

2019 ANNUAL FINANCIAL REPORT

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CORPORATE INFORMATION

Parent Company Registered Office

Sit S.p.A.

Viale dell'Industria, 31/33

35129 Padua – Italy

www.sitgroup.it

Parent Company Legal Details

Share capital approved Euro 96,151,884.90

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

Tax and Padua Companies Registration Office No. 0485520287

Operating branches

Viale dell'Industria, 31 – 35129 Padua – Italy

Viale A. Grandi, 6 – 45100 Rovigo – Italy

Viale A. Grandi, 11 – 45100 Rovigo – Italy

Via Grazia Deledda 10/12 - 62010 Montecassiano - Italy

CHAIRMAN'S LETTER



Dear Shareholders,

In 2019, the SIT Group reached several important milestones, and remains a leading international brand.

We're well aware that in order to strengthen our work and grow as a Group, we need to focus on sustainability. SIT's ultimate aim is to create value for all its stakeholders. This means placing operating results alongside ethical performance, prioritising the creation of high-quality products and awareness of the social and environmental impact of its work. Creating value through work is part of our DNA, both for the business itself and for all those who form part of its social, economic and production ecosystems. This is why we feel it necessary to underline this philosophy through an update to our mission:

"Our commitment is to create smart solutions for climate control and consumption measurement for a more sustainable world"

(Our commitment is to create smart solutions for climate control and consumption measurement for a more sustainable world).

This builds on our previous mission, which was as follows:

"SIT develops and manufactures measuring devices and systems for the safety, comfort and performance of domestic gas equipment"

(SIT develops and manufactures instruments for the measurement of consumption and the safety, comfort and performance of domestic gas appliances)

As such, we're hoping to define ourselves less as a market leader in the gas sector, and more as a Group that creates intelligent climate control solutions. In fact, market and government developments are encouraging us all to explore methane gas alternatives, and we have also been consistently implementing plans to reduce CO₂ emissions. We are already designing and developing products that are compatible with alternative fuels, such as biomethane and hydrogen. Likewise, we also hope to keep our finger on the pulse with regard to future energy scenarios that might benefit from our expertise.

Our new mission sees measuring consumption as the first step towards conserving and managing scarce resources. In the ten years since its foundation, MeterSIT has become a key player in the world of smart gas metering. Our quality services and expertise are recognised worldwide. And why should we limit ourselves to the gas and heating sectors? As a Group, we're equipped to carry out incredibly precise measurements, and as such, we can use our expertise to measure other components and make the most of new opportunities.

Within this context, we want to be the leading partner in energy and climate control solutions. We aim to be a sustainable, tech-savvy partner devoted to innovation and quality. A partner that collaborates with customers to develop effective solutions. In 2019, we ran an MBO programme with the aim of assigning sustainability objectives to our managers. The programme will be rolled out to additional participants in 2020.

SIT is committed to growing with the communities in which it operates. During 2019, we made important progress in terms of our employees and the supply chain, as detailed in this report.

As I write these words, the world is going through a time of great uncertainty. The Coronavirus emergency affects each and every one of us. At SIT, a Crisis Committee has been set up to protect employee safety. The Committee is taking all the necessary steps to safeguard our resources and to mitigate the impact of COVID-19 on our business in a timely manner.

As a listed company, we are seeing our stock market value come under severe strain, just as many other listed companies are. As such, I ask our shareholders and investors to remember that the current situation requires careful assessment and evaluation. Our performance on the stock market during this critical period does not reflect the value we are able to generate. As a market leader and company capable of

demonstrating our solidity, we're paying shareholders a dividend of Euro 0.14 per share for the 2019 financial year.

Finally, I would like to thank all employees at SIT for their clarity and professionalism during this time of incredible uncertainty. You should all pride yourselves on the work you do every day.

When I look back at 2019, I see a lot of hard work, achievements and satisfaction. Much has been done, and much remains to be done. Among the numerous projects in the pipeline for 2020 is the new SIT headquarters in Padua, intended as a campus for testing gases with a lower environmental impact in collaboration with our customers, partners, local residents and those working in the energy and climate sectors.

For SIT, the future after COVID-19 is fraught with challenges: how to create growth opportunities, how to manage energy transition, market dynamics, digital transformation and evolution in the ways we work, the places we work from, and the tools we use.

We relish challenges, and we're really looking forward to becoming a key player in the field.

Let's enjoy the ride, and I wish you all the best in your work.

Federico de' Stefani

Chairman & Chief Executive Officer

THE SIT GROUP'S MISSION, VISION AND VALUES

In 2019, SIT decided to prepare a more explicit statement of its conviction in striking and maintaining a balance between its financial objectives and those relating to respect for the environment and social topics by redefining its

Mission

"Our commitment is to create smart solutions for climate control and consumption measurement for a more sustainable world".

Vision

"To be recognised as the leading sustainable partner for energy and climate control solutions (and to enjoy the journey!)"

Values



DIRECTORS' REPORT

COMPOSITION OF THE CORPORATE BOARDS

Board of Directors*

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

Board of Statutory Auditors*

Saverio Bozzolan	<i>Chairman</i>
Ivano Pelassa	<i>Statutory Auditor</i>
Loredana Anna Conidi	<i>Statutory Auditor</i>
Giulia Chiarella	<i>Alternate Auditor</i>
Barbara Russo	<i>Alternate Auditor</i>

Independent Audit Firm

Deloitte & Touche S.p.A.

Internal Control, Risks and Sustainability Committee

Bettina Campedelli **	<i>Chairperson</i>
Chiara de' Stefani	<i>Member</i>
Franco Stevanato **	<i>Member</i>

Related Parties Committee

Bettina Campedelli **	<i>Chairperson</i>
Giovanni Cavallini	<i>Member</i>
Franco Stevanato**	<i>Member</i>

Remuneration Committee

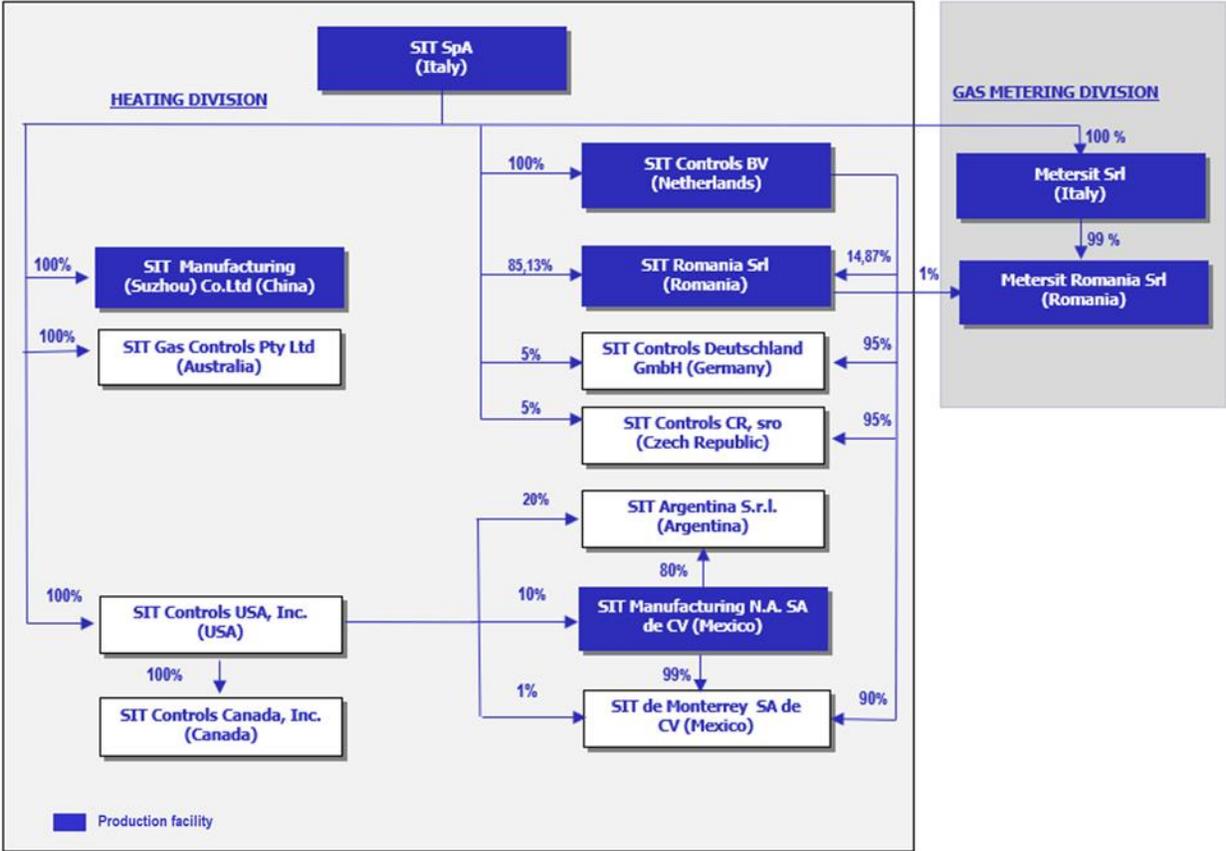
Antonio Campo Dall'Orto **	<i>Chairman</i>
Chiara de' Stefani	<i>Member</i>
Franco Stevanato**	<i>Member</i>

* The Board of Directors and the Board of Statutory Auditors were appointed by the Shareholders' Meeting of July 10, 2017 and remain in office until the approval of the 2019 Annual Accounts. The Director Bettina Campedelli and the Director Antonio Campo Dall'Orto were appointed by the Shareholders' Meeting of April 24, 2019 and remain in office until the approval of the 2019 Annual Accounts. The Statutory Auditor Anna Loredana Conidi and the Alternate Auditor Barbara Russo were appointed by the Shareholders' Meeting of April 26, 2018 and remain in office until the approval of the 2019 Annual Accounts.

** Independent directors.

*** In relation to the nature of the powers conferred, reference should be made to the 2019 Governance Report.

GROUP STRUCTURE



The SIT Group

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

The Group comprises two divisions:

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

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

- SIT S.p.A is the parent company of the SIT Group and undertakes R&D and commercial and sales operations, while also providing a range of industrial and support services to the manufacturing and distribution companies. SIT has a number of production units involved in precise machining, fitting and assembly for the manufacturing of mechanical controls, integrated systems, electric fans and smoke exhaust kits;
- SIT Controls B.V. (Netherlands) produces electronic safety and control boards for heating appliances for the European market and, in particular, condensing boilers for the Central Heating market. It distributes the products of other Group companies to local customers;
- SIT Controls Deutschland GmbH (Germany) is a sales agent for a number of Group companies;
- SIT Controls CR s.r.o. (Czech Republic) is a sales agent for a number of Group companies;
- SIT Romania S.r.l. (Romania), based in Brasov in Romania, is engaged in the assembly and testing of mechanical controls, electric fans and integrated domestic gas equipment control systems.
- SIT Manufacturing N.A.S.A. de C.V. (Mexico) is a specialised Direct Heating and Storage Water Heating systems manufacturing facility, principally for the American and local markets. The company mainly works with end-customers, using, for the American market, the agency services provided by SIT Controls U.S.A. Inc., while on the Australian and Asian markets using local Group companies/distribution entities;

- SIT de Monterrey S.A de C.V. (Mexico) provides services to the parent company SIT Manufacturing N.A.S.A. de C.V.;
- SIT Controls U.S.A. Inc. (USA) is a sales agent for Group products on the US market;
- SIT Controls Canada Inc. (Canada) is a sub-agent of SIT Controls USA on the Canadian market;
- SIT Gas Controls Pty Ltd, based in Melbourne (Australia), oversees the distribution of SIT products on the local market and some countries in the region;
- SIT Manufacturing Suzhou Co. Ltd (China) is a manufacturer of mechanical controls, satisfying local market demand - both in terms of local customers and the local branches of European manufacturers. The company distributes its own products and those of other Group companies on the local market;
- SIT (Argentina) S.r.l. manages the import of SIT products into the region.

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

The former, located in Padua, is involved in the design, manufacturing and sale of new generation remote gas meters, while Metersit Romania S.r.l., based in Brasov in Romania, is a manufacturing facility for the direct parent company Metersit S.r.l.

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

FINANCIAL HIGHLIGHTS

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

Euro.000						
Financials	2019	%	2018	%	change	change %
Revenues from contracts with customers	352,207	100.0%	359,688	100.0%	(7,481)	-2.1%
EBITDA	48,739	13.8%	43,821	12.2%	4,918	11.2%
EBIT	24,734	7.0%	23,955	6.7%	779	3.3%
Net profit/(loss) of the year	19,928	5.7%	24,265	6.7%	(4,337)	-17.9%
Cash flow from operating and investing activities	9,992		3,215		6,777	

Euro.000				
Balance Sheet	31/12/2019	31/12/2018	change	change %
Net Financial Position	(78,397)	(71,334)	(7,063)	9.9%
Net trade working capital	34,971	29,473	5,498	18.7%
Net trade working capital/Revenues	9.9%	8.2%		

ALTERNATIVE PERFORMANCE MEASURES

Euro.000

Financials	2019	%	2018	%	change	change %
Revenues from contracts with customers	352,207	100.0%	359,688	100.0%	(7,481)	-2.1%
EBITDA	48,739	13.8%	43,821	12.2%	4,918	11.2%
EBITDA adjusted	48,295	13.7%	50,579	14.1%	(2,285)	-4.5%
EBITDA adjusted ante IFRS16	46,126	13.1%	50,579	14.1%	(4,454)	-8.8%
EBIT	24,734	7.0%	23,955	6.7%	779	3.3%
EBIT adjusted	24,920	7.1%	30,713	8.5%	(5,793)	-18.9%
Financial charges	4,163	1.2%	4,798	1.3%	(635)	-13.2%
Financial income	2,033	0.6%	13,285	3.7%	(11,253)	-84.7%
Net financial (charges)/income adjusted	(3,591)	-1.0%	(4,266)	-1.2%	675	-15.8%
Result before taxes (EBT)	21,320	6.1%	32,072	8.9%	(10,752)	-33.5%
Result before taxes adjusted (EBT)	20,046	5.7%	26,077	7.2%	(6,031)	-23.1%
Net profit/(loss) of the year	19,928	5.7%	24,265	6.7%	(4,337)	-17.9%
Adjusted net profit of the year	14,900	4.2%	19,582	5.4%	(4,682)	-23.9%
Cash flow from operating and investing activities	9,992		3,215		6,777	

Euro.000

Balance Sheet	31/12/2019	31/12/2018	change	change %
Net capital employed	227,531	208,025	19,506	9.4%
Shareholders' Equity	147,566	125,403	22,163	17.7%
Net Financial Position	(78,397)	(71,334)	(7,063)	9.9%
Adjusted Net Financial Position	(72,690)	(71,334)	(1,356)	1.9%
Financial Liabilities for Performance Shares	0	(8,260)	8,260	-100.0%
Financial liabilities for Warrants	(1,567)	(3,028)	1,461	-48.3%
Net trade working capital	34,971	29,473	5,498	18.7%

Euro.000

Key performance indicators	31/12/2019	31/12/2018
ROIC ⁽¹⁾	13.4%	17.8%
Net financial position/Shareholders' equity	0.53	0.57
Net financial position/Adjusted EBITDA	1.62	1.41

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

Composition of the main alternative performance measures

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

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

- Adjusted EBITDA is the EBITDA (EBIT plus amortisation, depreciation and write-downs, net of doubtful debt provisions) net of non-recurring transactions or rather all those atypical, unusual or transactions which do not repeat frequently in the normal course of business activities, undertaken with related or third parties, which may have a significant impact on the financial results of the Group. The following table presents a reconciliation with the financial statements:

Euro.000		
Reconciliation of EBITDA adjusted	2019 EBITDA	2018 EBITDA
EBIT	24,734	23,955
Depreciation, amortisation and write-downs	24,085	20,024
Write-downs	(80)	(158)
EBITDA	48,739	43,821
Transfer production lines to Rovigo ⁽¹⁾	803	-
Insurance reimbursement ⁽²⁾	(776)	-
Personnel expense ⁽³⁾	-	2,694
Listing charges	-	2,404
Adjustment to sureties ⁽⁴⁾	250	-
Accrual to product warranty provision ⁽⁵⁾	-	617
Charges from merger with ISI2	-	492
Chairman's extraordinary emolument ⁽⁶⁾	(754)	254
Reclamation provision ⁽⁷⁾	445	-
Other ⁽⁸⁾	(412)	298
Total non-recurring operating charges (income)	(444)	6,758
EBITDA adjusted	48,295	50,579

⁽¹⁾ The *Transfer production lines to Rovigo* account concerns the costs directly associated with the transfer and relative installation of the workshop unit production lines from the Padua headquarters to the new Rovigo production and logistics hub.

⁽²⁾ *Insurance reimbursements* concern the indemnity issued following the fire at the Rovigo manufacturing facility.

⁽³⁾ In 2018 *Personnel expenses* include the settlement and incentive costs for the mutual resolution of employment of the general manager, including legal expenses.

⁽⁴⁾ The *Adjustment to sureties* concerns the cost for sureties issued in the interest of the company Metersit S.r.l. within the scope of the tenders won by the Smart Gas Metering Division in previous years, recognised according to the revenue matching principle.

⁽⁵⁾ In 2018 the account *Product warranty provision* includes the adjustment to the product warranty provision relating to the Smart Gas Metering Division.

⁽⁶⁾ *Chairman's extraordinary emolument* concerns the variable bonus awarded to the Chairperson on the initial listing on the AIM market, whose maturation is subject to achievement of the objectives calculated on the basis of SIT's performance over financial years 2017, 2018 and 2019. For further details, reference should be made to that outlined below and in the Explanatory Notes at Note 39.

⁽⁷⁾ The account *Reclamation provision* covers the costs of the reclamation of a plot of land located in Padua owned by the Group.

⁽⁸⁾ In 2019 the account *Other* includes Euro 447 thousand relating to net capital gains realised on the sale of assets to third parties.

- EBITA is the operating result, net of amortisation on the gains allocated to Group intangible assets following the business combination (Purchase Price Allocation or PPA) consequent to the acquisition of SIT La Precisa S.p.A in 2014;
- Adjusted EBIT is defined as the operating result, net of non-recurring income and charges. The reconciliation, with indication of the non-recurring charges and income, is presented in the following table:

Euro.000		
Reconciliation of EBIT adjusted	2019 EBIT	2018 EBIT
EBIT	24,734	23,955
Transfer production lines to Rovigo	803	-
Insurance reimbursement	(776)	-
Personnel expense	-	2,694
Listing charges	-	2,404
Adjustment to sureties	250	-
Accrual to product warranty provision	-	617
Charges from merger with ISI2	-	492
Chairman's extraordinary emolument	(754)	254
Reclamation provision	445	-
Other	(412)	298
Write-downs of assets ⁽¹⁾	630	-
Total non-recurring operating charges (income)	186	6,758
EBIT adjusted	24,920	30,713

- ⁽¹⁾ The account *Write-downs of assets* includes the write-down of costs capitalised in previous years and recognised as assets in progress, relating to the project to redesign the spaces and renovate the building in which the company's offices are currently located. The abandonment of the project should be viewed within the broader framework of the construction of new research and development laboratories in an area adjacent to the company's offices, in Padua's business district.

For a description of the individual adjustment items, reference should be made to the adjusted EBITDA reconciliation table.

- Adjusted net financial charges and income are financial charges, net of the fair value changes to the Warrants and Performance Shares issued during the company's AIM listing in 2017. The reconciliation is presented below:

Euro.000		
Reconciliation of financial (charges)/income	2019 financial (charges)/income	2018 financial (charges)/income
Financial charges	(4,163)	(4,798)
Change in fair value on Warrants	-	-
Financial charges adjusted	(4,163)	(4,798)
Financial income	2,033	13,286
Changes on Performance Shares fair value	-	(3,241)
Changes on Warrants fair value	(1,460)	(9,512)
Adjusted Financial charges	572	533
Adjusted net financial (charges)/income	(3,591)	(4,266)

- Adjusted EBT is the result before non-recurring transactions. The reconciliation is presented below:

Euro.000		
Reconciliation of EBT	2019 EBT	2018 EBT
Profit/(loss) before taxes	21,320	32,072
Transfer production lines to Rovigo	803	-
Insurance reimbursement	(776)	-
Personnel expense	-	2,694
Listing charges	-	2,404
Adjustment to sureties	250	-
Accrual to product warranty provision	-	617
Charges from merger with ISI2	-	492
Chairman's extraordinary emolument	(754)	254
Reclamation provision	445	-
Other	(412)	298
Write-downs of assets	630	-
Total non-recurring operating charges (income)	186	6,758
Change in fair value on Performance Shares	-	(3,241)
Change in fair value on Warrants	(1,460)	(9,512)
Non-recurring net financial charges (income)	(1,460)	(12,753)
Adjusted result before taxes (EBT)	20,046	26,077

- Adjusted net result is the net result for the period, net of non-recurring transactions and the relative fiscal effect. The reconciliation is presented below:

Euro.000		
Reconciliation of net profit	2019 Net profit	2018 Net profit
Net profit/(loss) of the year	19,928	24,265
Transfer production lines to Rovigo	579	-
Insurance reimbursement	(559)	-
Personnel expense	-	1,942.06
Listing charges	-	1,733.35
Adjustment to sureties	180	-
Accrual to product warranty provision	-	444.61
Charges from merger with ISI2	-	492.04
Chairman's extraordinary emolument	(544)	183.13
Reclamation provision	321	-
Other	(297)	214.58
Write-downs of assets	454	-
Total non-recurring operating charges (income)	134	5,010
Change in fair value on Performance Shares	-	(2,463)
Change in fair value on Warrants	(1,460)	(7,229)
Non-recurring net financial charges (income)	(1,460)	(9,692)
Tax income	(3,702)	-
Adjusted net profit of the year	14,900	19,582

- ⁽¹⁾ Tax income related to the positive outcome of the request for an advance tax ruling filed by the Parent Company in 2018 on the tax treatment of the non-recurring items related to the merger with ISI2 in 2017, such as the fair value from the merger, the fair value of the warrants and the fair value of the Performance Shares.

For a description of the individual adjustment items of an operating nature, reference should be made to the adjusted EBITDA reconciliation table.

- Net capital employed and net commercial working capital are calculated considering the accounts presented in the following table:

Euro.000		
Reconciliation of net capital employed	31/12/2019	31/12/2018
Goodwill	78,138	78,138
Other intangible assets	59,125	66,111
Property, plant & equipment	79,317	65,169
Investments in other companies	54	54
Non-current financial assets	1,531	1,544
Fixed assets (A)	218,165	211,017
Inventories	51,126	52,230
Trade receivables	57,176	52,038
Trade payables	(73,331)	(74,795)
Trade net working capital (B)	34,971	29,473
Other current liabilities	10,133	9,102
Tax receivables	4,770	3,565
Other current liabilities	(15,957)	(17,088)
Tax payables	(3,001)	(6,107)
Other current assets, liabilities and taxes (C)	(4,055)	(10,529)
Net Working Capital (B + C)	30,916	18,944
Deferred tax assets	5,167	7,482
Provisions for risks and charges	(4,142)	(4,492)
Net liabilities for employee benefits	(6,201)	(5,908)
Other non-current liabilities	(4)	(758)
Deferred tax liabilities	(16,370)	(18,260)
Other non-current liabilities, assets and provisions (D)	(21,550)	(21,936)
Net capital employed (A + B + C + D)	227,531	208,025

- The adjusted net financial debt is calculated by subtracting the finance lease payable arising from application of IFRS 16 from the net financial debt calculated according to the indications of Consob Communication of July 28, 2006 and without considering the financial payable for Warrants and Performances Shares, as these items do not result in a financial outlay.

Euro.000		
Reconciliation of net financial position	31/12/2019	31/12/2018
A. Cash	22	21
B. Cash equivalent	34,042	55,473
C. Held-for-trading securities	-	-
D. Liquidity (A) + (B) + (C)	34,064	55,494
E. Current financial receivables	23	97
F. Current bank debt	103	60
G. Current portion of non-current debt	19,627	16,197
H. Other current financial liabilities	3,588	5,228
I. Current financial liabilities (F)+(G)+(H)	23,318	21,485
J. Net current financial liabilities (I) – (E) – (D)	(10,769)	(34,106)
K. Medium/long-term loans and borrowings	85,029	104,730
L. Bonds issued	-	-
M. Other non-current financial liabilities	4,138	710
N. Non current financial liabilities (K) + (L) + (M)	89,166	105,440
O. Net financial position (J) + (N)	78,397	71,334
IFRS 16 - Leases	(5,707)	
Net financial position adjusted	72,690	71,334

GENERAL OVERVIEW

Climate change

The increasingly widespread awareness among civil society, institutions and consumers means that actions aimed at combating climate change and safeguarding the environment by proposing alternative energy resources are increasingly at the centre of public debate.

Sound practices and expertise among market operators and the ability – for companies, but also for stakeholders and civil society – to innovate and invest in a sustainable growth process are more necessary than ever before to operate in the energy control sector.

In particular, gas, in its various forms, may play a crucial role in the global energy scenario. Gas infrastructure is a fundamental component of the development of alternative types of gas: low-carbon hydrogen and biomethane.

Low-carbon hydrogen

Versatile and the focus of great interest in recent months, this type of gas can be used in various applications and sectors: heating, first of all, but also transport, conversion into electricity and hydrogen-based fuels (such as synthetic methane, ammonium and liquid fuels). Production is currently expensive, but adding a low-carbon hydrogen component to natural gas distribution networks may be beneficial, above all in terms of lower CO₂ emissions, but also for economies of scale in production due to its more widespread use and ensuing reduced cost.

It bears remarking, on this subject, that in 2019 the UK government launched the Hy4Heat programme to determine the technical feasibility, safety conditions and convenience of replacing methane gas with hydrogen in both commercial and residential appliances. The Hy4Heat programme is part of the national heat decarbonisation plan, one of the greatest challenges for the United Kingdom in controlling climate change. The objective is to cut CO₂ emissions, with hydrogen use one of the strategic options. Metersit was selected in this procedure to propose alternative solutions in the hydrogen chain. For further details, see the paragraph Significant events in the year.

Biomethane

Biomethane is a renewable energy source obtained from biomass derived from agriculture (dedicated crops, by-products and agricultural and livestock waste), agri-industrial processes (food processing waste) and organic municipal solid waste (OMSW). Biomethane is obtained in two steps: production of raw biogas – primarily through the anaerobic digestion of biomass – and subsequent separation (“upgrading”) of components not compatible with injection into the grid (CO₂). Unlike hydrogen, biomethane is indistinguishable from natural gas and so may be used without requiring changes in the transmission mechanism and distribution infrastructure. According to the IEA (International Energy Agency), there are currently more than 700 operating biomethane plants generating approximately 2.5 Mtoe (million tonnes oil equivalent) worldwide, although production is currently relatively expensive. However, in a recent study the same source also emphasises that there is a sufficient stock of biomethane (more than 730 Mtoe) to meet more than 20% of current natural gas demand. Supply is spread across various countries and continents, particularly the United States and Europe (each with 16% of world supply), China and Brazil (each with 12%) and India (8%).

European Green Deal

The New Green Deal is the European Union’s environmental plan approved by the European Parliament on January 15, 2020 to promote urgent “ambitious action to limit global warming to 1.5°C and avoid massive loss of biodiversity”. The document pursues the Commission’s goal of transforming the EU into a healthier, more sustainable, fairer and more prosperous society with zero net greenhouse gas (GHG) emissions by requesting “the necessary transition to a climate-neutral European society by 2050 and for this objective to become a European success story”. The goal of reducing emissions by 55% by 2030.

The Green Deal “should be at the centre of the European strategy for new sustainable growth, within the planetary boundaries of the Earth, for new economic opportunities, stimulus for investment and quality jobs”. This “will benefit European citizens and enterprises, giving rise to a modern, efficient economy in terms of resources and competition, in which economic growth will be dissociated from global GHG emissions, resource use and waste production in the EU”.

To achieve the objectives of the Green New Deal, the Commission proposes a series of strategic actions, such as:

- Raising the level of EU's climate ambition for 2030 and 2050
- Providing clean, affordable and safe energy
- Mobilising the industry in favour of a clear, circular economy
- Accelerating the transition to sustainable, smart mobility
- Promoting a fair, healthy and environmentally friendly food system
- Preserving and restoring ecosystems and biodiversity
- Reducing atmospheric pollution for an environment without toxic substances
- Stimulating research and innovation
- Integrating sustainability into all EU policies

Supported by its values and strategic, long-term vision, SIT is already prepared to take up this challenge to make the planet's development model more sustainable by allocating resources, expertise and passion to a clear, defined innovation and development roadmap.

Macroeconomic Overview

In 2019 the world economy was adversely affected by the political and trade tensions triggered by the US administration, which created uncertainty and had negative repercussions on investment, particularly in areas with close links to the United States and China.

This environment was therefore not very favourable to the global economy, which was affected differently by this situation in various areas.

The following table shows GDP performance in the main areas of interest to the Group.

GDP performance	2019	2018
Italy	0.3%	0.9%
Euro	1.2%	1.9%
USA	2.3%	2.9%
China	6.1%	6.6%

In 2019 the Italian mechanical sector's exports continued to grow, albeit at a slightly slower pace, posting an increase of 1.1% on 2018. Despite the tariff policy and political uncertainties, the United States remains the main target market for the Italian mechanical sector's products. Production levels have remained buoyant over recent years, rising 1.8% on the previous year. The Enterprise Plan 4.0 (Piano Impresa 4.0.) continues to act as a driver.

An environment of severe uncertainty marked the beginning of 2020 due to the Covid-19 health emergency that began in China and spread to Italy and then to most countries in the world. This pandemic resulted in an abrupt worsening of global economic prospects, affecting both supply and demand, at least in the near term.

The effects of this event will depend on the duration of this emergency in the various affected countries and also on the promptness with which monetary and tax measures are formulated by government institutions in support of the most exposed sectors and operators¹.

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

OPERATIONAL OVERVIEW

Introduction

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

Significant events in the year

In February 2019, Metersit, a company belonging to the Smart Gas Metering Division, was awarded an order by Italgas, Italy's largest gas distributor, for the supply of next-generation gas meters. The order - part of the roll-out of new meters for 2019 - was awarded to Metersit for over Euro 14 million, with an option of an additional Euro 5 million. The order awarded - together with the existing backlog - ensures the Company's leading position on the Italian smart gas metering market and was behind the excellent results achieved in 2019.

In September 2019 Metersit was selected by the UK Department for Business, Energy & Industrial Strategy to develop a hydrogen meter as part of the national Hy4Heat project cited above. The objective of the work package is to develop a meter prototype which guarantees safety and the precise measurement of hydrogen flows. The prototype should be compatible with sector regulations (MID/Ofgem) and country specifications (SMETS 2), while also taking into consideration the particular characteristics of hydrogen in terms of its greater risk and reduced heating power by volume unit. From this point of view, the thermo-mass technology, unique to MeterSIT, can reduce meter size, another of the requirements of the tender. The Hy4Heat programme requires the delivery of the prototype by the first quarter of 2021. Achieving this result is a further step in the process that confirms that SIT plays a leading role in innovation in the sector at an international level.

In December Metersit was awarded UNI EN ISO/IEC 17025 certification by Accredia, the Italian Government designated Certification Body. The certification covers the calibration of gas volume and flow meters at the Padua metrological laboratory, recognising its quality, integrity and precision. The accreditation, which has only been granted to two operators in Italy, makes it possible to provide legally-approved certification services to third parties and sector players, and also to undertake outside

laboratory analysis. This recognition confirms the level of technological investment made, the expertise of technical staff and the excellent results achieved.

As part of the incorporation of the SPAC Industrial Star of Italy 2, in 2017 SIT S.p.A. converted 250,000 ordinary shares owned by SIT Technologies S.p.A. into an equal number of particular SIT shares (Performance Shares), convertible into ordinary shares under the terms and conditions set out in the By-Laws.

On April 15, 2019, the Board of Directors of SIT, on a favourable opinion from the Related Parties Committee, noted that the conditions stipulated in the By-Laws had been met and 250,000 Performance Shares were therefore converted into 1,250,000 ordinary shares in favour of Sit Technologies S.p.A., as further described in the paragraph Inter-company and related party transactions.

Sales overview

The SIT Group comprises two Divisions:

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

Revenue by Division

(Euro.000)	2019	%	2018	%	diff	diff %
Heating	260,026	73.80%	284,543	79.10%	-24,517	-8.60%
Smart Gas Metering	88,625	25.20%	71,966	20.00%	16,659	23.10%
Total business revenues	348,651	99.00%	356,509	99.10%	-7,858	-2.20%
Other revenues	3,556	1.00%	3,179	0.90%	377	11.90%
Total revenues	352,207	100%	359,688	100%	-7,481	-2.10%

Revenue by region

(Euro.000)	2019	%	2018	%	diff	diff %
Italy	135,068	38.30%	126,131	35.10%	8,937	7.10%
Europe (excluding Italy)	131,411	37.30%	148,425	41.30%	-17,014	-11.50%
The Americas	61,927	17.60%	55,277	15.40%	6,650	12.00%
Asia/Pacific	23,801	6.80%	29,855	8.30%	-6,054	-20.30%
Total revenues	352,207	100%	359,688	100%	-7,481	-2.10%

2019 consolidated revenues were Euro 352.2 million, decreasing 2.1% on 2018 (Euro 359.7 million). Q4 revenues were Euro 89.4 million, decreasing 0.9% on the previous year. The consolidated sales figures reflect different trends within the two Divisions.

Heating Division sales of Euro 260.0 million were down 8.6% on the previous year (-6.7% in Q4) mainly due to the decline on the European and Asian markets and only partially offset by the good US market performance - expanding 12.0% (+6.6% at like-for-like exchange rates).

On the American market - which represents approx. 23.6% of division sales - the improvement follows greater Storage Water Heating market share, thanks to the renewal of a long-term contract with a major sector customer and a stronger electronics performance on the Direct Heating market.

In Europe - which, excluding Italy, accounts for 46.5% of divisional sales - 2019 is down 15.0%, while Q4 2019 shows a slight decrease of 10.4% compared to the same period of 2018. This reduction affected all markets, but especially Turkey - accounting for 10.1% of divisional sales - which recorded a decrease of 31.1% (-18.7% in Q4). This was due to the absence of the E.r.P (Energy Related Products) regulation, which had supported sales in H1 2018. The other markets declined, above all in Central Heating, for both mechanical and electronic controls.

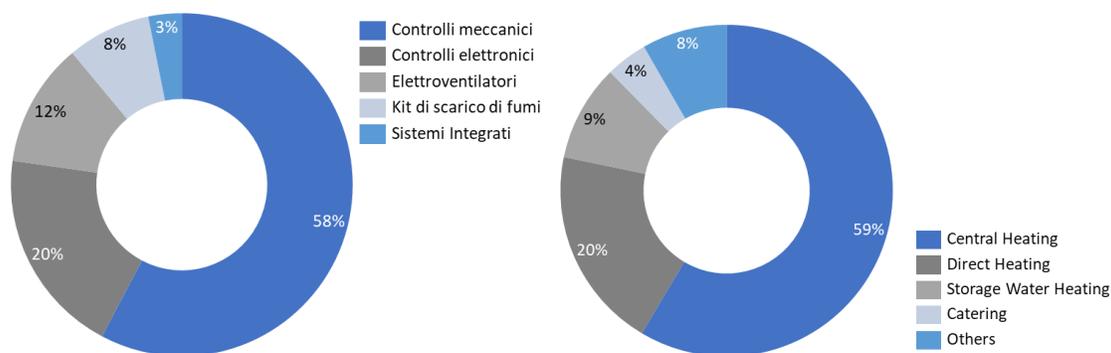
Italy (19.6% of divisional sales) contracted 7.7% compared to the previous year (Q4 consistent with 2018), indirectly reflecting the suspension of the incentives programme introduced by the Chinese government ("coal to gas policy") - in place in early 2018 - as well as the slowdown on the local market.

China (5.8% of division sales) reported a contraction of 12.8% in 2019 compared to the previous year, while Q4 was consistent with 2018.

Among the main product families, the largest declines were seen in Mechanical Controls (-10.0%; Euro 16.7 million) and Electric Fans (-18.2%; Euro 6.8 million), whereas there was an increase in Electronic Controls (+1.9%; Euro 1.0 million). At the application segment level, Central Heating accounted for 58.5% of division sales, a decline of 14.7% on the previous year, while Storage Water Heating (9.4% of the division) was up by 11.3% due to the aforementioned growth on the American market.

In relation to the main clients of the Heating Division, 40.1% of 2019 sales were on the top five clients, essentially in line with the level of the previous year.

The following charts break down 2019 sales by product family and application:



In 2019, the Smart Gas Metering Division generated revenues of Euro 88.6 million, an increase of 23.1% compared to Euro 72.0 million in 2018. In Q4 alone, sales were up 25.7%.

In terms of products, sales for Residential Meters amounted to Euro 84.5 million (95.4% of total sales), while sales for Commercial & Industrial Meters amounted to Euro 3.8 million. In 2018, these were respectively Euro 70.0 million (+20.8%) and Euro 1.8 million, with the latter up 107% following the entry into production of the new product platform. 2019 revenues were all substantially generated on the domestic market.

In relation to the principal clients of the Metering Division, 71.4% of annual sales are currently attributable to the leading three clients, due to the high concentration in the Italian gas distribution sector.

Operating performance

2019 consolidated revenues were Euro 352.2 million, decreasing 2.1% on 2018 (Euro 359.7 million).

Purchase costs of raw materials and consumables, including changes in inventories, amounted to Euro 194.9 million (55.3% of revenues, compared to 54.0% in 2018), due to the increase in transformation costs, only partially offset by the reduction in purchase prices.

Service costs, amounting to Euro 38.9 million, account for 11.0% of revenues, compared to 12.4% in 2018 (Euro 44.5 million). This decrease is a combined effect of the streamlining measures undertaken in 2019 regarding outsourcing (approx. Euro 1.6 million); a reduction in transport costs (approx. Euro 1.2 million); non-recurring costs associated with the transition to the MTA market in 2018 (1.2 million); the purely accounting effect relating to the initial application of IFRS 16, which reduced rental costs by approx. Euro 2.2 million.

Personnel expenses of Euro 69.4 million accounted for 19.7% of revenues (20.5% in 2018), decreasing Euro 4.2 million, due mainly to the non-recurring charges in 2018 of Euro 2.5 million for the mutual resolution of the employment of the general manager and the reduced volumes, which resulted in a lesser recourse to temporary staff (Euro 3.2 million).

Amortisation, depreciation and write-downs of Euro 24.1 million rose Euro 4.1 million, +20.3% on the same period of the previous year, due to the entry into service of the investments made in 2018 (for approx. Euro 3.7 million), in addition to the impact of the initial application of IFRS 16 (Euro 2.1 million). Also recognised are non-recurring write-downs of assets for Euro 0.7 million due to changes in their use.

The provision for risks recorded a value of Euro 138 thousand in 2019, compared to Euro 2.1 million in 2018. The item is affected by a reduction of Euro 463 thousand deriving from an updated percentage based on an assessment and analysis of returns for defects, and a reduction of Euro 412 thousand for unfulfilled obligations to clients for contractually-required potential compensation.

Other charges and income, totalling Euro 53 thousand, include non-recurring income for Euro 0.7 million relating to an insurance payment.

EBITDA, including the initial application of IFRS 16 for +Euro 2.2 million, was Euro 48.7 million, up 11.2% on 2018 (Euro 43.8 million). It should be noted that in 2018, non-recurring costs totalling Euro 6.8 million were incurred (of which Euro 2.7 million for personnel relating to the settlement with the General Manager and Euro 2.4 million for the transition from the AIM market to the main MTA segment), while in the same period of 2019 non-recurring transactions resulted in net income of Euro 0.4 million. For further details, see the paragraph Composition of main alternative performance measures.

Group EBIT therefore increased from Euro 24.0 million in 2018 to Euro 24.7 million in 2019 (+3.3%), accounting for 7.0% of revenues, up from 6.7%.

Financial charges in 2019 amounted to Euro 4.2 million, down from Euro 4.8 million in 2018. Financial income of Euro 2.0 million decreased compared to the previous year (Euro 13.3 million). This financial income included in 2018 the increase in the fair value concerning the market movements of the Performance Shares (Euro 3.2 million) and of the Warrants issued by the company (for Euro 9.5 million, compared to Euro 1.5 million in 2019).

Adjusted net financial charges, net of the aforementioned changes in fair value, were Euro 3.6 million in 2019, decreasing from Euro 4.3 million in 2018.

Income taxes amounted to Euro 1.4 million, compared to Euro 7.8 million in 2018. In the third quarter of 2019, the company was notified of the favourable outcome to the appeal presented to the Tax Agency regarding the tax treatment of the fair value change concerning the Warrants and the Performance shares in financial years 2017 and 2018. In previous years, the company had prudently taxed the financial income transferred to the income statement as a result of the fair value measurement of the Warrants and Performance Shares. In its response to the request for an advance tax ruling, the Italian Tax Agency clarified that the liability recognised through the negative equity reserve and the components taken to the income statement due to the fair value measurements recognised cannot be considered relevant for tax purposes. In addition, discharging the liability (when the securities are converted) also will not generate tax effects for the company. Consequently, the relative non-recurring tax income of Euro 3.7 million was recorded.

The net profit in the period was Euro 19.9 million (Euro 24.3 million in 2018).

The adjusted net profit in 2019, net of the above non-recurring effects, was Euro 14.9 million, compared to Euro 19.6 million in 2018 (respectively a 4.2% and 5.4% revenue margin).

Cash Flow performance

At December 31, 2019, net financial debt was Euro 78.4 million, compared to Euro 71.3 million at December 31, 2018, an increase of Euro 100 thousand. The movements in the net financial position are reported below:

(Euro thousands)	2019	2018
Cash flow from current activities (A)	48,941	48,138
Cash flow generated (absorbed) from Working Capital (B)	-15,999	-15,056
CASH FLOW FROM OPERATING ACTIVITIES (A + B)	32,942	33,082
Cash flow from investing activities (C)	-22,950	-29,867
CASH FLOW FROM OPERATING & INVESTING ACTIVITIES (A + B + C)	9,992	3,215
Interest paid	-2,816	-3,657
Change in accrued interest on loans including PIK	-	13
Amortised cost	-605	-559
FV change of derivatives	76	-368
Change in translation reserve	1,838	1,201
Change in shareholders' equity and acquisition treasury	-685	-89
Dividends	-6,969	-5,986
IFRS 16	-731	0
Change in net financial position	100	-6,230
Opening net financial position⁽¹⁾	78,479	65,105
Closing net financial position⁽²⁾	78,379	71,335

- (1) The opening net financial debt at 1.1.2019 was in addition adjusted for Euro 7,144 thousand to take account of the impact from the initial application of IFRS 16.
- (2) The Group's net financial position is calculated by not considering the financial liabilities for Warrants and the Performance Shares, since they are items that will not involve any financial outlay.

