	84	49	28	161	100.0%
Female	67	137	27	231	37.1%
Total	151	186	55	392	50.1%
Rate	108.6%	42.2%	27.1%	50.1%	
SIT Group terminations by gender and age in 2018 (Europe)					
	< 30	30-50	>50	Total	Rate
Male	107	56	20	183	113.7%
Female	97	151	54	302	48.6%
Total	204	207	74	485	61.9%
Rate	147.8%	46.9%	36.5%	61.9%	
SIT Group new hired by gender and age in 2018 (The Americas)					
	< 30	30-50	>50	Total	Rate
Male	142	54	3	199	170.1%
Female	191	140	10	341	169.7%
Total	333	194	13	540	169.8%
Rate	262.2%	117.6%	50.0%	169.8%	
SIT Group terminations by gender and age in 2018 (The Americas)					
	< 30	30-50	>50	Total	Rate
Male	119	47	2	168	143.6%
Female	169	129	9	307	152.7%
Total	288	176	11	475	149.4%
Rate	226.8%	106.7%	42.3%	149.4%	
SIT Group new hired by gender and age in 2018 (Asia/Pacific)					
	< 30	30-50	>50	Total	Rate
Male	3	4	-	7	33.3%
Female	13	18	-	31	53.4%
Total	16	22	-	38	48.1%
Rate	88.9%	36.7%	0.0%	48.1%	
SIT Group terminations by gender and age in 2018 (Asia/Pacific)					
	< 30	30-50	>50	Total	Rate
Male	2	6	-	8	38.1%
Female	12	22	-	34	58.6%
Total	14	28	-	42	53.2%
Rate	77.8%	46.7%	0.0%	53.2%	

The high turnover is due to the use of fixed contracts in facility production departments. This allows the company to respond dynamically to variability in customer orders.

In 2018, a project was launched to revise personnel management processes from the perspective of standardization and digitization. In particular, a new IT tool was developed and implemented across the world in order to improve the management of HR processes. In 2019, modules will be

implemented to create a unified data registry, and to enable online MBO workflow management. 2020 will see the introduction of a “Learning” module to foster the development of key competences contributing to the success of the company, in addition to a “Performance Management” module to support the professional development of SIT Group’s white-collar employees.

The Group carries out recruitment activities without any prejudice on the basis of gender, religion, beliefs, race, ethnic origin, disability, age, sexual orientation or political persuasion.

Stable and long-lasting employment relationships are considered fundamental in fostering the growth of the company, as well as constituting a significant motivational factor. In 2018, around 60 people were hired on open-ended contracts for the various departments of SIT S.p.A. and Metersit S.r.l.

Attracting new talent is critical in guaranteeing the innovation that distinguishes the Group and maintaining its market leading position.

Accordingly, in recruitment activities, the Human Resources department also motivates current SIT Group employees through two internal initiatives, the Internal Job Posting and Referral programmes. Through the Internal Job Posting programme, SIT Group communicates open positions to all Italian and foreign employees, allowing those interested in changing roles to submit candidacies for careful consideration, thus facilitating professional development in personnel motivated to enrich their careers with different experiences.

SIT Group’s Referral programme, on the other hand, offers bonuses to employees who help identify candidates for the profiles sought by the company.

For all new hires, SIT provides a Customized Induction programme aimed at immediately transmitting corporate values and product and process knowledge. The induction programme is customized in a targeted manner according to the future role of the incoming resource.

Locally hired executives at 31/12/2018²²			
	Male	Female	Total
Total executives	31	5	36
Locally hired executives	30	4	34
Percentage of executives hired locally	97%	80.0%	94.4%

²² These are executives hired with the same nationality as that of the country in which they work. The location of operations considers all countries in which the Group operates.

Health & Safety

With a commitment to constantly improve its performance, SIT Group pays utmost attention to the occupational health and safety of its personnel and third parties. Safety is one of the eight core values of the Group, influencing both the design, production and sale of its safety devices and system products, and its focus on safeguarding workers' health and safety. The assessment and management of safety risks cover both the internal and external workforce according to the health and safety aspects of individual roles.

In 2018, SIT Group continued a series of initiatives aimed at safeguarding the health and safety of workers in all workplace environments, especially within production facilities.

On a half-yearly basis, the Safety Plan is drawn up which describes for each Italian industrial site the activities carried out in relation to the existing regulations and establishes objectives to be achieved in the subsequent three-year period. Contemporaneously, for the Italian facilities, the Safety Audit document is also issued concerning the previous half-year. Workers are trained and required to report all risks, faults and anomalies to facility supervisors (the Prevention and Protection Officer, Safety Officer, First Aid Officer or Safety Manager).

All Group facilities, including those out of Italy, constantly perform activities to monitor risks, assess accidents, and maintain and adapt facilities, machinery, equipment and processes to the various regulatory frameworks of each country.

Instruction and training are critically important. In 2018, numerous training courses were held for all direct and indirect personnel in Italy and in Group facilities in other countries, not only on safety, but also on emergency situation management, including first aid and fire prevention.

The Group maintains constant collaboration with workers' representatives through regular scheduled meetings aimed at the joint assessment of health and safety risks and organizational changes to implement agreed improvement actions.

The SIT Group's low incidence of work related injuries confirms the attention it pays to workers' health and safety. For many years, the Group has worked hard to reduce occupational accidents and illnesses through technical measures, such as increased automation and improved workstation design, through specific training on the main risks of certain roles, and through internal assessments of accidents in order to prevent their repetition.