2019 operating cash flows amounted to Euro 48.9 million, substantially consistent with last year's figure. Cash flows absorbed by changes in working capital amount to Euro 15.9 million - also consistent with 2018. However, the account's composition differs in the two periods: in 2019 inventory generated Euro 1 million, whereas in 2018 it used Euro 14.2 million due to the exceptionally low level of inventory held at the end of 2017. By contrast, in 2019 trade receivables increased by Euro 5.2 million due to the sales performance at year-end compared with the previous period. In 2019 trade payables used Euro 1.5 million; they had generated Euro 6.4 million in 2018, due in part to the higher level of investments made near the end of that year.

Cash investments in 2019 totalled Euro 23.0 million, compared to Euro 29.9 million in 2018.

Operating cash flows after investments therefore amounted to Euro 10.0 million, compared to Euro 3.2 million in the previous year.

Among the financing activity cash flows, in 2019 we indicate the payment of interest for Euro 2.8 million (Euro 3.7 million in 2018), and the payment of dividends for Euro 7.0 million (Euro 6.0 million in 2018).

The change in net financial debt was thus Euro 100 thousand, an improvement on the increase of Euro 6.2 million in 2018.

Investments

In 2019 the Group invested Euro 23.4 million, of which Euro 22.0 million (94.2% of the total) in the Heating Division and Euro 1.3 million (5.8% of the total) in the Smart Gas Metering Division. In 2018 these amounts were Euro 30.7 million, Euro 28.1 million and Euro 2.6 million, respectively.

The main investment in 2019 was the purchase of the real estate complex intended to house the Company's new head office and the new research and development laboratories of both the Heating Division and Smart Gas Metering Division. The investment of Euro 6.5 million was the first step in a project to create innovative open innovation spaces where SIT's strategic partners will be able to work together on joint development of new solutions and applications. The project will make it possible to reduce the time-to-market of new products and enable experimentation with new technologies to create efficient, sustainable projects, for example in the hydrogen and biogas sector.

During the year, the Rovigo sites, on which work had begun in the previous year, the logistics hub and the new workshop were completed (for approx. Euro 3.2 million), whereas the remaining investments essentially related to plant maintenance (Euro 5.2 million), renewal of die-casting moulds (Euro 3.0 million) and production efficiency (Euro 1.6 million).

Investment in Smart Gas Metering was essentially due to the increase in production capacity (Euro 0.6 million or 44.5% of the Division's total). The remainder relates to industrial and laboratory equipment and to the purchase of hardware and software for new product development.

RESEARCH, DEVELOPMENT AND QUALITY CONTROL

In 2019 the Group incurred research and development costs for a total of Euro 11.2 million, equivalent to 3.2% of revenues, compared to Euro 10.8 million in the previous year (3.0% of revenues).

In 2019, the research and development area had an average workforce of 99, including 69 located at the Parent Company. In 2018, these numbered 93 and 65 respectively.

Heating Division

SIT's research and development activity focuses on developing mechatronic solutions for the correct operation of domestic heating appliances fuelled by gas, biogas and hydrogen. Research seeks to develop electronic and mechanical solutions that are increasingly integrated, while at the same time capable of maximising comfort performance by reducing energy consumption and CO₂ emissions. SIT aims to allow its clients to offer increased performance, while still guaranteeing a short time-to-market.

From a mechanical perspective, research focuses on utilising increasingly more evolved instruments, also applying artificial intelligence to develop more compact, integrated and efficient products; on the electronic side, there is a tendency towards programmable microprocessor solutions that are capable of communicating with the surrounding environment through the most modern Internet-of-things (IOT) technologies.

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

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

Turning to the main projects in 2019, development moved ahead on the new mechanical controls platform for the 87X, intended for the Central Heating market, above all in Europe. This family of mechanical controls will be the basis of a new range of integrated systems including high modulation features (Combustion Management System). This platform will permit a major boost in performance, as a more compact product in response to market demands and reducing weight and the installation space required.

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

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

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

Hydrogen and biogas

SIT was chosen by a major client (BOSCH Termotechnik) as its technological partner to develop a hydrogen boiler safety and control valve as part of the UK government Hy4Heat programme. The Hy4Heat programme is part of the United Kingdom's national "heating decarbonisation" plan, which evaluates the use of hydrogen appliances as a means of reducing CO₂ emissions through the use of decarbonised gas.

To overcome these challenges, SIT is developing a new product called Sigma - generation H, which has been approved by certification authorities for use with hydrogen, both in terms of materials and functions. The technological partnership with BOSCH Termotechnik involves the creation of prototypes by March 2020 and - after they are approved by the Hy4Heat project - field-testing in 2021.

Smart Gas Metering Division

Smart Gas Metering Division research and development in 2019 involved, above all, the residential, commercial and industrial product range for the UK market.

The residential range was expanded by the development, certification and introduction of the NB-IoT technology to the entire range, thus enabling successful participation in tenders requiring this communication technology on the Italian market.

The development of the U6 product (for the UK market) saw the award of ZigBee Alliance certification and test reports for compliance with Directive 2014/53/EU (RED). At the reporting date, the tests for CPA cyber-security certification were in the completion phase.

Study of walk-by technology was also launched for various foreign markets and is set to be completed in the second half of 2020.

In 2019 feasibility studies were completed on the new range of residential meters (designated “platform 3”), which will feature specific new gas grid connection mechanisms and all the major communication technologies currently in use.

Hydrogen

In 2019 the Group was particularly active in initiatives involving the use of hydrogen as a low-emission energy source.

Validation was completed for a new sensor that will enable the use of 5% hydrogen and a sensor that will allow the use of 20% hydrogen is in the prototype phase.

In September 2019 Metersit was selected by the UK Department for Business, Energy & Industrial Strategy, to develop a full hydrogen meter as part of the national Hy4Heat to define technical feasibility, safety conditions and the expedience of replacing methane gas with hydrogen in both commercial and residential applications. The Hy4Heat programme requires the delivery of the prototype by the first quarter of 2021. The intermediate activities, including phase 1 of the project, planned for the second quarter of 2020, are in line with planning.

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

In December, Metersit was awarded UNI EN ISO/IEC 17025 certification by Accredia, the Italian Government designated Certification Body. The certification covers the calibration of gas volume and flow meters at the Padua metrological laboratory, recognising its quality, integrity and precision. The accreditation, currently granted to three laboratories in Italy, makes it possible to provide legally-approved certification services to third parties and sector players, and also to undertake outside laboratory analysis.

Quality

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

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

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

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

In 2019 the Smart Gas Metering division passed the audits for renewal of ISO 9001:2015 and ISO 14001:2015 certification, while also confirming the Product Quality Warranty Certifications (Module D of MID Directive 2014/32/EC and Annex IV of the Atex Directive 2014/34/EC) for its production plants.

In November, the subsidiary Metersit successfully completed the audit for ISO 27001 certification (Information Security Management) and began the CPA certification process. This step is key as we approach major overseas markets for which data management (such as both HW and SW project data, meter data, cryptographic keys and others) is required for the acceptance of smart products.

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

HUMAN RESOURCES AND ORGANISATION

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

	2019 average	%	31/12/2019	%	2018 average	%	31/12/2018	%
Executives	36	2%	36	2%	33	1%	34	2%
White-collar	436	19%	440	20%	417	17%	431	19%
Blue-collar	1,538	68%	1,536	70%	1,676	68%	1,554	69%
Temporary	236	11%	188	8%	347	14%	231	10%
Total	2,246	100%	2,2	100%	2,473	100%	2,25	100%

At the reporting date:

- the Smart Gas Metering Division had 153 employees, of whom 75 in Italy and 78 abroad; there were 125 in total in 2018, of which 73 in Italy;
- at Group level, employees in Italy numbered 898, 41% of the total, while those based in other countries numbered 1,302, 59% of the total. In the previous year, there were 944 (42% of the total) and 1,306 (58% of the total), respectively.

A number of organisational development initiatives were launched in 2019 to support the new organisational structure, adapt skillsets and develop human potential in accordance with the new company mission and values.

In performance management, the SIT Leadership Model project was launched. The project, based on four dimensions of leadership (people, performance, business and innovation), is designed to improve the organisation's management culture by promoting transparency through feedback, encouraging a culture of meritocracy and supporting each employee's personal and professional development. The project, which complements the MBO incentive system, involved the top levels of the organisation in 2019 and is set to be extended to the remainder in 2020.

In order to assess behaviour in 2019, an individual and group assessment was conducted using the predictive index method. This tool allowed the company to map motivational needs, behaviours, independence, risk appetite, tenacity and judgement using four dimensions: dominance, extroversion, patience and formality. The questionnaire was sent to all employees working at SIT's Italian offices and was used in the selection process to assess the candidate's compatibility with the behaviour expected by the company and team in question.

To attract the best talent, SIT collaborates with a number of Italian universities, with which it has long, solid and fruitful relationships. In 2019 SIT remained active in various promotional initiatives (career day, professional orientation and open university), in addition to financing specific research projects with the Department of Industrial Engineering of the University of Padua. It should be noted that the University of Padua also awarded SIT a prize for having the "best on-campus recruiting activities" thanks to the internships it worked to arrange in 2019.

In employer branding, SIT further strengthened its brand on the labour market by targeting students at universities in Padua and the Veneto region.

The communication campaign was based in particular on the main social media channels, with the sharing of four concepts developed for the occasion using graphic, audio and video materials, culminating at the end of the year in the SIT-COM event, two days of scientific information focused on the main issues relating to work, the environment and sustainability, new forms of production and technological innovation.

Turning, finally, to work-life balance, in 2019 a remote working pilot project was also launched at the office in Padua in pursuit of flexibility and independence, along with greater responsibility for results.

The design phase of the project was carried out in collaboration with the business school ISTUD and the pilot project allowed a population of 60 employees from different departments to work remotely one day a week. At the end of the pilot phase, after receiving positive feedback from the participants and other offices, a second pilot project was implemented with effect from February 2020, involving another 60 employees.

Digital and Lean transformation

In 2019 SIT launched a long-term digital and lean transformation plan. The plan consists of two coordinated, integrated projects based on:

- continuous review and improvement of processes
- use of integrated digital technologies
- increased customer value added and elimination of waste
- enhancement of workers' skills and professional and organisational development.

In 2019 a digital assessment phase was carried out, involving over 300 employees and designed to map out their digital maturity level in terms of both hard skills (digital skills) and mindset and attitude (digital mindset).

In 2019, as part of the lean project, various initiatives were launched at plants and the head office to implement the 5S culture, essential to simplifying and ordering the workplace. The “Lean Temple” was also designed, based on the pillars of World Class Manufacturing and anchored in the Group’s strategic development guidelines. Training projects in support of the operating transformation were also launched.

L.T.I. – Long Term Incentive

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

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

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

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

Training

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

We highlight particularly the lean manufacturing skills courses among our projects, which involved approx. 385 blue-collar and white-collar employees across various departments.

Workplace safety training in 2019 involved approximately 360 staff. Another important training package related to the introduction of new IT standards also used to facilitate the remote working project, involving over 200 employees.

Approximately 10,500 training hours were delivered to SIT and Metersit employees. At Group level, over 47 thousand hours of training were provided.

SUSTAINABILITY

The Group has made a commitment to sustainability with a view to guaranteeing continuous improvements in the management of economic, environmental and social aspects, aware of its impact on the local area and community.

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

Governance and risk management

Following its admission to the “Mercato Telematico Azionario” (MTA) of the Italian Stock Exchange in November 2018, SIT gradually consolidated its corporate governance system, bringing it into compliance with the law and market best practices in terms of roles, responsibilities, committees, procedures and policies.

Environmental responsibility

By adopting its Environmental Management System (EMS), the Group has implemented specific monitoring and control procedures, assigns clear roles and responsibilities, and guarantees active communications with stakeholders and the competent authorities, including in potential environmental emergency situations. Environmental responsibility also translates into activities on production processes to reduce energy consumption and greenhouse gas emissions, management of production waste, recovery and disposal, as well as informed use of water resources.

Social Responsibility

At SIT it is seen as the continuous improvement and personal and professional growth of its employees. This is achieved through training and professional refresher activity and the honing of digital, communication and lean manufacturing skills; respect for the diversity and rights of its employees; a focus on workplace safety; and an emphasis on the wellbeing and work-life balance of its employees through company welfare and remote working programmes.

For further information on sustainability within the SIT Group, see the 2019 Non-Financial Statement, published in the sustainability section of the website www.sitgroup.it.

RISK MANAGEMENT POLICY

In 2019 SIT further consolidated its Enterprise Risk Management process, which it uses to identify, measure, manage and monitor corporate risks, with the aim of mitigating their impact on corporate strategies.

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

In 2019, the Group adopted the following classification of risks:

- External risks
- Strategic risks
- Operating risks
- Legal and compliance risks
- Financial risks.

As noted, since January 2020, the domestic and international picture has been dominated by the spread of Coronavirus and the resulting restrictive containment measures implemented by the public authorities of the countries affected, of which Italy is one. These developments, which are extraordinary in nature and extent, are having significant repercussions on global economic activity and are creating an environment of general uncertainty the future course and effects of which are currently unforeseeable. The effects of this general economic environment will also inevitably extend to the management of the following risks, with particular regard to operating risks (supply chain and business interruption) and financial risks (credit and liquidity risk).

External risks

Country Risk

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

Climate-related risks

SIT is a key manufacturer of control, safety, performance and consumption measurement tools for gas appliances. The components and systems produced by SIT are key to monitoring the energy efficiency and CO₂ emissions of devices produced by its customers. SIT products form an integral part of cutting-edge infrastructures (smart grids) in the metering sector.

As such, SIT plays an active part in public debate. The Group also collaborates with technical and commercial partners to define and assess the impact of climate change in the short and medium to long term.

According to the methodology used by the Task Force on Climate-Related Financial Disclosures (TCFD) for the Financial Stability Board, the main transition risks to which SIT is exposed are as follows:

- legal policies and risks associated with new mandatory product standards
- technological risks due to the emergence of alternative technologies to gas
- market risks due to a shift in market demand towards applications with reduced CO₂ emissions.

SIT natively incorporates the assessment and mitigation of these medium- to long-term risks into the governance of its corporate strategy and its risk management process. Primary actions in this regard involve product innovation and an ever-closer collaboration with leading customers to co-develop their new platforms. Mention should be made of the heating products already compatible with biogas and, in hydrogen, the applied research initiatives for a hydrogen boiler with a major client and a full hydrogen smart meter with the UK Department of Energy.

SIT does not currently see the other risk categories defined by the TCFD (physical, acute or chronic risks) as material at this time.

Strategic risks

Innovation

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

While, on the one hand, the SIT Group is exposed to risks related to technological evolution, on the other its capacity to correctly interpret market demands may translate into opportunities for it to offer innovative, technologically advanced products which are competitively priced. From this perspective, in order to maintain a competitive advantage, SIT invests heavily in research and development, both with regard to existing technologies and new applications. This is confirmed not only by the consolidated partnership with leading universities and research centres, but also the major project involving the construction of new research laboratories launched in 2019.

Operating risks

Supply Chain

Supply chain risks lie in difficulty in procuring components, above all of electronic nature, due to demand exceeding supply. In response to this risk, the Company has assessed, in each case, whether to seek technical validation of alternative components, in addition to physical coverage of components through purchases in advance of production needs.

In 2019, SIT increased its contractual coverage of suppliers in pursuit of more transparent, clearer relations. This policy also includes the request that suppliers and third-party intermediaries sign the SIT Ethics Code. Finally, the policy of identifying alternative suppliers in order to reduce supply concentration was stepped up.

Business Interruption

“Business interruption” refers to the risk that production facilities may be unavailable or their operations may be interrupted. At SIT this risk is mitigated through a business continuity procedure that seeks to reduce the probability of occurrence of risk factors and implement protections designed to limit their impact. Business interruption mitigation measures were taken through a diversification of suppliers, the creation of consignment stocks and the use, where possible, of suppliers located in physical proximity to production plants.

For information on the impacts that the restrictions imposed by national governments in response to the spread of Covid-19 are having on production plants and the mitigation measures adopted by the Group's management, see the paragraph "Significant events after year-end and operating performance".

Information Technology

In response to the risk of interruption of IT services due to catastrophic events or hacking attacks, SIT has transferred its servers to an external data centre operated by a specialised provider to offset the risk of data loss and/or theft, while also ensuring quick, and certain timeframes for recovery and restoration where incidents occur. In addition, vulnerability assessments and penetration tests are carried out and the firewall and anti-virus solutions are updated regularly so that they are capable of fending off cyber-attacks. These measures are also intended to discharge the obligations to ensure the security and availability of data in accordance with the European Regulation (General Data Protection Regulation) on the processing of personal data.

Product quality

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

Environment, health and security

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

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

The production process – both in Italy and abroad – is constantly monitored in order to minimise the environmental impact and/or risk relating to the use of products or plants with potential impacts on health and the environment, all in accordance with applicable legislation.

In 2019 the ISO 14001/2004 environmental certificate was renewed for the facilities in Rovigo (SIT and Metersit), Brasov (Romania) and Monterrey (Mexico). Rovigo plant 1 attained renewal of its Integrated Environmental Authorisation for its specific die-casting and mechanical processing activity.

The industrial operations of SIT do not fall within the classification of dangerous industries and therefore there are no significant workplace safety problems. Safety activities are regularly managed in accordance with applicable national legislation, in view of the application in Italy of Legislative Decree 81/08, the Consolidated Law on Safety.

In support of safety management, every six months SIT prepares a Safety Plan and Safety Audit, internal safety planning and operational management and control tools for each Italian production facility.

In recent years, thanks to the continual application of increasingly modern and efficient technical safety rules, the number of accidents has been reduced. This made it possible to apply once more in 2019 for a reduction of the INAIL premium, granted every year since 2011.

Due to the initiatives taken at all the SIT Group's operating units in previous years, there is no asbestos present.

Finally, information and training is considered of extreme importance; in 2019 a number of training courses for all direct and indirect personnel were held, in compliance with the State-Regions agreement. Refresher courses on subjects such as first aid, emergency response, fire prevention, etc., were held at all plants.

Legal and compliance risks

SIT is exposed to the risk of delayed compliance with newly issued sector and market laws and regulations. Particularly important, in reference to this risk, are the rules applicable to the Parent Company due to its listing on the main market of the Italian Stock Exchange, in addition to legislation on intellectual and industrial property rights and competition, worker health and safety, the environment, personal data processing pursuant to European Regulation 2016/679 (GDPR), the administrative liability of entities (Legislative Decree 231/01), the protection of savings and financial markets (Law 262/05).

In order to mitigate this risk, each company function continuously oversees the development of the regulatory framework, consulting outside advisors where necessary.

Following its admission to the “Mercato Telematico Azionario” of the Italian Stock Exchange in November 2018, SIT consolidated its corporate governance system, bringing it into compliance with the law and market best practices in terms of roles, responsibilities, committees, procedures and policies.

In relation to disputes, the Governance & Legal Department periodically monitors the development of potential and ongoing disputes and establishes the strategy and the most appropriate management actions to be taken, with the support, where appropriate, of leading law firms qualified in the various jurisdictions in which the various Group companies are based, involving in this regard the relevant company departments and managers of the foreign companies. In relation to these risks and the related economic effects, appropriate assessments are carried out together with the Finance Department.

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

The Supervisory Board met periodically, while the Board of Directors was informed upon their activities through the Half-Year Supervisory Body Report for 2019.

Insurance Coverage

During 2019 the Company, in partnership with its insurance broker, carried out an extensive assessment of the types of significant risk and the range of insurance coverage available on the market. In coverage of all Group companies, insurance policies have been contracted for personal injury and/or property liability from the malfunctioning of products; the liability of directors, statutory auditors, executives and managers; damage to company property, including damage from the interruption to production, in addition to goods, also during transport and finally injury to employees in the exercise of their duties.

In addition, an inquiry was launched to verify the insured values of company property at the Group's main facilities, with completion expected in early 2020.

Financial Risks

The Group is exposed to the following types of financial risks:

- Market risk: (i) currency risk deriving from operations and transactions in currencies other than the functional currency of the companies and of the Group; (ii) interest rate risk deriving from

fluctuations in market interest rates; (iii) price risk deriving from changes in market prices of certain raw materials utilised by the Group in its production processes;

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

The SIT Group has implemented company foreign exchange risk, interest rate risk and liquidity risk management policies approved by the Board of Directors.

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

In line with the policies set out, the Group has centralised in the parent company SIT S.p.A. the management of the financial risks of the subsidiaries, coordinating the Group processes, operating mechanisms and the relative organisational procedures.

Currency risk

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

In order to reduce foreign exchange risk, it is a matter of general policy, where possible, to set off opposing exposures with related risk profiles against one another (a practice known as "natural hedging").

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

The Group regularly assesses its exposure and also manages the foreign exchange risk on the net exposure through the use of derivative and non-derivative financial instruments. Speculative activity is not permitted.

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

In 2019, the nature and the structure of the exposure and the Group monitoring and control policies did not change substantially compared to the previous year.

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

Total revenues by currency:

(Eur.000)	2019	% Revenue	2018	% Revenue
EUR	267,700	76.0%	280,767	78.1%
USD	60,563	17.2%	52,361	14.6%
CNY	13,943	4.0%	16,427	4.6%
AUD	5,501	1.6%	5,823	1.6%
MXN	3,371	1.0%	3,266	0.9%
GBP	1,088	0.3%	980	0.3%
Altro	41	0.0%	64	0.0%
Total	352,207	100.0%	359,688	100.0%

Total raw materials, ancillaries, consumables and goods by currency:

(Euro.000)	2019	% Purchases	2018	% Purchases
EUR	133,905	69.3%	150,275	72.1%
USD	46,104	23.8%	46,026	22.1%
CHF	8,31	4.3%	7,020	3.4%
CNY	2,602	1.3%	2,638	1.3%
RON	1,461	0.8%	2,123	1.0%
MXN	910	0.5%	373	0.2%
AUD	24	0.0%	33	0.0%
Altro	12	0.0%	5	0.0%
Totale	193,328	100.0%	208,493	100.0%

During 2019, in line with its policies, the Company undertook financial hedging operations principally against net exposures in ADU, GBP and CHF. In relation to the exposure in CNY, the hedging operations already in place in the previous year were used, extending the part in excess to the following year, also in consideration of the reasonable exchange rate offered on the market.

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

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

(Euro.000)	31/12/2019
Currency	
Euro	17,948
US Dollar	13,752
Chinese Yuan	1,630
Australian Dollar	232
Other currencies	396
Total	33,958

With reference to these accounts in the financial statements, the potential loss deriving from a hypothetical unfavourable change in the exchange rate of the Euro equal to 10% would have a negative effect of Euro 1,601 thousand, without considering the effect of the hedging.

Interest Rate Risk

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

SIT management regularly assesses the exposure to interest rate risk and manages these risks also through the use of derivative financial instruments, in compliance with the company financial risk management policies. Such policies identify the financial instruments that may be used and do not permit speculative activity of any sort.

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

At the reporting date, the Group has only one loan for a nominal capital amount of Euro 105,975 thousand. This loan provides for a variable interest rate indexed to the Euribor at 6 months. The loan is hedged by interest rate swaps totalling Euro 97,340 thousand, or 91.9% of the underlying value.

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

SENSITIVITY ANALYSIS

At parity of other conditions, the effects deriving from a hypothetical increase of 100 basis points of the variable interest rate, considering the hedges in place during the period, would result in an increase in financial charges for SIT for the year 2019 of Euro 98 thousand, compared to an increase of Euro 109 thousand for the year 2018.

Risk of raw material price fluctuations

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

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

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

During 2019 the structure and nature of the exposure to the risk of fluctuation of raw materials prices and the monitoring and supervision policies adopted by the Group did not change substantially with respect to the previous year. No transactions to hedge against this risk were undertaken during the period.

Credit risk

The credit risk deriving from normal Group company operations with commercial counterparties is managed and controlled within the procedures for the allocation and monitoring of client credit standings, in order to ensure sales are made to reliable and solvent clients. The Parent Company coordinates the credit management process for all Group companies through periodic reporting and meetings. This

process is based on available information regarding the solvency of clients in view of past performance, according to credit limits set for each client. In addition, the maturity of trade receivables is monitored on an ongoing basis throughout the year in order to anticipate and promptly intervene on credit positions which present greater risk levels.

At the reporting date, there are no significant credit risk positions. The management is also closely monitoring the impacts that the deterioration of the general economic scenario caused by the spread of Covid-19 may have on the ability of its clients to discharge their obligations.

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

Liquidity risk

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

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

The Group adopted the following policies and processes aimed at optimising the management of financial resources, reducing the liquidity risk:

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

The cash flows, financial requirements and availability of temporary liquidity of the Group are closely monitored and managed centrally by the Parent Company, which carries out Group treasury management and financial coordination to ensure effective, efficient management of financial resources, particularly in the environment of general uncertainty regarding general economic scenarios created by the spread of Covid-19. A series of measures have already been implemented aimed at mitigating the impact of this risk by appropriately rescheduling the launch of new non-strategic investment projects and initiatives while waiting for the overall situation to stabilise.

The SIT loan agreement includes covenants based on items of the financial statements, to be verified on a semi-annual basis. Failure to comply with these covenants would trigger the acceleration clause in respect of the Company. The financial covenants in this contract are (i) ratio between net financial position

and EBITDA and (ii) ratio between EBITDA and net financial charges, all amounts to be calculated in accordance with the definitions within the contract. The limit values of these covenants for the year ended December 31, 2019 were 2.75x and 5.0x, respectively.

As at December 31, 2019, the Company was in compliance with all covenants.

FINANCIAL HIGHLIGHTS OF THE PARENT COMPANY

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

Revenues in the year amounted to Euro 219,561 thousand compared to Euro 251,903 thousand in the previous year. Revenues include sales to third parties and sales of products and components to group companies, in addition to royalties invoiced by the company to productive subsidiaries against the use of technical-productive and non-patented know-how, in addition to those of the SIT trademark, all held by the company.

The purchase costs net of the change in inventories amounted to Euro 124,801 thousand accounting for approx. 56.8% of revenues substantially in line with the previous year.

Service costs, amounting to Euro 30,490 thousand, account for 13.9% of revenues, an improvement on 2018 (when they accounted for 14.6%), due to lower non-recurring charges totalling Euro 2.6 million, mainly relating to the transition to the MTA market.

Financial income amounts to Euro 2,726 thousand compared to Euro 14,171 thousand in the previous year. The account includes the effect of non-recurring income relating to the change in the fair value of warrants as further described in the Explanatory Notes. In 2018 the account also included the change in the fair value of the Performance Shares, converted into shares in April 2019.

In 2019, the company reported a profit of Euro 13,936 thousand, compared to a profit of Euro 17,575 thousand in 2018. The company distributed dividends to shareholders totalling Euro 6,969 thousand.

In 2019 the Group acquired 90,981 treasury shares amounting to Euro 685 thousand, for the purposes of the Long Term Incentive (LTI) plan, under which some executives and employees of the Company and its subsidiaries were granted the right to subscribe to shares of the company upon the satisfaction of certain performance and market conditions.

The net financial position at December 31, 2019 was Euro -101,806 thousand (Euro -88,484 thousand at December 31, 2018). The breakdown of the net financial position is shown below:

(Euro.000)

Summary of net financial position items ⁽¹⁾	31/12/2019	31/12/2018
Non-current financial assets (receivables from subsidiaries)	-	-
Other current financial assets	-7,866	-16,148
Cash and cash equivalents	-26,46	-51,113
Medium/long-term loans and borrowings	85,03	104,73
Other non-current financial liabilities and derivative financial instruments	3,734	710
Short-term loans and borrowings	19,627	16,197
Other current financial liabilities and derivative financial instruments	27,74	34,108
Net financial position	101,806	88,484

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

The Parent Company undertakes a role of financial coordination on behalf of the subsidiaries of the Group. With some Italian and overseas companies, it provides a centralised treasury including through a cash pooling system provided by primary banks. With each of these companies it has one or more inter-company current accounts through which the financial transactions are settled.

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Within the provision of these services at December 31, 2019, the account Other current financial assets (see table above) includes current financial receivables for Euro 7,843 thousand relating to the loans granted to the subsidiaries. The account Other current financial liabilities and derivative financial instruments includes Euro 25,545 thousand relating to the inter-company treasury balances.

RECONCILIATION OF NET EQUITY AND THE NET RESULT

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

(Euro thousands)	Net Equity at 31/12/2019	Profit FY 2019
Statutory financial statements of the parent company	148,305	13,936
Difference between the carrying amount of the investments and net equity and net profit/(loss) of the consolidated subsidiaries(1)	2,026	12,356
Elimination of intercompany gains and losses	-2,740	109
Adjustments in the financial statements of the consolidated companies in line with group accounting policies	0	385
Elimination dividends from investees	-	-6,764
IFRS 16	-20	-20
Other adjustments	-5	-74
Minority interest capital and reserves	-	-
Group & Minority int. consol. financial statements	147,566	19,928

(1) This difference includes the originally recognised PPA

Inter-company and related party transactions

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

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

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

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

The loan extended by the Parent Company to the subsidiary Metersit S.r.l. with a nominal capital value as at the reporting date of Euro 7,500 thousand within the framework of an interest-free line of credit of a total of Euro 15,000 thousand represents an exception. However, this loan was settled on December 31, 2019.

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

Resolution No. 17221 of March 12, 2010, later amended by Resolution No. 17389 of June 23, 2010, published in the Corporate Governance section of the website www.sitgroup.it.

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

On July 25, 2019 the Board of Directors, following the successful completion of the Related Parties Committee procedures, approved the purchase of the properties owned by SIT Immobiliare S.p.a. located at Viale dell'Industria 30, 32 and 34 in Padua. The properties in question are intended to house the Company's new head office and the new research and development laboratories of both the Heating Division and Smart Gas Metering Division. The transaction was supported by two separate appraisals by independent experts and was closed in December 2019 for Euro 6.5 million.

On January 15, 2018, the Board of Directors, subject to the positive completion of the procedure by the Related Parties Committee, approved the allocation to the Chairman and the Chief Executive Officer Federico de Stefani of an extraordinary gross variable emolument, quantifiable in a range between Euro 1.3 million and Euro 2.6 million, which matures in line with the achievement of the objectives to be calculated based on the performance of SIT in 2017, 2018 and 2019. The emolument shall be calculated based on a component related to the performance of the SIT share price in the period under consideration and of a corrective amount related to the company performance. In 2019 the accrual of Euro 754 was released due to the failure to meet the market condition set for eligibility for the incentive; see the Explanatory Notes for information regarding how these components are calculated.

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

Within this operation, SIT S.p.A. also issued 250,000 Performance Shares held by the holding company Sit Technologies S.p.A., convertible into Ordinary Shares at the ratio of: (i) 1 to 5 and/or (ii) 1 to 1, under the terms and conditions set out in relation to the earn-out at maturity regulated by the Framework Agreement. In 2019, on the basis of the performance in 2018, the Performance Shares were converted at the ratio of 1:5, resulting in the issue of 1,250,000 new ordinary shares.

Finally, SIT Immobiliare S.p.A., SIT Technologies S.p.A. and MeteRSit S.r.l. elected to participate in the national tax consolidation procedure for 2019-2021. The parties to this scheme, which is governed by Legislative Decree No. 344 of December 12, 2003, and in particular by Articles 117 to 129 of the Consolidated Income Tax Law, are SIT Immobiliare S.p.A. as the consolidating entity and the other companies as consolidated entities, as approved by their respective governing bodies.

In tax year 2020, SIT Technologies S.p.A., as parent company, and SIT S.p.A., SIT Immobiliare S.p.A. and Metersit S.r.l., as subsidiaries, will enrol in the Group VAT settlement procedure governed by Art. 73, final paragraph, of Presidential Decree 633/1972, as approved by their respective governing bodies in 2019.

It should also be noted that in 2019 SIT availed of consultancy totalling Euro 44.5 thousand with a company in which a shareholder is a member of the Board of Directors of SIT.

Treasury Shares

At December 31, 2019, the company held 167,109 treasury shares without nominal value, equal to 0.67% of the share capital, of which 90,981 acquired during the year.

Performance of the Group companies

The table below contains some indicators of the subsidiaries' performances during the year.

Business sector: Heating

Company	Revenue (Euro.000)			Net profit (Euro.000)			Employees		
	2019	2018	Change	2019	2018	Change	2019	2018	Change
SIT Argentina S.r.l.	30	22	8	1	0	1	-	-	-
SIT Gas Controls Pty Ltd	5,501	5,823	-321	229	186	43	8	7	1
SIT Controls Canada Inc.	295	265	30	98	84	15	1	1	-
SIT Manufacturing (Suzhou) Co. Ltd	16,796	18,294	-1,498	-800	296	-1,096	95	79	16
SIT Controls CR, S.r.o.	1,398	1,482	-84	523	658	-135	8	8	-
SIT Controls Deutschland GmbH	1,200	1,551	-351	339	516	-177	3	4	-1
SIT manufacturing Na Sa deCV	58,605	51,549	7,057	2,475	3,117	-642	331	309	22
SIT de monterrey SA de CV	4,484	3,825	659	32	15	16	-	-	-
SIT Controls BV	33,065	36,431	-3,367	2,136	6,423	-4,287	159	186	-27
SIT Romania Srl	52,509	62,300	-9,791	1,666	2,045	-379	608	649	-41
SIT Controls USA Inc.	2,878	2,461	417	1,230	602	628	6	6	-

Business sector: Smart Gas Metering

Company	Revenue (Euro.000)			Net profit (Euro.000)			Employees		
	2019	2018	Change	2019	2018	Change	2019	2018	Change
MeteRSit Srl	122,765	99,547	23,217	6,521	745	5,777	76	74	2
Metersit Romania Srl	35,804	29,665	6,140	849	1,043	-194	78	51	27

SUBSEQUENT EVENTS

In response to the COVID-19 health crisis, which has spread globally since the beginning of the year, the Company has put in place a series of measures to ensure that business continues as normal, and simultaneously to guarantee the workplace health and safety of all its staff and collaborators. The measures adopted have been the subject of continuous monitoring, which has been carried out in close collaboration with the main facilities in Italy and abroad.

Until the issuance of the Prime Ministerial Decree of March 22, 2020, despite sub-optimal conditions, the Company ensured that its business continued as usual. This involved redefining operations within its plants, and managing relations with its customers and its Italian and international supply chains in the best possible way. Some delays occurred in component deliveries from Italian suppliers and in internal logistical operations to and from Italian and international facilities. These were chiefly due to transport limitations, but did not impinge materially on production continuity.

Since the aforementioned Decree came into force, the Company has adhered to its provisions. These include the cessation of all non-essential production in Italy from March 23/25. Such restrictions were also adopted concurrently by other countries, with the resulting limitations on production, entailing the temporary shutdown of the Group's plant in Romania.

These continuing restrictions may also have an impact on the operational continuity of facilities outside Italy, as these are highly integrated into the Group's production chain and their production is therefore difficult to interchange. Other national governments may also adopt such measures, partially or fully suspending local production activity. To reduce this risk, Italian facilities have as far as possible brought forward their supplies to foreign plants, in order to avoid non-imposed production stoppages. Likewise, foreign facilities have accelerated some supplies to Italy (components and semi-finished products) and to end customers (finished products).

The continuing global health emergency and the stringent measures taken by many national governments to counter its further spread are affecting economic growth prospects, and are likely to have repercussions on the Italian and international outlooks. The effects of this event will also depend on the promptness with which monetary and tax measures are formulated by government institutions in support of the most exposed sectors and operators.

This context of uncertainty, combined with the restrictive measures progressively adopted by national governments, could lead to a delay in planned implementations, which would have an inevitable impact on the Group's revenues and operating results. The Company has therefore already implemented a series of measures aimed at mitigating the impact of this risk by appropriately rescheduling the launch of new non-strategic investment projects and initiatives while waiting for the overall situation to stabilise.

The events described above have been considered non-adjusting events in respect of the accounts of the 2019 financial statements, according to the definition given in IAS 10 §21, since they occurred after year-end.

At present, however, it is impossible to predict how this situation will play out, and nor is it possible to determine the possible impacts that could give rise to adjustments to the carrying amounts of the Group's assets and liabilities.

In particular, such factors of uncertainty could have an influence – primarily but not exclusively – on accounts subject to valuation, for a description of which see the paragraph “Discretionary valuations and significant accounting estimates” of the Explanatory Notes.

For proposals to the Shareholders' Meeting regarding the destination of the 2019 result, please refer to the specific explanatory report on the agenda of the Shareholders' Meeting scheduled for May 6, 2020.

Padua, March 26, 2020

The Chairman of the Board of Directors

(Mr. Federico de' Stefani)

CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2019

FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

(Euro.000)	Notes	31/12/2019	31/12/2018
Goodwill	1	78,138	78,138
Other intangible assets	1	59,125	66,111
Property, plant & equipment	2	79,317	65,169
Investments in other companies	3	54	54
Non-current financial assets	4	1,531	1,544
Deferred tax assets	5	5,167	7,482
Non-current assets		223,332	218,498
Inventories	6	51,126	52,230
Trade receivables	7	57,176	52,038
Other current assets	8	10,133	9,102
Tax receivables	9	4,770	3,565
Other current financial assets	4	23	97
Cash and cash equivalents	10	34,064	55,494
Current assets		157,292	172,526
Total assets		380,624	391,024
Share capital	11	96,152	96,152
Total Reserves	12	31,486	4,986
Net profit/(loss)		19,928	24,265
Minority interest net equity		-	-
Shareholders' Equity		147,566	125,403
Medium/long-term loans and borrowings	13	85,029	104,730
Other non-current financial liabilities and derivative financial instruments	14	4,138	710
Provisions for risks and charges	15	4,142	4,492
Post-employment benefit provision	16	6,201	5,908
Other non-current liabilities	17	4	758
Deferred tax liabilities	18	16,370	18,260
Non-current liabilities		115,884	134,858
Short-term loans and borrowings	19	19,730	16,257
Other current financial liabilities and derivative financial instruments	20	3,588	5,228
Trade payables	21	73,331	74,795
Other current liabilities	22	15,957	17,088
Short-term financial instruments for Performance Shares	23	-	8,260
Financial instruments for Warrants	24	1,567	3,028
Tax payables	25	3,001	6,107
Current liabilities		117,174	130,763
Total Liabilities		233,058	265,621
Total Shareholders' Equity and Liabilities		380,624	391,024

CONSOLIDATED INCOME STATEMENT

(Euro.000)	Notes	2019	2018
Revenues from sales and services	26	352,207	359,688
Raw materials, ancillaries, consumables and goods	27	193,328	208,493
Change in inventories	27	1,557	(14,139)
Service costs	28	38,883	44,462
Personnel expense	29	69,429	73,677
Depreciation, amortisation and write-downs	30	24,085	20,024
Provisions	31	139	2,062
Other charges (income)	32	53	1,154
EBIT		24,734	23,955
Investment income/(charges)		(20)	(78)
Financial income	33	2,033	13,286
Financial charges	34	(4,163)	(4,798)
Net exchange gains (losses)	35	(1,263)	(292)
Impairments on financial assets		-	-
Profit/(loss) before taxes		21,320	32,072
Income taxes	36	(1,392)	(7,807)
Net profit/(loss) of the year		19,928	24,265
Minority interest result		-	-
Group net profit/(loss)		19,928	24,265

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

(Euro thousands)	2019	2018
Net Profit/(loss)	19,928	24,265
<i>Other comprehensive income statement items which may be subsequently reclassified to the profit/(loss) for the year, net of taxes</i>		
Net change in cash flow hedge reserve	(5)	(230)
Income taxes	1	55
Total unrealised financial asset gains/(losses)	(4)	(175)
Translation of financial statements in currencies other than the Euro	1,897	1,338
Total other comprehensive income statement items which may be subsequently reclassified to the profit/(loss) for the year, net of taxes	1,893	1,163
<i>Other comprehensive income statement items which may not be subsequently reclassified to the profit/(loss) for the year, net of taxes:</i>		
Unrealised actuarial gains/(losses)	(352)	143
Income taxes	85	(34)
Total unrealised actuarial gains/(losses)	(268)	109
Total other comprehensive income statement items which may not be subsequently reclassified to the profit/(loss) for the year, net of taxes	(268)	109
Total other comprehensive income/(expense) for the year, net of taxes	1,626	1,272
Total comprehensive income/(expense)	21,554	25,537
Total comprehensive income/(expense) for the year attributable to:		
Parent company shareholders	21,554	25,537
Minority shareholders	-	-

CONSOLIDATED CASH FLOW STATEMENT

(Euro.000)	Notes	2019	2018
Net profit/(loss)		19,928	24,265
Amortisation & depreciation	30	24,007	19,866
Non-cash adjustments		1,474	4,610
Income taxes	36	1,392	7,807
Net financial charges/(income)		2,140	-8,410
CASH FLOW FROM CURRENT ACTIVITIES (A)		48,941	48,138
Changes in assets and liabilities:			
Inventories	6	1,009	-14,205
Trade receivables	7	-5,218	-70
Trade payables	21	-1,464	6,428
Other assets and liabilities		-5,507	-3,212
Income taxes paid		-4,894	-3,997
CASH FLOW GENERATED (ABSORBED) FROM CHANGES IN WORKING CAPITAL (B)		-16,074	-15,056
CASH FLOW FROM OPERATING ACTIVITIES (A + B)		32,867	33,082
Investing activities:			
Investments in property, plant & equipment		-23,044	-28,703
Other changes in property, plant & equipment		824	106
Investments in intangible assets		-743	-1,277
Other changes in financial assets		13	7
CASH FLOW FROM INVESTING ACTIVITIES (C)		-22,950	-29,867
CASH FLOW FROM OPERATING & INVESTING ACTIVITIES (A + B + C)		9,917	3,215
Financing activities:			
Interest paid		-2,741	-3,657
Repayment of non-current financial payables	20	-16,875	-12,150
Increase (decrease) current financial payables		-3,745	2,211
Increase (decrease) other financial payables		-2,169	
(Increase) decrease in financial receivables from holding company	4	-	674
(Increase) decrease in financial receivables from companies under control of holding company	4	-	51
Dividend payments	12	-6,969	-5,986
Paid-in share capital increase	11	-	2
Own shares		-685	-91
Change in translation reserve	12	1,838	1,201
CASH FLOW FROM FINANCING ACTIVITIES (D)		-31,346	-17,745
INCREASE (DECREASE) OF CASH AND CASH EQUIVALENTS (A + B + C + D)		-21,429	-14,530
Cash and cash equivalents at the beginning of the period		55,494	70,024
Increase (decrease) in cash and cash equivalents		-21,429	-14,530
Cash and cash equivalents at the end of the period		34,065	55,494

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

	Share capital	Share premium reserve	Treasury shares reserve	Legal reserve	Other reserves								Retained earnings/(accumulated losses)		Net profit/(loss)	Group shareholders' equity	Minority interest Capital & Reserves	Total Group and Minority Interest Shareholders' Equity	
					Translation differences of foreign currencies	Assignment L.T.I. aid employees reserve	Cash Flow Hedge Reserve	Capital payments	Actuarial reserve	Extraordinary reserve	Warrant Reserve	Performance Share Reserve	Acquisition fair value reserve	Retained earnings unavail. art. 2359-bis c.c.					Retained earnings (accum. losses)
December 31, 2017	96,149	28,740	(661)	850	(7,792)	0	(842)	21,999	(488)	1,491	(15,223)	(11,500)	31,321	0	(14,964)	(23,327)	105,753	0	105,753
Allocation of the 2017 result	0	(18,380)	0	18,380	0	0	0	0	0	2,804	2,672	0	(31,321)	0	2,518	23,327	0	0	0
Total 2018 comprehensive income	0	0	0	0	1,338	0	(175)	0	109	0	0	0	0	0	0	24,265	25,537	0	25,537
Transactions between shareholders	3	0	0	0	0	0	0	0	0	0	10	0	0	0	0	0	13	0	13
Assignment L.T.I. to employees	0	0	0	0	0	175	0	0	0	0	0	0	0	0	0	0	175	0	175
Dividends	0	0	0	0	0	0	0	(3,182)	0	(2,804)	0	0	0	0	0	0	(5,986)	0	(5,986)
Other movements	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2	0	2	0	2
Acquisition of treasury shares	0	0	(91)	0	0	0	0	0	0	0	0	0	0	0	0	0	(91)	0	(91)
Reclassifications	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Balance at December 31, 2018	96,152	10,360	(752)	19,230	(6,454)	175	(1,017)	18,817	(379)	1,491	(12,541)	(11,500)	0	0	(12,444)	24,265	125,403	0	125,403
First time adoption of IFRS 16	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Balance at January 1, 2019	96,152	10,360	(752)	19,230	(6,454)	175	(1,017)	18,817	(379)	1,491	(12,541)	(11,500)	0	0	(12,444)	24,265	125,403	0	125,403
Allocation of the 2018 result	0	0	0	0	0	0	0	0	0	0	9,513	3,240	0	0	11,512	(24,265)	0	0	0
Total 2019 comprehensive income	0	0	0	0	1,897	0	(4)	0	(268)	0	0	0	0	0	0	19,928	21,554	0	21,554
Performance Shares	0	0	0	0	0	0	0	0	0	0	0	8,260	0	0	0	0	8,260	0	8,260
Assignment L.T.I. to employees	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Dividends	0	0	0	0	0	0	0	(2,202)	0	0	0	0	0	0	(4,767)	0	(6,969)	0	(6,969)
Other movements	0	0	0	0	0	0	0	0	0	0	0	0	0	0	4	0	4	0	4
Acquisition of treasury shares	0	0	(685)	0	0	0	0	0	0	0	0	0	0	0	0	0	(685)	0	(685)
Reclassifications	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Balance at December 31, 2019	96,152	10,360	(1,437)	19,230	(4,557)	175	(1,021)	16,615	(647)	1,491	(3,028)	0	0	0	(5,695)	19,928	147,566	0	147,566

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

SIT and subsidiaries

EXPLANATORY NOTES

GENERAL INFORMATION

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

The Company develops, manufactures and sells safety, control and comfort systems and high-performance gas equipment, principally for domestic use such as boilers, stoves and water heaters.

These financial statements were approved by the Board of Directors on March 26, 2020 and authorised for publication on the website www.sitgroup.it by April 10, 2020. The financial statements are subject to the approval of the Shareholders' Meeting.

In 2017, the merger between SIT S.p.A. and Industrial Stars of Italy 2 S.p.A. (ISI2 or ISI2 S.p.A.), a SPAC (Special Purchase Acquisition Company) listed on the AIM Italia market of the Italian Stock Exchange. The merger was effective on July 20, 2017 with the simultaneous start of trading of the company's ordinary shares and warrants on the AIM Italia market managed by the Italian Stock Exchange. With the merger by incorporation of ISI2 S.p.A. (listed non-operating company) into SIT S.p.A. (listed operating company), the former shareholders of ISI2 became the minority shareholders of SIT S.p.A.. In the merger, SIT was therefore considered as the acquirer and ISI2 as the acquiree.

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

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

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

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

DRAFTING CRITERIA

The consolidated financial statements of the SIT Group at December 31, 2019 were prepared in accordance with the international accounting standards (IFRS/IAS) issued by the International Accounting Standards Board (IASB) and adopted by the European Union, including all interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

The consolidated financial statements comprise:

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

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

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

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

The financial statements used for the consolidation were prepared at December 31, 2019 by the Boards of Directors of the individual consolidated companies, adjusted, where necessary, in accordance with the accounting standards and policies adopted by the Group.

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

The accounting standards and policies applied for the preparation of the consolidated financial statements at December 31, 2019 are the same as those adopted for the consolidated financial statements at December 31, 2018.

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

New accounting standards and interpretations effective from January 1, 2019

IFRS16 - Leases

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

Application of the standard is mandatory from January 1, 2019. This new standard proposes substantial changes to the accounting treatment of leasing agreements in the financial statements of the lessee, introducing a criterion based on the control (right of use) of an asset to distinguish leasing contracts from service contracts. Key elements are distinguished such as the identification of the asset, the right of replacement of the asset, the right to obtain substantially all the economic benefits from the use of the asset and, lastly, the right to use the asset underlying the contract.

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

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

The Group has elected to apply the standard retrospectively and therefore to recognise the cumulative effect of the application of the standard in shareholders' equity at January 1, 2019 (not restating the 2018 comparative figures), in accordance with IFRS 16:C7-C13. In particular, with regard to lease contracts previously classified as operating leases, the Group recognised the following:

- a financial liability, at the present value of the residual future payments at the transition date, discounted according to the incremental borrowing rate applicable to each contract at the transition date;
- a right of use equal to the value of the financial liability at the transition date, net of any prepayments and accruals associated with the lease carried in the balance sheet at the reporting date of these financial statements.

The Group balance sheet includes the assets comprising the right-of-use in the same account in which they would be presented where owned.

Similarly, the Group includes the liabilities from lease contracts in the account "Other current financial liabilities and derivative financial instruments" or "Other non-current financial liabilities and derivative financial instruments" according to the conclusion of the obligation.

The following table shows the impact of the adoption of IFRS 16 at the transition date:

IFRS 16 impacts at the transition date	
(Euro.000)	01/01/2019
Assets	
Non-current assets	
"Right of use" land and buildings	2,954
"Right of use" other assets	4,190
Total	7,144
SHAREHOLDERS' EQUITY AND LIABILITIES	
Non-current liabilities	
Non-current leasing liabilities	5,214
Current liabilities	
Current leasing liabilities	1,930
Total	7,144
Shareholders' Equity	-
Retained earnings	-

We report that the weighted average incremental borrowing rate applied to the financial liabilities recorded at January 1, 2019 was approx. 2.5%.

In adopting IFRS 16, the Group opted for the exemption permitted under paragraph IFRS 16:5(a) in respect of short-term leases - for example for the following categories of assets:

- personal computer;
- printers;
- photocopiers.

Likewise, the Group opted for the exemption permitted under IFRS 16:5(B) with regard to lease contracts for which the underlying asset qualifies as a “low-value asset” (i.e., the asset underlying the lease contract does not exceed Euro 5,000 when new). The contracts for which the exemption has been applied primarily fall within the following categories:

- Computers, telephones and tablets;
- Printers;
- Other electronic devices;
- Furniture and fittings.

For such contracts, the introduction of IFRS 16 entailed the recognition of the financial liability associated with the lease and relevant right of use. Rather, the lease payments are taken to the income statement on a straight-line basis over the term of the relevant contracts.

With regard to the transition rules, the Group opted for the following practical expedients available in the event of the selection of the modified retrospective transition method:

- Classification of contracts set to expire within 12 months of the transition date as short-term leases. The lease payments for such contracts will be taken to the income statement on a straight-line basis;
- Use of the information available at the transition date to determine the lease term, with particular regard to the exercise of extension and early termination options.

The transition to IFRS 16 introduces some elements of professional judgment that entail the definition of certain accounting policies and the use of assumptions and estimates with regard to the lease term and the definition of the incremental borrowing rate. The main ones are summarised below:

- Lease term. The identification of the lease term is a very important issue since the form, legislation and commercial practices of property lease contracts vary considerably from one jurisdiction to another. On the basis of its historical experience, the Group has adopted the accounting policy of including not only the period that cannot be cancelled, but also the first contractual extension where such depends solely on the Group. For contracts with automatic extensions for an annual (or shorter) period, the Group has adopted the accounting policy of estimating the lease term based on the historical evidence and the assessment of the extension period as “reasonably certain” given significant penalties, in the broad meaning of the term, for the lessor in terminating the contract. In cases of property lease contracts with multi-year extensions at the discretion of both parties, the Group has assessed the specific facts and circumstances, together with the penalties, broadly construed, associated with a potential termination of the contract.
- Definition of the incremental borrowing rate. Since most lease contracts entered into by the Group do not include an implicit interest rate, the discount rate to be applied to future lease payments has been taken as the risk-free rate in each country in which the contracts were entered into, with maturities commensurate with the term of the specific lease contract, plus the specific credit spread of the Group.

RECONCILIATION WITH THE LEASE COMMITMENTS

In order to illustrate the impacts from the initial application of the standard, the following table reconciles future commitments regarding lease contracts and the impact from the adoption of IFRS 16 at January 1, 2019.

Reconciliation commitments for leases – IFRS16	
(Euro.000)	01/01/19
Gross value of the liability deriving from lease contracts at December 31, 2018	7,907
Finance leases at December 31, 2018	-
Effect relating to contracts classified as short-term leases	(29)
Effect relating to contracts classified as low value assets	(238)
Effect relating to the service component included in the lease contract	-
Other	-
Liability deriving from lease contracts at 1.1.2019 - – not actualized	7,640
Discounting	(496)
Financial liability from lease contracts at 1.1.2019	7,144
Present value of the finance leases at December 31, 2018	-
Financial liability deriving from operating lease contracts - IFRS16	7,144

The Explanatory Notes provide further details on the financial statement impacts from application of the standard. Reference should be made in this regard to Note 37 *Lease contracts* and the additional references within the document.

Other amendments and interpretations applied from January 1, 2019

The following amendments and interpretations applied from January 1, 2019 did not have an impact on the Group consolidated financial statements.

IFRIC 23 - Uncertainty over Income Tax Treatments

The IASB published the interpretation IFRIC 23 “Uncertainty over Income Tax Treatments” on June 7, 2017. The document addresses the issue of uncertainty over income tax treatments. In particular, the interpretation requires an entity to analyse uncertain tax treatments (individually or collectively, depending on their characteristics), always assuming that the tax authority will examine the tax position in question, with access to all relevant information. If the entity believes it is improbable that the tax authorities will accept the tax treatment followed, the entity shall reflect the effect of the uncertainty on the measurement of its current and deferred income taxes. In addition, the document does not contain any new disclosure obligations, but underlines that an entity must establish whether it will be necessary to provide information on considerations made by management and the relative uncertainty concerning the accounting of income taxes, in accordance with IAS 1.

The directors have assessed the possible uncertainties on the tax treatment of the main financial statement items, also in view of the applications in course with the Tax Agency concerning specific cases, whose interpretation under the tax rules can give rise to doubts.

No additional uncertain or significant tax treatments emerged from the analyses carried out which would require a restatement of the assessable income, of the tax rates applied or of the unutilised tax receivables, also from changes to events or circumstances occurring subsequently.

Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures

On October 12, 2017, the IASB published the above-stated document which clarifies the need to apply IFRS 9, including the impairment requirements, to other long-term interests in associates and joint ventures for which the equity method is not applied.

The directors concluded that the circumstances are not applicable to the SIT Group and consequently no significant effects were recognised to the consolidated financial statements.

IFRS 9 Prepayment Features with Negative Compensation

On October 12, 2017, the IASB published this amendment to IFRS 9. The document specifies that instruments which provide for an advance repayment could comply with the Solely Payments of Principal and Interest (“SPPI”) test also in the case where the “reasonable additional compensation” to be paid in the event of advance repayment is a “negative compensation” for the lender.

The directors concluded that the circumstances are not applicable to the SIT Group and consequently no significant effects were recognised to the consolidated financial statements.

Annual Improvements to IFRSs 2015-2017 Cycle

On December 12, 2017, the IASB published the document which reflects the amendments to some standards within the annual improvements process. The principal changes relate to:

- IFRS 3 Business Combinations and IFRS 11 Joint Arrangements: the amendment clarifies that when an entity obtains control a business which represents a joint operation, it must remeasure its previous holding in the business. This process however is not required in relation to obtaining joint control.
- IAS 12 Income Taxes: The amendment clarifies that all the tax effects related to dividends (including the payments on financial instruments classified within equity) must be recognised in line with the transaction which generated these profits (profit or loss, OCI or net equity).
- IAS 23 Borrowing costs: the amendment clarifies that in the case of loans which remain in place even after the qualifying asset is ready for use or for sale, these become part of the overall financing utilised to calculate the borrowing costs.

The directors concluded that the above circumstances are not applicable to the SIT Group and consequently no significant effects were recognised to the consolidated financial statements.

Plant Amendment, Curtailment or Settlement (Amendments to IAS 19)

On February 7, 2018, the IASB published this document which clarifies how an entity must recognise a change (i.e. a curtailment or a settlement) of a defined benefit plan. The amendment requires the entity to update its assumptions and to remeasure the net liability or asset resulting from the plan. The amendments clarify that after the occurrence of this event, an entity utilises updated assumptions to measure the current service cost and interest for the remainder of the period.

The directors concluded that the circumstances are not applicable to the SIT Group and consequently no significant effects were recognised to the consolidated financial statements.

IFRS standards, amendments and interpretations not yet endorsed by the European Union

At the reporting date, the relevant bodies of the European Union had not yet concluded the process necessary for the implementation of the amendments and standards described below.

Definition of a Business (Amendments to IFRS 3)

On October 22, 2018, the IASB published this document which provides clarification regarding the definition of business for the purposes of the proper application of IFRS 3. In particular, the amendment clarifies that while a business normally yields an output, the existence of an output is not strictly necessary to identify a business when there is an integrated set of activities and assets. However, in order to meet the definition of a business, an integrated set of activities and assets must include, at minimum, an input and a substantial process that together contribute significantly to the capacity to create output. For this purpose, the IASB has replaced the term “capacity to create output” with “capacity to contribute to the creation of output” to clarify that a business may exist even without all the inputs and processes necessary to create an output.

The amendment also introduced an optional test (“concentration test”) for an entity to determine whether a set of activities and assets acquired is not a business. If the test yields a positive result, the set of activities and assets acquired does not constitute a business and the Standard does not require further verification. If the test yields a negative result, the entity must conduct additional analyses of the activities and assets acquired to identify the presence of a business. To this end, the amendment adds numerous examples illustrating IFRS 3 with the aim of ensuring an understanding of the practical application of the new definition of a business in specific cases. The amendments apply to all business combinations and asset acquisitions after 1 January 2020 but early application is permitted.

As the amendment will be applied to new acquisition transactions concluded with effect from 1 January 2020, any effects will be reflected in consolidated financial statements for periods ending after that date.

IFRS 10 and IAS 28 Sales or Contribution of Assets between an Investor and its Associate or Joint Venture

On September 11, 2014, the IASB published this amendment to *IFRS 10 and to IAS 28* to resolve the current conflict between IAS 28 and IFRS 10.

According to IAS 28, the profit or loss from the sale or conferment of a non-monetary asset to a joint venture or associate in exchange for a share of the capital of this latter is limited to the share held in the joint venture or associate by external investors to the transaction. On the other hand, IFRS 10 provides for the recognition of the entire profit or loss in the case of loss of control of a subsidiary, also if the entity continues to hold a non-controlling holding, including also upon the sale or conferment of a subsidiary to a joint venture or associate. The amendments introduced establish that for the disposal/conferment of an asset or of a subsidiary to a joint venture or associated company, the amount of profit or loss to be recognized to the financial statements of the disposing company/conferring company depends on whether the asset or the subsidiary disposed of/conferred constitutes a business, in the definition established by IFRS 3. In the case in which the assets or the subsidiary disposed of/conferred represents a business, the entity should recognize the profit or the loss on the entire share previously held; while, in the contrary case, the share of the profit or loss concerning the stake still held by the entity should be eliminated. Currently, the IASB has suspended the application of this amendment.

The directors do not expect these amendments to have a significant impact on the Group consolidated financial statements.

IFRS and IFRIC standards, amendments and interpretations approved by the EU, not yet mandatory and not adopted in advance by the Group at December 31, 2019

On March 29, 2018, the IASB published an amendment to the “References to the Conceptual Framework in IFRS Standards”. The amendment is effective from periods beginning on or after January 1, 2020, although early application is permitted.

The Conceptual Framework defines the fundamental concepts for financial reporting and guides the Board in developing the IFRS standards. The document helps to ensure that the Standards are conceptually consistent and that similar transactions are treated in the same way, thus providing useful information to investors, lenders and other creditors.

The Conceptual Framework supports companies in developing accounting standards when no IFRS standard is applicable to a particular transaction and, more generally, helps stakeholders to understand and interpret the Standards.

Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform.

The IASB, on September 26, 2019, published the amendment entitled "Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform". The same amendment to IFRS 9 - Financial Instruments and IAS 39 - Financial Instruments: Recognition and Measurement in addition to IFRS 7 - Financial Instruments: Disclosures. In particular, the amendment changes some of the requirements for the application of hedge accounting, establishing temporary derogations in order to mitigate the impact from the uncertainty of the IBOR reform (still in progress) on future cash flows in the period prior to its completion. The amendment also requires companies to provide additional information in their financial statements on their coverage ratios which are directly impacted by the uncertainties generated by the reform and to which the above derogations apply.

The amendments shall enter into force on January 1, 2020, although companies may opt to apply them earlier. The Directors are currently assessing the possible effects of introduction of this amendment on the Group's consolidated financial statements.

Definition of Material (Amendments to IAS 1 and IAS 8)

On October 31, 2018, the IASB published this document which modified the definition of "material" in IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors. The amendment aims to provide a more specific definition of "material" and introduce the concept of "obscured information" alongside the concepts of omitted or misstated information previously included in the two amended Standards. The amendment clarifies that information is "*obscured*" when it is described in such a way as to produce for primary users of financial statements an effect similar to that which would be produced if the information had been omitted or erroneous.

The amendments introduced by the document are applicable to all operations after 1 January 2020.

The directors do not expect this amendment to have a significant impact on the Group consolidated financial statements.

DISCRETIONAL VALUATIONS AND SIGNIFICANT ACCOUNTING ESTIMATES

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

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

The estimates prepared did not take account of the uncertainty caused by the spread of the coronavirus, as described in detail in the paragraph of the Directors' Report "Significant events after the end of the year and operating performance", since these factors of instability were regarded as non-adjusting events with respect to the accounts of the 2019 financial statements, as per IAS 10 § 21. At the reporting date, the directors do not have sufficient information to estimate the potential effects of this phenomenon on the measurement of the accounts in the financial statements.

Doubtful debt provision

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

Impairment of non-financial assets

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

the impairment test, could affect value in use and the result that is actually reached in relation to the realisable amount of the assets recognised.

Refer to Note 1 of these Explanatory Notes regarding the sensitivity analyses performed.

Development Costs

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

Deferred tax assets

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

Provisions for risks and charges

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

Employee benefits

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

Share-based payments

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

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

For the share-based payments with employees, the Group utilises the Montecarlo simulation model for the plans with employees. The assumptions used for the estimate of the fair value of the share-based payments are shown in Note 39.

Guarantee provisions

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

ACCOUNTING POLICIES

The main accounting policies adopted in the preparation of the consolidated financial statements at December 31, 2019 are disclosed below.

Basis of consolidation principles

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

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

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

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

- the capacity to exercise its power on the investment entity to affect its income streams.

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

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

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

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

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

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

The companies included in the consolidation scope are as follows:

Company	Country	Registered office	Currency	Share capital (in units of local currency)	% held
SIT S.p.A.	Italy	Padua	EUR	96,151,921	100
Metersit S.r.l.	Italy	Padua	EUR	1,129,681	100
S.C. Metersit Romania S.r.l.	Romania	Brasov	RON	2,231,650	100
SIT Controls BV	Netherlands	Hoogeveen	EUR	46,000	100
SIT Gas Controls Pty Ltd	Australia	Mulgrave	AUD	100,000	100
SIT Controls USA Inc.	USA	Charlotte	USD	50,000	100
SIT Controls Deutschland GmbH	Germany	Arnsberg	EUR	51,129	100
SIT Controls CR, S.r.o.	Czech Republic	Brno	CSK	1,500,000	100
SIT Manufacturing N.A. Sa de CV	Mexico	Monterrey	MXN	172,046,704	100
SIT de Monterrey N.A. SA de CV	Mexico	Monterrey	MXN	50,000	100
SIT Controls Canada Inc.	Canada	Ontario	CAD	1	100
S.C. SIT Romania S.r.l.	Romania	Brasov	EUR	2,165,625	100
SIT Manufacturing (Suzhou) Co. Ltd	China	Suzhou	EUR	2,600,000	100
SIT Argentina S.r.l.	Argentina	Santa Fe	ARS	90,000	100

Consolidation method

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

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

The carrying amount of investments is eliminated against the corresponding share of the equity of the subsidiaries, allocating to the individual assets and liabilities their present value at the date of the acquisition of control. Any positive difference is recorded in the non-current asset account "Goodwill". The share of equity and results attributable to minority interests are recorded separately in the balance sheet and income statement respectively.

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

Translation of accounts in foreign currencies: Group Companies

The financial statements of the Group companies included in the consolidated financial statements are presented in the functional currency of the main markets in which they respectively operate. At the reporting date, the assets and liabilities of the companies whose functional currency is not the Euro are converted into the preparation currency of the Group consolidated financial statements at the exchange rate at that date. The income statement accounts are converted at the average exchange rate, as such is considered representative of the average of the exchange rates at the dates of the individual transactions.

The differences deriving from the adjustment of opening shareholders' equity to the exchange rates at the end of the period and the differences deriving from the different methods used for the translation of the result are recorded to the comprehensive income statement. On the sale of a net investment in a foreign operation, the items in the comprehensive income statement relating to this foreign operation are recorded in the income statement.

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

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

Currency	2019		2018	
	31/12/2019	2019 Average	31/12/2019	2018 Average
Mexican Peso	21.2202	21.5565	22.4921	22.7054
Argentinean Peso	67.2749	53.8229	43.1593	32.9094
Romanian Leu	4.7830	4.7453	4.6635	4.6540
US Dollar	1.1234	1.1195	1.1450	1.1810
Canadian Dollar	1.4598	1.4855	1.5605	1.5294
Czech Crown	25.4080	25.6705	25.7240	25.6470
Australian Dollar	1.5995	1.6109	16.2200	1.57970
Chinese Yuan	7.8205	7.7355	7.8751	7.8081

Translation of accounts in foreign currencies: transactions and balances

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

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

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

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

Valuation at fair value

The Group measures financial instruments such as derivatives and warrants at their fair value at each reporting date.

According to applicable accounting standards (IAS/IFRS) "a contract that will be settled through a variable number of the entity's own shares, whose value is equal to a fixed amount or an amount based on changes in an underlying variable, is a financial asset or a financial liability. When a financial asset or financial liability is initially recognised, an entity shall measure it at its Fair Value. The profit (or loss) arising from a change in the Fair Value of a financial asset or financial liability that is not part of a hedging relationship must be recognised to the income statement". Therefore, for accounting purposes, market warrants and performance shares were recognised as financial liabilities at their fair value at the designation date.

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

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

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

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

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

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

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

Business combinations and goodwill

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

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

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

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

Research and development costs

Research costs are recognised to the income statement in the year in which they are incurred. Development costs incurred in relation to a specific project are only capitalised when the technical feasibility of completing the intangible asset exists to make it available for use or sale, in addition to the

ability and intention to use or sell the asset to generate future benefits demonstrating the existence of a market for the output of the intangible asset or the intangible asset itself or a utility to be used internally and the availability of technical, financial and other types of resources suitable to complete the intangible asset's development and use or sale and the ability to reliably measure the cost attributable to its development. Capitalised development costs include only those costs that are directly attributable to development.

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

Other intangible assets

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

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

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

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

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

Property, plant & equipment

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

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

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

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

The depreciation rates applied are as follows:

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

The carrying amount of tangible fixed assets is tested for impairment when events or changes indicate that the carrying amount can no longer be recovered based on the current depreciation schedules. If there

is an indication of this type and in the case where the carrying amount exceeds the realisable value, the assets must be written down to their recoverable value.

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

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

Leased assets

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

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

Lease contracts in which the lessor retains substantially all the typical risks and benefits of ownership are classified as operating leases and are recognised among tangible assets as rights-of-use with effect from the inception of the lease. The amount recognised is equal to the present value of future lease payments, discounted at the implicit interest rate of the lease or incremental borrowing rate. Lease payments should be apportioned between the finance charge and the capital portion so as to produce a constant periodic rate of interest on the remaining balance of the liability. A lease liability of like amount is recognised and then gradually reduced according to the repayment plan calculated.

Financial charges are expensed to the income statement. The assets are amortised over the contractual term of the operating lease.

Equity investments in other companies

The investments in other companies are measured at fair value through equity. In such cases, the amounts previously taken to other comprehensive income are not recycled to the income statement upon disposal.

When the fair value cannot be reliably determined, these investments are measured at cost, adjusted for impairment, which is taken to the income statement. If the reasons for the recognition of the impairment loss no longer exist, the previously recognised impairment loss shall be reversed. The reversal shall not result in a carrying amount that exceeds what the amortised cost would have been, had the impairment not been recognised, at the date the impairment is reversed. The amount of the reversal shall be recognised in the income statement.

Impairment of non-financial assets

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

Independently of whether there are internal or external reductions in value, intangible assets with indefinite useful life and goodwill are subject at least annually to an impairment test, as required by IAS 36. In both cases of a verification of the carrying amount of intangible assets with definite useful life or of the carrying amount of intangible assets with indefinite useful life and goodwill, the Group makes an estimate of the recoverable value.

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

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

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

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

Financial assets

The financial assets are classified as follows:

- financial assets at amortised cost;
- financial assets at fair value through profit or loss;
- financial assets at fair value through other comprehensive income.

The classification depends on the business model within which the Group holds the financial assets and the characteristics of the contractual cash flows arising from them. The Group classifies financial assets on initial recognition, with subsequent verification at each reporting date. Financial assets are initially measured at fair value, plus accessory costs, for assets not measured at fair value.

Financial assets at amortised cost

Financial assets that meet both of the following conditions are measured at amortised cost:

- the financial asset is held within a business model whose objective is the holding of financial assets for the collection of the contractual cash flows;
- the contractual terms of the financial assets establish, at certain dates, cash flows represented entirely by the payment of capital and of interest on the amount of capital to be repaid.

The amortised cost is calculated as the initial value recorded less the repayment of the capital portion, plus or less the accumulated amortisation using the effective interest rate method of any difference between the initial value recorded and the amount at maturity. This calculation includes all the commissions or points paid between the parties which are an integral part of the effective interest rate, transaction costs and other premiums or discounts. For investments measured at amortised cost, the gains and losses are recognised in the income statement when the investment is eliminated or if there is an impairment, in addition to the amortisation process.

Financial assets at fair value through other comprehensive income

Financial assets that satisfy the following conditions are measured at fair value through other comprehensive income:

- the financial asset is held within a business model whose objective is achieved both through the collection of contractual cash flows and the sale of the financial assets;
- the contractual terms of the financial assets establish, at certain dates, cash flows represented entirely by the payment of capital and of interest on the amount of capital to be repaid.

When the financial asset is disposed of, the amounts previously taken to other comprehensive income are recycled to the income statement.

Financial assets at fair value through profit or loss

A financial asset that is not measured at amortised cost or at fair value through other comprehensive income is measured at fair value with changes in value taken to profit or loss in the year in which they occur.

Derecognition of financial assets

A financial asset is eliminated from the financial statements when:

- the right to receive the cash flows of the asset terminate;

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

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

Inventories

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

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

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

Trade receivables and other current assets

Receivables under current assets are recorded initially at fair value, identified as the nominal value. Trade receivables which mature within the normal commercial terms are not discounted since the effect of discounting the related cash flows is deemed immaterial.

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

When there is an indication of a reduction in value, the asset is reduced to the value of the discounted future cash flows obtainable. Impairments are recognised to the income statement. When, in subsequent periods, the reasons for the write-down no longer exist, the value of the assets is restated up to the value deriving from the application of the amortised cost. In addition to the assessment discussed in the previous paragraph with regard to impairment, the estimated credit losses are complemented by an analysis of expected losses.

Trade payables and other liabilities

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

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

Cash and cash equivalents

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

Financial liabilities

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

Financial liabilities are measured at amortised cost, using the effective interest rate method.

Derecognition of financial liabilities

A financial liability is derecognised from the financial statements when the underlying liability is settled or cancelled. Where an existing financial liability is replaced by another by the same lender but under

substantially different conditions, or if the conditions of an existing financial liability are substantially changed, such a swap or change is treated as an elimination of the original liability and the opening of a new liability, with any differences in accounting values recorded in the income statement.

Derivative financial instruments

Derivative financial instruments, as per the company policies approved by the Board of Directors, are exclusively used for hedging purposes, in order to reduce the foreign currency or interest rate risk. In accordance with IFRS 9, financial derivatives may be accounted for under hedge accounting only when, at the beginning of the hedge, the following conditions are met:

- the formal allocation of the hedging instrument exists;
- documentation is available demonstrating the hedging and a high degree of efficacy;
- such efficacy can be reliably measured;
- the hedge is highly effective during the various accounting periods for which it is designated. All derivative financial instruments are measured at fair value, in accordance with IFRS 9.

Derivative financial instruments are initially recognised at Fair Value.

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

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

Treasury shares

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

Provisions for risks and charges

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

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

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

Post-employment benefit provision

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

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

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

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

Share-based payments

Equity-settled share-based payment transactions

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

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

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

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

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

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

The effect of the dilution of the options not yet exercised is reflected in the calculation of the diluted earnings per share (further details provided at Note 38).

Cash-settled transactions

With reference to operations settled by cash a corresponding liability at their fair value is recorded. The fair value of the liability is calculated initially and recalculated at each reporting date until the settlement date, and the changes in the fair value are recorded under service costs (See Note 28). This fair value is expensed in the period until the maturation. The fair value is measured using a binominal formula, as explained in detail in Note 39.

Revenue recognition

Core business revenues refer to sales of safety, comfort and high-performance systems for gas equipment (Heating Division) and of gas meters with remote control, consumption measurement, meter-reading and communication features (Metering Division).

These revenues include a single performance obligation relating to the sale of the product, which does not include ancillary services or products that might qualify as separate performance obligations under the Standard.

Sales are recognised at the fair value of the consideration received for the sale of products and services, where the following conditions are met:

- control over the promised goods or services is transferred;
- it is probable that the economic benefits associated with the sale will flow to the enterprise and they may be determined reliably;
- the costs incurred, or to be incurred, have been reliably measured.

They are recorded net of returns, discounts, rebates and taxes directly associated with the sale of the product or the provision of the service. When defining the amount of the variable consideration that may be included in the transaction price, at each reporting date the Group calculates the amount of the variable consideration that still cannot be regarded as earned.

The terms of sales warranties are in line with the law and/or consistent with commercial practice in the sector. The Group therefore accounts for warranties in accordance with IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets*.

Dividends

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

Financial income and charges

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

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

Current income taxes

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

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

Deferred tax assets/liabilities

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

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

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

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

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

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

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

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

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

Earnings per share

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

Diluted earnings per share

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

Grants

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

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

COMMENTS ON THE MAIN ITEMS OF THE CONSOLIDATED BALANCE SHEET

Non-current assets

Note 1: Goodwill and Other intangible assets

(Euro.000)	Balance at Dec. 31, 18	Applic. IFRS 16	Balance at Jan. 1, 19	Increases	Disposals	Amortisation	Impairment	Other movements	Balance at Dec. 31, 19
Goodwill	78,138	-	78,138	-	-	-	-	-	78,138
Development Costs	161	-	161	-	-	-161	-	-	-
Patent rights	16,504	-	16,504	184	-8	-2,901	-	70	13,849
Concessions, licences and trademarks	18,430	-	18,430	-	-	-1,204	-	-	17,226
Other Intangible assets	30,247	-	30,247	247	-	-3,266	-	259	27,487
Assets in progress and advances	769	-	769	312	-	-	-190	-328	563
Total other intangible assets	66,111	-	66,111	743	-8	-7,532	-190	1	59,125
Total goodwill and other intangible	144,249	-	144,249	743	-8	-7,532	-190	1	137,263

GOODWILL

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

DEVELOPMENT COSTS

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

PATENTS AND INTELLECTUAL PROPERTY RIGHTS

This includes the non-patented technical/production and technological know-how of the Heating and Smart Gas Metering sector identified within the Business Combination of May 2014, for an original amount of Euro 25,322 thousand. This corresponds to the allocation of the excess of the price paid over the consolidated net equity carrying amounts, based on an independent expert's opinion.

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

Changes in the financial year are mainly related to amortisation.

CONCESSIONS, LICENSES, TRADEMARKS

The amount of Euro 17,226 thousand is mainly attributable to the value of the "SIT" and "Metersit" brands identified for an original total amount of Euro 23,995 thousand as part of the merger of the company SIT La Precisa S.p.A. on May 2, 2014; these values were calculated with the support of an independent experts' valuation report.

Changes in the financial year are mainly related to amortisation.

OTHER INTANGIBLE ASSETS

This account mainly includes the residual value of the customer relationship identified as part of the acquisition of SIT La Precisa S.p.A. on May 2, 2014, whose Fair Value was originally determined at Euro 42,690 thousand; this value was calculated on the basis of independent experts' valuation report. The customer relationship's residual value at December 31, 2019 amounted to Euro 26,563 thousand.

This account in addition includes costs incurred for the installation of the new SAP operating system, in addition to those for the acquisition of the Piteco Evolution centralised treasury operating package.

IMPAIRMENT TEST

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

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

There was no change in the goodwill of Euro 78,138 thousand at December 31, 2019 compared to December 31, 2018. To determine the recoverable value, goodwill is allocated to the Heating CGU for Euro 60,931 thousand and the Smart Gas Metering CGU for Euro 17,207 thousand.

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

Impairment tests were submitted for the approval of the Board of Directors on March 26, 2020, whereas the 2020-2024 Business Plan and impairment testing method were approved by the Board of Directors on February 14, 2020.

The impact of climate change risks has taken on increasing importance in recent years. SIT is a key manufacturer of control, safety, performance and consumption measurement tools for gas appliances. The components and systems produced by SIT are key to monitoring the energy efficiency and CO₂ emissions of devices produced by its customers. SIT products form an integral part of cutting-edge infrastructures (smart grids) in the metering sector.

As such, SIT plays an active part in public debate. The Group also collaborates with technical and commercial partners to define and assess the impact of climate change in the short and medium to long term.

SIT natively incorporates the assessment and mitigation of these medium- to long-term risks into the governance of its corporate strategy, its risk management process, and the financial assumptions and impacts of the plan approved and used in support of the impairment tests.

Heating Division CGU

In the absence of a reliable market value for the CGU, its recoverable amount was calculated on the basis of its value in use determined through the Discounted Cash Flow - DCF method, by discounting the operating cash flow at a discounted rate representative of the cost of capital.

When formulating financial projections, the cash flows from the explicit plan horizon have been used, with the appropriate corrections to account for the expected effects of management actions to improve operating performance laid out in the plan and resulting from investing activities over the plan horizon.

These actions relate above all to investments in production designed to shift the industrial footprint towards countries with lower labour costs.

When constructing the perpetual income flow to calculate the terminal value, the final value in the explicit year was projected, net of any corrections relating to the new footprint described in the foregoing paragraph, considering a maintenance level of investments.

The growth rate (g) was assumed to be 1%, whereas the value of current income taxes was calculated on a notional basis utilising the nominal tax rate.

The Heating CGU's WACC was estimated by assuming:

- a risk-free rate equal to the average of the risk-free rates of the principal Heating markets in which the Group operates; in particular, for each country the MAX was utilised (2.5%, government yield 10Y; IRS 10Y+CDS 10Y; country risk premium Damodoran);
- a beta unlevered coefficient for a value of 0.90 estimated on the basis of a panel of comparable listed companies;
- an equity risk premium of 5.5%, equivalent to the average of the market's risk premium in the main countries where the Heating CGU is active (source: Pablo Fernandez, Alberto Ortiz and Isabel F. Acin, IESE Business School 2018);
- an additional risk premium for the calculation of the cost of own capital (K_e) equivalent to 1.5%;
- a cost of debt calculated on the basis of IRS at 31/12/2019, to which a spread of 2.0% is added, in line with the contractual terms and conditions set out in the Senior Facility Agreement;
- a level of financial leverage (ratio between financial debt and own equity) in line with the industry average financial structure of comparable companies.

The resulting discount rate (WACC) of 8.63% reflects at the reporting date estimates of the market valuation and the cost of money and takes account of the specific and sector risk.

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

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

The indifference of the WACC, i.e. the discount rate that results in a headroom (difference between the amount recoverable through use and the carrying amount of the CGU) of zero, is 9.7%, whereas a 17% percent reduction of the terminal value is required to achieve this same result.

The cash flows used in the impairment test do not reflect possible developments linked to the current national and international scenario dominated by the spread of Covid-19. These developments, which emerged in the initial months of 2020, and which are extraordinary in nature and extent, have direct and indirect repercussions on economic activity giving rise to an environment of general uncertainty and whose evolution and effects are unforeseeable. The resulting equity market turbulence has caused a general bear market, driving the market capitalisation of SIT S.p.A. below the Group's shareholders' equity.

Within this framework, additional sensitivity analyses beyond those described above have been formulated.

In particular, in terms of potential changes in cash flows, the zero-headroom point is reached by reducing revenues for the first three years of the explicit forecasting period by 17%, assuming that the possible deterioration of the macroeconomic scenario may be reflected in this period, without considering the effects of actions to reduce fixed costs and the benefits of reducing working capital.

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

Smart Gas Metering Division CGU

In the absence of a reliable market value for the CGU, the recoverable value was calculated on the basis of the value in use established according to the Discounted Cash Flow (DCF) method, discounting the operating cash flows generated at a rate representative of the cost of capital.

When formulating financial projections, the cash flows from the explicit plan horizon have been used, with the appropriate corrections to account for the expected effects of management actions to improve operating performance laid out in the plan and resulting from investing activities over the plan horizon. These actions relate above all to investments in production designed to shift the industrial footprint towards countries with lower labour costs.

When constructing the perpetual income flow to calculate the terminal value, the average performance recorded in 2019 and the five years of the explicit forecasting period was projected, in view of the cyclical nature of the business, net of any corrections relating to the new footprint described in the foregoing paragraph, considering a maintenance level of investments.

The growth rate (g) was assumed to be zero, whereas the value of current income taxes was calculated on a notional basis utilising the nominal tax rate.

The Smart Gas Metering CGU's WACC was estimated by assuming:

- a risk-free rate equal to the average of the risk-free rates of the principal markets in which the CGU operates; in particular, for each country the MAX was utilised (2.5%, government yield 10Y; IRS 10Y+CDS 10Y; country risk premium Damodoran);
- a beta unlevered coefficient for a value of 0.84 estimated on the basis of a panel of comparable listed companies;
- an equity risk premium of 5.5%, equivalent to the average of the market's risk premium in the main countries where the Metering CGU is active (source: Pablo Fernandez, Alberto Ortiz and Isabel F. Acin, IESE Business School 2018);
- an additional risk premium for the calculation of the cost of own capital (Ke) equivalent to 2.5%;
- a cost of debt calculated on the basis of IRS at 31/12/2019, to which a spread of 2.0% is added, in line with the contractual terms and conditions set out in the Senior Facility Agreement;
- a level of financial leverage (ratio between financial debt and own equity) in line with the industry average financial structure of comparable companies.

The resulting discount rate (WACC) of 9.25% reflects at the reporting date estimates of the market valuation and the cost of money and takes account of the specific and sector risk.

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

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

The indifference of the WACC, i.e. the discount rate that results in a headroom (difference between the amount recoverable through use and the carrying amount of the CGU) of zero, is 12.9%, whereas a 41.8% percent reduction of the terminal value is required to achieve this same result.

As for the Heating Division, the cash flows used in the impairment test do not reflect possible developments linked to the current national and international scenario dominated by the spread of Covid-19. Additional sensitivity analyses beyond those described above have also been formulated.

In terms of potential changes in cash flows, the zero-headroom point is reached by reducing revenues for the first three years of the explicit forecasting period by 21%, assuming that the possible deterioration of the macroeconomic scenario may be reflected in this period, without considering the effects of actions to reduce fixed costs and the benefits of reducing working capital.

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

Note 2: Property, plant & equipment

The movements in property, plant and equipment in 2019 are summarised below.

(Euro.000)	Historical cost at Dec. 31, 18	Accumulated depreciation at Dec. 31, 18	Balance at Dec. 31, 18	"Right of use" IFRS 16 at Jan 1, 19	Historical cost at Dec 31, 19	Accumulated depreciation at Dec 31, 19	Balance at Dec 31, 19	Of which "Right of use" IFRS 16
Land & Buildings	36,483	-19,227	17,256	2,954	42,968	-21,189	21,779	2,073
Plant and machinery	129,704	-102,418	27,286	-	137,712	-106,604	31,108	-
Industrial and commercial equipment	74,646	-67,123	7,523	2,019	79,030	-70,543	8,487	1,161
Other assets	7,553	-6,074	1,479	2,171	11,237	-7,168	4,069	2,395
Assets in progress and advances	11,624	-	11,624	-	13,875	-	13,875	-
Total property, plant and equipment	260,010	-194,842	65,168	7,144	284,822	-205,504	79,318	5,629

The following tables outline the changes in the historic cost and accumulated depreciation in 2019 by category.