A total of 20 work related injuries occurred across the Group's facilities during 2018, of which 13 are commuting incidents occurred with a company transport vehicle. Injuries were predominantly due to accidents involving impacts, crushing and efforts to lift and move loads. It should be noted that, in the whole of 2018, no work related injury occurred caused serious consequence for workers.

The total number of recorded work related injuries does not include commuting incidents with workers' own vehicles (8 in 2018, and 11 in 2017), since such accidents did not involve company cars, company fleets or transport organized by Group companies. Note that high consequence work related injuries are considered those work related injuries causing more than 180 days of absence.

Total number of employee work related injuries at SIT Group in 2017			
	Male	Female	Total
Work related injuries	5	4	9
<i>Fatalities</i>	-	-	-
<i>High consequence work related injuries</i>	-	-	-

Total number of employee work related injuries at SIT Group in 2018			
	Male	Female	Total
Work related injuries	8	12	20
<i>Fatalities</i>	-	-	-
<i>High consequence work related injuries</i>	-	-	-

Rate of SIT Group employee work related injuries in 2017			
	Male	Female	Total
Rate of recordable work-related injuries ²³	4.37	1.81	2.69
<i>Rate of fatalities as a result of work-related injury</i>	-	-	-
<i>Rate of high-consequence work-related injuries</i>	-	-	-

Rate of SIT Group employee work related injuries in 2018			
	Male	Female	Total
Rate of recordable work-related injuries ²⁴	5.34	5.22	5.27
<i>Rate of fatalities as a result of work-related injury</i>	-	-	-
<i>Rate of high-consequence work-related injuries</i>	-	-	-

SIT Group employees hours worked						
	2017			2018		
	Male	Female	Total	Male	Female	Total
Hours worked ²⁵	1,143,107	2,204,455	3,347,562	1,498,822	2,298,007	3,796,828

²³ The Frequency Index represents the ratio between the total number of accidents and the total number of days worked during the same period, multiplied by 1,000,000.

²⁴ The Frequency Index represents the ratio between the total number of accidents and the total number of days worked during the same period, multiplied by 1,000,000.

²⁵ The total number of hours worked has been partially estimated from the number hours contracted and the number of employees at 31.12.

Total number of work related injuries involving SIT Group external workers in 2017			
	Male	Female	Total
Work related injuries	-	-	-
<i>Fatalities</i>	-	-	-
<i>High consequence work related injuries</i>	-	-	-

Total number of work related injuries involving SIT Group external workers in 2018			
	Male	Female	Total
Work related injuries	-	1	1
<i>Fatalities</i>	-	-	-
<i>High consequence work related injuries</i>	-	-	-

Rate of external worker work related injuries at SIT Group in 2017			
	Male	Female	Total
Rate of recordable work-related injuries ²⁶	-	-	-
<i>Rate of fatalities as a result of work-related injury</i>	-	-	-
<i>Rate of high-consequence work-related injuries</i>	-	-	-

Rate of external worker work related injuries at SIT Group in 2018			
	Male	Female	Total
Rate of recordable work-related injuries ²⁷	-	3.11	2.22
<i>Rate of fatalities as a result of work-related injury</i>	-	-	-
<i>Rate of high-consequence work-related injuries</i>	-	-	-

Hours worked by SIT Group outside workers						
	2017			2018		
	Male	Female	Total	Male	Female	Total
Hours worked	72,053	164,084	236,137	129,741	321,236	450,977

²⁶ The Frequency Index represents the ratio between the total number of accidents and the total number of days worked during the same period, multiplied by 1,000,000.

²⁷ The Frequency Index represents the ratio between the total number of accidents and the total number of days worked during the same period, multiplied by 1,000,000.

Employer Branding

With the aim of attracting the very best talent, the parent company collaborates with numerous Italian universities. In 2018, the company participated in 12 events sponsored by the career services of Italian universities, such as the University of Padua, the University of Trento and the Polytechnic University of Milan, as well as by professional consultancy companies operating nationally, in order to directly meet students interested in job offers or internships.

In total, relations channels were opened with another 11 Italian universities, around 200 curricula vitae were collected, and 5 people were selected for recruitment or internships.

For 2019, the company's goal is to strengthen its brand communications. Therefore, starting in December 2018, internal Focus Groups were launched to review the corporate image and study ways to raise brand awareness in order to attract the best candidates and better engage current employees.

Development of human resources

SIT Group aspires to promote and develop the skills, abilities and knowledge of every employee through professional training and refresher programmes aimed at guaranteeing the achievement of corporate goals.

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

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

Workplace safety training in 2018 involved approx. 400 staff, for a total of 3,700 hours. A further key training course was provided in-house, initiated in 2017, in continued support of training on the use of new IT tools introduced by the company. This training in 2018 involved approx. 480 employees at all levels. Company mission awareness training was also organised, focused on the main products and markets and involving approx. 420 employees, for a total of approx. 2,260 training hours.

More than 12,000 training hours were delivered to SIT S.p.A. and Metersit S.r.l. employees.

Hours of training provided ²⁸				
	Total hours male	Total hours female	Total hours	Average hours
Executives	401	56	457	12.7
White-collar workers	5,082	2,101	7,183	16.8
Blue-collar workers	8,442	33,455	41,897	26.9

²⁸ The total number of training hours has been partially estimated from training plans submitted by the various Group branches.