HISTORIC COST

(Euro.000)	Historical cost at Dec. 31, 18	"Right of use" IFRS 16 at Jan 1, 19	Historical cost at Dec 31, 19	Increases	Increases from companies under control of parent company	Impairment	Disposals	Other movements	Translation difference	Historical cost at Dec. 31, 19	Of which "Right of use" IFRS 16
Land & Buildings	36,483	2,954	39,437	1,857	-	-278	-95	1,912	135	42,968	2,996
Plant and machinery	129,704	-	129,704	6,630	-	-	-2,745	3,771	352	137,712	-
Industrial and commercial equipment	74,646	1,057	75,703	4,847	-	-	-2,730	1,099	111	79,030	1,555
Other assets	7,553	3,133	10,686	549	-	-	-133	85	50	11,237	3,148
Assets in progress and advances	11,624	-	11,624	3,266	6,450	-628	-	-6,867	30	13,875	-
Total property, plant and equipment	260,010	7,144	267,154	17,149	6,450	-906	-5,703	-	678	284,822	7,699

The increases in the year include the purchases of property, plant and equipment in the year. In particular, acquisitions in the year refer principally to plant, machinery and moulds for the development and manufacturing of new products, in addition to refurbishment and efficiency and production technology improvements.

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

Other movements include amounts which at December 31, 2018 were in progress and which in 2019 became fixed assets to be depreciated.

The account Write-downs of Euro 906 thousand includes the Euro 664 thousand write-down of costs capitalised in previous years and recognised as assets in progress, relating to the project to redesign the spaces and renovate the building in which the company's offices are currently located. The abandonment of the project should be viewed within the broader framework of the construction of new research and development laboratories in an area adjacent to the company's offices, in Padua's business district.

ACCUMULATED DEPRECIATION

(Euro.000)	Accumulated depreciation at Dec. 31, 18	“Right of use” IFRS 16 at 1,1,2019	Accumulated depreciation at Jan 1, 19	Amortisation	Disposals	Other movements	Translation difference	Accumulated depreciation at Dec. 31, 19	Of which “Right of use” IFRS 16 ²
Acc. Deprec. Land & Buildings	-19,227	-	-19,227	-1,921	95	-	-136	-21,189	-923
Acc. Deprec. Plant and machinery	-102,418	-	-102,418	-6,383	2,558	-	-362	-106,604	-
Acc. Deprec. Industrial and commercial equipment	-67,123	-	-67,123	-5,870	2,522	-	-72	-70,543	-394
Acc. Deprec. Other assets	-6,074	-	-6,074	-1,206	159	-	-47	-7,168	-753
Total accumulated depreciation	-194,842	-	-194,842	-15,380	5,334	-	-617	-205,504	-2,070

Property, plant and equipment were depreciated at December 31, 2019 at the following rates:

	Rate
Land & Buildings	50.70%
Plant and machinery	77.41%
Industrial and commercial equipment	90.54%
Other assets	79.32%
Leasing	26.89%

Note 3: Investments

The following table reports the movements in 2019 in investments.

(Euro thousands)

Investments	Balance 31/12/2018	Increases in the year	Decreases in the year	Other changes	Balance 31/12/2019
Investee					
CFM	-	-	-	-	-
Immobiliare Golf Montecchia	28	-	-	-	28
Fondazione ABO in liquidation	6	-	-	-	6
Italmed Llc.	378	-	-	-	378
Cyrus Intersoft Inc.	366	-	-	-	366
Infracom S.p.A.	522	-	-	-	522
SAPI immobiliare	4	-	-	-	4
Immobiliare Polesana (formerly IMER)	1	-	-	-	1
Other minor	1	-	-	-	1
Fondazione ABO in liq. write-down prov.	(6)	-	-	-	(6)
Italmed Llc. write-down prov.	(378)	-	-	-	(378)
Cyrus Intersoft Inc. write-down prov.	(366)	-	-	-	(366)
Infracom S.p.A. write-down prov.	(502)	-	-	-	(502)
Total investments	54	0	0	0	54

Note 4: Current and non-current financial assets

The breakdown of financial assets at December 31, 2019 is as follows:

(Euro thousands)

Current and non-current financial assets	31-dec-19	31-dec-18
Guarantee deposits	206	210
Restricted deposit account	1,325	1,325
Other receivables	-	9
Non-current financial assets	1,531	1,544
Derivative financial instruments	23	97
Other current financial assets	23	97

The main accounts are commented upon below.

RESTRICTED DEPOSIT ACCOUNT

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

DERIVATIVE FINANCIAL INSTRUMENTS

In 2019 the Parent Company entered into currency derivatives contracts that do not meet the hedging requirements established by IFRS 9 for the application of hedge accounting, with the exception of forward sales transactions in GBP and AUD. At December 31, 2019 the financial assets of the outstanding contracts were recognised at fair value with provisioning to a relative net equity reserve, net of the relative tax effect.

The account is broken down by currency in the table below:

Transaction type	Currency	Currency	Currency	Value date	Maturity	Spot rate	Forward	Fair Value
forward purchases	AUD	650,000	EUR	24/12/2019	31/01/2020	1.611	1.614	3
forward sales	CNY	29,300,000	EUR	20/12/2019	31/01/2020	7.788	7.825	8
forward sales	CNY	15,000,000	EUR	29/07/2019	31/07/2020	7.651	7.915	12
Total								23

Note 5: Deferred tax assets

A breakdown of temporary differences and the consequent deferred tax assets at December 31, 2019 and at December 31, 2018 is reported below, on the basis of the breakdown by type of the temporary differences:

Balance at December 31, 2019

(Euro.000)	Temporary Diff.	Temporary Diff.	Tax effect IRES	Tax effect IRAP
	IRES	IRAP		
Employee provisions	2,455	2,455	589	96
Other risk and charges provisions	1,683	1,653	409	64
Employee benefits	834	-	216	-
Write-down of inventories	1,664	1,473	411	57
Maintenance difference	-	-	-	-
Deprec. suspended on revaluations	171	171	41	7
Amortisation of intangible assets	-	-	-	-
Tax losses	1,750	-	420	-
Non-deductible interest	4,409	-	1,058	-
Other & overseas	1,072	89	342	3
Inter-company transactions	3,741	3,741	898	146
Cash Flow Hedge Reserve	1,357	9	326	-
Unrealised foreign exchange losses	348	-	84	-
Reversal of formation and start-up costs	-	16	-	1
Total	19,485	9,607	4,793	375

Balance at December 31, 2018

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

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

Current assets

Note 6: Inventories

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

(Euro thousands)	Dec 31, 19	Dec 31, 18
Raw materials, ancillary and consumables	25,368	27,549
Work-in-progress and semi-finished goods	9,065	8,907
Finished products and goods	16,659	15,741
Advances to suppliers	34	33
Inventories	51,126	52,230

The movements in the inventory obsolescence provision were as follows:

(Euro thousands)	Dec 31, 19
Obsolescence provision 31/12/2018	(2,286)
Utilisation in the year	170
Allocation in the year	(216)
Other movements	(7)
Obsolescence provision 31/12/2019	(2,340)

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

Note 7: Trade receivables

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

(Euro thousands)	Dec 31, 19	Dec 31, 18
Trade receivables	57,761	52,826
Trade receivables from holding company	29	29
Trade receivables from subsidiaries	-	-
Current trade receivables	57,808	52,855
Doubtful debt provision	(632)	(817)
Trade receivables	57,176	52,038

TRADE RECEIVABLES

These refer to direct commercial transactions which the Group undertakes with customers and is net of without recourse receivable factoring totalling approx. Euro 11,164 thousand, respectively by the Parent Company and by MeterSit S.r.l.

The amount is stated net of the doubtful debt provision which expresses reasonably expected losses both on the basis of prior non-collection and amounts overdue.

The doubtful debt provision amounts to Euro 632 thousand, with the movements in 2019 reported in the following table:

(Euro thousands)	Dec 31, 19
Doubtful debt provision 31/12/2018	(817)
Utilisation in the year	258
Allocation in the year	(73)
Doubtful debt provision 31/12/2019	(632)

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

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

(Euro thousands)					
Trade receivables	Current	< 30 days	30-60 days	> 61 days	Total
December 31, 2019					
Trade receivables	47,590	3,954	3,545	2,671	57,761
December 31, 2018					
Trade receivables	44,408	4,662	1,340	2,328	52,737

Note 8: Other current assets

The account is broken down as follows:

(Euro thousands)	Dec 31, 19	Dec 31, 18
Tax receivables	7,654	6,648
Advances	986	651
Prepayments and accrued income	953	1,537
Other receivables	248	71
Other tax receivables	-	-
Employee receivables	10	24
Social security institution receivables	281	171
Other current assets	10,132	9,102

TAX RECEIVABLES

The breakdown is as follows:

(Euro thousands)	Dec 31, 19	Dec 31, 18
VAT receivables	4,349	4,142
Withholding taxes	3,305	2,464
Income tax receivables	-	42
Total tax receivables	7,654	6,648

Receivables for withholding taxes of Euro 3,305 thousand relate to overseas withholding taxes on royalties invoiced by the Parent Company to productive subsidiaries against the use of technical-productive and non-patented know-how, in addition to those of the SIT trademark, all held by the Parent Company. These receivables are considered recoverable through expected future taxable income.

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

ACCRUED INCOME AND PREPAYMENTS

At December 31, 2019, accrued income and prepayments were mainly related to prepayments on fees, rental and insurance premiums, as well as fees for maintenance and repair materials.

Note 9: Tax receivables

Tax receivables were as follows:

(Euro thousands)	Dec 31, 19	Dec 31, 18
IRES receivables as per Legs. Decree 201/2012	-	1,481
IRES receivables	2,092	2,021
IRAP receivables	475	-
Tax consolidation	2,134	-
Other current taxes	69	63
Tax receivables	4,770	3,565

The receivable of Euro 1,481 thousand from the Treasury for IRES emerging from the merger of 2014 through presentation of a specific application for the recovery of non-deducted IRAP concerning personnel expenses, in accordance with Article 2, paragraph 1-quater of Legislative Decree No. 201/2012, was partially collected and the remainder factored without recourse in 2019.

The receivable for Euro 2,134 thousand derives from the involvement of the Parent Company and the subsidiary MeterSit S.r.l. in the tax consolidation undertaken with the parent company SIT Technologies S.p.A.. The above companies in fact took part in the National Tax Consolidation governed by Legislative Decree No. 344 of December 12, 2003 and in particular Articles 117 to 129 of the Income Tax Law, as consolidated companies and as expressly approved by the respective Boards of Directors for the 2019-2021 three-year period and as per the tax consolidation agreement signed by the interested companies.

Note 10: Cash and cash equivalents

Cash and cash equivalents are presented below:

(Euro thousands)	Dec 31, 19	Dec 31, 18
Cash in hand and similar	23	21
Bank and postal deposits	34,042	55,473
Cash and cash equivalents	34,065	55,494

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

Consolidated shareholders' equity

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

Note 11: Share capital

The share capital, subscribed and paid-in, amounted at December 31, 2019 to Euro 96,152, comprising 25,007,465 shares without expressed nominal value. The classes of shares issued by the company are reported below.

Shares	No. Shares	% of share capital	Listing
Ordinary shares	25,007,465.00	100.0%	MTA Italy

The company executed the merger between SIT S.p.A. and Industrial Stars of Italy 2 S.p.A. by providing a divisible share capital increase for a maximum total amount of Euro 153,438, to be implemented through the issue of 1,534,380 SIT ordinary shares reserved for the exercise of the subscription right due to SIT Warrant holders.

Note 12: Reserves

A breakdown follows:

(Euro thousands)	Dec 31, 19	Dec 31, 18
Share premium reserve	10,360	10,360
Capital payments reserve	16,615	18,817
Total capital reserves	26,975	29,177
Legal reserve	19,230	19,230
Treasury shares reserve	-1,437	-752
Cash Flow Hedge reserve	-1,021	-1,017
Actuarial reserve	-642	-379
Extraordinary reserve	1,491	1,491
Translation reserve	-4,557	-6,454
LTI Reserve	175	175
Warrant Reserve	-3,028	-12,541
Performance Shares Reserve	-	-11,500
Retained earnings (accum. losses)	-5,700	-12,444
Total profit reserves	4,511	-24,191
Total reserves	31,486	4,986

CAPITAL PAYMENTS RESERVE

The decrease in the capital payments reserve entirely relates to the distribution of dividends for Euro 2,202 thousand to the holding company Sit Technologies S.p.A. following the Shareholders' Meeting of April 24, 2019, reducing this reserve to Euro 16,615 thousand.

TREASURY SHARES RESERVE

Under the SIT 2017 Refinancing operation, the Company purchased 317,000 shares redeemable pre-grouping, held by a group of managers, for a total price of Euro 659,360, in addition to the tax effect due to the Tobin Tax. Pursuant to Art. 2357-ter of the Civil Code, the purchase led to a total reduction of Euro 661 thousand in shareholders' equity through the entry of a specific item with a negative balance.

In 2019, the Group acquired 90,981 treasury shares amounting to Euro 685 thousand, for the purposes of the stock option plan, which were allocated to some executives and employees to subscribe to shares of the company.

LONG TERM INCENTIVE PLAN RESERVE

The long-term incentive plan (L.T.I.) reserve was utilised to record the value of the share-based payments in favour of employees and key executives, settled with capital securities, which constitutes part of their remuneration. For further details, reference should be made to Note 39.

CASH FLOW HEDGE RESERVE

The cash flow hedge reserve is recorded as a negative value of Euro 1,021 thousand, net of the Euro 322 thousand tax effect. This reserve derives from the fair value measurement of hedging derivatives in application of IFRS 9.

EXTRAORDINARY RESERVE

The extraordinary reserve remains unchanged following the distribution of dividends of Euro 6,969 thousand as approved by the Shareholders' Meeting of April 24, 2019.

WARRANT RESERVE

In 2017, in execution of the transactions for the merger with Industrial Star of Italy2, SIT S.p.A. issued 5,350,000 warrants admitted to trading on the AIM Italia. As per the Regulation, these Warrants may be exercised with effect from the month following admission to trading on AIM Italia and within 5 years from admission. From November 28, 2018, following the transition process to the main index the Warrants are traded on the MTA (Mercato Telematico Azionario) Market organised and managed by Borsa Italiana and,

simultaneously, were excluded from trading on the AIM Italia. The Warrant Reserve, equivalent to a negative value of Euro 3,028 thousand, derives from the initial entry of the Warrants at their fair value on July 20, 2017 and by subsequent movements in connection with the Warrants' partial exercise.

PERFORMANCE SHARES RESERVE

As part of the incorporation of the SPAC Industrial Star of Italy 2, in 2017 SIT S.p.A. converted 250,000 ordinary shares owned by SIT Technologies S.p.A. into an equal number of particular SIT shares (Performance Shares), convertible into ordinary shares under the terms and conditions set out in the By-Laws. The performance shares reserve of Euro 11,500 thousand corresponds to the fair value recorded at December 31, 2017. On April 24, 2019, the Shareholders' Meeting approved the utilisation of a portion of the 2018 net profit of Euro 3,240 thousand, to increase the Performance Shares reserve for a total final value of Euro 8,260 thousand. In 2019, the corresponding financial liability (of Euro 8,260 thousand) was settled, cancelling the Performance Shares reserve, against the full conversion of the 250,000 shares according to the 1:5 ratio established by the By-Laws, as outlined at Note 23.

RETAINED EARNINGS (ACCUM. LOSSES)

At December 31, 2019, the account is negative for Euro 5,700 thousand, against a negative value of Euro 12,444 at December 31, 2018. The net decrease of Euro 6,744 relates to the positive amount of Euro 11,512 thousand in allocation of a portion of the 2018 result, while the negative amount of Euro 4,767 thousand concerns the dividends paid during the year following the motion taken by the Shareholders' Meeting of April 24, 2019.

Non-current liabilities

Note 13: Non-current bank payables

As at December 31, 2019, short-term loans and borrowings represent the value of the loan agreement's non-current portion (Senior Financial Agreement 2017) which the Company signed with BNP Paribas and a bank syndicate under the refinancing operation in 2017 alongside the incorporation of the SPAC Industrial Stars of Italy 2. The financial liability is measured using the amortised cost criterion.

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

- Euro 135,000 thousand, with 5-year duration, maturing June 30, 2022; repayment according to pre-established half-yearly instalments with an average duration of approx. 3.9 years;
- early repayment option without penalties and without collateral security;

- Interest rate indexed to the 3 or 6-month Euribor, at the company's choice, plus a margin determined on the basis of a grid defined by the Leverage ratio trend – an indicator consisting of the ratio between the net financial position and EBITDA. The average interest margin in 2019 was 1.90%.

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

The residual nominal amount at December 31, 2019 totals Euro 104,657 thousand, of which the non-current portion Euro 85,030 thousand and the current portion Euro 19,627 thousand.

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

At December 31, 2019 the account includes the Fair Value of the derivative financial instruments.

(Euro thousands)	Dec 31, 19	Dec 31, 18
Derivative financial instruments - Non-current	661	710
Non-current financial lease payables - IFRS 16	3,476	-
Other non-current financial liabilities and derivative financial instruments	4,137	710

DERIVATIVE FINANCIAL INSTRUMENTS - NON-CURRENT

In August 2017, the company settled interest rate swap (IRS) hedges, in connection with the new variable rate bank loan (Senior Financial Agreement 2017). These contracts satisfy the IFRS 9 hedging requirements for application of hedge accounting and therefore the financial liabilities were recognised at the fair value of the IRS contracts and with provisioning to a relative net equity reserve, net of the relative tax effect.

The features and the fair value of the non-current portion of the derivative financial instruments at December 31, 2019 are summarised below:

(Euro.000)						
Transaction type	Currency	Beginning date	Maturity	Fixed rate	Notional 31.12.2019	Fair Value 31.12.2019
IRS su SFA 2017	Euro	29/12/2017	30/06/2022	0.41%	56,049	-383
IRS su SFA 2017	Euro	29/12/2017	30/06/2022	0.40%	41,291	-278
Totale					97,340	-661

A breakdown of the non-current portion of interest rate swap hedges that made up the account at December 31, 2018 is presented below

(Euro.000)

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

NON-CURRENT FINANCE LEASE PAYABLES - IFRS 16

The amount concerns the non-current financial payable for future charges from the existing lease contracts, recognised in application of IFRS 16. For further information, reference should be made to Note 37.

Note 15: Provisions for risks and charges

The changes to the account were as follows:

(Euro thousands)

	Dec 31, 18	Provisions	Utilisations	Reclassifications	Dec 31, 19
Agents indemnity provision	139	5	-	-	145
Other risks provision	2,893	1,225	-666	-	3,452
Product warranty provision	953	41	-463	-	531
Other taxes provision	507	-	-492	-	15
Total provisions for risks & charges	4,492	1,271	-1,621	-	4,142

AGENTS' SUPPLEMENTARY INDEMNITY PROVISION

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

OTHER RISKS PROVISION

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

- Euro 1,155 thousand to hedge the risks over ongoing disputes with the Parent Company's customers, whose risk of loss is highly probable;
- Euro 410 thousand relating to the costs of the reclamation of a plot of land owned by the Company;

- Euro 1,852 thousand refers to the subsidiary Metersit S.r.l. to cover risks on the reasonable estimate of the potential penalties matured based on contractual provisions due to delays in the supply of products to the principal clients of the company. The amount also includes the best estimate of the dismantling costs in future years of the batteries inserted in the meters sold up to the reporting date. The provision takes into account the discounting of cash flows, utilising a pre-tax discount rate;
- Euro 75 thousand relating to disputes with personnel.

PRODUCT WARRANTY PROVISION

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

The estimate was calculated applying an updated percentage based on an assessment and analysis of returns for defects. Accordingly, Euro 463 thousand was released.

OTHER TAXES PROVISION

The provision, relating to the VAT receivable acquired by the Company following the merger with SPAC Industrial Star of Italy 2, was utilised following the payment of the sums due by way of greater taxes, penalties and interest under the agreement reached with the Italian revenue authorities.

Note 16: Net liabilities for defined employee benefits

The movements in the account in the year to December 31, 2019 and to December 31, 2018 were as follows:

(Euro thousands)	Dec 31, 19	Dec 31, 18
Net liabilities for employee benefits	5,984	5,769
Liabilities for retention or other	216	139
Net liabilities for defined employee benefits	6,200	5,908

The movements in post-employment benefits were as follows:

(Euro thousands)	Dec 31, 19	Dec 31, 18
Post-em. bens. at beginning of year	5,769	5,957
Payments in the year	-355	-190
Current service cost	87	66
Interest cost	85	76
Actuarial gains	398	-140
Post-em. bens. at end of year	5,984	5,769

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

Defined benefit plans	Dec 31, 19	Dec 31, 18
Annual discount rate	0.77%	1.57%
Annual inflation rate	1.20%	1.50%
Annual increase in post-employment benefit	2.40%	2.65%
Annual increase in salaries	1.00%	1.00%
Death	The RG48 mortality tables published by the General State Controller	
Disability	INPS tables by age and gender	
Retirement	100% on reaching current regulatory requirements	

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

Note 17: Other non-current liabilities

In 2018 the account included Euro 754 thousand relating to the provision for the extraordinary variable bonus granted to the Chairman and Chief Executive Officer in execution of the contractual provisions defined in the IPO, correlated to the Group's future results. In 2019 the provision was released due to the failure to meet the market condition set for eligibility for the incentive. For further information, reference should be made to Note 39.

Note 18: Deferred tax liabilities

A breakdown of temporary differences and the consequent deferred tax liabilities at December 31, 2019 and at December 31, 2018 is reported below, based on the type of temporary differences, applying respectively a tax rate of 24% for IRES and 3.9% for IRAP.

Balance at December 31, 2019

(Euro thousands)	Temporary Diff. IRES	Temporary Diff. IRAP	Tax effect IRES	Tax effect IRAP
Tax on business combinations	56,884	56,884	13,652	2,218
Accelerated depreciation	376	-	90	-
Finance Leases	1,012	1,012	243	39
Capitalisation research & development expenses	-	-	-	-
Unrealised for. exchange gains/losses	437	-	105	-
Amortised cost	0	-	0	-
Other	91	-	22	-
Derivative financial instruments	-	-	-	-
Total	58,801	57,896	14,113	2,258

Balance at December 31, 2018

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

Current liabilities

Note 19: Short-term loans and borrowings

The breakdown is as follows:

(Euro thousands)	Dec 31, 19	Dec 31, 18
Utilisation short-term lines	103	60
Current portion of loans	19,627	16,197
Short-term loans and borrowings	19,730	16,257

CURRENT PORTION OF LOANS

At December 31, 2019, the account includes the current share of the bank loan (Senior Financial Agreement 2017) referred to in Note No. 13. In accordance with normal loan contract terms, the 2017 SFA provides for a series of commitments by the company such as a prohibition on undertaking further debts and on providing negative pledges, except within the limits established therein. Reference should be made to the Directors' Report for further details on the financial covenants contained in the contract.

Note 20: Other current financial liabilities and derivative financial instruments

A breakdown follows:

(Euro thousands)	Dec 31, 19	Dec 31, 18
Factoring payables	605	4,373
Derivative financial instruments (current portion)	754	855
Current financial lease payables - IFRS 16	2,230	0
Other current financial liabilities and derivative financial instruments	3,589	5,228

DERIVATIVE FINANCIAL INSTRUMENTS - CURRENT PORTION

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

Balance at December 31, 2019

(Euro thousands)

Transaction type	Currency	Beginning date	Maturity	Fixed rate	Notional 31.12.2019	Fair Value 31.12.2019
IRS su SFA 2017	Euro	29/12/2017	30/06/2022	0.41%	56,049	-398
IRS su SFA 2017	Euro	29/12/2017	30/06/2022	0.40%	41,291	-289
Totale					97,340	-687

Balance at December 31, 2018

(Euro thousands)

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

In 2019 the parent company undertook hedging contracts against currency risk. These contracts do not satisfy the IFRS 9 hedging requirements for application of hedge accounting, with the exception of the transactions in GBP, for which the financial assets were recognised at fair value with provisioning to a relative net equity reserve, net of the relative tax effect. The features and the fair value of the current portion of the derivative financial instruments at December 31, 2019 are summarised below:

(Euro thousands)

Transaction type	Currency	Currency amount	Currency value	Value date	Maturity date	Spot rate	Forward rate	Fair Value 31.12.2019
forward sales	GBP	35,000	EUR	24/12/2019	31/01/2020	0.8522	0.8535	0
forward sales	GBP	200,000	EUR	26/11/2019	31/03/2020	0.8572	0.8613	-3
forward sales	GBP	200,000	EUR	26/11/2019	30/06/2020	0.8572	0.8642	-3
forward sales	GBP	200,000	EUR	26/11/2019	30/09/2020	0.8572	0.8670	-3
forward purchases	USD	7,750,000	EUR	23/12/2019	31/01/2020	1.1115	1.1144	-57
Total								-67

The commodity and currency contracts at December 31, 2018 were as follows

(Euro thousands)

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

(Euro thousands)

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

As required by IAS 7, the necessary disclosure is provided to permit the reader of the financial statements to assess the changes to liabilities deriving from financial activities, where such relates to cash flows or non-monetary changes. These include:

(Euro thousands)

(Euro thousands)	31/12/2018	Receivable waiver	Reimbursements /settlements	Reclass.	Fair Value Changes	Change in amortised cost	31/12/2019
Bank payables - non-current portion of loans	105,975	-	-	-20,250	-	-	85,725
Bank payables - non-current portion amortised cost	-1,245	-	-	-	-	550	-695
Total bank payables - non-current portion loans	104,730	0	0	-20,250	0	550	85,030
Shareholder loans - non-current portion of loans	-	-	-	-	-	-	0
Shareholder loan - amortised cost	-	-	-	-	-	-	0
Derivative financial instruments - non-current portion	710	-	-	-	-49	-	661
Total other non-current financial liabilities and derivative financial instruments	710	-	-	-	-49	-	661
Total non-current financial liabilities	105,440	0	0	-20,250	-49	550	85,691
Bank payables - current portion of loans	16,875	-	-16,875	20,250	-	-	20,250
Bank payables - current portion amortised cost	-678	-	-	-	-	55	-623
Total bank payables - current portion of loans	16,197	-	-16,875	20,250	-	55	19,627

Shareholder loan - current portion of loans	-	-	-	-	-	-	0
Derivative financial instruments - current portion	855	-	-	-	-101	-	754
Total other current financial liabilities and derivative financial instruments	855	-	-	-	-101	-	754
Total current financial liabilities	17,052	0	-16,875	20,250	-101	55	20,381

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

CURRENT FINANCIAL PAYABLES FOR LEASING – IFRS16

The amount concerns the current financial payable for future charges from the existing lease contracts, recognised in application of IFRS 16. For further information, reference should be made to Note 37.

Note 21: Trade payables

At December 31, 2019, trade payables were broken down as follows:

(Euro thousands)	Dec 31, 19	Dec 31, 18
Trade payables	73,329	74,795
Trade payables to holding company	-	-
Trade payables	73,329	74,795

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

(Euro thousands)	Current	< 30 days	30-60 days	> 61 days	Total
December 31, 2019					
Trade payables	58,714	11,662	1,896	1,057	73,329
December 31, 2018					
Trade payables	58,211	12,920	2,284	1,381	74,795

TRADE PAYABLES

These include payables in foreign currency and are therefore stated in the financial statements and in the above table net of the relative unrealised exchange differences, equating to exchange losses of Euro 135 thousand.

Note 22: Other current liabilities

A breakdown follows:

(Euro thousands)	Dec 31, 19	Dec 31, 18
Other payables	1,285	952
Customer advances	957	2,287
Current remuneration payables	2,288	2,118
Deferred remuneration payables	2,919	3,318
Payables to social security institutions	2,930	2,688
Retention fund, MBO and PDR	2,537	2,728
Deferred income	15	33
Tax payables as withholding agent	2,391	1,766
VAT payables	635	1,198
Other current liabilities	15,957	17,088

OTHER PAYABLES

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

CURRENT REMUNERATION PAYABLES

Current remuneration payables principally include employee payables for December 2019 salaries, paid in January 2020.

DEFERRED REMUNERATION PAYABLES

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

RESULT BONUSES

The account relates to the estimate of 2019 bonuses, to be paid in 2020.

Note 23: Financial Liabilities for Performance Shares

The financial liability for Performance Shares recognised at December 31, 2018 of Euro 8,260 thousand relates to the Fair Value of 250,000 Performance Shares held by Sit Technologies S.p.A., calculated by estimating the achievement, with the consolidated financial statements at December 31, 2018, of the results required for their full conversion in a 1 to 5 ratio and valuing the 1 million unissued shares to the listing value of the company's ordinary shares as at December 31, 2018.

On April 15, 2019, the Board of Directors of SIT, on the issue of the Related Parties Committee favourable opinion, noted the number of Performance Shares convertible into ordinary shares in the amount of 1,250,000 ordinary shares in favour of Sit Technologies S.p.A..

For accounting purposes, the financial liability for Performance Shares was settled against a movement in shareholders' equity, as described in greater detail at Note 12.

Note 24: Financial liabilities for Warrants

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

For accounting purposes, the warrants were recognised as financial liabilities in accordance with IAS 32 and initially recorded at their Fair Value on July 20, 2017 of Euro 15,515 thousand without any economic impact. The account at December 31, 2019 amounted to Euro 1,567 thousand, representing the Fair Value calculated by assigning to each warrant issued and not yet exercised at the reporting date the listing price at that date.

Financial liabilities recognised at December 31, 2019 were adjusted to Fair Value, recognising the differential between the date of December 31, 2018 (Euro 0.58) and the price at the reporting date (Euro 0.30) to the income statement under financial income for Euro 1,460 thousand.

Note 25: Tax payables

The sum of Euro 3,001 thousand primarily relates to the direct taxes payable on income for the year, Euro 1,196 thousand of which is due to the participation of the subsidiary Metersit S.r.l. in the tax consolidation with the parent company SIT Technologies S.p.A. (as consolidating entity), as well as with SIT S.p.A. and SIT Immobiliare S.p.A., as consolidated entities.

COMMENTS ON THE MAIN ITEMS OF THE CONSOLIDATED INCOME STATEMENT

Note 26: Revenue from sales and services

Revenues from sales and services are comprised as follows:

(Euro thousands)	2019	2018
Revenues from product sales	351,613	359,148
Revenues from services	594	540
Revenues from sales and services	352,207	359,688

REVENUES FROM PRODUCT SALES

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

(Euro thousands)	2019	2018
Heating	262,472	287,001
Smart Gas Metering	89,140	72,147
Total revenues from product sales	351,612	359,148

Group revenues by region were as follows:

(Euro thousands)	2019	2018
Italy	134,851	126,048
Foreign EU	92,127	97,495
Foreign Non-EU	124,634	135,605
Total revenues from product sales	351,612	359,148

Note 27: Raw materials, ancillaries, consumables and goods

The breakdown of the account in 2019 and 2018 was as follows:

(Euro thousands)	2019	2018
Purchases of ancillary materials	3,810	4,141
Purchases of raw materials, semi-finished & packaging	162,142	176,399
Finished products purchases	22,291	22,255
Purchases of consumable materials	45	6
Purchases of goods	35	38
Maintenance and repair materials	2,177	2,132
Other purchases	1,996	2,206
Duties on purchases	832	1,316
Raw materials, ancillaries, consumables and goods	193,328	208,493
Changes in inventories of raw materials, ancillaries, consumables and goods	503	-6,082
Change in inventories of finished & semi-finished products and goods	1,054	8,057
Change in inventories	1,557	-14,139
Total cost of raw materials, ancillaries, consumables and goods	194,885	194,354

Note 28: Service costs

The composition of the account is as follows:

(Euro thousands)	2019	2018
Rent, hire and leases	396	2,405
Outsourcing	7,580	9,192
Transport	6,581	7,755
Commissions	319	308
Legal, administrative and other	4,624	4,504
Insurance	1,009	1,056
Management services	895	1,825
Maintenance & repair expenses	3,434	3,103
Utilities	5,583	4,971
Personnel expense	1,809	1,877
Cleaning and security	931	862
Advertising, marketing, and sponsorship	865	721
Directors, statutory & independent auditor fees	971	2,027
Travel and accommodation	1,177	1,130
Bank charges & commissions	1,031	306
Other services	1,443	1,183
Listing charges	235	1,237
Service costs	38,883	44,462

RENT, HIRE AND LEASES

The cost of rentals and operating leases declined on the previous year due to the effect of initial application of the standard IFRS 16, as described in further detail in Note 37.

OUTSOURCING

Outsourcing costs declined by Euro 1,612 thousand on the previous year due to rationalisation measures taken by the Group during the year.

TRANSPORT

Transport costs declined by Euro 1,174 thousand on the previous year due to the absence of the urgent shipping needs caused by the demand peak in 2018.

DIRECTORS, STATUTORY & INDEPENDENT AUDITOR FEES

The account declined by Euro 1,056 thousand, mainly due to the release of the provision for the extraordinary variable bonus granted to the Executive Chairman in implementation of the Framework Agreement.

LISTING COSTS

Listing charges of Euro 235 thousand refer to ordinary costs relating to obligations applicable to listed companies. In 2018 such costs amounted to Euro 1,237 thousand and related to translisting process from the AIM market to the MTA Italia market in November 2018.

BANK CHARGES & COMMISSIONS

The account increased by Euro 725 thousand, mainly due to the recognition of the costs of bank guarantees granted for contracts with several clients of the Smart Gas Metering Division of Euro 250 thousand on a non-recurring basis.

Note 29: Personnel expenses

Personnel expenses are shown below:

(Euro thousands)		
Personnel expense	2019	2018
Wages and salaries	47,166	48,748
Social security charges	11,808	11,448
Temporary personnel	6,902	10,067
Post-employment benefits	2,612	2,507
Other costs	941	907
Personnel expense	69,429	73,677

The average number of personnel in 2019 and 2018 was as follows:

Employees	2019	2018
Executives	36	33
White-collar	436	417
Blue-collar	1,538	1,676
Temporary	236	347
Total employees	2,246	2,473

The decrease in costs on the previous year was due in part, for Euro 2.5 million, to non-recurring costs relating to the leaving incentive and settlement following the termination of employment of the General Manager and, for Euro 250 thousand, to bonuses issued following the successful conclusion of the listing process.

Note 30: Depreciation, amortisation and write-downs

The breakdown is as follows:

(Euro thousands)		
Depreciation, amortisation and write-downs	2019	2018
Amortisation of intangible assets	7,532	8,449
Depreciation of property, plant and equipment	13,31	11,417
Depreciation of operating lease - IFRS 16	2,070	-
Total depreciation and amortisation	22,912	19,866
Write-down of current receivables	80	158
Write-down of non-current receivables	-	-
Write-down of tangible assets	903	-
Write-down of intangible assets	190	-
Total write-downs	1,173	158
Depreciation, amortisation and write-downs	24,085	20,024

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

Note 31: Provisions

In 2019 provisions totalled Euro 138 thousand and were stated net of utilisations of Euro 984 thousand. The main changes in the year refer to:

- Euro 463 thousand of releases from the product warranty provision due to application of an updated percentage based on an assessment and analysis of returns for defects
- Euro 412 thousand of releases from provision for risks and charges due to the lapse of obligations to clients for potential contractual compensation
- Euro 410 thousand of provisions for the costs of the reclamation of a plot of land owned by the Company
- Euro 427 thousand for reserves for future charges which the subsidiary MeterSit S.r.l. may incur for the dismantling of the batteries inserted in meters
- Euro 201 thousand for reserves for probable Parent Company risks which cannot be accurately predicted, chiefly concerning product quality in the face of reimbursement requests from a number of clients.

Note 32: Other charges (income)

The account is broken down as follows:

(Euro thousands)		
Other charges (income)	2019	2018
Misc. recoveries	1,112	403
Prior year income	199	460
Gains on fixed assets	539	75
Utilisation of provisions	-	-
Grants	80	433
Other revenues	2	-7
Other income	1,935	1,364
Misc. taxes & non-deductible costs	358	367
Losses on fixed assets	91	6
Associations	192	172
Prior year charges	256	305
Losses on receivables	61	8
IMU Property tax	148	125
Misc. reimbursements	185	436
Other charges	697	1,099
Other charges	1,988	2,518
Other charges (income)	53	1,154

Other income in 2019 increased Euro 571 thousand, concerning non-recurring charges for Euro 776 thousand with regards to the insurance reimbursement recognised in the first half of the year.

Other charges in 2019 reduced Euro 530 thousand. It bears recalling that in 2018 the account “Other charges” included recurring charges for Euro 675 thousand, of which Euro 492 thousand relating to the provision for potential liabilities related to the VAT receivable and Euro 145 thousand for environmental charges accrued by the Romanian subsidiary.

Note 33: Financial income

In 2019, this amounted to Euro 2,032 thousand and was broken down as follows:

(Euro thousands)		
	2019	2018
Interest income on bank accounts	210	197
Other interest income	205	34
Interest income from Group companies	-	10
Profits on derivative financial instruments	157	291
Adjustment to fair value of financial liabilities	1,460	12,754
Financial income	2,032	13,286

PROFITS ON DERIVATIVE FINANCIAL INSTRUMENTS

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

ADJUSTMENT TO FAIR VALUE OF FINANCIAL LIABILITIES

This concerns the adjustment to the fair value of the 5,224,733 SIT warrants in place and not exercised at December 31, 2019; the fair value of the warrants was established utilising level 1 of the hierarchy since they are listed on an active market.

Note 34: Financial charges

Financial charges consist of:

(Euro thousands)		
Financial charges	2019	2018
Financial charges on hedging contract differences	750	831
Interest charges to holding company	7	-
Interest and other bank charges	2,589	2,751
Interest charges to third parties	568	737
Losses on derivative financial instruments	72	479
Financial charges on operating lease – IFRS 16	177	-
Financial charges	4,163	4,798

FINANCIAL CHARGES ON HEDGING CONTRACTS

The account refers to the differential matured in 2019 relating to the interest rate risk contracts (IRS) on the loan contracts (Senior Facility Agreement of 2017).

INTEREST AND OTHER BANK CHARGES

The amount of Euro 2,589 thousand mainly relates to financial charges on loans (Senior Facility Agreement of 2017) including the relative effect of the application of the amortised cost method.

LOSSES ON DERIVATIVE FINANCIAL INSTRUMENTS

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

FINANCIAL CHARGES ON OPERATING LEASES – IFRS 16

These are financial charges due to the discounting of liabilities relating to rights of use of assets on operating lease, as defined in IFRS 16. For further details, reference should be made to Note 37.

Note 35: Net exchange gains (losses)

Net exchange gains of Euro 1,263 thousand are comprised as follows:

(Euro thousands)		
Exchange gains and losses	2019	2018
Realised exchange gains	6,429	8,009
Realised exchange losses	-7,501	-8,901
Unrealised exchange gains	645	1,228
Unrealised exchange losses	-836	-629
Net exchange gains and losses	-1,263	-292

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

Note 36: Income taxes

The breakdown of Income taxes in 2019 and 2018 was as follows:

(Euro thousands)		
Income taxes	2019	2018
Current income taxes	5,087	-8,769
Deferred tax charges	-1,845	2,037
Deferred tax income	1,567	-1,314
Consolidation income tax	-169	-256
Taxes from previous year	-3,509	-128
Other	261	623
Income taxes	1,392	-7,807

Current income taxes for the year benefited from non-recurring tax income of Euro 3,702 thousand following the positive outcome of the request for an advance tax ruling filed in 2018 with the Italian Tax Agency on the tax treatment of the non-recurring items related to the merger with ISI2 in 2017, such as the fair value from the merger, the fair value of the warrants and the fair value of the Performance Shares.

In previous years, the company had prudently taxed the financial income transferred to the income statement as a result of the fair value measurement of the Warrants and Performance Shares. In its response to the request for an advance tax ruling, the Italian Tax Agency clarified that the liability recognised through the negative equity reserve and the components taken to the income statement due to the fair value measurements recognised cannot be considered relevant for tax purposes. In addition, discharging the liability (when the securities are converted) also will not generate tax effects for the company.

The IRES and IRAP rates applied by the company on estimated assessable income in the year are respectively 24% and 3.9%, for current taxes and for the calculation of deferred taxes.

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

Reconciliation effective tax charge	2019	2018
Adjusted pre-tax profit	21,320	32,071
Theoretical IRES in Italy 24.0%	-5,117	-7,697
Tax effect non-deductible costs	-630	-703
Tax effect on higher deductible costs	1,203	1,063
Tax effect on non-assessable income	7	336
Adjustments for prior period taxes	3,500	155
Tax credits	230	32
Other	76	-72
Difference the tax rate on foreign entities	-7	-41
Theoretical IRAP at 3.9%	-776	-1,140
IRAP deferred tax charge	100	282
IRAP deferred tax income	22	-22
Tax at effective rate	-1,392	-7,807
Effective tax rate	6,53%	24,30%

Note 37: Leasing contracts

The tables below summarise the effects on the Group financial statements at December 31, 2019 concerning the valuation of the “Right-of-use” (“ROU”) of assets from operating lease contracts, as required by IFRS 16 - Leases. For the indication of the balance sheet accounts which include these assets, reference should be made to Note 2.

Economic effects from assets consisting of the right-of-use (ROU) on the income statement for the period:

(Euro.000)	
Impact on profit and loss for the period	2019
Operating leases (under IFRS 16)	2,169
Contracts classified as short-term leases	4
Contracts classified as low value assets	35
Total service costs	2,209
Depreciation - Land and buildings	-923
Depreciation - Other tangible assets	-1,147
Total depreciations	-2,070
Income from sub-leasing contracts	-
Sales and leaseback transaction	-
Total other charges / (income)	-
Interest charges on financial liabilities	-178
Total financial charges	-178

Effects on the balance sheet from right-of-use assets:

(Euro.000)	31/12/2019
Net investments accounted as ROU as at 1.1.2019	7,144
Increases of the period	555
Depreciation and amortisation of the period	-2,070
Net investments accounted as ROU as at 31.12.2019	5,629
Opening financial liabilities for ROU	7,144
Increases of the period	609
Cash flow related to operating leases contracts	-2,045
Liabilities from operating lease contracts under IFRS 16 as at 31.12.2019	5,707
Obligations for short term lease contracts	22
Obligations for low value asset contracts	171
Total obligations for operating lease contracts under IFRS 16	193

Effects on future cash flows from right-of-use assets:

(Euro.000)	31/12/2019
Within the year	1,796
From 1 to 5 years	3,431
Over 5 years	479
Liabilities from operating lease contracts under IFRS 16 as at 31.12.2019	5,707

Note 38: Earnings per share

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

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

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

(Euro thousands)

Profit attributed to the ordinary shareholders of the Parent Company	31.12.2019	31.12.2018
Profit/(loss) attributed to the ordinary shareholders of the Parent Company	19,928	24,265
Dilution effect deriving from potential ordinary shares	-1,460	-9,692
Total profit/(loss) attributed to the ordinary shareholders of the Parent Company	18,468	14,572

(Euro thousands)

Earnings per share	31.12.2019	31.12.2018
Weighted average number of ordinary shares, excluding treasury shares, to calculate basic earnings per share	24,597,074	23,939,484
Dilution effects for Warrants	-	546,054
Dilution effects for Performance Shares	-	1,000,000
Weighted average number of ordinary shares due to dilution effect	24,597,074	25,485,539
Basic earnings per share	0.8102	1.0136
Diluted earnings per share	0.7508	0.5718

Note 39: Share-based payments

At December 31, 2019, the company holds 167,109 treasury shares, of which 90,981 were acquired in 2019 in order to service the long-term incentive plan for employees and/or collaborators of the company and/or subsidiary companies, in order to incentivise achievement of the medium-term plan, as further described in Note 12.