Total	13,925	35,612	49,537	24.5
Average hours	17.8	28.8	24.5	

Remuneration

The Group's remuneration policy is based on incentive systems designed to acknowledge the commitment and merits of its employees, to foster a sense of belonging, to attract talented resources and to align the interests of personnel with the goal of creating sustainable value for shareholders in the medium to long term.

To ensure fairness and transparency, the Group has aligned its remuneration system for executives and managers with the dimensional and organizational characteristics of the Group and with the market in

which it operates. This remuneration includes a fixed annual component and a variable component, linked to

the achievement of pre-set performance objectives, including non-financial. The variable component is paid when the economic or pre-set individual results are achieved, via a Management By Objectives (MBO) incentive mechanism providing for the award of annual bonuses for the achievement of quantitative and qualitative objectives.

Ratio of the standard entry level wage to the local minimum wage in significant countries for the Group²⁹		
	2017	2018
Italy	1.03	1.04
Romania	1.21	1.11
Mexico	2.06	2.30
Netherlands	1.19	1.19
China	1.03	1.05

As evidenced by the above table, the SIT Group tends to position itself above the standard pay of the reference country in order to attract talent and maintain competitiveness. Furthermore, there are no gender differences in the standard wage and the local minimum wage.

In 2018, a Long-Term Incentive System (LTI) was also implemented for the top management of the Group, in line with the Corporate Governance Code guidelines for listed companies. This plan has the objective to align the performance objectives of management with the achievement of the objective of the creation of value for the shareholders in the medium-long term period.

As approved by Board of Directors' decision of April 26, 2018, the plan has a horizon of 3 years (2018-2020) and involves the award of performance shares according to SIT's cumulative 2018-2020 EBITDA and the market conditions at the end of the period. The plan involves 38 SIT team members.

²⁹ Significant countries are those in which the Group has at least one production facility. The local minimum wage was taken from collective bargaining agreements in the respective countries where the individual facilities are located.

Welfare

Also regarding welfare benefits, the Group has always been committed to guaranteeing transparency and clarity for its personnel. Assignment schemes do not vary according to different contractual forms (e.g. full-time, part-time, fixed-term or open-ended contract), but may vary according to different geographical areas, depending on reference standards that may include or exclude certain services.

The Group is attentive to the well-being and work-life balance of its employees. For this reason, it allows, where possible, flexitime schemes in Italian branches.

As for support for families, the Group provides new mothers and fathers with a baby welcome kit containing some useful baby care items. The main benefits include: Life Insurance, Health Insurance, Pension Plans, Luncheon Vouchers.

Starting in 2018, a corporate welfare plan was established in Italy. The corporate plan makes an annual amount available to beneficiaries that can be used on a welfare platform dedicated to SIT employees. The platform offers services and benefits for families, healthcare, leisure, culture and more, falling within applicable tax incentive categories. The platform collects welfare incentive allocations through the National Metalworking Collective Bargaining Agreement. Furthermore, from 2018, as per applicable bargaining, it has been possible for personnel to allocate part or all of the value of individual performance bonuses to corporate welfare, thus increasing the opportunities to use the available services. Approximately 10% of total performance bonuses were converted into welfare, and over 95% of the company population used their welfare benefits within the end-of-year deadline.

Relations with schools and Universities

The SIT Group actively collaborates with various Italian universities with the aim of offering opportunities to students and recent graduates.

In particular, the Group participates in “Career Days” organized by universities, and directly organizes “Orienteering” events aimed at: creating a channel of preferential relations between students and recent graduates and the world of work; increasing young people’s awareness of today’s and tomorrow’s job opportunities regarding the skills that companies are looking for in the job market; and promoting an exchange of information, techniques and knowledge relating to the world of work and the expectations of companies and young people at the end of their studies.

Regarding research, a collaboration was launched in 2018 with the Department of Industrial Engineering of the University of Padua.

In 2018, in the various Italian branches, 36 curricular or extracurricular training courses were activated, of which 2 were aimed at the preparation of a degree thesis. In addition, SIT has stipulated a series of agreements with various higher education institutes for annual and biennial education-work alternation courses to facilitate the acquisition of specific professional skills while studying.

In the two-year periods 2017-18 and 2018-19, 22 education-work alternation courses were provided. One of these, at the end of the course, in 2018, resulted in employment at the company.

The constant and fruitful relationship between SIT Group and universities was recently acknowledged by two awards from the University of Padua for the “Best company for tutoring” and the “Best company for intern satisfaction”, in relation to the internships activated in 2018.

Employee communication

To promote internal communications and the engagement of resources, the Group distributes a monthly magazine entitled SIT&Talk to all branches worldwide. The magazine contains articles written exclusively by employees themselves aimed at disseminating information at all levels on corporate news, business performance, organizational changes, technical subjects, company products and general culture, and at engaging employees in the various activities of company facilities and offices.

Diversity, equal opportunities and non-discrimination

Non-discrimination

The “**Code of Non-discrimination and Diversity**”, drafted and approved in 2017, is a formal policy and a firm commitment by SIT Group to its employees, the recipients of its products, services and programmes and, in general, to any individual coming into contact in any way with the SIT Group.

The SIT Group has, since its inception, been firmly committed to creating an environment free of discrimination, in which:

- Responsible parties seek to guarantee equal opportunities;
- Diversity is considered a resource and never an impediment;
- Respect for the dignity, honour and freedom of individuals in their rights to self-determination is a natural logical and ethical prerequisite of daily actions.

Discrimination for the purposes of the Code is given to mean any treatment creating an intimidating, hostile, offensive, less favourable and/or less ideal environment for one party with respect to another based on any discriminatory conduct, whether, by way of non-exhaustive example, active or passive, direct or indirect, internal or external, or emerging as a result of any form of bullying, harassment, retaliation, intimidation or persecution.

SIT Group’s Human Resources department undertakes the responsibility to ensure compliance with such fundamental principles in the SIT Group’s activities, and to adequately resolve any cases of discrimination, failure to ensure equal opportunities, bullying, harassment, retaliation or intimidation.

The Group’s commitment to diversity can be noted in the significant percentages of women and younger employees in all professional categories.

Percentage of Group employees by age, gender and employee category at 31/12/2017							
	<30	30-50	>50	Total	Male	Female	Total
Executives	0.0%	40.0%	60.0%	100%	88.6%	11.4%	100%
White-collar workers	7.3%	67.9%	24.7%	100%	69.4%	30.6%	100%
Blue-collar workers	20.2%	60.0%	19.8%	100%	27.4%	72.6%	100%
Total	17.3%	61.2%	21.5%	100%	36.8%	63.2%	100%

Number of Group employees by age group, gender and employee category at 31/12/2017							
	<30	30-50	>50	Total	Male	Female	Total
Executives	-	13	20	33	29	4	33
White-collar workers	29	266	98	393	272	121	393
Blue-collar workers	317	941	310	1,568	429	1,139	1,568
Total	346	1,220	428	1,994	730	1,264	1,994

Percentage of Group employees by age group, gender and employee category at 31/12/2018							
	<30	30-50	>50	Total	Male	Female	Total
Executives	0.0%	38.9%	61.1%	100%	86.1%	13.9%	100%
White-collar workers	8.2%	67.3%	24.5%	100%	68.5%	31.5%	100%
Blue-collar workers	17.9%	59.5%	22.6%	100%	29.4%	70.6%	100%
Total	15.6%	60.8%	23.7%	100%	38.7%	61.3%	100%

Number of Group employees by age group, gender and employee category at 31/12/2018							
	<30	30-50	>50	Total	Male	Female	Total
Executives	-	14	22	36	31	5	36
White-collar workers	35	288	105	428	293	135	428
Blue-collar workers	279	925	351	1,555	457	1,098	1,555
Total	314	1,227	478	2,019	781	1,238	2,019

Human Rights

Through specific procedures, practices and company policies, the SIT Group guarantees the observance and correct application of its codes of conduct. The guiding principles behind the Group's codes consist of and derive from the following international standards:

- The United Nations' Universal Declaration of Human Rights (which we are committed to in its entirety);
- The International Labour Organization's Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy;
- The European Convention on Human Rights, under the jurisprudence of the European Court of Human Rights;
- The Organisation for Economic Co-operation and Development's Guidelines for Multinational Enterprises.

Reference is also made to applicable national, regional and community legislation on labour law and human rights. These represent the underlying values which the company upholds and the basis of relations between the employer and its employees.

The SIT Group rejects and actively opposes all actions that may cause any form of physical, psychological or exploitative harm to individuals, such as **forced labour, child labour, human trafficking, harassment, discrimination or extortion**.

The SIT Group is committed to adopting policies to make every employment relationship at its facilities a positive and eco-sustainable experience that guarantees: **health and safety, environmental**

protection and sustainability, fair working hours and compensation, the right to work, freedom of association, and collective bargaining.

The SIT Group fully respects and guarantees the right to work and the freedom of association of employees at all its facilities. As much as 95.79% of Group employees are covered by collective bargaining agreements, and, in Italy, monthly meetings are held with organizational trade union representatives to discuss production and labour issues.

Following the publication of the Ethics Code, the SIT Group is committed to promoting the adoption of policies to guarantee its observance and correct application.

SIT Group's support for local communities

The SIT Group has always been committed to maintaining relations with the local areas and communities in which it operates, in particular, by supporting local companies, sport associations, social assistance, and healthcare research, with a view to making a contribution to the well-being of present and future generations.

The SIT Group fosters initiatives that strengthen ties with the local area, assessing each time their social impact and economic sustainability. Such initiatives are promoted through corporate communications, also in order to engage employees and encourage their participation.

Furthermore, its commitment to local communities allows the SIT Group to strengthen ties with scientific institutions, schools, and young people, and to promote the culture of sports, education, solidarity and environmental protection.

The Group is committed to pursuing and developing a medium to long term policy of support for initiatives in the areas of research, culture, sport and youth training.

Described below are some of 2018's most significant projects, events and initiatives that demonstrate the SIT Group's commitment to local communities and its employees.

Family support initiatives

- SIT&Kids: To strengthen ties with employee's families, the first edition of the SIT&Kids children's puzzle book was created and delivered to all Group employees to put under the Christmas tree for their children.

Youth training initiatives

- Investing in Young People: Conceived with this goal in mind was the "*Orchestra of Padua and Veneto Summer Academy 2018*" initiative, with the collaboration of the Orchestra of Padua and Veneto, and the Friends of OPV Association, and with funding from Fondazione Cassa di Risparmio di Padova e Rovigo and SIT.