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

(Euro thousands)

	2019	2018
Costs deriving from share-based payment transactions		
Costs from equity-settled share-based payment transactions	-	175
Costs from cash-settled share-based payment transactions	-754	254
Total costs deriving from share-based payment transactions	-754	429

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

EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

On April 26, 2018, the Board of Directors of Sit S.p.A. approved the Long-Term Incentive plan for employees of the Company and its subsidiaries who hold key strategic roles within the Group, whereas on October 8, 2018 the Board of Directors of Sit S.p.A. identified the beneficiaries.

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

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

The following table illustrates the number and average weighed exercise price (PMPE) of the options during the year:

(Euro thousands)

	2019		2018	
	No. options	Weighted average price	No. options	Weighted average price
Outstanding at January 1	212,359	0.8244	-	-
Assigned during the year	-	-	212,359	0.8244
Cancelled during the year	-1,771	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at December 31	210,588	0.8244	212,359	0.8244
Exercisable at December 31	-	-	-	-

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

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

The table below provides information utilised in the model for the plan adopted for the year December 31, 2018, and which remains valid for the current year:

Assumptions for the measurement of the plan fair value	2018
Weighted fair value at the measurement date	0.824
Dividend yield (%)	2.7
Expected volatility (%)	20.0
Interest free risk rate (%)	1.0
Expected useful life of the options (in years)	3.5
Model adopted	Monte - Carlo

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

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

The assumptions adopted in 2018 are also believed to be applicable to 2019.

CASH-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

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

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

- Theoretical emolument related to the official maximum monthly average price (calendar) of the shares of SIT during the period between May 1, 2019 and April 30, 2020, based on a substantial linear progression in values, between a minimum of Euro 10 (equal to the admission price to

trading of the Ordinary Shares of SIT on the AIM Italia) and a maximum of Euro 20, which gives the right to receive respectively, a minimum Euro 1.3 million and a maximum Euro 2.6 million; if this price is lower than Euro 10, no bonus will be due;

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

The fair value of the emolument was assessed as zero at December 31, 2019, since it is expected that the market condition relating to the monthly (calendar) official maximum average price of SIT shares during the period from May 1, 2019 to April 30, 2020 will not be satisfied.

The agreement governing the emolument stipulates that it is to be paid, where applicable, in May 2020 on the completion of the verification procedure and following final approval by the Board of Directors of the consolidated financial statements as of December 31, 2019.

OTHER INFORMATION

Disclosure by operating segment

Income Statement

2019

(Euro thousands)	Heating	Smart Gas Metering	Eliminations	Consolidated
Revenue from sales and services	265,646	89,318	-2,757	352,207
Operating costs	-250,333	-79,898	2,757	-327,474
EBIT	15,313	9,420	-	24,733

2018

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

Balance Sheet

2019

(Euro thousands)	Heating	Smart Gas Metering	Eliminations	Consolidated
Assets	323,041	60,618	-3,033	380,626
Liabilities	206,641	29,452	-3,033	233,060
Shareholders' Equity	116,400	31,166	-	147,566

2018

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

Related party transactions

Regarding the procedural rules applicable to related party transactions, see the policy adopted by the Company in accordance with Article 10 of the Regulations adopted by Consob with Resolution No. 17221 of March 12, 2010, later amended by Resolution No. 17389 of June 23, 2010, published in the Corporate Governance section of the website www.sitgroup.it. Reference should be made to the Directors' Report for further information.

Transactions with holding companies and with subsidiaries of this latter

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

December 31, 2019	Revenues	Costs	Financial income	Financial charges	Financial receivables	Financial liabilities	Other receivables	Other payables
<i>SIT Immobiliare S.p.A.</i>	14	-	-	-	-	-	17	-
Companies subject to the control of the holding company	14	-	-	-	-	-	17	-
<i>SIT Technologies S.p.a.</i>	24	-	84	-	-	90	2,163	1,196
Holding company	24	-	84	-	-	90	2,163	1,196

Transactions in 2018 are shown in the following table:

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

The SIT's operating revenues generated on transactions with SIT Immobiliare S.p.A. and SIT Technologies S.p.A. refer to advice and counsel provided by the Company in financial, administrative, tax and management control matters under a service agreement.

The financial income and financial payables in respect of the holding company SIT Technologies S.p.A. refer to the change in the fair value and the fair value of the SIT Warrants it holds, respectively. See the Explanatory Notes for further details.

Finally, SIT Immobiliare S.p.A., SIT Technologies S.p.A. and MeteRSit S.r.l. elected to participate in the national tax consolidation procedure for 2019-2021. The parties to this scheme, which is governed by Legislative Decree No. 344 of December 12, 2003, and in particular by Articles 117 to 129 of the Consolidated Income Tax Law, are SIT Immobiliare S.p.A. as the consolidating entity and the other companies as consolidated entities, as approved by their respective governing bodies. At December 31, 2019, within the framework of this procedure, under the account other receivables, the Group's balance due from SIT Technologies S.p.A. was Euro 2,134 thousand, relating to SIT S.p.A.; under the account other payables, the Group's balance was Euro 1,196 thousand, relating to Metersit S.r.l.

In addition, the financial liability relating to Performance Shares towards Sit Technologies S.p.A. of Euro 8,260 thousand was discharged through the conversion of 250,000 preferred shares into 1,250,000 ordinary shares. The conversion took place on April 15, 2019, by resolution of Board of Directors of SIT, on the issue of the Related Parties Committee favourable opinion.

At December 31, 2019 the financial payables of Euro 90 thousand due to the holding company, SIT Technologies S.p.A., relate to the SIT Warrants it holds, measured at their fair value, as described in further detail in the Explanatory Notes.

Related party transactions

As illustrated in the table below, we also report in 2019 the Group incurred costs for consultancy totalling Euro 78 thousand with a company in which a shareholder is a member of the Board of Directors of SIT.

(Euro thousands)	Revenues	Costs	Financial income	Financial charges	Financial receivables	Financial payables	Other receiv.	Other payables
<i>Oaklins Arietti S.r.l</i>	-	78	-	-	-	-	-	54
Transactions with other related parties	-	78	-	-	-	-	-	54

On July 25, 2019 the Board of Directors, subject to the successful completion of the Related Parties Committee procedures, approved the purchase of the properties owned by SIT Immobiliare S.p.a. located at Viale dell'Industria 30, 32 and 34 in Padua. The properties in question are intended to house the Company's new head office and the new research and development laboratories of both the Heating Division and Smart Gas Metering Division. The transaction was supported by two separate appraisals by independent experts and was closed in December 2019 for Euro 6.5 million.

On January 15, 2018, the Board of Directors, subject to the positive completion of the procedure by the Related Parties Committee, approved the allocation to the Chairman and the Chief Executive Officer Federico de Stefani of an extraordinary gross variable emolument, quantifiable in a range between Euro 1.3 million and Euro 2.6 million, which matures in line with the achievement of the objectives to be calculated based on the performance of SIT in 2017, 2018 and 2019. The emolument shall be calculated based on a component related to the performance of the SIT share price in the period under consideration and of a corrective amount related to the company performance. In 2019 the accrual of Euro 754 thousand was released due to the failure to meet the market condition set for eligibility for the incentive; see the Note 39 for information regarding how these components are calculated.

Remuneration of Directors, Statutory Auditors and Independent Audit Firm

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

(Euro thousands)	2019	2018
Director fees	914	1,151
Statutory auditor fees	141	112
Total	1,055	1,263

The Group paid to the audit firm and its relative network, subsequent to its qualification as an EIP, total fees of Euro 439 thousand as follows:

(Euro thousands)	2019	2018
Fees paid to the audit firm of the parent company for audit services	222	163
Fees paid to companies of the same network of the audit firm (audit investee companies)	199	117
Total	421	280

(in migliaia di Euro)	2019	2018
Fees paid to the audit firm for other service	15	-
Fees paid to companies of the same network of the audit firm (audit investee companies) for other service	3	-
Total	18	-

With regard to the period prior to the qualification as an EIP, obtained on November 28, 2018, Deloitte & Touche S.p.A. and its network were paid fees of Euro 297,200 for auditing services, of Euro 29,000 for certification services and of Euro 40,000 for other services. Guarantees, commitments and off-balance sheet contingent liabilities.

The off-balance sheet commitments of the Parent Company at December 31, 2019 were as follows.

(Euro thousands)	2019	2018
Other unsecured guarantees	52,112	45,903
Secured guarantees	-	-
Total guarantees	52,112	45,903

Other unsecured guarantees

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

(Euro thousands)	2019	2018
In the interest of subsidiaries	51,958	45,055
In own interest	154	848
Total other guarantees	52,112	45,903

With regards to unsecured guarantees issued in the interest of subsidiaries, these were entirely issued in the interest of Metersit S.r.l., in favour of its client as part of Smart Gas Meter installation tenders. They concern for Euro 8,430 thousand co-obligations with the subsidiary MeterSit S.r.l., while the remaining amount concerns guarantees exclusive to the Parent Company.

Guarantees given on own account refer primarily to surety guarantees granted to secure the lease agreement signed for the Rovigo property and the contract with Airplus for the management of company travel expenses.

Secured guarantees

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

Off-balance sheet transactions

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

The above-stated agreements may entirely be classified as part of “normal industrial, commercial and financial transactions”, considering the size and the organisational complexity of SIT S.p.A. For example purposes and not to be considered exhaustive, we cite: long-term framework contracts with clients and suppliers, agreements with clients for the joint development of new products, consignment stock contracts both for purchases and sales, agency and distribution contracts and outsourcing agreements for assembly, storage, logistical management and other services.

Financial risk management and financial instruments recognised at Fair Value

The Group is exposed to the following types of financial risks:

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

The SIT Group has implemented company foreign exchange risk, interest rate risk and liquidity risk management policies approved by the Board of Directors.

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

In line with the policies set out, the Group has centralised in the parent company SIT S.p.A. the management of the financial risks of the subsidiaries, coordinating the Group processes, operating mechanisms and the relative organisational procedures.

Currency risk

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

During 2019, in line with its policies, the Company undertook financial hedging operations principally against net exposures in ADU, GBP and CHF. In relation to the exposure in CNY, the hedging operations already in place in the previous year were used, extending the part in excess to the following year, also in consideration of the reasonable exchange rate offered on the market.

The currency hedging transactions at the reporting date and their fair values are shown in Notes 4 and 20.

Interest Rate Risk

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

At the reporting date, the Group has only one loan for a nominal capital amount of Euro 105,975 thousand. This loan provides for a variable interest rate indexed to the Euribor at 6 months. The loan is hedged by interest rate swaps totalling Euro 97,340 thousand, or 91.9% of the underlying value.

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

Risk of raw material price fluctuations

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

In order to mitigate these risks, the SIT Group constantly monitors the availability of raw materials on the market and the trends in the price of such materials, with the aim of promptly identifying any shortages and taking the resultant action appropriate to ensuring the needed production capacity and keeping its

production costs competitive. The Group also enters into agreements hedging against the risk of fluctuations of raw materials prices, where deemed appropriate in the light of projections.

During 2019 the structure and nature of the exposure to the risk of fluctuation of raw materials prices and the monitoring and supervision policies adopted by the Group did not change substantially with respect to the previous year. As at December 31, 2019 the group did not have any outstanding hedging transactions of this sort.

Financial instruments recognised at Fair Value

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

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

With regards to the financial instruments recognised to the financial statements at Fair Value at December 31, 2019, the following table outlines the type of instrument, its value at the reporting date and the fair value hierarchy utilised:

(Euro thousands)

Transaction type	Value at 31.12.2019	Valuation criterion	Level 1	Level 2	Level 3
SIT Warrants	1,567	Fair Value	1,567		
Interest Rate Swap	-1,348	Fair Value		-1,348	
Forex Forward	-44	Fair Value		-44	

In 2019, there were no transfers between the various levels of fair values indicated in IFRS 13.

A similar table is reported for financial instruments recognised to the financial statements at Fair Value at December 31, 2018:

(Euro thousands)

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

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

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

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

Entity	Grants received as			
	in accordance with Law 124/2017, paragraph 125 (in Euro)			
Fondimpresa - Rome	63	Reimbursement fondimpresa	relative training plan	quota code 171590 and code 214925
Total	63			

Subsequent events after year-end

For information on events after the reporting date, refer to the paragraph “Significant events after the end of the year and operating performance” of the Directors’ Report.

Padua, March 26, 2020

The Chairman of the Board of Directors

(Mr. Federico de’ Stefani)

DECLARATION ON THE CONSOLIDATED FINANCIAL STATEMENTS
PURSUANT TO ART. 81-TER OF CONSOB REGULATION NO. 11971

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

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

- the adequacy in relation to the business operations and
- The application of the administrative and accounting procedures for the compilation of the consolidated financial statements for the period January - December 2019.

In addition, we declare that the consolidated financial statements:

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

Padua, March 26, 2020

The Chief Executive Officer

Federico de' Stefani

The Executive Officer for Financial Reporting

Paul Fogolin

INDEPENDENT AUDITORS' REPORT ON THE CONSOLIDATED
FINANCIAL STATEMENTS

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

**To the Shareholders of
SIT S.p.A.**

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of SIT S.p.A.(the "Company") and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2019, the consolidated statement of profit and loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

Basis for Opinion

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

Key Audit Matters

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

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

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Impairment test of goodwill relating to Heating and Smart Gas Metering CGUs

Description of the key audit matter

The consolidated financial statements as at December 31, 2019 include a goodwill amounted to Euro 78 million allocated to the Heating Cash Generating Unit for Euro 61 million and to the Smart Gas Metering Cash Generating Unit for Euro 17 million. Goodwill, as provided by "IAS 36 Impairment of assets", is not amortized, but is subjected to the impairment test at least annually by comparing the recoverable value of the CGUs - determined according to the value in use method - and the carrying amount, which takes into account both goodwill and other tangible and intangible assets allocated to the CGUs.

The impairment tests were approved by the Board of Directors on March 26, 2020.

The Directors evaluation process is complex and it is based on assumptions regarding, among other things, the expected cash flows from the CGUs and the determination of appropriate discount rates (WACC). These assumptions are influenced by future expectations and market conditions.

As a result of the impairment tests no impairment losses were recognized.

The Directors have also prepared sensitivity analysis as described in the explanatory notes, also in order to consider the uncertainty factors related to the national and international outbreak of Covid-19 in 2020.

In consideration of the relevance of the amount of goodwill, the subjectivity of the estimates relating to the determination of the expected cash flows attributable to the CGUs and of the key variables of the impairment model, we have considered the impairment test of the goodwill allocated to the aforementioned CGUs a key audit matter of the Group's financial statements.

The note 1 of the explanatory notes shows the information on goodwill and on the impairment test.

Audit procedures performed

As part of our audit we have, among other things, carried out the following procedures, also taking advantage of the support of experts:

- examination of the methods used by the Directors to determine the value in use of the Heating and Smart Gas Metering CGUs, analyzing the methods and assumptions used for the development of the impairment tests;
- understanding of the main controls put in place by the Directors on the process of carrying out the impairment tests;
- analysis of the reasonableness of the main assumptions adopted for the formulation of expected cash flow also through analysis of sector data and obtaining information from the Management;
- analysis of actual data with respect to the original plans to assess the nature of the deviations and the reliability of the plan preparation process;
- assessment of the reasonableness of discount rates (WACC) and long-term growth rate (g-rate);

- verification of the mathematical accuracy of the models used to determine the value of use of the CGUs;
 - verification of the correct determination of the carrying amount of the CGUs;
 - verification of the sensitivity analysis prepared by the Directors;
 - analysis of the adequacy and compliance of the information provided in the consolidated financial statements on the impairment tests with respect to the provisions of IAS 36.
-

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

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

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

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

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

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

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

The Shareholders' Meeting of SIT S.p.A. has appointed us on April 26, 2018 as auditors of the Company for the years from December 31, 2019 to December 31, 2026.

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**Opinion pursuant to art. 14 paragraph 2 (e) of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98**

The Directors of SIT S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and the ownership structure of SIT Group as at December 31, 2019, including their consistency with the related consolidated financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and the ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98, with the consolidated financial statements of SIT Group as at December 31, 2019 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and some specific information contained in the report on corporate governance and the ownership structure are consistent with the consolidated financial statements of SIT Group as at December 31, 2019 and are prepared in accordance with the law.

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

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

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

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

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

DELOITTE & TOUCHE S.p.A.

Signed by
Cristiano Nacchi
Partner

Padova, Italy
April 10, 2020

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



SEPARATE FINANCIAL STATEMENTS AT DECEMBER 31, 2019



FINANCIAL STATEMENTS

BALANCE SHEET

(Euro)	Notes	December 31, 19	December 31, 18
Goodwill	1	85,087,912	85,087,912
Other intangible assets	1	25,934,501	28,646,471
Property, plant & equipment	2	60,156,501	47,095,876
Investments	3	76,407,653	76,441,885
Non-current financial assets	4	1,370,611	1,379,168
Deferred tax assets	18	3,032,627	4,426,932
Non-current assets		251,989,805	243,078,244
Inventories	5	19,769,439	21,003,599
Trade receivables	6	51,820,980	51,925,476
Other current assets	7	4,878,311	5,797,477
Tax receivables	8	2,666,929	1,492,844
Other current financial assets	9	7,865,699	16,148,017
Cash and cash equivalents	10	26,459,895	51,113,062
Current assets		113,461,253	147,480,475
Total assets		365,451,058	390,558,719
Share capital	11	96,151,921	96,151,921
Total Reserves	12	38,216,878	20,287,014
Net profit/(loss)		13,936,130	17,575,389
Shareholders' Equity		148,304,929	134,014,324
Medium/long-term loans and borrowings	13	85,029,870	104,730,079
Other non-current financial liabilities and derivative financial instruments	14	3,734,147	710,381
Provisions for risks and charges	15	1,872,588	2,201,561
Post-employment benefit provision	16	5,640,191	5,455,315
Other non-current liabilities	17	0	754,000
Financial instruments for Performance Shares	23	0	0
Deferred tax liabilities	18	8,261,501	9,007,979
Non-current liabilities		104,538,297	122,859,315
Short-term loans and borrowings	19	19,627,249	16,197,122
Other current financial liabilities and derivative financial instruments	20	27,739,892	34,107,536
Trade payables	21	53,056,000	56,442,728
Other current liabilities	22	10,617,271	11,405,069
Short-term financial instruments for Performance Shares	23	0	8,260,000
Financial instruments for Warrants	24	1,567,420	3,027,733
Tax payables	25	0	4,244,892
Current liabilities		112,607,832	133,685,080
Total Liabilities		217,146,129	256,544,395
Total Shareholder's Equity and Liabilities		365,451,058	390,558,719

INCOME STATEMENT

(in Euro)	Notes	2019	2018
Revenues from sales and services	26	219,561,224	251,903,066
Raw materials, ancillaries, consumables and goods	27	123,565,899	145,980,998
Change in inventories	27	1,234,792	-4,721,721
Service costs	28	30,490,418	36,770,314
Personnel expense	29	43,271,905	47,201,562
Depreciation, amortisation and write-downs	30	14,732,956	11,811,500
Provisions for risks	31	157,530	359,010
Other charges (income)	32	-689,232	414,959
EBIT		6,796,956	14,086,444
Investment income/(charges)	33	6,121,623	223,338
Financial income	34	2,725,650	14,170,854
Financial charges	35	-4,528,633	-5,036,644
Net exchange gains (losses)	36	-73,231	58,516
Impairments on financial assets	37	-	-310
Profit (loss) before taxes		11,042,365	23,502,198
Income taxes	38	-2,893,765	5,926,810
Net profit/(loss)		13,936,130	17,575,389

OTHER COMPREHENSIVE INCOME STATEMENT

<i>(Euro)</i>	2019	2018
Net profit/(loss)	13,936,130	17,575,389
Other comprehensive income statement items which may be subsequently reclassified to the profit/(loss) for the year, net of taxes		
Change in Cash Flow Hedge reserve	11,730	-259,485
Income taxes	-445	60,272
	-	-
Total other comprehensive income statement items which may be subsequently reclassified to the profit/(loss) for the year, net of taxes	11,285	-199,213
Other comprehensive income statement items which may not be subsequently reclassified to the profit/(loss) for the year, net of taxes		
Unrealised actuarial gains		
Income taxes	-345,729	132,896
Total other comprehensive income statement items which may not be subsequently reclassified to the profit for the year, net of taxes	82,975	-31,895
	-262,754	101,001
Total other comprehensive income/(expense) for the year, net of taxes	-251,469	-98,213
	-251,469	-98,213
Total comprehensive income/(expense)	13,684,661	17,477,176

CASH FLOW STATEMENT

<i>(Euro)</i>	Note	2019	2018
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Separate financial statements at December 31, 2019

Financial Statements

Net profit/(loss)		13,936,130	17,575,389
Amortisation & Depreciation	30	14,732,956	11,643,432
Non-cash adjustments		70,684	1,968,488
Income taxes	38	-2,893,765	5,926,810
Net financial charges	34-35	1,802,983	-9,134,210
(Dividends)	33	-6,145,264	-220,624
CASH FLOW FROM CURRENT ACTIVITIES (A)		21,503,724	27,759,285
Changes in assets and liabilities:			
Inventories	5	1,302,249	-4,545,702
Trade receivables	6	104,494	-1,334,243
Trade payables	21	-3,386,727	5,487,765
Other assets and liabilities		-1,548,896	-2,338,197
Income taxes paid		-1,938,539	-636,623
CASH FLOW GENERATED (ABSORBED) FROM CHANGES IN WORKING CAPITAL (B)		-5,467,419	-3,367,000
CASH FLOW FROM OPERATING ACTIVITIES (A + B)		16,036,304	24,392,285
Investing activities:			
Investments in property, plant & equipment		-20,208,452	-21,806,574
Other changes in property, plant & equipment		1,868,442	193,568
Investments in intangible assets		-594,095	-959,103
Other changes in intangible assets		1,212	-
Other changes in financial assets		19,146	4,297
CASH FLOW FROM INVESTING ACTIVITIES (C)		-18,913,746	-22,567,812
CASH FLOW FROM OPERATING & INVESTING ACTIVITIES (A + B + C)		-2,877,442	1,824,473
Financing activities:			
Interest paid		-2,855,426	-3,335,955
Paid-in share capital increase	11	-	2,404
(Decrease) in bank borrowings	20	-16,875,000	-12,150,000
Increase (decrease) in short-term bank payables		-10	-
(Increase) decrease in financial receivables from holding company	9	-	674,386
(Increase) decrease in financial receivables from companies under control of holding company	9	-	50,912
(Increase)/decrease in loans to subsidiaries	9	3,986,702	295,262
Change in current accounts with subsidiaries	9	3,117,979	6,332,399
(Increase)/decrease in other financial payables		-1,495,915	-1,222,264
Sale/(Acquisition) of treasury shares	12	-684,757	-90,961
Dividends received	33	-	220,624
Dividend payments	12	-6,969,300	-5,985,566
CASH FLOW FROM FINANCING ACTIVITIES (D)		-21,775,725	-15,208,759
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (A + B + C + D)		-24,653,167	-13,384,286
Cash & cash equivalents at beginning of the year		51,113,062	64,497,348
Increase/(decrease) in cash and cash equivalents		-24,653,167	-13,384,286
Cash & cash equivalents at end of the year		26,459,895	51,113,062

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Euro)	DETAIL OF OTHER RESERVES														Retained earnings/accum. losses	Net profit (loss)	Shareholders' Equity
	Share capital	Share premium reserve	Legal reserve	Share capital increase	Treasury Shares reserve	FTA Reserve	Cash Flow Hedge Reserve (4)	Actuarial Reserve	Extra. reserve	Reserve for FV IS12	Warrant Reserve	Performance Shares Reserve	L.T.I. Reserve	Total Other Reserves			
December 31, 2017	96,149,519	28,739,464	850,007	21,999,611	(660,679)	467,196	(843,345)	(151,379)	2,803,953	31,320,569	(15,223,401)	(11,500,000)	0	6,406,397	(913,832)	(30,603,736)	122,433,948
Allocation of 2017 result	-	(18,379,907)	18,379,907	-	-	(121,331)	-	-	-	(31,320,569)	2,672,042	-	-	(28,648,527)	(1,833,878)	30,603,736	-
Dividend Approval	-	-	-	(3,181,612)	-	-	-	-	(2,803,953)	-	-	-	-	(2,803,953)	-	-	(5,985,566)
2018 Result	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	17,575,389	17,575,389
<i>Other comprehensive profits (losses):</i>																	
Cash flow hedges	-	-	-	-	-	-	(199,213)	-	-	-	-	-	-	(199,213)	-	-	(199,213.46)
Adjustment post-em. bens.	-	-	-	-	-	101,001	-	-	-	-	-	-	-	-	-	-	101,001
Comprehensive profit	-	-	-	-	-	101,001	(199,213)	-	-	-	-	-	-	(199,213)	-	17,575,389	17,477,175.72
Share capital increase																	
warrant exercise	2,401	-	-	-	-	-	-	-	-	-	10,700	-	-	10,700	-	-	13,101
Acquisition of treasury shares	-	-	-	-	(90,961)	-	-	-	-	-	-	-	-	-	-	-	(90,961)
Assignment L.T.I. to employees	-	-	-	-	-	-	-	-	-	-	-	-	166,626	166,626	-	-	166,626
December 31, 2018	96,151,921	10,359,557	19,229,914	18,817,999	(751,640)	446,866	(1,042,559)	(151,379)	0	0	(12,540,659)	(11,500,000)	166,626	(25,067,971)	(2,747,710)	17,575,389	134,014,323
Allocation of 2018 result			470			55,073					9,512,926	3,240,000		12,752,926	4,766,919	17,575,389	0
Dividend Approval			-	2,202,381											4,766,919		6,969,300
2019 Result																13,936,130	13,936,130
<i>Other comprehensive profits (losses):</i>																	
Cash flow hedges	-	-	-	-	-	-	11,285	-	-	-	-	-	-	11,285	-	-	11,285
Adjustment post-em. bens.	-	-	-	-	-	-	-	262,754	-	-	-	-	-	262,754	-	-	262,754
Comprehensive profit	-	-	-	-	-	-	11,285	262,754	-	-	-	-	-	251,469	-	13,936,130	13,684,661
Performace Share												8,260,000		8,260,000			8,260,000
Share capital increase																	
warrant exercise	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Acquisition of treasury shares	-	-	-	-	684,757	-	-	-	-	-	-	-	-	-	-	-	684,757
Assignment L.T.I. to employees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
December 31, 2019	96,151,921	10,359,557	19,230,384	16,615,618	(1,436,397)	501,939	(1,031,274)	(414,133)	0	0	(3,027,733)	0	166,626	(4,306,514)	(2,747,710)	13,936,130	148,304,928

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

EXPLANATORY NOTES

GENERAL INFORMATION

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

The Company develops, manufactures and sells safety, control and comfort systems and high-performance gas equipment, principally for domestic use such as boilers, stoves and water heaters.

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

In 2017, the merger between SIT S.p.A. and Industrial Stars of Italy 2 S.p.A. (ISI2 or ISI2 S.p.A.), a SPAC (Special Purchase Acquisition Company) listed on the AIM Italia market of the Italian Stock Exchange. The merger was effective on July 20, 2017 with the simultaneous start of trading of the company's ordinary shares and warrants on the AIM Italia market managed by the Italian Stock Exchange. With the merger by incorporation of ISI2 S.p.A. (listed non-operating company) into SIT S.p.A. (listed operating company), the former shareholders of ISI2 became the minority shareholders of SIT S.p.A.. In the merger, SIT was therefore considered as the acquirer and ISI2 as the acquiree.

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

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

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

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

DRAFTING CRITERIA

The SIT separate financial statements at December 31, 2019 were prepared in accordance with the international accounting standards (IFRS/IAS) issued by the International Accounting Standards Board (IASB) and adopted by the European Union, including all interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

The financial statements of the company comprise:

- the balance sheet classified by current and non-current assets and liabilities based on their realisation or settlement within the normal operating cycle, not more than 12 months subsequent to the reporting date;
- the income statement which classifies costs and revenues by type, which is considered more representative than a breakdown by operating segment; The presentation reflects the internal reporting systems of the Group's business;
- a comprehensive income statement;
- a cash flow statement drawn up according to the indirect method;
- the statement of changes in shareholders' equity;

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

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

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

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

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

New accounting standards and interpretations effective from January 1, 2019

IFRS16 - Leases

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

Application of the standard is mandatory from January 1, 2019. This new standard proposes substantial changes to the accounting treatment of leasing agreements in the financial statements of the lessee, introducing a criterion based on the control (right of use) of an asset to distinguish leasing contracts from service contracts. Key elements are distinguished such as the identification of the asset, the right of replacement of the asset, the right to obtain substantially all the economic benefits from the use of the asset and, lastly, the right to use the asset underlying the contract.

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

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

The Company has elected to apply the standard retrospectively and therefore to recognise the cumulative effect of the application of the standard in shareholders’ equity at January 1, 2019 (not restating the 2018 comparative figures), in accordance with IFRS 16:P7-P13. In particular, with regard to “lease” contracts previously classified as operating leases, the Company recognises them as follows:

- financial assets at the present value of the residual future payments at the transition date, discounted according to the incremental borrowing rate applicable to each contract at the transition date;
- a right of use equal to the value of the financial liability at the transition date, net of any prepayments and accruals associated with the lease carried in the balance sheet at the reporting date of these financial statements.

The Company balance sheet includes the assets comprising the right-of-use in the same account in which they would be presented where owned.

Similarly, the Company includes the liabilities from lease contracts in the account “Other current financial liabilities and derivative financial instruments” or “Other non-current financial liabilities and derivative financial instruments” according to the conclusion of the obligation.

The following table shows the impact of the adoption of IFRS 16 at the transition date:

IFRS 16 impacts at the transition date	
(Euro.000)	01/01/2019
Assets	
Non-current assets	
"Right of use" land and buildings	1,442
"Right of use" other assets	3,757
Total	5,199
SHAREHOLDERS' EQUITY AND LIABILITIES	
Non-current liabilities	3,885
Non-current leasing liabilities	
Current liabilities	1,314
Current leasing liabilities	5,199
Total	-
Shareholders' Equity	-

We report that the weighted average incremental borrowing rate applied to the financial liabilities recorded at January 1, 2019 was approx. 2.5%.

In adopting IFRS 16, the Company opted for the exemption permitted under paragraph IFRS 16:5(a) in respect of short-term leases - for example for the following categories of assets:

- personal computer;
- printers;

- photocopiers.

Likewise, the Company opted for the exemption permitted under IFRS 16:5(B) with regard to lease contracts for which the underlying asset qualifies as a “low-value asset” (i.e., the asset underlying the lease contract does not exceed Euro 5,000 when new). The contracts for which the exemption has been applied primarily fall within the following categories:

- Computers, telephones and tablets;
- Printers;
- Other electronic devices;
- Furniture and fittings.

For such contracts, the introduction of IFRS 16 entailed the recognition of the financial liability associated with the lease and relevant right of use. Rather, the lease payments are taken to the income statement on a straight-line basis over the term of the relevant contracts.

With regard to the transition rules, the Company opted for the following practical expedients available in the event of the selection of the modified retrospective transition method:

- Classification of contracts set to expire within 12 months of the transition date as short-term leases. The lease payments for such contracts will be taken to the income statement on a straight-line basis;
- Use of the information available at the transition date to determine the lease term, with particular regard to the exercise of extension and early termination options.

The transition to IFRS 16 introduces some elements of professional judgment that entail the definition of certain accounting policies and the use of assumptions and estimates with regard to the lease term and the definition of the incremental borrowing rate. The main ones are summarised below:

- Lease term. The identification of the lease term is a very important issue since the form, legislation and commercial practices of property lease contracts vary considerably from one jurisdiction to another. On the basis of its historical experience, the Company has adopted the accounting policy of including not only the period that cannot be cancelled, but also the first contractual extension where such depends solely on the Company. For contracts with automatic extensions for an annual (or shorter) period, the Company has adopted the accounting policy of estimating the lease term based on the historical evidence and the assessment of the extension period as “reasonably certain” given significant penalties, in the broad meaning of the term, for the lessor in terminating the contract. In

the case of property lease contracts with long-term renewals dependent on the will of both parties, the Company assessed the specific facts and circumstances, as well as the penalties – considered in the broadest sense – resulting from the potential termination of the contract.

- Definition of the incremental borrowing rate. Since most of the lease contracts entered into by the Company do not include an implied rate of interest, the discount rate to be applied to future lease/rental payments was determined as the risk-free rate, with maturities commensurate to the duration of the specific lease agreement, as increased by the specific credit spread of the Company.

RECONCILIATION WITH THE LEASE COMMITMENTS

In order to illustrate the impacts from the initial application of the standard, the following table reconciles future commitments regarding lease contracts and the impact from the adoption of IFRS 16 at January 1, 2019.

Reconciliation commitments for leases - IFRS16	
(Euro.000)	01/01/19
Gross value of the liability deriving from lease contracts at December 31, 2018	5,750
Finance leases at December 31, 2018	-
Effect relating to contracts classified as short-term leases	-6
Effect relating to contracts classified as low value assets	-220
Effect relating to the service component included in the lease contract	-
Other	-
Liability deriving from lease contracts at 1.1.2019 - - not actualized	5,524
Discounting	-325
Financial liability from lease contracts at 1.1.2019	5,199
Present value of the finance leases at December 31, 2018	-
Financial liability deriving from operating lease contracts - IFRS16	5,199

The Explanatory Notes provide further details on the financial statement impacts from application of the standard. Reference should be made in this regard to Note 39 Lease contracts and the additional references within the document.

Other amendments and interpretations applied from January 1, 2019

The following amendments and interpretations applied from January 1, 2019 did not have an impact on the Company's separate financial statements.

IFRIC 23 - Uncertainty over Income Tax Treatments

The IASB published the interpretation IFRIC 23 “Uncertainty over Income Tax Treatments” on June 7, 2017. The document addresses the issue of uncertainty over income tax treatments. In particular, the interpretation requires an entity to analyse uncertain tax treatments (individually or collectively, depending on their characteristics), always assuming that the tax authority will examine the tax position in question, with access to all relevant information. If the entity believes it is improbable that the tax authorities will accept the tax treatment followed, the entity shall reflect the effect of the uncertainty on the measurement of its current and deferred income taxes. In addition, the document does not contain any new disclosure obligations, but underlines that an entity must establish whether it will be necessary to provide information on considerations made by management and the relative uncertainty concerning the accounting of income taxes, in accordance with IAS 1.

The directors have assessed the possible uncertainties on the tax treatment of the main financial statement items, also in view of the applications in course with the Tax Agency concerning specific cases, whose interpretation under the tax rules can give rise to doubts.

No additional uncertain or significant tax treatments emerged from the analyses carried out which would require a restatement of the assessable income, of the tax rates applied or of the unutilised tax receivables, also from changes to events or circumstances occurring subsequently.

Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures

On October 12, 2017, the IASB published the above-stated document which clarifies the need to apply IFRS 9, including the impairment requirements, to other long-term interests in associates and joint ventures for which the equity method is not applied.

The directors concluded that the circumstances are not applicable to the SIT Group and consequently no significant effects were recognised to the separate financial statements.

IFRS 9 Prepayment Features with Negative Compensation

On October 12, 2017, the IASB published this amendment to IFRS 9. The document specifies that instruments which provide for an advance repayment could comply with the Solely Payments of Principal and Interest (“SPPI”) test also in the case where the “reasonable additional compensation” to be paid in the event of advance repayment is a “negative compensation” for the lender.

The directors concluded that the circumstances are not applicable to the SIT Group and consequently no significant effects were recognised to the separate financial statements.

Annual Improvements to IFRSs 2015-2017 Cycle

On December 12, 2017, the IASB published the document which reflects the amendments to some standards within the annual improvements process. The principal changes relate to:

- IFRS 3 Business Combinations and IFRS 11 Joint Arrangements: the amendment clarifies that when an entity obtains control a business which represents a joint operation, it must remeasure its previous holding in the business. This process however is not required in relation to obtaining joint control.
- IAS 12 Income Taxes: The amendment clarifies that all the tax effects related to dividends (including the payments on financial instruments classified within equity) must be recognised in line with the transaction which generated these profits (profit or loss, OCI or net equity).
- IAS 23 Borrowing costs: the amendment clarifies that in the case of loans which remain in place even after the qualifying asset is ready for use or for sale, these become part of the overall financing utilised to calculate the borrowing costs.

The directors concluded that the above circumstances are not applicable to the SIT Group and consequently no significant effects were recognised to the separate financial statements.

Plant Amendment, Curtailment or Settlement (Amendments to IAS 19)

On February 7, 2018, the IASB published this document which clarifies how an entity must recognise a change (i.e. a curtailment or a settlement) of a defined benefit plan. The amendment requires the entity to update its assumptions and to remeasure the net liability or asset resulting from the plan. The amendments clarify that after the occurrence of this event, an entity utilises updated assumptions to measure the current service cost and interest for the remainder of the period.

The directors concluded that the circumstances are not applicable to the SIT Group and consequently no significant effects were recognised to the separate financial statements.

IFRS standards, amendments and interpretations not yet endorsed by the European Union

At the reporting date, the relevant bodies of the European Union had not yet concluded the process necessary for the implementation of the amendments and standards described below.

Definition of a Business (Amendments to IFRS 3)

On October 22, 2018, the IASB published this document which provides clarification regarding the definition of business for the purposes of the proper application of IFRS 3. In particular, the amendment clarifies that while a business normally yields an output, the existence of an output is not strictly necessary to identify a business when there is an integrated set of activities and assets. However, in order to meet the definition of a business, an integrated set of activities and assets must include, at minimum, an input and a substantial process that together contribute significantly to the capacity to create output. For this purpose, the IASB has replaced the term “capacity to create output” with “capacity to contribute to the creation of output” to clarify that a business may exist even without all the inputs and processes necessary to create an output.

The amendment also introduced a concentration test, which is optional for the entity, for use in determining if a set of activities/processes and assets acquired is not a business. If the test yields a positive result, the set of activities and assets acquired does not constitute a business and the Standard does not require further verification. If the test yields a negative result, the entity must conduct additional analyses of the activities and assets acquired to identify the presence of a business. To this end, the amendment adds numerous examples illustrating IFRS 3 with the aim of ensuring an understanding of the practical application of the new definition of a business in specific cases. The amendments apply to all business combinations and asset acquisitions after January 1, 2020 but early application is permitted.

As the amendment will be applied to new acquisition transactions concluded with effect from 1 January 2020, any effects will be reflected in separate financial statements for periods ending after that date.

Definition of Material (Amendments to IAS 1 and IAS 8)

On October 31, 2018, the IASB published this document which modified the definition of “material” in IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting

Estimates and Errors. The amendment aims to provide a more specific definition of “material” and introduce the concept of “obscured information” alongside the concepts of omitted or misstated information previously included in the two amended Standards. The amendment clarifies that information is “*obscured*” when it is described in such a way as to produce for primary users of financial statements an effect similar to that which would be produced if the information had been omitted or erroneous.

The amendments introduced by the document are applicable to all operations after 1 January 2020.

The Directors do not expect this amendment to have a significant impact on the company’s separate financial statements.

IFRS 10 and IAS 28 Sales or Contribution of Assets between an Investor and its Associate or Joint Venture

On September 11, 2014, the IASB published this amendment to *IFRS 10 and to IAS 28* to resolve the current conflict between IAS 28 and IFRS 10.

According to IAS 28, the profit or loss from the sale or conferment of a non-monetary asset to a joint venture or associate in exchange for a share of the capital of this latter is limited to the share held in the joint venture or associate by external investors to the transaction. On the other hand, IFRS 10 provides for the recognition of the entire profit or loss in the case of loss of control of a subsidiary, also if the entity continues to hold a non-controlling holding, including also upon the sale or conferment of a subsidiary to a joint venture or associate. The amendments introduced establish that for the disposal/conferment of an asset or of a subsidiary to a joint venture or associated company, the amount of profit or loss to be recognized to the financial statements of the disposing company/conferring company depends on whether the asset or the subsidiary disposed of/conferred constitutes a business, in the definition established by IFRS 3. In the case in which the assets or the subsidiary disposed of/conferred represents a business, the entity should recognize the profit or the loss on the entire share previously held; while, in the contrary case, the share of the profit or loss concerning the stake still held by the entity should be eliminated. Currently, the IASB has suspended the application of this amendment.

The Directors do not expect these amendments to have a significant impact on the company’s financial statements.

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

DISCRETIONAL VALUATIONS AND SIGNIFICANT ACCOUNTING ESTIMATES

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

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

The estimates prepared did not take account of the uncertainty caused by the spread of the coronavirus, as described in detail in the paragraph of the Directors' Report "Significant events after the end of the year and operating performance", since these factors of instability were regarded as non-adjusting events with respect to the accounts of the 2019 financial statements, as per IAS 10 § 21. At the reporting date, the directors do not have sufficient information to estimate the potential effects of this phenomenon on the measurement of the accounts in the financial statements.

Doubtful debt provision

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

Impairment of non-financial assets

The Company reviews, at each year-end, if indicators highlight a long-term impairment for all of the non-financial assets. If there is an impairment loss, the accounting value is aligned to its recoverable amount. Goodwill and the other intangible assets with indefinite useful life annually undergo an impairment test. The recoverable value of non-current assets is normally based on the value in use, considering the present

value of expected financial cash flows from continuous use of the asset. The review therefore involves also the choice of an adequate discounting rate for the calculation of the present value of expected cash flows.

Any change in the main estimates and assumptions made when preparing the plan and, therefore, the impairment test, could affect value in use and the result that is actually reached in relation to the realisable amount of the assets recognised.

Refer to Note 1 of these Explanatory Notes regarding the sensitivity analyses performed.

Development Costs

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

Deferred tax assets

Deferred tax assets are recognised in accordance with IAS 12. A discretionary valuation is required by the Directors to establish the amount of the deferred tax assets which may be recorded. They must estimate the probable timeframe and amount of future assessable income, in addition to a planning strategy for future taxes. The carrying amount of deferred tax assets is reported at Note 18.

Provisions for risks and charges

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

Employee benefits

The carrying amount of defined benefit plans is calculated utilising actuarial valuations, which require the consideration of statistical hypothesis concerning discount rates, the expected return on assets, future salary increases, mortality rates and future pension increases. The company considers the estimated rates

used by the actuaries for the valuation at the year-end reasonable, but does not exclude that significant future changes in the rates may have considerable impacts on the liability recognised in the financial statements. Further details are reported at Note 16.