The initiative involved the re-launching of a successful Friends of OPV Association project to establish eight scholarships, worth Euro 1,000 each, for the very best students of the Veneto Region State Music Conservatories.

The selected "OPV Summer Academy 2018" students followed a specialist course under the guidance of the orchestra's leading players, concluding in a series of concerts in June and July 2018.

The scholarships were awarded to five violinists, one violist, one cellist, and a double bass player. One of the scholarships was offered entirely by SIT, and was dedicated to the memory of our founders, who were fond of classical music and encouraging of young musical talent.

- School in the Factory: In a well-established collaboration with the Ferruccio Viola Technical Institute of Rovigo, the Rovigo industrial site regularly welcomes classes of local students to introduce them to world of productive, industrial and organizational processes and of work in general.

- Similarly, also in 2018, SIT welcomed a group of students to its Padua site from the Faculty of Educational Sciences, in order to give them an example of the organization, roles and objectives of a multinational company's Human Resources department.

Sports initiatives

- Always inspired by the world of sport due to the values it represents, SIT again supported the Lentigione Calcio football team of Brescello (Reggio Emilia), an amateur team competing in the Italian Serie D 2018-2019 Championship season.

The town of Brescello experienced a difficult challenge at the end of 2017, when a terrible flood invaded local inhabited, industrial and agricultural areas, causing significant damage and requiring considerable reconstruction efforts. Having overcome this great test, the town is even more united and determined to enjoy Sunday matches at the stadium, as a moment of leisure, euphoria and celebration.

"We have the task of creating a harmonious and constructive environment that celebrates the idea that sport is life", says Alfredo Amadei, who has always been involved in the world of sports and a committed patron of the team.

- **Padua Marathon.** The Sant'Antonio Marathon is one of the most popular sports events in the Veneto Region, with over 23,000 participants. SIT participated with a stand at the finish line for employees, family members and friends to whom it had also offered the race registration fee. It was a wonderful opportunity to spend a Sunday dedicated to sport and entertainment among relatives, friends and colleagues, and an opportunity to get to know each other, combine work and family life and celebrate common passions.

Local area and community impact initiatives

- On September 28, SIT opened the planned extension works to the Rovigo production site with the event "Safety, Innovation and Technology at the Heart of the Polesine di Rovigo Area". The new site organisation will favour increases in the efficiency of production and product distribution processes.

The event presented the construction of the new Production Competence Centre and Integrated Component and Finished Product Logistics Centre. Various leading local and regional political figures and institutional representatives were there to participate in the ribbon-cutting ceremony.

- Internal distribution of the quadrilingual corporate magazine SIT&Talk promotes a shared culture and climate of participation across all Group companies, engaging and informing employees and their families.

In October 2018, a new periodic publication was launched featuring in-depth articles on environmental, social and governance issues, with the aim of raising engagement in and awareness of the Group's sustainability initiatives and goals.

Support initiatives

- Padua stands with Genoa: In September, SIT joined the initiative promoted by the Mayor of Padua, Sergio Giordani, with a donation to support of the City of Genoa and families of the victims of the Morandi bridge collapse.

Initiatives to support medical research

- For the Padua Marathon, SIT provided over 400 t-shirts to its participants in the competition. With the SIT logo, and that of the non-profit Luca Ometto Glioblastoma Association, the orange-coloured t-shirts added some welcome colour to the race start line. Indeed, SIT, through its participation in the marathon, once again supported the association founded by Valentina Ometto with the aim of raising funding for scientific glioblastoma research in order to improve the effectiveness of treatments and the quality of life of patients and their families.
- Christmas Panettone: To celebrate Christmas at the Padua, Rovigo, Montecassiano and Milan sites, a gift pack was given to all employees containing a panettone purchased from the Luca Ometto Association, which supports research into treatments for glioblastoma. As many as 1000 packages were delivered.

Environmental initiatives

- The Monterrey facility in Mexico successfully concluded its initiative to plant 50 trees at two schools in the city in order to promote the culture of sustainability and respect for the environment among young students.

The above-mentioned community engagement programmes and initiatives were developed and promoted by approximately 13% of Group companies.

Annex

Material topic scope and impacts

The following table indicates the topics that have been defined as material for the SIT Group. For these topics, the “Impact scope” column indicates the party that may generate an impact in relation to each topic, both internally and externally to the Group. In addition, the “Type of impact” column indicates the role of the SIT Group in terms of the generated impact with regards to each material topic, i.e. whether the organisation directly causes the impact, contributes to its generation or is directly related to the impact by means of a commercial relationship.

Macro-area	Material topics	Impact scope	Type of impact
Economic performance, Governance, Risk & Compliance	Economic performance	SIT Group	Caused by the Group
	Market presence	SIT Group	Caused by the Group
	Corporate Governance	SIT Group	Caused by the Group
	Compliance with laws and regulations	SIT Group	Caused by the Group
	Research and Development	SIT Group, Universities and research centres	Caused by the Group and directly related to its activities
	Ethics and business integrity	SIT Group, contractor suppliers, business partners, employees and collaborators	Caused by the Group and directly related to its activities
	Risk Management	SIT Group	Caused by the Group
	Relations with Public Institutions	SIT Group	Caused by the Group
Environmental Responsibility	Effluents and waste	SIT Group, contractor suppliers and business partners	Caused by the Group and directly related to its activities
	Water resources	SIT Group	Caused by the Group
	Emissions	SIT Group	Caused by the Group
	Energy consumption	SIT Group	Caused by the Group
Social Responsibility	Product quality and safety	SIT Group, contractor suppliers and business partners	Caused by the Group and directly related to its activities
	Management and development of human resources	SIT Group	Caused by the Group
	Local community commitment	SIT Group	Caused by the Group
	Diversity, equal opportunities and non-discrimination	SIT Group	Caused by the Group

	Employee Health and Safety	SIT Group and external workers	Caused by the Group
	Responsible supply chain management	SIT Group, contractor suppliers and business partners	Caused by the Group and directly related to its activities
	Welfare and well-being	SIT Group	Caused by the Group

Relationship between material topics and GRI Content Index topics

Macro-area	Material topics	GRI topic
Economic performance, Governance, Risk & Compliance	Economic performance	Economic performance
	Market presence	Market presence
	Corporate Governance	Governance (General Aspect)
	Compliance with laws and regulations	Anti-corruption, environmental compliance
	Research and Development	(Not directly related)
	Ethics and business integrity	Ethics and integrity (General Aspect)
		Anti-corruption
	Risk Management	Strategy (General Aspect)
		Organisational profile (General Aspect)
	Relations with Public Institutions	Organisational profile (General Aspect)
		Stakeholder engagement (General Aspect)
Environmental Responsibility	Effluents and waste	Effluents and waste
	Water resources	Water
	Emissions	Emissions
	Energy consumption	Energy
Social Responsibility	Product quality and safety	Consumer health and safety
	Management and development of human resources	Training and education
		Industrial relations
	Local community commitment	Local communities
	Diversity, equal opportunities and non-discrimination	Diversity and equal opportunities
		Non-discrimination
	Employee Health and Safety	Occupational health and safety
	Responsible supply chain management	Organisational profile (General Aspect)
		Procurement practices
	Welfare and well-being	Employment

GRI Content Index

The SIT Group's 2018 Sustainability Report has been prepared in conformity with Global Reporting Initiative Standards under the "In accordance - Core" option.

The following table indicates Group data on the materiality assessment conducted according to Global Reporting Initiative Standards. The relevant page within the document is also indicated.

GRI Standard	Disclosure	Page number	Omissions
GRI 102: GENERAL DISCLOSURE (2016)			
Organizational profile			
102-1	Name of the organization	5; 9	
102-2	Activities, brands, products, and services	12-13	
102-3	Location of headquarters	74	
102-4	Location of operations	11	
102-5	Ownership and legal form	10; 25;	
102-6	Markets served	11; 14	
102-7	Scale of the organization	14; 33 Capitalisation: Euro 196,236 million (at 28/12/2018)	
102-8	Information on employees and other workers	47; 48	
102-9	Supply chain	40-41	
102-10	Significant changes to the organization and its supply chain	During the period there were no significant changes to the size, structure, ownership or supply chain of the organisation	
102-11	Precautionary Principle or approach	18-20	
102-12	External initiatives	15; 28-30	
102-13	Membership of associations	31-32	
Strategy			
102-14	Statement from senior decision-maker	3-4	
102-15	Key impacts, risks and opportunities	18-20	
Ethics and integrity			
102-16	Values, principles, standards and norms of behavior	15	
Governance			
102-18	Governance structure	25-27	
Stakeholder engagement			
102-40	List of stakeholder groups	22-23	
102-41	Collective bargaining agreements	59	
102-42	Identifying and selecting stakeholders	22	
102-43	Approach to stakeholder engagement	23	
102-44	Key topics and concerns raised	24	

Reporting practices			
102-45	Entities included in the Consolidated Financial Statements	5; 10	
102-46	Defining report content and topic Boundaries	24; 64-65	
102-47	List of material topics	24	
102-48	Restatements of information	This document is SIT Group's first NFR.	
102-49	Changes in reporting	This document is SIT Group's first NFR.	
102-50	Reporting period	5	
102-51	Date of most recent report	This document is SIT Group's first NFR.	
102-52	Reporting cycle	8	
102-53	Contact point for questions regarding the report	8	
102-54	Claims of reporting in accordance with the GRI Standards	5	
102-55	GRI Content Index	66-70	
102-56	External assurance	71-73	
TOPIC-SPECIFIC STANDARDS			
GRI 200: Economic series			
GRI 201: Economic Performance (2016)			
103-1	Explanation of the material topic and its Boundaries	33-34; 64-65	
103-2	The Management approach and its components	33-34	
103-3	Evaluation of the management approach	33-34	
201-1	Direct economic value generated and distributed	35	
GRI 202: Market presence (2016)			
103-1	Explanation of the material topic and its Boundaries	50; 55; 64-65	
103-2	The Management approach and its components	50; 55	
103-3	Evaluation of the management approach	50; 55	
202-1	Ratios of standard entry level wage by gender compared to local minimum wage	55	
202-2	Proportion of senior management hired from the local community	50	
GRI 204: Procurement practices (2016)			
103-1	Explanation of the material topic and its Boundaries	40-41; 64-65	
103-2	The Management approach and its components	40-41	
103-3	Evaluation of the management approach	40-41	
204-1	Portion of spending on local suppliers	41	
GRI 205: Anti-corruption (2016)			
103-1	Explanation of the material topic and its Boundaries	29-30; 64-65	
103-2	The Management approach and its components	29-30	
103-3	Evaluation of the management approach	29-30	
205-3	Confirmed incidents of corruption and actions taken	In 2018, the Group did not report any incidents of corruption.	