Share-based payments

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

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

For the share-based payments with employees, the Company utilises the Montecarlo simulation model for the plans with employees. The assumptions used for the estimate of the fair value of the share-based payments are shown in Note 40.

Guarantee provisions

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

ACCOUNTING POLICIES

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

Translation of accounts in foreign currencies: transactions and balances

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

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

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

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

Valuation at fair value

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

According to applicable accounting standards (IAS/IFRS) "a contract that will be settled through a variable number of the entity's own shares, whose value is equal to a fixed amount or an amount based on changes in an underlying variable, is a financial asset or a financial liability. When a financial asset or financial liability is initially recognised, an entity shall measure it at its Fair Value. The profit (or loss) arising from a change in the Fair Value of a financial asset or financial liability that is not part of a hedging relationship must be recognised to the income statement". Therefore, for accounting purposes, market warrants and performance shares were recognised as financial liabilities at their fair value at the designation date.

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

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

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

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

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

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

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

Business combinations and goodwill

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

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

After initial recognition, goodwill is measured at cost less any loss in value. Subsequent to acquisition, goodwill is subject to a recoverability (impairment) analysis conducted annually or at shorter intervals in the case of events or changes occurring that could result in possible impairments. Any goodwill at the acquisition date is allocated to each cash generating unit (hereafter CGU) expected to benefit from the

synergies deriving from the combination. Any loss in value is identified by means of valuations based on the ability of each CGU to produce cash flows for the purposes of recovering the part of goodwill allocated, with the methods described in the “impairments” section.

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

Research and development costs

Research costs are recognised profit or loss in the year in which they are incurred. Development costs incurred in relation to a specific project are only capitalised when the technical feasibility of completing the intangible asset exists to make it available for use or sale, in addition to the ability and intention to use or sell the asset to generate future benefits demonstrating the existence of a market for the output of the intangible asset or the intangible asset itself or a utility to be used internally and the availability of technical, financial and other types of resources suitable to complete the intangible asset’s development and use or sale and the ability to reliably measure the cost attributable to its development. Capitalised development costs include only those costs that are directly attributable to development.

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

Other intangible assets

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

Other intangible assets with indefinite useful life are not subject to amortisation and a review is carried out each year to establish whether circumstances supporting their classification as having indefinite useful

life exist. In accordance with IAS 36, these assets are subject to impairment tests for any permanent value reductions.

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

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

Intangible assets with definite useful life	Amortisation rate
Patents	10.00
Licenses	33.33
Brands	5.6 - 10.00
Other deferred costs	20.00 - on the basis of the contractual duration

Property, plant & equipment

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

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

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

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

The depreciation rates applied are as follows:

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

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

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

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

Leased assets

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

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

Lease contracts in which the lessor retains substantially all the typical risks and benefits of ownership are classified as operating leases and are recognised among tangible assets as rights-of-use with effect from the inception of the lease. The amount recognised is equal to the present value of future lease payments, discounted at the implicit interest rate of the lease or incremental borrowing rate. Lease payments should be apportioned between the finance charge and the capital portion so as to produce a constant periodic rate of interest on the remaining balance of the liability. A lease liability of like amount is recognised and then gradually reduced according to the repayment plan calculated.

Financial charges are expensed to the income statement. The assets are amortised over the contractual term of the operating lease.

Investments in subsidiaries and associates

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

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

Equity investments in other companies

The investments in other companies are measured at fair value through equity. In such cases, the amounts previously taken to other comprehensive income are not recycled to the income statement upon disposal.

When the fair value cannot be reliably determined, these investments are measured at cost, adjusted for impairment, which is taken to the income statement. If the reasons for the recognition of the impairment loss no longer exist, the previously recognised impairment loss shall be reversed. The reversal shall not result in a carrying amount that exceeds what the amortised cost would have been, had the impairment

not been recognised, at the date the impairment is reversed. The amount of the reversal shall be recognised in the income statement.

Impairment of non-financial assets

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

Independently of whether there are internal or external reductions in value, intangible assets with indefinite useful life and goodwill are subject at least annually to an impairment test, as required by IAS 36. In both cases of a verification of the carrying amount of intangible assets with definite useful life or of the carrying amount of intangible assets with indefinite useful life and goodwill, the Group makes an estimate of the recoverable value.

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

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

For the purposes of estimating the value in use, future revenue streams are obtained from the Group's business plans, which constitute the best estimate on the forecast economic conditions over the period of the plan. The long-term growth rate used to estimate the terminal value of the asset or unit is normally

lower than the average long-term growth rate for the sector, country or market and, if appropriate, may amount to zero or may even be negative. Future cash flows are estimated taking account of current conditions: the estimates therefore do not consider the benefits deriving from future restructurings for which the Company has not committed or future investments or optimisation of the assets or of the unit. Impairment losses incurred by operating assets are recorded in the income statement in the category of costs relating to those assets.

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

Financial assets

The financial assets are classified as follows:

- financial assets at amortised cost;
- financial assets at fair value through profit or loss;
- financial assets at fair value through other comprehensive income.

The classification depends on the business model within which the Group holds the financial assets and the characteristics of the contractual cash flows arising from them. The Company classifies financial assets on initial recognition, with subsequent verification at each reporting date. Financial assets are initially measured at fair value, plus accessory costs, for assets not measured at fair value.

Financial assets at amortised cost

Financial assets that meet both of the following conditions are measured at amortised cost:

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- the financial asset is held within a business model whose objective is the holding of financial assets for the collection of the contractual cash flows;
 - the contractual terms of the financial assets establish, at certain dates, cash flows represented entirely by the payment of capital and of interest on the amount of capital to be repaid.

The amortised cost is calculated as the initial value recorded less the repayment of the capital portion, plus or less the accumulated amortisation using the effective interest rate method of any difference between the initial value recorded and the amount at maturity. This calculation includes all the commissions or points paid between the parties which are an integral part of the effective interest rate, transaction costs and other premiums or discounts. For investments measured at amortised cost, the gains and losses are recognised in the income statement when the investment is eliminated or if there is an impairment, in addition to the amortisation process.

Financial assets at fair value through other comprehensive income

Financial assets that satisfy the following conditions are measured at fair value through other comprehensive income:

- the financial asset is held within a business model whose objective is achieved both through the collection of contractual cash flows and the sale of the financial assets;
- the contractual terms of the financial assets establish, at certain dates, cash flows represented entirely by the payment of capital and of interest on the amount of capital to be repaid.

When the financial asset is disposed of, the amounts previously taken to other comprehensive income are recycled to the income statement.

Financial assets at fair value through profit or loss

A financial asset that is not measured at amortised cost or at fair value through other comprehensive income is measured at fair value with changes in value taken to profit or loss in the year in which they occur.

Derecognition of financial assets

A financial asset is eliminated from the financial statements when:

- the right to receive the cash flows of the asset terminate;

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

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

Inventories

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

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

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

Trade receivables and other current assets

Receivables under current assets are recorded initially at fair value, identified as the nominal value. Trade receivables which mature within the normal commercial terms are not discounted since the effect of discounting the related cash flows is deemed immaterial.

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

When there is an indication of a reduction in value, the asset is reduced to the value of the discounted future cash flows obtainable. Impairments are recognised to the income statement. When, in subsequent periods, the reasons for the write-down no longer exist, the value of the assets is restated up to the value deriving from the application of the amortised cost. In addition to the assessment discussed in the previous paragraph with regard to impairment, the estimated credit losses are complemented by an analysis of expected losses.

Trade payables and other liabilities

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

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

Cash and cash equivalents

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

Financial liabilities

The company does not have financial liabilities for trading purposes. All financial liabilities other than derivative instruments are initially recorded at the fair value received net of transaction costs (commissions or loan charges).

Financial liabilities are measured at amortised cost, using the effective interest rate method.

Derecognition of financial liabilities

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

Derivative financial instruments

Derivative financial instruments, as per the company policies approved by the Board of Directors, are exclusively used for hedging purposes, in order to reduce the foreign currency or interest rate risk. In accordance with IFRS 9, financial derivatives may be accounted for under hedge accounting only when, at the beginning of the hedge, the following conditions are met:

- the formal allocation of the hedging instrument exists;
- documentation is available demonstrating the hedging and a high degree of efficacy;
- such efficacy can be reliably measured;
- the hedge is highly effective during the various accounting periods for which it is designated. All derivative financial instruments are measured at fair value, in accordance with IFRS 9.

Derivative financial instruments are initially recognised at Fair Value.

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

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

Treasury shares

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

Provisions for risks and charges

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

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

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

Post-employment benefit provision

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

Until December 31, 2006, the Post-employment benefits were classified as "defined benefit" type plans, with independent actuaries utilising the unitary projection method for valuing the receivable. This calculation involves an estimate of the amount of the benefit to be received by an employee at the

expected employment conclusion date, utilising demographic assumptions (e.g. mortality rates and personnel rotation rates) and financial assumptions (e.g. the discount rate and future salary increase rates). This amount is discounted and reportioned on the basis of the years of services matured compared to the total years of service.

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

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

Share-based payments

Equity-settled share-based payment transactions

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

The cost of the equity-based transactions is determined by the fair value at the assignment date utilising an appropriate valuation method, as illustrated in greater detail in Note 40.

This cost, together with the corresponding increase in shareholders’ equity, is recorded under personnel expense over the period in which the performance and/or service conditions are satisfied. The cumulative costs relating to these operations at each balance sheet date until the maturity date are compared to the

maturity date and to the best estimates available of the number of participating instruments which will effectively mature. The cost or revenue recorded in the income statement for the year represents the change of the cumulative cost recorded at the beginning and at the end of the year.

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

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

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

Cash-settled transactions.

With reference to operations settled by cash a corresponding liability at their fair value is recorded. The fair value of the liability is calculated initially and recalculated at each reporting date until the settlement date, and the changes in the fair value are recorded under personnel costs (See Note 16). This fair value is expensed in the period until the maturation. The fair value is measured using a binominal formula, as explained in detail in Note 40.

Revenue recognition

Core business revenues refer to sales of safety, comfort and high-performance systems for gas equipment. These revenues – in addition to those from the provision by SIT S.p.A., as parent company, of services relating to strategic guidance, oversight and coordination of group companies – include a single performance obligation relating to the sale of the product or the provision of a service, which does not include ancillary services or products that might qualify as separate performance obligations under the Standard.

Sales are recognised at the fair value of the consideration received for the sale of products and services, where the following conditions are met:

- control over the promised goods or services is transferred;
- it is probable that the economic benefits associated with the sale will flow to the enterprise and they may be determined reliably;
- the costs incurred, or to be incurred, have been reliably measured.

They are recorded net of returns, discounts, rebates and taxes directly associated with the sale of the product or the provision of the service. When defining the amount of the variable consideration that may be included in the transaction price, at each reporting date the company calculates the amount of the variable consideration that still cannot be regarded as earned.

The terms of sales warranties are in line with the law and/or consistent with commercial practice in the sector. The company therefore accounts for warranties in accordance with IAS 37 – Provisions, Contingent Liabilities and Contingent Assets.

Dividends

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

Financial income and charges

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

criteria previously defined) and the interest expense deriving from the accounting treatment of the employee provisions (IAS 19).

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

Current income taxes

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

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

Deferred tax assets/liabilities

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

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

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

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

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

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

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

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

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

Earnings per share and diluted earnings per share

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

Grants

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

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

COMMENTS ON THE MAIN ITEMS OF THE BALANCE SHEET

Non-current assets

Note 1: Goodwill and Other intangible assets

(Euro.000)	Balance at Dec. 31, 18	Appl.ne IFRS 16	Balance at Jan 1, 19	Increases	Disposals	Amortisation	Other movements	Balance at Dec. 31, 19
Goodwill	85,087,912	-	85,087,912	-	-	-	-	85,087,912
Development Costs	161,178	-	161,178	-	-	-161,178	-	-
Patent rights	11,803,065	-	11,803,065	74,194	-8,134	-1,726,043	41,779	10,184,860
Concessions, licences and trademarks	15,511,579	-	15,511,579	-	-	-1,012,805	-	14,498,773
Other Intangible assets	774,078	-	774,078	238,560	-	-398,039	232,320	846,920
Assets in progress and advances	396,572	-	396,572	281,475	-	-	-274,099	403,948
Total other intangible assets	28,646,471	-	28,646,471	594,229	-8,134	-3,298,065	-	25,934,501
Total goodwill and other intangible	113,734,383	-	113,734,383	594,229	-8,134	-3,298,065	-	111,022,413

GOODWILL

These amount to Euro 85,088 thousand at December 31, 2019 and were recognised following the merger by incorporation into SIT S.p.A. of SIT La Precisa S.p.A. and the Italian companies operating in the Heating Division controlled by it, Gasco S.r.l., Imer S.p.A., LN 2 S.r.l., SIT Sensori S.r.l. and Estate S.p.A. in December 2014, as part of a corporate restructuring. This account has not changed on December 31, 2018.

DEVELOPMENT COSTS

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

PATENTS AND INTELLECTUAL PROPERTY RIGHTS

These include the non-patented technical-productive and technological know-how concerning the Heating Division identified and valued, as part of the 2014 merger, for an original amount of Euro 17,114 thousand, to which a portion of the merger deficit was allocated on the basis of an independent expert's estimate. The residual value of the non-patented technical-productive and technological know-how at December 31, 2019 was Euro 9,564 thousand.

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

Changes in the financial year are related to amortisation.

CONCESSIONS, LICENSES, TRADEMARKS

The amount of Euro 14,499 thousand mainly concerns the allocation to the brand of an original amount of Euro 19,520 thousand, corresponding to a portion of the merger deficit from the 2014 merger, on the basis of an independent expert's opinion. The residual value of the SIT brand and of the related brands at December 31, 2019 was Euro 14,472 thousand.

Changes in the financial year are mainly related to amortisation.

OTHER INTANGIBLE ASSETS

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

IMPAIRMENT TEST

The goodwill recognised as part of the 2014 merger outlined above, considered as an indefinite life intangible asset, is not subject to amortisation but to an impairment test at least annually to identify any losses in value.

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

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

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

Impairment tests were submitted for the approval of the Board of Directors on March 26, 2020, whereas the 2020-2024 Business Plan and impairment testing method were approved by the Board of Directors on February 14, 2020.

The impact of climate change risks has taken on increasing importance in recent years. SIT is a key manufacturer of control, safety, performance and consumption measurement tools for gas appliances. The components and systems produced by SIT are key to monitoring the energy efficiency and CO₂ emissions of devices produced by its customers. SIT products form an integral part of cutting-edge infrastructures (smart grids) in the metering sector.

As such, SIT plays an active part in public debate. The Group also collaborates with technical and commercial partners to define and assess the impact of climate change in the short and medium to long term.

SIT natively incorporates the assessment and mitigation of these medium-to-long-term risks into the governance of its corporate strategy, its risk management process, and the financial assumptions and impacts of the plan approved and used in support of the impairment tests.

When formulating financial projections, the cash flows from the explicit plan horizon have been used, with the appropriate corrections to account for the expected effects of management actions to improve operating performance laid out in the plan and resulting from investing activities over the plan horizon. These actions relate above all to investments in production designed to shift the industrial footprint towards countries with lower labour costs.

When constructing the perpetual income flow to calculate the terminal value, the final value in the explicit year was projected, net of any corrections relating to the new footprint described in the foregoing paragraph, considering a maintenance level of investments.

The growth rate (g) was assumed to be 1%, whereas the value of current income taxes was calculated on a notional basis utilising the nominal tax rate.

The Heating CGU's WACC was estimated by assuming:

- a risk-free rate equal to the average of the risk-free rates of the principal Heating markets in which the Group operates; in particular, for each country the MAX was utilised (2.5%, government yield 10Y; IRS 10Y+CDS 10Y; country risk premium Damodoran);
- a beta unlevered coefficient for a value of 0.90 estimated on the basis of a panel of comparable listed companies;

- an equity risk premium of 5.5%, equivalent to the average of the market's risk premium in the main countries where the Heating CGU is active (source: Pablo Fernandez, Alberto Ortiz and Isabel F. Acin, IESE Business School 2018);
- an additional risk premium for the calculation of the cost of own capital (K_e) equivalent to 1.5%;
- a cost of debt calculated on the basis of IRS at 31/12/2019, to which a spread of 2.0% is added, in line with the contractual terms and conditions set out in the Senior Facility Agreement;
- a level of financial leverage (ratio between financial debt and own equity) in line with the industry average financial structure of comparable companies.

The resulting discount rate (WACC) of 8.63% reflects at the reporting date estimates of the market valuation and the cost of money and takes account of the specific and sector risk.

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

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

The indifference of the WACC, i.e. the discount rate that results in a headroom (difference between the amount recoverable through use and the carrying amount of the CGU) of zero, is 9.5%, whereas a 13.7% percent reduction of the terminal value is required to achieve this same result.

The cash flows used in the impairment test do not reflect possible developments linked to the current national and international scenario dominated by the spread of Covid-19. These developments, which emerged in the initial months of 2020, and which are extraordinary in nature and extent, have direct and indirect repercussions on economic activity giving rise to an environment of general uncertainty and whose evolution and effects are unforeseeable. The resulting equity market turbulence has caused a general bear market, driving the market capitalisation of SIT S.p.A. below its shareholders' equity.

Within this framework, additional sensitivity analyses beyond those described above have been formulated.

In terms of potential changes in cash flows, the zero-headroom point is reached by reducing revenues for the first three years of the explicit forecasting period by 14%, assuming that the possible deterioration of the macroeconomic scenario may be reflected in this period, without considering the effects of actions to reduce fixed costs and the benefits of reducing working capital.

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

Note 2: Property, plant & equipment

The movements in property, plant and equipment in 2019 are summarised below.

(Euro.000)	Historical cost at Dec. 31, 18	Accumulated depreciation at Dec. 31, 18	Balance at Dec. 31, 18	"Right of use" IFRS 16 at Jan 1, 19	Historical cost at Dec 31, 19	Accumulated depreciation at Dec 31, 19	Balance at Dec 31, 19	Of which "Right of use" IFRS 16
Land & Buildings	31,855,835	-15,708,378	16,147,457	1,441,552	35,327,110	-16,739,725	18,587,384	999,525
Plant and machinery	102,851,642	-85,699,983	17,151,659	-	106,295,335	-87,548,134	18,747,201	-
Industrial and commercial equipment	68,205,515	-61,722,668	6,482,847	794,082	71,518,790	-64,122,036	7,396,754	1,025,553
Other assets	7,635,280	-3,765,840	3,869,440	2,963,346	7,949,802	-4,617,785	3,332,017	2,287,337
Assets in progress and advances	8,643,452	-	8,643,452	-	12,093,145	-	12,093,145	-
Total property, plant and equipment	219,191,724	-166,896,869	52,294,855	5,198,979	233,184,182	-173,027,680	60,156,501	4,312,415

The account includes the effect from the initial application of IFRS 16 regarding lease contracts in place within the company. For further details, reference should be made to Note 39.

The following tables outline the changes in the historic cost and accumulated depreciation in 2019 by category.

HISTORIC COST

(Euro.000)	Historical cost at Dec, 31, 18	"Right of use" IFRS 16 at 1,1,2019	Historical cost at Dec 31, 19	Increases	Increases from companies under control of parent company	Disposals	Impairment	Other movements	Historical cost at Dec, 31, 19	Of which "Right of use" IFRS 16
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Separate financial statements at December 31, 2019

Explanatory Notes

Land & Buildings	30,414,284	1,441,552	31,855,835	1,683,636	-	-94,807	-	1,882,446	35,327,110	1,453,426
Plant and machinery	102,851,642	-	102,851,642	5,248,520	-	3,127,118	-	1,322,290	106,295,335	-
Industrial and commercial equipment	67,411,434	794,082	68,205,515	4,472,191	-	2,824,388	-	1,665,472	71,518,790	1,319,445
Other assets	4,671,934	2,963,346	7,635,280	310,053	-	-78,511	-	82,981	7,949,802	2,963,346
Assets in progress and advances	8,643,452	-	8,643,452	2,580,914	6,450,000	-	-628,031	-4,953,189	12,093,145	-
Total property, plant and equipment	213,992,745	5,198,979	219,191,724	14,295,313	6,450,000	6,124,824	-628,031	-	233,184,182	5,736,217

The increases in the year include the acquisition of property, plant and equipment, while the reclassification column includes Assets in progress and Advances to suppliers for assets entering into use in 2019.

In particular, acquisitions in the year refer principally to plant and machinery (both new and the extraordinary maintenance of existing plant), necessary to boost production capacity, for the development and manufacturing of new products, in addition to the improvement of efficiency and production technologies. The new workshop was completed at the Rovigo plant and the purchase of the properties located in Viale dell'Industria 30-32-34 in Padua was closed in December. These latter properties are intended to house the Company's new head office and the new research and development laboratories of both the Heating Division and Smart Gas Metering Division.

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

Other movements include amounts which at December 31, 2018 were in progress and which in 2019 became fixed assets to be depreciated

The account Write-downs of Euro 628 thousand refers to the write-down of costs capitalised in previous years and recognised as assets in progress, relating to the project to redesign the spaces and renovate the building in which the company's offices are currently located. The abandonment of the project should be viewed within the broader framework of the construction of new research and development laboratories in an area adjacent to the company's offices, in Padua's business district.

The value of the land amounted to Euro 4,958 thousand at December 31, 2019 and did not change in the year.

ACCUMULATED DEPRECIATION

(Euro.000)	Accumulated depreciation at Dec. 31, 18	“Right of use” IFRS 16 at 1.1.2019	Accumulated depreciation at Jan 1, 19	Amortisation	Disposals	Accumulated depreciation at Dec. 31, 19	Of which “Right of use” IFRS 16
Acc. Deprec. Land & Buildings	-15,708,378	-	-15,708,378	-1,126,155	94,807	-16,739,725	-453,901
Acc. Deprec. Plant and machinery	-85,699,983	-	-85,699,983	-4,009,066	2,160,915	-87,548,134	-
Acc. Deprec. Industrial and commercial equipment	-61,722,668	-	-61,722,668	-4,772,394	2,373,026	-64,122,036	-293,892
Acc. Deprec. Other assets	-3,765,840	-	-3,765,840	-899,246	47,301	-4,617,785	-676,009
Total accumulated depreciation	-166,896,869	-	-166,896,869	-10,806,860	4,676,049	-173,027,680	1,423,802

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

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

Property, plant and equipment were depreciated at December 31, 2019 at the following rates:

	Rate
Land & Buildings	48.08%
Plant and machinery	82.36%
Industrial and commercial equipment	90.92%
Other assets	79.05%
Leased assets	24.82%

Note. 3: Investments

The following table reports the movements in 2019 in investments.

	Balance at Dec 31, 18	Increases for the year	Decreases for the year	Other changes	Balance at Dec 31, 19
INVESTMENTS:					
IN SUBSIDIARIES					
SIT Gas Controls Pty Ltd (Australia)	1,265,051		-	-	1,265,051
SIT Controls U.S.A. Inc. (USA)	4,565,457		-	-	4,565,457
SIT Controls BV - (Netherlands)	35,538,428		-	-	35,538,428
SIT Controls Deutschland GmbH (Germany)	3,202		-	-	3,202
SIT Controls CR, sro (Czech Republic)	2,351		-	-	2,351
SIT Vostok O.O.O. - Russia	71,232		-71,232	-	0
SIT Romania S.r.l. - Romania	2,694,414		-	-	2,694,414
SIT Manufacturing (SUZHOU) Co.Ltd (China)	2,603,863		-	-	2,603,863
MeteRSit S.r.l. (Italy)	29,680,810		-	-	29,680,810
SIT Vostok O.O.O. doubtful debt provision	-37,000		-	37,000	-
Total investments in subsidiaries	76,387,808	-	-71,232	37,000	76,353,576
IN OTHER COMPANIES					
CONAI consortium	146	-	-	-	146
Società Garanzia Marche	129	-	-	-	129
Consorzio regionale garanzia	129	-	-	-	129
Confidi	77	-	-	-	77
Consorzio Vera Energia	-	-	-	-	-
Immobiliare Golf Montecchia	28,405	-	-	-	28,405
Fondazione ABO in liquidation	6,000	-	-	-	6,000
Italmed Ll.c.	378,025	-	-	-	378,025
Cyrus Intersoft Inc.	365,677	-	-	-	365,677
Infracom S.p.A.	521,420	-	-	-	521,420
SAPI immobiliare	4,080	-	-	-	4,080
Immobiliare Polesana (formerly IMER)	1,034	-	-	-	1,034
1 Fondazione ABO in liq. write-down prov.	-6,000	-	-	-	-6,000
Italmed Ll.c. write-down prov.	-378,025	-	-	-	-378,025
Cyrus Intersoft Inc. write-down prov.	-365,677	-	-	-	-365,677
Infracom S.p.A. write-down prov.	-501,343	-	-	-	-501,343
Total investments in other companies	54,077	-	-	-	54,077
TOTAL INVESTMENTS	76,441,885	-	-71,232	37,000	76,407,653

The decrease in investments in subsidiaries of Euro 71 thousand concerns the investment in the subsidiary SIT Vostok O.O.O. - Russia, which discharged all the obligations for liquidation during the year.

Company	City or State	Share capital in Euro	Last year profit (loss) in Euro	Shareholders' equity in Euro	Holding in Euro	% Holding	Book value or corresponding receivable
SIT Gas Controls Pty Ltd (Australia)	Melbourne (Australia)	62,520	228,577	2,198,579	2,198,579	100%	1,265,051
SIT Controls U.S.A. Inc. (USA)	Charlotte (USA)	44,508	1,230,013	1,465,195	1,465,195	100%	4,565,457
SIT Controls BV - (Netherlands)	Hoogeveen (Olanda)	46,000	2,135,733	38,047,906	38,047,906	100%	35,538,428
SIT Controls Deutschland GmbH (Germany)	Arnsbert (Germania)	51,129	339,000	1,290,000	64,500	5%	3,202
SIT Controls CR, sro (Czech Republic)	Brno (Rep, Ceca)	59,037	522,769	1,970,440	98,522	5%	2,351
SIT Romania Srl - Romania	Brasov (Romania)	2,165,625	1,665,826	11,029,233	9,389,186	85%	2,694,414
SIT Manufacturing (SUZHOU) Co.Ltd (China)	Suzhou (Cina)	2,600,000	-800,167	-192,530	-192,530	100%	2,603,863
MeteRSit S.r.l. (Italy)	Italia	1,129,681	6,521,352	8,109,013	8,109,013	100%	29,680,810
Total							76,353,576

Following the merger at the end of 2014, on the basis of an independent expert's opinion, part of the positive merger difference was allocated to increase the value of the Investments held.

Therefore, the deficit at December 31, 2019 was allocated as follows, unchanged on the year ended December 31, 2018:

	31-dic-19	31-dic-18
SIT Gas Controls Pty Ltd (Australia)	178,000	178,000
SIT Romania Srl – Romania	872,000	872,000
MeteRSit S.r.l. (Italy)	13,682,537	13,682,537
Total	14,732,537	14,732,537

As a result of this recognition, a temporary assessable difference was generated which required at December 31, 2019 the recognition of deferred taxes of Euro 177 thousand.

In addition, in the financial statements at December 31, 2019, the value of some investments acquired by SIT S.p.A. through the incorporation of SIT La Precisa S.p.A. in December 2014 is inclusive of the allocation of a portion of the positive merger difference from a merger executed in 2008 by SIT La Precisa S.p.A. with the then holding company Findest Technologies S.p.A..

This allocation is broken down as follows:

	Dec 31, 19
SIT Gas Controls Pty Ltd (Australia)	825,300
SIT Controls U.S.A. Inc. (USA)	4,508,700
SIT Controls BV - (Netherlands)	6,641,600
Total	11,975,600

The figures for subsidiaries (result and net equity) refer wholly to the financial statements at December 31, 2019, prepared by the respective Boards of Directors and not yet approved.

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

The company therefore subjected to recoverability tests the carrying amount of the following investments at December 31, 2019:

- MeteRSit S.r.l.
- SIT Manufacturing (Suzhou) Co. Ltd.

Impairment tests were submitted for the approval of the Board of Directors on March 26, 2020.

METERSIT S.R.L

In order to verify the recoverability of the value of the investment in MeteRSit S.r.l., in accordance with IAS 36, the recoverable value of the investment was calculated on the basis of the value in use established according to the Discounted Cash Flow (DCF) method, discounting the operating cash flows generated at a rate representative of the cost of capital.

Impairment tests were submitted for the approval of the Board of Directors on March 26, 2020, whereas the 2020-2024 Business Plan and impairment testing method were approved by the Board of Directors on February 14, 2020.

The impact of climate change risks has taken on increasing importance in recent years. SIT is a key manufacturer of control, safety, performance and consumption measurement tools for gas appliances. The components and systems produced by SIT are key to monitoring the energy efficiency and CO₂ emissions of devices produced by its customers. SIT products form an integral part of cutting-edge infrastructures (smart grids) in the metering sector.

As such, SIT plays an active part in public debate. The Group also collaborates with technical and commercial partners to define and assess the impact of climate change in the short and medium to long term.

SIT natively incorporates the assessment and mitigation of these medium-to-long-term risks into the governance of its corporate strategy, its risk management process, and the financial assumptions and impacts of the plan approved and used in support of the impairment tests.

When formulating financial projections, the cash flows from the explicit plan horizon have been used, with the appropriate corrections to account for the expected effects of management actions to improve operating performance laid out in the plan and resulting from investing activities over the plan horizon. These actions relate above all to investments in production designed to shift the industrial footprint towards countries with lower labour costs.

When constructing the perpetual income flow to calculate the terminal value, the average performance recorded in 2019 and the five years of the explicit forecasting period was projected, in view of the cyclical nature of the business, net of any corrections relating to the new footprint described in the foregoing paragraph, considering a maintenance level of investments.

The growth rate (g) was assumed to be zero, whereas the value of current income taxes was calculated on a notional basis utilising the nominal tax rate.

The Smart Gas Metering CGU's WACC was estimated by assuming:

- a risk-free rate equal to the average of the risk-free rates of the principal markets in which the CGU operates; in particular, for each country the MAX was utilised (2.5%, government yield 10Y; IRS 10Y+CDS 10Y; country risk premium Damodoran);
- a beta unlevered coefficient for a value of 0.84 estimated on the basis of a panel of comparable listed companies;
- an equity risk premium of 5.5%, equivalent to the average of the market's risk premium in the main countries where the Heating CGU is active (source: Pablo Fernandez, Alberto Ortiz and Isabel F. Acin, IESE Business School 2018);
- an additional risk premium for the calculation of the cost of own capital (Ke) equivalent to 2.5%;
- a cost of debt calculated on the basis of IRS at 31/12/2019, to which a spread of 2.0% is added, in line with the contractual terms and conditions set out in the Senior Facility Agreement;
- a level of financial leverage (ratio between financial debt and own equity) in line with the industry average financial structure of comparable companies.

The resulting discount rate (WACC) of 9.25% reflects at the reporting date estimates of the market valuation and the cost of money and takes account of the specific and sector risk.

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

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

The indifference of the WACC, i.e. the discount rate that results in a headroom (difference between the equity value and carrying amount of the investment) of zero, is 13.4%, whereas a 44.6% percent reduction of the terminal value is required to achieve this same result.

The cash flows used in the impairment test do not reflect possible developments linked to the current national and international scenario dominated by the spread of Covid-19. These developments, which emerged in the initial months of 2020, and which are extraordinary in nature and extent, have direct and indirect repercussions on economic activity giving rise to an environment of general uncertainty and whose evolution and effects are unforeseeable

Within this framework, additional sensitivity analyses beyond those described above have been formulated.

In terms of potential changes in cash flows, the zero-headroom point is reached by reducing revenues for the first three years of the explicit forecasting period by 23%, assuming that the possible deterioration of the macroeconomic scenario may be reflected in this period, without considering a reduction of fixed costs and the benefits of reducing working capital.

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

SIT MANUFACTURING (SUZHOU) CO. LTD.

Looking finally to the investee SIT Manufacturing (SUZHOU) Co. Ltd (China), a negative difference between its net equity and carrying amount at December 31, 2019 of Euro 2,795 thousand emerges.

For the verification of the recoverability of the value of the investment in SIT Manufacturing (SUZHOU) Co. In accordance with IAS 36, the recoverable value of the investment was calculated on the basis of its value in use established according to the Discounted Cash Flow (DCF) method, discounting the operating cash flows generated at a rate representative of the cost of capital.

Unlevered free cash flow projections were calculated by applying the performances and assumptions for the Chinese market in the 2020-2024 Business Plan for the Heating CGU, approved by the Company on February 14, 2020, to the subsidiary's actual 2019 figures.

When constructing the perpetual income flow to calculate the terminal value, the final value in the explicit year was projected, considering a maintenance level of investments.

The growth rate (g) was assumed to be 1.8%, whereas the value of current income taxes was calculated on a notional basis utilising the nominal tax rate.

The WACC was estimated assuming:

- a risk-free rate equal to the yield on Chinese government bonds maturing in 10-15 years, issued in strong currencies, i.e. 2.24%
- a beta unlevered coefficient for a value of 0.90 estimated on the basis of a panel of comparable listed companies;
- an equity risk premium of 5.5%, equivalent to the average of the market's risk premium in the main countries where the Heating CGU is active (source: Pablo Fernandez, Alberto Ortiz and Isabel F. Acin, IESE Business School 2018);
- an additional risk premium for the calculation of the cost of own capital (Ke) equivalent to 1.5%;
- a cost of debt calculated on the basis of IRS at 31/12/2019, to which a spread of 2.0% is added, in line with the contractual terms and conditions set out in the Senior Facility Agreement;
- a level of financial leverage (ratio between financial debt and own equity) in line with the industry average financial structure of comparable companies.

The resulting discount rate (WACC) of 8.15% reflects at the reporting date estimates of the market valuation and the cost of money and takes account of the specific and sector risk.

Considering the assumptions described, at the reporting date the recoverable value of SIT Manufacturing (Suzhou) Co. Ltd. was essentially in line with its net carrying values and therefore showed a headroom of zero.

The potential effects of the contingent situation associated with Covid-19 could therefore have an impact on the carrying amount of the investment that currently cannot be foreseen.

Note 4: Non-current financial assets

The breakdown of non-current financial assets at December 31, 2019 is as follows:

(in Euro)	31-dec-19	31-dec-18
Guarantee deposits	170,779	170,589
Restricted deposit account	1,199,832	1,199,958
Other receivables	-	8,621
Non-current financial assets	1,370,611	1,379,168

The main accounts are commented upon below.

RESTRICTED DEPOSIT ACCOUNT

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

Current assets

Note 5: Inventories

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

	Dec 31, 19	Dec 31, 18
Raw materials, ancillary and consumables	6,676,739	7,620,105
Work-in-progress and semi-finished goods	7,371,321	7,518,446
Finished products and goods	5,687,792	5,832,095
Advances to suppliers	33,587	32,953
Inventories	19,769,439	21,003,599

The movements in the inventory obsolescence provision were as follows:

	Dec 31, 19
Obsolescence provision 31/12/2018	1,459,914
Utilisation in the year	-71,412
Allocation in the year	3,322
Obsolescence provision 31/12/2019	1,391,824

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

Note 6: Trade receivables

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

	Dec 31, 19	Dec 31, 18
Trade receivables	22,347,786	23,097,480
Trade receivables from holding company	28,772	28,685
Trade receivables from subsidiaries	29,971,000	29,534,815
Trade receivables from subsidiaries under control of parent company	16,572	0
Current trade receivables	52,364,130	52,660,980
Doubtful debt provision	-543,150	-735,504
Trade receivables	51,820,980	51,925,476

TRADE RECEIVABLES

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

The doubtful debt provision amounts to Euro 543 thousand, with the movements in 2019 reported in the following table:

	Dec 31, 19
Doubtful debt provision 31/12/2018	735,504
Utilisation in the year	-192,355
Allocation in the year	-
Doubtful debt provision 31/12/2019	543,150

The balance of receivables from customers is net of a without recourse receivable factoring transaction totalling approx. Euro 9,899 thousand.

Trade receivables include receivables in foreign currency and are therefore stated in the financial statements and in the above table net of the relative unrealised exchange differences, which amount overall to Euro 20 thousand (exchange losses).

TRADE RECEIVABLES FROM HOLDING COMPANY

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

TRADE RECEIVABLES - SUBSIDIARIES

The breakdown by investee is presented below:

	Opening balance	Changes in	Closing balance
SIT Gas Controls Pty Ltd (Australia)	501,245	-77,029	424,215
SIT Controls U,S,A, Inc, (USA)	16,820	4,495	21,315
SIT Controls BV - (Netherlands)	2,052,065	-169,209	1,882,856
SIT Controls Deutschland GmbH (Germany)	56,440	-34,327	22,113
SIT Controls CR, sro (Czech Republic)	7,700	9,722	17,422
SIT Romania S,r,l, – Romania	5,560,224	16,387	5,576,610
METERSIT Romania Srl – Romania	7,463	-660	6,803
SIT Manufacturing (SUZHOU) Co,Ltd (China)	10,920,116	-663,627	10,256,489
Sit Manufacturing N,A, SA de CV (Mexico)	8,474,217	318,160	8,792,377
MeteRSit S,r,l, (Italy)	1,938,527	1,032,274	2,970,800
Total receivables from subsidiaries	29,534,815	436,185	29,971,000

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

These include in addition payables in foreign currency, which are therefore stated in the financial statements and in the above table net of the relative unrealised exchange differences, which overall amount to Euro 45 thousand (exchange losses).

Note 7: Other current assets

The account is broken down as follows:

(Euro)	31-dec-19	31-dec-18
VAT receivables	831,962	2,134,901
Withholding taxes	3,172,985	2,351,232
Income tax receivables	-	33,474

Advances	250,344	348,487
Prepayments and accrued income	581,100	794,905
Other receivables	120	47,181
Employee receivables	221	14,391
Other receivables from subsidiaries	-	27,022
Social security institution receivables	41,579	45,884
Other current assets	4,878,311	5,797,477

VAT RECEIVABLES

The decrease in VAT receivables was mainly due to the use of the receivable in question for offsetting against other taxes in 2019.

WITHHOLDING TAXES

Receivables for withholding taxes of Euro 3,173 thousand mainly relate to royalties invoiced by the company to productive subsidiaries against the use of technical-productive and non-patented know-how, in addition to those of the SIT trademark, all held by SIT S.p.A. These receivables are regarded as recoverable on the basis of expected future performance.

ACCRUED INCOME AND PREPAYMENTS

At December 31, 2019, accruals and prepayments were composed as follows:

	Balance at Dec 31, 19			Total	Balance at Dec 31, 18 Total
	Within one year	Beyond one year	Duration beyond 5 years		
Accrued financial charges	3,846	-	-	3,846	6,006
Total accrued income	3,846	-	-	3,846	6,006
Prepaid financial charges	12,747	0	0	12,747	20,853
Prepayments on fees, rental & insurance premiums	366,785	3,591	0	370,376	602,406
Other prepayments	193,925	205	0	194,130	165,640
Total prepayments	573,457	3,796	0	577,253	788,899
Total accrued income and prepayments	577,304	3,796	-	581,100	794,905

Note 8: Tax receivables

Tax receivables were as follows:

(in Euro)	31-dic-19	31-dic-18
IRES receivables as per Legs. Decree	-	1,481,437
IRAP receivables	475,259	-
Tax consolidation receivables	2,134,277	-
Other tax receivables	57,393	11,407
Tax receivables	2,666,929	1,492,844

The balance of Euro 1,481 thousand relates to the IRES tax reimbursement requested by the companies incorporated as part of the merger of 2014 through presentation of a single application for the recovery of non-deducted IRAP concerning personnel expenses, in accordance with Article 2, paragraph 1-quater of Legislative Decree No. 201/2012; of this amount, Euro 413 thousand was collected and Euro 1,065 thousand was factored without recourse in 2019.

The amount of Euro 2,134 thousand concerns the net receivable from the company's involvement in the tax consolidation with the holding company SIT Technologies S.p.A. The company in fact took part in the National Tax Consolidation governed by Legislative Decree No. 344 of December 12, 2003 and in particular Articles 117 to 129 of the Income Tax Law, as the consolidated company and as expressly approved by its Board of Directors for the 2016-2018 three-year period and as per the tax consolidation agreement signed by the interested companies, the agreement has been extended for the three year period 2019-2021.

Note 9: Other current financial assets

A breakdown of other current financial assets follows:

(in Euro)	31-dic-19	31-dic-18
Current loans from subsidiaries	7,842,942	16,050,845
Derivative financial instruments	22,757	97,172
Other current financial assets	7,865,699	16,148,017

LOANS TO SUBSIDIARIES

The company carries out financial coordination for the subsidiaries and Group treasury services. This account concerns both financial dealings relating to current accounts held by the subsidiaries with SIT S.p.A. and funding operations through credit lines agreed in the undertaking of these activities and comprises (i) a loan to the subsidiary SIT Romania S.r.l. (Romania) of Euro 3,000 thousand, as part of an interest-bearing credit line, granted at the Euribor at 3 months with zero floor, plus a 3% annual margin, for a total Euro 7,500 thousand and with maturity of May 31, 2020. The interest matured until December

31, 2019 was entirely collected in the year; (ii) a loan to the subsidiary SIT Manufacturing (Suzhou) Co. Ltd. (China), granted for a total amount of Renminbi 15,000 thousand, equal to Euro 1,918 thousand, with maturity of July 31, 2020 and at a 4.5% annual rate. The payment of interest is fixed to the maturity of the loan. The interest matured until December 31, 2019 was recognised on an accruals basis to the income statement for the year; (iii) a current account with a positive balance of Euro 1,412 thousand held by the subsidiary Metersit S.r.l.; and (iv) a current account with a positive balance of USD 1,699 thousand, equivalent to Euro 1,512 thousand, held by the subsidiary SIT Controls USA Inc.

DERIVATIVE FINANCIAL INSTRUMENTS

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

The characteristics and the relative Fair Value at December 31, 2019 is presented below:

(Euro.000)

Transaction type	Currency	Currency amount	Currency value	Value date	Maturity date	Spot rate	Forward rate	Fair Value 31.12.2018
forward purchases	AUD	650,000	EUR	24/12/2019	31/01/2020	1.6112	1.6137	3,391.51
forward sales	CNY	29,300,000	EUR	20/12/2019	31/01/2020	7.7880	7.8246	7,770.54
forward sales	CNY	15,000,000	EUR	29/07/2019	31/07/2020	7.6511	7.9154	11,594.78
Total								22,756.83

Note 10: Cash and cash equivalents

	Dec 31, 19	Dec 31, 18
Cash in hand and similar	13,821	11,426
Bank and postal deposits	26,446,074	51,101,636
Total cash and cash equivalents	26,459,895	51,113,062

Cash and cash equivalents relate to current accounts and cash in hand and similar at December 31, 2019.