GRI 300: Environmental series			
GRI 302: Energy (2016)			
103-1	Explanation of the material topic and its Boundaries	42-43; 64-65	
103-2	The Management approach and its components	42-43	
103-3	Evaluation of the management approach	42-43	
302-1	Energy consumption within the organization	43	
GRI 303: Water (2016)			
103-1	Explanation of the material topic and its Boundaries	42; 46; 64-65	
103-2	The Management approach and its components	42; 46	
103-3	Evaluation of the management approach	42; 46	
303-1	Water withdrawal by source	46	
GRI 305: Emissions (2016)			
103-1	Explanation of the material topic and its Boundaries	42; 44-45; 64-65	
103-2	The Management approach and its components	42; 44-45	
103-3	Evaluation of the management approach	42; 44-45	
305-1	Direct (Scope 1) GHG emissions	44	
305-2	Energy indirect (Scope 2) GHG emissions	44	
305-6	Emissions of ozone-depleting substances (ODS)	44	
305-7	Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions	45	
GRI 306: Effluents and waste (2016)			
103-1	Explanation of the material topic and its Boundaries	42; 45-46; 64-65	
103-2	The Management approach and its components	42; 45-46	
103-3	Evaluation of the management approach	42; 45-46	
306-2	Waste by type and disposal method	46	
GRI 307: Environmental Compliance (2016)			
103-1	Explanation of the material topic and its Boundaries	28-29; 42; 64-65	
103-2	The Management approach and its components	28-29; 42	
103-3	Evaluation of the management approach	28-29; 42	
307-1	Non-compliance with environmental laws and regulations	46	
GRI 400: Social series			
GRI 401: Employment (2016)			
103-1	Explanation of the material topic and its Boundaries	47; 50; 64-65	
103-2	The Management approach and its components	47; 50	
103-3	Evaluation of the management approach	47; 50	
401-1	New employee hires and employee turnover	48-49	
GRI 402: Industrial Relations (2016)			
103-1	Explanation of the material topic and its Boundaries	59-60; 64-65	
103-2	The Management approach and its components	59-60	
103-3	Evaluation of the management approach	59-60;	

402-1	Minimum notice periods regarding operational changes	The minimum notice period is defined in applicable national collective bargaining agreements and legislation in the countries in which the Group operates.	
GRI 403: Occupational Health and Safety (2018)			
103-1	Explanation of the material topic and its Boundaries	51; 64-65	
103-2	The Management approach and its components	51	
103-3	Evaluation of the management approach	51	
403-1	Workers representation in formal joint management-worker health and safety committees	51	
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	51	
403-3	Workers with high incidence or high risk of diseases related to their occupation	51	
403-4	Health and safety topics covered in formal agreements with trade unions	51	
403-5	Worker training on occupational health and safety	51	
403-6	Promotion of worker health	51	
403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	51	
403-9	Work-related injuries	52-53	
GRI 404: Training and education (2016)			
103-1	Explanation of the material topic and its Boundaries	54;64-65	
103-2	The Management approach and its components	54	
103-3	Evaluation of the management approach	54	
404-1	Average hours of training per year per employee	54	
GRI 405: Diversity and Equal Opportunities (2016)			
103-1	Explanation of the material topic and its Boundaries	58; 64-65	
103-2	The Management approach and its components	58	
103-3	Evaluation of the management approach	58	
405-1	Diversity of governance bodies and employees	26; 58-59	
GRI 406: Non-Discrimination (2016)			
103-1	Explanation of the material topic and its Boundaries	55; 64-65	
103-2	The Management approach and its components	55	
103-3	Evaluation of the management approach	55	
406-1	Incidents of discrimination and corrective actions taken	In 2018, the Group did not report any incidents of discriminatory practices.	
GRI 413: Local Communities (2016)			
103-1	Explanation of the material topic and its Boundaries	61-63; 64-65	

103-2	The Management approach and its components	61-63	
103-3	Evaluation of the management approach	61-63	
413-1	Operations with local community engagement, impact assessments, and development programs	63	
GRI 416: Consumer health and safety (2016)			
103-1	Explanation of the material topic and its Boundaries	36-37; 64-65	
103-2	The Management approach and its components	36-37	
103-3	Evaluation of the management approach	36-37	
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	In 2018 the Group did not experience any episodes of non-compliance relating to the impacts on health and safety of products and services	
Material topics not related to specific GRI standard disclosures			
Research and Development			
103-1	Explanation of the material topic and its Boundaries	38-39; 64-65	
103-2	The Management approach and its components	38-39	
103-3	Evaluation of the management approach	38-39	

**INDEPENDENT AUDITOR'S REPORT
ON THE CONSOLIDATED NON-FINANCIAL STATEMENT PURSUANT TO ARTICLE 3,
PARAGRAPH 10 OF LEGISLATIVE DECREE No. 254 OF DECEMBER 30, 2016 AND
ART. 5 OF CONSOB REGULATION N. 20267/2018 OF JANUARY, 2018**

**To the Board of Directors of
SIT S.p.A.**

Pursuant to article 3, paragraph 10, of the Legislative Decree no. 254 of December 30, 2016 (hereinafter "Decree") and to article 5 of the CONSOB Regulation n. 20267/2018, we have carried out a limited assurance engagement on the Consolidated Non-Financial Statement of SIT S.p.A. and its subsidiaries (hereinafter the "SIT Group" or "Group") as of December 31, 2018 prepared on the basis of art. 4 of the Decree, and approved by the Board of Directors on March 22, 2019 (hereinafter the "NFS").