The account includes cash in foreign currencies which, at the December 31, 2019 exchange rate, had a value of Euro 7 thousand.

Equity

Shareholders' equity at December 31, 2019 amounts to Euro 148,304,929, increasing Euro 14,290,605 on Euro 134,014,324 at December 31, 2018. The changes are reported in the statement of changes in shareholders' equity, to which reference should be made.

The following comments relate to the principal accounts and changes.

Note 11: Share capital

The share capital, subscribed and paid-in, amounted at December 31, 2019 to Euro 96,151,921, comprising 25,007,465 shares without express nominal value. During the year, ordinary shares increased by 1,000,000, without any change in the value of share capital, due to the full conversion of the 250,000 Performance Shares into ordinary shares at the ratio of 1:5.

The classes of shares issued by the company are reported below.

Shares	No. Shares	% of share capital	Listing
Ordinary shares	25,007,465.00	100.0%	MTA Italy

The company, as part of the operations related to the incorporation of the SPAC Industrial Stars of Italy 2, executed a divisible share capital increase for a maximum total amount of Euro 153,438, to be implemented through the issue of 1,534,380 SIT ordinary shares reserved for the exercise of the subscription right due to SIT Warrant holders.

Note 12: Reserves

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

<i>(in Euro)</i>	Amount	Possibility of use	Quota available	Summary of utilisations made in the three previous years		Notes	Composition of reserves
				To cover losses	For other reasons		
Nature/description							
SHARE CAPITAL	96,151,921						
CAPITAL RESERVES							
Share premium reserve	10,359,557	(1)(2)	10,359,557				(a)
Capital payments reserve	16,615,618	(1)(2)(3)	16,615,618				(a)
TOTAL CAPITAL RESERVES							
Legal reserve	19,230,384	(2)					(b)
Treasury shares reserve	(1,436,397)						(a)/(b)
First time application IAS/IFRS reserve	501,939	(2)			1,886,915	II	(b)
Cash Flow Hedge Reserve	(1,031,274)						(b)
Actuarial reserve - Employee benefits	(414,133)						-
Warrants Reserve	(3,027,733)						
LTI Reserve	166,626		166,626				(b)
Retained earnings (accum. losses)	(2,747,710)						
Result 2019	13,936,130		13,936,130				
TOTAL	148,304,929		41,077,931				
NON-DISTRIBUTABLE AMOUNT			1,460,313			I	
RESIDUAL DISTRIBUTABLE AMOUNT			39,617,618				

(1) For share capital increase

(2) To cover losses
(3) For distribution to shareholders

(a) capital reserves
(b) retained earnings

(I) In accordance with Article 2426, first paragraph, number 5) of the Civil Code, it should be noted that the Company has completed the process of amortization of development costs.

Furthermore, the profits for the year 2019 are non distributable and will be allocated to the Warrant reserve for Euro 1,460,313.

(II) The first-time application IAS/IFRS reserve at December 31, 2019 comprises:

- positive reserves of Euro 813,785, of which Euro 122,495 concerning the capitalisation of development costs and Euro 691,289 concerning the application of the finance method to leased assets.
- negative reserves for Euro 311,846, of which Euro 297,156 concerning the application of the amortised cost and Euro 14,690 concerning the valuation of the liabilities for Post-employment benefits.

In compliance with the content of the Operating guidelines for accounting management of the rules on the distribution of profits and reserves as per Legislative Decree No. 38 of February 28, 2005, the utilisation of the reserves for a total of Euro 1.886.915 concern:

- recovery of the negative reserve for Euro 113,166 relating to employee benefits;
- recovery of the negative reserve for Euro 425,421 concerning the reversal of start-up and expansion costs;
- recovery of the positive reserve for Euro 1,071,932 relating to the capitalisation of development costs;
- recovery of the negative reserve for Euro 747,925 relating to the application of the amortised cost;
- complete recovery of the negative reserve concerning the valuation of hedging derivatives for Euro 1,730,384;
- recovery of the positive reserve concerning the application of the finance method to leased assets for Euro 58,048.

SHARE PREMIUM RESERVE

The share premium reserve of Euro 10,359,557 did not change during the year.

CAPITAL PAYMENTS RESERVE

The decrease in the capital payments reserve entirely relates to the distribution of dividends for Euro 2,202,381, following the Shareholders' Meeting of April 24, 2019, reducing this reserve to Euro 16,615,618.

LEGAL RESERVE

The legal reserve increased Euro 470 thousand following the resolution passed by the Shareholders' Meeting of April 24, 2019, due to the provisioning of a portion of the 2018 profit.

TREASURY SHARES RESERVE

The treasury shares reserve amounted to Euro 1,436,397 and was broken down as follows:

- in 2017, as part of the SIT 2017 Refinancing operation, the company purchased 317,000 redeemable shares, held by a group of managers, for a total price of Euro 659,360, in addition to the tax effect due to the Tobin Tax. Pursuant to Art. 2357-ter of the Civil Code, the purchase led to a total reduction of Euro 660,679 in shareholders' equity through the entry of a specific item with a negative balance;
- in 2018, the company acquired 11,283 treasury shares, amounting to Euro 90,961, for the purposes of the stock option plan, which were allocated to some executives and employees to subscribe to shares of the company.
- in 2019, the company repurchased 90,981 treasury shares, for a total of Euro 684,757, also for the implementation of the stock option plan, as discussed above.

LONG TERM INCENTIVE PLAN RESERVE

The long-term incentive plan (L.T.I.) reserve was utilised to record the value of the share-based payments in favour of employees and key executives, settled with capital securities, which constitutes part of their remuneration. For further details, reference should be made to the Directors' Report and Note 40.

CASH FLOW HEDGE RESERVE

The cash flow hedge reserve is recorded as a negative value of Euro 1,031,274, net of the Euro 326,146 tax effect. This reserve derives from the Fair Value valuation of hedging derivatives in application of IFRS 9.

WARRANT RESERVE

In 2017, in execution of the transactions for the merger with the SPAC Industrial Star of Italy 2, SIT S.p.A. issued 5,350,000 warrants admitted to trading on the AIM Italia. As per the Regulation, these Warrants may be exercised with effect from the month following admission to trading on AIM Italia and within 5 years from admission. From November 28, 2018, following the transition process to the main index the Warrants are traded on the MTA (Mercato Telematico Azionario) Market organised and managed by Borsa Italiana and, simultaneously, were excluded from trading on the AIM Italia.

The Warrant Reserve, equivalent to a negative value of Euro 3,027,733, derives from the initial entry of the Warrants at their fair value on July 20, 2017 and by subsequent movements in connection with the Warrants' partial exercise and the allocation of a part of the 2018 profit per the resolution of the Shareholders' Meeting of April 24, 2019.

PERFORMANCE SHARES RESERVE

As part of the incorporation of the SPAC Industrial Star of Italy 2, in 2017 SIT S.p.A. converted 250,000 ordinary shares held by SIT Technologies S.p.A. into an equal number of particular SIT shares (Performance Shares), convertible into ordinary shares under the terms and conditions set out in the By-Laws. The Performance Shares S of Euro 11,500,000 corresponds to the fair value recorded at December 31, 2017. On April 24, 2019, the Shareholders' Meeting approved the utilisation of a portion of the 2018 net profit of Euro 3,240 thousand, to increase the Performance Shares reserve for a total final value of Euro 8,260 thousand. In 2019, the corresponding financial liability (of Euro 8,260 thousand) was settled, cancelling the Performance Shares reserve, against the full conversion of the 250,000 shares according to the 1:5 ratio established by the By-Laws.

RETAINED EARNINGS (ACCUM. LOSSES)

At December 31, 2019, the account is negative for Euro 2,747,710, unchanged on December 31, 2018.

Non-current liabilities

Note 13: Non-current bank payables

The breakdown is as follows:

(in Euro)	31-dic-19	31-dic-18
Non-current bank payables	85,029,870	104,730,079
Medium/long-term loans and borrowings	85,029,870	104,730,079

As at December 31, 2019, short-term loans and borrowings represent the value of the loan agreement's non-current portion (Senior Financial Agreement 2017) which the Company signed with BNP Paribas and a bank syndicate under the refinancing operation alongside the incorporation of the SPAC Industrial Stars of Italy 2. The financial liability is measured using the amortised cost criterion.

The main conditions of the Senior Facility Agreement are as follows:

- original amount of Euro 135,000 thousand, non-current residual amount of Euro 85,725 thousand and current amount of Euro 20,250 thousand, with 5-year duration, maturing June 30, 2022; repayment according to pre-established half-yearly instalments;
- early repayment option without penalties and without collateral security;
- interest rate indexed to the 6-month Euribor, plus a margin determined on the basis of a grid defined by the Leverage ratio trend – an indicator consisting of the ratio between the net financial position and EBITDA. The average interest margin in 2019 was equivalent to 1.90%.

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

The residual nominal amount at December 31, 2019 totals Euro 104,657 thousand, of which the non-current portion Euro 85,030 thousand and the current portion Euro 19,627 thousand.

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

A breakdown follows:

(Euro thousands)	Dec 31, 19	Dec 31, 18
Derivative financial instruments - Non-current	661,424	710,381
Non-current financial lease payables - IFRS 16	3,072,723	-
Other non-current financial liabilities and derivative financial instruments	3,734,147	710,381

NON-CURRENT FINANCE LEASE PAYABLES - IFRS 16

The amount concerns the non-current financial payable for future charges from the existing lease contracts, recognised in application of IFRS 16. For further information, reference should be made to Note 39.

DERIVATIVE FINANCIAL INSTRUMENTS - NON-CURRENT

In 2017, the company settled interest rate swap (IRS) hedges, in connection with the new variable rate bank loan (Senior Financial Agreement 2017). These contracts satisfy the IFRS 9 hedging requirements for application of hedge accounting and therefore the financial liabilities were recognised at the fair value of the IRS contracts and with provisioning to a relative net equity reserve, net of the relative tax effect.

The features and the fair value of the non-current portion of the derivative financial instruments at December 31, 2019 are summarised below:

(Euro.000)						
Transaction type	Currency	Beginning date	Maturity	Fixed rate	Notional 31.12.2019	Fair Value 31.12.2019
IRS su SFA 2017	Euro	29/12/2017	30/06/2022	0.41%	56,049,000	-383,370
IRS su SFA 2017	Euro	29/12/2017	30/06/2022	0.40%	41,291,000	-278,054
Totale					97,340,000	-661,424

Note 15: Provisions for risks and charges

The changes to the account were as follows:

(Euro thousands)				
	Dec 31, 18	Provisions	Utilisations	Dec 31, 19
Agents indemnity provision	139,090	5,491	-	144,581
Other risks provision	258,785	-	-170,480	88,305
Product warranty provision	492,040	-	-492,040	-
Other taxes provision	1,311,645	725,442	-397,385	1,639,702
Total provisions for risks & charges	2,201,561	730,933	-1,059,905	1,872,588

AGENTS' SUPPLEMENTARY INDEMNITY PROVISION

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

PRODUCT WARRANTY PROVISION

The product warranty provision reflects a reasonable estimate of the charges which the company may incur to comply with contractual guarantees on products sold until the reporting date; during the year, applying an updated percent assessment and analysis of returns for defects, Euro 170 thousand was released as the provision was found to be in excess.

OTHER TAXES PROVISION

In 2019 the provision was drawn down in full due to the discharge of the liability relating to the VAT receivable acquired by the Company following the merger with SPAC Industrial Stars of Italy 2; the Company paid the sums due by way of greater taxes, penalties and interest.

OTHER PROVISIONS

Other provisions include:

- Risks provision for Euro 1,155 thousand, which concerns the risks over ongoing disputes, whose risk of loss is probable;
- The provision for future charges of Euro 410 thousand relating to the costs of the reclamation of a plot of land owned by the Company;
- The provision of Euro 75 thousand for cases concerning employees.

Note 16: Post-employment benefit provision

The movements in the account in the year to December 31, 2019 and to December 31, 2018 were as follows:

(Euro thousands)	Dec 31, 19	Dec 31, 18
Net liabilities for employee defined benefits	5,462,792	5,349,637
Liabilities for retention or other	177,399	105,678
Net liabilities for employee defined benefits	5,640,191	5,455,315

The movement in the account Net liabilities for employee benefits is presented below:

(Euro thousands)	Dec 31, 19	Dec 31, 18
Post-em. bens. at beginning of year	5,349,637	5,582,803
Payments in the year	-308,896	-171,604
Interest cost	78,934	71,334
Actuarial gains	343,117	-132,896
Post-em. bens. at end of year	5,462,792	5,349,637

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

Defined benefit plans	Dec 31, 19	Dec 31, 18
Annual discount rate	0.77%	1.57%
Annual inflation rate	1.20%	1.50%
Annual increase in post-employment benefit	2.40%	2.65%
Annual increase in salaries	1.00%	1.00%
Death	The RG48 mortality tables published by the General State Controller	
Disability	INPS tables by age and gender	
Retirement	100% on reaching current regulatory requirements	

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

Note 17: Other non-current liabilities

In 2018 the account amounted to Euro 754 thousand relating to the provision for the extraordinary variable bonus granted to the Chairman and Chief Executive Officer in execution of the contractual provisions defined in the IPO, correlated to the Group's future results. In 2019 the provision was released due to the failure to meet the market condition set for eligibility for the incentive. For further information, reference should be made to Note 40.

Note 18: Deferred tax income & charges

A breakdown of temporary differences and the consequent deferred tax assets/liabilities at December 31, 2019 and at December 31, 2018 is reported below, based on the type of temporary differences, applying respectively a tax rate of 24% for IRES and 3.9% for IRAP:

Separate financial statements at December 31, 2019

Explanatory Notes

DEFERRED TAX ASSET/(LIABILITY)	December 31, 2018				December 31, 2019			
	Amount of temp, diff, IRES	Amount of temp, diff, IRAP	Tax effect IRES	Tax effect IRAP	Amount of temp, diff, IRES	Amount of temp, diff, IRAP	Tax effect IRES	Tax effect IRAP
Rate			24,0%	3,90%			24,0%	3,90%
DEFERRED TAX ASSETS								
Provisions for risks and charges and employee provisions	123,948	115,028	29,748	4,486	172,615	172,615	41,428	6,732
Other provisions for risks and charges	1,552,160	1,552,160	372,518	60,534	1,653,007	1,653,007	396,722	64,467
Write-down of inventories	1,459,914	1,459,914	350,379	56,937	1,391,824	1,391,824	334,038	54,281
Maintenance difference	44,873	-	10,770	-	-	-	-	-
Unrealised exchange losses	640,777	-	153,786	-	348,477	-	83,634	-
Deprec, suspended on prop, revaluations	171,004	171,004	41,041	6,669	171,004	171,004	41,041	6,669
Amortisation of intangible assets	8,671	8,671	2,081	338	0	-	0	-
Non-deductible interest	6,534,556	-	1,568,293	-	4,392,240	-	1,054,138	-
Other	974,951	49,411	233,988	1,927	202,641	49,411	48,634	1,927
Deferred taxes concerning previous years tax losses	153,572	-	36,857	-	583,311	-	139,995	-
ACE	-	-	-	-	1,166,644	-	279,995	-
Deferred taxes ISI 2 on Losses	1,475,689	-	354,165	-	-	-	-	-
Deferred taxes ISI 2 on ACE	2,590,700	-	621,768	-	-	-	-	-
Amortised cost	390,996	-	93,839	-	0	-	0	-
Reversal of other intangible assets	64,147	64,147	15,395	2,502	0	15,911	0	621
Post-employment benefits	283,239	-	67,977	-	634,003	-	152,161	-
Derivative financial instruments	1,420,547	-	340,931	-	1,357,420	9,368	325,781	365
TOTAL DEFERRED TAX ASSETS	17,889,743	3,420,335	4,293,538	133,393	12,073,186	3,463,140	2,897,565	135,062
DEFERRED TAX LIABILITIES								
Accelerated depreciation	-377,243	-	-90,538	-	-376,417	-	-90,340	-
Revaluation land & buildings from merger	-3,192,428	-3,192,428	-766,183	-124,505	-3,182,372	-3,182,372	-763,769	-124,113
Reval, Investments for consolidation diff,	-736,627	-	-176,790	-	-736,627	-	-176,790	-
Valuation brands and Technologies for consolidation diff,	-26,555,246	-26,555,246	-6,373,259	-1,035,655	-24,035,512	-24,035,512	-5,768,523	-937,385
Unrealised exchange gains	-388,781	-	-93,307	-	-436,767	-	-104,824	-
Other	-	-	-	-	-55,405	-	-13,297	-
R&D capitalisation expenses	-161,178	-	-38,683	-	-	-	-	-
Finance leases	-1,056,340	-1,056,340	-253,522	-41,197	-1,012,400	-1,012,400	-242,976	-39,484
Derivative financial instruments	-51,397	-51,397	-12,335	-2,004	-	-	-	-
TOTAL DEFERRED TAXES	-32,519,241	-30,855,412	-7,804,618	-1,203,361	-29,835,500	-28,230,285	-7,160,520	-1,100,981
DEFERRED TAX ASSET/(LIABILITY) TO BALANCE SHEET TOTAL	-14,629,498	-27,435,077	-3,511,079	-1,069,968	-17,762,314	-24,767,145	-4,262,955	-965,919

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

Current liabilities

Note 19: Short-term loans and borrowings

The breakdown is as follows:

(in Euro)	31-dic-19	31-dic-18
Utilisation short-term lines	314	324
Current portion of loans	19,626,935	16,196,798
Short-term loans and borrowings	19,627,249	16,197,122

CURRENT PORTION OF THE BANK LOAN

The account includes the current share of the bank loan (Senior Financial Agreement 2017) referred to in Note 13.

Note 20: Other current financial liabilities and derivative financial instruments

A breakdown follows:

(Euro thousands)	Dec 31, 19	Dec 31, 18
Current financial payables - subsidiaries	25,545,416	33,151,964
Current financial lease payables - IFRS 16	1,282,583	-
Factoring payables	158,142	100,954
Derivative financial instruments (current portion)	753,751	854,618
Other current financial liabilities and derivative financial instruments	27,739,892	34,107,536

CURRENT FINANCIAL PAYABLES - SUBSIDIARIES

The balances at December 31, 2019 and December 31, 2018 concern financial transactions relating to the current accounts held by the subsidiaries with SIT S.p.A. as part of the centralised treasury services provided by SIT S.p.A. to the Group companies.

Current financial payables to subsidiaries by investee company are presented below:

	31-dec-19	31-dec-18
SIT Gas Controls Pty Ltd (Australia)	390,804	68,593
SIT Romania S.r.l. (Romania)	2,401,604	4,642,173
SIT Controls U.S.A. Inc. (USA)	-	1,550,206
SIT Controls BV (Netherlands)	2,970,435	3,252,608
SIT Controls Deutschland GmbH (Germany)	750,036	397,650
SIT Controls CR, sro (Czech Republic)	1,309,025	616,856
Sit Manufacturing N.A. SA de CV (Mexico)	17,723,511	16,295,739
MeteRSit S.r.l. (Italy)	-	6,328,139
Total current financial payables - subsidiaries	25,545,416	33,151,964

CURRENT FINANCIAL PAYABLES FOR LEASING – IFRS16

The amount concerns the current financial payable for future charges from the existing lease contracts, recognised in application of IFRS 16. For further information, reference should be made to note 39.

DERIVATIVE FINANCIAL INSTRUMENTS - CURRENT PORTION

The balance at December 31, 2019 of Euro 754 thousand concerns for Euro 687 the Interest Rate Swaps (IRS) hedging the variable rate bank loan (Senior Financial Agreement 2017), as outlined in greater detail at Note 14.

The characteristics and Fair Value of the current portion of interest rate swaps are presented below:

(Euro thousands)

Transaction type	Currency	Beginning date	Maturity	Fixed rate	Notional 31.12.2019	Fair Value 31.12.2019
IRS su SFA 2017	Euro	29/12/2017	30/06/2022	0.41%	56,049,000	-397,676
IRS su SFA 2017	Euro	29/12/2017	30/06/2022	0.40%	41,291,000	-288,952
Totale					97,340,000	-686,628

In 2019 the Company undertook hedging contracts against currency risk. These contracts do not satisfy the IFRS 9 hedging requirements for application of hedge accounting, with the exception of the transactions in GBP, for which the financial assets were recognised at fair value with provisioning to a relative net equity reserve, net of the relative tax effect. The features and the fair value of the current portion of the derivative financial instruments at December 31, 2019 are summarised below:

The characteristics and fair value of the current portion of exchange rate hedging contracts are presented below:

Transaction type	Currency	Currency amount	Currency value	Value date	Maturity date	Spot rate	Forward rate	Fair Value 31.12.2019
forward sales	GBP	200000	EUR	26/11/2019	31/03/2020	0.8572	0.8613	(3,122.41)
forward sales	GBP	200000	EUR	26/11/2019	30/06/2020	0.8572	0.8642	(3,128.30)
forward sales	GBP	200000	EUR	26/11/2019	30/09/2020	0.8572	0.8670	(3,116.92)
Total								(9,367.63)

The characteristics and fair value of the current portion of exchange rate non-hedging contracts are presented below:

Transaction type	Currency	Currency amount	Currency value	Value date	Maturity date	Spot rate	Forward rate	Fair Value 31.12.2019
forward sales	GBP	35000	EUR	24/12/2019	31/01/2020	0.8522	0.8535	(264.00)
forward purchases	USD	7.750.000	EUR	23/12/2019	31/01/2020	1.1115	1.1144	(57,491.92)
Total								(57,755.92)

The breakdown is provided below of changes to liabilities deriving from financial activities, where such relates to cash flows or non-monetary changes:

(Euro thousands)	31/12/2018	Receivable waiver	Reimbursements /settlements	Fair Value Changes	Change in amortised cost	31/12/2019
Bank payables - non-current portion of loans	105,975,000	-	-20,250,000	-	-	85,725,000
Bank payables - non-current portion amortised cost	-1,244,921	-	-	-	549,792	-695,129
Total bank payables - non-current portion loans	104,730,079	0	-20,250,000	0	549,792	85,029,871
Shareholder loans - non-current portion of loans	-	-	-	-	-	-
Shareholder loan - amortised cost	-	-	-	-	-	-
Derivative financial instruments - non-current portion	710,381	-	-	-48,957	-	661,424
Total other non-current financial liabilities and derivative financial instruments	710,381	-	0	-48,957	0	661,424
Total non-current financial liabilities	105,440,460	0	-20,250,000	-48,957	549,792	85,691,295
Bank payables - current portion of loans	16,875,000	-	3,375,000	-	-	20,250,000
Bank payables - current portion amortised cost	-678,202	-	-	-	55,137	-623,065
Total bank payables - current portion of loans	16,196,798	-	3,375,000	0	55,137	19,626,935
Shareholder loan - current portion of loans	-	-	-	-	-	-
Derivative financial instruments - current portion	854,618	-	-	-167,990	-	686,628
Total other current financial liabilities and derivative financial instruments	854,618	-	0	-167,990	0	686,628
Total current financial liabilities	17,051,416	0	3,375,000	-167,990	55,137	20,313,563

Note 21: Trade payables

At December 31, 2019, trade payables were broken down as follows:

(Euro thousands)	Dec 31, 19	Dec 31, 18
Trade payables	38,512,028	44,211,521
Trade payables to holding company	14,543,972	12,231,207
Trade payables	53,056,000	56,442,728

TRADE PAYABLES

These include payables in foreign currency and are therefore stated in the financial statements and in the above table net of the relative unrealised exchange differences, equating to exchange gains of Euro 34 thousand.

TRADE PAYABLES - SUBSIDIARIES

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

The value of trade payables to subsidiaries include payables in foreign currency and are therefore stated in the financial statements and in the above table net of the relative unrealised exchange differences, equating to exchange gains of Euro 14 thousand. Trade payables to subsidiaries by individual subsidiary are presented below:

	31-dec-19	31-dec-18
SIT Gas Controls Pty Ltd (Australia)	-	-
SIT Controls U,S,A, Inc, (USA)	59,845	64,450
SIT Controls BV (Netherlands)	324,843	829,405
SIT Controls Deutschland GmbH (Germany)	377,565	444,310
SIT Controls CR, sro (Czech Republic)	500,742	595,778
SIT Romania S,r,l, (Romania)	9,781,829	7,910,959
Sit Manufacturing (SUZHOU) Co Ltd (China)	3,297,268	2,223,338
MeteRSit S,r,l, (Italy)	45,977	41,311
Sit Manufacturing N,A, SA de CV (Mexico)	155,904	121,656
Total trade payables to subsidiaries	14,543,973	12,231,207

Note 22: Other current liabilities

A breakdown follows:

(Euro thousands)	Dec 31, 19	Dec 31, 18
Other payables	320,079	339,722
Customer advances	226,404	800,302
Current remuneration payables	1,487,702	1,511,804
Deferred remuneration payables	2,172,893	2,612,995
Payables to social security institutions	2,376,740	2,173,745
Retention fund, MBO and PDR	2,350,252	2,439,166
Deferred income	1,506	2,667
Substitute tax payables	1,681,695	1,524,668
Other current liabilities	10,617,271	1,405,069

OTHER PAYABLES

These principally includes the employee portions (canteen contribution, trade union contributions etc.) for subsequent payment to various entities and institutes and payables to directors and other corporate boards for amounts yet to be settled.

CURRENT REMUNERATION PAYABLES

Current remuneration payables principally include employee payables for December 2019 salaries, paid in January 2020

DEFERRED REMUNERATION PAYABLES

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

PAYABLES TO SOCIAL SECURITY INSTITUTIONS

These include employee social security and pension deductions.

RESULT BONUSES

The account relates to the estimate of 2019 bonuses, to be paid in 2020.

Note 23: Short-term financial instruments for Performance Shares

The financial liability for Performance Shares recognised at December 31, 2018 of Euro 8,260 thousand relates to the Fair Value of 250,000 Performance Shares held by Sit Technologies S.p.A., calculated by estimating the achievement, with the consolidated financial statements at December 31, 2018, of the results required for their full conversion in a 1 to 5 ratio and valuing the 1 million unissued shares to the listing value of the company's ordinary shares as at December 31, 2018.

On April 15, 2019, the Board of Directors of the Company, on the issue of the Related Parties Committee favourable opinion, noted the number of Performance Shares convertible into ordinary shares in the amount of 1,250,000 ordinary shares in favour of Sit Technologies S.p.A..

For accounting purposes, the financial liability for Performance Shares was settled against a movement in shareholders' equity.

Note 24: Financial instruments for Warrants

In 2017, in execution of the transactions for the merger with the SPAC Industrial Stars of Italy 2, SIT S.p.A. issued 5,350,000 warrants admitted to trading on the AIM Italia, which are now traded on the MTA Italia. As per the Regulation, these Warrants may be exercised with effect from the month following admission to trading on AIM Italia and within 5 years from admission. The exercise of the Warrants supports a

divisible Share capital increase for a maximum total amount of Euro 153 thousand, to be executed through the issue of 1,534,380 ordinary SIT shares.

For accounting purposes, the Warrants were recognised as financial liabilities in accordance with IAS 32 and initially recorded at their Fair Value on July 20, 2017 of Euro 15,515 thousand without any economic impact. The account at December 31, 2019 amounted to Euro 1,567 thousand, representing the Fair Value of the Warrants, calculated by assigning to each Warrant issued and not yet exercised at the reporting date the listing price at that date.

Financial liabilities recognised at December 31, 2019 were adjusted to fair value, recognising the differential between the date of December 31, 2018 (Euro 0.5795) and the price at the reporting date (Euro 0.3) to the income statement under financial income for Euro 1,460 thousand.

Note 25 - Income tax payables

In 2018 the account had a negative balance due to income taxes of Euro 4,245 thousand, whereas at December 31, 2019 the Company had a positive balance; see Note 8.

COMMENTS ON THE MAIN ITEMS OF THE INCOME STATEMENT

Note 26: Revenue from sales and services

Revenues from sales and services are comprised as follows:

(Euro thousands)	2019	2018
Revenues from product sales	205,766,327	238,881,872
Revenues from services	13,794,897	13,021,194
Revenues from sales and services	219,561,224	251,903,066

REVENUES FROM PRODUCT SALES

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

By business line	2019	2018
Mechanical controls	137,268,318	159,648,382
Electronic controls	7,478,802	9,195,299
Fans	31,293,435	40,057,898
Flue systems	20,853,467	21,831,827
Other products	8,872,304	8,148,466
Total	205,766,327	238,881,872

(Euro thousands)	2019	2018
Italy	46,984,964	56,161,234
Foreign EU	90,933,800	100,744,009
Foreign Non-EU	67,847,563	81,976,629
Total revenues from sales and services	205,766,327	238,881,872

REVENUES FROM SERVICES

This account is comprised as follows:

	2019	2018
Provision of other services	4,530,643	4,278,974
Recovery of misc. expenses	972,237	964,830
Seconded personnel recharges	979,757	592,341
Royalties & TP Compensation	7,217,239	7,010,241
Commission income	95,022	174,806
Total revenue from services	13,794,898	13,021,192

PROVISION OF OTHER SERVICES

These mainly concern support services to the manufacturing companies provided by SIT S.p.A. for centralised functions carried out in the areas of quality, procurement, logistics and production planning, in addition to process engineering. They in addition concern general services such as centralised treasury, IT services and in certain cases administrative support.

RECOVERY OF MISC. EXPENSES

They mainly include recharges to third parties and other Group companies of costs incurred on their behalf.

ROYALTIES & TP COMPENSATION

The amount refers solely to royalties invoiced to the subsidiaries SIT Manufacturing Na. Sa. de CV for Euro 6,384 thousand and SIT Controls BV (Netherlands) for Euro 833 thousand, against the use by the former of technical-productive know-how, non-patented technology and the SIT brand, all owned by the Company.

Note 27: Raw materials, ancillaries, consumables and goods

The breakdown of the account in 2019 and 2018 was as follows:

(Euro thousands)	2019	2018
Purchases of ancillary materials	3,040,867	3,418,282
Purchases of raw materials, semi-finished & packaging	61,710,322	75,426,413
Finished products purchases	23,738,552	28,487,826
Purchases of consumable materials	-	-
Purchases of goods	31,854,112	34,997,586
Maintenance and repair materials	1,485,504	1,568,047
Other purchases	1,409,371	1,674,188
Duties on purchases	327,171	408,656
Raw materials, ancillaries, consumables and goods	123,565,899	145,980,998
Changes in inventories of raw materials, ancillaries, consumables and goods	964,028	-956,470
Change in inventories of finished & semi-finished products and goods	270,764	-3,765,251
Change in inventories	1,234,792	-4,721,721
Total cost of raw materials, ancillaries, consumables and goods	124,800,691	141,259,277

Raw materials, ancillaries, consumables and goods, including changes in inventories, amounted to Euro 124,801 thousand, accounting for 60.7% of revenues, falling by Euro 16,458 thousand on 2018, when they accounted for 59.1% of revenues.

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

Note 28: Service costs

The composition of the account is as follows:

(Euro thousands)	2019	2018
Rent, hire and leases	277,283	1,600,597
Outsourcing	6,716,123	8,229,802
Transport	2,553,374	3,377,364
Commissions	2,508,812	2,896,505
Legal, administrative and other	2,672,733	3,291,984
Insurance	754,030	754,237
Management services	263,084	1,069,697
Maintenance & repair expenses	2,875,594	2,751,426
Utilities	4,650,857	4,119,213
Personnel expense	1,047,054	1,288,245
Cleaning and security	636,889	562,389
Advertising, marketing, and sponsorship	510,688	397,751
Directors, statutory & independent auditor fees	532,836	1,595,156
Travel and accommodation	590,437	535,457
Bank charges & commissions	254,803	225,784
Other services	653,300	515,886
Listing charges	234,830	1,237,397
Royalties charges & TP Compensation	2,757,691	2,321,424
Service costs	30,490,418	36,770,314

The cost of rentals and operating leases declined on the previous year due to the effect of initial application of the standard IFRS 16, as described in further detail in Note 39.

Note 29: Personnel expenses

Personnel expenses are shown below:

Personnel expense	2019	2018
Wages and salaries	29,556,035	31,153,539
Social security charges	9,215,996	9,043,868
Temporary personnel	2,294,001	4,876,249
Post-employment benefits	2,110,404	2,035,393
Other costs	95,469	92,513
Personnel expense	43,271,905	47,201,562

Average personnel over the last two years are broken down as follows:

Employees	2019	2018
Executives	24	22
White-collar	257	243
Blue-collar	489	497
Temporary	71	139
Total employees	841	901

The national collective work contract applied is that for the mechanical engineering sector and for executives that applicable to industrial enterprise executives.

Note 30: Depreciation, amortisation and write-downs

The breakdown is as follows:

(Euro thousands)		
Depreciation, amortisation and write-downs	2019	2018
Amortisation of intangible assets	3,298,065	4,001,551
Depreciation of property, plant and equipment	9,383,058	7,641,881
Depreciation of operating leasing IFRS 16	1,423,802	-
Total depreciation and amortisation	14,104,925	11,643,432
Write-down of current receivables	-	168,068
Write-down of intangible assets	628,031	-
Total write-downs	628,031	168,068
Depreciation, amortisation and write-downs	14,732,956	11,811,500

The account Write-downs of Euro 628 thousand refers to the write-down of costs capitalised in previous years and recognised as assets in progress, relating to the project to redesign the spaces and renovate the building in which the company's offices are currently located. The abandonment of the project should be viewed within the broader framework of the construction of new research and development laboratories in an area adjacent to the company's offices, in Padua's business district.

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

Note 31: Provisions for risks

In 2019 provisions totalled Euro 158 thousand and were stated net of utilisations of Euro 568 thousand. The main changes in the year refer to:

- Euro 171 thousand of releases from the product warranty provision due to application of an updated percentage based on an assessment and analysis of returns for defects
- Euro 267 thousand of releases from provision for risks and charges due to the lapse of obligations to clients for potential contractual compensation
- Euro 410 thousand of provisions for the costs of the reclamation of a plot of land owned by the Company
- Euro 240 thousand relating to provisions for probable risks for which it is not possible to establish a certain amount, concerning product quality against reimbursement requests from a number of clients.
- Euro 75 thousand refers to accruals to personnel provisions.

Note 32: Other charges (income)

The account is broken down as follows:

(Euro thousands)	2019	2018
Misc. recoveries	1,011,533	191,420
Prior year income	165,729	390,381
Gains on fixed assets	449,631	65,303
Grants	63,447	417,233
Other revenues	83,984	78,901
Total other income	1,774,324	1,143,238
Misc. taxes & non-deductible costs	176,755	146,004
Losses on fixed assets	36,976	4,843
Associations	112,245	109,178
Prior year charges	212,043	324,021
Losses on receivables	56,113	7,640
IMU Property tax	147,701	125,231
Misc. reimbursements	116,439	160,055
Other charges	226,820	681,225
Total other charges	1,085,092	1,558,197
Other charges (income)	-689,232	414,959

Other income in 2019 increased Euro 631 thousand, mainly due to the insurance reimbursement recognised in the first half of the year.

Note 33: Investment charges and (income)

The account concerns dividends approved by the subsidiaries, recognised in 2019 and particularly:

	2019	2018
Dividends from subsidiary: SIT Controls BV - (Netherland)	-2,000,000	-
Dividends from subsidiary: SIT Controls U.S.A. Inc. (USA)	-4,145,264	-
Dividends from subsidiary: SIT Controls CR, sro (Czech Republic)	0	-120,624
Dividends from subsidiary: SIT Controls Deutschland GmbH (Germany)	0	-100,000
Other income from equity investments	23,641	-2,714
Total charges and (income) from investments	-6,121,623	-223,338

The dividends from subsidiaries were entirely collected in 2019.

Note 34: Financial income

In 2019, these amounted to Euro 2,725,650 and were broken down as follows:

(Euro thousands)	2019	2018
Interest income on bank accounts	208,617	193,505
Other interest income	252,014	34,302
Interest income from Group companies	646,731	866,676
Profits on derivative financial instruments	157,975	323,445
Adjustment to fair value of financial liabilities	1,460,313	12,752,926
Financial income	2,725,650	14,170,854

INTEREST INCOME FROM GROUP COMPANIES

It concerns current loans to SIT Romania S.r.l. (Romania), SIT Controls BV (the Netherlands) and SIT Manufacturing (Suzhou) Co. Ltd. (China), for a total of Euro 179 thousand; for Euro 391 thousand it concerns however the recognition to the 2019 income statement of the portion of amortised cost concerning the loan to Metersit S.r.l. They include for Euro 77 thousand interest matured on current accounts with the subsidiaries held by the company as part of the centralised treasury management services.

PROFITS ON DERIVATIVE FINANCIAL INSTRUMENTS

The amount relates to the mark to market of the derivative contracts on foreign currencies, which do not comply with the formal hedging requirements of the applicable accounting standards.

ADJUSTMENT FV OF FINANCIAL LIABILITIES

This concerns the adjustment to the fair value of the 5,224,733 SIT Warrants in place and not exercised at December 31, 2019; the Fair Value was established utilising level 1 of the fair value hierarchy as the Warrants are listed on an active market.

Note 35: Financial charges

Financial charges consist of:

(Euro thousands)		
Financial charges	2019	2018
Financial charges on hedging contract differences	749,804	830,795
Interest charges to holding company	6,735	-
Interest and other bank charges	2,599,638	2,757,638
Interest charges to third parties	546,522	705,659
Interest expenses on current accounts subsidiaries	407,313	263,845
Other financial charges	88	48,233
Losses on derivative financial instruments	103,530	430,474
Financial charges on operating lease	115,003	-
Financial charges	4,528,633	5,036,644

FINANCIAL CHARGES ON HEDGING CONTRACT DIFFERENCES

The account refers to the differential matured in 2019 relating to the interest rate risk contracts (IRS) on the loan contracts (Senior Facility Agreement of 2017).

INTEREST AND OTHER BANK CHARGES

The amount of Euro 2,600 thousand comprises for Euro 605 thousand the portion of amortised cost accruing in the year and for Euro 1,961 thousand the interest on the Senior Facility Agreement 2017 accruing in the year. The account in addition includes Euro 34 thousand of commissions.

INTEREST EXPENSES ON CURRENT ACCOUNTS SUBSIDIARIES

They concern current accounts held by the subsidiaries at SIT S.p.A. as part of the centralised treasury management carried out on behalf of these subsidiaries.

LOSSES ON DERIVATIVE FINANCIAL INSTRUMENTS

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

FINANCIAL CHARGES ON OPERATING LEASES – IFRS 16

These are financial charges due to the discounting of liabilities relating to rights of use of assets on operating lease, as defined in IFRS 16. For further details, reference should be made to Note 39.

Note 36: Net exchange gains (losses)

Net exchange gains of Euro 73 thousand are composed as follows:

(Euro thousands)		
Exchange gains and losses	2019	2018
Realised exchange gains	1,082,949	1,796,652
Realised exchange losses	-1,102,343	-1,589,732
Unrealised exchange gains	94,536	55,628
Unrealised exchange losses	-148,373	-204,032
Net exchange gains and losses	-73,231	58,516

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

There are no significant effects on the financial statements of changes in the market exchange rates subsequent to the year-end.

Note 37: Impairments on financial assets

No adjustments to financial assets were recognised in 2019:

	2019	2018
Write-down investments in third party companies	0	310
Total adjustment of financial assets	0	310

Note 38: Income taxes

The breakdown of Income taxes in 2019 and 2018 was as follows:

(Euro thousands)		
Income taxes	2019	2018
Current income taxes	476,969	5,349,219
Consolidation income tax	-168,882	-255,506
Deferred tax income	834,613	1,841,962
Deferred tax charges	-732,138	-934,051
Tax receivables	-29,250	-11,407

Taxes from previous year	-3,509,473	-128,109
Other	234,396	64,703
Income taxes	-2,893,765	5,926,811

Current income taxes for the year benefited from non-recurring tax income of Euro 3,702 thousand following the positive outcome of the request for an advance tax ruling filed in 2018 with the Italian Tax Agency on the tax treatment of the non-recurring items related to the merger with ISI2 in 2017, such the fair value of the warrants and the fair value of the Performance Shares.

In previous years, the company had prudently taxed the financial income transferred to the income statement as a result of the fair value measurement of the Warrants and Performance Shares. In its response to the request for an advance tax ruling, the Italian Tax Agency clarified that the liability recognised through the negative equity reserve and the components taken to the income statement due to the fair value measurements recognised cannot be considered relevant for tax purposes. In addition, discharging the liability (when the securities are converted) also will not generate tax effects for the company.

The IRES and IRAP rates applied by the company on estimated assessable income in the year are respectively 24% and 3.9%, for current taxes and for the calculation of deferred taxes.

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

	31-dic-19	effective tax rate %	31-dic-18	effective tax rate %
Result before taxes	11,042,365	24%	23,502,199	24%
Theoretical IRES charge	2,650,168		5,640,528	
Lower taxes:				
- dividends from investments	-1,401,120		-50,302	
- "maxiamortisation"	-762,789		-477,104	
- IRES deduction IRAP portion on personnel costs	-45,292		-75,540	
- ACE benefit and 4% Post-employment benefit provisions	-298,660		-310,052	
- Financial instruments (warrant)	-350,475		-	
- Other	-		-	
Higher taxes:				
- provisions	-		118,090	
- prior year charges	212,043		77,765	
- other non-deductible costs	31,398		195,534	
Total income taxes (IRES)	35,273	0.32%	5,118,918	22%
Tax credits	-29,250		-11,407	
Taxes for previous financial years	-3,509,473		-128,109	
Foreign tax on dividends collected	234,396		64,703	

TOTAL INCOME TAXES (IRES)	-3,269,055	-30%	5,044,104	21%
IRAP	476,969		948,508	
IRAP deferred tax charge	-100,375		-100,355	
IRAP deferred tax income	-1,304		34,553	
Total taxes recognised to the income statement	-2,893,765	-26.21%	5,926,810	25.22%

Note 39: Leasing contracts

The tables below summarise the effects on the Company financial statements at June 31, 2019 concerning the valuation of the “Right-of-use” (“ROU”) of assets from operating lease contracts, as required by IFRS 16 - Leases. For the indication of the balance sheet accounts which include these assets, reference should be made to Note 2. Economic effects from assets consisting of the right-of-use (ROU) on the income statement for the period:

(Euro.000)

Impact on profit and loss for the period	2019
Operating leases (under IFRS 16)	1,496
Contracts classified as short-term leases	3
Contracts classified as low value assets	35
Total service costs	1,534
Depreciation - Land and buildings	-454
Depreciation - Other tangible assets	-970
Total depreciations	-1,424
Income from sub-leasing contracts	-
Sales and leaseback transaction	-
Total other charges / (income)	-
Interest charges on financial liabilities	-115
Total financial charges	-115

Effects on the balance sheet from right-of-use assets:

(Euro.000)	31/12/2019
Net investments accounted as ROU as at 1.1.2019	5,199
Increases of the period	537
Depreciation and amortisation of the period	-1,424
Net investments accounted as ROU as at 31.12.2019	4,312
Opening financial liabilities for ROU	5,199
Increases of the period	556
Cash flow related to operating leases contracts	-1,399
Liabilities from operating lease contracts under IFRS 16 as at 31.12.2019	4,355
Obligations for short term lease contracts	-
Obligations for low value asset contracts	169
Total obligations for operating lease contracts under IFRS 16	169

Effects on future cash flows from right-of-use assets:

(Euro.000)	31/12/2019
Within the year	1,271
From 1 to 5 years	2,704
Over 5 years	374
Liabilities from operating lease contracts under IFRS 16 as at 31.12.2019	4,349

Note 40: Share-based payments

At December 31, 2019, the company held 167,109 treasury shares, of which 90,981 were acquired in 2019 in order to service the long-term incentive plan for employees and/or collaborators of the company and/or subsidiary companies, in order to incentivise achievement of the medium-term plan.