Responsibility of the Directors and the Board of Statutory Auditors for the NFS

The Directors are responsible for the preparation of the NFS in accordance with articles 3 and 4 of the Decree and *Global Reporting Initiative Sustainability Reporting Standards* (hereinafter "GRI Standards") established in 2016 by *Global Reporting Initiative* (GRI), which they have identified as reporting framework.

The Directors are also responsible, within the terms established by law, for such internal control as they determine is necessary to enable the preparation of NFS that is free from material misstatement, whether due to fraud or error.

The Directors are moreover responsible for defining the contents of the NFS, within the topics specified in article 3, paragraph 1, of the Decree, taking into account the activities and characteristics of the Group, and to the extent necessary in order to ensure the understanding of the Group's activities, its trends, performance and the related impacts.

Finally, the Directors are responsible for defining the business management model and the organisation of the Group's activities as well as, with reference to the topics detected and reported in the NFS, for the policies pursued by the Group and for identifying and managing the risks generated or undertaken by the Group.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the compliance with the provisions set out in the Decree.

Auditor's Independence and quality control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the *International Ethics Standards Board for Accountants*, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. Our auditing firm applies *International Standard on Quality Control 1* (ISQC Italia 1) and, accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova Palermo Parma Roma Torino Treviso Udine Verona

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Auditor's responsibility

Our responsibility is to express our conclusion based on the procedures performed about the compliance of the NFS with the Decree and the GRI Standards. We conducted our work in accordance with the criteria established in the *"International Standard on Assurance Engagements ISAE 3000 (Revised) – Assurance Engagements Other than Audits or Reviews of Historical Financial Information"* (hereinafter *"ISAE 3000 Revised"*), issued by the *International Auditing and Assurance Standards Board (IAASB)* for limited assurance engagements. The standard requires that we plan and perform the engagement to obtain limited assurance whether the NFS is free from material misstatement. Therefore, the procedures performed in a limited assurance engagement are less than those performed in a reasonable assurance engagement in accordance with ISAE 3000 Revised, and, therefore, do not enable us to obtain assurance that we would become aware of all significant matters and events that might be identified in a reasonable assurance engagement.

The procedures performed on NFS are based on our professional judgement and included inquiries, primarily with company personnel responsible for the preparation of information included in the NFS, analysis of documents, recalculations and other procedures aimed to obtain evidence as appropriate.

Specifically we carried out the following procedures:

1. Analysis of relevant topics with reference to the Group's activities and characteristics disclosed in the NFS, in order to assess the reasonableness of the selection process in place in light of the provisions of art. 3 of the Decree and taking into account the adopted reporting standard.
2. Analysis and assessment of the identification criteria of the consolidation area, in order to assess its compliance with the Decree.
3. Comparison between the financial data and information included in the NFS with those included in the consolidated financial statements of the SIT Group.
4. Understanding of the following matters:
 - Business management model of the Group's activities, with reference to the management of the topics specified by article 3 of the Decree.
 - Policies adopted by the entity in connection with the topics specified by article 3 of the Decree, achieved results and related fundamental performance indicators.
 - Main risks, generated and/or undertaken, in connection with the topics specified by article 3 of the Decree.

Moreover, with reference to these matters, we carried out a comparison with the information contained in the NFS and the verifications described in the subsequent point 5, letter a) of this report.

5. Understanding of the processes underlying the origination, recording and management of qualitative and quantitative material information included in the NFS.

We carried out interviews and discussions with the management of SIT S.p.A. and with the employees of SIT S.p.A., SIT Romania S.r.l. , SIT Controls B.V., SIT Manufacturing N.A.S.A. de C.V., MeterSIT S.r.l e MeterSIT Romania S.r.l. and we carried out limited documentary verifications, in order to gather information about the processes and procedures, which support the collection, aggregation, elaboration and transmittal of non-financial data and information to the department responsible for the preparation of the NFS.

In addition, for material information, taking into consideration the Group's activities and characteristics at the parent company's and subsidiaries' level:

- a) with regards to qualitative information included in the NFS, and specifically with reference to the business management model, policies applied and main risks, we carried out interviews and gathered supporting documentation in order to verify its consistency with the available evidence;
- b) with regards to quantitative information, we carried out both analytical procedures and limited verifications in order to ensure, on a sample basis, the correct aggregation of data.

For the companies SIT S.p.A. and SIT Controls B.V, which we selected based on their activities, their contribution to the performance indicators at the consolidated level and their location, we carried out site visits, during which we have met their management and have gathered supporting documentation with reference to the correct application of procedures and calculation methods used for the indicators.

Conclusion

Based on the work performed, nothing has come to our attention that causes us to believe that the NFS of the SIT Group as of December 31, 2018 is not prepared, in all material aspects, in accordance with articles 3 and 4 of the Decree and the *GRI Standards*.

Other Matter

The data for the year ended December 31, 2017 presented for comparative purposes in the NFS have not been subject to a limited or to a reasonable assurance engagement.

DELOITTE & TOUCHE S.p.A.

Signed by
Gianna Adami
Partner

Padua, Italy
April 2, 2019

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



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