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

(Euro thousands)		
Costs deriving from share-based payment transactions	2019	2018
Costs from equity-settled share-based payment transactions	-	123,389
Costs from cash-settled share-based payment transactions	-754,000	254,000
Total costs deriving from share-based payment transactions	-754,000	377,389

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

EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

On April 26, 2018, the Board of Directors of Sit S.p.A. approved the Long-Term Incentive plan for employees of the Company and its subsidiaries who hold key strategic roles within the Group, whereas on October 8, 2018 the Board of Directors of SIT S.p.A. identified the beneficiaries.

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

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

The following table illustrates the number and average weighed exercise price (PMPE) of the options during the year:

(Euro thousands)

	2019		2018	
	No. options	Weighted average price	No. options	Weighted average price
Outstanding at January 1	212,359	0.8244	-	-
Assigned during the year	-	-	212,359	0.8244
Cancelled during the year	-1,771	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at December 31	210,588	0.8244	212,359	0.8244
Exercisable at December 31	-	-	-	-

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

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

The table below provides information utilised in the model for the plan adopted for the year December 31, 2018, and which remains valid for the current year:

Assumptions for the measurement of the plan fair value	2018
Weighted fair value at the measurement date	0.824
Dividend yield (%)	2.7
Expected volatility (%)	20.0
Interest free risk rate (%)	1.0
Expected useful life of the options (in years)	3.5
Model adopted	Monte - Carlo

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

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

CASH-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

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

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

- Theoretical emolument related to the official maximum monthly average price (calendar) of the shares of SIT during the period between May 1, 2019 and April 30, 2020, based on a substantial linear progression in values, between a minimum of Euro 10 (equal to the admission price to trading of the Ordinary Shares of SIT on the AIM Italia) and a maximum of Euro 20, which gives the right to receive respectively, a minimum Euro 1.3 million and a maximum Euro 2.6 million; if this price is lower than Euro 10, no bonus will be due;
- Corrective related to the company performance (substantially the Equity Value); in relation to this the conversion mechanism of the Performance Shares is utilised and the effective emolument due will be fixed applying to the amount of the theoretical emolument the conversion percentage of the Performance Shares, which is related to the Equity Value in 2018 and 2019 (expressed as a fixed multiple of EBITDA less the net financial position, NFP) compared to a target value.

The fair value of the emolument was assessed as zero at December 31, 2019, since it is expected that the market condition relating to the monthly (calendar) official maximum average price of SIT shares during the period from May 1, 2019 to April 30, 2020 will not be satisfied.

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

OTHER INFORMATION

Related party transactions

Regarding the procedural rules applicable to related party transactions, see the policy adopted by the Company in accordance with Article 10 of the Regulations adopted by Consob with Resolution No. 17221

of March 12, 2010, later amended by Resolution No. 17389 of June 23, 2010, published in the Corporate Governance section of the website www.sitgroup.it. Reference should be made to the Directors' Report for further information.

Transactions with holding companies and with subsidiaries of this latter

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

December 31, 2019	Revenues	Costs	Financial income	Financial charges	Financial receivables	Financial liabilities	Other receivables	Other payables
<i>SIT Immobiliare S.p.A.</i>	14	-	-	-	-	-	17	-
Companies subject to the control of the holding company	14	-	-	-	-	-	17	-
<i>SIT Technologies S.p.a.</i>	24	-	84	-	-	90	2,163	-
Holding company	24	-	84	-	-	90	2,163	-

Transactions in 2018 are shown in the following table:

December 31, 2018	Revenues	Costs	Financial income	Financial charges	Financial receivables	Financial liabilities	Other receivables	Other payables
<i>SIT Immobiliare S.p.A.</i>	14	0	1	0	0	0	16	0
Companies subject to the control of the holding company	14	0	1	0	0	0	16	0
<i>SIT Technologies S.p.a.</i>	24	0	3,795	0	0	8,434	29	4,131
Holding company	24	0	3,795	0	0	8,434	29	4,131

The SIT's operating revenues generated on transactions with SIT Immobiliare S.p.A. and SIT Technologies S.p.A. refer to advice and counsel provided by the Company in financial, administrative, tax and management control matters under a service agreement.

The financial income in respect of the holding company SIT Technologies S.p.A. refers to the change in the fair value of the SIT Warrants it holds.

The financial payables of Euro 90 thousand due to the holding company, SIT Technologies S.p.A., consist of the value of the SIT Warrants that the latter holds. The financial payables have been valued at fair value as at December 31, 2019, as described in further detail in the relative notes.

In addition, the financial liability relating to Performance Shares towards Sit Technologies S.p.A. of Euro 8,260 thousand was discharged through the conversion of 250,000 preferred shares into 1,250,000 ordinary shares. The conversion took place on April 15, 2019, by resolution of Board of Directors of SIT, on the issue of the Related Parties Committee favourable opinion.

Finally, SIT Immobiliare S.p.A., SIT Technologies S.p.A. and MeteRSit S.r.l. elected to participate in the national tax consolidation procedure for 2019-2021. The parties to this scheme, which is governed by Legislative Decree No. 344 of December 12, 2003, and in particular by Articles 117 to 129 of the Consolidated Income Tax Law, are SIT Immobiliare S.p.A. as the consolidating entity and the other companies as consolidated entities, as approved by their respective governing bodies. At December 31, 2019 the amount receivable by the Company from the holding company, SIT Technologies S.p.A., amounted to Euro 2,163 thousand.

Related party transactions

As illustrated in the table below, we also report in 2019 SIT availed of consultancy totalling Euro 44.5 thousand with a company in which a shareholder is a member of the Board of Directors of SIT.

(Euro thousands)	Revenues	Costs	Financial income	Financial charges	Financial receivables	Financial payables	Other receivables	Other payables
<i>Oaklins Arietti S.r.l</i>	-	14	-	-	-	-	-	17
Transactions with other related parties	-	14	-	-	-	-	-	17

Transactions in 2018 are shown in the following table:

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

On July 25, 2019 the Board of Directors, subject to the successful completion of the Related Parties Committee procedures, approved the purchase of the properties owned by SIT Immobiliare S.p.a. located at Viale dell'Industria 30, 32 and 34 in Padua. The properties in question are intended to house the Company's new head office and the new research and development laboratories of both the Heating Division and Smart Gas Metering Division. The transaction was supported by two separate appraisals by independent experts and was closed in December 2019 for Euro 6.5 million.

We report that on January 15, 2018, the Board of Directors, subject to the positive completion of the procedure by the Related Parties Committee, approved the allocation to the Chairman and the Chief Executive Officer Federico de Stefani of an extraordinary gross variable emolument, quantifiable in a range between Euro 1.3 million and Euro 2.6 million, which matures in line with the achievement of the objectives to be calculated based on the performance of SIT in 2017, 2018 and 2019. The emolument shall be calculated based on a component related to the performance of the SIT share price in the period under consideration and of a corrective amount related to the company performance. In 2019 the accrual of Euro 754 was released due to the failure to meet the market condition set for eligibility for the incentive; see the Note 40 for information regarding how these components are calculated.

Intercompany transactions

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

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

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

In 2019, the company carried out the following transactions with subsidiaries and presented the following balances at the reporting date (in Euro thousands):

2019	Revenues	Costs	Financial income	Financial charges	Financial receivables	Financial payables	Other receivables	Other payables
<i>SIT Gas Controls Pty Ltd (Australia)</i>	2,122	0	0	3	0	391	424	1
<i>SIT (Shanghai) Trading Co. Ltd. (China)</i>	0	0	0	0	0	0	0	0
<i>SIT Manufacturing (Suzhou) Co.Ltd (China)</i>	6,126	2,749	141	0	1,918	0	10,256	3,297
<i>SIT Controls CR, sro (Czech Republic)</i>	19	1,162	0	0	0	1,309	17	501
<i>SIT Controls Deutschland GmbH (Germany)</i>	111	975	0	0	0	750	22	378

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Explanatory Notes

<i>Sit Manufacturing N.A. SA de CV (Mexico)</i>	22,946	1,552	0	359	0	17,724	8,792	156
<i>SIT Controls BV - (Netherlands)</i>	3,295	2,227	2,004	0	0	2,970	1,883	325
<i>SIT Romania Srl (Romania)</i>	27,149	46,797	103	11	3,000	2,402	5,577	9,782
<i>MeteRSit Romania Srl (Romania)</i>	7	0	0	0	0	0	7	0
<i>SIT Controls U.S.A. Inc. (USA)</i>	24	135	4,148	34	1,512	0	21	60
<i>MeteRSit S.r.l. (Italy)</i>	2,740	43	451	0	1,412	0	2,971	70
Subsidiaries	64,539	55,640	6,847	407	7,842	25,546	29,970	14,570

Transactions in 2018 are shown in the following table:

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

The transactions in question are at arm's length.

Remuneration of directors, statutory auditors and independent audit firm

The remuneration of directors and statutory auditors are composed as follows:

	2019	2018
Director fees	913,945	1,150,633
Statutory auditor fees	99,723	76,408
Total	1,013,668	1,227,042

The Company paid to the audit firm fees of Euro 188 thousand, in addition to reimbursement of expenses and supervisory contributions, as follows:

	2019	2018
Fees paid to the audit firm for audit services	158,800	110,000
Limited review of the consolidated non-financial report	28,000	28,000
Other services	15,000	-
Total	201,800	138,000

Guarantees, commitments and off-balance sheet contingent liabilities

The off-balance sheet commitments at December 31, 2019 were as follows.

	2019	2018
Other unsecured guarantees	52,112,206	45,902,864
Secured guarantees	-	-
Total guarantees	52,112,206	45,902,864

Other unsecured guarantees

The breakdown of the Other unsecured guarantees given by the company to third parties is as follows:

	2019	2018
In the interest of subsidiaries	51,957,654	45,054,513
In own interest	154,552	848,351
Total other guarantees	52,112,206	45,902,864

With regards to unsecured guarantees issued in the interest of subsidiaries, these were entirely issued in the interest of Metersit S.r.l., in favour of its client as part of Smart Gas Meters installation tenders. They concern for Euro 8,430 thousand co-obligations with the subsidiary, while the remaining amount concerns exclusive guarantees of SIT S.p.A..

Guarantees given on own account refer primarily to surety guarantees granted to secure the lease agreement signed for the Rovigo property and the contract with Airplus for the management of company travel expenses.

Secured guarantees

At the reporting date, the company did not have any secured guarantees in place.

Off-balance sheet transactions

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

The above-stated agreements may entirely be classified as part of “normal industrial, commercial and financial transactions”, considering the size and the organisational complexity of SIT S.p.A. For example purposes and not to be considered exhaustive, we cite: long-term framework contracts with clients and suppliers, agreements with clients for the joint development of new products, consignment stock contracts both for purchases and sales, agency and distribution contracts and outsourcing agreements for assembly, storage, logistical management and other services.

Risk management and financial instruments recognised at Fair Value

The Group is exposed to the following types of financial risks:

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

The SIT Group has implemented company foreign exchange risk, interest rate risk and liquidity risk management policies approved by the Board of Directors.

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

In line with the policies set out, the Group has centralised in the parent company SIT S.p.A. the management of the financial risks of the subsidiaries, coordinating the Group processes, operating mechanisms and the relative organisational procedures.

Currency risk

The Group is exposed to the risk of fluctuation of exchange rates since it operates in an international context in which transactions are undertaken in currencies other than the functional currencies of the individual investees or the Group's functional currency. The Group's exposure to foreign exchange risk is therefore a consequence of the geographical distribution of the markets in which it sells its products, the

location of its production facilities and the use of sources of procurement denominated in other currencies.

During 2019, in line with its policies, the Company undertook financial hedging operations principally against net exposures in ADU, GBP and CHF. In relation to the exposure in CNY, the hedging operations already in place in the previous year were used, extending the part in excess to the following year, also in consideration of the reasonable exchange rate offered on the market.

The currency hedging transactions at the reporting date and their fair values are shown in Notes 9 and 20.

Interest Rate Risk

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

At the reporting date, the Group has only one loan for a nominal capital amount of Euro 105,975 thousand. This loan provides for a variable interest rate indexed to the Euribor at 6 months. The loan is hedged by interest rate swaps totalling Euro 97,340 thousand, or 91.9% of the underlying value.

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

Risk of raw material price fluctuations

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

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

During 2019 the structure and nature of the exposure to the risk of fluctuation of raw materials prices and the monitoring and supervision policies adopted by the Group did not change substantially with respect

to the previous year. As at December 31, 2019 the group did not have any outstanding hedging transactions of this sort.

Financial instruments recognised at Fair Value

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

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

With regards to the financial instruments recognised to the financial statements at Fair Value at December 31, 2019, the following table outlines the type of instrument, its value at the reporting date and the fair value hierarchy utilised:

Transaction type	Value at 31.12.2019	Valuation criterion	Level 1	Level 2	Level 3
SIT Warrants	1,567	Fair Value	1,567		
Interest Rate Swap	-1,348	Fair Value		-1,348	
Forex Forward	-44	Fair Value		-44	

In 2019, there were no transfers between the various levels of fair values indicated in IFRS 13.

A similar table is reported for financial instruments recognised to the financial statements at fair value at December 31, 2018:

(Euro thousands)

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

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

Market and competition law - Law No. 124 of August 4, 2017, paragraph 125
 In accordance with the disclosure obligation as per paragraph 125 of Article 1 of Law 124/2017, the grants and subventions received from the public sector are presented below:

Entity	Grants received as in accordance with Law 124/2017, paragraph 125 (in Euro)	Reimbursement relative quota of fondimpresa training plan code 171590 and code 214925
Fondimpresa - Rome	63,447	
Total	63,447	

Subsequent events after year-end

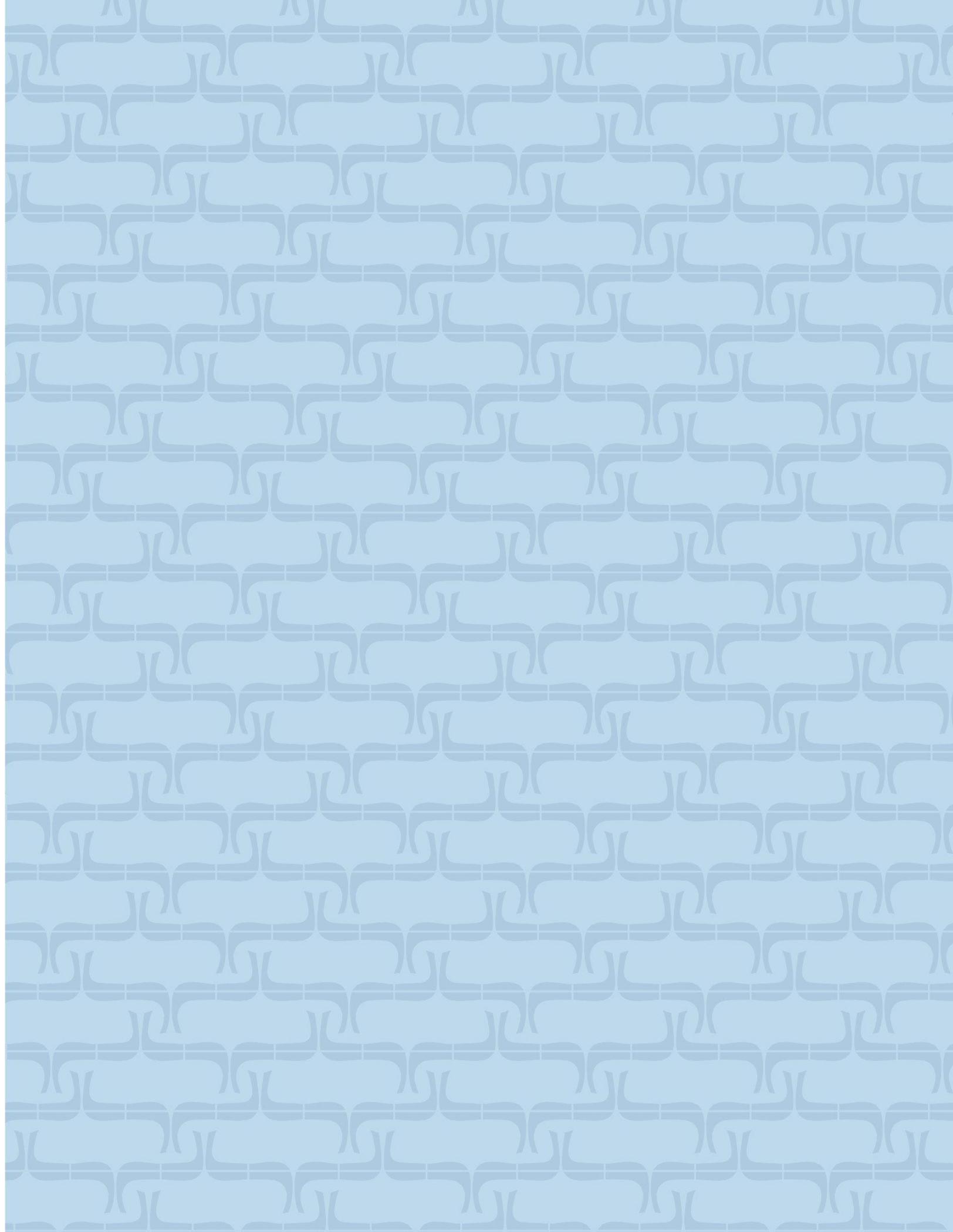
For information on events after the reporting date, refer to the paragraph “Significant events after the end of the year and operating performance” of the Directors’ Report.

For proposals to the Shareholders' Meeting regarding the destination of the 2019 result, please refer to the specific explanatory report on the agenda of the Shareholders' Meeting scheduled for May 6, 2020.

Padua, March 26, 2020

The Chairman of the Board of Directors

(Mr. Federico de’ Stefani)



DECLARATION ON THE SEPARATE FINANCIAL STATEMENTS
PURSUANT TO ART. 81-TER OF CONSOB REGULATION NO. 11971

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

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

- the adequacy in relation to the business operations and
- The application of the administrative and accounting procedures for the compilation of the separate financial statements for the period January - December 2019.

We also certify that the separate financial statements:

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

Padua, March 26, 2020

The Chief Executive Officer

Federico de' Stefani

The Executive Officer for Financial Reporting

Paul Fogolin

BOARD OF STATUTORY AUDITORS' REPORT

SIT S.P.A.

Registered office in Padua - Viale dell'Industria No. 31

Share capital Euro 96,151,920.60 fully paid-in

Padua Companies Registration Office and Tax No.: 04805520287

Padua Economic and Administrative Index No.: 419813

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REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING
in accordance with Article 153 of Legislative Decree 58/1998 and Article 2429 of the Civil Code

Dear Shareholders,

During the year ended December 31, 2019, we performed the oversight activities required by law (Article 2403 of the Civil Code and Article 149 of Legislative Decree 58/1998, also known as the "Consolidated Finance Act" or "CFA"), in accordance with the Standards of Conduct for Boards of Statutory Auditors of Listed Companies of the Italian Accounting Profession (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili), the Consob recommendations regarding company controls and the activities of the Board of Statutory Auditors, the provisions of the Corporate Governance Code (Codice di Autodisciplina) and, in our capacity as Internal Control and Audit Committee, Article 19 of Legislative Decree 39/2010, as amended by Legislative Decree 135/2016.

The Board of Statutory Auditors monitored compliance with the principles of sound administration and, in particular, the suitability of the organizational, administrative and accounting structures adopted by the company and their functioning, as well as the conditions of implementation of the corporate governance rules provided for in applicable legislation. The Board of Statutory Auditors also monitored the independence of the external audit firm.

The Board of Statutory Auditors held 14 meetings in 2019. Moreover, the Board of Statutory Auditors participated:

- at the Shareholders' Meeting of April 24, 2019, in collegial form;
- at the Board of Directors' meetings, in accordance with article 149, paragraph 2, of Legislative Decree 58/98, of which 11 were held, in collegial form;
- at the meetings of the Internal Control, Risks and Sustainability Committee, of which there were

- seven, in collegial form;
- at two meetings of the Remuneration Committee, to which it was invited, in collegial form, of which there were four in total;

Statutory and By-Law oversight activities

In accordance with Article 153 CFA and Article 2429, paragraph 2, of the Civil Code, and considering the recommendations provided by Consob, we inform you of the following.

We monitored compliance with the law and the By-Laws, and we have no issues or remarks in accordance with applicable legislation. We monitored compliance with disclosure obligations concerning regulated and inside information and requests received from the supervisory authorities pursuant to Article 114 of Legislative Decree 58/1998.

We received from the directors, on at least a quarterly basis, information relating to the activities carried out and on the most significant transactions undertaken by the company and by its subsidiaries, from the standpoint of financial performance and financial position, as well as the business outlook and progress of the strategic projects initiated. On this basis, we may reasonably assure you that the actions taken and deliberated upon by the company were in compliance with the law and the company's By-laws and were not manifestly imprudent, injudicious or in conflict with the resolutions taken in shareholders meetings or such as to compromise the company's financial integrity.

A description of the main Group reorganization activities and most significant Company events in 2019, to which the Board of Statutory Auditors believes attention should be drawn, is provided below:

- February 2019: Metersit, a company belonging to the Smart Gas Metering Division, was awarded an order by Italgas for the supply of next-generation gas meters for over Euro 14 million, with an option for a further Euro 5 million;
- April 2019: the Board of Directors of SIT, based on a favourable opinion from the Related Parties Committee, and noting that the conditions stipulated in the By-Laws had been met, converted 250,000 Performance Shares into 1,250,000 ordinary shares in favour of Sit Technologies S.p.A.;
- September 2019: Metersit, part of the Smart Gas Metering Division, was selected by the UK Department for Business, Energy & Industrial Strategy to develop a hydrogen meter as part of the national Hy4Heat project;
- December 2019: Metersit, part of the Smart Gas Metering Division, was awarded UNI EN ISO/IEC 17025 certification by Accredia, the Italian Government designated Certification Body;
- December 2019: acquisition of the property complex, adjacent to the current head office, for Euro 6.5 million, to house the Company's new head office and the new research and development laboratories of both the Heating Division and Smart Gas Metering Division. This investment is primarily to strengthen the Group's Research and Development activities.

Oversight of adequacy with correct administrative principles, the suitability of the organizational, administrative and accounting structure and the suitability of the internal control and risk management system

We received from the directors, on at least a quarterly basis, information relating to the activities carried out and on the most significant transactions undertaken by the company and by its subsidiaries and we may reasonably assure you that the actions taken and deliberated upon were not manifestly imprudent, injudicious, in potential conflict of interest or in conflict with the resolutions taken in shareholders meetings or such as to compromise the company's financial integrity. We have monitored, to the extent of our responsibility, the compliance with sound administrative principles and the suitability of the Company's organizational structure and the directives issued by the company to its subsidiaries in accordance with Article 114, paragraph 2, of Legislative Decree 58/1998, through information obtained from the independent auditors.

We maintained relations with the boards of statutory auditors of the Italian subsidiaries in the interest of the reciprocal exchange of relevant data and information. No critical issues were identified as a result of the exchange of information with the boards of statutory auditors of the subsidiaries. We also reviewed and obtained information on the organizational and procedural activities undertaken as per Legislative Decree 231/2001 and, on this basis, as well as in light of the exchanges of information with internal control functions, we have nothing to disclose in this report.

In 2019 the Company did not undertake any atypical and/or unusual transactions, as defined in Note 2 to Consob Communication No. DEM/1025564 of April 6, 2001.

The Board of Statutory Auditors informs that management decisions were therefore inspired by the principle of proper information and reasonableness.

We have obtained evidence of the suitability of the composition, size and functioning of the Board of Directors, particularly as regards the formulation of the company's strategic guidelines, the assessment of the performance for the year, the analysis of the company's risk profile and the planning of the new organizational structure.

The Board of Statutory Auditors has monitored the circumstances of concrete implementation of the recommendations set out in the Self-Governance Code adopted by the company, with effect from the date of the listing. On March 26, 2020, the Board of Directors also examined the recommendations formulated in the annual report by the Corporate Governance Committee on the application of the Corporate Governance Code.

Pursuant to Article 149, paragraph 1, letter *c-bis*, of Legislative Decree 58/1998 and the Corporate Governance Code, we have monitored:

- the circumstances of implementation of the corporate governance rules laid down in the aforesaid code of conduct, in respect of which we have nothing to report;
- the proper application of the criteria and procedures adopted by the Board of Directors to assess the independence of its members and other procedures of public record.

As recommended by the Rules of Conduct for Boards of Statutory Auditors of Listed Companies, the Board of Statutory Auditors has conducted a self-assessment of its composition and functioning and reported the findings to the Board of Directors.

Pursuant to section 8.C.1 of the Corporate Governance Code, we also report that we have verified that the members of the Board of Statutory Auditors continue to satisfy independence requirements, in accordance with the criteria set out in the Corporate Governance Code, and that we have adopted procedures aimed at ensuring a fair and accurate assessment for each member.

The Board of Statutory Auditors has monitored and assessed the suitability of the Internal Control and Risk Management System through meetings, in some cases, in view of specific issues, with the Control, Risks and Sustainability Committee, as well as with the Internal Audit Manager, in order to obtain information regarding the results of the audit activities. The Board of Statutory Auditors has conducted periodic exchanges of information with members of the Compliance and Risk Management Functions and the Internal Audit Function, in addition to the Supervisory Board 231/2001, with regard to the analysis and monitoring of the main company risks. In particular, meetings were held with company management regarding the methods of identifying and adopting countermeasures for the risks deemed most significant. In accordance with Legislative Decree 39/2010, the Board of Statutory Auditors has conducted specific analyses of the activities and audits performed by the Internal Audit Function, including in respect of financial reporting processes.

In our role as Internal Control and Audit Committee, we have monitored and evaluated the adequacy of the internal control and administration and accounting systems and the reliability of this latter in correctly representing operating events by obtaining of information from the persons responsible for the various functions, examining company documents, assessing the findings of the Internal Audit Function's program of activities and analysing the results of the work performed by the independent audit firm, in addition to supervising the activity of the person responsible for internal control. In particular, the Chief Financial Officer, with support from the competent company functions, carried out a monitoring plan involving key controls of processes relevant to financial reporting – controls which found that the model aimed at ensuring compliance with Law 262/2005 was functioning as intended.

The Board of Statutory Auditors has monitored:

- the existence of, and update process for, internal procedures relating to the main company cycles and the verification activities undertaken by internal control;
- the adoption of administrative procedures suited to providing the necessary information regarding operations and the financial performance and financial position data of companies formed and existing under the laws of non-European Union countries deemed of significant importance pursuant to Articles 36 and 39 of the Market Regulations;
- that the reporting streams from the non-EU subsidiaries are adequate for performing control activity on the annual and interim accounts, as provided for in Article 15 of the Market Regulations, adopted by Consob resolution no. 20249 of December 28, 2017.

No significant information requiring disclosure in this report has been brought to light on this point.

In respect of the reporting of non-financial information and information on the diversity of the composition of the governance, management and control bodies of large companies and groups (Legislative Decree 254 of December 30, 2016 and the Implementing Regulation adopted by Consob resolution no. 20267 of January 18, 2018), the Board of Statutory Auditors:

- monitored the company's structure for discharging the obligation to prepare a non-financial report pursuant to Legislative Decree 252/2016;
- received constant information regarding the activities carried out to identify non-financial reporting areas relevant to the SIT Group to be included in the Non-Financial Report;
- observed the adoption of policies by the Board of Directors relating to sustainability topics;
- met with the independent audit firm Deloitte & Touche S.p.A., which was commissioned to conduct a limited review of the Non-Financial Report.

The Board of Statutory Auditors has ascertained that the Corporate Governance and Ownership Structure Report, approved by the Board of Directors on March 26, 2020 and available from the company's website, was prepared in accordance with Article 123-bis of the Consolidated Finance Act and the instructions of the Regulation for the markets organised and managed by Borsa Italiana, and that it provides a detailed illustration of the actual implementation of the corporate governance rules set out in the Self-Governance Code, which the Company, through public disclosure, has declared to comply with. Where necessary, in the limited cases in which the Company has decided to deviate from the provisions of the Code, it has provided the relative reasoning.

The Board of Statutory Auditors has examined the contents of the Remuneration Report, which sets out a detailed report of the implementation of remuneration policies. Finally, the Board of Statutory Auditors has obtained evidence that the company processes resulting in the establishment of the company's remuneration policies – with particular regard to the remuneration criteria of the executive directors, the CFO and the Internal Audit Manager – are consistent with the company's aims.

On the basis of the information obtained, the Board of Statutory Auditors considers that operations were carried out in accordance with the principles of sound administration and that the organizational, administrative and accounting structure that guides the financial reporting system and the internal control and risk management system are overall adequate to company needs.

The Board of Statutory Auditors have no particular observations to make with regard to the above aspects.

Oversight of the activity of the audit firm

In accordance with Article 19 of Legislative Decree No. 39/2010, the Board of Statutory Auditors, identified in that same Article as the “Internal Control and Audit Committee”, carried out the required supervision over audit firm’s activity.

The Board of Statutory Auditors met on several occasions with the independent audit firm Deloitte & Touche S.p.A. as per Article 150 of the CFA to exchange information regarding its activity. At these meetings, the independent audit firm never indicated any facts or irregularities requiring specific reporting as per Article 155, paragraph 2, of the CFA.

On April 10, 2020, the independent audit firm, in accordance with Article 14 of Legislative Decree 39/2010 and Article 10 of Regulation (EU) No. 537/2014, issued its auditors’ report on the statutory financial statements and consolidated financial statements at and for the year ended December 31, 2019.

With regards to opinions and certifications, in the auditor’s report the independent audit firm:

- issued an opinion to the effect that the statutory and consolidated financial statements of SIT S.p.A. provide a true and fair view of the equity and financial situation of SIT S.p.A. and of the Group at December 31, 2019, as well as of the result and cash flows for the year ending at that date, in compliance with the IASs/IFRSs adopted by the European Union and the provisions issued in implementation of Article 9 of Legislative Decree 38/2005;
- issued a conformity opinion to the effect that the directors’ reports accompanying the statutory and consolidated financial statements at and for the year ended December 31, 2019 and certain specific information contained in the corporate governance and ownership structure report indicated in Article 123-bis, paragraph 4 of the CFA – responsibility for which lies with the Company’s Directors – have been prepared in accordance with the law;
- declared, with regards to any material misstatements in the directors’ reports, on the basis of its knowledge and understanding of the company and of the relative context, that it did not have any matters to report.

On April 10, 2020, the independent audit firm also issued its report on the consolidated non-financial

report pursuant to Article 3 of Legislative Decree 254/2016 and Article 5 of Consob Regulation No. 20267 of January 18, 2018, in which it is stated that no elements have come to the attention of the independent audit firm indicating that the consolidated non-financial report of the SIT Group relating to the year ended December 31, 2019 has not been prepared, in terms of all the significant aspects, as per Articles 3 and 4 of the above decree and the GRI Standards.

On April 10, 2020, the independent audit firm in addition issued a statement regarding its independence, as required by Article 6 of Regulation (EU) No. 537/2014, indicating no situations which may compromise such independence. Lastly, the Board of Statutory Auditors acknowledges the transparency report prepared by the independent audit firm and published on its website in accordance with Article 18 of Legislative Decree 39/2010.

Beyond the legally-mandated obligations for listed companies, the Independent Audit Firm carried out, together with the other “Deloitte & Touche network” companies, non-audit activities for Sit Spa for total fees and consideration accruing to the 2019 financial year of Euro 18 thousand. None of these services are prohibited under Article 5(1) of Regulation (EU) No 537/2014. The fees, disclosed in an annex to the financial statements as required by Article 19-duodecies of the Issuers Regulations, were recognised to the income statement.

Taking account of the assignments awarded by SIT S.p.A. and by Group companies to Deloitte & Touche S.p.A. and its network, the Board of Statutory Auditors does not believe that there are any critical aspects with regards to the independence of Deloitte & Touche S.p.A.

The independent audit firm also confirmed for the Board of Statutory Auditors that it had not issued any opinions in accordance with the law, in the absence of the conditions for issuing such opinions.

With regard to the preparation of the statutory and consolidated financial statements, the Board of Statutory Auditors acknowledges that the Board of Directors approved the impairment procedure in accordance with the joint Bank of Italy, Consob and ISVAP Document of March 3, 2010.

On April 10, 2020, the independent audit firm finally presented its additional report, as required by Art. 11 of European Regulation No. 537/2014, to the Board of Statutory Auditors, which:

- includes a declaration of independence of the independent audit firm;
- illustrates the extent and timing of the legally required audit, description of the methodologies utilized and an indication of the overall complexity;
- indicates and assesses the valuation methods applied to the various accounts of the statutory financial statements, without any critical issues relating to the appropriateness of the accounting standards adopted by the company;

- does not indicate doubts as to the ability of SIT S.p.A. to continue to operate as a going concern (going concern principle);
- does not indicate significant deficiencies in the internal control system with regard to the financial reporting process;
- does not report cases of significant non-compliance with laws, regulations or provisions of the By-laws in respect of the activity of the Board of Statutory Auditors;
- does not report of limitations of auditing activity nor the existence of significant difficulties emerging from the statutory audit.

In this regard, as mandated by Art. 19 of Legislative Decree 39/2010, the Board of Statutory Auditors informed the Board of Directors thereof on April 10, 2020, without believing it necessary to accompany its report with any substantive remarks of its own.

Oversight on related party transactions

Within the framework of transactions with Group companies or related parties pursuant to Articles 2391 and 2391-bis of the Civil Code, we observed:

- the existence of inter-company transactions at the level of ordinary business relationships affecting ordinary financial performance, financial position and operating results with subsidiaries, associates, the parent company or other related parties. Such business relationships have been disclosed in a specific annex to the notes to the statutory and consolidated financial statements. In particular, we note that:
 - o such ordinary business relationships are primarily financial, commercial, service-related or consultancy-related;
 - o the aforementioned transactions with subsidiaries, associates, the parent company and other related parties have been deemed at consideration fair and consistent with the Company's interests;
- we have no evidence of the existence of atypical and/or unusual transactions with related parties nor transactions capable of having a significant impact on the Company's operating results, financial position and financial performance;
- the information contained in the Directors' report on operations and in the Notes to the financial statements on intra-Group transactions, transactions with related parties and atypical and/or unusual transactions is considered adequate.

The Board of Statutory Auditors informs that in 2019 transactions with related parties were undertaken in the company's interest and in accordance with the Related Parties Transactions Procedure and notes that there are no elements relating to their fairness and correspondence with the company's interests to be reported herein.

Omissions or reportable events, opinions provided and initiatives undertaken

During the year, no reports were received as per Article 2408 of the Italian Civil Code, nor were any complaints received from shareholders and/or third parties.

In 2019, the Board of Statutory Auditors issued and formulated opinions required by applicable legislation with regard to non-audit activities for Sit Spa carried out by the Independent Audit Firm or other companies within its network, in addition to the consultative opinions required by the Self-Governance Code and the policies and procedures adopted by the Company.

During the year, we constantly conducted the supervisory activity prescribed by Art. 149 of Legislative Decree 58/1998 and we may conclusively affirm that in the course of our activity we have not identified any irregularities, omissions or reportable events, and that we therefore do not have proposals to make to the shareholders' meeting pursuant to Article 153, paragraph 2, of Legislative Decree 58/1998.

Control

We indicate that Sit S.p.A. is controlled by Sit Technologies S.p.A. The Corporate Governance Report illustrates the reasons for which Sit S.p.A. is considered not to be subject to the management and coordination of Sit technologies S.p.A..

Conclusions

The statutory financial statements of SIT S.p.A. at and for the year ended December 31, 2019 and the consolidated financial statements at and for the year ended on that same date have been drawn up in accordance with the IASs/IFRSs issued by the International Accounting Standards Board ("IASB"), pursuant to the provisions of Legislative Decree 38 of February 28, 2005 implementing Regulation (EC) No 1606/2002 of the European Parliament and the Council of July 19, 2002.

The Board of Statutory Auditors has reviewed the criteria adopted in preparing the aforementioned financial statements, with particular regard to their content and structure, scope of consolidation and uniformity of application of accounting principles, the existence of adequate disclosure on company performance and impairment tests and continuing application of the going concern principle. The Independent Audit Firm did not report observations on the information provided.

As we were not required to perform analytical control of the financial statements, we verified the general preparation of the statutory and consolidated financial statements and their general conformity with the law in relation to their formation and structure, and we have no particular matters to report upon in this regard. In relation to the ongoing Covid-19 health emergency, also in light of the recommendations

issued by the ESMA, the Board of Directors has provided disclosure in the Consolidated Annual Financial Report, in the specific sections of the Notes to the Financial Statements and in the “Subsequent events and outlook” section, in terms of the measures to ensure the health of employees and associates and, at the same time, business continuity.

To our knowledge, the Directors did not make recourse to any exceptions as permitted by Article 2423, paragraph 4 of the Civil Code in the preparation of the statutory financial statements.

We have monitored that the financial statements and report on operations correspond to the facts and the information which we have acquired during our work and we have no matters to report. The statutory and consolidated financial statements of SIT S.p.A. are accompanied by the prescribed report by the independent audit firm, to which we refer.

On all the above grounds, the Board of Statutory Auditors expresses a favourable opinion on the approval of the statutory financial statements at and for the year ended December 31, 2019, as presented by the Board of Directors, and does not see any reason to oppose the proposal presented by the Board of Directors on the allocation of the net profit for the year.

*

Padua, April 10, 2020

THE BOARD OF STATUTORY AUDITORS



Saverio Bozzolan - Chairman



Loredana Anna Conidi



Ivano Pelassa

INDEPENDENT AUDITORS' REPORT ON THE SEPARATE
FINANCIAL STATEMENTS



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

**To the Shareholders of
SIT S.p.A.**

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of SIT S.p.A. (the Company), which comprise the statement of financial position as at December 31, 2019, the statement of profit and loss, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

Basis for Opinion

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

Key Audit Matters

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

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

Sede Legale: Via Tortona, 25 - 20144 Milano | Capitale Sociale: Euro 10.328.220.001 i.v.
Codice Fiscale/Registro delle Imprese Milano n. 03049580166 - R.E.A. Milano n. 172039 | Partita IVA IT 03049580166

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Impairment test of goodwill relating to Heating CGU and of the carrying amount of the investment in Metersit S.r.l.

Description of the key audit matter

The financial statements as at December 31, 2019 include a goodwill amounted to Euro 85 million allocated to the Heating Cash Generating Unit. Goodwill, as provided by "IAS 36 Impairment of assets", is not amortized, but is subjected to the impairment test at least annually by comparing the recoverable value of the CGU - determined according to the value in use method - and the carrying amount, which takes into account both goodwill and other tangible and intangible assets allocated to the CGU.

In addition, the financial statements include, among others, a wholly owned investment booked at the historical cost reduced by any impairment losses in Metersit S.r.l. (Euro 29.7 million) which is also subjected to the impairment test for the purpose of verifying the recoverability of the related book value.

The impairment tests were approved by the Board of Directors on March 26, 2020.

The Directors evaluation process is complex and it is based on assumptions regarding, among other things, the expected cash flows from the CGU and from the subsidiary and the determination of appropriate discount rates (WACC). These assumptions are influenced by future expectations and market conditions.

As a result of the impairment tests no impairment losses were recognized.

The Directors have also prepared sensitivity analysis as described in the explanatory notes, also in order to consider the uncertainty factors related to the national and international outbreak of Covid-19 in 2020.

In consideration of the relevance of the amount of goodwill and of the aforementioned subsidiary, the subjectivity of the estimates relating to the determination of the expected cash flows attributable to the CGU Heating and to the subsidiary and of the key variables of the impairment model, we have considered the impairment test of the goodwill and of the aforementioned subsidiary a key audit matter of the financial statements of SIT S.p.A.

The notes 1 and 3 of the explanatory notes show the information on goodwill, on the subsidiary and on the impairment tests.

Audit procedures performed

As part of our audit we have, among other things, carried out the following procedures, also taking advantage of the support of experts:

- examination of the methods used by the Directors to determine the value in use of the Heating CGU and of the recoverable amount of the subsidiary, analyzing the methods and assumptions used for the development of the impairment tests;
- understanding of the main controls put in place by the Directors on the process of carrying out the impairment tests;

- analysis of the reasonableness of the main assumptions adopted for the formulation of expected cash flow also through analysis of sector data and obtaining information from the Management;
- analysis of actual data with respect to the original plans to assess the nature of the deviations and the reliability of the plan preparation process;
- assessment of the reasonableness of discount rates (WACC) and long-term growth rate (g-rate);
- verification of the mathematical accuracy of the model used to determine the value in use of the CGU and the recoverable amount of the subsidiary;
- verification of the correct determination of the carrying amount of the CGU and of the subsidiary;
- verification of the sensitivity analysis prepared by the Directors;
- analysis of the adequacy and compliance of the information provided in the financial statements on the impairment tests with respect to the provisions of IAS 36.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

The Shareholders' Meeting of SIT S.p.A. has appointed us on April 26, 2018 as auditors of the Company for the years from December 31, 2019 to December 31, 2026.

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**Opinion pursuant to art. 14, paragraph 2 (e), of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98**

The Directors of SIT S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and ownership structure of SIT S.p.A. as at December 31, 2019, including their consistency with the related financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98 with the financial statements of SIT S.p.A. as at December 31, 2019 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and information contained in the report on corporate governance and ownership structure are consistent with the financial statements of SIT S.p.A. as at December 31, 2019 and are prepared in accordance with the law.

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

DELOITTE & TOUCHE S.p.A.

Signed by
Cristiano Nacchi
Partner

Padova, Italy
April 10, 2020

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

